Latin America and the Caribbean

Macro Poverty Outlook

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

Annual Meetings 2023

WORLD BANK GROUP
Macroeconomics, Trade & Investment
Poverty & Equity

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

Internet: www.worldbank.org

Latin America and the Caribbean

Annual Meetings 2023

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

ARGENTINA

Table 1	2022
Population, million	46.1
GDP, current US$ billion	630.7
GDP per capita, current US$	13695.6
International poverty rate ($2.15)[a]	1.0
Lower middle-income poverty rate ($3.65)[a]	2.5
Upper middle-income poverty rate ($6.85)[a]	10.6
Gini index[a]	42.0
School enrollment, primary (% gross)[b]	108.9
Life expectancy at birth, years[b]	75.4
Total GHG emissions (mtCO2e)	412.4

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

A devastating drought intensified macroeconomic imbalances, leading to large losses in agricultural production, exports, and fiscal revenues. Monetary financing of persistent fiscal deficits is fueling triple-digit inflation, deterring progress in poverty reduction. Growth is projected to be negative in 2023, before turning positive in 2024 as the drought recedes. A sustainable macroeconomic policy combined with growth-enhancing structural reforms is needed for growth and poverty reduction.

Key conditions and challenges

Argentina is facing rapidly declining reserves and high inflation. Monetary financing of persistent fiscal deficits has pushed inflation into triple digits and led to a decline in confidence in the Peso. International reserves have fallen, driven by overvalued, and multiple, foreign exchange rates. Capital controls, trade distortions, and policy uncertainty deter private investment and constrain Argentina's growth potential.

Despite Argentina's comparative advantage in agroindustry and specific manufacturing and services segments, external competitiveness remains constrained by an anti-export bias and macroeconomic distortions. Export diversification has narrowed over time, making the country more vulnerable to economic and climatic shocks. The current drought is estimated to lead to export losses of US$20 billion. The effects of these shocks are amplified by a procyclical fiscal policy stance. Poverty has stagnated as a result and is likely to have increased in 2023 despite additional social transfers.

Although both labor participation and employment have increased, most new jobs are own-account and informal. This has increased the proportion of workers with higher exposure to losses in real wages due to high inflation. Post-pandemic, the average formal wage maintained its real value while the average informal wage decreased by 23 percent. As a result, poverty and vulnerability have increased since informal employment represents the main source of household income (41 percent) among the population in the bottom 40 percent of the distribution.

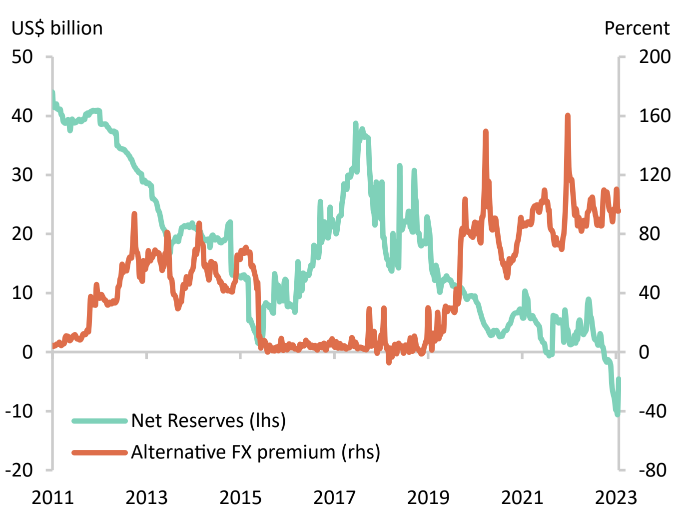
Robust and credible macro-fiscal policies are imperative for macroeconomic stability. Beyond stabilizing policies, bold reforms to improve the business environment and incentivize private sector investment and job creation will be required to achieve sustainable and inclusive growth. Closing infrastructure gaps and strengthening skill acquisition are key to lifting Argentina's low growth potential.

Recent developments

The economy expanded by 5 percent in 2022, after a swift rebound from the COVID-19 pandemic in 2021. Growth in Q4 2022 contracted by 1.7 percent (q-o-q, seasonally adjusted), driven by the impact of the drought, and remained subdued in the first half of 2023. The lack of rain and high temperatures caused an average 40 percent drop in main crop output, an estimated 22 percent decrease in exports, and about 0.5 percent of GDP decline in fiscal revenues.

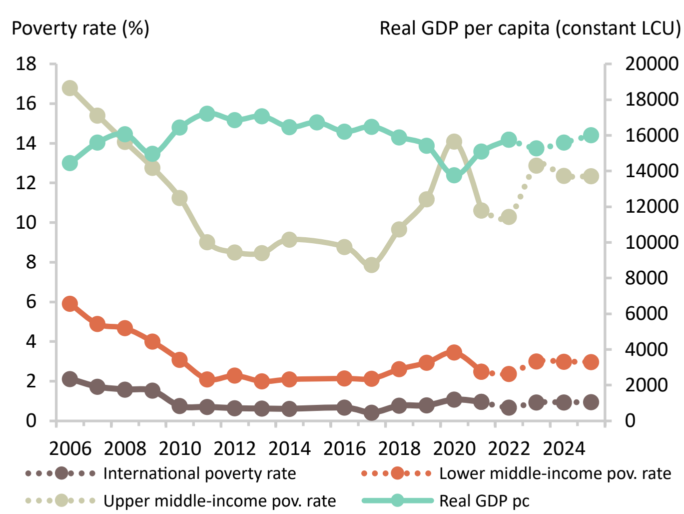
External borrowing helped finance non-agricultural imports in the first half of 2023 at the expense of increasing macroeconomic vulnerabilities. The value of goods imports in Q2 2023 is among the highest of the past decade, resulting – together with depressed exports – in a deterioration of the trade balance. The current account deficit widened to US$5.7bn in H1 2023. It

FIGURE 1 **Argentina** / Net international reserves and foreign exchange premium gap



Source: World Bank based on Ministry of Economy.
Notes: Net Reserves are gross reserves minus CB external liabilities. Alternative foreign exchange premium is the gap between the official and the informal rate.

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



Source: World Bank. Notes: see Table 2.

was partially financed by non-traditional short-term financing sources (bilateral and multilateral debt). Arrears accumulation of importers increased. Net international reserves turned negative in Q2 2023.

The drought-induced shortfall in public revenues widened the fiscal deficit, despite the inflation-driven real terms contraction of public spending. Due to restricted capital market access, the Treasury turned to the Central Bank for financing, intensifying an already pronounced inflationary environment. The reference interest rate, currently at 118 percent, remains negative in real terms.

Annualized inflation has reached triple digits, disproportionately affecting marginalized segments of the population. At the same time, social assistance flagship programs –*Asignación Universal por Hijo and Potenciar Trabajo*- helped mitigate a rise in poverty that in 2022 reached 10.3 percent of the urban population, measured under the international poverty line (US$6.85 per day).

Negative reserves, FX regulations, and policy uncertainty continued to widen the gap between the alternative and official exchange rates. Following the primary election results in mid-August, and amidst a new round of financial turmoil, the government allowed an 18 percent depreciation of the Peso in the official regulated market, coupled with a hike in the CB reference interest rate.

Outlook

The economy is expected to contract by 2.5 percent in 2023, owing to persistent macroeconomic imbalance and the impact of the drought. Non-agricultural sectors are expected to contract through the end of the year. The current account deficit is projected to reach 0.6 percent of GDP in 2023, exacerbating pressures on international reserves given restricted access to global capital markets and multiple exchange rate controls. The poverty rate is projected to reach 12.9 percent of the urban population in 2023 under the international poverty line (US$6.85 per day).

Growth is expected to accelerate in 2024, thanks to improved climatic conditions and continued historically high soybean prices, allowing for the expansion of agricultural output, with positive effects in manufacturing and transportation via input-output linkages. Over the medium term, investments in the energy sector, particularly the Presidente Néstor Kirchner gas pipeline, will reduce energy imports, increase exports, and support reserve accumulation.

The downside, mainly domestic, risks remain substantial. Given historically low levels of external reserves, a rapid passthrough from the devaluation of the Peso to domestic prices could exacerbate inflation and worsen already delicate economic and social indicators, especially in the absence of a credible macro-fiscal anchor. Rising poverty and inflation also create the potential for social unrest. Prompt restoration of confidence is crucial for the country to access global capital markets, relieve the pressure on monetary policy, and reduce the risk of failing to refinance upcoming maturities.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-9.9	10.7	5.0	-2.5	2.7	3.2
Private consumption	-12.2	10.4	9.7	0.5	-0.7	2.1
Government consumption	-2.0	6.3	1.9	1.3	-0.6	1.2
Gross fixed capital investment	-12.9	33.8	11.1	-7.4	-2.0	8.0
Exports, goods and services	-17.4	8.5	5.8	-11.1	23.8	4.6
Imports, goods and services	-17.2	20.4	17.9	-3.4	3.2	3.7
Real GDP growth, at constant factor prices	-9.9	10.4	4.9	-2.5	2.7	3.2
Agriculture	-7.5	1.9	-4.5	-17.8	24.2	3.1
Industry	-9.3	15.5	5.7	-2.2	1.4	2.8
Services	-10.6	9.4	6.0	-0.6	1.0	3.5
Current account balance (% of GDP)	0.7	1.4	-0.7	-0.6	1.1	0.8
Net foreign direct investment inflow (% of GDP)	1.0	1.1	2.1	1.8	0.8	1.2
Fiscal Balance (% of GDP)[a]	-8.3	-4.3	-3.7	-3.9	-3.5	-1.7
Revenues (% of GDP)	32.4	32.2	32.2	31.5	32.3	31.8
Debt (% of GDP)[a]	110.3	85.7	89.9	90.0	78.9	72.7
Primary Balance (% of GDP)[a]	-5.9	-2.5	-1.7	-1.5	-0.5	0.5
International poverty rate ($2.15 in 2017 PPP)[b,c]	1.1	1.0	0.7	0.9	0.9	0.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	3.5	2.5	2.4	3.0	3.0	3.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	14.1	10.6	10.3	12.9	12.4	12.3
GHG emissions growth (mtCO2e)	-1.9	3.2	2.1	-1.2	1.2	1.6
Energy related GHG emissions (% of total)	39.8	41.0	41.9	41.2	41.9	42.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal data refer to the general government.
b/ Calculations based on SEDLAC harmonization, using 2022-EPHC-S2. Actual data: 2021 and 2022 (preliminary). Forecasts are from 2023 to 2025.
c/ Projections using microsimulation methodology.

THE BAHAMAS

Table 1	2022
Population, million	0.4
GDP, current US$ billion	12.9
GDP per capita, current US$	31458.3
School enrollment, primary (% gross)[a]	96.1
Life expectancy at birth, years[a]	71.6
Total GHG emissions (mtCO2e)	3.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2006); Life expectancy (2021).

The economy grew by 14.4 percent in 2022, slightly less than in 2021 (17.0 percent), driven by the recovery of services, particularly by tourism which has almost returned to pre-pandemic levels. The fiscal accounts improved significantly, with the overall deficit decreasing from 13.3 percent of GDP in 2021 to 5.8 percent in 2022. The current account deficit remains high at 14.3 percent of GDP but is also improving. Sustainable growth in the tourism sector, low inflation, and food security are critical for poverty reduction.

Key conditions and challenges

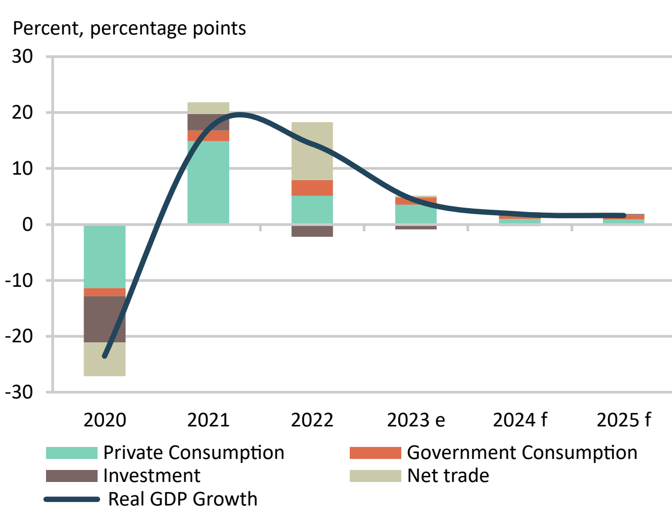
The main driver of economic growth in The Bahamas is tourism, particularly from a few foreign markets, followed by financial services, which rely heavily on foreign investment. Economic growth slowed down in The Bahamas after the global financial crisis, averaging 0.8 percent between 2010 and 2019, due to several factors, such as the country's small size, lack of productive diversification, high import dependency, and the risk of natural disasters. The economy shrunk by 23.5 percent in 2020 due to the pandemic but recovered its pre-pandemic size by 2022. Despite the recovery of the service sector, which represents 85 percent of the total GDP and employs a significant portion of the country's workforce, The Bahamas still faces the challenge of a high unemployment rate. National statistics indicate that in May 2023 the unemployment rate was 8.8 percent of the population, with men experiencing a higher rate of 9.1 percent compared to women at 8.5 percent. Those between 25 and 34 years old faced the highest unemployment rate at 25 percent, followed by those between 35 and 44 years old at 19 percent. Poverty estimates have not been updated since 2013 when 12.8 percent of the population lived below the basic needs line. The pandemic has deepened some of the medium-term growth challenges, and public finances have deteriorated. School closures for at least 102 days have resulted in significant learning losses for young students, with less than 50 percent of registered students attending online classes during the first week of closure.

The public debt remains high, and the government is working to reduce it by means of tax reforms, enhancing tax administration, and improving public financial management. The Bahamas has made progress in addressing financial crime and was recently removed from the Financial Action Task Force's grey list. Ongoing efforts are being made to strengthen the country's Anti-Money Laundering regulation and supervision to ensure that it remains compliant with international standards.

Recent developments

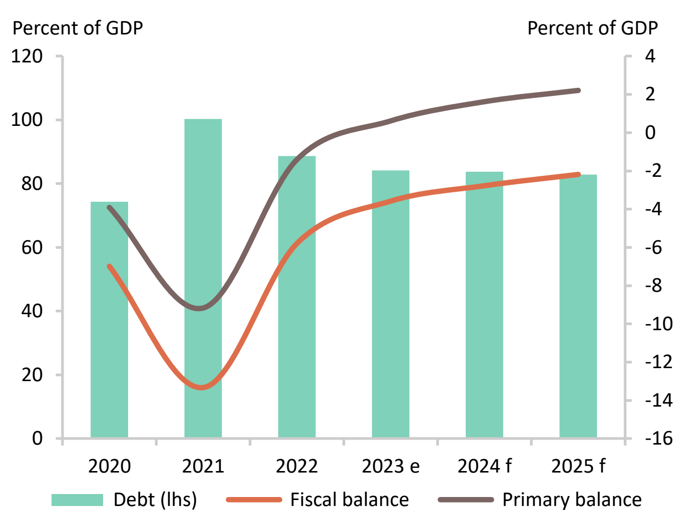
The economy grew 14.4 percent in 2022, slightly slower than the 17.0 percent achieved in 2021. Growth was mainly driven by tourist arrivals, which expanded to 7 million in 2022, representing a growth of 233.3 percent compared to 2021. This led to significant increases in the service sector, particularly in accommodation, food services, and transportation activities, which grew by 9.3 percent in 2022. Government consumption also contributed significantly to growth in 2022. Public investment related to post-hurricane reconstruction and climate change mitigation, along with the emergence of new tourism-related foreign direct investment (FDI) projects, boosted the construction sector. FDI reached 3.5 percent of GDP in 2022.

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



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

FIGURE 2 The Bahamas / Fiscal balance and public debt



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

However, the average inflation rate accelerated from 2.9 percent in 2021 to 5.6 percent in 2022, largely driven by higher prices of imported food, clothing, and fuel. Food security is a pressing issue on the island, with 17.2 percent of the population experiencing moderate to severe food insecurity during the pandemic. The country currently relies heavily on food imports, with nearly 90 percent coming from outside sources. To address this issue, the government announced plans to develop a National Food Policy in January 2023, aimed at strengthening the agricultural sector.

Public finances are entering a consolidation phase after worsening during the pandemic. Revenue collection is improving, and pandemic-related spending is being phased out. The fiscal deficit is estimated to have declined from 13.3 percent of GDP in 2021 to 5.8 percent in 2022, while public debt is estimated to have declined from 100.3 percent of GDP to 88.7 percent over the same period.

The external sector was strongly affected during the pandemic, but the current account deficit (CAD) fell from 22.5 percent in 2021 to 14.3 percent in 2022, as net travel receipts improved. However, demand for key imports has increased, as have their prices. The CAD has been financed with debt from capital markets and IFIs as well as FDI. International reserves amounted to almost 6 months of imports at the end of 2022.

Outlook

Economic growth is estimated to be at 4.3 percent in 2023, a significant slowdown from the 14.4 percent reached in 2022, as tourist inflow returned to pre-pandemic levels; although the tourist arrivals continued to expand, growing 67 percent from the first half of 2022 to the first half of 2023. Growth is projected to decline to 1.8 percent in 2024 and 1.6 percent in 2025, after the post-pandemic recovery is completed. It is expected that the government and FDI construction-related projects will continue to support the construction sector. A potential slowdown in tourism will also slow poverty reduction efforts, as this sector is a major source of employment.

Inflation is projected to decrease to 3.9 percent in 2023 and 3.2 percent in 2024 as import prices gradually decline, providing relief to poor households. The overall fiscal deficit is expected to decrease to 3.6 percent of GDP in 2023, with a primary surplus of 0.6 percent of GDP. The downward trend is expected to be sustained in the subsequent two years, due to the government's ongoing efforts to reduce expenditures and resume tax reforms aimed at expanding the tax base and enhancing compliance. Revenues in the first quarter of 2023 were VAT-led. Public debt is expected to decrease to about 83 percent of GDP in the near term as growth continues and revenues rebound. In the longer term, the government's target is to decrease debt to 50 percent of GDP by FY2030/31.

The CAD is expected to decrease to 9.5 percent of GDP in 2023, as tourism receipts expand further. It is expected to continue to gradually narrow in 2024 and 2025, helping to maintain gross international reserves at an adequate level.

Several factors pose potential risks to the outlook. These include a potential reduction in tourism activity, closely tied to the performance of advanced economies such as the United States, the United Kingdom, and Canada. Additionally, there is exposure to global import price fluctuations, the possibility of natural disasters, and broader macroeconomic uncertainties linked to tightening financial conditions on the global stage.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-23.5	17.0	14.4	4.3	1.8	1.6
Private consumption	-18.9	23.3	7.7	5.6	1.6	1.4
Government consumption	-10.8	12.5	19.0	8.4	6.1	4.7
Gross fixed capital investment	-31.6	12.4	-9.7	-4.9	1.1	1.2
Exports, goods and services	-45.5	22.6	39.9	10.2	9.7	8.8
Imports, goods and services	-27.4	10.3	1.7	10.0	11.5	10.1
Real GDP growth, at constant factor prices	-18.6	8.1	9.3	4.3	1.8	1.6
Agriculture	16.5	-32.4	29.7	24.0	4.0	4.0
Industry	-29.6	-14.8	10.2	7.2	2.9	2.7
Services	-17.0	11.7	9.0	3.8	1.7	1.5
Inflation (consumer price index)	0.0	2.9	5.6	3.9	3.2	2.5
Current account balance (% of GDP)	-24.2	-22.5	-14.3	-9.5	-8.8	-7.7
Net foreign direct investment inflow (% of GDP)	3.9	3.6	3.5	3.0	3.0	3.0
Fiscal Balance (% of GDP)[a]	-7.0	-13.3	-5.8	-3.6	-2.8	-2.2
Revenues (% of GDP)	18.5	18.8	21.0	21.2	22.0	22.2
Debt (% of GDP)[a]	74.3	100.3	88.7	84.2	83.7	82.9
Primary Balance (% of GDP)[a]	-3.9	-9.2	-1.4	0.6	1.6	2.2
GHG emissions growth (mtCO2e)	-2.8	-1.4	-1.2	-0.8	-0.5	-0.3
Energy related GHG emissions (% of total)	88.8	88.2	87.9	87.5	87.2	86.9

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

BARBADOS

Table 1	2022
Population, million	0.3
GDP, current US$ billion	5.7
GDP per capita, current US$	20255.2
School enrollment, primary (% gross)[a]	98.3
Life expectancy at birth, years[a]	77.6
Total GHG emissions (mtCO2e)	3.5

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

Barbados' economy grew at 11.3 percent in 2022 as the number of tourists reached pre-pandemic levels, allowing the recovery of hotel and retail activities, transportation, and real estate. The resurgence of the economy is expected to alleviate poverty and improve households' living conditions. The implementation of the Barbados Economic Recovery and Transformation (BERT) plan, which seeks to increase the primary surplus and reduce external and natural vulnerabilities, has resumed. Public debt reached 122 percent of GDP in 2022. A slowdown in tourism source markets, increases in oil prices, and climate change represent a latent risk.

Key conditions and challenges

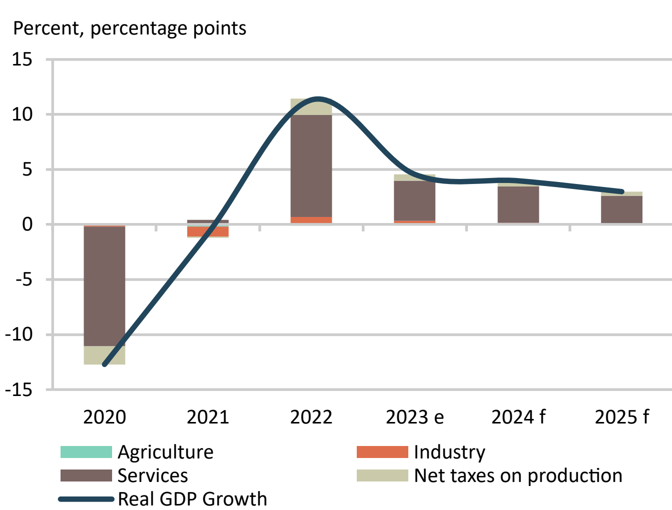
Barbados's main challenges lie in its small size, its high dependence on tourism from a few markets and imports of essential goods, and its vulnerability to external shocks, including climate change. It is highly affected by increases in import prices, especially from the US, given the high import content of its economy and its fixed exchange rate that causes partial transmission of inflation from abroad. At the same time, the Central Bank has few instruments to tighten the monetary conditions in response to rising inflation. Also, high debt levels followed by the recent economic contraction have reduced fiscal space. However, the Government launched the BERT 2022 plan, which seeks to reduce public debt by about 60 percent of GDP by 2035/36, incentivize a transition to green energy, invest in human capital, diversify the economy, and improve competitiveness. The Government receives financial support from the IMF through the Extended Fund Facility (EFF) and Resilience and Sustainability Facility (RSF) program approved in December 2022. The program is aimed at debt reduction, macroeconomic stability, resilience to climate change, and the reduction of gas emissions, one of the main contributors to the greenhouse effect and climate change. There have been no official poverty estimates available since 2017, however, based on the most recent available survey data from 2016, 17.2 percent of households and 25.7 percent of people were under the basic needs line.

Recent developments

GDP growth increased from -0.8 percent in 2021 to 11.3 percent in 2022. This increase was due to the recovery of the services sector, which grew from 0.6 percent in 2021 to 12.9 percent in 2022, fueled by a 273 percent increase in the number of visitors, from 144,833 in 2021 to 539,746 in 2022. Yet, tourist arrivals have not yet reached pre-pandemic levels. Economic growth increased the demand for agricultural products. However, the agriculture sector has not fully recovered after being affected by a combination of adverse weather conditions (including a hurricane, a drought, and a prolonged rainy season) and rising costs of inputs. The sector contracted by -6.4 percent in 2022, a slower pace than -10.4 percent in 2021. The industrial sector, driven by manufacturing, rebounded by 5 percent in 2022.

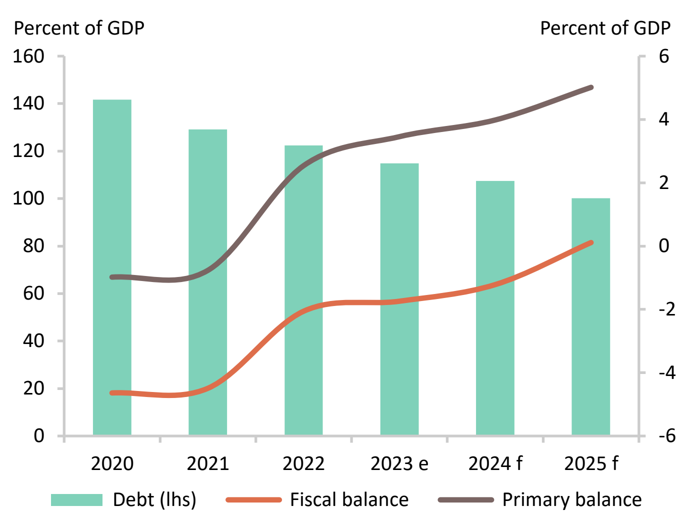
Inflation reached a historic high of 9.2 percent in 2022, largely due to rising food and oil prices, The Central Bank of Barbados has kept its benchmark rate at 2 percent to support the economic recovery from the pandemic. Credit to the private sector remains low and has only started growing – albeit at a low rate of 3.7 percent – in 2022. The labor market also shows signs of post-pandemic recovery, resulting in increased income and reduced poverty. Since 2020, the unemployment rate has decreased by

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



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

FIGURE 2 Barbados / Fiscal balances and public debt



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

2.5 percentage points to 7.2 percent, the lowest level in several years, according to ILO estimates. Additionally, the nominal minimum wage has increased by 36 percent since 2020. However, inflationary pressures may erode households' purchasing power, particularly for the poorest and most vulnerable families who spend a larger portion of their budget on staples (42.8 percent vs. 33.6 percent for the poorest and richest households, respectively).

The current account deficit (CAD) remained significant, despite the rebound in tourism; it reached 10.3 percent of GDP in 2022 as a result of higher demand for imports and higher fuel and food prices. Continued support from international financial institutions helped finance it. Gross international reserves are estimated at 6.7 months of imports as of July 2023.

The Government achieved a reduction in the overall fiscal deficit from 4.5 percent of GDP in 2021 to 2.1 percent of GDP in 2022, as revenues recovered and pandemic-related spending was phased out.

Outlook

Growth is expected to slow to 4.6 percent in 2023 and then to 4.0 and 3.0 percent in 2024 and 2025, respectively, as tourism returns to pre-pandemic levels and fiscal consolidation will reign in government consumption. The fiscal balance will continue to improve. The fiscal deficit is expected to decline to 1.7 percent of GDP in 2023 and to 1.2 percent in 2024, supported by an increase in revenues and the resumption of SOE reforms. A primary surplus of 3.5 percent of GDP is expected in 2023, increasing to 5 percent in 2025. Public debt is expected to decline from 114.9 to 100.1 percent of GDP from 2023 to 2025. The inflation rate is projected to decrease to 5.2 percent in 2023, and 3.1 percent in 2024 as food and fuel prices ease. The CAD is projected to decrease to 7.9 percent of GDP in 2023 and then narrow to 7.1 in 2024 as the services surplus continues to increase. The CAD will continue to be financed from IFIs and increases in private capital inflows. However, the performance of the tourism sector and the evolution of the US dollar will continue to play a crucial role in sustaining employment and income growth. In the longer term, the looming threat of climate change could negatively impact household income and exacerbate poverty.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-12.7	-0.8	11.3	4.6	4.0	3.0
Real GDP growth, at constant factor prices	-12.7	-0.8	11.3	4.6	4.0	3.0
Agriculture	1.0	-10.4	-6.4	2.9	2.9	2.9
Industry	-1.4	-6.3	5.0	2.2	1.0	0.5
Services	-15.0	0.6	12.9	5.0	4.5	3.4
Inflation (consumer price index)	3.0	3.1	9.2	5.2	3.1	2.9
Current account balance (% of GDP)	-6.8	-10.5	-10.3	-7.9	-7.1	-6.3
Fiscal balance (% of GDP)	-4.6	-4.5	-2.1	-1.7	-1.2	0.1
Revenues (% of GDP)	29.0	27.7	27.9	28.2	28.3	28.8
Debt (% of GDP)	141.7	129.1	122.3	114.9	107.4	100.1
Primary balance (% of GDP)	-1.0	-0.8	2.5	3.5	4.0	5.0
GHG emissions growth (mtCO2e)	-1.6	-5.3	-0.1	2.8	1.4	1.1
Energy related GHG emissions (% of total)	29.8	25.8	25.0	26.0	26.1	26.0

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

BELIZE

Table 1	2022
Population, million	0.4
GDP, current US$ billion	2.5
GDP per capita, current US$	6049.2
School enrollment, primary (% gross)[a]	102.6
Life expectancy at birth, years[a]	70.5
Total GHG emissions (mtCO2e)	6.9

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

GDP grew 12.7 percent in 2022 boosted by the recovery of commercial activities and tourism. Unemployment fell to an all-time low of 2.8 percent by April of 2023 as the economy continued to grow at a double-digit rate in the first quarter. However, increases in global commodity prices weakened the external position of the country and reduced households' purchasing power. The government continued the implementation of structural reforms with a focus on improving growth while considering climate change and the protection of the most vulnerable.

Key conditions and challenges

Belize is an upper-middle country, reliant on tourism – its most important source of foreign exchange – agriculture and remittances. Belize's economic performance depends strongly on that of the US – the main origin of its tourists and remittances, principal export destination, and source of FDI. Belize's exchange rate is pegged to the US dollar and, as a net importer of oil and gas, it is strongly affected by fluctuations in energy prices. The country is also highly exposed to weather-related shocks, such as flooding and wind damage.

The country is gradually emerging from a challenging period of economic instability and large fiscal imbalances, exacerbated during the COVID-19 pandemic. The country has made important progress in reducing its public debt, supported by debt restructuring and a blue bond issuance, and strengthening fiscal management. However, severe constraints on the business environment hamper growth and poverty reduction. In particular, limited credit to the private sector, important infrastructure gaps, lack of skills, and high crime and violence cause an unfriendly business environment.

The latest poverty statistics indicate that over a third of the population lived in multidimensional poverty (in 2021) and over half could not afford adequate nutrition and basic non-food items (in 2018). Some population groups have structurally higher poverty rates, including Belizeans of Maya descent, children and adolescents, and large households. Low levels of female labor force participation hamper poverty reduction and contribute to a tight labor market.

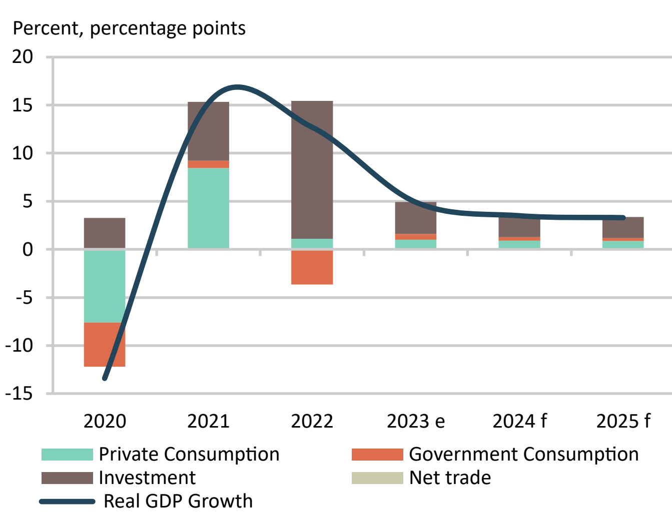
Recent developments

Real GDP growth in 2022 was relatively high at 12.7 percent, yet somewhat lower than the rate of 15.2 percent reached in 2021, which was mainly a result of the post-COVID-19 reopening. Growth was fueled by the continued recovery of tourism and commercial activities. In 2022, visitor arrivals reached 67 percent of pre-pandemic levels, with the recovery of cruise ship tourism still lagging. Capital investment was strong, led by construction and infrastructure activities, with an important externally financed component.

Strong growth led to improved labor market outcomes, with unemployment reaching its lowest level in recorded history at 2.8 percent in April 2023 (compared to an unemployment rate of 9.4 and 11.2 percent in April of 2018 and 2021 respectively, years of previous poverty measurements in Belize).

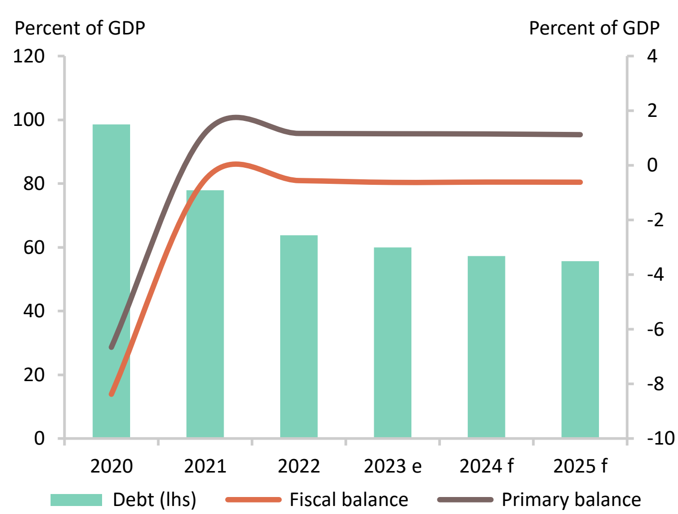
Inflation moderated to 3.3 percent in June of 2023, but prices continued to rise more rapidly for food and non-alcoholic beverages, thus eroding households' purchasing power. The CBB successfully completed the process of resolving problematic loans, strengthening domestic banks' balance sheets, and putting some banks

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



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

FIGURE 2 Belize / Fiscal balances and public debt



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

under enhanced supervision. The authorities are updating the national assessment of money laundering and terrorism financing risks and the action plan before the mutual evaluation by the Caribbean Financial Action Task Force in November 2023.

The government continued to implement fiscal consolidation measures, which included lower government spending through cuts in public sector wages and the postponement of wage increases, as well as other structural reforms to improve growth. These measures were complemented by the steps to mitigate the effects of climate change on the population and on the economy and by protecting the vulnerable through initiatives related to disaster-risk management, education, and housing. The fiscal deficit remained low at 0.6 percent of GDP in 2022. The strong economic growth in 2022 helped maintain the downward trajectory of the debt/GDP ratio, which declined from 98.6 percent in 2020 to 63.8 percent in 2022.

The increase in global prices also weakened the country's external position. The current account deficit increased from 6.3 percent of GDP in 2021 to 9.2 percent in 2022, following increases in external payments. The deficit has been financed by multilateral and bilateral loans and FDI inflows. Gross international reserves covered 3.7 months of imports at the end of 2022.

