Latin America and the Caribbean

Macro Poverty Outlook

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

Spring Meetings 2020

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Poverty & Equity

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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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ARGENTINA

Table 1	2019
Population, million	45.1
GDP, current US$ billion	444.5
GDP per capita, current US$	9856
International poverty rate ($1.9)[a]	1.0
Lower middle-income poverty rate ($3.2)[a]	3.0
Upper middle-income poverty rate ($5.5)[a]	9.6
Gini index[a]	41.4
School enrollment, primary (% gross)[b]	109.7
Life expectancy at birth, years[b]	76.4

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

Argentina's massive asset sell-off in August 2019 triggered a rapid acceleration of inflation, reduced real wages, resulting in a recession for the second consecutive year. Emergency measures to protect the most vulnerable were able to contain poverty rates, which remain elevated. Economic activity is expected to deteriorate in 2020 given the COVID-19 outbreak, further increasing unemployment and poverty. The outlook is uncertain and depends on the magnitude and duration of the COVID-19 shock and the outcome of debt negotiations.

Recent developments

Argentina's economy is bracing for a large impact of the COVID-19 outbreak after having experienced a recession for the second consecutive year. Macroeconomic volatility, which intensified after the August asset sell-off, triggered a sharp depreciation, accelerated inflation and led to a fall in real wages. Private consumption and investment were severely hit, causing GDP to decline by 2.2 percent. A shift of employment from formal to lower paid informal labor put pressures on social protection systems and transfers, and further limited fiscal policy options.

Peso depreciation, economic contraction and strong exports helped to virtually close the current account deficit. After accelerating to 53.8 percent, inflation abated in early-2020, driven by tariff freezes and a stable exchange rate supported by currency controls. However, the peso continued to depreciate in alternative FX markets, against the backdrop of a more expansionary monetary policy.

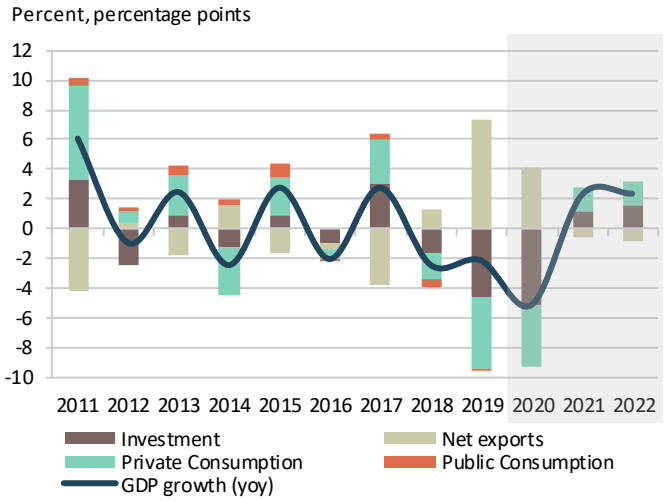
Budget cuts, except for social assistance programs, lowered the central government primary deficit to 0.4 percent of GDP in 2019, despite an increase in interest payments from 2.7 to 3.3 percent of GDP. The new government has enacted fiscal measures to increase revenues and step-up redistribution to lower income groups, which have been reinforced as a response to the COVID-19 outbreak. Limited fiscal space is curbing the prospects for stimulus, which includes cash-transfers, wage subsidies to firms to avoid lay-offs and additional transfers to provinces and capital spending. To stimulate liquidity provision, the Central Bank (CB) has reduced reserve requirements for loans of commercial banks to MSMEs at a capped rate of 24 percent and limited the amount of short-term CB notes banks can hold. Global financial market turmoil brought by COVID-19 has increased country risk to its highest level in 15 years. Facing liquidity constraints and interest payments evolving very rapidly compared with revenues, the government applied maturity extensions on some domestic bonds, initiated a debt-renegotiation process and engaged with the IMF to discuss the terms of a future program.

In a challenging macroeconomic environment, informality has increased and unemployment remains high. Poverty, as measured by the upper-middle income country line of $5.5 (2011 PPP) per day, is estimated to have increased from 9.6 to 11 percent between 2018-2019.

Outlook

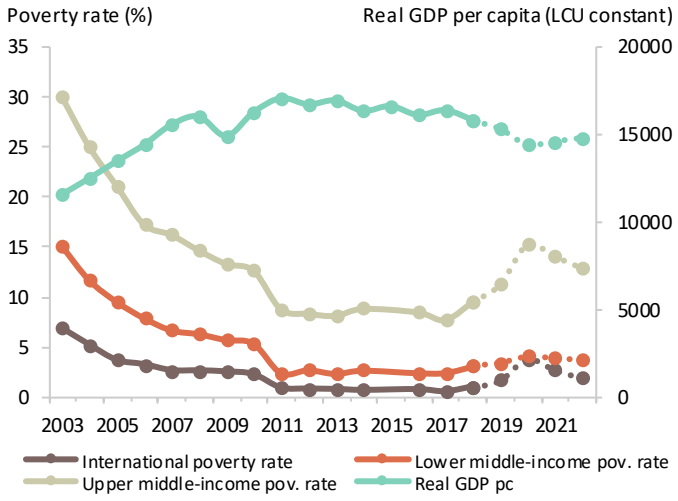
The severe impact of COVID-19 and containment measures will deepen the current economic contraction and delay the recovery. GDP growth is projected to contract by 5.2 percent in 2020. Contingent upon a successful debt negotiation and short-lived COVID-19 crisis, economic activity is expected to rebound slightly in the fourth quarter of the year and continue recovering in 2021-2022, driven by

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



Source: World Bank based on INDEC.

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



Sources: World Bank. Notes: see Table 2.

renewed confidence and improved demand from trading partners.

The global economic slowdown will severely hamper exports in 2020. In the recovery phase, exports are not expected to contribute to economic growth as in the recent past, due to current policies that limit incentives for exporters (i.e. export taxes, capital controls and taxes on FX). Thus, trade and current account balances are expected to slowly deteriorate once the economy begins to reactivate in 2021-2022.

The impact of the increase in export and wealth taxes implemented in December 2019 will be reduced by weaker tax collection and the fiscal stimulus. Subnational administrations will face strong fiscal challenges, in view of increasing health expenditures and lower revenues, against a backdrop of extremely rigid budgets. A successful debt renegotiation that eases obligations in the near to medium term is key for macroeconomic stabilization.

The deterioration in economic activity will weigh on jobs and labor income. The sectors that are expected to be severely hit, such as retail and construction, concentrate a large share of workers of the lower income deciles. Based on the projected contraction, the poverty rate could increase by around 4pp (an additional 1.1 million people).

Risks and challenges

Substantial risks are on the downside, from external and domestic sources. External risks stem from the commodity price shock and the impact of the COVID-19 outbreak, which are highly uncertain and depend on its duration, the severity of the transmission through different channels (trade, financial markets, domestic supply chains, demand disruption) and their second-round effects. Exports could be affected by both prices and volume effects, the latter impacting mostly in tourism and industrial exports. Capital flights from emerging markets due to severe risk aversion will put further pressure on the peso, in a context of high inflation and low international reserves. Mandatory quarantining and social-distancing behavior will have a significant impact on the consumption of services and non-essential goods. Production value chains will also be affected, sharply reducing imports. The large drop in the oil price will likely reduce profitability in shale gas and oil projects, delaying investment. The ability of the government to apply a strong fiscal stimulus to cushion the negative shock is limited. As a result, GDP could fall significantly below the projected 5.2 percent in 2020 under a more severe scenario.

Domestic risks stem from a potentially unfavorable outcome of debt negotiations and the narrow path towards macroeconomic stabilization. The impact of COVID-19 on output growth and financial markets volatility adds to already high uncertainties on the amount of debt relief necessary to restore debt sustainability. Unsuccessful debt negotiations could result in another sell-off round of Argentine assets, leading to pressure on official and alternative exchange rates, loss of international reserves, an acceleration of inflation, deepening and extending the recession, increasing unemployment and poverty. The narrow policy path refers to difficult trade-offs of policy actions to stabilize inflation, balance the budget and re-ignite the economy via expansionary measures (i.e. fiscal and monetary), which may put some objectives at risk and be counterproductive for long-term growth.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	2.7	-2.5	-2.2	-5.2	2.2	2.3
Private Consumption	4.0	-2.4	-6.4	-5.8	2.2	2.4
Government Consumption	2.7	-3.3	-1.6	-0.3	-0.1	0.3
Gross Fixed Capital Investment	12.2	-5.7	-15.9	-23.4	8.9	10.0
Exports, Goods and Services	1.7	-0.7	9.4	-1.0	3.0	2.0
Imports, Goods and Services	15.4	-4.7	-18.7	-18.0	6.2	6.4
Real GDP growth, at constant factor prices	2.4	-2.6	-1.8	-5.2	2.2	2.3
Agriculture	3.0	-14.3	19.7	2.1	2.3	1.1
Industry	2.5	-3.1	-3.1	-5.0	1.7	1.5
Services	2.3	-0.6	-3.8	-6.5	2.5	2.9
Current Account Balance (% of GDP)	-4.9	-5.3	-0.5	0.6	0.1	-0.4
Net Foreign Direct Investment (% of GDP)	1.6	1.9	1.1	0.3	1.2	1.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.5	1.0	1.7	3.8	2.7	1.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	2.4	3.0	3.4	4.1	3.9	3.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	7.7	9.6	11.3	15.3	14.1	12.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2016-EPHC-S2 and 2018-EPHC-S2. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using average elasticity (2016-2018) with pass-through = 1based on GDP per capita in constant LCU.

BARBADOS

Table 1	2019
Population, million	0.3
GDP, current US$ billion	5.2
GDP per capita, current US$	17983
School enrollment, primary (% gross)[a]	97.8
Life expectancy at birth, years[a]	79.0

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

A steep decline in growth is projected for 2020 due to the coronavirus pandemic. The fallout to the tourism sector and disruptions to local production are expected to depress growth by some 8 percentage points, resulting in the third consecutive year of recession. The Government has requested an augmentation of US$ 100 million under the existing IMF program for emergency response to the crisis. Impacts on poverty will depend on the length and severity of the crisis. Strong rebound in growth is expected for 2021-2022, provided that the crisis is short-lived.

Recent developments

The COVID-19 pandemic threatens to deepen recession in Barbados, which is in the middle of an IMF-supported fiscal adjustment program. The Barbados Economic Recovery and Transformation (BERT) plan seeks to restore fiscal and debt sustainability through tax reform, improved tax and customs administration, reduced transfers to SOEs, and extensive debt restructuring. In response to the crisis, the Government has requested a program increase of US$ 100 million (from US$ 292 mn) for immediate BOP support, and has negotiated relaxation of the primary balance target from 6 percent of GDP to 2-3 percent to accommodate larger public spending.

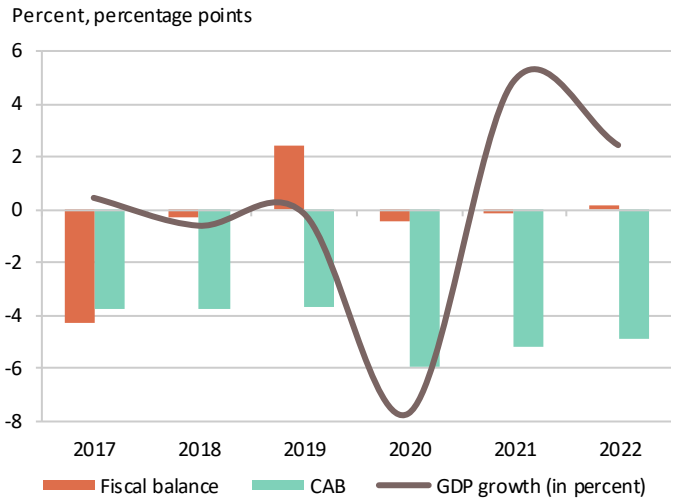
Prior to the crisis, Barbados had been on track to meet its program targets. Real GDP, which declined by 0.1 percent in 2019, was poised to make a modest rebound in 2020. Favorable performance of the tourism sector in 2019 tempered declines in manufacturing, construction and agriculture. Sustained marketing efforts and increased airlift spurred growth in tourist arrivals of 4.1 percent in 2019 (up to September), compared to 3.0 percent for the corresponding period of 2018. Moreover, the unemployment rate was unchanged at 10.1 percent in 2019, relative to 2018, given the government's employment reactivation measures for displaced public sector workers.

The current account deficit remained at about 3.7 percent of GDP in 2019, as a reduction in import prices and strong tourism receipts compensated for an appreciation in the REER. The deficit was financed by FDI flows of 3.5 percent of GDP and net official inflows. Gross international reserves increased to about 14 weeks of imports in 2019, from 12 weeks in 2018. Inflation edged up to approximately 4.0 percent in 2019, attributable to an acceleration in the prices of domestically produced food products following insufficient rainfall, and higher transportation and utility costs.

Conditions in the financial sector were broadly stable in 2019. Nonperforming loans declined to 6.6 percent of total loans in 2019 from 7.4 percent in 2018. Furthermore, liquidity in the banking system was supported by modest growth in deposits, with an excess cash ratio of 18.4 percent in 2019, up from a 2018 outturn of 15.2 percent.

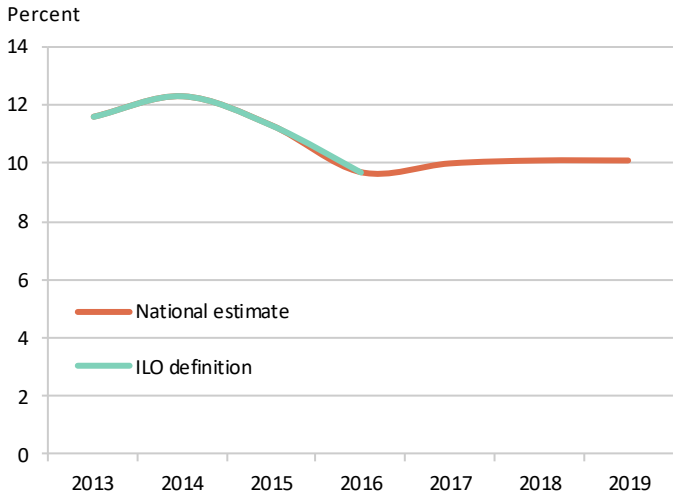
A primary balance of 5.0 percent of GDP was estimated for CY2019, considerably above the 3.5-percent outturn recorded in 2018. The overall fiscal balance shifted from a deficit of 0.3 percent of GDP in 2018 to a surplus of 2.5 percent in 2019. This reflected the implementation of new revenue-generating measures as well as reduced current expenditure owing to central government layoffs, SOEs containment and reduced transfers to public entities. Consequently, the debt-to-GDP ratio declined to 115.9 percent of GDP in 2019, compared to 125.6 percent in 2018. This sharp reduction was aided by the comprehensive restructuring of domestic debt in 2018 and the completion of a

FIGURE 1 Barbados / Real GDP growth, current account and fiscal balances



Sources: IMF; World Bank staff estimates; ECCB.

FIGURE 2 Barbados / Unemployment rate



Sources: Barbados Statistical Service; ILO.

debt exchange on external debt in December 2019.

Poverty and extreme poverty in Barbados are relatively high. In 2017, it was estimated that about 18 percent of Barbadians were poor and 3.6 percent were extremely poor. As the economy has contracted over the last two years, the government has placed emphasis on social safety net measures to protect vulnerable groups and help displaced workers find new employment.

Outlook

The COVID-19 outbreak has dampened the outlook for the Barbadian economy but the government remains committed to the economic adjustment program.

Under a moderate scenario in which the pandemic is short-lived and containment measures are eased after two months, hotel closures and major disruptions to domestic production persist for only two quarters, and fourth quarter recovery is strong, GDP is projected to decline by 7.7 percent in 2020, rebounding by 4.9 and 2.5 percent in 2021 and 2022. Significant fallout in the services and industry sectors is expected to be moderated by a rebound in agriculture in 2020. The resurgence of private sector confidence following the removal of Barbados from the EU grey list should also aid growth.

The primary balance, which was on track to reach 6 percent of GDP prior to the crisis, is anticipated to fall to 2.7 percent of GDP in 2020 and edge up to 3.0 percent over the forecast horizon. Meeting the quantitative targets of the EFF by the end of the program in 2022, would require even higher primary surpluses – a challenging feat coming out of a severe crisis. The fiscal balance is expected to turn negative amid lower tax receipts due to disruptions in economic activity. The debt-to-GDP ratio is anticipated to increase to 123 percent in 2020 but resume a downward trajectory during the 2021-2022 recovery.

With the fallout in tourism (which represents 35% of GDP), the current account deficit is expected to deteriorate to 5.9 percent of GDP, with modest improvements over 2021-2022. The deficit is anticipated to be financed by FDI and increased official net inflows. Falling oil prices and reductions in imports will offset some of the impact on the external accounts.

Barbados' inflation rate is projected to fall slightly to 3.8 percent in 2020 and average around 4 percent over the medium-term amid low external inflationary pressures. While the decline in GDP growth in 2020 is expected to reduce employment and increase poverty, with recovery and new job opportunities, poverty is expected to resume its downward trend.

Risks and challenges

The uncertainty behind the duration and severity of the COVID-19 outbreak presents significant downside risks to the outlook. If global recession is severe, disruptions to international travel last beyond the third quarter of 2020, and propagation of the disease inside Barbados is widespread, then 2020 growth could suffer a steeper decline with slower recovery in 2021-2022. Reputational risks associated with the Government's ability to maintain fiscal prudence under the demanding adjustment program are high. The country is subject to rare but extreme weather events that may significantly increase poverty.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	0.5	-0.6	-0.1	-7.7	4.9	2.5
Real GDP growth, at constant factor prices	0.6	-0.4	-0.1	-7.7	4.9	2.5
Agriculture	-3.3	14.8	-6.3	6.8	1.2	1.0
Industry	1.8	-2.3	-3.4	-7.5	3.4	3.1
Services	0.5	-0.3	0.6	-8.0	5.2	2.4
Inflation (Consumer Price Index)	4.4	3.7	4.0	3.8	4.0	4.0
Current Account Balance (% of GDP)	-3.8	-3.7	-3.7	-5.9	-5.2	-4.9
Fiscal Balance (% of GDP)	-4.3	-0.3	2.5	-0.5	-0.1	0.2
Debt (% of GDP)	158.3	125.6	115.9	123.0	115.1	107.4
Primary Balance (% of GDP)	3.4	3.5	5.0	2.7	2.9	3.0

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

BELIZE

Table 1	2019
Population, million	0.4
GDP, current US$ billion	1.9
GDP per capita, current US$	4869
School enrollment, primary (% gross)[a]	113.2
Life expectancy at birth, years[a]	74.4

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

Economic growth slowed in 2019, and a sharp contraction is projected for 2020 amidst the downturn in global economic activity triggered by the Coronavirus (COVID-19) pandemic. The fiscal and external accounts are expected to worsen. High public debt levels will limit headroom for counter-cyclical fiscal policy to boost growth and support poverty reduction. Downside risks are very high given the country's high dependence on tourism and susceptibility to economic and natural disaster shocks.

Recent developments

Real GDP growth decelerated in 2019 to 0.3 percent from 2.1 percent in 2018. Growth was driven primarily by net external demand. At the sectoral level, the tourism sector, which is one of the main growth engines, slowed in the context of cyclically weaker growth in the USA and the normalization of cruise arrivals to other Caribbean destinations that were affected by major hurricanes in 2018. Output from agriculture, water and electricity sectors were also stymied by drought conditions in the second half of the year. In this context, unemployment rose sharply to 10.4 percent in September 2019, from historic lows of 7.7 percent. Inflation remained subdued at 0.2 percent in 2019 driven primarily by higher energy prices.

The current account deficit (CAD) is estimated to have widened in 2019 to 10 percent of GDP from 8.1 percent of GDP in 2018. This was led by a sharp increase in fuel imports to compensate for the falloff in hydroelectric production. The deficit was financed mainly with private and official inflows – linked to several infrastructure projects - and a drawdown in reserves. The country ended 2019 with a reserve cover of 2.8 months of imports compared to 3.6 months at end 2018.

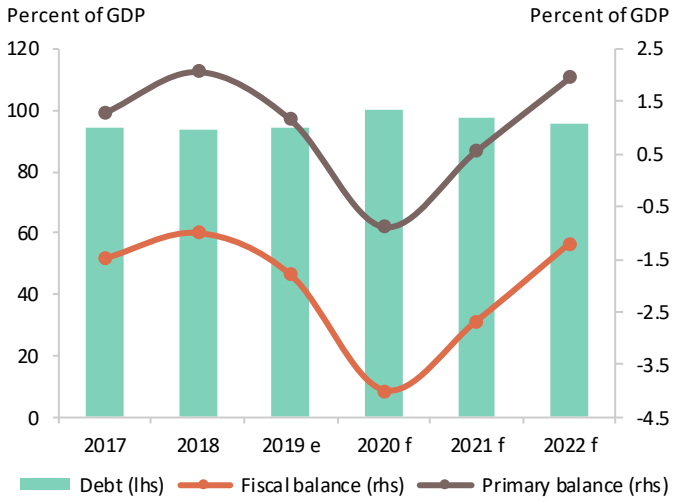
The fiscal deficit widened to 1.8 percent of GDP in 2019, from 1.0 percent of GDP in 2018. Higher spending on capital projects pushed total expenditure to an estimated 32.2 percent of GDP. This is 0.6 percentage point above the outturn for 2018. Revenues and grants remained broadly unchanged at 30.4 percent of GDP. In this context, government operations yielded a primary surplus of 1.2 percent of GDP. This falls short the annual primary surplus target of 2 percent which was a condition for the debt restructuring in 2017. Public debt remains high, closing the year at 94.3 percent of GDP.

Although the latest official poverty data is available only up to 2009, poverty is estimated to have increased in 2019 consistent with the sharp rise in unemployment. Notably, as unemployment is higher among females (more than double that of males), poverty is probably more concentrated in female headed households.

Outlook

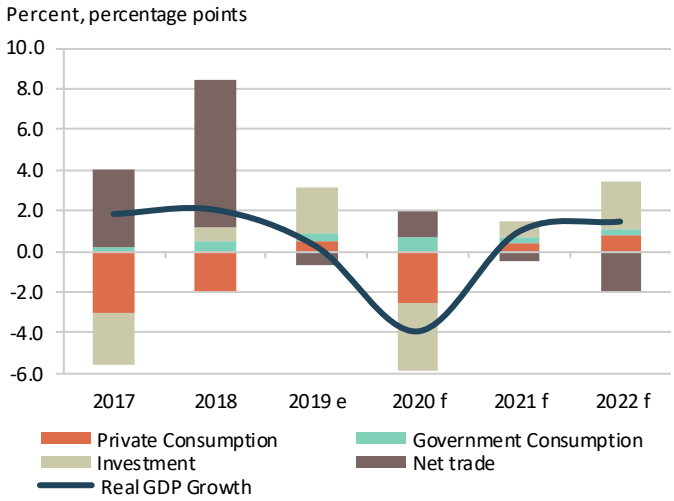
Real GDP is projected to contract by 3.9 percent in 2020 and improve to 1.5 percent by 2022, slightly below potential output growth. The sharp contraction in 2020 is projected to be driven primarily by net external demand and private consumption given the near closure of global travel and slowdown in demand. Government consumption is expected to increase with outlays to respond to the COVID-19 outbreak. A rebound in net external demand, private consumption, and investment will support growth in 2021 and 2022. On the supply side, tourism and related services will register a deep contraction in 2020 before recovering over 2021 and 2022, consistent with a rebound in the global economy. Water and electricity should

FIGURE 1 Belize / High public debt



Sources: Ministry of Finance and World Bank staff calculations.

FIGURE 2 Belize / Real GDP growth and contributions to real GDP growth



Sources: Statistical Institute of Belize and World Bank staff calculations.

also recover over the medium term. Inflation is expected to gradually rise towards 2 percent but remain contained given lower fuel prices.

The CAD is predicted to widen to 11.4 percent of GDP in 2020 and decrease to an average 5.5 percent of GDP between 2021 and 2022. Weakening tourism demand in the near term tied to the COVID-19 pandemic and lower global economic growth will lead to a worsening in the goods and services balance. Private and official inflows are expected to finance the CAD, supplemented by further drawdown in reserves. In this context, the level of international reserves could fall to 2.5 months of imports from 2.8 months in 2019.

The fiscal deficit is expected to average 2.6 percent of GDP over the medium term, 0.8 percentage point above 2019 levels. The deterioration will be driven by substantially lower revenues, especially in the context of the GDP contraction in 2020. With public debt remaining above 95 percent of GDP up to 2022, Belize will remain one of the most indebted countries in the Caribbean.

The COVID-19 pandemic will affect the poor not only through health impacts but also through the out-of-pocket health costs. Near closure of tourism and related activities, will likely affect 30,000 jobs. However, the impact on employment may be mitigated by the tax relief and financial support being extended by the government to tourism related companies. Poverty rates in Belize are not very elastic to GDP growth. Thus, even in the most extreme scenario, impacts on the poverty rate are likely to be below one percentage point.

Risks and challenges

A deeper and protracted slowdown in the global economy would further undermine growth and poverty reduction. External sector vulnerabilities, which are already high, given the low reserves level could be compounded by a protracted fallout from the COVID-19 pandemic, unfavorable global financial conditions, and natural disaster shocks. Accelerating efforts to build resilience to disaster shocks would reduce economic volatility and enhance growth. Total public debt remains high, and the debt outlook is vulnerable to a prolonged economic slowdown and the realization of contingent liabilities. The high debt also limits headroom for fiscal policy to address the Covid-19 pandemic and cushion the impact on the poor.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	1.9	2.1	0.3	-3.9	1.0	1.5
Private Consumption	-4.3	-3.0	0.8	-4.0	0.6	1.3
Government Consumption	1.0	3.5	2.5	4.2	2.1	1.6
Gross Fixed Capital Investment	-12.5	3.7	12.6	-16.5	4.3	13.2
Exports, Goods and Services	6.1	7.5	4.4	-26.0	21.0	3.0
Imports, Goods and Services	-0.6	-4.3	5.6	-28.0	22.6	6.4
Real GDP growth, at constant factor prices	4.0	2.1	0.3	-3.9	1.0	1.5
Agriculture	9.8	-3.9	-0.7	0.8	1.0	2.0
Industry	1.4	-1.3	-11.7	4.0	1.2	1.2
Services	3.7	3.9	3.2	-6.2	1.0	1.5
Inflation (Consumer Price Index)	1.2	0.2	0.4	0.7	1.7	1.8
Current Account Balance (% of GDP)	-7.8	-8.1	-10.0	-11.4	-6.3	-4.8
Net Foreign Direct Investment (% of GDP)	1.3	6.5	5.1	2.1	3.3	5.1
Fiscal Balance (% of GDP)[a]	-1.5	-1.0	-1.8	-4.0	-2.7	-1.2
Debt (% of GDP)[a]	94.6	93.8	94.3	100.6	97.9	95.8
Primary Balance (% of GDP)[a]	1.3	2.1	1.2	-0.9	0.6	2.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Figures reflect fiscal years (FY) going from April to March.

BOLIVIA

Table 1	2019
Population, million	11.4
GDP, current US$ billion	41.3
GDP per capita, current US$	3629
International poverty rate ($1.9)[a]	4.5
Lower middle-income poverty rate ($3.2)[a]	10.6
Upper middle-income poverty rate ($5.5)[a]	23.1
Gini index[a]	42.2
School enrollment, primary (% gross)[b]	97.6
Life expectancy at birth, years[b]	70.9

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

Economic growth slowed in 2019, and GDP is expected to contract in 2020 due to impacts from COVID-19 and low oil prices, increasing poverty and inequality. Cushioning the effects of the crisis through short-term relief measures is paramount, but room for policy stimulus is limited. After the health emergency, Bolivia needs to improve the quality of expenditure for a quality fiscal consolidation and implement reforms to reignite private investment, create quality, formal jobs, and sustainably protect vulnerable segments of the population.

Recent developments

GDP growth slowed from 4.2 percent in 2018 to 2.7 percent in 2019 due to low gas exports to Brazil and Argentina, declining capital expenditures, and the civil unrest following the contested general elections in October 2019. Most sectors decelerated, likely further increasing self-employment, and dampening progress in poverty and inequality reduction. While 96,000 people escaped poverty annually between 2002 and 2014, only 35,000 did during 2014-2018. Additionally, the recent reduction of poverty and inequality is highly vulnerable to reversals, particularly given the increasing share of lower-earning self-employed. The Gini coefficient declined from 0.46 in 2017 to 0.43 in 2018, owed to gains at the bottom and losses at the top of the income distribution.

The current account deficit declined from 4.7 percent of GDP in 2018 to 3.3 percent in 2019 as higher gold exports, lower non-fuel imports, and lower factor payments abroad more than offset the fall of gas exports. The deficit and sizable capital outflows reduced the international reserves from US$8.9 billion in 2018 to US$6.5 billion in 2019 (6.5 months of imports), despite measures to reduce mandatory liquidity requirements on dollar deposits and limit financial institutions' investments abroad.

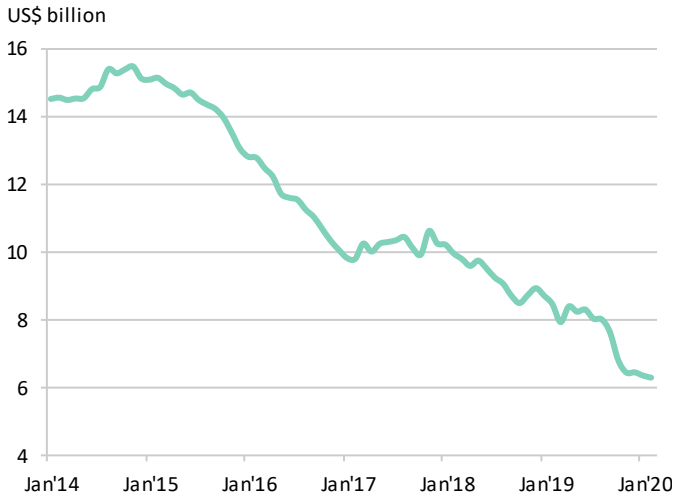
Inflation decreased from 2.3 percent in 2018 to 1.8 percent in 2019 as the inflationary effect of loose monetary policy was offset by declining international reserves. Although deposits remained almost flat, loans grew by 7.7 percent in 2019 at the expense of foreign assets. Despite the aftermath of the social unrest, non-performing loans remained slightly below 2.0 percent of total loans, and banks' return on equity reached 13 percent.

The fiscal deficit decreased from 8.1 percent of GDP in 2018 to 7.2 percent in 2019 due to lower public investment. Additionally, the second year-end bonus to salaried workers was not paid as economic growth fell below the legal trigger of 4.5 percent. The fiscal deficit was funded by external and Central Bank financing (increasing public debt from 53 to 57 percent of GDP) and the reduction of public deposits at the Central Bank, from 13 to 12 percent.

Outlook

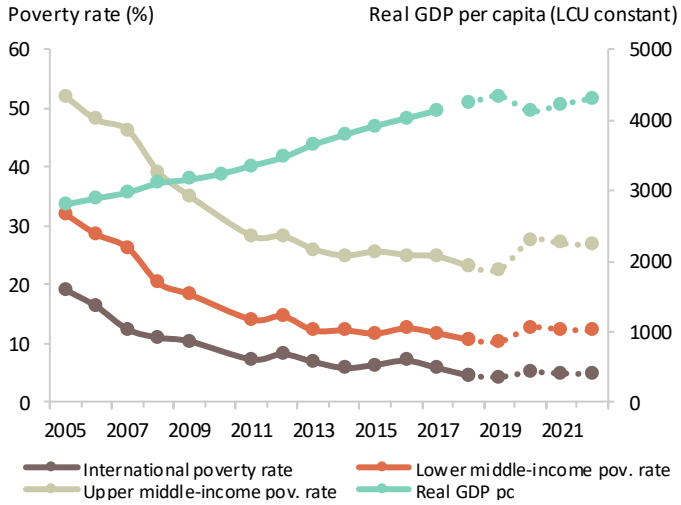
While COVID-19 has made forecasting even more uncertain than it usually is, the current expectation is that the economy will contract around 3.4 percent in 2020 due to the COVID-19 impact, the collapse of oil prices, and the lack of room for further policy stimulus. The global slowdown and social distancing measures will dampen aggregate demand, affecting informal salaried employees and the self-employed in industry (17 percent of poor employees) and services (32 percent) the most, and increasing poverty and inequality, especially in urban areas. The authorities postponed the payment of some taxes, decided to pay part of utility bills, and introduced complementary transfers to

FIGURE 1 Bolivia / Net international reserves



Sources: Central Bank of Bolivia.

