Macro Poverty Outlook

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

Annual Meetings 2023

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MACRO POVERTY

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OUTLOOK

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

The cutoff date for information for most countries was September 22, 2023.

East Asia and the Pacific

Annual Meetings 2023

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

CAMBODIA

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

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

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

Key conditions and challenges

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

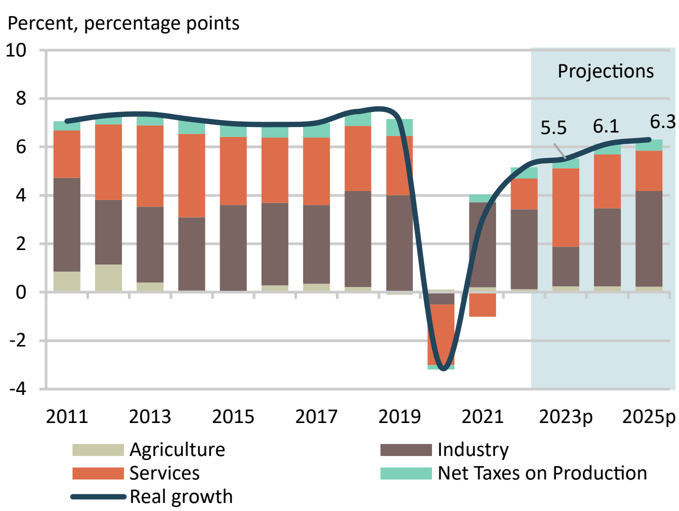
There are signs of renewed appetite for investment in the construction and real estate sector with the value of approved construction permits growing for the first time since mid-2020. However, tight global financial conditions and subdued external demand have dampened investment in the tradeable sectors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

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

Recent developments

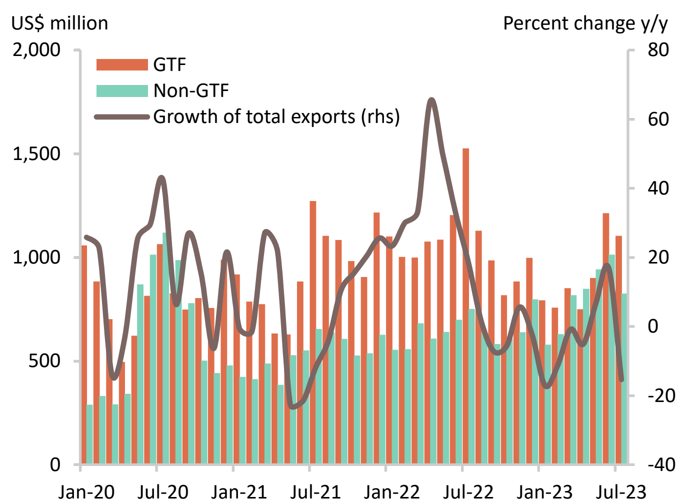
While merchandise exports have declined in response to weaker external demand, services exports have recovered strongly. During the first seven months of 2023, international arrivals reached 3.0 million, up from 0.7 million during the same period in 2022. Indicating a relatively rapid recovery of the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

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



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

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



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

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

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

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

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

Outlook

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

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

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

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

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

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

CENTRAL PACIFIC ISLANDS

Table 1	2022
Population, million	
Kiribati	0.13
Nauru	0.01
Tuvalu	0.01
GDP, current US$, billion	
Kiribati	0.22
Nauru	0.15
Tuvalu	0.06
GDP per capita, current US$	
Kiribati	1702
Nauru	11914
Tuvalu	5335

Sources: WDI, World Bank staff estimates.

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

Key conditions and challenges

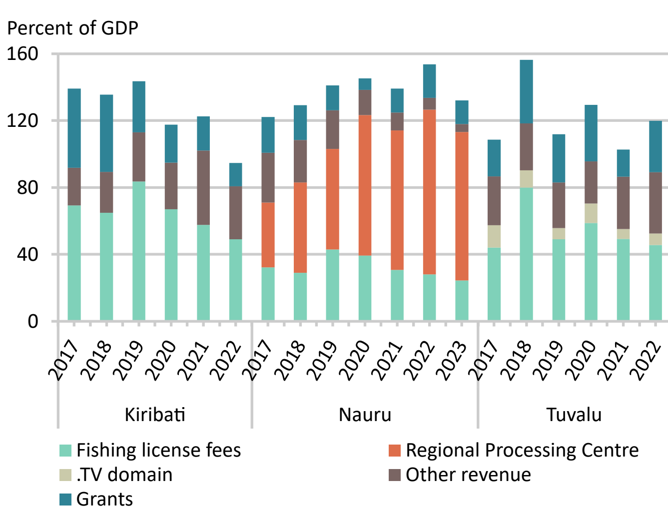
The Central Pacific faces major development challenges due to exogenous factors like climate change, small size, and remoteness; and endogenous forces like concentrated, import-reliant, and volatile economies. All three countries have trust funds to stabilize volatile revenues and provide long-term development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

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

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

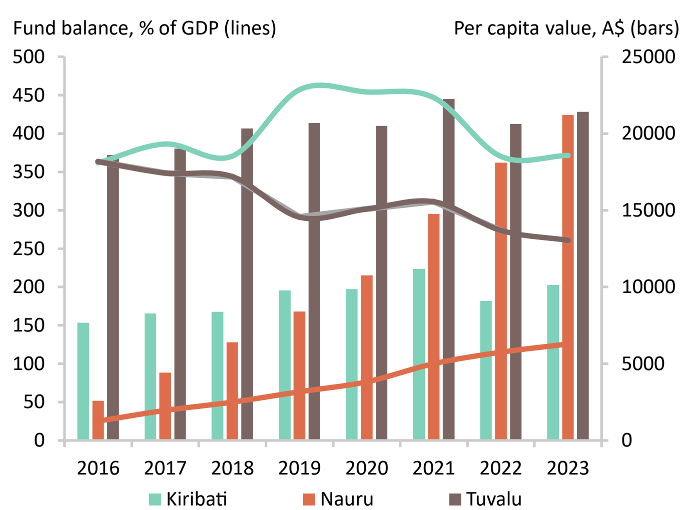
The public sector in **Tuvalu** dominates the economy and private sector development is restricted by inadequate infrastructure and limited economies of scale. As a large net importer, rising international commodity prices are a concern as they erode real household incomes. Although no recent data on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

FIGURE 1 Central Pacific Islands / Selected fiscal revenues



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

FIGURE 2 Central Pacific Islands / Trust Fund balances



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

Recent developments

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

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

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

Outlook

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

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

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

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

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

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

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

CHINA

Table 1	2022
Population, million	1412.2
GDP, current US$ billion	17915.6
GDP per capita, current US$	12686.5
International poverty rate ($2.15)[a]	0.1
Lower middle-income poverty rate ($3.65)[a]	2.0
Upper middle-income poverty rate ($6.85)[a]	24.7
Gini index[a]	37.1
School enrollment, primary (% gross)[b]	104.1
Life expectancy at birth, years[b]	78.2
Total GHG emissions (mtCO2e)	14105.2

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

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

Key conditions and challenges

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

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

Recent developments

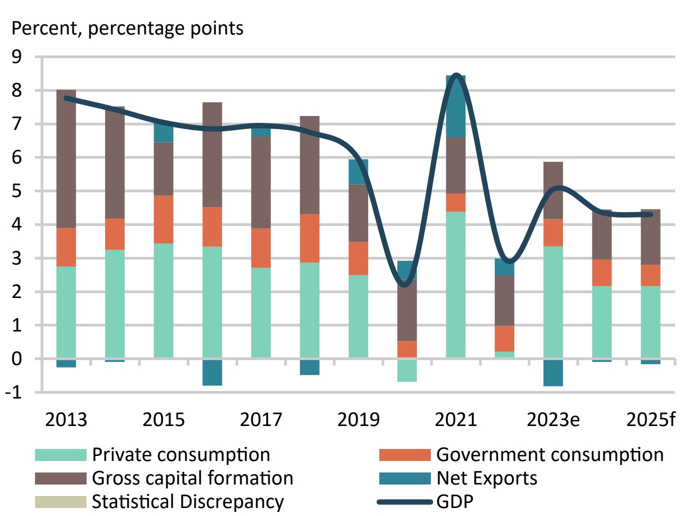
The economy has slowed substantially since April, with growth decelerating to 0.8 percent q/q sa in Q2, from 2.2 percent in Q1. Private consumption has weakened amid lackluster consumer confidence. Real disposable income per capita growth in the first half of 2023 remained below its pre-pandemic rate,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

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

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

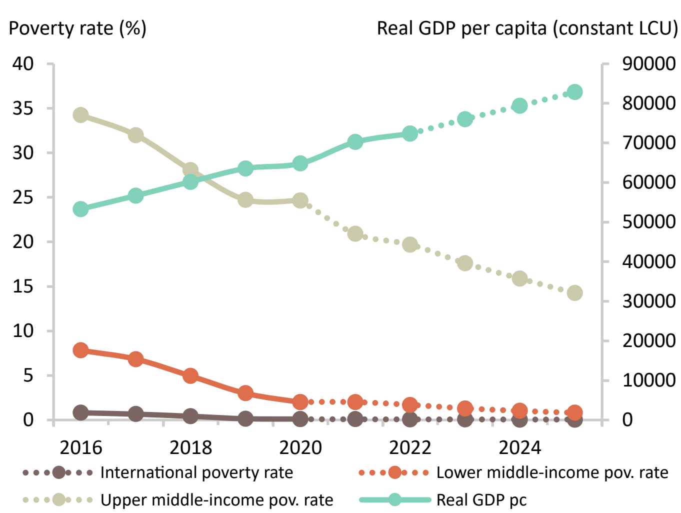
Fiscal policy, however, has been less accommodative than in the same period last year due to financing and execution constraints of local governments. Funding pressures for local governments, due to the

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



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

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



Source: World Bank. Notes: see Table 2.

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

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

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

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

Outlook

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

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

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

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	2.2	8.4	3.0	5.1	4.4	4.3
Private consumption	-1.7	11.7	0.5	9.4	5.4	5.3
Government consumption	3.1	3.3	4.8	2.7	3.4	2.9
Gross fixed capital investment	3.2	3.1	3.3	3.3	4.5	4.4
Exports, goods and services	1.7	18.4	-2.3	-0.1	2.2	2.0
Imports, goods and services	-1.4	10.3	-6.0	1.5	2.5	2.3
Real GDP growth, at constant factor prices	2.2	8.4	3.0	5.1	4.4	4.3
Agriculture	3.1	7.1	4.1	2.9	3.0	3.0
Industry	2.5	8.7	3.8	3.7	3.4	3.2
Services	1.9	8.5	2.3	6.4	5.3	5.3
Inflation (consumer price index)	2.5	0.9	2.0	0.5	1.6	2.1
Current account balance (% of GDP)	1.7	2.0	2.2	1.6	1.2	0.8
Net foreign direct investment inflow (% of GDP)	0.7	0.9	0.2	-0.6	-0.3	0.1
Fiscal Balance (% of GDP)[a]	-8.5	-4.0	-6.4	-6.4	-4.5	-4.0
Revenues (% of GDP)	34.8	35.2	32.3	32.1	31.7	31.4
Debt (% of GDP)	45.4	46.9	50.5	54.9	56.3	57.0
Primary balance (% of GDP)	-7.5	-3.0	-5.3	-5.1	-3.1	-2.5
International poverty rate ($2.15 in 2017 PPP)[b,c]	0.1	0.1	0.1	0.1	0.1	0.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	2.0	2.0	1.7	1.3	1.0	0.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	24.7	20.9	19.7	17.6	15.9	14.3
GHG emissions growth (mtCO2e)	1.7	8.2	6.0	5.7	3.1	2.4
Energy related GHG emissions (% of total)	82.9	82.9	83.3	83.5	83.4	83.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ The adjusted fiscal balance adds up the public finance budget, the government fund budget, the state capital management fund budget and the social security fund budget.
b/ Last grouped data available to calculate poverty is for 2020 provided by NBS. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
c/ Projection using neutral distribution (2020) with pass-through = 0.85 based on GDP per capita in constant LCU.

FIJI

Table 1	2022
Population, million	0.9
GDP, current US$ billion	4.9
GDP per capita, current US$	5321.5
International poverty rate ($2.15)[a]	1.3
Lower middle-income poverty rate ($3.65)[a]	12.4
Upper middle-income poverty rate ($6.85)[a]	52.6
Gini index[a]	30.7
School enrollment, primary (% gross)[b]	113.7
Life expectancy at birth, years[b]	67.1

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

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

Key conditions and challenges

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

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

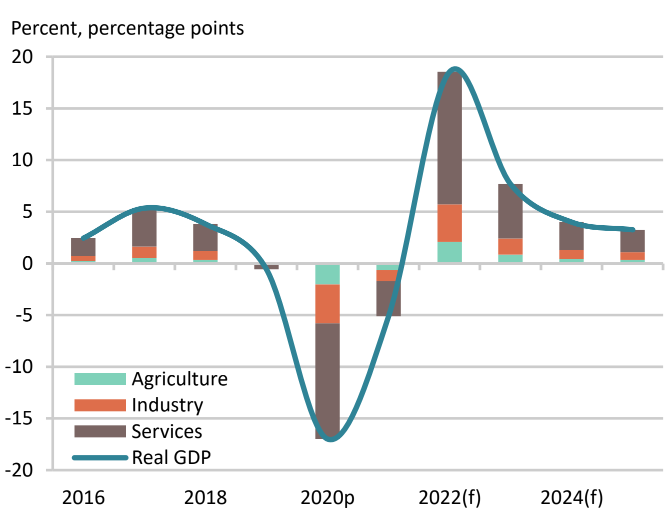
Prior to the COVID-19 pandemic, Fiji had a poverty rate of 24.1 percent in 2019/2020 as defined by the national standards of living. The 2019-20 Household Income and Expenditure Survey (HIES) estimated the incidence of extreme poverty at 1.3 percent, which is on par with other Upper Middle-Income Countries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

Recent developments

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

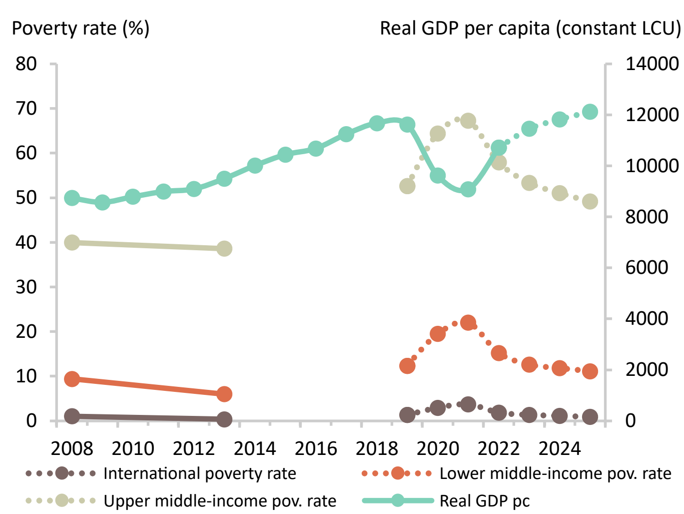
Annual inflation was 3.1 percent in 2022 (y/y) due to low prices of alcoholic beverages and food items and decreased to 0.3 percent in July 2023 (y/y) on account of lower fuel and kava prices. The inflation

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



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

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



Source: World Bank. Notes: see Table 2.

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

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

Outlook

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

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

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

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

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

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

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
a/ Calculations based on EAPPOV harmonization, using 2019-HIES. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

INDONESIA

Table 1	2022
Population, million	279.1
GDP, current US$ billion	1319.1
GDP per capita, current US$	4725.7
International poverty rate ($2.15)[a]	2.5
Lower middle-income poverty rate ($3.65)[a]	20.3
Upper middle-income poverty rate ($6.85)[a]	60.5
Gini index[a]	37.9
School enrollment, primary (% gross)[b]	90.1
Life expectancy at birth, years[b]	67.6
Total GHG emissions (mtCO2e)	1986.6

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

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

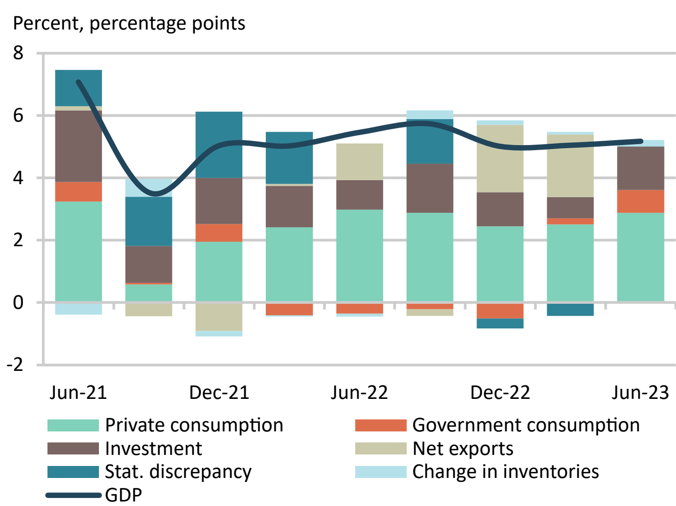
Key conditions and challenges

Indonesia's growth remains robust amidst an uncertain global outlook. Inflation has subsided and poverty rates are back to pre-COVID levels. However, signs of moderating demand are appearing. Slowing exports, softening consumer confidence, and moderating private credit growth present challenges to sustaining the momentum.
Indonesia's fiscal stance—with small deficits and low debt—is well-positioned to mitigate the potential impact of global shocks. However, achieving stronger long-run growth will require increased and improved expenditures, necessitating continuous efforts to improve revenue collection.
Indonesia will soon be entering a prolonged election cycle which could slow the pace of structural reform and hinder improvements in economic productivity. This is concerning as estimates indicate that productivity growth has declined over the past decade and requires continuous policy focus.

Recent developments

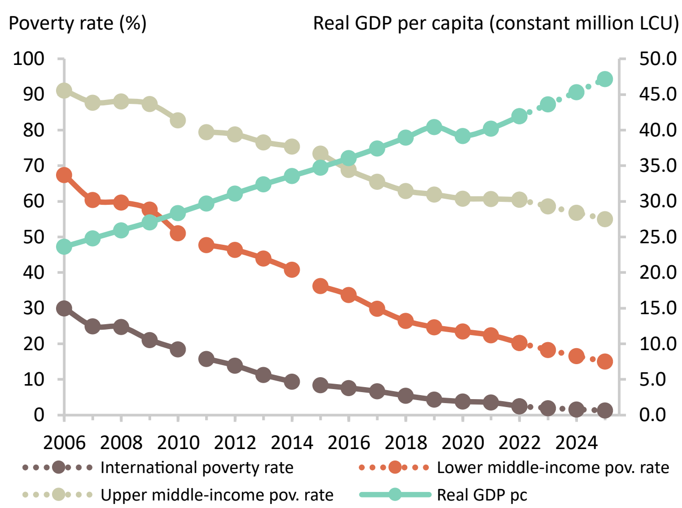
Growth remains resilient in 2023, prolonging Indonesia's post-pandemic recovery. GDP grew 5.1 percent (y/y) in 2023H1 after expanding 5.4 percent in 2022H2. Private consumption took the lead, contributing 2.7 percentage points, as it benefitted from increased household purchasing power resulting from both declining inflation and currency appreciation. Investment and exports contributed 1.0 percentage points each, despite declining global commodities prices.
Poverty reduction has accelerated underpinned by the economic rebound in 2022. The headline poverty rate fell from 22.4 percent in 2021 to 20.3 percent in 2022, when measured using the poverty line for Lower-Middle Income Countries. Growth in the services sector has boosted job creation. The unemployment rate dropped and had nearly returned to its pre-pandemic level by February 2023.
Inflation is easing faster than anticipated and has already returned within Bank Indonesia's (BI) target range. Headline inflation declined to 3.1 percent (y/y) in July 2023 largely because of a decline in global oil prices, a better harvest, and government interventions at the sub-regional level to alleviate food supply bottlenecks. Headline and core inflation have been converging as inflation becomes more broad-based. This reflects an overall increase in demand for goods and services while other short-term inflation drivers subside.
The current account surplus decreased to only 0.1 percent of GDP in 2023H1 on account of worsening terms of trade given weakening demand in major trading partners and declining prices of key export commodities. Both exports and imports experienced contractions (4.4 percent and 2.8 percent, respectively). Despite tightening global financing conditions, Indonesia's macroeconomic stability provided some support to portfolio inflows and foreign

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



Sources: National Statistics Agency and World Bank.

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



Source: World Bank. Notes: see Table 2.

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

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

Outlook

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

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

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

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

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

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-2.1	3.7	5.3	5.0	4.9	4.9
Private consumption	-2.7	2.0	4.9	4.8	4.9	4.8
Government consumption	2.1	4.2	-4.5	4.2	3.1	3.5
Gross fixed capital investment	-5.0	3.8	3.9	4.4	4.6	4.9
Exports, goods and services	-8.4	18.0	16.3	3.3	4.0	4.0
Imports, goods and services	-17.6	24.9	14.7	1.8	2.4	2.5
Real GDP growth, at constant factor prices	-1.6	3.3	4.9	4.9	4.9	4.9
Agriculture	1.8	1.9	2.3	3.8	3.5	3.0
Industry	-2.8	3.4	4.1	4.1	4.1	4.1
Services	-1.5	3.5	6.5	6.0	6.0	6.1
Inflation (consumer price index)	2.0	1.6	4.2	3.9	3.3	3.0
Current account balance (% of GDP)	-0.4	0.3	1.0	-0.1	-0.5	-1.0
Net foreign direct investment inflow (% of GDP)	1.3	1.5	1.1	1.0	1.3	1.5
Fiscal balance (% of GDP)	-6.1	-4.6	-2.4	-2.2	-2.3	-2.3
Revenues (% of GDP)	10.7	11.8	13.5	12.6	12.4	12.6
Debt (% of GDP)	39.3	40.7	39.5	39.1	39.0	38.4
Primary balance (% of GDP)	-4.1	-2.5	-0.4	-0.1	-0.2	-0.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.8	3.6	2.5	2.0	1.6	1.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	23.5	22.4	20.3	18.3	16.6	15.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	60.8	60.7	60.5	58.6	56.8	55.1
GHG emissions growth (mtCO2e)	-0.4	1.1	0.7	1.2	1.1	0.9
Energy related GHG emissions (% of total)	30.1	30.7	30.9	31.5	32.2	32.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on EAPPOV harmonization, using 2011-SUSENAS and 2022-SUSENAS. Actual data: 2022. Forecasts are from 2023 to 2025.
b/ Projection using annualized elasticity (2011-2022) with pass-through = 1 based on GDP per capita in constant LCU.

LAO PDR

Table 1	2022
Population, million	7.5
GDP, current US$ billion	15.2
GDP per capita, current US$	2012.5
National Official Poverty Rate[a]	18.3
International poverty rate ($2.15)[a]	7.1
Lower middle-income poverty rate ($3.65)[a]	32.5
Gini index[a]	38.8
School enrollment, primary (% gross)[b]	98.5
Life expectancy at birth, years[b]	68.1
Total GHG emissions (mtCO2e)	44.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ National Statistics Office. Most recent value (2018).
b/ Most recent WDI value (2021).

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

Key conditions and challenges

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

Recent developments

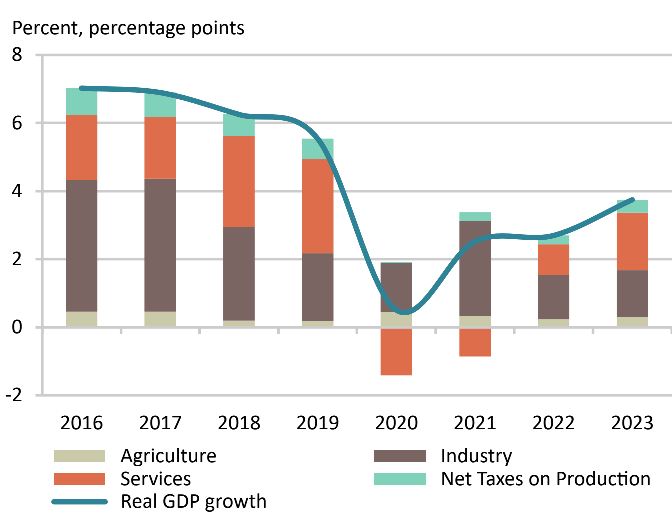
Economic activity benefited from a recovery in the services sector, despite macroeconomic instability. Increased tourism, transport, and logistics services, and foreign investment supported economic growth in the first half of 2023. However, merchandise export growth has been muted, while labour shortages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

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

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

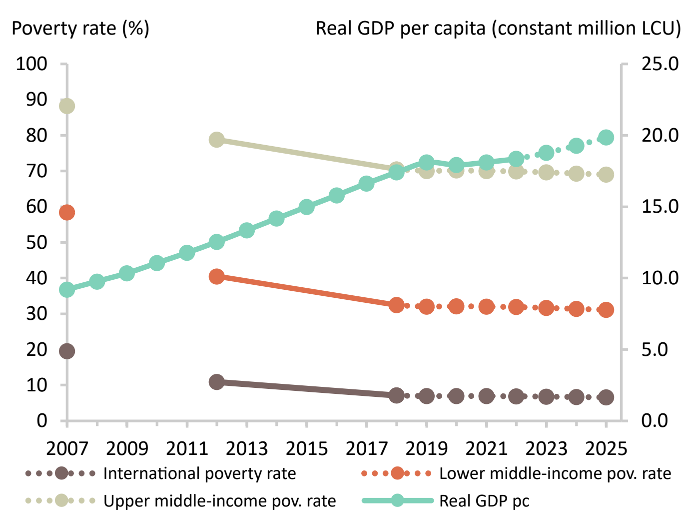
The fiscal balance improved in the first half of 2023, owing to stronger revenue collection and containment of public spending. Total revenue recovered to 7.2 percent of GDP in H1-2023, mostly supported by higher import duties, natural resource taxes, and fees. Consumption taxes were stagnant as a ratio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

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



Sources: Lao Statistics Bureau and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

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

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

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

Outlook

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

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

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

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

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

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

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

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

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

MALAYSIA

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

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

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

Key conditions and challenges

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

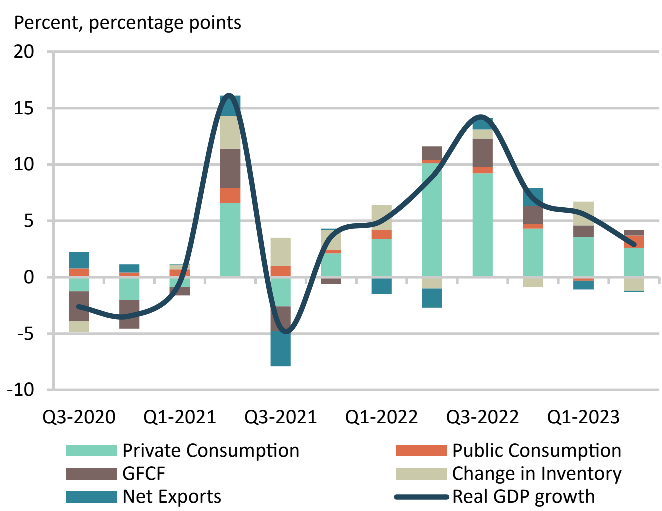
Despite the post-pandemic recovery, Malaysia's poverty rate has not returned to its pre-pandemic level. According to the latest government estimates, the absolute poverty rate stood at 6.2 percent in 2022. This marks a decline from the pandemic peak of 8.4 percent in 2020 but is above the pre-pandemic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

Recent developments

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

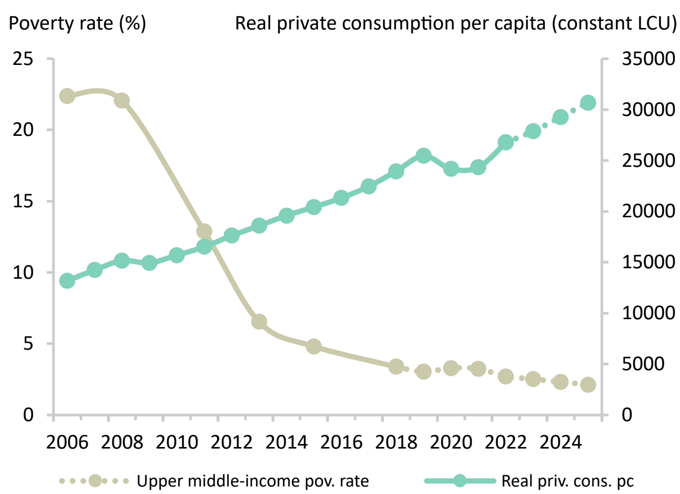
The weaker external environment contributed to an overall slowdown in international trade. Both gross exports and imports experienced an approximately 9.4 percent contraction in 2023Q2; the decline in imports was primarily related to weakening intermediate imports. The growth of the manufacturing sector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

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



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

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



Source: World Bank. Notes: see Table 2.

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

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

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

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

Outlook

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

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

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

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

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-5.5	3.3	8.7	3.9	4.3	4.2
Private consumption	-3.9	1.9	11.2	5.2	6.1	5.9
Government consumption	4.1	6.4	4.5	0.9	0.8	0.8
Gross fixed capital investment	-14.4	-0.8	6.8	5.1	3.6	3.5
Exports, goods and services	-8.6	18.5	14.5	-5.8	3.7	3.1
Imports, goods and services	-7.9	21.2	15.9	-6.3	4.3	3.7
Real GDP growth, at constant factor prices	-5.5	3.3	8.7	4.0	4.3	4.2
Agriculture	-2.4	-0.1	0.1	0.4	1.9	1.8
Industry	-6.1	5.8	6.5	2.4	3.5	3.4
Services	-5.4	2.1	11.3	5.5	5.1	5.0
Inflation (consumer price index)	-1.1	2.5	3.3	2.6	2.6	2.5
Current account balance (% of GDP)	4.2	3.9	3.1	2.6	2.6	2.5
Net foreign direct investment inflow (% of GDP)	0.2	2.0	0.9	1.7	1.6	1.5
Fiscal balance (% of GDP)	-6.2	-6.4	-5.6	-5.0	-4.0	-3.5
Revenues (% of GDP)	15.9	15.1	16.4	15.4	15.3	15.3
Debt (% of GDP)	62.0	63.3	60.3	62.1	63.2	63.8
Primary balance (% of GDP)	-3.8	-3.9	-3.2	-2.5	-1.5	-1.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	3.3	3.2	2.7	2.5	2.3	2.1
GHG emissions growth (mtCO2e)	-2.0	5.6	6.6	2.1	3.4	3.2
Energy related GHG emissions (% of total)	59.6	61.5	63.4	63.7	64.5	65.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on EAPPOV harmonization, using 2014-HIS and 2019-HIESBA. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection using annualized elasticity (2013-2018) with pass-through = 0.7 based on private consumption per capita in constant LCU.

MONGOLIA

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

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

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

Key conditions and challenges

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

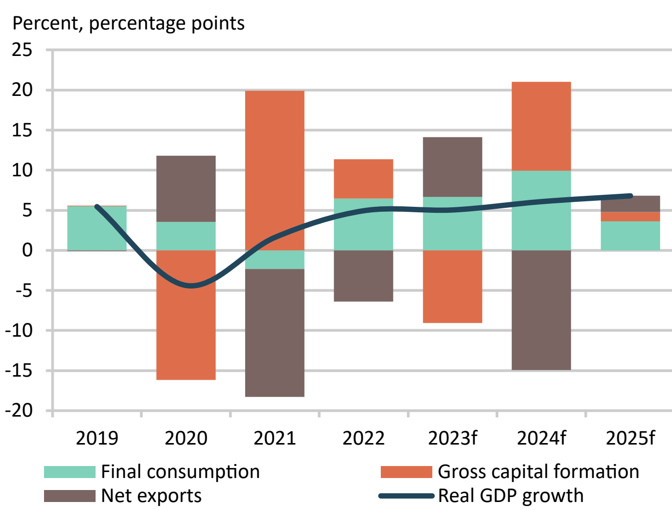
Significant fiscal structural challenges persist despite the recent cyclical improvement in public finances. Following higher-than-expected revenues coming from mining, the government passed budget amendments that reversed recent reforms to enhance the targeting of the Child Money Program (CMP) – the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

Recent developments

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

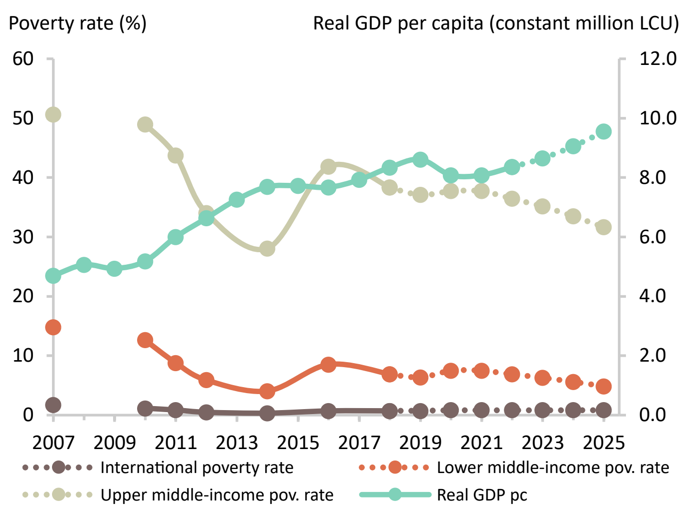
Despite the rapid increase in government spending with the recent budget amendment, the fiscal balance was in surplus (3.0 percent of GDP) as of July, due to an exceptionally strong revenue outturn resulting mainly from buoyant coal revenues.

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



Sources: National Statistics Office and World Bank.

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



Source: World Bank. Notes: see Table 2.

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

Outlook

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

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

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

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

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

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

MYANMAR

Table 1	2022
Population, million	54.2
GDP, current US$ billion	59.4
GDP per capita, current US$	1095.7
Lower middle-income poverty rate ($3.65)[a]	19.6
Upper middle-income poverty rate ($6.85)[a]	68.2
School enrollment, primary (% gross)[b]	112.3
Life expectancy at birth, years[b]	65.7
Total GHG emissions (mtCO2e)	245.2

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

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

Key conditions and challenges

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

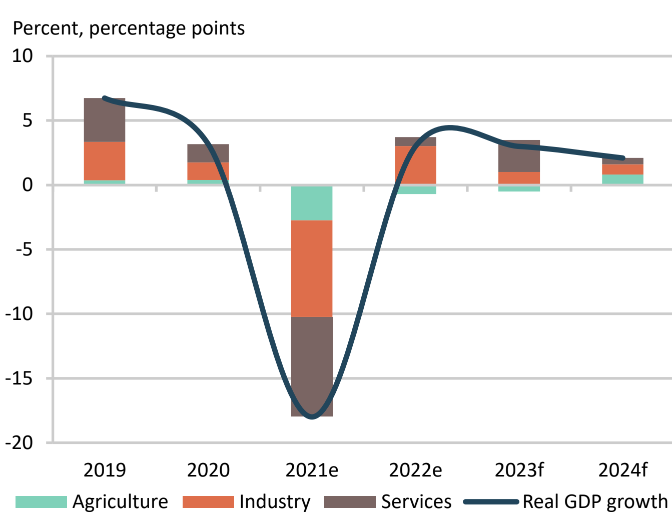
Labor market conditions remain precarious and inequalities in household welfare have worsened. In the Myanmar Subnational Phone Survey (MSPS) conducted at the end of 2022 and early 2023, about half of surveyed households reported a decrease in incomes over the past year, while only 15 percent reported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

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

Recent developments

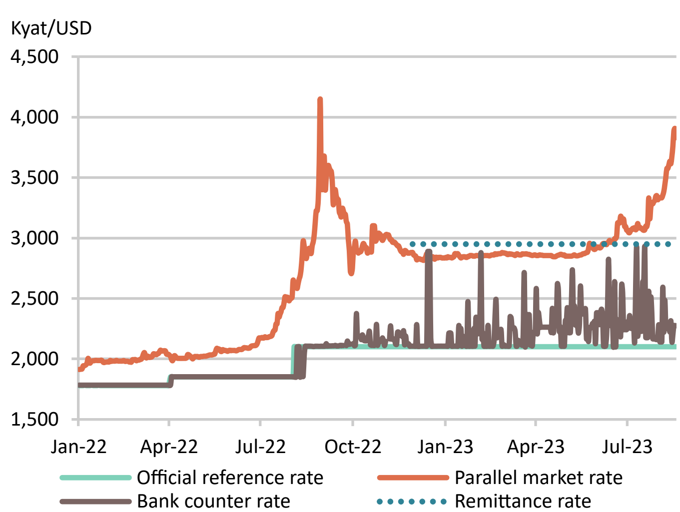
Key indicators of economic performance slowly trended upwards in the first half of 2023 but remained consistent with an economy still well below pre-pandemic levels. Firms surveyed by the World Bank reported operating at 75 percent of their capacity on average in March 2023, 9 percentage points higher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

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



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

FIGURE 2 Myanmar / Official, parallel-market, bank-counter, and remittance exchange rates



Sources: Central Bank of Myanmar and Money changers.

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

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

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

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

Outlook

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

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

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

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

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

NORTH PACIFIC ISLANDS

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

Sources: WDI, World Bank staff estimates.

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

Key conditions and challenges

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

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

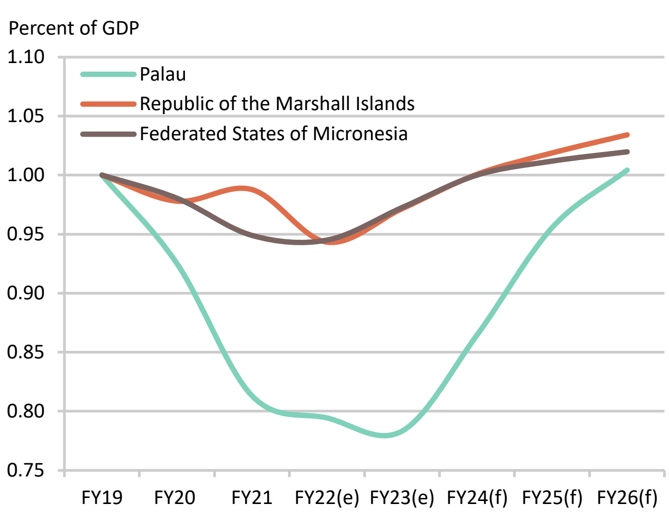
Even with the renewal of the fiscal chapter of the Compact, implementing reform-based fiscal adjustments, such as domestic revenue mobilization and expenditure rationalization, remains crucial to enhancing fiscal sustainability. Natural disasters and climate change continue to pose a threat to economic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

Recent developments

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

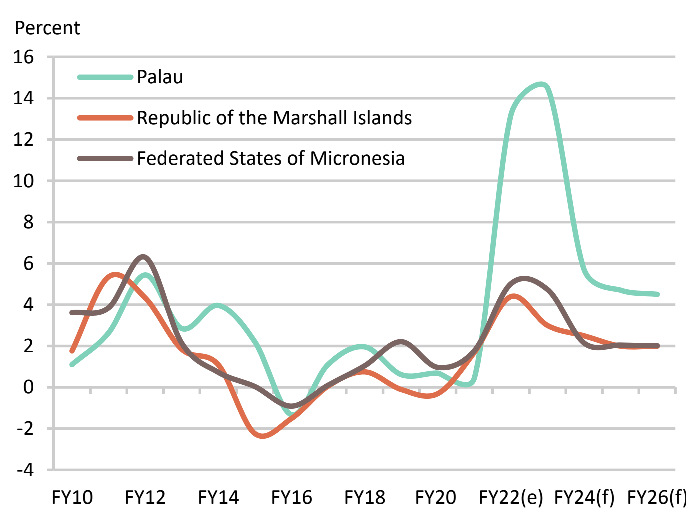
In **Palau**, output contracted by 2.3 percent in FY22, due to a lack of tourism activity while inflation surged to 13.2 percent due to higher food and fuel import prices driven by the war in Ukraine. The fiscal deficit remained sizeable at 3.1 percent of GDP in FY22. The deficit has been financed by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

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



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

FIGURE 2 North Pacific Islands / Consumer price inflation



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

remains sustainable due to the concessional nature of new debt.

Poverty in the North Pacific is expected to have risen relative to pre-crisis levels. The sharp economic contraction in FY20 and FY21 led to formal-sector job losses and lower demand for goods in the informal economy. In Palau, the disruption in tourism activities likely led to increased vulnerability of households employed in the sector. In FSM and RMI, many households rely on annual remittance inflows that are estimated to have dropped in FY21. In RMI, poverty is estimated to have fallen in FY21, and then risen in FY22, with a reduction projected in FY23. A decline in poverty is also expected in FSM from FY23, given the projected return to economic growth.

Outlook

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

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

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

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

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

Sources: ECONMAP, IMF, and Worldbank.
e = estimate; f = forecast.
Notes: Values for each country correspond to their fiscal years ending September 30.
a/ Calculations based on EAPPOV harmonization, using 2019-HIES.
b/ Projection using neutral distribution (2019) with pass-through = 1 (High) based on GDP per capita in constant LCU.
c/ For 2022-2025 projections, no change in population is assumed due to a lack of updated population projections.

PAPUA NEW GUINEA

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

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

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

Key conditions and challenges

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

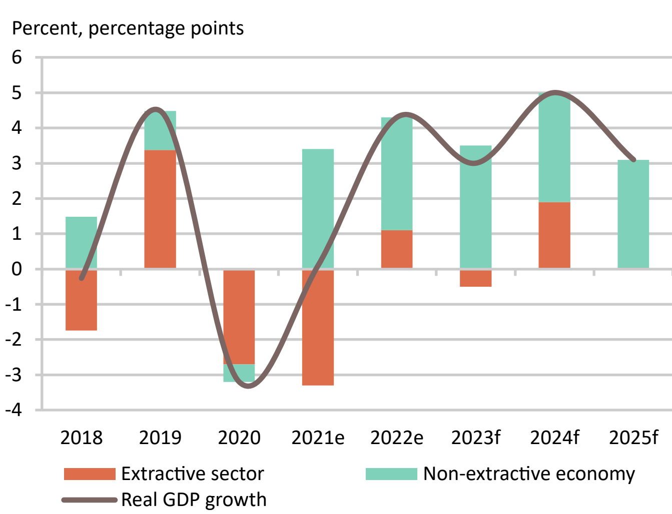
Weak human development outcomes present missed opportunities for faster and more inclusive economic growth. Papua New Guinea (PNG) has one of the highest stunting rates in the world, affecting almost half of all children under the age of five. Furthermore, a significant portion of the country's youth—nearly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

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

Recent developments

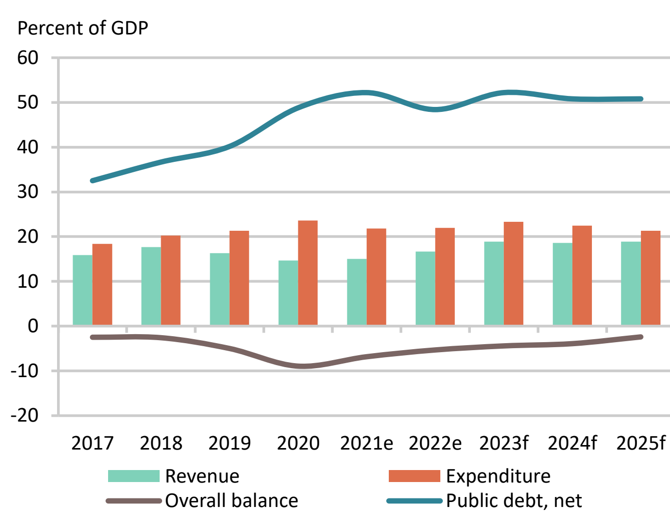
Buoyed by high commodity prices and the removal of COVID-19 restrictions, the economy underwent a robust recovery in 2022, a momentum that has extended into 2023. The ongoing growth of the non-resource sector is apparent in the strong fiscal revenue generation and a noteworthy 5.3 percent expansion in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

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



Source: World Bank staff estimates and forecast.

FIGURE 2 Papua New Guinea / Key fiscal and debt indicators



Source: World Bank staff estimates and forecast.

expectations. This is a testament to the strengthened non-resource economy. According to the latest World Bank–IMF DSA, the country remains at high risk of debt distress. Conditional on the implementation of the authorities' plans for further fiscal consolidation and conservative financing strategies, PNG's external and overall debt is judged as sustainable.

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

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

Outlook

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

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

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

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

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

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

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

PHILIPPINES

Table 1	2022
Population, million	115.6
GDP, current US$ billion	404.3
GDP per capita, current US$	3498.5
International poverty rate ($2.15)[a]	3.0
Lower middle-income poverty rate ($3.65)[a]	17.8
Upper middle-income poverty rate ($6.85)[a]	55.3
Gini index[a]	40.7
School enrollment, primary (% gross)[b]	92.4
Life expectancy at birth, years[b]	69.3
Total GHG emissions (mtCO2e)	274.5

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

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

Key conditions and challenges

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

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

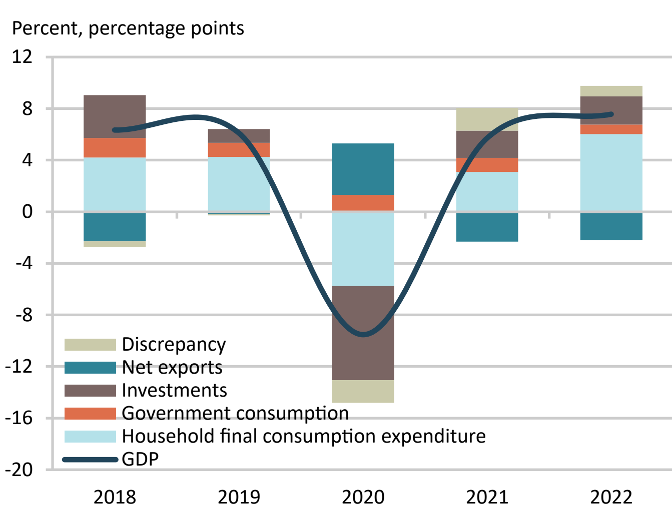
Recent developments

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

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

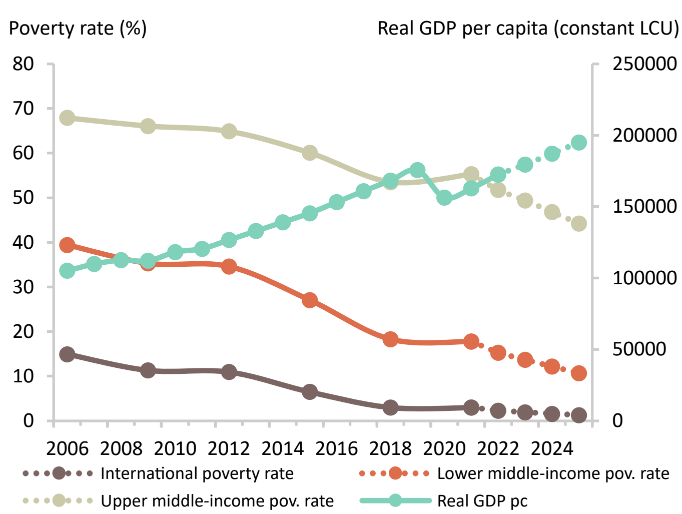
The balance of payments position reversed to a surplus in the first seven months of 2023 supported by a steady inflow of remittances, net foreign borrowings by the government, and a narrower

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



Source: Philippines Statistics Authority.

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



Source: World Bank. Notes: see Table 2.

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

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

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

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

Outlook

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

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

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

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

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-9.5	5.7	7.6	5.6	5.8	5.8
Private consumption	-8.0	4.2	8.3	5.9	6.2	6.2
Government consumption	10.5	7.2	4.9	2.1	5.7	6.1
Gross fixed capital investment	-27.3	9.8	9.7	6.0	7.1	9.5
Exports, goods and services	-16.1	8.0	10.9	3.8	7.6	7.7
Imports, goods and services	-21.6	12.8	13.9	3.7	8.6	10.1
Real GDP growth, at constant factor prices	-9.5	5.7	7.6	5.6	5.8	5.8
Agriculture	-0.2	-0.3	0.5	0.5	1.1	1.2
Industry	-13.1	8.5	6.5	4.2	5.9	6.0
Services	-9.1	5.4	9.2	7.1	6.3	6.4
Inflation (consumer price index)	2.4	3.9	5.8	5.9	3.6	3.0
Current account balance (% of GDP)	3.2	-1.5	-4.4	-3.6	-3.3	-3.1
Net foreign direct investment inflow (% of GDP)	1.9	3.0	2.3	2.5	2.7	2.8
Fiscal balance (% of GDP)	-7.6	-8.6	-7.3	-6.0	-5.1	-4.1
Revenues (% of GDP)	15.9	15.5	16.1	15.7	15.8	15.9
National Government Debt (% of GDP)	54.6	60.4	60.9	61.1	61.4	60.9
Primary balance (% of GDP)	-5.5	-6.4	-5.0	-3.3	-2.5	-1.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	..	3.0	2.3	1.9	1.6	1.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	..	17.8	15.3	13.7	12.2	10.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	..	55.3	51.8	49.4	46.8	44.3
GHG emissions growth (mtCO2e)	-1.8	9.7	7.6	5.3	5.3	5.4
Energy related GHG emissions (% of total)	58.6	61.0	62.6	62.9	63.6	64.2

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

SOLOMON ISLANDS

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

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

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

Key conditions and challenges

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

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

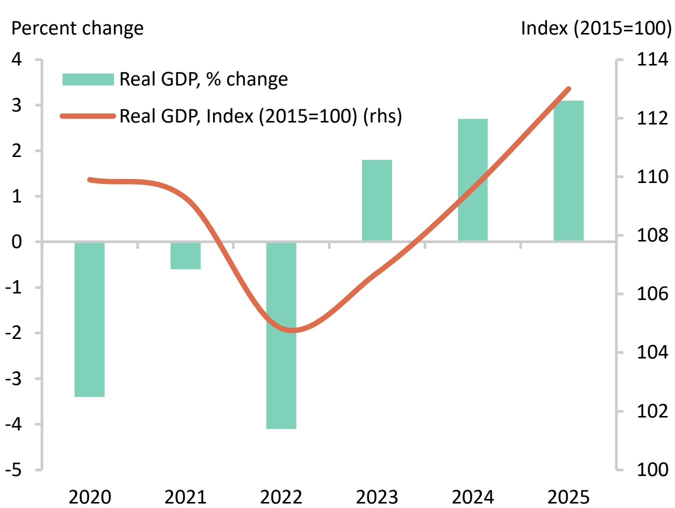
Recent developments

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

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

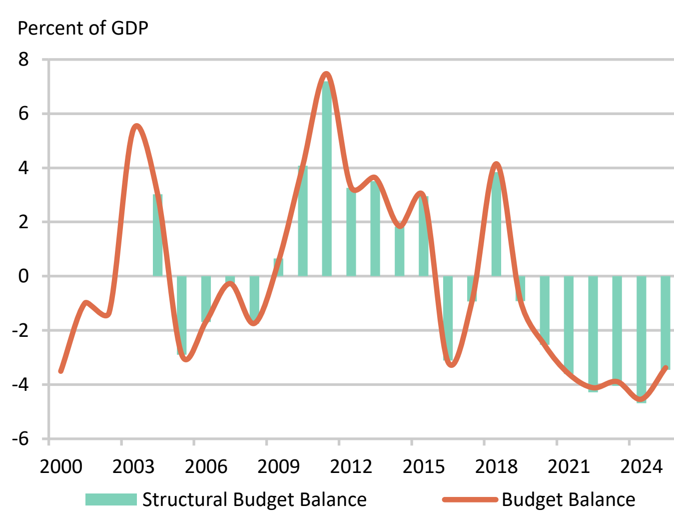
The current account deficit reached 13.3 percent of GDP in 2022, due to a decline in exports of logging and agricultural products. Foreign reserves

FIGURE 1 Solomon Islands / Real GDP



Sources: IMF and World Bank staff calculations.

FIGURE 2 Solomon Islands / Fiscal balance



Sources: IMF and World Bank staff calculations.

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

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

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

Outlook

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

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

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

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

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

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

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

SOUTH PACIFIC ISLANDS

Table 1	2022
Population, million	
Samoa	0.22
Tonga	0.11
Vanuatu	0.32
GDP, US$, billion	
Samoa	0.83
Tonga	0.50
Vanuatu	1.07
GDP per capita, current US$	
Samoa	3746
Tonga	4695
Vanuatu	3344

Sources: WDI, World Bank staff estimates.

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

Key conditions and challenges

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

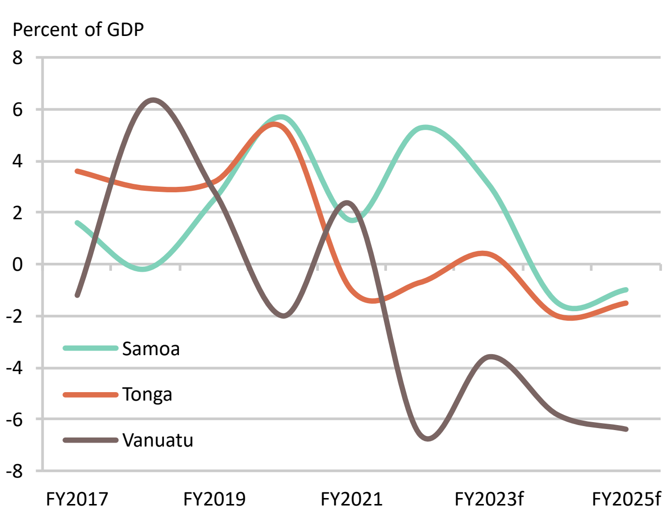
Recent developments

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

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

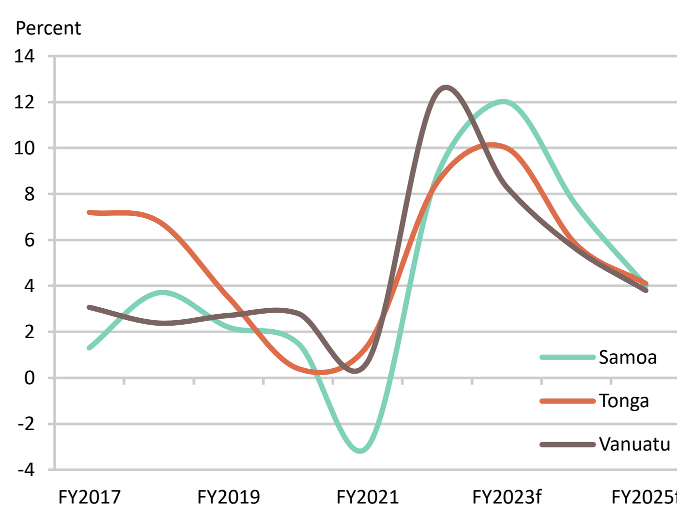
The economy of **Tonga** contracted by an estimated 2.0 percent in FY22. The volcanic eruption and subsequent tsunami in January 2022 led to a sharp fall in agricultural production, travel, and commercial services. Inflation surged to 8.5 percent in FY22, rising from 1.4 percent in FY21. The current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

FIGURE 1 South Pacific Islands / Overall fiscal balance



Sources: National sources and World Bank projections.

FIGURE 2 South Pacific Islands / Inflation (annual average)



Sources: National sources and World Bank projections.

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

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

Outlook

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

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

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

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

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

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

Sources: World Bank and IMF.
e = estimate; f = forecast.
Notes: Financial years for Samoa and Tonga are July-June, for Vanuatu it is January-December. Samoa improved the methodology for GDP calculation and revised the historical data in March 2022 GDP release.
a/ Calculations based on EAPPOV harmonization, using 2019-NSDP.
b/ Projection using neutral distribution (2019) with pass-through = 1 (High) based on GDP per capita in constant LCU.

THAILAND

Table 1	2022
Population, million	71.7
GDP, current US$ billion	495.4
GDP per capita, current US$	6910.0
Upper middle-income poverty rate ($6.85)[a]	12.2
Gini index[a]	35.1
School enrollment, primary (% gross)[b]	101.7
Life expectancy at birth, years[b]	78.7
Total GHG emissions (mtCO2e)	438.4

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

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

Key conditions and challenges

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

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

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

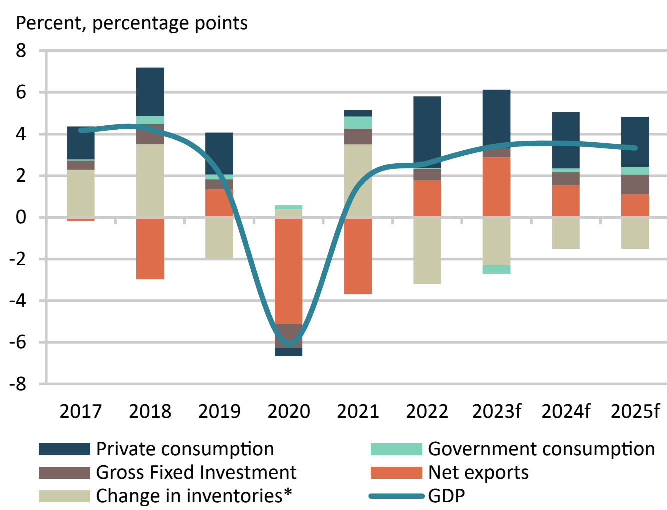
Recent developments

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

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

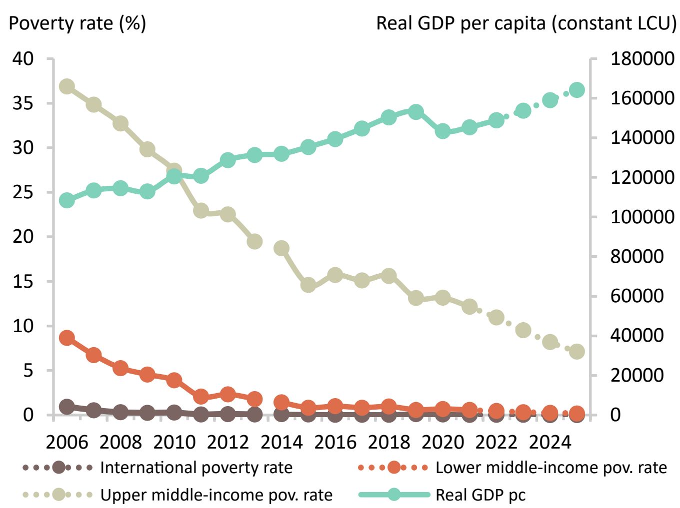
Headline inflation experienced the greatest decline among ASEAN countries, reaching a mere 0.4 percent (y/ y) in July, while monetary and fiscal measures sought to

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



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

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



Source: World Bank. Notes: see Table 2.

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

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

Outlook

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

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

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

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-6.1	1.5	2.6	3.4	3.5	3.3
Private consumption	-0.8	0.6	6.3	5.0	4.7	4.2
Government consumption	1.4	3.7	0.2	-2.6	1.1	2.5
Gross fixed capital investment	-4.8	3.1	2.3	1.8	2.6	3.9
Exports, goods and services	-19.7	11.1	6.8	4.8	5.8	4.2
Imports, goods and services	-13.9	17.8	4.1	0.6	3.8	2.8
Real GDP growth, at constant factor prices	-5.3	1.9	2.6	3.4	3.5	3.3
Agriculture	-2.9	2.6	0.5	2.6	2.2	2.2
Industry	-5.1	6.0	-1.0	-1.1	0.1	1.3
Services	-5.6	-0.5	4.9	6.0	5.4	4.4
Inflation (consumer price index)	-0.8	1.2	6.1	1.5	0.7	1.3
Current account balance (% of GDP)	4.2	-2.1	-3.5	0.5	2.6	3.6
Net foreign direct investment inflow (% of GDP)	-4.7	-0.9	0.4	-0.5	-0.8	-1.0
Fiscal balance (% of GDP)	-4.5	-7.0	-4.5	-2.4	-2.1	-2.2
Revenues (% of GDP)	20.7	20.0	19.8	20.2	20.1	20.0
Debt (% of GDP)	50.1	57.8	59.7	60.2	59.6	59.5
Primary balance (% of GDP)	-3.6	-5.7	-3.2	-0.5	-0.2	-0.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.7	0.6	0.4	0.3	0.2	0.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	13.2	12.2	11.0	9.5	8.2	7.1
GHG emissions growth (mtCO2e)	-4.1	4.2	0.3	0.3	2.9	2.8
Energy related GHG emissions (% of total)	57.4	58.6	58.3	57.7	58.2	58.6

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

TIMOR-LESTE

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

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

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

Key conditions and challenges

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

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

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

Recent developments

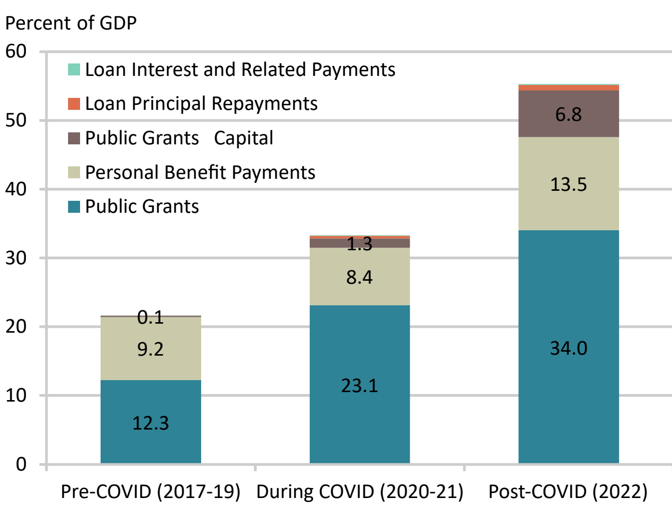
Timor-Leste's economy continued its recovery in 2022, expanding by 3.9 percent, fueled by public consumption and investment. Private investment rose, largely due to base effects, following two consecutive years of decline, while net exports continued to be a drag on growth. Despite the implementation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

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

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

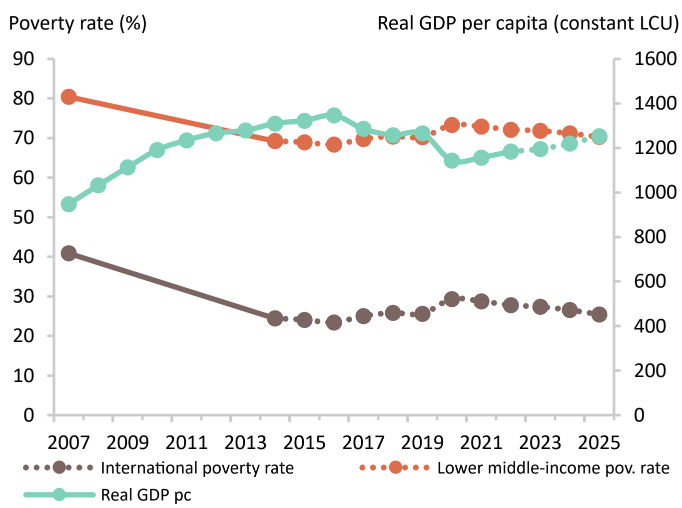
The end of oil and gas production also puts pressure on the budget. Ensuring fiscal sustainability in Timor-Leste has become more challenging. Despite the rollback of pandemic-related government spending in

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



Source: Timor-Leste Ministry of Finance.

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



Source: World Bank. Notes: see Table 2.

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

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

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

Outlook

In the medium term (2023 to 2025), an average annual growth rate is projected at 3.4 percent. It hinges on the assumption of political stability and the implementation of structural reforms, which are likely to lead to increased contributions from private consumption and investment toward economic activity. The government's prioritization of tackling infrastructure bottlenecks is anticipated to foster growth by streamlining the implementation of diverse infrastructure projects. Export growth is expected to face constraints. Although global food prices have somewhat moderated since the Russian invasion of Ukraine, projections suggest that they will remain higher than pre-war levels. This can be attributed, in part, to ongoing inflationary pressures impacting transportation and processing costs. The cessation of oil production will hasten the depletion of the Petroleum Fund's balance. In the coming five years, total withdrawals are expected to exceed the net return on investment by approximately 200 percent. Subsequent withdrawals are likely to require the liquidation of the Petroleum Fund's capital assets.

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

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

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

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

VIETNAM

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

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

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

Key conditions and challenges

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

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

Recent developments

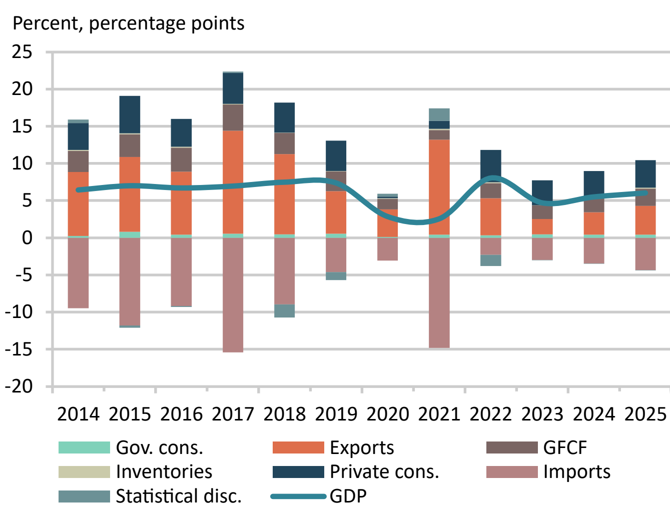
Real GDP growth slowed to 3.7 percent in H1-2023, reflecting a slump in external demand and weakening domestic demand. Exports contracted by 12 percent y/y in H1-2023. Final consumption growth slowed from 6.1 percent in H1-2022 to 2.7 percent in H1-2023, due to weaker consumer confidence and stagnating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

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

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

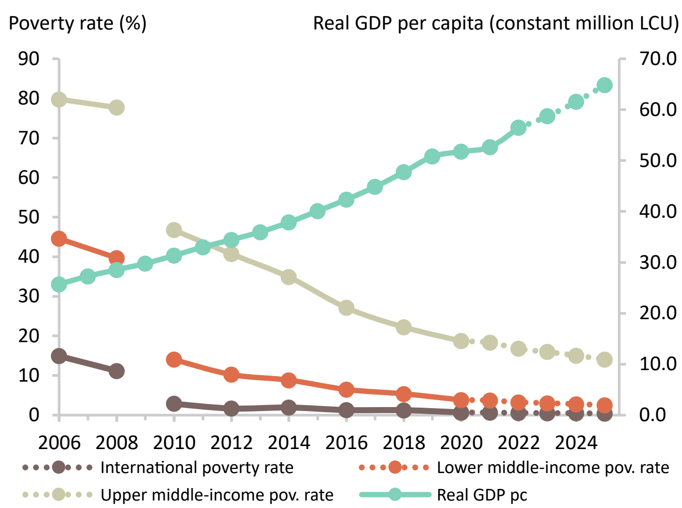
Despite external headwinds, Vietnam's external position improved in Q1-2023, recording a current account surplus of 1.5 percent of GDP. The merchandise trade balance improved as imports contracted more sharply than exports, partly due to falling imports of intermediate goods. Meanwhile, the deficit in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

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



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

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

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

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

Outlook

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

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

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

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

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

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

Europe and Central Asia

Annual Meetings 2023

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North Macedonia
Poland
Romania
Russian Federation
Serbia
Tajikistan
Türkiye
Ukraine
Uzbekistan

ALBANIA

Table 1	2022
Population, million	2.8
GDP, current US$ billion	18.9
GDP per capita, current US$	6743.1
Upper middle-income poverty rate ($6.85)[a]	34.2
Gini index[a]	36.0
School enrollment, primary (% gross)[b]	95.9
Life expectancy at birth, years[b]	76.5
Total GHG emissions (mtCO2e)	8.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2021).

Growth in 2022 reached 4.8 percent as private consumption, exports, and investment expanded despite increasing energy and food prices. Growth is expected to moderate in 2023, despite another year of exceptional increase in tourism. Poverty is expected to continue its downward trend as employment and wages increase. Medium-term prospects hinge on the global recovery, structural reforms, and fiscal consolidation.

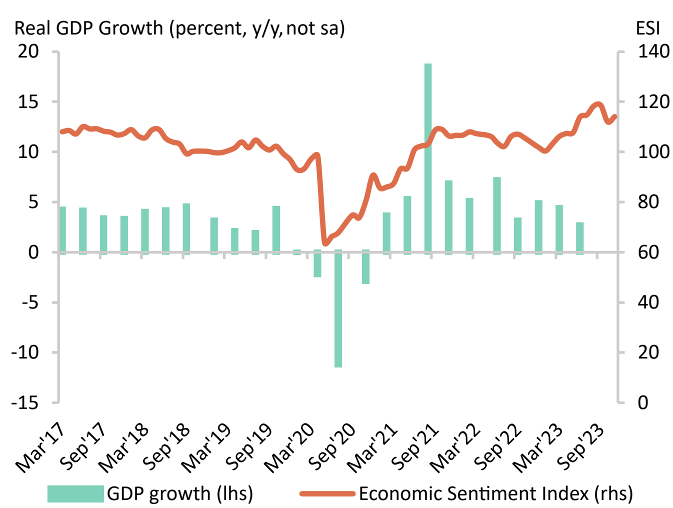
Key conditions and challenges

The Albanian economy has shown considerable resilience in the face of consecutive shocks during 2019-2022, including the 2019 earthquake, the pandemic and the ensuing economic turmoil, and Russia's invasion of Ukraine. The economy experienced a strong rebound, with real GDP expanding by 8.9 percent in 2021 and by 4.8 percent in 2022, and GDP exceeding its pre-pandemic level that year. Poverty rates continued their downward trend in 2022. A key factor in Albania's resilience has been the proximity to the European Union, which facilitates investment, remittances, and exports. As a consequence, construction and tourism are key growth drivers. The availability of hydropower, which meets 85 percent of domestic energy demand in a year with average precipitation, has provided some insulation from the ongoing energy crisis and contributed to containing the country's greenhouse gas emissions. Albania's key development challenges are its declining population, which is partially owed to large migration; the poor quality of the labor force and the low quality of jobs created; the moderate pace of structural reforms, especially in the areas of private sector environment and governance; and rising fiscal pressures, due to government responses to multiple crises, climate risks, contingent liabilities, and debt refinancing at a time of high interest rates. To address the gap in human capital investment and the need for climate-resilient infrastructure, while maintaining support for the most vulnerable, Albania will need to implement a Medium-Term Revenue Strategy to strengthen domestic revenues. Unlocking further growth is conditional on the swift implementation of the Government's program, anchored on the EU accession aspiration, and built on reforms tackling productivity, including improving the business environment, streamlining government interactions with the private sector, and expanding Albania's integration into foreign markets.

Recent developments

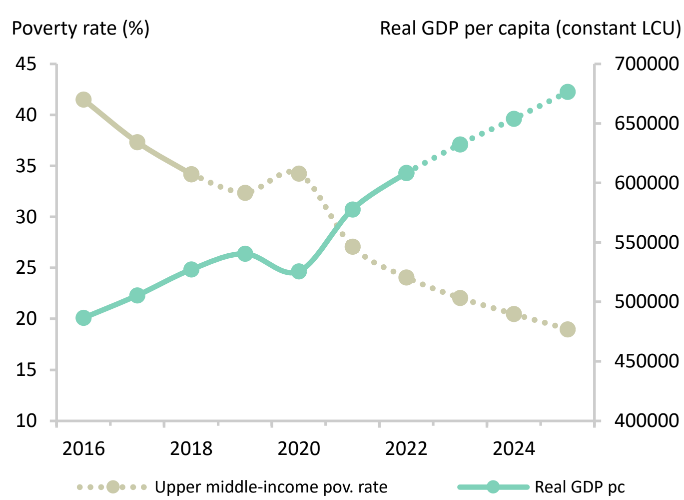
In the first quarter of 2023, GDP grew by 2.7 percent. Services, including trade and real estate, led growth on the supply side, followed by construction and manufacturing. Consumption and investment remained the main growth drivers on the demand side. Net exports reduced growth, due to smaller foreign demand. Leading economic indicators suggest growth accelerated during the second and third quarters with tourist arrivals hitting a record high through July 2023, and construction activity accelerating. Increased income from employment, credit growth, business and consumers sentiment indicators, and strong tax revenues all suggest an increasing contribution to growth from consumption, investment and net exports in the second and third quarters.

FIGURE 1 Albania / Economic sentiment index (ESI) and GDP growth



Sources: Instat and Bank of Albania.

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



Source: World Bank. Notes: see Table 2.

Employment grew by 4.4 percent yoy during Q1 2023. Increasing wages and employment incentivized labor force participation (ages 15+), which reached 64 percent in Q1 2023, the highest level since 2019. Average private sector wage growth reached 9.5 percent, down from 14.2 percent in the previous quarter, mainly driven by wage increases in trade, transport, accommodation industry and public administration. Unemployment reached 10.9 percent in Q1 2023, slightly higher than the end-2022 rate. Given strong GDP per capita growth in 2023, poverty is projected to decline by 1.9 percentage points to reach 22.2 percent.

The annual inflation rate dropped to 4.2 percent in July 2023 from a record high of 8.3 percent in October 2022, as a result of downward pressures from lower import prices, domestic currency appreciation and monetary policy normalization; upward pressures on inflation included wage increases and high-capacity utilization.

For the first half of 2023, the government recorded a high surplus, on account of strong revenue collection and lower spending. Grants accounted for most of the revenue increase (14.5 percent yoy), alongside social insurance contributions and personal income taxes, reflecting the increase in statutory minimum wages. The increase in expenditures was relatively small at 3.4 percent yoy but is expected to pick up during the second part of the year owing to increasing capital spending.

Outlook

Growth is expected to moderate to 3.6 percent in 2023, in the context of tight global financial conditions, limited economic growth in Europe, and the completion of programs for the post-earthquake reconstruction. Nevertheless, increased tourism and construction are expected to drive exports, consumption and investment growth at rates similar to the pre-pandemic period. The inflation rate is projected to start converging toward the 3 percent target by 2024. Economic sentiment remains positive (Figure 1), though it has recently outpaced economic performance.

Albania's primary balance is projected to reach 0.1 percent of GDP in 2023 and stay positive in observance of the fiscal rule. Fiscal consolidation is expected on the spending side. On revenues, Government plans to introduce further tax policy measures, envisioned in the Medium-Term Revenue Strategy. Public debt is expected to decline slightly to 63.1 percent of GDP in 2023, and more significantly over the medium term, as a result of higher nominal growth and a gradual reduction of the fiscal deficit. Given Albania's growing reliance on external financing, exchange rate, interest rate, and refinancing related risks remain elevated.

Further increases in food and energy prices are a key risk to growth, as they could affect real disposable income, slow poverty reduction and potentially constrain the fiscal space. As a small, open economy, Albania is highly exposed to external shocks, such as a recession in Europe or further tightening of financing conditions in international capital markets beyond the current year.

Domestic risks emanate from natural disasters, public-private partnerships, and SOEs, in addition to fiscal risks stemming from the country's hydropower-based energy sector that are mainly due to variations in hydrology.

TABLE 2 Albania / 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	8.9	4.8	3.6	3.2	3.2
Private consumption	-3.4	4.3	6.9	2.3	2.6	2.7
Government consumption	1.5	7.8	-4.8	4.6	1.5	1.0
Gross fixed capital investment	-1.4	19.2	6.5	-1.2	3.4	3.3
Exports, goods and services	-27.9	52.0	7.5	6.7	5.4	5.9
Imports, goods and services	-19.8	31.5	13.1	1.2	3.4	3.6
Real GDP growth, at constant factor prices	-2.9	8.2	5.2	3.6	3.2	3.2
Agriculture	1.3	1.8	0.1	0.3	0.3	0.3
Industry	-4.3	13.6	7.7	1.2	3.7	3.5
Services	-3.8	8.1	5.9	6.0	3.9	4.0
Inflation (consumer price index)	2.2	2.6	6.7	5.0	3.5	3.0
Current account balance (% of GDP)	-8.5	-7.8	-6.0	-5.6	-5.8	-5.6
Net foreign direct investment inflow (% of GDP)	6.7	6.5	6.7	6.8	6.8	6.8
Fiscal balance (% of GDP)	-6.7	-4.6	-3.7	-2.5	-2.3	-1.9
Revenues (% of GDP)	25.9	27.5	26.8	28.1	27.5	27.7
Debt (% of GDP)	75.8	75.4	65.4	63.1	62.1	60.8
Primary balance (% of GDP)	-4.6	-2.7	-1.8	0.1	0.3	0.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	34.3	27.1	24.1	22.0	20.5	19.0
GHG emissions growth (mtCO2e)	-5.7	4.8	-1.5	-4.0	-2.2	-1.9
Energy related GHG emissions (% of total)	46.3	49.6	49.4	48.1	47.8	47.5

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 ECAPOV harmonization, using 2014- and 2019-SILC-C. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection using point-to-point elasticity (2013-2018) with pass-through = 1 based on GDP per capita in constant LCU.

ARMENIA

Table 1	2022
Population, million	3.0
GDP, current US$ billion	19.5
GDP per capita, current US$	6572.2
International poverty rate ($2.15)[a]	0.5
Lower middle-income poverty rate ($3.65)[a]	8.7
Upper middle-income poverty rate ($6.85)[a]	51.7
Gini index[a]	27.9
School enrollment, primary (% gross)[b]	91.1
Life expectancy at birth, years[b]	72.0
Total GHG emissions (mtCO2e)	13.5

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

Economic growth reached 10.5 percent (yoy) in H1 2023, driven by services and continued inflows of citizens and money transfers from Russia, and is projected at 6.6. percent in 2023 as a whole. This was accompanied by a sharp reduction in inflation to 3.6 percent (yoy) on average through July 2023. Unresolved issues at the Armenian border, a reversal of recent inflows, potential sanctions, and a slowdown in trade partner economies are the main risks to the outlook.

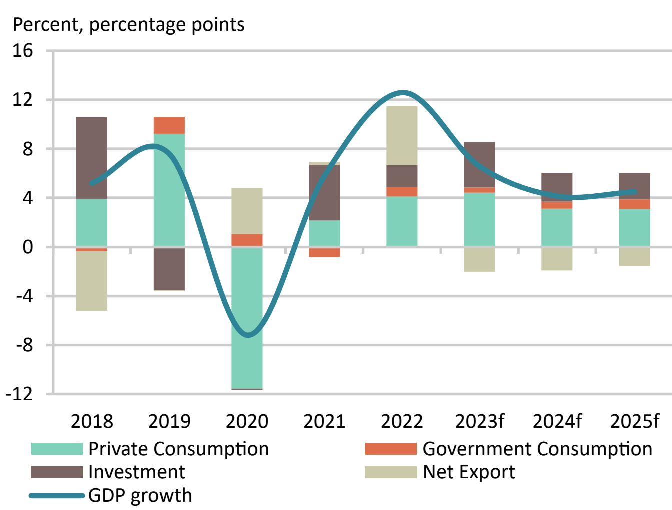
Key conditions and challenges

Following Russia's invasion of Ukraine, Armenia absorbed a significant inflow of migrants, businesses, and capital. Armenia also benefited from rerouted trade and money flows. These developments fueled domestic demand and supported the appreciation of the currency. While there are signs these flows are easing somewhat, Armenia continues to benefit from them, and the risk of reversal has so far not materialized. Overall, the economic environment enjoys sound macroeconomic policies, including active inflation targeting, adherence to a fiscal rule, and sound financial sector oversight. In recent years, the authorities have aimed at reducing corruption and increasing transparency, particularly in the tax and customs administrations.
However, important structural challenges persist, resulting in an undiversified economic structure with limited manufacturing and a narrow export basis, subdued growth in the agriculture sector, insufficient investment, and challenges to attract FDI, limited human capital and skills mismatch.

Recent developments

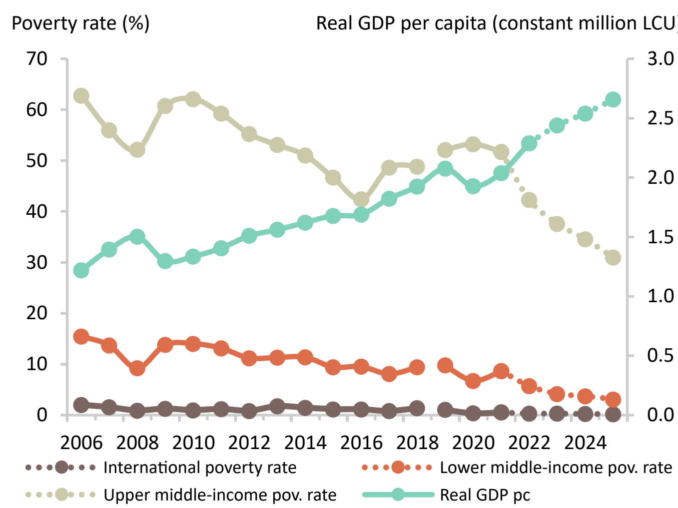
Armenia maintained double-digit GDP growth in H1 2023, at 10.5 percent (yoy) in real terms. As in 2022, growth was driven by a 14 percent (yoy) increase in services, particularly in IT, trade, and transport sectors. Growth in industry slowed to 1 percent (yoy) in H1 2023 due to contraction in the mining sector. However, construction continued to grow at the exceptional rate of 19 percent (yoy). Agricultural growth was flat, reflecting longstanding challenges in this sector (both statistical and structural).
The unemployment rate fell from 14.8 percent in Q1 2022 to 13.7 percent in Q1 2023, reflecting the strong economic activity.
Average inflation dropped sharply, from 8.6 percent in 2022 to 3.6 percent during January-July 2023, largely driven by a slowdown in food and transport inflation. In response to this trend, the Central Bank of Armenia reduced the policy rate by 50 bps, to 10.25 percent in August.
Credit to the economy increased by 14.6 percent in nominal terms (yoy) as of the end of June 2023, mostly driven by an increase in dram-denominated loans. This lowered loan dollarization to 35 percent as of the end of June 2023. Financial stability indicators remained sound, with the Capital Adequacy Ratio (CAR) above 20 percent and the Non-Performing Loans (NPLs) ratio below 3 percent.
The fiscal budget recorded a surplus of 1.4 percent of projected GDP in H1 2023, compared to the planned deficit of 1 percent of GDP. This was primarily due to a 6 percent overperformance in tax revenue collection, which rose by 19 percent (yoy) in nominal terms. This was mostly driven by increased profits tax and VAT tax collection of 45 percent and 20 percent (yoy, in nominal terms), respectively, explained by strong economic performance and higher

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



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

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



Source: World Bank. Notes: see Table 2.

consumption, and 20 percent greater income tax collection in nominal terms due to increased employment and salary levels. Current and capital expenditures were also higher by 12 percent and 16 percent (yoy, in nominal terms), respectively; however, capital expenditures fell short by 46 percent in nominal terms compared to the ambitious public investment plan approved in the budget. Driven by robust economic and fiscal performance, government debt to GDP continued to decline to about 44 percent of projected annual GDP at the end of July 2023.

Growth of exports and imports of goods continued to be strong in H1 2023, both at 73 percent (yoy, in USD value), due to rerouting of exports to Russia. The trade balance in nominal terms deteriorated by 73 percent (yoy), due to a 1.5 times larger import base compared to exports. This was partly compensated by higher service exports, including a 70 percent (yoy) increase in the number of tourist arrivals in H1 2023. While gross money transfers from Russia increased by 88 percent (yoy) in H1 2023, large outflows to third countries resulted in a 10 percent decline (yoy) in net terms. This contributed as well to the deterioration of the current account balance. Nevertheless, appreciation pressures on the AMD continued in 2023, resulting in a 2 percent stronger AMD against USD at the end of July 2023 compared to the end of 2022. International reserves declined in Q1 but rebounded to a record USD 4.1 billion at the end of July 2023.

Outlook

Growth is expected to moderate in H2 2023 as consumption slows due to the high base effect in H2 2022 and as import growth outpaces export growth. However, moderation will be milder than initially projected at the beginning of 2023, with growth revised up to 6.6 percent (yoy) in 2023. Growth in the medium-term will moderate further to an average of 4.3 percent in 2024-2025. Average inflation is forecast to reach 3.7 percent in 2023 and to remain close to the target of 4 percent in the medium term.

The deficit is expected to reach 2.4 percent of GDP in 2023, which is lower than budgeted due to tax revenue overperformance. The CAD is projected to widen in 2023, impacted by a pick-up in goods imports, a slowdown in exports from a very high base in 2022, and a deterioration in income accounts, while still being mostly financed by FDI inflows.

Due to continued and strong economic growth in 2022-2023, poverty is projected to fall from 51.7 percent in 2021 to 37.6 percent in 2023, as measured by the UMIC poverty line of USD 6.85/day (2017 PPP). This will be supported by the reduction in inflation, especially in food prices.

The outlook is subject to significant uncertainty, due to the risk of reversal of inflows; potential sanctions related to the re-exports of double-use goods; a possible slowdown in trading partner economies; and unresolved issues at the Armenian border.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-7.2	5.8	12.6	6.6	4.1	4.5
Private consumption	-13.9	2.8	5.5	6.3	4.5	4.4
Government consumption	9.2	-6.2	6.3	3.7	5.3	7.1
Gross fixed capital investment	-1.5	23.6	9.0	16.7	9.6	8.3
Exports, goods and services	-33.5	18.6	59.3	21.6	9.9	8.7
Imports, goods and services	-31.5	12.9	34.5	23.2	11.8	9.9
Real GDP growth, at constant factor prices	-6.8	5.6	13.2	6.6	4.1	4.5
Agriculture	-3.7	-0.8	-0.7	0.6	0.9	1.2
Industry	-2.5	2.6	9.2	6.0	5.3	4.7
Services	-9.6	8.7	18.2	7.9	4.1	4.9
Inflation (consumer price index)	1.2	7.2	8.6	3.7	4.0	4.0
Current account balance (% of GDP)	-4.0	-3.5	0.8	-2.1	-3.0	-3.4
Net foreign direct investment inflow (% of GDP)	0.7	2.5	4.9	2.5	2.7	2.9
Fiscal balance (% of GDP)	-5.1	-4.5	-2.2	-2.4	-2.8	-2.6
Revenues (% of GDP)	26.0	24.9	25.1	25.6	25.4	25.9
Debt (% of GDP)[a]	63.5	60.2	46.7	48.6	49.2	49.5
Primary balance (% of GDP)	-2.4	-2.0	0.1	0.4	0.4	0.5
International poverty rate ($2.15 in 2017 PPP)[b,c]	0.4	0.5	0.3	0.3	0.2	0.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	6.7	8.7	5.7	4.2	3.7	3.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	53.2	51.7	42.3	37.6	34.5	31.0
GHG emissions growth (mtCO2e)	-1.8	15.4	18.7	9.1	8.2	9.4
Energy related GHG emissions (% of total)	60.3	66.5	72.2	74.8	76.8	78.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Excludes CBA debt.
b/ Calculations based on ECAPOV harmonization, using 2021-ILCS. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.
c/ Projection using neutral distribution (2021) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

AZERBAIJAN

Table 1	2022
Population, million	10.2
GDP, current US$ billion	76.8
GDP per capita, current US$	7533.4
School enrollment, primary (% gross)[a]	94.3
Life expectancy at birth, years[a]	69.4
Total GHG emissions (mtCO2e)	53.2

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

Economic growth slowed sharply to 0.5 percent in H1 2023, dragged down by contracting oil production and moderate non-energy sector activity. Growth is projected at 1.5 percent in 2023 as a whole. Inflation eased, although it remains in double digits as of June 2023, and is expected to continue to decline. The current account surplus is expected to reduce in 2023 due to a reduction in exports and money transfers.

Key conditions and challenges

Azerbaijan's continued reliance on hydrocarbons as a major source of export and fiscal revenues remains its main vulnerability. It challenges long-term growth prospects because of declining oil production, oil price volatility, and the global transition away from fossil fuels.

Constraints to private sector development include a large state footprint in the economy, lack of a level playing field for companies, shallow financial markets, and a weak human capital base. Azerbaijan's 2022–2026 Socio-Economic Development Strategy lays out a reform plan to move to a private sector-led growth model and the development of human capital, with a sustained 5-percent growth target in non-energy sectors in 2022–2026.

Recent developments

In H1 2023, real growth slowed to 0.5 percent, compared to 4.6 percent in 2022. The energy sector contracted due to a fall in oil production because of aging oil fields, while natural gas grew at a slower pace, with gas production nearing full capacity. The non-energy sector expanded by 3.1 percent, with service sectors (transport, hospitality, retail trade) cooling after strong growth in 2022.

On the demand side, consumption growth eased due to a decline in real wages and moderation in money transfers from Russia. Investment growth remained robust, supported by public investment largely directed toward reconstruction in liberated territories and the energy sector.

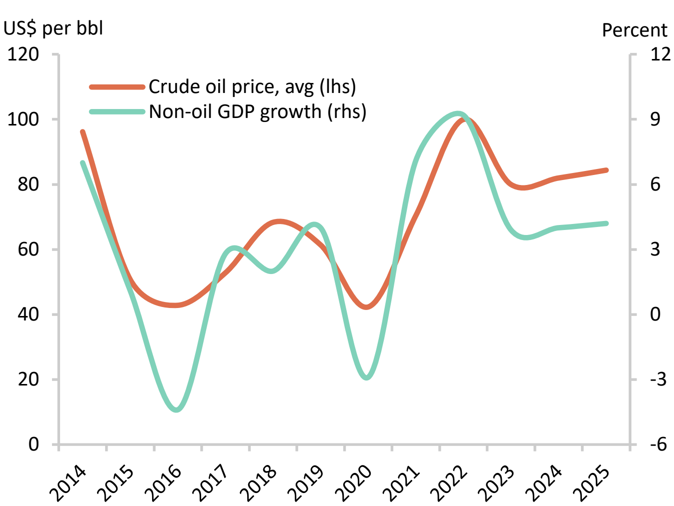
The latest official figures show that the national poverty rate decreased from 5.9 in 2021 to 5.5 in 2022. In the first months of 2023, the unemployment rate remained stable at 5.6 percent.

Inflation moderated to 10.7 percent (yoy) in H1 2023, from 14.3 percent at the end of 2022, driven by a slowdown in food inflation. With inflation still in double digits, the Central Bank of Azerbaijan (CBA) raised the policy interest rate by 75 bps in H1 2023, to 9 percent (which remains negative in real terms).

Falling energy prices and falling oil production in H1 2023 negatively impacted exports, with a decline of 2.9 percent (yoy) in USD terms, while imports increased by 29 percent (yoy), largely driven by public sector investment. Despite faster growth in imports, the trade surplus reached 27.5 percent of GDP in H1 2023. Money transfers dropped by 48 percent in H1 2023 (yoy). Foreign currency reserves increased by 2.7 percent compared to year-end 2022, reaching USD 9.2 billion or 5.4 months of import cover.

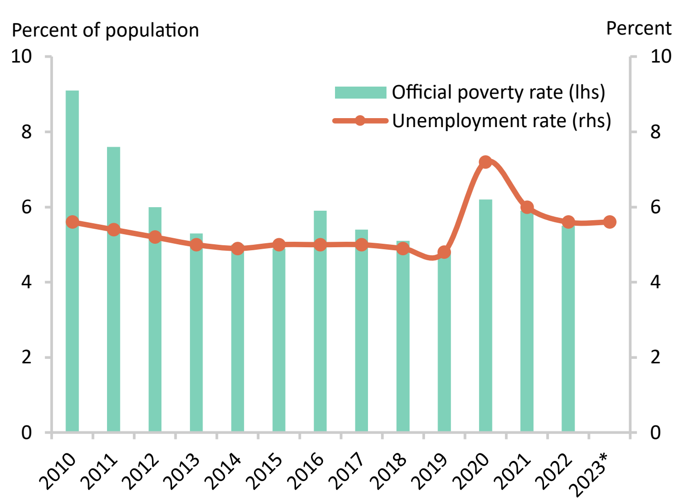
The fiscal balance recorded a large surplus in H1 2023, at 18.4 percent of GDP. This is due to surge in revenue to 44 percent of GDP, supported by higher tax receipts from sales of natural gas.

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



Sources: State Statistical Committee, World Bank data, and World Bank staff estimates.

FIGURE 2 Azerbaijan / Official poverty rate and unemployment rate



Source: State Statistical Committee.
Notes: The World Bank has not reviewed the official national poverty rates for 2013–2022. * Preliminary data.

Spending expanded to 26.5 percent of GDP, with public investment increasing to 6.5 percent of GDP, while current spending lagged. Due to a high revenue outturn, the Government increased the 2023 planned budget spending by 10 percent in nominal terms (from the original budgeted amount). Sixty percent of the increase will be allocated to reconstruction needs. Fiscal buffers remain strong, with reserves of the State Oil Fund of the Republic of Azerbaijan (SOFAZ) increasing by 12 percent, to USD 55 billion (70 percent of 2022 GDP). Public debt edged up to an estimated 14.5 percent of GDP.

Credit to the economy rose by 9 percent in H1 2023, driven by a 10 percent increase in consumer lending. The NPL ratio fell to 2.3 percent by the end of June, from 3.5 percent recorded a year ago, while bank profits increased substantially.

Outlook

GDP growth is projected at 1.5 percent in 2023 due to the expected reduction in oil production and slow growth in non-energy sector activity as growth converges to pre-COVID levels.

On the demand side, consumption will ease in 2023 while increased social transfers enabled by the revision of the budget are expected to limit the slowdown. Capital formation will largely be driven by public investment. In the medium term, in the absence of structural reforms, growth is expected to average 2.4 percent.

Inflation is projected to slow to 9 percent in 2023, as food prices continue to fall and external pressures ease while remaining above the CBA's upper range. Inflation is expected to return to CBA's target interval of 4+/–2 percent by the end of 2024.

The impact on poverty and inequality will depend on the extent of the reduction in food prices and the impact of slower economic activity on employment.

In 2023, the external balance is estimated to remain in surplus, supported by stable energy prices. Imports are expected to grow in 2023, largely driven by public investment. The fiscal balance is projected to remain in surplus in the medium term, averaging 3.4 percent of GDP, as energy revenue continues to offset higher spending in reconstruction and implementation of the development strategy.

The main downside risks are related to the uncertainty around the economic implications of Russia's invasion of Ukraine, including the risk of reversals of money transfers from Russia. In addition, a fall in energy prices could impact economic activity, as occurred in 2016. Upside risks include the potential increase in natural gas production due to a new gas field becoming operational.

TABLE 2 Azerbaijan / 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	5.6	4.6	1.5	2.4	2.5
Private consumption	-5.1	7.0	4.9	4.0	3.6	3.6
Government consumption	4.8	3.8	7.4	7.1	3.1	3.1
Gross fixed capital investment	-7.1	-6.0	4.5	3.5	2.3	2.0
Exports, goods and services	-8.1	5.6	3.3	-1.0	1.7	1.8
Imports, goods and services	-10.5	2.5	3.2	2.2	2.7	2.7
Real GDP growth, at constant factor prices	-4.4	5.6	4.6	1.5	2.4	2.5
Agriculture	1.9	3.3	3.4	3.2	3.0	3.0
Industry	-5.2	4.1	2.4	-0.9	1.1	1.2
Services	-4.4	8.6	8.5	4.9	4.2	4.2
Inflation (consumer price index)	2.8	6.7	13.8	9.0	5.8	5.2
Current account balance (% of GDP)	-0.5	15.2	26.5	14.6	13.5	13.0
Net foreign direct investment inflow (% of GDP)	-1.5	-4.1	-1.5	-1.0	-1.0	-0.9
Fiscal balance (% of GDP)	-6.5	4.2	5.5	3.1	3.0	2.9
Revenues (% of GDP)	33.7	36.5	32.4	34.6	34.1	32.7
Debt (% of GDP)	18.4	16.2	11.7	13.3	14.0	15.0
Primary balance (% of GDP)	-5.7	4.8	5.9	3.4	3.3	3.2
GHG emissions growth (mtCO2e)	-1.6	0.7	1.4	0.0	0.7	1.3
Energy related GHG emissions (% of total)	62.5	63.9	64.3	64.0	64.2	64.5

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

BELARUS

Table 1	2022
Population, million	9.3
GDP, current US$ billion	72.0
GDP per capita, current US$	7732.1
International poverty rate ($2.15)[a]	0.0
Lower middle-income poverty rate ($3.65)[a]	0.1
Upper middle-income poverty rate ($6.85)[a]	1.3
Gini index[a]	24.4
School enrollment, primary (% gross)[b]	94.2
Life expectancy at birth, years[b]	72.4
Total GHG emissions (mtCO2e)	59.4

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

Despite robust growth, the economy faces challenges from supply bottlenecks due to sanctions that target major currency-earning sectors, hindering exports and redirecting trade routes. Growth is bolstered by rebounding domestic demand, driven by accommodative monetary and fiscal policies, redirection of trade routes, and rising external demand from the eastern markets. As monetary and fiscal policies approach their limits, the increasing dependence on Russia and the looming threat of sanctions in the transportation sector pose significant risks.

Key conditions and challenges

Belarus's economy is experiencing a robust rebound following its sharpest GDP decline in two decades in 2022. Strong administrative measures have curbed inflation to single digits and stabilized the exchange rate. Soft monetary and fiscal policies are providing essential support to domestic demand, as reflected in strong real growth of disposable incomes. However, potential GDP decreased after the introduction of sanctions and while investment activity is showing signs of improvement, it has not yet reached historical levels.

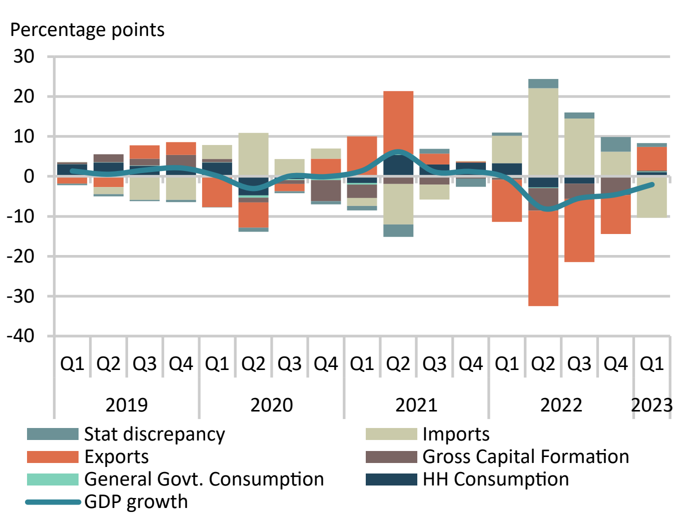
The economy is actively adapting to sanctions, forging new trade routes, and redirecting exports, particularly in potash fertilizers and refined oil products, through Russia, albeit with increased logistics costs. The current focus lies on import substitution strategies to address supply issues and boost local production. However, even if proven to be efficient, these efforts will take time to yield results, leaving Belarus vulnerable to weak external demand, particularly if Russia's economic outlook deteriorates.

Elevated security concerns and geopolitical tensions exert additional pressure on the economic outlook, especially if more sanctions are introduced, such as the closure of the western border for passenger and cargo transportation. Prolonged adherence to accommodative policies presents challenges, requiring Belarus to delicately balance the preservation of social benefits, wages, economic support, and overall economic stability. This, coupled with a declining current account and exchange rate, price controls, and labor force constraints, pose risks of high inflationary pressures. Lastly, Belarus's economy continues to grapple with its Soviet-era structure and a focus on quantitative growth with diminishing prospects of economic diversification.

Recent developments

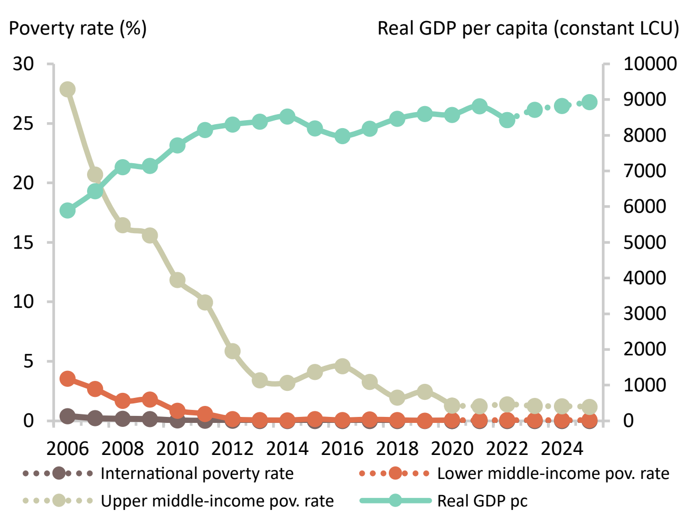
Benefiting from resilient demand from Russia, accommodative monetary policy, and a low statistical base, GDP grew by 3.1 percent in the first eight months of 2023. Growth was driven by manufacturing (9.6 percent), construction (8.7 percent), and retail and wholesale trade sectors (8.6 percent), recovering from the 2022 dip. The agricultural sector decreased (1.7 percent) due to lower grain harvest compared to last year. Conversely, the IT and transport sectors contracted, due to sanctions and labor migration. On the demand side, monetary and fiscal conditions fueled fixed investments (8.6 percent), while robust wage growth, decelerating inflation, and attractive interest rates on housing and consumer loans drove household consumption. Net exports made a negative contribution, as exports trailed behind imports due to sanctions and the collapse of IT services exports.

FIGURE 1 Belarus / Quarterly real GDP growth and contributions to real quarterly GDP growth



Source: World Bank calculations based on Belstat data.

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



Source: World Bank. Notes: see Table 2.

Inflation slowed to 2.3 percent in August (YoY), driven by the base effect and price controls, resulting in 5.6 percent inflation during January-August 2023. This led to a reduction in the base interest rate in June to 9.5 percent from 12 percent in January 2023.

Sanctions have left the external position vulnerable, relying heavily on Russian credits. Exports grew by 8.6 percent in H1 2023, driven by Russian demand and commodity prices. However, with rising real household incomes, imports grew significantly (23 percent), reducing the trade balance surplus. Remittances remained strong (27 percent), but the current account deficit expanded by 30 percent y/y in the first quarter. This deterioration in the current account did not significantly impact external debt (-5 percent) or foreign reserves. However, foreign reserves in hard currency experienced an 8 percent reduction, reflecting Belarusian ruble volatility, which mirrors the Russian ruble.

Households' real disposable income declined by 3.6 percent in 2022 but grew by 3.9 percent in H1 2023 due to higher real wages and pensions. As a result, poverty, as measured by the national poverty line, remained stable at 3.9 percent in Q1 2023.

Outlook

While the economy redirects toward the East following the imposition of sanctions and the recession of 2022, the economic prospects appear dim. Recent macroeconomic stability masks deep-rooted inefficiencies and growing reliance on one partner. In 2023, growth is anticipated to be stimulated by expansionary policies, support to SOEs, and recovering disposable income. Nevertheless, GDP growth will stabilize at around 3 percent as the stimulative economic policies reach their limits, and a full recovery from the 2022 downturn is projected by 2024/25. Consumption, the main driver of aggregate demand, which slumped in 2022, will be underpinned by real wage increases (8.4 percent in seven months) and announced pensions and wage increases in the public sector in September. Likewise, investments are projected to have a positive contribution, particularly propelled by the construction sector, but less machinery. Amidst robust domestic demand and curbed foreign trade, imports are expected to outpace export growth, resulting in a negative net export contribution.

In the medium term, growth is anticipated to remain below potential, with domestic demand substantially curtailed due to diminished foreign exchange earnings and projected tighter monetary and fiscal policies. Excepting sectors aligned with Russian exports (oil, fertilizers, and machinery), investments are projected to decelerate as the economy remains insulated. Against this background, with limited potential for growth, the economy may follow a close to zero growth trajectory. Inflation is forecasted to stabilize at 8.2 percent, with a gradual decline to 7.2 percent expected by 2025 if administrative measures are effectively maintained. Lower external demand and commodity prices are projected to erode the current account balance, leading to currency pressures. The fiscal outlook is anticipated to worsen, with fiscal deficits expected due to the government's pursuit of economic stimulus and job preservation measures. With real disposable income up 3.9 percent over January-June 2023 compared with the corresponding period of 2022, poverty is projected to fall in 2023 to a level comparable to 2021, though the fall is likely to be tempered by the decline in the number of employed experienced so far during all months in 2023.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-0.7	2.4	-4.7	3.0	0.8	0.7
Private consumption	-1.1	4.9	-1.2	4.1	2.5	2.4
Government consumption	-2.0	-0.8	-0.1	1.5	0.2	0.0
Gross fixed capital investment	-3.9	-5.5	-13.3	7.6	0.8	1.1
Exports, goods and services	-3.7	10.1	-12.3	10.5	2.8	2.5
Imports, goods and services	-7.4	5.7	-11.4	14.8	4.7	4.4
Real GDP growth, at constant factor prices	-0.7	2.4	-4.7	2.8	0.7	0.7
Agriculture	4.8	-4.1	4.4	4.1	2.0	2.3
Industry	-0.4	3.1	-6.2	8.9	1.9	1.2
Services	-1.8	3.0	-5.1	-1.9	-0.5	0.1
Inflation (consumer price index)	5.5	9.5	15.2	8.2	8.9	7.2
Current account balance (% of GDP)	-0.3	3.1	3.7	0.8	-1.1	-1.4
Net foreign direct investment inflow (% of GDP)	2.1	1.9	1.8	1.8	1.9	1.8
Fiscal balance (% of GDP)	-1.7	0.0	-2.1	-1.0	-1.5	-1.2
Revenues (% of GDP)	37.9	37.4	34.7	35.7	36.0	36.2
Debt (% of GDP)	41.1	35.8	39.6	40.3	41.3	42.6
Primary balance (% of GDP)	0.0	1.7	-0.6	0.0	-0.5	-0.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.1	0.1	0.1	0.1	0.1	0.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	1.3	1.2	1.4	1.2	1.2	1.2
GHG emissions growth (mtCO2e)	-1.6	-1.9	-5.7	-0.5	-1.1	-0.5
Energy related GHG emissions (% of total)	85.7	85.7	85.6	85.9	85.9	85.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2020-HHS. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

BOSNIA AND HERZEGOVINA

Table 1	2022
Population, million	3.2
GDP, current US$ billion	23.0
GDP per capita, current US$	7118.9
Life expectancy at birth, years[a]	75.3
Total GHG emissions (mtCO2e)	27.2

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

After decelerating to 3.9 percent in 2022, real GDP growth is expected to further slow to 2.2 percent in 2023 as private consumption weakens. Annual inflation will remain elevated at 6 percent in 2023 driven by food, housing, and energy prices, weakening disposable income, and creating risks for poverty reduction. Upcoming municipal elections will likely make the 2022 fiscal surplus short-lived. Public debt is expected at about 36 percent of GDP. Structural reforms remain delayed mainly due to ongoing political frictions.

Key conditions and challenges

To become an EU candidate, BiH needs to address 14 reform priorities in the areas of democracy, the rule of law, human rights, and public administration. In parallel, economic criteria for EU accession require BiH to reduce internal market fragmentation by strengthening country-wide regulatory and supervisory institutions, enhancing transparency and efficiency of the oversized public sector, and reducing political involvement in the management of the public sector, including state-owned enterprises. EU accession will also require an improved business environment in part based on (i) simplified business registration and licensing procedures and (ii) harmonized and mutually recognized licenses and certificates between the entities.

BiH has shown macroeconomic stability and resilience over the past decade, including during the COVID-19 and post-COVID periods. These have been largely facilitated by three economic anchors: the currency board (which ties the BiH mark to the euro), the state-wide collection of indirect taxes through ITA, and EU membership prospects.

Nevertheless, with real income growth averaging around 1.6 percent from 2009 to 2019, living standards are stagnant as real per capita consumption is around 40 percent of the EU27 average. Faster convergence toward the EU27 average will be difficult to achieve due to low investment rates, a growth model that relies on private consumption, and absent structural reforms.

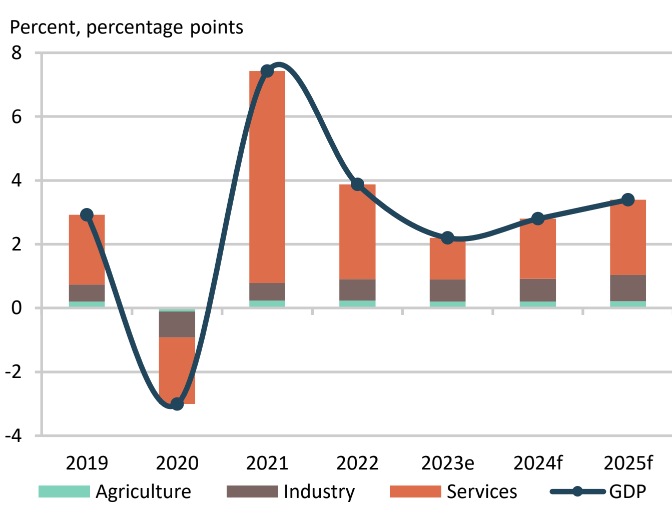
The implementation of structural reforms remains sluggish due to political frictions, pressures from frequent elections, widespread corruption, and fragmentation of responsibilities between the two entities and cantons. Because of the resulting poor welfare prospects, BiH exhibits one of the highest labor out-emigration rates in the Western Balkans.

Recent developments

In 2022, real GDP grew 3.9 percent compared to 7.4 percent the year before as the rebound from the post-pandemic period subsided. Economic activity slowed from 5.9 percent in Q1 2022 (yoy) to 1.7 percent in Q4 2022 (yoy) mainly due to output deceleration in manufacturing. This trend persisted into Q1 2023, with real output rising a mere 1.1 percent (yoy). The latter is primarily owed to the fall in private consumption, which contracted 0.4 percent (yoy) due to the weakening of real disposable income caused by high inflation.

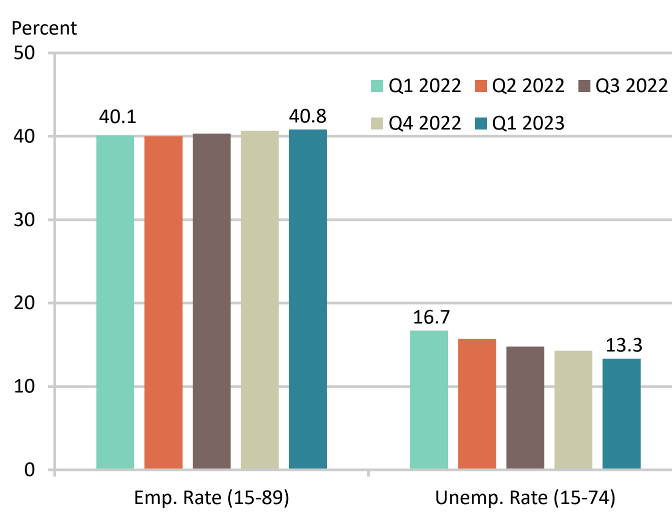
Inflation slowed to 4.9 percent in June (yoy), which translates into an inflation rate of 9.3 percent during January-June of 2023, a 2.2 percentage point contraction vis-à-vis the same period last year. Inflation dynamics were driven by higher food, housing, and transport prices, putting disproportionate stress on lower income groups, and generating risks for poverty reduction.

FIGURE 1 Bosnia and Herzegovina / Real GDP growth and contributions to real GDP growth



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

FIGURE 2 Bosnia and Herzegovina / Labor market indicators



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

Meanwhile, key labor market indicators remain static. The overall employment rate increased marginally to 40.8 percent in Q1 of 2023 compared to 40.1 percent in Q1 of 2022, while the unemployment rate shrunk to 13.3 percent, a 3.4 percentage points decline vis-à-vis Q1 2022. However, the decline in the unemployment rate was driven by people moving from employment to inactivity, and, thus, the overall activity rate declined by 1 percentage point during this period.

Stronger nominal tax revenues supported by high inflation generated a fiscal surplus of 0.4 percent of GDP in 2022. This compares to a deficit of 0.3 percent the year before, and 5.3 percent of GDP in 2020. Higher nominal expenditures in 2022 were driven by social measures aimed at softening the inflationary impact on households, and pre-election spending, including wage hikes and a hike in capital expenditures. Nevertheless, public debt remains low at 36 percent of GDP.

Adverse terms of trade caused a widening of the merchandise trade deficit during 2022 and the first half of 2023. The current account deficit therefore broadened to 4.5 percent in 2022 and is set to further widen to 4.7 percent of GDP in 2023. External financing largely entails net FDI inflows, mainly into the foreign-owned banking sector, which remained stable during the first half of 2023.

Outlook

Real GDP growth is set to decelerate to 2.2 percent in 2023, and 2.8 percent in 2024 as private consumption weakens due to the softening of real disposable income, and as exports adjust to much lower growth in the EU. By 2025, real output growth is expected to rebound to 3.4 percent as both exports and private consumption strengthen based on improving conditions in the EU and tightening labor markets. Stronger exports in 2024 and 2025 are likely to be offset by higher imports of consumer goods, resulting in a further widening of the current account deficit from 4.7 percent of GDP in 2023 to 5.1 percent by 2025. With general elections completed, and governments formed, the attention of policy makers could turn to the structural reform agenda and the fulfillment of legislative priorities for EU accession.

The return to fiscal surplus in 2022 is likely to be short-lived due to the upcoming municipal elections in 2024. Nevertheless, by 2024-25 the fiscal stance should be balanced again.

Given the ongoing supply shocks causing market disruptions and higher input costs for firms, inflationary pressures are projected to remain for some time. Hence, the inflation rate is expected to remain elevated at around 6 percent in 2023 and stabilize in 2024-25 at around 2 percent, in line with rates prior to the pandemic.

Downside risks dominate the outlook. Protracted market disruptions and uncertainty fanned by the war in Ukraine could have a negative impact on aggregate demand through depressed consumer and business confidence. Furthermore, the gradual recovery in the EU remains fragile, adversely impacting demand for BiH exports, except for energy. Adverse labor market developments across the EU could also limit remittance inflows, which support private consumption. Finally, geopolitical risks could further aggravate domestic political frictions with adverse consequences for the much-needed structural reform push.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-3.3	7.1	4.0	2.2	2.8	3.4
Private consumption	-4.5	4.0	3.0	2.2	2.5	3.2
Government consumption	0.5	6.1	2.7	4.1	2.3	3.7
Gross fixed capital investment	-22.0	33.3	19.7	6.9	2.9	-0.4
Exports, goods and services	-8.5	5.0	9.9	4.0	5.5	6.0
Imports, goods and services	-13.4	8.0	12.0	6.0	4.0	3.4
Real GDP growth, at constant factor prices	-3.0	7.4	3.9	2.2	2.8	3.4
Agriculture	-1.5	3.4	3.5	3.1	3.0	3.2
Industry	-3.0	2.0	2.6	2.7	2.8	3.2
Services	-3.2	10.1	4.4	1.9	2.8	3.5
Inflation (consumer price index)	-1.1	2.0	14.0	6.0	2.5	1.0
Current account balance (% of GDP)	-4.0	-2.3	-4.5	-4.7	-4.8	-5.1
Net foreign direct investment inflow (% of GDP)	2.0	3.3	3.0	3.3	3.5	4.0
Fiscal balance (% of GDP)	-5.3	-0.3	0.4	-0.8	0.1	0.1
Revenues (% of GDP)	41.6	43.5	40.0	39.6	40.0	40.0
Debt (% of GDP)	40.3	38.0	35.9	36.2	36.1	35.8
Primary balance (% of GDP)	-4.0	1.0	1.2	0.0	0.9	0.9
GHG emissions growth (mtCO2e)	-2.5	7.7	5.5	3.7	3.6	4.1
Energy related GHG emissions (% of total)	86.6	87.2	87.7	87.7	87.6	87.4

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

BULGARIA

Table 1	2022
Population, million	6.5
GDP, current US$ billion	89.0
GDP per capita, current US$	13772.6
International poverty rate ($2.15)[a]	0.2
Lower middle-income poverty rate ($3.65)[a]	1.4
Upper middle-income poverty rate ($6.85)[a]	4.5
Gini index[a]	40.5
School enrollment, primary (% gross)[b]	85.2
Life expectancy at birth, years[b]	71.5
Total GHG emissions (mtCO2e)	51.5

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

Following robust growth in 2022, the Bulgarian economy is set to slow down in line with EU trends. Inflation remains elevated, threatening plans for euro adoption in 2025. The fiscal deficit is expected to remain below the 3 percent Maastricht ceiling, possibly at the expense of reduced public investment. A new regular government is hoped to step up reform momentum. Poverty reduction is expected to slow down as Bulgaria faces slower growth and elevated inflation. Energy affordability remains a pressing concern.

Key conditions and challenges

Bulgaria's development path over the past two decades has been characterized by gradual convergence to average real incomes in the EU. By 2022, it reached 59 percent of the average GDP per capita in the EU in purchasing power parity terms but remained the poorest member state. Yet, income convergence was much slower in the last decade, as reforms lost momentum while adverse demographic trends resulted in a rapid decline in the working-age population. Moreover, investment ran into diminishing returns, and factor accumulation leveled off as the country became richer.

Despite substantial progress in reducing poverty, Bulgaria's poverty rates remain among the highest in the EU, while income inequality was the largest in 2021. Child poverty remains a particularly serious issue, with 26 percent of children at risk of poverty in 2021. Energy affordability is also a challenge, with about 22.5 percent of households unable to keep their homes warm in 2021, the highest in the EU. This share rises to 42.7 percent among poor households.

The country needs a new set of policies and ambitious reforms to spur economic growth, so that it can reach average EU income levels in the next 15 years. Bulgaria needs to address its institutional and governance weaknesses and ensure fair competition to boost firms' efficiency and private sector expansion. Investment in people's skills will also help move the economy closer to the productivity frontier. If Bulgaria succeeds in overcoming these challenges with an ambitious reform agenda, it could accelerate its economic growth to above 4 percent in the period up to 2050. Under a no-reform scenario, however, growth may slow down to 1.2 percent by the middle of the century.

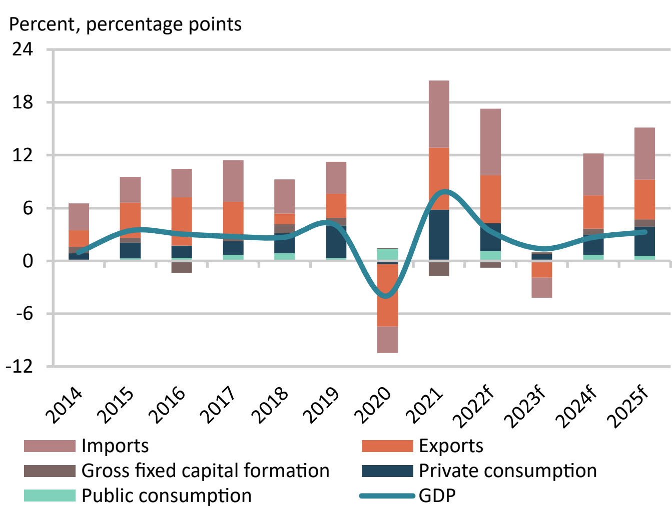
In parallel, the country needs to address persistent inequalities, including income inequality but also inequalities of opportunities, which limit human capital formation and growth, and further undermine growth prospects. Fiscal policy currently has a very limited impact on reducing child poverty. Yet, significant improvements can be achieved by fine-tuning certain measures, such as improved targeting and adequacy of means-tested child benefits.

Recent developments

GDP growth continued to decelerate in early 2023, in tune with trends in Western Europe. The economy's expansion slowed down to 1.8 percent y/y in Q2 as final consumption growth cooled off, while export growth adjusted downward, mirroring the soft landing in key export markets in the EU.

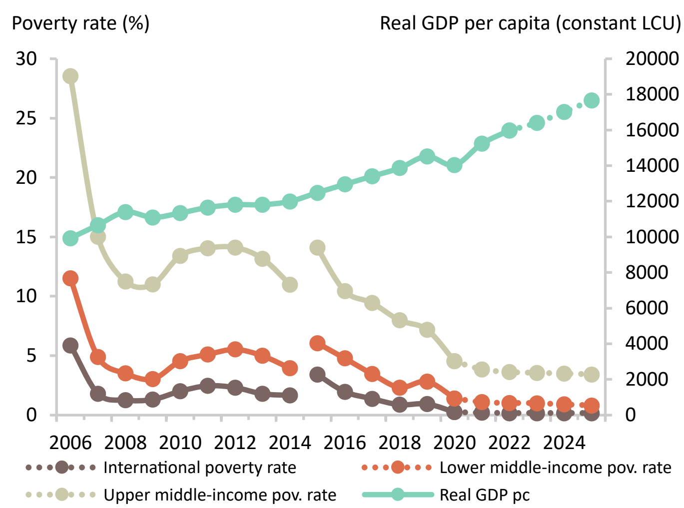
A declining working-age population has led to labor shortages across most sectors and skill sets, and a decrease in overall employment, accompanied by real wage increases since the start of 2023. Yet, the

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



Sources: World Bank and Bulgarian National Statistical Institute.

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



Source: World Bank. Notes: see Table 2.

working-age population is diminishing more rapidly than the overall decrease in employment, resulting in a still-rising employment rate.

Following 2022, when Bulgaria recorded one of the highest inflation rates in the EU, consumer price growth has slowed down in the early part of 2023, reaching 8.5 percent y/y in July. Even if energy and food price inflation gradually subsided in H1, food prices retained above-average growth and even resumed their rise in July, which impacts disproportionately the poorest segments of society. Moreover, core inflation also picked up in July, which may be attributed to still-strong demand pressures. Food and energy inflation can increase poverty by 1 percentage point ($6.85 line), slowing down overall poverty reduction in 2022. Energy price ripples, influencing core inflation, could amplify impacts up to 1.8 percentage points. Energy affordability remains a major concern: the World Bank's rapid survey in July reveals that 15 percent of households struggled to heat homes last winter, 30 percent faced summer cooling challenges, and 73 percent deemed existing energy price caps insufficient.

Following the rapid deterioration of the fiscal position in early 2023, the balance improved in June-July and returned to positive territory (+0.2 percent) for January-July. This became possible after the new government took steps to increase tax and non-tax revenue collection. For the full year, the government foresees a deficit of 3 percent on an accrual basis, with the aim of meeting the line Maastricht criterion of up-to-3 percent deficit and joining the euro area in 2025. The EC's Convergence Report on Bulgaria's readiness for accession is expected in spring 2024. While the fiscal balance target appears within reach, eurozone accession plans may stumble upon the Maastricht criterion for inflation. As of June 2023, Bulgaria's annual average HICP inflation is 5.3pp above the corresponding benchmark. Faster disinflation will be needed if the country is to align with the criterion by early 2024.

Outlook

Bulgaria's economy is expected to slow down substantially in 2023 – to 1.4 percent - in tune with the ongoing cooling off in the eurozone. Growth may be further suppressed if Bulgaria fails to deliver on the reform milestones under the National Recovery and Resilience Plan, resulting in further delays of upcoming tranches.

Inflation will continue to subside but remain elevated in 2023, putting at risk the official eurozone accession target for 2025. The government's 3 percent fiscal deficit target in 2023 is achievable but may come at the expense of lower-than-planned capital spending, which could hurt growth prospects going forward. The current account is projected to move to a slight surplus in 2023-2025 due to the expected downward adjustment of import prices of key raw materials and the increase of net services export.

Political risks have declined markedly following the formation of a regular coalition government in June 2023. The new government's priorities include speeding up the implementation of the NRRP, as well as preparing the country for near-term Schengen Area and eurozone accession. Yet, the upcoming local elections in October may increase pressure on the ruling coalition, and political uncertainty may re-escalate.

Given the growth deacceleration and potentially persistent inflation, poverty (using the 6.85$ UMIC poverty line) is expected to continue declining slowly, reaching 3.5 percent in 2023.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-4.0	7.6	3.4	1.4	2.7	3.3
Private consumption	-0.6	8.8	4.8	1.1	3.5	4.9
Government consumption	8.3	0.4	6.5	0.4	3.9	3.2
Gross fixed capital investment	0.6	-8.3	-4.3	1.3	4.0	5.1
Exports, goods and services	-10.4	11.0	8.3	-2.7	5.7	6.6
Imports, goods and services	-4.3	10.9	10.5	-3.0	6.5	7.8
Real GDP growth, at constant factor prices	-4.0	8.0	3.4	1.4	2.7	3.3
Agriculture	-3.3	28.8	-0.8	0.5	1.5	1.2
Industry	-8.2	1.7	11.9	-3.5	6.7	5.2
Services	-2.5	8.7	1.0	3.3	1.4	2.7
Inflation (consumer price index)	1.7	3.3	15.3	9.8	5.6	4.2
Current account balance (% of GDP)	0.0	-1.9	-0.7	1.6	1.9	0.9
Net foreign direct investment inflow (% of GDP)	4.5	1.8	2.4	1.8	2.6	2.9
Fiscal balance (% of GDP)	-2.9	-2.7	-0.8	-2.9	-2.9	-2.3
Revenues (% of GDP)	36.8	37.7	39.2	39.5	40.6	41.3
Debt (% of GDP)	24.5	23.9	22.9	22.5	22.7	22.1
Primary balance (% of GDP)	-2.4	-2.3	-0.4	-2.5	-2.5	-1.9
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.2	0.2	0.2	0.2	0.2	0.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	1.4	1.1	1.0	1.0	0.9	0.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	4.5	3.8	3.6	3.5	3.5	3.4
GHG emissions growth (mtCO2e)	-3.7	7.0	7.7	1.5	3.5	3.0
Energy related GHG emissions (% of total)	80.2	78.5	75.2	74.0	72.3	71.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2021-EU-SILC. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

CROATIA

Table 1	2022
Population, million	3.9
GDP, current US$ billion	70.5
GDP per capita, current US$	18282.6
International poverty rate ($2.15)[a]	0.3
Lower middle-income poverty rate ($3.65)[a]	0.8
Upper middle-income poverty rate ($6.85)[a]	2.1
Gini index[a]	29.6
School enrollment, primary (% gross)[b]	92.9
Life expectancy at birth, years[b]	76.4
Total GHG emissions (mtCO2e)	20.2

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

Croatia's economy remained on an expansion path in the first half of 2023 supported by robust private consumption and buoyant demand for travel services. Over the forecast horizon, economic growth is expected to stay close to 3 percent as inflation moderates, and the external outlook improves. Steady growth and a declining need for fiscal support are expected to keep the fiscal deficit contained and public debt on a declining path. Poverty in 2023 is expected to decline to 1.3 percent.

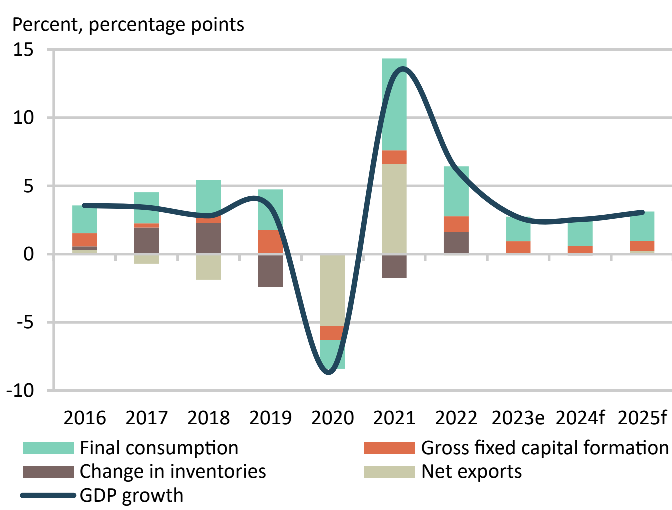
Key conditions and challenges

Despite significant headwinds coming from high inflation, monetary tightening, and faltering external demand for goods, Croatia's process of economic convergence continues, with GDP per capita (in PPP terms) in 2022 reaching 73 percent of the average EU27 level. The country has recorded the highest post-pandemic recovery of all EU member states (with notable exception of Ireland). The country's solid performance largely reflects post-Covid revival of global demand for travel, but also robust goods exports and personal consumption. However, as pent-up demand for services in tourism is unlikely to be sustained in the medium to long run, it will be crucial to address key structural issues that will support productivity and long-term growth acceleration. These are linked to low levels of Research and Development (R&D) investments, innovation and technology adoption, weaknesses in managerial and organizational practices, administrative capacity and judicial quality and efficiency. In addition, given unfavorable demographic trends and a tight labor market, improvements in education and labor market policies will be necessary to increase labor supply and improve the quality of human capital. Over the medium term, the elevated uncertainty linked to Russia's invasion of Ukraine and developments in energy and food commodity prices remain the key risk to the outlook as additional price shocks would dampen both domestic and external demand. Furthermore, the full effect of higher interest rates and monetary tightening is yet to feed through the economy increasing the vulnerabilities in non-financial sector and potential risks for financial stability. At the same time, price pressures might prove to be more persistent, leading to adverse real income and confidence effects. On the upside, economic stimulus coming from fiscal policy might be stronger than anticipated in light of the upcoming parliamentary elections next year.

Recent developments

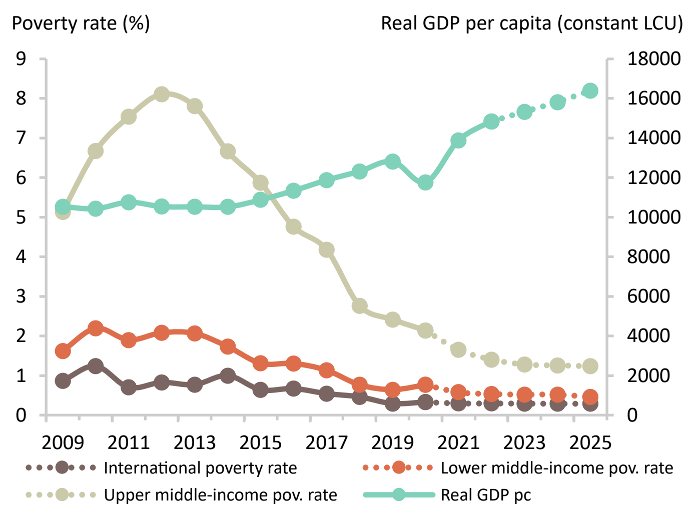
Croatia's economy further expanded in the first half of 2023, mainly owing to recovery of personal consumption and strong growth of tourism. In this period annual real GDP growth rate averaged 2.7 percent, well above EU average of 0.6 percent. Personal consumption recovered after a marked decline at the end of the last year following favorable labor market developments and recovery in consumer optimism. Furthermore, performance of export of services was also strong with foreign tourists' arrivals and overnight stays increasing on average on an annual basis by more than 10 percent. Investment growth was relatively suppressed but business optimism in the construction sector remains high and it improved further at the beginning of Q3. On the other hand, export of goods declined, partly due to the weakening of economic activity in some

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



Sources: CROSTAT and World Bank.

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



Source: World Bank. Notes: see Table 2.

of Croatia's main trading partners. Fiscal policy continued to play an important role in supporting economic activity by extending measures aimed at easing inflationary pressures. Inflation, albeit declining, remains high and, at 8.5 percent in August was the second highest in the eurozone. The ECB continued to increase key interest rates which also had an impact on financing conditions in Croatia. However, this impact was less pronounced compared to other euro area countries reflecting declining country risk premia, high bank liquidity, strong deposit base, and relatively low share of credits with variable interest rates.

The combination of strong economic growth and the rebound of the labor market improved household total income. However, high inflation eroded household real purchasing power. Poverty is estimated to have declined modestly from 1.4 percent in 2022 to 1.3 percent in 2023. Preliminary findings from the World Bank rapid assessment survey in June 2023 showed that one in every two Croatian households (and 75 percent among the bottom 40 percent of the income distribution) reported having some difficulty to make ends meet with their current income.

Outlook

Economic activity growth is expected to moderate in the second half of 2023, as demand for tourism services slows down and goods exports remain suppressed. Nonetheless, thanks to the relatively strong performance during the first six months, real GDP is set to grow by 2.7 percent in 2023, and growth is expected to take a slight uptick by the end of the forecast horizon. Personal consumption is projected to remain robust, as recovery in real incomes continues due to falling inflation and strong labor demand. Furthermore, EU funds are expected to continue supporting investment activity, especially government investments, while private sector investment growth might slow in the near term before strengthening towards the end of the forecast horizon as monetary policy normalizes. Exports of goods, after a sluggish performance in 2023, are expected to pick up in 2024 and 2025 as external demand strengthens, while, on the other hand, growth of exports of services might become more moderate after strong results in the 2021-2023 period. Inflation is expected to remain elevated over the near term but could decline towards the ECB target of close to 2 percent by the end of the forecast horizon, following monetary measures implemented since end-2021, unwinding of global supply bottlenecks, and easing of commodity price growth. The fiscal deficit is set to remain contained, as growth continues and the need for fiscal support declines. This will allow for further reduction in public debt which is expected to fall below 60 percent of GDP by the end of 2025.

Looking ahead, about 20 percent of Croatian households, and more than 30 percent of those in the bottom 40 expressed a pessimistic view of their financial prospect, according to the World Bank survey in June. Poverty is projected to decline marginally to 1.2 percent by 2025.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-8.5	13.1	6.2	2.7	2.5	3.0
Private consumption	-5.1	9.9	5.1	2.2	2.5	2.8
Government consumption	4.3	3.0	3.2	2.6	2.8	2.7
Gross fixed capital investment	-5.0	4.7	5.8	4.7	3.1	3.5
Exports, goods and services	-23.3	36.4	25.4	-1.0	4.2	5.0
Imports, goods and services	-12.4	17.6	25.0	-0.9	4.2	4.5
Real GDP growth, at constant factor prices	-7.5	12.6	6.4	2.7	2.5	3.0
Agriculture	-0.2	8.2	6.0	-0.2	3.5	3.5
Industry	-4.1	9.0	2.3	1.2	3.0	3.0
Services	-9.1	14.2	7.9	3.3	2.3	3.0
Inflation (consumer price index)	0.0	2.7	10.7	8.4	3.9	2.3
Current account balance (% of GDP)	-0.5	1.8	-1.6	-0.6	-0.8	-0.7
Net foreign direct investment inflow (% of GDP)	1.4	4.8	5.6	3.7	3.7	3.7
Fiscal balance (% of GDP)	-7.3	-2.5	0.4	-1.1	-1.3	-1.1
Revenues (% of GDP)	46.8	46.2	45.5	44.3	43.7	43.6
Debt (% of GDP)	86.9	78.3	68.8	62.8	60.2	58.3
Primary balance (% of GDP)	-5.3	-0.9	1.8	0.2	-0.1	0.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.3	0.3	0.3	0.3	0.3	0.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.8	0.6	0.5	0.5	0.5	0.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	2.1	1.7	1.4	1.3	1.3	1.2
GHG emissions growth (mtCO2e)	-5.6	13.2	5.7	0.2	0.4	0.7
Energy related GHG emissions (% of total)	88.3	88.8	88.6	88.1	87.6	87.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2021-EU-SILC. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

GEORGIA

Table 1	2022
Population, million	3.7
GDP, current US$ billion	24.6
GDP per capita, current US$	6667.4
International poverty rate ($2.15)[a]	5.5
Lower middle-income poverty rate ($3.65)[a]	19.1
Upper middle-income poverty rate ($6.85)[a]	55.4
Gini index[a]	34.2
School enrollment, primary (% gross)[b]	100.8
Life expectancy at birth, years[b]	71.7
Total GHG emissions (mtCO2e)	19.6

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

The economy performed strongly in H1 2023, with growth at 7.6 percent (yoy), and projected at 5.9 percent for 2023 as a whole. Buoyed by strong domestic consumption, employment recovered, and poverty continued to fall. Growth is expected to slow in H2 due to monetary tightening in advanced economies and to easing in money inflows from Russia putting pressure on the currency and increasing financing needs.