Outlook

In the baseline scenario, growth will slow to 4.9 percent in 2023 and to 3.5 percent in 2024 as retail activities and tourist arrivals are expected to reach pre-pandemic levels. Agricultural production is projected to continue declining at 2.5 percent in 2023 due to a combination of climatic and pest/disease factors, declining quality of soil, and lower use of fertilizer due to increased prices. Monetary tightening in the USA, global commodity price normalization, and a deceleration in domestic demand are expected to reduce inflation to 4.1 percent in 2023 and to 2.1 in the near term. An overall fiscal deficit of 0.6 percent of GDP and a primary surplus of 1.2 percent of GDP is expected between 2023 and 2025, as revenues outpace expenditures due to tax receipts, capital grants, and tourism recovery. An increase in minimum wages in 2023, reduced inflation and a strong labor market are expected to put downward pressure on poverty. The current account deficit is projected to be moderate at 6.4 percent of GDP in 2023, and to contract further in the near term, led by the lower fuel prices. The CAD is expected to continue to be fully financed by FDI, remittances, and loans.

Further tightening of monetary policy in the United States, as well as a faster-than-expected global growth slowdown, would negatively affect Belize's economic growth. Political pressure to raise government spending could increase and affect fiscal sustainability. Other risks to the outlook include exposure to extreme weather events, climate change, and the emergence of new COVID-19 variants.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-13.4	15.2	12.7	4.9	3.5	3.3
Private consumption	-12.4	13.6	1.8	1.8	1.7	1.7
Government consumption	-25.0	4.9	-25.3	6.0	3.7	2.9
Gross fixed capital investment	14.1	20.0	44.9	8.1	5.2	5.2
Exports, goods and services	-29.8	35.1	4.3	4.0	3.5	3.0
Imports, goods and services	-22.9	31.8	4.8	3.5	3.0	2.8
Real GDP growth, at constant factor prices	-12.5	14.5	11.2	4.9	3.5	3.3
Agriculture	1.2	17.1	-4.3	-2.5	1.5	1.8
Industry	-1.8	15.1	5.4	3.7	1.2	1.0
Services	-17.2	13.8	15.7	6.3	4.4	4.1
Inflation (consumer price index)	0.1	3.3	6.3	4.1	2.5	1.6
Current account balance (% of GDP)	-6.2	-6.3	-9.2	-6.4	-6.2	-6.0
Net foreign direct investment inflow (% of GDP)	3.5	5.0	6.4	5.3	4.3	4.2
Fiscal Balance (% of GDP)[a]	-8.4	-0.5	-0.6	-0.6	-0.6	-0.6
Revenues (% of GDP)	21.0	26.6	22.6	22.7	22.8	22.9
Debt (% of GDP)[a]	98.6	77.9	63.8	60.0	57.2	55.7
Primary Balance (% of GDP)[a]	-6.7	1.2	1.2	1.2	1.1	1.1
GHG emissions growth (mtCO2e)	1.7	-0.2	-0.1	0.8	0.8	0.9
Energy related GHG emissions (% of total)	10.0	10.6	11.3	11.9	12.5	13.0

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

BOLIVIA

Table 1	2022
Population, million	12.2
GDP, current US$ billion	44.0
GDP per capita, current US$	3599.0
International poverty rate ($2.15)[a]	2.0
Lower middle-income poverty rate ($3.65)[a]	5.4
Upper middle-income poverty rate ($6.85)[a]	15.2
Gini index[a]	40.9
School enrollment, primary (% gross)[b]	98.8
Life expectancy at birth, years[b]	63.6
Total GHG emissions (mtCO2e)	136.7

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

As limited external financing and international reserves are constraining public spending and private sector activity, growth is expected to decline to 1.9 percent in 2023, preventing poverty reduction. Bolivia would benefit from implementing a medium-term strategy to address macroeconomic imbalances, enhance fiscal policy efficiency and progressivity, and foster private investment. This would cement confidence, foster growth, and reduce poverty while enhancing resilience to downside risks.

Key conditions and challenges

The Government continues to implement a state-led development strategy focused on import substitution, public investment, and state-owned enterprises and remains committed to the current exchange rate peg. However, after years of expansionary policies and the pandemic, and in the context of limited access to global capital markets, diminishing international reserves, and declining gas production, growth is slowing significantly.

A medium-term plan to improve the business environment, strengthen institutions, and reduce the fiscal deficit is critical to address macroeconomic imbalances, ignite new sources of growth, and resume poverty reduction.

Fiscal sustainability and performance could be enhanced by rationalizing current spending, improving public investment efficiency, and replacing universal subsidies with more targeted and progressive support for vulnerable households. Social assistance programs are rigid, benefits are small and not adjusted for inflation, and they are not well-targeted to the poor and vulnerable.

Pressures from a demographic transition, increasing urbanization, and a more educated workforce increase the urgency of generating more and better jobs. Fostering private and foreign investment, critical for growth, would benefit from reducing red tape, removing tax distortions, modernizing labor regulations, improving transport and logistics, easing agricultural export restrictions, and fostering environmentally and socially sustainable mining.

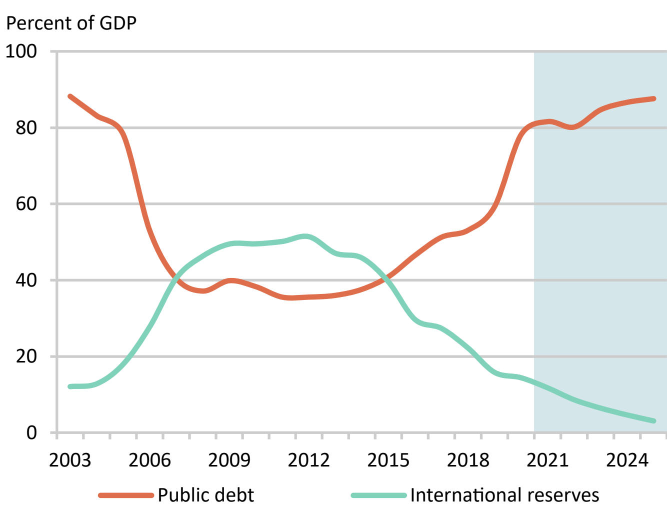
Recent developments

After the 6.1 percent rebound in 2021, economic growth slowed to 3.5 percent in 2022 following a decline in gas exports, stagnating public investment, sporadic diesel shortages, and social unrest. Although unemployment slightly declined, the slowdown increased informality and decelerated labor participation and employment growth. This context, combined with the removal of the emergency cash transfers and higher food inflation, increased poverty (US$6.85 a day in 2017PPP) from 15.2 percent in 2021 to an estimated 16.9 percent in 2022.

The economy continued to slow in the first months of 2023 as declining gas production and droughts were compounded by uncertainty resulting from foreign exchange shortages that led to an incipient parallel exchange rate. Yet, the authorities have partially restored foreign exchange supply in recent months by drawing down the country's SDR allocation, getting legislative approval to use up to half of the gold reserves, and mobilizing financing from regional development banks. Moreover, they intervened and liquidated the fourth-largest bank after it was unable to handle a deposit withdrawal.

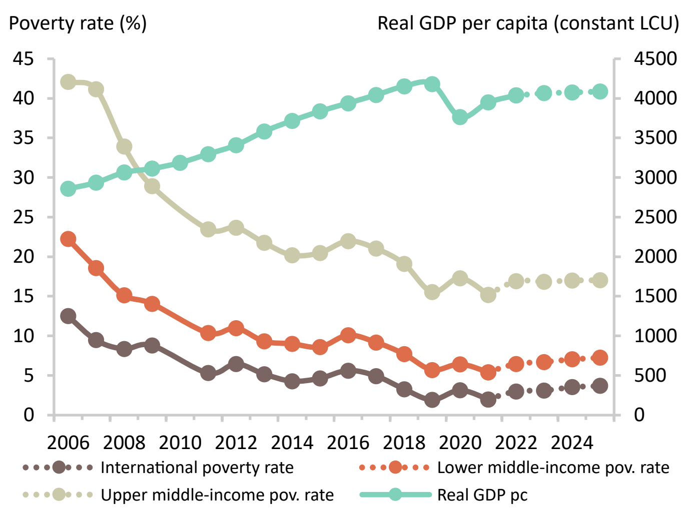
The 12-month rolling fiscal deficit increased from 7.1 percent of GDP in December 2022 to

FIGURE 1 Bolivia / Public debt and international reserves



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

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



Source: World Bank. Notes: see Table 2.

7.6 percent in April 2023 due to declining gas exports, high fuel subsidies, and rising interest payments, which more than offset the reduction in capital expenditure. Yet, public debt remained stable in the first four months of 2023, as the accumulated fiscal accounts were near balance due to their seasonal pattern, and the Government struggled to get legislative approval to contract external loans.

The trade balance swung from a US$1.7 billion surplus in the first half of 2022 to a US$ 78 million deficit in the same period of 2023 due to lower export prices, declining gas exports, and increasing fuel imports. In conjunction with smuggling, unregistered capital outflows, and dollar cash demand, this deficit continued to reduce international reserves.

The money supply lost momentum as deposit growth slowed, and the Government increasingly tapped into pension funds financing, recently taken over by a public institution, crowding out the financial sector. Despite exchange shortages, inflation remained one of the lowest in the region due to fixed exchange rates, frozen fuel prices, food subsidies, smuggling, and export restrictions.

Outlook

Growth is expected to decline gradually to about 1.5 percent by 2025 as a moderate El Niño weather oscillation in 2023 and 2024 will be compounded by declining public spending, including public investment, resulting from limited access to external financing and falling international reserves. Moreover, with substantial Government financing needs, credit to the private sector is expected to slow down.

The fiscal deficit will continue going down as lower external and Central Bank financing constrains expenditures. Falling hydrocarbon revenues and high fuel subsidies are projected to increase public debt, including with the Central Bank, which is expected to increase from 80 percent in 2022 to 88 percent in 2025.

Although the Government has made some effort to mobilize foreign and public investment in lithium development and gas exploration, delays and the long investment horizons are expected to limit their impact in the projection period. Despite the slowdown, the current account deficit is projected to remain close to 2.0 percent due to low commodity prices and declining natural gas production. With low foreign investment and substantial capital outflows, this deficit is expected to continue reducing international reserves, despite the Central Bank's efforts to strengthen them, for example, by buying gold from mining cooperatives.

Poverty is expected to stagnate due to the economic slowdown and, to a lesser extent, inflationary pressures resulting from restricted access to foreign currency. As a result, the need for a better-targeted social protection system coupled with inclusive growth becomes more urgent.

High public debt and low buffers increasingly expose the country to lower commodity prices, tighter global financial conditions, lower gas production, and natural disasters caused by, for example, a stronger El Niño than expected. Although the Government has managed to moderate the incipient parallel exchange rate, a more adverse economic context could shift market sentiment, adding pressures on the exchange market. Political tensions may also thwart an agenda to address imbalances and structural constraints to growth and poverty reduction.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-8.7	6.1	3.5	1.9	1.5	1.5
Private consumption	-7.9	5.3	4.2	2.6	2.3	2.0
Government consumption	-2.8	5.4	4.0	0.2	-2.9	-1.9
Gross fixed capital investment	-25.9	11.9	6.5	-1.9	-1.9	-1.7
Exports, goods and services	-18.8	15.4	15.6	3.5	3.5	3.5
Imports, goods and services	-25.0	15.7	7.6	2.0	1.5	1.5
Real GDP growth, at constant factor prices	-8.4	6.4	3.5	1.9	1.5	1.5
Agriculture	3.1	1.8	3.7	3.0	3.4	4.4
Industry	-11.8	9.6	1.0	1.0	0.8	0.8
Services	-9.3	5.8	5.3	2.2	1.3	1.0
Inflation (consumer price index)	0.9	0.7	1.7	3.1	4.5	4.5
Current account balance (% of GDP)	-0.1	2.2	-0.4	-2.0	-1.9	-1.8
Net foreign direct investment inflow (% of GDP)	-2.8	1.2	0.7	0.8	0.8	0.8
Fiscal balance (% of GDP)	-12.7	-9.3	-7.1	-6.8	-6.1	-5.3
Revenues (% of GDP)	25.3	25.1	26.6	26.9	26.5	26.5
Debt (% of GDP)	78.1	81.6	80.1	84.7	86.6	87.6
Primary balance (% of GDP)	-11.2	-7.9	-5.5	-5.0	-4.0	-3.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.1	2.0	3.0	3.1	3.5	3.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	6.4	5.4	6.5	6.7	7.0	7.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	17.3	15.2	16.9	16.8	17.0	17.0
GHG emissions growth (mtCO2e)	-2.3	0.6	0.3	0.6	0.7	0.8
Energy related GHG emissions (% of total)	13.2	13.7	14.2	14.7	15.2	15.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on SEDLAC harmonization, using 2021-EH. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.
b/ Projections using microsimulation methodology.

BRAZIL

Table 1	2022
Population, million	203.1
GDP, current US$ billion	1935.2
GDP per capita, current US$	9528.4
International poverty rate ($2.15)[a]	5.8
Lower middle-income poverty rate ($3.65)[a]	11.3
Upper middle-income poverty rate ($6.85)[a]	28.4
Gini index[a]	52.9
School enrollment, primary (% gross)[b]	105.5
Life expectancy at birth, years[b]	72.8
Total GHG emissions (mtCO2e)	2331.1

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

Led by growth in agriculture and exports, real GDP is projected to expand 2.6 percent in 2023, slightly slower than in 2022. An increase in the minimum wage continued albeit with slow job growth and new social benefits under the Bolsa Familia program are expected to reduce poverty in 2023. Fiscal management improved due to recent fiscal reforms. Structural reforms to boost sustainable growth while protecting the most vulnerable will be critical for continuous gains in poverty reduction.

Key conditions and challenges

The constraints of a growth model based on factor accumulation resulted in a decade of meager growth and continued deforestation. Labor productivity and real wages have remained stagnant in the manufacturing and services sectors as a result of a cumbersome business environment, an overly complex tax system, and persistent barriers for firm entry. Insufficient private infrastructure investments, hindered by low savings, production bottlenecks, along with constrained public investment further compound the productivity challenge. Progress in enhancing human capital has been slow as poverty and inequality returned to 2011 levels by 2021. Despite improvements, in 2022, about one-sixth of the population was estimated to be chronically poor.

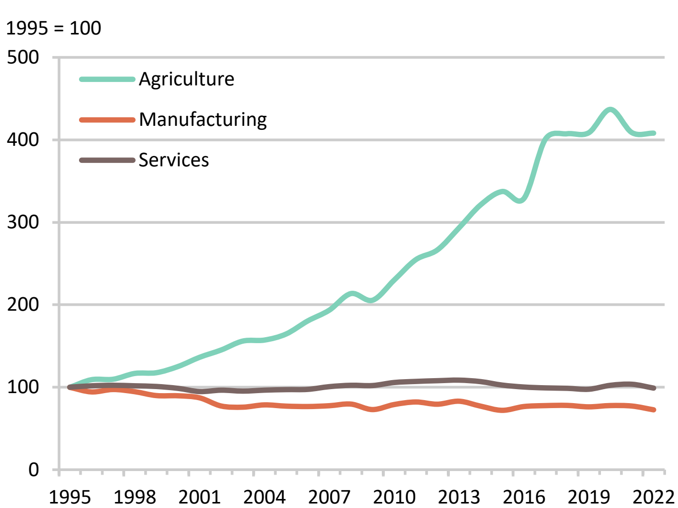
Key reforms have been underway in 2023. These include a new fiscal framework that seeks to improve policy predictability and medium-term debt stabilization. A tax reform that is moving through the legislative branch would replace consumption taxes with a value-added tax (VAT) aligned with good international practices and, if passed, would likely boost growth. Paired with additional tax measures, it could also reduce the tax burden on the poorest, enhancing tax progressivity.

Recent developments

After growing 1.8 percent in Q1 2023 driven by a strong agricultural output, real GDP grew 0.9 percent on a q-o-q seasonally adjusted (q-o-q s.a.) basis in Q2 2023, as robust household and government consumption grew 0.9 percent and 0.7 percent q-o-q s.a., respectively, due to the fiscal stimulus and income transfers, which more than offset the effect of monetary tightening and higher household indebtedness. As CPI inflation eased to 4.6 percent in August 2023 from a peak of 12.1 percent in April 2022, falling within the target range (3.25 percent with a +/-1.5 interval), the Central Bank cut its policy rate to 12.75 in September, from 13.75 percent in July, where it had stood since September 2022. The 12-month current account deficit stood at 2.5 percent of GDP in July 2023, partly financed by net FDI inflows (2.4 percent of GDP). The exchange rate appreciated between 2022 and the end of August 2023, from R$/US$ 5.22 to around R$/US$ 4.90.

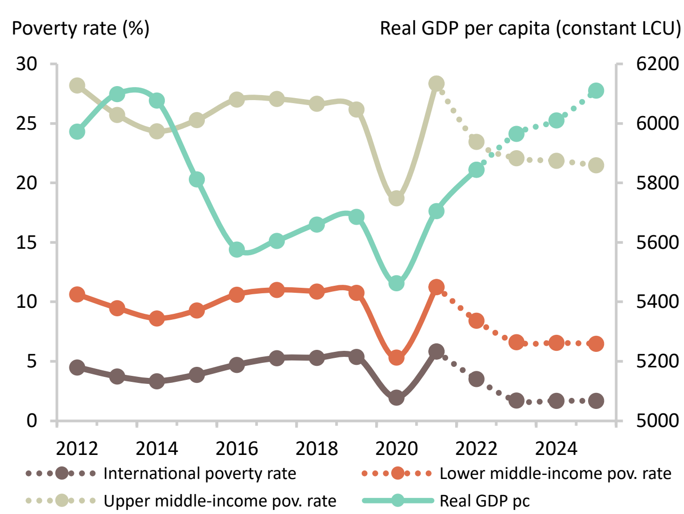
After an improvement in 2022, fiscal balances deteriorated in 2023 since one-off revenues vanished and social transfers increased. The 12-month primary deficit of the public sector reached 0.8 percent of GDP in July 2023, from a surplus of 1.3 percent in 2022. High domestic interest rates resulted in higher financing costs, with interest payments reaching 6.2 percent of GDP, up from 6.0 percent in 2022. The general government's gross debt increased to 74.1 percent of GDP in July

FIGURE 1 Brazil / Indices of output per worker by sector



Source: World Bank staff calculations based on data from the Brazilian Institute of Economy (FGV/IBRE).

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



Source: World Bank. Notes: see Table 2.

2023, from 72.9 percent in 2022. However, external debt is low at 8.5 percent of GDP. Between 2021 and 2022, the poverty rate (US$6.85 per day, 2017 PPP) dropped from 28.4 percent to 23.5 percent - below pre-pandemic levels- aided by the expansion of Bolsa Família program and higher wages. Employment was stagnant (y-o-y growth slowed to 0.65 percent in Q2 2023 following the rapid post-COVID recovery) and hours worked remained constant. Still, real wages rose by 6.4 percent y-o-y in Q2, boosted by a 7.4 percent increase in the minimum wage. The unemployment rate in Q2 2023 (8.0 percent) was the lowest since 2015, with the decline in unemployment especially benefitting women, Afro Brazilians, and youth.

Outlook

Real GDP growth in 2023 is estimated at 2.6 percent, driven by robust agricultural exports and increased social transfers boosting household consumption. Labor market gains combined with new Bolsa Família parameters, including larger payments to bigger families and an extra benefit per child, are expected to reduce poverty to 22.1 percent (US$ 6.85 per day) in 2023. Further economic growth may contribute to marginal poverty reductions in the upcoming years: the poverty rate is projected to decrease to 21.9 percent and 21.5 percent in 2024 and 2025, respectively. However, the absence of improved investments in the quality of public education and other social infrastructure may hinder progress.

However, an expected slowdown in economic activity in the second semester of 2023, and a regression of agricultural output closer to the historical average are expected to lead to a GDP growth rate of 1.3 percent in 2024. Inflationary pressures are expected to ease in 2023, and gradually converge towards the Central Bank's target of 3 percent by 2025, allowing for gradual easing of monetary policy and boosting GDP growth in 2025 (2.2 percent). Baseline fiscal projections assume the implementation of the new fiscal framework proposed by the federal government to replace the current spending cap rule. In this context, the primary deficit is expected to reach 0.9 percent of GDP in 2023 but to gradually improve, supported by revenue measures, and achieve a surplus of 0.7 percent of GDP by 2025. Public debt is projected to peak at 76.3 percent of GDP in 2024 before embarking on a downward trajectory.

The main macroeconomic risks arise from concerns about the pace of fiscal consolidation and additional revenue collection efforts that may not completely materialize. Unfavorable external conditions, such as further tightening of global financial markets, or a decline in commodity prices could have a significant effect on the growth outlook. Yet, the robust buffers and institutions—ample reserves, low external debt, a resilient financial system, and exchange rate flexibility under the inflation targeting regime and an independent central bank—mitigate these concerns. The El Niño event may disrupt markets in 2023, raising food and energy prices, which would disproportionately affect the poorest: households in the bottom decile devote almost 40 percent of their consumption expenditures to these items.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-3.3	5.0	2.9	2.6	1.3	2.2
Private consumption	-4.6	3.7	4.3	2.5	1.2	2.4
Government consumption	-3.7	3.5	1.5	1.0	1.2	0.9
Gross fixed capital investment	-1.7	16.5	0.9	0.1	1.3	2.2
Exports, goods and services	-2.3	5.9	5.5	5.0	2.0	2.0
Imports, goods and services	-9.5	12.0	0.8	0.0	2.0	2.0
Real GDP growth, at constant factor prices	-3.0	4.7	3.1	2.6	1.3	2.2
Agriculture	4.2	0.3	-1.7	13.2	2.8	1.9
Industry	-3.0	4.8	1.6	0.6	1.1	1.7
Services	-3.7	5.2	4.2	2.1	1.2	2.4
Inflation (consumer price index)	3.2	8.3	9.3	4.7	4.0	3.8
Current account balance (% of GDP)	-1.9	-2.8	-2.9	-2.0	-2.2	-2.6
Net foreign direct investment inflow (% of GDP)	2.8	1.8	3.1	3.0	3.0	3.0
Fiscal balance (% of GDP)	-13.3	-4.3	-4.6	-7.3	-5.2	-3.9
Revenues (% of GDP)	32.4	35.8	36.1	34.2	35.0	34.9
Debt (% of GDP)	86.9	78.3	72.9	75.6	76.3	75.3
Primary balance (% of GDP)	-9.3	0.7	1.3	-0.9	0.2	0.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.9	5.8	3.5	1.7	1.7	1.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	5.3	11.3	8.4	6.6	6.6	6.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	18.7	28.4	23.5	22.1	21.9	21.5
GHG emissions growth (mtCO2e)	0.6	12.0	-4.7	-4.3	-5.2	-3.6
Energy related GHG emissions (% of total)	17.8	17.8	19.2	20.8	22.3	23.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on SEDLAC harmonization, using 2022-PNADC. Actual data: 2021 and 2022 (preliminary). Forecasts are from 2023 to 2025.
b/ Projection using microsimulation methodology.

CHILE

Table 1	2022
Population, million	19.6
GDP, current US$ billion	301.0
GDP per capita, current US$	15355.5
International poverty rate ($2.15)[a]	0.7
Lower middle-income poverty rate ($3.65)[a]	1.7
Upper middle-income poverty rate ($6.85)[a]	8.0
Gini index[a]	44.9
School enrollment, primary (% gross)[b]	101.5
Life expectancy at birth, years[b]	78.9
Total GHG emissions (mtCO2e)	42.3

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

Real GDP is expected to fall in 2023 due to the lagged effects of fiscal and monetary tightening in 2022. Inflation has receded from last year's peak, driven by domestic and external factors, but remains above target. As pressures continue to recede, the Central Bank has started a monetary easing cycle. Medium-term prospects will be shaped by the capacity to generate more inclusive, productivity-driven growth while preserving sound macroeconomic fundamentals.

Key conditions and challenges

Chile's economy made significant progress in resolving macroeconomic imbalances accumulated in recent years. Domestic demand continued to adjust and inflation waned, although it remains above target. Growth, which averaged just 2 percent in the six years before the pandemic, would need to accelerate for progress. Boosting productivity growth, which has been declining for decades, will be vital for creating well-paid formal jobs and export diversification. This requires efforts to reduce regulatory barriers, foster technology adoption, promote competition, enhance education quality and managerial capabilities, and increase female labor force participation.

A second constitutional proposal is expected to be submitted to a referendum in December 2023 after the rejection of the first one. The new draft will maintain main principles such as a bi-cameral Congress, Central Bank autonomy, and the Executive's exclusive mandate on fiscal spending.

At the same time, the government seeks to increase fiscal revenues to fulfill its social agenda in areas like pensions, healthcare, and social protection. Following the rejection by Congress of a first tax reform bill in March 2023, a broader Fiscal Pact comprising anti-avoidance and anti-evasion measures was presented in August. A new corporate and personal income tax reform proposal will be presented in March 2024, and an increase in mining royalties has already been enacted.

A pension reform to increase contributions, replacement rates, and the solidarity pillar is being debated in Congress with limited progress. In April, Congress approved a bill to progressively reduce the labor week from 45 to 40 hours.

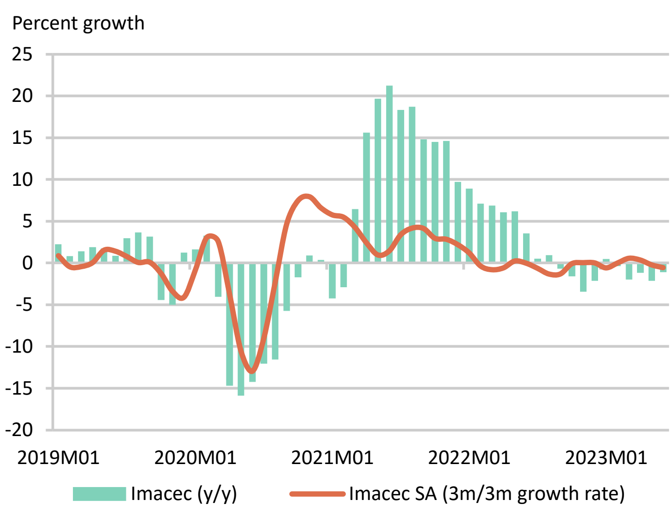
Recent developments

Real GDP contracted 1 percent y-o-y in 2023H1, mainly driven by the lagged effects of fiscal and monetary contraction in 2022 after extraordinary spending in 2021. Consumption, especially of durable goods, adjusted amid a weaker labor market and tighter financial conditions. Investment remained stagnant for several quarters, while exports remained low amid soft copper output. On the supply side, commerce continues to lead the decline.

The unemployment rate rose 0.7 percentage points y-o-y in June 2023. Female labor force participation grew 2 percentage points y-o-y but remains below pre-pandemic levels. Despite a decreasing trend, the gender gap in employment rate stands high at 18 pp, with women more likely to work in the informal sector and earning 8.4 percent lower hourly salaries.

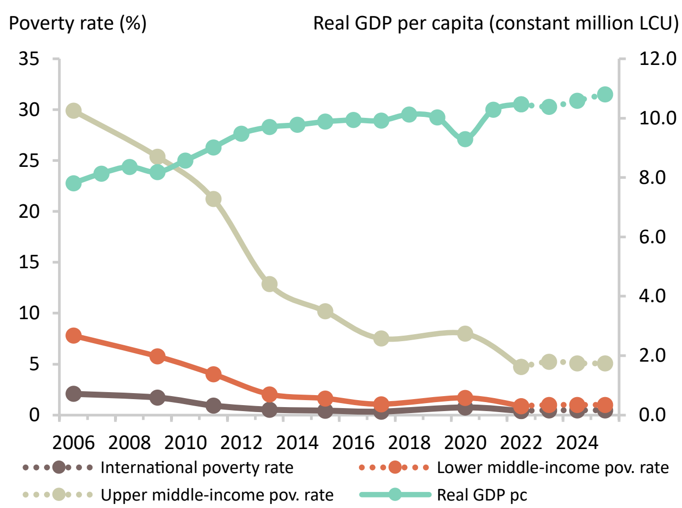
Inflation stood at 6.5 percent y-o-y in July 2023, well below the peak of 14.1 percent in August 2022, as demand pressures weakened after a determined monetary tightening. A rate cut cycle has started with a first 100 bp reduction in

FIGURE 1 Chile / Growth of the IMACEC monthly indicator of economic activity



Source: World Bank based on Central Bank of Chile.

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



Source: World Bank. Notes: see Table 2.

July. Declining commodity prices contributed on the external side.
Substantial spending cuts, especially the removal of COVID-related transfers, and revenue overperformance led to a fiscal surplus in 2022. The deficit started to rise again and the 12-month rolling public balance reached -1.8 percent of GDP by June 2023.
Public transfers became more targeted in 2022 compared to 2021, but poor households received, on average, significantly larger amounts in 2022 than pre-pandemic. The rise in non-labor incomes and the labor market recovery contributed to poverty and inequality returning to declining pre-pandemic trends. Poverty (US$6.85 a day) dropped from 8.0 percent in 2020 to 4.7 percent in 2022. Income inequality, measured by the Gini coefficient, reached 0.43 in 2022. However, deprivations in non-monetary dimensions, such as health care and social security, increased compared to 2020.
The current account deficit narrowed to 4.5 percent of GDP by the end of the second quarter of 2023 after reaching a decades-high 9 percent in 2022. The correction was led by higher export prices and lower import volumes (-13.2 percent y-o-y in 2Q23) amid the adjustment of household consumption. The current account deficit was financed by Foreign Direct Investment, a reversal from the pandemic period when FDI levels were low, and the current account deficit was financed by portfolio investment inflows from the repatriation of pension fund assets and the issuance of external sovereign debt. The peso regained most of the value it had lost in mid-2022. Local banks have strong liquidity and solvency positions and firms continued to reduce their indebtedness after the pandemic.

Outlook

In the outlook, economic activity stagnates in 2023, starting a gradual recovery by the last quarter. Domestic demand remains weak as monetary policy is still contractive and investment sentiment remains subdued. External conditions are improving but remain subject to high uncertainty. Real GDP is forecast to contract 0.4 percent in 2023 and return to a 2 percent trend growth rate in the medium term. Increased demand for copper and lithium amid the global energy transition as well as production of green hydrogen, may contribute to growth in the longer term.
Inflation could remain high in the short term, given some inertia, especially in core services, but converge to the 3 percent target in 2024 amid a negative output gap and receding cost pressures.
Poverty (US$6.85 a day) is estimated to increase by 0.5 pp between 2022 and 2023, reaching 5.2 percent in 2023, while the Gini coefficient is projected to remain at the same level as in 2022 at 0.43.
The fiscal deficit reached 2.3 percent of GDP in 2023 amid the economic downturn and higher social spending and investment. It gradually converges toward the structural deficit target in the medium term to stabilize the debt-to-GDP ratio at around 42 percent. The current account deficit continues to narrow.
Downside risks to the outlook include geopolitical tensions, weaker-than-expected growth in China, additional monetary tightening in advanced economies, and natural hazards such as a stronger-than-expected El Niño event. Domestic risks stem mainly from increased political uncertainty around the new constitution and the debate on tax and pension reforms.

TABLE 2 Chile / 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	11.7	2.4	-0.4	1.8	2.3
Private consumption	-7.4	20.8	2.9	-5.0	1.7	2.2
Government consumption	-3.5	13.8	4.1	3.0	2.0	2.7
Gross fixed capital investment	-10.8	15.7	2.8	-3.3	1.0	2.0
Exports, goods and services	-0.9	-1.4	1.4	1.3	4.0	2.2
Imports, goods and services	-12.3	31.8	0.9	-9.2	3.0	2.1
Real GDP growth, at constant factor prices	-6.2	10.6	2.6	-0.4	1.8	2.3
Agriculture	-2.5	4.4	0.1	0.0	2.3	2.3
Industry	-3.4	4.6	-0.9	-1.7	2.1	2.2
Services	-7.7	14.0	4.4	0.1	1.6	2.3
Inflation (consumer price index)	3.0	4.5	11.6	7.7	3.6	3.0
Current account balance (% of GDP)	-1.9	-7.3	-9.0	-3.6	-3.3	-3.1
Net foreign direct investment inflow (% of GDP)	2.0	0.6	2.7	2.6	2.6	2.6
Fiscal balance (% of GDP)	-7.1	-7.5	1.4	-2.3	-2.2	-1.9
Revenues (% of GDP)	22.0	26.0	28.1	23.2	24.0	23.6
Debt (% of GDP)	32.4	36.3	38.0	38.2	41.0	42.5
Primary balance (% of GDP)	-6.1	-6.6	2.4	-1.1	-0.9	-0.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.7	..	0.4	0.5	0.5	0.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	1.7	..	0.9	1.0	1.0	1.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	8.0	..	4.7	5.2	5.1	5.1
GHG emissions growth (mtCO2e)	-15.1	2.1	-11.8	-2.0	1.5	1.7
Energy related GHG emissions (% of total)	178.6	176.5	186.7	187.8	186.0	184.4

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 SEDLAC harmonization, using 2022-CASEN (preliminary). Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2025.
b/ Projections using microsimulation methodology.

COLOMBIA

Table 1	2022
Population, million	51.6
GDP, current US$ billion	343.6
GDP per capita, current US$	6658.1
International poverty rate ($2.15)[a]	6.6
Lower middle-income poverty rate ($3.65)[a]	16.0
Upper middle-income poverty rate ($6.85)[a]	39.2
Gini index[a]	51.5
School enrollment, primary (% gross)[b]	112.7
Life expectancy at birth, years[b]	72.8
Total GHG emissions (mtCO2e)	263.7

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

GDP grew 7.3 percent in 2022 and is projected to grow 1.5 percent in 2023. The economy is soft-landing and imbalances in the economy are correcting, with declining inflation and fiscal and external deficits. Key risks include persistent inflation due to El Niño; uncertainty around the reform agenda; and a slower fiscal consolidation path. Poverty reduction is projected to decelerate in line with the pace of economic activity.

Key conditions and challenges

Colombia has a stable macroeconomic framework supported by a sound fiscal rule, a credible inflation-targeting regime, and a flexible exchange rate. This has promoted stable economic growth, without a recession since 1999 (except for the COVID-19 induced recession in 2020), key for poverty reduction and shared prosperity. Yet, growth rates remain too low to reduce the development gaps with respect to high-income countries. Moreover, differences in GDP per capita within Colombia are extreme, with modern urban centers coexisting with large portions of the country that remain isolated and with fragile state presence.