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



Sources: World Bank. Notes: see Table 2.

households with children in elementary and primary public schools, the elder, pregnant women, and disabled people—the Government is assessing options to increase coverage. However, the lack of fiscal room and mechanisms to target the most vulnerable people may restrict the impact of social assistance efforts. About 22 percent of the poor are not eligible for any of these complementary transfers. Further, among eligible households, these transfers are equivalent to only one week of labor income for the most affected (informal self-employed workers in industry and services). In a scenario where the most affected lose two weeks of labor income, 703,000 people would fall into poverty due to the limited amount and poor targeting of the safety net.

After mitigating the health crisis, GDP growth is expected to pick up to 3.4 percent by 2022 on the back of a global recovery and growing non-oil exports. Investment promotion measures, including easing the restrictions on agribusiness exports and genetically modified organisms, could propel private sector development, partially offsetting the effects of fiscal consolidation and monetary tightening needed to preserve macroeconomic stability. However, the poverty and inequality impacts are expected to linger as some micro and small enterprises may not survive the current crisis, leading to depletion of households' or firms' assets.

After reaching a peak of 5.3 percent in 2020 due to low commodity prices, the current account deficit is projected to decrease to 3.2 percent by 2022 owing to the recovery of external demand, higher agribusiness exports, and middling domestic demand. With modest foreign direct investment, the current account deficit would be financed by external borrowing and, to a lesser extent, by international reserves.

Low hydrocarbon revenues and expenditure triggered by the health crisis are expected to increase the fiscal deficit to 8.0 percent by 2020, despite expenditure rationalization. Continued expenditure consolidation measures and partial recovery of gas exports are expected to reduce the fiscal deficit to 3.6 percent by 2022. Assuming the government will not use public deposits at the Central Bank, the fiscal deficit will stabilize public debt around 70 percent of GDP from 2021 onwards.

Risks and challenges

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Due to the reduction of macroeconomic buffers over the last four years, Bolivia is highly vulnerable to adverse shocks, mainly a more extended health emergency and lower commodity prices that put upward pressure in poverty and inequality. Governance challenges could prevent Bolivia from implementing critical reforms to foster economic growth and raise living standards without jeopardizing medium-term fundamentals such as macroeconomic stability.

With a rigid exchange rate regime, the continued depletion of buffers has made tackling macroeconomic imbalances more urgent, by improving the efficiency of public expenditure and fostering exports. Private sector development is critical not only to reignite growth and diversify exports but also to boost quality job creation. Bolivia needs to increase investment in gas explorations, make the business environment more conducive to new drivers of growth, improve the efficiency of public expenditure, and introduce institutional anchors to achieve sustainable countercyclical macroeconomic management. Beyond the immediate measures to tackle the current shocks, these reforms need to be informed by equity considerations to avoid further potential negative impacts on the poor and vulnerable groups, create effective instruments to protect people from new external shocks, close gaps in access to services, and improve the progressivity of fiscal policy.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	4.2	4.2	2.7	-3.4	3.7	3.4
Private Consumption	4.7	4.3	4.5	-2.7	3.9	3.4
Government Consumption	4.9	5.1	4.9	1.6	-2.4	-0.1
Gross Fixed Capital Investment	11.8	3.2	-3.7	-15.5	5.9	4.0
Exports, Goods and Services	-5.0	5.2	0.4	-9.3	9.9	4.4
Imports, Goods and Services	5.6	1.9	1.0	-12.9	8.2	3.2
Real GDP growth, at constant factor prices	4.2	4.3	2.7	-3.4	3.7	3.4
Agriculture	7.6	6.9	6.9	3.4	5.4	5.0
Industry	2.2	2.3	0.3	-4.2	3.9	3.7
Services	4.8	5.2	3.3	-4.9	3.0	2.6
Inflation (Consumer Price Index)	2.8	2.3	1.8	1.7	2.1	3.0
Current Account Balance (% of GDP)	-4.8	-4.7	-3.3	-5.3	-3.5	-3.2
Net Foreign Direct Investment (% of GDP)	1.7	1.0	-0.5	0.0	1.2	1.7
Fiscal Balance (% of GDP)	-7.8	-8.1	-7.2	-8.0	-5.6	-3.6
Debt (% of GDP)	51.2	52.8	57.4	69.2	70.1	69.5
Primary Balance (% of GDP)	-6.7	-7.0	-5.9	-6.7	-4.2	-2.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	5.8	4.5	4.3	5.1	4.9	4.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	11.8	10.6	10.4	12.7	12.4	12.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	24.7	23.1	22.7	27.7	27.2	26.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2008-EH and 2018-EH. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using average elasticities with pas-through = 1based on GDP per capita in constant LCU.

The cut-off date for information in this MPO was April 06, 2020.

BRAZIL

Table 1	2019
Population, million	214.4
GDP, current US$ billion	1849.6
GDP per capita, current US$	8629
International poverty rate ($1.9)[a]	4.4
Lower middle-income poverty rate ($3.2)[a]	9.2
Upper middle-income poverty rate ($5.5)[a]	19.9
Gini index[a]	53.9
School enrollment, primary (% gross)[b]	115.4
Life expectancy at birth, years[b]	75.5

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

Still recovering from the 2015/16 recession, Brazil is expected to enter recession once more in 2020 as the coronavirus pandemic hit. Assuming a relatively transitory economic disruption, 2020 growth is estimated at -5.0 percent, recovering by 1.5 percent in 2021. Downside risks to this scenario are considerable and critically depend on domestic and global policy response. Small businesses and informal workers are most at risk, and unless mitigated, the crisis may push another 6.2 million Brazilians into poverty. Pressure on sub-national finances has increased.

Recent developments

Following a deep recession in 2015/16, growth in Brazil remained fragile. In 2019 GDP only grew by 1.1 percent, supported mainly by services and agriculture. Industry slowed due to weak iron ore production following a dam collapse, while manufacturing was held back by weak external demand, including from Argentina.

Benign inflation, an uptick in the credit cycle, and a modest recovery in the labor market supported private consumption in 2019, when 1.8 million jobs were created (although mostly in the services and informal sectors). The unemployment rate by end-2019 was 11 percent, down from 11.6 percent a year prior.

Unemployment remains particularly high among the lowest skilled workers, resulting in increasing pressure for public assistance. By early 2020, almost 1.3 million eligible families waited to enter Bolsa Familia. Barely exceeding population growth, the weak economy and fragile labor market left little room to accelerate poverty reduction in 2019: compared to 19.9 percent in 2018, an estimated 19.5 percent of Brazilian households survived on less than US$ 5.50 (PPP) a day in 2019.

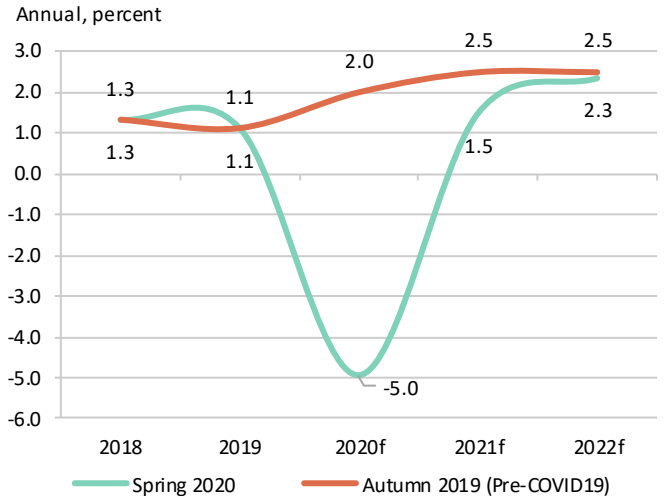
Investment remains very low in Brazil, its growth softened in 2019. Net exports contracted, reflecting the disruption to iron ore production and weak demand for Brazilian manufacturing and an increase in imports as domestic demand strengthened. As a result, the current account deficit widened to 2.7 percent of GDP in 2019, financed mainly by FDI. Net outflows of portfolio investment put downward pressure on the real since July 2019, further exacerbated by the global spread of the new COVID-19 and an oil supply shock in 2020.

Foreign reserves stood at US$ 356 billion in February 2020 (about 18 months of imports). These were partly deployed in March to stabilize the exchange rate. Nevertheless, the real lost about one-fifth of its value between January and March. To reduce pressure on dollar-funding markets, the Central Bank activated FX swap lines with the US Fed.

With core inflation below target, low headline inflation, well-anchored inflation expectations, and an economy below potential, monetary policy remained expansionary, responding to the pandemic by cutting policy rates to a record low of 3.75 percent in March 2020.

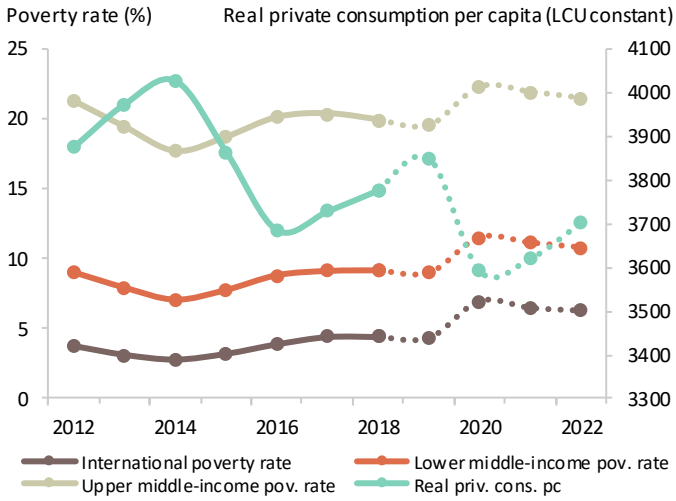
In 2019, the government continued with fiscal consolidation, including the approval of an ambitious pension reform. One-off events, such as an oil auction, boosted government revenue. A smaller primary deficit, combined with falling interest costs, led to a lower overall deficit of 6.5 percent of GDP. Accelerated debt repayments from state entities reduced financing requirements, and the Central Bank's FX operations lowered government liabilities. Overall, gross public debt decreased from 76.5 percent of GDP in 2018 to 75.8 percent in 2019. Yet, Brazilian debt remains at sub-investment grade, reflecting limited fiscal space.

FIGURE 1 Brazil / Revisions to Brazil's GDP growth forecast, compared with October 2019 MPO



Sources: IGBE and World Bank staff.

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



Source: World Bank. Notes: see Table 2.

Outlook

GDP is expected to contract by 5.0 percent in 2020 (Figure 1). The ongoing pandemic affects the economy via two channels. On the external side, Brazil will be affected by declining global demand and the disruptions to supply chains. The oil price shock has differentiated effects, positive for consumers but negative for Brazil's oil producers. The depreciating exchange rate is expected to boost agricultural exports but depress imports.

On the domestic side, economic disruption derives from COVID-19 containment measures which currently include border closures, travel restrictions, and closures of malls, public facilities—including schools—and other social distancing measures. These will reduce private consumption, impact labor productivity, and increase unemployment. The global and domestic demand shock prompts a significant drop in investment. If the external and domestic shocks are transitory, the economy is expected to rebound by the end of 2020, resulting in a growth rate of 1.5 percent in 2021 and 2.3 percent in 2022.

To counter the crisis, the government presented a fiscal response that anticipates some expenditures and introduces new measures, such as expanding Bolsa Familia coverage and business loans. Federal support is also forthcoming for states. Some further monetary loosening is also expected, although the policy rate is already below the neutral rate, limiting effectiveness.

Poverty is estimated to increase significantly (Figure 2), to 22.3 percent in 2020, pushing another 6.2 million Brazilians under the poverty line of US$5.5 (PPP) a day. Poverty at the US$1.90 (PPP) line would increase from 4.4 to 7.0 percent. The room to accelerate poverty reduction will be limited, should the crisis combined with the electoral cycle limit the scope of ambitious structural reforms. Public debt is expected to increase to 89.8 percent of GDP by 2022.

Risks and challenges

Downside risks are significant, and will depend on the severity, duration, and effectiveness of containment measures, both globally and in Brazil. Striking the right balance between effective relief and fiscal sustainability remains important. A deeper health crisis could exacerbate and prolong the economic crisis. A deeper recession would also imply a softer rebound, as the disruption causes longer-term damage to firm and household balance sheets. Sources of resilience include well-capitalized banks and a strong reserve position, mitigating the risks of financial contagion and sudden stops.

Challenges to poverty reduction increase. Almost a third of Brazil's population depend on income from unprotected labor sources and are exposed to income shocks. Poverty simulations suggest that loss of one-month work for unprotected workers would increase the share of the population living on less than half a minimum salary by 1 million people. However, Brazil has solid mechanisms on which to build its capacity to identify the most vulnerable people (the Cadastro Unico). Small and medium-sized businesses are particularly at risk and require continued support.

While the scope for ambitious structural reforms (e.g. on taxes, competition, and intergovernmental relations) is reduced during crisis, they hold the key to a more prosperous and resilient economy in the future.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	1.3	1.3	1.1	-5.0	1.5	2.3
Private Consumption	2.0	2.1	2.7	-6.0	1.5	2.9
Government Consumption	-0.7	0.4	-0.4	0.0	0.0	0.0
Gross Fixed Capital Investment	-2.6	3.9	2.2	-11.2	3.4	4.2
Exports, Goods and Services	4.9	4.0	-2.5	-6.0	4.5	4.4
Imports, Goods and Services	6.7	8.3	1.1	-14.0	5.5	7.0
Real GDP growth, at constant factor prices	1.4	1.3	1.1	-5.0	1.5	2.3
Agriculture	14.2	1.4	1.3	-3.2	1.0	1.5
Industry	-0.5	0.5	0.5	-3.9	1.2	1.9
Services	0.8	1.5	1.3	-5.5	1.6	2.6
Inflation (Consumer Price Index)	3.4	3.7	3.7	3.4	2.9	3.2
Current Account Balance (% of GDP)	-0.7	-2.2	-2.7	-1.4	-1.6	-2.1
Net Foreign Direct Investment (% of GDP)	2.3	4.0	3.0	2.6	2.6	2.6
Fiscal Balance (% of GDP)	-8.0	-8.1	-6.5	-8.9	-6.0	-7.0
Debt (% of GDP)	73.7	76.5	75.8	85.9	87.5	89.8
Primary Balance (% of GDP)	-1.7	-1.6	-1.0	-5.2	-2.5	-2.1
International poverty rate ($1.9 in 2011 PPP)[a,b,c]	4.4	4.4	4.4	7.0	6.5	6.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b,]	9.1	9.2	9.0	11.5	11.1	10.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b,]	20.4	19.9	19.5	22.3	21.9	21.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2015-PNADC-E1, 2017-PNADC-E1, and 2018-PNADC-E1.
(b) For 2020 and 2021, projection use annualized elasticity (2015-2017) with pass-through = 0.87 based on private consumption per capita in constant LCU.
For 2019 and 2022, poverty projections are based on neutral distribution (2018) with pass-through = 0.87 based on private consumption per capita in constant LCU.
(c) Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.

The cut-off date for information in this MPO was April 06, 2020.

CHILE

Table 1	2019
Population, million	19.0
GDP, current US$ billion	282.3
GDP per capita, current US$	14865
International poverty rate ($1.9)[a]	0.3
Lower middle-income poverty rate ($3.2)[a]	0.7
Upper middle-income poverty rate ($5.5)[a]	3.7
Gini index[a]	44.4
School enrollment, primary (% gross)[b]	101.4
Life expectancy at birth, years[b]	79.9

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

Following a strong performance in 2018, growth decelerated sharply in 2019 due to prolonged civil unrest. Growth will turn negative in 2020, following the impact of COVID-19 and low copper prices, which added to the uncertainties around constitutional changes. Chile's massive counter-cyclical response will help cushion the crisis in 2020, and economic activity is expected to recover in the medium-term as the health crisis fades, and political consensus restores private confidence and contributes to a more equitable society.

Recent developments

In the context of social unrest, GDP growth decreased from 3.9 percent in 2018 to 1.1 percent in 2019. Social unrest caused a change in the composition of public spending away from investment promotion agenda and towards higher social expenditures and induced the government to call for a referendum to change the constitution to be carried out in October 2020.

The current account deficit increased from 3.6 percent of GDP in 2018 to 3.9 percent in 2019 as the decline in imports caused by slowing domestic demand was more than offset by lower exports. As foreign investment dropped, the external deficit was financed by private and public external debt, which increased from 67 percent of GDP in 2018 to 74 percent in 2019. Over this period, international reserves increased slightly from US$39.8 to US$40.7 billion despite the Central Bank interventions to prevent a higher nominal depreciation.

The fiscal deficit increased from 1.5 percent of GDP in 2018 to 2.7 percent in 2019 due to additional spending in response to the civil unrest and the economic slowdown, dampened tax revenues, and lower copper exports on revenues. The deficit was partially financed with fiscal buffers, but public debt increased from 26 to 28 percent, mainly domestic debt.

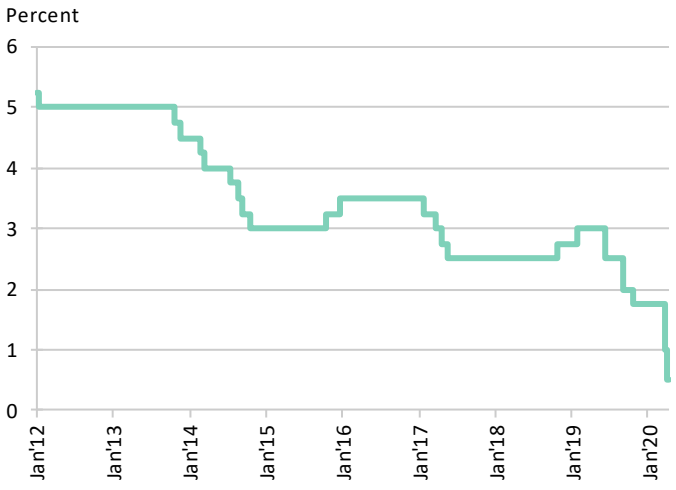
Annual inflation increased from a low 2.2 percent in February 2019 to 3.9 percent in February 2020, due to the disruption of economic activity and the nominal depreciation. Given the weakening in economic growth, the Central Bank has cut the monetary policy interest rate five times since June 2019, from 3.0 to 0.5 percent, reverting the tightening cycle initiated in late 2018.

The social unrest reflected widespread frustration with the high and persistent inequality of opportunities that prevails in Chile despite vast improvements in social outcomes. Between 2006 and 2017, Chile reduced the rate of poverty (measured as income below US$5.5 2011 international dollars per day) from 19.6 to 3.7 percent, while the share of population considered vulnerable (income between US$5.5 and US$13 per day) decreased from 43.9 to 30.1 percent. However, inequality of incomes, as measured by the Gini coefficient, remained around 0.44 in 2017, among the highest in the region. There is growing discontent, especially among the growing middle class, with high inequality of opportunities due to segmented service provision in education and health care and segregated labor markets. Jobs and higher wage premiums have largely gone to skilled workers, while workers with fixed-term contracts face a greater workload, have less job security, and are not entitled to severance pay or unemployment insurance.

Outlook

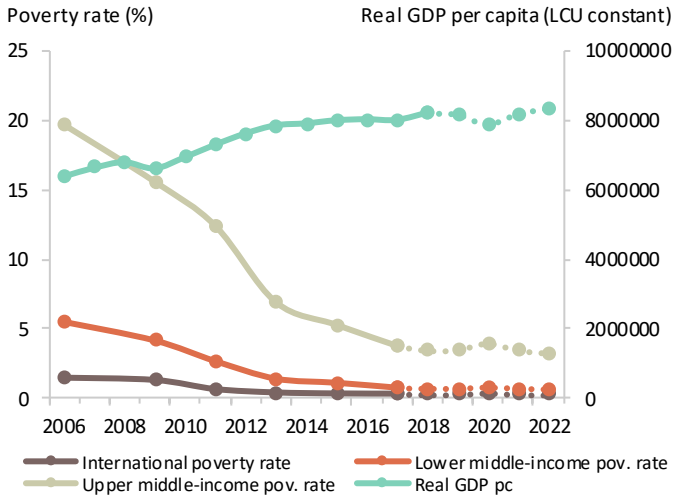
The government has responded to the crisis triggered by COVID-19 with a massive fiscal and monetary stimulus package targeting vulnerable people and SMEs,

FIGURE 1 Chile / Monetary policy interest rate



Sources: Central Bank of Chile.

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



Sources: World Bank. Notes: see Table 2.

while maintaining economic activity. However, GDP is projected to decline by 3.0 percent in 2020 due to the effects of COVID-19 on the global economy and political uncertainty linked to the constitutional reform. As a result of a weaker labor market, poverty is projected to increase in 2020 despite a wide range of social protection measures, such as a one-time emergency social transfer targeted to the 60 percent most vulnerable in the social registry, a solidarity fund and delayed tax payments for microenterprises, and possibly payments for reduced work hours from the unemployment insurance fund.

After a sizable rebound in 2021, economic growth should stabilize at 2.8 percent in 2022 as the global economy recovers, and a political consensus restores private sector confidence. Poverty is projected to decline by 2022 as the economy recovers, and the government applies measures to improve equity and reduce risks to downward mobility for the middle class. Average inflation is projected to decrease from a peak of 3.7 percent in 2020 to 3.0 percent at the end of the projection period as economic recovery allows a tighter monetary policy stance, and recovered confidence reduces pressure on the exchange rate.

After reaching a low of 3.8 percent of GDP in 2020, the current account deficit is expected to increase to 4.5 percent by 2022, on the back of recovering domestic demand, particularly private investment. However, with modest FDI, the current account deficit is expected to be increasingly financed from abroad, keeping international reserves stable at an adequate level.

The general government deficit is projected to increase to 9.4 percent of GDP in 2019 as the government uses its large fiscal buffers to reduce the impacts of the COVID-19 crisis. However, as the fiscal policy remains guided by the structural balance target, the deficit is expected to decrease to 4.2 percent by 2022 as the fiscal stimulus is phased out. Public debt is projected to increase from 28 percent of GDP in 2019 to 39 percent in 2022.

Risks and challenges

The balance of risks is tilted to the downside due to uncertainty about the COVID-19 crisis and the fluid domestic political context. Chile is exposed to lower than expected copper prices and longer subdued export demand resulting from the virus outbreak. Additionally, prolonged containment measures will have an impact on economic activity despite fiscal and monetary stimulus. Similarly, political uncertainty around the constitutional reform could undermine private sector confidence dampening the recovery.

In the medium term, Chile urgently needs to reach a political consensus for a policy response to social demands. It is critical to ensure that the effort of meeting social demands does not erode Chile's traditionally sound macroeconomic management. Chile also needs to promote productivity gains, in particular at the bottom of the income distribution. Fostering innovation, enhancing the link between education and the labor market, and promoting female labor participation could be critical. Reducing inequality of opportunity will be crucial to eliminate the persistent pockets of poverty and ensure social stability.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	1.2	3.9	1.1	-3.0	4.8	2.8
Private Consumption	3.4	3.7	1.1	-2.1	3.4	2.5
Government Consumption	4.6	4.3	-0.3	11.2	1.4	-0.2
Gross Fixed Capital Investment	-3.1	4.8	4.2	-12.2	7.9	5.3
Exports, Goods and Services	-1.5	5.0	-2.3	-13.4	12.1	4.4
Imports, Goods and Services	4.6	7.9	-2.3	-11.3	8.5	4.0
Real GDP growth, at constant factor prices	1.0	4.0	1.2	-3.1	4.8	2.8
Agriculture	2.2	1.7	-1.6	0.7	3.2	2.9
Industry	-0.5	4.9	0.4	-2.5	4.3	2.1
Services	1.7	3.6	1.7	-3.6	5.1	3.1
Inflation (Consumer Price Index)	2.2	2.4	2.6	3.7	3.3	3.0
Current Account Balance (% of GDP)	-2.3	-3.6	-3.9	-3.8	-4.2	-4.5
Net Foreign Direct Investment (% of GDP)	0.4	2.3	1.2	0.6	1.5	2.0
Fiscal Balance (% of GDP)	-2.6	-1.5	-2.7	-9.4	-5.7	-4.2
Debt (% of GDP)	23.6	25.6	27.9	33.0	36.4	38.6
Primary Balance (% of GDP)	-1.8	-0.6	-1.8	-8.5	-4.6	-2.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.3	0.3	0.3	0.3	0.3	0.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.7	0.7	0.7	0.7	0.7	0.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	3.7	3.4	3.5	3.8	3.4	3.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2017-CASEN. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2017) with pass-through = 1 based on GDP per capita in constant LCU.

The cut-off date for information in this MPO was April 06, 2020.

COLOMBIA

Table 1	2019
Population, million	49.3
GDP, current US$ billion	323.8
GDP per capita, current US$	6561
International poverty rate ($1.9)[a]	4.1
Lower middle-income poverty rate ($3.2)[a]	10.9
Upper middle-income poverty rate ($5.5)[a]	27.8
Gini index[a]	50.4
School enrollment, primary (% gross)[b]	115.0
Life expectancy at birth, years[b]	76.9

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

After strong growth in 2019, GDP is expected to decline in 2020, due to the COVID-19 pandemic, falling oil prices, and domestic containment measures. Countercyclical fiscal policies are expected to help reduce the adverse impact on consumption in part. The modest reduction in poverty in 2019 will likely be reversed in 2020. The depth and duration of the COVID-19 pandemic and economic recession are uncertain.

Recent developments

Colombia has maintained a solid macroeconomic framework, with a flexible exchange rate, inflation-targeting, and a structural balance fiscal rule, resulting in accelerating growth since 2017. In 2019, the economy expanded at 3.3 percent, after 2.5 percent in 2018. Private consumption contributed 3.2 percentage points (pp) to growth in 2019, supported by an accommodative monetary stance, ample credit supply, strong remittances, and a consumption boost from Venezuelan migrants. Thanks to fiscal incentives, including new tax breaks and lower effective corporate taxes as part of the 2019 tax reform, gross fixed investment contributed 1.0 pp to growth. Net exports subtracted 1.5 pp from growth, as robust domestic demand boosted imports while external demand and supply-side shocks weighed on exports. Favorable dynamics carried over into the initial months of 2020, but by the end of the first quarter, early effects of the COVID-19 pandemic began to be evident. The economy grew 3.5 percent year-on-year in January 2020, with consumer spending maintaining momentum into the beginning of March. However, the manufacturing PMI fell to 49.3 in March 2020 from 52.5 in the previous month.

Inflation remained within the targeted range of 3% ± 1 pp in 2019. In the first quarter of 2020 the Colombian peso depreciated by 24 percent, due to a sharp decline in oil prices, with pass-through effects creating additional inflationary pressures. The central bank maintained a supportive stance while containing inflation, before recently adopting accommodative measures to help mitigate the effects of the COVID-19 crisis.

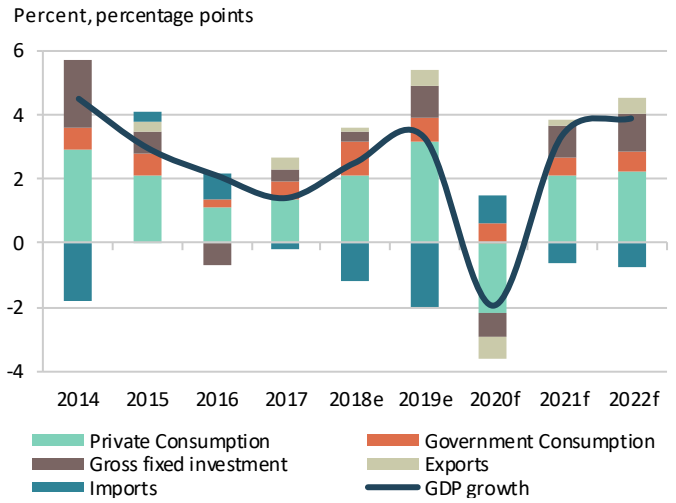
The central government deficit declined to 2.5 percent in 2019, down from 3.1 percent in 2018, reflecting stronger-than-expected tax revenues, strong oil-related revenues and central bank profits, and extraordinary dividends from the state-owned oil company, Ecopetrol.

The current account deficit widened to 4.3 percent of GDP, financed primarily by FDI inflows in 2019, as strong domestic demand increased imports with trade balance deteriorating to 3.8 percent of GDP. In 2020Q1, reflecting primarily the oil price and COVID-19 effects, non-resident portfolio outflows increased to US$269 million, as did country risk (EMBI up by 215 points, CDS-5Y spreads up by 160 basis points).

Higher economic growth lifted some 111,000 people out of poverty in 2019, with monetary poverty falling from 27.8 percent in 2018 to 27.4 percent in 2019 (using daily US$5.50 poverty line per person). At the same time, unemployment inched down, while the number of informal workers increased. In January and February of 2020, the seasonally-adjusted unemployment rate increased marginally, still not reflecting the full impact of the unfolding crisis.

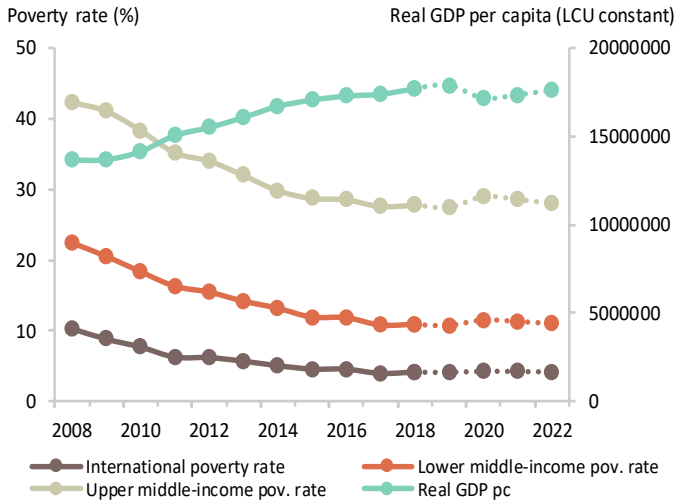
In response to the COVID-19 pandemic, the Government declared a State of Emergency, closed the country's borders, and imposed a mandatory quarantine. The Government also announced a sizable

FIGURE 1 Colombia / Real GDP growth and contributions to annual GDP growth



Sources: DANE, World Bank staff calculations.

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



Source: World Bank. Notes: see table 2.

emergency response package (COP 14.8 trillion or 1.4 percent of GDP, with potential to increase up to 48 trillion) including additional resources for the health system, special lines of credit for businesses in certain sectors, and increased transfers for vulnerable groups. Other measures include delayed tax collection in select sectors and lower tariffs for strategic health imports. The central bank reduced its intervention rate by 50 basis points and introduced measures to increase liquidity. The stimulus package is expected to be financed from the Savings and Stabilization Fund and the subnational pension savings fund.

Outlook

The COVID-19 outbreak threatens to result in the first recession in Colombia in two decades. Under a moderate scenario, where the pandemic is relatively short-lived and containment measures can be eased in mid-May, GDP is projected to decline by 2.0 percent in 2020 and rebound by 3.4 and 3.9 percent in 2021 and 2022, as private consumption and investment recover, supported by lower interest rates.

In this moderate scenario, inflation is expected to remain within the target range, as exchange rate pass-through pressures are tempered by weak demand. The CAD is expected to rise to 5.3 percent of GDP in 2020 due to lower oil prices and weaker global demand, before recovering to 4.7 percent. Nonetheless, external debt pressures are expected to remain limited given the stimulus package financing from saving funds.

A major fallout of the COVID-19 crisis is expected on businesses and workers in 2020, even while increased government spending is expected to mitigate the impact. Several sectors are anticipated to reduce employment, particularly activities with high levels of informality. In the moderate scenario, poverty is projected to increase to 28.9 percent in 2020 (using the daily $5.5 poverty line), which would wipe out the gains in poverty reduction since 2016.

