Macro Poverty Outlook

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

Spring Meetings 2022

WORLD BANK GROUP
Macroeconomics, Trade & Investment
Poverty & Equity

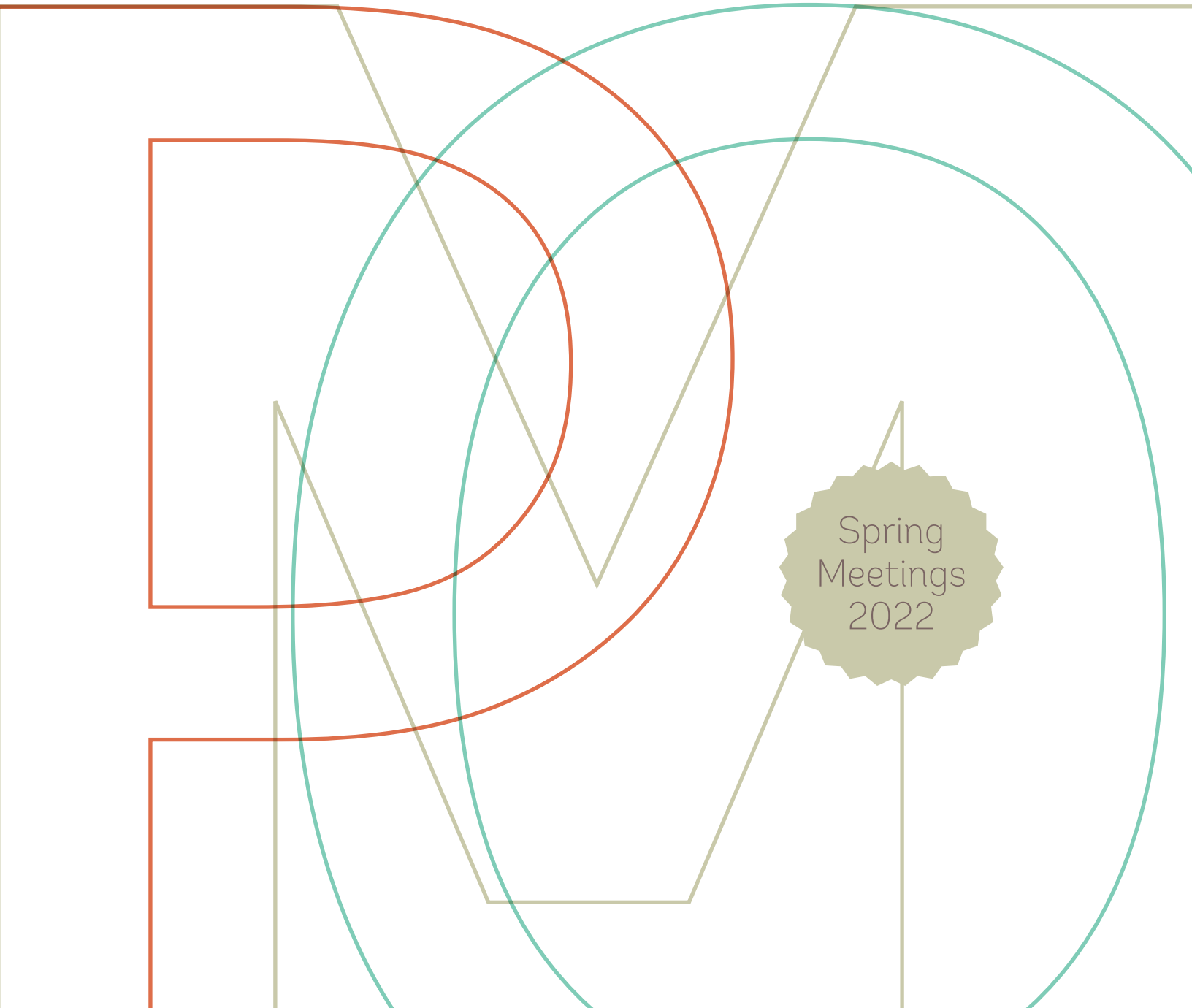
1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

Internet: www.worldbank.org

Macro Poverty Outlook



MACRO POVERTY

Spring Meetings 2022

OUTLOOK

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

The cutoff date for information for most countries was April 04, 2022.

East Asia and the Pacific

Spring Meetings 2022

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

CAMBODIA

Table 1	2021
Population, million	16.9
GDP, current US$ billion	28.5
GDP per capita, current US$	1686.4
School enrollment, primary (% gross)[a]	105.4
Life expectancy at birth, years[a]	69.8
Total GHG Emissions (mtCO2e)	69.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2019).

Under the baseline scenario, the growth projection for 2022 remains at 4.5 percent, as a stronger domestic recovery supported by the rollback of mobility restrictions is offset by worsening global demand and rising commodity prices. The recovery is expected to remain underpinned by domestic economic activity and agricultural commodity exports, while Cambodia's export-oriented manufacturing is expected to face headwinds. Inflationary pressures are projected to increase, led by rising food and oil prices triggered by the war in Ukraine . Risks to baseline forecast are broadly balanced and Cambodia maintains policy space that it could deploy should these risks materialize.

Key conditions and challenges

COVID-19 infections have resurged since February 2022, caused primarily by the Omicron variant. About 83 percent of the population have received two doses of coronavirus vaccine. Cambodia has shifted to a strategy for "living with COVID-19" enabling a broad-based economic recovery to take shape. While strong domestic economic momentum continues, a general slowdown in global demand is looming. Financial market tightening in the United States, changes in the growth and composition of economic activity, especially in China, and the war in Ukraine, will negatively affect the external environment. In addition, an unmanageable resurgence of Omicron or new variants could disrupt economic recovery. Rising energy and food prices could dampen consumer confidence and worsen people's welfare, negatively impacting poverty reduction. In addition, high credit growth and concentration of domestic credit in the construction and real estate sector remain a key risk to Cambodia's financial stability.

Recent developments

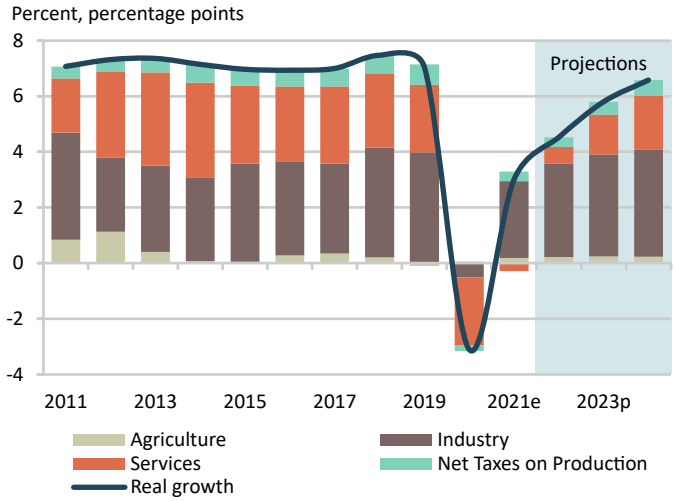
The economic recovery has held up but remains uneven. Traditional growth drivers, especially the garment, travel goods, footwear, and bicycle manufacturing industries, as well as agriculture, have fully recovered. In contrast, the important travel and tourism sector - one of Cambodia's main growth drivers, accounting for about 2 million jobs and a quarter of GDP during the pre-pandemic period - remained subdued. Labor market pressures have been magnified by an increased number of migrant workers who have returned home from abroad.

Cambodia's total goods (excluding gold) exports accelerated to 22.8 percent in 2021, driven mainly by surging goods exports to the United States which expanded 42.4 percent (figure 2). The trade (and current account) deficit, however, significantly widened, largely caused by rising imports of a few major items, especially gold used as a hedge against volatility.

Inflation has edged up further, reaching 4.1 percent in January 2022. Supported by central bank open market operations, the nominal exchange rate continued to be broadly stable, hovering at riel 4,100 per U.S. dollar. Gross international reserves, however, declined marginally, reaching US$ 19.7 billion (9 months of imports) in December 2021, down from US$21.2 billion at the end of 2020.

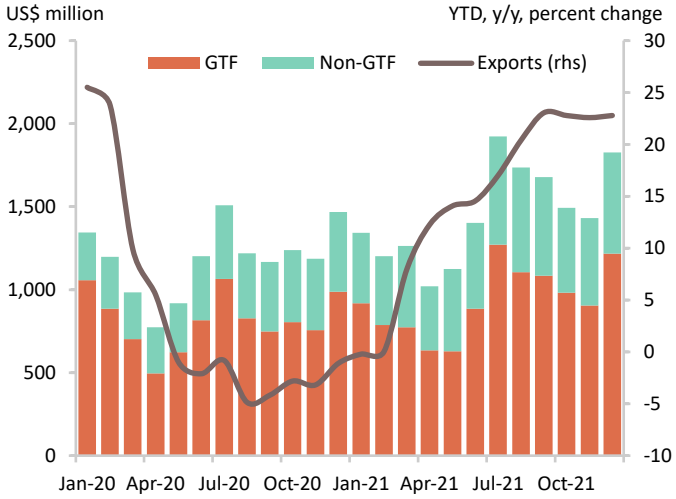
Monetary conditions continued to be accommodative. Broad money growth accelerated to 16.3 percent in 2021, compared to 15.3 percent in 2020. Thanks to improved confidence in the banking system and continued capital inflows, deposit growth outpaced its pre-pandemic growth rate, increasing at 17.2 percent, while domestic credit grew 24.1 percent in December 2021. The annual budget for 2022 is characterized by continued (countercyclical) fiscal

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



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

FIGURE 2 Cambodia / Merchandise (excluding gold) exports



Source: Cambodian authorities. Note: GFT = garment, travel goods, and footwear (and other textile products).

support with the fiscal deficit expected to widen to 6.0 percent of GDP. Expenditure is budgeted to reach 26.7 percent of GDP, driven by continued fiscal support to mitigate the impacts of the pandemic and expansion of public investment. External borrowing is expected to finance about 60 percent of the deficit, while the rest is to be financed by a drawdown of government deposits (fiscal reserves) which stood at 17.4 percent of GDP in December 2021, down from 23.7 percent of GDP at the end of 2020.

The cash transfer program has been the largest component of the government's support package. As of February 2022, it covered 690,000 households (2.7 million individuals) or approximately 19 percent of households. The program has disbursed US$ 593 million since the launch in June 2020, thus far mitigating some of the negative impacts for the poor and vulnerable households.

The official poverty rate measured at the national poverty line declined by 1.6 percentage points per year over the period 2009-2019/20, driven substantially by rising labor (especially wage) earnings.

Outlook

Despite a general slowdown in global demand, growth is projected to hold up at 4.5 percent this year under the baseline scenario, thanks to the rollback of mobility restrictions made possible by Cambodia's high vaccination rate. The recovery is expected to remain underpinned by domestic economic activity and agricultural commodity exports. Under the downside scenario, growth is projected to reach only 3.8 percent in 2022. The downside scenario assumes a deterioration in domestic economic conditions caused by rising inflation, while external conditions worsen caused by a marked slowdown in external demand. Cambodia's export-oriented manufacturing is expected to face headwinds in the coming months, with a less favorable external environment which is being reshaped by cyclical slowdown in the U.S and structural slowdown in China. In addition, the energy and food prices hike due to the economic consequences of the war in Ukraine is expected to slow down the pace of poverty reduction as it weighs on household budgets.

Over the medium term, the economy is expected to trend back to potential, growing at around 6 percent. The new Law on Investment, the Cambodia-China and Cambodia-Republic of Korea free trade agreements and the Regional Comprehensive Economic Partnership are expected to help boost investment and trade in the coming years. On the upside, a less persistent global shock could improve the outlook for Cambodia.

However, the negative impacts of the coronavirus on jobs and welfare are expected to continue as the services sector, especially the travel, tourism, and hospitality industries, are facing persistent headwinds. It is crucial to implement structural reforms embedded in the economic recovery plan to improve Cambodia's external competitiveness. Addressing supply side bottlenecks by reducing costs of doing business, logistic, and energy, while eliminating rigidities in major labor market regulations that prevent a robust recovery of the job market remains key to a sustained economic recovery and job creation.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	7.1	-3.1	3.0	4.5	5.8	6.6
Private Consumption	7.0	-0.8	1.3	1.3	1.4	1.5
Government Consumption	10.0	12.5	-28.3	7.2	14.2	16.6
Gross Fixed Capital Investment	6.9	11.2	-11.8	4.0	9.6	9.0
Exports, Goods and Services	7.8	1.1	14.9	16.5	17.2	18.5
Imports, Goods and Services	6.0	7.3	21.7	12.0	13.5	14.8
Real GDP growth, at constant factor prices	6.8	-3.1	2.8	4.5	5.8	6.5
Agriculture	-0.5	0.4	1.1	1.3	1.5	1.5
Industry	11.3	-1.4	7.4	8.6	9.1	9.2
Services	6.2	-6.2	-1.0	1.6	4.1	5.6
Inflation (Consumer Price Index)	3.2	2.9	3.5	6.5	4.5	4.0
Current Account Balance (% of GDP)	-15.2	-12.0	-28.5	-15.8	-13.6	-13.2
Net Foreign Direct Investment (% of GDP)	13.2	13.0	12.7	12.9	13.9	15.0
Fiscal Balance (% of GDP)	1.5	-4.3	-5.7	-6.0	-4.9	-3.7
Debt (% of GDP)	28.2	34.4	34.8	35.6	35.8	36.7
Primary Balance (% of GDP)	1.9	-3.7	-5.2	-5.5	-4.3	-3.1
GHG emissions growth (mtCO2e)	2.6	-1.5	-0.4	1.5	2.5	2.5
Energy related GHG emissions (% of total)	23.0	22.2	22.1	23.3	25.0	26.7

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

CENTRAL PACIFIC ISLANDS

Table 1	2020
Population, million	
Kiribati	0.12
Nauru	0.01
Tuvalu	0.01
GDP, US$, billion	
Kiribati	0.19
Nauru	0.11
Tuvalu	0.05
GDP per capita, current US$	
Kiribati	1671
Nauru	8867
Tuvalu	4663

Sources: WDI, World Bank staff estimates.

Growth rates in Kiribati, Nauru and Tuvalu remain far below pre-pandemic levels. While Tuvalu and Nauru remain COVID-free, the fast spread of COVID-19 in Kiribati in January 2022 highlighted the need to reinforce preparedness. Higher commodity prices, exacerbated by the Ukraine-Russia war, will add to inflationary pressures and hold back growth. A narrow economic base and vulnerability to climate change are key challenges for growth and poverty reduction in the Central Pacific.

Key conditions and challenges

Until the emergence of the highly transmissible Omicron variant, the Central Pacific countries had been spared from severe health impacts due to the pandemic. However, in January 2022 an outbreak took hold in Kiribati's capital, with the virus managing to evade the strict quarantine protocols for inbound travelers. Nauru and Tuvalu remain COVID-free thus far, but may have to grapple with the rapid spread of the virus as they reopen their borders. In the long term, the Central Pacific faces major development challenges due to extreme vulnerability to climate change, small size, remoteness, heavily reliance on external grants, near-total dependence on imports for foods and fuel, and limited sources of revenue. All three countries have invested in trust funds in order to stabilize volatile revenues and provide long-term development financing, but fiscal sustainability remains an important challenge.

In recent years, **Kiribati**'s growing revenues from fisheries have allowed the government to rapidly increase public spending to tackle the country's high rates of poverty and deprivation. However, with the available fiscal space now exhausted, Kiribati will now need to focus on the quality of public spending – rather than the quantity – in order to achieve further development gains. According to a 2019 survey, 21.9 percent of the population were below the national poverty line, and high shares of the population were deprived of non-monetary needs, such as access to clean water, sanitation, and electricity.

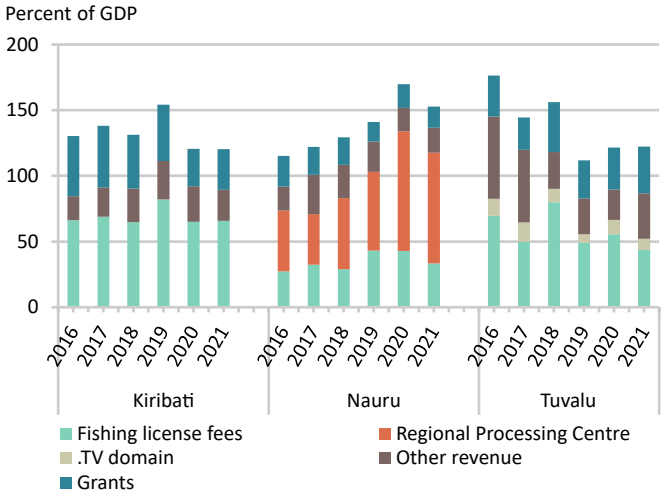
Nauru faces the challenge of adjusting to reduced fiscal revenues and finding new sources of economic growth and jobs over the medium term. Economic growth, employment and public revenues have been highly dependent on activity associated with Australia's Regional Processing Centre (RPC) for asylum seekers, phosphate mining and fishing. However, phosphate resources have now been fully exploited, and the RPC is now transitioning to a new 'enduring capability' arrangement with Australia, which will see the facility continue to operate on a significantly reduced scale.

In **Tuvalu**, fishing license fees are projected to decline as the El Nino cycle wanes. Strengthening public financial management is a priority, in particular reining in the elevated fiscal costs of overseas health care and improving procurement procedures to ensure more cost-effective capital spending. Though no recent data on poverty is available, in 2010 an estimated 26 percent of the population lived below the national poverty line.

Recent developments

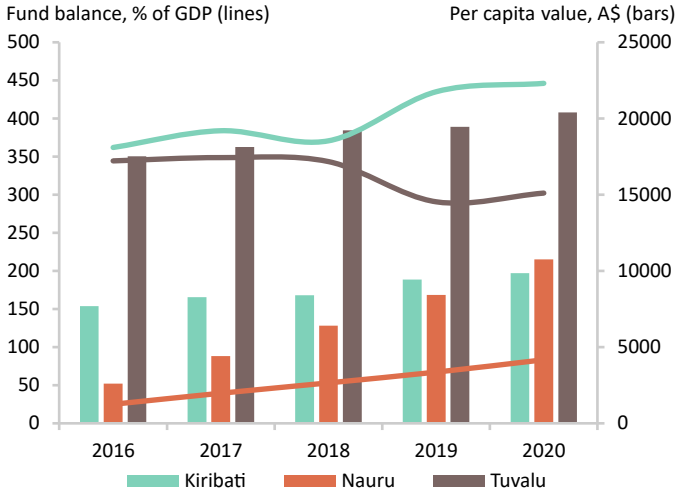
Kiribati experienced a modest economic recovery in 2021, with estimated 1.5 percent growth. COVID-19 border closures had resulted in a 0.5 percent contraction

FIGURE 1 Central Pacific Islands / Sources of revenue, 2016-2021



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

FIGURE 2 Central Pacific Islands / Sovereign wealth fund balances



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

in 2020, with major disruption to business travel, development projects, and fresh fish exports. However, increased public spending on social benefits in 2021 outweighed the ongoing effects of the border measures, and supported a modest return to growth. This included a new unemployment benefit for all 18–60-year-olds without a formal job. This is expected to help reduce poverty given that more than three quarters of Kiribati's adult population are eligible to receive support, but the broad coverage of the program dilutes the benefits to the Bottom 40. At an annual cost of 12 percent of GDP, the benefit has also introduced significant fiscal pressures. Nonetheless, a 14.5 percent of GDP drawdown from the sovereign wealth fund limited the 2021 fiscal deficit to an estimated at 3.7 percent of GDP. As of end 2021, the value of the sovereign wealth fund stood at 490 percent of GDP.

In **Nauru**, growth is projected to have reached 1.5 percent in FY21, with stronger than expected activity related to the RPC and a major port redevelopment project helping to offset the effects of border closures. In FY21, the fiscal cost of COVID-19 amounted to 5 percent of GDP, including funding for the vaccine rollout and subsidies to maintain vital air and sea freight links. However, with better-than-expected revenues from the RPC, Nauru was still able to achieve an estimated surplus of 11 percent of GDP. With this surplus and a drawdown on cash reserves, Nauru made a contribution worth 19 percent of GDP to its Intergenerational Trust Fund in FY21, bringing the fund balance to 109 percent of GDP. Meanwhile, in the first two quarters of FY22, RPC activity continued to exceed expectations. This, along with strong fisheries revenue receipts, has generated a fiscal surplus for the year to-date.

In **Tuvalu**, the pandemic impacted travel and trade but the country avoided a recession. The economy grew an estimated 2.5 percent in 2021, supported by the infrastructure projects linked to the airport and school reconstruction. Buoyant fishing license revenues, the country's main source of revenue, rose to an estimated 56 percent of GDP in 2020, much higher than expected. The fiscal deficit is expected to widen to 7 percent of GDP in 2021 due to a 20 percent fall in fishing license fees and an increase in expenditures, including additional COVID related spending and planned air service investment. The total stock of sovereign wealth funds for Tuvalu, comprising the Tuvalu Trust Fund (TTF), the Consolidated Investment Fund (CIF), and the Tuvalu Survival Fund (TSF), is around 292 percent of GDP at end-2021.

Outlook

In **Kiribati**, moderate growth of about 1.8 percent is projected in 2022. Although a lockdown in the first quarter has subdued activity, supportive fiscal policy measures and the expected gradual return of international construction projects from the second half of 2022 will help to safeguard the recovery. After a slow start, the double dose vaccination rate has now reached 77 percent of adults (as of 3 March 2022), opening up the possibility that quarantine measures could be relaxed later this year. Meanwhile, inflationary pressures are expected to build in 2022, in line with international trends in food and fuel prices. The fiscal deficit is expected to reach 6.0 percent of GDP in 2022, after accounting for budget support grants and a 7.8 percent of GDP drawdown on the sovereign wealth fund. Kiribati's ample cash reserves mean that projected deficits can be sustainably financed over the medium term, but further expenditure growth would put this assessment at risk. The authorities' fiscal anchors on sovereign wealth fund drawdowns and maintaining adequate cash reserves provide important sustainability safeguards.

In **Nauru**, 96 percent of eligible adults are fully vaccinated, and the government is now launching a vaccine campaign for under-18s. The highly successful vaccination campaign has allowed for the gradual return of international travel, with quarantine requirements now removed for vaccinated travelers from Australia. Nonetheless, modest growth of only around 1 percent is expected in FY22, due to the expected wind-down of RPC activity in the second half of the year. However, a return to more robust growth of around 2.5 percent in FY23 and the medium term is projected, once the new port infrastructure comes online. Although the RPC wind-down will place growing pressure on government finances over the medium term, a balanced budget is projected for FY22. This is due to off-budget RPC income from previous years being recognized as revenues, cushioning the impact of the RPC wind-down, as well as strong fisheries revenue performance.

Tuvalu, with nearly 90 percent of adults fully vaccinated, is considering options for a gradual reopening of the borders with key countries, such as Fiji (the main hub for Tuvalu). Growth is therefore projected to rebound to 3.5 percent in 2022 and to climb steadily to 4 percent by 2024. The fiscal deficit will reach 2.9 percent of GDP in 2022 as expenditures fall back closer to pre-COVID levels while revenues are projected to fall by over 10 percent of GDP. Fishing license fees are expected to fall to 41.5 percent of GDP in 2022 from 43.5 percent in 2021. On the other hand, tuna transshipment in Funafuti, reinstated in February 2022 after a two-year ban due to COVID-19, is expected to bring additional revenues amounting to 2 percent of GDP. Over the medium-term, the fiscal deficit is projected to remain below 3 percent of GDP.

Risks to the Central Pacific outlook are substantial and include the unpredictability of the pandemic; volatility in revenue flows, including budget support from development partners; and the ever-present threat of climate-related natural disasters.

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

	2019	2020	2021f	2022f	2023f	2024f
Real GDP growth, at constant market prices						
Kiribati	-0.5	-0.5	1.5	1.8	2.5	2.3
Nauru	1.0	0.7	1.5	0.9	2.6	2.4
Tuvalu	13.9	1.0	2.5	3.5	3.8	4.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]						
Kiribati	16.2	17.8	17.6	17.4	17.2	16.8

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

CHINA

Table 1	2021
Population, million	1412.4
GDP, current US$ billion	17755.1
GDP per capita, current US$	12571.2
International poverty rate ($1.9)[a]	0.1
Lower middle-income poverty rate ($3.2)[a]	1.7
Upper middle-income poverty rate ($5.5)[a]	15.8
Gini index[a]	38.2
School enrollment, primary (% gross)[b]	103.2
Life expectancy at birth, years[b]	76.9
Total GHG Emissions (mtCO2e)	12892.3

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

With rising external headwinds and domestic challenges, economic growth is projected to slow to 5.0 percent y/y in 2022. By 2022, 10.8 percent of the population in China are expected to fall below the $5.50/day per person poverty line (2011 PPP). The near-term outlook is highly uncertain with risks tilted to the downside amid frequent COVID outbreaks, an ongoing housing market correction, and the war in Ukraine.

Key conditions and challenges

After a swift rebound, China's economic recovery lost momentum in the second half of last year. Domestic demand has slowed, and the global economic environment has worsened significantly with the war in Ukraine. In addition, COVID incursions have become more frequent and widespread. China is currently experiencing the largest COVID wave since the end of the national lockdown in March 2020 with more than 50,000 cases since the start of 2022.

Over the medium term, China's potential growth is decelerating due to structural factors. The economy has embarked on a structural slowdown reflecting adverse demographics, tepid productivity growth and rising constraints to a growth model that relies excessively on investment. To avert a sharper slowdown China needs to revive productivity growth and rebalance the economy along multiple dimensions: from exports and investment to greater reliance on domestic consumption, from state-led to more market-driven growth, and from high to low-carbon growth.

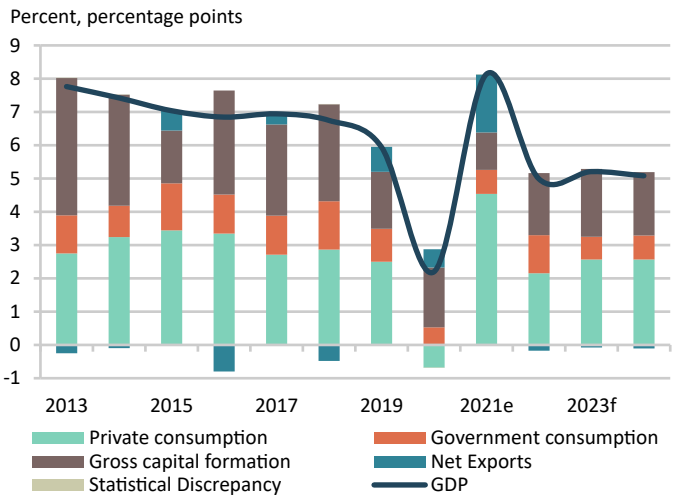
Recent developments

Full-year GDP growth in 2021 accelerated to 8.1 percent y/y. After a strong rebound in the first half of 2021, growth cooled rapidly and remained below potential since the second half of 2021, as significant fiscal policy and regulatory tightening, a downturn in the housing market, and frequent COVID outbreaks weighed on economic activities.

The surveyed urban unemployment rate returned to 2019 levels and about 12.7 million new jobs were created in 2021, exceeding China's annual target of 11 million new urban jobs. After a marked slowdown in 2020, disposable household income grew strongly in 2021 by 8.1 percent y/y with faster growth among rural households. With rising household income, per capita consumption expenditure also accelerated by 12.6 percent y/y. As overall conditions improved, the poverty rate resumed its pre-pandemic declining trend, and is expected to fall below 12.3 percent in 2021 when considering the upper-middle income countries' poverty line of $5.50/day per person (2011 PPP).

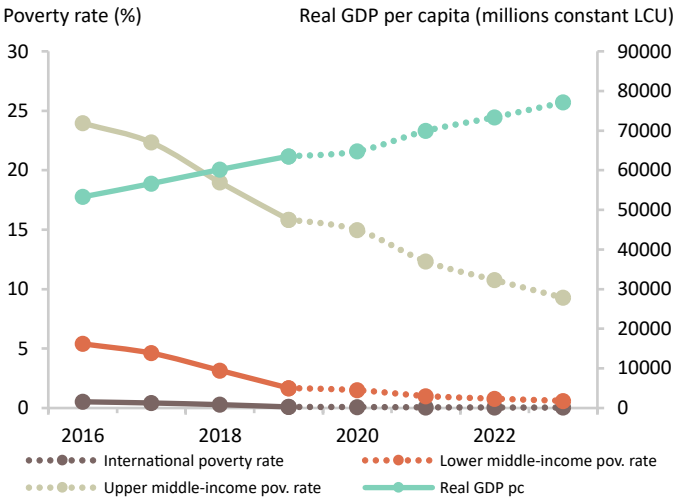
Although activity data for the first two months point to a robust start in 2022, COVID outbreaks, a challenging external environment, housing market downturn and a still-sluggish consumption recovery hint at further downside pressure on near-term economic activity. Faced with growing downside pressure on growth, policymakers have shifted to a more accommodative monetary and fiscal policy stance. While the government set the 2022 quota for special local government bond issuance to finance infrastructure projects at RMB 3.65 trillion, the actual quota might be substantially higher at about RMB 4.7 trillion due to the carryover of last year's bond proceeds. In addition, the State

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



Source: China's National Bureau of Statistics; World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

Council extended some of the tax and fee reduction policies for SMEs to the end of 2023. The PBOC has implemented multiple policy easing measures since last December including cuts in various interest rates and regulators have finetuned housing policies in recent months to support the real estate sector.

Outlook

On the back of increasing headwinds, China's GDP growth is expected to slow to 5.0 percent in 2022. The recent and widespread Omicron wave will further delay the recovery in private consumptions and service-led activities. On the external side, China is expected to face a decline in its terms of trade as well as a decline in export demand, with the growth contribution of net exports likely turning negative in 2022. Private investment growth is expected to weaken as manufacturing investment slows owing to weaker external demand, and real estate investment remains subdued with the authorities maintaining their focus on reining in financial risks in the property sector. The growth projection assumes substantial loosening of fiscal policy to stem these headwinds which are expected to lead to accelerated infrastructure investment. Given the projected economic growth for 2022, the poverty rate measured at $5.50/day per person is expected to fall to 10.8 percent, with more than a third of the poor residing in urban areas. The decline represents 22 million fewer poor people than in 2021.

The outlook is highly uncertain with risks tilted to the downside. The key downside risk are more severe and protracted COVID outbreaks, which could impair production and domestic supply chains with knock on effects on investor and consumer confidence and trigger larger and more prolonged economic disruptions. Meanwhile, more severe financial stress among property developers could create negative spillovers to upstream sectors and weigh on investment and consumption. On the external side, risks could transmit through a stronger than expected slowdown in global demand and a longer lasting shock to commodity prices. In a downside scenario with a more dominant COVID shock growth could slow to 4.0 percent in 2022. While China has policy space to act, using excessive stimulus to boost investment could further aggravate domestic imbalances and delay the shift towards high quality growth. In light of these considerations, should China face further negative shocks, policy makers may want to settle for lower growth and maintain policy buffers rather than jeopardize hard-won rebalancing gains.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	6.0	2.2	8.1	5.0	5.2	5.1
Private Consumption	6.5	-1.8	12.2	5.6	6.6	6.5
Government Consumption	6.0	3.2	4.3	7.1	4.1	4.4
Gross Fixed Capital Investment	5.3	3.2	2.7	4.2	5.1	4.8
Exports, Goods and Services	2.2	1.4	17.5	3.8	3.1	3.0
Imports, Goods and Services	-1.7	-1.7	9.9	5.8	4.3	4.3
Real GDP growth, at constant factor prices	6.0	2.2	8.1	5.0	5.2	5.1
Agriculture	3.1	3.1	7.1	3.2	3.1	3.1
Industry	4.9	2.5	8.2	4.8	4.6	4.5
Services	7.2	1.9	8.2	5.4	6.0	5.8
Inflation (Consumer Price Index)	2.9	2.5	0.9	2.2	2.0	1.9
Current Account Balance (% of GDP)	0.7	1.9	1.8	1.3	1.2	1.1
Net Foreign Direct Investment (% of GDP)	0.4	0.7	1.2	0.9	0.9	0.8
Fiscal Balance (% of GDP)[a]	-4.6	-8.6	-4.4	-7.1	-5.5	-4.3
Debt (% of GDP)	38.5	45.4	45.1	49.3	51.4	52.3
Primary Balance (% of GDP)	-3.6	-7.4	-3.2	-5.8	-4.1	-3.0
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.1	0.1	0.1	0.0	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	1.7	1.5	1.0	0.8	0.6	0.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	15.8	15.0	12.3	10.8	9.3	7.9
GHG emissions growth (mtCO2e)	2.5	1.5	5.8	2.3	1.7	1.2
Energy related GHG emissions (% of total)	81.8	81.9	82.0	81.8	81.7	81.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ The adjusted fiscal balance adds up the public finance budget, the government fund budget, the state capital management fund budget and the social security fund budget.
b/ Last grouped data available to calculate poverty is for 2019 provided by NBS.Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2021 to 2024.
c/ Projections based on GDP growth estimates, using a neutral distribution assumption with pass through 0.85 to per capita household consumption.

FIJI

Table 1	2021
Population, million	0.9
GDP, current US$ billion	4.7
GDP per capita, current US$	5163.1
International poverty rate ($1.9)[a]	2.6
Lower middle-income poverty rate ($3.2)[a]	17.8
Upper middle-income poverty rate ($5.5)[a]	55.5
School enrollment, primary (% gross)[b]	116.5
Life expectancy at birth, years[b]	67.4

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

Reopening of Fiji's borders to tourism in December 2021 marked a major step towards economic recovery. The economy is expected to reach the pre-pandemic level by 2024, supported by private consumption and investment. The outlook remains highly uncertain as the tourism sector may recover slower than expected. Risks also include re-emergence of COVID-19, cyclones and floods, and the impact of the Russia-Ukraine war. Speeding up economic recovery will require structural reforms while fiscal consolidation is needed to ensure that the public debt returns to a downward trajectory.

Key conditions and challenges

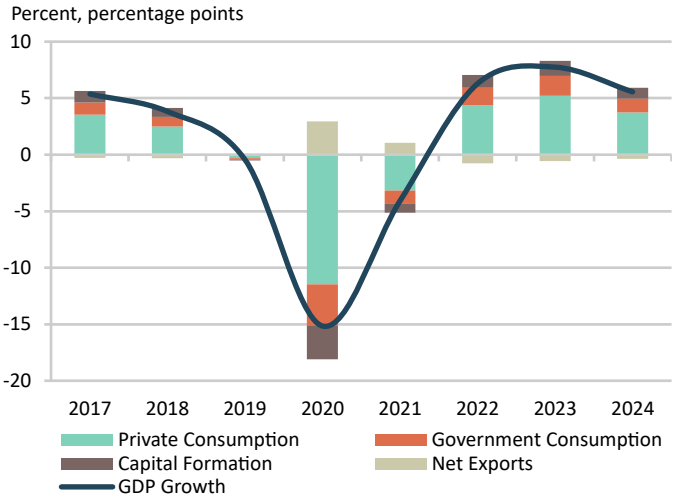
Fiji is a small island nation in the South Pacific Ocean with a population of about 900,000. Remoteness, natural hazards, and climate change represent major obstacles to development. Tourism is the main driver of the economy and a major source of foreign exchange, contributing nearly 40 percent of GDP, prior to COVID-19. In recent years to 2019, growth was underpinned by robust tourism, rising household consumption, and extensive reconstruction after major natural disasters. Before the onset of the global pandemic, Fiji's poverty rate was 17.8 percent and 55.5 percent based on the lower and upper middle-income poverty lines, respectively.

The COVID-19 pandemic presented Fiji with an economic crisis of unprecedented scale. The country recorded one of the steepest economic contractions in the world and the worst in its history. Following the onset of the pandemic and border closures in 2020, the tourism sector collapsed with a ripple effect on all segments of the economy. Real GDP contracted by 15.2 percent in 2020 and a further 4.1 percent in 2021 in the wake of the Delta variant outbreak. The country was also hit by Tropical Cyclone (TC) Harold and TC Yasa in 2020, and TC Ana in 2021 with extensive damage to agriculture, public buildings, and tourism facilities. These shocks aggravated pre-existing fiscal vulnerabilities and upended the authorities' fiscal policy goals, leading to a sharp increase in public debt. The compound effect of lost livelihoods across sectors and asset damage from the natural disasters exposed a significant proportion of the population to increased poverty and vulnerability. Excluding the impact of the COVID assistance measures, poverty rate based on the upper-middle income poverty line is estimated to have increased by 11 percentage points in 2020 from the pre-pandemic level. The Government introduced several measures to mitigate these impacts, including top-ups through existing social programs and the National Provident Fund unemployment assistance.

Recent developments

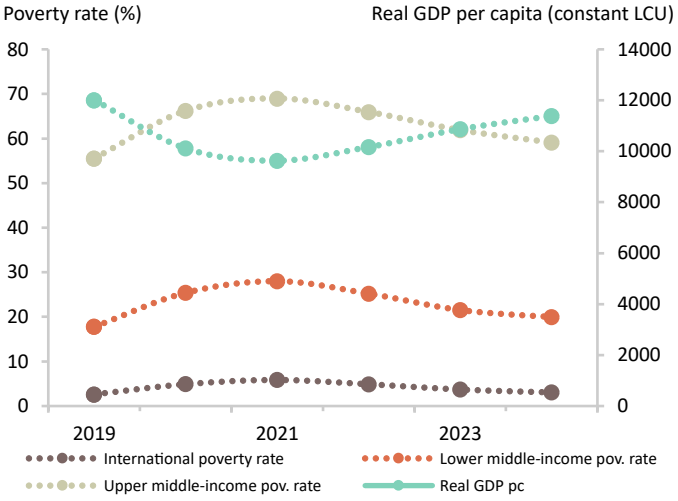
Reopening of Fiji's borders to tourism in December 2021 after a 21-month closure marked a major step towards economic recovery. Border reopening was enabled by a COVID-19 vaccination rate of over 90 percent and the adoption of best-practice COVID-19 control policies and protocols. Tourists and visitors have begun returning from the country's traditional source markets, especially Australia. The initial figures show the arrivals to be around 45 percent of pre-COVID-19 levels. However, while this is a positive sign, recovery is likely to be slow and risks remain due to the emergence of potential new variants, a highly vulnerable population given the high prevalence of non-communicable diseases, and the risk of cyclones and floods. The high dependence on tourism adds to

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



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

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



Source: World Bank. Notes: see Table 2.

the vulnerability of sustained recovery and highlights the need for diversified sources of growth. The structural reform agenda includes building climate resilience and creating a more supportive environment for private-sector-led growth. Attracting more FDI and expanding the role of the private sector in the economy will require modernizing the legal and regulatory framework.

A steep fall in revenue and rise in expenditures due to fiscal stimulus to mitigate the impact of the pandemic widened the fiscal deficit to 8.1 percent of GDP in 2020 and 12.8 percent in 2021. As a result, the public debt-to-GDP ratio increased to 87 percent in 2021 from 51.6 percent in 2019. Monetary policy was eased to counter the impact of COVID-19 and remains accommodative. The Central Bank cut the overnight policy rate from 0.50 to 0.25 percent in the first quarter of 2020. Inflation fell to a historic low of -2.8 percent at end-December 2020, in the context of a substantial output gap, and on account of lower food and fuel prices as well as reduced tariffs and taxes (implemented to mitigate the impact of the pandemic). Inflation remerged in the second half of 2021 due to the surge in global commodity prices and continued supply chain disruptions, reaching 3 percent at year-end. The current account deficit widened to 15.6 percent of GDP in 2021, relative to 13.2 percent in 2020, reflecting the drop in the service balance. Tourism receipts in 2021 fell by 94 percent from the pre-pandemic level. Pressure on the balance of payments has been cushioned by the influx of external financing through loans and grants from multilateral and bilateral creditors. This is supplemented by strong growth in personal remittances, which rose by 42 percent in 2021 from 2019, the sale of Energy Fiji Limited (EFL) shares abroad and the additional 2021 IMF SDR allocation. Reserves remained stable, US$1,570 million (9.9 months of prospective imports) at end-December 2021.

Outlook

Outlook is subject to considerable uncertainty and hinges on the tourism sector's performance. Growth is projected to recover to 6.3 percent in 2022 and rise to 7.7 percent by 2023 driven by increased private consumption and investment supported by tourism and remittances. Poverty is expected to follow a downward trend, although it is not anticipated to return to pre-pandemic levels by 2024. The Russia-Ukraine war is likely to add to inflationary pressures and dampen external account and may also impact tourism. Higher food and energy prices will especially harm the poorest and most vulnerable as food accounts for about 40 percent of their consumption basket. The Government is committed to fiscal consolidation with the fiscal deficit projected to fall to 4.0 percent of GDP in 2024 from 12.1 percent in 2022. This will be achieved through efforts to mobilize domestic revenues, including through the revenue measures announced in the Revised Budget in March. In parallel, spending will be contained through strict wage bill control and a reduction in operating subsidies and capital outlays. The risk of debt distress has heightened with the debt-to-GDP ratio projected to climb to 90.9 percent of GDP in 2022, reflecting borrowing to counter the impact of COVID-19 and the contraction in nominal GDP. Public debt is assessed as sustainable over the medium-term, contingent on fiscal consolidation, the resumption of growth and commitment to borrow primarily on concessional terms. The current account deficit is expected to narrow to 8.8 percent of GDP in 2022 and converge to 6.8 percent of GDP by 2024 due to increases in the services and secondary income balance on account of higher anticipated tourism and remittance inflows. Risks to growth include a drop in tourism appetite, a new wave of COVID-19 in Fiji or Australia and New Zealand, impacts of adverse natural disasters, and the economic consequences of the Russia-Ukraine war.

TABLE 2 **Fiji** / 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	-15.2	-4.1	6.3	7.7	5.6
Inflation (Consumer Price Index)	-0.9	-2.8	3.0	4.5	3.0	2.7
Current Account Balance (% of GDP)	-12.6	-13.2	-15.6	-8.8	-7.0	-6.8
Fiscal Balance (% of GDP)	-4.3	-8.1	-12.8	-12.1	-6.4	-4.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.6	4.9	5.9	4.9	3.7	3.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	17.8	25.4	28.0	25.2	21.5	20.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	55.5	66.2	69.0	65.9	61.9	59.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
a/ Calculations based on EAPPOV harmonization, using 2019-HIES.Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2019) with pass-through = 0.87 based on GDP per capita in constant LCU.

INDONESIA

Table 1	2021
Population, million	276.4
GDP, current US$ billion	1186.1
GDP per capita, current US$	4291.8
International poverty rate ($1.9)[a]	2.2
Lower middle-income poverty rate ($3.2)[a]	18.0
Upper middle-income poverty rate ($5.5)[a]	50.2
Gini index[a]	37.3
School enrollment, primary (% gross)[b]	106.4
Life expectancy at birth, years[b]	71.7
Total GHG Emissions (mtCO2e)	1755.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2011 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2019).

Indonesia's economy is recovering supported by growing commodities exports and accommodative fiscal policy. This helped reduce poverty closer to pre-pandemic levels. Medium term growth will be supported by rising private consumption and investment as aggregate demand picks up and structural reforms start paying off. Downside risks remain elevated and could derail recovery, including worsening global conditions and renewed COVID-19 outbreaks.

Key conditions and challenges

Sound macro fundamentals prior to the pandemic allowed Indonesia to build financial and fiscal buffers to respond to the crisis. However, the country faces several long-term structural challenges that can affect the recovery phase. Prudent macro management has been constrained by low tax effort, shallow financial markets and competitiveness challenges. Indonesia has responded well to the crisis, including in terms of addressing these challenges through structural reforms to boost taxation and investment.

Indonesia faces short-term cyclical challenges that can weigh on the recovery. As COVID-19 may become endemic, a strategy for accelerating the vaccination program over a protracted period is needed. Risks from US monetary tightening could also increase the cost of external financing, and rising tensions in Europe is worsening the external environment. Meanwhile, employment and incomes have not returned to pre-pandemic levels, especially among vulnerable households, and social assistance program coverage among targeted groups remains low.

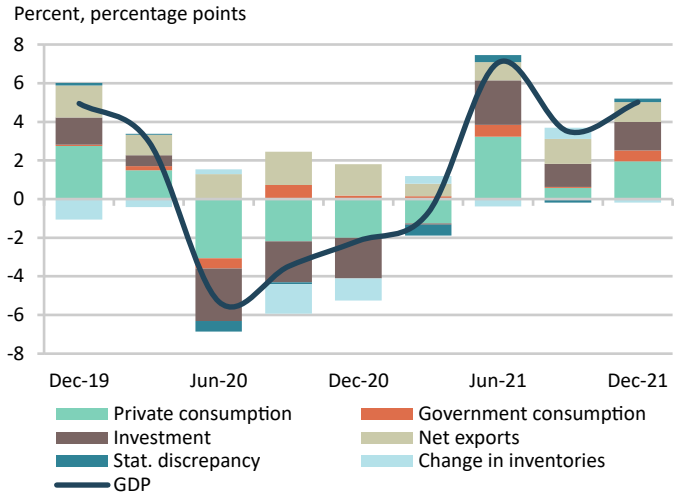
Recent developments

Growth rebounded from -2.1 percent in 2020 to 3.7 percent in 2021, supported by public consumption and exports. This came on the back of a counter-cyclical fiscal and monetary response to the pandemic, higher commodity prices, and a pick-up in external demand. On the supply side, more than 60 percent of the contribution to growth in 2021 came from the manufacturing, wholesale & trade, construction, and telecom sectors reflecting growing demand especially in sectors less affected by COVID-19 restrictions. Leading indicators in February also pointed to sustained recovery in domestic demand, with Purchasing Manager Index, consumer confidence and retail sales improving.

Price pressures remained low despite inflation reaching a 20-month high of 2.1 percent (yoy) in February. This reflects rising food prices due to restrained supply, higher commodity prices, and in line with the narrowing output gap. Higher tobacco duties and adjustment in non-subsidized LPG prices also raised administered prices. Nevertheless, the inflation rate remains within Bank of Indonesia's target range (2-4 percent).

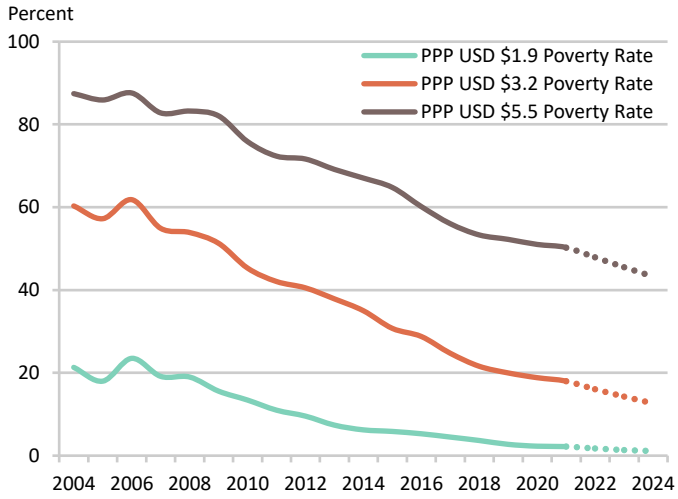
The external position remained sound despite tightening global monetary conditions. Indonesia ended the year with a small current account surplus of 0.3 percent of GDP, the first since 2011. This follows a solid performance by exports (up 46.1 percent) driven by commodities and manufactured goods. The position was supported by a stable Real Effective Exchange Rate (REER) and capital flows as well as improvement in the secondary income balance due to government grants for

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



Sources: National Statistics Agency and World Bank.

FIGURE 2 Indonesia / Poverty rate is declining albeit at a slower pace than pre-pandemic years



Sources: National Statistics Agency and World Bank. Note: Forecast is from 2021 onwards.

COVID-19 support. Foreign reserves are adequate covering 7.2 months of imports by end 2021.

Fiscal policy has been accommodative to offset the pandemic's fallout. The fiscal package has focused on health, social assistance, and firms support. This was made possible by commodity and oil price windfalls that boosted fiscal revenues to 11.8 percent. The fiscal deficit narrowed from 6.1 to 4.6 percent of GDP in 2020-2021. Monetary policy has also been accommodative thus far but may tighten going forward in line with tighter global financial conditions. The authorities announced a rise in the reserve requirements ratio starting in March 2022, although the policy rate has remained unchanged since February 2021. Private sector credit increased slightly in recent months but has remained weak throughout the pandemic.

Poverty continued to decline, getting closer to its pre-pandemic level. In September 2021, the poverty headcount rate, based on the national poverty line, fell to 9.7 percent after peaking at 10.2 percent in 2020. Progress was observed in both urban and rural areas, stemming from employment growth in manufacturing, wholesale & trade, as well as in the food and accommodation sectors.

Outlook

A recovery in private consumption and investment supported by structural reforms are expected to boost growth to 5.3 percent in the medium-term. Net exports will partially offset this as domestic demand boosts imports, while exports ease following moderation in external demand. As the output gap closes further, inflation is expected to increase over the medium term to 3.3 percent by 2024, slightly below the upper band target of the central bank. With improvements in domestic demand, the outlook projects a return to a current account deficit. However, external financing needs will remain moderate at 2.2 percent of GDP (average 2022-2024) aligned with an increase in FDI. As such, foreign reserves are expected to exceed 7.8 months of imports.

The fiscal stance is expected to tighten with the 2022 fiscal deficit projected at 3.7 percent of GDP. Consistent with its previous announcements, the government is committed to return to the legally mandated 3 percent of GDP deficit by 2023. The consolidation path will be anchored on scaling back the economic recovery program and on boosting domestic revenue mobilization. The recovery spending will ease from 4.0 percent of GDP in 2021 to 2.6 percent in 2022 in line with strengthening growth prospects. The recently approved Tax Harmonization Law will increase tax rates, broaden the tax base, facilitate tax compliance, and introduce a carbon tax.

Poverty is projected to continue falling as the recovery fuels private consumption. However, the pace of decline, based on lower-middle income countries poverty line of $3.2 per day in PPP terms, will be halved from -3.0 pp/year in pre-pandemic years 2014-2019 to -1.5 pp/year going forward (2019-2024). Whether this progress is achieved depends on the degree to which the recovery is inclusive of vulnerable groups. Meanwhile, strengthened efforts are needed to mitigate the pandemic's long-term scarring impacts on productivity and inequality through the human capital channel. Projections indicate large losses in lifetime earnings due to learning losses during widespread school closures in 2020-2021.

Downside risks to the outlook remain elevated. Risks are stemming from faster-than-expected global financial tightening and contagion effects from EMs that can render external financing more expensive, pandemic-related fiscal shocks that could derail pro-growth programs, further scarring with implications on productivity and competitiveness, and changing global demand and inflation related to the Russia-Ukraine war.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.0	-2.1	3.7	5.1	5.3	5.3
Private Consumption	5.2	-2.7	2.0	4.7	5.0	5.2
Government Consumption	3.3	2.0	4.2	1.4	1.5	4.4
Gross Fixed Capital Investment	4.5	-5.0	3.8	5.6	6.4	6.5
Exports, Goods and Services	-0.5	-8.1	24.0	14.7	10.3	8.3
Imports, Goods and Services	-7.1	-16.7	23.3	14.9	11.0	10.0
Real GDP growth, at constant factor prices	5.0	-1.6	3.3	5.2	5.3	5.3
Agriculture	3.6	1.8	1.8	3.8	3.9	3.9
Industry	3.8	-2.8	3.4	4.1	4.4	4.4
Services	6.4	-1.5	3.6	6.6	6.4	6.5
Inflation (Consumer Price Index)	2.8	2.0	1.6	2.7	3.1	3.3
Current Account Balance (% of GDP)	-2.7	-0.4	0.3	-0.9	-1.4	-1.9
Net Foreign Direct Investment (% of GDP)	1.8	1.3	1.4	1.6	1.8	1.9
Fiscal Balance (% of GDP)	-2.2	-6.1	-4.6	-3.7	-3.0	-3.0
Debt (% of GDP)	30.0	39.3	40.7	42.9	43.2	43.4
Primary Balance (% of GDP)	-0.5	-4.1	-2.6	-1.5	-0.6	-0.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.7	2.3	2.2	1.7	1.4	1.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	19.9	18.8	18.0	16.0	14.2	12.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	52.2	51.0	50.3	47.9	45.5	43.2
GHG emissions growth (mtCO2e)	2.4	-0.8	1.4	1.9	1.9	1.8
Energy related GHG emissions (% of total)	34.5	34.0	34.7	35.7	36.7	37.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on EAPPOV harmonization, using 2011-SUSENAS and 2021-SUSENAS.Actual data: 2021. Forecastss are from 2022 to 2024.
b/ Projection using annualized elasticity (2011-2021) with pass-through = 1 based on GDP per capita in constant LCU.

LAO PDR

Table 1	2021
Population, million	7.4
GDP, current US$ billion	18.7
GDP per capita, current US$	2539.0
National Official Poverty Rate[a]	18.3
International poverty rate ($1.9)[a]	10.0
Lower middle-income poverty rate ($3.2)[a]	37.4
Gini index[a]	38.8
School enrollment, primary (% gross)[b]	98.8
Life expectancy at birth, years[b]	67.9
Total GHG Emissions (mtCO2e)	42.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ National Statistics Office. Most recent value (2018).
b/ WDI for School enrollment (2020); Life expectancy (2019).

The economic recovery is expected to continue in 2022, mainly supported by industry and services, with growth projected to accelerate to 3.8 percent. However, growing macroeconomic vulnerabilities – mainly stemming from a high debt burden – and external shocks may affect the outlook. Labor market conditions remain subdued, while rising fuel and food prices are threatening poverty and food security. Addressing macroeconomic imbalances will be critical to laying the foundation for sustained economic growth and support poverty reduction.

Key conditions and challenges

Unaddressed debt challenges can hamper medium-term economic growth. High public debt levels and rising debt service obligations pose liquidity and solvency problems that compound other macroeconomic vulnerabilities – such as low revenue collection and limited foreign reserves. A positive conclusion of ongoing debt renegotiations will be vital for restoring macroeconomic stability. Growing debt service requirements, in a context of declining revenues and expenditure consolidation, have narrowed the fiscal space for investments in human and physical capital that are essential for long-term growth. While the financial sector provided some support to mitigate the impacts of COVID-19, vulnerabilities are high and forbearance measures impede a clear assessment of bank balance sheets. Improved connectivity and trade integration present an opportunity for greater economic dynamism, but need to be accompanied by structural reforms to enhance export competitiveness.

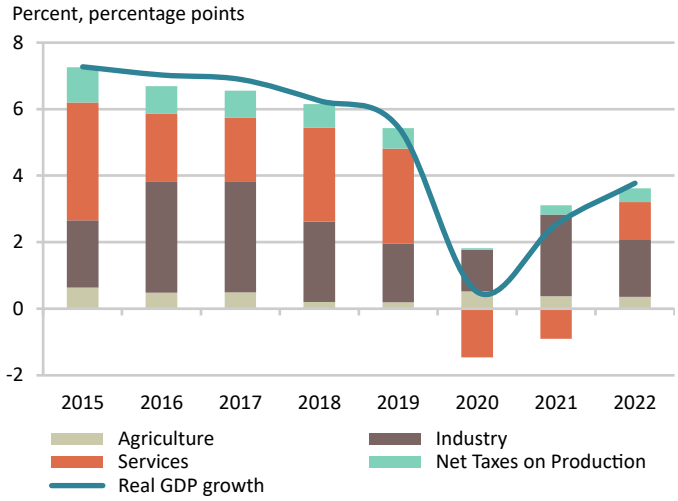
Domestic and external uncertainty affects economic prospects. COVID-19 vaccination rates have improved, with 58 percent of the population fully vaccinated, but a large Omicron outbreak could still undermine economic activity. Tightening global macroeconomic conditions and the Russian invasion of Ukraine could impact Lao PDR through higher commodity prices (especially fuel) and additional exchange rate depreciation pressures, which would increase inflation. Moreover, a slower-than-expected economic recovery in key trading and investment partners may curtail external demand. However, high mineral prices and the opening of the Lao-China railway (in December 2021) will likely support merchandise exports and the domestic services sector – especially transport and logistics services.

Domestic and external uncertainty affects economic prospects. COVID-19 vaccination rates have improved, with 58 percent of the population fully vaccinated, but a large Omicron outbreak could still undermine economic activity. Tightening global macroeconomic conditions and geopolitical tensions could impact Lao PDR through higher commodity prices (especially fuel) and additional exchange rate depreciation pressures, which would increase inflation. Moreover, a slower-than-expected economic recovery in key trading and investment partners may curtail external demand. However, high mineral prices and the opening of the Lao-China railway (in December 2021) will likely support merchandise exports and the domestic services sector – especially transport and logistics services.

Recent developments

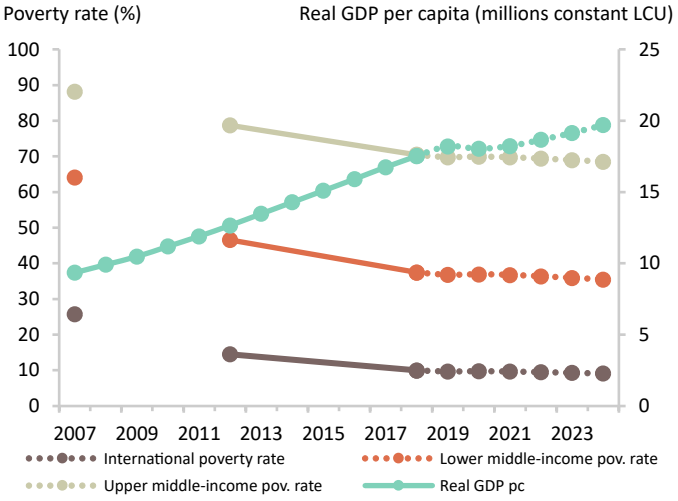
GDP growth is estimated to have rebounded to 2.5 percent in 2021, driven by industry (particularly mining, energy and some manufacturing subsectors) and agriculture

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



Sources: Lao Statistics Bureau and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

– both of which were supported by solid external demand. However, the services sector continued to struggle. Inflation increased from less than 2 percent in February 2021 to 7.3 percent in February 2022 (year-on-year), mainly driven by fuel prices and a sharp depreciation against the US dollar. Nevertheless, the annual average inflation rate declined from 5.1 percent in 2020 to 3.8 percent in 2021.

The fiscal deficit declined significantly in 2021, owing to a recovery in revenue and expenditure cuts. Revenue collection rebounded mainly due to non-tax revenue and consumption taxes. Expenditure curbs continued with the postponement of new capital projects – which led to a 24 percent decline in capital spending. With limited access to international capital markets, financing needs were met through strong short-term domestic bank borrowing at the end of 2021.

The current account deficit improved, partly due to a large merchandise trade surplus. Merchandise exports grew by 22 percent – owing to electricity, minerals, and several agricultural and manufactured products – supported by strong external demand and commodity prices. Merchandise imports also increased, driven by fuel, vehicles, and machinery. Nonetheless, trade in services remained subdued and external debt service payments are elevated. High demand for foreign currency (especially to service external debts) coupled with limited reserve buffers contributed to a strong depreciation against the US dollar – 22 percent as of February 2022 (year-on-year).

The labor market remains subdued, and rising food prices place an additional burden on households. The share of adults employed fell from 76 percent in Q2 2021 to 69 percent in Q4 2021, following an outbreak of COVID-19. Disruptions to economic activities led to a decline in household income, with 63 percent of households experiencing a fall in household income between Q2 and Q4 2021, of which 21 percent saw their income reduced by more than half. Income losses combined with rising food prices present a threat to poverty and food insecurity. Constrained by limited fiscal space, government assistance programs were limited and mainly targeted formal workers. The poverty headcount rate (measured at the lower-middle-income poverty line or $3.2 (2011 PPP) a day) is estimated to have marginally declined from 36.9 percent in 2020 to 36.8 percent in 2021.

Outlook

Economic activity is expected to recover gradually to 3.8 percent in 2022, supported by merchandise exports and the services sector – especially transport and logistics services (linked to the new railway) as well as wholesale and retail activities. In contrast, tourism will likely take longer to rebound. Infrastructure construction (including power projects and highway extensions) is also expected to contribute to the recovery. From the demand side, private consumption will increase, although public consumption and public investment will remain constrained – owing to the difficult fiscal situation. Private investment and exports will provide an important stimulus to the economy, although higher imports will partly offset these trends. Existing macroeconomic vulnerabilities and a less conducive external environment – due to tighter macroeconomic conditions and the war in Ukraine – will avert a faster economic recovery. In a downside scenario where domestic and external risks materialize, economic growth could slow to 3.3 percent in 2022.

Domestic labor market conditions are expected to improve gradually following the growth rebound, although permanent job losses and business closures induced by COVID-19 will continue to put pressure on household income. Rising food and fuel prices undermine households' purchasing power and, without adequate relief measures, put them at risk of falling into poverty.

Addressing internal and external imbalances will be key to accelerate economic growth and improve welfare. The deteriorating public debt situation is a main concern, with external debt repayments averaging around $1.3 billion a year over 2022-2025 – about half of the average domestic revenue. Upside risks to the outlook include a positive outcome from the ongoing debt renegotiations – providing much-needed fiscal space for growth-enhancing expenditures – and a fast and effective implementation of planned revenue-enhancing measures. A strengthened legal framework for foreign currency management may enhance foreign reserve buffers, while business environment reforms would help boost growth and job creation.

TABLE 2 Lao PDR / 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	0.5	2.5	3.8	4.0	4.2
Real GDP growth, at constant factor prices	5.5	0.5	2.5	3.8	4.0	4.2
Agriculture	1.2	3.2	2.3	2.2	2.5	2.6
Industry	5.6	4.0	7.6	5.2	4.0	3.4
Services	7.0	-3.5	-2.2	2.9	4.4	5.7
Inflation (Consumer Price Index)	3.3	5.1	3.8	6.0	5.5	5.0
Current Account Balance (% of GDP)	-8.1	-1.5	1.3	-2.7	-4.6	-5.4
Fiscal Balance (% of GDP)	-3.3	-5.2	-1.4	-2.9	-2.6	-2.3
Debt (% of GDP)	59.0	62.3	77.9	79.0	79.3	79.2
Primary Balance (% of GDP)	-1.6	-3.7	-0.1	-0.1	0.1	0.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	9.7	9.8	9.7	9.5	9.3	9.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	36.8	36.9	36.7	36.4	35.9	35.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	69.8	70.0	69.8	69.4	69.0	68.5
GHG emissions growth (mtCO2e)	1.9	3.2	4.1	4.4	5.0	4.7
Energy related GHG emissions (% of total)	48.0	48.5	49.5	50.6	51.9	53.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on EAPPOV harmonization, using 2012-LECS and 2018-LECS.Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2012-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

MALAYSIA

Table 1	2021
Population, million	32.8
GDP, current US$ billion	372.7
GDP per capita, current US$	11371.2
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.3
Upper middle-income poverty rate ($5.5)[a]	2.9
Gini index[a]	41.1
School enrollment, primary (% gross)[b]	104.4
Life expectancy at birth, years[b]	76.2
Total GHG Emissions (mtCO2e)	358.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2011 PPPs.
b/ Most recent WDI value (2019).

The economy is projected to expand by 5.5 percent in 2022, supported by a recovery in domestic demand and an expansion in exports. Downside risks to growth remains, with the military conflict in Ukraine emerging as a key risk. While the economy is projected to be on a recovery path, COVID-19, food inflation, and floods are expected to weigh down progress on wellbeing of the poor and vulnerable.

Key conditions and challenges

Malaysia is gradually emerging from the worst wave of the pandemic. With vaccination program making impressive progress, most economic and social sectors are now allowed to operate. Nearly 100 percent of adults are fully vaccinated, and 64 percent have received their booster (third dose) in early March 2022. The government has also announced its plans to transition into endemicity, which include the reopening of international borders beginning April 2022. As such, this is expected to contribute to the recovery of the economy.

Nonetheless, key challenges remain. Fiscal space is expected to remain constrained, limiting the room for fiscal policy to play a bigger redistributive role. Gaps in the social protection system remain/persist, leaving out several vulnerable groups such as youth and informal workers. In addition, the triple shocks of COVID-19, food inflation, and floods may deplete poor and vulnerable Malaysians' resilience toward future shocks, and in turn, widen socioeconomic inequalities among Malaysians. Recognizing this, the government's top priorities are to ensure effective fiscal policies and develop inclusive social protection as stated in the Twelfth Malaysia Plan (2021-2025) and the Budget 2022.

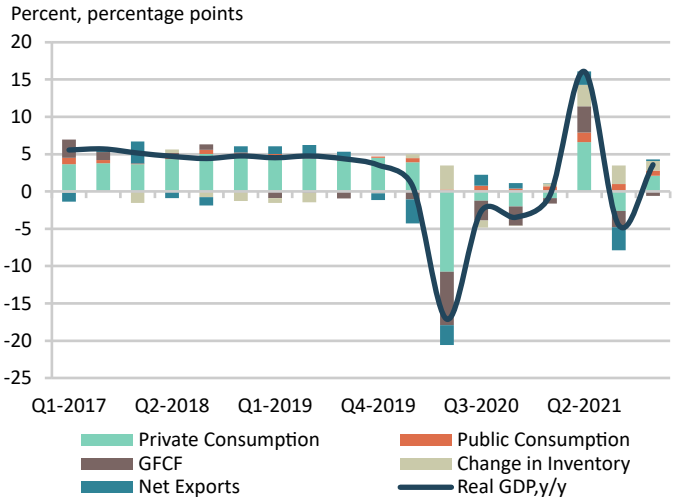
Recent developments

For the year 2021, the economy grew at 3.1 percent (2020: -5.6 percent). Overall, the recovery in 2021 was driven by improvement in both private and public spending. On the supply side, the economy was supported by the rebound in the manufacturing, services, and mining sectors. Nevertheless, it is important to note that the economic performance in 2021 remains below pre-pandemic levels.

Conditions in the labor market have improved. The unemployment rate declined to 4.3 percent in 4Q 2021 (4Q 2020: 4.8 percent), partly driven by the various labor market incentives. Wages for manufacturing and services grew at 4.7 percent and 1.2 percent respectively in 4Q 2021. Employment was less volatile in the second half of 2021, according to the World Bank High-Frequency (HiFy) Phone Survey. As a result, more than half of households who fell into lower-income brackets by June 2021 have recovered to pre-pandemic levels by November 2021. However, disruptions to employment and labor income remain greater among the poor and vulnerable, including younger and less educated workers.

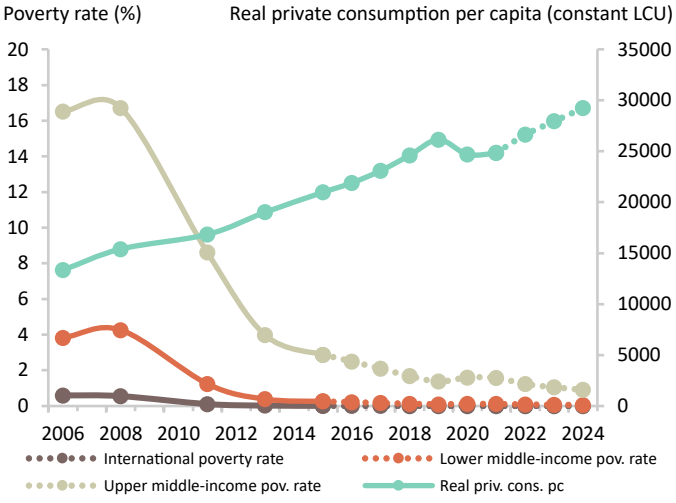
Inflation has been on an upward trend, consistent with a closing output gap. The CPI rose to 3.2 percent in December 2021 (Nov: 3.3 percent). The upward trend is mainly due to the rise in food and fuel prices, and base effects. Higher food prices were largely due to supply-related factors including adverse weather conditions and

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



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

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



Source: World Bank. Notes: see Table 2.

higher prices of animal feed stocks. The government announced that it has taken steps to stabilize prices on crucial food items such as rice and meat, including to extend the price controls on selected items and provide additional subsidies. Going forward, the central bank expects average inflation to remain moderate and core inflation to be modest. Reflecting this, monetary policy stance is expected to remain unchanged in the near term.

In late 2021, 11 states were hit with floods displacing an estimated 70,000 people; resulting in devastating losses of RM6.1 billion (0.4 percent of GDP). Households in the Klang Valley areas were hardest hit, involving damages to dwellings and vehicles. The Malaysian Family Flood Aid worth RM1.4 billion (0.1 percent of GDP) was allocated to alleviate the burden on households and businesses.

In January 2022, the central bank kept its overnight policy rate (OPR) at 1.75 percent, and reiterated its view that monetary policy remained accommodative. In the domestic financial markets, there has been an increased in volatility given the Ukraine military conflict. However, direct portfolio exposure to Russia and Ukraine is minimal. In the exchange rate market, the ringgit is on a depreciating trend. Between 1 January to 28 February 2022, the real effective exchange rate (REER) depreciated by 0.4 percent, and is slightly undervalued relative to fundamentals.

Outlook

The economy is expected to recover this year, with growth projected at 5.5 percent, supported by a rebound in domestic demand and continued expansion in exports. The external sector will continue to lend its support especially electric and electronic (E&E) goods and medical rubber gloves. While economic recovery remains underway in early 2022, the balance of risks remains tilted to the downside. The unfolding developments surrounding the Ukraine military conflict has emerged as a key risk. Other risks include weaker-than-expected global growth, a worsening in supply chain disruptions, and the emergence of more severe COVID-19 variants.

Fiscal space is expected to remain limited in 2022 highlighting the need to rebuild fiscal buffers over the medium-term. A rise in commodity prices provides only temporary fiscal relief. Government revenue has been on a downward trend since 2012, and operating expenditures have grown markedly over time, resulting in significant budget rigidity. However, in the absence of a fiscal rule for commodities, the risk of fiscal policy pro-cyclicality increases. The government has proposed introducing a Fiscal Responsibility Act (FRA) which could establish a path for medium-term fiscal consolidation.

The welfare of poor and vulnerable households remains precarious given multiple shocks. Findings from the HiFy survey show that, even after receiving government assistance, more than 60 percent of lower-income households with monthly income RM4,000 or below (USD$958 current prices) self-assessed having inadequate financial resources to cover their basic needs in late-2021. Meanwhile, one-quarter of households reported having savings that will last only for three months or less, while 16 percent do not have savings at all.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.4	-5.6	3.1	5.5	4.5	4.4
Private Consumption	7.7	-4.3	1.9	8.5	6.2	5.9
Government Consumption	1.8	3.9	6.6	1.8	0.5	0.5
Gross Fixed Capital Investment	-2.1	-14.5	-0.9	6.9	2.8	2.8
Exports, Goods and Services	-1.0	-8.9	15.9	4.3	4.3	4.2
Imports, Goods and Services	-2.4	-8.4	18.5	4.5	4.4	4.3
Real GDP growth, at constant factor prices	4.5	-5.6	3.1	5.5	4.5	4.4
Agriculture	2.0	-2.2	-0.2	4.1	3.2	2.7
Industry	2.6	-6.2	5.7	4.2	3.7	3.6
Services	6.2	-5.7	1.9	6.7	5.2	5.2
Inflation (Consumer Price Index)	0.7	-1.1	2.5	2.7	2.0	1.9
Current Account Balance (% of GDP)	3.5	4.2	3.5	4.1	3.7	3.7
Net Foreign Direct Investment (% of GDP)	0.4	0.2	2.1	1.7	1.8	1.8
Fiscal Balance (% of GDP)	-3.4	-6.2	-6.4	-5.9	-5.3	-4.6
Debt (% of GDP)	52.4	62.1	63.5	65.1	66.2	67.2
Primary Balance (% of GDP)	-1.2	-3.8	-3.9	-3.8	-3.3	-2.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.1	0.1	0.1	0.1	0.1	0.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	1.4	1.6	1.6	1.2	1.1	0.9
GHG emissions growth (mtCO2e)	-1.4	-6.6	0.2	1.3	1.0	1.3
Energy related GHG emissions (% of total)	58.7	56.3	56.2	56.5	56.7	57.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on EAPPOV harmonization, using 2011-HIS and 2015-HIS.Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2011-2015) with pass-through = 0.7 based on private consumption per capita in constant LCU.

MONGOLIA

Table 1	2021
Population, million	3.3
GDP, current US$ billion	15.5
GDP per capita, current US$	4647.3
National Official Poverty Rate[a]	28.4
Gini index[a]	32.7
School enrollment, primary (% gross)[b]	103.4
Life expectancy at birth, years[b]	69.9
Total GHG Emissions (mtCO2e)	62.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ National Statistics Office. Most recent value (2018).
b/ Most recent WDI value (2019).

After posting 1.4 percent real GDP growth in 2021, growth will remain modest at 2.5 percent this year. Despite continued policy support and higher commodity prices, the recovery is dragged down by protracted logistical bottlenecks and the effects of the war in Ukraine. Additional significant risks include inflationary pressures, dwindling fiscal space, and widening external imbalances. Amid the modest recovery, poverty will only fall back to pre-COVID levels in 2023.

Key conditions and challenges

Mongolia's recovery remained subdued in 2021 despite high commodity prices, as COVID-related restrictions on cross-border traffic imposed by China especially during H2 weighed on exports and disrupted imports of production inputs and consumer goods. While domestic activities were supported by continued fiscal relief and stimulus measures as well as a rollback of mobility restrictions enabled by high vaccination rates, the economy remains below its pre-pandemic level and far from its potential. Meanwhile, sustained policy support has eroded fiscal space, and public debt – already high before COVID-19 – has increased sharply, now standing at 92 percent of GDP (including the central bank's liability under the People's Bank of China swap line). Public debt risks are further aggravated by sizable contingent liabilities including the Development Bank of Mongolia's external bond (US$800 million). External pressures could be compounded by rising fuel prices associated with the war in Ukraine as well as tighter global financing conditions that could complicate the rollover of upcoming large foreign debt repayments. Rapidly accelerating inflation and the appreciation of real exchange rate are further constraining available policy space. The pandemic exacerbated vulnerabilities associated with Mongolia's limited diversification of trade and trading partners and overreliance on imported inputs and consumer goods, reinforcing the need for structural reforms.

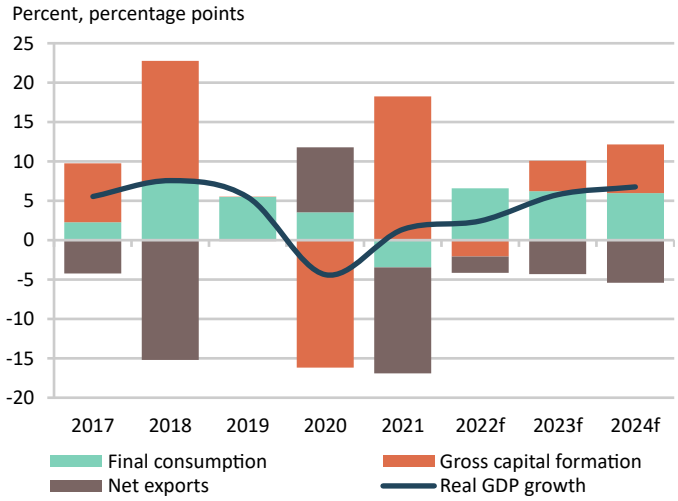
Recent developments

After a strong economic rebound in early 2021, the recovery stalled in the last three quarters due to trade disruptions. Growth consequently was disappointing, reaching only 1.4 percent following the contraction of 4.4 percent in 2020. Economic growth was mainly supported by a strong rebound of coal mining in Q1, significant improvement in copper ore grade, and recovery in the services sector. In contrast, the manufacturing sector stagnated, and construction contracted significantly, amid supply shortages caused by border disruptions. Agriculture also contracted reflecting an outbreak of foot-and-mouth disease and harsh weather conditions.

Despite continued income support, private consumption declined as COVID-19 restrictions constrained mobility, rising inflation weighed on real incomes, and households increased precautionary saving amid persistent uncertainty. Investment recovered strongly, but this was mainly driven by a build-up of coal inventories as exports to China were stalled due to border frictions. FDI and subsidized loans under the government stimulus program also supported private investment in the mining and services sectors.

