Latin America and the Caribbean

Macro Poverty Outlook

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

Spring Meetings 2022

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Latin America and the Caribbean

Spring Meetings 2022

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Panama
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Peru
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Saint Vincent and the Grenadines
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Uruguay

ARGENTINA

Table 1	2021
Population, million	45.8
GDP, current US$ billion	480.6
GDP per capita, current US$	10496.1
International poverty rate ($1.9)[a]	1.6
Lower middle-income poverty rate ($3.2)[a]	5.8
Upper middle-income poverty rate ($5.5)[a]	18.2
Gini index[a]	42.3
School enrollment, primary (% gross)[b]	109.5
Life expectancy at birth, years[b]	76.7
Total GHG Emissions (mtCO2e)	435.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2011 PPPs.
b/ Most recent WDI value (2019).

Bolstered by favorable external conditions, Argentina's economy recovered from the COVID-19 crisis at a fast pace, reaching pre-pandemic activity levels by end-2021. Growth is poised to continue, driven by private consumption and investment. High inflation, tight FX controls will inhibit strong growth in the medium term. Implementing a sound macro-stabilization plan to restore fiscal sustainability, reduce inflation and support FX reserves accumulation will set the basis for broad-based growth, robust job creation and poverty alleviation.

Key conditions and challenges

Argentina's economy has recovered faster than previously expected. Following a 3-year recession and almost a decade of stagnation, GDP was already above pre-covid levels by end-2021, although still 4 percent below its previous cyclical peak attained in the last quarter of 2017. Higher commodity prices and trading partners' growth, notably Brazil, combined with public investment and acquisition of good and services, are behind the robust recovery in growth.

Macroeconomic imbalances have widened. The fiscal deficit remains sizeable and has been completely monetized by the Central Bank, in the absence of access to international markets and a shallow domestic market. This has pushed up inflation, which combined with tight currency controls, has added pressure to the gap between the official and parallel exchange rates and dragged down reserves. The Central Bank net reserve assets are at historically low levels (less than a third of monthly merchandise imports), while inflation is running at more than 50 percent annual rate (with core inflation even higher), eroding purchasing power and hurting those with low incomes disproportionally. High inflation acts as a counteracting force to improvements in the labor market, limiting poverty reduction.

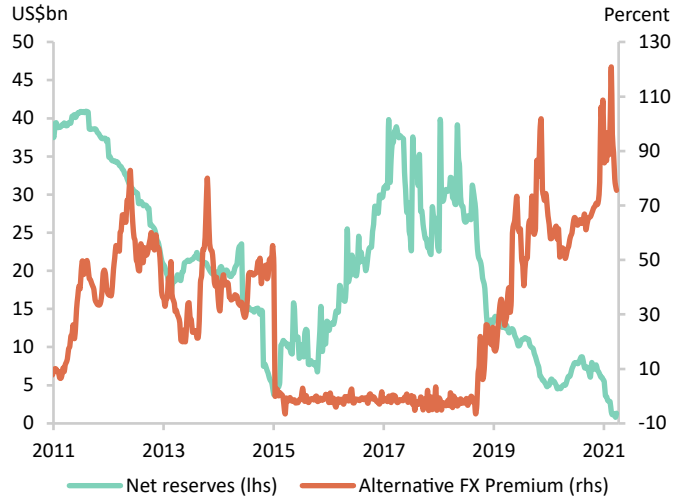
The IMF program provides Argentina a time-window of 3 to 4 years to achieve macro-stabilization, by restoring fiscal sustainability, halting deficit monetization, reducing inflation, rebuilding the Central Bank foreign reserves, and helping regain access to capital markets. Beyond the urgent need to stabilize the economy, Argentina would benefit from a shift to a medium-to-long term perspective in order to reverse the downward tendency of its potential output and adopt reforms that could deliver more sustainable and equitable growth. Reforms to boost export performance, raise skills and compensate for lack of progress in education outcomes owing to COVID, as well as improving labor market matching should be prioritized along with macro-stabilization to ensure strong and sustained growth beyond a cyclical recovery.

Recent developments

Economic activity gained pace rapidly and reached pre-pandemic levels by Q3-2021. Investment and exports have been the main drivers of the recovery. Investment was propelled by agricultural machinery and equipment, as well as residential construction, a means to store value given high inflation and low levels of activity during 2020. Industrial exports benefited from strong growth in Brazil and high commodity prices also supported a small current account surplus.

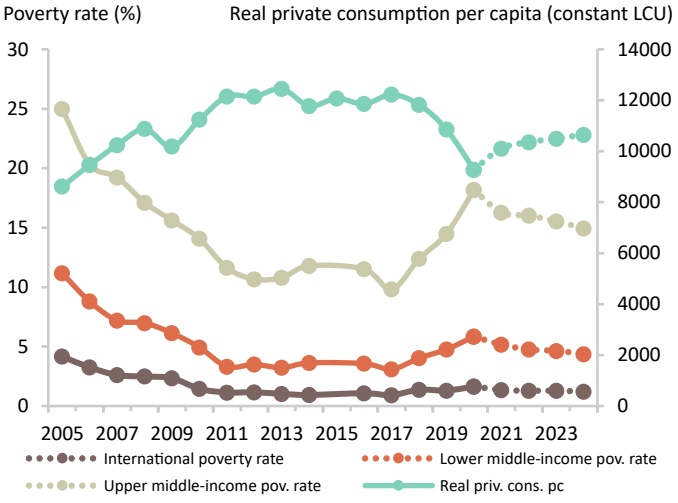
Labor markets indicators remain weak. Although the employment rate reached its pre-pandemic level in 2021, job creation has mainly occurred among informal

FIGURE 1 **Argentina** / Net international reserves and exchange rate premium



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

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



Source: World Bank. Notes: see Table 2.

salaried, self-employed job segments and public sector employees. Underemployment remains high, at 12.2 percent in 2021Q3, contrasting with 10.8 percent in the previous cyclical peak.

The economic recovery had a differentiated regional impact on household incomes and poverty incidence under the national poverty line. In Greater Buenos Aires, the nation's most populous region, and in Patagonia, poverty declined in the first semester of 2021, although it increased in all other regions. The northeast and northwest regions continue to register the highest levels of poverty.

The withdrawal of the emergency support spending has been the largest contributor to the reduction of the fiscal deficit in 2021, supported in part by extraordinary revenues from a one-time wealth tax and the windfall revenue from the increase in commodities prices. As the economy recovered, the government was able to remove most of this spending, but despite price controls, tariff freezes, and a real appreciation of the Peso, its entire monetization fueled inflation. The debt-to-GDP ratio declined in 2021 as a consequence of a large real appreciation.

Despite the boom in commodity prices and SDR allocation, Central Bank net reserves are on a declining trend, as a result of higher debt repayments (to IMF and other IFIs) and interventions on FX markets, reaching extremely low levels by early-2022, on the eve of an agreement with the IMF.

Outlook

GDP is projected to grow by 3.6 percent in 2022, given the strong 2021-Q4 carry over effect. The implementation of the Extended Fund Facility, agreed with the IMF, is expected to contribute to a more stable environment for growth by avoiding a default, setting a path for fiscal consolidation and eliminating deficit monetization. However, beyond the carry over effect, growth is expected to be modest in 2022, as a more contractionary fiscal and monetary policy takes hold and growth in trade partners slows. In 2022, the poverty rate is projected at 16.3 percent of the population under the international poverty line of $5.5 per day. The possibilities for faster poverty reduction in the medium term will depend on the dynamism of job creation, especially private formal jobs, and the evolution of inflation.

Growth is expected to moderate over the forecast horizon. Substantial increases in the investment rate over several years are needed to boost productivity and real incomes and promote the transition towards a low carbon economy. In the short- and medium-term, strong investment will remain inhibited by a still high inflationary environment, controls to imports, prices and capital movements, as well as limited fiscal space.

The recent surge in commodity prices can dampen growth and deteriorate the trade and fiscal balances, hindering also foreign reserve accumulation. The increase in the value of agricultural exports can be completely offset by higher oil and gas imports, or even exceed it, as Argentina remains a net importer of energy. The hike in energy prices can put pressure on fiscal accounts via higher energy subsidies and maintaining the EFF fiscal targets may lead to a reallocation of spending.

Downside risks remain high. A prolonged war in Ukraine could lead to a deterioration in the terms of trade for a net energy importer such as Argentina, and lower exports as trade partners are also hit, hampering progress in fiscal consolidation. As with most nations, an intensification of the Covid-19 pandemic cannot be ruled out, and more adverse climatic conditions, particularly extended drought impacting agriculture productivity and hydrology in both the Upper Parana River basin and via the glacial melt that feeds hydroelectric output is expected to limit the substitution of imports of energy and will continue to tilt the risks of sustainable economic growth to the downside.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	-2.0	-9.9	10.3	3.6	2.5	2.5
Private Consumption	-7.3	-13.8	10.2	3.4	2.6	2.5
Government Consumption	-1.2	-3.3	7.0	2.4	1.4	1.1
Gross Fixed Capital Investment	-16.1	-12.7	32.5	5.9	4.7	5.0
Exports, Goods and Services	9.1	-17.3	9.0	5.2	5.0	4.9
Imports, Goods and Services	-19.0	-17.9	21.5	5.3	4.9	4.8
Real GDP growth, at constant factor prices	-1.7	-9.9	10.3	3.6	2.5	2.5
Agriculture	21.3	-7.1	0.0	1.9	2.2	2.1
Industry	-4.8	-9.4	14.5	3.0	2.5	2.3
Services	-3.1	-10.6	10.1	4.1	2.6	2.7
Current Account Balance (% of GDP)	-0.8	0.8	1.2	0.7	0.6	-0.1
Net Foreign Direct Investment (% of GDP)	1.1	0.7	0.9	1.0	1.1	1.2
Fiscal Balance (% of GDP)[a]	-4.7	-8.1	-4.9	-4.6	-4.0	-3.2
Debt (% of GDP)[a]	98.5	106.4	89.1	84.6	82.8	80.1
Primary Balance (% of GDP)[a]	-0.5	-5.6	-3.0	-2.5	-1.8	-0.9
International poverty rate ($1.9 in 2011 PPP)[b,c]	1.3	1.6	1.3	1.3	1.3	1.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	4.8	5.8	5.2	4.8	4.6	4.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	14.5	18.2	16.3	16.0	15.5	15.0
GHG emissions growth (mtCO2e)	6.3	-3.4	7.1	2.8	2.4	2.5
Energy related GHG emissions (% of total)	41.3	40.8	42.2	42.4	42.5	42.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Fiscal data refer to the general government.
b/ Calculations based on SEDLAC harmonization, using 2020-EPHC-S2.Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
c/ Projection using neutral distribution (2020) with pass-through = 0.7 based on private consumption per capita in constant LCU.

THE BAHAMAS

Table 1	2021
Population, million	0.4
GDP, current US$ billion	11.5
GDP per capita, current US$	29087.8
School enrollment, primary (% gross)[a]	96.1
Life expectancy at birth, years[a]	73.9
Total GHG Emissions (mtCO2e)	2.3

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

GDP is estimated to have expanded by 5.6 percent in 2021, as tourist arrivals to the islands rebounded thanks to vaccination efforts in The Bahamas and easing travel restrictions in main tourism markets. Tourism remains the country's main economic activity and source of revenue, with over 50 percent of the labor force employed in the sector. The current account deficit remains high but narrowed to 19.3 percent of GDP. Fiscal accounts deteriorated in 2021, but the country is expected to restore the fiscal consolidation and reconstruction efforts following Hurricane Dorian.

Key conditions and challenges

The Bahamas is a high-income service economy heavily dependent on tourism and financial services. GDP has risen steadily over the past 3 decades, with annual growth averaging 1.4 percent in real terms. Nonetheless, the country's economic position remains vulnerable due to its small size, lack of economic diversification and vulnerability to natural disasters. The Bahamas relies significantly on foreign investment, especially related to tourism. Tourism, together with tourism-driven construction and manufacturing, accounts for approximately 60 percent of GDP and, directly or indirectly, employs about half of the country's workforce.

Economic growth in recent decades has not been distributed evenly across all segments of the population. According to the 2013 Household Expenditure Survey, 12.8 percent of the population lived below the national poverty line. Moreover, inequality was well above the average of high-income economies, with a Gini index of 41.4.

While no official poverty indicators have been produced since 2013, The Bahamas has exhibited improvements in other areas, such as education and life expectancy, as reflected by the 2 percent increase in the Human Development Index (HDI) in the past two decades.

Similar to economic growth, economic opportunities have not been inclusive. According to the Labor Force and Household Report of 2016, the national unemployment rate was 12.75 percent. Unemployment was 4 percentage points higher for women than for men, and 15 percentage points higher for youth below 25 years than among adults 25 years and older.

Vulnerability to climate change and global health risks jeopardize the country's development trajectory. Sea-level rise associated with increasing temperatures threatens The Bahamas' low-lying islands in addition to the severe impacts of disasters such as Hurricane Dorian in 2019.

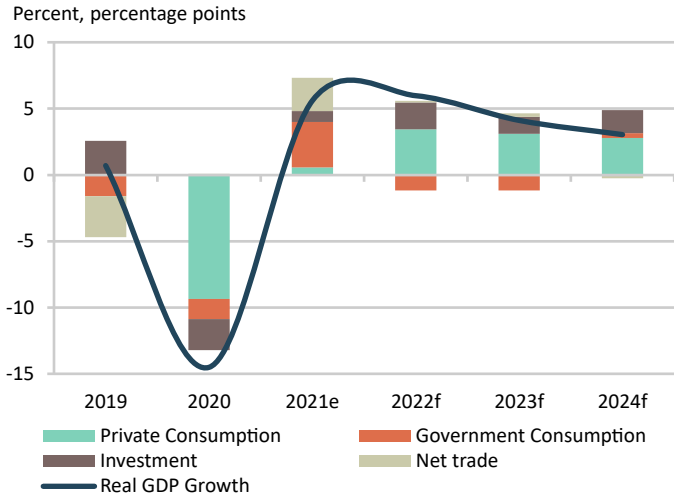
The COVID-19 pandemic led to a steep decline in tourism arrivals and the resulting job losses have been particularly felt by vulnerable populations, such as low-income households, informal workers, and women. School closures are likely to have impacted learning, with potential longer-term impacts on human capital and potential earnings.

The pandemic also negatively impacted women's day-to-day lives in The Bahamas. Women's workload in the household increased more than that of men, as related to homeschooling for example, 62.8 percent of women and only 25.8 percent of men are dealing with the additional workload of supporting children with schoolwork.

Recent developments

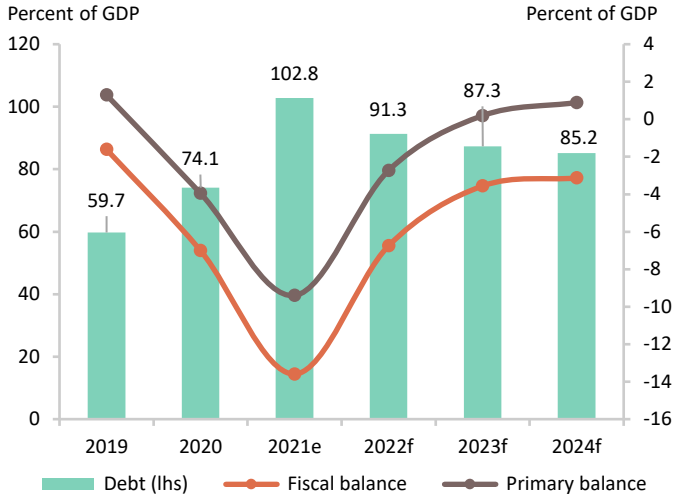
GDP expanded by 5.6 percent in 2021, following a 14.5 percent contraction in 2020. Tourist arrivals to the islands grew at a faster pace during the second half of 2021,

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



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

FIGURE 2 The Bahamas / Fiscal balances and public debt



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

totaling nearly 2 million for the entire year. This is still below the record inflow of 7.2 million tourists in 2019. The hotel occupancy rate averaged 50 percent in 2021. Tourism-related FDI projects, together with post-hurricane rebuilding efforts supported the construction sector output.

Unemployment increased 5 percentage points in 2020 as a result of the pandemic, setting the labor market back to the 2009 level, with an estimated 14.4 percent unemployment rate. Estimates suggest that unemployment fell to 13.2 percent in 2021, and it is predicted to fall below 13 percent in 2022.

The Bahamas was hit by two coronavirus waves in 2021, in August and end-December. Vaccination started in March 2021 and only 40 percent of the population was fully vaccinated by February 2022. As a complement to vaccination efforts, the government launched free COVID-19 testing this year and announced the elimination of curfews and lockdowns, enhancing the prospects for economic recovery.

CPI inflation is estimated at 3.2 percent for 2021. The highest increases were registered in food, beverages, and clothing, disproportionately affecting the purchasing power of the poor and vulnerable.

Public finances continued to deteriorate during FY 2020/21 to a 9.4 percent of GDP primary deficit and 13.6 percent of GDP overall deficit, after recording a 3.9 percent of GDP primary deficit and a 7.0 percent of GDP overall fiscal deficit in FY 2019/20.

In part due to the government's comprehensive response to the COVID-19 pandemic, total public debt jumped to 102.8 percent of GDP in 2021, compared to 74.1 percent of GDP in 2020.

The external sector was particularly hit by the COVID-19 pandemic, as net travel receipts make the largest contribution to the current account balance. In fact, the services account balance posted deficits from the second quarter of 2020 to the third quarter of 2021. The current account deficit was 19.3 percent of GDP in 2021, an improvement from 23.5 percent of GDP in 2020. It was financed through borrowing from capital markets and IFIs as well as through decreasing international reserves.

Outlook

The economy is expected to grow by 6.0 percent in 2022 and 4.1 percent in 2023, as tourism flows to the island continue to revert to pre pandemic levels. The vaccination campaign will continue with support from PAHO/WHO donations. The inflation rate is projected to significantly increase to 7.3 percent in 2022, pushed by energy and oil prices, and to average around 3.6 percent in the medium-term. The primary and overall fiscal deficits will improve in FY2021/22 to 2.7 percent of GDP and 6.7 percent of GDP respectively. They are expected to steadily improve in the following two years in response to the government's expenditures reduction efforts as well as needed tax reforms, and will record a primary surplus in FY2023/24. Public debt is projected to decrease once the economy is back on the growth path, as revenues rebound, and pandemic-related expenditures are wound down but will remain above 85 percent of GDP in the medium term.

The current account deficit is expected to decrease to 18.1 percent of GDP in 2022, as tourism receipts expand. An improvement of the account deficit is also expected for 2023 and 2024, with projections of 12.6 percent of GDP and 8.6 percent of GDP, respectively. Outlook is subject to significant uncertainty related to the possibility of new travel restrictions worldwide affecting tourist arrivals to the country; there are also global geopolitical risks, as well as the risk of natural disasters. Higher oil prices and imported inflation due to global geopolitical risks may trigger higher consumer prices with implications for the poorest. The government will continue to finance the rebuilding of public and private buildings to increase their resilience to natural disasters as well as to implement a mitigation policy for climate change.

The pandemic will erase some of the progress in recent years in terms of human development and is expected to increase poverty and inequality, widening the divide for women, youth, informal workers, and other vulnerable populations. Recovery efforts need to support these groups decisively and allow for more diversification of income sources.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	0.7	-14.5	5.6	6.0	4.1	3.0
Real GDP growth, at constant factor prices	0.7	-14.5	6.0	5.9	4.1	3.0
Agriculture	-0.8	-8.8	-1.3	3.6	4.8	4.8
Industry	-1.0	-2.0	1.7	3.5	1.4	1.7
Services	1.0	-16.4	6.8	6.3	4.5	3.2
Inflation (Consumer Price Index)	2.5	0.0	3.2	7.3	4.5	3.3
Current Account Balance (% of GDP)	4.0	-23.5	-19.3	-18.1	-12.6	-8.6
Net Foreign Direct Investment (% of GDP)	2.0	2.2	2.2	2.4	2.8	2.6
Fiscal Balance (% of GDP)[a]	-1.6	-7.0	-13.6	-6.7	-3.5	-3.1
Debt (% of GDP)[a]	59.7	74.1	102.8	91.3	87.3	85.2
Primary Balance (% of GDP)[a]	1.3	-3.9	-9.4	-2.7	0.2	0.9
GHG emissions growth (mtCO2e)	1.2	-15.3	2.1	11.1	4.0	3.5
Energy related GHG emissions (% of total)	87.6	86.7	86.2	86.9	86.9	86.9

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

BARBADOS

Table 1	2021
Population, million	0.3
GDP, current US$ billion	4.8
GDP per capita, current US$	16665.8
School enrollment, primary (% gross)[a]	99.7
Life expectancy at birth, years[a]	79.2
Total GHG Emissions (mtCO2e)	3.5

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

Barbados's economy rebounded in 2021 in line with international travel and easing containment measures but was negatively affected by natural disasters such as the eruption of the volcano La Soufriere and Hurricane Elsa. Its current account deficit is estimated at 11.4 percent of GDP. Unemployment decreased to 12.4 percent in 2021. The pandemic curbed the reform efforts made in the context of the Barbados Economic Recovery and Transformation (BERT) plan to sustain primary surpluses and reduce external vulnerabilities.

Key conditions and challenges

Barbados is a high-income service economy, built on tourism and financial sector services. However, the country's economic achievements remain vulnerable due to its small size, its dependence on tourism at 17 percent of GDP, and considerable exposure to climate change risks. Besides the COVID-19 pandemic, natural disasters such as Hurricane Elsa and the eruption of the volcano La Soufriere disrupted economic activity in 2021. The additional vulnerability stems from the high level of public debt, which is currently over 135 percent of GDP, an increase compared to 124.8 percent in 2019 when a successful debt restructuring was completed.

The BERT plan, which included the debt restructuring and is supported through a four-year IMF Extended Fund Facility, is aimed at restoring macroeconomic stability while safeguarding the financial and social sectors. The government has made significant fiscal efforts to gradually reduce the debt burden; and under the macroeconomic framework of the IMF program, debt is expected to reach 60 percent of GDP by FY 2035/36.

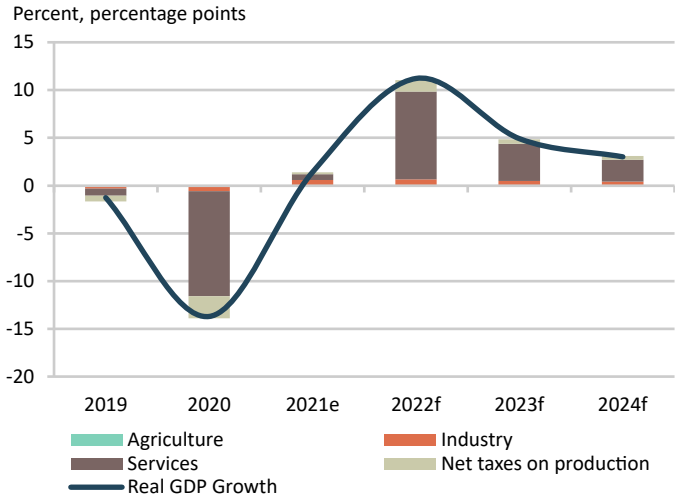
The Barbados COVID-19 Survey undertaken by the Inter-American Development Bank revealed severe consequences to welfare from the pandemic; average household total income and spending dropped by 20 percent and 29 percent respectively. More than one quarter of families (27.9 percent) had at least one member who had lost their job between March and June 2020; the less well-off were hit particularly hard, as 39 percent of households classified as poor in the baseline survey of 2016/17 reported a family member becoming unemployed in the period. Notably, the share of middle-income households unable to meet their financial commitments (60 percent) was greater than the share of low-income households (43 percent) as of April 2020.

Poverty levels were likely still elevated in 2021. There are no official poverty estimates since 2017 when 17.2 percent of households and 25.7 percent of consumers were under the basic needs line. Nevertheless, GDP was lower in 2021 than in 2017, with greater impacts to the bottom of the income distribution. Nonmonetary poverty dimensions, such as food security, indicate persistent deprivation during the pandemic. Hunger rates in Barbados rose from 5.8 percent in January 2020 to 6.9 percent in October 2020. Households categorized as extremely poor in 2016/17 still experience the greatest shares of food insecurity, but the increase was larger among those who were identified as vulnerable to poverty.

Recent developments

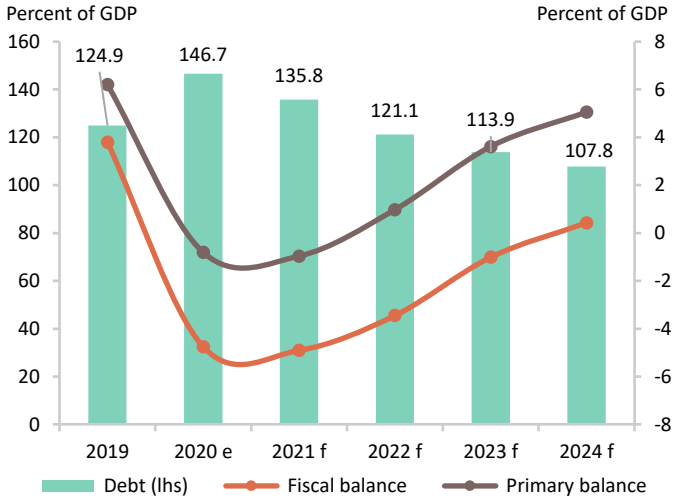
GDP growth for 2021 is estimated at 1.4 percent, a mild recovery after the 13.7 percent contraction in 2020. Economic activity rebounded after the second quarter of 2021

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



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

FIGURE 2 Barbados / Fiscal balances and public debt



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

as lockdown measures eased, although GDP remained well below pre-pandemic levels. Moderate growth was driven mainly by private sector consumption. Tourism exhibited a lackluster performance during 2021, with arrivals at only 20 percent of 2019 levels. Tourism flows to the country were affected by travel restrictions in the main tourism markets of the US, UK, and Canada which make up 75-80 percent of arrivals. Total arrivals stood at 143,500 in 2021 compared to 714,650 in 2019. Two waves of COVID-19 cases hit Barbados in 2021, at end-August and end-December. By February 2022, 50 percent of the population was fully vaccinated.

The lower demand for agricultural products from subdued tourism combined with the impact of the eruption of La Soufriere volcano and the global supply chain disruptions of key agricultural inputs resulted in a 4 percent contraction of agricultural production in 2021. Meanwhile, the manufacturing sector expanded by over 4 percent driven by production in the food and beverages sector.

Employment and earnings were negatively affected by the pandemic. The unemployment rate stood at 12.4 percent in the third quarter of 2021, compared to 17.6 in 2020. However, employment is still below its 2019 level and gender disparities persist.

The 12-month inflation stood at 5 percent in December 2021, while average inflation during the year was 3 percent, with the highest increases registered in transportation, and food and beverages. The current account deficit is estimated to have widened to 11.4 percent of GDP, pushed by expanding imports and reduced receipts. Increasing fuel prices explain half the difference in the value of imports. Gross international reserves stood at US$3.1 billion, equivalent to an import cover of 40 weeks by end-December 2021, these reserves increased during 2021 thanks to borrowing from IFIs and the allocation of new SDR by the IMF.

After recording a 0.8 percent of GDP primary deficit and a 4.8 percent of GDP fiscal deficit in FY 2020/21, the government is expecting a 1 percent primary deficit and 4.9 percent overall deficit in FY 2021/22. Continuing contingent health and disaster relief related expenditures, combined with subdued revenues from tourism explain these results.

Outlook

GDP growth is expected to reach 11.2 percent in 2022 when the tourism sector is expected to largely recover, and 4.9 percent in 2023. However, the outlook is still uncertain, and it will depend to a great extent on progress with respect to vaccination in Barbados, the number of COVID-19 cases in the country, and international travel restrictions. Lagging construction activity and renewed fiscal consolidation efforts are expected to moderate growth prospects. The primary balance is expected to reach 1 percent of GDP surplus in FY 2022/23 while the overall fiscal deficit is projected to remain at 3.4 percent of GDP. Fiscal accounts are expected to improve in FY 2023/24, achieving a robust 3.6 percent of GDP primary surplus and an overall deficit of 1.0 percent of GDP. The authorities are expected to resume fiscal consolidation efforts after the pandemic that will include state-owned enterprise (SOE) reforms and a reform of the civil service pension system. The fiscal balance is expected to turn positive in FY 2024/25.

The inflation rate is projected to reach 5.9 percent in 2022 and then average around 2.5 percent in the medium-term. The increase in energy and oil prices may pose significant challenges for the external accounts, although this will be compensated for by a recovery in tourism receipts. The current account deficit for 2022 is projected to reach to 12.1 percent of GDP and then narrow to 8.8 percent of GDP in 2023.

Robust growth in 2022 will likely be accompanied by an improvement in the living standards, although this is subject to significant uncertainty related to the possibility of new travel restrictions worldwide, and the risk of natural disasters. Higher oil prices and imported inflation due to global geopolitical risks may trigger higher consumer prices with implications for the poorest. Returning to pre-pandemic levels of employment and income will take longer and will heavily depend on the recovery of the tourism sector. Additional support for the most vulnerable will be necessary to attain the welfare levels observed over last decade.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	-1.3	-13.7	1.4	11.2	4.9	3.0
Real GDP growth, at constant factor prices	-1.2	-13.7	1.3	11.3	5.0	3.1
Agriculture	-4.5	-4.8	-4.0	1.1	0.5	0.5
Industry	-1.9	-3.9	4.0	4.2	3.5	3.0
Services	-1.0	-15.7	0.9	13.0	5.4	3.2
Inflation (Consumer Price Index)	4.1	2.9	3.0	5.9	2.7	2.5
Current Account Balance (% of GDP)	-3.1	-7.0	-11.4	-12.1	-8.8	-6.8
Fiscal Balance (% of GDP)	3.8	-4.8	-4.9	-3.4	-1.0	0.4
Debt (% of GDP)	124.9	146.7	135.8	121.1	113.9	107.8
Primary Balance (% of GDP)	6.2	-0.8	-1.0	1.0	3.6	5.1
GHG emissions growth (mtCO2e)	0.0	-6.0	-0.9	-10.0	-10.4	-11.1
Energy related GHG emissions (% of total)	31.0	27.3	27.4	28.1	28.3	27.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

BELIZE

Table 1	2021
Population, million	0.4
GDP, current US$ billion	1.7
GDP per capita, current US$	4175.4
School enrollment, primary (% gross)[a]	107.7
Life expectancy at birth, years[a]	74.6
Total GHG Emissions (mtCO2e)	6.7

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

After entering the COVID-19 pandemic with high public debt, increased external vulnerabilities, and low economic growth, Belize is experiencing a tourism-led rebound. Tourism-related construction led to an increase in investments and tourist arrivals, reversing some of the increase in poverty and unemployment. Continued reforms to meet debt targets, improvements to the business climate and infrastructure, and protection of the vulnerable remain policy priorities. Growth is expected to be moderate, with significant downside risks.

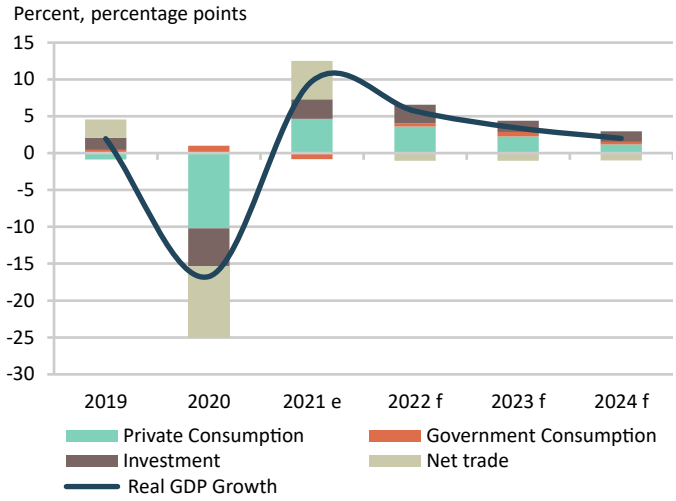
Key conditions and challenges

Tourism is the most important source of foreign exchange in Belize, followed by agricultural commodities and, to a lesser extent, crude oil. Remittance inflows, which account for about 5 percent of GDP, is another major foreign exchange source and provides substantial support for consumption.
Real GDP growth has been sluggish over the past decade, averaging 1.8 percent between 2009 and 2019. Inequality increased over the same period. A combination of inadequate fiscal policies and external shocks led to three debt restructurings between 2006 and 2021.
Belize's reliance on oil imports makes it vulnerable to fluctuations in energy prices. Weak fiscal policies, an unfriendly business climate and an infrastructure deficit, lead to structurally high unemployment, a wide trade deficit, and a significant foreign debt burden. With a reserve cover under 5 months of imports, Belize is vulnerable to external shocks.
The latest official consumption poverty estimates (2018) classified over half (52 percent) of Belize's population as poor, 10 percent as extreme poor, and 10 percent as vulnerable. There is a structural difference in employment and poverty outcomes by gender and ethnicity, with women and Mayans more likely to be self-employed and poor.
The social impact of the COVID-19 pandemic has been severe as a result of a reduction in tourism activity as well as the indirect effects of containment and mitigation measures on manufacturing. A World Bank phone survey from mid-2021 indicated that two out of three households had experienced a decline in income since the start of the pandemic. School participation, already low compared to other countries in the region, was significantly affected.
The EU Economic and Financial Affairs Council (ECOFIN) removed Belize from the EU grey list of non-cooperative tax jurisdictions; however, gaps in financial sector supervision remain. Belize is looking to finalize its National Risk Assessment in the months ahead, and to begin the implementation of the subsequent action plan.

Recent developments

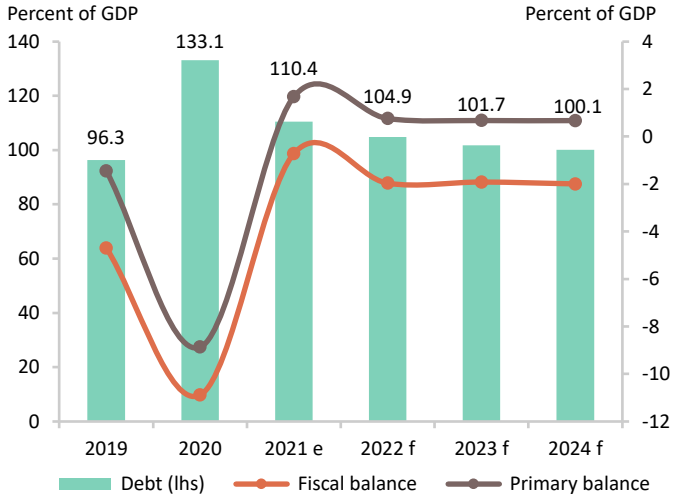
Belize experienced a peak in COVID-19 transmission rates in January 2022. As of March 23, 2022, COVID-19 had affected 14.4 percent of Belize's population, and there were 165 deaths per 100,000 inhabitants. While over 50 percent of the population has been fully vaccinated, hesitancy to get vaccinated is high.
Belize's economy is estimated to have expanded by 9.8 percent in 2021 fueled by a moderate resumption in tourism and tourism-related investments, with overnight arrivals increasing 51.9 percent over 2020.
Cruise ship passenger arrivals fell by 38.7 percent in 2021 compared to 2020. The government is making sure that cruise tourism rules are consistent with the maritime conservation pledges made in the

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



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

FIGURE 2 **Belize** / Fiscal balances and public debt



Sources: Ministry of Finance and World Bank staff calculations.

context of debt restructuring. With rising oil prices and global supply chain constraints, inflation averaged 3.3 percent in 2021, rising to 5 percent by the end of the year.

