East Asia and the Pacific

Macro Poverty Outlook

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

Spring Meetings 2020

WORLD BANK GROUP
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Poverty & Equity

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East Asia and the Pacific

Spring Meetings 2020

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Foreword

The projections contained in this volume are the joint product of the Macroeconomics, Trade and Investment, and the Poverty and Equity Global Practices of the World Bank. They were produced by a team of macroeconomic and poverty economists spanning the globe. These projections were produced while the COVID-19 pandemic was expanding rapidly, and the physical distancing and economic policy responses to it were in constant flux. As a result, the level of uncertainty over future events was particularly high. While we recognize that these projections will inevitably be revised as new information becomes available, we hope that sharing them at this time will make a positive contribution to policymakers' struggle to respond to this generational challenge.

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CAMBODIA

Table 1	2019
Population, million	16.6
GDP, current US$ billion	26.9
GDP per capita, current US$	1623
School enrollment, primary (% gross)[a]	107.8
Life expectancy at birth, years[a]	69.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2017).

Cambodia's economy has been hit hard by the global covid-19 outbreak. The outbreak caused sharp decelerations in most of Cambodia's main engines of growth in the first quarter of 2020, including weakened tourism and construction activity. Growth is projected to slow sharply to 2.5 percent in 2020 under the baseline scenario. Downside risks include a local covid-19 outbreak, a prolonged decline in tourist arrivals, and real estate market correction.

Recent developments

The unprecedented global shock triggered by the covid-19 pandemic has significantly impacted Cambodia's economy. While real growth was strong at 7.1 percent in 2019 (figure 1), the outbreak has caused sharp decelerations in most of Cambodia's main engines of growth in early-2020. In 2019, growth of combined garment, footwear and travel goods exports decelerated to 13.6 percent, down from 17.7 percent in 2018. This was driven by a contraction of combined garment, footwear and travel goods exports to the EU market by 0.5 percent (figure 2), which fell for the first time since the 2008/09 Global Financial Crisis (GFC). Boosted by duty free and quota free access to the US market, travel goods export rapidly expanded, reaching US$1.29 billion (96.3 percent growth) in 2019.

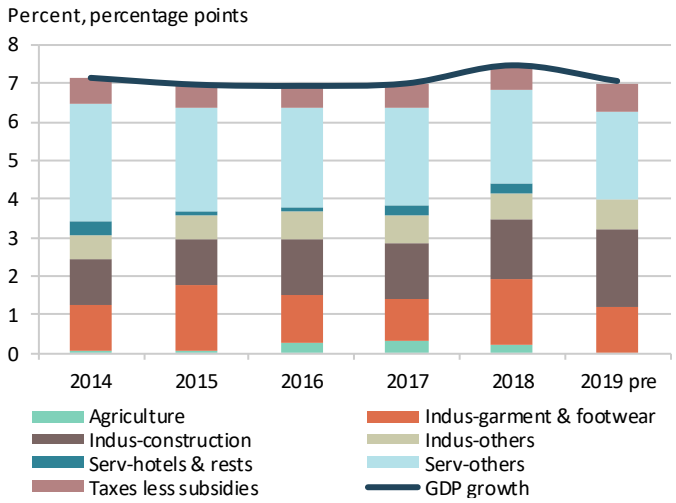
Growth of international arrivals weakened, increasing by 6.6 percent in 2019, down from 10.7 percent in 2018. The number of foreign tourists visiting Angkor Wat temple complex, the country's main attraction site, contracted by 14.1 percent in 2019, again for the first time since the 2008/09 GFC, and a further 37.2 percent during the first two months of 2020. In 2019, contribution to growth of the hotels and restaurants sector eased significantly, while that of the agriculture sector contracted. In 2020, construction activity weakened as imports of steel dipped by 41.3 percent y/y in January 2020, after the value of approved construction permits doubled in 2019 when the construction (and real estate) sector contributed over a third of real growth.

While the demand for consumable goods such as foodstuff, beverages and petroleum products remained robust, consumer appetite for durable goods has faded. Imports of passenger cars moderated to 13.9 percent growth in 2019, down from 72.4 percent in 2018. In January 2020, imports of motorcycles contracted by 6.3 percent y/y, while those of electronics such as mobile phones and televisions dipped by 9.9 percent. Inflation inched up, increasing to 3.1 percent by end-2019, compared to 1.6 percent by end-2018.

The value of approved FDI projects contracted by 9.6 percent in 2019. Roughly 40 percent of FDI inflows comes from China. Thanks to slower capital inflows, the exchange rate slightly depreciated, reaching riel 4,075 per U.S. dollar in December 2019, up from riel 4,018 per U.S. dollar at end-2018. Broad money growth eased considerably, reaching 18 percent growth in 2019, compared to 24 percent in 2018. Growth of foreign currency deposits shrank to 15 percent in 2019, down from 26.8 percent in 2018. Similarly, bank credit to the private sector (95.8 percent of GDP) eased, rising 21.3 percent in 2019, compared to 24.2 percent in 2018. Gross international reserves accumulation reached US$ 18.7 billion (about 7 months of import coverage). The current account deficit is estimated to have remained stable at 8.8 percent of GDP in 2019.

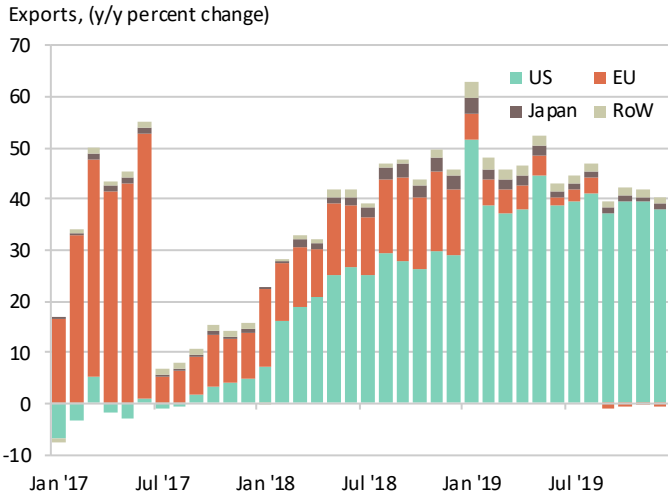
Total government revenues (including grants) peaked last year, estimated at 25.4 percent of GDP, up from 23.8 percent in

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



Sources: Cambodian authorities and World Bank staff estimates.
Note: pre = preliminary.

FIGURE 2 Cambodia / Destination of Cambodia garment, footwear and travel good exports



Sources: Cambodian authorities.
Note: Row = The Rest of the World.

The cut-off date for information in this MPO was March 30, 2020.

2018, thanks to improvements in revenue administration and strong economic activity. Government outlays also increased, reaching an estimated 25.0 percent of GDP in 2019, compared with 23.4 percent in 2018, driven mainly by rising current expenditures. As a result, overall fiscal balance was in a surplus (estimated at 0.5 percent of GDP) for the second year in 2019.

Outlook

Real growth is projected to slow sharply to 2.5 percent in 2020, but recover to 5.9 percent in 2021 under the baseline scenario. The tourism sector has been hit hardest by the outbreak. Similarly, the garment industry is facing a global demand shock as well as partial withdrawal of the EU's "Everything But Arms" (EBA) trade preferential treatment. Spillovers to the construction and real estate sector—one of Cambodia's growth drivers—amid financial market turmoil could potentially be detrimental to growth. Rebounds in economic activity in China and major markets in 2021 improves Cambodia's growth outlook next year.

Poverty reduction is expected to continue but at a slower pace. Given the agriculture sector provides livelihoods for most of the poor, efforts to diversify the agriculture sector and rural households' incomes as well as to promote agroprocessing are expected to help in the medium term.

Risks and challenges

Downside risks to Cambodia's near-term growth outlook include continued decline in tourist arrivals due to lingering global outbreak, slow recovery in global economic activity that would further decelerate Cambodia's industrial sector due to extended demand shock to garment exports, and drastic slowdown in FDI due to prolonged financial market turmoil whereby construction activity does not pick up. In the downside scenario real growth is projected to diminish to 1.0 percent in 2020 and 3.9 percent in 2021. A significant local covid-19 outbreak, real estate market correction following a prolonged construction and property boom, increased credit provided to the construction/real estate/mortgage sector (that recently relies highly on Chinese investment), and high outstanding credit are additional vulnerabilities.

Several measures under a newly introduced fiscal stimulus in the 2020 budget have been announced to mitigate the negative impact. Depending on their effectiveness, measures supporting the hardest hit industries with tax relief and retraining and upskilling programs for laid-off workers may help. Additional capital injection for the Rural Development Bank to support agroprocessing firms and trade facilitation improvements with an expansion of "the green lane" and post audit clearance will enhance longer-term competitiveness. Other initiatives including a new bank to support small- and medium-sized enterprises alongside co-financing and risk sharing initiatives with commercial banks (and microfinance institutions) to improve access to finance will likely need more preparatory work. Measures to address key aspects underpinning the ease of doing business will also need to be introduced. Improvements in fiscal and public investment management should continue to ensure effectiveness of the stimulus.

It is crucial to implement macroprudential measures such as bank limits in terms of exposure to construction and real estate sectors and tighten loan-to-value ratios, except for first home buyers, to cushion the potential impacts of real estate market correction. Recent monetary policy measures announced include reductions of reserve requirement rates, benchmark rate, and liquidity coverage ratio.

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

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	7.0	7.5	7.1	2.5	5.9	6.3
Private Consumption	3.7	3.0	7.0	4.9	5.0	5.4
Government Consumption	23.5	5.1	-9.1	1.3	17.1	9.5
Gross Fixed Capital Investment	6.1	6.1	10.7	-2.2	7.4	7.2
Exports, Goods and Services	5.3	5.3	7.8	2.6	7.0	7.5
Imports, Goods and Services	4.1	4.1	6.0	3.0	6.9	7.1
Real GDP growth, at constant factor prices	6.8	7.4	6.8	2.4	6.0	6.3
Agriculture	1.7	1.1	-0.5	0.3	0.4	0.5
Industry	9.7	11.6	11.3	7.5	9.2	9.3
Services	7.0	6.8	6.2	-1.4	5.3	5.6
Inflation (Consumer Price Index)	3.3	3.1	3.2	2.3	2.0	2.1
Current Account Balance (% of GDP)	-9.7	-8.9	-8.8	-10.9	-11.9	-12.8
Net Foreign Direct Investment (% of GDP)	12.1	12.6	10.6	9.0	9.1	9.3
Fiscal Balance (% of GDP)	-0.8	0.4	0.5	-3.0	-0.4	-0.6
Debt (% of GDP)	30.3	30.0	30.0	32.2	33.4	33.0
Primary Balance (% of GDP)	-0.4	0.8	0.9	-2.5	0.1	-0.1

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

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CENTRAL PACIFIC ISLANDS

Table 1	2018
Population, million	
Kiribati	0.12
Nauru	0.01
Tuvalu	0.01
GDP, US$, billion	
Kiribati	0.19
Nauru	0.11
Tuvalu	0.04
GDP per capita, current US$	
Kiribati	1594
Nauru	8344
Tuvalu	3550

Sources: WDI, World Bank staff estimates.

Economic activity and government revenues in the Central Pacific countries - Kiribati, Nauru and Tuvalu – are highly reliant on donor financing and rents from a few key sources. While construction activity has recently fueled moderate growth, the outlook is tilted to the downside in 2020, with the possibility that COVID-19 will disrupt imports of labor and raw materials for infrastructure projects. A continued global equities correction would also have short-term effects on the three countries' sovereign wealth fund balances.

Recent developments

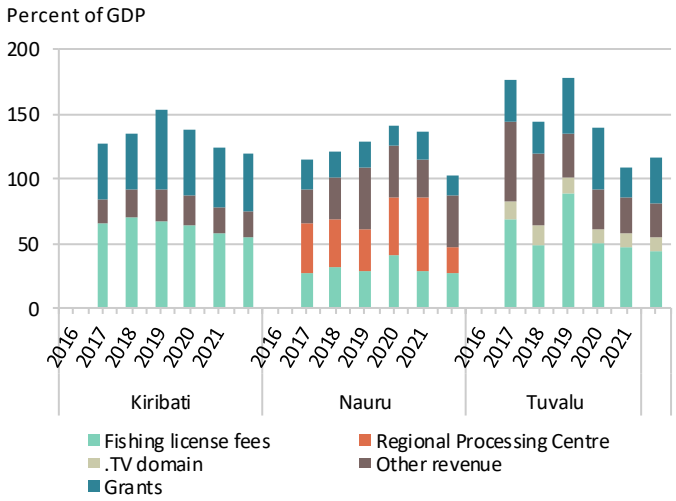
In Kiribati, economic growth is volatile and mainly determined by aid-related construction activity and government spending. Revised figures indicate GDP growth of just 0.9 percent in 2017 before accelerating to 2.3 percent in 2018, driven by the construction sector and government consumption (2019 data is not yet available). Inflation has been low in recent years and dipped into negative territory in 2019 (-1.8 percent) on the back of lower food and beverage prices. Fishing license fees, investment income from its sovereign wealth fund – the Revenue Equalisation Reserve Fund (RERF) – and aid transfers contributed to a current account surplus of 39 percent of GDP in 2018, despite a large trade deficit (77 percent of GDP).

High fisheries revenues in recent years have fueled a major fiscal expansion. The largest new initiative is an international expansion of the state-owned airline fleet at a cost of circa A$120m (47 percent of GDP) over 2018-2020. Other recent measures include an increase to the copra (coconut) subsidy which supports livelihoods on the outer islands, an extension of fee-free primary education, a 30 percent pay rise for civil servants, and an outer islands infrastructure program. In the 2019 budget, the government introduced a new disability allowance and funding for pre-school teacher salaries, which may help to make early childhood education more accessible for the poor. Overall, Kiribati achieved a fiscal surplus of 4 percent of GDP in 2018, but is likely to have registered a small deficit in 2019 (based on the revised budget estimates), owing to a one-off payment towards the airline fleet expansion and delays in budget support payments.

After doubling in size in the early part of the decade, the economy of Nauru has seen slower and more volatile growth in recent years, in line with fluctuations in activity associated with Australia's Regional Processing Centre (RPC) for asylum-seekers, phosphate mining, and fishing. After contracting in FY17 (year ended June), the economy rebounded in FY18, with growth of 5.7 percent attributable to strong fishing activity, preparations for the Pacific Islands Forum (hosted by Nauru in September 2018), and higher-than-expected RPC-related activity. But growth is estimated to have slowed in FY19 to around 1 per cent, due to a slowdown in phosphate mining and a reduction in refugee and asylum-seeker numbers.

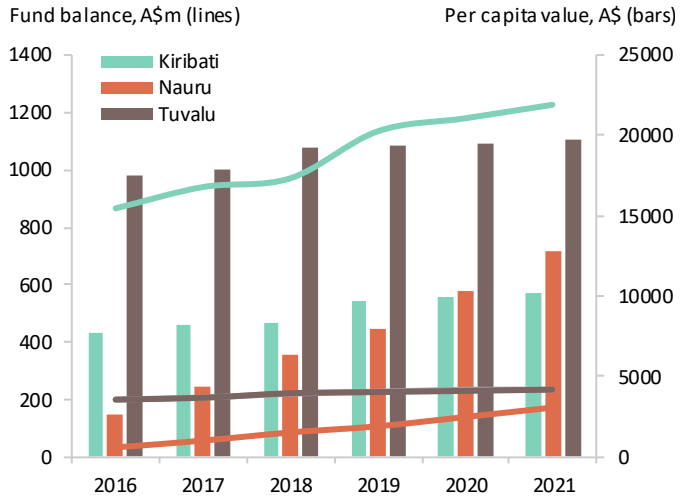
Government revenue has increased by around 50 percentage points of GDP since FY2015 due to RPC-related revenues and fishing license fees, as well as the implementation of employment and services taxes and improvements in tax administration. Government spending has also increased rapidly, particularly on the wage bill and on RPC-related expenditures. Nevertheless, a surplus of 16.1 percent of GDP has been estimated for FY19, broadly in line with the average surplus of 20 percent of GDP realized over the last five years. These surpluses have been used to contribute to the Nauru Trust Fund (which now has assets equivalent to

FIGURE 1 Central Pacific Islands / Sources of revenue—projections to 2021



Sources: Country authorities, and World Bank and IMF staff estimates and projections as of December 2019.

FIGURE 2 Central Pacific Islands / Sovereign wealth fund balances—projections to 2021



Sources: Country authorities, and World Bank and IMF staff estimates and projections as of December 2019.

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about two thirds of GDP, but is not accessible until 2033), as well as build government deposits (including cash buffers) and reduce arrears.

Tuvalu's macro-economic performance over the past few years has been favorable due to strong fishing license fees and increased capital investment in several large infrastructure and housing projects. The country looks set to record a sixth consecutive year of growth in 2019 with real GDP growth estimated at 4.1 percent, marginally below the 2018 level of 4.3 percent. Inflation climbed to 4.4 percent in 2017 due to higher food and transportation costs but is estimated to have fallen back to 4 percent in 2018-2019, with the increase in public wages, dictated by the need to compensate increased living costs and retain staff in the public administration, offset by moderation in food and fuel prices. Tuvalu has a very narrow domestic economic base and external grants are a critical source of budget financing. The banking sector is fragile, and credit provides only modest support to growth.

In recent years Tuvalu maintained fiscal surpluses despite high expenditure thanks to revenue from fishing license fees and the ".tv" domain, and grants, which together account for three quarters of domestic revenues. In 2018 a windfall gain, from a near doubling of fishing license fees, resulted in a sizeable fiscal surplus (including grants) equivalent to 24 percent of GDP. Post-grant surpluses in recent years have been used to replenish the Consolidated Investment Fund (CIF) and, more recently, to capitalize the Tuvalu Trust Fund (TTF) and the newly established Tuvalu Survival Fund (TSF). The combined value of the TTF, TSF and CIF was around 370 percent of GDP at end-2019. The current account continued to post a surplus, 5 percent of GDP, with the deficit in goods and services offset by income inflows, and reserve coverage remains adequate; an estimated 10 months of imports at end-2019.

Outlook

In Kiribati, the near-term outlook is tilted to the downside: economic disruption from COVID-19 may result in delays to construction activity and affect the valuation of sovereign wealth fund (RERF) assets in the short term. The impact on the fiscal position should be limited, however, provided that the Pacific tuna fishing industry is not strongly impacted by COVID-19 related travel restrictions. Over the medium term, growth is expected to recover to around 2 percent as construction activity and visitor arrivals recover. Meanwhile, the next stage of the airline project is expected to result in a large one-off budget deficit in 2020, although this can be afforded from Kiribati's cash reserve buffer.

The economy of Nauru is expected to contract by around 2 percent in FY2020, due to the effects of COVID-19 on construction activity and international arrivals, with a state of emergency declared in March and international flights severely curtailed. Only modest growth of between 1 and 2 percent per annum is expected over the medium term. Growth remains dependent on the uncertain outlook for the RPC, the execution of infrastructure projects (which may suffer to the extent there are COVID-19 related constraints on the availability of labor or materials), and fishing license revenues. Port construction work is likely to continue to support overall economic activity over the next two to three years. The central case is for the fiscal surplus to decline significantly over the medium term in line with a projected decline in RPC-related revenues.

In Tuvalu, the short-term outlook is subject to downside risks due the adverse impact of the COVID-19 outbreak. The medium-term outlook is broadly positive with GDP growth projected to average 4 percent in 2021-22, following the implementation of infrastructure projects. Inflation is expected to moderate to around 3 percent as oil price pressures ease. Over the medium-term however limited administrative capacity, lack of competitiveness and inefficient state-owned enterprises will act as constraints and growth is projected to slow to an annual average of around 2 percent. The government projects a moderate fiscal surplus for 2020 but going forward fiscal deficits averaging 5 percent of GDP over the medium term and 7 percent in the long term could likely emerge as fishing revenues moderate due to a waning El Nino cycle and as development grant allocations decline.

Risks and challenges

Kiribati is heavily reliant on volatile fishing license revenues and investment returns from the RERF to meet its substantial long-term development financing and climate adaptation needs. Going forward, it will be important for Kiribati to continue its efforts to strengthen the sustainable management of these critical resource endowments.

Nauru faces significant challenges in maintaining growth and ensuring fiscal and debt sustainability. While fishing license fees have provided a welcome (albeit volatile) revenue stream in recent years, the biggest challenge is to diversify the economy further given that neither phosphate mining nor the RPC are sustainable drivers of growth in the long run.

Tuvalu is also subject to significant downside risks and challenges stemming from a combination of factors including the country's geographic remoteness, a narrow economic base dependent primarily on inherently volatile fishing revenues and international aid, near total dependency on imports of food and fuel, a fragile and under-regulated banking system and elevated vulnerability to external shocks. Tuvalu is one of the most climate-change challenged countries in the world and the required climate-related adaptation measures impose long-term fiscal costs.

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

	2016	2017	2018p	2019p	2020p	2021p
Real GDP growth, at constant market prices						
Kiribati	10.4	5.1	0.3	2.3	-1.0	1.5
Nauru	2.8	10.4	4.0	1.0	-2.0	1.0
Tuvalu	9.1	3.0	3.2	4.1	1.6	4.2

Sources: Country authorities and World Bank and IMF staff estimates. 2017 estimates are not yet available for Kiribati. Nauru data are based on the fiscal year ended June; Kiribati and Tuvalu are calendar years.
Notes: p = projection.