Key conditions and challenges

Georgia has made notable gains in income growth and poverty reduction over the past decade. A robust economic management framework saw the GNI per capita (constant 2015 USD) increase from USD 3,048 in 2010 to USD 5,424 in 2022. Poverty (measured by the USD6.85 poverty line in 2017 PPP) is also down from 70 percent at the start of the decade to 55.4 percent in 2021.

Nevertheless, structural challenges persist; notably, weak productivity and limited high-quality job creation. More than a third of all workers are engaged in low-productivity agriculture. Poor learning outcomes and lack of skills restrict private sector growth. Georgia also remains vulnerable to external shocks, largely due to its heavy reliance on tourism and trade openness. Foreign exchange depreciation remains a risk because of high dollarization and persistent dependence on external savings.

The application for EU candidacy, initiated in 2022, provides opportunities for further income growth while requiring significant reforms.

Recent developments

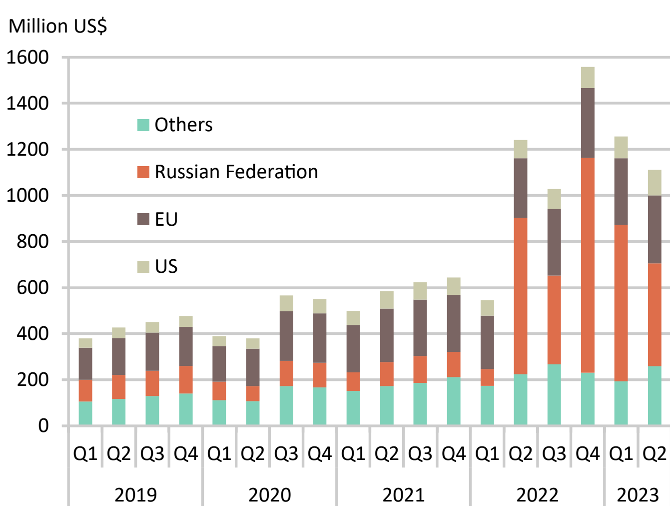
Growth remained robust in H1 2023, although it eased to an estimated 7.6 percent, compared to 10.1 percent in H1 2022, driven by a rebound in private consumption. Service exports remained supported by continued recovery in tourism. Unemployment continued to fall, reaching 16.7 percent in June 2023, below pre-pandemic levels.

Inflation has declined sharply. Headline inflation fell to 0.3 percent (yoy) in July 2023, from 9.4 percent in January. The decline was driven by lower commodity prices, particularly for food and fuel, along with a strong Georgian lari (GEL). On the other hand, the price of financial services, personal care, and utilities have continued to put pressure on inflation. Core inflation, which excludes food and energy components, dropped from 7.1 percent (yoy) in January to 3.2 percent (yoy) in July. In response, in August, the National Bank of Georgia (NBG) reduced the monetary policy rate by 25 bps, to 10.25 percent.

The banking sector has remained healthy. Returns on assets and equity reached 3.7 percent and 26.7 percent in June 2023, respectively. The share of non-performing loans (NPLs) stood at 1.5 percent by the end of June, down from 2 percent in June 2022.

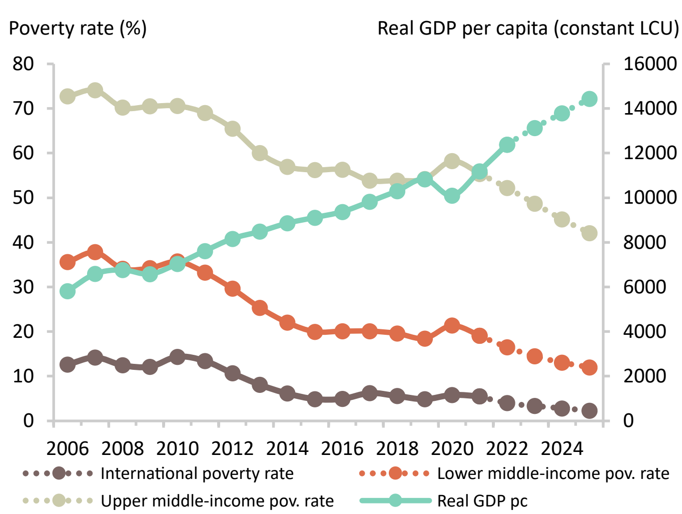
The current account deficit declined to 3.2 percent of GDP in Q1 2023, from 4 percent in 2022. During H1 2023, exports grew by 19.3 percent (yoy) in USD value, mostly driven by re-exports of used cars. Conversely, exports of raw materials (copper, ferroalloys, and nitrogen fertilizers) produced in Georgia declined, as international prices fell considerably, and domestic production declined. Meanwhile, imports expanded by 19.6 percent (yoy), driven by growth in used car imports, whose share of total imports almost

FIGURE 1 Georgia / Gross money inflows by country of origin



Source: National Bank of Georgia.

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



Source: World Bank. Notes: see Table 2.

doubled to 18 percent. FDI inflows recorded an improvement in H1 2023 with an 11 percent increase compared to the same period in 2022, driven by the financial, energy, and manufacturing sectors. Money transfers, primarily from Russia, continued to support Georgia's external position and increased by 32.5 percent in H1 2023 compared to H1 2022. International reserves increased to USD 5.4 billion, or approximately 4.4 months of import cover.

Total revenue increased by 13.3 percent (yoy) in real terms in H1 2023, supported by higher collection across the board, except for profits tax. Current expenditures grew by 6.7 percent (yoy), reflecting increases in the wage bill, higher spending on goods and services, and increased (yoy) subsidies to SOEs and social assistance for the most vulnerable. Capital expenditure surged by 20.3 percent yoy in real terms as the pace of project implementation accelerated. Outturns for H1 2023 showed a small overall surplus and a primary surplus at 0.7 percent of GDP, due to the strong revenue performance The public debt-to-GDP ratio has continued to fall due to rapid economic growth and appreciation of the GEL.

Strong economic growth and improved employment rates resulted in higher real wages, contributing to increased household consumption. Steady remittance inflows and lower food inflation have also bolstered the population's purchasing power. The poverty rate (below USD 6.85 a day, 2017 PPP terms) is estimated to decrease to 48.7 percent in 2023.

Outlook

Growth is expected to slow in H2 2023 due to a slowdown in trading partners and an easing of money transfer inflows, reaching 5.9 percent this year. Looking ahead, growth is expected to stabilize at around 5 percent of GDP in 2024–2025, supported by robust investments and tourism.

Inflation is expected to end the year below the 3-percent target rate. Monetary policy is expected to be eased to support economic growth while remaining prudent.

Prospects for poverty reduction are positive. The overall poverty rate (measured below USD 6.85 per day, in 2017 PPP terms) is expected to continue declining and reach 45.2 percent in 2024 and 42.1 percent in 2025, driven by higher wages and improvements in the labor market.

On the external side, given the widening trade deficit, the current account is projected to deteriorate to 6 percent by the end of 2023. The inflow in money transfers in the aftermath of Russia's invasion of Ukraine is expected to ease in the second half of 2023 and subside further in 2024. The current account deficit is expected to remain below pre-war levels in the medium term, due to continued recovery in tourism and continued strong export performance.

The deficit is projected to reach 2.9 percent of GDP in 2023. The government is expected to comply with the GDP fiscal rule deficit ceiling in 2023 and in the medium term. To boost revenue collection, the authorities are committed to the rationalization of tax expenditures.

Substantial risks remain, reflecting Russia's invasion of Ukraine and broader uncertainties. A faster reduction in money inflows, a decline in tourism inflows, further monetary tightening in advanced economies, or an increase in global commodity prices, could hinder growth, put pressure on the currency, and increase debt levels and financing needs. Currency mismatches due to dollarization and a high exchange rate pass-through would also exacerbate vulnerability to currency depreciation. On the upside, money transfer inflows could remain stronger than expected, lifting economic growth.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-6.8	10.5	10.1	5.9	4.8	4.5
Private consumption	8.8	14.5	-1.8	5.6	4.2	4.4
Government consumption	7.1	7.7	0.7	4.8	5.2	5.9
Gross fixed capital investment	-16.5	-7.2	19.6	2.6	4.8	7.5
Exports, goods and services	-37.6	24.4	38.2	10.0	11.0	10.0
Imports, goods and services	-16.6	11.0	14.4	11.0	9.0	10.0
Real GDP growth, at constant factor prices	-6.6	10.4	10.1	5.9	4.8	4.5
Agriculture	8.1	0.1	2.0	2.5	2.5	2.5
Industry	-6.8	5.9	8.0	4.0	5.0	5.0
Services	-8.1	13.0	11.6	6.7	5.0	4.6
Inflation (consumer price index)	5.2	9.6	11.9	2.3	2.5	3.0
Current account balance (% of GDP)	-12.5	-10.4	-4.0	-6.0	-5.6	-4.7
Net foreign direct investment inflow (% of GDP)	3.6	4.9	7.5	3.9	4.7	4.9
Fiscal balance (% of GDP)	-9.8	-7.1	-3.5	-2.9	-2.7	-2.5
Revenues (% of GDP)	25.2	25.2	27.0	27.0	26.7	26.8
Debt (% of GDP)	60.1	49.6	41.3	39.4	38.9	38.3
Primary balance (% of GDP)	-8.2	-5.7	-2.4	-1.6	-1.5	-1.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	5.8	5.5	4.0	3.3	2.8	2.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	21.4	19.1	16.5	14.5	13.1	12.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	58.3	55.4	52.2	48.7	45.2	42.1
GHG emissions growth (mtCO2e)	-0.6	3.5	7.8	5.7	1.4	1.6
Energy related GHG emissions (% of total)	55.0	56.8	60.2	62.7	63.6	64.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2021-HIS. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2021) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

KAZAKHSTAN

Table 1	2022
Population, million	19.6
GDP, current US$ billion	225.3
GDP per capita, current US$	11476.6
Upper middle-income poverty rate ($6.85)[a]	14.3
Gini index[a]	27.8
School enrollment, primary (% gross)[b]	100.3
Life expectancy at birth, years[b]	70.2
Total GHG emissions (mtCO2e)	194.9

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

GDP is projected to grow by 4.5 percent in 2023 and subsequent years, aided by new oil production coming on-stream. Inflation is expected to return to target. Geopolitical tensions, with attendant risks of oil market disruption and secondary sanctions, present downside risks.

Key conditions and challenges

Since 2008 average growth has slowed to less than 4 percent a year as productivity gains have stalled. In recent years, coupled with rising living costs, this lackluster economic performance has fostered public discontent over inequality and elite capture, culminating in violent protests in January 2022. Russia's invasion of Ukraine has increased uncertainty and introduced new risks, given Kazakhstan's close economic ties to Russia.

Revitalizing economic growth and productivity requires implementing structural reforms to transition from a state-dominated development model to a more resilient private sector-led model. This entails fostering competition and limiting the market dominance of SOEs, reinforcing the rule of law, and resolute anti-corruption action. Enabling private investment and competition in non-oil growth sectors would need to be a key part of this effort. Public investment in human capital and public goods should support growth prospects and more balanced development across the country.

Recent developments

The economy grew by 5.1 percent in H1 2023, driven by exports and fiscal stimulus. The influx of an estimated 150,000 Russian migrants bolstered domestic demand and brought a significant increase in registration of new businesses, which has grown by over 20 percent (yoy) to June 2023. Robust growth of retail trade (8.8 percent in real terms, yoy), and car sales (11.1 percent, yoy) in H1 indicate strong consumer spending, while investment, driven by rising FDI, has also strengthened. Growth in production was broad-based, including mining and machinery manufacture, basic metals, and chemical products.

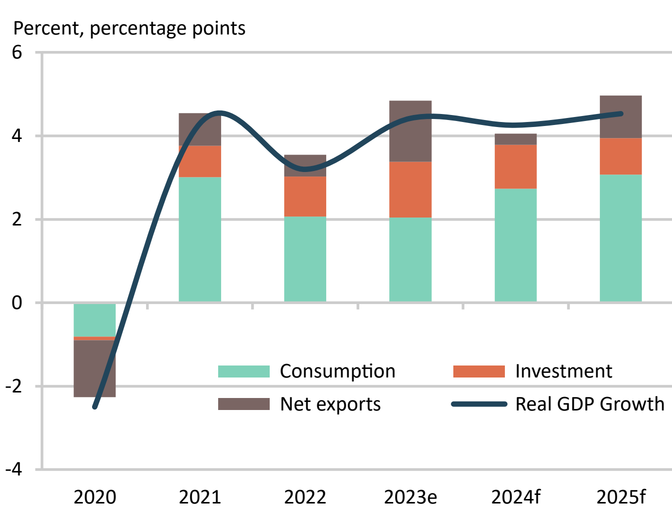
The unemployment rate declined slightly to 4.7 percent in Q2 2023, from 4.9 percent in 2022. Economic growth and an above-inflation increase in minimum wages drove up real wages by 1.2 percent in Q2 (yoy).

In August 2023, inflation slowed to 14 percent (yoy) from a peak of 21.3 percent in February, still well above the National Bank of Kazakhstan (NBK) 4-6 percent target range. Food price inflation decelerated to 13.5 percent yoy, while services inflation was 13.9 percent yoy.

The Central Bank (NBK) cut its policy rate by 250 basis points to 16.50 percent in August for the first time since February 2022.

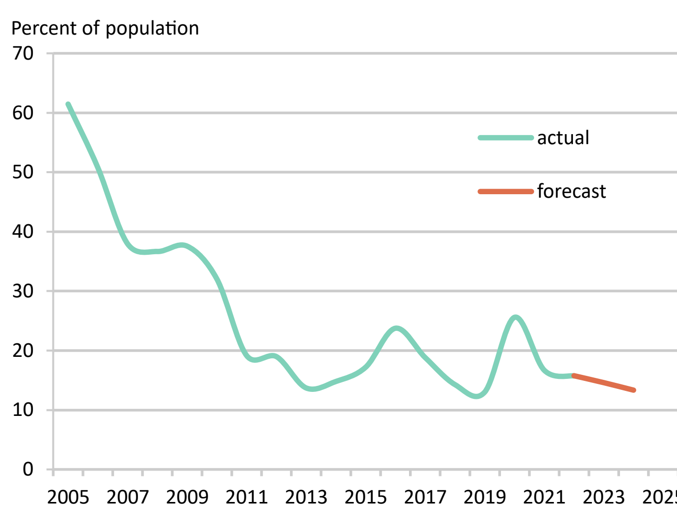
The current account deficit reached USD 3.6 billion in H1, reversing the surplus of USD 6.6 billion in H1 2022, as oil prices subsided, leading to a fall in nominal USD export values of 10.6 percent (yoy). FDI increased by 18.6 percent (yoy) in nominal USD value, with investments primarily flowing into the mining sector. Gross international reserves decreased slightly to 7 months of import cover at the end of June 2023. The KZT depreciated slightly against the USD in H1 2023, as the RUB depreciated sharply.

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



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

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



Source: World Bank staff estimates.

The consolidated budget deficit reached an estimated 3.0 percent of GDP in H1 2023, compared to a 1.1 percent surplus in H1 2022. This deterioration is primarily due to increased spending on education, social assistance, housing, and utility infrastructure, driving expenditures up 2.9 percent to 25.8 percent of GDP. Elevated interest rates pushed up debt service costs to 2.3 percent of GDP in H1 2023 (compared to 1.9 percent in H1 2022).

The banking sector has sufficient capitalization levels and the reported asset quality is relatively good. As of March 2023, the ratio of capital to risk-weighted assets stood at 18.8 percent – compared to the minimum requirement of 12 percent. The share of non-performing loans has remained stable at 3.4 percent (although the share of overdue loans with less than 90 days has been increasing slightly).

Outlook

Economic activity is expected to weaken slightly in H2 owing to a lessening of inventory restocking and the impact of rising real interest rates. As a result, economic growth is projected at 4.5 percent in 2023 as a whole. Household spending will strengthen gradually as inflation and financial conditions ease. Investment, notably in mining and manufacturing, is expected to be strong. Growth is expected to remain at around the same levels in 2024 and 2025.

Inflation is projected to gradually decline to the target range by the end of 2025 due to monetary policy effects and easing external pressures.

The current account is expected to post a moderate deficit in 2023 and in future years. With FDI concentrated in the oil and gas sectors, foreign companies will continue to repatriate profits, leading to a primary income deficit.

Government expenditure as a share of GDP is expected to be 2 percent higher in 2023, but the government plans to wind back this increase over the next two years. However, the fiscal deficit is projected to increase further as revenues are projected to decrease rapidly driven by a reduction in lower oil-related taxes.

Poverty is expected to fall slightly to 14.6 percent (at USD 6.85/day) in 2023, as growth picks up and inflation subsides. High prices of basic items will remain a key factor impacting the population, especially the poorest households.

This outlook is subject to significant risks. Stubborn inflation may lead the authorities to sustain higher volumes of targeted support, increasing fiscal costs. Russia's invasion of Ukraine, escalating tensions in and near the Black Sea related to the invasion, and western sanctions against Russia, leave Kazakhstan vulnerable to disruptions in oil exports via the Russian-controlled Caspian pipeline, which could have serious economic and fiscal implications for Kazakhstan. In addition, the risk of secondary sanctions on Kazakh companies and banks continues to be a concern, given the wide and deep economic ties to neighboring Russia. Kazakhstan has become a transit point for the import of dual-use goods to Russia. If imposed, sanctions could bring sizable economic costs, erode confidence and hamper FDI, and threaten the development agenda and growth.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-2.5	4.3	3.2	4.5	4.3	4.5
Private consumption	-3.8	6.3	2.0	4.0	5.0	5.0
Government consumption	12.8	-2.4	9.1	4.1	1.0	0.5
Gross fixed capital investment	-0.3	2.6	3.6	5.2	4.8	5.0
Exports, goods and services	-12.1	2.3	10.2	6.1	3.9	6.7
Imports, goods and services	-10.7	-0.3	11.6	4.1	4.1	5.0
Real GDP growth, at constant factor prices	-2.5	4.1	2.9	4.6	4.4	4.5
Agriculture	5.6	-2.2	9.1	4.0	3.5	3.5
Industry	-0.4	3.6	1.2	5.2	4.1	5.7
Services	-4.5	5.0	3.5	4.2	4.6	3.8
Inflation (consumer price index)	7.5	8.5	20.3	11.6	10.2	6.8
Current account balance (% of GDP)	-6.4	-1.3	3.5	-1.1	-0.6	-0.2
Net foreign direct investment inflow (% of GDP)	-3.4	-1.0	-3.5	-3.2	-3.3	-3.7
Fiscal balance (% of GDP)	-6.5	-4.3	0.4	-1.0	-1.3	-1.0
Revenues (% of GDP)	18.0	17.6	22.0	21.7	20.8	19.8
Debt (% of GDP)	24.9	23.7	22.5	22.9	23.2	24.9
Primary balance (% of GDP)	-5.4	-3.1	1.8	0.2	0.6	0.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	25.6	16.7	15.7	14.6	13.3	12.2
GHG emissions growth (mtCO2e)	-5.8	-13.0	-12.4	-9.2	-8.4	-8.9
Energy related GHG emissions (% of total)	76.0	73.5	71.2	69.4	67.4	64.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2018-HBS. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2018) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

KOSOVO

Table 1	2022
Population, million	1.8
GDP, current US$ billion	9.4
GDP per capita, current US$	5315.7
Upper middle-income poverty rate ($6.85)[a]	34.2
Gini index[a]	29.0
Life expectancy at birth, years[b]	76.8

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

Amid a challenging global context, growth decelerated but remains positive. GDP growth reached 2.9 percent in H1 2023, supported by export performance and consumption. Inflation decelerated, but core inflation remains heightened. Over the medium term, growth is expected to reach around 4 percent, close to Kosovo's potential, but risks associated to Russia's invasion of Ukraine and to a growth slowdown in Europe remain elevated.

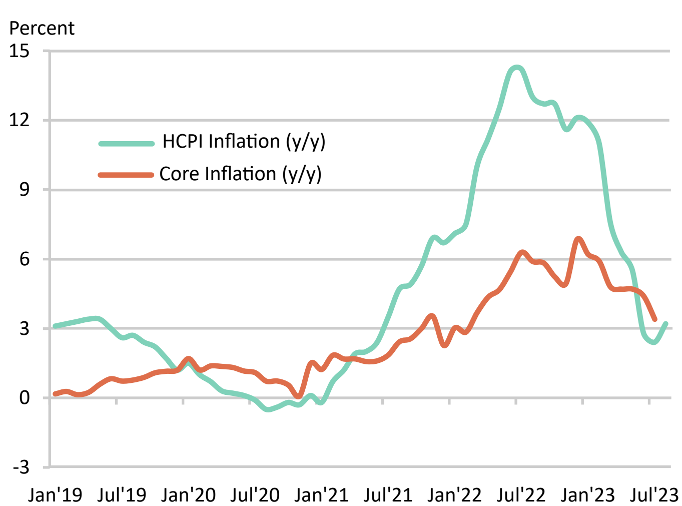
Key conditions and challenges

Following a robust post-pandemic recovery growth moderated in 2022 amid high inflation driven by increased international commodity prices brought on by the war in Ukraine. In 2023, amid a challenging global context, macroeconomic conditions remained favorable although growth decelerated. Despite steady economic progress since independence, there remains a large income gap between Kosovo and the average European Union member state. Limited firm dynamism and access to finance hamper private sector development and employment creation. The country's growth model relies on remittances to fuel consumption but has recently shifted to more export-driven growth. Investment is predominantly construction focused with limited contributions to growth. Human capital outcomes lag peer countries and the labor market continues to face severe challenges. Only one in three Kosovars is employed, 61.4 percent are classified as inactive, and gender gaps persist. In 2022, the working age population shrank, likely due to migration. Power generation capacity is limited and relies on outdated and unreliable lignite-fired generation plants, posing significant challenges to growth. Over the medium term, growth is expected to reach around 4 percent, close to Kosovo's potential, but risks remain elevated. An escalation of the war in Ukraine and weaker activity in Europe could negatively affect growth. Increased tensions in Kosovo's northern municipalities remain a risk. Migration, if not offset by higher labor force participation, could constrain potential growth. To accelerate poverty reduction, Kosovo needs to transition to a more competitive growth model that creates more and higher quality jobs, supports firm growth, and is driven by increases in productivity. To make this transition and increase potential growth, Kosovo should further prioritize reforms to entrench macroeconomic stability and governance, enhance human capital, and address regulatory gaps to support private sector development.

Recent developments

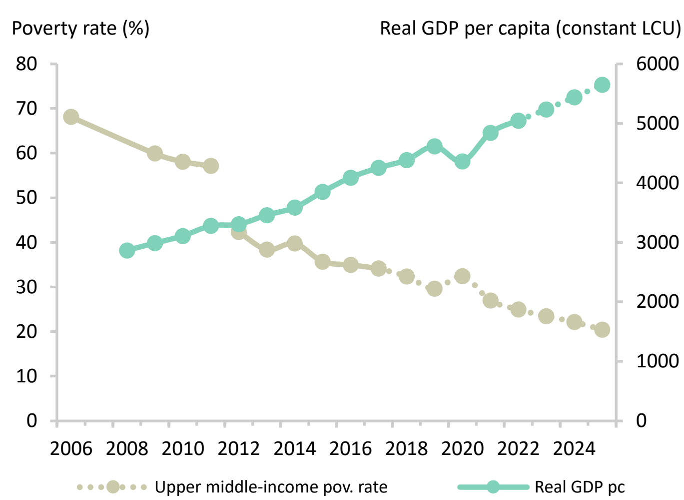
GDP growth reached 2.9 percent in H1 2023, driven primarily by a robust export performance (9.8 percent, y/y). At 2.4 and 1.6 percent (y/y) respectively, private consumption and gross capital formation marked a more moderate contribution to growth. On the production front, services and agriculture were the key contributors to H1 GDP growth. After reaching its 2023 peak in January, consumer inflation was on a downward trend until July 2023 (2.4 percent y/y) and experienced a slight uptick in August 2023 (3.2 percent y/y). During this period, significant contributors to inflation were furnishing, household items and maintenance (7.2 percent y/y), alcoholic beverages and tobacco (6.3 percent y/y), and food and non-alcoholic beverages (5.5 percent y/y), while transport

FIGURE 1 Kosovo / Consumer price inflation



Sources: Kosovo Statistics Agency and Central Bank of Kosovo.

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



Source: World Bank. Notes: see Table 2.

(-3.8 percent y/y) subtracted from the inflation rate. Labor market formalization is steadily growing, evident in the 2.3 percent increase in formal employment between July 2022 and July 2023. Additionally, the number of registered job-seekers decreased by 53 percent between July 2022 and 2023. The current account deficit showed signs of improvement by June 2023 (13.4 percent), driven by the lower value of imports coupled with a positive performance in service exports and balance of secondary income. By June 2023, the trade deficit decreased slightly (-4.6 percent, y/y), with nominal merchandise exports and imports dropping by 8.1 percent and 5.2 percent (y/y), respectively. During January-August 2023, tax revenues grew by 12 percent while overall revenues increased by 15 percent. Public and publicly guaranteed debt (PPG) decreased to 17.3 percent in June 2023, from close to 20 percent in 2022. The financial sector remains robust. In July 2023, the annual change in loans reached 14 percent. Bank capital buffers and asset quality also remain adequate, with non-performing loans remaining stable at 2 percent.

Outlook

Despite continued inflationary pressures, GDP growth is expected to reach 3.2 percent in 2023, driven by positive exports performance and private consumption. Diaspora-driven service exports are expected to remain positive throughout the year. Positive credit growth, stable remittances inflows, higher public wage spending following the implementation of the new Law on Public Wages, and elevated levels of public transfers, will support consumption growth. The medium-term outlook remains positive, with growth expected to accelerate towards 4 percent, bringing the level of economic activity closer to Kosovo's potential. The contribution of investment to growth is expected to pick up in 2024-2025, supported by the implementation of the Energy Strategy. Continued uncertainties related to the war in Ukraine, the slowdown in Europe, and the domestic political context entail significant risks. Poverty is projected to continue its decline, falling to 23.5 percent in 2023, measured using the upper-middle-income poverty line (US$6.85/person/day in 2017 PPP). Still, the materialization of downside risks could lead to a stagnation of poverty reduction. Inflation is expected to decelerate, yet price levels will remain elevated throughout 2023. The current account deficit is projected to narrow, with the expected decline in commodity prices and continued positive service exports. The fiscal deficit is expected to remain below 1 percent of GDP in 2023, driven by positive tax revenue performance and lower-than-budgeted capital expenditures. Over the medium term, public debt is projected to remain below 20 percent of GDP. Closing the income gap with the European Union requires an acceleration in the implementation of structural reforms in energy, education, social protection, and healthcare sectors. In addition, elevated global volatility requires authorities to continue preserving fiscal buffers while ensuring spending is balanced between promoting economic growth and current expenditures, including transfers.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-5.3	10.7	3.5	3.2	3.9	4.0
Private consumption	2.5	7.3	4.0	2.0	3.6	4.2
Government consumption	2.1	9.0	-1.5	4.9	2.7	-1.3
Gross fixed capital investment	-7.6	13.0	-6.1	1.2	4.2	4.3
Exports, goods and services	-29.1	76.7	17.2	9.8	5.5	5.5
Imports, goods and services	-6.0	31.4	4.9	4.6	4.2	4.2
Real GDP growth, at constant factor prices	-3.6	7.6	3.3	3.0	3.9	4.0
Agriculture	-5.8	-2.5	2.3	1.8	2.3	2.5
Industry	-1.0	7.8	1.9	2.0	3.5	4.0
Services	-4.8	9.4	4.4	3.9	4.4	4.3
Inflation (consumer price index)	0.2	3.4	11.6	4.8	3.0	2.5
Current account balance (% of GDP)	-7.0	-8.7	-10.5	-6.6	-6.0	-5.5
Net foreign direct investment inflow (% of GDP)	4.2	4.0	6.7	6.7	6.7	6.8
Fiscal balance (% of GDP)	-7.6	-1.3	-0.5	-0.6	-2.0	-1.5
Revenues (% of GDP)	25.4	27.4	27.7	28.8	28.3	28.4
Debt (% of GDP)	22.0	21.2	19.6	18.5	19.3	19.9
Primary balance (% of GDP)	-7.2	-0.9	-0.1	-0.3	-1.7	-1.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	32.4	27.0	25.0	23.5	22.2	20.4

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 ECAPOV harmonization, using 2017-HBS. Actual data: 2017. Nowcast: 2018-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2017) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

KYRGYZ REPUBLIC

Table 1	2022
Population, million	6.8
GDP, current US$ billion	11.5
GDP per capita, current US$	1697.5
International poverty rate ($2.15)[a]	1.3
Lower middle-income poverty rate ($3.65)[a]	18.7
Upper middle-income poverty rate ($6.85)[a]	67.6
Gini index[a]	29.0
School enrollment, primary (% gross)[b]	99.2
Life expectancy at birth, years[b]	71.9
Total GHG emissions (mtCO2e)	15.5

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

Growth is projected at 3.5 percent in 2023 due to a slowdown in agriculture and a contraction in manufacturing. Inflation remains high and the external position is weak. Fiscal outcomes were favorable in H1 2023 due to improved revenue performance, but driven by higher spending, the fiscal deficit is expected to increase slightly.

Key conditions and challenges

Economic growth has been volatile in the past decade due to overdependency on gold production and remittances, and because of political instability. On average, over the last decade, gold production and remittances accounted for 10 percent and 25 percent of GDP, respectively, while development assistance amounted to approximately 5 percent of GDP. High prices for imported food and fuel, and utility tariff adjustments kept domestic inflation in double digits for the last four years, adversely affecting poor households.

Although political stability was restored after the upheavals of 2020, public trust in government remains weak and frequent personnel changes within government continue to hinder decision-making. Russia's invasion of Ukraine and subsequent international sanctions triggered a decline in net remittances and increased uncertainty and risks to economic activity.

Growth is constrained by the lack of a competitive private sector. Fostering private sector development will require boosting competition and facilitating investment, notably by reducing the bureaucratic burden (particularly related to licensing, inspection, and taxation regimes), strengthening the rule of law and protecting investor rights, improving digitalization, attracting FDI, and facilitating cross-border trade.

Recent developments

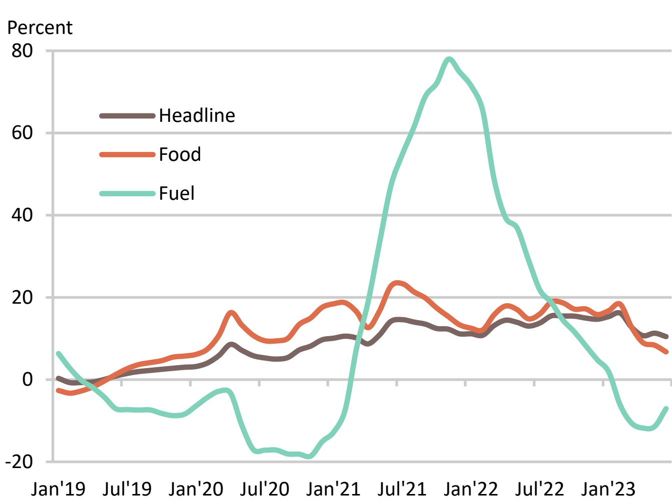
Economic growth moderated from 6.3 percent in 2022 to 3.9 percent in H1 2023 (yoy), as agricultural growth halved and gold production fell, following a build-up of gold stocks in 2022. Net remittance inflows in USD fell by 24 percent (yoy), contributing to an estimated 0.3 percent contraction in consumption.

CAD is estimated to have remained abnormally high in Q1 2023, with official statistics recording a 45.4 percent of GDP deficit. Such a large deficit, as in 2022, is associated with elevated errors and omissions (about 40 percent of GDP) indicating these figures are unconfirmed. Unrecorded (re-)exports and/or capital inflows may explain these numbers. Exports in USD are estimated to have increased by 15.6 percent (yoy) due to the resumption of gold exports, while imports grew by 27.4 percent (yoy), reflecting increased imports of food, fuel, machinery, equipment, textile and consumer goods.

The deterioration in the trade balance and the decline in remittance inflows have put pressure on the exchange rate, weakening the KGS against the USD by 1.8 percent in H1 2023. The National Bank of the Kyrgyz Republic (NBKR) sold more than USD 450 million in foreign reserves in a bid to avoid sharp fluctuations in the exchange rate. As a result, reserves fell by USD 359 million to 3.6 months of import cover by June 2023, down from 4 months at the end of 2022.

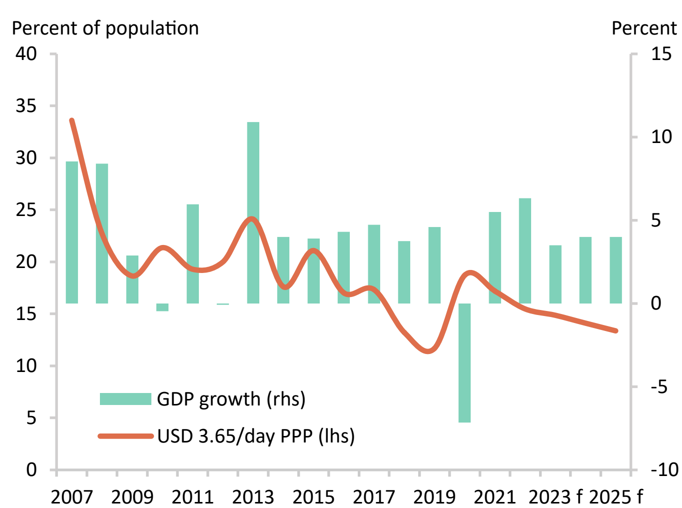
Inflation remained high, easing slightly to 10.5 percent by June 2023 as fuel and food

FIGURE 1 Kyrgyz Republic / Headline, food and fuel inflation



Source: Kyrgyz authorities.

FIGURE 2 Kyrgyz Republic / GDP growth and poverty rate



Sources: Kyrgyz authorities and World Bank staff.

prices moderated. Recent tariff increases for utilities, including electricity and water, were the largest contributors to inflation.

The NBKR kept its policy rate unchanged at 13 percent during H1 2023 after a 500 basis point increase in 2022.

The budget surplus strengthened in H1 2023 to 2.2 percent of GDP from 1.2 percent in H1 2022 thanks to strong tax performance, particularly VAT on imported goods, which more than compensated for the increase in public wages, social transfers and pensions from 2022, and higher spending on public infrastructure. Strong fiscal outcomes contributed to a reduction in public debt to an estimated 48.1 percent of GDP as of mid-2023, down from 49.2 percent in December 2022.

Banks remained well capitalized with a capital adequacy ratio of 23.5 percent as of the end of June 2023, nearly double the minimum regulatory requirement of 12 percent. The liquidity level was 83.9 percent, well above the 45 percent minimum requirement. The quality of loans improved slightly, with the non-performing loan ratio declining to 10.9 percent from 12.8 percent at the end of 2022.

The poverty rate (at USD 3.65/day) is expected to decline from 17.2 percent in 2021 to 15.5 percent in 2022. Increase in public and private wages, and social assistance under the "Social Contract" program drive poverty reduction, despite a lower volume of remittances and decelerating growth.

Outlook

GDP growth is expected to moderate to 3.5 percent in 2023 as gold production contracts and the agriculture sector experiences a slowdown. On the demand side, consumption and investment are expected to support growth, while net exports are projected to make a negative contribution. GDP is expected to converge to a potential growth rate of only 4 percent over the medium term in the absence of structural reforms.

Inflation is expected to remain elevated at 12 percent in 2023, driven by rising tariffs for electricity and other utilities. Assuming the NBKR maintains its monetary policy, inflation is projected to moderate gradually to 7 percent by the end of 2025.

The current account deficit is projected to be about 29 percent of GDP in 2023 and to narrow in 2024–2025 as external demand for non-gold goods improves and export of services increases. The deficit is expected to be financed by inward FDI and external borrowing.

The fiscal deficit is projected to increase slightly to 1.6 percent of GDP in 2023 as the full year effect of increases in public sector wages and social benefits will limit the decline in overall spending relative to the expected decline in non-tax revenues and grants as a share of GDP. The deficit is expected to widen to 2.6 percent of GDP in 2024, reflecting higher capital spending, and to narrow to 2.1 percent in 2025 as the authorities plan to consolidate current and capital spending.

In 2023, high food prices, job insecurity, and declining remittances will continue to be the most significant concerns for the welfare of the population. Poverty levels are expected to decline by 0.6 percent to 14.9 percent, reflecting the positive effect of increased social protection programs and wage increases exceeding the negative impact of falling remittances and slower growth.

Risks to this outlook remain significant. A deterioration of the Russian economy may lead to added decline in remittances. Stricter application of the existing international sanctions on Russia, or imposition of secondary sanctions against Kyrgyz-based companies might significantly impact trade and domestic economic activity. The domestic political situation remains sensitive to the upcoming increase in electricity and other utility tariffs.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-7.1	5.5	6.3	3.5	4.0	4.0
Private consumption	-8.3	20.9	6.4	1.3	3.4	3.9
Government consumption	0.9	0.4	1.6	1.4	0.4	0.4
Gross fixed capital investment	-16.2	8.2	22.2	17.8	17.4	15.8
Exports, goods and services	-27.3	16.4	-7.3	27.0	15.5	16.4
Imports, goods and services	-28.0	39.3	62.1	13.3	13.5	14.0
Real GDP growth, at constant factor prices	-7.1	5.5	6.3	3.5	4.0	4.0
Agriculture	0.9	-4.5	7.3	2.0	2.5	2.5
Industry	-6.5	6.5	12.2	3.8	5.3	6.0
Services	-13.7	14.4	3.0	4.7	4.5	4.2
Inflation (consumer price index)	6.3	11.9	13.9	12.0	10.0	7.0
Current account balance (% of GDP)	4.5	-8.0	-47.0	-29.1	-10.4	-10.6
Net foreign direct investment inflow (% of GDP)	-7.0	6.1	6.5	3.9	4.0	3.9
Fiscal balance (% of GDP)	-4.0	-0.3	-1.4	-1.6	-2.6	-2.1
Revenues (% of GDP)	29.0	31.8	36.2	34.5	34.1	33.4
Debt (% of GDP)	63.7	55.7	49.2	48.9	48.2	47.2
Primary balance (% of GDP)	-2.8	1.2	-0.1	-0.4	-1.6	-1.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.3	1.4	1.6	1.6	1.7	1.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	18.7	17.2	15.5	14.9	14.1	13.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	67.6	66.0	64.0	63.3	62.3	61.3
GHG emissions growth (mtCO2e)	-1.9	6.8	8.4	6.6	4.5	4.2
Energy related GHG emissions (% of total)	70.7	72.4	73.7	74.5	74.7	74.6

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 ECAPOV harmonization, using 2014-KIHS, 2019-KIHS, and 2020-KIHS. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projection using average elasticity (2014-2019) with pass-through = 0.7 based on GDP per capita in constant LCU.

MOLDOVA

Table 1	**2022**
Population, million	2.5
GDP, current US$ billion	14.5
GDP per capita, current US$	5714.4
International poverty rate ($2.15)[a]	0.0
Lower middle-income poverty rate ($3.65)[a]	0.3
Upper middle-income poverty rate ($6.85)[a]	14.4
Gini index[a]	25.7
School enrollment, primary (% gross)[b]	107.8
Life expectancy at birth, years[b]	68.8
Total GHG emissions (mtCO2e)	14.2

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

The Moldovan economy has endured severe repercussions stemming from Russia's invasion of Ukraine and a surge in inflation. By the first quarter of 2023, diminishing purchasing power led to economic contraction, nevertheless, inflation is gradually abating. The near-term outlook hinges on the unfolding invasion of Ukraine, commodity-energy prices, and weather conditions. In contrast, the longer-term outlook relies on realizing unfinished structural reforms and Moldova's pace toward EU accession.

Key conditions and challenges

Moldova has been severely affected by the spillover effects of Russia's invasion of Ukraine, which has led to energy and refugee crises. Despite concerted efforts to mitigate these crises through robust fiscal measures and swift monetary policies, private consumption was stifled by dwindling household incomes and uncertain financial conditions. As a result, the economy plunged into recession in 2022.

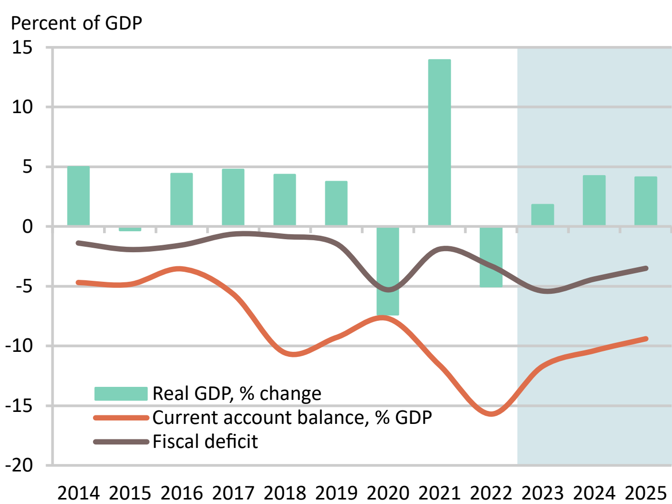
The medium-term outlook will be influenced by the government's ability to counter the erosion of households' purchasing power while maintaining momentum in the reform program. Key challenges include sluggish productivity growth, structural and governance deficiencies, a sizable state-owned enterprise presence, restricted competition, an imbalanced business environment, and tax distortions. Heightened risks of extreme weather events and energy shocks remain prominent.

Persistent inequality has hindered access to public services and dampened resilience and intergenerational mobility. Furthermore, the full impact of Russia's invasion and energy supply on the Moldovan economy in 2023 remains uncertain. The potential increase of energy costs in the latter half of 2023 might necessitate a reallocation of funds or additional financing to mitigate the impact on households. Moreover, elevated input costs and arid weather conditions may further diminish agricultural yields, amplifying inflationary pressures and dampening economic activity. Against this backdrop, the reduction in poverty observed in 2021 is likely to have been short-lived, as Moldova grapples with the repercussions of Russia's invasion of Ukraine, affecting vulnerable Moldovans due to high food and fuel prices. In the current geo-economic environment, Moldova's long-term outlook relies on aligning its reform agenda with EU accession and the pace of reforms aimed at enhancing productivity. These reforms encompass bolstering competition and public sector asset management, improving and digitalizing the business climate, improving public finance efficiencies, and a climate-resilient economy.

Recent developments

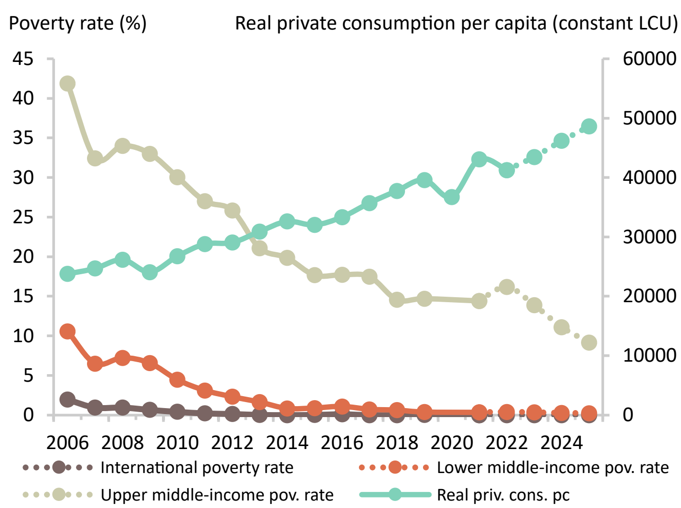
In the first half of 2023, GDP contracted by 2.3 percent. This was driven by a 4.7-percentage-point dip in private consumption, attributed to elevated prices and diminished purchasing capacity. Restocking efforts yielded a positive impact (1pp), and investments experienced a reduction (-0.8 pp), possibly due to a lenient monetary approach and heightened risks. Net exports added 2.3 percentage points as imports were muted in line with depressed domestic demand. On the supply side, the energy and trade sectors emerged as primary growth inhibitors, sapping 2.5 percentage points. Amid a subdued regional climate, manufacturing fell 1.3 percentage points,

FIGURE 1 Moldova / Actual and projected macroeconomic indicators



Source: World Bank, based on national statistics.

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



Source: World Bank. Notes: see Table 2.

while IT and communications contributed 0.5 percentage points. Agriculture struggled with last year's drought and input costs (-0.1pp).

Moldova's external position improved, but elevated energy costs and decreased exports pose vulnerabilities. Strengthened by robust service exports (transport and IT) and positive developments in primary and secondary accounts (remittances increased by 11 percent), the current account deficit diminished by 2.6 percentage points, reaching 16.1 percent of GDP. Financing primarily relied on cash and deposits. External debt, however, escalated to 66.6 percent of GDP.

The inflation rate is on a descending trajectory, reaching 18.7 percent between January- July. In the first half of 2023, the fiscal deficit expanded to 4.7 percent of GDP, propelled by a 20 percent rise in expenditures driven by interest rates and social spending. Revenues lagged (13 percent), as economic activity is subdued. Public debt increased by 2 percentage points, totaling 32.5 percent of GDP.

Due to record high prices and reduced purchasing power, average household real income declined by 6 percent during 2022, with consumption down 10 percent in real terms among households in the first quintile. Despite the decline in purchasing power, employment was up 2.2 percent in 2022 driven by a 4.5 percent increase in the employment of women. Poverty, as measured by the international US$6.85 2017 PPP per day poverty line is forecasted to have increased from 14.4 percent in 2021 to 16.2 percent in 2022.

Outlook

GDP growth is predicted to gradually rebound to 1.8 percent in 2023, fully recovering in 2024. Amidst strong base effects, growth will resume later this year due to strong remittances, fiscal stimulus, and better monetary conditions supporting consumption and investments. On the production side, agriculture is expected to strongly rebound from last year's drought. In medium term, growth depends on inflation dynamics, energy security, and the ongoing Russian invasion of Ukraine. Governmental measures, like higher pensions, social protection, and wages throughout 2023, are anticipated to alleviate the impact on households. Consumer credit remains subdued, and the proximity to Ukraine poses challenges to both domestic and foreign investments, as well as net exports. In terms of production, industry will remain constrained by heightened input expenses. Nevertheless, the service sector will spearhead growth, with a strong contribution from the transport sector, mainly due to Ukraine freight.

Assuming moderated import prices and controlled second-round effects, inflation will gradually recede towards the Central Bank target of 5 percent by end-2023. The external stance is expected to be challenged by high import prices and subdued capital inflows driven by heightened uncertainty. In the medium term, remittance inflows will stabilize as migrants seek alternative destinations, helping to address the structural deficit of the current account. The current account deficit is anticipated to exceed pre-COVID-19 levels and remain reliant on external financing. The expected economic slowdown will lower revenues, resulting in a 5.4 percent fiscal deficit in 2023. In the medium-term high deficits are expected to persist due to infrastructure needs. Despite the challenging outlook, public debt remains sustainable.

Poverty, as measured by the US$6.85 2017 PPP poverty line, is forecasted to decrease from 16.2 percent in 2022 to 13.9 percent in 2023. With the anticipated economic recovery, poverty is projected to decline further to 11.1 percent in 2024.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-7.4	13.9	-5.0	1.8	4.2	4.1
Private consumption	-8.3	15.5	-6.3	3.0	4.1	4.2
Government consumption	3.1	3.8	5.1	1.3	2.1	0.0
Gross fixed capital investment	0.4	1.7	-6.8	1.9	5.1	5.3
Exports, goods and services	-9.6	17.5	26.7	3.3	4.6	5.1
Imports, goods and services	-5.0	19.2	15.9	3.6	3.9	4.1
Real GDP growth, at constant factor prices	-7.6	15.6	-4.9	1.9	4.2	4.0
Agriculture	-26.4	18.7	-21.2	4.6	3.3	3.5
Industry	-4.3	5.6	-8.6	1.2	4.6	5.1
Services	-4.8	19.3	-0.7	1.8	4.2	3.7
Inflation (consumer price index)	4.1	5.1	28.7	14.1	6.2	4.9
Current account balance (% of GDP)	-7.7	-12.4	-15.7	-11.7	-10.4	-9.4
Net foreign direct investment inflow (% of GDP)	1.3	1.6	0.8	1.4	2.6	2.4
Fiscal balance (% of GDP)	-5.3	-1.9	-3.2	-5.4	-4.4	-3.5
Revenues (% of GDP)	31.4	32.0	33.4	32.1	31.8	32.5
Debt (% of GDP)	36.4	33.8	35.9	34.9	36.8	35.7
Primary balance (% of GDP)	-4.5	-1.1	-2.0	-4.6	-3.6	-2.9
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.5	0.3	0.4	0.3	0.3	0.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	15.4	14.4	16.2	13.9	11.1	9.2
GHG emissions growth (mtCO2e)	-2.4	10.8	-3.0	3.7	3.6	2.6
Energy related GHG emissions (% of total)	64.6	66.9	67.4	65.6	65.3	65.6

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 ECAPOV harmonization, using 2021-HBS. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2021) with pass-through = 0.87 (Med (0.87)) based on private consumption per capita in constant LCU.

MONTENEGRO

Table 1	2022
Population, million	0.6
GDP, current US$ billion	6.2
GDP per capita, current US$	10093.4
International poverty rate ($2.15)[a]	2.9
Lower middle-income poverty rate ($3.65)[a]	6.4
Upper middle-income poverty rate ($6.85)[a]	18.5
Gini index[a]	36.9
School enrollment, primary (% gross)[b]	102.3
Life expectancy at birth, years[b]	73.8
Total GHG emissions (mtCO2e)	3.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2021).

Over the past two years, Montenegro defied external headwinds, as GDP growth remained solid, reaching 6.4 percent in 2022 and prospects remain good. However, multiple challenges loom and require attention, especially on the fiscal front, as the country approaches large debt repayments during 2024-2027 in an environment of high financing costs. Montenegro requires prudent fiscal and debt management policies to overcome these challenges and structural reforms to safeguard and improve development prospects.

Key conditions and challenges

Montenegro's small, open, and service-based economy is highly vulnerable to external shocks, while the country's strategies and policies have not always been conducive to enhancing resilience. After a deep recession of -15.3 percent in 2020, the economy recovered strongly in 2021 and 2022, averaging 13 and 6.4 percent growth, respectively. However, the unfavorable global environment, coupled with domestic challenges is weighing on growth prospects. Given euroization, Montenegro relies on fiscal policy and structural reforms to maintain macroeconomic stability. However, the debt-financed highway, the pandemic, and a lack of commitment to fiscal targets have contributed to increased fiscal vulnerabilities and debt. Despite a significant decline in public debt to an estimated 62.1 percent of GDP in 2023, it nevertheless presents a vulnerability because it is subject to significant financing and rollover risk in the present environment. Considering large Eurobond repayments in 2025 and 2027 and high borrowing costs, Montenegro must demonstrate fiscal prudence by consolidating its public finance to narrow the fiscal deficit and further reduce public debt.

Since a major political change in 2020, Montenegro's political and institutional landscape has been complex and fragile, resulting in a vote of no-confidence in two governments in one year. The new political party, Europe Now, won the most seats in the snap elections that took place in June 2023 and is tasked with forming a government. A political consensus focused on structural reforms, the rule of law, and fiscal prudence will be critical to safeguard and improve Montenegro's development prospects in a highly uncertain external environment.

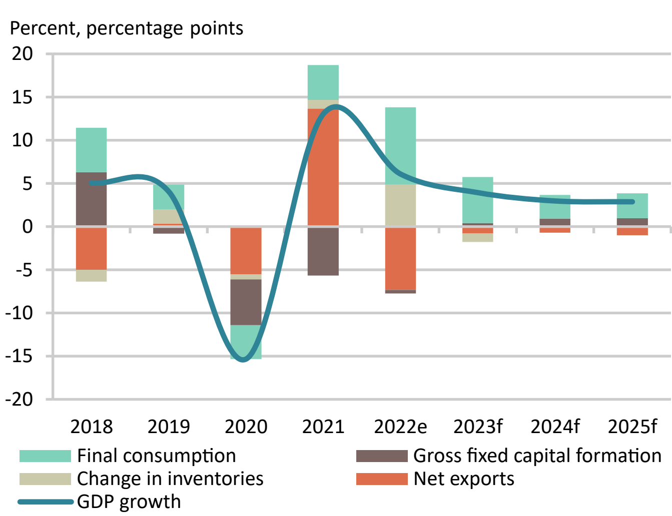
Recent developments

The economy made a very strong start in 2023, as GDP expanded by 6.6 percent in the first half of 2023, driven by personal consumption, underpinned by an increase in public sector wages, employment gains, and household borrowing, but also a very strong tourism season. In the first seven months of 2023, real retail trade grew by 10.4 percent y/y, while the number of tourist overnight stays outpaced the levels observed in the same period of 2019 by 29.1 percent. In the same period, industrial production increased by 5.4 percent, driven by stronger electricity production amid favorable hydrological conditions, and despite falling manufacturing. However, the value of construction works contracted by 11.8 percent in H1 2023, as investments remain subdued.

Strong employment gains in 2022 continued into 2023. Administrative data show record high employment in July and a record low administrative unemployment rate of 13.1 percent.

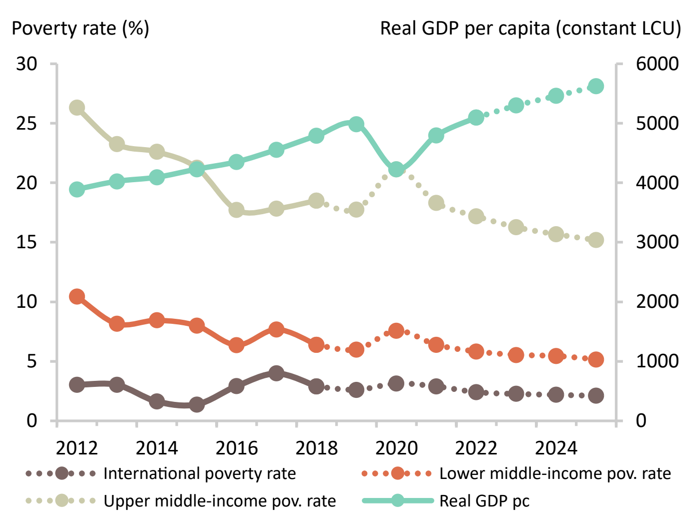
While annual inflation moderated to 10.1 percent y/y over the first eight months,

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



Sources: MONSTAT and World Bank.

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



Source: World Bank. Notes: see Table 2.

monthly inflation remains elevated, led by food prices. Despite high inflation, real wages remained flat. Consequently, poverty (income below $6.85/day in 2017 PPP) is projected to decline to 16 percent in 2023.

By August, banking sector lending and deposits increased by 8.9 and 13.6 percent y/y respectively. In June, the average capital adequacy ratio was at a healthy 20.1 percent, while non-performing loans declined to 6.1 percent from 6.9 percent of total loans a year earlier.

On the external side, the current account deficit (CAD) narrowed slightly in H1, as export growth of 26.7 percent y/y outpaced import growth of 15.1 percent. Net income accounts increased marginally, despite a decline in net remittances of 5.7 percent y/y. Net FDI fell by 26.4 percent y/y, financing just half of the CAD, the remainder being financed from reserves.

On the fiscal side, by July, the central government achieved a fiscal surplus of 2.3 percent of GDP, due to strong revenues and capital budget under-execution. The surge in revenues of 24.5 percent y/y was supported by one-off payments of 1.8 percent of GDP for the economic citizenship program, a hedging fee, and grants, but also strong CIT and contributions collection. Expenditure growth of 12.9 percent was more moderate, as capital spending declined by 54.6 percent y/y, despite an increase in public sector wages and social spending. Consequently, government deposits increased to 3.9 percent of GDP from 1.9 percent of GDP in December 2022. By end-June, public debt declined to an estimated 61.3 percent of GDP.

Outlook

Montenegro's growth is expected to remain strong at 4.8 percent in 2023, underpinned by private consumption and service exports, while investments remain subdued. However, the slowing of the global economy is weighing down on Montenegro's outlook. Over 2024-25, declining private consumption growth is expected to result in a slower average growth of 3.2 percent. Tourism is likely to surpass its 2019 level in 2023, and continue growing, although deteriorating growth prospects in the EU and the region may adversely affect tourism. Poverty is projected to decline by 0.6 percentage points from 2023 to 15.4 percent in 2025. Expected service export growth and moderation of imports due to slowing consumption are estimated to bring the CAD to 10.9 percent of GDP by 2025.

On the fiscal side, while one-off revenues will result in a lower-than-planned fiscal deficit of 2 percent of GDP in 2023, the fiscal deficit is expected to remain elevated at 3.9 and 3.6 percent of GDP in 2024 and 2025, respectively. Public debt is expected to increase from 62.1 percent of GDP in 2023 to 66.1 percent of GDP in 2024. Fiscal consolidation measures would, however, result in a better fiscal performance.

Given the tightening of global financial conditions and Montenegro's sizable financing needs over 2023-25, cautious fiscal management is needed, particularly with respect to expenditures, including implementing the pension and public administration reforms.

The outlook is surrounded with downside risks. High geopolitical uncertainties may weaken growth prospects in Montenegro's major trading partners. Monetary tightening is rapidly increasing the cost of external financing. Political challenges are major domestic risks. The severity of challenges ahead, however, requires strong political and economic stewardship through carefully designed and well-costed policies.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-15.3	13.0	6.4	4.8	3.2	3.1
Private consumption	-4.6	4.0	9.7	6.3	3.3	3.5
Government consumption	0.8	0.5	1.5	2.8	0.6	0.4
Gross fixed capital investment	-12.0	-12.3	0.1	0.0	2.6	2.8
Exports, goods and services	-47.6	81.9	22.7	11.1	4.9	4.3
Imports, goods and services	-20.1	13.7	21.3	5.9	3.9	3.8
Real GDP growth, at constant factor prices	-14.4	13.2	6.3	4.8	3.1	3.1
Agriculture	1.1	-0.5	-2.9	-0.2	0.1	0.1
Industry	-12.0	0.3	-8.1	1.6	2.0	2.4
Services	-16.9	19.9	11.7	6.1	3.6	3.5
Inflation (consumer price index)	-0.3	2.4	13.0	8.4	4.0	2.8
Current account balance (% of GDP)	-26.1	-9.2	-12.9	-11.5	-11.3	-10.9
Net foreign direct investment inflow (% of GDP)	11.2	11.7	13.2	8.0	8.1	7.9
Fiscal balance (% of GDP)	-11.0	-1.9	-5.1	-2.0	-3.9	-3.6
Revenues (% of GDP)	44.4	44.0	38.6	40.5	39.0	39.1
Debt (% of GDP)	105.3	84.0	69.3	62.1	66.1	62.3
Primary balance (% of GDP)	-8.3	0.5	-3.4	-0.3	-1.8	-1.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.1	2.9	2.4	2.3	2.2	2.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	7.6	6.4	5.8	5.5	5.3	5.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	21.1	18.3	17.2	16.0	15.4	14.9
GHG emissions growth (mtCO2e)	-9.2	5.2	1.9	1.8	1.2	1.6
Energy related GHG emissions (% of total)	68.8	71.1	72.3	71.7	72.8	73.8

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 ECAPOV harmonization, using 2019-SILC-C. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2018) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

NORTH MACEDONIA

Table 1	2022
Population, million[a]	2.1
GDP, current US$ billion	13.6
GDP per capita, current US$[a]	6597.7
Upper middle-income poverty rate ($6.85)[b]	19.1
Gini index[b]	33.6
School enrollment, primary (% gross)[c]	95.5
Life expectancy at birth, years[c]	74.5
Total GHG emissions (mtCO2e)	10.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2020) for population.
b/ Most recent value (2019), 2017 PPPs.
c/ WDI for School enrollment (2020); Life expectancy (2021).

The economic growth is decelerating as inflationary pressures remain persistent, and public finances are stretched amidst monetary tightening and rising borrowing costs. Poverty reduction resumed slowly. Fiscal consolidation needs to be prioritized given new spending commitments for highways and public sector wages. Boosting growth calls for structural reforms that have been delayed amidst a parliamentary impasse. The outlook over the forecast horizon is positive, but downside risks prevail.

Key conditions and challenges

Despite setbacks stemming from the energy crisis and Russia's invasion of Ukraine, growth in early 2023 proved to be more resilient than expected. After surpassing a two-decade peak in 2022, inflation dropped to single digits in June 2023, but core inflation remained elevated. Poverty reduction has resumed in 2023 albeit at a slower pace, with the poverty rate projected to fall by less than 1 percentage point given the disproportionate erosion of real incomes of the relatively less well-off and an anemic labor market. Namely, the employment rate (15+) remained at just over 47 percent during 2021-22, and the reduction in the unemployment rate from 15.4 percent in 2021 to 14.4 in 2022 came on the back of the increase in inactivity of the older age cohort, rather than transitions into employment.

Fiscal policy continues to be challenging. The additional fiscal cost of the public sector wage increase negotiated in July 2023 is estimated at around 0.7-0.8 percent of GDP a year. Furthermore, the construction costs for a highway to Albania worth 10 percent of GDP will need to be absorbed in the budget, adding to the need for fiscal consolidation. While public debt slightly declined, it is projected to rise over the medium term, while expenditure arrears remain consistently above 3 percent of GDP.

Monetary tightening continued to confront rising inflationary expectations, with the main policy rate in August 2023 reached 6.15 percent. Credit growth slowed largely due to reduced borrowing by firms as financial conditions tightened.

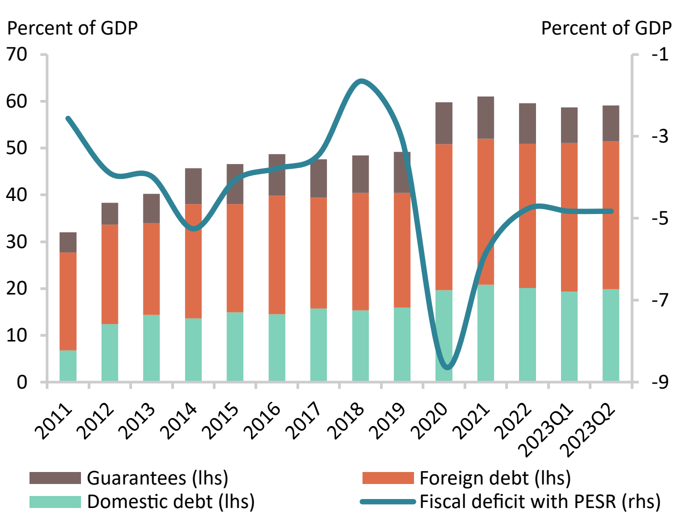
Overlapping crises have scarred the growth potential and further slowed convergence with the EU. Boosting productivity, advancing on inclusion, and enhancing fiscal and environmental sustainability are critical for long-term steady growth in the context of pronounced and widespread uncertainty. Rebuilding resilience to climate change shocks and decarbonizing to maintain international competitiveness given the EU CBAM implementation.

Recent developments

Output increased by 1.6 percent in H2 2023, led by decelerating consumption and exports, as imports and stockpiling pressures subsided. Growth was driven by services and industry which is slowing due to lower external demand, while agriculture and construction remained negative.

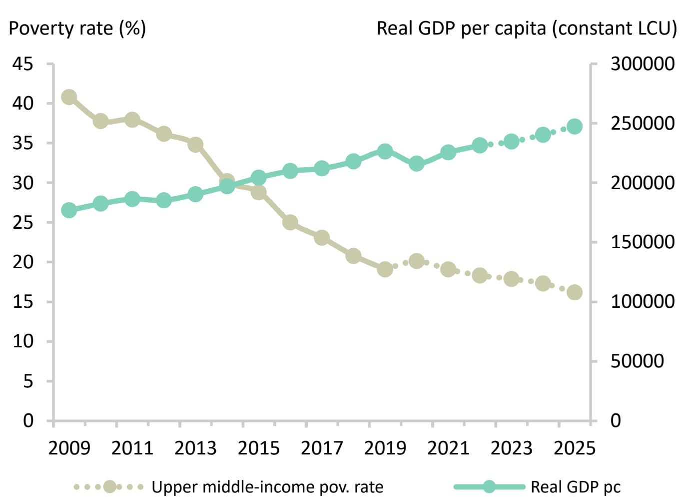
The Q2 2023 labor market data, lacking comparability due to census and methodological changes with previous years, reveal an unemployment rate of 13.1 percent, with the youth unemployment rate declining to 25.6 percent. The labor force participation rate (ages 15+) stood at a low of 52.4 percent (for women at 42.5 percent), while the employment rate remained stagnant at 45.5 percent. Wage growth surpassed inflation as of April 2023 after the minimum wage correction. Wages will increase

FIGURE 1 North Macedonia / Fiscal performance



Sources: North Macedonia State Statistics Office, Ministry of Finance, and World Bank staff calculations. Note: Fiscal deficit with PESR included.

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



Source: World Bank. Notes: see Table 2.

further as the Government signed a new collective agreement for the public sector that includes a 10-percent wage rise from September 2023 and a revision to the wage-setting methodology from 2024 linking the public sector wage to the national gross wage; an annual leave bonus at 30 percent of the average net wage; as well as loyalty bonuses. The fiscal deficit (with the State Roads) will likely remain at 4.8 percent of GDP for 2023 after the technical budget reallocation to accommodate new spending commitments. The central government deficit reached 2.7 percent of GDP by June as revenue growth decelerated and spending increased led by investments and social spending. Public debt to GDP stood at 59.1 percent of GDP in June 2023 and is expected to rise by 2025.

Banking sector stability was preserved with an increase in the capital adequacy ratio to 18 percent in Q1 2023 despite a drop in the liquidity rate to 19.1 percent. At the same time, the NPL ratio declined to 2.8 percent.

Headline inflation fell to 8.4 percent in July 2023, but core inflation remains sticky at above 8 percent. The pegged exchange rate has remained stable and FX reserves have recovered from losses incurred largely at the start of the war in Ukraine, standing at more than 4 months of imports in June 2023.

Outlook

The medium-term outlook is positive, but risks are tilted to the downside. Growth in 2023 is expected to increase modestly by 1.8 percent, reflecting a slowdown in external demand, and a persistent cost-of-living crisis, offset in part by the impact of the highway construction. Growth is expected to moderately accelerate in the medium term led by the rise in public investments, recovered consumption and exports, before slowing towards the potential growth trend thereafter. Annual inflation is projected to remain elevated at 9.1 percent in 2023 and fall to the long-term average of 2 percent in 2025. The baseline scenario is built on the assumption that the impact of crises subsides over the forecast horizon.

While underlying risks remain largely skewed to the downside and reflect the outlook for the country's main trading partners, moving ahead with EU accession negotiations may accelerate critical reforms and unlock growth. However, heightened political uncertainty and a prolonged parliamentary impasse due to lack of consensus for constitutional changes and upcoming elections may delay reform implementation. Finally, policy slippages may risk fiscal sustainability and inflation persistence in turn requiring further monetary tightening that can further restrict financing options and decelerate economic activity going forward.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-4.7	3.9	2.1	1.8	2.5	2.9
Private consumption	-3.4	7.8	3.1	4.2	1.5	2.4
Government consumption	9.7	-0.4	-2.6	0.3	0.2	0.2
Gross fixed capital investment	-15.7	0.9	15.9	8.0	6.5	6.5
Exports, goods and services	-10.9	11.7	13.4	6.0	5.5	5.0
Imports, goods and services	-10.9	11.9	16.1	5.8	4.5	4.5
Real GDP growth, at constant factor prices	-4.3	4.1	2.5	1.8	2.5	2.9
Agriculture	2.5	-5.2	2.0	2.0	2.5	1.8
Industry	-6.9	-1.8	-4.3	2.1	3.4	3.0
Services	-4.1	7.5	4.9	1.7	2.2	3.0
Inflation (consumer price index)	1.2	3.2	14.2	9.1	3.0	2.0
Current account balance (% of GDP)	-2.9	-3.1	-6.0	-3.7	-3.2	-2.8
Net foreign direct investment inflow (% of GDP)	1.4	3.3	5.2	5.2	4.7	4.2
Fiscal balance (% of GDP)	-8.2	-5.4	-4.6	-4.7	-4.1	-3.5
Fiscal balance incl. public enterprise for state roads (% of GDP)	-8.6	-5.8	-4.8	-4.8	-4.5	-3.8
Revenues (% of GDP)	29.9	32.5	32.4	34.9	35.0	35.7
Debt (% of GDP)	59.8	61.0	59.6	60.2	61.5	62.2
Primary balance (% of GDP)	-7.0	-4.1	-3.4	-3.2	-2.4	-1.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	20.1	19.1	18.3	17.9	17.3	16.2
GHG emissions growth (mtCO2e)	-5.5	-1.1	-3.0	-2.9	-3.0	-3.1
Energy related GHG emissions (% of total)	70.6	70.7	70.0	69.0	68.0	66.8

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 ECAPOV harmonization, using 2020-SILC-C. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

POLAND

Table 1	2022
Population, million	38.4
GDP, current US$ billion	690.2
GDP per capita, current US$	17959.9
Upper middle-income poverty rate ($6.85)[a]	0.9
Gini index[a]	28.9
School enrollment, primary (% gross)[b]	84.1
Life expectancy at birth, years[b]	75.6
Total GHG emissions (mtCO2e)	333.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2021).

After a robust 5.1 percent growth in 2022, Poland's GDP growth decelerated sharply in the first half of 2023 as high inflation, tighter financing conditions, and an unwinding inventory cycle weighed on growth. Private consumption declined due to declines in real wages, loss of purchasing power, and weak consumer sentiment. The large number of displaced Ukrainians joining the labor market relieved some of the pressures in the tight labor market. The share of the population at risk of poverty is expected to remain elevated through 2024.

Key conditions and challenges

The well-diversified Polish economy has recovered robustly after the COVID crisis recession in 2020 (-2 percent) -- one of the shallowest recessions in the region.

Long-term inclusive growth and poverty reduction were supported by a sound macroeconomic framework, effective absorption of EU investment funds, a sound financial sector, access to long-term credit and to the European market. Strong domestic labor markets and higher median and bottom 40 real incomes have supported private consumption. The improved business environment and the accession to the EU fostered the integration into regional value chains (RVCs) and economic diversification. Higher private investment, an improved innovation ecosystem, and further upgrading of RVCs are needed to boost productivity and growth.

The policy response to mitigate the impacts of the COVID crisis and high inflation have narrowed the available policy space. Increased efficiency of spending and tax expenditure is needed to rebuild fiscal buffers, accommodate higher spending on health, defense, the green transition, and to prepare for fiscal pressures linked to the rapidly aging population.

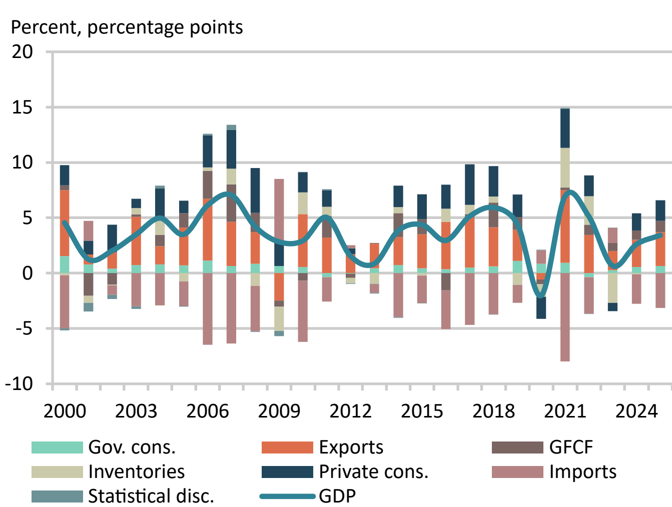
Over the medium term, a key challenge stems from expected declines in labor supply due to the declining and rapidly aging population. The large influx of displaced Ukrainians, estimated at nearly 1 million, temporarily eased some of the labor market tightness and boosted private consumption. Meeting decarbonization commitments is another challenge. Institutional strengthening is also needed for sustained and inclusive growth and for narrowing regional disparities.

Recent developments

Economic growth has decelerated markedly in the first half of 2023, from a robust 5.1 percent growth recorded in 2022, with a particular drag coming from household consumption which contracted in response to high inflation, tighter financing conditions, the unwinding of household support measures, and weak consumer sentiment. This is despite a robust labor market, with low unemployment rates, higher employment, and double-digit increases in average and minimum wages. The unwinding of the sizeable buildup in inventory is now representing a significant drag on growth. Strong financial performance of firms has bolstered investment activity, particularly for medium-sized and large companies in the energy, mining, and water sectors. Export growth remained robust, while weak domestic demand reduced import demand.

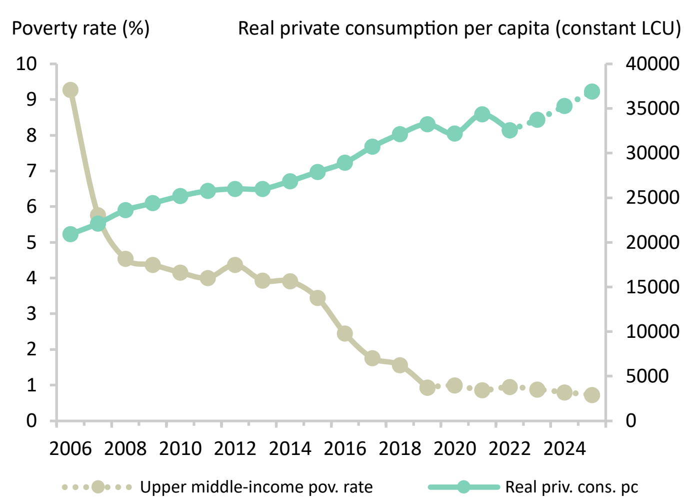
Inflation decelerated markedly from 18.4 percent in February 2023, to 10.1 percent by August, as global commodity prices, including energy prices, declined, the zloty appreciated, and supply disruptions eased. The zero VAT rate on staple food products and statutory price caps

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



Sources: GUS and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

on fuels sold by local governments maintain prices lower.

The National Bank of Poland started its monetary easing cycle with a surprise 75 basis points cut in September, after an early and aggressive monetary tightening since October 2021 (665 basis points), even as inflation remains well above the targeted range. Markets price in additional rate cuts as inflation pressure eases. The zloty appreciated by 10 percent in 2023, before easing in response to the rate cuts. The banking sector remains well capitalized, although profitability of the banking sector has declined recently.

The terms of trade shock and robust domestic demand widened the current account deficit to 3 percent of GDP in 2022. Stronger exports and subdued imports resulted in a marked improvement in 2023.

Measures to protect households and firms from the energy and food price shock, predominantly untargeted, cost 2.4 percent of GDP in 2022, contributing to the widening of the fiscal deficit to 3.7 percent of GDP, as did higher debt service costs and assistance to displaced Ukrainians (a cumulative 1 percent of GDP), and resolving the Getin Noble Bank S.A. (0.3 percent of GDP). The tax system reform, which enhanced progressivity, contributed to the 0.9 percentage point decline in PIT revenue.

Extreme poverty rates using the national concept continue to remain elevated in 2022 compared to the pre-COVID-19 pandemic period, reflecting the deterioration of purchasing power among households whose consumption baskets are heavily tilted towards necessities; the Gini coefficient of inequality continued the upward trajectory visible since 2017.

Outlook

Economic growth is projected to decelerate markedly to 0.7 percent in 2023 due to high inflation, negative real income growth, tighter financing conditions, continued negative confidence effects related to the Russian invasion of Ukraine, and an unwinding of the large inventory cycle. A recovery in private consumption and stronger investment activity are expected to support growth over the medium term, although further delays in EU NRRP disbursements represent a downside risk.

Slowing demand from the EU will be partially compensated by stronger exports to Ukraine. This, together with weaker import demand and lower energy import prices, is expected to result in a current account surplus of 1.3 percent of GDP in 2023.

The general government deficit is expected to exceed 4.7 percent of GDP in 2023, on account of the impact of the structural tax reform (Polish Deal, 1.1 percent of GDP), the freeze on electricity and gas prices and the zero-VAT on food (2 percent of GDP), election-related spending, and assistance to displaced Ukrainians (0.2 percent of GDP). Defense spending is expected to rise by 0.8 percent of GDP this year. The general government deficit is expected to remain elevated in 2024.

A prolonged inflationary period poses a risk to progress on poverty reduction, with elevated energy and food prices affecting heavily poorer segments, who spend 50 percent of their monthly budgets on food and energy. The share of the population at risk of anchored poverty is expected to remain 1-2 percent above 2019 levels.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-2.0	6.9	5.1	0.7	2.6	3.4
Private consumption	-3.4	6.1	3.3	-1.3	2.8	3.3
Government consumption	4.9	5.0	-2.0	1.5	3.2	3.7
Gross fixed capital investment	-2.3	1.2	5.0	4.0	4.5	5.4
Exports, goods and services	-1.1	12.3	6.2	3.1	4.3	5.2
Imports, goods and services	-2.4	16.1	6.2	-2.5	5.1	5.9
Real GDP growth, at constant factor prices	-2.0	6.6	5.0	0.8	2.6	3.5
Agriculture	15.3	-11.5	-1.7	5.2	0.2	0.1
Industry	-4.5	1.9	6.7	0.5	3.0	3.1
Services	-1.4	9.7	4.5	0.9	2.5	3.7
Inflation (consumer price index)	3.4	5.1	14.4	12.0	6.1	3.5
Current account balance (% of GDP)	2.5	-1.4	-3.0	1.3	0.9	0.4
Net foreign direct investment inflow (% of GDP)	2.4	4.1	4.0	2.3	2.3	2.3
Fiscal balance (% of GDP)	-6.9	-1.8	-3.7	-4.7	-4.3	-3.4
Revenues (% of GDP)	41.3	42.3	39.8	38.0	38.2	38.6
Debt (% of GDP)	57.2	53.6	49.1	49.4	50.9	52.4
Primary balance (% of GDP)	-5.6	-0.7	-2.2	-2.5	-1.9	-1.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	1.0	0.9	0.9	0.9	0.8	0.7
GHG emissions growth (mtCO2e)	-3.5	3.4	4.4	-0.2	0.9	1.3
Energy related GHG emissions (% of total)	91.9	91.9	91.8	91.9	91.9	92.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2013-EU-SILC and 2020-EU-SILC. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Projection using point-to-point elasticity (2012-2019) with pass-through = 0.7 based on private consumption per capita in constant LCU.

ROMANIA

Table 1	2022
Population, million	19.9
GDP, current US$ billion	300.3
GDP per capita, current US$	15076.5
International poverty rate ($2.15)[a]	2.2
Lower middle-income poverty rate ($3.65)[a]	4.7
Upper middle-income poverty rate ($6.85)[a]	10.7
Gini index[a]	35.2
School enrollment, primary (% gross)[b]	87.8
Life expectancy at birth, years[b]	73.0
Total GHG emissions (mtCO2e)	83.9

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

The Romanian economy decelerated to 1.7 percent in the first half of 2023, in spite of resilient private consumption and investment aided by EU funds. Growth will moderate in 2023, in alignment with EU's weakened economic activity, but rebound in the medium term. Fiscal and current account deficit pressures will remain elevated, necessitating structural reforms. Poverty reduction is set to decelerate due to high food and energy costs, partly offset by government support. Tackling energy poverty is key to poverty alleviation and social inclusion.

Key conditions and challenges

Romania has made impressive strides in enhancing its economic performance and prosperity over the past two decades, supporting convergence in living standards with the EU. However, several constraints, including weak institutions, shortages of skilled workforce, poor connectivity, low resilience to natural hazards, and the effects of climate change, hold Romania back from making growth more inclusive and more sustainable economically and environmentally.

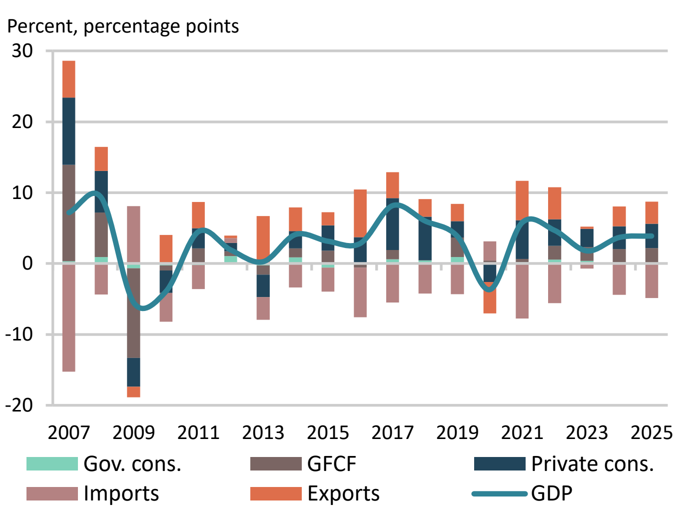
Romania's persistently high at-risk-of-poverty rate, particularly compared to EU peers with comparable or lower per capita incomes, remains concerning and could worsen due to ongoing inflation, especially among lower-income groups. In December 2022, a 3.1 ppts inflation gap existed between Romania's lowest and highest quintiles.

The key challenges in the short term are to curb the increase in the cost of living and sustainably address the significant twin deficits, while mitigating the impact of rising energy prices with targeted transfers to help the most vulnerable. The surge in inflation prompted a tightening of monetary policy, while elevated core inflation points to persistent inflationary pressures. Achieving a sustainable recovery and supporting fiscal consolidation efforts will hinge on implementing structural reforms in key areas, including education and health sectors, public administration, tax, and pension systems; and decarbonization reforms along with an efficient use of EU Multiannual Financial Framework and Next Generation EU funds.

Recent developments

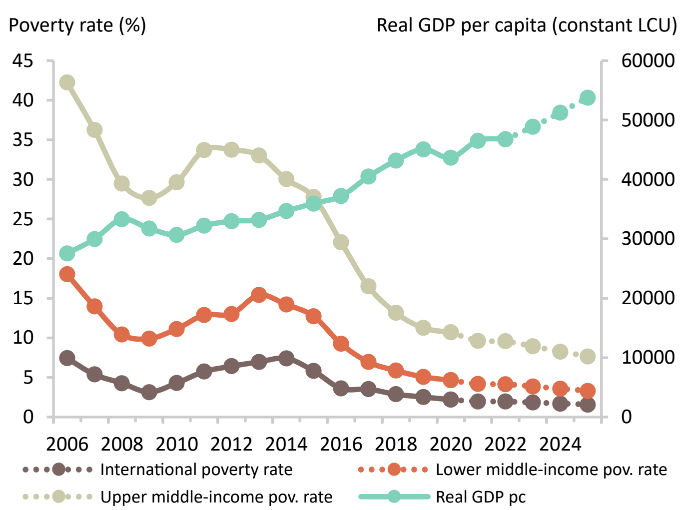
Romania's economic growth decelerated to 1.7 percent y-o-y in H1, 2023. Private consumption remained the main driver of growth, up 3.9 percent y-o-y, benefiting from higher wages and muted unemployment. Investment, up 11.2 percent y-o-y, was boosted by increased public investment supported by EU funds. Temporary factors notably dampened growth, with inventory changes contributing negatively to GDP dynamics. Despite weakening export volumes, trade and current account deficits narrowed, supported by higher services surplus and modest import compression. On the supply side, although construction (up 6.8 percent y-o-y) was the main driver of growth, its momentum waned, reflecting a slowdown in both residential and non-residential constructions. Industry continued to contract (down 3.3 percent y-o-y) due to elevated production costs, especially in energy-intensive sectors, which experienced among the highest output declines. Unemployment remains contained at 5.4 percent in June 2023. Nominal net wages grew by 15.4 percent y-o-y in June 2023, above inflation, driven by wage increases in the private sector propelled by a minimum gross wage rise fueling companies' labor

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



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

costs. July's annual inflation slowed to 9.4 percent from 12.2 percent in March, driven by lower energy costs. Food prices remain high but should temper given the Government's temporary cap on markups for 14 staple items starting end of July 2023. Following 575 basis points of hikes from October 2021, the National Bank of Romania has maintained its policy interest rate at 7 percent since January 2023. Private sector credit growth decelerated to 6.4 percent y-o-y in June 2023 from 17.5 percent in June 2022, reflecting a slowdown in loans to households (0.1 percent y-o-y).

The fiscal deficit widened to 2.3 percent of GDP in the first half of 2023, a 0.7 ppts increase from the previous year. The deterioration resulted from slower fiscal revenue growth, notably VAT, coupled with increased expenditures, mainly stemming from social assistance spending, higher investments, and record high interest expenditures. Narrowing the fiscal deficit is a key challenge given its structural nature. To meet the deficit target agreed with the European Commission, the Government is working on a comprehensive fiscal reform package which includes measures aimed at increasing the equity of the tax system and reducing distortions, as well as measures supporting public wage and pension reforms.

Poverty ($6.85/day PPP) is projected to decrease from 10.7 percent in 2020 to 9.6 percent in 2022, due to positive GDP per capita growth and rising employment rates, but at a slower pace due to inflationary pressures. Microsimulation shows higher food and energy prices could increase short-term poverty ($6.85/day PPP) by 0.9 ppts without government support. Existing energy price caps temper this, but energy hikes' ripple effects are even more impactful via core inflation. In 2023, energy affordability remains a concern. The July 2023 World Bank rapid survey shows that 15 percent of households struggled to heat their homes during the past winter, and 30 percent found it difficult to cool in summer. Over half were dissatisfied with the Government's energy price caps, finding them insufficient against increasing prices. Poverty ($6.85/day PPP) is projected to decrease further to 8.9 percent in 2023.

Outlook

Growth is projected to decelerate in 2023 to 1.8 percent but firm over the medium term, supported by private consumption and EU funds aided investment. The outlook depends on multiple factors, including the extent and duration of Russia's invasion of Ukraine and its repercussions on the European economy, alongside fluctuations in global prices and domestic inflation. Romania's capacity to efficiently absorb the EU funds will be critical for a sustainable, green, and inclusive recovery, aiding private investment amid higher interest rates and uncertainty. The sizable funds and associated structural reforms will also be critical in supporting a sustainable reduction of the fiscal deficit over the medium term, particularly aimed at reducing inefficient expenditures and strengthening revenue mobilization. Strengthened lifelong skills formation and private capital mobilization will be pivotal in boosting potential growth.

Due to the growth slowdown, 2024 may see slower poverty reduction. However, the poverty trajectory will hinge on the duration of the war in Ukraine and its impacts on food and energy prices, as well as the approach to tackle the fiscal deficit while protecting the more vulnerable. The Government's role in mitigating energy cost effects through targeted support is vital.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-3.7	5.8	4.7	1.8	3.7	3.9
Private consumption	-3.9	8.1	5.5	3.7	4.5	4.8
Government consumption	1.1	1.3	4.3	2.9	1.4	1.2
Gross fixed capital investment	1.1	1.9	8.0	7.9	7.2	7.5
Exports, goods and services	-9.5	12.6	9.6	0.7	5.8	6.3
Imports, goods and services	-5.2	14.9	9.9	1.2	7.5	8.0
Real GDP growth, at constant factor prices	-3.4	5.4	4.0	1.8	3.7	3.9
Agriculture	-15.3	5.9	-11.6	2.8	2.1	2.1
Industry	-6.5	6.6	-2.3	-2.5	1.9	2.1
Services	-0.8	4.8	8.2	3.7	4.5	4.7
Inflation (consumer price index)	2.6	5.1	13.8	10.1	5.4	4.2
Current account balance (% of GDP)	-4.9	-7.2	-9.3	-7.4	-6.3	-6.1
Net foreign direct investment inflow (% of GDP)	1.4	3.7	3.7	3.1	3.2	3.2
Fiscal balance (% of GDP)	-9.2	-7.1	-6.2	-6.0	-4.8	-3.7
Revenues (% of GDP)	32.8	32.5	33.5	32.7	32.9	33.1
Debt (% of GDP)	46.9	48.6	47.3	50.8	51.5	51.9
Primary balance (% of GDP)	-7.8	-5.5	-4.6	-4.6	-3.4	-2.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.2	2.0	2.0	1.8	1.7	1.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	4.7	4.2	4.2	3.9	3.6	3.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	10.7	9.6	9.6	8.9	8.3	7.7
GHG emissions growth (mtCO2e)	-3.8	6.3	4.7	1.1	3.7	4.2
Energy related GHG emissions (% of total)	92.6	93.1	93.9	94.3	94.8	95.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2014-EU-SILC and 2021-EU-SILC. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projection using point-to-point elasticity (2013-2020) with pass-through = 0.7 based on GDP per capita in constant LCU.

RUSSIAN FEDERATION

Table 1	2022
Population, million[a]	143.6
GDP, current US$ billion	2274.5
GNI per capita, Atlas method, current US$[a]	11610.0
Upper middle-income poverty rate ($6.85)[b]	4.1
Gini index[c]	36.0
School enrollment, primary (% gross)[d]	104.2
Life expectancy at birth, years[d]	69.4
Total GHG emissions (mtCO2e)	1494.4

Sources: WDI, MPO, Rosstat.
a/ Most recent value (2021).
b/ Most recent value (2020), 2017 PPPs.
c/ Most recent value (2020).
d/ Most recent WDI value (2019).

Growth is projected at 1.6 percent in 2023. Fiscal stimulus supported consumer demand and military spending, while the energy sector contracted less than anticipated. Heightened external pressure, with a shrinking current account surplus, and narrowing fiscal space worsen the outlook. Medium-term growth prospects are muted due to constraints on Russia's access to global markets, skilled human capital, and productivity-enhancing technologies. Poverty is expected to fall slightly between 2023 and 2025.

Key conditions and challenges

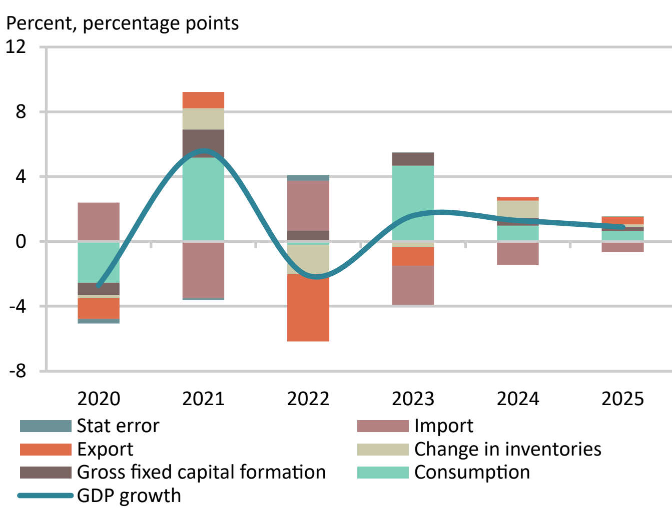
After the initial recessionary impact of sanctions in 2022, the economy has returned to growth in 2023, supported by credit growth and fiscal stimulus including military spending. However, Russian businesses and households continue to be affected by great uncertainty, restricted access to international markets, and higher trade costs. A shrinking current account surplus is driving exchange rate depreciation. The fiscal position has deteriorated, with energy receipts compressed by the sanctions. Banking sector risks, manageable in the short term, could add further pressure on the budget due to recapitalization needs. Loss of skilled workers, restrictions on imports of technological goods, and loss of productive FDI is expected to depress medium- to long-term growth prospects.

Recent developments

Following an economic contraction of 2.1 percent of GDP in 2022, GDP expanded by 1.6 percent (yoy) in H1 2023. On the demand side, growth was largely driven by consumer demand, boosted by accelerated public spending in H1 2023 (including a 7.1 percent real increase in pensions), and expanding consumer credit, while military spending remained high. Retail sale volumes grew by 1.1 percent (yoy) in H1 2023 (9 percent yoy in Q2 2023) with real wages 6 percent higher in H1. Investment grew by 7.6 percent in H1 2023. Both services and manufacturing contributed to growth, while the energy sector, affected by sanctions introduced toward the end of 2022, kept growth down. Oil production so far has been relatively resilient to sanctions introduced at the end of 2022 on the export of oil and derivatives, with oil production only 0.9 percent lower (yoy) in H1, although more substantive production cuts are expected in H2. Moreover, Urals prices decreased to USD 52.3/bbl on average in H1 2023, compared to USD 83.9/bbl in 2022, reducing oil sector revenues and export receipts. Gas production decreased by 12.3 percent in H1 2023 (yoy), largely due to a fall in Russian pipeline gas deliveries to the European Union, and prices also fell by 55 percent on average in H1 2023 (yoy).

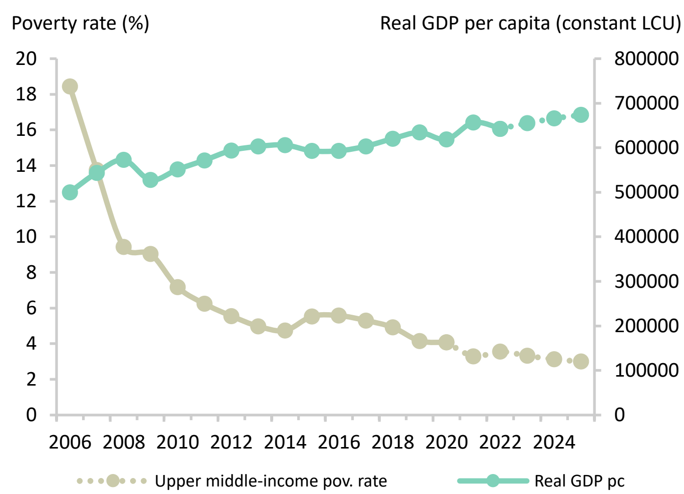
Expansionary fiscal expenditure (social benefits, government consumption, and investment – some directly related to the war – and loan subsidies) was an important factor in economic growth in H1 2023, with expenditure rising by 18.5 percent in H1 2023 (yoy). However, oil and gas revenues fell by 47 percent over the same period. This led to a rapidly expanding general government deficit, which reached 3.3 percent of GDP in H1, compared to a surplus of 4.6 percent of GDP in H1 2022. Public debt issuance (RUB 1.4 trillion, or USD 16.1 billion) and National Welfare Fund drawdown (RUB 0.5 trillion, or USD 5.3 billion at

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



Sources: Rosstat and World Bank.

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



Source: World Bank. Notes: see Table 2.

the end of June) were the main sources of deficit financing.

Russia's labor market remained tight as outward migration and the military sector reduced the amount of labor available for non-military-related activities. The unemployment rate fell to an unprecedented low of 3 percent in July 2023.

Russia's positive external balances narrowed over the course of 2023. The H1 2023 CAS was USD 29 billion, five times less than in 2022, as exports fell by 26 percent (yoy) and imports grew by 17 percent. As the external balance adjusted, the RUB began to depreciate rapidly, by 36 percent since the end of December 2022 to the end of August 2023.

The shrinking output gap and rising cost of imports fueled inflationary pressures. CPI inflation rose from 2.3 percent in April to 4.3 percent in July, with mom inflation in July more than doubling to 1 percent mom sa. In response, the Central Bank of Russia (CBR) raised interest rates by 550 bps to 13 percent – in three stages, in July, early August, and September – and suspended FX purchases.

The banking sector recorded a profit of RUB 2 trillion (USD 21 billion) in the first 7 months of 2023, compared to RUB 0.2 trillion in the full year 2022. Government support measures, including a RUB 100 billion recapitalization of VTB, and reportedly solid capital buffers allowed banks to continue lending throughout the year. Credit to the private sector grew by 9.7 percent in real terms (yoy) over the same period.

Outlook

It is currently difficult to produce growth forecasts for Russia due to significant changes to the economy associated with the Russian invasion of Ukraine, and Russia's decision to limit publication of economic data related to external trade and to financial and monetary sectors. Available data limit assessment of economic performance.

This outlook assumes that Russia's war on Ukraine and existing sanction will continue. A moderate contraction in crude oil and oil products exports, coupled with a rebound in domestic demand in 2023, mean the economy is expected to grow 1.6 percent this year, with growth moderating to 1.3 percent in 2024. Oil production is expected to contract by 2 percent in 2023. Growth momentum is expected to slow in H2 2023 as monetary and fiscal policy tighten; nevertheless, private consumption growth is expected to be strong in 2023 at approximately 6 percent.

Lower oil revenues and higher expenditure in 2023 are expected to widen the general government deficit to 3.3 percent, a deterioration of approximately 5 percent compared to 2022.

Average annual CPI inflation is expected to be lower in 2023, at 5.6 percent, with RUB depreciation contributing to rising inflation later in the year. Lower prices for commodities exported by Russia, lower export volumes, and growing imports are all expected to reduce CAS to approximately USD 50 billion in 2023 (2.6 percent of GDP), compared to USD 236.1 billion in 2022 (10.1 percent of GDP).

Moderate growth is expected in 2024, with consumer demand slowing and exports gradually recovering. In 2025, GDP is expected to grow by 0.9 percent, in line with lower growth potential.

Poverty is expected to fall slightly, if at all, between 2023 and 2025.

Russia's economic outlook remains closely tied to its ongoing invasion of Ukraine and possible further rounds of mobilization and sanctions. Broadly supported and strengthened sanctions, particularly affecting inflows of oil and gas revenues, and disruptions to evolving trade patterns may have significant impact.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-2.7	5.6	-2.1	1.6	1.3	0.9
Private consumption	-5.9	9.9	-1.4	6.3	1.3	0.7
Government consumption	1.9	2.9	2.8	8.6	1.6	1.4
Gross fixed capital investment	-4.0	9.1	3.3	4.1	2.3	1.2
Exports, goods and services	-4.2	3.3	-13.9	-4.3	0.9	1.9
Imports, goods and services	-11.9	19.1	-15.0	13.5	7.3	3.0
Real GDP growth, at constant factor prices	-2.2	6.1	-1.4	1.6	1.3	0.8
Agriculture	0.2	-0.8	6.7	0.5	1.2	1.2
Industry	-2.7	5.3	-0.2	1.5	2.0	1.4
Services	-2.2	7.0	-2.5	1.8	1.0	0.5
Inflation (consumer price index)	3.4	6.7	13.7	5.6	5.2	4.0
Current account balance (% of GDP)	2.4	6.6	10.4	2.6	2.1	2.0
Net foreign direct investment inflow (% of GDP)	0.2	-1.4	-1.2	-1.4	-1.4	-1.4
Fiscal Balance (% of GDP)[a]	-4.0	0.8	-1.4	-3.3	-1.9	-1.8
Revenues (% of GDP)	35.5	35.6	34.6	34.5	35.6	35.3
Debt (% of GDP)	19.9	17.3	16.9	19.4	20.7	21.8
Primary Balance (% of GDP)[a]	-3.2	1.6	-0.5	-2.4	-1.0	-0.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	4.1	3.3	3.6	3.3	3.1	3.0
GHG emissions growth (mtCO2e)	-3.5	1.2	-3.4	-0.5	-0.6	-1.5
Energy related GHG emissions (% of total)	91.7	90.8	90.3	90.1	89.5	88.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal and Primary Balance refer to general government balances.
b/ Calculations based on ECAPOV harmonization, using 2020-HBS. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
c/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

SERBIA

Table 1	2022
Population, million	6.7
GDP, current US$ billion	63.4
GDP per capita, current US$	9511.5
International poverty rate ($2.15)[a]	1.6
Lower middle-income poverty rate ($3.65)[a]	2.9
Upper middle-income poverty rate ($6.85)[a]	10.1
Gini index[a]	35.0
School enrollment, primary (% gross)[b]	96.8
Life expectancy at birth, years[b]	72.7
Total GHG emissions (mtCO2e)	63.1

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

The growth of the Serbian economy slowed down in the first half of 2023 amid elevated inflation that started to hurt consumption. Growth is expected to pick up in the second half of 2023, but risks to the outlook are tilted to the downside. The incidence of poverty declined to an estimated 8.5 percent. Going forward, poverty reduction is expected to stagnate, as income gains are eroded by high inflation and rising food prices in particular.

Key conditions and challenges

Growth in the first half of 2023 is estimated at 1.2 percent, y/y, significantly lower than in the same period of 2022. The main reason for this deceleration is a major decrease in investment with both private and public investment contracting. To a large extent, investment decreased due to lower inventories. Serbia needs to further remove bottlenecks for private sector investment including toward greener growth. Another challenge is the stubbornly high inflation, eroding the incomes of the poor due to their relatively high share of spending on food.

Over the medium term, under the base-case scenario, the Serbian economy is expected to grow at around 3 to 4 percent. With limited space for future stimulus packages, structural reforms are needed to accelerate growth to accelerate convergence to incomes of the EU.

Recent developments

Weak GDP growth in Q1 and Q2 (0.9 and 1.7 percent, y/y) was caused by a significant decline in investment and to some extent by declining consumption (their contribution to growth was -4.7 and -0.7 percentage points in H1). On the other hand, net exports made a positive contribution to growth thanks to lower energy imports (compared to the same period of 2022), as well as to compressed non-energy import demand.

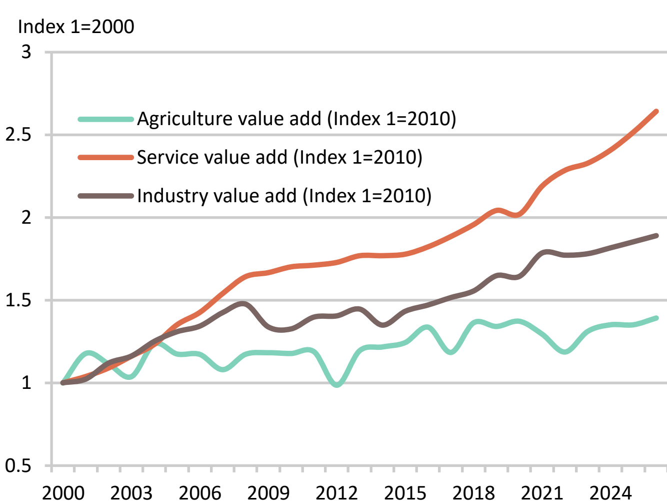
Labor market indicators remained broadly unchanged in 2023. The unemployment rate reached 10.1 percent in Q1 2023 (a slight increase compared to Q4 2022 when it reached 9.2 percent). Wages increased by 15.5 percent in nominal terms in the first half of the year compared to the same period of 2022.

Poverty (based on the upper-middle income line of $6.85/day in 2017 PPP) is estimated to have declined slightly from 9.1 percent in 2021 to 8.5 percent in 2022. In 2023, poverty reduction continued due to strong economic growth and improving labor market conditions, though it was partly countered by an output decline in agriculture, rising inflation at the end of the year, and the phasing out of government support programs.

Inflation remains stubbornly high, mainly due to a large increase in food and energy prices. The inflation reached a peak in March 2023 (16.2 percent), the highest since the CPI measurement started (in 2007). Inflation moderated to 12.5 percent in July. In the same month, food prices were 21.1 percent higher than a year earlier while energy prices were up by 23.7 percent. Rents for housing went up by 15.3 percent.

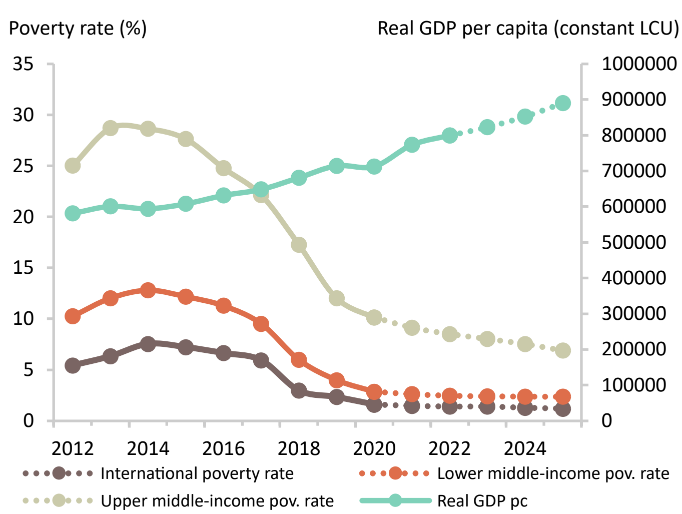
Budgetary revenues have overperformed thus far in 2023, primarily thanks to higher than planned collection of corporate income tax and high collection of contributions for social insurance. In the first half of the year, total revenues were

FIGURE 1 Serbia / Indexes of the level of sectoral GDP



Source: World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

higher by 12.6 percent in nominal terms (in real terms declined by 2.4 percent) compared to the same period in 2022. Over the same period, expenditures increased by 7.7 percent. As a result, the consolidated fiscal deficit recorded in the same period of 2022 turned into a surplus in 2023, reaching an estimated 0.6 percent of GDP. Public debt remained broadly stable throughout 2023 and stood at around 56 percent of GDP.

The current account deficit (CAD) shrank significantly in the first half of 2023 to 0.8 percent of GDP (down by 82 percent compared to the same period of 2022). This improvement, by and large, was driven by a major decrease in the trade deficit (which stood at EUR 3.2 billion in the first half of 2023 compared to EUR 5.3 billion in the same period of 2022) as imports slowed. Foreign currency reserves increased to a record high level of EUR 22.6 billion.

Outlook

The Serbian economy is expected to grow at around 2 percent in 2023, driven primarily by consumption. The impact of the war in Ukraine, a slowdown in global growth and tighter financing conditions, were key factors for the downward revision of 2023 GDP growth. Further revisions are possible depending on the performance of the economies of Serbia's main trading partners.

Over the medium term, the economy is projected to grow steadily at around 3-4 percent annually, supported by increases in consumption and investment. Foreign direct investment is expected to continue to play a key financing role. Inflation is expected to decline gradually as commodity prices normalize. The banking sector is expected to remain resilient, with NPLs stable at around 3 percent (at 3.2 percent in June 2023).

Poverty reduction is expected to gradually decline or stagnate in 2023 and beyond. While Serbia's economy is expected to continue to grow, contributing to income growth for households, rising inflation will limit purchasing power. Particularly, rising energy prices would disproportionately affect the poor. Poverty in 2023 is estimated at 8.0 percent, but it could be revised upward, depending performance of the economy in 2023. The pace of labor market recovery remains critical for resumed poverty reduction.

The outlook also crucially depends on the domestic reform agenda and its implementation. In particular, structural reforms in education, SOEs, along with further improvements in governance would pay off since those should incentivize private investors to invest more and to raise the quality of foreign investments in Serbia.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-0.9	7.5	2.3	2.0	3.0	3.8
Private consumption	-1.9	7.6	3.9	1.8	2.4	3.4
Government consumption	2.9	2.6	1.6	2.0	0.3	3.0
Gross fixed capital investment	-1.9	12.9	2.0	-9.2	4.1	7.1
Exports, goods and services	-4.2	19.4	17.8	3.0	4.2	6.0
Imports, goods and services	-3.6	19.3	16.2	1.9	3.0	5.8
Real GDP growth, at constant factor prices	-0.7	7.3	2.0	2.7	3.0	3.8
Agriculture	2.3	-5.7	-8.3	12.0	3.4	3.4
Industry	-0.3	8.6	-0.7	0.3	4.5	4.5
Services	-1.2	8.4	4.5	2.9	2.2	3.5
Inflation (consumer price index)	1.6	4.0	11.9	12.7	5.3	3.5
Current account balance (% of GDP)	-4.1	-4.3	-6.9	-2.5	-3.6	-3.8
Net foreign direct investment inflow (% of GDP)	6.3	6.9	7.2	5.9	5.7	5.8
Fiscal balance (% of GDP)	-8.0	-4.1	-3.0	-2.8	-2.0	-1.5
Revenues (% of GDP)	41.0	43.2	43.4	42.9	41.9	40.9
Debt (% of GDP)	57.8	57.1	55.6	55.5	53.1	51.5
Primary balance (% of GDP)	-6.0	-2.4	-1.5	-1.0	0.0	0.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.6	1.5	1.4	1.4	1.3	1.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	2.9	2.6	2.5	2.4	2.4	2.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	10.1	9.1	8.5	8.0	7.5	6.9
GHG emissions growth (mtCO2e)	2.3	5.0	-5.1	3.2	5.1	4.3
Energy related GHG emissions (% of total)	74.7	75.6	74.8	75.5	76.5	77.3

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 ECAPOV harmonization, using 2021-EU-SILC. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

TAJIKISTAN

Table 1	2022
Population, million	10.0
GDP, current US$ billion	10.5
GDP per capita, current US$	1054.2
International poverty rate ($2.15)[a]	6.1
Lower middle-income poverty rate ($3.65)[a]	25.7
Upper middle-income poverty rate ($6.85)[a]	66.4
Gini index[a]	34.0
School enrollment, primary (% gross)[b]	100.9
Life expectancy at birth, years[b]	71.6
Total GHG emissions (mtCO2e)	19.9

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

Economic growth is projected at 6.5 percent in 2023 and moderating in future years in the absence of strong structural reforms to open up the economy. Inflation has been kept under control and expected to remain around 3.4 percent in 2023. The authorities' effort to support the currency in H1 2023 have resulted in a substantial loss of FX reserves.

Key conditions and challenges

Tajikistan's GDP growth averaged 7.1 percent over the 2010–2022 period. Strong growth and higher wages helped reduce poverty from 32 percent of the population in 2009 to an estimated 12.4 percent in 2022 (at the international poverty line of USD 3.65/day). However economic growth has been driven by remittance-induced household consumption and public infrastructure investment and the country remains characterized by the absence of a competitive private sector and very limited jobs creation, in the face of a fast-growing population.

The result has been substantial labor outmigration, notably to Russia, leading to increasing economic dependence on remittances. Remittances peaked at 50 percent of GDP in 2022. High dependence on an undiversified external income source has increased vulnerability to external shocks; the difficult domestic business environment inhibits the establishment of private sector-led alternatives.

To achieve the objectives of the National Development Strategy 2030, the authorities need to address the challenges brought by inefficient public enterprises, elite capture, corruption, weak competition, inadequate digital connectivity, poor transport links, insufficient financial intermediation, weak human capital development, and substantial social and environmental vulnerabilities.

This challenging reform agenda is also critical to enable the financing of Tajikistan's ambitious infrastructure plans, notably the construction of the Rogun Hydropower Plant (HPP), in a macroeconomically sustainable manner. Debt sustainability analysis highlights substantial risks that point to the importance of maintaining fiscal discipline, including reducing contingent liabilities and boosting exports by enabling a competitive private sector.

Recent developments

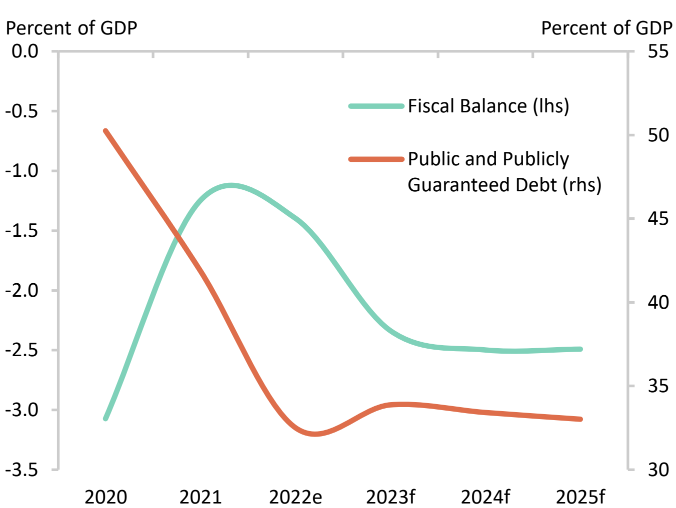
GDP growth was 8.3 percent (yoy) in H1 2023, driven by robust remittance inflows stimulating household consumption and investments. The share of households with a migrant reached 48 percent in June 2023, with the share of households receiving remittances rising gradually from 14 percent in January to almost 22 percent in June.

The average consumer price inflation rate declined from 7.7 percent during the first seven months of 2022 to 3.1 percent over the same period in 2023. Inflationary pressures decreased as the TJS appreciated against the RUB, lowering import prices for food and fuel products from Russia.

The Central Bank reduced the policy rate gradually from 13.5 percent in September 2022 to 10 percent as of May 2023. Since the transmission mechanism of the monetary policy is weak, the exchange rate is the main anchor to controlling inflation in Tajikistan.

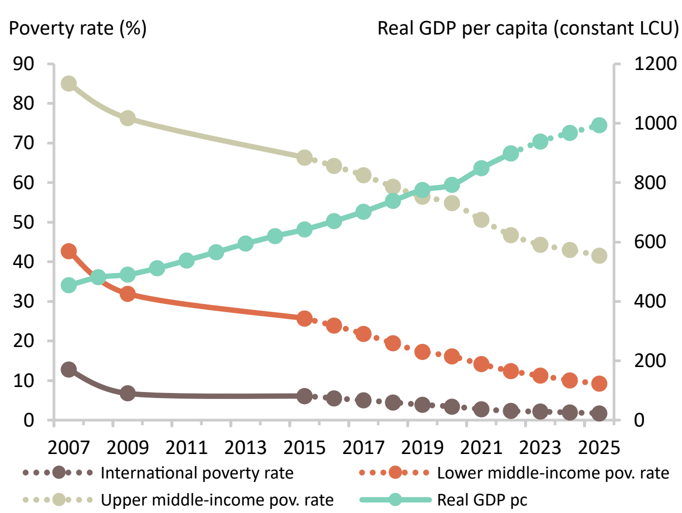
Despite the strong remittance inflows, Tajikistan's external position deteriorated in

FIGURE 1 Tajikistan / Fiscal balance and public debt



Sources: TajStat, Ministry of Finance, and World Bank staff estimates and projections.

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



Source: World Bank. Notes: see Table 2.

Q1 2023. The current account recorded a deficit of 2.6 percent of GDP in Q1 2023 compared with a 15.6 percent surplus in 2022.

The trade deficit widened from 30 percent of GDP in H1 2022 to 41 percent in H1 2023, primarily due to the doubling of vehicle imports and a complete halt in the export of precious metals. The export of precious metals was temporarily halted to prevent the re-export of non-Tajik products due to Russian sanctions and to improve compliance with OECD standards.

Monetary authorities intervened in the foreign exchange market to support the TJS, resulting in a fall in international reserves from USD 3.8 billion at the end of 2022 to USD 3.2 billion in mid-2023. Reserves remain adequate at more than 6.5 months of import cover.

In H1 2023, the state budget was in balance. Tax receipts increased by 20 percent in nominal terms (yoy) to 22.5 percent of GDP (from 22 percent last year's same period) due to robust economic activity and better tax administration. Budget expenditures increased by 34 percent in nominal terms (yoy) to 33.8 percent of GDP (from 29.6 percent last year's same period), led by the energy and communication sectors. Since July 2023, the authorities have implemented targeted social assistance reforms to better identify vulnerable households and increased the amount of benefits for households with more children.

The banking sector has high capitalization levels; however, the asset quality is relatively poor. As of March 2023, the ratio of capital to risk-weighted assets stood at 25.9 percent – more than double the minimum requirement of 12 percent. On the other hand, the share of non-performing loans in total loans stood at 11.5 percent (albeit declining from 12.2 percent at the end of 2022).

Outlook

Tajikistan's growth is expected to slow to 6.5 percent in 2023 due to a projected moderation in remittance inflows (to 32 percent of GDP from the high base in 2022), lower FDI, and weaker exports. The economy's growth potential is estimated to be 4.5–5 percent over the medium term in the absence of structural reforms.

Inflation is projected to gradually rise toward the inflation target of 6 percent, after hitting a low in 2023.

Over the medium term, Tajikistan's current account deficit is projected to hover at 2.5 to 3 percent of GDP, assuming the normalization of remittance flows and lower prices for major export commodities (metals and minerals).

To ensure macro-fiscal stability, the authorities will need to allow greater exchange rate flexibility and limit the fiscal deficit at 2.5 percent of GDP over the medium term.

Expenditure on the construction of the Rogun HPP and other large infrastructure projects is projected to be financed by borrowing from development partners and streamlining other non-priority spending. The authorities plan to continue increasing targeted social allocations to better protect the vulnerable. Poverty is projected to fall from 12.4 percent in 2022 to 11.3 percent in 2023.

Risks to the economic outlook stem from geopolitical uncertainty, global financial conditions, remittance flow reversals (notably due to the risk of military conscription of migrants with dual Tajik-Russian citizenship), and the slow pace of structural reforms. Tajikistan also remains highly sensitive to climate change and natural disasters.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	4.4	9.4	8.0	6.5	5.0	4.5
Private consumption	3.1	4.3	9.0	7.1	3.0	3.0
Government consumption	2.3	4.6	7.8	6.4	4.3	3.7
Gross fixed capital investment	-4.6	12.0	10.3	11.2	5.3	4.6
Exports, goods and services	21.8	55.4	-15.0	-4.6	11.0	8.1
Imports, goods and services	-0.4	20.0	3.0	8.0	3.1	3.6
Real GDP growth, at constant factor prices	7.6	9.2	9.2	6.5	5.0	4.5
Agriculture	7.9	-0.3	5.1	5.0	5.0	5.0
Industry	17.3	13.2	8.3	8.0	5.0	5.0
Services	-1.9	10.6	12.5	5.6	5.0	3.7
Inflation (consumer price index)	8.6	9.0	6.6	3.4	5.4	6.1
Current account balance (% of GDP)	4.3	8.2	15.6	-2.4	-2.9	-3.1
Net foreign direct investment inflow (% of GDP)	0.4	0.4	1.5	0.0	2.4	2.6
Fiscal balance (% of GDP)	-3.1	-1.2	-1.4	-2.3	-2.5	-2.5
Revenues (% of GDP)	26.2	26.7	27.7	26.2	26.1	26.1
Debt (% of GDP)	50.3	41.9	32.5	33.5	32.9	32.2
Primary balance (% of GDP)	-2.3	-0.4	-0.7	-1.6	-1.7	-1.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.5	2.8	2.3	2.2	2.0	1.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	16.2	14.2	12.4	11.3	10.1	9.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	54.8	50.6	46.8	44.3	43.0	41.6
GHG emissions growth (mtCO2e)	4.3	6.4	3.0	4.6	3.2	2.8
Energy related GHG emissions (% of total)	44.4	46.8	46.4	46.9	46.8	46.5

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 ECAPOV harmonization, using 2015-HSITAFIEN. Actual data: 2015. Nowcast: 2016-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2015) with pass-through = 0,87 (Med (0.87)) based on GDP per capita in constant LCU.

TÜRKIYE

Table 1	2022
Population, million	85.3
GDP, current US$ billion	906.3
GDP per capita, current US$	10627.4
Upper middle-income poverty rate ($6.85)[a]	12.6
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	96.5
Life expectancy at birth, years[b]	76.0
Total GHG emissions (mtCO2e)	525.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2021).

Following the May 2023 elections, the government has taken positive steps to normalize Türkiye's macroeconomic policies. After growing by 5.5 percent in 2022, Türkiye's economy is projected to initially slow to 4.2 percent in 2023 and 3.1 percent in 2024 as the economy adjusts from the previous over-accommodative and unsustainable macroeconomic stance, followed by an expected acceleration of growth in outer years. The combination of high inflation, particularly food inflation, and the earthquakes could erode prior achievements in poverty reduction.

Key conditions and challenges

The new economic team, under Finance Minister Simsek and central bank Governor Erkan, has started to normalize macrofinancial policies, and outlined more measures in the September Medium Term Program, to remedy imbalances in the economy. The central bank increased the policy rate from 8.5 percent in May 2023 to 30 percent in September (and signaled further tightening until there is significant improvement in inflation) and imposed new reserve requirements and other measures to limit loan growth. Distortive financial regulations are being unwound (including easing maintenance requirements on securities that require banks to hold government bonds and rolling back the FX-protected deposit scheme) alongside fiscal consolidation through tax increases.

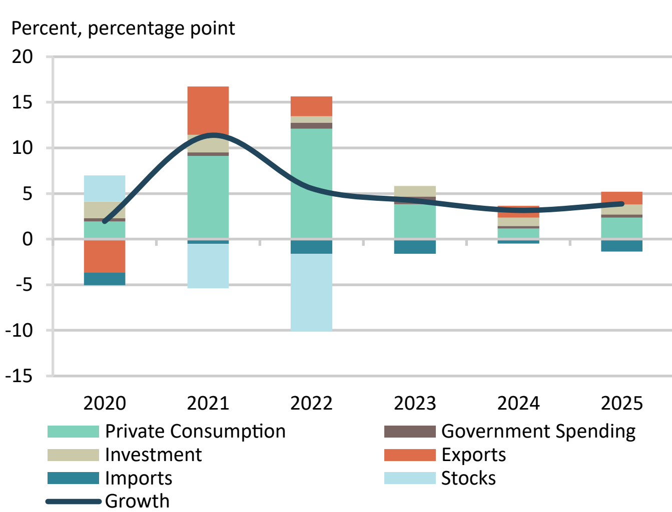
Recent macro-financial instability exacerbated longstanding structural challenges, including high private sector debt; persistent current account deficits financed by short-term portfolio flows; low productivity growth; and low labor force participation and employment levels. Nevertheless, high growth lowered the July 2023 seasonally adjusted unemployment rate to 9.4 percent, the lowest level since January 2014. However, high inflation – especially the 72.9 percent yoy food inflation in August 2023 – combined with the impact of the February 6 earthquakes, may erode prior achievements in poverty reduction.

Recent developments

After expanding 5.5 percent in 2022, real GDP grew 3.9 percent yoy in H1 2023. Responding to accommodative monetary policy, earthquake response and pre-election spending, H1 growth was driven by private and public consumption (16.4 and 5.7 percent real growth yoy, respectively) and investment (4.4 percent yoy), while merchandise exports in USD terms contracted 4.8 percent yoy as competitiveness and external demand weakened. On the production side, services grew 5.4 percent yoy in real terms in H1. On the other hand, the industry contracted 1.8 percent yoy in real terms due to early earthquake-related disruptions and a slight contraction in manufacturing. The PMI index remained above 50 since January but fell below 50 in July.

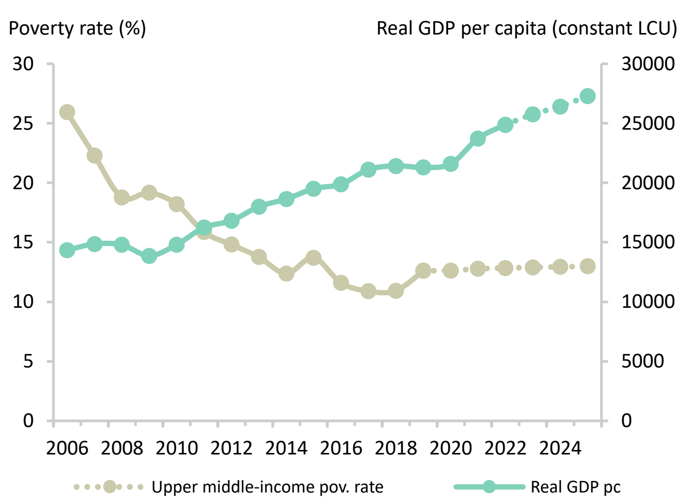
Policy normalization improved the external balance but vulnerabilities remain. The TRY continued its steady realignment, depreciating 26 percent since the May elections (and 31 percent since January) as foreign exchange interventions slowed. This helped the current account reach a surplus of USD 0.7 billion in June for the first time since October 2021 but returned to a USD 5.5 billion deficit in July. Reflecting greater investor confidence, CDS spreads have come down from 679, prior to the second round of elections in May, to under 400 in mid-September; and non-resident net portfolio inflows turned positive for 9 consecutive weeks, as of early August. As a result, central bank net reserves

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



Sources: Turkstat and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

have started to recover, reaching USD 17.6 billion in mid-September from an all-time low of USD –5.7 billion in early June.

Financial market conditions tightened in response to monetary policy. Credit growth continued to slow and commercial and consumer loan interest rates increased, with the latter nearly positive in real terms. But TRY depreciation, a 34 percent minimum wage increase in July, and the impact of higher taxes reignited inflationary pressures. Annual inflation rose for the first time in nine months in July and August to 58.9 percent, after reaching an 18-month low in June, and year-end inflation expectations rose to 67.8 percent in September despite monetary policy tightening. Domestic asset prices continued to soar well above CPI inflation; across Türkiye, house prices increased 95 percent yoy in July and the stock market was up 140 percent yoy in mid-September. TRY depreciation led to declining CARs from 20.4 percent in March to 18.7 percent in August in private banks, and from 19.8 percent to 15.9 percent in state banks. Importers and non-traders are most exposed to TRY depreciation and SMEs to interest rate increases. While the official NPL ratio fell to 1.7 percent in mid-August despite phased-out forbearance measures, asset quality risks remain high from FX-exposed companies, past rapid credit growth, and remaining high loan exposures.

The authorities have also targeted fiscal imbalances. Parliament passed a supplementary budget in July to counter pressures from the February earthquakes and election-related pension and civil service wage increases, which resulted in a record high 12-month fiscal deficit in June of 4.8 percent of 2022 GDP. Increases in the VAT rate and a special consumption tax on fuels supported a central government budget surplus of TRY 49 billion in July and 51 billion in August, and a reduction in the 12-month deficit to 3.7 percent of 2022 GDP. Government debt remained manageable at 31.7 percent of GDP in 2022, but the FX-share was high at 66 percent.

Outlook

The economy is projected to grow 4.2 percent in 2023 and 3.1 percent in 2024 as it adjusts from the previous over-accommodative and unsustainable policy stance, followed by an expected acceleration in growth in outer years. Private consumption is the largest component of GDP and 12-month consumer confidence indicators fell sharply in August 2023, to the lowest level over 12 months due to expectations of a slowdown in income growth, the possibility of unemployment, and persistent inflation. Gradual fiscal consolidation is expected to continue supporting fiscal balances, and the macro-financial stabilization alongside lira depreciation and policy support to exporters is expected to further narrow the current account deficit.

Well-implemented and timely social protection programs, targeted expressly at vulnerable populations in earthquake-affected areas, can mitigate the earthquakes' impacts and economic slowdown on poverty. The government has already supported earthquake survivors by activating established social protection and labor schemes. Poverty is projected to stay at 12.9 percent in the next few years.

The outlook faces considerable uncertainty related to the macroeconomic policy stance in the run up to the March 2024 municipal elections and the phasing out of the FX-protected deposit scheme and heterodox regulations distorting the financial sector. Despite recent prioritizing of policy tightening and disinflation, a pre-election stimulus could increase short-term growth, while aggravating already-elevated external risks. The FX-protected deposit scheme, which accounts for 26 percent of total banking sector deposits and is sensitive to TRY depreciation, remains a source of fiscal risk. Some rating agencies have recently revised Türkiye's outlook from negative to stable with the return to a more consistent policy mix.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	1.9	11.4	5.5	4.2	3.1	3.9
Private consumption	3.2	15.4	18.9	6.1	1.7	3.4
Government consumption	2.2	3.0	4.2	7.2	2.1	2.4
Gross fixed capital investment	7.3	7.2	1.3	5.7	3.5	4.4
Exports, goods and services	-14.6	25.1	9.9	-2.2	5.4	5.8
Imports, goods and services	6.8	1.7	8.6	7.4	2.4	6.4
Real GDP growth, at constant factor prices	0.9	12.7	6.2	4.2	3.1	3.9
Agriculture	5.8	-3.0	1.3	0.4	1.5	1.6
Industry	0.8	13.0	-0.6	5.5	3.5	4.9
Services	1.1	13.2	10.1	3.5	3.1	3.6
Inflation (consumer price index)	12.3	19.6	72.3	53.4	57.2	27.5
Current account balance (% of GDP)	-4.4	-0.9	-5.3	-5.0	-3.3	-2.6
Net foreign direct investment inflow (% of GDP)	0.6	0.8	0.9	1.1	1.3	1.4
Fiscal balance (% of GDP)	-3.9	-2.6	-2.9	-5.3	-5.3	-3.8
Revenues (% of GDP)	32.4	30.9	26.4	26.9	27.8	27.5
Debt (% of GDP)	39.6	41.8	31.7	33.0	34.4	34.7
Primary balance (% of GDP)	-1.1	0.0	-0.6	-2.2	-1.7	0.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	12.6	12.8	12.8	12.9	12.9	13.0
GHG emissions growth (mtCO2e)	1.5	9.7	2.5	1.4	2.1	2.6
Energy related GHG emissions (% of total)	77.9	78.7	78.8	78.2	77.7	77.6

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 ECAPOV harmonization, using 2014-HICES and 2019-HICES. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Projection using annualized elasticity (2014-2019) with pass-through = 0.85 based on GDP per capita in constant LCU.

UKRAINE

Table 1	2022
Population, million	43.5
GDP, current US$ billion	155.4
GDP per capita, current US$	3568.5
Upper middle-income poverty rate ($6.85)[a]	7.1
Gini index[a]	25.6
School enrollment, primary (% gross)[b]	99.0
Life expectancy at birth, years[b]	69.6
Total GHG emissions (mtCO2e)	153.4

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

Despite Russia's invasion, Ukraine's economy is showing signs of a modest recovery, aided by more reliable electricity supply, and underpinned by the steady receipt of external assistance that has upheld public demand. GDP is now expected to grow by 3.5 percent in 2023. Poverty is projected to remain elevated. Economic risks are rising, and Ukraine will continue to depend on assistance from its international partners in the medium term.

Key conditions and challenges

After contracting by 29.1 percent in 2022 Ukraine's economy has benefited from improved electricity supply, a localization of active fighting, and more reliable receipt of external assistance in H1 2023, which has allowed for a growth resumption. A low-base uptick of economic activity notwithstanding, Ukraine's economy remains fundamentally altered and operates as a war economy in which private demand is suppressed by contractionary monetary policy to finance, together with external assistance, a significant government deficit.

Ukraine's economy is in a fragile equilibrium in which policy must manage a triple imbalance. On the real side, high government expenditure generates substantial demand, which can only be met through the concurrent compression of private demand and the receipt of imports. This generates an external and fiscal imbalance, which, with the private sector suppressed, requires external resources to be financed. To date, Ukraine has managed these imbalances through assistance from its international partners, but pressure points are rising. For one, the discontinuation of the Black Sea Grain Initiative, unilaterally announced by Russia in July 2023, exerts downward pressure on Ukraine's main remaining exports. In addition, the reliance on external loans has generated a large external debt burden held by preferred creditors, which increases Ukraine's dependence on forex resources to meet debt service payments and complicates future debt treatment efforts. A reliance on deficit monetization in 2022 has increased the money supply and liquid savings in the banking sector, which poses inflation risks when efforts to compress demand end.

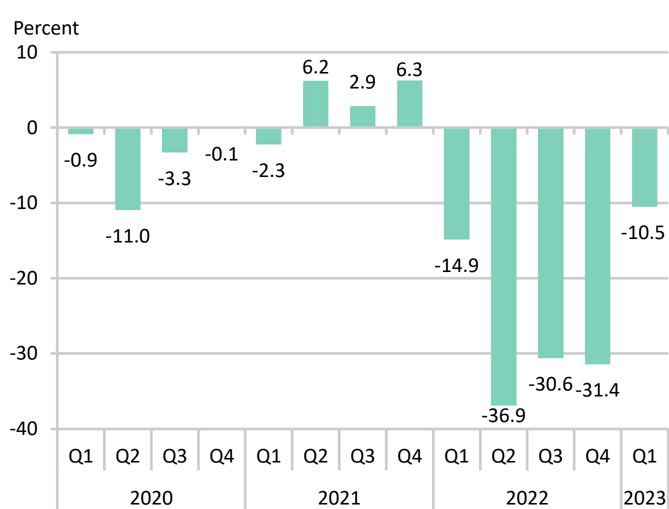
While Ukraine has continued to take reform steps during Russia's invasion, addressing institutional and structural constraints related to the rule of law, labor supply and competition will be critical to facilitate a sustainable recovery, as are reform efforts to accelerate Ukraine's EU accession. Ensuring continued delivery of key social services is important for livelihoods, especially among the poor and vulnerable already affected by the war.

Recent developments

Ukraine's GDP has started to recover, with growth turning positive in Q2 2023 for the first time since Russia's invasion. This was aided by public consumption and a modest supply recovery in sectors related to supporting the war economy and those benefiting from improved electricity supply.

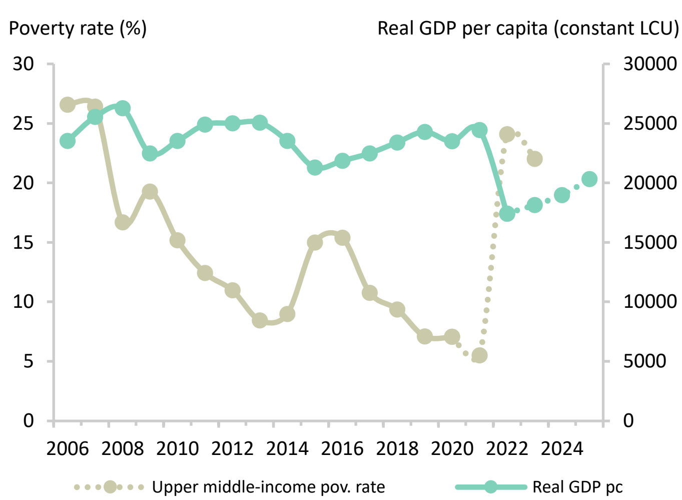
Inflation has also moderated, declining to 8.6 percent year-on-year at the end of August, led by food and transport prices, with restrictive monetary policy contributing to the decline. An increase of electricity tariffs from June has exerted upward pressure. Food and energy inflation especially hurt poor families because they spend a

FIGURE 1 **Ukraine** / Quarterly GDP growth, year-over-year



Source: Ukraine Statistics Office.

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



Source: World Bank. Notes: see Table 2.

larger budget share on these. Banks have remained profitable and stable, but risks are prevalent.

Ukraine's current account has turned into a USD 1.3 billion deficit in H1 2023, driven by high import growth and a further contraction in exports. The financial account has also turned negative as government liabilities more than doubled and new trade credits – an earlier source of outflows– disappeared. Reserves were aided by frontloaded external assistance and reached USD 40.4 billion by September 1.

Public expenditure grew by 67 percent year-on-year in H1 2023, whereas tax revenue increased by only 25 percent, due in large parts to continued subdued economic activity. Revenue was aided by receipts from non-budgetary institutions. Ukraine met its financing needs through domestic bank borrowing and external assistance but has not resorted to monetization in 2023.

Loss of private sector jobs and income, high inflation, and assets loss brought on by the war have reversed 15 years of poverty reduction. Based on the global line of US$6.85 a day (2017PPP), poverty is estimated to have increased from 5.5 percent to 24.1 percent in 2022, pushing 7.1 million more people into poverty. 6 million people are still displaced to neighboring countries, and another 5 million are displaced internally.

Outlook

Ukraine's economic outlook remains conditional on the assumed duration of Russia's invasion. Under an indicative scenario in which active hostilities continue until mid-2024, GDP is expected to expand by 3.5 percent in 2023 and 4 percent in 2024. Starting in late 2024, Ukraine's economy is expected to recover more rapidly under the baseline assumption, driven by public investment, as reconstruction and export activity pick up. Private consumption growth is projected to remain modest due to contractionary monetary policy needed to reign in post-war inflation. Inflation is projected to decline gradually to 7 percent by 2025. Many households continue to face difficult financial situations, and poverty is projected to remain elevated at 22 percent in 2023. This scenario is subject to significant downside risks related to a deterioration of the security situation and overall macroeconomic risks are exceptionally high.