Risks and challenges

The outlook is highly uncertain, and there is a significant risk of a more prolonged COVID-19 crisis. External risks stem from greater disruptions to international supply chains and trade, commodity prices, borrowing costs, and portfolio flows. Should social distancing continue and domestic production be curtailed for an extended period, the recession would be deeper and longer, with a somewhat slower recovery. The government might be required to inject a larger stimulus package, in a context of falling revenues, causing a deterioration in the fiscal deficit. Other downside risks stem from slower than expected implementation of the 4G infrastructure program or recovery in the construction sector, with employment and other spillovers to the rest of the economy.

Should the pandemic be long-lasting and severe, the impact on poverty and inequality would also be amplified, with likely asset depletion and a deterioration in human capital. The severity of poverty and inequality impact would depend in part on the actions needed to curb the spread of the virus and availability of public services. The implementation of the improved social protection targeting tool, the introduction of VAT refunds to the poor, and universal health insurance, place Colombia in a solid position to mitigate the immediate effects of the crisis. However, an overwhelmed health care system, already stretched by rapid and substantial immigration in parts of the country, and operational obstacles to extending cash transfers to many more newly poor pose a significant downside risk.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	1.4	2.5	3.3	-2.0	3.4	3.9
Private Consumption	2.1	3.0	4.6	-3.1	3.0	3.3
Government Consumption	3.6	7.0	4.3	3.7	3.3	3.6
Gross Fixed Capital Investment	1.9	1.5	4.6	-3.3	4.5	5.4
Exports, Goods and Services	2.6	0.9	3.1	-4.6	1.7	3.5
Imports, Goods and Services	1.0	5.8	9.2	-3.8	2.6	3.3
Real GDP growth, at constant factor prices	1.4	2.5	3.2	-1.9	3.2	3.6
Agriculture	5.6	2.4	2.0	0.8	3.5	4.1
Industry	-2.2	0.6	1.1	-5.3	2.8	3.5
Services	2.7	3.4	4.3	-0.7	3.4	3.7
Inflation (Consumer Price Index)	4.3	3.2	3.5	3.4	3.5	3.5
Current Account Balance (% of GDP)	-3.3	-3.9	-4.3	-5.3	-4.7	-4.7
Fiscal Balance (% of GDP)	-2.3	-2.2	-2.0	-1.5	-1.2	-1.1
Debt (% of GDP)*	49.1	52.2	50.9	53.1	51.9	49.8
Primary Balance (% of GDP)	0.6	0.6	1.1	1.7	2.0	2.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.9	4.1	4.0	4.3	4.3	4.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	10.8	10.9	10.7	11.5	11.3	11.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	27.6	27.8	27.4	28.9	28.5	27.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2018-GEIH. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

*Excludes the recently recognized debt arrears of 2.3% in 2019 and 2.4% for 2020. The authorities have a defined plan to clear the arrears as stipulated in the General Budget of the Nation 2019 and the National Development Plan 2018-2022.

The cut-off date for information in this MPO was April 06, 2020.

COSTA RICA

Table 1	2019
Population, million	5.0
GDP, current US$ billion	61.9
GDP per capita, current US$	12391
International poverty rate ($1.9)[a]	1.4
Lower middle-income poverty rate ($3.2)[a]	3.6
Upper middle-income poverty rate ($5.5)[a]	10.9
Gini index[a]	48.0
School enrollment, primary (% gross)[b]	110.8
Life expectancy at birth, years[b]	79.9

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

GDP will dip due to domestic and global measures taken in response to Covid-19, raising unemployment, poverty and inequality and putting on hold the Government's bold fiscal consolidation efforts. As restrictions are lifted, growth is expected to recover supported by accommodative monetary policy, stronger external demand and continuing structural reforms after completing OECD accession, alongside full-fledged fiscal consolidation efforts. Poverty and inequality improvements hinge on bracing labor demand among the less well-off and deepening the equity lens to fiscal consolidation.

Recent developments

Growth accelerated to 3.1 percent on the fourth quarter, resulting in overall growth of 2.1 percent in 2019. Private consumption was the main driver, supported by higher real wages and lower interest rates. Services led growth, with tourism prolonging its acceleration through 2020, growing 8 percent in the first two months (y-o-y). Agriculture and manufacturing contracted due to a combination of bad weather conditions (El Niño), Nicaragua's economic crisis, and low private investment.

Subdued economic growth weakened labor markets, keeping the official poverty rate stagnant at 21 percent by mid-2019 (10.9 @ 5.5/day) and the Gini at 0.514. By December, unemployment reached 12.4 percent, the highest in 10 years, in part due to a steep increase in labor force participation, but also contracting demand from agriculture and industry. Unemployment affected particularly the youth, people with incomplete secondary education, and women. Between 2017 and 2019, women's unemployment rose from 12.3 to 16.7 percent while men from 7.5 to 9.6 percent, widening the gender gap.

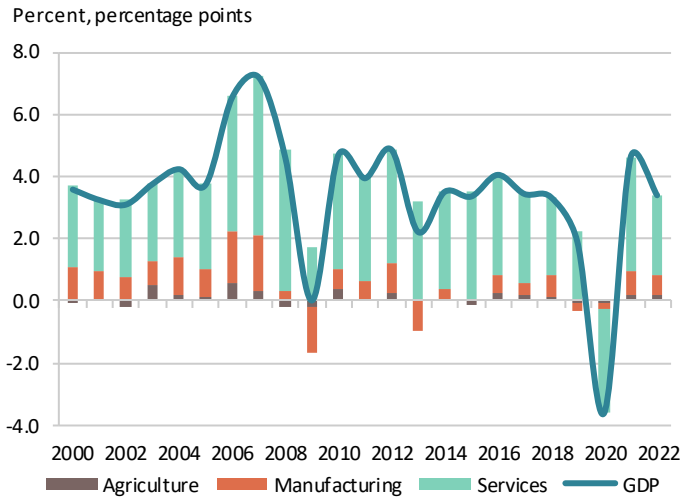
The current account deficit narrowed to 2.4 percent of GDP in 2019, due to weak domestic demand, financed by foreign direct investment inflows (4.2 percent of GDP). The issuance of Eurobonds (US$1.5 billion) helped increase Central Bank reserves, from 12.4 to 14.5 percent of GDP, contributing to a currency appreciation of 5.8 percent against the US dollar. Currency appreciation, a widening output gap, an elevated unemployment rate and a fall in oil prices kept inflation at 1.5 percent, below the 2-4 percent target range. As a response, the Central Bank adopted a looser stance, lowering the policy rate from 5.25 to 2.25 percent throughout 2019.

The 2018 fiscal reform increased tax revenues by 0.7 of GDP in 2019, and reforms to public wages yield savings by 0.1 percent of GDP. However, the central government primary (overall) deficit rose to 2.8 (7) percent of GDP, due to higher capital spending, transfers in arrears since 2018 and growing interests. Central government debt reached 58.5 percent of GDP. Tax revenues continued to increase during the first two months of 2020 (23.3 percent), contributing to the lowest monthly financial deficit in the last 10 years (0.5 percent of GDP).

Outlook

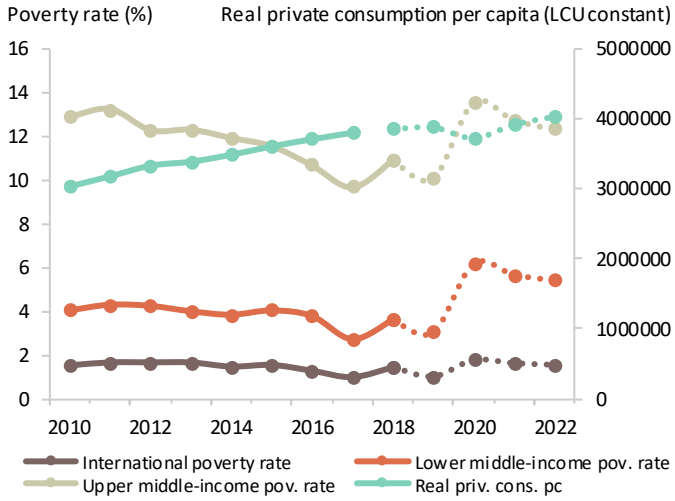
GDP is projected to contract by 3.3 percent in 2020, as global and domestic measures taken to tackle the COVID-19 outbreak interrupt consumption, tourism and supply chains. Two factors will partially compensate: lower oil prices improving terms of trade, and stronger demand for medical equipment, Costa Rica's main export. The most affected sector will be tourism, which is projected to contract by more than 20 percent. Manufacturing, though declining, is expected to be supported by

FIGURE 1 Costa Rica / Real GDP growth and sectoral contributions to real GDP growth



Sources: World Bank.

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



Source: World Bank. Notes: see Table 2.

special regime companies, while services and agriculture will contract sharply.

Informal, self-employed and micro and small business will bear the brunt of the shock. Workers and businesses in sectors like hotels, restaurants, and transport (which employ 277 thousand people, 61 percent unskilled and 11 percent poor) will be directly affected, exacerbating inequality. Regions with higher dependence on tourism will suffer most. Unemployment is expected to increase. A loss of just 14 days of monthly labor income among the informal self-employed and small business could push 310 thousand people into poverty ($5.5/day PPP). Mitigating measures include tax deferrals for companies and individuals and a three-month cash transfer ($350/month/family) to the laid-off, informal and independent workers, or about 350,000 families.

Assuming outbreak fades quickly, growth will rebound (following a V-shaped) to 4.5 percent in 2021, driven by a rebound of private consumption, exports and public investment. Even as the economy picks up, progress in poverty and inequality reduction will only resume if patterns of growth start shifting to benefit sectors in which the less well-off are employed.

Inflation is expected to remain low, due to falling oil prices and increasing output gap and unemployment rates. The current account is expected to improve driven by better terms of trade and weaker domestic demand. Domestic financial conditions are expected to remain stable, even if the increase in risk premiums among EMs puts upward pressures on domestic interest rates, for two reasons. First, low pressure from the government, which already secured financing from multilaterals (2.5 percent of GDP) and external markets. Second, the expansionary monetary policy stance taken by the Central Bank to mitigate Covid-19 impact (policy rate was reduced by 100 basis points to 1.25 percent).

Fiscal deficits are expected to increase in 2020, given the recession and the fiscal cost of measures to contain Covid-19 impacts (revenues are expected to fall, due to tax referrals and recession, and spending to rise, due to one-time increase in transfers). Fiscal consolidation efforts are expected to accelerate in 2021, as tax revenues increase, the fiscal rule bites, and further spending provisions are implemented. Recently announced measures to improve tax administration, reduce tax evasion, eliminate tax exemptions, retire expensive debt, and reform the public sector, as well as asset sales and appropriations of financial surpluses of decentralized agencies, are projected to deliver a primary fiscal surplus by 2023. However, due to onerous debt service and the fiscal impact of Covid-19, public debt will continue to increase above 70 percent of GDP and decline gradually after 2023.

Risks and challenges

The major downside risk is protracted impact from Covid-19, translating into a U or even L-shaped recovery, stressing the fiscal situation further and reducing income and assets particularly for low-income households. The self-employed and the informal sector are at high risk, as many micro and small businesses may not survive the crisis. The poverty and inequality impacts are expected to linger, as micro and small enterprises may not survive the crisis and if households' or firms' assets weaken. Monitoring and improving social programs' coverage and targeting is critical to protect poor and vulnerable families. The country has important strengths to face the challenge, with a highly diversified production structure, adequate international reserves, and a robust financial system with high levels of liquidity and capital adequacy. OECD accession could help improve confidence and boost long-term growth.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	3.9	2.7	2.1	-3.3	4.5	3.5
Private Consumption	3.6	2.0	1.6	-3.0	6.0	3.7
Government Consumption	3.1	0.5	-3.5	0.4	-8.7	1.5
Gross Fixed Capital Investment	-2.4	1.9	-3.1	-13.3	19.9	6.1
Exports, Goods and Services	4.0	4.7	2.7	-21.7	25.0	5.1
Imports, Goods and Services	3.7	0.1	0.2	-23.6	29.1	5.8
Real GDP growth, at constant factor prices	4.0	2.9	1.9	-3.5	4.7	3.5
Agriculture	3.7	1.8	-1.2	-1.2	3.0	3.2
Industry	1.9	3.5	-1.2	-1.0	4.0	3.3
Services	4.6	2.8	3.0	-4.4	5.1	3.5
Inflation (Consumer Price Index)	1.6	2.2	1.5	1.5	3.0	3.0
Current Account Balance (% of GDP)	-2.9	-3.1	-2.4	-2.0	-2.2	-2.7
Net Foreign Direct Investment (% of GDP)	4.3	4.1	4.2	2.1	4.8	4.5
Fiscal Balance (% of GDP)	-6.1	-5.8	-7.0	-7.4	-6.5	-5.4
Debt (% of GDP)	48.3	53.2	58.5	67.5	69.2	70.6
Primary Balance (% of GDP)	-3.0	-2.3	-2.8	-2.6	-1.5	-0.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.0	1.4	1.0	1.7	1.6	1.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	2.7	3.6	3.0	6.1	5.6	5.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	9.7	10.9	10.1	13.6	12.7	12.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using ENAHO surveys Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using annualized elasticities based on private consumption per capita in constant LCU

The cut-off date for information in this MPO was April 06, 2020.

DOMINICA

Table 1	2019
Population, million	0.1
GDP, current US$ billion	0.6
GDP per capita, current US$	8245

Source: WDI, Macro Poverty Outlook, and official data.

Dominica continued its recovery post Hurricane Maria, registering 9.6 percent real GDP growth in 2019. However, the COVID-19 shock will depress growth significantly in the short term. Medium-term growth prospects appear favorable as Dominica begins its transition to a fully climate and disaster resilient economy. Fiscal pressures will remain acute due to COVID-19 demands, ongoing recovery and reconstruction spending, and the demands of building a more climate-resilient economy.

Recent developments

Dominica's macroeconomic policy framework came under increasing strain after Hurricane Maria. The budget deficit remained increased at 11.9 percent of GDP in 2019 with a primary deficit of 10 percent. Accumulated Citizenship-by-Investment (CBI) reserves, which have funded reconstruction, have been depleted though CBI revenues remained robust in 2019 at around 25 percent of GDP. Debt increased to 80.9 percent of GDP at end-2019 and Dominica remains at a high risk of debt distress. While the Government has taken measures to consolidate spending, as recovery efforts wind-down, challenges remain in a context of building a fully climate resilient economy. Inflation remains well-controlled at 2 percent, consistent with the fixed exchange rate regime and currency board arrangement of the Eastern Caribbean dollar.

Driven by recovery efforts after Hurricane Maria, Dominica's GDP growth was 0.5 percent in 2018 and strengthened to 9.6 percent in 2019. The industrial sector was the main driver of GDP with 16 percent growth in 2019, due to large increases in reconstruction spending and the restoration of electricity services. Agriculture is recovering and is estimated to have grown 18.8 percent. The tourism sector, with the completion of several new resorts, is expected to have boosted service sector growth by a more modest 6.8 percent. Estimates after Hurricane Maria projected that poverty had increased to 43 percent (official data is only available for 2008). Given economic recovery in 2018 and 2019, it is expected that poverty has come down to below 30 percent in 2019.

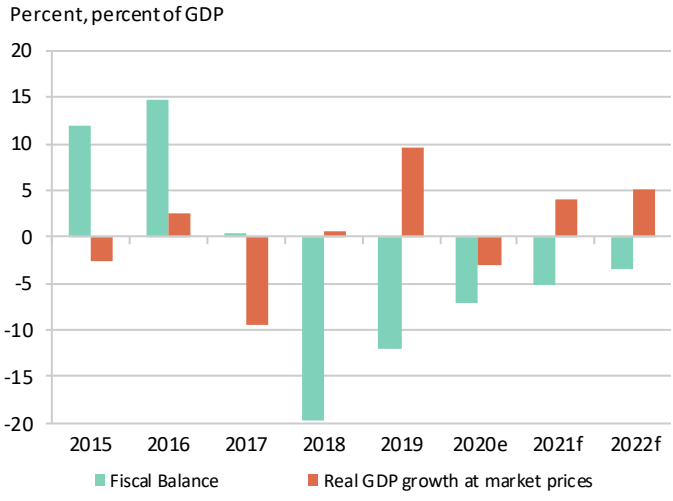
The current account deficit (CAD) is estimated to have narrowed to 28.6 percent of GDP in 2019 after a substantial deterioration in 2018 post-hurricane – 44.8 percent of GDP. Exports of goods and services increased to 49.8 percent of GDP, due to growing agriculture and tourism receipts, while imports were 85.1 percent of GDP, in response to demand for reconstruction materials and the restocking of durables. The CAD is expected to decline as the recovery winds down.

The fiscal balance has deteriorated from a pre-hurricane Maria surplus of 14.3 percent of GDP in FY2016 (the surplus driven by CBI proceeds) to a deficit of 20 percent in 2018, and 11.9 percent in 2019. Revenue declined to 38.3 percent of GDP in 2019 from 55.2 percent in 2017, due to lower output and post-hurricane import tax exemptions. The fall in tax revenue was partially offset by grants and continued buoyant CBI revenues. Expenditures declined to 50.2 percent of GDP in 2019 from 65.6 percent in 2018 and 55 percent in 2017. Expenditures were driven by recovery and reconstruction spending, transfers for social relief, and purchases of goods and services. Public debt increased to 81 percent of GDP in 2019 from a pre-hurricane level of 76.9 percent in 2017.

Outlook

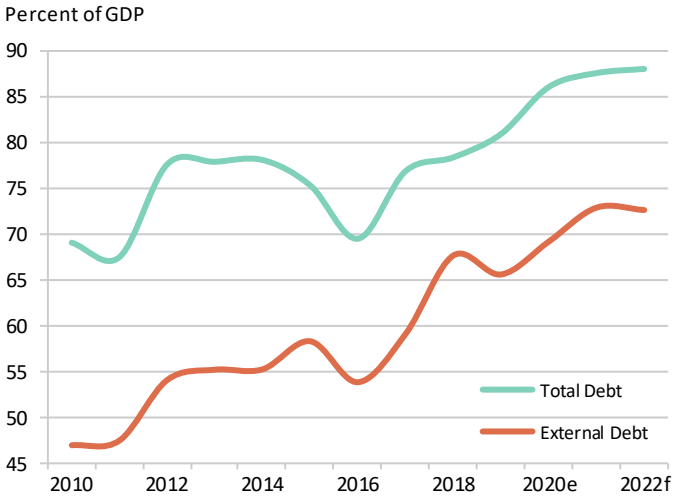
Dominica is embarking on an effort to become the first fully climate resilient

FIGURE 1 Dominica / Real GDP and fiscal balance



Sources: Government of Dominica (2020), World Bank staff estimates.

FIGURE 2 Dominica / Public debt



Sources: Dominica 2019 Article IV Consultation, World Bank staff estimates.

country in the world and has developed a Climate Resilience and Recovery Plan. The cost of the plan is estimated at US$2.8 billion over 20 years. Financing this ambitious plan will require careful fiscal management and considerable fiscal consolidation in order to ensure debt sustainability. The approach to effectively implement the resilience strategy is to aim for a substantive 5 percent of GDP fiscal consolidation and to seek donor support to cover additional costs to maintain the 60 percent of GDP debt target by 2030. This implies approximately US$50 million annually in donor support, which significantly exceeds current levels of around US$20 million.

The impact of COVID-19 will dampen growth forecasts significantly as growth is now forecast at -3.0 percent in 2020, recovering to 4.0 percent in 2021. COVID-19 will impact growth through several channels, including: tourism, as people refrain from flying; declining remittances, as global growth slows; lower FDI, as several large hotel/resort projects are reconsidered; and importantly, through falling CBI revenues. Ongoing recovery-related donor funding will continue to contribute to reconstruction efforts.

With growth decelerating in 2020 and 2021, poverty reduction is also expected to slow considerably. Poverty rates may reach post hurricane levels again in 2020, especially since most of the poor work in services and agriculture linked to tourism. Continued reconstruction spending is expected to mitigate some of the impact of COVID-19 on poverty. However, the incidence of poverty is expected to remain high over the medium term.

The CAD is projected to continue narrowing and eventually return to levels under 20 percent of GDP in the medium term, given improvements in agricultural production and output, new tourism infrastructure, and imports decline as recovery efforts wind-down. Inflationary pressures are expected to remain low and stable.

Risks and challenges

The main risks to this outlook stem from the COVID-19 pandemic, public financing uncertainties, possible financial sector instability, and further occurrences of natural disasters. A struggling economy will exert further strain on an already difficult fiscal position and perhaps aggravate financial instability from previously weakened balance sheets post-hurricane. These strains will occur in an environment where transition to a fully climate resilient economy requires additional efforts to strengthen fiscal consolidation in order to create the needed fiscal space. The Government will also need to shift focus from the current emphasis on recovery and reconstruction to support for meeting health and medical needs and support for the unemployed and sectors that have been impacted due to COVID. Managing this confluence of risks will be extremely challenging. An extreme weather shock combined with the COVID-19 crisis could push additional Dominicans into extreme poverty requiring a larger than usual international relief effort.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	-9.5	0.5	9.6	-3.0	4.0	5.0
Real GDP growth, at constant factor prices	-9.5	0.5	9.6	-3.0	4.0	5.0
Agriculture	-19.1	-27.4	18.8	5.2	13.2	14.7
Industry	-13.8	33.1	16.0	-2.4	5.1	5.6
Services	-6.9	-1.1	6.8	-4.3	2.3	3.2
Inflation (Consumer Price Index)	1.4	1.4	1.8	1.8	2.0	2.0
Current Account Balance (% of GDP)	-8.8	-44.8	-28.6	-24.8	-23.3	-18.1
Fiscal Balance (% of GDP)	0.3	-19.7	-11.9	-7.1	-5.2	-3.5
Debt (% of GDP)	76.9	78.4	80.9	86.1	87.6	88.1
Primary Balance (% of GDP)	2.3	-17.8	-10.0	-4.6	-2.7	-1.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast. All data are calendar year and may not align with previous MPOs for Dominica, which reported fiscal year data.

DOMINICAN REPUBLIC

Table 1	2019
Population, million	11.0
GDP, current US$ billion	91.7
GDP per capita, current US$	8339
International poverty rate ($19)[a]	0.4
Lower middle-income poverty rate ($3.2)[a]	2.6
Upper middle-income poverty rate ($5.5)[a]	13.8
Gini index[a]	43.7
School enrollment, primary (% gross)[b]	107.8
Life expectancy at birth, years[b]	73.7

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

Following a period of sustained economic growth in the Dominican Republic (DR), the coronavirus is projected to trigger a slowdown and disrupt fiscal consolidation. The financial sector is well capitalized, and the current-account deficit is projected to narrow as sharp contraction in imports offsets falls in remittances, tourism and other exports. Poverty is projected to increase in the wake of declining tourism and remittances. The main short-term risk is a sustained slowdown while long-term climate rate risks remain.

Recent developments

DR's GDP growth of 5.1 percent remained the second highest in Latin America in 2019. Private consumption and investment drove a broad-based recovery. Lower-than-expected inflation rates eased monetary conditions in early 2019, but since August 2019 the headline interest rate remained at 4.50 percent until March 2020 when it was reduced to 3.5 percent in response to the coronavirus crisis. Non-resident tourist arrivals declined by 1.9 percent (y/y) as of December 2019, but job creation in the sector was not affected. The current-account deficit remained at 1.4 percent of GDP thanks to remittances inflows of 7.8 percent of GDP and was fully financed by FDI inflows. Net international reserves rose to US$8.8 billion (4.9 months of imports). The Financial sector remains sound and well capitalized with NPLs 1.7 percent and a capital adequacy ratio of 17.9 percent at mid-2019.

Increased public expenditure delayed the planned fiscal consolidation. The fiscal deficit reached 2.3 percent of GDP as minimum public sector wages affecting 25 percent of public employees increased by 95 percent and minimum pensions increased by 56 percent. The nonfinancial public sector debt stock increased from 37.6 to 40.4 percent in 2019 (50.5 percent including central bank liabilities). Sovereign bonds issues of US$2.5 billion lengthened the portfolio's average maturity profile from 10.8 years in 2018 to 11.6 years in 2019.

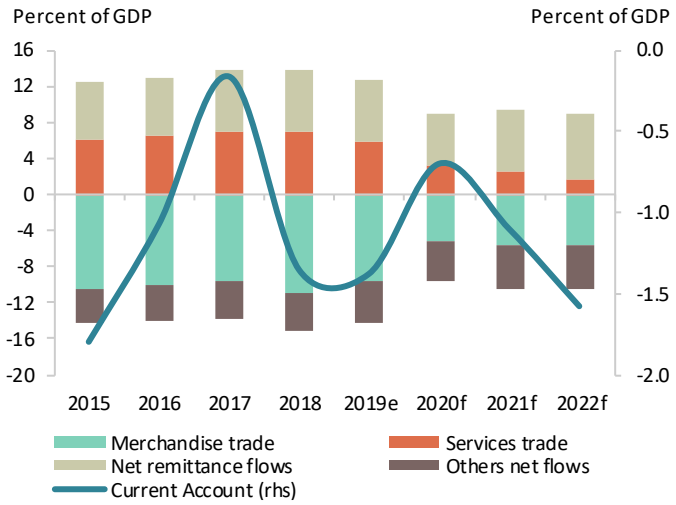
Robust economic growth drove employment creation and poverty reduction. The official national poverty rate fell from 22.8 percent in 2018 to 21.0 percent in 2019, with more than 2 million people in poverty. The extreme poverty rate fell from 2.9 percent to 2.7 percent. More than 38 percent of the population is considered to be vulnerable to falling into poverty if a shock materializes.

Outlook

The annual GDP growth rate is projected to slow to about 0.0 percent in 2020, reflecting the impact of the coronavirus on tourist arrivals and private consumption, before rebounding to 2.5 percent in 2021 and 4.0 percent in 2022. A fiscal expansion, easing of interest rates, accelerated depreciation with a concomitant contraction in imports is projected to cushion the slowdown. The import contraction as well as falling oil prices is projected to partially offset the falling tourism receipts, lower remittances and slower exports.

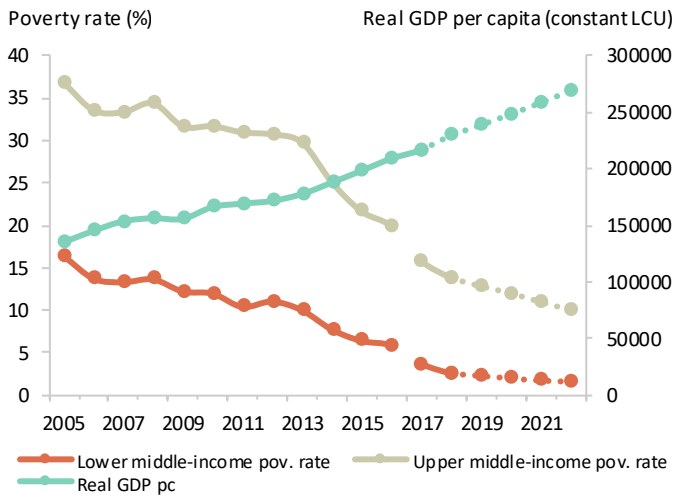
Near closure of a large part of the tourism industry and other economic activities to stop transmission of the virus will affect a very large share of the labor force, up to 25 percent according to preliminary estimates. This in turn will result in lower household income and higher poverty rates, potentially exceeding 30 percent of the population. The fall in remittances is expected to increase poverty since they account for up to a third of the income of the recipient

FIGURE 1 Dominican Republic / Current account balance



Sources: Central Bank of Dominican Republic. World Bank staff calculations.

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



Sources: World Bank. Notes: see table 2.

households in the bottom 40 percent of the income distribution.

Falling demand and lower oil prices is projected to mitigate the price impact of global supply chain disruptions; inflation is projected to rise from its 2019 average of 1.8 percent but remain below or at 3 percent close to the central bank's target of 4±1 percent due to coronavirus-related supply constraints in value chains. Monetary policy is projected to accommodate the coronavirus shock through lower interest rates.

Increased public-sector spending on coronavirus related items as well as coronavirus-induced lower tax revenues is projected to widen the fiscal deficit in 2020 by 2.4 percentage point to 4.7 percent of GDP. However, a recovery in 2021-22, better tax administration and adjustments to current transfers are projected to improve the fiscal position leading to a small primary surplus by 2022. The public debt stock is projected to continue rising. The nonfinancial public sector fiscal deficit is expected to remain above 2 percent of GDP over the medium term.

Emergency measures announced by the government include the temporary expansion in coverage of the main conditional cash transfer program, and a temporary increase of the transfers; partial wage subsidies for workers in the formal sector conditional on firms retaining them; and food distribution programs to continue school feeding and assistance to the poorest families. These measures can reduce at least by half the short-term impacts of the crisis on poverty.

Risks and challenges

The coronavirus could have a sustained impact on domestic consumption as well as the tourism sector, especially cruise-ship arrivals. In addition, the virus will contribute to a weakening of external demand among key trading partners. A deep slowdown in the U.S. economy poses particularly acute risks, as it could cause a sustained decline in remittances, tourism and capital inflows. Statutory increases in public-sector wages and pensions have intensified budgetary rigidity, constraining the government's capacity to respond to exogenous shocks. Pressure to increase public spending in response to a continued COVID-19 epidemic could deepen fiscal slippages and increase debt levels.

In addition, an electoral year could delay implementation of investment projects.

Increases in poverty in the aftermath of this crisis are very likely given declining demand in labor-intensive sectors and declines in remittances. After the most recent past economic crisis in the country in the early 2000s, it took more than 10 years to go back to pre-crisis poverty levels. The final effect of this crisis on poverty, and the speed at which it can be reduced in the medium term, will depend heavily on how much the mitigation and recovery measures protect and increase the resilience of firms and households.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	4.7	7.0	5.1	0.0	2.5	4.0
Private Consumption	4.4	5.7	4.6	-1.1	3.5	5.1
Government Consumption	0.8	2.8	6.3	0.5	6.8	3.1
Gross Fixed Capital Investment	-0.3	13.3	8.1	-2.3	6.7	6.5
Exports, Goods and Services	4.9	6.1	1.5	-10.7	4.2	3.8
Imports, Goods and Services	-3.0	8.5	5.8	-14.3	12.0	8.5
Real GDP growth, at constant factor prices	4.0	6.5	4.8	0.0	2.5	4.0
Agriculture	5.8	5.5	4.1	6.6	5.0	5.2
Industry	3.2	7.9	5.9	2.5	4.5	5.4
Services	4.1	5.9	4.4	-2.0	1.1	3.1
Inflation (Consumer Price Index)	3.3	3.6	1.8	3.0	3.0	3.0
Current Account Balance (% of GDP)	-0.2	-1.4	-1.4	-0.7	-1.1	-1.6
Fiscal Balance (% of GDP)[a]	-2.9	-2.4	-2.3	-4.7	-3.4	-2.0
Debt (% of GDP)[a]	36.9	37.6	40.4	45.3	48.2	50.6
Primary Balance (% of GDP)[a]	-0.4	0.2	0.4	-2.2	-1.1	0.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	3.8	2.6	2.3	2.0	1.7	1.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	15.9	13.8	12.8	12.0	10.9	9.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Fiscal indicators are shown for the non-financial public sector (i.e. excluding central bank's quasi-fiscal balances and debt).
(b) Calculations based on SEDLAC harmonization, using 2018-ECNFT-Q03. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(c) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

ECUADOR

Table 1	2019
Population, million	17.4
GDP, current US$ billion	107.4
GDP per capita, current US$	6174
International poverty rate ($1.9)[a]	3.3
Lower middle-income poverty rate ($3.2)[a]	9.7
Upper middle-income poverty rate ($5.5)[a]	24.2
Gini index[a]	45.4
School enrollment, primary (% gross)[b]	103.5
Life expectancy at birth, years[b]	76.6

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

Economic growth approached zero in 2019, affected by fiscal consolidation and social unrest. Growth will drop further in 2020, following the impact of COVID-19 and lower oil prices. While the government responded quickly to the first signs of the crisis, large fiscal imbalances and limited access to financing have constrained the size and scope of response measures. As the crisis fades out, growth is expected to accelerate and return to a moderate, but increasing trend helped by investment-promoting reforms.

Recent developments

After peaking at 2.4 percent in 2017, economic growth fell to almost zero percent in 2019 due to fiscal tightening, dampened domestic credit, and civil unrest triggered by a government attempt to scrape the fuel subsidy in October 2019. Growth in agriculture output, however, cushioned the economic slowdown, which kept inflation close to zero.