The current account deficit (CAD) widened to 8.9 percent of GDP in 2021, due to a slowdown in remittances and increased imports for capital spending on tourism projects and public construction. Foreign direct investment increased by 1.8 percentage points to 6.3 percent of GDP. By the end of 2021, international reserves were up by 21 percent to US$420.1 million (4.4 months of total imports).

Belize has reduced the principal amount of its external indebtedness by approximately US$250 million (or 12 percent of GDP) through an innovative financial transaction refinancing its Superbond with funding provided by The Nature Conservancy (TNC), a global environmental nonprofit. TNC's Blue Bonds for Ocean Conservation program uses private capital to refinance public debt to support durable marine conservation efforts and sustainable marine-based economic activity. This debt restructuring was complemented by a major fiscal consolidation effort. Capital spending decreased by 3.4 percentage points of GDP to 6.6 percent in 2021 while transfer payments and wages were cut, reducing the overall deficit from 10.9 percent of GDP to 0.7 percent of GDP. These measures reduced debt from 133.1 percent of GDP in 2020 to 110.4 percent of GDP in 2021. They are complemented by reforms aiming to strengthen public expenditure management and to enhance procurement.

After a year-on-year decline of about 4.5 percentage points, the unemployment rate was 9.2 percent in the fall of 2021. The post-pandemic recovery in labor market outcomes continues to be stronger for men than for women; labor force participation rates of women remain about 10 percentage points below pre-pandemic levels. Much of the recovery in labor market outcomes is driven by the tourism, real estate, and wholesale and retail sectors.

Outlook

Belize remains vulnerable to the COVID-19 pandemic due to the impact of viral spreads on tourist arrivals and broader economic activity. Labor market outcomes, and thus poverty rates, are not expected to return to pre-pandemic levels until the tourism sector fully recovers. Currently, the tourism industry is expected to recover further in the medium term, with GDP growth averaging 3.7 percent between 2022 and 2024. Over the medium term, inflation will average 3.6 percent due to stronger domestic demand combined with upward pressure from commodity import prices, with implications for the poorest. The rebound in economic activity and employment are expected to lead to a decrease in poverty in 2022.

Over the medium term, the CAD is expected to average 8.9 percent of GDP as the rise in fuel prices increases the cost of imports, and as remittances level off. The CAD will be funded through private inflows, donations, and multilateral lending, as well as by a drawdown of reserves. As imports increase, international reserves may fall below three months of imports, exacerbating Belize's external vulnerabilities.

The fiscal deficit is expected to average 2.0 percent of GDP as tax collections improve with increased tourism activity and the government reduces transfers and capital expenditures and continues the three-year pay freeze passed in 2021. This should bring the public debt down to 100.1 percent of GDP by 2024. Debt dynamics will remain vulnerable to shocks to growth, interest rates, and the fiscal position, including natural disasters and climate change. Other risks include exposure to extreme climate-related shocks, and social tensions. Activity could be disrupted by public sector workers protesting the reduction in wages.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.0	-16.7	9.8	5.7	3.4	2.0
Private Consumption	-1.3	-16.4	7.4	5.9	3.7	1.9
Government Consumption	2.7	6.4	-4.1	2.6	3.6	2.0
Gross Fixed Capital Investment	8.2	-24.1	13.4	12.4	7.0	6.5
Exports, Goods and Services	7.5	-65.8	54.0	8.2	6.7	6.2
Imports, Goods and Services	3.5	-53.1	26.0	10.2	8.6	7.9
Real GDP growth, at constant factor prices	1.4	-16.5	9.8	5.7	3.4	2.0
Agriculture	-4.4	2.7	9.0	5.5	1.7	1.7
Industry	-4.3	-5.9	1.8	2.6	2.1	2.1
Services	3.5	-21.4	11.9	6.4	4.0	2.0
Inflation (Consumer Price Index)	0.2	0.1	3.3	4.8	3.7	2.2
Current Account Balance (% of GDP)	-9.5	-8.1	-8.9	-9.3	-8.9	-8.5
Net Foreign Direct Investment (% of GDP)	4.7	4.5	6.3	5.8	5.7	5.6
Fiscal Balance (% of GDP)[a]	-4.7	-10.9	-0.7	-2.0	-1.9	-2.0
Debt (% of GDP)[a]	96.3	133.1	110.4	104.9	101.7	100.1
Primary Balance (% of GDP)[a]	-1.4	-8.9	1.7	0.8	0.7	0.7
GHG emissions growth (mtCO2e)	-0.5	-1.7	0.5	-0.6	-0.6	-0.6
Energy related GHG emissions (% of total)	10.3	9.4	10.5	10.8	11.0	11.3

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

BOLIVIA

Table 1	2021
Population, million	11.8
GDP, current US$ billion	40.4
GDP per capita, current US$	3416.1
International poverty rate ($1.9)[a]	4.4
Lower middle-income poverty rate ($3.2)[a]	9.0
Upper middle-income poverty rate ($5.5)[a]	21.6
Gini index[a]	43.6
School enrollment, primary (% gross)[b]	98.5
Life expectancy at birth, years[b]	71.5
Total GHG Emissions (mtCO2e)	126.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2011 PPPs.
b/ Most recent WDI value (2019).

The economy continues to recover from the pandemic-induced recession. Growth and poverty reduction are expected to slow down in the medium term as increasing public debt and declining international reserves may restrict expansionary efforts. Bolivia's medium-term prospects could be strengthened by cementing confidence in macroeconomic management, boosting public sector efficiency to enhance service delivery and protect the poor and vulnerable, and fostering private investment to ignite new sources of growth and employment.

Key conditions and challenges

Bolivia entered the pandemic with limited policy space and suffered a deep recession. An underdeveloped private sector, poorly targeted social programs, a weak health system, and political polarization have worsened the crisis and slowed recovery.

After a one-year political transition, the new authorities have aimed to resume a state-led development strategy, including expenditure stimulus and import substitution. However, with limited access to external financing, the Government has had to moderate expenditure.

Given high public debt and exchange rigidity, a credible plan to address the fiscal imbalances is critical. Consolidation could rely on improving spending efficiency while supporting the most vulnerable and improving access to quality services. Public expenditure efficiency could be enhanced by rationalizing public investment, including in public enterprises, improving public procurement, strengthening coordination across levels of government, and improving targeting of social programs.

Fostering private and foreign investment will be critical to stabilize gas exports and ignite new medium-term sources of growth and employment. The investment climate could be improved by reducing red tape, removing tax distortions, modernizing labor regulations, improving logistics, easing agricultural export restrictions, and fostering environmentally and socially sustainable mining, including lithium.

Besides its high exposure to climate-related risk, Bolivia is also exposed to volatile commodity prices, exacerbated by the Russia-Ukraine conflict. Although high commodity prices may reduce macroeconomic imbalances, they may also increase food inflation, hitting the poor and those vulnerable to falling into poverty the most. Additionally, declining gas production and fuel subsidies could prevent Bolivia from fully capitalizing on the upsurge in oil prices. Finally, with half of the population fully vaccinated as of February 2022, Bolivia is still exposed to new waves of infection.

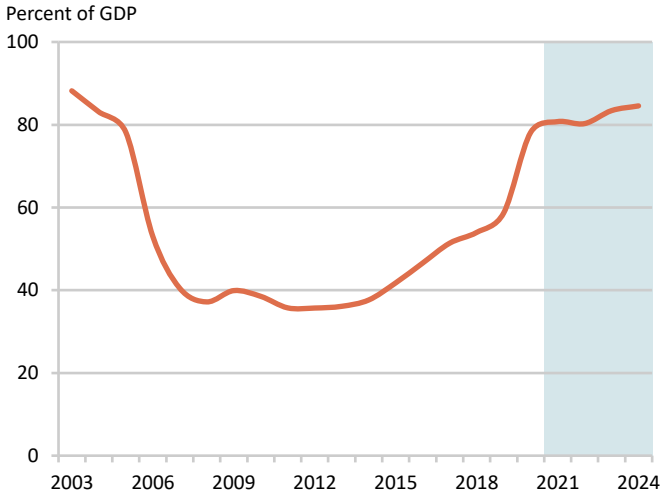
Recent developments

After falling 8.7 percent in 2020, the economy grew by an estimated 6.1 percent in 2021 due to improving external conditions, eased mobility restrictions, and recovering public investment. The recovery was led by mining exports and non-tradable sectors, such as construction and transport.

Urban unemployment declined from a peak of 11.6 percent in July 2020 to 5.4 percent in December 2021, back to pre-pandemic levels. The recovery in employment helped reduce poverty in 2021, mainly driven by rural areas, despite the end of emergency transfers in early 2021.

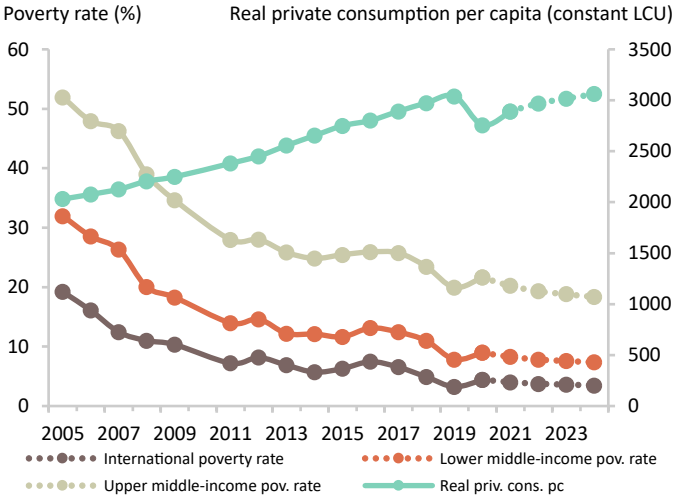
By the second quarter of 2021, informality remained high, particularly among youth, and 60 percent of households reported

FIGURE 1 **Bolivia** / Public debt



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

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



Source: World Bank. Notes: See Table 2.

lower income than before the pandemic. Moreover, 23 percent of households indicated running out of food during the previous month, affecting the rural poor and families with children the most.

The fiscal deficit fell from a peak of 12.7 percent of GDP in 2020 to 9.3 percent in 2021 due to the rebound of tax and hydrocarbon revenues and a lower-than-expected recovery of public investment; the introduction of a permanent wealth tax had limited impact. However, with limited external funding, the Government continued to tap into Central Bank and pension funds financing.

Despite low gas export volumes, the trade balance reached a sizable surplus in 2021 due to recovering mining exports and higher commodity prices. Notwithstanding the trade surplus, increasing remittances, and the SDR allocation, international reserves declined to a low of 5.1 months of imports by the end of 2021 owing to low foreign investment, smuggling, and capital outflows.

After a prolonged loan deferment, domestic credit to the private sector remained dampened partially due to uncertainty in the private sector after the pandemic. Despite increasing money supply, annual inflation remained under 1.0 percent, below the regional standard, as the economy continued to underperform, and fixed exchange rate and frozen fuel prices repressed imported inflation.

Outlook

The economy is expected to grow 3.9 percent in 2022 as some sectors continue to recover. Although the Government managed to refinance the bulk of 2022 and 2023 bonds, limited access to additional external financing is expected to limit fiscal spending which, combined with weak private and foreign investment, is expected to push growth to below 3.0 percent in the medium term. Additionally, with declining international reserves and the Government requiring funding, domestic credit to the private sector is projected to slow down.

The fiscal deficit is projected to remain above 7.0 percent in 2022 as the increase in the fuel subsidy will partially offset the effect of higher hydrocarbon revenues. However, it is expected to converge to 5.3 percent of GDP by 2024 as capital expenditure would be constrained by limited access to external funding. In the absence of substantial fiscal reforms, public debt is projected to increase from 81 percent in 2021 to 85 percent by 2024.

The Government is expected to support the fixed exchange rate regime, limiting its expansionary efforts. High commodity prices will help achieve sizable current account surpluses despite the stagnation of gas exports. However, capital outflows and smuggling may continue to erode international reserves.

Declining international reserves and emerging inflationary pressures, including those emerging from higher international food prices in 2022, are expected to curb expansionary monetary policies, including Central Bank funding to the public sector. The limited fiscal space and categorical design of social programs may undermine efforts to protect the poor and vulnerable from a surge in food prices.

Long-term effects of the pandemic, including human capital losses due to school closures, remote learning, and food insecurity, are a concern and affect the poor and vulnerable the most, limiting reductions in inequality and upward intergenerational mobility.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.2	-8.7	6.1	3.9	2.8	2.7
Private Consumption	3.7	-7.9	5.3	4.1	2.9	2.8
Government Consumption	3.8	-2.8	5.4	4.2	-0.6	-0.3
Gross Fixed Capital Investment	-3.5	-25.9	11.9	4.4	5.3	4.8
Exports, Goods and Services	-1.8	-18.8	15.4	4.1	3.1	3.1
Imports, Goods and Services	1.5	-25.0	15.7	5.1	3.3	3.3
Real GDP growth, at constant factor prices	2.4	-8.4	6.4	3.5	2.5	2.7
Agriculture	5.3	3.1	1.8	4.0	4.0	4.0
Industry	0.1	-11.8	9.6	2.9	2.5	2.5
Services	3.4	-9.3	5.8	3.8	1.9	2.4
Inflation (Consumer Price Index)	1.8	0.9	0.7	3.9	3.5	3.5
Current Account Balance (% of GDP)	-3.4	-0.4	2.5	2.8	1.5	0.6
Net Foreign Direct Investment (% of GDP)	-0.6	-2.8	0.7	0.9	0.9	0.9
Fiscal Balance (% of GDP)	-7.2	-12.7	-9.3	-7.1	-5.9	-5.3
Debt (% of GDP)	58.6	78.1	80.8	80.3	83.4	84.6
Primary Balance (% of GDP)	-5.8	-11.2	-7.7	-5.4	-4.1	-3.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.2	4.4	4.0	3.7	3.6	3.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	7.8	9.0	8.3	7.8	7.6	7.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	19.9	21.6	20.2	19.3	18.8	18.4
GHG emissions growth (mtCO2e)	0.3	-1.5	1.1	0.6	0.6	0.6
Energy related GHG emissions (% of total)	17.1	15.7	16.4	16.9	17.3	17.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on SEDLAC harmonization, using 2008-EH and 2020-EH. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projection using average elasticity (2008-2020) with pass-through = 0.87 based on private consumption per capita in constant LCU.

BRAZIL

Table 1	2021
Population, million	214.0
GDP, current US$ billion	1608.8
GDP per capita, current US$	7518.1
International poverty rate ($1.9)[a]	1.7
Lower middle-income poverty rate ($3.2)[a]	4.3
Upper middle-income poverty rate ($5.5)[a]	13.1
Gini index[a]	48.9
School enrollment, primary (% gross)[b]	112.0
Life expectancy at birth, years[b]	75.9
Total GHG Emissions (mtCO2e)	2514.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2011 PPPs.
b/ Most recent WDI value (2019).

GDP grew 4.6 percent in 2021, thanks to strong services growth and a successful vaccination campaign. Significant downside risks remain in an uncertain environment. The 2022 presidential election and the war in Ukraine are pushing up long-term yields, and the monetary tightening to contain inflation is likely to depress growth in 2022. Poverty rates are projected to stagnate in the medium-term, due to a slow labor market recovery. Productivity enhancing reforms are critical to accelerate growth and safeguard fiscal sustainability.

Key conditions and challenges

Structural bottlenecks and lack of government capacity to pass critical reforms led to a meagre GDP average growth (0.3 percent) over the last decade. Despite favorable demographic conditions, the contribution of labor to GDP decreased 0.1 percent on average. Productivity growth also stalled, mostly due to a complex tax system, a cumbersome business environment that discouraged entrepreneurship, slow human capital accumulation, ineffective sectoral state intervention policies, low savings, and compression of public investment to accommodate higher current spending and increasing pension obligations.

Improving fiscal sustainability is a critical economic policy priority for Brazil. The long-term steady recurrent spending growth over the past 20 years has presented challenges. In response, the federal government adopted a primary expenditure ceiling rule in 2016. Improvement in spending efficiency and revenue collection are needed to put public debt on a solid downward trajectory, create fiscal space for investment, and maintain investor confidence.

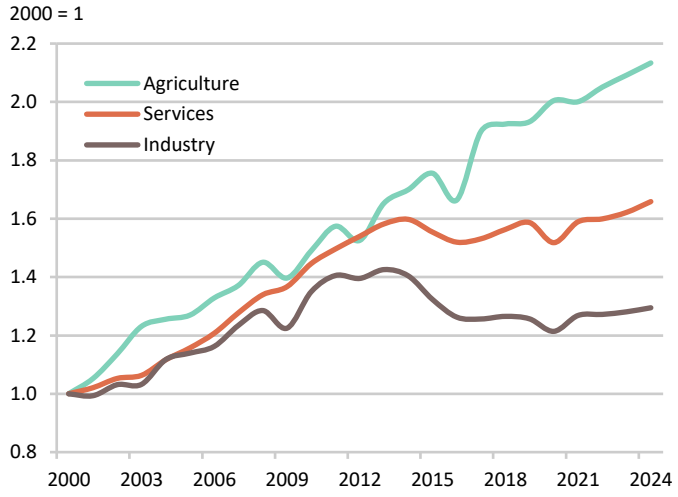
The COVID-19 pandemic gave Brazil one of the highest tolls globally in terms of lives lost, but a rapid vaccine rollout since mid-2021 is supporting a return to normality. The sizeable response implemented via social protection programs in 2020, allowed the income of the bottom of the distribution to surpass their pre-pandemic levels, but this also increased households' dependence on public transfers. The uneven labor market impacts increased preexisting vulnerability profiles as higher job losses were concentrated in low-skilled and highly insecure jobs. As the power of supervisory bodies has recently weakened, illegal forms of forest exploitation have become more frequent. Increasing deforestation in the Amazon puts additional pressure on land-use emissions, the main source of GHG emission in Brazil.

Recent developments

GDP grew at 4.6 percent GDP in 2021, propelled by a strong recovery of 4.7 percent in services, and thanks to the successful vaccination campaign (84.2 percent of the population with at least one dose). While industry grew strongly (4.5 percent), the recovery was dragged down by shortage of inputs and higher production costs.

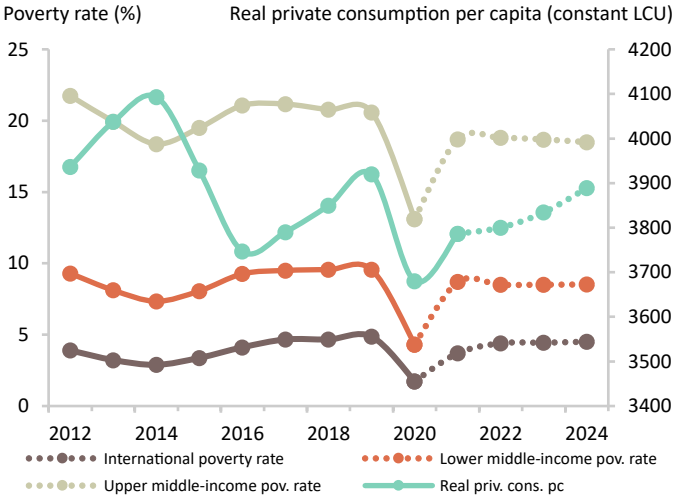
The significant drop in poverty and inequality rates from 2020 were short-lived. In 2021, labor force participation rates, employment levels and the share of formal workers had fallen below 2019 levels. Unemployment rates returned to pre-pandemic level in the last quarter of 2021, but they remain high (11.1 percent). Labor income may not fully replace the reduction in government transfers – leading to higher poverty rates. A slower return to the labor force coupled with fewer job opportunities, have put female workers and female-led households in a more vulnerable position.

FIGURE 1 **Brazil** / Evolution of Brazil's GDP per activity sector



Souce: World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

High commodity prices and the large depreciation of the Real stabilized the current account deficit in 2021, still financed by net FDI inflows. Increasing food, fuel, and energy prices eroded households' purchasing power across the income distribution. As inflation reached 10.5 percent in 12 months until February 2022, the Central Bank accelerated the pace of monetary normalization, raising the interest rate to 11.75 percent in March and signaling its willingness to continue monetary tightening.

Fiscal consolidation in 2021 was substantive, given the rollback of COVID-related expenses and a higher-than-expected tax collection. The primary balance improved from a deficit of 9.5 percent of GDP in 2020 to a surplus of 0.7 percent of GDP in 2021. Subnational governments contributed to this balance with a surplus of 1.1 percent of GDP, while the central government had a deficit of 0.4 percent. The general government's gross debt declined to 80.3 percent of GDP in 2021, a 9.0 percentage points reduction.

Outlook

GDP growth is expected to slow to 0.7 percent in 2022 and mildly accelerate until 2024 on the back of easing inflation and reduced uncertainty with the end of the elections. Inflation is projected to fall in 2023 due to the dissipation of the commodities price shock and an aggressive monetary policy, reaching the central bank target of 3.0 percent in 2024. Poverty is expected to have increased to 18.7 percent in 2021, as the coverage and benefits of emergency transfers were substantially reduced and unemployment rates remained high. In 2022, about 18 million low-income households will be supported by the new Auxílio Brasil program, however, complete elimination of the emergency transfers in addition to sustained inflation may lead poverty rates to stay largely stagnant in the coming years. A gradual fiscal consolidation based on the fiscal rule is expected to result in a primary balance surplus by 2024, and the public debt to GDP ratio is expected to stabilize by 2025. The current account deficit is forecast to widen to 1.7 percent of GDP in the medium-term, as the growth in commodities prices decreases and global demand normalizes. Robust external inflows are expected to fully finance this deficit.

The scenario is subject to significant risks, as concerns remain about anemic potential growth and slow policy reform momentum. Mounting demand for public expenditures on the back of the upcoming general elections in October 2022 puts pressure on the spending rule, and political instability persists, further deteriorating economic outlook for 2022. The war in Ukraine is causing higher commodities prices and supply shortages that can trigger additional exchange rate depreciations and inflation pressures in Brazil, inducing a more aggressive monetary policy, reducing growth and increasing poverty. However, low external debt and high international reserves provide solid buffers to weather shocks.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	1.2	-3.9	4.6	0.7	1.3	2.0
Private Consumption	2.6	-5.4	3.6	1.0	1.5	2.0
Government Consumption	-0.5	-4.5	2.0	0.0	0.0	0.0
Gross Fixed Capital Investment	4.0	-0.5	17.2	-0.5	1.8	3.9
Exports, Goods and Services	-2.6	-1.8	5.8	0.5	1.5	2.0
Imports, Goods and Services	1.3	-9.8	12.4	-0.5	2.0	3.0
Real GDP growth, at constant factor prices	1.0	-3.5	4.3	0.7	1.3	2.0
Agriculture	0.4	3.8	-0.2	2.5	2.0	2.0
Industry	-0.7	-3.4	4.5	0.3	0.7	1.1
Services	1.5	-4.3	4.7	0.6	1.4	2.3
Inflation (Consumer Price Index)	3.7	3.2	8.3	8.5	4.5	3.3
Current Account Balance (% of GDP)	-3.5	-1.7	-1.7	-1.3	-1.3	-1.7
Net Foreign Direct Investment (% of GDP)	2.5	2.8	1.7	2.3	2.3	2.3
Fiscal Balance (% of GDP)	-6.6	-14.2	-4.3	-8.3	-7.6	-5.2
Debt (% of GDP)	74.4	88.6	80.3	82.7	84.1	84.7
Primary Balance (% of GDP)	-1.0	-9.5	0.7	-0.5	0.0	0.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	4.9	1.7	3.7	4.4	4.4	4.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	9.5	4.3	8.7	8.5	8.5	8.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	20.6	13.1	18.7	18.8	18.7	18.5
GHG emissions growth (mtCO2e)	9.5	3.0	11.7	-5.6	-5.2	-3.5
Energy related GHG emissions (% of total)	18.9	17.7	16.6	17.5	18.2	18.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

a/ Calculations based on SEDLAC harmonization, using 2017-PNADC-E1, 2019-PNADC-E1, and 2020-PNADC-E5. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.

b/ Projection using point-to-point elasticity (2017-2019) with pass-through = 0.87 based on private consumption per capita in constant LCU. Estimates for 2021-2022 based on microsimulations to reflect changes in government transfer programs.

CHILE

Table 1	2021
Population, million	19.2
GDP, current US$ billion	305.5
GDP per capita, current US$	15903.1
International poverty rate ($1.9)[a]	0.7
Lower middle-income poverty rate ($3.2)[a]	1.4
Upper middle-income poverty rate ($5.5)[a]	4.4
Gini index[a]	44.9
School enrollment, primary (% gross)[b]	102.4
Life expectancy at birth, years[b]	80.2
Total GHG Emissions (mtCO2e)	47.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2011 PPPs.
b/ Most recent WDI value (2019).

Growth will decelerate sharply in 2022 on a reversal of fiscal stimulus and political uncertainty. High inflation is expected to trigger additional monetary tightening. Temporary gains in poverty reduction from increased transfers will fade as emergency measures are removed. Chile's medium-term prospects will depend on its capacity to deliver a new constitution that supports greater equity, inclusion, and environmental sustainability while preserving sound macroeconomic management and unlocking productivity.

Key conditions and challenges

A new government is taking office in March 2022 and will face a challenging macroeconomic backdrop, with growth decelerating significantly and high inflation. The 2022 budget has set a sharp fiscal consolidation path, removing Covid-related cash transfers that helped cushion household income losses. In the absence of emergency cash transfers, poverty (US$5.5 a day) would have increased to 6.2 percent instead of 4.4 percent in 2020. The mitigation effects are estimated to have been even more substantial in 2021, with the rollout of the IFE universal, Chile's most extensive and generous cash transfer, received by 85 percent of the population.

Three pension fund withdrawals worth 16 percent of GDP provided liquidity during 2021 but depressed capital markets and will impact future pensions. Tightening public spending to stabilize debt and inflation and facilitating access to economic opportunities for the poor and vulnerable will be key to a sustainable and even recovery.

In the medium term, Chile needs to address social demands raised during the 2019 protests. Tax and pension reforms will need to be discussed in a new Congress without a clear majority. The ongoing constitutional process is an opportunity to reach a new social consensus that meets the population's expectations, but this also involves risks. Creating a legal framework to attain greater equity, inclusion, and environmental sustainability while preserving a sound macroeconomic environment, securing fiscal responsibility, property rights, and an open trade regime will be critical. Reducing uncertainty during the process will be important to create the conditions for renewed private sector dynamism.

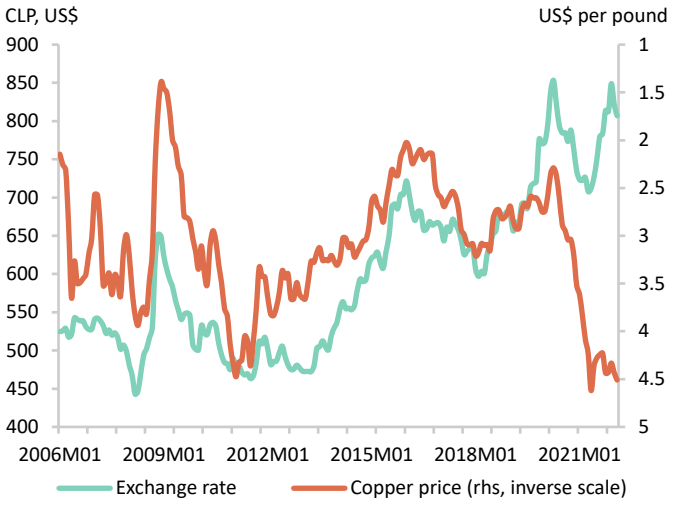
In the longer term, Chile needs to tackle long-standing barriers to productivity growth such as: regulatory hurdles, low competition in some sectors, innovation, education quality, and female labor force participation.

Recent developments

Fueled by a strong fiscal response, Chile's GDP grew at 11.7 percent in 2021, one of the fastest recoveries worldwide. Economic activity far exceeded pre-pandemic levels. All sectors surpassed February 2020 levels by the end of 2021, with the strong rebound in services behind more than half of economic growth in the second part of 2021. Growth was driven by consumption, amid pension fund withdrawals and direct fiscal support worth 9 percent of GDP. One of the fastest vaccination rates globally also contributed to the fast normalization of economic activity.

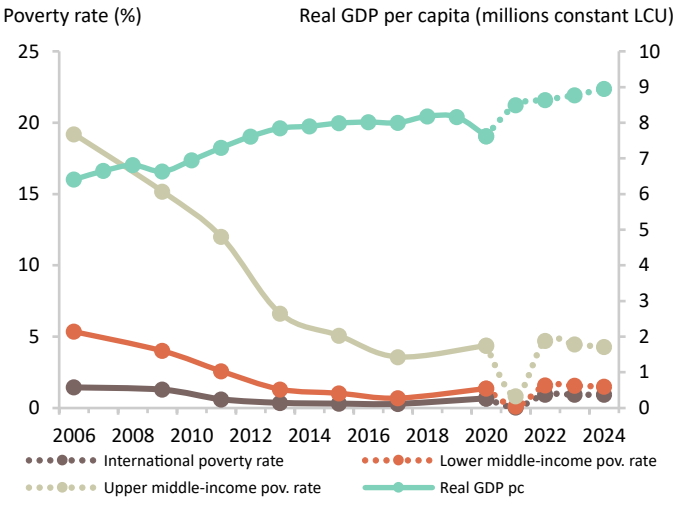
However, job market recovery has been slower than expected, with only 60 percent of the jobs lost in 2020 regained in 2021 and many previously active women (most of them low-skilled) still out of the workforce.

FIGURE 1 **Chile** / Exchange rate and copper prices



Source: Central Bank of Chile.

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



Source: World Bank based on CASEN data for 2006-2020. Notes: see Table 2.

Inflation accelerated to 7.8 percent y/y in February, driven by strong demand pressures, commodity price increases, supply disruptions, and the peso depreciation. Persistent high inflation is risking second-round effects and has become a paramount concern, leading the Central Bank to increase the monetary policy rate by 5 percentage points between July 2021 and January 2022.

Despite recovering revenues, the fiscal deficit closed at around 7.7 percent of GDP in 2021 due to high public spending. Notwithstanding the heavy use of public savings funds, public debt reached 37 percent of GDP, the highest in three decades.

Despite the record surge in copper prices, the current account deficit reached 6.6 percent of GDP in 2021 after a sharp increase in imports fueled by the consumption-led recovery. Net FDI flows turned negative in the third quarter amidst policy uncertainty around the ongoing constitutional process and election outcomes. The local currency depreciated by 16 percent in 2021 in a deviation from its historically close alignment to the copper price.

The sharp rise in the non-labor incomes of the poor and vulnerable due to the massive cash transfers implemented in 2021, mainly the IFE universal, is estimated to have temporarily lowered poverty (US$5.5 a day) to less than 1.0 percent. Further, the Gini coefficient is estimated to have dropped from 0.45 in 2020 to 0.39 in 2021.

Outlook

Real GDP growth is expected to decelerate to 1.9 percent in 2022 due to the reversal of policy stimulus, while tighter financial conditions and persistent political uncertainty will weigh on investment. Still-high liquidity in households and the enhanced Guaranteed Universal Pension is expected to provide some cushion to the slowdown in consumption. Exports will contribute positively to GDP growth amid a projected increase in copper output after supply disruptions in 2021. Further ahead, the removal of direct social transfers, tighter financial conditions, a deteriorated capital market and persistent uncertainty would lead to weak growth through 2024.

Inflation is projected to remain above 7 percent for most of 2022 and begin to drop gradually towards 3 percent within the forecast horizon, provided fiscal and monetary imbalances are addressed.

Fiscal spending is expected to decline in 2022 as Covid-related transfers are removed, leading to a reduction in the government`s deficit to 3.8 percent of GDP. Interest payments will increase amid higher debt stock and rates. In the medium term, the fiscal deficit should gradually converge towards the structural deficit target if increased social spending is accompanied by increases in revenue mobilization.

The current account deficit is projected to narrow to around 3 percent of GDP, as imports normalize.

Amid the ceasing of emergency transfers and challenging macroeconomic conditions, poverty (US$5.5 a day) is projected to increase to 4.7 percent and the Gini coefficient to 0.46 in 2022, and they are not expected to return to the pre-pandemic level in the medium term.

Risks to the outlook are mostly on the downside and include new Covid variants, climatic events, and deterioration in external financial conditions as central banks increase policy rates. The Russia-Ukraine conflict poses an upward risk to inflation given the increase in commodity prices, together with a downward risk to growth due to the impact on export demand, terms of trade and financial uncertainty.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	0.8	-6.0	11.7	1.9	1.5	2.0
Private Consumption	0.7	-8.0	20.3	1.2	0.7	1.8
Government Consumption	0.5	-4.0	10.3	-3.7	0.8	1.7
Gross Fixed Capital Investment	4.7	-9.3	17.6	1.0	1.1	2.1
Exports, Goods and Services	-2.5	-1.1	-1.5	5.6	3.7	2.9
Imports, Goods and Services	-1.7	-12.7	31.3	0.2	1.0	2.4
Real GDP growth, at constant factor prices	0.9	-5.9	11.7	1.9	1.5	2.0
Agriculture	-0.7	-1.6	2.4	2.2	1.5	1.5
Industry	-0.5	-3.5	5.8	1.7	1.5	1.5
Services	1.7	-7.3	15.2	2.0	1.5	2.2
Inflation (Consumer Price Index)	2.3	3.0	4.5	7.7	4.5	3.0
Current Account Balance (% of GDP)	-5.2	-1.7	-6.6	-3.1	-2.5	-2.1
Net Foreign Direct Investment (% of GDP)	1.2	1.0	0.3	1.1	1.0	1.1
Fiscal Balance (% of GDP)	-2.7	-7.1	-7.7	-3.8	-3.3	-2.7
Debt (% of GDP)	28.3	34.1	37.1	40.5	43.3	41.1
Primary Balance (% of GDP)	-1.8	-6.2	-6.4	-0.5	-0.1	0.0
International poverty rate ($1.9 in 2011 PPP)[a,b]		0.7	0.0	0.9	0.9	0.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]		1.4	0.1	1.6	1.6	1.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]		4.4	0.8	4.7	4.5	4.3
GHG emissions growth (mtCO2e)	3.6	-15.8	5.5	-2.8	-2.1	-1.0
Energy related GHG emissions (% of total)	168.6	182.0	179.2	182.1	184.8	186.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on SEDLAC harmonization, using 2020-CASEN. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projection using microsimulation model for 2021 and neutral distribution with pass-through = 1 based on GDP per capita in constant LCU for 2022-2024.