CHINA

Table 1	2019
Population, million	1395.4
GDP, current US$ billion	14115.8
GDP per capita, current US$	10116
International poverty rate ($1.9)[a]	0.5
Lower middle-income poverty rate ($3.2)[a]	5.4
Upper middle-income poverty rate ($5.5)[a]	23.9
School enrollment, primary (% gross)[b]	99.4
Life expectancy at birth, years[b]	76.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) Most recent WDI value (2017).

The COVID-19 outbreak has led to an unprecedented economic shock in China and the global economy. Growth is projected to slow sharply in 2020 before rebounding in 2021. Uncertainty surrounding the outlook is exceptionally high. Risks include recurrent outbreaks and a sharper and longer lasting slowdown in global growth. The economic slowdown could also exacerbate existing balance sheet vulnerabilities in the household, corporate and banking sectors. Amid slower growth in real household incomes the pace of poverty reduction will moderate.

Recent developments

GDP growth slowed to 6.1 percent in 2019 from 6.6 percent in 2018. Manufacturing investment and trade flows rebounded in the last quarter of 2019 following the conclusion of the phase one trade deal between China and the US.

While momentum had been building towards January 2020, the outbreak of the CoVID-19 virus has been taking a toll on China's economy. Government restrictions, social distancing and fear have sharply reduced consumption of services. Transportation, hospitality, and traditional retail trade were most severely affected. Extended business suspension and labor shortages related to transport restrictions, lockdowns and quarantine requirements caused significant supply disruptions and plunge in manufacturing output, especially in auto, electronics, and machinery sectors, across China. Real industrial value-added contracted by 13.5 percent yoy in the first two months of 2020, while real retail sales plummeted by 23.7 percent. Fixed asset investment (FAI) also fell sharply, declining 24.5 percent in the same period.

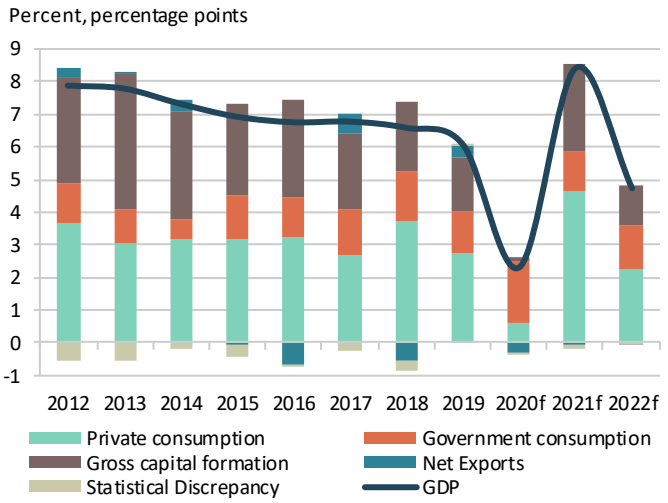
As of mid-March, activity has started to recover, even if at a slow pace. Coal consumption—a proxy of electricity generation—has risen since late February but remains 15 percent below the usual seasonal average. Car and property sales also picked up albeit still remaining about 50 percent lower than last year.

The authorities have implemented measures to mitigate the economic impacts of the outbreak. The initial policy response aimed to bolster market confidence and provide adequate liquidity support to address near-team cashflow problems and mitigate more permanent economic damage in the form of bankruptcies, unemployment, and rising NPLs. The PBOC cut policy rates and announced a targeted reserve requirement ratio (RRR) cut, effective March 16, that would release RMB 550 billion (0.5 percent of GDP) in base money liquidity. The banking sector regulator also adopted regulatory forbearance to encourage banks to allow more flexible repayment and increase tolerance for non-performing loans (NPLs) during the coronavirus outbreak. Targeted fiscal measures were rolled out to ease near-term cashflow problems in the enterprise sector including subsidies, tax breaks and deferrals in social and health insurance payments by affected industries (estimated at about 1.2 percent of GDP). In addition, 1.3 trillion RMB (or 1.3 percent of GDP) special local government bond issuance was authorized in 2020Q1, 0.6 percent GDP higher than 2019Q1.

Outlook

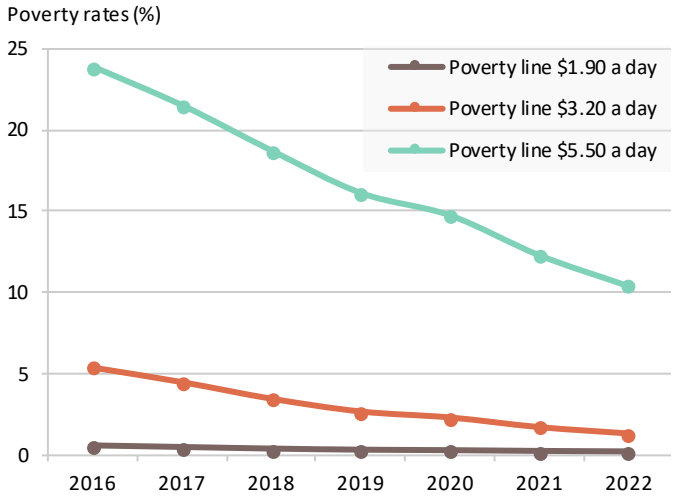
Growth is forecast to decline sharply this year. In our base case scenario -which is predicated on a severe but ultimately short-lived shock- we expect growth to slow to 2.3 percent in 2020. After economic activity came to a sudden halt in the first quarter, growth is expected to rebound in the remainder of the year as

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



Sources: National Bureau of Statistics; World Bank staff estimates.

FIGURE 2 **China** / Poverty estimates and projections



Sources: World Bank staff forecasts based on group data provided by Povcal.

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supply side constraints ease and pent-up demand is released amid a roll back of prevention measures. However, job losses, shortfalls in corporate revenue and uncertainty will slow the return to previous levels of consumption, investment and trade. While additional fiscal support and monetary easing is expected to help lift domestic demand, the impending global recession is also expected to restraint the pace of recovery.

Risks to this baseline are significant and tilted to the downside. Domestically, recurrent outbreaks could delay resumption of economic activity. In addition, despite government policies to mitigate impacts, household, banking sector and corporate balance sheets may suffer more permanent damage, especially given the high level of indebtedness. These domestic risks are compounded by heightened external uncertainty including the possibility of a more severe and protracted global recession, accompanied by persistent dislocations in global trade and finance. In a more adverse scenario where some of these risks materialize, China's growth would slow more sharply to 0.1 percent this year.

Reflecting labor dislocation, slower growth in household incomes, higher food prices and health expenditures, the pace of poverty reduction is expected to slow. Workers in less secure, informal and self-employment, particularly migrant workers will be especially vulnerable. In addition, elderly population, with heightened health risk, higher health expenditures and potentially lower family transfers which are not compensated by public transfers, may be particularly hurt by the outbreak. Still, the share of people living on less than $5.50/day (the poverty line for upper-middle income countries) is projected to continue to decline or stall, depending on the scenario. While in 2019, poverty rate is estimated to have declined 2 percentage points (over 27 million people lifted out of poverty), the projection is that in 2020, the poverty rate will decline between 0.8 percentage point (11 million people) and 0.2 percentage points (2 million people), due to a slowdown in economic growth.

Risks and challenges

Negative risks to the outlook are significant. Domestically, the economic impacts of the outbreak could exacerbate existing vulnerabilities and balance sheet weaknesses in the corporate and banking sectors which could weigh on the recovery, put additional strain on the banking system and pose potential contingent fiscal liabilities. Externally, a sharper than expected deterioration in the external environment, including substantially weaker external demand, widespread disruptions to global supply chains outside China, and negative global market and financial confidence effects, could restrain the pace of China's recovery. The outbreak may also hamper the implementation of the China-US phase one trade agreement, which could lead to renewed trade tensions, with broad-ranging economic consequences.

Continued and well calibrated fiscal and monetary policy measures are required to mitigate the economic impacts of the outbreak. Priority areas include policy measures to mitigate short-term distress especially in small and medium enterprises and social impacts, especially on poor and vulnerable households. Monetary policy will also need to remain accommodative to contain downside risks to growth. However, once economic activity stabilizes de-risking and deleveraging efforts would need to resume to reduce financial risks. Beyond the immediate impact of the current outbreak, longer-term economic impacts may be associated with perceptions of heightened public health risks in China. This calls for resolute policy actions that enhance resilience against similar health shocks, including enhanced food safety, health surveillance and response systems.

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

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	6.8	6.6	6.1	2.3	7.7	5.0
Private Consumption	6.8	9.5	6.8	1.0	11.0	6.0
Government Consumption	10.0	10.4	8.4	12.1	7.2	7.5
Gross Fixed Capital Investment	4.4	4.8	4.5	0.2	5.4	3.3
Exports, Goods and Services	9.1	4.0	2.5	-8.5	4.0	1.0
Imports, Goods and Services	7.1	7.9	1.0	-9.3	4.5	1.2
Real GDP growth, at constant factor prices	6.8	6.6	6.1	2.3	7.7	5.0
Agriculture	3.9	3.5	3.3	3.1	3.4	3.3
Industry	5.9	5.8	5.5	2.8	7.3	4.2
Services	7.9	7.6	7.0	1.8	8.7	5.8
Inflation (Consumer Price Index)	1.6	2.1	2.9	2.6	2.4	2.4
Current Account Balance (% of GDP)	1.6	0.4	1.1	1.1	0.9	0.8
Net Foreign Direct Investment (% of GDP)	0.2	0.8	0.9	0.6	1.0	1.1
Fiscal Balance (% of GDP)[a]	-3.9	-3.8	-5.8	-7.2	-5.2	-5.1
Debt (% of GDP)	46.5	36.2	39.2	45.1	46.2	48.3
Primary Balance (% of GDP)	-3.0	-2.6	-4.6	-6.2	-4.0	-3.9
International poverty rate ($1.9 in 2011 PPP)[b]	0.4	0.3	0.3	0.3	0.2	0.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b]	4.5	3.7	3.0	2.7	2.3	2.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b]	21.5	19.5	17.4	16.6	14.9	13.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
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) Note: 2016 is actual based on group data provided by NBS, 2017 onwards are projections using neutral distribution assumption with pass through 0.72

The cut-off date for information in this MPO was March 30, 2020.

FIJI

Table 1	2019
Population, million	0.9
GDP, current US$ billion	5.5
GDP per capita, current US$	6023
Basic Needs Poverty Rate[a]	28.1
International poverty rate ($1.9)[a]	1.4
Lower middle-income poverty rate ($3.2)[a]	14.1
Life expectancy at birth, years[b]	67.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Fiji Bureau of Statistics. Based on income-based National Poverty Line in 2013–14.
(b) Most recent WDI value (2017).

Fiji's economy is estimated to have grown 1 percent in 2019, down sharply from the earlier projection of 3.4 percent, reflecting the downturn in the global economy and Fiji's main trading partners. On the domestic front, another year of robust performance in the tourism sector only partially offset subdued demand, a contraction in investment, and reduced fiscal stimulus. Fiji's medium-term outlook remains positive, but in the short term the economy is highly vulnerable to the fragile global environment and the potential impact of the current COVID-2019 crisis.

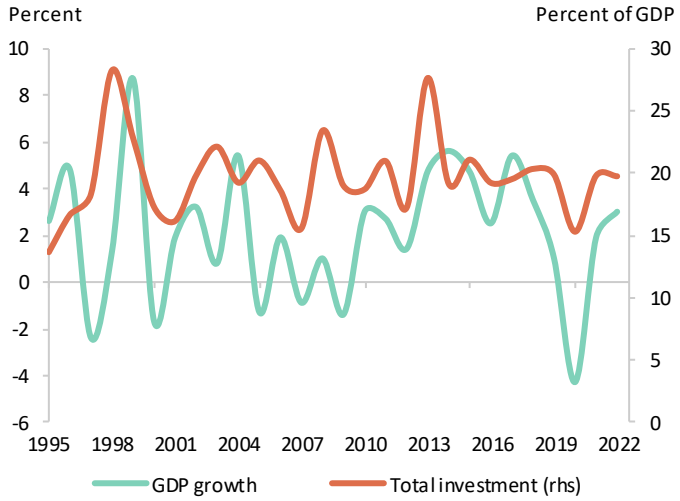
Recent developments

Fiji's economic growth decelerated sharply in 2019 to an estimated 1 percent; well below the prior projection of 3.4 percent and in marked contrast to the 3.5 percent expansion recorded in 2018. The downturn in 2019, when the economy grew at is slowest pace in a decade, reflected the synchronized slowdown in the global economy and Fiji's main trading partners. It was also driven by outcomes on the domestic front, including subdued consumer demand, a contraction in investment stemming from weak business and investor sentiment, and reduced fiscal stimulus following completion of reconstruction after Tropical Cyclone Winston. Real sector outcomes and industrial activity were also restrained, as reflected in lower gold, timber and sugar output. COVID-19 has already started affecting Fiji's economy, particularly tourism, which is the country's primary industry with a combined direct and indirect contribution to GDP estimated at 38 percent.

Inflation surged in 2018 but, has decelerated since mid-2019 and turned negative in the fourth quarter of 2019. The annual inflation rate fell to minus 1.9 percent in January 2020, reflecting lower prices for communication; alcoholic beverages; tobacco; water and electricity, gas and other fuels. Monetary policy remained accommodative. The Reserve Bank of Fiji (RBF) has just reduced its overnight policy rate (OPR) to 0.25 percent from 0.50 percent in response to the negative impact of COVID-19 on global travel and trade, as well as deteriorating consumer and business confidence. The OPR had been at the same level since 2011. Liquidity in the banking system, measured by banks' demand deposits, has been growing steadily in recent months and remains adequate to support financial intermediation alongside economic activity and stabilize interest rates. The Real Effective Exchange Rate (REER) declined over the last year on account of negative domestic inflation.

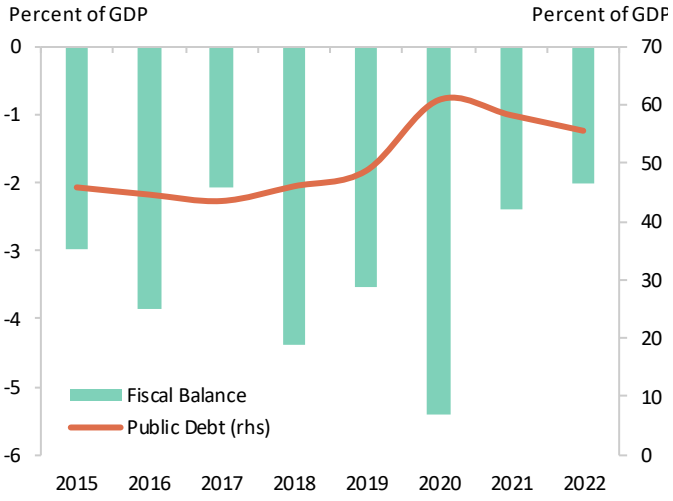
Fiscal policy in recent years has been expansionary in part because of large-scale reconstruction in the wake of the devastation wrought by Tropical Cyclone Winston in 2016. However, in 2019 the fiscal deficit contracted to an estimated 3.5 percent of GDP, from 4.4. percent in 2018, with the reduction in expenditure more than compensating for lower than expected revenues. Public debt rose 7 percent in 2019 driven by an increase in domestic debt but was unchanged in relation to GDP, at 48 percent. Balance of payments vulnerabilities receded in 2019 with the current account deficit estimated to have fallen to 4.7 percent of GDP, down from 8.5 percent in 2018, as a result of a sharp contraction in imports and rising surplus on the service account from higher tourism receipts and continued strength of remittances. The reduction in imports and lower crude oil prices, coupled with continued growth in tourism and remittances, also boosted foreign exchange reserves. They stood at US$982.4 million on March 18, 2020, equivalent to 5.8 months of imports of goods and services.

FIGURE 1 **Fiji** / Real GDP growth and total investment as a share of GDP



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

FIGURE 2 **Fiji** / Fiscal balance and public debt



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

The cut-off date for information in this MPO was March 30, 2020.

Fiji has one of the lowest rates of extreme poverty in the Pacific. In 2013, just 1.4 percent of people in Fiji lived in extreme poverty, or under the US$1.90 per day (2011 PPP) poverty line. Inequality in Fiji is also among the lowest in the East Asia and Pacific region: the Gini Index, a measure of inequality, stood at 36.4 in 2013. Outcomes in Fiji are less favorable when measured against the US$5.50 Upper Middle-Income Class Poverty Line, which reflects living standards across all upper middle-income countries. It puts the incidence of poverty in Fiji at 48.6 percent, higher than most other upper middle-income countries.

Outlook

Fiji's short-term outlook is uncertain and is dependent on the length of the COVID-19 crisis, the severity of the disruption to the global economy and the impact on tourism, which is the mainstay of the Fijian economy. The economy is expected to contract in 2020 but return to trend from 2021 onwards with growth strengthening to around 3 percent in 2021-2022 if the COVID-2019 crisis is contained, allowing the global environment to improve and tourism to remain robust, and assuming public investment increases and the private sector gains momentum.

The modest outlook for import growth and uptick in tourism and remittance inflows should keep international reserves at comfortable levels and the current account balance below 5 percent of GDP over the medium term. The FY2020 budget, the government's first since re-election for a second term in November 2018, had set out an ambitious commitment to fiscal consolidation driven by expenditure reduction measures, stabilization of capital spending at pre-Tropical Cyclone Winston levels and tighter control over recurrent spending. However, given the severe implications of COVID-19 on the economy, the government announced on March 26 an economic package of over FJ$1.0 billion, equivalent to around 8.7 percent of GDP, in its COVID-19 response budget. The package includes allocation of resources for containment and treatment of the virus; fiscal support to minimize economic disruptions; targeted spending and fiscal measures to boost disposable income and assistance for business. The deficit is expected to be financed through domestic borrowing as well as funds from the Asian Development Bank and the World Bank.

Risks and challenges

The potential impact of the current COVID-2019 crisis poses heightened risks. The Fijian economy is particularly vulnerable to downside risks stemming from slower growth in main trading partners. These could impact tourism, remittances, and export receipts. Natural disasters are a constant threat and delays in structural reforms aimed at mobilizing private investment would also contribute to slower growth and a higher debt-to-GDP ratio. On the upside, new air routes and code share arrangements with Asian and Indian carriers have the potential to boost tourism from these markets if the COVID-19 crisis is contained and more stable oil prices would benefit inflation, imports, and foreign reserves.

The poverty impacts of the COVID-2019 crisis are also difficult to estimate due to this uncertainty. In 2013, 10 percent of households had at least one member working in the tourism industry, with a further 2 percent and 8 percent with a member working in restaurants and transportation, respectively, which may be indirectly impacted. While workers in these sectors are not disproportionally poor, more than 80 percent of these jobs are formal sector salaried employment, which may be difficult to replace in a general economic downtown. As such, a shock to the tourism industry, which would also cause ripple effects in related industries, could significantly increase the poverty rate and deepen the poverty gap.

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

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	5.4	3.5	1.0	-4.3	1.9	3.0
Agriculture	10.8	4.2	3.8	3.4	3.4	3.5
Industry	4.2	4.4	1.5	0.0	3.5	3.7
Services	3.8	1.2	1.3	-5.1	0.1	2.0
Inflation (Consumer Price Index)	3.3	4.8	2.0	2.3	2.5	3.0
Current Account Balance (% of GDP)	-6.7	-8.5	-5.5	-5.1	-5.5	-5.4
Net Foreign Direct Investment (% of GDP)	7.1	8.7	8.6	7.9	8.2	8.1
Fiscal Balance (% of GDP)[a]	-2.1	-4.4	-3.5	-5.4	-2.4	-2.0
International poverty rate ($1.9 in 2011 PPP)[a,b,c]	0.8	0.7	0.7	0.9	0.8	0.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b,]	9.0	8.3	8.2	9.6	9.2	8.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b,]	39.5	37.9	37.8	40.8	39.9	38.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on EAPPOV harmonization, using 2013-HIES.
(b) Projection using neutral distribution (2013) with pass-through = 0.87 based on GDP per capita in constant LCU.

The cut-off date for information in this MPO was March 30, 2020.

INDONESIA

Table 1	2019
Population, million	269.1
GDP, current US$ billion	1116.8
GDP per capita, current US$	4149
International poverty rate ($1.9)[a]	4.6
Lower middle-income poverty rate ($3.2)[a]	24.2
Upper middle-income poverty rate ($5.5)[a]	56.1
Gini index[a]	39.0
School enrollment, primary (% gross)[b]	105.9
Life expectancy at birth, years[b]	71.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) Most recent WDI value (2017).

With unfavorable external conditions and significant terms-of-trade deterioration, Indonesia's economic expansion slowed in 2019. Domestic drivers of growth weakened, as consumption slowed from pre-election highs and investment growth decelerated due to weak commodity prices and domestic political uncertainty. Inflation and poverty rates reached record lows, the current account deficit narrowed modestly while the labor market sent mixed signals. Economic growth is projected to slow significantly due to the coronavirus pandemic. A delayed containment of the virus poses additional downside risks.