The economic stagnation pushed up informality to 46.7 percent of employment in December 2019, the highest level since 2007. The continuous deterioration of labor market conditions in both urban and rural areas increased poverty from 23.2 percent in 2018 to 25 percent in 2019, with over 300,000 Ecuadorians falling below the poverty line for the second year in a row. Additionally, the Gini coefficient increased for the third year since 2016, reaching 0.47.

The deceleration also helped narrow the current account deficit to 0.1 percent of GDP in 2019, as lower imports and recovering non-oil exports more than offset the expansion of interest payments and remittances abroad. The external deficit was financed by public and private borrowing, which contributed to an increase in international reserves from US$2.7 billion (1.2 percent of imports) to US$3.4 billion (1.6 percent of imports).

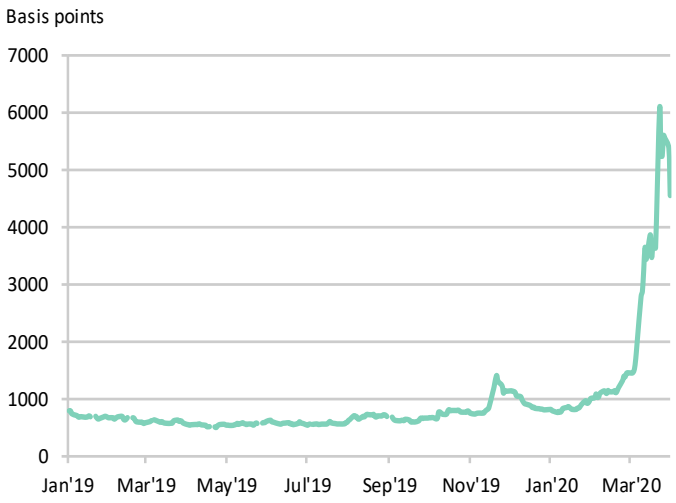
While banks' liquidity stabilized, credit growth slowed from 10 percent in 2018 to 4.6 percent in 2019, affecting productive loans the most. The economic downturn had a limited effect on non-performing loans, which stayed below 3.0 percent in 2019; banks continue to be profitable and solvent. Liquidity remained around 25 percent of short-term liabilities because banks are increasingly relying on external financing.

The Non-Financial Public Sector (NFPS) deficit decreased from 3.1 percent of GDP in 2018 to 2.8 percent in 2019 as sizable capital expenditure cuts and other consolidation measures more than offset lower tax and oil revenues. The fiscal deficit was financed by bond issuances and loans from international financial institutions, which helped to replace non-conventional liabilities, such as advanced oil sales. Nevertheless, country risk experienced two spikes in the last few months: in October 2019, due to civil unrest, and in March 2020 due to combined effects of the COVID-19 outbreak and the disagreements within the OPEC+ alliance on oil prices.

Outlook

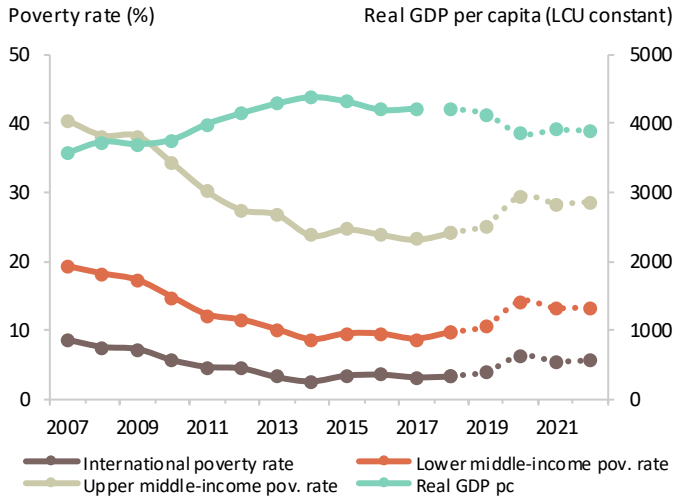
The government has responded quickly to the crisis triggered by the COVID-19 and the collapse of oil prices. It introduced austerity measures (such as cuts in non-priority spending and measures to increase revenue and improve debt management) to create space for priority spending. It also responded quickly with containment measures. The government announced new social transfers, enhanced credit measures, and deferment of taxes

FIGURE 1 Ecuador / Emerging Market Bond Index (EMBI)



Source: : JP Morgan.

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



Source: World Bank. Notes: see Table 2.

and contributions, to attenuate the impacts of the crisis on vulnerable individuals and SMEs. However, Ecuador's tight fiscal position, dollarized economy, and constrained access to external financing limit the scope and size of the policy response. In this context, GDP is projected to decline by 6.0 percent in 2020, affected by declines in private and public investment and lower private consumption associated with COVID-19 containment measures. Containment measures are expected to weaken the labor market and affect income, especially of informal workers and those in SMEs, likely increasing poverty to 31 percent in 2020 – i.e., more than a million people falling into poverty-, despite the government's wide package of social protection measures.

Although GDP growth is expected to recover to 3.2 percent in 2021, it will remain moderate during the following years as the government proceeds with fiscal consolidation measures. However, private investment and exports linked to the growth-related reforms are expected to accelerate growth gradually. Inflation is expected to remain around one percent, as weak aggregate demand will result in a sizable output gap.

The current account deficit is expected to spike in 2020, following the sharp drop in oil prices and important non-oil exports, such as shrimp and cocoa. The deficit should then decrease to around 1.0 percent of GDP, helped by weakened domestic demand and increasing oil and non-oil exports, including mining exports. External financing and rising foreign investment should maintain international reserves fairly stable as a month of import.

Fiscal consolidation will pause in 2020 to accommodate the severe impacts of the health and commodity crisis, but it is expected to resume in the 2021-2022 period. The NFPS deficit is expected to increase to 6.7 percent of the GDP in 2020, affected by lower oil and non-oil tax revenues, and spending pressures associated with the COVID-19 crisis. The increase in the fiscal deficit will be attenuated by austerity measures recently announced by the government, amounting to 2.1 percent of GDP, which cut non-essential spending and create space for more response measures. The deficit is expected to return to its declining path in 2021, reaching 2.2 percent of GDP in 2022, on the back of efforts to curb spending and improve revenue collection.

Weak economic growth and poor labor market conditions are expected to hamper poverty reduction over the medium-term. The incidence of poverty could increase by more than three percentage points over the next two years. Thus, almost a million people would be falling into poverty in the medium-term.

Risks and challenges

Ecuador faces downside risks, including uncertainties about the COVID-19 crisis depth and duration, oil price volatility, and further constraints in external financing. The country faces the delicate balance of navigating and mitigating the impacts of the crisis, while still having to advance reforms to secure fiscal sustainability, propel private investment, and safeguard the dollarization regime. Delays in the implementation of a well-designed fiscal agenda that protects the poor and vulnerable could lead to a disorderly fiscal compression and social unrest, fueling risk perception and further constraining assess to external financing.

Although there is a strong commitment from the government around the ongoing reform agenda and strong support from the international community, limited implementation capacity and political support could delay or distort some reforms. The government needs widespread political support to pass the needed reforms—something which could become more difficult to attain as the 2021 elections approach.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	2.4	1.3	0.1	-6.0	3.2	1.5
Private Consumption	3.7	2.1	1.5	-5.7	3.5	2.1
Government Consumption	3.2	3.5	-2.4	-1.3	-6.2	-1.7
Gross Fixed Capital Investment	5.3	2.0	-3.4	-14.5	9.5	1.9
Exports, Goods and Services	0.7	1.2	5.2	-7.1	7.6	1.9
Imports, Goods and Services	12.2	4.4	1.6	-10.8	7.7	1.7
Real GDP growth, at constant factor prices	1.6	1.2	0.3	-5.5	3.0	1.4
Agriculture	5.5	0.1	1.8	1.4	3.1	3.1
Industry	0.0	-1.0	0.1	-3.0	0.7	1.1
Services	2.0	2.7	0.2	-8.3	4.5	1.3
Inflation (Consumer Price Index)	0.4	-0.2	0.2	0.0	0.6	0.7
Current Account Balance (% of GDP)	-0.1	-1.2	-0.1	-2.3	-1.0	-1.2
Net Foreign Direct Investment (% of GDP)	0.6	1.4	0.9	0.5	1.5	1.5
Fiscal Balance (% of GDP)	-4.5	-3.1	-2.8	-6.7	-3.5	-2.2
Debt (% of GDP)	44.6	46.1	49.6	60.2	60.7	61.5
Primary Balance (% of GDP)	-2.3	-0.6	-0.1	-3.4	0.3	1.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.2	3.3	3.8	6.3	5.5	5.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	8.7	9.7	10.5	14.2	13.2	13.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	23.2	24.2	25.2	29.4	28.4	28.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2011-ENEMDU, 2017-ENEMDU, and 2018-ENEMDU.
Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using average elasticity (2011-2017) with pass-through = 1based on GDP per capita in constant LCU.

The cut-off date for information in this MPO was April 06, 2020.

EL SALVADOR

Table 1	2019
Population, million	6.4
GDP, current US$ billion	26.8
GDP per capita, current US$	4160
International poverty rate ($ 1.9)[a]	1.5
Lower middle-income poverty rate ($ 3.2)[a]	7.7
Upper middle-income poverty rate ($ 5.5)[a]	25.7
Gini index[a]	38.6
School enrollment, primary (% gross)[b]	96.2
Life expectancy at birth, years[b]	72.9

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

The COVID-19 pandemic is negatively impacting growth and poverty reduction in El Salvador through the exports and remittances from US, but also due to local containment measures. As a result, GDP is expected to shrink by 4.3 percent and poverty is projected to increase by 4 percentage points. The country doesn't have sufficient buffers to face the crisis due to high public debt and large twin deficits. The pandemic risks weakening macroeconomic fundamentals further and impairing long-term growth and poverty reduction.

Recent developments

El Salvador is a lower middle-income economy, whose remittances from abroad generated almost as much foreign exchange (21.2 percent of GDP) as goods exported (26.9 percent of GDP) in 2019. Remittances represent 48 percent of the poor's income, which is used mostly for consumption having a significant poverty reduction impact. The COVID-19 pandemic is affecting the country through the negative impacts on the US economy - El Salvador's main trading partner and remittances source, and through domestic measures to contain the virus. As a dollarized economy, fiscal policy is the primary macroeconomic tool available, but high deficits and debt limit the fiscal space.

Economic growth reached 2.4 percent in 2019 almost stable from 2.5 percent in 2018. Inflation declined to 0.1 percent in 2019 due to lower energy prices. The current account deficit is estimated to have narrowed to 4.2 percent of GDP in 2019 from 4.8 percent in 2018. The lower deficit is a result of the larger service balance surplus and remittances.

The fiscal deficit widened to 3.1 percent of GDP in 2019 from 2.7 percent of GDP in 2018. The higher deficit was caused by the central government deficit, which increased from 1.3 to 1.8 percent of GDP, while the pension deficit remained almost unchanged at 1.3 percent of GDP in 2019. Total public debt, which includes central government's short-term and pension debt grew from 72.8 percent of GDP in 2018 to 73.6 percent of GDP in 2019.

Although poverty has declined during the last decade due to increases in labor income, El Salvador has the largest share of population (almost 50 percent) classified as vulnerable – people who are likely to fall in poverty if a shock occurs—in the LAC region. Poverty headcount —measured at $5.5/day— declined from 43 percent to 26 percent between 2008 and 2018; however, about 1.6 million Salvadorans still live below the poverty line. Extreme poverty —per capita household income under the $3.2/day— declined from 20 percent in 2008 to 8 percent in 2018.

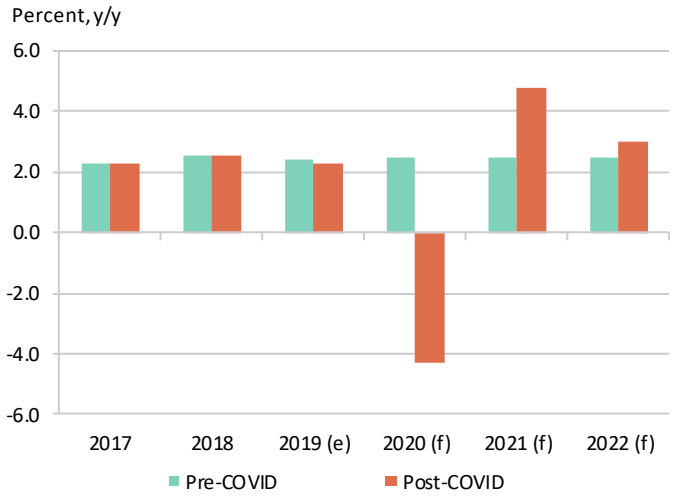
Low but inclusive growth reduced inequality. Income growth among households at the bottom 40 percent of the income distribution, was 4 percent per year between 2013 and 2018, which is around 2.1 percentage points higher than overall growth. Reduction in inequality was driven by those at the bottom 20 percent of the income distribution.

The unemployment rate is low but labor market inactivity is high (3 percent and 37 percent in 2017, respectively). To increase the employment rate from 61 percent in 2017 to 70 percent by 2030, El Salvador must create around 900,000 positions, which would require average GDP growth of 2.6 percent.

Outlook

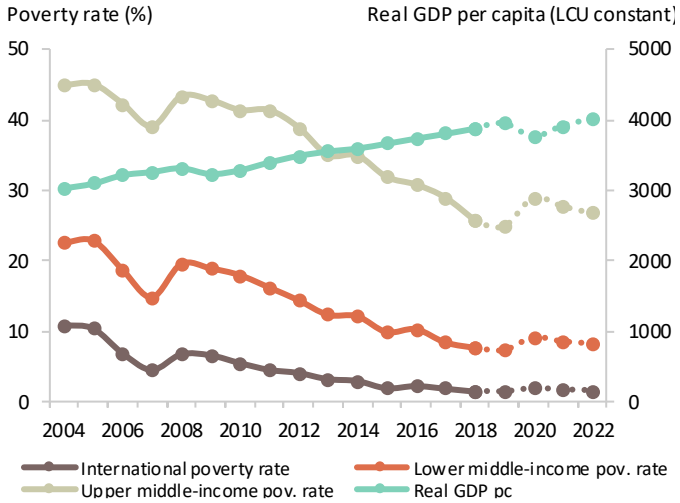
The COVID-19 pandemic is projected to greatly affect growth in 2020 (see Figure 1).

FIGURE 1 El Salvador / Real GDP growth rate: Pre and post COVID



Sources World Bank and Banco Central de Reserva de El Salvador.

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



Source: World Bank. Notes: see Table 2.

Reductions in exports and remittances, as well as through the domestic measures to contain the outbreak, will be the main channels of impact. Reduced economic activity in the US will mean lower demand for Salvadoran exports and fewer jobs and incomes for Salvadoran workers in the US who send remittances home. This will affect El Salvador's GDP by reducing private consumption. The national quarantine imposed by the government means that most economic activities will be reduced significantly. As a result, GDP is expected to decline by 4.3 percent in 2020, but growth will likely rebound in 2021 recuperating some of the lost output, provided that the containment measures succeed.

Lower GDP growth will translate into lower tax revenues. Fighting the pandemic will require more government expenditures on health and social safety nets. As a result, an increase in the public deficit and debt – to 6.0 and 80.7 percent of GDP respectively – is expected. A rebound in economic activity and the resumption of fiscal consolidation after 2020 will help stabilize the public debt.

The current account deficit is expected to decline in 2020 due to lower economic activity and lower oil prices, despite the fall in exports and remittances. As the economy picks up, the deficit will increase to previous levels. The inflation is expected to remain at low levels throughout the period.

A GDP decline will translate into poverty increase. The economic slowdown will reduce the demand for labor from export sectors and services, which will lead to income losses in the sector. Informal and self-employed, which represent 56 percent of the labor force will also experience a reduction on their labor income. At the same time, remittances are expected to decelerate as well. Therefore, poverty rate is expected to increase by 4 percentage points in 2020. However, if the government implement the announced cash transfer, the poverty rate may increase by 2 percentage points.

Risks and challenges

The main risks are: (i) protracted impact from the COVID-19 pandemic, (ii) stronger immigration restrictions in the US; and (iii) an uptick in crime and violence. If severe containment measures against COVID-19 need to be extended for longer than three months, the economic impact of the pandemic will be larger than forecasted and GDP could decline by up to 7 percent in 2020. Tighter immigration policies in the US pose downward risk to remittance inflows, affecting household income and reducing the potential for poverty reduction. El Salvador has succeeded in reducing crime incidence, although it remains at a high level, which is essential to attract private investment.

Given that El Salvador entered this crisis with insufficient buffers, the challenge in the short term is to emerge from it without a large negative impact on its fragile macroeconomic fundamentals. After the pandemic is over, El Salvador should persist in crime-reduction policies, while changing gears in growth drivers from remittance-led consumption and stagnant exports, while pursuing fiscal consolidation to reduce debt.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	2.3	2.5	2.3	-4.3	4.8	3.0
Private Consumption	2.2	2.7	2.2	-5.2	5.0	3.5
Government Consumption	1.9	0.8	1.2	13.8	-7.4	1.3
Gross Fixed Capital Investment	2.9	6.8	3.3	-19.8	22.1	5.4
Exports, Goods and Services	4.7	2.9	3.5	-1.1	6.0	3.4
Imports, Goods and Services	-0.8	5.2	3.0	-4.1	7.0	4.6
Real GDP growth, at constant factor prices	2.4	2.4	2.3	-4.3	4.8	3.0
Agriculture	0.2	0.0	1.6	-1.0	3.0	2.1
Industry	2.0	2.9	3.6	-4.3	5.0	3.5
Services	2.7	2.5	1.8	-4.6	5.0	2.9
Inflation (Consumer Price Index)	1.0	1.1	0.1	0.0	0.6	0.8
Current Account Balance (% of GDP)	-1.9	-4.8	-4.0	-1.4	-3.0	-3.7
Net Foreign Direct Investment (% of GDP)	3.6	3.2	3.0	2.8	3.3	3.5
Fiscal Balance (% of GDP)[a]	-2.5	-2.7	-2.7	-6.0	-4.5	-3.3
Debt (% of GDP)[b]	73.7	72.8	73.5	80.7	81.2	81.3
Primary Balance (% of GDP)[a]	0.7	0.9	0.6	-1.8	0.4	1.4
International poverty rate ($1.9 in 2011 PPP)[c,d]	1.9	1.5	1.4	1.9	1.7	1.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	8.4	7.7	7.4	9.2	8.6	8.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	28.9	25.7	24.9	29.0	27.7	26.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Fiscal and Primary Balance correspond to the non-financial public sector.
(b) Debt is total public debt.
(c) Calculations based on SEDLAC harmonization, using 2018-EHPM. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(d) Projections using a microsimulation model based on the sectoral growth and remittances growth

The cut-off date for information in this MPO was April 06, 2020.

GRENADA

Table 1	2019
Population, million	0.1
GDP, current US$ billion	1.2
GDP per capita, current US$	11271
School enrollment, primary (% gross)[a]	111.4
Life expectancy at birth, years[a]	72.4

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

Negative growth is projected in 2020 due to the COVID-19 pandemic. Emergency response policies are expected to cushion the impact on businesses and provide unemployment benefits to workers. An overall fiscal deficit is anticipated for 2020 and missed debt target, which had been on track to reach 55 percent of GDP in 2020. The poverty impact will depend on the length and severity of the crisis. Strong rebound in growth is expected for 2021-2022, provided that the crisis is short-lived.

Recent developments

The coronavirus outbreak threatens the first recession in Grenada in eight years. In response to the crisis, the Government has closed the country's borders and instituted a temporary State of Emergency, including an almost total lockdown.

To mitigate the effect on businesses and workers from the extreme containment measures, the government announced a sizable fiscal stimulus package (1.5% of GDP) for three months that would provide payroll support to the tourism sector (which contributes 56.6% of GDP and 52.2% of employment), increase unemployment benefits through the National Insurance Scheme, expand the public sector investment program to increase employment outside of tourism, suspend payment of business taxes for three months, expand the credit facility to small businesses, and increase support to farm labor to boost agricultural production.

To finance the stimulus package, the Government will reprioritize current expenditures and draw on fiscal buffers accumulated under its rules-based fiscal framework. Prior to the crisis, Grenada had been running consistent fiscal surpluses with declining public debt. The 2019 outturn registered real economic growth of 3.1 percent, a slight moderation from 2018, emanating from weakened performance in manufacturing, construction, tourism and transport. A rebound in private education (contributing 14% to GDP in 2019) helped offset the moderation.

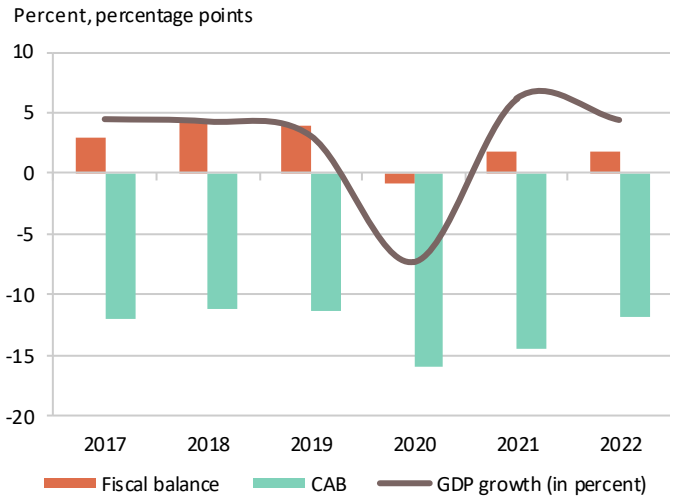
The current account deficit was largely unchanged in 2019 at 11.4 percent of GDP, owing to a stabilization of the trade balance. This outturn was tied to reduced demand for construction-related imports from completed tourism projects. Foreign direct investment (FDI) of 10.6 percent of GDP and funds from the Citizenship by Investment program (1.6% of GDP) financed the current account deficit. Meanwhile, inflation stood at an estimated 1.0 percent in 2019, on the back of declines in international oil prices coupled with slower US inflation.

The financial sector was generally stable in 2019. Nonperforming loans declined to 2.4 percent of total loans up to June 2019, y/y. In addition, the capital-to-asset ratio increased to 20.3 percent at end-June 2019, compared to 18.9 percent in the corresponding period of 2018. With deposits outpacing the level of credit provided, excess liquidity persists in the financial sector.

Notwithstanding a decline in the fiscal balance, Grenada's fiscal position remained strong in 2019. Expenditure containment contributed to the sizable fiscal surplus. Lower tax revenues stemming from the declines in income tax rates were partially tempered by reduced discretionary spending, particularly on goods and services. Ongoing fiscal consolidation lowered public debt to 59.6 percent of GDP in 2019.

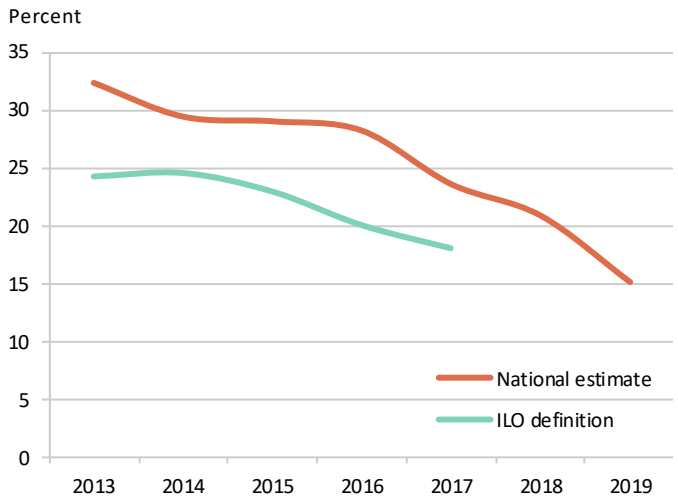
As labor market conditions improved significantly since 2018, poverty is likely to have continued to decline in 2019. A new household budget survey has been

FIGURE 1 Grenada / The evolution of main macro indicators



Sources: IMF; World Bank staff estimates; ECCB.

FIGURE 2 Grenada / Unemployment rate



Sources: Labor Force Survey 2013-2019, Central Statistical Office.

completed and revised poverty estimates are expected by mid-2020.

Outlook

The coronavirus outbreak has significantly changed the panorama for the Grenadian economy. Even under a moderate scenario whereby the pandemic is short-lived and containment measures are eased after two months, hotel closures and major disruptions to domestic production persist for only two quarters, and fourth quarter recovery is strong, GDP is projected to decline by 7.3 percent in 2020, rebounding by 6.1 and 4.4 percent in 2021 and 2022. Sizable declines in services and industry are expected to be moderated by accelerated growth in agriculture.

The fiscal balance is expected to turn negative given the increased government spending to respond to the crisis amid lower tax receipts due to disruptions in economic activity. Flexibility built into the fiscal rule allows the government to evoke escape clauses in the event of a severe recession. The debt-to-GDP ratio is anticipated to increase to 60 percent in 2020 but resume the downward trajectory during the 2021-2022 recovery.

With the fallout in tourism and disruptions to the international university, the current account deficit is expected to deteriorate substantially to 16 percent of GDP. Net official inflows are anticipated to supplement FDI and CBI flows to finance the deficit. Falling oil prices and reductions in imports will offset some of the impact on the external accounts. As the economy rebounds, the current account deficit is expected to recover its 2019 level over the medium term.

Grenada's inflation rate is projected to average around 1 percent, in tandem with muted US inflation pressures over the medium-term and low oil prices. The decline in GDP growth in 2020 is expected to reduce employment and increase poverty, but as growth rebounds over the medium term and job opportunities improve, poverty is expected to resume its downward path.

Provided that the crisis is short-lived, a robust recovery is anticipated in 2021. The roll out of new public investment projects is expected to boost growth. New jobs created from upcoming large-scale construction projects including the Maurice Bishop International Airport upgrade and new hotel developments such as the Six Senses La Sagesse luxury hotel, should further improve employment and help to reduce poverty.

Risks and challenges

The uncertainty behind the duration and severity of the COVID-19 outbreak presents significant downside risks to the outlook. If global recession is severe, disruptions to international travel last beyond the third quarter of 2020, and propagation of the disease inside Grenada is widespread, then 2020 growth could suffer a steeper decline with slower recovery in 2021-2022. The recent ICSID ruling against the Government in the dispute brought by the electric company poses fiscal risks. Natural disasters also present an ever-present risk for Grenada. Vulnerable populations are particularly susceptible to such risks.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	4.4	4.2	3.1	-7.3	6.1	4.4
Real GDP growth, at constant factor prices	4.0	3.5	3.1	-7.2	6.1	4.4
Agriculture	-15.4	3.0	15.9	13.7	3.6	4.0
Industry	15.1	9.9	0.3	-7.9	6.6	3.6
Services	3.9	2.2	2.6	-9.2	6.3	4.6
Inflation (Consumer Price Index)	0.9	1.0	1.0	0.8	0.9	0.9
Current Account Balance (% of GDP)	-12.0	-11.2	-11.4	-16.4	-14.5	-11.8
Fiscal Balance (% of GDP)	3.0	4.5	3.9	-0.8	1.8	1.8
Debt (% of GDP)	70.1	63.5	59.6	60.0	55.6	52.1
Primary Balance (% of GDP)	5.7	6.5	6.0	1.3	3.7	3.6

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

GUATEMALA

Table 1	2019
Population, million	16.6
GDP, current US$ billion	76.2
GDP per capita, current US$	4589
International poverty rate ($1.9)[a]	8.7
Lower middle-income poverty rate ($3.2)[a]	24.2
Upper middle-income poverty rate ($5.5)[a]	48.8
Gini index[a]	48.3
School enrollment, primary (% gross)[b]	101.2
Life expectancy at birth, years[b]	73.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014), 2011 PPPs.
(b) Most recent WDI value (2017).

The COVID-19 pandemic is negatively affecting the economy and output is expected to decline 1.8 percent in 2020. As economic activity in the US slows, remittances are expected to decline, weakening consumption and pushing households deeper into poverty. Social distancing measures introduced will also contribute to reducing activity and increasing poverty. However, the pace of the decline is paired with large downside risks steaming from the uncertain duration of social distancing measures affecting activity and the shape of the recovery.

Recent developments

The economy continued to expand at a robust pace, averaging 3.6 percent in the first three quarters of 2019 on the back of solid domestic demand. For 2019, Guatemala is estimated to have grown 3.6 percent. Strong economic performance can be attributed, in part, to private consumption supported by remittance inflows (13 percent growth in 2019). Investment (6.9 percent growth in 2019) was an equally important growth driver in 2019 as easing of credit, relaxation of regulations, and improving business confidence have provided a boost, particularly in construction.

The current account balance had a surplus of 3.4 percent of GDP in the third quarter of 2019, up from a surplus of 0.8 percent of GDP in 2018. This increase reflected solid remittance inflows and a contracting trade deficit as exports recovered on the back of better terms of trade.

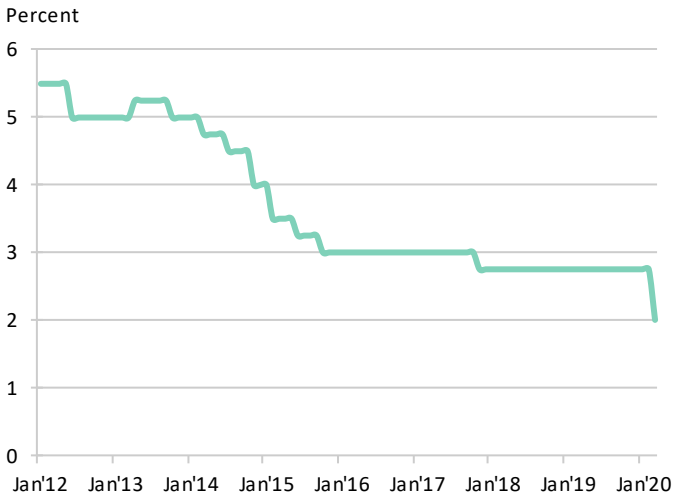
Fiscal policy was expansionary in 2019 as the fiscal deficit increased to 2.3 percent of GDP. Standing at 11.4 percent of GDP, the growth in revenue remained subdued in 2019 on account of the country's long-standing issues with weak tax collection. On the other hand, public spending picked up (6 percent in real terms in 2019), primarily on account capital expenditure linked to the elections.

The government announced domestic restrictions in response to COVID-19. The measures included closure of borders to non-citizens, cancellation of sports events, closure of schools, and limitations to the use of public transportation. Furthermore, all commercial establishments apart from essential ones (e.g. pharmacies and supermarkets) must remain closed. To help contain the slowdown in activity, the central bank reduced the interest rate by 50 percentage points and a number of other measures have been implemented.

Outlook

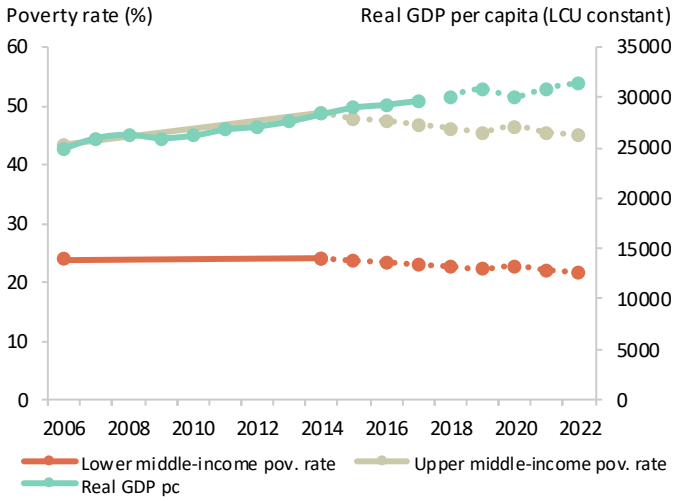
The combination of declining external demand, lower commodity prices, significant financial distress in major economies, and the reduction in spending and production coming from measures to prevent the spread of the virus within countries (social distancing) are taking a toll on global activity. As slowing economic activity in the U.S. leads to lower remittances to Guatemala, weakening private consumption and production. Declines in remittances are expected to increase poverty and food insecurity, and to lower investments in human capital, especially among poorer households. As social distancing measures in Guatemala escalate and persist over time, the incomes of the self-employed (around 40% of the labor force), temporary workers and workers in affected sectors (e.g. tourism and agriculture) will slump, worsening economic activity and increasing poverty even further. Weaker economic output in both the US and the Euro Area would lead to a reduction in export demand for goods as well as a decline in tourism, which accounts for 4.4 percent

FIGURE 1 Guatemala / Monetary policy interest rate



Sources: Central Bank of Guatemala.