The current account is expected to register a 3.8 percent of GDP deficit in 2023 which is projected to widen to 4.8 percent by 2025 under the baseline assumption, as imports increase during the reconstruction period whereas exports remain subdued. In the medium term, reserves are expected to continue benefiting from external assistance inflows and are projected to remain adequate by 2025.

The fiscal deficit is expected to remain high during the wartime before declining to 11.5 percent of GDP by 2025. Public and publicly guaranteed debt is projected to stabilize around 100 percent of GDP in the medium term.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-3.8	3.4	-29.1	3.5	4.0	6.5
Private consumption	1.7	6.9	-26.7	5.0	6.0	7.0
Government consumption	-0.7	0.8	18.0	5.0	-4.0	-6.5
Gross fixed capital investment	-21.0	9.1	-35.3	9.3	14.0	21.2
Exports, goods and services	-5.8	-8.6	-42.4	-10.0	15.0	30.0
Imports, goods and services	-6.4	14.2	-18.5	3.0	10.0	15.0
Real GDP growth, at constant factor prices	-3.8	3.5	-29.1	3.5	4.0	6.5
Agriculture	-11.5	14.4	-25.0	-15.0	-5.0	3.3
Industry	-4.5	1.1	-60.0	3.0	4.5	5.0
Services	-2.2	2.4	-20.3	6.8	5.2	7.1
Inflation (consumer price index)	5.0	10.0	26.6	11.0	10.0	7.0
Current account balance (% of GDP)	3.5	-1.9	4.9	-3.8	-4.5	-4.8
Net foreign direct investment inflow (% of GDP)	0.0	2.4	0.4	0.4	0.4	1.9
Fiscal Balance (% of GDP)[a]	-6.1	-4.0	-25.0	-27.6	-21.5	-11.5
Revenues (% of GDP)	41.0	36.3	41.0	38.6	39.0	39.9
Debt (% of GDP)	60.4	49.0	78.5	93.5	100.8	100.3
Primary Balance (% of GDP)[a]	-3.1	-0.4	-22.0	-23.4	-16.0	-7.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	7.1	5.5	24.1	22.0	..	..
GHG emissions growth (mtCO2e)	-3.8	1.7	-29.1	-5.7	-7.7	-5.1
Energy related GHG emissions (% of total)	77.8	78.1	74.3	75.5	75.1	74.8

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 Balance and Primary Balance are excluding grants in 2022-2023.
b/ Calculations based on ECAPOV harmonization, using 2020-HLCS.
c/ Projection using neutral distribution (2020) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU. 2022 estimate based on simulation reflecting economic contraction and poverty impacts of inflation. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.

UZBEKISTAN

Table 1	2022
Population, million	35.6
GDP, current US$ billion	80.4
GDP per capita, current US$	2255.6
School enrollment, primary (% gross)[a]	98.1
Life expectancy at birth, years[a]	70.9
Total GHG emissions (mtCO2e)	174.3

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

The economy is expected to grow by 5.5 percent in 2023. Fiscal consolidation is expected to continue gradually in the medium term, given the need to cushion the impact of external shocks and to restructure energy prices by bringing them to cost-recovery levels. The medium-term outlook remains positive as ambitious ongoing reforms are expected to stimulate private sector-led growth and job creation.

Key conditions and challenges

Uzbekistan has implemented an ambitious set of reforms in recent years. However, the Government recognizes that persistently stimulating private sector-led growth and job creation requires more reform: specifically, opening key sectors of the economy to competition, including factor markets and key services, and reducing the market dominance of SOEs. Further strengthening the regulatory environment and reducing high trade and transit costs would also encourage private sector growth.

In order to spur the transition towards low-carbon growth and renewable energy, the Government plans to strengthen energy sector regulation, gradually remove large and untargeted energy subsidies, and accelerate policy action on climate change.

Recent developments

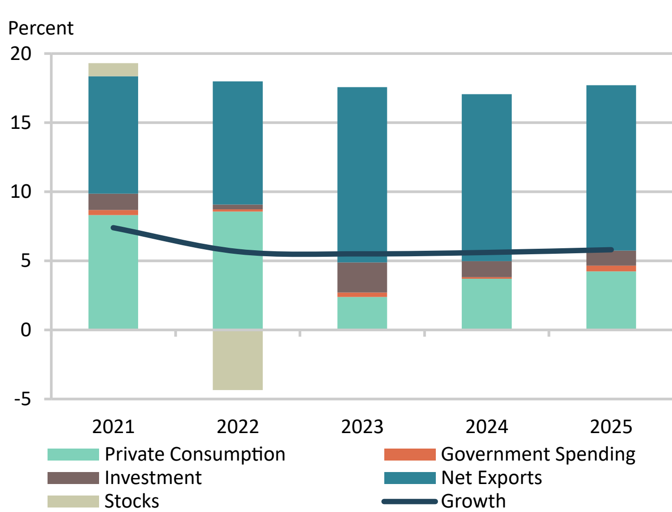
Real GDP grew by 5.6 percent in H1 2023, led by exports, remittances, and consumption. Total exports and non-gold exports increased by 16 percent and 12.5 percent, respectively, in H1 2023 (in USD value, led by fruit and vegetables, cars, and ferrous metals), while exports of gas, textiles, and chemicals decreased. Exports to Russia grew by 5.5 percent, compared to 44 percent in 2022. Services exports, mainly in transport and tourism, increased by 16 percent due to higher tourist arrivals (93 percent from Tajikistan, Kazakhstan, Kyrgyz Republic, and Russia). In response to higher domestic demand, imports expanded by 17 percent in H1 in machinery, equipment, fuels, and intermediary industrial goods. The trade deficit of 18.4 percent of GDP was partly offset by net remittance inflows of 12.1 percent of GDP in H1 2023 compared to 16.7 percent of GDP in H1 2022 (but still above the historical average of 8 percent of GDP). Thus, the current account deficit widened to 6.3 percent of GDP in H1, up from 1.4 percent of GDP in H1 2022. On the supply-side, higher growth in agriculture (3.8 percent) and industry (5.6 percent) was offset by slower growth in construction (4.8 percent) and services (6.4 percent).

Between January and August 2023, the UZS depreciated by 6.9 percent against the USD, in part due to the flow-on impact of the depreciation of the RUB.

By the end of June 2023, international reserves decreased by USD 2 billion to reach USD 33.7 billion, or 9 months of import cover. This was due to the depreciation of both the UZS and RUB, leading to lower inflows of foreign currency from trade and remittances, given Russia's position as a major trading partner and Uzbek migrant destination.

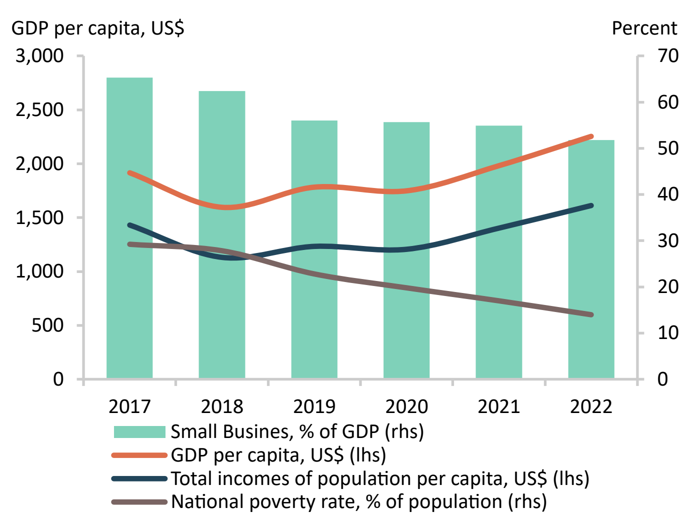
The fiscal deficit widened to 5.7 percent in H1 2023 from 4.1 percent of GDP in H1 2022 due to increased spending (e.g., emergency energy spending in the early 2023

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



Sources: Uzbekistan official statistics and World Bank staff calculations.

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



Source: Uzbekistan official statistics.
Note: The national poverty line is more ambitious (67 percent higher) than the lower-middle-income country poverty line.

energy crisis) and lower than expected revenues from excise duties.

Lower global commodity prices drove CPI inflation to 9 percent in July 2023, down from 10.7 percent in July 2022.

The Central Bank of Uzbekistan (CBU) began monetary easing by cutting the policy rate by 100 bsp to 14 percent in March 2023, down from 17 percent in March 2022.

Credit growth slowed to 18 percent in June 2023, down from 36 percent in 2022, as capital buffers declined, and banks enacted more cautious lending policies following Russia's invasion of Ukraine. However, the banking sector remained resilient and adequately capitalized, with a CAR of 16.4 percent in June 2023, higher than the required 13 percent. NPLs declined to 3.3 percent in June 2023, down from 4.8 percent in June 2022. The poverty rate fell to 14 percent in 2022, down from 17 percent in 2021 (using the national poverty line), primarily due to higher remittance inflows, although the expected H2 2023 drop in remittances may stall this progress.

Outlook

Growth is expected to remain close to 5.5 percent in 2023 and accelerate gradually in the medium term. Consumption growth in 2023 is expected to fall as the remittances from Russia continue to decrease. Import growth is expected to accelerate in 2023 and grow fast in the medium-term to support Uzbekistan's economic modernization, and with decreasing remittances, the current account deficit will widen. The fiscal deficit is expected to widen to 5 percent of GDP in 2023 as a result of persistently high energy tariffs, higher expenditure on education, public sector wages, pension and allowances, and lower revenue collections.

Budget consolidation is expected to begin in the medium term, with the budget deficit falling to 4 percent of GDP in 2024 and 3.6 percent in 2025 due to reduced tax benefits and energy subsidies, and increased privatization proceeds. The Government is expected to adhere to its debt limits, with public debt increasing to 36 percent of GDP in 2023 and peaking at 36.6 percent in 2024.

Despite expanded social protection programs, slower growth in remittances and private consumption could limit expected progress in poverty reduction. The national poverty rate is projected to fall marginally to 13.9 percent in 2023.

Downside risks to this outlook include a deterioration in Russia's economic performance, higher external inflationary pressures, and tighter-than-expected global financial conditions. Upside risks include higher global gold, natural gas, and copper prices and stronger productivity growth due to ongoing structural reforms.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	2.0	7.4	5.7	5.5	5.6	5.8
Private consumption	0.2	11.6	11.4	3.0	4.8	5.5
Government consumption	1.4	3.1	1.3	3.0	1.0	4.0
Gross fixed capital investment	-4.4	2.9	0.9	2.5	3.0	3.2
Exports, goods and services	-20.0	13.3	27.9	28.1	20.1	16.6
Imports, goods and services	-15.0	19.9	10.1	19.2	17.8	16.5
Real GDP growth, at constant factor prices	2.0	7.4	5.7	5.5	5.6	5.8
Agriculture	2.9	4.0	3.6	3.5	3.7	3.9
Industry	2.5	7.9	5.5	5.7	5.6	6.5
Services	1.2	9.1	7.0	6.4	6.6	6.4
Inflation (consumer price index)	12.9	10.8	11.4	10.2	10.0	9.9
Current account balance (% of GDP)	-5.0	-7.0	-0.8	-4.1	-4.5	-4.6
Net foreign direct investment inflow (% of GDP)	2.9	3.3	3.1	3.0	3.0	3.0
Fiscal balance (% of GDP)	-4.4	-6.0	-4.1	-5.0	-4.0	-3.6
Revenues (% of GDP)	25.5	25.9	30.9	29.7	29.6	29.5
Debt (% of GDP)	37.4	36.6	34.9	36.0	36.6	34.6
Primary balance (% of GDP)	-4.1	-5.7	-3.7	-4.4	-3.4	-3.0
GHG emissions growth (mtCO2e)	-1.8	-1.1	-3.2	-2.5	-2.3	-2.5
Energy related GHG emissions (% of total)	60.1	59.4	58.1	56.9	55.8	54.5

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

Latin America and the Caribbean

Annual Meetings 2023

Argentina
Bahamas, The
Barbados
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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.

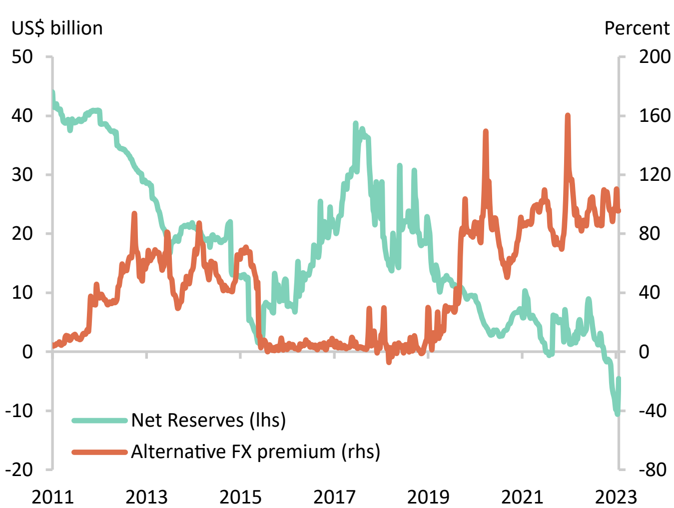
Robust and credible macro-fiscal policies are imperative for macroeconomic stability. Beyond stabilizing policies, bold reforms to improve the business environment and incentivize private sector investment and job creation will be required to achieve sustainable and inclusive growth. Closing infrastructure 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.

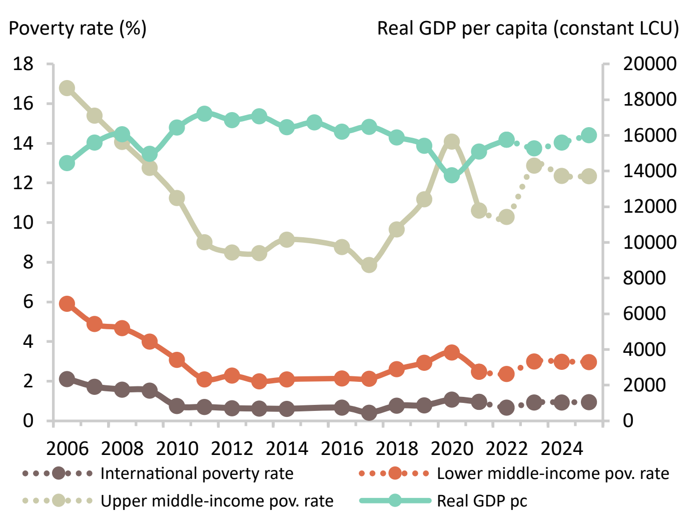
External borrowing helped finance non-agricultural imports in the first half of 2023 at the expense of increasing macroeconomic vulnerabilities. The value of goods imports in Q2 2023 is among the highest of the past decade, resulting – together with depressed exports – in a deterioration of the trade 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

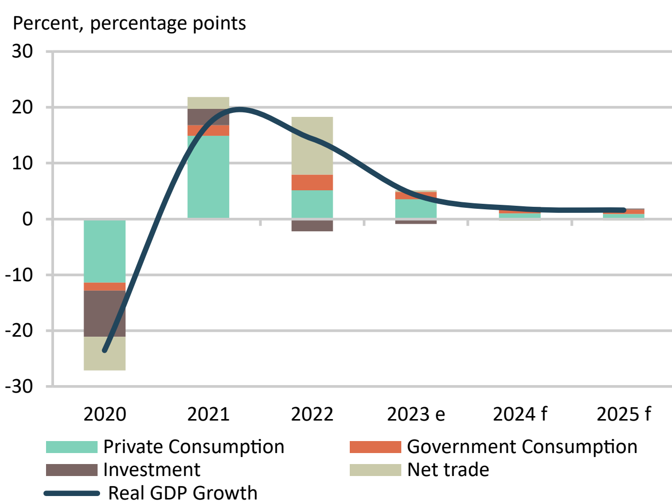
The main driver of economic growth in The Bahamas is tourism, particularly from a few foreign markets, followed by financial services, which rely heavily on foreign investment. Economic growth slowed down in The Bahamas after the global financial crisis, averaging 0.8 percent between 2010 and 2019, due 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

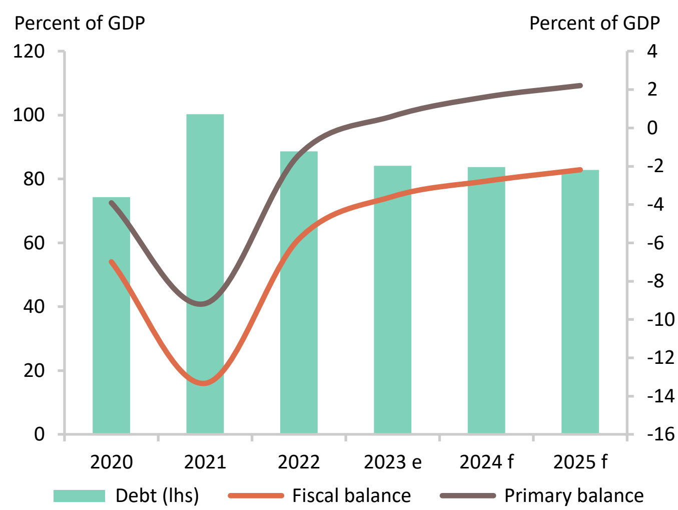
The economy grew 14.4 percent in 2022, slightly slower than the 17.0 percent achieved in 2021. Growth was mainly driven by tourist arrivals, which expanded to 7 million in 2022, representing a growth of 233.3 percent compared to 2021. This led to significant increases in the service sector, particularly 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

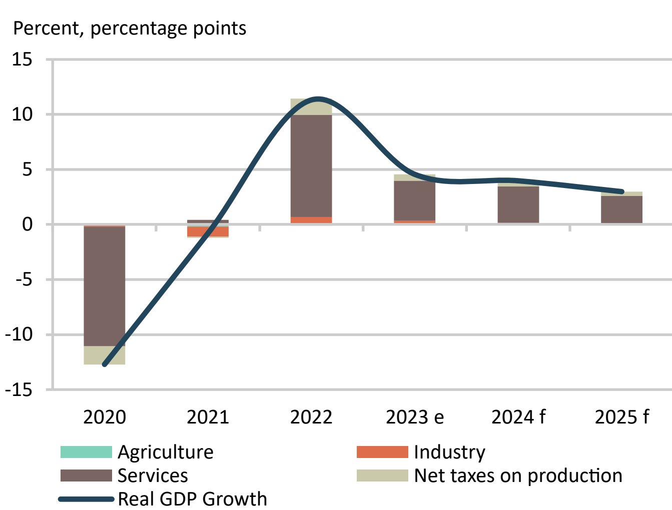
Barbados's main challenges lie in its small size, its high dependence on tourism from a few markets and imports of essential goods, and its vulnerability to external shocks, including climate change. It is highly affected by increases in import prices, especially from the US, given the high import content 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.

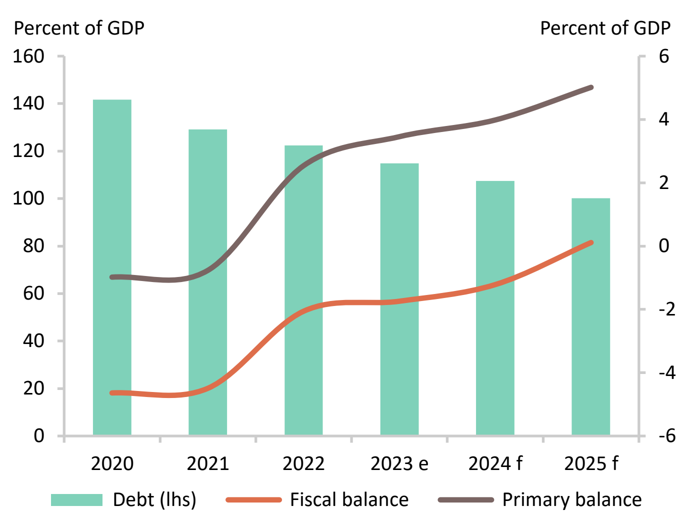
Inflation reached a historic high of 9.2 percent in 2022, largely due to rising food and oil prices, The Central Bank of Barbados has kept its benchmark rate at 2 percent to support the economic recovery from the pandemic. Credit to the private sector remains low and has only started growing – albeit 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.

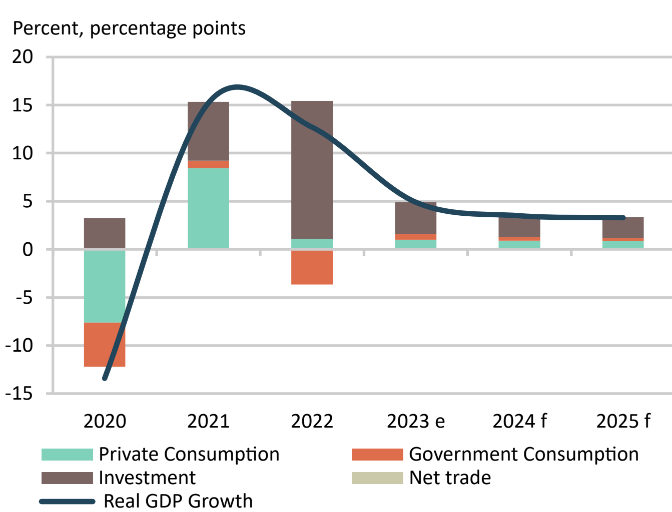
Recent developments

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).

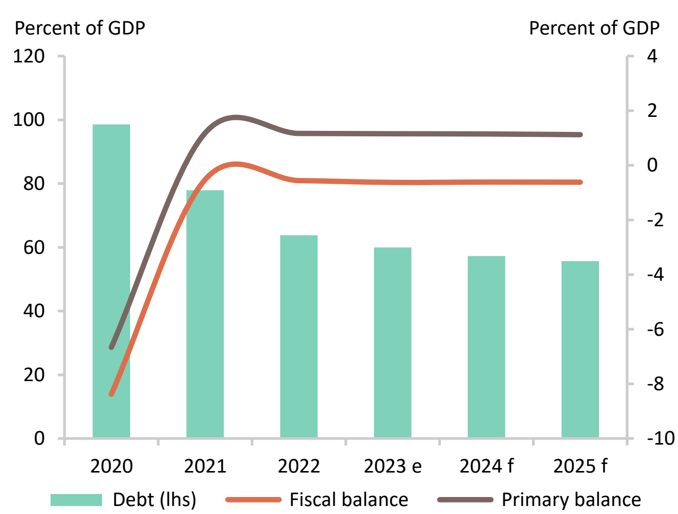
Inflation moderated to 3.3 percent in June of 2023, but prices continued to rise more rapidly for food and non-alcoholic beverages, thus eroding households' purchasing power. The CBB successfully completed the process of resolving problematic loans, strengthening domestic banks' balance sheets, and putting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

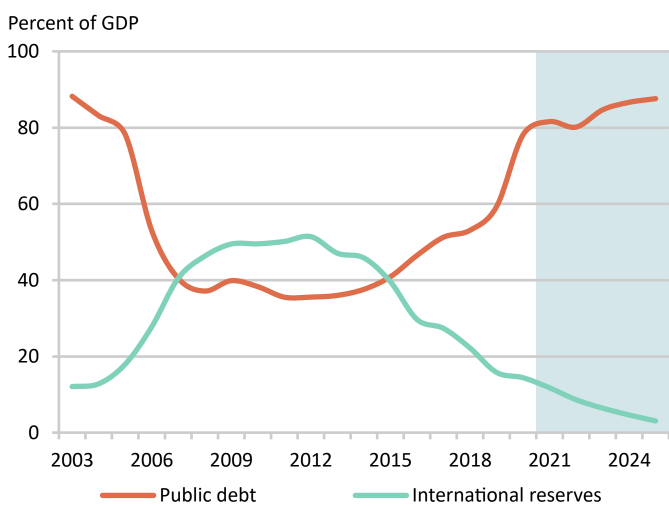
Recent developments

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.

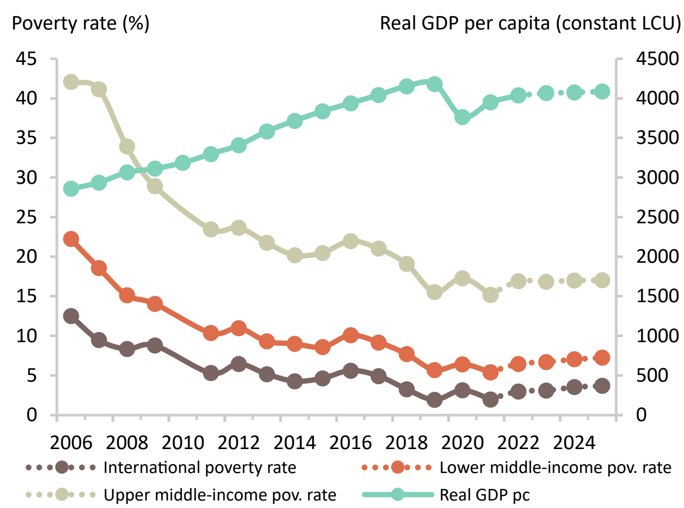
The 12-month rolling fiscal deficit increased from 7.1 percent of GDP in December 2022 to

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.

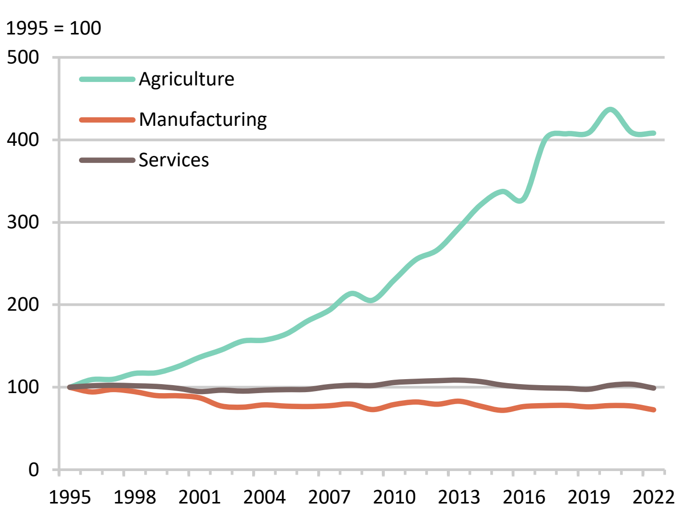
Key reforms have been underway in 2023. These include a new fiscal framework that seeks to improve policy predictability and medium-term debt stabilization. A tax reform that is moving through the legislative branch would replace consumption taxes with a value-added tax (VAT) aligned with good international 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.

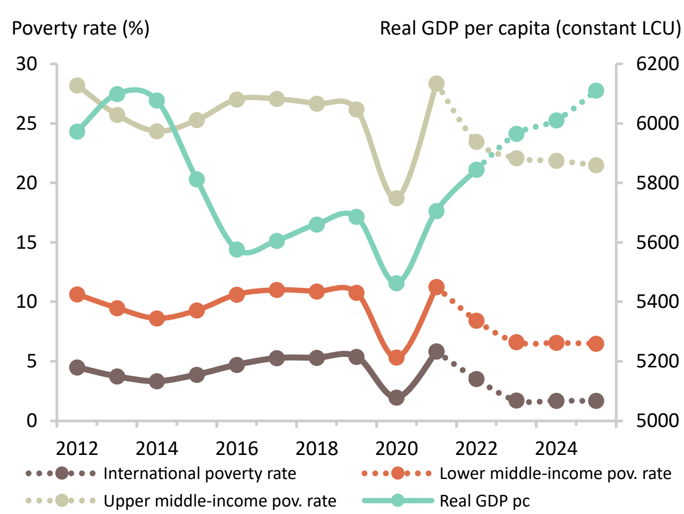
After an improvement in 2022, fiscal balances deteriorated in 2023 since one-off revenues vanished and social transfers increased. The 12-month primary deficit of the public sector reached 0.8 percent of GDP in July 2023, from a surplus of 1.3 percent in 2022. High domestic interest rates resulted in 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.

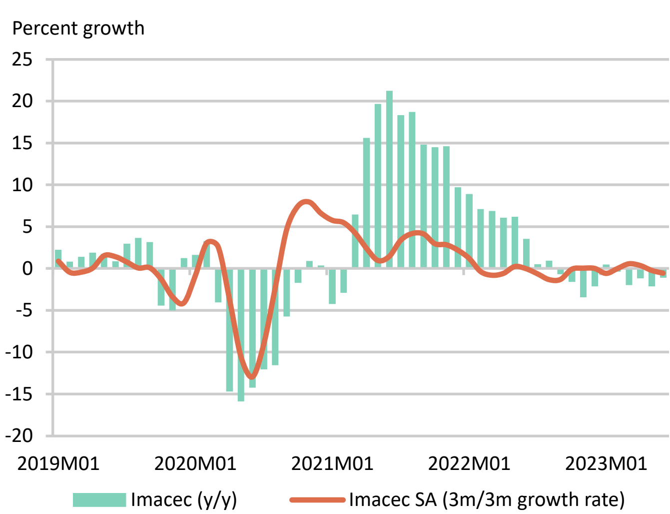
Recent developments

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.

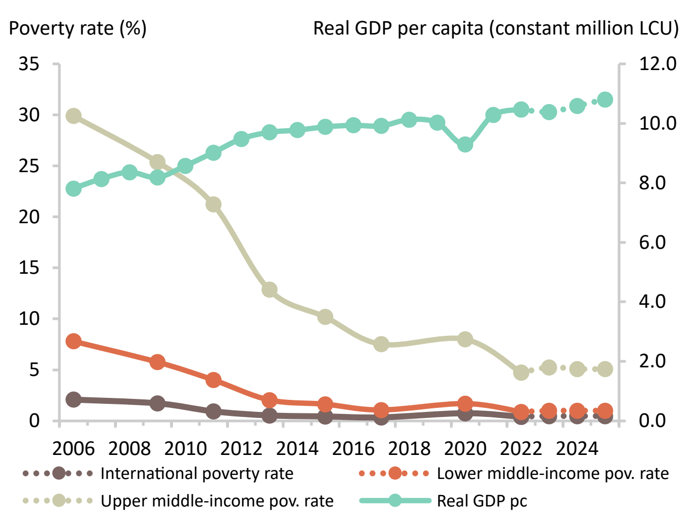
Inflation stood at 6.5 percent y-o-y in July 2023, well below the peak of 14.1 percent in August 2022, as demand pressures weakened after a determined monetary tightening. A rate cut cycle has started with a first 100 bp reduction in

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.

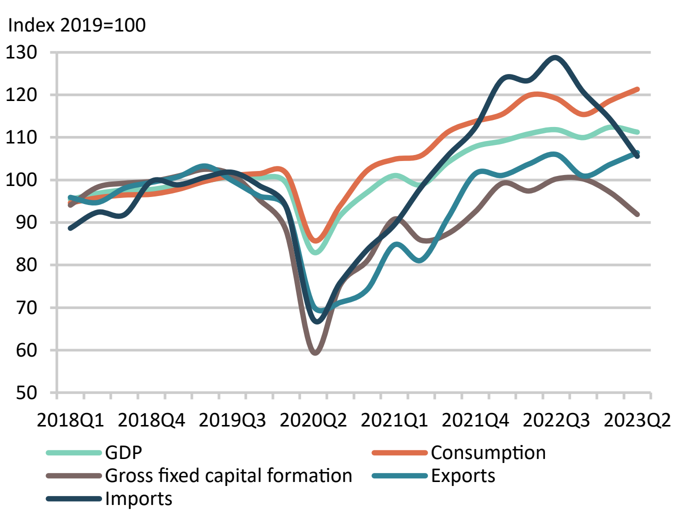
Recent developments

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.

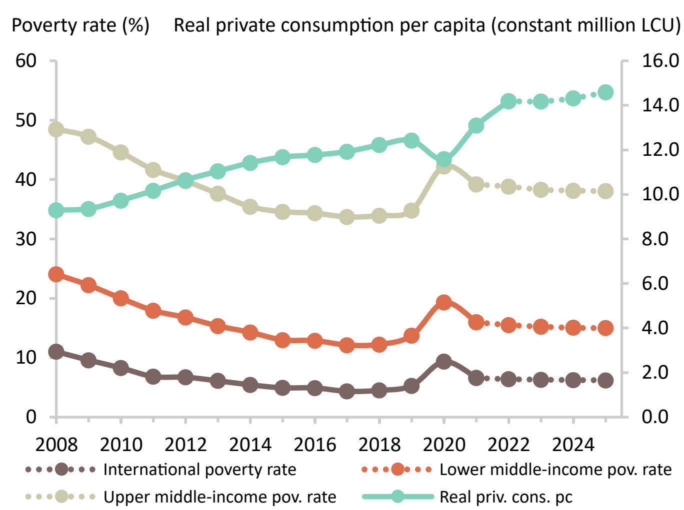
The deceleration in economic activity affected imports, while export volumes (especially of services) continued to increase

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.

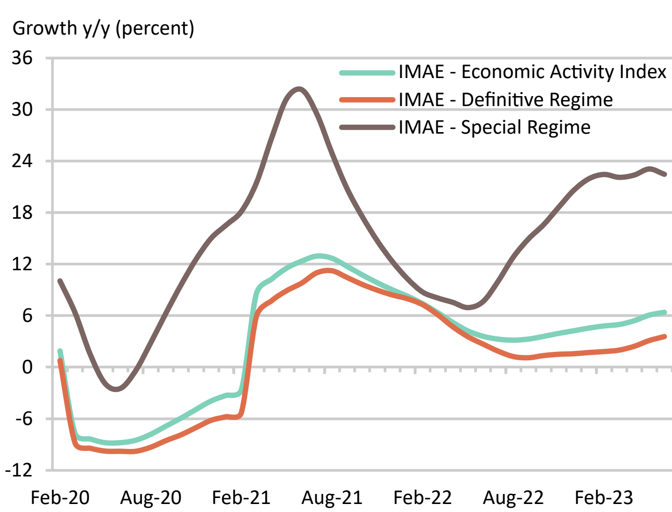
Second, fiscal vulnerabilities accumulated between 2008 and 2018, as spending pressures increased while revenues stayed flat as a share of GDP. The pandemic deepens both challenges. It worsened fiscal dynamics as revenues collapsed and spending grew due to government-led mitigation measures. The public 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

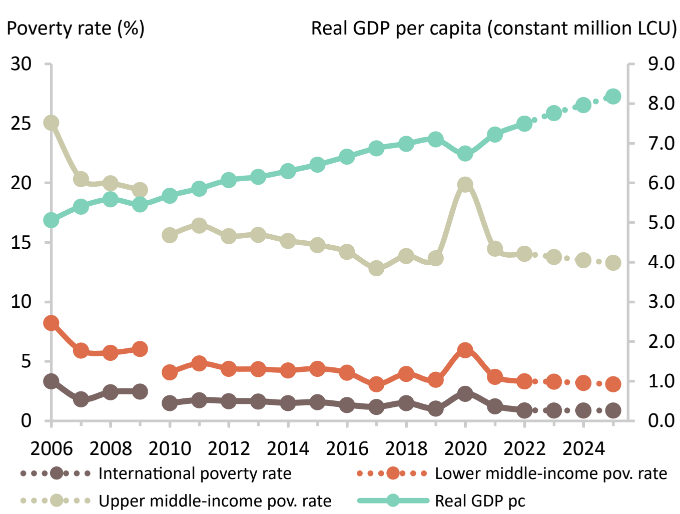
After reaching 4.3 percent in 2022, growth surpassed expectations in H12023 (4.7 percent), supported by strong domestic and external demands. Inflationary pressures receded in H12023. Inflation declined quickly from its peak of 12 percent in August 2022, returning to the targeted band by March 2023, 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.

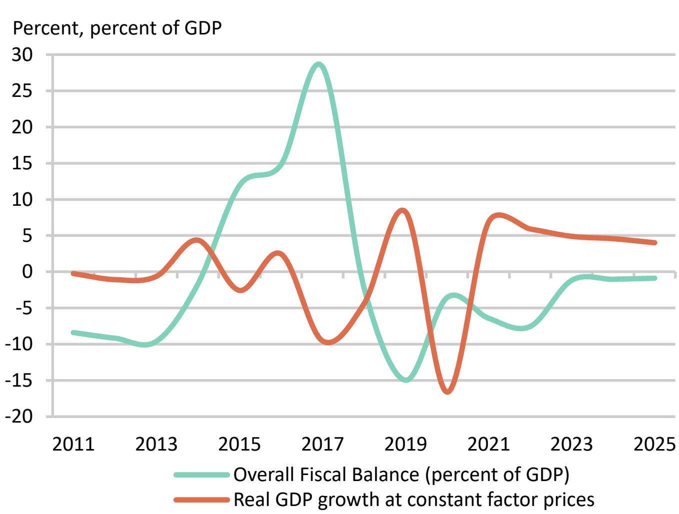
A recent round of the CARICOM/WFP COVID-19 Food Security and Livelihoods Impact Survey in the Caribbean (May 2023) indicates that about half of respondents faced livelihood disruptions in the thirty days prior to the survey, largely due to unaffordable livelihood inputs. While improving with respect 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

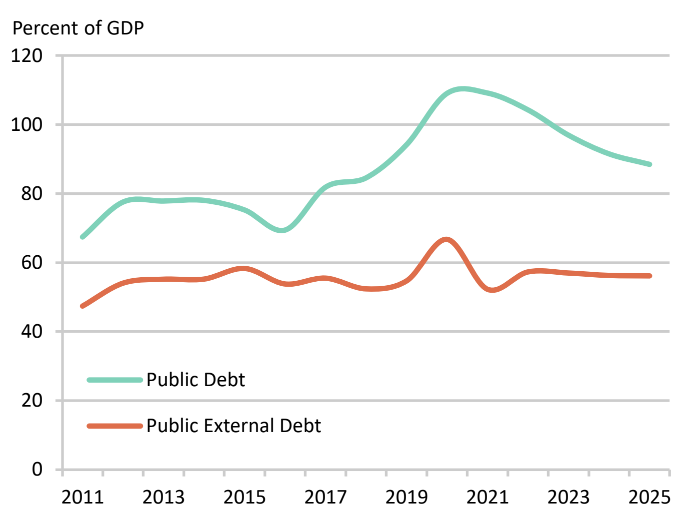
Growth continued to rebound in 2022 at 5.9 percent on relaxation of domestic COVID-19 containment measures and improving tourist arrivals. Growth is estimated to remain strong at 4.9 percent in 2023 as tourism returns to 2019 levels and is supported by public investment and strong agricultural production. 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.

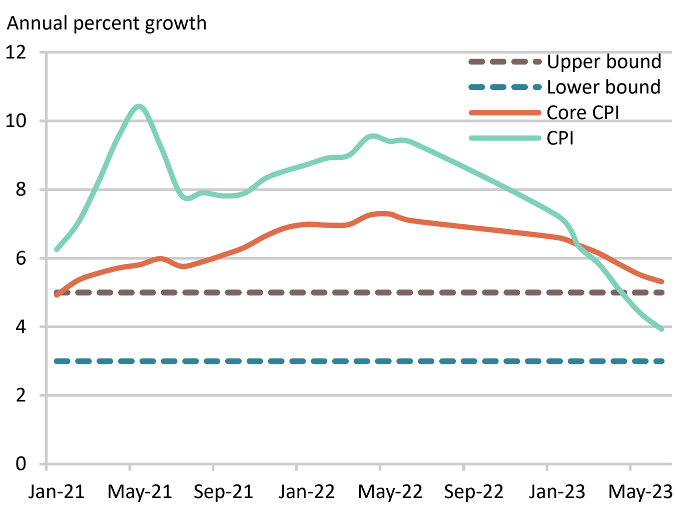
Fostering sustainable, resilient, long-term growth demands strategic structural reforms, including: (i) improving education; (ii) fostering competitive markets; (iii) revamping the innovation strategy; (iv) improving public spending; and (v) strengthening resilience against external shocks and climate 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.

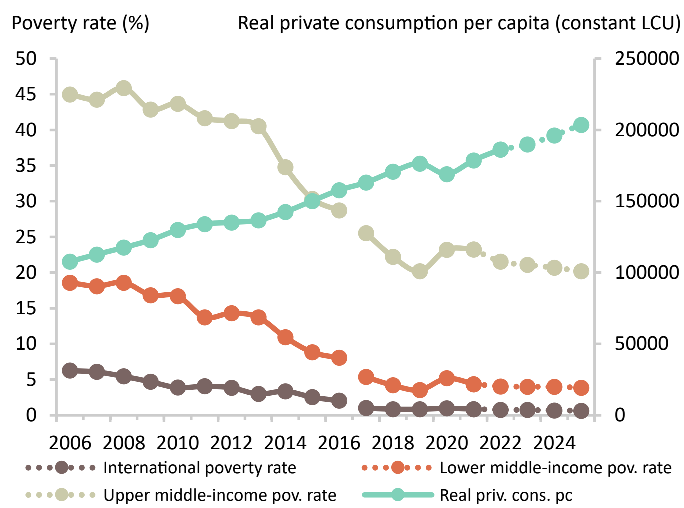
In fact, the country recorded 4.5 million arrivals, with a y-o-y growth of 15.9 percent in 2023S1. Remittances grew 3.3 percent in 2023S1, showing a stabilization of inflows above pre-pandemic figures. As a result, the 2023Q1 current account deficit (CAD) narrowed to 2.8 percent of GDP, down from 4.5 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.

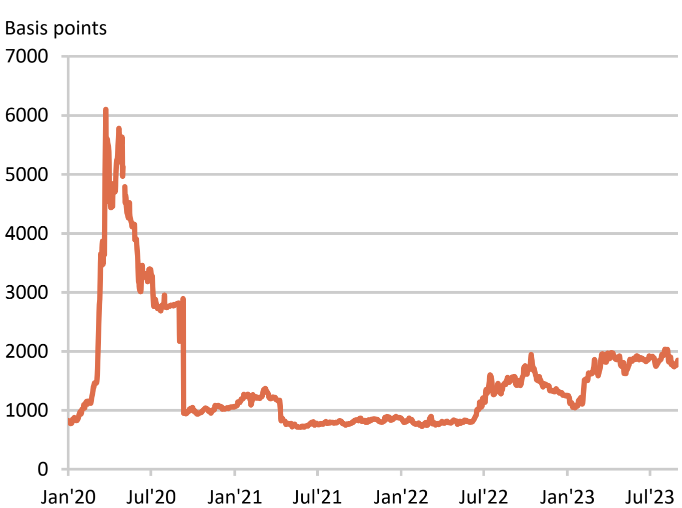
Recent developments

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.

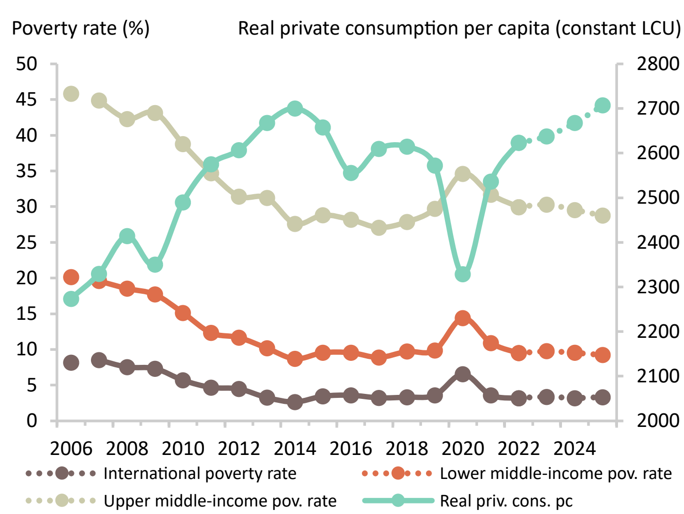
The 12-month rolling fiscal deficit rose from 0.2 percent of GDP in December 2022 to 1.0 percent in May 2023 due to lower oil revenues, the end of emergency tax measures, lower tax collection led by the slowdown, increasing international interest rates, and additional security expenditure. However, public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

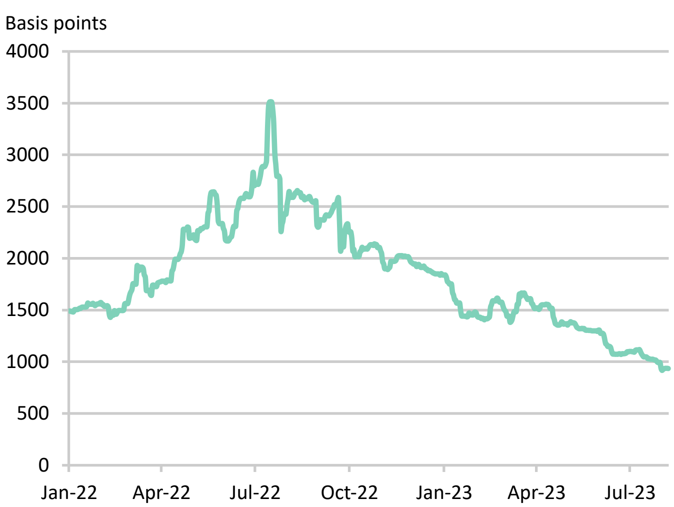
External imbalances, linked to low productivity of export sectors, pose a challenge given moderating remittances growth. Capital inflows to finance the current account deficit are limited and put pressure on reserves. Banks are profitable and have low non-performing loans, but reserve requirements have 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

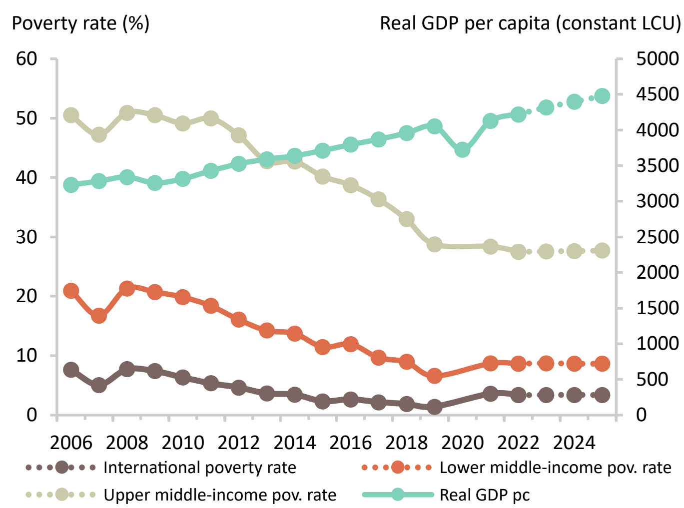
The economy grew by 2.6 percent in 2022, although the labor market indicators showed more modest progress. Primary consumption was the primary driver of such growth, mainly driven by the increase in remittances (3.2 percent), bolstering services. Growth has decelerated (2.8 percent annually in S12023), 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.

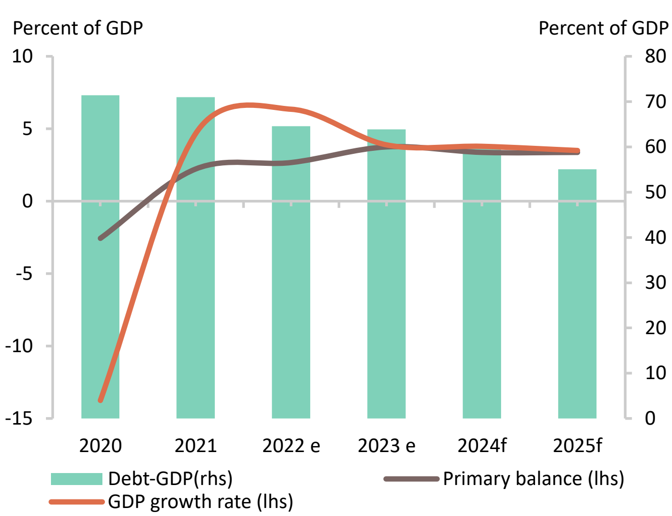
A strong commitment to fiscal rules and further structural reforms is needed to sustain growth, reduce poverty, and bolster climate resilience. The Government has committed to reinstating the fiscal rules in 2023 and plans to amend the FRA to improve accountability and oversight. Further structural reforms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

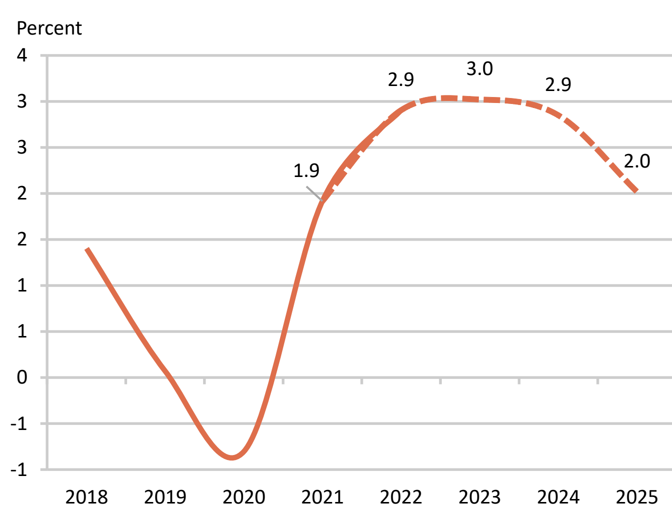
The current account deficit is estimated to have widened in 2022, as the increased import bill exceeded the recovery in tourism-driven exports. Remittances are estimated to have slowed from the pandemic peak, possibly due to the higher cost of living in remittance-sending countries, which eroded migrants' 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

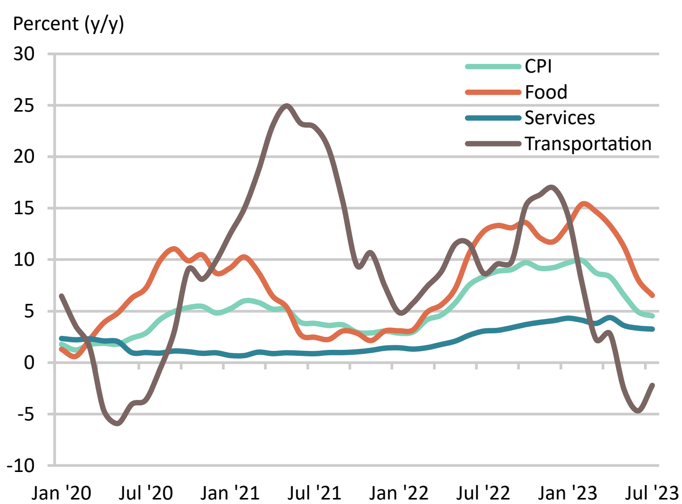
Guatemala has returned to stable and above-LAC average economic growth. GDP grew 4.1 in 2022 and 3.7 percent in the first quarter of 2023, led by government consumption and investment. The monthly activity index grew 3.7 percent up to June, suggesting robust growth going into 2023Q3.

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.

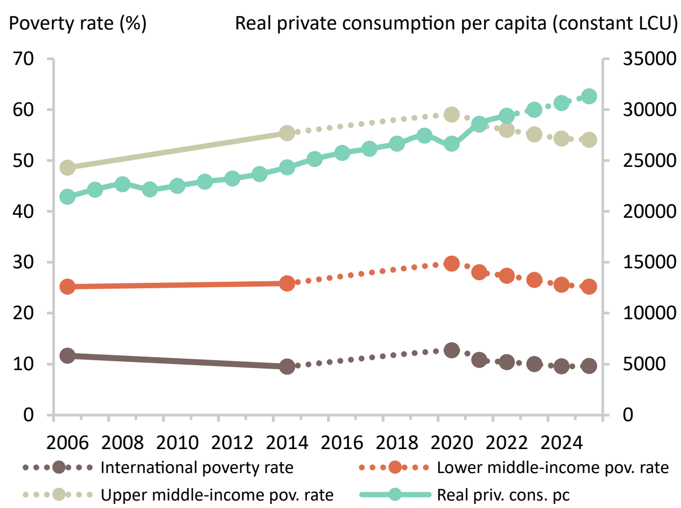
In 2022, while lower inflation and GDP growth contributed to poverty reduction, labor market outcomes limited progress, and poverty (U$6.85 2017 PPP line) is expected to decline only slightly to 56 percent, while inequality is expected to reach 0.49, measured by the Gini coefficient.

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.

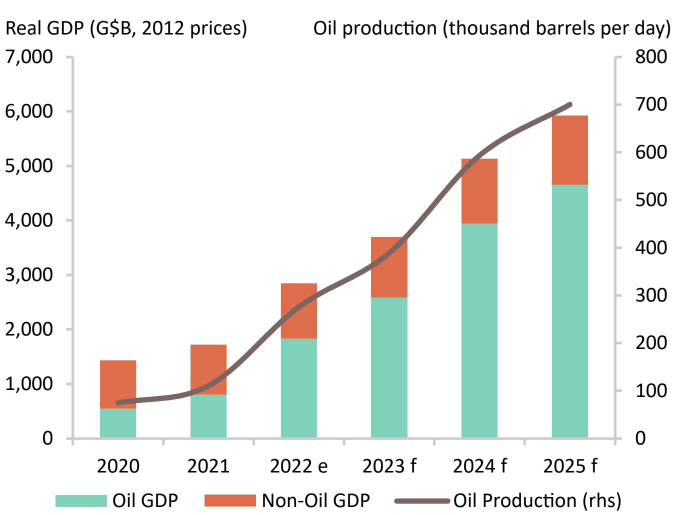
Guyana's oil revenues are held at the Natural Resource Fund (NRF), outside of the economy, to mitigate exchange rate pressures. Transfers to the budget are expected to approximate 5 percent of GDP (and over 35 percent of fiscal revenues) in the medium term, based on withdrawal rules of the 2021 NRF Act. 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

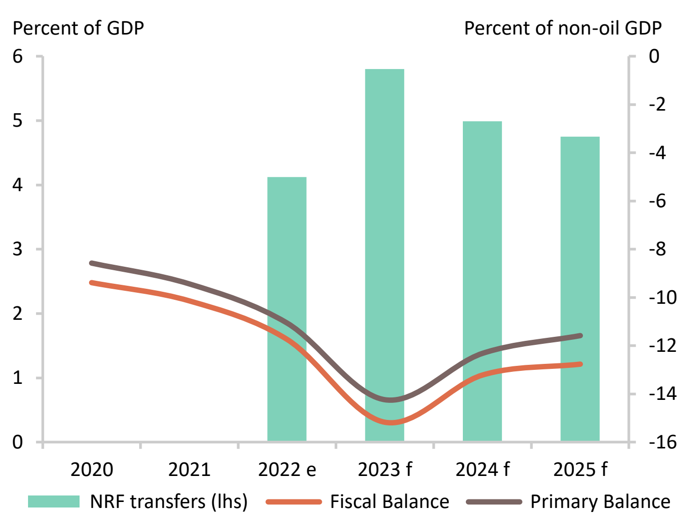
Guyana's economy expanded at a record pace in 2022 amid increased oil production. Real GDP expanded by 63.4 percent, exceeding the annual average growth rate of 31.8 percent since the start of oil extraction. Oil GDP more than doubled in 2022, with production rising to approximately 278,000 barrels per 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

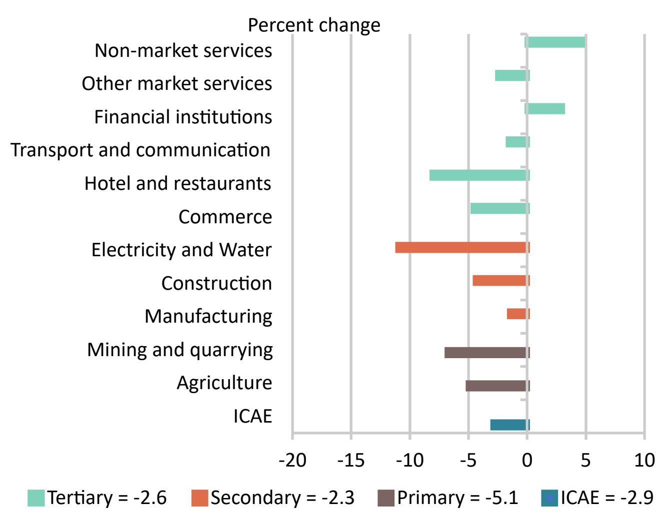
Output decline continued as the index of economic activity contracted by 2.9 percent in H1 FY23, amid insecurity from gang violence and continued uncertainty around the political process. On the supply side, all sectors contributed to the economic decline. Agriculture, which engages over 40 percent of 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.

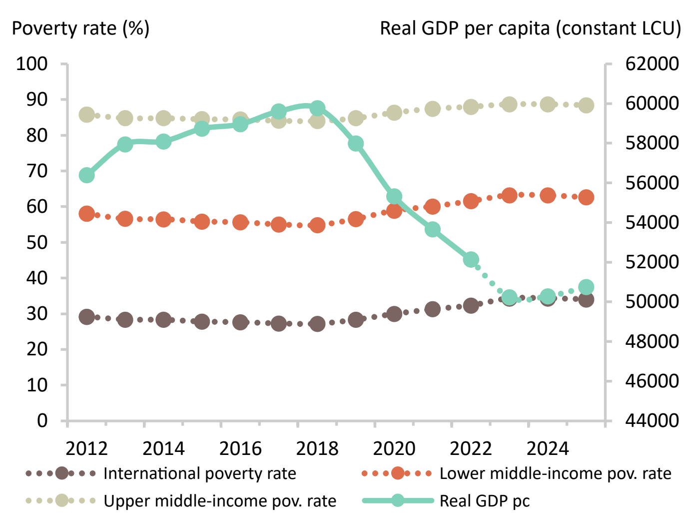
Tax revenue collection improved by 59.8 percent at the end of June 2023, thanks to tighter control at the customs administration and higher oil tax revenue. Tax to GDP remains weak, however, owing to the economic slump and governance issues at the customs and tax administrations. Nonetheless, energy 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.

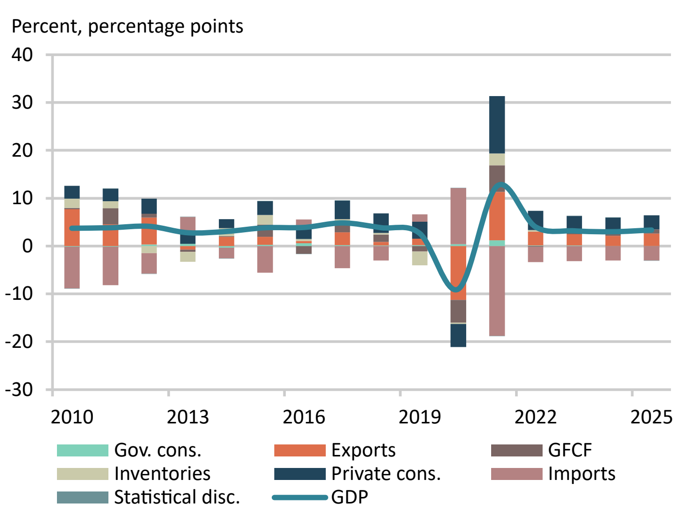
Recent developments

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.

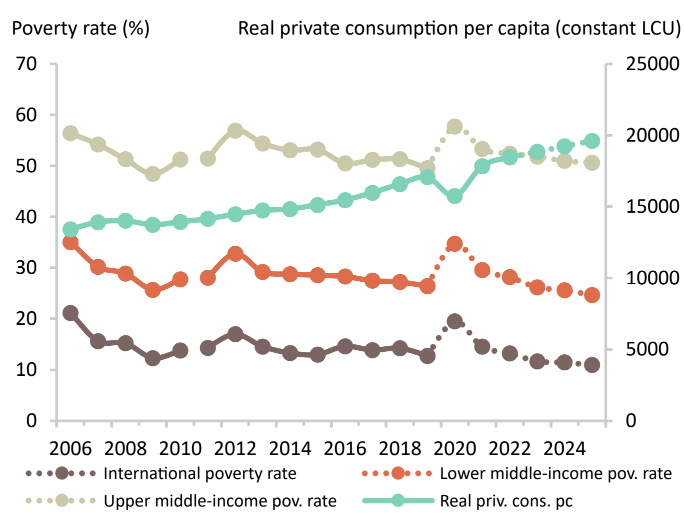
Despite unfavorable terms of trade, the current account deficit narrowed from 4.7 percent of GDP in 2021 to 3.2 percent in 2022, driven by strong remittances. It was primarily financed by multilateral loans

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.

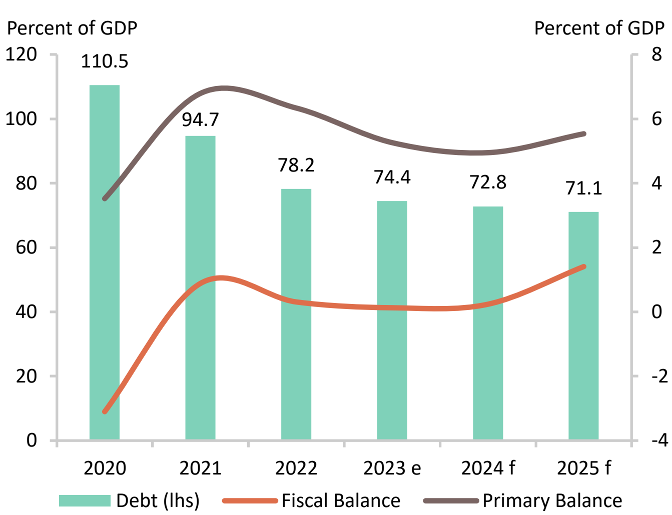
However, relatively high debt-service costs crowd out other government spending, including capital investment, which is critical to boost growth. Jamaica has been among the slowest growing economies in LAC given its concentration in low productivity services, limited technology adoption and innovation, 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

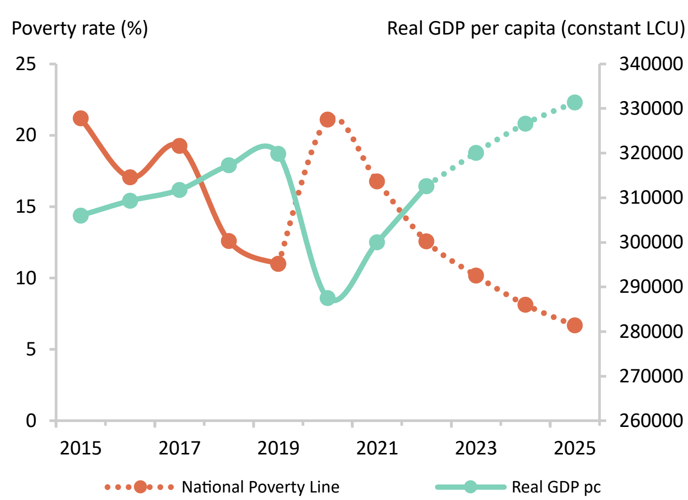
Real GDP is estimated to have expanded by 2.9 percent in the first half of 2023, reaching its pre-crisis level. Growth was driven by net exports from an expansion in tourism and mining, whilst agriculture declined due to an extended drought. Rising economic activity brought the unemployment rate to 4.5 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 prepandemic 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).

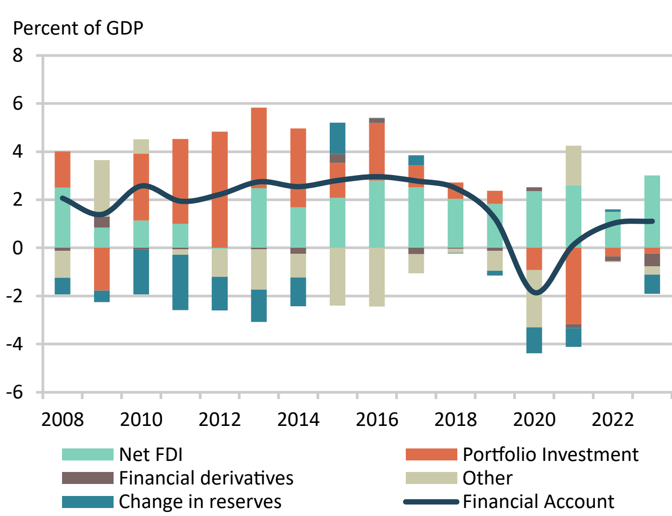
The official extreme poverty rate declined from 8.5 percent in 2020 to 7.1 in 2022, returning to levels similar to 2016 and 2018 (7.2 and 7.0 percent, respectively). This is mostly due to a decline in the monetary extreme poverty rate (from 14.9 percent in 2016 to 12.1 in 2022), offset by an increase 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

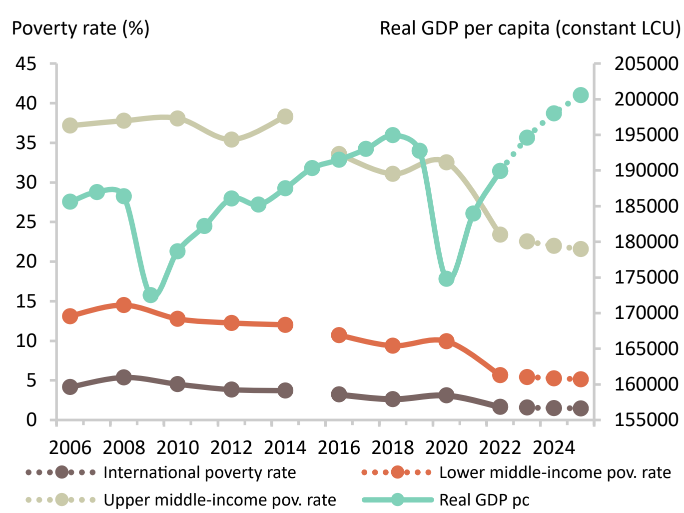
Real GDP grew by 3.9 percent in 2022 and 3.7 percent in 2023H1, supported by robust consumption and a strong bounce-back in investment. Retail, manufacturing, transportation, and wholesale sectors drove growth on the supply side. The economy added two million jobs in July 2023 y-o-y, mainly in the informal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

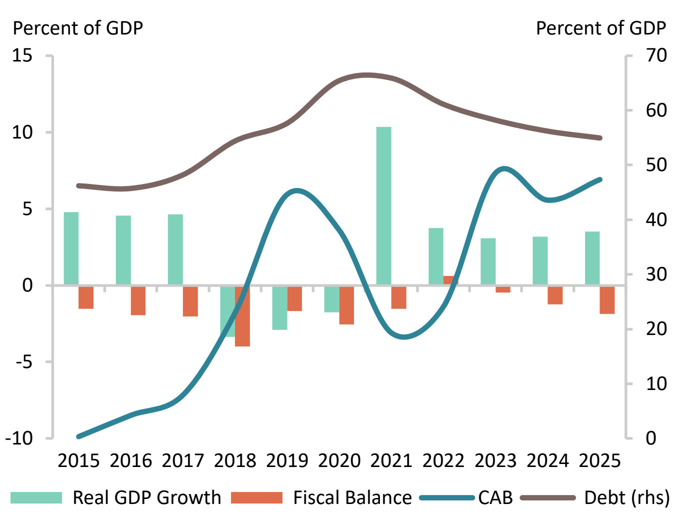
Nicaragua's monthly economic activity increased by 3.7 percent and remittances by 60 percent in the first half of 2023 compared to the same period in 2022. Higher remittances and tourism supported hotels and restaurants, the financial sector, and commerce, which saw the largest improvement in the first 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).

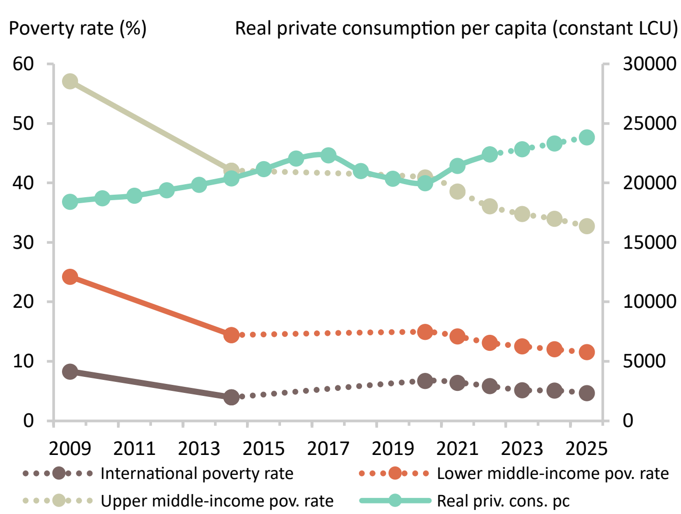
Government revenues increased by 7.3 percent year on year in the first quarter of 2023, driven by tax revenues (6.5 percent) and social contributions (13.6 percent),

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.

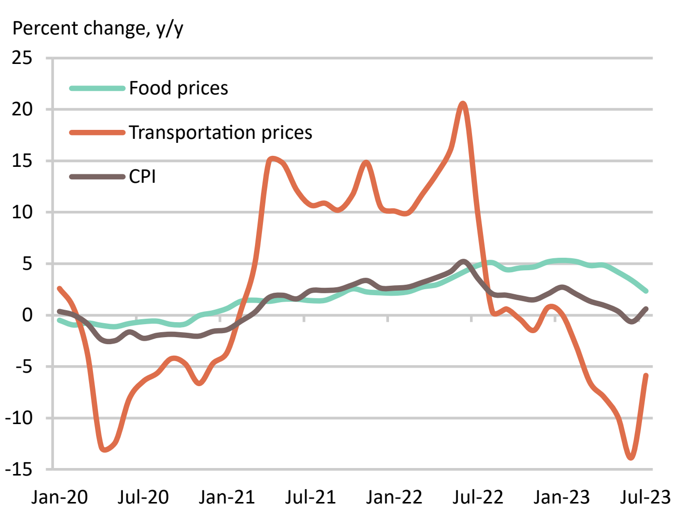
Key conditions and challenges

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

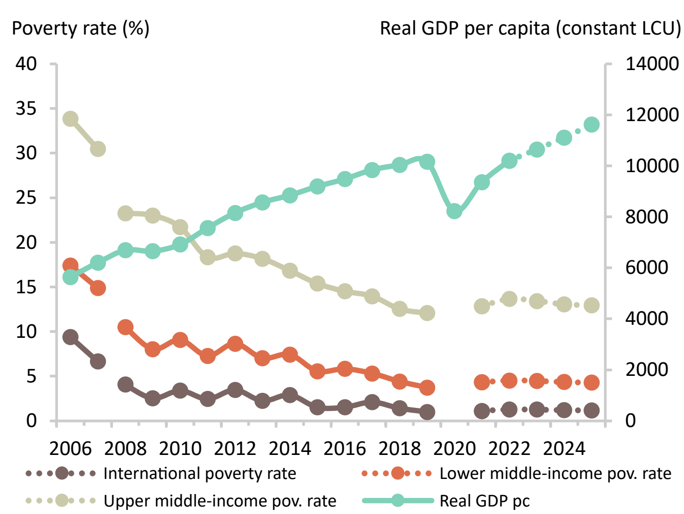
Panama's GDP grew 10.8 percent in 2022 and remains strong at 7.8 percent in the first quarter of 2023 supported by services, activities in the free trade zone, and construction. Strong economic activity, improvements in labor markets, and a decline in inflation boosted private consumption.
Inflation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

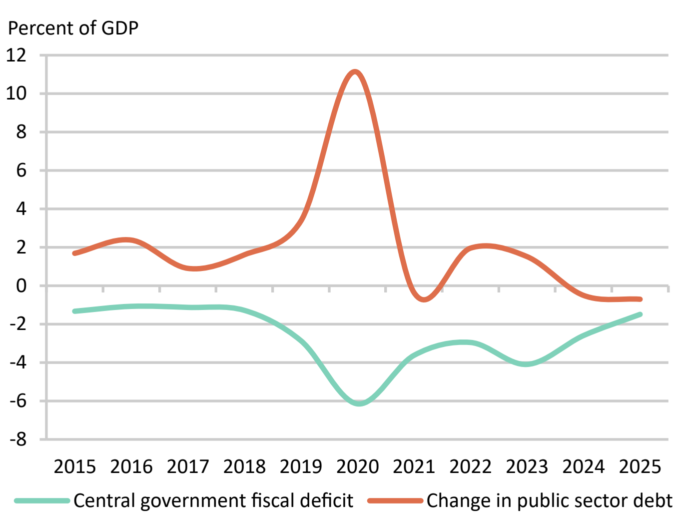
High volatility and low productivity growth constrain faster, more inclusive growth. With commodity-dependent sectors contributing a third of output and three-quarters of direct exports, growth is highly vulnerable to unpredictable weather patterns and shifts in commodity prices. To reignite growth and 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.

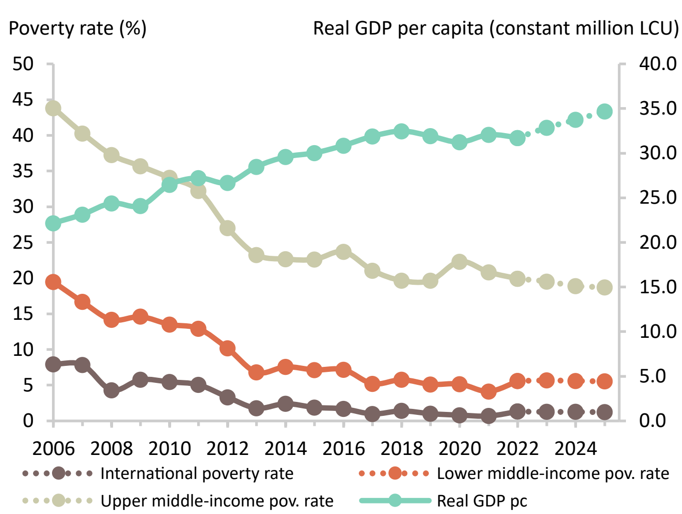
The recovery in soy and hydropower exports led the merchandise trade balance to record a healthy surplus of US$1.2 billion or 2.6 percent of GDP in the first half of 2023 (H1 2022: -0.5 percent of GDP). The drought in Argentina boosted demand for Paraguayan soybeans, leading nominal exports to grow 21 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.

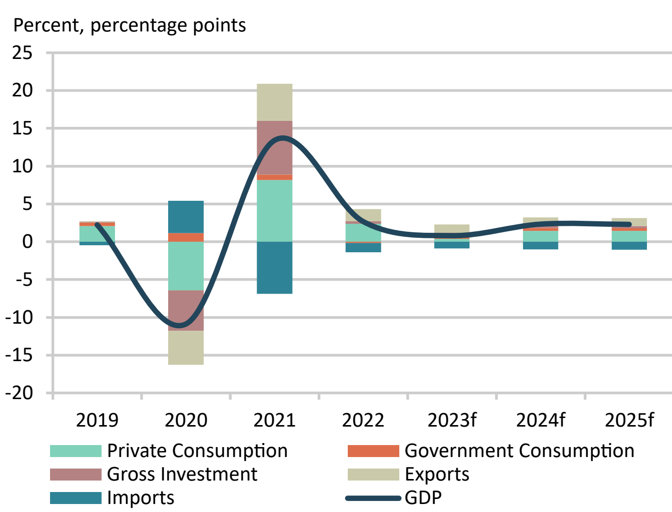
Key conditions and challenges

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

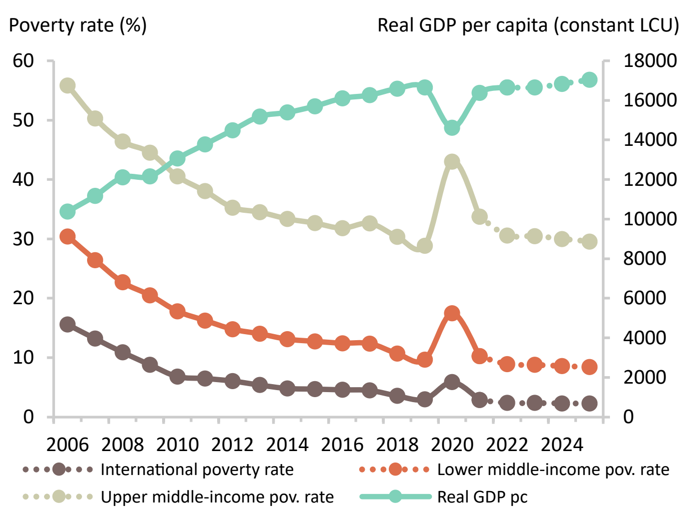
GDP contracted by 0.5 percent in the first half of 2023, due to political uncertainty, social unrest, and the occurrence of El Niño phenomenon. Political uncertainty and tightened financial conditions depressed private spending. El Niño, protests and road blockades impaired the execution of public investment, 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.

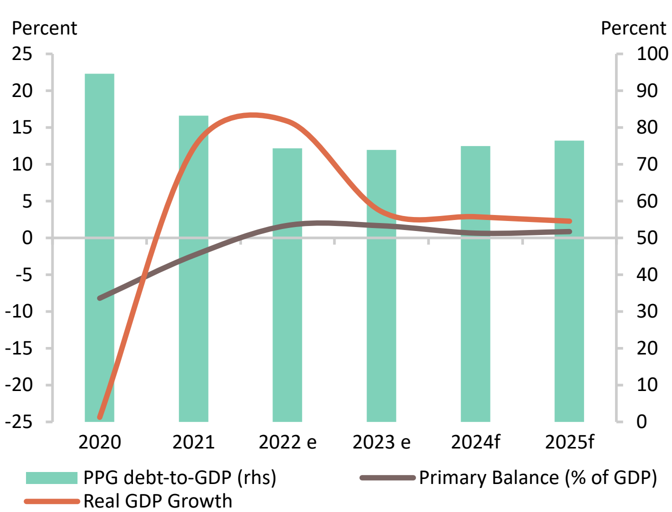
Though liquidity in the banking sector remained sizable, the buildup of non-performing loans and gaps in Anti-Money Laundering / Countering the Financing of Terrorism compliance impeded credit intermediation. The pegged exchange rate under the Eastern Caribbean Currency Union helped maintain low inflation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

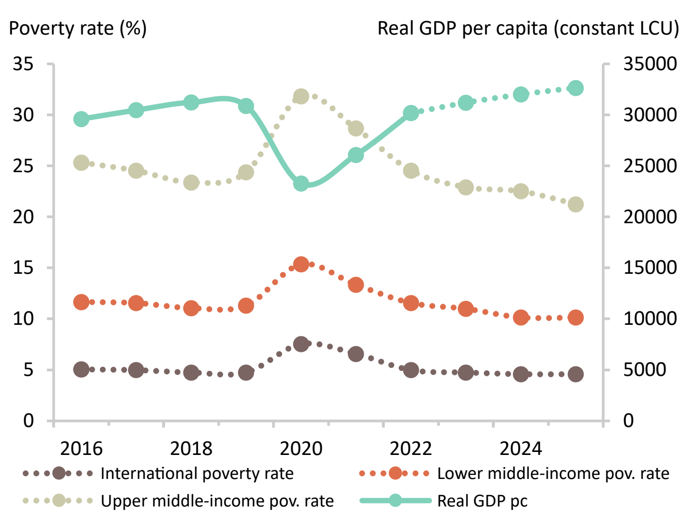
The current account deficit continued to narrow to 2.3 percent in terms of GDP in 2022 as the recovery in tourism outpaced higher costs of food and fuel imports due to global inflationary pressures. Remittances in 2022 are estimated to have fallen slightly from the peak in 2021 but remained above their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

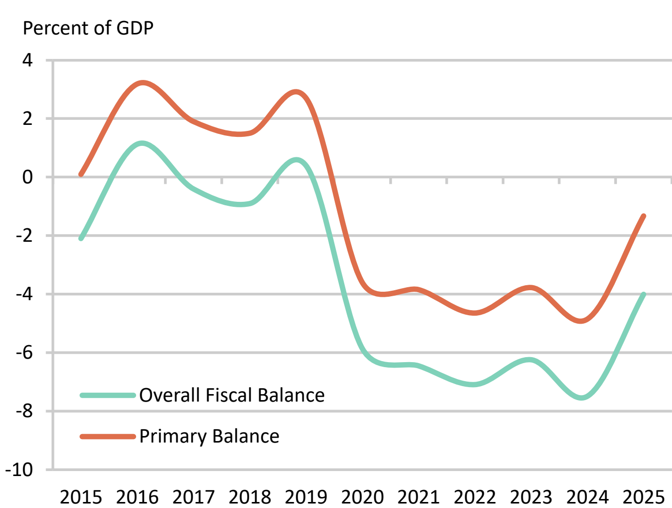
Recent developments

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.

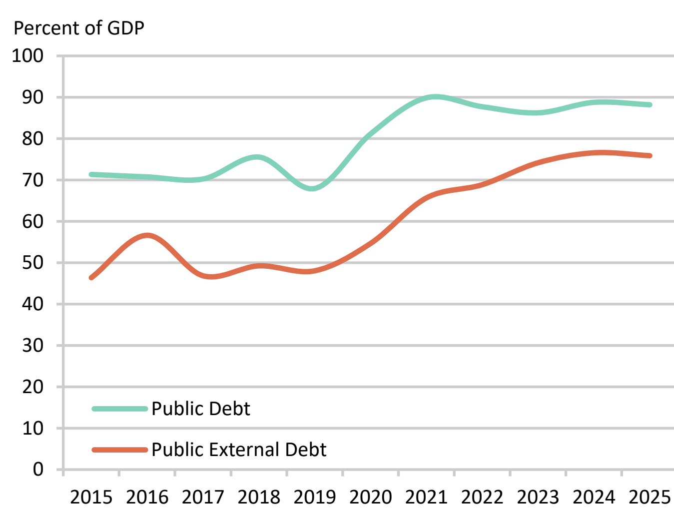
The current account deficit narrowed to 19.5 percent of GDP in 2022, from 22.7 percent in 2021, due largely to higher tourism arrivals, though imports for volcano recovery efforts, port modernization, and higher food and fuel import costs, also rose. The CAD is financed largely by

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.

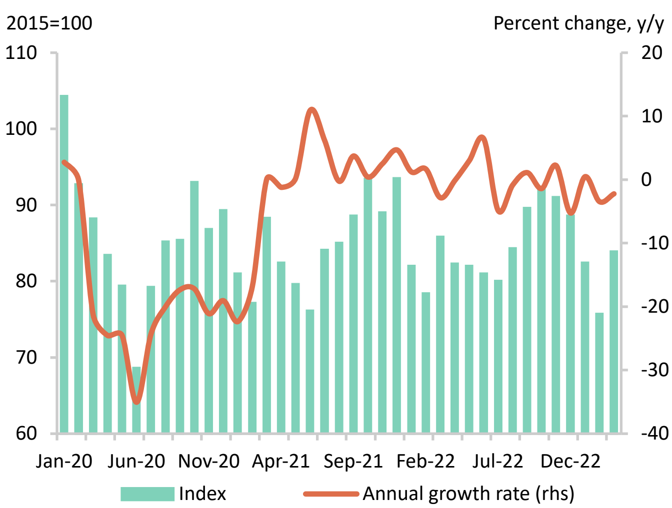
Suriname is also vulnerable to natural disasters, in particular flooding, which has posed significant challenges recently. Newly found offshore oil may – if well managed – considerably improve Suriname's fiscal prospects in the coming years. However, unlocking sustainable and inclusive economic growth 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.

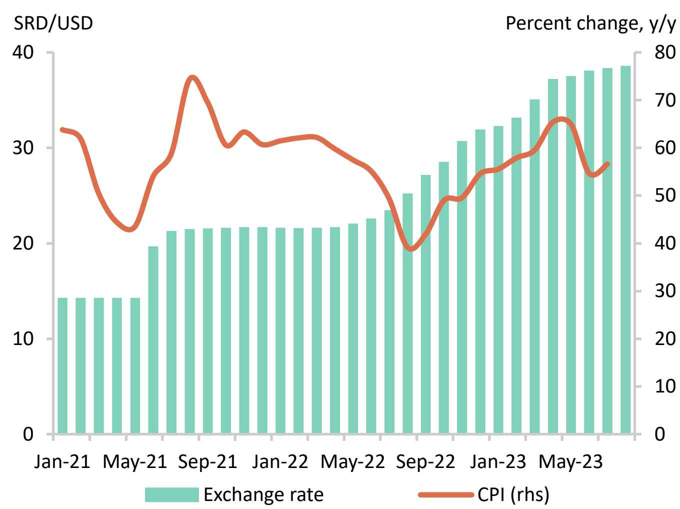
The exchange rate fell by 35 percent in August 2023 (y-o-y). As import costs increased, the current account surplus declined to an estimated 2.0 percent of GDP in 2022 and narrowed further in the first

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.

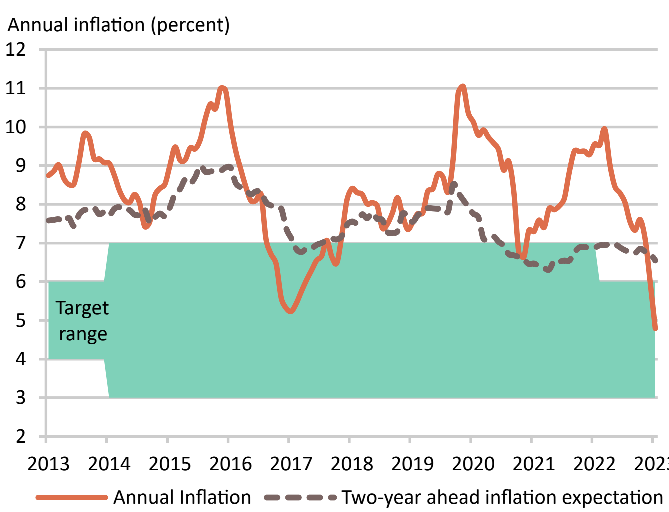
Recent developments

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.

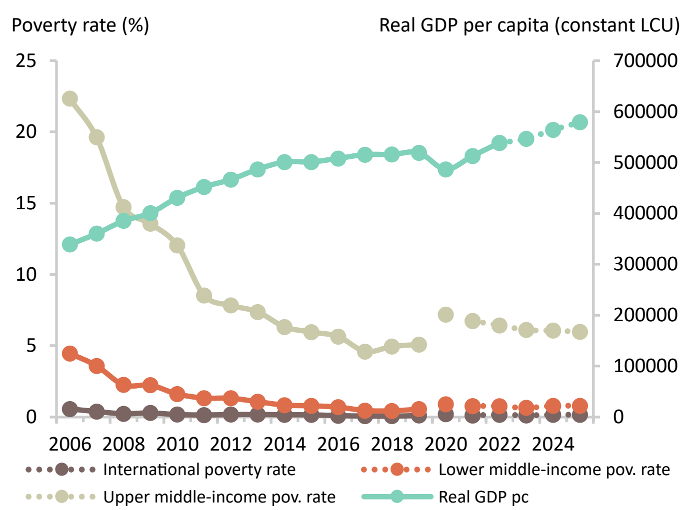
Inflation peaked at 9.9 percent in September 2022 fueled by surging food and oil prices but has since decreased to 4.8 percent by July 2023, the lowest level since 2005. The Central Bank started to ease the monetary policy stance after a tightening cycle that raised its benchmark rate from 4.5 percent 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.

Middle East and North Africa

Annual Meetings 2023

Algeria
Bahrain
Djibouti
Egypt, Arab Republic
Iran, Islamic Republic
Iraq, Republic
Jordan
Kuwait
Lebanon
Libya
Morocco
Oman
Palestinian Territories
Qatar
Saudi Arabia
Syrian Arab Republic
Tunisia
United Arab Emirates
Yemen, Republic

ALGERIA

Table 1	2022
Population, million	45.7
GDP, current US$ billion	195.0
GDP per capita, current US$	4265.6
National poverty rate[a]	5.5
International poverty rate ($2.15)[a]	0.5
Lower middle-income poverty rate ($3.65)[a]	4.0
Gini index[a]	27.6
School enrollment, primary (% gross)[b]	111.3
Life expectancy at birth, years[b]	76.4
Total GHG emissions (mtCO2e)	281.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2011).
b/ WDI for School enrollment (2020); Life expectancy (2021).

Despite continued nonhydrocarbon dynamism, Algeria's GDP growth moderated in early 2023, while high inflation persisted. Recent swings in oil and gas prices highlight the challenges that hydrocarbon dependence poses for macroeconomic stability. Amid declining oil and gas export prices, the current account surplus is shrinking after peaking in 2022, and the fiscal deficit is expected to widen. Priority reforms include strengthening the macroeconomic policy framework, opening more space for the private sector, and improving public service delivery.

Key conditions and challenges

Algeria's economy is dependent on oil and gas which account for a fifth of GDP, four-fifths of exports, and two-fifths of budget revenues. Double-digit fiscal and current account deficits persisted before the pandemic, eroding foreign exchange reserves, and causing fast debt accumulation and large-scale monetization while leading to currency depreciation and import reduction policies.

The Russian Federation's invasion of Ukraine and Europe's efforts to shift away from Russian gas supply have raised oil and gas export prices, generated record trade surpluses for Algeria, and reduced the budget deficit despite a steep rise in current spending. It also presented opportunities for reviving foreign energy investment in Algeria, after years of declining export capacity amidst stagnating production and rising domestic consumption. However, more private investment outside the hydrocarbon sector is needed to foster faster, inclusive, and sustainable growth.

The Algerian economy recovered to pre-COVID-19 levels in 2022, but growth had been slowing down before the pandemic, reaching 1.2 percent in 2017-2019, causing GDP per capita to contract to its 2014 level and unemployment to remain elevated, especially among youth. Non-monetary poverty declined between 2013 and 2019, amid improvements in education, health, and living standards, but it remains elevated for Algeria's level of income, while spatial inequalities persist.

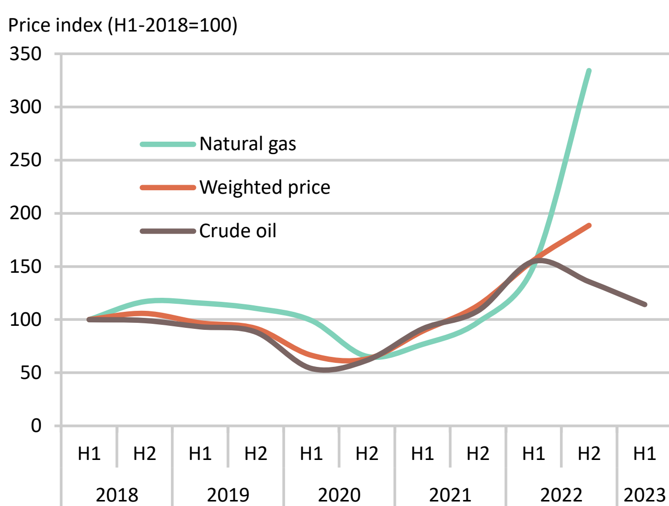
The COVID-induced recession was compounded by a surge in inflation working against poverty reduction, to which the authorities responded through a rise in public spending on wages and social transfers. The September 2021 Government Action Plan (GAP) set as developmental priorities the transition to a private sector-led growth and job creation model and a stronger macroeconomic framework. Efforts to encourage foreign and domestic investment have since accelerated, including through the 2022 Investment Law. Continued reform implementation, notably to improve the business environment, will be key to fostering growth in the nonhydrocarbon private sector.

Recent developments

GDP growth slowed moderately in Q1-2023 (+3.0 percent y-o-y), dragged by low hydrocarbon GDP growth amidst the reduction in crude oil production quotas and despite natural gas output growth. On the other hand, dynamic nonhydrocarbon GDP growth in 2022 extended in Q1-2023 (+4.0 percent y-o-y), with accelerating public consumption growth making up for slower private consumption, and strong investment growth stimulating the construction and industrial sectors. Agriculture output slowed down markedly, however, amid a severe drought episode.

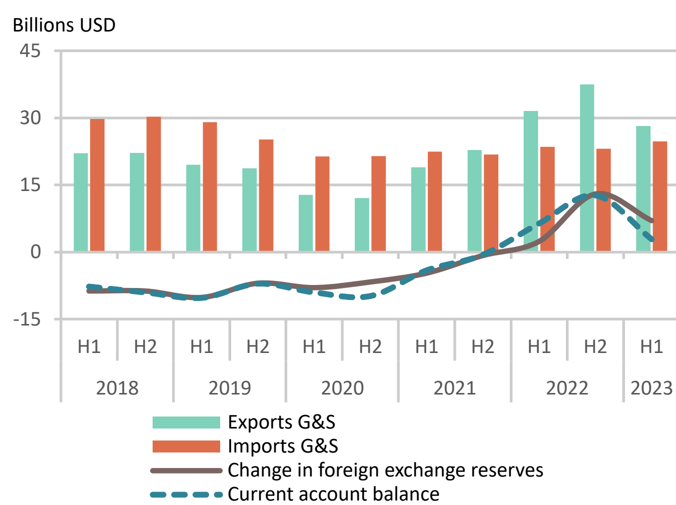
The current account surplus shrank from a record US$11.8 billion in H2-2022 to

FIGURE 1 Algeria / Hydrocarbon export prices



Sources: Algerian authorities and World Bank staff estimates.

FIGURE 2 Algeria / Current account, exports, imports and changes in international reserves



Sources: Algerian authorities and World Bank staff estimates.

US$2.9 billion in H1-2023, as falling oil and gas export prices and volumes led to a US$8.9 billion decline in exports and strong investment growth raised equipment imports. Reserve accumulation therefore continued, reaching US$68.8 billion at end-June 2023, or about 17.2 months of imports of goods and services.

After declining from 7.2 to 2.9 percent of GDP in 2022, the overall budget deficit is expected to have risen again in H1-2023, dragged by the decline in hydrocarbon export revenues and rising public sector wages, and despite an increase in tax revenues supported by rising wages, prices, investment, and imports. After declining to 55.6 percent of GDP at end-2022, public debt increased by 4.3 percent in nominal terms in H1-2023, financed by regular Treasury issuances. It remained overwhelmingly domestically held, at long-term maturities and negative real interest rates.

Inflation remained elevated, reaching 9.7 percent y-o-y in H1-2023 up from 9.3 percent in 2022, fueled by fresh agricultural products, hurting vulnerable Algerians disproportionately as food accounts for over half of the spending for the bottom 40 percent of the population. To try to curb inflationary pressures, the Bank of Algeria supported an appreciation of the dinar in H2-2022 (+6 percent relative to the US dollar) and increased the reserve requirement rate in April 2023 from 2 to 3 percent, its pre-pandemic level.

Outlook

Growth is expected to decelerate in 2023, with lower hydrocarbon output amidst rising domestic consumption and a decline in exports. Nonhydrocarbon GDP would slow down moderately, as private consumption tapers and rising investment is met through increasing imports. Agricultural output would contract, in contrast to more dynamic construction, industrial, and service activity. GDP growth would accelerate in 2024 and 2025, as agricultural output recovers and crude oil production tracks recovering OPEC quotas.

The current account is expected to come close to balance in 2023, as higher imports compound the steep decline in hydrocarbon export prices. Export and import levels would stabilize in 2024-25, as would the level of foreign exchange reserves. Lower hydrocarbon revenues amidst higher budget spending would cause the overall budget deficit to expand in 2023 before a slowdown in public spending reduces it moderately by 2025. The debt-to-GDP ratio would increase slightly, with Treasury savings accumulated in 2022 partially financing fiscal deficits. Inflation is expected to decline gradually, fueled by rising money supply and public spending but dampened by the delayed effects of the dinar's appreciation and tapering food prices.

The fragility of the global outlook and developments in Russia's war on Ukraine could have significant consequences for volatile oil prices, OPEC quotas, hydrocarbon exports and, as a result, the trajectory of Algeria's external and budget balances. Financing budget deficits through the domestic banking sector and maintaining import reduction policies could also weigh on growth and inflation, as would new episodes of disappointing rainfall and agricultural output. On the other hand, successful efforts in attracting large investments, notably in Algeria's hydrocarbon and mining sectors, amidst Europe's efforts to diversify its energy supply, could support higher growth.

Ultimately, structural reforms that improve the business environment, foster private sector-led diversification, improve the efficiency of public spending, and raise human capital will be key to decreasing the country's dependence on hydrocarbons and fostering sustainable economic growth and job creation.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-5.1	3.4	3.2	2.1	2.5	2.5
Private consumption	-3.0	3.7	2.9	2.6	2.4	2.2
Government consumption	-0.1	1.2	2.2	2.2	2.0	1.9
Gross fixed capital investment	-5.2	5.8	2.4	4.3	3.7	3.2
Exports, goods and services	-11.3	13.4	-0.1	-2.3	-0.8	-0.3
Imports, goods and services	-16.0	-4.1	0.0	3.9	1.3	0.5
Real GDP growth, at constant factor prices	-4.5	4.0	3.3	2.1	2.5	2.5
Agriculture	1.7	-1.9	5.8	-3.0	3.1	2.0
Industry	-6.8	7.7	1.5	2.1	2.0	2.3
Services	-4.3	2.7	4.2	3.7	2.9	2.9
Inflation (consumer price index)	2.4	7.2	9.3	9.3	8.6	7.9
Current account balance (% of GDP)	-12.5	-2.8	9.4	1.9	0.3	-0.8
Fiscal balance (% of GDP)	-11.9	-7.2	-2.9	-6.8	-6.8	-6.4
Revenues (% of GDP)	30.5	29.9	34.2	32.4	30.8	29.9
Debt (% of GDP)	51.8	62.9	55.6	56.9	57.0	57.8
Primary balance (% of GDP)	-11.0	-6.5	-1.4	-5.3	-5.4	-4.9
GHG emissions growth (mtCO2e)	-2.7	-0.9	3.4	1.7	1.8	2.1
Energy related GHG emissions (% of total)	49.8	49.2	50.3	50.7	50.9	51.2

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

BAHRAIN

Table 1	2022
Population, million	1.5
GDP, current US$ billion	44.4
GDP per capita, current US$	30152.1
School enrollment, primary (% gross)[a]	98.0
Life expectancy at birth, years[a]	78.8
Total GHG emissions (mtCO2e)	53.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2019); Life expectancy (2021).

Economic growth will moderate this year on the soft performance of the hydrocarbon sector, with non-hydrocarbon activity remaining the growth engine for the economy. Despite softening oil prices, the fiscal deficit is anticipated to narrow, supported by ongoing fiscal reforms, while the external balance surplus is maintained. Larger than forecasted drop in oil prices and weaker global demand, potential delays in implementing advanced fiscal reforms, rising global inflation, and climate change pose significant risks to Bahrain's economic outlook.

Key conditions and challenges

Bahrain experienced strong economic growth in 2022, the fastest pace in a decade, boosted by growing non-hydrocarbon sectors including government services, finance, manufacturing, and the upturn in hospitality-oriented sectors. The strong commitment to the fiscal and structural reform agenda, identified in the Fiscal Balance Program (FBP) and Economic Recovery Plan (ERP), supported by favorable oil prices, has significantly narrowed the overall fiscal deficit. On the other hand, a new National Labor Market Plan (NLMP) was approved on July 23 to encourage Bahraini employment in the private sector and reduce public sector fiscal pressures.

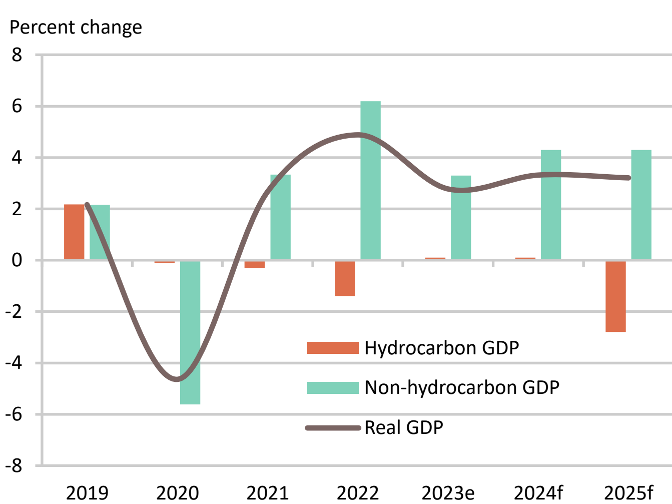
However, challenges remain. Bahrain is considered the most diversified economy in the GCC yet hydrocarbon revenues account for more than 63 percent of total budget revenues which exposes the economy to extreme vulnerabilities stemming from the volatile nature of energy prices. Point in case, despite the recent reforms and high oil prices which improved fiscal and external balances, the public debt remains stubbornly high. Notwithstanding the strong commitment to the reform agenda, falling oil prices will constrain Bahrain from balancing its budget by 2024, while extra-budgetary spending could impede reform implementation efforts. Other challenges in the form of high youth unemployment and the depletion of underground water resources will have serious long-term growth implications.

Downside risks to the outlook are mostly linked to a sizeable drop in hydrocarbon prices, which could renew financing challenges, delay implementation of fiscal reforms, reduce investor confidence, and lead to higher external financing costs. Other risks are related to climate vulnerability to increasing heat and sea level rise, which could have negative impacts on water supply and natural environment. On the upside, higher oil prices provide an opportunity to advance the ambitious reform agenda to contain external borrowing and put debt on a firm downward path, while rebuilding fiscal buffers. Advancing structural reforms including those related to transition towards a low carbon economy and increase employment opportunities among youth, would ensure a private sector-led inclusive recovery. Creating additional fiscal space for renewable energy investment would facilitate Bahrain's climate transition, which is expected to have a positive impact on growth.

Recent developments

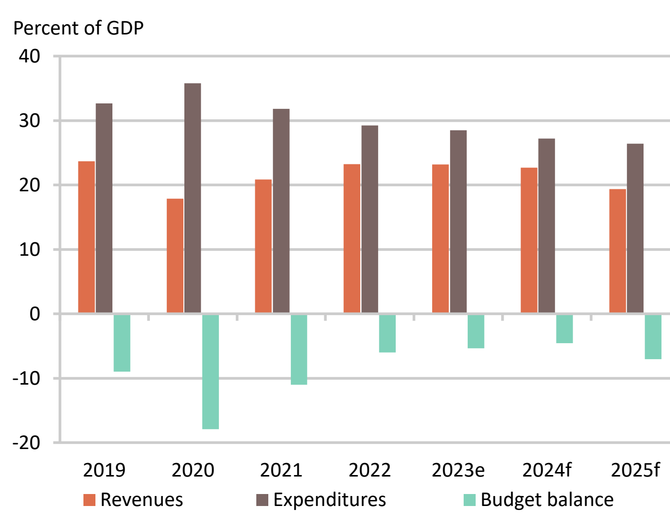
After a solid 2022 performance, Bahrain's economic growth is projected to moderate. Preliminary official data reveals that the economy grew by 2 percent during Q1 2023 driven primarily by the non-oil sectors which grew by 3.5 percent. The transportation and communications, real estate, and financial sectors were among the key

FIGURE 1 Bahrain / Real annual GDP growth



Sources: Bahrain authorities, World Bank, and IMF projections.

FIGURE 2 Bahrain / General government operations



Sources: Bahrain authorities and World Bank projections.

contributors to this steady recovery in non-oil activities, which outpaced the contraction in the oil sector activities (falling by 6 percent) due to seasonal operational maintenance. Average inflation contracted by 0.1 percent in July 2023 y/y, reversing from a 0.4 percent y/y rise in June, driven by lower transport, housing and utilities, and clothing and footwear prices, and as the impact of doubling VAT on prices dissipated.

Official fiscal data for 2023 have not been released yet. However, the government succeeded in concluding the state budget for 2023-24, which placed controlling of public spending and diversifying revenue sources at the heart of the medium-term plan.

Despite lower exports' value in Q1 2023, reflecting softening commodity prices and subdued global demand, the current account balance posted a small surplus of US$0.6 billion (5.7 percent of GDP). This was mainly driven by the decline in imports, down by 8.4 percent, to reflect easing international prices. As a result, official reserve assets accumulated and reached US$3.6 billion in Q1 2023—an increase of US$251 million compared to Q1 2022.

In July 2023, the Ministry of Labor issued the National Labor Market Plan 2023-2026. The plan aims to create high-quality job opportunities for Bahrainis, including by encouraging the private sector to expand flexible options for employment. It also seeks to strengthen the integration of women into the labor market, noting that women constitute 76 percent of job seekers. To better equip the national workforce for the future needs of the labor market, the plan aims to better align higher education pathways with the needs of the labor market and strengthen the technical and vocational education sector. It also intends to strengthen partnerships with the private sector and improve oversight of the labor market.

According to the most recent available ILO estimates, Bahrain's labor market is continuing to recover from the impact of the COVID-19 pandemic but has not yet rebounded fully. The labor force participation rate and employment-to-population ratio were projected to reach 71.9 percent and 70.8 percent respectively in 2023, each still a little below its level in 2019. In 2023, the employment-to-population ratio is estimated at 86.3 percent among men and at 42.8 percent among women (ILO estimates). The unemployment rate was expected to hold steady around 1.4 percent in 2023, 0.2 percentage points above the 2019 rate. The gradual decline in the unemployment rate since the height of the pandemic has been slower among women than among men, with the unemployment rate among women expected to increase slightly again in 2023.

Outlook

Bahrain's economic outlook hangs on oil market prospects and the accelerated implementation of structural reforms. Growth is estimated to moderate to 2.8 percent in 2023 capped by a soft performance of the oil sector while the non-oil sector remains the key driver for growth. The hydrocarbon sector is expected to register small growth of 0.1 percent during 2023-24 while the non-hydrocarbon sectors will continue expanding at nearly 4 percent supported by the recovery in the tourism, service sectors, and the continuation of infrastructure projects. The economy is forecast to rebound in the medium-term supported by stronger non-oil sector performance as the impact of structural reforms trickle into the economy. The easing of global commodity prices and the fading effects of doubling VAT rate are projected to keep inflation subdued at 2.2 percent during the medium term.

With the commitment to mobilize higher non-oil revenues and implement additional fiscal measures, the budget deficit is anticipated to continue its narrowing path to reach 5.3 and 4.5 percent of GDP during 2023 and 2024, respectively. However, public debt will remain elevated in the medium term—exceeding 120 percent of GDP—requiring deeper fiscal consolidation measures.

After widening sharply in 2022, the current account surplus is forecast to narrow in 2023 on softening oil export prices but would remain in surplus during 2024-25 in line with the current oil price outlook. The comfortable external position will boost foreign reserves and strengthen forbearance against future external shocks.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-4.6	2.7	4.9	2.8	3.3	3.2
Private consumption	-4.4	18.9	5.0	2.7	2.5	2.4
Government consumption	-2.5	6.5	2.4	2.0	1.6	1.4
Gross fixed capital investment	-3.8	-4.2	2.3	3.0	3.3	3.4
Exports, goods and services	-2.5	29.5	4.9	3.2	3.3	3.4
Imports, goods and services	-0.7	15.2	5.0	3.7	3.0	3.2
Real GDP growth, at constant factor prices	-4.5	2.4	3.3	2.8	3.3	3.2
Agriculture	0.2	7.2	4.4	0.3	3.0	1.8
Industry	-0.9	0.5	1.2	3.6	3.4	3.1
Services	-7.1	3.9	4.9	2.2	3.2	3.3
Inflation (consumer price index)	-2.3	-0.6	3.6	2.3	2.2	2.1
Current account balance (% of GDP)	-9.4	6.6	15.4	7.8	6.6	5.9
Net foreign direct investment inflow (% of GDP)	-3.5	-4.4	0.0	-2.6	-2.6	-2.7
Fiscal balance (% of GDP)	-17.9	-11.0	-6.0	-5.3	-4.5	-7.0
Revenues (% of GDP)	17.9	20.8	23.3	23.2	22.7	19.4
Debt (% of GDP)	129.7	127.2	117.4	120.9	120.6	122.7
Primary balance (% of GDP)	-12.8	-6.3	-1.6	-0.8	0.1	-2.4
GHG emissions growth (mtCO2e)	3.9	-5.6	0.8	7.2	4.0	0.7
Energy related GHG emissions (% of total)	60.8	58.6	58.4	60.2	60.8	60.3

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

DJIBOUTI

Table 1	2022
Population, million	1.1
GDP, current US$ billion	3.5
GDP per capita, current US$	3136.1
International poverty rate ($2.15)[a]	19.1
Lower middle-income poverty rate ($3.65)[a]	43.8
National poverty rate[a]	21.1
Gini index[a]	41.6
School enrollment, primary (% gross)[b]	73.2
Life expectancy at birth, years[b]	62.3
Total GHG emissions (mtCO2e)	1.4

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

Djibouti's economy is recovering, largely driven by renewed trade with Ethiopia after a 2022 peace agreement. GDP growth is estimated to reach 4.7 percent compared to 3.1 percent in 2022. Medium-term growth is promising, supported by domestic development projects, and expected stability in Ethiopia, but fiscal vulnerabilities remain. Poverty, projected to stand at 15.7 percent in 2023 (at the international poverty line), is expected to follow a downward trend, reflecting sustained economic recovery.

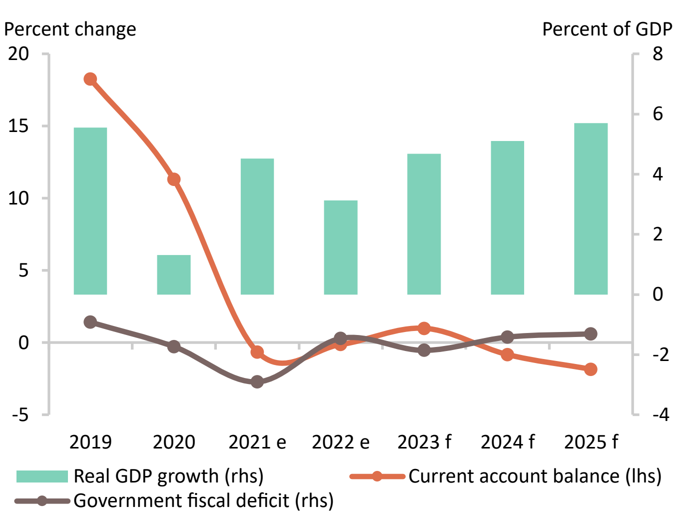
Key conditions and challenges

Djibouti's macro-fiscal vulnerabilities have been exacerbated by a series of exogenous shocks (COVID-19 pandemic, conflict in Ethiopia, and Russian invasion in Ukraine) since 2020. These shocks have strained government finances, led to inflation, jeopardized food security, and slowed poverty reduction efforts. Climatic changes, including drought and floods, also pose an increasing threat to households and businesses, which may be disproportionally felt in poorer regions of the country. Poverty rates, which stood at 19 percent in 2017 at the international poverty line, are estimated to have decreased at a slower rate in recent years, than previously anticipated, to around 15.7 percent in 2023, reflecting COVID-19 effects as well as the economic and social impact of regional instability and accelerating food and energy price inflation up to 2022. Continued efforts by country authorities to promote more inclusive and resilient growth will be critical. This will include improving the business environment and improving SOE governance to attract private investment and lower costs of key services to the economy, improving revenue mobilization to restore fiscal sustainability, and rationalizing untargeted subsidies to create space for higher social spending.

Recent developments

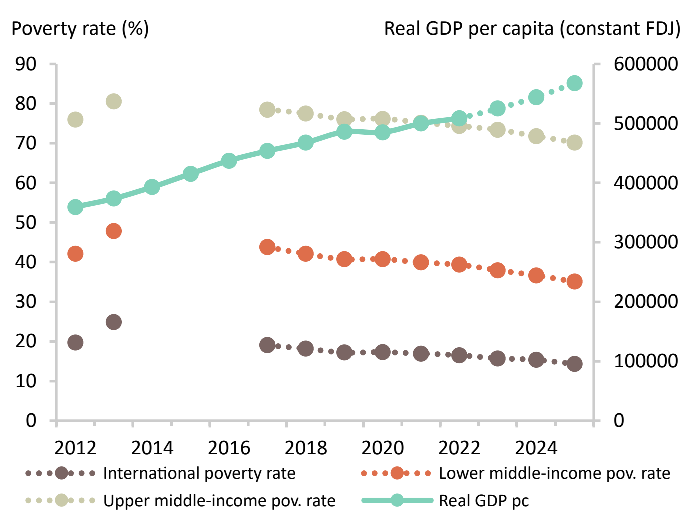
Djibouti's economic activity shows signs of recovery as of June 2023 after the decline observed in 2022. The rebound is mostly driven by renewed trade and logistics demand from its key trade partner, Ethiopia following the signing of a peace agreement between the Ethiopian federal government and the Tigray Rebel movement in November 2022. GDP growth is estimated to rise by 4.7 percent from 3.1 percent in 2022. The year-on-year inflation which reached a peak of 11 percent in July 2022, declined by 1.2 percent in July 2023 mainly due to a slowdown in global food product prices and administrative measures implemented by the government to protect the purchasing power of consumers. On the fiscal side, the budget remains under pressure from lower tax collection performance and rising debt service. Domestic revenue is estimated to fall by 0.6 percent of GDP to about 17.9 percent of GDP in 2023. To ease cash flow pressures, the government renewed in the 2023 budget the main expenditure reduction measures adopted in 2022, including the freezing of promotions for vacant posts. As a result, total expenditure is estimated to fall to 19.7 percent of GDP in 2023, 0.3 percent of GDP down from the level of 2022. In such a context, the budget deficit is expected to deteriorate slightly to 1.9 percent of GDP at the end of 2023. Public external debt stock is estimated to increase to

FIGURE 1 Djibouti / Real GDP growth, fiscal, and current account balances



Sources: Government of Djibouti and World Bank staff projections.

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



Source: World Bank. Notes: see Table 2.

75 percent of GDP in 2023 following the signature of two new loan agreements in July 2023 with AFREXIMBANK and a local commercial bank (US$155 million) and the European Investment Bank (US$87 million). Djibouti's stock of public debt external arrears also further increased, reaching US$212.6 million (5 percent of GDP) in March 2023. Arrears were mainly accumulated on the railway and water pipeline loans financed by EXIM BANK China. Talks are ongoing with EXIMBANK China to restructure these two loans. On the external account side, the current account balance is expected to turn from a small deficit in 2022 into a 1 percent of GDP surplus following the rebound in Ethiopian demand for logistics services and reexport activities. As a result, the foreign reserve coverage ratio of the money supply under the currency board would remain comfortable above 100 percent and gross official reserves are expected to reach 5 months of prospective imports. Despite multiple shocks in 2022, the banking sector remains generally stable. However, the solvency ratio dipped below the regulatory threshold.

Outlook

Medium-term growth prospects for Djibouti are positive, largely due to expected stability in Ethiopia benefiting its ports. However, failure to reach a debt restructuring agreement with EXIMBANK China for the Djibouti-Ethiopia railway and water pipeline projects would escalate liquidity pressures and increase debt arrears. Domestic development projects including the development of the Damerjog Industrial Park Project, the development of the Doraleh Desalination Plant, and infrastructure programs to be undertaken as part of the implementation of the National Development Plan (NDP) would push Gross Fixed Capital Investment upward. Decelerating energy and food price inflation in 2023 should provide a lift to households' real income and boost private consumption.GDP growth is, therefore, projected to accelerate to 5.1 percent in 2024, and to 5.7 percent in 2025. Critical fiscal consolidation measures, including the reprioritization of central government investment spending, the freeze on new civil service recruitment, improvements in fiscal management, and tax administration and collection, should help gradually reduce the budget deficit, which is expected to drop to 1.3 percent of GDP by 2025. It is projected that 15.7 percent of the population will continue living under the international poverty line in 2023 and that this rate will decrease to 15.4 percent and 14.3 percent respectively in 2024 and 2025. A more recent household survey remains pending which would allow more accurate and up-to-date poverty estimates. Despite this, risks remain. They include the deterioration in the fiscal situation resulting from a continued accumulation of public debt, a stagnation or decline in revenues, and increased tax exemptions, which could prove a source of vulnerability in 2024-25. Potential new shocks in the global transport and logistics value chains, regional tensions, Russia's withdrawal from the Black Sea grain deal, and climatic shocks, including drought and floods represent additional downside risks to Djibouti's baseline outlook.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	1.3	4.5	3.1	4.7	5.1	5.7
Private consumption	9.9	9.6	-1.2	5.0	5.0	5.0
Government consumption	1.6	-2.5	-14.8	2.0	6.2	5.6
Gross fixed capital investment	1.0	4.9	2.2	7.0	7.0	7.1
Exports, goods and services	-29.7	29.5	-13.0	9.0	9.0	10.0
Imports, goods and services	-29.5	18.2	-6.8	11.0	11.0	11.3
Real GDP growth, at constant factor prices	2.1	4.1	3.6	4.7	5.1	5.7
Agriculture	11.5	16.5	-3.2	3.2	3.6	3.9
Industry	-3.7	11.4	-0.4	6.1	6.2	6.3
Services	3.1	2.5	4.5	4.5	5.0	5.7
Inflation (consumer price index)	1.0	1.5	5.1	2.0	2.0	2.0
Current account balance (% of GDP)	11.3	-0.7	-0.1	1.0	-0.8	-1.8
Fiscal balance (% of GDP)	-1.7	-2.9	-1.5	-1.9	-1.4	-1.3
Revenues (% of GDP)	23.4	20.0	18.5	17.9	18.4	18.4
Debt (% of GDP)	75.8	73.8	71.8	75.0	73.4	71.0
Primary balance (% of GDP)	-1.6	-2.7	-0.6	-1.0	-0.6	-0.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	17.3	16.9	16.5	15.7	15.4	14.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	40.8	39.9	39.4	38.0	36.7	35.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	76.2	75.2	74.3	73.4	71.8	70.2
GHG emissions growth (mtCO2e)	-0.1	0.9	0.5	0.8	0.7	0.7
Energy related GHG emissions (% of total)	25.3	25.4	25.6	25.7	25.9	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.
a/ Calculations based on 2017-EDAM. Actual data: 2017. Nowcast: 2018-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2017) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

ARAB REPUBLIC OF EGYPT

Table 1	2022
Population, million	103.4
GDP, current US$ billion	476.7
GDP per capita, current US$	4610.7
Lower middle-income poverty rate ($3.65)[a]	17.6
National poverty rate[b]	29.7
Gini index[a]	31.9
School enrollment, primary (% gross)[c]	106.4
Life expectancy at birth, years[c]	70.2
Total GHG emissions (mtCO2e)	361.5

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

Egypt's macroeconomic and structural challenges intersected with global shocks causing a foreign exchange crisis, high inflation and pressures on medium-term debt sustainability. Growth is projected to decline from 4.2 percent in FY23 to 3.7 percent in FY24. Fiscal (including off-budget) consolidation, mobilizing foreign flows, and reforms to enable the private sector are key to stabilize the economy and break the potential depreciation-inflation spiral. Importantly, targeted social protection is crucial to shield the vulnerable.

Key conditions and challenges

Egypt continues to face a foreign exchange crisis, historically high inflation, and a sharp rise in borrowing costs. While triggered by overlapping global shocks, rising macroeconomic imbalances also reflect pre-existing domestic vulnerabilities and challenges, including the sluggish non-oil exports and FDI, constrained private sector activity and job creation, as well as the elevated and rising government debt, driven by budgetary and off-budget transactions.

The latest estimates (for 2019) show that the national poverty rate reached 29.7 percent. COVID19 and accelerating inflation in 2022 and 2023 are expected to have increased poverty rates substantially. Notwithstanding the recent downtick in the unemployment rate to 7.0 percent in Q4-FY23 (April—June 2023), the broader labor market indicators reflect structural challenges, as captured by the below-potential labor force participation and employment rates (at 43.0 percent and 40.0 percent of the working-age population). Furthermore, relatively low revenue mobilization (tax revenues at 12.4 percent of GDP in FY23) and the high and increasing debt service (interest payments at 7.6 percent of GDP in FY23) pose risks to fiscal sustainability and are limiting the space to advance human capital for the rapidly growing population which exceeds 105 million in FY23.

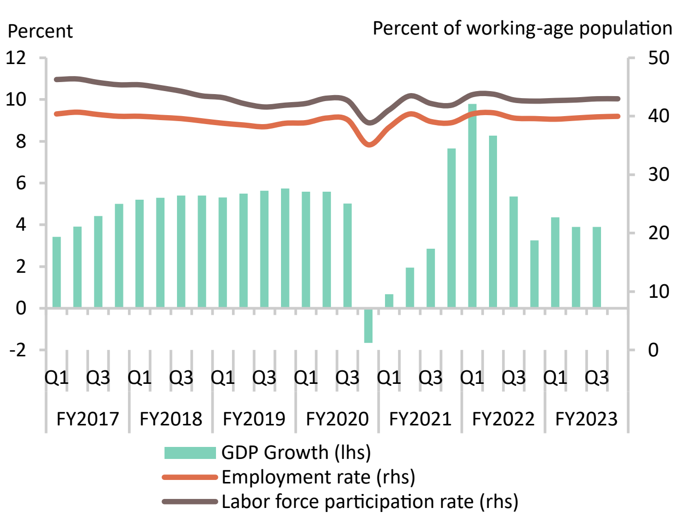
In response, the authorities undertook a series of policy adjustments since March 2022. These include raising policy rates by 1,100 basis points (to 19.25 percent and 20.25 percent for overnight deposit and lending transactions as of August 2023), allowing the exchange rate to depreciate by more than 97 percent (to LE30.8/US$), and introducing social mitigation packages (including the expansion of cash transfer programs). These adjustments were supported by the 46-month IMF Extended Fund Facility (EFF), approved in December 2022. However, the first EFF review is still pending. In addition, transformative measures to improve the business environment are yet to be implemented.

Recent developments

Economic activity has been adversely impacted by the overlapping global shocks. Growth declined to 4.2 percent during FY23 (July 2022—June 2023) from 6.6 percent a year earlier. Lingering de facto import restrictions continue to adversely impact economic activity, due to the difficulty of accessing inputs for production and exports (with backlogs in ports last reported at US$5.5 billion at end-May 2023 from US$3.9 billion two months earlier).

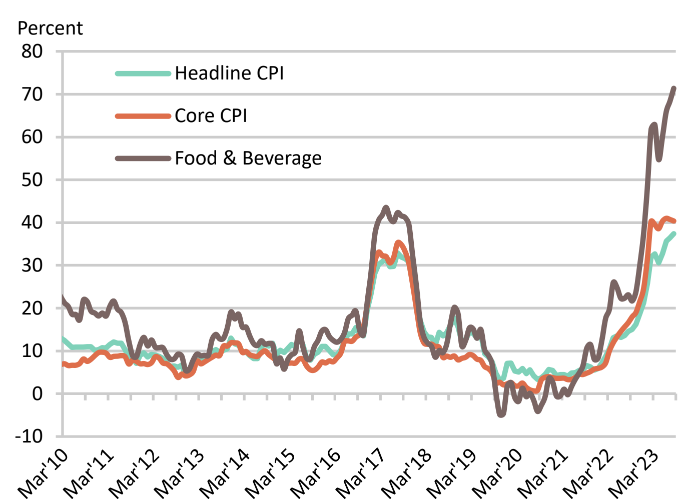
Annual urban inflation has been in the double-digits since March 2022, accelerating to an average of 24.1 percent in FY23 (37.4 percent, with food inflation at 71.7 percent in August 2023), exceeding the peak reached during the 2017 inflation episode. Cost-push factors have been the

FIGURE 1 Arab Republic of Egypt / Real GDP growth, employment and labor force participation rates



Sources: World Bank estimates based on Central Agency for Public Mobilization and Statistics (CAPMAS) and Ministry of Planning and Economic Development.

FIGURE 2 Arab Republic of Egypt / Annual inflation rates



Sources: Central Bank of Egypt (CBE) and CAPMAS.

predominant contributors to this recent inflation wave, but relatively loose domestic liquidity conditions (mainly driven by credit extended to the public sector) also indicate that excess demand remains another contributor to inflationary pressures. Official reserves (Tier 1 reserves) and other foreign currency assets (Tier 2 reserves) increased gradually over recent months, jointly reaching US$42.9 billion at end-August 2023. These, however, remain around US$12 billion (21 percent) below their level prior to March 2022. The Balance of Payments outturns indicate that improvements in the services balance (tourism and the Suez Canal), along with FDI have supported reserves. Authorities are also generating receipts from the sales of assets (at US$2.5 billion during 2023). Nevertheless, shortage of hard currency remains a challenge. This is evidenced by the banking system's deeply negative net foreign assets position [-LE812.4 billion (US$26.3 billion) at end-July 2023] which has been deteriorating even prior to the escalation of the global shocks.

Outlook

Growth is forecast to decline to 3.7 percent in FY24 (from 4.2 percent in FY23) as households' purchasing power and firms' activity are constrained by higher costs because of the depreciation, exchange and import restrictions, imported inflation, domestic supply bottlenecks, and costlier access to finance. The recent electricity cuts (caused by a combination of a downtick in natural gas production and increased consumption during the heat wave) may further contribute to lower economic activity. Going forward, growth is projected to gradually rise to 4.0 percent by FY25, benefitting from favorable base effects, and the contained imports growth associated with the depreciation, under a baseline scenario envisaging a resumption of macro stabilization and continued structural reforms.

The budget deficit is forecast to widen from 6.0 percent in FY23 to 7.1 percent in FY24, as subsidies and interest payments are driven up by the social mitigation measures and monetary tightening. The government debt-to-GDP ratio is also estimated to have increased from 88.3 percent at end-FY22 to 95.6 percent at end-FY23, and is projected to rise further to 96.9 percent by end-FY24, in large part driven by valuation effects of foreign currency-denominated debt (estimated at 27.8 percent of total debt at end-FY22), which is more than offsetting the negative real interest rates.

The current account deficit is forecast to decline in FY23-24 (from 3.5 percent of GDP in FY22) supported by continued improvements in services exports as well as compressed imports. The projected moderation, however, is expected to be partially counterbalanced by the still-elevated imports costs, downtick in remittances, and the pay down of import backlogs/suppliers' credit. The capital and financial account is expected to remain under pressure, with mitigation coming from international financing and sales of assets.

Risks to the outlook stem from a prolonged delay of macro stabilization and the potentially scarring effects of expanding untargeted subsidies and tax exemptions, in addition to the government debt maturity, its currency structure, as well as the financial interlinkages with extra-budgetary entities. High inflation, especially for food, remains a source of concern for poverty reduction efforts. This highlights the importance of upscaling targeted social protection. Pursuing tight fiscal and monetary policies, while addressing foreign exchange distortions and mobilizing international financing will be key to restoring macroeconomic stability. Strengthening the role of the State as a regulator, while streamlining its presence in the economy and enabling a more competitive private sector will be critical to unleash the economy's potential in higher value-added export-oriented activities.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	3.6	3.3	6.6	4.2	3.7	4.0
Private consumption	7.4	6.2	2.8	3.6	2.8	3.1
Government consumption	7.9	3.4	4.9	4.2	4.3	3.8
Gross fixed capital investment	-21.1	-3.2	18.5	-0.1	2.3	4.0
Exports, goods and services	-23.7	-13.9	57.4	35.0	25.0	16.0
Imports, goods and services	-18.7	0.5	24.3	20.0	16.5	11.0
Real GDP growth, at constant factor prices	2.5	2.0	6.2	3.9	3.6	3.9
Agriculture	3.4	3.8	4.0	4.5	3.5	3.3
Industry	0.6	-1.2	6.9	2.0	1.4	2.6
Services	3.6	3.7	6.2	5.0	5.0	4.8
Inflation (consumer price index)	5.7	4.5	8.5	24.1	26.7	15.9
Current account balance (% of GDP)	-2.9	-4.3	-3.5	-2.8	-2.8	-2.9
Net foreign direct investment inflow (% of GDP)	1.9	1.1	1.8	1.9	2.0	1.9
Fiscal balance (% of GDP)	-7.5	-7.1	-6.2	-6.0	-7.1	-7.0
Revenues (% of GDP)	15.9	16.6	17.2	15.4	16.0	16.2
Debt (% of GDP)	82.8	87.9	88.3	95.6	96.9	94.0
Primary balance (% of GDP)	1.7	1.4	1.3	1.6	2.0	2.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.7	1.7	1.7	2.4	2.3	2.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	20.0	19.8	19.2	24.3	24.1	23.8
GHG emissions growth (mtCO2e)	1.3	-0.6	1.9	1.8	1.6	1.9
Energy related GHG emissions (% of total)	64.6	64.3	64.3	64.2	64.2	65.5

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 2010-HIECS, 2015-HIECS, and 2019-HIECS. Actual data: 2019. Nowcast: 2020-2022. Forecasts: 2023-2025.
b/ Projection based on microsimulations for 2020 and 2023, for the other years it is using annualized elasticity (2010-2015) with pass-through = 0.02 based on GDP per capita in constant LCU.

IRAN, ISLAMIC REPUBLIC

Table 1	**2022**
Population, million	84.7
GDP, current US$ billion	413.5
GDP per capita, current US$	4881.9
Upper middle-income poverty rate ($6.85)[a]	27.6
Gini index[a]	42.0
School enrollment, primary (% gross)[b]	109.7
Life expectancy at birth, years[b]	73.9
Total GHG emissions (mtCO2e)	947.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2021).

Iran's economy is set to grow for a fourth consecutive year, buoyed by the oil sector. However, persistent high inflation and scarce job opportunities compound labor market challenges. Oil-driven growth is non-inclusive; an estimated 28.1 percent of Iranians are poor, and two fifths of households are vulnerable to falling into poverty. The economic outlook is projected to remain constrained by sanctions, adverse climate change impacts, electricity and gas shortages, and weakened global demand.

Key conditions and challenges

Despite maintaining sustained moderate growth in 2022/23 - the Iranian year starts on March 20 - the economy faces entrenched structural challenges. Sluggish and jobless long-term growth, low productivity, high inflation, and imbalances in the banking and pension systems persist. These challenges have compounded longstanding socio-economic grievances that have triggered recent protests. Ongoing economic sanctions and a dominant public sector hinder the full utilization of Iran's economic potential, including leveraging a highly educated young population, to further diversify the economy towards non-oil industries and services such as tourism.

High inflation and insufficient job creation disproportionately impact lower-income households. Years of high inflation have negatively impacted poor households and eroded the real value of social assistance transfers. With only around one-third of the population employed and limited job prospects, particularly for the young and female population, labor market challenges persist; this exacerbates inequalities and contributes to a high poverty rate. Inadequate job creation has driven many Iranians, particularly women, out of the job market, resulting in a lost window of opportunity for growth. The gradual aging of the population, a notable rate of emigration of the highly skilled workforce, and a declining birth rate not only weigh on growth prospects but also pose a challenge for an already struggling pension system.

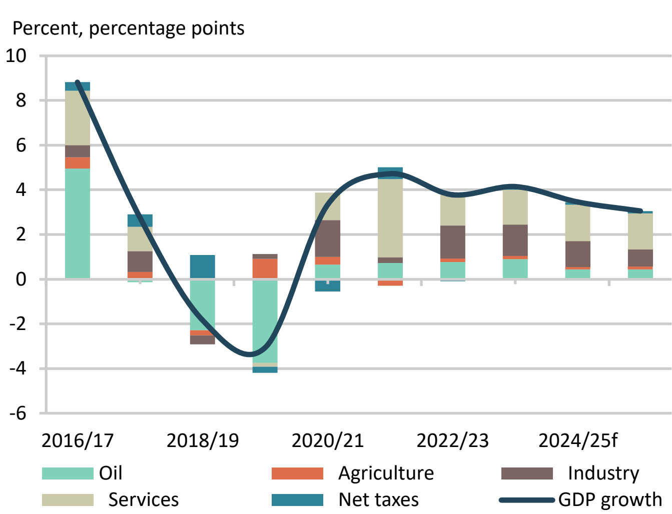
Urgent economic reforms are crucial to address critical structural issues. Priority reforms include restoring price and financial system stability, market-based lending, and minimizing unnecessary market interventions and price controls. Implementing a counter-cyclical fiscal policy would help curb budget deficits and promote investments in productive capacity, renewable energy, and economic diversification. Improved targeting of cash transfers will create fiscal space, while indexing the cash transfers for a targeted pool of eligible beneficiaries will help protect them from inflation.

Recent developments

Iran's economy maintained a moderate growth rate of 3.8 percent in 2022/23, driven by services and manufacturing. The oil industry also grew with tighter global oil markets. Private consumption served as the primary driver of GDP growth, while government consumption contracted in real terms to address the budget deficit. Both exports and imports expanded, and robust investment in machinery drove investment. Despite growing by 0.7 million year-on-year (Y-o-Y) in Q1-2023/24, employment still lags the economic expansion of the past three years.

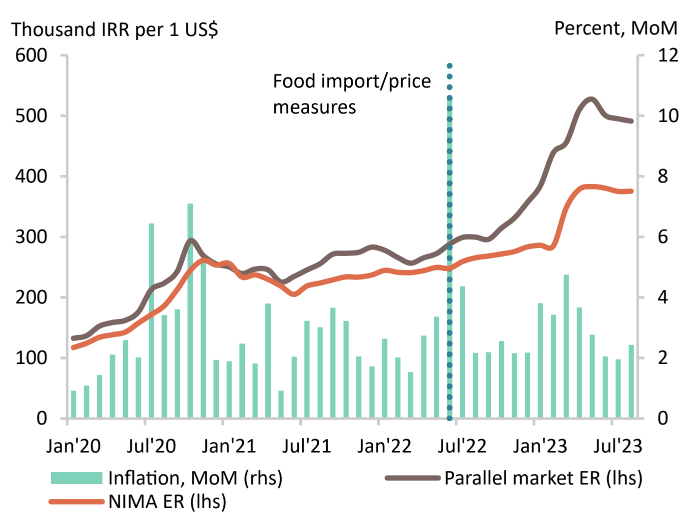
Elevated food prices and housing costs drove consumer price inflation

FIGURE 1 Islamic Republic of Iran / Real GDP growth and supply-side contributions to real GDP growth



Sources: Central Bank of Iran (CBI) and World Bank staff calculations.

FIGURE 2 Islamic Republic of Iran / Improved inflationary expectations have eased price pressures



Sources: CBI, Statistical Center of Iran, and World Bank staff calculations.
Note: NIMA is the CBI-administered foreign exchange auction system that facilitates transactions between exporters and importers.

to 46.7 percent (Y-o-Y) in the first five months of 2023/24. However, lower inflation expectations and the stabilization of the exchange rate helped decelerate monthly inflation, following the continuation of nuclear talks and improved access to frozen funds abroad that helped partially ease exchange rate pressures.

The recent increase in oil exports is helping to mitigate the budget deficit and improve the current account. In 2022/23 and Q1-2023/24, the government budget was constrained by lower than budgeted oil revenues in response to which the government reprioritized expenditures. Since Q2-2023/24, oil exports have recorded their highest level since the reimposition of US sanctions in 2018/19. Despite rising imports, higher oil exports in 2022/23 drove a current account surplus (US$14.4 billion), offset by a net capital account deficit (US$14.6 billion), marking the seventh consecutive year of net capital outflows. Improved oil exports in the first half of 2023/24 are estimated to have maintained the overall trade surplus, despite a non-oil trade deficit.

Outlook

GDP growth is forecast to maintain a modest pace in the medium term. Higher projected oil production and export volumes are expected to offset lower oil prices as well as China's economic slowdown in 2023/24, and to drive an oil-based growth. Non-oil growth is projected to remain constrained by ongoing sanctions, energy shortages, liquidity constraints, underinvestment, and economic uncertainty. Inadequate agricultural production, worsened by droughts and water scarcity, disproportionally harms the poor, jeopardizes food security, and drives migration to cities, increasing rural-urban disparities.

Anticipated higher oil exports and partial access to frozen funds are expected to alleviate fiscal and external pressures. Government expenditures for 2023/24 to 2025/26 are projected to outpace revenues, leading to a fiscal deficit, albeit a smaller one as a share of GDP considering the higher projected oil revenues. While the government plans to cover most of the deficit through asset sales, this is projected to partially cover the funding gap, thereby keeping the inflationary pressures from the budget deficit financing in place. On the external front, the current account is expected to remain in surplus as higher crude oil exports are expected to offset the decline in oil prices as well as rising imports. Access to frozen funds would help alleviate exchange rate pressures and inflationary expectations. High inflation and limited job creation will continue to place pressure on household welfare and challenge poverty reduction.