Long-standing challenges underlie Colombia's development outcomes. Sluggish productivity growth lies at the core, underpinned by lagging quality of labor (poor educational outcomes), capital (especially transport infrastructure, not appropriate for the country's rugged terrain), and institutions (such as high costs of bureaucracy). Low productivity undermines trade integration with the world. Despite joining numerous trade agreements, Colombia has very limited trade, with exports below comparable countries and highly concentrated on commodities, notably fossil fuels. Sluggish productivity is also a key determinant of high informality, poverty, and inequality, which reinforces low labor quality. Reducing poverty and increasing resilience among the non-poor will require enhancing the social security system, making labor markets more efficient and inclusive, improving access to quality education, health, and infrastructure across the territory, and addressing regional disparities in opportunities.

Structural transformation towards a more productive, diversified, inclusive, and prosperous economy will also be required to navigate the climate transition agenda. Despite short-term trade-offs, climate and development objectives can reinforce each other in the medium-to-long run.

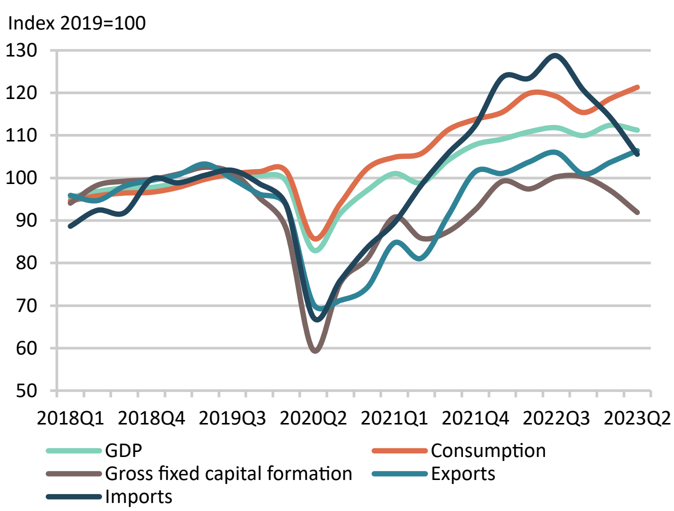
Recent developments

The strong post-pandemic growth has lost steam. After growing 7.3 percent in 2022 driven by repressed consumption and the lagged effects of fiscal and monetary stimuli, GDP expanded 1.7 percent (y-o-y) in 2023H1, amid a moderation of private consumption and exports and a fall in investment. On the supply side, construction and mining are still below pre-pandemic levels.

Employment and labor force participation continued to recover by June 2023 (y-o-y), stronger among women and in urban areas, with a decline in informality and the unemployment rate reaching one-digit. However, the employment rate declined in several high-poverty cities, underemployment remains stagnant, and wage gains have been eroded by inflation.

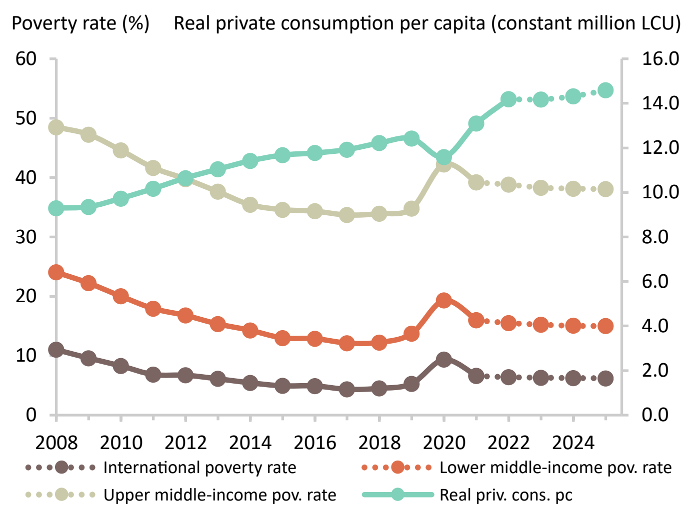
The deceleration in economic activity affected imports, while export volumes (especially of services) continued to increase

FIGURE 1 Colombia / Indices of real GDP and its components



Sources: DANE and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

despite declining prices, narrowing the current account deficit (CAD) from a record 6.2 percent of GDP deficit in 2022 to 3.6 percent of GDP in June 2023. Primary payments also fell but remained high. Foreign direct investment (FDI) inflows reached a record 6.2 percent of GDP in 2023Q2, marked by oil and mining FDI, while portfolio investment posted net outflows. International reserves remain strong.

Inflation moderated to 11.8 percent in July (y-o-y), helped by falling food prices and the appreciation of the peso, but remains persistently high in the face of high indexation. The central bank halted the monetary tightening cycle in June but has not yet reduced rates, as inflation expectations for end-2023 and 2024 are still above the target band. High rates, greater global financial liquidity, and less policy uncertainty benefited the peso, which appreciated 20 percent relative to its low in early November.

In 2022, high inflation eroded labor income gains, partially offsetting the growth-driven recovery. A modest reduction in poverty is estimated for 2022 (38.8 percent at $6.85/day) but the recent fall in food prices may provide some relief to the poor.

The central government's deficit declined to an estimated 1.4 percent of GDP in June, supported by the yields of the 2022 tax reform and low budget execution levels. The peso appreciation and a reduction of the deficit helped to decrease the debt-to-GDP ratio. EMBIG spreads have also declined to 320 bps but remain among the highest in the region.

Outlook

Amid tight monetary and fiscal policies GDP growth is projected to decline to 1.5 percent in 2023, dragged by a decline in investment in a context of uncertainty and low execution of capital expenditure, and a moderation of consumption. Growth is expected to accelerate in 2024 and converge to potential growth by 2025, as external demand strengthens, and consumption picks up as inflation and interest rates come down.

The CAD is projected to decrease to 3.8 percent of GDP in 2023 and converge towards 3.6 percent by 2025, as import growth decelerates and payments to foreign investors moderate. FDI is projected to provide the bulk of financing, stabilizing around 3.5 percent of GDP by 2025.

The fiscal deficit of the general government is projected to decline in 2023 to 3.9 percent of GDP. The draft budget bill for 2024, however, projects higher spending from the central government across social spending, intergovernmental transfers, and interest payments. The Autonomous Fiscal Council flagged risks of compliance with the fiscal rule due to the high reliance on contingent revenues.

Poverty is projected to stagnate in 2023, as lower GDP growth hampers the recovery in labor incomes and while inflation has declined, it remains high, impacting real incomes and food security. Adjusting the social protection system, expanding coverage, and including adaptiveness to shocks, would help build resilience.

Risks to the growth outlook include higher inflation pressures, exacerbated by the effects of El Niño on food and utility prices; continued high currency volatility; lower-than-expected yields from the tax authority administration reform (worsening fiscal outcomes); and uncertainty around the reform agenda, which could lead to delays in private sector investment. The impact of climate shocks on the most vulnerable is a continuous source of concern.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-7.3	11.0	7.3	1.5	2.1	3.1
Private consumption	-4.9	14.5	9.5	1.0	2.0	2.9
Government consumption	-0.8	9.8	0.3	1.7	1.5	1.2
Gross fixed capital investment	-24.0	17.3	11.4	-3.0	2.8	4.4
Exports, goods and services	-22.7	15.9	14.8	3.3	4.8	5.5
Imports, goods and services	-19.9	26.7	22.3	-6.5	4.0	3.9
Real GDP growth, at constant factor prices	-7.4	10.6	6.9	1.5	2.1	3.1
Agriculture	2.3	3.1	-1.8	1.5	4.1	3.8
Industry	-15.3	8.9	7.0	-0.6	2.7	3.2
Services	-4.9	12.1	7.8	2.3	1.7	2.9
Inflation (consumer price index)	2.5	3.5	10.2	11.5	6.4	3.8
Current account balance (% of GDP)	-3.4	-5.6	-6.2	-3.8	-3.7	-3.6
Fiscal balance (% of GDP)	-7.2	-7.1	-6.5	-3.9	-3.8	-3.2
Revenues (% of GDP)	26.0	26.6	27.7	30.8	31.0	30.4
Debt (% of GDP)	67.3	65.7	64.9	60.4	58.9	58.5
Primary balance (% of GDP)	-4.3	-3.7	-2.1	0.5	0.8	0.9
International poverty rate ($2.15 in 2017 PPP)[a,b]	9.4	6.6	6.4	6.3	6.2	6.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	19.3	16.0	15.5	15.2	15.0	15.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	42.2	39.2	38.8	38.3	38.2	38.1
GHG emissions growth (mtCO2e)	-1.2	-0.5	-0.9	-0.9	-0.6	-0.1
Energy related GHG emissions (% of total)	26.7	24.5	23.0	22.8	22.7	22.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on SEDLAC harmonization, using 2021-GEIH. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.
b/ Projections using microsimulation methodology.

COSTA RICA

Table 1	2022
Population, million	5.2
GDP, current US$ billion	68.4
GDP per capita, current US$	13198.5
International poverty rate ($2.15)[a]	0.9
Lower middle-income poverty rate ($3.65)[a]	3.3
Upper middle-income poverty rate ($6.85)[a]	14.1
Gini index[a]	47.2
School enrollment, primary (% gross)[b]	106.7
Life expectancy at birth, years[b]	77.0
Total GHG emissions (mtCO2e)	8.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ Most recent WDI value (2021).

GDP grew 4.3 percent in 2022 and accelerated further in H1-2023 driven by strong domestic and external demand. Timely monetary and fiscal tightening and lower international prices helped dissipate inflationary pressures. This has allowed for a less restrictive monetary stance since March 2023, boosting private consumption and investment. Poverty is expected to decline in 2023 converging to 2019 levels. Fiscal consolidation is already enhancing market access, but it is key to continue to promote efficiency gains while protecting the most vulnerable.

Key conditions and challenges

An outward-oriented growth model, investment in human capital, and good governance allowed Costa Rica to double its income per capita over the last two decades. The country upgraded and diversified its exports, increasing resilience to external shocks. Over this period, Costa Rica also consolidated its green trademark, by promoting sustainable use of natural resources and reforestation. However, this model had two shortcomings.

First, growth in the domestic-oriented economy lagged behind the external-oriented one, amplifying income and territorial disparities. Despite a decline in multidimensional poverty due to better access to education, reduction in monetary poverty was limited, and inequality increased, reflecting limited labor opportunities for low-skilled workers. Poverty rates remained even higher for vulnerable groups such as Afro-descendants, Indigenous populations, and migrants.

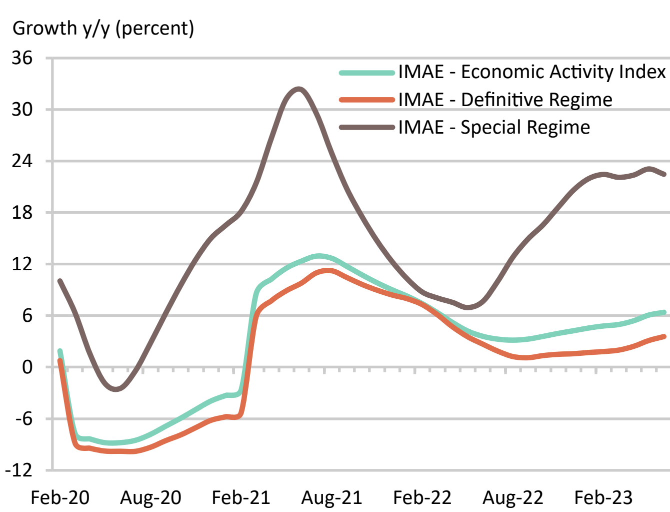
Second, fiscal vulnerabilities accumulated between 2008 and 2018, as spending pressures increased while revenues stayed flat as a share of GDP. The pandemic deepens both challenges. It worsened fiscal dynamics as revenues collapsed and spending grew due to government-led mitigation measures. The public debt-to-GDP ratio increased from 56 percent in 2019 to a peak of 68 percent in 2021. Fiscal consolidation resumed in 2021, supported by growth and the 2018 fiscal reforms, but public debt remains elevated. Poverty (US$6.85 poverty line) increased from 13.7 percent in 2019 to 19.8 percent in 2020, with unemployment rates nearly doubling and surpassing 20 percent in mid-2020. Unemployment is now lower than before the pandemic, but labor participation is still lower, and poverty rates are receding to 2019 levels (poverty stayed at 14 percent in 2022).

Costa Rica's short-term challenge is to further reduce public debt while improving tax enforcement, spending efficiency, and social protection. For broad-based growth and lower inequality, the country needs to sustain reforms to mobilize private investment and improve the business climate, education, and labor market opportunities, while maintaining its green trademark.

Recent developments

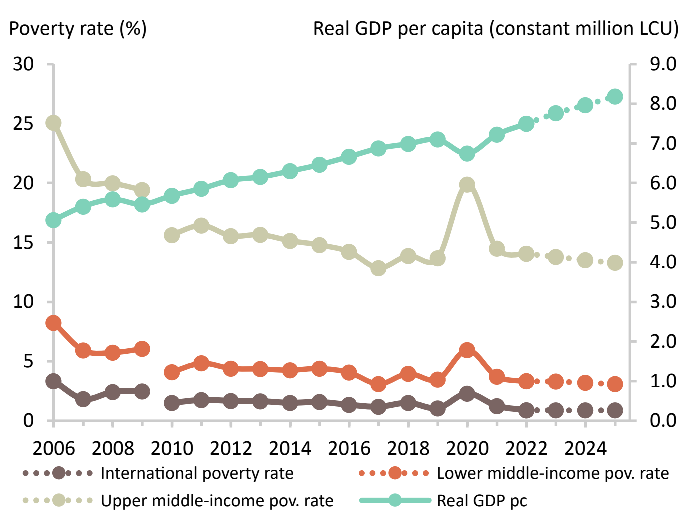
After reaching 4.3 percent in 2022, growth surpassed expectations in H12023 (4.7 percent), supported by strong domestic and external demands. Inflationary pressures receded in H12023. Inflation declined quickly from its peak of 12 percent in August 2022, returning to the targeted band by March 2023, and turning into a deflation in June (1 percent) and July (1.7 percent). This dynamic enabled the Central Bank to gradually cut the policy rate since March, boosting private consumption and investment. Manufacturing exports, especially medical equipment, tourism, and business services exports also expanded.

FIGURE 1 Costa Rica / Economic activity growth (seasonally adjusted)



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

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



Source: World Bank. Notes: see Table 2.

As a result, labor market outcomes improved. Unemployment reached 9.6 percent in June, the lowest in five years. Real household per-capita labor income declined 2 percent in 2022, which limited poverty reduction, but lower inflation and recovering labor markets offer better prospects for 2023.

The current account deficit decreased in H12023 (y-o-y) due to a larger trade surplus, as exports growth outpaced imports recovery, and was financed by strong investment flows. Costa Rica remained a worldwide top recipient of Greenfield FDI (share of GDP). Reserves recovered to 6 months of G&S imports, while the exchange rate appreciated about 10 percent.

The primary surplus remained at 1.4 percent of GDP in H12023, slightly above the 1.3 percent in H12022. The fiscal deficit declined slightly to 0.9 percent (from 1 percent in the same period in 2022) - despite the high-interest bill (2.3 percent in H12023). The solid fiscal performance, which is aligned with the targets set by the IMF program, was achieved by increased tax collection and contained spending and led to an upgrade of Costa Rica's sovereign credit rating by Fitch to BB- from B. The country also successfully placed US$1.5 billion in Eurobonds in March. Costa Rica's impressive climate achievements supported the inclusion of its sovereign bonds in the JP Morgan's sustainability index.

Outlook

Global uncertainty and slower growth in key trading partners is expected to moderate external demand in H22023 and 2024. Growth is expected to stay at 4.2 percent in 2023, given the strong performance in H12023, and moderate to 3.3 in 2024. While external demand is expected to gain momentum in 2025, domestic demand should moderate as monetary policy stabilizes and fiscal consolidation continues, helping close the output gap. The current account deficit is expected to stay at 2.9 percent of GDP in 2023 as external demand decelerates but declines gradually as terms of trade improve in 2024 and global growth starts to recover in 2025. The deficit is expected to remain fully financed by net FDI inflows.

As inflation stabilizes and labor market conditions improve, driven by growth in the services sector, the poverty rate is expected to decline to 13.8 percent in 2023 and then to around 13.5 percent in 2024. Poverty could be further reduced by implementing targeted social assistance measures to historically disadvantaged groups and to those living under the poverty threshold.

Fiscal consolidation is expected to continue over the forecasting period, anchored in the fiscal rule, which limits the growth in spending, helping bring the debt-to-GDP ratio to around 60 percent by 2025. Recent improvements in debt management should help lower Costa Rica's financing costs. Additional reforms have been announced, including reductions in tax expenditures, income tax; and reduced fragmentation of social programs. These reforms are critical to reinforce fiscal consolidation and create buffers against shocks while protecting the poor.

This outlook faces downside risks. As a small, open economy, Costa Rica is highly vulnerable to external shocks, including global inflationary pressures, weaker global growth, and tighter financing conditions. Climate vulnerabilities, intensified by the El Niño, add to this uncertainty.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-4.3	7.8	4.3	4.2	3.3	3.5
Private consumption	-6.9	7.0	3.3	3.7	3.7	3.5
Government consumption	0.8	1.7	1.9	1.2	0.9	0.9
Gross fixed capital investment	-3.4	11.0	0.8	3.1	3.2	2.8
Exports, goods and services	-10.6	15.9	12.2	12.9	5.7	6.3
Imports, goods and services	-12.9	16.9	3.5	11.9	5.6	5.6
Real GDP growth, at constant factor prices	-3.7	7.3	4.1	4.3	3.3	3.4
Agriculture	0.5	3.8	-6.6	0.4	1.8	2.0
Industry	1.0	10.2	3.0	3.1	2.5	2.8
Services	-5.3	6.6	5.2	4.9	3.6	3.7
Inflation (consumer price index)	0.7	1.7	8.3	0.7	1.9	3.0
Current account balance (% of GDP)	-1.0	-2.5	-3.7	-2.9	-2.6	-2.5
Net foreign direct investment inflow (% of GDP)	2.6	4.9	4.5	4.5	4.1	4.1
Fiscal balance (% of GDP)	-8.0	-5.0	-2.5	-2.4	-2.2	-2.1
Revenues (% of GDP)	13.1	15.8	16.6	16.1	16.0	16.4
Debt (% of GDP)	66.9	68.0	63.8	63.2	62.1	60.5
Primary balance (% of GDP)	-3.4	-0.3	2.1	1.7	1.9	2.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.3	1.2	0.9	0.9	0.9	0.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	6.0	3.7	3.3	3.3	3.2	3.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	19.9	14.5	14.1	13.8	13.5	13.3
GHG emissions growth (mtCO2e)	-3.9	5.8	-1.1	-1.7	0.7	2.7
Energy related GHG emissions (% of total)	89.6	88.3	85.0	82.0	79.6	77.7

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 SEDLAC harmonization, using 2022-ENAHO. Actual data: 2022. Forecasts are from 2023 to 2025.
b/ Projections using microsimulation methodology.

DOMINICA

Table 1	2022
Population, million	0.1
GDP, current US$ billion	0.6
GDP per capita, current US$	8414.5
School enrollment, primary (% gross)[a]	102.5
Life expectancy at birth, years[a]	72.8
Total GHG emissions (mtCO2e)	0.2

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

Dominica's GDP per capita has – together with tourism – returned to pre-COVID levels. Nonetheless, poverty is expected to remain above its pre-COVID-19 level as the formal labor market is lagging the GDP recovery and high inflation erodes households' purchasing power, especially among the poor. Fiscal space remains limited despite buoyant Citizen-by-Investment (CBI) revenues. The risk of debt distress remains high with public debt exceeding 100 percent. Medium-term growth prospects appear favorable, although considerable uncertainty remains.

Key conditions and challenges

Dominica is a small island developing state (SIDS), highly vulnerable to climate change, natural disasters, and external shocks. The economy recovered strongly from the pandemic supported by infrastructure investments, a rebound of tourism, which accounts for 25 percent of GDP, and strong agricultural output growth. However, the increase in global commodity prices pushed inflation to a historical high. Also, scarring effects from the school closures during the pandemic and the erosion of fiscal space pose challenges for Dominica's growth outlook.

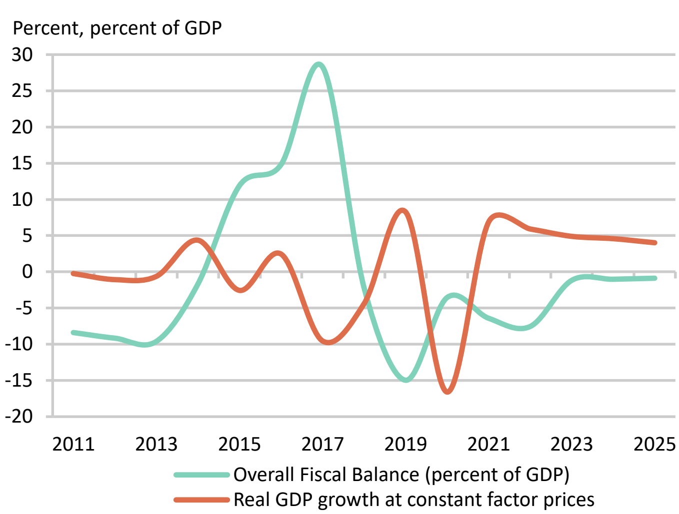
A recent round of the CARICOM/WFP COVID-19 Food Security and Livelihoods Impact Survey in the Caribbean (May 2023) indicates that about half of respondents faced livelihood disruptions in the thirty days prior to the survey, largely due to unaffordable livelihood inputs. While improving with respect to earlier rounds, 29 percent of the respondents experienced a job loss or a reduction in labor income in the last six months. Furthermore, of the respondents affected by natural hazards in the twelve months prior to the survey (44 percent), nearly 60 percent reported moderate or severe impacts on livelihoods or income.

The fiscal deficit widened significantly during the pandemic, despite strong CBI-related revenues. Pandemic-related support, increased infrastructure spending, and fiscal measures to mitigate the impact of inflation on the poorest led to high fiscal deficits and pushed public debt over 100 percent of GDP. Going forward, the government seeks to implement a highly ambitious public investment pipeline, financed largely by CBI revenues, including a new international airport and geothermal energy investments, requiring additional fiscal measures to meet Dominica's primary balance target of 2 percent of GDP. Moreover, Dominica faces the challenge of shifting focus from the current emphasis on recovery and reconstruction to building ex-ante resilience based on fiscal buffers, increasing climate-resilient investment, and expanding public and private insurance protection and social assistance within a context of limited fiscal space. Geothermal energy development and a new airport bode well for future growth prospects and will help address competitiveness challenges by reducing dependence on fossil fuels, significantly lowering the cost of energy, and increasing access and connectivity.

Recent developments

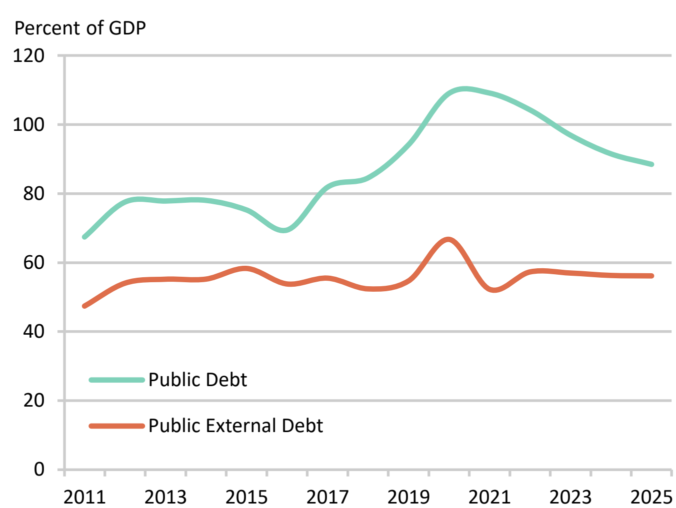
Growth continued to rebound in 2022 at 5.9 percent on relaxation of domestic COVID-19 containment measures and improving tourist arrivals. Growth is estimated to remain strong at 4.9 percent in 2023 as tourism returns to 2019 levels and is supported by public investment and strong agricultural production. Inflation reached 7.8 percent in 2022, driven largely by fuel and energy prices, and to a lesser

FIGURE 1 Dominica / Real GDP growth and fiscal balance



Sources: Government of Dominica and World Bank staff estimates.

FIGURE 2 Dominica / Public debt



Source: World Bank staff estimates.

extent by food prices, and is expected to decline to 5.5 percent in 2023.

The increase in inflation has negatively affected poorer households' purchasing power and access to food, given Dominica's dependence on imported food products. According to the CARICOM/WFP survey, nearly all respondents reported an increase in food, gas, transport, and electricity prices over the prior three months. From a production perspective, farmers and fishermen continue to report input cost increases. Food insecurity appears to have leveled out in the first half of 2023, although it remains widespread. Food consumption and respondents' diets deteriorated compared to 2021 (and remained similar to 2022), with 35 percent skipping meals or eating less than usual and 33 percent eating less preferred foods. A considerably large number of respondents indicated that they reduced essential non-food expenditures (e.g., education and health) and spent savings to meet immediate food needs, which could compromise their well-being in the long term and make them less prepared for future shocks.

The fiscal position registered an overall deficit of 7.6 percent in FY22 but is expected to decline to 1.2 percent by end-FY23 as tax revenues rebound and current expenditure falls in a post-COVID environment. Public debt remains high at 104.3 percent of GDP at end-2022 after peaking at 109.2 percent in 2021. A combination of sound fiscal policy and sustained growth is needed to put public debt levels on a firm downward trajectory.

The current account deficit (CAD) at 21.8 percent of GDP in 2022 reflects Dominica's SIDS status and is financed primarily by CBI revenues, grants, and FDI. Financial sector stability and related risks are limited as banks are well capitalized. Recapitalization of credit unions is progressing, though balance sheets remain strained following recent shocks. Private sector credit remains constrained as most recent bank lending has been to the public sector.

Outlook

Short- to medium-term GDP growth continues to be driven by tourism aided by a robust public investment program using CBI revenues. Geothermal developments and an international airport should boost structural and potential growth. Nonetheless, these large public investment projects will require careful management and implementation, and additional investments in the pipeline need to be prioritized in order to ensure fiscal and debt sustainability. Growth reduced post-disaster losses, and lower inflation should contribute to a reduction in poverty rates in the medium term.

The fiscal deficit is expected to narrow as CBI revenues remain relatively strong, though declining, exceptional spending measures are wound down, and current spending is reduced and rationalized. The CAD is forecast to narrow as tourism receipts increase, though high food and fuel prices will maintain some pressure on the CAD. Financial sector vulnerabilities will continue to require monitoring given implicit contingent fiscal liabilities arising from the large credit union and insurance sectors. These sectors, while improving, have yet to fully recover from Hurricane Maria and the impacts of the COVID-19 pandemic continue to be felt on balance sheets.

Forecasts are subject to considerable downside risk given uncertain food and fuel prices, the economic impact of global geo-political developments, and continued reliance on volatile CBI revenues. Risks from natural disasters and the impact of climate change remain, including rising sea levels. Risks also arise from the financial sector and fiscal and public debt vulnerabilities.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-16.6	6.9	5.9	4.9	4.6	4.0
Real GDP growth, at constant factor prices	-14.1	6.8	5.8	4.9	4.6	4.1
Agriculture	3.2	23.4	5.4	3.5	2.6	2.1
Industry	-31.5	5.0	2.0	3.5	3.2	3.0
Services	-11.8	4.5	6.7	5.5	5.2	4.7
Inflation (consumer price index)	-0.7	1.5	7.8	5.5	2.3	2.0
Current account balance (% of GDP)	-35.4	-27.6	-21.8	-21.3	-17.8	-15.1
Fiscal Balance (% of GDP)[a]	-3.6	-6.4	-7.6	-1.2	-1.0	-0.9
Revenues (% of GDP)	53.3	62.1	51.3	47.5	46.7	45.6
Debt (% of GDP)[a]	109.1	109.2	104.3	97.0	91.6	88.5
Primary Balance (% of GDP)[a]	-1.0	-4.2	-5.0	2.0	1.9	1.6
GHG emissions growth (mtCO2e)	-3.3	-24.2	20.8	12.0	10.9	9.5
Energy related GHG emissions (% of total)	77.6	68.4	75.2	79.2	82.4	85.0

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

DOMINICAN REPUBLIC

Table 1	2022
Population, million	10.7
GDP, current US$ billion	113.6
GDP per capita, current US$	10665.4
International poverty rate ($2.15)[a]	0.9
Lower middle-income poverty rate ($3.65)[a]	4.3
Upper middle-income poverty rate ($6.85)[a]	23.2
Gini index[a]	38.5
School enrollment, primary (% gross)[b]	96.7
Life expectancy at birth, years[b]	72.6
Total GHG emissions (mtCO2e)	40.4

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

The economy is expected to cool down in 2023. GDP grew 1.2 percent in the first half of the year, dragged by a slowdown in private investment. Inflationary pressures have eased, and inflation is currently within the target band. This allows the central bank to maintain a more accommodative monetary stance. Unemployment has decreased and labor incomes have improved, bringing poverty levels down, but still holding poverty levels above pre-pandemic.

Key conditions and challenges

The Dominican Republic (DR) has been one of the fastest-growing economies in Latin America and the Caribbean, expanding at an annual average of 5.4 percent from 2005 to 2022. Prudent monetary and fiscal policy contributed to macroeconomic stability. Foreign direct investment (FDI) inflows (averaging about 4 percent of GDP over the same period) fueled tourism, services, manufacturing, construction, and mining, while strong remittances sustained domestic demand. Between 2004 and 2022, poverty, using the upper-middle-income countries' poverty line (UMIC-PL) of US$6.85 per day (2017 PPP), has fallen from 57 to 22 percent. Despite its strong external position, the DR's participation in global value chains remains low and exports declined from 28 percent to 22 percent of GDP from 2005 to 2022.

While GDP has fully recovered from the pandemic, the fiscal position has weakened. Public debt remains above pre-pandemic levels and the interest bill absorbed three percent of GDP in 2022. Reduced fiscal space has led to a decline in public investment (from 3.9 to 2.6 percent of GDP between 2005 and 2022). Improving domestic resource mobilization and spending efficiency is essential for supported growth while rebuilding fiscal buffers.

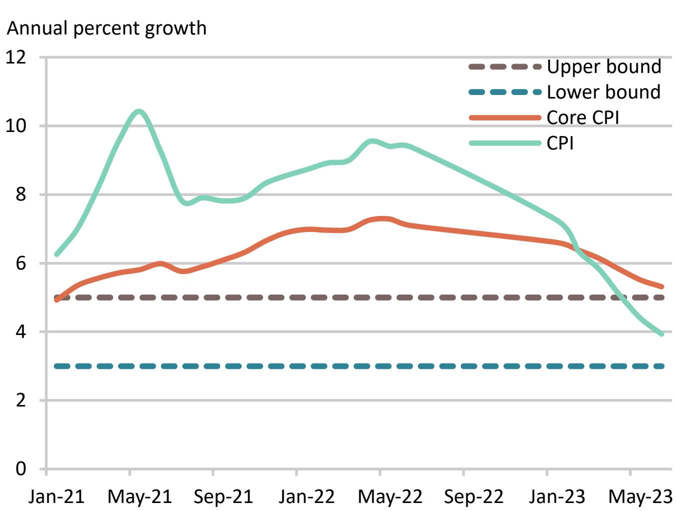
Fostering sustainable, resilient, long-term growth demands strategic structural reforms, including: (i) improving education; (ii) fostering competitive markets; (iii) revamping the innovation strategy; (iv) improving public spending; and (v) strengthening resilience against external shocks and climate change. Moreover, these efforts should be integrated with a territorial planning focus, improvements in public services, and well-defined labor policies that actively discourage informality. These policies could also create opportunities for near-shoring.

Recent developments

Reflecting tighter monetary conditions of 2022 and early 2023, economic growth decelerated to 1.2 percent in 2023S1. Notably, private investment shrank by 2.9 percent in 2023Q1. On the sectoral side, industry and construction contracted, affected by elevated borrowing costs and high input prices, while the hotels, bars, and restaurants sector expanded by 14.2 percent in 2023Q1, cushioning the economic slowdown.

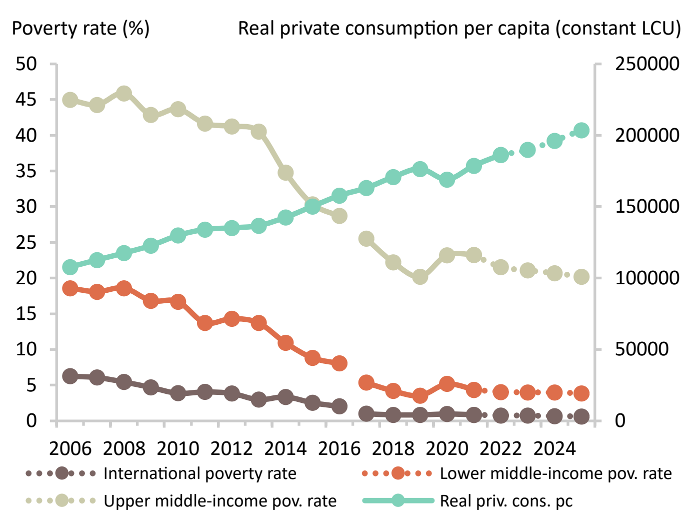
In fact, the country recorded 4.5 million arrivals, with a y-o-y growth of 15.9 percent in 2023S1. Remittances grew 3.3 percent in 2023S1, showing a stabilization of inflows above pre-pandemic figures. As a result, the 2023Q1 current account deficit (CAD) narrowed to 2.8 percent of GDP, down from 4.5 percent of GDP in 2022Q1, financed by robust FDI and increased long-term capital inflows. Reserves rose to 13.2 percent of GDP by June 2023, up from 12.7 percent of GDP in 2022.

FIGURE 1 Dominican Republic / Inflation



Source: World Bank staff calculations based on Central Bank data.

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



Source: World Bank. Notes: see Table 2.

In June 2023, inflation declined to 3.9 percent y-o-y, reaching its targeted range of 4±1 percent. In response, the Central Bank adopted a more accommodative posture, introducing a liquidity facility for 2 percent of GDP to stimulate key sectors and decreasing its policy rate from 8.5 percent to 7.75 percent in late June.

Inflation has eased but may continue to erode incomes, particularly for vulnerable groups, as the labor income (per hour) for the bottom 20 percent of the occupied population increased less in 2023Q1 YoY. The unemployment rate fell to 5.2 percent in 2023Q1 and the occupation rates in the formal sector increased to 43.3 percent in 2023Q1. Nevertheless, both rates remain above pre-pandemic levels. Consequently, poverty based on the UMICPL is projected to drop to 21 percent in 2023, remaining above pre-pandemic levels.