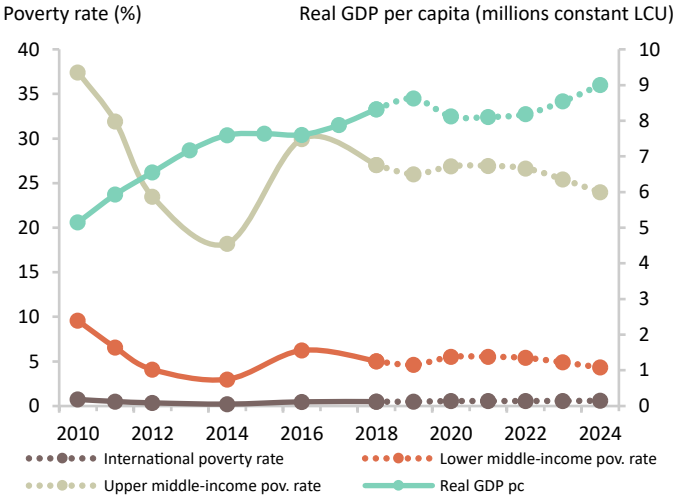
Following two years of expansionary fiscal policies, policy space has eroded with persistent fiscal imbalances threatening sustainability. Public spending increased in

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



Sources: National Statistics Office and World Bank.

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



Source: World Bank. Notes: see Table 2.

2021 mostly driven by the generous but poorly targeted Child Money Program (CMP). The headline budget deficit nonetheless narrowed to 3.1 percent of GDP amid a one-off tax arrears collection (2.3 percent of GDP). The budget deficit is projected to increase in 2022, driven by increases in capital spending, the continuation of some COVID-related stimulus measures, and a discretionary pension increase (of around 1.5 percent of GDP). Meanwhile, the financing of the CMP through the Future Heritage Fund has weakened the fiscal framework and long-term sustainability. Public debt is expected to increase and fiscal buffers to further erode.

Inflation accelerated sharply to 14.2 percent (y/y) by February 2022, due to supply bottlenecks amid border closures as well as accelerating credit growth. Substantial real exchange rate appreciation and weak exports led to a widening current account deficit and the erosion of gross international reserves from over 7 months (in mid-2021) to 3.7 months of imports as of February 2022. The erosion of confidence related to the war in Ukraine and the persistent border frictions fueled increasing demand for foreign exchange, prompting banks to ration FX liquidity. This has started to affect some import payments. To stem these pressures the central bank raised its policy rate by 250 basis points.

Outlook

Economic growth is projected to remain modest at 2.5 percent in 2022. This forecast reflects the impact of the war in Ukraine through higher prices of imported food, fuel and fertilizers coupled with lingering border frictions with China. Coal exports are expected to only recover towards the end of the year when border frictions with China may ease, following investments in upgrading border crossing and logistics facilities and an anticipated gradual loosening of COVID-related restrictions. As labor market conditions improve with the reopening of the economy, domestic demand is expected to recover driven by continued government support, rising investment and strengthening household consumption. The recent agreement with Rio Tinto over Mongolia's largest copper mine, Oyu Tolgoi (OT), will continue to support steady FDI inflows. While the anticipated drop in the quality of OT mining output - following last year's improvement - will weigh on mining output this year, the acceleration of investments will provide short-term support to the construction and services sectors and expand mining capacity in the long run. Over the medium-term, economic growth is expected to accelerate to above 6 percent in 2023-2024, as the underground mining phase of OT becomes operational during H2 2023. Poverty measured at the poverty line recommended for lower-middle income countries ($3.20 PPP) is projected to return to the pre-COVID level in 2023.

Risks are significant and tilted to the downside. In a downside scenario, economic growth could fall to 0.7 percent in 2022 if border restrictions with China persist throughout the year, and if the war in Ukraine leads to persistently higher energy prices and tighter global liquidity. Moreover, rising food inflation pressure could prompt poverty to remain above the pre-COVID level as the urban poor spends nearly 40 percent of their consumption on food. Heightened risks put a premium on preserving macroeconomic policy space. Better targeting fiscal measures to the poor would help contain fiscal imbalances and preserve valuable policy space in view of significant risks. Once the recovery is more entrenched, Mongolia should shift towards fiscal consolidation to ensure external and public debt sustainability. Structural reforms, including measures to reduce trade and transport costs, and facilitate foreign investment and domestic entrepreneurship, would help lay the foundation for more diversified and hence more resilient growth in the medium term.

TABLE 2 **Mongolia** / 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	-4.4	1.4	2.5	5.8	6.8
Private Consumption	5.8	2.1	-6.5	8.9	7.6	7.0
Government Consumption	12.3	14.6	5.3	5.3	5.8	6.1
Gross Fixed Capital Investment	14.0	-21.1	14.0	16.3	17.5	16.2
Exports, Goods and Services	12.0	-5.3	-14.5	4.0	18.0	17.1
Imports, Goods and Services	8.6	-15.5	9.6	5.7	17.5	17.8
Real GDP growth, at constant factor prices	5.1	-3.9	0.0	2.5	5.8	6.8
Agriculture	5.2	5.8	-5.5	3.0	4.1	5.5
Industry	3.1	-4.4	-2.8	1.2	7.9	6.1
Services	6.4	-6.5	3.6	3.0	5.1	7.6
Inflation (Consumer Price Index)	7.3	3.7	7.1	10.5	7.5	6.8
Current Account Balance (% of GDP)	-15.2	-4.3	-12.7	-15.6	-13.8	-11.6
Net Foreign Direct Investment (% of GDP)	16.4	12.2	13.1	12.6	11.8	11.1
Fiscal Balance (% of GDP)	1.4	-9.4	-3.1	-4.8	-4.8	-4.4
Debt (% of GDP)[a]	68.4	77.3	79.5	83.6	81.7	80.0
Primary Balance (% of GDP)	3.6	-6.8	-1.1	-2.8	-1.9	-1.1
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.5	0.6	0.6	0.6	0.6	0.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	4.6	5.5	5.5	5.4	4.9	4.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	26.0	26.9	26.9	26.7	25.4	24.0
GHG emissions growth (mtCO2e)	6.9	1.3	3.5	4.3	5.3	5.6
Energy related GHG emissions (% of total)	41.7	40.8	41.7	42.1	43.3	44.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Debt excludes contingent liabilities (DBM bond of 5% of GDP) and central bank's liability under the PBOC swap line (12% of GDP) by 2021.
b/ Calculations based on EAPPOV harmonization, using 2016-HSES and 2018-HSES.Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
c/ Projection using annualized elasticity (2016-2018) with pass-through = 1 based on GDP per capita in constant LCU.

MYANMAR

Table 1	2021
Population, million	54.8
GDP, current US$ billion	64.3
GDP per capita, current US$	1173.4
Lower middle-income poverty rate ($3.2)[a]	14.9
Upper middle-income poverty rate ($5.5)[a]	54.3
School enrollment, primary (% gross)[b]	112.3
Life expectancy at birth, years[b]	67.1
Total GHG Emissions (mtCO2e)	219.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2011 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2019).

Following the estimated 18 percent contraction in FY21, GDP is projected to expand by 1 percent in FY22, consistent with some stabilization in the economy but at a very low level. A deteriorating security environment, elevated inflationary pressures and worsening power outages are exacerbating the severe supply- and demand- side constraints associated with the aftermath of the February 2021 military coup. Livelihoods remain under severe strain and poverty is expected to have more than doubled in 2022 compared with pre-COVID levels.

Key conditions and challenges

A further wave of COVID-19 cases has increased health risks and economic challenges. Reported COVID-19 cases rose rapidly in February before declining in March. Although this recent outbreak appears to have been less severe than initially expected, testing has remained limited and there has likely been significant underreporting of cases. Moreover, the pandemic continues to pose health and economic risks given that only 38 percent of the population was fully vaccinated as at the end of February and treatment options are difficult to access.

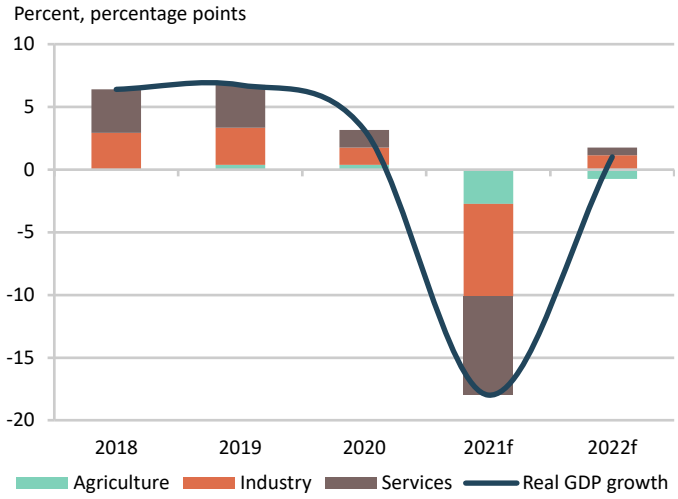
Indicators of conflict suggest that the security environment has deteriorated markedly since mid-2021, including in states and regions which have historically been relatively peaceful. At the same time as demand has fallen, firms have needed to devote scarce resources to dealing with security-related operating constraints and ensuring the safety of their staff and customers. Logistics have been hampered by an increase in the presence of security checkpoints and roadblocks, increasing transport times and costs. The ongoing threat of conflict has also affected businesses' confidence, and appetite to hire staff and invest.

An additional rise in fuel prices due to the conflict in Ukraine is exacerbating the severe supply-side constraints already affecting agricultural producers and manufacturers. The official kyat reference rate has depreciated by around a quarter against the US dollar since January 2021, and the spread between the official reference rate and the rates available on the market has increased sharply, indicating persistent exchange rate pressures. CPI inflation picked up to almost 10 percent (year-on-year) in October 2021, reflecting exchange rate depreciation, supply constraints and increases in transport costs. Local fuel prices have more than doubled over the past year, in part due to increases in global oil prices. Surveys indicate that rising input costs are a severe constraint to production across the economy. In recent weeks, electricity outages have also become increasingly frequent and long-lasting, negatively impacting households and critically affecting the ability of businesses to operate.

Recent developments

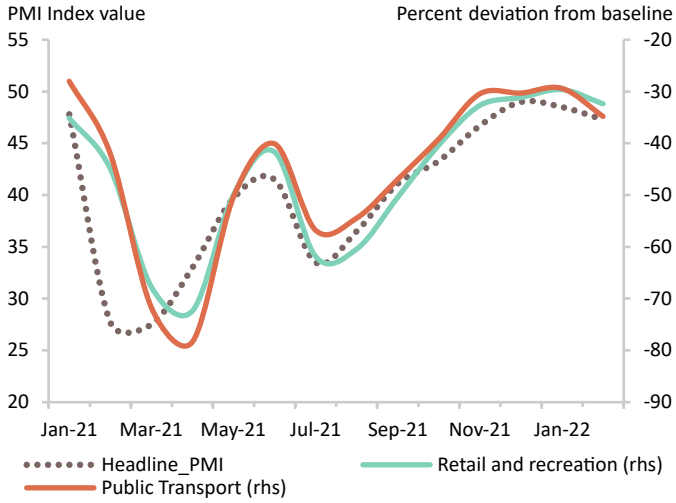
While some real-time indicators have improved in recent months, they remain consistent with a much lower level of economic activity than prior to the February coup. Mobility has recovered to pre-coup levels after falling 70 percent below pre-COVID-19 baseline levels in July, though mobility at retail, recreation and transport venues remains 30–40 percent below pre-COVID-19 levels. Manufacturing survey data indicate that the rate of contraction in output, employment, and new orders has eased since mid-2021. But the Purchasing Managers' Index dipped in early 2022 due to conflict-related disruptions, raw material

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



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

FIGURE 2 **Myanmar** / Manufacturing purchasing managers' index (PMI) / Mobility (month average)



Sources: Google COVID-19 Community Mobility Reports and IHS Markit.

shortages, higher input prices, and electricity outages.

Agriculture and manufacturing exports have picked up in recent months. Some border crossings with China have reopened – after closing in mid-2021 due to the third wave of COVID-19 – although cross-border trade remains subject to restrictions. Foreign direct investment (FDI) commitments have risen modestly since mid-2021, as has the number of company registrations. But several large international firms have announced their withdrawal from Myanmar over the same period.

Economic deterioration continues to damage livelihoods, which for many have been under severe strain since early 2020. Many households are experiencing declines in real income due to employment losses and/or reduced work hours and wages, combined with higher prices. While there is considerable uncertainty around these estimates, micro-simulations imply that the share of Myanmar's population living in poverty in 2022 (using national poverty lines) has more than doubled compared to levels before COVID-19 hit. With the price of some basic food items increasing sharply, and agricultural production constrained by higher input costs, in December the UN estimated that some 12 million people (about 22 percent of the population) are moderately food insecure in Myanmar, with an additional 1.2 million severely food insecure.

Outlook

Following the estimated 18 percent contraction in FY21, GDP is projected to increase by 1 percent in FY22, consistent with some stabilization but at a very low level. Continued export demand for garments and a modest resumption of construction work are expected to support overall activity. On the other hand, the agriculture sector is expected to contract due to credit and logistics constraints and increases in fuel and fertilizer prices, which will be further exacerbated by the conflict in Ukraine. With gas export earnings of around 5 percent of GDP in FY21, the associated rise in global gas prices would have a positive impact on government revenues and overall economic activity in Myanmar. But the positive GDP impacts of higher gas prices are unlikely to benefit most of the population and will likely be more than offset by the negative GDP impacts of higher fuel prices on other sectors.

Downside risks are elevated. A further escalation in conflict would reduce demand, disrupt logistics and supply chains, and increase the constraints faced by businesses. If recent sharp increases in global oil prices persist, it would exacerbate broader inflationary pressures, stretching household budgets further and increasing firms' costs. Continued power outages would severely restrict the operating capacity of businesses, with higher fuel prices making the use of back-up generators less viable. Additional waves or new variants of COVID-19 remain a risk, particularly in the context of still low vaccination rates. A further contraction in economic activity is possible in FY22 to the extent that one or more of these downside risks materialize.

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

	2017	2018	2019	2020	2021e	2022f
Real GDP growth, at constant market prices	5.8	6.4	6.8	3.2	-18.0	1.0
Real GDP growth, at constant factor prices	5.8	6.4	6.8	3.2	-18.0	1.0
Agriculture	-1.5	0.1	1.6	1.7	-12.5	-3.2
Industry	8.7	8.3	8.4	3.8	-20.3	3.3
Services	8.1	8.7	8.3	3.4	-18.9	1.4
Inflation (Consumer Price Index)	4.7	5.9	8.5	5.8	3.6	10.0
Current Account Balance (% of GDP)	-3.1	-4.7	-2.8	0.1	-2.7	0.7
Fiscal Balance (% of GDP)[a]	-2.7	-2.9	-3.7	-6.6	-8.8	-8.0
Debt (% of GDP)	34.4	38.4	37.5	41.6	57.2	62.5
Primary Balance (% of GDP)[a]	-1.3	-1.7	-2.4	-5.2	-7.0	-6.6
GHG emissions growth (mtCO2e)	3.9	0.7	0.3	-0.7	-5.1	0.1
Energy related GHG emissions (% of total)	14.7	15.1	15.4	15.0	12.9	12.6

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 (October 1st -September 30th).

NORTH PACIFIC ISLANDS

Table 1	2021
Population, million	
Federated States of Micronesia	0.12
Republic of the Marshall Islands	0.06
Palau	0.02
North Pacific	0.19
GDP, US$, billion	
Federated States of Micronesia	0.40
Republic of the Marshall Islands	0.24
Palau	0.22
North Pacific	0.86
GDP per capita, current US$	
Federated States of Micronesia	3475
Republic of the Marshall Islands	4337
Palau	12405
North Pacific	4433

Sources: WDI, World Bank staff estimates.

COVID-19 has led to recessions in the Federated States of Micronesia (FSM), Republic of the Marshall Islands (RMI) and Palau. A gradual recovery is projected from FY22. In the short term, moderate fiscal surpluses are projected for FSM and RMI, while Palau's fiscal deficit will remain sizable. Medium-term fiscal risks are substantial, primarily due to the scheduled expiry of US Compact-related fiscal transfers, highlighting the importance of structural reforms.

Key conditions and challenges

More than 95 percent of the population in **Palau** is fully vaccinated from COVID-19, and almost 70 percent of the population has received a third booster dose. The vaccination rate is relatively lower in **FSM** and **RMI**. Palau's border is now open for fully vaccinated international travelers. However, tourist arrivals are yet to recover with monthly arrival per end-January was only 6% of pre-COVID number. In the short term, the key challenges facing the North Pacific are: (1) The vaccine rollout and management of the pandemic, to pave the way for relaxed border restrictions and gradual recovery of international arrivals. (2) To support a sustainable and inclusive economic recovery while managing fiscal risks (particularly in Palau).

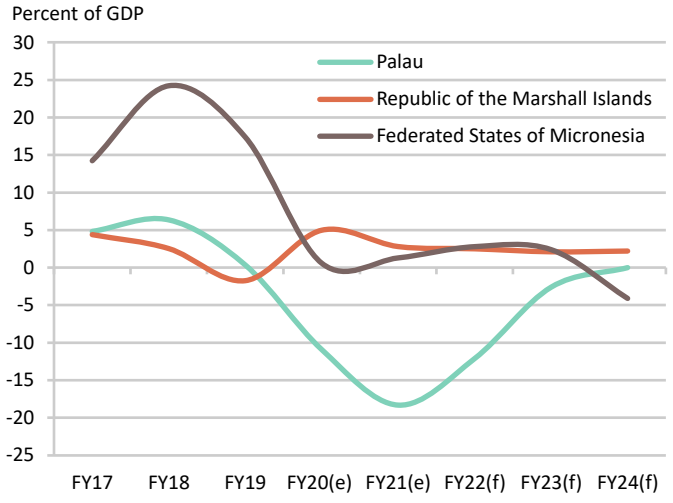
Over the medium term, the key challenge is the scheduled expiry of Compact-related grants and programs in 2023-2024. This poses a key structural risk to long-term fiscal sustainability, considering the limited space for additional debt. This is exacerbated by the fact that the projected annual distributions from the nations' Compact-related trust funds are not sufficient to fully offset the expiring fiscal transfers. Given this risk, reform-based fiscal adjustments, such as domestic revenue mobilization and expenditure rationalization, are critical to cover fiscal gaps. Natural disasters and climate change also pose a threat to livelihoods. Sea level rise threatens the physical viability of numerous islands, particularly in RMI. Finally, governments need to implement structural reforms to ensure sustainable economic recovery that supports livelihood of the bottom 40 percent of households. However, the lack of recent household data makes it challenging to monitor development progress and impacts of shocks while also limits the potential for evidence-based policy.

Recent developments

The economic impact of the pandemic drove **FSM** and **RMI** into the second year of consecutive recession in FY21. Output is estimated to have contracted by a further 3.2 percent in FSM and 2.5 percent in RMI in FY21. Ongoing strict border closures and related trade disruptions have curtailed construction activity, transport and domestic consumption. Large parts of FSM and RMI government revenues have been relatively protected from the downturn in domestic activity, particularly donor grants and fishing revenues. Grants, combined with substantial fiscal buffers in FSM, provided fiscal space for stimulus, which was rolled out during FY20 and FY21. FSM and RMI registered fiscal surpluses of 1.3 percent and 2.8 percent of GDP in FY21, respectively.

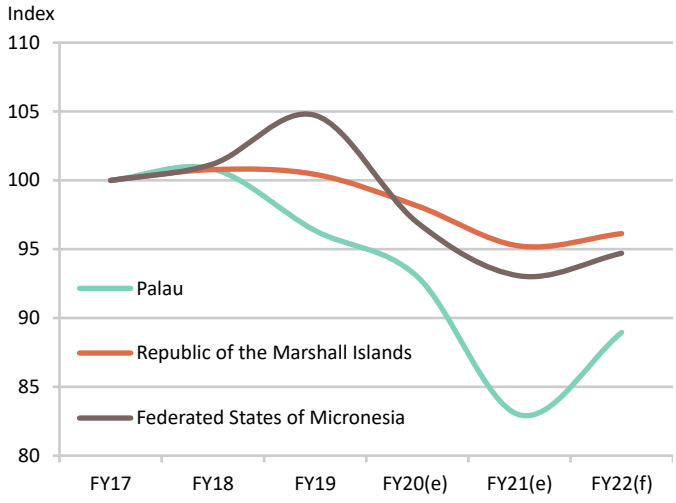
In **Palau**, the pandemic has severely impacted the economy. The tourism industry and its related business activities (around 40 percent of GDP) have been curtailed and trade flows are severely disrupted. GDP is estimated to have contracted further by 17.1

FIGURE 1 **North Pacific Islands** / Overall fiscal balance (share of GDP)



Sources: National sources via EconMap and World Bank projections.

FIGURE 2 **North Pacific Islands** / Formal sector employment (Index, 2017=100)



Sources: National sources via EconMap and World Bank projections.

percent in FY21, after more than 90 percent drop in tourist arrivals. The fiscal deficit widened to over 18 percent in 2021 driven by a decline in non-grant revenues and a rise in health spending and relief measures for firms and households. This deficit has been financed by external borrowing, which is estimated to have raised general government debt to around 85 percent of GDP from around 39 percent in FY19.

Outlook

The timing and shape of the economic recovery in the North Pacific depends on when international arrivals can fully resume and the fallout of the Russia-Ukraine war. For FSM and RMI, easing border restrictions will facilitate entry of foreign workers, merchandise imports and business travels, while for Palau, increase in international arrivals will boost the tourism recovery. Conditional on the easing of restrictive arrivals by mid-2022 and a recovery in global economy, a rebound is projected in FY22. The economies of the **FSM** and **RMI** are projected to grow by 0.4 percent and 3.0 percent, due to the expected pick-up in construction, tourists, and foreign workers arrival. The **Palauan** economy is projected to grow by 7.2 percent, on the back of gradual recovery of the tourist arrivals to around one-third of the pre-crisis level. However, strong resurgence of the virus globally or local outbreaks could necessitate a significant tightening of containment measures and delays in reopening, which can derail the recovery and dampen growth prospects. Fiscal surpluses of 2.8 percent and 2.5 percent of GDP are projected in FSM and RMI, as tax revenues recover in line with economic activity. Another large deficit of 12.1 percent is projected in Palau, as non-grant revenues remain around 7 percent below pre-crisis levels.

GDP is not expected to recover to pre-crisis levels until FY23 in **RMI** and FY24 in **FSM**. For **Palau**, GDP is projected to remain on a relatively lower trajectory, compared to pre-pandemic level, until tourist arrivals fully recover in FY24. For all three countries, the negotiation with the U.S on Compact-related fiscal transfers is ongoing, and the terms and timing remain uncertain. Fiscal risks are tilted to the downside with potential reduction in grant revenues. Under current policies, the FSM will face a fiscal cliff in FY24 and projected fiscal deficit of 4-5 percent of GDP from FY24 onwards. In RMI, the fiscal surplus is projected to decline from 5 percent of GDP in FY20 to 2.2 percent of GDP by FY24. Palau is projected to have a fiscal deficit of 2.6 percent of GDP in FY23 before return to a balance in FY24 due to increase in tourism receipt and full implementation of tax reform bill.

Poverty in the North Pacific is expected to have risen relative to pre-crisis levels. The sharp economic contraction in FY20 and FY21 led to formal-sector job losses and lower demand for goods in the informal economy. The rebound in formal sector jobs in FY22 is expected to be slow. For Palau, the severe impacts on economic activity and jobs have led to increased vulnerability for substantial number of households that predominantly work in the tourism sector. For FSM and RMI, many households rely on annual remittance inflows (around 6 percent and 13 percent of GDP, respectively) that dropped in FY21 and is estimated to remain depressed in FY22 due to the impacts of the pandemic on US labor market conditions. There are only recent poverty estimates for RMI, in which poverty is predicted to fall slightly in FY22, if economic growth materializes. In FSM, the country with the highest poverty rate in the North Pacific, poverty reduction is likely to be slower, given the huge share of informal sector and lower rebound of economic growth in FY22.

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

	2019	2020e	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices						
Federated States of Micronesia	1.2	-1.8	-3.2	0.4	3.2	1.9
Republic of the Marshall Islands	6.6	-2.2	-2.5	3.0	2.4	2.6
Palau	-1.9	-9.7	-17.1	7.2	16.2	4.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]						
Republic of the Marshall Islands	22.5	24.0	26.7	24.5	24.1	23.0

Sources: ECONMAP, IMF, and Worldbank.
e = estimate; f = forecast.
Note: Values for each country correspond to their fiscal years ending September 30.
(a) Calculations based on EAPPOV harmonization, using 2019-HIES.
(b) Projection using neutral distribution (2019) with pass-through = 1 (High) based on GDP per capita in constant LCU.

PAPUA NEW GUINEA

Table 1	2021
Population, million	9.1
GDP, current US$ billion	25.3
GDP per capita, current US$	2773.8
National Poverty Rate[a]	39.9
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	116.0
Life expectancy at birth, years[b]	64.5
Total GHG Emissions (mtCO2e)	65.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2009/10). National values
b/ Most recent WDI value (2019).

The economy rebounded modestly in 2021, supported by agriculture in the context of limited COVID-19 mobility restrictions. Rising fiscal deficit and the economic contraction placed the country at high risk of debt distress, requiring a fiscal consolidation. After two years of contraction, the extractive sector is projected to be the main driver of GDP growth in 2022. With low vaccination rates, limited fiscal space, and general elections in mid-2022, uncertainty remains high.

Key conditions and challenges

The COVID-19 crisis has come on top of PNG's structural economic challenges, notably the boom-and-bust cycles driven by swings in natural resource sector exports. These cycles have been exacerbated by sub-optimal fiscal and public expenditure management as expenditure goes up during booms, followed by spending cuts when the boom ends. Pandemic-related global and domestic travel restrictions have weakened external and domestic demand. In 2020, this has led to an economic contraction, a sizable fiscal deficit, and higher unemployment, and these outcomes were only partially reversed in 2021. PNG has a highly dispersed and fragmented population, low level of urbanization, significant gender disparities, high exposure to natural disasters, high degree of resource dependence, and inter-communal violence in some regions. Weak governance severely constrains the ability to effectively manage this challenging context. Fragility-related risks are exacerbated by the socio-economic impact of exogenous shocks, such as earthquakes and COVID-19.

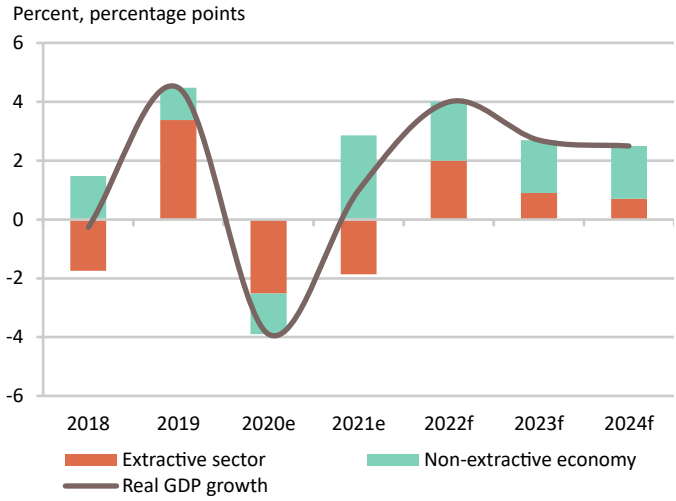
Socio-economic development is lagging for large sections of the population in PNG. The last available nationally representative household survey, from 2010, suggested that about 38 percent of the population was living below the US$1.90 per day (2011 PPP terms) poverty line. According to phone surveys conducted by the World Bank and UNICEF in mid-2021, more than half of households reported relying on subsistence agriculture as their main source of employment. More than two-thirds of households reported at least one episode of food insecurity in the previous 30 days, while nearly 40 percent of households reported insufficient access to water for drinking and handwashing.

Recent developments

On the back of a strong global economic recovery, PNG reversed its downward economic growth trajectory in 2021. The economy contracted by 3.5 percent in 2020 before returning to positive growth of 1 percent in 2021. The impact of COVID-19 on economic output has been smaller than in many other EAP economies. The reasons for this include: low tourism exposure, good performance of the agriculture sector, a time lag in the spread of COVID-19 within the country, fiscal stimulus, and the recovery of commodity prices. However, growth has lagged global and regional averages. Economic performance in 2021 was constrained by falling gold and liquefied natural gas (LNG) production that resulted in a decline in extractive sector output for a second consecutive year.

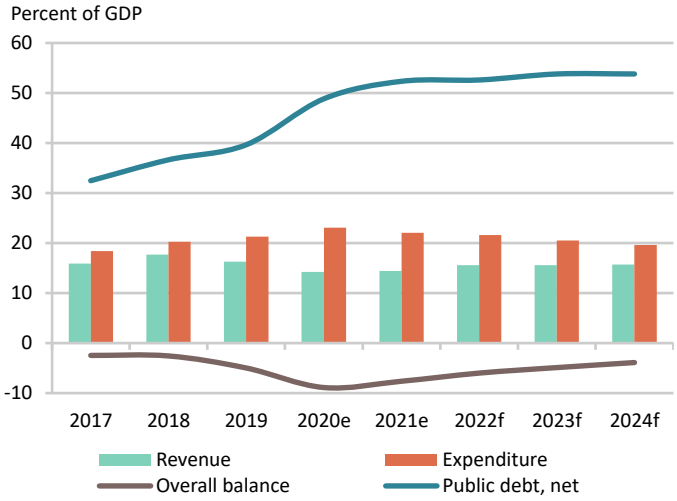
Despite reversing the trajectory of the widening fiscal deficit, it remained large at over 7 percent GDP in 2021. Public debt exceeded 50 percent of GDP, and the country is now classified at high risk of debt distress, according to the World Bank–IMF

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



Source: World Bank staff estimates and forecast.

FIGURE 2 Papua New Guinea / Key fiscal and debt indicators



Source: World Bank staff estimates and forecast.

Debt Sustainability Analysis. Contingent on prudent fiscal policies to be implemented, debt remain sustainable. The Bank of PNG maintained the Kina Facility Rate at 3 percent. Despite an accommodative monetary policy, private sector lending remained flat due to subdued economic conditions. Parliament passed amendments to the Central Bank Act in December 2021 that expanded its mandate beyond maintaining price stability to also promoting employment and economic growth. The current account surplus remained substantial owing to depressed imports and high commodity prices. However, due to the large debt repayments of the extractive sector, shortages of foreign currency remain a key challenge.

The impact of COVID-19 on livelihoods of the poor and vulnerable households was severe, according to four rounds of a World Bank mobile phone survey conducted between June 2020 and December 2021. More than one-quarter of those working in January 2020 were estimated to have stopped working by December 2020. Employment and income levels in mid-2021 were largely unchanged compared to December 2020. Preliminary analysis from the December 2021 survey shows that most households continued using detrimental coping strategies such as selling assets or drawing down on savings. Overall, the survey results are consistent with a stall in economic recovery.

Outlook

In 2022, PNG is navigating a fragile recovery. On the positive side, the extractive sector is projected to rebound, driven by the planned reopening of the Porgera gold mine. Extractive sector growth is projected to be the main driver of overall GDP growth in 2022 at 4.0 percent. High commodity prices will amplify this effect, supporting the external accounts and providing (potentially) higher dividends to the state-owned companies that hold shares in joint projects in the resource sector.

Meanwhile, uncertainty remains high. The Omicron variant of COVID-19 has been spreading fast in PNG, the least vaccinated country in the EAP region. Less than 6 percent of the adult population received at least one vaccine dose, with 4 percent fully vaccinated. There is little prospect of a rapid increase in vaccination rates, given high rates of vaccine hesitancy. Combined with the low capacity of the public health system, this poses a risk of higher casualties and a negative impact on domestic economic activity. Meanwhile, after the recent widening of fiscal deficits, the government is expected to implement a gradual fiscal consolidation. The fiscal space for a significant policy response in case of an economic shock is limited. The repercussions of the Russia–Ukraine war might imply short-term gains from higher commodity prices. However, the medium-term growth impact is likely to be negative due to higher global uncertainty and lower growth. Additionally, general elections in mid-2022 heighten political uncertainties.

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

	2019	2020e	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.5	-3.5	1.0	4.0	2.7	2.5
Extractive sector[a]	11.3	-8.4	-6.2	6.8	2.9	2.4
Non-extractive economy	1.4	-1.1	4.2	2.9	2.6	2.6
Inflation (Consumer Price Index), period average	3.7	4.9	5.1	7.2	5.1	4.9
Current account balance (% GDP)	22.1	19.5	20.5	21.9	21.5	20.8
Extractive sector[a]	26.1	21.3	21.0	22.8	22.9	22.4
Non-extractive economy	-4.0	-1.8	-0.5	-0.9	-1.4	-1.6
Overall fiscal balance (% of GDP)	5.0	-8.6	-7.6	-6.0	-4.9	-3.9
Non-resource primary balance (% of non-extractive GDP)	-6.1	-10.4	-8.8	-6.9	-5.2	-3.6
Public debt, net (% of GDP)	40.2	48.9	52.3	52.4	53.7	53.6

Sources: World Bank staff estimates and forecast.
e = estimate; f = forecast.
(a) The extractive sector comprises mining, quarrying, petroleum and gas production.

PHILIPPINES

Table 1	2021
Population, million	111.0
GDP, current US$ billion	392.5
GDP per capita, current US$	3534.3
International poverty rate ($1.9)[a]	2.7
Lower middle-income poverty rate ($3.2)[a]	17.0
Upper middle-income poverty rate ($5.5)[a]	46.9
Gini index[a]	42.3
School enrollment, primary (% gross)[b]	99.1
Life expectancy at birth, years[b]	71.2
Total GHG Emissions (mtCO2e)	214.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ Most recent WDI value (2019).

Following a deep contraction in 2020, the economy rebounded in 2021 supported by strong manufacturing and public investment. Economic policies have been supportive of the recovery, but policy space is narrowing. Poverty has likely improved between 2020 and 2021, but remains above pre-pandemic levels. The economy is projected to grow by about 5.6 percent per year over the medium term, anchored on more robust domestic activities. However, the outlook is subject to downside risks from external and domestic sources.

Key conditions and challenges

The Philippines swiftly contained its largest COVID-19 outbreak in early 2022. Metro Manila and other key regions were placed under Alert Level 1 since March 1, allowing for unimpeded cross-border travel and a return to full-capacity in workspaces, establishments, and public transportation. Progress in mass vaccination, amid declining vaccine hesitancy, continues to help drive domestic activity as nearly 60 percent of the population are fully vaccinated, with about 13.0 percent having received boosters. Current macroeconomic policies remain supportive of growth, although policy space continues to narrow given rising public debt and increasing inflationary expectation.

Risks remain tilted to the downside with significant implications on the macroeconomic policy setting. Foremost is the possibility of new COVID-19 variants which could lead to a resurgence in infections, possible re-introduction of containment measures, and additional burden on fiscal support. In addition, the upcoming national election raises uncertainty on policy continuity and priorities of the next administration. On the external front, the Russia-Ukraine war heightens the inflationary pressure already experienced in global markets, which could accelerate the tightening of the monetary policy in advanced economies and in the Philippines.

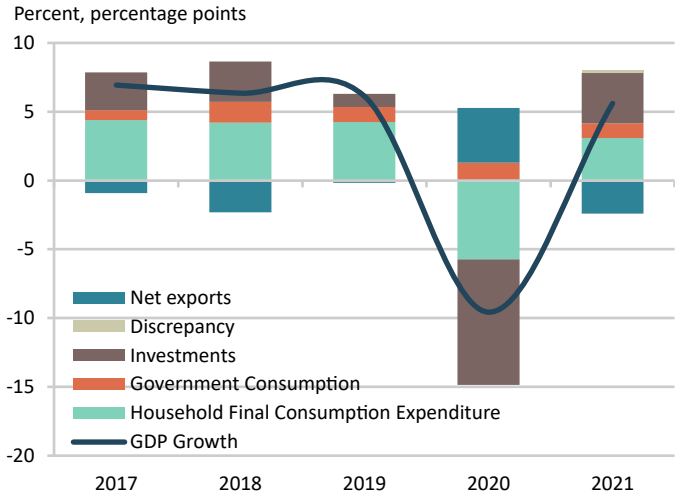
The new administration to take office in June 2022 would have to carefully manage rising vulnerabilities on the macroeconomic policy front, accelerate physical and human capital investments, and pursue structural reforms to strengthen long-term recovery. Rebuilding a narrowing fiscal space can be achieved by carefully pursuing fiscal consolidation. Ensuring inclusive and quality growth matters as the country pursues its Ambisyon Natin objective of reaching middle class society by 2040.

Recent developments

The economy expanded by 5.6 percent year-on-year in 2021, fueled by a faster-than-expected recovery in the second half of the year. However, output remained below pre-pandemic level by around 5.0 percent, whereas many regional peers have closed the gap. Strong external demand buoyed manufacturing exports, while public investment drove growth in construction. The relaxation of containment measures, especially towards the end of the year, drove a rebound in services. However, agriculture struggled with a contraction in livestock production due to the African Swine Fever. On the expenditure side, private consumption was a key growth engine. Public investment accelerated, but uncertainty and weak confidence dampened private investment. Goods exports benefitted from a supportive external environment.

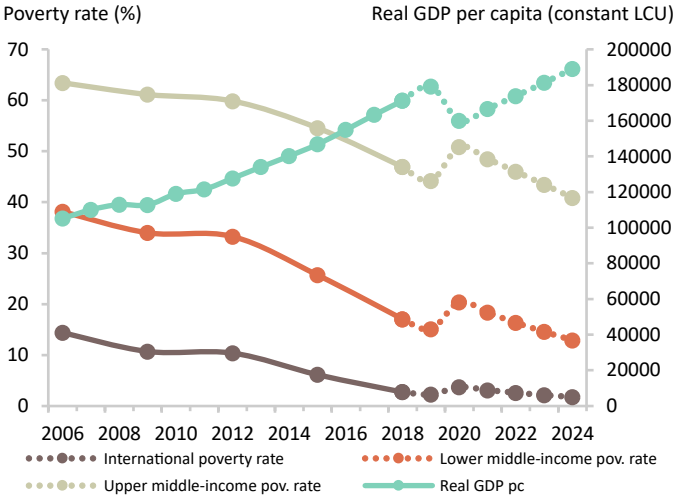
The fiscal deficit rose to 8.6 percent of GDP in 2021 fueled by an acceleration in public spending and a sharp decline in non-tax

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



Source: Philippines Statistics Authority.

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



Source: World Bank staff calculations.

revenues. Public spending increased by 2.3 percent of GDP, anchored on public investment growth, and fiscal support measures. The central government debt increased from 54.6 percent of GDP in 2020 to 60.5 percent of GDP in 2021.

The central bank kept the key policy rate at 2.0 percent despite headline inflation breaching the 2-4 percent target in 2021. The uptick in headline inflation was due to rising global oil prices and a surge in food inflation as a result of food production challenges from the African Swine Fever and weather-related disturbances.

Labor force participation is 60.5 percent in January 2022, the same rate in January 2021. Female participation notably increased by 1.2 percentage points, while unemployment decreased to 6.4 percent from 8.8 percent in the same period. The labor market improvement may have helped lower poverty between 2020 and 2021, but it remains above pre-pandemic levels. There are danger signs of the low quality of jobs generated with workers moving to self-employment and low-skilled wage occupation, which can jeopardize future poverty reductions. The labor shift and human capital deterioration have increased inequality. The Gini coefficient is estimated to increase from 42.3 percent in 2018 to 45.0 percent in 2021, and would have been higher without the social assistance given at the height of the pandemic.

Outlook

The economy is projected to grow at 5.7 percent in 2022 and 5.6 percent on average in 2023-24. Growth will draw strength from the domestic environment with declining COVID-19 cases, looser restrictions, and wider reopening. The strong domestic condition will help compensate for the weak external environment, reeling from a global growth deceleration, rising inflation, and geopolitical turmoil.

The reopening will benefit the contact-intensive services sector, while public investment will support construction and industry. Agriculture is expected to grow modestly as structural weaknesses persist. On the expenditure side, private consumption will expand with recovering employment and remittances, boosted by election-related spending. Consumption growth could have been higher if not for the Russia-Ukraine war driving inflationary pressure on fuel and food. Public consumption is expected to grow in line with the bigger national budget, while public infrastructure investments will contribute to capital formation growth. Net exports will be weaker amid a subdued external environment. In 2023-2024, private consumption will be supported by sustained remittances and domestic activities, while public consumption slows in view of fiscal consolidation. Capital growth may be tempered by rising interest rates and lingering uncertainty from the external environment.

Poverty incidence is estimated at 18.3 percent in 2021, based on the lower middle-income poverty line of 3.2 dollars a day, 2011 PPP. Following current growth projections, poverty incidence will decrease to 16.2 percent in 2022, and continue to decline through 2024. The Russia-Ukraine war may induce inflation spikes that may slowdown the decline in poverty, mainly through the knock-on effect of fuel price increases on food prices that disproportionately hurt the poor and economically vulnerable.

Significant risks emanate from the external environment. Central banks in advanced economies have signaled imminent interest rate hikes, which could lead to financial volatility in emerging markets. Rising global commodity and energy prices will intensify inflationary pressure. Domestically, the political transition risks policy discontinuity that may undermine market confidence. While the country has entered a benign phase of the pandemic, threat of a new variant-driven surge hangs over the outlook. Nevertheless, the country has adopted systems that allow more public mobility and localized responses to outbreaks, reducing adverse economic impacts.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	6.1	-9.6	5.6	5.7	5.6	5.6
Private Consumption	5.9	-7.9	4.2	5.5	5.6	5.6
Government Consumption	9.1	10.5	7.0	9.2	7.8	6.5
Gross Fixed Capital Investment	3.9	-27.5	9.6	12.3	10.1	9.4
Exports, Goods and Services	2.6	-16.3	7.8	7.6	7.3	7.0
Imports, Goods and Services	2.3	-21.6	12.9	12.3	10.3	9.0
Real GDP growth, at constant factor prices	6.1	-9.6	5.6	5.7	5.6	5.6
Agriculture	1.2	-0.2	-0.3	1.0	1.1	1.1
Industry	5.5	-13.2	8.2	6.5	6.2	5.9
Services	7.2	-9.2	5.3	6.0	6.1	6.1
Inflation (Consumer Price Index)	2.4	2.4	3.9	4.2	3.5	3.3
Current Account Balance (% of GDP)	-0.8	3.2	-1.8	-4.0	-3.5	-3.3
Net Foreign Direct Investment (% of GDP)	2.3	1.9	2.7	2.8	3.0	3.0
Fiscal Balance (% of GDP)	-3.4	-7.6	-8.6	-7.1	-6.0	-5.1
General Government Debt (% of GDP)	34.1	48.1	54.6	56.2	56.9	57.0
Primary Balance (% of GDP)	-1.5	-5.5	-6.4	-4.6	-3.5	-2.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.2	3.7	3.1	2.6	2.1	1.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	15.0	20.4	18.3	16.3	14.6	12.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	44.2	50.8	48.5	46.0	43.4	40.9
GHG emissions growth (mtCO2e)	3.3	-12.2	0.6	2.3	2.1	2.0
Energy related GHG emissions (% of total)	58.8	54.8	55.1	54.8	54.4	54.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on EAPPOV harmonization, using 2018-FIES.Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 1 based on GDP per capita in constant LCU.

SOLOMON ISLANDS

Table 1	2021
Population, million	0.7
GDP, current US$ billion	1.6
GDP per capita, current US$	2322.0
National Basic Needs Poverty Rate[a]	12.7
School enrollment, primary (% gross)[b]	104.3
Life expectancy at birth, years[b]	73.0
Total GHG Emissions (mtCO2e)	46.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Solomon Islands National Statistics Office. Most recent value (2013).
b/ Most recent WDI value (2019).

The economy is expected to shrink by -2.9 percent in 2022, reflecting the negative impact of the recent civil unrest and widespread community transmission of the coronavirus. These events have broad-based economic impacts and create pressure on the fiscal accounts. Risks to the outlook include a further spread of the coronavirus, higher imported inflation, a return of social unrest, and climate-related disasters.

Key conditions and challenges

Solomon Islands is a country with 700,000 people dispersed across 90 inhabited islands. The country faces large economic, development and governance challenges shaped by its geographical dispersion, remoteness to international markets, and vulnerability to natural disasters. In addition to the socio-geographic characteristics, capacity constraints, as well as a fragile political landscape pose a continuous threat to sustainable development. These challenges make the planning, delivery and management of infrastructure systems challenging and this has resulted in a large infrastructure gap. The need for economic diversification is urgent given economy's over-reliance on the logging sector. The government's attempt to find new sources of economic growth is constrained by several impediments, including limited human capital and an unfavorable business environment.

Development challenges have been further exacerbated by the COVID-19 pandemic which caused a sharp economic contraction and adversely affected people's livelihoods. According to a mobile phone survey collected from June to August 2021, there is no sign of employment recovery. To the contrary, the survey indicates a decline in the share of working individuals since the start of the pandemic. More than half of all households experienced reductions in their non-agricultural income during the period January-June 2021. Food insecurity remains prevalent, as more than two thirds of households had at least one episode of food insecurity in the month leading up to the survey. Common coping strategies, such as reducing food consumption or selling assets, could make those households further vulnerable.

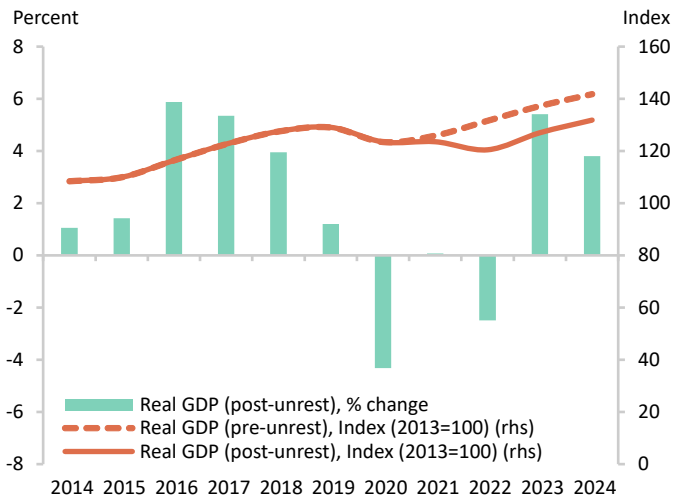
Strong and timely containment measures had been successful in preventing local transmission of the coronavirus until 2022, when a community outbreak rapidly spread through a largely unvaccinated population. At the end of February 2022 about 30 percent of the population had received at least one dose. The country expects to reopen its borders in the second half of 2022.

Recent developments

The economy was set to grow by 0.4 percent in 2021. However, at the end of November 2021, protests at the Parliament building escalated into looting and rioting, causing severe damage and losses to buildings and goods, estimated at 7 percent of GDP. The civil unrest, driven by a complex web of local grievances and a lack of economic opportunities, reduced the economic growth rate by 0.3 percentage points in 2021 (to 0.1 percent), with knock-on effects in 2022. This reflects lower economic activity in the retail and wholesale sector, which accounted for half of all the civil unrest damage.

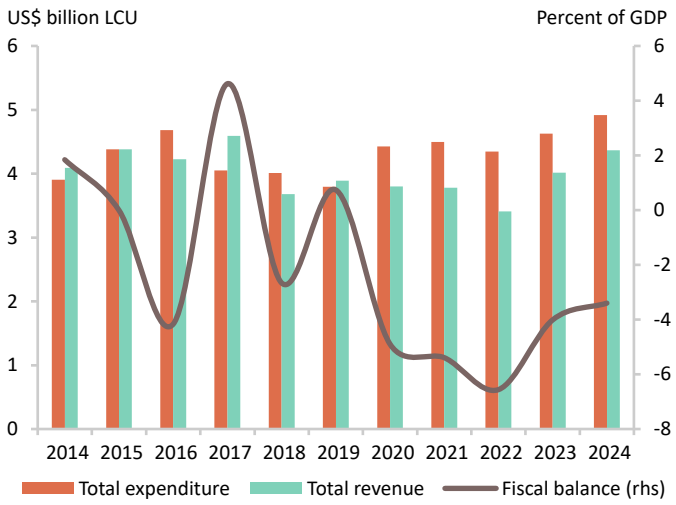
The fiscal deficit deteriorated to 5.4 percent of GDP in 2021. In the month of December

FIGURE 1 Solomon Islands / Real GDP growth, actual, pre-unrest trend and post-unrest forecast



Source: World Bank staff estimates.

FIGURE 2 Solomon Islands / Fiscal balance



Source: World Bank staff estimates.

2021, the revenue loss due to riots is estimated at 0.6 percent of GDP. In response, the government introduced austerity measures limiting payments to payroll, essential items and COVID-19 related expenditures, though this only partially offset the revenue loss. The remaining fiscal gap in 2021 was financed by a reduction in cash buffers, which stood 3 percent of GDP at the end of 2021.

The current account deficit widened to 5.2 percent of GDP in 2021, reflecting a large trade deficit which was partially offset by current transfers. The trade deficit was mainly driven by an increase in imports of machineries, fuel and basic manufactures and export of fish and agricultural products, as well as minerals.

Outlook

Output is projected to contract by 2.9 percent in 2022, reflecting the impact of the civil unrest and COVID-19 lockdown. This represents a sharp deterioration compared to the pre-unrest projection for 2022 (4.5 percent growth). Investments to replace damaged productive capacity caused by the riots are unlikely to gain pace until later in the year. Furthermore, the lockdown to contain COVID-19 is likely to dent output in contact-intensive sectors, including services, which represents about 55 percent of output. Following a contraction in 2022, growth is projected to rebound to 5.3 percent of GDP in 2023 and to moderate to 3.8 percent in 2024. Infrastructure investment, a return of business tourism and increased mining activity are expected to support growth over the medium-term.

The deficit in both external and fiscal accounts will widen in 2022, to 18.3 percent and 7.7 percent of GDP, respectively. High demand for imported construction materials and machinery will drive current account deficit. A combination of lower economic activity and elevated spending on COVID-response and business recovery will increase the fiscal deficit. The deficit, in turn, will be financed by a further drawdown on the cash buffers and a combination of domestic and external lending. An expected rebound of economic activity and spending consolidation will lead to a narrowing of the fiscal deficit in 2023-2024. Similarly, the current account deficit will shrink over the medium term reflecting smaller fiscal deficit and reduction in construction-related imports.

COVID-19 remains a major risk to the economic outlook. A low vaccination intake—particularly among low-educated and female populations— may lead to the maintenance of a closed border policy, while a further community transmission may have human capital implications and hamper economic recovery. The Russia-Ukraine war may lead to sustained high commodity prices – especially fuel, which would have inflationary effects and negative implications on the external accounts (refined petroleum constitutes 20 percent of imports). A further deterioration of domestic economic conditions may lead to a return of social unrest, while natural disasters remain a significant risk for Solomon Islands.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	1.2	-4.3	0.1	-2.9	5.3	3.8
Real GDP growth, at constant factor prices	1.3	-4.3	0.1	-2.9	5.3	3.8
Agriculture	-4.4	-2.3	-0.6	-6.6	2.2	-1.2
Industry	6.3	-12.7	6.8	-1.9	18.7	17.7
Services	2.8	-2.7	-1.4	-1.4	2.9	1.5
Inflation (Consumer Price Index)	1.6	3.0	-0.2	8.8	3.5	3.5
Current Account Balance (% of GDP)	-9.8	-1.6	-5.2	-18.3	-17.7	-14.0
Net Foreign Direct Investment (% of GDP)	-1.8	-0.4	-1.5	-2.9	-3.1	-2.8
Fiscal Balance (% of GDP)	0.7	-4.9	-5.4	-7.7	-4.9	-4.5
Debt (% of GDP)	8.3	14.0	20.6	23.7	25.6	26.8
Primary Balance (% of GDP)	1.2	-4.2	-5.1	-7.3	-4.4	-4.0
GHG emissions growth (mtCO2e)	0.0	0.0	0.0	0.1	0.1	0.1
Energy related GHG emissions (% of total)	0.9	0.9	0.9	0.9	0.9	1.0

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

SOUTH PACIFIC ISLANDS

Table 1	2021
Population, million	
Samoa	0.20
Tonga	0.10
Vanuatu	0.31
GDP, US$, billion	
Samoa	0.79
Tonga	0.50
Vanuatu	1.00
GDP per capita, current US$	
Samoa	3954
Tonga	4993
Vanuatu	3253

Sources: WDI, World Bank staff estimates.

The economies of Samoa, Tonga and Vanuatu have been hit by natural disasters and the COVID-19 pandemic. These South Pacific countries just recorded their first COVID outbreaks. Tonga's outbreak was amid a volcanic eruption and subsequent tsunami. Strict travel restrictions have hit tourism-related activity with negative spillovers on the rest of the economy. Governments need to continue supporting the vulnerable and embark on structural reforms to support inclusive economic recovery.

Key conditions and challenges

Natural disasters and external shocks pose a constant threat to livelihoods, economic growth, and fiscal sustainability in the South Pacific. Enhancing resilience to external shocks is crucial to supporting long-run growth and achieving sustainable improvements in living standards and poverty reduction. Economic activity may remain depressed for another six to nine months as authorities remain cautious about border reopening to prevent overburdening their weak public health systems. The delayed recovery creates significant potential for scarring effects in the longer term, particularly in the tourism sector. Lost firms and jobs create adverse structural changes to the economy that are not reversed when aggregate demand recovers. These changes would disproportionately affect the lower educated, whose skills may not be as transferable to other sectors. The economic shocks and slow recovery also greatly increase the risk of poverty, particularly as households deplete savings and assets to cope with lost incomes.

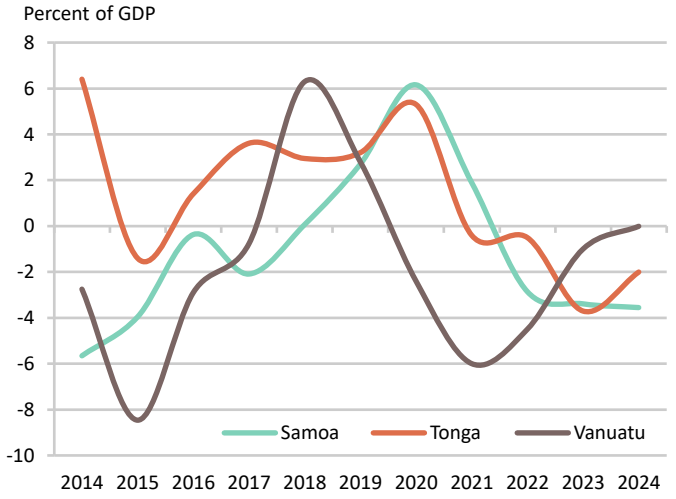
The main immediate challenge for all three countries is to contain the domestic COVID-19 outbreak. In addition, Vanuatu needs to sustain its recent uptick in vaccinations to minimize health and economic impacts from the outbreak while Tonga needs to prioritize response and recovery from the recent tsunami. The near-term challenge will be to strike an appropriate balance between catalyzing a sustainable and inclusive economic recovery and maintaining macroeconomic balance in the face of several competing pressures. With limited fiscal space and low capacity to carry debt, governments need to prioritize strategic measures that lay the foundation for the economic recovery, while also supporting livelihoods for the bottom 40 percent of households. Effective implementation of structural reforms will be critical to ensure a sustainable economic recovery.

Recent developments

Border closures helped temporarily contain the pandemic but created economic downturns. Substantial donor funding cushioned the negative impact on fiscal and external balances. While the COVID-19 vaccination roll-out has been progressing well in Samoa and Tonga with approximately 90 percent of the adult population fully vaccinated as at end-February 2022, it has been relatively slow in Vanuatu. It lags with only 48 percent of the adult population fully vaccinated.

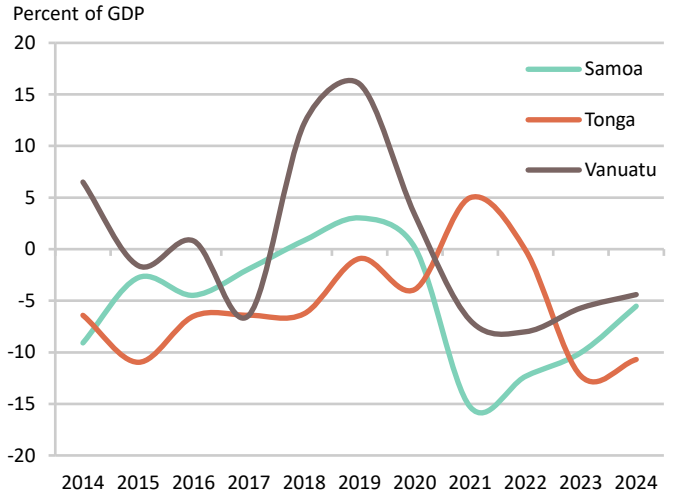
The **Samoan** economy recorded a historical-high recession in FY21. While border closure prevented domestic transmission of COVID-19, it resulted in a sharp contraction of tourism and related industries, and hindered construction activity. Despite policy support and robust remittances, real GDP declined by 8.1 percent. Poverty is likely to have risen from the pre-pandemic level, with urban areas affected more due to the higher concentration of

FIGURE 1 South Pacific Islands / Overall fiscal balance



Sources: National sources and World Bank projections.

FIGURE 2 South Pacific Islands / Current account balance



Sources: National sources and World Bank projections.

jobs in the service sector. Substantial development partner grants, spending under-execution and favorable tax revenue outturn, reflecting improved tax compliance and the phased rollout of the Tax Invoice Monitoring System (TIMS) helped attain a fiscal surplus of 1.9 percent of GDP. The current account recorded a substantial deficit (15.3 percent of GDP) as tourism receipts came to a standstill.

The **Tongan** economy is estimated to have contracted by 0.8 percent in FY21, due to the impacts of COVID-19 and TC Harold—a category 5 cyclone that struck the country in April 2020. These shocks have resulted in a slowdown in the tourism, retail, and agriculture sectors. However, a severe contraction was avoided due to the fiscal stimulus implementation, ramp-up of reconstruction activities from TC Gita (2018) and TC Harold, and buoyant remittance inflows. A marginal fiscal deficit of 0.4 percent of GDP was recorded, supported by relatively high grants and better-than-expected domestic revenue collections. Robust remittances and lower service imports helped attain a current account surplus (5 percent of GDP).

In **Vanuatu**, following a deep economic recession in 2020, growth is estimated to have recovered to 1.2 percent in 2021. The economic recovery was underpinned by continued fiscal stimulus, which supported livelihoods and funded reconstruction activity related to TC Harold. A sizeable fiscal deficit of 6 percent of GDP was recorded in 2021, driven by a fall in sovereign rents, particularly lower Economic Citizenship Program (ECP) receipts, alongside increased expenditures. The current account recorded a deficit of 8 percent of GDP, predominantly driven by subdued tourism receipts.

Outlook

The near-term outlook remains dependent on the duration of COVID-19 related travel restrictions and the economic fallout from the Russia-Ukraine war. Among others, achieving herd immunity through vaccination is a key trigger for border reopening. Most of the adult population are expected to be fully vaccinated by end-March 2022 in Samoa and Tonga. In Vanuatu, vaccination demand has increased substantially due to the community transmission of the COVID-19. Tourism activity is expected to be sluggish in the near-term and gain momentum over the medium-term. While premature border reopening could have implications on the domestic COVID situation, economic activity will be constrained for as long as international travel restrictions remain in place. The implication is that poverty rates across the three countries will gradually decline as economic activity picks up and jobs become available but will remain higher than pre-pandemic levels until full economic recovery is achieved.

In **Samoa**, an economic contraction of 0.3 percent is projected in FY22, reflecting the global growth slowdown and COVID-related impact but is projected to accelerate to 3.8 percent by FY24. The recovery is expected to be driven by a gradual resumption of tourist activity from FY23, spillovers to other sectors and ramping up of capital projects. The fiscal balance is projected to record a deficit of 2.9 percent of GDP as development partner grants normalizes and capital expenditure picks up pace. With the delayed recovery in tourism, the current account deficit is projected to persist in FY22. The twin deficits are expected to narrow over the medium-term consistent with the economic recovery.

In **Tonga**, the economy is expected to contract by 1.6 percent in FY22, reflecting the impact of the recent tsunami on agricultural production, the commercial sector and tourism, aggravating the COVID-related impact. Borders are expected to remain closed until end of FY22 as the country battles its first COVID-19 outbreak. Growth is expected to rebound to 3.2 percent in FY23 and FY24 driven by reconstruction activity, recovery in agriculture production, and gradual pick-up in tourism receipts. The fiscal and current account deficits are projected to remain elevated in FY23-24 as reconstruction activities and recovery efforts take place, before narrowing over the medium term.

In **Vanuatu**, GDP growth is expected to accelerate to 3-4 percent between 2022-2024, supported by a gradual pick up in tourism and cyclone reconstruction activity. In tandem, the poverty rate is projected to gradually decline from 36.6 percent in 2022 to 35.9 percent in 2024. In the near term, the community transmission of COVID-19 is negatively affecting growth. The fiscal deficit is projected to deepen in 2022 – due to lower ECP revenues and increased COVID-spending but narrow onwards. A balanced budget is expected by 2024 as the recently passed Tax Administration Act helps boost tax revenues and the COVID stimulus is gradually withdrawn. These are expected to outweigh the projected decline in ECP revenues. Similarly, the current account deficit is projected to gradually narrow to approximately 4.4 percent of GDP by 2024, driven by a recovery in travel receipts.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices						
Samoa	4.4	-2.6	-8.1	-0.3	2.5	3.8
Tonga	0.7	0.7	-0.8	-1.6	3.2	3.2
Vanuatu	3.9	-6.8	1.2	2.0	4.1	3.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]						
Vanuatu	32.3	37.6	36.9	36.6	36.1	35.9

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

THAILAND

Table 1	2021
Population, million	70.0
GDP, current US$ billion	506.0
GDP per capita, current US$	7233.4
Upper middle-income poverty rate ($5.5)[a]	6.4
Gini index[a]	35.0
School enrollment, primary (% gross)[b]	102.2
Life expectancy at birth, years[b]	77.2
Total GHG Emissions (mtCO2e)	392.2

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

The economy expanded by just 1.6 percent in 2021 as tourism remained dormant and a surge in COVID-19 cases hit economic activity. Economic activity is expected to return to pre-pandemic levels by early 2023 supported by private consumption and services exports. The pace of recovery is expected to remain protracted and hinges on the evolution of COVID-19 infections, the resumption of tourism, and the fallout from the Ukraine-Russia war. Goods exports are likely to be affected by weakening global demand. Government relief measures are expected to gradually decline, amid ongoing fiscal consolidation.

Key conditions and challenges

The economy is on a recovery path following the reopening of borders and relaxation of lockdown measures. Growth is projected to reach 2.9 percent in 2022 after expanding by just 1.6 percent in 2021. However, risks to growth are skewed to the downside as several uncertainties cloud the outlook. The global trajectory of the pandemic remains unpredictable and the probability of future new vaccine-resistant strains of coronavirus could affect domestic consumption and border restrictions. The recovery will in part depend on continued progress with the vaccination rollout and booster shots, the ongoing implementation of other preventive and testing/tracing measures, and the sustained reopening of international borders.

The pandemic shock is expected to inflict lasting scars on productivity and socioeconomic development in Thailand. A decline in capital investment in 2020 diminished potential output, exacerbating the adverse effects of demographic aging and slow factor reallocation. Employment and learning losses were uneven with vulnerable groups disproportionately affected, worsening inequalities in income and human capital accumulation. Meanwhile, increasing levels of corporate and household debt could pose risks, including risks to the financial sector once existing forbearance measures expire. On the other hand, a deferral of productive investments due to weakened firm balance sheets would reduce potential output over the longer-term.

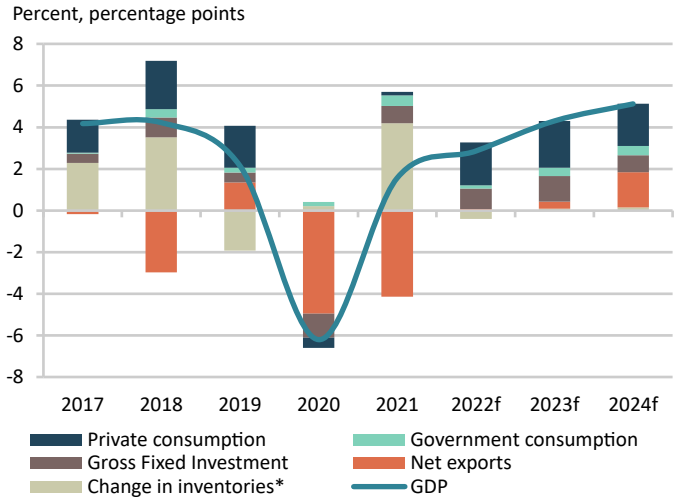
The Ukraine-Russia war is likely to have a substantial impact on domestic oil prices and consumer prices as Thailand is a net commodity importer. High consumer prices will weigh on household welfare. As the economic recovery is expected to be gradual, continued but scaled-down social assistance and government relief programs are necessary to mitigate the welfare impact of rising prices on household livelihoods.

Recent developments

The economy expanded by 1.6 percent in 2021 as a surge in COVID-19 cases hit economic activity. This followed a contraction of 6.2 percent in 2020 - the worst since the Asian Financial Crisis. Private consumption weakened due to the COVID-19 outbreak and the containment measures in 2021. Goods exports were the main source of growth, following the pickup in global demand. The economy gained traction in the fourth quarter, growing by 1.9 percent (yoy), up from -0.2 percent in the previous quarter. Contributing factors included the relaxation of lockdown measures, the reopening of borders for vaccinated visitors, and continued COVID-19 relief measures.

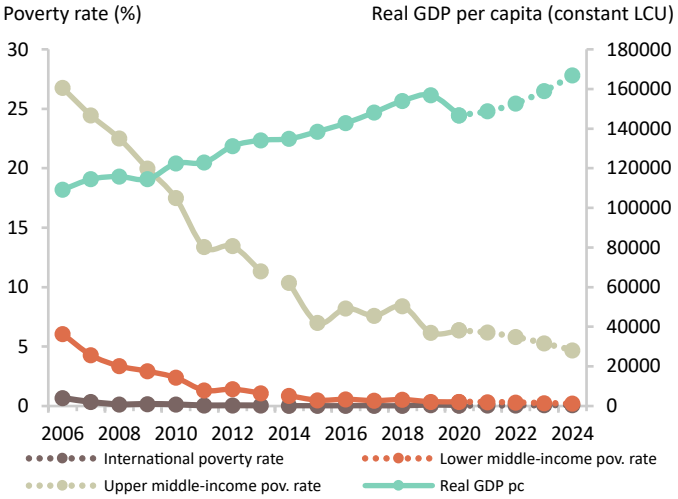
The central government fiscal deficit widened significantly in FY21 (year ended September) to 8.7 percent of GDP due to further increases in pandemic-response spending. Expenditures rose to 26.4 percent of GDP, up from 23.5 percent in FY20. Public debt increased to 57.8 percent of

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



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

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



Source: World Bank. Notes: see Table 2.

GDP. The central bank continued to pursue accommodative monetary policy and the targeted distribution of liquidity support to SMEs. The current account balance turned negative for the first time in 8 years at 2.2 percent of GDP, reflecting the widening service exports deficit due to muted tourism receipts and soaring freight costs. The Real Effective Exchange Rate (REER) depreciated by 4.8 percent in 2021, the second worst-performing currency in Asia after the Japanese yen.

Employment has picked up following the relaxation of lockdown measures and the reopening of borders, but labor market conditions remained weaker than before the pandemic. The unemployment rate declined to 1.6 percent in Q4 2021 but remained above the level of 1.0 percent in 2019. Average household income grew 4.5 percent per year (in nominal terms) during 2019 – 2021, driven by incomes from social assistance and COVID-19 relief measures. Household debt surged during the same period, reaching 89.3 percent of GDP in 2021, which is high compared to regional peers. The poverty headcount rate (based on the upper middle-income poverty line of 5.5 dollars a day, 2011 PPP) was estimated to have declined from 6.4 percent in 2020 to 6.2 percent in 2021 due to significant fiscal support to households.

Outlook

The economy is expected to return to pre-pandemic levels by early 2023. Growth is projected to reach 2.9 percent in 2022 and 4.3 percent in 2023, driven by increased private consumption and services exports. But weakening global demand will slow growth in goods exports. The fallout from the Ukraine-Russia war will weigh on domestic consumption, external demand, and tourism. Government relief measures are expected to gradually decline amid fiscal consolidation. Headline inflation is expected to rise markedly to 3.7 percent in 2022 due to supply-side driven factors, including the surge in global oil prices following the Ukraine-Russia war. However, second-round inflation pressures are projected to remain contained due to the remaining output gap, price administration, and anchored inflation expectations.

The pace of recovery will hinge on the evolution of COVID-19 infections and the resumption of tourist arrivals. Despite the reopening of borders, the pace of the tourism recovery is likely to be gradual due to the ongoing Omicron wave, continued travel restrictions by China, and the Ukraine–Russia war.

Labor market conditions are expected to gradually improve as the tourism sector continues to recover. Social assistance income is expected to rise due to an expansion of eligible beneficiaries of the state welfare card scheme from 13.5 million in 2021 to 20 million in 2022. Following the growth rebound, the expansion of the social assistance programs, and the continuation of the COVID-19 recovery programs, household income is expected to increase and the poverty headcount rate is projected to decline to 5.8 percent in 2022.

TABLE 2 Thailand / 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	-6.2	1.6	2.9	4.3	5.1
Private Consumption	4.0	-1.0	0.3	3.8	4.1	3.7
Government Consumption	1.6	1.4	3.2	0.9	2.5	2.9
Gross Fixed Capital Investment	2.0	-4.8	3.4	4.0	4.9	3.3
Exports, Goods and Services	-3.0	-19.7	10.4	6.7	5.7	7.8
Imports, Goods and Services	-5.2	-14.1	17.9	6.5	5.1	5.3
Real GDP growth, at constant factor prices	2.2	-5.6	1.6	2.8	4.3	5.1
Agriculture	-0.5	-3.2	1.3	1.3	1.2	1.2
Industry	-0.7	-5.3	3.4	4.8	3.9	3.9
Services	4.2	-6.0	0.6	1.9	4.9	6.3
Inflation (Consumer Price Index)	0.7	-0.8	1.2	3.7	0.9	1.1
Current Account Balance (% of GDP)	7.0	4.2	-2.2	-2.4	0.2	2.2
Net Foreign Direct Investment (% of GDP)	-1.0	-4.8	0.6	0.5	0.5	0.5
Fiscal Balance (% of GDP)	0.4	-4.5	-7.8	-3.9	-2.2	-2.0
Debt (% of GDP)	40.9	50.1	57.7	62.6	63.2	61.8
Primary Balance (% of GDP)	1.4	-3.6	-6.5	-2.8	-0.9	-0.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.1	0.0	0.0	0.1	0.1	0.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.3	0.3	0.3	0.3	0.2	0.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	6.2	6.4	6.2	5.8	5.3	4.7
GHG emissions growth (mtCO2e)	0.0	-6.0	1.8	-0.7	1.8	3.6
Energy related GHG emissions (% of total)	61.3	59.5	60.1	59.4	59.6	60.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on EAPPOV harmonization, using 2014-SES, 2019-SES, and 2020-SES.Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2014-2019) with pass-through = 0.7 based on GDP per capita in constant LCU.

TIMOR-LESTE

Table 1	2021
Population, million	1.3
GDP, current US$ billion	1.7
GDP per capita, current US$	1283.8
International poverty rate ($1.9)[a]	22.0
Lower middle-income poverty rate ($3.2)[a]	65.9
Gini index[a]	28.6
School enrollment, primary (% gross)[b]	112.5
Life expectancy at birth, years[b]	69.5
Total GHG Emissions (mtCO2e)	6.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2011 PPPs.
b/ Most recent WDI value (2019).

The economy is showing signs of moderate recovery from the dual COVID-19 and natural disaster shocks in 2021. The economy is projected to grow by 2.4 percent in 2022 on the back of public spending and a strong COVID-19 vaccination campaign. Risks to the outlook include the recurrence of COVID-19 outbreaks and political uncertainty due to the upcoming Presidential election. Long-term growth prospects remain contingent on the ability of the Government to promote private sector growth and to build a more climate-resilient economy.

Key conditions and challenges

Economic growth driven by public spending has generated low returns in the past and is fiscally unsustainable going forward. Between 2013 and 2020, GDP growth averaged 0.3 percent per year, well below the EAP average of 6.0 percent. Public spending skyrocketed in 2007-2016 and remained one of the highest in the world (71.2 percent of GDP in 2020). But high public spending did not boost growth as expected and led to a large fiscal deficit of 18.2 percent of GDP in 2020. The fiscal deficit can be financed using the Petroleum Fund (about 19 times 2021 GDP) in the short to medium term. However, the Petroleum Fund will be depleted by 2032 under current spending trajectories.

Timor-Leste has had eight different governments since independence twenty years ago. Recent political instabilities, particularly in 2018 and 2020, have caused considerable delays in the approval, promulgation, and execution of the state budgets. Public investment declined by 17.9 percent and 49.1 percent in 2019 and 2020, respectively. A political consensus around key policy and regulatory reforms to support economic recovery and overcome socioeconomic challenges is urgently needed.

Timor-Leste is vulnerable to natural hazards and ranked 20th amongst countries with the highest disaster risks. The April 2021 natural disasters and related recovery costs have eroded fiscal space and undermined macroeconomic stability. The structural reform agenda includes creating a more supportive environment for private-sector-led growth and building a more climate-resilient economy.

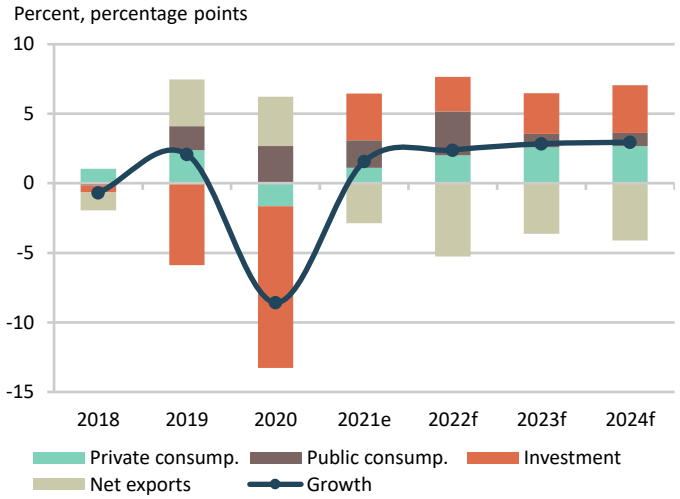
Recent developments

After a relatively slow start, the vaccination campaign has accelerated rapidly. As of March, 21, 2022, 72.5 percent of eligible adults are fully vaccinated while more than 85 percent adults have received at least one dose. The government has started vaccinating children and adolescents aged between 12 and 18 years old. Booster shots have been made available since early this year. Timor-Leste is in the early phase of the third wave of transmission primarily driven by Omicron. Also, of concern is the surge of Dengue cases. There have been some 20 deaths and more than 3 000 reported cases of dengue fever since January 2022.

The country had a challenging year in 2021 as the economy was adversely impacted by the surge of COVID-19 cases and major flooding caused by Tropical Cyclone Seroja. High spending to respond these shocks has led to a budget deficit of 44.2 percent of GDP in 2021, but authorities were only able to execute 71 percent of the allocated budget. The 2022 budget was opportunely approved and promulgated on time in December 2021 and January 2022, respectively.