The economic outlook is subject to heightened risks. Downside risks include further water and energy shortages, intensification of climate change shocks, and a re-escalation of social tensions. Further sanctions and stricter enforcement of restrictions may disrupt trade and fuel further inflationary expectations. A substantial sanctions relief or an interim agreement related to nuclear negotiations could significantly improve the economic outlook.

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

	2020/21	2021/22	2022/23	2023/24e	2024/25f	2025/26f
Real GDP growth, at constant market prices	3.3	4.7	3.8	4.1	3.5	3.1
Private consumption	0.5	3.9	8.7	2.2	2.1	1.9
Government consumption	-0.9	8.3	-3.6	3.5	3.4	3.2
Gross fixed capital investment	3.2	0.0	6.6	5.9	5.5	5.4
Exports, goods and services	-12.8	5.2	8.2	15.4	7.9	5.6
Imports, goods and services	-29.7	24.1	7.5	8.7	4.1	3.0
Real GDP growth, at constant factor prices	4.1	4.4	4.0	4.1	3.5	3.1
Agriculture	3.2	-2.6	1.1	1.1	1.0	1.0
Industry	7.8	3.2	7.4	7.3	4.9	3.7
Services	2.2	6.5	2.7	2.9	3.0	3.0
Inflation (consumer price index)	47.1	46.2	46.5	42.6	35.8	32.3
Current account balance (% of GDP)	-0.3	3.1	3.5	4.8	3.5	2.7
Fiscal balance (% of GDP)	-5.8	-3.2	-1.9	-1.6	-2.1	-2.2
Revenues (% of GDP)	7.3	11.0	12.1	12.1	12.0	12.1
Gross Public Debt (% of GDP)	41.4	42.4	30.1	30.7	32.5	34.0
Primary balance (% of GDP)	-5.3	-2.7	-1.4	-1.3	-1.7	-1.9
GHG emissions growth (mtCO2e)	-2.4	5.7	2.7	2.8	2.4	2.2
Energy related GHG emissions (% of total)	66.2	67.6	67.5	67.4	67.2	66.9

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

REPUBLIC OF IRAQ

Table 1	2022
Population, million	44.5
GDP, current US$ billion	241.7
GDP per capita, current US$	5430.8
Lower middle-income poverty rate ($3.65)[a]	2.4
Upper middle-income poverty rate ($6.85)[a]	24.7
National poverty rate[a]	22.5
Gini index[a]	29.5
School enrollment, primary (% gross)[b]	108.7
Life expectancy at birth, years[b]	70.4
Total GHG emissions (mtCO2e)	309.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2012), 2017 PPPs.
b/ WDI for School enrollment (2007); Life expectancy (2021).

The economy enjoyed an oil-driven recovery in 2022 but is projected to slow down significantly in 2023. GDP is contracting following oil market developments and the new OPEC+ production cuts. Lower oil exports and the sharp fiscal expansion are weighing on fiscal and external balances, and fiscal risks could reemerge without more reforms. Downside risks to the outlook include oil market volatility, climate change risks, and a return to instability.

Key conditions and challenges

Iraq's economy is showing signs of a slowdown as GDP growth continues to track the developments in the oil sector. GDP growth is decelerating, reflecting extended oil production cuts by OPEC+ and the ongoing halting of oil exports from the northern oil pipeline, following the international arbitration case with Türkiye. Lower oil export quantities will decrease oil revenues, weighing on the fiscal position and international reserves.

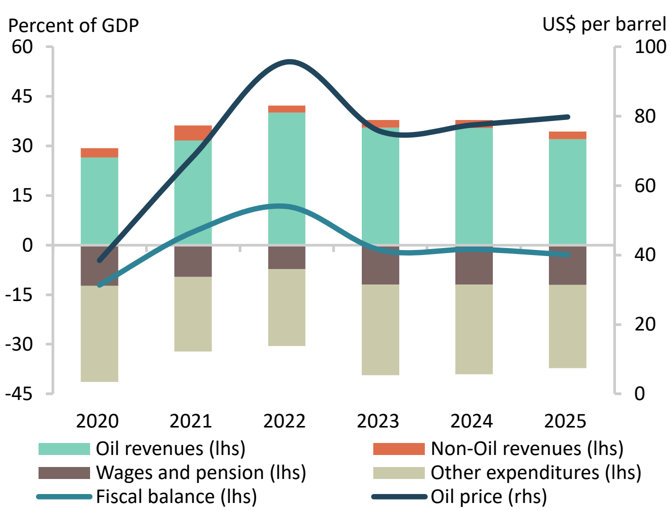
The approved budget law for 2023 to 2025 envisages a fiscal expansion that does not address structural vulnerabilities, at a time of weaker global growth and heightened oil market uncertainty. The budget, if fully implemented, will result in a large fiscal deficit, which would require a sizeable financing need and deplete the buffers accumulated during the previous year's oil windfall. The composition of the budget for 2023, notably the sharp increase in the wage bill, could have a long-term impact by further aggravating budget rigidities; this would then leave little fiscal space for growth-enhancing programs in human and physical capital.

Despite several reform efforts, Iraq's economic model remains oil-dependent and dominated by the public sector, negatively impacting growth prospects. Over-reliance on oil and the implicit social contract reduce incentives to diversify the economy and government revenues. Despite the vast oil wealth, public service delivery remains poor, due to poor public investment management, productive and allocative inefficiencies, and corruption. A large public sector (representing about 39% of total employment) and an unconducive business environment limit opportunities in the private sector which remains largely informal with low social status and low economic returns. Most of the poor and vulnerable Iraqis are employed in the informal sector. Climate change challenges, including extreme heat events, water scarcity and desertification, increase food insecurity and reliance on food imports, hamper economic activities, re-enforce rural-urban migration, and negatively impact physical and mental health. In the absence of economic reforms, these challenges are set to weigh on growth and increase pressures on the most vulnerable Iraqis and heighten social tensions.

Recent developments

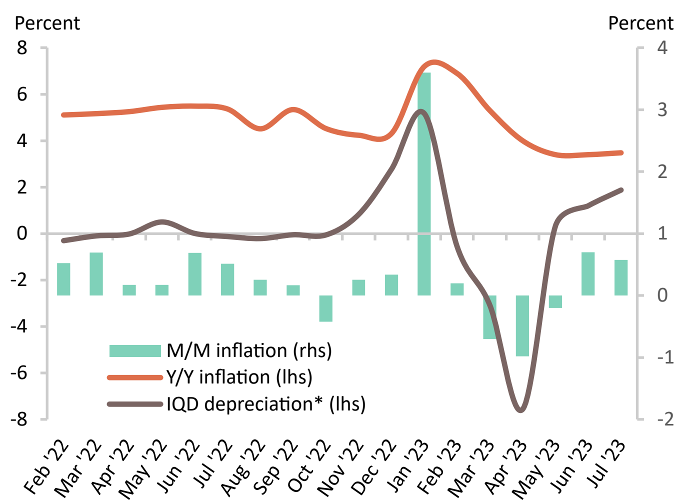
GDP growth is decelerating due to declining oil output. Following a rapid expansion in 2022, real GDP growth moderated to 2.6 percent year-on-year (y-o-y) in Q1-2023 as oil production was constrained by the extended OPEC+ production quota. Crude oil production was below Iraq's agreed quota between April and August 2023 in part due to halting of exports from the Kurdistan Region of Iraq. Non-oil GDP grew by 4.7 percent y-o-y in Q1-23 owing to a rebound in non-oil industries (particularly construction), supported by the CBI

FIGURE 1 Republic of Iraq / Fiscal account outlook



Sources: Iraq's Ministry of Finance, Ministry of Oil, and World Bank staff calculations.

FIGURE 2 Republic of Iraq / Consumer price inflation and parallel market pressures



Sources: Iraq's Central Statistical Organization, Central Bank of Iraq, media, and World Bank staff calculations. Note: *Positive values show dinar's depreciation against the dollar in the parallel market.

lending initiative, and agriculture due to a better rainfall season.

While inflation has eased since the FX-related spike in prices at the beginning of the year, pressures in the parallel market persist. Following the closer enforcement of due diligence measures in the CBI dollar auctions since November 2022, the re-channeling of demand to the parallel market drove a depreciation of the dinar and a surge in inflation to 7.0 percent y-o-y in January-February 2023. However, inflationary pressures have since started to moderate, supported by the CBI decision to revalue the dinar against the dollar by 10.3 percent in Feb 2023 and by moderating global commodity prices. Average headline and core inflation eased to 3.9 and 3.4 during March to July period y-o-y, respectively. However, pressures in the parallel exchange market remain elevated and the gap with the official rate was over 19 percent in mid-September 2023, reflecting continued FX demand in the parallel market.

Lower oil prices and export volumes have started to weigh on government finances and on the external account. Government revenues, heavily dependent on oil, declined by 28.2 percent y-o-y in the first half of 2023 (H1-2023). Expenditures declined by 2.4 percent due to the delay in ratification budget law 2023, which partly curbed the procyclicality of fiscal policy. As a result, the fiscal account recorded a surplus of 2.9 percent of GDP (cash basis), down from a surplus of 7.8 percent of GDP in H1-2022. On the external account, higher imports and lower exports almost halved the current account surplus to 5.7 percent of GDP in H1-2023. The accumulation of gross official reserves (excluding gold) started to decelerate in early 2023 and declined in July 2023 to US$95 billion from over US$101 billion in June.

Outlook

The economic outlook is expected to weaken due to less favorable oil market prospects. GDP growth is forecast to contract by 2.3 percent in 2023 as OPEC+ oil production cuts agreed in June 2023 will lead to lower production and exports from the Kurdistan Region remain constrained due to the oil pipeline dispute. Non-oil GDP is estimated to grow by 4.5 percent in 2023, assisted by the fiscal expansion in the second half of the year. For 2024-25, a gradual rebound in overall GDP growth is forecasted under the assumption that oil production will start to increase again from mid-2024, reaching its historical peak by end-2024 and gradually growing thereafter. The easing of global commodity prices, revaluation of the dinar, and continued price subsidies are projected to keep inflation in check. With the projected decline in oil prices and the expansionary fiscal policy stance, the fiscal balance is forecast to return to a deficit and the debt-to-GDP ratio increase. An expected influx of imports driven by the dinar revaluation and the significant increase in government expenditures will further weigh on the current account surplus, which at a projected average oil price of US$78.7/bbl from 2023 to 2025, is forecast to narrow in 2025.

Downside risks to the outlook stem from geopolitical developments, along with fluctuations in commodity prices and exacerbated vulnerabilities due to climate change. A potential resurgence in food prices, contingent on the evolution of Russia's invasion of Ukraine and the coming El Niño, could fuel inflationary pressures. Food price surges, coupled with intensified climate change shocks could amplify existing poverty trends and heighten food insecurity, which add to the existing public grievances and social tensions. The Iraqi economy's overreliance on oil leaves it susceptible to market volatility, global demand fluctuations, and heightened risks amid the global transition towards a decarbonized world.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-9.4	-2.1	7.0	-2.3	4.3	2.9
Private consumption	-5.5	2.6	3.5	7.7	4.5	4.0
Government consumption	-9.5	4.7	8.2	18.0	8.5	4.7
Gross fixed capital investment	-65.4	7.8	10.4	21.2	26.6	9.9
Exports, goods and services	-10.1	-13.3	16.4	-6.7	4.8	2.8
Imports, goods and services	-23.9	7.7	20.0	20.5	13.7	7.0
Real GDP growth, at constant factor prices	-12.0	1.6	7.0	-2.3	4.3	2.9
Agriculture	22.5	-20.6	-10.6	3.5	3.0	3.0
Industry	-16.4	-0.7	11.2	-5.6	4.7	2.9
Services	-5.8	9.8	1.2	3.8	3.5	2.8
Inflation (consumer price index)	0.6	6.0	5.0	4.8	4.0	3.8
Current Account Balance (% of GDP)[a]	-4.0	12.0	20.7	4.6	4.9	3.7
Net Foreign Direct Investment Inflow (% of GDP)[a]	-1.7	-1.3	-0.9	-0.8	-0.8	-0.8
Fiscal Balance (% of GDP)[a]	-12.1	4.0	11.7	-1.5	-1.2	-2.0
Revenues (% of GDP)	29.3	36.2	42.2	37.9	37.8	36.2
Debt (% of GDP)[a]	78.8	58.8	40.8	44.3	46.1	46.6
Primary Balance (% of GDP)[a]	-11.0	4.5	12.6	-0.9	-0.6	-1.5
GHG emissions growth (mtCO2e)	-9.7	-2.1	9.1	-3.9	3.7	1.9
Energy related GHG emissions (% of total)	43.0	42.6	43.3	43.1	43.6	43.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Share of factor cost GDP.

JORDAN

Table 1	2022
Population, million	11.3
GDP, current US$ billion	47.5
GDP per capita, current US$	4210.4
National poverty rate[a]	15.7
School enrollment, primary (% gross)[b]	80.0
Life expectancy at birth, years[b]	74.3
Total GHG emissions (mtCO2e)	37.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017/8).
b/ Most recent WDI value (2021).

Jordan has prudently navigated difficult times, showing resilience in the face of major external crises. However, key structural constraints remain firmly entrenched, notably those related to the labor market, the business environment, and fiscal sustainability. Additionally, Jordan is highly vulnerable to climate shocks, underscoring its need to address water, energy, and food security concerns. A reaffirmed commitment to reform implementation, progress monitoring and course adjustment when needed can help spur growth and improve the wellbeing of the Jordanian population.

Key conditions and challenges

Jordan's geopolitical role in the MENA region, its exposure to regional conflicts, and the associated spillover of refugees have historically made security and stability the foremost concerns of policymaking. The impact of these external shocks is compounded by domestic constraints, with the lack of structural transformation resulting in a low-growth equilibrium, persistent weak labor market outcomes, and a challenging business and socioeconomic context. In the face of crises, Jordan has adopted an accommodative but prudent monetary and fiscal policy mix focused on fiscal consolidation and maintaining the pegged exchange rate. Implementation of the new Economic Modernization Vision 2033 is essential to spur productivity and investment, address the job market woes, and improve the standard of living.

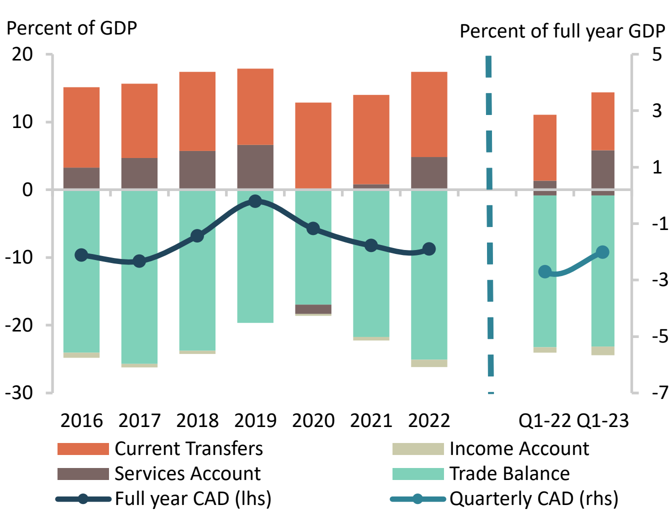
While no new official poverty rate has been released since 2018 it is likely that food price increases in 2022 have adversely affected the poorest and most vulnerable households. Further, recent cutbacks to humanitarian assistance for Syrian refugees are likely to have adverse welfare consequences, as these households are disproportionally likely to be poor and dependent on cash-assistance to supplement their livelihoods.

Risks from the global economy - including tighter financial conditions, a slowdown in trading partners' growth, continued geopolitical tensions and the associated impact on commodity prices – pose significant challenges for Jordan. Meanwhile, water and electricity sectors' financial sustainability remain a concern, and the country remains highly susceptible to extreme weather conditions, including rising temperatures and lower precipitation, which could aggravate water scarcity and food security risks.

Recent developments

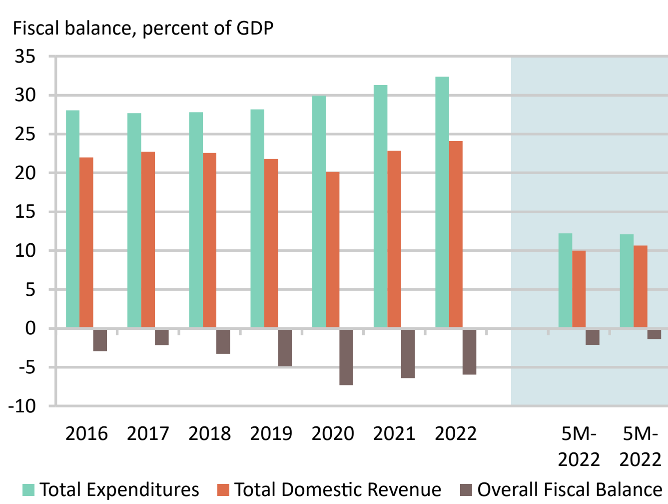
Growth reached 2.5 percent in 2022 and increased to 2.8 percent (y-o-y) during Q1-2023, yet labor market indicators remain weak. Growth was driven by services (transport and communications, finance and insurance, and wholesale and retail trade), a rebound in agriculture, and a robust contribution from manufacturing and mining. The restaurants and hotels sector grew by 5.6 percent in Q1, but its contribution to overall growth remains marginal (0.1 ppts) given its low weight in the economy (1.5 percent of GDP). Inflation decelerated to 2.5 percent on average in 8M-2023, reflecting the Central Bank of Jordan's monetary tightening and lower global commodity prices. Poor labor market indicators continue to constrain economic potential, with a low 33.3 percent labor force participation rate in Q1-2023 (13.7 percent for women). Unemployment has only slightly declined to 21.9 percent (from 22.8 percent in Q12022), with youth (46.1 percent) and women (30.7 percent) being the most affected.

FIGURE 1 Jordan / External accounts are boosted by travel receipts, but the trade balance remains largely in deficit



Sources: Central Bank of Jordan and World Bank staff calculations.

FIGURE 2 Jordan / Fiscal performance benefited from higher revenue and phasing out of fuel subsidies



Sources: Ministry of Finance and World Bank staff calculations.

The Central Government fiscal deficit reached 5.8 percent in 2022, supported by revenue-enhancing reforms, while total expenditure grew at a slower pace. It continued to improve in H1-2023, narrowing by 0.5 percent of GDP compared to H1-2022, and showing a primary surplus of 0.4 percent for the first time since 2017. This was driven by an increase in revenue and lower subsidy spending in H1-2023. Capital expenditures witnessed a marked increase of 0.4 ppts of GDP. Government and guaranteed debt reached JD39.7 billion in June, compared to JD38.49 billion (114.2 percent of GDP) at end-2022, or 91.0 percent net of SSIF holdings (i.e., general government coverage).

The BOP registered a deficit of 1.6 percent of GDP in 2022, compared to a 5.3 percent surplus in 2021, impacted by the large increase in the current account deficit. The CAD reached 8.7 percent of GDP in 2022, but improved in Q1-2023 (down to 2.0 percent of GDP, from 2.7 percent), helped by a marked pickup in travel receipts. The trade deficit narrowed during H1-2023, mainly driven by a 4.8 percent contraction in imports. With the decline in FDI (from 0.8 percent of GDP to 0.5 percent in Q1) and other investments (from 1.3 percent of GDP to 0.9 percent), the BOP registered a deficit of 1.5 percent of GDP compared to 0.4 percent of GDP in Q1-2022.

Outlook

Growth is expected to inch up to 2.6 percent in 2023, supported by a strong contribution from services. Without a strong reform momentum, growth is expected to settle at around 2.5 percent starting 2024, as base effects from post-pandemic recovery fade away. Headline inflation is anticipated to be contained at 2.4 percent in 2023, supported by favorable base effects, lower imported commodity prices, and muted core inflation.

While the recovery of tourism and other services is expected to support wage incomes, large socioeconomic vulnerabilities persist. Limited private sector job creation, segmented labor markets, high informality, and low labor productivity continue to suppress households' real income growth. Moreover, cuts in cash transfers to refugees due to declining foreign assistance are likely to have an adverse impact on poverty, food security, and indebtedness levels.

Fiscal consolidation is expected to continue in 2023, supported by the decline in subsidies and the growing domestic revenues. Together with the containment of public wage bill growth, this will offset the impact of higher interest payments and capital expenditures. Nevertheless, fiscal pressures from the water and electricity sectors are expected to increase public debt to 116.0 percent of GDP (equivalent to 91.1 percent of GDP after excluding SSIF holdings) at end-2023.

On the external front, the CAD is expected to narrow to 7.6 percent of GDP in 2023, driven by an improved trade balance partly due to lower commodity prices and increased tourism receipts. These will more than offset the impact of lower grants, the slowdown of remittances growth, and higher primary income payments.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-1.6	2.2	2.5	2.6	2.5	2.5
Real GDP growth, at constant factor prices	-1.3	2.2	2.5	2.7	2.5	2.5
Agriculture	1.3	2.8	3.3	3.7	2.4	2.4
Industry	-2.1	3.1	3.3	3.1	2.2	1.5
Services	-1.2	1.8	2.2	2.4	2.7	3.0
Inflation (consumer price index)	0.3	1.3	4.2	2.4	2.4	2.4
Current account balance (% of GDP)	-5.7	-8.2	-8.7	-7.6	-5.9	-5.1
Net foreign direct investment inflow (% of GDP)	1.7	1.3	2.4	2.2	2.4	2.8
Fiscal Balance (% of GDP)[a]	-7.1	-6.4	-5.8	-5.1	-5.0	-4.8
Revenues (% of GDP)	22.7	25.4	26.5	26.6	26.7	26.8
Debt (% of GDP)[b]	106.8	111.7	114.2	116.0	117.1	118.2
Debt, net of SSIF (% of GDP)[b]	87.0	89.8	91.0	91.1	90.8	90.3
Primary Balance (% of GDP)[a]	-3.1	-2.0	-1.6	-0.6	-0.1	0.2
GHG emissions growth (mtCO2e)	-3.7	3.2	3.3	3.1	2.4	2.8
Energy related GHG emissions (% of total)	62.4	62.1	61.3	60.9	60.7	60.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ CG fiscal balance incl. grants and adjustment on receivables and payables (use of cash) as per IMF Country Report No. 23/49.
b/ Government and guaranteed gross debt. Includes securitization of domestic arrears in 2019-21.

KUWAIT

Table 1	2022
Population, million	4.3
GDP, current US$ billion	168.7
GDP per capita, current US$	39527.0
School enrollment, primary (% gross)[a]	82.6
Life expectancy at birth, years[a]	78.7
Total GHG emissions (mtCO2e)	155.2

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

Kuwait's economy is expected to slow down sharply in 2023, after performing strongly in 2022, and stabilize over the medium term. The projected economic slowdown is driven by the sluggish global economic activity and OPEC+ cautious production schedule. Lower energy prices and fiscal expansion will narrow fiscal balance. Fiscal support measures, tight monetary policy, and falling import prices will keep inflation subdued. Key downside risks to the outlook include global uncertainty, oil price volatility, and continued political deadlock over key reforms.

Key conditions and challenges

Kuwait's long-term economic challenges are linked to its heavy oil dependence, domestic consumption as a main growth driver, and a slow pace in diversification and structural reforms. Meanwhile, the nation's economic resilience is anchored by significant foreign assets in its sovereign wealth fund (KIA), ranking among the world's largest. Nevertheless, these assets cannot shield against the potential decline in future oil demand. Addressing this risk requires comprehensive fiscal and structural reforms. Resolving political deadlock between Parliament and government, coupled with ensuring governance stability may expedite economic diversification and timely reform implementation. Anticipated robust oil prices over the medium-term could still play a key role in financing economic transition and foster sustainable, inclusive, and green growth.

Key risks include oil production and oil price volatility, global economic slowdown, monetary tightening, geopolitical uncertainty, and climate change. Delays in fiscal and structural reforms, along with slow progress towards diversifying the economy, could slow up growth in both the oil and non-oil sectors and significantly affect fiscal and external balances. Direct adverse economic spillovers from the Russian invasion of Ukraine have been contained in Kuwait due to limited financial linkages and trade flows between the two countries.

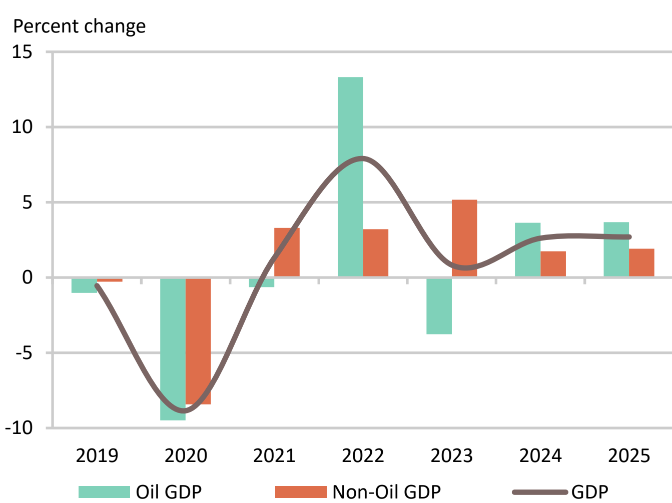
Recent developments

After strong economic performance of 7.9 percent in 2022, driven by robust oil sector performance (13.3 percent), Kuwait's economic growth declined sharply. During H1-2023, economic growth slowed mainly due OPEC+'s agreement of cutting production quotas, higher interest rates, and global uncertainties. In June 2023, oil sector output declined to its lowest level in the past 18 months. Non-oil sector sustained its growth during H1-2023 supported by domestic and external demand, elevated oil prices, high government spending, and restoration of pandemic-disrupted projects. Although private sector credit experienced the fastest growth in 7 years at 7.7 percent during 2022, credit growth for households and businesses slowed in H1-2023 to reflect rising borrowing costs. To resolve the chronic housing problem, the government introduced measures that include a four-year action plan for lot distribution and building permits.

Monetary policy tightening, along with generous government subsidies on food and energy, eased inflationary pressures during 2023, reaching 3.8 percent during Q2-2023.

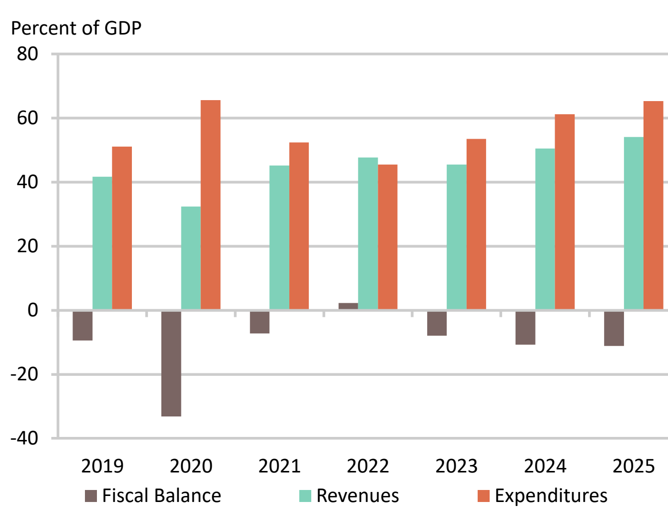
In 2022, supported by robust oil production and prices, the fiscal balance registered a surplus of 2.2 percent of GDP. However, the FY23/24 budget, approved

FIGURE 1 Kuwait / Annual real GDP growth



Sources: Kuwait CSB, IMF WEO, and World Bank staff estimates.

FIGURE 2 Kuwait / Public finance



Sources: World Bank, MTI Global Practice, and IMF WEO.
Notes: Based on the fiscal year cycle (April to March 31). Fiscal balances exclude investment income and FGF transfers.

by Parliament in August 2023 based on an oil price assumption of US$70 per barrel and 2.68 million barrels per day production, projects KWD 6.8 billion deficit. Expenditure increase is due to past one-off arrears settlement and higher wage and social security allocations, is partially offset by the new "income generated by GREs" revenue item. To improve fiscal sustainability, the government renewed Vision 2035 objectives, revealing a medium-term strategy in 2023, and pursued enhanced public financial management measures.

The banking system remain well capitalized and liquid. Overall financial stability is maintained as nonperforming loans remain low (1.6 percent in Q2-2023) while credit growth continues to be strong despite early signs of slowing down. Following global monetary tightening, the Central Bank of Kuwait raised policy rates multiple times, reaching 4.25 percent in July 2023, with official reserve assets continuing to stay at their comfortable levels. The current account surplus, which registered 26.3 percent of GDP in 2022, narrowed during H1-2023 at the back of softening oil receipts and easing global demand.

Kuwait's labor market continues to recover from the impact of the pandemic, although many indicators have not yet rebounded to their pre-pandemic levels. The labor force participation rate was projected to increase slightly to 71.7 percent in 2023 (ILO) but remains about 1.3 percentage points lower than in 2019. The employment-to-population ratio in 2023 was also expected to increase slightly to 69.9 percent overall and to 45 percent among females, remaining about 1.6 and 0.7 percentage points lower than in 2019, respectively. Unemployment rates were projected to remain relatively steady in 2023 at 1.2 percent among men and 6.4 percent among women, still higher than the 2019 rates by 0.2 and 0.6 percentage points, respectively. Unemployment has been especially high among young women (aged 15-24), estimated at 29.4 percent for 2023.

Outlook

Economic growth is projected to decelerate sharply to 0.8 percent in 2023 due to a decrease in oil output, monetary tightening, and sluggish global economic activity. Following tighter OPEC+ production quotas and reduced global demand, oil GDP growth is expected to decline by 3.8 percent in 2023 but is anticipated to recover in 2024 as production quotas are relaxed—supported by higher activity from the Al Zour refinery. Considering recent developments, it is anticipated that political uncertainties will persist, potentially delaying the rollout of new infrastructure projects and further advancement of the reform agenda. Non-oil sector is projected to grow by 5.2 percent supported by private consumption and loose fiscal policy. High subsidies, tighter monetary policy, and declining global commodity prices will keep inflation contained at 3.3 and 2.4 percent in 2023 and 2024, respectively. Monetary policy is expected to maintain a close alignment with the US Federal Reserve, considering the predominant role of the US dollar in the Kuwaiti Dinar's pegged basket. Concurrently, domestic credit growth is projected to moderate reflecting the higher costs of borrowing.

In 2023, lower oil revenue and loose fiscal policy will result in a fiscal deficit of 8 percent of GDP (excluding investment income and FGF transfers). This trend is likely to persist in the medium term given the ongoing expansionary fiscal policy. The implementation of the economic diversification program, alongside the introduction of VAT, in line with other GCC countries, and timely fiscal consolidation measures, could help diversify revenues and strengthen fiscal sustainability. Lower oil revenues and import prices are anticipated to narrow current account surplus in 2023 and in the medium term.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-8.9	1.3	7.9	0.8	2.6	2.7
Private consumption	-4.5	3.2	4.8	2.7	2.5	2.3
Government consumption	0.0	1.1	2.0	2.2	2.6	2.3
Gross fixed capital investment	-4.6	3.9	4.4	2.1	2.5	2.9
Exports, goods and services	-13.3	2.2	12.0	0.8	2.8	3.1
Imports, goods and services	-4.0	5.7	5.3	4.1	2.7	2.9
Real GDP growth, at constant factor prices	-8.9	1.4	7.9	0.8	2.6	2.7
Agriculture	-3.8	0.5	1.1	0.8	1.3	1.3
Industry	-12.2	2.2	8.3	1.3	3.3	3.3
Services	-4.2	0.4	7.3	0.1	1.6	1.9
Inflation (consumer price index)	2.1	3.4	4.3	3.3	2.4	2.1
Current account balance (% of GDP)	3.2	16.0	26.3	23.1	19.1	15.2
Fiscal Balance (% of GDP)[a]	-33.2	-7.3	2.2	-8.0	-10.7	-11.2
GHG emissions growth (mtCO2e)	5.0	0.0	8.2	3.4	4.8	6.4
Energy related GHG emissions (% of total)	65.7	64.8	64.2	62.0	60.1	58.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Based on fiscal year cycle (April to March 31). Fiscal balances exclude investment income and FGF transfers.

LEBANON

Table 1	2022
Population, million	5.5
GDP, current US$ billion	21.0
GDP per capita, current US$	3823.9
National poverty rate[a]	27.4
Gini index[a]	31.8
Life expectancy at birth, years[b]	75.0
Total GHG emissions (mtCO2e)	24.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2011).
b/ Most recent WDI value (2021).

Eleven months into a Presidential vacuum and with a caretaker government and acting central bank governor in place, progress towards a comprehensive crisis resolution plan has been limited. The contraction in real GDP in 2022 is estimated to have narrowed to 0.6 percent amid signs of stabilization in private sector activity and better-than-expected real activity indicators. Triple digit inflation and currency depreciation show no sign of abating, inducing a pervasive and growing dollarized cash-based economy. Inflation averaged 171.2 percent in 2022 and is projected to reach about 231 percent in 2023. Subject to uncertainty, real GDP is projected to exhibit a tepid growth of 0.2 percent in 2023.

Key conditions and challenges

Lebanon's protracted crisis will likely have a long-lasting effect on potential growth. The scale and scope of the financial crisis is reducing Lebanon's potential for growth as the country's physical, human, social, and institutional capital are being rapidly, and potentially, irreparably depleted. A highly polarized political landscape, a caretaker government with restricted executive powers, an interim central bank governor (the first deputy governor of the Central Bank) in the absence of a successor to the former Central Bank governor following the end of his 30-year tenure, and limited legislative action by parliament have all markedly slowed the progress needed for a comprehensive crisis resolution plan.

Foreign currency reserves at the central bank are steadily depleting. The insolvency of the banking sector and its inability to extend credit have rendered the Banque du Liban (BdL) the main financier of external and fiscal deficits in the past four years. Usable gross foreign exchange reserves at BdL currently stand at US$8,573 mln and have declined by US$22.4 bn since the onset of the crisis in October 2019. Lebanon has also relied on limited external financing and the 2021 IMF SDR allocation to finance critical imports such as medicine and wheat.

Lebanon topped the list of countries that are hardest hit by nominal food price inflation in the first quarter of 2023. Nominal food price inflation stood at 350 percent over the period of January to April 2023. Soaring food prices following the Russian invasion of Ukraine are forcing households to adopt extreme livelihood coping measures and exacerbating the precarity of the conditions among the poorest and most vulnerable segments of society.

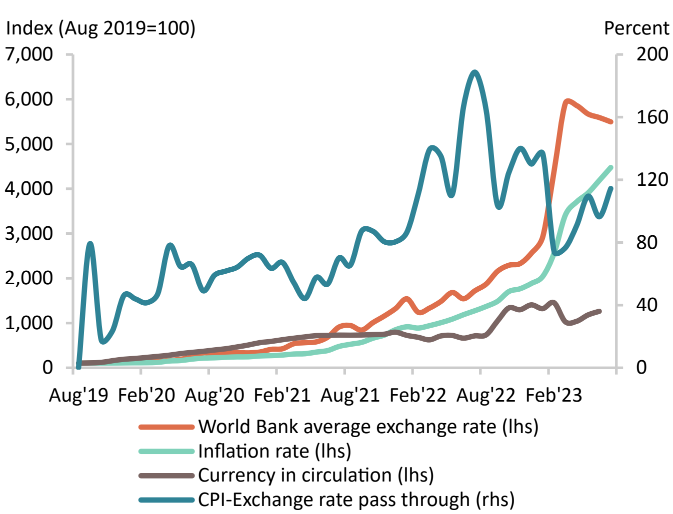
Preliminary data from the 2022-2023 Lebanon Household Survey (LHS) suggests that poverty continues to rise and household living conditions continue to deteriorate. The LHS is ongoing, with over 5,200 households interviewed to date. Around three out of every five households considered themselves to be poor or very poor. Households that do not receive any form of private remittances are even more likely to feel impoverished.

Recent developments

Real GDP contraction is estimated to have narrowed to 0.6 percent in 2022 (up from a previous estimate of 2.6 percent owing to better-than-expected recent high frequency indicators data). Tourism receipts and remittances, which form a de facto safety net, supported domestic consumption in 2022. The growth in consumption coupled with signs of stabilization in private sector activity are the main drivers of the narrowing contraction in economic activity.

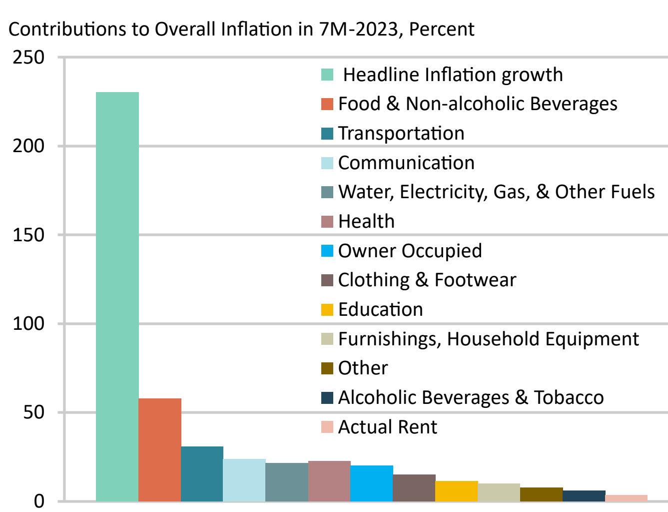
The fiscal deficit stood at 2.9 percent of GDP in 2022. Revenues are estimated to have declined from an already low

FIGURE 1 Lebanon / Exchange rate depreciation drives the surge in inflation



Sources: Lebanese authorities and World Bank staff calculations.

FIGURE 2 Lebanon / Inflation in basic items has been a key driver of overall inflation, hurting the poor and the middle class



Sources: Lebanese authorities and World Bank staff calculations.

13.1 percent of GDP in 2020 to 6.1 percent of GDP in 2022, one of the lowest rates globally. Revenues were more than offset by an increase in total expenditures (including off-budget spending) that is driven by a slight increase in personnel costs owing to the social assistance schemes for public sector employees, transfers to Électricité du Liban, and other current expenditures, including the wheat subsidy. The new interim governor of the Central Bank has also announced that the Central Bank will no longer finance the fiscal deficit in the absence of a legal framework. If implemented, the halt of BDL financing of the fiscal deficit, along with the implementation of planned revenue mobilization measures (correcting the mis-valuation in the exchange rate for customs and taxes) are likely to narrow the overall fiscal and primary deficits in 2023.

The pace of the exchange rate depreciation has moderated due to BdL's foreign exchange rate interventions coupled with an increase in foreign exchange inflows from tourism services and remittances. The exchange rate has now stabilized at around 90,000 LBP/US$ since July 2023, however, the currency lost more than 98.3 percent of its pre-crisis value by July 2023. The depletion in gross foreign currency reserves implies that the scope for further foreign exchange intervention by BdL is limited and that any exchange rate stability may be short-lived.

Inflationary pressures have not abated, averaging 171.2 percent in 2022, one of the highest rates globally, primarily due to the depreciation of the LBP. Year-on-year inflation stood at 251.5 percent in July 2023 with food and alcoholic beverages as the largest contributor to headline inflation in 7M-2023.

The current account deficit is estimated to have reached a staggering 32.7 percent of GDP on the back of higher imports and falling exports. Imports reached pre-crisis levels in 2022, at a record US$19 billion, growing by close to 40 percent in 2022 (y-o-y). The current account deficit continues to be financed, for the most part, by the remaining usable gross reserves of BdL and a pervasive cash-based economy. The quality of BoP data in Lebanon remains historically weak. Nonetheless, the current account deficit is expected to narrow in 2023, owing to an anticipated decrease in imports of goods and services, and the planned halt of BDLs financing of the fiscal deficit, which is expected to reduce the drain on the balance of payments and BdL's remaining gross reserves.

Outlook

Subject to extraordinarily high uncertainty and assuming a continuation of political paralysis in 2023, real GDP is projected, for the first time in 5 years, to expand with a tepid growth of 0.2 percent in 2023. Growth in consumption supported by tourism, remittances and a stabilization in private sector activity will underpin modest growth in 2023. Inflation, however, is expected to remain in triple digits, accelerating to 231.3 percent in 2023.

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

	2020	2021	2022	2023e
Real GDP growth, at constant market prices	-21.4	-7.0	-0.6	0.2
Private consumption	-14.0	2.1	2.3	0.3
Government consumption	-53.7	-76.0	34.9	-19.3
Gross fixed capital investment	-53.0	-67.6	-88.6	-59.4
Exports, goods and services	-53.7	13.1	0.3	4.1
Imports, goods and services	-46.0	-12.2	3.5	-0.3
Real GDP growth, at constant factor prices	-15.9	-5.3	-0.6	0.2
Agriculture	0.6	-7.1	-0.8	0.2
Industry	-6.5	-6.9	-0.6	0.2
Services	-18.3	-4.9	-0.6	0.2
Inflation (consumer price index)	84.3	150.0	171.2	231.3
Current account balance (% of GDP)	-9.3	-12.5	-32.7	-12.8
Net foreign direct investment inflow (% of GDP)	4.1	2.1	7.6	2.6
Fiscal balance (% of GDP)	-3.3	1.0	-2.9	-1.3
Revenues (% of GDP)	13.1	7.5	6.1	8.8
Debt (% of GDP)	179.2	172.5	179.7	181.3
Primary balance (% of GDP)	-0.8	1.9	-2.1	-0.3
GHG emissions growth (mtCO2e)	-19.4	-7.1	-8.2	-3.3
Energy related GHG emissions (% of total)	72.4	74.3	73.7	73.3

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

LIBYA

Table 1	**2022**
Population, million	6.8
GDP, current US$ billion	45.8
GDP per capita, current US$	6725.0
School enrollment, primary (% gross)[a]	109.0
Life expectancy at birth, years[a]	71.9
Total GHG emissions (mtCO2e)	123.5

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

Although high oil prices have provided an economic relief; conflict and political divisions continue to negatively affect Libya's economy and society. Libya's key socio-economic challenges are economic diversification, inclusion, improved wealth sharing, and addressing the underpinning factors of the country's fragility and fragmentation. The recent floods that devastated cities and communities in the Green Mountain area of the country threaten to accentuate these challenges and call for a strong response from Libyan institutions and their international partners.

Key conditions and challenges

The security situation has improved but remains uncertain, with sporadic, and in part strong clashes, between armed groups in various regions, including Tripoli in August 2023. The formation of the Government of National Unity (GNU) in 2021 was seen as a step towards political resolution. However, the absence of national elections and the creation of the competing Government of National Stability (GNS) in 2022, accentuated divisions. UN-mediated efforts to reach political consensus on an electoral roadmap have yet to yield the desired results.

Libya faces significant structural economic challenges that extend beyond its current political situation. The Libyan economy is dominated by the oil sector and undiversified. The private sector remains underdeveloped - accounting for only 4 to 15 percent of GDP - and employing just 15 percent of the workforce. The IMF concluded article IV in June 2023, thereby resuming its engagement on macroeconomic and structural policies after ten years of interruption.

Social conditions have deteriorated due to high unemployment, regional income disparities, and poor basic infrastructure and services. The unemployment rate has risen steadily since 2012 to 20.5 percent in 2023, according to modeled estimates, with higher rates among women (26.7 percent vs. 17 percent men) and youth (51 percent). About 4 percent of the population needed humanitarian assistance before the devastating floods of September 10, 2023.

Recent developments

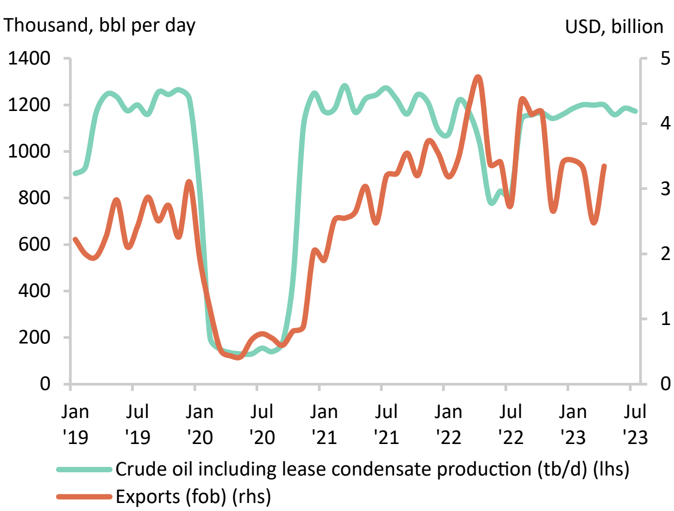
During the first semester 2023, oil production increased by 12 percent on an annual basis to 1.19 million bpd but remained below the 2010 level (1.71 million bpd). Following the authorities' call, three large oil companies which had suspended their activities due to security reasons resumed production in August 2023.

Libya's trade surplus during the initial four months of 2023 has contracted by 40.3 percent in nominal terms compared to the same period in 2022. This is due to lower international oil prices, which led to a 20 percent reduction in export revenues. On the other hand, imports grew by 6.4 percent driven by the recovery of domestic demand.

The CBL announced the institutional reunification of all branches in August 2023. The CBL branch in the eastern part of the country has been operating independently since 2014, providing financing to the administration in the East. However, only the CBL branch in Tripoli could provide letters of credit throughout this period.

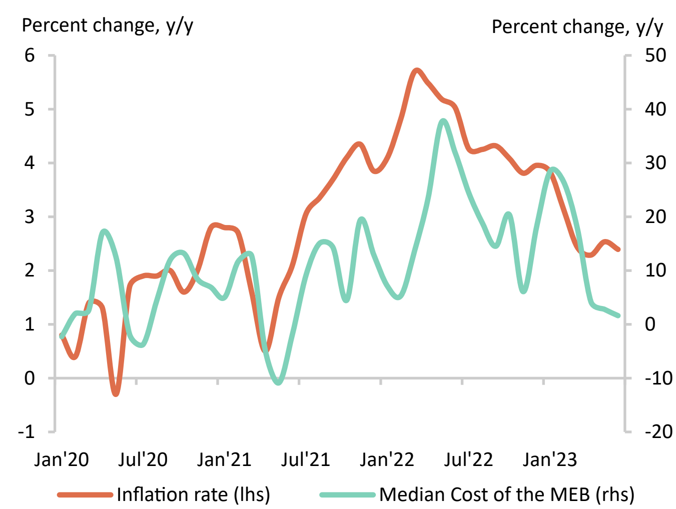
Inflation decelerated from the peak of 5.7 percent in March 2022 to 2.4 percent in June 2023 thanks to the stabilization of international food prices and the exchange rate. The gap between the black market and official rates narrowed to only

FIGURE 1 Libya / Oil production and exports



Sources: Organization of the Petroleum Exporting Countries (oil production) and IMF Direction of Trade Statistics (exports).

FIGURE 2 Libya / The median cost of minimum expenditure basket (MEB) and official inflation rate in the region of Tripoli



Sources: Central Bank of Libya, REACH, and World Bank staff calculations.

7 percent compared to 325 percent before the devaluation of the dinar in 2021.

The fiscal surplus of the GNU stood at 3.7 percent of GDP during the first eight months of 2023 compared to 9.6 percent of GDP during the same period in 2022. Lower capital spending (-18 percent) limited the impact of the 54 percent increase in public wages. Low public investment is a key challenge for the reconstruction and maintenance of public infrastructure and services. While the House of Representatives approved a budget to benefit the Benghazi-based GNS in September 2023, the implementation process is unclear since the GNS does not have access to the government accounts at the CBL.

In the night from September 10 to September 11, 2023, two dams in the eastern part of Libya collapsed after a severe storm. This released millions of cubic meters of water downstream causing extensive flooding, with the city of Derna being most severely affected. The UN estimates that as of September 20, up to 3,958 people have died and 9,000 persons are missing; other sources estimate casualties as high as 20.000. Derna is one of the poorest regions in Libya highlighting the risks of increased poverty and vulnerability.

Outlook

Assuming that the relative stability is maintained in 2023, growth is projected to rebound to 14.1 percent as strong hydrocarbon production pulls industrial activity (+11.3 percent). On the demand side, growth is driven by an increase in government wages that stimulate services growth (+18.7 percent).

In the short- and medium-term, the stabilization of oil production, still high oil prices, and possible reunification of the CBL are expected to boost growth. The economy is expected to grow at a steady pace of 4.7 percent in 2024 and 4.8 percent in 2025.

Inflation is projected to continue to moderate thanks to a stable exchange rate and less volatile global commodity prices.

The fiscal surplus in 2023 is estimated to reach 14.4 percent of GDP assuming that the revenue and spending dynamics in the first half of the year are maintained. Over 2024-2025, the fiscal surplus is projected to decline in line with oil prices and the possible increase of public investment.

The current account surplus is projected to decline from 21 percent of GDP in 2022 to 7.8 and 3.9 percent of GDP in 2023 and 2024 due to lower oil prices and strong imports driven by rebounding public investment.

This outlook is subject to substantial uncertainty and downside risks. On the security front, recent clashes in Tripoli underscore the fragility of the situation. Further heightening the landscape of risks is the potential deceleration of the Chinese economy, which carries with it consequential ramifications for the global oil market.

These projections do not take account of the impacts of the recent Derna flooding. Given preliminary information, the catastrophe is expected to have significant socio-economic implications. It caused extensive damage to infrastructure, impacting the supply of essential goods and services, and potentially leading to increased diseases and food insecurity. However, hydrocarbon production was not affected as oil fields are far from the affected areas and exporting ports reopened after a brief closure. Although the agricultural sector, accounts for a small part of the GDP, the loss of arable land and water resources is expected to affect the local population, and potentially migrants, and refugees. The government quickly announced an allocation of LYD 2 billion for reconstruction and an emergency cash transfer program is under consideration.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-29.8	31.4	-1.2	14.1	4.1	4.3
Real GDP growth, at constant factor prices	-29.8	31.4	-1.2	14.1	4.7	4.8
Agriculture	-30.1	31.4	10.0	6.8	5.9	6.7
Industry	-34.6	45.0	-9.9	11.3	0.6	0.6
Services	-21.1	11.1	15.0	18.7	10.5	10.2
Inflation (consumer price index)	1.4	2.8	4.6	2.4	2.4	2.4
Current account balance (% of GDP)	-9.8	13.9	21.0	7.8	3.6	3.9
Fiscal balance (% of GDP)	-35.2	11.0	2.5	14.4	7.2	-1.5
Revenues (% of GDP)	35.4	58.8	59.0	43.9	40.7	37.4
Debt (% of GDP)	238.2	87.0	70.4	54.7	51.2	55.0
Primary balance (% of GDP)	-35.2	11.0	2.5	14.4	7.2	-1.5
GHG emissions growth (mtCO2e)	-11.0	14.4	-4.2	0.8	2.6	2.4
Energy related GHG emissions (% of total)	28.0	36.0	31.8	31.2	32.4	33.3

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

MOROCCO

Table 1	2022
Population, million	37.5
GDP, current US$ billion	130.9
GDP per capita, current US$	3494.9
National poverty rate[a]	4.8
Lower middle-income poverty rate ($3.65)[a]	9.8
Gini index[a]	39.5
School enrollment, primary (% gross)[b]	113.4
Life expectancy at birth, years[b]	74.0
Total GHG emissions (mtCO2e)	96.3

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

Economic activity is recovering as recent shocks dissipate. Growth is projected to accelerate further in 2024 as inflation declines and domestic demand recovers. Preliminary information suggests that despite the dramatic consequences of the September 8th earthquake on the lives and livelihoods of the affected population, its macroeconomic effects are unlikely to be major if impacts on tourism are temporary. Moroccan households continue to face high food inflation, rural employment has not fully recovered from the drought, and confidence levels are low.

Key conditions and challenges

Morocco´s external resiliency has been relatively strong in the face of multiple global disturbances such as the COVID-19 pandemic and the war in Ukraine. The country has sustained a stable currency, reinforced its external liquidity buffers, maintained good access to international financial markets, and continued to attract large volumes of FDI. It has also had remarkable success in tradeable sectors, including the rapid growth of its automotive industry, the consolidation of the Tangier port as a leading logistical hub, or the transformation of the phosphate sector into a major provider of fertilizers for Africa.

And yet, the performance of the Moroccan economy has been undermined by structural weaknesses. GDP growth has been volatile and followed an overall declining trend, aggravated by the increasing frequency of severe droughts. Private investment has yet to return to pre-pandemic levels, and the public sector remains the dominant investor in the economy. The recent earthquake highlights the persistence of pockets of poverty and exclusion, partly fueled by a labor market that is not creating enough jobs for women and the youth. The government is engaged in an ambitious reform program to address some of these challenges. It aims at reinforcing human capital by universalizing access to health and social protection and improving the quality of education. The new Mohamed VI investment fund and the recently approved investment charter aim at supporting a private sector-led, job-creating growth model. The SOE governance reforms are aimed at improving the strategic management and performance of the public sector. The successful implementation of these reforms will be crucial to place Morocco on a stronger and more inclusive growth path.

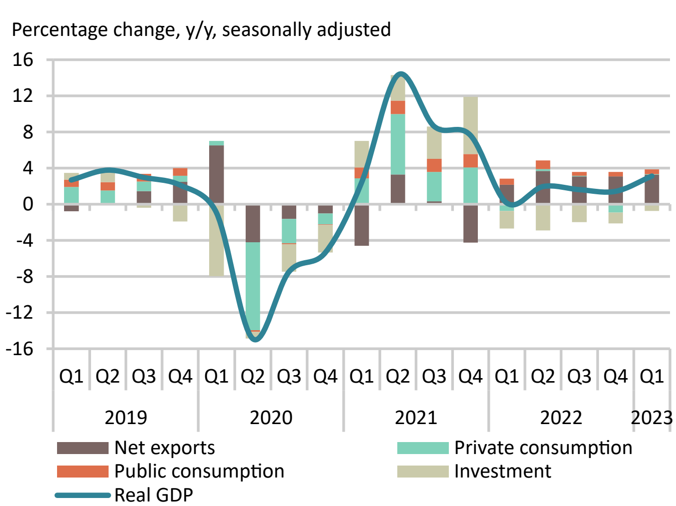
Recent developments

After a sharp deceleration in 2022, Morocco's real GDP expanded by 3.5 percent in the first quarter of 2023. This was partly due to a base effect, as agricultural output began to recover from last year's drought. It is also explained by the 5.4 percent expansion of the services sector, boosted by a rebound in tourism. On the demand side, net exports have become the main contributor to growth despite a weakening global economy. Together with strong workers' remittances, this resulted in a small current account surplus in the first quarter of 2023, after last year's deficit of 3.5 percent of GDP.

After peaking at 10.1 percent in February, annual inflation has declined to 4.9 percent in July, mostly due to lower fuel prices. The central bank has hence decided to pause the monetary policy tightening cycle after three hikes starting in September 2022 for a cumulative 150 basis points, up to 3 percent. With two-year inflation expectations at 4.7 percent, the policy rate remains negative in real terms.

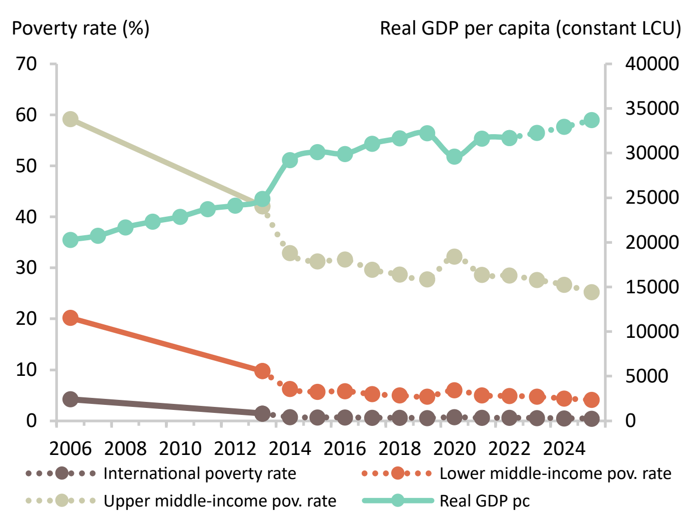
Public revenues have continued to grow steadily, while subsidies have mechanically

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



Sources: HCP and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

declined together with butane gas prices. This windfall has not yet reduced the deficit in 2023, up by 9 percent in the first seven months of the year compared with the same period of 2022, reflecting strong spending as the government rolls out key reforms, injects liquidity in SOEs, and addresses the water crisis.

Despite the acceleration of growth, recent shocks continue to have pronounced impacts on welfare. At 11.7 percent, food inflation remains high, disproportionately affecting the poor. Household consumption contracted by 0.6 percent in 2022 and stagnated in the first quarter of 2023. Net job creation is negative in rural areas, where poverty levels are higher. The HCP household confidence index is at its lowest level since it began being produced in 2008. Approximately 250 thousand people reside in the areas that are most affected by the earthquake, mostly in rural and impoverished mountainous villages. The earthquake claimed close to 3,000 lives.

Outlook

GDP growth is expected to accelerate to 2.8 percent in 2023 and to firm up to 3.3 percent in 2024. A full assessment of impacts was not available at the time of writing to incorporate the effects of the recent earthquake into these projections. However, preliminary information suggest that macroeconomic impacts will be moderate, channeled mostly through tourism, which could reduce GDP growth by up to 0.3 percentage points in 2023. The agricultural sector should contribute to the acceleration, as key crops gradually recover from last year´s drought and return to average levels in 2024. Services will remain a major contributor to growth on the back of a buoyant tourism sector, expected to recover relatively fast from the impact of the earthquake. The performance of the manufacturing sector will be tempered by weak global conditions and a construction slowdown. Domestic demand is forecasted to begin recovering from recent shocks, supported by an improvement in labor market conditions, remittances, and the gradual moderation of inflation.

Together with the fading terms-of-trade shock related to the war in Ukraine, growing tourism and remittances inflows will also contribute to reduce the current account deficit to 1.3 percent of GDP in 2023, which would widen to 2.6 percent of GDP in 2024 as domestic demand recovers.

Despite its temporary increase in the first months of 2023, the budget deficit is projected to moderately decline to 4.6 percent of GDP this year thanks to solid revenue collection. The new family allowances program to be deployed at the end of this year will exert pressure on public spending in 2024, but the envisaged price subsidy reform and the government´s asset monetization operations should keep the deficit on a downward path, stabilizing the debt ratio below 69 percent of GDP.

After years of deterioration and more recently, stagnation, extreme and moderate poverty are projected to resume their slow decline in 2023, returning to their pre-pandemic level. However, distribution neutral projections probably underestimate the welfare impact of inflation, which disproportionally hits the bottom of the distribution, as did the earthquake. More realistically, poverty may have increased in rural areas, also affected by continued job losses. With inflation receding, the gradual rollout of the social protection reform, and the announced temporary cash transfer targeted to the victims of the earthquake, poverty is expected to decrease more decisively starting in 2024.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-7.2	8.0	1.3	2.8	3.1	3.3
Private consumption	-5.6	6.9	-0.7	1.0	2.1	2.7
Government consumption	-0.6	7.2	3.3	3.4	3.6	3.3
Gross fixed capital investment	-10.0	7.6	-2.2	1.6	2.0	2.4
Exports, goods and services	-15.0	7.9	20.4	10.8	6.9	10.9
Imports, goods and services	-11.9	10.4	9.0	6.4	4.8	8.4
Real GDP growth, at constant factor prices	-7.0	7.8	1.0	2.8	3.1	3.3
Agriculture	-7.1	19.0	-12.7	1.5	5.7	3.1
Industry	-5.2	7.1	-1.7	0.3	2.0	2.5
Services	-7.9	5.8	5.4	4.0	3.1	3.5
Inflation (consumer price index)	0.7	1.4	6.6	6.2	3.8	2.8
Current account balance (% of GDP)	-1.2	-2.3	-3.5	-1.3	-2.6	-2.2
Net foreign direct investment inflow (% of GDP)	0.8	1.1	1.2	1.5	1.5	1.4
Fiscal balance (% of GDP)	-7.1	-6.0	-5.2	-4.6	-4.1	-3.6
Revenues (% of GDP)	27.0	25.3	27.0	27.6	27.4	27.0
Debt (% of GDP)	72.2	69.5	71.6	69.7	69.0	68.5
Primary balance (% of GDP)	-4.7	-3.7	-3.0	-1.9	-1.5	-1.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.7	0.6	0.6	0.6	0.5	0.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	6.0	5.0	4.9	4.7	4.4	4.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	32.2	28.7	28.5	27.6	26.7	25.2
GHG emissions growth (mtCO2e)	-4.1	5.1	4.8	3.5	2.7	2.8
Energy related GHG emissions (% of total)	72.8	73.9	75.2	76.0	76.5	76.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2013-ENCDM. Actual data: 2013. Nowcast: 2014-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2013) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

OMAN

Table 1	2022
Population, million	4.6
GDP, current US$ billion	114.7
GDP per capita, current US$	25056.7
School enrollment, primary (% gross)[a]	104.1
Life expectancy at birth, years[a]	72.5
Total GHG emissions (mtCO2e)	119.7

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

Following a strong 2022 performance, Oman's economic growth is set to slowdown this year reflecting OPEC+ output cut and moderation in non-hydrocarbon activities. Despite this downturn, the outlook continues to be encouraging driven by increased production capacity and accelerated implementation of structural reforms. Thus, fiscal and external balances are projected to remain in surplus but to moderate in the medium term. Tighter global financial conditions and fluctuating energy prices remain key risks to the outlook.

Key conditions and challenges

Oman's economy continues to perform well supported by high oil prices and fiscal consolidation under the authorities' Medium-Term Fiscal Plan (MTFP) and Vision 2040. Higher than expected hydrocarbon windfalls and fiscal measures have boosted fiscal and external positions. The authorities succeeded in utilizing the hydrocarbon windfalls to reduce government debt to less than 42 percent of GDP in 2022—from over 61 percent of GDP in 2021. State-Owned Enterprises (SOEs) debt has markedly declined by 12 percentage points of GDP in 2022 (IMF), with risks mitigated by the considerable assets under Oman Investment Authority (OIA) and advancing governance and efficiency reforms.

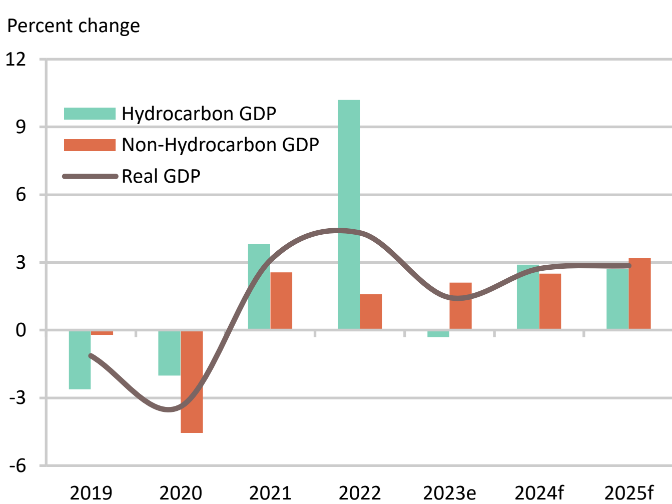
The government continues to reveal plans to boost the economy including setting up Oman Future Fund of OMR2 billion (US$5.2 billion) in May 2023, allocating a percentage of its capital to bolster investments in small, medium, and emerging businesses. Furthermore, Oman is also prioritizing investments in renewable energy and green hydrogen projects with aim to derive 30 percent of electricity from renewable sources by 2030, from 5.5 percent currently. In June 2023, the government signed three agreements worth US$20 billion to develop green hydrogen with the aim of becoming a global hub for green hydrogen production. Two more deals were signed in late August 2023 to supply 0.8 million metric tons of liquefied natural gas (LNG), which will further support economic activity and mitigate the impact of declining oil prices on fiscal and external balances.

However, challenges remain. Despite several reform initiatives, the economy remains dependent on the hydrocarbon sector which contributes heavily to both fiscal and export revenues. Volatility and unpredictability of oil prices could pose significant fiscal challenges, increase gross financing needs, and disrupt the government's reform program. Key risks to the outlook arise from the uncertainty surrounding the energy market, lower demand for hydrocarbons due to the global energy transition, and pressures to spend oil windfall, which could delay the implementation of fiscal adjustment and heighten financing risks in the medium term. On the upside, additional fiscal and diversification measures, accelerating production at the Duqm refinery project and increased foreign direct investments from regional partners, would spur growth and strengthen fiscal and external positions. A new labor law enacted in July 2023 is expected to increase Omani's employment in the private sector and help resolve the high youth unemployment challenge.

Recent developments

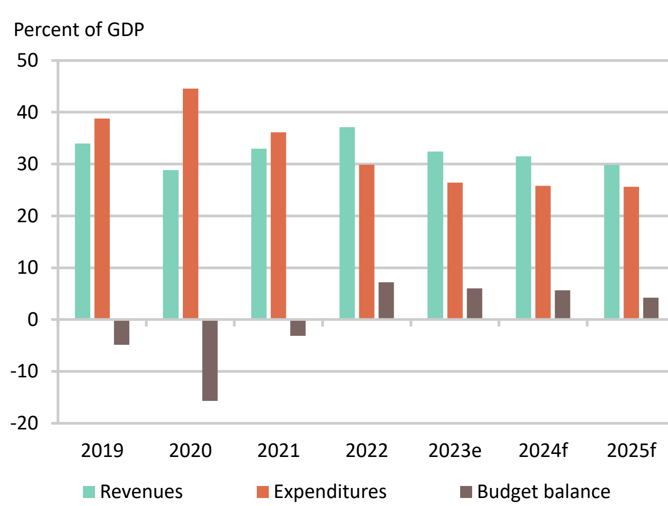
The real economy grew by 4.7 percent during Q1 2023 supported by the

FIGURE 1 Oman / Real annual GDP growth



Sources: Oman authorities, World Bank staff projections, and IMF projections.

FIGURE 2 Oman / General government operations



Sources: Oman authorities and World Bank staff projections.

non-hydrocarbon sector, which registered growth of 4.6 percent, to reflect the strong performance of industrial and services sectors. Meanwhile, the hydrocarbon sector grew by 3.5 percent as a result of significant natural gas activity. Average headline inflation eased from 2.8 percent in 2022 to 1.2 percent during the first eight months of 2023 y/y to reflect the drag from lower transportation and communication prices.

Public finance data reveals a decline in budgetary revenues, down by 6 percent during H1-2023, as a result of moderating global energy prices. In parallel, public spending declined by 4 percent during the same period, to reflect a drop in public debt service costs together with lower electricity and fuel subsidies. Accordingly, Oman's overall fiscal position shifted into a surplus of US$1.7 billion (nearly 1.6 percent of GDP) during H1-2023. The lower hydrocarbon revenues are estimated to limit the scope for larger declines in the debt-to-GDP ratio, but it remains much lower than the peak of 61 percent in 2021.

The trade balance surplus narrowed to US$7.6 billion (7 percent of GDP) by the end of May 2023, compared to US$10.6 billion (9.2 percent of GDP) during the same period last year, as hydrocarbon exports contracted by 13.2 percent. As a result, gross foreign assets marginally increased (by US$160 million) in May 2023 to reach US$17.6 billion by the end of May 2023.

Based on the latest International Labor Organization (ILO) estimates, Oman's labor market continues a slow recovery from the impact of the pandemic but was not expected to fully rebound by 2023. The labor force participation rate and employment-to-population ratio were projected to reach 68.2 percent and 66.5 percent respectively in 2023, still around two percentage points below their 2019 levels.The unemployment rate was expected by the ILO to remain elevated around 2.5 percent, with recovery slower among women than among men. Unemployment rates continue to be higher among young adults, with the highest rates among young women. According to the most recent monthly statistical bulletin, the rate of job seekers among women aged 25-29 was 25.9 percent in July 2023, while the rate of job seekers among men aged 25-29 in that same period was 2.4 percent.

Oman issued both a new Social Protection Law and a new Labor Law in July 2023. The former undertakes a comprehensive reform of the social protection system that integrates contributory and non-contributory frameworks for lifecycle coverage, better support for labor market transitions, and a more sustainable financing model. The latter, among its provisions, addresses working hours, leave allowances, contract terms and termination, dispute resolution, and Omanisation measures.

Outlook

Oman's economy is estimated to slowdown in 2023 capped by OPEC+ production cuts and slower global economic activity. However, the economy is anticipated to strengthen over the medium-term driven by higher energy production and wide-ranging structural reforms. Overall growth is projected to decelerate to 1.4 percent in 2023, as oil output falls, while non-oil sectors are expected to support growth, rising by over 2 percent, driven by the rebound in construction, investments in renewable energy, and tourism sectors. Inflation is forecast to slow to 1.3 percent reflecting dampening private consumption as a result of tightening monetary policy.

Despite relatively moderate hydrocarbon prices during the forecast period, Oman's overall fiscal balance is expected to remain in surplus exceeding 5 percent of GDP in 2023-25 supported by ongoing fiscal adjustment measures under the MTFP. Accordingly, public debt is expected to continue its downward trajectory in the medium term.

Similarly, the current account is projected to remain in surplus over the medium term as higher liquified natural gas exports will partially compensate the decline in hydrocarbon prices. This will help Oman to rebuild its foreign reserves, which is projected to exceed US$22 billion in 2023-25, and improve the country's resilience against external shocks.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-3.4	3.1	4.3	1.4	2.7	2.9
Private consumption	9.6	6.8	4.0	3.0	3.4	3.3
Government consumption	-14.0	0.9	3.1	2.7	2.5	2.8
Gross fixed capital investment	1.8	-1.5	4.0	3.0	3.6	3.4
Exports, goods and services	-14.6	14.2	12.3	1.8	3.4	3.5
Imports, goods and services	-8.9	2.7	6.2	5.7	5.3	5.0
Real GDP growth, at constant factor prices	-3.6	3.1	4.4	1.4	2.7	2.9
Agriculture	14.3	9.0	-9.7	2.7	1.1	1.5
Industry	0.0	1.1	5.1	1.2	2.5	1.5
Services	-8.4	5.4	4.4	1.7	3.1	4.6
Inflation (consumer price index)	-0.9	1.5	2.8	1.3	1.8	2.0
Current account balance (% of GDP)	-16.2	-4.9	6.2	5.0	5.1	2.2
Net foreign direct investment inflow (% of GDP)	4.7	5.0	-1.9	-1.0	-0.5	-0.1
Fiscal balance (% of GDP)	-15.7	-3.2	7.2	6.0	5.7	4.2
Revenues (% of GDP)	28.9	33.0	37.1	32.4	31.5	29.8
Debt (% of GDP)	69.5	61.4	41.8	38.4	34.4	31.9
Primary balance (% of GDP)	-12.6	0.0	9.9	9.0	8.2	6.7
GHG emissions growth (mtCO2e)	7.5	4.1	6.6	5.0	3.5	4.3
Energy related GHG emissions (% of total)	70.9	71.5	72.6	73.3	73.7	74.5

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

PALESTINIAN TERRITORIES

Table 1	2022
Population, million	5.0
GDP, current US$ billion	19.1
GDP per capita, current US$	3789.3
Upper middle-income poverty rate ($6.85)[a]	20.5
Gini index[a]	33.7
School enrollment, primary (% gross)[b]	94.0
Life expectancy at birth, years[b]	73.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ Most recent WDI value (2021).

The Palestinian economy slowed in early 2023 reflecting the waning of the post-pandemic rebound and increased Israeli restrictions on Gaza. Despite strong revenue outturn, the fiscal situation is expected to worsen in 2023 due to an unsustainable wage bill, larger Israeli deductions and low aid. Lacking other financing options, the PA is expected to continue accruing arrears to the private sector and public pension fund and paying partial salaries to public employees. The outlook remains precarious and subject to security and political stability.

Key conditions and challenges

From 2017 to 2022, the Palestinian economy advanced on a near-stagnant trajectory, with an average annual GDP growth of 0.6 percent. Economic activity has been curtailed by a combination of continued Israeli restrictions[1], sluggish and/or fragmentary reform efforts by the Palestinian Authority (PA), episodes of violence, the internal divide between the West Bank and Gaza (WB&G), and depressed aid inflows. The economy has been driven by factor accumulation rather than improvements in productivity, and growing slower than the population, resulting in decreasing per capita incomes and rising poverty. The bulk of gross investment has been channeled into non-tradable activities rather than sectors that could help boost more inclusive growth and job creation.

Subnational trends paint a highly divergent picture. In 2022, the GDP per capita in Gaza was estimated at US$1,257, which is approximately a quarter of the West Bank's GDP per capita, at US$4,458. In 2016/17, one Palestinian out of five lived below the upper-middle income poverty line ($6.85 2017 PPP a day), according to the latest national household survey. Poverty is significantly more prevalent in Gaza, where almost half of the population lives below this poverty line (2016/17), compared to less than 10 percent in the West Bank.

1/ According to the Government of Israel, these restrictions are in place for security reasons.

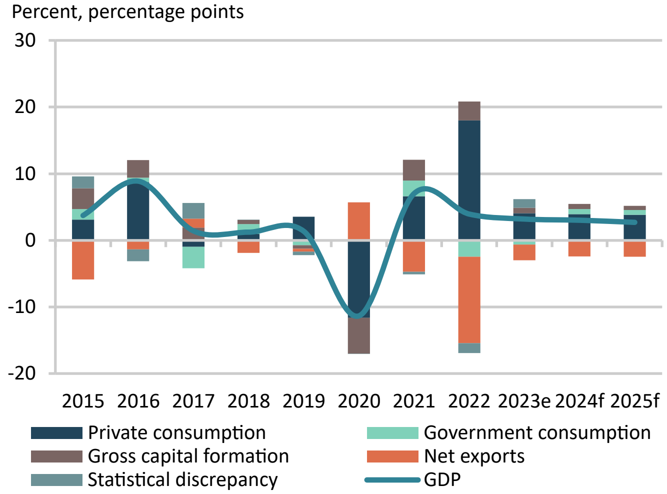
Recent developments

The Palestinian economy slowed to a 3.1 percent growth rate in the first quarter (Q1) of 2023, year-on-year (y/y), down from 3.9 percent in 2022, as the post-pandemic rebound dissipates. Growth was largely driven by the West Bank (4.3 percent y/y), reflecting continued buoyancy of private consumption which in turn supported the wholesale and retail trade and services sectors. Meanwhile, the near-total blockade imposed by the Government of Israel (GoI) on Gaza continues to hinder economic expansion, where the economy contracted by 2.6 percent in Q1 2023. This was due to a rapid worsening of the agricultural, forestry, and fishing sectors, following the introduction of new regulations by GoI restricting fish sales from Gaza into the West Bank, since August 2022.

During 2022, CPI in the Palestinian territories remained relatively contained – compared to the rest of the world – reflecting the inflation experience of the Israeli New Shekel, at 3.7 percent (y/y, 2022), although up from negative territory in 2020. It has since remained relatively stable, reaching 3.8 percent in Q1 2023. In Gaza, the inflation rate was just 1.8 percent in the first half of 2023 reflecting lower import prices from Egypt, while in the West Bank it reached 4.4 percent.

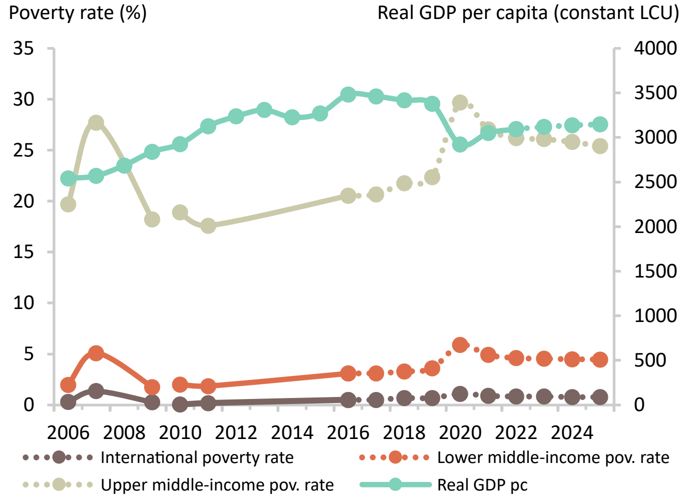
On the fiscal front, targeted government reforms supported revenue mobilization

FIGURE 1 Palestinian territories / Real GDP growth and contributions to real GDP growth



Sources: Palestinian Central Bureau of Statistics and World Bank estimates.

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



Source: World Bank. Notes: see Table 2.

in Q1 2023. However, expenditure also grew, mainly driven by the wage bill resulting from partial implementation of agreements with the labor unions on salary increases. In Q1 2023, the overall fiscal deficit, after accounting for grants and for deductions made by Israel, reached US$83 million, or 0.8 percent of GDP, and was largely financed by arrears and partial public salaries payment (80-85 percent), since November 2021.

Since 2022, overall unemployment rose by 0.3 percentage points to 24.7 percent in Q2 2023. The increase was driven by a rise in Gaza's unemployment (from 45.3 to 46.4 percent) reflecting the contraction in economic activity. In the West Bank, unemployment remained almost constant, nearing 13 percent.

Based on GDP per capita growth trends, it is estimated that the poverty rate spiked by 6 percentage points between 2016 and 2020, reaching 26.5 percent. As the impact of the pandemic softened during 2021, the poverty rate is deemed to have declined to 24.3 percent, by 2022, representing roughly 1.25 million people who live in poverty.

Outlook

In the absence of distinct policy change, the Palestinian territories are expected to continue facing a combination of slow growth and high poverty rates, in a context of elevated risks. Under a baseline scenario, the Palestinian economy is expected to continue languishing under the multi-layered system of Israeli restrictions and sluggish reform progress on the PA side. These constraints will continue to hinder economic activity and discourage private-sector development, preventing the Palestinian economy from reaching its full potential. Under this scenario, economic growth is expected to decelerate to 2.7 percent by 2025, and due to the rate of population growth, the average real income per capita is expected to continue stagnating. Consequently, the poverty rate is expected to remain sticky at a little over 24 percent until 2025.

On the fiscal front, revenues are expected to grow by 6 percent in nominal terms y/y by end-2023, and amount to around 24 percent of GDP, reflecting rising tax efforts and continued economic growth in the West Bank. Expenditures are projected to increase by 2.5 percent and reach 26.5 percent of GDP in 2023, mostly driven by an increasing wage bill. The overall fiscal deficit, including grants and the deductions from clearance revenues, is thus expected to reach US$493 million, or 2.5 percent of GDP by end-2023 and is expected to remain constant in relative terms over the medium-term forecast period.

Downside risks remain elevated. An escalation of Russia's invasion of Ukraine could further strain global supply chains and increase pressure on food and energy prices, slowing the growth of the Palestinian economy. Meanwhile, renewed clashes between Palestinians and Israeli forces in WB&G could increase economic uncertainty and further limit Palestinian workers' access to the Israeli labor market. The PA has little fiscal scope to counter such shocks, and uncertainty on the political front in Israel could contribute to exacerbating the macroeconomic and fiscal risks facing the West Bank and Gaza.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-11.3	7.0	3.9	3.2	3.0	2.7
Private consumption	-13.1	7.5	20.5	4.0	3.8	3.7
Government consumption	0.3	10.3	-10.5	-3.0	4.0	3.7
Gross fixed capital investment	-20.9	13.7	11.8	3.0	2.8	2.2
Exports, goods and services	-11.2	17.3	6.2	5.0	5.0	5.0
Imports, goods and services	-14.2	14.8	25.7	5.0	5.0	5.0
Real GDP growth, at constant factor prices	-12.0	6.2	1.3	3.2	3.0	2.7
Agriculture	-9.1	-0.7	-5.7	-1.0	-1.0	-1.0
Industry	-19.4	4.5	3.4	3.2	3.0	2.8
Services	-10.0	7.5	1.5	3.6	3.4	3.0
Inflation (consumer price index)	-0.7	1.2	3.7	3.8	3.0	2.7
Current account balance (% of GDP)	-12.3	-9.8	-15.0	-13.8	-13.2	-12.7
Net foreign direct investment inflow (% of GDP)	0.9	1.6	1.3	1.3	1.3	1.3
Fiscal balance (% of GDP)	-7.5	-5.8	-1.8	-2.5	-2.5	-2.5
Revenues (% of GDP)	25.7	25.0	27.3	24.1	24.1	24.1
Debt (% of GDP)	55.1	56.0	53.2	53.1	53.2	53.3
Primary balance (% of GDP)	-7.1	-5.1	-1.1	-1.8	-1.8	-1.8
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.1	0.9	0.8	0.8	0.8	0.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	5.9	4.9	4.6	4.5	4.5	4.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	29.7	27.0	26.2	26.1	25.8	25.4
CO2 emissions growth (mtCO2e)	-27.5	6.2	-0.6	-1.5	-1.9	-2.5

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 2016-PECS. Actual data: 2016. Nowcast: 2017-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2016) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

QATAR

Table 1	2022
Population, million	2.9
GDP, current US$ billion	237.4
GDP per capita, current US$	80974.8
School enrollment, primary (% gross)[a]	102.2
Life expectancy at birth, years[a]	79.3
Total GHG emissions (mtCO2e)	128.9

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

Economic growth is projected to moderate in 2023 as the boost from the 2022 World Cup on non- hydrocarbon sectors diminishes. Nevertheless, the rise in tourism, business activities, and ongoing energy sector investment offers support. External and fiscal twin surpluses are anticipated to continue in the medium term supported by the development of the North Field LNG expansion project. Key risks include tighter global financial conditions and fluctuating energy prices. The primary challenge for the economy remains diversification away from the hydrocarbon sector.

Key conditions and challenges

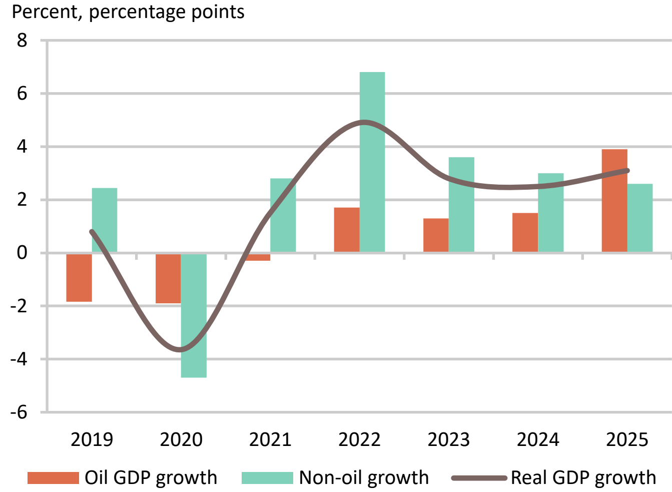
Qatar's economic conditions in 2022 were marked by strong growth driven by the FIFA World Cup. This event boosted various sectors of the economy, including tourism, hospitality, and construction. In the upcoming 2023-2027 period, Qatar's policy direction will be guided by the Qatar National Vision 2030, a cornerstone of the government's strategy for economic diversification, environmental management, and social advancement. The vision aims to create a conducive business environment to encourage higher investment and employment. The primary economic driver will continue to be the expansion of the North Field Liquified Natural Gas (LNG) project. Over the forecast period, investment spending on this project will support overall economic growth. LNG production in 2026 and 2027 will rise substantially supporting industrial output and boosting exports.

The economy presents a range of opportunities and challenges. On the positive side, vast hydrocarbon reserves, robust government net asset position with substantial sovereign net foreign assets (SNFA), and a flexible public finance structure favor economic growth. Conversely, volatile hydrocarbon prices and tighter global financial conditions remain the main risks to Qatar's outlook and may extend for longer than initially forecast. Moreover, challenges persist in the form of necessary public sector reforms to enhance expenditure management, service delivery, and diversification away from the hydrocarbon sector.

Recent developments

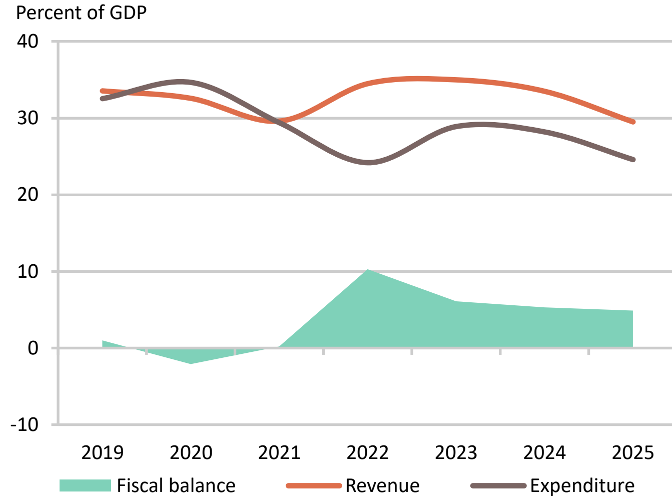
Following a remarkable 4.9 percent growth in 2022, driven primarily by hosting the FIFA World Cup, the economy has exhibited modest growth this year. However, the growth still surpasses pre-pandemic levels, which is at 2.7 percent in Q1 2023, supported by the tourism sector and ongoing energy investments. PMI indicators highlight a solid expansion in the non-hydrocarbon private sector during H1 2023 supported by a thriving tourism sector. Notably, Qatar welcomed more than 2.56 million visitors from January until August 2023, exceeding the full-year arrival figures for 2022. In the hydrocarbon sector, QatarEnergy signed a 1.8m t/year LNG contract with Bangladesh earlier in June. Later in the month, Qatar also finalized a long-term gas supply deal with a Chinese state-controlled company, mirroring a previous agreement made last November. This has driven a 45 percent surge in Qatari-Chinese trade, reaching US$26.3 billion. These developments augur well for Qatar's extended energy export prospects, with the likelihood of unveiling further energy contracts across Asia and Europe in the coming months. Inflationary pressures have eased since a notable acceleration in 2022 due to lower commodity prices and the conclusion of heightened demand

FIGURE 1 **Qatar** / Annual real GDP growth



Source: World Bank.

FIGURE 2 **Qatar** / Fiscal balance



Source: World Bank.

caused by the World Cup—reaching 3.5 percent during H1 2023. In July, the Qatar Central Bank (QCB) raised its key policy interest rate by 25 basis points to a record high of 6 percent following the US Federal Reserve's policy hike. While the US authorities contemplate additional monetary tightening, QCB is expected to retain the current policy rate due to persistently low and diminishing inflation coupled with a slowdown in economic activity.

The overall fiscal balance registered a surplus of 5.3 percent of GDP during Q1 2023 as a result of elevated hydrocarbon prices and a fall in public spending after the 2022 World Cup. Despite decreasing imports and exports of goods, the large influx of tourists continues to boost services export revenues, resulting in a strong current account surplus, reached 21 percent of GDP in Q1 2023. As a result, international reserves and foreign currency liquidity witnessed its highest growth, reaching QAR 241.6 billion (US$66.4 billion) in July 2023.

According to the latest ILO estimates, key labor market indicators were expected to remain stable through 2023. The labor force participation rate was projected to remain at 88.3 percent in 2023, and the employment-to-population ratio was expected to stay slightly lower at 88.2 percent for the year. The unemployment rate was projected to remain stable at 0.1 percent in 2023, with higher rates among women and among young people. Women aged 15-24 were estimated to experience the highest unemployment rate, around 0.9 percent in 2023.

Outlook

Real GDP growth is estimated to slow down to 2.8 percent in 2023 and continue at this rate in the medium term. Despite the weakening of the construction sector and tighter monetary policy, robust growth is anticipated in the non-hydrocarbon sectors, reaching 3.6 percent, propelled by thriving tourist arrivals and large events. Qatar's standing as a global sporting hub will be further reinforced by an additional 14 major sporting events during 2023, including Formula 1 motor racing. Meanwhile, the hydrocarbon sector is estimated to grow by 1.3 percent in 2023 on account of weaker global energy demand. The North Field expansion project is expected to boost the hydrocarbon sector in the medium term once the field enters commercial operation. Consumer prices are projected to decelerate, averaging 2.6 percent in 2023-24, on the back of tightening global financial conditions and declining international commodity prices.

Despite a further moderation in global energy prices, the twin-balances are projected to be in surplus for the coming years. The fiscal balance surplus is anticipated to reach 5.7 percent of GDP in 2023-24 due to comparatively strong hydrocarbons revenue. The much-delayed introduction of value-added tax (VAT), now expected to come into effect during 2024, will offset some of the declines in hydrocarbon revenue and support the budget balance.

The current account surplus is expected to narrow but remain large during 2023-24. The strength of Qatar's hydrocarbon sector (currently the largest LNG exporter and third largest producer) underpins the strong performance of the economy. Despite rising expenditure on imports, international reserves will be sufficient to sustain imports for the coming months.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-3.6	1.5	4.9	2.8	2.5	3.1
Private consumption	-5.6	3.4	5.2	3.4	3.0	2.6
Government consumption	10.3	2.8	4.1	3.0	2.5	2.8
Gross fixed capital investment	-3.1	2.3	3.7	2.2	2.6	2.3
Exports, goods and services	-6.8	2.4	5.4	3.7	3.1	4.2
Imports, goods and services	-2.7	4.7	6.5	5.5	4.7	4.0
Real GDP growth, at constant factor prices	-3.6	1.5	4.9	2.8	2.5	3.1
Agriculture	18.5	0.5	7.7	2.4	2.1	2.9
Industry	-3.2	0.7	5.2	3.1	3.2	3.1
Services	-4.6	3.2	4.4	2.2	1.0	3.2
Inflation (consumer price index)	-2.7	2.3	5.0	3.0	2.2	1.8
Current account balance (% of GDP)	-2.5	14.7	26.6	16.1	13.3	12.3
Net foreign direct investment inflow (% of GDP)	-1.0	-0.1	-1.0	-0.5	-0.7	-0.6
Fiscal balance (% of GDP)	-2.1	0.2	10.3	6.1	5.3	4.9
Revenues (% of GDP)	32.6	29.6	34.5	35.0	33.5	29.5
Debt (% of GDP)	72.6	58.4	45.3	45.5	42.9	41.4
Primary balance (% of GDP)	-0.3	1.9	11.6	7.2	6.6	6.1
GHG emissions growth (mtCO2e)	-0.4	4.0	7.6	4.4	3.8	4.9
Energy related GHG emissions (% of total)	75.9	76.7	78.2	78.9	79.6	80.4

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

SAUDI ARABIA

Table 1	2022
Population, million	32.2
GDP, current US$ billion	1110.0
GDP per capita, current US$	34497.9
School enrollment, primary (% gross)[a]	102.1
Life expectancy at birth, years[a]	76.9
Total GHG emissions (mtCO2e)	756.7

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

Following the strong performance in 2022, the economy is expected to report a contraction in 2023 fueled by OPEC+ consecutive decisions of oil production cuts to support price stability. Lower oil receipts as a result of contracting oil production levels and subdued prices will place the fiscal balance in deficit and narrow current account surplus. Inflation remains muted. A prolonged war in Ukraine, volatile oil prices, and tighter-than-needed global financial conditions are key risks to the outlook.

Key conditions and challenges

To realize many of the objectives formulated in the long-term diversification plan (Vision 2030), Saudi Arabia have set forward an ambiguous investment plan to promote sustained, inclusive, greener, and private sector-led growth. With weak foreign direct investment pouring into Saudi Arabia for several years now, still less than 1 percent of GDP, the Public Investment Fund (PIF) has taken on a larger developmental role in the domestic economy through funding many giga-projects and investments related to the Vision 2030. Despite overture to Western investors, Saudi Arabia might attract new investments from BRICS members since it formally joined the economic bloc.

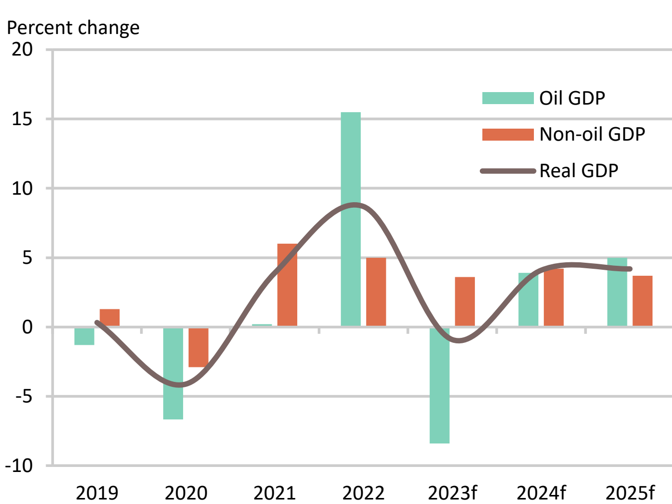
Downside risks and uncertainties to the outlook are numerous. These include downward pressures on oil prices because of tensions among OPEC+ members on production quotas which could result in members leaving the alliance and increasing global supply. Furthermore, downward revisions of China's growth prospects will have adverse impact on Saudi Arabia's main export market. Other risks to the outlook include lower global activity linked to new developments around Russia's invasion of Ukraine, and tighter-than-needed global financial conditions. Delays or digressions in implementing diversification structural reforms highlighted in the Vision 2030, perhaps due to international shocks or because of the uncomfortable fiscal position, would reduce prospects for stronger long-term growth and employment.

Recent developments

After a stellar performance in 2022, Saudi Arabia is experiencing an economic downturn which is fueled by OPEC+ consecutive decisions of oil production cuts to support price stability. Latest official data for Q2-2023 showed that the economy contracted by 0.1 percent q/q after a 1.4 percent q/q decline in Q1-2023. This translates to annual growth easing from 3.8 percent in Q1-2023 to 1.1 percent in Q2-2023. The strong performance of private non-oil activities during Q1 and Q2-2023 fell short of compensating for the decline in oil activities. Furthermore, the recent decision by Saudi Arabia to voluntarily cut oil production by an additional 1 mbpd during H2-2023 will exert a further drag on economic activity. High frequency data suggests that the non-oil sector is also losing steam with August's PMI recording 56.6—still expansionary but nonetheless the lowest reading in 8 months—while weaker private sector credit growth indicate dampening consumption on the back of tighter monetary conditions.

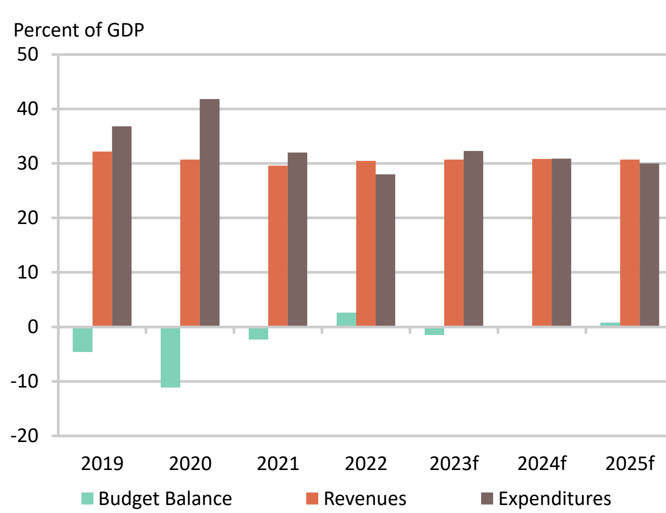
Lower oil revenues, as a result of lower prices and production levels, coupled with looser fiscal policy (up by 18 percent y/y) widened the fiscal deficit from SAR 2.9 billion to SAR 5.3 billion during Q1 and Q2-2023, respectively. Financing needs are

FIGURE 1 Saudi Arabia / Annual real GDP growth



Sources: GASTAT Saudi Arabia and World Bank staff estimates.

FIGURE 2 Saudi Arabia / Central government operations



Source: World Bank.

covered by issuing a US$10 billion sovereign bond while state oil firm Aramco introduced a performance-linked dividend, on top of its annual base dividend, to shore up budgetary funds. Furthermore, reports suggest more Aramco share sales by the end of this year similar to the 2019 IPO.

The Q1-2023 balance of payments data shows the current account surplus narrowing to US$17.7 billion (down from US$39.6 billion one year ago) driven primarily by a 14.6 percent fall in oil receipts. Further surplus narrowing is anticipated during this year with even lower oil revenues. The Saudi Central Bank's (SAMA) foreign reserves reached US$407 billion in July 2023, the lowest in 14 years, suggesting that oil revenues are being channeled to PIF to finance its larger investment role in the local economy.

The number of Saudis working in the private sector continues to increase. According to administrative data, the number of Saudi nationals employed in the private sector in Q1 2023 reached 2.6 million, whereas the number of non-Saudi nationals in the private sector increased to 7.8 million. The overall labor force participation rate and the employment-to-population ratio increased during the past year from Q1-2023, and the unemployment rate decreased over the same period. These changes in labor market indicators were primarily driven by improvements among Saudis, except for the unemployment rate that declined more rapidly among non-nationals. The labor force participation rate among Saudis increased from 50.1 percent to 52.4 percent and the employment-to-population ratio among Saudis increased from 45.1 percent to 48 percent. The labor force participation rate and employment-to-population ratio also continue to increase for Saudi women, and it does more rapidly than for Saudi men, reaching 36 percent and 30.2 percent, respectively, in Q1 2023.

Outlook

The oil sector is expected to contract by 8.4 percent during 2023 to reflect oil production curbs agreed within the OPEC+ alliance. Meanwhile, non-oil sectors are expected to cushion the contraction, growing at 3.6 percent, supported by looser fiscal policy, robust private consumption, and public investment drive. As a result, overall GDP will show a contraction of 0.9 percent in 2023 before reporting a recovery of 4.1 percent in 2024 to reflect expansions of oil and non-oil sectors. A relatively strong US dollar, restrictive monetary policy, and a cap on domestic fuel prices will curb any upward pressure on prices; keeping the inflation rate hovering around 2.4 percent in the medium term.

The continued loose fiscal spending and the significant reduction in oil receipts during 2023 are expected to flip the fiscal balance into a deficit of 1.5 percent of GDP. Aramco's distribution of performance-linked dividends starting Q3-2023 for six quarters should improve the fiscal position in the medium term—supported by the recovery in oil production levels. As budgetary financing needs grow, the debt-to-GDP ratio is expected to rise to 24.8 percent in 2023 before moderating to 23.8 percent in the medium term. The off-budget capital spending by PIF will continue to remain substantial.

Even with the anticipated fall in oil export receipts in 2023, exports will continue to surpass imports. As a result, the current account surplus is expected to continue, yet narrow significantly from last year, to reach 5.6 percent of GDP in 2023.

TABLE 2 Saudi Arabia / 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	3.9	8.7	-0.9	4.1	4.2
Private consumption	-8.1	9.4	4.8	4.2	3.5	3.0
Government consumption	3.3	0.8	6.7	6.0	3.0	3.0
Gross fixed capital investment	-10.4	10.1	24.1	7.5	4.0	3.3
Exports, goods and services	-10.6	1.0	18.7	-8.3	5.3	6.4
Imports, goods and services	-19.8	8.3	12.0	5.4	4.3	4.3
Real GDP growth, at constant factor prices	-4.3	3.9	8.7	-0.9	4.1	4.2
Agriculture	-1.7	2.6	3.9	2.0	2.0	2.0
Industry	-6.0	1.7	13.2	-5.3	2.8	3.5
Services	-2.2	6.7	3.5	4.9	5.7	5.0
Inflation (consumer price index)	3.4	3.1	2.5	2.6	2.3	2.2
Current account balance (% of GDP)	-3.1	5.1	13.6	5.6	5.7	6.8
Net foreign direct investment inflow (% of GDP)	0.1	-0.6	-1.0	-0.8	-0.9	-1.0
Fiscal balance (% of GDP)	-11.1	-2.3	2.6	-1.5	-0.1	0.8
Revenues (% of GDP)	30.7	29.6	30.5	30.4	30.8	31.0
Debt (% of GDP)	33.7	28.8	23.7	24.8	24.4	23.2
Primary balance (% of GDP)	-10.1	-1.4	3.3	-0.5	0.9	1.7
GHG emissions growth (mtCO2e)	-1.2	2.8	3.0	0.0	2.6	3.0
Energy related GHG emissions (% of total)	69.6	70.5	70.3	69.9	70.2	70.6

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

SYRIAN ARAB REPUBLIC

Table 1	2022
Population, million	22.1
GDP, current US$ billion	12.4
GDP per capita, current US$	561.3
School enrollment, primary (% gross)[a]	81.7
Life expectancy at birth, years[a]	72.1
Total GHG emissions (mtCO2e)	49.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2013); Life expectancy (2021).

Socioeconomic conditions in Syria have continued to deteriorate due to a combination of shocks from the prolonged armed conflict and the February earthquakes. Real GDP is projected to contract by 5.5 percent in 2023, exceeding a 3.5 percent decline last year. The economy may contract even further if conflict escalates and reconstruction efforts fall short of expectations. Conflict, displacement, and the collapse of economic activities and social services have all contributed to a decline in welfare.

Key conditions and challenges

A decade of conflict has led to devastating socioeconomic consequences. Despite a 2020 ceasefire that halted major hostilities, insecurity and violence persist across many parts of Syria, which still ranked 10th globally in conflict-related fatalities in 2022. More than half of Syria's pre-conflict population remains displaced, including 6.8 million Internally Displaced Persons (IDPs) and 6.7 million refugees abroad. Between 2010 and 2021, GDP shrank by more than half. The decline in Gross National Income per capita led the World Bank to re-classify Syria as a low-income country in 2018.

In February 2023, a series of earthquakes severely hit northern and western Syria, where a large share of its population and economic activity were located. The 7.6 Richter scale shock was the deadliest in Syria since the one that hit Aleppo in 1822. The areas that experienced strong or higher levels of impact from the earthquake were home to 6.6 million Syrians, representing around 31 percent of the total population and about 17 percent of GDP in 2022 (estimated using nighttime illumination). Of the 6.6 million Syrians affected, 4.6 million (70 percent) live in areas outside of Syrian government control. The affected areas also hosted approximately 3 million IDPs, or 46 percent of all IDPs in Syria. The earthquake severely hit the area that has been most intensely contested among the warring parties of the more than decade-old civil war.

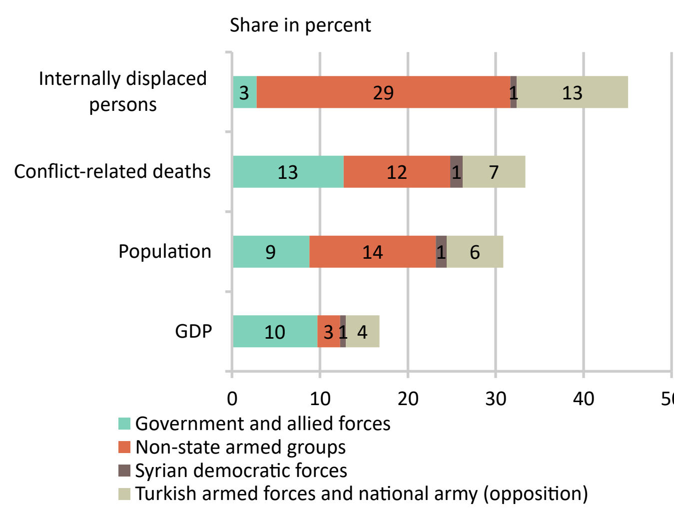
The earthquake caused massive human suffering and damages, resulting in approximately 6,000 fatalities, 12,000 injuries, and the displacement of roughly 600,000 individuals in Syria. In terms of physical impacts, the World Bank published a Rapid Damage and Needs Assessment (RDNA) that estimates the earthquake caused physical damages and losses across the six most affected governorates that amount to about 10 percent of Syria's GDP.

Recent developments

The earthquake caused temporary but widespread economic and trade disruptions. Alternative data tracking mobile device activity and nighttime illumination trends revealed a decline in mobility and a nationwide contraction in economic output in the aftermath of the disaster. Nighttime illumination data tracking gas flaring showed a contraction in oil production. Damage to roads and maritime facilities halted shipping and cargo arrivals following the earthquake, as indicated by shipping-position data. In addition, the destruction of roads connecting Antakya in Türkiye with the Bab al Hawa caused delays in delivering cross-border humanitarian assistance.

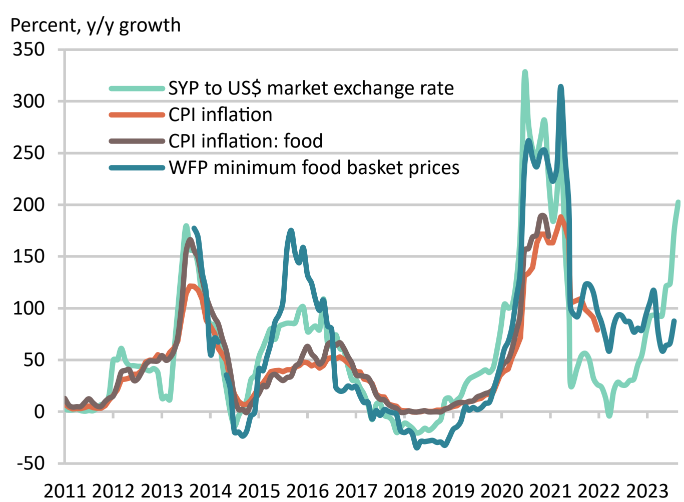
Currency depreciation and consumer price inflation accelerated after the earthquake. Since February 2023, the Syrian pound (SYP) lost about half of its value against

FIGURE 1 Syrian Arab Republic / Displaced persons are over-represented in earthquake-affected areas



Sources: Satellite images; USGS ShakeMap, Humanitarian Needs Assessment Programme (HNAP), Armed Conflict Location & Event Data Project, and World Bank staff estimates.

FIGURE 2 Syrian Arab Republic / Inflation and exchange rates



Sources: Syrian Pound Today, WFP Syria Price Database, Central Bureau of Statistics of Syria, and World Bank staff estimates.

the United States dollar (US$), reaching around SYP 14,000/US$ in the parallel foreign exchange market in early September. From February to July 2023, inflation, as proxied by the World Food Program (WFP) minimum food basket price index, rose by 27 percent, driven by reduced access to goods, disrupted supply chains, and heightened logistics costs, all of which exerted upward pressure on prices.

The pre-existing vulnerability of Syrian households has left many ill-equipped to cope with the lingering economic impact of the earthquake. Survey results from the REACH humanitarian situation overview in Syria, encompassing non-government-controlled areas of both the northwestern and northeastern regions, indicate that the adoption of coping strategies, such as selling household items and productive assets, has increased in earthquake-affected areas. Meanwhile, access to health services and sanitation continues to deteriorate.

The Syrian government further reduced subsidies through price hikes on essential goods and limited purchase quantities, exacerbating already dire living conditions. In August 2023, the government substantially increased the prices of subsidized gasoline and petroleum, in addition to a 50 percent hike in pharmaceutical prices, placing an additional burden on Syrians. Rising prices sparked massive demonstrations in southern Syria, non-regime-held northwest territories, and the northeastern governorates of Deir ez-Zor, Raqqa, and Hasakeh.

Outlook

Real GDP is projected to contract by 5.5 percent in 2023, extending the 3.5 percent decline last year. The earthquake has reduced the country's productive capacity, mainly by damaging physical capital and disrupting trade networks. Oil production is anticipated to remain low in 2023, with adverse effects on the industry. Crop production is expected to rebound from the near-historical lows observed in 2022, partly due to greater precipitation this year. On the consumption side, rising inflation, which is projected to increase from 44 percent to 62 percent, is set to lower real incomes and worsen household welfare throughout the country.

The earthquake by itself is expected to place only a small additional strain on public finances, assuming foreign aid largely addresses post-earthquake needs. However, the fiscal deficit is expected to remain large at 8.4 percent of GDP in 2023, as efforts to tighten fiscal subsidies are projected to only partly offset the cost-driven increase in expenditures.

Risks to the growth outlook are significant and tilted to the downside. The economy may contract more if earthquake-related reconstruction efforts fall short of expectations. The risk is heightened by a lack of public resources, low levels of private investment, and a combination of physical obstacles and security challenges that prevent humanitarian assistance from reaching some of the affected areas. Both, conflicts and earthquakes, destroy fixed capital and degrade human capital through disruptions in education services and psychological trauma; this is expected to produce large, sustained negative effects on productivity in the longer run.

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

	2020	2021	2022	2023e
Real GDP growth, at constant market prices[a]	-0.2	1.3	-3.5	-5.5
Inflation (consumer price index)	114.2	118.8	60.6	62.1
Fiscal balance (% of GDP)	-8.4	-9.5	-8.4	-8.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
a/ Projections based on nighttime light data.

TUNISIA

Table 1	2022
Population, million	12.4
GDP, current US$ billion	46.4
GDP per capita, current US$	3756.7
National poverty rate[a]	16.6
Lower middle-income poverty rate ($3.65)[b]	2.2
Gini index[b]	32.8
School enrollment, primary (% gross)[c]	112.3
Life expectancy at birth, years[c]	73.8
Total GHG emissions (mtCO2e)	39.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021).
b/ Most recent value (2015), 2017 PPPs.
c/ Most recent WDI value (2021).

Tunisia's economic outlook remains highly uncertain. After a moderate economic rebound in 2021, the economy slowed down in 2022 and further decelerated in the first half of 2023 amid a severe drought and uncertain financing conditions. The weak recovery complicates financing the large public debt and external needs, which remain elevated—in spite of an improving current account balance—due to the heavy debt service. Accelerating the recovery and stabilizing the economy will require the speedy implementation of fiscal and structural reforms.

Key conditions and challenges

Tunisia faces increasingly difficult economic conditions. Weak reform implementation has left the economy inefficiently closed to investment and trade and ill-equipped to exploit opportunities in the global economy. As growth and private job creation stagnated, the State stepped in as an employer of last resort and price stabilizer through subsidies. This has caused a deterioration of the fiscal and the current account deficits under the weight of a large public sector wage bill, higher consumer subsidies, and underperforming state-owned enterprises. The COVID-19 pandemic and Russia's invasion on Ukraine have exacerbated these longstanding weaknesses.

Tunisia's growth prospects hinge on decisive structural reforms to address economic distortions and fiscal pressures. These include: (i) eliminating business entry permits and unnecessary licenses, (ii) gradually phasing out controls to capital outflows; (iii) reducing consumer subsidies while compensating vulnerable households; (iv) improving the performance of state-owned enterprises; (v) making the tax system fairer. Progress in these reforms is critical to stabilize the macroeconomic situation, accelerate the recovery, and lay the foundation for more sustainable economic growth.

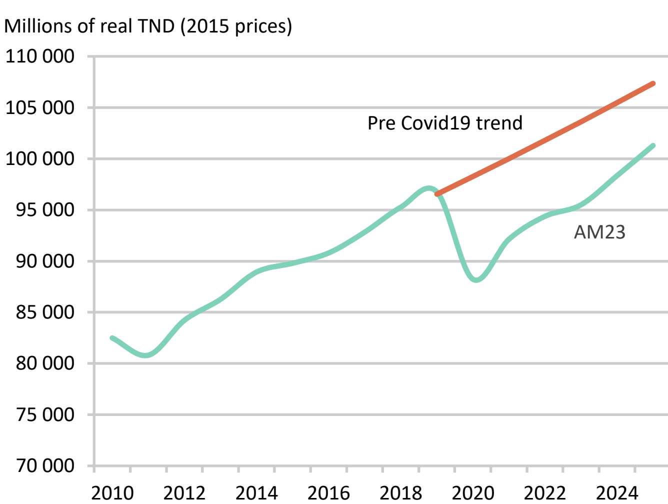
Recent developments

Economic recovery has been modest in real terms since the sharp contraction in 2020 due to COVID-19 (-8.8 percent). After a moderate rebound in 2021 (4.4 percent), the economy only expanded by 2.4 percent in 2022 and by 1.2 percent in the first half of 2023. The latest economic slowdown reflects the severe drought in the first half of 2023 (with agriculture declining by 9 percent in real terms) and the uncertain financing conditions.

The merchandise trade deficit declined in the first half of 2023 to 4.4 percent of GDP down from 7 percent in 2022 amidst robust manufacturing exports and more benign commodity prices. As a result, the current account deficit (CAD) fell from 4.1 to 1.5 percent of GDP over the same period, also helped by robust tourism receipts. While the decline in commodity prices and the energy and food subsidy bill provide some respite, the pressure on public finances remains elevated as public expenditure reforms continue to falter amid weak growth. This contributes to the challenges in financing the public debt, which between 2019 and 2022 increased from 67.8 to 79.8 percent of GDP (without including government guarantees and SOE debts).

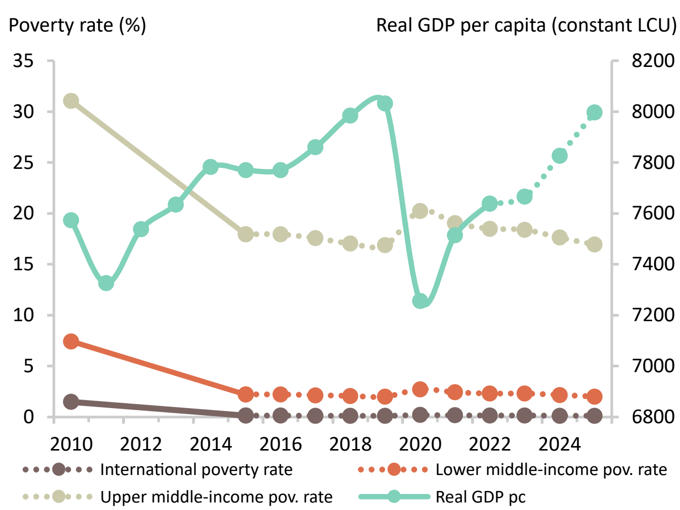
With limited access to international financing, the need to finance the sovereign continues to put pressure on banks' liquidity needs, which increased to TD15.6 billion in June 2023 from TD10.4 billion a year before.

FIGURE 1 Tunisia / Real GDP: Actual, forecast and pre-COVID-19 trend



Sources: World Bank estimates and National Institute of Statistics.

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



Source: World Bank. Notes: see Table 2.

After 18 consecutive months of increase, inflation started to moderate since February 2023, declining from 10.4 percent to 9.3 percent in August. The decline appears to be driven by lower global prices and weak domestic demand. However, inflation remains well above both the 2021-2022 average (7 percent) and food inflation is higher (15.3 percent), which presents a particular challenge for lower income households. Real interest rates remain negative as the Central Bank maintained the policy rate at 8 percent in 2023 after increasing it by 175 basis points in March-December 2022.

With weak economic growth, the unemployment rate increased slightly to 15.6 percent in Q2 2023 from 15.3 percent a year ago. This is one of the highest rates in the region and it is associated with a slight year-on-year increase in labor force participation. Hence, net job creation during the period has been low with only 3,500 jobs being created and a net loss of 15,500 jobs for female workers.

Outlook

With a projected growth rate of 1.2 percent in 2023, the economy appears to be significantly slowing down relative to the trend in 2021 and 2022. This reflects the challenging conditions linked to the drought, particularly for agriculture, the uncertainty around debt financing, and the weak momentum on structural reforms. With this growth rate, real GDP in 2023 would still be 1.3 percent below its pre-Covid 19 level. Assuming more stable financing conditions and a moderation of the ongoing drought, growth is expected to eventually gain some ground, reaching 3.0 percent in 2024 and 2025. This slight rebound would allow the economy to achieve a 2.4 percent annual growth over the post-Covid period. This appears to be the modest structural growth rate of an economy dragged by pre-existing structural weaknesses and the uncertainty around financing conditions.

Tunisia's public finance and external account will remain precarious in the absence of an IMF program and external financing, and uncertain global conditions. The budget deficit is expected to decline somewhat to 5.6 percent of GDP in 2023 (compared to 6.6 percent of GDP in 2022). That is mainly driven by lower energy subsidies, a lower wage bill in real terms, and an increase in tax revenues. Gross financing needs are expected to rise further at 16.0 percent of GDP in 2023 (from 12.6 percent in 2022) due to significant external debt amortization. The CAD is projected to moderate to 4.0 percent of GDP in 2023 thanks to strong travel exports and improved terms of trade. With FDI projected to be relatively stable and minimal portfolio investments, foreign lending would still have to shoulder the financing of the CAD. The 2023-24 growth forecast is subject to significant downside risks. Growth projections would be even lower should Tunisia not implement decisive fiscal and pro-competition reforms and/or should available financing not be sufficient to cover Tunisia's external needs. If these conditions occur, it may be challenging to secure sufficient foreign currency in the economy, which could lead to pressures on exchange rates and prices, exerting a negative impact on economic activity and employment. In addition should the drought conditions persist beyond this year, the 2024 projections could be revised downwards given the negative impact on agriculture and the trade balance.

Poverty using the Lower Middle Income Poverty Line (US$3.65/person/day line in 2017 PPP term) is projected to remain stable at 2.3 percent in 2022-23 and eventually decline to 2.0 percent by 2025. The share of poor and vulnerable at the upper-middle income country poverty line (US$6.85/person/day in 2017 PPP) is projected to return to pre-Covid levels at 17.0 percent by 2025.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-8.8	4.4	2.4	1.2	3.0	3.0
Private consumption	-2.1	2.4	2.2	2.7	3.8	4.5
Government consumption	-1.0	1.5	-1.2	-2.9	-0.5	-0.5
Gross fixed capital investment	-19.9	3.3	1.3	-7.3	2.9	5.0
Exports, goods and services	-20.0	11.8	15.2	9.4	5.1	3.3
Imports, goods and services	-16.6	10.9	9.3	8.6	4.8	5.1
Real GDP growth, at constant factor prices	-8.7	4.5	2.6	1.2	3.0	3.0
Agriculture	0.4	-2.7	0.7	-8.0	3.0	2.1
Industry	-10.1	8.7	-0.3	0.7	2.1	2.5
Services	-9.6	4.1	4.0	2.8	3.3	3.3
Inflation (consumer price index)	5.6	5.7	8.3	9.2	8.0	7.0
Current account balance (% of GDP)	-6.0	-6.0	-8.6	-4.0	-4.6	-5.5
Net foreign direct investment inflow (% of GDP)	-1.4	-1.1	-1.4	-1.3	-1.4	-1.4
Fiscal balance (% of GDP)	-8.7	-7.6	-6.6	-5.6	-3.6	-3.1
Revenues (% of GDP)	25.5	25.7	28.5	27.7	28.3	28.2
Debt (% of GDP)	77.8	79.9	79.8	77.9	75.9	73.8
Primary balance (% of GDP)	-5.6	-4.7	-3.4	-2.3	-0.2	0.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.2	0.2	0.2	0.1	0.1	0.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	2.7	2.4	2.3	2.3	2.2	2.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	20.2	19.1	18.5	18.4	17.6	17.0
GHG emissions growth (mtCO2e)	-3.7	3.6	3.4	2.7	2.5	2.0
Energy related GHG emissions (% of total)	70.6	71.2	71.6	72.0	72.4	72.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2015-NSHBCSL. Actual data: 2015. Nowcast: 2016-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2015) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

UNITED ARAB EMIRATES

Table 1	2022
Population, million	9.6
GDP, current US$ billion	486.1
GDP per capita, current US$	50859.1
School enrollment, primary (% gross)[a]	115.4
Life expectancy at birth, years[a]	78.7
Total GHG emissions (mtCO2e)	268.2

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

UAE's economy is expected to slow down, after the expansion of 2022, driven primarily by OPEC+ production cuts and global economic downturn. Despite easing oil prices and production levels, twin-balance surpluses are anticipated during 2023 and continue in the medium term. Tight monetary policy and cooling economic activity will keep inflation subdued. Key risks to the outlook include global uncertainty, financial tightening, oil price volatility, and climate change.

Key conditions and challenges

The UAE maintains its role as the regional center for trade, finance, and travel, bolstered by advances in economic diversification and reduced hydrocarbon dependency. However, intensifying regional competition, particularly from Saudi Arabia and Qatar, poses a challenge as these nations adopt strategies akin to Abu Dhabi's Economic and Environment Vision 2030 and Dubai's Industrial Strategy 2030.

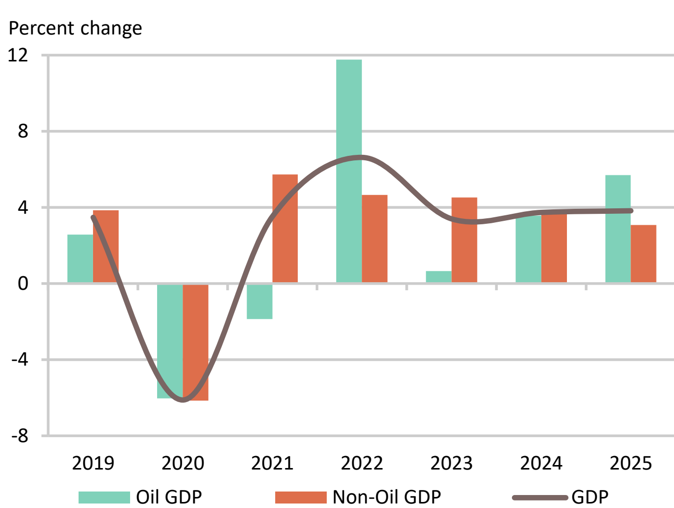
While hydrocarbon activity remains the primary source of government revenue, steps to diversify public revenues are continuing and include introducing VAT and CIT, coupled with a phased exit from the business fee structure. In addition, the UAE's 2050 strategies focus on enhancing trade, FDI, digital and AI investments, and renewable energy investment to address economic diversification and energy transition challenges. The outlook for the non-oil sector is strong while elevated energy prices are expected to continue strengthening external and fiscal positions.

The main impact of Russia's invasion of Ukraine on the UAE economy will be oil price volatility, global inflation, and tourism shocks. Domestic monetary policy will tighten in line with US Federal Reserve policy, possibly dampening economic growth and job creation. Key risks to UAE growth include global uncertainty and geopolitical developments, tighter financial conditions, and OPEC+ quota disagreements. However, increased Russian migration and capital inflows to the UAE over the past year have posed a potential upside risk, affecting the real estate sector and potentially enhancing economic activity. Enhanced UAE reform efforts offer upside risks to medium-term growth, but delays or digressions in structural reforms could weaken long-term growth and employment.

Recent developments

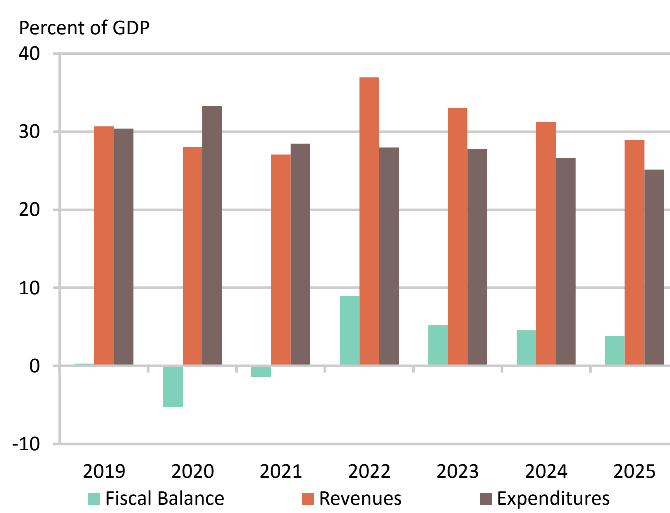
The UAE's economy grew by 6.6 percent in 2022 driven by increased oil production and strong performance of the non-oil sectors, especially construction and tourism. Effective management of the COVID-19 crisis, coupled with supportive fiscal measures and pro-business and social reforms, have helped strengthen economic development. During H1-2023, economic growth decelerated, driven primarily by developments in the oil sector as OPEC+ continued to cut oil production quotas; concurrently, the non-oil sector maintained robust growth supported by loose fiscal policy. Business sentiment continues to be positive in 2023 confirming strong non-oil performance. Improved operating conditions in the non-oil private sector, fueled by increased new orders, especially from international demand, drove the Purchasing Managers' Index (PMI) to 56.9 in June 2023, its highest level since June 2019. Meanwhile, oil production during H1 2023 fell to 2.9 million bpd in line with the OPEC+ agreements. Headline inflation

FIGURE 1 United Arab Emirates / Annual real GDP growth



Sources: UAE authorities, IMF WEO, and World Bank staff estimates.

FIGURE 2 United Arab Emirates / Public finances



Sources: UAE authorities, IMF WEO, and World Bank staff estimates.

reached 4.8 percent in 2022 and eased during the H1-2023 to reflect economic slowdown and easing price pressures in food and transport.

Following the US Federal Reserve's monetary tightening and maintaining the pegged exchange rate, the Central Bank of the UAE undertook multiple policy rate adjustments, pushing the base rate to 5.4 percent by July 2023. Despite rising rates, the non-performing loans ratio dropped to 6.4 percent and private sector credit grew to 6 percent in Q1 2023, signaling strong economic recovery. Overall, banks remain well-capitalized and liquid. The regulatory framework continues to strengthen, driven by progresses in the National AML/CFT Strategy and enhanced monitoring per Financial Action Task Force guidelines.

After registering a strong fiscal surplus in 2022, the fiscal balance narrowed during H1-2023 to reflect easing oil prices and oil production level. Meanwhile, high oil receipts and increasing non-oil exports have improved the current account balance which is estimated to reach 12.4 percent of GDP. Additionally, the signing of free-trade agreements with significant Asian and African markets is expected to continue enhancing non-oil exports and further support the external balance surplus.

Understanding of poverty, inequality, and livelihoods in the UAE continues to be limited due to sparse representative household and labor data. According to the most recent available ILO estimates, the labor force participation rate was expected to reach 82.7 percent in 2023, slightly above its 2019 level. Employment rebounded in 2022 to pre-pandemic levels and was expected to continue to increase in 2023. The employment-to-population ratio in 2023 is estimated at 80.4 percent among men and at 52.5 percent among women (ILO estimates). The unemployment rate was projected to be 2.7 percent for 2023, a decrease from the height of the pandemic but still not back to 2019 rates. Unemployment rates remain substantially higher among young adults ages 15-24 than among adults ages 25 and over. The gap is especially wide among women, with projected rates of 18.6 percent and 5.5 percent respectively for 2023.

Outlook

Economic activity is anticipated to slowdown in 2023 to 3.4 percent due to weaker global activity, stagnant oil output, and tighter financial conditions. Following tighter OPEC+ production quotas, oil GDP growth is projected at 0.7 percent in 2023 but expected to recover strongly in 2024 as production quotas are relaxed. On the other hand, non-oil output is forecast to support economic activity in 2023, growing at 4.5 percent, with the strong performance in tourism, real estate, construction, transportation, and manufacturing and a surge in capital expenditure. The introduction of mandatory unemployment benefits in 2023 should further bolster private consumption and support overall domestic demand.

Tight monetary policy, a strong US dollar, and a slowdown in economic activity will keep inflation rates subdued—hovering around 3.3 percent in 2023 and decreasing to 2.2 percent in 2024. Robust oil revenues, supported by strong performance of non-oil sectors, will maintain the fiscal balance surplus at 5.2 percent of GDP in 2023. Implementation of fiscal revenue reforms, e.g. introduction of CIT, and maintaining prudent and well-coordinated emirate-specific fiscal anchors and rules should improve fiscal buffers and overall fiscal sustainability. Non-oil exports, aided by bilateral trade agreements and the opening of new markets, will grow as imports slow to 4.4 percent in 2024, narrowing the current account to 11.8 percent of GDP.

TABLE 2 United Arab Emirates / 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	3.5	6.6	3.4	3.7	3.8
Private consumption	-12.5	5.0	5.5	4.4	4.1	4.0
Government consumption	0.6	1.4	3.5	2.6	2.3	2.1
Gross fixed capital investment	5.8	5.4	5.8	4.6	3.6	3.5
Exports, goods and services	-7.0	6.8	8.4	4.2	4.4	4.3
Imports, goods and services	-6.4	8.8	7.4	5.0	4.4	4.1
Real GDP growth, at constant factor prices	-6.1	3.5	6.6	3.4	3.7	3.8
Agriculture	6.9	3.8	3.4	3.5	3.5	3.0
Industry	-5.5	1.3	8.8	3.1	2.6	3.8
Services	-6.9	5.7	4.6	3.6	4.9	3.9
Inflation (consumer price index)	-2.1	-0.1	4.8	3.3	2.2	2.0
Current account balance (% of GDP)	6.0	10.6	13.8	12.4	11.8	11.6
Fiscal Balance (% of GDP)[a]	-5.2	-1.4	9.0	5.2	4.6	3.8
Revenues (% of GDP)	28.0	27.1	37.0	33.0	31.2	29.0
Debt (% of GDP)	40.0	32.0	31.3	27.8	23.4	20.1
Primary balance (% of GDP)	-4.9	-1.1	9.2	5.4	4.7	3.9
GHG emissions growth (mtCO2e)	-4.1	7.3	7.0	-1.3	3.0	2.6
Energy related GHG emissions (% of total)	72.6	73.6	74.9	74.4	74.7	75.1

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

REPUBLIC OF YEMEN

Table 1	2022
Population, million	33.7
GDP, current US$ billion	21.9
GDP per capita, current US$	650.3
School enrollment, primary (% gross)[a]	93.6
Life expectancy at birth, years[a]	63.8
Total GHG emissions (mtCO2e)	19.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2016); Life expectancy (2021).

Economic conditions in Yemen have significantly deteriorated since the formal UN-brokered truce expired in October 2022. The ongoing Houthi oil export blockade has further strained Yemen's fragile economy, leading to mounting challenges, including inflation, currency depreciation, and policy divergence. Downside risks include conflict-related developments, new adverse terms of trade shocks, and natural disasters posing a significant threat to Yemen's stability.

Key conditions and challenges

Yemen's humanitarian crisis is deeply rooted in its conflict and complex political and economic landscape. Between 2015 and 2022, the country has experienced a staggering 52 percent contraction in real GDP per capita, leaving two-thirds of the population, approximately 21.6 million individuals, in need of humanitarian assistance. Moreover, the ongoing conflict has intensified the fragmentation of the country into two distinct economic zones, each governed by its unique set of institutions and policies, resulting in an increasing disparity despite the evident interconnections.

During 2022, Yemen's economy showed improvement, supported by a truce that brought a glimmer of hope, albeit without the parties reaching a permanent political settlement. The two-month UN-brokered truce between the Internationally Recognized Government (IRG) of Yemen and the Houthis, starting in April 2022 and extended twice, temporarily halted offensive hostilities, providing some relief for civilians, and allowing for limited economic recovery. The truce expired in October 2022 and, although an informal truce remained in place, the situation worsened as a result of a Houthi-imposed blockade on IRG's oil exports.

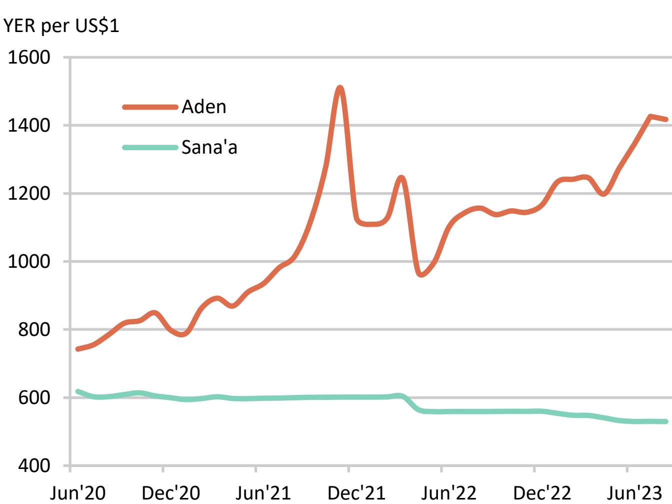
Yemen continues to face deep structural challenges. Growth in the oil sector depends on Yemen's ability to attract foreign investment, which remains contingent on improving security and achieving peace. Non-oil activity continues to be constrained by interruptions in essential service delivery, acute input shortages, double taxation, widespread corruption, market distortions from uncoordinated policies, and the multiplicity of Yemen's institutions. Moreover, reliance on remittances and aid flows, coupled with climate change vulnerability, leaves Yemen exposed to external factors.

As a result, amid rising poverty and food insecurity, many households, having exhausted traditional safety nets, now resort to dire measures like child labor or high-risk jobs. To deal with widespread poverty and food insecurity, some households, particularly the better-off, can sell assets or use savings. But many more households have already exhausted these usual coping strategies and are adopting last-resort coping strategies with long-term destructive consequences.

Recent developments

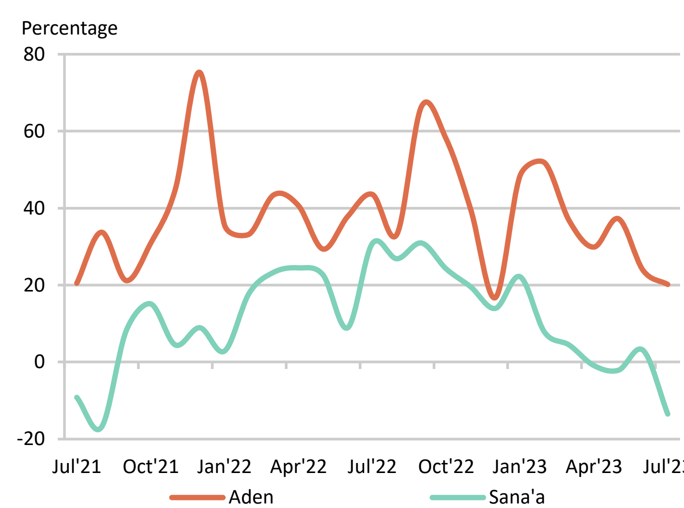
The truce's expiration triggered a series of adverse economic events that negatively impacted Yemen in 2023. Overall, GDP is projected to decrease, in reals terms, by 0.5 percent in 2023, after rebounding by 1.5 percent in 2022. The most impactful event was the Houthi blockade on IRG's oil exports, resulting in a sharp projected decline in oil production. At the same time, a relatively more volatile currency on the Aden foreign exchange market, high inflation, and an increase in

FIGURE 1 Republic of Yemen / Exchange rate trend: Sana'a and Aden



Sources: Telegram Exchange Market Group and World Bank staff calculations.

FIGURE 2 Republic of Yemen / Inflation rate: Sana'a and Aden



Sources: Reach Joint Market Monitoring Initiative and World Bank staff calculations.

hostile activities have weighed on the private sector non-oil activity.

The expiration of the truce resulted in tightened fiscal conditions. Data from the Aden MOF shows a significant decline of more than 40 percent in IRG revenues, mainly due to a sharp reduction in oil exports. In response, IRG implemented drastic cuts in expenditures, including electricity subsidies and goods and services spending. Despite these cuts, the fiscal deficit (on a cash basis) is expected to remain around 2.9 percent of GDP in 2023. The recent announcement of US$1.2 billion in Saudi budget support - with a recent deposit of US$250 million as the first tranche -, could ease some pressure, helping cover key expenses such as public sector salaries and electricity subsidies.

The halting of oil exports has increased external pressures and eroded confidence in the currency on the Aden market. The current account deficit is forecasted to reach 21.8 percent in 2023. In addition, gross liquid FX reserves are now below one month's worth of imports. As a result, confidence in the currency has been eroding since May on the Aden market. As of end-August 2023, the YER had depreciated to YER 1,418 per US$1 on the Aden market, returning to end-2021 levels; meanwhile, the YER appreciated slightly on the Sana'a market over the same period. Along with securing further assistance, replenishing reserves will be critical to maintain Yemen's economic stability and safeguard hard-won reforms.

Inflationary dynamics have continued to diverge significantly across regions in 2023. Sana'a has witnessed a sharp reduction in consumer price inflation during the first seven months of 2023, averaging 2.2 percent, compared to 20.5 percent in 2022. This reduction can be attributed to a relatively steady money supply and the base effects of the commodity price shock in 2022. Conversely, inflation in Aden has remained elevated, reaching around 34.7 percent during the first seven months of 2023, compared to an average of 39.2 percent in 2022.