In 2023H1, the fiscal deficit expanded to 0.4 percent of the 2022 GDP. Total revenues surged by 14.5 percent compared to 2022H1, largely due to a 25.2 percent growth in corporate income during this period. However, expenditures rose 16.1 percent y-o-y in 2023H1, driven by a 30.9 percent increase in public investment and an 18.3 percent uptick in interest payments. Subsidies decreased by 6.6 percent, aligned with a gradual phase-out. As of June 2023, the debt of the Non-Financial Public Sector (NFPS) stood at 44.8 percent of GDP, down 0.7 percentage points from end-2022.

Outlook

Growth is expected to decelerate from 4.9 percent in 2022 to 3.1 percent in 2023 as domestic investment and consumption remain weak, and high input costs impact manufacturing and construction. Inflationary pressures are easing, allowing the central bank to maintain an accommodative policy to boost economic activity. The medium-term outlook relies on boosted consumption and investment rebound due to lower interest rates, input price normalization, and the implementation of structural reforms (energy, water, PPPs), coupled with efforts to improve education and attract FDI. As a result, growth is projected to regain momentum and accelerate to 5 percent by 2025, reducing poverty rates (US$6.85 per day, 2017 PPPs) to reach pre-pandemic levels at 20 percent by 2025.

The fiscal deficit is projected to widen in 2023 due to expenditure pressures driven by public investments and pre-election expenses, potentially offsetting subsidy phasing-out and improved tax administration gains. Medium-term projections include a declining path of energy and fuel subsidies due to the ongoing Electricity Pact reforms. These expenditure consolidation efforts are expected to gradually bring the fiscal deficit to 2.6 percent of GDP in the medium term. The public debt-to-GDP ratio is forecasted to stabilize around 56 percent over the same period.

The macroeconomic outlook faces external and domestic risks. A faster-than-expected slowdown of the US economy could directly affect tourist arrivals and exports. Further increases in global energy prices, could disrupt an already fragile energy sector affecting the energy import bill and service stability, underscoring the need to enhance infrastructure and energy access. Additionally, the intensification of El Niño could have a significant impact on the economy and the poor and vulnerable. Given the country's low degree of financial protection against these risks, compound shocks could substantially increase contingent fiscal liabilities, especially given limited fiscal space. Strengthening resilience is critical to sustain its growth trajectory and make it more inclusive.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-6.7	12.3	4.9	3.1	4.6	5.0
Private consumption	-3.4	6.6	5.1	3.5	4.8	5.2
Government consumption	4.9	0.1	3.9	2.8	2.1	3.4
Gross fixed capital investment	-12.1	22.1	4.0	1.3	4.9	4.7
Exports, goods and services	-30.3	36.2	13.7	6.1	4.1	4.3
Imports, goods and services	-14.5	25.7	10.9	4.3	3.7	3.9
Real GDP growth, at constant factor prices	-6.3	11.5	4.7	3.1	4.6	5.0
Agriculture	2.8	2.6	5.0	3.5	3.2	3.0
Industry	-6.7	16.5	1.3	0.4	3.9	3.8
Services	-7.1	10.0	6.5	4.4	5.1	5.7
Inflation (consumer price index)	3.8	8.2	8.8	4.4	4.0	4.0
Current account balance (% of GDP)	-1.7	-2.8	-5.8	-4.1	-3.2	-2.7
Net foreign direct investment inflow (% of GDP)	3.2	3.4	3.5	3.4	3.4	3.4
Fiscal Balance (% of GDP)[a]	-7.9	-2.9	-3.2	-3.3	-3.1	-2.6
Revenues (% of GDP)	14.2	15.6	15.3	16.2	15.0	14.9
Debt (% of GDP)[b]	69.1	62.6	58.6	58.6	57.6	56.0
Primary Balance (% of GDP)[a]	-4.7	0.2	-0.4	-0.2	0.0	0.6
International poverty rate ($2.15 in 2017 PPP)[c,d]	1.0	0.9	0.8	0.7	0.7	0.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	5.2	4.3	4.0	4.0	4.0	3.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	23.2	23.2	21.5	21.1	20.7	20.2
GHG emissions growth (mtCO2e)	-6.1	5.1	2.9	2.3	2.2	2.1
Energy related GHG emissions (% of total)	61.6	61.3	60.8	59.6	58.3	57.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal balances are shown for the non-financial public sector (i. e. excluding central bank quasi-fiscal balances).
b/ Consolidated public sector debt.
c/ Calculations based on SEDLAC harmonization, using 2022-ECNFT-Q03. Actual data: 2021 and 2022 (preliminary). Forecasts are from 2023 to 2025.
d/ Projections using microsimulation methodology.

ECUADOR

Table 1	2022
Population, million	18.0
GDP, current US$ billion	115.0
GDP per capita, current US$	6391.3
International poverty rate ($2.15)[a]	3.2
Lower middle-income poverty rate ($3.65)[a]	9.5
Upper middle-income poverty rate ($6.85)[a]	29.9
Gini index[a]	45.5
School enrollment, primary (% gross)[b]	98.1
Life expectancy at birth, years[b]	73.7
Total GHG emissions (mtCO2e)	98.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ Most recent WDI value (2021).

High international interest rates, political uncertainty, surging crime, and limited progress on growth-enhancing reforms are expected to reduce growth to 1.3 percent in 2023. Realizing Ecuador's growth and poverty reduction potential would require cementing macroeconomic stability, dampening insecurity, improving the business climate, reducing informality, and addressing bottlenecks in sectors with competitive advantages, all while building up to consensus to address more critical constraints to equitable growth.

Key conditions and challenges

Ecuador, the largest fully dollarized economy, has significantly reduced macroeconomic imbalances in recent years and has taken significant steps to protect the most vulnerable, propel private investment, and address climate change challenges.

The government significantly reduced its fiscal deficits and public debt. Yet, the country has not reached a political consensus to address structural barriers that hinder the creation of formal jobs, private investment, and export diversification, including a dysfunctional insolvency framework, generalized market intervention, weak competition, limited trade integration, and rigid labor regulation. On top of that, a sustained surge in insecurity has become an increasing impediment.

The country's growth potential was also dragged down by sectoral constraints, such as the lack of institutional instruments to allow sustainable exploitation of untapped mining resources, small farms' limited productivity and market linkages, and the lack of coordination to release tourism potential.

Given the fiscal constraints and the expected medium- to long-term reduction in oil prices due to global decarbonization, private and foreign investment could help to ignite new sources of growth, take advantage of emerging opportunities in mining and agriculture, improve infrastructure, and enhance non-conventional renewable energy supply.

Unleashing Ecuador's growth potential is becoming more urgent as, with more than half of the workers in informality and only one-third earning at least the minimum wage, the lack of good quality jobs remains an issue, especially for women and the disadvantaged, limiting Ecuador's poverty reduction potential. Also, the pandemic's long-lasting effects on education may hinder more inclusive growth.

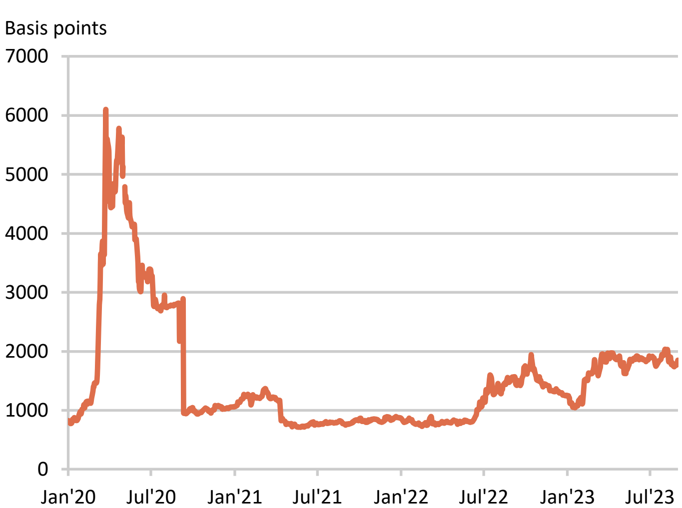
Recent developments

GDP grew by only 0.7 percent y-o-y in the first quarter of 2023 due to high political uncertainty, increasing insecurity, and a new disruption in oil production caused by preventive works in the main pipelines. Ecuador's EMBI spread has fluctuated around 1,800 basis points for most of this year.

Urban unemployment remained stable at low levels, but it reached 4.8 percent for women (vs.3.2 percent for men), as the lagged recovery of some sectors from the pandemic has offset the slowdown. The national poverty ratio increased, as real earnings declined, affecting mostly the middle class.

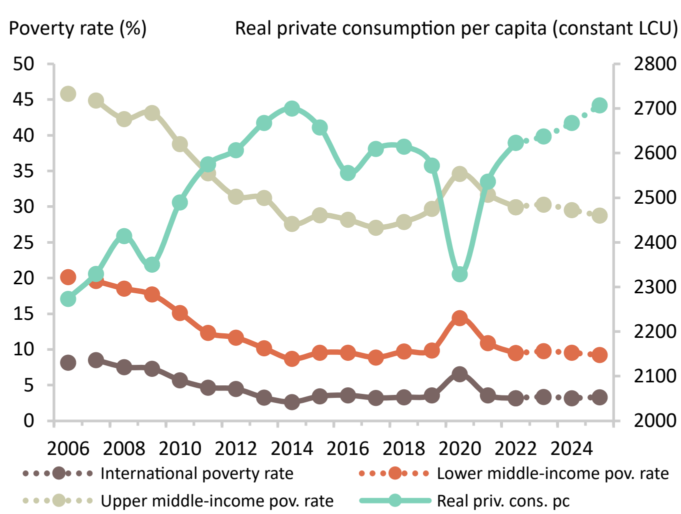
The 12-month rolling fiscal deficit rose from 0.2 percent of GDP in December 2022 to 1.0 percent in May 2023 due to lower oil revenues, the end of emergency tax measures, lower tax collection led by the slowdown, increasing international interest rates, and additional security expenditure. However, public debt declined in the first half of 2023 as seasonal fiscal patterns resulted in a slight

FIGURE 1 Ecuador / Emerging Market Bond Index



Source: JP Morgan Chase.

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



Source: World Bank. Notes: see Table 2.

deficit, and most external financing from multilateral creditors had yet to materialize. The trade surplus decreased from US$2.0 billion in the half of 2022 to US$1.1 billion in 2023 as declining oil exports offset the reduction in fuel imports, the robust expansion of non-oil exports, and dampened imports. With limited external financing and foreign investment, international reserves declined from US$8.4 billion (2.8 months of imports) in December 2022 to US$6.9 billion in July 2023. Despite this, the money supply and domestic credit to the private sector continue to grow.

Annual inflation decreased from a peak of 4.1 percent in September 2022 to 2.1 percent in July 2023, one of the lowest in the region, due to dollarization, frozen fuel prices, declining international food prices, and dampened economic growth.

Outlook

Growth is projected to decline from 2.9 percent in 2022 to 1.3 percent in 2023 due to increasing political polarization and insecurity. Despite the election of an interim president this year, economic activity will remain dampened in 2024 due to remaining political uncertainty, declining oil production after a recent referendum decided to stop oil exportation in the Yasuni National Park, and a moderate El Niño climate oscillation. However, a reduction in political uncertainty following the 2025 elections is expected to help the economy to start a recovery in 2025. Weak economic growth and labor conditions, especially for women, will limit poverty reduction, which is projected to remain at around 29 percent; the vulnerable population is expected to increase slightly to 34.5 percent by 2025.

The fiscal deficit is projected to increase from 0.2 percent in 2022 to 1.2 percent in 2023 due to declining oil and tax revenues, rising interest payments, and growing security expenditures. Despite declining oil production in the Yasuni, the fiscal deficit is expected to narrow from 2024 onwards due to prudent fiscal management, recovering tax revenues, and declining interest payments. Although the government is expected to issue sovereign bonds at the end of the projection period, primary expenditure will remain constrained by increasing debt repayments. This fiscal pattern and recovering growth are expected to reduce public debt from 58 percent in 2022 to 54 percent by 2025.

The current account surplus is projected to decline gradually due to lower commodity export prices and increasing imports. Despite low foreign investment and rising external debt service, international reserves will remain stable due to current account surpluses, financing from international financial institutions, and international bond issuances.

In addition to its vulnerability to lower oil prices and tightening financial conditions, Ecuador is exposed to natural disasters, including a stronger-than-expected El Niño effect. It is also exposed to a disordered ending of oil exploitation in the Yasuni, social unrest, political instability, and surging crime that could hamper fiscal prudence and prevent the country from tackling long-lasting constraints to growth and poverty reduction.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-7.8	4.2	2.9	1.3	1.9	2.2
Private consumption	-8.2	10.2	4.6	1.6	2.2	2.5
Government consumption	-5.1	-1.7	4.5	3.7	-1.1	-0.6
Gross fixed capital investment	-19.0	4.3	2.5	-4.0	4.8	6.3
Exports, goods and services	-5.4	-0.1	2.5	2.5	0.8	0.9
Imports, goods and services	-13.8	13.2	4.5	0.8	1.9	2.9
Real GDP growth, at constant factor prices	-7.4	3.8	2.8	1.3	1.9	2.2
Agriculture	0.4	3.4	-1.0	1.0	1.0	2.9
Industry	-10.0	0.5	1.1	0.7	0.8	1.2
Services	-7.2	5.8	4.5	1.6	2.6	2.6
Inflation (consumer price index)	-0.3	0.1	3.5	2.4	1.7	1.5
Current account balance (% of GDP)	2.2	2.9	1.9	1.4	0.8	0.8
Net foreign direct investment inflow (% of GDP)	1.1	0.6	0.7	0.5	0.6	0.6
Fiscal balance (% of GDP)	-7.1	-1.7	-0.2	-1.2	-0.7	-0.5
Revenues (% of GDP)	29.7	35.5	36.7	35.7	35.2	34.5
Debt (% of GDP)	60.9	62.3	57.7	57.0	55.9	54.2
Primary balance (% of GDP)	-4.3	-0.3	1.4	1.1	1.3	1.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	6.5	3.6	3.2	3.4	3.2	3.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	14.4	10.9	9.5	9.8	9.5	9.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	34.6	31.7	29.9	30.3	29.5	28.7
GHG emissions growth (mtCO2e)	-4.1	2.2	1.8	1.1	1.1	1.2
Energy related GHG emissions (% of total)	34.2	34.9	35.6	35.9	36.3	36.7

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 SEDLAC harmonization, using 2022-ENEMDU. Actual data: 2022. Forecasts are from 2023 to 2025.
b/ Projections using microsimulation methodology.

EL SALVADOR

Table 1	**2022**
Population, million	6.3
GDP, current US$ billion	32.5
GDP per capita, current US$	5127.3
International poverty rate ($2.15)[a]	3.4
Lower middle-income poverty rate ($3.65)[a]	8.6
Upper middle-income poverty rate ($6.85)[a]	27.5
Gini index[a]	38.8
School enrollment, primary (% gross)[b]	106.3
Life expectancy at birth, years[b]	70.7
Total GHG emissions (mtCO2e)	13.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ WDI for School enrollment (2014); Life expectancy (2021).

Economic growth is projected to accelerate from 2.6 percent in 2022 to 2.8 percent in 2023 led by remittance-fueled household consumption, tourism, and reduced crime. Inflation is expected to stabilize at 3.7 percent. The current account deficit is expected to narrow, but the fiscal position remains precarious due to spending pressures and uncertain financing options. Official figures show a slow decrease in moderate poverty, but extreme poverty shows an opposing tendency.

Key conditions and challenges

El Salvador is a small, dollarized economy with one of the largest inflows of remittances (24.1 percent of GDP). Between 2013 and 2019, it grew at an annual rate of 2.5 percent and poverty dropped from 42.7 to 28.8 percent. Nonetheless, major obstacles remain, such as low productivity and low human capital accumulation (fueled by malnutrition and school dropouts). World-leading homicide rates affected economic prospects, but the government has significantly curbed gang-related violence since 2022.

El Salvador has significant fiscal imbalances, with high public debt (78 percent of GDP in 2022) even before the response to the COVID-19 pandemic, and financing options largely restricted to official creditors and short-term domestic debt, partially due to the effects and response to the pandemic. Recent reforms to the pension system create fiscal space in the short run but are likely to deepen structural imbalances in the pension system and create contingent liabilities (guaranteed minimum pension).

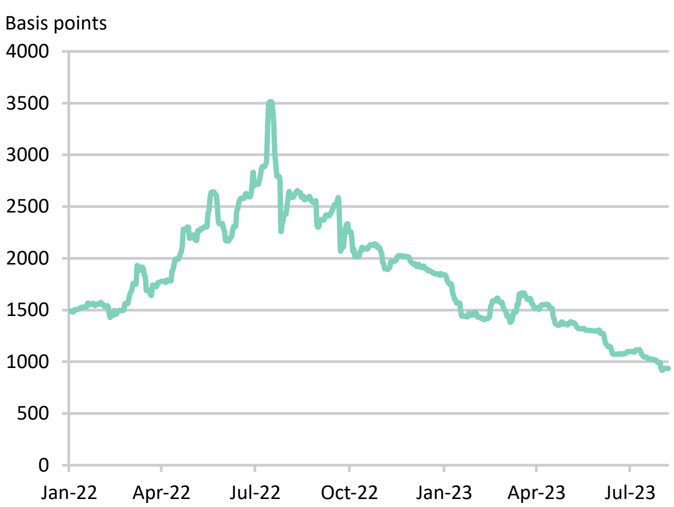
External imbalances, linked to low productivity of export sectors, pose a challenge given moderating remittances growth. Capital inflows to finance the current account deficit are limited and put pressure on reserves. Banks are profitable and have low non-performing loans, but reserve requirements have been reduced to finance government short-term debt (11 percent of bank assets).

El Salvador has a low productive base. Fostering long-term growth will require structural reforms (improving education and infrastructure) to boost productivity, attract FDI, and diversify the economy. However, fiscal imbalances with no access to external borrowing and a large current account deficit could undermine the efforts to increase potential growth through structural reforms, such as the ongoing improvements in trade facilitation.

Recent developments

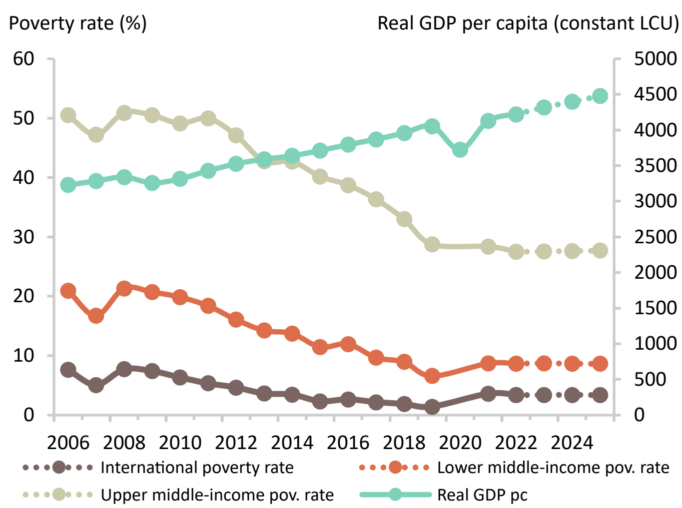
The economy grew by 2.6 percent in 2022, although the labor market indicators showed more modest progress. Primary consumption was the primary driver of such growth, mainly driven by the increase in remittances (3.2 percent), bolstering services. Growth has decelerated (2.8 percent annually in S12023), supported by government expenditure and investment. Annual inflation has declined since August 2022 to 3.7 percent in June 2023 (6.9 percent for food). The international poverty rates, measured at US$6.85 and US$3.65 (2017 PPP) per person, declined to 27.5 and 8.6 percent in 2022, respectively. The national poverty rates show a mixed story. The moderate poverty rate remains relatively stable, close to the pre-pandemic level, while the extreme increased in 2022, staying 4.1 percentage points higher to 2019. Since the official extreme poverty rate is lower than

FIGURE 1 El Salvador / Emerging Market Bond Index sovereign spread



Source: JP Morgan.

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



Source: World Bank. Notes: see Table 2.

the lower middle-income country poverty line of US$3.65/day, this result suggests that the least favored segment of the population is growing.

Revenues increased modestly (1.6 percent) in H12023, driven by social security (31.2 percent), and despite a decline in tax revenues (-1.5 percent). The lack of financing alternatives limited spending growth (4 percent), but lower subsidies (-9 percent) and the pension reform allowed for higher capital spending (30 percent). The overall balance is estimated at USD 153m, up from -26.8m in H12022. The EMBI risk premium declined to 1,025 points in July 2023, well below its peak of 3,400 in 2022, helped by Eurobond payment in January 2023, short-term savings from the pension restructuring, and debt repurchases in 2022. The government obtained legislative authorization to issue medium-term debt to cancel half of its short-term debt, reducing refinancing risks. Nevertheless, interest spreads for the sovereign remain high. Though a large part of the population has virtual wallets, the use of Bitcoin as a legal tender seems limited.

High import prices led to large current account deficits (CAD) in 2021 and 2022, but the deficit narrowed to -2.9 percent of GDP in Q12023 due to falling oil prices and record apparel exports. Remittances grew 5.2 percent in H12023, in line with pre-pandemic levels. FDI partially financed the deficit (1.7 percent of GDP in Q12023). Reserves remain low at 2 months of imports.

Outlook

Economic growth is projected to reach 2.8 percent in 2023 and 2.3 percent in the medium term, driven by remittance consumption, investors' confidence associated with crime reduction, and tourism. Inflation is easing and is anticipated to be 3.7 percent in 2023. Poverty and vulnerability rates are expected to remain at their current levels over the medium term, which may indicate that these segments of the population may not be the ones benefiting the most from remittances or overall economic growth. This calls for focalized policies to support extremely poor households.

The CAD is expected to improve over time as terms of trade shocks subside, and it is likely to be partially financed by official lending and recovering FDI. However, the pressure on international reserves will likely continue without additional capital inflows and further fiscal consolidation.

The overall fiscal deficit is expected to increase in 2023. This is because revenue from the plan to reduce tax evasion is anticipated to moderate as a share of GDP, while expenditure pressures, such as wage increases, investment, pensions, and pre-election expenses, are likely to rise.

The country's fiscal position remains fragile. The government faces liquidity pressures due to narrowing financing alternatives. The absence of a clear medium-term fiscal framework heightens uncertainty, pressuring the domestic banking sector to roll over the increasing internal debt. However, a sustained decline in sovereign spreads could enable El Salvador's return to international markets.

Risks to growth and fiscal projections are tilted to the downside. Lower-than-expected global growth could significantly affect economic activity in El Salvador, while elevated pre-electoral public spending could weaken the fiscal position. El Niño poses a risk to agricultural output and food inflation. On the upside, security measures could increase domestic demand and growth more than expected.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-7.9	11.2	2.6	2.8	2.3	2.3
Private consumption	-8.0	16.1	2.6	2.5	2.2	2.2
Government consumption	8.7	7.2	-1.4	6.0	3.9	1.7
Gross fixed capital investment	-7.8	25.1	2.6	7.4	1.3	1.9
Exports, goods and services	-24.6	29.4	10.2	7.0	5.0	4.9
Imports, goods and services	-14.8	28.9	1.2	8.0	4.0	3.5
Real GDP growth, at constant factor prices	-7.9	10.2	3.1	2.8	2.3	2.3
Agriculture	-4.4	4.0	0.6	-0.5	0.0	0.1
Industry	-10.9	10.5	3.6	3.1	2.0	2.0
Services	-7.0	10.7	3.2	2.9	2.6	2.6
Inflation (consumer price index)	-0.4	3.5	7.2	3.7	1.7	1.3
Current account balance (% of GDP)	1.6	-4.3	-6.6	-4.2	-3.5	-3.5
Net foreign direct investment inflow (% of GDP)	1.1	1.0	-0.3	1.6	1.7	1.7
Fiscal Balance (% of GDP)[a]	-9.1	-4.8	-2.7	-3.1	-3.7	-3.7
Revenues (% of GDP)	22.7	23.8	24.2	23.8	23.7	23.7
Debt (% of GDP)[b]	90.7	82.7	78.0	72.7	74.0	76.1
Primary Balance (% of GDP)[a]	-4.8	-0.4	1.9	1.6	1.7	1.9
International poverty rate ($2.15 in 2017 PPP)[c,d]	..	3.6	3.4	3.4	3.4	3.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	..	8.7	8.6	8.7	8.7	8.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	..	28.4	27.5	27.6	27.6	27.7
GHG emissions growth (mtCO2e)	-7.0	2.0	-0.3	1.3	-0.1	-0.1
Energy related GHG emissions (% of total)	53.4	53.0	52.2	52.4	52.1	51.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal and Primary Balance correspond to the non-financial public sector.
b/ Debt is total public debt.
c/ Calculations based on SEDLAC harmonization, using 2022-EHPM. Actual data: 2022. Forecasts are from 2023 to 2025.
d/ Projections using microsimulation methodology.

GRENADA

Table 1	2022
Population, million	0.1
GDP, current US$ billion	1.2
GDP per capita, current US$	9544.0
School enrollment, primary (% gross)[a]	106.9
Life expectancy at birth, years[a]	74.9
Total GHG emissions (mtCO2e)	2.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2018); Life expectancy (2021).

Supported by tourism and construction, Grenada is set to return to its strong pre-COVID growth of 3.9 percent in 2023. However, continued implementation of pro-growth reforms, closing infrastructure gaps, building climate resilience, and resuming the implementation of its fiscal responsibility framework will be critical for Grenada to sustain this growth and make continued progress in poverty reduction. Significant risks remain due to the lingering impacts of the pandemic and global economic uncertainties.

Key conditions and challenges

Grenada outperformed its regional peers before the pandemic, achieving higher growth and lower public debt while making substantial progress in reducing poverty. This was underpinned by a series of pro-growth reforms initiated around 2014. The Fiscal Responsibility Act (FRA), adopted in 2015, provided a robust fiscal anchor and lowered public debt from 90 percent of GDP in 2015 to 58.5 percent in 2019. Sustained reforms allowed for better resource allocation to cushion shocks, strengthen climate resilience and invest in human capital projects. Real output growth averaged 3.9 percent annually between 2015-2019, leading to a decrease in national poverty rates from 37.7 percent in 2008 to 25.0 in 2018.

However, vulnerabilities remain. Grenada's economy relies heavily on tourism, which is significantly affected by the global business cycle and natural disasters. The pandemic led to a sharp economic contraction of 13.8 percent in 2020, with sizable negative impacts on poverty and inequality. The female unemployment rate went from 18.3 percent in 2019-Q4 to 30.6 in 2020-Q2, while poverty is estimated to have risen to 33.5 percent in 2020. Additionally, the pandemic raised public debt to over 70 percent of GDP in 2020 and narrowed the fiscal space.

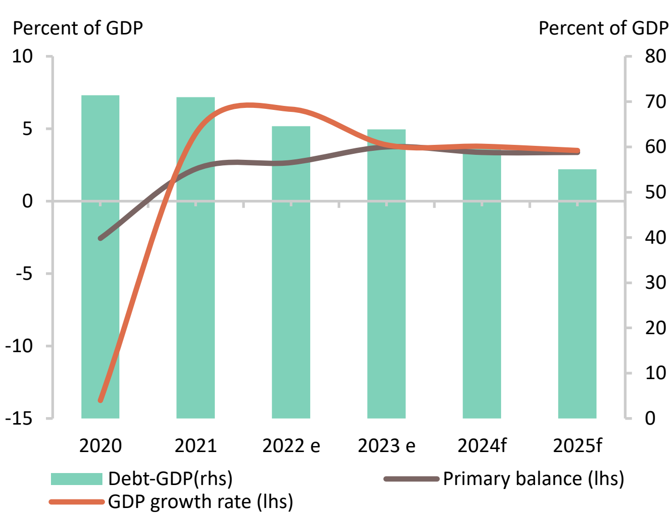
A strong commitment to fiscal rules and further structural reforms is needed to sustain growth, reduce poverty, and bolster climate resilience. The Government has committed to reinstating the fiscal rules in 2023 and plans to amend the FRA to improve accountability and oversight. Further structural reforms are required to enhance the effectiveness of social protection programs.

Recent developments

Economic activity and the pace of poverty reduction improved in 2022 and early 2023, as stayover tourist arrivals reached 87 percent of their 2019 level in 2022, and several construction projects were implemented. However, losses in agriculture due to extreme weather and higher costs, as well as a decline in enrollment at St. George's University, weighed on growth. Inflation rose to 2.9 percent by end-2022 and remained at that level in early 2023. Although poverty is estimated to have declined since the increase in 2020, it is projected to have remained above pre-pandemic levels at 29.4 percent in 2022.

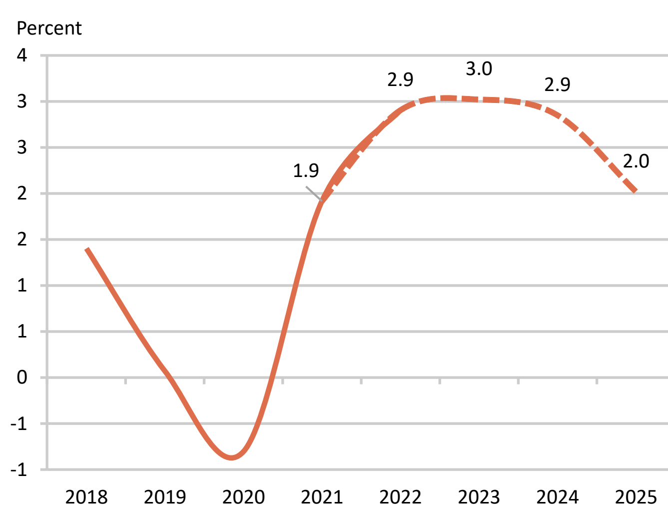
The current account deficit is estimated to have widened in 2022, as the increased import bill exceeded the recovery in tourism-driven exports. Remittances are estimated to have slowed from the pandemic peak, possibly due to the higher cost of living in remittance-sending countries, which eroded migrants' real income. However, it is not expected to impact poverty, as the wealthiest households account for most of the remittances received. Citizenship-by-Investment (CBI)

FIGURE 1 Grenada / Key macroeconomic variables



Source: World Bank.
Notes: e= estimate; f = forecast.

FIGURE 2 Grenada / Annual average inflation



Source: World Bank staff estimates.

inflows were smaller than expected. Still, robust Foreign Direct Investment (FDI) helped finance the external deficit and additional loans from multilateral and bilateral development partners. Reserves improved in 2022 to 5 months of imports.

The fiscal surplus improved in 2022. Tax revenue rose to 22.7 percent of GDP in 2022, 5 percent higher than in 2021, thanks to the economic recovery and higher prices. Grant receipts included a one-off EC$81 million grant from St. George's University and another from Saudi Arabia for EC$27 million. These improvements more than compensated for the one-off pension-related payment of EC$85 million and other additional expenditure measures of about 2.6 percent of GDP. The fiscal surplus and higher growth lowered public debt from 71.0 percent of GDP in 2021 to 64.6 percent in 2022.

Outlook

Real output growth is projected to moderate in 2023 to 3.9 percent, with an average of 3.7 percent over the medium term. This reflects a slower pace of expansion in both tourism and construction activity, as public investments are expected to scale back due to the binding fiscal rules. Nonetheless, robust private investment is expected to continue to support construction activity. The implementation of structural and climate resilience reforms is also expected to positively contribute to output. As the economy recovers, unemployment and poverty are expected to continue their decline in 2023 and 2024. National poverty is projected to reach 28.2 percent in 2023 and 26.9 percent in 2024, returning to pre-pandemic levels in 2025. Inflation is expected to peak at 3.0 percent by end-2023 and gradually abate thereafter, reflecting a slow pass-through of international prices to domestic prices following the reduction of temporary relief measures.

The Government has made progress in returning to the FRA in 2023. On the expenditure side, the Government plans to cautiously increase the wage bill while staying within the FRA ceiling of 9 percent of GDP. CBI inflows are projected to taper off following significant increases in 2022–23, providing less financing for capital spending. Additional annual pension obligations will add another 0.7 percent of GDP to expenditures compared to pre-pandemic levels. Measures aimed at boosting economic recovery will result in revenue losses. A strong recovery in tax revenue collection and additional revenue enhancement measures, estimated at EC$5.5 million annually, such as a higher VAT on "sin" products, is expected to offset the additional spending and maintain the primary balance above the FRA target over the medium term. Public debt will continue to decline, supported by output growth, fiscal surplus, and declining debt service payments, and is expected to reach 55.1 percent of GDP by 2025.

Risks to the outlook are substantial and encompass uncertainty in tourism markets, a sharp rise in global prices, and natural disasters. Domestically, higher-than-expected pensions, other contingent liabilities, and the new unemployment insurance scheme, if not adequately funded, could place additional stress on public finances. The government's commitment to the FRA will contribute to improving its financial position while implementing the Disaster Risk Strategy (DRS) should mitigate climate-related risks.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices[a]	-13.8	4.7	6.4	3.9	3.8	3.5
Real GDP growth, at constant factor prices[a]	-13.7	5.2	6.2	3.9	3.8	3.5
Agriculture	-14.5	15.7	-11.0	3.0	2.3	2.7
Industry	-14.8	15.3	12.7	3.9	3.4	4.0
Services	-13.4	2.0	6.1	4.0	4.0	3.4
Inflation (consumer price index)	-0.8	1.9	2.9	3.0	2.9	2.0
Current account balance (% of GDP)	-16.4	-13.2	-17.3	-14.8	-13.2	-12.2
Fiscal Balance (% of GDP)[b]	-4.5	0.3	1.0	2.1	1.9	2.0
Revenues (% of GDP)	28.1	32.1	33.7	30.4	29.3	28.8
Debt (% of GDP)	71.4	71.0	64.6	63.9	60.2	55.1
Primary Balance (% of GDP)[b]	-2.6	2.2	2.7	3.8	3.4	3.4
GHG emissions growth (mtCO2e)	-13.4	4.0	1.7	1.5	1.3	0.9
Energy related GHG emissions (% of total)	13.6	13.6	13.6	13.6	13.4	13.3

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

GUATEMALA

Table 1	2022
Population, million	17.3
GDP, current US$ billion	92.7
GDP per capita, current US$	5346.6
International poverty rate ($2.15)[a]	9.5
Lower middle-income poverty rate ($3.65)[a]	25.9
Upper middle-income poverty rate ($6.85)[a]	55.4
Gini index[a]	48.3
School enrollment, primary (% gross)[b]	102.0
Life expectancy at birth, years[b]	69.2
Total GHG emissions (mtCO2e)	39.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2017 PPPs.
b/ Most recent WDI value (2021).

Supported by sound macroeconomic policies and slightly expansionary fiscal policies, Guatemala's economy is showing resilience with stable and above-LAC average growth. Poverty has declined but remains above pre-pandemic levels. The new administration, starting January 2024, will need to expand investment in human capital and infrastructure within a fiscally sustainable framework and build consensus around reforms to create formal jobs and promote inclusive growth.