Recent developments

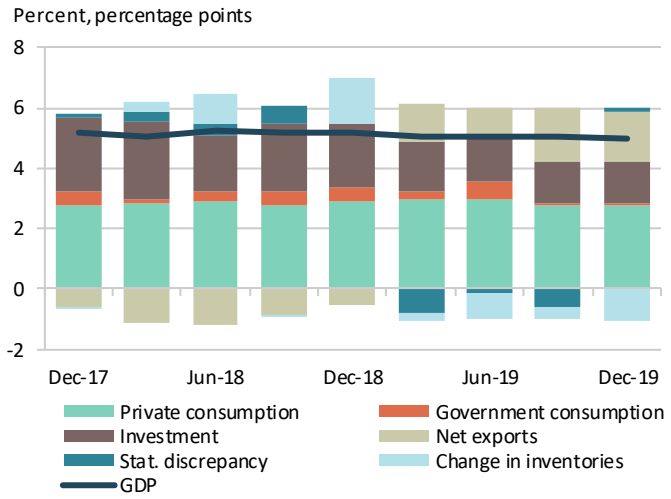
Indonesia's economy grew by 5.0 percent in 2019, down from 5.2 percent in 2018 (Figure 1). Despite stable headline growth, domestic demand softened in Q4. Private consumption growth slowed as spending by political parties normalized. Similarly, government consumption growth decelerated to the weakest in 10 quarters, as revenue shortfalls led to fiscal restraint. Fixed investment growth also eased as commodity prices contracted further, global policy uncertainty lingered and public infrastructure projects wrapped up. Weaker domestic demand was mirrored by another strong contraction in imports. With tepid external conditions, exports also declined, albeit only slightly, leading net exports to make a large contribution to growth.

The current account deficit (CAD) narrowed modestly to 2.7 percent of GDP from 2.9 percent in 2018. On a quarterly basis, the CAD widened to USD 8.1 billion in Q4 from USD 7.5 billion in Q3, partly due to higher year-end holiday fuel imports that reduced the goods trade surplus, which more than offset the narrower deficits in both services trade and income accounts. The negative terms-of-trade shock led to a smaller improvement in the CAD compared to the contribution from net exports to GDP growth. The capital and financial account surplus jumped to USD 12.4 billion in Q4, supported by strong portfolio and other investment inflows, amid reduced domestic political uncertainty and global monetary easing. Capital inflows also supported the Rupiah, while bond yields fell. The overall Balance of Payments (BoP) returned to a surplus in Q4, leading reserves to increase to a near two-year high of USD 129.2 billion at the end of 2019, which are sufficient to finance 7.3 months of imports and external debt repayments. For the year, the BoP stood at a surplus of 0.4 percent of GDP, in contrast to a deficit of 0.7 percent of GDP in 2018.

Inflation fell to a record low of 2.8 percent in 2019, as lower energy and food costs outweighed higher gold prices. This, in addition to global monetary policy easing and a stable Rupiah, allowed Bank Indonesia to cut the policy rate by a cumulative 100 bps from July to October. Lower commodity prices and contracting imports constrained total revenue growth that fell from a seven-year high in 2018 to 0.7 percent yoy in 2019. Consequently, the tax ratio fell to 9.8 percent of GDP. Meanwhile, contracting material, capital and energy subsidy spending contributed to slower expenditure growth of 4.4 percent, less than half of the increase in 2018. The budget deficit widened to 2.2 percent of GDP in 2019, above the budget target of 1.8 percent but below the legal ceiling of 3.0 percent.

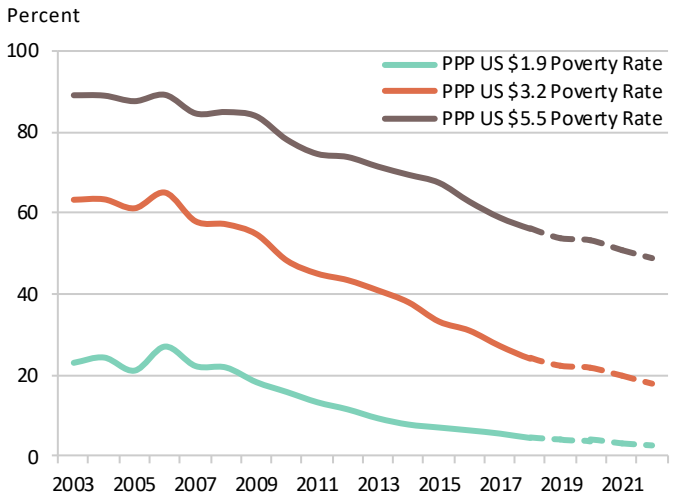
Labor market indicators sent mixed signals. On the one hand, 2.5 million jobs were created over August 2018-19, taking the employment rate to 63.9 percent. The labor force participation rose to a four-year high of 67.4 percent. On the other hand, nominal wage growth was muted at 3.0 percent yoy, implying flat real wages. Consistent with sustained economic

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



Sources: BPS; World Bank staff calculations.

FIGURE 2 Indonesia / Poverty rates, actual and projected



Sources: BPS; World Bank staff calculations.

The cut-off date for information in this MPO was March 30, 2020.

growth, strong job creation, low inflation and the recent expansion in social assistance programs, Indonesia's poverty rate fell from 9.6 percent in September 2018 to another record low of 9.2 percent in September 2019, equivalent to 24.8 million individuals still living in poverty.

Outlook

On account of the continuing spread of the coronavirus both domestically and abroad, Indonesia's real GDP growth is projected weaken significantly to 2.1 percent in 2020, before rebounding to an average 5.4 percent in 2021-22 as aggregate demand recovers and stabilizes.

Private consumption growth this year is expected to slow sharply as Indonesia implements moderate restrictions to movement to curtail the spread of the virus. Similarly, investment growth is also projected to fall markedly on the negative terms-of-trade shock and as confidence plunges; lower borrowing costs and proposed economic reforms may support the recovery. In contrast, growth of government consumption is forecast to strengthen considerably as the Government embarks on a sizable fiscal stimulus package. Amid sharply reduced global growth and trade, Indonesia's exports and imports are expected to contract for the second consecutive year. The CAD is expected to widen from 2.7 percent of GDP in 2019 to 2.8 percent of GDP as tourism exports abruptly halt and commodity prices sink.

Based on the international poverty line, the extreme poverty rate (population living below $1.9 per day) declined from 5.7 percent in 2017 to 4.6 percent in 2018, lifting 2.7 million people out of extreme poverty (Figure 2). The fall in moderate poverty was higher, declining 3.1 percentage points to 24.2 percent in 2018. Despite slower growth this year, extreme poverty is still expected to continue falling and is forecast to be cut by more than a third by 2022 at 2.8 percent. Similarly, moderate poverty is expected to fall to 18 percent by 2022, a 25.4 percent decline from 2018.

Risks and challenges

Downside risks to the growth outlook are severe. The need for drastic measures to restrict movement to contain the epidemic, both globally and domestically, could lead to a more protracted slowdown further weighing on global demand, commodity prices, international trade and tourism flows, global business sentiment and investment growth. In contrast, proposed structural reforms to open the economy to foreign direct investment present some upside risks at the recovery stage later in 2020 and in outer years.

Poverty continues to decline, yet a substantial share of the population lacks economic security and the coronavirus outbreak is likely to expose them to negative shocks. Indonesians with inadequate social protection who get sick or suffer income loss due to travel restrictions can fall into poverty. With sharply reduced tourism flows, even aspiring middle-class and middle-class families without adequate safety nets are at risk of slipping into poverty. Progressing up the economic ladder remains a challenge in general – there was only a moderate increase of 0.2 percentage point in the consumption share of the bottom 40 percent between September 2018-19.

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

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	5.1	5.2	5.0	2.1	5.6	5.2
Private Consumption	5.0	5.1	5.2	1.5	5.2	5.2
Government Consumption	2.1	4.8	3.2	5.0	3.0	3.5
Gross Fixed Capital Investment	6.2	6.6	4.4	0.0	6.0	5.0
Exports, Goods and Services	8.9	6.5	-0.9	-2.0	3.5	4.0
Imports, Goods and Services	8.1	11.9	-7.7	-7.0	1.0	2.0
Real GDP growth, at constant factor prices	4.7	4.9	5.0	2.1	5.6	5.2
Agriculture	4.1	4.0	3.1	3.7	3.6	2.8
Industry	4.2	4.3	3.9	4.4	4.2	5.1
Services	5.4	5.8	6.6	-0.5	7.5	6.0
Inflation (Consumer Price Index)	3.8	3.3	2.8	2.9	3.0	2.7
Current Account Balance (% of GDP)	-1.6	-2.9	-2.7	-2.7	-2.6	-2.5
Net Foreign Direct Investment (% of GDP)	1.8	1.2	1.8	1.7	1.8	2.0
Fiscal Balance (% of GDP)	-2.5	-1.8	-2.2	-2.9	-2.5	-2.3
Debt (% of GDP)	29.4	29.9	28.0	31.4	31.5	31.7
Primary Balance (% of GDP)	-0.9	-0.1	-0.5	-1.2	-0.9	-0.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	5.7	4.6	4.0	3.9	3.3	2.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	27.3	24.2	22.2	21.8	19.8	18.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	58.9	56.1	53.9	53.4	51.0	48.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on EAPPOV harmonization, using 2011-SUSENAS, 2017-SUSENAS, and 2018-SUSENAS. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 20
(b) Projection using annualized elasticity (2011-2017) with pass-through = 1based on GDP per capita in constant LCU.

The cut-off date for information in this MPO was March 30, 2020.

LAO PDR

Table 1	2019
Population, million	7.1
GDP, current US$ billion	18.1
GDP per capita, current US$	2568
International poverty rate ($1.9)[a]	22.7
Lower middle-income poverty rate ($3.2)[a]	58.7
Upper middle-income poverty rate ($5.5)[a]	85.0
Gini index[a]	36.4
School enrollment, primary (% gross)[b]	106.0
Life expectancy at birth, years[b]	67.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2012), 2011 PPPs.
(b) Most recent WDI value (2017).

GDP growth declined in 2019, owing to the natural disaster impacts and a decline in the resource sector. This has impacted poverty reduction. Despite reforms, revenue underperformance outweighs the expenditure compression, keeping the fiscal deficit and public debt/GDP ratios elevated. Therefore, promoting credible revenue-based fiscal consolidation and public debt management is necessary. In the near-term, COVID-19 outbreak will have a significant negative impact on both the demand and supply side. Limited fiscal and foreign currency buffers will challenge the ability of authorities to mitigate these impacts.

Recent developments

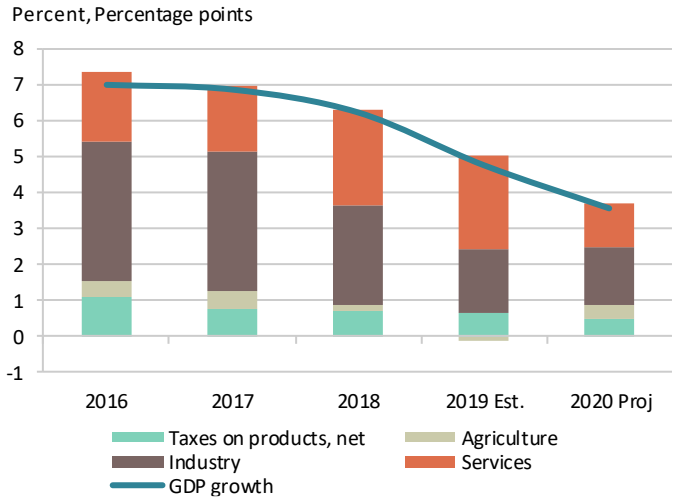
Economic growth has declined to estimated 4.8 percent in 2019 owing primarily to the weak performance of the agriculture, mining and hydropower sectors. The agriculture sector was adversely affected by the flooding in the south and a drought in the north of the country; a caterpillar infestation which decreased maize output; and the African Swine Fever outbreak which reduced the pig population. Industry growth also declined, weighed down by a decline in electricity generation due to low water level owing to the drought and mining output due to the declining ore quality and availability, This offset the still robust growth in the construction sector. The services sector growth moderated slightly as the recovery in tourism was offset by the slowdown in the retail and wholesale trade sector due to a decline in real disposable income driven by higher inflation with the significant depreciation of Kip. Moderation in GDP growth coupled with continuously rising food prices and weak performance of the agriculture sector has disproportionately affected the poor. As a result, poverty is estimated to slightly decline to 18.6 percent in 2019 from an estimated 18.9 percent in 2018.

The fiscal deficit remained elevated at around 5 percent of GDP in 2019 due to the weak revenue performance. Despite revenue reforms, domestic revenue to GDP ratio is estimated to decline further due to: (i) delays in the approval of implementation instructions for tax laws; (ii) weak enforcement of and compliance with tax reforms and revenue administration measures; and (iii) a fall in non-tax revenues due to a decline in forest fund in 2019 compared to 2018. Some expenditure compression was achieved by reducing new civil servant recruitment and moderating public investment together with expenditure arrears. Consequently, the public debt stock is estimated to reach almost 60 percent of GDP in 2019 from 57.2 percent in 2018, with an increasing share of non-concessional financing. This has led to central government external debt service obligations of just over US$ 1 billion/year in 2020.

The current account deficit narrowed in 2019 with exports growing slightly faster than imports. Export growth was driven by a rise in wood pulp and rubber to China and tourism while import growth was supported by the construction sector which offset the decline in fuel imports due to lower oil prices. Foreign currency reserves increased to US$997 million in 2019 (owing primarily to the disbursement of the China Development Bank's loan for SMEs of US$100 million) from US$873 million in 2018. However, foreign currency buffers remain thin, estimated to cover less than 1.4 months of imports and only 86 percent of projected total external public debt service obligations in 2020.

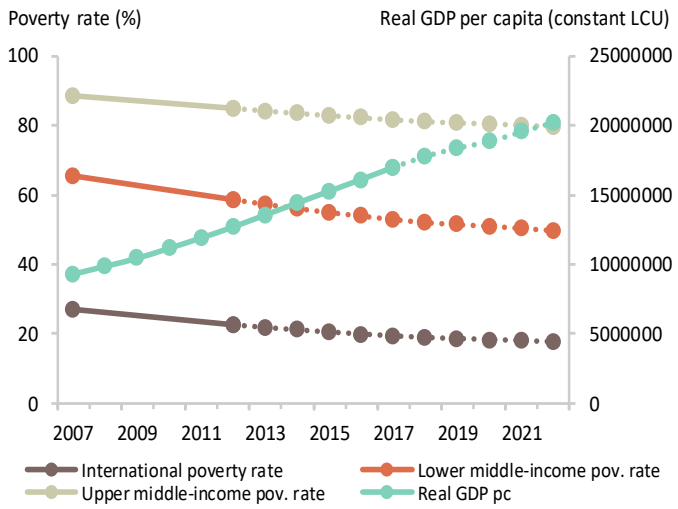
The pressure in the foreign exchange market increased since the second half of 2019. Kip continues to depreciate against US dollar and Thai baht. The demand-supply mismatch caused the spread between the official Kip/USD and the parallel exchange

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



Sources: Lao Statistics Bureau, World Bank staff estimates.

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



Sources: World Bank. Notes: see table 2.

The cut-off date for information in this MPO was March 30, 2020.

rate in Vientiane capital to widen since mid-2019 to above 5 percent by mid-March 2020. The depreciation of Kip and rising food prices have driven up inflation, which climbed to 7 percent in January 2020 from 2.5 percent in mid-2019.

Outlook

With the outbreak of the COVID-19 worldwide, Lao PDR's growth is projected to decline to 3.6 percent in 2020 owing to supply and demand side disruptions. Immediate impacts are on the tourism, hospitality and transport sectors, moderation in construction and manufacturing due to travel restrictions and supply chain disruptions. A sharp drop in tourism is expected to have short-term poverty impacts as households working in tourism and related sectors face a significant income loss that is expected to last for at least one quarter. In addition, the mining sector is expected to contract with copper mines reducing their production as the mines mature. This contraction will more than offset the new gold operation that will begin operating towards second half of 2020. This is expected to offset the gains from recovery in agriculture and higher power generation with four large power plants coming fully onstream this year. The current deficit is also expected to increase with the expected decline in the tourist arrivals, which will partly offset the anticipated rise in power generation and the rebound in the agriculture sector. By 2022, with the Lao-China Railway coming into operation, it is expected that the tourism and hospitality sector will experience robust growth.

Subject to progress of credible revenue-based fiscal consolidation, the fiscal deficit is expected to increase in 2020 to 6 percent and remain at around 5 percent of GDP over the medium term. Debt/GDP is expected to rise over the medium-term to around 67 percent of GDP. Public debt service (interest and principal) obligations in the next three years will average US$ 1 billion/ year (or about 40 percent of revenue), which most likely lead to additional borrowing to refinance these obligations. Over the medium term, foreign currency reserve coverage is expected to remain inadequate. Therefore, the containment of the fiscal deficit coupled with improved debt management is a priority for restoring macroeconomic stability and lowering the pressure on foreign currency reserves.

Risks and challenges

Risks are tilted to the downside. They could further weigh down on GDP growth, the fiscal and financial outlook, balance of payments, and poverty reduction efforts. These downside risks are: (i) a more prolonged, severe and pervasive outbreak of COVID-19, exacerbated by more sluggish recovery in Lao PDR's key trading partners and community spread in Lao PDR, that will negatively impact the agriculture, manufacturing and other services sectors through the trade and investment channels; if so, poor and vulnerable households - particularly those with elderly members - will be disproportionately affected in the in the absence of effective social protection and adequate access to healthcare services; (ii) the challenges in meeting public external debt service (interest and principal) obligations as it becomes increasingly challenging to tap the international capital markets; and (iii) weather-related events such as a repeat of the droughts and floods of 2019 as the deteriorating fiscal space will put downward pressure on social and disaster -relief spending.

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

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	6.9	6.3	4.8	3.6	5.8	5.3
Real GDP growth, at constant factor prices	6.9	6.3	4.8	3.6	5.8	5.3
Agriculture	2.9	1.3	-0.9	2.9	2.6	2.8
Industry	11.6	7.8	5.0	4.5	6.0	4.2
Services	4.5	6.8	6.7	2.9	6.8	7.1
Inflation (Consumer Price Index)	0.8	2.0	3.3	4.8	5.0	4.9
Current Account Balance (% of GDP)	-12.1	-11.5	-11.3	-13.4	-10.8	-10.1
Fiscal Balance (% of GDP)	-5.5	-4.7	-4.9	-6.0	-5.2	-4.8
Debt (% of GDP)	55.8	57.2	59.9	63.5	65.2	66.6
Primary Balance (% of GDP)	-4.1	-3.0	-2.9	-3.8	-3.1	-2.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	19.4	18.9	18.6	18.4	18.0	17.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	53.0	52.2	51.6	51.3	50.5	49.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	81.7	81.2	80.9	80.6	80.2	79.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on EAPPOV harmonization, using 2007-LECS and 2012-LECS. Actual data: 2012. Nowcast: 2013-2019. Forecast are from 2020 to 2022.
(b) Projection using annualized elasticity (2007-2012) with pass-through = 1based on GDP per capita in constant LCU.

The cut-off date for information in this MPO was March 30, 2020.

MALAYSIA

Table 1	2019
Population, million	32.5
GDP, current US$ billion	364.2
GDP per capita, current US$	11222
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.2
Upper middle-income poverty rate ($5.5)[a]	2.7
Gini index[a]	41.0
School enrollment, primary (% gross)[b]	105.3
Life expectancy at birth, years[b]	75.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2017).

The ongoing COVID-19 outbreak has led to major negative impacts on the domestic economy, including broad-based disruption of economic activities. The GDP growth projection for 2020 has been revised sharply downwards from 4.5 percent to -0.1 percent, reflecting the severity of the economic impact of the COVID-19 outbreak. It is important to note that this estimate contains a large degree of uncertainty, conditional on the overall outcome of the outbreak and the subsequent policy responses.

Recent developments

The ongoing COVID-19 outbreak has led to major negative spillovers in the domestic economy. At the initial stage of the outbreak, the impact was mainly on the E&E manufacturing sector, which is closely integrated into China-centric production networks, and in the tourism and retail industries due to lower tourist arrivals. More recently, as the outbreak became widespread with higher community transmission, the government announced a 4-week movement control order (MCO) which includes general prohibition of mass gatherings, restrictions of travel, and closures of schools, universities, government and private premises except those involved in essential services.

The government announced two economic stimulus packages totaling a RM250 billion injection into the economy and has revised down its growth forecast and raised its deficit projection. Among the measures announced are a temporary cash transfer program of RM10 billion (Bantuan Prihatin Nasional, or BPN), a salary subsidy package of RM5.9 billion, as well as the reduction of the minimum workers' contribution to the Employees Provident Fund (EPF). The Central Bank of Malaysia (BNM) preemptively reduced its policy rate and lowered the statutory reserve requirement ratio to ensure adequate levels of liquidity in the banking system. In addition, special loan funds have also been established and several large banks have also announced moratoriums on loan repayments.

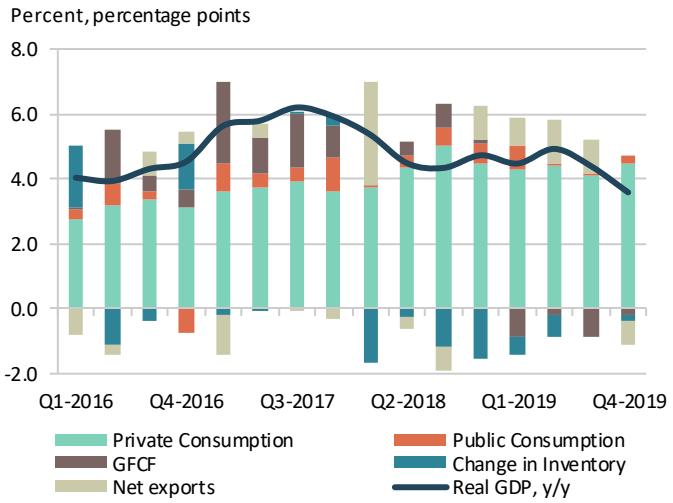
Domestic financial markets have been severely affected by heightened risk aversion, reflecting concerns about the impact of the outbreak. Between January and mid-March 2020, the FBM KLCI dropped by 24 percent and the ringgit depreciated by 7 percent against the US dollar.