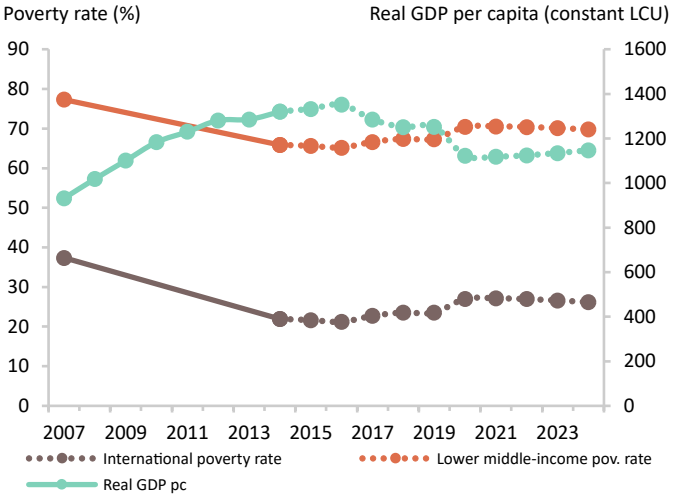
The dual shocks in 2021 might also increase poverty. Measured by an international poverty line of US$1.90 per day per capita (2011 PPP), poverty was estimated to have increased from 24 to 27 percent between

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



Sources: Ministry of Finance and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

2019 and 2021. It is difficult to capture the impact of COVID-19 at the household level due to very limited data as the latest Timor-Leste Survey of Living Standard was in 2014. According to the nationally representative Socio-Economic Impact Assessment (SEIA) 2.0 survey conducted by the General Directorate of Statistics, Ministry of Finance and the UNDP in July-August 2021, around 40 percent of the employed population lost their jobs since the COVID-19 pandemic outbreak in March 2020. As of March 2021, 90 percent of them reported that they were back in employment. But this is characterized by informal work arrangements with unstable earnings and low productivity.

Outlook

The economy is projected to expand by 2.4 percent in 2022 with the decline of COVID-19 infection rates. On the demand side, a gradual rebound in private consumption, supported by public sector wages and personal benefit transfer, and higher execution of Government expenditure will drive economic growth. Yet, it is concerning to note that the sustainable sources of revenue for the 2022 budget are set considerably below what is required to cover even the recurrent spending. Without major revenue reforms, fiscal deficit is projected to hover at around 40 percent of GDP in the medium term. Net exports will continue to be a drag on growth due to structural external sector imbalances (lack of diversified exports and high import demand).

External pressures will persist in the short term, owing in part to import-intensive infrastructure projects. Border re-openings, if carefully managed, will gradually support the tourism sector. High oil prices and slightly higher oil and gas production should help narrow the current account deficit. The financial account surplus will expand, although mainly due to divestments of the Petroleum Fund used to cover both the fiscal and current account deficits. Consumer price inflation is projected to gradually pick up, reflecting the increase in higher Government spending and the global energy prices.

The presidential vote is scheduled on March 19 with a potential runoff for the two top candidates on April 19. There is also a possibility of an early Parliamentary elections in case the elected President is from the opposition. As the country moves into an electoral period, policymaking and reform processes can be stalled.

Risks to the forecast are skewed to the downside. Worsening of the political environment, new waves of COVID-19, and impact of climate changes and natural disaster events could slow the recovery.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.1	-8.6	1.6	2.4	2.8	3.0
Private Consumption	3.7	-2.5	1.6	2.9	3.7	3.8
Government Consumption	3.2	4.9	3.1	4.9	1.5	1.5
Gross Fixed Capital Investment	-17.4	-42.5	19.5	12.3	13.1	14.0
Exports, Goods and Services	-17.2	-51.1	13.1	11.8	13.8	14.0
Imports, Goods and Services	-6.5	-8.5	5.6	9.8	6.4	7.0
Real GDP growth, at constant factor prices	2.0	-8.3	1.6	2.4	2.8	3.2
Agriculture	2.5	5.1	2.9	2.9	2.9	-1.2
Industry	4.8	-28.5	2.4	2.4	2.4	16.7
Services	1.2	-7.1	1.1	2.2	2.9	2.0
Inflation (Consumer Price Index)	0.9	0.5	3.8	2.5	2.6	2.3
Current Account Balance (% of GDP)	7.8	-19.3	-33.5	-42.7	-49.1	-55.4
Fiscal Balance (% of GDP)[a]	-29.9	-26.1	-44.2	-46.2	-47.6	-51.6
International poverty rate ($1.9 in 2011 PPP)[b,c]	23.6	27.0	27.2	27.0	26.6	26.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	67.4	70.5	70.6	70.4	70.1	69.8
GHG emissions growth (mtCO2e)	1.5	-5.7	1.8	3.2	3.8	3.9
Energy related GHG emissions (% of total)	9.7	9.5	9.6	9.7	9.7	9.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ The ESI is part of total revenue, while excess withdrawals from the PF is a financing item.
b/ Calculations based on EAPPOV harmonization, using 2007-TLSLS and 2014-TLSLS.Actual data: 2014. Nowcast: 2015-2021. Forecasts are from 2022 to 2024.
c/ Projection using annualized elasticity (2007-2014) with pass-through = 1 based on GDP per capita in constant LCU.

VIETNAM

Table 1	2021
Population, million	98.2
GDP, current US$ billion	362.6
GDP per capita, current US$	3693.7
International poverty rate ($1.9)[a]	1.8
Lower middle-income poverty rate ($3.2)[a]	6.6
Upper middle-income poverty rate ($5.5)[a]	22.4
Gini index[a]	35.7
School enrollment, primary (% gross)[b]	117.2
Life expectancy at birth, years[b]	75.4
Total GHG Emissions (mtCO2e)	419.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

Vietnam's economy is expected to grow by 5.3 percent in 2022, given the policy of living with COVID, strong performance by export-oriented manufacturing and domestic demand recovery. Poverty is expected to decline in 2022, but at a slower pace than pre-COVID. Over 78 percent of the population is fully vaccinated, but the economy still faces serious downside risks from possible new variants, the global ripple effects of the Russian invasion of Ukraine, rising commodity prices and economic slowdown in its major export markets.

Key conditions and challenges

The economy is recovering from extensive Q3-2021 lockdowns associated with the April 2021 COVID-19 outbreak. The vaccination of over 78 percent of population facilitated adoption of a "Living with COVID-19" strategy and the opening of the economy in Q4-2021. However, Vietnam is experiencing a surge in infections related to the OMICRON variant in Q1-2022 and will be affected by global effects of the war in Ukraine.

In the medium term, Vietnam's vision to become an upper-middle income economy will depend on its ability to evolve from its current growth model to a productivity and innovation led growth model. The government's institutional capacity to shepherd major structural reforms will be a key lever in this transition, which will need to focus on building a digitally transformed, greener and more resilient economy.

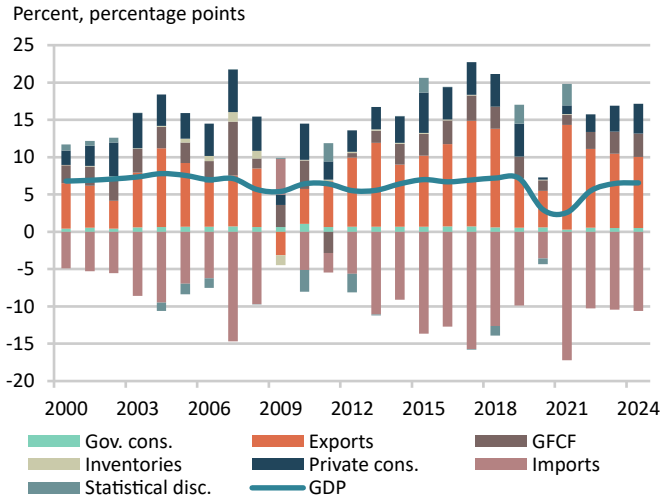
In 2021, inequality in both monetary and non-monetary dimensions is expected to increase, compounding the increase in inequality that occurred because of the COVID-19 crisis in 2020. Households in the bottom 20% of the population experienced the slowest income recovery into Q1-2021 even before the Q3-2021 lockdowns. Poor households were less able to cope with the impact from income shocks and were more reliant on external sources such as borrowing. The labor market outcomes for women and informal workers were more adversely impacted than men's.

Recent developments

Vietnam's economy grew by 2.6 percent in 2021, well below its pre-pandemic trend of 7.0 percent. After a strong expansion in the first semester, the April 2021 COVID outbreak led to extensive lockdowns in major economic centers and a 6.2 percent (y/y) contraction of GDP in Q3. As restrictions were being lifted, the economy bounced back strongly, growing by 5.2 percent (y/y) in Q4. Industrial production rebounded quickly once Q3-2021 restrictions were removed, growing by 4.0 percent thanks to strong external demand. Because of their sensitivity to social distancing measures, services were hit hardest, growing by only 1.2 percent, much lower than its pre-pandemic growth rates.

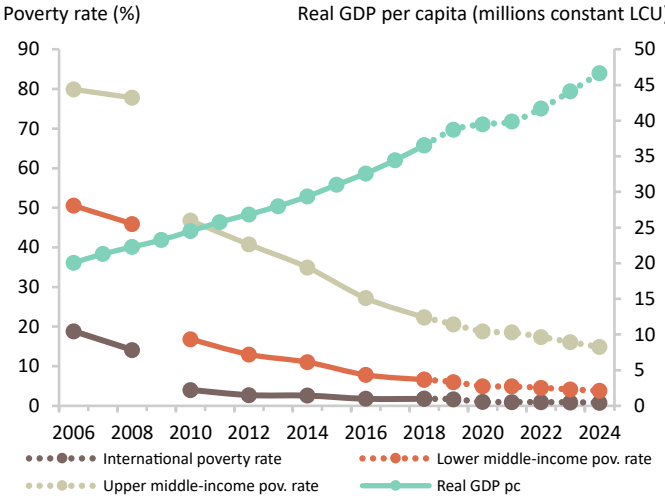
The April 2021 COVID-19 outbreak and ensuing measures to contain it had significant negative impacts on the labor market in Q3-2021. About 60 percent of the labor force reported experiencing negative labor market impacts, which ranged from loss of jobs to reduced hours, temporary business closures, and reduced pay. By Q4-2021, major indicators showed signs of recovery as economic activities resumed in major hub, but not yet to their pre-outbreak levels. Poverty reduction is estimated to have stagnated in 2021 under assumptions that the population experienced these impacts uniformly across the distribution, or there

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



Source: World Bank.

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



Source: World Bank.

was no increase in inequality (Figure 2). However, it is likely crisis impacted more those at the bottom of the distribution. Widening inequality of even two percent would lead to a rise in poverty.

While monetary policy was relatively accommodative, the impact of the COVID shock in 2020 and 2021 was compounded by lack of an effective countercyclical fiscal policy. The State Bank of Vietnam kept refinancing rate at 4.0 percent (below pre-pandemic rate), encouraged banks to waive or reduce interest payment, and provided guidance on forbearance, ensuring ample liquidity in the market. On the other hand, the government's fiscal response was modest and piecemeal, despite availability of ample fiscal space. The support packages, which totaled about 2.0 percent of GDP in 2021, were largely composed of tax and land rent deferrals but included limited social assistance. Public investment, which was successfully ramped up to support economy recovery in 2020 also experienced slower execution in 2021.

Outlook

Vietnam's GDP is expected to grow by 5.3 percent growth in 2022 and thereafter to stabilize at around 6.5 percent in a scenario with eased mobility restrictions domestically and internationally. The services sector is expected to gradually recover during the year as consumer confidence is restored and foreign tourism is expected to gradually resume from mid-2022 onward. Manufacturing exports is expected to grow at a slower pace mirroring moderating growth in Vietnam's main export markets (the United States, European Union, and China).

However, the outlook is subject to heightened risks to the downside. Slowing growth in major trading partners and terms-of-trade shock due to the Russian invasion of Ukraine and associated sanctions may affect recovery. This could be compounded by new COVID-19 variants. Economic recovery will also hinge on the recovery of the domestic private demand, which has been slow, highlighting consumers and investors uncertainty. The current surge in infections may lead to temporary labor supply and production disruptions. Since a strong economic rebound was underway at the start of the year, if the government deploys a strong fiscal policy support, the impact on economic growth could be mitigated. Monetary policy will need to remain accommodative, with continued vigilance to contain financial sector risks. Additional shocks could lead to a low case scenario where GDP grows 4 percent in 2022, recovering to 6 percent and 6.5 percent in 2023 and 2024, respectively.

Poverty reduction is expected to resume in 2022 assuming GDP growth recovery to pre-COVID rates, but the impact of the crisis may have longer term effects on rising inequality. Higher inequality can have economic and human capital consequences for the country. Sold assets cannot produce future income while the uneven quality and continuity of education during COVID-19 crisis has consequences for human capital formation and lifetime earning potentials.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	7.2	2.9	2.6	5.3	6.5	6.5
Private Consumption	7.4	0.5	2.0	3.9	6.0	7.0
Government Consumption	5.8	6.2	2.9	5.6	5.4	5.2
Gross Fixed Capital Investment	8.3	4.1	4.0	6.0	8.2	8.5
Exports, Goods and Services	6.7	5.0	14.0	9.2	8.6	8.1
Imports, Goods and Services	9.5	3.4	16.2	8.2	8.4	8.4
Real GDP growth, at constant factor prices	7.6	3.4	2.6	5.3	6.5	6.5
Agriculture	2.0	2.7	2.9	2.0	2.0	2.0
Industry	9.6	4.7	4.0	6.2	7.9	7.9
Services	7.5	2.6	1.2	5.4	6.3	6.4
Inflation (Consumer Price Index)	2.8	3.2	1.8	3.6	4.0	4.0
Current Account Balance (% of GDP)	3.7	3.7	-0.8	0.8	1.1	0.9
Net Foreign Direct Investment (% of GDP)	4.7	4.5	4.2	4.3	4.3	4.4
Fiscal Balance (% of GDP)	-0.4	-3.9	-3.8	-3.5	-2.8	-2.3
Debt (% of GDP)	43.6	44.1	45.5	46.4	45.2	44.0
Primary Balance (% of GDP)	1.0	-2.6	-2.5	-2.2	-1.3	-0.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.7	1.0	1.0	0.9	0.9	0.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	6.0	5.0	4.9	4.6	4.2	3.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	20.6	18.8	18.6	17.4	16.1	14.9
GHG emissions growth (mtCO2e)	9.6	2.6	2.4	8.1	9.4	9.5
Energy related GHG emissions (% of total)	64.9	64.6	64.3	65.7	67.4	69.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on EAPPOV harmonization, using 2014-VHLSS and 2018-VHLSS.Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2014-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

Europe and Central Asia

Spring Meetings 2022

Albania
Armenia
Azerbaijan
Belarus
Bosnia and Herzegovina
Bulgaria
Croatia
Georgia
Kazakhstan
Kosovo
Kyrgyz Republic
Moldova
Montenegro
North Macedonia
Poland
Romania
Russian Federation
Serbia
Tajikistan
Turkey
Ukraine
Uzbekistan

ALBANIA

Table 1	2021
Population, million	2.8
GDP, current US$ billion	17.2
GDP per capita, current US$	6089.5
Upper middle-income poverty rate ($5.5)[a]	32.4
Gini index[a]	36.0
School enrollment, primary (% gross)[b]	100.2
Life expectancy at birth, years[b]	78.6
Total GHG Emissions (mtCO2e)	9.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

A robust recovery took place in 2021 thanks to policy stimulus and resurgence of travel, construction, and extractive activity. Private investment, consumption, and public spending drove growth, while public debt remained high. Poverty is expected to have declined below pre-pandemic levels, despite a sluggish labor market. Growing inflation and the war in Ukraine threaten economic and poverty prospects in 2022.

Key conditions and challenges

Albania's growth was robust in 2021. It averaged 10.4 percent over the first three quarters, fully offsetting the losses caused by the pandemic-induced recession. Growth was driven by continued accommodative monetary and fiscal policies, reconstruction investment, abundant hydroelectric production early in the year, and the tourism recovery, all of which boosted private demand.

For 2022, prospects are uncertain with many downside risks. The war in Ukraine and continuing sanctions could push energy, food, and commodity prices even higher, shrinking households' purchasing power and consumption. Additional risks include new, vaccine- resistant Covid-19 variants, tighter global financial and trade conditions, and renewed travel restrictions.

Public debt increased further in 2021, reaching 78.4 percent of GDP. The government suspended the fiscal rule of a declining debt-to-GDP ratio and issued a Eurobond of EUR650 million, benefitting from the country's stable B+ rating. At its current level, the high government debt is at significant rollover risk. Given the current inflation and expected monetary policy tightening in high-income economies, reducing Albania's public debt and strengthening its fiscal policy credibility are vital.

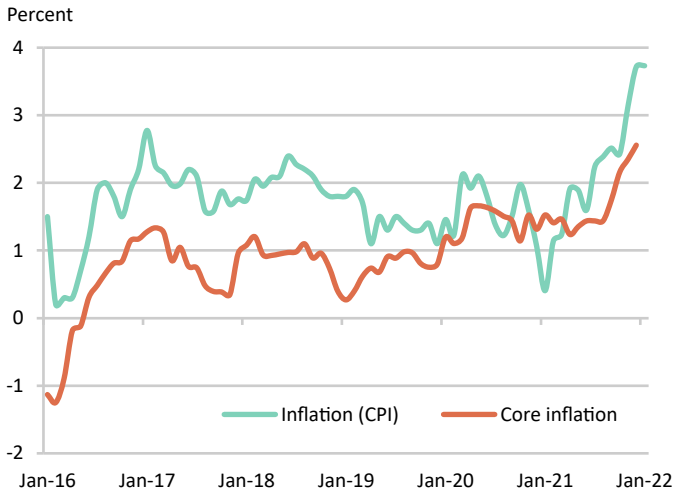
Productivity-enhancing public investment is crucial to boost growth but will require stronger revenue mobilization. At the same time, despite a 3.3 percent average GDP growth rate over 2015-2019, private investment continues to be discouraged by low firm productivity, an unskilled labor force, limited access to finance, burdensome logistics and poor market integration. However, at 28.4 percent of GDP, public revenues provide little space to increase much-needed investment in public infrastructure and human capital. A Medium-Term Revenue Strategy is under preparation, which has the potential to increase revenues over the medium run.

Recent developments

Higher consumer confidence, increased demand for Albanian exports, and fiscal stimulus supported the strong growth recovery in 2021. Growth in trade and construction—the latter connected to reconstruction and new infrastructure projects—contributed the most. Favorable hydrologic conditions have boosted extractives and energy production and tourism exports.

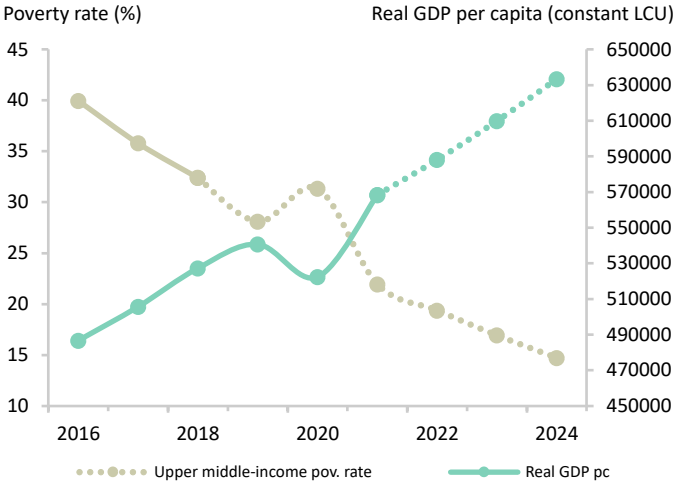
Jobs did not increase in 2020/2021. There were over 16 thousand fewer employed people in 2021 than in 2019. Employment grew only in ICT, construction, transport, retail and wholesale, and utilities. At the same time, labor force participation fell for the second consecutive year among all age groups. As a result, the unemployment rate was stable at 11.5 percent. The formal real wage increased by 3.7 percent in 2021, close to the 2019 increase, while

FIGURE 1 **Albania** / Headline inflation and core inflation



Sources: INSTAT and World Bank.

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



Source: World Bank. Notes: see Table 2.

the minimum wage increased by 13.1 percent in real terms.

Still, given the strong growth in GDP per capita in 2021, poverty is estimated to have dropped significantly from 31.4 percent in 2020 to 22 percent in 2021.

Inflation rose rapidly during the fourth quarter, reaching 3.7 percent in December 2021. Rising food, energy, transport and commodity prices risk undermining domestic demand and increasing vulnerability. Food prices increased by 3.9 percent in 2021, close to double the increase of the overall basket. This will hurt the bottom 40 percent, whose food consumption is over half of total consumption. The Central Bank kept the policy rate unchanged but recently announced an expected tightening through 2022.

Higher tax revenues and new debt allowed the government to increase infrastructure spending. The government also raised subsidies to the energy State-Owned Enterprises (SOEs) to ensure energy supply during the last quarter of 2021. Contingent liabilities from SOEs pose major risks for the budget.

Outlook

As of March 2022, the baseline scenario projects economic activity to expand at its pre-pandemic, pre-earthquake historical rate. However, the war in Ukraine could further increase inflation, disrupt supply chains, disturb financial markets and undermine confidence; all of which could dim Albania's growth prospects. In turn, a sluggish job market combined with diminished purchasing power could dampen poverty reduction.

Government spending is expected to decline gradually, in line with fiscal consolidation plans. However, higher spending may be needed to guarantee energy supply through more costly energy imports and support to the fragile energy SOEs. Service exports, including tourism and fast-expanding business-process operations should return to their pre-pandemic growth trends. The current account deficit is expected to reach 7.9 percent of GDP only in 2024, as terms of trade worsen due to high infrastructure investment and subsequent demand for imports.

In the baseline scenario, public debt is expected to decline slightly to 78.1 percent of GDP in 2022, and more significantly over the medium term. However, the fiscal balance could further deteriorate in a worsening international context, forcing the government to cut capital spending to prevent a hike in the debt-to-GDP ratio. Given Albania's growing reliance on external financing, the exchange rate, interest rate, and refinancing related risks remain elevated.

Consistent with the baseline scenario in the years following, private consumption is projected to return as the primary driver of GDP growth. Private investment could provide further support to growth if business climate reforms are implemented. A key medium-term reform priority is the need to boost revenue collection and achieve fiscal consolidation, while allowing for significant growth-enhancing spending.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.1	-4.0	8.6	3.2	3.4	3.5
Private Consumption	3.2	-2.4	3.7	2.6	2.7	2.9
Government Consumption	2.9	1.6	9.4	6.9	-1.0	2.6
Gross Fixed Capital Investment	-3.7	-2.0	18.5	-0.9	1.7	3.4
Exports, Goods and Services	2.6	-25.6	29.2	4.8	8.0	6.2
Imports, Goods and Services	2.3	-19.9	18.5	1.9	3.3	4.1
Real GDP growth, at constant factor prices	2.4	-3.4	8.6	3.1	3.4	3.5
Agriculture	0.6	0.3	-0.2	0.2	0.3	0.5
Industry	0.9	-3.5	10.8	5.0	5.0	5.0
Services	3.8	-4.7	10.9	3.2	3.6	3.7
Inflation (Consumer Price Index)	1.4	2.2	2.6	5.0	4.0	3.0
Current Account Balance (% of GDP)	-7.9	-8.8	-8.3	-9.6	-8.7	-7.9
Net Foreign Direct Investment (% of GDP)	7.5	6.8	6.4	6.5	6.6	6.6
Fiscal Balance (% of GDP)	-1.9	-6.8	-5.8	-5.2	-2.8	-2.7
Debt (% of GDP)	67.4	77.2	78.4	78.1	76.4	75.1
Primary Balance (% of GDP)	0.1	-4.7	-3.8	-2.5	0.0	0.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	28.1	31.3	22.0	19.4	16.9	14.7
GHG emissions growth (mtCO2e)	-1.5	-6.5	1.6	-1.2	-1.0	-0.8
Energy related GHG emissions (% of total)	47.4	45.4	46.2	45.7	45.2	44.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2016-SILC-C and 2018-SILC-C. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using customized elasticity (2016-2018) with pass-through = 1 based on GDP per capita in constant LCU.

ARMENIA

Table 1	2021
Population, million	3.0
GDP, current US$ billion	13.9
GDP per capita, current US$	4670.2
International poverty rate ($1.9)[a]	0.4
Lower middle-income poverty rate ($3.2)[a]	6.9
Upper middle-income poverty rate ($5.5)[a]	44.7
Gini index[a]	25.2
School enrollment, primary (% gross)[b]	91.2
Life expectancy at birth, years[b]	75.1
Total GHG Emissions (mtCO2e)	9.8

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

The impact of the war in Ukraine and sanctions on Russia is likely to be significant given Armenia's strong economic links with Russia. The economy rebounded by 5.7 percent year on year (yoy) in 2021 but is forecast to grow at only 1.2 percent yoy in 2022, with an uncertain outlook subject to high downside risks. Lower growth and remittances are likely to slow poverty reduction and increase vulnerability.

Key conditions and challenges

Prudent macroeconomic policies, including a more-effective inflation targeting regime, a robust fiscal rule, sound financial sector oversight, and pro-competition reforms helped Armenia weather the twin crises in 2020 with a lower-than expected increase in poverty rates.

While domestic political uncertainty has subsided since snap elections in mid-2021, Armenia still faces significant structural constraints, such as weak connectivity, closed borders and no economic relations with two of its four neighbors and challenges related to high unemployment, skills mismatches and firm competitiveness.

Recent developments

After contracting in 2020 by 7.4 percent yoy, the Armenian economy started to recover in 2021, growing at 5.7 percent yoy. Growth was driven by private and public consumption with smaller contributions from investment and net exports.

On the production side, services rebounded from a sharp slump in 2020, and industry and construction contributed modestly to growth. Agriculture contracted for the sixth straight year, reflecting unreformed land markets, uneven access to irrigation and low resilience to changing weather patterns.

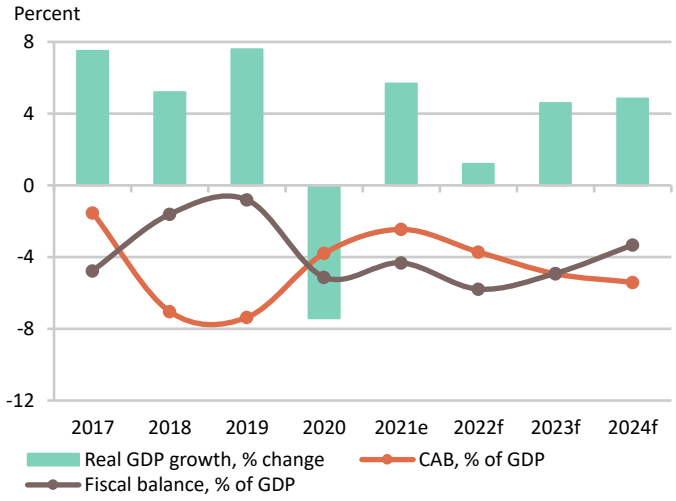
The fifth wave of COVID-19 infections abated in Armenia by end-February. After a slow start, the pace of vaccination picked up in late 2021, after mandatory requirements were introduced for workers to produce proof of vaccination or to submit to weekly testing. Still, only 43 percent of the adult population was fully vaccinated as of March 13, 2022.

After a prolonged period of low inflation, price levels picked up in late 2020 and remained elevated in 2021. Inflation peaked at 9.6 percent yoy in November before moderating to 6.5 percent yoy in February 2022. Food inflation peaked at 17 percent in November 2021, driving two-thirds of overall inflation. In response, the Central Bank of Armenia (CBA) increased the policy rate nine times by a cumulative 500 basis points between December 2020 and March 2022.

The budget deficit declined from 5.1 percent of GDP in 2020 to 4.3 percent in 2021. Revenues were up 8 percent yoy due to higher VAT and state duties, following the introduction of a new export duty for minerals. Expenditure was up 5 percent yoy driven by current expenditures. Public debt to GDP declined to 63.4 percent as at end-2021 from 67.4 percent a year earlier.

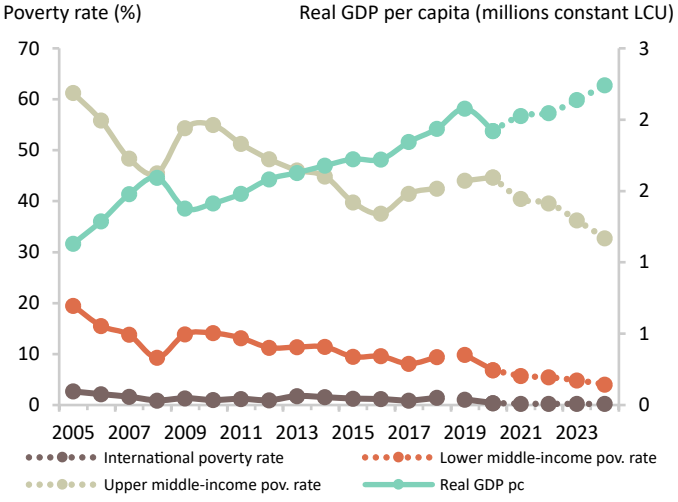
The external balance improved due to a quicker rebound in exports than imports, and a sharp increase in remittances. FDI also rebounded, albeit from a low base. The exchange rate stabilized following the decline in political uncertainty in mid-2021 and reached pre-COVID levels in February 2022. However, the onset of the war in Ukraine brought fresh volatility.

FIGURE 1 **Armenia** / GDP growth, fiscal and current account balances



Sources: Statistical Committee of Armenia; Central Bank of Armenia; World Bank staff projections.

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



Source: World Bank. Notes: see Table 2.

The national absolute poverty rate rose to 27 percent in 2020 from 26.4 percent in 2019. Existing social protection and social assistance mechanisms (pensions and the Family Benefits Program) provided a critical buffer preventing a further increase in poverty.

Outlook

The impact of Russia's invasion of Ukraine on Armenia's economy is likely to be significantly negative, although the magnitude remains uncertain.

Armenia has strong economic links with Russia, which accounted for 28 percent of Armenia's exports and 30 percent of its imports on average from 2018-2021 and is the source of all of Armenia's wheat and gas imports. In 2021, remittances from Russia amounted to 5 percent of GDP, 41 percent of net FDI stock was associated with Russian entities, and Russian tourists accounted for 40 percent of all tourist arrivals. In addition, Armenia will also be impacted by elevated global food and fuel prices, with fuel imports accounting for 9 percent of imports in 2021.

The growth forecast has been downgraded for 2022 from 5.3 percent pre-war to 1.2 percent, with lower remittances and real wages impacting consumption; heightened uncertainty impacting investment; and exports contracting due to the projected contraction in Russia and slowing global and regional growth. On the production side, agriculture will continue to be weighed down by structural challenges; industry will be impacted severely by uncertainty; and services will slow along with consumption. In the medium-term, growth is expected to pick up in 2023 and 2024, but at a slower pace than projected pre-war.

In line with slower growth, revenue collection is expected to decline, and spending pressures are expected to rise, particularly through increased social assistance, leading to a delay in fiscal consolidation. This will push up the debt to GDP to about 67 percent of GDP at the end of 2022, further away from statutory limits.

The current account deficit is projected to widen due to lower exports and net remittances. Exports may be boosted by an increased tourism revenues associated with an inflow of Russian citizens following the onset of the war.

Higher commodity prices will keep inflationary pressures elevated in 2022, but CBA's inflation targeting is expected to anchor inflation in the medium-term as external price pressures subside.

Based on the forecasted macroeconomic impact, poverty (using the upper middle income poverty line) could reach 39.6 percent of the population in 2022, which represents a 3 percentage points increase relative to a counter-factual scenario in the absence of the war. Vulnerability may increase due to decreased remittances, increased utility bills and increased food prices.

The forecast is uncertain, with possible downgrades, given the evolving global and regional environment. Risks include protracted conflict in Ukraine, a prolonged and more significant slowdown in Russia, further disruption in global commodity markets, and still unresolved geopolitical issues around Armenian borders. On the upside, the inflow of persons from Russia, if sustained, may have a positive impact of the economy.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	7.6	-7.4	5.7	1.2	4.6	4.9
Private Consumption	11.5	-13.8	3.4	-1.3	5.4	5.7
Government Consumption	12.9	15.2	5.0	-1.2	1.7	1.0
Gross Fixed Capital Investment	4.4	-8.6	7.7	-0.9	7.5	9.1
Exports, Goods and Services	16.0	-33.4	16.5	-8.5	6.5	7.7
Imports, Goods and Services	11.6	-31.4	10.9	-12.0	8.0	9.3
Real GDP growth, at constant factor prices	7.7	-7.1	5.4	1.2	4.6	4.9
Agriculture	-5.8	-4.1	-1.4	0.2	0.8	1.0
Industry	10.5	-3.0	3.8	-1.1	2.9	3.1
Services	9.7	-9.8	7.9	2.6	6.3	6.5
Inflation (Consumer Price Index)	1.4	1.2	7.2	9.8	7.5	6.8
Current Account Balance (% of GDP)	-7.4	-3.8	-3.3	-3.7	-4.9	-5.4
Net Foreign Direct Investment (% of GDP)	1.7	0.6	2.6	1.6	1.8	2.3
Fiscal Balance (% of GDP)	-0.8	-5.1	-4.3	-5.8	-4.9	-3.3
Debt (% of GDP)	53.7	67.4	63.4	66.9	67.6	66.6
Primary Balance (% of GDP)	1.6	-2.4	-1.7	-3.0	-2.0	-0.4
International poverty rate ($1.9 in 2011 PPP)[a,b,c]	1.1	0.4	0.3	0.2	0.2	0.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b,c]	9.8	6.9	5.7	5.4	4.8	4.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b,c]	44.0	44.7	40.4	39.6	36.2	32.7
GHG emissions growth (mtCO2e)	6.4	-10.9	9.5	5.2	7.8	7.2
Energy related GHG emissions (% of total)	62.9	61.1	64.8	65.4	66.5	67.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2020-ILCS. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 based on GDP per capita in constant LCU.
c/ The poverty rates for 2019 are not strictly comparable with 2018 due to revisions on the ILCS starting in 2019.

AZERBAIJAN

Table 1	2021
Population, million	10.2
GDP, current US$ billion	54.6
GDP per capita, current US$	5358.1
School enrollment, primary (% gross)[a]	95.8
Life expectancy at birth, years[a]	73.0
Total GHG Emissions (mtCO2e)	79.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2019).

Russia's invasion of Ukraine poses downside risks to Azerbaijan's economic outlook, particularly in the non-energy sector. This follows a strong rebound in 2021, as recovering domestic and external demand supported growth in both energy and non-energy sectors, while rising global energy prices aided external and fiscal balances. Soaring energy prices will provide a short-term windfall, but mounting inflationary pressures and lower remittances are expected to weigh on poverty.

Key conditions and challenges

Azerbaijan faces structural challenges in developing a vibrant non-energy private sector. These include a large state footprint, institutional challenges, an undiversified asset mix with a low and stagnant level of investment in human capital, the lack of a level playing field, and shallow financial markets. This, in turn, has contributed to low private investment in the non-energy sector.

Following military tension with Armenia in 2020, a tripartite statement on armistice was signed between the two countries and Russia in November 2020. The reconstruction effort has progressed in 2021, even as the situation remains fragile, especially along the border.

Recent developments

Azerbaijan experienced a strong economic rebound in 2021, with output recovering to pre-COVID-19 levels by end-year. The energy sector grew by 1.8 percent, with production constrained by OPEC+ quotas for some parts of the year. Non-energy sectors' growth was more robust at 7.2 percent, led by services (especially transport, hospitality, and retail trade) and manufacturing.

On the demand side, consumption rebounded strongly, while investment declined by 7.3 percent in 2021, with a 9.6 percent drop in non-energy sector investment, driven largely by lower private investment.

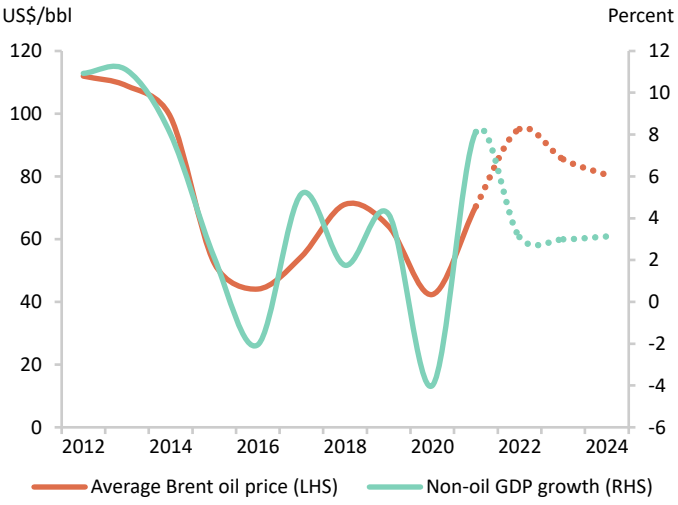
Rebounding domestic demand, rising global commodity prices, and increased administrative prices pushed CPI inflation to 6.7 percent in 2021, overshooting the central bank's target range of 4±2 percent and prompting a 150-basis point policy rate increase since August 2021, pushing it to 7.75 percent in March 2022.

Soaring energy prices boosted external revenues, and the current account recorded a surplus of 15.2 percent of GDP. This was offset by financial outflows (9.2 percent of GDP). Yet the overall balance of payments was in surplus at 5.6 percent of GDP in 2021.

Rapid economic recovery and high State Oil Fund (SOFAZ) revenues supported fiscal revenues, which jumped 38.7 percent, while fiscal spending increased by 2.8 percent in 2021. As a result, the fiscal balance recorded a surplus of 4.2 percent of GDP in 2021.

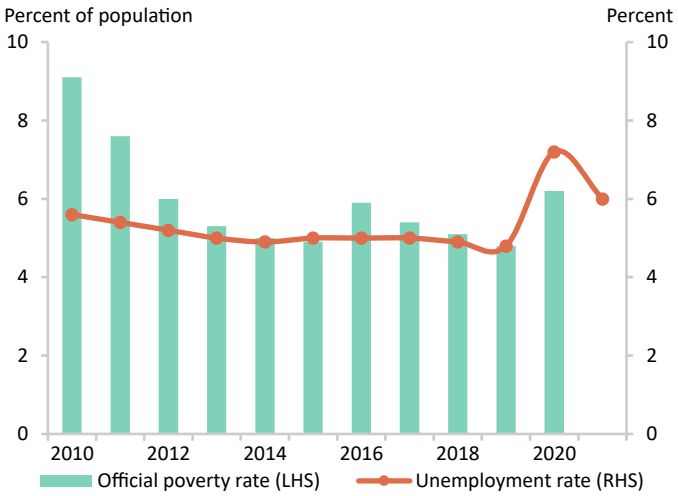
According to official data, the unemployment rate fell to 6 percent in 2021, from 7.2 percent in 2020, but was still above pre-pandemic trends. The official national poverty rate reached 6.2 percent in 2020, on a rise of 1.4 percentage points from 2019. Rural poverty increased disproportionately, as households experienced job and income losses in the COVID-19 induced crisis period. The economic rebound in 2021, and increased public wages and pensions, likely led to improved household income in 2021, although in real terms, this was offset partly by higher inflation.

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



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

FIGURE 2 **Azerbaijan** / Official poverty rate and unemployment rate



Source: State Statistical Committee of Azerbaijan. Note: The World Bank has not reviewed the official poverty rates for 2013–20.

Outlook

Economic growth is currently forecast at 2.7 percent in 2022, which represents a 0.9 percentage point downgrade from the baseline forecast prior to the invasion of Ukraine.

A short-term increase in oil and gas production would propel growth in the energy sector in 2021, but this increase is expected to subside beyond 2023. After a strong rebound in 2021, growth in the non-oil/gas sectors is expected to moderate in 2022. At the same time, spillovers from Russia's invasion of Ukraine and associated sanctions on Russia are expected to adversely affect export-oriented non-energy sectors, especially agriculture and tourism. Other sectors, e.g., manufacturing, are also expected to face difficulties in accessing critical imports such as wood, steel, and fertilizers.

In the medium term, assuming a stabilization of the geopolitical situation, growth is projected to average at 2.4 percent during 2022-24, close to its potential, as oil and gas production stabilizes and the non-energy sectors face headwinds from low investment levels, subdued agriculture yields (due to still stressed water supplies) and remaining spillover effects from regional supply chain disruptions.

On the demand side, consumption will remain the principal driver of growth in 2022, as there is still some pent-up demand accumulated from 2020 and early 2021. Investment is expected to remain subdued with public investment stable and private investment anemic amid persisting structural challenges. External demand is likely to moderate, as growth in major trading partners declines. Non-energy exports, even though relatively small, will be hard hit as Russia was the destination for 32 percent of these exports in 2021 (2.5 percent of GDP).

Inflation is projected to stay elevated in 2022, above the central bank's target, due to higher import prices. Food prices are forecast to continue rising, as disruptions to global commodity markets linger. In the medium-term, inflation is projected to moderate, as consumption growth slows, pressure from imported prices eases and global monetary conditions tighten.

The external balance is expected to record a sizable surplus in the medium-term, supported by high energy prices. Imports are projected to grow in 2022, in line with the continued recovery in domestic demand, and moderate in the medium term as growth slows.

The fiscal balance is estimated to be in surplus in the medium term, averaging at 4.7 percent of GDP, supported by higher oil and gas prices even as spending remains elevated.

The negative impact on poverty in 2022 is expected to be amplified by higher inflation and reduced remittances from Russia. Even though these remittances accounted for only about 1 percent of GDP in 2021, they disproportionally benefit the poor, especially those in small towns and rural areas.

This forecast is subject to uncertainty given the evolving global and regional environment, with elevated downside risks around protracted war and disruption to global commodity markets.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.5	-4.3	5.6	2.7	2.2	2.3
Private Consumption	4.2	-5.1	7.0	4.0	4.1	4.2
Government Consumption	7.9	4.8	3.8	3.9	3.2	2.3
Gross Fixed Capital Investment	-2.4	-7.1	-6.0	-3.6	-1.4	-1.0
Exports, Goods and Services	1.5	-8.1	5.6	2.7	1.7	1.8
Imports, Goods and Services	2.2	-10.5	2.5	2.6	2.7	2.7
Real GDP growth, at constant factor prices	2.5	-4.4	5.6	2.7	2.2	2.3
Agriculture	7.3	1.9	3.3	1.1	1.8	3.2
Industry	0.4	-5.2	4.1	2.6	1.1	1.1
Services	5.1	-4.4	8.6	3.2	4.0	4.0
Inflation (Consumer Price Index)	2.7	2.8	6.7	9.0	6.6	6.0
Current Account Balance (% of GDP)	9.1	-0.5	15.2	22.7	16.5	12.3
Net Foreign Direct Investment (% of GDP)	-2.9	-1.5	-4.1	-1.7	-1.2	-1.2
Fiscal Balance (% of GDP)	9.0	-6.5	4.2	6.4	4.2	3.5
Debt (% of GDP)	18.8	18.4	16.2	16.1	16.2	15.8
Primary Balance (% of GDP)	9.7	-5.7	4.8	6.8	4.7	3.9
GHG emissions growth (mtCO2e)	1.6	-2.3	2.7	0.7	0.3	1.0
Energy related GHG emissions (% of total)	42.9	44.1	46.6	48.1	49.3	50.6

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

BELARUS

Table 1	2021
Population, million	9.4
GDP, current US$ billion	68.4
GDP per capita, current US$	7279.8
Upper middle-income poverty rate ($5.5)[a]	0.1
Gini index[a]	24.4
School enrollment, primary (% gross)[b]	100.5
Life expectancy at birth, years[b]	74.2
Total GHG Emissions (mtCO2e)	60.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2011 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2019).

The Ukraine-Russian war has brought substantial challenges to the Belarusian economy related to new sectoral sanctions, the disruption of trade with Ukraine, and negative spillovers from the Russian economy. While in 2022 debt to the major creditors could be restructured, the ability to meet the 2023 Eurobond repayment looks questionable. Household incomes are expected to fall and poverty to increase as unemployment grows and recession deepens.

Key conditions and challenges

In recent years, Belarus's economy has encountered major headwinds as its growth trajectory remains shaped by external factors. This is due to structural rigidities, an outsized and unreformed public sector, and reliance on deepening economic and financial integration with Russia. The economy has been left vulnerable to regional and global shocks, such as the COVID-19 pandemic.

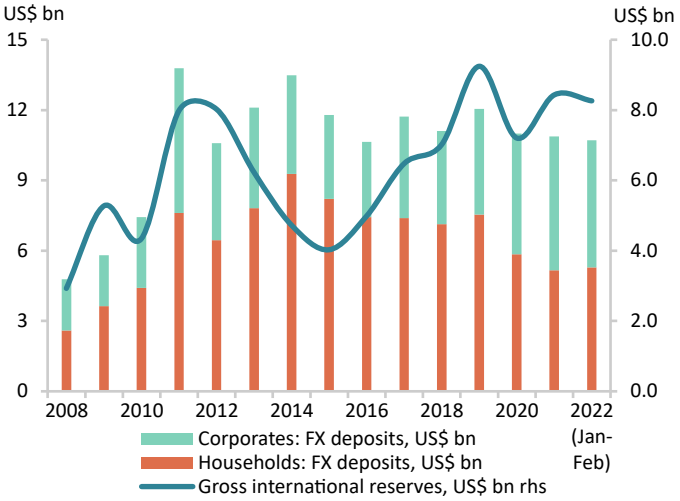
Disputed 2020 elections led to sectoral economic sanctions, which had limited effects. Export earnings increased, helping to maintain a stable exchange rate and achieve a current account surplus in 2021. Public debt pressures were alleviated through a combination of refinancing and spending of foreign reserves, while their level has been boosted by the August 2021 IMF SDR allocation. Nevertheless, banking sector pressures persist, as withdrawal of FX deposits by households has continued throughout 2020-2021. A bank run has been prevented by a high share of term deposits: about two thirds of all household deposits, and more than 60 percent of FX deposits.

Fresh sectoral economic sanctions introduced on March 2, 2022, seek to prevent exports of tobacco, petroleum, fuels, potash fertilizers, metals, iron, and rubber products to the EU. These restrictions cover at least 13 percent of merchandize exports, or more than a half of exports to the EU countries. In case the disruption of trade with Ukraine and restrictions on potash trading are taken into account, up to one-third of merchandize exports is affected. Although the price for natural gas imported from Russia will remain at the 2021 level of US$128.5 per 1,000 cubic meters, this preference will only partially cushion the impact of external shocks. As a result, real GDP could decline by at least 6.5 percent in 2022. The forecasting is subject to uncertainties related to the external circumstances, depending on the course and the outcome of the Ukraine-Russia war.

Recent developments

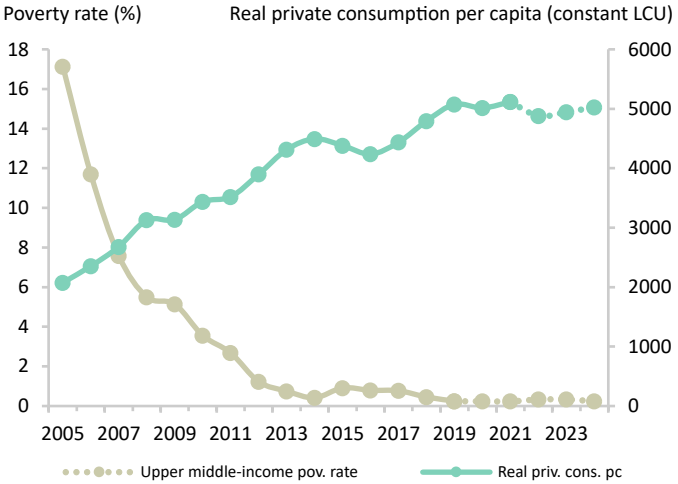
In 2021, real GDP grew 2.3 percent y/y on the back of improved external demand and higher export prices. Sectoral economic sanctions imposed since mid-2021 had limited effects, while the Ukrainian market (a destination for more than 13 percent of merchandize exports) remained accessible. Despite a broadly stable BYN/US$ exchange rate, consumer price inflation accelerated to 9.97 percent y/y. This is due to an increase in administratively regulated prices, imposition of VAT for selected medicines, and imported inflation, as average import prices went up by 21.3 percent. Expenditure cuts of 1.5 pp of GDP amid a tiny increase of revenues by 0.3 pp of GDP allowed balancing the general government budget. Public debt repayment pressures have been alleviated by refinancing from Russia for US$1bn and

FIGURE 1 Belarus / FX deposits and gross international reserves, 2008-2022



Source: NBRB.

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



Source: World Bank. Notes: see table 2.

issuing of FX-denominated government bonds by US$1.2bn, along with spending of foreign reserves in Q1 2021 of US$0.5bn.

The consequences of the Ukraine-Russia war are yet to materialize. By mid-March, these have been limited to a 20-percent nominal exchange rate depreciation of BYN vis-à-vis US$, with commercial banks imposing restrictions on FX operations, while the NBRB increased its policy rate by 2.25 pp to 12 percent p.a. As the stock of FX-denominated loans exceeds 60 percent of the total, depreciation weakens corporate balance sheets. The price of Belarus's 2023 sovereign bonds collapsed to below 20 percent of their nominal value.

Business sentiment has continued to worsen, with IT companies relocating abroad, and selected foreign companies restrict their supplies, affecting manufacturers in Belarus.

By the end of 2021, household disposable income growth decelerated from 3.9 to 2 percent, while real pensions decreased by 3.1 percent –the first decrease in five years. However, the national poverty rate fell from 4.8 percent in Q4 2020 to 3.9 percent in Q4 2021.

Outlook

The growth outlook is clouded by extreme uncertainties as economic sanctions continue to widen, and as Russia – Belarus's major trade and financing partner – is facing a slew of far-reaching economic and financial sector restrictions. Various sectoral sanctions against the Belarusian economy affect up to one-third of its merchandise exports, stemming from blocking sales of a broad range of commodities. Earnings from potash exports – estimated to be equal to 3.7 percent of 2021 GDP – are to fall considerably as major transportation routes are sealed. On the other hand, there will likely be attempts to redirect sales outside the EU market and increase exports to Russia in a bid to fill the void caused by foreign companies discontinuing sales and/or leaving the Russian market.

Even so, Belarus's exports are expected to decline heavily: coupled with tighter monetary and fiscal policy and lower household consumption, this is projected to lead to a real GDP decline of at least 6.5 percent in 2022.

Given that in 2022 more than 40 percent of repayments fall on Russia and the Russia-controlled EFSD, the debt burden will be eased through bilateral debt restructuring. However, this is not an option in case of 2023 Eurobond repayments for US$ 800 m. Falling GDP will increase poverty and household vulnerability. Broadening of price controls could have limited effect, leading instead to shortages of certain consumer goods, also due to the scarcity of FX in the economy and related restrictions on imports.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	1.4	-0.9	2.3	-6.5	1.5	1.6
Private Consumption	5.1	-1.4	2.6	-4.8	1.5	1.8
Government Consumption	0.4	-1.1	-0.5	-0.3	-1.0	1.3
Gross Fixed Capital Investment	6.2	-6.8	-5.6	-18.7	6.2	4.3
Exports, Goods and Services	1.0	-3.2	9.5	-14.2	4.1	3.7
Imports, Goods and Services	5.2	-7.9	5.8	-18.6	5.1	4.8
Real GDP growth, at constant factor prices	1.5	-0.9	2.3	-6.5	1.5	1.6
Agriculture	3.0	4.9	-4.2	-1.8	2.8	3.3
Industry	1.4	-0.7	6.5	-9.4	3.2	5.8
Services	1.3	-2.0	0.2	-4.9	0.0	-2.1
Inflation (Consumer Price Index)	4.7	7.4	10.0	21.1	11.9	7.2
Current Account Balance (% of GDP)	-1.8	-0.2	2.6	-0.8	-1.3	-1.1
Net Foreign Direct Investment (% of GDP)	2.0	2.1	1.7	0.6	0.6	0.5
Fiscal Balance (% of GDP)	2.5	-1.7	0.0	-1.1	-0.3	0.0
Debt (% of GDP)	37.5	41.1	36.0	36.4	35.5	34.9
Primary Balance (% of GDP)	4.3	0.0	1.6	0.5	1.2	1.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	0.2	0.2	0.2	0.3	0.3	0.2
GHG emissions growth (mtCO2e)	-3.1	-2.7	-3.5	-6.8	-1.0	-0.5
Energy related GHG emissions (% of total)	86.1	85.9	85.6	85.4	85.7	85.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2019-HHS. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2019) with pass-through = 0.87 based on private consumption per capita in constant LCU.

BOSNIA AND HERZEGOVINA

Table 1	2021
Population, million	3.3
GDP, current US$ billion	21.3
GDP per capita, current US$	6513.1
Life expectancy at birth, years[a]	77.4
Total GHG Emissions (mtCO2e)	28.3

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

Real GDP growth is expected to decelerate to 2.9 percent in 2022 after rebounding to 6.5 percent in 2021. Meanwhile, inflation surged to 7 percent in January 2022 (yoy) compared to the annual rate of 2 percent last year. Delayed structural reforms impede EU accession and potential output growth. The war in Ukraine will likely aggravate price pressures resulting in an inflation rate of 4.8 percent in 2022.

Key conditions and challenges

BiH has been a potential EU candidate since 2016. Yet, little progress has been made in competitiveness-enhancing product market reforms and in improving the business environment. The internal market and the state institutional set-up are still highly fragmented, while country-wide supervisory and regulatory institutions remain weak.

Macroeconomic stability was maintained over the last decade largely facilitated by the currency board peg to the euro, which, together with the EU membership prospects remain a critical economic anchor. Despite real income growing roughly over 3 percent per annum since 2015, per capita GDP continues to hover around one-third of the EU27 average. A more pronounced convergence toward the EU27 average will be difficult to achieve with low investment rates and a growth model that relies on private consumption.

The pandemic has inflicted a significant cost on BiH's economy, yet a full recovery to the 2019 real income level has been achieved in 2021. That said, BiH is unlikely to catch up with the pre-pandemic growth trajectory, unless political bottlenecks are resolved.

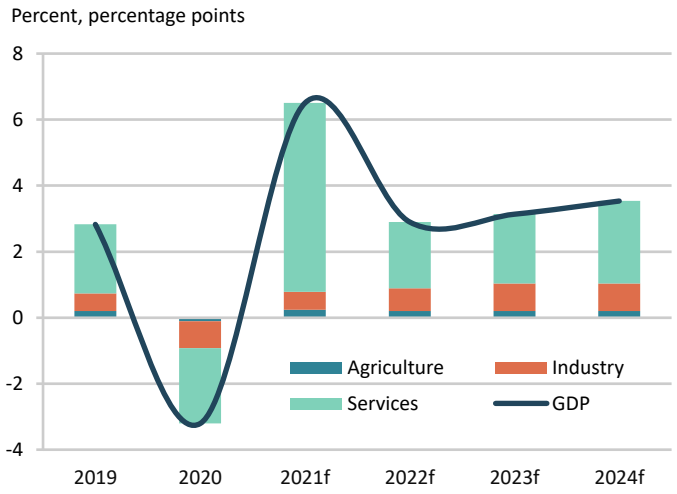
BiH built fiscal buffers prior to the pandemic by running fiscal surpluses between 1 and 3 percent of GDP from 2015 to 2019. These surpluses helped rein in the current account deficits, financed largely by net FDI inflows.

Steady, albeit low, economic growth has not translated into more and better jobs, with a large share of the workforce active in the informal sector and stalled poverty reduction according to the latest official data from 2015. Implementation of much needed structural reforms remains sluggish due to political frictions, pressures from frequent elections, corruption that pervades all levels of society, and fragmentation of responsibilities between the two entities and Cantons. As a result of the political impasse and welfare prospects, BiH exhibits the highest stock of emigration across the Balkans.

Recent developments

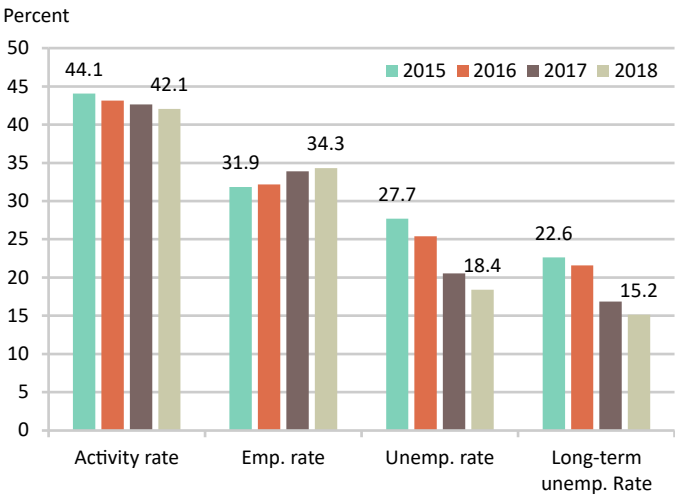
The rebound in economic growth estimated at 6.5 percent in 2021 was an exceptional performance, which helped real GDP exceed the pre-crises level. Real growth was driven by a surge in exports, and robust growth in private consumption. Meanwhile, inflation accelerated to 7 percent in January 2022 (yoy) and totaled 2 percent in 2021 compared to a 1.1 percent deflation in 2020. The sharply rising prices during the last quarter of 2021 and in January 2022 were caused by stronger consumer demand, continuing supply chain problems, and a high passthrough effect given the currency board arrangement. Food and transport prices accelerated to 12 percent and 13.6

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



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

FIGURE 2 Bosnia and Herzegovina / Labor market indicators, 2020-2021



Sources: LFS 2020 - 2021 report, World Bank staff calculations.

percent in January 2022 (yoy), likely disproportionally affecting the less well-off.

Despite a renewed acceleration in Covid-19 cases toward the end of 2021 and in January-February 2022, improvements in the labor market participation and employment rate continued through the end of 2021 (Figure 2).

A surge in tax revenues was not fully offset by higher spending, which resulted in a return to fiscal surpluses estimated at 0.5 percent of GDP in 2021 , after a deficit of 1.8 percent of GDP in 2020. Higher public wages, and additional spending on goods and services as well as higher social benefits were aimed at softening the effects of the pandemic.

The sharp rise in exports narrowed the traditionally large merchandise deficit and helped narrow the current account shortfall to 3.2 percent of GDP in 2021 compared to 3.9 percent in 2020. External financing largely entailed net FDI inflows, mainly into the foreign-owned banking sector, which remained stable during the pandemic.

Without access to international markets, the authorities continue relying on support from IFIs. The extent of this financial support will depend on the de-escalation of political tensions, which have risen significantly over the past ten months.

Outlook

Real GDP is projected to decelerate to 2.9 percent in 2022 and stabilize below 3.5 percent over the medium term. Growth is expected to be driven by a further pick up in private consumption fueled by remittances, tightening labor market, and domestic lending in the short term. Investment in energy and infrastructure will add to the growth stimulus over the medium term. Higher exports are likely to be offset by higher imports mainly for infrastructure projects. As the impact of the pandemic subsides, and the political paralysis is overcome, the Socio-Economic Program , fulfilling priorities for EU accession, is expected to gain attention.

The fiscal deficit in 2022 is likely to be driven by pre-election spending activities. A return to surplus may occur in 2023, barring the implementation of changes to the VAT law.

With the global energy market disrupted due to the war in Ukraine, inflationary pressures are assumed to last longer than initially expected, leaving inflation at around 4.8 percent.

Several risks tilt the outlook to the downside. First, protracted effects of the war in Ukraine would have a negative impact on aggregate demand in BiH through lower business and consumer confidence. Second, war-related uncertainties and sanctions will dampen the recovery in the EU, adversely impacting demand for BiH exports. However, price and volume effects for BiH's exports of iron and steel products and aluminium could in part offset the negative effects of a slowdown in EU growth. Third, slower growth in the EU could also limit remittances, on which the country is dependent (close to 8 percent of GDP). Finally, these risks would be further aggravated, if geopolitical tensions shift to BiH and exacerbate already significant political frictions.

TABLE 2 Bosnia and Herzegovina / 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	-3.1	6.5	2.9	3.1	3.5
Private Consumption	2.8	-4.5	4.0	2.7	3.1	3.5
Government Consumption	2.6	0.5	6.1	2.8	3.0	3.0
Gross Fixed Capital Investment	1.9	-20.2	2.5	-2.3	4.4	3.9
Exports, Goods and Services	-0.3	-8.5	28.0	9.0	7.0	8.0
Imports, Goods and Services	0.2	-13.4	17.0	6.0	6.5	7.0
Real GDP growth, at constant factor prices	2.8	-3.1	6.5	2.9	3.1	3.5
Agriculture	2.9	-1.5	3.4	3.0	2.9	2.9
Industry	1.9	-3.0	2.0	2.6	3.2	3.2
Services	3.2	-3.3	8.7	3.0	3.1	3.7
Inflation (Consumer Price Index)	1.2	2.0	2.0	4.8	0.9	0.2
Current Account Balance (% of GDP)	-2.9	-3.9	-3.2	-2.4	-3.2	-4.0
Net Foreign Direct Investment (% of GDP)	3.5	2.0	3.3	3.5	3.3	3.2
Fiscal Balance (% of GDP)	1.9	-1.8	0.5	-0.8	0.3	1.1
Debt (% of GDP)	34.3	39.9	37.8	37.4	36.9	36.3
Primary Balance (% of GDP)	2.8	-0.5	1.8	0.1	1.2	1.9
GHG emissions growth (mtCO2e)	-2.4	-5.6	4.8	2.3	3.1	3.9
Energy related GHG emissions (% of total)	89.0	88.7	89.1	89.2	89.4	89.7

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

BULGARIA

Table 1	2021
Population, million	6.9
GDP, current US$ billion	77.5
GDP per capita, current US$	11276.0
International poverty rate ($1.9)[a]	0.9
Lower middle-income poverty rate ($3.2)[a]	2.6
Upper middle-income poverty rate ($5.5)[a]	6.2
Gini index[a]	40.3
School enrollment, primary (% gross)[b]	85.9
Life expectancy at birth, years[b]	74.9
Total GHG Emissions (mtCO2e)	44.6

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

Following a stronger-than-projected recovery in 2021, growth is likely to slow down in 2022 given higher inflationary pressures, the war in Ukraine, and supply chain disruptions. Off the back of a decline in 2021, poverty is expected to increase amidst rising food and energy prices. The draft 2022 budget suggests that consolidation will be postponed to 2023 with a continuation of support measures.

Key conditions and challenges

The long-term structural challenges facing Bulgaria include negative demographic trends, coupled with institutional and governance weaknesses. Institutional gaps have been mirrored by suboptimal public service delivery, hindering private sector expansion and undermining inclusive growth and shared prosperity. High rates of inequality of opportunity limit access to key public services, constraining the ability of individuals to escape poverty and result in persistently high income inequality. Poverty and inequality are reinforced by inadequacies in the targeting, coverage and generosity of the social security system, limiting its role as a redistributive mechanism and fiscal stabilizer.

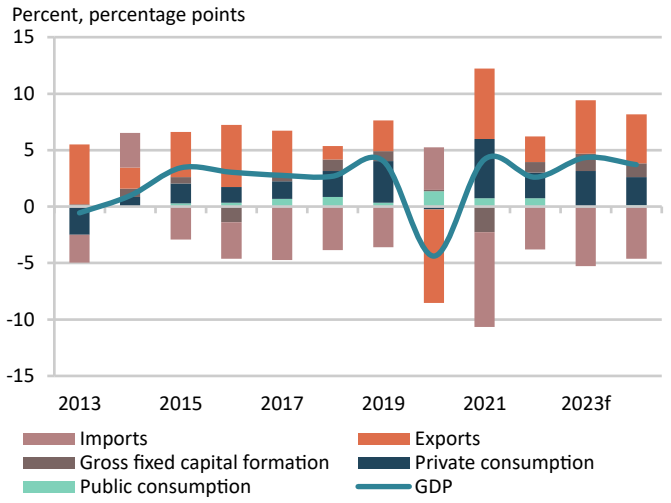
The pace of convergence to average EU income levels has been slower than the one observed in other new EU members, and Bulgaria continues to rank last in terms of GDP per capita in PPP in the EU, at 55 percent of the EU average in 2020. Economic growth and convergence to average EU income levels across the NUTS-3 regions – ranging between 24 percent of the EU average in Silistra to 120 percent in Sofia in 2019 – has been increasingly uneven, widening in-country disparities. As a result, some areas are being depopulated at a rapid pace, with the first results of the 2021 census showing the fastest between-census decline of the population since 1985, by 11.5 percent against 2011 to 6.52mn people. Significant outmigration since the start of the transition period, driven by large income gaps and search for better quality of life, has been the main factor behind Bulgaria's rapid loss of population.

Recent developments

According to preliminary data for 2021, GDP growth accelerated to 4.2% though real output is yet to recover to its pre-pandemic level. Final consumption and robust growth of exports were the main drivers of the recovery. Export expansion was outpaced by import growth, leading to widening trade and current account (CA) deficits. Investment, however, continued to decline throughout 2021. The pandemic, combined with a domestic political crisis in most of 2021, increased investors' risk aversion, while the delayed approval of the national Recovery and Resilience Plan put additional drag on public investment. On the supply side, industry, finance and IT were key sectoral drivers of growth.

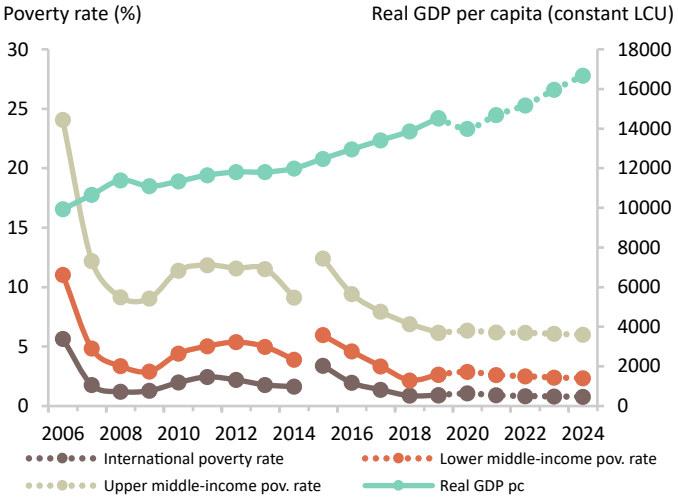
Similar to most European countries, Bulgaria saw a rapid acceleration of inflation since the summer of 2021, reaching 10.0 percent yoy in February 2022. Imported oil price inflation with its second-round effects was the key factor behind the inflationary spike. Effective mid-December, regulated prices of electricity, heating and water were frozen until end-March, 2022, partially cushioning the inflationary shock on households. Businesses, in turn, have been receiving government subsidies for

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



Sources: World Bank, Bulgarian National Statistical Institute.

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



Source: World Bank. Notes: see table 2.

electricity costs since October 2021, which has kept many firms afloat despite the energy price spike. Electricity price subsidies are expected to be fiscally neutral, as they will be financed out of profits of the state-owned nuclear power plant.

Despite the boost in fiscal revenues in 2021 (+18.1% yoy) on robust economic growth and inflation, expenditure grew at a similar rate (+17.6%), due primarily to the continued support to businesses and individuals. As a result, the fiscal deficit stood at 2.9% of GDP. The banking sector remained solid, with after-tax profits rising by 74% to BGN 1.42bn in 2021, and non-performing loans inching up modestly, by 1.4pp y/y to 6% as of end-2021.

Amidst the recovery of the economy and continued, albeit more targeted, government support, poverty is projected to have slightly declined from 6.3 percent in 2020 to 6.2 percent in 2021 using the upper middle income poverty line of US$5.50 per day.

Outlook

The ongoing war in Ukraine has provoked a revision of growth forecasts globally, with Bulgaria's GDP growth in 2022 revised by 1.2pp against our earlier forecast, to 2.6%. Risks remain titled to the downside and further downward revisions are likely to follow in case of a prolonged military conflict, or new disruptive Covid waves amidst low vaccination rates. Moreover, the delay in the approval of the national Recovery and Resilience Plan and the operational programmes for EU funds (2021-2027) jeopardizes the government's plan to increase substantially public investment in 2022, further undermining the growth prospects. Over the medium run, growth is expected to be fueled by EU-funded public investment and improved private investor sentiment on the near-term prospect of eurozone entry.

The acceleration of domestic inflation since late 2021 is likely to remain in place at least in H1/ 2022, as energy and food price inflation is exacerbated by the ongoing war in Ukraine. This will result in a further erosion of purchasing power, a likely increase in poverty and a higher fiscal cost, if current measures in support of businesses and individuals are extended beyond Q1.

Overall, the draft 2022 budget suggests that fiscal policy will depart from the conservative stance adhered to in the past two decades. The fiscal deficit is likely to exceed the government's plan for 4.1% of GDP as the latter rests on a fairly optimistic official growth projection of 4.8%. A government-sponsored accommodation programme for displaced Ukrainian nationals will also weigh on the expenditure side. More than 58 000 Ukrainian nationals have remained in Bulgaria as of March 29, with some 40 000 of them being sheltered at government-subsidised hotel accommodation. In addition, a budget revision - that is likely to boost expenditure further - is already planned for the summer. The CA balance is expected to return to positive territory, albeit remain below 1% of GDP, in 2022-2024.

On a positive note, the political crisis that dominated the national landscape since early 2021 has been overcome, after a four-party coalition took office after the Nov 14, 2021 elections. There are high expectations from the new government to undertake structural reforms in a number of areas, including the judiciary and the control of corruption.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.0	-4.4	4.2	2.6	4.3	3.7
Private Consumption	6.0	-0.4	8.0	3.3	4.5	3.6
Government Consumption	2.0	8.3	4.0	4.1	0.3	0.7
Gross Fixed Capital Investment	4.5	0.6	-11.0	5.4	8.5	6.6
Exports, Goods and Services	4.0	-12.1	9.9	3.4	7.1	6.3
Imports, Goods and Services	5.2	-5.4	12.2	5.1	6.9	5.9
Real GDP growth, at constant factor prices	3.7	-4.5	4.2	2.6	4.3	3.7
Agriculture	4.1	-3.3	6.1	1.2	1.8	1.1
Industry	-0.1	-8.2	6.6	2.5	5.2	4.3
Services	5.2	-3.2	3.2	2.7	4.2	3.6
Inflation (Consumer Price Index)	3.1	1.7	3.3	9.3	3.4	2.0
Current Account Balance (% of GDP)	1.9	-0.3	-2.3	0.1	0.9	0.4
Net Foreign Direct Investment (% of GDP)	-2.0	-3.5	-1.3	-1.7	-1.7	-1.7
Fiscal Balance (% of GDP)	-1.0	-2.9	-2.9	-4.4	-3.0	-2.3
Debt (% of GDP)	20.1	24.8	25.1	28.5	28.8	27.2
Primary Balance (% of GDP)	-0.4	-2.4	-2.5	-4.1	-2.6	-2.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.9	1.1	0.9	0.8	0.8	0.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	2.6	2.9	2.6	2.5	2.4	2.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	6.2	6.3	6.2	6.2	6.1	6.0
GHG emissions growth (mtCO2e)	-2.7	-3.1	-0.9	-0.9	-0.9	-0.9
Energy related GHG emissions (% of total)	82.7	86.1	85.8	85.5	85.1	84.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
a/ Calculations based on ECAPOV harmonization, using 2019-EU-SILC. 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.

CROATIA

Table 1	2021
Population, million	3.9
GDP, current US$ billion	64.6
GDP per capita, current US$	16619.4
International poverty rate ($1.9)[a]	0.3
Lower middle-income poverty rate ($3.2)[a]	0.6
Upper middle-income poverty rate ($5.5)[a]	1.8
Gini index[a]	29.0
School enrollment, primary (% gross)[b]	93.2
Life expectancy at birth, years[b]	78.4
Total GHG Emissions (mtCO2e)	16.4

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

After a pronounced economic contraction in 2020, the Croatian economy strongly rebounded in 2021, posting a double-digit growth rate. In addition to domestic demand, economic activity was underpinned by a sharp revival of tourism and sizable exports of goods. Poverty is estimated to have declined to 1.6 percent in 2021. Over the medium term, growth is expected to moderate but remain relatively strong. However, downside risks to growth remain significant.

Key conditions and challenges

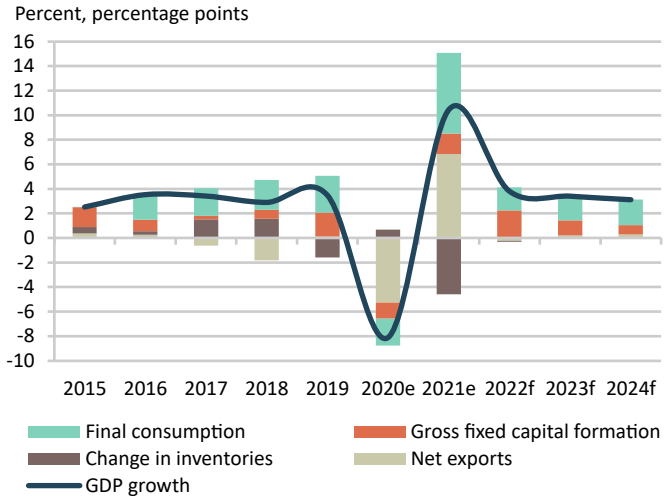
Croatia's economic recovery in 2021 was unexpectedly strong and output reached its pre-crisis levels by mid-2021, largely due to the reopening of the economy and fiscal and monetary support schemes. Furthermore, the relatively favorable epidemiological situation during summer months and the country's proximity to its main tourism originating markets resulted in a significant increase in tourist arrivals. Also, Croatia was relatively less affected by global supply chain bottlenecks given its export structure. Together with the strong global recovery, this led to a marked rise in exports of goods. However, underlying long-term growth remains relatively low. Results from the recent census suggest a decline in the total population. This means stronger potential long-term growth will hinge upon increase in productivity requiring improvements in business environment, public administration, education system and judiciary.

While growth is set to remain relatively strong over the medium term, uncertainties related to inflation developments and the Russian invasion of Ukraine represent a significant risk for economic activity and public finances in the near- term. In early 2022, the government adopted a mitigation package worth around 1 percent of GDP for easing rising prices but the war in Ukraine might put additional pressure on inflation with associated risks of depleting the real purchasing power of households, especially the poor and vulnerable. Furthermore, although the country's direct trade and financial linkages with Russia are limited, there could be significant indirect trade and investment effects via other EU countries. In addition, while the number of new COVID-19 cases has recently started to decline, relatively low vaccination rate and the potential emergence of new virus variants might impede recovery. Over the medium term, EU structural and investment funds as well as the new EU initiatives represent an opportunity for Croatia to accelerate the income convergence with the rest of the EU.

Recent developments

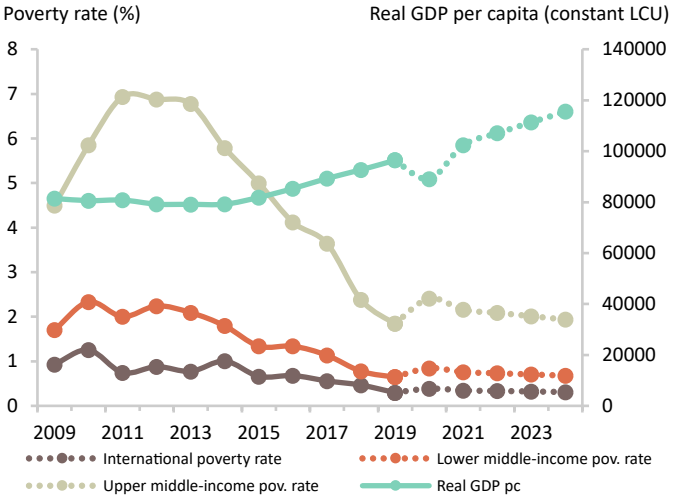
Following a contraction of 8.1 percent in 2020, real GDP in Croatia increased by 10.4 percent in 2021. Private consumption and investment activity provided strong support to overall growth, underpinned by an increase in consumer and business confidence, favorable financing conditions and inflow of EU funds. However, domestic demand lost some steam in the last quarter, which can be partly linked to the worsening of the epidemiological situation and buildup of inflation pressures. Contribution of net exports in 2021 was positive due to a sharp, albeit still partial, recovery of tourism and increase in exports of goods by one fifth compared to 2020. On the supply side, growth was also broad based with the services sector contributing the most to the rise in real gross value added.

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



Sources: CROSTAT, World Bank.

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



Source: World Bank. Notes: see Table 2.

Favorable economic trends were followed by an increase in employment and wages, and in some sectors, notably construction, worker shortages became more pronounced and were mitigated by foreign labor. Inflation gradually intensified towards the end of the year, fueled by food and energy prices, and it continued to increase in 2022, reaching 6.3 percent in February. The general government deficit is estimated to have more than halved, to around 3.5 percent of GDP and public debt at the end of November 2021 stood at 80 percent of GDP, declining by 7.3 percentage points compared to the end of 2020.