COLOMBIA

Table 1	2021
Population, million	51.0
GDP, current US$ billion	314.1
GDP per capita, current US$	6153.1
International poverty rate ($1.9)[a]	10.3
Lower middle-income poverty rate ($3.2)[a]	19.9
Upper middle-income poverty rate ($5.5)[a]	38.3
Gini index[a]	54.2
School enrollment, primary (% gross)[b]	114.0
Life expectancy at birth, years[b]	77.3
Total GHG Emissions (mtCO2e)	294.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2011 PPPs.
b/ Most recent WDI value (2019).

Economic recovery has been solid, with risks stemming from the labor market and higher-than expected inflation. GDP grew 10.6 percent in 2021 and is projected to grow 4.4 percent in 2022, the poverty rate is projected to decline relative to 2021. The recovery helped reduce the fiscal deficit. A sustained reduction of the debt-to-GDP ratio is an important policy priority along with increasing the effectiveness of the fiscal system at reducing poverty and inequality, and diversifying exports.

Key conditions and challenges

Colombia's economy bounced back robustly from the COVID-19 crisis and the macroeconomic framework remains strong.

Yet, the COVID-19 crisis reversed progress in resolving pre-existing vulnerabilities. Productivity remains low. Poverty declined significantly between 2008 and 2018, but inequality remained high. Inefficiencies within the fiscal system limit income redistribution, and high tax rates weigh down economic activity and the creation of good quality jobs. Rigidities in automatic inclusion to social programs limit the response of social assistance to aggregate income shocks.

The national poverty rate increased from 35.7 percent in 2019 to 42.5 percent in 2020, wiping out over a decade of progress in lifting people out of poverty and shrinking the middle class by 5 percentage points. While the 2021 recovery helped reduce poverty, abating poverty durably and increasing resilience among the non-poor will require expanding the coverage of the social security system, making labor markets more efficient and inclusive, and improving the quality of education, health, and infrastructure.

The opportune and timely fiscal response to the crisis increased the already high public debt-to-GDP ratio, making reigning in debt and fiscal deficit a medium-term priority. Spending pressures due to social demand are rising, while the crisis has strained society's acceptance for higher taxation.

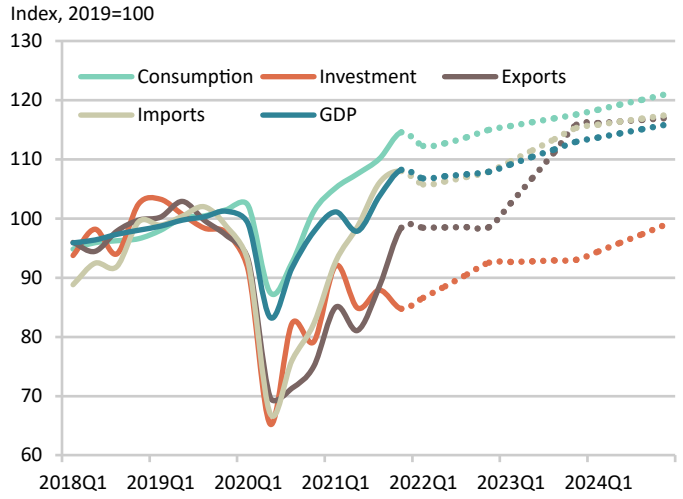
Recent developments

Supported by progress on vaccinations and the reopening of the economy, GDP grew 10.6 percent in 2021, but heterogeneously across sectors. While activity in manufacturing surpassed the pre-COVID-19 trend, activity in mining and construction remained below 2019 levels. Consumption has been the main driver of GDP growth; investment and exports contributed only marginally and remained below 2019 levels.

The recovery of the labor market has not kept pace with economic activity. Female employment remains subdued, and job quality declined. In 2021Q4, the not-economically active population increased relative to 2019, and employment rates decreased, mostly because female employment has not fully recovered. About 81 percent of employment created in 2021 was informal, and urban, female, and youth unemployment remain high. Labor incomes, a substantial share of total household income, remain 12.8 percent lower than pre-pandemic.

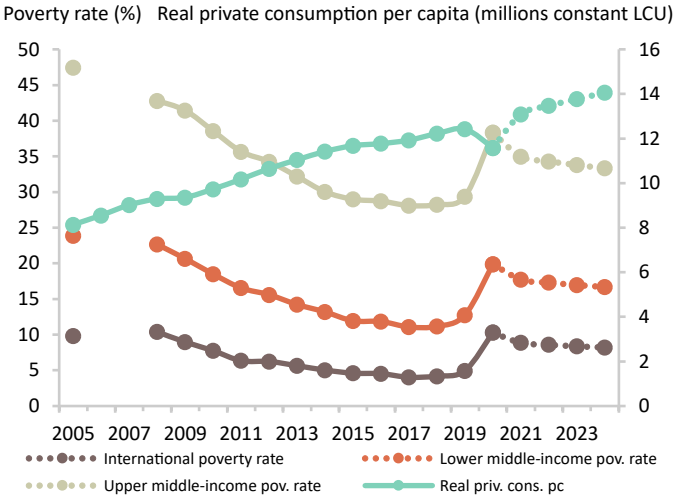
Strong domestic demand, adverse weather conditions for agriculture, the depreciation of the Colombian peso, and price pressures from abroad pushed inflation to 6.9 percent, y-o-y, in January 2022. Price increases have eroded households' purchasing power and undermined poverty reduction. As inflation expectations moved above the inflation targeting band, the Central Bank

FIGURE 1 Colombia / GDP components, historic and baseline scenario (dashed line)



Sources: DANE and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

started to increase the monetary policy rate in September, setting it at 4 percent in January 2022.

The current account deficit reached 5.7 percent of GDP in 2021, as exports (especially tourism) remained weak while imports and distribution of dividends resumed, offsetting strong inflows of remittances. FDI and net portfolio inflows financed the current account deficit.

The central government's deficit declined to 7.1 percent of GDP, as recovery buoyed tax revenues, offsetting the increase in spending. The nominal increase in GDP reduced the debt-to-GDP ratio.

The national poverty rate is estimated to have dropped to 38.6 percent in 2021, still above pre-pandemic levels. Some 1.9 million people, mostly working in urban services and commerce, are estimated to have exited poverty in 2021, thanks to the economic recovery and the continuation of emergency transfers. The middle class has also rebounded. Nonetheless, 1.63 million of those who had fallen into poverty in 2020 are estimated to have remained poor in 2021. Food insecurity persists, as a third of households are not able to consume three meals a day, compared to only 8 percent before the pandemic.

Outlook

The economy is projected to grow 4.4 percent in 2022, as the bout of repressed consumption comes to an end, monetary policy continues tightening, and external demand is resuming slowly. Investment is projected to recover to pre-COVID level by 2023, and the output gap is projected to close in early 2023.

The current account deficit is projected to decrease in 2022 (mostly supported by higher oil prices) and over the medium term, as exports of services resume, imports growth slows, and the flow of remittances normalize to pre-COVID levels.

The central government's fiscal deficit is projected to decline in compliance with the limits set by the fiscal rule, as the effects of the tax reforms approved in September 2021 kick in, and COVID-19 related health spending and emergency income support come to an end. The decline of the deficit at the departmental and municipal level is projected to help reduce the general government deficit. The debt-to-GDP ratio is projected to keep declining over the medium term.

With the continuation of emergency transfers, 1.2 million people are projected to exit poverty in 2022, (although they will remain vulnerable to income shocks). Nonetheless, around 17.8 million people will remain poor, compared to 17.5 million before the pandemic. Income inequality is also expected to fall slightly to 0.528 (Gini), yet Colombia remains one of the most unequal countries in the world. Labor market gender gaps are expected to remain wider than before the pandemic.

The profile of medium-term risk is tilted to the downside. Risks include: high domestic inflation inertia (with high-for-long interest rates); higher international food and fuel inflation (disproportionately affecting the poor); tightening of financing conditions abroad with increased capital mobility (because of the war in Ukraine); potential long-term effects of the pandemic on the labor market, households' assets and human capital; and disappointing yields from September's tax reform. The materialization of any of these risks could slow down growth, or force an aggressive contraction of government spending, clouding prospects for poverty and inequality reduction.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.2	-7.0	10.6	4.4	3.5	3.3
Private Consumption	4.1	-5.0	14.6	4.1	3.3	3.1
Government Consumption	5.3	-0.6	12.1	2.0	0.6	0.6
Gross Fixed Capital Investment	2.2	-23.3	11.2	5.0	3.7	4.1
Exports, Goods and Services	3.1	-22.7	14.2	11.6	10.9	6.7
Imports, Goods and Services	7.3	-20.5	27.5	5.3	5.4	3.6
Real GDP growth, at constant factor prices	3.1	-7.1	10.3	4.3	3.5	3.3
Agriculture	2.7	2.0	2.4	2.9	4.9	3.5
Industry	0.2	-14.2	9.7	5.2	4.2	4.3
Services	4.4	-4.9	11.4	4.1	3.1	2.9
Inflation (Consumer Price Index)	3.5	2.5	3.5	6.6	3.9	3.1
Current Account Balance (% of GDP)	-4.6	-3.4	-5.7	-4.5	-4.7	-4.6
Fiscal Balance (% of GDP)	-2.6	-7.2	-7.3	-6.7	-4.3	-3.3
Debt (% of GDP)	52.3	67.2	66.3	65.4	65.3	64.2
Primary Balance (% of GDP)	0.4	-4.3	-3.9	-3.3	-0.9	0.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	4.9	10.3	8.9	8.6	8.4	8.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	12.7	19.9	17.7	17.3	17.0	16.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	29.4	38.3	35.0	34.3	33.8	33.3
GHG emissions growth (mtCO2e)	4.4	2.5	2.6	1.2	-1.3	-2.1
Energy related GHG emissions (% of total)	30.3	28.2	28.9	29.1	29.2	29.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on SEDLAC harmonization, using 2009-GEIH, 2019-GEIH, and 2020-GEIH. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projection using average elasticity (2009-2019) with pass-through = 0.7 based on private consumption per capita in constant LCU.

COSTA RICA

Table 1	2021
Population, million	5.1
GDP, current US$ billion	61.9
GDP per capita, current US$	12047.2
International poverty rate ($1.9)[a]	2.1
Lower middle-income poverty rate ($3.2)[a]	5.7
Upper middle-income poverty rate ($5.5)[a]	16.1
Gini index[a]	49.3
School enrollment, primary (% gross)[b]	115.0
Life expectancy at birth, years[b]	80.3
Total GHG Emissions (mtCO2e)	9.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2011 PPPs.
b/ Most recent WDI value (2019).

Strong growth and spending discipline helped Costa Rica exceed fiscal targets in 2021, despite harsh COVID-19 waves and election-related spending pressures. A strong rebound in manufacturing, particularly of medical equipment, and a gradual recovery in services and agriculture lifted GDP above pre-crisis levels. While growth translated into job creation and increased household income, poverty rates remain above pre-pandemic values, inequality is yet to recede. Continuing an efficiency oriented fiscal consolidation is critical for growth and social progress.

Key conditions and challenges

Costa Rica doubled its income per capita over the last two decades, due to relatively solid institutions, an outward-oriented growth model and investments in human capital. The sophistication of exports and the overall resilience of the economy to external shocks improved significantly. Costa Rica is a world leader in promoting the sustainable use of natural resources, which are at the core of its development strategy. This growth model, however, has not been fully successful in promoting inclusion: the real incomes of the bottom 40 percent remained largely stable, poverty reduction was limited, the expansion of the middle class stagnated, and inequality increased during the decade prior to the pandemic. Fiscal vulnerabilities also built up as spending increased while revenues stayed flat.

The pandemic intensified these fiscal and social challenges. Fiscal consolidation efforts, launched in 2018, were interrupted as revenues collapsed amid increasing expenditures as the government sought to mitigate the impact of the pandemic. As a result, the debt-to-GDP ratio increased from 56.1 percent in 2019 to 67.4 percent in 2020. Unemployment rates nearly doubled -surpassing 20 percent in mid-2020- and family income declined despite the government's emergency response. Women, youth, migrants, and less educated workers were the most heavily affected. Poverty (US$5.50 poverty line) increased from 10.6 percent of the population in 2019 to 16.1 percent in 2020.

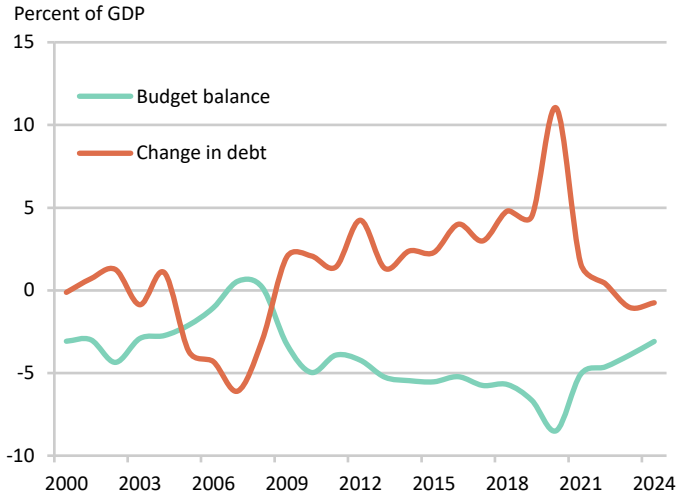
A strong economic performance in 2021 and spending discipline enabled a faster than expected fiscal consolidation and started to improve labor market and social outcomes. The recent approval of the Public Employment Law and agreement for the review of the IMF program further strengthen the fiscal prospects. However, it is critical to continue pursuing reforms to reinforce fiscal consolidation and create buffers against future shocks, such as the elimination of tax exemptions and continued improvement of social programs.

Recent developments

Growth reached 7.6 percent in 2021, supported by private consumption and investment - particularly inventory reposition and equipment- and by strong exports. From the production side, manufacturing was the main engine of growth, followed by agriculture and selected services such as information and communication and financial. Tourism has not yet recovered, despite Costa Rica's high vaccination rates (with 74.4 percent of population fully inoculated).

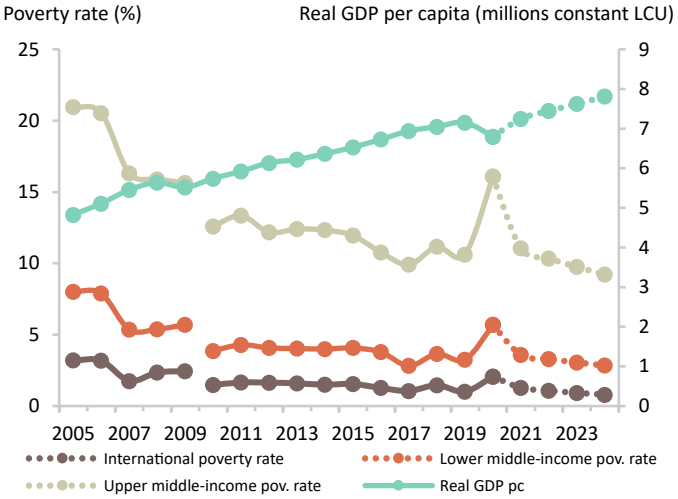
The economic rebound supported a sharp decline in unemployment to 13.7 percent in Q42021 (still above the 11 percent in Q42019), a decline in the share of the poor (to 11.1 percent) and vulnerable, and a concomitant recovery in the middle class.

FIGURE 1 Costa Rica / Budget balance and change in debt



Souce: World Bank staff projections based on Central Bank data.

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



Source: World Bank. Notes: see Table 2.

Merchandise exports experienced a notable boom (27.2 percent by Q32021) thanks to the recovery of trading partners and high demand for medical equipment. Yet, a sharp increase in imports meant that the current account deficit (CAD) remained around 3 percent of GDP and was financed mainly by FDI (3.2 percent of GDP).

Annual inflation stayed at 3.3 percent in 2021. Seeking to contain inflation pressures, the Central Bank increased the Policy Rate (by 50 basis points) to 1.75 percent in January 2022. The colon/dollar exchange rate depreciated 4.4 percent annually by the end-2021.

Strong fiscal performance and marked improvements in debt management lowered the cost of domestic borrowing. The primary deficit stayed at 0.3 percent of GDP and the overall fiscal deficit at 5.1 percent of GDP in 2021; significantly below the 1.7 and 6.9 percent of GDP targeted under the IMF program. This result was helped by higher revenues and restricted primary spending (beyond the mandate of the fiscal rule). The debt-to-GDP ratio closed at 68.8 percent in 2021. The public employment law, approved in March 2022, strengthened fiscal prospects by improving public employment efficiency with savings of 0.5 percent of GDP.

Outlook

Growth is expected to moderate to 3.4 percent in 2022 and gradually converge to 3.2 percent over the medium term. Services, particularly tourism, are expected to add momentum to the recovery in 2022-2023 as the pandemic is brought under controlled and travelers regain confidence. The CAD is projected to be around 3.3 percent in 2022, financed through multilateral disbursements and FDI. The CAD is expected to decrease gradually as tourism receipts reinforce total exports and be fully financed by FDI as reforms boost investor confidence.

As the labor market recovers, poverty rates are expected to decline to 10.4 percent in 2022 and 9.8 percent in 2023 while the middle class continues to recover. Further poverty reduction will require efforts to include less-educated workers in economic development.

Fiscal consolidation is expected to continue over the forecasting period, anchored in the fiscal rule and the IMF program, even after a new administration takes power in May 2022. Both final presidential candidates have signaled the importance of maintaining the IMF program. In this context, complementary revenue mobilization efforts and growth enhancing structural reforms are needed to build investors' confidence and consolidate the foundations for inclusive and sustainable growth. Though inflation pressures are expected to remain elevated, inflation is expected to remain well within the Central Bank's target band.

Downside risks relate to the emergence of COVID-19 variants, delays in the National Assembly's approval of reforms after the 2022 elections and potential impacts from geopolitical tensions. Delayed reforms could undermine improvements in the fiscal accounts and lead to mounting public debt, affecting confidence and delaying recovery. As a small, open economy Costa Rica remains vulnerable to external shocks. International conflicts and global inflationary pressure are likely to raise food and energy costs, with disproportionate impact on those at the bottom of the income distribution.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.4	-4.1	7.6	3.4	3.2	3.2
Private Consumption	1.7	-5.0	5.8	2.9	3.0	3.2
Government Consumption	5.9	0.6	1.1	-1.5	0.1	0.1
Gross Fixed Capital Investment	-8.2	-1.7	7.8	4.3	4.5	5.1
Exports, Goods and Services	4.3	-10.9	17.3	7.8	5.3	5.3
Imports, Goods and Services	-2.3	-10.2	16.2	5.2	4.8	4.9
Real GDP growth, at constant factor prices	2.4	-4.1	7.6	3.4	3.2	3.2
Agriculture	-1.5	0.5	3.6	2.4	2.4	1.9
Industry	-0.3	1.0	10.0	3.2	2.6	2.1
Services	3.4	-5.7	7.2	3.5	3.4	3.7
Inflation (Consumer Price Index)	1.5	0.7	3.3	4.0	3.5	3.2
Current Account Balance (% of GDP)	-1.2	-1.2	-3.0	-3.3	-3.1	-2.7
Net Foreign Direct Investment (% of GDP)	4.2	2.6	3.2	3.5	4.1	4.2
Fiscal Balance (% of GDP)	-6.6	-8.5	-5.1	-4.6	-3.8	-2.9
Debt (% of GDP)	56.1	67.1	68.8	69.1	68.0	61.5
Primary Balance (% of GDP)	-2.6	-3.9	-0.3	0.5	1.0	1.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.0	2.1	1.3	1.1	0.9	0.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	3.3	5.7	3.6	3.3	3.1	2.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	10.6	16.1	11.1	10.4	9.8	9.2
GHG emissions growth (mtCO2e)	6.6	-3.3	6.8	4.3	3.6	3.6
Energy related GHG emissions (% of total)	95.6	94.7	93.4	91.8	90.1	88.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on SEDLAC harmonization, using 2015-ENAHO and 2020-ENAHO. Results for 2021 were obtained based on a preliminary harmonization of ENAHO. Forecasts are from 2022 to 2024
b/ Projection using average elasticity (2015-2020) with pass-through = 1 based on GDP per capita in constant LCU.

DOMINICA

Table 1	2021
Population, million	0.1
GDP, current US$ billion	0.5
GDP per capita, current US$	7566.1
School enrollment, primary (% gross)[a]	102.3
Life expectancy at birth, years[a]	76.6
Total GHG Emissions (mtCO2e)	0.3

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

Dominica's economy rebounded moderately in 2021, growing 3.7 percent, following the sudden stop in tourism in 2020 and COVID-19 containment measures. Nonetheless, poverty is expected to remain elevated compared to pre-COVID-19 levels. Fiscal pressures continue to be acute, highlighting the need for strengthened fiscal management and increased fiscal resilience. The risk of debt distress remains high. Medium-term growth prospects appear favorable, though considerable uncertainty remains.

Key conditions and challenges

Dominica is a small island developing state (SIDS) with an economy reliant on tourism and agriculture. This makes the country vulnerable to climate change, natural disasters, and external economic shocks. Dominica's economy continues to be affected by the COVID-19 pandemic. Tourism, which accounted for 25 percent of GDP pre-COVID was estimated at less than 10 percent in 2021, though tourist arrivals have increased.

Making things worse, the COVID-19 shock occurred when Dominica was still rebuilding its economy following damages caused by Hurricane Maria in 2017 (226 percent of GDP).

The pandemic had negative impacts on employment that were at best partially offset by social assistance programs. A recent World Bank/UNDP phone survey (June 2021) indicated that 17 percent of those working before the pandemic were no longer working after the pandemic with a notable decrease in formal employment (jobs in public and private enterprises) in favor of an increase in informal work and self-employment. Job losses were markedly more common for women (23 percent) than for men (12 percent). Women reported a more pronounced increase in time spent on services at home and supporting children with school during the pandemic. Only a limited share of respondents (10 percent) reported receiving monetary or in-kind income from the government in response to the pandemic. As such, the active transfers programs, instituted by the Government, and continued reconstruction spending are unlikely to have fully offset the impacts of the pandemic on poverty.

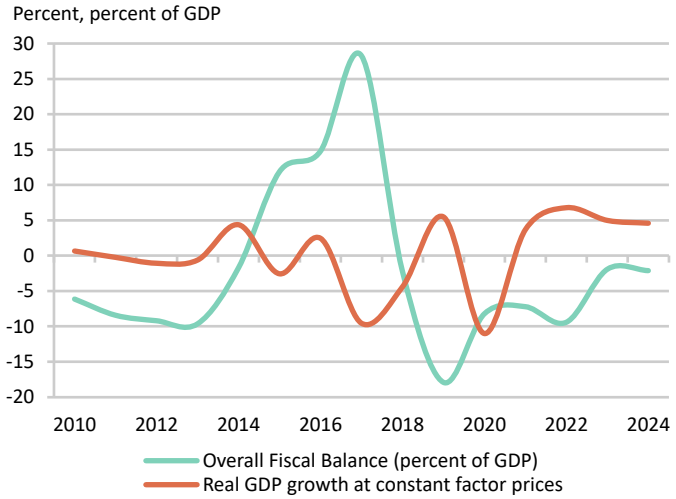
Growth prospects will depend to a certain extent on vaccinations levels and the perception of Dominica as a safe tourist destination. As of March 18, 2022, approximately 43 percent of the population has been vaccinated once and 41.5 percent are fully vaccinated. According to the World Bank/UNDP survey, rates of vaccine hesitancy among those who have not been inoculated are among the highest in all of Latin America and the Caribbean.

Dominica is highly vulnerable to catastrophic weather events and external shocks. Dominica's fiscal position came under terrible strain after Hurricane Maria. Fiscal pressures were further exacerbated by the COVID-19 pandemic and debt levels have risen. While the Government has taken measures to consolidate spending and reduce debt, challenges remain given the pandemic and ambitions to build a fully climate-resilient economy.

Recent developments

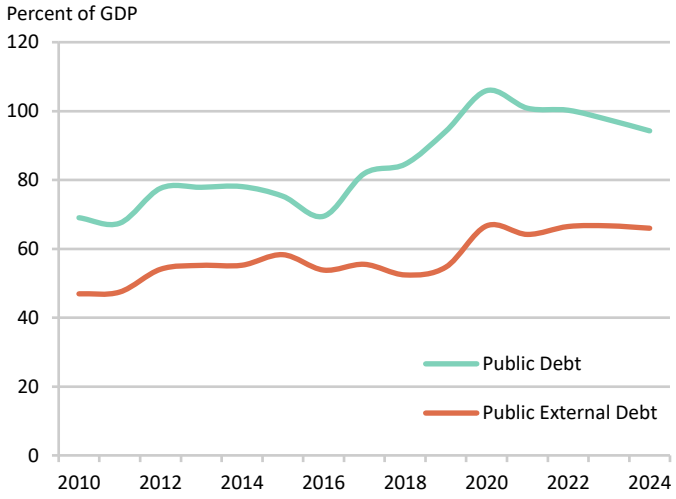
COVID-19 impacted growth through several channels, including the near complete stop in tourism; COVID-19 related restrictions on domestic activity; and lower foreign direct investment.

FIGURE 1 **Dominica** / Real GDP growth and fiscal balance



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

FIGURE 2 **Dominica** / Public debt



Source: World Bank staff estimates.

Growth rebounded modestly in 2021 on a relaxation of domestic containment measures, improving tourist arrivals, though remaining significantly below pre-COVID levels, and a robust public investment pipeline.

Household income from tourism-related occupations remains depressed, women have been hit especially hard given their high participation in the services and informal sectors. However, agriculture has rebounded post-Hurricane Maria and helped limit the overall impact on poverty.

Dominica was effective in controlling COVID-19 transmission and experienced relatively few cases through July 2021. However, new virus variants resulted in peak transmission rates in August 2021 and February 2022, which have subsequently subsided in March.

Fiscal and debt metrics remain challenging with an overall fiscal deficit of 7.2 percent of GDP in FY2021 (July 2020-June 2021) and 9.4 percent expected in FY2022 as a result of decreased revenues, increased COVID-related expenditures, and an ambitious public investment pipeline. Public debt levels peaked in 2019 and are expected to decline but remain in excess of 100 percent of GDP in 2021 and 2022.

Outlook

Growth is forecast to accelerate to 6.8 percent in 2022 as tourism and the domestic economy further rebound from the pandemic. Short- to medium-term GDP growth remains driven largely by a resumption in tourist arrivals. Growth will also be aided by a robust public investment program, including new hotel developments and housing construction using Citizen-by-Investment revenues. Airport construction (an over 60% of GDP project) is not expected to boost growth until 2023 Geothermal developments bode well for future growth prospects, as does Dominica's commitment to becoming a fully climate-resilient economy, given that this could drive increases in tourism, and is also expected to mitigate economic impacts arising from natural disasters.

The transition to a more climate-resilient economy will depend on increased spending efficiency, careful prioritization, and donor support. Inflationary pressures are expected to approach 5 percent but remain relatively low and stable, the current account deficit is forecast to narrow as tourism receipts increase. Financial sector vulnerabilities will require close monitoring.

Increased growth, reduced post-disaster losses, and low inflation are all expected to contribute to a reduction in poverty rates in the medium term. There remains an urgent need for updated poverty data and better documentation of the extent to which social protection measures reach those most in need and help households cushion the effect of economic shocks.

Risks from natural disasters and the impact of climate change remain, including rising sea levels. Risks also arise from the financial sector and public debt vulnerabilities. Where transition to a fully climate-resilient economy requires additional efforts to strengthen fiscal management, spending efficiency and effectiveness, these pressures will be more acute.

Post-pandemic, the challenge will be to shift focus from the current emphasis on recovery and reconstruction to building ex-ante resilience based on fiscal buffers, increasing climate-resilient investment, and expanding public and private insurance protection and social assistance. This is all taking place within a context of significant capacity constraints.

Forecasts are subject to considerable downside risk given rising food and fuel prices, the economic impact of global geopolitical developments, and the ever-present risk of natural disasters.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.5	-11.0	3.7	6.8	5.0	4.6
Real GDP growth, at constant factor prices	8.3	-7.1	3.7	6.8	5.0	4.6
Agriculture	21.6	3.2	-3.1	-0.5	-0.5	-0.4
Industry	0.7	-31.5	17.9	-0.8	4.9	1.4
Services	8.8	-2.2	2.1	9.4	5.7	5.8
Inflation (Consumer Price Index)	1.5	-0.7	3.0	5.0	4.5	2.0
Current Account Balance (% of GDP)	-36.4	-27.5	-31.4	-28.7	-24.0	-18.3
Fiscal Balance (% of GDP)[a]	-15.0	-8.1	-7.2	-9.4	-1.9	-2.1
Debt (% of GDP)[a]	78.1	109.1	100.9	100.3	97.5	94.3
Primary Balance (% of GDP)[a]	-13.0	-5.5	-5.3	-7.4	0.3	0.2
GHG emissions growth (mtCO2e)	6.1	-8.8	13.8	8.5	1.1	1.1
Energy related GHG emissions (% of total)	78.7	78.0	81.5	83.8	84.9	85.9

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

DOMINICAN REPUBLIC

Table 1	2021
Population, million	10.5
GDP, current US$ billion	94.3
GDP per capita, current US$	8939.7
International poverty rate ($1.9)[a]	0.8
Lower middle-income poverty rate ($3.2)[a]	4.0
Upper middle-income poverty rate ($5.5)[a]	15.2
Gini index[a]	39.6
School enrollment, primary (% gross)[b]	105.7
Life expectancy at birth, years[b]	74.1
Total GHG Emissions (mtCO2e)	39.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2011 PPPs.
b/ Most recent WDI value (2019).

The Dominican economy rebounded strongly in 2021, supported by well-implemented fiscal and monetary policies. A successful vaccination campaign also contributed to the rebound, by accelerating the tourism recovery. Although, inflationary pressures and lingering effects on labor markets have kept poverty above pre-crisis levels. The fiscal deficit narrowed 5 percentage points to 2.9 percent of GDP in 2021. The medium-term outlook depends on productivity improvements.

Key conditions and challenges

The Dominican Republic (DR) has been the second fastest growing economy in LAC over the last decade, only surpassed by Panama, growth was supported by domestic demand and favorable external conditions. The economy expanded by an average of 5.3 percent in 2000–19, driven primarily by capital accumulation and total factor productivity growth. Foreign direct investment (FDI) inflows, averaging about 4 percent of GDP over the last two decades, transformed the economy, and fueled tourism, services, manufacturing, construction, and mining.

The country's external position remains strong, but the DR's participation in global value chains is low, and has accounted for an average of 30 percent of value added to exports since 2000; it has contributed to the decline of total exports from 35 to 23 percent of GDP in 2000–19. The removal of the Multifiber Agreement in 2005 that protected Dominican textile exports to the US also contributed to the decline. Nevertheless, external deficits remain fully financed by FDI and remittances.

Fostering long-term growth will require structural reforms in support of increased productivity growth, including through higher investment in innovation, and improved public services, in particular skills and education. A significant share of the labor force is excluded from the formal economy.

Public debt continues to increase due to quasi-fiscal deficits and adverse debt dynamics. The interest bill already absorbed one-fifth of tax revenues in 2019, crowding out public investments, which declined from 3.9 to 2.3 percent of GDP between 2010 and 2019. Improvements in the quality of domestic resource mobilization and spending efficiency and effectiveness are necessary to ensure the adequate provision of public services.

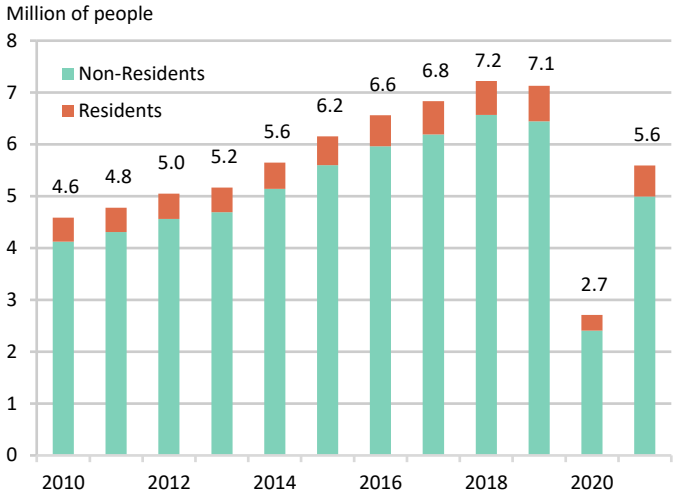
Recent developments

The economy recovered strongly in 2021, with GDP rebounding by 12.3 percent, supported by a solid policy response to COVID-19, including fiscal, macroprudential and supervisory policies, and monetary easing. A successful vaccination campaign also contributed to the recovery. The government increased the number of citizens covered by the public health system, resulting in 66.1 percent of the population being fully vaccinated as of January 18, 2022.

However, income growth has been diluted by price inflation, which reached 8.5 percent by December 2021, this is outside the central bank's target range of 4±1 percent. Price increases are primarily explained by international supply-chain disruptions and increasing commodity prices. In response, the central bank increased its policy rate twice between December 2021 and January 2022 to 5.0 percent (total of 150 basis points).

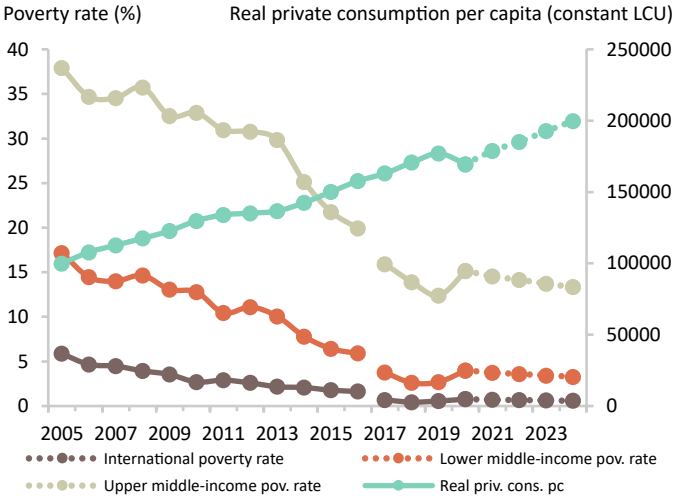
By 2021Q3, formal employment had not fully recovered, remaining 3.8 percentage points below its pre-pandemic level. The

FIGURE 1 Dominican Republic / Tourist arrivals, by residence



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

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



Source: World Bank. Notes: see Table 2.

lingering effects on labor markets along with inflationary pressures have reduced, on average, real family incomes by around 3 percent in 2021.

For all these reasons, poverty (defined as living with less than US$5.5 per day) is expected to remain at 2020 levels in 2021, above pre-pandemic levels. The vulnerable population is estimated to increase while middle-classes contract.

Remittance inflows increased by 26.6 percent, year-on-year (y/y), to US$10.4 billion, alleviating the loss in family incomes, mostly in the metropolitan area where 56.8 percent of the total is received.