For the whole of 2019, GDP growth stood at 4.3 percent. Malaysia's economy expanded at a much slower pace in the second half of 2019, growing at 4.4 percent in Q3 and decelerating further to 3.6 percent in Q4. Private consumption remains the key driver of growth, anchored by positive income and employment growth. Growth in private investment remained slow on lower capital spending across economic sectors. Public investment remained in contraction, reflecting lower capital spending by both the federal government and public corporations. Meanwhile supply disruptions continued to affect the commodities and agriculture sectors.

Growth was also significantly affected by a deeper contraction of net exports of 1.3 percent and 3.3 percent in Q3 and Q4 respectively. Exports of E&E products were affected by the cyclical slowdown in the global technology cycle, while commodity exports were affected by a sharp contraction in liquefied natural gas exports. Growth of intermediate and capital imports shrank during the second half of 2019 on lower imports of intermediate E&E equipment and slower investment in machineries and transport equipment.

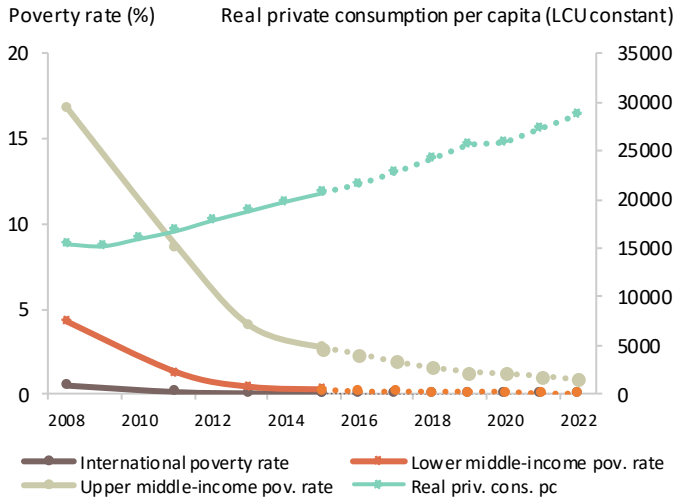
Labor market conditions were stable in 2019, with unemployment at 3.2 percent and labor force participation at 69.1 percent as of Q4 2019. The COVID-19

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



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

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



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

The cut-off date for information in this MPO was March 30, 2020.

outbreak is expected to have a significant negative impact on employment and incomes, especially among the more than 40 percent of the labor force that is not covered by employment-based social protection, as well as workers in retail, manufacturing, tourism and other hard-hit sectors.

Outlook

Against the backdrop of growing uncertainty over the duration and overall impact of the COVID-19 outbreak, the World Bank's GDP growth forecast for 2020 has been significantly lowered from 4.5 percent to -0.1 percent. This marked reduction incorporates the slower growth momentum from the second half 2019, but more significantly, it reflects the impact of the outbreak under a scenario where the current large-scale disruption of economic activities would extend for the most part of the year, before a partial recovery towards the year end. It is important to note that this estimate has a large degree of uncertainty, conditional on the rapid developments of the outbreak domestically and globally, and the subsequent policy responses.

Net exports and investments are expected to experience a larger contraction in 2020, while private consumption is expected to grow at a much slower pace, from 7.6 percent in 2019 to 1.6 percent in 2020. Government expenditure is expected to increase on various measures, including the economic stimulus package and other key expenditures and initiatives to mitigate the economic and health impact of the outbreak but the bulk of stimulus activities are expected to be off-budget in nature.

Because private consumption is projected to grow at only 1.6 percent (0.4 percent in per capita terms), the USD 5.50/day 2011 PPP poverty rate is projected to remain unchanged at 1.3 percent in 2020. More significant are the expected employment and income losses among the bottom 40 percent and even the middle 40 percent. Effective economic relief for those affected will depend on both means-tested social assistance such as BPN and the ongoing Bantuan Sara Hidup program and employment-based social insurance such as EPF and EIS.

Risks and challenges

The large degree of uncertainty over the outcome of the outbreak presents a major downside risk to the economy. An uncontained or further deterioration of the outbreak would result in more severe or prolonged restrictions on overall economic activities, posing a further drag on growth into 2021. Moreover, uncertainty over the country's political stability following the recent change in ruling coalition and the government's ability to manage the outbreak could pose further downside risks to growth.

The other major challenge is the limited fiscal policy space to respond to the crisis. While the recently announced stimulus package could help to mitigate the immediate impact of the outbreak, a deeper economic policy response would be needed should the health crisis deepen and result in a longer duration of economic disruption. More targeted fiscal policy interventions would be needed to help mitigate the impact of the crisis on vulnerable households and businesses, as well as increase public health capacity. This is further complicated by the plunge in commodity prices which would put additional strain on fiscal space and in turn may increase the burden on monetary policy as a key policy tool.

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

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	5.7	4.7	4.3	-0.1	6.4	4.8
Private Consumption	6.9	8.0	7.6	1.6	7.4	6.3
Government Consumption	5.5	3.3	2.0	2.4	2.3	2.2
Gross Fixed Capital Investment	6.1	1.4	-2.1	-4.0	3.8	2.6
Exports, Goods and Services	8.7	2.2	-1.1	-3.9	5.1	2.6
Imports, Goods and Services	10.2	1.3	-2.3	-3.6	4.2	2.6
Real GDP growth, at constant factor prices	5.6	5.0	4.4	-0.2	6.5	4.8
Agriculture	5.8	0.1	1.8	1.9	2.5	2.7
Industry	4.7	3.2	2.4	-2.9	4.2	3.2
Services	6.4	6.9	6.1	1.3	8.5	6.0
Inflation (Consumer Price Index)	3.8	1.0	0.7	0.6	1.4	1.8
Current Account Balance (% of GDP)	2.8	2.1	3.3	1.9	2.6	2.4
Net Foreign Direct Investment (% of GDP)	1.2	0.8	0.6	0.2	0.4	0.5
Fiscal Balance (% of GDP)	-2.9	-3.8	-3.4	-6.4	-3.8	-3.3
Debt (% of GDP)	50.1	51.2	52.5	59.3	59.0	58.9
Primary Balance (% of GDP)	-0.9	-1.7	-1.3	-4.2	-1.5	-1.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.2	0.1	0.1	0.1	0.1	0.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	2.0	1.6	1.3	1.3	1.0	0.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on EAPPOV harmonization, using 2011-HIS and 2015-HIS. Actual data: 2015. Nowcast: 2016-2019. Forecast are from 2020 to 2022.
(b) Projection using point-to-point elasticity (2011-2015) with pass-through = 1based on private consumption per capita in constant LCU.

The cut-off date for information in this MPO was March 30, 2020.

MONGOLIA

Table 1	2019
Population, million	3.2
GDP, current US$ billion	13.6
GDP per capita, current US$	4288
National Official Poverty Rate[a]	28.4
Gini index[a]	32.7
School enrollment, primary (% gross)[b]	102.9
Life expectancy at birth, years[b]	69.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) National Statistics Office. Most recent value (2018).
(b) Most recent WDI value (2017).

Mongolia's growth decelerated in 2019, led by declining commodity prices and lower quality of minerals, despite robust private investment. Meanwhile, growth outlook for 2020 will further decelerate mainly driven by the adverse economic impact of Covid-19. However, growth will pick up in the medium term, supported by private consumption, and investment in mining and manufacturing sectors. Risks to the outlook include political uncertainty, commodity price shocks, lingering impact of Covid-19, and limited progress on banks recapitalization and anti-money laundering issues.

Recent developments

Real GDP growth decelerated in 2019 to 5.1 percent, mainly driven by a contraction of the mining sector following the gradual decline in commodity prices and lower quality of key minerals. Non-mining sector growth also fell to 6.7 percent in 2019 from 8.2 percent in 2017-18, largely explained by slower growth in manufacturing and transportation sectors. However, strong performance in agriculture, construction and trade sectors have supported the non-mining sector. Meanwhile, real investment remained a key growth engine in 2019 driven by robust foreign direct investment (FDI) and higher government investment. Furthermore, the recovery of private consumption, which gradually started in 2017-18, continued in 2019, largely on the back of relatively improved labor market conditions. Likewise, real household income has also continued to grow strongly in 2019, amid public sector wage increases and robust rural livestock income growth. In addition, inflation decelerated to 5.2 percent in 2019, explained by moderate credit growth as macroprudential measures by the Bank of Mongolia (BoM) were introduced in early 2019. However, food inflation continues to rise and reached 8.3 percent in December 2019, mainly driven by increasing meat prices. This can disproportionately affect urban poorer households who spend most of their income on food.

Strong fiscal performance continued in 2019, supported by a robust revenue performance and a steady implementation of fiscal consolidation reforms. The capital budget under-execution also played a role. Fiscal balance turned around from a record high deficit of 15.3 percent of GDP in 2016 to a surplus of 2.6 percent in 2018 and 1.4 percent in 2019. Substantial improvements in the fiscal balance contributed to the reduction in government debt in 2017-19.

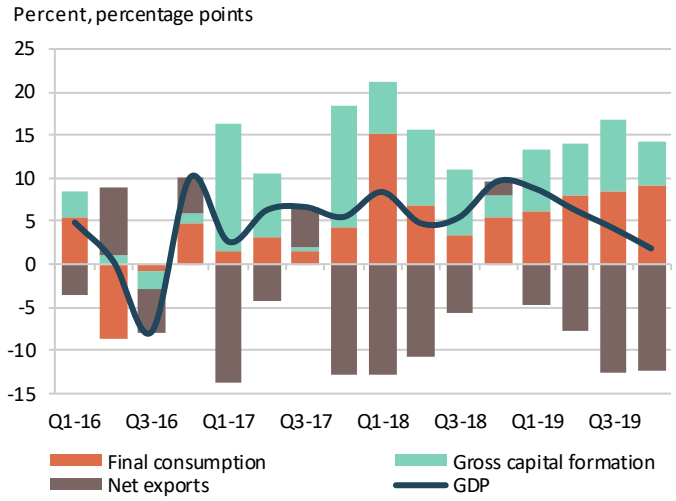
After an escalation in 2018, external sector pressures have eased, largely dominated by a rapid deceleration of import growth, and bank credit growth, buoyed by robust capital inflows. The current account balance improved in 2019 by 4.3 percentage points of GDP from about 17 percent in 2018. Strong FDI inflows and a bond issuance (US$300 million) by private sector and official sector support resulted in a surplus in the balance of payments (BoP) in 2019. Gross international reserves continued to rise, reaching US$4.3 billion (over 7 months of imports) in 2019. Despite limited reserves, BoM foreign exchange interventions increased by nearly twofold in 2019 (about US$2.9 billion). Extensive foreign exchange interventions have led to a moderate depreciation of the tugrug against the US dollar and the Chinese renminbi in 2019.

Meanwhile, with a higher inflation compared to major trading partners (China and Russia), real effective exchange rate appreciated by 3.7 percent in January-October 2019, which may affect the export competitiveness of the non-mining sector.

Outlook

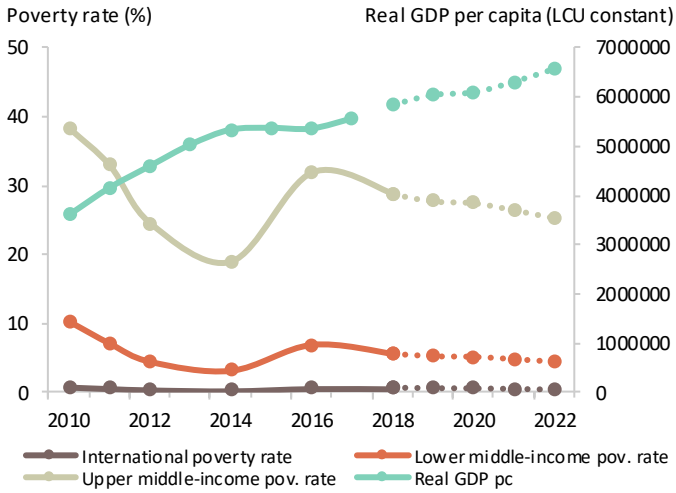
Economic growth is projected to be 2.4 percent in 2020--substantially lower from

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



Sources: National Statistics Office.

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



Sources: World Bank. Notes: see Table 2.

The cut-off date for information in this MPO was March 30, 2020.

our initial projections of 5.3 percent. Three key factors explain the latest downward revision: a steady decline in commodity prices (copper and coal), the potential impact of Covid-19 global pandemic (including ban on coal exports), and limited buffers for sizable stimulus. Mining and services sectors have already been hit by preventive measures on spreading risks of Covid-19. However, growth is expected to accelerate to over 5 percent in 2021-22, supported by stronger impetus in mining sector (particularly quality recovery of key minerals) despite a delay in the production schedule of Oyu Tolgoi's phase 2. Private investment backed by FDI and domestic credit (mainly corporate loans) will remain a key driver for growth in the medium-term, especially in mining, manufacturing, and transport services. Private consumption will be a key driver of medium-term growth. Inflation is likely to remain elevated in the medium term, exacerbated by supply side risks associated with the Covid-19. BoM recently reduced its policy rate to support economic growth. However, the base case assumes a gradual tightening of monetary policy to contain inflation.

Agriculture sector growth is projected to average 4.6 percent in the medium term. Industry would grow by 4.3 percent in 2021-22, following recovery in mining sector and potential implementation of mega mining projects. Strong linkages with mining would continue to support the services sector growth. Meanwhile, modest poverty reduction is expected to continue. The base case assumes that fiscal balance will deteriorate in 2020, amid Covid-19 impact on revenue, but improves in 2021-22, consistent with a lower debt path. Mineral exports growth is expected to recover in 2021-22, gradually reducing current account deficit. Foreign exchange market pressures will likely intensify in 2020 as repayment of a private sector external debt is expected in May 2020. However, pressures will eventually ease with the recovery of export growth and further inflows of FDI in 2021-22. Gross international reserves would improve in 2021-22. In this context, BoM should encourage greater flexibility of the exchange rate through limited interventions to support economic diversification.

Risks and challenges

The risks to the medium-term growth outlook include potential lingering impact of Covid-19 global pandemic, political uncertainty with the 2020 election, climate shocks (drought/flooding, harsh winter), and limited progress on banking sector reforms and on addressing anti-money laundering issues.

A downside scenario of the outlook could materialize if the impact of Covid-19 is persistent in the advanced economies and thus, severely cripples the global demand, commodity prices and financial market.

Growing political uncertainty could induce a sudden relaxation of the government's commitment to reforms, thereby affecting market sentiments and FDI flows. Although the authorities have maintained fiscal discipline and tight credit policies, the recent decisions to roll back the increase in the social security contribution rates and to write off pension -backed loans, are seen as notable setback to economic reforms.

Weather related shocks could affect non-mining exports (e.g., meat and cashmere) and thus adversely impact the income of poor and vulnerable herders. Also, the impact of inflationary pressures on poorer households needs to be monitored. Inability to recapitalize the banking sector adequately could create instability and delay the disbursement of planned official sector support. Given that Mongolia remains on the gray list of the Financial Action Task Force, limited progress on anti-money laundering issues could affect FDI inflows, and the financial sector.

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

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	5.4	6.9	4.8	2.4	5.1	5.4
Private Consumption	5.4	12.4	10.9	3.6	5.0	6.0
Government Consumption	-1.8	-0.8	13.6	8.4	5.2	3.1
Gross Fixed Capital Investment	35.6	21.3	24.5	10.5	14.0	18.0
Exports, Goods and Services	14.8	24.0	9.9	1.5	7.0	8.3
Imports, Goods and Services	24.8	30.9	19.1	5.6	9.5	12.0
Real GDP growth, at constant factor prices	5.3	7.2	5.1	2.4	5.1	5.4
Agriculture	1.8	4.5	8.4	4.5	4.6	4.7
Industry	0.7	7.9	2.9	0.7	4.0	4.5
Services	10.7	7.5	5.9	3.1	6.2	6.4
Inflation (Consumer Price Index)	6.4	8.1	5.2	8.5	8.3	8.0
Current Account Balance (% of GDP)	-10.1	-16.9	-12.7	-12.1	-11.0	-10.8
Net Foreign Direct Investment (% of GDP)	12.6	17.4	15.6	13.8	12.7	12.1
Fiscal Balance (% of GDP)	-3.8	2.6	1.4	-3.3	-1.4	-0.4
Debt (% of GDP)	84.6	73.3	68.3	67.9	63.0	60.0
Primary Balance (% of GDP)	0.3	5.8	3.6	-1.0	0.8	1.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	..	0.5	0.5	0.5	0.5	0.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	..	5.6	5.2	5.1	4.7	4.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	..	28.9	27.8	27.5	26.3	25.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on EAPPOV harmonization, using 2016-HSES and 2018-HSES. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using annualized elasticity (2016-2018) with pass-through = 1based on GDP per capita in constant LCU.

The cut-off date for information in this MPO was March 30, 2020.

MYANMAR

Table 1	2019
Population, million	54.3
GDP, current US$ billion	68.2
GDP per capita, current US$	1254
Lower middle-income poverty rate ($3.2)[a]	19.3
Upper middle-income poverty rate ($5.5)[a]	60.8
School enrollment, primary (% gross)[a]	112.2
Life expectancy at birth, years[a]	66.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(a) Most recent WDI value (2017).

Despite a strong first quarter (October to December), economic growth is expected to decline sharply in FY2019/20 to 2 to 3 percent due to direct and indirect and impacts of the COVID-19 pandemic. Supported by a pickup in public and private investment in power, infrastructure and property market, growth is projected to rise to 6.5 percent in the medium term. Risks are high from a domestic outbreak and from deeper and prolonged global impact, compounding domestic uncertainties relating to conflict and elections by November 2020.

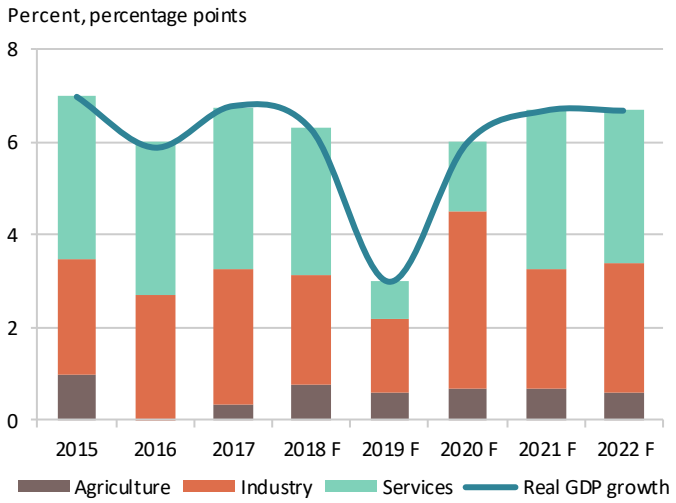
Recent developments

Myanmar is facing headwinds to growth from the its exposure to the COVID-19 related slowdown in China and the world. Real GDP growth is projected to slow to between 2 and 3 percent in FY2019/20 (October 2019 to September 2020, which is equivalent to the 2020 of other countries), a significant downward revision. Following strong growth in Q1 FY2019/20, driven by manufacturing activity and exports, growth is estimated to slow in Q2 to Q4due to the impact of the COVID-19 outbreak. Travel and border trade restrictions related to the pandemic mean that the impact will be felt through tourism-related services, agricultural exports to China and supply chain disruptions to manufacturing, notably for garments which accounts for 13 percent of exports, and second round impacts as external demand wanes. Chinese tourists made up 20 percent of arrivals in 2018/19 and agriculture exports represent 19 percent of total exports or 4 percent of GDP, roughly half of which is sold to China. Earnings from hotels, restaurants, and transport activities which are partly supported by tourism represent 16 percent of GDP and have been significantly impacted. At the same time, agriculture is the main sector of employment in Myanmar with as much as 78 percent of the rural labor force employed in this sector, while 27 percent of urban labor force are working in tourism-related activities.

Headline inflation eased modestly to 9.5 percent (y/y) in December 2019 from a peak of 10.9 percent in July 2019 when electricity prices were raised. Food inflation rose to 7.8 percent in December 2019, largely attributed to supply side constraints, especially for cooking oil, meat and vegetables, amplified by increased fuel and transportation costs. The Myanmar Kyat appreciated against US dollar by 9 percent between October 2019 and March 2020 and more relative to trading partners, supported by balanced external trade, investment inflows, the US interest rate decrese and domestic speculation in a shallow foreign exchange market. The appreciation adds pressure on exporters already affected by input supply disruptions related to Covid-19. Credit growth continues a gradual decline as banks comply with new prudential regulations, that has also led to more prudent provisioning for non-performing loans.