Outlook

The macroeconomic outlook for 2024 remains highly uncertain, contingent on the resumption of oil exports and ongoing truce negotiations. Economic stability in the short run hinges heavily on predictable and sustainable hard currency inflows and political/military developments. Assuming oil exports resume in 2024 to 2022 levels, we project real GDP growth of 2.0 percent in 2024. However, if a lasting truce or peace agreement is achieved, Yemen's economy could see more sustained growth within months, driven by an expected rapid rebound in transport, trade, financial flows, and reconstruction financing. Over the medium term, growth is conditional on a peace agreement, prudent policies, and robust reform and recovery efforts backed by international donors. Ensuring that this growth trickles down to the most vulnerable will require sustained investments in human capital that have been severely impacted by many years of protracted conflict.

Despite some positive developments, risks to the economic outlook remain high. The recent rapprochement between regional powers marks a significant step towards alleviating longstanding regional tensions that have hindered Yemen's development prospects. Additionally, the ongoing negotiations between KSA and the Houthis could change the dynamics on the ground. However, risks persist, including the resurgence of hostile activities triggered by regional or domestic tensions, new adverse terms of trade shocks, and new natural disasters posing a significant threat to Yemen's fragile economy. Most significantly, the reduction in humanitarian aid will result in significant increases in the prevalence of the food poor. Moreover, policy inaction due to political gridlock remains a paramount risk. It could potentially yield adverse repercussions on the fiscal front, particularly considering the sluggish momentum of reforms. Such inaction might lead to an escalation in monetary financing, exacerbating inflationary pressures. Nevertheless, maintaining a sustained focus on monetary and macroeconomic stability while strengthening policy and institutional capacity can help improve the immediate macroeconomic prospects.

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

	2020	2021	2022	2023e	2024f
Real GDP growth, at constant market prices	-8.5	-1.0	1.5	-0.5	2.0
Inflation (Consumer Price Index)[a]	21.7	31.5	29.5	14.9	17.3
Current account balance (% of GDP)	-14.1	-17.3	-16.5	-21.8	-13.5
Net foreign direct investment inflow (% of GDP)	-0.3	3.5	0.9	0.7	0.7
Fiscal balance (% of GDP)	-4.8	-1.0	-2.8	-2.9	0.0
Revenues (% of GDP)	6.7	7.8	10.3	5.3	8.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
a/ Inflation rates refer to end-of-period figures.

South Asia

Annual Meetings 2023

Afghanistan	Maldives
Bangladesh	Nepal
Bhutan	Pakistan
India	Sri Lanka

AFGHANISTAN

Following the Interim Taliban Administration's (ITA) takeover, the economy shrank by 20.7 percent and 6.2 percent in 2021 and 2022, respectively. The new low-level equilibrium, supported by international aid, is delicate and vulnerable to disruptions. The ITA has demonstrated its ability to collect revenues and increase international trade. Supply constraints have eased, reducing headline inflation steeply from its peak in July 2022, leading to deflation since April 2023. Despite a general improvement in household welfare over the last year, poverty still affects half of Afghanistan's population, and high levels of unemployment and underemployment persist. The banking sector is struggling, and the payment system remains largely dysfunctional.

Key conditions and challenges

Following a notable contraction after the ITA's ascendancy to power, international aid (US$ 3.5-4.0 billion in 2022) and improved security halted the steep economic decline from mid-2022. The exchange rate stabilized, international trade recovered, and the government could collect revenues and pay public employees' salaries. Still, the economy remains fragile, with significant challenges. The formal financial sector remains constricted, and most payments rely on the informal Hawala system. With the constant pressure of sustained population growth and the economy missing previous (external) growth drivers, high unemployment and underemployment plague the labor market. Moreover, with nearly half of the population living in poverty and the rest vulnerable, private consumption remains constrained.

As international aid decreases, the low-level equilibrium sustained since the summer of 2022 faces substantial downside risks. To ensure long-term sustainability, the country must strengthen its human capital stock, improve social protection, sustain basic services, and address climate vulnerabilities. Harmful gender policies by the ITA will hamper growth. The country is also ill-prepared to face climate challenges, and large segments of people's livelihood, mainly in rural areas, remain vulnerable to weather shocks. Leveraging the comparative advantage in the agriculture and mining sectors will be critical for livelihoods, job creation, and future growth.

Recent developments

Following the August 2021 political upheaval, headline inflation surged due to supply disruptions and shocks to global commodity prices despite reduced domestic demand. After reaching 18.2 percent year-on-year in July 2022, prices dropped sharply, resulting in deflation since April 2023. By July 2023, year-on-year inflation stands at -9.1 percent, driven by year-on-year deflation of 12.6 percent in food and 5.0 percent in non-food segments. These price dynamics likely stem from the economy adjusting to a structurally lower aggregate demand level, improved supply conditions, and appreciating Afghani (AFN).

Declining prices, notably in food, have supported a progressive improvement in Afghan households' self-reported welfare and food security. According to recent (April-June 2023) estimates, monetary poverty is at 48.3 percent, a 4-percentage point decline compared to the same period in 2020, driven by the reduction in rural poverty. Afghan households have coped with the crisis by increasing the labor supply, particularly youth and women. Female labor force participation saw a threefold increase compared to 2020, with women primarily engaged in home production (garment and food processing). Overall, the growth in labor supply has sizably outpaced a slacking demand, resulting in a doubling of unemployment and a one-quarter increase in underemployment, as proxied by the share of workers employed for less than 40 hours per week.

Afghanistan's exports have surged in value, but the economy still runs a substantial trade deficit. Afghanistan's exports reached US$1.9 billion in 2022, driven by food, coal, and textiles, which accounted for 94 percent. While exports grew three percent in the first seven months of 2023 compared to the same period in 2022, monthly export data indicates a decline in trend since February 2023 due to a decrease in coal exports. Imports in 2022 accounted for US$6.3 billion. For the first seven months of 2023, imports reached US$4.4 billion, marking a 32 percent increase from the same period in 2022. Food, minerals, and textiles composed more than half of imports. The trade deficit for Jan-July 2023 was US$3.5 billion, higher than the US$ 2.4 billion deficit in Jan-July 2022.

Between January and August 24, 2023, Afghani (AFN) appreciated against the US dollar (7.3 percent), Chinese yuan (6.0 percent), and Pakistan rupee (29.3 percent). The AFN appreciated due to limited domestic money supply, higher remittances, and UN shipments of US dollars and other inflows. In 2023, the UN brought in approximately US$1.12 billion in addition to US$1.8 billion in 2022. Interestingly, the cash shipments and remittance inflows do not fully explain the financing for the trade deficit. The foreign exchange market seems balanced, with no evidence of a parallel exchange market, suggesting significant unidentified external inflows filling the gap.

In 2022, revenue collection reached AFN 193.9 billion (US$ 2.2 billion), which accounted for almost 98 percent of the fiscal year's revised budget target of AFN 198.7 billion. Revenue collection for the first five months of the fiscal year 2023 reached AFN 76 billion, an 8 percent increase compared to the same period in the previous fiscal year but lower than the five-monthly target by 7.0 billion. Customs duty and Business receipt tax accounted for 60 percent of the collection. In contrast, revenue collection from inland sources saw a marginal 0.9 percent uptick compared to the prior year.

Although the banking system remains under stress, there are signs that the sharp decline in deposits has been halted. Publicly available data shows that in the first quarter of 2023, deposits increased by five percent after a nine percent decrease in the previous year. The banks are strategically shifting their asset base towards more liquid assets, a move prompted by diminishing prospects in interest income. Banks have intensified their focus on fee and commission-based revenues. Nevertheless, the sector is vulnerable. Without the prevailing forbearance measures, many banks would face undercapitalization.

Outlook

The outlook is uncertain amid a mix of economic indicators and subject to significant downside risk. Poor sentiments and uncertainty may lead to hesitancy on the part of the private sector to invest, and the ongoing deflation is expected to result in more layoffs in the short to medium term. In a baseline scenario with limited humanitarian and basic service aid compared to 2022, the economy is projected to remain stagnant at best, with a wide confidence interval skewed towards the downside. Per capita income will decline due to an increasing population. Under this scenario, poverty is likely to remain high, and vulnerability to falling into poverty is a genuine concern until the economy can find new indigenous sources of growth that address unemployment and job quality challenges.

However, there are notable downside risks to this baseline scenario. The regime's exclusionary nature and gender policies could trigger more external support cuts and hinder recovery. If deflation persists, a further downward adjustment of aggregate demand could cause the economy to contract significantly compared to the baseline. While the ban on growing Poppy can limit production, it can result in farmers losing income and lead to social unrest. Stability concerns in the banking sector are also a risk. If these risks materialize, the projected GDP path will shift downwards, potentially creating negative regional and global spillovers and pushing more people into deprivation and food insecurity.

BANGLADESH

Table 1	2022
Population, million	171.2
GDP, current US$ billion	460.2
GDP per capita, current US$	2688.4
International poverty rate ($2.15)[a]	13.5
Lower middle-income poverty rate ($3.65)[a]	51.6
Upper middle-income poverty rate ($6.85)[a]	86.9
Gini index[a]	32.4
School enrollment, primary (% gross)[b]	115.9
Life expectancy at birth, years[b]	72.4
Total GHG emissions (mtCO2e)	265.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ Most recent WDI value (2021).

The post-pandemic recovery is expected to slow from 6.0 percent real GDP growth in FY23 to 5.6 percent in FY24, as elevated inflation weighs on spending and import restrictions, and financial sector vulnerabilities constrain private investment. Poverty is projected to continue to decline, and inequality to remain stagnant. Export diversification and domestic revenue mobilization remain key policy priorities ahead of Least Developed Country (LDC) graduation.

Key conditions and challenges

Macroeconomic stability and strong export performance underpinned real GDP growth, averaging 6.6 percent over the decade preceding the COVID-19 pandemic. Growth remained positive during the pandemic, supported by an extensive stimulus package and accommodative monetary policy. From 2016 to 2022, poverty incidence declined by 2.1 percentage points (at the US$ 3.65 poverty line) and 0.7 percentage points (at US$ 2.15) annually. Non-monetary dimensions of well-being, such as health and access to services, improved significantly. Multidimensional poverty declined from 45.3 percent to 30.6 percent over the same period, but inequality based on the Gini coefficient remained unchanged. The proportion of poor households with social protection increased from 31 percent in FY16 to 48 percent in FY22.

Economic conditions deteriorated in FY22, as inflation accelerated, and the balance of payments (BoP) turned into deficit. A multiple exchange rate regime introduced in September 2022 contributed to a financial account deficit. FX rationing measures restricted letters of credit for imports, leading to rolling electricity blackouts to conserve energy. Rising financial sector vulnerabilities have emerged as a challenge to the growth outlook. The unemployment rate, at 3.6 percent, was low in 2022 and the female labor force participation rate, at 42.7 percent, was almost half that of males.

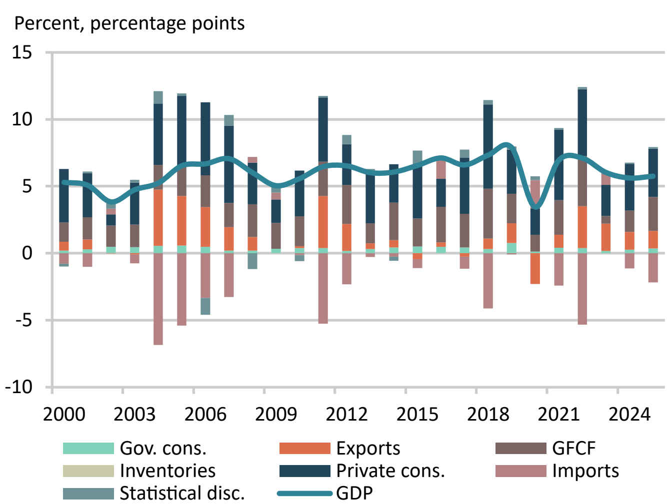
Bangladesh's expected graduation from UN LDC status in 2026 will gradually result in a loss of preferential access to external markets. Export diversification away from ready-made garments (RMG) and negotiation of free trade agreements are key medium-term objectives. A coordinated reform program of revenue mobilization, tariff modernization, and elimination of non-tariff barriers would promote export diversification and boost growth. Addressing financial sector vulnerabilities and streamlining business regulations would support greater foreign investment inflows. Improving governance, building human capital, and mitigating climate risks are key long-term challenges. Increasing domestic resource mobilization is critical as revenue collection is very low at 7.9 percent of GDP.

Recent developments

Real GDP growth declined to 6.0 percent in FY23 as private consumption and investment growth slowed to 3.5 and 1.7 percent from 7.5 and 11.7 percent, respectively, in FY22. On the supply side, industrial growth moderated as energy shortages and import restrictions offset the steady external demand for RMG. The services sector slowed as domestic purchasing power declined. Agricultural growth remained modest.

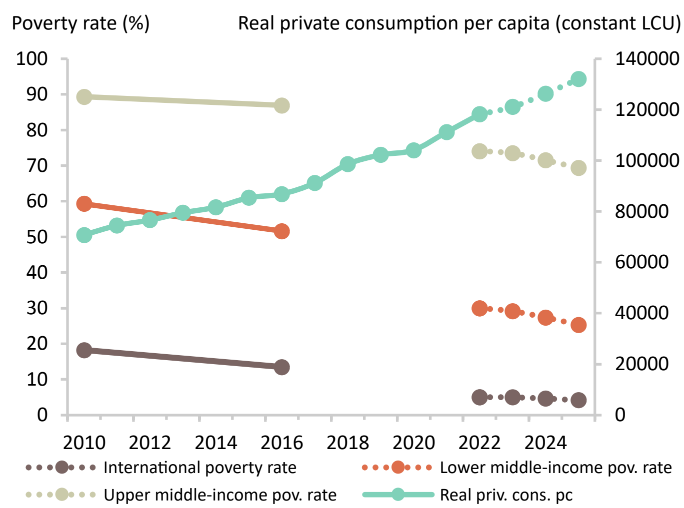
Inflation reached 9.6 percent in July 2023, driven by upward adjustments of domestic energy prices, rising food prices, and depreciation of the Taka. This likely

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



Sources: Bangladesh Bureau of Statistics and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

moderated the relatively rapid poverty reduction rate as poor households allocate more than half of their budget to food. Bangladesh Bank (BB) raised the main policy rate by a cumulative 175 basis points since May 2022. However, monetary policy transmission was impaired by caps on lending rates and rising financial sector vulnerabilities. The nonperforming loan ratio increased to 8.2 percent in FY22 from 7.9 percent in FY21. Reflecting these trends, the growth rate of bank credit to the private sector continued to moderate in FY23.

The current account deficit (CAD) narrowed sharply to 0.8 percent of GDP in FY23 as exports grew by 15.7 percent and imports contracted by 3.9 percent. The growth of official remittance inflows remained muted at 2.8 percent. However, the financial account deficit surged to US$ 2.1 billion, led by a decline in net commercial bank assets and short-term lending. As a result, the BoP deficit widened to 1.9 percent of GDP. Official exchange rates depreciated within a narrower range, remaining insufficient to clear the FX market. BB intervened heavily in the market to maintain exchange rate caps. Gross FX reserves declined to US$ 24.8 billion at end-June 2023, providing a cover of 3.5 months of prospective imports.

As expenditure growth outpaced revenue growth, the fiscal deficit increased to an estimated 5.3 percent of GDP in FY23 from 4.3 percent in FY22. The public debt to GDP ratio is estimated to have increased to 35.3 percent but remained sustainable, with a low risk of debt distress.

Outlook

Growth is expected to decelerate to 5.6 percent in FY24 before returning gradually to its long-term trend. Elevated inflation will weigh on consumer spending, and private investment will remain constrained by import restrictions, FX rationing, and uncertainty ahead of upcoming elections. As consumption recovers to its long-term path, it is expected to contribute to a marginal decrease in extreme poverty (based on the international poverty line) from 5.0 percent in FY23 to 4.7 percent in FY24, and moderate poverty (based on the lower middle-income poverty line), from 29.1 to 27.4 percent. Inequality is expected to remain unchanged (Figure 2).

External sector pressure will ease gradually, with export growth remaining resilient. The CAD is expected to narrow further in FY24 as import restrictions persist, prior to widening over the medium term as policies normalize. Remittance inflows are expected to rise, underpinned by a higher outflow of workers. The financial account is expected to return to surplus with the resumption of trade credit flows and a higher volume of external financing. Additional exchange rate flexibility would accelerate the stabilization of FX reserves.

The fiscal deficit is projected to stay below 5.0 percent of GDP over the medium term. Nominal revenues will rise with increasing trade, improving domestic activity, and ongoing efforts to strengthen the tax administration. Over the longer term, rising public expenditure requirements to meet infrastructure needs, mitigate climate vulnerabilities, and accelerate human capital investment will require the mobilization of additional revenues, as trade-based taxes decline with tariff modernization.

Downside risks to the growth outlook have increased substantially. The pace of monetary reforms may be insufficient, leading to further decumulation of FX reserves. Tighter liquidity conditions could exacerbate banking sector vulnerabilities. Reforms to expedite the recognition and resolution of stressed assets will enable efficient financial intermediation and reduce downside risks to growth.

TABLE 2 Bangladesh / 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[a]	3.4	6.9	7.1	6.0	5.6	5.8
Private consumption	3.0	8.0	7.5	3.5	5.3	5.6
Government consumption	2.0	6.9	6.2	3.1	4.7	6.3
Gross fixed capital investment	3.9	8.1	11.7	1.7	4.9	7.9
Exports, goods and services	-17.5	9.2	29.4	15.7	9.4	8.9
Imports, goods and services	-11.4	15.3	31.2	-3.9	6.0	11.4
Real GDP growth, at constant factor prices[a]	3.8	7.0	7.2	6.3	5.7	5.8
Agriculture	3.4	3.2	3.1	2.6	2.2	3.1
Industry	3.6	10.3	9.9	8.2	7.4	7.4
Services	3.9	5.7	6.3	5.9	5.2	5.2
Inflation (consumer price index)	5.6	5.6	6.1	9.0	8.5	7.7
Current account balance (% of GDP)	-1.5	-1.1	-4.1	-0.8	-0.3	-0.6
Net foreign direct investment inflow (% of GDP)	0.3	0.3	0.4	0.4	0.4	0.4
Fiscal balance (% of GDP)	-4.8	-3.7	-4.6	-5.3	-5.0	-4.6
Revenues (% of GDP)	8.5	9.4	8.5	7.9	8.3	8.5
Debt (% of GDP)	31.7	32.4	33.7	35.3	36.0	36.4
Primary balance (% of GDP)	-2.9	-1.7	-2.6	-3.1	-2.6	-2.2
International poverty rate ($2.15 in 2017 PPP)[b,c]	..	..	5.0	5.0	4.7	4.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	..	..	30.0	29.1	27.4	25.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	..	..	74.1	73.5	71.6	69.3
GHG emissions growth (mtCO2e)	1.9	4.7	4.5	3.6	3.2	3.2
Energy related GHG emissions (% of total)	39.4	40.8	42.0	42.6	43.4	44.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ FY23 estimates based on BBS provisional estimates.
b/ Calculations based on SAR-POV harmonization, using 2022-HIES. Actual data: 2022. Forecasts are from 2023 to 2025.
c/ Projections using microsimulation methodology.

BHUTAN

Table 1	2022
Population, million	0.8
GDP, current US$ billion	2.6
GDP per capita, current US$	3321.7
International poverty rate ($2.15)[a]	0.0
Lower middle-income poverty rate ($3.65)[a]	0.5
Upper middle-income poverty rate ($6.85)[a]	8.4
Gini index[a]	28.5
School enrollment, primary (% gross)[b]	105.7
Life expectancy at birth, years[b]	71.8
Total GHG emissions (mtCO2e)	-5.4

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

Output is estimated to have grown by 4.6 percent in FY22/23, supported by the reopening of borders for tourism in September 2022. However, twin deficits remained high in FY22/23. Election-related spending and the materialization of financial sector contingent liabilities could further erode buffers in FY23/24. High unemployment rates since the COVID-19 pandemic, particularly among the youth, contributed to significant emigration. An estimated 0.5 percent of the population lived below the $3.65/day poverty line in 2022.

Key conditions and challenges

Rapid economic growth has contributed to substantial poverty reduction over the last two decades. Annual real GDP growth has averaged 7.5 percent since the 1980s, driven by the public sector-led hydropower sector and strong performance in services, including tourism. The ongoing poverty and equity assessment shows that extreme poverty based on $2.15/day was eliminated by 2022, and the population living below the $6.85/day poverty line for upper-middle-income countries decreased from 39.5 percent to 8.5 percent between 2017 and 2022. The reduction in poverty can be attributed to the growth in labour and agriculture productivity and income, as well as remittances, which led to an increase in real per capita consumption, especially in rural areas. Multidimensional poverty has also declined, which is reflected in the reduction of food poverty and improved access to education, water, and sanitation. The Gini index, which measures income inequality, decreased from 37 in 2017 to 28 in 2022. Despite this progress, vulnerability to poverty and spatial inequality remains a significant challenge. Moreover, youth unemployment increased to 29 percent in 2022, which contributed to an increase in emigration and loss of human capital from the country.

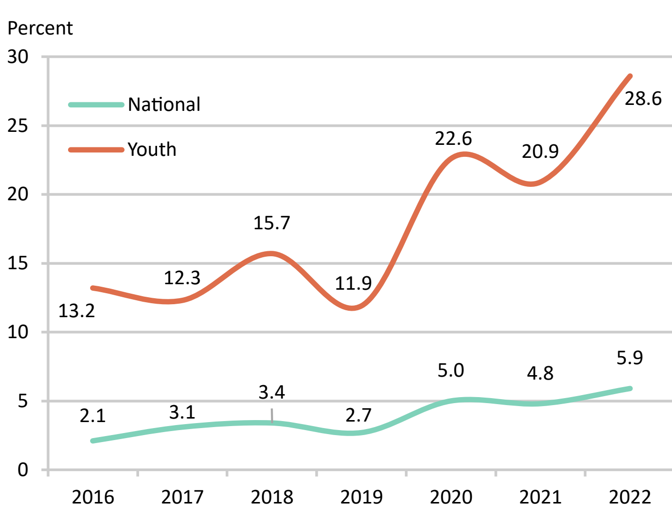
The economy has been significantly affected by the series of external shocks of the COVID-19 pandemic and the global ramifications of Russia's invasion of Ukraine. Pandemic-related relief measures and weak public revenue performance have resulted in high fiscal deficits and public debt. Financial sector vulnerabilities remain substantial due to high non-performing loans. The state holding company—Druk Holding and Investments—invested in crypto-mining operations to accelerate digital transformation towards diversifying the economy, which resulted in a significant decline of international reserves and a widening of the current account deficit (CAD) due to imports of information technology (IT) equipment.

Election-related spending and the materialization of financial sector contingent liabilities could further erode buffers in FY23/24, given that about 60 percent of assets of the financial sector are controlled by the public sector. Additional delays in the commissioning of hydro projects could further constrain the country's ability to narrow fiscal and external balances.

Recent developments

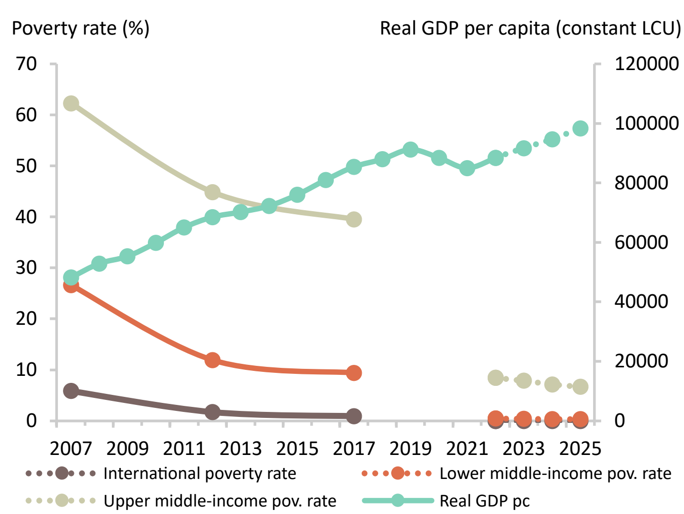
The economy has grown by 4.6 percent in FY22/23 (July 2022 to June 2023), supported by the reopening of borders for tourism in September 2022. The industry sector grew by 5.1 percent, reflecting a strengthening of construction and manufacturing activities, but the electricity sector contracted. The services sector grew by 5.0 percent, supported by transport- and trade-related services, resulting in more employment opportunities in the sector, including an increase in hotel and

FIGURE 1 Bhutan / Unemployment indicators



Sources: Labour Force Survey and National Statistics Bureau (NSB).

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



Source: World Bank. Notes: see Table 2.

restaurant jobs. Tourist arrivals remained below pre-COVID-19 levels because of weaker consumer confidence globally and the new tourism levy act, which tripled the sustainable development fee (SDF) for international tourists. However, the SDF was halved starting in September 2023 to attract more high-end tourists.

Average inflation moderated from 5.9 percent in FY21/22 to 4.6 percent in FY22/23, driven by a slowdown in imported food inflation. Non-food inflation remained elevated at 5.9 percent.

The fiscal deficit narrowed from 7.7 percent of GDP in FY21/22 to 5.1 percent in FY22/23 due to higher domestic revenue and lower capital spending. Total revenue increased due to higher non-hydro revenue, reflecting the gradual recovery in the industry and services sectors. Total expenditures declined because of lower capital spending in the last year of the Twelfth Five Year Plan (FYP).

The CAD has remained elevated at 27.8 percent in FY22/23, due to imports of IT equipment and a slow recovery of tourism. Exports increased, reflecting higher tourism receipts (albeit from a low base given near-zero tourism receipts in FY21/22). Goods imports are expected to remain high, reflecting the import of crypto mining equipment and elevated commodity prices. As a result, gross international reserves are expected to decline further from US$833 million in June 2022 to US$533 million in June 2023, equivalent to 4.3 months of FY22/23 imports.

Outlook

The real GDP growth rate is projected to decline to 4 percent in FY23/24. Overall growth is expected to be supported by higher growth in tourism-related services. On the demand side, growth is supported by private and public consumption, reflecting higher government spending. However, public investment is contributing negatively to growth due to a decline in capital spending. Medium-term growth is expected to be supported by a recovery in the non-hydro industry and services sectors, and by the commissioning of a new hydro plant. Inflation is expected to remain elevated in the short term owing to higher import prices, before moderating in the medium term. The incidence of poverty is estimated to decrease slightly to 0.4 percent and 7.9 percent in 2023, based on $3.65/day and $6.85/day, respectively. However, about 7 percent of the population will still be vulnerable to poverty.

The fiscal deficit is expected to increase to 6.1 percent of GDP in FY23/24 due to an increase in current spending following a major salary hike to address significant staff attritions. An increase in tax revenue will be offset by lower hydro profit transfers and external grants. Capital expenditures are projected to decline as the 12th FYP ended in June 2023, and capital spending is typically lower in the first two years of a new FYP. The fiscal deficit is expected to decline beyond FY24/25, reflecting a moderation in primary recurrent expenditure and increased hydro revenue.

Despite a decline in hydro debt, public debt is projected to remain elevated as a share of GDP in the medium term due to high fiscal deficits. Risks to debt sustainability are expected to remain moderate as the bulk of the debt is linked to hydro project loans from India (to be repaid from future hydro revenues) with low refinancing and exchange rate risks.

The CAD is projected to decline to 17 percent of GDP in FY23/24 due to a large reduction in IT equipment imports, and to moderate further in the medium term, supported by an increase in tourism and electricity exports. International reserves are expected to increase to 6.2 months of import coverage in FY23/24.

TABLE 2 Bhutan / 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[a]	-2.3	-3.3	4.8	4.6	4.0	4.6
Private consumption	0.1	-1.2	-3.8	-0.6	5.8	6.5
Government consumption	7.3	4.9	2.0	-3.7	6.0	-7.1
Gross fixed capital investment	-16.5	-3.0	23.1	10.9	-8.4	2.1
Exports, goods and services	-4.1	-7.3	12.1	7.5	0.5	3.4
Imports, goods and services	-9.2	0.8	9.8	2.4	-7.1	-1.1
Real GDP growth, at constant factor prices	-0.7	-2.2	4.8	4.6	4.0	4.6
Agriculture	2.9	3.3	0.5	1.2	3.4	3.4
Industry	-5.5	-5.9	3.7	5.1	2.4	5.6
Services	2.5	-0.5	6.6	5.0	5.3	4.2
Inflation (consumer price index)	3.0	8.2	5.9	4.6	4.4	4.0
Current account balance (% of GDP)	-15.8	-11.9	-32.4	-27.8	-17.0	-8.5
Fiscal balance (% of GDP)	-1.9	-6.2	-7.7	-5.1	-6.1	-4.5
Revenues (% of GDP)	31.1	33.2	27.7	28.2	24.3	27.0
Debt (% of GDP)	122.8	132.4	131.1	130.5	129.2	124.6
Primary balance (% of GDP)	-1.5	-5.2	-6.1	-3.2	-3.9	-2.1
International poverty rate ($2.15 in 2017 PPP)[b,c]	..	..	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	..	..	0.5	0.4	0.4	0.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	..	..	8.4	7.9	7.2	6.7
GHG emissions growth (mtCO2e)	1.5	1.6	-1.3	-1.6	-1.1	-2.0
Energy related GHG emissions (% of total)	-15.1	-14.5	-15.2	-16.0	-16.6	-17.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ The GDP estimates in the AM23 MPO reflect the base year 2000. The National Statistics Bureau has recently updated the base year from 2000 to 2017. The SM24 MPO will reflect the rebased NIA estimates for 2017 to 2022.

b/ Calculations based on SAR-POV harmonization, using 2022-BLSS. Actual data: 2022. Forecasts are from 2023 to 2025.

c/ Projection using neutral distribution (2022) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

INDIA

Table 1	2022
Population, million	1417.2
GDP, current US$ billion	3388.5
GDP per capita, current US$	2391.0
School enrollment, primary (% gross)[a]	102.1
Life expectancy at birth, years[a]	67.2
Total GHG emissions (mtCO2e)	3700.1

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

Growth moderated to 7.2 percent in FY22/23. The post-COVID rebound faded, and the government consolidated recurrent spending. Growth is projected to decline further in FY23/24 as it reverts to its potential rate (6-6.5 percent), with external downside risks. Extreme poverty hovers around 11 percent, while moderate poverty is around 45 percent. To increase potential growth and reduce poverty, structural reforms should seek to improve human capital, key infrastructure, the business environment, and jobs, particularly for women.

Key conditions and challenges

Between 2000 and 2019, India enjoyed rapid economic growth averaging 6.6 percent per annum. GDP per capita more than doubled and extreme poverty (at $2.15 2017 PPP) fell from 39.9 percent in 2004 to 12.7 percent in 2019. This strong performance reflected a demographic dividend, steps taken to integrate India into the global economy and improve the business environment, and prudent monetary and fiscal management. Output contracted by 5.8 percent in FY20/21 due to the COVID-19 shock but rebounded swiftly by 9.1 percent in FY21/22 and returned to its pre-pandemic level. Extreme poverty declined by 3.4 percentage points in FY22/23 relative to FY20/21, to 11.3 percent. Meanwhile, moderate poverty (at $3.65 2017 PPP – the threshold typically used for L-MICs) declined by 4.6 percentage points to 45.1 percent. Even though growth helped reduce monetary poverty, 16.4 percent of the population faces deprivations that classify them as multidimensionally poor, and one in three Indians is malnourished. Consumption inequality remained stagnant at 0.35 (using the GINI coefficient).

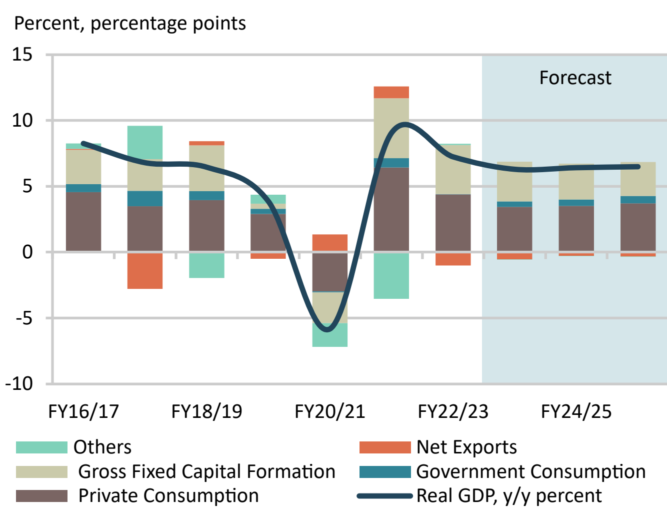
Growth decelerated to 7.2 percent in FY22/23 and is projected to slow to 6.3 percent in FY23/24, with external downside risks. The moderation of growth reflects base effects (as the post-COVID rebound fades), weak external demand, and domestic price pressures. Risks include slower-than-expected global growth, higher oil prices, and more persistent inflationary pressures. However, they remain manageable given India's large and diversified economic base and significant reserves buffers. For India to achieve the national goal of becoming a high-income country by 2047, real growth would need to rise sustainably to around 8 percent per annum on average. This requires more ambitious structural reforms to enhance the quality of education, generate more and better jobs (in terms of remuneration, stability, and labor conditions), increase the economic participation of women and youth, improve infrastructure, and strengthen the business environment.

Recent developments

Real GDP growth decelerated to 7.2 percent in FY22/23, from 9.1 percent in the previous year, mainly due to waning base effects. Private consumption and investment growth moderated as the post-pandemic catch-up tapered off, and public consumption stagnated due to fiscal consolidation of recurrent spending (though public investment expanded). Total consumption moderated further, and exports shrank, in Q1 FY23/24 (April-June), but investment -especially public investment- continued to grow at a robust pace. The services sector drove growth on the supply side, with fast expansion in high-contact services like retail trade, tourism, and transportation.

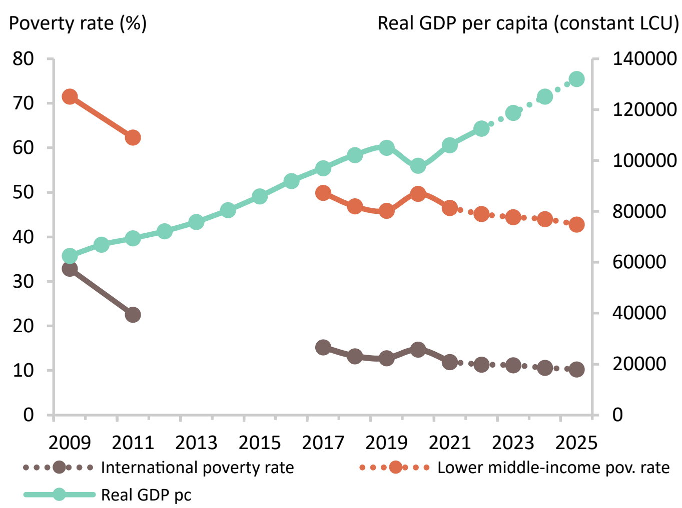
To address inflationary pressures (inflation reached 7.8 percent in April 2022) the RBI's Monetary Policy Committee raised

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



Sources: National Statistics Office (NSO) and World Bank staff calculations.
Notes: FY14/15 refers to the fiscal year 2014-15 (April 2014-March 2015) and so on.

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



Source: World Bank. Notes: see Table 2.

the policy rate by 250 basis points in FY22/23 and held the rate unchanged at 6.5 percent since February 2023. Both headline and core inflation trended down until May 2023, to 4.3 and 5.1 percent, respectively. However, recent abnormal monsoon rainfall pushed up food prices, driving headline inflation to 7.4 percent in July 2023. The increase in food prices disproportionately affects the poor and could aggravate malnutrition which already affects one-third of the population.

Urban unemployment fell to 7.2 percent in FY22/23 from 9.8 percent in FY21/22, but the share of regular salaried workers declined, with possible implications for income stability. The rural labor market showed signs of continued distress as demand for employment under the rural employment guarantee program exceeded pre-pandemic levels in FY22/23, and real earnings remained stagnant. One in three youths aged 15-29 and over half of the young women were outside employment, education, or training in FY21/22.

The general government fiscal deficit narrowed to 9.0 percent of GDP in FY22/23, thanks to strong tax revenue growth (15 percent) and consolidation of the central government's recurrent spending, through the gradual withdrawal of remaining pandemic-related measures. This created room to ramp up capital expenditure while decreasing total spending. Healthy growth and a narrower fiscal deficit brought public debt down from 84.8 percent of GDP in FY21/22 to 82.9 percent in FY22/23. The current account deficit widened to 2.0 percent of GDP in FY22/23. Services exports and remittance inflows increased, but the balance of trade in goods deteriorated with rising global crude oil prices. Net foreign direct investment fell below 1 percent of GDP, from 1.2 percent in FY21/22, and net portfolio investment turned negative. As a result, foreign exchange reserves fell to US$578 billion, equivalent to 7 months of import cover.

Outlook

Growth is projected to moderate to 6.3 percent in FY23/24, as consumption growth continues to decelerate, and external headwinds depress foreign demand. Over the medium term, growth should hover around its potential rate of 6.5 percent. Investment growth is projected to remain robust, supported by high public investment and improved corporate and banking sector balance sheets. The current account deficit is expected to narrow to around 1.5 percent of GDP over the forecast period as commodity prices decline relative to FY22/23, while services exports and remittances remain buoyant. Foreign exchange reserves are projected to remain adequate at around seven months of imports.

Headline inflation should decline over the medium term as domestic demand moderates and global commodity prices normalize. Inflationary pressures from food prices will abate gradually as domestic supply constraints are resolved.

The overall fiscal deficit is projected to narrow, bringing down public debt slowly to around 82 percent of GDP over the medium term. Revenues are projected to return to pre-pandemic levels as a share of GDP, thanks to improving compliance and healthy corporate profits. Current spending should continue to fall as a share of GDP, with capital spending elevated at over 5 percent of GDP. However, any fiscal measures to mitigate the current inflationary pressures may affect this projection.

Growth should still drive further declines in extreme and moderate poverty, to 11.2 percent and 44.4 percent in FY23/24, respectively. However, the pace of poverty reduction will depend on the inflation trajectory and how growth translates into incomes for the most vulnerable.

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

	2020/21	2021/22	2022/23	2023/24e	2024/25f	2025/26f
Real GDP growth, at constant market prices	-5.8	9.1	7.2	6.3	6.4	6.5
Private consumption	-5.2	11.2	7.5	5.9	6.0	6.4
Government consumption	-0.9	6.6	0.1	4.1	5.1	5.8
Gross fixed capital investment	-7.3	14.6	11.4	8.9	7.8	7.3
Exports, goods and services	-9.1	29.3	13.6	0.9	6.7	8.2
Imports, goods and services	-13.7	21.8	17.1	3.0	7.2	8.7
Real GDP growth, at constant factor prices	-4.2	8.8	7.0	6.3	6.4	6.5
Agriculture	4.1	3.5	4.0	3.5	3.6	3.7
Industry	-0.9	11.6	4.4	5.7	6.4	6.4
Services	-8.2	8.8	9.5	7.4	7.2	7.3
Inflation (consumer price index)	6.2	5.5	6.7	5.9	4.7	4.1
Current account balance (% of GDP)	0.9	-1.2	-2.0	-1.4	-1.2	-1.6
Net foreign direct investment inflow (% of GDP)	1.6	1.2	0.8	1.1	1.4	1.5
Fiscal balance (% of GDP)	-12.6	-9.6	-9.0	-8.7	-8.1	-7.9
Revenues (% of GDP)	18.5	19.5	18.9	19.5	19.9	20.0
Debt (% of GDP)	89.3	84.8	82.9	82.9	82.5	82.4
Primary balance (% of GDP)	-7.2	-4.4	-3.9	-3.3	-2.7	-2.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	14.7	11.9	11.3	11.2	10.6	10.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	49.7	46.5	45.1	44.4	44.0	42.8
GHG emissions growth (mtCO2e)	-4.0	8.3	5.8	3.6	3.6	3.6
Energy related GHG emissions (% of total)	69.3	71.5	72.8	73.4	73.9	74.4

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 CPHS data and the approach 1 imputation methodology from Roy & van der Weide (2022), with 200 simulations. Projections using annual growth rates for three sectors of employment with pass-through = 0.65 and inflation rates for food, fuel and other consumption. Based on GDP per capita at constant factor prices. Baseline distribution taken from one imputed consumption vector matching the national poverty rates.
b/ Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.

MALDIVES

Table 1	2022
Population, million	0.5
GDP, current US$ billion	6.2
GDP per capita, current US$	11777.6
Upper middle-income poverty rate ($6.85)[a]	3.9
Gini index[a]	29.3
School enrollment, primary (% gross)[b]	100.8
Life expectancy at birth, years[b]	79.9
Total GHG emissions (mtCO2e)	2.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2021).

The economy has maintained its strong growth momentum in 2023 due to rising tourist arrivals. The growth and poverty outlook remains positive, although concerns around vulnerability to shocks and inequalities remain. Commodity price volatility exerts pressure on external and fiscal balances, through costlier imports and higher subsidies. Elevated levels of spending sustain high fiscal deficits and debt vulnerabilities. Comprehensive subsidy and public investment reforms are needed for debt sustainability while mitigating related impacts on the vulnerable.

Key conditions and challenges

Tourism has maintained its robust performance in the first half of 2023. Despite the Russian invasion of Ukraine, arrivals from Russia remain strong. An earlier-than-expected reopening of the Chinese market in January has compensated for fewer tourists from India and Gulf countries, while arrivals from Europe remained high. This supported employment opportunities, which are particularly important for the poorest.

Heavy reliance on tourism and limited diversification remain a key structural challenge. As an economy that is heavily import-dependent, Maldives is also facing significant external and inflationary pressures due to high global commodity prices, negatively affecting public finances – given the government's blanket provision subsidies to help contain domestic price increases. This is further compounded by continued high capital expenditure and public debt, an increasing wage bill, and a costly health insurance scheme.

Targeted austerity measures could mitigate risks to vulnerable households, particularly in the atolls, where 93 percent of the poor live, as past welfare gains have been driven by a strong redistributive model. The latter includes universal access to basic health and education services, pensions, health insurance, and income support programs – which contribute to a larger share of income for poorer households. Additional challenges to welfare include differential access to economic opportunities in Male relative to atolls – mirrored by a higher Gini index over the whole population (29.3) than within Male (25.2) or within atolls (24.2), higher vulnerability among the self-employed, and overcrowding affecting poorer urban households.

To promote development, Maldives has scaled up infrastructure investments since 2016. Although these investments have contributed towards growth and better living standards, financing of these large investments through non-concessional sources has led to growing debt vulnerabilities.

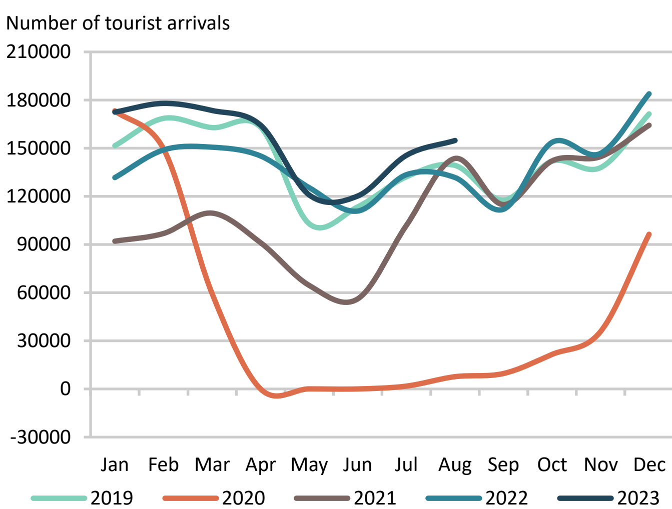
Despite an increased cost of external borrowing, the government continued to use foreign financing for infrastructure investments in 2023, while also relying on domestic borrowing to support recurrent spending. This has led to a concerning rise in the financial sector's exposure to the sovereign. The debt stock and debt servicing risks are expected to remain high.

Recent developments

The economy grew by 13.9 percent (y-o-y) in 2022 and 5.5 percent (y-o-y) in Q12023, surpassing the pre-pandemic nominal GDP level and translating into projected poverty rates below 2019 levels. Tourist arrivals reached 1.2 million by August 2023 and are projected at 1.9 million in 2023 – 13.8 percent higher than in 2022.

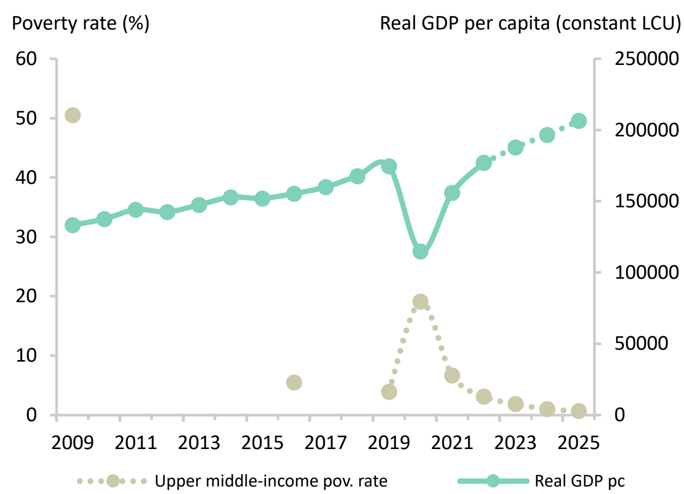
Along with the Goods and Services Tax (GST) increase in January 2023, higher global commodity prices led to rising domestic

FIGURE 1 Maldives / Tourist arrivals



Sources: Ministry of Tourism and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

inflation, which reached an average of 3.5 percent (y-o-y) in H12023 – higher than the historical average of 0.5 percent. Price increases were particularly acute in the food -climbing to 8.0 percent in March before falling to 4.5 percent in June-, transport, health, and restaurant services sectors.

Despite growth in tourism earnings, the current account deficit doubled to 16.7 percent of GDP in 2022, due to far costlier oil imports and capital imports for large investment projects. High import costs and external debt repayments put significant pressure on gross reserves, which fell from US$790 million in January to US$594.1 million in July (from 2.8 to 2.0 months of imports).

Given subsidy reforms were not implemented and capital spending cuts have not happened – both of which were proposed in the Budget – spending rose in 2023. However, this was somewhat offset by higher tax collections owing to the robust growth and increased tourism GST. Consequently, the 12-month rolling fiscal deficit declined in May to an estimated level of around 11 percent of GDP compared to 14.4 percent in 2022. MMA's asset exposure to the government further rose to 52 percent of its total financial assets in mid-2023, from 47.3 percent in 2022.

Outlook

The economy is projected to grow by 5.6 percent on average in the medium term, supported by robust tourism performance. The return of Chinese tourists, together with increasing arrivals from new and existing markets are expected to lead to sustained growth. Tourism will further be supported by the expansion of Velana International Airport (planned to be completed by 2025), a diversified tourism sector, and investments in new resorts.

Despite the recent increase in GST collections, in the absence of fiscal reforms, any meaningful improvement in the fiscal balance will be offset by continued high levels of spending. Public debt will, therefore, remain high. A larger fiscal adjustment is required to build external buffers and reduce fiscal vulnerabilities, including reducing spending on untargeted subsidies and bulk procurement for pharmaceutical purchases, and more effective public investment management. Better targeted transfers – including redirecting inefficiently allocated resources– would help mitigate the negative impacts of subsidy reforms on the poor.

High levels of consumption, elevated global commodity prices, and the GST rate hike are projected to keep inflation above the historical average in the medium term. Without targeted support, higher prices passed onto households could worsen the poverty outlook. Therefore, future subsidy reforms need to be carefully designed to minimize welfare risks.

The current account deficit is expected to remain elevated given commodity price pressures and continued capital imports to complete ongoing and planned public infrastructure projects. Volatile oil prices and rising external financing needs – including debt servicing – are expected to sustain pressure on official reserves.

Downside risks persist. Tourism could be adversely impacted by an extended global slowdown. Any further widening of the current account deficit could put additional pressure on reserves. The government faces external debt servicing payments ofUS$570 million on average over the next two years amidst tighter global financing conditions. On the upside, the global tourism sector outlook is robust, and with strong economic growth, poverty rates are expected to decline.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-32.9	37.7	13.9	6.5	5.2	5.5
Real GDP growth, at constant factor prices	-30.1	33.8	15.0	6.5	5.2	5.5
Agriculture	6.6	-0.7	3.1	2.3	3.1	2.8
Industry	-34.1	-4.6	25.2	9.7	7.7	3.1
Services	-31.7	43.4	14.7	6.4	5.0	6.0
Inflation (consumer price index)	-1.4	0.5	2.3	3.2	2.7	2.5
Current account balance (% of GDP)	-35.8	-8.7	-16.7	-17.6	-20.9	-19.4
Net foreign direct investment inflow (% of GDP)	11.9	12.2	11.7	12.2	12.0	11.5
Fiscal balance (% of GDP)	-23.7	-14.2	-14.4	-12.4	-11.8	-10.4
Revenues (% of GDP)	26.7	26.4	27.8	30.4	30.1	30.0
Debt (% of GDP)	151.6	112.1	113.5	113.7	115.1	116.3
Primary balance (% of GDP)	-20.9	-11.6	-11.0	-8.9	-8.2	-6.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	19.1	6.7	3.1	1.9	1.0	0.7
GHG emissions growth (mtCO2e)	-10.9	12.2	13.2	12.1	9.7	9.2
Energy related GHG emissions (% of total)	82.4	84.4	87.0	87.9	88.7	89.5

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 SAR-POV harmonization, using 2019-HIES. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Projections using microsimulation methodology.

NEPAL

Table 1	2022
Population, million	30.5
GDP, current US$ billion	40.8
GDP per capita, current US$	1336.5
International poverty rate ($2.15)[a]	8.2
Lower middle-income poverty rate ($3.65)[a]	40.0
Upper middle-income poverty rate ($6.85)[a]	80.4
Gini index[a]	32.8
School enrollment, primary (% gross)[b]	127.4
Life expectancy at birth, years[b]	68.4
Total GHG emissions (mtCO2e)	52.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2010), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Nepal's economy slowed in FY23 due to monetary tightening, sluggish capital expenditure, and import restriction measures. The sharp drop in imports led to a historic contraction in fiscal revenues and a wide fiscal deficit. Foreign reserves rose as remittance inflows surged, while inflation remained high. Basic commodity prices, and a structural vulnerability to falling back into poverty, are likely to increase poverty in the short term. With the lifting of import restrictions mid-FY23, growth is expected to recover through FY25.

Key conditions and challenges

Nepal's economic growth averaged 4.3 percent annually between FY13 and FY23, elevating the country to lower middle-income status in 2020. Growth benefited from substantial remittance inflows averaging 23 percent of GDP per year over the same period. A structural deficit has emerged following the transition to federalism as new administrative structures have been established while spending responsibilities have yet to be fully devolved. The jobs recovery following COVID-19 was slow and unequal, with international remittances and domestic labor mobility being the key factors supporting the economic recovery. Structural economic vulnerability, exposure to a wide range of shocks, and spatial inequality define human development, poverty, inequality, and outcomes in Nepal. Social protection programs are currently limited in scope and will need to be re-designed to reach the poor and economically vulnerable, especially in response to economic and climate-related shocks. Spatial inequalities in access to basic child opportunities such as health and education remain relevant despite sustained progress on key indicators of non-monetary welfare. Improvements over the last decade in access to basic services, including in electricity, health, and education, have likely been accompanied by a reduction in poverty. The recently concluded fourth Nepal Living Standards Survey will update trends in national poverty and produce provincial poverty estimates.

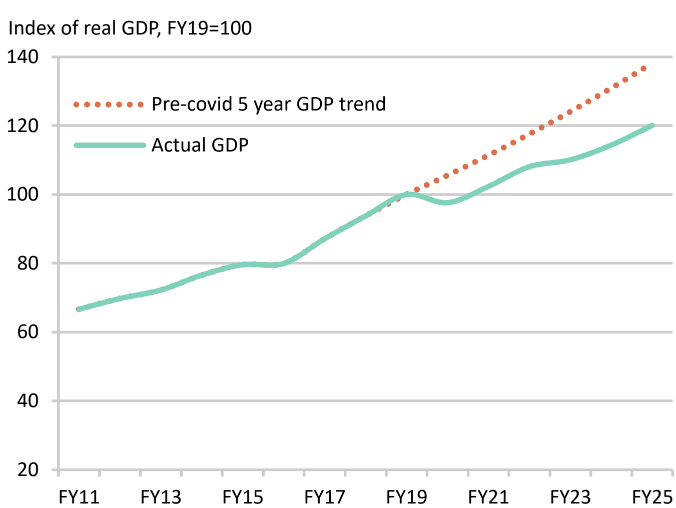
Recent developments

The economy slowed to 1.9 percent GDP growth in FY23, reflecting a 150 basis points increase in the policy rate and import restriction measures to stem foreign exchange losses under the fixed exchange rate regime. Manufacturing, construction, and the wholesale and retail trade sectors all contracted. Despite the slowdown, inflation accelerated to 7.8 percent, exceeding the central bank's policy ceiling of 7 percent notwithstanding tighter monetary policy, reflecting in part India's export ban on wheat and flour. Lower and erratic monsoon rainfall could further increase food prices and headline inflation, with the negative impact of increased food prices falling disproportionately on poorer and more vulnerable households.

The current account deficit narrowed from 12.6 percent to 1.3 percent of GDP between FY22 and FY23, reflecting a significant decline in goods imports and a strong rebound in remittances. In the context of low external debt amortizations, foreign reserves rose to 10 months of import cover as of end-FY23.

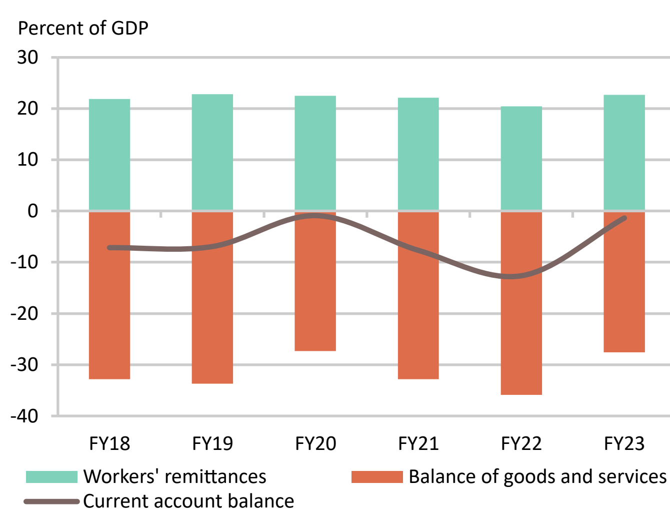
As goods imports declined, fiscal revenue fell from 23.1 percent to 19.2 percent of GDP, leading to almost a doubling of the fiscal deficit from 3.2 percent to 6.1 percent of GDP between FY22 and FY23. Expenditures also declined but by much

FIGURE 1 Nepal / Real GDP levels: Actual vs. pre-covid trend



Sources: World Bank staff projections and Nepal National Statistics Office.

FIGURE 2 Nepal / Current account deficit



Sources: World Bank staff calculations and Nepal Rastra Bank.

less, reflecting lower transfers to subnational governments. The deficit was financed through external concessional borrowing, domestic borrowing, and balances in other government accounts. The May 2023 Joint World Bank-IMF Debt Sustainability Analysis finds that the country's risk of debt distress remains low.

Outlook

The baseline forecast assumes that: i) monetary policy will gradually ease; ii) lumpy skin disease affecting livestock – which has infected 1.3 million animals since April 2023 - will be under control by mid-January 2024; iii) India's export food bans will be lifted by FY25; and, iv) electricity exports will reach 1000 megawatts annually by FY25. Under these conditions, growth is expected to rebound to 3.9 percent in FY24 and 5 percent in FY25. The lagged impact of lifting import restriction measures in January 2023 and monetary policy loosening are expected to support the industrial and services sectors. Agricultural growth is projected to slow in FY24 partly due to livestock losses, then provide a boost in FY25.

Inflation is expected to remain above the FY24 policy ceiling of 6.5 percent, reflecting the recent taxation of select basic food items, India's food export restrictions, and higher fuel prices. The removal of VAT exemptions on basic food items and necessities is expected to increase the poverty headcount by up to 1 percentage point and increase economic vulnerability for the second and third consumption quintiles. Continued high inflation in FY24 will weigh on household disposable income and private consumption growth and lead to decreased welfare, particularly for poor and economically vulnerable households. A weak domestic labor market that relies on informal and subsistence jobs could exacerbate this negative welfare impact.

Exports and FDI are small relative to remittances and imports. Electricity exports will support export growth while imports will rise more quickly, widening the current account deficit. Near-record worker out-migration in FY23 will support remittance inflows in FY24 and FY25.

Revenue growth should increase in FY24 with stronger GDP and import growth. The FY24 budget envisions lower capital spending, lower transfers to subnational governments, and higher debt servicing costs. Public investment should rise in FY25 as revenues grow. Public debt is expected to peak in FY24 and then recede slightly to 41.2 percent of GDP by FY25. The fiscal deficit is projected to narrow to 3.3 percent of GDP by FY25.

The forecast is subject to multiple downside risks. An erratic monsoon could dampen agricultural growth. Alongside potential livestock losses, this is likely to result in a negative economic outlook for the poor. Political uncertainty could hold back investment. A renewed spike in commodity prices or continued food export bans by India would raise prices and widen the current account deficit. Higher inflation could keep policy rates elevated, increase domestic debt servicing costs, and drag on growth.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-2.4	4.8	5.6	1.9	3.9	5.0
Private consumption	3.6	8.0	6.8	4.1	3.7	4.5
Government consumption	3.8	-1.7	9.6	-35.2	-19.3	8.1
Gross fixed capital investment	-8.9	9.8	3.8	-10.9	14.5	8.6
Exports, goods and services	-15.9	-21.3	34.1	5.5	12.1	18.4
Imports, goods and services	-20.8	18.8	15.1	-17.2	10.3	9.7
Real GDP growth, at constant factor prices	-2.4	4.5	5.3	2.2	3.9	5.0
Agriculture	2.4	2.8	2.2	2.7	2.1	2.5
Industry	-4.0	6.9	10.8	0.6	3.2	6.3
Services	-4.5	4.7	5.3	2.3	5.1	5.9
Inflation (consumer price index)	6.1	3.6	6.3	7.8	7.5	6.4
Current account balance (% of GDP)	-0.9	-7.7	-12.6	-1.3	-3.7	-4.6
Net foreign direct investment inflow (% of GDP)	0.5	0.4	0.4	0.1	0.3	0.5
Fiscal balance (% of GDP)	-5.4	-4.0	-3.2	-6.1	-3.5	-3.3
Revenues (% of GDP)	22.2	23.3	23.1	19.2	19.8	20.8
Debt (% of GDP)	36.9	39.9	40.8	41.3	41.4	41.2
Primary balance (% of GDP)	-4.7	-3.2	-2.3	-4.7	-1.8	-1.9
GHG emissions growth (mtCO2e)	3.2	0.8	4.4	3.8	11.1	5.9
Energy related GHG emissions (% of total)	30.0	28.8	29.9	31.4	36.8	39.1

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

PAKISTAN

Table 1	2022
Population, million	235.8
GDP, current US$ billion	375.4
GDP per capita, current US$	1592.1
International poverty rate ($2.15)[a]	4.9
Lower middle-income poverty rate ($3.65)[a]	39.8
Upper middle-income poverty rate ($6.85)[a]	84.5
Gini index[a]	29.6
School enrollment, primary (% gross)[b]	95.5
Life expectancy at birth, years[b]	66.1
Total GHG emissions (mtCO2e)	492.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2021).

Pakistan's economy is estimated to have contracted in FY23 amid the catastrophic floods, high inflation, and tight macroeconomic policy. Import controls exacerbated supply chain disruptions and undermined confidence. Poverty is estimated to have increased due to record-high food and energy prices, weak labor markets, and flood-related damages. An IMF Stand-by Arrangement (SBA) was recently approved, unlocking new external financing. While recovering slightly, GDP growth will remain below potential over the medium term.

Key conditions and challenges

Pakistan's strong post-pandemic recovery came to a halt in FY23 with large economic imbalances that resulted from the delayed withdrawal of accommodative policy, and a series of domestic and external economic shocks. Pressures on domestic prices, external and fiscal balances, the exchange rate, and foreign exchange reserves mounted amid surging world commodity prices, global monetary tightening, recent catastrophic flooding, and domestic political uncertainty. Confidence and economic activity collapsed due to import controls, periodic exchange rate fixing, creditworthiness downgrades, and ballooning interest payments. Poverty is estimated to have increased due to deteriorating wages and job quality, along with high inflation that eroded purchasing power, particularly for the poor.

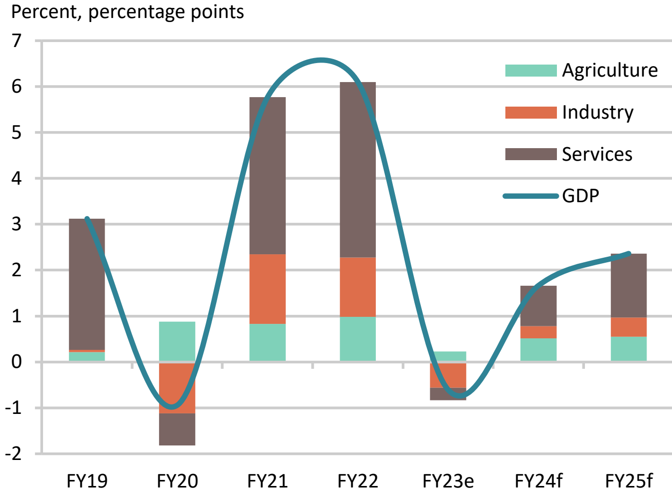
An IMF-SBA was recently approved, unlocking new external financing. Still, risks are exceptionally high, with the outlook predicated on remaining on track with the SBA, fiscal restraint, and continued external financing. Financial sector instability and policy slippages due to social tensions pose significant risks. Continued high inflation, localized insecurity, and weak growth increase vulnerability to falling into poverty and worsen the situation of the existing poor. More than 10 million people are currently just above the poverty line, and at risk of becoming classified as poor if the situation deteriorates.

Recent developments

Pakistan's economy is estimated to have contracted by 0.6 percent y-o-y in FY23, after growing by an average of 5.6 percent over FY21-22. The impact of devastating floods on agriculture and difficulties securing inputs, including fertilizers, slowed agriculture output growth to a modest 1.0 percent. With 44 percent of poor workers relying on agriculture, weak agricultural performance had significant poverty impacts. Supply chain disruptions due to import restrictions and flood impacts, high fuel and borrowing costs, political uncertainty, and weak demand affected industry and service sector activity and are estimated to have contracted by around 3 and 0.5 percent, respectively. This likely reduced the labor incomes of millions of workers, especially those who moved to lower-productivity informal jobs.

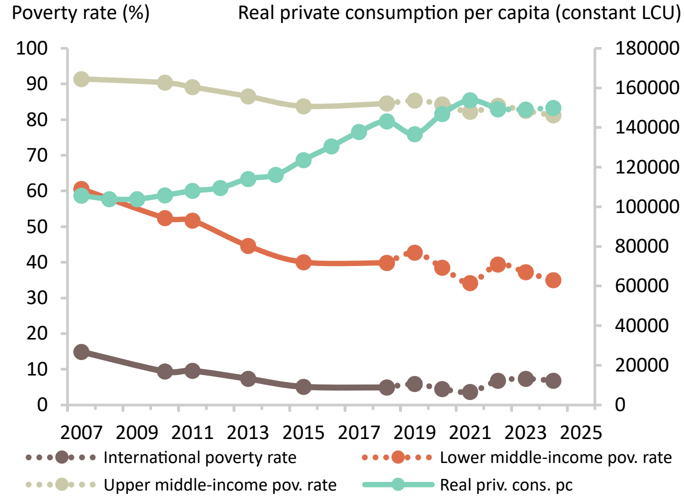
Average headline inflation rose to a multi-decade high of 29.2 percent y-o-y in FY23, up from 12.2 percent in FY22, owing to the weaker currency, reduced domestic fuel and electricity subsidies, and supply chain disruptions. Food inflation nearly tripled to 38.7 percent, particularly affecting poorer households that spend half their budget on food. Due to differing consumption patterns, households in the poorest decile experienced a higher inflation rate (seven percentage points higher) than the richest decile. Poverty is

FIGURE 1 Pakistan / Real GDP growth and sectoral contributions to real GDP growth



Sources: Pakistan Bureau of Statistics and World Bank staff estimates.
Notes: Pakistan reports data on fiscal year (FY) basis. The fiscal year runs from July 1 through June 30.

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



Source: World Bank. Notes: see Table 2.

estimated to have increased by five percentage points to 39.4 percent (US$3.65/day 2017 PPP) in FY23, with 12.5 million more poor Pakistanis relative to FY22. Poverty rose despite government efforts, including a 25 percent increase in cash payments under the Benazir Income Support Program, a one-off targeted fuel subsidy, and payments to flood-affected families.

Reflecting lower remittances, sizeable debt servicing payments, and no access to international capital markets, Pakistan's external account weakened, with foreign reserves falling significantly, equivalent to just one month of total imports at the end of FY23. Reflecting the imposition of import controls to preserve reserves and a weaker currency, the current account deficit shrank to a ten-year low, equivalent to 0.7 percent of GDP in FY23 from 4.7 percent in FY22. With large debt repayments amid limited foreign investment, the financial account saw a deficit for the first time since FY04. The official exchange rate depreciated by 28.6 percent against the U.S. dollar over FY23.

In line with some fiscal consolidation and rapid nominal GDP growth, the primary deficit narrowed to an estimated 0.8 percent of GDP in FY23. The overall fiscal deficit, however, is estimated to have remained high at 7.8 percent of GDP, reflecting larger interest payments with higher domestic interest rates and the weaker currency.

Overall, the economic contraction, high inflation, and flood-related devastation affected poorer households disproportionately, leading to greater inequality, with the Gini index estimated to have increased by 1.5 points to 30.7 in FY23. Moreover, the floods, which caused extensive damage to public infrastructure, including schools and clinics, coupled with maladaptive economic coping strategies such as removing children from schools, have likely worsened disparities in human development outcomes within and across regions.

Outlook

Even with the SBA, reserves are expected to average less than one month of total imports over FY24-FY25, necessitating continued import controls and constraining economic recovery. Real GDP growth is expected to only reach 1.7 percent in FY24, with tight fiscal and monetary policy, persistent inflation, and weak confidence due to political uncertainty surrounding upcoming elections. With the resumption of growth, poverty is expected to decline to 37.2 percent in FY24. The current account deficit is projected to gradually widen to 1.5 percent of GDP in FY25.

Inflation is projected to remain high at 26.5 percent in FY24 and moderate to 17.0 percent in FY25 amid high base effects and lower global commodity prices. However, the higher petroleum levy and energy tariff adjustments will maintain domestic energy price pressures and contribute to growing social and economic insecurity. Protracted and elevated food and energy price inflation, in the absence of substantial growth, could cause social dislocation and have negative welfare impacts, especially on the worse-off households with already depleted savings and reduced incomes.

The fiscal deficit is forecasted to narrow marginally, averaging 7.6 percent of GDP over FY24 and FY25, reflecting high-interest payments. The primary deficit will remain modest at an average of 0.3 percent of GDP, reflecting consolidation efforts. Despite liquidity pressures, the public debt-to-GDP ratio is projected to decline over the medium term.

TABLE 2 Pakistan / 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	-1.3	6.5	4.7	-0.6	1.7	2.4
Private consumption	-2.8	9.4	6.7	-1.0	1.9	2.6
Government consumption	8.5	1.8	-1.3	-7.2	1.9	2.8
Gross fixed capital investment	-6.7	3.7	5.7	-17.8	0.8	2.2
Exports, goods and services	1.5	6.5	5.9	-8.6	0.7	2.0
Imports, goods and services	-5.1	14.5	11.0	-17.8	1.7	3.2
Real GDP growth, at constant factor prices[a]	-0.9	5.8	6.1	-0.6	1.7	2.4
Agriculture	3.9	3.5	4.3	1.0	2.2	2.4
Industry	-5.7	8.2	6.8	-2.9	1.4	2.3
Services	-1.2	5.9	6.6	-0.5	1.5	2.4
Inflation (consumer price index)	10.7	8.9	12.2	29.2	26.5	17.0
Current account balance (% of GDP)	-1.5	-0.8	-4.7	-0.7	-1.4	-1.5
Net foreign direct investment inflow (% of GDP)	0.9	0.5	0.5	0.1	0.1	0.4
Fiscal balance (% of GDP)	-7.0	-6.0	-7.8	-7.8	-7.6	-7.5
Revenues (% of GDP)	13.3	12.4	12.1	11.6	11.9	12.3
Debt (% of GDP)[b]	81.1	75.6	80.7	82.3	72.4	70.3
Primary balance (% of GDP)	-1.5	-1.1	-3.1	-0.8	-0.4	-0.2
International poverty rate ($2.15 in 2017 PPP)[c,d]	5.9	4.5	3.6	6.8	7.4	6.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	42.7	38.5	34.2	39.4	37.2	35.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	85.4	84.3	82.2	83.9	82.5	81.2
GHG emissions growth (mtCO2e)	1.2	5.2	5.2	2.0	1.8	2.6
Energy related GHG emissions (% of total)	42.6	43.7	44.5	43.8	43.8	43.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ The Government's provisional FY23 estimate of real GDP growth (at 2015-16 prices) is 0.3 percent.
b/ Prior to FY22, public debt does not include Central Bank deposits and bilateral SWAP liabilities.
c/ Calculations based on SAR-POV harmonization, using 2018-HIES. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
d/ Poverty projections based on microsimulations using 2018-HIES and aggregate macroeconomic indicators (see Caruso et al 2017).

SRI LANKA

Table 1	2022
Population, million	22.2
GDP, current US$ billion	74.4
GDP per capita, current US$	3348.0
International poverty rate ($2.15)[a]	1.0
Lower middle-income poverty rate ($3.65)[a]	11.3
Upper middle-income poverty rate ($6.85)[a]	49.3
Gini index[a]	37.7
School enrollment, primary (% gross)[b]	100.3
Life expectancy at birth, years[b]	76.4
Total GHG emissions (mtCO2e)	45.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2021).

The economy has shown initial signs of stabilization, albeit at a low-level equilibrium, with moderating inflation, easing foreign exchange liquidity pressures, and some progress in debt restructuring. However, the path to recovery remains narrow, with limited fiscal and external buffers. A successful debt restructuring and continued implementation of structural reforms remain essential to restore stability and put the country back on a sustainable growth and poverty reduction path.

Key conditions and challenges

Sri Lanka's longstanding structural weaknesses were elevated by several shocks, which ultimately plunged the country into an economic crisis. Poor governance, a restrictive trade regime, a weak investment climate, episodes of loose monetary policy, and an administered exchange rate contributed to macroeconomic imbalances. Fiscal indiscipline led to high fiscal deficits and large gross financing needs, which, together with risky commercial borrowing, elevated debt vulnerabilities. Ill-timed tax cuts in 2019 further eroded weak fiscal buffers and led to a rapid growth in debt to unsustainable levels. As Sri Lanka lost access to international financial markets in 2020 and official reserves dropped precipitously thereafter, the forex liquidity constraint ultimately led to severe shortages of essential goods in 2022. The country announced an external debt service suspension in April 2022, pending debt restructuring. Amid the crisis, half a million jobs were lost, food insecurity and malnutrition increased, poverty doubled, and inequality widened.

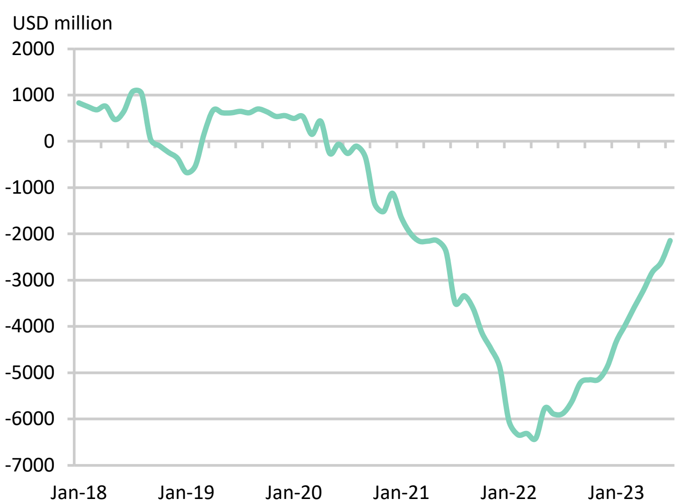
The government is implementing structural reforms to regain macroeconomic stability and a sustainable growth path, including cost-reflective utility pricing, revenue-enhancing measures, trade, investment, SOE, and social protection reforms. Key legislation is being enacted on monetary policy, debt, and public financial management. In March 2023, the IMF approved a 48-month Extended Fund Facility of approximately US$3 billion to support the government's reform program, which was followed by budget support from development partners, including the World Bank. Debt restructuring discussions with external creditors are ongoing. The Parliament approved a domestic debt restructuring strategy in July 2023, which excluded financial sector-held government securities issued under domestic law.

Recent developments

The economy contracted by 7.8 percent (y-o-y) in 2022 and 7.9 percent (y-o-y) in 1H 2023. Construction, manufacturing, real estate, and financial services suffered the most amid shrinking private credit, shortages of inputs, and supply chain disruptions, worsening the negative welfare impacts of income contractions and job losses registered in 2022. Headline inflation, measured by the Colombo Consumer Price Index, peaked at 69.8 percent (y-o-y) in September 2022 and subsequently declined sharply to 4 percent (y-o-y) in August 2023 from a high base amid subdued demand. Decelerating inflation was beneficial for households' welfare, and helped limit further increases in food insecurity and malnutrition, especially among poor households.

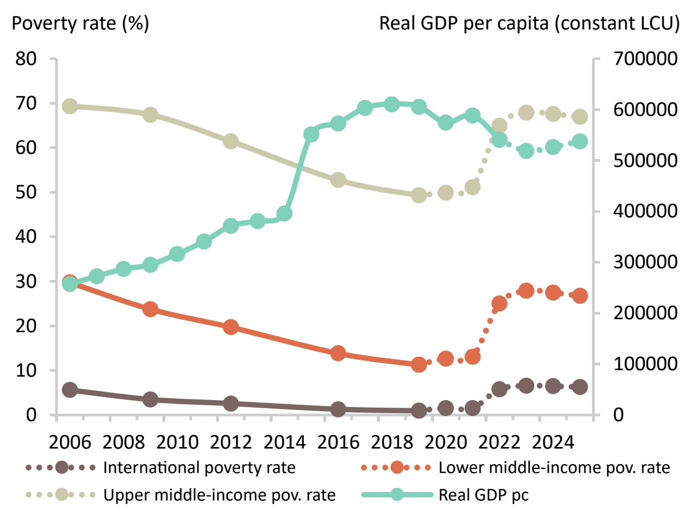
The central bank began to loosen monetary policy as inflation decelerated. Policy rates were cut by 250 basis points in June 2023

FIGURE 1 Sri Lanka / Net foreign assets of the banking system



Sources: Central Bank of Sri Lanka and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

and by a further 200 basis points in July, bringing the Standing Deposit Facility rate down to 11 percent and the Standing Lending Facility rate to 12 percent. Supported by policy rate cuts and better clarity on domestic debt restructuring, the 91-day T-bill rates fell below 20 percent in July 2023 (for the first time since April 2022).

Between January and July 2023, the merchandise trade deficit contracted by US$1 billion (y-o-y), driven by import restrictions and subdued import demand (primarily for intermediate and investment goods), despite the reduction in exports driven by weak global demand. Foreign exchange liquidity pressures are easing due to the absence of large debt service payments, strong remittance flows, and improved tourism earnings, leading to an accumulation of usable foreign reserves to US$2.4 billion by end-July 2023 (equivalent to 5-6 weeks of imports of goods and services). Stronger remittance flows contributed to higher non-labor income, although it also reflected an increase in emigration since the start of the crisis. After depreciating by 81 percent against the US Dollar in 2022, the currency (LKR) appreciated by 11 percent from January to August of 2023.

The overall fiscal deficit increased in the first four months of 2023, driven by a sharp rise in interest payments, despite higher total revenues and, consequently, a near closing of the primary deficit. While some of the necessary fiscal reforms, including new revenue measures, have improved overall progressivity, indirect taxes, and rising energy prices are placing a disproportionate burden on the poor and vulnerable. Unless mitigated with targeted measures, the removal of energy subsidies could lead to further poverty increases.

Outlook

Growth prospects depend on progress with debt restructuring and the implementation of growth-enhancing structural reforms. Inflation is projected to stay in single digits amid weak demand, as monetization of fiscal deficits wanes. Further, monetary loosening and exchange rate pressures could counter this trend. Poverty is projected to increase in 2023 before declining over the medium term, in line with the slow recovery. Despite the removal of import restrictions, the current account deficit is expected to narrow further in 2023, due to continued liquidity constraints, and remain benign thereafter with the recovery in tourism and remittances. Although the primary deficit is expected to decline in 2023, the overall balance will remain high due to the large interest bill. Debt restructuring and a revenue-based fiscal consolidation are projected to reduce the overall balance in the medium-term.

While recent macroeconomic performance has been better than expected, downside risks remain high, given a narrow path to recovery and limited buffers. A prolonged or insufficiently deep external debt restructuring, a deterioration in the political situation (including a backlash to the reforms), inadequate domestic revenue mobilization, limited external financing support, a sharper global slowdown, and a prolonged recovery from the scarring effects of the crisis are key risks to restoring stability, regaining a sustainable growth path, and bringing Sri Lanka back to pre-crisis rates of poverty. The financial sector needs continuous monitoring, given high exposures to the public sector, rising non-performing assets, and tight liquidity conditions.

The necessary macroeconomic adjustments may initially adversely affect growth, poverty, and inequality, but will correct overall imbalances, help regain access to international financial markets, and build the foundation for sustainable growth. Mitigating the impacts on the poor and vulnerable remains critical during the adjustment.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices[a]	-4.6	3.5	-7.8	-3.8	1.7	2.4
Private consumption	-5.8	2.6	-9.0	-4.1	1.9	2.5
Government consumption	0.0	-2.8	1.4	-2.6	-1.7	0.9
Gross fixed capital investment	-7.9	6.3	-22.8	-4.4	2.0	3.1
Exports, goods and services	-29.6	10.1	10.2	-4.3	2.8	3.1
Imports, goods and services	-20.1	4.1	-19.9	-4.6	1.5	2.8
Real GDP growth, at constant factor prices[a]	-2.9	4.0	-6.7	-3.8	1.7	2.4
Agriculture	-0.9	0.9	-4.6	0.8	1.5	1.5
Industry	-5.3	5.7	-16.0	-5.8	1.6	2.4
Services	-1.9	3.5	-2.0	-3.4	1.8	2.5
Inflation (consumer price index)	4.6	6.0	46.4	17.9	5.9	5.9
Current account balance (% of GDP)	-1.4	-3.7	-5.3	-1.0	-0.9	-0.7
Net foreign direct investment inflow (% of GDP)	0.5	0.7	1.2	1.1	1.1	1.2
International poverty rate ($2.15 in 2017 PPP)[b,c]	1.6	1.5	5.8	6.6	6.5	6.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	12.7	13.1	25.0	27.9	27.5	26.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	49.9	51.1	65.0	67.9	67.6	67.0
GHG emissions growth (mtCO2e)	4.8	9.7	5.1	-10.2	0.2	1.4
Energy related GHG emissions (% of total)	65.5	68.3	70.2	66.5	66.4	66.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ GDP by expenditure for 2020 and 2021 are estimates, as the data published on March 15, 2023 by authorities only included GDP by production.
b/ Calculations based on SAR-POV harmonization, using 2019-HIES. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
c/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

Sub-Saharan Africa

Annual Meetings 2023

Angola
Benin
Botswana
Burkina Faso
Burundi
Cabo Verde
Cameroon
Central African Republic
Chad
Comoros
Congo, Dem. Republic
Congo, Republic
Côte d'Ivoire
Equatorial Guinea
Eritrea
Eswatini
Ethiopia
Gabon
Gambia, The
Ghana
Guinea
Guinea-Bissau
Kenya
Lesotho
Liberia
Madagascar
Malawi
Mali
Mauritania
Mauritius
Mozambique
Namibia
Nigeria
Rwanda
São Tomé and Príncipe
Senegal
Seychelles
Sierra Leone
Somalia
South Africa
South Sudan
Sudan
Tanzania
Togo
Uganda
Zambia
Zimbabwe

ANGOLA

Table 1	2022
Population, million	35.0
GDP, current US$ billion	121.9
GDP per capita, current US$	3481.2
International poverty rate ($2.15)[a]	31.1
Lower middle-income poverty rate ($3.65)[a]	52.9
Upper middle-income poverty rate ($6.85)[a]	78.0
Gini index[a]	51.3
School enrollment, primary (% gross)[b]	85.0
Life expectancy at birth, years[b]	61.6
Total GHG emissions (mtCO2e)	111.0

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

The economy stagnated in the first quarter of 2023 due to a decline in oil production. In addition, the partial removal of gasoline subsidies and currency depreciation have negatively affected non-oil sectors. As a result, growth is expected to fall in 2023, while inflation is estimated to accelerate. Hence, poverty is expected to marginally rise to 32.8 percent. The excessive dependency on oil revenue remains an elevated risk.

Key conditions and challenges

Angola, a lower middle-income country with 34 million people and the second largest oil producer in Sub-Saharan Africa, is overly dependent on oil. In 2022, oil accounted for 26 percent of GDP, 62 percent of tax revenues, and 95 percent of exports. This has made growth and macroeconomic management highly vulnerable to external shocks, stunted the non-oil economy, and constrained the creation of jobs. In addition, governance weaknesses and a challenging business environment have limited private sector development. Consequently, 80 percent of workers are informal, as self-employment (with no employees) accounts for a third of all jobs. Informality is particularly high for women (88 percent compared to 72 percent for men). Urban and youth unemployment remain high, reaching 38 percent and 52 percent, respectively.

Macroeconomic stability has been enhanced in the past few years through a more flexible exchange rate regime, central bank autonomy, sound monetary policy, and fiscal consolidation. However, economic diversification remains a challenge due to limited human and physical capital. The reform agenda to boost economic diversification is complex, requires effective coordination, solid institutions, and high-level political commitment to succeed.

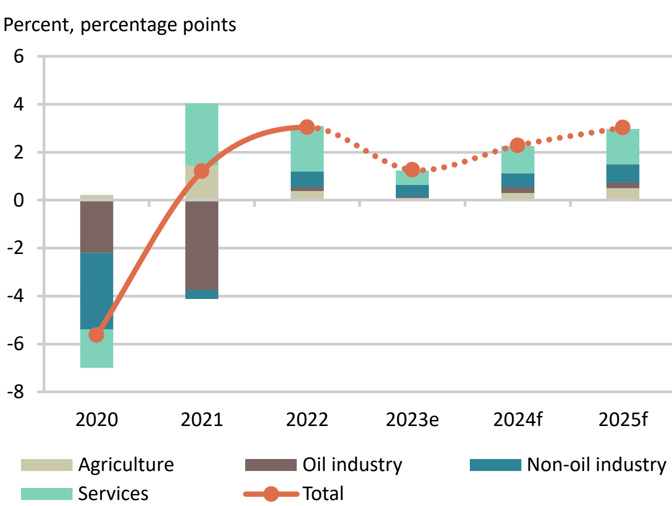
Building human capital is a key priority for reducing poverty and boosting economic growth. Limited access to health and education services reduces the potential productivity of an Angolan child to a third, as investments in human capital formation remain modest. While Angola has a social protection registry and a cash transfer program (Kwenda) with nearly 750,000 rural beneficiaries receiving payments as of August 2023 (65 percent are women), a broader safety net with urban coverage and adaptable income support would reduce poverty in the near-term and protect households against shocks.

Recent developments

The economy expanded 0.3 percent year-on-year in the first quarter of 2023, as growth in services (4.1 percent) was offset by a decline in oil production (-8.0 percent). Maintenance shutdown in a major oil field brought production below 1 million barrels per day for the first time in years. However, production is already recovering, exceeding 1.1 million barrels per day by mid-2023. Growth for 2023 is estimated at 1.3 percent, as both the oil and the non-oil sectors are expected to underperform. Despite the recent recovery in oil production, the average in 2023 will very likely stand close to the 2022 level. Non-oil sectors will be affected by cut in public investments and the recent sharp currency depreciation, which is harming private consumption and production in sectors that rely on imported inputs.

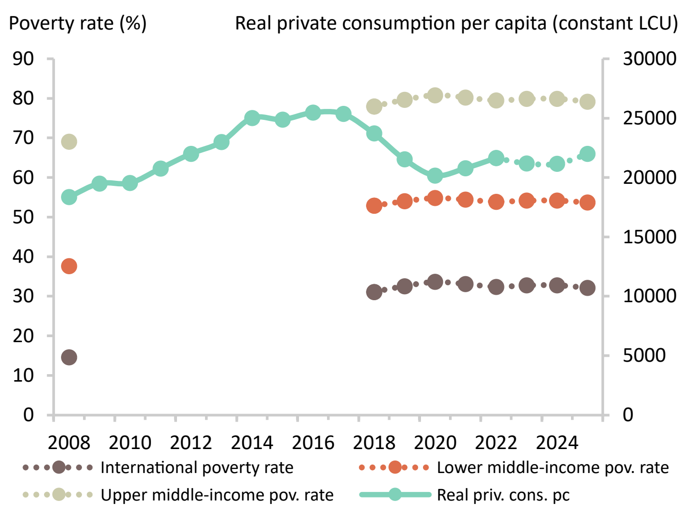
Inflation continued falling rapidly from a peak of 27.7 percent in January 2022 to 10.6 percent in April 2023. However, the partial

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



Sources: Angola National Institute of Statistics and World Bank.

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



Source: World Bank. Notes: see Table 2.

removal of gasoline subsidies and the weakening of the kwanza have reversed the inflation's declining trend. The reform raised gasoline prices from 160 to 300 kwanzas per liter and mitigation measures were insufficient to shield poorer consumers. The kwanza depreciated around 40 percent against the US dollar between mid-May and end-June, due to lower government's supply of foreign currency resulting from lower oil revenues and larger external debt service as debt relief deals expired. The combination of higher gasoline prices and more expensive imported products has increased inflation from 10.6 in April to 12.1 in July, with food and transportation prices also growing faster.

Slowing growth and rising food prices is expected to result in negative per capita private consumption growth and a marginal increase in poverty at $2.15 per day (2017 PPP) from 32.4 to 32.8 percent in 2023, with a total of 11.8 million Angolans living in poverty.

Outlook

Although new oil projects will slightly increase production in coming years, it will be difficult for the sector to avoid long-term production decline. Oil GDP is estimated to grow only 1 percent in the coming years due to field depletion and lack of investment. Non-oil sectors are projected to drive overall growth, which is expected to return to 3 percent in the medium term. Achieving higher growth rates will depend on the country's effort to diversify its economy.

Inflation is projected to continue increasing in the coming months as higher prices of imported products pass on to consumers. The monetary policy is expected to be effective in containing second round effects and anchoring inflation expectations. As a result, inflationary pressures are expected to ease in 2024 and, under a baseline scenario, decline gradually toward the Central Bank's target of 7 percent. However, the phasing out of fuel subsidies planned for 2024-2025 will likely delay this convergence.

With private consumption growth projected to exceed population growth in 2025, poverty is expected to increase marginally in 2024 but fall to 32.1 percent in 2025. The number of people living in poverty is projected to reach 12.2 million in 2024. Reducing poverty in the near-term will require targeted interventions, such as substantial expansion of cash transfers, investments to increase agricultural incomes, and increased employment opportunities for youth and low-skilled workers in urban areas.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-5.6	1.2	3.0	1.3	2.3	3.0
Private consumption	-9.3	4.7	7.0	1.0	3.0	4.0
Government consumption	-14.0	-6.4	3.6	1.0	2.5	2.6
Gross fixed capital investment	-2.0	5.3	5.9	1.5	3.0	4.0
Exports, goods and services	-7.3	-8.6	2.9	0.1	0.9	0.9
Imports, goods and services	-21.7	-3.8	15.5	-2.0	3.0	3.0
Real GDP growth, at constant factor prices	-6.8	-0.1	3.1	1.2	2.2	3.0
Agriculture	2.8	17.2	3.9	1.0	3.0	5.0
Industry	-10.5	-8.3	1.8	1.2	1.8	2.2
Services	-3.9	6.2	4.2	1.3	2.5	3.3
Inflation (consumer price index)	22.3	25.8	21.4	12.6	18.4	14.1
Current account balance (% of GDP)	1.5	11.1	9.6	6.7	2.7	1.0
Net foreign direct investment inflow (% of GDP)	3.4	4.4	5.4	3.1	2.0	0.8
Fiscal balance (% of GDP)	-1.6	2.3	1.0	0.9	1.9	-0.1
Revenues (% of GDP)	21.7	21.8	23.8	25.6	26.2	23.9
Debt (% of GDP)	133.8	82.9	64.6	88.3	75.0	67.0
Primary balance (% of GDP)	5.4	7.4	5.0	6.7	7.5	5.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	33.6	33.1	32.4	32.8	32.8	32.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	54.8	54.4	53.9	54.2	54.2	53.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	80.8	80.2	79.5	79.9	79.9	79.2
GHG emissions growth (mtCO2e)	-3.6	-1.9	-0.8	-0.4	-0.2	0.0
Energy related GHG emissions (% of total)	13.3	12.6	12.2	12.0	11.8	11.8

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 2013- and 2018-IDREA. Projection using point to point elasticity at regional level with pass-through = 0.7 based on private consumption per capita in constant LCU.
b/ Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.

BENIN

Table 1	2022
Population, million	13.4
GDP, current US$ billion	17.5
GDP per capita, current US$	1310.1
International poverty rate ($2.15)[a]	20.1
Lower middle-income poverty rate ($3.65)[a]	53.2
Upper middle-income poverty rate ($6.85)[a]	83.6
Gini index[a]	37.9
School enrollment, primary (% gross)[b]	116.7
Life expectancy at birth, years[b]	59.8
Total GHG emissions (mtCO2e)	28.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2021).

Real growth is projected to moderate to 5.8 percent in 2023 as sanctions against neighboring Niger and reforms in Nigeria affect reexport activities and import prices. Poverty reduction should slow in 2023, settling at 15.6 percent. The response to overlapping crises has significantly reduced fiscal space, while debt levels increased. Food and energy price volatility, regional tensions, increased security risks in the North, and extreme weather events cloud the outlook.

Key conditions and challenges

The countercyclical, expansionary fiscal policy response to the overlapping crises over 2020-22 were enabled by the fiscal consolidation efforts in 2016-19. This, combined with significant infrastructure investment under the second Government Action Plan (PAG, 2021-26) and a resilient agriculture sector, maintained above-regional average growth over the past years. Nonetheless, poverty and vulnerability remain high, with large spatial disparities.

With rising political instability in the sub-region and security threats in the North, sustaining economic growth necessitates structural reforms to alleviate critical constraints. First, rebuilding fiscal space requires improved revenue collection and streamlining tax expenditures, while enhancing the efficiency of public spending. Second, the recent crises and recurrent climate shocks highlight the need for reforms to strengthen shock resilience, including through an adaptive social protection system.

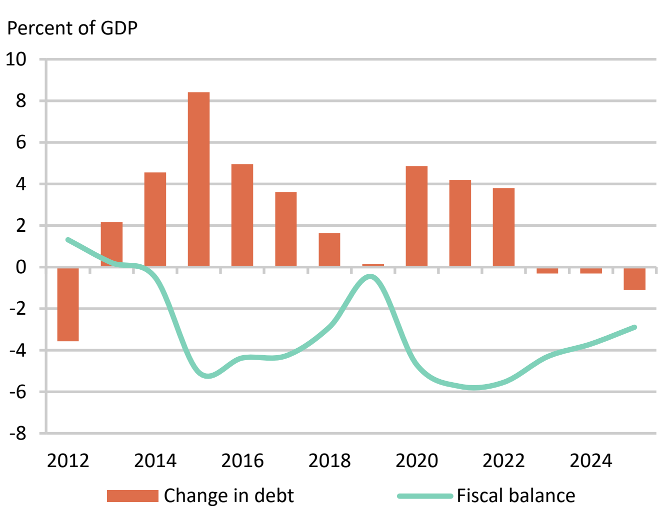
Risks include political instability in neighboring Sahel countries, increased insecurity and social tensions in the North together with sustained food, energy, and fertilizer price volatility. These would disproportionally impact poor and vulnerable households, slowing poverty reduction while increasing fragility. Extreme climate events could also severely damage agricultural output.

Recent developments

Real GDP growth is expected to moderate to 5.8 percent in 2023 (2.9 percent in per capita term) from 6.3 percent in 2022, due to the global economic slowdown, sluggish growth in Nigeria and the impact of ECOWAS sanctions against neighboring Niger. The primary sector should remain resilient thanks to proactive management of fertilizer distribution. The services sector – the main contributor to growth – is expected to grow at a slower pace in 2023 as the political instability in Sahel countries affects reexport activities from the Port of Cotonou and sluggish growth in Nigeria. Public investment is expected to scale back as fiscal space narrows. Private consumption growth is set to pick up progressively as inflationary pressures abate in the second half of 2023. At end-July, year-on-year inflation reached 3.9 percent, remaining below peers due to good harvest supporting local food supply and measures to combat inflation, such as temporary tax exemptions on import and export restrictions to neighboring countries. Growth in agriculture combined with relatively low inflation is expected to reduce the international poverty rate ($2.15 a day, 2017 PPP) from 16.1 percent in 2022 to 15.6 percent in 2023.

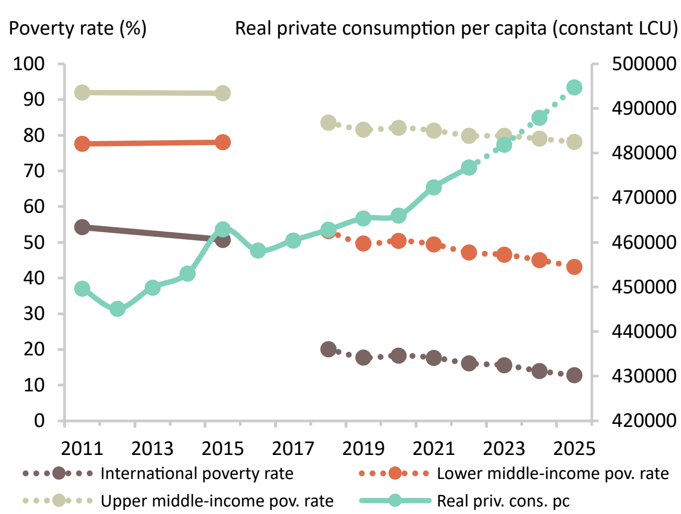
The current account deficit (CAD) is expected to decline to 5.9 percent in 2023 (6.3 percent in 2022) as international crude oil price decline, but remain elevated due to lower international cotton prices and security spending. The CAD

FIGURE 1 Benin / Fiscal balance and change in public and publicly guaranteed debt



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

will be primarily financed by an SDG Eurobond issuance, regional bonds and concessional financing.

The fiscal deficit is set to decline to 4.3 percent of GDP in 2023, having been above 5 percent over the last 2 years, driven by lower public spending (primarily due to the expiration of measures to cushion spillovers from Russia's invasion of Ukraine), improvements in tax administration and risk management systems in customs. Public debt is expected to decline to 53.8 percent of GDP in 2023 – 0.4 ppt lower compared to 2022 – and remains on a declining path in the medium term, thanks to fiscal consolidation efforts. Benin remains at moderate risk of external and overall debt distress, but with limited space to absorb shocks.

To counter inflation across WAEMU countries, the Central Bank of West African States (BCEAO) raised policy interest rates by a cumulative 125 basis points since mid-2022 to 3.25 percent for liquidity calls and 5.25 percent for the marginal lending facility. However, the monetary policy stance remains broadly accommodative, inflation is still above target and foreign exchange reserves have been on a downward trend.

Outlook

In the medium term, real growth is expected to hover around potential, at 6 percent (3.1 percent per capita) driven by private consumption as inflationary pressures abate, and total investment, which is expected to gradually shift from public to private. The dynamism of agriculture production, the construction sector, as well as agro-transformation industries with the expansion of the special economic zone, will support growth. Inflation is projected to reach the WAEMU target of 2 percent in 2024. The CAD should improve progressively, averaging 4.7 percent of GDP over 2024-25, as the prices of oil products decline.

Poverty reduction is expected to continue its downward trend as economic growth, particularly in agriculture, remains robust, with the headcount rate ($2.15 a day, 2017 PPP) declining from 15.6 percent in 2023 to 14 percent in 2024 and further to 12.8 percent by 2025.

The planned revenue-based fiscal consolidation – complemented by the removal of exceptional subsidies and more efficient spending - should rebuild fiscal space with an expected deficit of around 3 percent by 2025, in line with the WAEMU convergence criterion, as public debt declines to 52.4 percent of GDP. However, delaying fiscal adjustment could exacerbate debt sustainability risks, while a deterioration of the regional security situation and domestic spillovers, or extreme weather events could delay consolidation.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	3.8	7.2	6.3	5.8	6.0	6.0
Private consumption	3.0	4.2	3.7	3.8	4.0	4.1
Government consumption	19.6	2.0	4.2	14.5	5.6	4.9
Gross fixed capital investment	-6.2	26.5	11.7	2.9	10.5	8.7
Exports, goods and services	-6.7	14.5	17.5	4.3	7.1	7.5
Imports, goods and services	-11.3	22.5	13.7	0.0	6.6	5.4
Real GDP growth, at constant factor prices	3.8	7.2	6.3	5.8	6.0	6.0
Agriculture	1.8	4.7	4.9	5.1	5.3	4.9
Industry	5.2	10.5	7.0	8.2	6.5	6.2
Services	4.2	7.0	6.7	5.0	6.1	6.4
Inflation (consumer price index)	3.0	1.7	1.4	3.5	2.0	2.0
Current account balance (% of GDP)	-1.7	-4.2	-6.3	-5.9	-5.6	-5.1
Net foreign direct investment inflow (% of GDP)	0.5	0.9	1.0	1.3	1.6	1.6
Fiscal balance (% of GDP)	-4.7	-5.7	-5.5	-4.3	-3.7	-2.9
Revenues (% of GDP)	14.4	14.1	14.3	14.7	15.2	15.6
Debt (% of GDP)	46.1	50.3	54.1	53.8	53.5	52.4
Primary balance (% of GDP)	-2.7	-3.5	-3.9	-2.6	-2.1	-1.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	18.3	17.7	16.1	15.6	14.0	12.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	50.5	49.5	47.2	46.6	45.1	43.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	82.1	81.4	79.9	79.9	79.0	78.2
GHG emissions growth (mtCO2e)	2.0	7.1	1.1	1.2	4.9	4.3
Energy related GHG emissions (% of total)	31.7	35.7	35.7	35.7	37.9	39.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projections using microsimulation methodology.

BOTSWANA

Table 1	2022
Population, million	2.6
GDP, current US$ billion	20.3
GDP per capita, current US$	7718.2
International poverty rate ($2.15)[a]	15.4
Lower middle-income poverty rate ($3.65)[a]	38.0
Upper middle-income poverty rate ($6.85)[a]	63.5
Gini index[a]	53.3
School enrollment, primary (% gross)[b]	99.0
Life expectancy at birth, years[b]	61.1
Total GHG emissions (mtCO2e)	52.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2017 PPPs.
b/ Most recent WDI value (2021).

Growth is projected to slow to 3.8 percent in 2023 from 5.8 percent in 2022, reflecting lower global demand for diamonds, and recover during 2024-25 driven by new diamond agreements and licenses signed in 2023 and improved global demand. However, the mining sector will not deliver significant job creation so unemployment is projected to remain elevated, constraining reductions in poverty and inequality. Inflation is expected to remain within the central bank's 3-6 percent target.

Key conditions and challenges

Over the past decades, Botswana delivered robust economic growth thanks to steady and significant revenue from diamonds channeled to public services, solid institutions, and sound macroeconomic policies, lifting many out of poverty. Public debt levels remain low, in tandem with sizable fiscal and foreign exchange savings. However, growth has lost steam in recent years, a symptom of the exhaustion of the diamond and public sector-led growth model and external shocks.

The large public sector crowds out private investments while infrastructure and skills gaps persist. The public sector accounts for 27 percent of total employment, while unemployment remains high, at 25.4 percent, mainly affecting the youth. Poverty, estimated at 14.3 percent under the USD 2.15 per day International Poverty Line (IPL) remains high for Botswana's income level and inequality (Gini index of 53.3) is among the world's highest.

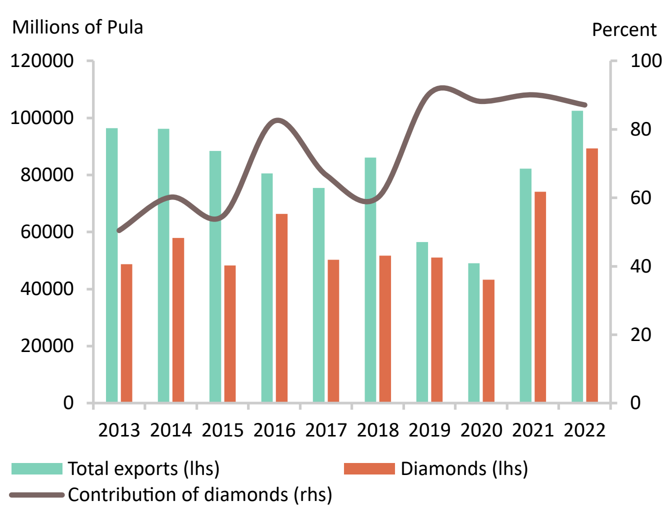
The objective to make the economy more inclusive requires accelerating job creation and diversification, particularly given the projected decline in diamond production by 2030. Comprehensive reforms are needed to improve the country's competitiveness, including a reduction of the oversized public sector and improving its performance, new investments in physical and human capital, and further actions to enhance trade facilitation and integration. Removing regulatory barriers to facilitate market entry, improving sectoral governance and accelerating planned SOE reforms would improve the business environment.

The increase in the frequency and magnitude of climate change events, especially higher temperatures and changes in precipitation, have increasingly disrupted output and threatened livelihoods, underscoring the need to strengthen the country's resilience and implement investments in adaptation.

Recent developments

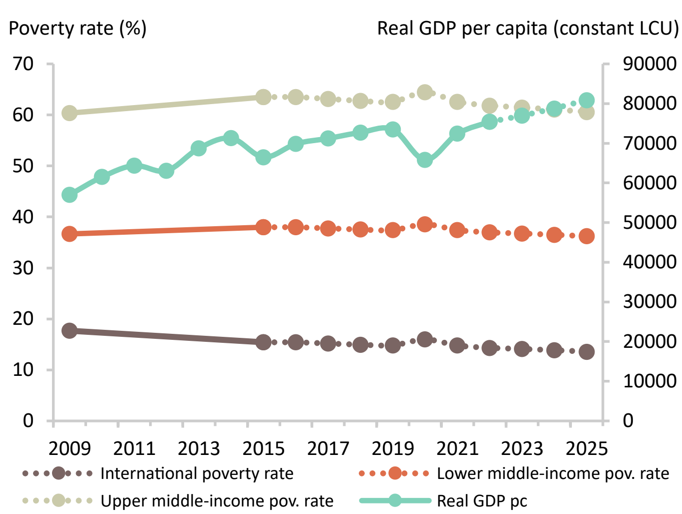
After a relatively strong recovery in 2022, economic growth slowed in 2023 due to the slowdown in global demand for diamonds and falling prices. On June 30, 2023, Botswana and De-Beers agreed in principle a new partnership that includes a 10-year extension of their diamond sales agreement and a 25-year extension of the Debswana mining licenses, which calmed market jitters over the partnerships future. The new agreement, once signed, will increase the share of diamond supply sold via government-owned Okavango Diamond Company from 25 to 30 percent, and increase progressively to 50 percent in ten years. A Diamonds for Development Fund has been agreed with a projected $75 million yearly over ten years. The

FIGURE 1 Botswana / Direct contribution of diamonds to exports



Sources: International Merchandise Trade Statistics and Statistics Botswana.

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



Source: World Bank. Notes: see Table 2.

immediate fiscal and economic impact may be limited, and its medium-term impact is subject to its implementation.

Inflation receded more quickly than expected, averaging 7.8 percent in 2023H1 compared to 10.9 percent in 2022H1, falling into the Central Bank's 3-6 percent target in May. The pace of disinflation is attributed to falling oil prices which resulted in a steep decline in transport inflation. Food inflation remains historically high, disproportionately affecting the poor. At 2.65 percent, the Central Bank's policy interest rate has remained unchanged since August 2022, while credit growth declined to 4.8 percent in 2023Q1 from 5.4 percent in 2022Q1.

Higher revenue from diamonds and SACU has allowed fiscal policy to cushion subdued domestic demand. The government has increased subsidies and allowances of social welfare programs to cushion against the FY22/23 poor crop and grazing yields caused by the drought and accelerated the implementation of growth-enhancing energy and water infrastructure.

Outlook

Real GDP growth is projected to slow to 3.8 percent in 2023, reflecting a decline in diamond production and prices due to weaker global demand. Growth will slightly increase over the medium-term, driven by the pickup in the global demand for diamonds and efforts to diversify the economy. The projected moderate real GDP per capita growth (to 2.1 percent) will result in negligible projected changes in poverty (14.1 percent under the IPL over the medium-term).

Following a balanced budget in 2022, the government is expected to record a fiscal deficit of 2.8 percent of GDP in 2023, despite an increase in SACU revenues. Such deterioration is projected to be driven by increased spending in subsidies and capital expenditures. In the medium-term, the government plans to implement expenditure-driven fiscal consolidation by restructuring and privatizing parastatals, reducing the public sector wage bill and re-prioritizing public investments. With a credible implementation of the consolidation plan, the fiscal balance is projected to gradually improve, putting debt on a declining path.

Inflation is projected to remain within the Central Bank's target range over the medium-term. At 13 percent, food inflation is expected to remain above historic levels. The current account is expected to weaken but remain in surplus because of weaker terms of trade, lower global demand for diamonds and increase in investment-led imports from a low base. It is then expected to strengthen in 2024/5 driven by the projected rebound in global demand for diamonds.

The outlook remains uncertain and depends heavily on the path of global demand for diamonds. Supply disruptions and demand fluctuations at the global level could intensify commodity price volatility which would threaten fiscal sustainability and possibly lead to tightening of the monetary policy. Delays in planned fiscal consolidation and structural reforms could further erode fiscal and external buffers, increasing Botswana's vulnerability to external shocks.

TABLE 2 Botswana / 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	11.8	5.8	3.8	4.1	4.3
Private consumption	2.6	2.4	4.5	2.0	3.4	3.6
Government consumption	5.3	4.0	3.0	40.6	1.5	-0.6
Gross fixed capital investment	-9.2	-0.3	0.0	9.8	1.2	0.9
Exports, goods and services	-18.6	31.7	-5.6	2.6	6.7	7.9
Imports, goods and services	5.0	2.3	-11.8	18.1	2.3	1.4
Real GDP growth, at constant factor prices	-9.1	11.9	5.8	3.8	4.1	4.3
Agriculture	-2.7	-1.0	2.4	2.6	2.3	2.2
Industry	-20.5	19.3	7.6	4.0	4.2	4.4
Services	-1.3	8.1	4.8	3.7	4.0	4.3
Inflation (consumer price index)	1.9	6.7	12.2	5.8	5.0	4.5
Current account balance (% of GDP)	-8.6	-0.5	2.9	1.0	1.1	1.5
Net foreign direct investment inflow (% of GDP)	0.7	0.6	0.2	0.7	0.7	0.6
Fiscal Balance (% of GDP)[a]	-9.5	0.0	0.0	-2.8	-1.7	-0.3
Revenues (% of GDP)	28.6	31.9	28.5	29.3	29.5	29.7
Debt (% of GDP)[b]	24.6	22.4	20.6	21.9	20.8	19.3
Primary Balance (% of GDP)[a]	-8.9	0.5	0.6	-1.9	-0.9	0.4
International poverty rate ($2.15 in 2017 PPP)[c,d]	16.0	14.8	14.3	14.1	13.9	13.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	38.6	37.5	37.0	36.8	36.5	36.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	64.5	62.6	61.8	61.5	61.1	60.6
GHG emissions growth (mtCO2e)	-1.6	1.1	0.0	0.3	-2.6	-1.3
Energy related GHG emissions (% of total)	12.6	12.8	12.7	12.4	12.6	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 balances are reported in fiscal years (April 1st -March 31st).
b/ Refers to Public and Publicly Guaranteed debt.
c/ Calculations based on 2009-CWIS and 2015-BMTHS. Actual data: 2015. Nowcast: 2016-2022. Forecasts are from 2023 to 2025.
d/ Projection using annualized elasticity (2009-2015) with pass-through = 0.87 based on GDP per capita in constant LCU; $3.65 and $6.85 poverty use regional elasticity.

BURKINA FASO

Table 1	2022
Population, million	22.7
GDP, current US$ billion	21.7
GDP per capita, current US$	955.3
International poverty rate ($2.15)[a]	31.2
Lower middle-income poverty rate ($3.65)[a]	63.1
Upper middle-income poverty rate ($6.85)[a]	87.2
Gini index[a]	43.0
School enrollment, primary (% gross)[b]	92.2
Life expectancy at birth, years[b]	59.3
Total GHG emissions (mtCO2e)	64.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2021).

GDP growth is projected to increase to 4.3 percent in 2023 (1.7 percent per capita), following weak growth in 2022, with broad-based growth, including a recovery in mining. Inflation is expected to fall sharply to 1.9 percent as poverty resumes a gradual decline after rising sharply in 2022. Downside risks to the outlook relate to the political transition, insecurity, regional instability, and high borrowing costs that could delay fiscal consolidation.

Key conditions and challenges

Insecurity and political instability remain the most critical growth constraints in the short term. The mining sector, which represents around 17 percent of GDP and 20 percent of government revenue, has been impacted by insecurity with several mines suspending operations and new mining investments postponed in 2022. Continued violent incidents could further reduce mining, including gold that accounts for more than 70 percent of exports. As local populations are displaced due to insecurity, agricultural output is negatively impacted. The two coups in 2022 triggered a sharp reduction in the international community's financing while negatively affecting private investment and foreign direct investment.

The primarily rain-fed agriculture and livestock sectors, which account for around 20 percent of GDP and employ over 90 percent of the country's poor, are also highly vulnerable to climate shocks and natural disasters. Domestic supply side shocks on food production and markets (including security blockages) have been compounded by high global food prices due to the Russian invasion of Ukraine, aggravating chronic food insecurity.

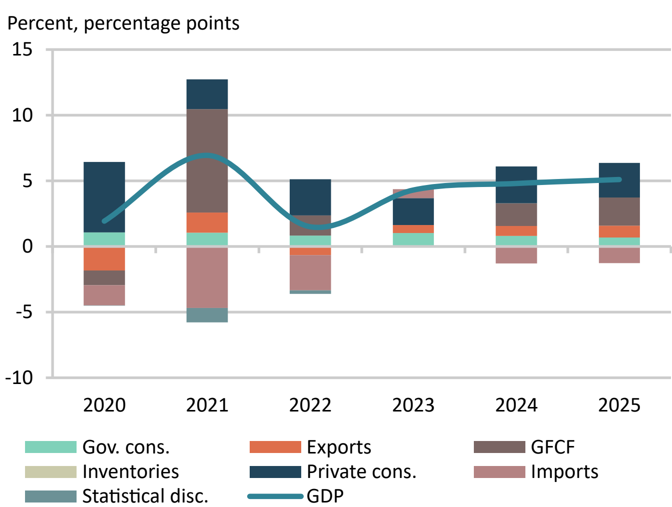
Recent developments

GDP growth is expected to increase to 4.3 percent in 2023 (1.7 percent per capita). The primary sector is expected to return to trend growth (+4.1 percent), with the secondary sector recovering to 3 percent growth due to improved security around key mines, and services continuing to be robust (+5.1 percent). Consumption (an elevated public wage bill and private sector activity benefitting from the stabilizing security situation), and net exports are driving growth. Capital formation is not projected to contribute to growth due to crowding out by government current spending on security. The current account deficit (CAD) is expected to improve to 4.4 percent of GDP in 2023, due to increased mining exports and improved terms of trade, notably higher gold prices and lower oil prices.

In 2022, food prices caused inflation to reach a region-wide high of 14.1 percent. Inflation is forecast to sharply decrease to 1.9 percent in 2023, due to strong agricultural yields, which have moderated food prices. Since May 2023, year-on-year headline CPI inflation has been negative.

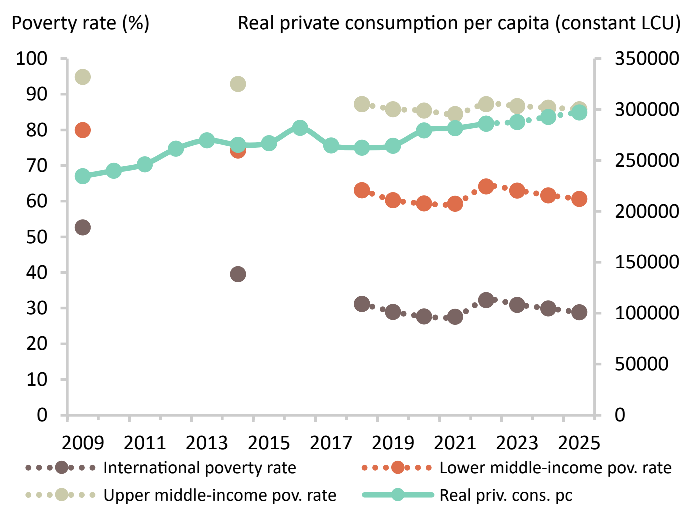
In 2022, the rise in the cost of living far exceeded increases in incomes for households, resulting in a 4.5 percentage point increase in the international poverty rate to 32.3 percent, reversing gains since 2018. The poverty rate is expected to resume a gradual downward trend in 2023, to 31 percent, as inflation drops. However, the humanitarian situation remains dire, with over 2 million internally displaced persons, in addition to an estimated 3.35 million people severely food insecure during the 2023 lean season.

FIGURE 1 Burkina Faso / Real GDP growth and contributions to real GDP growth



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

To counter inflation across WAEMU countries, the Central Bank of West African States (BCEAO) raised policy interest rates by a cumulative 125 basis points since the start of 2022 to 3.25 percent for liquidity calls and 5.25 percent for the marginal lending facility. However, the monetary policy stance remains broadly accommodative, inflation in the region is still above target and foreign exchange reserves have been on a downward trend.

The 2023 fiscal deficit is projected at 6.7 percent of GDP due to high military and humanitarian expenditures caused by ongoing security and food insecurity crises. External concessional financing has decreased, so the deficit will be primarily financed through expensive domestic borrowing on the regional market, where interest rates have risen to over 7.5 percent for 3- and 5-year bonds. Public debt is projected to exceed 61 percent of GDP by the end of 2023.

Outlook

Assuming improvements in security and the implementation of key private sector-enabling reforms (energy, mining, business climate), growth is expected to be broad-based and reach 5.1 percent (2.5 percent per capita) by 2025. Investment is expected to recover with stability and higher investor confidence. Inflation is projected to remain within BCEAO's target range of 1-3 percent in 2024 and 2025, also reflecting lower global oil prices.

With low inflation and moderate growth, poverty incidence is projected to decrease by about one percentage point annually until 2025, but the number of people living in extreme poverty will remain over 7 million. Climate shocks and security issues will continue to affect poor households, while the continued closure of up to a quarter of schools limits human capital accumulation and poverty reduction.

Improving domestic tax collection and lower military expenditures and social transfers would support fiscal consolidation. However, the fiscal deficit is projected to remain above WAEMU's 3 percent target over the medium term. Financing the deficit will remain costly, but greater access to concessional funding could ease the burden, although public debt will continue to increase mainly due to domestic debt.

The outlook faces significant downside risks from persistent insecurity, climatic shocks, and instability from the political transition. The coup in neighboring Niger on 26 July 2023 and the response from ECOWAS and WAEMU (economic and financial sanctions) have increased regional instability with risks of negative spillover effects on security, economic, and humanitarian fronts, including further increasing the cost of financing on the regional market. The withdrawal of MINUMSA peacekeeping force from Mali by the end of 2023 could also increase regional security risks. Additionally, the price of gold could weaken, weakening the CAD and domestic revenue mobilization.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	1.9	6.9	1.5	4.3	4.8	5.1
Private consumption	8.6	3.4	4.3	3.1	4.3	4.1
Government consumption	7.1	6.6	5.2	6.2	4.8	4.1
Gross fixed capital investment	-4.6	34.8	5.4	-0.2	6.1	7.4
Exports, goods and services	-7.1	6.5	-2.8	2.7	3.4	4.1
Imports, goods and services	5.3	15.5	8.2	-2.0	4.0	3.9
Real GDP growth, at constant factor prices	1.9	6.9	1.5	4.3	4.8	5.1
Agriculture	5.2	-4.1	8.1	4.1	4.5	4.3
Industry	12.8	11.0	-8.8	3.0	2.8	4.1
Services	-4.9	10.3	4.6	5.1	5.9	6.0
Inflation (consumer price index)	1.9	3.9	14.1	1.9	2.0	2.1
Current account balance (% of GDP)	-0.1	0.4	-6.2	-4.4	-4.1	-3.8
Net foreign direct investment inflow (% of GDP)	-0.6	0.5	0.3	0.3	0.4	0.5
Fiscal balance (% of GDP)	-5.0	-7.5	-10.6	-6.7	-6.1	-5.5
Revenues (% of GDP)	18.7	20.2	21.7	20.9	20.8	21.3
Debt (% of GDP)	44.9	55.4	58.3	61.2	62.4	63.8
Primary balance (% of GDP)	-3.6	-6.0	-8.5	-4.9	-4.0	-3.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	27.7	27.6	32.3	31.0	30.0	28.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	59.4	59.3	64.1	63.0	61.7	60.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	85.4	84.4	87.3	86.7	86.2	85.8
GHG emissions growth (mtCO2e)	3.2	6.0	4.6	5.0	5.1	5.1
Energy related GHG emissions (% of total)	10.5	11.1	11.4	11.8	12.3	12.7

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 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projections using microsimulation methodology.

BURUNDI

Table 1	2022
Population, million	12.9
GDP, current US$ billion	3.9
GDP per capita, current US$	303.9
International poverty rate ($2.15)[a]	65.1
Lower middle-income poverty rate ($3.65)[a]	86.7
Gini index[a]	38.6
School enrollment, primary (% gross)[b]	115.1
Life expectancy at birth, years[b]	61.7
Total GHG emissions (mtCO2e)	8.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2013), 2017 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2021).

Growth is projected at 2.9 percent in 2023, a moderate improvement over 2022, driven by agriculture and services. Industrial growth was subdued due to mining disputes and fuel shortages. While recovery is expected to accelerate over the medium term, the country faces downside risks, including from incomplete implementation of IMF program reforms. With rapid population growth, per capita GDP is stagnating or growing very slowly, resulting in persistently high poverty.

Key conditions and challenges

Burundi's economic development has been hampered by structural challenges that reinforced a cycle of fragility and poverty. Burundi faces a multidimensional fragility trap characterized by recurring political instability, low economic diversification, high population growth, environmental degradation, and volatile growth. The cessation of aid between 2015-2019 constrained the government's ability to ensure access to services. The macroeconomic policy reaction prevented larger cuts to current expenditures but led to foreign exchange restrictions, exchange rate overvaluation, fiscal dominance of monetary policy, and high public sector indebtedness.

The sustained lack of economic growth has resulted in high poverty rates and low human development outcomes. In 2021, only 53 percent of children completed primary school and transition to secondary school remains low (48 percent). Burundi has one of the highest rates of chronic undernutrition worldwide, with over half of the children under five stunted. The share of stunted children among those under the age of five increased to 55.8 percent in 2021 from 52.6 percent in 2020 and could deteriorate further in light of high inflationary pressures. Against this backdrop, monetary poverty was estimated at 71 percent (based on the international poverty line of $2.15/day) in 2022, up from 65 percent in 2013.

Gradual reengagement with the international community including the recent IMF program under the ECF arrangement creates an opportunity for reforms to stabilize the country's economy and scale up investments in human capital and infrastructure as a part of a process to change Burundi's growth trajectory.

Recent developments

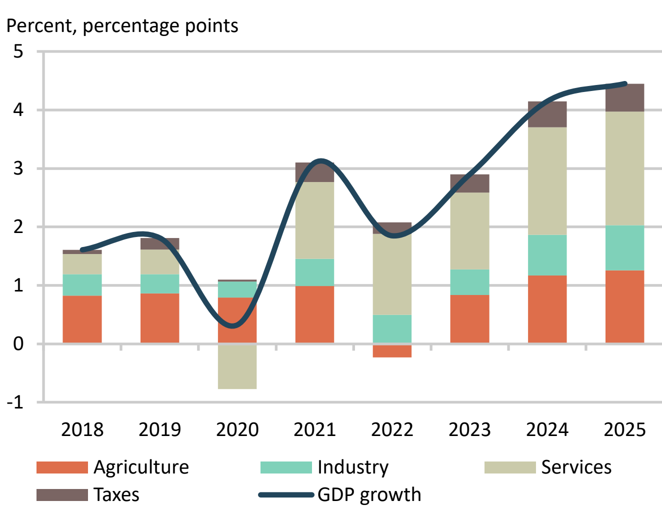
Growth in 2023 is projected at 2.9 percent up from 1.8 percent in 2022, driven by agriculture and services. Industrial growth was subdued due to the ongoing suspension of mining activities as contracts were renegotiated while fuel shortage has worsened in recent months. Private consumption and investment supported growth on the demand side.

The fiscal deficit is expected to decrease to 6.7 percent of GDP in 2023 from 12.1 percent in 2022 as result of cuts in current expenditures and modest increase of revenues. It merits mentioning that the fiscal deterioration in 2022 was driven by the sharp increase in subsidies specifically the large fertilizer subsidy prepayment.

Public debt is projected at 72.7 percent of GDP in 2023 up from 68.4 percent of GDP in 2022 as ECF-supported program disbursements will increase external concessional debt in the medium term.

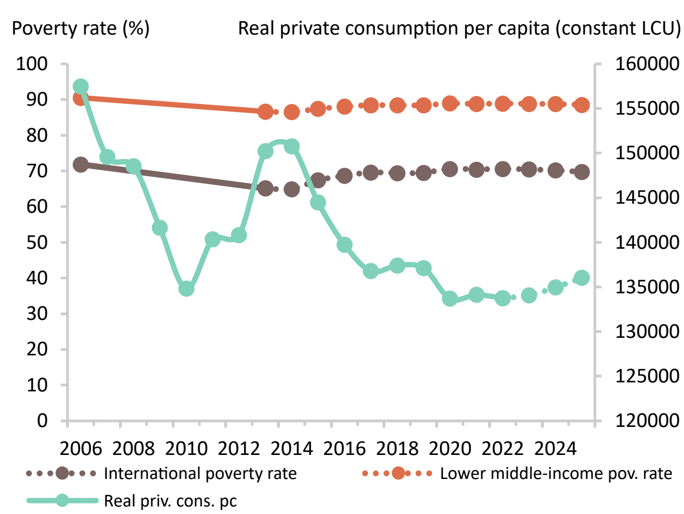
Driven by the ongoing foreign exchange reforms spillovers on the imports prices, the current account deficit (CAD) would remain high at 17.6 percent of GDP in 2023 as mining contract negotiations affected export performance while imports of both capital and

FIGURE 1 Burundi / Real GDP growth and sectoral contributions to real GDP growth



Sources: Official statistics and World Bank calculations.

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



Source: World Bank. Notes: see Table 2.

consumption goods increased. The CAD is primarily financed by trade credits. The foreign exchange parallel market premium averaged 39 percent in July 2023, compared to 65 percent a year before, due to the ongoing forex market liberalization. International reserves have decreased, covering 0.4 month of imports at end-June 2023 from 1.9 months a year before.

Driven by higher food (+25 percent), headline inflation is expected at 23.8 percent in 2023.

Lackluster economic growth in the past years, combined with high population growth, has resulted in a further decline in GDP per capita from an already low base. Sharply rising food prices have further eroded households' purchasing power, leading to steadily increasing poverty rates.

Outlook

Growth is projected to increase to 4.2-4.5 percent over 2024-25. Services should continue to recover while agricultural growth will likely pick up assuming favorable rainfall and good distribution of fertilizers. Industry is projected to accelerate due to a loosening of forex constraints, resolution in mining disputes, and increased power generation. Private consumption and public investment are projected to remain high given economic recovery and resumption of partner-financed public infrastructure programs. The fiscal deficit is expected to narrow to 3.2 percent of GDP by 2025 as revenues increase, aligned with fiscal consolidation efforts under the IMF program. Public debt is expected to decrease, reaching 61 percent of GDP by 2025. External pressures would remain high over 2024-25 as import prices would stay high due the spillovers of the exchange rate unification despite the exports pick up, therefore the CAD will remain high at 18 percent of GDP in 2025.

With the projected uptick in economic growth, poverty (based on $2.15/day, 2017 PPP) is expected to modestly decrease to 69 percent by 2025. The number of poor will continue to increase against the backdrop of Burundi's population set to double by as early as 2050 - further exacerbating existing pressures on limited land resources. Significantly higher economic growth rates will be necessary to substantially bring down poverty and break out of the fragility-poverty cycle.

Downside risks are high, particularly on the fiscal front. Weak domestic revenue mobilization efforts could lead to revenue shortfalls and incomplete implementation of the reforms under the ECF program would undermine fiscal and external sustainability. Weather shocks may constrain agricultural growth and poverty reduction. On the upside, foreign aid could accelerate reflecting the reengagement with the international community and exports could strengthen as a result of broad structural reforms, which would strengthen the BOP, growth, and revenue collection.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	0.3	3.1	1.8	2.9	4.2	4.5
Private consumption	0.3	3.0	2.4	2.9	3.3	3.4
Government consumption	19.2	2.9	5.9	5.7	5.2	4.8
Gross fixed capital investment	-16.6	3.9	4.0	8.2	11.8	13.8
Exports, goods and services	-14.9	3.4	5.8	7.8	13.8	14.1
Imports, goods and services	3.4	3.2	7.0	7.3	7.4	7.5
Real GDP growth, at constant factor prices	0.3	3.1	1.8	2.9	4.2	4.5
Agriculture	2.8	3.4	-0.8	3.0	4.1	4.4
Industry	1.8	3.0	3.2	2.7	4.4	4.8
Services	-1.7	2.9	3.1	2.9	4.1	4.3
Inflation (consumer price index)	7.5	8.3	18.8	23.8	17.5	12.0
Current account balance (% of GDP)	-10.1	-12.5	-15.6	-17.6	-18.6	-18.3
Net foreign direct investment inflow (% of GDP)	0.2	0.3	0.3	-0.1	-0.1	-0.1
Fiscal balance (% of GDP)	-6.3	-5.2	-12.1	-6.7	-3.9	-3.2
Revenues (% of GDP)	23.1	25.1	26.7	26.9	28.2	28.6
Debt (% of GDP)	66.0	66.6	68.4	72.7	65.9	61.3
Primary balance (% of GDP)	-3.4	-2.3	-9.5	-3.2	-1.0	-0.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	70.6	70.4	70.6	70.4	70.1	69.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	88.9	88.8	88.9	88.8	88.7	88.5
GHG emissions growth (mtCO2e)	2.6	4.1	3.5	3.6	3.7	3.8
Energy related GHG emissions (% of total)	8.7	8.7	8.7	8.7	8.7	8.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2013-ECVMB. Actual data: 2013. Nowcast: 2014-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2013) with pass-through = 0.87 (Med (0.87)) based on private consumption per capita in constant LCU.

CABO VERDE

Table 1	2022
Population, million	0.6
GDP, current US$ billion	2.3
GDP per capita, current US$	3927.5
International poverty rate ($2.15)[a]	4.6
Lower middle-income poverty rate ($3.65)[a]	19.3
Upper middle-income poverty rate ($6.85)[a]	50.9
Gini index[a]	42.4
School enrollment, primary (% gross)[b]	100.9
Life expectancy at birth, years[b]	74.1
Total GHG emissions (mtCO2e)	0.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2021).

After rebounding to 17.7 percent in 2022, driven by the recovery of tourism, growth is expected to moderate to 5.6 percent in 2023 as exports slow. Growth friendly fiscal consolidation should create conditions for growth of 5.7 percent over the medium term. The outlook remains subject to downside risks from lingering inflation, debt pressures, climate shocks and the impact of the rising global cost-of-living on tourism.

Key conditions and challenges

Cabo Verde is a young, small, and vibrant island nation with an open economy. Its robust – albeit volatile – economic growth has been driven by tourism, remittances, and foreign direct investment enabled by structural reforms and social and political stability. The development model has shown signs of fatigue since the 2008 global financial crisis, as growth fell from an average annual rate of 7.5 percent in the 2000s to 2.8 percent in the last decade (excluding 2020) and is highly volatile. The impact of the pandemic underscored key vulnerabilities, including the dominance of the tourism sector, absence of buffers to shocks, and poor performing State-Owned Enterprises (SOE).

Achieving higher and more sustained growth requires reforms to: reduce the economy's vulnerabilities to external economic and climate-related shocks; increase private sector productivity to benefit from the thriving tourism sector; and reduce internal transport costs and market fragmentation.

Recent developments

The economic recovery from the COVID-19 pandemic resulted in growth reaching 17.7 percent in 2022, driven mainly by tourism (accommodation, commerce, and transport) and related private consumption. Economic growth slowed in the first quarter of 2023, with a real GDP growth of 6.7 percent.

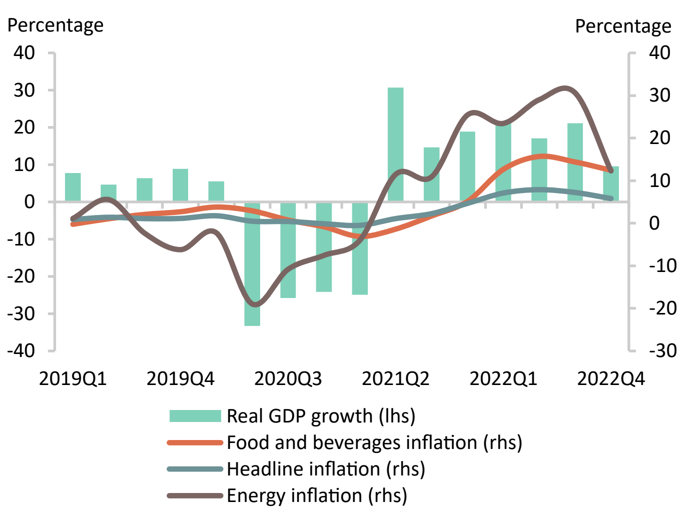
Headline inflation reached 7.9 percent (y/y) in 2022, fueled by high international oil and commodity prices triggered by Russia's invasion to Ukraine. Food inflation peaked at 15.7 percent while energy inflation increased to 23.8 percent. Inflationary pressures eased in the first half of 2023. Headline inflation in July reached 6.3 percent, with food and energy inflation respectively at 13.4 percent and 5.5 percent.

The poverty rate ($3.65 per day PPP 2017) fell to 16.9 percent in 2022, down from 19.8 percent in 2021, but remained above pre-pandemic levels (15.5 percent in 2019). Economic growth is fundamental for poverty reduction, with the service sectors (which account for a large share of employment, including for the poor) growing 20.8 percent in 2022. This led to new jobs, especially in tourism, although poverty alleviation was dampened by inflation, particularly high food prices.

The fiscal deficit narrowed to 4 percent of GDP in 2022, supported by increased fiscal revenues while the debt-to-GDP ratio declined from 144 percent in 2021, to 120.9 percent in 2022, driven by GDP growth. In the first half of 2023, total revenue increased by 22.8 percent, driven by personal income tax and VAT, while total expenditure increased by 3.4 percent, reflecting higher acquisition of goods and services, interest payments, social benefits, and subsidies.

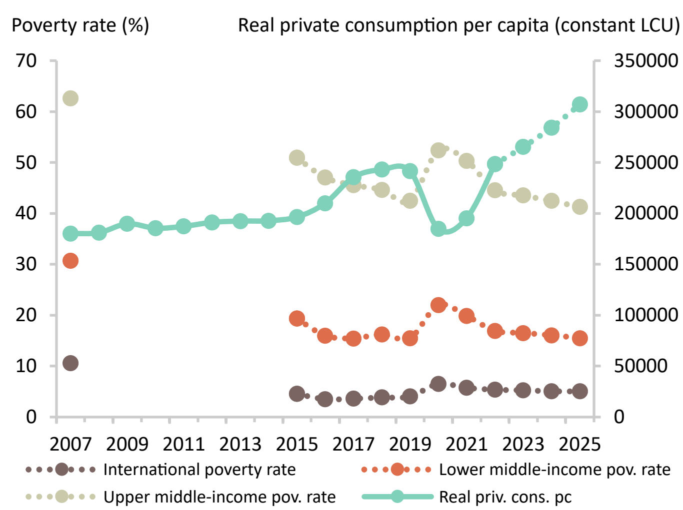
The current account deficit (CAD) declined from 11.8 percent of GDP in 2021 to 3 percent in 2022, driven by the strong recovery in net service exports and robust

FIGURE 1 Cabo Verde / Real GDP growth and inflation



Source: Government of Cabo Verde.

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



Source: World Bank. Notes: see Table 2.

remittances. The CAD was financed primarily by FDI and concessional loans. International reserves reached 7.2 months of imports and helped support the accommodative monetary policy in place since the COVID-19 crisis.

Outlook

Real GDP growth is projected at 5.6 percent in 2023 (4.6 percent in per capita terms) and over the medium-term, growth will be supported by the implementation of structural reforms aimed at improving public sector efficiency and the business environment. Inflation is expected to decline from the 2022 peak, as the effects of high international oil and food prices eases. Headline inflation is projected at 4.5 percent. Over the medium-term, the strong nominal anchor provided by the peg with the Euro and the return to fiscal consolidation should contain inflation, converging to 2 percent by end-2024.

Poverty (using US$3.65 per-day-2017 PPP) is projected to decline to 16.5 percent in 2023 driven by growth in services and industry, and a moderation of inflation (expected to slow down to 4.5 percent in 2023). The poverty rate in 2024 is expected to continue falling to 16 percent and then to 15.5 percent by 2025, reaching the pre-pandemic poverty level (15.49 percent in 2019).

The overall fiscal balance is projected to improve to -3.1 percent of GDP in 2023 and to a small surplus in 2025. In order to reduce debt levels and create space to manage volatility, the authorities are committed to gradual revenue-driven fiscal consolidation, which includes enhanced management of fiscal risks, improved domestic revenue mobilization and current expenditure restraint. The public debt-to-GDP ratio is expected to improve from 114.5 percent in 2023 to 104.1 percent by 2025 but requires continued management of the fiscal risks related to SOEs arising from loan guarantees.