The strong economic and employment rebound raised labor income. However, spikes in food prices in recent months put a burden on the most poor and vulnerable as they spend nearly 50 percent of their budget on necessities. Poverty, measured as the share of Croatian population living on less than $5.5 a day at 2011 revised PPP prices, is estimated to have declined to 1.6 percent in 2021.

Outlook

Growth is set to moderate over the medium-term but will remain above the pre-pandemic trend. While global uncertainty related to the war in Ukraine is high, the Croatian economy could grow on average, by 3.5 percent, a year, over 2022-2024. However, there are significant downside risks related to the pandemic and the war in Ukraine. Investment activity underpinned by the inflow of EU funds is expected to pick-up strongly in 2022 and moderate thereafter. However, this primarily depends upon the implementation of government investment plans. Exports of goods and services are projected to support growth, but the pace of growth is expected to ease as tourism returns to pre-crisis levels and foreign demand moderates. Personal consumption growth might remain around 2.5 percent amid rising employment and wages. However, positive effects of the increase in wages on personal consumption will be partly offset by higher inflation. Overall, inflation in 2023 and 2024 is projected to slow down due to the easing of global supply bottlenecks and tightened financial conditions. However, commodity price levels will remain elevated. General government deficit is likely to fall below 3 percent of GDP as of 2023. Also, public debt to GDP ratio is expected to continue declining, reaching 73.9 percent of GDP at the end of 2024.

Intensifying conflicts in the region is putting additional pressure on food and energy prices which were already on the rise. While the government has promptly introduced mitigation measures to cap gas price increases, it is still expected to rise on average by 20 percent. Moreover, regional political uncertainty and global supply disruptions can have implications for the economies of host countries of Croatian migrants. This can potentially have adverse impacts on remittances and income of Croatians at home. Nevertheless, poverty is expected to fall to 1.3 percent by 2024.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.5	-8.1	10.4	3.8	3.4	3.1
Private Consumption	4.1	-5.3	10.0	2.2	2.5	2.7
Government Consumption	3.3	4.1	3.0	2.6	2.5	2.4
Gross Fixed Capital Investment	9.8	-6.1	7.6	10.5	5.3	3.2
Exports, Goods and Services	6.8	-22.7	33.3	6.6	5.3	5.1
Imports, Goods and Services	6.5	-12.3	14.7	6.9	4.7	4.4
Real GDP growth, at constant factor prices	3.6	-6.3	8.9	3.8	3.4	3.1
Agriculture	1.8	3.6	5.5	3.6	3.6	3.6
Industry	4.8	-1.6	6.7	4.0	3.0	3.0
Services	3.3	-8.4	9.9	3.7	3.5	3.1
Inflation (Consumer Price Index)	0.8	0.2	2.6	6.1	2.2	1.9
Current Account Balance (% of GDP)	3.0	-0.1	3.7	2.0	2.4	2.6
Net Foreign Direct Investment (% of GDP)	6.1	1.3	2.5	2.5	2.4	2.4
Fiscal Balance (% of GDP)	0.3	-7.4	-3.6	-3.2	-2.9	-2.6
Debt (% of GDP)	71.1	87.3	80.7	78.3	76.0	74.0
Primary Balance (% of GDP)	2.5	-5.4	-2.0	-1.7	-1.5	-1.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.3	0.4	0.3	0.3	0.3	0.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.6	0.7	0.6	0.6	0.5	0.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	1.8	2.4	1.6	1.5	1.5	1.3
GHG emissions growth (mtCO2e)	-1.1	-12.8	4.3	1.7	0.6	1.3
Energy related GHG emissions (% of total)	86.8	85.1	84.7	84.2	83.5	82.8

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

GEORGIA

Table 1	2021
Population, million	3.7
GDP, current US$ billion	18.7
GDP per capita, current US$	5030.3
International poverty rate ($1.9)[a]	4.2
Lower middle-income poverty rate ($3.2)[a]	17.0
Upper middle-income poverty rate ($5.5)[a]	46.6
Gini index[a]	34.5
School enrollment, primary (% gross)[b]	99.4
Life expectancy at birth, years[b]	73.8
Total GHG Emissions (mtCO2e)	16.3

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

The Russian invasion of Ukraine will adversely impact Georgia's economy. The impact is felt through trade, remittances, FDI, commodity prices, and logistics. This follows a robust recovery from the pandemic in 2021, with the economy growing at 10.4 percent and surpassing its pre-COVID output. The poverty impact is expected to be significant and fiscal pressures from rising social assistance are expected to increase.

Key conditions and challenges

Georgia has had a successful development record, underpinned by prudent economic management, over the past decade. Growth averaged 4 percent per annum between 2011 and 2021. The poverty rate measured by the international upper-middle-income line ($5.50 per capita per day, 2011 PPP) declined from 59 percent in 2011 to 42 percent in 2021.

Nevertheless, critical structural challenges remain, particularly weak productivity and the creation of high-quality jobs. Many Georgians remain in rural areas engaged in low productivity agriculture. Human capital outcomes remain weak, with poor learning outcomes and a lack of linkages of education to private sector needs.

In addition, Georgia's trade openness, and reliance on income from tourism, make it vulnerable to external and global shocks. High dollarization and persistent reliance on external savings further amplify risks. Still, the swift post-pandemic rebound has demonstrated the growing maturity and resilience of Georgia's economic institutions.

Recent developments

GDP increased by 10.4 percent in 2021 following the 6.8 percent contraction of 2020, with output surpassing pre-COVID-19 levels by late-2021. Economic recovery also supported a reduction in poverty, with projections suggesting a decline to pre-pandemic levels in 2021. However, the recovery was uneven, with output in certain sectors, such as hospitality, remaining considerably below pre-pandemic levels. The fifth wave of the COVID-19 pandemic abated in late February, with new cases falling to 6 percent of peak levels on March 10th.

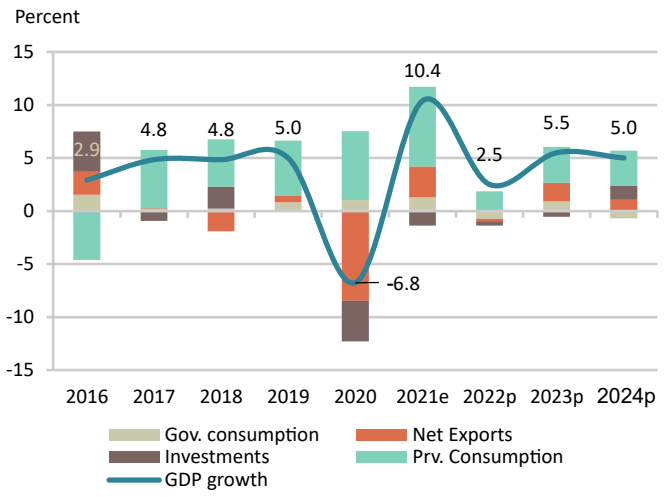
Inflation remained elevated in 2021, averaging 9.6 percent and reflecting higher commodity prices and pass-through from earlier depreciation. Food and fuel prices contributed over five percentage points to overall inflation. In response, the National Bank of Georgia (NBG) tightened monetary policy by 250 basis points in 2021.

Foreign trade increased with the deficit widening in 2021. Exports grew by 27 percent yoy and imports by 25 percent yoy as the trade deficit widened by 26 percent yoy. Still, a gradual recovery in tourism and substantial transfers from abroad helped narrow the current account deficit.

The banking sector remained healthy. The sector's return on assets (ROA) and return on equity (ROE) had improved by end-January 2022 to 4.2 percent and 32.6 percent, respectively. Non-performing loans remained low at 2.3 percent.

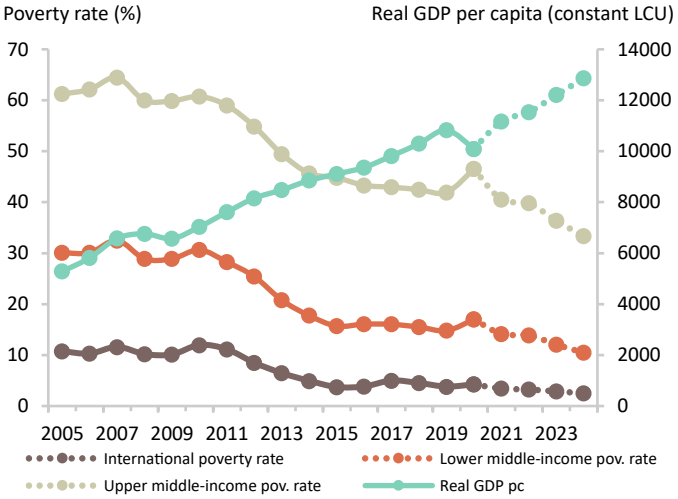
The fiscal deficit narrowed in 2021 to 7.1 percent of GDP (excluding sales of non-financial assets), from 9.8 percent in 2020, and in line with the plan to return to deficit levels prescribed by the fiscal rule (around 3 percent of GDP) by 2023. Public debt to GDP declined to 52 percent of GDP as of

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



Sources: Geostat and World Bank staff estimates.

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



Source: World Bank. Notes: see table 2.

end-2021, considerably below the 62 percent registered in 2020, reflecting the strong GDP recovery and the strengthening of the lari.

Outlook

The war in Ukraine is likely to impact the Georgian economy adversely through several channels.

The first channel is goods trade. Both Russia and Ukraine are among Georgia's top 10 trading partners and a key destination for exports, including wine and beverages. There is limited potential to divert some of the affected exports to alternative markets in the short term. In addition, Georgia is reliant on Ukraine and Russia for key imports such as cereals.

The second key channel is tourism. The expected dramatic drop in the arrival of Russian and Ukrainian tourists, who together accounted for 21 percent of visitors in 2021, will put further strain on a sector that is still reeling from the COVID-19 pandemic.

The third channel is remittances, with Russia and Ukraine accounting for over 20 percent of total remittances. Those are at risk of declining sharply because of economic contraction in the host countries, depreciation of the ruble, and challenges in conducting payment transfers from Russia.

Lastly, elevated commodity prices will also affect Georgia. Oil and food prices have increased sharply since the beginning of the war due to uncertainty and disrupted commodity supplies from Russia and Ukraine.

These impacts will cause a slowdown in growth, higher inflation, and widening external balances. Georgia's growth forecast for 2022 has been downgraded to 2.5 percent from 5.5 percent projected pre-war, with considerable scope for further downgrades if the war continues for much longer. The baseline outlook envisions growth recovery from 2023 onward, as easing monetary policy, recovery of tourism, and the restoration of economic links are partly offset by the gradual withdrawal of the fiscal stimulus.

On the external side, due to weaker exports and higher import prices, the current account deficit is expected to widen. Lari volatility has also increased following the onset of the war.

Due to higher commodity prices and regional supply disruptions, inflationary pressures are likely to increase. This may be mitigated partly by long-term fixed-price contracts for gas supply and a shared border with Russia that will maintain basic supply flows. On the upside, recent developments provide an opportunity for Georgia to strengthen the transit potential of the Caucasus Transport Corridor.

The conflict in Ukraine will also likely have significant impact on poverty and vulnerability through the tourism, remittances, and higher energy and food prices (especially wheat) channels.

Georgia is well placed to manage the economic fallout of the war. Buffers remain reasonable; the macro-financial framework is credible; and the banking sector is entering the crisis in relatively strong shape, albeit with the vulnerability of high dollarization. Fiscal discipline has been maintained over the past decade, although planned post-COVID consolidation may decelerate due to the economic slowdown. Still, government deposits are sizeable, and debt is likely to remain below the 60 percent statutory level under the fiscal rule.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.0	-6.8	10.4	2.5	5.5	5.0
Private Consumption	7.2	8.8	8.7	3.0	3.8	4.8
Government Consumption	5.7	7.1	7.7	-4.7	6.0	2.2
Gross Fixed Capital Investment	-0.1	-16.5	-7.6	-4.6	-0.5	2.2
Exports, Goods and Services	9.8	-37.6	30.5	-4.0	11.0	13.0
Imports, Goods and Services	6.6	-16.6	12.8	-5.0	5.0	9.0
Real GDP growth, at constant factor prices	5.1	-6.6	10.3	2.5	5.5	5.0
Agriculture	0.7	8.1	0.1	3.0	5.0	4.0
Industry	2.7	-6.8	5.9	2.0	5.0	4.0
Services	6.3	-8.1	12.9	2.6	5.7	5.4
Inflation (Consumer Price Index)	5.0	5.2	9.6	11.0	6.6	3.8
Current Account Balance (% of GDP)	-5.5	-12.4	-10.5	-13.0	-9.6	-8.2
Net Foreign Direct Investment (% of GDP)	6.0	3.5	5.9	3.9	5.8	6.8
Fiscal Balance (% of GDP)	-3.4	-9.8	-7.1	-4.7	-3.6	-3.0
Debt (% of GDP)	41.8	60.1	49.4	48.8	46.4	46.2
Primary Balance (% of GDP)	-2.2	-8.2	-5.8	-3.3	-2.3	-1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.8	4.2	3.4	3.2	2.9	2.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	14.8	17.0	14.1	13.9	12.1	10.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	41.9	46.6	40.6	39.8	36.4	33.3
GHG emissions growth (mtCO2e)	1.6	-7.5	2.4	9.0	0.8	-2.9
Energy related GHG emissions (% of total)	52.9	49.2	49.8	53.5	53.6	51.9

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

KAZAKHSTAN

Table 1	2021
Population, million	19.0
GDP, current US$ billion	202.9
GDP per capita, current US$	10693.5
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.2
Upper middle-income poverty rate ($5.5)[a]	4.6
Gini index[a]	27.8
School enrollment, primary (% gross)[b]	100.3
Life expectancy at birth, years[b]	73.2
Total GHG Emissions (mtCO2e)	301.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

Russia's invasion of Ukraine is likely to reduce growth to 1.5 percent in 2022. This figure follows 4 percent growth in 2021, driven by a rebounding economy, consumption growth, and supportive fiscal policy. Higher food and energy prices have accelerated inflation. The poverty rate is expected to fall in 2022 but remain above pre-pandemic levels. Inflation will also remain elevated due to supply disruptions arising from the war in Ukraine.

Key conditions and challenges

Since independence in 1991, Kazakhstan has experienced rapid growth, fueled by investments in extractive industries. Growth, in turn, has reduced poverty and transformed the country into an upper-middle-income economy.

However, the achievement masks underlying vulnerabilities and the unevenness of the country's progress. Key challenges include slow productivity growth, wealth inequality, rising living costs, limited job opportunities, and weak institutions. These challenges were amplified by the COVID-19 pandemic and prompted the largest protests in the country's history earlier in the year.

Reforms are needed to raise living standards and human capital, reduce corruption, reverse productivity stagnation, improve competition and private sector growth, and accelerate the low-carbon economic transition. Following the protests in January, which were marred by violence and attempts at destabilization, the government has announced its intentions to tackle these constraints through wide-reaching reforms.

Recent developments

Economic activity returned to pre-pandemic levels in 2021. Despite an increase in COVID-19 containment measures during the first half of 2021, robust activity in the second half supported real GDP growth of 4 percent for the year.

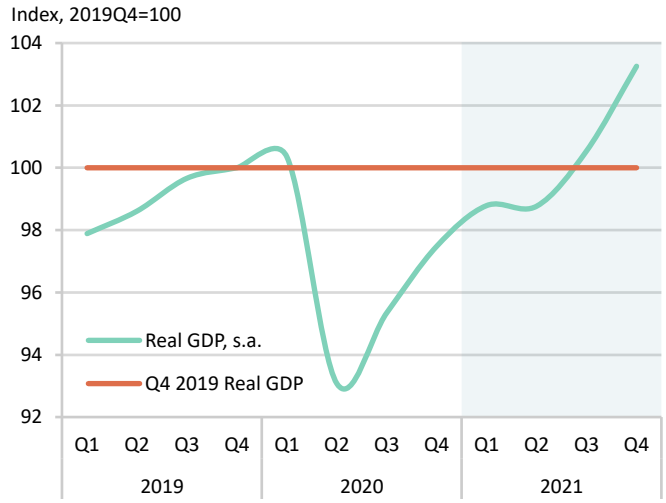
Growth was driven by continued fiscal expansion, strong consumer credit growth, and reduced COVID-19 restrictions. Due to a strong recovery in household consumption, retail trade rose by 6.5 percent and retail loans, including mortgages, by 40 percent in 2021. After contracting by 3.4 percent in 2020, total capital investment rose modestly by 2.6 percent, driven by solid growth in housing construction. Reopening the economy has increased activity in face-to-face services and manufacturing industries mainly aimed at the domestic market.

A sharp increase in global oil prices substantially improved Kazakhstan's trade balance and reduced the current account deficit to 3 percent of GDP in 2021 (from 3.8 percent in 2020). FDI inflows and higher foreign borrowing by state enterprises financed this deficit.

With heightened uncertainty during the January events and the recent plunge in the Ruble, the tenge has depreciated by about 17 percent against the US Dollar. To reduce tenge volatility, the central bank scaled up FX interventions and increased its policy rate by 2.25 p.p. to 13.5 percent in March 2022. FX reserves, however, remain comfortable at US$33.5 billion.

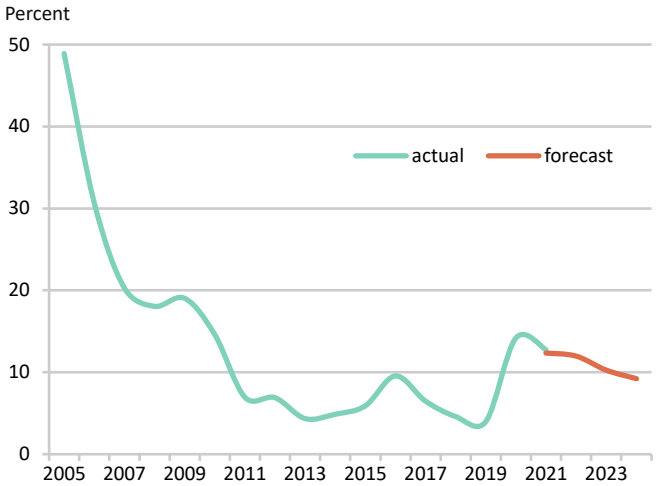
Fiscal policy in 2021 remained accommodative to the impact of COVID-19 on the economy. Budgetary support measures continued for households and businesses facing hardship while public investment priorities shifted from pandemic response

FIGURE 1 **Kazakhstan** / Movement in real GDP (Q4 2019=100)



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

FIGURE 2 **Kazakhstan** / Poverty rate $5.5 a day PPP



Source: World Bank estimates, calculations based on ECAPOV harmonization, using 2018-HBS.

to recovery. Higher oil revenues helped reduce the budget deficit to 3 percent of GDP from 4 percent in 2020. The public debt-to-GDP ratio remained broadly unchanged at 24.5 percent of GDP.

At 8.7 percent year-on-year in February 2022, inflation remained above the central bank target of 4-6 percent. Food and energy prices were the main drivers. The government established price caps on certain food and fuel products and utility tariffs in response to January's mass protests.

As loan guarantees and forbearance measures continued to support households and businesses affected by the pandemic, the share of NPLs in the banking system decreased to 3.3 percent in 2021 from 6.9 percent in 2020. Sanctions on banks and transaction restrictions thus far have not stressed the local branches of Russian banks (15 percent of banking sector assets). However, vulnerabilities could emerge from large financial outflows, sustained supply chain disruptions, and risks of secondary sanctions effects given Kazakhstan's significant trade, investment, and people linkages to Russia.

The employment rate has reverted to pre-pandemic levels, and real wages increased by 5.7 percent annually in Q3 2021. In January 2022, the minimum wage was increased by 41 percent as part of a government package of social reforms. The poverty rate is estimated to have decreased to 12.4 percent in 2021 due to broader economic recovery.

Outlook

Spillovers from Russia's economic collapse will disrupt Kazakhstan's supply chains and dent its growth prospects. Real GDP growth is expected to slow to 1.5-2.0 percent in 2022. Kazakhstan also relies on Russia for 40 percent of its imports. Trade disruptions, lower business confidence, and increased currency volatility will also lower growth.

Growth will also be lower due to the closure (due to storm damage) in March of Kazakhstan's main oil pipeline (to Russia's Black Sea), through which about 80 percent of Kazakhstan's oil is exported. Based on current repair timeframes (up to a month), oil export volumes could fall by about 5-6 percent in 2022.

Further exchange rate depreciation, rising food prices, and wage increases will keep inflation high in 2022. Monetary policy is expected to remain tight in response.

Fiscal policy will continue accommodating public spending to improve household welfare and sustaining the business environment. Measures include increased social assistance, rental subsidies, and compensation for businesses affected by the January protests.

A small current account balance is projected in 2022, supported by higher oil prices and lower demand for imports.

The national poverty rate is projected to fall to 12.0 percent by end-2022, though this may change if inflation is higher and growth slips further.

These projections bear significant downside risks: spillovers from sanctions that further weaken trade flows and investor confidence; more prolonged suspensions of Black Sea oil exports; risks of wage-price spirals linked to economywide wage increases, and potential capital flight amidst heightened uncertainty and tighter global financial markets.

Events since January clearly urge faster progress on reforms to achieve sustainable growth and shared national prosperity. In that regard, the authorities plan to take a stronger stand against corruption and improve the rule of law, having announced steps to increase competition and the quality of human capital, and address government inefficiency.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.5	-2.5	4.0	1.8	4.0	3.5
Private Consumption	6.1	-3.8	7.0	2.7	4.2	3.7
Government Consumption	15.5	12.8	0.5	1.2	0.8	0.8
Gross Fixed Capital Investment	13.8	-0.3	1.2	0.8	4.0	3.0
Exports, Goods and Services	2.0	-12.1	-0.2	-0.4	6.2	4.5
Imports, Goods and Services	14.9	-10.7	5.9	1.2	4.9	3.4
Real GDP growth, at constant factor prices	4.5	-2.5	4.1	1.8	4.1	3.6
Agriculture	-0.1	5.6	-2.4	2.5	2.8	2.9
Industry	4.1	-0.4	4.3	1.2	5.4	4.8
Services	5.2	-4.5	4.6	2.1	3.4	2.8
Inflation (Consumer Price Index)	5.3	6.8	8.0	10.5	7.2	5.5
Current Account Balance (% of GDP)	-4.0	-3.7	-3.0	0.6	-0.1	-0.3
Net Foreign Direct Investment (% of GDP)	3.1	3.4	2.1	1.7	3.0	2.7
Fiscal Balance (% of GDP)	-1.3	-3.3	-3.0	-2.7	-1.9	-0.8
Debt (% of GDP)	19.6	24.8	24.6	28.3	29.0	29.0
Primary Balance (% of GDP)	-0.3	-2.2	-1.7	-1.6	-0.7	0.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.2	0.2	0.2	0.2	0.1	0.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	4.0	14.2	12.4	12.0	10.3	9.2
GHG emissions growth (mtCO2e)	2.2	7.0	1.5	0.8	1.5	1.8
Energy related GHG emissions (% of total)	80.2	81.1	81.0	80.8	80.8	80.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2018-HBS. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

KOSOVO

Table 1	2021
Population, million	1.8
GDP, current US$ billion	9.0
GDP per capita, current US$	5057.7
Upper middle-income poverty rate ($5.5)[a]	24.4
Gini index[a]	29.0
Life expectancy at birth, years[b]	72.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2011 PPPs.
b/ Most recent WDI value (2019).

Kosovo's economy experienced a strong recovery in 2021, supported by a rebound in domestic demand and record export growth. Inflation also intensified, driven by increases in import prices. Growth is expected to decelerate to 3.9 percent in 2022. The medium-term outlook remains positive, but prone to elevated risks; with the war in Ukraine significantly increasing inflationary pressures. Further reforms to enhance competitiveness would help sustain Kosovo's export momentum.

Key conditions and challenges

Kosovo's GDP grew by 9.1 percent in 2021, following a contraction of 5.3 percent in 2020. From Q2 of 2021, vaccination accelerated, and travel resumed, bolstering economic activity. Consumption and diaspora-driven service exports remain key growth drivers.

Private investment contributes increasingly but consists mostly of construction, with limited productivity spillovers. Positively, merchandise exports increased significantly from pre-pandemic levels and, though still low, are an encouraging sign of private sector growth. The trade deficit, however, remains high.

Low labor force participation, especially for women, remains a pressing constraint to growth. Overall, 1 in 3 working-age adults was employed before the recovery accelerated; women's employment increased by 14 percent, but still only 16 percent adult women were employed by Q1 2021. Positively, formal employment increased throughout 2021.

Kosovo, a Euroized economy, has a good track record of headline fiscal management. However, without access to international financial markets, concessional financing remains a significant source to close the infrastructure gap.

GDP growth is expected to reach 3.9 percent in 2022, but there are significant risks. While the pandemic appears to recede, risks of new vaccine-resistant variants could disrupt international travel. Meanwhile, the Russian invasion of Ukraine and associated sanctions could generate further inflationary pressure, especially for energy and food, undermining consumption. Rising energy costs pressuring public finances since late 2021, given the vulnerability of aged power-generation infrastructure.

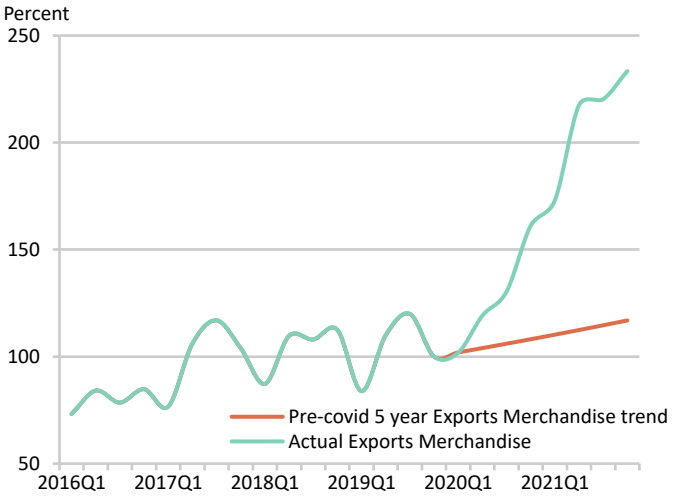
Under the changing external conditions, maintaining fiscal space to support the economy is crucial. Furthermore, Kosovo needs to build on the recent export growth momentum by further improving the regulatory environment and by investing on productivity-enhancing human capital and infrastructure.

Recent developments

Strong credit growth, remittances, and foreign direct investment (FDI), combined with a direct 3.2 percent-of-GDP fiscal stimulus and the spillover from quasi-monetary measures in 2020, restored confidence and boosted domestic demand, driving an exceptional 9.1 percent real output growth in 2021. Meanwhile, trade increased substantially. On the production side, services and industry contributed the most, while agriculture contributed negatively to growth.

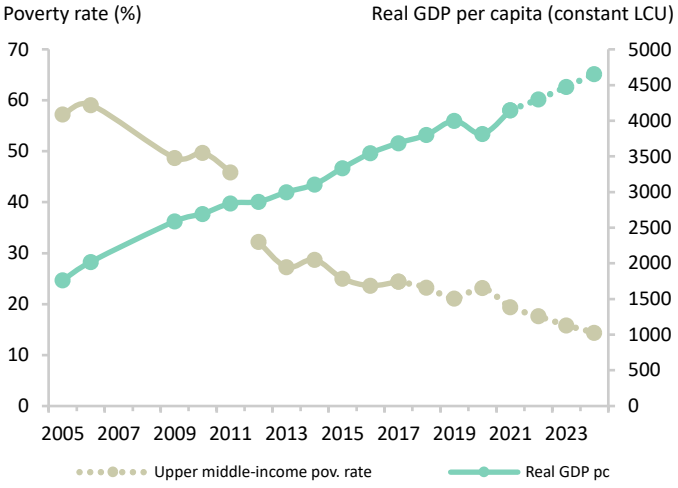
Until Q1 2021, labor force participation and employment increased only for women (under 25 especially) and slightly fell for men. However, tax-registered employment rose by nearly 10 percent throughout 2021. Poverty is estimated to have decreased by

FIGURE 1 Kosovo / Index of merchandise exports in USD, 2019Q4=100 percent



Sources: Kosovo agency of statistics and World Bank staff calculations.

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



Source: World Bank. Note: see Table 2.

about 4 percentage points in 2021 to under 20 percent.

Consumer price inflation jumped from 0.2 percent in 2020 to 3.4 percent in 2021, reaching 7.5 percent in February 2022. Import prices of energy, food and commodities fueled inflation.

Manufacturing exports rose by almost 70 percent year-on-year. Services' exports more than doubled as diaspora travel bounced back in 2021. Remittances also increased by 26 percent y-o-y. However, the recovery also increased import demand by almost 50 percent, resulting in a deterioration of the current account deficit (CAD).

The fiscal deficit fell from 7.6 percent of GDP in 2020 to 1.4 percent in 2021, thanks to a record 29 percent increase in tax revenues. Tax revenues were boosted by the economic recovery, higher inflation, and formalization. Nominal current expenditure grew by 7 percent, mostly due to the fiscal stimulus program. Nominal public capital expenditure increased but remains below its pre-pandemic share of GDP. Public and publicly guaranteed (PPG) debt remained stable at 22.5 percent of GDP. The financial sector strengthened, supporting the recovery through double-digit credit growth.

Outlook

As of March 2022, growth is projected to reach 3.9 percent by year end, but there are significant downside risks. While the post-COVID recovery furthers economic activity, the consequences of the Russian invasion of Ukraine are still unfolding and could dampen economic prospects.

Private investment growth, from higher construction and export-related investment, is expected to support growth in 2022. Improved execution in public investment should accelerate its recovery. However, a positive contribution from investment hinges on the strength of diaspora demand for real estate, a moderation in construction input prices, and the ability of the Government to maintain current capital budgeting against higher pressures for energy and social transfers. The current account deficit is projected to exceed 9 percent of GDP, as imports continue to rise due to higher domestic demand.

Headline inflation is expected to rise to 5.4 percent in 2022 but the negative impact of the war in Ukraine on global trade and prices could increase inflation further. As a net importer of food, agricultural inputs, and energy, Kosovo is directly affected by global price surges of these goods, despite minor direct trade links with Russia and Ukraine. Food and energy inflation could affect the most vulnerable households disproportionately, as they devote large budget shares to these items. Rising electricity costs might increase fiscal pressures. On the other hand, base metals' export revenues could increase from higher global demand.

Tax revenue collection is expected to remain strong in 2022, however, expenditure should outpace revenues due to a rebound in capital expenditure and higher current expenditures from energy subsidies and social transfers. As a result, the fiscal deficit is expected to widen to 2.2 percent of GDP and remain within the fiscal rule over the medium term. PPG debt is expected to reach 24.3 percent of GDP in 2022.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.8	-5.3	9.1	3.9	4.3	4.2
Private Consumption	5.6	2.5	7.0	1.7	1.8	1.8
Government Consumption	10.1	2.1	0.7	2.3	6.8	3.1
Gross Fixed Capital Investment	2.9	-7.6	10.5	9.0	7.5	7.7
Exports, Goods and Services	7.6	-29.1	69.1	5.0	5.5	6.0
Imports, Goods and Services	4.5	-6.0	27.9	3.4	3.6	3.5
Inflation (Consumer Price Index)	2.7	0.2	3.4	5.4	1.6	2.2
Current Account Balance (% of GDP)	-5.6	-7.0	-9.1	-9.7	-9.0	-8.0
Net Foreign Direct Investment (% of GDP)	-2.7	-4.2	4.2	4.2	4.0	4.0
Fiscal Balance (% of GDP)	-2.9	-7.6	-1.4	-2.2	-2.6	-2.5
Debt (% of GDP)	17.0	22.0	22.1	24.0	25.3	26.9
Primary Balance (% of GDP)	-2.6	-7.1	-1.0	-1.7	-2.2	-2.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	21.1	23.2	19.4	17.6	15.8	14.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2017-HBS. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2017) with pass-through = 0.7 based on GDP per capita in constant LCU.

KYRGYZ REPUBLIC

Table 1	2021
Population, million	6.7
GDP, current US$ billion	8.5
GDP per capita, current US$	1275.9
International poverty rate ($1.9)[a]	1.1
Lower middle-income poverty rate ($3.2)[a]	16.2
Upper middle-income poverty rate ($5.5)[a]	58.1
Gini index[a]	29.0
School enrollment, primary (% gross)[b]	102.6
Life expectancy at birth, years[b]	71.6
Total GHG Emissions (mtCO2e)	10.3

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

Spillovers from Russia's invasion of Ukraine are expected to reverse the progress made by the Kyrgyz economy in recovering from the COVID pandemic in 2021 when annual GDP growth was 3.6 percent. The economy is now projected to contract by 5 percent in 2022, and inflation is likely to exceed 15 percent, creating significant further pressure on fiscal and debt management as well as pushing more people into poverty.

Key conditions and challenges

The economy remains heavily dependent on gold production (about 10 percent of GDP and 35 percent of exports), remittances (30 percent of GDP), and foreign aid. The country has witnessed significant political and governance changes over the past two years, accompanied by policy uncertainty. Overall, the economic situation was further complicated by security concerns arising from border conflicts.

Strong and sustainable growth needs a larger private sector, more international trade, and a conducive macroeconomic environment. However, large infrastructure gaps, the weak rule of law and governance, a poor business environment, onerous regulations, and financially unsustainable energy sector policies are constraining growth. The poor condition of the energy sector - the result of below-cost recovery tariffs that have endured for years - and noncompliance with WTO and Eurasian Economic Union regulatory standards are especially binding constraints.

Recent developments

The Kyrgyz economy was hit hard by the pandemic in 2020 but began recovering in 2021 as GDP grew by 3.6 percent. Strong industry and services growth helped offset subdued agriculture and construction activity. The gold sector grew by 1 percent, and fewer pandemic restrictions spurred economic activity and remittance inflows. However, in the first two months of 2022, annual growth slowed to 2 percent on lower gold production and weaker services growth.

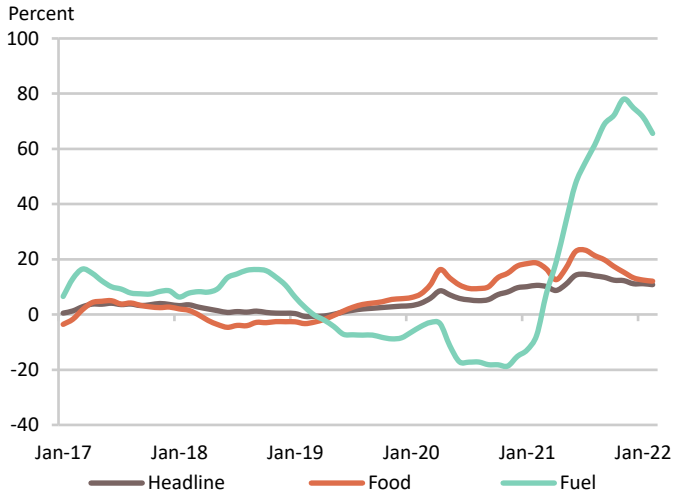
The 2021 current account deficit was about 3.3 percent of GDP against a 4.8 percent surplus in 2020. The main driver was a sharper trade deficit of 24.8 percent of GDP, compared to 18.5 percent in 2020. Exports (in US dollars) rose 40 percent while imports climbed 49 percent, reflecting higher imports of machinery, chemicals, and textiles; and increased food and fuel prices.

Inflation increased to 11.2 percent in December 2021 from 9.7 percent a year ago but has since fallen to 10.8 percent in February 2022. This was due to higher food and fuel prices which grew by 13.3 and 74.8 percent, respectively in 2021.

In response to higher inflation, the central bank raised its policy rate four times, by a cumulative 350 basis points, in 2021 and early 2022, to 8.5 percent. To mitigate inflation risks and smooth exchange rate volatility, the central bank sold $689 million in foreign reserves in 2021.

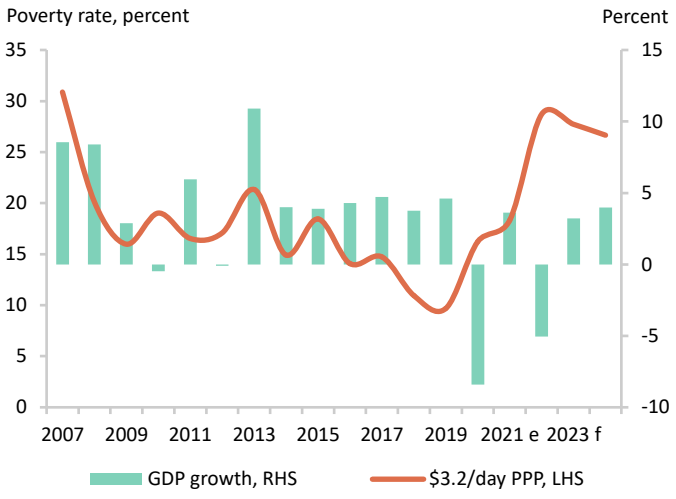
Following Russia's invasion of Ukraine, the som depreciated by 23 percent against the US Dollar but has since regained about half of its lost value. In March, the central bank raised its policy rate twice more by a total of 550 basis points to 14 percent. Credit growth in the economy remained robust at 10 percent in December 2021, although slightly slower than in 2020.

FIGURE 1 **Kyrgyz Republic** / Headline, food and fuel inflation



Source: Kyrgyz authorities.

FIGURE 2 **Kyrgyz Republic** / GDP growth and poverty rate



Sources: Kyrgyz authorities and World Bank staff.

The government's fiscal position improved significantly in 2021. The deficit fell to 0.3 percent of GDP from 4.2 percent in 2020 on improved revenue collection and restrained public spending growth. Total revenues increased to 31.3 percent of GDP from 27.7 percent in 2020 on a surge in import tax receipts, rebounding domestic activity, and improved tax administration. Public spending increased marginally to 34.3 percent of GDP from 33.7 percent in 2020, with an increase in capital spending offsetting sharply lower recurrent spending. The fiscal improvement reduced public debt to 60.3 percent of GDP, from 67.7 percent at end-2020.

The COVID-19 pandemic increased the poverty rate (US$3.2 a day, 2011 PPP) from 9.7 percent in 2019 to 16.2 percent in 2020. It is estimated to have slightly deteriorated further in 2021 due to higher food prices and fewer job opportunities.

Outlook

The spillovers of Russia's invasion of Ukraine have significantly worsened the outlook for the Kyrgyz economy, which is projected to contract by 5 percent in 2022. This is mainly due to a fall in private consumption and investment spending from an anticipated 33 percent decline in remittance inflows. The fiscal deficit is expected to again widen to 5 percent of GDP in 2022, and external trade is expected to shrink. Forecasts of weak agricultural output in 2022 and continued uncertainties around gold production will further constrain growth. Growth is expected to recover to 3.2 percent in 2023 and 4.0 percent in 2024, assuming a stabilization in the conflict and continued public investment growth. These projections also assume domestic political stability and further easing of pandemic conditions. However, risks remain high of the outlook further worsening.

Inflation will increase to about 18 percent by end-2022, from further food and fuel price increases, before moderating to 8 percent by end-2023. The current account deficit in 2022 is projected to widen to 11 percent of GDP, reflecting drops in remittances and gold exports. The deficit is expected to narrow over the medium-term alongside a recovering economy and a revival in exports.

The fiscal deficit is expected to widen to 5.3 percent of GDP in 2022 as the government increases spending to offset domestic spillovers from the war in Ukraine. Expansions of social spending and public wages are expected to help offset the impact of the remittance shock and weaker economic activity. The deficit is expected to narrow to 3 percent of GDP over 2023-24 as conditions improve.

Lower remittances, high food prices, fewer job opportunities domestically and abroad, and economic contraction will likely increase and deepen poverty in 2022. The impact of sanctions on Russia may sever a vital lifeline for Kyrgyz households reliant on remittances from Russia. The government's anti-crisis measures, such as increased pensions and wages for government officials and social assistance, will partly soften the negative impact on the poor.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.6	-8.4	3.6	-5.0	3.2	4.0
Private Consumption	0.8	-8.3	2.4	-5.2	2.7	3.2
Government Consumption	0.5	0.9	1.9	1.7	0.3	0.3
Gross Fixed Capital Investment	7.1	-16.2	17.9	4.1	10.8	11.5
Exports, Goods and Services	16.2	-27.3	-1.4	1.1	8.0	7.2
Imports, Goods and Services	6.1	-28.0	11.1	9.0	11.3	10.5
Real GDP growth, at constant factor prices	3.6	-8.4	3.6	-5.0	3.2	4.0
Agriculture	2.5	1.1	0.0	-2.2	3.5	2.6
Industry	6.6	-7.5	-2.8	0.4	1.7	8.0
Services	3.2	-16.4	10.2	-9.9	3.6	3.5
Inflation (Consumer Price Index)	1.1	6.3	11.9	15.2	8.0	6.0
Current Account Balance (% of GDP)	-12.1	4.8	-3.3	-11.4	-10.1	-10.0
Net Foreign Direct Investment (% of GDP)	3.8	-7.5	0.7	1.3	2.5	2.2
Fiscal Balance (% of GDP)	-0.5	-4.2	-0.3	-5.3	-4.4	-3.0
Debt (% of GDP)	51.6	67.7	60.3	65.2	61.3	57.9
Primary Balance (% of GDP)	0.5	-2.9	1.3	-3.6	-2.9	-1.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.6	1.1	1.1	1.1	1.1	1.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	9.7	16.2	18.3	28.7	27.7	26.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	52.6	58.1	58.7	56.7	57.2	58.0
GHG emissions growth (mtCO2e)	-6.7	-20.1	-7.2	-4.8	-1.2	-0.6
Energy related GHG emissions (% of total)	71.7	64.4	61.3	58.1	56.3	54.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2017-KIHS and 2020-KIHS. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2017-2020) with pass-through = 0.87 based on GDP per capita in constant LCU.

MOLDOVA

Table 1	2021
Population, million	2.6
GDP, current US$ billion	13.7
GDP per capita, current US$	5199.9
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.5
Upper middle-income poverty rate ($5.5)[a]	13.3
Gini index[a]	26.0
School enrollment, primary (% gross)[b]	106.3
Life expectancy at birth, years[b]	71.9
Total GHG Emissions (mtCO2e)	12.6

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

Growth is expected to be curtailed by the unfolding crisis in Ukraine despite its swift recovery from COVID-19. Medium term growth hinges on the containment of the war and of the COVID-19 pandemic, as well as a successful management of the refugee crisis and sustained fiscal support. Authorities face policy trade-offs between the need for mitigating shocks and the implementation of a broad-based reforms program to support long term growth.

Key conditions and challenges

Despite a solid economic performance in the past two decades, the economic model remains reliant on remittances-induced consumption, with an associated low productivity growth resulting from persistent structural and governance weaknesses, significant state enterprises footprint, low competition, uneven playing field, and tax distortions. The 2014 bank fraud uncovered deep weaknesses in the financial sector. Extreme weather events and the propagation of economic and financial crises from the main trading partners have been a traditional risk for a small open economy like Moldova. The COVID-19 pandemic has recently also raised concerns about the health system's stability.

Recent developments in Ukraine pose major threats to the economic prospects of Moldova through trade (32 percent of imports and 14 percent of exports are with Russia and Ukraine) and remittances channels (70 percent of migrants and 25-30 percent of remittances are related to Russia and Ukraine). Key infrastructure networks are primarily connected to Ukraine despite recent efforts to better connect the country to the EU. The potential disruption in the supply of food, energy and commodity imports is expected to further increase prices. The fiscal position is expected to be further weakened by inflows of refugees, the impact on revenues and on social spending to mitigate rising inflation, squeezing fiscal space.

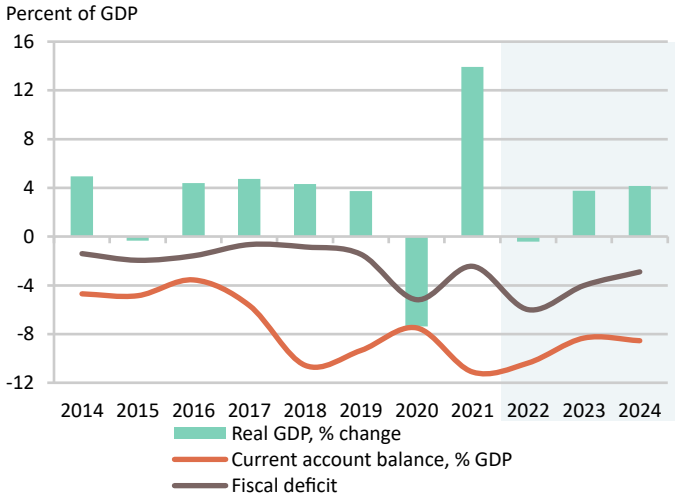
Persistent inequality of opportunity limits the ability of low-income households to access public services, reducing their resilience and cementing low intergenerational mobility. Due to the 2020 contraction, poverty increased from 25.2 percent in 2019 to 26.8 percent in 2020 (based on the national poverty line), marking the second consecutive year in which poverty increased.

The government faces the challenge of striking the balance between cyclical and structural problems, sustaining economic recovery with a stronger fiscal impulse while ensuring fiscal sustainability, and implementing an ambitious structural reforms program to improve competitiveness and long-term growth.

Recent developments

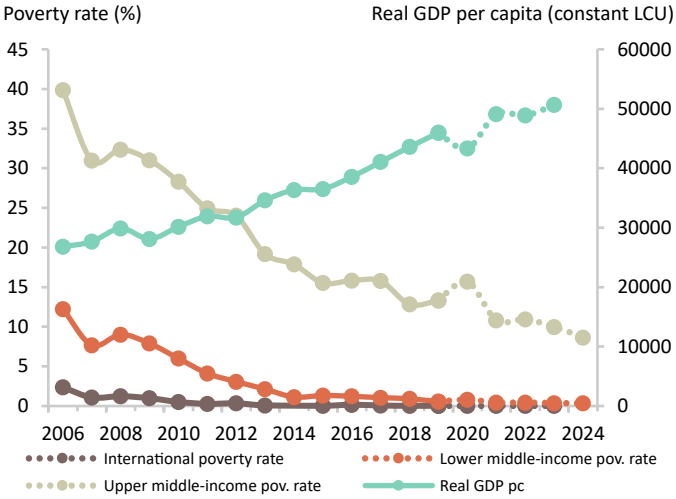
Economic activity bounced back by 13.9 percent in 2021. A strong increase in wages, remittances and social transfers contributed to private consumption growth. Investments increased by 7 percent on the back of favorable monetary conditions. Strong domestic demand and restocking after the lockdown led to significant drag on growth from net exports, albeit a strong increase of exports due to high yields. All economic sectors recovered after a sharp contraction in 2020, with the agricultural sector leading (14.3 percent) after the 2020 drought.

FIGURE 1 Moldova / Projected macroeconomic indicators



Source: Author's calculations based on national statistics.

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



Source: World Bank. Notes: see table 2.

The accommodative monetary conditions throughout 2021 were reversed as inflationary pressures began to pick up due to increasing global energy and food prices and strong domestic demand. Policy interest rate tightened to 10.5 percent from 2.5 percent in 2021. In the first three quarters of 2021, the current account deficit almost doubled reaching 13 percent of GDP as imports expanded quicker than exports and remittances, financed primarily by cash and deposits in foreign currency. On the back of higher GDP, external debt decreased by 4.5 percentage points to 66.1 percent of GDP.

In 2021, health and social protection (35.4 percent and 13 percent, y/y) were the main drivers of spending increase (+11.9 percent, y/y). Spending on non-financial assets increased by 17.6 percent despite lower execution of capital investments. Revenue collection rebounded strongly (+23.5 percent, y/y). The fiscal deficit, mainly financed through foreign debt, reached 2 percent of GDP. Public and publicly guaranteed debt decreased to around 33 percent of GDP.

Employment recovered to its pre-pandemic levels by Q4 of 2021 and wages grew by 13 percent in the first three quarters of 2021, y/y. The Government almost doubled the minimum pension in 2021, increasing disposable incomes for pension-receiving households. However, rising energy and food prices started affecting purchasing power of vulnerable households in the last quarter of 2021.

Outlook

The unfolding war in Ukraine is expected to affect the economy through the trade and remittances channels as well as prices and financial uncertainties. Even under an optimistic scenario of the resolution of the conflict in Ukraine and reestablishment of the trade routes, subsiding pandemic risks, a continuation of a broad-based government reform program, and sustained fiscal impulse, growth is expected to substantially decelerate to -0.4 percent in 2022. In an optimistic scenario of de-escalation of the situation in Ukraine, growth is expected rebound to 3.8 percent in 2023 and around 4.4 percent in 2024. As the economy gains steam and the trade routes are reestablished and higher global energy and food prices subside, the current account deficit is expected to improve. High inflationary pressures will persist throughout 2022 with the inflation rate remaining well above the upper bound of the central Bank target corridor of 5 percent (+/-1.5 percent). The fiscal deficit in the medium term is expected to remain higher than in pre-Covid-19 years, as the economy will need to protect the disposable income of the population from increasing prices (particularly energy and food), support the refugees and increase investments as the ambitious reform program gains steam. As a result, public debt is expected to increase, while remaining relatively low by international standards.

Given the recovery in the labor market and strong remittance receipts, poverty is expected to have decreased from 15.7 percent in 2020 to 10.8 percent in 2021, according to US$5.50 PPP poverty line. Impacts of the war in, including higher food and fuel inflation, the potential for return migration and lower remittances, as well as a weaker labor market due to lower demand for exports, are forecasted to lead to a stagnation in poverty of 10.9 percent in 2022.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.7	-7.4	13.9	-0.4	2.7	4.2
Private Consumption	3.2	-8.3	15.5	0.8	3.8	4.4
Government Consumption	1.3	3.1	3.8	2.6	1.3	2.1
Gross Fixed Capital Investment	11.9	0.4	1.7	-1.0	3.7	4.3
Exports, Goods and Services	8.2	-9.6	17.5	0.8	4.1	4.3
Imports, Goods and Services	6.2	-5.0	19.2	2.0	4.6	3.9
Real GDP growth, at constant factor prices	4.0	-7.6	15.6	-0.8	2.5	4.2
Agriculture	-2.3	-26.4	18.7	5.0	2.0	7.0
Industry	7.1	-4.3	5.6	3.5	4.3	5.4
Services	4.3	-4.8	19.3	-3.4	1.9	3.2
Inflation (Consumer Price Index)	4.7	4.1	5.1	18.1	6.2	4.6
Current Account Balance (% of GDP)	-9.3	-7.7	-11.1	-10.4	-9.0	-8.8
Net Foreign Direct Investment (% of GDP)	4.2	1.3	1.6	0.8	1.5	2.7
Fiscal Balance (% of GDP)	-1.4	-5.3	-1.9	-6.1	-4.1	-3.1
Debt (% of GDP)	27.4	36.4	32.4	36.6	36.0	35.2
Primary Balance (% of GDP)	-0.7	-4.5	-1.1	-4.9	-2.9	-2.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.5	0.8	0.4	0.4	0.4	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	13.3	15.7	10.8	10.9	10.0	8.6
GHG emissions growth (mtCO2e)	-1.3	-9.6	6.0	-2.7	-0.7	-0.1
Energy related GHG emissions (% of total)	61.9	62.1	62.0	60.5	59.8	59.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2019-HBS. 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.

MONTENEGRO

Table 1	2021
Population, million	0.6
GDP, current US$ billion	5.6
GDP per capita, current US$	9011.0
Upper middle-income poverty rate ($5.5)[a]	16.9
Gini index[a]	36.9
School enrollment, primary (% gross)[b]	101.7
Life expectancy at birth, years[b]	76.9
Total GHG Emissions (mtCO2e)	3.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

Montenegro's economic recovery in 2021 was robust, supported by tourism revival. The labor market also responded to economic recovery and the fiscal position significantly improved. Montenegro adopted a landmark reform program "Europe Now" which carries many opportunities, but also significant fiscal risks. The outbreak of war in Ukraine is worsening the otherwise positive outlook. This together with rising inflation risks will impact living standards and poverty.

Key conditions and challenges

Montenegro's small, open, and tourism-dependent economy suffered the largest contraction in Europe of -15.3 percent in 2020, reversing several years of poverty reduction and exposing Montenegro's acute vulnerabilities to external shocks.

From 2015-19, growth averaged 4 percent, driven by large public investments and strong growth in consumption. Over two-thirds of Montenegro's jobs are in services, which account for over 70 percent of value added. The current account balance shows a large structural deficit and averaged 15 percent of GDP over 2015-19, financed by net FDI and external debt. Montenegro's net international investment position at negative 170 percent of GDP in 2019 is amongst the largest in the world. Due to weaker adherence to fiscal plans and debt-financed highway construction, public debt peaked at 105 percent of GDP in 2020. Montenegro aspires to join the EU, but significant rule of law challenges have slowed progress towards this goal and reflect a key development constraint.

The economic rebound in 2021 was robust, supported by invigorating tourism. The fiscal macro-fiscal stability has been preserved as both the fiscal deficit and public debt were significantly reduced. Montenegro adopted a reform program "Europe Now", which abolishes healthcare contributions, introduces personal income tax allowance, progressive personal and corporate income taxation, and increases the net monthly minimum wage from €250 to €450. The program has the potential to reduce inequalities and increase formal employment and growth over the medium-term, especially if complemented by additional structural reforms, but also poses fiscal risks. The Parliament rejected several revenue measures, which will likely result in a wider-than-planned fiscal deficit in 2022 and the following years.

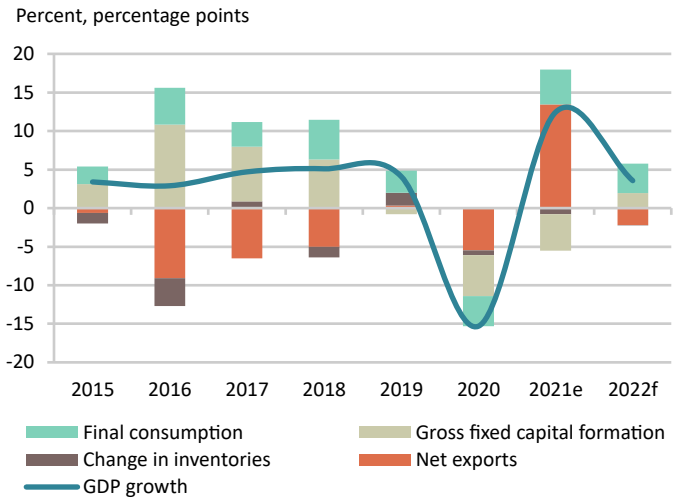
In February 2022, there was a vote of no confidence in the government. A turbulent political environment is adding to already high uncertainty. Accelerating structural reforms and fiscal prudence are needed to mitigate increasing risks.

Recent developments

Montenegro's economy posted a strong recovery in 2021, estimated at 12.4 percent, driven primarily by a rebound in international tourism receipts recovering to 70 percent of their 2019 level from just 13 percent in 2020. Tourism, employment growth, and household lending supported the strong private consumption rebound. Investments lingered driven by a slowdown in public investments.

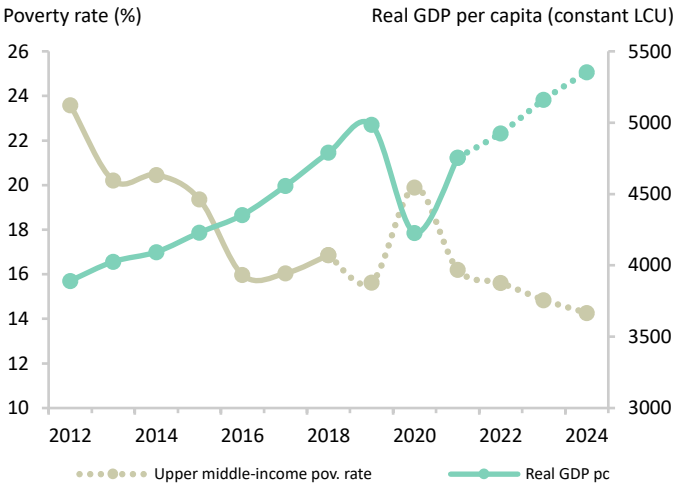
The labor market recovered as economic activity picked up. LFS data show an increase in employment in the fourth quarter by 20 percent compared to the first quarter. Poverty (income below $5.5/day in 2011PPP) is projected to decline from around 19.9 percent in 2020 to 16.2 percent in 2021.

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



Sources: MONSTAT, World Bank.

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



Source: World Bank. Notes: see table 2.

In 2021, inflation averaged 2.4 percent, and peaked at 6.7 percent in February 2022, led by food and oil prices, which constrains purchasing power particularly for the poor. The financial sector has remained robust with outstanding loans and deposits reaching highs in 2021. The capital adequacy was at 18.5 percent, while non-performing loans increased to 6.8 percent of total loans from 5.9 percent in 2020.

In 2021, the current account deficit narrowed to 9.2 percent of GDP, the lowest since 2004. Growing by 95 percent, exports of goods and services outpaced import growth, narrowing the trade deficit to 19.5 percent of GDP. Strong net exports were supported by the tourism recovery, metals and electricity exports, and lower imports growth. Net remittances increased by 35 percent further reducing the current account deficit which was entirely financed by net FDI accounting for 11.2 percent of GDP. In January 2022, international reserves covered 8 months of merchandise imports.

The fiscal deficit fell to 2 percent of GDP in 2021 from 11 percent of GDP in 2020, driven by a rebound in revenues, capital budget underspending, and lower current spending. Public debt declined to 86 percent of GDP.

Outlook

The outlook is fragile in an environment of increasing uncertainties. The outbreak of the war in Ukraine and the associated developments have significantly worsened the outlook for Montenegro, reducing the GDP growth rate to 3.6 percent in 2022. The main direct transmission channel of the war to Montenegro's economy is tourism. The expected decline in tourism due to the war slows down exports and private consumption, which is expected to remain strong, however, due to the positive effects of higher disposable incomes and the employment recovery. The war decelerates household income growth particularly for those working in the tourism and hospitality sector. Rising energy and food prices will disproportionately hurt the poor. Poverty in 2022 is projected at 15.6 percent, though the outlook is uncertain depending on the economic impacts of the conflict.

Investments are expected to pick up as the highway is being completed and other capital spending increases, while private investments in tourism and energy sectors continue, but at a slower pace. As investments resume, so will imports, which are expected to remain at similar levels during 2022-24. The current account deficit is thus expected to widen and remain at around 12 percent of GDP over the medium term. The global inflationary pressures and, to a lesser extent, domestic pressures from an increase in wages will push inflation to an estimated 5 percent in 2022. Utmost fiscal prudence is needed to return public debt towards Montenegro's fiscal rule of 60 percent of GDP.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.1	-15.3	12.4	3.6	4.7	3.7
Private Consumption	3.1	-4.6	4.3	3.9	3.6	2.8
Government Consumption	1.0	0.8	1.5	1.4	0.3	0.6
Gross Fixed Capital Investment	-1.7	-12.0	-10.3	5.3	6.8	7.5
Exports, Goods and Services	5.8	-47.6	81.1	2.2	7.4	5.8
Imports, Goods and Services	2.7	-20.1	13.7	3.8	5.5	5.2
Real GDP growth, at constant factor prices	4.2	-14.4	12.4	3.6	4.7	3.7
Agriculture	-2.2	1.1	-5.0	0.1	0.5	0.5
Industry	5.6	-12.0	1.0	4.0	6.0	4.0
Services	4.5	-16.9	19.0	3.8	4.7	4.0
Inflation (Consumer Price Index)	0.4	-0.3	2.4	5.0	2.3	1.6
Current Account Balance (% of GDP)	-14.3	-26.1	-9.2	-12.6	-12.1	-12.0
Net Foreign Direct Investment (% of GDP)	6.2	11.2	11.2	8.1	8.7	8.7
Fiscal Balance (% of GDP)	-2.7	-11.0	-2.0	-5.2	-3.0	-1.7
Debt (% of GDP)	76.5	105.3	84.9	77.4	75.2	73.1
Primary Balance (% of GDP)	-0.5	-8.3	0.4	-3.4	-1.4	-0.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	15.6	19.9	16.2	15.6	14.8	14.3
GHG emissions growth (mtCO2e)	5.3	-22.0	15.2	2.1	0.0	1.3
Energy related GHG emissions (% of total)	70.7	65.9	69.8	70.6	70.8	71.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2012-SILC-C, 2015-SILC-C, and 2018-SILC-C. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2012-2015) with pass-through = 0.87 and, for 2022 onward, 0.5 based on GDP per capita in constant LCU, reflecting impacts of rising prices.

NORTH MACEDONIA

Table 1	2021
Population, million	2.1
GDP, current US$ billion	13.9
GDP per capita, current US$	6696.8
Upper middle-income poverty rate ($5.5)[a]	17.9
Gini index[a]	33.0
School enrollment, primary (% gross)[b]	98.2
Life expectancy at birth, years[b]	75.8
Total GHG Emissions (mtCO2e)	10.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2019).

As the economy rebounded, the energy crisis and the war in Ukraine brought new challenges. With rising public debt, the authorities need to replace Covid-19 support with targeted fiscal support to the most energy vulnerable households and firms. Monetary policy needs to strike a balance between supporting a fragile recovery amidst rising inflation. The medium-term outlook remains positive, but short-term risks are all tilted downside and intensified.

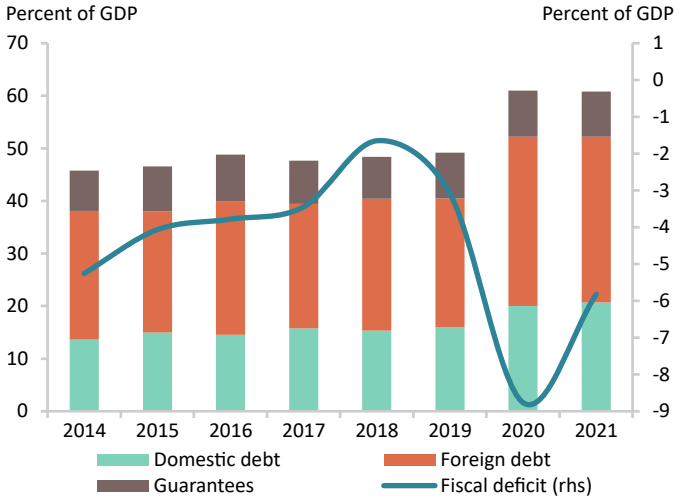
Key conditions and challenges

Following a decade-long relative macroeconomic stability, in 2020 the economy plunged into a recession with the outbreak of the global pandemic. As the recovery took hold, on the back of buoyant domestic and external demand, the energy crisis as well as the war in Ukraine in early 2022, bring new challenges and seek continued fiscal support despite elevated debt levels.
Support measures introduced by the government (i.e., subsidies and social security contributions to private firms and cash benefits and vouchers for vulnerable people) helped alleviate the impact of the pandemic on poverty in 2020. After an estimated increase in 2020, poverty likely resumed decline in 2021 (using the upper middle income class poverty line).
The medium-term outlook remains positive, but downside risks are elevated. The war in Ukraine, sanctions to Russia and Belarus, prolonged supply chain disruptions, rising inflationary and minimum wage pressures, weak political stability and the energy crisis continue to weigh on the outlook. Heightened political uncertainty, and delayed EU accession negotiations, may lead to weaker reform effort needed to boost potential growth and consolidate public finances. Further, tightening financial conditions globally may affect options and costs to meet financing needs. On the positive side, the Growth Acceleration Plan (GAP) may boost human capital development, accelerate the green transition and digitalization, helping to boost potential growth.
With eroded fiscal space and rising public debt, the reform agenda in the near to medium term needs to focus on improved targeting of crisis-related support, boosting tax compliance, restructuring and reprioritizing spending towards the GAP, addressing long-term structural bottlenecks and improving the efficiency of public investment management. The generous fiscal transfers, untargeted subsidies, and broad tax exemptions, including frequent changes of pension policy with sizeable fiscal implications are not sustainable and could derail the macroeconomic stability in the given context.

Recent developments

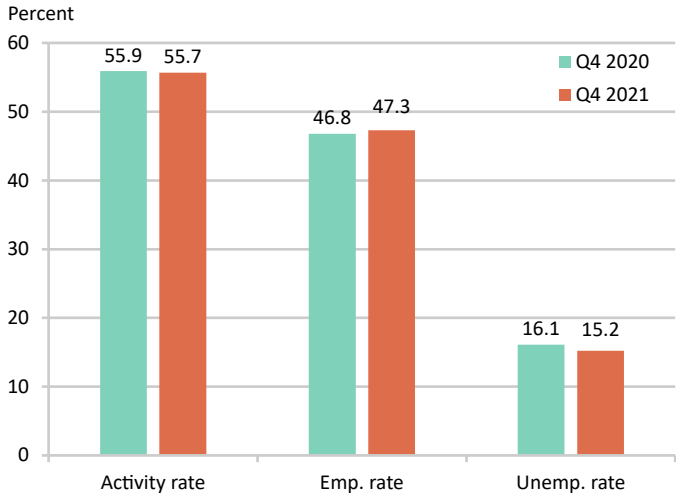
The real growth rebounded by 4 percent in 2021, following a deep contraction in 2020. The recovery was broad-based, driven by a boost in personal consumption, and a growing investment contribution. Exports and imports bounced back, but the trade balance worsened. On the production side, growth was driven by services, as the industry struggled with supply-chain blockages and reduced external orders.
The labor market witnessed a slow improvement despite government support. The unemployment rate decreased to 15.2 percent at end-2021, in part due to a small increase in the employment rate (at 47.3

FIGURE 1 **North Macedonia** / Fiscal performance



Sources: North Macedonia State Statistics Office, Ministry of Finance and World Bank staff calculations.

FIGURE 2 **North Macedonia** / Labor market indicators, 2020-21



Source: World Bank calculations based on LFS 2020 and 2021.

percent), but also due to a lower activity rate (at 55.7 percent in Q4 2021).

Banking sector performance remained solid in 2021, with the liquidity ratio at 22 percent, and an increase of capital adequacy ratio to 17.3 percent. Credit growth continued, led by FX-denominated mortgage lending, while non-performing loans ratio stood at 3.5 percent. The inflation accelerated in the second half of 2021, to reach 7.6 percent in February 2022. The surge is fueled by energy and food price hikes, but spillovers to core inflation widened. While wage growth was service sector-led in 2021, in February 2022, government increased the minimum wage by 18.5 percent and subsequently provided a temporary compensation to firms through the contribution subsidy.

The fiscal deficit declined to 5.4 percent in 2021. Yet, payment arrears increased by 0.6 pp of GDP. Tax revenues increased along with capital spending, which saw improvements in the execution rate. Current spending declined as crisis-related support decelerated. In November 2021, the government declared an energy crisis and transferred sizeable budget funds to cover the loses of energy companies and took over the private heating company. Public and publicly guaranteed debt stood at 60.8 percent of GDP, while arrears increased to 3.3 percent of GDP by yearend.

Outlook

Growth is projected to decelerate to 2.7 percent in 2022 affected by the economic consequences of the Russian invasion, war in Ukraine, and associated sanctions. The inflationary pressures (particularly food and energy prices) will increase the cost of living and hurt the poor despite sizeable government support adopted in March 2022 to alleviate the energy crisis through indirect tax cuts, supplemental social benefits to pensioners and low-income groups, and concessional credit lines to firms. The fiscal deficit will remain elevated in 2022 with further rise in public debt projected to above 62 percent of GDP. However, the Ukraine war, if prolonged, would further reduce external demand, increase key commodity and energy prices, hamper mobility, and result in investment delays. This scenario would result in even lower growth and fiscal revenues, as well as rising requests for fiscal support and a surge in financing costs.

In the medium term, the country needs to set public finances back on a sustainable path and shift its focus to resolving structural challenges, including low and declining human capital, weak regulatory frameworks, poor competition policy and judicial independence declining productivity, and out-migration.

TABLE 2 **North Macedonia** / 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	-6.1	4.0	2.7	3.1	3.2
Private Consumption	3.7	-4.5	5.9	2.8	2.5	3.3
Government Consumption	2.5	6.4	4.1	1.0	0.3	0.2
Gross Fixed Capital Investment	8.7	-14.8	6.8	6.0	8.0	8.0
Exports, Goods and Services	8.9	-10.9	12.3	7.2	7.0	6.0
Imports, Goods and Services	9.5	-10.0	12.9	6.5	6.2	6.0
Real GDP growth, at constant factor prices	3.8	-5.2	2.5	2.7	3.1	3.2
Agriculture	0.1	-3.2	-1.2	2.5	2.0	1.5
Industry	3.4	-9.1	-2.4	3.4	4.9	5.3
Services	4.4	-3.9	4.7	2.5	2.6	2.6
Inflation (Consumer Price Index)	0.8	1.2	3.2	5.5	2.0	1.8
Current Account Balance (% of GDP)	-3.3	-3.4	-3.5	-4.0	-3.9	-3.4
Net Foreign Direct Investment (% of GDP)	3.2	1.5	3.7	3.8	3.8	3.9
Fiscal Balance (% of GDP)	-2.1	-8.3	-5.4	-5.3	-4.7	-3.7
Debt (% of GDP)	49.2	61.0	60.8	62.7	64.3	64.1
Primary Balance (% of GDP)	-1.0	-7.1	-4.1	-4.0	-3.5	-2.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	16.5	18.3	17.2	16.4	15.9	15.1
GHG emissions growth (mtCO2e)	4.7	-6.0	0.9	0.3	0.4	0.5
Energy related GHG emissions (% of total)	69.4	67.5	67.9	67.9	67.7	67.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2018-SILC-C. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

POLAND

Table 1	2021
Population, million	37.9
GDP, current US$ billion	658.1
GDP per capita, current US$	17365.9
International poverty rate ($1.9)[a]	0.4
Lower middle-income poverty rate ($3.2)[a]	0.5
Upper middle-income poverty rate ($5.5)[a]	1.2
Gini index[a]	30.3
School enrollment, primary (% gross)[b]	97.2
Life expectancy at birth, years[b]	77.9
Total GHG Emissions (mtCO2e)	321.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ Most recent WDI value (2019).

The Polish economy rebounded from the COVID-19 recession, expanding at its fastest pace since 2007. Easing of COVID-related restrictions, robust investment, and favorable labor market conditions supported the recovery. Inflation has accelerated markedly, fueled by sharp increases in commodity prices and supply chain disruptions, feeding into rising poverty. The war in Ukraine is impacting the economy, through commodity prices and trade channels, confidence effects, and the large influx of displaced Ukrainians.

Key conditions and challenges

The well-diversified Polish economy has proven to be one of the most resilient in the EU, with employment growth in 2020 despite a relatively small contraction in GDP of 2.5 percent, the first output contraction since 1991.

A sound macroeconomic framework, effective absorption of EU investment funds, a sound financial sector, better access to long-term credit and access to European labor markets have supported long-term inclusive growth and poverty reduction. Strong domestic labor markets and increases in median and bottom 40 real incomes have supported private consumption. With an improving business environment, Poland integrated well into regional value chains (RVCs). Higher private investment, an improved innovation ecosystem, and further upgrading of RVCs are needed to boost productivity and growth.

The full economic and social impact of COVID-19 remains uncertain as new variants emerge amidst a vaccination rate of 66 percent of the adult population.

The unprecedented policy response to mitigate the impacts of the COVID crisis and inflationary pressures has narrowed available fiscal space.

Increased spending and tax expenditure efficiency is needed to rebuild fiscal buffers, accommodate higher spending on health, the green transition, and to prepare for the growing fiscal burden arising from aging.

Over the medium term, a key challenge is a tightening labor supply made more acute by the aging population. The recent large influx of displaced people from Ukraine could help address the labor market tightness. Achieving decarbonization commitments is another challenge. Institutional strengthening is needed for sustained and inclusive growth and for narrowing regional disparities.

Recent developments

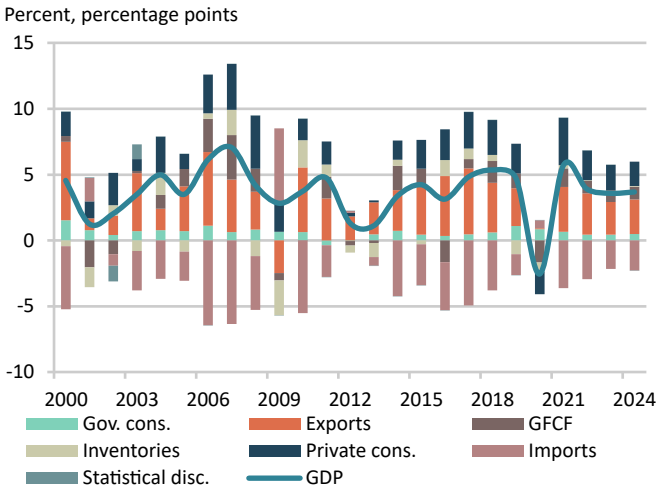
The economy rebounded strongly from the COVID-19-related recession, with output expanding by 5.7 percent in 2021. Poorer workers, who saw sharper income impacts during the early stages of the pandemic that fed into rising inequality, saw a rebound in incomes. Even as the ample fiscal stimulus provided in the wake of the crisis tapered off in 2021, domestic demand expanded by 8.2 percent, on account of robust household consumption, a recovery in investment, and rebuilding of inventories.

A strong labor market supported wage growth, while high-capacity utilization and strong corporate balance sheets supported investments.

Pent-up demand and continued income growth fueled a 6.2 percent expansion in household consumption, translating into double-digit import growth. Robust export demand from the EU supported the recovery in the industrial sector and exports, however the contribution of net exports to growth was negative.

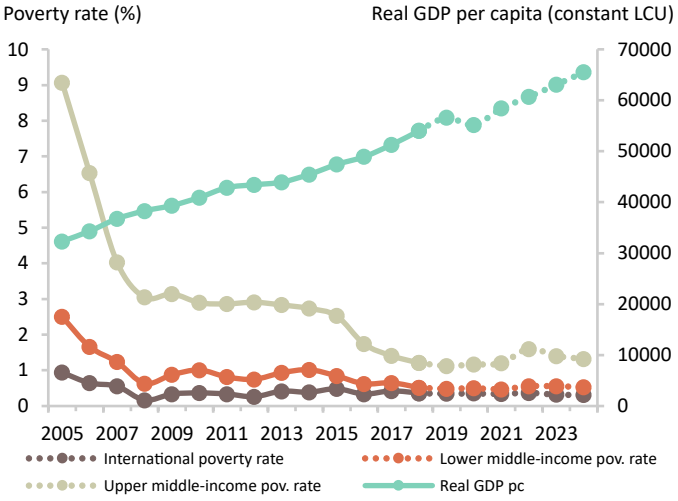
Inflation has accelerated markedly since mid-2021, to 8.5 percent in February 2022,

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



Sources: GUS, World Bank staff calculations.

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



Source: World Bank. Note: see Table 2.

well above the upper bound of the targeted range. Strong increases in energy and agricultural commodities, as well as continued disruptions in supply chains fueled inflation. A fiscal package aimed at limiting inflation (Anti-inflation Shield) and consisting of temporary cuts to VAT rates on electricity, heat energy, natural gas and basic food products, abolition of excise tax on electricity sold to households, lowering of excise tax on motor fuels, and compensation for natural gas distributors, is expected to shave off 2.1 percentage points from CPI in 2022 compared to a business-as-usual scenario.

High inflation triggered a faster than expected normalization in the monetary policy stance, with the central bank raising its reference rate by 300 basis points since October 2021.

Since the start of the war in Ukraine, more than 2.3 million displaced Ukrainians arrived in Poland. The government has reacted rapidly, granting displaced populations the right of temporary residence and access to key public services (health, education), social assistance, and housing.

The current account recorded a 0.4 percent deficit in 2021, as exports of passenger vehicles were affected while high global intermediate goods prices fueled imports.

The unwinding of the large 2020 fiscal stimulus and the strong increase in tax revenues resulted in an improvement in the general government deficit to 3.5 percent of GDP in 2021 from 7.1 percent of GDP in 2020.

The financial sector is well capitalized and has limited direct exposure to Russia, Ukraine, or Belarus.

Outlook

Economic growth is expected to decelerate to 3.9 percent in 2022, as high inflation, monetary policy tightening, negative confidence effects related to the war in Ukraine, and slowing demand in key trading partners weigh on growth.