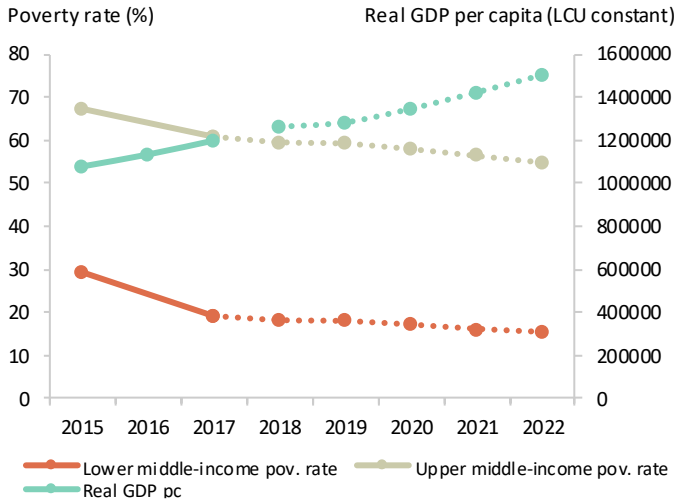
Fiscal revenue collection continues to decline as a share of GDP to 16.8 percent in FY2018/19 and pushing the planned FY2019/20 budget deficit to 6.9 percent of GDP. However, systematic budget underexecution is likely to keep the deficit within the 5 percent of GDP rule. Aggregate planned expenditures are 28.7 trillion kyat (US$19.1 billion), or 0.7 percent of GDP more than in FY2018/19. This reflects a planned decline in defense spending, offset by a 28 percent increase in electricity spending and public debt servicing. Public spending, notably in health, may drive up the fiscal deficit and careful planning of financing is needed.

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 / Actual and projected poverty rates and real GDP per capita



Sources: World Bank. Notes: see Table 2.

The cut-off date for information in this MPO was March 30, 2020.

Outlook

Growth is expected to slowly recover to 6 percent in FY2020/21 following the COVID-19 related shock in FY2019/20 and return to trend in the medium term on the back of investments in infrastructure, strong exports and resilient private consumption. Facilitated by the new Project Bank, several transport infrastructure projects are underway and few large electricity generation projects are expected to begin commercial operation. Services sector activity is boosted by the granting of licenses to foreign insurers to operate in Myanmar and foreign banks to provide wholesale and retail lending services. The current account deficit is likely to widen to an average 3.8 percent in the medium term from 3.3 percent in FY2019/20 as exports suffer from lower global demand and lower energy prices, while large imports for mega infrastructure projects continue. Inflation is estimated to moderate to 7.5 percent in FY2019/20 from 8.5 percent FY2018/19 as global fuel prices decline and the one-off impact of the electricity price increase fades.

The impact of short-term economic fluctuations related to the COVID-19 pandemic is likely to disproportionately harm poor and vulnerable households. Sixty-eight percent of the poor work in agriculture and can suffer from declines in productions and prices associated with a reduction in exports to China. In addition, layoffs in the garment manufacturing sector which accounts for 500,000 jobs could also affect household incomes and domestic remittances, especially if China's supply chain disruptions are prolonged. Since individuals from poor households resort to temporary migration to work in unskilled, low-wage jobs to cope with income shortfalls, the slowdown in the manufacturing and related services could hit them hard. While forecasted to subside, persistently high inflationary pressures and potentially increased food prices hurt the poor the most, since poor households tend to be net buyers of food and to devote a higher share of their expenditures to food.

Risks and challenges

In addition to the significant direct health impacts, Covid-19 poses significant risks to Myanmar's economic outlook. A domestic outbreak would require containment measures that limit social interaction and hence domestic consumption, which accounts for 50 percent of GDP. The COVID-19 outbreak has elevated global economic uncertainty and limited global demand, raising the likelihood of a global recession, which is likely to have a material impact on Myanmar through trade, FDI, tourism and commodity prices. This is especially true of prospects of slowing growth in China, as China accounts for a third of Myanmar's exports and imports respectively, 15 percent of FDI and a fifth of travel arrivals. Declining tourism income global energy prices would lower export and fiscal revenues from gas exports, which represent roughly 2 percent of GDP. In such a context, Myanmar could lose the gains in poverty reduction achieved in the last decade with an increase in households' vulnerability and potentially in unemployment.

Possible economic policy responses include addressing the immediate impact of the outbreak through targeted measures for impacted sectors and the vulnerable population and using available fiscal policy space to accelerate spending on capital projects. Myanmar can also promote exports and associated imports of inputs by further removing licensing restrictions and making customs procedures more efficient.

Economic reform momentum may slow down leading up to elections by November 2020. The banking sector remains vulnerable to shocks as banks take proactive measures to resolve years of overdue overdrafts and convert them into loans under new prudential regulations. Additionally, violence and forced displacement of refugees in Rakhine, and uncertainty from related legal proceedings in international courts remain a challenge for investors' sentiment and for poverty reduction.

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

	2016/17	2017/18	2018/19 e	2019/20 f	2020/21 f	2021/22 f
Real GDP growth, at constant market prices	6.8	6.3	3.0	6.0	6.7	6.7
Real GDP growth, at constant factor prices	6.8	6.3	3.0	6.0	6.7	6.7
Agriculture	1.3	3.1	2.8	3.5	3.2	3.2
Industry	9.7	6.4	3.0	7.5	7.0	7.0
Services	8.1	8.1	3.1	6.3	8.4	8.3
Inflation (Consumer Price Index)	5.9	8.5	7.5	7.0	7.0	5.9
Current Account Balance (% of GDP)	-4.2	-2.0	-3.3	-3.5	-3.9	-4.1
Fiscal Balance (% of GDP)	-2.8	-3.2	-3.9	-4.0	-3.3	-3.2
Primary Balance (% of GDP)	-1.9	-1.9	-2.0	-2.2	-1.5	-1.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	19.3	18.3	18.0	17.0	16.0	15.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	60.8	59.6	59.1	57.9	56.4	55.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast. Data shows fiscal year values from October to September.
(a) Calculations based on EAPPOV harmonization, using 2017-MLCS. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2017) with pass-through = 0.3 based on GDP per capita in constant LCU.

The cut-off date for information in this MPO was March 30, 2020.

NORTH PACIFIC ISLANDS

Table 1	2019
Population, million	
Federated States of Micronesia	0.1
Republic of the Marshall Island	0.06
Palau	0.02
GDP, US$, billion	
Federated States of Micronesia	0.34
Republic of the Marshall Island	0.21
Palau	0.31
GDP per capita, current US$	
Federated States of Micronesia	3058
Republic of the Marshall Island	3621
Palau	17317

Sources: WDI, World Bank staff estimates.

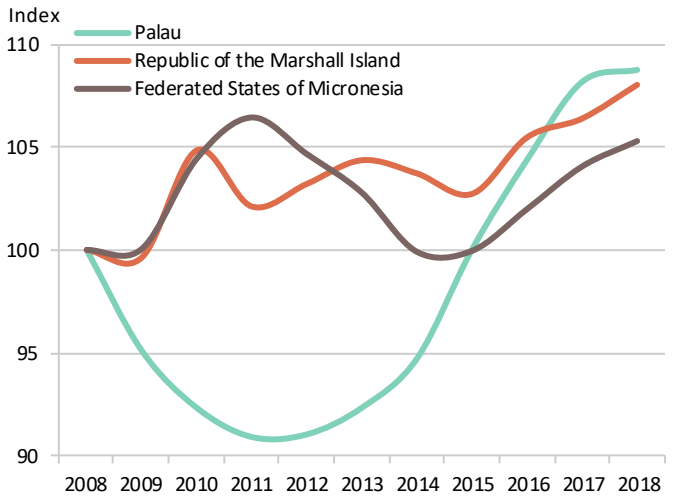
Growth in the Federated States of Micronesia, Republic of the Marshall Islands and Palau is expected to have remained stable in FY2019, although the impacts of the Covid-19 pandemic are projected to drive all three economies into recession in FY2020. While high fishing revenues have bolstered fiscal balances in all three countries, substantial fiscal risks remain, including due to the scheduled expiry of Compact-related grants and programs from the U.S. Government in 2023-2024.

Recent developments

The economy of the **Federated States of Micronesia (FSM)** is expected to have grown by 1.4 percent in FY2019 (October 2018 to September 2019) following growth of 1.2 percent in FY2018. This marks a fifth consecutive year of positive growth, and the longest period of sustained economic expansion since 2003. Nevertheless, output is only slightly higher than it was in 2003, highlighting the economy's uneven performance over the past 15 years. Growth in FY2019 was likely driven by higher production in the fisheries sector. The sluggish growth performance over recent years has weighed on formal sector employment, which – according to the latest available data (2018) – was around 16,000 employees; slightly below its FY2011 level. This is likely to have exacerbated poverty in basic needs, because consumption tends to be lower for those who are economically inactive or engaged in informal activities. The latest estimates indicate that 41.2 percent of the population were unable to afford the cost of basic needs in 2013/14. Inflation has been subdued in recent years and is expected to have remained below 2 percent in FY2019, due to lower domestic fuel prices and a stronger US dollar (the official currency of the FSM) holding down prices for some imports. After traditionally registering large deficits, the current account is projected to have registered its fifth consecutive surplus in FY2019, reflecting higher fishing licence receipts and grant inflows related to the Compact of Free Association with the United States.

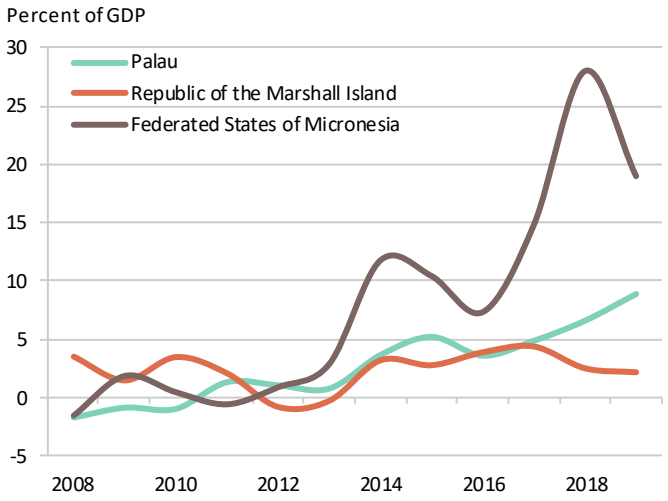
FSM's fiscal performance has improved significantly in recent years. Substantial increases in fishing license fees resulting from the introduction of the Vessel Day Scheme (a regional agreement that establishes the minimum price of a vessel day and limits the total number of vessel days sold), combined with one-off tax payments by captive insurance companies in FY2014, FY2017 and FY2018, resulted in average annual fiscal surpluses of 14 percent of GDP during FY2014 – FY2018. While general tax revenue (excluding irregular captive insurance industry payments) has remained steady at around 12 percent of GDP, which is low relative to other countries in the Pacific, non-tax revenue (excluding grants) have more than doubled as a percent of GDP since 2011 to around 24 percent of GDP reflecting higher fishing license fees. Another sizeable fiscal surplus is projected for FY2019 following another large captive insurance tax payment. The government has prudently transferred fiscal surpluses to the FSM Trust Fund aimed at mitigating external shocks and potential future revenue shortfalls from the scheduled end of Compact grants from 2024. Nevertheless, further transfers of fiscal surpluses will be needed to build adequate fiscal buffers, as the combined corpus of the nation's two trust funds are projected to be less than sufficient to deliver an annual investment income that can fully replace the expiring grants. The central government retains cash reserves of around 5 months of general government current spending. With

FIGURE 1 North Pacific Islands / Formal sector employment (Index, 2008=100)



Sources: National sources via EconMap.

FIGURE 2 North Pacific Islands / Overall fiscal balance (share of GDP)



Sources: National sources via EconMap and latest available joint World Bank and IMF DSAs.

The cut-off date for information in this MPO was March 30, 2020.

no central bank or foreign exchange reserves, these serve as a means to absorb short-term liquidity shocks.

Economic growth in the **Republic of Marshall Islands (RMI)** is also expected to have remained stable in FY2019 at 2.4 percent, driven by continued strong fisheries activity and public investment, following growth of 3.6 percent in FY2018. The current account has remained in surplus in recent years, with foreign grants and higher fishing license receipts more than offsetting a fall in exports and an increase in service imports. Inflation is projected to have remained low in FY2019, as the stronger US dollar (the official currency of the RMI) has held down the prices of some imports. The combination of solid economic growth (assuming it is equitable across the income distribution), public infrastructure investment, and low food price inflation are likely to have accelerated poverty reduction, though the extent of this is not known due to lack of data on household incomes and expenditures in the RMI (although a new household survey is planned for FY2021).

High fishing license fees underpinned small fiscal surplus over the five years FY2014 to FY2018, a trend which is expected to have continued in FY2019. However, larger fiscal surpluses will be required to build adequate buffers to sustain government spending following the scheduled end of Compact grants in 2023, as current projections indicate that the corpus of the RMI Trust Fund will not be sufficient to generate an annual income stream that can fully replace the expiring grants. In addition, government cash reserves are expected to have remained low at around 1 month of recurrent spending, although the steady flow of external grants has shielded the RMI from liquidity squeezes.

The **Palauan** economy is projected to have continued its expansion in FY2019 to 2.0 percent following growth of 1.7 percent in FY18, as tourism activity recovered with the entry of new hotels, and construction picked up. Following explosive growth in tourist arrivals of over 52 percent between FY2013 and FY2015 – driven by a 10-fold increase in Chinese tourists – in 2017 authorities implemented a structural reform of the tourism sector away from a high-volume model and towards a high-quality model of sustainable ecotourism development. The result was a 31 percent fall in tourist arrivals from FY2015 to FY2018, although this was partially offset by a 15 percent increase in spending per tourist. Lower overall tourism receipts, combined with higher imports for transport and fuel, also weakened the external position, with the current account deficit reaching almost 17 percent of GDP in FY2018. The recent rebound in growth has helped the economy continue to create jobs (up 0.5 percent in FY2018), meaning formal employment has increased by 20 percent since FY2012. Consumer prices rose by 2 percent in FY2018 and are expected to have risen only marginally in FY2019, as the stronger US dollar (the official currency of Palau) held down local prices for food and transport services. The combination of strong formal employment growth and low food price inflation is likely to have reduced the poverty risk for many Palauan households.

Palau's fiscal position has strengthened in recent years, with FY2018 registering a fiscal surplus (including grants) of 6.5 percent of GDP, the eighth consecutive annual surplus, underpinned by increased revenues from tourist departure taxes and higher Compact grants. The government has retained a healthy cash balance, with reserves estimated to increase from around 3 months of government spending in FY2015 to about 6 months of spending by FY2021. However, the Compact Trust Fund remains below its pre-Global Financial Crisis level as a percent of GDP. Greater fiscal consolidation and revenue mobilization is necessary to ensure long-term fiscal sustainability.

Outlook

The economic impacts of the Covid-19 pandemic are projected to lead all three countries into recession in FY2020. The economies of the **FSM** and **RMI** are each projected to contract by 3 percent, as restrictive arrivals policies lead to a sharp contraction in tourism receipts, restrictions on the entry of foreign workers and merchandise imports curtails construction activity, and the global economic slowdown reduces fish exports. The **Palauan** economy is expected to contract sharply in FY2020 due to the impacts on the tourism sector of a temporary ban on flights from Hong Kong SAR, China, Macao SAR, China, and mainland China. Lower economic activity is expected to lead to formal-sector job losses and lower demand for goods in the informal economy. The RMI and FSM receive annual remittance inflows of around 14 percent and 6 percent of GDP, respectively. These flows could reduce due to deteriorating labor market conditions in the US. Combined with the tourism sector slowdown, these dynamics are likely to push more households into poverty. A sluggish recovery is projected in FY2021 for all three nations – conditional on a recovery in the global economy and the easing of restrictive domestic arrivals policies. Over the medium term, the outlook for the North Pacific countries is subject to substantial risks due to their reliance on grants, tourism, and commodity imports. A more severe or protracted global downturn, prolonged domestic travel restrictions, a domestic outbreak of the virus, or supply-chain disruptions would have further negative impacts on economic activity. These countries will have to rely on fiscal and structural policies should the above-mentioned risks materialize, given the lack of monetary policy levers. Global financial market declines have also reduced the balances on the nations' various trust funds, which could put long-term fiscal sustainability at risk, considering the limited space for additional debt. Finally, the lack of recent household data in all three countries poses a risk to policy making and makes it challenging to monitor development progress and impacts of shocks on the poor.

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

	2017	2018e	2019f	2020f	2021f	2022f
Real GDP growth, at constant market prices						
Republic of the Marshall Islands	4.1	3.6	2.4	-3.0	1.0	2.2
Federated States of Micronesia	2.4	1.2	1.4	-3.0	0.5	0.7
Palau	-3.5	1.7	2.0	-6.0	0.0	3.0

Sources: EconMAP, IMF, and World Bank MTI Global Practice
e = estimate; f = forecast.

The cut-off date for information in this MPO was March 30, 2020.

PAPUA NEW GUINEA

Table 1	2019
Population, million	8.8
GDP, current US$ billion	25.0
GDP per capita, current US$	2845
Poverty rate ($1.90/day 2011 PPP terms)[a]	38.0
National poverty rate[a]	39.9
Gini index[a]	41.9
Life expectancy at birth, years[b]	65.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2009/10).
(b) Most recent WDI value (2018).

The economy of Papua New Guinea (PNG) continues to face economic headwinds resulting from global and domestic economic uncertainties. PNG's growth outlook is being affected negatively by the novel coronavirus spread, the exacerbation of the LNG glut, and delays in delivering new resource projects in PNG. A limited fiscal space and a rigid exchange rate regime constitute constraints for the authorities to react to these shocks, requiring an urgent mobilization of external financial support from the development partners.

Recent developments

While Papua New Guinea's economic growth rebounded in 2019, global and domestic economic uncertainties loom, affecting economic prospects. Real GDP growth is estimated to have recovered to 5.6 percent in 2019 (from -0.8 percent in 2018) driven by a rebound in the resource sector (mainly in its extractive segment, earlier affected by an earthquake) masking slower growth of the non-resource economy. The latter was due to sluggish domestic demand as confirmed by a shortfall in non-resource tax revenue and lower inflation, while formal employment improved during the first nine months of 2019.

The authorities have decided to stimulate weak domestic demand from the non-resource economy through expansionary macroeconomic policy, which could complicate macro-fiscal and debt sustainability. The government introduced a fiscal stimulus program in 2020, aimed at supporting domestic demand by investing in physical infrastructure for better connectivity by roads, ports, and telecommunications. The government will also continue addressing budget arrears accumulated by the previous administration.

These policies will lead to higher budget financing needs, to be covered from domestic and external sources. External borrowing should help to address a legacy of outstanding orders for foreign currency (a so-called FX backlog) while new FX orders have started building up.

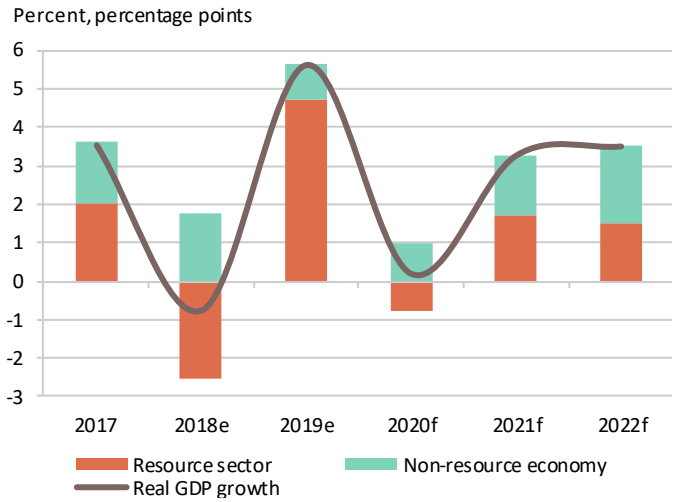
However, in the absence of fiscal buffers—since the sovereign wealth fund remains nonoperational—the anticipated fiscal expansion and increased net borrowing may undermine fiscal and debt sustainability. Keeping the Kina overvalued may maintain or increase the FX backlog, or lead to a drawdown of international reserves. To ensure macro-fiscal sustainability, it is important for the authorities to begin addressing the overvaluation of the Kina more decisively, especially given the increased current account pressures, and resume fiscal consolidation over the medium term.

From global as well as regional perspectives, the prevalence of extreme poverty in PNG is high. About 38 percent of the population in 2010 (the latest household budget survey available) lived under the internationally recognized extreme poverty line of US$1.90 per day (2011 PPP terms). This incidence of poverty is by far one of the highest rates in the East Asia and Pacific (EAP) region. It is also higher than in many of PNG's lower middle-income, resource-rich peer countries. Broadly consistent with the high proportion (87 percent) of the population living in rural areas, almost 90 percent of the country's poor are located in rural PNG and are more likely to be engaged in agricultural activities.

Outlook

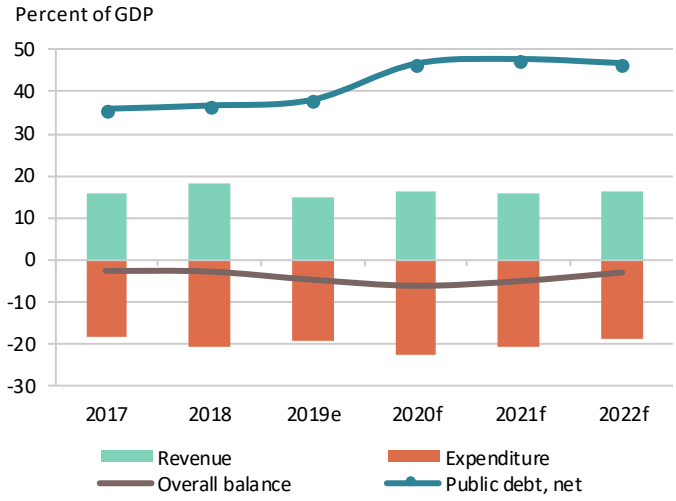
The short-term growth outlook is being affected negatively by an anticipated

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



Sources: World Bank staff estimates and forecast.