Key conditions and challenges

Despite steady growth and high remittances, Guatemala's poverty, inequality, and child malnutrition levels remain high. Poverty remained stagnant throughout 2014-2019, limited by a decline in labor income across all education levels. Moreover, only 43.1 percent of the population had access to basic services (including potable water, sanitation, electricity, and trash collection) in 2022, reflecting social and racial exclusion and geographical disparities. Malnutrition affects nearly half of all children.

Guatemala has implemented a prudent macroeconomic policy, recognized by recent rating upgrades and low sovereign spreads. It has a historically low tax revenue, translating into low spending, public debt, and fiscal deficit, but high debt service costs relative to revenues. A policy combination that is insufficient to address key development gaps. Remittances (19 percent of GDP in 2022) are an important driver of economic activity, underpinning private consumption and contributing to the current account balance. A weak business environment deters investment and undermines growth.

A new congress and president were elected recently. A key challenge for the new administration, which will not enjoy a majority in Congress, is to foster consensus around critical reforms in support of inclusive growth and vulnerable populations.

Recent developments

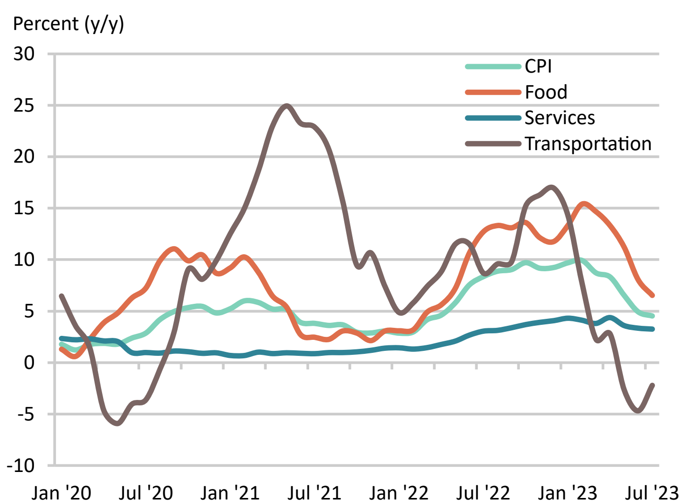
Guatemala has returned to stable and above-LAC average economic growth. GDP grew 4.1 in 2022 and 3.7 percent in the first quarter of 2023, led by government consumption and investment. The monthly activity index grew 3.7 percent up to June, suggesting robust growth going into 2023Q3.

Solid GDP growth, however, has not yet translated into better labor market performance. While GDP reached the pre-pandemic level in mid-2020 and is catching up with the pre-pandemic forecast level, employment levels are still below those of 2019. In addition, 71.1 percent of the occupied population is employed in the informal sector (ENEI 2022), above the pre-pandemic level of 65.3 percent.

Inflation accelerated in 2022 and peaked in February 2023 (9.9 percent), pushed by food (15.4 percent) and transport prices (7.8 percent). The central bank increased interest rates with some delay, which combined with ample liquidity in the economy and long monetary policy lags led to persistent high inflation. However, inflation dropped to 4.5 percent in July 2023 as food (6.5 percent) and transportation price (-2.2 percent) pressures eased.

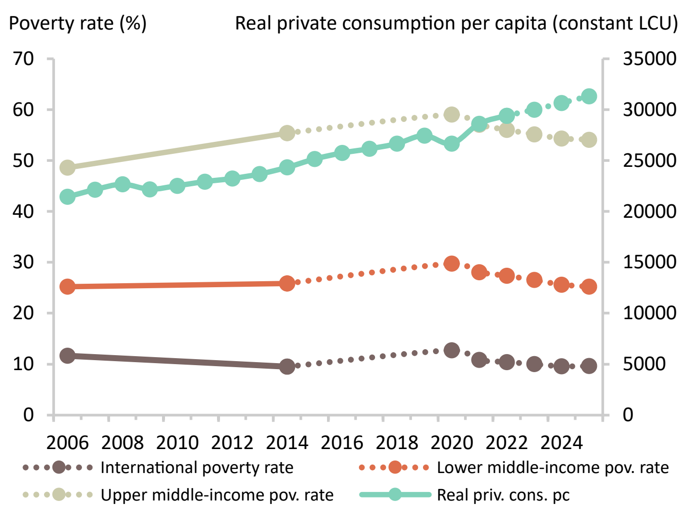
In 2022, while lower inflation and GDP growth contributed to poverty reduction, labor market outcomes limited progress, and poverty (U$6.85 2017 PPP line) is expected to decline only slightly to 56 percent, while inequality is expected to reach 0.49, measured by the Gini coefficient.

FIGURE 1 Guatemala / Consumer price inflation and selected sub categories (y/y)



Source: Guatemala National Statistics Institute.

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



Source: World Bank. Notes: see Table 2.

Total credit in the economy grew 22.5 percent in June 2023, accelerating from 2022, led by consumption credit, especially credit card debt. Banking system indicators remained solid with non-performing loans at 1.35 percent of gross loans.

Guatemala maintained a current account surplus of 3.8 percent of GDP in the first quarter of 2023 driven by a lower trade deficit and higher remittances. Both exports and imports declined in value: 7.8 percent and 7.3 percent respectively until June - the volume of exports fell more than the volume of imports (-9.6 vs. -5.6 percent). Remittances grew 10.9 percent in the first half of 2023, lower than in 2022, but still higher than the historical average. The exchange rate showed little fluctuation during the first half of 2023 and international reserves were kept above US$20 million, close to eight months of imports.

Fiscal accounts deteriorated in the first half of 2023. Revenues increased by 9.8 percent while expenditures grew by 16.3 percent in the same period. The increase in expenditures was driven by goods and services, and transfers to local governments, which increased by 50 and 16 percent respectively. The overall balance went from a surplus (0.1 percent of GDP) in the first half of 2022 to a deficit (0.7 percent of GDP) in the same period of 2023, due to large ad-hoc expenditure increases prior to the elections. Public debt stood at 29.3 percent of GDP in June 2023, and the country's sovereign rating was upgraded by major rating agencies and is now one notch below investment grade according to Moody's and two notches according to S&P and Fitch.

Outlook

GDP is growing near its potential over the medium term, supported by solid growth in the US, continued credit growth, and strong remittance inflows, which will also keep the current account balance in surplus. Inflation is expected to converge to the target (4 percent end-of-period inflation) by the end of 2023.

Moderate economic growth and disinflation will contribute to poverty and inequality reduction, but unless formal employment increases, progress is likely to be subdued. Therefore, poverty is projected to decline modestly to 55.1 in 2023 and 54.3 in 2024, close to pre-pandemic levels. Inequality is expected to decline slightly to 0.489 in 2023.

The fiscal accounts are expected to improve slightly in 2023. The government has tightened expenditure controls for the second half of 2023, which if sustained into 2024 and combined with better tax enforcement, especially on VAT, will reduce the fiscal deficit. In the medium term, the new administration faces the challenge of implementing its ambitious policy program in a fiscally sustainable manner.

The main risks to the scenario are a recession in the US and the impact of El Niño. The first would reduce remittances and Guatemalan exports affecting growth and the current account, while the second would cause food prices to increase, affect growth through reduced agricultural output, and negatively impact the most vulnerable segments of the population.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-1.8	8.0	4.1	3.4	3.5	3.5
Private consumption	-1.4	8.9	4.2	3.4	3.7	3.7
Government consumption	1.5	5.0	5.9	2.6	1.9	1.8
Gross fixed capital investment	-6.2	20.8	5.6	5.5	4.1	4.1
Exports, goods and services	-7.7	11.7	6.3	3.0	3.3	3.3
Imports, goods and services	-5.7	22.1	6.5	3.7	3.6	3.6
Real GDP growth, at constant factor prices	-1.8	8.0	4.1	3.4	3.5	3.5
Agriculture	-0.2	3.5	2.3	2.4	2.4	2.4
Industry	-1.2	8.4	2.6	2.8	2.8	2.8
Services	-2.2	8.5	4.9	3.8	3.9	3.9
Inflation (consumer price index)	3.2	4.3	6.9	5.9	4.3	3.7
Current account balance (% of GDP)	5.1	2.5	1.1	1.5	1.1	1.4
Net foreign direct investment inflow (% of GDP)	1.0	3.8	1.3	1.3	1.4	1.3
Fiscal balance (% of GDP)	-4.9	-1.2	-1.8	-1.6	-1.2	-0.7
Revenues (% of GDP)	10.7	12.3	13.0	13.0	13.1	13.3
Debt (% of GDP)	31.6	30.8	30.9	31.1	30.8	30.3
Primary balance (% of GDP)	-3.2	0.5	-0.1	0.0	0.4	0.8
International poverty rate ($2.15 in 2017 PPP)[a,b]	12.7	10.8	10.4	10.0	9.6	9.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	29.8	28.1	27.4	26.5	25.6	25.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	59.0	57.0	56.0	55.1	54.3	54.1
GHG emissions growth (mtCO2e)	0.2	2.2	0.7	1.3	1.5	1.7
Energy related GHG emissions (% of total)	53.8	53.1	52.6	52.2	51.9	51.7

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 SEDLAC harmonization, using 2014-ENCOVI. Actual data: 2014. Nowcast: 2015-2022. Forecasts are from 2023 to 2025.
b/ Projections using microsimulation methodology.

GUYANA

Table 1	2022
Population, million	0.8
GDP, current US$ billion	14.7
GDP per capita, current US$	18199.5
School enrollment, primary (% gross)[a]	97.8
Life expectancy at birth, years[a]	65.7
Total GHG emissions (mtCO2e)	26.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2012); Life expectancy (2021).

Guyana has emerged as one of the world's fastest-growing economies following the development of its oil and gas sector. In light of the substantial oil revenues, the government is implementing an aggressive investment program to structurally transform the non-oil economy and address its development needs.

Key conditions and challenges

Guyana is a small state with abundant natural resources including significant oil and gas (O&G) reserves and extensive forest cover. With a large part of its territorial waters still unexplored, Guyana's gross oil resources are conservatively estimated at over 11 billion barrels. The start of oil production in 2019 led to an unprecedented rate of economic growth, resulting in the country being reclassified as high-income as of July 2023.

While Guyana is experiencing accelerated economic growth, Amerindians and those living in the hinterland still endure poverty and social exclusion. The development of the O&G sector has allowed a notable scale-up of investments in infrastructure to support growth in other industries. With over 70 percent of the working-age population residing in rural areas in 2021, agriculture, forestry, and fishing remain relevant for jobs and poverty reduction.

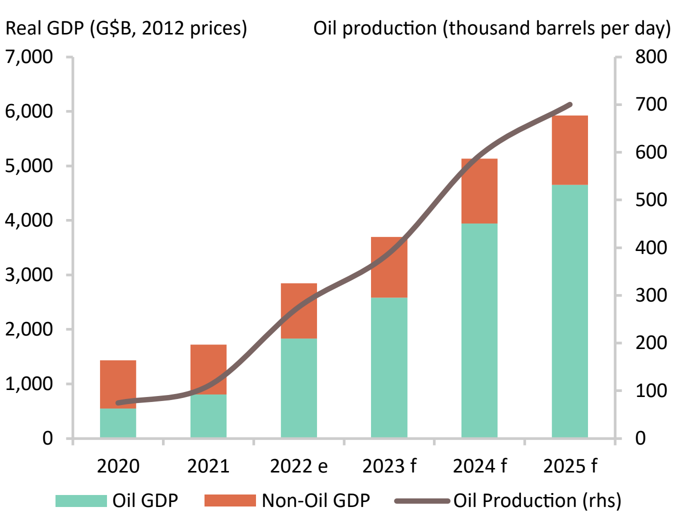
Guyana's oil revenues are held at the Natural Resource Fund (NRF), outside of the economy, to mitigate exchange rate pressures. Transfers to the budget are expected to approximate 5 percent of GDP (and over 35 percent of fiscal revenues) in the medium term, based on withdrawal rules of the 2021 NRF Act. The country is also advancing initiatives to sell carbon credits which represent an additional source of fiscal revenues and will be partly employed in the sustainable management of its forests.

Rising budget resources present opportunities and risks for Guyana. They have allowed the government to respond to the global pandemic and inflation while scaling up spending to address infrastructure gaps and human development needs. The efficient use and management of O&G revenues to support growth in the non-oil economy and prevent "Dutch Disease" effects are critical. Sound management of the O&G sector necessitates strengthening governance and proactive public financial management practices while boosting transparency and accountability to avoid increased social polarization. The growing oil sector also increases the urgency to advance the implementation of the government's Low Carbon Development Strategy 2030.

Recent developments

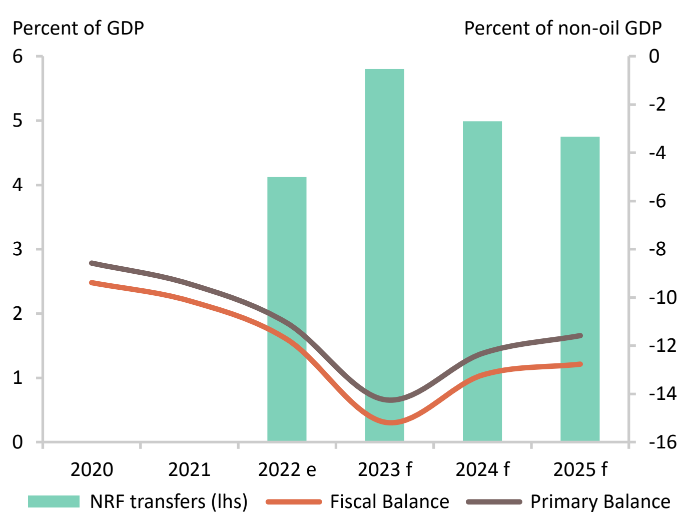
Guyana's economy expanded at a record pace in 2022 amid increased oil production. Real GDP expanded by 63.4 percent, exceeding the annual average growth rate of 31.8 percent since the start of oil extraction. Oil GDP more than doubled in 2022, with production rising to approximately 278,000 barrels per day (bpd). The non-oil economy grew by 11.6 percent, as a result of increased agricultural yields, growth in construction, expansion in mining and support services for the O&G industries, as well as a pickup in services. The strong growth momentum continued in the first half of 2023, with real non-oil GDP growth estimated at 12.3 percent.

FIGURE 1 Guyana / Oil production, real oil, and real non-oil GDP, 2020-2025



Source: Government of Guyana and World Bank staff estimates. Notes: e=estimate, f=forecast. 2023 values assume full-capacity production in Liza I and II, and 2024 values assume the additional full operation of Liza Prosperity (Payara).

FIGURE 2 Guyana / Fiscal balances and Natural Resource Fund transfers



Sources: Guyana Ministry of Finance and World Bank staff estimates. Notes: e=estimate, f=forecast.

The urban consumer price index increased by an average of 6.4 percent in 2022, primarily due to rising fuel and food prices globally. Higher living costs disproportionately affected the poor and vulnerable, who spend a larger portion of their budget on food, and jeopardized food security. Price increases slowed in the first half of 2023, with an average inflation rate of 4.3 percent. The nominal exchange rate has remained stable since 2019 through periodic intervention, while the real effective exchange rate appreciated slightly in 2022.

The fiscal deficit was 11.7 percent of non-oil GDP in 2022, despite significant transfers from the NRF. The first year of transfers from the NRF approximated US$608 million (4.1 percent of GDP) in 2022 and is expected to grow to US$1 billion (5.8 percent of GDP) in 2023. As of June 2023, the closing balance in the NRF amounted to US$1.72 billion. Fiscal policy focused on increasing capital investment to support non-oil economy growth while providing relief to citizens from the adverse impact of the pandemic and rising prices. Relief efforts to increase household incomes and reduce poverty included direct and indirect income support, with adjustments to the income tax threshold and a reduction in the fuel excise tax. The public debt-to-GDP ratio is estimated to have declined to 24.8 percent of total GDP in 2022, 14.1 percentage points lower than in 2021, as the economy grows. In August 2023, the government approved hikes in the external and domestic debt ceilings, from $650b to $900b and from $500b to $750b respectively. A current account surplus of 26.0 percent of GDP was recorded in 2022, reflecting increased earnings from oil exports.

Outlook

Guyana's economy is expected to continue the strong expansion in the medium term, with rising oil production driving the overall growth path. The introduction of the third vessel, Liza Prosperity, is expected by the end of 2023 and will increase production capacity by around 220,000 bpd, reflected in the steep growth projection for 2024. The fourth development project, Yellowtail, is expected to start operation in 2025, further increasing production capacity and oil GDP growth. Real non-oil GDP is projected to expand by an average of 7.7 percent per year including through positive spillovers from the oil sector. Inflation will slow but remain elevated due to increased government consumption and higher input costs. Poverty reduction will depend on efforts to boost the purchasing power of poor and vulnerable households, as well as on translating the good performance of the non-oil economy into jobs.

The fiscal deficit is projected to average 13.7 percent of non-oil GDP as the increase in capital spending outstrips NRF transfers. Public debt is expected to expand in 2023, with domestic debt increasing due to higher issuance of treasury bills, but will remain low in the medium term, at approximately 25 percent of GDP. Increased exports of oil, gold, and bauxite will result in an average current account surplus of nearly 20 percent of GDP over the medium term, notwithstanding a smaller surplus in 2023 amid the importation of Guyana's third oil vessel.

The extractive sector is the dominant source of growth and fiscal revenues. This increases the country's susceptibility to oil-related shocks and requires proactive management. Prudent NRF management and strengthening the medium-term fiscal framework are critical to preventing the economy from overheating. Oil production has environmental consequences that must be carefully considered, and the sector may face additional risks amid global decarbonization efforts. Addressing climate change risks remains central to poverty reduction given that sea level rise and flooding expose large segments of the population to food insecurity and job losses.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at market prices (total)[a]	43.5	20.1	63.4	29.0	38.2	15.2
Real GDP growth, at market prices (non-oil)[b]	-7.3	4.6	11.6	9.3	7.2	6.7
Agriculture	4.1	-9.1	11.9	6.3	4.0	3.5
Industry	-10.5	5.0	12.7	14.4	10.1	8.9
Services	-9.9	12.1	9.3	7.8	7.4	6.8
Inflation (consumer price index)	0.8	4.8	6.4	5.5	5.3	5.1
Current Account Balance (% of GDP)[c]	-17.1	-24.8	26.0	16.9	21.3	19.8
Fiscal Balance (% of GDP)[d]	-9.4	-10.1	-11.7	-15.2	-13.2	-12.8
Debt (% of GDP)	47.4	38.9	24.8	26.8	25.2	24.5
Primary Balance (% of GDP)[d]	-8.6	-9.4	-11.1	-14.2	-12.3	-11.6
GHG emissions growth (mtCO2e)	11.9	4.9	15.9	12.2	15.8	8.1
Energy related GHG emissions (% of total)	21.8	24.7	33.5	39.4	46.4	49.1

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

HAITI

Table 1	2022
Population, million	11.6
GDP, current US$ billion	20.2
GDP per capita, current US$	1745.9
International poverty rate ($2.15)[a]	29.2
Lower middle-income poverty rate ($3.65)[a]	58.0
Upper middle-income poverty rate ($6.85)[a]	85.8
Gini index[a]	41.1
Life expectancy at birth, years[b]	63.2
Total GHG emissions (mtCO2e)	11.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2012), 2017 PPPs.
b/ Most recent WDI value (2021).

The political crisis coupled with gang violence continues to negatively impact economic activity, with output declining in H1 FY23, hindering poverty reduction. Inflation remained high but is decelerating thanks to monetary policy tightening. Despite challenging conditions for the export-oriented textile sector, higher remittances inflow and a slowing of imports amid collapsing investment resulted in a current account surplus, easing external financing needs.

Key conditions and challenges

Haiti's economic performance continues to be hampered by political crisis and gang violence. Vulnerable to natural hazard shocks and with weak disaster risk management and response systems, Haiti is ill-suited to cope with the effects of climate change. Already limited human capital and institutional capability are being depleted by insecurity from gang warfare that has emerged as the binding constraint to growth. Violent gangs sprang up from poor neighborhoods due partly to limited public investment in education combined with a weak business environment that limited job opportunities for youth.

Headline inflation is trending down but food inflation remains high, impacting poor households the hardest. In line with a widening output gap, core inflation is declining after having peaked in January from second-round pass-through effects of retail fuel price adjustments in Q1 FY23. Keeping inflation on a downward trend will require addressing fiscal pressures from chronically low tax revenue collection.

Recent developments

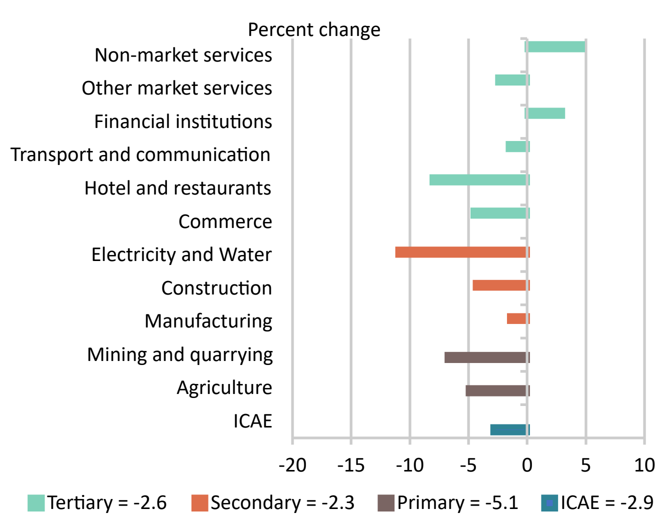
Output decline continued as the index of economic activity contracted by 2.9 percent in H1 FY23, amid insecurity from gang violence and continued uncertainty around the political process. On the supply side, all sectors contributed to the economic decline. Agriculture, which engages over 40 percent of the labor force, registered the largest decline (-5.0 percent). This has likely increased poverty and food insecurity because most poor households derive their livelihoods in that sector. Therefore, increasing agricultural productivity remains a key policy priority to promote inclusive growth and improve equity.

The textile sector, the largest formal private sector employer, shed more than 20,000 jobs (roughly one-third of the total) since the beginning of the fiscal year, due to insecurity. In the current context of limited economic opportunities, these layoffs are likely to push a large share of these workers and their families into poverty.

Construction, production of electricity and water, all three harbingers of future growth, continue their decline. Services contracted by 2.6 percent, led by hospitality.

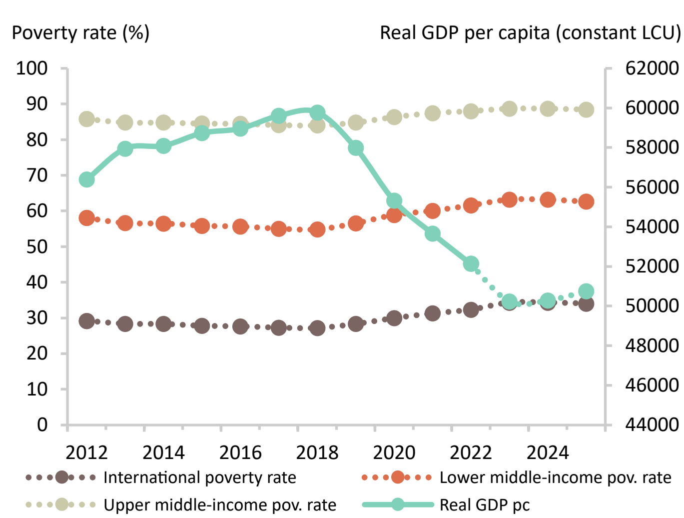
Tax revenue collection improved by 59.8 percent at the end of June 2023, thanks to tighter control at the customs administration and higher oil tax revenue. Tax to GDP remains weak, however, owing to the economic slump and governance issues at the customs and tax administrations. Nonetheless, energy subsidy cuts and retrenchment of capital spending helped improve the fiscal position, lowering financing needs and supporting fiscal consolidation efforts. This provided room for the

FIGURE 1 Haiti / Sectoral growth rates, y/y, Q2 FY23



Source: Haiti Statistical Office (IHSI).

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



Source: World Bank. Notes: see Table 2.

central bank to anchor its price stability objective, through a 74 percent reduction y-o-y of monetary financing of the deficit at the end of June, helping to decelerate inflation, which peaked at 49.3 percent y-o-y in January from the effect of fuel subsidy adjustment in December to 39.7 percent in July. Although on a downward trend, inflation remains high, especially food inflation (46.1 percent on average over the period compared to 27.7 percent last year). The drivers of high inflation are continued monetization of fiscal deficit, low agricultural productivity, and gang warfare impeding the seamless movement of goods from production sites to markets, with attendant consequences on the poor and vulnerable households. As of June 2023, 49 percent of Haiti's population was estimated to be acutely food insecure. The exchange rate appreciated by 0.1 percent over the period, compared to a 1.7 percent depreciation in the previous period. In the external sector, exports declined by 20 percent, principally due to textile sector performance. Imports edged down just 1 percent over the same period pushed up by higher fuel and food import bills. Remittances advanced by 8 percent, boosted by favorable economic prospects in the USA, where upward of 70 percent of remittances to Haiti originate.

Outlook

Private investment will continue to decline amid security concerns while persistent higher prices will dampen private consumption, despite social protection programs being implemented. GDP is expected to contract by 2.5 percent in FY23. In the baseline, growth is expected to firm up into positive territory with a rebound of 1.3 percent in 2024, assuming stabilization of the political context and improvements in security. However, with real GDP per capita growth of just 0.1 percent expected for 2024, the poverty rate (US$3.65 per day, 2017 PPP) will remain at 63.2 percent.

With the decline in energy subsidies and the resulting emerging fiscal space, the fiscal deficit is expected to narrow to 2.0 percent of GDP in FY23. Fiscal consolidation efforts are expected to continue over the medium term on revenue hikes, bringing the fiscal deficit below the 2.0 percent of GDP mark.

Sustained high fuel prices, low agricultural productivity, and the closing of the border between Haiti and the Dominican Republic will exert further price pressures, with inflation expected to close the fiscal year above 40 percent on average. The ensuing erosion of household purchasing power and the continuing economic slump are expected to exacerbate poverty and food insecurity. The effects of lower imports plus higher remittances will offset the expected drop in exports, leading to a current account surplus of 1.0 percent of GDP. Over the medium term, as investment picks up, the current account is expected to register a deficit above 2.0 percent of GDP. With growing security concerns and a deteriorating business environment, FDI inflow currently at 0.1 percent of GDP is expected to remain well below the CAD. Besides boosting exports or cutting down non-essential imports, Haiti's other CAD financing option is the continuous depletion of forex reserves, which could precipitate depreciation of the currency and fuel inflation, with further aggravating consequences for the poor.

Effective management of inflation through balanced macroeconomic interventions will remain key for macroeconomic stability and growth prospects. Reducing disaster risks through strengthening the institutional framework and response system remains essential for inclusive growth. A slower-than-expected improvement in the security situation is a significant downside risk.

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

	2019/20	2020/21	2021/22	2022/23e	2023/24f	2024/25f
Real GDP growth, at constant market prices	-3.3	-1.8	-1.7	-2.5	1.3	2.2
Private consumption	-4.0	1.2	-0.7	-1.6	0.7	0.6
Government consumption	11.1	9.7	21.7	18.8	8.2	15.2
Gross fixed capital investment	-20.6	-21.8	-13.8	-42.5	10.4	14.8
Exports, goods and services	-39.7	1.4	2.4	-2.6	2.8	2.1
Imports, goods and services	-18.3	2.7	4.9	-2.7	4.0	5.5
Real GDP growth, at constant factor prices	-2.9	-2.5	-2.1	-2.6	1.3	2.1
Agriculture	-2.5	-4.1	-4.5	-4.1	2.0	2.0
Industry	-6.9	-2.5	-0.4	-1.1	1.5	1.5
Services	-1.2	-2.0	-2.1	-2.8	1.0	2.5
Inflation (consumer price index)	22.9	15.9	27.6	44.2	26.0	22.6
Current account balance (% of GDP)	1.1	0.5	-2.5	0.8	-2.5	-3.2
Net foreign direct investment inflow (% of GDP)	0.2	0.2	0.2	0.1	0.3	0.3
Fiscal balance (% of GDP)	-3.0	-2.5	-3.2	-2.2	-2.3	-1.4
Revenues (% of GDP)	7.5	6.9	6.6	7.7	7.9	7.7
Debt (% of GDP)	23.5	28.4	27.6	29.2	29.8	26.6
Primary balance (% of GDP)	-2.7	-2.2	-2.9	-1.9	-2.0	-1.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	29.9	31.3	32.3	34.3	34.3	34.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	58.9	60.1	61.6	63.2	63.2	62.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	86.4	87.5	88.0	88.7	88.7	88.4
GHG emissions growth (mtCO2e)	-0.8	1.2	0.5	-0.4	1.6	1.0
Energy related GHG emissions (% of total)	35.5	35.5	35.0	33.8	34.1	34.3

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 SEDLAC harmonization, using 2012-ECVMAS. Actual data: 2012. Nowcast: 2013-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2012) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

HONDURAS

Table 1	2022
Population, million	10.4
GDP, current US$ billion	31.5
GDP per capita, current US$	3021.6
International poverty rate ($2.15)[a]	12.7
Lower middle-income poverty rate ($3.65)[a]	26.4
Upper middle-income poverty rate ($6.85)[a]	49.5
Gini index[a]	48.2
School enrollment, primary (% gross)[b]	96.5
Life expectancy at birth, years[b]	70.1
Total GHG emissions (mtCO2e)	29.3

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

Real GDP grew by 4 percent in 2022, primarily due to increased consumption by households fueled by remittances, and private investment. Growth is expected to slow down in 2023 as export growth declines and remittances normalize after exceptionally high inflows in 2022. Although lower inflation has contributed to poverty reduction, slower economic growth and a labor market that has not reached pre-pandemic levels are limiting progress.

Key conditions and challenges

Honduras – a lower middle-income country - experienced moderate growth averaging 3.1 percent between 2010-2019. Growth relies on remittance-fueled household consumption and is supported by prudent macroeconomic management anchored in the Fiscal Responsibility Law (FRL), a crawling peg with adequate foreign reserves, and a sound financial sector. However, productive capacity remains weak. Agriculture and light manufacturing, especially textiles and garments, are major sources of employment and exports, mainly to the US. Weak institutions, a challenging business environment, and extremely high crime deter investment and tourism, limiting economic growth.

Despite moderate growth, Honduras still faces persistently high poverty, with half its population living under the poverty line (US$6.85 per day, 2017 PPP) in 2019. Poverty is particularly high in rural areas, where it reaches 70 percent, explained by stagnant agricultural income and high vulnerability to weather shocks. Inequality remains high (Gini coefficient of 0.48 in 2019), and food insecurity affected one-third of the population in 2021. Gender and geographic disparities in the labor market are persistent.

Honduras is highly vulnerable to climate change, and areas more exposed to natural hazards tend to have higher poverty. In 2020, hurricanes Eta and Iota impacted production, particularly in agriculture, and together with the pandemic, resulted in a 9 percent GDP contraction, increasing poverty (US$6.85 line) by 8.2 pp, to 57.7 percent.

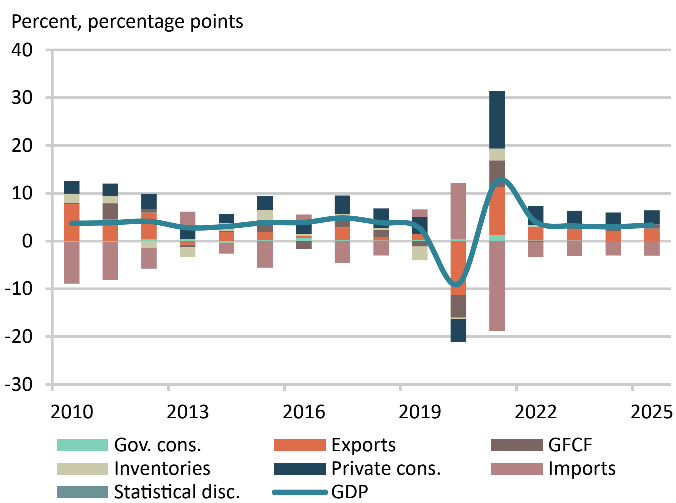
Recent developments

Real GDP grew 4 percent in 2022 as high remittances fueled household consumption. However, growth in 2023 is slowing. The economy grew 1.9 percent in Q1-2023 y-o-y but contracted 0.2 percent from Q4-2022, as lower textile/garment and vehicle harness production led to a decline in overall manufacturing by 5.2 percent (y-o-y).

After peaking at 9.1 percent in 2022 (the highest since 2008) amid an accommodative monetary policy stance, whereby the central bank maintained the key policy rate at 3 percent, headline inflation has declined since February 2023 to 5.7 percent in August, reflecting declining international food inflation. This boosted household consumption, but the labor market remained weak as unemployment decreased only slightly, from 8.7 percent in 2022 to 7.4 percent in March 2023, and remained above pre-pandemic levels. Poverty (US$6.85 line) is estimated at 52.4 percent in 2022, a modest decline from 2021 and also above pre-pandemic levels.

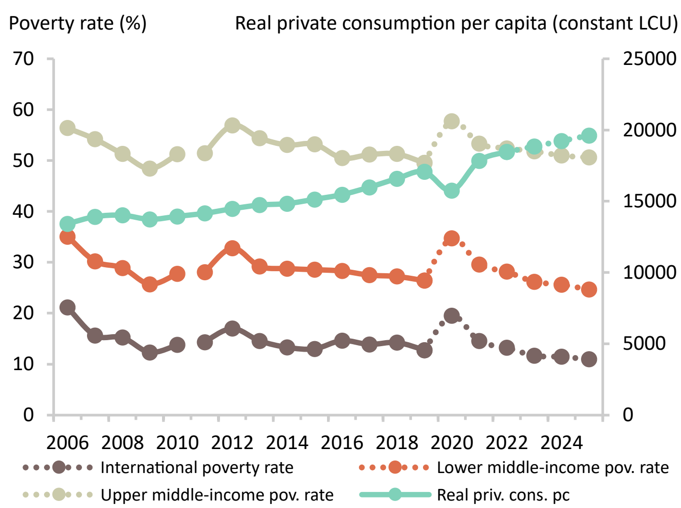
Despite unfavorable terms of trade, the current account deficit narrowed from 4.7 percent of GDP in 2021 to 3.2 percent in 2022, driven by strong remittances. It was primarily financed by multilateral loans

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



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

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



Source: World Bank. Notes: see Table 2.

and FDI. In Q1-2023, the current account reached a surplus of 0.9 percent of GDP, helped by shrinking merchandise and services trade deficits. However, net FDI dropped significantly, by 40 percent q-o-q, explained by large outflows in the transport, storage, and communications sectors and lower inflows in retail and wholesale, hotels, and restaurants, due to lower manufacturing demand and intra-firm financial flows.