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



Source: World Bank. Notes: see Table 2.

of total employment. If the negative impact of the viral outbreak peaks during the second quarter of 2020 and activity rebounds gradually in the second half of the year, output is expected to decline 1.8 percent in 2020. Relative to the region, Guatemala could be the least affected economy due to a low dependence on tourism, U.S. exports and remittances, and given the availability of fiscal space. For 2021 Guatemala is expected to rebound and to growth 4.4 percent on the back of a recovery in consumption as the flow of remittances from the US resume and business confidence is restored.

The current account surplus is projected to decline in 2020 as remittances from the United States decelerate despite an improving trade balance as a result of lower imports. Agricultural exports will be the main products affected due to declining prices and quantities, potentially affecting more than 2 million workers hired in the sector.

To support activity, the central bank is expected to reduce interest rates and use a more flexible exchange rate arrangement as buffer to the external shock.

With public debt at 26 percent of GDP, Guatemala has fiscal space to implement countercyclical fiscal policy. The approval of a stimulus package of 1.5 percent of GDP and an expected fall in tax receipts could take the fiscal deficit close to 4.2 percent of GDP in 2020. The fiscal package will reallocate up to 25 percent of government operating expenses towards investment, support MSMEs under distress and provide cash transfers to vulnerable populations, among other things.

Risks and challenges

Uncertainty around the forecast is higher than in normal times and declines in GDP could be as larger as -4.5 percent in the downside scenario. First, the magnitude of the economic cost depends on the length in time of social distancing measures in Guatemala and in the U.S. Given the limitations of the health system in Guatemala to respond to a quick increase in infections, if the speed of contagion cannot be slowed, the constraints on people's mobility over time will add to the downside risk. As a result, strengthening the coordination and the resources of the health system is very important for economic recovery. Second, the baseline scenario assumes that the virus will follow the usual flu cycle, with a peak in winter and activity until May. However, there is a non-trivial risk that the virus continues spreading in summer. If this is the case, social distancing will continue affecting economic activity in the Northern hemisphere, delaying the expected rebound in the second half of 2020 and leaving a lower growth base for 2021.

With more than 80 percent of its labor force not covered by the social security system, 85 percent of the population either poor or vulnerable to fall into poverty, and a social assistance program with low coverage, small transfers and inconsistent payments, well-designed mitigation and recovery measures to protect and increase the resilience of households will be needed to alleviate the negative impacts of the crisis on very large shares of the population. In order to have a robust recovery in 2021, it is imperative that the government protects jobs and the organizational capital acquired by firms so that the potential growth of the economy is not affected.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	3.0	3.1	3.6	-1.8	4.4	3.1
Private Consumption	3.3	3.7	4.2	-2.1	4.3	3.4
Government Consumption	1.5	5.6	3.8	11.5	3.2	-1.6
Gross Fixed Capital Investment	4.3	4.4	6.9	-14.0	3.7	6.8
Exports, Goods and Services	1.6	-1.2	0.8	-4.0	2.0	2.0
Imports, Goods and Services	3.0	3.8	5.0	-5.0	2.0	3.0
Real GDP growth, at constant factor prices	2.7	2.9	3.6	-1.8	4.4	3.1
Agriculture	3.2	2.2	2.7	-2.3	2.4	2.3
Industry	0.6	1.3	3.6	-1.5	2.9	2.8
Services	3.4	3.6	3.7	-1.9	5.3	3.3
Inflation (Consumer Price Index)	4.4	3.8	3.7	3.0	3.5	3.8
Current Account Balance (% of GDP)	1.1	0.7	2.3	1.3	1.1	0.8
Fiscal Balance (% of GDP)	-1.4	-1.9	-2.3	-4.2	-3.8	-3.4
Debt (% of GDP)	25.3	26.3	26.7	30.5	31.9	32.9
Primary Balance (% of GDP)	0.1	-0.4	-0.6	-2.8	-2.1	-1.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	23.1	22.7	22.3	22.9	22.1	21.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	46.8	46.3	45.6	46.6	45.5	45.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2014-ENCOVI. Actual data: 2014. Nowcast: 2015-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2014) with pass-through = 0.7 based on GDP per capita in constant LCU.

GUYANA

Table 1	2019
Population, million	0.8
GDP, current US$ billion	4.3
GDP per capita, current US$	5491
Life expectancy at birth, years[a]	69.6

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

Guyana's economy expanded by 4.7 percent in 2019, with anticipated oil revenues spurring an expansion in non-traded sectors. Oil production is projected to boost GDP growth to unprecedented levels in 2020. While this could transform Guyana, there are risks, as illustrated by a still incomplete election outcome, and compounded by falling oil prices and the Covid-19 pandemic. Poor monitoring systems constrain the development of policies to reduce poverty and protect the vulnerable, becoming evident during this pandemic.

Recent developments

Economic growth in Guyana accelerated in anticipation of oil revenues, as demand for services grew rapidly during 2019. The GDP growth rate increased from 2.1 percent in 2017 to 4.1 percent in 2018 and 4.7 percent in 2019. Good performance of the rice, construction and tourism (business travel) sectors boosted growth while sugar and bauxite faltered. The headline inflation rate remained low at 2.2 percent (y/y) at end-2019. Rice-farming growth benefited the 80,000 Guyanese engaged in this sector – more than 10 percent of the population – most of which are poor.

Estimates indicate that private foreign direct investment (FDI) in the oil sector reached US$2.3 billion in 2019, equal to over 50 percent of GDP, boosting total investment to a peak level in 2019. The current account deficit is estimated at 67 percent of GDP, largely financed by FDI. Backward linkages to the oil sector are growing, albeit from a low base. Domestic sales to oil companies reached an estimated 2.5 percent of GDP in 2019 and created 1,700 jobs. The exchange rate remained stable at G$208.5 per US dollar.

As of end-2019, bank lending to the private sector accelerated by 8.6 percent, up from 4.2 percent in 2018 and 2.3 percent in 2017. This has been boosting housing demand as mortgage rates remained stable at 6.5 percent.

Following a modest fiscal consolidation in 2018, fiscal spending and bank lending grew although interest rates remained unchanged. Oil production started at the very end of 2019 but did not yet contribute to fiscal revenues and the deficit increased by one percentage point of GDP.

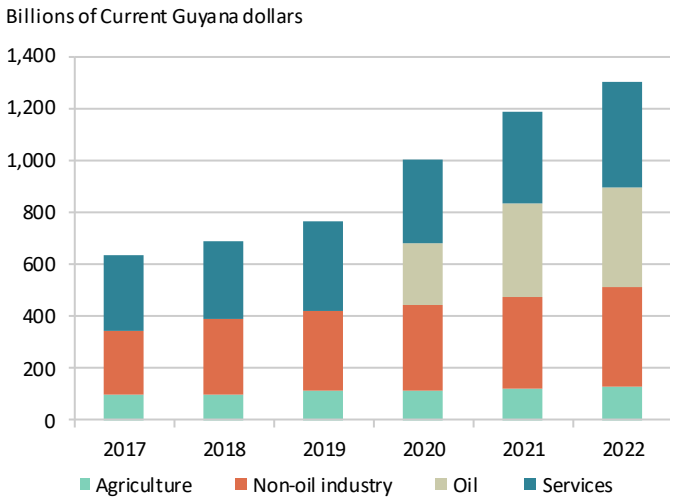
There are approximately 350,000 people living in poverty in Guyana (43 percent of the population). Most of them live in rural areas, predominantly in indigenous communities. Poverty in these areas is accompanied by severe deficiencies in nutrition, health, education, and quality-of-life indicators. Economic growth in 2019 supported job creation in the service sector, which employs half of the poor who are employed.

Elections took place on March 2, 2020 however the vote tabulation process could not be completed. An agreement between the government and opposition to a complete recount of votes was met with legal challenges which have now been surmounted. Plans to implement a complete vote recount are being finalized by the Guyana Election Commission. The Covid-19 pandemic reached Guyana in March. The WHO classified Guyana's Covid-19 preparedness as level 3 on a scale of 1 to 5. International airports are closed, and measures to increase social distancing have been implemented.

Outlook

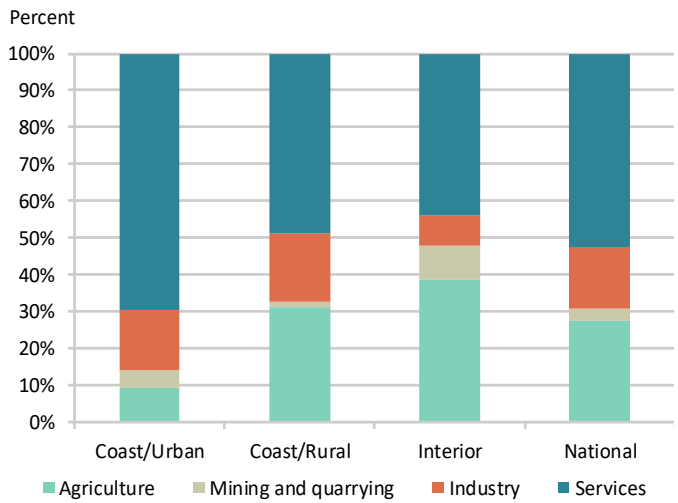
Projected developments in the oil sector dominate the macroeconomic outlook. Guyana's reserves are estimated at 8 billion barrels of oil equivalent. Oil production in Liza-1 field started in

FIGURE 1 Guyana / GDP at factor cost in current prices, Guyana dollars, billion



Sources: World Development indicators.

FIGURE 2 Guyana / Employment among the employed poor by sector and geographical area, 2017



Sources: Guyana authorities for historical data World Bank staff for projections.

The cut-off date for information in this MPO was April 06, 2020.

2019 and is projected to reach 120,000 barrels per day in 2020. Development of the Liza phase 2 started in 2020 aiming to start production in mid-2022. Delays may occur due to the Covid-19 pandemic as well as the depressed international oil prices. Additional field developments are planned but could be deferred due to global context and domestic political context.

The nonoil GDP growth rate is projected to be negative as a slowdown in consumption triggers a contraction in construction and other services sectors in 2020 in the wake of the lower oil price, political uncertainty and economic impacts of the pandemic. Medium term nonoil GDP growth is projected at over 4 percent, driven by an expansion in non-traded goods and services. Meanwhile, public investment is projected to boost productivity and sustain nonoil exports. The government's Green State Development Strategy envisages rapid growth in public infrastructure investment. Official poverty estimates are expected to be updated in 2020.

While large-scale oil and gas projects are capital-intensive, the growth of the nonoil economy should benefit urban households in the more developed coastal provinces, by expanding the service sector. Oil production will offer limited employment opportunities for agricultural workers as the skills required are different.

Risks and challenges

The Covid-19 pandemic threatens to increase poverty and could have the hardest economic and social impact on the poor and vulnerable.. Social containment measures will likely lead to income and job losses in the services sector. Half of the employed work in the services sector, with this proportion amounting to 70 percent in the coastal urban region; the poor have limited means to protect against these shocks. If demand for Guyana's agricultural and mining exports contracts as a result of an economic slowdown, especially for sugar, rice and gold, jobs and income losses will increase rural poverty. International remittance flows have already reduced significantly, suggesting likely reductions in non-labor income. Almost 30 percent of poor households receive remittances which comprises 42 percent of their income.

The risk of rising social and economic impacts of the pandemic and the depressed oil prices in addition to delays in announcing election results may reinforce each other and add to downside risks. These issues may slow non-oil GDP growth beyond 2020 and impact the development of the oil fields. To mitigate the economic and social impact of the global pandemic on the population, compensating the vulnerable population, people at risk of losing income and mitigating the impact of unexpected medical costs is important.

Over and beyond these immediate challenges, the oil boom, if not well managed, is likely to increase macroeconomic volatility. Oil prices fluctuate and domestic output is vulnerable to technical challenges and exogenous shocks. Moreover, private capital volatility may prove difficult to manage.

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

	2017	2018	2019 e	2020f	2021f	2022f
GDP growth, at current market prices[ab]	2.1	4.1	4.7	51.7	8.7	2.6
Private Consumption	11.9	-13.6	8.0	-3.0	4.0	4.3
Government Consumption	2.5	8.0	5.3	3.9	3.8	2.6
Gross Fixed Capital Investment	10.8	61.8	25.2	-48.4	1.7	4.8
Exports, Goods and Services[c]	-0.2	-4.4	3.7	84.0	26.6	6.6
Imports, Goods and Services[c]	15.2	31.7	32.0	-34.1	1.6	3.3
Nonoil GDP growth, at factor cost[a]	2.1	4.1	4.7	-1.9	3.8	4.1
Agriculture	0.4	1.5	1.5	0.2	1.2	1.2
Industry	0.3	5.1	3.0	0.2	1.2	4.4
Services	4.0	4.4	6.8	-3.9	6.4	4.8
Inflation (Consumer Price Index)	1.5	1.6	2.2	2.3	2.3	2.3
Current Account Balance (% of GDP)	-43.9	-59.3	-67.3	-6.4	2.2	-0.2
Fiscal Balance (% of GDP)	-4.5	-3.4	-4.7	-3.6	-2.6	-0.7
Debt (% of GDP)	51.4	55.0	54.3	45.6	41.4	39.0
Primary Balance (% of GDP)	-3.4	-2.3	-3.6	-2.6	-1.7	0.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Non-oil GDP at 2006 prices.
(b) (b) Oil at US$35 per barrel revised from US$54 per barrel; used in 2019, oil production projection is unchanged as the international price exceeds marginal cost of production.
(c) BOP definition in current US$.

HAITI

Table 1	2019
Population, million	11.2
GDP, current US$ billion	8.5
GDP per capita, current US$	756
International poverty rate ($1.9)[a]	25.0
Lower middle-income poverty rate ($3.2)[a]	50.8
Upper middle-income poverty rate ($5.5)[a]	78.9
Gini index[a]	41.1
Life expectancy at birth, years[b]	63.3

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

GDP is estimated to have contracted by 0.9% during Haitian fiscal year (HFY) 2019, amid political turmoil, social discontent and protests against corruption. The economic slump coupled with a weak capability of revenue administration brought revenue down. Nonetheless, the fiscal deficit was contained due to severe cuts in capital investment and social programs, with attendant negative consequences on growth prospects and poverty reduction. The outlook is fraught with downside risks amid an unresolved political crisis and the COVID-19 pandemic.

Recent developments

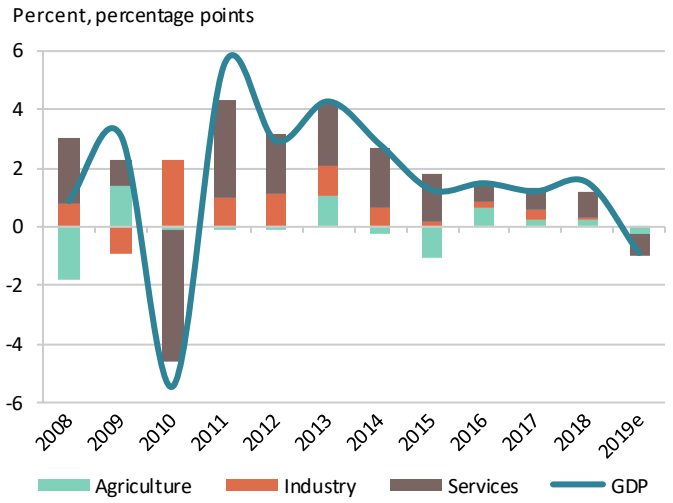
Haiti's GDP growth has been anemic over the past five years, barely keeping up with population growth of 1.5%. In HFY2019 the country remained engulfed in a protracted political crisis, with GDP estimated to have contracted by 0.9%, hampered by agriculture and the service sectors. The agricultural sector is host of poor workers (53% in 2012). Its contraction is likely to have a detrimental effect on them. The good performance of the textile sector – which employs 25% of formal labor– avoided a more acute decline of GDP. The fiscal deficit was contained at 4.0% of GDP at the expense of physical capital investment and social spending. Recurrent expenditures, however, rose by 14%. The debt/GDP ratio almost doubled over the past five years, from 23.7% in 2014 to 43.3% in 2019, reflecting the deterioration of the fiscal accounts. Debt service in 2019 was 2.0% of GDP, higher than spending in education (1.7%), health (0.6%) and social protection (0.1%). From a 2012 base of around 25%, extreme poverty has barely moved. Employment estimates point to enduring unemployment rates of around 13%, and around 30% among the youth. As of 2017, only 23% of the population was estimated to live within 5 kms of a health center with adequate services.

The central bank (BRH) has tightened its policy stance and kept monetary financing of the government deficit within the legal limit in HFY2019. BRH monetized the equivalent of 1.4% of GDP of the deficit, which it partially offset by raising its policy rate and depletion of net foreign reserves. The remaining deficit was covered either by accumulating arrears (1.9%) or by T-bills issuance (0.8%), which may have contributed to further crowding out of the private sector. Despite the tight monetary stance, the currency (gourde) depreciated by more than 22% over the fiscal year. Given the high exchange rate pass-through, the lag of the 2018 monetization and domestic food supply shortages during 2019, inflation remained in double digits, closing the fiscal year at over 20%. This has likely negatively affected households' purchasing power, leading to decline in consumption and/or a deterioration in the quality of the basket consumed. In fact, about half of households were considered food insecure at end September 2019.

The current account deficit (CAD) narrowed from 3.7% of GDP in 2018 to 0.4% of GDP in 2019 on weak import demand and increased remittances (now at 35% of GDP), principally coming from the US and the Dominican Republic, Haiti's top trading partners.

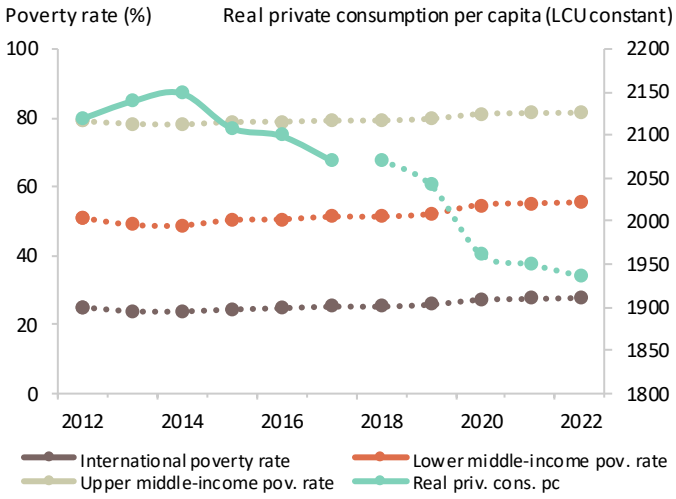
In Q1 HFY2020, political tensions heightened, and economic activity remained subdued, with GDP estimated to have contracted by 4.0% y/y. The continued decline in imports helped stabilize the gourde that depreciated by 15.1% y/y in January 2020 compared to a 25.5% y/y depreciation in September 2019. The Bank's inflation estimate for end-January stands at 22.5% (no official data has been published since August 2019). Overall uncertainty and the presence of violent

FIGURE 1 Haiti / Real GDP growth and sectoral contribution to real GDP growth



Sources: Haiti Statistical Office (IHSI).

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



Sources: World Bank. Notes: see Table 2.

gangs in certain areas may have affected small entrepreneurial activities and agricultural households, which together account for about 70% of the workforce.

Outlook

A lull in political tensions is the silver lining of the COVID-19 pandemic, which will however wreak havoc on the economy. GDP is expected to contract by 3.5% in HFY2020, hindered by the services sector. On the demand side, private consumption is expected to dip due to decline in remittances as Haiti's top remittances-sending countries (US, Canada and France) enter into recession from the impact of COVID-19. This will affect more than a quarter of rural households who are remittances recipients. Attendant to the announced policy response to ease the stress the pandemic will inflict on the economy, government spending will pick up. Reduced tourist receipts and disrupted Haiti textile sector supply chains from China and the DR will prompt a decline in overall exports. Over the medium term, economic activity is expected to pick up, growing at 1.0% in 2021 and 1.3% in 2022, assuming the disruptions caused by COVID-19 do no linger and the fiscal stimulus has the expected impact on aggregate demand. Inflation will likely remain around 20% in the short term and should stabilize around 18% over the medium term, with attendant impact on purchasing power of the poor. Despite the positive shock of declining oil prices, the CAD is expected to widen to 6.1 % in HFY2020, on declining remittances and exports; but it is expected to narrow to 2.0% of GDP over the medium term as imports pick up and remittances and exports return to pre COVID-19 levels. The economic rebound is not expected to outpace population growth, however. Hence, no welfare improvement is expected and poverty incidence would likely increase.

Risks and challenges

Parliamentary elections scheduled to take place in October 2019 were scrapped, prompting president Jovenel Moïse to declare on January 13th, 2020 that Parliament had lapsed, ushering in another episode of institutional vacuum. This institutional void has led to a paralysis of needed reforms. Furthermore, the lack of recent economic and demographic data raises caution about the ultimate impacts of the ongoing crisis on the population, with greater welfare losses still possible. Haitian authorities announced the first cases of COVID-19 on March 19th. Even if this shock is short-lived, it will certainly strain the country's already weak health sector capabilities, with further adverse impact on the poor. Haiti is continuously battered by various shocks, particularly natural hazards and political instability, that have constrained its capacity to sustain growth over the long term and COVID-19 will represent a blow to the economy with greater impact on the most vulnerable. The textile industry, accounting for 25% of formal jobs, is at risk. A lack of protective measures for the informal sector workers may lead to further negative impacts. With the vast majority (over 90%) of workers uninsured, health shocks can lead to large income losses. The absence of a broad safety net can hinder efforts to roll out transfers to support the most vulnerable (such as the 65+ years cohort, of which 50% are considered poor).

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	1.2	1.5	-0.9	-3.5	1.0	1.3
Private Consumption	-0.1	1.2	-0.2	-2.8	0.5	0.4
Government Consumption	3.0	1.7	-7.0	9.5	1.1	6.0
Gross Fixed Capital Investment	0.9	12.5	-1.8	-6.1	7.0	2.4
Exports, Goods and Services	-1.2	2.0	-0.3	-2.1	2.0	2.0
Imports, Goods and Services	2.0	1.5	-1.0	-1.7	2.5	1.5
Inflation (Consumer Price Index)	14.7	13.5	17.2	20.0	18.0	17.0
Current Account Balance (% of GDP)	-1.0	-3.6	-0.4	-6.1	-1.3	-2.7
Net Foreign Direct Investment (% of GDP)	4.4	1.1	1.1	0.9	1.3	1.2
Fiscal Balance (% of GDP)[a]	-1.9	-4.3	-4.0	-6.7	-4.6	-2.5
Debt (% of GDP)[a]	35.6	38.3	43.3	49.7	53.0	54.1
Primary Balance (% of GDP)[a]	-1.6	-3.5	-3.2	-5.8	-2.1	-1.9
International poverty rate ($1.9 in 2011 PPP)[b,c]	25.2	25.2	25.8	27.2	27.5	27.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	51.1	51.2	51.9	54.5	54.9	55.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	79.1	79.1	79.6	81.1	81.3	81.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Figures reflect fiscal years (FY) going from October to September.
(b) Calculations based on SEDLAC harmonization, using 2012-ECVMAS. Actual data: 2012. Nowcast: 2013-2019. Forecast are from 2020 to 2022.
(c) Projection using neutral distribution (2012) with pass-through = 1 based on private consumption per capita in constant LCU.

HONDURAS

Table 1	2019
Population, million	9.3
GDP, current US$ billion	25.1
GDP per capita, current US$	2694
International poverty rate ($1.9)[a]	16.5
Lower middle-income poverty rate ($3.2)[a]	30.0
Upper middle-income poverty rate ($5.5)[a]	50.3
Gini index[a]	52.1
School enrollment, primary (% gross)[b]	91.5
Life expectancy at birth, years[b]	74.9

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

Growth decelerated in 2019 amid intensified social tensions, lower investment, weaker terms of trade, and severe droughts. Yet, high remittances fueled private consumption and likely improved 2019 poverty indicators. Honduras is expected to enter into recession in 2020 amid the COVID-19 pandemic, which will lead to increases in poverty and inequality as remittances decline and the most vulnerable lose income. The economy is expected to rebound in 2021 supported by a strong fiscal impulse, restoration of trade and investor confidence.

Recent developments

A prudent macroeconomic framework supported the Honduran economy in 2019, buoyed by the precautionary IMF program. A crawling peg exchange rate regime with foreign reserves at around 20 percent of GDP helped achieve price stability. Fiscal policy anchored in the Fiscal Responsibility Law (FRL) – targeting the non-financial public sector deficit at 1 percent of GDP in 2019 and limiting spending growth – helped contain macroeconomic vulnerabilities. Compliance with the FRL and fiscal consolidation, along with elimination of tax exemptions, helped keep fiscal accounts under control despite the deteriorating financial position of the state electricity company (ENEE), the main source of fiscal risks for Honduras.

The economy decelerated to 2.7 percent in 2019, down from 3.7 percent in 2018. This was driven by lower agricultural and manufacturing outputs and exports, weak terms of trade, reduced investment, and severe droughts amplified by a prolonged sociopolitical crisis. Around 45 percent of the employed in these sectors – 1.8 million people – saw a decline in their incomes amid the slowdown, especially the poorest rural households. Meanwhile, services and remittance-fueled private consumption strongly contributed to growth, leading to poverty reduction in 2019. Remittances, representing 22 percent of GDP and 30 percent of household income for the poorest remittance-receiving households, helped buffer both rural and urban incomes. Nevertheless, Honduras's poverty rate is among the highest in LAC: 16.5 percent of Hondurans (1.5 million people) lived on less than US$1.90 per day (the International Poverty Line, IPL) in 2018, and 50 percent lived on less than US$5.50 per day.

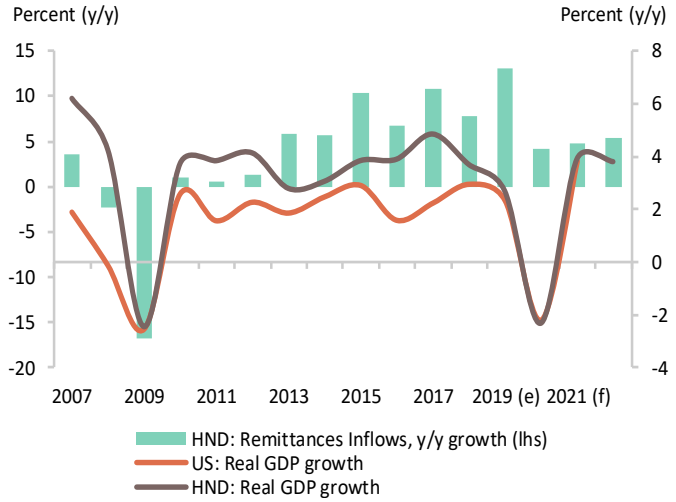
The external position improved as a decline in exports more than offset the depressed import demand amid decelerated economic activity. The current account deficit narrowed to 0.7 percent of GDP in 2019 (down from 5.3 percent in 2018), and is expected to be financed by FDI inflows (2.1 percent of GDP in 2019).

Weaker domestic demand and a relatively stable exchange rate reduced consumer price inflation, helping to sustain the purchasing power of poor and vulnerable households. After peaking near 5 percent in mid-2019 – the upper limit of the Central Bank's (BCH) target band - due to spikes in energy and food prices, inflation decelerated to 4 percent by end-2019. As a result, and amid decelerating economic activity, the BCH cut the key policy rate twice by 25 basis points to 5.25 percent.

Outlook

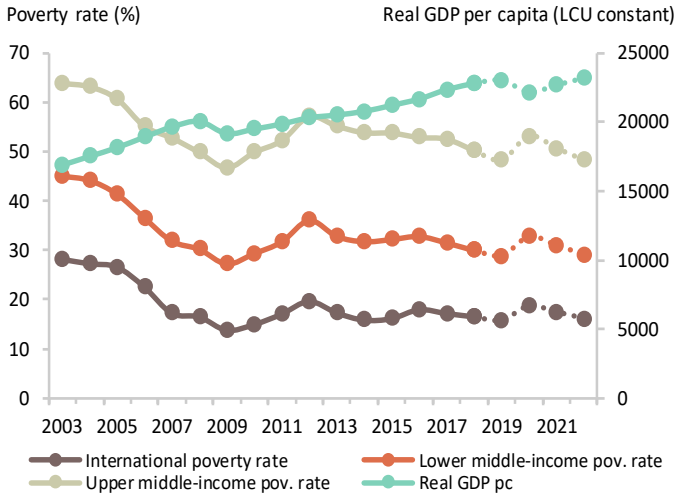
The COVID-19 pandemic is expected to have a significant impact on Honduras's economy. Real GDP growth is projected to contract to –2.3 percent in 2020 due to a fall in trade and investment amid the sharp global slowdown. Output across all sectors is expected to decline amid weakened export demand, low key commodity prices and suspended business operations.

FIGURE 1 Honduras / Remittances growth and real GDP growth in US and Honduras



Sources: Central Bank of Honduras; WDI; WB staff estimates.

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



Source: World Bank. Notes: see Table 2.

As a result, the current account deficit is expected to narrow, helped by historically low oil prices.

A sharp decline in remittances due to high expected unemployment in the U.S. could further suppress private domestic demand and result in poverty increases. Employment loss for informal and self-employed workers (66 percent of workers) will negatively impact their household income. Households that are above the poverty line but below the middle class account for 32 percent of the population and risk falling into poverty amid strong negative income shocks. Poverty rates under the IPL are estimated to increase from 15.7 in 2019 to 18.8 percent in 2020 given a two-month economic shutdown.

To minimize the impact of the pandemic, the Government adopted strong containment and fiscal measures, authorizing new borrowing for US$2.5 bn. The country's relatively low debt and deficit levels, coupled with good access to concessional financing can address an expected reduction in revenues and a counter-cyclical response amid lifted FRL. The latter is expected to prioritize healthcare and humanitarian services, including basic needs support to the poor (800,000 families, about one third of the population). Moreover, the Government is expected to contain current spending growth, and set to resolve the energy sector crisis to continue complying with the FRL over the medium term. Amid disinflationary pressures, the BCH cut the policy rate to 4.5 percent and suspended the issuance of one-day BCH bills in March 2020, thus increasing liquidity in the financial system to prevent a credit crunch.

The economy is expected to rebound in 2021 as investment and external demand strengthen amid normalization of global economic and financial conditions. Poverty rates are therefore estimated to begin decreasing in 2021, with poverty under the IPL reaching 16.1 percent by 2022.

Risks and challenges

A sharper global downturn amid the COVID-19 pandemic will inevitably weaken economic growth performance as well as external and fiscal accounts. A deeper economic decline could be expected depending on the magnitude of shocks and the slowdown in key trade and investment partners and if remittances nosedive, which provide an important basis for households' income and consumption. This could cause many near-poor households to fall below the poverty line. Prolonged unemployment, particularly for informal low-income households that lack insurance and savings, pose further risks to poverty reduction. Large asset losses amongst the poorest, less human capital formation due to school closures and lower nutrition, combined with small and insufficient social assistance programs could make it difficult to rebound from the negative shock. Furthermore, the COVID-19 outbreak in Honduras could stress the health system, posing a significant threat to the health and welfare of the population. Any of these events could lead to larger economic costs and increases in poverty than those projected in the baseline.