FIGURE 2 Papua New Guinea / Key fiscal and debt indicators



Sources: World Bank staff estimates and forecast.

impact from the novel coronavirus, the recent escalation of a new 'oil price war' that exacerbated the LNG glut, and delays in finalizing agreements and launching implementation of large new resource projects. A renegotiation of terms for the Papua LNG project (the Elk-Antelope gas fields in Gulf province) in August 2019, a delay in getting an agreement on the PNG LNG expansion (the P'nyang gas field), and prolonged legal proceedings over the Wafi-Golpu gold project have led to downward adjustments in our economic growth projections.

Our baseline forecast now suggests that real GDP growth will slow to almost zero in 2020, while some rebound is expected in 2021, assuming recovery of the global economy from the coronavirus impact. While the resource sector is being affected negatively by weaker external demand and lower commodity prices, the domestic economy will be supported by fiscal stimulus adopted in the 2020 National Budget, with some adjustments expected in the coming Supplementary Budget.

The government is anticipating a substantial revenue shortfall in the resource sector (as export revenue will be lower) and will have to revise some of its investment plans due to the expected shortage of domestic funding available. To mitigate this shortfall, the government has already applied for the additional COVID-19 financing facilities established by the multilateral development partners. Despite these measures, the overall fiscal deficit is expected to widen further, putting additional pressure on public debt which is estimated to exceed the legislated ceiling of 45 percent of GDP.

Over the medium term, the looming construction boom represents a positive driver to the economy and the external accounts due to additional inflows of foreign direct investment into the resource sector. In addition to growth spillovers to the services sector, the implementation of new resource projects (Papua LNG and Wafi-Golpu) will have a positive impact on the external balance of payments. Additional foreign exchange inflows in the form of foreign direct investment and external borrowing will be used to import the goods and services required for these projects (thus narrowing the current account surplus). At the same time, a significant share of foreign exchange inflows will also be used to purchase domestic goods and services (thus keeping foreign exchange in the economy). The latter should help the central bank to replenish international reserves, as the current pressure on the exchange rate is expected to ease and reverse.

The economy may start seeing a change in the foreign exchange position from 2022 onward. The next two years will be critical for the authorities to continue adjusting the exchange rate toward its equilibrium while clearing the FX backlog.

Risks and challenges

Old and emerging risks may undermine economic performance over the medium term. Our baseline assumptions already include previously-identified risks. They cover ongoing delays in the implementation of new resource projects (affecting resource GDP growth projections), less favorable terms of trade (affecting performance of the non-resource economy and buildup of the FX backlog), and the inability to resume fiscal consolidation (leading to a potential downgrade to the public debt risk profile).

However, new risks—both external and domestic—have already begun to impact growth outlook. External risks include (i) a larger than expected impact from an outbreak of the coronavirus that will impact the Chinese and global growth to slow sharper than expected and has led to lower commodity prices, with negative spillovers for the EAP region, including Papua New Guinea, and (ii) a glut in the LNG market that is being exacerbated by the new 'oil price war', with plummeting oil and LNG prices. These developments will lead to negative implications for resource revenue flowing to the external and fiscal accounts of PNG. Although external risks are out of the government's control, the authorities should continue working on improving the economic and fiscal resilience of Papua New Guinea's economy. To support the population, especially the most vulnerable, the authorities should focus on maintaining food and medicine supply to all parts of the country as it is being disrupted by a recent suspension of international and local flights, following the declaration of the Nationwide State of Emergency due to the coronavirus spread.

Domestic risks include the recent referendum in the Autonomous Region of Bougainville, where the overwhelming majority of the population (98.31 percent) voted for independence. To avoid the risks of social unrest in any region of Papua New Guinea and improve the inclusiveness of economic development, the authorities will need to focus on the human development agenda, including better public service delivery in health, education, and social protection. A big challenge for policy making is the absence of robust statistical data and systems to monitor changes in living standards and the impacts of shocks – both critical for planning and ensuring inclusive development.

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

	2017	2018e	2019e	2020f	2021f	2022f
Real GDP growth, at constant market prices	3.5	-0.8	5.6	0.2	3.3	3.5
Resource sector[a]	4.4	-5.3	9.9	-1.6	4.0	3.3
Non-resource economy	1.6	3.3	1.9	1.6	3.0	3.8
Inflation (Consumer Price Index), period average	5.4	4.7	3.9	5.1	5.5	5.7
Current Account Balance (% of GDP)	25.1	25.4	26.6	14.7	10.7	2.7
Resource sector[a]	26.3	26.6	30.2	19.9	22.4	19.0
Non-resource economy	-1.1	-1.2	-3.6	-5.2	-11.7	-16.3
Overall Fiscal Balance (% of GDP)	-2.5	-2.7	-4.7	-6.3	-5.1	-2.9
Non-resource primary balance (% of non-extractive GDP)	-1.6	-2.7	-5.1	-6.3	-5.2	-2.5
Public Debt, net (% of GDP)	35.9	36.7	38.0	46.6	47.7	46.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast; (a) The resource sector comprises agriculture, forestry, fishing, mining, quarrying, petroleum and gas production and related construction.

The cut-off date for information in this MPO was March 30, 2020.

PHILIPPINES

Table 1	2019
Population, million	108.1
GDP, current US$ billion	366.7
GDP per capita, current US$	3392
International poverty rate ($1.9)[a]	6.1
Lower middle-income poverty rate ($3.2)[a]	26.0
Upper middle-income poverty rate ($5.5)[a]	55.1
Gini index[a]	44.4
School enrollment, primary (% gross)[b]	107.5
Life expectancy at birth, years[b]	71.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2017).

Philippine economic growth slowed in 2019 to its weakest pace in eight years. The slowdown was driven by an investment contraction and export growth deceleration amid a recovery in private consumption. Growth outlook for 2020 is gloomy given the global impact of the COVID-19 pandemic and the strict community quarantine that has taken place in Luzon since March 17. These are expected to slow down the progress on poverty reduction, and has prompted the government to announce a stimulus package to boost the economy from the economic impact of the outbreak.

Recent developments

Economic growth moderated from 6.2 percent year-on-year in 2018 to 5.9 percent in 2019, driven by a contraction in investment, which was weighed down by uncertainties from the external environment and the proposed corporate tax reform. Export activities decelerated due to softer global demand amid weakness in global economic activities. Nonetheless, net exports contributed positively to growth given the much slower import growth compared to exports. Private consumption regained momentum and was the main growth driver, thanks to declining inflation, steady remittance flows, and improving labor market conditions.

Headline inflation returned within target in 2019, fueled by stabilizing prices of food and energy items, benefiting from recent reforms in rice policy. The subdued inflation environment encouraged the Bangko Sentral ng Pilipinas to be more accommodative by reducing the key policy rate by a total of 75 basis points and the reserve requirement ratio by 400 basis points in 2019 and cutting the policy rate further by 25 basis points in February, and 50 bps in March 2020.

Despite significant delays, the government was able to execute its expansionary fiscal program in 2019 due to a catch-up spending plan in the second half. Public spending rose to 20.4 percent of GDP in 2019 from 19.6 percent a year ago, driven by robust growth in capital outlays. However, despite the increase in public revenues to 16.9 percent of GDP from 16.4 percent a year ago, tax collections in 2019 fell short of the programmed target resulting in a fiscal deficit of 3.5 percent of GDP, exceeding the 3.2 percent target for 2019.

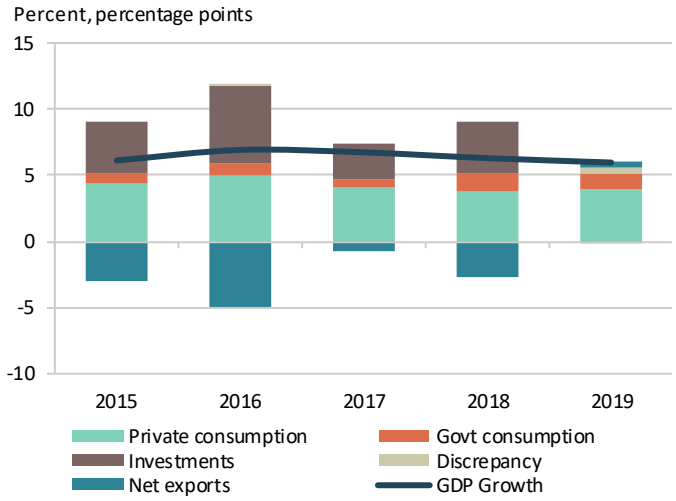
The current account deficit narrowed to 0.1 percent of GDP in 2019 from 2.4 percent of GDP in 2018. The narrower deficit was driven by a combination of lower trade deficit and higher remittance flows. Capital and financial accounts registered a surplus of 1.8 percent of GDP, which was lower than 2.4 percent of GDP in 2018. This led to a 2.2 percent BOP surplus in 2019, reversing the 0.7 percent deficit in 2018.

The national poverty incidence fell significantly to 16.6 percent in 2018, from 23.3 percent in 2015, due to robust growth in household incomes, particularly in the lower income groups. The real per capita income of the bottom quintile grew at a faster rate of 6.8 percent annually, compared to the 3.9 percent average. Wage incomes continued to grow and accounted for about half of household income. During the same period, household wage incomes grew annually at 4.7 percent.

Outlook

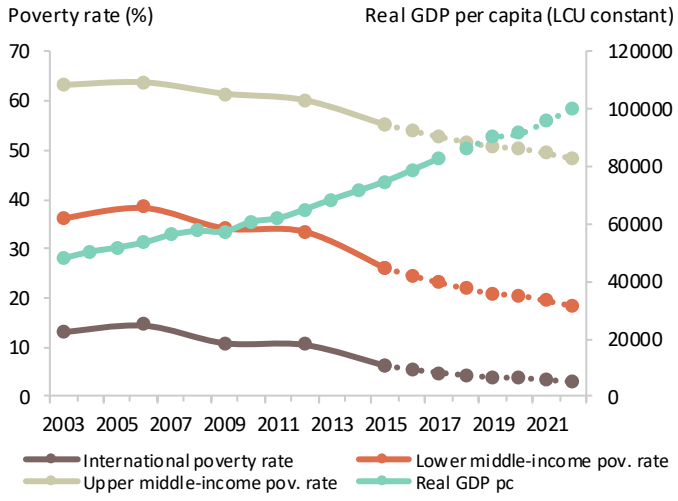
Real GDP growth is projected to significantly decelerate from 5.9 percent in 2019 to 3.0 percent in 2020 due to the impact of the COVID-19 outbreak and the associated community quarantine. The quarantine restricts all non-essential movement of people and closed down businesses and

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



Sources: Philippine Statistic Authority.

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



Sources: World Bank. Notes: see Table 2.

The cut-off date for information in this MPO was March 30, 2020.

government agencies in Luzon—which accounts for 70 percent of national GDP—until April 14. Domestic consumption is expected to slow down sharply in the first half of 2020. In addition, implementation of public infrastructure program is expected to be delayed and private sector investment to be postponed. Export of goods and services are also expected to be negatively impacted with the imposition of travel restrictions globally and the production disruption experienced in China in which the Philippine electronic sector has strong linkage. Furthermore, travel bans and the COVID-19 outbreaks in OFW-destination countries are likely to affect the inflow of remittances in 2020 further damping domestic consumption growth. Nevertheless, economic growth is expected to accelerate rapidly in 2021-22 as global conditions improve, and with more robust domestic activity bolstered by the public investment momentum and a boost from 2022 election-related spending.

The ongoing increasing trend in real wages, which is expected to have a positive impact on household incomes particularly those from the lower income groups, might be hampered by the impact of the COVID-19. If the positive trends, including rising real wages, expanding non-agricultural wage employment, and stabilizing inflation, continue, the declining trend in poverty is likely to continue. Measured by the lower middle-income class poverty line (3.20 dollars a day, 2011 PPP), the poverty headcount in the Philippines is projected to continue to decline from 21.9 in 2018 to 20.5 percent in 2020 and 18.3 percent in 2022.

Risks and challenges

Risks to the baseline forecast, which assumes that the Philippines slowly returns to normal business operations by Q3, include a rapid surge in confirmed cases resulting in a prolonged community quarantine, lengthier disruptions to government and business activities, loss of incomes, and a protracted weakening of the public health system. In this case, economic growth could contract in 2020 driven by a drastic slowdown in domestic consumption and investment with echo effects into 2021. External risk derives from a prolonged containment of the virus globally, leading to a global recession which will impact the Philippines through manufacturing, trade, tourism, and remittances channels. Such as scenario might take an even more significant toll on those who work in the informal sector, who are likely to suffer a more significant welfare loss.

In addition to the immediate public health response to prevent, detect and contain local transmission, short-term fiscal and monetary policy stimulus may be needed to lessen the adverse economic impact of COVID-19 and protect the vulnerable population. Specifically, the timely execution of public investments, targeted financial support to the poor and vulnerable sectors can restore confidence and soften the negative impact of the outbreak. In the medium term, the Philippines should further strengthen its healthcare system and preparedness for potential public health shocks while continuing to accelerate structural reforms to improve the business environment, foster competition, and boost productivity growth. Sustained support must be ensured for bills that improve competitiveness such as the passage of the Corporate Income Tax and Incentives Rationalization Act, and amendments to the Public Services Act.

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

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	6.7	6.2	5.9	3.0	6.2	6.4
Private Consumption	5.9	5.6	5.8	2.4	6.0	6.1
Government Consumption	6.2	13.0	10.5	9.9	10.0	10.2
Gross Fixed Capital Investment	9.4	12.9	1.5	0.5	12.9	15.7
Exports, Goods and Services	19.7	13.4	3.2	1.7	7.5	8.0
Imports, Goods and Services	18.1	16.0	2.1	1.3	10.7	12.2
Real GDP growth, at constant factor prices	6.7	6.2	5.9	3.0	6.2	6.4
Agriculture	4.0	0.9	1.5	0.9	1.2	1.4
Industry	7.1	6.7	4.9	2.5	5.5	5.7
Services	6.8	6.8	7.1	3.6	7.2	7.3
Inflation (Consumer Price Index)	2.9	5.2	2.5	2.0	3.0	3.0
Current Account Balance (% of GDP)	-0.7	-2.4	-0.1	-0.3	-1.2	-1.6
Net Foreign Direct Investment (% of GDP)	3.2	3.0	2.1	0.5	1.8	1.8
Fiscal Balance (% of GDP)	-2.2	-3.2	-3.5	-3.9	-3.2	-3.2
Debt (% of GDP)	36.6	36.0	35.7	36.9	36.4	36.2
Primary Balance (% of GDP)	-0.3	-1.2	-1.6	-1.6	-0.8	-0.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	4.7	4.2	3.7	3.6	3.2	2.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	23.1	21.9	20.8	20.5	19.4	18.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	52.7	51.7	50.7	50.4	49.4	48.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on EAPPOV harmonization, using 2006-FIES and 2015-FIES. Actual data: 2015. Nowcast: 2016-2019. Forecast are from 2020 to 2022.
(b) Projection using annualized elasticity (2006-2015) with pass-through = 1based on GDP per capita in constant LCU.

The cut-off date for information in this MPO was March 30, 2020.

SOLOMON ISLANDS

Table 1	2019
Population, million	0.6
GDP, current US$ billion	1.5
GDP per capita, current US$	2317
National Basic Needs Poverty Rate[a]	12.7
School enrollment, primary (% gross)[b]	112.6
Life expectancy at birth, years[a]	72.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Solomon Islands National Statistics Office. Most recent value (2013).
(b) Most recent WDI value (2017).

Economic growth is projected to contract by 6.7 percent in 2020, reflecting the negative impacts of the COVID-19 pandemic. Lower food prices brought inflation down from 3.9 percent in 2018 to 2.2 percent in 2019. Fiscal consolidation efforts were undermined by weaker-than-expected revenues, resulting in a small deficit in 2019. The 2020 budget continues the fiscal consolidation path, although the global COVID-19 outbreak risks impacting on revenues, expenditures and growth. Other risks include ongoing uncertainties in the logging and mining sectors.

Recent developments

Economic growth is projected to contract by around 6.7 percent in 2020, down from an estimated 2.7 percent in 2019, reflecting the negative impacts of the COVID-19 pandemic on exports and visitor arrivals, with the current travel ban on non-residents expected to persist for several months. Delays in large infrastructure investments are also expected to impact negatively on growth. Inflation is estimated at 2.2 percent in 2019, down from 3.9 percent in 2018, driven mainly by lower food prices.

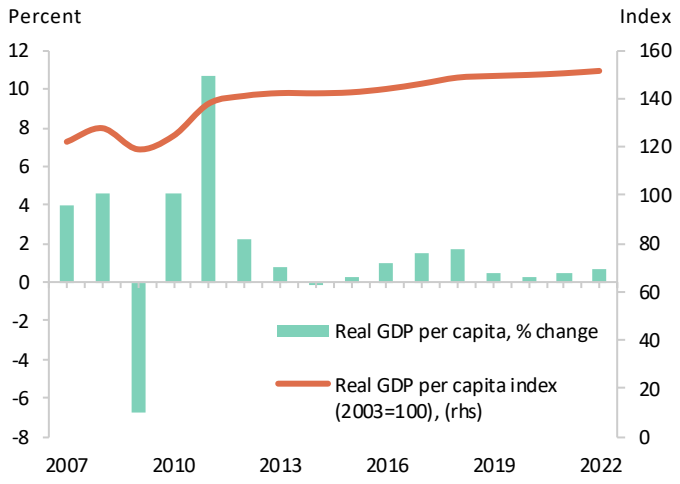
A newly-formed government in April 2019 continued the previous government's fiscal consolidation path through passing a balanced budget in 2019. Fiscal deficits between 2015-17 severely eroded the government's cash reserves and its ability to absorb natural disaster and price shocks. The fiscal consolidation in 2018 was achieved through a substantial reduction in development expenditures, possibly affecting the already thin levels of service delivery in rural areas, and in 2018 a modest surplus of 0.7 percent of GDP was achieved. In 2019, planned spending fell short of budget estimates on both the recurrent and development budgets, owing in part to no development expenditures being permitted during the 3-month care-taker period ahead of the national general elections held in April. Shortfalls in revenue collections, driven primarily by a reduction in log output and lower-than-expected levels of external financing, outweighed the underperformance in spending, resulting in a fiscal deficit of 1.4 percent of GDP. Total PPG external debt increased from 7.1 percent of GDP in end-2018 to an estimated 7.6 percent in 2019.

The 2020 budget targets once again a zero balance. Overall the government expects total revenues to increase by 0.4 percent against 2019 budget estimates, with increases in inland revenue and non-tax revenue collections, and external financing outweighing a further reduction in customs collections. A proposed expansions of goods tax coverage to rice and sugary beverages could disproportionately affect poor households. Planned expenditures were initially expected to increase by the same magnitude, with the development budget claiming a marginally greater share of total spending. However, the government is facing increasing spending pressures associated with COVID-19 preparedness activities. The current account deficit widened from 4.5 percent of GDP in 2018 to 8.6 percent in 2019, reflecting heightened levels of imports related to large infrastructure projects – most of which are partly or fully externally financed, and a reduction in log exports. International reserves fell from US$613 million in 2018 to US$602 million in 2019, although import cover remains ample, equivalent to 8 months of forward spending.

Outlook

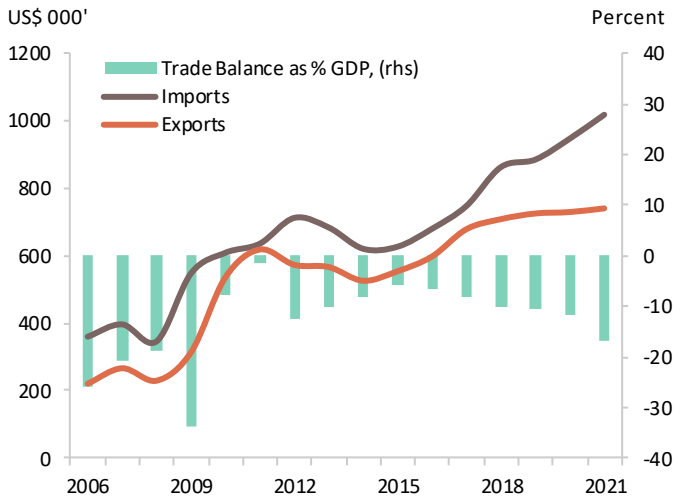
Despite the projected contraction in growth in 2020, the economy is expected

FIGURE 1 Solomon Islands / Per capita GDP



Sources: World Bank staff estimates, IMF.

FIGURE 2 Solomon Islands / Trade balance



Sources: Central Bank of Solomon Islands, World Bank staff estimates, IMF.