The CAD is projected to increase to 4.1 percent of GDP in 2023, reflecting the impact of moderate tourism growth and high food and fuel prices. The CAD is projected to decline to 3.3 percent of GDP in 2025 supported by tourism and remittances, which, together with higher FDI inflows, will help maintain international reserves at about 6 months of prospective imports.

The outlook is subject to substantial downside risks stemming from the lingering inflationary impact of the war in Ukraine and weaker external demand in tourism markets, which could undermine the fiscal consolidation and weaken growth. Climate-related shocks will remain a concern, given the country's high vulnerability.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-19.3	6.8	17.7	5.6	5.7	5.8
Private consumption	-22.7	6.6	28.3	7.8	8.2	9.0
Government consumption	3.0	5.4	-7.0	14.8	5.3	4.0
Gross fixed capital investment	46.3	12.0	-27.0	-6.8	2.1	3.1
Exports, goods and services	-58.9	3.1	100.7	10.7	9.9	10.3
Imports, goods and services	-17.3	8.6	13.1	7.5	9.5	10.5
Real GDP growth, at constant factor prices	-19.3	6.8	17.7	5.6	5.7	5.8
Agriculture	9.9	3.9	-13.7	-4.4	-2.2	1.0
Industry	-12.9	11.2	3.2	4.7	4.9	5.2
Services	-21.1	6.7	20.8	6.1	6.1	6.0
Inflation (consumer price index)	0.6	1.9	7.9	4.5	2.0	2.0
Current account balance (% of GDP)	-15.0	-11.8	-3.0	-4.1	-3.5	-3.3
Net foreign direct investment inflow (% of GDP)	3.4	4.4	4.5	4.5	4.6	4.7
Fiscal balance (% of GDP)	-9.0	-7.5	-4.0	-3.1	-1.9	0.2
Revenues (% of GDP)	24.6	22.8	21.7	24.4	24.8	25.5
Debt (% of GDP)	141.2	144.0	120.9	114.5	109.6	104.1
Primary balance (% of GDP)	-6.3	-5.3	-1.8	-0.9	0.3	2.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	6.5	5.7	5.4	5.2	5.1	5.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	22.0	19.8	16.9	16.5	16.0	15.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	52.4	50.3	44.5	43.5	42.5	41.3
GHG emissions growth (mtCO2e)	2.9	-2.1	-1.2	2.0	2.0	2.2
Energy related GHG emissions (% of total)	87.0	86.3	86.4	86.7	87.0	87.4

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 2015-IDRF. Actual data: 2015. Nowcast: 2016-2022. Forecasts are from 2023 to 2025.
b/ Projections using microsimulation methodology.

CAMEROON

Table 1	2022
Population, million	27.9
GDP, current US$ billion	42.1
GDP per capita, current US$	1506.7
International poverty rate ($2.15)[a]	25.7
Lower middle-income poverty rate ($3.65)[a]	47.0
Upper middle-income poverty rate ($6.85)[a]	74.8
Gini index[a]	46.6
School enrollment, primary (% gross)[b]	105.7
Life expectancy at birth, years[b]	60.3
Total GHG emissions (mtCO2e)	127.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2021).

Cameroon's economy is at the onset of a modest economic recovery. Progress on poverty reduction, however, has remained weak due to low per capita economic growth, with 1 out of 4 Cameroonians living below the international poverty line ($2.15 PPP a day). The economic outlook for Cameroon is expected to remain moderately favorable over the medium term, but with risks tilted significantly to the downside.

Key conditions and challenges

Cameroon is the largest economy in the Economic and Monetary Community of Central Africa (CEMAC), accounting for over 40 percent of the region's GDP and over 60 percent of regional foreign exchange reserves. The Cameroonian economy is also more diversified than the rest of CEMAC, with the oil sector accounting for only 4 percent of the country's GDP and 15 percent of its fiscal revenues in 2022. Cameroon's debt pressures have intensified, calling for cautious fiscal policies and improved debt management. The current development model appears to have run out of steam and is not able to deliver on Cameroon's ambition of becoming an upper middle-income country by 2030, as governance indicators have deteriorated, human capital remains weak, the business environment is unfavorable, and climate change represents a growing threat.

Poverty reduction remains weak due to slow economic growth. 1 in 4 Cameroonians lives below the international poverty line of $2.15 PPP a day, with the poverty headcount rate declining by just 0.6 percentage points between 2020 and 2023. Combined with rapid population growth, this implies that the absolute number of poor Cameroonians is rising. Inequality also remains high, with the consumption Gini at 46.6 and large differences in living standards between regions and between urban and rural areas.

Six out of Cameroon's ten regions are affected by conflict, including spillovers from conflicts in neighboring countries. Furthermore, climate change poses a significant threat to the country's reliance on natural resources and the livelihoods of over 70 percent of the workforce engaged in agriculture.

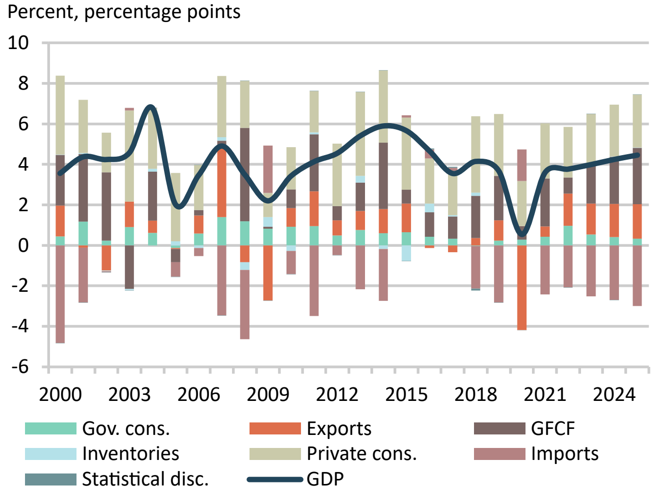
Recent developments

Cameroon's economic recovery continued in 2022, despite heightened fragility and strong external headwinds. GDP growth was estimated at 3.8 percent, supported by agroindustry and service sectors. Inflation stood at 6.3 percent at end-2022 year-over-year, up from 3.5 percent at end-2021. Driven by food prices, which rose by 13.7 percent, inflation averaged 7.5 percent annually at the end of May 2023. The current account deficit narrowed from 3.7 percent of GDP in 2021 to 3.2 percent in 2022, reflecting higher prices for oil exports.

The Bank of Central African States (BEAC) continued to tighten its monetary policy to contain inflationary pressures and support the external viability of the exchange rate arrangement. The BEAC increased the policy rate in March 2023 by 50 basis points to 5.0 percent, a cumulative 175 basis points increase since November 2021. Moreover, the BEAC ended its weekly liquidity injections after steadily scaling them back since June 2021.

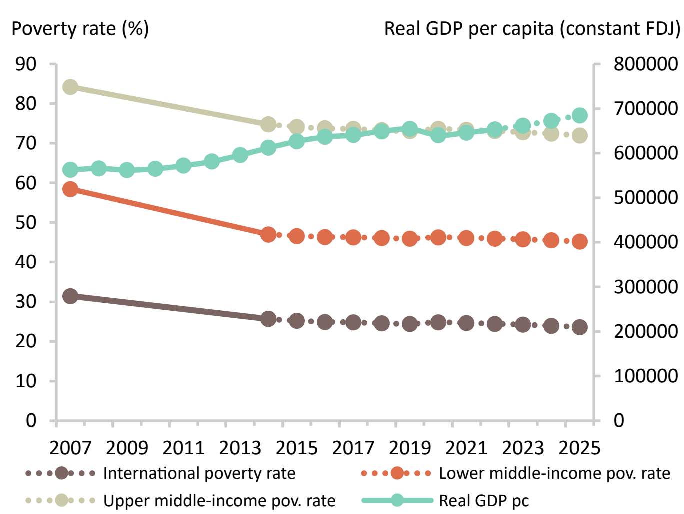
Cameroon's fiscal situation has improved due to lower fuel subsidies, increased oil revenues, and spending reductions. Non-oil tax revenues grew slightly in the first

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



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

half of 2023, driven by corporate income tax and VAT collections. However, unpaid fuel subsidy expenses from 2022 of CFAF 330 billion (1.1 percent of GDP) carried over to the 2023 budget, making the total fuel subsidy spending 1.5 percent of GDP, down from 3 percent in 2022. Cameroon still faces a high risk of debt distress, according to the latest WB-IMF analysis.

Cameroon's financial sector remains weak due to persistent Non-Performing Loans (13 percent of portfolio) and high exposure to the sovereign (35 percent). Nevertheless, financial soundness indicators improved marginally in 2022. Domestic credit to the private sector increased by 13.6 percent in 2022, up from 9.7 percent in 2021.

Recent reforms create fiscal space and enhance inclusive growth prospects but may lead to inflationary pressures. Simulations show that the reduction in fuel subsidies and resulting increase in fuel prices could temporarily raise poverty incidence by 1 percentage point in the short run. To cushion the effect of these reforms, certain groups, such as farmers, have received tax exemptions and rebates. Minimum wages and public sector wages increased, but this may not significantly impact poverty, as most poor workers are in informal jobs. To reduce poverty, budgetary savings should be channeled into pro-poor programs targeted to the poor and vulnerable.

Outlook

Cameroon's economic outlook is moderately favorable for the medium term but has significant downside risks. Cameroon's real GDP growth is projected to reach 4.3 percent, on average, over 2024-26, supported by sustained activity in the secondary and tertiary sectors. The secondary sector's growth will be fueled by agri-food industries, construction and reconstruction in the North-West and South-West regions, and additional power generation from new Hydro power plants. The tertiary sector will see growth in telecommunications, financial services, and hospitality. Average inflation could moderate from 5.9 percent at end-2023 to 4 percent at end-2024 and should decline to below 3 percent in the medium term in line with the CEMAC convergence criterion.

The current account deficit is expected to improve and stabilize around 3 percent of GDP in the medium term supported by ongoing efforts to boost export competitiveness. Exports of processed goods are expected to increase gradually, particularly in the regional market. The fiscal position is expected to improve slightly thanks to the gradual, reduction of fuel subsidies and other cuts to current expenditure. Continued economic recovery and revenue administration measures should support revenue mobilization in 2023. The public debt-to-GDP ratio is expected to decline to around 40 percent by 2025.

Risks to this outlook include (i) a further tightening of global and regional financial conditions, (ii) adverse impacts of the war in Ukraine on commodity and financial markets, and (iii) a persistent security crisis in the North-West, South-West, and Far North regions. Tightening global and regional financial conditions could increase debt pressures and impact the country's growth prospects. Rising inflationary pressure would also negatively affect household consumption and further slow or even reverse poverty reduction; and further reductions in fuel subsidies could have added poverty impact unless appropriate measures are put in place to mitigate those impacts on the vulnerable. In addition, the take-or-pay agreement following the completion of Nachtigal could potentially cost the budget approximately CFAF150 billion to the budget. If these risks materialize, it may result in slower GDP growth, affecting fiscal and external balances and the pace of poverty reduction. While the percentage of people living below the international poverty line is expected to slightly decrease from 24.2 percent in 2023 to 23.6 percent in 2025. The absolute number of Cameroonians living below the international poverty line is projected to rise due to population growth.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	0.5	3.6	3.8	4.0	4.2	4.5
Private consumption	3.3	3.9	3.6	3.6	3.7	3.8
Government consumption	2.3	3.4	7.6	4.1	3.1	2.5
Gross fixed capital investment	2.4	8.2	2.6	6.4	7.6	8.9
Exports, goods and services	-21.0	3.2	10.1	9.1	9.3	9.3
Imports, goods and services	-5.4	9.0	7.3	8.6	8.8	9.4
Real GDP growth, at constant factor prices	0.5	3.6	3.7	4.0	4.2	4.5
Agriculture	0.1	4.1	4.3	4.7	5.0	5.6
Industry	1.3	4.1	4.2	4.5	4.8	5.4
Services	0.3	3.2	3.4	3.5	3.7	3.6
Inflation (consumer price index)	2.5	2.5	6.3	5.9	4.0	3.0
Current account balance (% of GDP)	-3.6	-3.7	-3.2	-3.0	-2.8	-2.6
Fiscal balance (% of GDP)	-3.2	-3.1	-1.8	-0.8	-1.0	-1.0
Revenues (% of GDP)	12.6	13.7	15.5	15.4	15.3	15.6
Debt (% of GDP)	45.8	47.1	46.3	45.9	44.1	42.9
Primary balance (% of GDP)	-2.3	-2.1	-0.8	0.2	0.0	-0.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	24.8	24.6	24.4	24.2	23.9	23.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	46.3	46.1	46.0	45.7	45.5	45.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	73.6	73.4	73.1	72.8	72.4	72.0
GHG emissions growth (mtCO2e)	0.4	0.6	1.0	1.1	1.2	1.3
Energy related GHG emissions (% of total)	7.0	7.3	7.6	7.9	8.2	8.6

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 2009- and 2014-ECAM-IV. Actual data: 2014. Nowcast: 2015-2022. Forecasts are from 2023 to 2025.
b/ Projection using point to point elasticity at regional level with pass-through = 1 based on GDP per capita in constant LCU.

CENTRAL AFRICAN REP.

Table 1	2022
Population, million	5.6
GDP, current US$ billion	2.5
GDP per capita, current US$	440.8
International poverty rate ($2.15)[a]	65.7
Lower middle-income poverty rate ($3.65)[a]	85.8
Upper middle-income poverty rate ($6.85)[a]	96.2
Gini index[a]	43.0
School enrollment, primary (% gross)[b]	128.1
Life expectancy at birth, years[b]	53.9
Total GHG emissions (mtCO2e)	49.5

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

With only 0.5 percent growth, 2022 was the third year of economic stagnation and declining per capita incomes. Notwithstanding spending moderation, the overall fiscal balance remained in a significant deficit in 2022, while weak economic fundamentals and commodity price shocks continued to weigh on the external position. Poverty remains elevated, compounded by food price pressures and low growth. The medium-term outlook remains highly uncertain.

Key conditions and challenges

The Covid-19 crisis in 2020, intensification of the internal armed conflict in early 2021, and Russia's invasion of Ukraine in 2022 compounded fragility for the Central African Republic (CAR), jeopardized its macroeconomic stability, and worsened an already alarming humanitarian situation. Poverty remains widespread, with the bulk of the poor living in extreme poverty. With limited fiscal space, the country continues to depend heavily on international support to achieve stabilization on several fronts, including security, humanitarian and macroeconomic.

In April 2023, the IMF approved a three-year Extended Credit Facility (ECF) program for the CAR. Budget support by other development partners is currently suspended, inter alia, due to concerns about budget transparency, especially around security spending. The CAR faces significant macro and political uncertainties, including risks associated with the newly enacted tokenization law for natural resources, and the removal of presidential term limit through a constitutional referendum, which erode its credibility with international partners and donors.

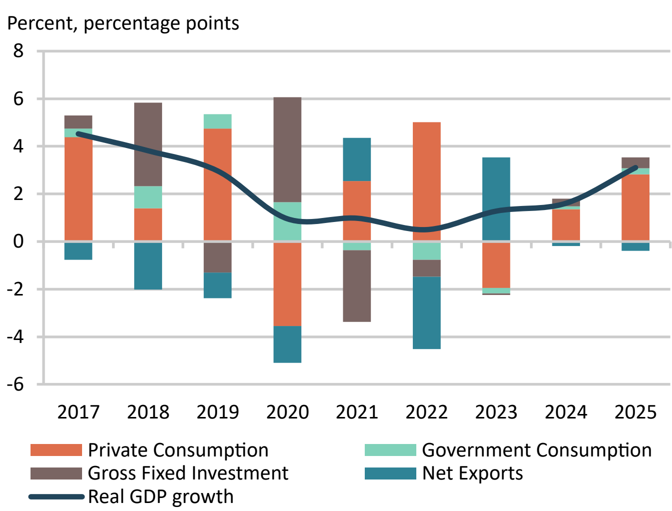
Recent developments

Continuing the weak economic performance of the past two years, CAR's real GDP is estimated to have grown by only 0.5 percent in 2022. Forestry, mining, hospitality, and telecommunications drove economic activity. Timber production, accounting for over half of exports, rose significantly from 551.1 thousand cubic meters in 2021 to 639.0 thousand cubic meters in 2022 due to new forestry licenses. The mining sector, particularly gold and diamonds, thrived due to higher global prices. Improved security conditions boosted the services sector. Net exports fueled growth, but private consumption suffered due to inflation. Continued suspension of budget support and revenue shortfalls led to a 17.7 percent decrease in public investment in 2022, impacting gross fixed investment. In 2023H1, economic activity continued to suffer from persistent fuel shortages, which disrupted trade and food supply chains.

The National Plan for Recovery and Consolidation of Peace in CAR and the Mutual Engagement Framework (RCPCA-CEM) are not sufficient to address the key problems of poverty reduction in CAR. As the RCPCA is ending in December 2023, a new plan covering 2024-26 is under preparation, however the microsimulation projections that combine sectoral GDP growth forecasts with the EHCVM data suggest this situation is unlikely to change much in the next five years, with more than 65.5 percent of the population living in extreme poverty in 2022.

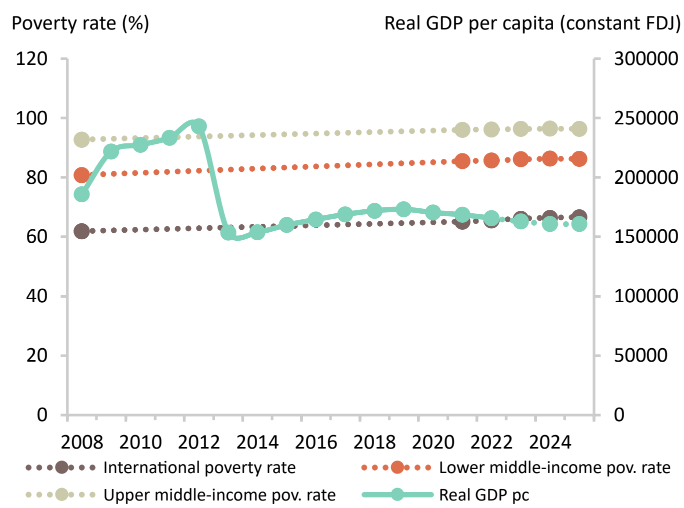
The Bank of Central African States (BEAC) continued to tighten its monetary policy to contain inflationary pressures and support the external viability of the exchange rate arrangement. The BEAC increased the

FIGURE 1 Central African Republic / Real GDP growth and contributions to real GDP growth



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

policy rate in March 2023 by another 50 basis points to 5.0 percent, a cumulative 175 basis points increase since November 2021. Moreover, the BEAC ended its weekly liquidity injections after steadily scaling them back since June 2021. Although aggregate financial soundness indicators remained broadly adequate in 2022, liquidity indicators have deteriorated since end-2021, while non-performing loans (NPLs) remained high.

While the overall fiscal balance improved in 2022, it remained structurally in deficit. Economic slowdown and fuel shortages reduced domestic revenue collection from 8.8 percent of GDP in 2021 to 7.8 percent in 2022. Authorities implemented a CFAF 9.5 billion (0.6 percent of GDP) partial adjustment to non-priority domestic spending to address the revenue gap. By year-end, the treasury nearly depleted its cash balance, using the SDR allocation (CFAF 50.5 billion) and raising domestic financing (CFAF 46.1 billion, equivalent to US$74.9 million or 3.0 percent of GDP). Public debt rose to 51.8 percent of GDP in 2022, mainly due to the use of the last SDR allocation tranche, issuance of net domestic bonds, and CFAF depreciation against the U.S. dollar. In 2023H1, the government has further tightened its fiscal stance to reduce the domestic primary fiscal deficit by 0.9 percent of GDP, consistent with limited financing options.

The current account deficit widened to 13.2 percent of GDP in 2022, the third consecutive annual increase, primarily due to a 9.4 percent drop in the terms-of-trade.

Outlook

The medium-term outlook is highly uncertain. Real GDP growth is projected to rebound to 1.3 percent in 2023, before averaging 2.4 percent between 2024-25, driven partly by the base effect and contingent on the resumption of budget support and the implementation of policy adjustments to pave the way for improved fuel supply. Inflation is expected to remain above the regional ceiling in 2023, before converging to 3 percent over the medium term in line with the CEMAC convergence criterion. Poverty is projected to remain elevated as a result of stagnant per capita incomes, a relative high food prices and weak economic recovery.

The overall fiscal balance is projected to remain in deficit over the medium-term, due to an envisaged increase in public investment to meet pressing social needs. CAR is expected to remain at high risk of external debt distress and overall debt distress, although public debt is projected to be sustainable.

The current account balance is projected to improve but remain in deficit. The balance of payment is projected to exhibit a financing gap of roughly 3.5-4.5 percent of GDP per year over the medium-term. This financing gap is expected to be covered by bridge financing from the regional market, possible disbursements of donor's budget support, and disbursement under the ECF program.

Risks to the outlook remain skewed to the downside. Pressures points include: (i) Failure to repeal or mitigate the newly adopted tokenization law, which is likely to pose several systemic risks including macroeconomic and financial stability, money laundering, and derail prospect for economic recovery; (ii) failure to implement bold policy to move gradually toward a sustainable price adjustment mechanism to address fuel supply shortages and to realize domestic revenue mobilization objectives, is expected to weigh on economic growth and widen the overall fiscal deficit; (iii) inability to mobilize concessional donor support; (iv) a reversal in security gains; and (v) stronger-than-expected tightening of regional and global financial conditions. Should these risks materialize, CAR could dip into a yet deeper crisis, with the government unable to pay wages, both domestic and external arrears reemerging.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	1.0	1.0	0.5	1.3	1.6	3.1
Private consumption	-3.7	2.8	5.4	-2.0	1.4	3.0
Government consumption	20.6	-3.8	-8.4	-2.7	1.4	3.2
Gross fixed capital investment	30.0	-15.9	-4.6	-0.5	2.2	3.1
Exports, goods and services	-10.5	-4.3	-6.5	6.9	3.6	3.6
Imports, goods and services	-0.3	-7.2	7.0	-8.1	2.2	2.9
Real GDP growth, at constant factor prices	1.0	1.0	0.5	1.3	1.6	3.1
Agriculture	5.0	2.9	1.8	3.0	2.4	2.4
Industry	0.6	-0.4	-1.5	-0.2	0.1	0.3
Services	-1.9	0.1	0.4	0.6	1.7	5.1
Inflation (consumer price index)	0.9	4.3	5.8	6.5	3.2	2.8
Current account balance (% of GDP)	-8.5	-10.6	-13.2	-8.4	-7.3	-7.5
Fiscal balance (% of GDP)	-3.4	-6.0	-5.5	-6.4	-6.6	-6.5
Revenues (% of GDP)	21.8	13.7	12.2	11.4	11.4	11.6
Debt (% of GDP)	43.4	47.6	51.8	50.0	50.7	50.9
Primary balance (% of GDP)	-3.1	-5.7	-5.1	-5.9	-5.9	-5.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	..	65.1	65.5	66.1	66.4	66.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	..	85.5	85.7	86.1	86.3	86.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	..	96.1	96.2	96.4	96.4	96.4
GHG emissions growth (mtCO2e)	4.0	2.5	-0.3	1.9	1.7	1.6
Energy related GHG emissions (% of total)	0.5	0.5	0.5	0.4	0.5	0.5

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

CHAD

Table 1	2022
Population, million	17.7
GDP, current US$ billion	12.7
GDP per capita, current US$	716.8
International poverty rate ($2.15)[a]	30.9
Lower middle-income poverty rate ($3.65)[a]	64.6
Upper middle-income poverty rate ($6.85)[a]	89.4
Gini index[a]	37.5
School enrollment, primary (% gross)[b]	93.7
Life expectancy at birth, years[b]	52.5
Total GHG emissions (mtCO2e)	115.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2021).

Significant adverse impacts of the war in Sudan include a large influx of refugees, trade disruptions, and insecurity. GDP growth is expected to be 3 percent (-0.2 percent per capita) due to increased oil production and high prices, but inflation could rise to 13.2 percent, exacerbating food insecurity and increasing the poverty rate to 35.4 percent. Medium-term downside risks include political and regional instability, insecurity, and climatic shocks.

Key conditions and challenges

Chad's economic growth has been volatile and weak, reflecting the lack of economic diversification and dependency on the oil sector, which constitutes around 85 percent of exports, and 56 percent of fiscal revenues. Chad is also among the world's most vulnerable countries to climate change. Insufficient rains as well as frequent flooding have often had adverse impacts on the agricultural sector, the main sector of employment, which together with conflict and displacement have led to chronic food insecurity. In 2022, Chad experienced its worst floods in 30 years, dampening growth and leading to declaration of a national food emergency in June 2022.

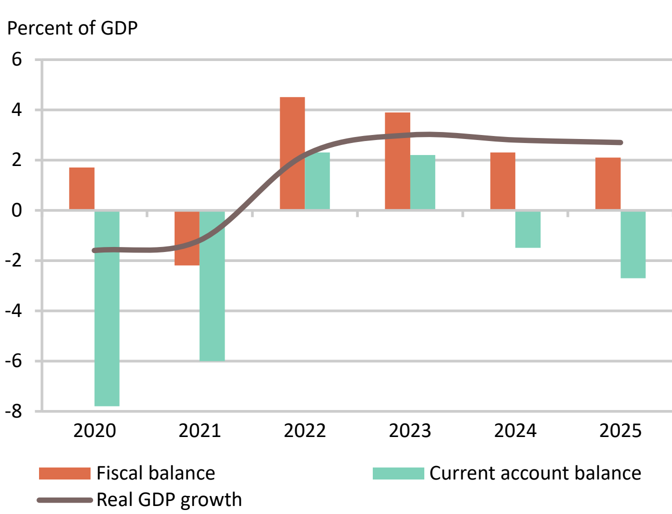
According to UNHCR, Chad was hosting nearly one million forcibly displaced persons at the end of 2022, including 593,000 refugees and nearly 400,000 IDPs. Since April 2023, the war in Sudan has caused a mass influx of new refugees, border closures and major disruptions in trade. As of end-August 2023, 382,000 new refugees have crossed into Chad, including 48,000 returnees. The Government expects that by end-2023, new refugees from Sudan could reach 600,000. In addition to the humanitarian challenges, expected economic impacts are higher expenditures (mostly military), reduced/ shortages of goods, and higher inflation.

Recent developments

In 2023, Chad's economy is expected to grow by 3 percent (-0.2 percent per capita), following subdued growth impaired by floods and insecurity in 2022. Non-oil GDP growth is estimated at 2.2 percent, up from 1.3 percent in 2022, driven by increased public investment. Industry, driven by the oil sector, is projected to contribute 1.3 percentage points (ppts) to growth, followed by services (0.9 ppts) and agriculture (0.8 ppts). Gross fixed capital investment, primarily government-driven, is projected to be the main driver, contributing 1.4 ppts to growth. Despite the Sudan border closure, the value of exports is expected to increase by 0.6 percent, thanks to high oil prices and an increase in oil production (6.6 percent), resulting in a current account surplus of 2.1 percent of GDP in 2023.

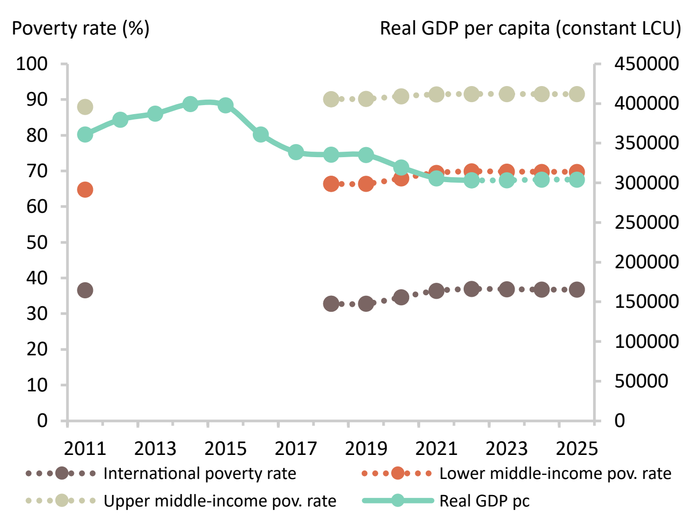
Inflation is projected to surge from 5.8 percent in 2022 to 13.2 percent in 2023, with food inflation expected to reach 13.9 percent, mainly due to the Sudan war as trade disruptions reduce supply and cause shortages, while demand for goods from refugees has increased. This will exacerbate food insecurity with an estimated 1.9 million people (10.4 percent of the population) in severe food insecurity as of June 2023. The extreme poverty rate (US$2.15/ day per capita, 2017 PPP) is expected to increase by 0.2 percentage points in 2023, reaching 35.4 percent, an increase of 228,000 people to a total of 6.4 million in extreme poverty.

FIGURE 1 Chad / GDP growth, current account and fiscal balance



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

Monetary and exchange rate policies are managed by the regional Central Bank (BEAC), which has maintained tightening monetary conditions to curb inflation and support the exchange rate. In March 2023, the BEAC raised its policy rate from 4.5 to 5 percent and ceased weekly injections after scaling back since June 2021, with the marginal lending rate rising from 6.25 to 6.75 percent in March 2023.

The fiscal surplus, including grants, is projected at 3.9 percent of GDP in 2023 (a non-oil fiscal deficit of 7.8 percent). The surplus reflects a one-year lag in the primary component of oil-revenue tax collection, while the downgrade in the projection, from 6.1 percent before the Sudan war, reflects increased security (additional 9.2 percent of the initial budget) and humanitarian expenditures. Total public debt is projected to decline to 44.4 percent of GDP by end-2023.

Outlook

During 2024-2025, growth is projected to average 2.8 percent (-0.3 percent per capita), driven by moderating oil prices and persistent impacts of the Sudan crisis. Non-oil GDP is projected to grow 2.9 percent during the same period. Inflation is projected to remain elevated at 10.1 and 7 percent in 2024 and 2025 respectively, assuming borders with Sudan remain closed for security reasons and agriculture production is subdued due to already observed effects of climate change.

Oil-sector driven growth is not expected to lead to poverty reduction without significant structural reforms, as there are few linkages between the extractive sector and the livelihoods of poor and vulnerable groups. Moreover, the continued security restrictions, the low coverage of social protection programs, and now the crisis in Sudan increasing inflation, will limit the pace of poverty reduction. Extreme poverty is expected to increase by a further 0.1 ppt between 2023-24 with an additional 214,000 projected to fall into extreme poverty (totaling 6.7 million).

Reflecting lower oil prices, the fiscal surplus is projected to narrow to 2.2 percent of GDP during 2024-2025, while the current account is expected to deteriorate, averaging -2.1 percent of GDP. Public debt is projected to decline to 37.7 percent of GDP by end-2025.

This outlook is subject to multiple downside risks, including lower oil prices, political instability during upcoming elections, heightened insecurity, and climatic shocks. A prolonged Sudan war beyond 2023 would worsen the humanitarian crisis, strain public finances, and increase inflationary pressures. The coup in neighboring Niger on 26 July 2023 and the response from ECOWAS and WAEMU (economic and financial sanctions) have increased regional instability with risks of negative spillover effects on security, economic, and humanitarian fronts.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-1.6	-1.2	2.2	3.0	2.8	2.7
Private consumption	0.5	1.6	2.1	0.2	1.4	2.0
Government consumption	11.1	3.7	-1.8	2.2	-2.9	-4.2
Gross fixed capital investment	-14.5	-4.5	-7.0	12.7	5.5	1.1
Exports, goods and services	1.1	-0.4	5.0	3.6	3.6	4.1
Imports, goods and services	1.8	5.1	2.0	1.0	1.5	2.1
Real GDP growth, at constant factor prices	-1.6	-1.2	2.2	3.0	2.8	2.7
Agriculture	3.9	6.2	2.0	2.4	1.6	1.7
Industry	-0.1	-4.6	4.1	4.2	2.1	2.0
Services	-7.0	-4.4	0.7	2.5	4.5	4.2
Inflation (consumer price index)	3.5	1.0	5.8	13.2	10.1	7.0
Current account balance (% of GDP)	-7.8	-6.0	2.3	2.2	-1.5	-2.7
Fiscal balance (% of GDP)	1.7	-2.2	4.5	3.9	2.3	2.1
Revenues (% of GDP)	20.7	16.3	19.9	19.7	16.0	15.4
Debt (% of GDP)	49.9	52.1	49.6	44.4	40.7	37.7
Primary balance (% of GDP)	3.4	-0.6	5.9	5.4	3.3	3.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	33.1	34.9	35.2	35.4	35.5	35.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	66.5	68.1	68.4	68.5	68.5	68.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	90.3	91.0	91.1	91.1	91.1	91.2
GHG emissions growth (mtCO2e)	2.8	2.9	3.2	3.2	3.2	3.2
Energy related GHG emissions (% of total)	2.2	2.1	2.1	2.0	2.0	2.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2018) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

COMOROS

Table 1	2022
Population, million	0.8
GDP, current US$ billion	1.2
GDP per capita, current US$	1408.8
International poverty rate ($2.15)[a]	18.6
Lower middle-income poverty rate ($3.65)[a]	39.5
Upper middle-income poverty rate ($6.85)[a]	68.6
Gini index[a]	45.3
School enrollment, primary (% gross)[b]	99.5
Life expectancy at birth, years[b]	63.4
Total GHG emissions (mtCO2e)	0.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2017 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2021).

The Comoros' economy continues to recover on the back of the resumption of private consumption and investments in tourism and transport infrastructure, and growth is expected to average 3.5 percent in 2023-25. The poverty rate has remained stable around 38 percent. Policy priorities include fiscal consolidation and reforms to promote economic transformation. Risks to the outlook include slow pace of reforms in a context of elevated prices and upcoming elections.

Key conditions and challenges

Economic growth, which has been low for decades (averaging 2.7 percent over 2001-20), slowed further to 1.6 percent over 2019-22, due to multiple shocks, including Cyclone Kenneth in 2019, the COVID-19 pandemic, and the 2022 price shock. As a result, poverty remains high at 38.5 percent in 2022. This weak economic performance reflects a growth model driven by private consumption fueled by remittances, negative productivity growth, limited investment, and underperforming state-owned enterprises (SOEs). The Comoros is at high risk of public debt distress, largely reflecting the issuance of non-concessional loans, though public debt is assessed as sustainable.

Job creation is constrained by limited private sector, with the growth model relying heavily on private consumption. Low human and physical capital and misallocation of resources have hindered growth in the tourism and fisheries sectors, which could be major sources of job opportunities. Labor force participation is also constrained by job market failures and persistent forms of wage discrimination against women.

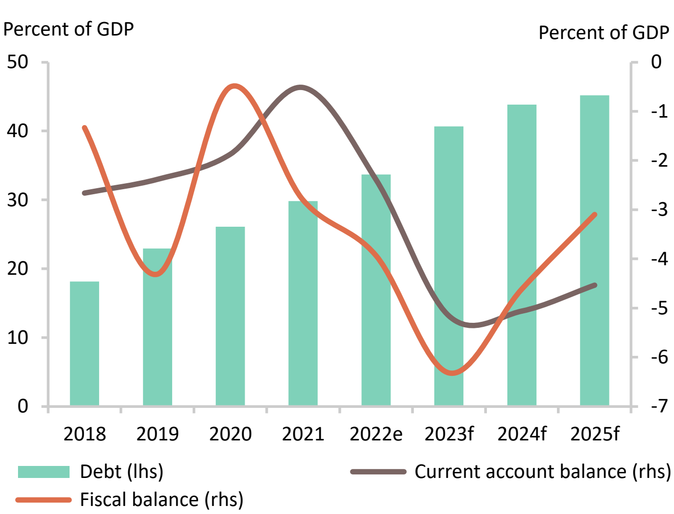
Recent shocks have highlighted the Comoros' vulnerabilities and the need to implement reforms that increase productivity and private investment to promote growth. Creating the needed fiscal space to ramp up public investment that will crowd in private investment is thus critical. An improved business environment and a strong financial sector could help attract foreign direct investment and spur domestic private investment.

Recent developments

The economy expanded by 2.6 percent in 2022, driven by an increase in exports as numerous members of the diaspora community came to celebrate "grand marriages," a cultural tradition in Comoros. In 2023Q1, growth is estimated to have been bolstered by accelerated implementation of public investment projects, increased private consumption supported by substantial remittances, and a surge in exports of cloves driven by a strong harvest. However, rising import bills widened the current account deficit to 2.4 percent of GDP in 2022 (from 0.5 percent in 2021). This trend continued in 2023Q1, but the external position remained broadly sound, with net foreign assets estimated at €228.5 million in 2023Q1. Due to higher imported inflation and base effects, headline inflation remained at 19.6 percent in April 2023 (yoy). As a result, the Central Bank of the Comoros continued to tighten the monetary stance, including by increasing its liquidity absorbing operations ceiling from KMF 2.5 billion in June 2022 to KMF 10 billion in 2023Q1.

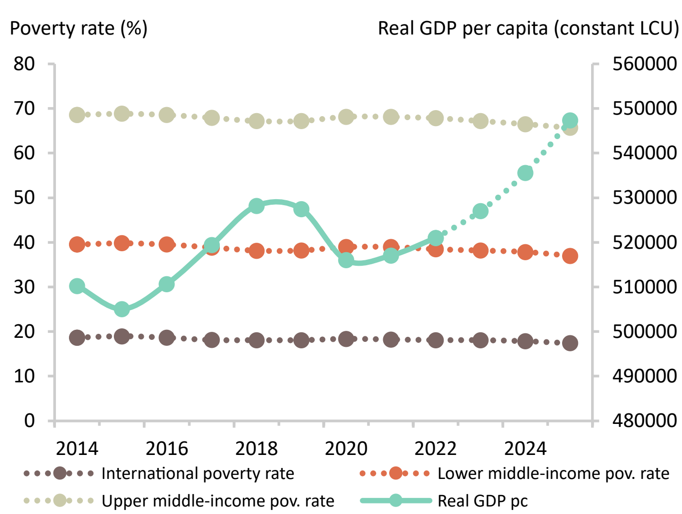
Slow progress on tax reforms, the underperformance of SOEs, and measures adopted to shield households from rising prices increased the fiscal deficit from 2.8 percent

FIGURE 1 Comoros / Selected macroeconomic imbalance indicators, 2018-2025



Sources: National authorities and World Bank estimates and forecasts.

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



Source: World Bank. Notes: see Table 2.

of GDP in 2021 to 3.9 percent in 2022. The deterioration in the fiscal position continued in 2023Q1 with higher public investment (114.6 percent, yoy), an increase in goods and services expenditures (16.1 percent, yoy), and a higher public wage bill (9.9 percent, yoy), while domestic revenues increased by 11.6 percent. Despite the increase in the wage bill (due to government measures to increase salaries) and investment, these expenditures remain within the budget at around the quarter of the budget in 2023Q1. However, goods and services expenditures already accounted for 38.9 percent of the budget in the first quarter. Due to the continuous disbursement of existing loans and SOEs' financial difficulties, the public debt stock reached 33.7 percent of GDP at end-2022, compared to 18.1 percent at end-2018. Fiscal outturns and the public debt level are expected to be monitored by a four-year IMF Extended Credit Facility that was approved in June 2023.

Outlook

The recovery is expected to continue, with growth reaching 3 percent in 2023 and 3.8 percent over 2024-25, primarily driven by private consumption and public investment. The construction of the El Maarouf hospital and the Galawa hotel, as well as the construction or restoration of roads and ports, should significantly contribute to the recovery. In the medium term, productivity growth could be boosted as the 2023 energy law promotes the production of electricity from renewable sources. The creation of a credit registry, a partial credit guarantee scheme, and the operationalization of the leasing law in 2023-24 could support the recovery in 2023-25. The poverty rate is expected to decrease slowly to 37 percent in 2025. Driven by imported inflation, headline inflation is projected to average 10.3 percent in 2023, but it could fall to 2.6 percent in 2024-25 if global commodity prices decline and the central bank improves its monetary policy framework. Driven by the completion of major investment projects and low domestic resource mobilization, the fiscal deficit is projected to widen to 6.3 percent of GDP in 2023 before narrowing to 3.1 percent in 2025 on the back of a fiscal consolidation program, enhanced SOE performance monitoring, and increased expenditure efficiency through the use of an e-procurement system. Due to the disbursement of existing loans, public debt is projected to reach 45.2 percent of GDP in 2025 and the implementation of the 2023 debt management law will help to contain it.

Driven by high commodity prices and strong domestic demand, the current account deficit is projected to reach 5.2 percent of GDP in 2023, before slightly improving in 2024-25 on the back of higher tourism service exports and lower commodity prices.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-0.2	2.1	2.6	3.0	3.5	4.0
Private consumption	3.8	1.0	0.2	1.9	3.2	3.6
Government consumption	4.1	5.0	5.4	11.0	-2.4	4.8
Gross fixed capital investment	-14.4	9.6	2.0	8.0	7.3	6.6
Exports, goods and services	-46.3	48.2	22.6	-4.2	5.1	6.5
Imports, goods and services	-9.3	7.7	4.2	3.0	3.4	5.6
Real GDP growth, at constant factor prices	-0.7	2.0	2.4	3.0	3.5	4.0
Agriculture	4.4	3.4	3.3	4.7	4.3	4.5
Industry	-5.6	-0.2	0.4	2.3	1.0	1.5
Services	-2.1	1.8	2.4	2.3	3.5	4.3
Inflation (consumer price index)	0.8	0.0	12.4	10.3	3.0	2.1
Current account balance (% of GDP)	-1.9	-0.5	-2.4	-5.2	-5.1	-4.5
Fiscal balance (% of GDP)	-0.5	-2.8	-3.9	-6.3	-4.6	-3.1
Revenues (% of GDP)	18.3	17.0	14.2	15.5	14.8	15.1
Debt (% of GDP)	26.1	29.8	33.7	40.7	43.8	45.2
Primary balance (% of GDP)	-0.3	-2.5	-3.7	-6.0	-4.2	-2.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	18.4	18.2	18.1	18.1	17.9	17.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	39.0	39.0	38.5	38.2	37.9	37.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	68.2	68.2	67.9	67.2	66.5	65.7
GHG emissions growth (mtCO2e)	1.6	2.1	2.4	2.8	3.4	4.0
Energy related GHG emissions (% of total)	45.2	44.7	44.4	44.3	44.5	44.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2015-EESIC. Actual data: 2014. Nowcast: 2015-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2014) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

DEMOCRATIC REP. OF CONGO

Table 1	2022
Population, million	99.0
GDP, current US$ billion	63.3
GDP per capita, current US$	639.7
International poverty rate ($2.15)[a]	69.9
Lower middle-income poverty rate ($3.65)[a]	87.8
Upper middle-income poverty rate ($6.85)[a]	97.4
Gini index[a]	42.1
School enrollment, primary (% gross)[b]	123.9
Life expectancy at birth, years[b]	59.2
Total GHG emissions (mtCO2e)	682.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2012), 2017 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2021).

Growth in DRC is expected to slow down in 2023 as terms-of-trade continue to deteriorate. Macroeconomic stability could be undermined by the increase in the twin-deficit (fiscal and external). Amidst elevated cost of imports and a depreciating currency, inflation is surging and eroding households' purchasing power, especially among the poor. Medium-term growth prospects remain favorable, although vulnerabilities related to commodity price shocks and supply chain disruptions persist.

Key conditions and challenges

Despite its considerable economic potential, including its rich endowment of natural resources, the Democratic Republic of the Congo (DRC)'s economy remains concentrated in a few sectors, particularly mining, and relies on exports of raw minerals (mainly copper and cobalt). In addition to its mineral wealth, the DRC is also blessed with huge agricultural potential but remains a net food importer, which exacerbates vulnerabilities to external shocks due to a lack of diversification of its economy. Despite an impressive growth over the past two decades (averaging 5.6 percent a year) and a significant return to macroeconomic stability, DRC has failed to live up to the full potential of its resources due to multiple constraints the country faces.

Poverty remains widespread in the country despite some improvements in the past decades, with the bulk of the poor living in extreme poverty. While there are significant geographical disparities between provinces, with most of the poor living along two densely populated corridors running from West to East, and North to South, poverty exceeds 50 percent even in the wealthier provinces.

In addition, the fragile political context, fueled by complex dynamics of political coalitions, will again be put to test by tensions preceding the legislative and presidential elections (scheduled for December 2023), while the conflict in the East of the country persists.

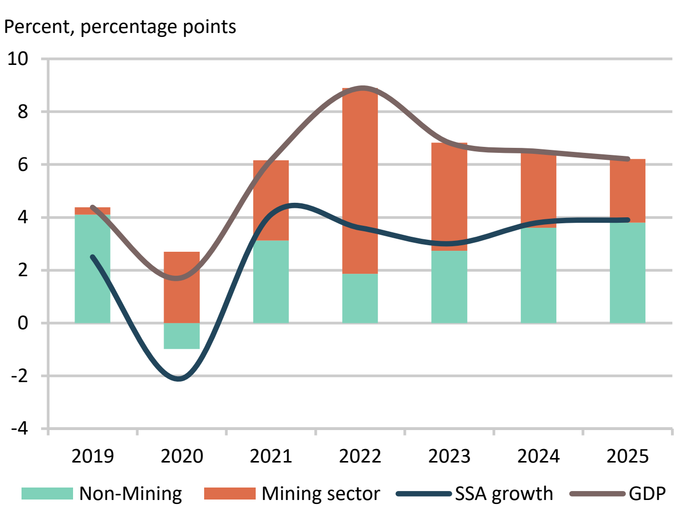
Building resilience and sustaining high growth in order to significantly reduce poverty will require unlocking investments in infrastructure and human capital and overcoming institutional and structural weaknesses, including the lack of human and financial resources. Reaching political consensus and increasing the presence and credibility of the state and of the budget, including through improved governance, are key to attract investments and create jobs.

Recent developments

After peaking at 8.9 percent in 2022, real GDP growth in DRC is expected at 6.8 percent in 2023. The mining sector remains the main driver of growth. However, given downwards trends for cobalt prices and production, mining output growth is projected to slow to 11.7 percent in 2023 (from 22.6 percent in 2022). Growth in non-mining sectors (particularly services) is expected at 4.2 percent in 2023 (2022: 2.7 percent). On the demand side, expansion in exports is estimated to slightly outweigh increase in imports while private consumption is to weaken as rising inflation weighs on real household incomes.

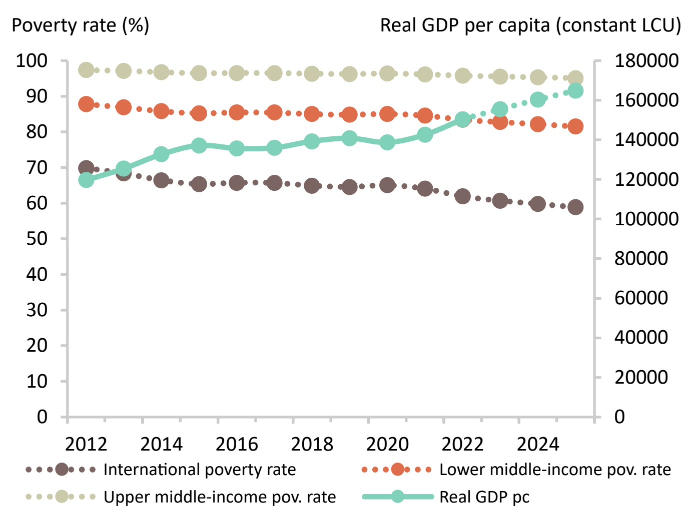
Despite a prudent fiscal policy, the continued exceptional spending for security and election purposes causes the fiscal deficit to widen in 2023 (-1.3 percent of GDP) amid softening in revenue performance

FIGURE 1 Democratic Republic of Congo / Real GDP growth and contributions to real GDP growth



Sources: Democratic Republic of Congo Statistical Authorities and World Bank.

FIGURE 2 Democratic Republic of Congo / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

(about 0.3 percentage points lower than 2022). The current account deficit should remain large, at 4.7 percent of GDP in 2023, in response to higher import prices and persistent deterioration in the terms-of-trade. Inflows from external financing are expected to lead to the accumulation of international reserves, estimated to reach 10 weeks of imports in 2023 (2022: 7.9 weeks).

Excess liquidity fueled by significant public spending put pressure on the currency which could depreciate by 16.6 percent. Exchange rate pass-through coupled with rising cost of imports led to inflation rising at a faster pace by July 2023, and expected to average about 20.7 percent in 2023. In response, the Central bank has tightened its policy rate from 8.25 percent in late 2022 to 25.0 percent in August 2023.

The latest World Bank estimations put extreme poverty at 61.9 percent in 2022, a 2.2 percentage points decrease compared to 2021, and further down to 60.7 in 2023. This decrease is due to strong economic growth, despite the negative effects of the rising inflation.

Outlook

Growth is projected to moderate at 6.4 percent on average in 2024-25, as mining growth slows down while the non-mining sector catches up.

With fiscal consolidation efforts, the fiscal deficit will be contained around 0.5 percent of GDP in 2024-25, as election-related spending subsides. The current account deficit is expected to gradually narrow, reflecting lower growth in imports of capital goods and improved terms of trade. Further FDI inflows would contribute to building-up reserves and maintaining exchange rate stability while inflation rate is brought back down to its 7 percent medium-term target.

Extreme poverty is projected to decrease by 1.8 percentage points by 2025 given continued though lower economic growth. The pace of poverty reduction will however remain too slow to reduce the number of people in poverty given high population growth.

Amid limited buffers in terms of international reserves and revenue mobilization, the risks to the outlook are associated to the country's vulnerability to external shocks, mainly from volatile commodity prices and growth performance of major trading partners which might be disturbed by geopolitical conflicts. The economic consequences of a prolonged war in Ukraine, through rising global food costs and higher oil prices, could exert stronger pressure on fiscal deficit, on inflation and on households' consumption thus exacerbating poverty and inequality.

Domestically, the escalating conflict in the East of the country and pre- and post-election tensions may weaken the reform agenda and reduce the country's capacity to maintain macroeconomic stability and to diversify the economy.

Climate related risks, already being felt through floods and their consequence on losses of livelihoods and infrastructure, could exacerbate fiscal pressure. DRC, a low GHG emitter, is positioning as a solution country, and could benefit from developing its carbon market to generate revenue from its vast forests.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	1.7	6.2	8.9	6.8	6.5	6.2
Private consumption	-8.0	1.6	0.8	-5.3	6.0	7.2
Government consumption	9.5	11.8	25.1	10.9	9.1	0.5
Gross fixed capital investment	37.8	9.3	22.8	17.8	4.9	5.1
Exports, goods and services	4.0	11.7	23.8	11.1	6.0	5.6
Imports, goods and services	15.1	6.8	21.6	7.7	4.6	4.4
Real GDP growth, at constant factor prices	2.3	6.2	8.9	6.8	6.5	6.2
Agriculture	2.5	2.4	2.4	2.5	2.5	2.5
Industry	4.2	7.8	16.1	10.1	7.6	6.7
Services	0.1	5.8	2.7	4.0	6.3	6.8
Inflation (consumer price index)	11.4	9.0	9.3	20.7	12.2	6.8
Current account balance (% of GDP)	-2.3	-1.0	-5.3	-4.7	-4.0	-3.3
Fiscal balance (% of GDP)	-1.2	-1.6	-0.6	-1.3	-0.8	-0.3
Revenues (% of GDP)	9.2	13.6	16.5	16.2	16.3	16.5
Debt (% of GDP)	22.9	23.9	25.0	23.3	24.9	24.9
Primary balance (% of GDP)	-1.0	-1.2	-0.3	-1.0	-0.5	0.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	65.1	64.1	61.9	60.7	59.8	58.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	85.1	84.6	83.5	82.8	82.2	81.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	96.4	96.2	95.8	95.5	95.3	95.1
GHG emissions growth (mtCO2e)	0.1	0.2	0.2	0.1	0.1	0.2
Energy related GHG emissions (% of total)	1.2	1.3	1.4	1.3	1.3	1.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2012-E123. Actual data: 2012. Nowcast: 2013-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2012) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

REPUBLIC OF CONGO

Table 1	2022
Population, million	6.0
GDP, current US$ billion	15.8
GDP per capita, current US$	2649.0
International poverty rate ($2.15)[a]	35.4
Lower middle-income poverty rate ($3.65)[a]	59.1
Upper middle-income poverty rate ($6.85)[a]	83.5
Gini index[a]	48.9
School enrollment, primary (% gross)[b]	93.7
Life expectancy at birth, years[b]	63.5
Total GHG emissions (mtCO2e)	33.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2011), 2017 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2021).

Economic recovery is set to strengthen in 2023, with growth expected at 3.2 percent, driven by higher oil and non-oil activities. Elevated oil export receipts and ongoing reforms will support the fiscal and external surpluses. Inflation is accelerating in 2023 with the fuel price adjustment but should return to the 3.0 percent target by 2025. Growth prospects, albeit improved, remain vulnerable to unsteady oil production, volatile oil prices, and weak reform implementation.

Key conditions and challenges

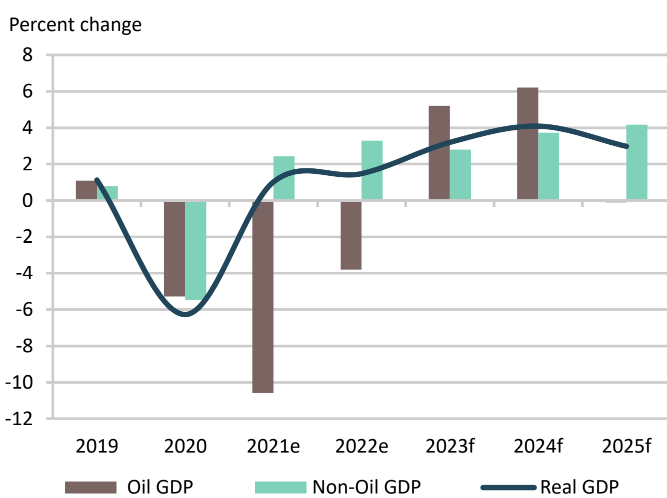
Between 2015 and 2021, Congo's real GDP declined by 19 percent and GDP per capita by 31 percent. The 2014-16 collapse in oil prices plunged the economy into a prolonged recession as a result of a massive cut in public spending and investment and the accumulation of domestic arrears to private sector firms, which impacted private investment. The COVID-19 crisis further exacerbated the economic recession that began in 2016. GDP per capita has now regressed to levels reminiscent of the early 1970s, just a decade after gaining independence. The country's reliance on volatile oil revenue, weak governance, and high levels of non-concessional borrowing, led its debt to be classified as "in distress" and unsustainable in 2017, with its debt-to-GDP ratio increasing from 42.3 percent in 2014 to 103.5 percent in 2020. Higher oil prices, improved debt management, and debt restructuring agreements helped restore debt sustainability in the second half of 2021, but the Republic of Congo (ROC) remains in debt distress due to the accumulation of external arrears. The protracted recession and negative GDP per capita growth rates since 2015 have resulted in extreme poverty incidence (less than US$2.15 PPP per day) increasing from 34.8 percent in 2015 to 46.4 percent in 2021. The enduring reliance on oil revenues has left the economy vulnerable to oil price volatility and weakened long-term growth prospects. Attaining sustainable development in Congo urgently requires efforts to diversify national assets, focusing on stronger institutions, development of human and physical capital, and a more balanced exploitation of natural capital.

Recent developments

After growing by an estimated 1.5 percent in 2022, the Congolese economy is continuing to recover in 2023, driven by both the oil and non-oil sectors. Due to higher investment, oil production increased by about 5.0 percent y-o-y in 2023H1 following three consecutive years of decline. Non-oil sector growth in 2023H1 was spurred by manufacturing (including beverages, mineral water, and cement), and services (including hotels, restaurants and transport). Despite a drop in oil revenues due to lower oil prices, the budget posted a surplus in 2023Q1. Fiscal discipline and strong reforms such as the 30 percent increase in gasoline retail prices since January 2023 are helping sustain the budget surplus (expected at 3.1 percent of GDP at end-2023). Lower export receipts and increased imports are anticipated to reduce the current account surplus to 6.4 percent of GDP in 2023.

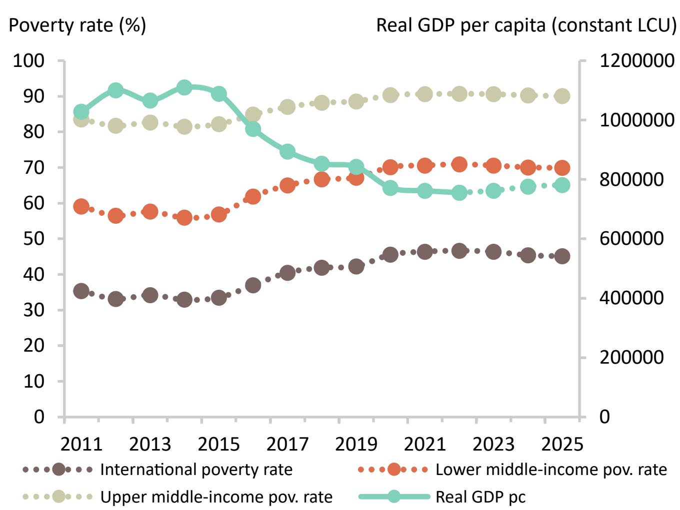
The banking sector remains solvent, but vulnerability to non-performing loans (NPLs) remains high. The NPL to gross loan ratio has been around 19 percent over the past year, which is high by international standards. Bank deposits were

FIGURE 1 Republic of Congo / Real GDP growth



Source: World Bank. Note: Oil GDP growth rate in 2025 is projected at -0.1.

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



Source: World Bank. Notes: see Table 2.

up as of April 2023, but credit to the private sector declined partly due to the high cost of borrowing. The Bank of Central African States (BEAC) continued to tighten its monetary policy to contain inflationary pressures and support the external viability of the exchange rate arrangement. The BEAC increased the policy rate in March 2023 by another 50 basis points to 5.0 percent, a cumulative 175 basis points increase since November 2021. Moreover, the BEAC ended its weekly liquidity injections after steadily scaling them back since June 2021.

GDP growth per capita remained negative in 2022 and poverty incidence consequently increased slightly to an estimated 46.6 percent. The fuel price adjustment and increased domestic demand are pushing up inflation, which averaged 3.5 percent (y-o-y) in 2023H1. Food inflation decelerated in 2023H1 but remains elevated (averaging 4.6 percent, y-o-y), which is likely to continue to affect the poorer segments of the population more as they typically spend a higher share of their household budget on food.

Outlook

The Congolese economy is expected to continue its gradual recovery. GDP is expected to grow at 3.2 percent in 2023 and to average 3.5 percent in 2024-25. Oil sector growth (expected to average 3.8 percent in 2023-25) will be driven primarily by increased investments by oil companies. Non-oil sector growth (expected to average 3.6 percent in 2023-25) will be spurred by growth in agriculture, non-oil industry and services, supported by the continued clearance of government arrears, gradual increase in social spending and public investment, and the implementation of reforms in governance and the business environment. Overall inflation will initially accelerate to an average of 3.4 percent in 2023-24 with the fuel price adjustment but is expected to return to BEAC's 3.0 percent target by 2025. The poverty rate is expected to marginally decrease to 46.4 percent in 2023 and to an average of 45.2 percent in 2024-25, consistent with projected growth in GDP per capita.

With the ongoing fuel subsidy reform, strengthening social protection interventions is necessary to mitigate the impact on the most vulnerable. The fiscal balance is expected to remain positive, fueled by high oil prices, increased oil production and fiscal discipline. The non-oil primary balance is set to improve, partly driven by the reduction in direct oil subsidies to energy SOEs and the increase of fuel retail prices. Although debt vulnerabilities remain elevated (with a high level of non-concessional debt stock and domestic arrears), debt-to-GDP ratio is projected to decline to 83.6 percent by 2025 thanks to improved debt management, fiscal discipline, and significant oil revenues. The current account surplus is projected to decline driven by lower oil prices and increased imports to support oil investment.

Risks to the outlook are tilted to the downside and include volatile oil prices and unsteady oil production, an escalation of the war in Ukraine and related spillovers, weaker-than-expected global demand, a further tightening of global or regional financial conditions, adverse weather conditions and weak reform implementation.

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

	2020	2021e	2022e	2023e	2024f	2025f
Real GDP growth, at constant market prices	-6.3	1.0	1.5	3.2	4.1	3.0
Private consumption	-8.2	11.5	5.0	4.9	4.9	4.4
Government consumption	-38.8	2.1	-5.2	0.6	2.6	0.8
Gross fixed capital investment	-23.1	14.0	10.0	8.0	7.0	6.0
Exports, goods and services	-9.4	-1.0	-0.7	4.0	6.2	1.8
Imports, goods and services	-35.8	25.0	5.9	9.2	9.7	4.2
Real GDP growth, at constant factor prices	-5.4	1.0	1.5	3.2	4.1	3.0
Agriculture	3.9	1.9	3.0	2.8	3.0	3.4
Industry	-2.4	-3.3	-0.6	4.1	6.1	3.0
Services	-11.7	2.0	3.1	2.9	3.1	3.2
Inflation (consumer price index)	1.4	2.0	3.0	3.5	3.3	3.0
Current account balance (% of GDP)	12.3	8.9	18.7	6.4	6.6	2.9
Net foreign direct investment inflow (% of GDP)	-8.7	2.4	3.3	4.2	4.4	4.7
Fiscal balance (% of GDP)	-2.2	1.2	7.9	3.1	3.8	3.8
Revenues (% of GDP)	19.7	21.1	28.6	24.5	25.3	25.5
Debt (% of GDP)	103.5	92.1	90.6	89.5	85.7	83.6
Primary balance (% of GDP)	-0.5	3.1	10.2	5.5	6.2	6.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	45.5	46.4	46.6	46.4	45.4	45.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	70.1	70.6	70.9	70.6	70.1	69.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	90.4	90.6	90.7	90.6	90.3	90.1
GHG emissions growth (mtCO2e)	3.3	3.2	3.2	3.7	3.8	3.7
Energy related GHG emissions (% of total)	13.6	14.0	14.7	15.2	15.3	15.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2011-ECOM. Actual data: 2011. Nowcast: 2012-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2011) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

CÔTE D'IVOIRE

Table 1	2022
Population, million	28.2
GDP, current US$ billion	69.9
GDP per capita, current US$	2482.6
International poverty rate ($2.15)[a]	11.5
Lower middle-income poverty rate ($3.65)[a]	39.7
Upper middle-income poverty rate ($6.85)[a]	75.6
Gini index[a]	37.2
School enrollment, primary (% gross)[b]	99.4
Life expectancy at birth, years[b]	58.6
Total GHG emissions (mtCO2e)	56.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Amid global and regional turbulence and tight financial conditions, economic growth is set to ease to 6.3 percent in 2023 as inflation remains elevated (averaging 5.2 percent at mid-year 2023), impacting the most vulnerable. Macroeconomic imbalances should ease gradually: domestic revenue mobilization should help rebuild fiscal buffers and strengthen debt sustainability, while improved terms of trade and structural reforms could sustain growth around potential.

Key conditions and challenges

After almost a decade as one of the fastest growing economies in SSA – with real GDP growth averaging 8 percent over 2012–19 (5.5 percent in per capita terms) – the global crises brought about by COVID-19 and Russia's invasion of Ukraine, have underlined the need for continued structural reforms to move towards the objective of doubling GDP per capita by 2030. Lifting productivity growth and creating better jobs will require leveraging private investment, capital deepening, reducing allocative inefficiencies through pro-competition policies, improving human capital, as well as increasing resilience to climate risks.

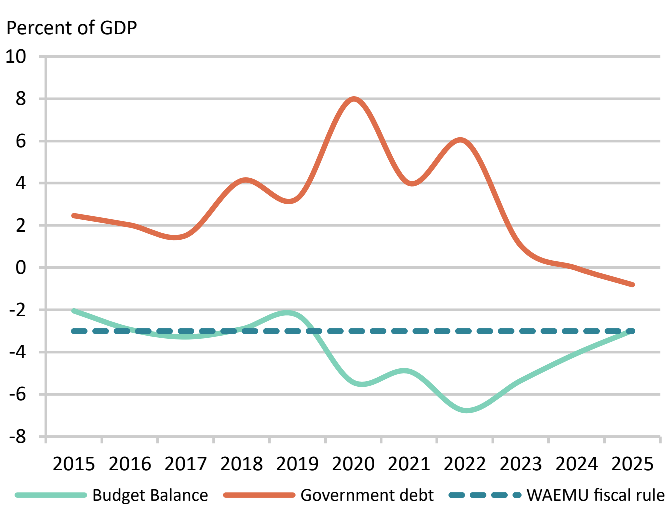
Downside risks predominate in the short term. The war in Ukraine increases commodity price volatility and has worsened external and fiscal balances of net commodity and oil importers. Heightened market uncertainties and tight monetary policy have driven up costs of external and domestic debt, requiring active debt and fiscal management. Regional insecurity and climate-related factors could also dampen the outlook. Medium-term prospects rest on the rollout of the national development plan (NDP), which requires adequate financing through greater domestic revenue mobilization and private investment.

Recent developments

Economic growth momentum moderated in 2022 owing to the fallout from Russia's invasion of Ukraine, global monetary tightening, and increased political instability in the WAEMU. Amid higher import prices, rising global and domestic interest rates and slowing external demand, economic growth softened to 6.7 percent in 2022 from 7 percent in 2021. Real GDP growth is estimated to slow to 6.3 percent in 2023 (3.6 in per capita terms) mainly due to weakening external and domestic demand. Private consumption showed signs of moderating in the first half of the year (with fuel consumption growth declining from 7.8 percent in H1-2022 to 3.7 percent in H1-2023). Low agricultural productivity, unfavorable weather conditions, and higher fertilizer costs are expected to weigh on the sector. Cocoa production declined due to the temporary halt to the distribution of improved seeds in line with the government's decision to stabilize production at 2 million tons to ensure a fair farmgate price. Industrial production is expected to decelerate. By contrast, service growth will remain strong. Despite the fiscal consolidation started in 2023, the continuation of major public investments will continue to support growth (remain above pre-covid averages) and only gradually slow down.

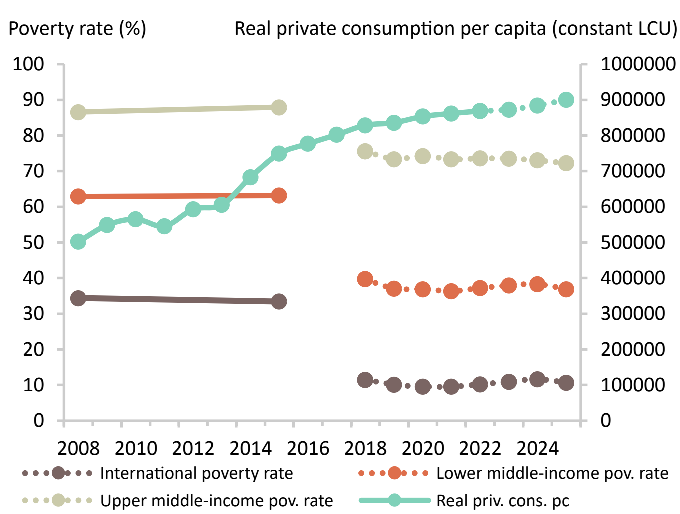
CPI averaged 5.2 percent in July 2023, with core inflation increasing 2.5 percent year-on-year. To counter inflation

FIGURE 1 Côte d'Ivoire / Fiscal balance and change in public debt



Source: World Bank.

FIGURE 2 Côte d'Ivoire / Actual and projected poverty rates and real private consumption per capita



Source: World Bank. Notes: see Table 2.

across WAEMU countries, the Central Bank of West African States (BCEAO) raised policy interest rates by a cumulative 125 basis points since the start of 2022 to 3.25 percent for liquidity calls and 5.25 percent for the marginal lending facility. However, the monetary policy stance remains broadly accommodative, inflation is still above target and foreign exchange reserves have been on a downward trend.

The fiscal deficit widened to a multi-decade high of 6.8 percent in 2022, while public debt rose to almost 60 percent of GDP at end-2022. It is projected at 5.3 percent of GDP in 2023, containing the increase in public debt. The improvement of the fiscal stance is backed by a revenue-based fiscal consolidation and lower spending as inflation-related subsidies and foregone fuel revenues are scaled back, and electricity tariffs are raised.

Extreme poverty (less than $2.15 a day per capita in PPP) would reach 11 percent in 2023, 0.8 percentage points higher than in 2022. Contracting agriculture (employing 45 percent of the workforce, 74 percent of rural workers and 70 percent of the poor) and increased food prices offset the poverty-reducing effects of economic growth, from expanding services and industry, and increase poverty in 2023.

Outlook

Assuming prudent macroeconomic policies and structural reforms, growth should remain robust over the medium term, albeit below pre-pandemic levels amid continued adverse global and regional economic and political trends. Real GDP growth should average 6.5 percent in 2024-25. On the upside, continued investments in network infrastructure notably on digital and transport sectors, and exploitation of the recent oil discoveries, together with prudent macroeconomic policies, should boost business confidence and increase productivity. Plans to develop value chains could raise agricultural productivity and boost manufacturing, sustaining growth potential. Inflation is projected to start easing slowly in the second half of 2024 in line with global food and commodity prices, reaching the WAEMU 1 to 3 percent target band in the medium term.

Tax revenue should increase by close to 1 percentage point of GDP by end-2023, signaling continued progress on domestic revenue mobilization efforts. This trend would support the re-alignment of the fiscal deficit, achieving the 3 percent regional target by 2025, stabilizing debt at around 58 percent of GDP, and creating fiscal headroom for sustained infrastructure development. Capital expenditures are expected to remain above pre-pandemic levels in the medium term. Private sector-led export diversification should boost the trade balance, and together with the lower fiscal deficit, narrow the CAD.

On the downside, heightened regional tensions, including recent developments in Niger, could curtail external capital inflows and foreign private investments. Protracted tight financial conditions in global and regional markets could weigh on debt sustainability.

Extreme poverty should continue increasing in 2024 to 11.62 percent, driven by a weak agriculture sector and an above-target inflation rate, especially among food items (expected at 4.7 percent). Poverty reduction should resume in the medium term, reflecting abated inflation and sustained economic growth, especially in agriculture and services. Extreme poverty should fall to 10.7 percent by 2025.

TABLE 2 Côte d'Ivoire / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	1.7	7.0	6.7	6.3	6.5	6.5
Private consumption	4.7	3.5	3.3	3.0	3.9	4.3
Government consumption	2.5	8.6	8.0	6.8	5.5	4.4
Gross fixed capital investment	26.8	8.6	9.8	14.3	12.1	11.1
Exports, goods and services	10.7	10.6	10.2	10.5	8.5	6.5
Imports, goods and services	6.1	13.4	6.8	12.9	9.5	7.0
Real GDP growth, at constant factor prices	1.3	7.0	6.7	6.3	6.5	6.5
Agriculture	8.9	2.7	5.1	-0.3	1.4	11.1
Industry	-1.6	7.4	8.1	6.0	10.0	4.1
Services	-0.2	8.6	6.8	8.9	6.8	6.0
Inflation (consumer price index)	2.4	4.2	5.2	5.0	3.7	3.0
Current account balance (% of GDP)	-3.1	-4.0	-6.5	-4.7	-3.8	-3.7
Net foreign direct investment inflow (% of GDP)	1.1	1.5	1.3	1.7	2.4	2.0
Fiscal balance (% of GDP)	-5.4	-4.9	-6.8	-5.3	-4.1	-3.0
Revenues (% of GDP)	15.0	15.9	15.3	16.4	17.0	17.4
Debt (% of GDP)	48.1	52.1	58.1	59.1	59.1	58.3
Primary balance (% of GDP)	-3.6	-2.9	-4.5	-3.0	-1.8	-0.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	9.6	9.6	10.2	11.0	11.6	10.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	36.9	36.4	37.2	38.0	38.3	36.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	74.3	73.3	73.6	73.5	73.0	72.3
GHG emissions growth (mtCO2e)	3.6	3.7	2.9	1.7	1.9	2.1
Energy related GHG emissions (% of total)	25.7	27.6	28.7	28.9	29.0	29.3

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 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projections using microsimulation methodology.

EQUATORIAL GUINEA

Table 1	2022
Population, million	1.7
GDP, current US$ billion	11.8
GDP per capita, current US$	7053.5
School enrollment, primary (% gross)[a]	61.8
Life expectancy at birth, years[a]	60.6
Total GHG emissions (mtCO2e)	19.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2015); Life expectancy (2021).

Equatorial Guinea grew by 3.1 percent in 2022, mainly driven by stronger hydrocarbon output. However, the country is expected to fall back into recession in 2023 due to declining petroleum reserves. After benefiting from hydrocarbon windfalls in 2022, fiscal and external balances are expected to decrease sharply over the coming years. Meanwhile, severe development challenges remain, and are exacerbated by the impact of rising inflation on living conditions.

Key conditions and challenges

As a result of declining oil reserves and failure to diversify the economy, Equatorial Guinea's output has been shrinking steadily for almost a decade. Between 2013 and 2021, the country registered an average 5.0 percent negative growth per year. Hydrocarbons accounted for nearly 50 percent of both exports and GDP and over 70 percent of government revenues in 2022. Structural reforms are needed to prevent long-term economic decline, by diversifying growth drivers and building fiscal stability through domestic revenue mobilization efforts and more efficient public spending.

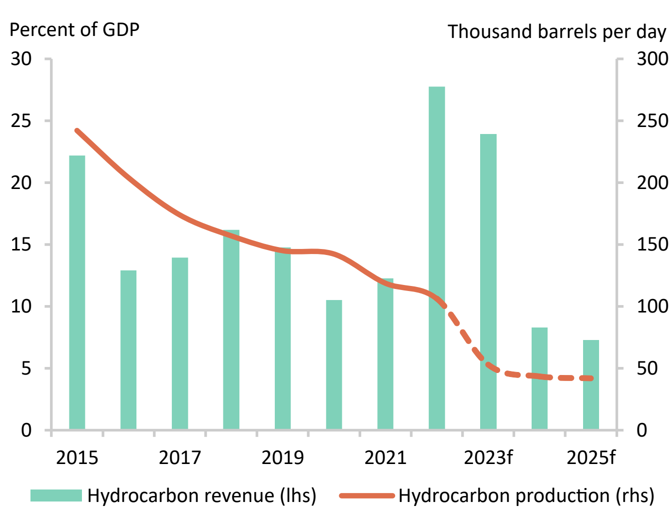
Reforms have been adopted in recent years to improve governance and business conditions. An anticorruption law was enacted in 2022 and audits of state-owned oil and gas companies were published. Measures are underway to boost trade with a one-stop shop, simplified work permits, and a law reducing import and export duties and expanding port operating hours. Yet, weaknesses persist in the governance of extractive revenues and the business environment, preventing the country from attracting investments, creating jobs, and unlocking trade to achieve sustained growth and diversification goals.

Actions are also needed to better protect and include the poor. Despite having one of the highest incomes per capita in Sub Saharan Africa, living standards remain low. Life expectancy at birth is estimated at 60.7 years, considerably lower than the average of 75 years for countries of the same income group. Around 40 percent of households experienced at least one day without electricity per month. Scarce poverty data remain a challenge to an effective protection of vulnerable groups. The data collection phase of the National Household Survey II is expected to be over in September 2023 (with a minor delay in Annobón province). The survey will fill out knowledge gaps in poverty and inequality, enabling evidence-based social protection policies.

Recent developments

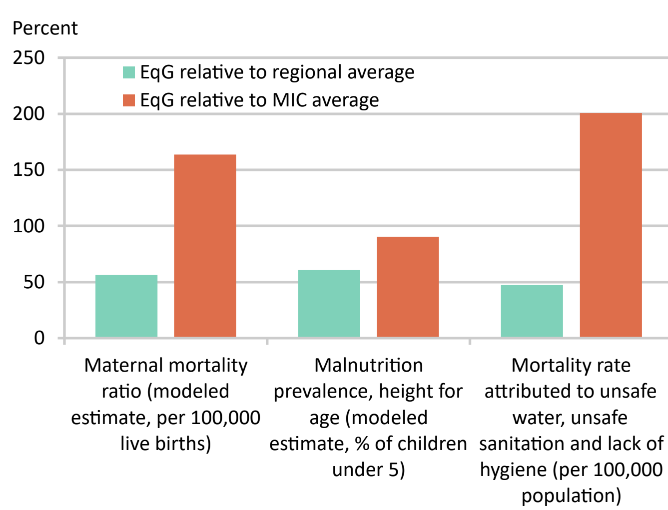
Equatorial Guinea grew by 3.1 percent in 2022. Stronger natural gas output drove the rebound, following repairs on the Punta Europa complex after a devastating fire in September 2021. Meanwhile, growth in the non-oil sectors was supported by services, benefitting from oil windfalls and the removal of COVID-19 restrictions. Demand-side GDP was driven by public investments and net exports. However, the economy has been showing signs of reverting to negative growth. In 2023Q1, GDP contracted by 0.4 percent (q-o-q), due to maturing oilfields and the decommissioning of a floating production unit following flooding in September 2022. High oil prices boosted hydrocarbon exports, bringing the current account balance to -1.0 percent of GDP in 2022 from -2.1 percent in the year before.

FIGURE 1 Equatorial Guinea / Hydrocarbon production and revenues



Sources: Official data and World Bank staff calculations.

FIGURE 2 Equatorial Guinea / Non-income poverty indicators



Source: World Bank.

Also benefitting from the temporary recovery in hydrocarbons, in 2022 the fiscal balance reached a surplus of 13.2 percent of GDP, due to higher than anticipated oil windfalls. Public expenditures increased in 2022 and early 2023, pushed by higher investments in infrastructure and also fuel subsidies, which reached 1.3 percent of GDP in 2022 due to higher oil prices that were not passed on to users. However, structurally declining production and lower prices led to a 25 percent decline in oil revenues in 2023Q1 (y-o-y). The debt-to-GDP ratio continued to decline in 2022, thanks to economic growth. While the Government settled a share of arrears, outstanding domestic arrears with construction companies remain high at 10.8 percent of GDP.

As a result, high levels of non-performing loans - 57.9 percent of total loans in 2023Q1 - remain a source of banking system vulnerability. The Bank of Central African States continued to tighten its monetary policy to contain inflationary pressures and support the exchange rate peg, increasing the policy rate in March 2023 by another 50 basis points to 5.0 percent, and ending its weekly liquidity injections. Credit to the economy decreased by 2.0 percent in 2022. Meanwhile, the Russian invasion of Ukraine is still impacting inflation, which stood at 4.2 percent in June 2023 (y-o-y). Rising costs are likely impacting food security and living conditions, although poverty data remains scarce.

Outlook

Following a brief recovery in 2022, Equatorial Guinea is expected to re-enter recession, with a projected annual average negative growth of 4.0 percent over 2023-2025. Declining hydrocarbon production and lower commodity prices are expected to keep impacting the Equatoguinean economy. Decreasing exports would lead to current account deficits over the coming years. Albeit at a slower pace, imports would also decrease, on account of declining public spending due to limited fiscal space. The fiscal balance is projected to turn to deficits in 2024-2025, as public expenditure cuts would not be sufficient to compensate for the larger drop in hydrocarbon revenues.

In the absence of growth, living standards would likely stagnate or deteriorate. Furthermore, projected lower public spending would have negative economic and social implications.

Several factors risk aggravating the economic decline. A stronger decline in hydrocarbon production or prices risks undermining fiscal and external stability given Equatorial Guinea's overdependence on oil. Sustained global financial tightening and lower demand from China and India, its main export partners, could also compromise growth prospects. Moreover, global trade disruptions affecting commodity and food prices due to the prolonged conflict in Ukraine would increase food insecurity, especially for the most vulnerable, as the country relies heavily on food imports.

Shrinking hydrocarbon reserves indicate the need for Equatorial Guinea to move to a new growth model, promoting resilient non-oil sectors capable of sustaining future growth. Ultimately, implementing the country's economic diversification vision will require efforts to facilitate trade and improve business conditions. Actions are also needed to improve public financial management, maximizing the public benefit derived from oil revenues while preparing for a sustainable post-oil fiscal model. Finally, a stronger social protection system would help protect the most vulnerable and reduce inequities, especially as social spending in Equatorial Guinea is below 2 percent of GDP, three times lower than the West and Central Africa average.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-4.2	-0.9	3.1	-2.5	-6.1	-3.9
Private consumption	2.2	3.4	3.4	-7.5	-0.3	-2.6
Government consumption	-3.2	-5.7	-0.6	42.5	-6.6	-4.0
Gross fixed capital investment	-64.5	18.8	65.1	-76.1	-11.6	-5.0
Exports, goods and services	-4.9	4.4	2.4	-8.4	-10.1	-6.3
Imports, goods and services	-10.8	12.5	6.2	-7.0	-6.5	-6.0
Real GDP growth, at constant factor prices	-4.2	-0.8	2.8	-2.5	-6.1	-3.9
Agriculture	-6.3	5.9	3.6	-5.7	2.2	2.0
Industry	-4.4	-6.4	1.3	-49.5	-18.0	-10.0
Services	-3.8	8.2	5.0	63.2	-1.2	-1.9
Inflation (consumer price index)	4.8	-0.1	4.9	3.5	2.2	2.3
Current account balance (% of GDP)	-10.4	-2.1	-1.0	-2.9	-1.6	-1.5
Net foreign direct investment inflow (% of GDP)	3.7	5.1	5.7	4.9	4.9	5.6
Fiscal balance (% of GDP)	-1.7	2.6	13.2	8.2	-4.2	-4.5
Revenues (% of GDP)	14.1	15.4	30.7	26.8	12.3	11.9
Debt (% of GDP)	48.4	42.8	40.0	33.9	32.9	34.9
Primary balance (% of GDP)	-0.4	3.6	14.5	9.6	-3.0	-3.3
GHG emissions growth (mtCO2e)	-14.5	27.6	16.2	-9.9	-8.3	-3.9
Energy related GHG emissions (% of total)	25.6	35.5	41.8	38.6	35.5	34.1

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

ERITREA

Table 1	2022
Population, million	3.7
GDP, current US$ billion	2.4
GDP per capita, current US$	647.4
School enrollment, primary (% gross)[a]	68.6
Life expectancy at birth, years[a]	66.5
Total GHG emissions (mtCO2e)	7.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2019); Life expectancy (2021).

GDP growth is projected to recover modestly from 2.6 percent in 2023 to 3.2 percent in 2024 supported by mining and service sector activity, while inflation should moderate in line with global commodity prices. Risks to the outlook include production delays at the Colluli mine, geopolitical tensions, and climate vulnerabilities. National accounts and poverty statistics have not been produced over the last decade, although poverty is expected to be widespread.

Key conditions and challenges

Eritrea emerged from a decade of international isolation with the lifting of UN sanctions in November 2018. During that period, the government followed a self-sufficiency policy. As a result, the economy is dominated by large state-owned enterprises, limiting the participation of private sector. Zinc, copper and gold account for over 90 percent of exports, underscoring risks to metal price fluctuations. Monetary policy is characterized by administrative measures, fiscal dominance, and a fixed exchange rate regime pegged to the US dollar, enabled by severe import restrictions in the context of low foreign exchange reserves. The financial sector is small and underdeveloped. The country is vulnerable to climate change, with frequent weather shocks posing a heavy burden for the economy and rural livelihoods.

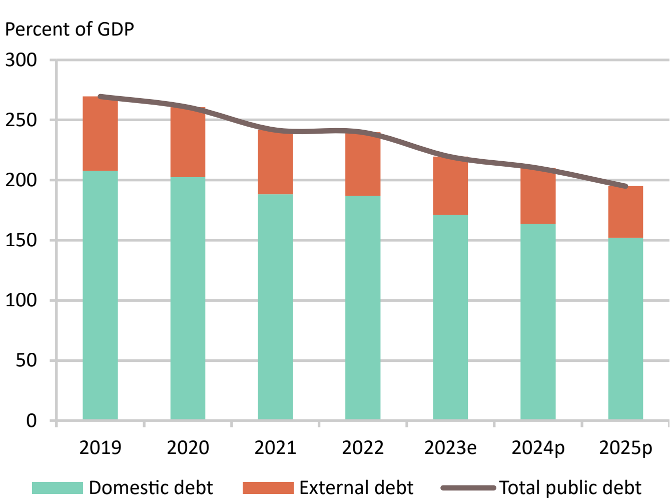
The COVID -19 crisis hit Eritrea amid a hiatus in its engagement with development partners, leaving it without much needed external funding. Informal cross-border trade seemed less affected as the conflict in northern Ethiopia ended.

The emergency conditions that prevailed in Eritrea over the past decade have led to severe data production capacity constraints. National accounts data are limited to unofficial GDP estimates produced by the Ministry of Finance that are not endorsed by the government. Inflation estimates cover only the capital, Asmara, and full balance of payments accounts are missing. The last population census in Eritrea took place more than 25 years ago, and the last official poverty rate for the country dates from 1996/97, when it was calculated that 70 percent of urban households lived in poverty. Limited growth and the multiple economic shocks since then suggest that this figure may now be higher.

Recent developments

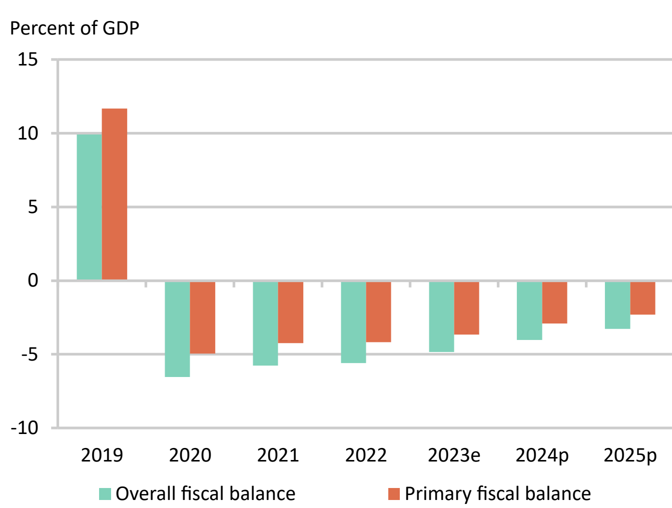
Real GDP growth had slowed to 2.5 percent in 2022, impacted by weak demand from global trading partners, especially China, while inflation had risen to over 7 percent in line with rising global commodity prices and supply chain disruptions. Although data is limited, activity during the first half of the year is likely to have been supported by a recovery in demand in China. Declines in global energy and grains prices have helped to ease price pressures, providing some respite for households, who have seen their purchasing power substantially eroded in past years on account of the high inflation, and supporting service sector activity. Although global zinc prices have fallen by a third relative to average prices last year, gold and copper prices have remained relatively high helping to support export revenues; alongside lower fuel and food import costs, this is helping Eritrea maintain large double-digit current account surpluses. Notwithstanding such large surpluses, international reserves are estimated

FIGURE 1 Eritrea / Evolution of total public debt



Sources: Ministry of Finance, Planning and Economic Development; IMF and World Bank estimates.

FIGURE 2 Eritrea / Primary and overall fiscal balances



Sources: Ministry of Finance, Planning and Economic Development; IMF and World Bank estimates.

at around three months of imports. Continued mining export receipts have, in turn, supported government revenues. Public debt was estimated at around 239.8 percent of GDP at end-2022, of which nearly 80 percent is owed to domestic banks, and the country is in debt distress. As of January 2023, Eritrea was at a pre-decision point in the Highly Indebted Poor Countries (HIPC) list.

Eritrea has recently begun to reengage with development partners and revitalize some bilateral relations. The African Development Bank Board approved US$49.9 million to build a 30 megawatt Solar Photovoltaic Power Plant in Dekemhare in March 2023. In the same month, the Chinese company Sichuan Road and Bridge Group (SRBG) has completed the acquisition of a 50 percent stake in the Colluli potash project and the mine is anticipated to come onstream in 2024. In addition, Eritrea has rejoined the East African trade bloc, the Inter-Governmental Authority on Development (IGAD), nearly 16 years after it pulled out of the body.

Outlook

After remaining broadly flat in 2023, GDP growth should increase by 3.2 percent in 2024, driven by mining exports, the services sector and as production from the Colluli potash mine begins. In line with easing global food prices, inflation is expected to ease further, reaching about 5 percent in 2024. The current account surplus is expected to widen to over 14 percent of GDP, helped by strong mining sector performance amid tight import controls. A gradual fiscal consolidation and continued strong mining sector receipts should support a narrowing of the fiscal deficit to below 4 percent of GDP by 2025. The economic recovery should support a reduction in the public debt-to-GDP ratio, which is projected at 210 percent of GDP in 2024. Poverty is not expected to vary significantly in the coming years, remaining very high. Significant improvements in the agricultural sector and creation of productive employment in urban areas will be critical to dent deprivation in the country.

Significant downside risks include weaker-than-expected global/Chinese demand for Eritrean commodity exports and related volatility in metals and minerals prices, production delays at the Colluli mine, and spillovers from the conflict in Sudan. Finally, severe climate vulnerabilities that burden Eritrea could worsen in coming years, posing high risks to food security.

Against this backdrop, Eritrea's reengagement with the international community could help to significantly reduce external arrears and provide much-needed financing to build essential infrastructure over the medium term, help abate the risks associated with climate change, and jumpstart the private and financial sectors. Development of the private and financial sectors could enhance job creation and promote inclusive growth. The production of reliable information for the economy and on living conditions remain a priority, as well.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-0.5	2.9	2.5	2.6	3.2	3.3
Private consumption	-1.9	3.0	3.6	4.0	4.3	4.1
Government consumption	16.4	14.0	5.7	3.7	4.1	4.1
Gross fixed capital investment	152.2	39.1	13.1	22.7	6.6	14.5
Exports, goods and services	-4.9	31.0	9.2	5.1	3.7	4.1
Imports, goods and services	-3.5	21.6	11.0	5.3	4.1	4.3
Real GDP growth, at constant factor prices	-0.5	2.9	2.5	2.6	3.2	3.3
Agriculture	-0.5	4.5	1.6	3.5	3.6	3.2
Industry	-0.7	1.4	3.2	2.9	3.3	3.1
Services	-0.1	5.3	1.3	1.5	2.7	3.8
Inflation (consumer price index)	5.6	6.6	7.4	6.4	5.1	5.2
Current account balance (% of GDP)	14.4	14.0	13.0	14.1	14.4	14.6
Net foreign direct investment inflow (% of GDP)	1.4	1.4	1.3	1.2	1.1	1.0
Fiscal balance (% of GDP)	-6.5	-5.8	-5.6	-4.8	-4.0	-3.3
Revenues (% of GDP)	24.9	26.7	27.0	27.6	27.8	28.0
Debt (% of GDP)	260.6	241.7	239.8	219.4	210.2	195.3
Primary balance (% of GDP)	-5.0	-4.2	-4.2	-3.7	-2.9	-2.3
GHG emissions growth (mtCO2e)	1.0	2.5	1.8	1.8	2.5	2.9
Energy related GHG emissions (% of total)	12.9	13.4	13.0	12.6	12.8	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.

ESWATINI

Table 1	2022
Population, million	1.2
GDP, current US$ billion	4.8
GDP per capita, current US$	3989.6
International poverty rate ($2.15)[a]	36.1
Lower middle-income poverty rate ($3.65)[a]	58.0
Upper middle-income poverty rate ($6.85)[a]	78.1
Gini index[a]	54.6
School enrollment, primary (% gross)[b]	114.5
Life expectancy at birth, years[b]	57.1
Total GHG emissions (mtCO2e)	2.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2021).

Real GDP growth is projected to rebound to 3.6 percent in 2023, from 0.5 percent in 2022, supported by higher SACU revenue and public spending. Nevertheless, industrial growth was muted while private consumption declined during 2023Q1, constrained by inflationary pressures which have persisted since 2022. Higher SACU revenue will help reduce fiscal deficit. Poverty is projected to decrease slightly from 54 percent in 2022 to 52.7 percent in 2024 using the lower-middle-income country poverty line ($3.65/day, 2017 PPP).

Key conditions and challenges

Eswatini is trapped in a low growth path, partly due to structural challenges, business climate, and sociopolitical uncertainty. Limited private investment and weak trade diversification remains inadequate to generate growth and create enough jobs to reduce the unemployment rate of 33 percent.

Given low private investment, the government has relied on public spending, despite volatile South African Customs Union (SACU) revenue that have led to high debt, public expenditure arrears, and low international reserves (Figure 1). The severe decline in SACU revenues observed in 2022 has negative ripple effects on the economy, moving the current account into deficit, reducing international reserves below three months of imports, and worsening the fiscal deficit to 5.0 percent of GDP. It also deepens Eswatini's reliance on South Africa, as SACU revenue depends also on South Africa's economic performance. To mitigate this, Eswatini needs to boost domestic revenue.

In 2022, an estimated 31 percent of the population lived below the US$2.15/day (2017 PPP) international poverty line, while 54 percent of the population fell under the lower-middle-income country poverty line (US$3.65/day, 2017 PPP). High inequality (54.6 percent in 2016) could fuel social tension.

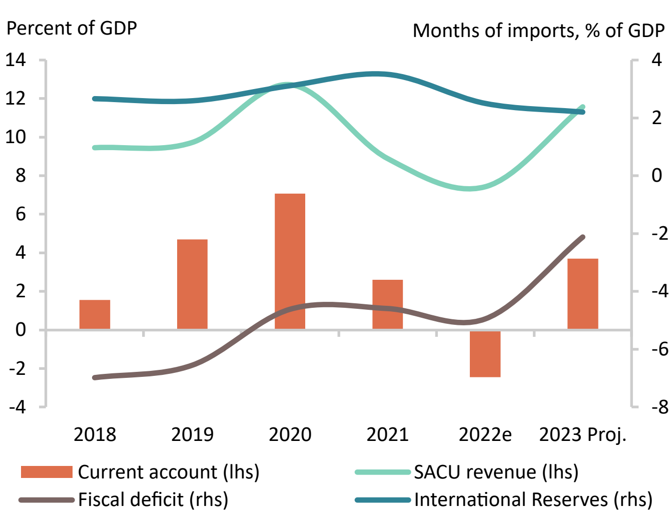
Recent developments

The slowdown in economic growth, which started in 2022 due to higher global inflation and supply chain disruptions, persisted in early 2023. Real GDP growth slowed to 1.1 percent in 2023Q1, from 8.1 percent in 2022Q1. The primary sector grew by 3.4 percent and the tertiary sector grew by 8.6 percent, while the industrial sector contracted by 10.1 percent during the quarter. Inflationary pressures limited demand.

Inflationary pressures persisted in 2023, with annual inflation averaging 5.4 percent for the first seven months of 2023 compared to 4 percent the previous year, driven by the impact of elevated global prices (particularly energy and food), which were transmitted to local prices. Food inflation breached the central bank's threshold for the first time in five years in June 2022 and it has grown at double-digit levels since August 2022. In response, the Central Bank increased the repo rate by 350 basis points, from 4 percent in January 2022 to 7.5 percent in July 2023. Non-performing loans are rising, reaching 7.5 percent in May 2023 from an average of 6.6 percent in 2022.

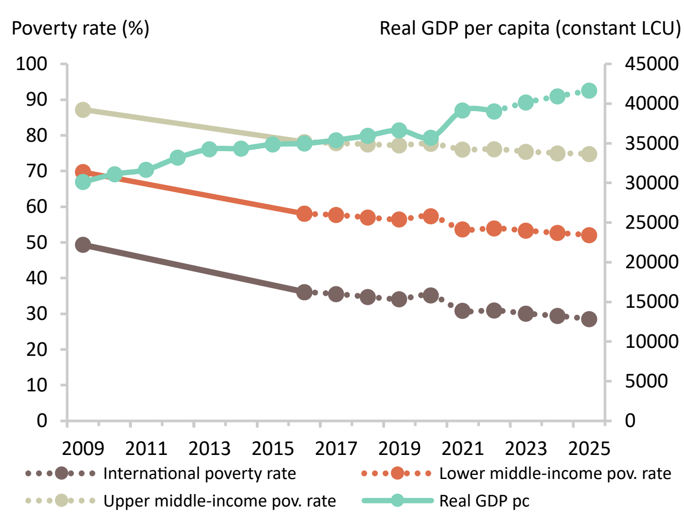
Implementation of the fiscal adjustment plan (FAP) was uneven in 2022, resulting in the overall fiscal deficit rising from 4.6 percent in 2021 to 5.0 percent in 2022. SACU revenue declined while spending increased in 2022, and public debt reached a peak of 41.8 percent of GDP in 2022. The current account registered a deficit of 2.4 percent of GDP in 2022 for the first time since the 2010/11 crisis, reflecting the high

FIGURE 1 Eswatini / SACU revenues and macroeconomic variables



Sources: Eswatini Ministry of Finance and World Bank projections.

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



Source: World Bank: Notes: see Table 2.

cost of imports and a sharp decline in SACU revenues. External shocks are persisting in 2023 as imports prices remain high, with the trade balance in deficit between April and June 2023. International reserves remain low at 2.6 months of imports in July 2023, despite the almost doubling of SACU revenues in 2023 compared to the previous year.

Higher transport and food prices disproportionately affect the poor, who spend a higher share of their resources on these items. The combination of slow economic growth and high inflation have limited the progress in poverty reduction, with estimated poverty rates only showing a slight increase from 53.7 percent to 54 percent, using the lower middle-income country poverty line, between 2021 and 2022.

Outlook

The medium-term economic outlook has improved, with growth expected to reach 3.6 and 2.9 percent in 2023 and 2024, respectively. The public sector is likely to drive growth, buoyed by an almost doubling of SACU receipts. The projected increase in government expenditure will boost economic activity, including the beginning of major investment projects such as the Mkhondvo-Ngwavuma dam. However, unfavorable weather conditions as well as social and political uncertainty may affect the growth outlook. Inflation is projected to increase to 5.1 percent in 2023, reflecting continued external shocks, and should gradually return to 4.5 percent annually over the medium term.

High SACU receipts are projected to help reduce the fiscal deficit to 2.1 percent of GDP in 2023 and 1.4 percent in 2024. This is despite higher election spending and higher public wages in 2023. If authorities implement the FAP, the deficit is projected to decline further to about 0.7 percent of GDP in 2025. The growing public-sector wage bill might pose risks in future should SACU receipts decline. Nevertheless, the government's commitment to put about E1.5 billion (1.8 percent of GDP) into the new SACU Revenue Stabilization Fund is a step in the right direction to protect the economy against future volatility. Debt is projected to stabilize in the medium term, as the fiscal deficit declines. The current account is projected to return into surplus in 2023 and 2024, on the back of higher SACU receipts and expected fiscal consolidation from 2024 onwards.

Poverty, based on the lower-middle-income country poverty line (US$3.65/day, 2017 PPP), is projected to decline slightly from 54 percent in 2022 to 52.1 percent in 2025. While the projected economic recovery will have a positive impact on households, such improvement will be constrained by the negative impact of higher food and energy prices on lower-income households, with poverty estimated to hover around 52 percent in the short term.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-1.6	10.7	0.5	3.6	2.9	2.8
Private consumption	1.1	5.7	-5.3	4.1	2.8	2.6
Government consumption	7.3	-10.6	-0.3	9.7	2.2	0.8
Gross fixed capital investment	-8.2	11.4	-10.8	-5.8	4.7	4.4
Exports, goods and services	-2.4	8.8	-0.4	8.0	2.6	2.4
Imports, goods and services	-1.3	14.0	3.4	7.0	2.7	2.0
Real GDP growth, at constant factor prices	-1.5	10.7	0.2	3.6	2.9	2.8
Agriculture	-7.5	4.6	5.1	2.7	1.5	3.0
Industry	-9.7	17.9	-0.3	2.6	2.5	2.1
Services	5.5	7.1	-0.1	4.4	3.3	3.2
Inflation (consumer price index)	3.9	3.7	4.8	5.1	4.9	4.5
Current account balance (% of GDP)	7.1	2.6	-2.4	3.7	2.1	0.4
Net foreign direct investment inflow (% of GDP)	1.2	1.2	0.7	0.8	0.8	0.7
Fiscal balance (% of GDP)	-4.6	-4.6	-5.0	-2.1	-1.4	-0.7
Revenues (% of GDP)	29.4	25.1	23.9	28.9	28.0	26.6
Debt (% of GDP)	39.6	37.9	41.8	39.1	35.8	34.0
Primary balance (% of GDP)	-2.4	-2.7	-2.7	-0.3	0.1	0.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	35.2	30.9	31.0	30.1	29.4	28.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	57.4	53.7	54.0	53.3	52.7	52.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	77.7	76.1	76.2	75.4	75.0	74.8
GHG emissions growth (mtCO2e)	0.3	4.0	2.4	0.6	1.6	2.1
Energy related GHG emissions (% of total)	35.3	38.0	39.4	39.8	40.6	41.6

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 2016-HIES. Actual data: 2016. Nowcast: 2017-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2016) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

ETHIOPIA

Table 1	2022
Population, million	123.4
GDP, current US$ billion	131.8
GDP per capita, current US$	1067.9
International poverty rate ($2.15)[a]	27.0
Lower middle-income poverty rate ($3.65)[a]	65.0
Upper middle-income poverty rate ($6.85)[a]	90.9
Gini index[a]	35.0
School enrollment, primary (% gross)[b]	106.0
Life expectancy at birth, years[b]	65.0
Total GHG emissions (mtCO2e)	196.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2017 PPPs.
b/ Most recent WDI value (2021).

Growth is estimated to have slowed to 5.8 percent in FY23 from 6.4 percent in FY22 as fiscal and external pressures intensified. Amid heightened macroeconomic vulnerabilities and depleted buffers, growth remains lower than before COVID-19, and poverty and inequality have increased due to multiple, compound shocks of conflict, droughts and inflation. The peace agreement to end the conflict in the north provides an opportunity to advance reforms to support macroeconomic stability and economic transformation for sustained and inclusive growth.

Key conditions and challenges

State-led economic development lifted growth to over 10 percent between 2004-19, placing Ethiopia among the fastest-growing economies in the world. However, overvalued exchange rates, financial repression, and regulatory and other policy distortions that underpinned this SOE-led growth model undermined external competitiveness, depleted macroeconomic buffers, depressed productivity and stalled the country's structural transformation. The 2019 Home-Grown Economic Reform Agenda sought to course correct by prioritizing reforms that unlocked greater private sector participation and market orientation. However, implementation was slowed by multiple shocks including COVID-19, soaring global food and energy prices and conflict in the north that exacerbated macroeconomic vulnerabilities. As a result, growth slowed to about 6 percent since FY20. In 2021, the country applied for debt treatment under the G-20 Common Framework amid growing external and fiscal financing pressures. The November 2022 peace agreement has ended conflict in the north, but conflict of varying intensity remains widespread throughout the country. The government is seeking to revive reform momentum: the revised Home-Grown Economic Reform Agenda (HERA 2.0) announced in June 2023 targets reforms in four pillars: macroeconomic stabilization, investment and trade, productivity, and climate resilience. Implementation of these reforms, including swiftly addressing the distortions in the forex market, is key to support macroeconomic stability, private sector led growth and over the medium term, to dampen fragility and conflict risks.

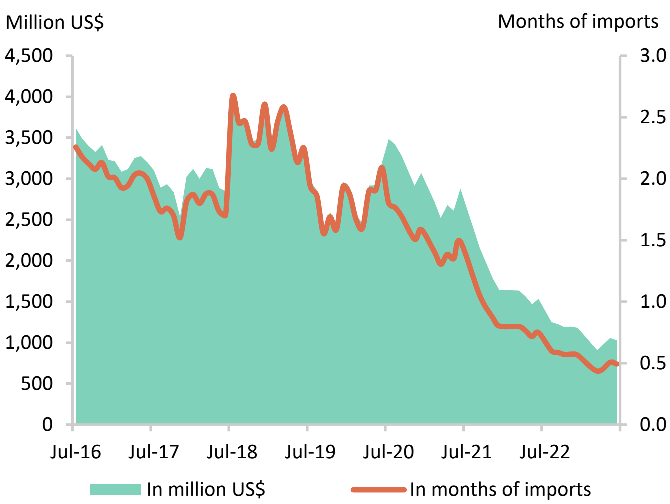
Already acute food insecurity has worsened due to global food and energy price shocks, disruptions to grain supply due to the war in Ukraine, and below-average local crop production. Humanitarian conditions in Ethiopia are deteriorating due to the combination of climate shocks, disease outbreaks, armed conflict, and the socioeconomic impacts of COVID-19. In 2023, about 28.6 million people – around one-fourth of the country's population – need humanitarian assistance, an increase of about 2.7 million from 2022.

Recent developments

Growth slowed to an estimated 5.8 percent in FY23 (ending June 2023) from 6.4 percent in FY22 as good harvests supported agricultural growth despite protracted drought in pastoral areas. Service activity also held up, offsetting the drag on manufacturing and construction from worsening forex shortages, restrictions on non-essential imports and the suspension of preferential US market access.

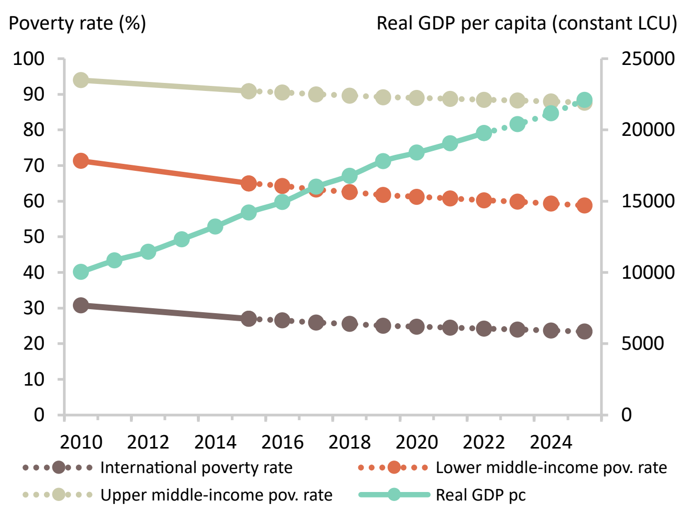
The current account deficit in FY23 narrowed to 3.1 percent of GDP from 4 percent in FY22 due to lower imports related to forex shortages and strong service exports. It was largely financed through FDI,

FIGURE 1 Ethiopia / Gross foreign exchange reserves



Source: National Bank of Ethiopia.

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



Source: World Bank. Notes: see Table 2.

which continued to decline, and the drawdown of FX reserves, which fell to less than two weeks of import cover by June 2023.

Fiscal space tightened further amid declining revenues and donor flows. At 7 percent in FY23, Ethiopia's tax-to-GDP ratio is insufficient to fund essential spending and anchor fiscal sustainability, let alone finance additional growth-enhancing health and education investments. To contain fiscal deficits, public spending has been steadily cut, falling to 10 percent of GDP in FY23 (less than half the levels in the early-2000s). With financing options severely constrained, the deficit narrowed from 4.2 percent of GDP in FY22 to 2.9 percent in FY23, and was financed mainly through domestic borrowing, including from the central bank. Public debt-to-GDP ratios continued to decrease in FY23 as external disbursements remained constrained.

Despite some easing in recent months, inflation remained high at 28.8 percent in July, driven mainly by nonfood inflation due to the phased removal of fuel subsidies, monetary financing of deficits and widening of premiums in parallel currency markets (that reached over 100 percent in recent months). Overlapping crises – persistent droughts and a surge in global food, fuel and fertilizer prices – have further exacerbated inflation.

Armed conflict, back-to-back droughts in lowland regions, and high food prices have contributed to a stagnation and reversal of poverty reduction in recent years. The number of poor people increased by about 410 thousand in 2022. Moreover, the poor, who are net consumers of food, remain at high risk of falling into extreme poverty and food insecurity.

Outlook

A modest increase in growth to 6.4 percent is expected in FY24 as recent domestic and external shocks wane and service activity remains strong. Over the medium term, growth is anticipated to rise to about 7 percent amid slow progress in reform implementation with continued policy distortions, notably overvalued exchange rate policies, expected to reduce the payoff from the ongoing liberalization of telecom and banking sectors and to continue to drag on domestic and foreign private investment. With fiscal and external pressures expected to persist, and amid constrained financing options, both fiscal and current account deficits are projected to narrow further over the medium term. A gradual deceleration in inflation is projected, supported by reduced monetary financing in line with narrowing fiscal deficits.

Faster implementation of critical macroeconomic and structural reforms could lead to better growth outcomes in the medium term. However, the resumption of conflicts could complicate reform implementation and forex inflows from development assistance and investment. Addressing the significant distortions in the forex market is critical to restoring productivity-led growth by improving resource allocation and alleviating external payment risks. Debt treatment and the resumption of official external flows will also be critical to ease external financing pressures.

Substantial poverty reduction in the medium term will depend on a strong performance in the agricultural sector, which employs over 70 percent of the labor force, and the creation of economic opportunities in other sectors. Additional shocks could push millions more into poverty and increase spatial inequalities. The acceleration of reforms to rebuild fiscal and social buffers will be critical to mitigating this risk.

TABLE 2 Ethiopia / 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	6.1	6.3	6.4	5.8	6.4	7.0
Private consumption	5.0	3.0	4.5	6.8	6.8	5.6
Government consumption	0.6	12.2	1.5	-13.5	-6.4	12.7
Gross fixed capital investment	5.6	7.6	11.0	9.2	7.3	7.1
Exports, goods and services	3.4	5.5	11.7	2.7	2.5	2.7
Imports, goods and services	-1.9	2.0	10.8	2.7	3.2	3.4
Real GDP growth, at constant factor prices	6.1	6.3	6.4	5.8	6.4	7.0
Agriculture	4.3	5.5	6.0	5.8	4.8	5.8
Industry	9.6	7.3	4.8	2.3	4.7	4.8
Services	5.2	6.3	7.9	8.2	8.8	9.3
Inflation (consumer price index)	19.9	20.2	33.7	32.6	26.3	17.2
Current account balance (% of GDP)	-4.1	-2.7	-4.0	-3.1	-2.3	-2.1
Fiscal balance (% of GDP)	-2.8	-2.8	-4.2	-2.9	-2.0	-1.8
Revenues (% of GDP)	11.7	11.2	8.3	7.6	6.7	7.1
Debt (% of GDP)	56.5	56.6	54.4	50.4	44.6	35.2
Primary balance (% of GDP)	-2.4	-2.2	-3.6	-2.3	-1.5	-1.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	24.8	24.5	24.3	24.0	23.7	23.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	61.3	60.8	60.3	59.9	59.4	58.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	89.0	88.7	88.5	88.2	88.0	87.7
GHG emissions growth (mtCO2e)	2.0	2.4	2.6	2.5	2.7	2.7
Energy related GHG emissions (% of total)	15.2	14.8	14.3	13.6	13.0	12.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2010-HICES and 2015-HICES. Actual data: 2015. Nowcast: 2016-2022. Forecasts are from 2023 to 2025.
b/ Projection using annualized elasticity (2010-2015) with pass-through = 0.87 based on GDP per capita in constant LCU.
Note: Growth projections reflect limited available information, and are subject to revision as better data becomes available.

GABON

Table 1	2022
Population, million	2.4
GDP, current US$ billion	21.1
GDP per capita, current US$	8820.3
International poverty rate ($2.15)[a]	2.5
Lower middle-income poverty rate ($3.65)[a]	8.1
Upper middle-income poverty rate ($6.85)[a]	31.2
Gini index[a]	38.0
School enrollment, primary (% gross)[b]	107.9
Life expectancy at birth, years[b]	65.8
Total GHG emissions (mtCO2e)	21.9

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

Benefiting from positive developments in the commodities sector, Gabon grew by 3.0 percent in 2022, with fiscal and external balances boosted by higher oil revenues. However, rising food prices impacted living standards. Following the August 2023 coup d'état, the economic outlook is highly uncertain and will depend on a political settlement that avoids conflict and disruptions to economic activities and restores investor confidence. Confronted with declining oil reserves, structural reforms are urgently needed to achieve stability, resilient growth and poverty reduction.

Key conditions and challenges

Gabon faces a challenge of reversing a decades-long trend of insufficient resource-based growth and persistent poverty. The already difficult situation has been compounded by the August 2023 coup d'état that happened without bloodshed immediately after election results were announced, declaring the incumbent president as winner. The head of the Presidential Guard was installed as Transition President, borders were reopened and economic life resumed briefly after the coup. However, economic uncertainty increased, and financing and investments could be compromised. Establishing and following a clear and credible path for returning to constitutional order is key for stability.

Improving governance is much needed. Publishing the first Extractive Industries Transparency Initiative report in April 2023 was a positive signal, but further strengthening transparency of extractive revenues would highly benefit public finances.

Moreover, regaining reform momentum, improving the business environment, and promoting jobs remain essential to move the economy up in global value chains and into diversified sectors. To achieve its development and poverty reduction goals, Gabon needs to rebalance public finances, repurposing expenditures from costly tax exemptions and regressive fuel subsidies toward targeted social support and productive public investments, enabling it to protect the poorest while fostering sustainable job-based growth.

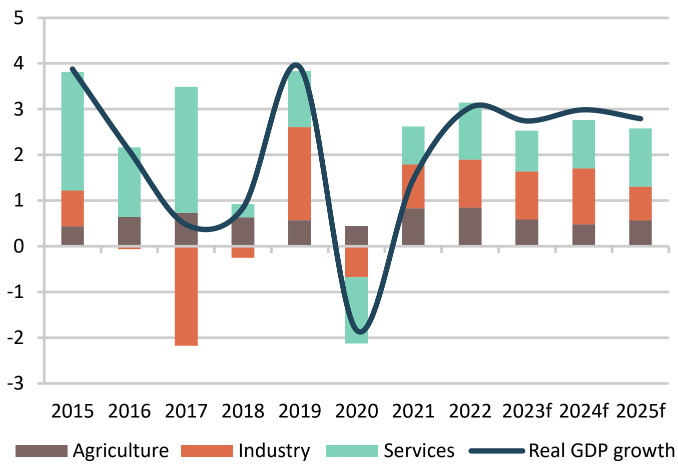
Improved access to health, power and water services, and education are also key to tackle high unemployment and poverty, while better and climate-resilient infrastructure, especially energy, roads, and railways, are needed to boost business activity and trade. Heavy rains and landslides caused transport disruptions that affected the economy in early 2023, from halting manganese exports to causing shortages in drinking water and sugar supply.

Recent developments

Gabon's economy grew by 3.0 percent in 2022, intensifying the recovery from the Covid-19 crisis. Strong demand from China, lower OPEC+ restrictions, and previous investments boosted oil production. Growth was also driven by the wood, manganese, agriculture, and services sectors. Private investments, especially in the oil sector, and net exports boosted by commodities supported demand-side growth. However, in 2023Q1, GDP contracted by 1.5 percent (q-o-q) due to weaker manganese production amid transport disruptions.

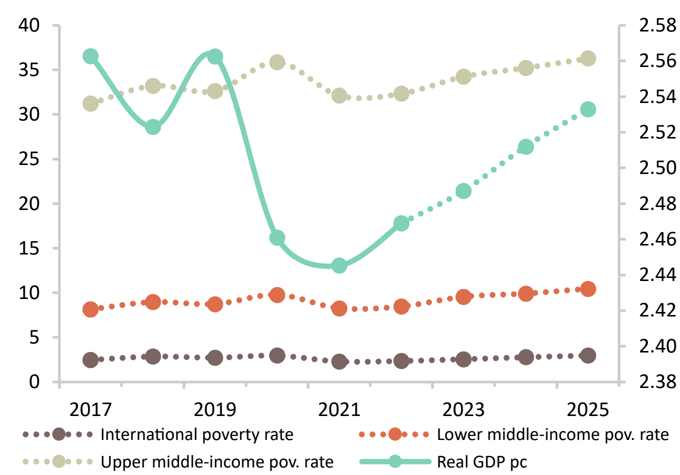
Thanks to stronger commodity exports and a smaller increase in imports, the current account balance reached a surplus of 6.7 percent of GDP in 2022. Likewise, higher oil revenues resulted in a fiscal surplus of 2.5 percent of GDP in 2022, the highest since the 2014 oil price shocks. Tax collection efforts and cuts in tax exemptions also contributed to improved government revenues in 2022.

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



Sources: Official government data and World Bank calculations.

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



Source: World Bank. Notes: see Table 2.

Overall public expenditures remained under control, but the cost of fuel subsidies grew exponentially, despite the removal of fuel subsidies for industrial consumers since July 2022. While public debt continued to decline, the recurrent accumulation of arrears, which stood at 81 billion CFAF in March 2023 (0.6 percent of GDP), remains a challenge for public finances. Public financial management weaknesses and a slow reform pace led Fitch Ratings to downgrade Gabon's outlook from positive to stable in August 2023.

Credit to private firms expanded by 13.6 percent in December 2022 (y-o-y). Yet, the regional regulatory forbearance was removed in July 2022, and non-performing loans rose by 27 percent in 2022, reaching 10.5 percent of loans. The Bank of Central African States continued to tighten monetary policy, raising the policy rate by 50 basis points to 5.0 percent in March 2023, and ending weekly liquidity injections. Inflation started to abate, dropping to 3.9 percent in June 2023. Despite tax exemptions and price ceilings being expanded under the La Vie Chère program in July 2023, living costs remain high. While the post-Covid recovery led to a decline in poverty in 2021, rising food prices resulting from the war in Ukraine led poverty to increase slightly, to 32.3 percent in 2022.

Outlook

Following the coup d'état, the economic outlook is highly uncertain; this section reflects the assessment and projections made prior to the coup. Heightened political instability risks and diminished investor confidence after the coup could adversely impact the near-term outlook. Rating agencies already downgraded Gabon's outlook. Regional sanctions could jeopardize growth and financing sources, especially as Gabon increasingly relies on regional markets.

Just prior to the coup, Gabon was projected to grow by 2.8 percent on average over 2023-2025. Expanding manganese and wood production, along with the oil palm, public works, and services sectors would compensate for the impending decline in hydrocarbon production, as oilfields reach maturity. Investments are underway in oil palm refineries and biodiesel generation.

Over the years, strong commodity exports and a lower growth in imports were expected to translate into current account surpluses. Commodity revenues were projected to remain high, resulting in continued fiscal surpluses, although declining to 2.0 percent of GDP over 2023-2025. Public debt was to maintain its gradual downward path.

However, with modest growth projections and population increase, poverty was expected to rise. Hence, 36.3 percent of Gabonese would be living under the upper middle-income poverty rate of US$6.85 per day by 2025, above the average for countries in Gabon's income group. Furthermore, Gabon remains exposed to fragile growth drivers and strong export concentration. Stricter OPEC+ quotas, price shocks, decreased Chinese demand, trade disruptions amid prolonged conflict, and climate shocks could impact macroeconomic performance, food prices, exports, and fiscal stability.

Faced with increased uncertainty during the political transition, reforms will be key to improve governance of public finances and spending efficiency, further mobilize domestic revenues, and reduce reliance on oil. Implementing the recently adopted public sector hiring methodology and adopting further measures to contain fuel subsidies are needed to avoid spending slippages. Forest and biodiversity conservation could also play a role in mobilizing future financing. In August 2023, Gabon launched a tender for a USD 500 million debt-for-nature swap, with a lower coupon rate than the bonds that were repaid.

TABLE 2 Gabon / 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	1.5	3.0	2.7	3.0	2.8
Private consumption	-2.0	-1.4	-0.3	1.4	1.7	1.6
Government consumption	5.5	3.2	3.8	3.8	-0.8	1.3
Gross fixed capital investment	-16.7	9.2	8.3	1.1	2.1	2.9
Exports, goods and services	10.1	-2.0	7.4	6.2	5.4	4.0
Imports, goods and services	-16.7	30.9	8.6	3.3	2.4	2.8
Real GDP growth, at constant factor prices	-1.9	2.9	3.4	2.7	3.0	2.8
Agriculture	5.9	10.2	9.5	6.2	4.9	5.7
Industry	-2.2	3.1	3.4	3.3	3.9	2.3
Services	-2.8	1.6	2.4	1.7	2.1	2.5
Inflation (consumer price index)	1.6	1.1	4.3	3.2	2.5	2.2
Current account balance (% of GDP)	-0.5	3.3	6.7	7.1	8.6	12.1
Net foreign direct investment inflow (% of GDP)	-0.7	-2.1	-1.3	-2.4	-2.4	-2.4
Fiscal balance (% of GDP)	-2.1	-1.9	2.5	1.7	2.3	2.2
Revenues (% of GDP)	17.6	15.8	19.5	18.5	18.9	18.2
Debt (% of GDP)	77.4	60.7	55.3	56.4	55.1	53.1
Primary balance (% of GDP)	1.2	0.9	5.0	4.1	4.8	4.8
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.0	2.3	2.4	2.6	2.8	3.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	9.8	8.3	8.5	9.5	9.9	10.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	35.9	32.1	32.3	34.3	35.2	36.3
GHG emissions growth (mtCO2e)	4.0	4.2	2.6	-0.7	0.5	1.0
Energy related GHG emissions (% of total)	15.6	16.3	16.5	15.5	14.9	14.4

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 2017-EGEP. Actual data: 2017. Nowcast: 2018-2022. Forecasts are from 2023 to 2025.
b/ Projections using microsimulation methodology.

THE GAMBIA

Table 1	2022
Population, million	2.7
GDP, current US$ billion	2.2
GDP per capita, current US$	797.8
International poverty rate ($2.15)[a]	17.2
Lower middle-income poverty rate ($3.65)[a]	47.0
Upper middle-income poverty rate ($6.85)[a]	80.6
Gini index[a]	38.8
School enrollment, primary (% gross)[b]	103.0
Life expectancy at birth, years[b]	62.1
Total GHG emissions (mtCO2e)	3.3

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

Growth is projected to rise to 4.8 percent in 2023, driven by increased activity across all sectors, supported by private investment and public infrastructure. The medium-term outlook faces several challenges, including large external imbalances, fiscal pressures, high public debt levels, and spillovers from weak global demand and persistent inflation. Poverty is estimated to have increased in 2023, reflecting weak per capita growth and high food prices and could remain elevated.

Key conditions and challenges

The Gambia has made progress in macroeconomic stabilization, with implementation of structural reforms and higher investment levels, benefiting from substantial support from development partners. However, structural challenges continue to hamper economic growth, including the dominance of low-productivity agriculture, limited economic diversification (high dependence on a low value-added tourism), constrained fiscal space for public investments, weak infrastructure, and human capital challenges compounded by high population growth.

The result has been depressed growth, limited job creation, and high poverty. Between 1991 and 2020, real GDP growth averaged 3 percent, below the Sub-Saharan Africa (SSA) average of 3.4 percent, with annual population growth of 3.1 percent. With real GDP per capita stagnating for more than three decades, an estimated 17.2 percent of the population were in poverty in 2020, using the international poverty line of $2.15 (in 2017 PPPs).

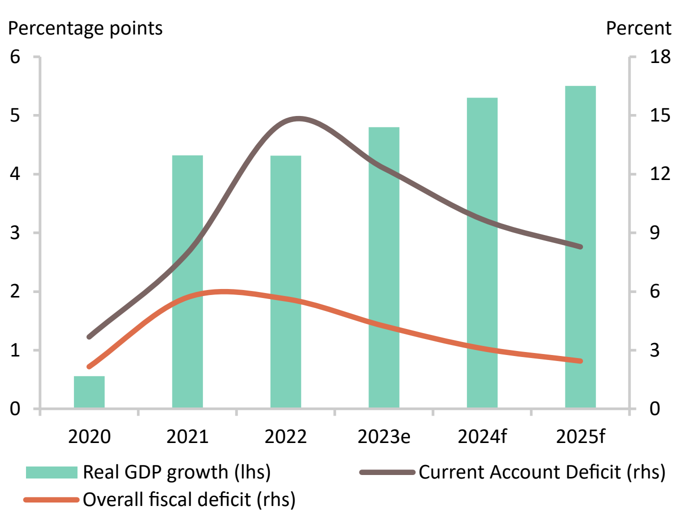
These weaknesses are coupled with downside risks such as high external imbalances, with high dependence on imports of basic goods and services putting persistent pressure on the balance of payments and forex market and exacerbating the vulnerability to global shocks in commodity markets. Fiscal risks also remain substantial given State-Owned Enterprises (SOEs) contingent liabilities and the high dependence on external grant financing due to low tax collection, which averaged 10.3 percent of GDP over 2017-2023. High domestic debt also crowds out private credit. Against this backdrop, the Government has adopted the National Development Plan (NDP) 2023-2027, building on the NDP 2018-2021, to consolidate gains in democratic governance, accelerate green economic and social transformation, and build resilience to shocks and crises. Implementing this agenda poses significant financing needs and political commitment to reforms.

Recent developments

Growth is projected at 4.8 percent in 2023 (2.2 percent per capita), driven by increased activity across all sectors. Agriculture and services benefited from favorable rainfall and a gradual recovery in tourism. Private sector investment, supported by remittance inflows, and public investment, are also expected to drive growth. Inflation increased to 18.4 percent (year-on-year) in July 2023, the highest level in decades, driven by food prices due to both imported food and poor domestic production due to climatic conditions, utility tariffs increases, and currency depreciation.

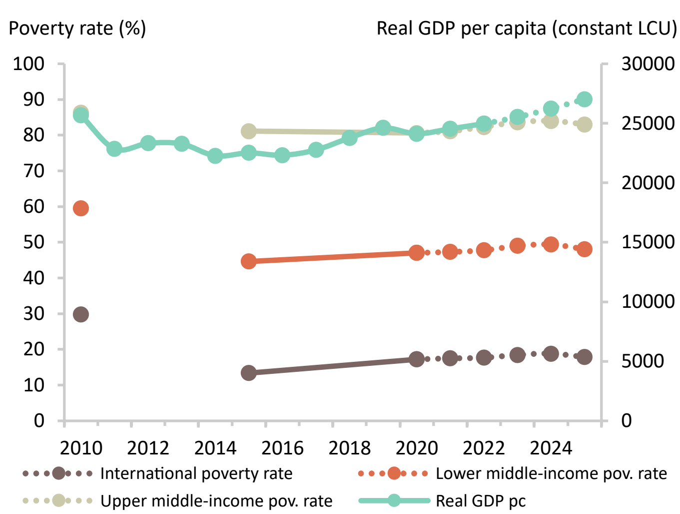
Rising food prices are expected to lead to an increase poverty to 18.5 percent in 2023, from 17.7 percent in 2022 - an increase of over 33,000 people, using the international poverty line of $2.15 (in 2017 PPPs). The sharp increase in poverty is largely due

FIGURE 1 **The Gambia** / Fiscal deficit, current account deficit, and real GDP growth



Sources: The Gambian authorities and World Bank estimates.

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



Source: World Bank. Notes: see Table 2.

to weaker growth in per capita GDP, and high prices eroding the purchasing power of households.

The fiscal deficit is expected to remain high, at 4.2 percent of GDP in 2023, despite revenue collection efforts, including increases in some excise and ad valorem taxes. Public expenditure is set to remain high owing to increased investment spending in road infrastructure and higher debt servicing, as yields on government securities rose due to monetary tightening. Public debt is projected to decrease to 81 percent of GDP in 2023, and the Gambia remains at high risk of debt distress.

The current account deficit (CAD) is projected to remain large in 2023 at 12.3 percent of GDP, as imports pick up due to private and public construction projects. The Central Bank maintained a tight monetary stance, increasing its policy rate by 1 ppt to 17 percent in August 2023 – the 6th increase since May 2022. International reserves are projected to decline to 4.4 months of imports in 2023, from 5.1 months in 2022.

Outlook

GDP growth is projected to average 5.4 percent 2024-25, driven by increased activity in all sectors. Agriculture and services are expected to sustain growth, assuming favorable rainfall and continued recovery in tourism. Robust remittances will support the recovery in private sector demand which, together with infrastructure programs, are expected to drive growth. Inflation is expected to gradually ease to an average of 9.2 percent in 2024-2025, reflecting the restrictive monetary policy and easing of global supply conditions.

Projected agriculture growth and the expansion of cash transfers are expected to have a positive effect on household wellbeing. However, sustained increases in food prices are likely to undermine such gains, given poor households spend 65 percent on food. Consequently, the international poverty rate is expected to increase to 18.8 percent in 2024, before declining to 17.9 percent by 2025.

The CAD is expected to gradually narrow, although remaining high at 9 percent in 2024-25, reflecting robust remittances trend, a decrease in investment-related imports, and robust export growth, especially in tourism. The tightening of the monetary policy is set to remain as inflation persists. The fiscal deficit is projected to narrow to 2.7 percent of GDP over 2024-25 supported by the completion of major infrastructure projects, and domestic revenue mobilization efforts, including simplification of the tax system to reduce compliance costs, introduction of electronic tax stamp traceability on excisable goods and fuel products, and strengthening customs borders and inland controls. Public debt is projected to decrease to 74.9 percent of GDP in 2024, but The Gambia is expected to remain at high risk of debt distress and the end of the debt-service deferrals scheme, negotiated with some creditors, in 2024 could weigh on debt sustainability and economic growth.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	0.6	4.3	4.3	4.8	5.3	5.5
Private consumption	-1.0	3.5	3.3	3.2	3.7	3.9
Government consumption	20.1	-7.9	2.3	2.4	2.5	2.4
Gross fixed capital investment	26.7	22.2	16.6	15.3	11.5	11.1
Exports, goods and services	-20.0	5.7	-0.4	13.0	16.0	16.0
Imports, goods and services	6.0	13.3	10.9	13.0	11.1	11.0
Real GDP growth, at constant factor prices	0.6	4.3	4.3	4.8	5.3	5.5
Agriculture	11.0	4.7	6.9	7.0	5.3	5.1
Industry	8.2	10.4	6.1	6.5	6.3	6.1
Services	-5.1	2.1	2.7	3.3	4.9	5.5
Inflation (consumer price index)	5.9	7.4	11.5	17.0	12.3	6.1
Current account balance (% of GDP)	-3.7	-8.0	-14.7	-12.3	-9.7	-8.3
Fiscal balance (% of GDP)	-2.2	-5.7	-5.6	-4.2	-3.1	-2.4
Revenues (% of GDP)	22.7	18.5	18.9	23.4	22.6	22.9
Debt (% of GDP)	85.1	83.8	83.9	81.0	74.9	69.9
Primary balance (% of GDP)	1.0	-2.7	-3.6	-1.0	0.4	0.9
International poverty rate ($2.15 in 2017 PPP)[a,b]	17.2	17.5	17.7	18.5	18.8	17.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	47.0	47.3	47.8	49.0	49.4	48.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	80.6	81.1	82.3	83.6	84.0	83.0
GHG emissions growth (mtCO2e)	5.9	4.3	3.5	3.1	2.9	2.8
Energy related GHG emissions (% of total)	20.1	20.4	20.9	21.4	22.0	22.6

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 2020-IHS. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projections using microsimulation methodology.

GHANA

Table 1	2022
Population, million	33.5
GDP, current US$ billion	72.8
GDP per capita, current US$	2175.9
International poverty rate ($2.15)[a]	25.2
Lower middle-income poverty rate ($3.65)[a]	48.8
Upper middle-income poverty rate ($6.85)[a]	78.5
Gini index[a]	43.5
School enrollment, primary (% gross)[b]	103.4
Life expectancy at birth, years[b]	63.8
Total GHG emissions (mtCO2e)	19.8

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

Since 2022, Ghana has been in a macroeconomic crisis caused by macroeconomic imbalances and external shocks. The economy stabilized in 2023H1 in response to reforms including public debt restructuring, fiscal consolidation, and monetary policy tightening. However, inflation remains over 40 percent, public debt is unsustainable and in distress, and growth will slow down to 1.5 percent in 2023. In 2022, poverty worsened by 2.2 ppts from 2021 levels as inflation eroded the purchasing power of Ghanaians.

Key conditions and challenges

Ghana's economy entered a full-blown macroeconomic crisis in 2022 on the back of pre-existing imbalances and external shocks. Large financing needs and tightening financing conditions exacerbated debt sustainability concerns, shutting-off Ghana from the international market. Large capital outflows combined with monetary policy tightening in advanced economies put significant pressure on the exchange rate which, on top of monetary financing of the budget deficit, resulted in high inflation. The authorities resorted to domestic borrowing causing an upward pressure on interest rates and crowding out the private sector. These developments interrupted the post COVID-19 recovery of the economy as GDP growth declined from 5.1 percent in 2021 to 3.1 percent in 2022. Public debt rose from 76.7 percent in 2021 to nearly 90 percent of GDP in 2022, as debt service-to-revenue reached 117.6 percent in 2022.

To help restore macroeconomic stability, Ghana has secured a three-year IMF Extended Credit Facility (ECF) program of about US$3 billion and has embarked on a comprehensive debt restructuring. The authorities have committed to a frontloaded fiscal consolidation while pursuing a tighter monetary policy, complemented by structural reforms in the areas of tax policy, revenue administration, and public financial management, as well as steps to address weaknesses in the energy and cocoa sectors.

The government has completed a Domestic Debt Exchange Programme (DDEP), implemented an external debt repayments standstill, and sought official debt restructuring under the Common Framework.

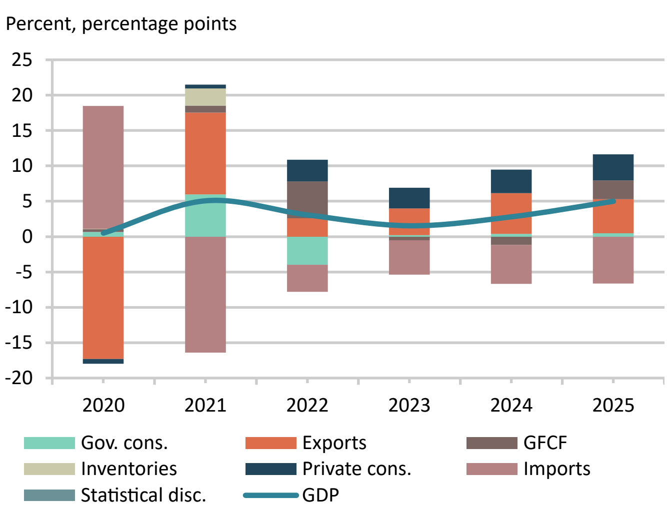
Recent developments

In Q1 of 2023, GDP growth surprised to the upside with a rebound of 4.2 percent, compared to 3.0 percent in Q1 of 2022, on the back of strong growth in services (10.1 percent) and agriculture (4.8 percent), while the industrial sector contracted by 3.2 percent as all industry sub-sectors (extractives, manufacturing, water and sewerage, and construction) shrank, with the exception of electricity.

The January-June 2023 fiscal balance improved to a deficit of 0.8 percent of GDP, significantly below the H1 target of 3.5 percent of GDP; the primary balance (commitment basis) recorded a surplus of 1.1 percent of GDP. Revenues, at 7.4 percent of GDP, were below the 8.1 percent target as oil revenue and international trade taxes underperformed. To make up for the shortfall, the government cut down capital expenditures and benefited from lower interest payments, thanks to the external debt service standstill.