A number of challenges are especially pressing. First is to limit the human and economic impact of the COVID-19 pandemic by providing effective, coordinated and sustainable fiscal and monetary stimulus, ensuring well-capitalized financial sector and strong reserve position. Second is to continue to strengthen the targeting of transfers to the poorest households and ensure that the most vulnerable and affected populations, including the near-poor, are protected with social safety nets. A third challenge is to increase security and strengthen institutions to support economic recovery, social welfare and increase resilience to future shocks.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	4.8	3.7	2.7	-2.3	3.9	3.8
Private Consumption	4.5	4.7	3.1	-2.5	3.8	3.6
Government Consumption	1.4	1.9	1.1	4.5	2.8	1.1
Gross Fixed Capital Investment	11.2	5.7	-12.6	-6.6	4.5	5.4
Exports, Goods and Services	6.1	0.7	1.5	-2.2	3.0	3.2
Imports, Goods and Services	7.2	2.2	-3.2	-2.3	2.6	2.7
Real GDP growth, at constant factor prices	4.8	3.9	2.7	-2.3	3.9	3.8
Agriculture	10.3	2.7	0.1	-0.8	3.0	2.0
Industry	4.5	4.4	1.7	-2.7	2.0	3.6
Services	3.8	4.0	3.6	-2.5	4.9	4.3
Inflation (Consumer Price Index)	3.9	4.3	4.4	3.5	3.8	4.0
Current Account Balance (% of GDP)	-0.8	-5.3	-0.7	-0.3	0.6	0.4
Net Foreign Direct Investment (% of GDP)	4.5	3.7	2.1	0.8	1.8	2.4
Fiscal Balance (% of GDP)[a]	-0.8	-0.9	-0.9	-2.9	-2.6	-1.0
Debt (% of GDP)[a]	40.2	42.3	43.4	48.1	50.5	51.2
Primary Balance (% of GDP)[a]	0.1	0.0	0.1	-2.2	-1.6	0.0
International poverty rate ($1.9 in 2011 PPP)[b,c]	17.2	16.5	15.7	18.8	17.5	16.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	31.6	30.0	28.8	32.9	31.0	29.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	52.6	50.3	48.3	53.2	50.7	48.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Fiscal data refers to non-financial public sector.
(b) Calculations based on SEDLAC harmonization, using 2018-EPHPM. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(c) Projection using neutral distribution (2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

The cut-off date for information in this MPO was April 06, 2020.

JAMAICA

Table 1	2019
Population, million	2.9
GDP, current US$ billion	15.8
GDP per capita, current US$	5424
School enrollment, primary (% gross)[a]	89.8
Life expectancy at birth, years[a]	74.3

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

Jamaica's successful fiscal consolidation since 2013, which resulted in public debt declining by 54 percentage points of GDP, could be undermined by the ongoing economic impact of the Coronavirus (COVID-19) pandemic. Real GDP is expected to contract in 2020 and the fiscal and external positions to worsen with the near closure of tourism and related activities. Poverty is also expected to increase. Downside risks remain very high.

Recent developments

Real GDP expanded by 0.7 percent in 2019, down from 1.9 percent in 2018. Growth was mainly driven by private and government consumption as investment and external demand slowed. At the sectoral level, growth was primarily driven by tourism and financial services. Activities in the mining and construction sectors contracted as a result of temporary closure of a large alumina refinery and the completion of several roadwork projects. In parallel, the unemployment rate fell to an historic low of 7.2 percent in October 2019, with a sharp increase in female employment. Notably, an additional 18,600 women were working in 2019, 25 percent of which were engaged in hotels and restaurants services.

Annual inflation rose to 6.2 percent in December 2019, slightly above the central bank's target range of 4-6 percent. The inflation acceleration largely reflected the impact of weather-related shocks on domestic agricultural production with possible negative impact on the poor.

The current account deficit (CAD) is estimated to approximate 2.4 percent of GDP in 2019, up from 1.9 percent of GDP in 2018. Foreign direct investments (FDI) – although slumping by 40 percent in 2019 – were enough to finance the CAD, leading to a buildup in reserves. The international reserves coverage reached 22.9 of weeks of imports in December 2019, compared to 19.5 weeks at end 2018.

Government operations resulted in a balanced budget in 2019, down from a surplus of 1.2 percent of GDP in 2018. Lower non-tax revenues and grants restricted total revenues to 29.9 percent of GDP compared to 30.6 percent of GDP a year earlier. Spending rose by 0.5 percentage points. These resulted in a primary balance surplus of 6.6 percent of GDP, and a public debt stock of 91.5 percent of GDP.

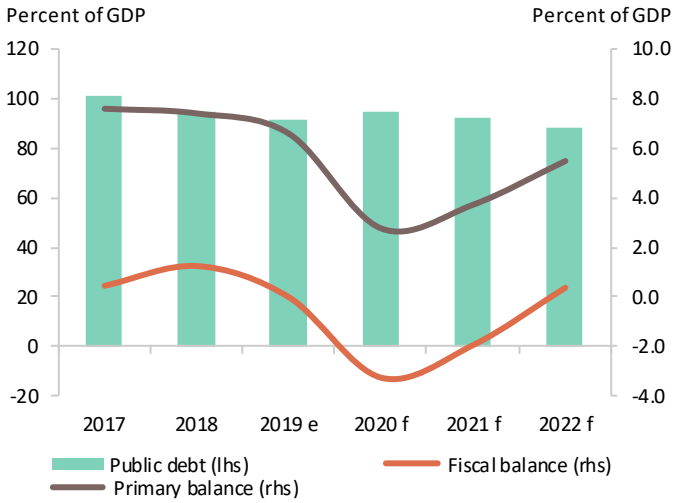
Monetary policy has been broadly accommodative – consistent with most successful fiscal consolidation episodes – with the benchmark interest rate remaining at a historic low of 0.5 percent since August 2019.

The official poverty data of 2017 show that 19.3 percent of Jamaicans lived below the national poverty line. Although this reflects a decline from the 24.6 percent in 2013, it is more than double the 9.9 percent of 2008. Poverty levels likely declined further given recent increases in employment.

Outlook

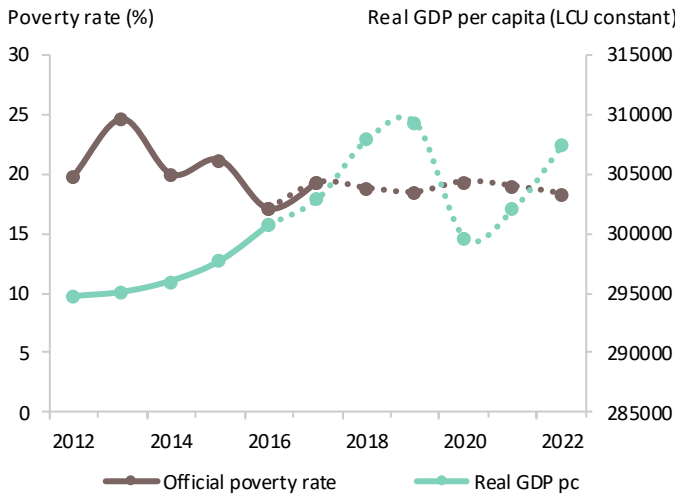
Real GDP growth is projected to contract by 2.9 percent in 2020 before improving to an average 1.5 percent in 2021 and 2022. The GDP contraction in 2020 will be driven by net external demand and private consumption, reflecting the combined impact of the near closure of international travel, a marked slowdown in global demand, and lower remittances. Government consumption is expected to increase in response to the COVID-19 outbreak. On the supply side, services should contract due to the disruption of

FIGURE 1 Jamaica / Fiscal balances and public debt



Sources: Ministry of Finance and World Bank staff calculations.

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



Sources: Statistical Institute of Jamaica and World Bank staff calculations.

The cut-off date for information in this MPO was April 06, 2020.

tourism and related services which accounts for over 30 percent of all economic activities. Industry will be held back by disruptions in domestic production linked to the crisis and the closure of a large mining plant. The recovery in tourism, and the resumption of mining in 2021, will lead the revival in economic growth, employment and poverty reduction.

Inflation should remain contained below the upper limit of the target given waning domestic demand and lower fuel prices. In this context, monetary policy may remain supportive of growth and ensuring adequate levels of liquidity in the financial system.

The CAD is expected to increase to 3.1 percent of GDP in 2020 before averaging 2.3 percent of GDP over the medium-term. Lower tourist demand, remittances and the fallout in mining are expected to drive the deterioration in 2020. A rebound in the global economy and normalization in alumina exports in 2021 will drive improvement in the CAD in the medium term. The CAD will be mostly financed by FDI and other private flows, although official inflows are projected to increase in 2020 in response to the COVID-19 pandemic. In this context, the international reserves coverage is expected to approximate 20 weeks of imports.

An average annual fiscal deficit of 1.5 percent of GDP is envisaged from 2020 to 2022. The deterioration in the fiscal position reflects lower revenues including from the value-added tax which was reduced from 16.5 percent to 15 percent in 2020. Spending is also expected to increase in 2020 by close to 1 percent of GDP in response to the COVID-19 pandemic. In this context, the trend reduction in the stock of debt is expected to be temporarily interrupted in 2020.

The impact of the global COVID-19 pandemic is expected to increase poverty by reversing recent gains in employment and income levels. Disruptions in direct and indirect activities linked to the services sector, including from the suspension of travel and closure of attractions, will affect almost 40 percent of the jobs in the economy. This is further compounded by interruptions in supply chains, possible delays in investment projects and the expected falloff in remittances. Poverty has traditionally been very sensitive to changes in remittances which supplements the income of every other household in Jamaica. Recent increases under the conditional cash transfer program, as well as additional assistance advanced in response to the COVID-19 pandemic should serve to partially mitigate the impact on the poor.

Risks and challenges

External risks are high, given the country's persistent vulnerability to global conditions. A tightening in international financial conditions and a deeper and protracted slowdown in the global economy could further undermine growth recovery, derail ongoing debt reduction efforts and increase poverty. This could be further compounded by natural disaster shocks, which have traditionally affected agriculture and increased rural poverty, as well as a possible delayed recovery of the domestic mining sector. Sustained high crime rates cut across the social fabric of the society, weakening the business environment and private investment prospects.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	1.0	1.9	0.7	-2.9	1.0	2.0
Private Consumption	1.2	0.9	1.0	-2.3	1.9	2.8
Government Consumption	1.2	0.7	3.1	4.2	2.4	-1.6
Gross Fixed Capital Investment	4.3	5.2	-1.8	-5.8	9.0	3.9
Exports, Goods and Services	5.1	7.7	-0.5	-40.0	48.0	12.7
Imports, Goods and Services	5.9	5.6	-0.5	-30.0	40.0	10.6
Real GDP growth, at constant factor prices	0.7	1.9	0.7	-2.9	1.0	2.0
Agriculture	-3.5	4.1	0.3	2.1	1.6	0.4
Industry	0.8	4.8	0.5	-3.0	7.0	1.1
Services	1.1	0.8	0.8	-3.4	-1.0	2.4
Inflation (Consumer Price Index)	4.4	3.7	3.9	3.2	4.5	5.0
Current Account Balance (% of GDP)	-2.6	-1.9	-2.4	-3.1	-2.6	-2.0
Net Foreign Direct Investment (% of GDP)	5.8	5.1	2.9	2.4	3.0	4.5
Fiscal Balance (% of GDP)[a]	0.5	1.2	0.0	-3.2	-1.9	0.4
Debt (% of GDP)[a]	101.3	94.4	91.5	94.7	92.0	88.2
Primary Balance (% of GDP)[a]	7.6	7.4	6.6	2.8	3.7	5.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Figures reflect fiscal years (FY) going from April to March.

MEXICO

Table 1	2019
Population, million	133.5
GDP, current US$ billion	1243.7
GDP per capita, current US$	9319
International poverty rate ($ 1.9)[a]	1.7
Lower middle-income poverty rate ($ 3.2)[a]	6.6
Upper middle-income poverty rate ($ 5.5)[a]	23.0
Gini index[a]	45.4
School enrollment, primary (% gross)[b]	105.8
Life expectancy at birth, years[b]	74.9

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

Mainly through the trade (including the U.S. output drop—Mexico's main trading partner) and finance (flight to liquidity) channels, coupled with massive disruptions in supply chains, the real economy and households, will have significant losses in 2020. These losses of income, that will be severe in the informal sector, would need to be cushioned by temporary liquidity and social programs. A recovery in 2021-2 would rely on a rapid rebound in the U.S. economy and more openness toward private investment, taking advantage of the USMCA.

Recent developments

Economic growth halted in 2019 and is expected to drop significantly in the second quarter of 2020 as the global recession unfolds due to the COVID-19 pandemic. The expansion of economic activity at a moderate annual rate of 2.1% during 2017-8, turned into a marginal contraction of -0.1% in 2019. Private consumption growth dipped, whereas a change in public sector priorities led to a slowdown of government consumption and a fall of public investment. Uncertainty around the trajectory of some sectoral policies, particularly in the energy sector, slowed private investment.

The Current Account Deficit (CAD) narrowed significantly in 2019 due to a marginal import compression and strong remittances growth. The CAD continued to be fully financed by foreign direct investment, which in 2019 remained close to past years' levels.

Inflation pressures remained subdued as headline consumer price inflation converged to the Central Bank's 3.0 percent target by late-2019. With price growth slowing, and in the context of policy easing measures in the U.S and Europe, the Central Bank reduced the policy rate from 8.25 percent to 6.50 percent between August 2019 and March 2020.

Fiscal consolidation between 2017-19 enabled public debt stabilization (44.9% of GDP on net terms as reported by the authorities, or 53.6% in gross terms, as of end 2019). Expenditure rationalization measures applied throughout 2019 plus the use of resources from the revenue stabilization fund, broadly enabled the authorities to compensate for lower than expected revenue collection during 2019. In this context, the Public-Sector Borrowing Requirements (PSBR) ended up at 2.3 percent of GDP with a primary fiscal surplus at 1.1 percent of GDP.

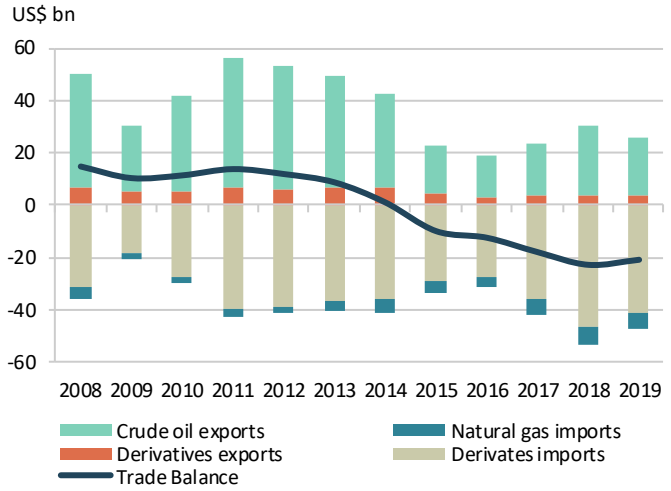
Markets have been closely following the implementation of measures to remedy the weak short- and medium-term financial position of the state oil company Pemex, which included a lower transfer obligation and tax burden on the company vis a vis the federal budget, as well as the reprofiling of its debt obligations, to enable better cash flows. Still, Pemex recorded losses of US$ 17.5 bn in 2019.

Despite the economic stagnation, labor income growth and job creation increased in 2019, and along social transfers, likely helped to reduce poverty in 2019. Labor incomes grew by 5.9 percent in real terms led by an increase in minimum wages. The labor force expanded by 2.9 percent with most job growth in commerce, and job losses in construction and the extractive industries.

Outlook

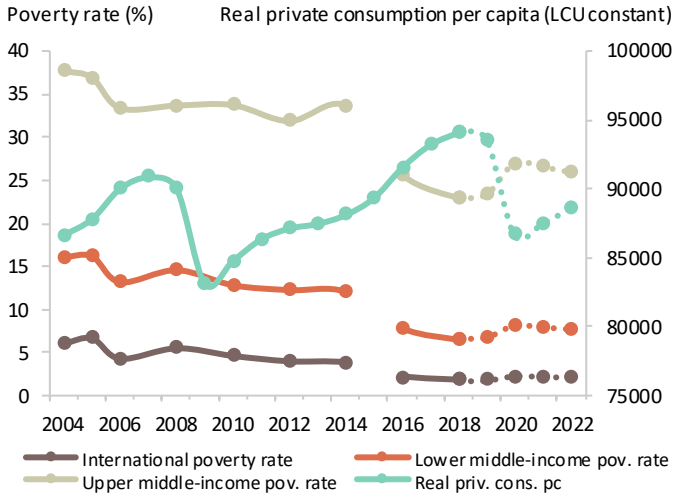
A significant contraction of the economy is expected for 2020 as a result of the COVID-19 global pandemic. While there is significant uncertainty on the course and duration of the pandemic, a global

FIGURE 1 Mexico / Hydrocarbons trade



Sources: Bank of Mexico.

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



Sources: World Bank. Notes: see Table 2.

recession, disruptions in supply chains, domestic measures to flatten the contagion curve, financial disruptions and investment risk aversion (flight to US dollar liquidity), among others, are likely to take a heavy toll on the Mexican economy and its labor market. Key components of aggregate demand will suffer significant declines. Slower exports will only be mitigated in 2020 by an even sharper import compression. A recovery in 2021 and 2022 in Mexico is predicated on the assumption of a rapid rebound in the U.S economy.

The CAD is expected to widen moderately in 2020. Declining external demand and a slowdown in remittances will only be partially offset by a compression of imports. FDI will slow significantly but would still be enough to cover the moderate CAD. The ratification of the USMCA should ease a share of the uncertainties that limited export and FDI performance in 2019 and be an engine to support the recovery into 2021.

Inflationary pressures are expected to remain within the Central Bank's 2-4 percent band of tolerance over the medium term. Even with a temporary increase in prices in 2020 due the pass-through effect of the exchange rate depreciation and supply side disruptions, the widening output gap will eventually curb price increase pressures. The monetary policy trajectory in the U.S (and the EU) and the level of risk aversion to EMs are likely to determine the extent of exchange rate overshooting and the space for further monetary easing during 2020.

Adherence to overall fiscal prudence is expected to continue, even with the deterioration of revenue performance in 2020. The administration presented its 2020 budget with a primary surplus. However, overall revenues are expected to decline in line with the output decline while a marginal increase is expected on the spending side. Overall, a re-prioritization of spending is expected to attend the health needs and to funnel social assistance to vulnerable groups.

Public debt is expected to have a one-off increase due to the larger overall deficit in 2020 and the exchange rate depreciation effect on foreign currency debt, but it would stabilize again thereafter.

The slowdown in economic activity is expected to lead to an increase in monetary poverty in 2020. Employment would decline in the formal sector, forcing many into inactivity or informality. At the same time, labor incomes in the informal sector are likely to decline sharply, with potentially high social costs that would need to be mitigated.

Risks and challenges

The global economy has deteriorated drastically. There is a high degree of uncertainty as to the duration of the pandemic and to its economic and social ramifications globally. The impact on employment could further undermine output through lower consumption, hampering the recovery. Measures to support poor/vulnerable households as well as workers in the formal and informal sectors will require fiscal resources, while measures to support liquidity in the system and that of MSMEs will also be critical. Measures in these areas are being taken by the authorities. Nonetheless, the authorities will have to maneuver the short-term fiscal impulse needed with a prudent fiscal framework over the medium term. Looking toward 2021, the recovery may be slowed if some residual sectoral policy uncertainty affecting private investment is not lifted.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	2.1	2.1	-0.1	-6.0	2.5	2.5
Private Consumption	3.1	2.2	0.6	-6.3	2.1	2.4
Government Consumption	1.0	1.4	-1.5	-1.0	-2.0	0.0
Gross Fixed Capital Investment	-1.4	1.3	-4.9	-11.3	2.5	3.1
Exports, Goods and Services	3.6	5.7	1.1	-12.3	3.7	3.4
Imports, Goods and Services	4.4	6.2	-1.1	-14.0	1.3	2.6
Real GDP growth, at constant factor prices	2.0	2.1	-0.2	-6.0	2.5	2.5
Agriculture	3.4	2.4	1.9	0.0	3.0	3.0
Industry	-0.2	0.5	-2.1	-5.4	0.8	1.3
Services	3.1	2.9	0.6	-6.6	3.2	3.0
Inflation (Consumer Price Index)	6.0	4.9	3.9	4.0	4.0	3.8
Current Account Balance (% of GDP)	-1.7	-2.0	-0.2	-0.7	-0.7	-0.7
Net Foreign Direct Investment (% of GDP)	2.6	2.2	1.8	1.1	1.8	2.0
Fiscal Balance (% of GDP)	-1.1	-2.2	-2.3	-4.5	-4.0	-3.7
Debt (% of GDP)	45.7	44.7	44.9	54.0	54.6	55.2
Primary Balance (% of GDP)	2.2	1.0	1.0	-0.9	-0.3	0.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	..	1.7	1.8	2.2	2.1	2.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	..	6.6	6.7	8.2	7.9	7.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	..	23.0	23.4	27.0	26.6	26.0

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

The cut-off date for information in this MPO was April 06, 2020.

NICARAGUA

Table 1	2019
Population, million	6.4
GDP, current US$ billion	12.5
GDP per capita, current US$	1971
International poverty rate ($1.9)[a]	3.2
Lower middle-income poverty rate ($3.2)[a]	12.8
Upper middle-income poverty rate ($5.5)[a]	34.8
Gini index[a]	46.2
Life expectancy at birth, years[b]	74.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014), 2011 PPPs.
(b) Most recent WDI value (2017).

The past two years have been marked by a deep recession amid sociopolitical crisis. Investment and consumption fell sharply due to fiscal consolidation, credit crunch, and eroded confidence. The downturn is projected to deepen in 2020 due to the COVID-19 outbreak, further halting progress achieved in poverty reduction since 2005 on account of large employment contractions in labor-intensive sectors and stagnating wages. A slow recovery is expected amid the global rebound, constrained by tight financial condition and policy uncertainty.

Recent developments

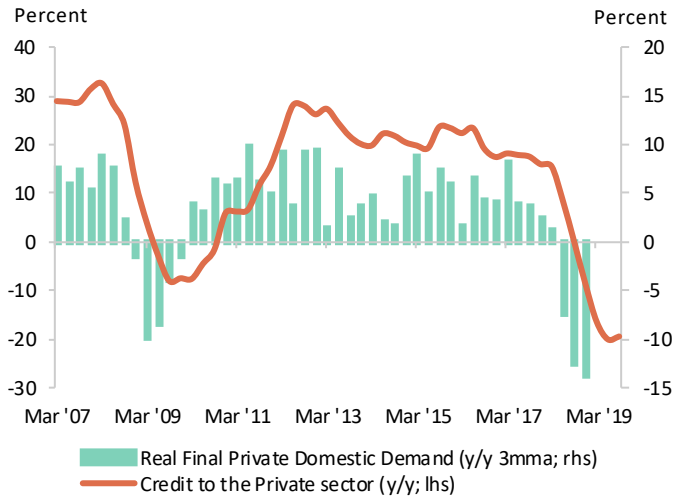
Nicaragua experienced strong growth and poverty reduction prior to 2018. The macroeconomic framework anchored in a crawling peg exchange rate regime against the US dollar with foreign exchange reserves at around 24 percent of GDP supported price stability. Prudent fiscal policies reduced the country's vulnerability to shocks, fostering investment, growth, and poverty reduction. However, demographic and coverage changes hampered the sustainability of the pension system and fiscal accounts. An attempt to tackle vulnerabilities of the pension system in April 2018 sparked prolonged sociopolitical unrest, hindering economic activity and poverty reduction.

Having contracted 4.0 percent in 2018, the economy declined further by 3.9 percent in 2019 due to weaker domestic demand amid heightened uncertainty and credit crunch. Poverty – defined as living with an income below $3.2 per person per day in 2011 PPP – increased to 12.7 percent in 2019 (from 9.5 percent in 2017), adding more than 200,000 people into poverty. A decrease by more than 150,000 in the number of contributors to the Nicaraguan Social Security Institute in 2019 (y/y) suggests an increased unemployment. Output and employment contraction in labor-intensive sectors such as construction, tourism, commerce and restaurants explain most of the increase in poverty. Meanwhile, remittances increased by 9.9 percent (y/y) in the first half of 2019, supporting household consumption and mitigating deeper poverty increases.

The crisis weakened Nicaragua's external position. Depressed import demand and strong remittances reversed the current account to a surplus of 0.6 and 1.8 percent of GDP in 2018 and 2019 (from a deficit of 4.9 percent of GDP in 2017). However, the surplus was offset by deteriorated external financing. The financial account reversed to 2.2 percent and 1.5 percent of GDP outflows in 2018 and 2019 (from 8.3 percent of GDP inflows in 2017). Concessional lending and aid remained limited due to sanctions imposed on multilateral financing, a significant source of funding.

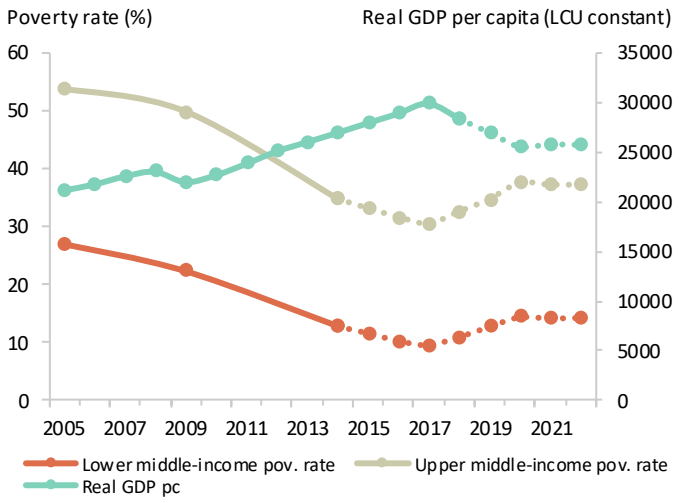
Tighter financing, deteriorated financial situation of the pension system, and a steep fall in tax revenues amid employment contraction worsened fiscal accounts. The non-financial public sector (NFPS) deficit more than doubled to 4.1 percent of GDP in 2018, from an average of 1.6 percent over the previous 5 years. In response, the government adopted tax and pension reforms in early 2019 which increased income, value-added, and excise taxes, increased employee and employer pension contributions while reducing pension payments. As a result, the NFPS deficit is estimated at 1.8 percent of GDP in 2019. Tax reforms have likely contributed to higher inflation of 5.4 percent in 2019 (up from 4.9 percent in 2018). Prices of food, apparel, and most goods in the basic basket increased less than the overall inflation, reducing inflation's effect on the poor. To support price stability, the Central Bank of Nicaragua reduced the annual

FIGURE 1 Nicaragua / Private domestic demand and credit to the private sector



Sources: Central Bank of Nicaragua, International Monetary Fund.

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



Sources: World Bank. Notes: see table 2.

depreciation rate of crawl from 5 to 3 percent in November 2019.

Outlook

GDP is projected to contract by 4.3 percent in 2020 amid the prolonged sociopolitical crisis and the COVID-19 outbreak. The pandemic is expected to adversely affect Nicaragua through declined remittance inflows, reduced trade, paralyzed tourism, and increased risk premiums, partially offset by lower oil prices. As a result, the current account is expected to remain in surplus over the medium term, aided by a lower trade deficit, thereby reducing external financing requirements. Disinflation is likely on account of lower oil prices and a severe economic recession. Lower remittances are likely to result in higher poverty between 2019 and 2021, as around 25 percent of households in the bottom 40 percent of the income distribution receive remittances, accounting for 20 percent of their household income. If the economic contraction is distributed equally among all Nicaraguans, the share of the population with incomes below $3.2 could increase by 1.5 percentage points, adding more than 100,000 people into poverty by 2021.

The economy is expected to recover in the medium term following a normalization in trade and investment as the global economy rebounds. However, the prospects for mitigating the increase in poverty are weak due to limited public spending, decline in remittances, and lower incomes. To support the recovery as well as address potential health and social insurance costs amid the pandemic, the Government is expected to increase current spending. However, to secure adequate financing, the Government needs to increase borrowing and/or print money, while further cutting capital spending amid limited fiscal space. Consequently, an already weakened fiscal stance is expected to worsen. Monetary easing, including lower reserve requirements, is likely amid declining demand and disinflation, thereby increasing liquidity and reducing lending rates.

Risks and challenges

A sharper economic decline can be expected if several risks materialize. The first is a more pervasive spread of COVID-19 in Nicaragua amid lack of containment measures, straining domestic health systems and elevating fiscal pressures. The second is greater economic disruption amid the outbreak, further suppressing domestic demand and trade as policy options to offset the shock remain limited. A nosedive in remittances, which at 11.5 percent of GDP provide an important source of household's income, could lead to an increase in poverty. The third is a possible intensification of the political crisis ahead of the Presidential elections in 2021 that could worsen economic disruptions and further erode confidence, thereby threatening financial stability as capital and bank deposits outflow. Any of these events could cause larger economic costs and increases in poverty than those predicted in the baseline.

Several challenges are especially pressing. First is limiting the impact of COVID-19 on the economy with containment and mitigation policies. Second is introducing well-designed mitigation and recovery measures to protect and increase the resilience of households, thus reverting the increasing trend in poverty rates and depth since 2018. Third is managing exchange rate volatility and providing liquidity to stave off financial turbulence. Even if the crisis is resolved quicker, the country will face important challenges in restoring its reputation as a relatively safe tourist destination, essential for good performance observed in the last decade.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	4.6	-4.0	-3.9	-4.3	1.9	0.7
Private Consumption	2.7	-4.5	-2.5	-5.3	2.7	0.7
Government Consumption	1.6	-1.5	1.2	2.9	-0.1	-4.8
Gross Fixed Capital Investment	2.1	-20.1	-26.0	-15.8	-4.2	1.7
Exports, Goods and Services	10.1	-1.0	5.3	-5.5	5.0	3.1
Imports, Goods and Services	3.3	-14.0	-5.4	-4.5	3.0	1.3
Real GDP growth, at constant factor prices	4.8	-3.2	-3.4	-4.3	1.9	0.7
Agriculture	9.1	1.0	2.3	-1.0	2.0	1.1
Industry	2.3	-1.3	-3.7	-3.0	1.7	0.3
Services	4.7	-5.0	-4.8	-5.8	1.9	0.8
Inflation (Consumer Price Index)	3.9	4.9	5.4	3.3	3.1	2.9
Current Account Balance (% of GDP)	-4.9	0.6	1.8	2.9	1.9	0.8
Fiscal Balance (% of GDP)[a]	-2.0	-4.1	-1.8	-3.8	-3.5	-2.7
Debt (% of GDP)[b]	34.5	38.0	40.1	43.8	44.7	45.9
Primary Balance (% of GDP)[a]	-0.9	-2.9	-0.4	-2.5	-2.2	-1.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	9.5	10.9	12.7	14.4	14.2	14.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	30.4	32.5	34.7	37.6	37.3	37.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Fiscal and Primary Balance correspond to the non-financial public sector.
(b) Debt is total public debt.
(c) Projection using neutral distribution (2014) with pass-through = 1 based on GDP per capita in constant LCU.
(d) Calculations based on SEDLAC harmonization, using 2014-EMNV.

The cut-off date for information in this MPO was April 06, 2020.

PANAMA

Table 1	2019
Population, million	4.2
GDP, current US$ billion	66.8
GDP per capita, current US$	15807
International poverty rate ($19)[a]	1.7
Lower middle-income poverty rate ($3.2)[a]	5.2
Upper middle-income poverty rate ($5.5)[a]	12.7
Gini index[a]	49.2
School enrollment, primary (% gross)[b]	94.4
Life expectancy at birth, years[b]	78.1

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

Despite sound fundamentals, the economy will likely see negative growth in 2020 due to the impacts of COVID-19 as Panama his significant linkages with the global economy with major employment sectors such as services and construction impacted. Some positive contributions are expected from public expenditure though this will increase the fiscal deficit above 2019 relatively high levels. Poverty has only marginally decreased in 2019 and will expectedly increase in 2020 as a result of the COVID-19 outbreak, wiping out the gains in poverty reductions since 2017.

Recent developments

Panama is a dollarized economy without a central bank, which implies the authorities can use fiscal but not monetary policy to respond to shocks like the COVID-19 pandemic. Economic growth slowed to 3 from 3.7 percent between 2019 and 2018; below the 6.2 percent average since the financial crisis. Mining (a new copper mine) contributed a quarter of growth, while transport –the canal– to 30 percent. Construction had a slow year, contributing just 0.5 percent of total growth, which reduced its employment by 2.2 percent (construction employs 10 percent of all economically active people, generating over 90,000 jobs in the last five years). Exports slowed by 5 percent in the first three quarters of 2019. Cargo volumes through the Canal declined slightly and revenues only increased by 1 percent in 2019 (compared to 9 percent in 2018).

The fiscal deficit is estimated at 3.1 percent of GDP in 2019. Revenue performance suffered in 2019 due to lower economic growth with declines in direct and indirect taxes. Revenues have declined steadily from 23 percent of GDP in 2010 to less than 18 percent in 2019. Capital expenditures fell by 17 percent. Since public investment tends to be around 6 percent of GDP, this hit economic growth.