The cut-off date for information in this MPO was March 30, 2020.

to recover over coming years, rebounding to 2.8 percent by 2022. Over the medium-term, the moderation in forestry activity is expected to be partially offset by a pickup in economic activities across the services and secondary sectors, driven by the rolling out of large (mostly donor-financed) national infrastructure projects in the roads, air transport, telecommunications and energy sectors. Foreign direct investment (FDI) is expected to average at around 3.8 percent of GDP and may detract from growth in the event of a decline from current levels. The baseline scenario also assumes resumed gold-mining activity and the exploitation of large nickel deposits. Over the longer-term, tourism, which currently accounts for around 4 percent of GDP, has the potential to become an important driver of growth, however, significant constraints and coordination challenges would need to be overcome, including commercial access to land, the provision of utilities, environmental management and the development of transport infrastructure conducive to tourism development. Prudent fiscal management in 2020, complemented by key public financial management reforms and a tax review, could somewhat ease fiscal pressures. Enhanced commitment control and cash management will be essential to avoid the recurrence of arrears. Cash reserves will need to be rebuilt for effective cashflow management and buffer against shocks. Expenditure pressures associated with COVID-19 preparedness, large unmet expenditure needs for infrastructure and public service delivery, increases to the public service payroll, and the hosting of the 2023 South Pacific Games continue to pose a risk to medium-term fiscal consolidation. The current account deficit—financed through large aid flows in the capital account — is expected to widen to further to around 13 percent of GDP by 2022, reflecting a continued increase in imports, and the underlying long-run decline in logging exports. The Honiara Consumer Price Index is expected to remain at around 3 percent over the medium term.

Risks and challenges

Solomon Islands' economic geography and political economy challenges the reach of the state and discourage significant levels of FDI. The economic policy stance of the government remains appropriate, particularly with regard to the continued momentum in the fiscal consolidation path set out in recent years' budgets, and efforts to enhance the overall quality of public spending. With logging sources expected to be depleted in the long run and uncertainty around the exploitation of the country's mining potential, Solomon Islands faces the challenge of developing new sources of growth. In the near term, the current COVID-19 pandemic poses a substantial risk to log exports (China being the main export partner), government revenues and growth, and could possibly set back fiscal consolidation efforts. With the negative economic implications of COVID-19 globally, it is unclear how significant or prolonged the risks could be. Over the medium-term, the underlying decline of the logging industry will impact on growth and a vital source of government revenue and foreign exchange reserves. The new sustainable forestry policy may risk being undermined and result in foregone revenues, if insufficient resources are dedicated to its implementation. Mining could become a key driver of growth but developments in the sector hinge on the adoption of a legal and regulatory framework conducive to mining, and on clear procedures for the acquisition of land. Such frameworks and procedures, which are currently being put in place, will also ultimately impact the extent to which forthcoming benefits from mining are shared across the population. The establishment of diplomatic ties with China in late 2019 and potential access to increased levels of external loan funding could heighten the risks associated with debt sustainability and affordability. In the context of a constrained fiscal environment, a sustained effort will be required to strengthen public financial management, and a heightened focus on the quality of public expenditures could maximize their effectiveness for the most vulnerable.

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

	2017	2018e	2019f	2020f	2021f	2022f
Real GDP growth, at constant market prices	3.7	3.9	2.7	-6.7	-0.3	2.8
Inflation (Consumer Price Index end of period)	-2.2	2.1	3.2	3.2	3.5	3.6
Balance of Payments						
Current account balance	-4.9	-4.5	-8.6	-8.1	10.7	13.1
Foreign direct investment	3.9	3.1	3.4	3.6	3.9	3.9
Fiscal Balance (% of GDP)	-4.6	0.7	-1.4	-2.8	-4.8	-4.9
External Debt (% of GDP)	7.6	7.1	7.6	10.1	13.2	15.9

Source: Solomon Islands Government 2019 Budget Strategy; World Bank ; International Monetary Fund.
Notes: e = estimate, f = forecast.

SOUTH PACIFIC ISLANDS

Table 1	2018
Population, million	
Samoa	0.20
Tonga	0.11
Vanuatu	0.29
GDP, US$, billion	
Samoa	0.82
Tonga	0.43
Vanuatu	0.93
GDP per capita, current US$	
Samoa	4184
Tonga	4095
Vanuatu	3170

Sources: WDI, World Bank staff estimates.

In Samoa, Tonga, and Vanuatu, economic activity has been influenced by a range of natural disasters and adverse shocks, with the global covid-19 outbreak having severe effects on tourism arrivals and domestic economic activity. Samoa is also recovering from a measles outbreak in late 2019, while Tonga continues to rebuild from Tropical Cyclone (TC) Gita which hit in February 2018. Continued efforts are necessary in each country to avoid a local outbreak of covid-19, including by immediately isolating suspect cases and ensuring health system preparedness.

Recent developments

After a contraction in FY2018 due to a series of one-off factors (including the closure of a major manufacturer), **Samoa**'s economy rebounded in FY2019, with growth of 3.5 percent attributable to preparations for the Pacific Games in July 2019 and continued impetus from construction, tourism earnings and remittances. However, an outbreak of measles in late 2019 which tragically claimed more than 80 lives and infected around 2 percent of Samoa's population also had an economic impact, particularly on the tourism and broader services sector. The measles outbreak, combined with the imposition of travel restrictions and the declaration of a state of emergency due to the threat from covid-19, have meant that GDP is expected to contract in FY2020 by around 5 percent, mainly because of a substantial reduction in tourism activity in the third and fourth quarters. Small surpluses in the current account in FY2018 and FY2019 due to strong growth in tourism and remittances are expected to turn to a large deficit in FY2020, mainly due to the decline in tourism exports.

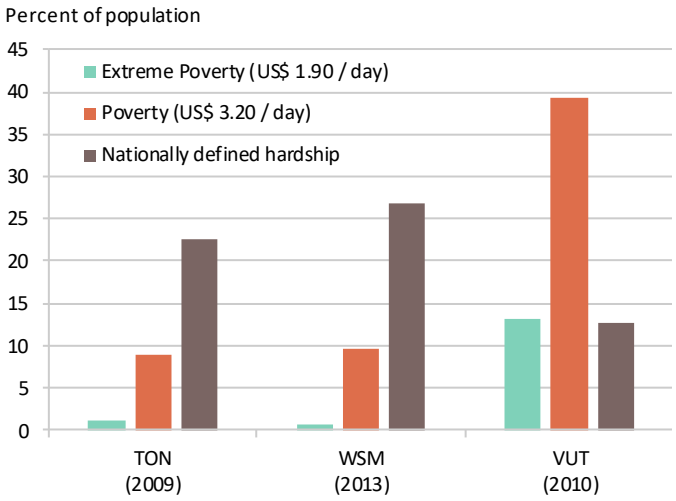
Due to significant increases in domestic revenue collection and weaker-than-expected execution of donor-funded capital spending, the government was estimated to have run a 2.7 percent surplus in FY2019, following a budget that was close to balance in FY2018. Spending is expected to increase in FY2020 and revenue is expected to decline markedly, resulting in a larger than expected deficit of 3 to 5 percent of GDP.

Tonga continues to recover from Cyclone Gita which hit in February 2018, causing widespread damage and losses estimated to total US$164 million, or 38 percent of GDP. Growth slowed to 0.2 percent in FY2018 due to the impact of the cyclone on agricultural production, tourism, and the commercial sector, although is estimated to have picked up to 1 percent in FY2019 as reconstruction spending commenced. Inflation is expected to have eased in FY2019 (to 4.1 percent from around 7 percent in FY2017 and FY2018), although relatively fast inflation has persisted longer than expected due primarily to policy-driven tax increases and the impact of TC Gita on domestic food prices. The current account deficit is estimated to have widened to over 8 percent of GDP in FY2019 (from 6.3 percent of GDP in FY2018) due to an increase in reconstruction-related imports.

In recent years the authorities have maintained a generally prudent fiscal stance, underpinned by careful expenditure management and ongoing efforts to improve revenue mobilization. Despite the substantial recovery and reconstruction needs associated with TC Gita, a small fiscal surplus was realized in FY2018 and another is estimated for FY2019, due to delays in the roll-out of cyclone-related spending; substantial government efforts to create fiscal space by limiting other expenditures; and ongoing donor support.

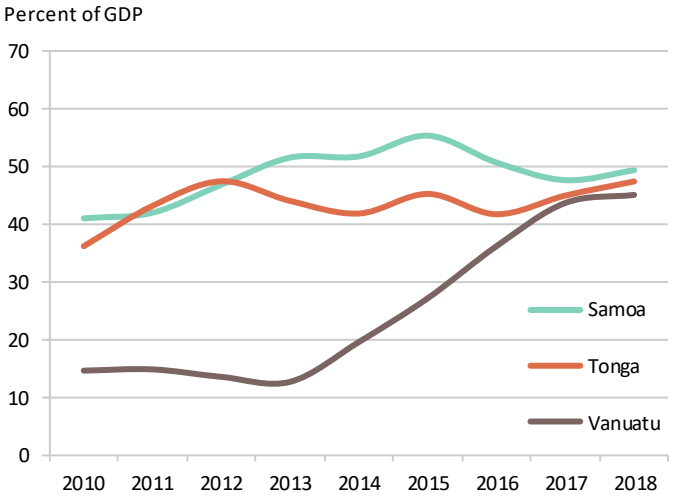
In **Vanuatu**, the construction of public infrastructure – including roads, ports, and airports – as well as a pick-up in agricultural activity is expected to have driven

FIGURE 1 South Pacific Islands / Incidence of poverty at international poverty lines and national hardship thresholds



Sources: World Bank (2016), Systematic Country Diagnostic for the eight small Pacific Island Countries.

FIGURE 2 South Pacific Islands / Public and publicly guaranteed external debt



Sources: Latest available joint World bank and IMF Debt Sustainability Analyses.

growth of around 3 percent in CY2019, up from 2.8 percent the previous year. However, growth in the tourism-related sectors moderated somewhat during 2019, in part because of weaker economic growth in Australia and New Zealand. Annual inflation is estimated to have moderated in 2019 from around 3 percent in 2018 (in part due to a one-off VAT increase in 2018 from 12.5 to 15 percent).

The implementation of several major reconstruction and rehabilitation projects following Tropical Cyclone Pam has resulted in fiscal pressures since 2015, and the pipeline of ongoing and planned projects remains strong. But in 2018 a fiscal surplus estimated at around 7.5 percent of GDP was achieved – despite a significant one-off increase in the wage bill – due to a sharp increase in revenue from citizenship schemes, the increase in the VAT rate, and underspending of the capital budget. In 2019, another large surplus is expected, with citizenship scheme revenue continuing to outperform expectations, expenditure control measures in place, and execution of donor-funded capital spending proving to be much slower-than-expected.

Outlook

In **Samoa,** the economy is not projected to rebound until FY2022. In the near term, much depends on the duration of travel restrictions imposed in response to covid-19 (both in Samoa and in key source countries), and whether Samoa ultimately remains free of the virus. Over the medium term, the economy should be supported by construction of public infrastructure projects, and continued growth in the tourism and agriculture sectors, which should spur growth averaging around 2.5 percent and directly create formal job opportunities for Samoa's more vulnerable people (including its youth who tend to experience particularly high levels of unemployment).

In **Tonga,** over the medium term reconstruction and repair activity for housing, public buildings, and schools combined, with the recovery in the agriculture sector, is expected to drive growth of around 3 percent. In the near-term, however, the economic impact of the COVID-19 pandemic has led to a sharp downgrade in the FY2020 growth projection to 0.5 percent, due to an abrupt slowdown in the tourism, commerce and construction sectors as a result of the global slowdown and preventative measures adopted by the authorities. To the extent that the economic and fiscal impacts of the COVID-19 pandemic are more pronounced or protracted than currently projected, these effects may lead to some pressure on government finances, unless additional donor financing is forthcoming.

In **Vanuatu,** GDP is expected to contract markedly in 2020, due mainly to negative impacts on tourism from covid-19, with the border lockdown expected to persist for several months. However, some support will be provided by ongoing public construction works and a further pick-up in agriculture. Growth is expected to rebound in 2021 and 2022 before settling at between 2.5 and 3 percent over the medium-term, as large infrastructure projects are completed. Nevertheless, the government's substantial public investment and cyclone reconstruction program will help to raise the productive capacity of the economy over the medium to long term.

Risks and challenges

For each of these small South Pacific nations, natural disasters and external shocks (including the global covid-19 outbreak) pose a constant threat to livelihoods, economic growth and fiscal sustainability.

The impact of covid-19 will be particularly significant for households linked to the tourism industry (estimated at 12 percent of households in Vanuatu, 16 percent in Samoa and 33 percent in Tonga). While these households are not disproportionately poor, they will experience job and income losses, and ripple effects will likely hit other households as well, via a slowdown in activity in linked sectors such as agriculture. Tonga and Samoa also receive significant inflows of remittances that may decline due to economic slowdowns in the major migrant destination countries. Remittances are a significant share of average household incomes (7 percent in Samoa, 20 percent in Tonga), including for the poorer deciles, so any reduction in remittances could also lead to increased poverty and a deeper poverty gap.

The tourism-driven economies of **Samoa and Vanuatu** will be particularly hard hit by covid-19. In these economies, the immediate priority is to enforce the travel restrictions necessary to quarantine the population from covid-19, immediately isolate any suspected cases, and bolster the capacity and preparedness of the health system. Time-bound, targeted fiscal support will be necessary in the short-term to support affected businesses, mitigate the impacts on employment and livelihoods, and avoid a destructive loss of private-sector capacity, so that these countries are in a position to rebound strongly once the virus is contained.

In general, the key challenge facing **Tonga** in the next few years is to maintain its prudent fiscal stance in the face of several competing pressures. The government should carefully prioritize cyclone-reconstruction and development spending, mindful of budget and local capacity constraints, and continue to strengthen management of the government wage bill. In the short term, a more pronounced slowdown in the global economy would have adverse impacts on the tourism sector and pose a key downside risk to the growth outlook.

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

	2017	2018	2019	2020f	2021f	2022f
Real GDP growth, at constant market prices						
Samoa	1.0	-2.2	3.5	-5.0	0.0	6.0
Tonga	5.4	0.2	1.0	0.5	3.2	2.8
Vanuatu	4.4	2.8	3.0	-8.0	6.0	4.5

Note : Financial years for Samoa and Tonga are Jul - Jun, for Vanuatu is Jan - Dec. e= estimate, f=forecast

Source: World Bank and IMF

The cut-off date for information in this MPO was March 30, 2020.

THAILAND

Table 1	2019
Population, million	69.3
GDP, current US$ billion	564.1
GDP per capita, current US$	8139
Upper middle-income poverty rate ($5.5)[a]	8.6
Gini index[a]	36.4
School enrollment, primary (% gross)[b]	99.6
Life expectancy at birth, years[b]	76.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) Most recent WDI value (2017).

Already impacted by the US-China trade tension and domestic political uncertainty, the Thai economy was further dragged down by a severe drought, resulting in an annual growth below 3 percent in 2019. Economic growth is expected to contract in 2020 due to the impact of the COVID-19 outbreak, through a decline in external demand affecting trade and tourism, supply chain disruptions and weakening domestic consumption. Downside risks to the outlook include a significant domestic Covid-19 outbreak and a prolonged decline in global demand in large economies such as the US and EU.

Recent developments

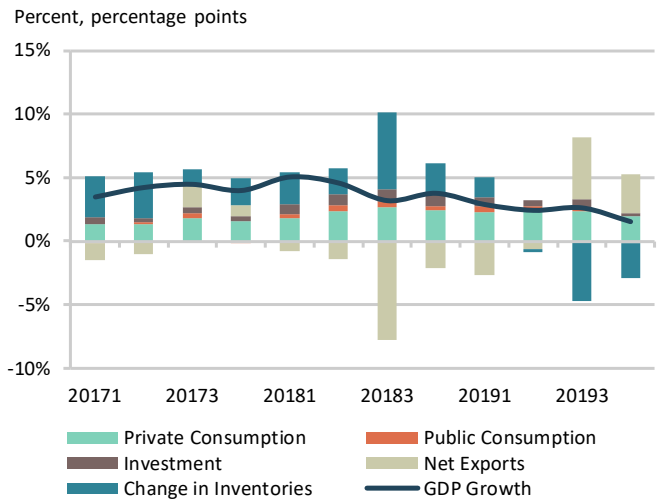
A series of domestic and external shocks have led to a decline in growth from 4.2 percent in 2018 to 2.4 percent in 2019. The sluggish growth registered in 2019 was due to the compounded effects of the US-China trade tension, domestic political uncertainty and the ongoing drought. These shocks have impacted both external and internal drivers of growth. The trade tension weighed heavily on the manufacturing sector, the political uncertainty delayed the FY 2020 budget and led to a slowdown in public consumption and the drought has weakened the agricultural sector.

In early 2020, the COVID-19 outbreak has already had a significant impact on the economy. Tourism accounts for close to 16 percent of GDP, and tourist arrivals have declined sharply -- by 45 percent year on year in February 2020 and 67 percent year on year in March 2020, reflecting increasing global travel restrictions. The outbreak is also impacting domestic drivers of growth, with consumer and investor confidence declining sharply to five-year lows by February 2020. As with other emerging markets, the stock market in Thailand is experiencing volatility and sharp sell-offs, declining 30.8 percent year to date.

The government has declared a state of emergency and responded to the outbreak using available fiscal and monetary policy tools. Further restrictions on movement across provinces are being considered. Thailand does have enough fiscal space to pursue an aggressive fiscal response to the economic downturn[1] and has approved a 400-billion-baht package in early March followed by 117-billion-baht package in late March to reduce the impact of the Covid-19 outbreak. The first package includes soft loans (150 billion baht), funded by the Government Savings Bank, to enable commercial and government banks to grant soft loans at 2 percent for businesses, debt payment extension for liquidity stressed businesses, and reduction of the withholding tax from 3 percent to 1 percent from April to September this year. Measures to support households include reduction or postponement of utility bills as well as reduction of employer and employee contributions to the Social Security Fund. In the second round, cash transfers (45 billion baht) were earmarked for informal workers.

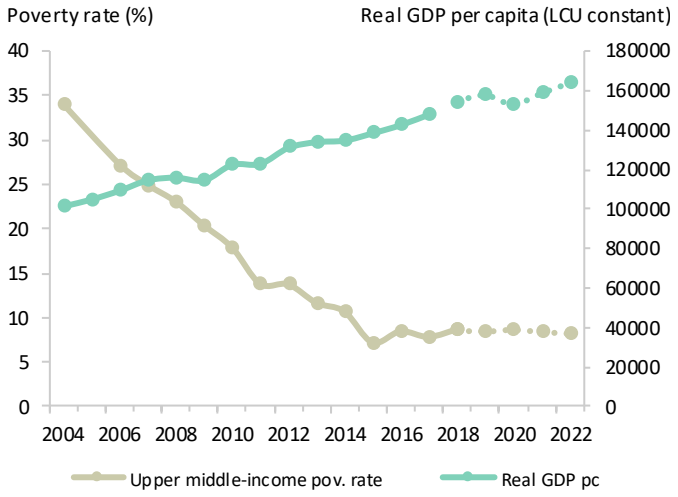
The Bank of Thailand quickly responded by lowering the official policy rate twice this year to 0.75 percent in March 2020. Risks arising from low interest rates are balanced by macroprudential policies, which have so far been effective at safeguarding the financial sector. However, these policies come at a cost, as recent research has shown that they are associated with considerable output losses in emerging economies.[2] After appreciating by about 7 percent over the course of 2019 and eroding export competitiveness, the Thai baht has weakened in recent weeks and could help revitalize exports, especially agricultural exports.

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



Sources: World Bank Staff Calculations.

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



Sources: World Bank. Notes; see Table 2.

The unemployment rate increased from 1.67 percent in Q12019 to 2.82 percent in Q4 2019, and wage growth continues to stagnate. Average nominal wages declined consistently from Q2 2019 to Q42019. The yield of Thailand's major crops--rice, rubber, and sugar--declined significantly in 2019 due to the ongoing drought, thus impacting the income of farm workers. These trends in 2019 follow a period of increase in official poverty rates from 2017 to 2018 in all regions. Continued challenges to the agricultural sector, the main economic activity of the majority of the poor, suggests that poverty reduction was unlikely in 2019.

Outlook

The outlook for the medium-term has significantly worsened since October 2019, with growth projections for 2020 revised down from 2.9 percent to range of -3.0 percent to -5.0 percent, reflecting an economic contraction. The key driver of the downward revision has been the impact of the Covid-19 outbreak, which, in the baseline, is expected to (i) significantly lower tourist arrivals and, as a result, also impact overall consumption growth due to weaker activity in the retail sector; (ii) impact domestic consumption reflecting potential public health measures regarding social distancing and depressed consumer sentiment and (iii) impact on key supply chains such as electronics and automotive that are critical to Thailand's exports. The baseline assumes a muted spread of the outbreak in Thailand, a significant worsening of global growth prospects in 2020, and structural challenges in disbursing public spending.

Negative externalities from COVID-19 will compound an already challenging context of droughts, stagnant wage growth, rising unemployment, and rising poverty. Poverty projections indicate that poverty rate in 2022 will remain higher than in 2015. In addition, the expected reduction in foreign tourists in 2020 and closures of malls and restaurants will likely have a significant impact on poverty for those living in popular destinations. As an example, in 2018, Phuket was the only province where poverty increased to a point higher than in 2000 linked to the reduction in tourism following a boat accident. Government policies to help households reliant on services income to weather the economic downturn such as relaxing debt payments and targeted social programs may help mitigate these negative impacts.

Risks and challenges

The medium-term outlook is subject to high domestic and external downside risks. The main risk is that the impact of the COVID-19 outbreak may be more severe locally and globally. A more severe local outbreak could dent consumer and investor sentiment further and necessitate a stronger public health response, which could limit private consumption. A further global spread could severely impact supply chains and overall exports due to regional and global economic slowdown.