The spillover from the war in Ukraine is expected to be significant, with key transmission channels including forced displacement, commodity prices, trade, and confidence effects. While direct economic linkages outside the energy sector are limited, higher energy and food prices, increased uncertainty, and disruptions to supplies to the auto industry will weigh on growth.

A large infrastructure and local public investment program, including through the National Recovery and Resilience Plan (NRRP), higher spending on health, and a boost to consumption related to the large influx of displaced people are expected to support growth. To fund its NRRP Poland requested €23.9 billion in grants and €12.1 billion of preferential loans under the "Next Generation EU", which is expected to be approved in March.

Rising food and electricity prices are expected to weigh heavily on poorer segments, who devote 50 percent of their monthly spending on food and energy. Minimum wage growth of 7.5 percent in 2022 is expected to be outstripped by inflationary pressures, leading to a decline in the real minimum wage in 2022. While measures under the Anti-inflation Shield will soften the household impacts, the share of the population at risk of poverty is expected to remain elevated through 2022 and 2023.

Higher import prices, and higher primary income outflows are expected to result in a deterioration in the current account deficit to 2.5 percent of GDP in 2022, with a moderate improvement over 2023-2024 as terms of trade improve.

The fiscal deficit is expected to remain above the medium-term budgetary objective, as a result of the structural tax reform (Polish Deal) and the temporary impact of the Anti-inflation Shield. The fiscal cost of these packages is estimated at 0.7 percent and 1.1 percent of GDP, respectively in 2022. Furthermore, there will be additional public spending to manage the large influx of displaced people from Ukraine.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.7	-2.5	5.7	3.9	3.6	3.7
Private Consumption	3.9	-2.9	6.2	3.9	3.3	3.2
Government Consumption	6.5	4.9	3.6	2.4	2.5	2.7
Gross Fixed Capital Investment	6.1	-9.0	8.0	5.3	5.1	5.4
Exports, Goods and Services	5.2	0.1	6.0	5.5	4.2	4.5
Imports, Goods and Services	3.0	-1.2	7.0	5.6	4.0	4.3
Real GDP growth, at constant factor prices	4.6	-2.6	5.7	3.9	3.6	3.7
Agriculture	-0.8	13.8	1.3	2.0	1.0	1.0
Industry	2.2	-5.2	7.0	4.6	3.3	3.3
Services	6.0	-1.8	5.3	3.6	3.8	3.9
Inflation (Consumer Price Index)	2.3	3.4	5.1	9.6	7.5	4.0
Current Account Balance (% of GDP)	0.5	2.9	-0.4	-2.5	-1.6	-1.3
Net Foreign Direct Investment (% of GDP)	-2.0	-2.1	-1.2	-1.1	-0.9	-0.9
Fiscal Balance (% of GDP)	-0.7	-7.1	-3.5	-3.5	-3.6	-2.9
Debt (% of GDP)	45.6	57.4	57.0	54.5	51.9	49.5
Primary Balance (% of GDP)	0.6	-5.8	-2.5	-2.0	-2.3	-1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.3	0.4	0.3	0.4	0.3	0.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.5	0.5	0.5	0.6	0.6	0.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	1.1	1.2	1.2	1.6	1.4	1.3
GHG emissions growth (mtCO2e)	-5.4	-6.0	1.4	-0.2	-0.5	-0.6
Energy related GHG emissions (% of total)	87.4	87.7	87.3	87.0	86.9	86.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2007-EU-SILC and 2018-EU-SILC. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection from 2019 to 2021 using point-to-point elasticity (2007-2018) with pass-through = 1 based on GDP per capita in constant LCU. Projection from 2022 based on estimates incorporating differential income growth among poorer households.

ROMANIA

Table 1	2021
Population, million	19.2
GDP, current US$ billion	266.7
GDP per capita, current US$	13902.1
International poverty rate ($1.9)[a]	2.4
Lower middle-income poverty rate ($3.2)[a]	4.4
Upper middle-income poverty rate ($5.5)[a]	9.5
Gini index[a]	35.1
School enrollment, primary (% gross)[b]	87.5
Life expectancy at birth, years[b]	75.5
Total GHG Emissions (mtCO2e)	80.5

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

Romania's economy rebounded at 5.9 percent in 2021, despite supply disruptions, a significant pick-up in inflation and the effects of the pandemic. The economy is projected to modestly expand in 2022, although recession risks resulting from the Ukraine crisis are high. Despite some consolidation measures, the fiscal deficit will remain elevated in 2022, at around 6.6 percent of GDP. Poverty is anticipated to slightly decline to 10.1 percent in 2022.

Key conditions and challenges

Prior to the COVID-19 pandemic, Romania enjoyed strong economic growth. However, the pandemic exposed the vulnerabilities of the economy, including persistent poverty and disparities in economic opportunity across regions and between urban and rural areas, structural rigidities in the product and labor markets, weaknesses in fiscal policy and significant institutional constraints hindering the efficient use of resources.

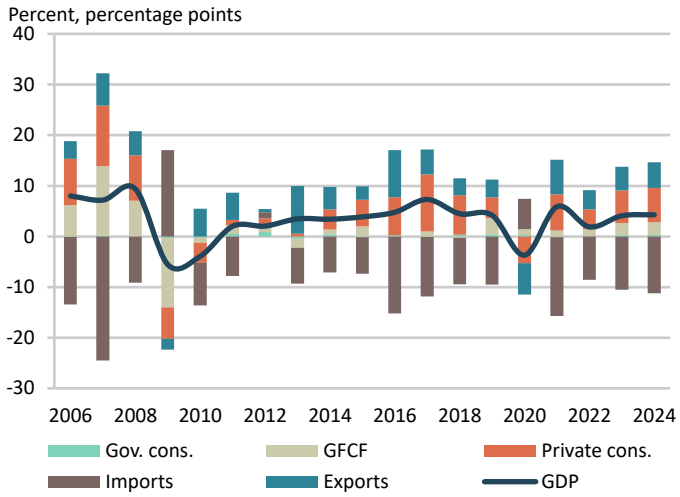
Disruptions in the global supply chain from the pandemic coupled with the impact of the war in Ukraine have resulted in rising food and energy prices. The depleted real purchasing power and declining remittances impose a heavy burden on the poor and marginalized population groups in Romania already disproportionality affected by the prolonged pandemic. Despite the economic rebound, the share of the Romanian population living on less than $5.5 a day at 2011 revised PPP prices is estimated to have declined modestly to 10.1 percent in 2022 from 10.3 percent in 2021.

The key challenges in the short term are to contain the socio-economic effects of the conflict in the region and the COVID-19 crisis. Significant inflationary pressures triggered a more hawkish stance from the National Bank of Romania (NBR). Once recovery is firmly established, fiscal consolidation will be critical to limit increases in debt levels. Moreover, maximal and effective absorption of the EU Multiannual Financial Framework and Next Generation EU (NGEU) funds will be crucial for a sustainable recovery.

Recent developments

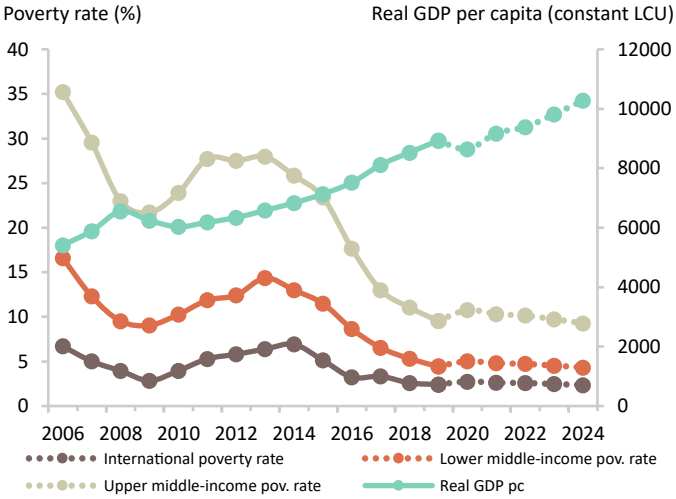
The Romanian economy grew by 5.9 percent in 2021, but growth decelerated in Q4 (2.4 percent yoy) amid supply disruptions, significant pick-up in inflation and a new COVID-19 wave. Private consumption recovered strongly in 2021 (7 percent yoy) led by robust demand for durable and household goods. Higher prices of raw materials, however, tempered investment growth (4 percent yoy). Trade volumes were affected by global value chain disruptions and cost-push inflation, while the deterioration of the secondary income balance added to the current account pressures. On the supply side, growth was led by the ICT sector (13.4 percent yoy in 2021) which benefited from increased remote work needs. Industry growth decelerated (5 percent yoy in 2021), as new industrial orders declined in Q4. The economic recovery and labor supply constraints reduced unemployment to 5.4 percent in December from 6 percent in January 2021. Labor shortages coupled with higher inflation led to wage increases, with nominal net wages up by 7.2 percent yoy in December 2021. Annual inflation accelerated to 8.4 percent in January 2022 reflecting strong supply-side inflationary pressures, including recent spikes in energy prices.

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



Source: World Bank.

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



Source: World Bank. Notes: see table 2.

This prompted the NBR to further increase the policy rate in mid-January and mid-February 2022 by 0.25 pp and 0.5 pp, respectively, to 2.5 percent. Private credit sector growth remained high, up 15.1 percent yoy in January 2022.

An economic and employment rebound meant that household income, in particular labor income, also recovered. The Rapid Household Survey in December 2021 showed that most workers including low-wage workers have returned to work, helping to bring household labor income close to the pre-crisis level. However, rising food and energy prices have depleted households' real purchasing power, especially among the poor and vulnerable, as they spend nearly 65 percent of their budget on these necessities. Moreover, the war in Ukraine and further disruption of the global supply chain will continue to affect the economies of host countries for Romanian migrants, which will inevitably hamper income for Romanians at home. Thus, despite economic and employment recovery, poverty is expected to have declined modestly to 10.1 percent in 2022 yet remains above the pre-crisis level.

The fiscal deficit surged to 9.4 percent of GDP at the end of 2020 and remained high in 2021 at an estimated 7 percent on the back of the COVID-19 related fiscal stimulus. Higher revenues, up 17.7 percent yoy in 2021, supported by the economic recovery, offset the 8.8 percent yoy increase in expenditure, but fiscal pressures remain significant.

Outlook

Romania's economy is projected to grow at 1.9 percent in 2022, with risks strongly tilted to the downside. The strength of the recovery will depend on the evolution of new COVID-19 variants and the severity of the hostilities in the region. Romania's capacity to absorb the EU funds will be critical to a sustainable, green, and inclusive recovery process. According to Government estimations, in a scenario of 100 percent absorption, the Resilience and Recovery funds will, on average, add around one percentage point to Romania's real GDP growth per year between 2022 and 2026. However, low historical absorption rates reflect substantial headwinds to a high absorption scenario. Significant inflationary pressures from the energy and food markets challenge the nascent recovery requiring a careful balancing act from the NBR.

A substantial reduction of the fiscal deficit in 2022 is improbable, as the government will have to support the economic recovery process while also supporting macroeconomic stabilization. Over the medium term, the deficit will follow a downward trajectory but is likely to remain above 3 percent of GDP. Renewed attention should be given to fiscal consolidation to avoid an unsustainable increase in public debt over the medium term.

Poverty is projected to decline to the pre-crisis level by 2024. However, rising food and energy prices, and declining remittance incomes could mean a longer recovery process for vulnerable population segments compared to others in the coming years. A protracted war in Ukraine may however push growth into negative territory and lead to an increase in poverty in the short run.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.2	-3.7	5.9	1.9	4.1	4.3
Private Consumption	3.9	-5.1	7.0	3.8	6.1	6.3
Government Consumption	7.9	5.9	-2.8	1.2	4.6	5.2
Gross Fixed Capital Investment	12.9	4.1	4.0	4.7	8.1	8.2
Exports, Goods and Services	5.4	-9.4	11.1	5.9	7.0	7.3
Imports, Goods and Services	8.6	-5.2	13.7	7.0	8.2	8.4
Real GDP growth, at constant factor prices	4.0	-3.5	5.9	1.9	4.1	4.3
Agriculture	-5.0	-14.9	13.5	2.8	3.9	3.9
Industry	-1.3	-4.5	5.0	1.6	4.7	4.4
Services	7.9	-1.9	5.7	2.0	3.8	4.3
Inflation (Consumer Price Index)	3.8	2.6	5.1	9.8	5.3	3.2
Current Account Balance (% of GDP)	-4.7	-5.0	-7.1	-7.2	-6.3	-5.7
Net Foreign Direct Investment (% of GDP)	2.2	0.9	2.3	1.8	2.3	2.3
Fiscal Balance (% of GDP)	-4.4	-9.4	-7.0	-6.6	-5.3	-4.7
Debt (% of GDP)	35.3	47.4	49.4	52.0	53.9	54.1
Primary Balance (% of GDP)	-3.2	-8.0	-5.4	-4.9	-3.7	-3.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.4	2.7	2.6	2.6	2.5	2.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	4.4	5.0	4.8	4.7	4.5	4.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	9.5	10.8	10.3	10.1	9.7	9.2
GHG emissions growth (mtCO2e)	-0.9	-8.7	3.2	-1.0	0.5	1.4
Energy related GHG emissions (% of total)	85.4	85.9	86.5	87.0	87.7	88.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2007-EU-SILC and 2019-EU-SILC. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection based off elasticities calibrated on 2007-2019 growth periods and rapid assessment data, allowing for elasticities to vary between periods of contraction, recovery and expansion.

RUSSIAN FEDERATION

Table 1	2021
Population, million[a]	144.1
GDP, current US$ billion	1775.9
GNI per capita, Atlas method, current US$[a]	10690.0
Lower middle-income poverty rate ($3.2)[b]	0.3
Upper middle-income poverty rate ($5.5)[b]	2.9
Gini index[b]	36.0
School enrollment, primary (% gross)[c]	104.2
Life expectancy at birth, years[c]	73.1

Sources: WDI, MPO, Rosstat.
a/ Most recent WDI value (2020).
b/ Most recent value (2020), 2011 PPs.
c/ Most recent WDI value (2019).

Due to its invasion of Ukraine Russia faces the largest coordinated economic sanctions ever imposed on a country. Russia's economy will be hit very hard, with a deep recession looming in 2022. GDP is expected to contract by 11.2 percent, with little recovery in the ensuing two years. Households will be deeply impacted by the crisis, with a projected additional 2.6 million people falling below the national poverty line.

Key conditions and challenges

Russia's economic outlook has been rapidly overtaken by the fallout from its invasion of Ukraine. The strongest set of coordinated economic sanctions, swiftly imposed, will severely impact Russia across multiple dimensions. The sanctions amount to coordinated shocks to trade, external financing, financial intermediation, and confidence. The withdrawal of many foreign enterprises from the Russian market and a sharply deteriorated outlook will leave Russia bereft of investment, while pressure on households from fast-rising prices and declining incomes will push consumption lower. A deleterious effect on households will, at best, only be partly offset by domestic policy responses.

Looking further ahead, Russia's pre-existing challenge of raising medium-term growth sufficiently to support improved living standards for its population is now far more daunting. Yet, given the adverse shock it now faces, this challenge is all the more important.

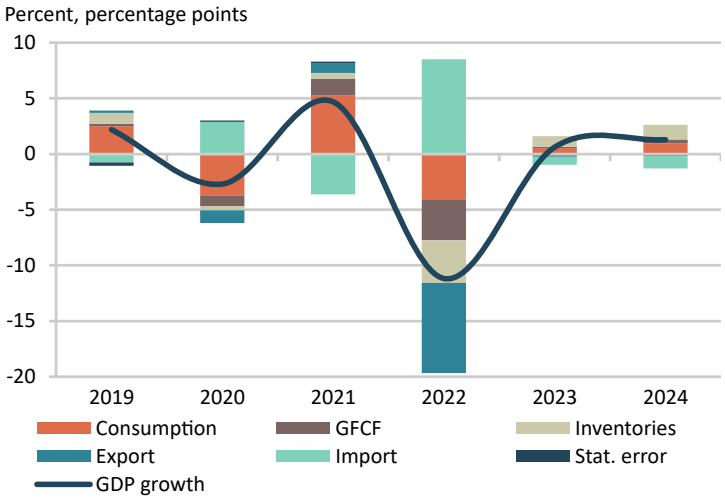
Recent developments

Before the invasion of Ukraine and the ensuing sanctions, Russia's economy was recovering well. Growth in 2021 reached 4.7 per cent, following a 2.7 percent decline in 2020. The general government budget returned to a surplus of 0.8 percent of GDP. The current account surplus expanded to US$120 billion – exceeding its 2019 level – as commodity prices increased and outbound tourism remained muted. By the end of 2021, consumer price inflation had become a central concern, reaching 8.4 percent year-on-year in December. The rise in inflation was broad-based, reflecting a combination of robust demand for goods, increases in energy and food prices, and global supply bottlenecks. The banking sector proved resilient during the COVID-19 pandemic, with economic recovery and credit growth helping to improve balance sheets in 2021. Labor markets strengthened, too, in 2021; the unemployment rate fell to 4.8 percent, close to its pre-pandemic low. The official poverty rate of 11.0 percent by end-2021 was below year-end rates in 2020 and 2019.

However, developments in Russia took a sharp turn for the worse beginning with Russia's invasion of Ukraine. Sanctions imposed on Russia severely restrict access to international capital markets, the capacity to conduct international transactions, the imports of certain goods, and access to international and fiscal reserves. Several large Russian financial organizations were sanctioned. Sanctions have materially increased risks to banks' asset quality, solvency, funding and liquidity profiles, while limiting the CBR's capacity to absorb shocks.

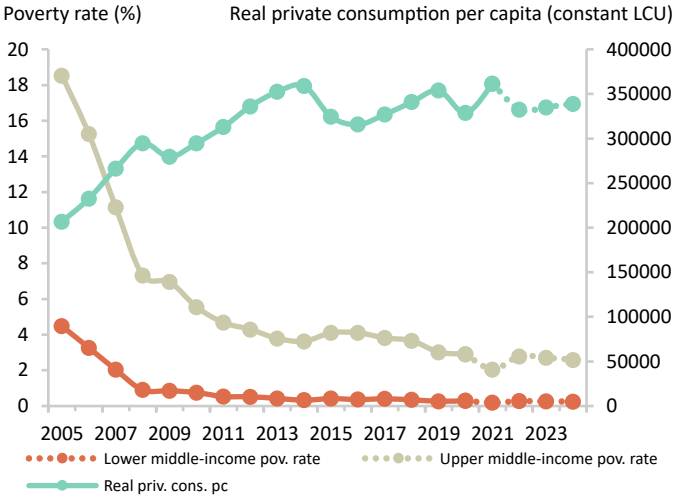
The imposition of sanctions has led to a precipitous drop in Russian asset prices and the ruble, with the latter depreciating by 30 percent against major currencies. In

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



Sources: Rosstat, World Bank.

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



Source: World Bank. Notes: see Table 2.

response, the Russian authorities doubled interest rates, announced a Rub 1 trillion fiscal package, imposed capital controls, and introduced forbearance measures and special regulations for financial markets aimed at stemming the capital flight and easing pressure on the financial system.

Outlook

Uncertainty over the forecasts is unprecedentedly high, conditional on Russia's military actions in Ukraine and the global response. The severe impacts of sanctions already in place are expected to drive Russia's GDP down by 11.2 percent in 2022, largely due to a contraction in domestic demand. High uncertainty, depreciation, disruptions to trade and business closures are expected to result in a 17 percent slump in investment. A decline in employment and real wages, elevated outmigration and rising costs of living will weigh on private consumption, which is expected to fall by 8.5 percent. SWIFT and FX restrictions will impede cross-border transactions, leading to delays and cancellations.

Announced bans and reductions in purchases of Russian oil and gas are expected to lead to a substantial fall in shipments this year, while larger slump in non-energy export volumes is expected. However, the current account balance is expected to strengthen as the fall in exports will be more than offset by a contraction in imports. High levels of capital outflows are expected from Russia this year. In 2023 and 2024, GDP growth is expected to rebound only gradually, at 0.6 and 1.3 percent respectively.

Overall, consumer price inflation is expected to rise from 9 percent in 2021 to 22 percent in 2022, and to stay well above the central bank target in the projection period. A decline in economic activity and higher expenditure needs are expected to turn the general government surplus into a substantial deficit in 2022. The adverse impact of the shock on the financial sector makes a major credit crunch likely, while continued pressure on the corporates and banks, combined with eroded buffers, spells a heightened risk of bank failures and systemic crisis in the sector.

Households are expected to be impacted by the crisis via four channels – limited access to goods and services (either because of inflation, shortages or even rationing), falling labor incomes, asset price falls, and migrant workers likely to be especially affected via falling remittances. The percentage of the population with incomes below the official poverty line (approximately US$ 14/day) is projected to increase to 12.8 percent in 2022 from 11.0 percent in 2021 (an increase of 2.6 million people). The poverty rate using the World Bank poverty line (US$ 5.5/day) is expected to increase from 2.0 in 2021 to 2.8 percent in 2022 (an increase of above one million people) and practically remain there through 2024.

Risks are skewed to the downside, as additional rounds of sanctions could further impact Russia's outlook. A disruption in oil or gas receipts, or more severe dysfunction in domestic financial markets, could push growth lower and poverty rates up. Still-low COVID-19 vaccination rates and the prospect of new variants remains another source of risk.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.2	-2.7	4.7	-11.2	0.6	1.3
Private Consumption	3.8	-7.3	9.5	-8.5	0.5	1.3
Government Consumption	2.4	1.9	1.1	3.6	1.2	1.0
Gross Fixed Capital Investment	1.0	-4.4	7.0	-16.9	0.6	1.7
Exports, Goods and Services	0.7	-4.1	3.2	-30.9	-1.2	-0.9
Imports, Goods and Services	3.1	-12.1	16.7	-35.2	4.1	6.2
Real GDP growth, at constant factor prices	2.2	-2.5	4.6	-11.2	0.6	1.3
Agriculture	3.5	0.2	-1.3	1.0	1.0	1.0
Industry	1.5	-2.4	4.9	-8.8	0.5	0.9
Services	2.4	-2.7	4.8	-13.2	0.7	1.5
Inflation (Consumer Price Index)	4.5	3.4	6.7	22.0	13.0	8.0
Current Account Balance (% of GDP)	3.9	2.4	6.8	9.8	6.4	2.8
Net Foreign Direct Investment (% of GDP)	0.6	-0.2	-1.3	-7.5	-3.5	-2.8
Fiscal Balance (% of GDP)[a]	1.9	-4.0	0.8	-1.9	-1.8	-1.2
Debt (% of GDP)	14.3	20.0	17.9	19.8	20.3	20.6
Primary Balance (% of GDP)[a]	2.7	-3.2	1.7	-0.3	-0.1	0.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	0.3	0.3	0.2	0.3	0.3	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	3.0	2.9	2.0	2.8	2.8	2.6
GHG emissions growth (mtCO2e)	2.4	-3.6	1.1	-11.5	0.3	0.7
Energy related GHG emissions (% of total)	91.6	91.3	90.1	89.8	89.6	89.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
a/ Fiscal and Primary Balance refer to general government balances.
b/ Calculations based on ECAPOV harmonization, using 2020-HBS. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
c/ Projection using neutral distribution (2020) with pass-through = 0.87 based on private consumption per capita in constant LCU.

SERBIA

Table 1	2021
Population, million	6.9
GDP, current US$ billion	63.0
GDP per capita, current US$	9168.9
Upper middle-income poverty rate ($5.5)[a]	10.1
Gini index[a]	34.5
School enrollment, primary (% gross)[b]	97.7
Life expectancy at birth, years[b]	75.7
Total GHG Emissions (mtCO2e)	62.5

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

The Serbian economy is recovering well from the impact of COVID-19 pandemic by growing 7.4 percent in 2021 and poverty incidence declined to an estimated 9.8 percent. Growth is expected to decelerate in 2022 and the risks to the growth outlook are clearly tilted to the downside. Poverty reduction is expected to stagnate in 2022 as income gains are weakened by rising inflation risks.

Key conditions and challenges

The focus of the Government of Serbia in 2020 and 2021 was on supporting the economy to recover from the impact of the COVID-19 pandemic. The Serbian government approved a robust fiscal stimulus program in both years and as a result the economy experienced only a mild recession (of -0.9 percent) in 2020 and rebounded by 7.4 percent in 2021. The impact of the program, however, came at considerable fiscal cost. The fiscal deficit reached 8.1 percent of GDP in 2020 and public debt increased to around 58 percent of GDP.

Over the medium term the Serbian economy is expected to return to the pre-pandemic growth levels. However, Serbia still faces challenges that limit its potential growth both in the short and medium to long terms. Most importantly, Serbia needs to further remove bottlenecks for private sector investment. These include a deteriorating governance environment, lack of infrastructure and an unreformed education sector, which creates skills mismatches in the labor market. With limited space for future stimulus packages, structural reforms are needed to bring the economy back to sustained growth, boost jobs and incomes and strengthen resilience to shocks. The second big challenge is a large and still not entirely reformed SOE sector.

Recent developments

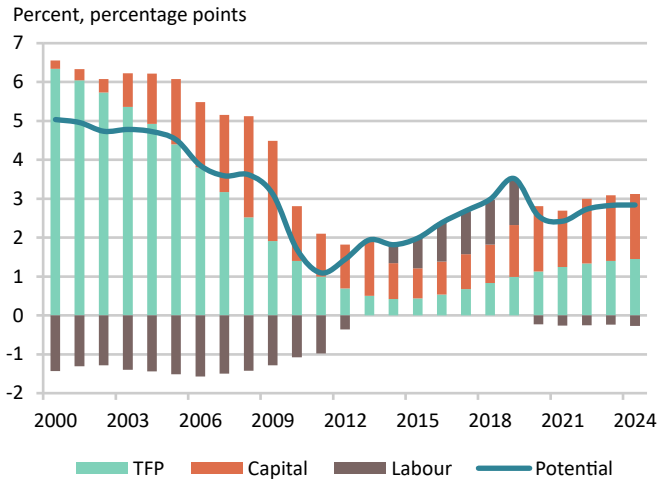
The economy grew by 7.4 percent in 2021 pushed by the consumption, pushed by a large increase in private consumption (up 7.6 percent in real terms y/y), thanks to a strong increase of salaries and consumption loans. The economic recovery in 2021 was broad based, with the exception of the agriculture sector, where output declined by 5.4 percent in real terms.

Poverty (defined as income under $5.5/day in revised 2011 PPP) is estimated to have declined slightly from 10.2 percent in 2020 to 9.8 percent in 2021. The wage subsidy and cash transfers to citizens in 2020 helped to avert a spike in poverty. In 2021, poverty reduction slowly resumed due to strong economic growth and improving labor market conditions, though partly countered by an output decline in agriculture, rising inflation at the end of the year, and the phasing out of government support programs.

The labor market started improving throughout 2021. In Q4 of 2021, the unemployment rate dropped to 9.8 percent. Wages continued to go up, increasing by 9.6 percent in nominal terms in 2021.

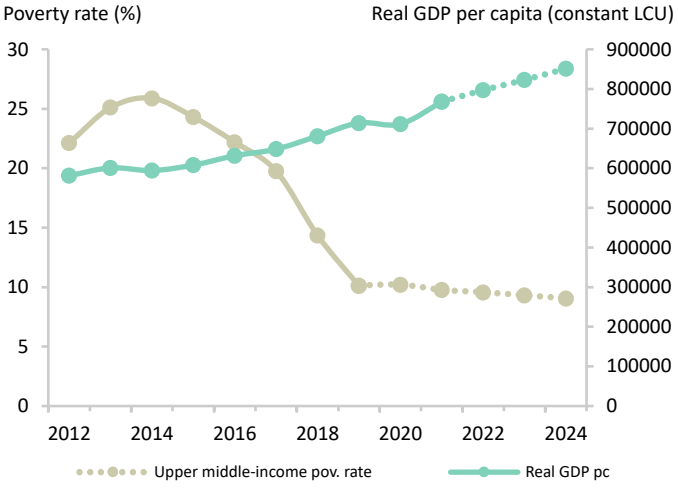
The consolidated fiscal deficit decreased significantly in 2021 to reach an estimated 4.1 percent of GDP. Despite the fact that government expenditures increased by 10.1 percent (in nominal terms). Public debt at end-December 2021 stood at 57.1 percent of GDP, thus only marginally decreasing since end-2020.

FIGURE 1 Serbia / Real GDP and potential growth and contributions to potential GDP growth



Source: World Bank staff calculations.

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



Source: World Bank. Note: see table 2.

Starting in the summer, there was a gradual increase in inflation and the consumer price index (CPI) reached 8.8 percent (y/y) in February. Food inflation, higher than in all EU countries in January 2022, hurt the poor. Household energy tariffs in Serbia are regulated and have been kept unchanged so far despite rising energy costs. The current account deficit (CAD) increased to an estimated 4.4 percent of GDP for 2021, up from 4.1 percent in 2020.

Outlook

The Serbian economy was expected to continue to grow at around 4-4.5 percent annually. However, the war in Ukraine and sanctions on Russia will certainly have an impact on Serbia's exports, FDI, remittances and tourism revenues. Having in mind the significance of these flows, growth for 2022 could be revised downwards to 3.2 percent. Further revisions are possible depending on the length of the war and the scope of sanctions toward Russia. Over the medium term, the economy is expected to grow steadily at around 3 percent annually.

The outlook also crucially depends on the domestic reform agenda and its implementation. The ongoing crisis in the domestic energy sector emphasized once again the importance of improved management of SOEs. In addition, contingent liabilities could affect public finances, particularly those related to the deterioration in the performance of SOEs, as demonstrated recently by Telekom Srbija and Air Serbia. As a remedy, the government should embark on a comprehensive and thorough reform of SOEs to make them financially sound and viable. In addition, the government should use the opening of new chapters of the EU acquis to accelerate reforms and align Serbian legal and institutional system to that of the EU.

Poverty reduction is expected to stagnate in 2022. The unfolding war in Ukraine poses significant downside risk for household welfare in Serbia. While Serbia's economy is expected to continue to grow, contributing to income growth for households, rising inflation will limit purchasing power. Particularly rising energy prices, if they are passed onto household energy tariffs, would disproportionately hit the poor. Poverty in 2022 is projected at 9.6 percent, close to its 2021 level, though could be revised upward depending on the length and severity of the war's economic impacts. The pace of labor market recovery remains critical for resumed poverty reduction.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.3	-0.9	7.4	3.2	2.7	2.8
Private Consumption	3.7	-1.9	7.6	6.1	4.2	3.7
Government Consumption	2.0	2.9	2.6	1.1	0.5	-0.6
Gross Fixed Capital Investment	17.2	-1.9	12.5	-1.0	0.3	2.1
Exports, Goods and Services	7.7	-4.2	19.4	5.4	5.2	5.4
Imports, Goods and Services	10.7	-3.6	19.3	5.7	4.8	4.7
Real GDP growth, at constant factor prices	4.4	-0.8	7.3	3.0	2.6	2.9
Agriculture	-1.7	2.2	-5.4	5.7	4.5	3.4
Industry	5.9	-0.6	7.8	2.4	4.5	4.5
Services	4.4	-1.2	8.7	3.0	1.5	2.0
Inflation (Consumer Price Index)	1.9	1.6	4.0	7.0	4.0	3.7
Current Account Balance (% of GDP)	-6.9	-4.1	-4.4	-6.4	-5.8	-5.1
Net Foreign Direct Investment (% of GDP)	7.7	6.3	6.8	5.8	5.9	5.9
Fiscal Balance (% of GDP)	-0.2	-8.0	-4.1	-4.1	-3.0	-2.2
Debt (% of GDP)	52.8	57.8	57.2	58.2	58.9	56.8
Primary Balance (% of GDP)	1.8	-6.0	-2.4	-2.3	-1.0	-0.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	10.1	10.2	9.8	9.6	9.3	9.0
GHG emissions growth (mtCO2e)	-2.1	0.5	1.6	-0.4	-0.6	-0.8
Energy related GHG emissions (% of total)	75.4	75.7	76.1	76.0	75.8	75.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2013-EU-SILC, 2017-EU-SILC, and 2019-EU-SILC. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2013-2017) with pass-through = 0.2 and 0.3 based on GDP per capita in constant LCU, reflecting impacts of rising prices.

TAJIKISTAN

Table 1	2021
Population, million	9.8
GDP, current US$ billion	8.7
GDP per capita, current US$	896.9
International poverty rate ($1.9)[a]	4.1
Lower middle-income poverty rate ($3.2)[a]	17.8
Upper middle-income poverty rate ($5.5)[a]	50.5
Gini index[a]	34.0
School enrollment, primary (% gross)[b]	100.9
Life expectancy at birth, years[b]	71.1
Total GHG Emissions (mtCO2e)	16.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2011 PPPs.
b/ WDI for School enrollment (2017); Life expectancy (2019).

The fallout from Russia's invasion of Ukraine will lead to an economic contraction of about 2 percent in 2022. A projected 40 percent fall in remittances, higher food and energy prices, and financial services and trade disruptions will lower household incomes and increase poverty. Fiscal space, already constrained by structural impediments to private sector growth, is further limited by rising debt distress risks from a weakening exchange rate.

Key conditions and challenges

Tajikistan remains the poorest economy in Central Asia, with a narrow export base, structural bottlenecks for job creation, and high dependence on external financial aid. Per capita income (GNI, Atlas method) was about US$1,100 in 2021–slightly above the lower-middle-income threshold. The poverty rate fell from 17.8 percent in 2015 to about 13.9 percent in 2021.

Tajikistan's economy relies heavily on primary commodity production and exports, with limited economic diversification. Domestic investment and consumption depend heavily on migrant remittances, which are about a third of GDP, thus leaving the economy highly vulnerable to external shocks. Sanctions on the Russian economy have exposed this vulnerability since Russia is the largest employer of Tajik migrant workers and is among the largest trading partners.

Reforms aimed at private sector growth, public sector efficiency, and greater inclusion are vital to further economic development.

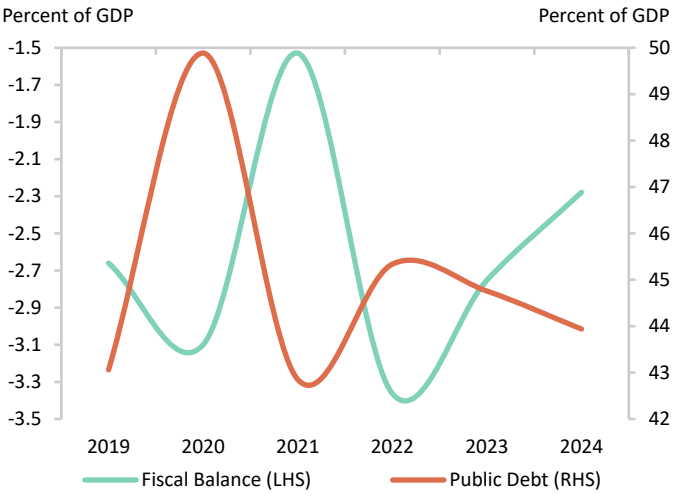
Recent developments

Real GDP growth rebounded to about 9.2 percent in 2021, after slowing to 4.5 percent in 2020 due to COVID-19. A sharp increase in precious metal exports, recovery in remittance inflows, and a pickup in private investment and consumption supported this rebound.

Tajikistan's external position improved considerably from higher export prices for metals and mineral products and remittance inflows. The current account was in surplus of about 1 percent of GDP in 2021, compared to a surplus of 4.1 percent in 2020. Precious metal exports reached $897 million and were about 40 percent of total merchandise exports. Increased remittances and foreign direct investment (FDI) inflows stimulated consumer and capital goods imports. Higher Chinese mining sector investments doubled FDI to $62.3 million (0.7 percent of GDP) during the first nine months of 2021. Strong foreign exchange inflows, including from the issuance of new Special Drawing Rights (SDR) by the IMF, supported a stable exchange rate and allowed international reserves to grow to about 8 months of import cover by end-2021.

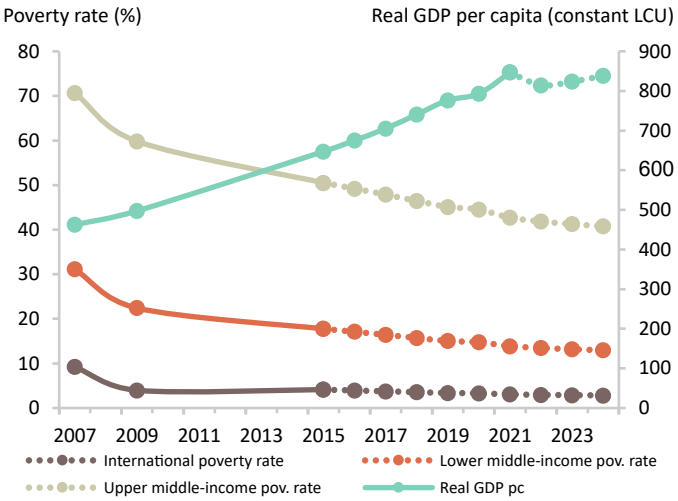
After a fiscal expansion in 2020, the government began to consolidate spending in 2021. The fiscal deficit narrowed to 1.5 percent of GDP from 3.1 percent in 2020. The expiration of anti-pandemic tax reliefs, a rebound in economic activity, and high export prices increased fiscal revenues. Development partner loans for infrastructure projects helped bridge the fiscal gap. Although a stable exchange rate and a rebounding economy helped reduce public and publicly guaranteed debt to 42.9 percent of GDP in 2021 (from about 50 percent in 2020), Tajikistan remains at high risk of debt distress given its high vulnerability to external shocks.

FIGURE 1 **Tajikistan** / Fiscal balance and public debt



Sources: TajStat, World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

In response to rising food and fuel price inflation, the central bank increased its policy rate four times from 10.75 at end-2020 to 13.25 percent by the end-2021. Nevertheless, average annual inflation rose from 8.6 percent in 2020 to 9 percent in 2021. Amidst lower remittances and a weakening ruble following Russia's invasion of Ukraine, the authorities allowed the somoni to depreciate by 13 percent against the US dollar in March 2022.

Financial sector performance improved in 2021 - primarily due to liquidation being initiated for four insolvent banks (including two state-owned banks). The share of non-performing loans in the total lending portfolio declined by 10 percentage points to 13.7 percent in 2021.

In the Fall 2021 round of the World Bank's Listening to Tajikistan survey, the share of households with at least one labor migrant abroad went up from 29 percent to 44 percent, remittance income from 10 percent to 18 percent, and wage income from 11 percent to 21 percent compared with 2020. As a result, the poverty rate fell to 13.9 percent, and fewer households reported cutting their food consumption in 2021.

To support the most vulnerable groups, the government provided social assistance to 238,000 families and provided extra one-off emergency nutrition-sensitive transfers to over 164,000 families with children.

Outlook

Russia's invasion of Ukraine will lead to a contraction of Tajikistan's economy by about 2 percent in 2022. The main driver of this contraction is a projected 40 percent fall in remittances, which is expected to lead to sharply lower private consumption and investment. Other factors, including high prices, disruptions to trade, and the financial system, are also expected to contribute to the contraction. High global food and fuel prices are projected to lead to double-digit inflation in 2022.

The poverty rate is expected to increase to 14.3 percent in 2022 from 13.9 percent in 2021, with the potential for significant further increases in poverty should more risks materialize.

The contraction of economic activity due to the war in Ukraine and a new tax code introduced at the beginning of the year are expected to lower tax revenues in 2022. This, along with an anticipated anti-crisis spending increase, is projected to increase the fiscal deficit to about 3.4 percent in 2022.

These projections are subject to substantial domestic and external downside risks. Enduring sanctions on Russia could create significant challenges for migrant workers and further reduce demand for Tajik exports. Other risks include the re-emergence of new pandemic waves, new border conflicts with the Kyrgyz Republic, and the spillover of security risks from Afghanistan. In addition, institutional challenges to private sector development and job creation weigh heavily on the country's growth prospects.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	7.4	4.5	9.2	-1.8	3.2	3.8
Private Consumption	7.1	-4.4	4.6	-10.0	3.0	5.0
Government Consumption	3.5	0.4	7.8	-0.4	1.3	2.9
Gross Fixed Capital Investment	-6.4	-6.6	4.0	-9.7	6.7	5.5
Exports, Goods and Services	3.5	9.6	18.3	0.0	3.5	3.7
Imports, Goods and Services	2.2	-2.8	11.5	-5.0	0.2	0.5
Real GDP growth, at constant factor prices	8.7	4.3	9.0	-1.3	3.4	3.9
Agriculture	7.1	8.8	6.6	4.5	3.0	3.4
Industry	13.6	9.7	22.0	5.5	3.6	4.1
Services	4.9	-4.0	-5.2	-16.0	3.5	4.0
Inflation (Consumer Price Index)	8.0	8.6	9.0	12.6	10.0	8.5
Current Account Balance (% of GDP)	-2.2	4.1	1.0	-7.7	-4.4	-2.6
Net Foreign Direct Investment (% of GDP)	2.3	0.4	0.2	0.9	1.8	2.5
Fiscal Balance (% of GDP)	-2.7	-3.1	-1.5	-3.4	-2.8	-2.3
Debt (% of GDP)	43.1	49.9	42.9	45.3	44.8	43.9
Primary Balance (% of GDP)	-1.7	-2.2	-0.5	-2.1	-1.4	-1.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.4	3.3	3.0	3.2	3.1	3.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	15.0	14.8	13.9	14.4	14.2	14.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	45.1	44.5	42.7	43.7	43.4	42.9
GHG emissions growth (mtCO2e)	9.9	7.8	9.6	5.2	7.1	7.5
Energy related GHG emissions (% of total)	40.9	43.1	46.3	46.7	48.2	49.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2007-TLSS, 2019-, and 2015-HSITAFIEN. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2007-2019) with pass-through = 1 based on GDP per capita in constant LCU.

TURKEY

Table 1	2021
Population, million	84.1
GDP, current US$ billion	810.0
GDP per capita, current US$	9626.1
Upper middle-income poverty rate ($5.5)[a]	10.2
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	97.1
Life expectancy at birth, years[b]	77.7
Total GHG Emissions (mtCO2e)	518.0

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

Turkey's economy grew 11 percent in 2021, the fastest among G-20 countries, as COVID-19 related measures were gradually relaxed in Turkey and abroad. While Turkey's interest rate cuts from September supported demand, they also amplified macro-financial instability, which, combined with spillovers from the Ukraine-Russia war, will lower 2022 growth to 1.4 percent. Rising energy and food price inflation will hurt the poor the most, compromising a gradual employment-driven, post-pandemic poverty recovery.

Key conditions and challenges

Turkey enjoyed high growth rates between 2002-17, which propelled the country to the higher reaches of upper-middle-income status. But productivity growth slowed as reform momentum waned over the past decade and efforts turned to supporting growth with credit booms and demand stimulus, exacerbating internal and external vulnerabilities. High private sector debt, persistent current account deficits financed by short-term portfolio flows, high inflation, and high unemployment have been exacerbated by macro-financial instability since August 2018. Moreover, the economy's high energy and carbon intensity make it vulnerable to global energy supply and price volatility and pose a challenge for Turkey's exporters in the context of global and regional decarbonization policies.

Turkey's growth accelerated to the highest rate among G20 countries in 2021 as COVID-19 related measures were gradually relaxed in Turkey and abroad and authorities loosened monetary policy. However, monetary stimulus also caused deteriorating macro-finance conditions. The Lira depreciated to record lows and inflation rose to record highs. External and fiscal buffers deteriorated as the central bank supported the Lira, and the government deployed tax rate reductions and fuel subsidies to dampen headline inflation.

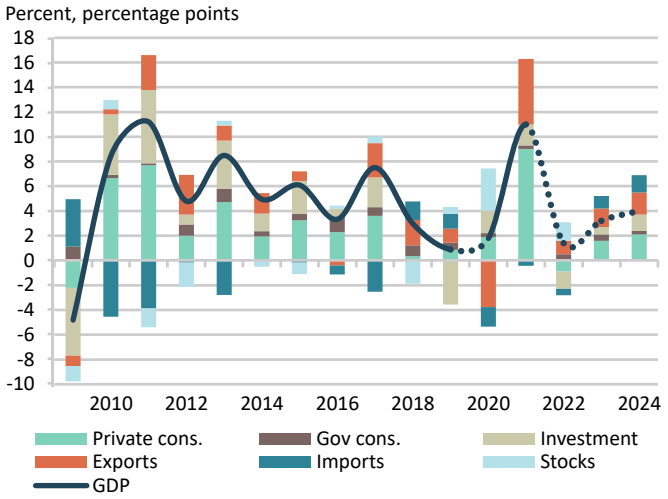
The Russian invasion of Ukraine is amplifying the headwinds facing the Turkish economy. Given Turkey's close economic ties to both Russia and Ukraine, the war is expected to disrupt Turkey's energy and agricultural trade, tourist arrivals, and overseas construction activities. Price spikes of essential commodity imports will directly affect households and industry and adversely impact the current account balance and inflation. Low-income households in Turkey are especially affected as they spend nearly twice as much of their budgets as the wealthiest on necessities such as food and housing.

Recent developments

Turkey's economy grew by 11 percent in 2021, supported by exports and accelerated domestic private consumption as COVID-19 measures were relaxed and people brought forward some consumption expenditures in fear of continued price rises. Turkey's goods and services exports were supported by buoyant external demand, sharp nominal depreciation of the Lira, and global supply chain disruptions that diverted global demand to Turkey.

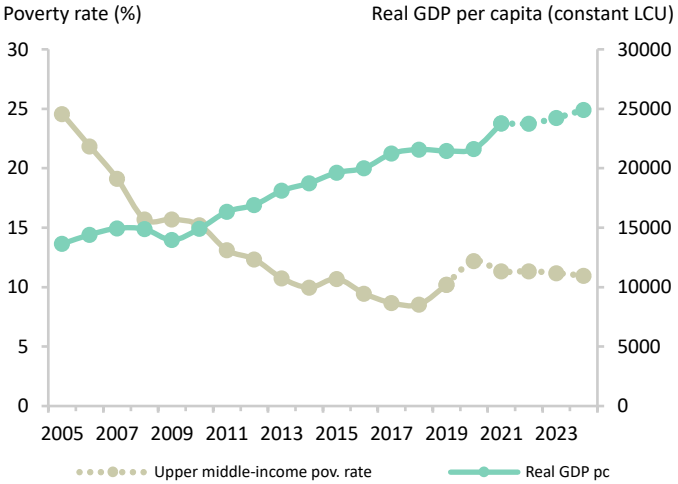
Total employment and labor force participation surpassed pre-pandemic levels in 2021. However, the recovery has been uneven, with those with informal work arrangements still lagging. On the other hand, the recovery was faster for women than men. Between December 2020 and December 2021, female labor

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



Sources: Turkstat and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

force participation (FLFP) increased by 14 percent, compared to 6 percent for males– although this leaves Turkey's FLFP still as the lowest among OECD countries. Youth employment also recovered, but 20.1 percent of youth are still unemployed. Poverty is expected to retreat due to the employment recovery, but will be partially offset owing to high inflation, keeping the poverty rate at 11.3 percent in 2021.

Despite rising domestic inflation and tightening global monetary conditions, Turkey's Central Bank lowered interest rates five times, by a total of 500 basis points, between September 2021 and the year-end. The move rapidly worsened macro-financial conditions and dented investor confidence. The Lira depreciated by roughly 120 percent in 2021 – the worst performance among emerging markets. This, coupled with rising global commodity prices, pushed year-on-year CPI and PPI inflation to 54.4 percent and 123.8 percent, respectively, in February 2022 – a two-decade high for both indices. Real interest rates moved deep into negative territory and dollarization accelerated. In response, the authorities launched several fiscal measures to stabilize the currency and dampen the impact of inflation, including a FX-protected deposit scheme that offers an exchange rate guarantee from the state budget.

The fiscal balance deteriorated in 2021 despite rising revenues, as the Lira depreciation raised FX-denominated debt service costs and PPP outlays, and as government provided capital injections to shore up SOE balance sheets. The FX-protected deposit scheme also created a sizable contingent fiscal liability. General government debt stock is estimated to have risen to 42.4 percent of GDP by end-2021. However, due to strong export growth, the current account deficit narrowed to 1.8 percent of GDP in 2021, from 5 percent in 2020. Gross FX reserves declined from $120bn to $111bn in 2021 amid FX interventions.

Outlook

Economic growth is expected to moderate to 1.4 percent in 2022 as macro-financial volatility intensifies and the impacts of Russia-Ukraine materialize, before returning to 3.2 percent and 4.0 percent in 2023 and 2024, respectively. Net exports are expected to drive growth in 2022, offsetting the drag from contractions in investment and private consumption. Inflation is projected to accelerate further to 61 percent in 2022, assuming no change in the monetary policy stance and high global commodity prices. In 2022 lower export growth and rising import prices are expected to widen the current account deficit to 6.4 percent of GDP. The general government deficit is projected to widen to 5.2 percent and 5.1 percent in 2022 and 2023, respectively, driven by rising public consumption, interest expenses, and current transfers.

Both external and domestic risks are tilted significantly to the downside. The Russia-Ukraine war has raised considerable uncertainty around the outlook. The war could: continue to increase commodity prices and exacerbate inflation, disproportionately impacting the poorest households; undermine Turkey's nascent tourism recovery; and spill over into Turkey's financial sector by raising NPLs in affected corporate sectors. Turkey is also vulnerable to tightening global liquidity conditions, given its high external financing requirements. The banking sector remains highly capitalized and with adequate FX buffers. However, removing forbearance measures is likely to pressure banks' balance sheets. The slowdown in the economy and job creation in 2022, and persistently high inflation mean that the poverty rate is projected to reach 11 percent by 2024.

TABLE 2 Turkey / 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	1.8	11.0	1.4	3.2	4.0
Private Consumption	1.5	3.2	15.1	-1.5	2.6	3.5
Government Consumption	4.1	2.2	2.1	3.6	3.9	2.0
Gross Fixed Capital Investment	-12.4	7.2	6.4	-5.6	2.4	5.8
Exports, Goods and Services	4.6	-14.8	24.9	4.7	6.0	7.0
Imports, Goods and Services	-5.4	7.6	2.0	-2.5	5.0	7.3
Real GDP growth, at constant factor prices	1.0	1.1	11.5	1.4	3.2	4.0
Agriculture	3.3	5.9	-2.2	1.0	2.0	2.0
Industry	-2.9	1.0	12.5	2.0	3.5	4.8
Services	2.7	0.6	12.7	1.1	3.2	3.8
Inflation (Consumer Price Index)	15.2	12.3	19.6	61.0	27.0	20.0
Current Account Balance (% of GDP)	0.7	-4.9	-1.8	-6.4	-5.0	-3.4
Net Foreign Direct Investment (% of GDP)	0.9	0.6	1.0	1.0	1.0	1.2
Fiscal Balance (% of GDP)	-3.0	-3.9	-3.1	-5.2	-5.1	-3.7
Debt (% of GDP)	32.7	39.8	42.4	44.5	43.0	40.3
Primary Balance (% of GDP)	-0.5	-1.1	-0.1	-1.4	-1.2	-0.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	10.2	12.2	11.3	11.3	11.2	11.0
GHG emissions growth (mtCO2e)	1.8	0.3	7.1	0.4	1.9	2.5
Energy related GHG emissions (% of total)	80.3	79.6	78.8	78.6	78.7	78.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2011-HICES and 2019-HICES. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2011-2019) with pass-through = 1 based on GDP per capita in constant LCU.

UKRAINE

Table 1	2021
Population, million	42.2
GDP, current US$ billion	200.1
GDP per capita, current US$	4741,7
School enrollment, primary (% gross)[a]	99.0
Life expectancy at birth, years[a]	71.8
Total GHG Emissions (mtCO2e)	237.2

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

The Russian invasion is taking a severe economic and humanitarian toll, reflected in fiscal financing pressures, disruptions to trade, the displacement of millions, and heavy infrastructure damage with potentially long-lasting macroeconomic and social repercussions. A 45 percent GDP contraction is anticipated in 2022 and a weak recovery thereafter. Depending on the war's duration, the share of the population living below the actual Subsistence Minimum may reach 70 percent in 2022.

Key conditions and challenges

Ukraine's economy had weathered the COVID-19 pandemic better than anticipated thanks to earlier reforms that strengthened macro-fiscal and financial fundamentals. Fiscal financing needs were managed through anchoring to the IFIs' financing programs and access to external markets. Although some reforms, including banking and SOEs, were incomplete and potential growth remained low due to demographic headwinds, low productivity and investment rates, the historic opening of agricultural land markets in mid-2021 held the promise of unleashing stronger growth in the agricultural sector that already contributed 40 percent of export earnings and one-fifth of GDP.

Following the Russian invasion on February 24, 2022, Ukraine has suffered a massive economic and humanitarian crisis. As of March 31, 4mn people had become refugees, and 6.5mn displaced internally. With food insecurity increasing, the Government banned the export of grains and other staples. To support the economy and ease pressures on FX reserves and banks, it imposed an emergency (including capital controls and banking sector restrictions) and announced tax deferrals, while fully meeting domestic and external debt obligations. These measures have helped to prevent a macro-fiscal and financial collapse during wartime.

Critical priorities in the near-term remain macroeconomic stability, provision of essential public services and humanitarian relief. Over the medium-term, the damage to productive and export capacity and loss of human capital are expected to have lasting economic and social repercussions. A major reconstruction effort will be necessary, complemented by institutional, structural and financial sector reforms to support private sector-led growth, but is contingent on substantial external financing on concessional terms (which will also aid fiscal sustainability). Absent this, the recovery would be even more protracted and likely to be characterized by continued hardship and migrant outflows.

Recent developments

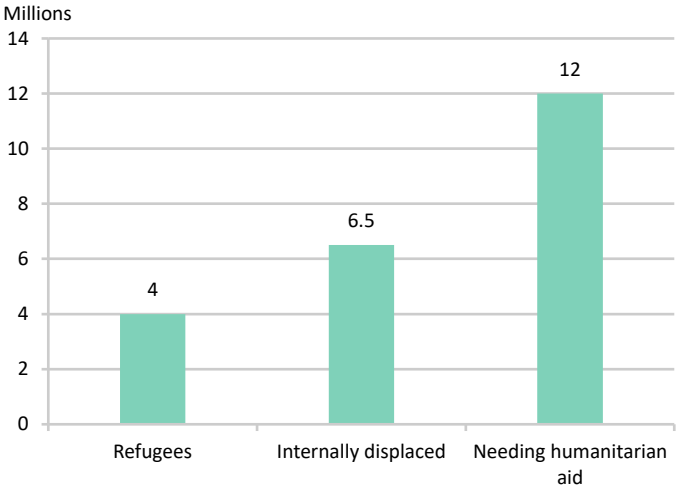
The economy expanded by 3.4 percent in 2021 as easing COVID restrictions supported domestic demand, and a bumper harvest offset d rags from higher global energy prices and a faster fiscal consolidation. The external position was relatively robust, with gross reserves at US$30.9 bn, and a small current account deficit of 1.1 percent of GDP. This recovery was upended by the onset of war in February 2022, which has fully disrupted maritime trade (this amounted to half of the total trade and 90 percent of grain trade), heavily damaged critical infrastructure and triggered a massive displacement of people.

Access to external capital markets remains closed, with Eurobond spreads peaking at

FIGURE 1 **Ukraine** / EMBI bond spreads

Source: Bloomberg. Latest data point from March 30, 2022.

FIGURE 2 **Ukraine** / Number of persons displaced and in need of humanitarian assistance



Source: UNOCHA and UNHCR. Latest data point from March 30, 2022.

over 50 percent in early March. A large fiscal financing gap has opened amid a rapidly widening fiscal deficit (due to growing spending needs and declining revenues) and large debt repayments. Tax revenues are expected to drop sharply due to the economic impacts of the war, as well as tax deferrals announced for key business, land and municipal taxes and the shift to a 2 percent turnover tax. In response, international partners have provided substantial funding through grants, loan guarantees, and currency swap lines alongside major financing packages by the IMF, EU, World Bank and some bilaterals. Bond spreads have since dropped 15 percentage points to just above 30 percent.

Compared to the 2014-15 crisis, the banking system is more resilient but faces heightened operational, liquidity and solvency risks. In addition to capital and exchange controls, the central bank has established a new liquidity facility and introduced regulatory forbearance measures to support financial stability. FX reserves stood at US$27.5 bn (3.8 months of current imports as of March 1). Inflation was stable at an average of 10 percent in the 8 months leading up to the war; regulated utilities prices and the introduction of price caps on essential consumer goods may restrain inflationary pressures in the short term.

Outlook

Projections, given the ongoing conflict, are subject to great uncertainty and large downside risks. In the baseline, assuming that war continues for several more months (albeit remains contained to the geographical areas where it is currently occurring), a 45 percent GDP contraction is anticipated in 2022. This is predicated on massive declines in imports and exports given trade disruptions, a collapse in public and private investments and a large drop in household spending reflecting the large displacements of people, loss of incomes and livelihoods. In coming years, a major reconstruction effort is expected to push growth to over 7 percent by 2025 amid a slow restoration of productive and export capacity and gradual return of refugees. Still, by 2025, GDP will be a third less than its pre-war level in 2021. After a significant widening, the non-primary fiscal deficit is expected to narrow over the medium term as gradual fiscal consolidation and cuts to non-essential spending offset increased public investment. The CA should remain constrained by sizable domestic import compression in the near term but will widen in 2023 and 2024 due to reconstruction-related investment imports (amid domestic supply constraints).

The poverty and social impacts of the war will be massive. Simulations using the most recent macroeconomic projection show that the share of the population with incomes below the actual Subsistence Minimum (the national poverty line) may reach 70 percent in 2022, up from 18 percent in 2021. In the absence of a massive post-war support package, this indicator would still be higher than 60 percent by 2025. Based on the international upper middle-income poverty line (US$5.5 a day), poverty is projected to increase to 19.8 percent in 2022, up from 1.8 percent in 2021, with an additional 59 percent of people being vulnerable to falling into poverty.

TABLE 2 Ukraine / 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	-3.8	3.4	-45.1	2.1	5.8
Private Consumption	10.9	1.7	7.7	-50.0	2.5	2.9
Government Consumption	-13.6	-0.7	1.8	-10.0	3.0	2.0
Gross Fixed Capital Investment	11.7	-21.3	7.6	-57.5	68.5	34.3
Exports, Goods and Services	7.3	-5.8	-10.4	-80.0	30.0	35.0
Imports, Goods and Services	5.7	-6.4	12.7	-70.0	42.0	24.0
Inflation (Consumer Price Index)	4.1	5.0	10.0	15.0	19.0	8.4
Current Account Balance (% of GDP)	-2.7	3.4	-1.1	-6.8	-16.8	-15.3
Fiscal Balance (% of GDP)[a]	-2.1	-5.6	-4.0	-17.5	-21.6	-14.6
Debt (% of GDP)	50.2	60.4	50.7	90.7	..	..
Primary Balance (% of GDP)[a]	1.0	-2.7	-0.5	-13.8	-16.6	-12.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	2.5	2.5	1.8	19.8	18.5	17.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Note: Projections are as of March 28, 2022.
a/ Fiscal Balance and Primary Balance are non-military balances from 2022 to 2024.
b/ Calculations based on ECAPOV harmonization, using 2020-HLCS.
c/ Projection using neutral distribution (2020) with pass-through = 0.87 based on private consumption per capita in constant LCU. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.

UZBEKISTAN

Table 1	2021
Population, million	34.9
GDP, current US$ billion	69.2
GDP per capita, current US$	1983.2
School enrollment, primary (% gross)[a]	100.1
Life expectancy at birth, years[a]	71.7
Total GHG Emissions (mtCO2e)	259.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2019).

Russia's invasion of Ukraine will slow Uzbekistan's growth to 3.6 percent in 2022, due to a halving of remittances, record global oil and food prices, trade, investment, and banking disruptions, and the return of migrant workers. More social protection and labor market programs are needed to prevent increases in poverty. Higher commodity revenues and lower public investment spending will create fiscal space and, with tighter monetary policy, support macroeconomic stability.

Key conditions and challenges

After a wave of trade and price liberalization reforms, the focus of reforms is shifting to deeper structural constraints such as weak factor markets and dominant public enterprises. These reforms are needed to create a larger and more competitive private sector, which is key to addressing the economy's legacy of state-led growth with weak job creation.

The government recognizes the need for a more inclusive transition. About 7.5 percent of citizens lived below the World Bank's lower-middle-income poverty line in 2021. Many more live close to this line and are at high risk of poverty. One in six households has a member working abroad, mostly in Russia. Reforms to expand social assistance started during the COVID-19 pandemic will serve as an effective platform to expand safety nets and labor market support programs to prevent a sharp rise in poverty—and enable structural reforms to continue.

Recent developments

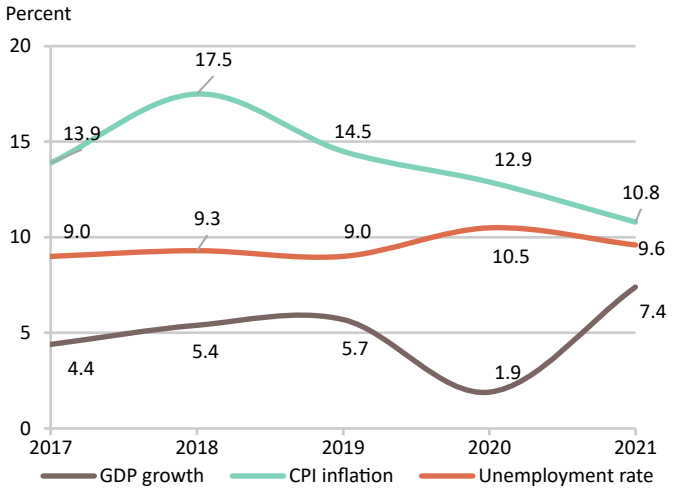
Uzbekistan's economy grew by 7.4 percent in 2021. Strong industrial and services growth helped temper still weak agricultural growth. Robust household income and investment growth and continued anti-crisis fiscal support also supported growth.

Imports grew by 20 percent in 2021 from higher consumer demand and a resumption of capital imports after a pandemic-induced slowdown. Exports grew by 10 percent but were still below pre-pandemic levels, as demand remained weak in major trading partners (Russia, Kazakhstan). Remittance inflows recovered, but only partially offset a large fall in gold sales (by 29 percent), leading to a wider current account deficit of 6.6 percent of GDP in 2021, against 5 percent in 2020.

The fiscal deficit increased to 6.2 percent of GDP in 2021 from 4.5 percent in 2020, as expanded social assistance coverage and higher health and education spending offset lower policy lending and higher tax revenues from a rebounding economy. The fiscal deficit was financed almost entirely through new external debt, though the government remained within its annual ceiling on new debt of $5.5 billion. Despite the drop in gold sales, international reserves increased by $0.2 billion in 2021 to about 51 percent of GDP.

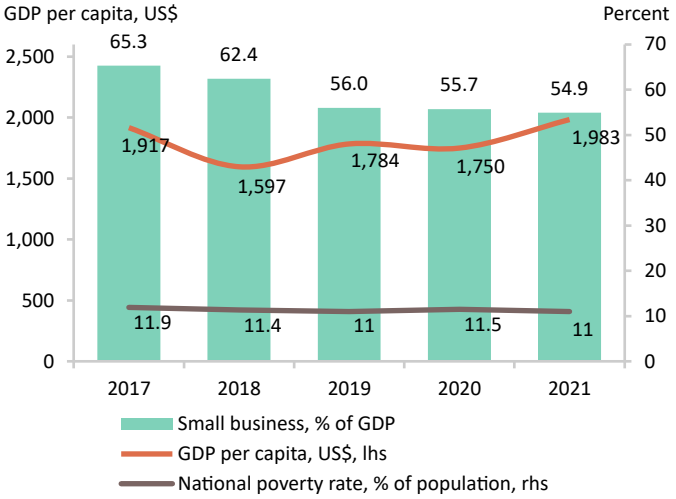
Inflation continued falling, averaging at 10.8 percent in 2021 (against 12.9 percent in 2020). Average annual inflation reached 9.8 percent at end-February 2022, the first reversion to single-digits since 2017. Higher domestic and global food prices and shipping costs continued to drive inflation. In the three weeks following Russia's invasion of Ukraine, and amidst lower remittance inflows and heightened uncertainties, the som depreciated by about 6 percent against the US dollar. In mid-March 2022, in response to exchange rate pressures and an uncertain inflation outlook, the central bank

FIGURE 1 Uzbekistan / GDP growth, inflation, unemployment



Source: Uzbekistan official statistics.

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



Source: Uzbekistan official statistics.

(CBU) increased its policy rate by 300 basis points to 17 percent.

A reduction in subsidized lending and high real interest rates slowed credit growth to 18 percent in 2021 from 31 percent in 2020. Portfolio growth and stronger risk regulations reduced the banking sector's total capital adequacy ratio to 17.5 percent at end-2021 from 18.4 percent at end-2020.

The banking system remains resilient, but non-performing loans rose from about 1-3 percent of total loans between 2018 and 2020 to 5.2 percent at end 2021—a result of the pandemic. Capital and liquidity buffers remain above regulatory minimums but could be tested as further effects of the pandemic, the war in Ukraine, and strong credit growth in recent years emerge. To reduce banking dollarization, the CBU increased minimum reserves for foreign currency deposits from 14 to 18 percent in August 2021.

The unemployment rate declined to 9.6 percent in 2021 from 10.5 percent in 2020. Employment has not yet returned to pre-pandemic levels and unemployment remains high for women and youth.

Outlook

Russia's invasion of Ukraine will slow growth to 3.6 percent in 2022, compared to pre-crisis estimates of about 6 percent. An anticipated 50 percent fall in remittances (from a weaker ruble and the collapse of Russia's economy) and higher oil, wheat, and cooking oil prices will sharply lower private consumption. Investment growth is also expected to slow given the heavy reliance on Russian capital imports and bank financing for public and private investment projects. Although Uzbekistan will benefit from high global commodity prices (gold, copper, and natural gas), an estimated 6 percent of GDP fall in remittances will widen the current account deficit to 10 percent of GDP in 2022. With foreign investments from Russia expected to fall, FDI inflows will be subdued in 2022 and take time to recover. As a result, the higher current account deficit is expected to be financed by new public debt and the use of reserves.

Higher revenues from commodity exports and privatization receipts and slower public investment spending are likely to offset higher social spending to support remittance-dependent households and prevent an anticipated sharp rise in poverty levels from falling remittances and the return of potentially large numbers of displaced migrant workers. As a result, the overall fiscal deficit is expected to fall to 4 percent of GDP in 2022. An anticipated fiscal consolidation by 2023 is now likely to be delayed. The government is expected to continue adhering to its overall debt limits, and public debt is expected to peak at 42 percent of GDP in 2022-23 and stabilize at about 40 percent of GDP by end-2024.

These projections remain subject to significant further downside revisions depending on the duration of sanctions on Russia, potential global financial spillovers from US interest rate changes, further COVID-19 waves, and the impact of trade and logistics disruptions to Uzbekistan's supply chains.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.7	1.9	7.4	3.6	5.3	5.5
Private Consumption	5.3	0.1	7.1	0.6	2.9	3.2
Government Consumption	5.7	1.4	1.1	15.8	2.5	4.5
Gross Fixed Capital Investment	38.1	-4.4	5.2	-0.4	7.1	7.2
Exports, Goods and Services	16.2	-20.0	4.8	13.1	13.8	15.1
Imports, Goods and Services	13.3	-15.0	5.8	1.0	8.9	11.1
Real GDP growth, at constant factor prices	5.7	1.9	7.4	3.6	5.3	5.5
Agriculture	3.1	2.9	4.0	3.7	3.6	3.9
Industry	8.3	2.5	8.3	3.9	6.4	6.7
Services	5.6	0.9	9.0	3.3	5.6	5.7
Inflation (Consumer Price Index)	14.5	12.9	10.8	11.9	10.6	9.0
Current Account Balance (% of GDP)	-5.8	-5.0	-6.6	-10.2	-7.1	-5.7
Fiscal Balance (% of GDP)	-3.9	-4.5	-6.2	-4.0	-2.9	-2.5
Debt (% of GDP)	29.7	39.0	38.1	42.0	42.1	40.3
Primary Balance (% of GDP)	-3.4	-3.4	-5.0	-2.8	-1.7	-1.3
GHG emissions growth (mtCO2e)	0.4	-3.3	3.6	2.0	2.8	3.0
Energy related GHG emissions (% of total)	51.1	48.6	49.8	50.2	50.9	51.7

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

Latin America and the Caribbean

Spring Meetings 2022

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

ARGENTINA

Table 1	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.

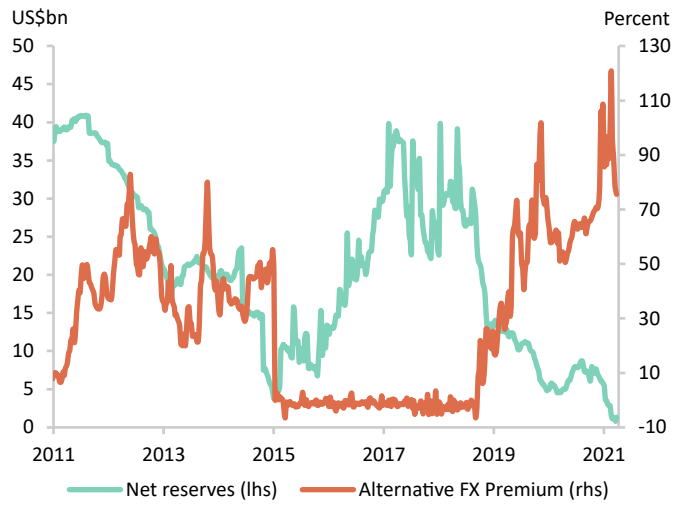
The IMF program provides Argentina a time-window of 3 to 4 years to achieve macro-stabilization, by restoring fiscal sustainability, halting deficit monetization, reducing inflation, rebuilding the Central Bank foreign reserves, and helping regain access to capital markets. Beyond the urgent need to 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.

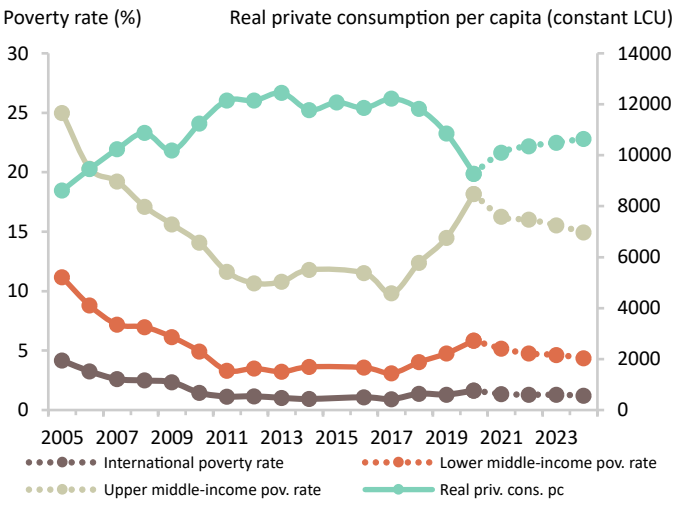
Labor markets indicators remain weak. Although the employment rate reached its pre-pandemic level in 2021, job creation has mainly occurred among informal

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.

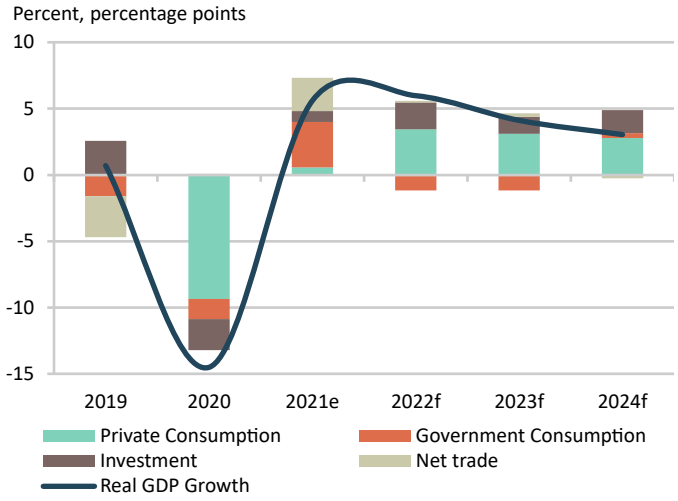
The COVID-19 pandemic led to a steep decline in tourism arrivals and the resulting job losses have been particularly felt by vulnerable populations, such as low-income households, informal workers, and women. School closures are likely to have impacted learning, with potential longer-term impacts on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

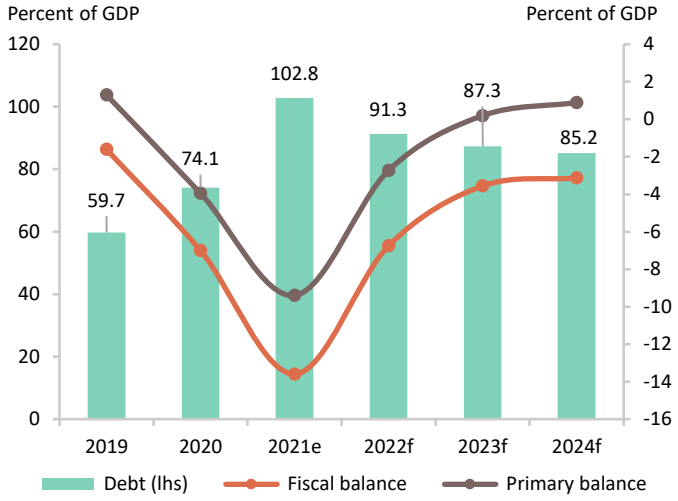
GDP expanded by 5.6 percent in 2021, following a 14.5 percent contraction in 2020. Tourist arrivals to the islands grew at a faster pace during the second half of 2021,

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.

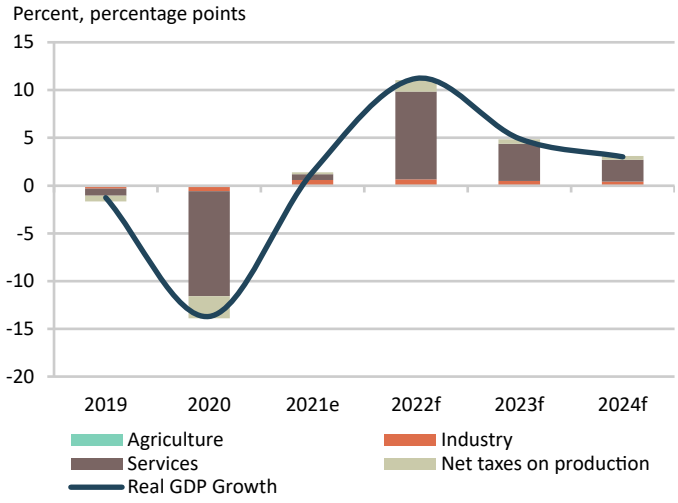
The Barbados COVID-19 Survey undertaken by the Inter-American Development Bank revealed severe consequences to welfare from the pandemic; average household total income and spending dropped by 20 percent and 29 percent respectively. More than one quarter of families (27.9 percent) had at least one member 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

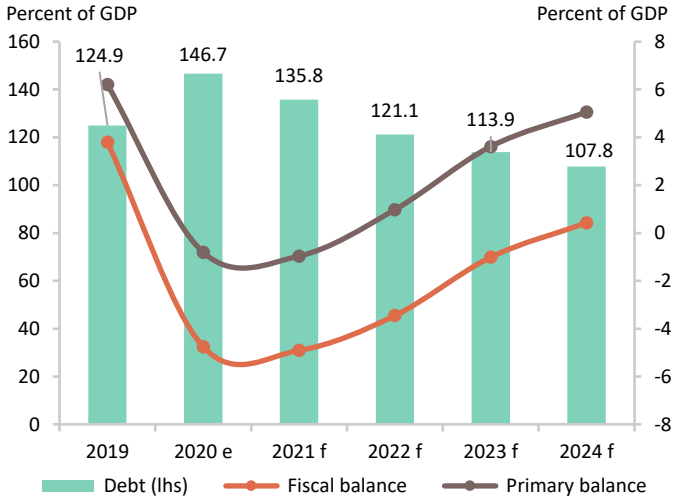
GDP growth for 2021 is estimated at 1.4 percent, a mild recovery after the 13.7 percent contraction in 2020. Economic activity rebounded after the second quarter of 2021

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.