The fiscal deficit narrowed from 3.7 percent of GDP in 2021 to 0.24 percent in 2022 due to low budget execution (42.1 percent) and robust corporate income tax revenues. Public debt reached 52.3 percent of GDP in 2022, slightly up from 51.6 percent in 2021, due to recognition of previously unaccounted domestic debt. A staff-level agreement with the IMF was announced on August 11, on a 36-month program for about US$830 million supporting reforms to create fiscal space for urgent social spending and investment, while anchoring macroeconomic stability. On April 13, the central bank reinstated an auction mechanism used between 1994 and 2021 to replace market-based foreign exchange allocation, seeking to improve the equity of access to forex across banks and the public.

Outlook

Real GDP growth is expected to slow down to 3.2 percent in 2023, due to low private investment, slower exports and remittances growth, and weak budget execution. Nevertheless, continued remittance inflows paired with lower inflation, especially in food, will sustain private consumption growth. Poverty incidence is expected to decline slightly in 2023 to 51.8 percent and may increase if downside risks materialize, while inequality (Gini coefficient) is expected to reach 0.47. Poverty is expected to continue declining in 2024 and 2025, getting closer to pre-pandemic levels.

With declining import prices, inflation is projected to continue trending downward in 2023, averaging above the upper band of the central bank's target range (4±1 percent). The fiscal deficit is projected to widen to 2 percent due to improving budget execution (as capacity constraints are tackled) and revenue loss from a fuel subsidy. A weaker external position is anticipated in 2023 due to slower growth of exports and especially of remittances, as they normalize following the exceptionally high 2022 inflows, increasing the current account deficit to 4.7 percent of GDP. Yet, foreign reserves are expected to cover at least five months of imports.

Growth is projected to remain subdued at 3 percent in 2024 in line with lower US growth projections, and increase to 3.4 percent in 2025, supported by stronger remittances and exports as US growth accelerates, and rising public investment as budget execution bottlenecks are overcome, external financing for pipeline projects is secured, and domestic financial markets deepen. Disinflation would continue, in line with international prices. The fiscal deficit will gradually narrow over the medium term, trending toward the FRL's 1 percent target, supported by revenue mobilization measures, enhanced public spending efficiency, and budget reallocations.

Downside risks cast uncertainty. Global prices could rise, fueling inflation. Slower-than-expected fiscal consolidation and adverse climate events might increase financing needs. Persistent capacity constraints and legislative gridlock could stall social and structural reforms, leading to social unrest, business climate deterioration, lower investment and growth, and worsening labor market and living conditions.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-9.0	12.5	4.0	3.2	3.0	3.4
Private consumption	-6.2	15.1	5.0	3.7	3.6	3.6
Government consumption	2.9	8.5	0.8	1.1	0.1	0.1
Gross fixed capital investment	-23.8	33.3	-0.7	3.7	4.3	4.7
Exports, goods and services	-20.8	21.5	5.8	4.5	4.1	4.9
Imports, goods and services	-18.5	33.0	4.8	4.6	4.3	4.4
Real GDP growth, at constant factor prices	-9.0	12.5	4.0	3.2	3.0	3.4
Agriculture	-6.3	0.4	-0.7	3.6	3.9	4.0
Industry	-14.3	20.1	5.3	4.2	4.1	4.5
Services	-7.2	12.5	4.5	2.6	2.3	2.7
Inflation (consumer price index)	3.5	4.5	9.1	6.5	4.6	4.2
Current account balance (% of GDP)	2.8	-4.7	-3.2	-4.7	-4.7	-4.6
Net foreign direct investment inflow (% of GDP)	1.6	1.8	2.0	1.9	2.0	2.0
Fiscal Balance (% of GDP)[a]	-5.5	-3.7	-0.2	-2.0	-1.7	-1.4
Revenues (% of GDP)	28.2	30.0	29.6	28.6	28.4	29.0
Debt (% of GDP)[a]	54.1	51.6	52.3	51.8	51.2	50.4
Primary Balance (% of GDP)[a]	-4.3	-2.8	0.4	-0.7	-0.2	0.0
International poverty rate ($2.15 in 2017 PPP)[b,c]	19.5	14.5	13.3	11.7	11.4	11.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	34.7	29.6	28.2	26.2	25.6	24.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	57.7	53.3	52.4	51.8	51.0	50.6
GHG emissions growth (mtCO2e)	-5.0	8.1	1.5	0.4	1.3	1.5
Energy related GHG emissions (% of total)	33.9	36.4	36.3	35.6	35.5	35.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal data refers to non-financial public sector.
b/ Calculations based on SEDLAC harmonization, using 2019-EPHPM. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
c/ Projections using microsimulation methodology.

JAMAICA

Table 1	2022
Population, million	2.8
GDP, current US$ billion	17.1
GDP per capita, current US$	6064.1
School enrollment, primary (% gross)[a]	90.6
Life expectancy at birth, years[a]	70.5
Total GHG emissions (mtCO2e)	9.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2007); Life expectancy (2021).

Structural policies and institutional reforms strengthened macroeconomic management in recent years. This allowed the government to respond to the pandemic and inflation shocks without impairing fiscal sustainability and poverty reduction objectives. Jamaica's real GDP reached its pre-crisis level in early 2023, and poverty is estimated to have declined towards pre-crisis levels. Progress in lowering public debt and future poverty reduction may be slower than expected if global economic conditions deteriorate and if constraints to growth remain unaddressed.

Key conditions and challenges

Since 2013, Jamaica has successfully implemented fiscal consolidation efforts, which helped reduce the public debt-to-GDP ratio by more than 50 percentage points. Fiscal discipline and prudent macroeconomic management during the pandemic sped up post-pandemic recovery amidst the challenging external environment of inflationary pressures and tightening global financial conditions. The social protection system has been strengthened, which contributed to increased equity, social resilience, and poverty reduction. Notably, the government was able to provide temporary assistance to vulnerable households and businesses to offset income losses, protect jobs, and stimulate demand. Additional assistance was provided to vulnerable households to mitigate the potential impact of rising prices.

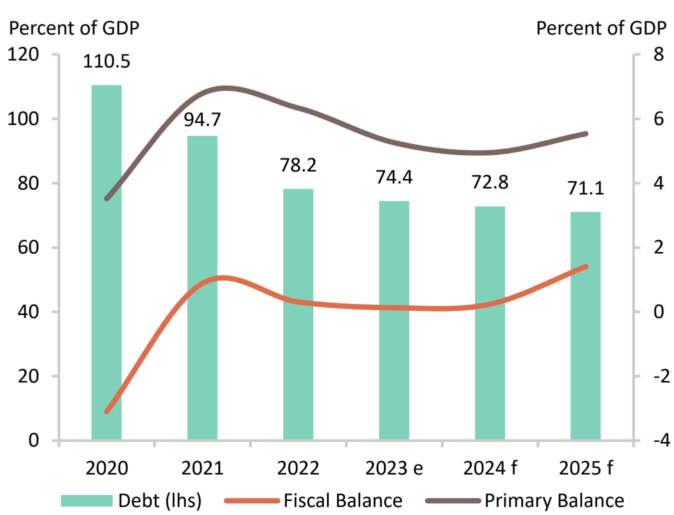
However, relatively high debt-service costs crowd out other government spending, including capital investment, which is critical to boost growth. Jamaica has been among the slowest growing economies in LAC given its concentration in low productivity services, limited technology adoption and innovation, a weak business environment, high connectivity costs, and pervasive crime. Disruptions in learning during the pandemic will have corrosive effects on the growth, human capital, and future earning potential of students if not addressed adequately.

Furthermore, Jamaica is highly vulnerable to external shocks given its reliance on imports and tourism. Tourism and agriculture, which account for more than a third of jobs, are vulnerable to external shocks, especially climate shocks, which could undermine growth and poverty reduction. While the financial sector is well-capitalized and liquid, it remains susceptible to various shocks. To strengthen fiscal, financial, and social resilience to climatic shocks, Jamaica has been gradually integrating climate change adaptation into its policy framework. Progress in addressing anti-money laundering regulations and counter-terrorism financing combined with improved financial supervision is necessary to attract private investment.

Recent developments

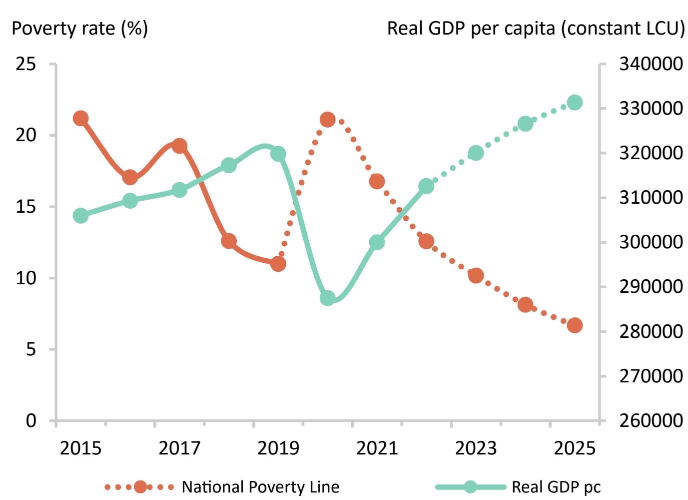
Real GDP is estimated to have expanded by 2.9 percent in the first half of 2023, reaching its pre-crisis level. Growth was driven by net exports from an expansion in tourism and mining, whilst agriculture declined due to an extended drought. Rising economic activity brought the unemployment rate to 4.5 percent in April 2023 - the lowest level in history. The national poverty rate is estimated to have declined to 12.6 percent in 2022. Nevertheless, the quality of employment remains a concern given continued high informality and fewer average hours worked relative to pre-pandemic levels.

FIGURE 1 Jamaica / Fiscal balances and public debt



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

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



Sources: Government of Jamaica and World Bank staff estimates.
Notes: Poverty projections based on JSLC 2019, growth semi-elasticity of poverty=-1, and real GDP per capita.

Annual inflation decelerated to 6.6 percent in July 2023 – down from its peak of 11.8 percent in April 2022, approaching the Bank of Jamaica (BOJ)'s reference range (5 ±1 percent). Inflation was influenced by lower global commodity prices, as well as the effects of tight monetary and fiscal policies. Nonetheless, food inflation remained elevated at 11.3 percent in July 2023 amid droughts, undermining household purchasing power. According to the Food Insecurity Experience Scale, 33 percent of Jamaicans were severely food insecure in May 2023. The BOJ has kept its key policy rate at 7.0 percent since end-2022 and announced it would maintain that rate for the rest of the year amid seasonal increases in agricultural prices.

The fiscal deficit of 0.9 percent of GDP in the Q1 of 2023 brought fiscal account to a surplus of 0.3 percent of GDP in FY2022/23 – smaller relative to a surplus of 0.9 percent of GDP in FY2021/22. This was a result of increased spending on wages and salaries, consistent with the recently approved three-year compensation cycle. Higher spending also reflected transfers (0.25 percent of GDP) to vulnerable families to counter inflation pressures, and fuel, and food subsidies.

The current account recorded a deficit of 0.8 percent of GDP in 2022 as high commodity prices offset increasing earnings from tourism and remittances. Reserves remain adequate, at US$4.1 bn (about 6 months of imports and 24 percent of GDP) as of July 2023. In this context, the exchange rate remained relatively stable.

Outlook

Real GDP growth is expected to average only 1.8 percent over the medium term as global growth weakens. Manufacturing on the supply side and consumption and net exports on the demand side are expected to drive growth. Higher public wages, a historical increase in minimum wages, and increases in communication services are anticipated to generate inflationary pressures. Monetary policy is expected to remain supportive of growth, ensuring adequate liquidity in the financial system; minimizing pressures on the currency, and returning inflation to its target range by end-2023. Poverty is projected to decline to or below pre-pandemic levels by 2024 as incomes improve with the economic recovery.

The fiscal account is expected to record an average annual surplus of 0.6 percent of GDP over the medium term, with stronger revenues underpinned by continued economic recovery. Spending is expected to decline slightly due to lower interest payments. As such, public debt is projected to remain on a downward trajectory with an expected 74.5 percent of GDP for FY2023/24, declining to 71.3 percent of GDP by FY2025/26.

External account balances are expected to slightly deteriorate due to deceleration in remittance inflows and tourism amid weaker economic conditions in the US and UK, partially offset by the reduced spending on imports given lower commodity prices. Gross reserves are expected to remain at healthy levels, averaging more than 5 months of imports.

There are significant downside risks to the economic outlook including a possible deeper-than-expected slowdown in the global economy. Further tightening of financial market conditions could raise the cost of borrowing, curtail private investments, and derail longer-term growth, climate change, and debt objectives. Worsening crime, social unrest, and potential natural hazards could also impair growth and poverty reduction efforts.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-9.9	4.6	5.2	2.3	2.0	1.4
Private consumption	-13.2	3.0	4.0	2.0	1.5	1.5
Government consumption	11.7	2.1	16.8	2.2	2.4	1.6
Gross fixed capital investment	-15.3	-4.1	-9.6	1.8	2.1	1.1
Exports, goods and services	-30.0	25.8	15.1	5.6	2.2	1.9
Imports, goods and services	-26.7	12.0	11.8	4.5	1.5	1.5
Real GDP growth, at constant factor prices	-9.9	4.6	5.2	2.3	2.0	1.4
Agriculture	-1.4	8.3	9.0	-1.7	1.0	0.9
Industry	-5.7	2.4	-0.4	2.1	1.9	1.4
Services	-12.0	4.9	6.5	2.9	2.2	1.5
Inflation (consumer price index)	5.7	5.9	10.3	6.1	5.0	4.7
Current account balance (% of GDP)	-1.1	1.0	-0.8	-1.9	-1.9	-1.3
Net foreign direct investment inflow (% of GDP)	1.9	1.8	1.5	1.6	1.7	1.8
Fiscal Balance (% of GDP)[a]	-3.1	0.9	0.3	0.1	0.2	1.4
Revenues (% of GDP)	29.5	31.0	31.1	31.7	31.5	32.0
Debt (% of GDP)[a]	109.7	94.2	79.7	74.5	72.9	71.3
Primary Balance (% of GDP)[a]	3.5	7.3	5.6	5.3	4.9	5.5
GHG emissions growth (mtCO2e)	-23.8	9.8	7.0	3.9	3.1	1.7
Energy related GHG emissions (% of total)	75.9	77.8	79.2	79.9	80.4	80.8

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

MEXICO

Table 1	2022
Population, million	127.5
GDP, current US$ billion	1465.9
GDP per capita, current US$	11496.5
International poverty rate ($2.15)[a]	3.1
Lower middle-income poverty rate ($3.65)[a]	9.9
Upper middle-income poverty rate ($6.85)[a]	32.5
Gini index[a]	45.4
School enrollment, primary (% gross)[b]	103.7
Life expectancy at birth, years[b]	70.2
Total GHG emissions (mtCO2e)	673.1

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

Mexico's economy is projected to grow 3.2 percent in 2023 and gradually converge to its potential by 2025. Monetary poverty declined significantly between 2020 and 2022 and is projected to further decline through 2025 though at a slower pace. Addressing structural constraints will boost output potential and accelerate poverty reduction and inclusion. Main downside risks stem from: persistent inflation that could affect real labor earnings and keep interest rates higher; the U.S. slowdown; and political uncertainty given the elections next year.

Key conditions and challenges

The Mexican economy has weathered global uncertainty and the pandemic shock thanks to a stable macroeconomic framework and a solid and diversified manufacturing base connected to Global Value Chains (GVC) integrated with the U.S. These factors, along with a dynamic, albeit informal labor market, have supported economic growth in recent years.

Mexico's potential growth remains slow due to declining productivity and tamed investment. Improving the business environment, reducing regulatory burdens, facilitating access to finance, addressing insecurity, closing infrastructure gaps, improving public services provision, and strengthening the competition framework is vital for enhancing competitiveness, capitalizing on nearshoring, and the Inflation Reduction Act opportunities.

The official multidimensional poverty rate fell from 43.9 percent in 2020 to 36.3 in 2022, lifting 8.9 million Mexicans out of poverty (46.8 million lived in poverty in 2022). This multidimensional measure combines monetary poverty with indicators of social deprivation, including the education gap and lack of access to health services, food, social security, basic services, and adequate housing. The decline in multidimensional poverty is almost entirely due to the fall in monetary poverty, which declined from 52.8 to 43.5 percent. All but one of the non-monetary dimensions changed slightly. The exception was lack of access to health services, which increased from 28.2 to 39.1 percent. The highest measure of deprivation remains access to social security, at 50.2 percent (52 percent in 2020).

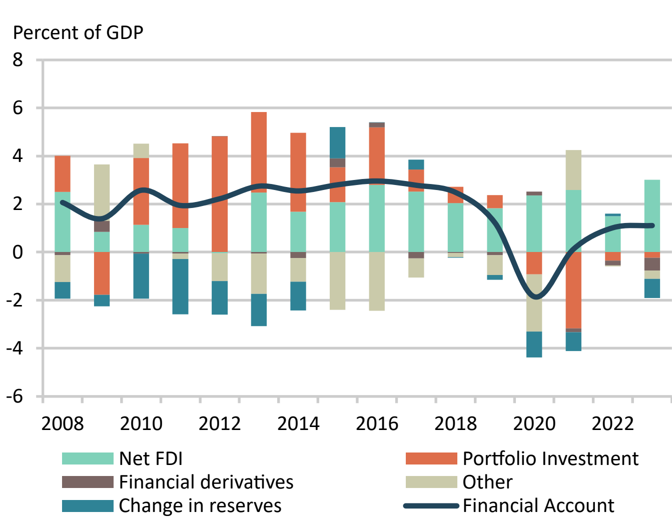
The official extreme poverty rate declined from 8.5 percent in 2020 to 7.1 in 2022, returning to levels similar to 2016 and 2018 (7.2 and 7.0 percent, respectively). This is mostly due to a decline in the monetary extreme poverty rate (from 14.9 percent in 2016 to 12.1 in 2022), offset by an increase in the share of population with at least three social deprivations (from 20.0 percent in 2016 to 24.9 in 2022). Slow progress in extreme poverty reflects the fact that the poorest have benefited least from earnings growth and have been most affected by the decline in access to social services.

Public debt remains above pre-pandemic levels. Expenditure commitments, improving access to and quality of public services, PEMEX's situation, and needed infrastructure investment require revenue-enhancing reforms to maintain debt sustainability.

Recent developments

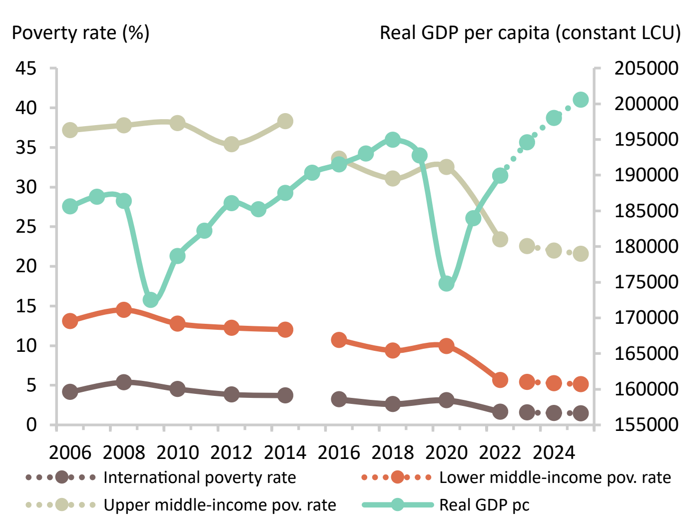
Real GDP grew by 3.9 percent in 2022 and 3.7 percent in 2023H1, supported by robust consumption and a strong bounce-back in investment. Retail, manufacturing, transportation, and wholesale sectors drove growth on the supply side. The economy added two million jobs in July 2023 y-o-y, mainly in the informal sector.

FIGURE 1 Mexico / Financial account



Source: Banxico.
Note: 2023 corresponds to information from the first half of the year.

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



Source: World Bank. Notes: see Table 2.

The current account deficit was 1.6 percent of GDP in 2023H1, fully covered by net FDI, which reached 3 percent of GDP. Supported by the interest rate differential, a stable fiscal situation, and a solid external account, the Mexican peso has continued to appreciate, from 19.6 MXN/USD in December 2022 to 17.0 in August 2023.

Annual headline (core) inflation reached 4.6 (6.1) percent in August 2023. Food contributed significantly to inflation, offset by the energy price decline. With core inflation still elevated, Banxico is expected to maintain the 11.25 percent policy rate until the end of 2023.

Monetary poverty measured by the upper-middle income global threshold (US$6.85 a day, 2017 PPP) declined from 32.5 to 23.4 percent between 2020 and 2022, a trend similar to the official monetary poverty measure. This decline resulted from an increase in real household income (11 percent) due to labor earnings, which grew 14.3 percent, followed by transfers (including pensions, remittances, and social assistance), which rose 8 percent. Household income growth was solid among poorer households (18.3 and 16.6 percent in the first and second income deciles), reducing income inequality. However, average income differentials between states, the urban/rural divide, and gender, ethnicity, and disability gaps persist.

The overall fiscal deficit in 2023H1 was 3.2 percent of GDP. Public sector revenues declined due to lower oil revenues, offset by the termination of tax subsidies introduced to contain gasoline prices. On the expenditure side, financial costs increased by 42.9 percent y-o-y in 2023H1. Mexico's credit rating remains investment grade, while PEMEX continues with a non-investment grade from most agencies.

Outlook

The economy is expected to expand by 3.2 percent in 2023, 2.5 in 2024, and 2.0 percent in 2025. Services, manufacturing, and construction sectors will be the main contributors. Despite high-interest rates, growth in 2023 and early 2024 will be supported by a favorable exchange rate, a robust labor market, and lower inflation that will boost consumption and investment, while U.S. dynamism will drive exports and FDI. The economy will slow down in 2024 in line with the U.S. economy and reflect the strong peso. Inflation is expected to fall within the target band (3 percent ± 1 percent) in 2024Q1.

The 2024 public budget proposes a 5.4 percent of GDP overall fiscal deficit in 2024. This will be driven by increased expenditures, mainly social programs, public investment, and financial costs. As investment projects are completed, and debt service costs normalize, the fiscal deficit will reach 3.1 percent of GDP by 2025.

Monetary poverty measured by the upper-middle income global threshold is expected to reach 22.5 percent in 2023, 22.0 in 2024, and 21.6 percent in 2025, as the economy converges to its potential growth rate.

Risks are balanced. Persistent high interest rates could reduce investment and consumption, and add fiscal pressures. Lower-than-expected economic growth or tighter-than-anticipated monetary policy in the U.S. could reduce exports, FDI, and remittances. On the fiscal side, the absence of revenue-enhancing measures may lead to reduced spending on education and infrastructure in the medium term. Upcoming elections may create short-term policy uncertainty, mitigated by solid trade and investment links. El Niño could affect agricultural production and increase international commodity prices. Critical public investments and reforms could accelerate nearshoring and FDI under the Inflation Reduction Act.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-8.7	5.8	3.9	3.2	2.5	2.0
Private consumption	-10.6	8.1	6.2	3.0	2.1	2.0
Government consumption	-0.7	-0.5	1.3	0.5	1.3	-0.3
Gross fixed capital investment	-17.3	9.3	8.6	7.2	3.9	3.2
Exports, goods and services	-7.0	7.2	9.0	-2.5	3.6	5.0
Imports, goods and services	-12.0	15.0	8.9	-1.4	3.1	4.8
Real GDP growth, at constant factor prices	-8.3	5.5	3.8	3.2	2.5	2.0
Agriculture	1.1	2.3	2.9	1.1	1.6	1.7
Industry	-9.2	6.7	5.0	3.9	2.4	1.6
Services	-8.4	5.1	3.1	3.0	2.6	2.2
Inflation (consumer price index)	3.4	5.7	7.9	5.4	3.8	3.5
Current account balance (% of GDP)	2.0	-0.6	-1.2	-1.7	-1.6	-1.5
Net foreign direct investment inflow (% of GDP)	-2.4	-2.6	-1.5	-1.8	-1.9	-2.0
Fiscal balance (% of GDP)	-3.8	-3.8	-4.3	-3.8	-5.4	-3.1
Revenues (% of GDP)	22.2	22.4	22.4	21.9	21.3	21.0
Debt (% of GDP)	50.2	49.2	47.7	46.4	48.8	49.2
Primary balance (% of GDP)	-1.0	-1.2	-1.5	-0.6	-1.7	0.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.1	..	1.6	1.6	1.5	1.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	9.9	..	5.6	5.4	5.3	5.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	32.5	..	23.4	22.5	22.0	21.6
GHG emissions growth (mtCO2e)	-2.8	2.4	0.7	0.6	0.6	0.5
Energy related GHG emissions (% of total)	63.2	63.6	63.1	62.6	62.1	61.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on SEDLAC harmonization, using 2020-ENIGHNS. 2022 is based on preliminary harmonized data. Actual data: 2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2022) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

NICARAGUA

Table 1	2022
Population, million	6.9
GDP, current US$ billion	15.7
GDP per capita, current US$	2254.9
International poverty rate ($2.15)[a]	3.9
Lower middle-income poverty rate ($3.65)[a]	14.4
Upper middle-income poverty rate ($6.85)[a]	42.1
Gini index[a]	46.2
School enrollment, primary (% gross)[b]	112.1
Life expectancy at birth, years[b]	73.8
Total GHG emissions (mtCO2e)	39.8

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

Nicaragua's economy is projected to grow at 3.1 percent in 2023, slightly lower than the 2022 rate, due to deceleration in the global economy. Growth is supported by investment and a surge in remittances that fueled the retail sector and softened inflation's impact on consumer purchasing power. Higher remittances, positive employment growth, and lower inflation are expected to reduce poverty. In the medium term, growth is projected to increase as the global economy picks up and inflation falls.

Key conditions and challenges

Nicaragua is a small open economy driven by light manufacturing, services, and agriculture. It has sound macroeconomic management and a prudent fiscal policy. Large-scale public investment (financed by government deposits and external financial assistance) and strong export demand helped Nicaragua recover from the impacts of the sociopolitical crisis of 2018, major hurricanes in 2020, and the COVID-19 pandemic. Real GDP continues its strong performance, surpassing pre-2018 levels. However, welfare impacts from the pandemic lingered as around 10 percent of workers in formal employment in 2019 transitioned to the informal sector by the end of 2021.

Nicaragua has not been able to boost per capita incomes and growth further as low human capital, large infrastructure gaps, and institutional, business, and social challenges have undermined its long-term growth prospects. The country has many opportunities to create a path to sustainable growth, through investment in human capital and promoting value added in the manufacturing and services sector.

Recent developments

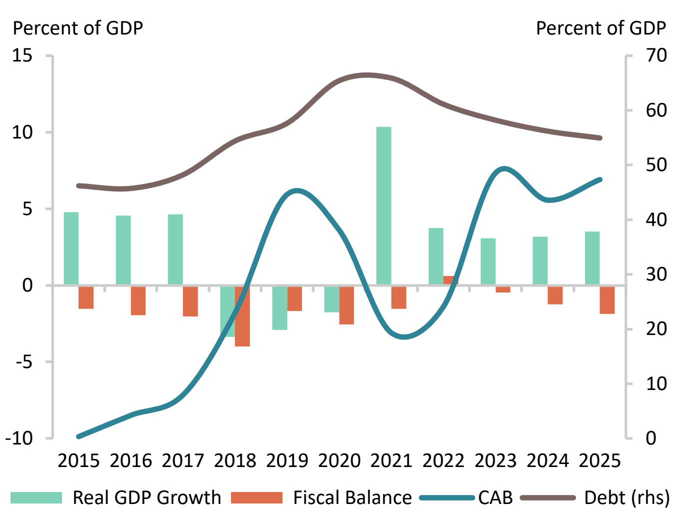
Nicaragua's monthly economic activity increased by 3.7 percent and remittances by 60 percent in the first half of 2023 compared to the same period in 2022. Higher remittances and tourism supported hotels and restaurants, the financial sector, and commerce, which saw the largest improvement in the first half of 2023 together with mining, energy, and water. Deposits continued to grow in the first half of 2023, with a 16.5 percent y-o-y growth, while Banking and Financial System (SBF) credit grew by 18.9 percent during the same period.

In June 2023, y-o-y inflation decreased to 9.87 percent from 10.37 percent, helped by a combination of subsidies, a controlled exchange rate, and a higher policy rate. Food and beverages contributed the most to the inflation in this period (at 5.0 p.p.) followed by restaurants and hotels (1.7 p.p.). Since poor households tend to spend a larger proportion of their income on food than the ones with higher income levels, food price inflation may increase the risk of food insecurity for poorer segments of the population.

As a result of the sustained growth in remittances combined with lower inflation and a modest but positive growth in the employment rate that reached 64.8 percent during the first half of 2023, poverty (US$3.65/day 2017 PPP) is expected to decline to 12.5 percent in 2023 from 13.1 percent in 2022. However, the employment growth rate decelerated during the first half of 2023 relative to the same period in 2022 and remains below pre-pandemic levels (67 percent in 2019).

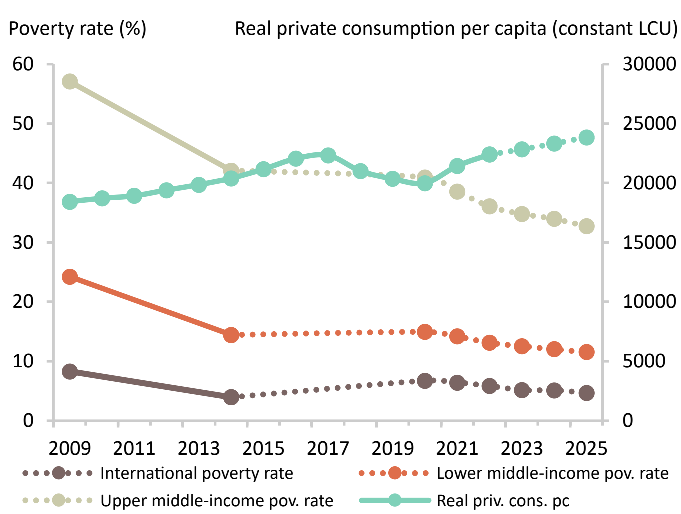
Government revenues increased by 7.3 percent year on year in the first quarter of 2023, driven by tax revenues (6.5 percent) and social contributions (13.6 percent),

FIGURE 1 Nicaragua / Real GDP growth, fiscal balance, current account balance (CAB), and public debt



Sources: Central Bank of Nicaragua and World Bank.

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



Source: World Bank. Notes: see Table 2.

while government expenditures surged by 12.3 percent year on year in the same period, primarily driven by an upswing in wages, procurement of goods and services, transfers, public investment (which saw a remarkable increase of 26.9 percent year on year in the first quarter), and interest payments.

Tourism revenues sustained their strong recovery, with an increase of 23.4 percent in the first quarter of 2023, reaching US$136.5 million. FDI remained robust and was estimated to be at 7 percent of GDP in 2023. In June 2023, international reserves increased to 4,989 million dollars, with a coverage of 3.4 times the monetary base and 7.6 months of imports, further enhancing the capacity of the Central Bank to safeguard the current exchange rate regime.

Outlook

Driven by a higher investment rate, strong recovery in hotels and restaurants, mines and quarries, financial intermediation, energy and water, and commerce, and a historical surge in remittances, Nicaragua is estimated to grow at 3.1 percent in 2023, despite the slowdown in the global economy and the tight monetary policy environment. Remittances are expected to grow at 55 percent in 2023, continuing to support the retail sector and private consumption, following a 50 percent increase in 2022.

Over the medium term, growth is projected to rise modestly, driven by an increase in exports as global economic conditions improve and the continued strong stance of the country in remittances and foreign direct investment. Exports and FDI are expected to benefit substantially from the free trade agreement with China completed on July 25, 2023, which will further boost growth. Inflation is projected to fall gradually in the medium term in line with the fiscal and monetary tightening and decelerating fuel and food prices.

The steady but lower rates of economic growth and strong remittance flows are expected to continue to help reduce poverty but at modest rates. Poverty (US$3.65/day 2017 PPP) is expected to hover around 12 percent in 2024-25.

The external position remained strong. The trade deficit is projected to narrow from 15 percent in 2022 to 12.9 percent of GDP in 2023, and to 9.6 percent by 2025, driven by improvements in terms of trade, strong recovery in tourism, and the exports of gold, sugar, beans, peanut, and dairy, combined with deceleration in imports. FDI flows are expected to be stronger than pre-pandemic levels (at 7 percent of GDP in 2023) and are likely to stabilize at 5.9 percent in the medium term. The current account deficit is expected to turn into a surplus of 7.3 percent of GDP in 2023 due to a historical rise in remittances flow and improvements in the trade deficit. Fiscal consolidation is to moderate starting from 2023 (with a fiscal deficit of 0.5 percent of GDP in 2023, reaching 1.9 percent by 2025), as public expenditures increase at a higher rate than revenues. However, public debt is expected to decline to 58.2 percent in 2023 (from 61.1 in 2022) and to 54.9 percent by 2025, as it grows slower than nominal GDP.

Risks to the country's economic outlook include natural disasters, given its high vulnerability to climate change and natural disasters such as El Niño; deterioration in the business climate; and stricter international sanctions also pose risks to trade and financing flows.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-1.8	10.3	3.8	3.1	3.2	3.5
Private consumption	-0.4	8.7	5.9	3.2	3.3	3.5
Government consumption	2.4	9.3	-6.0	4.1	4.2	4.3
Gross fixed capital investment	11.1	34.3	-4.2	3.2	3.5	3.8
Exports, goods and services	-9.0	18.1	8.6	4.0	4.1	4.4
Imports, goods and services	0.1	21.1	5.0	1.0	2.0	2.0
Real GDP growth, at constant factor prices	-1.8	8.6	4.0	3.1	3.2	3.5
Agriculture	-0.2	6.6	1.7	1.1	1.1	1.2
Industry	-1.5	17.8	2.7	3.3	3.4	3.5
Services	-2.3	5.6	5.3	3.6	3.7	4.2
Inflation (consumer price index)	3.7	4.9	10.5	7.0	5.0	4.0
Current account balance (% of GDP)	3.6	-3.1	-1.4	7.3	5.6	6.9
Net foreign direct investment inflow (% of GDP)	5.6	8.5	8.2	7.0	6.1	5.9
Fiscal Balance (% of GDP)[a]	-2.6	-1.5	0.6	-0.5	-1.2	-1.9
Revenues (% of GDP)	29.6	31.4	31.7	29.6	27.6	25.7
Debt (% of GDP)[b]	65.4	65.9	61.1	58.2	56.2	54.9
Primary Balance (% of GDP)[a]	-1.3	-0.3	1.9	0.9	0.1	-0.6
International poverty rate ($2.15 in 2017 PPP)[c,d]	6.7	6.4	5.8	5.1	5.1	4.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	15.0	14.2	13.1	12.5	12.0	11.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	40.9	38.6	36.1	34.8	34.0	32.7
GHG emissions growth (mtCO2e)	0.6	1.9	1.0	1.4	1.5	1.6
Energy related GHG emissions (% of total)	13.1	13.3	13.1	13.0	12.9	12.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal and Primary Balance correspond to the non-financial public sector.
b/ Debt is total public debt.
c/ Calculations based on SEDLAC harmonization, using 2014-EMNV. Actual data: 2014. Nowcast: 2015-2022. Forecasts are from 2023 to 2025.
d/ Projections using microsimulation methodology.