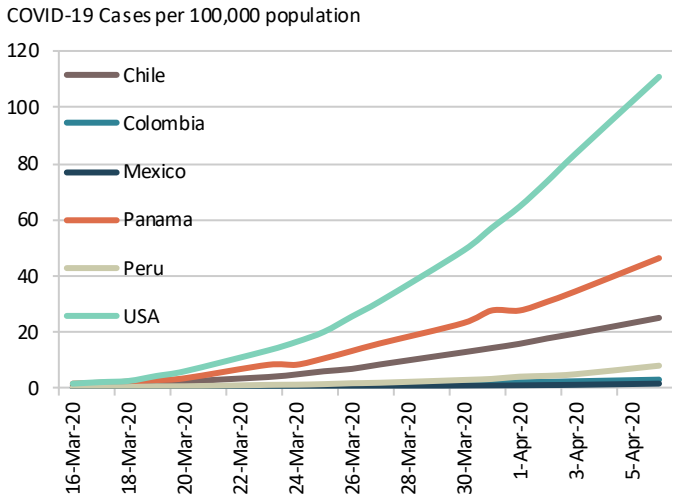
Monetary poverty marginally decreased in 2019 (to 12.5 from 12.7 percent in 2018), so just over 526,000 Panamanians remain in poverty when measured by the $5.5 international poverty line. Extreme poverty remained unchanged at 1.7 percent of the population, totaling 71,000 people. Even before the COVID-19 outbreak, the numbers of self-employed and unpaid relatives, both close proxies for informal jobs in Panama, increased. Overall, nearly 1.6 million Panamanians (or 44.9 percent of non-agricultural workers) have informal jobs by the end of 2019.

Outlook

The impacts of COVID-19 will likely mean negative growth in 2020 (estimated at -2.0 percent). Construction – which makes up a quarter of growth and 10 percent of employment will be hit, as will services such as retail (19 percent of employment). Canal activity will likely be harmed by slowing global trade, and the halted of air transport will hurt the country's flagship airline and related activities. Positive contributions to growth are expected to come from public expenditure – which will be expanded to deal with COVID-19 but revenues will likely be hit by the economic slow-down.

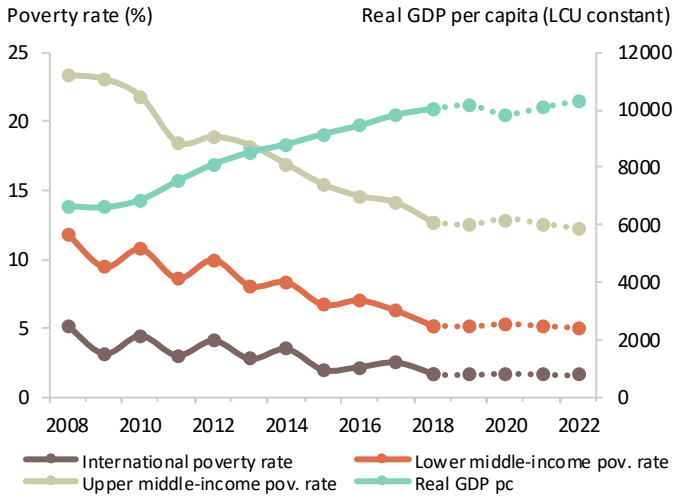
Over the medium-term, economic growth is expected to be driven by a renewed construction sector and renewed trade activity, both of which can generate employment, including outside of the capital city. Copper exports will also contribute though with minimal direct employment on poverty impacts. It will be important to identify and begin new economically and socially viable investment projects on key infrastructure that can support long-term economic growth outside of the capital.

FIGURE 1 Panama / COVID-19 cases have increased rapidly, partly due to high test rates



Sources: INEC and World Bank staff calculations.

FIGURE 2 Panama / 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 April 06, 2020.

The poverty dynamics remains uncertain in 2020 as the COVID-19 outbreak is still unfolding. Prior to the COVID-19 outbreak, economic growth was expected to reach 4 percent; it is now expected to decline by 2 percent. Several sectors are expected to see declines in employment directly attributed to COVID-19, including, among others, tourism and trade activities associated with the Canal. The increasing inability to generate earnings and use effective coping mechanisms among the unemployed and informal is an immediate serious concern if numbers increase considerably. In that case, the social protection system in Panama, currently covering over 80 percent of the bottom 20 percent of the population, may be insufficient. As a result, poverty is projected to increase in 2020 by about 0.4 percent points to 12.9 percent (using the $5.5 poverty line). It reverses the steady declining trend in poverty seen since in more than a decade.

Risks and challenges

Key short-term risks include: (i) larger-than-anticipated impact on trade due both to trade disputes and the outbreak of COVID-19, which slowed production of goods that pass through the Canal; (ii) deeper recession in main export markets such as the US would likely hit growth through trade, investment and business/tourism travel; and (iii) the ability of the country to identify, finance (through increased tax revenues) and implement construction projects that support long-term growth and employment. One potential upside is that lower oil prices can benefit oil-importing countries like Panama.

The final impact on poverty and inequality caused by COVID-19 in Panama will depend on its duration, severity and actions undertaken to curb its spread in Panama and closest partners. Increasing unemployment and informality is likely to be the main transmission channel from COVID-19 to poverty, while asset depletion and human capital deterioration might be a key driver increasing vulnerability if the crisis is protracted (say, if the outbreak and the recovery period thereafter extend over six months or a year). There might be multiple population groups affected by COVID-19, from relatively well educated, formal workers in the tourism, financial and logistic sectors in urban areas to less skilled workers in the mining industry. At the same time, the extent to which cuts in international oil prices bring down inflation might mean a cheaper consumption basket for the poor. With respect to the level of preparedness of Panama to the pandemic, WHO regarded it at a medium level. Efforts to improve targeting of flagship social spending programs and the new anti-poverty strategy remain unfinished and, currently, do not cover the vulnerable or middle class that might get also affected by unemployment and public service disruptions. The new Bono Panama Solidario is the only tool expected to cover in part these new poor. Its budget is approximately a quarter of the current social assistance spending and remains to be seen if it would be sufficient to protect the new poor.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	5.6	3.7	3.0	-2.0	4.2	4.0
Private Consumption	5.6	3.7	2.3	-1.0	3.4	3.6
Government Consumption	6.5	7.5	-3.5	2.9	4.6	4.4
Gross Fixed Capital Investment	8.1	0.9	-0.9	0.4	4.7	4.7
Exports, Goods and Services	5.0	5.0	-5.0	-4.0	6.0	5.5
Imports, Goods and Services	4.8	2.8	-3.5	-0.2	5.2	5.2
Real GDP growth, at constant factor prices	5.7	3.8	3.0	-2.0	4.2	4.0
Agriculture	0.6	0.9	2.5	0.6	0.6	0.6
Industry	6.5	2.6	3.4	-0.2	3.0	3.0
Services	5.5	4.3	2.8	-2.9	4.8	4.5
Inflation (Consumer Price Index)	0.9	0.8	0.0	1.8	1.9	2.0
Current Account Balance (% of GDP)	-5.9	-8.2	-7.1	-5.4	-6.1	-6.7
Net Foreign Direct Investment (% of GDP)	6.9	7.9	8.6	5.0	8.1	8.3
Fiscal Balance (% of GDP)	-1.9	-2.9	-3.1	-4.3	-3.7	-3.0
Debt (% of GDP)	37.6	39.4	46.4	49.3	48.2	47.5
Primary Balance (% of GDP)	-0.1	-1.1	-1.3	-2.0	-1.4	-0.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.5	1.7	1.7	1.7	1.7	1.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	6.3	5.2	5.1	5.3	5.2	5.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	14.1	12.7	12.5	12.9	12.6	12.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2011-EH, 2017-EH, and 2018-EH. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using annualized elasticity (2011-2017) with pass-through = 1based on GDP per capita in constant LCU.

PARAGUAY

Table 1	2019
Population, million	7.0
GDP, current US$ billion	37.2
GDP per capita, current US$	5330
International poverty rate ($1.9)[a]	1.6
Lower middle-income poverty rate ($3.2)[a]	5.9
Upper middle-income poverty rate ($5.5)[a]	17.0
Gini index[a]	46.2
Life expectancy at birth, years[b]	74.0

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

The COVID-19 pandemic hit Paraguay just as the country was embarking on a strong recovery path after growth had stalled in 2019. The global recession is likely to lead to a GDP decline of 1.2 percent in 2020. Thereafter, growth is expected to return to 4 percent, as the world economy recovers. This is subject to the downside risk of a slower than expected normalization of global markets. In turn, poverty is expected to increase in 2020, and income inequality to remain high.

Recent developments

The COVID-19 outbreak hits the Paraguay economy in a moment of economic recovery after growth had stalled in 2019. The economy was in a recession in the first half of 2019 (-3 percent year-on-year) due to weak performance of the main trading partners, especially Argentina, and adverse climatic conditions, but started to recover in the second half of the year (+3 percent year-on-year) as agriculture output rebounded along with favorable weather. Similarly, in the labor market, after the combined unemployment and underemployment rate reached 14.5 percent in the first half of 2019, it retracted to 12.9 percent in the second half of the year.

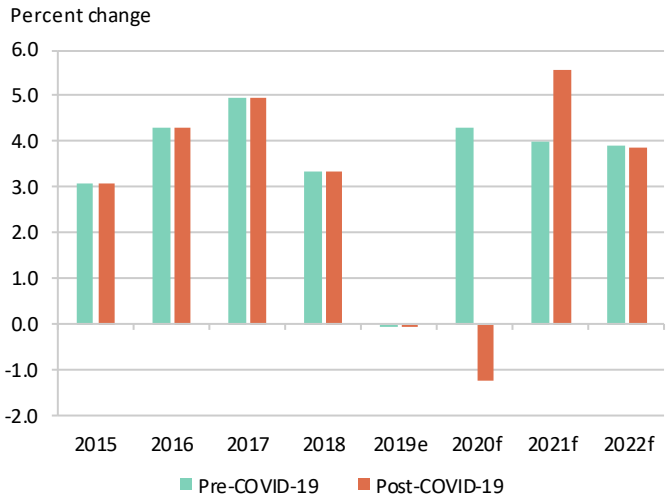
With a weaker economy and inflation close to the lower band of the target range (4 +/- 2 percent), the Central Bank of Paraguay (BCP) moved to a more accommodative stance, consistent with the inflation objective. During 2019, the BCP lowered the policy rate by a cumulative 125 bps to 4 percent. In February 2020, the inflation rate was 2.4 percent year-on-year. The flexible exchange rate regime continued to cushion external shocks. Meanwhile, foreign currency reserves remained at prudent levels, recovering after an initial decline at the onset of the Argentina crisis in 2018.

Given the recession in the first half of 2019, the authorities invoked the escape clause from the fiscal rule, capping the budget deficit (the Fiscal Responsibility Law, FRL, allows an increase of the deficit ceiling from 1.5 percent of GDP up to 3 percent GDP in times of crises). Therefore, the central government's budget was executed with a deficit of 2.9 percent GDP in 2019. While current expenditure grew by 8.2 percent, capital expenditure increased by 28.9 percent, although from a low base. The Parliament approved the 2020 Budget Law with a deficit of 1.5 percent of GDP, coherent with the FRL.

With the economic slowdown, poverty reduction continued, but at a slower pace: poverty rate fell from 24.2 percent in 2018 to 23.5 percent in 2019. There remain 1.6 million people below the official poverty line. Poverty reduction almost halted in urban areas (17.8 percent in 2018 compared to 17.5 percent in 2019) due to a decrease in labor incomes in commerce and manufacturing. Rural poverty dropped from 34.6 percent in 2018 to 33.4 percent, despite stable labor incomes in agriculture, which concentrates almost half (0.6 million) of mostly informal rural workers. While an improvement on income inequality was recorded, the Gini index remains high 46.1.

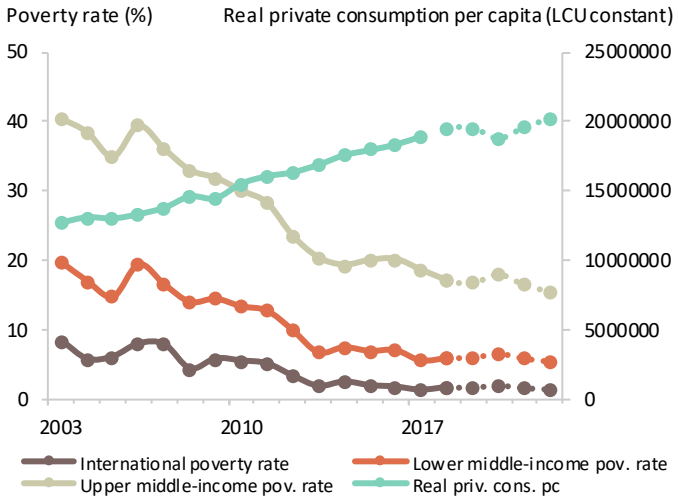
Against this backdrop and the ongoing Dengue outbreak, the authorities have reacted swiftly to the outbreak of the COVID-19 in March 2020 to mitigate the impact on the economy and people. The Government implemented social distancing measures and population movement controls. The BCP reduced the policy interest rate by 175 bps to 2.25 percent, and temporarily relaxed provisioning rules not to penalize credit restructurings and prolongations. An anti-crisis fiscal package approved by Parliament includes

FIGURE 1 **Paraguay** / Real GDP growth rate (pre and post COVID-19)



Sources: BCP, WB estimates.

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



Sources: World Bank. Notes: see Table 2.

The cut-off date for information in this MPO was April 06, 2020.

additional spending on health and social protection programs, a subsidy for informal workers, support to small businesses, reallocation from non-priority spending lines, and a moratorium on fines for delayed tax payments. To finance it, the Government received authorization for an increase of the borrowing limit by US$ 1.6 billion and suspension of the FRL for up to four years.

Outlook

Economic dynamics in 2020 is expected to be severely affected by the global recession accentuated by the reaction to the COVID-19 outbreak. After the strong first quarter of 2020 due to "normalization" of agricultural harvest (as indicated by the high-frequency data for Jan-Feb), the economy will likely strongly contract in the next two quarters. The downturn will be driven by the decline in external demand and in domestic demand, especially in services, as a result of social distancing measures to slow the expansion of the pandemic. The economic package of the authorities, which is expected to increase fiscal deficit to 4 percent GDP, will soften the impact but would not fully compensate for it. In 2021-22, growth is expected to return to 4 percent, as the global economy recovers, and helped by consistent macroeconomic policies, anchored in the inflation targeting and a gradual return towards the FRL ceilings. Inflation is projected to return to the mid-point of the target range (4 percent) in 2021.

Going forward, poverty reduction is expected to stall, implying the need for a higher social protection support in the face of the expected global recession. Driven by the COVID-19 pandemic, unemployment and underemployment are expected to increase in commerce, services and construction. Labor incomes are expected to drop, especially for workers in the informal sector in the urban areas. The performance of family-based agriculture will be crucial for the protection of the most vulnerable in the rural areas. In addition, stronger labor income growth is needed in the services sector to improve livelihoods of those at the bottom of the income distribution in urban areas to attenuate the effects of the pandemic.

Risks and challenges

Paraguay has a solid macroeconomic framework based on fiscal rules, inflation targeting, and a flexible exchange rate regime. With the track-record of prudent macroeconomic policy over the last decade, low public debt and adequate FX reserves, the macroeconomic policies and crisis response measures are expected to be effective in absorbing a part of the COVID-19 shock. However, Paraguay is vulnerable to the domestic economic slowdown resulting from measures to contain the COVID-19 outbreak and its effects (social distancing, fiscal responses), as well as a steep reduction in economic activity in the global economy, and in neighboring countries. This will compound other, "pre-existing" economic risks and could disproportionally affect labor incomes of the 65 percent of informal workers in commerce and services. While the banking sector of Paraguay has a minimal exposure to Argentina, the real sector linkages through exports and remittances are stronger. Moreover, the concentration of exports in a few agricultural products continues to render growth and poverty vulnerable to fluctuations in agriculture commodity markets and to weather-related shocks (as showcased in 2019), affecting especially the most vulnerable population.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	5.0	3.4	0.0	-1.2	5.6	3.9
Private Consumption	4.5	4.3	1.3	-3.0	5.7	4.4
Government Consumption	2.1	3.0	5.1	11.0	-0.6	0.7
Gross Fixed Capital Investment	5.9	6.9	-6.6	-16.8	11.4	5.7
Exports, Goods and Services	8.3	1.8	-2.9	-1.6	5.7	3.9
Imports, Goods and Services	12.0	8.9	-0.9	-8.9	5.5	4.2
Real GDP growth, at constant factor prices	4.7	3.4	0.0	-1.3	5.6	3.9
Agriculture	6.0	4.3	-3.1	8.2	3.9	3.6
Industry	3.5	1.5	-0.7	-0.1	4.1	3.9
Services	5.3	4.5	1.2	-4.2	7.1	3.9
Inflation (Consumer Price Index)	3.6	4.0	3.2	2.8	4.0	4.0
Current Account Balance (% of GDP)	3.1	-0.2	-1.2	1.6	1.7	1.6
Net Foreign Direct Investment (% of GDP)	1.3	1.2	1.1	1.1	1.3	1.3
Fiscal Balance (% of GDP)	-0.5	-1.0	-2.4	-4.0	-2.4	-1.8
Debt (% of GDP)	19.3	21.0	24.5	29.0	29.7	30.0
Primary Balance (% of GDP)	0.4	0.1	-1.4	-2.8	-1.1	-0.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.2	1.6	1.6	1.8	1.6	1.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	5.6	5.9	5.9	6.5	5.8	5.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	18.6	17.0	17.0	18.3	16.8	15.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2011-EPH and 2018-EPH. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using point-to-point elasticity (2011-2018) with pass-through = 1based on private consumption per capita in constant LCU.

The cut-off date for information in this MPO was April 06, 2020.

PERU

Table 1	2019
Population, million	32.9
GDP, current US$ billion	228.5
GDP per capita, current US$	6939
International poverty rate ($1.9)[a]	2.6
Lower middle-income poverty rate ($3.2)[a]	8.3
Upper middle-income poverty rate ($5.5)[a]	22.1
Gini index[a]	42.8
School enrollment, primary (% gross)[b]	103.5
Life expectancy at birth, years[b]	76.3

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

Following slow performance in 2019, the economy is expected to slide into recession in 2020 due to the COVID-19 pandemic. The slump in economic activity, bearing disproportionately on the lower-skilled and the vulnerable urban population, is expected to push poverty and inequality upwards. Given the likely temporary nature of the shock, growth is projected to rebound strongly in 2021. Peru's prudent macroeconomic management gives the country ample fiscal, monetary and external buffers to mitigate the impact of the shock.

Recent developments

In 2019, GDP grew 2.2 percent, the slowest pace since the 2008 global financial crisis, amid heightened global trade tensions, a fall in the price of copper, and a gloomier outlook for the world economy. Domestically, capacity constraints of the newly appointed subnational authorities and corruption-related delays led to a slower pace of public investment implementation. In addition, temporary supply-side shocks linked to lower availability of marine species and social protests around mining, led to slower exports growth. Slowdown translated into weaker labor markets and no significant progress in reducing poverty. While over 350,000 new jobs were created in 2019, 90 percent of them were generated in the informal urban sector, partly related to the inflow of Venezuelan migrants and refugees.

The drop in the mining profits lowered payments abroad, allowing for a reduction of the external deficit to 1.5 percent of GDP in 2019. The gap continued to be overfinanced by long-term capital inflows leading to the accumulation of international reserves, which reached 30 percent of GDP by end December 2019.

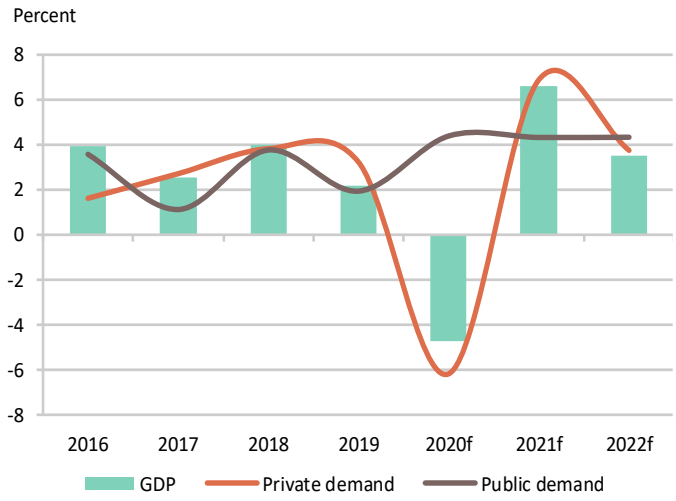
Inflation at 2.1 percent in 2019 was almost at the center of the Central Bank (CB) target range. With inflation expectations well -anchored and a negative output gap, the CB reduced its reference interest rate by 50 basis points in the second half of the year, to 2.25 percent.

In contrast, fiscal policy accentuated the deceleration of domestic demand. Fiscal deficit declined to 1.6 percent of GDP, more than what was foreseen under the fiscal rule, reflecting difficulties in capital spending and higher than expected tax collection.

Outlook

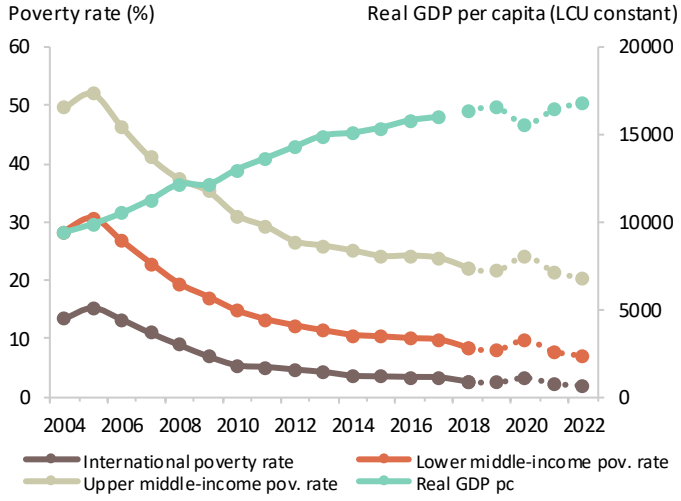
Due to the impact of the COVID-19 pandemic, the economy is expected to be in recession in 2020 which will trigger increase in poverty and inequality. The depth of these impacts will depend on the duration of the shock and Government's response. Assuming the effects of the crisis subside in the third quarter of this year globally, the contraction in Peru is estimated at around 4.7 percent in 2020. Lower growth in China and a likely recession in the G7 economies will prompt a sharp decline in the demand for commodities, pushing export volumes down. Moreover, the unprecedented measures to curb the spread of the virus, which included temporarily closing borders and a nationwide quarantine, will lead to a significant decline in private consumption, especially in services such as restaurants, transport, and commerce. This will in turn lead to an abrupt fall of income of informal self-employed workers and MSMEs, particularly from affected sectors in urban areas. Due to high job informality, sectoral concentration, and lower access to social services and programs, Venezuelan migrants and refugees are particularly vulnerable to

FIGURE 1 **Peru** / Private and public demand, and GDP growth



Sources: BCRP, World Bank staff.

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



Sources: World Bank. Notes: see Table 2.

the shock, and their poverty rates are expected to skyrocket. The shortfall of private demand will be only partially compensated by an increase in public spending through higher transfers, including extraordinary social transfer for vulnerable population, and higher expenditures in the health sector. The Government has outlined a comprehensive support program to protect vulnerable population and support enterprises, comprising income support measures, deferred tax payment and credit guarantees estimated at 12 percent of GDP.

Given the expected temporary nature of the shock, the economy is projected to rebound strongly in 2021, leading to stronger labor market and a resumption in poverty reduction. Nevertheless, poverty and inequality outcomes may not immediately recover, particularly if a significant share of MSMEs cannot survive the crisis and if it leads to depletion of households' and firms' assets.

The current account deficit is expected to narrow moderately in 2020, reflecting reduced outflow of income from mining sector and positive impact of low oil prices. Over the medium term, the external gap is expected to widen at a gradual pace, as imports accelerate with the recovery of private domestic demand.

In 2020, average inflation is expected to increase to around 2.8 percent, reflecting temporary surges in food prices due to panic-buying and logistic challenges. Despite this temporary rise, inflation is expected to remain low in the medium term. This and the anticipated widening of the negative output gap prompted the CB to lower the policy rate by 1 percent point last March, to a decade-low 1.25 percent.

The public deficit is expected to increase sharply to 5 percent of GDP in 2020, reflecting the operation of automatic stabilizers and the discretionary policy response to the pandemic. Output decline will prompt a sharp fall in tax revenues. Meanwhile, authorities announced additional spending measures to tackle the COVID-19 pandemic, mainly related to the containment and treatment of the disease, as well as income support programs. The extraordinary social transfer ($108 per family) for the poor and vulnerable has been doubled and expanded, by including as beneficiaries low-income self-employed workers, and now covers 3.5 million families (from 2.7 million initially); nonetheless the duration of the crisis could weaken its compensatory effect. Peru's large financial assets and access to credit lines give ample room for additional support to the economy. Going forward, the fiscal deficit is expected to gradually converge to the one-percent target.

Risks and challenges

Given the rapidly changing trends in the global and domestic economy, the depth of projected economic recession is subject to a large uncertainty. This also has adverse confidence effects that depress investment. The worsening of the COVID-19 pandemic, a longer duration of the pandemic itself, more extensive domestic containment measures, or a further slowdown in economic activity globally, represent the most important risks. The impacts on the poor and vulnerable from a protracted crisis would also be significant, with labor markets and access to health as key channels, but also from disruptions in the education system. The economy is also susceptible to further declines in commodity prices, capital outflows, or confidence effects. On the domestic front, political risks relate to the potential tensions between the executive and the newly established Congress regarding the crisis response. Sustained progress in reducing poverty and spatial inequality would need to be supported by policies devoted to strengthening the labor market and mitigating the impact of the virus and other risks on the poor and vulnerable groups.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	2.5	4.0	2.2	-4.7	6.6	3.5
Private Consumption	2.6	3.7	3.0	-5.0	6.2	3.4
Government Consumption	3.3	2.7	4.2	6.0	3.6	4.0
Gross Fixed Capital Investment	1.3	4.7	2.3	-8.3	8.8	5.1
Exports, Goods and Services	8.8	3.9	0.6	-8.5	9.5	4.0
Imports, Goods and Services	7.1	3.3	1.3	-7.0	8.5	5.0
Real GDP growth, at constant factor prices	2.6	4.0	2.2	-4.7	6.6	3.5
Agriculture	3.0	9.6	0.9	2.0	4.0	2.2
Industry	2.1	2.9	-0.2	-3.5	6.0	2.9
Services	3.0	4.1	3.9	-6.2	7.3	4.1
Inflation (Consumer Price Index)	2.8	1.3	2.1	2.8	2.3	2.3
Current Account Balance (% of GDP)	-1.3	-1.7	-1.5	-0.9	-2.0	-2.3
Net Foreign Direct Investment (% of GDP)	3.1	3.1	4.3	2.0	3.3	3.3
Fiscal Balance (% of GDP)	-3.0	-2.3	-1.6	-5.0	-3.0	-2.5
Debt (% of GDP)	25.8	26.6	26.8	32.3	32.7	33.3
Primary Balance (% of GDP)	-1.8	-0.9	-0.2	-3.8	-1.7	-1.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.4	2.6	2.5	3.2	2.4	2.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	9.8	8.3	8.1	9.8	7.8	7.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	23.9	22.1	21.7	24.2	21.6	20.5

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

The cut-off date for information in this MPO was April 06, 2020.

SAINT LUCIA

Table 1	2019
Population, million	0.2
GDP, current US$ billion	2.0
GDP per capita, current US$	11080
International poverty rate ($1.9)[a]	4.7
Lower middle-income poverty rate ($3.2)[a]	10.6
Upper middle-income poverty rate ($5.5)[a]	20.3
Gini index[a]	51.2
School enrollment, primary (% gross)[b]	102.0
Life expectancy at birth, years[b]	75.9

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

Economic growth is estimated at 1.4 percent in 2019, supported by strong performance in tourism. However, 2020 is expected to witness a recession with -7.2 percent growth, amid the outbreak of COVID-19, global recession and the potential delays of domestic large projects. The already limited fiscal space will be significantly narrowed after the crisis. It is critical to prioritize public expenditure in the near-term to minimize the impacts on the poor and implement a fiscal responsibility framework to anchor debt sustainability.

Recent developments

GDP[1] growth rate is estimated to be 1.4 percent in 2019, the same level as in 2018. The strong performance in tourism compensated the significant fall in banana production of 18 percent. Thanks to the increase in airlifts from the United States, the stay-over arrivals reached a total of 423,736 in 2019, a 7 percent increase from the previous year. Major construction projects experienced delays, except for the US$ 42 million road rehabilitation projects that commenced in the 4th quarter of 2019.

The current account surplus narrowed slightly to 2.3 percent of GDP in 2019, from 3 percent in 2018. The sustained performance in tourism was translated into the steady growth in exports, while at the same time it also boosted the imports of tourism-related goods. Inflation fell to 0.8 percent in 2019, from 2.6 percent in 2018, owing to the significant drop in international oil prices. As a member of the Eastern Caribbean Currency Union, exchange rate remains pegged to U.S. dollars at XCD$2.70=US$1.

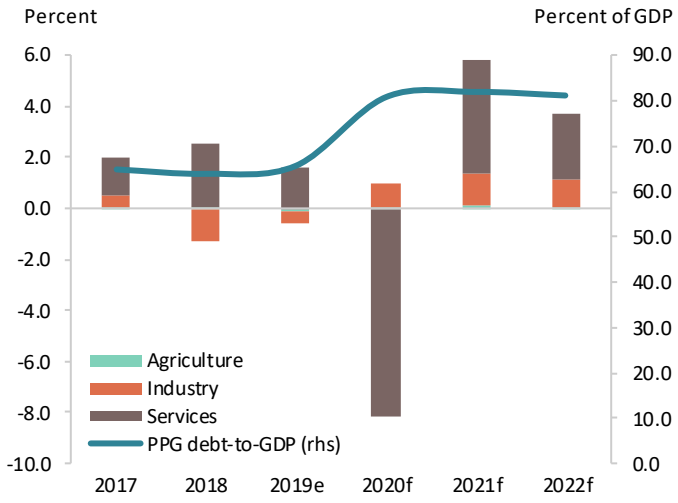
The fiscal deficit expanded by 0.8 percent to 2.5 percent of GDP in 2019 but the primary balance registered a surplus of 0.6 percent of GDP. Government expenditure increased following the wage negotiation which included a retroactive lump-sum payment of EC$1800 per person (a total 0.5 percent of GDP) for fiscal year 2019/2020. Despite the increase in tax revenues, total revenues dropped to 22.3 percent of GDP in 2019 due to a sharp decline of 0.6 percent of GDP from the Citizenship-by-Investment inflows. Capital expenditure in 2019 remained flattened with delayed project implementation. Public and publicly guaranteed debt (PPG) rose to 65.5 percent of GDP in 2019.

In 2016, more than one-fifth of the population, almost 40,000 people, lived below $5.50 dollars a day. Recent economic growth in 2018 and 2019 is expected to have brought poverty down to 19.8 percent in 2019.

Outlook

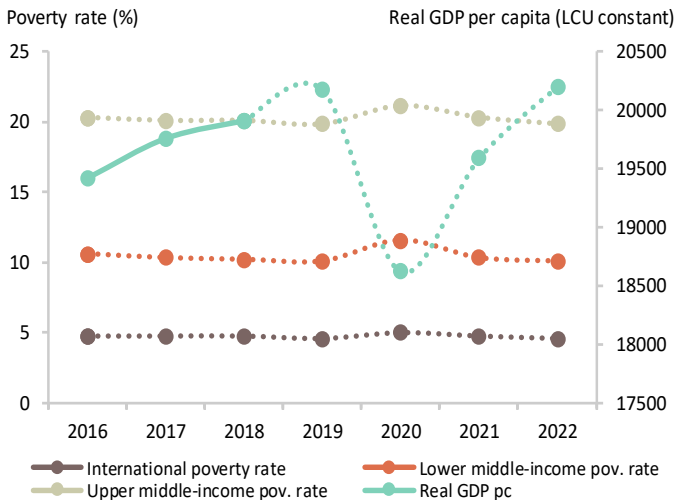
Amid the unprecedented outbreak of COVID-19 and the global economic slowdown, GDP growth is projected at -7.2 percent for 2020 and is expected to rebound to 5.8 percent in 2021. Due to the COVID-19 crisis, both air and cruise travel collapsed. The tourism sector, contributing to half of the GDP directly and indirectly, is expected to cause a decrease of more than 50 percent of annual income. The tourism fallout leads to a 10 percent contraction in the service sector. The shock will also impact the implementation of large projects, including the US$ 175 million Airport Redevelopment project and other public investment projects (a total of around US$ 70 million). The disruption is estimated to lower growth in the industry sector to 5.6 percent for 2020, a steep decline from the expected expansion of 13 percent pre-COVID (expected from the airport and other capital constructions). In

FIGURE 1 Saint Lucia / Sectoral contributions to real GDP growth, public and publicly guaranteed debt



Sources: IMF; World Bank staff estimates; ECCB.