The number of tourists has increased but remains below pre-pandemic levels at 77 percent. Merchandise exports expanded by 21.3 percent, yoy, and merchandise imports increased by 45.8 percent, yoy.

The government's fiscal stimulus has been phased out, contributing to fiscal consolidation efforts. The fiscal deficit narrowed from 7.9 percent of GDP in 2020 to 2.9 of GDP in 2021, mostly due to the recovery in revenue although partly explained by one-off tax advances and substantial adjustments in expenditures, particularly investment.

Outlook

Following rapid expansion in 2021, growth is estimated to converge to the 5 percent potential level. In the near-term, tourism and remittance-supported private consumption will drive growth; maintaining potential growth requires steady implementation of structural reforms, particularly in energy, water, and public-private partnerships, coupled with efforts to increase the quality of human capital and attract FDI to higher value-added industries.

Government efforts are expected to counter the mounting inflationary pressures. The gas subsidy coverage for the poorest has increased, while the import tariff for key staples will be reduced to zero for half year in 2022.

The poverty rate (US$5.5 PPP 2011 per day) is estimated to gradually decline in 2022 to 14 percent, but remain above pre-crisis levels. Meanwhile, inflation is likely to converge toward its target bands only by mid-2022.

The fiscal deficit is projected to narrow from 2.9 to 2.4 percent of GDP in 2021–24. A gradual phase-out of subsidies to state-owned enterprises in the energy and potentially water sector, together with improvements in tax administration, is estimated to create headroom to increase public investments and expand targeted transfers. Adequate implementation of conditional cash transfers is likely to mitigate the energy reform impact on households' income. The public-debt-to-GDP ratio is projected to stabilize below 60 percent over the medium term.

The macroeconomic scenario faces both demand and supply risks. A normalization of monetary policy in the US can lead to a tightening of financial conditions, while an escalation of the war in Ukraine could directly affect tourist arrivals, and indirectly affect the prices of key goods and services. In addition, increasing fuel prices would possess a significant risk to the fiscal balances and the energy reform. Likewise, climate change has intensified the exposure to natural disasters, which, given the country's low degree of financial protection against these risks, could substantially increase contingent fiscal liabilities.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.1	-6.7	12.3	5.0	5.0	5.0
Private Consumption	4.6	-3.4	6.6	5.0	5.4	5.1
Government Consumption	6.3	4.9	0.1	2.7	5.6	7.9
Gross Fixed Capital Investment	8.1	-12.1	22.1	4.5	3.2	4.0
Exports, Goods and Services	1.5	-30.3	36.2	13.5	7.8	7.0
Imports, Goods and Services	5.8	-14.6	24.7	9.5	6.0	6.1
Real GDP growth, at constant factor prices	4.8	-6.3	11.5	5.0	5.0	5.0
Agriculture	4.1	2.8	2.6	3.0	3.0	3.0
Industry	5.9	-6.7	16.5	5.0	5.0	5.0
Services	4.4	-7.1	10.0	5.2	5.2	5.2
Inflation (Consumer Price Index)	1.8	3.8	8.2	5.5	4.0	4.0
Current Account Balance (% of GDP)	-1.3	-2.0	-2.5	-1.8	-1.6	-1.8
Net Foreign Direct Investment (% of GDP)	-3.4	-3.2	-2.8	-3.2	-3.2	-3.2
Fiscal Balance (% of GDP)[a]	-2.2	-7.9	-2.9	-2.8	-2.5	-2.4
Debt (% of GDP)[b]	50.5	69.1	62.7	60.9	60.1	59.8
Primary Balance (% of GDP)[a]	0.6	-4.7	0.2	0.1	0.5	0.5
International poverty rate ($1.9 in 2011 PPP)[c,d]	0.6	0.8	0.7	0.7	0.6	0.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	2.7	4.0	3.7	3.6	3.4	3.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	12.4	15.2	14.5	14.2	13.7	13.3
GHG emissions growth (mtCO2e)	5.7	-5.0	6.0	1.2	1.4	1.5
Energy related GHG emissions (% of total)	64.6	62.3	64.4	64.6	64.7	64.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Fiscal balances are shown for the non-financial public sector (i.e. excluding central bank quasi-fiscal balances).
b/ Consolidated public sector debt.
c/ Calculations based on SEDLAC harmonization, using 2007-ENFT, 2019-ECNFT-Q03, and 2020-ECNFT-Q03. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
d/ Projection using annualized elasticity (2007-2019) with pass-through = 0.35 based on private consumption per capita in constant LCU.

ECUADOR

Table 1	2021
Population, million	17.9
GDP, current US$ billion	105.7
GDP per capita, current US$	5911.6
International poverty rate ($1.9)[a]	6.5
Lower middle-income poverty rate ($3.2)[a]	14.2
Upper middle-income poverty rate ($5.5)[a]	30.6
Gini index[a]	47.3
School enrollment, primary (% gross)[b]	99.0
Life expectancy at birth, years[b]	77.0
Total GHG Emissions (mtCO2e)	91.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2011 PPPs.
b/ Most recent WDI value (2019).

After a successful vaccination campaign and a solid economic rebound, Ecuador is expected to continue its reform to secure fiscal sustainability and foster growth. The windfall oil revenues are likely to reduce short-term pressures for a budgetary consolidation; however, improving the investment climate will be crucial to boosting growth and reducing poverty in the medium term. A new consensus will be critical to cement long-term fiscal sustainability while protecting the most vulnerable and tackling long-lasting constraints to private sector development.

Key conditions and challenges

With a fully dollarized economy and limited buffers, the pandemic led to a deep recession and pushed one million people into poverty. The crisis deepened inequality by curtailing access to education and job opportunities, mainly for women, the youth, low-skilled workers, and migrants.

The shock was partially offset by a sovereign bonds' renegotiation and sizable multilateral financing. With limited room for fiscal stimulus, the new Government implemented an ambitious vaccination program to enhance recovery—three-quarters of the population were fully vaccinated by February 2022. It also embarked on a reform process to cement fiscal sustainability, propel private sector development, protect the most vulnerable people, and address climate change-related challenges.

After years of capital expenditure compression, fiscal sustainability will require reforms to mobilize fiscal revenues and rationalize current expenditure. Public expenditure efficiency is critical for creating budgetary room to support vulnerable people, improve access to quality services, and use high oil prices to build fiscal buffers. To set the ground for sustainable growth based on a sound private sector will require modernizing labor regulation, streamlining insolvency management, easing burdensome regulations, enhancing competition, reducing market distortions, including in the financial sector, and fostering the promising agriculture sector. Private investment may also help exploit untapped mining resources in an environmentally and socially sustainable way, enhance non-conventional renewable energy supply, and improve infrastructure.

Besides vulnerability to fluctuations in international oil prices, Ecuador is significantly exposed to climate and other natural disasters. For instance, the regressive erosion of the Coca River, worsened during the rainy season, puts critical infrastructure in danger, including the largest hydroelectric facility and the main crude pipelines. Over the last two years, this erosion has damaged the main pipelines, interrupting oil production three times and generating environmental and social damages.

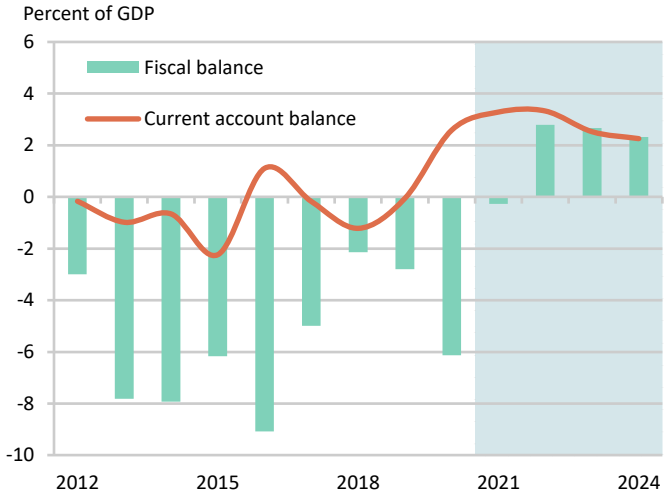
Addressing these challenges will require consensus around critical reforms in a fragmented National Assembly and a polarized society.

Recent developments

After falling by 7.8 percent in 2020, the economy grew by an estimated 4.4 percent in 2021 due to better external conditions, easing mobility restrictions, a successful vaccination campaign, and expanding domestic credit. These factors supported the recovery of most sectors despite the stagnation in oil output.

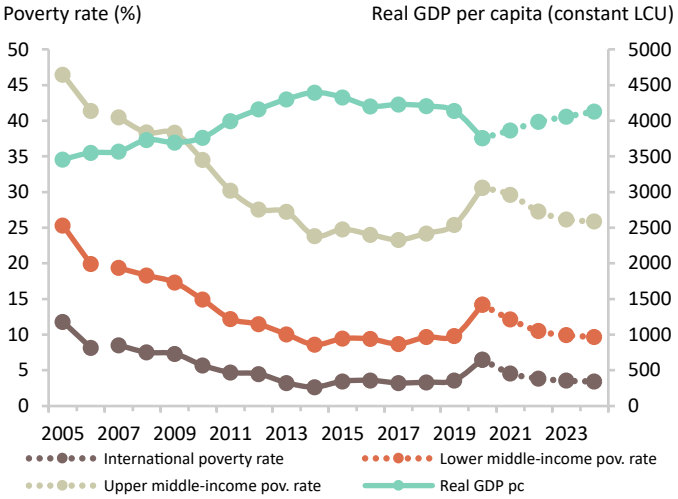
Labor participation and unemployment returned to their pre-pandemic levels; however, informality and underemployment remained high as workers tapped into

FIGURE 1 **Ecuador** / Fiscal and current account balances



Sources: Central Bank of Ecuador and Ministry of Economy and Finance.

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



Source: World Bank. Notes: See Table 2.

low-quality jobs to prevent a larger erosion of their earnings.

The fiscal deficit dropped from 6.1 to 0.3 percent between 2020 and 2021 due to recovering tax and oil revenues and lower interest payments after the debt renegotiation. These factors more than offset the effect of high health and social protection expenditure, the partial recovery of public investment, and the increase in fuel subsidies; this increase was a result of higher oil prices and the suspension of the system to gradually align national diesel and gasoline prices with their international benchmarks. Despite sizable multilateral financing, public debt fell from 61 percent of GDP in 2020 to 58 percent in 2021 due to economic growth and a lower fiscal deficit.

The current account surplus increased due to surging oil prices, increasing mining exports, lower interest payments, and recovering remittances. With sizable multilateral financing and SDR allocation, this surplus increased international reserves and spurred the money supply. With low nonperforming loans, banks used their liquidity to fuel domestic credit.

Despite the sustained increase in domestic fuel and food prices, average inflation remained near zero as the economy remained below its potential.

Poverty declined from 30.6 to 29.6 percent between 2020 and 2021, and vulnerable and middle-class populations recovered. However, most people did not rebound to their pre-pandemic status. Lack of fiscal space and insufficient targeting limited the Government's capacity to cushion the crisis. Food insecurity remains high, and access to education and health is constrained, foreshadowing long-term impacts on human capital.

Outlook

Although the ongoing recovery and high oil prices will allow Ecuador to grow 4.3 percent in 2022, growth is expected to slow to 2.9 percent in the medium term while structural growth-enhancing reforms bear fruit. Although the current expenditure consolidation will continue, the windfall oil revenues will allow the Government to increase public investment and build fiscal buffers.

Given the government objective of reducing public debt and building buffers, the fiscal deficit is projected to turn into a surplus from 2022 onwards due to the ongoing current expenditure rationalizations and improving oil revenues. Additionally, the tax reform enacted in late 2021 will increase revenues through a mix of measures, including permanent changes to personal income tax brackets and exemptions. This consolidation is expected to reduce the country's sovereign risk premium, allowing the Government to gradually return to international capital markets. Although the public sector is expected to accumulate some savings, public debt is projected to fall to 51 percent by 2024.

The Russia-Ukraine conflict is likely to affect banana, flowers, and shrimp exports, but total exports are expected to increase due to high commodity prices and growing volumes. Surging imports, however, will gradually reduce the current account surplus over the projection period. Despite low foreign investment, the current account surpluses and external financing will expand the money supply and international reserves.

The bottom of the distribution is expected to recover slowly due to improving labor market conditions, partially stopped by higher consumption prices, bringing poverty to almost pre-pandemic level (25.9 percent) by 2024 and widening the share of vulnerable people. Poverty and inequality reduction could be constrained by higher food inflation, war escalation, natural disasters, social tensions, or political instability.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	0.0	-7.8	4.4	4.3	3.1	2.9
Private Consumption	0.3	-8.2	4.6	3.8	2.8	2.7
Government Consumption	-2.0	-5.1	3.0	1.5	1.3	2.0
Gross Fixed Capital Investment	-3.3	-19.0	17.8	12.5	5.6	3.9
Exports, Goods and Services	3.6	-5.4	6.7	3.1	2.7	2.7
Imports, Goods and Services	0.3	-13.8	16.5	6.5	3.3	2.9
Real GDP growth, at constant factor prices	0.3	-7.4	3.9	4.2	3.1	2.8
Agriculture	1.6	0.4	2.1	2.1	2.1	2.1
Industry	0.2	-10.0	5.3	4.2	3.0	2.7
Services	0.1	-7.2	3.4	4.6	3.2	3.1
Inflation (Consumer Price Index)	0.3	-0.3	0.1	3.9	1.7	1.7
Current Account Balance (% of GDP)	-0.1	2.6	3.3	3.5	2.7	2.3
Net Foreign Direct Investment (% of GDP)	0.9	1.2	0.8	1.2	1.4	1.4
Fiscal Balance (% of GDP)	-2.8	-6.1	-0.3	2.8	2.6	2.3
Debt (% of GDP)	51.4	60.9	58.2	53.5	51.9	50.2
Primary Balance (% of GDP)	0.0	-3.3	1.1	4.1	4.1	3.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.6	6.5	4.6	3.9	3.6	3.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	9.8	14.2	12.2	10.5	9.9	9.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	25.4	30.6	29.6	27.3	26.2	25.9
GHG emissions growth (mtCO2e)	2.4	-3.4	0.7	1.3	-0.1	-0.4
Energy related GHG emissions (% of total)	41.5	40.0	40.0	40.4	40.0	39.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on SEDLAC harmonization, using 2007-ENEMDU, 2019-ENEMDU, and 2020-ENEMDU. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projection using microsimulation.

EL SALVADOR

Table 1	2021
Population, million	6.5
GDP, current US$ billion	27.9
GDP per capita, current US$	4281.0
International poverty rate ($1.9)[a]	1.3
Lower middle-income poverty rate ($3.2)[a]	5.7
Upper middle-income poverty rate ($5.5)[a]	22.3
Gini index[a]	38.8
School enrollment, primary (% gross)[b]	90.3
Life expectancy at birth, years[b]	73.3
Total GHG Emissions (mtCO2e)	13.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2011 PPPs.
b/ Most recent WDI value (2019).

El Salvador's GDP rebounded in 2021, largely fueled by remittances. Growth prospects are threatened by high debt and financing needs, slow progress on productivity-enhancing reforms, and policy uncertainty. Poverty is not estimated to return to its pre-pandemic levels in 2021. Limited fiscal space and lack of effective and adaptive safety nets limit poverty reduction. Given its dollarization, establishing a credible fiscal framework and implementing growth-enhancing reforms are critical for El Salvador to respond to shocks amid an uncertain global environment.

Key conditions and challenges

The COVID-19 crisis intensified El Salvador's structural weakness. Productivity has been declining since 2002, nevertheless, the country experienced a low and stable growth rate in the decade prior to the crisis, fueled by some of the highest remittance inflows in the region. The crisis led to a collapse in economic activity in 2020, followed by a sharp recovery in 2021. The government has made significant progress in vaccination against COVID-19; 70 percent of the population has received at least one dose. However, to support this recovery and grow productivity, El Salvador needs to make progress in productivity-enhancing reforms, including reforms related to trade facilitation and the business environment, innovation and competition, and regulations for private sector participation in infrastructure.

The country experienced a significant reduction in poverty before the COVID-19 crisis; however, vulnerability to poverty has been rising and it is among the highest in LAC. The sustainability of poverty reduction is limited by: (i) slow human capital accumulation, (ii) low progressivity of safety nets, (iii) negligible coverage of well-targeted conditional cash transfer (CCT) programs; and (iv) employment barriers disproportionately affecting those at the bottom.

Fiscal accounts, which have been a structural weakness, have worsened during the crisis and there is no clear and feasible fiscal consolidation plan. As a result, it is not clear that the country will be able to meet its financing needs and avoid a debt distress situation, this is reflected in the record level of sovereign risk (near 2,000 basis points).

Finally, the recent weakening of checks and balances and the introduction of bitcoin as legal tender have introduced significant policy uncertainty that is detrimental to investments. Although the liquidity and technology in cryptocurrencies can be leveraged to help El Salvador to develop, potential adverse impacts need to be taken into account.

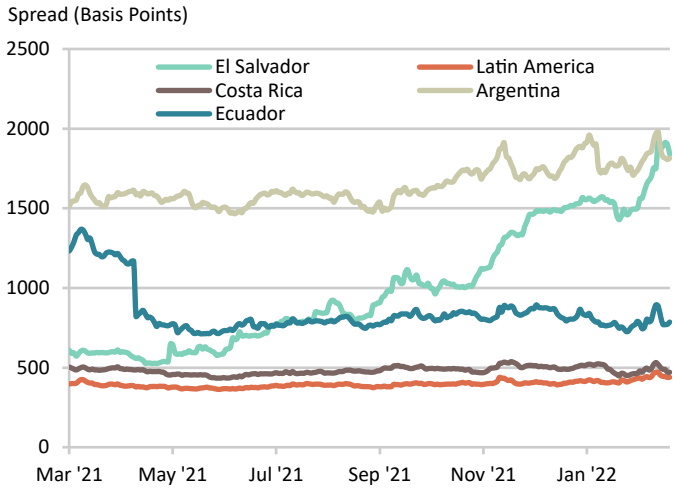
Recent developments

GDP rebounded in 2021, with an estimated growth rate of 10.7 percent, led by manufacturing, commerce, and transport. On the demand side, private consumption (boosted by remittances) and investment led growth. The employment-to-population ratio grew from 65 percent pre-pandemic to 69.6 percent in June 2021, but increases in formal employment were concentrated in the public sector.

Remittances grew 27 percent in 2021 boosting imports, which grew 46 percent. Exports rebounded at a slower pace (31.4 percent). The trade deficit increased more than remittances, resulting in a current account deficit estimated at 3.6 percent of GDP, financed by FDI and debt.

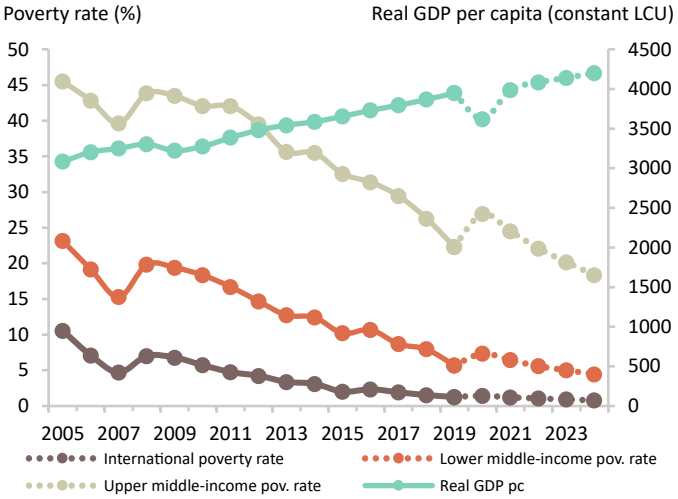
Inflation averaged 3.5 percent in 2021 (from -0.4 percent in 2020), largely due to external

FIGURE 1 El Salvador / Emerging markets bond global index



Source: JPMorgan Chase.

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



Source: World Bank. Notes: see Table 2.

factors like supply disruptions and commodity prices. Food and transport prices grew 2.3 and 6.9 percent, respectively.

The fiscal deficit declined from 9.2 percent of GDP in 2020 to 4.5 in 2021. Expenditures grew by 6.2 percent, led by the generous response to the pandemic, bitcoin set-up costs, and the wage bill. Revenues grew by 23.7 percent fueled by economic activity and tax administration efficiency. The debt stock increased by US$1.7 billion in 2021. However, the debt-to-GDP ratio dropped from 91.8 in 2020 to 85.6 percent of GDP in 2021.

The poverty rate (US$5.5) is estimated to decline in 2021 but will still be 2.2 percentage points higher than in 2019. Vulnerability to poverty is estimated to decline to 42.2 percent and about one-quarter of the population is estimated to be in the middle class in 2021. The COVID-19 crisis led to an increase in poverty, despite the generous fiscal response and large increase in remittances. Mitigation measures were not well-targeted, and remittances did not compensate for labor income losses at the bottom of the distribution, as only a small share of poor and vulnerable households receive them.

Outlook

GDP will still grow above its potential in 2022 as a result of a large growth carry-over from 2021, remittances, and government consumption. The war in Ukraine will reduce growth in 2022 due to lower US growth and higher commodity prices. After 2022, growth will be around 2 percent as progress in productivity-enhancing reforms remains limited and policy uncertainty remains high. Inflation will peak in 2022 due to higher fuel and food prices, but is projected to moderate afterwards.

The current account will remain in deficit given the increase in imports, high commodity prices and a moderation in remittance growth. Financing the current account deficit will become increasingly challenging, given modest FDI prospects and limited access to external financing.

In the absence of a credible fiscal consolidation plan, the fiscal deficit is expected to increase due to higher interest payments and public sector wage bill. The deficit could remain above five percent of GDP after 2022, while debt may reach 90 percent of GDP. Since there is no clear financing path for such fiscal policy trajectory, the baseline scenario assumes that El Salvador would have to pursue at least a modest fiscal consolidation with the aim of stabilizing its debt-to-GDP ratio. In this scenario, debt would stabilize around 85 percent of GDP due to slower growth in public investments and current expenditures.

Risks to this scenario are substantial. The geopolitical environment could deteriorate further, reducing global growth, increasing inflation, and weakening the external account of oil- and food-importing countries like El Salvador. Changes in fiscal policy may not be sufficient or timely enough to avoid debt distress. Meaningful poverty reduction requires fiscal space and resources shifts toward progressive and pro-poor social programs and human capital investments, tackling critical employment barriers is also necessary.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.6	-8.0	10.7	2.9	1.9	2.0
Private Consumption	3.2	-10.6	8.0	2.7	1.5	1.8
Government Consumption	0.6	6.1	5.5	4.8	2.4	0.9
Gross Fixed Capital Investment	6.7	-7.9	54.5	3.6	6.1	5.5
Exports, Goods and Services	6.2	-21.3	20.5	3.9	3.0	2.0
Imports, Goods and Services	2.9	-10.2	23.0	4.1	4.0	3.2
Real GDP growth, at constant factor prices	2.9	-7.9	10.7	2.9	1.9	2.0
Agriculture	-0.5	-2.3	4.8	2.1	2.1	2.1
Industry	4.4	-10.0	5.1	2.8	2.2	2.3
Services	2.5	-7.5	13.6	3.0	1.7	1.9
Inflation (Consumer Price Index)	0.1	-0.4	3.5	4.7	2.4	1.6
Current Account Balance (% of GDP)	-0.6	0.5	-3.6	-3.4	-4.3	-4.9
Net Foreign Direct Investment (% of GDP)	2.4	0.8	2.3	2.5	2.9	2.7
Fiscal Balance (% of GDP)[a]	-3.0	-9.2	-4.5	-4.4	-4.5	-3.8
Debt (% of GDP)[b]	73.6	91.8	85.6	85.3	85.8	85.7
Primary Balance (% of GDP)[a]	0.7	-4.8	-0.4	-0.4	0.0	0.4
International poverty rate ($1.9 in 2011 PPP)[c,d]	1.3	1.4	1.2	1.1	0.9	0.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	5.7	7.4	6.4	5.6	5.0	4.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	22.3	26.9	24.5	22.1	20.2	18.4
GHG emissions growth (mtCO2e)	3.2	-5.3	4.1	1.3	0.9	0.2
Energy related GHG emissions (% of total)	53.9	53.4	53.9	53.7	53.4	52.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
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 2019-EHPM. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
d/ Projections using microsimulation methods.

GRENADA

Table 1	2021
Population, million	0.1
GDP, current US$ billion	1.1
GDP per capita, current US$	9929.9
School enrollment, primary (% gross)[a]	106.9
Life expectancy at birth, years[a]	72.4
Total GHG Emissions (mtCO2e)	2.2

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

Economic growth rebounded from the sharp economic contraction of 2020, supported by the resumption of tourism and construction projects. Higher growth will facilitate returning to the pre-pandemic poverty reduction trend. The higher debt level resulting from deep economic contraction and the additional fiscal spending have threatened debt sustainability and narrowed fiscal space. A medium-term recovery plan, combined with a return to the fiscal rule and improved fiscal transparency, will enhance the Government's capacity to finance social development and climate resilience building.

Key conditions and challenges

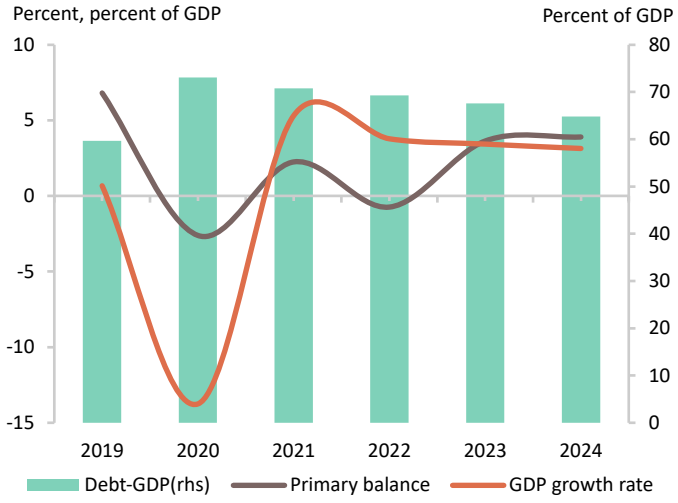
Prior to the pandemic, Grenada was firmly on its path to improved fiscal sustainability, poverty reduction and climate resilience. Real GDP growth averaged 4.7 percent between 2014 and 2019, supported by strong demand in tourism, and by structural reforms aimed at improving the business environment and building climate resilience; this led to a steady reduction in poverty from 38 percent in 2008 to 25 percent in 2018. Prudent fiscal management anchored by the Fiscal Responsibility Law (FRL) and growth-friendly consolidation measures led to an average of 4.2 percent of GDP primary surplus over the same period. As a result of solid growth and fiscal discipline, the public debt stock dropped from 108 percent of GDP in 2013 to 59.7 percent in 2019.

However, vulnerabilities remain mainly due to the intrinsic characteristics as a small island developing economy, and the severe aggravation of these pre-existing challenges by the pandemic. As a small island developing state, Grenada's economy and labor market remain heavily reliant on tourism, a sector that is deeply affected by the global business cycle, natural disasters and with the highest share of working women. Climate change and natural disasters have been a major source of economic volatility and disproportionately affecting the poorest. Private sector and households have limited access to the financing market to cushion the external shocks and invest in new opportunities. The pandemic led to a sharp economic contraction of 13.8 percent in 2020, and increased the debt to above 70 percent of GDP. It further narrowed the fiscal space to mitigate economic volatilities and support resilient growth.

Recent developments

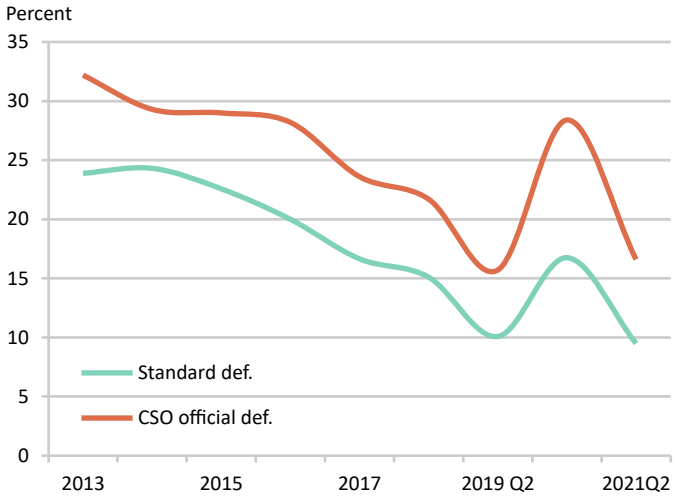
Following a deep recession in 2020, real GDP growth is estimated to recover strongly at 5.3 percent in 2021, lowering unemployment and poverty. The gradual loosening of traveling protocols in 2021Q4 has led to a significant increase of stay-over tourists, especially from the United States. The total number of stay-over tourists remains lower than in 2020, but longer stays resulted in higher total spending. Strategies to enhance the public project implementation caused a significant increase in public construction in 2021, which, along with partially resumed private investment in agriculture and accommodation, contributed largely to the growth. The return of international students at St. George's University (20 percent of GDP) to in-person learning also supported 2021 GDP growth. These factors helped reduce unemployment from 28.4 percent in 2020Q2 to 16.6 percent in 2021Q2 and led to a poverty reduction of 1.9 percent in 2021, reaching 29.0 percent. Recovery among women has been slower as a result of the faster recovery in construction than tourism.

FIGURE 1 Grenada / The evolution of main macro indicators



Source: World Bank, Macroeconomics and Fiscal Management Global Practice.
Note: e= estimate; f = forecast * The estimates for the primary balance for 2020 included the Grenlec related payment of EC$162 million.

FIGURE 2 Grenada / Unemployment rate



Source: Labor Force Survey 2013-2021, Central Statistical Office.

The primary balance is estimated at a surplus of 2.3 percent of GDP in 2021. It is a narrowing surplus from 2020, excluding the December 2020 repurchase of the electricity company at around 5.8 percent of GDP. The lowered surplus reflected a stronger increase in public construction, partially continued supportive fiscal measures, and a 4 percent growth of the wage bill. These factors outweighed the additional tax revenue. After having triggered the escape clause under the FRL for three years, the Government has committed to return to the FRL in 2023 and has published a recovery plan that lays out the medium-term fiscal strategy. Strong GDP growth and fiscal surplus are estimated to reduce public debt from 73.1 percent of GDP in 2020 to 70.8 percent in 2021.

The current account deficit is estimated to have widened slightly to 20.2 percent of GDP in 2021, from 19.0 percent in 2020. The widening deficit results from higher global commodity prices and increased imports to support economic activities, which exceed the higher exports associated with tourism. A significant portion of the higher external deficit is financed by disbursement from pre-secured project loans. Higher global commodity prices, especially gas and fuel, and food, pushed up inflation and limited the reduction in extreme poverty to only 0.7 percentage points.

Outlook

GDP and poverty rate are expected to recover gradually over the medium term as tourism rebounds. Real GDP is projected to reach its 2019 level by 2024, in tandem with the assumed gradual resumption of international travel, the expected return of international students, and a rebound in public and private construction projects. In line with the macroeconomic performance and the labor market's slow recovery, poverty is expected to reduce slowly and reach around 27 percent in 2022, approaching the pre-pandemic level only after 2023. Inflationary pressure, due to the extended pandemic impacts and the war in Ukraine, will affect negatively the economic recovery and the poorest groups disproportionately. High global commodity prices, together with the increasing imports demand, are expected to keep the external balance deficit at a high level, albeit with the improvement of tourism-related exports.

The primary surplus is expected to continue narrowing in 2022 but will likely improve and return to the FRL in 2023 at 3.6 percent of GDP. A significant portion of public construction will continue into 2022, increasing capital expenditure to a projected 9.5 percent of GDP. This increase will exceed the gains in the tax revenue from increased economic activities and turn the primary balance into a deficit in 2022. Over the medium term, the primary balance is expected to return to the FRL level in 2023, supported by the continued recovery of the economy, and the completion of major public construction projects. The Medium-term Fiscal Framework includes other stabilizing factors such as improvements to tax administration and gains in spending efficiency which will allow keeping total spending bounded. As a result, the debt-to-GDP ratio is projected to fall to about 64.8 percent by 2024.

Downside risks are high to the economic outlook. In addition to natural disasters, inflationary pressures and risks from the war in Ukraine could erode the real income growth in tourism source countries and negatively affect tourism recovery. These risks may also delay the build-up of fiscal buffers to cushion future shocks. Though progress in fiscal transparency and risk management has been achieved in recent years, these could become major sources of risk and continue to require attention.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices[a]	0.7	-13.8	5.3	3.8	3.4	3.1
Real GDP growth, at constant factor prices[a]	1.3	-13.7	5.3	3.8	3.4	3.1
Agriculture	-2.3	-14.5	5.2	3.3	2.8	1.9
Industry	-0.6	-14.8	6.5	4.2	2.9	2.0
Services	2.0	-13.4	5.0	3.7	3.6	3.5
Inflation (Consumer Price Index)	0.6	-1.2	2.2	4.1	2.6	1.9
Current Account Balance (% of GDP)	-13.6	-19.0	-20.2	-22.5	-16.0	-13.2
Fiscal Balance (% of GDP)[b]	5.0	-4.6	0.4	-2.7	1.8	2.2
Debt (% of GDP)	59.7	73.1	70.8	69.3	67.6	64.8
Primary Balance (% of GDP)[b]	6.8	-2.6	2.3	-0.7	3.6	3.9
GHG emissions growth (mtCO2e)	1.9	-13.5	5.1	3.1	1.8	0.7
Energy related GHG emissions (% of total)	12.9	12.9	12.9	12.9	12.8	12.8

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

GUATEMALA

Table 1	2021
Population, million	17.2
GDP, current US$ billion	86.5
GDP per capita, current US$	5038.8
International poverty rate ($1.9)[a]	8.8
Lower middle-income poverty rate ($3.2)[a]	24.4
Upper middle-income poverty rate ($5.5)[a]	49.1
Gini index[a]	48.3
School enrollment, primary (% gross)[b]	100.6
Life expectancy at birth, years[b]	74.3
Total GHG Emissions (mtCO2e)	43.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

While the COVID-19 pandemic interrupted a prolonged period of growth, resilient remittances and a timely fiscal stimulus package helped alleviate the impact and supported a strong rebound; real GDP is estimated to have increased by 8.0 percent in 2021. At the same time, slow vaccine rollout, political tensions, strong dependance on remittances, and rising international prices pose significant risks. Higher food and energy prices could adversely affect purchasing power, especially among the vulnerable, curbing poverty reduction in 2022.

Key conditions and challenges

Guatemala experienced a prolonged period of economic growth and macro-economic stability prior to the COVID-19 pandemic. In the pre-pandemic decade, real GDP growth averaged 3.5 percent propelled by remittance-fueled private consumption. The Government implemented prudent fiscal and monetary management. Foreign exchange interventions by the Central Bank supported a stable exchange rate. International reserves reached 24 percent of GDP at end 2021. Investment and productivity growth remain low, limiting the country's long-term growth prospect.