PANAMA

Table 1	2022
Population, million	4.4
GDP, current US$ billion	73.4
GDP per capita, current US$	16660.5
International poverty rate ($2.15)[a]	1.1
Lower middle-income poverty rate ($3.65)[a]	4.3
Upper middle-income poverty rate ($6.85)[a]	12.9
Gini index[a]	50.9
School enrollment, primary (% gross)[b]	103.0
Life expectancy at birth, years[b]	76.2
Total GHG emissions (mtCO2e)	23.3

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

Panama is expected to grow at 6.3 percent in 2023, supported by construction, transport, the Canal, tourism, services export, and the Colon Free Trade Zone. However, as employment and labor earnings have not recovered fully, poverty reduction is expected to be slow in 2023. Although tax revenues decreased in the first half of 2023, they are expected to increase, and the government is maintaining fiscal consolidation by reducing consumption.

Key conditions and challenges

Panama's economy – an important logistical hub in Central America and an offshore financial center – is based on trade and services. Copper exports have started to play a more important role as the Panama Cobre mine came on stream. Over the past thirty years, the country excelled in job creation, leading to an outstanding decrease in poverty (from 48.2 percent in 1991 to 12.1 percent in 2019 at $6.85 a day per capita, 2017 PPP). However, mega investments that fueled Panama's growth have declined. As a result, unemployment and informality increased between 2017 and 2019 and worsened during Covid-19. Despite a partial recovery in labor markets in 2021-2022, poverty reduction still depends on the government's emergency transfer program Nuevo Panama Solidario (NPPS). Panama's high growth performance has been driven by capital and labor accumulation, rather than total factor productivity (TFP), which is key to maintaining high growth in the long term.

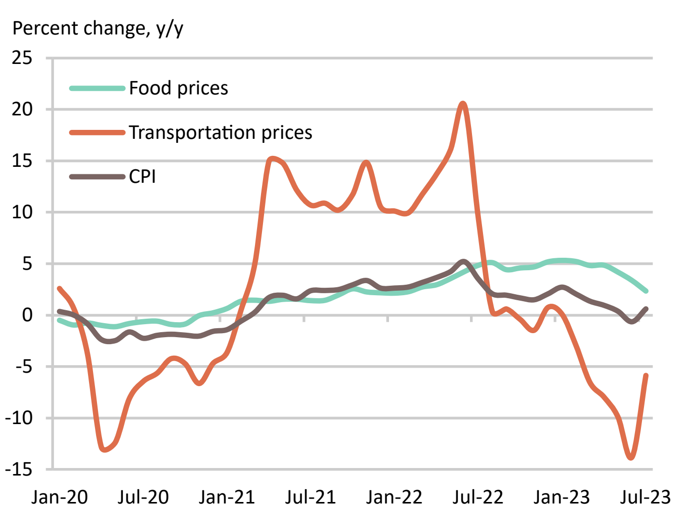
Authorities implemented important reforms in recent years including beneficial ownership information which, in June 2023, led the Financial Action Task Force (FATF) to recognize Panama's progress on all 15 areas of its Action Plan and agree to an on-site visit to verify this progress. Comprehensive reforms in Public Private Partnerships (PPP) and procurement led to an increase in PPP in many important public infrastructure projects. Although Panama remains on the European Union's list of jurisdictions that do not cooperate in tax matters as it has not complied with the international criteria on transparency and exchange of tax information, the government is committed to complying with OECD recommendations on domestic taxbase erosion and profit shifting for the Fall 2023 review.

Recent developments

Panama's GDP grew 10.8 percent in 2022 and remains strong at 7.8 percent in the first quarter of 2023 supported by services, activities in the free trade zone, and construction. Strong economic activity, improvements in labor markets, and a decline in inflation boosted private consumption.

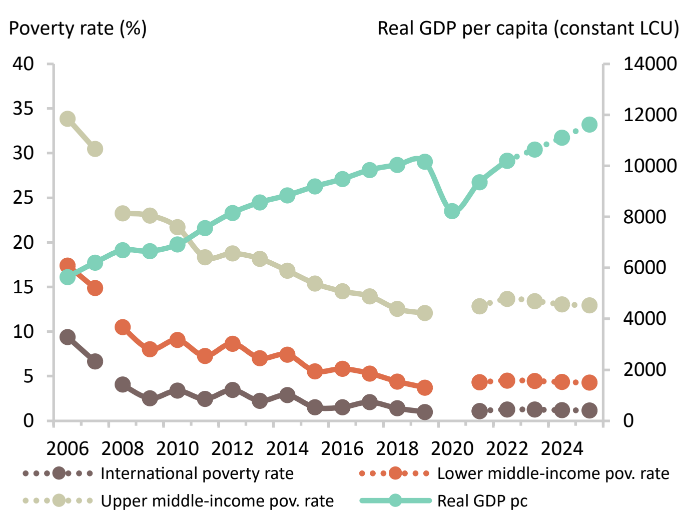
Inflation decreased in the first quarter of 2023 and is estimated to fall to 2.5 percent in 2023, led by a reduction in food and transport prices (Figure 1). In 2022, the employment rate reached 62.3 percent and the unemployment rate decreased to 9.9 percent. According to preliminary results from the 2023 Population Census, the unemployment rate decreased further to 8.9 percent in 2023. However, both employment and unemployment rates are still behind 2019 levels (66.5 and 7.1, respectively). With this, it is estimated that poverty under the upper middle-income poverty line of US$6.85 a day per capita (2017 PPP) decreased by 0.3 percentage points in 2023, reaching 13.4 percent (Figure 2). Moreover,

FIGURE 1 Panama / Total, food and transport inflation



Source: INEC.

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



Source: World Bank. Notes: see Table 2.

informality rates remained high, at 48.2 percent. Therefore, poverty levels are still highly dependent on NPPS: without the program, poverty would have reached 16.1 percent in 2023.

Sustained growth since the pandemic, gradual fiscal consolidation, and low borrowing costs led to a decline in the fiscal deficit and public debt to 3.3 and 59.2 percent of GDP in 2023, respectively. The current account deficit decreased from 4.1 percent of GDP in 2022 to 3.4 percent in 2023, driven by a trade surplus, while FDI reached 4 percent of GDP in 2023 from 3.6 in 2022.

Outlook

Growth is expected to gradually increase from 6.3 in 2023 to 6.5 in 2025 as global economic growth starts to gain strength, oil prices decline, while copper prices remain high. Inflation is projected to decline further from 2.5 percent in 2023 to 2 percent by 2025, as fuel and food prices fall. As labor markets and private consumption recover, and with NPPS reducing its base of beneficiaries but continuing to support vulnerable households, poverty rates (US$6.85 a day per capita, 2017 PPP) are expected to continue decreasing and reach 12.9 percent by 2025, closer to the pre-pandemic level of 2019 (12.1 percent). The careful targeting of NPPS is key for both poverty reduction and spending efficiency.

The current account deficit is expected to narrow to 3.4 percent of GDP in 2023 on the back of higher services exports and copper prices and lower fuel prices, before reaching 3 percent in the medium term. FDI inflows are forecast to stabilize at 4 percent of GDP by 2025, fully covering the current account deficit.

The fiscal deficit is expected to decline further, through higher Canal revenues due to tariff hikes despite lower-than-expected Canal traffic because of the drought, and contained current spending, especially the public wage bill. In the medium term, Panama will likely require additional fiscal reforms to meet the targets set by the Social and Fiscal Responsibility Law (SFRL), including pension and tax reforms. The deficit of the defined benefit pension system was about 1.1 percent of GDP in 2022 and was financed through the pension fund's reserves and an escrow fund. But these reserves will run out by early 2025 and in the absence of a reform, the deficit will be financed through debt. The public debt and fiscal deficit are projected to decrease to 55.3 and 1.5 percent of GDP by 2025, respectively. Public debt cost and risks are relatively low: More than 81 percent of public debt has fixed interest rates and its average maturity is 13.9 years. Panama has good access to capital markets as a dollarized economy with a stable macroeconomic environment, investment grade, and low sovereign spread. Economic risks could arise from: the design of pension reforms needed to curb the actuarial deficit of the Defined Benefit Subsystem, inefficiencies in tax administration, and climate shocks, including increased frequency and intensity of El Niño.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-17.7	15.8	10.8	6.3	6.4	6.5
Private consumption	-15.9	7.0	10.9	5.7	6.7	6.8
Government consumption	16.2	9.8	6.3	5.9	5.7	5.6
Gross fixed capital investment	-49.3	29.6	20.1	14.3	13.8	13.5
Exports, goods and services	-20.6	20.6	12.7	8.5	8.0	7.9
Imports, goods and services	-34.0	25.2	12.5	9.0	8.1	8.2
Real GDP growth, at constant factor prices	-17.2	15.7	11.7	6.3	6.4	6.5
Agriculture	1.9	4.7	5.2	2.5	2.0	2.0
Industry	-34.7	30.2	12.3	3.7	3.9	4.1
Services	-10.7	11.7	11.8	7.4	7.4	7.5
Inflation (consumer price index)	-1.6	1.6	2.9	2.5	2.5	2.0
Current account balance (% of GDP)	-0.3	-3.0	-4.1	-3.4	-3.0	-3.0
Net foreign direct investment inflow (% of GDP)	0.1	2.4	3.6	4.0	4.1	4.0
Fiscal balance (% of GDP)	-9.7	-6.4	-4.1	-3.3	-2.7	-1.5
Revenues (% of GDP)	17.3	17.3	18.1	17.6	17.8	18.2
Debt (% of GDP)	64.7	60.1	60.3	59.2	56.7	55.3
Primary balance (% of GDP)	-7.2	-4.2	-2.3	-1.0	-0.8	0.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.3	1.1	1.3	1.3	1.2	1.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	4.7	4.3	4.5	4.5	4.4	4.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	14.1	12.9	13.7	13.4	13.0	12.9
GHG emissions growth (mtCO2e)	-13.3	-1.0	7.2	35.2	2.1	2.7
Energy related GHG emissions (% of total)	46.4	43.8	46.7	60.0	60.2	60.6

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 SEDLAC harmonization, using 2019 and 2021 EML. Actual data: 2019 and 2021. Nowcast: 2020 and 2022. Forecasts are from 2023 to 2025.
b/ Projections using microsimulation methodology.

PARAGUAY

Table 1	2022
Population, million	6.8
GDP, current US$ billion	41.7
GDP per capita, current US$	6153.1
International poverty rate ($2.15)[a]	1.3
Lower middle-income poverty rate ($3.65)[a]	5.6
Upper middle-income poverty rate ($6.85)[a]	19.9
Gini index[a]	45.1
School enrollment, primary (% gross)[b]	89.7
Life expectancy at birth, years[b]	70.3
Total GHG emissions (mtCO2e)	97.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ WDI for School enrollment (2015); Life expectancy (2021).

Paraguay's economy is expected to grow by 4.8 percent as favorable weather supports agriculture and hydropower production. Poverty is expected to fall as inflation recedes but remains high at 19.5 percent. Reforms to boost private sector job creation, productivity growth, and resilience to climate-related shocks would help Paraguay accelerate growth and poverty reduction. To be sustained, these gains would require improved governance and more efficient management of Paraguay's natural resources.

Key conditions and challenges

Despite abundant natural resources, favorable demographics, and macroeconomic stability, Paraguay's development progress had stalled even before the COVID-19 pandemic. Per capita income growth averaged 3.3 percent annually between 2002-2013, decelerated to 1.9 percent between 2013-2019, and subsequently fell by 0.2 percent between 2019-2022. Average labor incomes have fallen since 2013 due to recurrent external shocks, leading a fifth of the population – mostly in rural areas – to remain poor (using the US$6.85 international poverty line).

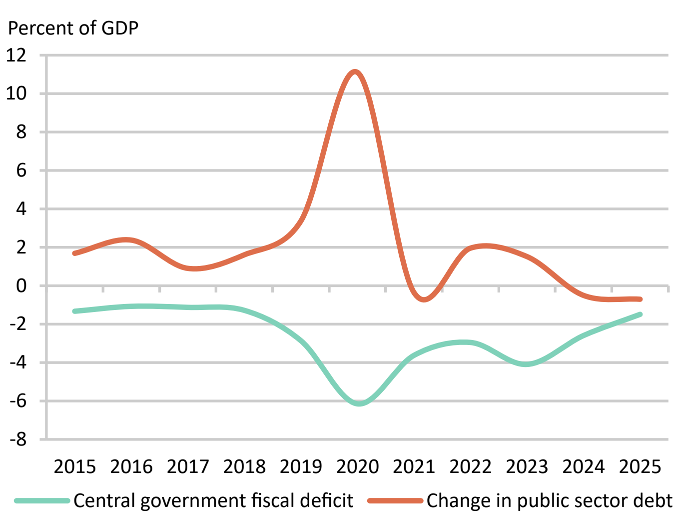
High volatility and low productivity growth constrain faster, more inclusive growth. With commodity-dependent sectors contributing a third of output and three-quarters of direct exports, growth is highly vulnerable to unpredictable weather patterns and shifts in commodity prices. To reignite growth and poverty reduction, Paraguay needs to strengthen its institutions and invest in infrastructure, human capital, and adaptation to climate-related shocks. While macroeconomic stability is essential, Paraguay needs to create the fiscal space to invest and grow. Efforts to make public spending more efficient will help, but Paraguay also needs to explore options to improve domestic revenue collection and public service delivery. Removing barriers for firms to enter markets, grow, and innovate would boost productivity and growth, creating more and better jobs.

Recent developments

After zero growth in 2022, real GDP grew by 5.2 percent y-o-y in the first quarter of 2023 as favorable weather supported robust soybean and hydropower production. Excluding these sectors, growth contracted by 0.2 percent y-o-y, reflecting sluggish construction activity as private and public investment fell. The large positive contribution from net exports to growth offset the slump in fixed investment. The recovery led the unemployment rate to fall to 6.5 percent (from 8.5 percent in Q1 2022), but women remained three times more likely to be under-/unemployed than men in rural areas and their monthly earnings are 60 percent lower.

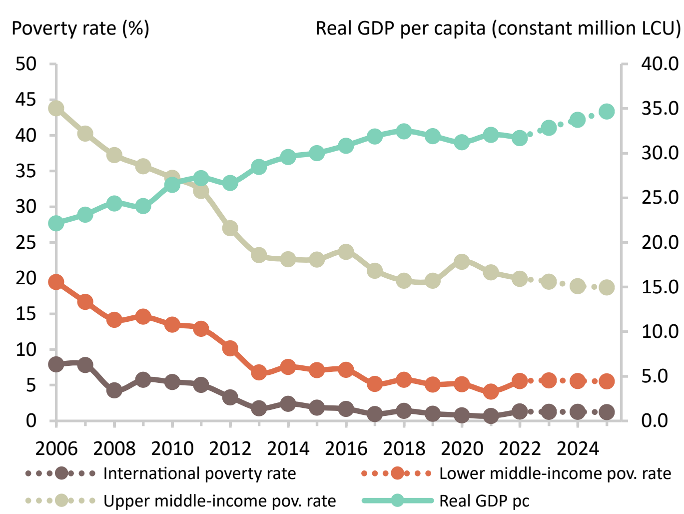
The recovery in soy and hydropower exports led the merchandise trade balance to record a healthy surplus of US$1.2 billion or 2.6 percent of GDP in the first half of 2023 (H1 2022: -0.5 percent of GDP). The drought in Argentina boosted demand for Paraguayan soybeans, leading nominal exports to grow 21 percent y-o-y. Nominal imports only grew by 1.2 percent as Paraguay imported less fuel and construction materials, and as global fuel prices moderated. The Guaraní appreciated marginally (0.6 percent) against the US dollar over the same period. Reserves stood at US$9.8 billion in early August, equivalent to 6.9 months of goods and services imports.

FIGURE 1 Paraguay / Fiscal deficit and public debt



Sources: Ministry of Economy and Finance and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

Lower fuel prices prompted steady disinflation. The consumer price index rose by 3.5 percent y-o-y in July, below the Central Bank's 4 percent target mid-point for the first time since April 2021. Core inflation also fell to 5.6 percent y-o-y. In August, the Central Bank cut the policy rate to 8.25 percent from 8.5 percent, where it had stood since September 2022.

The 12-month cumulative fiscal deficit widened to 3.4 percent of GDP as at the end of July 2023 from 3 percent at end-2022. Nominal revenues only grew by 4.3 percent y-o-y as corporate income tax collections declined, reflecting lower profits in 2022. Nominal expenditures rose 12 percent y-o-y, driven by increased social transfers and material expenses. Interest payments on external debt almost doubled as a third of the portfolio is subject to variable interest rates. Public debt remained steady at an estimated 35.7 percent of GDP at the end of July.

The drought, high inflation, and lower pandemic-related transfers led the share of people living under the US$3.65 poverty line to increase from 4.1 to 5.6 percent between 2021 and 2022. As inflation eroded the purchasing power of the poorest households, inequality is estimated to have increased to 45.1 Gini points.

Outlook

The economy is expected to grow by 4.8 percent in 2023, assuming no major disruptions to agriculture production. Fixed investment growth is forecast to contract in 2023 as tight financing conditions persist, but large private investments are expected to drive a strong recovery in 2024-2025. Private consumption is expected to accelerate as inflation moderates to an average of 4.8 percent in 2023 and to 4 percent thereafter. Poverty is expected to decline to 19.5 percent in 2023 and below 19 percent in 2024-2025. High informality and underemployment prevent growth from reducing poverty and inequality more significantly.

The fiscal deficit is expected to widen to 4.1 percent of GDP in 2023, above the government's target of 2.3 percent, as the government plans to settle arrears to government suppliers estimated at 1.1 percent of GDP. New financing to cover these payments is expected to increase public debt to 37.6 percent of GDP. Fiscal consolidation is nonetheless expected to continue towards the legal fiscal deficit target of 1.5 percent of GDP, albeit at a slower pace. Given the government's stated intention to rely mostly on expenditure cuts to achieve this consolidation, public consumption, and investment are expected to contract significantly in 2024-2025.

The current account is expected to register a surplus in 2023 but revert to a small deficit thereafter as imports of machinery and capital goods increase alongside the implementation of large private investments.

The El Niño phenomenon typically results in above-average rainfall in the Southern Cone, favoring soybean and hydropower production, but more humid conditions could bring crop diseases that affect agricultural production and rural incomes. Heavy flooding, as experienced in 2015, could disrupt construction activity and may increase poverty. Should global fuel prices remain elevated, lingering inflation could slow the monetary easing cycle, dampening the pace of growth and poverty reduction.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-0.8	4.0	0.1	4.8	4.0	4.0
Private consumption	-3.6	6.1	2.2	3.0	3.8	3.8
Government consumption	5.1	2.6	-5.7	2.6	-1.0	-2.8
Gross fixed capital investment	5.3	18.2	-2.3	-4.2	7.0	9.8
Exports, goods and services	-9.0	2.1	-1.6	13.0	4.0	4.0
Imports, goods and services	-15.2	21.8	5.6	2.2	3.2	4.4
Real GDP growth, at constant factor prices	-0.5	3.6	0.0	4.8	4.0	4.0
Agriculture	7.4	-11.6	-8.7	20.0	6.0	6.0
Industry	0.7	5.0	0.4	2.2	3.0	3.0
Services	-3.1	6.5	1.6	3.7	4.2	4.2
Inflation (consumer price index)	1.8	4.8	9.8	4.8	4.0	4.0
Current account balance (% of GDP)	2.0	-0.8	-6.7	0.3	-0.4	-0.7
Net foreign direct investment inflow (% of GDP)	0.3	0.2	0.5	0.8	1.4	1.4
Fiscal balance (% of GDP)	-6.1	-3.6	-3.0	-4.1	-2.6	-1.5
Revenues (% of GDP)	13.5	13.7	14.1	13.3	14.1	14.1
Debt (% of GDP)	34.5	34.1	36.1	37.6	37.1	36.4
Primary balance (% of GDP)	-5.1	-2.5	-1.7	-2.4	-1.0	-0.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.8	0.7	1.3	1.3	1.3	1.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	5.2	4.1	5.6	5.7	5.6	5.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	22.3	20.8	19.9	19.5	18.9	18.7
GHG emissions growth (mtCO2e)	0.7	1.1	-0.7	1.0	1.8	1.7
Energy related GHG emissions (% of total)	8.5	9.5	9.7	9.7	10.0	10.3

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 SEDLAC harmonization, using 2022-EPH. Actual data: 2022. Forecasts are from 2023 to 2025.
b/ Projections using microsimulation methodology.

PERU

Table 1	2022
Population, million	34.0
GDP, current US$ billion	242.9
GDP per capita, current US$	7133.1
International poverty rate ($2.15)[a]	2.9
Lower middle-income poverty rate ($3.65)[a]	10.2
Upper middle-income poverty rate ($6.85)[a]	33.7
Gini index[a]	40.2
School enrollment, primary (% gross)[b]	121.9
Life expectancy at birth, years[b]	72.4
Total GHG emissions (mtCO2e)	182.3

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

Peru´s GDP medium-term projection reflects a slowdown in potential growth, linked to COVID-19´s scarring effects, and more challenging international and political contexts. Poverty is projected to remain stagnant, consistent with lower inflation and limited growth. Risks include the potential intensification of El Niño or political uncertainty. Overcoming structural challenges related to low-productivity jobs and low-quality public services is critical to boosting long-term growth and poverty reduction.

Key conditions and challenges

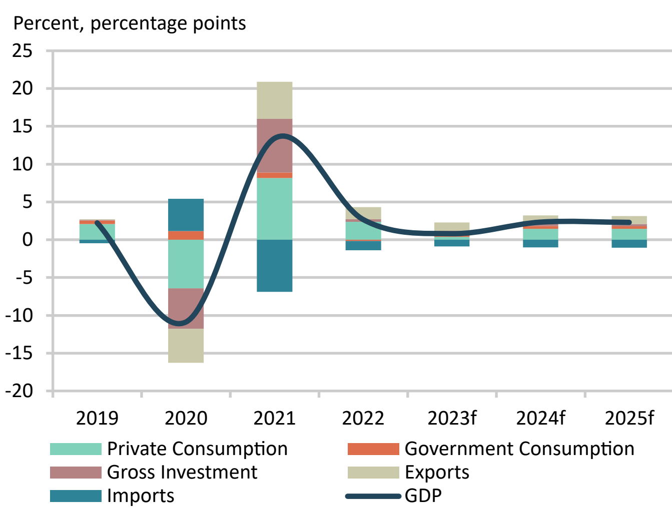
Peru has a strong record of prudent macroeconomic policies, which combined with a relatively sound business environment, supported rapid growth over the past decades. The macroeconomic environment remains stable with low public debt, ample international reserves, and a credible central bank. The financial system is well-capitalized and recent stress testing indicates it is well-placed to endure liquidity shocks. Peru is highly vulnerable to climate change, due to its exposure to natural hazards, and its reliance on freshwater from glaciers. Unaddressed structural constraints limit the creation of formal jobs, economic diversification, and the pace of poverty and inequality reduction. Well-paid formal jobs are accessible only to a minority of the population. By 2022, 31 percent of Peruvians lived in households with income below the poverty line (US$ 6.85 per capita per day), mainly due to low-paid jobs and the lack of adequate social protection. An additional 39 percent were at risk of falling into poverty. Also, half of its population was moderately food insecure -twice as many as before the pandemic- and more than one in five were severely food insecure. Better quality of public services, stronger governance, a sound business environment, and political stability will be critical for higher and inclusive growth that promotes poverty and inequality reduction.

Recent developments

GDP contracted by 0.5 percent in the first half of 2023, due to political uncertainty, social unrest, and the occurrence of El Niño phenomenon. Political uncertainty and tightened financial conditions depressed private spending. El Niño, protests and road blockades impaired the execution of public investment, disrupted agriculture and fishing, and delayed the recovery of tourism. On the upside, a surge in exports by Quellaveco, which explains more than 10 percent of domestic copper production, boosted growth. Also, the labor market showed signs of recovery; employment in firms with more than 50 workers increased 10 percent and average salaries increased 4.5 percent in real terms. By July, annualized government revenues were 1.6 percentage points of GDP lower than in 2022, mainly due to lower collection of corporate income taxes and value-added taxes, owing to a correction in mining prices and lower economic activity. The annualized public deficit increased to 2.5 percent of GDP, slightly above the amended fiscal target for 2023. Both, public debt (34 percent of GDP) and sovereign spreads (at around 165 basis points) remain among the lowest in the region.

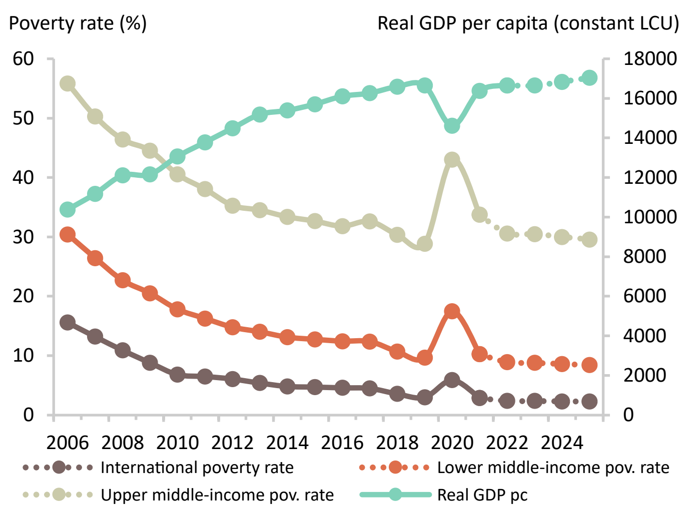
Inflation declined from 8.5 percent in December to 5.9 percent in July, still above the 1-3 percent target range. This was the result of the Central Bank's proactive monetary tightening and a decline in global fuel prices, attenuated by high food inflation, caused by reduced agricultural production

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



Sources: BCRP and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

due to El Niño. Excluding more volatile food and energy prices, inflation stood at 3.9 percent and inflationary expectations fell to 3.6 percent. The Central Bank lowered its policy rate to 7.50 percent in September, after keeping it unaltered at 7.75 percent for eight consecutive months.

The annualized current account deficit shrank to 1.9 percent of GDP by June 2023, from 4 percent last year, mainly due to a lower value of imports, in the context of contracting domestic demand and lower fuel prices. The local currency appreciated almost 5 percent in the first semester, in line with the global decline of the dollar.

Outlook

After the first semester contraction, GDP growth is expected to be just below one percent in 2023. The second-half recovery would be driven by higher exports as mining prices remain supportive and Quellaveco ramps up output. However, weak business confidence will keep private spending sluggish. Public spending will be restricted by lower revenues and capacity constraints. Over the medium term, GDP is expected to increase at around 2.3 percent annually, supported by exports, as new mines (Quellaveco, Toromocho enlargement) gradually reach their maximum production capacity. Political uncertainty would be lower, hence an improvement in business confidence and private investment is expected since 2024. Gradual monetary easing would also support private spending. Potential growth is expected to be below pre-pandemic years, as, albeit easing, still persistent political uncertainty hampers the definition of a reform agenda, and growth slows down in China, Peru's main trading partner. Poverty is expected to decline slightly since 2024, as growth improves and labor income recovers.

Peru would preserve its fiscal discipline and the 2023 public deficit is expected to be anchored in the fiscal rule of 2.4 percent, despite lower revenues. Revenues would rebound slightly in 2024-25, aided by the expiration of temporary tax expenditures, supportive mining prices, administrative measures implemented in recent years, and domestic demand growth. This will allow for a fiscal consolidation with a moderate effort on expenditure. Public debt is projected to remain stable at around 34 percent of GDP.

Annual inflation is expected to converge to its 1-3 percent target range in 2024, supported by the dissipation of output shocks, the moderate expansion of domestic demand, and tightened monetary policy. An expected decline in inflation expectations would allow for a flexibilization of monetary policy in the coming months.

The current account deficit would gradually decline, reflecting export-led growth and moderate inflows of FDI, which is expected to remain above 2 percent of GDP, as some mining projects finalize and others medium-size projects initiate (Corani, Antamina reposition, Taromocho enlargement phase 2).

Risks are tilted to the downside. Domestic risks include continued political uncertainty, which could undermine private investment and eventually exports. A slower fall in inflation would delay the relaxation of financial conditions and the recovery of domestic demand. A stronger El Niño would affect agriculture and fishing and might also attenuate the expected decline in inflation and poverty. External risks include a faster-than-projected slowdown in the global economy, declining commodity prices, higher food and energy prices, and increased risks from climate change.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-10.9	13.4	2.7	0.8	2.3	2.3
Private consumption	-9.9	12.4	3.6	0.6	2.2	2.2
Government consumption	9.1	4.7	-1.1	3.7	2.7	2.5
Gross fixed capital investment	-16.0	33.0	0.8	-1.3	2.0	2.4
Exports, goods and services	-16.4	19.2	5.9	4.1	3.8	3.6
Imports, goods and services	-15.4	26.3	4.2	3.0	3.4	3.5
Real GDP growth, at constant factor prices	-10.8	13.1	2.5	0.8	2.3	2.3
Agriculture	1.0	5.3	3.0	0.1	1.5	2.0
Industry	-13.0	17.1	1.3	1.5	2.0	2.0
Services	-10.7	11.6	3.3	0.5	2.7	2.5
Inflation (consumer price index)	1.8	4.0	7.9	6.3	2.2	2.1
Current account balance (% of GDP)	1.1	-2.2	-4.0	-2.7	-2.5	-2.4
Net foreign direct investment inflow (% of GDP)	-0.4	2.5	4.6	2.3	2.5	2.5
Fiscal balance (% of GDP)	-8.9	-2.5	-1.7	-2.4	-2.0	-1.5
Revenues (% of GDP)	17.4	21.1	21.9	20.7	21.0	21.0
Debt (% of GDP)	34.6	35.9	33.8	33.5	34.2	34.1
Primary balance (% of GDP)	-7.3	-1.0	-0.1	-1.0	-0.6	-0.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	5.9	2.9	2.4	2.4	2.3	2.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	17.5	10.2	8.9	8.8	8.6	8.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	43.0	33.7	30.6	30.5	30.0	29.6
GHG emissions growth (mtCO2e)	-4.8	0.6	-0.2	-0.5	-0.2	-0.1
Energy related GHG emissions (% of total)	25.5	25.5	25.1	24.6	24.3	24.1

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 SEDLAC harmonization, using 2021-ENAHO. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.
b/ Projections using microsimulation methodology.

SAINT LUCIA

Table 1	2022
Population, million	0.2
GDP, current US$ billion	2.3
GDP per capita, current US$	12723.5
International poverty rate ($2.15)[a]	5.1
Lower middle-income poverty rate ($3.65)[a]	11.7
Upper middle-income poverty rate ($6.85)[a]	25.3
Gini index[a]	51.2
School enrollment, primary (% gross)[b]	101.1
Life expectancy at birth, years[b]	71.1
Total GHG emissions (mtCO2e)	0.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2021).

After two years of a strong rebound, real GDP growth is estimated to moderate in 2023. Inflation is estimated to have increased in 2022 due to higher import prices, likely slowing gains in poverty reduction and raising the cost of pipeline investment projects. Public finances remain concerning, given the high public debt and large financing needs. Downside risks remain high, including those related to natural disasters.

Key conditions and challenges

Saint Lucia is a small open island economy, highly dependent on tourism. Frequent natural disasters and the effects of climate change cause significant socioeconomic losses. Before the pandemic, economic growth had been volatile and relatively low, averaging 1.4 percent between 2010 and 2019. About 1 in 4 Saint Lucians were poor in 2016 (the latest year with data available and using the $6.85 poverty line, 2017 Purchasing Power Parity). The poor and vulnerable groups include female-headed households with small children, the elderly, and people living in hazard-prone communities. In line with the slow growth dynamics, no meaningful reductions in poverty are expected in the period leading up to the pandemic. However, the pandemic-related crisis and the subsequent surge in food/fuel prices are likely to have increased poverty.

Pandemic-related spending, low revenues, and public investment projects to support growth led to a rapid rise in public debt in 2020. Public debt has been declining in terms of GDP. However, high debt services costs will limit the government's capacity to provide public services and finance critical development projects in the near term. The government has committed to implementing several revenue enhancement measures, but additional reforms should be explored to reduce inefficiencies in the tax incentive regime, especially in the tourism sector. Given the limited fiscal resources, prioritizing and efficiently implementing key investment projects will be critical.

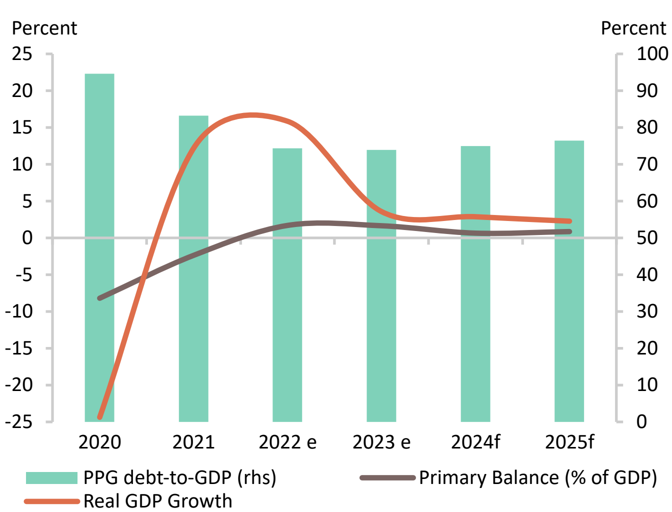
Though liquidity in the banking sector remained sizable, the buildup of non-performing loans and gaps in Anti-Money Laundering / Countering the Financing of Terrorism compliance impeded credit intermediation. The pegged exchange rate under the Eastern Caribbean Currency Union helped maintain low inflation before the pandemic and anchored price stability.