1/ Thailand Economic Monitor, January 2020.
2/ Richter et al., 2019. "The Costs of Macroprudential Policy" Journal of International Economics 118, 263-282.

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

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	4.0	4.1	2.4	-3.0	4.0	3.5
Private Consumption	3.0	4.6	4.4	-1.8	4.3	4.1
Government Consumption	0.1	1.8	1.9	1.7	0.9	1.9
Gross Fixed Capital Investment	1.8	3.8	8.1	-0.6	2.3	2.6
Exports, Goods and Services	5.4	4.2	-4.5	-5.5	2.0	2.5
Imports, Goods and Services	6.2	8.6	-2.5	-3.0	2.4	2.2
Real GDP growth, at constant factor prices	4.2	4.2	2.4	-2.9	4.0	3.5
Agriculture	3.7	5.0	2.0	1.0	1.5	2.0
Industry	1.8	2.7	2.6	1.5	2.5	3.0
Services	5.8	5.1	2.3	-6.0	5.3	4.0
Inflation (Consumer Price Index)	0.7	1.1	1.1	1.0	1.0	1.0
Current Account Balance (% of GDP)	9.7	6.4	2.7	2.3	1.8	1.8
Net Foreign Direct Investment (% of GDP)	-2.3	-0.2	0.1	0.2	0.5	0.5
Fiscal Balance (% of GDP)	-0.9	0.3	-0.9	-1.6	-1.4	-1.0
Debt (% of GDP)	41.2	41.5	42.4	43.9	44.4	44.4
Primary Balance (% of GDP)	0.1	1.3	0.1	-0.4	-0.1	0.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	7.8	8.6	8.4	8.7	8.4	8.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on EAPPOV harmonization, using 2014-SES and 2018-SES. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using average elasticity (2014-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

The cut-off date for information in this MPO was March 30, 2020.

TIMOR-LESTE

Table 1	2019
Population, million	1.4
GDP, current US$ billion	1.7
GDP per capita, current US$	1238
School enrollment, primary (% gross)[a]	119.8
Life expectancy at birth, years[a]	69.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2017).

Despite a return to economic growth in 2019, failure to approve a state budget and the global COVID-19 outbreak have considerably weighed down prospects for 2020. The ongoing political uncertainty may compound these effects. Improved preparedness and response to global health emergencies and climatic shocks will be key to sustain achievements in human development. Meanwhile, a stable political environment and a strong policy commitment to support the private sector are crucial to avert a significant economic contraction.

Recent developments

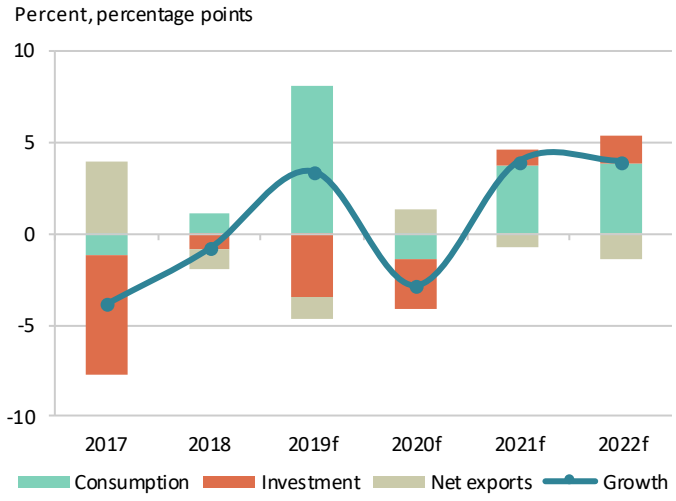
Gross domestic product (GDP) is thought to have recovered by over 3 percent in 2019, in a rebound from the 2017-2018 recession. Improved economic activity was supported by both public and private consumption, although investment likely faltered. Despite a relatively low budget execution rate (at 83 percent), total public spending still increased by 5 percent when compared to 2018. Expenditure on goods & services and public transfers were its key drivers, while capital spending declined by 7 percent. Private consumption was boosted by strong credit demand from households and low inflation. Notwithstanding this economic upturn, GDP per capita remains considerably below the level observed in 2016.

The late approval of the 2019 state budget contributed to a slow start, but public spending picked up throughout the year. Government revenues remained low, even when considering the Estimated Sustainable Income (ESI) – which is the amount that can be withdrawn from the Petroleum Fund without depleting its asset value. Tax revenues declined for a third consecutive year, underscoring the need to develop an effective tax policy and strengthen tax administration. The fiscal deficit worsened to 31 percent of GDP, reversing the positive trend recorded in recent years – largely enabled by a constrained spending environment in 2017 and 2018. The deficit was mostly financed by excess withdrawals from the Petroleum Fund, which are the amounts above the ESI that are transferred to the state budget. The Petroleum Fund balance reached a record high of $17.7 billion in December, albeit due to a $1.7 billion asset revaluation accounted by the strong performance of international equity markets in 2019. Petroleum revenues (excluding investment returns) have been consistently outpaced by total withdrawals in the past five years.

Consumer price inflation slowed to 0.9 percent in 2019, even though prices for education and alcohol & tobacco increased by 9 percent and 3.5 percent, respectively. This deceleration contributed to a depreciation of the real exchange rate, which was reinforced by the weakening of the US dollar – the country's currency – against the currencies of its main trading partners. Commercial bank credit grew by 5 percent in 2019, owing to strong demand from households that compensated declines in the productive sectors. Meanwhile, average lending rates increased by nearly 2 percentage points to reach 16.3 percent in December – the highest level since 2007. Credit to the private sector remains low at 14 percent of GDP, despite a robust level of deposits (nearly 5 times higher as a share of GDP).

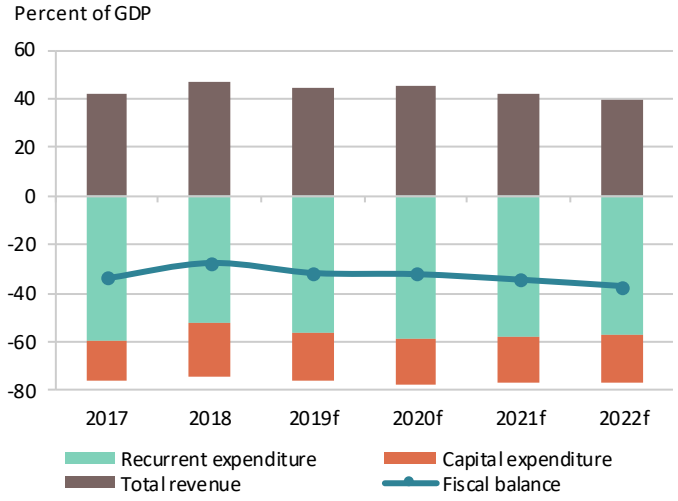
The current account turned a surplus for the first time since 2015, partly owing to a significant increase in primary income – which predominantly comprises petroleum-related revenues such as taxes and royalties. The trade deficit is thought to have remained broadly stable. With the ratification of the Maritime Boundary Treaty in August 2019, oil and gas fields previously shared between Australia and

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



Sources: Ministry of Finance & World Bank staff estimates.

FIGURE 2 Timor-Leste / Fiscal aggregates



Sources: Ministry of Finance & World Bank staff estimates.
Note: Total Revenue includes the ESI but not excess withdrawals.

The cut-off date for information in this MPO was March 30, 2020.

Timor-Leste in the Joint Petroleum Development Area (JPDA) transitioned to Timor-Leste's exclusive jurisdiction. With this change, offshore petroleum production is now considered to be part of Timor -Leste's national accounts, and therefore trade statistics. However, given the limited data available and the need to compare economic performance across time, estimates for 2019 and forecasts for 2020-2022 do not (yet) reflect this change.

Outlook

The Government failed to get its 2020 state budget proposal approved by Parliament, triggering significant political uncertainty. Members of the National Congress for the Reconstruction of Timor-Leste (CNRT), the senior partner in the Government coalition, abstained in the parliamentary vote. The President subsequently asked all political parties to attempt to form a new coalition in order to avoid early elections. While there is still no clear political solution to the impasse, the next Government will have to prepared two state budgets until the end of the year, a situation reminiscent of 2018. Public spending will be relatively constrained until a 2020 state budget is approved by Parliament.

The global outbreak of the novel coronavirus (COVID-19) will also affect domestic economic activity, especially through stringent travel restrictions and public health measures to contain its spread. Given the renewed political uncertainty and likely COVID-19 impacts, the GDP growth forecast for 2020 has been lowered from the previous 4.6 percent (October 2019) to -2.8 percent. However, it should be noted that this projection is still subject to much uncertainty.

Risks and challenges

The economic impact of the global COVID-19 outbreak will be felt through constraints to the movement of persons (namely workers, tourists, and business people), disruptions in international trade, and deteriorating global equity markets. Recent travel restrictions will affect the implementation of public investment projects (many of which reliant on Chinese workers) and the nascent tourism sector. Trade disruptions could affect imports, which are key to satisfy domestic demand – given limited productive capacities. The collapse of international stock markets (and, to a lesser extent, the sharp fall in oil prices) will negatively impact the value of the Petroleum Fund, although its link to the real economy mainly operates through withdrawals to fund the state budget. Public health measures to contain the spread of COVID-19 within the population – especially 'social distancing' – will also weigh down on economic activity, although their timeframe is unclear. Moreover, recent heavy rains caused floods that affected thousands of people – particularly in Dili, where much of the economic activity takes place. Overall, a lack of preparedness for global health emergencies and climatic shocks could undermine human development achievements. In an interconnected world, failure to prepare for (and tackle) the spread of communicable diseases could lead to significant human and economic costs. Extreme whether events, such as droughts and heavy rains, can have a significant impact on agricultural yields (and thus living standards) as well as on connective infrastructure (especially roads).

The intermittent political uncertainty observed since 2017 has contributed to a volatile pattern in public spending. It is likely that the quality of public spending has suffered during this period because of inadequate planning, delayed budget decisions, and spending restrictions. While a political solution might be eventually found to avoid a third parliamentary election since 2017, political tensions remain elevated. Moreover, fiscal sustainability remains a critical medium-term concern. Protecting the Petroleum Fund from large withdrawals ought to be a key priority, especially when considering the financing options for the development of the Greater Sunrise oil and gas fields. Efforts to mobilise additional domestic resources – through a comprehensive fiscal reform – would also contribute to ease the pressure on the Petroleum Fund.

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

	2017 e	2018 f	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	-3.8	-0.8	3.4	-2.8	3.9	4.0
Private Consumption	3.6	2.6	3.2	-1.7	3.1	3.9
Government Consumption	-5.8	-1.0	10.9	-0.4	2.8	2.1
Gross Fixed Capital Investment	-16.7	-1.8	-10.1	-9.3	3.4	5.9
Exports, Goods and Services	-39.1	8.4	1.5	0.2	4.5	6.4
Imports, Goods and Services	-8.7	2.3	2.2	-2.3	1.4	2.8
Real GDP growth, at constant factor prices	-3.6	-0.2	3.0	-2.8	3.9	4.0
Agriculture	-3.3	4.4	2.4	2.1	2.6	2.9
Industry	-26.5	5.3	3.2	-1.8	1.1	2.4
Services	3.1	-2.4	3.2	-4.3	5.0	4.6
Inflation (Consumer Price Index)	0.6	2.2	0.9	1.4	1.8	2.2
Current Account Balance (% of GDP)	-17.6	-12.2	3.5	1.9	-10.3	-28.2
Fiscal Balance (% of GDP)[a]	-33.4	-27.5	-30.8	-30.8	-32.4	-34.1

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

The cut-off date for information in this MPO was March 30, 2020.

VIETNAM

Table 1	2019
Population, million	97.4
GDP, current US$ billion	265.8
GDP per capita, current US$	2729
International poverty rate ($1.9)[a]	1.9
Lower middle-income poverty rate ($3.2)[a]	7.0
Upper middle-income poverty rate ($5.5)[a]	23.6
Gini index[a]	35.7
School enrollment, primary (% gross)[b]	109.2
Life expectancy at birth, years[b]	75.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) Most recent WDI value (2017).

While Vietnam remains significantly exposed to COVID-19 outbreak and the ongoing turbulence in the global financial markets, its economy remains resilient to external shocks in the first few months of 2020. The medium-term outlook is broadly favorable, but significant downside risks are tied to adverse stronger and longer impacts of coronavirus outbreak, weak external demand, and incomplete structural reforms. On the upside, Vietnam is strongly positioned to benefit from numerous free trade agreements that are coming into force over the forecast period.

Recent developments

While Vietnam remains significantly exposed to COVID-19 outbreak and the ongoing turbulence in the global financial markets, its economy remains resilient to external shocks. Given its deep integration with the global economy, Vietnam was hit hard by the COVID-19 outbreak, with manufacturing, tourism and transport activities falling abruptly during the first two months of 2020. It has been feeling the pain of the ongoing global financial turmoil, with declining equity prices, rising in sovereign spreads and decreasing capital flows. Yet, Vietnam's economy remains resilient: in the first two months, exports have expanded by 8 percent, FDI inflows amounted to $2.5 billion and retail sales were up by 5.4 percent. With adequate policy buffer in hand, Vietnam appears to be well-positioned to overcome the ongoing health and economic crisis.

In 2019, Vietnam's economy continued to show fundamental strength and resilience, supported by robust domestic demand and export-oriented manufacturing. Preliminary data indicate that real GDP grew by about 7 percent in 2019, close to the rate reported in 2018, and one of the fastest in the region.

Industry (especially manufacturing) and service sector growth led to robust labor demand, creating 1.8 million wage jobs during 2016-18, drawing labor away from agriculture and driving non-agriculture wage income growth. This was primarily responsible for the reduction in poverty from 9.7 percent in 2016 to 6.7 percent in 2018 based on the GSO-WB national poverty line. Continued progress in poverty reduction among ethnic minorities has been largely driven by rising wage incomes too.

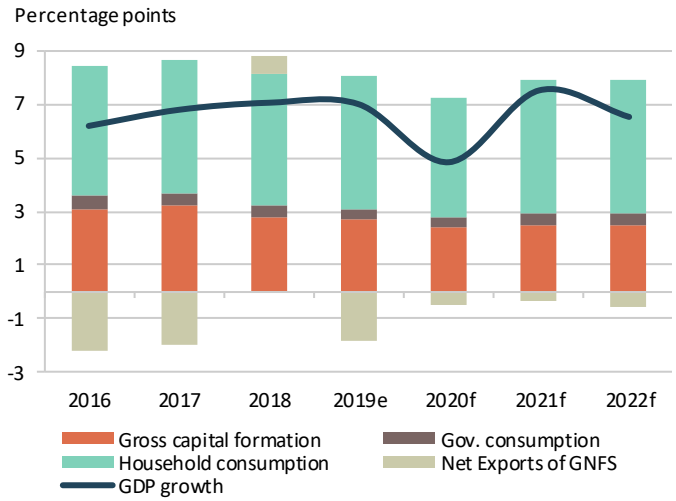
After moderating in the first three quarters of 2019, the headline Consumer Price Index (CPI) surged as the result of higher food prices in the last quarter. During the first few months of 2020, inflationary pressures remained due to higher food price related to the end of the year season and potential shortages associated to trade restrictive measures in response to the COVID 19 virus outbreak.

Vietnam's monetary policy continued to balance the dual objectives of maintaining stability while supporting economic growth. After months of prudent monetary policy, the SBV has started to ease its policy stance in September 2019 and even further in recent weeks when the SBV cut key policy rate by 100 basis points and allowed commercial banks to restructure loans maturities to affected businesses in response to the epidemic crisis.

Vietnam's external balances continued to improve in 2019, despite uncertain global trade developments, as the country reported a current account surplus for the second year in a row. Vietnam's export activity expanded by about 8 percent in early 2020, suggesting their resilience to deepening unfavorable external economic conditions.

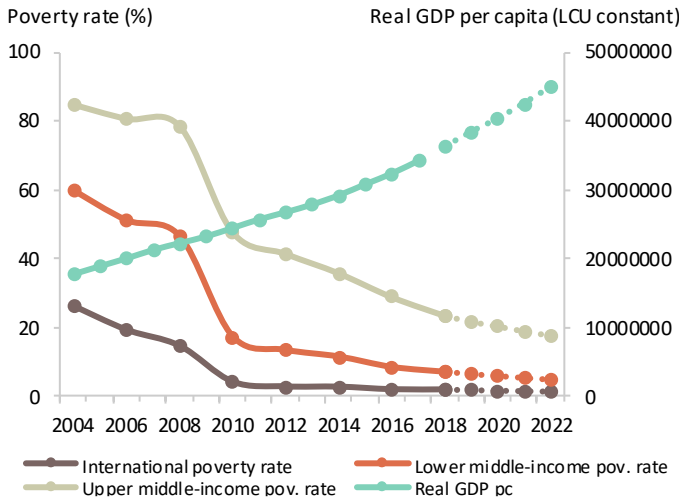
The capital account surplus also remained sizeable, owing to sustained high FDI

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



Sources: Official data and World Bank staff estimates

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



Sources: World Bank. Notes: see Table 2.

The cut-off date for information in this MPO was March 30, 2020.

inflows, leading to the further accumulation of foreign exchange reserves, which increased from the equivalent of 2.8 months of import cover at end-2018 to about 3.5 months at end-2019. Concurrently, both the nominal and real exchange rates were relatively stable through 2019 and into early-2020.

In line with the fiscal consolidation policy followed since 2016, the overall fiscal deficit declined from 4.4 percent of GDP in 2018 to 4.0 percent in 2019. As a consequence, Vietnam's public debt continued to decline as a share of GDP, down from 59.6 percent in 2016 to about 54 percent at end 2019.

Outlook

While prospects remain favorable for the Vietnamese economy in the medium term, GDP growth will be affected negatively by the recent coronavirus outbreak, now a global pandemic. Preliminary estimates suggest that the rate of expansion of the economy could decline to about 4.9 percent in 2020 (which is about 1.6 percentage points lower than our previous forecast). Because of the relatively limited number of infected cases (as of end March 2020), the most important negative impacts associated to the outbreak is on tourism and on manufacturing due to supply chain disruptions. Inflationary pressures are projected to increase temporarily, reflecting uncertain prices of food and fuel, and possible trade disruptions. With many households now wage dependent even in rural areas, slowdown in tourism, hotel and catering as well as manufacturing sectors could temporarily increase poverty during the first half of 2020.

The external position is projected to deteriorate in 2021 mainly as the result of the fall in exports of services (tourism) and lower FDI inflows. The fiscal deficit will temporary increase in 2020 due to lower revenue and the fiscal stimulus that will partially compensate for the negative effect of the global pandemic on the Vietnamese economy.

The fiscal consolidation process is projected to continue from 2021 onwards, which will help to further reduce public debt as a share of GDP. Over the medium term, growth is projected to rebound back to 7.5 percent in 2021 and converge at around 6.5 percent in 2022, reflecting an improved external demand, a firming of services sector as well as a gradual recovery in agricultural production. The economy will also rebound from the global coronavirus pandemic. Poverty is projected to continue to decline further, as labor market conditions are expected to remain favorable.

Risks and challenges

In the short-term, the coronavirus outbreak could create stronger adverse impacts on Vietnam's economy, especially manufacturing and tourism sectors that are highly dependent on the global economy. The short-term impact on Vietnam's economic activities could be significant but short-lived if the outbreak is rapidly contained as experienced in other epidemic episodes. Other short-term risks include the continuous slowdown in global economic activity and trade flows as Vietnam's economy is one of the most open in the world.

Looking forward, Vietnam could manage the above external risks by diversifying its trade flows and improving its competitiveness. Vietnam's adhesion to new trade agreements, e.g. the EVFTA, will support this effort. Heightened global volatility underscores the need to maintain sound macroeconomic policies, including implementation of planned structural reforms, such as for state-owned enterprises.. But advancing this agenda while maintaining an equitable society within and across regions in a country with rapidly declining but spatially and ethnically concentrated poverty is a key challenge.

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

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	6.8	7.1	7.0	4.9	7.5	6.5
Private Consumption	7.4	7.3	7.4	6.7	7.3	7.3
Government Consumption	7.3	6.3	4.2	6.0	5.3	6.4
Gross Fixed Capital Investment	10.2	8.2	7.9	7.0	7.1	7.1
Exports, Goods and Services	16.7	14.3	7.6	2.6	8.8	9.1
Imports, Goods and Services	17.5	12.8	8.3	2.8	8.5	9.4
Real GDP growth, at constant factor prices	6.9	7.2	7.0	4.9	7.5	6.5
Agriculture	2.9	3.8	2.0	1.9	2.0	2.0
Industry	8.0	8.9	8.9	7.6	8.6	8.4
Services	7.4	7.0	7.2	3.3	8.2	6.2
Inflation (Consumer Price Index)	3.5	3.5	2.8	3.5	3.7	3.6
Current Account Balance (% of GDP)	-0.7	2.3	2.4	-1.5	1.0	1.2
Fiscal Balance (% of GDP)	-4.7	-4.4	-4.0	-4.4	-3.8	-3.6
Debt (% of GDP)	58.3	55.7	54.1	53.3	52.0	51.3
Primary Balance (% of GDP)	-2.7	-2.4	-1.9	-2.4	-1.8	-1.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	..	1.9	1.8	1.7	1.6	1.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	..	7.0	6.4	6.0	5.4	5.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	..	23.6	21.8	20.8	19.1	17.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on EAPPOV harmonization, using 2014-VHLSS and 2018-VHLSS. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using annualized elasticity (2014-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

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Macro Poverty Outlook

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