Despite stable economic growth, there has been little progress in reducing poverty in recent years. Simulations for 2019 show that about 47.8 percent of the population was below the poverty line (US$5.50 2011 PPP per day per person), slightly down from 49.1 percent in 2014 (last official poverty estimate). While the impact of the pandemic increased poverty to an estimated 52.4 percent in 2020, this increase would have been two to three times greater without the government's policy response, targeted at the poor. Some vulnerable households (between US$5.50 and US$13) slipped into poverty, resulting in a decline in vulnerability from 36.5 in 2019 to 33.6 in 2020 percent of the population. There was also a reduction in middle-class households (between US$13 and US$70) from 15.2 to 13.5 percent of the population.

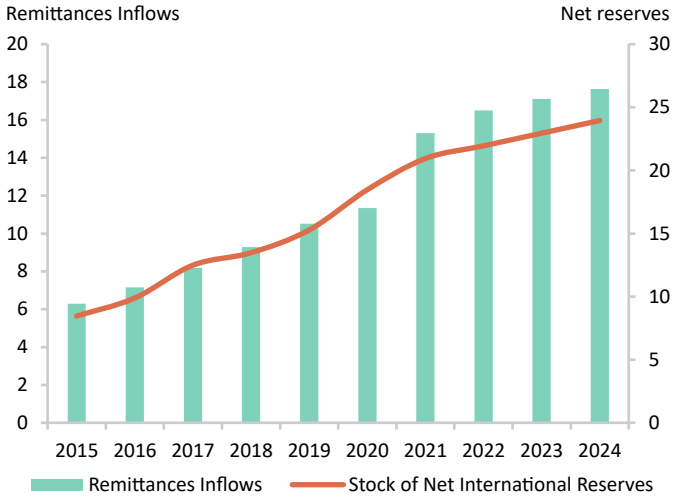
Guatemala remains one of the countries with the highest level of social and economic exclusion in the region. Rural areas, the northern and northwest regions, and indigenous groups exhibit higher levels of monetary and nonmonetary poverty, lower living standards, and more limited economic opportunities. The pandemic exacerbated the low and unequal rates of access to basic services, and the resulting human capital losses are among the largest in Central America, according to Human Capital Index estimates.

A fragmented political system, low revenue mobilization, and low levels of public investment remain among the country's salient challenges. Administrative measures increased revenue mobilization to 12.3 percent of GDP in 2021 (up from 11.2 percent in 2019 but still the second lowest in the region, above Haiti). Political fragmentation has complicated the adoption of tax and productivity-enhancing reforms. Thus, GDP growth has relied on factor accumulation and is constrained by negative total factor productivity.

Recent developments

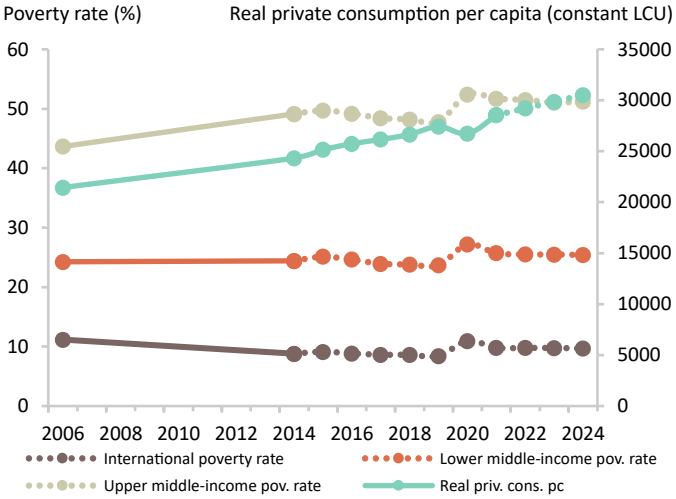
Economic growth is estimated to have reached 8.0 percent in 2021 supported by record-high remittances that fueled private consumption and investment; GDP surpassed the pre-pandemic projected trend. Guatemala experienced one of the smallest GDP contractions in the region in 2020, and economic activity recovered to pre-pandemic levels in the first quarter of 2021

FIGURE 1 Guatemala / Remittances inflows and net international reserves build up (in billion USD)



Source: Central Bank of Guatemala.

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



Source: World Bank based on ENCOVI 2006 and 2014. Notes: see Table 2.

and maintained momentum throughout the year, supported by a remarkable expansion in the inflow of remittances.

Export growth was outpaced by imports, narrowing the current account surplus. In 2021, strong external demand increased merchandise exports, especially apparel, textiles and coffee. A rebound in domestic demand boosted import volume growth to 24 percent, double the growth rate of exports. Remittances kept the current account in surplus. The monetary policy rate was kept unchanged as average headline inflation was 4.3 percent in 2021, within the policy range of 3-5 percent.

The growth in remittances is estimated to have contributed to lower poverty in 2021. Economic growth in Guatemala has had a limited effect on poverty reduction in recent decades, remittances increased reaching approximately US$800 per capita, which is expected to bring the poverty rate (US$5.50 2011 PPP per day) down to 51.7 percent in 2021. Inequality is expected to have decreased slightly, from a Gini index of 0.485 in 2020 to 0.481 in 2021.

The fiscal deficit narrowed to 1.2 percent of GDP in 2021 as a result of improved revenues and under-execution of the budget. In 2021, government spending fell by 2.1 percentage points to 13.5 percent of GDP as emergency spending was scaled back; the primary surplus is estimated to have reached 0.5 percent of GDP.

Outlook

GDP growth is projected to be 3.4 percent in 2022 and converge to 3.5 percent in the medium term. The war in Ukraine damped the outlook for 2022 and 2023. The current account surplus is projected to narrow, and tourism to remain subdued until 2023. Higher commodity prices, especially food and energy prices, are projected to drive inflation up in 2022 and 2023. Foreign exchange interventions to stabilize the exchange rate are projected to continue and monetary policy may tighten if inflation rises.

Poverty is expected to decline gradually but could be negatively affected by price developments. The expected hike in prices could limit purchasing power, curbing efforts to reduce poverty and inequality. A slowdown of the US economy, in line with a somber global outlook, may lead to a reduction in remittances, further hindering poverty reduction.

The fiscal deficit is projected to increase to 2.3 percent of GDP in 2022 but continued fiscal consolidation efforts are expected to stabilize debt. Government spending is set to increase to 14.5 percent of GDP in 2022, due to an increase in social transfers and investment. Also, the government expanded the energy emergency subsidies in response to increased prices. Fiscal consolidation will resume in 2023 as tax administration measures, including digital filing, are projected to improve revenue mobilization by 0.4 p.p. between 2022 and 2024, reducing the interest-to-revenue ratio from 14.1 percent in 2021 to 13.2 in 2024. The debt burden is projected to decline in 2022, as additional revenues from 2021 will be used to cancel debt.

Risks to the forecast are skewed to the downside, although there are also upside risks. New waves of COVID-19, natural disaster events, and a worsening of supply chain constraints affecting exports could slow recovery. Furthermore, lower than projected revenues would hinder social investment and worsen already weak social indicators. On the upside, increased fiscal revenues that translate into public investment and improved infrastructure, coming on top of the increase in investment that was recorded in 2021, could boost productivity.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.9	-1.5	8.0	3.4	3.4	3.5
Private Consumption	4.5	-1.1	8.9	4.1	3.8	4.0
Government Consumption	2.5	1.6	6.6	3.2	0.4	0.9
Gross Fixed Capital Investment	8.7	-5.9	18.4	6.4	4.9	4.4
Exports, Goods and Services	0.1	-4.4	12.4	4.7	3.9	3.0
Imports, Goods and Services	4.9	-4.6	23.7	6.7	4.4	3.9
Real GDP growth, at constant factor prices	3.7	-1.4	7.6	3.4	3.4	3.5
Agriculture	2.1	2.9	2.5	2.3	2.4	2.4
Industry	3.8	-1.2	7.6	2.6	2.8	2.8
Services	3.9	-2.2	8.4	3.9	3.8	3.9
Inflation (Consumer Price Index)	3.7	3.2	4.3	5.0	4.5	4.0
Current Account Balance (% of GDP)	2.3	5.1	3.1	1.1	0.5	0.1
Fiscal Balance (% of GDP)	-2.2	-4.9	-1.2	-2.3	-1.9	-1.9
Debt (% of GDP)	26.5	31.6	30.6	29.7	29.5	29.4
Primary Balance (% of GDP)	-0.6	-3.2	0.5	-0.6	-0.3	-0.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	8.4	10.9	9.8	9.8	9.7	9.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	23.7	27.2	25.7	25.5	25.5	25.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	47.8	52.4	51.7	51.5	51.1	51.2
GHG emissions growth (mtCO2e)	3.7	6.1	1.3	2.3	2.5	2.0
Energy related GHG emissions (% of total)	56.3	58.3	57.4	57.5	57.6	57.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on SEDLAC harmonization, using 2006-ENCOVI and 2014-ENCOVI. Actual data: 2014. Nowcast: 2015-2021. Forecasts are from 2022 to 2024.
b/ Projections based on microsimulations.

GUYANA

Table 1	2021
Population, million	0.8
GDP, current US$ billion	7.4
GDP per capita, current US$	9378.7
School enrollment, primary (% gross)[a]	97.8
Life expectancy at birth, years[a]	69.9
Total GHG Emissions (mtCO2e)	22.5

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

Guyana's economy is expanding at an extraordinary rate, fueled primarily by the expansion of oil output. This is expected to continue over the medium term as more fields are added to production. Increasing oil and gas revenues will allow financing of significant budget outlays to address development needs and tackle poverty. Significant risks remain, including the management of oil wealth, the quality of spending, and Dutch disease effects.

Key conditions and challenges

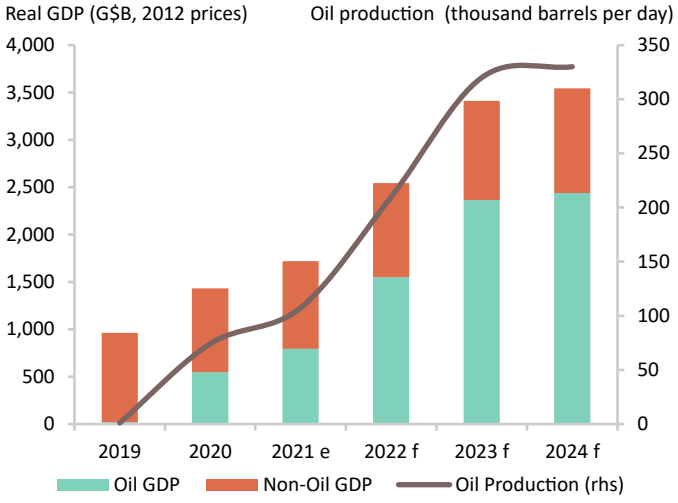
Guyana is going through a period of exceptional growth with the development of its oil and gas sector. Real GDP per capita is expected to reach US$ 23,000 by 2024, more than double 2020 levels, with the share of the oil and gas sector rising to approximately 60 percent of total GDP. Nevertheless, agriculture, gold, bauxite, and timber production remain relevant, especially for the non-oil economy, as together, they account for a significant share of jobs. The transformation also implies a significant increase in revenues which, up to 2021, was being saved in a sovereign wealth fund (SWF) outside of the economy.

Guyana's resource wealth contrasts with the overall needs of the population, marked by ethnic and social polarization. At 48.4 percent in 2019, Guyana's poverty rate is among the highest in the region, using the upper-middle income poverty line (US$5.5 per day in 2011 PPP). Between 2006 and 2019, the income of the bottom 40 percent grew slower than the average, resulting in increased income inequality, with the Gini coefficient rising from 0.46 to 0.52. Poverty and social exclusion, including limited access to basic services, are particularly severe in Guyana's hinterland and among Amerindians. Furthermore, early evidence suggests that the pandemic increased poverty and food insecurity amid limited progress in vaccination due to vaccination hesitancy. At least 54 percent of the population was inoculated with at least one dose of vaccine as of mid-February 2022.

The new Natural Resource Fund (NRF) Act, adopted in December 2021, introduced a revised framework for the management and transfers from the SWF. It also revamped the oversight committee, including the establishment of a Board of Directors, and is largely consistent with the Santiago Principles. The new rule allows transfers to the budget starting 2022, using a simple mathematical formula to calculate withdrawal amounts which should average between 4 to 5 percent of GDP over the medium term. As increased fiscal revenues will allow Guyana to rapidly scale up public expenditures, it is vital to ensure that spending is efficient, and reforms address social and infrastructure gaps. In parallel, Guyana will need to manage the risks of large inflows from oil revenues to prevent overheating the economy and generating Dutch Disease effects.

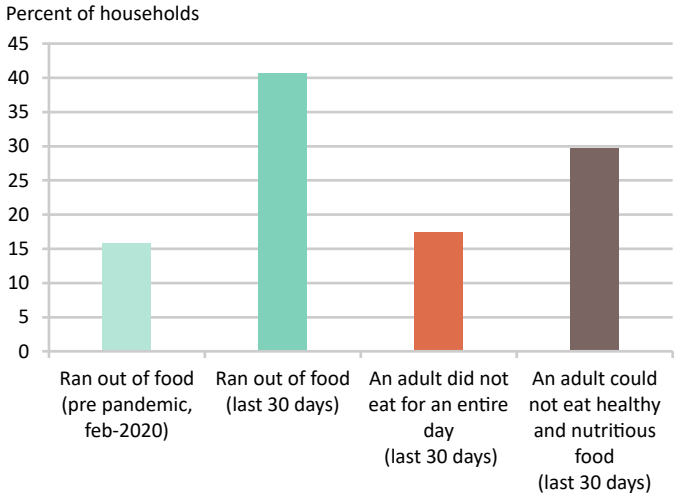
For long-term pro-poor growth, and in line with the country's new national development strategy, more efficient and effective public service delivery is essential. This is particularly the case in areas like health, education, and digital connectivity, which improve human capital. Sound and transparent management of oil revenues will be critical to avoid increased polarization and further erosion of already weak institutions and governance. Reforms to support private sector growth are also critical. COVID-19 remains a key risk for the economy, given the threat to the normalization of business conditions and livelihoods.

FIGURE 1 Guyana / Oil production, real oil, and real non-oil GDP, 2019-2024



Source: World Bank staff estimates. Note: f=forecast. 2024 values assume full-capacity production in Liza I and II.

FIGURE 2 Guyana / Selected food insecurity indicators in June 2021



Source: World Bank staff estimates based on World Bank and UNDP LAC High Frequency Phone Surveys, Phase II, Wave 1.

Recent developments

Real GDP is estimated to have increased by 19.9 percent in 2021, owing primarily to an expansion of oil production, which averaged about 107,500 barrels per day as Liza I approached full capacity. The expansion of the oil sector was accompanied by a 4.6 percent growth in the non-oil economy linked to ongoing recovery from the impact of the pandemic, particularly in construction and services. Inflation increased to 4.8 percent in 2021, reflecting higher food prices which rose by 11.6 percent. Guyana's exchange rate regime remains a de facto stabilized arrangement with foreign exchange rate interventions.

Negative impacts from the pandemic on employment and household income persisted in 2021 and are likely to have increased poverty. The World Bank – UNDP High-Frequency Phone Survey, conducted in June 2021, suggests considerable increases in food insecurity. About 40 percent of households ran out of food due to a lack of money or other resources within the 30 days preceding the survey. Furthermore, 47.3 percent of households have still not recovered their pre-pandemic level of income. This is also reflected in higher unemployment rates.

The fiscal deficit increased to 10.4 percent of non-oil GDP in 2021. The widening was primarily driven by flood relief assistance payments to farmers and households and increased capital expenditure outlined by the government's public sector investment program. Public debt fell to 40.7 percent of overall GDP in 2021 due to increased economic growth.

The current account deficit (CAD) widened to 21.2 percent of GDP in 2021, driven largely by the importation of Guyana's second floating production storage and offloading (FPSO) vessel, Liza Unity, and increased net service payments. The CAD was primarily funded by private inflows, while international reserves increased by 19.1 percent to US$ 810.8 million, representing 2.1 months of total imports in 2021.

Outlook

Guyana is expected to remain one of the world's fastest-growing economies in the medium term, as new oil fields are developed and production capacity expands to approximately 330,000 barrels per day by 2024. Oil production, and consequently real GDP, is expected to jump in 2022 as Liza II begins operation. Real GDP is expected to more than double by 2023, pushing per capita income to over US$20,000 at the current nominal exchange rate. Real GDP growth could accelerate further with the commissioning of additional fields in the medium term.

Poverty reduction will depend on the performance of the non-oil economy through job creation, including those linked to public investment projects and local content for the oil sector, as well as the redistribution of resource revenues. The expansion of oil and gas production will boost private investment and accelerate the growth of services. Increased gold and bauxite output will also drive export growth. Inflation will remain elevated, reflecting increasing government consumption, higher input costs, and supply chain disruptions. This threatens the purchasing power and food security of poor and vulnerable households, especially if food prices continue to increase.

Guyana's natural resource boom will lead to a sustained current account surplus in the coming years, improving the country's international reserves position. The war in Ukraine and its impact on fuel prices will also influence Guyana's current account going forward.

Guyana's fiscal deficit is expected to narrow to 4.9 in percent of non-oil GDP by 2024. Increased revenues, largely tied to inflows from the NRF will partly offset higher spending on capital infrastructure projects. In this context, public debt is expected to fall to 23.6 percent of GDP by 2024.

Guyana is now highly vulnerable to oil-related shocks, both to price and output. It also faces well-known risks associated with resource-dependent economies, such as a lack of diversification, increasing reliance on the state which can affect private sector competitiveness, and an erosion of institutions. Guyana needs to maintain an operational SWF to mitigate the imbalance between the resource inflow and the economy's absorptive capacity while also limiting waste. Furthermore, oil production has environmental consequences that must be carefully considered, and the sector may face additional risks as the world transitions away from fossil fuels.

The pandemic resulted in severe disruptions in education with a third of school-aged children not attending school in mid-2021. If resulting learning gaps are not addressed, this can have substantial long-term impacts on welfare.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at purchaser prices (total)[a]	5.4	43.5	19.9	47.9	34.3	3.8
Real GDP growth, at factor prices (non-oil)[b]	3.1	-6.2	4.6	7.2	5.7	5.4
Agriculture	-0.5	4.1	-9.1	3.6	3.0	3.0
Industry	5.4	-10.5	9.2	14.8	10.3	8.8
Services	4.0	-9.9	11.6	4.0	3.8	4.0
Inflation (Consumer Price Index)	1.4	1.0	4.8	7.3	6.5	6.2
Current Account Balance (% of GDP)[c]	-54.6	-15.1	-21.2	45.7	42.6	34.9
Fiscal Balance (% of GDP)[d]	-2.8	-9.4	-10.4	-7.0	-5.1	-4.9
Debt (% of GDP)	34.2	47.4	40.7	29.2	25.0	23.6
Primary Balance (% of GDP)[d]	-2.0	-8.6	-9.7	-6.2	-4.5	-4.4
GHG emissions growth (mtCO2e)	1.5	9.0	6.2	6.0	13.7	3.8
Energy related GHG emissions (% of total)	14.1	19.5	22.6	32.5	39.5	40.5

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

HAITI

Table 1	2021
Population, million	11.5
GDP, current US$ billion	20.9
GDP per capita, current US$	1814.6
International poverty rate ($1.9)[a]	24.5
Lower middle-income poverty rate ($3.2)[a]	50.3
Upper middle-income poverty rate ($5.5)[a]	78.6
Gini index[a]	41.1
Life expectancy at birth, years[b]	64.0
Total GHG Emissions (mtCO2e)	10.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2012), 2011 PPPs.
b/ Most recent WDI value (2019).

Haiti's economy contracted for a third consecutive year in 2021, increasing the already high poverty levels. This reflects the deep structural challenges the country must surmount, including a deepening lingering political crisis, unprecedented level of insecurity, and weak governance, which, combined with relatively low skilled labor, leads to a strong dependence on imports. The country is also highly vulnerable to natural hazard shocks and is recovering from a devastating earthquake and tropical storm Grace in the Southern peninsula in 2021.

Key conditions and challenges

The political and institutional crisis, compounded by increasing levels of insecurity, continues to hinder Haiti's economic performance. Other key challenges to boost productivity and economic growth include deficient infrastructure, limited human capital, weak governance and institutions, and an unfavorable business environment characterized by uncertainty, under-developed finance markets, and limited market contestability.

Vulnerability to natural hazard shocks and climate change is likely to continue to hinder growth, hurting the poor and the vulnerable.

The lack of credibility in the policy framework and uncertainty of the political process erodes confidence and impair economic agents' ability to plan for the long term or create jobs. Moreover, limited access to quality healthcare and education hinders the possibility of building human capital to break the cycle of poverty.

Recent developments

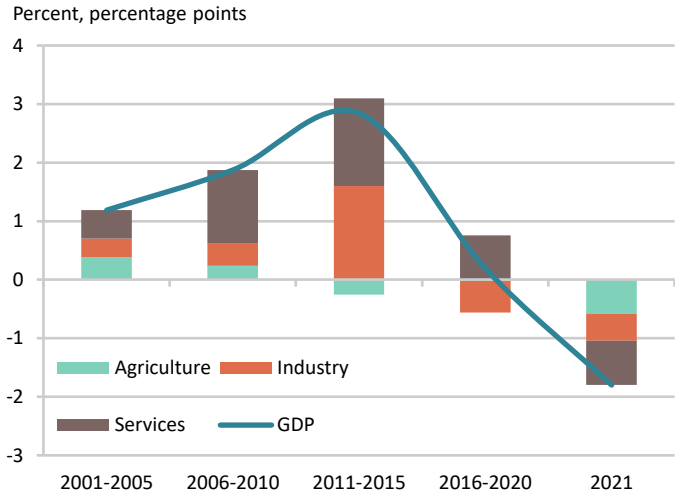
Political instability and security concerns due to armed gangs vying for control over business districts depressed investment which contracted by 21.8 percent in 2021, taking a toll on economic activity. Therefore, GDP contracted by 1.8 percent in 2021, marking the third consecutive year of negative growth. All three sectors of the economy declined, with agriculture registering the largest slide at 4.1 percent, partly as a result of watershed degradation and low rainfall. The economic slump affected households, with 68 percent of them reporting income drop compared to the pre-pandemic period (HFS).

On the fiscal front, the government struggled to mobilize tax revenues. The fiscal deficit is estimated at 2.5 percent of GDP in 2021, with direct subsidies to the energy sector accounting for 1.3 percent of GDP. In Q1 FY2022, however, the government partially removed oil subsidies, hiking retail fuel prices by 74.3 percent on average.

Due to the strong gourde policy engineered at the beginning of FY2021, the currency appreciated by 23.2 percent on average against the US dollar by the end of FY2021. Headline inflation consequently edged down to 15.9 percent and food inflation declined to 19.6 percent, from 27.5 percent the previous year. The poorest are disproportionally affected by the high inflation levels given their high share of household expenditures on food. In line with the reduced household incomes and high inflation levels, food insecurity has worsened, especially in the poorest rural households, where 80 percent reported running out of food. But the incidence of COVID-19 remained relatively mild, despite a vaccination rate below 1.0 percent. By the end of February 2022, about 26,000 positive cases had been officially reported.

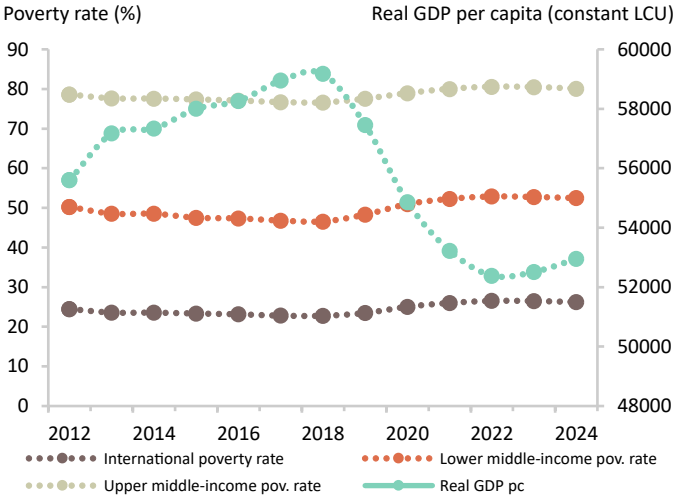
A corollary of the strong gourde policy is the depletion of net international reserves, which declined by 35.8 percent to stand

FIGURE 1 **Haiti** / Real GDP growth and sectoral contributions to real GDP growth



Source: Haiti Statistical Office (IHSI).

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



Source: World Bank staff calculations.

at US$ 457.6 million in FY2021. Gross reserves are, however, at a healthy level of 6.5 months of imports. The current account balance (CAB) remained positive at 0.7 percent of GDP, on large remittances inflows increase, higher exports, and the collapse in investment.

Despite a recent political agreement to form a new interim government, the political situation remains volatile. The government's most urgent task is to reestablish security and organize credible elections.

Outlook

The tense political context and heightened security concerns continue to depress private investment, with attendant consequences on growth. GDP is therefore expected to contract by 0.4 percent. Agriculture, on which most vulnerable and poor households depend for their livelihood, will continue to hamper growth; one reason for this is the constant reduction of arable land and low credit to the sector (0.1 percent of total commercial loans in FY2021).

While the recent fuel price adjustment provided temporary relief, given the ongoing Russia-Ukraine war, ensuring retail prices are adjusted regularly to reflect international market price conditions for all fuel products will be needed. Fiscal conditions will remain tight since the authorities stated their intentions to commit to fiscal consolidation within the IMF Staff Monitored Program (SMP) framework. Hence, the fiscal deficit is expected to narrow to 1.5 percent of GDP, albeit 1.9 percent of GDP of central bank (BRH) financing is anticipated. The fuel price increase, coupled with declining agricultural output and BRH financing, will exert pressure on CPI inflation, which is expected to close at around 26.2 percent, with the exchange rate moving pari passu. The resulting increase in the cost of basic goods would hurt the poorest.

Imports will grow at a faster rate, on higher fuel and food prices and material to meet post-earthquake reconstruction needs. However, the workers' strike at the beginning of FY2022 in the textile sector, coupled with rising insecurity, will affect the sector's output. Therefore, exports are expected to contract. Despite the global economic recovery and ensuing increasing remittances, the CAB will turn to a deficit of around 1.3 percent of GDP in FY2022.

The economy is expected to rebound in the medium term, supported by strong remittances and increased private investment as political tensions ease, and the security situation improves. GDP is expected to expand by 1.7 percent over the medium term. Donor support and finalization of the SMP with the IMF, with several structural measures focusing on tax revenue mobilization and greater spending efficiency, will likely help maintain the fiscal deficit at manageable levels over the medium term, easing pressure on prices. The CAB is expected to stabilize at around -2.0 percent of GDP, on stronger growth of remittances.

The outlook remains fraught and hinges strongly on how the political context evolves and security improves. Delay in implementing critical reforms, including in the electricity sector, customs, and internal revenue service, and vulnerability to natural hazard shocks may also hinder growth and achievement of shared prosperity.

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

	2018/19	2019/20	2020/21	2021/22e	2022/23f	2023/24f
Real GDP growth, at constant market prices	-1.7	-3.3	-1.8	-0.4	1.4	2.0
Private Consumption	-1.0	-4.0	1.2	1.0	1.8	0.9
Government Consumption	-8.6	11.1	9.7	9.5	8.1	-2.1
Gross Fixed Capital Investment	7.7	-20.6	-21.8	-0.8	-7.3	23.5
Exports, Goods and Services	6.8	-39.7	1.4	-1.0	4.0	2.0
Imports, Goods and Services	4.2	-18.3	2.7	6.2	2.5	3.1
Real GDP growth, at constant factor prices	-1.1	-2.9	-2.5	-0.1	1.4	2.0
Agriculture	-1.9	-2.5	-4.1	-1.1	0.9	1.0
Industry	-6.8	-6.9	-2.5	-1.5	1.7	1.5
Services	2.1	-1.2	-2.0	0.9	1.4	2.6
Inflation (Consumer Price Index)	17.3	22.9	15.9	26.2	18.9	13.4
Current Account Balance (% of GDP)	-1.1	1.5	0.7	-1.3	-2.1	-1.5
Net Foreign Direct Investment (% of GDP)	0.5	0.2	0.2	0.4	0.4	0.3
Fiscal Balance (% of GDP)	-2.0	-3.0	-2.5	-1.5	-1.7	-1.5
Debt (% of GDP)	26.2	24.4	25.6	26.1	21.8	23.2
Primary Balance (% of GDP)	-1.7	-2.7	-2.2	-1.2	-1.4	-1.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	23.5	25.1	26.0	26.5	26.5	26.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	48.3	51.0	52.3	52.9	52.8	52.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	77.6	79.0	80.0	80.6	80.5	80.1
GHG emissions growth (mtCO2e)	-0.6	-0.7	0.4	0.4	1.9	2.5
Energy related GHG emissions (% of total)	33.3	32.4	32.2	32.4	33.6	35.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on SEDLAC harmonization, using 2012-ECVMAS. Actual data: 2012. Nowcast: 2013-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2012) with pass-through = 0.87 based on GDP per capita in constant LCU.

HONDURAS

Table 1	2021
Population, million	10.1
GDP, current US$ billion	28.4
GDP per capita, current US$	2822.8
International poverty rate ($1.9)[a]	14.8
Lower middle-income poverty rate ($3.2)[a]	29.0
Upper middle-income poverty rate ($5.5)[a]	49.0
Gini index[a]	48.2
School enrollment, primary (% gross)[b]	90.2
Life expectancy at birth, years[b]	75.3
Total GHG Emissions (mtCO2e)	27.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2011 PPPs.
b/ Most recent WDI value (2019).

Honduras's real GDP reached its pre-crisis level in 2021, led by remittance-fueled private consumption, post-hurricane reconstruction, and robust export demand. Poverty and inequality are estimated to have declined in 2021 but remain above pre-crisis levels. GDP growth is expected to moderate in the medium term amid tempering of global demand, unwinding of pandemic support, and completion of reconstruction activities. Adverse effects of the prolonged pandemic on livelihoods and human capital accumulation pose risks to future poverty reduction.

Key conditions and challenges

Honduras's export-oriented growth model has been insufficient to boost growth and incomes. The country's exposure to external shocks and natural hazards, combined with high crime rates and a weak institutional and business environment, undermine its competitiveness. Real GDP growth averaged 3.1 percent over the past decade, mainly driven by remittance-fueled private consumption. Yet, in 2019, almost half the population lived on less than US$5.50 per day, making Honduras one of the poorest countries in the Latin America and Caribbean region. Prudent macroeconomic management anchored in the Fiscal Responsibility Law (FRL), a crawling peg exchange with ample foreign reserves, and a sound financial sector supported macro stability in the run-up to the crisis.

The impacts of the pandemic and hurricanes Eta and Iota exacerbated existing economic and social challenges. Real GDP contracted by 9 percent, and poverty (US$5.50 line) is estimated to have increased by 6.4 percentage points in 2020 to 55.4 percent. The country's relatively low public debt and deficit coupled with good access to concessional financing allowed for a countercyclical response, in line with the FRL's escape clause, to cushion the impacts of the multiple shocks. Yet, emergency programs had a relatively small mitigating impact. Despite a steep increase, public debt remained sustainable, and the debt service remained relatively low. However, contingent liability risks remain high, including those related to the state electricity company (ENEE) and exogenous shocks.

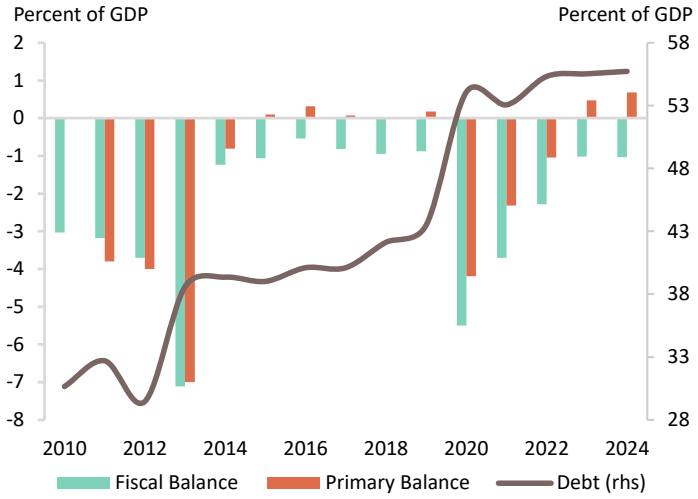
Vaccination helped slow the spread of COVID-19 by end-2021 (at 47 percent of the population in March 2022). Yet, high hesitancy rates among the elderly and less educated expose the country to new waves.

A key challenge is maintaining the reform momentum amid political fragmentation and policy uncertainty, while mitigating the social impacts of recent shocks. Better targeting and execution of support programs; strengthening resilience to climate risks; and improving the business environment, governance and institutions remain critical to boost economic opportunities for a largely poor and vulnerable population.

Recent developments

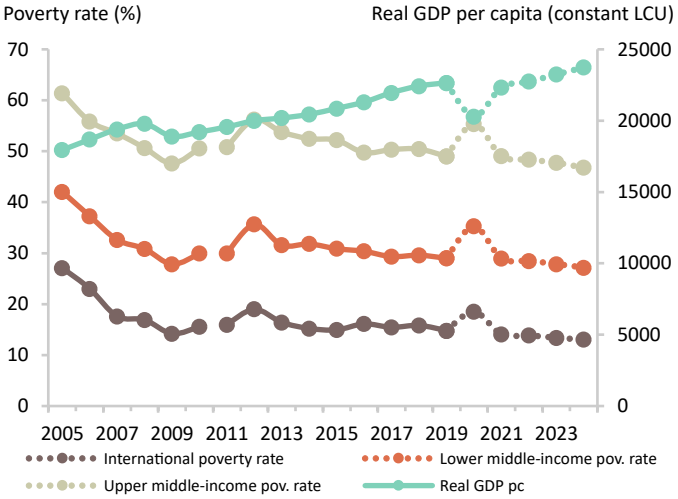
Real GDP is estimated to have grown 11.9 percent y.o.y in 2021, rebounding to pre-crisis level. This expansion was broad-based and driven by private consumption and investment associated with remittances and reconstruction activities. Growth in remittances, representing 24.3 percent of GDP, accelerated by 19.6 percent y.o.y in 2021. Yet, as of mid-2021, about 41 percent of households reported incomes below the pre-pandemic level as about 1 in 3 workers in Honduras lost their pre-pandemic jobs. Job stoppages affected women disproportionately, especially mothers of 0–5-year-old children,

FIGURE 1 **Honduras** / Fiscal balance and debt



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

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



Source: World Bank. Notes: see Table 2.

the elderly (age 65+), and the less-educated. Although food security improved in 2021, Honduras still has the lowest rates in Central America.

Poverty (US$5.50 line) is estimated to have declined in 2021 to 49.1 percent, still above the pre-crisis level. In 2021, the middle class (US$13-$70 per day in 2011 PPP) recovered to its pre-crisis level of 17.9 percent, after a 3.6 percentage point fall at the onset of the pandemic in 2020.