Recent developments

Economic growth accelerated in 2022, driven by a buoyant tourism and construction sector. Stayover tourism increased by 79.0 percent from 2021 to 2022 and 11.5 percent in the first quarter of 2023, but it is still 16.0 percent below the 2019 level. However, the United Kingdom (UK) trade suspension depressed banana and other agricultural exports. A labor market recovery, reflected in a decline in the official unemployment rate from 23.0 percent in 2021 (Q2) to 17.5 percent in Q2 of 2022, helped bring down poverty.

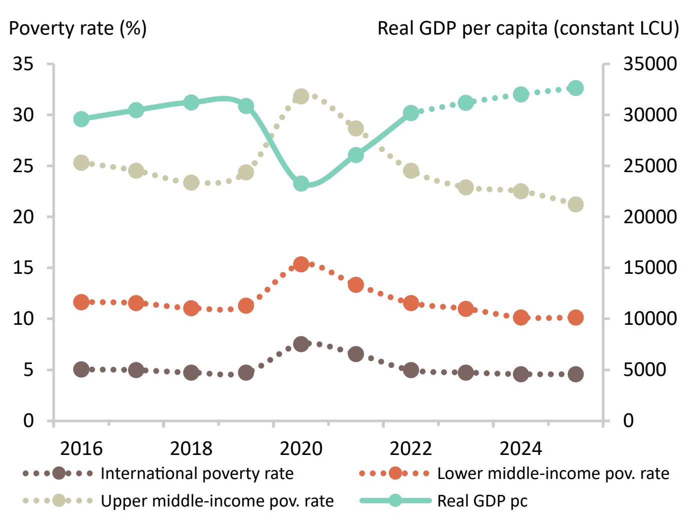
The current account deficit continued to narrow to 2.3 percent in terms of GDP in 2022 as the recovery in tourism outpaced higher costs of food and fuel imports due to global inflationary pressures. Remittances in 2022 are estimated to have fallen slightly from the peak in 2021 but remained above their pre-pandemic level.

FIGURE 1 Saint Lucia / Key macroeconomic variables



Source: World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

Foreign direct investment inflows are estimated to have exceeded the 2019 level in 2022, owing to the increased investment in tourism-related sectors. International reserves fell to 2.9 months of imports in 2022. Inflation accelerated to an estimated 6.5 percent in 2022 as a result of the economic recovery and increased import prices, and it started moderating in early 2023. High inflation has put pressure on living costs, especially for the most vulnerable, with negative impacts on food security. The Caribbean COVID-19 Food Security & Livelihoods Impact Survey shows that Saint Lucians experienced worsening food insecurity indicators in 2022 after facing successive crises and shocks over the last few years. The financial sector showed signs of growth in its deposits, nonetheless, risks are elevated.

The fiscal deficit narrowed in 2022, while the primary balance displayed a surplus for the first time since 2019. Higher tax revenues drove this improvement due to elevated commodity prices and the rebound in economic activity. Furthermore, the primary surplus and output growth lowered the public debt-to-GDP ratio significantly in 2022 to an estimated 74.4 percent from 83.3 percent in 2021. Public sector gross financing needs declined to around 22.0 percent of GDP in 2022, down from 35.0 percent in 2021, and were financed by commercial, bilateral, and multilateral creditors.

Outlook

Real output growth is projected to moderate to 3.6 percent in 2023 and will slow further over the medium term. Output growth is expected to be supported by a further increase in tourist arrivals and investment in major construction projects that are expected to peak in 2024, such as the airport renovation and construction of several major hotels. Agriculture is expected to remain sluggish in the medium term. Poverty is expected to continue the downward trend, although it will reduce its pace in the medium term. Inflationary pressures are expected to ease over the medium term.

The primary fiscal surplus is projected to be 1.7 percent of GDP in 2023, with an average of 1.1 percent over the medium term, as the government implements tax enhancement measures and improves tax administration. Interest payments are projected to remain stable at around 3.2 percent of GDP over the projection period, reflected in the overall deficit, which averages 2.1 percent of GDP over the medium term. Public debt is projected to marginally increase as the government issues new debt to finance infrastructure projects.

Risks are tilted to the downside and include: (i) delayed implementation of fiscal consolidation measures; (ii) more profound economic deceleration in the main tourism source countries; (iii) tightening financial conditions; (iv) natural disasters; and (v) climate change. The materialization of downside risks could hamper economic growth and poverty reduction. As a result, it will further constrain the government's ability to finance social programs and investments for physical and human capital accumulation. The government should commit further to growth-enhancing structural reforms, resilience to natural disasters, and fiscal reforms, which should eventually support bringing down public debt. Furthermore, lingering socioeconomic impacts from the pandemic, compounded by recent increases in living costs, call for continued efforts to improve safety nets.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices[a]	-24.4	12.2	15.9	3.6	2.9	2.3
Real GDP growth, at constant factor prices[a]	-24.6	11.5	14.5	3.6	2.9	2.3
Agriculture	-12.5	-2.8	9.7	0.0	0.5	1.2
Industry	-15.5	3.9	-1.2	3.0	5.0	2.0
Services	-28.3	15.5	20.6	4.0	2.4	2.4
Inflation (consumer price index)	-1.8	2.4	6.5	4.3	2.1	2.0
Current account balance (% of GDP)	-15.3	-7.0	-2.3	-0.8	-0.6	-0.3
Fiscal Balance (% of GDP)[b]	-12.2	-5.8	-1.3	-1.5	-2.5	-2.3
Revenues (% of GDP)	22.4	22.6	21.9	22.6	21.6	20.9
Debt (% of GDP)[b]	94.6	83.3	74.4	73.9	75.0	76.5
Primary Balance (% of GDP)[b]	-8.2	-2.4	1.7	1.7	0.7	0.9
International poverty rate ($2.15 in 2017 PPP)[c,d]	7.5	6.6	5.0	4.7	4.6	4.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	15.3	13.3	11.6	11.0	10.1	10.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	31.8	28.7	24.5	22.9	22.5	21.2
GHG emissions growth (mtCO2e)	-32.9	27.9	31.0	9.8	6.3	5.3
Energy related GHG emissions (% of total)	77.1	74.4	71.5	70.6	70.0	69.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Growth projections for 2021-23 remain sensitive to uncertainties surrounding the timing of the vaccine roll-out and the recovery in tourism.
b/ Fiscal balances are reported in fiscal years (April 1st -March 31st).
c/ Calculations based on SEDLAC harmonization, using 2016-SLC-HBS. Actual data: 2016. Nowcast: 2017-2022. Forecasts are from 2023 to 2025.
d/ Projection using neutral distribution (2016) with pass-through = 0.87 based on GDP per capita in constant LCU.

ST. VINCENT AND THE GRENADINES

Table 1	2022
Population, million	0.1
GDP, current US$ billion	0.9
GDP per capita, current US$	9125.3
School enrollment, primary (% gross)[a]	112.8
Life expectancy at birth, years[a]	69.6
Total GHG emissions (mtCO2e)	0.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2021).

Growth resumed in 2022 and 2023 following COVID-19 and volcanic disruptions in 2020 and 2021. Tourism is performing well. Still, poverty is expected to have remained above its pre-pandemic level. After several years of primary surpluses, recent shocks have exerted pressure on public finances, further compounded by ambitious public investment plans. Natural disasters pose additional risk. Though public debt is sustainable, the risk of debt distress remains high.

Key conditions and challenges

St. Vincent and the Grenadines (SVG) is a small island developing state particularly vulnerable to climate change, external economic shocks, and natural disasters. Prior to the pandemic, SVG was upgrading essential infrastructure to lay the foundation for stronger growth and economic diversification, including the completion of a new international airport, modernization of the seaport, and construction of a new hospital. To ensure the sustainability of these essential investments, fiscal consolidation commenced, and primary fiscal surpluses were achieved from 2016 through 2019. However, the COVID-19 shock and the volcanic eruptions disrupted this fiscal reform agenda, and deficits and public debt have increased. The challenge will be to reduce fiscal deficits while directing limited fiscal resources toward high-priority public investment projects.

The volcanic eruption in April 2021, which displaced about 20 percent of the population, compounded the impact of the COVID-19 shock. Heavy ashfall, critical utility interruptions, increased food insecurity, and subsequent flooding and mudslides point to a significant impact on poverty and welfare measures, which are unlikely to have been fully reversed by recent growth. Based on the latest available data from 2008 and using the national poverty line, 30.2 percent of the population was poor.

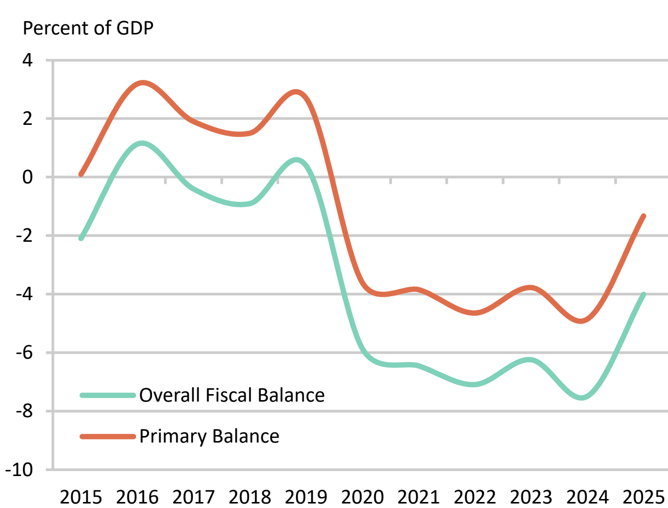
Recent developments

Tourism has rebounded after the pandemic-induced fall and is nearing 2019 levels. With tourism recovering and agriculture rebounding sharply post-volcanic eruptions, growth reached 4.9 percent in 2022 and is expected to climb to 6.0 in 2023.

The overall fiscal deficit widened to 7.1 percent of GDP in 2022, largely in response to the fiscal demands imposed by the volcanic eruption and ongoing exceptional COVID-19-related expenditures. Direct fiscal spending measures in response to the volcano totaled 5.5 percent of GDP. Furthermore, the government took several measures to cushion the impact of rising food and fuel prices, including the expansion of existing social programs, subsidies on electricity, the provision of social safety net payments to food-vulnerable households, and agricultural incentives. Total support exceeded US$20 million (2.5 percent of GDP). This posed challenges and several critical large investment projects were delayed/slowed to create the needed fiscal space. Fiscal rule targets have been suspended given the disruptions caused by the COVID-19 pandemic and the volcanic eruption.

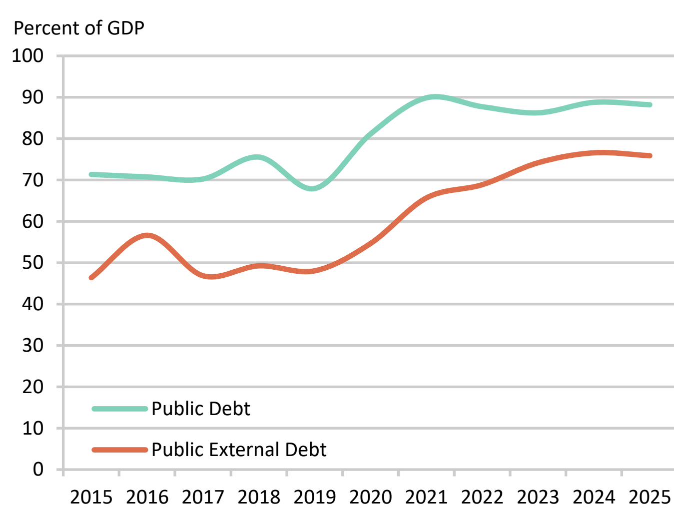
The current account deficit narrowed to 19.5 percent of GDP in 2022, from 22.7 percent in 2021, due largely to higher tourism arrivals, though imports for volcano recovery efforts, port modernization, and higher food and fuel import costs, also rose. The CAD is financed largely by

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



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

FIGURE 2 St. Vincent and the Grenadines / Public debt



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

FDI, private flows (remittances), and borrowing. International reserves remained at over 5 months of imports.

Public debt was 87.8 percent of GDP at end-2022, of which external debt was 64.2 percent. As a result, SVG remains at a high risk of debt distress. Debt is assessed as sustainable given the authorities' fiscal consolidation plans, which would ensure that the public debt to GDP ratio would fall to under 60 percent of GDP by 2035, the Eastern Caribbean Currency Union's regional goal. Government gross financing needs are covered primarily by official external financing and by some recourse to domestic financing through T-Bill and bond issuances.

Annual inflation in June 2023 was 5.3 percent, a slight increase from 5.2 percent in June 2022. Food prices increased by 12.5 percent over this 12-month period and contributed the most to overall inflation. Food prices are likely to pose a greater strain on low-income households and increase the likelihood of food insecurity. As of May 2023, 30 percent of the population was severely food insecure according to the Food Insecurity Experience Scale.

Outlook

Growth is expected to continue strong at 6.0 percent in 2023 and 4.8 percent in 2024 as tourism continues to rebound and surpass 2019 levels. Poverty is expected to follow a similar trajectory. Tourism growth over the medium term is expected to be further facilitated by the new airport and new hotel and resort facilities. Inflation is expected to reach 3.6 percent in 2023, after reaching 5.7 in 2022 fueled by food and fuel prices. It is expected to moderate to 2.3 percent in 2024 and return to more typical rates around 2.0 percent thereafter, as food and fuel prices normalize and domestic agricultural production resumes post-volcano.

Authorities have taken several steps to rebuild fiscal buffers and the contingency fund is being replenished following its usage in response to the volcano. Fiscal consolidation measures include: prioritizing public investment by focusing on port modernization and the new hospital while scaling back other projects; increasing the customs service charge; enhancing taxpayer compliance; and pension funding reform. Nonetheless, further fiscal consolidation is warranted as the fiscal deficit is forecast to be 6.2 percent of GDP in 2023 and then increase to 7.5 percent in 2024 as port and hospital construction peak. A meaningful primary surplus is expected by 2026 as the large public investment pipeline declines. Nonetheless, limiting the deficit, given the uncertain global economic environment, will require careful management of the ambitious public investment program, and sound fiscal management, including continued revenue mobilization measures. As the economy stabilizes and returns to a more traditional growth path, fiscal rule targets would need to be adjusted and the Fiscal Responsibility Framework (FRF) fully operationalized. Primary fiscal surpluses beginning in 2026 should facilitate a reduction in public debt levels over the medium term.

Forecasts are subject to considerable downside risks given uncertainty in global economic conditions, and the ever-present risk of natural disasters.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices[a]	-3.7	0.8	4.9	6.0	4.8	3.7
Real GDP growth, at constant factor prices[a]	-4.4	-1.6	6.2	6.1	4.8	3.7
Agriculture	1.6	-29.4	-6.1	7.6	2.5	2.0
Industry	-7.3	6.1	11.9	6.5	3.7	2.1
Services	-4.4	-0.1	6.0	5.9	5.2	4.2
Inflation (consumer price index)	-0.6	1.6	5.7	3.6	2.3	2.0
Current account balance (% of GDP)	-15.7	-22.7	-19.5	-18.0	-17.5	-14.1
Fiscal Balance (% of GDP)[b]	-5.9	-6.4	-7.1	-6.2	-7.5	-4.0
Revenues (% of GDP)	30.5	32.9	28.7	29.5	29.7	29.9
Debt (% of GDP)[b]	81.2	89.9	87.8	86.3	88.8	88.2
Primary Balance (% of GDP)[b]	-3.6	-3.8	-4.6	-3.8	-4.9	-1.3
GHG emissions growth (mtCO2e)	-7.5	5.5	2.0	2.0	2.0	2.0
Energy related GHG emissions (% of total)	73.4	74.8	75.2	75.6	76.0	76.3

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

SURINAME

Table 1	2022
Population, million	0.6
GDP, current US$ billion	3.6
GDP per capita, current US$	5858.4
School enrollment, primary (% gross)[a]	100.7
Life expectancy at birth, years[a]	70.3
Total GHG emissions (mtCO2e)	14.0

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

Suriname's economic growth remains anemic as high inflation burdens domestic consumption, fiscal consolidation curtails public sector demand, and private investment remains weak in the context of high uncertainty and sluggish export growth in the mining sector. High inflation and rapid currency depreciation constrain the purchasing power of the most vulnerable. Suriname's medium-term outlook looks more promising given new oil and gas discoveries and progress on macroeconomic stabilization and debt restructuring.

Key conditions and challenges

Suriname is a small, natural-resource-rich, upper-middle-income country. Mining accounts for about half of public sector revenue, with gold comprising more than three quarters of total exports. The government redistributes revenues from the extractive industries through public sector employment, price subsidies, and income support to vulnerable households.

Suriname has made progress in unwinding severe macroeconomic imbalances – a legacy of years of economic mismanagement and the COVID-19 pandemic. In mid-2020, the current government adopted a program to address debt sustainability, improve monetary and exchange rate policies, promote financial sector stability, and strengthen economic governance, supported by an IMF Extended Fund Facility (EFF). However, the program went off-track in mid-2022, as spending overruns fueled currency depreciation and high inflation. The government subsequently reestablished fiscal and monetary discipline under revised EFF program targets.

Recent poverty statistics are not available for Suriname. In 2013, the latest year with available data, nearly half of the population was unable to meet basic needs. Almost a quarter could not afford the minimum necessary food basket. Low levels of human capital, underachievement against social assistance targets, and limited private sector opportunities are among the structural factors contributing to high levels of poverty. Deteriorating economic opportunities since 2015 and eroding purchasing power, coupled with high food price inflation, are likely to have had a substantial effect on poverty, elevating the risk of continued social discontent and unrest.

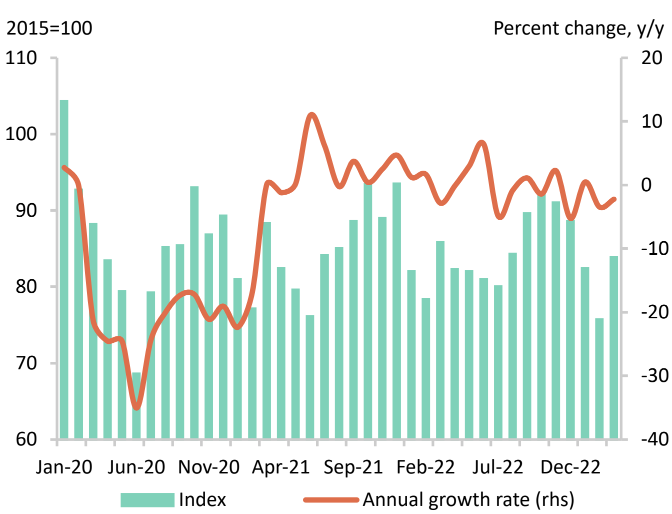
Suriname is also vulnerable to natural disasters, in particular flooding, which has posed significant challenges recently. Newly found offshore oil may – if well managed – considerably improve Suriname's fiscal prospects in the coming years. However, unlocking sustainable and inclusive economic growth will require resolving significant governance and institutional challenges, strengthening fiscal management, improving public services, and climate change adaptation.

Recent developments

Emerging from a two-year recession, Suriname's economy is estimated to have grown at 2.4 percent in 2022. Services, particularly wholesale and retail trade, and industry (manufacturing and construction), performed relatively well, compensating for a decline in agricultural production. The monthly economic activity index declined by around 2 percent in the first four months of 2023 (y-o-y) despite the good performance of the services sector.

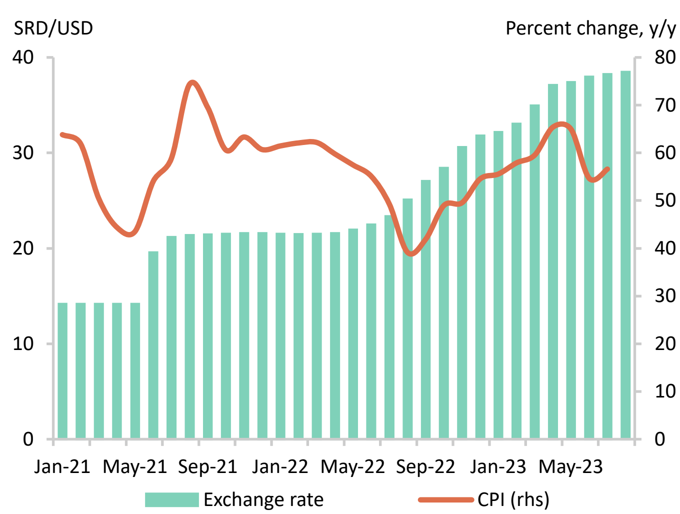
The exchange rate fell by 35 percent in August 2023 (y-o-y). As import costs increased, the current account surplus declined to an estimated 2.0 percent of GDP in 2022 and narrowed further in the first

FIGURE 1 Suriname / Monthly economic activity index



Source: Central Bank of Suriname.

FIGURE 2 Suriname / Exchange rate and inflation



Source: Central Bank of Suriname.

quarter of 2023. Nevertheless, gross international reserves increased by 20 percent to $1194.6 million in 2022, bolstered by the EFF, multilateral financing, and increased mining revenue. The currency depreciation and global price pressures kept inflation high. In July 2023, the consumer price index grew by 56.6 percent (y-o-y). Increases in the prices of food and nonalcoholic beverages continued to exceed those of the overall CPI suggesting continued pressure on purchasing power, especially among the poorest households. Financial sector indicators highlight chronic vulnerabilities in the banking system related to capital adequacy and asset quality.

Fiscal policy is focused on restoring debt sustainability while improving the efficiency of public spending and protecting vulnerable persons through enhanced social assistance. The government achieved significant fiscal consolidation in 2022 due to increased revenues from mining and non-mineral sectors. However, the primary surplus fell behind target due to overspending on fuel subsidies and public sector wages. The fiscal position is estimated to improve in 2023 to meet the revised primary balance target of 1.7 percent (down from 3.5). Revenue generation and expenditure containment measures introduced in the 2023 budget include a value-added tax, discontinuation of fuel subsidies, phasing out electricity subsidies, and containing public wages. To offset the impact of the energy subsidy reforms on the poorest Surinamese, the government expanded social assistance payments to households at the bottom of the income distribution and reformed and expanded its social assistance beneficiary database.

Successful debt restructuring and implementation of fiscal reforms under the EFF will help the country restore debt sustainability. Negotiations with most official and private creditors have been completed, while a staff-level agreement on the third review of the EFF was reached in August 2023.

Outlook

Real output growth in 2023 is projected at 2 percent, gradually reaching 3 percent in the medium term, as exports recover, and investment in infrastructure-related construction in the oil and gas sector picks up. Improvements in labor market prospects and opportunities for poor Surinamese are expected to be similarly gradual.

Inflation is expected to remain elevated in 2023, with negative implications for purchasing power and poverty. However, it should decline significantly over the medium term as the government tightens monetary policy and as external inflationary impulses subside.

The fiscal position is expected to improve as the government makes progress on fiscal reforms and debt restructuring. A more gradual pace of fiscal adjustments in the context of the revised macroeconomic stabilization program will create space to maintain social spending and support growth-enhancing infrastructure investments.

The longer-term outlook is more positive given the recent discovery of several offshore oil deposits. A Final Investment Decision by a major oil company is expected in 2024. Ensuring that anticipated oil revenues translate into improved well-being and reduced poverty requires tackling governance and institutional challenges. Moreover, increased reliance on the oil sector raises Suriname's vulnerability to commodity price shocks and has environmental consequences. Enhancing governance and human capital ahead of the oil windfall will be critical to alleviate risks and create a foundation for efficient and equitable management of oil revenues.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-16.0	-2.4	2.4	2.0	2.6	3.0
Real GDP growth, at constant factor prices	-16.0	-2.4	2.4	2.0	2.6	3.0
Agriculture	-10.3	-7.5	-1.6	0.3	1.4	1.9
Industry	-17.5	-10.9	3.1	0.5	1.6	2.0
Services	-16.0	2.2	2.7	2.8	3.1	3.5
Inflation (consumer price index)	34.9	59.1	52.4	52.3	34.4	18.3
Current account balance (% of GDP)	6.2	5.3	2.0	1.8	1.0	-0.1
Net foreign direct investment inflow (% of GDP)	0.0	-3.7	0.1	-0.3	0.3	1.3
Fiscal Balance (% of GDP)[a]	-11.1	-7.0	-2.8	-0.9	-0.7	-0.7
Revenues (% of GDP)	18.2	25.2	27.3	25.8	24.7	23.0
Debt (% of GDP)[a]	142.4	113.3	118.8	106.7	93.1	80.9
Primary Balance (% of GDP)[a]	-7.5	-1.2	1.1	1.7	3.5	3.5
GHG emissions growth (mtCO2e)	0.6	0.2	0.5	1.8	0.6	1.7
Energy related GHG emissions (% of total)	19.8	20.0	19.9	21.1	21.3	22.4

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

URUGUAY

Table 1	2022
Population, million	3.4
GDP, current US$ billion	71.2
GDP per capita, current US$	20795.0
International poverty rate ($2.15)[a]	0.1
Lower middle-income poverty rate ($3.65)[a]	0.8
Upper middle-income poverty rate ($6.85)[a]	6.7
Gini index[a]	40.8
School enrollment, primary (% gross)[b]	104.2
Life expectancy at birth, years[b]	75.4
Total GHG emissions (mtCO2e)	34.3

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

A historic summer drought affected the provision of drinking water, agricultural production, and related activities, lowering GDP growth and delaying fiscal consolidation prospects for 2023. Inflation declined to a six-year low in response to tight monetary policy stance. The related recovery in real wages and a continued improvement in labor market indicators are expected to help reduce poverty in 2023.

Key conditions and challenges

Uruguay stands out in the region for its combination of stable democracy, high income, egalitarian society, large middle class, and generous welfare state. Sound macroeconomic management and favorable external conditions supported an economic expansion that has lasted for two decades, except for the COVID-19-induced recession in 2020. The country experienced robust economic growth coming out of the pandemic and, thanks to prudent fiscal management, currently enjoys the lowest sovereign spreads in the region.

Yet, important social and economic gaps persist, reinforced by long-standing challenges that prevent the country from further closing development gaps. Lagging education outcomes, a weak integration into global trade, an insufficiently competitive environment, shallow financial markets, and chronically high inflation rank among the most relevant.

A record drought that affected agricultural production and the provision of drinking water in the capital, Montevideo underscores Uruguay's reliance on its natural capital and its exposure to climate change. The country is pioneering financial instruments that reward climate action, such as the issuance of a sustainability-linked bond in 2022, with concessional financial conditions linked to the overaccomplishment of selected Nationally Determined Contribution (NDC) targets.

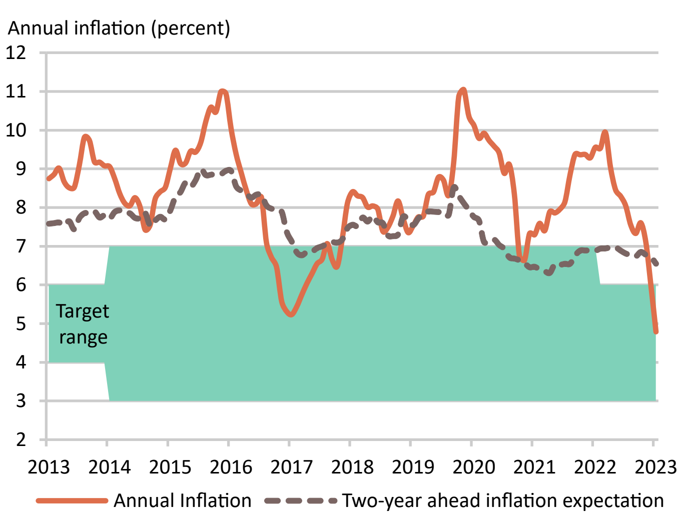
Recent developments

Real GDP expanded 4.9 percent in 2022, lower than early estimates due to the initial impacts of the drought in 2022Q4. The expansion was driven by private consumption fueled by pent-up demand as a result of the pandemic. Public and private investment, including for a large paper mill project that started operating in 2023H1, also supported growth. Exports continued to recover in 2022 but were outpaced by imports linked to consumption and investment, in the context of high but declining terms of trade.

The drought affected exports in 2023H1, which fell by 18 percent (yoy) as a result of lower beef and soybean sales. At around US$16.3 billion as of July 2023, gross reserves cover roughly 11 months of imports. The drought lingered into 2023, significantly impacting economic activity in 2023H1.

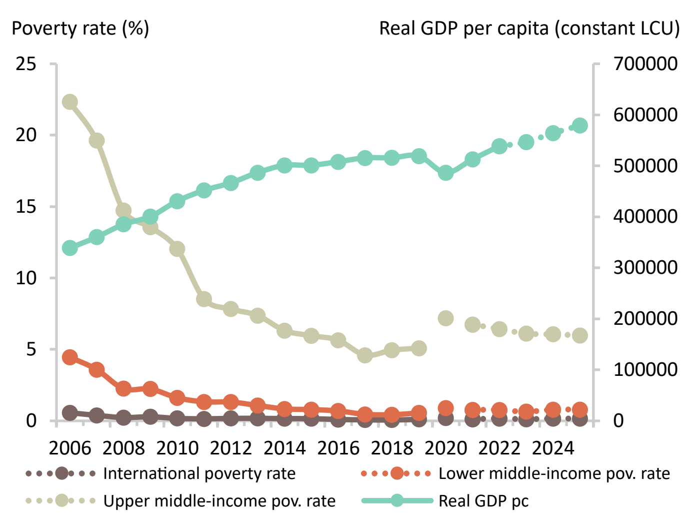
Inflation peaked at 9.9 percent in September 2022 fueled by surging food and oil prices but has since decreased to 4.8 percent by July 2023, the lowest level since 2005. The Central Bank started to ease the monetary policy stance after a tightening cycle that raised its benchmark rate from 4.5 percent in August 2021 to 11.5 percent in December 2022. High rates contributed to a strong peso, which appreciated 8 percent in the year ending in July 2023.

FIGURE 1 Uruguay / Inflation and the inflation target range



Source: Central Bank of Uruguay.

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



Source: World Bank. Notes: see Table 2.

Aided by the fall in inflation, real wages increased by 3.1 percent in 2023H1 (yoy), after a 1 percent increase in 2022. The employment rate increased 0.3 percent in the same period, a full percentage point above pre-pandemic levels. Household income also improved due to an increase in cash transfers to pensioners and vulnerable populations in Montevideo and Canelones, to offset the negative effects of the drinking water deficit (around USD 20 per person monthly). Temporary tax exemptions for bottled water were also implemented.

Fiscal accounts improved in 2022, largely due to an un-winding of COVID-19-related programs and cyclical revenues but deteriorated in 2023H1 as a result of an increase in expenditures and the slowdown in economic activity. The primary deficit of the non-monetary public sector increased from 0.6 percent in 2022 to 1.2 percent in the rolling year to June 2023. Primary expenditures increased one percentage point of GDP in the first half of 2023, led by pensions (tied to real wages), social expenditures, and public investment linked to the new pulp mill.

Outlook

Economic activity is expected to pick up in the second half of 2023, as drought conditions recede heading into the 2023/24 agricultural campaign in the face of a new El Niño season, for an overall 1.5 percent GDP growth. Absent major meteorological events or external shocks, growth is projected to recover to 3.2 percent in 2024 and converge closer to potential in 2025. Simultaneous improvements in employment and real salaries have boosted household per capita income which grew 7.9 percent in Montevideo and 6 percent in the interior areas of the country in 2023H1 (y-o-y). In this context, the poverty rate at the upper middle-income countries poverty line of US$6.85/day (2017 PPPs) is expected to fall to 6.1 percent in 2023 down from 6.4 percent in 2022.

The impact of the drought on exports of beef and soybeans is expected to widen the trade and current account balance in 2023, despite strong incoming tourism, service exports, and production from the new pulp mill. Exports are projected to recover in 2024 from drought lows. Foreign direct investment and external finance are projected to finance the current account deficit in the forecast horizon.

The gradual monetary easing process is expected to continue going forward, while inflation is expected to end the year within the 3-6 percent target range and remain there through 2025. The monetary authority is expected to commit to its anti-inflationary mandate and act accordingly in response to shocks.

Economic deceleration and the fiscal costs of the drought will slow down the fiscal consolidation process, with the primary fiscal balance expected to improve only in 2023H2. Public debt is expected to decline from 57.7 percent of GDP in 2022 to 54.4 percent of GDP in 2025. The long-term sustainability of fiscal accounts was underpinned by a pension reform that increased the retirement age.

Downside risks to the outlook include lower global demand from trading partners, a larger-than-expected decline in the terms of trade, and extreme hydrometeorological shocks in the face of the El Niño event.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-6.3	5.3	4.9	1.5	3.2	2.6
Private consumption	-6.8	2.9	6.1	2.2	2.5	2.2
Government consumption	-7.2	8.6	1.3	0.7	0.3	0.6
Gross fixed capital investment	1.2	16.5	9.5	2.1	4.1	6.5
Exports, goods and services	-16.3	11.7	11.1	0.5	5.9	1.0
Imports, goods and services	-12.2	18.2	12.5	2.0	3.2	1.5
Real GDP growth, at constant factor prices	-6.5	5.3	4.7	1.5	3.2	2.6
Agriculture	-6.1	14.0	-2.9	-15.0	9.5	4.0
Industry	-4.4	6.8	1.8	1.0	2.5	2.0
Services	-7.1	4.0	6.4	3.3	2.9	2.7
Inflation (consumer price index)	9.8	7.7	9.1	6.0	5.6	5.3
Current account balance (% of GDP)	-0.8	-2.5	-3.5	-3.6	-2.5	-2.2
Net foreign direct investment inflow (% of GDP)	1.9	2.9	4.7	1.3	1.3	1.2
Fiscal Balance (% of GDP)[a]	-5.4	-3.1	-2.8	-3.0	-2.7	-2.7
Revenues (% of GDP)	29.6	28.9	29.2	28.8	28.9	29.3
Debt (% of GDP)	67.6	61.8	57.7	56.5	55.2	54.3
Primary Balance (% of GDP)[a]	-2.7	-0.9	-0.6	-0.7	-0.3	-0.2
International poverty rate ($2.15 in 2017 PPP)[b,c]	0.2	0.1	0.2	0.1	0.2	0.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	0.9	0.8	0.8	0.6	0.8	0.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	7.2	6.7	6.4	6.1	6.1	6.0
GHG emissions growth (mtCO2e)	-2.2	1.6	0.6	-0.8	2.1	0.8
Energy related GHG emissions (% of total)	18.0	18.4	19.0	19.1	18.7	18.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Non-Financial Public Sector. Excluding revenues associated with the "cincuentones".
b/ Calculations based on SEDLAC harmonization, using 2022-ECH. Actual data: 2021 and 2022 (preliminary). Forecasts are from 2023 to 2025.
c/ Projections using microsimulation methodology.

Macro Poverty Outlook

10/
2023

WORLD BANK GROUP
Macroeconomics, Trade & Investment
Poverty & Equity