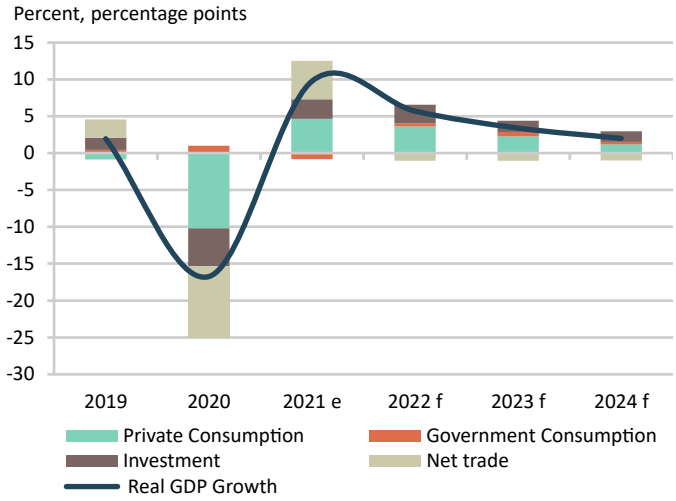
Recent developments

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.

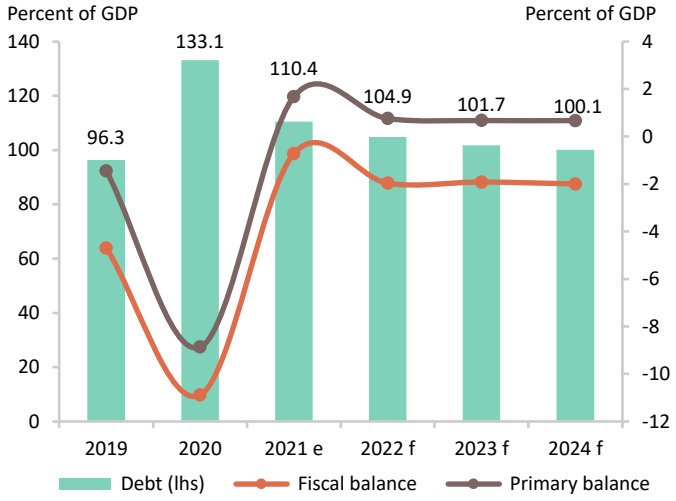
Cruise ship passenger arrivals fell by 38.7 percent in 2021 compared to 2020. The government is making sure that cruise tourism rules are consistent with the maritime conservation pledges made in the

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.

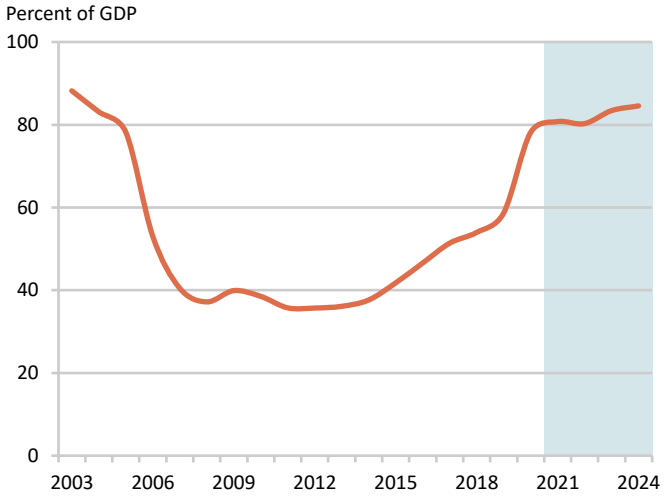
Recent developments

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.

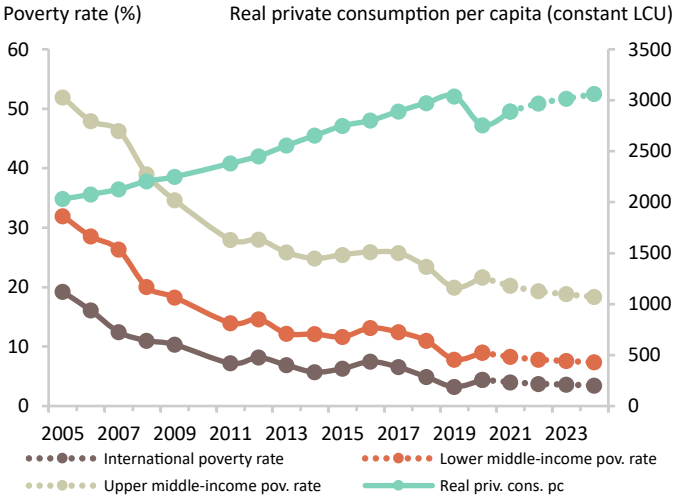
By the second quarter of 2021, informality remained high, particularly among youth, and 60 percent of households reported

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.

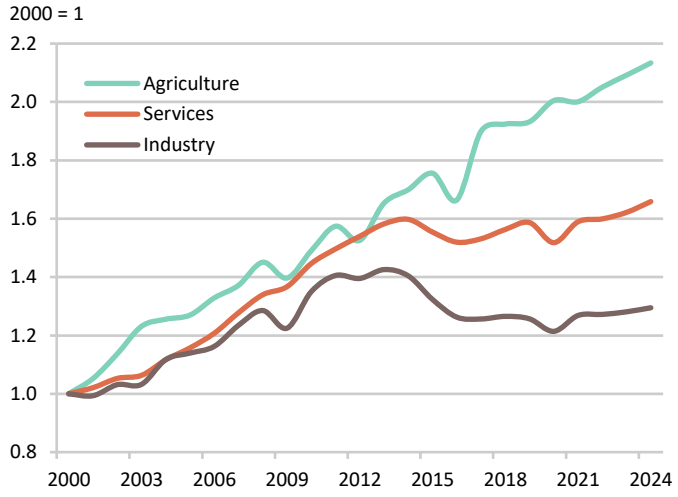
The COVID-19 pandemic gave Brazil one of the highest tolls globally in terms of lives lost, but a rapid vaccine rollout since mid-2021 is supporting a return to normality. The sizeable response implemented via social protection programs in 2020, allowed the income of the bottom of the distribution to 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.

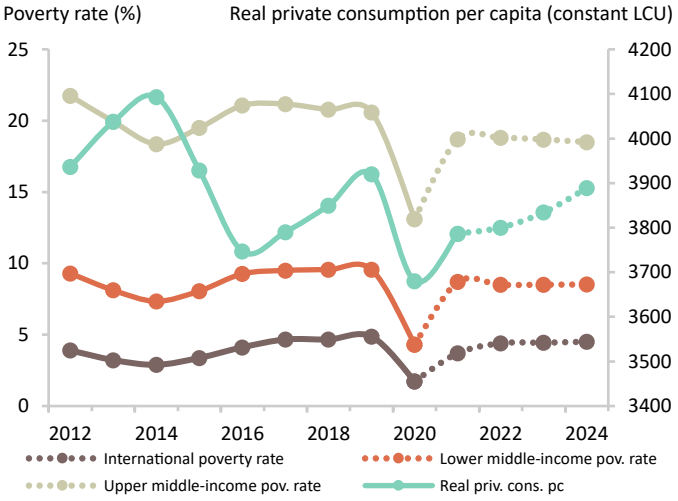
The significant drop in poverty and inequality rates from 2020 were short-lived. In 2021, labor force participation rates, employment levels and the share of formal workers had fallen below 2019 levels. Unemployment rates returned to pre-pandemic level in the last quarter of 2021, but they remain high (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.

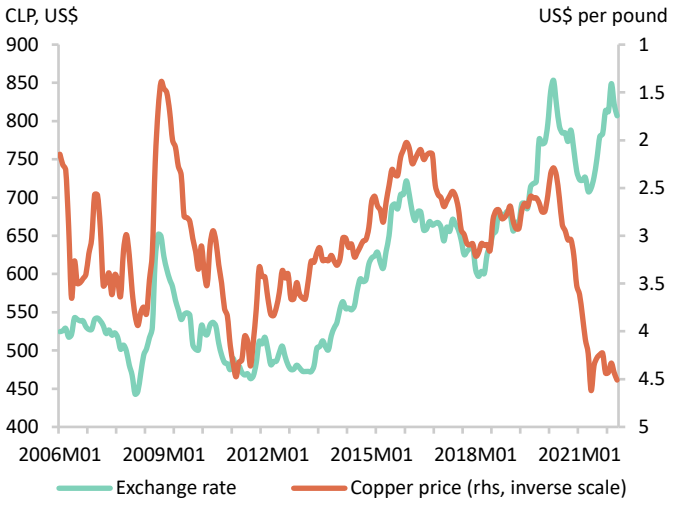
In the longer term, Chile needs to tackle long-standing barriers to productivity growth such as: regulatory hurdles, low competition in some sectors, innovation, education quality, and female labor force participation.

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.

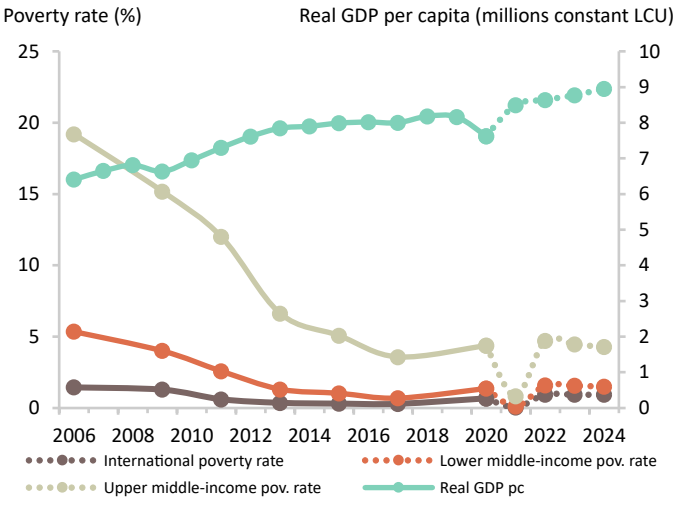
However, job market recovery has been slower than expected, with only 60 percent of the jobs lost in 2020 regained in 2021 and many previously active women (most of them low-skilled) still out of the workforce.

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.

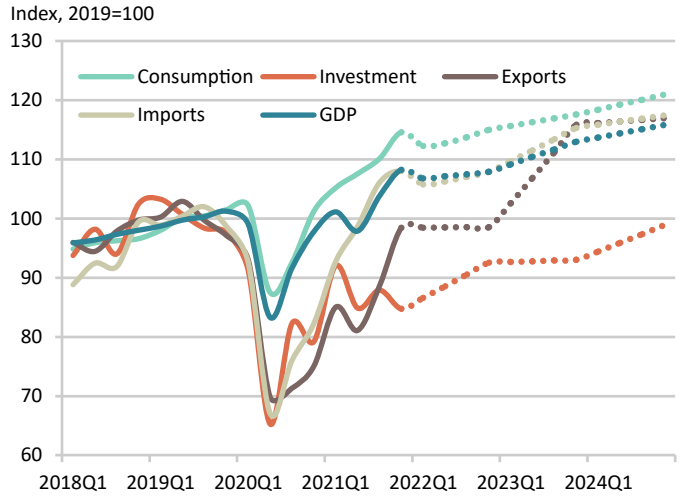
Recent developments

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.

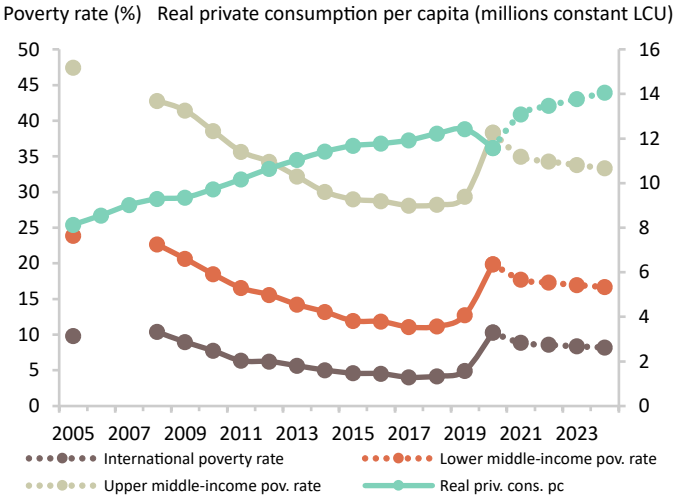
Strong domestic demand, adverse weather conditions for agriculture, the depreciation of the Colombian peso, and price pressures from abroad pushed inflation to 6.9 percent, y-o-y, in January 2022. Price increases have eroded households' purchasing power and undermined poverty reduction. As inflation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

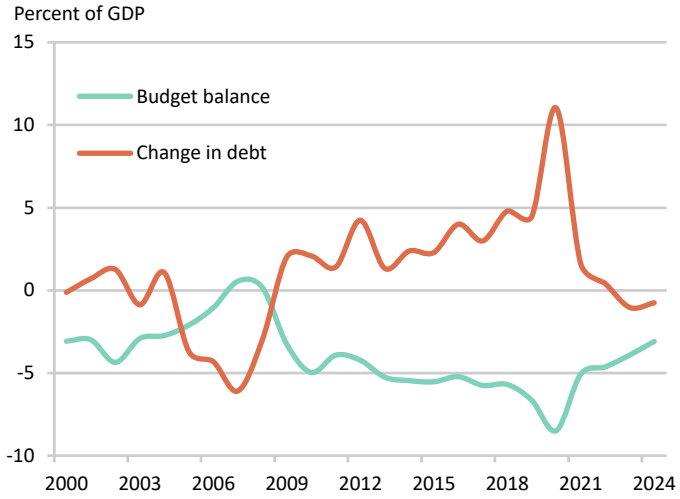
A strong economic performance in 2021 and spending discipline enabled a faster than expected fiscal consolidation and started to improve labor market and social outcomes. The recent approval of the Public Employment Law and agreement for the review of the IMF program further strengthen the fiscal prospects. 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).

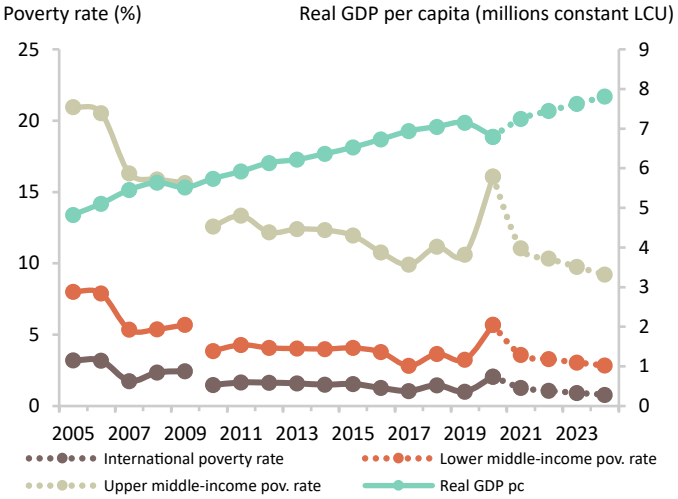
The economic rebound supported a sharp decline in unemployment to 13.7 percent in Q42021 (still above the 11 percent in Q42019), a decline in the share of the poor (to 11.1 percent) and vulnerable, and a concomitant recovery in the middle class.

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.

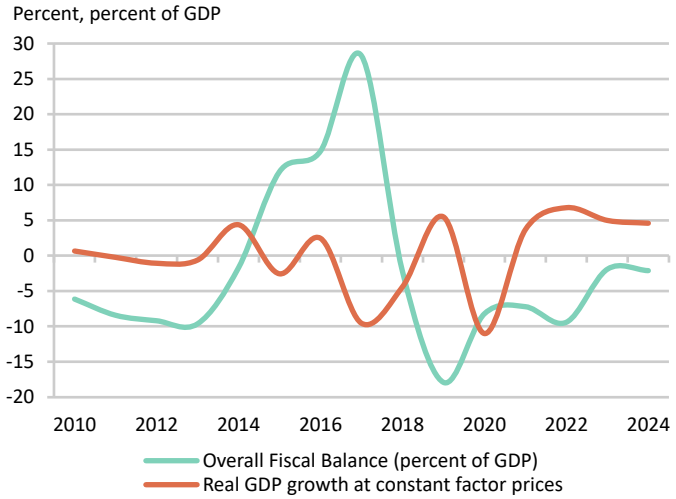
Growth prospects will depend to a certain extent on vaccinations levels and the perception of Dominica as a safe tourist destination. As of March 18, 2022, approximately 43 percent of the population has been vaccinated once and 41.5 percent are fully vaccinated. According to the World Bank/UNDP survey, 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

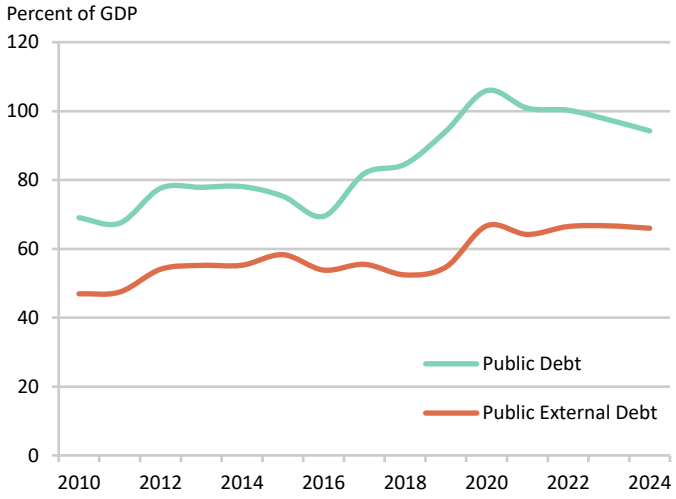
COVID-19 impacted growth through several channels, including the near complete stop in tourism; COVID-19 related restrictions on domestic activity; and lower foreign direct investment.

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.

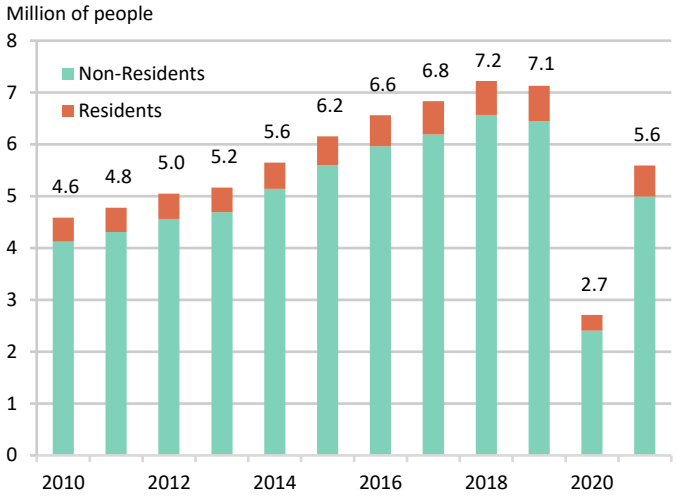
Recent developments

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).

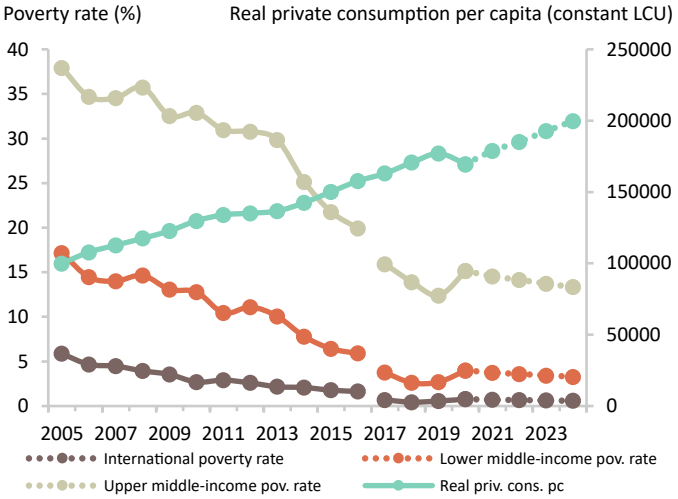
By 2021Q3, formal employment had not fully recovered, remaining 3.8 percentage points below its pre-pandemic level. The

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.

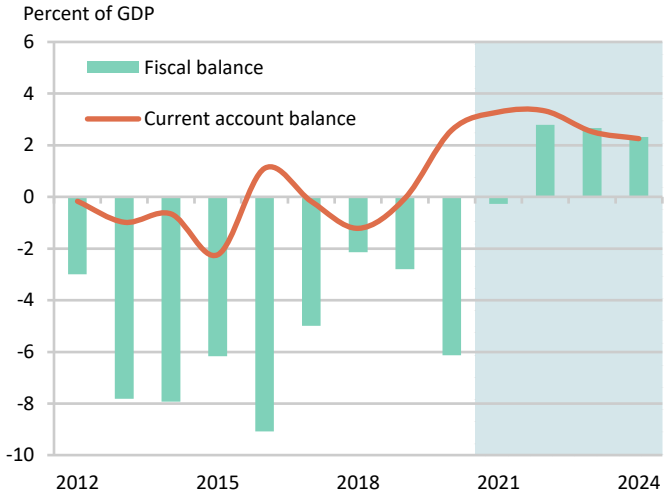
Addressing these challenges will require consensus around critical reforms in a fragmented National Assembly and a polarized society.

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.

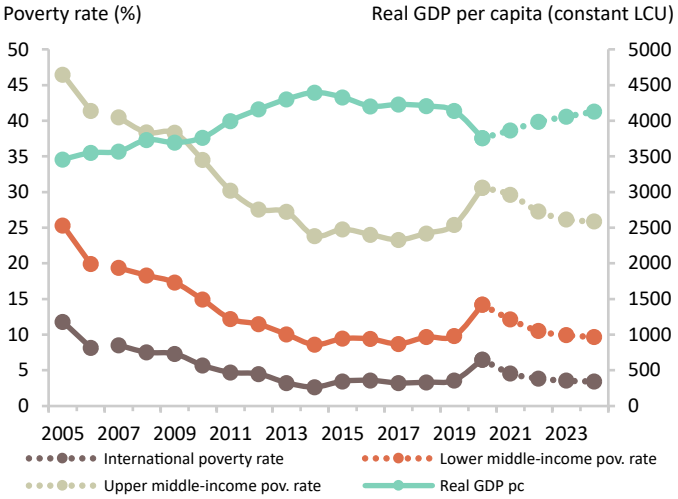
Labor participation and unemployment returned to their pre-pandemic levels; however, informality and underemployment remained high as workers tapped into

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.

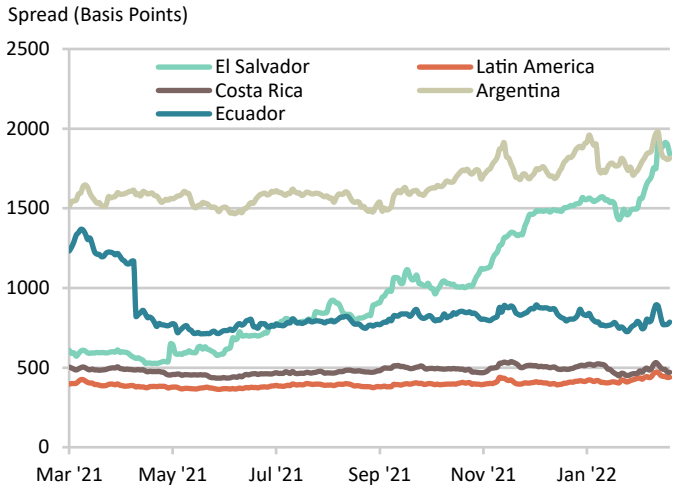
Recent developments

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.

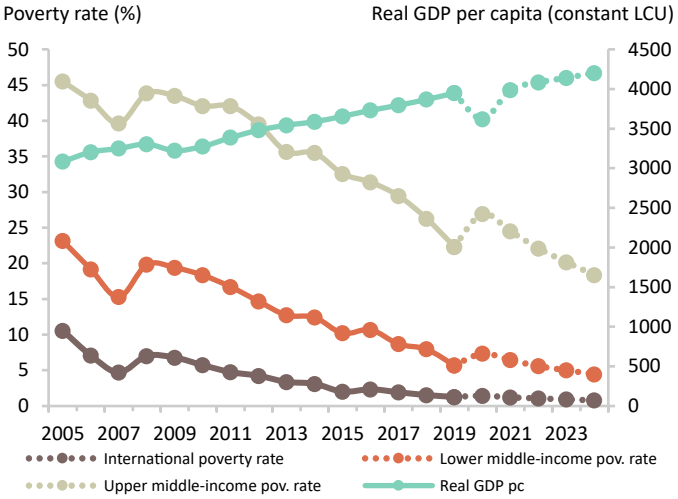
Inflation averaged 3.5 percent in 2021 (from -0.4 percent in 2020), largely due to external

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

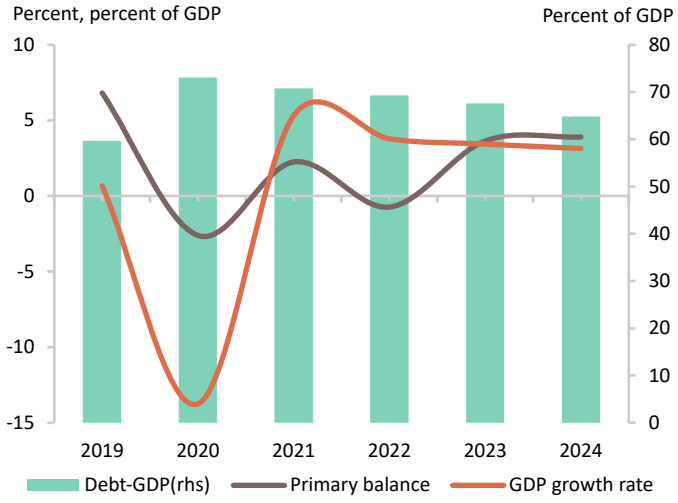
Prior to the pandemic, Grenada was firmly on its path to improved fiscal sustainability, poverty reduction and climate resilience. Real GDP growth averaged 4.7 percent between 2014 and 2019, supported by strong demand in tourism, and by structural reforms aimed at improving the business environment and 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

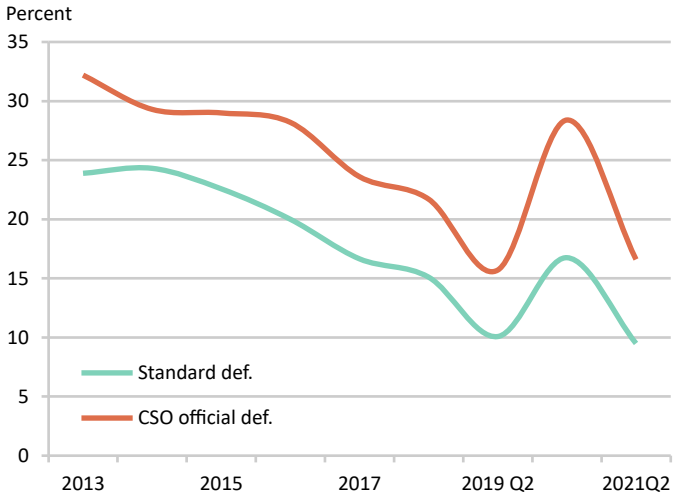
Following a deep recession in 2020, real GDP growth is estimated to recover strongly at 5.3 percent in 2021, lowering unemployment and poverty. The gradual loosening of traveling protocols in 2021Q4 has led to a significant increase of stay-over tourists, especially from the United States. The total 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.

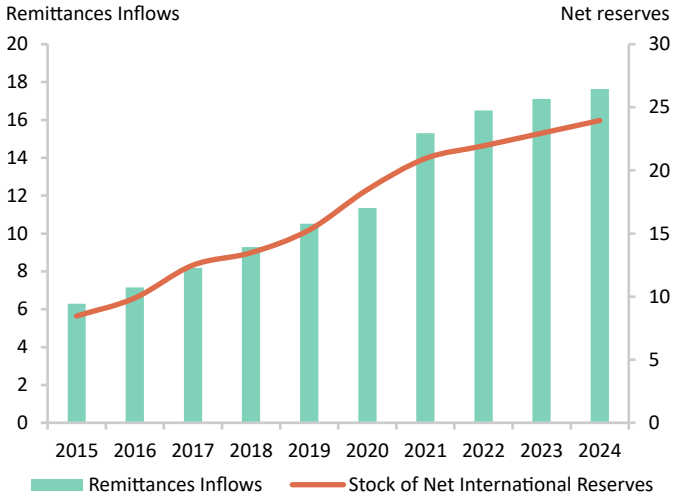
Guatemala remains one of the countries with the highest level of social and economic exclusion in the region. Rural areas, the northern and northwest regions, and indigenous groups exhibit higher levels of monetary and nonmonetary poverty, lower living standards, and more limited economic opportunities. 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

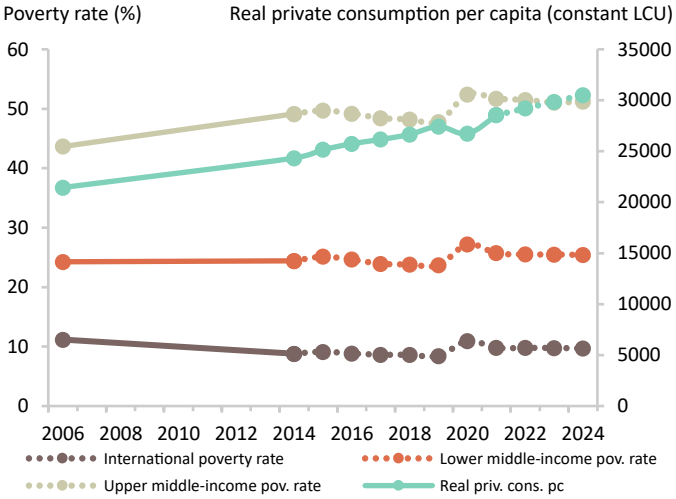
Economic growth is estimated to have reached 8.0 percent in 2021 supported by record-high remittances that fueled private consumption and investment; GDP surpassed the pre-pandemic projected trend. Guatemala experienced one of the smallest GDP contractions in the region in 2020, and economic activity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

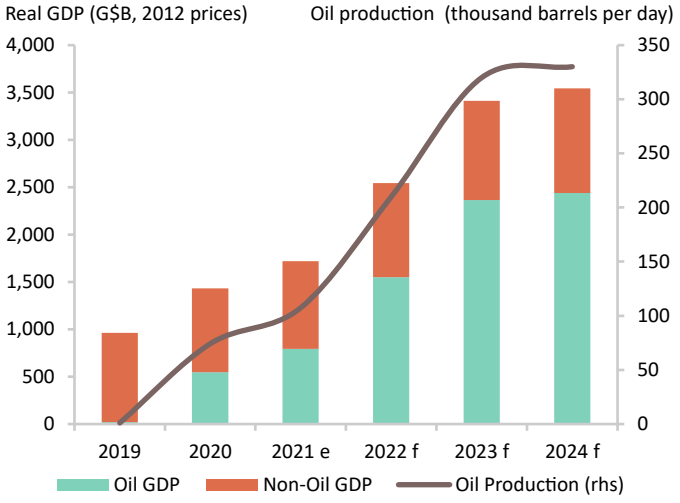
Guyana is going through a period of exceptional growth with the development of its oil and gas sector. Real GDP per capita is expected to reach US$ 23,000 by 2024, more than double 2020 levels, with the share of the oil and gas sector rising to approximately 60 percent of total GDP. Nevertheless, agriculture, 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.

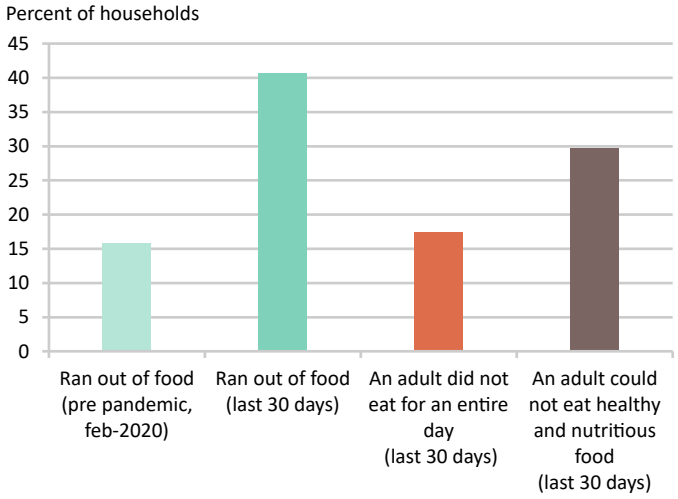
For long-term pro-poor growth, and in line with the country's new national development strategy, more efficient and effective public service delivery is essential. This is particularly the case in areas like health, education, and digital connectivity, which improve human capital. Sound and transparent 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

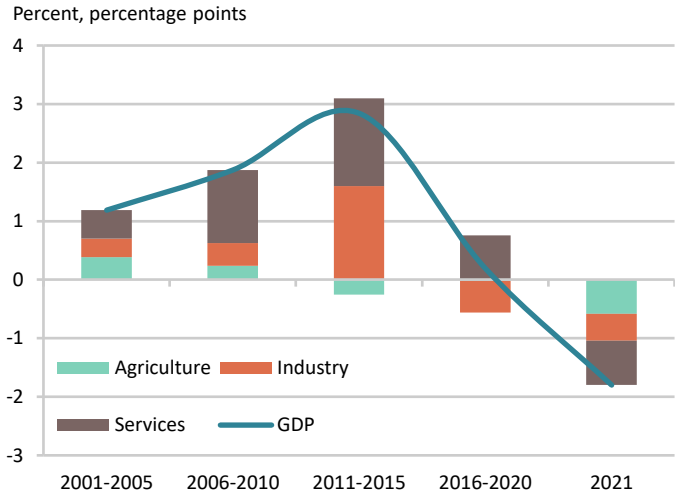
Political instability and security concerns due to armed gangs vying for control over business districts depressed investment which contracted by 21.8 percent in 2021, taking a toll on economic activity. Therefore, GDP contracted by 1.8 percent in 2021, marking the third consecutive year of negative 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.

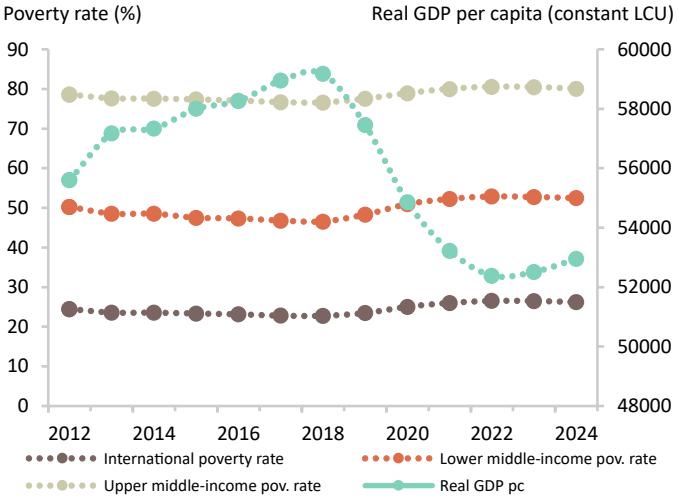
A corollary of the strong gourde policy is the depletion of net international reserves, which declined by 35.8 percent to stand

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.

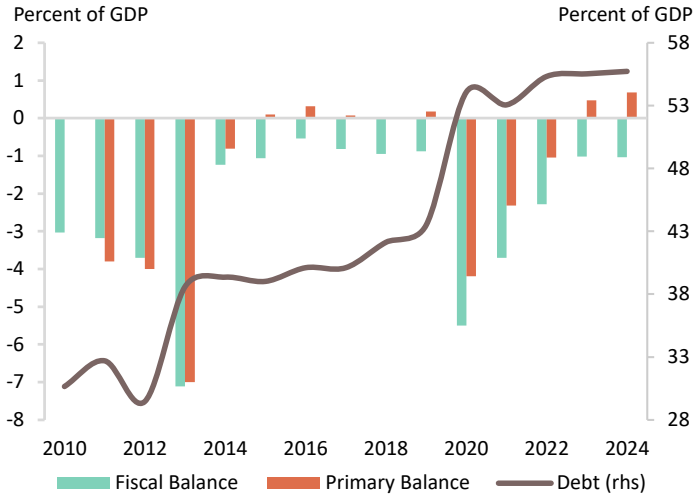
Vaccination helped slow the spread of COVID-19 by end-2021 (at 47 percent of the population in March 2022). Yet, high hesitancy rates among the elderly and less educated expose the country to new waves.

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

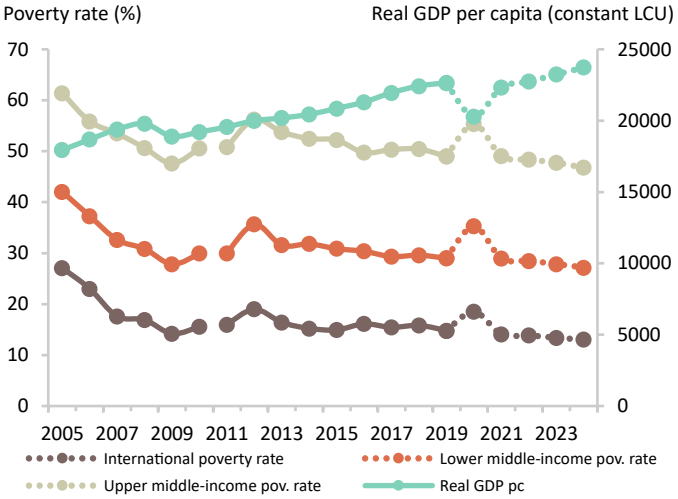
Real GDP is estimated to have grown 11.9 percent y.o.y in 2021, rebounding to pre-crisis level. This expansion was broad-based and driven by private consumption and investment associated with remittances and reconstruction activities. Growth in remittances, representing 24.3 percent of GDP, accelerated 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.

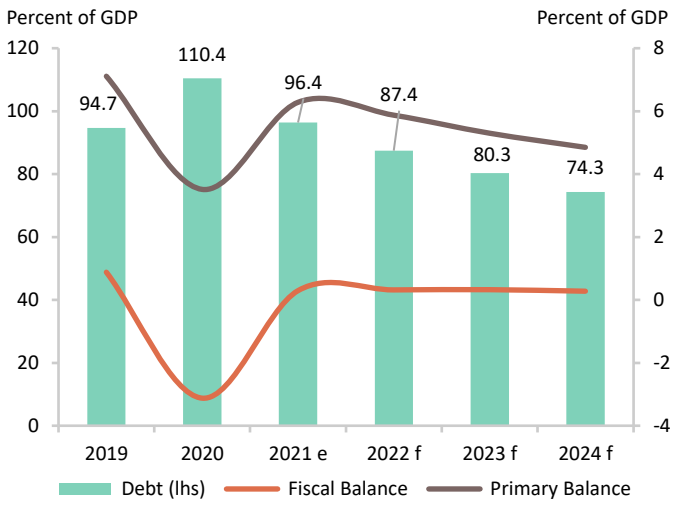
Despite a steep reduction of public debt in recent years, from 145 to an estimated 96 percent of GDP between 2013 and 2021, it remains among the highest in the region. As such, faster growth is needed to reduce the debt burden and create space for pro-poor interventions. Achieving the target of a debt 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

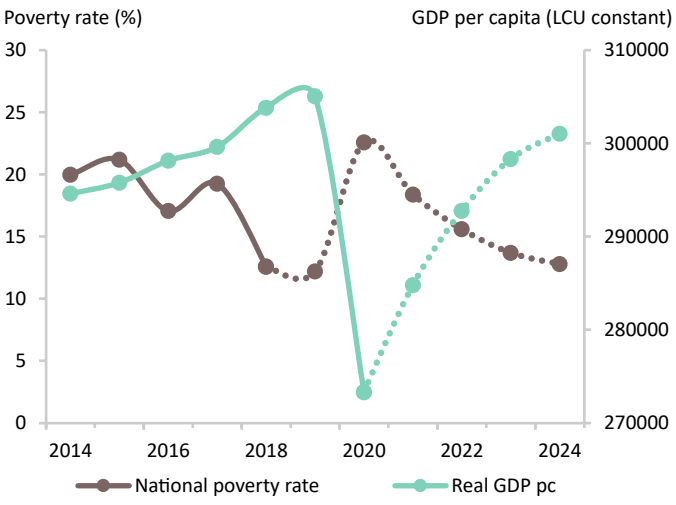
Real GDP rose by 4.6 percent in 2021, driven by private and government consumption, and by external demand as there was some slowdown in investments. Government consumption remained robust amidst a continuation of efforts to stem the impact of the pandemic on livelihoods. At the sectoral level, the expansion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

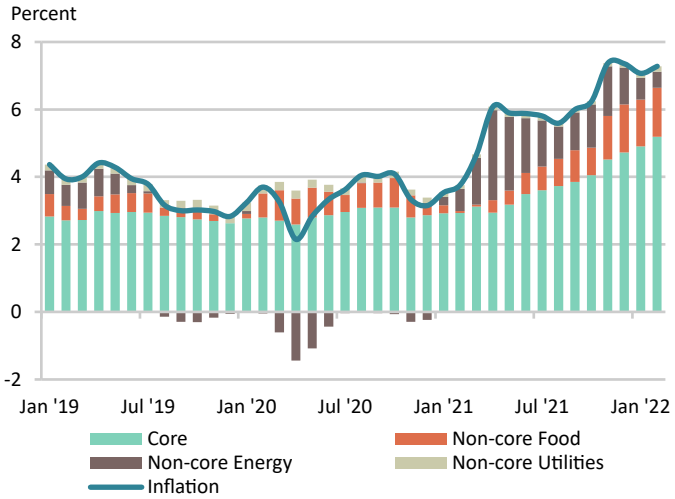
The pandemic has exacerbated labor market weaknesses, including underemployment, low female labor force participation, widespread informality, and lower quality of newly created jobs. Access to quality education worsened as schools shut down, leading to higher dropout rates and a reduction of 1.5 learning-adjusted 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

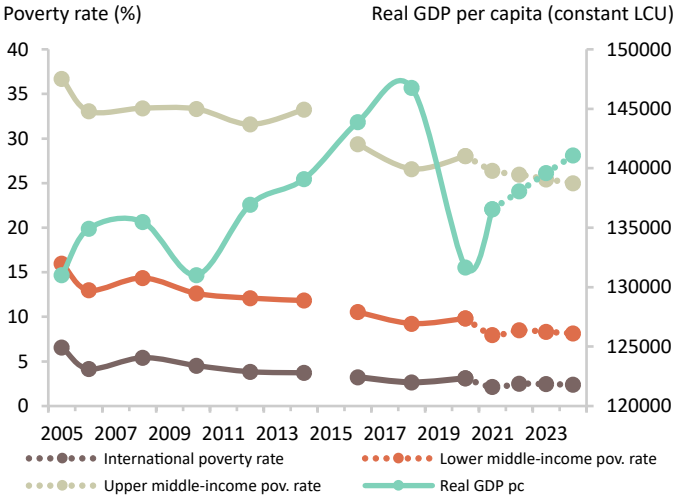
Real GDP grew 4.8 percent in 2021, supported by solid performances in services and manufacturing in 2021 H1, as both mobility and U.S. demand increased. The recovery lost impulse in 2021 H2 because of supply chain shortages, a rise in COVID-19 cases, and depressed investment. Between July 2020 and December 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.

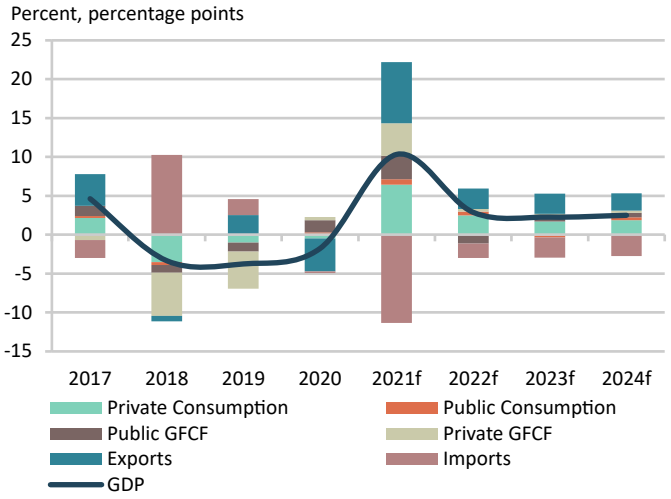
While 60 percent of the population is fully vaccinated (as of February 2022), further vaccinations will be necessary to ensure a robust economic recovery, as more countries reduce COVID-19 restrictions and global tourism normalizes. Nonetheless, the global environment is expected to weigh on growth in 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.

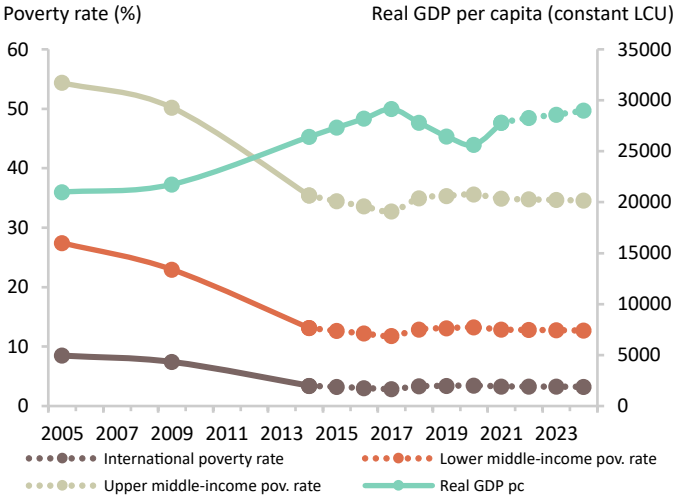
Nevertheless, welfare impacts of the COVID-19 crisis remain. Data shows lower employment rates in 2021Q3 (44 percent) than 2020Q3 (46 percent), as labor-intensive sectors like construction, hotel and restaurants have not fully recovered their employment levels. According to the World Bank High Frequency 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.

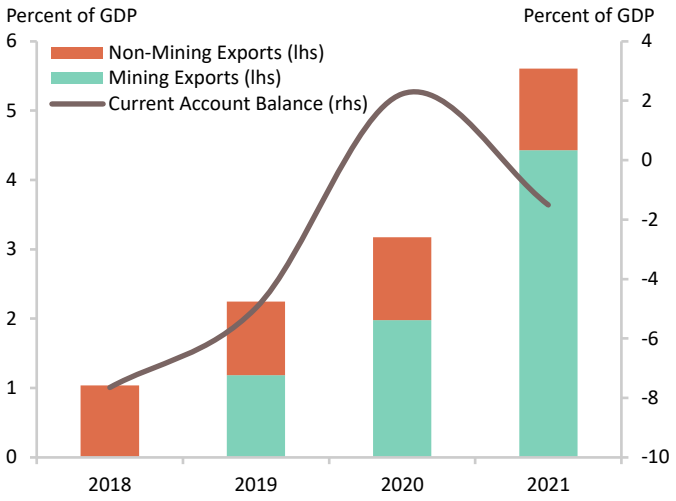
Recent developments

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.

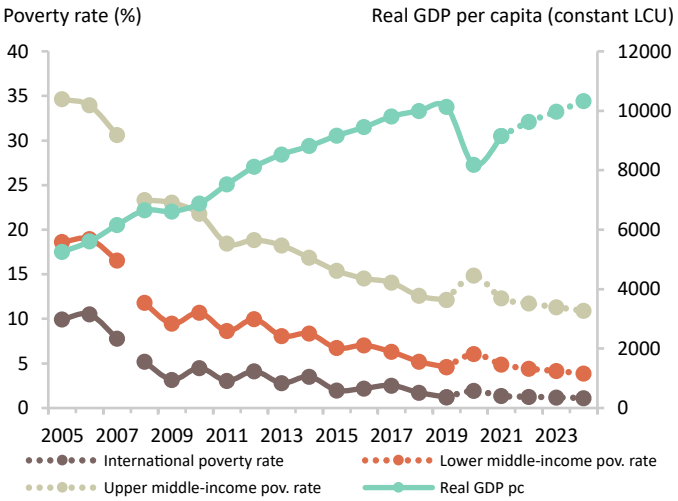
Panama's external position remains stronger than in the pre-crisis period. Imports are still below 2019 levels. The mining sector boosted exports in 2021, which are 137 percent higher than in 2019. The current account turned from a surplus in 2020 to a deficit in 2021, however, the deficit until September (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.

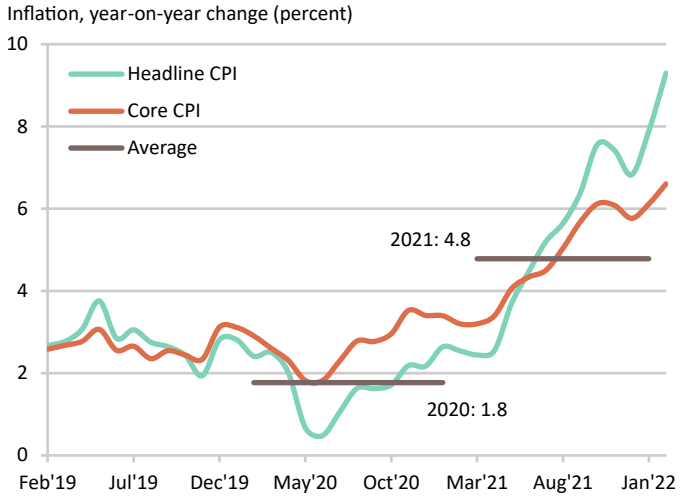
The severe ongoing drought in the Paraná River basin illustrates the limitations of Paraguay's highly climate-dependent growth model. The prolonged dry spell has impacted the quantity and quality of crops, driven up logistics costs, and provoked widespread forest fires. Structural reforms that diversify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

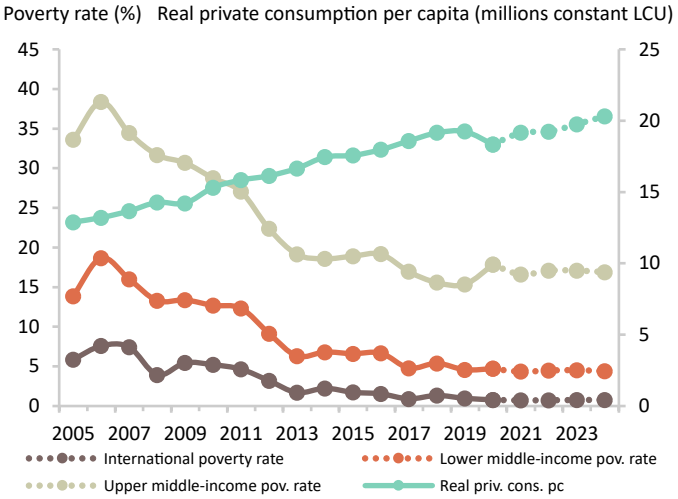
Rising food and fuel prices led inflation to increase from an average of 2.5 percent yoy in the first quarter of 2021 to 7.3 percent yoy in the fourth quarter, the fastest pace in a decade and well above the target range (2-6 percent), despite a relatively stable exchange rate. Core inflation also doubled 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.

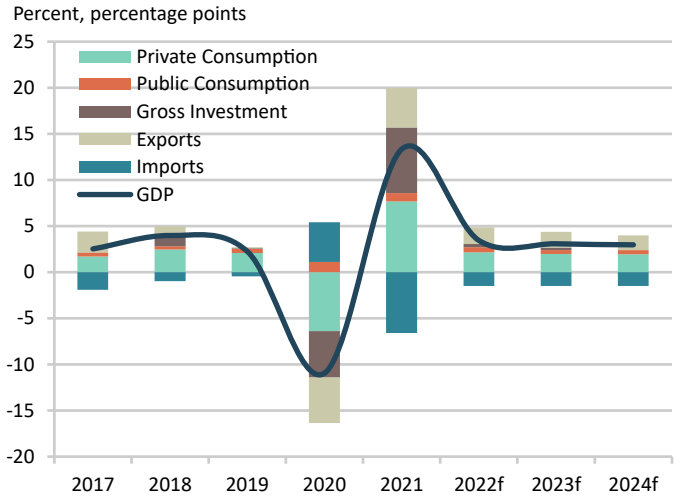
Key conditions and challenges

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

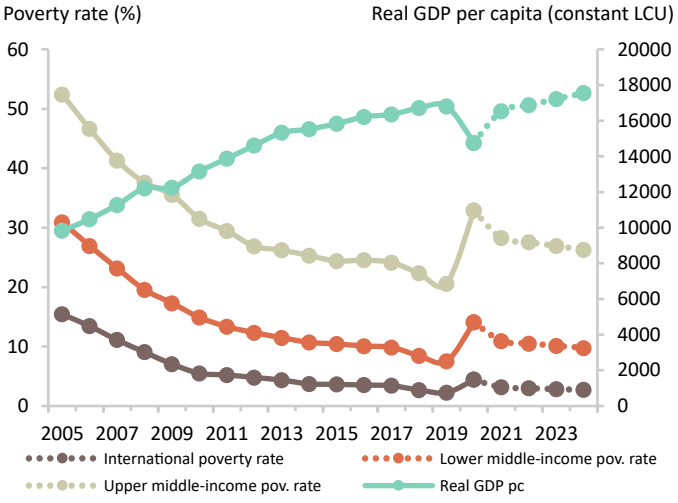
After a strong recession in 2020, real GDP grew 13.3 percent in 2021, reaching its pre-pandemic level. The recovery was led by domestic demand, supported by the expansion of both public and private expenditure. While employment levels have almost returned to the pre-crisis levels, this was largely driven 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.

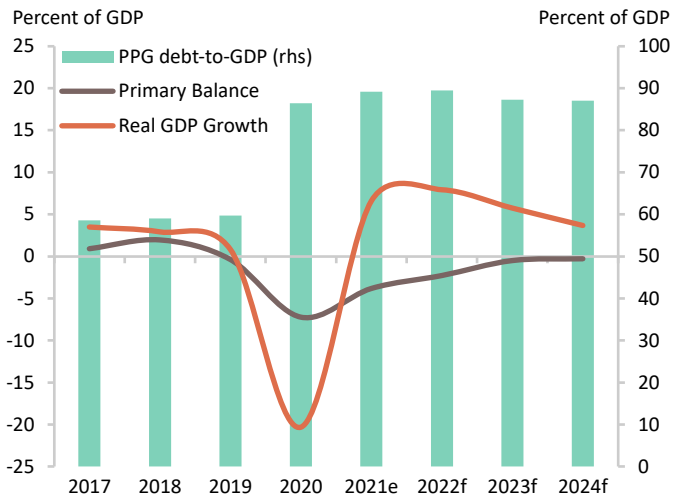
The pandemic further heightened Saint Lucia's debt vulnerabilities. Leading up to the pandemic, a fiscal deficit averaging 2 percent of GDP between 2015-19 pushed up the public debt level to 60 percent of GDP by end-2019. The economic contraction and additional fiscal spending in 2020 led to a further 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.

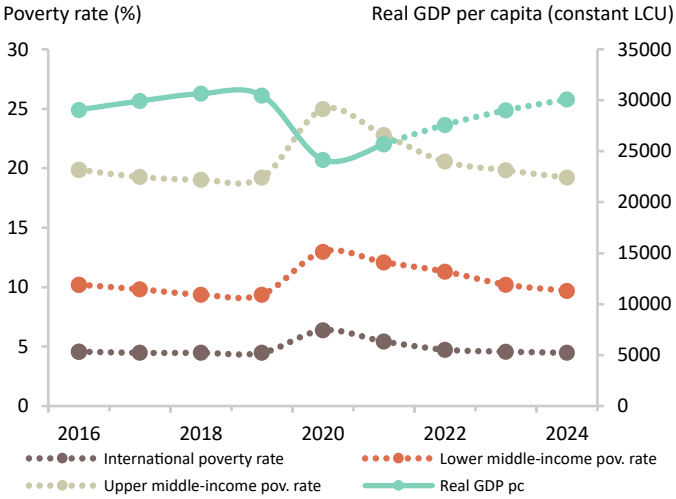
The current account deficit is estimated to remain high at 8.0 percent of GDP. The rebound of tourism receipts was offset by the rise in global commodity prices, especially oil, and increased imports to support domestic activities. Remittances and Citizenship-by-Investment inflows are estimated to remain 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.

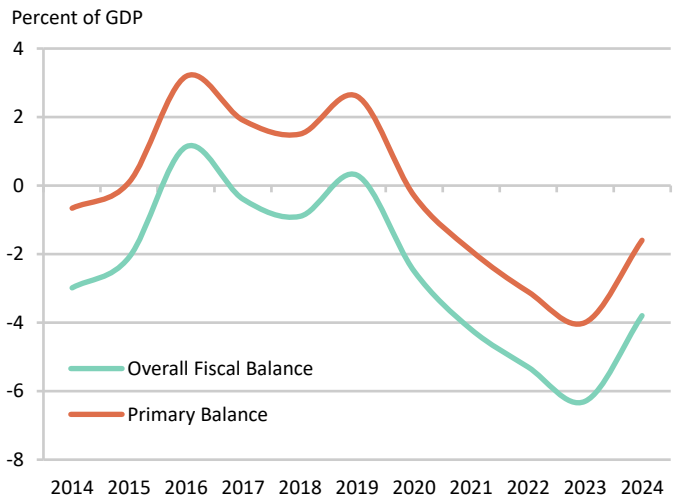
The volcanic eruption, which displaced about 20 percent of the population, compounded the impact of the COVID-19 shock. Heavy ashfall, critical utility interruptions, increased food insecurity, and the subsequent flooding and mudslides are expected to have had a significant poverty and welfare impact 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.

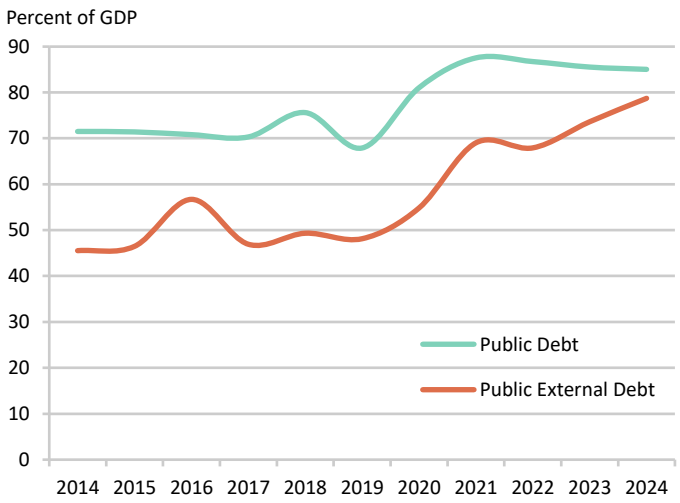
The overall fiscal deficit widened to 4.2 percent of GDP in 2021, largely in response to the fiscal demands imposed by the volcanic eruption. The government implemented direct fiscal spending measures totaling 7.1 percent of GDP to address the immediate post-volcano humanitarian crisis. Additional spending 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

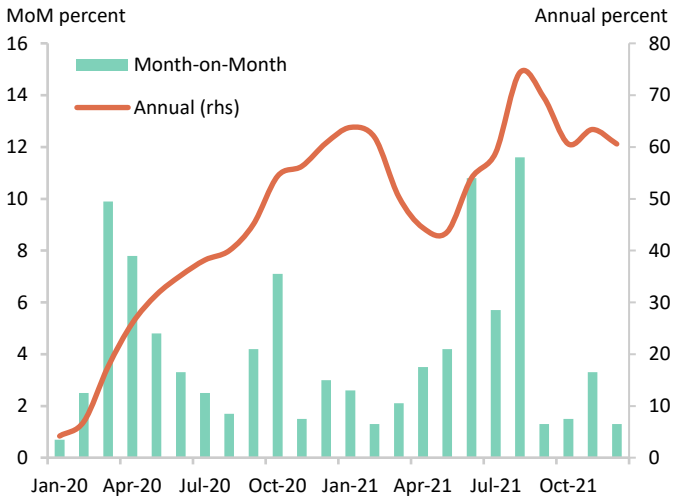
Economic mismanagement compounded by restrictions on economic activity to curb the spread of COVID-19 resulted in a severe economic crisis, with GDP contracting 15.9 percent in 2020 and another estimated 3.5 percent in 2021.

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.

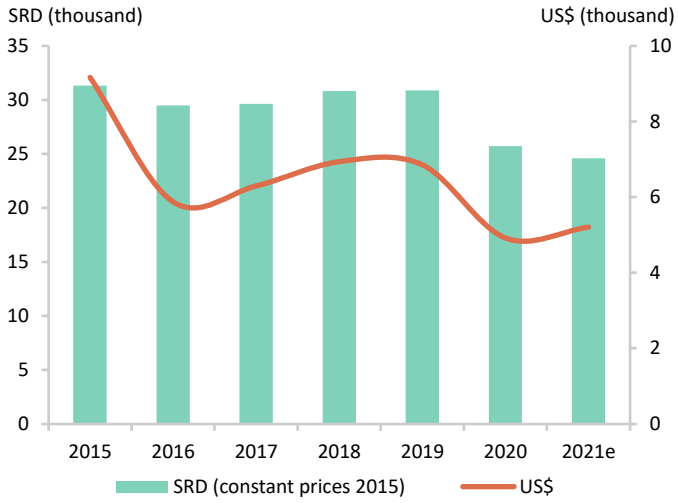
Public debt amounted to US$3.4 bn or 126 percent of GDP at the end of 2021 and arrears on external bilateral and private market debt

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.

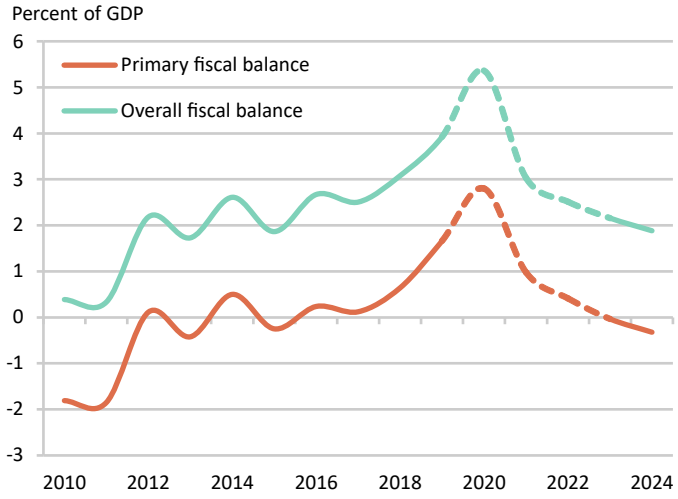
Prudent fiscal management helped lower the fiscal deficit in 2021 to below its 2019 level, despite increased COVID19-related expenditures. Aside from fiscal discipline, the government is committed to a reform agenda to address structural growth bottlenecks. These include pursuit of a free trade agreement 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.

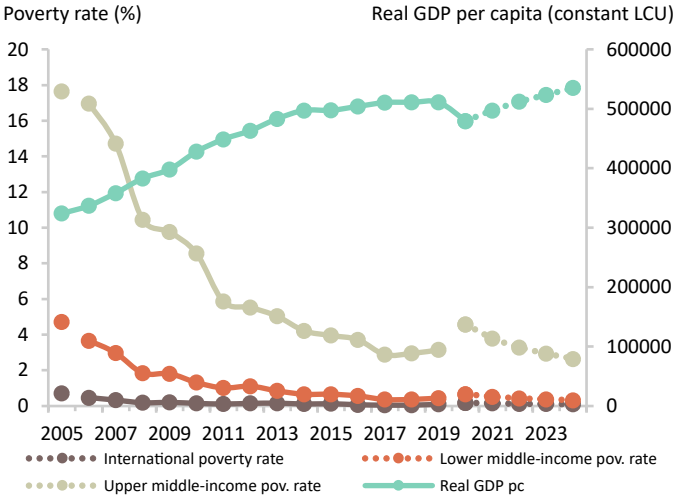
Exports increased 14.4 percent in 2021, boosted by a hike in commodity prices and recovered external demand. Imports grew 20.9 percent over the same period, partly fueled by investment and consumption of

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.

Middle East and North Africa

Spring Meetings 2022

Algeria
Bahrain
Djibouti
Egypt, Arab Republic
Iran, Islamic Republic
Iraq, Republic
Jordan
Kuwait
Lebanon
Libya
Morocco
Oman
Palestinian Territories
Qatar
Saudi Arabia
Syrian Arab Republic
Tunisia
United Arab Emirates
Yemen, Republic

ALGERIA

Table 1	2021
Population, million	44.7
GDP, current US$ billion	168.0
GDP per capita, current US$	3761.1
National poverty rate[a]	5.5
International poverty rate ($1.9)[a]	0.4
Lower middle-income poverty rate ($3.2)[a]	3.7
Gini index[a]	27.6
School enrollment, primary (% gross)[b]	111.3
Life expectancy at birth, years[b]	76.9
Total GHG Emissions (mtCO2e)	221.7

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

Increasing oil and gas demand and prices led to a strong rebound in hydrocarbon production and exports in 2021, sharply reducing fiscal and external financing needs. The recovery in the non-hydrocarbon segments of the economy remains incomplete, however, while inflation is rising. Looking beyond the current hydrocarbon windfall, accelerating the implementation of the Government's structural reform agenda will be essential to accelerate the recovery, reduce Algeria's reliance on hydrocarbon exports and sustainably reduce macroeconomic imbalances, diversify the economy, and create private sector jobs.

Key conditions and challenges

The Algerian economy remains dominated by the oil and gas sector, which accounted for 19% of GDP, 94% of product exports and 40% of budget revenues between 2015 and 2020. Over the past 15 years, however, declining investments contributed to a decline in oil production and a stagnation in natural gas production, while rising domestic consumption has led to a steeper fall in export volumes.

Since 2015, the current account and overall budget deficits have averaged 13% and 11% of GDP, respectively, leading to a marked decline in international reserves, currency depreciation, import compression policies, as well as debt monetization. Real public spending also stagnated, contributing to a slowdown in non-hydrocarbon sectors, and average annual real GDP growth fell to 1.1% in 2017-2019, causing GDP per capita in PPP terms to return to its 2014 levels. Nonetheless, non-monetary poverty declined between 2013 and 2019, amid improvements in education, health, and material outcomes.

The COVID-19-induced recession exacerbated growth challenges and macroeconomic imbalances, reinforcing the impetus for reform. The Government notably took steps to attract foreign investment by issuing a new Hydrocarbon Law, as well as lifting restrictions on foreign ownership of domestic firms in several sectors.

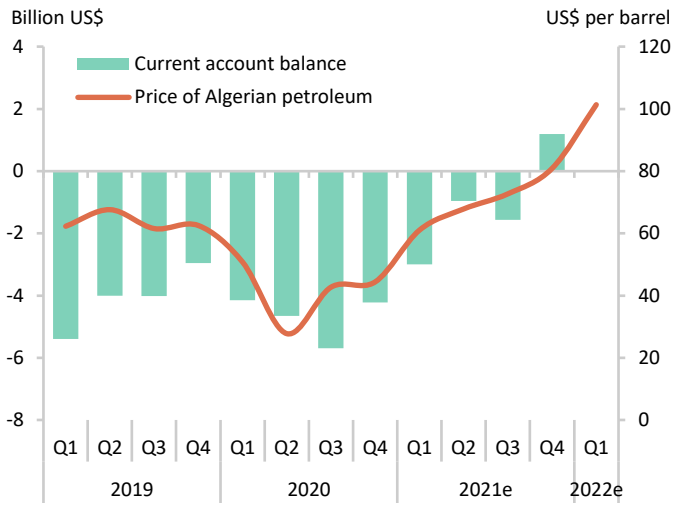
Meanwhile, the September 2021 Government Action Plan has made the transition to a private sector-led growth and job creation model a developmental priority. Private firms are small, of low productivity, and largely informal, amid substantial State presence in productive sectors, a high regulatory burden, and limited access to credit and skills. The Plan argues for reinforcing macroeconomic stability, rationalizing spending, reducing imports and boosting non-hydrocarbon exports, and for significant improvements to the business environment, including through the reform of public banks and state-owned enterprises, as well as the adoption of a new Investment Law. The specific timeline for its implementation remains to be determined.

Recent developments

Led by the oil and gas sector, the economy expanded by 3.9% year-on-year during the first nine months of 2021, after contracting by 5.5% in 2020. The recovery in hydrocarbon output was driven by surging European gas demand and easing OPEC production quotas. Low rainfall contributed to a stagnation in agricultural output and services growth was subdued, but industrial and construction activity supported growth. As of September 2021, non-hydrocarbon GDP was still 3% below its pre-pandemic level. On the expenditure side, private consumption and investment returned to their pre-pandemic levels, while inventories are yet to recover.

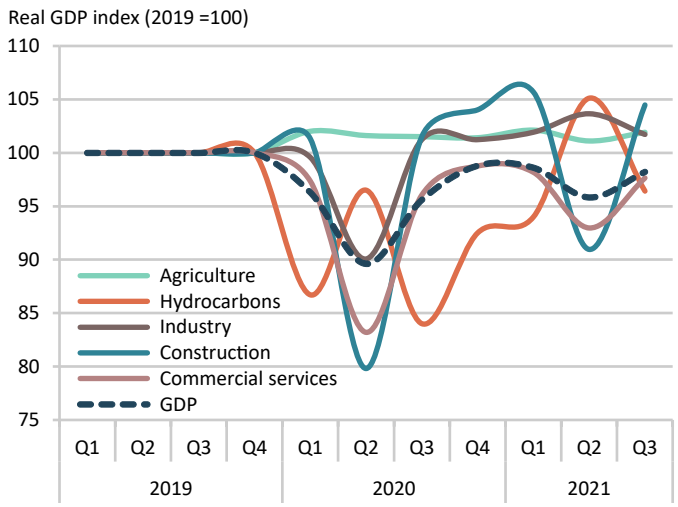
The estimated overall budget deficit narrowed from 12% in 2020 to 3.5% of GDP

FIGURE 1 **Algeria** / Crude oil prices and trade balance



Sources: Bank of Algeria and oilprice.com.

FIGURE 2 **Algeria** / GDP components, production side



Source: National Statistical Office and World Bank staff estimates.

in 2021, driven by rising oil revenues, an incomplete recovery in spending and despite significant financing support to the national pension fund. Estimated oil revenues surpassed pre-pandemic levels to reach 15% of GDP in 2021, while tax revenues remained 1.7 percentage points of GDP below pre-crisis, owing to subdued firm profitability and imports. Budget spending only recovered moderately, absent a marked recovery in public investment. Public debt is estimated to have increased from 52 to 61% of GDP in 2021, with banks purchasing large amounts of Treasury securities as part of a state-owned enterprise debt buyback program supported by Central Bank financing.

Broad money grew by 14% in 2021 as hydrocarbon deposits increased and COVID-19 policies to ease liquidity conditions remained in place, but private sector credit grew only by 3%. Inflation accelerated markedly in 2021, led by a 10.1% increase in food prices despite significant food subsidies, exacerbating the situation of the vulnerable population. The household survey under implementation will allow for updating the 2011 poverty estimates and estimating inflation's impact on well-being.

Algeria's current account deficit shrank by 74% in 2021, amid a 70% increase in the value of hydrocarbon exports and a muted recovery in imports, and despite rising import prices. Accordingly, foreign exchange reserves stabilized, at around 11 months of imports of goods and services.

Outlook

GDP is expected to continue to rebound and return to its 2019 level in 2022, despite low rainfall and therefore weak agricultural production. Aided by a rebound in public and energy investment, investment growth is expected to outpace that in consumption, more muted due to a gradual labor market recovery and the effect of high inflation on real consumer income. Hydrocarbon production will increase as OPEC quotas are eased and demand for Algerian gas benefits from European diversification away from Russian supply, before resuming a gradual decline, offset by modest non-hydrocarbon economic growth.

In 2022, the fiscal position is expected to improve markedly amid surging energy prices, sustained depreciation, and a recovery in tax revenues, offsetting the moderate increase in public spending. The current account balance is expected to register a surplus, aided by high hydrocarbon prices and despite a moderate recovery in input and equipment imports, consistent with higher investment. Over the medium-term, budget and external deficits are expected to reappear and widen amid declining hydrocarbon export volumes and prices, and public debt to stabilize at around 50% of GDP.

The economic consequences of the Russian-Ukrainian war and associated sanctions could further elevate hydrocarbon prices and improve Algeria's fiscal and external balances despite rising food import prices. On the other hand, large macroeconomic imbalances could reappear if global hydrocarbon prices were to decline. Ultimately, sustaining growth and enhancing economic resilience will hinge on the pace of implementation of structural reforms and their ability to foster economic diversification, private sector-led growth and job creation.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	1.0	-5.1	3.9	3.2	1.3	1.4
Private Consumption	2.1	-3.0	2.1	2.0	2.0	2.2
Government Consumption	1.9	-0.3	-0.9	0.1	0.1	0.0
Gross Fixed Capital Investment	-3.6	-5.2	3.5	5.7	3.1	4.6
Exports, Goods and Services	-6.0	-11.4	11.1	4.3	-1.2	-2.0
Imports, Goods and Services	-6.9	-15.6	-3.9	3.0	1.9	2.4
Real GDP growth, at constant factor prices	1.0	-4.7	3.9	3.2	1.2	1.3
Agriculture	2.7	1.3	0.2	0.9	1.8	1.3
Industry	-1.6	-7.5	7.0	4.2	1.3	1.3
Services	3.4	-3.4	1.7	2.6	0.9	1.3
Inflation (Consumer Price Index)	2.0	2.4	7.2	7.1	7.0	7.0
Current Account Balance (% of GDP)	-9.9	-12.6	-2.8	4.7	-0.2	-4.0
Fiscal Balance (% of GDP)	-9.6	-12.0	-3.5	0.7	-0.8	-2.2
Debt (% of GDP)	45.6	52.1	61.2	51.8	50.5	49.9
Primary Balance (% of GDP)	-9.0	-11.0	-2.9	1.3	0.0	-1.2
GHG emissions growth (mtCO2e)	2.3	-2.4	1.4	3.1	2.0	1.7
Energy related GHG emissions (% of total)	64.4	64.2	64.4	65.1	65.4	65.5

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

BAHRAIN

Table 1	2021
Population, million	1.7
GDP, current US$ billion	38.8
GDP per capita, current US$	22823.5
School enrollment, primary (% gross)[a]	98.0
Life expectancy at birth, years[a]	77.3
Total GHG Emissions (mtCO2e)	52.4

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

The economy is gradually picking up as pandemic pressures fade, non-oil economy recovers, and hydrocarbon production increases. The fiscal deficit remains high as emergency crisis-spending persists but is expected to narrow gradually. The external balance will noticeably improve. The debt to-GDP-ratio is expected to remain elevated during the forecast period to meet fiscal needs. Downside risks arise from oil price volatility, and insufficient fiscal adjustment that could worsen fiscal and external positions and intensify pressure on already high public debt, thereby threating macroeconomic sustainability.

Key conditions and challenges

The Bahraini economy is relatively diversified, reflecting the authorities' considerable efforts to boost manufacturing, refining, tourism, and trade. Nevertheless, the hydrocarbon sector remains a strong driver of the economy accounting for 20 percent of GDP and over 60 percent of total revenues, thereby making the economy extremely vulnerable to energy prices shocks. As such, the pandemic and related oil price shock have exacerbated Bahrain's large pre-existing fiscal and external imbalances, with a surge in public debt levels and gross financing needs. Bringing the fiscal position to a balance by 2022 according to 2018 Fiscal Balanced Program (FBP) proved challenging due to the pause of fiscal consolidation caused by the pandemic and insufficient fiscal adjustment measures.

At end-2021, the country announced new measures to curve the fiscal deficit, including the doubling of the VAT rate to 10 percent from January 2022 and actions to reduce the deficit related to electricity and water authority.