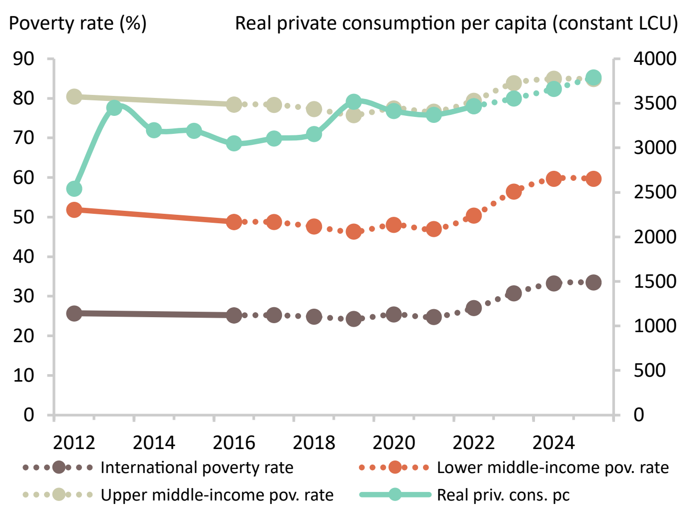
Inflation, driven by food prices, remained elevated at 43.1 percent in July 2023, significantly above the Bank of Ghana target range of 8±2 percent. The Bank of Ghana has cumulatively increased the monetary policy rate by 15.5 points since the beginning of 2022, to 30 percent in July 2023, and signed an MoU

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



Sources: Statistical Service and World Bank.

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



Source: World Bank. Notes: see Table 2.

with the government to halt monetary financing of the fiscal deficit. The cedi has stabilized at around GH¢11 per US$ since the second quarter of 2023, after having lost approximately more than 20 percent of its value against the dollar earlier this year.

The current account for H1 2023 recorded a surplus of 1.1 percent of GDP compared with a deficit of 1.5 percent for H1 2022, due to higher gold receipts, lower imports, and lower investment income payments (thanks to the moratorium on external debt service). Gross international reserves (excluding Ghana Petroleum Funds, pledged and encumbered assets) stood at US$2.4 billion (1.1 months of imports) at the end of June 2023, compared with 0.7 months of imports in December 2022.

The banking sector performance for the first half of 2023 reflects the lingering impact of the DDEP which resulted in significant bank losses at the end of 2022. Nevertheless, there has been a strong rebound in profitability as total assets of the banking industry grew by 21.2 percent in January-June 2023, boosted by the robust growth of total deposits. Key financial soundness indicators remained positive on the back of the temporary regulatory reliefs in the wake of the DDEP. The industry's NPL ratio deteriorated in June 2023, reflecting higher loan impairments and elevated credit risks.

Poverty has worsened. The "international poverty" rate is estimated at 27 percent in 2022, an increase of 2.2 percentage points since 2021. Ghanaian households have been under pressure from high inflation and slowing economic growth.

Outlook

Growth is expected to slow further to 1.5 percent in 2023 and to remain muted in 2024 at 2.8 percent. The ongoing fiscal consolidation, corrective monetary policies, high inflation, interest rates, and macroeconomic uncertainties will keep private consumption and investment low, leading to muted non-extractive growth. Extractives are expected to support 2023 growth thanks to the opening of large new gold mines and a planned expansion in oil and gas production. Growth is projected to recover to its long-term potential of about 5 percent by 2025 as conditions normalize. The balance of payments is expected to continue to deteriorate in 2023, on the back of continued capital outflows, before recovering in the medium-term.

Reflecting the government's consolidation efforts, the fiscal deficit for 2023 is projected at 7.5 percent of GDP (primary deficit of 0.5 percent of GDP), thanks to measures generating 1 percent of GDP in additional revenues and 2 percent of GDP in expenditure savings. By 2025, the authorities expect to generate 1.5 percent of GDP of primary surplus, implying a fiscal adjustment of more than 5 percentage points of GDP for the period (2023-2025).

Risks to the outlook include financial sector stress following the DDEP, contingent liabilities in the energy and cocoa sector, domestic policy slippages with the 2024 elections being a particular risk, delays in external debt restructuring, commodity price and other external shocks, and sharper-than-expected monetary policy tightening in advanced economies.

Poverty is projected to worsen between now and 2025, increasing to nearly 34 percent (international poverty line) by 2025, consistent with a muted outlook on growth in services and agriculture and rising prices which are outpacing the income growth of those at the bottom of the distribution. Despite considerable inflation in the country, its minimum wage has only increase by 10 percent – insufficient given the pace of inflation.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	0.5	5.1	3.1	1.5	2.8	5.0
Private consumption	-1.0	0.8	4.8	4.5	5.0	5.5
Government consumption	10.1	82.1	-31.7	2.6	4.7	5.4
Gross fixed capital investment	1.8	4.5	24.3	-2.1	-4.7	11.4
Exports, goods and services	-50.7	69.1	9.6	13.2	18.0	13.2
Imports, goods and services	-54.5	113.8	13.0	15.1	15.1	16.3
Real GDP growth, at constant factor prices	0.8	5.4	3.6	1.6	2.9	5.1
Agriculture	7.3	8.5	4.2	1.8	3.3	5.0
Industry	-2.5	-0.5	0.9	1.7	4.0	3.7
Services	0.7	9.4	5.5	1.4	1.8	6.3
Inflation (consumer price index)	10.4	10.0	31.5	45.4	22.2	11.5
Current account balance (% of GDP)	-3.2	-3.7	-2.1	-2.8	-2.3	-2.4
Net foreign direct investment inflow (% of GDP)	1.6	2.0	2.0	2.0	2.8	3.5
Fiscal Balance (% of GDP)[a]	-14.7	-11.4	-11.0	-7.5	-8.0	-6.7
Revenues (% of GDP)	14.1	15.3	15.7	16.8	17.3	17.8
Debt (% of GDP)[a,b]	74.4	76.7	89.1	98.1	92.0	90.2
Primary Balance (% of GDP)[a]	-8.4	-4.1	-3.6	-0.5	0.5	1.5
International poverty rate ($2.15 in 2017 PPP)[c,d]	25.4	24.8	27.0	30.8	33.3	33.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	48.1	47.0	50.4	56.5	59.7	59.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	77.5	76.7	79.4	83.8	85.0	84.9
GHG emissions growth (mtCO2e)	24.6	12.7	10.4	6.2	6.2	7.0
Energy related GHG emissions (% of total)	136.5	126.8	119.2	114.6	110.4	106.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Fiscal and debt forecasts do not factor in the impact of the ongoing Debt Restructuring (DR) as the process is yet to conclude.

b/ Starting from 2022, public debt numbers include, in addition to central government debt, explicitly guaranteed (and certain implicitly guaranteed) SOE debt, cocobills issued by Cocobod, and reconciled domestic arrears to suppliers.

c/ Calculations based on 2016-GLSS-VII. Actual data: 2016. Nowcast: 2017-2022. Forecasts are from 2023 to 2025.

d/ Projections using microsimulation methodology.

GUINEA

Table 1	2022
Population, million	13.9
GDP, current US$ billion	20.3
GDP per capita, current US$	1463.0
International poverty rate ($2.15)[a]	13.8
Lower middle-income poverty rate ($3.65)[a]	46.6
Upper middle-income poverty rate ($6.85)[a]	86.8
Gini index[a]	29.6
School enrollment, primary (% gross)[b]	100.8
Life expectancy at birth, years[b]	58.9
Total GHG emissions (mtCO2e)	45.6

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

Mining activity will boost growth to 5.1 percent in 2023, poverty rates will decrease, and the fiscal deficit widen to 2.6 percent of GDP as expenditures rise. Mining-FDI-related imports sustain current account deficits and medium-term growth. Downside risks include delays to the political transition and to implementing productivity-enhancing reforms. Extreme poverty is expected to decline to 9.1 by 2025, as food prices moderate and agricultural and service growth strengthens.

Key conditions and challenges

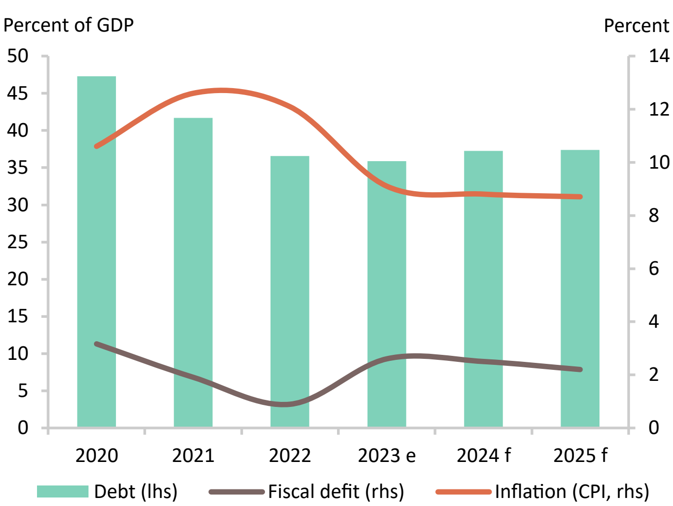
Growth was robust over 2018-22, averaging 5.2 percent (2.6 percent per capita) driven by the mining sector, supporting low fiscal deficits (1.5 percent on average). However, weak linkages to non-mining sectors limit job creation and poverty reduction. The national poverty rate declined from 48.5 percent in 2014 to 43.7 percent in 2018-19, equivalent to a growth elasticity of poverty of only 0.47. About 32 percent of the population lacked access to education, health, and basic infrastructure in 2018, with a rapid phone survey in deprivation (September-October 2022) reporting 9 percent of households being unable to access medicines when needed, since the beginning of Russia's invasion of Ukraine.

The recent mining boom, high inflation and associated real appreciation of the local currency, adversely affects the competitiveness of the non-mining sectors and hampers efforts to diversify the economy to create more and better jobs. Guinea has low human capital levels, weak institutional capacity, and large gender gaps in education, earnings, agriculture productivity, and political representation. Major structural constraints include weak fiscal revenue mobilization that constrains public investment, an underdeveloped financial sector, and large infrastructure gaps. Recent increases in digital access and e-government transactions have helped bolster economic activity during the pandemic and streamlined tax collection; yet further digitalization and structural reforms are needed to spur diversification and inclusive growth. Guinea has moderate risk of external debt distress with some space to absorb shocks, but must maintain prudent borrowing by maximizing concessional financing.

Recent developments

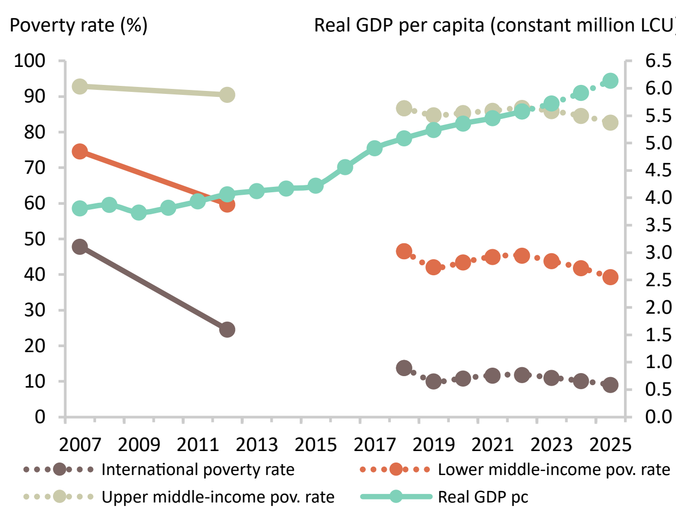
Growth is projected to accelerate to 5.1 percent in 2023 (2.6 percent per capita) due to a strong mining sector, and the post-pandemic recovery of non-mining activity was sustained by favorable rainfall. Nonetheless, output decline in the large artisanal gold sector contributes to a sharp fall in private consumption projected for 2023. External price pressures are only partially offset by the Guinean franc appreciation vis-à-vis the US dollar, prudent fiscal and monetary policy, and the absence of central bank fiscal financing. Inflation persists—buoyed by supply constraints, fuel costs and road-network deficiencies hampering food distribution—although it is projected to decelerate from 12.1 percent in 2022, to 9.1 percent in 2023 due to the appreciating real exchange rate and tight monetary policy, including limiting central bank lending to the government. At the same time, food price inflation is projected to decelerate from 13.9 percent in 2022 to 9.7 percent in 2023, leading to an expected decrease in the US$2.15 international poverty rate to 11.1 percent in 2023, down 0.8 percentage points from 2022.

FIGURE 1 Guinea / Debt, fiscal deficit, and inflation



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

The fiscal deficit (including grants) is projected to widen to 2.6 percent of GDP in 2023, from 0.9 percent in 2022, due to increases in current and capital expenditures. Tax revenues are set to increase one percentage point to 12.1 percent of GDP, buoyed by tax administration reforms and mining revenues from the bauxite-transfer-price mechanism enacted in July 2022. Subsidies (electricity and petrol) will remain high, due to low electricity tariffs and the cost of a widened supply-demand gap in hydropower generation, pending extension of power transmission lines to customers. Debt-to-GDP is projected to decrease slightly to 35.9 percent. The current account deficit (CAD) is projected to deteriorate to 7.3 percent in 2023, as lower export prices reduce the trade surplus. Mining-related FDI, the main source of external financing, is projected to decline slightly to 11.1 percent of GDP in 2023 while the real effective exchange rate is likely to continue to appreciate.

Outlook

Mining-related (foreign direct) investment will continue to drive growth and, as non-mining sectors recover, growth is projected to accelerate to 6 percent on average in 2024–2025, about equal to its potential of 5.9 percent. Commensurately, extreme poverty is projected to decline to 10.1 percent in 2024 and 9.1 percent in 2025, consistent with recovery in agriculture and services. Given the limited poverty impact of mining-driven growth, redistribution mechanisms to vulnerable populations and generalized productivity gains in non-mining sectors will be required for inclusive growth. Public investments to expand access to electricity, roads, and telecom services, in addition to increasing agricultural productivity, human capital, and urban and local development, should support non-mining growth. Better provisioning of fertilizers to farmers could further improve agricultural productivity, although higher fertilizer prices may dampen earnings. Poor quality transport infrastructure is likely to keep food prices high, reducing household purchasing power and thereby undermining poverty reduction.

The CAD is projected to improve in 2024-2025 to an average 2.6 percent of GDP following a 7.3 percent deterioration in 2023. Reductions in the mining-related trade surplus are projected to be lower than the projected fall in net outflows of non-factor services and transfers during 2024-25. Fiscal space would be rebuilt as recent tax administration reforms, including digitalized tax declarations and payments, start bearing fruit from 2024. Inflation is expected to decline gradually to 8.7 percent by 2025. Risks are tilted to the downside as political transition uncertainties in the lead up to elections in 2025 could slow implementation of reforms to strengthen SOE corporate governance, potentially reducing private investment. On the upside, mining related FDI inflows could increase, reflecting planned new projects.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	4.9	4.3	4.7	5.1	5.8	6.2
Private consumption	-2.4	0.6	7.6	2.0	4.7	4.7
Government consumption	4.4	16.8	-22.4	11.5	17.9	4.2
Gross fixed capital investment	-4.0	4.1	11.9	17.8	14.8	24.4
Exports, goods and services	57.0	0.8	5.8	8.3	5.6	5.6
Imports, goods and services	37.0	-6.2	6.7	10.2	10.3	10.3
Real GDP growth, at constant factor prices	4.0	4.3	4.7	5.1	5.8	6.2
Agriculture	-1.1	3.9	3.1	4.0	5.0	5.0
Industry	11.3	4.9	8.6	7.4	6.9	6.4
Services	1.4	4.0	2.4	3.7	5.2	6.6
Inflation (consumer price index)	10.6	12.6	12.1	9.1	8.8	8.7
Current account balance (% of GDP)	-9.8	-3.0	-6.1	-7.3	-3.9	-1.4
Net foreign direct investment inflow (% of GDP)	10.8	11.1	12.0	11.1	10.7	11.9
Fiscal balance (% of GDP)	-3.2	-1.9	-0.9	-2.6	-2.5	-2.2
Revenues (% of GDP)	14.0	15.2	13.1	13.4	14.5	15.3
Debt (% of GDP)	47.3	41.7	36.6	35.9	37.3	37.4
Primary balance (% of GDP)	-2.3	-0.8	0.0	-1.4	-1.4	-1.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	10.9	11.7	11.9	11.1	10.1	9.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	43.5	45.0	45.4	43.8	41.9	39.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	85.4	86.0	86.8	85.9	84.6	82.7
GHG emissions growth (mtCO2e)	3.8	4.2	3.8	3.8	3.8	3.8
Energy related GHG emissions (% of total)	9.9	10.0	10.2	10.5	10.8	11.1

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 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projections using microsimulation methodology.

GUINEA-BISSAU

Table 1	2022
Population, million	2.1
GDP, current US$ billion	1.8
GDP per capita, current US$	832.7
International poverty rate ($2.15)[a]	21.7
Lower middle-income poverty rate ($3.65)[a]	56.8
Upper middle-income poverty rate ($6.85)[a]	87.2
Gini index[a]	34.8
School enrollment, primary (% gross)[b]	118.7
Life expectancy at birth, years[b]	59.7
Total GHG emissions (mtCO2e)	4.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ WDI for School enrollment (2010); Life expectancy (2021).

Weak cashew exports and high inflation will slow growth to 2.8 percent in 2023, increasing poverty. Budget overspends and lower revenues will limit fiscal consolidation while debt increases due to infrastructure investment, rice subsidies and energy arrears. Growth is set to improve as infrastructure comes online, but sustainability depends on institutional reforms. The outlook is subject to downside risks from continued inflationary pressures, shocks to the cashew sector, and climatic shocks.

Key conditions and challenges

Exports of raw cashew nuts, which account for 90 percent of merchandise exports, determine economic performance. Cashew production is dispersed among smallholder farmers, whose income supports overall economic activity. Poverty remains widespread, with high levels of inequality and increasing rural-urban disparities. Human development indicators remain among the lowest in the world, and low access to basic services contributes to exclusion and marginalization. Despite a gradual recovery of the economy post-pandemic, rising global food and fuel prices after the Russian invasion of Ukraine are a concern, especially for the poor who spend nearly 60 percent of their income on food.

The weak enabling environment for private sector-led growth is due to poor infrastructure, low levels of human capital, and limited public services. Access to credit is limited, and infrastructure is in a poor state, but there have been recent investments to improve this, mostly donor financed as fiscal space is limited by low domestic revenue mobilization and the relatively high wage bill.

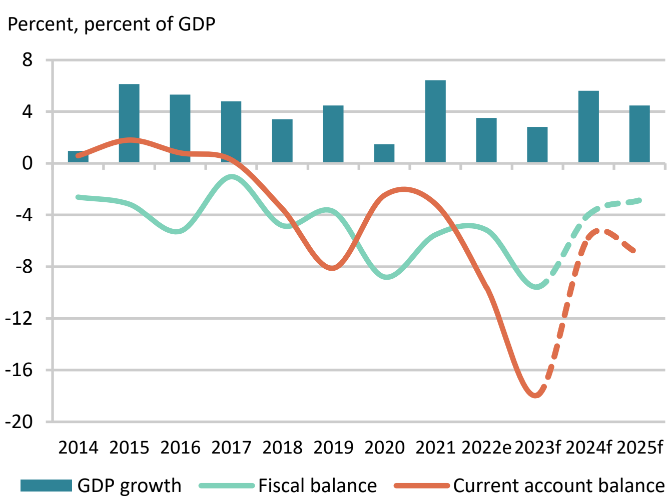
Transparency and governance of State-Owned Enterprises is limited, especially the national utility company, EAGB, which accrued substantial public debt in the energy sector through government-guaranteed letters of credit that only partially cover mounting arrears. Identifying contingent fiscal liabilities is difficult, increasing fiscal risks despite the high risk of debt distress and little capacity to absorb shocks. Nonperforming loans continue to make the banking sector another possible source of contingent liabilities.

Recent developments

Economic activity is likely to slow to 2.8 percent in 2023 (0.7 percent per capita) following another weak cashew campaign. Agriculture drives growth with government investment stimulating the construction sector. Global inflation pressure (8.6 percent y/y for 2023) and a weak cashew season will dampen private consumption.

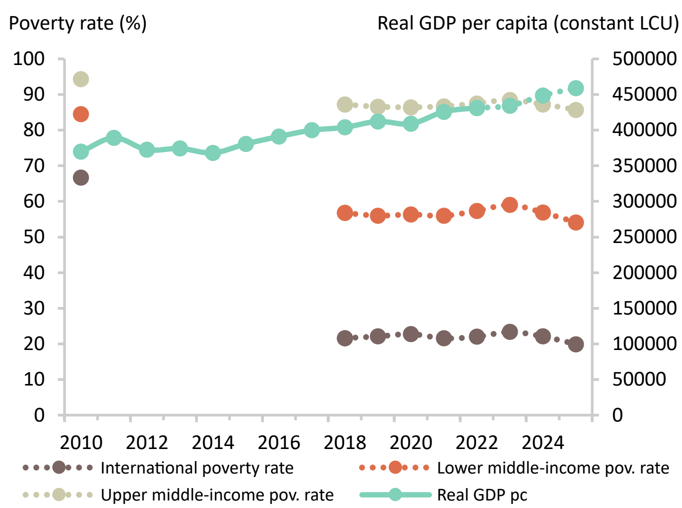
Lower cashew exports, rice subsidies worth 0.2 percent of GDP, and higher than anticipated capital expenditure have put further pressure on the fiscal accounts. Cashew production reached a record 255,000 tons, but a 35 percent increase in export tariffs (owing to a freight container issue) has meant that only 100,000 tons have been officially exported, with 130,000 tons smuggled through Senegal and Guinea. Consequently, as a percentage of GDP, the fiscal deficit (including grants) will deteriorate to 9.6 percent in 2023, with the current account deficit (CAD) rising to 17.9 percent, mostly financed by concessional loans and grants. EAGB arrears, rice subsidies, the 2023 legislative elections, and road infrastructure investments will cause public debt to rise to 83.1 percent of GDP.

FIGURE 1 Guinea-Bissau / Evolution of main macroeconomic indicators



Sources: Ministry of Finance and World Bank.

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



Source: World Bank. Notes: see Table 2.

To counter inflation across WAEMU countries, the Central Bank of West African States (BCEAO) raised policy interest rates by a cumulative 125 basis points since the start of 2022 to 3.25 percent for liquidity calls and 5.25 percent for the marginal lending facility. However, the monetary policy stance remains broadly accommodative, inflation is still above target and foreign exchange reserves have been on a downward trend.

Using the international poverty line of $2.15 (in 2017 PPPs), poverty is estimated to increase to 23.4 percent in 2023- equivalent to over 39,000 additional poor people. The sharp increase in poverty is partly due to weaker growth in per capita GDP, high food prices, and weak performance of the cashew sector. Rising food prices and low returns from cashew production are expected to disproportionately affect the well-being of the poor.

Outlook

Real GDP growth is projected at 5.6 percent in 2024 (3.4 percent per capita) as international demand for cashew recovers and local supply issues are addressed, with private consumption also increasing as inflation eases, and road and energy infrastructure open. Inflation is expected to decelerate to 2 percent in 2025, as the spillovers from the Russian invasion of Ukraine ease.

The CAD will narrow to 5.7 percent of GDP in 2024 as imported inflation falls and cashew exports increase but could reach 7 percent by 2025 as imports for highway construction begin. External financing needs will continue to be met by concessional loans and grants. The commitment to medium-term fiscal consolidation includes enhanced management of fiscal risks, notably from SOEs, domestic revenue mobilization, and control of the wage bill. The fiscal deficit is projected to decline to 2.9 percent of GDP by 2025, in line with the WAEMU convergence criteria, while the debt-to-GDP ratio remains high but falls to 77.8 percent of GDP.

The poverty rate is expected to decline in line with higher agricultural growth and lower inflation, falling to 22.1 percent (lifting over 16,000 out of poverty) in 2024 and reaching 20 percent by 2025. However, high food prices will remain a concern for the poor. While the instituted price controls on basic food items—notably rice—could cushion the short-term impact for poor net consumers, this is a market-distorting, untargeted, and costly instrument, especially given the limited fiscal space.

The outlook is subject to substantial downside risks stemming from political instability, climate, and other agricultural shocks, uncertainty of EAGB operations, and financial sector non-performing loans.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	1.5	6.4	3.5	2.8	5.6	4.5
Private consumption	-9.6	9.2	5.0	1.9	2.5	2.5
Government consumption	10.1	10.8	16.6	13.7	-12.8	9.7
Gross fixed capital investment	1.5	2.3	11.3	18.4	9.0	6.6
Exports, goods and services	-12.4	13.0	-20.0	-30.0	80.0	7.0
Imports, goods and services	-15.5	7.4	9.5	8.5	6.2	6.2
Real GDP growth, at constant factor prices	1.5	6.4	3.5	3.1	5.5	4.5
Agriculture	3.2	5.4	5.4	5.1	5.1	5.1
Industry	1.1	5.6	7.1	4.4	4.4	4.4
Services	0.4	7.5	1.0	1.0	6.1	4.0
Inflation (consumer price index)	1.5	3.3	7.8	8.6	4.5	2.0
Current account balance (% of GDP)	-2.5	-3.1	-9.6	-17.9	-5.7	-7.0
Fiscal balance (% of GDP)	-8.8	-5.5	-5.2	-9.6	-4.0	-2.9
Revenues (% of GDP)	14.0	19.0	18.2	16.0	17.3	18.2
Debt (% of GDP)	69.8	76.9	80.2	83.1	80.3	77.8
Primary balance (% of GDP)	-7.3	-4.0	-3.7	-7.4	-1.7	-0.8
International poverty rate ($2.15 in 2017 PPP)[a,b]	22.8	21.6	22.0	23.4	22.1	20.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	56.3	56.0	57.4	59.1	56.9	54.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	86.4	86.7	87.5	88.4	87.2	85.7
GHG emissions growth (mtCO2e)	1.3	1.6	1.4	1.5	1.5	1.5
Energy related GHG emissions (% of total)	8.0	8.3	8.5	8.7	9.0	9.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projections using microsimulation methodology.

KENYA

Table 1	2022
Population, million	54.0
GDP, current US$ billion	113.4
GDP per capita, current US$	2099.3
International poverty rate ($2.15)[a]	36.1
Lower middle-income poverty rate ($3.65)[a]	70.1
Upper middle-income poverty rate ($6.85)[a]	91.3
Gini index[a]	38.7
School enrollment, primary (% gross)[b]	77.3
Life expectancy at birth, years[b]	61.4
Total GHG emissions (mtCO2e)	89.1

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

Kenya's growth remains strong despite multiple shocks. Elevated cost of living and climate shocks have slowed down poverty reduction. The economy faces exchange rate pressures, debt vulnerabilities, and tight financial conditions. In the medium term, continued recovery in agriculture and consistent fiscal consolidation policies are expected to support private sector-led growth supporting households' income. GDP growth is projected at 5.2 percent in 2024-25.

Key conditions and challenges

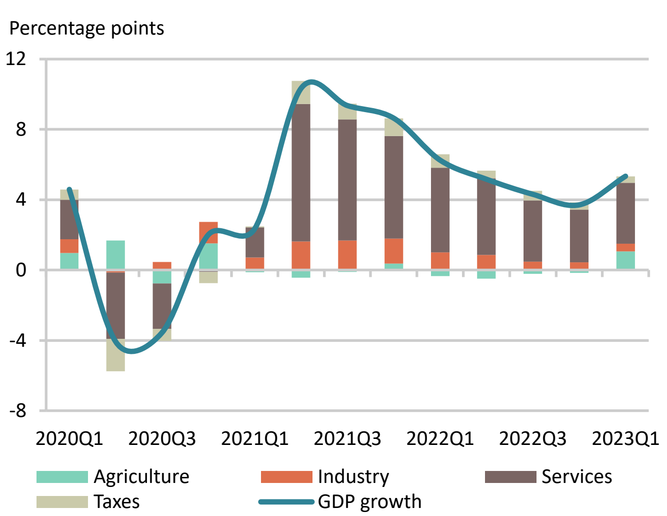
Kenya's economy has demonstrated resilience in the face of multiple shocks, with real GDP growing on average by 5.0 percent before the pandemic and rebounding strongly in 2021 and 2022 with an average growth of 6.2 percent. Nevertheless, ensuring sustainable and inclusive economic development has proven to be challenging. Decades of public investment-driven growth have led to rapid debt accumulation without substantially strengthening the country's growth potential and resulting in a high risk of debt distress. Coupled with a large, inefficient public sector marred by corruption, this state-driven development model has failed to create opportunities for greater private investment and more productive jobs. Levels of international trade and foreign direct investment (FDI) fall short of peers', depriving Kenya of an engine of growth. Closing the gap between the projected one million workers entering the workforce annually over the next decade and private sector wage job creation of around 100,000 jobs annually registered on average in 2021 and 2022 is a key priority. Government's sustained commitment to multi-year fiscal consolidation and governance reforms are imperative for maintaining macroeconomic stability and creating conditions for private sector-driven growth. Furthermore, Kenya's high climate vulnerability, as demonstrated by the recent long drought, has become a major threat to output and livelihoods calling for sustained investments for resilience and adaptation.

Prior to the COVID-19 pandemic, the contribution of economic growth to poverty reduction had weakened because of enduring inequalities that have resulted in poverty becoming more concentrated in arid and drought-prone parts of the country. The COVID-19 pandemic sharply increased poverty in urban areas with the number of poor doublings in cities and towns. The post-pandemic recovery has been interrupted by a severe drought and a spike in food prices inflation. The poverty rate is expected to decline marginally in 2023 to 35.2 percent.

Recent developments

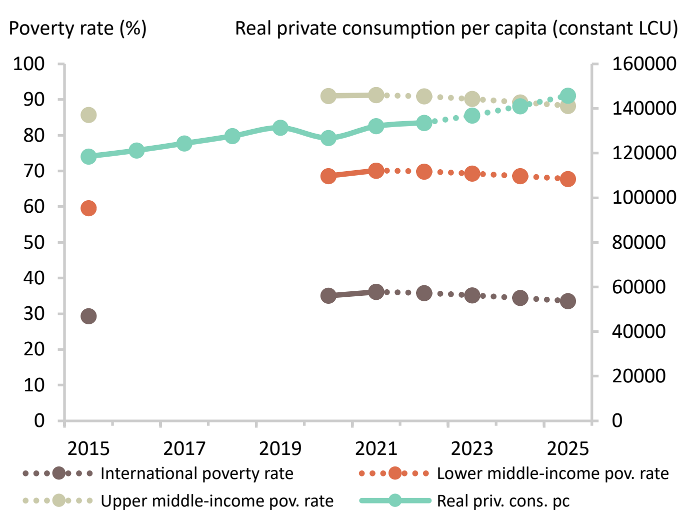
Economic activity has been stable in 2023 despite political tensions in part fueled by increased cost of living. The economy expanded by 5.3 percent in Q1 2023 driven by a recovery in agriculture coupled with a rebound in households' consumption. The economy is expected to grow 5 percent in 2023. The current account deficit narrowed to 4.7 percent of GDP as of May 2023, reflecting increased exports (of tea, manufactures, and tourism) as well as a slowdown in imports due to decline in public investments and depreciation of the shilling. Kenya's foreign exchange reserves declined to the equivalent of 4.0 months of imports as of July 2023 as tight global financing conditions reduced net financial inflows. Global credit rating agencies downgraded Kenya's outlook to negative in July 2023, citing investors' concerns

FIGURE 1 Kenya / Annualized quarterly real GDP growth and contributions to annualized real quarterly GDP growth



Sources: World Bank and Kenya National Bureau of Statistics

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



Source: World Bank. Notes: see Table 2.

about high financing needs and declining international reserves.

The Central Bank of Kenya (CBK) raised the policy rate by 175 basis points cumulatively in March and June to respond to the headline inflation which remained above the ceiling of inflation target band of 7.5 percent. The government maintained the pace of fiscal consolidation in FY2022/23, reducing the primary deficit to 0.6 percent of GDP by rationalizing non-priority spending and unwinding subsidies, despite a low growth in revenue (16.4 percent of GDP in FY2022/23 compared to 17.6 percent the previous year). Improved agriculture harvests and easing of global food prices coupled with the tightening macroeconomic policy stance helped to reduce inflationary pressures bringing the headline inflation to 7.2 percent in July 2023.

Outlook

Real GDP is projected to grow at around 5.2 percent on average in 2024–25 increasingly driven by the private sector. Improved investor confidence and credit to the private sector—helped by reduced domestic borrowing by the government—will strengthen private investment over the medium term. The government projects to reduce the fiscal deficit substantially in 2023 and 2024 and achieve primary fiscal surplus and positive public savings in FY2024/25. New tax administration and policy measures; including among others increased tax on employment income above KSh 6 million, VAT on petroleum products, and withholding tax on digital content, are expected to generate 1.6 percent of GDP in additional revenue and complement continued expenditure rationalization.

Real per capita incomes are expected to grow, and poverty incidence is expected to resume its pre-pandemic downward trend, declining by around a percentage point each year. The $2.15 poverty rate is expected to fall to 34.4 percent in 2024.

The outlook is subject to elevated uncertainty because of domestic and external risks. Spending pressures, driven in part by political tensions, such as reintroduction of main consumption subsidies, and failure to achieve fiscal consolidation could significantly exacerbate Kenya's debt vulnerabilities and hamper the economic outlook. Drought or floods would resume inflationary pressures and food insecurity, dampening growth. Lower than anticipated growth in Europe could undercut ongoing recovery in tourism and other exports and remittances. Persistent inflation in advanced economies remains and elevated commodity prices driven by international conflicts would further tighten financial condition, weaken external balances, and elevate the cost of reducing CPI inflation. Upside risks are mostly linked to faster than expected normalization in global financing conditions and lower international fuel and food prices, which would strengthen Kenya's external balances and ease domestic price pressures.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-0.3	7.6	4.8	5.0	5.2	5.3
Private consumption	-1.5	6.2	3.1	4.5	5.1	5.4
Government consumption	3.1	6.0	7.4	3.3	3.0	2.9
Gross fixed capital investment	2.3	10.8	-1.1	7.7	9.1	9.5
Exports, goods and services	-14.9	15.3	10.7	8.1	7.8	7.6
Imports, goods and services	-9.4	22.2	4.5	5.2	7.3	8.1
Real GDP growth, at constant factor prices	0.4	7.1	4.5	5.0	5.2	5.3
Agriculture	4.6	-0.4	-1.6	3.8	4.2	4.2
Industry	3.3	7.5	3.9	4.9	5.1	5.3
Services	-1.8	9.6	6.7	5.3	5.5	5.7
Inflation (consumer price index)	5.3	6.1	7.6	7.8	5.8	5.5
Current account balance (% of GDP)	-4.8	-5.2	-5.1	-5.0	-5.5	-5.5
Net foreign direct investment inflow (% of GDP)	0.6	0.0	0.3	0.9	1.0	1.0
Fiscal balance (% of GDP)	-7.9	-7.2	-5.8	-5.1	-4.4	-3.8
Revenues (% of GDP)	16.4	16.6	16.7	17.2	18.1	17.9
Debt (% of GDP)	66.0	68.3	67.4	66.2	60.9	58.2
Primary balance (% of GDP)	-3.7	-2.8	-1.1	-0.2	0.5	0.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	35.0	36.1	35.8	35.2	34.4	33.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	68.6	70.1	69.8	69.3	68.6	67.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	91.0	91.3	90.9	90.2	89.3	88.3
GHG emissions growth (mtCO2e)	9.3	7.7	3.2	2.6	3.6	4.3
Energy related GHG emissions (% of total)	32.0	32.7	33.3	33.7	34.2	34.5

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 2015-IHBS and 2021-KCHS. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.
b/ Projection using point to point elasticity at regional level with pass-through = 1 based on private consumption per capita in constant LCU.

LESOTHO

Table 1	2022
Population, million	2.3
GDP, current US$ billion	2.3
GDP per capita, current US$	997.9
International poverty rate ($2.15)[a]	32.4
Lower middle-income poverty rate ($3.65)[a]	54.6
Upper middle-income poverty rate ($6.85)[a]	81.0
Gini index[a]	44.9
School enrollment, primary (% gross)[b]	108.4
Life expectancy at birth, years[b]	53.1
Total GHG emissions (mtCO2e)	2.6

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

Lesotho's economy continues to recover slowly. GDP growth is projected to accelerate in 2023 and 2024, driven by the Lesotho Highlands Water Project, but will stabilize around 2 percent in the medium-term. Poverty is expected to remain high at about 36 percent (using the international poverty rate). The outlook is subject to downside risks from weak global and regional growth, geopolitical tensions, adverse climate change shocks, and delays in implementing the domestic reforms needed to boost resilience and inclusive growth.

Key conditions and challenges

Growth has lost momentum over the past decade. A large and increasingly inefficient public sector, accounting for nearly half of GDP, has constrained economic growth and crowded out the private sector, which is largely informal and concentrated in low-productivity sectors. The formal sector is weakly diversified as mining, textiles and apparel industries account for two-thirds of exports. Southern African Customs Union (SACU) receipts are the main source of fiscal revenue and foreign exchange, but have been extremely volatile. This has put significant pressure on international reserves and fiscal accounts, as public expenditure is rigid, mainly driven by a high public sector wage bill, which, at 15 percent of GDP, is the largest in Sub-Saharan Africa.

Economic performance is vulnerable to shocks given the economy's small size, and large dependences on a few sectors and South Africa's economy. Such vulnerability has been exacerbated by the procyclical fiscal policy and severe and frequent weather events. The increasing frequency of these events underscore the need to invest in climate risk management and resilience.

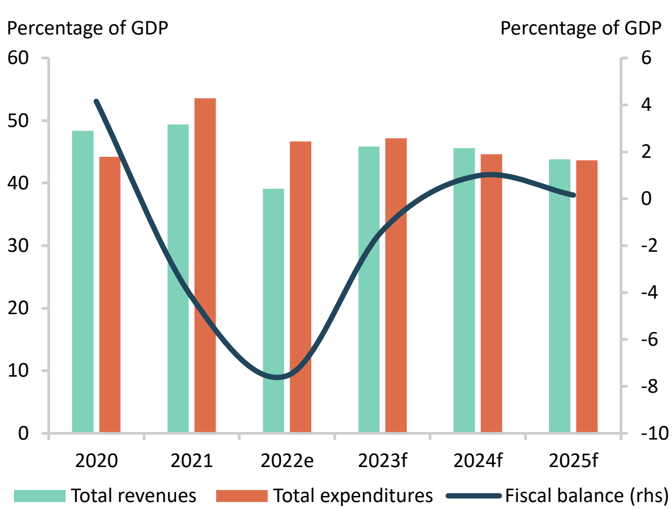
The weakness of the private sector contributes to high unemployment, estimated at 22.5 percent in 2019 but can reach 38.3 percent when discouraged job seekers are included, and high poverty rates. Over one-third of the population was estimated to live on less than $2.15 per day (2017 PPP) in 2022. Lesotho is in the top quintile of countries with the most unequal income distribution. Improving the efficiency of fiscal policy and boosting private sector investment are, therefore, key to stimulating growth and spurring job creation. Containing the large public sector wage bill and strengthening public sector financial management are priorities to ensure efficient use of public resources. Enhancing entrepreneurship and reducing the high costs of doing business by streamlining business regulations and facilitating access to credit would incentivize business entry and investment and increase job opportunities.

Recent developments

In the aftermath of the COVID-19 pandemic and adverse climatic shocks, the economy recovered at a modest pace at 1.6 and 1.8 percent in 2021 and 2022. Such recovery was largely driven by construction, mining, manufacturing, business services, and public administration. Agriculture has also contributed positively to growth due to favorable seasonal rainfalls in these years and the introduction of seed and fertilizer subsidies, which increased yields. Following delays, construction activities associated with the mega Lesotho Highlands Water Project (LHWP-II) accelerated, further supporting growth.

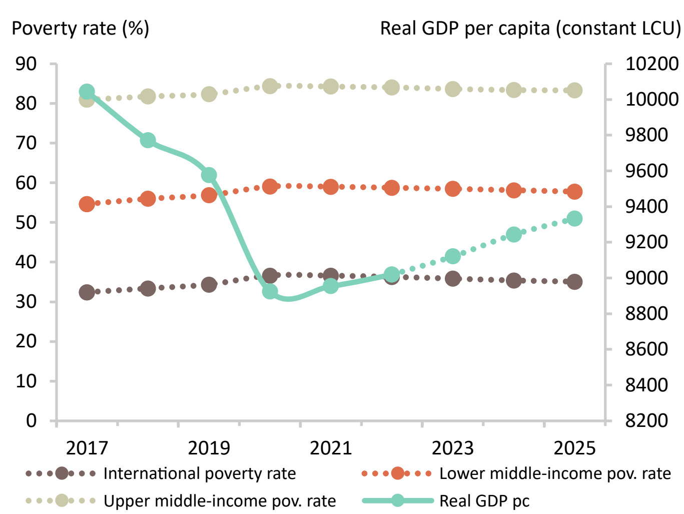
Headline inflation decreased from 9.8 percent in July 2022 to 4.5 percent in July 2023 due to the decline in fuel and food prices, which limited the impact of the introduction of the levy on alcohol and tobacco levy in

FIGURE 1 Lesotho / Fiscal dynamics



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

early 2023. However, the level of domestic food prices remain elevated, owing to persistently high imported inflation driven by the weaker South African rand, and hence the Lesotho loti. The Central Bank of Lesotho's monetary policy stance has remained broadly aligned with the regional monetary policy stance and maintained the cost of domestic funds in line with the regional average.

The current account deficit widened from 1.0 percent of GDP in the first quarter of 2022 to 2.8 percent in the first quarter of 2023, primarily due to higher imports of capital goods and services related to LHWP-II. The fiscal balance deteriorated from 1.2 percent in May 2022 to 1.7 percent of GDP in May 2023 due to higher government spending.

Outlook

Growth is projected to moderately accelerate in 2023 and 2024, driven by direct and indirect effects of LHWP-II, and decelerate in 2025, in tandem with the LHWP-II investment cycle. By 2025, the economy will still not have restored its pre-pandemic GDP level. Consequently, the US$2.15 per day (in 2017 PPP terms) poverty rate is projected to fall only slightly from 36.3 percent in 2022 to 35.1 percent in 2025.

Inflation is expected to continue declining, reflecting the easing of global energy and food prices. The fiscal position is projected to improve, with the deficit projected to decline from 7.6 percent of GDP in 2022 to 1.4 percent of GDP in 2023, driven by higher SACU revenues (which have doubled between 2022 and 2023) and lower government expenditures in line with announced consolidation measures. SACU revenues will continue to determine the fiscal trajectory over the medium term.

The current account deficit will remain high, narrowing slightly in 2023 owing to the completion of import-intensive public construction projects such as Maseru district hospital and road infrastructure upgrades, which counterbalance the increased imports for LHWP-II. The deficit is expected to widen in 2024 as LHWP-II construction peaks. Exports are projected to remain stable, assuming the African Growth and Opportunity Act (AGOA) is extended.

Domestic and external risks are tilted to the downside. Weaker-than-projected global and regional growth would reduce diamond exports and remittances, curbing household consumption. Failure to renew the AGOA could lead to foreign direct investment outflows, increasing unemployment and reducing exports. A prolonged or severe El Niño carries the risk of reduced water availability and deteriorating livestock conditions, negatively affecting livelihoods, the rebound in economic activity, and the external balance. On the other hand, the swift implementation of a bold reform agenda could lift private sector investment and the country's growth prospects.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-5.6	1.6	1.8	2.2	2.5	2.0
Private consumption	6.9	-6.7	9.1	3.6	3.5	3.2
Government consumption	19.7	-5.3	2.4	5.0	-1.8	-0.7
Gross fixed capital investment	-46.3	1.6	14.8	38.8	54.0	32.8
Exports, goods and services	-17.2	5.1	36.7	2.2	2.2	2.2
Imports, goods and services	-0.6	-0.4	22.5	10.3	11.5	10.2
Real GDP growth, at constant factor prices	-5.6	1.6	1.8	2.2	2.5	2.0
Agriculture	8.7	-16.0	12.5	2.4	2.4	2.4
Industry	-12.2	4.7	5.0	5.0	5.3	5.0
Services	-4.4	1.9	0.3	1.4	1.6	1.0
Inflation (consumer price index)	5.0	6.0	8.3	6.5	5.3	5.0
Current account balance (% of GDP)	-1.9	-4.9	-7.1	-6.4	-8.5	-7.3
Net foreign direct investment inflow (% of GDP)	1.3	1.2	1.2	1.4	1.7	1.3
Fiscal balance (% of GDP)	4.2	-4.2	-7.6	-1.4	1.0	0.1
Revenues (% of GDP)	48.3	49.4	39.1	45.8	44.0	39.3
Debt (% of GDP)	51.2	59.1	59.0	56.2	54.5	51.8
Primary balance (% of GDP)	5.1	-3.2	-6.6	-0.6	1.6	0.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	36.6	36.6	36.3	35.8	35.4	35.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	59.0	59.0	58.7	58.5	58.1	57.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	84.3	84.3	84.1	83.7	83.4	83.3
GHG emissions growth (mtCO2e)	-2.2	-0.9	4.6	3.6	3.6	3.6
Energy related GHG emissions (% of total)	28.2	28.1	27.2	26.7	26.3	25.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2017-CMSHBS. Actual data: 2017. Nowcast: 2018-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2017) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

LIBERIA

Table 1	2022
Population, million	5.3
GDP, current US$ billion	4.0
GDP per capita, current US$	754.5
International poverty rate ($2.15)[a]	27.6
Lower middle-income poverty rate ($3.65)[a]	60.6
Upper middle-income poverty rate ($6.85)[a]	88.9
Gini index[a]	35.3
School enrollment, primary (% gross)[b]	77.5
Life expectancy at birth, years[b]	60.7
Total GHG emissions (mtCO2e)	17.0

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

Despite shocks, Liberia's recovery remained strong in 2022, but inflationary pressures are rising. Medium-term growth prospects are promising as the country benefits from mining and consolidates gains from macroeconomic stability and ongoing structural reforms in key enabling sectors. However, the outlook is subject to considerable downside risks from inflationary pressures, fiscal risks ahead of the 2023 elections, and fluctuations in commodity prices. The poverty rate is expected to decline moderately reaching 33.8 percent by 2025.

Key conditions and challenges

Liberia has recorded positive economic growth and maintained broad macroeconomic stability in the last two years, but inflationary pressures have increased in 2023 due to higher food costs and a weaker Liberian dollar. The country's medium-term outlook is promising, but long-term growth is not enough to quicken the pace of poverty reduction as the population continues to grow. Liberia still faces multifaceted socioeconomic challenges, including high poverty rates, limited access to healthcare and education, and inadequate infrastructure. The country has low levels of electricity access, paved roads, and human capital. Only approximately 30 percent of Liberia's population has access to electricity, 7 percent of the total road network is paved, and the country's human capital index, at 0.32, is among the lowest in the world.

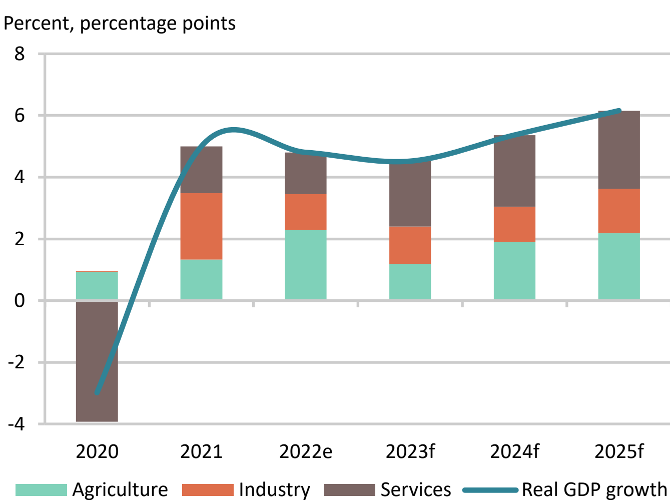
Investing in both human and physical capital, improving productivity and economic efficiency in vital sectors such as agriculture, and creating a better environment for businesses are all necessary for achieving sustainable and inclusive growth.

Recent developments

Liberia's recovery remained strong in 2022 despite the external headwinds (from Russia's invasion of Ukraine, high global inflation, and depressed demand in advanced economies). The country experienced a 4.8 percent growth in real GDP, driven by mining and agriculture, particularly in the production of gold, rice, and cassava. However, in agriculture, there was a decline in rubber and palm oil production in the first half of 2023 by 12.1 percent and 7.7 percent, year-on-year (y/y), respectively. In industry, gold production increased by 13.6 percent (y/y), but iron ore production declined by 4.5 percent (y/y), reflecting the trend in international prices; cement production also declined by 11.6 percent (y/y) as construction activity scaled down. Electricity production more than doubled and beverages output remained broadly stable, reflecting the uptick in services. Liberia's international poverty rate (US$2.15 per person/day 2017 PPP) is projected to decline by 0.7 percentage points to 34.8 percent in 2023.

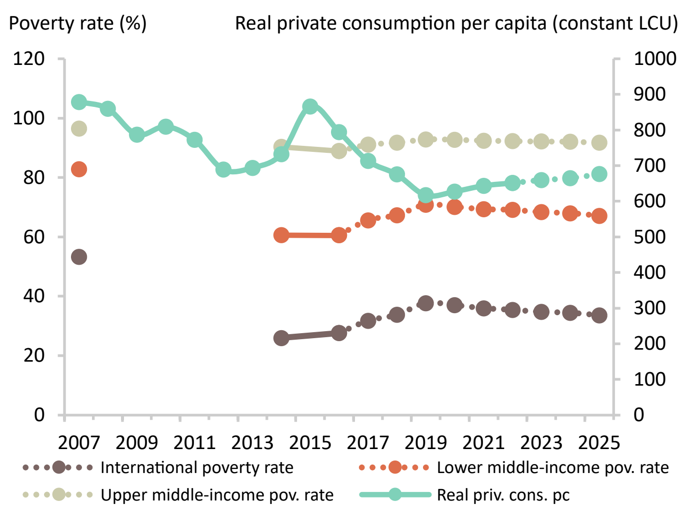
Headline inflation decreased slightly in 2022 to 7.6 percent, from 7.9 percent in 2021, despite higher global fuel and food prices, but inflationary pressures are rising in 2023. In July 2023, y/y inflation was 11.0 percent, driven by food prices and a weaker Liberian dollar – the Liberian dollar to US dollar exchange rate increased by 19.1 from January to July 2023. The increase in food prices disproportionately affects the poor, who remain at risk of becoming even poorer and experiencing food insecurity. The WFP HungerMap Live 2023 shows the high prevalence of insufficient food consumption in Liberia, affecting 37.0 percent of the population in the second quarter of 2023, and chronic malnutrition in children under the age of five is still high at 30.1 percent.

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



Sources: Liberian authorities and World Bank staff estimates and projections.

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



Source: World Bank. Notes: see Table 2.

In July 2023, the Central Bank of Liberia (CBL) raised the policy rate by 250 basis points to 20.0 percent to rein in inflation. To strengthen its monetary policy operations, the CBL also lifted the ceiling on the offered amount of CBL bills. The lifting of the ceiling on the offered amount of CBL bills would accommodate the growing oversubscription and help absorb the excess liquidity in the banking system.

Liberia's fiscal position worsened in 2022, due to declines in revenue and grants, an increase in consumption spending, and the need to provide subsidies, grants, and social benefits to offset the effect of higher food and fuel prices on households and the economy. This resulted in a higher fiscal deficit that was financed through concessional resources and borrowing from commercial banks. In July 2023, a "Recast Budget" was submitted to the National Legislature for approval, proposing a reduction in consumption spending, grants and subsidies, and capital expenditures due to lower-than-expected revenue performance. The proposed spending is 3.5 percent lower than the original budget for 2023.

In 2022, the current account deficit stabilized at 17.7 percent of GDP, despite booming gold exports and slower import growth. However, in the first half of 2023, the trade balance worsened, resulting in a deficit of 4.7 percent of GDP compared to 2.2 percent in the same period in 2022. In June 2023, the gross external reserves fell to US$533 million (about 2.9 months of imports), from US$644 million (3.1 months of imports) in December 2022.

Outlook

Liberia's medium-term growth prospects are positive on balance. The economy is projected to expand by 4.5 percent in 2023 and an average of 5.8 percent in 2024–25 due to continued expansion in mining, as well as ongoing reforms in key sectors such as energy, transportation, trade, and financial services. The expansion and extension of operations of existing mining projects and improved access to affordable energy and roads are expected to drive output growth in various sectors of the economy.

Inflation is expected to increase in 2023 due to a weaker domestic currency and higher food prices but stabilize around 6.6 percent in 2024-25 as the CBL tightens monetary policy. The fiscal deficit is projected to narrow to 2.8 percent of GDP in 2023 as the government strengthens expenditure controls and stays below 4 percent in the medium term as it mobilizes domestic resources and boosts investment and consumption. The current account deficit is expected to increase to 22.5 percent of GDP in 2023, from 17.7 percent in 2022, and remain high over the medium term as aggregate demand propels import growth. The deficit will be financed by foreign direct investments in mining, private financing, and project grants and loans.

The poverty rate is expected to decrease from 34.8 percent in 2023 to 33.6 percent in 2025. However, the continued decline in agricultural value added per worker since 2013 could hinder efforts to reduce poverty as agriculture is the primary livelihood for over 60 percent of the workforce. Increased vulnerability due to severe climate and high food prices could also pose risks to poverty reduction.

The outlook is subject to significant risks. On the downside, inflationary pressures from higher prices of imports (food and fuel), and a decline in prices of exports (rubber, iron ore, and gold) could undercut macroeconomic stability and slow recovery. It may also be difficult to safeguard public finances ahead of the 2023 elections due to spending pressures, which could increase fiscal risks and debt vulnerabilities. Upside risk could stem from improved external demand for Liberian exports.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-3.0	5.0	4.8	4.5	5.4	6.2
Private consumption	3.8	4.7	3.3	3.5	3.0	3.9
Government consumption	0.8	0.2	-5.7	-21.0	4.5	9.4
Gross fixed capital investment	-5.5	-7.9	9.4	8.3	6.8	2.4
Exports, goods and services	-1.4	14.7	7.7	9.8	13.6	13.6
Imports, goods and services	11.7	1.8	3.1	2.3	5.5	4.7
Real GDP growth, at constant factor prices	-2.9	4.8	4.8	4.5	5.4	6.2
Agriculture	2.4	3.3	5.9	3.0	5.0	5.7
Industry	0.2	13.3	6.7	6.9	6.3	7.9
Services	-8.6	3.0	2.8	4.8	5.3	5.8
Inflation (consumer price index)	17.0	7.8	7.6	10.4	7.7	5.6
Current account balance (% of GDP)	-15.6	-17.8	-17.7	-22.5	-21.4	-22.3
Fiscal balance (% of GDP)	-3.7	-2.4	-5.6	-2.8	-3.0	-3.4
Revenues (% of GDP)	29.9	27.2	21.5	21.4	22.8	23.0
Debt (% of GDP)	55.8	53.2	53.4	52.6	53.8	52.4
Primary balance (% of GDP)	-2.4	-1.6	-4.6	-1.8	-2.1	-2.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	37.0	36.0	35.4	34.8	34.5	33.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	70.1	69.3	69.1	68.3	68.0	67.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	92.8	92.5	92.3	92.2	92.1	91.7
GHG emissions growth (mtCO2e)	0.6	3.2	3.2	3.0	3.1	3.1
Energy related GHG emissions (% of total)	6.8	6.6	6.4	6.2	5.9	5.7

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 2016-HIES. Actual data: 2016. Nowcast: 2017-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2016) with pass-through = 0.7 (Low (0.7)) based on private consumption per capita in constant LCU.

MADAGASCAR

Table 1	2022
Population, million	29.6
GDP, current US$ billion	15.3
GDP per capita, current US$	516.6
International poverty rate ($2.15)[a]	80.7
Lower middle-income poverty rate ($3.65)[a]	92.4
Upper middle-income poverty rate ($6.85)[a]	98.2
Gini index[a]	42.6
School enrollment, primary (% gross)[b]	134.1
Life expectancy at birth, years[b]	64.5
Total GHG emissions (mtCO2e)	39.6

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

After a robust recovery in 2021, growth declined to 3.8 percent in 2022, reflecting weakening global growth and natural hazards. Growth is projected to recover to 4.5 percent over 2023-25, supported by improved global demand and structural reforms in key sectors. Yet, persistent double-digit inflation poses challenges. Poverty affects more people in urban areas as job prospects deteriorate following a drop in firm productivity. Risks remain substantial, including uncertainty around the upcoming presidential elections, elevated prices, and the vanilla sector crisis.

Key conditions and challenges

For decades, Madagascar has grappled with sluggish growth and enduring poverty, primarily due to governance shortcomings, inadequate human and physical capital, and slow economic transformation. The situation is further strained by increasing climate crises and heightened vulnerability to external shocks. However, the government's commitment to fiscal consolidation, coupled with low budget execution rates, helped lower the fiscal deficit to an average of 1.4 percent of GDP over 2016-19, with total public debt falling to 38.7 percent of GDP by 2019.

Madagascar has been unable to effectively leverage its rich natural resources, open trade policies, and young workforce, with weak economic growth falling short of significantly improving living standards. Additional challenges arise from an unconducive business environment marked by deteriorating connectivity infrastructure, restricted market competition, and limited access to essential resources like energy, land, and finance. This environment hinders growth even in sectors that have historically driven GDP growth – like mining, construction, telecommunications, banking, and utilities.

Weak economic growth, combined with rapid population growth, has resulted in Madagascar having one of the highest poverty rates in the world, reaching 75 percent in 2022, using the national poverty line. However, extreme poverty has reduced slightly, declining from 52.6 percent in 2012 to 51.8 percent in 2022, supported by slight increases in rural rice prices.

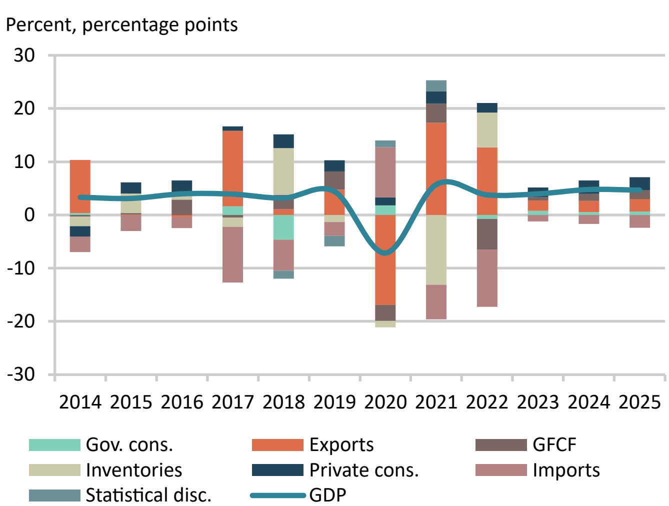
Recent developments

Economic growth decelerated from 5.7 percent in 2021 to 3.8 percent in 2022, reflecting weakening global growth and climate shocks. Moreover, inflationary pressures have intensified, with rates increasing from 6.9 percent in June 2022 to 11.3 percent in June 2023. Rice prices increased by 12.2 percent, while energy costs rose by 14.5 percent. Meanwhile, core inflation, adjusted for rice and energy price increases, increased from 8.3 percent to 10.8 percent over the same period.

Madagascar's central bank adopted a more stringent monetary policy, narrowing the interest rate corridor. From January 2022, the central bank increased its policy rates considerably by 520 basis points for deposits (reaching 9 percent in August 2023) and 380 basis points for marginal lending facilities (reaching 11 percent by August 2023). Furthermore, the reserve requirement ratio was reduced from 13 percent to 9 percent in April 2023.

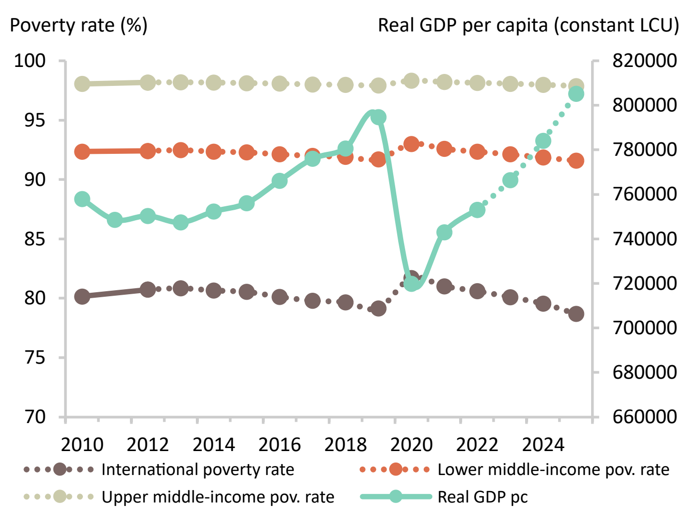
The current account deficit widened from 5 percent of GDP in 2021 to 5.6 percent in 2022. The first half of 2023 saw merchandise exports plunge by 8.1 percent compared to 2022, primarily due to a sharp decline in key spices and strategic minerals exports. Conversely, merchandise imports declined marginally by 1 percent, with a rise in petroleum

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



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

product volumes being counteracted by a dip in their import prices.

The overall fiscal deficit increased from 2.8 percent of GDP in 2021 to 6.4 percent in 2022, and total public debt rose to 56.9 percent of GDP by 2022. This deterioration in the fiscal balance was largely a result of deferred oil customs tax payments by oil distributors. Preliminary figures for the first four months of 2023 suggest a subdued tax revenue collection. According to the latest debt sustainability assessment, Madagascar is at moderate risk for both external debt distress and overall debt distress.

Outlook

Growth is anticipated to stabilize at 4 percent in 2023, before picking up pace to about 4.7 percent in 2024-25. Inflation, meanwhile, is expected to hover at 10.5 percent in 2023 before easing to around 8.5 percent during 2024-25. This moderation will likely mirror global trends and be influenced by the effects of a tightening monetary stance. However, the poverty rate is projected to show little sign of improvement, remaining steady at 80.1 percent in 2023, with a larger increase in urban areas as job prospects deteriorate due to a sharp drop in business productivity.

A decline in global oil prices is projected to further contribute to the narrowing of the current account deficit to 4.6 percent of GDP in 2023-25, as the drop in imports surpasses the deceleration in exports. However, the recovery of exports may face challenges as restrictive import directives – like lowering permissible nicotine levels in imported food products – from Madagascar's primary vanilla trading partners are likely to hinder progress.

The fiscal deficit is forecast to shrink to 3.8 percent of GDP in 2023, as the resolution of cross-liabilities between the government and oil distributors is expected to boost tax revenues to 12.8 percent of GDP from 9.6 percent in 2022. Moreover, the projected gradual increase in capital expenditure, from 5.1 percent of GDP in 2021 to 8.7 percent in 2025, reflects improved budget execution and the implementation of the government's priority projects.

Several risks could impact these projections, including recurring natural hazards, fluctuations in commodity prices, financial instability, and lower global demand for Madagascar's exports. The upcoming presidential elections add a layer of uncertainty, with rising political tensions and potential social unrest exacerbated by high inflation.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-7.1	5.7	3.8	4.0	4.8	4.7
Private consumption	2.2	3.0	2.5	2.5	3.5	3.5
Government consumption	24.3	0.2	-8.0	9.6	5.7	7.2
Gross fixed capital investment	-10.3	12.7	-19.1	2.8	5.8	7.0
Exports, goods and services	-36.6	55.0	27.5	3.4	3.8	4.2
Imports, goods and services	-16.6	12.7	19.8	1.9	2.8	4.0
Real GDP growth, at constant factor prices	-9.4	6.5	3.7	4.0	4.8	4.7
Agriculture	-1.4	-1.6	0.9	2.3	3.1	3.6
Industry	-29.5	19.7	10.9	8.6	8.9	9.1
Services	-6.9	7.3	3.1	3.4	4.3	3.8
Inflation (consumer price index)	4.2	6.2	8.2	10.5	8.8	8.1
Current account balance (% of GDP)	-4.8	-5.0	-5.6	-4.4	-4.6	-4.6
Net foreign direct investment inflow (% of GDP)	1.8	1.7	1.9	1.6	2.2	2.3
Fiscal balance (% of GDP)	-4.0	-2.8	-6.4	-3.8	-3.1	-5.0
Revenues (% of GDP)	12.8	11.4	10.8	14.9	13.9	13.6
Debt (% of GDP)	49.6	53.5	56.9	56.2	55.4	56.5
Primary balance (% of GDP)	-3.2	-2.2	-5.6	-2.8	-2.2	-4.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	81.7	81.0	80.6	80.1	79.6	78.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	93.0	92.6	92.4	92.1	91.9	91.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	98.3	98.2	98.1	98.1	98.0	97.9
GHG emissions growth (mtCO2e)	-2.1	-0.1	0.7	0.9	1.5	1.7
Energy related GHG emissions (% of total)	14.8	15.2	15.4	15.5	15.9	16.4

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 2012-ENSOMD. 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.

MALAWI

Table 1	2022
Population, million	20.4
GDP, current US$ billion	13.5
GDP per capita, current US$	660.3
International poverty rate ($2.15)[a]	70.1
Lower middle-income poverty rate ($3.65)[a]	89.1
Upper middle-income poverty rate ($6.85)[a]	97.3
Gini index[a]	38.5
School enrollment, primary (% gross)[b]	144.8
Life expectancy at birth, years[b]	62.9
Total GHG emissions (mtCO2e)	20.3

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

Amidst continued imbalances, Malawi's economic challenges are only easing gradually. Growth is projected to increase in 2023 to 1.6 percent as electricity supply improves. However, severe and persistent shortages of foreign exchange continue to subdue growth. While the economy is expected to grow at 2.8 percent in 2024, supported by ongoing and announced reforms, such growth remains insufficient to substantially mitigate the prevailing high levels of poverty, estimated at 72 percent in 2023.

Key conditions and challenges

With low agricultural productivity and limited commercialization, the majority of Malawians face stagnant incomes. Structural challenges faced by the sector include market distortions such as price controls, trade restrictions, poorly targeted subsidies, and low access to imported inputs, which constrain investment and export-led growth. These effects are magnified by increasingly frequent and destructive tropical cyclones, including Cyclone Freddy in February 2023, which resulted in estimated losses and damages in excess of USD$ 500 million.

External imbalances impede more rapid economic growth. Exports as a share of GDP have been declining over decades, driven by weak demand for tobacco and an overvalued exchange rate, which has resulted in low foreign exchange reserves and a rising spread between the official and parallel rates. The imbalance has made foreign exchange scarce, in turn constraining imports. Recently increased exchange rate flexibility is a tepid step to alleviating external balance challenges, though plans to increase capital controls could further disincentivize the accumulation of foreign exchange through investment and remittances.

Fiscal balances remain unsustainable. Large fiscal and external deficits have led to high public debt levels at 74.7 percent of GDP in 2022. Weak public financial management systems have meant that government has often missed its fiscal targets, resulting in unexpected and high deficits. High and rising domestic interest rates mean that debt servicing costs continue to erode fiscal space. Interest payments were 34 percent of revenues in FY2022/23, and domestic debt service was 94 percent of interest payments.

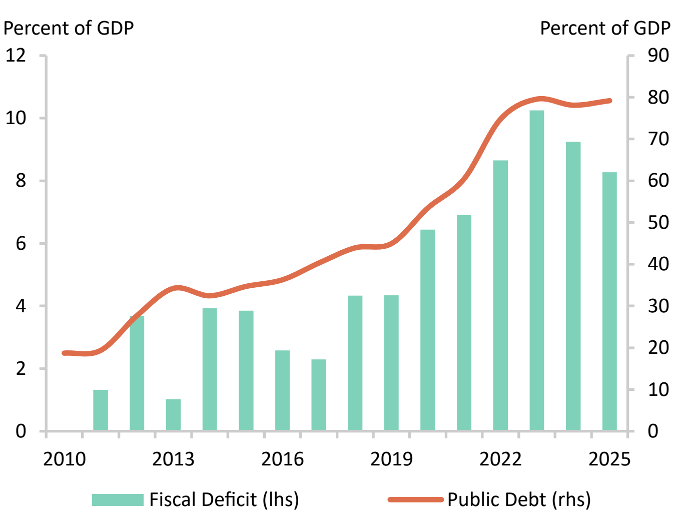
Persistent inflation, coupled with the potential for further price increases and recurrent climate shocks, poses a considerable risk for exacerbating food supply shortages. Consequently, the proportion of the population living below the poverty threshold of USD $2.15 per day (2017 PPP) has seen an uptick, rising from 70 percent in 2019 to 71 percent in 2022.

Recent developments

Malawi's economy is estimated to grow by 1.6 percent in 2023. The resumption of electricity production at the Kapichira hydropower plant has bolstered economic activity. However, production inputs have often been unavailable due to foreign exchange shortages, which has dampened growth.

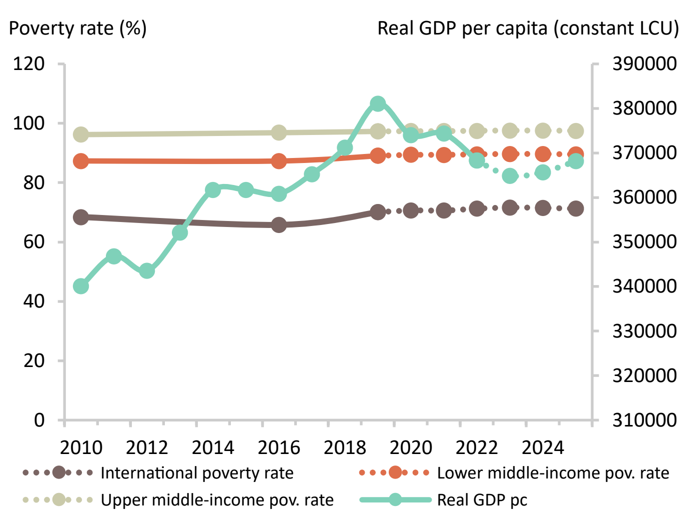
Following Tropical Cyclone Freddy, agriculture output is only marginally larger than last year. Domestic food prices are increasing rapidly, reaching 39.4 percent year-on-year in August 2023 due to supply constraints. Imports are also becoming increasingly expensive as the kwacha depreciates. Inflation has remained high at 28.6 percent in August. In turn, the policy rate was increased to 24 percent, from 14 percent a year earlier.

FIGURE 1 Malawi / Fiscal deficit and public debt



Sources: Ministry of Finance, Economic Planning and Development and World Bank.

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



Source: World Bank. Notes: see Table 2.

With higher interest rates, the fiscal burden of debt service has increased.

Foreign exchange reserves have exhibited a modest improvement, but they remained low at 0.9 months of import cover in June 2023. The Reserve Bank of Malawi commenced foreign exchange auctions to support reserve accumulation and align the official and market rates. Despite these efforts, the spread between official and parallel rate has increased to 64 percent in August 2023. An IMF Extended Credit Facility (ECF) is currently under negotiation and with broader macroeconomic reforms and concomitant donor support, this has the potential to alleviate foreign exchange challenges.

The implementation of fiscal consolidation reforms is expected to result in a modest decrease in expected deficits, from 10.2 percent in 2023 to 9.2 percent in 2024. Public debt is still in distress and unsustainable, estimated to reach 79.5 percent of GDP in 2023. Amidst rising rates and continued borrowing, interest expenditure is expected to consume 24 percent of the current budget. Negotiations with commercial and bilateral international creditors on external debt restructuring are ongoing.

Due to rising domestic prices and an anticipated decline in per capita income, the percentage of individuals subsisting on less than USD $2.15 per day (2017 PPP) is estimated to increase to 72 percent in 2023.

Outlook

The economy is projected to grow by 2.8 percent in 2024 on the basis of ongoing and announced macroeconomic reforms to address the current crisis. However, the share of people living on less than USD$2.15 a day (2017 PPP) is expected to remain close to 72 percent in 2024 due to stagnant per capita growth.

A favorable agriculture season supported by improved foreign exchange inflows can support economic activity in 2024, though this assumes conclusion of a program with the IMF and increased donor support. The government remains committed to continue forex auctions to support the realization of a market-determined exchange rate. This would improve the trade balance in the short term. However, downside risks from El Niño and delayed access to inputs, as well as a continued exchange rate misalignment may weigh on growth.

Inflation will remain relatively high in the near term and is expected to average 29.2 percent in 2023. Domestic food prices are high and still rising, which will contribute to upward inflationary pressures. Successful implementation of fiscal consolidation may further contribute to reduced growth in money supply and contain inflation, especially for non-food products.

The fiscal deficit for FY2023/24 is expected to remain within the target for the fiscal year. However, there are risks that may widen the deficit. Disruption in economic activity, especially from lower supply of raw materials due to forex shortages could negatively impact revenues.

Successful implementation of fiscal and structural reforms will be key to contain these pressures, and a potential ECF arrangement could unlock increased budget support and enable increased investment. Finally, the implementation of external debt restructuring, improved expenditure management and reduced domestic borrowing are essential for easing the public debt burden going forward.

TABLE 2 Malawi / 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	2.8	0.9	1.6	2.8	3.3
Private consumption	0.8	2.6	0.6	3.8	5.4	4.6
Government consumption	0.8	-1.1	4.3	13.9	-0.2	-11.0
Gross fixed capital investment	0.8	-0.2	-6.5	-17.7	2.3	11.4
Exports, goods and services	0.8	2.9	3.6	1.5	5.5	5.9
Imports, goods and services	0.8	0.4	0.1	3.6	9.3	5.8
Real GDP growth, at constant factor prices	0.8	2.8	0.9	1.6	2.8	3.3
Agriculture	3.4	5.2	-1.0	0.6	2.4	3.0
Industry	1.2	1.9	0.9	1.6	2.7	3.2
Services	-0.5	2.0	1.8	2.1	3.0	3.4
Inflation (consumer price index)	8.6	9.2	21.8	29.2	19.2	11.9
Current account balance (% of GDP)	-14.0	-14.4	-1.5	-3.0	-8.6	-8.9
Net foreign direct investment inflow (% of GDP)	3.4	0.8	1.2	1.1	1.5	1.7
Fiscal balance (% of GDP)	-6.4	-6.9	-8.7	-10.2	-9.2	-8.3
Revenues (% of GDP)	14.7	14.7	14.6	15.2	15.7	16.5
Debt (% of GDP)	53.4	60.5	74.7	79.5	78.1	79.1
Primary balance (% of GDP)	-3.4	-3.1	-3.5	-3.9	-2.4	-2.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	70.7	70.6	71.3	71.7	71.5	71.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	89.4	89.4	89.5	89.7	89.6	89.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	97.4	97.4	97.5	97.5	97.5	97.5
GHG emissions growth (mtCO2e)	1.7	1.6	1.4	1.5	1.5	1.5
Energy related GHG emissions (% of total)	7.1	7.0	7.0	6.9	6.8	6.7

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 2019-IHS-V. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2019) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

MALI

Table 1	2022
Population, million	22.6
GDP, current US$ billion	18.8
GDP per capita, current US$	833.3
International poverty rate ($2.15)[a]	15.2
Lower middle-income poverty rate ($3.65)[a]	48.2
Upper middle-income poverty rate ($6.85)[a]	81.0
Gini index[a]	36.0
School enrollment, primary (% gross)[b]	78.7
Life expectancy at birth, years[b]	58.9
Total GHG emissions (mtCO2e)	48.1

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

GDP growth is projected to reach 4 percent in 2023 (0.9 percent per capita), supported by the recovery of cash crops and agri-food manufacturing. Poverty is expected to resume a gradual decline after rising in 2022. The fiscal deficit is expected to remain elevated with rising security outlays and the outlook is subject to downside risks related to the political transition, regional instability, insecurity, climate-related shocks, and high borrowing costs.

Key conditions and challenges

Mali's economy remains under-diversified and dominated by agriculture and low-productivity services. Manufacturing absorbs little employment and is concentrated in agro-industries and cotton ginning, reflecting low levels of physical and human capital. Exports are dominated by gold and cotton, exposing the economy to commodity and climatic shocks. Per capita growth stagnated during the last decade (0.4 percent average) limiting progress in poverty reduction while human development indicators show mixed results with improvements in school attendance but deteriorating access to healthcare.

Persistent insecurity and a weakened social contract are key bottlenecks for inclusive growth, with the absence of the State in remote areas undermining service delivery. Political instability following the coups in 2020-2021 and delays in the political transition leading to the six-month ECOWAS commercial and financial sanctions in 2022 have constrained growth. The adoption of a new constitution in June 2023 paves the way for general elections, currently scheduled for 2024.

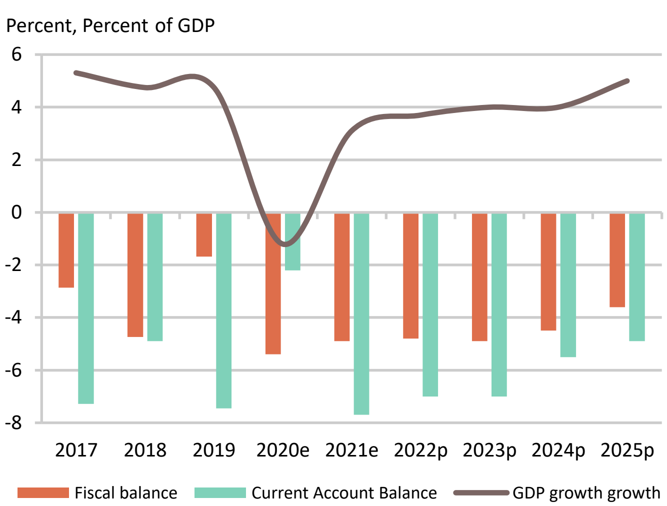
Recent developments

Despite the ECOWAS sanctions, Mali's economy showed resilience with real GDP growth of 3.7 percent in 2022 (0.7 percent per capita), reflecting the strong performance of gold mining and subsistence agriculture – sectors less impacted by the sanctions – and public services. Growth slowed in Q1-2023 due to insecurity-linked transport bottlenecks and weak cotton ginning output. However, growth is expected to reach 4 percent in 2023 (0.9 percent per capita), supported by agriculture exports, agri-food manufacturing, trade and financial services.

The current account deficit (CAD) narrowed to 7 percent of GDP in 2022 despite a terms of trade deterioration as the ECOWAS trade embargo reduced imports while gold exports continued. Both exports and imports are expected to recover in 2023, maintaining a CAD of 7 percent of GDP.

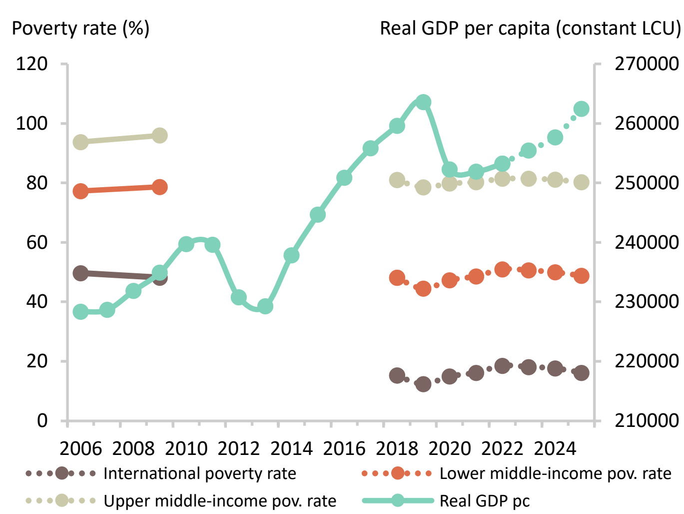
Inflation rose to 9.7 percent in 2022, due to sanctions and high global food and energy prices but decelerated in 2023 (averaging 4.2 percent y/y over January-July) as food inflation declined (1.8 percent over the period), due to higher supply from last year's agricultural campaign. With lower inflation, the extreme poverty rate ($2.15/day 2017 PPP), estimated at 18.5 percent in 2022, is projected to decrease slightly to 18.1 percent in 2023, mainly in rural areas where poverty is expected to decline by 0.7 percentage points. However, the humanitarian situation remains serious with an estimated 1.26 million people severely food insecure during the 2023 lean season. Population displacement continues, particularly in the border areas with Burkina Faso and Niger with over 375,000 internally displaced persons at end-April 2023.

FIGURE 1 Mali / Real GDP growth, current account and fiscal balances



Sources: Malian government and the World Bank.

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



Source: World Bank. Notes: see Table 2.

To counter inflation across WAEMU countries, the Central Bank of West African States (BCEAO) raised policy interest rates by a cumulative 125 basis points since the start of 2022 to 3.25 percent for liquidity calls and 5.25 percent for the marginal lending facility. However, the monetary policy stance remains broadly accommodative, inflation in the region is still above target and foreign exchange reserves have been on a downward trend.

The fiscal deficit is expected to stay elevated at 4.9 percent in 2023 with higher revenues from tax administration and policy measures offset by higher expenditures, driven by wage bill, security outlays and interest payments. With limited external concessional financing available, the deficit will be primarily financed through domestic borrowing on the regional market, where interest rates have risen to around 8 percent for 3- and 5-year bonds, compared with around 6 percent earlier this year. Public debt, now dominated by relatively more expensive domestic debt (55 percent of the debt stock), is projected to reach 51.3 percent in 2023.

Outlook

GDP growth is expected to average 4.5 percent over 2024-25 (1.4 percent per capita) underpinned by agriculture and services, and by private consumption and the recovery of capital investments. However, the withdrawal of the MINUSMA peacekeeping force by end-2023 could have localized economic impacts where the bases are located. The CAD is expected to gradually narrow to 4.9 percent of GDP by 2025, as new lithium exports come onstream in 2024.

Annual inflation is projected to gradually fall, with the recovery of food production, towards the regional target of 2 percent by 2025. Consequently, the extreme poverty incidence is expected to gradually decrease to 16.3 percent by 2025.

A gradual fiscal consolidation could be achieved with sustained tax policy and administration reforms and improved public expenditure efficiency. Fiscal deficits will continue to be mainly financed through domestic borrowing as the availability of external financing is limited. Public debt is expected to increase to 52.3 percent of GDP by 2025.

The outlook is subject to multiple downside risks. Further election delays could trigger economic sanctions again and reduce private investments. Other economic risks relate to intensified insecurity following the withdrawal of MINUSMA and climatic shocks. Contingent liabilities, notably of the energy utility (EDM), domestic arrears and continued growth of the wage bill constitute significant fiscal risks. The coup in neighboring Niger on 26 July 2023 and the response from ECOWAS and WAEMU (economic and financial sanctions) have increased regional instability with risks of negative spillover effects on security, economic, and humanitarian fronts, including further increasing the cost of financing on the regional market.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-1.2	3.1	3.7	4.0	4.0	5.0
Private consumption	1.9	3.0	3.2	3.2	3.0	4.0
Government consumption	4.5	5.8	7.1	17.2	0.6	-0.5
Gross fixed capital investment	-1.2	4.8	-10.4	-1.6	11.1	12.4
Exports, goods and services	0.5	-1.0	8.0	4.2	5.0	5.0
Imports, goods and services	-2.9	14.1	-2.5	5.0	4.0	4.0
Real GDP growth, at constant factor prices	-1.1	3.0	4.0	4.0	4.0	5.0
Agriculture	-4.8	1.4	1.7	5.0	5.0	5.0
Industry	-0.1	1.0	5.4	6.0	4.0	4.0
Services	1.4	5.1	5.0	2.5	3.3	5.4
Inflation (consumer price index)	0.5	4.0	9.7	4.0	2.5	2.0
Current account balance (% of GDP)	-2.2	-7.7	-7.0	-7.0	-5.5	-4.9
Net foreign direct investment inflow (% of GDP)	3.1	3.0	2.6	2.5	3.1	3.0
Fiscal balance (% of GDP)	-5.4	-4.9	-4.8	-4.9	-4.5	-3.6
Revenues (% of GDP)	20.7	22.0	19.8	21.4	21.7	22.5
Debt (% of GDP)	46.9	50.4	51.7	51.3	51.9	52.3
Primary balance (% of GDP)	-4.2	-3.5	-3.3	-3.2	-2.6	-1.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	14.9	16.2	18.5	18.1	17.7	16.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	47.3	48.6	51.0	50.6	50.0	48.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	79.8	80.3	81.4	81.5	81.1	80.2
GHG emissions growth (mtCO2e)	2.3	3.4	3.2	3.0	3.9	4.5
Energy related GHG emissions (% of total)	14.5	15.7	16.2	16.3	16.7	17.5

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 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projections using microsimulation methodology.

MAURITANIA

Table 1	2022
Population, million	4.7
GDP, current US$ billion	11.1
GDP per capita, current US$	2334.0
International poverty rate ($2.15)[a]	6.5
Lower middle-income poverty rate ($3.65)[a]	26.2
Upper middle-income poverty rate ($6.85)[a]	66.8
Gini index[a]	32.6
School enrollment, primary (% gross)[b]	94.3
Life expectancy at birth, years[b]	64.4
Total GHG emissions (mtCO2e)	14.4

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

Economic activity is expected to remain robust in 2023 after the economy rebounded sharply in 2022, weathering the impact of rising prices and expansionary fiscal conditions. Inflation eased in mid-2023 as monetary and exchange rate policy helped to absorb excess liquidity. Poverty is expected to peak at 6 percent in 2023 and decline to 4 percent in 2025 as the medium-term growth outlook remains favorable, but subject to downside risks.

Key conditions and challenges

Mauritania's economic performance reflects structural weaknesses related to its heavy dependence on extractives, low capacity to implement investment projects and rising quasi-fiscal recurrent expenditures. Potential output growth has tripled over the last decade due to its rich natural resources, making it a lower middle-income country subject to commodity price shocks. The ripple effects of global shocks on prices of iron, gold and copper are currently constraining resources needed to implement the national strategy (SCAPP, 2016-2030) which focuses on achieving strong, inclusive, and sustainable economic growth.

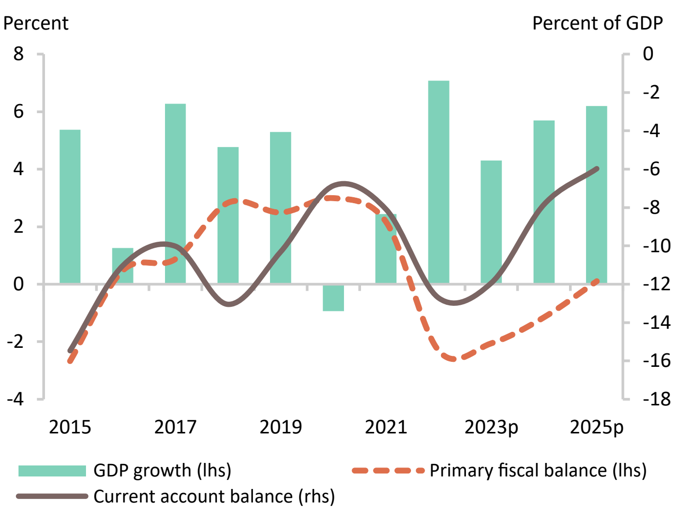
Central to the development agenda is the impact of climate change. Hazards include droughts, floods, wildfires, and extreme heat. Over 2000-2021, Mauritania ranked third highest in SSA on the level of human impact from climate-related events, after Somalia and Eswatini. Losses and damages from the July 2022 floods reached 2.7 percent of GDP and may get higher for future floods due to unplanned urbanization and inadequate drainage. Deadly floods occur at least once every two years, resulting in estimated annual average losses of 0.25 percent of GDP over the last two decades. The government is developing a mitigation strategy to safeguard livelihoods and the budget.

The macroeconomic outlook is subject to various risks. Regional insecurity persists with multiple military coups and refugees migrating from neighboring countries. Weak global demand could affect exports and extractive revenues. Poverty reduction remains dependent on agricultural performance and food inflation; the poor depend on agriculture for 45 percent of their total income, and food products comprise 57 percent of their consumption.

Recent developments

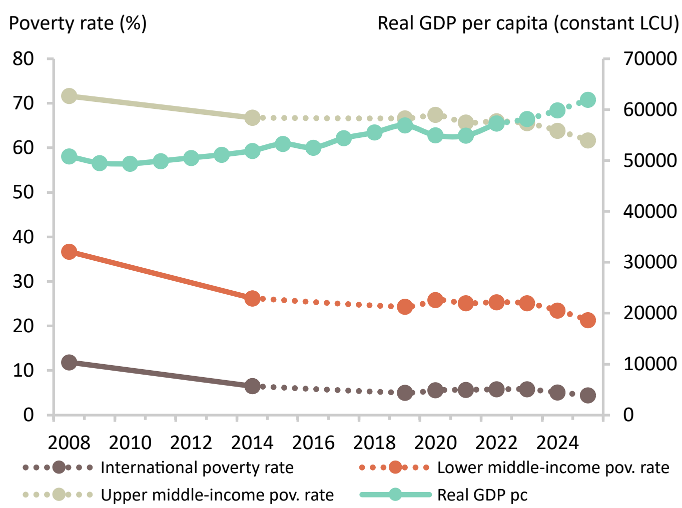
Economic activity is expected to remain robust at 4.3 percent in 2023 (1.6 percent per capita), supported by the expansion of services and higher mineral exports. Industrial production had a slow start in the first quarter, contracting by 18 percent due to weak mining, manufacturing, and construction activity. This was mostly offset by the services sector, while growth remained weak in the primary sector. Industry and primary sectors recovered in the second quarter thanks to increases in iron, copper and electricity production and good rainfall. Inflation continued its downward trend, driven by lower increases in food prices, reaching 3.7 percent (y/y) in August 2023, compared to 11.1 percent (y/y) in 2022. The downward trend is expected to continue through 2023 to reach an annual average inflation of 6 percent (y/y). The Central Bank increased the policy rate from 5 to 7 percent in August 2022, and intervened in the forex market

FIGURE 1 Mauritania / Evolution of main macroeconomic indicators



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

to absorb excess liquidity, in an effort to subdue inflation.

The fiscal balance registered a deficit of 3 percent of GDP in 2022, due to higher transfers, and lower revenues. Compared to the first seven months of 2022, the fiscal balance worsened in 2023 to about -1 percent of GDP from a surplus of 0.26 percent of GDP, driven by strong growth in recurrent expenses (45.2 percent, y/y). Debt-to-GDP fell by 4.4 percentage points to reach 44.7 percent of GDP in 2022 although the accumulation of debt could be higher in 2023 given the government's ambitious investment plan. External debt remains sustainable and at moderate risk of debt distress.

The current account deficit (CAD) widened in 2022, to 12.7 percent of GDP, on account of higher imports of equipment for the extractive sector. A current account deficit of 6.1 percent of GDP in H1-2023, driven by lower exports of gold, and higher imports of extractive industry equipment and petroleum products, is projected to narrow the CAD to 11.9 percent of GDP in 2023 with lower extractive equipment imports and falling food import prices.

The decline in food inflation in 2023, along with growth in agriculture and services, is expected to reduce the US$3.65 a day poverty rate. However, this decline will be tempered by higher non-food inflation and a decline in industrial prices, which will reduce labor incomes of industrial workers. These make up 14 percent of the employed population and 12 percent of the poor.

Outlook

During 2024-2025, growth should average 6 percent (3.4 percent per capita) supported by higher gold and iron production, the commencement of gas exports, and higher agriculture output. The onset of gas production could yield fiscal space of 0.5-1.2 percent of GDP per annum to support infrastructure expenditures. Average inflation could reach 6 percent in 2023, driven by lower food and energy prices, and gradually fall to 2.5 percent by 2025.

The US$3.65-a-day poverty rate is expected to fall to 23.5 percent in 2024 in line with lower food and non-food inflation (-3.4 pp and +2.6 pp respectively) and higher value added per capita growth in all sectors. This decline should continue in 2025.

The CAD is projected to narrow after 2023 with higher production of iron, gas exports and stronger growth in Europe (2025), which should compensate for lower commodity prices and decelerating demand from the main trading partners in 2024. FDI related to the extractive industry should finance the current account deficits. Fiscal pressures are expected to decrease in 2024-2025 leading to an average fiscal deficit of 1.4 percent of GDP, supported by higher revenue mobilization, lower energy subsidies and lower current transfers. However, increases in the wage bill in 2023 and the government's ambitious public investment program may pose a risk to a downward fiscal and debt-to GDP path between 2023 and 2025.

Risks to the outlook remain from a slowdown in the Euro Zone and China, if external demand decelerates, as well as from vulnerabilities to climatic shocks, and regional insecurity.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-0.9	2.4	7.1	4.3	5.7	6.2
Private consumption	2.4	2.4	2.5	2.4	2.6	2.7
Government consumption	9.2	26.1	22.3	11.6	9.3	8.5
Gross fixed capital investment	3.7	35.2	11.9	4.2	4.8	7.0
Exports, goods and services	-8.6	-11.7	6.8	6.7	7.0	9.9
Imports, goods and services	2.1	25.1	13.6	5.4	4.5	6.5
Real GDP growth, at constant factor prices	-0.2	2.0	7.1	4.3	5.7	6.2
Agriculture	-2.6	-3.8	7.7	5.0	5.5	5.7
Industry	2.4	-8.2	9.2	2.8	7.2	8.4
Services	-0.5	10.2	6.0	4.7	5.1	5.4
Inflation (consumer price index)	2.4	3.6	9.5	6.0	3.0	2.0
Current account balance (% of GDP)	-6.9	-8.1	-12.7	-11.9	-7.8	-6.0
Net foreign direct investment inflow (% of GDP)	11.0	10.6	12.7	12.1	9.2	5.8
Fiscal balance (% of GDP)	2.3	1.4	-3.0	-2.9	-2.0	-0.8
Revenues (% of GDP)	20.2	20.5	21.9	24.6	25.3	26.8
Debt (% of GDP)	55.8	49.1	44.7	46.8	46.8	45.9
Primary balance (% of GDP)	3.0	2.2	-2.3	-2.1	-1.1	0.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	5.6	5.7	5.8	5.8	5.0	4.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	25.8	25.1	25.3	25.1	23.5	21.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	67.5	65.7	66.0	65.5	63.9	61.7
GHG emissions growth (mtCO2e)	3.4	2.8	2.9	3.2	3.2	3.4
Energy related GHG emissions (% of total)	31.1	31.3	31.6	32.2	32.8	33.7

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

MAURITIUS

Table 1	2022
Population, million	1.3
GDP, current US$ billion	12.7
GDP per capita, current US$	10062.7
Lower middle-income poverty rate ($3.65)[a]	1.8
Upper middle-income poverty rate ($6.85)[a]	13.5
Gini index[a]	36.8
School enrollment, primary (% gross)[b]	98.4
Life expectancy at birth, years[b]	73.7
Total GHG emissions (mtCO2e)	7.1

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

Real GDP is expected to grow by 5 percent in 2023, as the economy continues to recover from the deep recession in 2020. Inflation reached a projected 7.3 percent in 2023, but is forecast to ease in the medium term. Higher pension and social benefits spending will add pressure to the fiscal deficit in 2023. The poverty rate is projected to decline from 17 percent in 2020 to 13 percent in 2023. The growth outlook is subject to downside risks.

Key conditions and challenges

Mauritius sustained spectacular growth since its independence in 1968, reaching high-income status in July 2020. But real GDP plunged by 14.6 percent due to the COVID-19 pandemic, causing Mauritius to fall back into the upper-middle-income category in 2021. The economy continues to recover following efforts to contain the pandemic and has demonstrated resilience against external shocks from the war in Ukraine.

But Mauritius' growth prospects face challenges. Mauritius is highly dependent on tourism, while export competitiveness has been eroded by rising labor costs and skills shortages. The pandemic responses and the expansive fiscal stance created mounting pressure on public finances. High and increasing social spending, partly driven by the aging population, has led to persistent fiscal deficits and an elevated public debt-to-GDP ratio, which reached 94.6 percent in FY20/21 before declining to 88.4 percent in FY21/22. During the pandemic, the Bank of Mauritius (BOM) established the Mauritius Investment Corporation to channel support measures to minimize the crisis' impact on the private sector. Avoiding policy distortion and strengthening monetary policy effectiveness will require phasing out BOM's involvement in financing firms.

Mauritius faces significant risks from climate change and natural disasters, affecting its growth potential. It is also highly vulnerable to global energy shocks. In 2021, about 80 percent of its electricity was generated from imported coal and petroleum products.

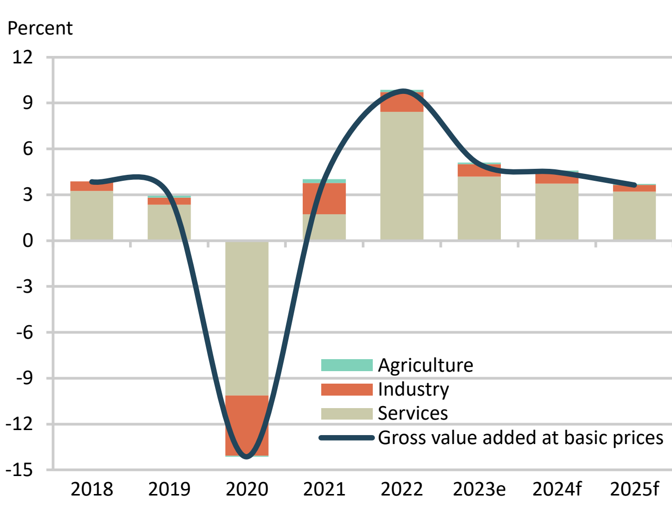
The labor market has seen a significant recovery post-pandemic, with lower unemployment rates for both men and women and increased female participation, suggesting a diminished burden from households chores. Youth unemployment has also shown signs of reduction over the last year.

Recent developments

Real GDP expanded by 5.5 percent (yoy) in 2023Q1 compared to 6.1 percent during the same period in 2022, supported by domestic demand and services exports. On the demand side, gross fixed capital formation grew by 8.3 percent (yoy), driven by higher investments in construction and machinery in Q1. Meanwhile, consumption spending only grew by 0.5 percent yoy, due to weaker growth in household consumption spending. On the supply side, a strong rebound in the tourism sector supported growth in accommodation and food services.

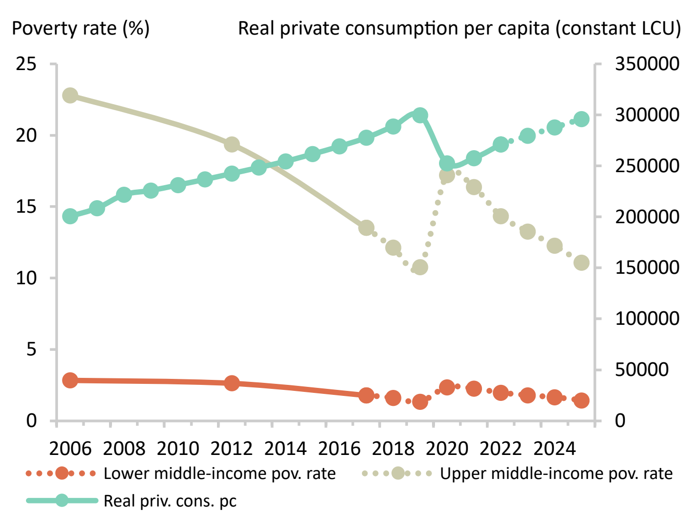
The revival in international tourism and positive inflow of primary income contributed to the narrowing of the current account deficit in Q1 of 2023 to $97 million compared to $333 million last year. International tourist arrivals in Mauritius reached 685,000 in the first half of 2023, substantially higher than the same period last year and close to the 2019H1 level before the pandemic.

FIGURE 1 Mauritius / Real GDP growth and sectoral contributions to real GDP growth



Sources: National Bureau of Statistics and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

The BOM has kept the key repo rate at 4.5 percent after increasing it by 265 basis points in 2022. Monthly headline inflation declined to 5.8 percent yoy in August 2023, compared to 12.1 percent in December 2022, supported by lower global energy and food prices, of which Mauritius is a net importer, and a slower depreciation of the Mauritian rupee. Higher domestic interest rates led to declining household loans and stagnant loans to private corporations. However, banking loans to public non-financial corporations increased by 54 percent yoy in July 2023, reflecting higher activities of state-owned companies. Gross official international reserves remained broadly adequate at $6.6 billion (10.3 months of imports) as of July 2023.

In July, the government introduced a new income tax regime, which nudges income tax policy progressivity. However, the revenue impact will depend on securing collection from the tax base, particularly those facing a higher effective tax rate. The strong economic rebound will likely increase VAT receipt. Meanwhile, social spending is projected to increase by 11.5 percent in FY23/24, owing to higher social and welfare measures.

Poverty (upper-middle-income country threshold of US$6.85 a day, 2017 PPP) fell from 19 percent to 11 percent between 2012 and 2019. However, given the dramatic contraction of GDP in 2020, poverty that year is projected to increase by over 6 percentage points before falling to around 13 percent by 2023.

Outlook

Real GDP is projected at 5 percent in 2023, driven by a strong rebound in tourism and investments before decelerating to 4.6 percent in 2024. Annual inflation is expected to decline to 7.3 percent this year, aided by lower inflation in key trading partners, and the introduction of a new monetary framework should help anchor inflation expectations. The softening of commodity prices and the rebound of international tourism in Mauritius will likely narrow this year's current account deficit to 7.6 percent of GDP. Sustained spending will likely widen the fiscal deficit to 5.8 percent of GDP in FY23/24 and set the public debt-to-GDP ratio to 78.7 percent. Meanwhile, the amendment to the BOM Act will likely curb BOM's financing of the government's budget deficit.

The economic outlook remains subject to downside risks from the tightening of global financing conditions, slower global GDP growth, and geopolitical risks from the war in Ukraine. The rebound in international tourism in Mauritius could reach its peak, with the country facing competition from other destinations. The return of El Niño could negatively affect food production in certain parts of the world, leading to increased prices of imported food and adding pressure to domestic inflation.

The government should continue strengthen macroeconomic resilience by rebuilding fiscal buffers by raising revenue and lowering the public debt-to-GDP ratio. Better targeting of social spending for those most in need will improve spending efficiency, improve fiscal sustainability, and free up scarce resources for human capital investments. Structural reforms and policies to improve climate adaptation and mitigation can help strengthen Mauritius' growth trajectory.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices[a]	-14.6	3.4	8.8	5.0	4.6	3.6
Private consumption	-15.7	2.1	5.3	3.2	3.0	3.0
Government consumption	-4.7	-3.1	4.9	2.0	2.0	1.5
Gross fixed capital investment	-25.8	13.9	6.0	7.0	3.2	2.8
Exports, goods and services	-27.6	9.8	22.7	9.9	9.5	7.6
Imports, goods and services	-28.5	8.0	12.8	6.8	5.8	5.9
Real GDP growth, at constant factor prices	-14.1	4.0	9.8	5.0	4.5	3.6
Agriculture	-1.9	7.2	3.6	3.2	3.0	1.9
Industry	-19.7	10.9	6.5	4.1	3.8	2.3
Services	-13.2	2.2	10.9	5.3	4.7	4.0
Inflation (consumer price index)	2.5	4.0	10.8	7.3	6.2	4.8
Current account balance (% of GDP)	-8.8	-13.0	-12.3	-7.6	-8.2	-8.2
Net foreign direct investment inflow (% of GDP)	111.7	21.1	-8.3	-21.4	-21.4	-21.6
Fiscal Balance (% of GDP)[b]	-18.7	-6.8	-5.0	-5.8	-5.2	-3.7
Revenues (% of GDP)	21.6	24.0	23.6	22.5	22.2	22.2
Debt (% of GDP)[b]	94.6	88.4	81.0	78.7	79.1	78.8
Primary Balance (% of GDP)[b]	-16.0	-4.3	-2.5	-3.4	-2.8	-1.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	2.4	2.3	2.0	1.8	1.7	1.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	17.2	16.4	14.3	13.3	12.3	11.1
GHG emissions growth (mtCO2e)	-12.0	10.3	7.6	3.3	3.8	3.6
Energy related GHG emissions (% of total)	61.2	60.6	62.3	62.7	63.0	63.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Historical demand-side data is being revised due to a consistency problem.
b/ Fiscal balances are reported in fiscal years (July 1st - June30th).
c/ Calculations based on 2017-HBS. Actual data: 2017. Nowcast: 2018-2022. Forecasts are from 2023 to 2025.
d/ Projection using neutral distribution (2017) with pass-through = 1 (High (1)) based on private consumption per capita in constant LCU.

MOZAMBIQUE

Table 1	2022
Population, million	33.0
GDP, current US$ billion	19.2
GDP per capita, current US$	582.9
International poverty rate ($2.15)[a]	74.4
Lower middle-income poverty rate ($3.65)[a]	88.6
Gini index[a]	50.5
School enrollment, primary (% gross)[b]	118.4
Life expectancy at birth, years[b]	59.3
Total GHG emissions (mtCO2e)	109.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2021).

Growth is expected to reach 6 percent in 2023, largely reflecting the start of liquefied natural gas (LNG) production. Fiscal pressures have increased due to a higher public sector wage bill and debt service. The poverty rate remains high but is projected to fall slightly from 74.5 percent to 72.9 percent between 2023 and 2025. Medium-term prospects are subject to substantial fiscal risks stemming from a large wage bill in a context of upcoming elections, and the insecurity in northern Mozambique.

Key conditions and challenges

Mozambique faces substantial development challenges, including widespread poverty and inequality, and limited structural transformation. Three-quarters of the population live in poverty and Mozambique is one of the most unequal countries in Sub-Saharan Africa – partly reflecting low and uneven human and physical capital accumulation, and vulnerability to climatic shocks. The economy's dual focus on labor-intensive, low-productivity agriculture and capital-intensive extractives, with limited economic links, constrains inclusive growth.

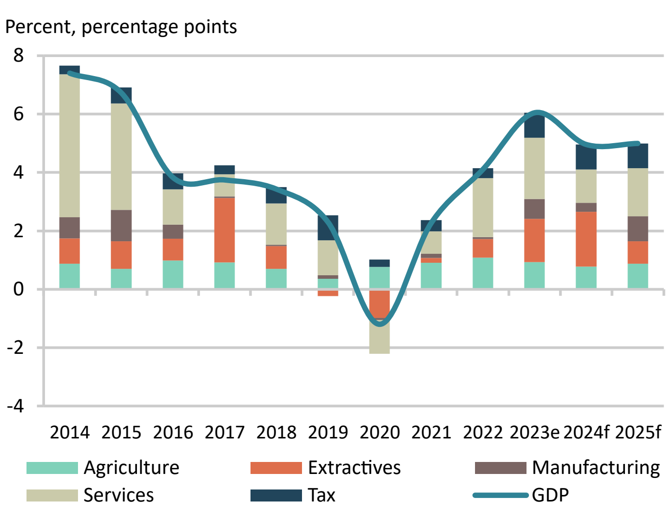
Over half a million people enter the labor force each year, but less than 30,000 new formal jobs are created annually. The private sector's potential for job creation and economic transformation has been hampered by regulatory bottlenecks, a large infrastructure deficit, and the high cost of credit, among other factors. Lending interest rates in Mozambique are among the highest in Sub-Saharan Africa, reflecting a shallow financial sector, rising government domestic borrowing, and high-risk premia. Mozambique is at high risk of debt distress, with the country lacking access to international capital markets, and concessional financing remains limited. The government's capacity to finance development is heavily constrained, with the wage bill and debt-service costs absorbing 95 percent of tax revenues.

Mozambique needs more diverse and green sources of growth and jobs. Policy priorities include enhancing macroeconomic stability and governance, promoting private sector participation, and strengthening resilience to shocks. Given the upcoming LNG revenues, managing the vast LNG resources efficiently, improving spending efficiency, and strengthening domestic revenue mobilization can help generate fiscal resources to finance development. Rising food prices undermine the welfare of the poor and most vulnerable, who spend a large portion of their budget on food. High vulnerability to climate shocks, and fragility and conflict are enduring structural challenges, particularly for the poor. Sustained, broad-based, and inclusive growth will require, among other things, raising agricultural productivity, including through improved availability and accessibility of inputs and access to markets for smallholder farmers.

Recent developments

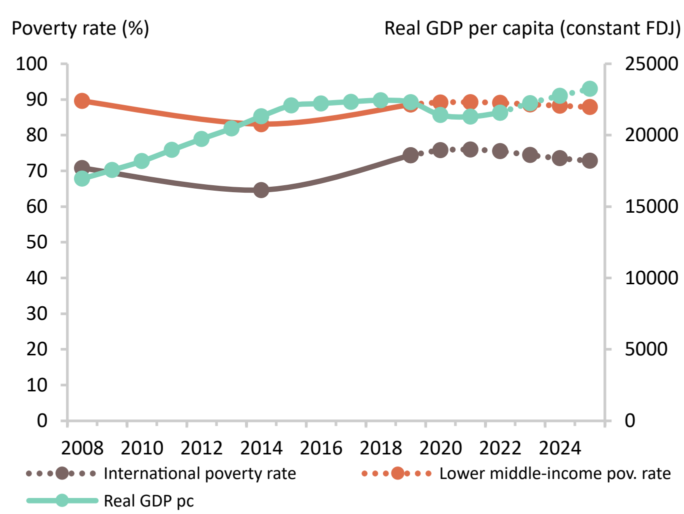
The economy grew by 4.4 percent (yoy) in the first half of 2023, driven by the start of LNG production at the Coral South offshore facility. Higher growth in agriculture and services, particularly transport, also contributed to the expansion of the economy. Inflation moderated from a peak of 12.9 percent yoy in August 2022 to 5.7 percent in July 2023, as global food prices continued to subside. Nevertheless, per capita GDP growth remains

FIGURE 1 Mozambique / Real GDP growth and sectoral contributions to real GDP growth



Source: World Bank estimates.

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



Source: World Bank. Notes: see Table 2.

low at 1.3 percent. As a result, the poverty rate remains high at 74.5 percent.

Fiscal pressures remain elevated. Total expenditure reached 32.3 percent of GDP in 2022, up from 30.9 percent in 2021, mainly reflecting overrun in the cost of ongoing wage bill reform, which aims to unify salary scales to better control public sector compensations. Total revenues decreased from 25.5 percent to 23.4 percent of GDP between 2021 and 2022, due to lower collection of value-added tax on goods and services and non-tax revenue. Domestic debt rose from 24 percent to 26 percent of GDP over the same period, as the country's access to international capital markets remains limited. Pressures from higher wage bill expenses and debt-service costs persist in 2023, with the overall fiscal deficit increasing by 30 percent in the first quarter yoy.

The current account deficit increased from 22.3 percent to 32.9 percent of GDP between 2021 and 2022, driven by imports of LNG equipment, fuel, and food. The external financing gap in 2022, estimated at 2.5 percent of GDP, was covered by World Bank Development Policy Financing, IMF credits, debt, and a drawdown in reserves. In the first quarter of 2023, the current account deficit declined by 90 percent y/y to US$586 million, as LNG imports moderated. This contributed to a recovery in gross international reserves from US$2.6 billion to US$2.9 billion (3.3 months of non-megaproject imports) over the same period.

Outlook

Medium-term prospects remain positive despite being subject to substantial risks. Growth is projected to average 5 percent over 2023-25, driven by higher offshore LNG production and the resumption of the Total-led LNG project. Inflation is expected to decline as global pressures on food and fuel prices ease. Poverty is projected to decline from 74.5 percent to 72.9 percent of the population by 2025, although the total number of poor people is expected to continue to rise owing to population growth.

Despite ongoing spending pressures, the fiscal deficit is expected to improve, as the government takes measures to strengthen fiscal sustainability. Measures including the downward adjustments of base salaries and supplements are expected to generate savings amounting to 1 percent of GDP. As a result, the overall fiscal deficit is projected to decline from 4.9 percent of GDP in 2022 to 2.3 percent of GDP over 2023-25.

The current account deficit is expected to increase, averaging 31.9 percent of GDP in the medium term, as LNG-related imports rise. Total imports of goods are projected to average 44.8 percent of GDP over 2023-25, higher than the 37 percent of GDP observed in 2022. Gas exports, foreign direct investment inflows, grants, and concessional financing will help support sustainable levels of gross reserves (around $3.3 billion, roughly 5 months of imports).

Key risks to the outlook stem from the large wage bill and debt service, climate shocks, waning commitment to reforms in the run-up to the elections, and uncertainty around the security situation in the north. On the fiscal side, concentration of government domestic bond repayments between 2024 and 2026 could absorb about 8 percent of total revenues, and the realization of contingent liabilities under legal dispute could undermine debt sustainability indicators.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-1.2	2.3	4.2	6.0	5.0	5.0
Private consumption	-2.2	17.3	3.0	3.7	9.2	7.0
Government consumption	-19.1	-7.8	17.2	-25.4	-3.5	-8.1
Gross fixed capital investment	60.9	32.5	-6.4	10.1	0.0	6.0
Exports, goods and services	-14.9	23.8	10.2	19.5	4.7	5.1
Imports, goods and services	0.0	37.2	1.9	3.3	4.1	5.0
Real GDP growth, at constant factor prices	-1.8	2.2	4.2	6.0	5.0	5.0
Agriculture	3.6	3.7	4.4	6.0	4.0	4.0
Industry	-5.7	1.6	3.8	7.6	8.2	8.1
Services	-2.9	1.6	4.3	5.4	4.2	4.3
Inflation (consumer price index)	3.1	5.7	9.8	7.4	6.5	6.3
Current account balance (% of GDP)	-27.4	-22.3	-32.9	-15.9	-37.6	-42.4
Net foreign direct investment inflow (% of GDP)	21.5	31.6	10.3	4.3	13.4	14.4
Fiscal Balance (% of GDP)[a]	-5.7	-4.6	-4.9	-3.4	-2.5	-1.1
Revenues (% of GDP)	27.5	27.4	27.4	27.6	26.2	26.3
Debt (% of GDP)	120.0	105.0	95.2	91.0	93.4	91.5
Primary Balance (% of GDP)[a]	-2.6	-1.9	-2.0	-0.2	0.6	1.8
International poverty rate ($2.15 in 2017 PPP)[b,c]	75.8	76.0	75.6	74.5	73.6	72.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	89.2	89.2	89.1	88.6	88.3	87.9
GHG emissions growth (mtCO2e)	1.0	1.5	0.3	1.1	2.2	3.0
Energy related GHG emissions (% of total)	8.5	9.3	8.9	9.0	9.9	10.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Figure includes once-off capital gains revenues in 2017, estimated at 2.7 percent of GDP.
b/ Calculations based on 2019-IOF. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
c/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

NAMIBIA

Table 1	2022
Population, million	2.6
GDP, current US$ billion	12.6
GDP per capita, current US$	4911.3
International poverty rate ($2.15)[a]	15.6
Lower middle-income poverty rate ($3.65)[a]	33.3
Upper middle-income poverty rate ($6.85)[a]	57.3
Gini index[a]	59.1
School enrollment, primary (% gross)[b]	125.7
Life expectancy at birth, years[b]	59.3
Total GHG emissions (mtCO2e)	21.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2017 PPPs.
b/ Most recent WDI value (2021).

After a strong expansion in 2022, Namibia's economy is projected to grow at a slower pace of 2.8 percent in 2023 as growth in the mining sector moderates and other sectors continue to recover from the pandemic. Higher import costs led to higher inflation, which has compounded socio-economic challenges. The projected international poverty rate remains high at 18.4 percent.

Key conditions and challenges

Namibia's growth averaged 4.4 percent between 2001 and 2015, favored by the commodity super cycle, which spurred mining investment and services linked to mining and boosted exports. During this period, growth was primarily driven by investment and a growing labor force, while total factor productivity declined due to persistent structural bottlenecks, including highly segmented input and output markets and severe skills shortages. Resource wealth allowed for an increase in public spending, which expanded household support and the delivery of public services, although access to services remains low among the poorest segments of the population. Stronger economic growth and improvements in education outcomes supported reductions in the national poverty rate from 35.9 percent in 2003 to 15.6 percent in 2015 (based on the US$2.15 per day international poverty line) – one of the fastest declines in Sub-Saharan Africa. The expanded social programs partly drove a decline in inequality.

Growth came to a halt in 2016 as the commodity cycle ended, major investment projects were completed, severe drought took its course, and the government embarked on fiscal consolidation after the debt ratio more than doubled from 2010 to 2015. This brought to the fore Namibia's structural weaknesses, and the subsequent pre-pandemic years were mostly marked by recession. Authorities successfully contained spending until the COVID-19 pandemic, but reducing public debt proved difficult in a context of low growth. Debt increased markedly during the pandemic as spending increased to support households.

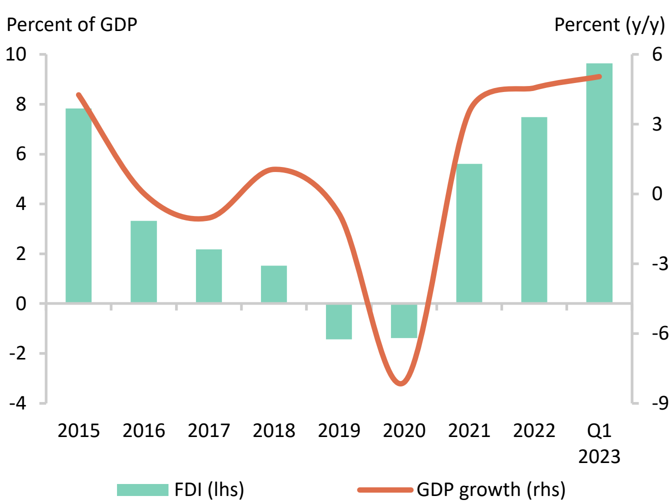
The slow post-pandemic recovery underscores Namibia's long-standing dependence on mineral extraction, fiscal constraints, and structurally high unemployment, which limits poverty reduction and efforts to reduce high inequality. Estimated at 18.8 percent in 2022, the poverty rate (using the international poverty line) is high for a country of Namibia's income level. The country remains one of the most unequal in the world (with the Gini index at 59.1 in 2015).

Recent developments

In the first six months of 2023, economic activity expanded by about 4 percent. The mining sector contributed most to this growth, supported by mineral exploration activities, higher uranium output, and robust growth in diamond production. From the expenditure side, higher investment and net exports underpinned growth. Household spending declined amid high inflation, substantial increases in the interest rate since the start of 2022, and estimated weak employment growth.

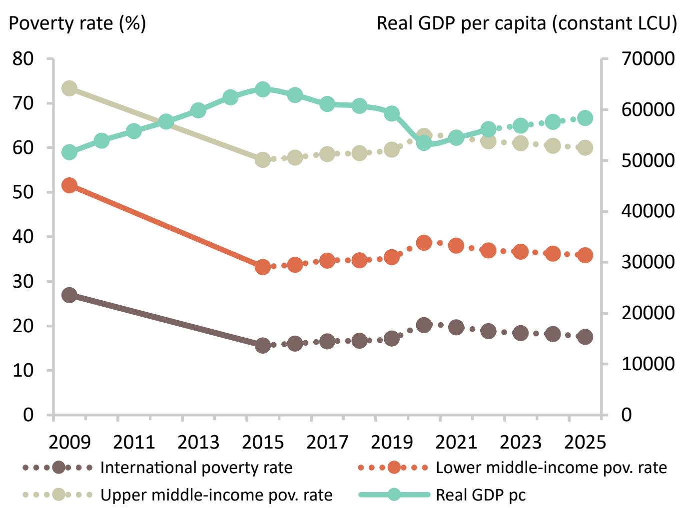
Namibia's twin deficits have narrowed from their post-pandemic peaks. Higher exports, particularly of diamonds and other minerals, helped to narrow the current account deficit from 15.2 percent of GDP in

FIGURE 1 Namibia / FDI inflows and real GDP growth



Sources: Bank of Namibia and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

2022Q1 to 8.2 percent in 2023Q1. The current account deficit is being adequately financed by foreign direct investment, leading to an increase in foreign exchange reserves to $3 billion in July 2023 from $2.8 billion in December 2022. The reserve levels were comfortable at 5.3 months of imports and above 20 percent of GDP. There was progress on fiscal consolidation in FY2022/23 – the primary deficit was reduced by 3.8 percentage points and the fiscal deficit narrowed to 5.1 percent of GDP. Amid better-than-expected growth and enhanced tax administration measures, revenues were higher than predicted, offsetting higher-than-budgeted expenditure. The public debt ratio, including guarantees, was contained at 72.5 percent of GDP, supported by stronger GDP growth.

Monetary policy remains broadly aligned with the one adopted by the South African Reserve Bank given that the Namibian dollar is pegged to the South African rand. The Bank of Namibia hiked its policy rate by a further 100 basis points in 2023H1, adding to the cumulative 300 basis points in hikes in 2022. The restrictive policy stance and lower fuel prices supported moderation of headline inflation to a 16-month low of 4.5 percent in July 2023.

Outlook

Namibia's economic growth is projected to reach 2.8 percent in 2023, and to remain around this level over the next 2-3 years. Relatively moderate growth is due to still-high inflation and monetary tightening, sluggish growth in South Africa and Europe, and base effects from the launch of a new diamond recovery vessel, which boosted mining output from 2022Q2. Against a tepid recovery, unemployment is expected to remain elevated. Severe skill shortages will require an increase in services imports to support energy investments. As the recovery in jobs continues to lag, the international poverty rate is projected at 18.4 percent in 2023.

Inflation is projected to decline as fuel prices decrease and food price pressures ease. Foreign direct investment-related imports are expected to drive a large deficit in the current account. The fiscal deficit is projected to narrow further in FY 2023/24, supported by stronger SACU inflows. Spending will increase in FY2023/24, driven by higher cash transfers, costs related to the census and national elections, and higher capital expenditure in transport and water. The wage bill growth is expected to remain contained, although its magnitude, representing 40 percent of expenditure, and a high debt service, will continue to constrain fiscal policy flexibility. Given high debt levels, fiscal policy should build on recent gains and remain prudent and support the stabilization of the debt ratio in the medium term.

Risks to the recovery remain elevated. A weaker global outlook and a tighter monetary policy stance could lower export demand. While global oil prices are projected to stabilize at high levels, supply concerns and renewed food price pressures could generate new bouts of inflation, with negative impacts on households' purchasing power. Water and electricity supply disruptions and an intensification of the drought could also weigh on the recovery, with severe impacts on mining and agricultural output.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-8.1	3.5	4.6	2.8	2.9	3.1
Private consumption	-9.8	12.7	14.4	1.7	3.4	3.8
Government consumption	0.3	1.5	0.7	1.3	1.0	1.0
Gross fixed capital investment	-17.7	18.4	-10.7	9.0	8.8	7.7
Exports, goods and services	-16.6	1.4	20.0	9.8	3.9	3.1
Imports, goods and services	-15.0	20.3	23.6	5.8	4.5	4.1
Real GDP growth, at constant factor prices	-6.8	1.7	4.4	2.8	2.9	3.1
Agriculture	6.3	1.3	2.6	0.5	2.0	2.0
Industry	-12.8	1.6	10.4	4.0	2.6	3.2
Services	-5.6	1.8	2.2	2.6	3.1	3.2
Inflation (consumer price index)	2.2	3.6	6.1	5.5	4.8	4.5
Current account balance (% of GDP)	2.8	-9.9	-12.6	-7.7	-7.9	-8.2
Net foreign direct investment inflow (% of GDP)	-1.9	5.5	7.4	8.1	5.2	5.2
Fiscal balance (% of GDP)	-8.9	-8.7	-5.1	-4.4	-4.3	-4.3
Revenues (% of GDP)	33.4	29.6	31.4	33.7	32.8	31.6
Debt (% of GDP)[a]	70.0	72.7	72.5	74.4	74.6	73.7
Primary balance (% of GDP)	-4.7	-4.4	-0.6	0.5	0.5	0.5
International poverty rate ($2.15 in 2017 PPP)[b,c]	20.2	19.7	18.8	18.4	18.2	17.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	38.7	38.0	36.9	36.7	36.2	35.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	62.7	62.3	61.4	61.0	60.5	60.0
GHG emissions growth (mtCO2e)	-1.5	-0.2	1.9	0.5	2.0	2.0
Energy related GHG emissions (% of total)	17.9	18.0	18.3	18.3	18.4	18.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Refers to Public and Publicly Guaranteed debt.
b/ Calculations based on 2015-NHIES. Actual data: 2015. Nowcast: 2016-2022. Forecasts are from 2023 to 2025.
c/ Projection using neutral distribution (2015) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

NIGERIA

Table 1	2022
Population, million	218.5
GDP, current US$ billion	477.4
GDP per capita, current US$	2184.4
International poverty rate ($2.15)[a]	30.9
Lower middle-income poverty rate ($3.65)[a]	63.5
Gini index[b]	35.1
School enrollment, primary (% gross)[c]	85.7
Life expectancy at birth, years[c]	52.7
Total GHG emissions (mtCO2e)	389.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022).
b/ Most recent value (2018), 2017 PPPs.
c/ WDI for School enrollment (2019); Life expectancy (2021).

Nigeria faced several economic challenges in H1-2023, including a growth deceleration in the first quarter and rising inflation, which pushed more people into poverty. Recognizing the need to change course, the new administration undertook crucial reforms to restore macroeconomic stability by removing the fuel subsidy and liberalizing the exchange rate. If sustained, these reforms will yield large fiscal savings and lift Nigeria's growth prospects. Risks to the outlook include policy reversals, protracted decline in oil production, insecurity, and climate shocks.

Key conditions and challenges

To rise to its potential and reverse its increasing trend in poverty, Nigeria needs to grow faster and create more quality jobs, which is predicated on a stable macroeconomy and a conducive business environment. Macroeconomic stability in Nigeria has steadily deteriorated over the past decade due to several factors. First, overreliance on volatile oil exports, which account for more than 90 percent of total exports. Second, limited fiscal space that stemmed from very costly petrol subsidies, low tax rates, and weak tax administration hindered the government's ability to deliver quality public services. Third, restrictive trade policies, weaknesses in exchange rate management, monetization of the fiscal deficit by the Central Bank of Nigeria (CBN), and surging food prices led to double-digit inflation. Other external shocks—including the lingering effects of the COVID-19 pandemic, and Russia's invasion of Ukraine—contributed to the macroeconomic deterioration.

The new administration, faced with mounting fiscal and external pressures and poverty, has undertaken key reforms to restore macroeconomic stability by removing the fuel subsidy and unifying and significantly liberalizing the exchange rate. These reforms should help free up fiscal space, unwind critical macroeconomic distortions that hold back growth, and reduce the space for rent-seeking.

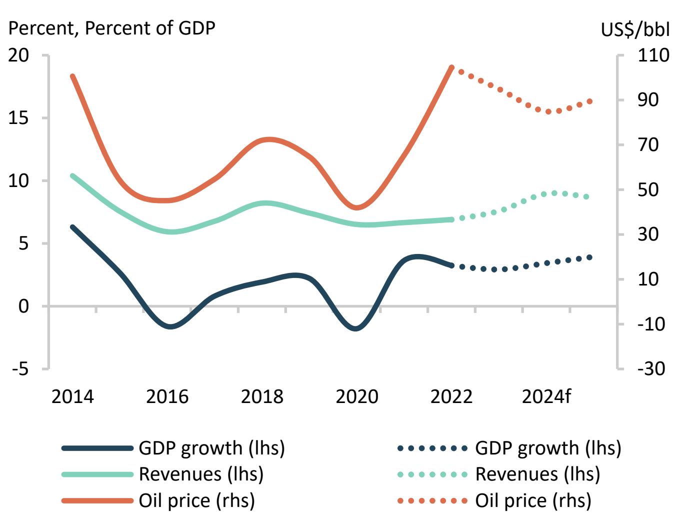
Recent developments

Weak economic performance in H1 2023 largely reflected the difficult pre-reform conditions. After growing by 3.6 percent in 2021, GDP growth slowed to 3.3 percent in 2022 and further to 2.4 percent year-on-year (y-o-y) in H1 2023. The deceleration was driven by the continued weakness in oil production, lower agriculture output stemming from the sustained impact of severe floods in Q3 2022, and a disruptive and costly demonetization policy, which adversely impacted the non-oil industrial and service sectors.

Nigeria's chronically high inflation reached a 17 year high of 24.1 percent (y-o-y) in July 2023, partly reflecting surging food prices and the temporary impact of the removal of the fuel subsidy. A cumulative 725 basis points hike in the monetary policy rate since May 2022 has had little effect to rein in inflation due to clogged transmission channels, also weakened by direct credit allocation by the central bank, and the continued monetization of the fiscal deficit. By the end of 2023, the rise in inflation and low economic growth will have contributed to an increase of 2.8 million people in poverty (y-o-y), a 0.4 percentage points bump to 37.5 percent of the population.

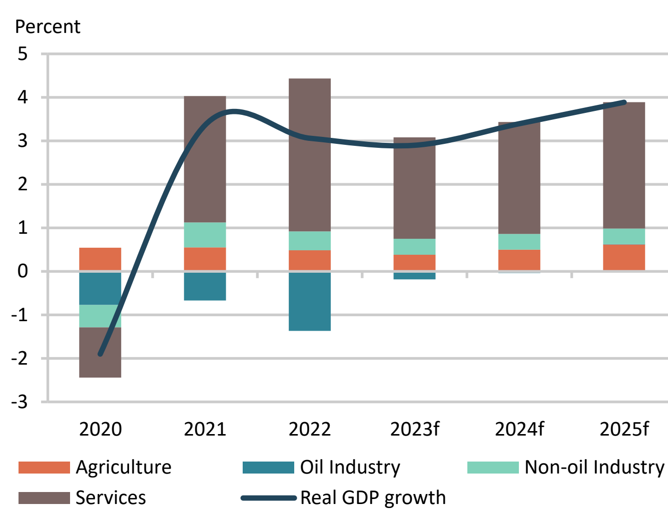
The federal fiscal deficit was 63 percent higher between January and May 2023 than in the same period in 2022, due to increasing interest payments, higher capital spending ahead of the elections, and the continuous large cost of the fuel

FIGURE 1 Nigeria / Oil price, government revenues, and real GDP growth



Sources: WDI, NBS, and World Bank.

FIGURE 2 Nigeria / Real GDP growth and sectoral contributions to real GDP growth



Sources: NBS and World Bank.

subsidy. Although non-oil revenues increased, they are still among the lowest globally as a share of GDP. The fiscal financing need and the devaluation of the naira are expected to push the public debt to 45 percent of GDP and keep the debt service above total revenues in 2023. The current account balance (CAB) recorded a surplus of 2.2 percent of GDP in Q1 2023, driven by lower imports and income outflows. However, the small CAB surpluses and capital flows since 2022 have been insufficient to increase foreign reserves, as oil export FX flows to CBN contracted, likely as a result of the direct crude sale-direct fuel purchase arrangements.

Outlook

Future economic growth in Nigeria will depend on the continued implementation of macro-fiscal and inclusive structural reforms. Benefiting from the recent reforms, the economy is expected to grow at an average of 3.4 percent in 2023-2025, higher than the past average of 1.4 percent in 2015-2022 and the estimated population growth, driven by services, trade, construction, and agriculture. Inflation will further increase to 24.4 percent in 2023 due to the removal of the fuel subsidy but gradually moderate from early 2024. The revenues-to-GDP ratio will rebound to 7.6 percent of GDP in 2023 and increase further to 8.8 percent of GDP in 2024-2025, thanks to the fuel subsidy and the FX reforms. Although spending will increase as the Government rolls out compensating measures to shield households from the initial impacts of the subsidy reform, the fiscal deficit is projected to still shrink from 5.0 percent of GDP in 2022 to about 4.0 percent in 2025. Debt servicing is expected to drop to about 68 percent of revenues by 2025. On the external front, exports and capital inflows are expected to remain subdued in the short-term but could rise substantially if further macroeconomic and regulatory reforms are pursued. Consequently, the CAB is expected to remain positive over the projection period. The share of Nigerians living below the international poverty line is expected to peak in 2024 at 38.8 percent before beginning a gradual decline, as inflation cools down and economic growth picks up. Targeted measures, including cash transfers, could mitigate short-term adjustment costs to the poor and vulnerable and mitigate their risk of falling into intergenerational poverty traps.

Several risks could result in weaker than expected economic performance. Internally, policy reversals and weaker reform impetus could lower the expected payoffs. A further decline in oil production or inability to ramp-up non-oil revenues quickly could also affect the external and fiscal balances. Externally, continued monetary tightening globally, the war in Ukraine, unilateral food export bans, and climate events could undermine economic activity in Nigeria. Regional instability sparked by the recent coup in Niger could also weigh on the recovery. Sustaining the reform momentum and unwinding structural constraints to inclusive growth offers a path forward.

TABLE 2 Nigeria / 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	3.6	3.3	2.9	3.4	3.9
Real GDP growth, at constant factor prices	-1.9	3.4	3.1	2.9	3.4	3.9
Agriculture	2.2	2.1	1.9	1.5	2.0	2.5
Industry	-5.8	-0.5	-4.6	1.0	1.8	2.0
Services	-2.2	5.6	6.7	4.3	4.7	5.2
Inflation (consumer price index)	13.2	17.0	18.8	24.4	14.5	10.9
Current account balance (% of GDP)	-3.7	-0.7	0.2	0.6	0.6	0.8
Net foreign direct investment inflow (% of GDP)	-0.2	-0.3	0.0	-0.1	-0.5	-0.6
Fiscal balance (% of GDP)	-5.1	-6.6	-5.0	-5.1	-4.1	-4.0
Revenues (% of GDP)	6.5	6.7	6.9	7.6	9.0	8.6
Debt (% of GDP)	36.1	38.8	40.3	42.8	45.6	44.4
Primary balance (% of GDP)	-2.8	-3.9	-1.8	-1.2	-0.4	-0.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	34.0	36.3	37.1	37.5	38.8	38.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	67.2	69.1	70.0	70.4	71.6	70.8
GHG emissions growth (mtCO2e)	0.3	4.8	4.7	3.1	4.2	4.6
Energy related GHG emissions (% of total)	36.6	37.8	38.8	39.0	39.7	40.4

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 2018-LSS. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projections using microsimulation methodology.

RWANDA

Table 1	2022
Population, million	13.8
GDP, current US$ billion	13.3
GDP per capita, current US$	963.8
International poverty rate ($2.15)[a]	52.0
Lower middle-income poverty rate ($3.65)[a]	78.0
Upper middle-income poverty rate ($6.85)[a]	92.2
Gini index[a]	43.7
School enrollment, primary (% gross)[b]	140.7
Life expectancy at birth, years[b]	66.1
Total GHG emissions (mtCO2e)	7.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ Most recent WDI value (2021).

Rwanda's strong growth momentum continued in early 2023—led by services and manufacturing. Inflationary pressures started easing but remained elevated, thus monetary policy rate was raised to 7.5 percent in August. Persistently high food inflation is a threat to poverty reduction, especially in rural areas. Real GDP growth is projected at about 7 percent in 2023, then to 7.6 percent on average in 2024–2025.

Key conditions and challenges

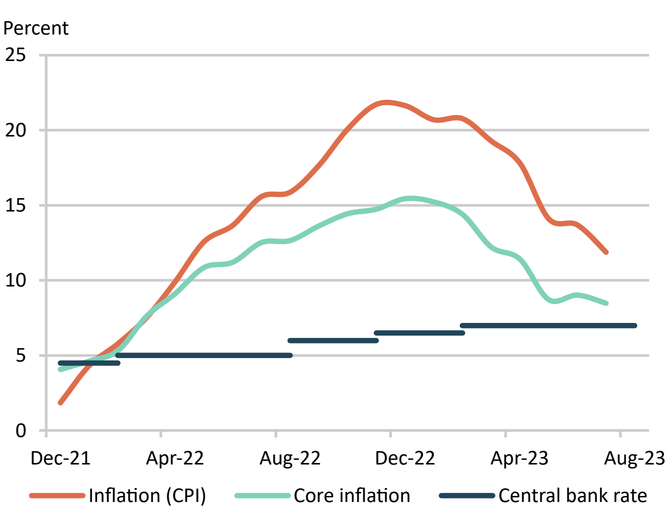
In the decade to 2019, Rwanda's GDP per capita increased steadily at a rate of 4.5 percent a year, surpassed only by Ethiopia among SSA economies. Rwanda has also achieved substantial gains in poverty reduction, educational attainment, health conditions, and access to basic services. Nevertheless, the economy confronts significant challenges. While efforts have been made to establish a regulatory framework, constraints on competition and the dominant role of public investment have limited innovation and impaired allocative efficiency. Many households, particularly in rural areas, have received little benefit from the overall development progress. Mounting public debt presents serious challenges to sustainability. Rapid urbanization and depletion of forest and water resources in recent years led to increased vulnerability to flood risks, land degradation, and biodiversity loss. Overcoming these challenges will require greater reliance on private sector investment to enhance productivity growth, raise the income of poor farmers and the supply of off-farm employment in rural and urban areas, and provide financing to address infrastructure shortfalls in the face of constraints on government expenditures and increasing climate change related shocks. Strengthening resilience to climate shocks will involve access to public and private finance to increase investment to nature-based solutions and renewable raw material production as well as improve capacity to utilize the financing.