The government continues with expansionary policy as reconstruction and health needs are significant. In keeping with the FRL's escape clause, the Non-Financial Public Sector (NFPS) deficit is estimated to have reached 3.7 percent of GDP in 2021, bringing total NFPS debt to 53.1 percent of GDP (compared to 54.1 percent in 2020). The government authorized new borrowing for up to US$2 bn in 2022-23 and withdrew US$335 m in IMF's Special Drawing Rights.

After registering a historical surplus of 2.9 percent of GDP in 2020, the current account is estimated to have reversed to a deficit in 2021 on the back of recovering imports. The external position remains strong, supported by remittances and external financing. Foreign reserves stood at 30.6 percent of 2021 GDP at end-2021, supporting exchange rate stability. While being contained by a relatively stable exchange rate, inflation accelerated to 6.4 percent y.o.y in February 2022 – above the Central Bank's (BCH) target band (4 percent ± 1 percent) – amid higher food and energy prices and strong domestic demand. Higher food and gasoline prices pose a risk to poverty reduction as they account for a higher share of household income at the bottom of the distribution. Moreover, high energy costs could affect light manufacturing (maquilas), which employs 12 percent of workers with an income under the poverty line. The BCH maintained the key policy rate at 3 percent in early 2022.

Outlook

Real GDP is expected to moderate to an average annual rate of 3.5 percent slowly converging to its potential as global demand tempers and crisis support is phased out. Remittances will continue to fuel domestic consumption, albeit at a slower rate amid stabilization in U.S. growth and higher commodity prices amid the conflict in Ukraine. Agriculture is expected to recover but will remain vulnerable to the U.S. import demand and climate shocks. A wider current account deficit associated with higher import values is expected to be financed primarily by FDI inflows. Finally, the poverty rate (USD 5.5 Line) is expected to decline to 47.8 percent by 2023 as labor markets recover.

Honduras is expected to continue receiving external financial support while returning to the FRL target of 1 percent NFPS deficit in 2023. The required fiscal tightening is challenging and is expected to be supported by the gradual unwinding of pandemic support, budget reallocations, and revenue growth aided by the economic recovery and revenue mobilization measures. The compliance with FRL will enable public debt to stabilize over the medium term.

Monetary tightening is likely in the near term as inflation accelerates amid increasing energy and food prices and anticipated monetary policy tightening in the U.S.

A weak legislative position within the ruling party could slow progress on fiscal, social, and structural reforms, and along with budget execution issues, weaken growth and raise risks of social unrest. Prolonged unemployment and high inflation could heighten food insecurity, particularly for informal low-income households that lack insurance and savings, and could have lingering effects on human capital and livelihoods.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.7	-9.0	11.9	3.1	3.6	3.7
Private Consumption	4.7	-6.4	6.1	3.3	3.4	3.2
Government Consumption	1.7	2.9	9.3	-2.9	-3.5	1.8
Gross Fixed Capital Investment	-5.2	-23.8	27.3	5.3	4.8	3.8
Exports, Goods and Services	2.4	-20.3	18.1	6.3	5.4	4.9
Imports, Goods and Services	-2.4	-18.5	13.7	5.5	3.7	3.6
Real GDP growth, at constant factor prices	2.7	-9.0	11.9	3.1	3.6	3.7
Agriculture	-1.0	-6.3	0.3	5.3	4.1	3.1
Industry	1.8	-14.3	19.0	2.2	4.7	4.8
Services	4.0	-7.2	11.9	2.9	3.0	3.4
Inflation (Consumer Price Index)	4.4	3.5	4.5	5.5	5.0	4.0
Current Account Balance (% of GDP)	-2.7	2.9	-3.1	-3.5	-3.9	-4.0
Net Foreign Direct Investment (% of GDP)	2.0	1.5	2.3	2.8	3.1	2.9
Fiscal Balance (% of GDP)[a]	-0.9	-5.5	-3.7	-2.3	-1.0	-1.0
Debt (% of GDP)[a]	43.5	54.1	53.1	55.3	55.5	55.7
Primary Balance (% of GDP)[a]	0.2	-4.2	-2.3	-1.0	0.5	0.7
International poverty rate ($1.9 in 2011 PPP)[b,c]	14.8	18.5	14.1	13.9	13.4	13.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	29.0	35.3	29.0	28.5	27.9	27.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	49.0	55.4	49.1	48.4	47.8	46.8
GHG emissions growth (mtCO2e)	-1.0	-6.6	4.7	2.6	2.4	1.6
Energy related GHG emissions (% of total)	35.8	33.0	34.5	34.6	35.9	36.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Fiscal data refers to non-financial public sector.
b/ Calculations based on SEDLAC harmonization, using 2019-EPHPM. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
c/ Projection using neutral distribution (2019) with pass-through = 0.87 based on GDP per capita in constant LCU.

JAMAICA

Table 1	2021
Population, million	3.0
GDP, current US$ billion	12.5
GDP per capita, current US$	4204.7
School enrollment, primary (% gross)[a]	90.6
Life expectancy at birth, years[a]	74.5
Total GHG Emissions (mtCO2e)	9.7

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

Jamaica is recovering from the pandemic, with growth recently picking up and unemployment falling to historic lows, resulting in a decrease in poverty. Nonetheless, the country is still beset by a high level of debt, low labor productivity, and a weak enabling environment for greater private sector participation in the economy. Vaccine hesitancy, new COVID-19 variants, the ongoing war in Ukraine, disaster shocks, and a slow tourism recovery all pose significant risks.

Key conditions and challenges

Jamaica's real gross domestic product (GDP) per capita has averaged $4,746 over the past decade, below the average for the 1990s. Income per capita has declined further with the pandemic. Falling per capital income coincided with a larger share of the population at work suggesting declining average labor productivity. Jamaica's low growth and declining productivity is attributed to a long list of constraints including limited interconnectedness of enclave industries with the rest of the economy, and pervasive crime and violence which discourages investments. The country is also vulnerable to climate shocks affecting mainly vulnerable groups as well as key sectors like tourism and agriculture. Further, the cost of energy and internet connectivity are extremely high even by regional standards and there are gaps in human capital with high migration of skilled labor and a weakening in learning and education outcomes.

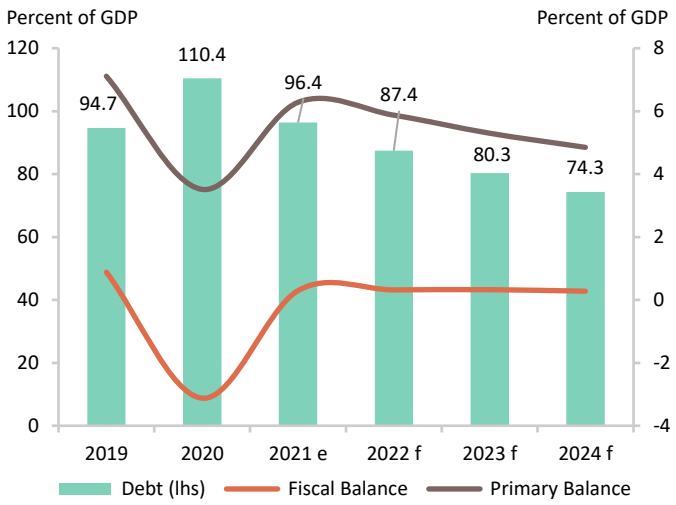
Despite a steep reduction of public debt in recent years, from 145 to an estimated 96 percent of GDP between 2013 and 2021, it remains among the highest in the region. As such, faster growth is needed to reduce the debt burden and create space for pro-poor interventions. Achieving the target of a debt stock of at least 60 percent of GDP by 2028 as outlined in the Fiscal Responsibility Law will require addressing constraints to growth while improving the efficiency and effectiveness of public spending. It will also demand an acceleration in reforms to address fiscal risks including those from natural disasters. Containment of the COVID-19 pandemic is critical for economic recovery and inclusive growth. As of February 20, 2022, approximately 25 percent of the population has received one dose of vaccine and only 21 percent has been fully vaccinated against COVID-19, among the lowest in the region due to high vaccine hesitancy. Jamaica's near-term recovery will depend on the normalization of international travel, with the tourism sector accounting for more than 30 percent of GDP and one-third of the workforce. New COVID-19 variants represent a major threat.

Jamaica remains on the Financial Action Task Force's (FATF) grey list of non-compliant countries due to flaws in its anti-money laundering and counter-terrorism financing framework. This could lead to large international banks de-risking, which could have an impact on trade.

Recent developments

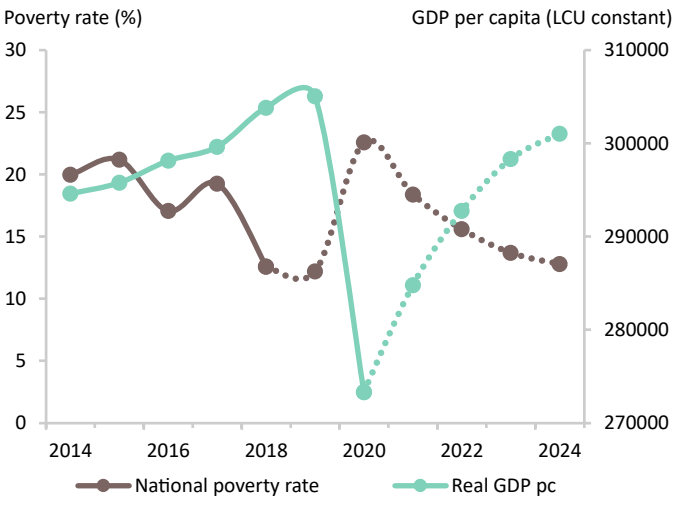
Real GDP rose by 4.6 percent in 2021, driven by private and government consumption, and by external demand as there was some slowdown in investments. Government consumption remained robust amidst a continuation of efforts to stem the impact of the pandemic on livelihoods. At the sectoral level, the expansion in real GDP was principally attributed to a partial rebound in tourism from the near closure

FIGURE 1 Jamaica / Fiscal balances and public debt



Sources: GoJ, IMF, and World Bank staff estimates.

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



Source: World Bank staff calculations. Note: Poverty projections are estimated based on 2018 JSLC. Projection using growth semi-elasticity of poverty = -1 and GDP per capita in constant LCU.

of the sector in 2020. In this context, the unemployment rate fell to a historic low of 7.1 percent in October 2021.

Inflation rose sharply in the second half of the year, averaging 5.9 percent in 2021. Most of the increase was due to higher food and fuel prices. As a result, the central bank raised its policy rate by 350 basis points to 4 percent between September 2021 and February 2022.

The fiscal account is estimated to have recorded a surplus of 0.3 percent of GDP in 2021. Higher tax and non-tax collections boosted revenues to 31.8 percent of GDP. Spending fell by 0.9 percentage point to 31.5 percent of GDP, reflecting lower program, compensation and capital expenditures. In this context, the public debt to GDP ratio fell by 14.1 percentage points to 96.3 percent of GDP in 2021.

In 2021, Jamaica's current account surplus was 1.3 percent of GDP, thanks to a 15.5 percent increase in visitor arrivals and a 20.4 percent increase in remittances. Tourist visitors are still down 63.7 percent from pre-pandemic levels. Jamaica ended 2021 with US4,832.4 million dollars in official reserve assets (equivalent to 8.4 months of total imports), up 18.4 percent from the year prior. Most of the increase was driven by Special Drawing Rights and the IMF Reserve Position.

The poverty rate at the national poverty line is estimated to have declined to 18 percent in 2021, following a sharp rise in 2020 to about 23 percent. Over 150,000 workers either lost their jobs or dropped out of the labor market between January and July 2020. Although the employment rate slightly surpassed pre-pandemic levels in October 2021, nearly 50,000 workers still had not returned to the labor force, foregoing earned income. Lower-income households, in particular, are feeling strained as prices continue to rise.

Outlook

Over the medium term, real GDP growth is expected to average 2.2 percent, driven primarily by private consumption, investments, and net external demand, assuming a steady recovery in tourist arrivals as vaccination progresses and more travel routes are restored. Investments are expected to increase, driven by tourism-related and public infrastructure projects. On the supply side, construction, agriculture, and tourism will remain key drivers of growth. Mining and quarrying will also support growth with the planned resumption in mining at the country's major alumina plants. Inflation is envisaged to average around 6.5 percent with the upside risk of remaining higher given ongoing developments in Europe.

Monetary policy will continue to balance support to growth while strengthening efforts to dampen inflation expectations and avert pressures on the currency from anticipated monetary policy tightening in the United States. Jamaica's financial institutions are still sound, though a protracted crisis may pose stability challenges.

The fiscal accounts should remain in surplus over the medium-term with a gradual fall in spending as the COVID-19 cash support and other programs are phased out. As such, financing needs will decline pulling debt below 90 percent of GDP and closer to the target of 60 percent of GDP. Nevertheless, the trajectory for public debt remains vulnerable to uncertainties related to COVID-19, tightening financial market conditions, fiscal risks posed by state-owned enterprises and to natural disaster shocks, posing risks for poverty.

The current account is expected to record an average annual deficit of 3.2 percent of GDP over the medium term as rising fuel prices increase spending on imports and remittances revert to pre-pandemic levels. Private flows are expected to improve, reducing the need for public sector borrowing to finance the deficit. Gross reserves are expected to remain at healthy levels, averaging more than 5 months of imports.

Poverty is projected to fall to around 13 percent by 2024 as household incomes improve with the economic recovery. Inflation will need to be kept in check to protect purchasing power. Disruptions in learning during the pandemic may have longer-term effects on human capital and the future earning potential of students.

The economic outlook is vulnerable to significant downside risks, such as slower-than-expected tourism recovery, COVID-19 variants, higher prices, capital flow volatility, and natural disasters, as well as the possibility of a worsening of Europe's ongoing crisis.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	0.9	-10.0	4.6	3.2	2.3	1.2
Private Consumption	1.0	-13.2	3.0	2.9	2.0	1.4
Government Consumption	3.1	11.7	2.1	-0.2	2.4	3.7
Gross Fixed Capital Investment	1.0	-15.9	-3.3	8.2	6.9	0.9
Exports, Goods and Services	3.6	-30.0	19.0	5.9	3.1	2.5
Imports, Goods and Services	4.2	-26.7	7.4	5.8	4.7	3.3
Real GDP growth, at constant factor prices	1.0	-10.0	4.6	3.2	2.3	1.2
Agriculture	0.4	-1.4	1.1	1.3	1.6	1.6
Industry	-0.7	-5.7	2.7	3.0	1.2	0.7
Services	1.6	-12.1	5.6	3.5	2.7	1.3
Inflation (Consumer Price Index)	3.9	5.7	5.9	8.0	5.8	5.7
Current Account Balance (% of GDP)	-2.3	-0.3	1.3	-4.1	-3.2	-2.5
Net Foreign Direct Investment (% of GDP)	1.4	1.9	1.2	2.4	2.5	2.5
Fiscal Balance (% of GDP)[a]	0.9	-3.1	0.3	0.3	0.3	0.3
Debt (% of GDP)[a]	94.7	110.4	96.4	87.4	80.3	74.3
Primary Balance (% of GDP)[a]	7.1	3.5	6.3	5.9	5.3	4.9
GHG emissions growth (mtCO2e)	4.1	-9.4	0.7	1.8	-0.6	0.2
Energy related GHG emissions (% of total)	81.9	80.6	81.2	81.6	82.0	82.4

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

MEXICO

Table 1	2021
Population, million	130.3
GDP, current US$ billion	1292.4
GDP per capita, current US$	9921.6
International poverty rate ($1.9)[a]	3.1
Lower middle-income poverty rate ($3.2)[a]	9.8
Upper middle-income poverty rate ($5.5)[a]	28.1
Gini index[a]	45.4
School enrollment, primary (% gross)[b]	104.7
Life expectancy at birth, years[b]	75.1
Total GHG Emissions (mtCO2e)	699.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2011 PPPs.
b/ Most recent WDI value (2019).

Real GDP growth is projected at 2.1 percent in 2022. The labor market has yet to fully recover as most gains in employment took place in informal and low-wage jobs. Poverty is expected to decline marginally in 2022. Risks to recovery include higher and persistent inflation, accelerated monetary policy normalization in the U.S., increases in COVID-19 cases, continuing job quality decline, and supply chain disruptions. Addressing pre-pandemic structural constraints to growth and inclusion remains critical for a robust medium-term economic recovery.

Key conditions and challenges

Trade openness, with a strong export manufacturing base connected to Global Value Chains and integrated with the U.S. economy, and a stable macroeconomic framework, are staples of the Mexican economy. Potential output growth declined in the previous decade due to weak productivity growth and sluggish investment. Productivity heterogeneity is considerable across sectors, regions, and firms as long-standing structural barriers to growth remain, such as: limited access to finance, regulatory burden, infrastructure bottlenecks, and inadequate provision of public services.

Significant regional differences persist: 63 percent of the multidimensional extreme poor lived in six of Mexico's 32 states in 2020. Rural areas, particularly in the south, suffer from a vicious cycle of low productivity, low physical and human capital investments, and high poverty rates. Despite the positive effects of urbanization, most of Mexico's poor live in urban areas where public services provision is inadequate.

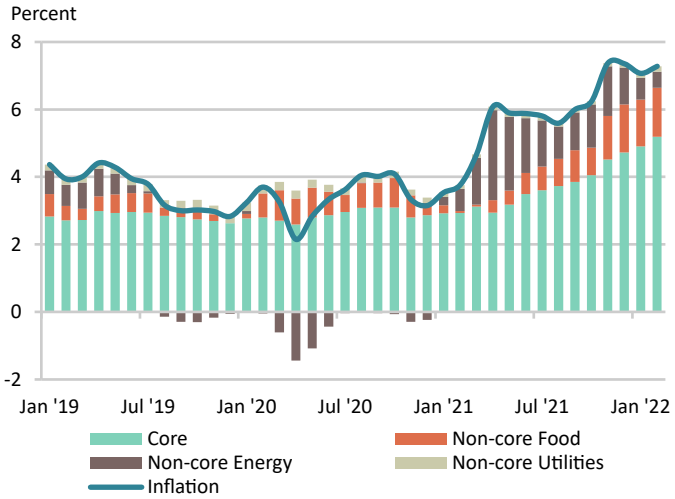
The pandemic has exacerbated labor market weaknesses, including underemployment, low female labor force participation, widespread informality, and lower quality of newly created jobs. Access to quality education worsened as schools shut down, leading to higher dropout rates and a reduction of 1.5 learning-adjusted years of education. Healthcare access declined as the system struggled to cope with COVID-19. These factors are likely to have long-term impacts on human capital, productivity, and inequality.

Mexico's fiscal position deteriorated in 2020. The limited fiscal response to the pandemic, albeit at the risk of a weaker recovery, and the sharp depreciation led to an increase in public indebtedness, although this was lower than other emerging markets. The recently approved administrative tax reform seeks to simplify tax compliance for MSMEs and broaden the tax base. Moving forward, broader revenue-enhancing reforms will be needed to meet spending pressures, increase access to quality public services and infrastructure, while preserving debt sustainability. Higher oil prices will boost revenue in the short term, but PEMEX's challenging situation calls for a turnaround. Uncertainty about regulatory changes could hamper the recovery of some sectors, particularly energy.

Recent developments

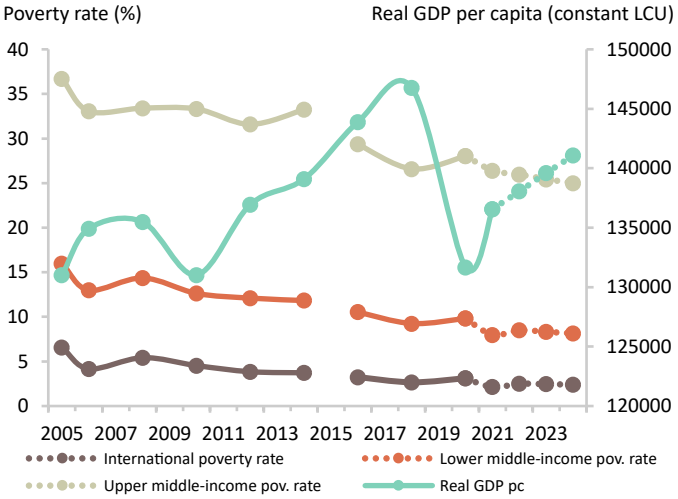
Real GDP grew 4.8 percent in 2021, supported by solid performances in services and manufacturing in 2021 H1, as both mobility and U.S. demand increased. The recovery lost impulse in 2021 H2 because of supply chain shortages, a rise in COVID-19 cases, and depressed investment. Between July 2020 and December 2021, 7.4 million additional jobs were added, surpassing pre-pandemic levels by 0.8 million. However, most employment gains were in informal and low-wage jobs

FIGURE 1 **Mexico** / Inflation



Source: INEGI.

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



Source: World Bank. Notes: see Table 2.

and unemployment and underemployment rates remained above pre-pandemic levels. Female labor force participation has not recovered, standing at 44.6 percent at the end of 2021 compared to 45.2 percent in 2019.

Monetary poverty using the US$5.5 poverty line is expected to have declined from 28.1 percent in 2020 to 26.4 percent in 2021, supported by a recovery in labor incomes. While the poverty headcount rate is back to its 2018 level, there are one million more people in poverty compared to 2018 as a result of population growth. The vulnerable (incomes between US$5.5 and US$13 per capita per day) increased slightly, making up 44.5 percent of the population in 2021.

The current account deficit was 0.4 percent of GDP in 2021. Recovery in imports, due to inventory re-stocking and GVCs normalcy, was attenuated by export performance, and remittances that amounted to US$51.6 billion in 2021.

Headline (core) inflation reached 7.3 (6.6) percent in February 2022. The cost of the basic food basket increased by 13.9 (12.8) percent in rural (urban) areas in the same period. The Central Bank increased its policy rate from 4.0 in February 2021 to 6.0 percent in February 2022 to maintain medium-term expectations within the target (3 ± 1 percent).

Government fiscal deficit was 3.8 percent of GDP during 2021. Government revenues benefited from the economic recovery, tax settlements with large companies, and higher oil prices. Expenditures remain contained, despite the continuation of large public investment projects.

Outlook

The economy is projected to expand by 2.1 percent in 2022. Real GDP growth is forecast at 2.1 and 2.0 percent in 2023 and 2024, in line with Mexico's potential growth. The economy is projected to reach its pre-pandemic level in 2023. High inflation and slow recovery in labor income are expected to continue to weigh on domestic consumption. Public investment is expected to support the recovery, while private investment is projected to remain weak as regulatory uncertainties remain.

The Central Bank is expected to continue to raise its policy rate to rein in inflation, anchor expectations, and accommodate the normalization of monetary policy in the U.S. Inflation is projected to fall within the target band after 2022.

The 2022 budget maintains prudent public expenditure, focusing on flagship investment projects. It envisages stabilizing the public debt-to-GDP ratio at 51 percent, supported by the enacted tax administration reform and economic growth. The strong recovery in oil prices will help this debt stabilization process.

Job creation, labor income growth, and higher social transfers in the form of non-contributory pensions are expected to lead to a gradual reduction in monetary poverty in 2022 and a further reduction through 2024. Enduring high inflation could affect poverty reduction, as nearly 55 (36) percent of the rural (urban) population had incomes below the basic food basket in 2021 Q4.

The economic recovery is subject to risks. New COVID-19 variants might affect mobility and private consumption, mitigated by the pace of vaccination. Persistent bottlenecks in international supply chains could slow the recovery in manufacturing and exports. Regulatory uncertainty surrounding the energy sector may result in subdued private investment. Inflationary pressures may erode households' purchasing power and expedite interest rate hikes, which will affect investment and consumption. The current war in Ukraine might add additional inflationary pressures and increase financial risk.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	-0.2	-8.2	4.8	2.1	2.1	2.0
Private Consumption	0.4	-10.5	7.2	2.7	2.5	2.4
Government Consumption	-1.8	0.1	0.4	0.7	0.3	-0.2
Gross Fixed Capital Investment	-4.7	-17.8	9.8	2.7	2.5	2.3
Exports, Goods and Services	1.5	-7.3	7.2	6.4	5.9	5.0
Imports, Goods and Services	-0.7	-13.7	14.6	7.2	6.1	5.1
Real GDP growth, at constant factor prices	-0.2	-7.9	4.7	2.1	2.1	2.0
Agriculture	-0.3	0.3	2.9	2.0	1.7	1.3
Industry	-1.8	-9.8	6.5	2.5	2.5	2.1
Services	0.6	-7.5	4.1	1.9	1.9	2.0
Inflation (Consumer Price Index)	3.6	3.4	5.7	6.0	3.9	3.5
Current Account Balance (% of GDP)	-0.3	2.4	-0.4	-0.9	-1.2	-1.7
Net Foreign Direct Investment (% of GDP)	1.9	2.3	2.5	2.3	2.1	2.0
Fiscal Balance (% of GDP)	-2.3	-4.0	-3.8	-3.4	-3.3	-3.3
Debt (% of GDP)	44.5	51.7	50.0	49.0	49.0	49.5
Primary Balance (% of GDP)	0.4	-1.0	-1.2	-0.7	0.0	0.3
International poverty rate ($1.9 in 2011 PPP)[a,b]		3.1	2.1	2.5	2.5	2.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]		9.8	8.0	8.5	8.3	8.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]		28.1	26.4	26.0	25.4	25.0
GHG emissions growth (mtCO2e)	1.1	-2.5	2.0	0.8	0.7	0.6
Energy related GHG emissions (% of total)	67.2	66.7	67.2	67.3	67.4	67.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on SEDLAC harmonization, using 2020-ENIGHNS. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Based on microsimulation model for 2021-2022. For 2023-24, assumes neutral distribution (2020) with pass-through = 0.87 based on GDP per capita.

NICARAGUA

Table 1	2021
Population, million	6.7
GDP, current US$ billion	14.0
GDP per capita, current US$	2090.9
International poverty rate ($1.9)[a]	3.4
Lower middle-income poverty rate ($3.2)[a]	13.1
Upper middle-income poverty rate ($5.5)[a]	35.4
Gini index[a]	46.2
School enrollment, primary (% gross)[b]	120.6
Life expectancy at birth, years[b]	74.5
Total GHG Emissions (mtCO2e)	40.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2011 PPPs.
b/ WDI for School enrollment (2010); Life expectancy (2019).

Robust remittance inflows, a fiscal stimulus, and favorable commodity prices have been the main drivers of the economic recovery following a three-year recession brought on by the 2018 sociopolitical crisis, the COVID-19 pandemic, and two major hurricanes. However, fiscal consolidation, war in Ukraine, and repercussions from the present political context are expected to reduce growth. Nicaragua still faces lingering pandemic-associated negative welfare impacts with lower wages and employment and higher informality compared to the pre-crisis period.

Key conditions and challenges

Prior to 2018, market-oriented reforms and sound macroeconomic management (including a crawling peg exchange rate and modest fiscal deficits) contributed to a solid economic expansion. Between 2000 and 2017, growth averaged 3.9 percent, led by domestic demand fueled by remittances and Foreign Direct Investment (FDI). Nevertheless, growth was driven primarily by factor accumulation and led by low-skill manufacturing exports.

Following a two-year recession brought on by the sociopolitical crisis of 2018, the country suffered further declines in economic activity because of the pandemic and two major hurricanes. Compared to regional peers, the economic impact of the pandemic was limited due to mild containment measures. Nonetheless, real GDP declined 1.8 percent in 2020 as voluntary shutdowns weighed on domestic demand, while the global crisis dragged external demand. With cumulative loss amounting to 8.7 percent since 2018, economic activity is estimated to have recovered to pre-2018 levels in 2021.

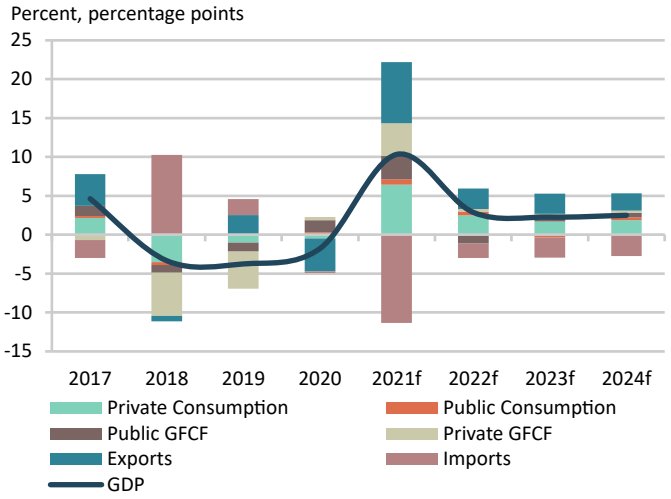
While 60 percent of the population is fully vaccinated (as of February 2022), further vaccinations will be necessary to ensure a robust economic recovery, as more countries reduce COVID-19 restrictions and global tourism normalizes. Nonetheless, the global environment is expected to weigh on growth in Nicaragua as the war in Ukraine lowers growth prospects in advanced economies and puts pressure on commodity prices. The current domestic political context and subsequent international reaction pose additional challenges to economic recovery, including lower FDI inflows and higher borrowing costs. It will therefore be more urgent to establish productivity-boosting and confidence-enhancing reforms, including improved access to finance, property rights and innovation.

Recent developments

Real GDP increased 10.3 percent in 2021. This recovery can be attributed to: (i) private consumption fueled by robust remittance inflows; (ii) public consumption and investment aimed at addressing the impacts of COVID-19 and hurricane damages; and (iii) private investment and exports supported by favorable commodity prices. Mining, manufacturing, construction, and trade have been the main drivers of growth; tourism is recovering slowly.

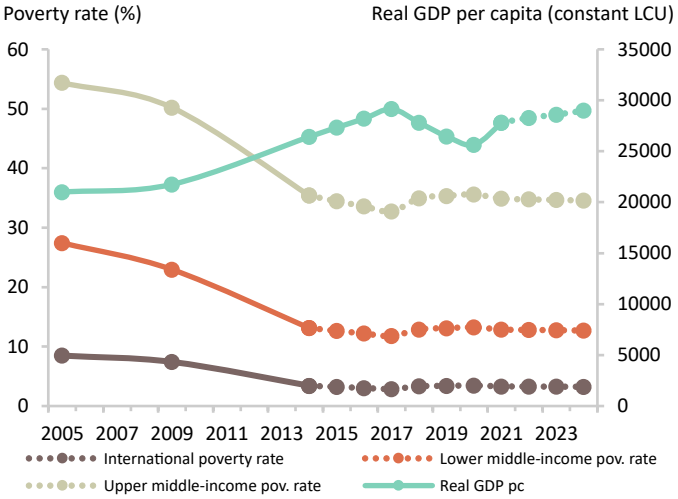
Nevertheless, welfare impacts of the COVID-19 crisis remain. Data shows lower employment rates in 2021Q3 (44 percent) than 2020Q3 (46 percent), as labor-intensive sectors like construction, hotel and restaurants have not fully recovered their employment levels. According to the World Bank High Frequency Survey, around 13 percent of those formally employed, prior to the pandemic, had transitioned to an informal job by June 2021. Employment and wage declines drove a

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



Sources: Central Bank of Nicaragua and World Bank.

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



Source: World Bank. Notes: see Table 2.

reduction in family income for 44 percent of households by mid-2021.

At the onset of the pandemic, the Central Bank implemented policies to ensure liquidity in the financial system, and these are still in place. The financial system has been gradually recovering, as asset quality and profitability have continuously improved. Inflation reached 4.9 percent in 2021 pressured by rising commodity prices, especially food and transportation.

The fiscal deficit is estimated to have narrowed to 1.5 percent of GDP in 2021 as revenue growth surpassed spending growth. While emergency-related multilateral support enabled a ramp up in capital expenditures, including on hurricane-related reconstruction and pre-election spending, current expenditures rose more slowly as execution of COVID-19 funds lagged. Debt is therefore expected to have reached 67.3 percent of GDP by the end of 2021.

The current account is estimated to have recorded a deficit of 1 percent of GDP in 2021 as increases in imports outweighed the pickup in exports. Meanwhile, FDI increased to an average 8.5 percent of GDP in the first three quarters of 2021 on the back of financing for mining and energy projects spurred by favorable commodity prices.

Outlook

Growth is expected to decelerate in 2022 to 2.9 percent amid global headwinds and a fiscal consolidation. Authorities are planning a consolidation starting 2022 as part of their commitment to the IMF and concerns over debt sustainability, by reducing capital spending, however, current spending momentum will remain to ensure absorption of COVID-19 funds, declining thereafter. Recent international geopolitical developments are expected to weigh on growth amid elevated oil prices and lower demand, partially offset by positive impacts from higher prices of exported commodities. Moreover, the present domestic political context is expected to keep investment and growth below historical levels throughout the forecast. These events will maintain the poverty rate (defined as $3.2/day PPP) hovering around 13 between 2020 and 2022. Meanwhile, inflation is expected to pick up further to 5.9 percent in 2022 as commodity price pressures and supply-chain disruptions are aggravated by recent geopolitical events, gradually declining thereafter.

The current account deficit is expected to widen in 2022 amid deteriorating terms of trade and a marginal deceleration in remittances, balancing by 2024 as a result of a gradual resumption in tourism, robust exports, and growing, albeit at a declining pace, remittance inflows. Meanwhile, FDI inflows are expected to slow, given the present political context.

Fiscal consolidation will bring the deficit down in coming years. Financing needs will be met through domestic borrowing and non-concessional external borrowing, which will increase the cost of debt but not compromise debt sustainability. The debt burden is expected to reach 63.0 percent of GDP in 2024.

Risks to the forecast are on the downside and include the following: (i) deterioration of the domestic and international political context, including the war in Ukraine, (ii) further international isolation, (iii) new COVID-19 waves, (iv) delayed resumption of international travel to Nicaragua; (v) natural disasters; and (vi) rising commodity prices. On the other hand, China-oriented policies, including the signing of the Belt and Road Initiative MoU, could unlock external loans on more favorable conditions not subject to international sanctions.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	-3.8	-1.8	10.3	2.9	2.3	2.5
Private Consumption	-1.3	-0.6	8.1	3.2	2.2	2.4
Government Consumption	0.7	1.9	4.4	2.9	-2.3	2.4
Gross Fixed Capital Investment	-24.5	10.4	33.9	-3.0	4.1	3.4
Exports, Goods and Services	5.6	-8.9	18.0	5.6	5.4	4.5
Imports, Goods and Services	-3.4	0.4	18.5	2.8	3.9	4.1
Real GDP growth, at constant factor prices	-3.3	-1.7	8.3	2.9	2.3	2.5
Agriculture	2.0	0.1	6.9	2.4	1.7	1.4
Industry	-3.3	-1.4	17.7	3.9	2.7	2.6
Services	-4.8	-2.4	5.0	2.5	2.2	2.8
Inflation (Consumer Price Index)	5.4	3.7	4.9	5.9	5.2	4.8
Current Account Balance (% of GDP)	6.0	5.9	-1.0	-1.6	-1.0	-0.1
Fiscal Balance (% of GDP)[a]	-1.7	-2.6	-1.5	-1.6	-1.0	-0.7
Debt (% of GDP)[b]	58.1	65.9	67.3	67.7	66.1	63.0
Primary Balance (% of GDP)[a]	-0.4	-1.3	-0.3	-0.4	0.2	0.3
International poverty rate ($1.9 in 2011 PPP)[c,d]	3.4	3.5	3.3	3.3	3.3	3.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	13.1	13.2	12.9	12.8	12.8	12.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	35.4	35.6	34.9	34.8	34.7	34.6
GHG emissions growth (mtCO2e)	0.8	1.1	2.6	1.8	1.8	1.8
Energy related GHG emissions (% of total)	15.2	15.0	15.8	16.1	16.2	16.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
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 2007-, 2019-, and 2014-EMNV. Actual data: 2014. Nowcast: 2015-2021. Forecasts are from 2022 to 2024.
d/ Projection using average elasticity (2007-2019) with pass-through = .3 based on GDP per capita in constant LCU.