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



Sources: World Bank. Notes: see Table 2.

the baseline scenario that the pandemic can be contained by 2020, the economy is projected to recover at 5.8 percent in 2021, with tourists coming back and construction picking up gradually.

With lower economic growth and a surge in public expenditure, the overall fiscal deficit is expected to rise to 6.1 percent. Tax revenues are expected to drop significantly, and remittances are expected to fall given the global recession. Public expenditure is anticipated to increase due to government purchases of health-related supplies and current transfers to small businesses and the poor. The growing deficit from 2.5 percent in 2018 to 6.1 percent in 2019 will add pressure on the already high debt/GDP level, which is projected to reach 80.6 percent in 2020; a steep increase of over 15 percent of GDP in one year. Going forward, with higher interest payments and capital expenditures associated with large projects, the overall deficit will remain at a high level. PPG debt is projected to remain above 80 percent by 2022.

Inflation is projected to jump to 2.2 percent in 2020 driven by higher food prices during the lockdown period and lack of supplies. The current account is expected to turn deficit from the significant drop in tourism-related exports.

The combined effects of negative growth, increased unemployment and increased inflation are expected to significantly increase poverty in 2020. At the upper middle-income international poverty line of $5.50 per person per day, poverty rates are projected to increase to 21.2 percent in 2020 and then gradually resume their decline to about 19.8 percent in 2022.

Risks and challenges

The external environment poses downward risks to St Lucia going forward. Building resilience to natural disasters remains one of the government's priorities. Moreover, global uncertainties, including the trade negotiation between US and China, economic prospects of major economies and long-term post-Brexit impacts threaten the medium-term performance of tourism. The fast-spreading COVID-19 imposes significant risks to St Lucia's economic outturn in the near term. A prolonged pandemic period or a severe local outbreak can lead to drastic damages to tourism and the whole economy, especially increasing liquidity constraints for informal workers, local small merchants and banks. The delays in implementation of planned projects can postpone economic returns and incur significant costs for the government.

In the near term, it is critical to re-prioritize fiscal expenditure to focus on minimizing the impacts of the pandemic, especially on the poor. Measures could include reallocating budget to health-related responses and identifying the key areas to ensure the continuity of social assistance, both to new and existing beneficiaries. However, it's equally important to implement a medium-term fiscal responsibility framework, which should bring debt to a sustainable level. A comprehensive fiscal reform, including a fiscal rule and reforms of taxes and public financial management, is needed to achieve fiscal sustainability and provide fiscal cushion for potential external shocks in the future.

A prolonged COVID-19 crisis combined with an extreme weather event may drastically increase poverty in Saint Lucia. The country may need to create fiscal space to expand its main social assistance program, Public Assistant Programme (PAP). An increase in PAP's coverage could significantly mitigate the poverty impact of such shocks with a relatively modest fiscal cost.

1/ The authorities are in the process of rebasing the GDP with the technical assistance from the IMF's Caribbean Regional Technical Assistance Centre (CARTAC). The rebasing is meant to better reflect the current structure of the St. Lucian economy.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	2.2	1.4	1.4	-7.2	5.8	3.7
Real GDP growth, at constant factor prices	2.0	1.3	1.1	-7.2	5.8	3.7
Agriculture	2.1	1.9	-3.1	2.1	3.3	1.3
Industry	2.6	-7.2	-2.8	5.6	7.0	6.1
Services	1.9	3.2	2.0	-10.0	5.6	3.2
Inflation (Consumer Price Index)	0.1	2.6	0.8	2.2	1.6	1.5
Current Account Balance (% of GDP)	1.5	3.0	2.3	-5.7	0.6	0.9
Fiscal Balance (% of GDP)	-2.1	-1.5	-2.5	-6.1	-4.3	-3.8
Debt (% of GDP)	64.6	63.7	65.5	80.6	81.8	81.0
Primary Balance (% of GDP)	1.2	1.7	0.6	-2.5	-0.6	-0.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	4.7	4.7	4.6	5.0	4.7	4.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	10.3	10.2	10.1	11.6	10.3	10.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	20.1	20.1	19.8	21.2	20.3	19.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2016-SLC-HBS. Actual data: 2016. Nowcast: 2017-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2016) with pass-through = 0.87 based on GDP per capita in constant LCU.

ST. VINCENT AND THE GRENADINES

Table 1	2019
Population, million	0.1
GDP, current US$ billion	0.8
GDP per capita, current US$	7420
School enrollment, primary (% gross)[a]	110.7
Life expectancy at birth, years[a]	72.3

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

GDP grew 0.4 percent in 2019 and growth in 2020 is projected to be negative due to the impact of the COVID-19 pandemic. After several years of minimal budget deficits and primary surpluses, the new port investment and the COVID-19 response will exert pressure on public finances.

Recent developments

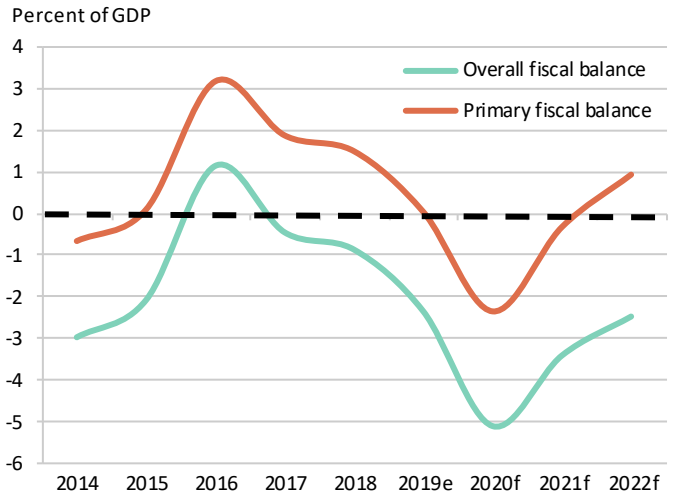
St. Vincent and the Grenadines (SVG) continued to consolidate spending, achieve primary budget surpluses and record a declining debt trajectory, though with public debt at 76 percent of GDP, SVG remains at a high risk of debt distress. The creation of a contingency fund to smooth external shocks, resourced primarily by a 1 percent increase in the VAT rate, is a positive development. Inflation was well-controlled at 2.0 percent in 2019 and is forecast at 2.0 percent over the medium term, in line with the Eastern Caribbean Central Bank (ECCB) targets, the fixed exchange rate regime and currency board arrangement.

Growth was lower than expected in 2019 at 0.4 percent though there are data issues that remain to be resolved and growth could be revised upwards. Tourism continues to grow, but services fell owing to slowing rehabilitation and recovery in other islands from which SVG was benefiting. Agriculture grew at 0.9 percent in 2019, supported by ongoing donor-funded initiatives to enhance output in crops and livestock. Industry grew slower in 2019 due to a decline in manufacturing and construction as some major projects encountered delays.. The government completed a new household budget survey in 2019 and new poverty estimates will be available in 2020, this will update the last available data from 2008 (poverty was 30.2 percent; national poverty line of EC$5,523 or US$2,046).

SVG has registered large but moderating current account deficits, primarily financed by FDI. Although, it has declined since the high levels preceding 2014, it is estimated 16.1 percent in 2019. The current account deficit narrowed as exports of agricultural products to regional markets increased and imports of capital goods declined with the completion of the new airport. Nonetheless, SVG remains highly import-dependent. Tourism receipts exceed 25 percent of GDP in a typical year and make a substantial contribution to financing the current account deficit. As noted, the new airport has generated increased tourist arrivals, particularly from Canada via direct Toronto flights. Remittances, at about 4 percent of GDP, also helps finance the trade imbalance. Finally, net FDI typically totals around 12.5 percent of GDP, though given the small size of the economy it can fluctuate significantly.

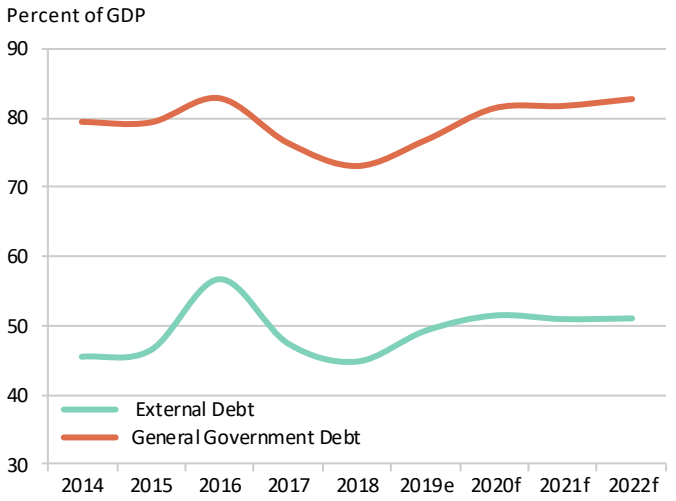
The fiscal deficit increased from 0.9 percent of GDP in 2018 to 2.4 percent in 2019. The widening of the fiscal deficit was due to higher public investment and a higher wage bill. Revenues increased but under-performed projections due to payment delays in Customs, lower import volumes and tax compliance issues. Expenditures are estimated at 23.1 percent of GDP in 2019, compared to 23.3 in 2018, and the wage bill is estimated at 13.7 percent of GDP. Transfers and subsidies represented 22.0 percent of public expenditures. The primary balance remained slightly positive. SVG is strengthening state-owned enterprise (SOE) governance and oversight, as part

FIGURE 1 St. Vincent and the Grenadines / Fiscal balances, overall and primary



Sources: SVG Minister of Finance (2020), World Bank staff estimates.

FIGURE 2 St. Vincent and the Grenadines / General government and external debt



Sources: SVG Minister of Finance (2020), World Bank staff estimates.

of an effort to reduce budgetary transfers. Government debt increased to 76.8 percent of GDP in 2019 from 73.1 percent in 2018 and is expected to continue increasing over the medium term due to the planned port project. The February 2019 joint Bank-Fund debt sustainability analysis assessed SVG at a high risk of debt distress.

Outlook

Real GDP growth has been driven largely by increased tourist arrivals, facilitated by the new airport. Unfortunately, the impact of COVID-19 will dampen growth forecasts significantly and growth for 2020 is now forecast at -4.0 percent. Given a more severe global recession, tourism revenue is expected to recover only slowly, depressing growth prospects into 2021. Rehabilitation and construction of new port facilities planned over 2020-25 (US$185 million) could in principle support growth in the medium term, as should new hotels and geothermal energy developments. Price pressures are expected to remain muted at around 2.0 percent. Poverty is expected to increase significantly in the short to medium term as most of the poor work in the services sector which is closely linked to tourism. Public investment plans may need to be curtailed to create fiscal space aimed at enhancing social assistance system in response to the COVID-19 crisis.

Continued fiscal reform is necessary to build fiscal buffers to face future shocks and to ensure public debt remains on a downward trajectory following completion of the new sea port, the ambitious public investment program and post-pandemic. Government is taking steps to improve tax administration, foster resilience, strengthen SOE governance, and is exploring measures to reform the government workers' pension system. Balances in the contingency fund are continuing to grow, which bodes well for future fiscal resilience. The fiscal deficit is expected to widen in the short run given ambitious public investment plans and the impact of COVID-19, but narrow in the medium term. The CAD is projected to decrease to around 18.7 percent of GDP by 2022, due to an increase of export revenues and remittances and will be covered primarily by FDI and external financing related to the port project.

Risks and challenges

COVID-19 will impact SVG through several channels, including: tourism, as people refrain from flying; declining remittances, as global growth slows; lower FDI, as plans for several hotel/resort projects are reconsidered; and rising health care expenditures. Natural disasters remain a key risk and the authorities need to continue to strengthen fiscal and environmental resilience in response, as implementing fiscal cushions would allow for the smoothing of domestic demand. The primary macro/fiscal challenge, in addition to the challenges posed by COVID-19, is the planned public investment pipeline, as sizeable public investments, such as the port project, can temporarily negatively impact fiscal and debt outcomes in very small economies such as SVG. Prudent fiscal management will be required over the short to medium term to maintain fiscal and debt sustainability. An extreme weather shock combined with the impact of COVID-19 on tourism could throw additional SVG citizens into extreme poverty. This may require an even larger expansion of the country's social protection system.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	1.0	2.0	0.4	-4.0	2.0	3.0
Real GDP growth, at constant factor prices	0.6	2.0	0.4	-4.0	2.0	3.0
Agriculture	4.5	2.8	0.9	0.3	4.8	5.1
Industry	3.5	2.9	0.6	-2.8	3.0	3.0
Services	-0.3	1.7	0.3	-4.7	1.5	2.8
Inflation (Consumer Price Index)	3.0	1.4	2.0	2.0	2.0	2.0
Current Account Balance (% of GDP)	-17.2	-15.8	-16.1	-20.7	-19.2	-18.8
Fiscal Balance (% of GDP)[a]	-0.5	-0.9	-2.4	-5.1	-3.4	-2.5
Debt (% of GDP)[a]	76.4	73.1	76.8	81.4	81.7	82.7
Primary Balance (% of GDP)[a]	1.9	1.5	0.0	-2.4	-0.3	0.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Budget balances and public debt are for the central government.

SURINAME

Table 1	2019
Population, million	0.6
GDP, current US$ billion	3.8
GDP per capita, current US$	6753
School enrollment, primary (% gross)[a]	110.6
Life expectancy at birth, years[a]	71.5

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

Growth in 2019 was estimated at 2.3 percent and is expected to turn negative in 2020 due to the Covid-19 pandemic. Increasing public sector, current account deficits, public debt coupled with the shortage of external financing raise the risk of exchange rate depreciation and inflationary pressures. Fiscal pressures will increase due to COVID-19 expenditure, though recently proposed limits on monetary financing of the fiscal deficit, and the potential upsides from the discovery of offshore oil would enable consolidation in the medium term.

Recent developments

Real GDP growth is estimated at 2.3 percent in 2019 on the back of higher government spending including salary increases of public sector workers and a substantial hike in the general minimum wage by 37 percent. Growth was also supported by a recovery in private consumption and higher mining-related investment. An important off-shore oil discovery was announced in January 2020. However, oil production and revenue stream may be way ahead in the future. In 2017, 29 percent of the population lived in poverty (at the US$5.5 PPP per person per day poverty line). Growth in 2018 and 2019 are likely to have had positive impacts on poverty reduction, bringing it to approximately 27 percent (WB staff estimates).

The current account deficit increased to 6.1 percent of GDP in 2019 compared to 3.4 percent in 2018, mainly driven by an increase in imports of capital goods and services associated with oil exploration. Foreign direct investment declined from 3.4 percent of GDP in 2018 to 2.9 percent in 2019, while international reserves covered around 3.6 months of prospective imports in 2019 compared to 2.9 in 2018.

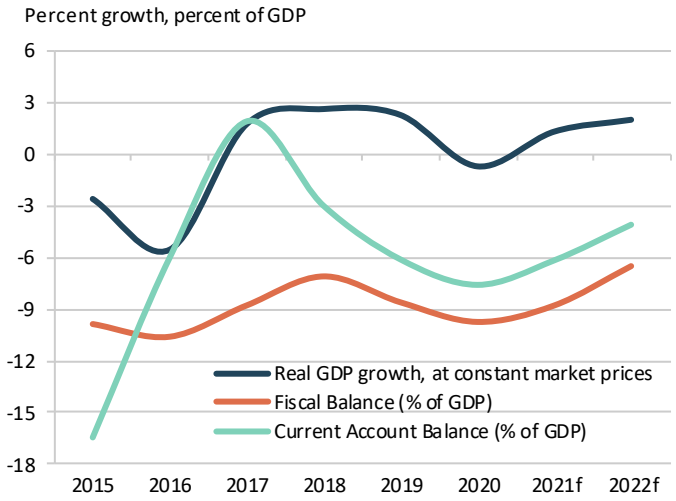
The inflation rate declined to 4.5 percent in 2019, from 6.9 percent in 2018, owing largely to exchange-rate stability. Monetary financing of the fiscal deficit resumed early-2019 and could, if continued, endanger exchange rate and price stability. A new draft Central Bank Act would eliminate direct monetary financing of the fiscal deficit.

The fiscal deficit increased from 7.1 percent of GDP in 2018 to 8.6 percent in 2019, as expenditure grew faster than revenues. Total public spending increased from 30.9 percent of GDP to 34 percent in 2019 mainly due to an increase in wages and salaries. However, tax revenue increased from 16.1 percent of GDP in 2018 to 17.5 percent in 2019, contributing to an increase in total fiscal revenue from 23.9 percent of GDP in 2018 to 25.9 percent in 2019. Public debt as a share of GDP increased slightly in 2019 to 72.3 percent. About three-quarters of total public debt is external debt and exchange rate stability moderated the impact of the high fiscal deficit on the debt-to-GDP ratio. Fitch Ratings downgraded the country's sovereign credit rating last January to CCC from B- arguing the increasing risk of macro instability as a large government deficit coupled with a widening current account deficit are inconsistent with the stabilized exchange rate.

Outlook

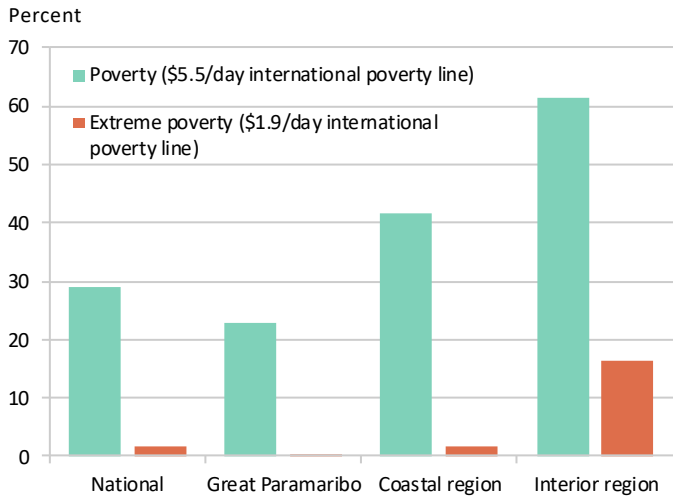
GDP was projected to grow at around 2.5 percent in 2020 and 2021 driven by government spending, private consumption, and a steady expansion in the mining sector. However, the impact of COVID-19 lowered growth forecasts to -0.7 percent for 2020. The COVID-19 impact on tourism may be relatively modest as tourism

FIGURE 1 Suriname / GDP growth, the fiscal balance, and the current-account balance, 2015-22



Sources: Suriname 2020 Article IV Consultation, World Bank staff estimates.

FIGURE 2 Suriname / Regional poverty rates, 2016



Sources: Suriname Survey of Living Conditions 2016/17.

does not play such an important role, though international travel restrictions, disruptions in supply chains and social-distancing measures will affect the economy. Growth in the medium term will be aided by investment in agriculture, manufacturing, energy and gold mining. Activity outside the mining sector is projected to accelerate over the medium term, due in part to spillover effects from the maturing investment in energy and gold mining.

The fiscal deficit is expected to widen due to higher government spending and the impact of COVID-19, but narrow in the medium term. The strong performance of large commercial gold mines is also projected to contribute to a gradual improvement in the government's fiscal position, which should be further bolstered by much needed fiscal measures including the introduction of the VAT, the reduction of electricity subsidies and improved tax administration and collection.

Poverty is expected to increase slightly to 28 percent to the due to the contraction of the economy. The services sector, which is interlinked to the commodity export sector and employs more than half of the Surinamese poor, may suffer in the short run. However, it is expected that it will recover in the medium run and the country should resume its poverty reduction trajectory.

Risks and challenges

The main risks to this outlook stem from the COVID-19 pandemic, public financing uncertainties, possible financial sector instability and the discovery of offshore oil. The discovery of offshore oil may enable consolidation of a stable medium-term growth outlook. Even though oil production and the related fiscal revenue stream may be several years down the road, the discovery may ease the country's access to external finance. Fiscal adjustment is unlikely to take place given the challenges posed by COVID-19, and the May 2020 parliamentary elections -related spending may further deteriorate the fiscal and current account deficit leading to shortfalls in external finance and increase pressure on the currency.

Further drops in international commodity prices may negatively impact the interlinked service sector which employs more than half of the Surinamese poor. This may significantly delay poverty reduction in the medium run.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	1.8	2.6	2.3	-0.7	1.3	2.0
Real GDP growth, at constant factor prices	1.8	2.5	2.3	-0.7	1.3	2.0
Agriculture	11.8	4.3	4.7	2.0	2.9	4.5
Industry	4.9	3.0	2.2	-1.0	1.4	2.0
Services	-3.6	1.6	1.5	-1.4	0.6	1.0
Inflation (Consumer Price Index)	22.0	6.9	4.5	5.8	4.7	10.2
Current Account Balance (% of GDP)	1.9	-3.0	-6.1	-7.6	-6.2	-4.1
Net Foreign Direct Investment (% of GDP)	5.1	5.1	4.1	6.1	6.0	5.4
Fiscal Balance (% of GDP)[a]	-8.8	-7.1	-8.6	-9.7	-8.8	-6.5
Debt (% of GDP)[a]	74.7	72.4	72.0	75.1	79.4	79.3
Primary Balance (% of GDP)[a]	-4.4	-3.1	-4.9	-5.7	-4.5	-2.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Budget balances and public debt are for the central government.

URUGUAY

Table 1	2019
Population, million	3.5
GDP, current US$ billion	53.4
GDP per capita, current US$	15336
International poverty rate ($1.9)[a]	0.1
Lower middle-income poverty rate ($3.2)[a]	0.4
Upper middle-income poverty rate ($5.5)[a]	2.9
Gini index[a]	39.7
School enrollment, primary (% gross)[b]	108.5
Life expectancy at birth, years[b]	77.6

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

The economy is expected to enter recession due to the COVID-19 shock causing a blow on exports, consumption and employment. Fiscal deficits will surge, due to automatic stabilizers, and inflation will rise, due to exchange rate depreciation. As restrictions are lifted, rising domestic and external demand and large infrastructure investment, will boost growth in late-2020 and 2021. When growth recovers, the Government is expected to implement an already-announced fiscal consolidation plan, avoiding negative effects on poor and vulnerable families.

Recent developments

GDP grew by 0.2 percent in 2019, the lowest level since 2002. Spillovers from Argentina's crisis was one factor constraining growth, causing slowdown in exports of goods and services. Spending by tourists dropped by 30 percent in 2019 relative to 2018. Positive contributions to growth from the transport, storage and communications sector (3.5 percent) and the electricity, gas and water sector (5.7 percent), were offset by negative growth in agriculture (-3.8 percent) and construction (-2 percent).

The labor market weakened as a result of subdued growth, with unemployment reaching an average of 8.9 percent in 2019 (8.3 percent in 2018). The employment rate fell from 57.2 to 56.7 percent between 2018 and 2019, while participation rate remained unchanged at 62.2 percent. The deterioration in labor market outcomes was worse for low-income groups: the unemployment rate for youth (14-24 years old) stood at 27.7 percent in 2019, and at 9.9 percent among women 25-39 years old. At 8.1 percent, the poverty rate in 2018 changed slightly from the 7.9 percent recorded in 2017, while inequality (Gini coefficient) remained at around 0.38.

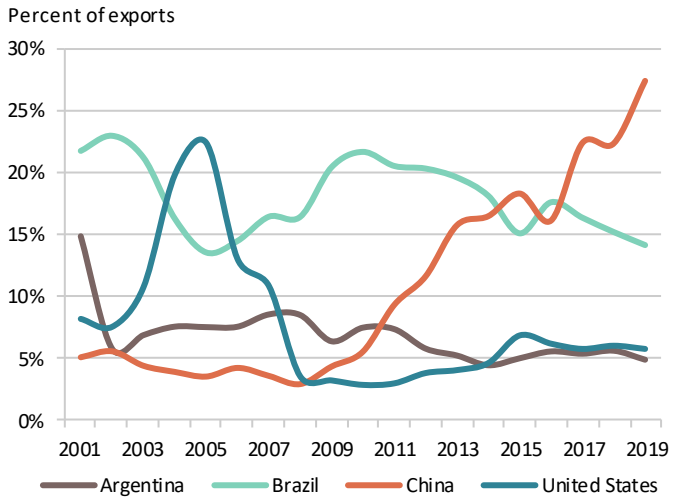
The current account remained balanced, as a higher surplus in goods was partially offset by a lower balance in services, due to the decrease in exports and the increase in imports of tourism services. During 2019 the Central Bank used international reserves (which declined from 27 to 25 percent of GDP) to avoid large swings in the exchange rate, which depreciated 13 percent. This depreciation pushed inflation up to 8.8 percent (the central bank target range is 3-to-7 percent). The price-index of food and beverages (a quarter of expenditures of B40 households) increased by 14.2 percent.

The fiscal deficit deteriorated substantially given the slowdown in economic activity and the lack of fiscal consolidation efforts. Tax revenues declined by 2.3 percent in real terms, while public expenditures increased by 2 percent of GDP driven by higher public salaries. State-owned enterprises (SOEs) recorded a deficit of 0.5 percent of GDP, higher than in 2018, due to an increase in investments. As a result, the fiscal deficit for the non-financial public sector closed 2019 at 4.2 percent of GDP, up from 3.3 percent in 2018.

Outlook

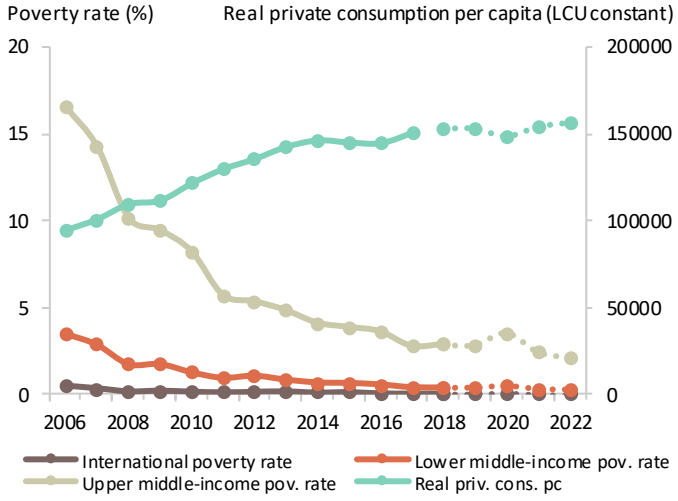
The economy is projected to enter recession in 2020 for the first time in two decades, due to economic impact of COVID-19. Containment measures in Uruguay and abroad will severely affect domestic and external demand. The contraction in private consumption and exports will be compensated only partially by the increase in investment driven by the construction of a third pulp mill (a US3bn investment by the company UPM) and related upgrading of the central railway. On the supply side, only construction and communications services will contribute

FIGURE 1 Uruguay / Main trade partners (exports as percent of total)



Source: World Bank based on data from Uruguay XXI.

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



Source: World Bank. Notes: see Table 2.

to growth. Other sectors, particularly those directly affected by the containment measures, such as commerce and hospitality (23 percent of all workers, 29 percent of informal workers) will see negative growth in 2020, with substantial negative implications for unemployment and incomes.

Nevertheless, all sectors are projected to rebound strongly when restrictions are lifted in late-2020, contributing to a V-shaped recovery in economic activity in 2021, helping improve labor market conditions. A main driver of the recovery will be the acceleration in investment for UPM -related-projects. Overall, by 2022, poverty is projected to converge back to the levels observed in 2019, concentrated in hard-to-reach pockets. The speed and depth of this bounce back will depend on the effectiveness of the planned reforms on the social protection system and the strength of the growth rebound benefiting low-skilled intensive sectors. Slower growth in B40 income may lead to further stagnation in the evolution of inequality.

Inflows of FDI related to the UPM project will finance a slight increase in the current account deficit during 2020. Exports (volumes) are projected to drop by double digits due to the COVID-19 outbreak. The volume of imports will also drop but to a lesser extent, as purchases of capital inputs for the UPM project will partially offset lower demand of external goods generated by COVID-19. Terms-of-trade will increase, as import prices (50 percent drop in oil) are projected to drop more than export prices. As external demand rebounds, exports will increase faster than imports in 2021 and more so in 2022, leading to further improvements in the current account.

Inflation is expected to increase further due to the recent depreciation of the exchange rate. However, it should gradually converge to the center of the central bank's target range as pass-through effects wear off and wages' growth enter into the declining path, due to labor market pressures. Higher inflation could have proportionally large negative effects on the purchasing power of households in the bottom of the distribution if not counterbalanced by a positive evolution of benefits in social programs.

Fiscal balances are expected to deteriorate due to higher debt service payments, automatic stabilizers and the extraordinary measures implemented in response to COVID-19. In 2020, the primary and overall deficit are projected to increase to 2.8 and 6.1 percent of GDP respectively, pushing the debt above 70 percent of GDP. However, the projected rebound in economic growth will increase government revenues and, combined with the fiscal consolidation plan already announced by the new government (but put on hold due to COVID-19), will contribute to long-term debt sustainability.

Risks and challenges

The main risk to the outlook is a larger and/or protracted impact from COVID-19. The longer the epidemic and related restrictions last, the larger will be the contraction of domestic and external demand. Domestically, the pandemic could trigger delays in executing UPM-related projects, deepening the recession. Heightened turbulence in financial markets could cause further pressure on the foreign exchange market, pushing inflation even higher. This would have a greater impact on the poor. In the absence of broader protection measures other than the extraordinary unemployment subsidy announced on March 18, the materialization of major job losses in retail and hospitality sectors could lead to increases in national poverty rates, especially if these jobs are not reinstituted after one quarter.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	2.6	1.6	0.2	-2.7	5.5	3.0
Private Consumption	4.6	1.5	0.5	-2.0	4.6	2.0
Government Consumption	-0.7	0.8	-0.5	8.8	-0.6	0.2
Gross Fixed Capital Investment	-15.8	-2.5	2.3	-1.5	2.9	-1.4
Exports, Goods and Services	7.0	-4.9	1.2	-15.6	20.8	14.9
Imports, Goods and Services	0.5	-2.0	0.2	-6.0	12.0	8.0
Real GDP growth, at constant factor prices	2.1	2.0	0.2	-2.9	5.6	3.0
Agriculture	-5.7	6.0	-3.8	-3.0	5.3	3.1
Industry	-2.8	0.7	-0.5	-1.0	5.5	3.9
Services	4.8	2.0	0.9	-3.5	5.7	2.6
Inflation (Consumer Price Index)	6.2	7.6	8.2	10.0	8.0	7.5
Current Account Balance (% of GDP)	0.8	-0.6	-0.4	-1.0	-1.2	-0.7
Net Foreign Direct Investment (% of GDP)	2.4	4.8	5.2	5.7	5.5	5.3
Fiscal Balance (% of GDP)[a]	-3.5	-3.7	-4.2	-6.1	-4.5	-3.7
Debt (% of GDP)	65.3	67.6	68.9	71.6	72.8	73.0
Primary Balance (% of GDP)[a]	-0.2	-0.3	-1.5	-2.8	-1.6	-0.8
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.1	0.1	0.1	0.1	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	0.4	0.4	0.4	0.5	0.3	0.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	2.8	2.9	2.8	3.5	2.4	2.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Excluding revenues associated with the "cincuentones".
(b) Calculations based on SEDLAC harmonization, using 2014-ECH and 2018-ECH. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(c) Projection using point-to-point elasticity (2014-2018) with pass-through = 1based on private consumption per capita in constant LCU.

The cut-off date for information in this MPO was April 06, 2020.

Macro Poverty Outlook

04/
2020

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