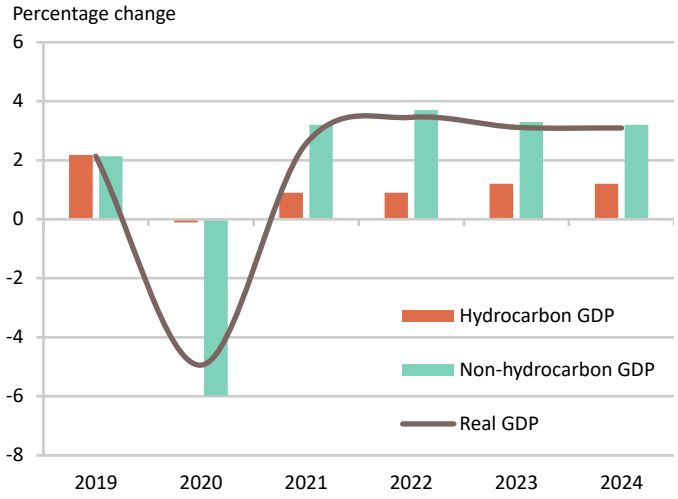
However, challenges remain. Delays in reforms and persistent off-budget spending may imply higher debt and financing needs. Additional efforts are needed to unleash more fiscal space to meet the increased challenges posed by climate change and an expected long-term decline of demand for fossil fuels. On the upside, adherence to consolidation efforts, and reducing the fiscal risks from off-budget expenditures will help to improve Bahrain's outlook. Advancing structural reforms including these related to investing in renewable energy and digital solutions, would attract foreign investment, and increase employment opportunities, particularly among women and youth. While soaring oil prices caused by the economic consequences of the war in Ukraine are expected to further strengthen Bahrain's fiscal and external balances, there is a risk that strong fiscal buffers might lead to an increase in already high off budget spending.

The government has made efforts to reduce unemployment by promoting the hiring of Bahrainis in the private sector through incentives to firms and increasing the local skills base to gradually lower unemployment among nationals as well as the demand for foreign labor.

Recent developments

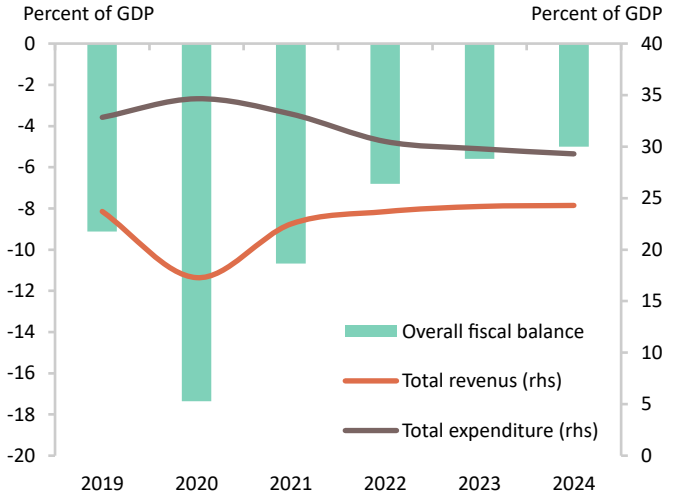
Bahrain's economy is gradually emerging from the pandemic-caused recession. Latest official data indicate that the economy grew by 1.5 percent (y/y) in the first nine months of 2021 (9M-2021), after nearly a 5 percent contraction in 2020. The rebound was mainly underpinned by 2.3 percent growth in non-hydrocarbon aided by a strong expansion in the transportation and communication sector—one of the hardest-hit by the pandemic—as well as increased agricultural and fishing activity.

FIGURE 1 **Bahrain** / Real annual GDP growth



Sources: Bahrain authorities, World Bank, and IMF staff projections.

FIGURE 2 **Bahrain** / General government operations



Sources: Bahrain authorities, World Bank, and IMF staff projections.

The hydrocarbon sector contracted by almost 2 percent (y/y) in the same period. Growth is estimated to have registered 2.6 percent by end-2021 driven by the non-hydrocarbon activities. Inflation remains in negative territory, averaging at -0.6 percent, due to weaker demand and lower prices for rents compounded by the departure of expatriates caused by the pandemic.

The fiscal deficit is estimated to have narrowed, from over 17 percent of GDP in 2020 to almost 11 percent in 2021, thanks to improved revenue from higher oil and aluminum prices despite high pandemic-related emergency spending. Public debt remained elevated at above 120 percent of GDP, although the better fiscal outcome helped to lower it by 6 percentage points.

The external sector exhibited a strong performance in the first 9M-2021 driven by solid rebound in both oil and non-oil exports, including service receipts, aided by the relaxation of COVID-19 restrictions. As a result, the current account balance is estimated to switch into a surplus of over 4 percent of GDP by end-2021, mitigating pressures on foreign reserves, which doubled to US$4 billion in 2021, up from US$2 billion in 2020.

According to the Labor Market Regulatory Authority, total employment in Q1-2021 fell with respect to 2020, driven by lower foreign employment. Data from the Social Insurance Organization indicate a recovery in Bahraini employment by the end of 2021. The number of Bahraini employees increased by 2.7 percent in Q4-2021 (y/y), 2.9 percent in the private sector and 2.3 percent in the public sector. The number of foreign employees has continued to decrease since Q4-2020 (y/y).

Outlook

Bahrain's economic outlook hangs on oil market prospects, pandemic conditions, and reform implementation. Growth is projected to accelerate to 3.5 percent in 2022, boosted by the surging energy prices caused by the economic consequences of the war in Ukraine. Recovery of the non-oil economy is likely to continue thanks to successful vaccination rollout and further relaxation of movement restrictions. Over the medium-term, however, non-oil economic activity would be dampened by fiscal consolidation. The expansion of the Sitra oil refinery and development of the Khaleej al Bahrain shale oil project will support the growth outlook going forward. Inflation is expected to increase to 2.5 percent in 2022, fueled by the doubling of the VAT rate to 10 percent and a continued recovery of domestic demand.

While the pandemic related spending continues, the fiscal deficit is projected to continue narrowing over the medium term, supported by high hydrocarbon revenues and implementation of fiscal adjustment measures under the FBP. Yet public debt is projected to remain above 120 percent of GDP throughout 2022-24. Adherence to the FBP accompanied by higher hydrocarbon and non-hydrocarbon revenues, would improve the fiscal outlook.

Higher exports from oil and aluminum along with the revival of the tourism sector are forecast to keep the current account in surplus at nearly 5 percent of GDP in 2022, but to decelerate in the 2023-24 given high debt service payments and increased capital imports to boost oil production. The anticipated external account surplus will help mitigate pressures on the foreign exchange reserves.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.1	-4.9	2.6	3.5	3.1	3.1
Private Consumption	0.5	-4.4	3.1	3.7	3.2	2.9
Government Consumption	-1.5	-2.1	2.3	1.1	-0.8	-1.3
Gross Fixed Capital Investment	-2.8	-3.8	2.2	3.7	3.9	4.0
Exports, Goods and Services	0.4	-2.5	5.5	6.2	6.3	6.5
Imports, Goods and Services	-5.6	-0.7	6.2	6.4	6.4	6.5
Real GDP growth, at constant factor prices	2.1	-4.9	2.6	3.5	3.1	3.1
Agriculture	-1.0	0.1	2.2	2.4	2.7	2.6
Industry	2.3	-1.2	1.8	3.0	3.7	4.4
Services	2.0	-7.7	3.2	3.8	2.7	2.1
Inflation (Consumer Price Index)	1.0	-2.3	-0.6	2.5	2.7	2.5
Current Account Balance (% of GDP)	-2.1	-9.3	4.3	4.6	3.4	3.1
Fiscal Balance (% of GDP)	-9.1	-17.4	-10.7	-6.8	-5.6	-5.0
GHG emissions growth (mtCO2e)	6.1	-2.0	3.1	3.5	3.3	3.3
Energy related GHG emissions (% of total)	63.3	62.2	62.9	63.7	64.2	64.7

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

DJIBOUTI

Table 1	2021
Population, million	1.0
GDP, current US$ billion	3.6
GDP per capita, current US$	3576.5
International poverty rate ($1.9)[a]	17.0
Lower middle-income poverty rate ($3.2)[a]	39.8
National poverty rate[a]	21.1
Gini index[a]	41.6
School enrollment, primary (% gross)[b]	73.8
Life expectancy at birth, years[b]	67.1
Total GHG Emissions (mtCO2e)	1.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

The withdrawal of COVID-19 movement restrictions facilitated Djibouti's economic rebound in 2021, to an estimated 4.3%. Growth is projected to remain moderate in 2022 but to expand briskly thereafter thanks to infrastructure projects, reducing the incidence of poverty from 14.7% in 2020 to a projected 12.4% in 2024. Regional stability and commitment to fiscal consolidation and structural reforms remain critical for Djibouti's growth prospects. As a net importer of food and energy, Djibouti is vulnerable to commodity price shocks, which is further exacerbated by the war in Ukraine.

Key conditions and challenges

In the decade leading up to the COVID-19 pandemic, Djibouti's economy was growing rapidly by over 6 percent per year on average, driven by externally financed, large-scale investment in transport and port infrastructure, which aimed at making the most out of the country's strategic location and deep-water port to serve as a key regional refueling, trade and transshipment center.

This development strategy has come at the cost of rising debt vulnerabilities. Djibouti's public and publicly guaranteed debt rose sharply from 37.5 percent of GDP in 2010 to an estimated 74 percent in 2021. Rising debt service cost of fast-maturing debts has crowded out much needed spending in social sectors. Health and social expenditures represent 5 percent and 3 percent of the government's budget, respectively compared to more than 30 percent for public infrastructure.

The pandemic and the conflict in neighboring Ethiopia had a heavy toll on Djibouti's economy and fiscal accounts (including Ports related SOEs revenues), further constraining the government's debt service capacity. Since February 2022, Djibouti's external and public debt are assessed as unsustainable. Over the medium term, debt service is set to increase, as different payments come to maturity, including the deferred debt services linked to the DSSI.

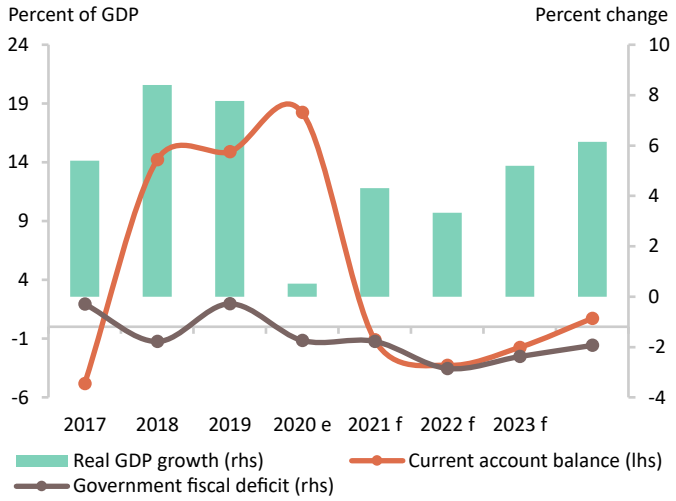
Heavy reliance on food and energy imports presents a key vulnerability. Global commodity price shocks are immediately felt in Djibouti's relatively small and undiversified economy, putting upward pressure on inflation and potentially jeopardizing food and energy security. The conflict between Ukraine and Russia–two of the world's largest producers of wheat–may exacerbate some of these sources of fragility.

In 2017 (latest available data), 39 percent of the population lived below the lower-middle income poverty line ($3.20 a day, 2011 PPP) and 17 percent in extreme poverty (below the international poverty line of $1.90 a day, 2011 PPP). Djibouti is one of the most unequal countries in the MENA region, with an estimated Gini coefficient of 41.6 in 2017. Poor data landscape, both in terms of quality and availability, hinders the ability to plan.

Recent developments

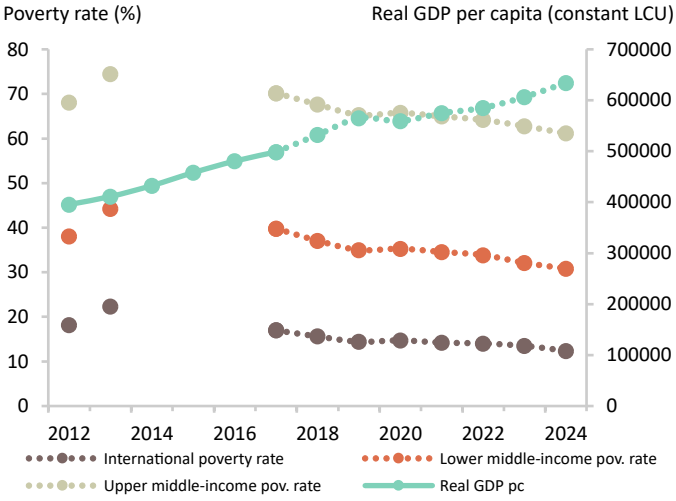
GDP growth rebounded to 4.3 percent in 2021 from 0.5 percent in 2020 (lowest growth since 2000), driven by the withdrawal of COVID-19 movement restrictions, which allowed the resumption of major public works, such as the transformation of the old port into a shopping center, preparatory works for the construction of a shipyard repair factory, and development of Damerjog Industrial Development Free Trade Zone (DDID FTZ). Government transfers and income support initiatives also bolstered household

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



Sources: Government of Djibouti and World Bank staff projections.

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



Source: World Bank. Notes: see Table 2.

consumption, but a softening of maritime transport and services overall (connected to the Ethiopian crisis) have somewhat offset the growth momentum. Headline inflation rose to 2.5 percent at end-2021 (y/y), reflecting the recovery of domestic demand, high global commodity prices, and recurrent shortages in imports of fresh food from Ethiopia.

The overall fiscal deficit stood at 1.8 percent of GDP in 2021, nearly the same as in 2020. New tax exemptions, lower international aid, and continued pandemic-related tax reliefs more than cancelled out the fiscal space created by the DSSI (US$57.7 million or 1.6 percent of GDP) and expenditure rationalization (including subsidies and transfers to SOEs).

The current account position deteriorated sharply from a surplus of 11.6 percent of GDP in 2020 to a deficit of 1.1 percent in 2021, driven by the slowdown in exports to Ethiopia and increased imports due to stronger domestic demand. On the upside, a US$40 million SDRs allocation from the IMF helped maintain a strong reserve coverage, at 5 months of imports as of end-2021.

Outlook

Growth is projected to soften to 3.3 percent in 2022 reflecting spillover effects of regional instability, and namely if the crisis in Ethiopia protracts further. Economic activity is expected to strengthen in 2023 and 2024 boosted by new infrastructure projects. Djibouti's medium-term outlook is subject to downside risks, including the emergence of new COVID-19 variants, persistent disruption in global transports and logistics value chains (particularly important for port-related SOEs activities), and continuation or possible intensification the Ethiopian crisis. As a net importer of food and energy, the economic consequences of the the war in Ukraine would likely affect Djibouti's external account through higher import bills.

The 2022 Finance Law proposes several revenue and expenditure measures to create fiscal space for debt services. Tax measures include the revision of income tax brackets, reduction in the VAT threshold, and one-off tax payments for companies exempted under the investment code or established in free zones. On the expenditure side, the Law foresees a 5 percent reduction of subsidies to SOEs, freeze of new recruitments in the public service, and the centralization of central government's tenders and purchases of goods and services. While encouraging, these measures will only partially offset the debt service requirements, hence the government is expected to engage with its creditors to explore additional way to address debt obligations and strengthen domestic revenue mobilization, including by rationalizing tax exemptions and negotiating more favorable bilateral deals on rents paid by military bases.

With continued economic growth, poverty ($1.90 per day) is expected to resume its downward trend from 14 percent in 2022 to 12.4 percent in 2024. As existing household budget surveys do not capture a large proportion of the population that are either undocumented, nomadic, or displaced, the above poverty estimates are lower bound. Policy choices in the macro-fiscal space and the structure of the economy in upcoming years will be consequential to the poverty reduction path in Djibouti.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	7.8	0.5	4.3	3.3	5.2	6.2
Private Consumption	5.0	-5.0	4.7	4.6	4.6	5.0
Government Consumption	-0.5	-2.1	8.3	-0.5	9.4	4.3
Gross Fixed Capital Investment	26.4	-37.2	5.3	1.8	7.6	7.1
Exports, Goods and Services	12.9	7.5	4.3	3.6	4.6	7.0
Imports, Goods and Services	13.9	-0.5	5.5	3.9	5.5	7.0
Real GDP growth, at constant factor prices	7.2	0.5	4.3	3.3	5.2	6.2
Agriculture	0.7	3.5	3.5	3.5	3.5	3.5
Industry	9.4	2.0	4.5	4.2	6.5	9.0
Services	6.8	0.1	4.3	3.1	4.9	5.5
Inflation (Consumer Price Index)	3.3	1.8	1.2	2.0	2.0	2.0
Current Account Balance (% of GDP)	28.9	11.6	-1.1	-3.3	-1.7	0.7
Fiscal Balance (% of GDP)	-0.3	-1.7	-1.8	-2.8	-2.4	-1.9
Debt (% of GDP)	65.3	73.3	73.5	74.3	75.1	75.3
Primary Balance (% of GDP)	0.9	-1.2	-0.9	-1.8	-1.4	-0.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	14.4	14.7	14.2	14.0	13.5	12.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	35.0	35.3	34.5	33.8	32.1	30.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	65.3	65.8	65.0	64.2	62.8	61.2
GHG emissions growth (mtCO2e)	1.6	0.3	0.8	0.8	0.8	0.8
Energy related GHG emissions (% of total)	31.0	31.1	31.3	31.6	31.8	32.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2017-EDAM.Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2017) with pass-through = 0.7 based on GDP per capita in constant LCU.

ARAB REPUBLIC OF EGYPT

Table 1	2021
Population, million	104.3
GDP, current US$ billion	404.1
GDP per capita, current US$	3876.4
Lower middle-income poverty rate ($3.2)[a]	28.9
National poverty rate[a]	29.7
Gini index[a]	31.5
School enrollment, primary (% gross)[b]	106.4
Life expectancy at birth, years[b]	72.0
Total GHG Emissions (mtCO2e)	348.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2011 PPPs.
b/ Most recent WDI value (2019).

Egypt undertook exchange rate, monetary and fiscal measures in response to adverse global developments (including soaring prices and tightening financial conditions), aggravated by the war in Ukraine. Yet, these policy actions also reflect underlying structural challenges. The surge in growth to 9 percent in H1-FY2021/22 (supported by rebounds in export-oriented sectors) is expected to slow down gradually through FY2022/23. Reforms to enhance private investment, exports and FDI remain crucial for the economy's resilience and competitiveness.

Key conditions and challenges

Egypt implemented macroeconomic stabilization and energy sector reforms, as well as structural measures to address entrenched problems through taking steps to strengthen public debt management and enhance aspects of the business environment. These concerted efforts since 2016—along with the measures undertaken at the onset of COVID-19 to ease monetary conditions, provide selected sectoral support and mobilize external financing—enabled the country to face the pandemic with relative resilience.

Nevertheless, the global economic consequences of the war in Ukraine and associated sanctions on Russia, along with ongoing COVID-related disruptions, threaten to exacerbate long-standing challenges facing Egypt's external balances, mainly through widening the current account deficit (given the country's net commodity importer status, and the concentrated nature of trade with Russia and Ukraine). Egypt's growth model that shifted over the past two decades towards non-tradable lower productivity sectors contributed to the relatively limited export penetration and sophistication, as well as below-potential labor market outcomes. Official estimates indicate recent gains in welfare; however poverty rates were at 29.7 percent, as reported for the period October 2019—March 2020. Despite significant fiscal consolidation, government debt remains elevated. Financing requirements are thus high, at a time when global financial conditions are tightening as advanced economies unwind their accommodative monetary policies.

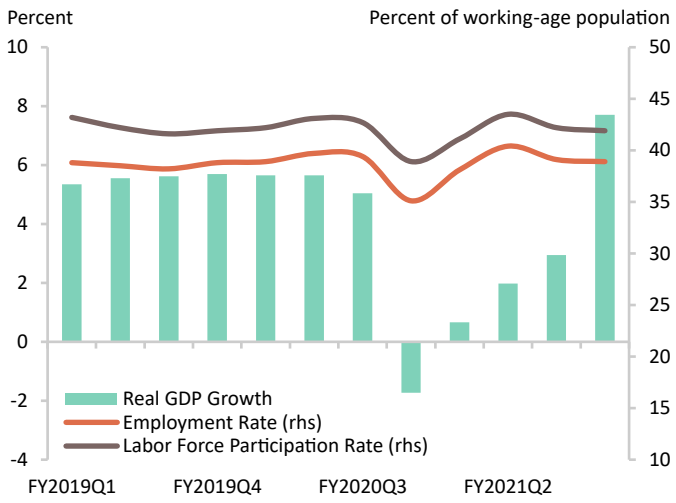
Going forward, enhancing public expenditure efficiency and revenue mobilization will be crucial to avail the fiscal space needed to advance human and physical capital for the population of above 103 million. Importantly, continuing to pursue structural reforms to unleash the private sector's potential in higher value-added and export-oriented activities are necessary to create jobs, and improve living standards.

Recent developments

On March 21, the Central Bank of Egypt (CBE) allowed the exchange rate to depreciate overnight by around 16 percent to stem the widening net exports deficit, and raised policy rates by 100 basis points to curb inflation and contain portfolio outflows. Meanwhile, the government introduced a mitigation package worth LE130 billion (1.6 percent of FY2022/23 GDP) to alleviate the impact of the rising prices through hikes to public sector wages and pensions, tax measures, and expanding coverage of the cash transfer programs, among other measures.

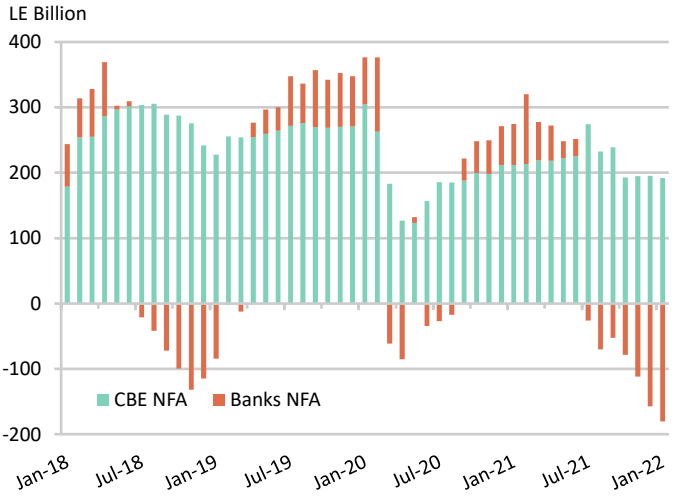
Prior to the external shock that triggered these policy measures, the economy was recovering, although pressures on external and fiscal accounts were building. Growth had surged to 9 percent during

FIGURE 1 Arab Republic of Egypt / Real GDP growth and labor market indicators



Sources: Ministry of Planning (MoP) and CAPMAS.

FIGURE 2 Arab Republic of Egypt / Banking sector net foreign assets



Source: World Bank estimates based on CBE.

H1-FY2021/22 (July—December 2021), compared to a modest rate of 1.4 percent a year earlier. The resumption of international travel and trade, global pent-up demand and favorable base effects allowed for strong rebounds in the export-oriented sectors, such as tourism, the Suez Canal, non-oil manufacturing, and gas extractives. The communications and construction sectors also continue to be important contributors to growth. On the demand-side, consumption and investment improved, but the net exports deficit widened, partly because the steady and marked real exchange rate appreciation over the previous years favored imports growth, and the accelerating global commodity prices also inflated Egypt's import bill.

Domestic prices were gradually rising, and inflation spiked to 8.8 percent in February 2022 (more than 2.7 percentage points higher than its average since the beginning of FY2021/22), reflecting early repercussions of the war in Ukraine.

While international reserves are comfortable (at US$41 billion at end-February), banks' net foreign assets position has been in deficit since the beginning of FY2021/22; indicating that external accounts have been under pressure prior to the escalation of the war in Ukraine, and domestic banks may have partly borne the consequences.

Outlook

The recent surge in economic activity has set Egypt on track to achieve growth of 5.5 percent in FY2021/22. However, base effects and the demand overshoot are expected to start tapering off and economic activity will be adversely affected by the repercussions of the war in Ukraine. Thus, growth is expected to slow down to 5 percent in FY2022/23. Inflation is forecast to surpass the CBE's inflation target range (7 percent +/2 PPT) through the remainder of FY2021/22 due to the impact of the depreciation, imported inflation, possible supply bottlenecks, along with the potential continuation of upward adjustments to retail fuel prices. While some mitigation is expected from the recent fiscal package, existing food subsidy and cash transfer programs, as well as the relatively large reserves of wheat and other cereals, poverty may still increase as inflation undermines real incomes.

The current account deficit-to-GDP ratio is expected to widen to 6 percent in FY2021/22, from 4.6 percent in FY2020/21, mainly due to the higher imports bill, and the impact of the Ukraine war on tourism as well as on demand for non-oil exports (notably by Europe). Notwithstanding the pressures from the decline in portfolio investments, the capital and financial account can remain relatively buoyed by potential financing from the International Monetary Fund (requested on March 23). Other possible mitigating factors include the boost that higher international prices can provide to Egypt's gas exports, remittances from the GCC, and FDI inflows to oil and gas extractives. Egypt also issued a maiden Samurai bond worth US$500 million in end-March 2022, and other sovereign issuances are expected to continue, including innovative Green bonds and Sukuk.

The budget deficit is forecast to increase in FY2021/22 on account of the additional mitigation measures introduced in March 2022, and soaring international prices and monetary tightening that are driving up the cost of government purchases, subsidies, wages and interest payments. Government debt will, in turn, also increase due to both the higher deficit and the adverse valuation impact stemming from the currency depreciation. Fiscal consolidation is, however, expected to resume over the medium term.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.6	3.6	3.3	5.5	5.0	5.3
Private Consumption	1.0	7.3	7.1	5.7	4.0	4.1
Government Consumption	2.8	6.7	3.7	6.0	7.5	4.0
Gross Fixed Capital Investment	14.1	-20.9	-8.5	8.2	4.9	8.3
Exports, Goods and Services	-2.2	-21.7	-13.4	15.0	24.0	11.0
Imports, Goods and Services	-8.9	-17.9	0.2	13.5	13.0	5.5
Real GDP growth, at constant factor prices	5.1	2.5	2.0	5.4	4.9	5.3
Agriculture	3.3	3.3	3.8	4.5	4.5	3.3
Industry	5.8	0.6	-1.1	6.6	6.0	6.4
Services	5.1	3.6	3.5	4.8	4.3	5.0
Inflation (Consumer Price Index)	13.9	5.7	4.5	10.0	9.0	8.5
Current Account Balance (% of GDP)	-3.6	-3.1	-4.6	-6.0	-5.0	-4.0
Net Foreign Direct Investment (% of GDP)	2.6	1.9	1.2	1.5	1.8	2.0
Fiscal Balance (% of GDP)	-8.1	-7.9	-7.4	-7.9	-7.3	-7.1
Debt (% of GDP)	90.2	87.0	92.4	96.4	91.6	87.3
Primary Balance (% of GDP)	1.9	1.8	1.5	1.3	1.7	2.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.7	4.3	4.3	4.3	4.2	4.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	28.4	29.8	29.7	29.5	29.2	28.9
GHG emissions growth (mtCO2e)	1.9	2.1	1.7	1.8	1.9	1.9
Energy related GHG emissions (% of total)	68.3	68.6	69.2	69.2	69.1	68.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2010-HIECS, 2015-HIECS, and 2017-HIECS. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2010-2015) with pass-through = 0.07 based on GDP per capita in constant LCU.

IRAN, ISLAMIC REPUBLIC

Table 1	2021
Population, million	85.0
GDP, current US$ billion	249.7
GDP per capita, current US$	2936.3
School enrollment, primary (% gross)[a]	110.7
Life expectancy at birth, years[a]	76.7
Total GHG Emissions (mtCO2e)	819.9

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

Iran's economy continues its gradual recovery that started in mid-2020, driven by the oil sector and services. However, water and energy shortages led to contraction of the agriculture and industry sectors. Only a third of the pandemic period jobs losses have so far been recovered. Oil revenue shortfalls led to a growing budget deficit, adding to inflationary pressures through the government's deficit financing operations. Growth is forecast to remain modest with both upside and downside risks associated with oil market dynamics, geopolitical tensions, the pandemic, and climate change.

Key conditions and challenges

Iran's economy is slowly emerging from a decade-long stagnation bogged by two rounds of economic sanctions, marked oil price cyclicality, and the COVID-19 pandemic. Real GDP in 2020/21[1] was almost at the same level as 2010/11, and real GDP per capita in 2020/21 fell to the 2004/05 level. The large contractions in oil exports placed severe pressures on government finances at the same time, as oil prices started a downward trajectory in late-2018, which further worsened during the COVID-19 pandemic. While current account pressures were partly absorbed through the depreciation of the rial and import substitution, the depreciation together with the government's budget deficit financing operations fueled inflationary pressures. High inflation and lack of jobs negatively impacted household welfare and added to social grievances. The impact of the pandemic on Iran's labor market was significant following multiple and long-lasting waves of infections.

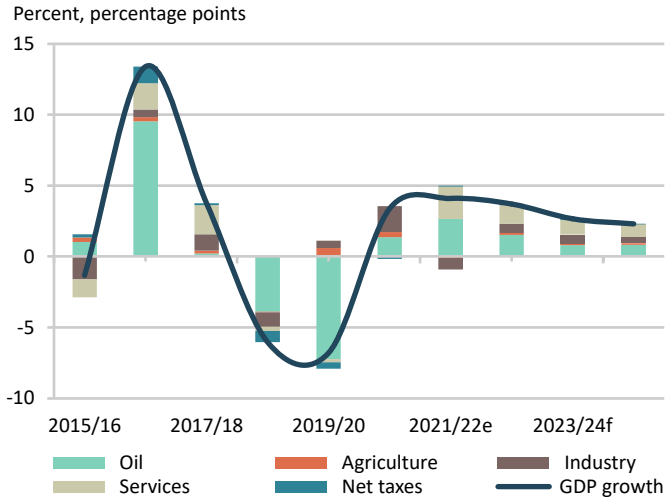
Iran's economic challenges are also structural. Despite adjustments that partially mitigated the impact of external shocks, the economy remains constrained by widespread inefficiencies and price distortions that have contributed to the economy's subpar performance. Iran is one of the largest subsidizers of fossil fuels globally, leading to allocative inefficiencies and significant budget and equity implications, as well as high carbon intensity of the economy. While social protection measures partly mitigated pressures, the lack of targeting and inflation indexation reduced their impact over time. Furthermore, climate change challenges in Iran have hurt growth, especially in labor-intensive agriculture and industry sectors following record high temperatures and low rainfalls. These factors constrain the pace of recovery and the dynamism of the economy in the outlook.

1/ The Iranian calendar year starts on March 21 of every year and ends on March 20 of the following year.

Recent developments

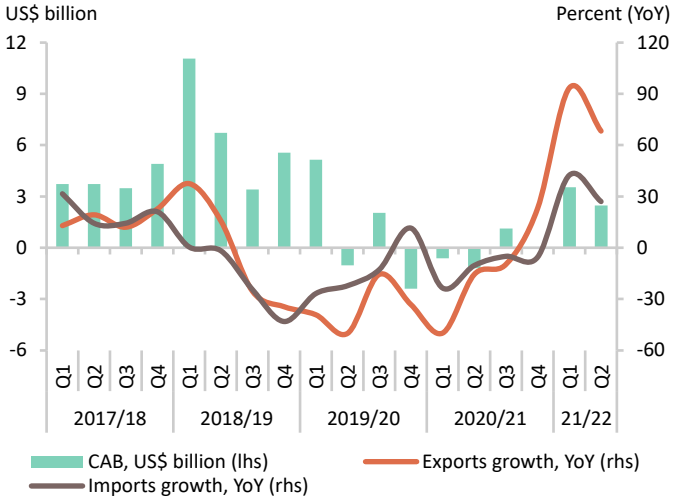
The economy continued to rebound in 9M-21/22 (Apr-Dec 2021), following a two-year recession. A recovery in the oil and service sectors (11.7 and 6.5 percent growth, respectively) – following a return of global and domestic activity after the start of the pandemic – led to a 5 percent YoY growth in 9M-21/22. However, the agriculture sector contracted by 2.1 percent due to drought and energy blackouts. On the demand side, a 3.4 percent expansion in consumption drove GDP growth as activity returned closer to pre-pandemic levels. Imports growth (25.5 percent) outweighed the pick-up in exports (5.4 percent), and investment also declined (5.2 percent). The economic rebound has yet to be reflected in the labor market as the recovery was largely

FIGURE 1 Islamic Republic of Iran / GDP growth and supply side decomposition



Sources: CBI and World Bank staff calculations.

FIGURE 2 Islamic Republic of Iran / Current account balance



Sources: CBI and World Bank staff calculations.

driven by the oil sector, and employment growth in services and industries could not compensate for job losses in the agriculture sector.

The government faced challenges in financing a growing fiscal deficit due to a shortfall in oil revenues and higher expenditures. In line with exports, oil revenues grew rapidly in H1-21/22 (over 300 percent YoY), however from a record low base. The oil proceeds only met 14 percent of the ambitious budget target for the year and accounted for 12 percent of government revenues (an improvement from the 4 percent share of H1-20/21 but far from pre-sanction share of 50 percent in H1-18/19). However, tax revenues grew by 60 percent, partly reflecting higher inflation, and expenditures also grew by 58 percent. This brought the budget deficit to 6.8 percent of GDP in H1-21/22, which was mainly financed through bond issuance (82 percent), as the government could not realize its planned sales of public assets.

Inflation continued its upward trend, driven by inflationary expectations, currency depreciation, and monetary expansion. Headline and core inflation in 2021/22 rose to an estimated 40.7 and 51 percent, respectively – recording the third consecutive year of inflation above 35 percent – but have since eased to 35.4 and 39.1 percent YoY in February 2022. In 10M-21/22, the currency depreciated by 14.7 percent against the US dollar and M2 expanded by 39.8 percent.

A strong expansion in hydrocarbon exports drove the current account balance to a surplus of US$5.9 billion in H1-21/22. Oil exports grew through both price and (likely) volume channels, reaching US$18.6 billion (118 percent growth, YoY), partly a base effect from their 2020/21 collapse after the pandemic. While oil export volumes are not officially reported (because of the sanctions), the higher oil production growth in 2021 (21 percent) indicates an upward trend in exports including through indirect exports to China. Non-oil exports and imports surpassed their pre-pandemic levels during April 2021 - February 2022 by 12.7 percent and 16.6 percent, respectively.

Outlook

Average GDP growth is projected to remain modest in the medium term as the economy remains constrained by the continued impact of the pandemic through weaker domestic and global demand, while trade, especially oil exports, remains restricted by ongoing sanctions. Non-oil GDP growth is projected to remain below potential following previous years' decline in real investment. Inflation is forecast to ease relative to 2021/22 but remain high, at over 30 percent annually, as fiscal and exchange rate pressures persist. Sustained inflation will continue to put pressure on the livelihood of poor and vulnerable households, already severely hit by the pandemic crisis.

Higher projected oil prices in the outlook period and growth in oil export volumes considering the tighter global oil market are forecast to curb fiscal pressures. However, high expenditure growth due to increasing wage bill and pension spending are projected to keep the fiscal balance in a deficit of 3.8 percent of GDP in 2022-24.

Iran's economic outlook is subject to significant risks. On the upside, further increase in oil prices following heightened global tensions can directly boost fiscal revenues and indirectly lead to a faster growth in oil export volumes if oil markets seek all available supply to ease price pressures. With both Iran and Russia under sanctions, higher trade and investment with Russia could reduce the impact of sanctions on Iran. Downside risks relate to the resurgence of new COVID-19 variants, a worsening climate change impact, and heightened geopolitical tensions including the recent conflict's impact on global food prices and Iran's imports.

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

	2019/20	2020/21	2021/22	2022/23e	2023/24f	2024/25f
Real GDP growth, at constant market prices	-6.8	3.4	4.1	3.7	2.7	2.3
Private Consumption	-7.7	-0.4	3.4	2.9	2.3	1.9
Government Consumption	-6.0	-2.3	3.9	3.9	3.4	2.9
Gross Fixed Capital Investment	-5.9	2.5	-4.4	5.3	3.4	3.4
Exports, Goods and Services	-29.9	-5.4	8.9	8.7	5.6	4.5
Imports, Goods and Services	-38.1	-29.2	22.8	5.1	3.9	3.1
Real GDP growth, at constant factor prices	-6.5	3.6	4.1	3.7	2.7	2.3
Agriculture	8.8	4.5	-1.3	1.7	1.5	1.5
Industry	-15.9	8.4	4.6	5.4	3.5	3.2
Services	-0.5	-0.1	4.6	2.6	2.1	1.7
Inflation (Consumer Price Index)	41.3	36.4	40.7	37.6	34.8	32.1
Current Account Balance (% of GDP)	1.5	-0.3	1.8	4.7	3.1	2.8
Fiscal Balance (% of GDP)	-5.0	-6.3	-5.5	-3.7	-3.8	-3.9
Gross Public Debt (% of GDP)	48.0	52.0	49.8	46.4	44.5	43.2
Primary Balance (% of GDP)	-4.5	-5.3	-4.5	-2.8	-3.0	-3.1
GHG emissions growth (mtCO2e)	-0.6	-3.2	2.8	2.8	2.2	2.0
Energy related GHG emissions (% of total)	71.3	70.5	71.0	71.3	71.4	71.3

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

REPUBLIC OF IRAQ

Table 1	2021
Population, million	41.2
GDP, current US$ billion	204.8
GDP per capita, current US$	4973.4
School enrollment, primary (% gross)[a]	108.7
Life expectancy at birth, years[a]	70.6
Total GHG Emissions (mtCO2e)	246.2

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

Iraq's economy is gradually recovering from the twin shocks of the pandemic and collapse in oil prices in 2020. Both oil and non-oil growth are on track to reach their pre-pandemic levels as oil production increases and the easing of COVID-19 restrictions restores domestic economic activity. Fiscal and external deficits are back to surpluses as oil prices continue to surge. Growth in the medium term is projected to be driven by the oil sector as OPEC+ production cuts are phased out. The outlook remains subject to significant risks including uncertainties relating to the impact of geopolitical tensions, the ongoing pandemic, security challenges, and climate change.

Key conditions and challenges

Iraq's economy is gradually emerging from the pandemic, driven by a recovery in non-oil economic activity and more favorable oil market dynamics. Non-oil economic activity is recovering to the pre-pandemic level as COVID-19 restrictions are eased. Oil production has also gradually increased as per the OPEC+ production quota tapering, which is scheduled to be fully phased out by September 2022. Higher oil prices have also bolstered government revenues and strengthened reserves.

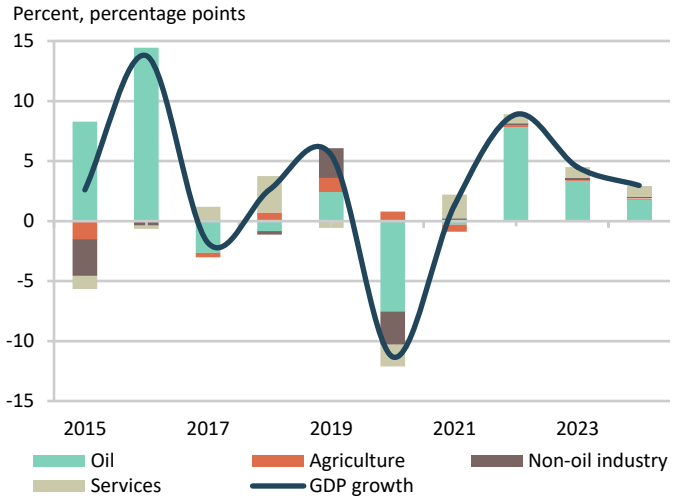
However, Iraq's economic recovery remains fraught by significant volatility and long-standing structural challenges. Due to overdependence on oil, exports and government revenues remain highly volatile and pro-cyclical in line with oil price dynamics. Government spending is beset by rigid wage and transfer expenditures. The pandemic also amplified Iraq's pre-existing fragilities in the health care system, public administration, and digital and physical infrastructure, compounding low productivity growth. The disproportional impacts of the crisis on the pre-pandemic poor and vulnerable population exacerbated the pre-existing poverty trends and inequality. While the overall unemployment rate increased during the pandemic, unemployment among the displaced, returnees and women jobseekers, and those pre-pandemic self-employed and informal workers, in particular, is pronounced significantly. Record high temperatures and severe droughts have impacted agricultural production, making Iraq more reliant on imports as commodity prices rise, with implications for food security and poverty, especially in rural areas. High dependence on gas and electricity imports have increased the magnitude of impact from disruptions to these imports. This while Iraq is the world's second largest gas flaring country failing to capture over half of the associated gas in oil production.

A protracted government formation process and a resurgence of security challenges cloud the prospects of Iraq's economy. A political dead lock has stalled the government formation process since the October 2021 parliamentary elections and led to postponing of the 2022 budget, adding to pre-exiting social grievances regarding corruption, poor public service delivery and lack of economic opportunities. The oil windfall presents a crucial opportunity for implementation of a comprehensive package of economic reforms to achieve sustainable economic growth and cushion the impact of future economic shocks.

Recent developments

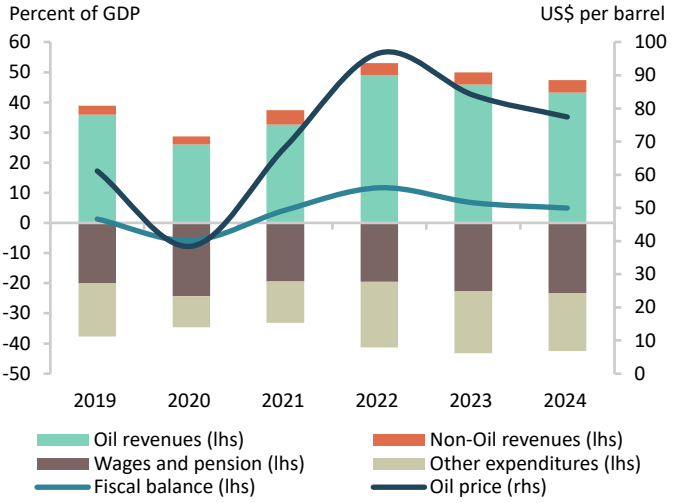
Iraq's economy is gradually rebounding following the deep economic strains of the COVID-19 pandemic. Real GDP is estimated to have edged up by 1.3 percent in 2021, after a sharp contraction of 11.3 percent in 2020. The rebound was mainly driven by the non-oil sector which grew by 6 percent in 9M-2021 year-on-year (y/y), underpinned

FIGURE 1 **Republic of Iraq** / GDP growth and supply side decomposition



Sources: Iraq's COSIT and World Bank staff calculations.

FIGURE 2 **Republic of Iraq** / Fiscal account outlook



Sources: Iraq MoF, MoO, and World Bank staff calculations.

by a strong performance of the high contact sectors including transport, accommodation, and retail sectors. However, agricultural and construction contracted by 17.5 percent and 36.8 percent respectively, following severe droughts, energy outages, and the rising global price of inputs. In 9M-2021, oil GDP contracted by 4 percent (y/y) as Iraq adjusted its oil production as per the OPEC+ agreement. Headline and core inflation edged up to an average of 6 and 6.6 percent (y/y) in 2021, respectively, following the 23 percent devaluation in Dec-2020 and the gradual recovery in domestic demand.

Government revenues surged by 73 percent (y/y) in 2021 spurred by higher oil prices which averaged at US$68.3/barrel in 2021 (78 percent increase y/y). These budgetary gains were in part boosted by the currency devaluation and measures to mobilize non-oil domestic revenues mainly from customs. While recurrent expenditures – including the wage bill – remained high at 29 percent of GDP, improved oil receipts turned the overall fiscal balance to a surplus of 5.3 percent of GDP in 2021. The improved fiscal situation together with a denominator effect from the high nominal GDP growth (33 percent y/y) is estimated to have reduced the debt-to-GDP ratio to 54.8 percent in 2021, down from 64.7 percent in 2020.

Higher oil prices and exports also improved Iraq's external accounts. The current account balance turned into a surplus of 8.3 percent of GDP in 9M-2021 as exports surged by 46 percent and imports declined by 25 percent (y/y). The latter was driven by private imports' downward adjustment following the devaluation. The stronger trade balance pushed official reserves up from US$54 billion in Dec-2020 to US$61.9 billion in Dec-2021, strengthening buffers to external shocks.

Outlook

The turnaround in oil markets has significantly improved Iraq's economic outlook in the medium term. Overall growth in 2022 is now forecast at 8.9 percent as OPEC+ quotas end and Iraq's production surpasses its pre-pandemic level of 4.6 mbpd. Growth in the outer years is projected to remain modest at 3.7 percent on average as oil production moderates. Non-oil GDP growth is projected to converge to its long-term potential growth trend in part aided by higher investments that would be financed through the oil windfall. However, growth is forecast to remain constrained by the economy's limited absorptive capacity and other inefficiencies.

Higher projected oil prices in 2022-2024 are forecast to significantly improve Iraq's fiscal and external outlook. Due to their high dependence on oil, government revenues are likely to grow significantly through both price and volume channels. In the absence of a fiscal rule, part of the new fiscal space is likely to be absorbed by higher investment expenditures along with other procyclical discretionary spending. As such, Iraq's overall fiscal surplus is projected to moderate from an initial high of 11.7 percent of GDP in 2022 to 4.9 percent of GDP in 2024, while the debt-to-GDP ratio gradually improves to an annual average of 43 percent in 2022-24.

Iraq's economic outlook remains subject to significant risks. The recent geopolitical tensions related to the Russian war and invasion highlight risks for Iraq economy both on the up and downside. While any further oil price hikes would further improve Iraq's fiscal balance, rising food prices and disruption to agriculture imports will exacerbate pre-existing poverty trends and increase food security risks. The conflict also poses risks to Iraq's crude oil production if operations of Russian oil companies in Iraq are impacted by international sanctions on Russia. Higher oil prices could hurt the long-standing need to reform thereby deepening Iraq's structural economic challenges. Further intensified climate change effects and water shortages will decrease agricultural production. Additionally, COVID-19 vaccination in Iraq remains very low, among the lowest in the region and well below the global rate, and poses additional risks. It remains low even among the most vulnerable group, the elderly, and among those with high risk of exposure to the virus – poorer households and informal workers that are less likely to work from home and more likely to live in large households in cramped conditions. Other risks include the decline in oil prices, and a deterioration of the security situation.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.8	-8.6	1.3	8.9	4.5	3.0
Private Consumption	1.5	3.1	2.3	3.2	3.1	3.0
Government Consumption	25.2	-9.5	5.6	6.0	4.0	3.4
Gross Fixed Capital Investment	496.1	-67.0	10.0	13.3	9.5	8.3
Exports, Goods and Services	4.6	-10.1	-0.5	13.5	5.5	2.9
Imports, Goods and Services	28.4	-23.9	4.2	8.7	5.7	5.0
Real GDP growth, at constant factor prices	5.5	-11.3	1.3	8.9	4.5	3.0
Agriculture	46.2	22.5	-12.0	4.0	2.0	2.0
Industry	7.4	-15.2	-0.1	12.5	5.3	2.9
Services	-1.8	-6.3	6.5	2.3	3.0	3.1
Inflation (Consumer Price Index)	-0.2	0.6	6.0	3.3	3.0	2.5
Current Account Balance (% of GDP)[a]	5.6	-5.2	8.2	10.6	7.4	5.2
Net Foreign Direct Investment (% of GDP)[a]	1.4	1.6	1.5	1.6	1.6	1.7
Fiscal Balance (% of GDP)[a]	1.3	-5.8	4.3	11.7	6.7	4.9
Debt (% of GDP)[a]	44.7	64.7	54.8	43.3	42.8	41.7
Primary Balance (% of GDP)[a]	2.4	-4.8	5.3	12.5	7.6	6.0
GHG emissions growth (mtCO2e)	11.4	-2.6	7.3	18.1	13.8	11.6
Energy related GHG emissions (% of total)	72.5	73.8	76.4	79.3	81.2	82.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Share of factor cost GDP.

JORDAN

Table 1	2021
Population, million	10.3
GDP, current US$ billion	45.2
GDP per capita, current US$	4403.8
National poverty rate[a]	15.7
School enrollment, primary (% gross)[b]	80.4
Life expectancy at birth, years[b]	74.5
Total GHG Emissions (mtCO2e)	35.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017/8).
b/ WDI for School enrollment (2020); Life expectancy (2019).

Jordan's economic rebound during 2021 has been steady, but significant slack remains in the economy. Unemployment is still persistently high - particularly for the youth while labor force participation is among the lowest regionally. The current account deficit remains elevated, but the fiscal position is showing tangible improvement. Headline inflation remains low despite increases in transport and fuel prices. Going forward, economic growth is projected to remain modest as both the direct and indirect impacts of the Russian invasion, war and associated sanctions unfold, creating headwinds for Jordan's nascent economic recovery.

Key conditions and challenges

During the past decade, Jordan has faced multiple external shocks. Growth performance has been affected by regional instability, which disrupted trade routes and key export markets, triggered a large refugee influx, and reduced foreign capital inflows through an economic slowdown in GCC countries. Jordan's growth slowed to an average of 2.4 percent a year during 2010-2019, compared to 6.5 percent during 2000-2009, while population grew twice as fast as real GDP due to the influx of refugees. As a result, job growth could not match growth in the working age population. Unemployment was high and rising in comparison to regional peers even prior to COVID-19 shock.

Jordan has weathered the COVID-19 shock better than most countries. Its economy registered a modest contraction during 2020, cushioned by the substantial improvement in terms of trade and the authorities' timely monetary and fiscal responses, including wage subsidies for formal workers and provision of temporary cash transfers for poor and informal vulnerable households.

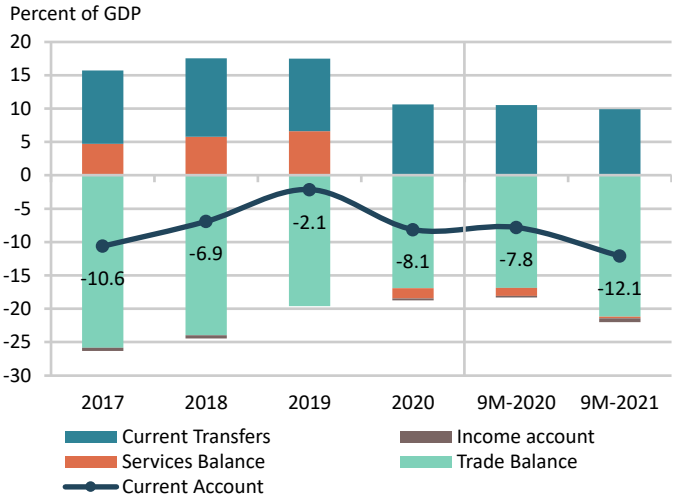
Over the medium term, Jordan's structural impediments along with imminent global risk factors arising from the Russian invasion, war and associated sanctions pose serious downside risks. Although direct trade links with Ukraine and Russia are limited, a continuous and accelerated surge in commodity prices and stronger slowdown in global growth represent imminent downside risks to the economy. In absence of accelerated progress on structural reforms, output could take longer to recover due to deeper scars on firms' balance sheets and potentially higher bankruptcies, human capital losses, and weaker human capital accumulation. Over medium-to-long run, the impact of climate change on natural hazards could intensify the country's water scarcity, posing a serious challenge to the agriculture sector.

Recent developments

Jordan's economic recovery during the first 9 months of 2021 was steady but was slightly below expectation. Growth reached 2.1 percent in 9M-2021 year-on-year, led by a broad-based recovery of the services and industrial sectors. Nonetheless, performance of some sub-sectors, specifically contact-intensive services, remain below pre-pandemic levels.

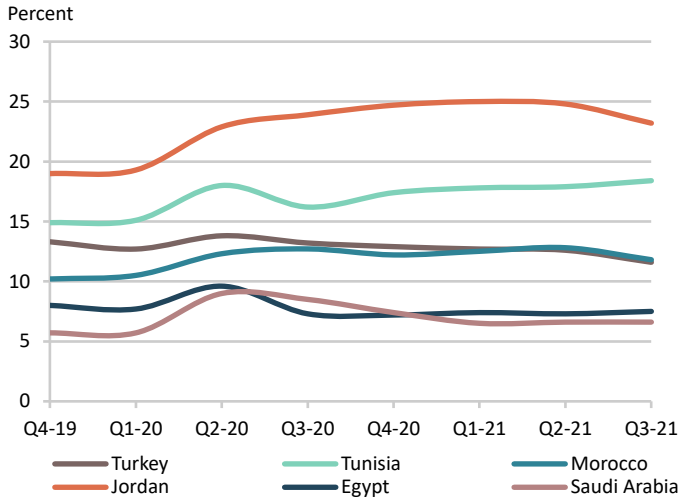
The fiscal position showed a notable improvement vis-à-vis 2020. Central Government (CG) fiscal deficit (incl. grants) as of 11M-2021 stood at 4.6 percent of GDP, 1.5 percentage point lower than in 2020. A strong recovery in domestic revenue collection contributed to the significant improvement, which more than offset elevated spending.

FIGURE 1 **Jordan** / Current account deficit and its drivers



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

FIGURE 2 **Jordan** / Unemployment rate in regional comparison



Sources: Haver Analytics and World Bank staff calculations.

Jordan's current account deficit (CAD) remains elevated. The CAD at end-September 2021 widened to 12.1 percent of GDP, driven by a substantial increase in the merchandise trade deficit amid unprecedented increases in global commodity prices and modest recovery in travel receipts compared to pre-COVID-19 levels. Nonetheless, international reserves at end-December 2021 stood at a comfortable level covering 9.5 months of imports, reflecting timely donor and IMF program support (as well as SDR augmentation).

Employment indicators still raise concern for households' welfare. Deterioration in the labor market remains the most significant threat to household welfare. The employment rate remained low at 26.4 percent (Q3-2021). Although unemployment fell slightly since peaking at 25.0 percent in Q1-2021, it was still high at 23.2 percent in Q3-2021, even more so for women (30.8 percent) and young people (48.5 percent among those aged 15 to 24 years old). The national poverty rate before the pandemic was 15.7 percent (2018). Declines in employment incomes at the height of the crisis were estimated to increase poverty by as much as 11 percentage points.

Outlook

Growth is projected to reach 2.0 percent and 2.1 percent in 2021 and 2022 respectively, led by a recovery in domestic demand and supportive government policies. On the supply side, acceleration in the recovery of tourism and services are expected to boost the economy. Growth dynamics over the medium-term, however, hinge on global economic conditions, headwinds from the Russian invasion, war and associated sanctions and timely resolution of structural impediments. Reflecting elevated international commodity prices, headline inflation during 2022 is projected to reach 3.3 percent.

The CG fiscal deficit (incl. grants) is projected to improve to 4.0 percent of GDP in 2022, supported by robust revenue efforts and retraction of COVID-19 related expenditures. Over the medium term, the fiscal deficit is projected to improve supported by IMF-EFF fiscal measures. Subsequently, government and guaranteed gross debt at end-2022 is projected to reach 114.2 percent of GDP (with debt net of Social Security Investment Fund holdings at around 90.4 percent) before gradually declining over the medium-term.

On the external front, the ongoing Russian invasion, war and associated sanctions are estimated to lead to a high CAD in 2022 as a result of higher energy prices as well as negative impact on tourism. Tourists receipts from Russia and Ukraine together accounted for 4.8 percent of total tourist receipts in 2021. As a result, the CAD (including grants) is projected to only modestly narrow - reaching 9.1 percent of GDP in 2022, compared to an estimated 10.6 percent of GDP in 2021. Over medium-term, full tourism recovery, pick-up in remittances, growth in exports and slow-down in imports is projected to narrow Jordan's CAD.

Household welfare is expected to slightly improve with the expected slow recovery in tourism, domestic demand and interaction-intensive services sectors. However, short of a revival of growth beyond the low 2 percent—which in turn is contingent on reform implementation—welfare improvements are not expected to be significant and could be reversed through shocks given limited household buffers. Larger households, young, female and informal workers may take longer to recover from the economic impacts of the crisis.

TABLE 2 **Jordan** / 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	-1.6	2.0	2.1	2.3	2.3
Private Consumption	-0.5	-0.8	4.5	2.5	1.6	1.6
Government Consumption	2.1	5.2	3.9	-2.1	0.9	2.4
Gross Fixed Capital Investment	-11.1	20.0	4.2	4.6	1.4	2.8
Exports, Goods and Services	6.5	-35.8	20.7	5.7	5.8	6.9
Imports, Goods and Services	-3.1	-17.2	19.5	4.2	2.3	4.2
Real GDP growth, at constant factor prices	2.2	-1.4	2.0	2.0	2.3	2.3
Agriculture	2.6	1.6	3.0	2.4	2.6	2.9
Industry	1.4	-2.4	2.7	1.4	1.6	1.8
Services	2.4	-1.2	1.7	2.3	2.6	2.5
Inflation (Consumer Price Index)	0.8	0.3	1.3	3.3	2.5	2.5
Current Account Balance (% of GDP)	-2.1	-8.1	-10.6	-9.1	-6.5	-5.0
Net Foreign Direct Investment (% of GDP)	1.5	1.6	1.6	2.2	2.9	3.4
Fiscal Balance (% of GDP)[a]	-4.9	-7.3	-6.0	-4.0	-3.5	-2.4
Debt (% of GDP)[b]	97.4	109.0	113.6	114.2	114.5	113.0
Debt, net of SSIF (% of GDP)[b]	78.0	88.0	91.3	90.4	89.2	86.3
Primary Balance (% of GDP)[a]	-1.3	-3.1	-1.7	0.0	0.5	1.6
GHG emissions growth (mtCO2e)	0.2	-4.0	1.7	1.9	1.6	2.1
Energy related GHG emissions (% of total)	63.3	62.0	62.4	62.5	62.8	62.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
a/ CG fiscal balance incl. grants, use of cash and unident. measures as per IMF-EFF (Jan 2022) of 1.3% of GDP in 2023, and 1.6% of GDP in 2024.
b/ Government and guaranteed gross debt. Includes securitization of domestic arrears in 2019-21.

KUWAIT

Table 1	2021
Population, million	4.3
GDP, current US$ billion	134.7
GDP per capita, current US$	31325.6
School enrollment, primary (% gross)[a]	87.3
Life expectancy at birth, years[a]	75.5
Total GHG Emissions (mtCO2e)	113.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2019).

Kuwait exited a two-year recession in 2021 as COVID-19 restrictions and OPEC+ cuts are gradually eased. The fiscal deficit is expected to narrow with surging oil prices. The economic recovery is projected to gather pace in 2022 due to the combined effects of fewer pandemic related restrictions, higher oil production and rising oil prices which will boost both oil and non-oil sectors. However, emerging coronavirus variants, volatile oil prices and continued political deadlock over key reforms are downside risks.

Key conditions and challenges

Kuwait's long-term challenges relate to the economy's dependence on oil and domestic consumption, and slow implementation of diversification plans. Large financial assets underpin Kuwait's economic resilience, but these assets alone cannot substitute for the fiscal and structural reforms that would offset the risks of low oil demand in the future. Fitch Ratings downgraded its sovereign rating in January due to ongoing political constraints hindering economic reform and debt financing needs. In 2021, more than 257,000 expatriates permanently relocated following a trend exacerbated by the pandemic. Moreover, the government has been accelerating its Kuwaitisation policy—the replacement of foreign workers with Kuwaitis. The exodus of expats has resulted in labor shortages, which risks hampering growth in both the oil and non-oil sectors. Structural reforms targeting sustained, inclusive, and greener growth are urgently needed.

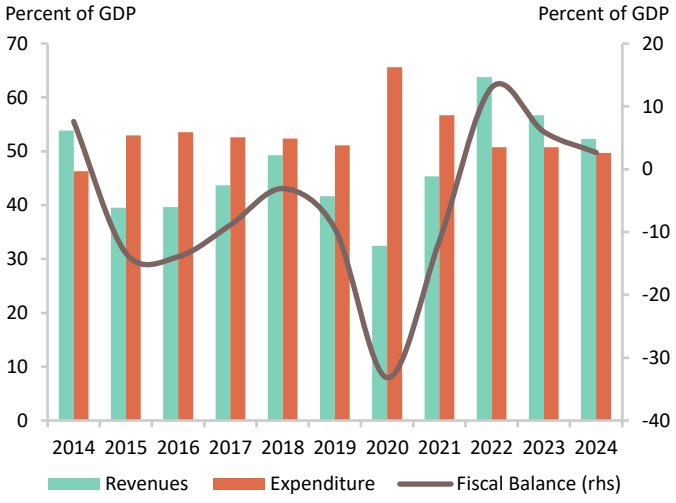
Key risks to the outlook relate to the uncertainty over new variants of COVID-19, oil market volatility, and the political deadlock over structural reforms. On the other hand an upside risk is that the recent oil price surge triggered by the war in Ukraine continues. As the COVID-19 crisis abates, policies should address medium- and long-term challenges such as enhancing fiscal sustainability by containing the wage bill, phasing out subsidies and moving ahead with VAT in harmony with other GCC countries.

Recent developments

Kuwait's real GDP growth in 2021 is estimated at 2.3 percent, a modest rebound given the based effect that the COVID-19 driven deep contraction of 8.9 percent in 2020 generated. The recovery was aided by a pick-up in the oil sector in line with OPEC+'s decision to ease crude production cuts, as well as a rebound of domestic consumption supported by renewed debt payment deferrals and higher consumer loans. Domestic credit increased by 6.3 percent in 2021, its highest growth rate since 2015, and was driven by households, while business credit remained flat. The spike in COVID-19 cases in early 2022 was the highest recorded since the crisis began, prompting authorities to tighten restrictions. The case count has since dropped dramatically and now over 83 percent of the population is fully vaccinated. Inflation is expected to increase from 2.1 in 2020 to 3.4 percent in 2021 due to higher prices across all categories, led by food prices. The Central Bank of Kuwait raised interest rates by 25 bp in line with Federal Reserve System's move to tackle inflation.

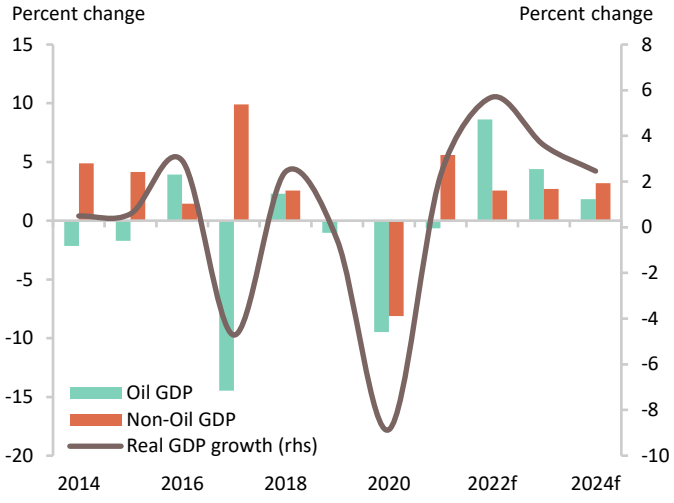
The fiscal deficit narrowed from 33.2 percent of GDP in FY20/21 to an estimated 11.4 percent of GDP in FY21/22 which is narrower than the government's budget

FIGURE 1 **Kuwait** / General government operations



Sources: World Bank, Macroeconomics, Trade and Investment Global Practice, IMF WEO. Notes: (1) Based on fiscal year cycle (April to March 31), (2) Balances exclude investment income and transfers to the Future Generations Fund.

FIGURE 2 **Kuwait** / Growth: Real GDP, real oil, and real non-oil sectors



Sources: Kuwait CSB, World Bank, Macroeconomics, Trade and Investment Global Practice.

(29.8 percent of GDP) due to higher-than-expected oil prices. This more than compensated for higher spending (the fiscal year begins in April and figures exclude investment income). However, financing the deficit will remain a challenge without the approval of the proposed debt law that seeks to raise the borrowing limit. In tandem with the recovery of global oil prices and export volumes as pandemic related international supply chain disruptions eased, the current account surplus expanded by an estimated 5.1 percent of GDP in 2021. The recovery in trade was led by higher earnings from both oil and non-oil exports, mitigated by higher imports.

Kuwait's labor market is highly segmented. According to the 2016-17 Labor Force Survey, nine out of ten employed Kuwaitis work in the public sector, and thus were protected from pandemic-related restrictions on economic activity. By contrast, migrant workers are largely employed in the private sector (64.3 percent) or as domestic workers (31 percent). The ILO estimates an annual decline of 5.8 percent in the labor force in 2020, with only a partial rebound in 2021 (4.1 percent). This is largely driven by a reduction of migrants (by 8.5 percent between 2019 and 2020). ILO estimates women and men unemployment rates increased in 2020: 8.2 and 2.0 percent, respectively, compared to 5.7 and 1.0 percent in 2019.

Outlook

Economic growth in 2022 is expected to accelerate to 5.7 percent due to higher oil output, as OPEC+ cuts are phased out, and as domestic demand strengthens. Oil production is expected to increase by 8.6 percent in 2022 as OPEC+ lifts quotas and new capacity at the Al Zour refinery comes online. Over the medium term, real GDP will expand (averaging 3 percent for 2023-24) thanks to stronger oil exports and credit growth. Stronger domestic demand will give further momentum to inflation in 2022. However, a gradual tightening of monetary policy from 2022 onwards will moderate inflation over the medium term.

The FY22/23 budget aimed to narrow the overall fiscal deficit (7.2 percent of GDP) through stronger oil revenues and lower spending, primarily subsidy and capital spending cuts. However, with the sharp increase in oil prices following the war in Ukraine, a large swing into surplus for the overall fiscal balance (to 13 percent of GDP in 2022) is projected. This will enable the partial clearance of US$7.7 billion in arrears that Kuwait's finance ministry owes to ministries and other public bodies. In light of this, fiscal reform to enhance liquidity are critical and introducing the VAT in line with its GCC peers will help diversify revenue. Furthermore, Kuwait should seize the opportunity of the favorable fiscal position to delink the economy from oil and push forward structural reforms. The related boost in oil export earnings in addition to improvements in global demand and waning concerns over the pandemic, will continue to expand the current account balance. Kuwait has long-term LNG import contracts with Qatar so the gas price hike is not expected to have a major impact. Frequent government changes indicate that political deadlock will continue to hinder structural reform needed to raise potential growth and competitiveness.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	-0.6	-8.9	2.3	5.7	3.6	2.5
Private Consumption	2.3	-4.5	2.9	4.2	3.1	3.0
Government Consumption	7.7	-1.6	3.0	3.8	2.5	2.2
Gross Fixed Capital Investment	-2.6	-3.1	0.5	2.0	3.8	3.5
Exports, Goods and Services	-10.0	-13.3	3.2	8.6	5.1	2.7
Imports, Goods and Services	-10.4	-4.0	3.5	5.0	4.9	3.8
Real GDP growth, at constant factor prices	0.7	-8.9	2.4	5.5	3.4	2.3
Agriculture	-4.6	-3.8	0.5	1.0	1.3	1.5
Industry	-0.9	-12.2	2.2	6.8	3.1	1.1
Services	3.4	-3.5	2.6	3.5	3.9	4.0
Inflation (Consumer Price Index)	1.1	2.1	3.4	3.6	2.8	2.3
Current Account Balance (% of GDP)	24.4	20.8	25.9	42.4	39.5	26.3
Fiscal Balance (% of GDP)[a]	-9.5	-33.2	-11.4	13.0	5.9	2.6
GHG emissions growth (mtCO2e)	4.9	-7.1	3.3	8.0	4.9	4.9
Energy related GHG emissions (% of total)	77.4	74.3	73.0	72.4	70.9	69.2

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).

LEBANON

Table 1	2021
Population, million	6.8
GDP, current US$ billion	22.1
GDP per capita, current US$	3263.6
Life expectancy at birth, years[a]	78.9
Total GHG Emissions (mtCO2e)	28.8

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

Real GDP is estimated to have declined by 10.5 percent in 2021, on the back of a 21.4 percent contraction in 2020 as policy makers have still not agreed on a plan to address the collapse of the country's development model. The exchange rate continued to deteriorate sharply in 2021, keeping inflation rates in triple digits. Politically, Lebanon heads into parliamentary elections on May 15, which are highly anticipated in light of systemic failures in governance. The economic consequences of the Russian invasion, war and associated sanctions are adding to Lebanon's plights, in particular given its critical net imports of wheat (quasi-exclusively from these two countries) and oil. Assuming continued no policy reform, real GDP is projected to contract by 6.5 percent in 2022.

Key conditions and challenges

Lebanon is almost three years into an economic and financial crisis that is among the worst the world has seen (Lebanon Sinking (to the Top 3). Nominal GDP plummeted from close to US$52 billion in 2019 to an estimated US$22 billion in 2021. The crisis has also led to a triple-digit depreciation and inflation, decimating the country's gross foreign reserve base.

The share of the Lebanese population under the national poverty line estimated to have risen by 9.1 percentage points (pp) by end-2021. Phone surveys conducted in November-December 2021 by the World Food Program with support from the World Bank, found that, of households surveyed (i) 61 percent reported challenges in accessing food and other basic needs, up from 41 percent in the same period in 2020; (ii) 64 percent reported adults restricting consumption in favor of children; and (iii) 52 percent have difficulties in accessing health care, compared to 36 percent in the same period in 2020.

Lebanon has witnessed a dramatic collapse in basic services, driven by depleting FX reserves. Acute shortages of fuel for both the private and public utilities have led to severe electricity blackouts across the country, with the public utility, EdL, supplying as little as 2 hours per day. Further, medication have at times been in substantial shortages, while health services have suffered heavily.

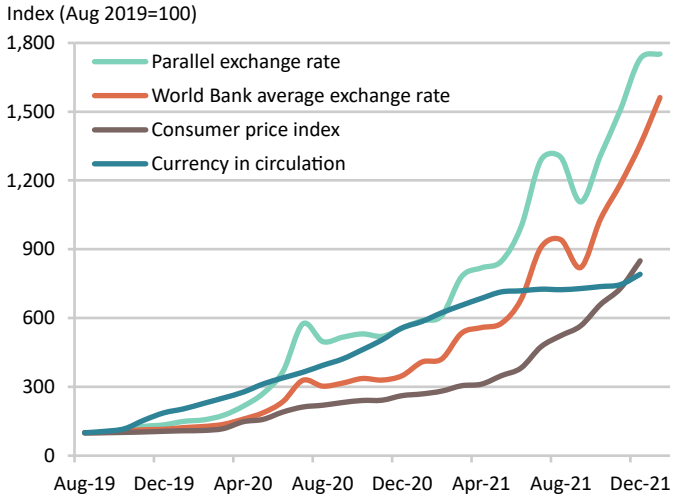
Recent developments

Real GDP is projected to decline by 10.5 percent in 2021, on the top of a 21.4 percent contraction in 2020. A scarce source of growth is the tourism sector, where tourist arrivals surged by 101.2 percent, from a low base, over the first seven months of 2021.

Public finances improved in 2021, paradoxically, as spending collapsed faster than revenue generation. Revenues are estimated to have declined from an already low 13.1 percent of GDP in 2020 to a mere 6.3 percent of GDP in 2021—the third lowest revenue ratio worldwide in 2021, ahead of only Somalia and Yemen. The expenditure contraction was even more pronounced, shrinking by 9.2 pp to 7.3 percent of GDP in 2021. This partly reflects low interest payments due to the Eurobond default and a favorable arrangement with Banque du Liban (BdL, central bank) on domestic debt as well as drastic cutbacks in primary spending (falling by 4.3 pp of GDP over 6M-2021). As a result, the overall fiscal (primary) balance is estimated to have reached -1 percent (0.2 percent) of GDP in 2021, compared to -3.3 percent (-0.8 percent) in 2020.

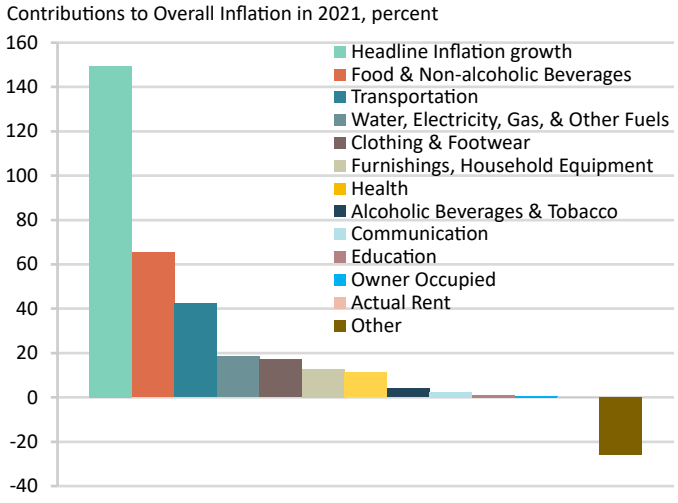
The depreciation of the Lebanese pound (LBP) picked up speed in H2-2021; the US$ banknote exchange rate (BNR) went from LBP15,000/US$ in June 2021 to breach LBP30,000/US$ in January 2022. This was largely due to a disorderly termination of the FX subsidy, which had covered essential imports (fuel, medication, wheat etc.)

FIGURE 1 Lebanon / Exchange rate depreciation and rising prices



Sources: Lebanese authorities and World Bank staff calculations.

FIGURE 2 Lebanon / Inflation in basic items has been a key driver of overall inflation, hurting the poor and the middle class



Sources: Lebanese authorities and World Bank staff calculations.

since end-2019. The World Bank Average Exchange Rate (AER) depreciated by 211 percent in 2021, compared to 250 percent depreciation in 2020 (Figure 1).

In December 2021, BdL began aggressive FX interventions using its gross reserves, managing to bring the BNR back down to LBP20,000/US$. Nonetheless, dwindling FX reserves render such measures non-sustainable. By December 2021, gross FX reserves (excluding gold reserves) at BdL reached US$17.8 billion (equivalent to 12.6 months of imports), declining by US$6.3 billion since end-2020. Since this includes around US$5 billion in Lebanese Eurobonds, on which the Government defaulted in March 2020, gross reserves are now less than required reserves on banks' customer FX deposits—estimated at US$14.4 billion. BdL does not publish net reserves data, but these are estimated to be highly negative (potentially several times GDP).

Large exchange rate pass-through effects have implied surging inflation, which after falling to 100.6 percent (yoy) in June 2021, spiked to a crisis-peak of 240 percent (yoy) in January 2022, as effects of the FX subsidy removal materialized. Average inflation for 2021 is estimated at 150 percent (Figure 2)—the 3rd highest globally after Venezuela and Sudan.

In October 2021, the Lebanese authorities and the IMF resumed discussions, which were interrupted for many months since their initial launch in May 2020. Disagreements persist on how to account for losses in the financial sector. A critical audit of the BdL—necessary to any recovery plan—remains a longstanding pending issue.

Outlook

Subject to extraordinarily high uncertainty, real GDP is projected to contract by a further 6.5 percent in 2022 under the assumptions of continued inadequate macro policy responses and a minimum level of stability on the political and security scenes. A runaway inflation-depreciation spiral, a plausible scenario, is not assumed. Inflation rates will remain in triple digits, subdued only by BdL's ability to control narrow money supply.

The projections come with wide confidence intervals attributed to (i) a downside risk of gross FX reserves depletion, renewed COVID-19 outbreaks, higher commodity prices, especially oil; and (ii) upside risk if Government agrees to and implements a comprehensive macroeconomic stabilization and reform program.

Considering the scale and scope of Lebanon's financial and economic crisis, the negative impact of the economic consequences of the Russian invasion, war and associated sanctions is of a different magnitude. It is nonetheless large and negative as Lebanon will have to quickly tap new alternatives for its wheat imports from Russia and Ukraine to guarantee food security. Additionally, surging energy prices will further exacerbate already existing, crisis related exchange market pressures, highly elevated inflation rates, and likely reduce further the limited amount of electricity supplied by EdL.