PANAMA

Table 1	2021
Population, million	4.4
GDP, current US$ billion	63.6
GDP per capita, current US$	14515.0
International poverty rate ($1.9)[a]	1.2
Lower middle-income poverty rate ($3.2)[a]	4.6
Upper middle-income poverty rate ($5.5)[a]	12.1
Gini index[a]	49.8
School enrollment, primary (% gross)[b]	93.2
Life expectancy at birth, years[b]	78.5
Total GHG Emissions (mtCO2e)	24.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2011 PPPs.
b/ Most recent WDI value (2019).

Panama's strong rebound in 2021 brought real GDP above its pre-crisis level. Poverty is estimated to decline to almost pre-crisis levels, in part due to Panama's mitigative social assistance measures. Nonetheless, some populations remain vulnerable to income and employment losses and require further protection. As a dollarized economy, Panama now needs to curb the rise in public debt, while promoting reforms that can increase potential growth and address the large urban-rural poverty divide.

Key conditions and challenges

Prior to the COVID-19 crisis, Panama sustained high but declining growth rates, relying on construction and public investment. The middle class expanded from 50.8 percent of the population in 2015 to 56.9 percent in 2019, however, rural poverty remained six times higher than in urban areas. The COVID-19 crisis led to a two-digit contraction in GDP in 2020 and a 2.7 percentage-points increase in the poverty rate, despite strong poverty-mitigation efforts. Economic activity started to recover by the end of 2020, and the country needs to ensure that the pandemic stays at bay to allow lagging sectors, such as tourism, to fully recover. Moreover, excess stock of buildings, higher household indebtedness, and reduced fiscal space require a rethink of the growth model.

The pandemic amplified existing challenges. Panama's fiscal deficit (5.5 percent of GDP in 2021 vs. 2.9 in 2019) and debt levels (63.7 percent of GDP in 2021 vs. 46.3 in 2019) are much higher than before the pandemic. As a dollarized economy, the country needs to promote fiscal consolidation to reduce interest payments, reduce public debt, and comply with the deficit targets set by the Fiscal and Social Responsibility Law - FSRL (4 percent of GDP for 2022). The main fiscal risk is the deficit in the pension system, which requires larger transfers from the Treasury every year. Tax revenues are lower than peers. The country's weaknesses in Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) are deterrents to Foreign Direct Investment (FDI) and to leveraging Panama as a regional business and financial hub.

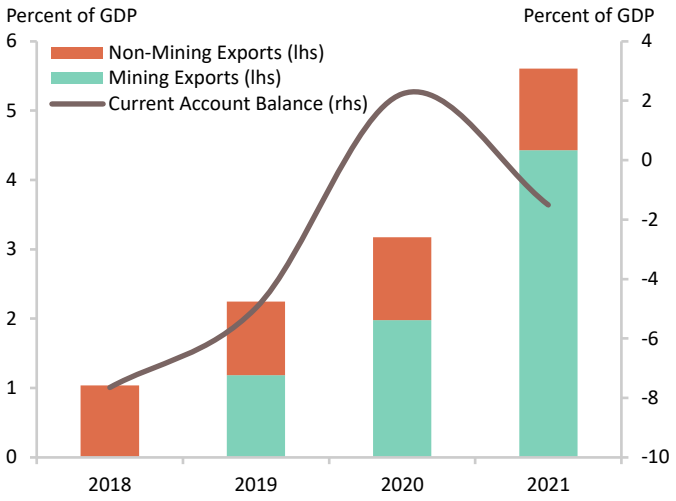
Recent developments

The spread of COVID-19 slowed in 2021 as a result of vaccination, with 73 percent of population at least partially vaccinated. The Omicron variant triggered a new spike, but the number of new cases was down by 85 percent by mid-February compared to end-January.

Panama's GDP has rebounded from the COVID-19 crisis with 2021 growth at 15.3 percent. Growth was driven by copper mining from Panama Cobre, construction, manufacturing, and commerce, which account for 70 percent of workers in vulnerability (income between US$5.5 and US$13 a day). The mining sector now accounts for 7.1 percent of GDP in 2021 up from 3.8 percent in 2020. Poverty is estimated to have decreased from 14.8 percent in 2020 to 12.3 percent in 2021.

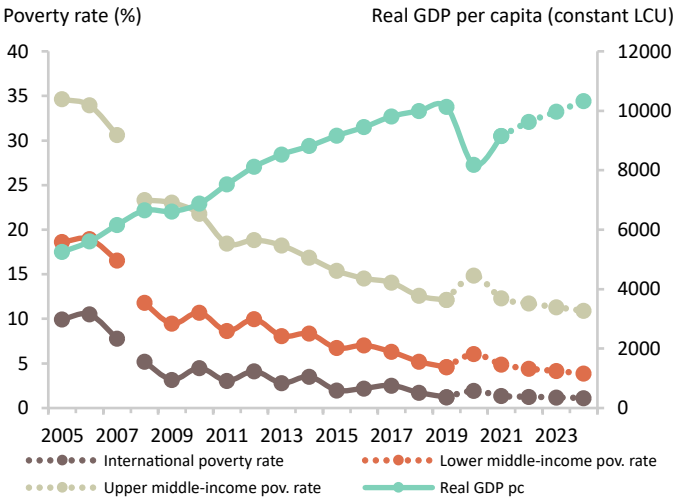
Panama's external position remains stronger than in the pre-crisis period. Imports are still below 2019 levels. The mining sector boosted exports in 2021, which are 137 percent higher than in 2019. The current account turned from a surplus in 2020 to a deficit in 2021, however, the deficit until September (2.1 percent of GDP) is 68 percent lower than in 2019. Net FDI inflows (3.2 percent of GDP) were more than enough to finance the deficit.

FIGURE 1 Panama / Good exports and current account balance



Source: INEC.

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



Source: World Bank. Notes: see Table 2.

Inflation increased in 2021 but is still at a moderate level compared to the US and regional peers. The main culprit was transportation prices, driven by fuel and airfares, which increased by 9.2 percent (average prices).

Panama's fiscal position improved in 2021, but deficits and debt are still at a high level. The fiscal deficit declined from 10 percent of GDP in 2020 to 5.5 percent, below the 7-percent limit set by the LRSF. The debt-to-GDP ratio declined from 69.8 in 2020 to 63.7, while debt risk indicators improved. Deficit reduction was achieved due to higher revenue growth (16.9 percent), moderation on current expenditures (5.6 percent growth), and containment on capital expenditures (17.7 percent contraction). However, revenues and expenditures are still not back at the pre-crisis level. In 2021, revenues reached 18.2 percent of GDP (18.5 percent in 2019) and expenditures were at 23.7 percent of GDP (21.3 percent in 2019), due to increases in subsidies, transfers, and interest payments.

Outlook

GDP is expected to grow strongly again in 2022 on the back of the growth carry-over from 2021 (9.4 percent), continued expansion of the mining sector, and the late recovery in tourism and air transportation. In the medium term, GDP will converge to its potential growth rate of around 5 percent. Although Panama Solidario, the emergency social assistance program, has played a critical role in mitigating the adverse effects of COVID-19, the more limited efficacy of the program in rural areas calls for further protection to prevent poverty and inequality from increasing further.

The increase in GDP, along with higher commodity prices caused by the war in Ukraine, will continue to boost imports. Still, the current account deficit will be lower than historical averages as a result of increasing mining exports and competitiveness gains in service exports. The deficit will be financed by FDI and other inflows. Inflation will remain higher in 2022 due to higher fuel prices and the reduction in energy subsidies but should converge to lower levels as US inflation subsides. High food prices might exacerbate the effects of the pandemic on food insecurity, which doubled during the pandemic. This could affect households in the lowest income decile the most, who allocate 30 percent of their budget to food.

Fiscal results will continue to improve, but compliance with the FSRL deficit limits will become harder, hinging on rollback of COVID-19 expenditures, efficiency gains from tax administration, expenditure discipline, and a solution to the pension system debt, even taking into account the new US$375 million yearly revenue flow from mining royalties. The main external risks to the forecast are higher prices and risk aversion brought by heightened geopolitical events. Climate change risks also arise from drought and sea level rise, including through their potential effects on the operation of the Panama Canal.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.0	-17.9	15.3	6.5	5.0	5.0
Private Consumption	3.4	-18.5	8.5	6.4	5.0	4.6
Government Consumption	4.5	4.3	4.3	2.0	1.7	0.9
Gross Fixed Capital Investment	0.0	-37.9	40.3	9.7	8.9	6.0
Exports, Goods and Services	-0.1	-22.0	15.5	7.0	5.0	5.1
Imports, Goods and Services	-3.3	-29.3	20.0	7.7	6.8	4.5
Real GDP growth, at constant factor prices	3.2	-17.9	15.3	6.5	5.0	5.0
Agriculture	2.5	3.8	6.7	3.0	2.5	2.0
Industry	3.4	-32.1	30.6	7.4	4.0	3.7
Services	3.2	-12.7	10.7	6.3	5.5	5.6
Inflation (Consumer Price Index)	-0.4	0.0	1.6	3.5	2.5	2.1
Current Account Balance (% of GDP)	-5.3	3.1	-0.8	-1.2	-2.5	-3.5
Net Foreign Direct Investment (% of GDP)	5.5	3.2	4.9	5.1	5.4	6.0
Fiscal Balance (% of GDP)	-3.5	-10.3	-5.5	-4.1	-3.0	-1.8
Debt (% of GDP)	46.4	69.8	63.7	63.5	63.0	62.4
Primary Balance (% of GDP)	-1.6	-7.5	-3.1	-1.7	-0.6	0.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.2	1.9	1.3	1.3	1.2	1.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	4.6	6.1	4.9	4.4	4.1	3.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	12.1	14.8	12.3	11.7	11.3	10.9
GHG emissions growth (mtCO2e)	9.4	-5.2	6.9	7.7	4.3	-1.0
Energy related GHG emissions (% of total)	48.9	51.3	52.9	55.8	57.3	56.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on SEDLAC harmonization, using 2019-EH. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2019) with pass-through = 0.7 based on GDP per capita in constant LCU.

PARAGUAY

Table 1	2021
Population, million	7.2
GDP, current US$ billion	37.9
GDP per capita, current US$	5248.5
International poverty rate ($1.9)[a]	0.8
Lower middle-income poverty rate ($3.2)[a]	4.7
Upper middle-income poverty rate ($5.5)[a]	17.9
Gini index[a]	43.5
School enrollment, primary (% gross)[b]	84.6
Life expectancy at birth, years[b]	74.3
Total GHG Emissions (mtCO2e)	96.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2011 PPPs.
b/ Most recent WDI value (2019).

Paraguay's economic recovery is constrained by adverse climate developments and global uncertainty. The ongoing drought is reducing agricultural yields and hydroelectric exports, and driving up logistics costs, in the context of high fuel prices. Growth is thus expected to slow down to 1.5 percent in 2022, weakening fiscal outcomes. Despite a fall in the unemployment rate, mainly among urban women, poverty reduction is impeded by the uptick in inflation, currently running at the fastest pace in a decade.

Key conditions and challenges

Buttressed by sound macroeconomic management, Paraguay achieved strong economic growth and poverty reduction between 2002 and 2019. Real GDP grew 4.1 percent on average, poverty fell from 45.9 to 15.4 percent of the population, and inequality declined from 57.3 to 45.7 Gini points. This performance helped Paraguay cushion the effects of the pandemic, as it recorded one of the smallest GDP contractions in the region in 2020 (-0.8 percent) and a modest increase in poverty (2.5 percentage points) from the 15.4 percent in 2019.

However, Paraguay's growth has been highly volatile, linked to its economic dependence on agriculture and hydroelectric energy exports which make up 60 percent of total goods exports. Thus, climate conditions are important drivers of economic cycles and poverty reduction, affecting incomes in the agricultural sector where the poorest people work.

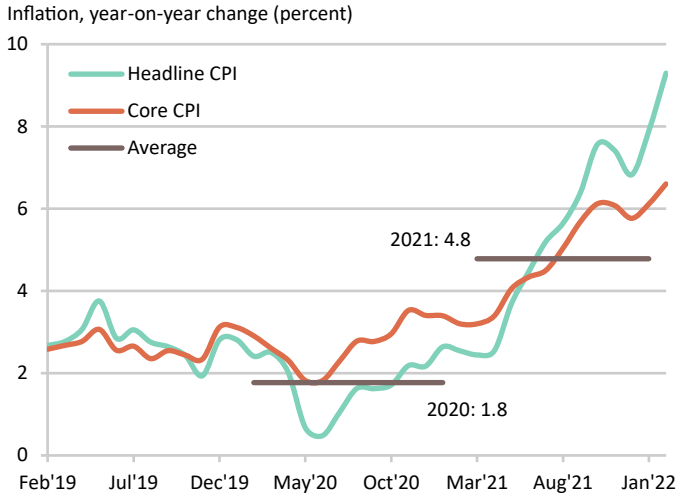
The severe ongoing drought in the Paraná River basin illustrates the limitations of Paraguay's highly climate-dependent growth model. The prolonged dry spell has impacted the quantity and quality of crops, driven up logistics costs, and provoked widespread forest fires. Structural reforms that diversify Paraguay's economy will serve to increase its resilience to external shocks.

Recent developments

Real GDP grew 5.8 percent year-on-year (yoy) over the first nine months of 2021, driven by strong fixed investment growth from both private and public construction works, as well as by private consumption growth. Despite high commodity prices, net exports contributed negatively to growth, as the drought suppressed export volumes. On the production side, growth was mainly driven by services, followed by manufacturing and construction. Nonetheless, high-frequency indicators point to slower growth in the fourth quarter of 2021. Although the drought suppressed employment growth in rural areas, leading to a decline in the average unemployment rate by just 0.4 percent (yoy), unemployment among urban women fell by 1.1 percent (yoy).

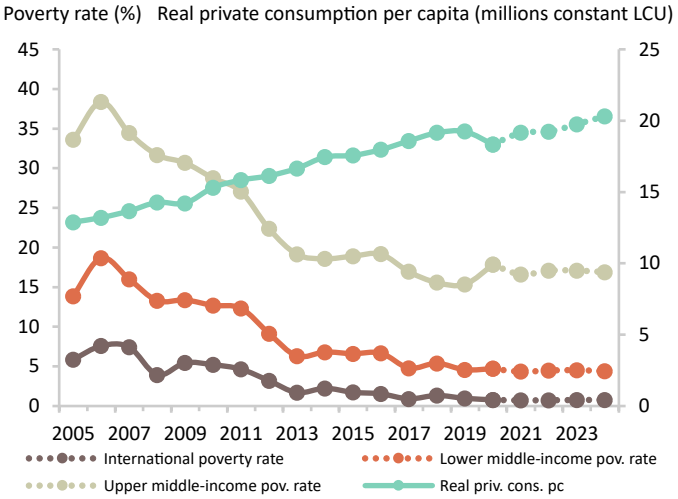
Rising food and fuel prices led inflation to increase from an average of 2.5 percent yoy in the first quarter of 2021 to 7.3 percent yoy in the fourth quarter, the fastest pace in a decade and well above the target range (2-6 percent), despite a relatively stable exchange rate. Core inflation also doubled to 6 percent over the same period. Despite seven consecutive interest rate hikes of a cumulative 500bps since August, inflation picked up further to 9.3 percent yoy in February 2022. Reserves stood at US$9.8 billion at end-February, equivalent to 9 months of goods and services' imports. Higher inflation hindered poverty reduction, especially for those at the lower end of the income distribution. The poverty rate, measured at 5.5 PPP dollars and 3.2 PPP dollars per day, is

FIGURE 1 **Paraguay** / Headline and core CPI inflation



Sources: Central Bank of Paraguay and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

estimated to have declined by only 1.3 and 0.4 percentage points respectively in 2021, leading to a marginal increase in the Gini coefficient. These effects were more accentuated in rural areas where the drought limited poverty reduction.

The pick-up in activity and prices improved fiscal accounts, along with the continued phase-out of COVID-19 related emergency social transfers and the reduction of public investment, narrowing the fiscal deficit from 6.1 percent in 2020 to an estimated 3.8 percent of GDP in 2021. Revenues rose by almost 14 percent, driven by corporate income tax collections, while total expenditures increased by only 1.3 percent. Public debt is estimated to have risen slightly to 36 percent of GDP at the end of 2021. Credit ratings remain stable; in January 2022, the Government placed an 11-year US$500 million bond at 3.85 percent partly to repurchase outstanding bonds due in 2023 and 2026.

Outlook

Economic growth is expected to slow to 1.5 percent in 2022 and to remain primarily driven by large private investments (namely a pulp plant and a biorefinery), with higher agricultural commodity prices only partially offsetting the effects of the drought. This would lead to lower incomes, especially in the rural areas, and to stagnating extreme poverty. Higher fuel prices, triggered by the war in Ukraine, are expected to compound inflation challenges. Inflation is thus expected to recede only gradually despite monetary policy tightening. As weather conditions normalize in 2023 and 2024, export growth is expected to increase.

The Government has deferred tax obligations for soy producers and provided special financing facilities to small-hold farmers but it lacks the fiscal space to enact further stimulus measures. With lower revenues, the fiscal deficit is expected to come in at 3.6 percent of GDP and gradually narrow to reach the Government's target of 1.5 percent by 2024, in line with the fiscal responsibility law. The Government intends to achieve this target by reducing personnel and capital spending. Debt is expected to stabilize due to faster growth and a lower deficit.

The current account is forecast to register a small deficit in 2022 as export growth slows due to the drought and as the import bill, especially for fuel, increases. The financial account is expected to remain stable as a share of GDP despite impending interest rate increases in the United States, as residents mainly own domestic currency-dominated assets.

The outlook assumes that weather conditions will improve towards the end of 2022, that the shock to commodity prices is temporary, and that future waves of the COVID-19 pandemic will not require mobility restrictions. However, only 45 percent of the population had received two doses of a COVID-19 vaccine by February 2022, one of the lowest in the region. Fifteen percent of respondents to the World Bank High-Frequency Phone Survey indicated that they were not planning to receive the vaccine in June 2021. Fostering greater trust in institutions, including by improving the quality of public services and by strengthening institutional capacity, is a key challenge. These reforms would also help Paraguay improve the enabling environment for the private sector and thus attract more foreign direct investment to boost growth in the medium term.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	-0.4	-0.8	4.5	1.5	4.1	3.8
Private Consumption	1.8	-3.6	5.8	1.6	3.9	4.0
Government Consumption	4.7	5.1	-1.3	-1.7	-0.6	1.3
Gross Fixed Capital Investment	-6.1	5.3	11.3	6.6	5.6	4.2
Exports, Goods and Services	-3.4	-9.0	4.8	1.2	6.5	5.4
Imports, Goods and Services	-2.0	-15.2	9.5	3.5	5.5	5.2
Real GDP growth, at constant factor prices	-0.2	-0.5	4.6	1.5	4.1	3.8
Agriculture	-3.1	7.4	-11.0	-25.0	30.0	8.5
Industry	-3.0	0.7	7.0	6.0	4.0	4.5
Services	2.4	-3.1	6.8	3.9	0.3	2.4
Inflation (Consumer Price Index)	2.8	1.8	4.8	6.5	4.0	4.0
Current Account Balance (% of GDP)	-0.5	2.5	0.8	-0.7	0.9	1.3
Net Foreign Direct Investment (% of GDP)	0.6	0.3	0.4	0.6	0.6	0.6
Fiscal Balance (% of GDP)	-2.9	-6.1	-3.8	-3.6	-2.5	-1.5
Debt (% of GDP)	23.4	34.5	36.0	36.6	36.3	35.9
Primary Balance (% of GDP)	-2.0	-5.1	-2.7	-2.3	-1.2	-0.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.9	0.8	0.7	0.7	0.8	0.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	4.5	4.7	4.3	4.5	4.5	4.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	15.4	17.9	16.6	17.1	17.1	16.9
GHG emissions growth (mtCO2e)	-0.3	0.7	1.3	-9.1	-2.2	-0.4
Energy related GHG emissions (% of total)	9.6	9.2	9.8	0.8	0.7	0.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on SEDLAC harmonization, using 2020-EPH. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 based on private consumption per capita in constant LCU.

PERU

Table 1	2021
Population, million	33.4
GDP, current US$ billion	223.2
GDP per capita, current US$	6690.7
International poverty rate ($1.9)[a]	4.4
Lower middle-income poverty rate ($3.2)[a]	14.1
Upper middle-income poverty rate ($5.5)[a]	32.9
Gini index[a]	43.8
School enrollment, primary (% gross)[b]	121.0
Life expectancy at birth, years[b]	76.7
Total GHG Emissions (mtCO2e)	173.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2011 PPPs.
b/ Most recent WDI value (2019).

Peru´s economy rebounded strongly in 2021, but poverty reduction was slowed by structural rigidities in the labor market and inflation. GDP growth is expected to return to its pre-pandemic trend of around 3 percent annually in 2022, as the boost from favorable export prices compensates for political uncertainty. Poverty is expected to remain well above its 2019 level. Overcoming structural challenges related to wide-spread informality, low quality of public services, and limited economic diversification are critical for medium-term to long-term growth.

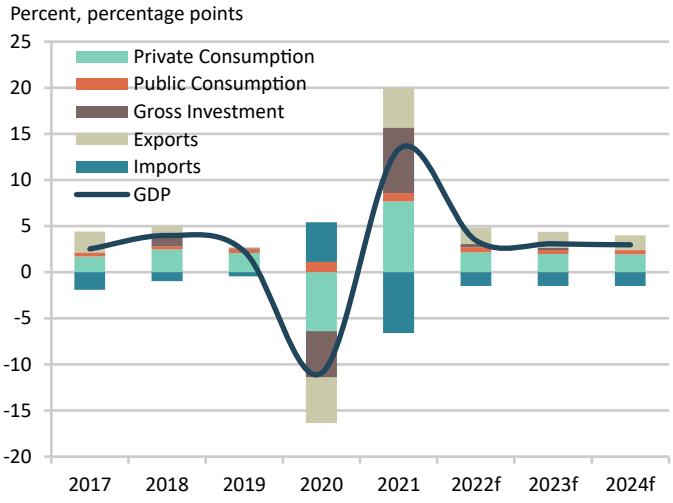
Key conditions and challenges

Peru has solid macroeconomic fundamentals, including a relatively low public debt to GDP ratio, considerable international reserves, and a solid central bank. However, important structural weaknesses related to widespread informality, limited economic diversification, and weak state capacity have led to a significant slow-down in growth since the end of the commodity boom in 2014, slowing the pace of poverty and inequality reduction. Progress in reducing the size of the informal sector, which employs three-quarters of workers in low productivity jobs, has been limited. In addition, low quality government services, including in education, health and water, hamper growth and poverty reduction. They also made the country more vulnerable to the COVID-19 pandemic as the poverty rate (US$5-a-day -line) increased more than 12 percentage points, reaching 32.9 percent in 2020. Although output strongly rebounded in 2021, workers' income and poverty have not yet reached their pre-pandemic levels.
Medium-term prospects for growth and inclusion will depend on the capacity of the government to implement a credible reform program. In recent months, business confidence and investment prospects have been undermined by the uncertainty surrounding the policy agenda and potential policy reversals, including in critical areas such as public transport, higher education, labor market, and a large turnover of public sector officials. In addition, political tensions between the Executive and Congress, and political fragmentation at national and subnational levels continue to be a source of uncertainty. The economy is also vulnerable to capital outflows, sudden reductions in prices of minerals, and natural disasters. However, the ongoing energy transition is expected to support the price of copper, Peru´s main export product, in the medium term.

Recent developments

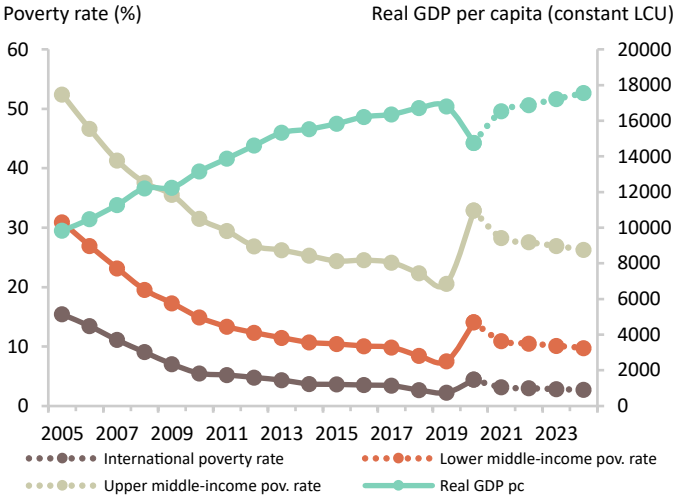
After a strong recession in 2020, real GDP grew 13.3 percent in 2021, reaching its pre-pandemic level. The recovery was led by domestic demand, supported by the expansion of both public and private expenditure. While employment levels have almost returned to the pre-crisis levels, this was largely driven by low quality jobs in the informal sector. In fact, formal employment in urban areas is still more than 20 percent below pre-pandemic levels. Lower quality of employment has led to a reduction of household income, and by the end of the year, the average wage was still 13 percent below that registered in 2019. Mainly driven by the rebound in GDP, poverty declined by an estimated 4.6 percentage points in 2021, reaching 28.3 percent, still well above its level in 2019.
The public deficit decreased from 8.9 percent in 2020 to 2.6 percent in 2021, one of the fastest fiscal consolidations in the region. This reduction was mainly driven by a 40 percent real increase in public revenues, as a result of higher tax collection from mining

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



Sources: Central Bank and World Bank staff.

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



Source: World Bank. Notes: See Table 2.

companies, the effect of some administrative measures, and prepayment of some tax fines. Public debt reached 36 percent of GDP, just slightly above its 2020 levels.

Inflation trended upwards in the second half of the year, reaching 6.4 percent by December. This brought average annual inflation to 4.0 percent in 2021, well above the 1-3 percent target range. Price dynamics reflected the global increase in the price of food and energy, the depreciation of the domestic currency and the lagging effect of the sizable monetary stimulus of 2020. In this context, the Central Bank increased its reference rate 375 basis points between August 2021 and March 2022, to curb inflation expectations.

The external current account recorded a 2.8 percent deficit in 2021, mainly reflecting the effect of higher commodity prices on foreign mining firms' profits and their impact on income payments abroad, more than offsetting the effect of a record surplus in trade balance.

Outlook

Significant progress with vaccinations is likely to limit the impact of COVID-19 in the short-term, with more than 70 percent of the population receiving two doses and more than 30 percent receiving a booster dose. Peru was hit by the third wave of COVID-19 in early 2022 and the economic effects were limited. However, the long-term effects of the pandemic could be significant, through the impacts of school closures on future labor productivity.

The economy is expected to expand about 3.4 percent in 2022, mainly driven by higher export volumes, while domestic demand will gradually decelerate. Exports will be supported by the entry into operation of important copper mines. Capital spending on mining will continue to support private investment due to the continuation of some large investment projects, offsetting the effect of low business confidence. In addition, the recovery of the formal labor market, and the gradual normalization of activities, is expected to support an increase in private consumption.

In 2023 and 2024, GDP growth is expected to gradually slow down, along with domestic demand and a weakening new investment in the mining sector. Despite this, mineral prices are expected to remain high in the coming years, the large-scale new investment pipeline is expected to compress due to political and social tensions.

The fiscal deficit is expected to temporarily increase in 2022, mainly due to lower revenues from prepayments of tax fines compared to 2021. From 2023 onwards, the deficit could gradually decline, given the offsetting effects of fiscal consolidation efforts and spending pressures to maintain citizen support. The announced reinstatement of the fiscal rule for 2023 onwards would help to guide this decline.

The current account deficit is expected to decline after 2022, mainly reflecting the combined effect of increasing exports and the slowdown in imports, in a context of a moderation in domestic demand. An expected minor correction in export prices since 2023 could also contain growth in mining firms' profits.

Due to recent shocks to the price of energy and food products, average inflation may pick up in 2022, slowing the pace of poverty reduction. Given the determined policy stance by the Central Bank and as inflationary pressures ease, the inflation rate is expected to gradually reverse to the target range by end 2023.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.2	-11.0	13.3	3.4	3.1	3.0
Private Consumption	3.2	-9.8	11.7	3.3	3.0	3.0
Government Consumption	3.6	9.1	6.0	4.0	3.1	3.1
Gross Fixed Capital Investment	2.9	-16.2	34.1	1.8	1.9	1.9
Exports, Goods and Services	0.3	-18.2	17.1	6.9	6.3	5.9
Imports, Goods and Services	1.7	-15.4	25.1	5.2	5.0	5.0
Real GDP growth, at constant factor prices	2.2	-10.9	13.3	3.4	3.1	3.0
Agriculture	1.5	1.0	3.7	2.3	2.3	2.4
Industry	-0.1	-13.3	16.4	3.7	4.8	3.6
Services	3.8	-10.7	12.7	3.4	2.1	2.6
Inflation (Consumer Price Index)	2.1	1.8	4.0	5.3	4.0	2.8
Current Account Balance (% of GDP)	-1.0	0.8	-2.8	-2.5	-2.1	-2.1
Net Foreign Direct Investment (% of GDP)	2.9	0.4	2.7	2.8	2.6	2.6
Fiscal Balance (% of GDP)	-1.6	-8.9	-2.6	-2.8	-2.7	-2.5
Debt (% of GDP)	26.8	34.7	36.1	36.0	36.6	37.3
Primary Balance (% of GDP)	-0.2	-7.3	-1.1	-1.0	-0.9	-0.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.2	4.4	3.1	3.0	2.8	2.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	7.5	14.1	10.9	10.5	10.1	9.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	20.6	32.9	28.3	27.6	26.9	26.3
GHG emissions growth (mtCO2e)	-0.9	-14.2	9.3	-0.3	-0.4	-0.5
Energy related GHG emissions (% of total)	26.3	16.3	22.1	21.8	21.3	20.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on SEDLAC harmonization, using 2010-ENAHO, 2019-ENAHO, and 2020-ENAHO. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2010-2019) with pass-through = 0.7 based on GDP per capita in constant LCU.

SAINT LUCIA

Table 1	2021
Population, million	0.2
GDP, current US$ billion	1.8
GDP per capita, current US$	9591.9
International poverty rate ($1.9)[a]	4.6
Lower middle-income poverty rate ($3.2)[a]	10.2
Upper middle-income poverty rate ($5.5)[a]	19.9
Gini index[a]	51.2
School enrollment, primary (% gross)[b]	101.1
Life expectancy at birth, years[b]	76.2
Total GHG Emissions (mtCO2e)	0.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2011 PPPs.
b/ Most recent WDI value (2019).

After a steep economic contraction in 2020, Saint Lucia's growth picked up in 2021 as tourism started to recover. Real GDP and poverty are projected to reach 2019 levels only by 2024. The pandemic also led to a sharp increase in public debt. This aggravates pre-existing fiscal vulnerabilities and refinancing risks, despite the projected strong medium-term recovery. A concrete fiscal consolidation strategy could mitigate the risks and enhance the financing ability for sustainable development projects.

Key conditions and challenges

Saint Lucia (SLU) is a small tourism-dependent island economy. Tourism accounted for around 68 percent of GDP in 2019. The island is highly vulnerable to external shocks and natural disasters, whose impacts are becoming increasingly severe due to climate change. The resulting economic volatility weighs on longer-term growth as well as the most vulnerable groups disproportionately. Saint Lucia recorded a very high economic contraction of 20.4 percent in 2020, and an increase in unemployment of almost 5 percentage points, with women and young workers most affected. Widespread reductions in income are expected to have increased poverty, despite supportive government measures.

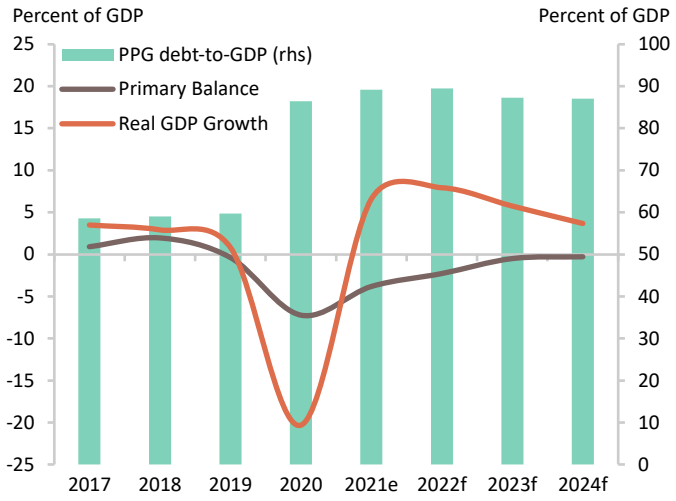
The pandemic further heightened Saint Lucia's debt vulnerabilities. Leading up to the pandemic, a fiscal deficit averaging 2 percent of GDP between 2015-19 pushed up the public debt level to 60 percent of GDP by end-2019. The economic contraction and additional fiscal spending in 2020 led to a further increase in public debt to more than 85 percent of GDP and debt service climbed to above 15 percent of GDP. This high public debt level severely constrains the Government's borrowing capacity to finance new projects and mitigate socio-economic vulnerabilities to external shocks and natural disasters.

Recent developments

Strong tourism recovery and construction resumption are estimated to have driven economic growth to 6.6 percent in 2021 and reduced the poverty rate. Total stay-over tourists are estimated to have increased by 53 percent in 2021 compared to 2020, but remain far from full recovery at only 47 percent of the 2019 level. Private and public construction, such as hotel projects, road improvement projects, hospital and airport, resumed momentum and reached more than 10 percent growth rate in 2021. Agriculture, however, experienced another year of recession, reflecting pre-existing concerns over banana exports, and the negative impacts of Hurricane Elsa in July 2021. Resumed economic activities are expected to have reduced the poverty rate, which, nevertheless, is projected to be more than 3 percentage points above its pre-pandemic level. Phone survey data from June 2021 shows that 55.1 percent of households had not yet recuperated their pre-pandemic income level.