Recent developments

GDP growth is expected to soften to about 7 percent in 2023, due to weaker agricultural output and recent floods, despite stronger than expected real GDP growth of 9.2 percent in the first quarter (Q1). Heavy rainfall in late April and early May caused loss of life, flooding, landslides, and significant damage to infrastructure and agricultural production. In Q1, growth was fueled by strong private consumption and improved net exports as well as services and industry. Despite floods, early economic indicators point to continued growth in the second quarter. The industrial production index increased by 6.8 percent compared to 0.1 percent in the same period of 2022. Similarly, the composite indicator of economic activities rose by 6.8 percent. Merchandise exports rose by 40.3 percent, outpacing a 21.6 percent increase in imports. As in the first quarter, the momentum in the tourism sector continued with Rwanda hosting more than 20 events in the second one. Strong tourism activity is expected to narrow the trade deficit in 2023.

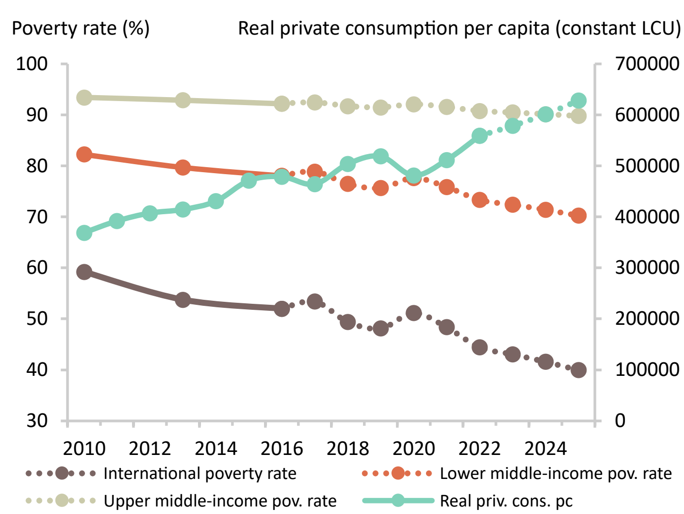
The National Bank of Rwanda (NBR) tightened further its monetary stance, raising the policy rate by 50 bps to 7.5 percent

FIGURE 1 Rwanda / Headline and core inflation and central bank rate



Source: World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

in August despite the headline inflation rate falling to 11.9 percent (yoy) in July 2023—well below the 27.7 percent peak in November 2022. To counteract the effect of a sharp depreciation of the franc against the US dollar—10.6 percent between end-December 2022 and August 2023—on inflation, the NBR has doubled its dollar sales to commercial banks from US$5 to US$10 million per week. Persistently high food inflation—exceeding 30 percent (yoy) in rural areas since July 2022—will continue burdening poor households, who spend most of their resources on food.

Fiscal deficits—both primary and overall—are expected to narrow in 2023 on account of ongoing fiscal consolidation. Key drivers of fiscal consolidation are revenue and tax policy reforms and spending rationalization focusing on improved efficiency of government services, limits to subsides, and more efficient capital expenditure. The primary deficit is expected to decline to 4.9 percent of GDP. Public debt to GDP is estimated at 69.2 percent in 2023.

Outlook

Growth is expected to regain momentum, growing by 7.6 percent on average in 2024–25. This would be driven by some improvement in global tourism demand, a pickup in construction with the new airport, and manufacturing activities supported by Manufacture and Build to Recover Program. While goods exports are expected to slow, the external current account deficit is projected to improve to 19.3 percent of GDP on the back of the recovering tourism sector and services exports. Continued strong FDI inflows and concessional financing will cover external financing needs. Inflation is expected to gradually return within NBR's target of 5±3 percent in 2024.

The FY24-FY26 budget framework reflects the Government's commitment to fiscal consolidation, which will largely through streamlining and gradually reducing subsidies particularly those related to energy and fuel, and state-owned-enterprises by strengthening their oversight and governance and risk management while safeguarding fiscal space for human capital spending. On the revenue side, the Government plans to introduce a number of tax policy measures, envisioned in the MTRS. Despite increases in 2024-25, public debt is assessed to remain sustainable with moderate risk of external and overall public debt distress.

This outlook is subject to substantial downside risks. Geopolitical tensions could cause global commodity prices to rise again, placing renewed pressure on inflation and the current account. Rwanda's agricultural sector remains exposed to increasingly frequent weather shocks, which would reduce agricultural output and lead to food insecurity and higher food prices. Projected poverty reductions of 3 ppts between 2023 and 2025 (from 43.1 to 40 percent) could be reduced or even reverted if high food inflation persists. To improve on resilience to climate change, Rwanda needs to invest in and operationalize nature-based solutions that contribute to adaptation and growth.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-3.4	10.9	8.2	6.9	7.5	7.8
Private consumption	-5.0	8.8	11.9	5.9	6.2	6.8
Government consumption	1.9	13.7	10.6	7.5	5.8	4.5
Gross fixed capital investment	-4.5	16.5	-4.2	10.1	5.3	5.7
Exports, goods and services	-9.2	2.9	30.1	11.4	13.2	11.2
Imports, goods and services	-3.4	3.6	16.1	10.9	7.0	5.9
Real GDP growth, at constant factor prices	-3.5	10.6	7.8	6.9	7.5	7.8
Agriculture	0.9	6.4	1.6	0.9	4.7	5.0
Industry	-4.2	13.4	5.0	11.0	8.5	8.5
Services	-5.5	11.9	12.2	8.2	8.4	8.7
Inflation (consumer price index)	7.7	0.8	13.9	7.3	5.6	5.0
Current account balance (% of GDP)	-12.1	-11.3	-9.8	-11.5	-10.1	-9.4
Net foreign direct investment inflow (% of GDP)	1.5	2.1	3.0	3.2	3.2	3.4
Fiscal balance (% of GDP)	-12.6	-8.8	-7.3	-7.0	-6.8	-5.7
Revenues (% of GDP)	23.9	24.6	23.8	22.8	22.3	22.8
Debt (% of GDP)	72.5	73.4	67.5	69.2	74.5	75.1
Primary balance (% of GDP)	-10.9	-7.0	-5.5	-4.9	-5.1	-4.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	51.2	48.4	44.4	43.1	41.6	40.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	77.6	75.9	73.3	72.4	71.4	70.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	92.1	91.6	90.8	90.5	90.2	89.8
GHG emissions growth (mtCO2e)	0.1	3.1	2.8	3.2	3.8	3.7
Energy related GHG emissions (% of total)	16.1	16.1	15.8	15.6	15.6	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 2010-EICV-III and 2016-EICV-V. Actual data: 2016. Nowcast: 2017-2022. Forecasts are from 2023 to 2025.
b/ Projection using average elasticity (2010-2016) with pass-through = 0.7 based on private consumption per capita in constant LCU.

SÃO TOMÉ AND PRÍNCIPE

Table 1	2022
Population, million	0.2
GDP, current US$ billion	0.5
GDP per capita, current US$	2401.3
International poverty rate ($2.15)[a]	15.6
Lower middle-income poverty rate ($3.65)[a]	44.8
Upper middle-income poverty rate ($6.85)[a]	79.7
Gini index[a]	40.7
School enrollment, primary (% gross)[b]	106.8
Life expectancy at birth, years[b]	67.6
Total GHG emissions (mtCO2e)	0.4

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

São Tomé and Príncipe (STP)´s economy is expected to stagnate, with GDP growing only by 0.5 percent in 2023, due to persistent power shortages and high commodities prices. As a result, extreme poverty is expected to increase. In the medium term, reforms supported by the new IMF program will help restore macro-stability and unlock growth potential. Delays in the implementation of energy reforms are the main risks to the outlook.

Key conditions and challenges

STP is a fragile and small island state constrained by remoteness, a small private sector, limited institutional capacity, and scarce human capital. Underdeveloped infrastructure, particularly unreliable and costly electricity, is a key challenge to growth and fiscal sustainability. STP is highly dependent on external concessional financing and has primarily pursued a "public expenditure-led" growth model. This model has become unsustainable due to the decline and volatility of grants. STP is especially vulnerable to climate change due to the high risk of drought, coastal erosion, and flooding.

In recent years, economic growth has slowed significantly due to the lingering effects of the COVID-19 pandemic, persistent power outages, climate shocks, and high commodity prices triggered by the heightened global geopolitical tensions. Also, delays in external financing disbursements reduced foreign exchange reserves to critical levels. The new government is committed to implement the needed structural reforms to restore macroeconomic stability and promote growth, particularly energy reforms. The authorities have introduced new fiscal measures such as the value-added tax (VAT) and fuel price adjustments. The government has also requested a new IMF program to support the reform agenda, which is also expected to mobilize additional concessional financing.

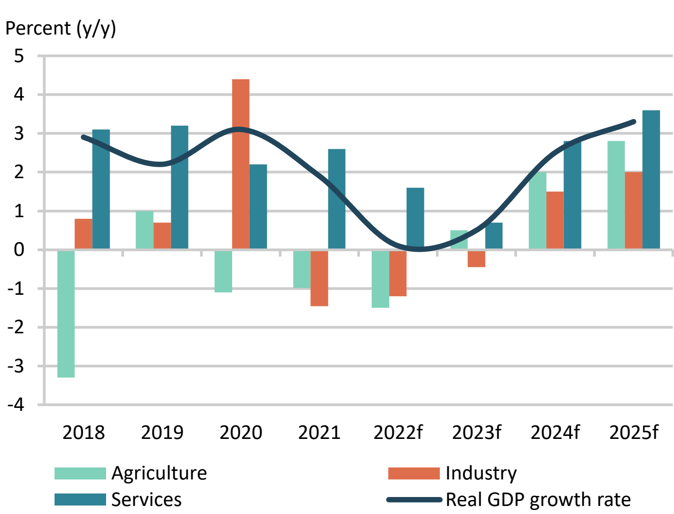
The main risks result from continued power shortages due to non-implementation of the energy reforms, higher commodity prices, lower external financing, slow recovery of the tourism sector. In addition, adverse climate events could continue to undermine the primary sector, affecting food production and exports.

Recent developments

Growth is estimated to have decelerated in the first half of 2023 due to recurrent energy shortage, aggravated by severe fuel shortages, and high commodities prices (food and fuel). Thus, the economy is expected to expand by only 0.5 percent driven by the rebound of the tourism sector, as monthly tourist arrivals have increased from 1,339 in January 2022 to 2,172 in January 2023. Tourism recovery is being propelled by the additional flight connections to STP and the complete removal of pandemic restrictions. In addition, higher global growth is driving strong demand for cocoa and palm oil, which lifted total goods exports by 5.8 percent year-on-year in June 2023.

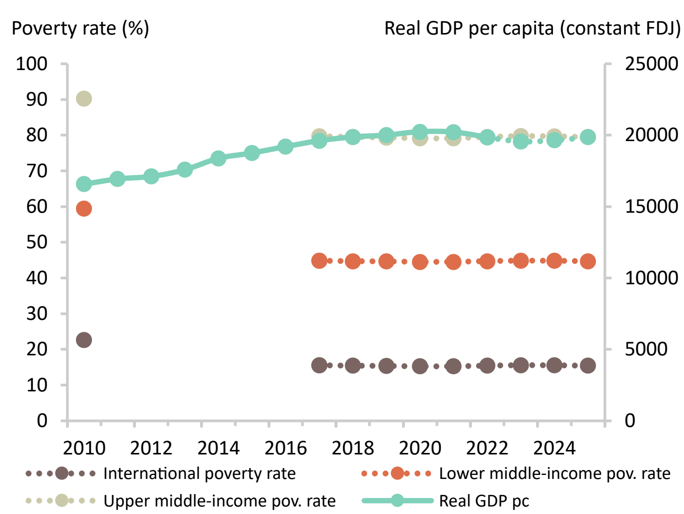
The current account deficit (CAD), excluding grants, has narrowed from US$ 20.2 million to US$ 15.6 million year-on-year in the first quarter of 2023 (H1) due to higher agricultural and tourism exports growth, which helped to partially offset the higher costs of imports, particulary food, fuel, and fertilizers. However, the lower-than-expected external financing disbursements have decreased net international reserves

FIGURE 1 São Tomé and Príncipe / Real GDP growth and contributions to real GDP growth



Sources: São Tomé and Príncipe authorities' data and IMF and World Bank staff estimates.

FIGURE 2 São Tomé and Príncipe / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

from US$ 23.3 million (equivalent to 1.5 months of imports) in April 2022 to US$ 12.3 million (0.8 months of imports) in May 2023 after being topped up by a currency swap between the central bank and Afreximbank in the amount of US$ 30 million. This transaction also aimed to protect the currency peg to the euro.

Fiscal performance has deteriorated due to a decline of 22.3 percent in grants in H1. But it is expected to improve due to the introduction of VAT, and resumption of grants disbursements. Public expenditures will be contained by a front-loaded fiscal adjustment under the new IMF program. As such, the domestic primary deficit (excluding oil and grants) is projected to reduce significantly from 5.7 percent in 2022 to 2.4 percent in 2023. Similarly, public debt will decrease from 92.3 percent to 89.2 percent of GDP over the same period. Inflation remained high at 25.4 percent in June 2023, reflecting continued pressure on prices of imported goods, and the fuel price adjustments in mid-2023. These dynamics are likely to further increase extreme poverty which is already high with 15.5 percent of the population living on less than US$2.15 per day (in 2017 PPP terms) in 2022.

Outlook

Real GDP growth is expected to recover to 2.5 percent in 2024 supported by a dynamic agricultural sector, stronger tourism rebound and continued implementation of externally funded infrastructure development projects. The CAD is projected to slightly narrow to 17.9 percent of GDP boosted by gains from cocoa and palm oil exports, expansion of tourism services along with a moderate decline in the import of oil products as the energy sector becomes more efficient.

The country's fiscal position is expected to further improve in 2024, thanks to the introduction of VAT in June 2023. Moreover, the implementation of the planned energy reforms as well as the gradual resumption of fiscal consolidation supported by the IMF program will contribute to a domestic primary surplus of around 0.5 percent of GDP in 2024. These measures are projected to drive a moderate decline in public debt in the medium term. While the introduction of the VAT is likely to lead to a temporary increase in prices, inflation is projected to drop to 7.2 percent by the end of 2024, owing to the continued support of the peg by the Central Bank and lower commodity price pressure. However, without appropriate welfare monitoring and targeted social support following the introduction of the VAT, the share of people living in extreme poverty is expected to slightly increase in 2023 and poverty reduction could stagnate in 2024, despite the positive growth prospects.

The outlook is subject to significant downside risks. Delays in the implementation of overdue energy reforms could intensify power shortages. Additional risks stem from the slower implementation of externally funded infrastructure projects which could subdue industrial activity and undermine economic growth. Further delays on the new IMF program could lead to uncertainty on external financing. Moreover, climate-related events could also strain the agricultural and fisheries sectors.

TABLE 2 São Tomé and Príncipe / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	3.1	1.9	0.1	0.5	2.5	3.3
Real GDP growth, at constant factor prices	2.3	1.6	0.9	0.5	2.5	3.3
Agriculture	-1.1	-1.0	-1.5	0.5	2.0	2.8
Industry	4.4	-1.5	-1.2	-0.5	1.5	2.0
Services	2.2	2.6	1.6	0.7	2.8	3.6
Inflation (consumer price index)	9.4	9.5	25.2	15.4	7.2	5.0
Current account balance (% of GDP)	-11.3	-18.6	-16.0	-19.3	-17.9	-16.6
Fiscal balance (% of GDP)	-4.9	-6.0	-6.1	-4.9	-2.9	-1.0
Revenues (% of GDP)	26.0	19.7	21.8	19.4	20.9	21.4
Debt (% of GDP)	87.6	91.6	92.3	89.2	86.5	84.2
Primary balance (% of GDP)	-4.5	-5.8	-5.6	-4.6	-2.5	-0.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	15.3	15.3	15.5	15.6	15.5	15.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	44.5	44.5	44.7	44.9	44.8	44.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	79.1	79.2	79.5	79.8	79.7	79.5
GHG emissions growth (mtCO2e)	1.2	0.9	0.6	1.0	1.6	1.8
Energy related GHG emissions (% of total)	37.0	37.1	37.1	37.4	38.0	38.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Projection using point to point elasticity at regional level with pass-through = 0.7 based on GDP per capita in constant LCU. Actual data: 2017. Nowcast: 2018-2022. Forecasts are from 2023 to 2025.
b/ Actual data: 2017. Nowcast: 2018-2022. Forecasts are from 2023 to 2025. Actual data: 2017. Nowcast: 2018-2022. Forecasts are from 2023 to 2025.

SENEGAL

Table 1	2022
Population, million	17.3
GDP, current US$ billion	27.7
GDP per capita, current US$	1598.7
International poverty rate ($2.15)[a]	9.2
Lower middle-income poverty rate ($3.65)[a]	37.6
Upper middle-income poverty rate ($6.85)[a]	74.4
Gini index[a]	38.3
School enrollment, primary (% gross)[b]	81.2
Life expectancy at birth, years[b]	67.1
Total GHG emissions (mtCO2e)	36.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2021).

Growth is projected to slow to 4.1 percent in 2023, reflecting the impact of domestic social unrest, while the fiscal deficit should narrow to 4.9 percent of GDP, following a commitment to fiscal consolidation. Growth should rebound to 8.8 percent in 2024 driven by hydrocarbon production. Risks are titled to the downside, including persistent inflation, a delay of hydrocarbon production, failure to eliminate energy subsidies and domestic and regional instability.

Key conditions and challenges

The implementation of the Emerging Senegal Plan has resulted in economic growth averaging 6 percent between 2014 and 2019, thanks to the dynamism of the agriculture and services sectors coupled with public and private investment in infrastructure. This has contrasted with persistent structural weakness, including productivity stagnation, limited human capital, slow poverty reduction, and increasing informality. Recent external shocks and inflation due to spillovers from Russia's invasion of Ukraine and political tensions linked to the 2024 Presidential elections have led to an upsurge in social unrest, leading to the periodic closure of businesses that disproportionately affects the service sector, deterring domestic and foreign investment. The situation is further exacerbated by growing regional instability, with multiple coups in neighboring countries, creating a more unpredictable outlook that threatens to undermine efforts to reduce poverty.

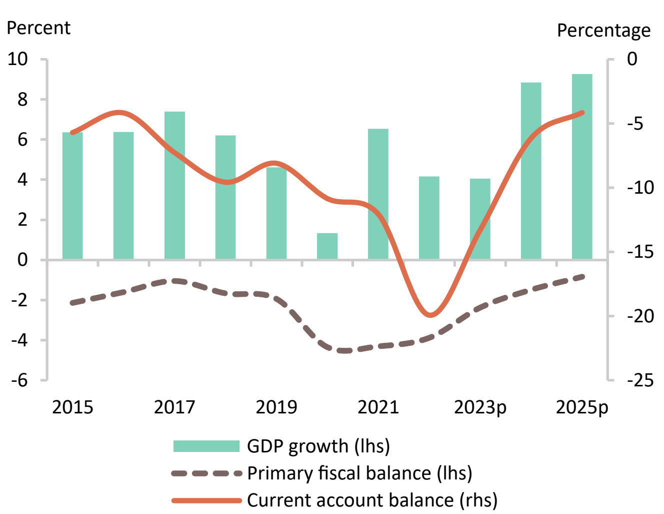
Persistent inflationary pressures have reduced households purchasing power, particularly for the most vulnerable, which have less flexibility to access alternative sources of income while tightening financial market conditions continue to drive up the cost of debt service and investment. Regressive energy subsidies remain significant, to the detriment of social and investment spending. The June 2023 Debt Sustainability Analysis assessed Senegal at moderate risk of debt distress with limited fiscal space to absorb shocks. Interest payments have risen rapidly in recent years, totaling 8.4 percent of public spending in 2022. Putting debt on a downward trajectory would require improved governance and enhanced public expenditures efficiency, creating space for more targeted social spending.

Recent developments

Senegal's GDP is expected at 4.1 percent in 2023 (1.4 percent per capita), with a downward revision from the previous MPO forecast of 4.7 percent growth reflecting the impact of social unrest in advance of elections in 2024, combined with higher inflation and monetary tightening. Social unrest has disrupted key sectors, reducing consumer spending and investment. The ICT and financial sectors are also set to contract, and foreign investment could decline, hampering growth prospects. Growth in the agriculture sector should be bolstered by a good rainy season and an increase in budgeted support services to FCFA 100 billion.

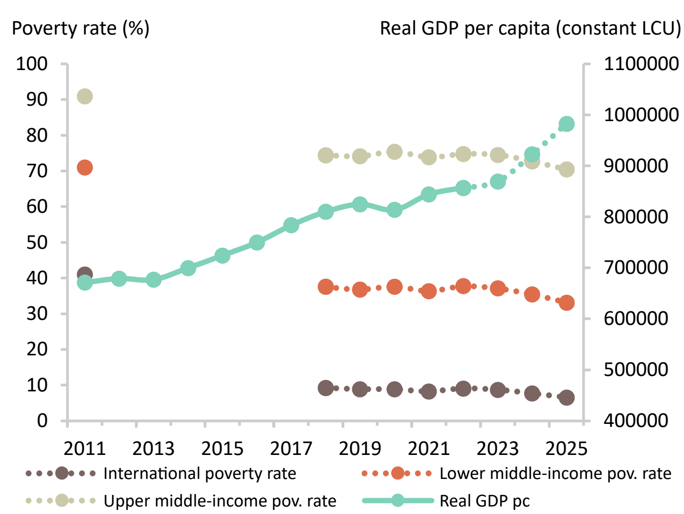
Using the international low middle income poverty line of $3.65 per person a day, poverty is expected to slightly decline to 37.1 percent in 2023 from 37.7 percent in 2022. The moderation in the downward trend is due to inflation remaining high (projected to average 5 percent at end-2023) while growth is expected to rebound in per capita terms in

FIGURE 1 Senegal / Evolution of main macroeconomic indicators



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

the agricultural sector, which employs 28 percent of the workforce, 51 percent of rural workers, and 48 percent of workers in poverty. Poverty could decline faster if the coverage and amount of social assistance payments increases, notably from savings due to the elimination of costly, regressive energy subsidies.

To counter inflation across WAEMU countries, the Central Bank of West African States raised policy interest rates by a cumulative 125 basis points since the start of 2022 to 3.25 percent for liquidity calls and 5.25 percent for the marginal lending facility. However, the monetary policy stance remains broadly accommodative, inflation is still above target, and foreign exchange reserves have been on a downward trend.

The fiscal balance is projected to narrow to 4.9 percent of GDP in 2023. While the authorities are committed to fiscal consolidation, expected tax policy reforms and the phasing out of costly, regressive energy subsidies look slower than anticipated, resulting in less financial resources channeled towards government social and investment priorities. The current account deficit (CAD) is projected to narrow to 13.3 percent in 2023, with the resumption of trade with Mali and the gradual decline in investment in the hydrocarbon sector.

Outlook

Growth is expected to increase to 8.8 percent in 2024 and 9.3 percent in 2025, driven by hydrocarbon production and public and private investments. Inflation is expected to gradually decline to 2 percent by 2025, relieving pressure on financing rates and enabling poverty reduction. The fiscal deficit is expected to meet the regional convergence criteria of 3 percent of GDP by 2025, thanks to fiscal consolidation efforts. As a result, public debt is set to decline to 69.1 percent by 2025 from 75.0 percent in 2022. The CAD is projected to narrow over the medium term to 4.2 in 2025, supported by hydrocarbon exports.

The combination of rising growth, accelerated by the production of hydrocarbons, good agricultural performance, and a decline in inflation to the 3 percent regional target should lead to a significant decline in poverty in 2024, with the incidence reaching 33.1 percent in 2025. However, sustaining more inclusive growth requires greater investment in human capital and adaptive social protection systems to help the vulnerable cope with shocks, along with a phasing out of regressive energy subsidies and more sustained domestic revenue mobilization efforts. Other risks to the outlook include a further delay in hydrocarbon production, poor agriculture performance due to climate variability, high regional interest rates persistent inflation, and continued social instability.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	1.3	6.5	4.2	4.1	8.8	9.3
Private consumption	2.3	3.1	2.9	2.0	6.0	6.4
Government consumption	0.8	13.3	6.4	6.2	6.1	5.5
Gross fixed capital investment	7.2	16.5	7.2	8.1	10.7	11.5
Exports, goods and services	-13.2	22.6	8.1	8.3	15.1	18.2
Imports, goods and services	7.0	15.5	23.8	5.7	6.9	8.9
Real GDP growth, at constant factor prices	1.9	6.3	3.9	4.1	8.8	9.3
Agriculture	12.2	0.6	-1.4	5.2	5.5	5.6
Industry	-1.5	7.8	1.1	3.2	16.9	22.3
Services	0.6	7.5	6.7	4.1	6.3	4.4
Inflation (consumer price index)	2.5	2.2	9.6	5.0	3.0	2.0
Current account balance (% of GDP)	-10.9	-12.1	-19.9	-13.3	-6.1	-4.2
Fiscal balance (% of GDP)	-6.4	-6.3	-6.1	-4.9	-3.9	-3.0
Revenues (% of GDP)	20.1	19.5	20.5	21.5	22.0	22.3
Debt (% of GDP)	69.1	73.3	75.0	75.9	71.9	69.1
Primary balance (% of GDP)	-4.3	-4.3	-3.9	-2.4	-1.5	-0.8
International poverty rate ($2.15 in 2017 PPP)[a,b]	8.8	8.2	9.1	8.7	7.7	6.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	37.6	36.4	37.7	37.1	35.4	33.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	75.4	73.9	74.8	74.5	72.7	70.4
GHG emissions growth (mtCO2e)	0.9	5.2	2.6	2.5	5.1	5.0
Energy related GHG emissions (% of total)	25.5	27.0	28.0	28.9	30.5	32.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projections using microsimulation methodology.

SEYCHELLES

Table 1	2022
Population, million	0.1
GDP, current US$ billion	1.6
GDP per capita, current US$	15931.5
International poverty rate ($2.15)[a]	0.5
Lower middle-income poverty rate ($3.65)[a]	1.2
Upper middle-income poverty rate ($6.85)[a]	6.7
Gini index[a]	32.1
School enrollment, primary (% gross)[b]	99.3
Life expectancy at birth, years[b]	73.4
Total GHG emissions (mtCO2e)	0.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2021).

GDP growth is expected to slow to around 4 percent in the medium-term, given reduced tourism receipts; and moderate global prices are expected to ease inflation. Slower growth is projected to marginally reduce poverty to 5.6 percent of the population in 2023. The government's effort to maintain fiscal sustainability while increasing resilience in the fisheries and tourism sectors is expected to keep the economy on a stronger footing in the medium term.

Key conditions and challenges

A rebound in tourism, coupled with prudent fiscal management, has supported the Seychelles' quick economic recovery from the COVID-19 pandemic. The tourism recovery and inflows of foreign exchange contributed to strengthen the Seychelles' currency, offsetting imported food and fuel inflation, and helping contain annual inflation in 2023. The rollback of COVID-19 supports measures, including a reduced wage bill and the scaling back of social programs, reduced spending and helped contain inflation.

However, the Seychelles remains vulnerable to external shocks. A global slowdown or a sudden drop in tourist arrivals could have severe negative impacts on growth. The decline of tourism-led foreign exchange inflows could spill over into a sharp weakening of the Seychelles rupee, with a high pass-through to inflation. Weaker prospects for external grants may limit financing options and weaken the balance of payments. Moreover, financial stability risks may arise from further increases in non-performing loans due to large exposures and credit concentration.

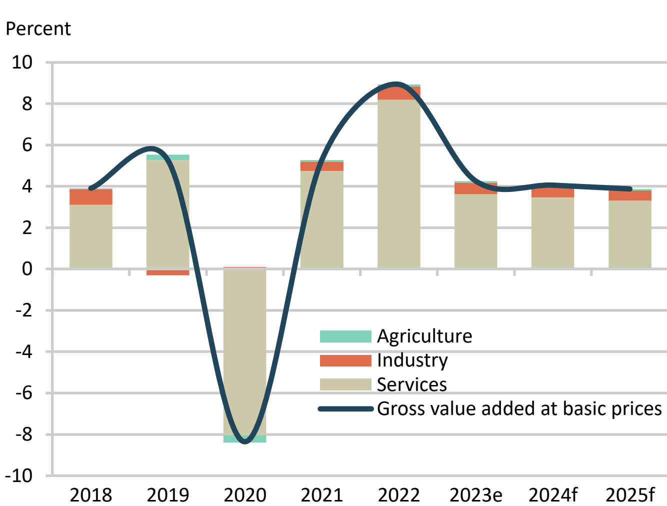
Sustaining high growth and macroeconomic stability requires increased efforts to address the country's high vulnerability to climate shocks. More than 4 percent of Seychelles' budget goes towards climate resilience measures, including strategic investments to address coastal flooding, erosion, and ecosystem degradation. Also, an environment levy on visitors was approved in the 2023 Budget. Seychelles aims to strengthen its climate resilience using mostly concessional financing, complemented by private sector efforts, given the country's clear climate change strategies and commitments and a public-private partnership law that can facilitate investment in green energy and eco-friendly transport.

Wage income has played a crucial role in reducing poverty levels, as more households participate in the labor market. Unfortunately, the rapidly growing rate of drug and alcohol addiction is becoming a challenge to labor market participation. This is increasing the country's reliance on migrant workers to sustain its growing tourism industry.

Recent developments

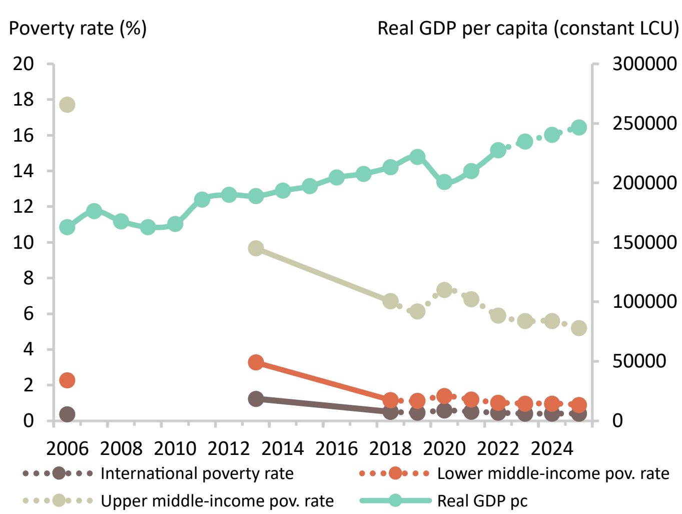
Real GDP is expected to grow by 4.3 percent in 2023, compared to 9 percent in 2022, owing to slower tourism growth. As of July 2023, tourist arrivals were 201,028, or about 93 percent of 2019 levels. The inflation rate contracted by 2 percent in July 2023, owing to continued currency appreciation, helped by declining global food and fuel prices. The Seychelles rupee appreciated to SRs13.5 per US dollar in 2023 from SRs14.3 per US dollar in 2022, owing to the robust performance of the tourism industry, which has resulted in sustained foreign exchange inflows.

FIGURE 1 Seychelles / Real GDP growth and sectoral contributions to real GDP growth



Sources: National Bureau of Statistics and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

The current account deficit is estimated to increase from 7.6 percent in 2022 to 9.5 percent of GDP in 2023, as tourism inflows moderate and imports rise, reflecting a rebound in capital investments. Foreign exchange reserves stood at US$728 million (3.1 months of imports) as of July 2023, due to higher foreign exchange demand for goods and services imports. The fiscal deficit increased from 1.6 percent of GDP in 2022 to 3 percent in 2023, reflecting an increase in capital expenditure due to some new projects financed by grants (a drug rehabilitation center, and a new hospital on La Digue island). Revenues remain buoyant, supported by efforts to improve tax administration and compliance through the Tax Amnesty Programme. Lower spending on wages and social programs, coupled with delayed capital spending helped reduce financing needs in 2022, contributing to lower public debt to 68.3 percent of GDP in 2023 from 69.9 percent of GDP in 2022.

Slower economic growth is also reflected in employment numbers. In 2023Q1, total employment increased by 3.7 percent while average earnings increased by 0.4 percent compared to 2022Q1, leading to a slight decrease in poverty levels, from 5.9 percent in 2022 to 5.6 percent in 2023.

Outlook

The outlook remains positive; however, a slowdown in GDP growth of 4 percent is expected in 2023-24, reflecting weak tourism earnings. The outlook for tourism earnings is subject to downside risks based on global developments that could lead to both lower arrivals and reduced spending by tourists. Growth will be supported by efforts to increase climate resilience in fisheries management while investing in new fish-processing units, and hotels (as well as renovation of existing establishments).

The ICT sector is expected to remain strong, in line with rapid increases in data traffic. A steady recovery is also expected in transportation and storage activities. Average inflation is projected to average 1.7 percent in the medium term, reflecting a moderation in global energy and food prices and recovering private consumption. The Seychelles rupee is expected to remain strong at SRs13.3 per US dollar by end-2024, supported by modest flows of foreign exchange into the tourism sector. The current account deficit is projected to average 10.4 percent of GDP in the medium term, due to lower tourism inflows and a decline in foreign direct investment inflows to hotels and resorts. The deficit will be financed by concessional loans and domestic borrowing. Foreign exchange reserves are projected to reach 3.6 months of imports by the end of 2024.

Continued fiscal consolidation is expected to put the country in a stronger fiscal position and improved investor confidence. A planned increase in the wage bill of 0.6 percent of GDP would be partially financed by cuts in allowances. The government will continue its targeted program of social support and temporary cash transfers to protect the most vulnerable and empower Seychellois to get well-paying jobs. Ongoing reforms to the social protection system will ensure its sustainability and promote increased labor force participation of working-age beneficiaries. This would contribute to reducing poverty.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-7.7	5.4	9.0	4.3	4.1	3.9
Private consumption	-5.1	4.2	6.6	6.5	6.0	3.5
Government consumption	17.0	7.3	2.6	1.2	1.4	1.4
Gross fixed capital investment	-11.4	3.3	2.8	1.9	1.3	0.9
Exports, goods and services	-25.2	9.2	9.2	2.6	2.2	3.4
Imports, goods and services	-15.5	7.7	3.1	2.0	1.4	1.2
Real GDP growth, at constant factor prices	-8.4	5.3	8.9	4.3	4.1	3.9
Agriculture	-12.5	3.1	3.5	3.1	2.9	2.7
Industry	0.6	2.5	3.7	3.3	3.1	3.0
Services	-10.0	6.0	10.3	4.5	4.3	4.1
Inflation (consumer price index)	1.2	9.8	2.6	0.9	1.4	2.0
Current account balance (% of GDP)	-14.0	-11.0	-7.6	-9.5	-10.1	-10.8
Net foreign direct investment inflow (% of GDP)	11.4	12.4	14.2	12.6	13.2	17.5
Fiscal balance (% of GDP)	-18.2	-6.4	-1.6	-3.0	-2.4	-1.4
Revenues (% of GDP)	35.2	36.1	33.7	35.8	36.3	35.9
Debt (% of GDP)	91.9	81.3	69.9	68.3	66.8	64.7
Primary balance (% of GDP)	-15.2	-3.2	0.7	-0.4	0.2	1.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.6	0.5	0.5	0.4	0.4	0.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	1.4	1.2	1.0	1.0	1.0	0.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	7.3	6.8	5.9	5.6	5.6	5.2
GHG emissions growth (mtCO2e)	-17.3	16.8	17.4	3.2	2.5	3.6
Energy related GHG emissions (% of total)	76.0	79.0	81.7	81.9	82.0	82.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2018-HBS. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2018) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

SIERRA LEONE

Table 1	2022
Population, million	8.6
GDP, current US$ billion	3.9
GDP per capita, current US$	457.4
International poverty rate ($2.15)[a]	26.1
Lower middle-income poverty rate ($3.65)[a]	64.3
Upper middle-income poverty rate ($6.85)[a]	89.9
Gini index[a]	35.7
School enrollment, primary (% gross)[b]	156.4
Life expectancy at birth, years[b]	60.1
Total GHG emissions (mtCO2e)	9.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2021).

The economy has been set back by a combination of exogenous shocks and policy slippages. Loose monetary and fiscal policies have aggravated the impact of exogenous shocks, resulting in soaring inflation, exchange rate pressures, and a rapid debt buildup. Record inflation has precipitated a cost-of-living crisis and intensified food insecurity. Looking ahead, a sustained growth momentum and a credible commitment to fiscal discipline will be crucial for restoring macroeconomic and social stability.

Key conditions and challenges

Economic development has been constrained by concurrent shocks and periods of weak economic management. Growth has been slower and more volatile during the past decade than before. Economic activities have remained concentrated in low-value-added agriculture, mining, and informal services, reflecting policy and institutional weaknesses in creating an enabling business environment and the prevalence of weak accountability and vulnerability to exogenous shocks. The COVID-19 pandemic and spillovers from the Russian invasion of Ukraine have exacerbated economic deterioration, with GDP growth slowing during 2020-2022 to less than 1/3rd of pre-pandemic average (2017-2019).

Macroeconomic management remains challenging. Fiscal and debt pressures have significantly intensified, while inflation has soared, driven by global supply shocks, and exchange rate depreciation. A rise in cost of living combined with weak growth threatens to increase poverty. Higher prices have squeezed household budgets, and poverty, food insecurity have worsened (affecting 57 percent of the population), affecting social and political stability.

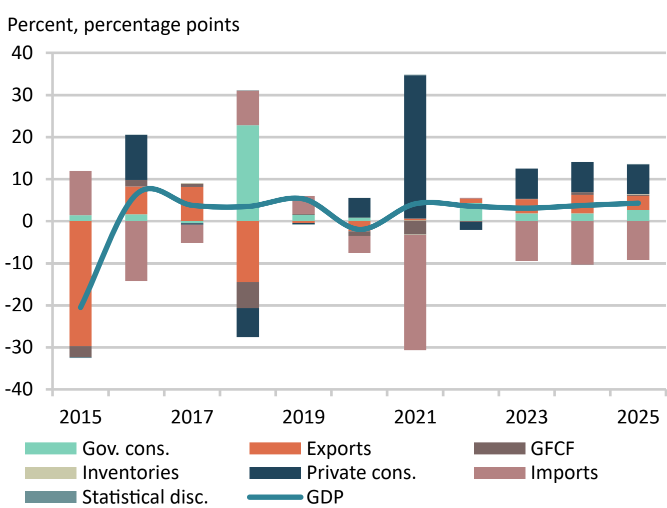
Recent developments

Economic growth surprised on the upside in 2022 due to strong mining production and fiscal overspend. GDP growth was estimated at 3.6 percent in 2022, only marginally lower than the post-pandemic rebound in 2021 (4.1 percent). This higher-than-expected growth was driven by robust agriculture, gains in iron-ore mining, and government spending, although the latter invoked higher inflation and fiscal deterioration. Preliminary 2023 data indicates that the growth momentum may have stalled as persistent inflationary pressures have eroded household consumption.

Inflationary pressures have persisted amidst a combination of global shocks, and policy slippages. Headline inflation averaged 27 percent while the Leone depreciated by over 40 percent during 2022 on the back of higher import prices and monetization of the fiscal deficit. These pressures have persisted in 2023, with inflation rising to a 26-year high of 44.9 percent (y-o-y) in July (the third highest in Sub-Saharan Africa) and the Leone depreciating further by 15 percent year-to-date. Food inflation rose to 60 percent y-o-y in July 2023. The Bank of Sierra Leone has raised rates since the start of 2022 by 500bps to 19.25 percent, but monetary policy effectiveness was limited by shallow financial markets and fiscal dominance.

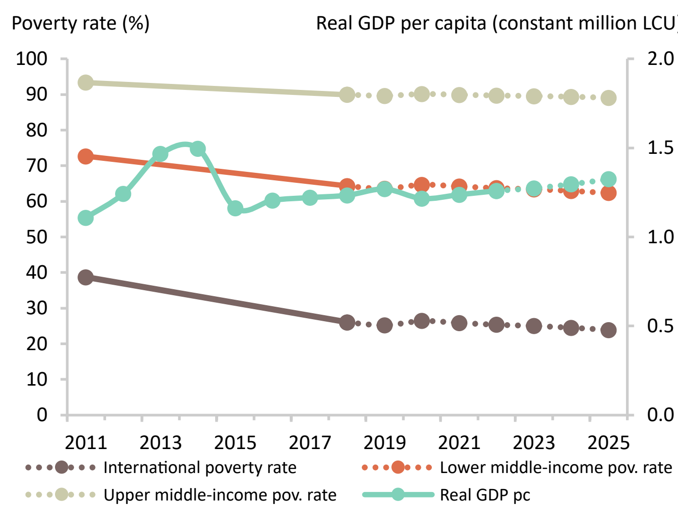
The fiscal position has worsened and risks to debt sustainability have intensified. The fiscal deficit widened to 9.6 percent of GDP in 2022 – 2pp higher than in 2021 – driven largely by higher-than-budgeted expenditures at 28.9 percent of GDP (7.7pp above target). Revenues came in slightly lower

FIGURE 1 Sierra Leone / Real GDP growth and contributions to real GDP growth



Sources: Statistics Sierra Leone and World Bank.

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



Source: World Bank. Notes: see Table 2.

than expected (1.1pp below target). The excess deficit was financed domestically, aided by BSL interventions in the secondary market. By end-2022, public debt rose to 96 percent of GDP (from 85 percent in 2021) and risks to debt sustainability had considerably intensified. External debt, mainly owed to multilaterals, constituted 2/3rd of the total; while the remaining is high-interest, short-term domestic debt. In early 2023, the government began tightening its policy stance to restore macro stability – this included expenditure restraint and the enactment of a revised Finance Act to improve revenue collections. These efforts facilitated the completion of a delayed IMF-ECF program review by its Board in June 2023.

The trade balance has improved marginally due to stronger exports. Exports grew by 50 percent during 2022 – and further by 19 percent y-o-y during the first half of 2023 – largely due to iron-ore. The current account deficit narrowed slightly to 8.5 percent of GDP in 2022, despite higher imports prices. However, gross reserves declined to 4 months of imports in 2022 (from 6 in 2021) and further to 3 months by August 2023 as capital inflows were insufficient, and as the BSL intervened to contain currency depreciation.

Although international poverty (US$2.15/person/day 2017 PPP) rates have declined since 2020, it remains higher than the pre-pandemic levels. The international poverty is projected at 25 percent in 2023, nearly the same level as 2019, due largely to the cumulative effects of economic contraction in 2020, followed by rising inflation, particularly food inflation which disproportionately affects the poor.

Outlook

Growth is projected to decelerate to 3.1 percent in 2023 against a backdrop of high inflation and fiscal consolidation, before converging to its long-term average of 4-4.5 percent in the medium-term. The projected recovery will be supported by mining and agricultural growth, and the gradual restoration of macro stability with a more supportive fiscal stance. Inflation will be influenced by global commodity prices and is expected to moderate only to 14.3 percent by 2025.

Maintaining fiscal discipline will be crucial in restoring macroeconomic stability and is contingent on the government's adherence to its stated reforms, including (i) sharp expenditure consolidation, followed by continued revenue mobilization efforts, and (ii) gradual reduction in net credit to government.

Poverty is expected to decrease gradually as households regain their purchasing power, to 23.9 percent in 2025 (US$2.15/person/day). The economy's outlook is tied to a limited number of exports, mostly minerals. However, the mining sector is capital intensive and has a limited impact on poverty reduction which requires higher agricultural productivity, infrastructure development, and human capital investments.

This outlook is subject to several downside risks. Recent fiscal slippages have raised concerns about budget credibility and macro stability. Risks to debt sustainability will remain elevated until fiscal balances improve further, and the reliance on expensive domestic borrowings is addressed. Severe climate vulnerabilities and inflation could increase food insecurity and social tensions and affect reform appetite.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-2.0	4.1	3.5	3.1	3.7	4.3
Private consumption	5.4	36.7	-1.5	6.2	6.0	5.8
Government consumption	2.7	0.6	13.7	5.5	5.2	7.4
Gross fixed capital investment	-9.6	-30.0	-3.3	2.2	8.6	5.2
Exports, goods and services	-9.8	1.9	5.0	15.0	18.0	12.0
Imports, goods and services	7.5	46.6	-0.3	11.9	12.0	9.9
Real GDP growth, at constant factor prices	-2.0	4.0	3.6	3.1	3.7	4.3
Agriculture	1.6	2.5	3.0	2.7	3.2	3.3
Industry	-7.1	17.4	8.2	5.0	6.0	6.6
Services	-5.8	2.8	3.3	3.2	3.7	5.0
Inflation (consumer price index)	13.5	11.9	27.0	35.0	19.8	14.3
Current account balance (% of GDP)	-6.8	-8.7	-8.5	-7.2	-6.6	-5.9
Net foreign direct investment inflow (% of GDP)	3.3	8.5	8.5	6.4	5.6	4.1
Fiscal balance (% of GDP)	-6.7	-7.6	-9.6	-5.9	-3.8	-4.3
Revenues (% of GDP)	19.0	21.1	19.6	19.9	22.4	22.6
Debt (% of GDP)	78.0	84.7	96.3	88.0	79.0	77.3
Primary balance (% of GDP)	-3.7	-4.2	-6.2	-1.4	1.7	1.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	26.4	25.9	25.4	25.0	24.5	23.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	64.6	64.2	63.7	63.4	62.9	62.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	90.1	89.9	89.7	89.6	89.3	89.1
GHG emissions growth (mtCO2e)	-1.4	0.8	3.2	2.4	2.9	3.3
Energy related GHG emissions (% of total)	9.1	9.1	8.7	8.4	8.1	7.8

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 2011-SLIHS and 2018-SLIHS. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection using point-to-point elasticity (2011-2018) with pass-through = 0.4 based on GDP per capita in constant LCU.

SOMALIA

Table 1	2022
Population, million[a]	15.6
GDP, current US$ billion[b]	10.4
GDP per capita, current US$	667.3
Gini index[c]	35.2
School enrollment, primary (% net)[c]	25.0
Life expectancy at birth, years[d]	55.3
Total GHG emissions (mtCO2e)	42.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Estimates based on 2013 population estimates by UNFPA and assume an average annual population growth of 2.8%.
b/ Somalia released new GDP series (2017-22) in June 2023, rebasing the old series.
c/ Somalia Integrated Household Budget Survey 2022 (SNBS, 2023).
d/ Most recent WDI value (2021).

The economy is expected to record a modest recovery due to improved agriculture conditions and easing inflation. Real GDP growth is projected at 3.1 percent in 2023, picking up after a prolonged severe drought and high commodity prices. Better rains are boosting agriculture production and private consumption. Food inflation slowed to 3.6 percent in January-July 2023 from a double-digit rate a year ago. Nevertheless, poverty remains high and widespread, estimated at 73 percent in 2023.

Key conditions and challenges

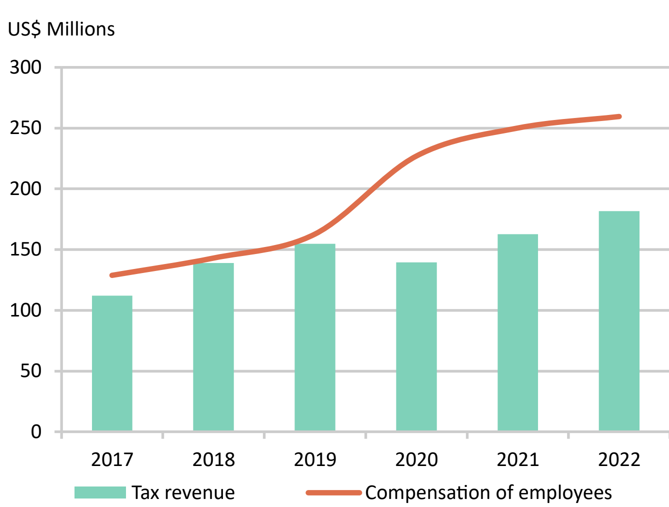
Somalia continues to contend with increasingly frequent shocks in the context of widespread fragility, conflict, and violence. Recurrent climate-related shocks such as cycles of droughts, floods, locusts' infestation, higher international commodity prices, as well as increased insecurity and conflict have interrupted the country's growth trajectory and slowed the transition from fragility. Real GDP growth averaged only 2 percent per year in 2018–22, while real GDP per capita growth averaged -0.8 percent per year. Repeated shocks have eroded households' asset base and purchasing power, increasing the risk of more people falling into poverty. Labor force participation rates are exceptionally low with large gender gaps. Only one-third of men and 12 percent of women participate in the labor market. Accelerating the momentum in building institutions and developing resilience is fundamental for growth, poverty reduction, and transition from fragility.

Somalia is anticipated to reach the Completion Point of the Heavily Indebted Poor Countries (HIPC) initiative by the end of 2023. Somalia will then receive full and irrevocable debt relief. To avoid falling back into debt distress once the country is again able to borrow to finance development needs, the government will need to rely solely on concessional finance and carefully manage public debt. Currently, the government has limited fiscal space to respond to shocks and development priorities, including taking over the provision of security services as the withdrawal of the African Union Peacekeeping Mission (ATMIS) continues through 2024. The country therefore needs to continue strengthening its macroeconomic stability, raise domestic revenues, prioritize public expenditures to promote economic growth and poverty reduction, and ensure that debt levels remain sustainable.

Recent developments

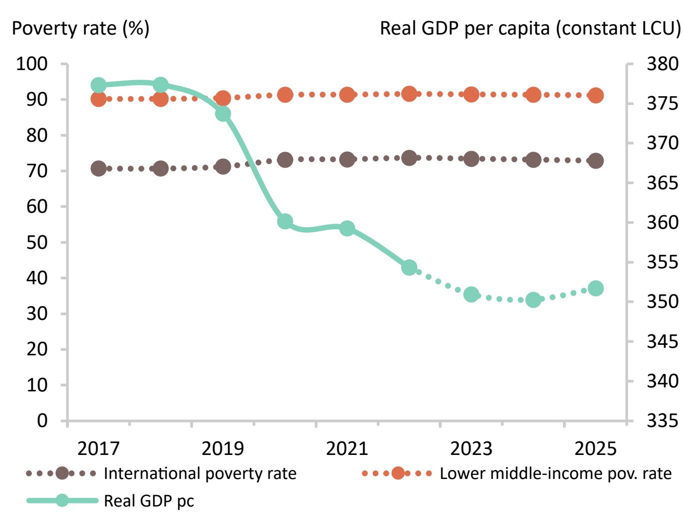
The economy is expected to record GDP growth of 3.1 percent (see Table 2) as the country emerges from the severe 2020/23 drought. The April–June Gu rainfall season is boosting agricultural production, reducing food insecurity, and supporting private consumption, the main driver of growth. Sustained growth in remittances and private sector credit contributed to strengthening of construction, real estate, and investment. Though improving, net exports continue to be a drag on growth because the economy remains heavily import-dependent. Moreover, livestock production, the main source of export earnings, will remain constrained as it will take longer for pastoralists to rebuild their herds, especially in the worst drought-affected areas. The trade deficit, estimated at 58 percent of GDP in 2023, will continue to be financed by official grants and remittances.

FIGURE 1 Somalia / Federal government of Somalia tax revenue and compensation of employees



Sources: Somalia Authorities and World Bank estimates.

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



Source: World Bank. Notes: see Table 2.

Price growth moderated in 2023, following high spikes in 2022. Overall inflation has eased to 6 percent in July 2023 (y-o-y) compared to 6.7 percent in July 2022, driven by declining food prices. The onset of a favorable 2023 Gu harvest season has resulted in continued easing of local staple food prices. Food inflation averaged 3.6 percent in the first seven months of 2023, compared to 13.9 percent during the same period in 2022. Similarly, global fuel and wheat prices have declined from their peaks in 2022. They declined by 27 percent and 20 percent in February - July 2023 respectively, compared to the same period in 2022.

The fiscal situation remains challenging. While domestic revenue mobilization has improved over time, it remains low. In the first half of 2023, overall domestic revenue collection reached 1.2 percent of GDP, compared to 1.1 percent a year ago. The Federal Government of Somalia (FGS) is constrained to finance its wage bill and transfers to Federal Member States (FMS). In 2022, domestic revenue provided for only 77 percent of spending on FGS wage bill and intergovernmental transfers, the rest was covered by external grants. To improve fiscal sustainability and maintain prudent fiscal policy, the government will need to fast-track the numerous efforts underway to increase domestic revenue as well as constrain its wage bill and its reliance on external donor funds.

Poverty remains high. Projections based on GDP per capita growth suggest poverty has increased from 71 percent in 2017 to 73.7 in 2022, based on the 2017 poverty line. According to the 2022 Integrated Household Budget Survey, poverty rates are larger among the nomadic population, however, due to the country's high urbanization, the majority of the poor are in urban areas. While the international community has provided support in the form of food assistance, an expansion of social safety net programs, and support to informal settlers in urban areas, people remain vulnerable to falling below the poverty line. In a context of increasing global shocks, there are competing demands for limited ODA, underscoring the importance of Somalia strengthening resilience through advancing reforms to support growth, food security, and the provision of basic services.

Outlook

Medium-term recovery is projected to be modest as risks remain significant. Real GDP growth is projected to expand to 3.5 percent in 2024 and 3.8 percent in 2025, slightly outpacing the estimated population growth of 2.8 percent. Economic reforms and post-HIPC investor confidence should attract FDI and encourage increased broad-based private sector activity, which will gradually boost the low domestic productive capacity. The growth projections are also anchored on a gradual recovery of the agriculture sector and continued easing of the global commodity prices. Nonetheless, the outlook is subject to significant risks including climatic shocks, security threats, and global economic shocks.

The poverty rate is projected to remain at around 73 percent between 2023 and 2025. Accelerating the pace of poverty reduction will require policy interventions and public investments that raise productivity, strengthen resilience, create jobs, and expand pro-poor programs that focus on women and youth.

TABLE 2 Somalia / Macro poverty outlook indicators (percent of GDP unless indicated otherwise)[a]

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-2.6	3.3	2.4	3.1	3.5	3.8
CPI Inflation, annual percentage change	4.3	4.6	6.8	4.2	3.8	3.6
Current Account Balance	-11.1	-9.7	-15.2	-12.8	-11.3	-11.8
Trade balance	-50.4	-50.9	-61.2	-58.5	-56.5	-57.8
Private remittances	17.4	21.5	20.6	21.6	22.2	23.1
Official grants	22.8	20.7	25.9	24.6	23.3	23.2
Fiscal Balance[b]	0.3	-0.8	-0.1	-0.2	-1.2	-1.4
Domestic revenue	2.3	2.3	2.5	2.5	2.7	3.0
External grants	3.2	1.5	4.4	3.6	2.6	2.0
Total expenditure	5.2	4.7	7.0	6.3	6.5	6.4
Compensation of employees	2.5	2.5	2.5	2.5	2.4	2.4
External debt	42.5	35.6	31.3	4.9	6.1	7.2
International poverty rate ($2.15 in 2017 PPP)[c,d]	73.1	73.3	73.7	73.4	73.2	72.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	91.4	91.4	91.6	91.5	91.4	91.2
GHG emissions growth (mtCO2e)	-0.2	0.0	0.0	0.0	0.0	0.0
Energy related GHG emissions (percent of total)	1.6	1.6	1.6	1.6	1.7	1.7

Sources: Federal Government of Somalia, IMF, and World Bank staff estimates. Emissions data sourced from CAIT and OECD.
Notes: e = estimate; f = forecast.
a/ GDP baseline estimates 2020-22 are by Somalia National Bureau of Statistics (SNBS, June 2023).
b/ Federal Government of Somalia (FGS).
c/ Calculations based on Takamatsu et al. (2022) "Rapid Consumption Method and Poverty and Inequality Estimation in Somalia Revisited." Actual data: 2017. Nowcast: 2020–22. Forecasts are from 2023–25.
d/ Projection using neutral distribution (2017) with pass-through = 1 (High) based on GDP per capita in constant LCU.

SOUTH AFRICA

Table 1	2022
Population, million	59.9
GDP, current US$ billion	405.3
GDP per capita, current US$	6766.5
International poverty rate ($2.15)[a]	20.5
Lower middle-income poverty rate ($3.65)[a]	40.0
Upper middle-income poverty rate ($6.85)[a]	61.6
Gini index[a]	63.0
School enrollment, primary (% gross)[b]	97.4
Life expectancy at birth, years[b]	62.3
Total GHG emissions (mtCO2e)	586.4

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

South Africa's economy is slowing sharply, hampered by the acute energy crisis, transport bottlenecks, and other structural constraints. Real GDP growth is projected at 0.5 percent in 2023 and around 1.5 percent over the medium term. Inflation is declining thanks to lower commodity prices and monetary policy tightening. Job creation is anticipated to remain weak, constraining poverty reduction. Fiscal policy remains prudent but spending pressures are elevated, especially ahead of general elections next year.

Key conditions and challenges

South Africa is stuck in a trajectory of low growth, high unemployment, high poverty, and high inequality, driven by a lack of structural reforms and inefficient investment in and management of public infrastructure. In the past two years, rolling scheduled power cuts (loadshedding) intensified exponentially, and to date in 2023, they already exceed the level reached in 2022. The overall cost of loadshedding is estimated at between 6 percent and 15 percent of GDP. Growing maintenance problems and infrastructure theft have also taken a toll on port and rail performance, affecting transport corridors and creating bottlenecks for trade. This weak growth is insufficient to generate jobs to reduce unemployment, poverty, and inequality, which remains among the highest in the world.

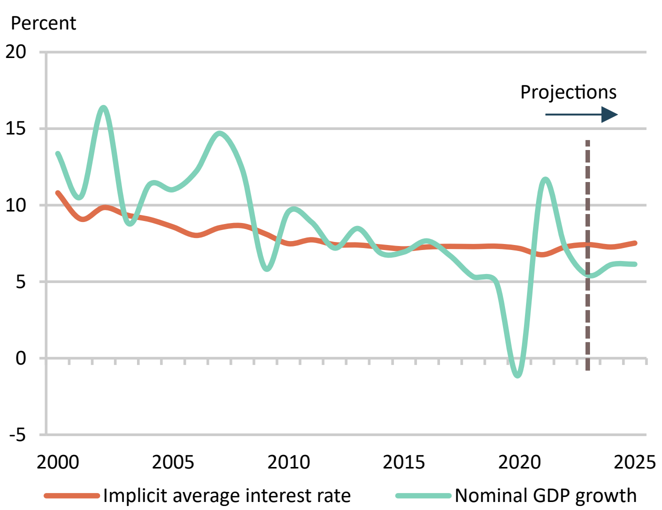
Macroeconomic policies are relatively sound. Fiscal policy has been prudent despite spending pressures, and monetary policy has tightened in response to rising inflation. The fiscal deficit declined from 9.9 percent of GDP in FY2020/21 to 4.2 percent of GDP in FY2022/23. The central bank gradually increased the policy rate from 3.5 percent in October 2021 to 8.25 percent in May 2023.

South Africa needs to grow faster to escape the middle-income trap; reduce unemployment, poverty, and inequality; and preserve long-term fiscal sustainability. Confronted with the emergency of the energy crisis, the government has begun to act, but reforms need to be bolder and implemented faster. Raising productivity will require investing in public infrastructure and human capital, promoting innovation, and strengthening institutions to restore private sector confidence. Given the limited fiscal space, improving the efficiency of public spending is also critical.

Recent developments

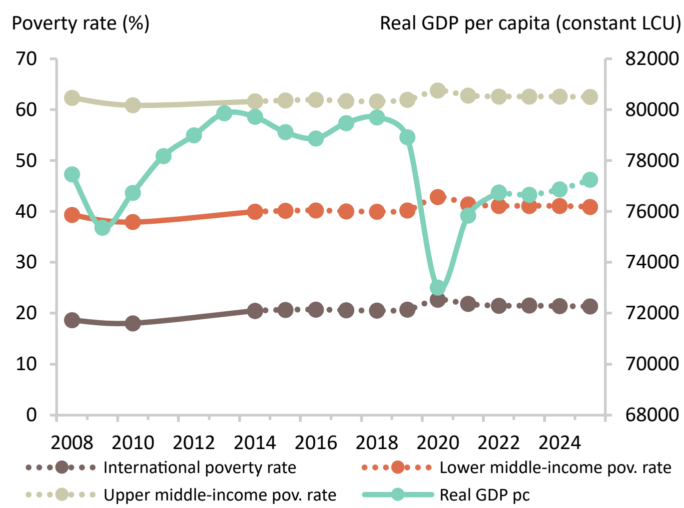
GDP growth declined to 1.9 percent in 2022 from 4.7 percent in 2021, and to 0.9 percent in 2023H1. On the spending side, household consumption continued to be the main growth driver, but its support is fading. It increased by 0.7 percent annually over the first half of 2023 against 2.5 percent in 2022. On the production side, services sectors have been the main drivers of growth over 2023H1. Mining and manufacturing have been particularly affected by loadshedding. The unemployment rate remains extremely high at 32.6 percent in June 2023 (42.1 percent when including discouraged job seekers). The labor absorption rate is low due to the weak economy. Based on the upper-middle-income poverty line, the poverty rate was estimated at 62.6 percent in 2022, with about 1.5 million more people living in poverty compared to 2019. Inflation is decreasing but remains above the central bank's 3-6 percent target range, averaging 6.6 percent in 2023H1. High fuel and food inflation has hit low-income households the hardest.

FIGURE 1 South Africa / Public debt dynamics are unfavorable



Sources: National Treasury, IMF WEO, and World Bank.

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



Source: World Bank. Notes: see Table 2.

The global environment has become less supportive and domestic factors have also contributed to the weakening of South Africa's external sector. Global risk aversion has resulted in rand depreciation and portfolio outflows, reinforced by the greylisting of the country by the Financial Action Task Force in February 2023. South Africa's terms of trade deteriorated by 15.3 percent between 2021Q2 (historical high) and 2023Q2. This, combined with domestic floods and strikes at the ports, led to a continued reduction in the trade surplus and a return to current account deficits of 0.5 percent of GDP in 2022 and 1.6 percent of GDP in 2023H1, financed by net financial inflows. International reserves increased by nearly $1 billion over 2023H1, to US$61.6 billion at the end of June. On the fiscal side, tax collection over April-July 2023 has been significantly weaker than over the previous two years.

Outlook

GDP growth is projected at 0.5 percent in 2023 and is expected to stabilize at around 1.5 percent over the medium term as reforms in the energy sector are anticipated to support a reduction in loadshedding and a pick-up in activity. However, the slow pace of other structural reforms will continue to limit South Africa's growth potential. Inflation is projected to decrease progressively, from 6 percent in 2023 to 4.5 percent by 2025. The unemployment rate is projected to remain above 32 percent throughout the projection period and the poverty rate to decline only slightly to 62.5 percent by 2025.

Lower commodity prices and transport bottlenecks are expected to continue to constrain the external sector, leading to persistent current account deficits slightly above 2 percent of GDP over the medium-term. These deficits are expected to be financed by net financial inflows.

The government is expected to continue restraining expenditure growth to reduce fiscal deficits, whose trajectory will be impacted by the debt-relief arrangement with Eskom and lower revenue because of weaker commodity prices. The deficit is projected to reach 5.9 percent of GDP in FY2023/24 and to improve to 4.5 percent of GDP in FY2026/27, after the end of the Eskom deal. The public debt-to-GDP ratio is projected to increase, reaching 72.3 percent in FY2023/24 and 76.3 percent in FY2025/26.

Risks are significant. Externally, South Africa is exposed to portfolio flows reversals and increases in global interest rates. Higher energy prices could affect domestic inflation, complicating monetary policy in a context of weak domestic demand. The country is also vulnerable to climate shocks. Domestically, South Africa is vulnerable to a slowdown in structural reforms ahead of next year's elections. Fiscal risks are high, with spending pressures on public sector wages, social and state-owned enterprise transfers, and rising debt-service payments. Improving primary balances is critical to ensure debt sustainability in a context of unfavorable debt dynamics, as economic growth is projected to be lower than the average interest rate on public debt.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-6.0	4.7	1.9	0.5	1.5	1.6
Private consumption	-6.1	5.8	2.5	0.7	1.9	1.5
Government consumption	0.9	0.5	1.0	2.1	0.5	0.9
Gross fixed capital investment	-14.6	0.6	4.8	5.3	4.8	4.2
Exports, goods and services	-12.0	9.1	7.4	3.2	3.0	3.0
Imports, goods and services	-17.6	9.6	14.9	6.0	4.5	3.5
Real GDP growth, at constant factor prices	-5.5	4.4	1.9	0.5	1.5	1.6
Agriculture	17.8	7.4	0.9	0.9	2.0	2.0
Industry	-12.1	6.2	-2.5	-1.6	0.5	1.1
Services	-4.1	3.8	3.4	1.1	1.8	1.7
Inflation (consumer price index)	3.3	4.5	6.9	6.0	4.9	4.5
Current account balance (% of GDP)	1.9	3.7	-0.5	-2.0	-2.1	-2.2
Net foreign direct investment inflow (% of GDP)	1.5	9.7	1.6	0.9	1.2	1.2
Fiscal Balance (% of GDP)[a]	-9.9	-4.6	-4.2	-5.9	-5.5	-6.0
Revenues (% of GDP)	25.1	27.8	28.5	27.7	27.5	27.5
Debt (% of GDP)	70.1	67.9	71.2	72.3	73.8	76.3
Primary balance (% of GDP)	-5.7	-0.4	0.5	-0.9	-0.5	-0.8
International poverty rate ($2.15 in 2017 PPP)[b,c]	22.6	21.7	21.5	21.6	21.5	21.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	42.7	41.4	41.1	41.3	41.1	41.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	63.6	62.8	62.6	62.7	62.6	62.5
GHG emissions growth (mtCO2e)	-2.5	3.2	3.7	-2.6	0.8	1.5
Energy related GHG emissions (% of total)	77.7	78.3	78.8	78.3	78.2	78.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ The Eskom debt-relief arrangement is reported above the line, in expenditures.
b/ Calculations based on 2014-LCS. Actual data: 2014. Nowcast: 2015-2022. Forecasts are from 2023 to 2025.
c/ Projection using neutral distribution (2014) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

SOUTH SUDAN

Table 1	2022
Population, million	11.4
GDP, current US$ billion	5.2
GDP per capita, current US$	457.9
International poverty rate ($2.15)[a]	67.3
Lower middle-income poverty rate ($3.65)[a]	86.5
Upper middle-income poverty rate ($6.85)[a]	96.6
Gini index[a]	44.1
School enrollment, primary (% gross)[b]	73.0
Life expectancy at birth, years[b]	55.0
Total GHG emissions (mtCO2e)	60.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ WDI for School enrollment (2015); Life expectancy (2021).

Falling oil production will drag on growth for a fourth consecutive year, albeit at a lessening pace. Climate and external shocks, declining official development assistance, coupled with structural challenges related to weak governance, inadequate service delivery, and ongoing localized conflict, contributed to high levels of food insecurity and widespread extreme poverty. The conflict in Sudan poses acute downside risks to South Sudan's macroeconomic stability amid limited fiscal resources and pressing humanitarian needs.

Key conditions and challenges

A decade after independence, South Sudan's development prospects remain constrained by fragility amid localized/intercommunal conflict. A 2018 peace agreement ended five years of civil war; however, the transition period needed for its full implementation has been extended until 2025. The country is vulnerable to climate change and external shocks. Oil accounts for nearly all exports and around 90 percent of government revenues. A modest economic recovery in 2019 was upended by historic floods and the COVID-19 pandemic.

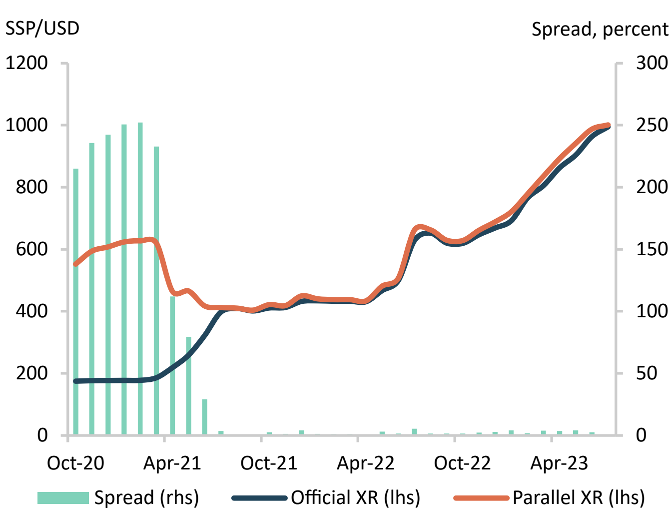
Since 2021, reforms initiated under an IMF staff-monitored program have helped improve macroeconomic and price stability. Higher oil prices following the war in Ukraine have supported foreign exchange buffers and fiscal revenues, although expenditures have also increased. Poverty remains dire, with 7 in 10 people living in extreme poverty. Some 8.9 million people, comprising 78 percent of the population, face severe food insecurity, which is made worse by higher global food prices and domestic floods. In addition, 2.2 million people are internally displaced (55 percent of whom are women and girls), and 2.3 million remain refugees in neighboring countries. South Sudan is receiving returnees and refugees displaced by the conflict in Sudan. About 140,000 people have crossed the border since April 2023, of which 91 percent are South Sudanese returnees.

External risks stem from adverse global oil and food price developments; acute macroeconomic risks will materialize if oil pipeline routes through Sudan are disrupted by the conflict there. Implementing the 2018 peace deal is essential for domestic peace and the resumption of growth. Macroeconomic, governance, and transparency reforms need to be urgently implemented to ensure scarce resources are spent on development needs and to facilitate a sustainable and inclusive economic recovery. Reforms and investments are especially critical in agriculture, which supports livelihoods for 80 percent of the population; these will help to support diversification away from the oil sector, create jobs, and build resilience to climate change.

Recent developments

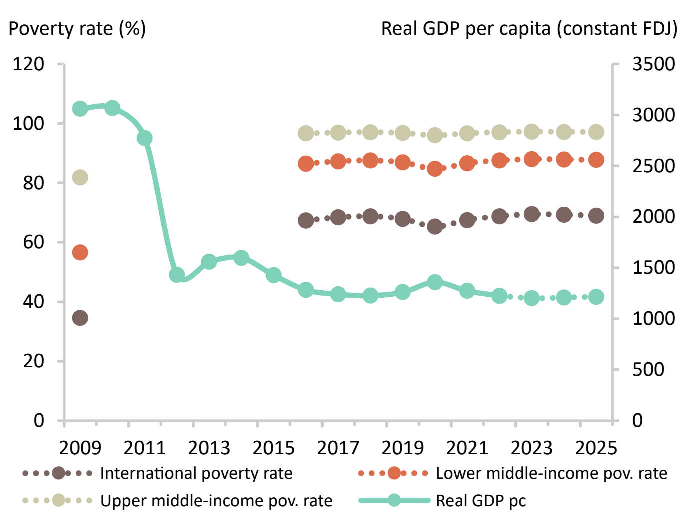
Economic activity remained weak in FY2022/23 due to a fourth consecutive year of flooding and reduced agricultural yields, flare-ups of violence, and higher food inflation due to the war in Ukraine and lingering impacts of the COVID-19 pandemic. Oil production fell by 8.8 percent in FY2022/23 due to floods and low investments in oil fields. These dynamics reduced households' purchasing power and worsened food insecurity. GDP is estimated to have contracted by 0.4 percent in FY 2022/23, following a 2.3 percent decline the previous year.

FIGURE 1 South Sudan / Exchange rate developments



Sources: Bank of South Sudan and World Bank.

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



Source: World Bank. Notes: see Table 2.

After briefly turning negative at end-2022, inflation averaged 18 percent between January and July 2023 due to the weakening currency. Despite the onset of the conflict in Sudan and drawdowns on foreign exchange reserves at the central bank, the premium over the official exchange rate has remained narrow (below 1 percent), indicating improved open market operations under the term deposit facility, newly introduced instrument by the central bank, and regulatory tightening on parallel market operators.

Notwithstanding higher oil revenues, fiscal pressures proved greater than anticipated in FY2021/22. Expenses exceeded planned outlays by 68 percent, causing the government to revert to oil advances and monetary financing of the fiscal deficit in mid-2022. Higher oil prices, and revenue and customs administration reforms lifted overall revenues by 83 percent in real terms. The FY2023/24 draft budget envisages increases in capital expenditures, a 130 percent increase in public sector salaries to protect against the impacts of inflation, and rising transfers to regions, which will further widen the fiscal deficit and may require the government to either accumulate salary arrears or deficit monetization. Data for FY23Q1 show continued overdrafts at the central bank and use of oil advances to finance the budget. Public financial management reforms to strengthen expenditure controls and cash management have been initiated, including an integrated financial management system. But there is limited transparency on oil revenues, including servicing of non-concessional external debt. South Sudan remains at high risk of debt distress for both external and domestic debt.

Despite increased oil receipts and weaker demand for capital imports, the current account balance widened in line with rising food import costs, increased repatriation of investor profits, and continued transfers to Sudan as part of the transitional financial arrangement under the peace deal.

Outlook

Growth is expected to remain negative in FY2023/24, with oil production projected to drop by 7 percent. Nonetheless, higher government current spending and expanding domestic credit should support a recovery in the non-oil sector, with farm output also expected to improve as floods eventually recede.

Over the medium term, growth should rise to above 2 percent as oil output recovers and non-oil activity improves, supported by higher government outlays on critical public investments, health, and education, and moderating inflation. This outlook is predicated on prudent monetary and fiscal policies that anchor macroeconomic stability; progress on governance, transparency, and structural reforms; and steady implementation of the peace deal. The pressure on the current account balance is expected to increase due to higher debt-service obligations, a decline in oil prices, and a decline in international aid.

Poverty is tenacious expected to remain stagnant at around 70 percent in the medium term as real growth prospects are limited. Addressing this reinforces the urgency of fiscal and PFM reforms that generate budgetary resources to increase social expenditures. While efforts to modernize tax administration using digital solutions and expand the tax base will help, fiscal pressures will remain substantial given sizable debt-service obligations, a reduction in legacy arrears, and increasing social and humanitarian expenditures. It is thus also vital to strengthen the management and transparency of oil revenues.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	9.5	-5.1	-2.3	-0.4	-0.2	2.1
Real GDP growth, at constant factor prices	9.5	-5.1	-2.3	-0.4	-0.2	2.1
Agriculture	6.0	-4.0	-1.8	-1.4	2.8	2.8
Industry	27.5	-2.3	-4.8	-5.4	-4.1	0.5
Services	-9.6	-9.7	1.7	7.7	4.5	4.0
Inflation (consumer price index)	33.3	43.1	22.0	18.0	16.1	8.5
Current account balance (% of GDP)	-20.3	-5.5	-1.5	1.9	1.9	1.8
Net foreign direct investment inflow (% of GDP)	-0.4	0.9	1.0	-0.3	-0.6	-0.9
Fiscal balance (% of GDP)	-9.8	-6.8	-6.1	-4.1	-4.6	-4.9
Revenues (% of GDP)	29.5	30.9	30.1	31.2	30.5	30.2
Debt (% of GDP)	40.7	57.6	59.5	52.3	53.2	55.9
Primary balance (% of GDP)	-7.8	-4.4	-4.0	-2.8	-3.5	-3.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	65.3	67.5	68.8	69.5	69.3	69.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	84.7	86.6	87.6	88.0	87.9	87.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	96.1	96.7	97.1	97.2	97.2	97.1
GHG emissions growth (mtCO2e)	-0.2	0.6	0.1	0.0	0.1	0.4
Energy related GHG emissions (% of total)	3.0	2.9	2.9	2.9	3.0	3.1

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 2016-HFS-W3. Actual data: 2016. Nowcast: 2017-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2016) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

SUDAN

Table 1	2022
Population, million	46.9
GDP, current US$ billion	51.7
GDP per capita, current US$	1102.2
International poverty rate ($2.15)[a]	15.3
Lower middle-income poverty rate ($3.65)[a]	49.7
Upper middle-income poverty rate ($6.85)[a]	86.2
Gini index[a]	34.2
School enrollment, primary (% gross)[b]	79.0
Life expectancy at birth, years[b]	65.3
Total GHG emissions (mtCO2e)	126.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2017 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2021).

Broad destruction of the economic base due to the conflict has set the country back several decades. GDP is expected to contract by 12 percent in 2023, driven by substantial socioeconomic and infrastructure damage and lower consumption. This would result in a deterioration of households' welfare as the extreme poverty rate is projected to increase to 35.7 percent in 2024. Alongside a collapse in government revenues, significant currency pressure and supply-side disruptions are expected to cause a return to triple-digit inflation.

Key conditions and challenges

Entering the April 2023 conflict, the economy was already weak, having suffered five consecutive years of contraction. Attempts in 2019 to shift course via a brief transition to a reform-minded civilian government, re-engagement with the international community, and the launch of the Heavily Indebted Poor Country debt relief process, were derailed by a military takeover in 2021. The loss of an estimated US$2 billion in annual foreign inflows, along with slowdowns in reforms and foreign investments, further depressed growth. Additional tax hikes, as the government attempted to compensate for forgone revenues, further depressed private sector activity.

In 2022, there was a fresh effort to transition to civilian administration: a framework political agreement was signed in December 2022, with elections planned for two years later. However, mounting tensions between the Sudanese Armed Forces and the Rapid Support Forces delayed the return to a civilian-led transitional government. The conflict that erupted in April 2023 destroyed the industrial base, halted services, and led to the erosion of state capacity amid high and rising levels of displacement and food insecurity. As of August 15, more than 4mn people have been displaced inside and outside the country. Per the UN, conflict-induced food scarcity has plunged 20.3mn people into severe acute hunger, of which 6.3mn (more than 1 in 10 people in Sudan) are facing emergency levels close to famine.

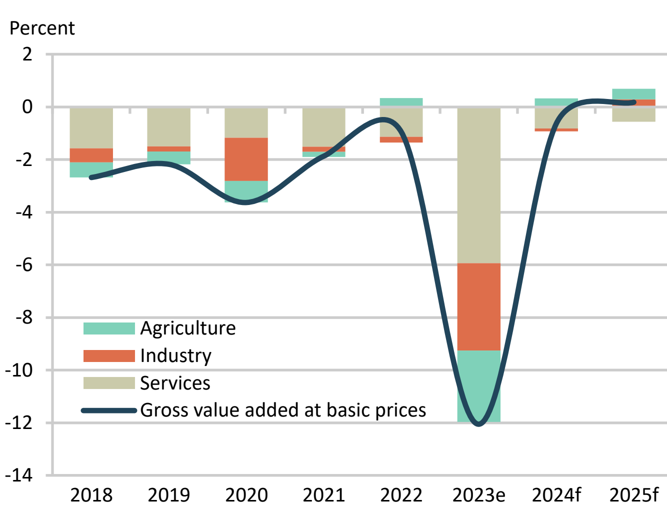
The broad destruction of the economic base will set the country back several decades. The erosion of state capacity to deliver basic services is expected to prolong reconstruction efforts and recovery from the conflict when it ends. The cost of the conflict to the economy is more starkly evident in the cumulative loss in GDP and GDP per capita.

Recent developments

GDP fell by an estimated 1 percent in 2022. The conflict has triggered a further collapse in activity, including wholesale/retail sales, restaurants, financial and ICT services, and damaged education and health facilities. Prior to April 2023, cereal production was improving due to better weather and a shift to less resource-intensive crops. Net exports, investment, and revenues were negligible prior to the outbreak of fighting in April 2023, but have since collapsed, while agricultural output and exports (gold, sesame, gum Arabic, and livestock) have been severely affected. Rising displacement and the devastation of the marketed surplus/incomes of agricultural households have weighed on consumption, which comprises roughly 94 percent of GDP.

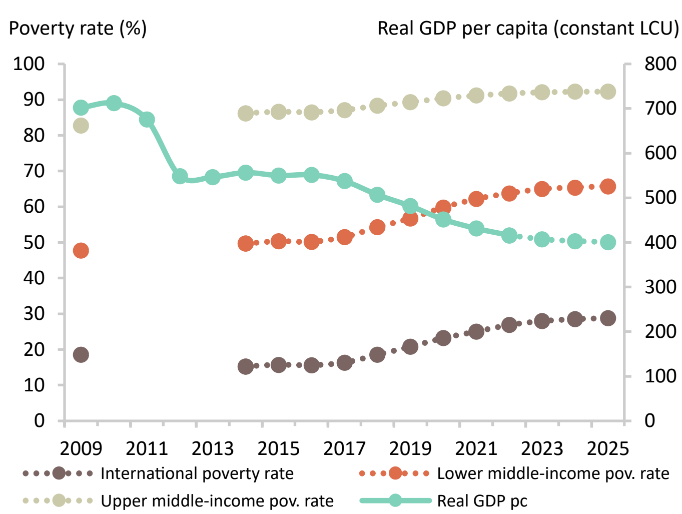
Fiscal pressures, already significant in recent years, have increased, while the ability to deliver basic services has been severely disrupted. Tax revenues were expected to contribute 68 percent to

FIGURE 1 Sudan / Real GDP growth and sectoral contributions to real GDP growth



Sources: National Bureau of Statistics and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

total revenues, but are now expected to fall to extremely low levels, with implications for non-military expenditures. Sudan faces a dire economic situation, with rapid currency depreciation as Sudan's central bank is forced to monetize a mounting government deficit, supply disruptions, and food shortages contributing to hyperinflation. Foreign reserves were already below one month's of import coverage at end-2022, and the state remains unable to access external financing due to its default status.

Although official poverty statistics are not available after 2014, the percentage of the population living on less than US 2.15 per day (2017 PPP) is estimated to have increased from 20.4 percent in 2018 to 35 percent in 2023. The protracted economy and the ongoing conflict contributed to an estimated 15 percentage-point increase in extreme poverty.

Sudan's closest neighbors are shifting to alternative trade routes. Last year, Sudan imported almost 1.8 million tons of mainly Indian sugar, with much of it then going to Chad and the Central African Republic. Those countries are now importing Brazilian sugar, which is routed through West African ports. As new trade routes are established, Port Sudan could lose its regional importance, with negative long-term consequences for the country.

Outlook

The conflict is expected to significantly affect the coming agricultural growing season, in turn worsening an already dire food security situation, with the number of people in need of humanitarian food assistance estimated at 25 million out of 42 million population, according to the UN.

The outlook remains highly uncertain; predicated on a gradual cessation of conflict over the coming year, it remains subject to large downside risks of prolonged conflict and tensions. Given conflict-related economic losses and destruction of infrastructure, a 12 percent GDP contraction is anticipated in 2023 (this follows a cumulative 11.3 percent decline since 2018). As economic activity stabilizes and households and businesses adjust, a modest 0.6 percent decline is expected in 2024 and a slow recovery thereafter, amid limited external and domestic resources to support reconstruction. Agriculture will remain a mainstay for livelihoods, and rising agricultural output and exports of livestock, as well as mining and services should gradually support activity and incomes in coming years. The fiscal deficit is projected to narrow over the medium term, reflecting modest recovery in tax revenue collections; however, continued monetization should keep inflation high. The current account deficit is expected to widen modestly in the medium term and average 7.5 percent of GDP over 2023-25, reflecting Sudan's high import requirements due to the war and a partial recovery of exports.

Extreme poverty is expected to worsen with the massive destruction of infrastructure and limited access to essential services. Projections suggest that extreme poverty will steadily increase to 36 percent by 2025. A quick end to the conflict and a collaborative reconstruction effort are needed to reverse the trend of poverty in Sudan.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-3.6	-1.9	-1.0	-12.0	-0.6	0.2
Private consumption	-3.4	-0.9	-0.8	-10.6	-0.2	1.1
Government consumption	-8.8	-9.6	1.9	-36.5	1.1	1.6
Gross fixed capital investment	-2.0	-2.1	1.2	-20.0	1.3	2.5
Exports, goods and services	5.2	8.0	12.0	-32.0	6.0	9.0
Imports, goods and services	-9.0	-0.5	8.7	-36.0	11.0	19.0
Real GDP growth, at constant factor prices	-3.6	-1.9	-1.0	-12.0	-0.6	0.1
Agriculture	-2.5	-0.6	1.0	-7.9	0.9	1.1
Industry	-5.7	-0.7	-0.7	-11.6	-0.4	1.0
Services	-3.0	-3.9	-3.0	-16.0	-2.3	-1.6
Inflation (consumer price index)	163.3	359.7	164.2	230.0	95.0	65.0
Current account balance (% of GDP)	-21.6	-7.3	-6.0	-0.6	-7.2	-7.8
Net foreign direct investment inflow (% of GDP)	-2.7	-1.6	-1.3	-0.6	-0.5	-0.4
Fiscal balance (% of GDP)	-5.9	-0.3	-1.7	-3.5	-3.0	-2.6
Revenues (% of GDP)	4.8	10.5	10.0	5.1	6.0	6.8
Debt (% of GDP)[a]	281.4	215.6	183.6	167.3	157.9	149.5
Primary balance (% of GDP)	-5.9	-0.3	-1.4	-3.5	-2.9	-2.5
International poverty rate ($2.15 in 2017 PPP)[b,c]	27.3	30.6	33.3	35.0	35.7	36.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	64.4	67.6	69.9	71.3	72.0	72.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	91.9	92.9	93.6	93.8	94.0	94.0
GHG emissions growth (mtCO2e)	-0.1	-0.3	-0.4	0.1	0.5	0.8
Energy related GHG emissions (% of total)	16.4	16.3	16.0	15.7	15.7	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/ Debt projections do not include any restructuring achieved during the HIPC process.
b/ Calculations based on 2014-NBHS. Actual data: 2014. Nowcast: 2015-2022. Forecasts are from 2023 to 2025.
c/ Projection using neutral distribution (2014) with pass-through = 1 (High (1)) based on GDP per capita in constant LCU.

TANZANIA

Table 1	2022
Population, million	65.6
GDP, current US$ billion	75.5
GDP per capita, current US$	1151.4
International poverty rate ($2.15)[a]	44.9
Lower middle-income poverty rate ($3.65)[a]	74.3
Upper middle-income poverty rate ($6.85)[a]	92.3
Gini index[a]	40.5
School enrollment, primary (% gross)[b]	97.2
Life expectancy at birth, years[b]	66.2
Total GHG emissions (mtCO2e)	159.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2021).

In 2023, Tanzania has maintained its economic momentum. High-frequency indicators suggest that GDP growth has already reached its pre-pandemic levels, 5.1 percent in 2023 (annual estimate). In the medium-term, with transformative reforms aimed at improving business environment, boosting private sector investment, and creating jobs, a 6 percent growth rate can be reached. Risks to the country's macroeconomic outlook include the incomplete implementation of these reforms, global economic slowdown, protracted war in Ukraine, and increased commodity price volatilities.

Key conditions and challenges

Tanzania has adequate opportunities to accelerate its transition to a successful middle-income status. With relatively limited impact of external shocks, including Covid-19 pandemic and the war in Ukraine, and moderate risk of debt distress, the country continues to hold sufficient fiscal space to implement its development programs. Although official gross reserves have declined, they remain adequate. To lay the foundation for robust, inclusive, and sustainable long-term growth, the government should seize the opportunity to implement more ambitious human capital investments and structural reforms to improve business environment for private investment, including FDI. Tanzania's private sector has been challenged by a costly business regulatory environment, high taxes, weak infrastructure, and inadequate skills.

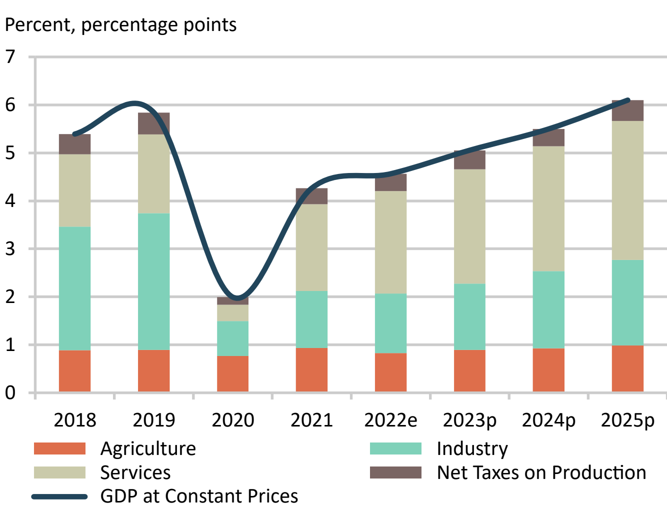
To reduce high and persistent rates of poverty in the country, significant increase in public spending on social services and infrastructure is required, especially in rural areas. Priority reforms should aim to strengthen the macroeconomic stability (including exchange rate), efficiency of public investment, debt management, and domestic revenue mobilization. To enhance the impact of growth on poverty reduction, investing in human capital, raising smallholder agricultural productivity, and supporting the creation of good jobs by facilitating private sector investment through regulatory environment streamlining will be essential. Moreover, helping women access economic opportunities and assets such as land remains critical.

Recent developments

Following the COVID-19 pandemic and facing the headwind of the war in Ukraine and its global economic impact, Tanzania's economic growth rate rose to 4.6 percent in 2022, up from 4.3 percent in 2021. This moderate rebound was driven by the services sector led by trade, transportation, tourism, and financial services which accounted for half of GDP growth. High-frequency indicators including cement production, electricity generation, and tourist arrivals indicate economic activity remained robust during the H1 2023. The tightening of liquidity in the financial system and subsidies for fuel and fertilizer helped to contain inflationary pressures. Headline inflation stood at 3.3 percent in July 2023, well below Tanzania's neighbors.

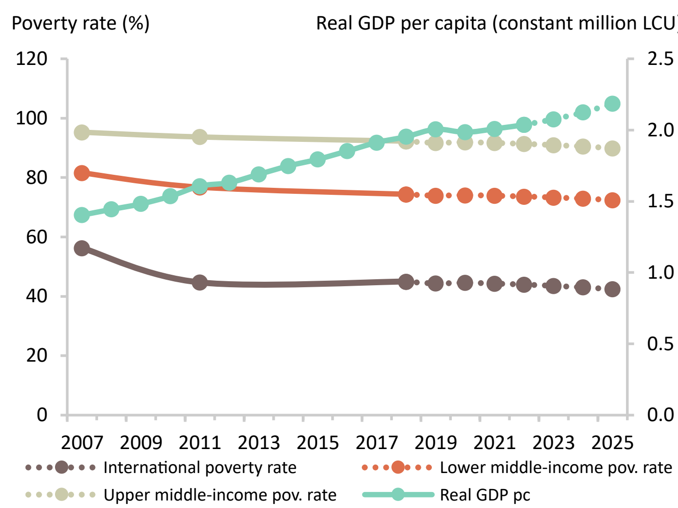
Despite a robust growth in exports, the stronger growth of imports pushed up by domestic demand compounded with rising international commodity prices widened the current-account deficit to 5.6 percent of GDP in 2022. The Bank of Tanzania has relied on foreign exchange sales in response to the balance of payment pressure. As a result, official gross foreign reserve fell to US$5.3 billion (covering 4.8 months of imports) by end of June 2023

FIGURE 1 Tanzania / Real GDP growth and sectoral contributions to real GDP growth



Source: World Bank staff estimates and projections (2018-2025).

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



Source: World Bank. Notes: see Table 2.

from US$6.4 billion (6.6 months of imports) at the end of 2021. Although the Tanzanian shilling remained relatively stable against the US dollar in 2022, in 2023 pressure on the shilling has increased and there are signs of emergence of parallel exchange market.

Despite broadly stable public revenue collection, an increase in overall expenditures widened fiscal deficit from 3.6 percent of GDP in FY2021/22 to 4.4 percent in FY2022/23. Domestic borrowing, mainly from bank and non-bank sources, covered almost 60 percent of the fiscal deficit. According to the latest Debt Sustainability Analysis (DSA) Tanzania's Public and Publicly Guaranteed debt stock stood at 43.8 percent of GDP by end-June 2022, compared to 41.3 percent by end-June 2021. The DSA shows Tanzania's risk of debt distress remains moderate.

The rate of poverty reduction, which notably decelerated in the 2010s, is expected to continue its slow pace into the 2020s. In 2022, extreme poverty was at 44 percent, and it's projected to decline marginally to 43 percent in 2023 and 2024, further dropping to 42 percent in 2025. Considering the country's rapid population growth, the absolute number of individuals living in extreme poverty is expected to rise from 26 million in 2018 to over 30 million by 2025. At the lower middle-income poverty line, the count is likely to increase from 44 million in 2018 to 52 million by 2025.

Outlook

GDP is projected to grow at 5.1 percent in 2023 and 6.1 percent by 2025, close to its long-run potential, supported by increasing domestic demand and exports as reforms to improve business climate are implemented successfully. The current account deficit is projected to narrow to 5.1 percent of GDP in 2023 as exports are expected to grow faster than imports, partly due to a combination of easing commodity prices and strong rebound in tourism. The current account deficit is expected to be financed by external loans and increasing FDI. The fiscal deficit is projected to decline further to about 2 percent of GDP in 2024/25, well below the 3 percent of GDP ceiling posed by the convergence criterion of the East African Community, as improved business environment strengthens domestic revenue mobilization and public expenditures stabilize. The narrowing fiscal deficit is expected to be financed by both external and domestic loans.

Tanzania's macroeconomic outlook face downside risks, which could suppress GDP growth by 1-2 percentage points if one of those risks materialize. A global slowdown, protracted war in Ukraine, and increased commodity price volatilities are among major downside external risks. Domestic risks include slow or incomplete implementation of structural reforms particularly related to key issues such as private sector and gender as well as climate change effects on the agriculture and tourism sectors.

The poverty rate will likely follow a consistent downward trend. Projections suggest a decline of 1.3 percentage points, from 43.4 percent in 2023 to 42.1 percent in 2025. This trajectory is underpinned by robust growth prospects, that will likely propel the country's GDP growth to pre-pandemic levels by 2025.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	2.0	4.3	4.6	5.1	5.5	6.1
Private consumption	0.9	2.3	4.8	2.2	3.3	3.3
Government consumption	7.4	9.0	8.4	10.7	6.2	11.3
Gross fixed capital investment	2.4	7.8	9.3	5.3	5.4	5.3
Exports, goods and services	-8.6	5.2	10.2	13.8	10.4	10.2
Imports, goods and services	-7.6	9.6	23.7	6.8	4.2	3.6
Real GDP growth, at constant factor prices	2.0	4.3	4.6	5.1	5.5	6.1
Agriculture	3.1	3.7	3.3	3.6	3.8	4.1
Industry	2.5	4.1	4.3	4.8	5.6	6.2
Services	0.9	4.8	5.6	6.3	6.4	7.2
Inflation (consumer price index)	3.3	3.7	4.3	4.2	4.1	3.9
Current account balance (% of GDP)	-2.5	-3.2	-5.6	-5.1	-4.4	-3.5
Net foreign direct investment inflow (% of GDP)	1.4	1.6	1.8	2.1	2.6	2.9
Fiscal balance (% of GDP)	-2.9	-3.8	-3.5	-4.0	-3.4	-2.9
Revenues (% of GDP)	14.3	14.5	15.6	15.9	16.4	16.9
Debt (% of GDP)	39.3	42.0	42.2	43.2	42.7	42.2
Primary balance (% of GDP)	-1.3	-2.1	-1.8	-2.3	-1.8	-1.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	44.6	44.3	44.0	43.5	43.0	42.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	74.1	73.9	73.6	73.3	72.9	72.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	91.9	91.7	91.4	90.9	90.5	89.9
GHG emissions growth (mtCO2e)	1.9	-0.4	1.5	2.3	1.4	1.5
Energy related GHG emissions (% of total)	11.0	9.3	9.4	10.2	10.1	10.1

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 2013- and 2018-HBS. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection using point to point elasticity at regional level with pass-through = 0.7 based on GDP per capita in constant LCU.

TOGO

Table 1	2022
Population, million	8.8
GDP, current US$ billion	8.2
GDP per capita, current US$	930.5
International poverty rate ($2.15)[a]	28.4
Lower middle-income poverty rate ($3.65)[a]	56.9
Upper middle-income poverty rate ($6.85)[a]	84.0
Gini index[a]	42.5
School enrollment, primary (% gross)[b]	124.2
Life expectancy at birth, years[b]	61.6
Total GHG emissions (mtCO2e)	9.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2021).

Growth in Togo should benefit from strengthening consumer spending and private investment in 2023 and 2024 but is still projected to soften somewhat to 5.2 percent reflecting the impact of fiscal consolidation measures, tighter financing conditions, and soft external demand. It should accelerate again in 2025, supported by a more favorable international backdrop. Real income gains combined with moderating inflation should enable the poverty rate to decrease to 24.8 percent by 2025.

Key conditions and challenges

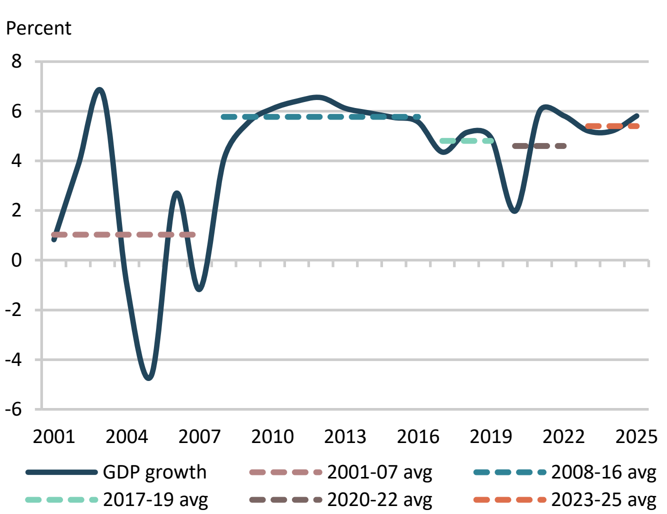
Since the COVID-19 pandemic in 2020, Togo has faced significant headwinds ranging from the fallout from Russia's invasion of Ukraine on energy and food prices, to slowing external demand, tighter financing conditions and regional instability. A sharp increase in public spending helped stabilize growth in the face of these shocks but vulnerable populations have been adversely impacted by the rising cost of living and fiscal space has been depleted. Large fiscal financing needs amid tightening borrowing conditions have encouraged authorities to frontload consolidation measures to bring the deficit back to 3 percent of GDP by 2025, while at the same time implementing an emergency program to address growing fragility risks in the Northern Savanes region. Rebuilding fiscal space while supporting priority investments and social spending are among the most pressing policy challenges facing the country.

Recent developments

Growth remained robust in 2023, at an estimated 5.2 percent, but moderated from 5.8 percent in 2022 as the government shifted from an expansionary fiscal policy stance to a more restrictive one. Slow execution of planned public investment so far this year and additional spending cuts considered for the revised 2023 budget are expected to narrow the fiscal deficit to 5.8 percent of GDP, down from 8.3 percent in 2022. The dampening effect of fiscal consolidation measures on economic activity should be partially offset by a recovery in consumer spending supported by abating food and energy price inflation, while private investment is bolstered by improving business sentiment and ongoing infrastructure projects. On the external side, the trade deficit has been narrowing as export revenues outpaced imports so far this year, but the current account deficit is still expected to widen somewhat to reach 3.5 percent of GDP in 2023. At the sectoral level, industrial activity has shown signs of recovery from a weak start of the year, with positive contributions from the extractive, power, and manufacturing sectors. Regarding agriculture, meteorological conditions have been conducive to a relatively favorable crop harvest for the 2023/24 season. Real GDP per capita gains estimated at 2.8 percent in 2023, combined with consumer price inflation moderating from 7.6 percent in 2022 to 5.8 percent in 2023 should help the extreme poverty rate (US$2.15/day) to decrease to 27.6 percent this year, its first decline since the onset of the COVID-19 pandemic in 2000.

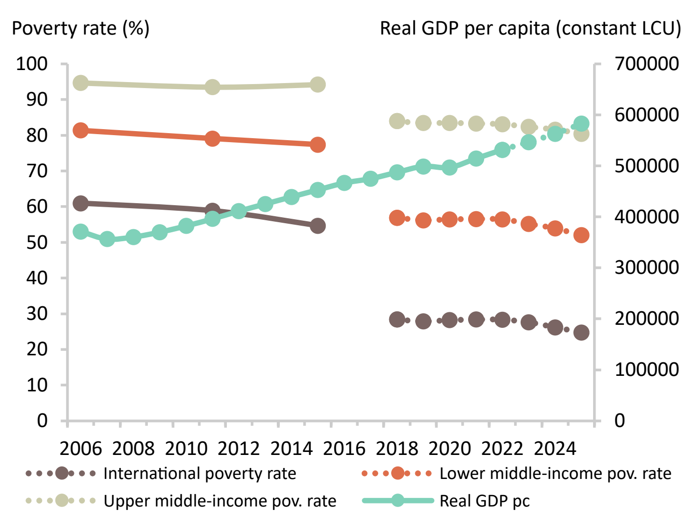
To counter inflationary pressures across WAEMU countries, the Central Bank of West African States (BCEAO) has raised policy interest rates by a cumulative 125 basis points since mid-2022 but the monetary policy stance remains broadly accommodative, while inflation is still above

FIGURE 1 Togo / Real GDP growth



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

target and foreign exchange reserves have been on a downward trend.

Outlook

Growth in Togo is projected to stabilize at 5.2 percent in 2024, as additional fiscal consolidation measures are counterbalanced by a further acceleration in consumer spending and private investment. The former will benefit from receding inflationary pressures while the latter will be boosted by the Adétikope Industrial Park development and ongoing reforms in the agriculture, logistics, and trade sectors. Export growth should remain subdued in 2024 as key trading partners face mounting economic challenges, before recovering in 2025, in line with projected improvements in global demand. The fiscal deficit is predicted to narrow to 3 percent of GDP by 2025, and the current account deficit to 2.7 percent of GDP. Under a realistic reform scenario, potential growth in the short to medium term could average 5.5 percent, while more substantial gains in private capital spending, agricultural productivity, female labor force participation, and human capital could lift it to 7 percent under the best-case scenario. The poverty rate is projected to decline to 24.8 percent in 2025, a substantial drop from an estimated 28.4 percent in 2022.

Uncertainty related to the evolution of global demand, energy, food prices, financing conditions, security risks, and climate change imply that the balance of risks to the outlook remains tilted to the downside. In particular, a sharper deterioration in regional debt markets could lead to financing risks given the high rollover needs from domestic sovereign debt while growing regional insecurity could dampen economic prospects by reducing market access to important trading partners. Under an alternative scenario of persistent headwinds reflected in lower export growth (-2 percentage points below baseline projections in 2023-25), higher domestic inflation (+1 percentage point), and tighter financing conditions on regional debt markets (+150 basis points), growth would be expected to slow down to an average of 4.2 percent over the period 2023-25 (-1.2 percentage point below baseline projections) while the budget deficit would stay above 4.5 percent of GDP until 2025. In this scenario, the public debt-to-GDP ratio would only return below the estimated risk threshold for Togo by 2028 but the overall assessment regarding debt sustainability risks would not be fundamentally altered.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	2.0	6.0	5.8	5.2	5.2	5.8
Private consumption	-14.3	9.9	1.3	5.0	5.2	5.5
Government consumption	1.8	0.2	8.8	6.6	-5.9	2.1
Gross fixed capital investment	36.6	-0.2	26.4	5.5	12.2	9.0
Exports, goods and services	6.5	5.3	-1.1	4.2	4.3	6.8
Imports, goods and services	1.6	6.9	5.1	3.8	4.9	6.3
Real GDP growth, at constant factor prices	2.2	5.3	6.2	5.1	5.2	5.8
Agriculture	3.3	3.4	5.0	4.6	5.0	5.2
Industry	4.0	5.7	7.3	7.0	6.3	6.7
Services	1.1	5.9	6.2	4.4	4.9	5.7
Inflation (consumer price index)	1.8	4.5	7.5	5.8	3.8	3.0
Current account balance (% of GDP)	-0.3	-0.9	-3.0	-3.5	-3.4	-2.7
Net foreign direct investment inflow (% of GDP)	0.7	0.3	0.3	0.4	0.4	0.4
Fiscal balance (% of GDP)	-7.0	-4.7	-8.3	-5.8	-4.1	-3.0
Revenues (% of GDP)	16.6	17.1	17.6	17.2	16.5	16.2
Debt (% of GDP)	60.1	63.0	65.8	66.3	65.9	65.0
Primary balance (% of GDP)	-4.7	-2.5	-5.9	-3.4	-1.7	-0.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	28.2	28.4	28.4	27.6	26.2	24.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	56.4	56.5	56.4	55.2	53.9	52.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	83.5	83.3	83.1	82.4	81.6	80.5
GHG emissions growth (mtCO2e)	1.8	6.4	5.4	2.9	4.0	4.5
Energy related GHG emissions (% of total)	22.9	25.7	26.9	26.4	26.3	26.5

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 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projections using microsimulation methodology.

UGANDA

Table 1	2022
Population, million	47.2
GDP, current US$ billion	38.8
GDP per capita, current US$	822.2
International poverty rate ($2.15)[a]	42.2
Lower middle-income poverty rate ($3.65)[a]	71.9
Upper middle-income poverty rate ($6.85)[a]	91.1
Gini index[a]	42.7
School enrollment, primary (% gross)[b]	102.7
Life expectancy at birth, years[b]	62.7
Total GHG emissions (mtCO2e)	63.6

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

Uganda's economy is rebounding, benefiting from improvements in all three sectors that allowed for an economic growth of 5.3 percent in FY2023 and likely a reduction in poverty. Fiscal performance is improving as the government continues to embark on fiscal consolidation by reducing expenditures and bolstering revenues. Medium-term growth prospects appear favorable due to recovery in tourism, although considerable uncertainty around the start of oil production remains.

Key conditions and challenges

Increased shocks and less momentum behind policy reform create challenges for sustaining economic growth and reducing poverty in Uganda. Rapid population growth has kept a large share of the population below the poverty line, while human capital and infrastructure deficits have limited the country's growth potential and contain improvements in social indicators. Further, almost one million working age Ugandans enter the labor market every year. Majority of them are still employed in the agriculture sector which is prone to natural disasters that climate change is making more frequent and impactful—and adapting to which is hampered by low adaptive capacity.

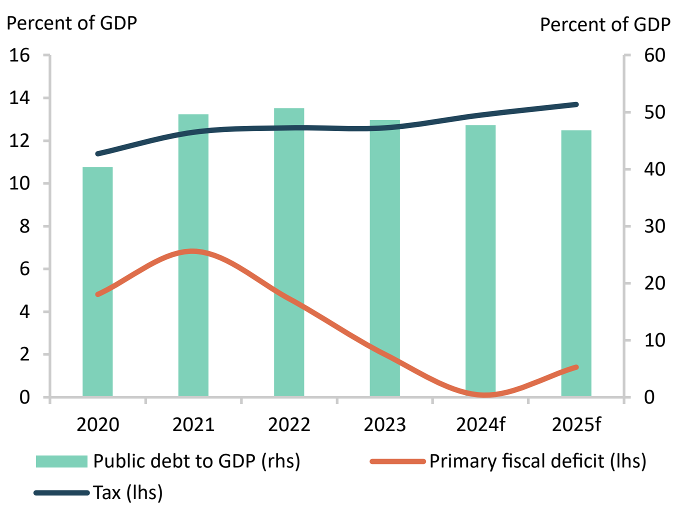
To promote economic growth over the medium-term Uganda needs to pursue structural reforms to alleviate critical constraints. First, the country needs to shift towards more private investment by reducing the cost of doing business and fostering access to finance. Second, the country needs to enhance debt sustainability and improve budget efficiency by increasing revenue collection, cutting tax expenditures, and prioritizing social spending. Third, the government needs to adopt a more open and transparent trade regime, invest in transport infrastructure to support regional trade and benefit from the African Continental Free Trade Area (AFCFTA), simplify customs procedures to reduce trade cost and reduce ad hoc tariff increases. Finally, adopting climate-smart agriculture methods and improving adoptive capabilities would build resilience to climate change.

Recent developments

Real GDP growth accelerated to 5.3 percent in FY2023, despite multiple shocks and tighter financial conditions. Economic growth was buoyed by the industrial and services sectors, which grew by 3.9 and 6.2 percent respectively. In addition, the agriculture sector improved to 5.0 percent despite unfavorable weather conditions in the first quarter of the fiscal year. Private consumption increased, while public investment was scaled back as fiscal space narrowed. Higher capital imports widened the current account deficit to 8.7 percent of GDP in FY2023 from 7.9 percent in FY2022. Imports increased due primarily to oil project related investments.

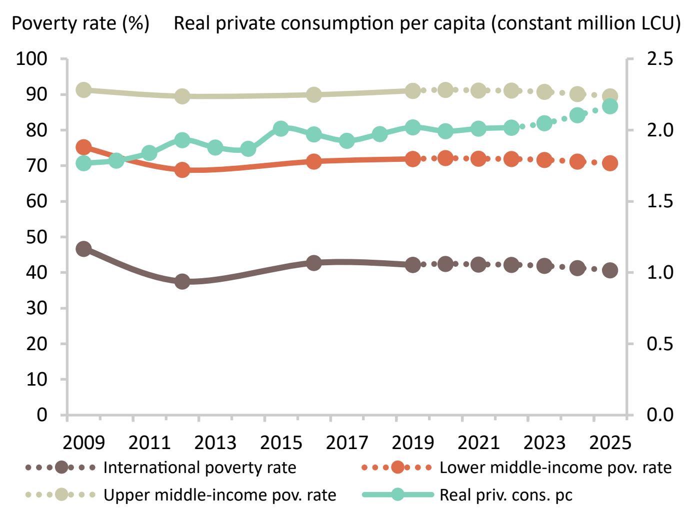
The Bank of Uganda has maintained a tight monetary policy stance to keep inflation under control. For FY2023, inflation averaged 8.8 percent, this reflects five months of steady increase in prices which peaked at 10.7 percent in October 2022 driven by high energy and food prices. In February 2023 inflation began to decline reaching 4.9 percent by June 2023 driven by declining energy prices, improved global supply chains and tight monetary policy. Based on the consistent decline in the inflation rate, the Bank of Uganda reduced its policy rate by 50 basis points in August 2023, to 9.5 percent.

FIGURE 1 Uganda / Fiscal adjustment



Source: Ministry of Finance, Planning and Economic Development.

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



Source: World Bank. Notes: see Table 2.

The overall fiscal deficit declined to 5.1 from 7.4 percent of GDP between FY2022 and FY2023, reflecting a reduction in recurrent and development expenditure as well as increases in domestic revenue and grants. Recurrent spending declined by 0.6 percentage points due primarily to a reduction in spending on goods and services. Development spending declined by 0.8 percent, as the government cut back on public investment spending. Tax revenue and grants increased by 0.5 percentage points each. The increase in revenue was driven by an increase in import duty. The fiscal deficit was financed by domestic and external borrowing. Uganda's public debt continues to be sustainable in the medium term due to the implementation of fiscal consolidation.

Consistent with accelerated economic growth, more respondents shared positive perceptions on current and future household and country economic wellbeing according to the most recent round of the phone survey from February/March 2023. Nevertheless, about 34 percent of households were moderately food insecure and seven percent were severe food insecure. About half of respondents were also certain to experience extreme weather events during next 12 months and negative expectations were higher among the poorest households.

Outlook

In the medium-term, real growth is expected to accelerate beyond 6 percent, if not derailed by a global slowdown, disruptions to global finances and weather shocks. The recovery in the medium-term will be driven by a recovery in tourism, and the developments in the oil sector that is attracting foreign and domestic private investment in related infrastructure ahead of the start of oil production in 2025. Economic growth will also be driven by increase private consumption, as inflationary pressures continues to abate. Inflation is projected to decline from FY2024 onwards reaching the Bank of Uganda's medium-term target of 5 percent, after averaging at 8.9 percent in FY2023. This reflects the impact of more favorable weather conditions on domestic harvests, the softening of global commodity prices and easing of global demand-supply imbalances, and the effects of monetary and fiscal policy tightening.

Accelerated growth is expected to reduce poverty (measured at the $2.15/day international poverty line) from 41.7 percent in 2023 to 40.7 percent by 2025. But given that households have limited adaptive capacity, the pace of poverty reduction will ultimately depend on how food access and affordability evolve, and on the incidence of weather and other shocks.

The government aims to narrow the fiscal deficit to 3.4 percent of GDP in 2024–25 through more efficient spending and implementation of the Domestic Revenue Mobilization Strategy (DRMS) . The government plans to reduce non-priority capital expenditures while maintaining the share of social spending. The government's domestic revenue mobilization strategy which includes rationalization of exemptions, and revenue administration modernization to improve compliance is expected to yield approximately 0.6 and 0.5 percent of GDP in FY2024 and FY2025, respectively. Continued fiscal consolidation will modestly reduce debt to around 47 percent of GDP by 2025, keep debt service manageable, and reduce crowding out private sector investment.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	3.0	3.4	4.7	5.3	6.0	6.6
Private consumption	2.0	4.2	3.4	4.4	5.6	5.8
Government consumption	7.9	6.1	-17.4	5.1	5.0	5.3
Gross fixed capital investment	-0.1	5.1	20.1	5.5	8.2	9.3
Exports, goods and services	-1.2	2.6	-18.6	7.0	7.8	8.7
Imports, goods and services	-5.4	8.6	-8.9	3.2	8.6	8.8
Real GDP growth, at constant factor prices	3.0	3.4	4.7	5.3	6.0	6.6
Agriculture	4.6	3.8	4.4	5.0	5.1	5.3
Industry	3.1	3.4	5.4	3.9	5.6	6.5
Services	2.2	3.3	4.4	6.3	6.8	7.3
Inflation (consumer price index)	2.3	2.5	3.7	8.8	7.2	5.0
Current account balance (% of GDP)	-6.7	-10.2	-7.9	-7.2	-7.9	-10.4
Net foreign direct investment inflow (% of GDP)	2.6	2.1	3.1	5.9	8.7	10.9
Fiscal balance (% of GDP)	-7.1	-9.5	-7.4	-5.0	-3.4	-3.4
Revenues (% of GDP)	13.1	14.7	14.2	15.0	15.4	15.9
Debt (% of GDP)	40.4	49.6	50.7	48.3	47.4	46.3
Primary balance (% of GDP)	-4.8	-6.8	-4.6	-2.0	-0.1	-1.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	42.5	42.3	42.2	41.9	41.3	40.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	72.2	72.0	71.9	71.7	71.2	70.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	91.3	91.2	91.1	90.8	90.2	89.5
GHG emissions growth (mtCO2e)	1.3	2.7	3.4	3.6	3.8	3.9
Energy related GHG emissions (% of total)	18.4	18.4	18.6	18.8	19.2	19.6

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 2009-UNHS, 2012-UNHS, and 2019-UNHS. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Projection using point to point elasticity at regional level with pass-through = 0.7 based on private consumption per capita in constant LCU.

ZAMBIA

Table 1	2022
Population, million	20.0
GDP, current US$ billion	29.0
GDP per capita, current US$	1449.2
International poverty rate ($2.15)[a]	60.8
Lower middle-income poverty rate ($3.65)[a]	78.0
Upper middle-income poverty rate ($6.85)[a]	91.0
Gini index[a]	55.9
School enrollment, primary (% gross)[b]	98.7
Life expectancy at birth, years[b]	61.2
Total GHG emissions (mtCO2e)	94.6

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

After two years of solid growth, the Zambian economy moderated in 2023 as muted copper prices and legacy operational challenges constrained copper production, and power outages hit early in the year. Growth is expected to accelerate in 2024-25, averaging 4.7 percent as mining picks up and induces services activity. Completing debt treatment would help restore macroeconomic and debt sustainability, supporting the Government's ambitious reform program and accelerating more diversified and inclusive growth.

Key conditions and challenges

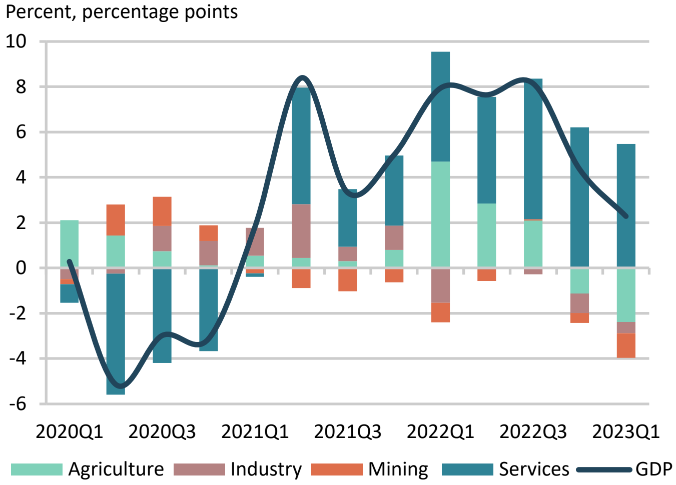
Zambia is in debt distress and requires debt restructuring. A decade of unsustainable macroeconomic policies and falling copper prices caused external debt to jump from 6.7 percent of GDP in 2011 to 66.4 percent in 2019. The COVID-19 pandemic exacerbated these vulnerabilities, leading to a default on Eurobond payments in 2020. In early 2021, Zambia requested debt treatment under the G20 Common Framework. Its official creditors reached an agreement on key parameters of debt relief in June 2023 and are now finalizing the memorandum of understanding. Once formalized, the agreement will reduce the net present value of Zambia's US$ 6.3 billion external bilateral debt by 40 percent. It should pave the way for completing negotiations with private creditors on comparable terms. Despite this challenging environment, Zambia's economy has recovered from the pandemic-induced recession thanks to the new administration's bold macroeconomic and structural reforms. Still, multiple shocks, including global commodity prices and adverse weather, have negatively affected fiscal and external sector balances as the country remains dependent on mining and agriculture. Weak links between the capital-intensive mining sector and other sectors of the economy, coupled with low productivity in labor-intensive agriculture, limit opportunities for inclusive and sustainable development. Poverty remains widespread and is predominantly rural, estimated at 60.8 percent, of which 80 percent are rural poor. Inequality is among the highest in Sub-Saharan Africa, as evidenced by a high Gini coefficient of 0.56 in 2015, the most recent data available.

A youthful population offers an opportunity for Zambia to harness a sizeable demographic dividend if it can create more and better jobs for new labor force entrants. Available estimates suggest that 300,000 new jobs must be created annually. However, generating jobs will remain a challenge as the potential for the private sector to drive job growth and lead economic transformation is hampered by regulatory bottlenecks, large infrastructure deficits, and the high cost of finance. The government's current capacity to finance development is significantly constrained. Completing debt treatments would give Zambia breathing space to restore macroeconomic stability and debt sustainability, supporting the ambitious reform program and accelerating more diversified and inclusive economic growth.

Recent developments

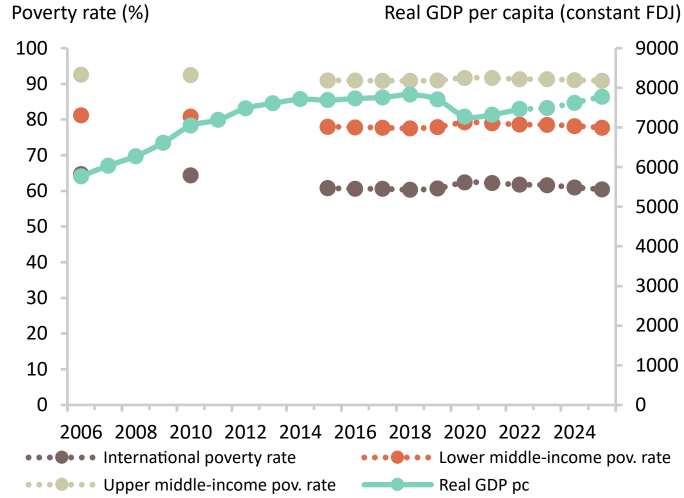
In H1 2023, economic growth slowed as muted copper prices and unresolved management challenges at Mopani and Konkola Copper Mines (KCM) continued to constrain copper production and, with low water levels at the Kariba dam, power outages hit the economy. Q1 GDP grew by only 2.3 percent year-on-year, down from 7.9 percent in Q1 2022, reflecting declines

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



Source: World Bank estimates.

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



Source: World Bank. Notes: see Table 2.

in agriculture, mining, electricity, and the wholesale and retail trade sectors. . The Stanbic Bank Purchasing Managers' Index suggests that private sector activity remained subdued, with the uncertainty surrounding debt restructuring hindering business confidence. In the year to June, copper earnings declined by 22.6 percent, while imports rose by 23.1 percent. As a result, the merchandise trade surplus narrowed to US$ 0.2 billion from US$ 1.7 billion in H1 2022, weakening the current account surplus. International reserves declined from covering 3.8 months of imports at the end of December 2022 to 3.3 months in March 2023.

The average exchange rate depreciated by 16.6 percent between H1 2023 and H2 2022 because of reduced inflows from mining and portfolio capital outflows amid the uncertainty surrounding the conclusion of external debt restructuring. Inflationary pressures intensified in H1 2023, stemming largely from exchange rate pass-through of the weakening currency. . In August, BoZ raised its policy rate by 50 basis points to 10 percent after inflation spiked to two digits, well above the 6-8 percent target band. High inflation is hampering the recovery in living standards which remains slow and uneven since 2020.

Fiscal balances have remained within budget in H1 2023, evidencing the robust fiscal consolidation that started in 2022. While fiscal revenues softened due to a shortfall in tax revenue as mineral production struggled, grants were 50 percent above target, reflecting greater support from development partners. Total expenditure remained below budget as spending on the farmer input support program was cut, and planned local development spending was delayed. Despite significant overruns on roads, the authorities benefitted from lower-than-expected debt repayments related to the debt service standstill and a hefty dividend from BoZ.

Outlook

The Zambian economy is expected to grow, driven by robust copper production, with real GDP projected to average 4.7 percent annually in 2024-25. This outlook assumes firmer global copper demand and production ramping up at KCM after the government returned control of the mine to Vedanta Resources following four years of disputed liquidation. Reaching a final agreement with creditors on debt restructuring will stabilize the exchange rate. This stability and ongoing business regulatory reforms are expected to attract more FDI. With the recent overhaul of the mining fiscal regime, seeking to raise copper production from 800,000 tons to 3 million tons, additional mining investments will stimulate more vigorous activity in services that support mining. This favorable outlook relies on greater private investment as sustained primary surpluses reduce the state's competition with the private sector for domestic credit. It also depends on the authorities maximizing concessional financing and leveraging public-private partnerships as an alternative source of financing to promote investment in various sectors, including mining, agriculture, tourism, and digitalization. While robust social spending is expected to improve household welfare, under current growth projections, poverty reduction will remain slow and gradually approach pre-pandemic levels by 2025.

Downside risks for Zambia's economic outlook are considerable. Copper revenues may remain constrained because of lower ore grades, delayed investments in the sector, or weakening copper prices owing to subdued global growth and a further slowdown in the Chinese economy, a central market for Zambia's copper exports. The effects of climate change pose a risk to food security and hydropower generation. There could be additional inflationary pressures from a depreciating Kwacha (due to elevated import demand and foreign debt service) or climate-driven food shortages. Finally, a prolonged war in Ukraine could pressure fertilizer and food prices, increasing inflation and spending on agricultural inputs.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-2.8	4.6	4.7	2.7	4.6	4.8
Private consumption	3.1	3.1	3.7	2.5	4.0	4.5
Government consumption	10.8	5.6	-3.4	15.5	4.6	3.2
Gross fixed capital investment	-29.7	8.3	8.7	2.1	8.5	8.7
Exports, goods and services	21.8	4.6	5.0	2.8	3.0	3.2
Imports, goods and services	10.6	2.5	4.0	4.5	3.9	4.3
Real GDP growth, at constant factor prices	-2.2	4.7	4.8	2.5	4.7	4.9
Agriculture	17.2	6.9	-2.4	3.0	1.0	2.0
Industry	1.3	4.2	-2.1	1.0	3.0	2.5
Services	-6.1	4.6	9.7	3.3	6.0	6.4
Inflation (consumer price index)	15.7	22.3	10.7	11.1	10.1	7.2
Current account balance (% of GDP)	10.6	9.7	3.6	3.8	6.8	8.2
Net foreign direct investment inflow (% of GDP)	1.0	-1.9	1.1	2.1	2.8	3.6
Revenues (% of GDP)	20.4	22.6	20.5	21.1	21.8	21.6
Primary balance (% of GDP)	-7.9	-2.0	-1.6	0.2	1.2	2.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	62.4	62.2	61.8	61.6	61.0	60.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	79.2	79.0	78.6	78.5	78.2	77.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	91.7	91.7	91.4	91.3	91.1	90.9
GHG emissions growth (mtCO2e)	1.0	1.7	0.9	0.9	1.1	1.3
Energy related GHG emissions (% of total)	8.2	8.8	8.8	9.1	9.6	10.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2015-LCMS-VII. Actual data: 2015. Nowcast: 2016-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2015) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

ZIMBABWE

Table 1	2022
Population, million	16.3
GDP, current US$ billion	31.1
GDP per capita, current US$	1902.6
International poverty rate ($2.15)[a]	39.8
Lower middle-income poverty rate ($3.65)[a]	64.5
Upper middle-income poverty rate ($6.85)[a]	85.0
Gini index[a]	50.3
School enrollment, primary (% gross)[b]	96.1
Life expectancy at birth, years[b]	59.3
Total GHG emissions (mtCO2e)	119.3

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

Real GDP growth was high at 6.5 percent in 2022, largely driven by the agricultural sector, yet other sectors were constrained by price and exchange rate instability. Annual inflation returned to triple-digit levels in 2022 and remained high in the first half of 2023, driven by both monetary expansion and external shocks. Poverty levels declined moderately. Economic growth is projected to slow to 4.5 percent in 2023 and to remain under 5 percent in the medium term, reflecting global shocks and structural bottlenecks.

Key conditions and challenges

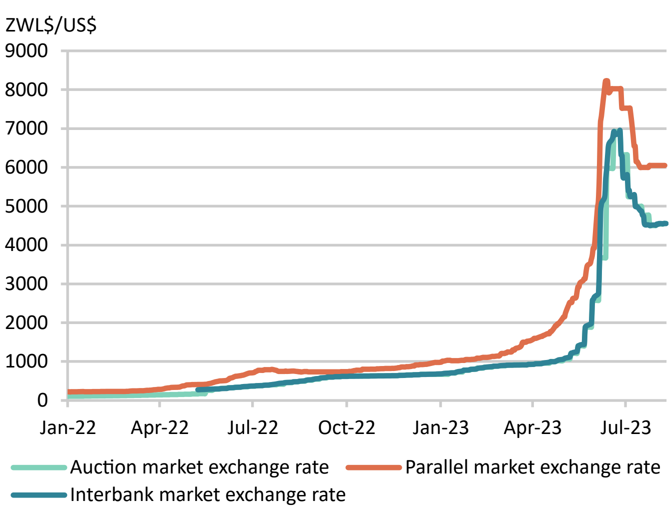
Exchange rate and inflationary pressures continue to constrain Zimbabwe's full growth potential. Since 2016, reforms to maintain the local currency have been associated with periodic macroeconomic instability- high inflation and exchange rate depreciation that distorted economic activity. This has affected both domestic and foreign investment which remain far below regional peers. With waning economic and employment activity in the formal sector, informality has grown in recent years.
High unsustainable debt and arrears to international financial institutions (IFIs) continue to limit the fiscal space and growth potential. External debt rose from 40 to 70 percent of GDP between 2018 and 2022. The government ceased servicing external debt in 2000, and arrears have since risen to 37 percent of GDP (US$6.7 billion) as of December 2022. The country resumed token payments to multilateral creditors in 2021, and initiated an arrears clearance dialogue process in 2022, as a signal for reengagement commitment. The government has accumulated two types of legacy debt since 2021: (i) US$1.6 billion compensation for a 2019 imposition of exchange rate restrictions that blocked external payments to foreign suppliers and investors ("blocked funds"), and(ii) US$3.5 agreed as compensation to former farm owners who lost land and assets during the post-2000 land reform.

Poverty has been elevated on account of macroeconomic instability, poor job creation in the productive sectors, weather and global health shocks, and weak social protection systems. Extreme poverty rate has declined from its 2020 peak but remains high against the background of cyclical agricultural production and elevated food prices.

Recent developments

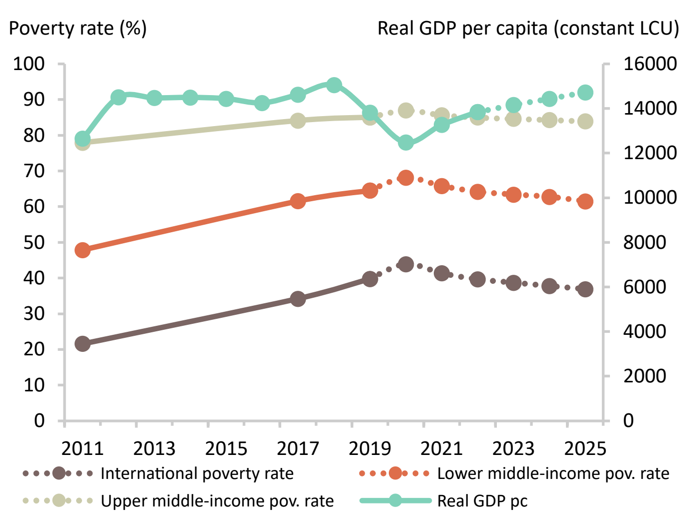
Real GDP growth remained high at 6.5 percent in 2022 from 8.5 percent in 2021 driven by a significant revision in agricultural production. Earlier projections had anticipated agriculture output to contract by 14 percent, but growth in maize and wheat production saw agriculture output revised upward to 6.2 percent in 2022. During the first half of 2023, exchange rate and inflationary pressures intensified, with manufacturing, construction, electricity supply and accommodation, and food service activities contracting in 2023Q1. The unemployment rate increased on quarter-on-quarter basis from 19.3 percent in 2023Q1 to 19.7 percent in 2023Q2.
Inflation reached hyperinflation levels in June 2023, but declined thereafter, as authorities implemented various measures to curb currency depreciation. After depreciating sharply from the turn of 2022 to May 2023, the parallel market exchange rate started to appreciate in June, falling to below 35 percent in July 2023, from over 100 percent in May 2023, partly reflecting the impact of tight monetary

FIGURE 1 Zimbabwe / Exchange rates



Sources: Zimstat and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

policy and slowing of quasi-fiscal activities. This dampened month-on-month inflation from 74.5 percent in June 2023 to -15.3 percent in July 2023. Notwithstanding, Zimbabwe dollar denominated prices remain elevated, eroding the purchasing power, and putting many goods and services out of reach of most households.

The fiscal balance continued to be in surplus during the first half of 2023, as government slowed spending to contain inflation and exchange rate pressures. High inflation contributed to higher revenue while the government restrained the implementation of capital projects. However, recurrent spending pressures increased ahead of national elections, as the government increased civil servants' salaries sharply, both in foreign and local currency. The government transferred all quasi-fiscal operations (QFOs) from the Central Bank to the Treasury, and this will increase interest payment during the second half of 2023.

The current account surplus narrowed during the first half of 2023 as the widening of the trade deficit outpaced the growth of remittances. The merchandise trade deficit increased by 19 percent during the first half of 2023 compared to the same period last year, reflecting a decline in mineral exports and increase in imports. Remittances from non-governmental organization contracted by 10.5 percent.

Outlook

Real GDP growth is projected to slow to 4.5 percent in 2023, constrained by global headwinds, structural bottlenecks, and price and exchange rate instability. Growth in 2023 will be driven mostly by agriculture and services, particularly tourism. Manufacturing and mining sector growth are projected to slow in 2023, partly affected by electricity shortage, inflation, and exchange rate pressures. Downside risks to the outlook could include policy slippages after elections, a weak global environment for growth, volatile commodity prices, and climate change. Inflationary pressures are expected to slow, but inflation will remain in triple-digits in 2023, before returning to double digits in 2024 and 2025, as exchange rate pressures are contained.

The fiscal balance is projected to turn into deficit in 2023 on a high wage bill, high interest payments from QFOs, and the resumption of spending after elections. Moreover, the government is expected to resume paying its contractors and suppliers after elections. Interest payments from servicing QFOs debts are projected to significantly increase, posing liquidity risks, amid limited access to concessional financing. Fiscal deficit is projected to reach 3.2 percent of GDP in 2023, before slowing to under 2.0 percent in 2024 and 2025. The current account surplus is expected to continue shrinking, reflecting an increase in imports and a slowdown in remittance inflows.

The poverty rate is expected to decline modestly in the medium term along with the projected increase in GDP per capita. However, structural changes are necessary to accelerate poverty reduction and break its dependence on weather cycles. Improving labor productivity through an increase in agricultural productivity, structural transformation, and capital deepening, as well as instituting a robust social protection system are the key structural priorities to reduce poverty and vulnerability.

TABLE 2 Zimbabwe / 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	8.5	6.5	4.5	3.9	4.1
Private consumption	-2.3	1.5	4.9	3.0	4.0	4.8
Government consumption	-23.8	142.1	31.3	26.8	3.5	1.7
Gross fixed capital investment	-18.2	12.8	22.3	-21.6	0.9	0.8
Exports, goods and services	-48.9	47.0	43.9	3.0	1.5	3.4
Imports, goods and services	-44.1	61.5	54.6	2.0	1.1	2.5
Real GDP growth, at constant factor prices	-7.7	8.4	6.4	4.5	3.9	4.1
Agriculture	4.1	17.5	6.2	6.3	0.9	3.0
Industry	-8.2	6.4	5.5	2.9	4.5	4.2
Services	-9.6	7.7	7.0	4.9	4.2	4.3
Inflation (consumer price index)	557.2	98.5	193.4	305.0	45.1	15.9
Current account balance (% of GDP)	2.9	1.0	1.0	0.8	0.5	0.4
Net foreign direct investment inflow (% of GDP)	0.7	0.7	1.0	1.4	1.5	0.5
Fiscal balance (% of GDP)	1.5	-2.0	0.1	-3.2	-1.6	-1.2
Revenues (% of GDP)	13.3	15.3	16.4	18.7	18.9	19.5
Debt (% of GDP)	51.2	58.4	99.6	130.8	111.1	123.7
Primary balance (% of GDP)	1.6	-1.9	0.2	-2.3	-0.3	0.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	43.9	41.4	39.6	38.7	37.8	36.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	68.1	65.8	64.2	63.4	62.8	61.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	86.9	85.6	85.0	84.6	84.3	83.9
GHG emissions growth (mtCO2e)	-1.4	1.2	1.4	0.5	1.0	1.6
Energy related GHG emissions (% of total)	11.3	12.5	13.2	14.4	15.4	16.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2019-PICES. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

Macro Poverty Outlook

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