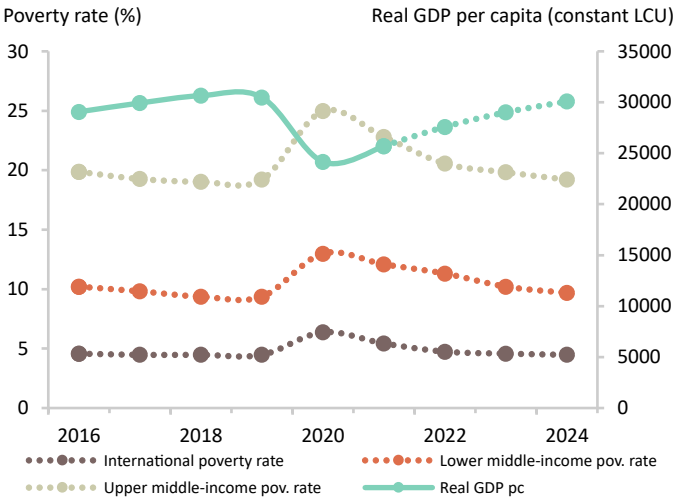
The current account deficit is estimated to remain high at 8.0 percent of GDP. The rebound of tourism receipts was offset by the rise in global commodity prices, especially oil, and increased imports to support domestic activities. Remittances and Citizenship-by-Investment inflows are estimated to remain strong, consistent with the economic recovery in the major economies. They help to meet the current account financing needs, along with the disbursement from pre-secured project loans, and other tourism-related foreign direct investments

FIGURE 1 Saint Lucia / Key macroeconomic variables



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

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



Source: World Bank. Notes: see Table 2.

(FDI), and support from multilateral and bilateral partners. Imputed net foreign reserves are relatively stable at an estimated 4.1 months of imports. Gas and fuel prices drove up inflation in 2021, negatively impacting the purchasing power and food security of the most vulnerable groups. Phone survey data from June 2021 suggests that food insecurity remains elevated with more than one third of households having run out of food due to a lack of money or resources.

The fiscal deficit is estimated to narrow to 7.5 percent of GDP in 2021 from 11.0 percent in 2020. Recovery in economic activities brought tax revenues up by around 12 percent from 2020, but remain 15 percent lower than the pre-pandemic level. Partial exiting of the COVID-19 related measures and a delayed payment of agreed public wage increases in 2021 helped lower current expenditure. But higher utility costs and increased capital expenditure partially offset this improvement and led to only a marginal decrease of total expenditure. The fiscal deficit, together with the additional disbursements for the airport redevelopment project, led to a further increase in public debt to 89.2 percent of GDP.

Outlook

Strong return of tourism and continued construction projects will drive economic recovery and lower the poverty rate, but risks to the economic outlook are elevated. GDP growth is projected to average 5.8 percent between 2022 and 2024. Continued recovery momentum, additional airlifts from US and UK, and scheduled pick-up of cruises will maintain tourism growth. Robust growth in construction will arise from continuation and completion of the large public infrastructure projects and major hotel and entertainment projects throughout 2024. However, tourism recovery remains highly uncertain due to the pandemic evolution. Meanwhile, due to the war in Ukraine and continued pandemic impacts, the recovery faces elevated risks from global inflationary pressures, especially in 2022, which threaten to decrease the real income in tourism source countries and increase traveling costs. Inflationary pressures will also threaten food security of poor and vulnerable households, which already increased to concerning levels during the pandemic.

The current account deficit is projected to decrease over the medium term. The trend is driven by the opposing forces of increased exports in tourism receipts, and higher global commodity prices along with higher imports to meet domestic activities. Risks to FDI inflows are high with monetary policy tightening in major economies.

Despite the medium-term improvement of fiscal outturns and the solid economic recovery, debt remains high and poses significant refinancing risks. The disbursement of the remaining airport loan and the overall fiscal deficit are expected to keep debt at above 80 percent of GDP. With around half of the central government's debt maturing in the next 4 years, the Government faces challenges to meet financing needs. Rising concerns over high public debt and tightening of market liquidity may result in higher financing costs and lower roll-over rates, which could further push up public debt levels. Early and transparent fiscal consolidation will help mitigate the refinancing risks and break the vicious cycle of "high debt-high costs".

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices[a]	-0.1	-20.4	6.6	7.9	5.8	3.7
Real GDP growth, at constant factor prices[a]	0.8	-20.3	6.6	7.9	5.8	3.7
Agriculture	3.6	-9.5	-10.3	4.8	3.4	1.8
Industry	-1.4	-9.9	8.6	6.9	4.2	2.9
Services	1.1	-21.9	6.8	8.1	6.0	3.8
Inflation (Consumer Price Index)	0.6	-1.7	2.5	3.9	2.4	1.9
Current Account Balance (% of GDP)	6.1	-8.3	-8.0	-7.2	-5.3	-1.7
Fiscal Balance (% of GDP)[b]	-3.4	-11.0	-7.5	-5.9	-4.0	-3.5
Debt (% of GDP)[b]	59.7	86.5	89.2	89.5	87.3	87.0
Primary Balance (% of GDP)[b]	-0.4	-7.2	-3.8	-2.3	-0.5	-0.3
International poverty rate ($1.9 in 2011 PPP)[c,d]	4.5	6.4	5.4	4.7	4.6	4.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	9.4	13.0	12.1	11.3	10.2	9.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	19.2	25.0	22.8	20.6	19.8	19.2
GHG emissions growth (mtCO2e)	2.5	-22.7	3.8	9.2	4.9	1.1
Energy related GHG emissions (% of total)	65.5	67.4	68.5	67.1	66.3	66.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Growth projections for 2021-23 remain sensitive to uncertainties surrounding the timing of the vaccine roll-out and the recovery in tourism.
b/ Fiscal balances are reported in fiscal years (April 1st -March 31st).
c/ Calculations based on SEDLAC harmonization, using 2016-SLC-HBS. Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.
d/ Projection using neutral distribution (2016) with pass-through = 0.87 based on GDP per capita in constant LCU.

ST. VINCENT AND THE GRENADINES

Table 1	2021
Population, million	0.1
GDP, current US$ billion	0.8
GDP per capita, current US$	7190.1
School enrollment, primary (% gross)[a]	113.4
Life expectancy at birth, years[a]	72.5
Total GHG Emissions (mtCO2e)	0.4

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

The volcanic eruption and COVID-19 significantly impacted GDP growth in 2021. Poverty is expected to have further increased due to the economic contraction and volcano induced dislocations. After several years of primary surpluses, these recent shocks have exerted pressure on public finances. Public investment projects will pose fiscal challenges. Natural disasters and rising food and fuel prices pose additional risks. The risk of debt distress remains high.

Key conditions and challenges

St. Vincent and the Grenadines (SVG) is a small island developing state (SIDS) with an economy driven largely by tourism and agriculture. This makes it particularly vulnerable to climate change, external economic shocks, and natural disasters such as those experienced recently with the volcanic eruption and the COVID-19 pandemic. Prior to the pandemic, SVG was upgrading essential infrastructure to lay the foundation for increased growth and economic diversification, including completion of a new international airport, modernization of the seaport (a 22 percent of GDP public investment), and plans for the construction of a new hospital. To ensure the sustainability of these essential investments, fiscal consolidation had commenced, and primary fiscal surpluses had been achieved from 2016 through 2019. SVG adopted a Fiscal Responsibility Framework with fiscal balance, expenditure, wage bill, and debt targets, and the creation of a contingency fund. However, the COVID-19 shock and the volcanic eruption have disrupted this agenda.

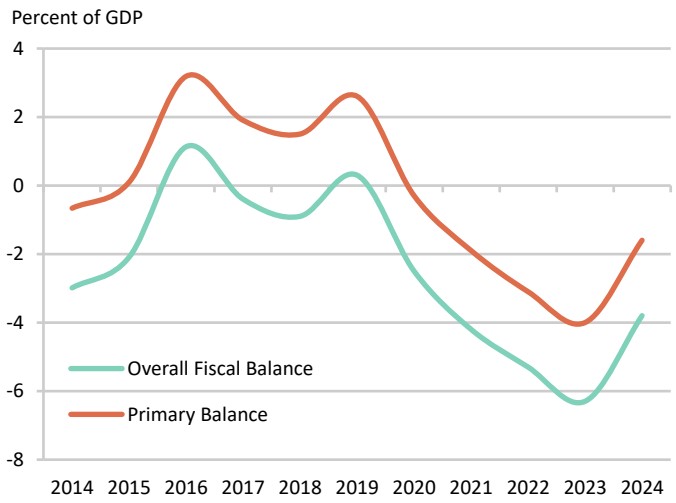
The volcanic eruption, which displaced about 20 percent of the population, compounded the impact of the COVID-19 shock. Heavy ashfall, critical utility interruptions, increased food insecurity, and the subsequent flooding and mudslides are expected to have had a significant poverty and welfare impact which is difficult to quantify. Based on the last available data from 2008, the poverty rate was 30.2 percent using the national poverty line of EC$5,523 or US$2,046 per annum per adult.

Recent developments

COVID-19 and the volcanic eruption have had a sizeable impact on economic growth. The fall in tourism following the COVID-19 pandemic resulted in a GDP contraction of -5.3 percent in 2020. Livelihoods were then completely disrupted by the volcanic eruption in April 2021, when 22,800 people were evacuated from their homes, farms, and businesses. This contributed to a significant loss in income and has depressed domestic demand. Electricity and water services were interrupted. Education was severely disrupted as schools throughout the country were used as shelters, although teachers continued to be paid. Tourism had already been hard hit by COVID-19, the volcanic eruption and ongoing COVID-19 developments have further delayed the expected rebound in tourism.

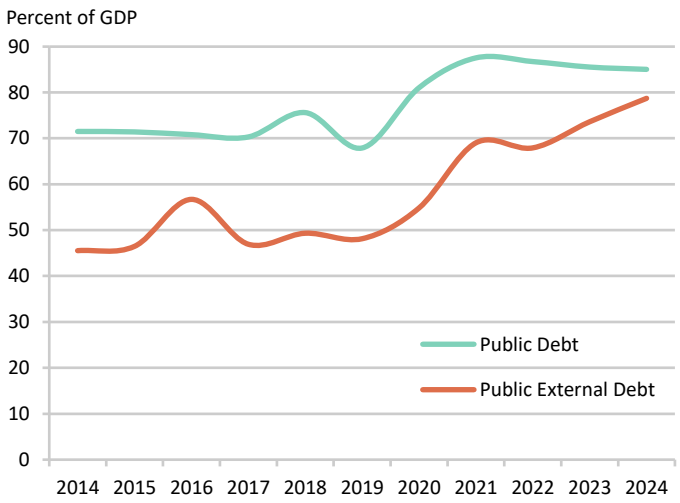
The overall fiscal deficit widened to 4.2 percent of GDP in 2021, largely in response to the fiscal demands imposed by the volcanic eruption. The government implemented direct fiscal spending measures totaling 7.1 percent of GDP to address the immediate post-volcano humanitarian crisis. Additional spending will be needed for reconstruction and recovery efforts. Thus, the deficit is expected to widen to 5.3 percent of GDP in 2022. This will pose challenges in a context where the government plans to continue with critical investment

FIGURE 1 St. Vincent and the Grenadines / Fiscal balances



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

FIGURE 2 St. Vincent and the Grenadines / Public debt



Sources: SVGs Minister of Finance (2020) and World Bank staff estimates.

projects, such as the port modernization project and the new hospital, while taking steps to strengthen its fiscal framework.

In terms of external vulnerabilities, the current account deficit increased to 24.1 percent of GDP in 2021, from 16.3 percent in 2020, following the volcanic eruption. International reserves fell modestly to 5 months of import coverage. Public debt rose to 87.5 percent of GDP in 2021, of which external debt is 69 percent of GDP, and SVG remains at a high risk of debt distress. Debt is currently assessed as sustainable given the authorities' fiscal consolidation plans, which would ensure that the public debt to GDP ratio would fall to under 60 percent of GDP by 2035, the Eastern Caribbean Currency Union's (ECCU's) regional goal. Government gross financing needs are covered primarily by official external financing and some recourse to domestic financing through the issuance of T-Bills. SVG is participating in the Debt Service Suspension Initiative.

Outlook

Growth is forecast to accelerate to 4.2 percent in 2022 and 7.3 percent in 2023 as tourism continues to rebound and is expected to return to levels approaching 80 percent of pre-COVID levels by 2023. Tourism growth over the medium term is expected to be facilitated by the new airport. However, ongoing COVID-19 developments continue to contribute to considerable uncertainty. The sizeable investment pipeline should also contribute to growth over the short term, as will increased economic efficiency following port modernization.

In an environment of relatively low historical growth, high unemployment rates are expected to continue. Considering the impact on the informal sector, poverty rates are likely to have increased. Economic stimulus measures in response to the pandemic expanded social protection measures, and volcano-related humanitarian efforts have helped mitigate the impacts on poverty, though not eliminate them.

Continued fiscal reforms are necessary to build fiscal buffers and to ensure public debt returns to a downward trajectory. To accomplish these fiscal consolidation measures have been adopted, including: containing nominal growth of the wage bill over the medium term; limiting public investment by focusing on reconstruction and port modernization; scaling back non-port projects; increasing the customs service charge; enhancing taxpayer compliance; limiting import duty and VAT exemptions; strengthening SOE governance; and exploring measures to reform the government workers' pension system. The fiscal deficit is forecast to increase to 5.3 percent of GDP in 2022 and 6.3 percent in 2023 as the public investment program is implemented and volcano reconstruction efforts continue. Limiting the deficit given the uncertain global economic environment will require careful management of the ambitious public investment program. Balances in the contingency fund, which had been accessed to address COVID-19 and volcano needs, are expected to be replenished and then continue to grow, which bodes well for future fiscal resilience. Primary fiscal surpluses approaching 3.0 percent of GDP should facilitate a reduction in public debt levels over the medium term as soon as COVID-19 impacts dissipate, reconstruction activities are addressed, and the port modernization is complete.

Forecasts are subject to considerable downside risk given rising food and fuel prices, the economic impact of global geopolitical developments, and the ever-present risk of natural disasters.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices[a]	0.4	-5.3	-2.8	4.2	7.3	4.2
Real GDP growth, at constant factor prices[a]	0.4	-5.9	-2.8	4.2	7.3	4.2
Agriculture	-1.6	1.6	-22.7	13.5	10.4	-3.8
Industry	-5.5	-7.8	3.9	4.0	1.9	1.1
Services	1.8	-6.1	-2.4	3.6	8.2	5.4
Inflation (Consumer Price Index)	0.9	-0.6	1.6	4.8	2.9	2.2
Current Account Balance (% of GDP)	-8.8	-16.3	-24.1	-16.9	-16.8	-11.8
Fiscal Balance (% of GDP)[b]	0.3	-2.5	-4.2	-5.3	-6.3	-3.8
Debt (% of GDP)[b]	67.9	81.0	87.5	86.7	85.5	85.0
Primary Balance (% of GDP)[b]	2.6	-0.3	-1.9	-3.1	-4.0	-1.6
GHG emissions growth (mtCO2e)	0.8	-3.3	3.7	13.1	2.1	2.0
Energy related GHG emissions (% of total)	77.6	76.9	77.7	80.2	80.6	81.0

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

SURINAME

Table 1	2021
Population, million	0.6
GDP, current US$ billion	3.1
GDP per capita, current US$	5204.6
School enrollment, primary (% gross)[a]	109.2
Life expectancy at birth, years[a]	71.7
Total GHG Emissions (mtCO2e)	12.7

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

Suriname built up substantial macroeconomic imbalances as a result of economic mismanagement and high commodity revenue volatility. A newly elected government adopted a comprehensive macroeconomic stabilization program and obtained support through an IMF Extended Fund Facility by end-2021. The COVID-19 pandemic exacerbated existing domestic vulnerabilities, leading to a sharp GDP contraction, increased unemployment and high inflation which created an increase in poverty. The discovery of offshore oil, if adequately managed, may accelerate fiscal consolidation and higher growth in the longer-term.

Key conditions and challenges

Suriname is a small, natural-resource-rich, upper middle-income country. Gold currently represents more than 80 percent of total exports and the overall mining sector accounts for nearly half of public sector revenue. The government redistributes revenue earned from extractive industries through significant public sector employment and, to a lesser extent, through some categorically targeted income support to people with disabilities, households with children, the elderly, and vulnerable households. The private sector is mostly engaged in provision of non-tradeable services, often through small firms employing informal workers.

Substantial macroeconomic imbalances have built up since the closure of bauxite mines in 2015 and a sharp decline in commodity prices in 2015-16. In the run-up to the 2020 general elections, macro-economic imbalances were further exacerbated by severe economic mismanagement including a substantial expansion in the number of civil servants, excessive borrowing, and monetary financing of the fiscal deficit. A fixed official exchange rate created a widening gap between the official and parallel market rates and led to a near-exhaustion of usable gross international reserves.

Suriname does not regularly publish employment and poverty statistics. The latest poverty data were collected in 2016. At the time over a quarter of the population lived in consumption poverty and one in 20 in extreme poverty. Over half of the population in the interior regions lived in poverty. About 13 percent of the population was non-poor but at risk of falling into poverty.

Recent developments

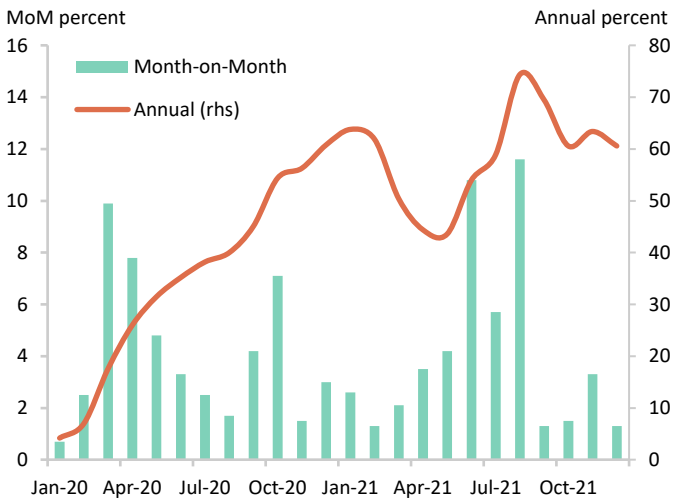
Economic mismanagement compounded by restrictions on economic activity to curb the spread of COVID-19 resulted in a severe economic crisis, with GDP contracting 15.9 percent in 2020 and another estimated 3.5 percent in 2021.

Suriname continues to experience significant COVID-19 related challenges, including peak transmission rates in September 2021 and January 2022 leading to tightening restrictions on mobility and economic activity, depending on the number of new COVID-19 cases. The country has been able to ensure a sufficient stock of COVID-19 vaccines, mainly from bilateral sources. In February 2022, about 40 percent of the population had been fully vaccinated.

The government adopted a comprehensive program of policy measures with respect to fiscal and debt sustainability, monetary and exchange rate policy, financial sector stability and governance to address macroeconomic imbalances as of mid-2020. On December 22, 2021, the IMF board approved a three- year Extended Fund Facility in support of this program.

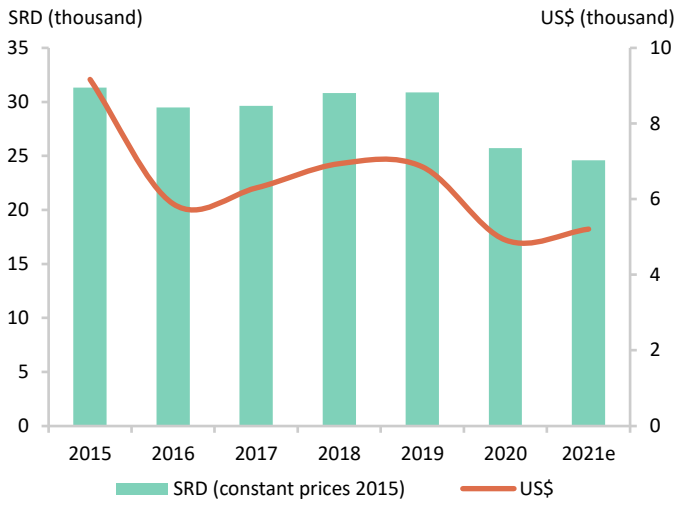
Public debt amounted to US$3.4 bn or 126 percent of GDP at the end of 2021 and arrears on external bilateral and private market debt

FIGURE 1 **Suriname** / Consumer price inflation



Source: General Bureau of Statistics.

FIGURE 2 **Suriname** / GDP per capita



Sources: General Bureau of Statistics and World Bank.

are estimated at about 11 percent of GDP. Restoring debt sustainability under the IMF-supported program will require important debt relief from Suriname's private and bilateral external creditors. In the meantime, the country is expected to continue to accumulate arrears on its liabilities to these creditors.

Revenue enhancing and expenditure reduction measures have already led to modest surpluses in the country's overall and primary fiscal balances on a cash basis. Additional measures, such as the introduction of a Value Added Tax, the elimination of electricity subsidies and the rationalization of civil service, should turn the primary balance from a persistent deficit into a surplus of 3-4 percent of GDP by 2023-24.

The government introduced a floating exchange rate, and a reserve money targeting regime was adopted as the basis of monetary policy in June 2021. The exchange rate stabilized at the then prevailing parallel market rate of about SRD21/US$ (compared to the official exchange rate of SRD7.5/US$ early 2020). The large stepwise depreciation of the exchange rate throughout 2020 and 2021, led to a sharp pass-through to month-on-month consumer price inflation rates and annual (12-month accumulated), inflation peaked in August 2021 at 74.4 percent. Reserve money targets are employed to anchor inflation expectations, whereas a flexible exchange rate should moderate the appreciation of the real exchange rate.

The banking system is facing a rise in nonperforming loans due to the recession and currency depreciation. Banks are likely to face a capital shortfall and need for recapitalization, the exact magnitude of which will be determined through an asset quality review.

Beneficiaries of social protection programs received additional payments during the 2020 economic downturn and, in 2021 and 2022, the amounts provided by these programs were increased to compensate beneficiaries for price increases. However, this increase is not expected to fully offset declines in disposable household incomes that were brought about by declines in employment and rapid inflation.

Micro-simulations suggest that employment losses induced by the economic downturn, combined with a loss in purchasing power stemming from high levels of inflation, led to a substantial increase in poverty rates. Women, especially those who were single and those with lower levels of education, were more likely to be poor pre-pandemic and more heavily affected by the economic downturn.

Exchange rate depreciation as well as the overall economic downturn led to a significant shift in the current account of the balance of payments: from a deficit of 11 percent of GDP in 2019 to a surplus of 9 and 5 percent of GDP in 2020 and 2021, respectively. The change in the current account was mainly brought about by a sharp contraction in imports of goods and services, a build-up of arrears on external debt-service liabilities as well as a strengthening in the price of gold, the main export commodity.

Outlook

Suriname faces challenging economic conditions. The near-term outlook critically depends on the successful implementation of the macroeconomic stabilization program, including an external public debt restructuring with a sizeable reduction in the Net Present Value of the debt. After two years of sharp contraction in economic activity, a gradual resumption of economic growth is expected for 2022-24 to nearly 3 percent per year in the medium term.

The longer-term growth outlook may be more positive following the discoveries of several offshore oil deposits as of 2020. A Final Investment Decision (FID) by one of the major oil companies is expected later this year at which point there is more certainty about a possible revenue flow from offshore oil production which will take several years to materialize.

The modest economic recovery will at best partially counterbalance the significant challenges faced by many households. Planned efforts to improve the delivery and effectiveness of social assistance, therefore remain a priority. Although purchasing power is expected to stabilize gradually, international inflationary pressure due to global conflict poses a risk, especially to the poorest. Labor market indicators are not expected to return to their pre-pandemic level any time soon, with continued negative implications for poverty.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	1.1	-15.9	-3.5	1.8	2.1	2.7
Real GDP growth, at constant factor prices	1.1	-15.9	-3.5	1.8	2.1	2.7
Agriculture	-18.8	-1.5	-2.0	1.2	3.0	3.0
Industry	-5.1	-17.1	-2.5	2.0	2.0	2.5
Services	7.7	-17.1	-4.2	1.8	2.0	2.8
Inflation (Consumer Price Index)	4.3	34.8	59.1	37.9	22.2	14.1
Current Account Balance (% of GDP)	-11.2	9.1	5.4	1.9	0.7	-0.9
Net Foreign Direct Investment (% of GDP)	-0.2	0.0	-5.3	3.3	3.2	2.9
Fiscal Balance (% of GDP)[a]	-18.8	-11.2	1.6	-1.0	-0.4	0.4
Debt (% of GDP)[a]	85.2	148.3	125.9	123.7	115.3	112.6
Primary Balance (% of GDP)[a]	-15.7	-7.5	3.8	2.1	3.1	3.9
GHG emissions growth (mtCO2e)	1.2	-4.0	-0.9	0.0	-0.2	0.1
Energy related GHG emissions (% of total)	17.2	14.9	14.4	14.6	14.5	14.7

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

URUGUAY

Table 1	2021
Population, million	3.5
GDP, current US$ billion	59.3
GDP per capita, current US$	17022.8
International poverty rate ($1.9)[a]	0.2
Lower middle-income poverty rate ($3.2)[a]	0.7
Upper middle-income poverty rate ($5.5)[a]	4.6
Gini index[a]	40.2
School enrollment, primary (% gross)[b]	104.3
Life expectancy at birth, years[b]	77.9
Total GHG Emissions (mtCO2e)	33.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2011 PPPs.
b/ Most recent WDI value (2019).

Uruguay's GDP rebounded in 2021, reaching pre-crisis levels. The economic recovery and fiscal discipline helped reduce the fiscal deficit to below the 2019 level, despite additional COVID19 expenditures. With inflation above the target range, the Central Bank started a gradual monetary tightening process in August 2021. Improving economic and labor market conditions supported poverty reduction. However, global uncertainty, commodity prices, and new COVID19 variants present risks to a sustained recovery.

Key conditions and challenges

The COVID19 shock marked the first economic contraction since 2002. Between 2002 and 2019, Uruguay's economy expanded faster than the regional average, poverty fell to historical lows, and the country reaffirmed its relatively low levels of inequality and its large middle-class. Yet, GDP growth started decelerating in 2015 following a deterioration in the external environment, while poverty reduction stalled and even increased slightly in 2018-2019.

An economy reliant on agricultural exports and tourism, the pandemic affected Uruguay early for a 6.1 percent fall in GDP in 2020. The economy recovered in 2021, on the back of a comprehensive vaccination campaign.

The impacts of the pandemic on household income and employment were mitigated through multiple support measures reaching the poor and vulnerable, and the middle class. These measures included cash transfers, pension benefits, wage subsidies, and labor regulation adjustments to support paid unemployment and reduced work time.

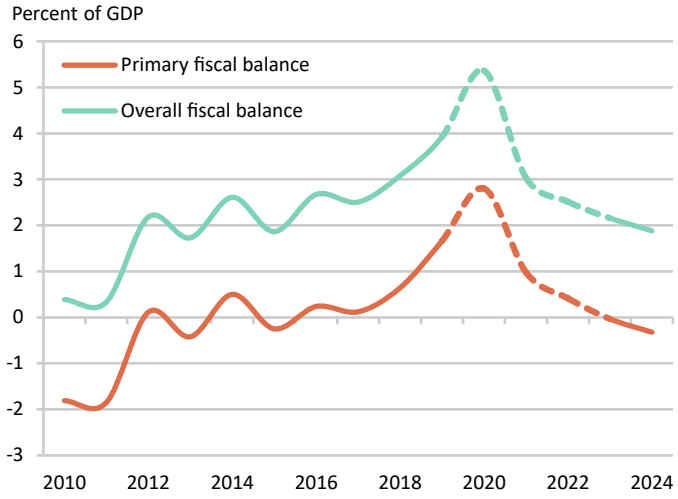
Prudent fiscal management helped lower the fiscal deficit in 2021 to below its 2019 level, despite increased COVID19-related expenditures. Aside from fiscal discipline, the government is committed to a reform agenda to address structural growth bottlenecks. These include pursuit of a free trade agreement with China to enhance integration into the global economy as well as policy actions to address vulnerability to climate change, SOEs' competitiveness, and pensions and education reform.

Recent developments

GDP fell 4.3 percent yoy in the first quarter of 2021, hit by border closures heading into the 2021 summer season, but recovery resumed reaching pre-crisis levels in the third quarter. Growth was widespread, with contact-intensive sectors having the greatest incidences. On the demand side, growth was fueled by exports, investment, and government consumption. Strong investment was partly associated with the continuation of a US$3bn paper mill project (UPM 2) and related public infrastructure works. The economy continued to recover in the last quarter, for a 4.4 percent expansion in 2021. Despite signs of improvement, the labor market was still significantly affected in the first half of 2021. High-frequency survey data show that 9.8 percent of pre-pandemic formal workers were in an informal job by June 2021. Young workers and women were more affected, with 18.7 and 10.2 percent having switched from a pre-pandemic formal job to informality, respectively.

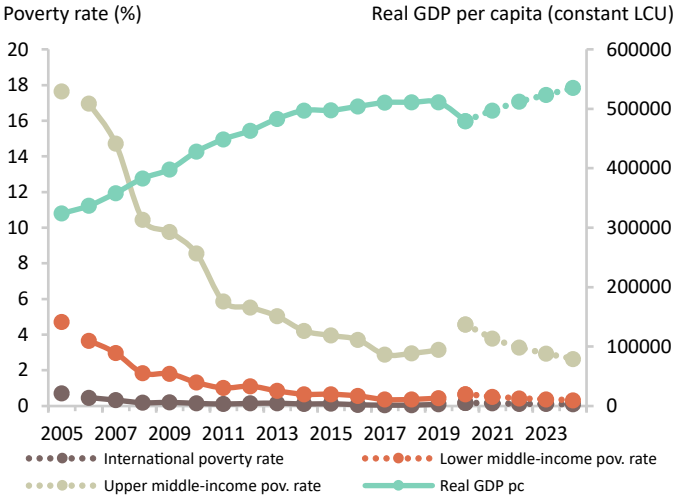
Exports increased 14.4 percent in 2021, boosted by a hike in commodity prices and recovered external demand. Imports grew 20.9 percent over the same period, partly fueled by investment and consumption of

FIGURE 1 Uruguay / Actual and projected primary and overall fiscal balances



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

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



Source: World Bank. Notes: see Table 2.

durable goods. Merchandise exports reached a record high in 2021, estimated at US$11.5bn.

Backed by the economic recovery, the Central Bank initiated a monetary tightening process in August 2021, increasing the monetary policy rate 275 basis points in six months. A relatively stable exchange rate through 2021 contributed to a fall in inflation from 9.8 percent in 2020 to 7.7 percent in 2021. However, inflation remains above the upper bound of the current target range of 7 percent.

The economic recovery also contributed to a substantial improvement of fiscal accounts. The fiscal deficit reached an estimated 3.0 percent of GDP in 2021, down from 5.4 percent in 2020, mostly due to higher fiscal revenue and contractions in major expenditure categories. Uruguay continued to have favorable access to international credit markets through the crisis.

The national poverty rate fell in the first semester of 2021. It is estimated to have reached close to pre-pandemic levels at the end of 2021, driven by improvements in economic activity and unemployment, which registered 7 percent in December, its lowest level in the past three years.

Outlook

In a context of high commodity prices, decelerating global economic growth, and partial reactivation of the tourism sector, GDP is projected to grow 3.3 percent in 2022 despite an ongoing drought that affects agricultural production, and to converge to 2.5 percent by 2024. In this baseline scenario, poverty (measured by the international upper-middle income line) is expected to come down to its pre-pandemic levels in 2022, depending on the evolution of real earnings among vulnerable populations.

Following high growth in 2021, exports of goods and services are expected to decelerate to 5.1 percent in 2022, but are projected to regain dynamism in 2023 as the pulp plant UPM 2 starts exporting by the end of the first quarter. Import growth is expected to decelerate, given the expected private consumption and investment dynamics. After a small deterioration in 2022 due to the negative net effect of high commodity prices on terms-of-trade, the current account deficit is expected to gradually narrow.

Monetary tightening is expected to bring inflation down only gradually to the new target range (3-6 percent starting in September 2022), in a context of high inertia and high commodity prices.

The fiscal consolidation process is expected to continue. The overall deficit is expected to fall to 2.5 percent of GDP in 2022, largely due to a reduction in COVID19-related expenditure and a further contraction in current public expenditure, reaching 1.9 percent of GDP by 2024. The approval of a pension reform, informed by a multi-party technical committee, will play a key role in supporting fiscal sustainability in the long-term.

While an overall improvement in macro-fiscal conditions is expected, risks lie on the downside. Heightened global uncertainty and its impact on commodity prices, financial conditions, and global economic activity represent a major source of risk. They add to the expected monetary tightening in developed countries, which could deteriorate external demand and Uruguay's access to credit markets. New COVID19 variants could affect both internal and external demand and labor supply. A growth deceleration in China, Uruguay's main trading partner is another major risk.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	0.4	-6.1	4.4	3.3	2.6	2.5
Private Consumption	0.5	-6.9	2.3	3.5	2.2	2.1
Government Consumption	1.1	-7.1	7.3	-3.3	-1.4	0.4
Gross Fixed Capital Investment	0.8	1.3	15.8	6.0	0.3	2.6
Exports, Goods and Services	3.6	-16.0	14.4	5.1	7.5	4.2
Imports, Goods and Services	1.5	-12.0	20.9	3.3	2.8	2.5
Real GDP growth, at constant factor prices	0.4	-6.2	4.4	3.3	2.6	2.5
Agriculture	-0.3	-0.4	3.2	3.1	2.5	2.5
Industry	-3.7	-5.6	5.2	3.9	2.0	2.0
Services	1.1	-6.8	4.4	3.2	2.7	2.6
Inflation (Consumer Price Index)	7.9	9.8	7.7	7.0	6.3	5.8
Current Account Balance (% of GDP)	1.6	-0.6	-0.9	-1.0	-0.6	-0.6
Net Foreign Direct Investment (% of GDP)	2.2	1.7	1.7	1.5	1.4	1.4
Fiscal Balance (% of GDP)[a]	-3.9	-5.4	-3.0	-2.5	-2.2	-1.9
Debt (% of GDP)	60.5	68.3	66.4	66.9	67.7	67.7
Primary Balance (% of GDP)[a]	-1.7	-2.8	-1.0	-0.4	0.0	0.3
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.1	0.2	0.1	0.1	0.1	0.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	0.5	0.7	0.5	0.4	0.4	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	3.2	4.6	3.7	3.2	2.9	2.6
GHG emissions growth (mtCO2e)	-1.7	-2.3	0.0	1.1	0.3	0.2
Energy related GHG emissions (% of total)	19.1	18.5	18.2	18.8	18.9	18.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Non-Financial Public Sector. Excluding revenues associated with the "cincuentones".
b/ Calculations based on SEDLAC harmonization, using 2013-ECH, 2019-ECH, and 2020-ECH. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
c/ Projection using point-to-point elasticity (2013-2019) with pass-through = 0.7 based on GDP per capita in constant LCU.

Macro Poverty Outlook

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2022

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