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

	2019	2020	2021e	2022f
Real GDP growth, at constant market prices	-7.2	-21.4	-10.5	-6.5
Private Consumption	-5.9	-15.3	-5.4	-7.2
Government Consumption	6.2	-53.7	-65.9	-28.0
Gross Fixed Capital Investment	-40.7	-55.4	-71.0	-54.9
Exports, Goods and Services	-1.7	-53.7	-0.4	8.2
Imports, Goods and Services	-13.0	-46.0	-15.2	-4.4
Real GDP growth, at constant factor prices	-5.9	-17.6	-7.8	-6.8
Agriculture	6.1	53.5	-10.5	0.0
Industry	-17.6	-21.8	-10.5	0.0
Services	-4.7	-21.7	-7.0	-8.6
Inflation (Consumer Price Index)	2.9	84.3	150.0	120.0
Current Account Balance (% of GDP)	-21.9	-9.3	-18.1	-12.8
Net Foreign Direct Investment (% of GDP)	3.4	8.9	6.6	4.9
Fiscal Balance (% of GDP)	-10.5	-3.3	-1.0	-1.6
Debt (% of GDP)	171.1	179.2	180.6	272.0
Primary Balance (% of GDP)	-0.5	-0.8	0.2	-0.8
GHG emissions growth (mtCO2e)	-6.2	-16.1	6.7	-24.4
Energy related GHG emissions (% of total)	73.8	71.2	74.5	67.5

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

LIBYA

Table 1	2021
Population, million	7.0
GDP, current US$ billion	41.6
GDP per capita, current US$	5977.9
School enrollment, primary (% gross)[a]	109.0
Life expectancy at birth, years[a]	72.9

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

Since the delay of national elections in December 2021, political and security tensions and oil production disruptions have escalated. The confirmation of a new cabinet by the House of Representatives has returned Libya to a state of institutional division, with two parallel governments in the East and West. While soaring global oil prices will have a positive impact on growth and fiscal and external surpluses, this hinges on the persistence of oil production. Meanwhile the population faces increasing food insecurity as global wheat prices rise.

Key conditions and challenges

Contrary to 2021, when Libya made progress towards ending the decade-long conflict and reunifying competing public institutions in the East and West, the year 2022 has so far brought a return to political division. National elections, originally scheduled for December 2021, have been postponed and there is no agreement on a new date nor on the legal and constitutional basis for the elections. The eastern-based House of Representatives has granted confidence to a new cabinet, whereas the Government of National Unity considers that its mandate does not end until national elections take place. Libya finds itself again with two parallel governments in the East and West, with likely negative implications for policy making, economic recovery, and security.

COVID-19 vaccination coverage in Libya remains relatively low. By end-February 2022, 31 percent of people in Libya were vaccinated and only 16 percent were fully vaccinated.

The consecutive waves of the COVID-19 pandemic have placed a significant strain on the healthcare system which is already battered by the conflict. The United Nations Office for the Coordination of Humanitarian Affairs (OCHA) estimated that over 800,000 people lacked consistent access to primary and secondary healthcare services in 2021.

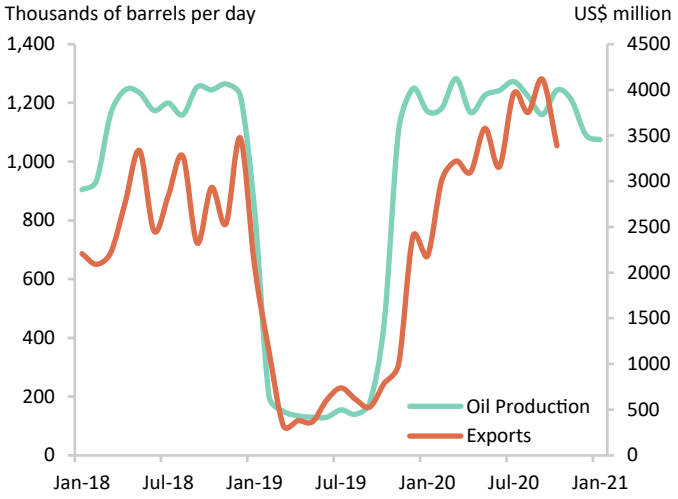
Household welfare has continued to deteriorate due to the loss of jobs and sources of income that accompanied the conflict, economic downturn and COVID-19 containment measures. According to the REACH initiative, 63 percent and 49 percent of Libyans and non-Libyans surveyed in mid-2021, respectively, reported having used or exhausted coping strategies classified as crisis or emergency strategies, thereby hindering their capacity to respond to potential future shocks.

Results of a World Food Program (WFP) phone survey conducted in August-September 2021 showed 8 percent of Libyan households have inadequate food consumption. Food insecurity was highest in the Southern region. Compared to April 2021, there was an increase in food insecurity reported in Tobruk, where 37 percent of surveyed households had inadequate food consumption.

Recent developments

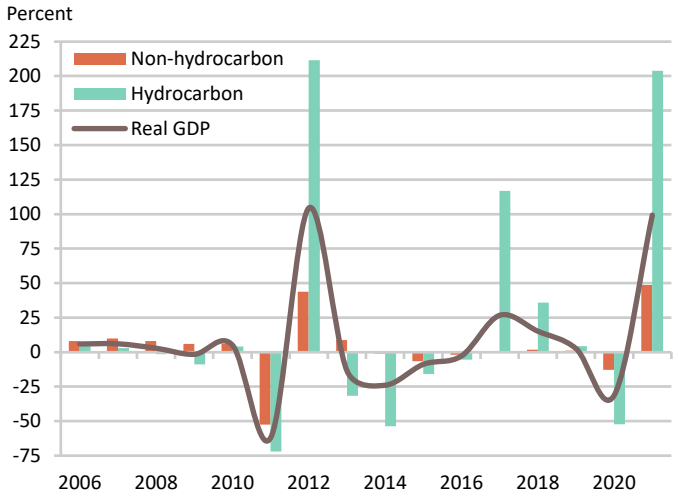
While official national accounts data have been unavailable for much of the conflict period, rough estimates of GDP can be made using data on night-time lights, oil production and government spending. Estimates reveal that growth rebounded in 2021, driven by a significant acceleration of oil production (average of 1.2 million barrels per day (mb/d) compared to 0.4 mb/d in 2020). However, since mid-December 2021, there have been multiple production disruptions due to weather-induced port closures, infrastructure

FIGURE 1 **Libya** / Oil production and exports



Sources: Organization of the Petroleum Exporting Countries (oil production) and IMF Direction of Trade Statistics (exports).

FIGURE 2 **Libya** / Real annual GDP growth



Sources: Libyan authorities and World Bank staff estimates.

maintenance issues, and shutdowns by armed groups. Oil production in January 2022 recorded its lowest level since October 2020 (1.08 mb/d).

Prices of essential goods rose in 2021 and accelerated during the second half of the year. The price of the Minimum Expenditure Basket (MEB) in December 2021 was 12.6 percent higher than in December 2020 and 24.5 percent higher than in March 2020 at the start of the COVID-19 pandemic. The rise was especially pronounced in the West and South. The MEB, measured by the REACH initiative, represents the minimum culturally adjusted items required to support a Libyan household for a month.

Prices of flour are reportedly on the rise in the aftermath of the Russia-Ukraine crisis and in the absence of food subsidies. Libya relies significantly on wheat and cereal imports from Russia and Ukraine (54 percent of wheat imports, 62 percent of barley imports, and 69 percent of maize or corn imports).

According to an August 2021 survey by WFP, more than half of surveyed households reported having experienced shocks in the last 12 months, with 38 percent reporting reduced ability to produce or purchase food. For households that experienced shocks, price fluctuations and increases (37 percent) rank highest among the types of shock experienced.

The fiscal balance witnessed a massive reversal from a 64.4 percent of GDP deficit in 2020 to a 10.6 percent of GDP surplus in 2021 owing to the jump in oil production and prices and the exchange rate devaluation (much of the spending (particularly wages) was denominated in LYD whereas 98 percent of revenues in 2021 were sourced from hydrocarbons denominated in US$). Government spending in LYD increased by 87 percent in 2021 with rises across all major budget categories or chapters; however, given the 70 percent depreciation of the exchange rate in January 2021, this represented a spending drop of 43 percent in USD equivalent.

There is no approved budget for 2022 to date, and chances for approval of a unified government budget soon are low given the return to two separate cabinets in the East and West.

Data for the first 11 months of 2021 reveal a trade balance surplus of 52 percent of GDP, driven by the major increase in oil exports and oil prices. The current account is estimated to have turned from a deficit of 34.8 percent of GDP to a surplus of 23.4 percent of GDP in 2020-2021.

Outlook

It is impossible to forecast economic outcomes with any degree of confidence due to the high level of uncertainty surrounding political and security developments. If oil production and exports continue without major extended disruptions, Libya will benefit from soaring global oil prices which will translate into higher fiscal revenues and inflow of hard currency. This will positively affect the trade, current account, and fiscal balances. Libya may face short-term wheat supply disruptions, higher wheat prices and in turn higher inflation and lower consumption.

Downside risks to the outlook are elevated. Political tensions relating to national elections and rival governments are high, which raises the specter of a potential backslide into violence. A deterioration of the security situation or shocks to the global economy or global commodity prices would adversely impact economic activity and household welfare.

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

	2018	2019	2020	2021e
Real GDP growth, at constant factor prices	15.1	2.5	-31.3	99.3
Hydrocarbon GDP	35.9	4.3	-52.3	203.9
Non-Hydrocarbon GDP	1.8	1.0	-12.8	48.7
Exchange Rate (USD/LYD)	1.4	1.4	1.4	4.5
Current Account Balance (% of GDP)	21.4	11.6	-34.8	23.4
Fiscal Balance (% of GDP)	-7.0	1.7	-64.4	10.6
Crude oil production (million barrels per day)	1.0	1.2	0.4	1.2

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

MOROCCO

Table 1	2021
Population, million	37.3
GDP, current US$ billion	128.6
GDP per capita, current US$	3442.4
National poverty rate[a]	4.8
Lower middle-income poverty rate ($3.2)[a]	7.3
Gini index[a]	39.5
School enrollment, primary (% gross)[b]	115.2
Life expectancy at birth, years[b]	76.7
Total GHG Emissions (mtCO2e)	98.7

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

The economy rebounded in 2021, due to a strong agricultural output, solid exports and remittances, supportive macroeconomic policies, and significant progress on COVID-19 vaccination. The authorities adopted a New Development Model, an ambitious reform program that aims to foster stronger, greener, and more inclusive growth. They also embarked on ambitious reforms in health insurance, social protection, and education. In the short-run, the authorities will need to address the socio-economic effects of a severe drought and higher global energy and food prices.

Key conditions and challenges

A strong economic rebound in 2021 has enabled Morocco to recover most of the output and job losses caused by the COVID-19 crisis. However, real GDP is still 6.4 percent below the pre-pandemic trend, potential growth has been declining since the early 2010s, volatile precipitations are increasingly affecting the economy, and the crisis may leave socio-economic scars if not treated well.

Morocco's growth has not been sufficiently labor intensive to absorb a growing working-age population, owing to the slow pace of structural transformation. The labor market is characterized by a large informal sector, high rates of inactivity and low female labor force participation. This is related to the prevalence of low-valued-added services, and a difficult business environment, especially for start-ups and young firms.

The authorities recently adopted a New Development Model that calls for an ambitious and transformative reform agenda. It envisages an acceleration and diversification of Morocco's growth, which in the recent past has been heavily reliant on high levels of public investment with a relatively low multiplier effect. Another key challenge is to foster human capital accumulation and address long-lasting inequities in access to services and social protection. To this end, the government has embarked on a broad reform to universalize access to health insurance, create a unified cash transfer program for the poor and vulnerable, and improve educational outcomes.

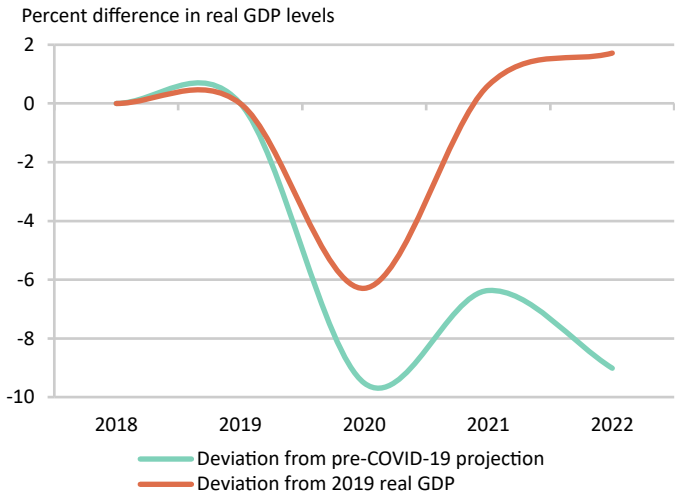
Recent developments

The authorities responded to the COVID-19 Omicron variant with a suspension of international travel from November 29, 2021 to February 7, 2022, one of the most stringent measures globally. According to official statistics, new COVID-19 cases have fallen in March 2022 to their lowest level since April-May 2020. Morocco has achieved one of the highest levels of vaccination in the African continent, with 63 percent of the population fully vaccinated as of March.

GDP growth rebounded to 7.4 percent in 2021 after contracting by 6.3 percent in 2020. This was partly due to an exceptional cereal crop after two consecutive years of severe drought. Agricultural value-added grew by 19 percent. The performance of the industrial sector was solid (7.7 percent annual growth), while that of services (4.8 percent) was muted by a slow recovery of tourism. On the demand side, growth was boosted by consumption, supported by a surge in workers' remittances and recovering labor markets.

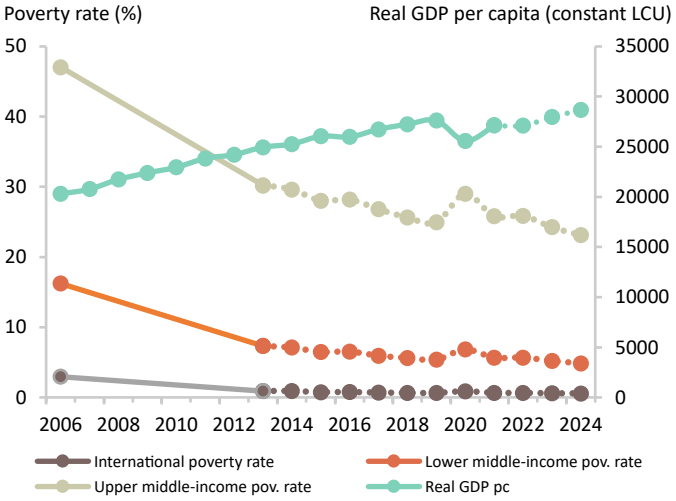
Annual inflation remained contained at 1.4 percent on average, notwithstanding the emergence of imported cost-push pressures towards the end of 2021. CPI posted a 3.6 percent yearly increase in February 2022. Bank Al-Maghrib has maintained the policy rate at 1.5 percent since June 2020.

FIGURE 1 Morocco / Actual and projected real GDP, percent deviation from 2019 level and pre-COVID-19 forecast



Source: World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

The budget deficit declined from 7.6 to 6 percent of GDP in 2020-2021, as continued increases in public spending in 2021 - due to the vaccination campaign, higher public sector wages and rising energy subsidies - was more than offset by the rebound in labor income taxes and VAT. The debt-to-GDP ratio declined slightly from 76.4 to 75.6 percent.

The current account deficit widened from 1.5 to 2.6 percent of GDP in 2020-2021, as strong exports and remittances (7.8 percent of GDP) were more than offset by growing imports and depressed tourism receipts. The current account deficit was financed by higher net FDI flows and multilateral disbursements. The exchange rate has been overall stable, and foreign reserves increased by 3.3 percent to 6.3 months of imports.

Following the sharp increase in poverty in 2020, living conditions started to progressively normalize in 2021 due to an improvement in labor market performance and the exceptionally good agricultural season. Poverty at $3.2 line (2011 PPP) decreased by 17 percent and extreme poverty at $1.9 line (2011 PPP) by 26 percent, reaching 5.7 percent and 0.7 percent.

Outlook

Growth is projected to slow to 1.1 percent in 2022, as agricultural output declines by 17.3 percent due to another severe drought. The economy is projected to be driven by a still solid but moderating industrial performance and a faster recovery of tourism. Ongoing reforms are expected to increase potential growth over the medium-term.

The fiscal impact of the health and social protection reform and postponement of the LPG and flour subsidy reform will slow the consolidation of the budget deficit (6.2 percent of GDP in 2022). Public debt is projected to stabilize below 80 percent of GDP. The current account deficit is expected to widen to 5.5 percent of GDP due to higher energy and food import bill.

This outlook is subject to various downside risks. The war in Ukraine is pushing up global commodity prices, which together with the drought, could push up Morocco's import bill and public subsidies, thereby impacting the current account and the budget balance. A weaker recovery could exert additional pressures on household and firms' debt servicing capacity. Inflationary pressures could force the central bank to raise rates, which together with changes in the monetary stance of advanced economies would tighten financing conditions for the public and the private sector.

Rising prices and decreasing agricultural revenues are expected to slow down the post-COVID-19 normalization of socio-economic conditions. Poverty and extreme poverty are expected to stagnate in 2022 at best, and will not get back to pre-COVID-19 levels until 2023. Given inflationary pressures, especially for food and energy products, as well as the impacts of the severe drought, measures to support the most vulnerable as well as the broader planned social dialogue will be important measures for Government to take.

TABLE 2 **Morocco** / 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	-6.3	7.4	1.1	4.3	3.6
Private Consumption	1.9	-4.1	6.7	2.4	4.4	3.9
Government Consumption	4.8	1.7	5.4	2.7	2.6	2.5
Gross Fixed Capital Investment	1.0	-9.0	9.8	5.7	5.7	4.7
Exports, Goods and Services	6.2	-14.3	4.9	11.2	11.7	10.4
Imports, Goods and Services	3.4	-12.2	9.8	13.2	9.7	9.0
Real GDP growth, at constant factor prices	2.7	-6.1	6.7	1.1	4.3	3.6
Agriculture	-4.6	-6.9	19.0	-17.3	16.5	4.9
Industry	3.6	-3.8	7.7	3.3	3.4	3.5
Services	4.0	-7.1	4.8	3.6	3.6	3.7
Inflation (Consumer Price Index)	0.2	0.7	1.4	4.0	1.8	1.7
Current Account Balance (% of GDP)	-3.7	-1.5	-2.6	-5.5	-4.0	-3.7
Net Foreign Direct Investment (% of GDP)	1.3	1.4	1.3	1.5	1.5	1.5
Fiscal Balance (% of GDP)	-3.8	-7.6	-6.0	-6.2	-5.8	-5.7
Debt (% of GDP)	64.8	76.4	75.6	79.8	79.5	79.6
Primary Balance (% of GDP)	-1.5	-5.1	-3.7	-3.9	-3.4	-3.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.7	0.9	0.7	0.7	0.6	0.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	5.4	6.8	5.7	5.7	5.2	4.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	24.9	29.0	25.8	25.9	24.3	23.1
GHG emissions growth (mtCO2e)	6.3	-4.5	5.3	1.2	3.5	3.3
Energy related GHG emissions (% of total)	69.3	67.9	69.4	69.4	69.8	70.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2013-ENCDM.Actual data: 2013. Nowcast: 2014-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2013) with pass-through = 0.7 based on GDP per capita in constant LCU.

OMAN

Table 1	2021
Population, million	5.2
GDP, current US$ billion	83.6
GDP per capita, current US$	16076.9
School enrollment, primary (% gross)[a]	104.5
Life expectancy at birth, years[a]	77.9
Total GHG Emissions (mtCO2e)	102.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2019).

After a difficult 2020, Oman's economy is on a solid recovery path amid easing pandemic pressures, higher hydrocarbon outputs, and wide-ranging government reforms. Frontloaded fiscal reforms including VAT and cuts in spending are expected to turn the fiscal and current account deficits into surpluses starting from 2022. Downside risks include resurgent pandemic pressures, volatility of oil prices, and slower implementation of the government's reform program. On the upside, rising hydrocarbon production, improved non-oil revenues, and expenditures rationalization would further strengthen fiscal and external positions.

Key conditions and challenges

Oman's economy was hit hard in 2020 by COVID-19 and its impact on hydrocarbon prices. Despite past diversification efforts, public finances and the external sector remain dependent on hydrocarbon and thus vulnerable to volatility of hydrocarbon prices. To address the persistent twin deficits that have resulted in a debt build-up, in 2020 the government embarked on an ambitious reform program. These include the Medium-Term Fiscal Balance Plan (MTFP) 2020-24, a fiscal consolidation program, which aims at putting public debt on a sustainable path through increased non-hydrocarbon revenues, expenditure rationalization and SOE reforms. Other measures to boost the non-hydrocarbon tradeable sector would further support a stronger external position over the long term. The implementation of the MTFP, coupled with ongoing structural reforms, are expected to facilitate private sector growth and job creation.

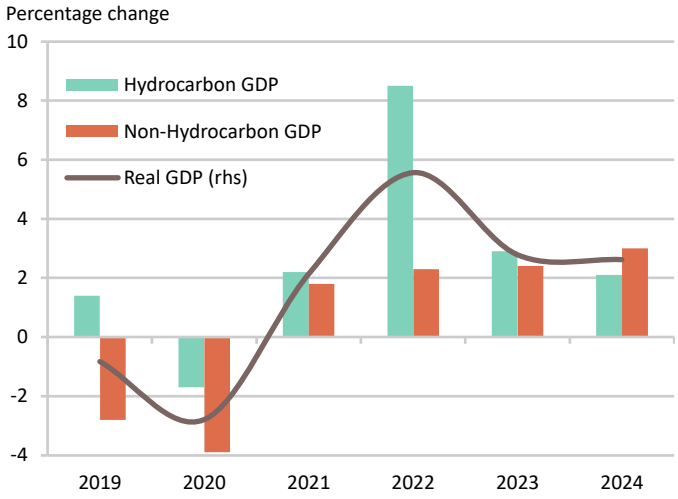
However, key challenges remain. These include renewed pandemic pressures and volatility of energy prices, which could increase gross financing needs and disrupt the government's reform program. Medium-term challenges relate to the ongoing global transition from fossil to greener energy sources, and its impact on Oman's fiscal and external sustainability. Fiscal consolidation could potentially give rise to social tensions, which could potentially undermine the reform momentum. Moreover, Oman is among the top Arab countries in terms of wheat imports from Russia, therefore, the ongoing conflict could cause a higher wheat import bill, which will likely be compensated by increased hydrocarbon exports receipts induced by the conflict.

Recent developments

Oman's economy is recovering gradually from the dual impact of the pandemic and the collapse in oil prices. Estimates suggest that overall growth reached 2.1 percent in 2021. Hydrocarbon GDP grew by an estimated 2.2 percent, driven by higher oil production due to the easing of OPEC+ cuts since mid-2021 and the coming on stream of a new liquified gas plant in mid-2021. Non-oil GDP is estimated to have rebounded by almost 2 percent in 2021, supported by the recovery of domestic and external demand aided by increased vaccine penetration, which boosted the most impacted sectors by the pandemic (tourism, hospitality, and retails). Annual inflation switched from the 2020 negative territory and picked up to an average 1.5 percent in 2021, due to the introduction of the VAT last April and improved domestic demand.

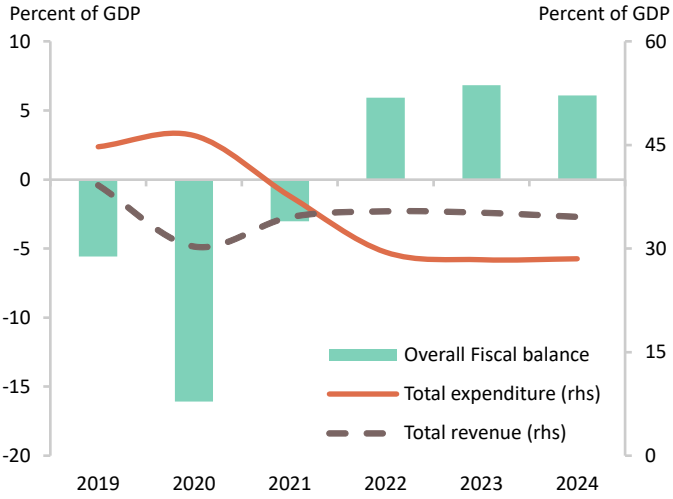
Public finances improved substantially in 2021. Higher hydrocarbon revenues together with fiscal adjustment measures, such as the streamlining of public expenditures primarily reflecting lower wage bill mainly from mandatory retirement, cuts to

FIGURE 1 **Oman** / Real annual GDP growth



Sources: Oman authorities; World Bank staff projections; and IMF.

FIGURE 2 **Oman** / General government operations



Sources: Oman authorities and World Bank staff projections.

utility subsidies and the introduction of VAT in April 2021, significantly lowered the deficit to an estimated 3 percent of GDP, compared with 16 percent in 2020. The favorable fiscal outcome is estimated to lead to a decline in the debt-to-GDP ratio to 65 percent in 2021 from over 71 percent in 2020.

Higher hydrocarbon exports, reduction in public investment expenditure, and Omanization efforts that led to lower outward remittances all contributed to the marked decline in the current account deficit estimated to reach less than 4 percent of GDP in 2021, compared with 12 percent in 2020. As a result, the central bank gross reserves bolstered to US$19 billion (6 months of imports of goods and services) in 2021, a US$5 billion increase from 2020.

The unemployment rate dropped to 1.9 percent in December 2021, below the pre-pandemic rate (2.8 percent in December 2019). Unemployment remains higher among youth (aged 15-24), and particularly among young women (25.6 percent). The private sector continues to be the largest contributor to Omanis employment. After a decline in 2020, the number of Omanis employed in the private sector has bounced back, and as of December 2021 it is estimated at about 267,000 compared to an average of about 262,300 in 2019. By contrast, the number of expatriates employed in the private sector has declined considerably, most notably in manufacturing and construction.

Outlook

Oman's economy is expected to improve gradually and strengthen over the medium-term, supported by higher oil and gas production and the ongoing structural reforms. Growth is projected to pass 5 percent in 2022 underpinned by more than 8 percent growth in the hydrocarbon sector, boosted by increased production of liquified natural gas in the key Ghazeer and Khazzan fields. The non-oil economy will continue to grow, exceeding 2 percent in 2022, as fast vaccine rollout strengthens domestic activity. Over the medium term, growth will decelerate to an average of 2.7 percent per year in 2023-24, while the hydrocarbon sector will remain the main driver of growth. If the war in Ukraine escalates, Oman, like other GCC producers, may ramp up hydrocarbon output to satisfy the oil market, thereby providing upside risk to GDP growth. Inflation is forecast to pick up to over 3 percent in 2022 as the recovery in demand and the VAT impact continue to feed into prices, before declining to an average of 2 percent in 2023-24.

The fiscal outturn is expected to switch into a surplus of nearly 6 percent of GDP in 2022 and to continue improving in 2023-24, due to higher hydrocarbon revenues and steady implementation of fiscal adjustment measures. The public debt-to-GDP ratio is forecast to gradually decline to an average of 38 percent over 2022-24.

Higher oil prices and export diversification are expected to improve the current account balance to a surplus above 5 percent of GDP in 2022 and remain in positive territory over 2023-24, allowing the accumulation of gross foreign reserves to over US$28 billion on average in 2022-24 (or 8 months of imports of goods and services). Higher hydrocarbon prices and continued implementation of structural reforms would considerably improve the outlook.

TABLE 2 Oman / 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	-2.8	2.1	5.6	2.8	2.6
Private Consumption	0.9	-2.0	2.2	4.1	3.0	2.5
Government Consumption	0.3	-3.0	-2.0	-1.4	-1.7	-1.6
Gross Fixed Capital Investment	-3.8	-4.3	2.7	4.4	3.8	4.2
Exports, Goods and Services	4.8	-8.0	5.7	8.3	6.0	5.5
Imports, Goods and Services	-0.4	-10.5	5.5	6.5	5.9	5.4
Real GDP growth, at constant factor prices	-0.8	-2.8	2.1	5.6	2.8	2.6
Agriculture	2.0	3.5	2.4	3.6	3.7	3.7
Industry	1.2	-4.7	1.8	5.8	3.5	1.7
Services	-4.2	-0.1	2.5	5.5	1.7	4.0
Inflation (Consumer Price Index)	0.1	-0.9	1.5	3.4	2.1	2.0
Current Account Balance (% of GDP)	-5.5	-11.9	-3.7	5.6	5.3	3.4
Fiscal Balance (% of GDP)	-5.6	-16.1	-3.0	5.9	6.8	6.1
Debt (% of GDP)	60.5	71.1	65.3	47.0	37.2	30.8
GHG emissions growth (mtCO2e)	2.7	-0.3	21.1	12.9	10.1	-18.1
Energy related GHG emissions (% of total)	84.1	84.0	85.3	86.1	86.5	83.8

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

PALESTINIAN TERRITORIES

Table 1	2021
Population, million	4.9
GDP, current US$ billion	18.0
GDP per capita, current US$	3664.6
Upper middle-income poverty rate ($5.5)[a]	21.9
Gini index[a]	33.7
School enrollment, primary (% gross)[b]	96.4
Life expectancy at birth, years[b]	74.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

Following eased lockdowns and an improvement in the health situation in 2021, the Palestinian economy started its recovery from the pandemic. Despite strong revenues, the fiscal situation remained difficult in 2021 due to very low aid. This forced the Palestinian Authority to accrue large arrears to the private sector, public pension fund and pay partial salaries to its employees. Given the ongoing pandemic, the outlook remains precarious and subject to additional political and security risks.

Key conditions and challenges

The Palestinian economy was stagnant and the socio-economic situation already difficult prior to the breakout of COVID-19. This is attributed to restrictions by Israel (on trade, movement and access), recurrent hostilities, internal divide, and falling aid inflows. During 2017-19, annual GDP growth averaged 1.3 percent—lower than the population growth rate resulting in decreasing per capita incomes and increasing poverty. Growth decomposition shows that this was driven by accumulation of factors and not improvements in productivity. In recent years, gross investment has averaged about 26 percent of GDP, but the bulk of this has been channeled into activities in the non-tradable sectors, rather than sectors that could have served as escalators for growth. Likewise, foreign direct investment, at a mere 1 percent of GDP, is very low.

There is significant regional disparity in economic activity and income per capita between the West Bank and Gaza. According to the latest national household survey, around 22 percent of Palestinians lived below the upper-middle income poverty line ($5.5 2011 PPP a day) in 2016/17. Poverty is significantly higher in Gaza with 46 percent of the population below the poverty line in 2016/17 compared to only 9 percent in the West Bank.

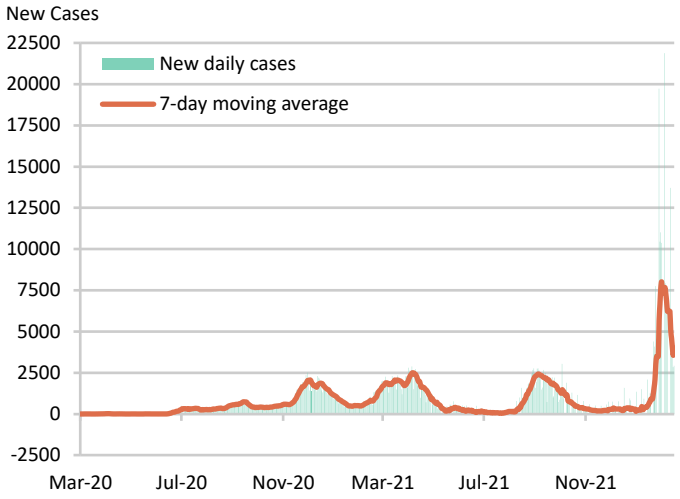
COVID-19 has exacerbated existing economic and social challenges. As of mid-March 2022, the Palestinian territories are going through a fifth wave, dominated by the Omicron virus. Around 43 percent of the population has received at least one dose of the vaccine, but estimates suggest that there are sufficient vaccine doses to meet vaccination needs only up to mid-2022.

Recent developments

Despite new waves of COVID-19, lockdowns were significantly eased in 2021. This, combined with the pickup of the vaccination campaign, allowed consumer confidence to slowly pick up and business activity to gradually rebound. Latest data show that the Palestinian economy grew by 7.0 percent in 2021. The improved economic performance was mostly driven by the West Bank, which grew by 7.8 percent, while the May 2021 conflict in Gaza slowed the Strip's recovery resulting in a growth rate of 3.4 percent in 2021.

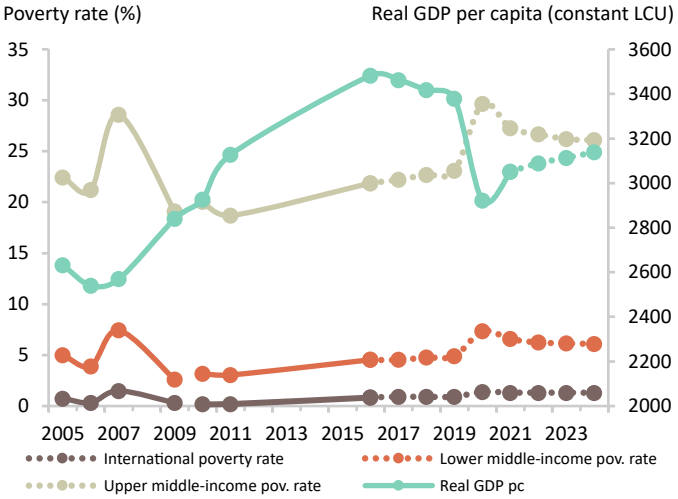
Inflation began to rise from negative territory in 2020, registering an average of 1.2 percent in 2021 due to a pickup in demand and rising global food and energy prices. This trend has continued in early 2022 with the CPI rising by 2.7 percent in January, y-o-y. Recently, the Palestinians took to the streets of the West Bank demonstrating against tax hikes that the Palestinian Authority (PA) implemented on sugary drinks and one-time use plastics in February 2022, to abide by the Paris Protocol following similar measures on the Israeli side.

FIGURE 1 Palestinian territories / New daily COVID-19 infections and 7-day moving average



Sources: John Hopkins University CSEE and World Bank staff calculations.

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



Sources: Palestine Expenditure and Consumption Survey (PECS), World Bank staff calculations.

Public revenues bounced back with the economic recovery, while growth in expenses was limited due to cuts in transfers. The fiscal deficit after grants and after accounting for deductions made by Israel from revenues collected on behalf of the PA narrowed to 5.8 percent of GDP in 2021 from 7.5 percent in 2020. The deficit was largely financed by the accumulation of arrears to the private sector and the public pension fund. The PA also started paying partial salaries to its employees since December 2021.

The unemployment rate in the Palestinian territories edged up to 24.2 percent in Q4 2021 from 23.4 percent a year earlier, due to a rise in the participation rate. The overall rate masks a wide regional divergence whereby unemployment in the West Bank reached 13.2 percent while in Gaza it was 44.7 percent.

Estimates based on GDP per capita growth suggest that in 2020 the poverty rate spiked to 29.7 percent, an increase of nearly 8 percentage points from 2016 (latest available official data). As the impact of the pandemic receded, the poverty rate is estimated to have declined to 27.3 percent in 2021. Current poverty rates represent a poor population of approximately 1.5 million people.

Outlook

Under a baseline scenario that assumes a continuation of the Israeli restrictions, persistence of the internal divide between the West Bank and Gaza and stagnating aid levels, growth is expected to hover around 3.7-3.1 percent over the forecast period. The poverty rate is projected to decline to 26.7 percent in 2022, and then to further gradually decrease to 26.1 percent by 2024. On the fiscal front, revenue is projected to grow in 2022, reflecting increased tax rates on sugary drinks and single-use plastics, higher collections on tobacco excise and higher VAT revenue due to implementing an e-VAT system with Israel. Yet, these efforts would be offset by Israeli unilateral deductions from revenues it collects on behalf of the PA, projected at 1.6 percent of GDP in 2022. Expenditure is expected to decline with partial payments of salaries until May 2022. With grants, the fiscal deficit (on a cash basis) is expected to fall to 4.5 percent of GDP in 2022.

The economic consequences of the Russian invasion and associated sanctions may also affect the outlook through mounting inflationary pressure. The ongoing pandemic may also cause risks to the outlook, especially if no additional vaccines are secured beyond mid-2022. Further, if recent clashes between Palestinians and the Israeli forces in the West Bank and in Gaza escalate, there is little room left to absorb such shocks.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	1.4	-11.3	7.0	3.7	3.2	3.1
Private Consumption	4.1	-13.1	6.3	4.2	2.9	3.3
Government Consumption	-3.5	0.3	11.1	-5.5	7.6	3.0
Gross Fixed Capital Investment	-2.6	-20.9	14.7	10.0	1.0	3.0
Exports, Goods and Services	2.0	-11.2	18.8	6.0	3.8	3.8
Imports, Goods and Services	1.4	-14.2	16.6	4.0	3.6	3.6
Real GDP growth, at constant factor prices	1.3	-12.0	6.2	3.7	3.2	3.1
Agriculture	0.9	-9.1	-2.3	3.0	3.0	3.0
Industry	-0.5	-19.4	6.2	3.5	3.2	3.2
Services	2.0	-10.0	7.2	3.8	3.3	3.1
Inflation (Consumer Price Index)	1.6	-0.7	1.2	2.8	2.4	2.4
Current Account Balance (% of GDP)	-10.4	-12.3	-8.2	-8.1	-8.0	-7.9
Net Foreign Direct Investment (% of GDP)	1.1	0.9	0.0	0.8	0.8	0.8
Fiscal Balance (% of GDP)	-7.5	-7.5	-5.8	-4.5	-3.7	-3.5
Debt (% of GDP)	39.5	53.9	54.9	55.8	56.1	56.1
Primary Balance (% of GDP)	-7.2	-7.1	-5.1	-3.8	-3.0	-2.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.9	1.4	1.3	1.3	1.3	1.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	4.9	7.3	6.6	6.2	6.2	6.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	23.1	29.7	27.3	26.7	26.2	26.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2016-PECS.Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2016) with pass-through = 0.87 based on GDP per capita in constant LCU.

QATAR

Table 1	2021
Population, million	2.8
GDP, current US$ billion	167.9
GDP per capita, current US$	59964.3
School enrollment, primary (% gross)[a]	103.9
Life expectancy at birth, years[a]	80.2
Total GHG Emissions (mtCO2e)	109.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2019).

The resulting commodity shocks from the war in Ukraine are on balance positive for Qatar's economy, the largest LNG exporter in the world. Preparations for the World Cup scheduled for December 2022 have intensified the diversification of the economy and bolstered non-oil activity despite the COVID-19 pandemic. Hydrocarbon dependence, however, is likely to expand this decade as the North Field facilities begin production. Possible new outbreaks of COVID-19, a spike in consumer price inflation and rising US interest rates, should be modest downside risks for the country given high vaccination rates and sizeable sovereign financial wealth and reserves.

Key conditions and challenges

With more than 75 percent of Qatar's population vaccinated, recurring bouts of COVID-19 have had progressively smaller economic effects and strong growth has resumed. Renewed activity ahead of the World Cup has also been strengthened by the ending of the three-year diplomatic rift between Qatar and four Arab states (Saudi Arabia, UAE, Bahrain, and Egypt).

The recent classification of natural gas as a "green" investment by the EU has also spotlighted liquified natural gas (LNG). Qatar is the world's largest LNG exporter and the sharp recovery in oil prices during 2021 has been magnified on LNG markets with natural gas prices jumping four times more than oil in Europe; with further steep rises following the war in Ukraine.

Hydrocarbon production will remain a key driver of the Qatari economy. LNG investments are being expanded in the maritime and onshore North Field which will total around US$29 billion and lift production capacity to 126 million tons per annum (mtpa) by 2027, up from the current production rate of 77 million mtpa with more than half beginning within 2024. Investments are being brought forward with QatarEnergy, the state-owned enterprise operating all oil and gas activities in the country, awarding large engineering, procurement, construction, and installation contracts for offshore facilities destined for the North Field East Expansion project in January 2022.

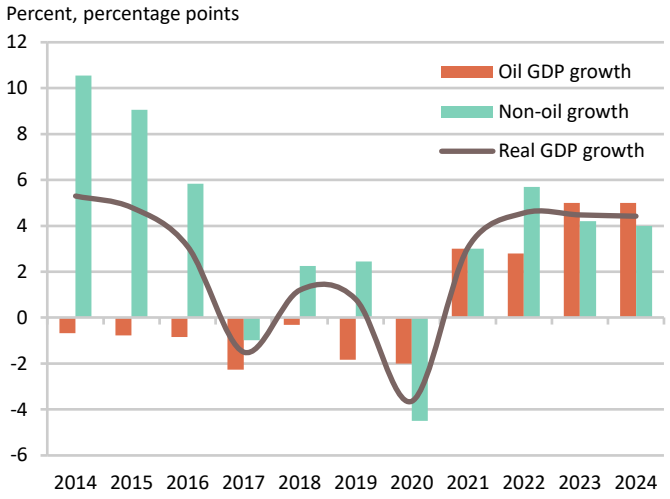
In addition, significant steps have been taken to boost competitiveness in the non-oil economy. These measures include: the abolishment of the Kafala sponsorship system; a new Public-Private Partnerships law; the recognition of real estate ownership by non-Qataris and a level playing field with citizens in some commercial activities. A non-discriminatory minimum wage has also come into force for all workers; a first among the GCC countries.

Recent developments

Economic recovery is well underway and despite temporary interruptions from COVID-19, real GDP grew by 3.0 percent in 2021, versus 3.6 percent contraction in the previous year rebounding in the second quarter of 2021, at an annualized rate of 4 percent, and remained positive in the third quarter. The Purchasing Managers' Index (PMI) was above 50 during all 2021 reflecting economic expansion reaching a highpoint of 63 in November and above 57 since then. Google mobility data had a short-lived dip during this most recent surge of the virus. But retail and recreation, transit station and workplace mobility, recovered in February 2022 to pre-pandemic levels.

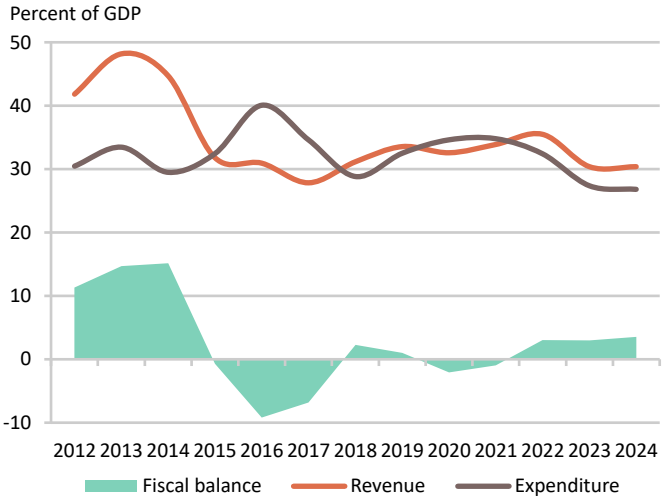
The fiscal deficit is estimated at 0.9 percent of GDP in 2021, an improvement from a 2.1 percent recorded in the previous year. Recovery in hydrocarbon prices, where the bulk of government revenues are derived,

FIGURE 1 **Qatar** / Real GDP growth



Source: World Bank staff calculations.

FIGURE 2 **Qatar** / Public finances



Sources: Haver and World Bank staff calculations.

and a gradual unwinding of offsetting expenditures to mitigate the economic effects of COVID-19 amongst hardest hit sectors (travel, tourism, and real estate) should continue to improve the fiscal balance and steadily shrink gross public debt (58.6 percent of GDP at end 2021)—gross debt in Qatar needs to be viewed against the 270.0 percent of GDP in assets accumulated in Qatar's sovereign wealth fund (QIA) at end-2021 and an additional 18.1 percent of GDP in central bank reserves.

Similar to other high income countries impacted by global supply chain interruptions, Qatar's consumer price inflation (CPI) has reached highs not seen since 2008: 6.4 percent in December 2021 (y/y). This contrasts with deflation during the COVID-19 lockdowns. At some point, possibly in 2022, Qatar will introduce a VAT regime which would have a one off impact on prices. As a GCC member state, Qatar agreed in 2016 to a VAT regime with a standard rate of 5 percent but has delayed implementation.

Outlook

Real GDP is estimated to rise in 2022 to 4.9 percent on the heels of boosted hydrocarbon exports of 10 percent. Growth in private consumption may be slightly below at 4.8 percent, driven by a potential dilution of World Cup proceeds and higher prices. Consumer prices are projected to jump by an additional percentage point in the current year.

Both the current account and fiscal balance surpluses are projected to widen in 2022 given that both depend about 90 percent on hydrocarbons. A potential upside for 2022, linked to the economic consequences of the war in Ukraine and Europe's goal of structurally reducing its exposure to Russian gas, is a speeding up of investments in the North Field Natural Gas which should see production increase by 60 percent at mid-decade. While non-oil growth is likely to ease in coming years, the hydrocarbon economy should pull up the overall rate real GDP growth at or above 4.5 percent in the coming years and deepen Qatar's dependence on hydrocarbons.

Continuation of high oil prices with a premium expected for natural gas in Europe from geopolitical tensions, as well as the EU's recent classification of this hydrocarbon feedstock as a green target investment, should lead to surpluses for the fiscal balance in Qatar above 3 percent of GDP into the foreseeable future. The potential introduction of VAT is likely to positively impact revenue in the current year and beyond. Similarly, the current account surplus is forecast to widen to more than 7 percent of GDP by 2024 as it is mostly driven by exports of hydrocarbons, reinforced by World Cup tourist receipts.

With regard to Green House Gas emissions, the forecast is for flat performance in absolute terms from 5.5 kilo tons of carbon dioxide (ktCO2) in 2021 to 5.4 in 2024. Analysis shows the bulk of the emissions to be caused by energy, especially fuel combustion activities (91 percent of the total) and fugitive emissions (about 5 percent).

TABLE 2 Qatar / 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	-3.6	3.0	4.9	4.5	4.4
Private Consumption	3.5	-5.6	4.5	4.8	4.1	4.2
Government Consumption	2.5	10.3	3.6	5.4	4.7	5.0
Gross Fixed Capital Investment	2.5	-3.1	2.3	4.0	3.6	3.7
Exports, Goods and Services	1.1	-6.8	4.1	6.6	7.0	7.1
Imports, Goods and Services	6.0	-2.7	5.5	7.3	7.8	7.8
Real GDP growth, at constant factor prices	0.8	-3.6	3.1	4.9	4.5	4.4
Agriculture	1.0	21.0	5.0	6.0	3.0	3.0
Industry	-2.3	-1.5	2.7	3.8	4.2	4.2
Services	7.6	-7.9	3.8	7.2	5.0	4.7
Inflation (Consumer Price Index)	-0.9	-2.6	1.0	4.0	2.8	2.3
Current Account Balance (% of GDP)	2.4	-2.5	3.1	4.5	6.1	7.4
Fiscal Balance (% of GDP)	1.0	-2.1	-0.9	3.4	3.3	3.9
Primary Balance (% of GDP)	2.7	-0.2	0.7	4.9	4.7	5.1
GHG emissions growth (mtCO2e)	5.7	-2.1	5.5	5.3	5.3	5.4
Energy related GHG emissions (% of total)	92.0	91.9	91.2	91.2	91.3	91.4

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

SAUDI ARABIA

Table 1	2021
Population, million	35.3
GDP, current US$ billion	833.0
GDP per capita, current US$	23597.7
School enrollment, primary (% gross)[a]	100.2
Life expectancy at birth, years[a]	75.1
Total GHG Emissions (mtCO2e)	601.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2019).

After registering a stronger-than-expected recovery in 2021, the Saudi Arabian economy is on an accelerated growth path in 2022; driven by higher oil and non-oil activities as oil production and prices strengthen and pandemic pressures fade. Direct trade flows with Russia and Ukraine are limited; however, spillovers in the oil market have strengthened medium-term fiscal and external outlook. A breakout of new COVID-19 variants, tighter global financial conditions, and volatile oil prices are key risks to the outlook.

Key conditions and challenges

The war in Ukraine will have sizable economic implications globally through multiple channels; most significant for Saudi Arabia is through energy markets. Energy prices have already increased and are likely to rise further if conflict continues to escalate which may require OPEC+ members to ramp up production—presenting an upside risk to Saudi Arabia's outlook.

The government's long-term strategy to diversify the economy and reduce dependence on oil is well-articulated in Vision 2030. The Public Investment Fund (PIF) is envisioned to play a central developmental role in this transformation plan by investing SAR 150 billion (US$40 billion) annually into the domestic economy. This role would require fund's enhanced transparency and predictability for the private sector. Moreover, off-balance sheet investments reduce overall fiscal oversight and could increase contingent liabilities and fiscal risks.

Risks to the non-oil sector recovery remain. Despite more than two-thirds of the population fully inoculated against the COVID-19, a spike in cases due to new variants that are vaccine-resistant would risk a cycle of movement restrictions and delay the recovery. In all cases, the vaccine rollout should remain the authority's main priority in the near term. Furthermore, domestic monetary policy is set to tighten in line with the US monetary policy, which will dampen the recent mortgage credit boom.

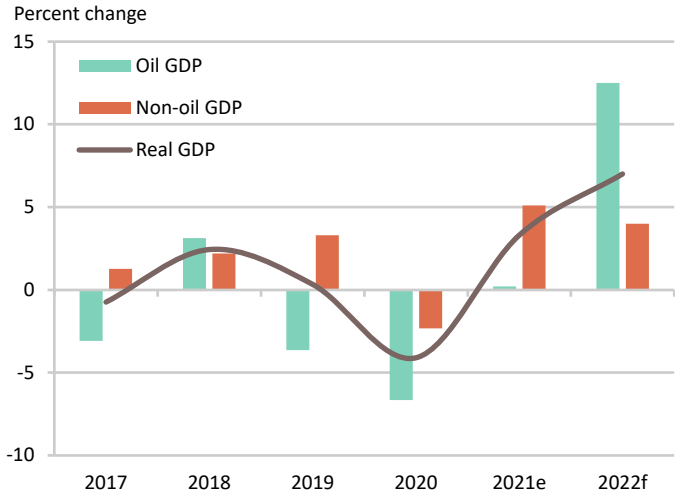
Recent developments

Saudi Arabia continues to successfully control the adverse impacts of the pandemic despite the Omicron variant outbreak at the end of 2021. With a high vaccination rollout, reaching 68 percent of the population, new cases are on a downward trajectory since January 2022. Globally, Saudi Arabia continues to assume its pivotal role, under the OPEC+ structure, in resolving oil market imbalances through waning monthly oil production cuts of 0.4 mbpd, which started in July 2021.

Against this background, latest official data suggest that the economy grew by 3.3 percent in 2021. The oil sector registered growth of 0.2 percent, reflecting a gradual easing of voluntary output cuts. The non-oil sector continued its recovery path registering a 5.1 percent growth in 2021 —lifting the non-oil economy by 3.2 percent above its pre-pandemic level. More recent high frequency data report a slight dip in January 2022 PMI following the Omicron surge, but the economic impact of the Omicron is expected to be short-lived. Headline inflation registered 3.1 percent in 2021, as the VAT-driven impact on inflation dissipated, but was offset by higher food and transportation prices.

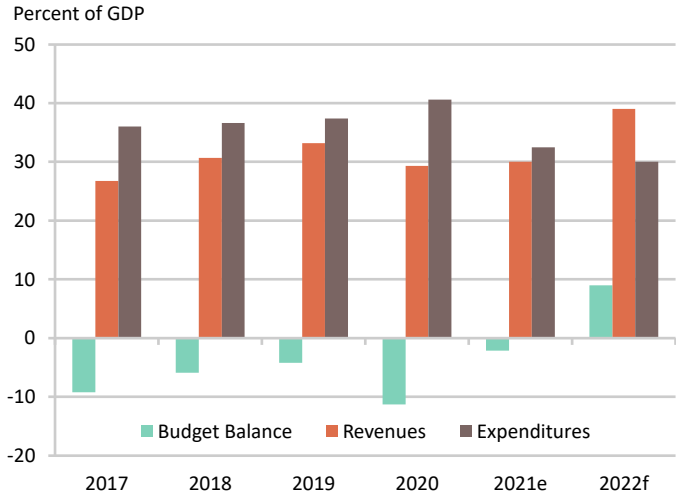
The budget deficit narrowed in 2021 to 2.1 percent of GDP, driven by higher oil revenues and fiscal consolidation measures.

FIGURE 1 **Saudi Arabia** / Annual real GDP growth



Sources: GASTAT Saudi Arabia and World Bank staff estimates.

FIGURE 2 **Saudi Arabia** / Central government operations



Source: World Bank, Macroeconomics, Trade & Investment Global Practice.

Tax revenues have also contributed to this improvement, increasing by 40 percent from 2020, driven by stronger domestic demand and full-year collection of the higher VAT rate. On the expenditures side, tighter fiscal policy resulted in expenditures dropping by 3 percent; with capital expenditures bearing the brunt of this cut. Thus far, reduction of reserves and ample market access have proven sufficient to finance the deficit and shield the economy from full volatility of oil prices; especially, during H1 2021.

Supported by higher oil export receipts and phasing-out of restrictions on religious tourism, the current account is estimated to register a surplus of 5.2 percent of GDP in 2021 from a deficit of 2.3 percent of GDP in 2020.

There is no publicly available information on official poverty rates in Saudi Arabia and access to micro data from household surveys is limited. However, recent statistics point to significant and remarkable changes in the labor market. First, Saudi nationals are entering the labor market at high rates driven by recent reforms; especially, those aimed at women's participation. Second, along with rising participation among Saudi women (from 26 percent in Q4 2019 to 34.1 percent in Q3 2021), unemployment rate has also dropped by 9 percentage points relative to pre-pandemic levels to an estimated 21.9 percent in Q3 2021. Third, the increase in employment is driven by the private sector reflecting strong performance in non-oil activities. Last, but not least, foreign workers are leaving, leading to an overall reduction in employment of almost 900,000 workers (Q3 2021 relative to Q4 2019).

Outlook

Growth is expected to accelerate to 7 percent in 2022 before moderating to 3.8 and 3.0 percent in 2023 and 2024, respectively. Stronger oil output is the main driver behind the recovery which is expected to grow by 13 percent in 2022 following the end of the OPEC+ production cuts in December 2022. The non-oil sector is expected to continue its growth trajectory, estimated at 4 percent in 2022 and 3.2 percent in the medium-term. Despite headwinds from tighter fiscal and monetary policies in the medium term, stronger private consumption, an increase of religious tourism, and higher domestic capital spending—signaled through the PIF and other state agencies—are anticipated. Headline inflation is projected to slow and hover at around 2 percent during 2022 as result of a stronger US dollar, against which the Saudi Riyal is pegged, and tighter monetary policy.

The budget balance is expected to register a surplus of 9.1 percent of GDP in 2022—the first surplus in nine years—driven by higher oil receipts. Fiscal performance in the medium term is underpinned by authorities' commitment to compress expenditures and build credible budget envelopes. With most of capital spending channeled through the PIF and other state agencies, the overall fiscal stance is more expansionary than officially reported through the budget.

As higher energy prices and further unwinding of OPEC+ oil production cuts kick in, the current account surplus is projected to widen to 14 percent of GDP in 2022 before moderating to an average of 9.2 percent in the medium term.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	0.3	-4.1	3.3	7.0	3.8	3.0
Private Consumption	4.4	-4.9	3.4	3.0	3.1	2.8
Government Consumption	0.6	2.6	1.8	0.6	0.8	0.6
Gross Fixed Capital Investment	4.9	-14.0	8.2	6.4	7.2	3.3
Exports, Goods and Services	-4.5	-8.7	1.4	14.8	5.1	4.7
Imports, Goods and Services	1.3	-14.6	2.7	7.6	5.4	4.3
Real GDP growth, at constant factor prices	0.3	-4.0	3.3	7.0	3.8	3.0
Agriculture	1.3	0.0	0.1	0.2	0.2	0.2
Industry	-2.6	-5.3	0.6	8.5	2.8	2.7
Services	4.3	-2.5	7.0	5.5	5.2	3.5
Inflation (Consumer Price Index)	-1.2	3.4	3.1	2.0	1.8	1.9
Current Account Balance (% of GDP)	4.7	-2.3	5.2	14.0	11.1	7.3
Fiscal Balance (% of GDP)	-4.2	-11.1	-2.1	9.1	5.9	3.8
Debt (% of GDP)	23.1	32.5	29.1	23.5	21.4	19.4
Primary Balance (% of GDP)	-3.4	-10.1	-1.2	10.1	6.8	4.6
GHG emissions growth (mtCO2e)	-2.2	-4.7	1.1	3.1	1.8	1.3
Energy related GHG emissions (% of total)	77.2	77.2	77.6	77.3	77.5	77.6

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

SYRIAN ARAB REPUBLIC

Table 1	2021
Population, million	17.4
GDP, current US$ billion	16.5
GDP per capita, current US$	947.7
School enrollment, primary (% gross)[a]	81.7
Life expectancy at birth, years[a]	72.7
Total GHG Emissions (mtCO2e)	44.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2013); Life expectancy (2019).

Socioeconomic conditions are deteriorating rapidly in Syria, affected by a range of shocks, including prolonged armed conflict, economic sanctions, COVID-19 pandemic, a severe drought, deepening economic crisis in neighboring Lebanon and Turkey and the economic consequences of the Russian invasion, war and associated sanctions. The continued depreciation of the local currency has led to rampant inflation, worsening already high food insecurity and pushing more people into poverty. Conflict, displacement and the collapse of economic activities and social services have all contributed to the decline in welfare for Syria's inhabitants.

Key conditions and challenges

Now moving into its eleventh year, the conflict in Syria has continued to inflict a devastating impact on the inhabitants and their economy. More than half the country's pre-conflict population remains displaced, including 6.6 million survivors in internally displaced people (IDP) status in Syria and another 5.6 million Syrians registered as refugees in neighboring countries. Although large-scale conflict has subsided recently, Syria still recorded 7,465 conflict-related deaths in 2021, the 9th highest in the world, according to the statistics collected under the Armed Conflict Location & Event Data Project (ACLED).

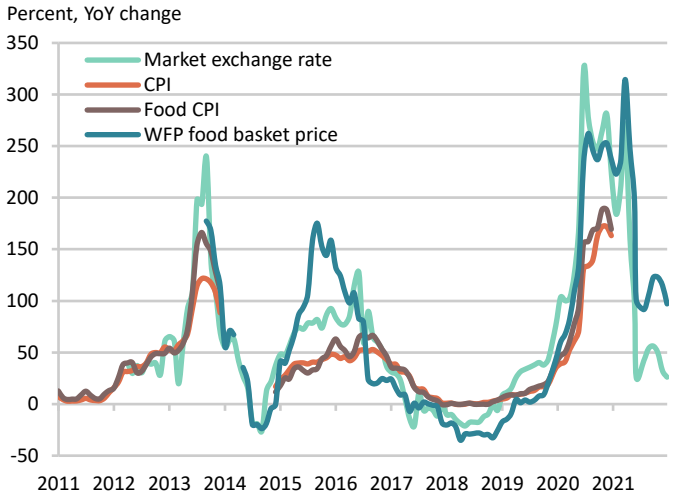
The social and economic impact of the conflict is large and growing. Between 2010 and 2019, Syria's GDP shrunk by more than a half. The decline in Gross National Income per capita in Syria has led the World Bank Group to reclassify Syria as a low-income country in 2018, a reclassification that highlights the scale of the damage on Syria's economy since 2011.

Conflict, displacement and the collapse of economic activities and social services have all contributed to the decline in social welfare. Before the conflict, extreme poverty in Syria ($1.90 2011 PPP per day) was virtually inexistent. It is now affecting more than 50 percent of the population. On the non-monetary front, access to shelter, livelihood opportunities, health, education, water, and sanitation have all worsened dramatically since the onset of the conflict. With a severely degraded healthcare system following the decade-long war, COVID-19 has only exacerbated the pre-existing vulnerable situations. COVID-19-associated deaths continue to rise in Syria, partially due to a slow vaccine rollout. By the end of February 2022, only 11 percent of the total population received at least one dose of the vaccine, and 6 percent was fully vaccinated.

Recent developments

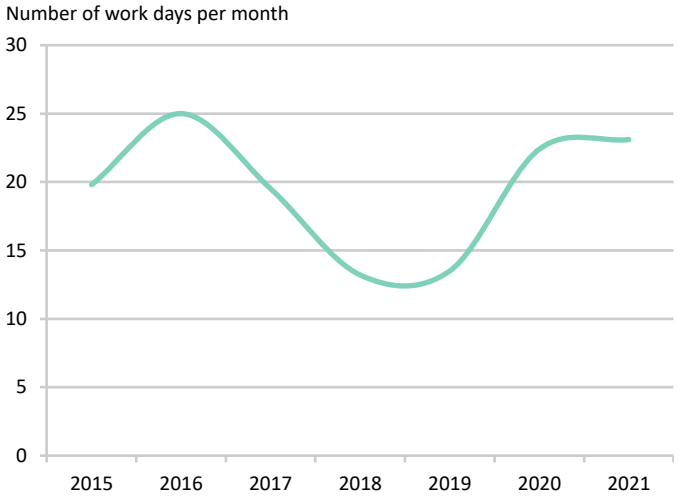
The economy continues to suffer from the compounding effects of the health crisis, adverse weather events, regional fragility, and macroeconomic instability. Since 2020, Syria's external economic ties have been severely restrained by the deepening crisis in neighboring Lebanon and Turkey as well as the introduction of new US sanctions under the Caesar Law, which triggered shortages of essential goods and rapid currency depreciation. The market exchange rate of the Syrian pound against the US dollar weakened by 26 percent year-on-year (yoy) in 2021, following a 224 percent yoy depreciation in 2020. Given the heavy reliance on imports, currency falls have quickly feed into higher domestic prices, causing hyperinflation. Annual inflation reached 114 percent in 2020, the largest increase in decades. In response to the surge in inflation, the government introduced two rounds of wage increases for public sector workers in 2021, but this was not enough to compensate for the erosion of real incomes.

FIGURE 1 Syrian Arab Republic / Exchange rate depreciation along with surging inflation



Sources: Central Bureau of Statistics, Syria, WFP Market Price Watch Bulletin, and World Bank estimates.

FIGURE 2 Syrian Arab Republic / Work days per month for a worker to afford the minimum food basket



Sources: WFP Market Price Market Price Watch Bulletin and World Bank estimates.

Syria's triple-digit inflation has affected the poor and vulnerable disproportionately. Food price inflation—proxied by the World Food Program (WFP) food basket price index—rose by 97 percent during 2021 on the top of a 236 percent increase in 2020. It is estimated that, on average, a low skilled worker would need to work for as many as 23 days a month to afford the minimum food basket (sole basic food needs of a family of five). Driven by the noticeable increase in commodity prices, government subsidies on essential food and fuel goods have dramatically risen over the past years, accounting for approximately 40 percent of the total budgeted expenditures in 2021 and 2022. To compress subsidies, Syria's government has tightened rationing, which has inevitably deteriorated the already dire living conditions of the Syrian people. According to recent WFP estimates, close to half of the surveyed households (49 percent) reported poor or borderline food consumption in December 2021, a rise from 39 percent a year ago.

Outlook

The economic conditions in Syria is projected to continue to be mired by the low intensity conflict, turmoil in Lebanon and Turkey, the COVID-19 pandemic, and the economic consequences of the Russian invasion, war and associated sanctions. A persistent twin deficit would further drain foreign exchange reserves, putting further pressure on the domestic currency. Inflation is projected to remain high in the short term, due to the pass-through effects of currency depreciation, persistent food and fuel shortages, and reduced food and fuel rationing. Private consumption will remain subdued with continued erosion of purchasing power amid rising prices and currency depreciation. Government spending, especially capital expenditures, will remain constrained by low revenues and the lack of access to financing. As a result of protracted and compounding crises, the international donor community estimates that over 60 percent of the Syrians will be in need of assistance in 2022.

Risks to the growth outlook are significant and tilted to the downside. Owing to its heavy reliance on food and fuel imports, Syria is particularly vulnerable to soaring food prices triggered by the economic consequences of the Russian invasion, war and associated sanctions, which would worsen the already acute food insecurity of the country. Should trade flows with Russia be affected, the impact would be even greater given Syria imports a significant amount of wheat from Russia. In addition, economic stagnation and deterioration of public services may lead to an increase in social unrest and conflict, worsening Syria's already vulnerable political instability.

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

	2019	2020	2021e	2022f
Real GDP growth, at constant market prices[a]	3.7	1.5	-2.1	-2.6
Inflation (Consumer Price Index)	13.4	114.2	89.2	60.0
Fiscal Balance (% of GDP)	-7.9	-6.5	-6.8	-7.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
a/ Projections based on nighttime light data.

TUNISIA

Table 1	2021
Population, million	11.9
GDP, current US$ billion	44.2
GDP per capita, current US$	3701.0
National poverty rate[a]	15.2
Lower middle-income poverty rate ($3.2)[a]	3.0
Gini index[a]	32.8
School enrollment, primary (% gross)[b]	113.4
Life expectancy at birth, years[b]	76.7
Total GHG Emissions (mtCO2e)	34.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015).
b/ WDI for School enrollment (2020); Life expectancy (2019).

Tunisia's economic outlook remains highly uncertain. The economic rebound in 2021 was relatively moderate. Debt sustainability concerns remained acute due to elevated fiscal deficits and financing needs. As a net importer of energy and cereals, Tunisia is vulnerable to spikes in global commodity prices. Fast-tracking the recovery and safeguarding macroeconomic stability will require the speedy implementation of structural reforms.

Key conditions and challenges

A decade after the Jasmin revolution, Tunisia faces increasingly difficult economic conditions. Weak reform implementation has left the economy inefficiently closed to investment and trade and ill-equipped to exploit opportunities in the global economy. As growth and private job creation stagnated, the State stepped in as an employer of last resort and price stabilizer through subsidies. This has caused a deterioration of the fiscal situation under the weight of a large public sector wage bill, higher energy and food subsidies and underperforming state-owned enterprises. The COVID-19 pandemic has exacerbated these weaknesses.

Tunisia's growth prospects hinge critically on timely and decisive structural reforms to address economic distortions and fiscal pressures. The government aims to advance some key reforms including (i) the elimination of business entry permits and licenses, (ii) the reduction of consumer subsidies; (iii) the improvement of the performance of state-owned enterprises; and (iv) the reduction of the public sector wage bill. Progress in these reforms is critical to stabilize the macroeconomic situation, and to secure a new IMF program which is essential to mobilize multilateral and bilateral financing and regain access to international financial markets.

Recent developments

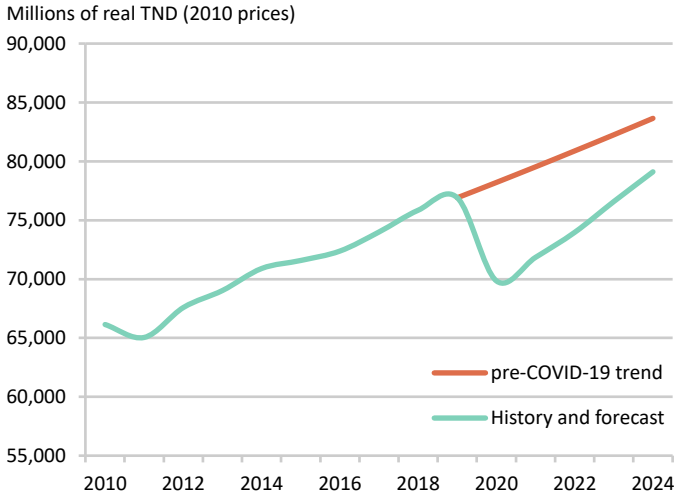
GDP grew by an estimated 2.9 percent in 2021, as the successful containment of the COVID-19 pandemic starting in the second semester and increased vaccination allowed the relaxation of mobility restrictions across the country. The economic rebound was relatively modest considering the strong GDP contraction of 9.2 percent in 2020, the sharpest in the MENA region. Key factors behind the modest recovery include the relative dependence of the economy on tourism, the limited fiscal space and difficult business environment, including restrictions on investments and competition.

Labor market outcomes remained weak. The already high unemployment rate reached 18.4 percent by the 3rd quarter of 2021 combined with a slight reduction in labor force participation. The unemployment rate is particularly high among youth, women and in the west of the country.

Inflation rose to 6.5 percent in 2021, a full percentage point above 2020, amid rising global commodity prices and rebounding domestic demand.

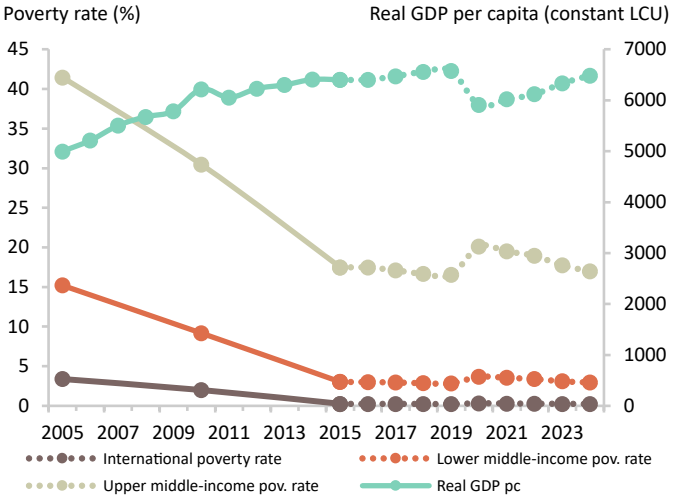
The fiscal deficit narrowed to an estimated 7.7 percent of GDP in 2021 from 9.4 percent in 2020. Expenditure hikes related to the increases in subsidies (particularly energy) and civil service wages were more than offset by a rebound in revenues, mainly from indirect taxes. The deficit was financed by a combination of debt rollover and debt monetization. Public debt rose to 84 percent of GDP.

FIGURE 1 Tunisia / Real GDP: Actual, forecast and pre-COVID-19 trend



Sources: National Institute of Statistics; World Bank.

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



Source: World Bank. Notes: see Table 2.

The current account deficit (CAD) stood at 6.5 percent of GDP in 2021, a slight deterioration from 6.1 percent in 2020. This resulted from the expanding trade deficit as imports increased more than exports, compensated for by a 28 percent rise in primary income (mainly remittances). The strong increase in imports was driven by the growth in domestic demand linked to the increase in public expenditures and in exports.

Outlook

Growth is projected to reach 3.0 percent in 2022, supported a gradual global recovery from the pandemic. This rate would not yet allow output to return to pre-pandemic levels of 2019. Growth is expected to eventually gain ground, but it remains modest at around 3.5 percent a year over the medium term, dragged by pre-existing structural weaknesses and the economic consequences of and uncertainty around the Russian invasion of Ukraine and associated sanctions.

Tunisia's public finance and external account will remain precarious in the absence of an IMF program and uncertain global conditions. The CAD is projected to widen significantly to 7.6 percent of GDP in 2022, driven by surging energy and food prices. Despite some fiscal consolidation efforts—including two rounds of fuel price increases in February and March 2022—the fiscal deficit would remain high at a projected 6.1 percent of GDP in 2022. Gross public financing needs are projected at around TND 20bn in 2022 (US$6.9 billion; 14.7 percent of GDP), half of which is for external amortization. Inflationary pressures, stemming from rising commodity prices, will constrain further debt monetization.

The economic consequences of the Russian-Ukrainian war and associated sanctions pose significant downside risks to the Tunisian economy. As a net commodity importer, continued upsurges in energy and food prices would add further pressure on Tunisia's external account through higher import bills, while higher subsidy costs could weigh heavily on the fiscal position. Energy subsidies would increase by 3.9 percent of GDP if the average price of oil in 2022 were to increase to $115 per barrel as in the immediate aftermath of the Russian invasion. Cereal subsidies would increase by 0.2 percent of GDP if wheat prices were to increase by 20 percent relatively to their November 2021 levels.

Poverty is expected to reach 3.4 percent in 2022 and 3.1 percent in 2023 using the $3.2 line (2011 PPP). The number of poor and vulnerable at $5.5 line (2011 PPP) is projected to decline from 18.9 percent in 2022 to 17.7 percent in 2023 and is not expected to go back to pre-crisis levels before 2024.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	1.4	-9.2	2.9	3.0	3.5	3.3
Private Consumption	2.3	-5.1	2.0	3.0	4.5	4.0
Government Consumption	2.4	-5.3	1.9	3.5	1.3	1.6
Gross Fixed Capital Investment	0.5	-28.7	1.7	6.3	4.1	4.8
Exports, Goods and Services	-4.1	-20.4	10.3	5.9	8.0	8.0
Imports, Goods and Services	-6.9	-19.3	8.0	7.7	9.0	9.0
Real GDP growth, at constant factor prices	1.5	-9.8	3.0	3.1	3.5	3.3
Agriculture	5.7	0.4	-5.4	-4.6	4.0	4.0
Industry	-1.4	-9.3	7.5	8.5	3.5	3.2
Services	2.1	-11.4	2.6	2.0	3.5	3.2
Inflation (Consumer Price Index)	6.7	5.6	6.5	6.5	6.5	6.0
Current Account Balance (% of GDP)	-8.1	-6.1	-6.5	-7.6	-7.2	-6.9
Fiscal Balance (% of GDP)	-2.9	-9.4	-7.7	-6.3	-5.6	-3.9
Debt (% of GDP)	67.9	79.5	84.5	84.2	90.6	91.0
Primary Balance (% of GDP)	-0.4	-5.8	-4.7	-3.1	-2.5	-0.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.2	0.3	0.3	0.3	0.3	0.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	2.9	3.7	3.5	3.4	3.1	3.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	16.6	20.1	19.5	18.9	17.7	17.0
GHG emissions growth (mtCO2e)	0.7	-8.5	-0.3	3.3	2.1	1.9
Energy related GHG emissions (% of total)	73.0	71.7	71.2	71.5	71.5	71.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2015-NSHBCSL.Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2015) with pass-through = 0.7 based on GDP per capita in constant LCU.

UNITED ARAB EMIRATES

Table 1	2021
Population, million	10.0
GDP, current US$ billion	464.9
GDP per capita, current US$	46490.0
School enrollment, primary (% gross)[a]	115.4
Life expectancy at birth, years[a]	78.0
Total GHG Emissions (mtCO2e)	205.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2019).

The UAE led the world with a successful vaccination program, which, together with the gradual phasing out of OPEC+ oil production cuts and monetary and fiscal stimulus, led to a strong economic recovery in 2021. Over the medium term, the recovery will be bolstered by higher oil prices triggered by the economic consequences of the war in Ukraine. The authorities continue to make progress on fiscal and economic diversification. Risks include renewed coronavirus outbreaks, tightening global financial conditions, and oil sector volatility.

Key conditions and challenges

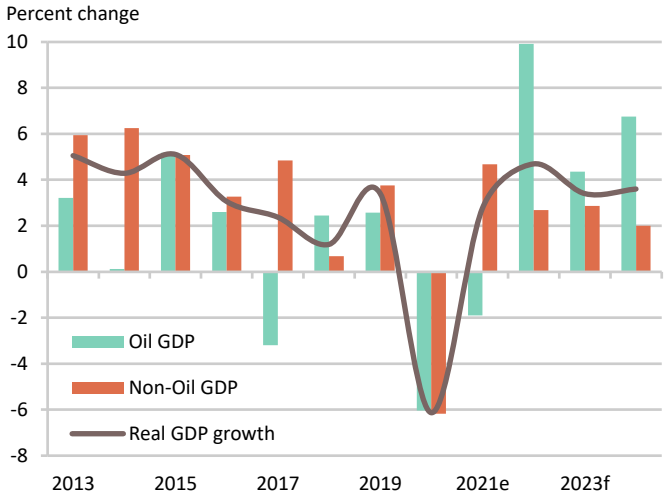
Over the past decade, the authorities have intensified efforts to diversify the economy, successfully positioning the UAE as the region's trade, financial and travel hub. Through economic visions and plans, the UAE aims to diversify the economy and build on its reputation as a business hub, while promoting environmental sustainability. However, the UAE will increasingly face greater competition for foreign investment, especially from Saudi Arabia and Qatar. Moreover, while the non-hydrocarbon sector accounts for two-thirds of GDP, the economy continues to rely on hydrocarbon activity as the engine of growth and the main source of government revenue, and thus the economy remains vulnerable to oil price volatility. Nevertheless, authorities continue to press forward to enhance its business environment through, for instance, improved bankruptcy provision and easier access to foreign investment and workers.

Steps towards diversifying public revenues are also underway with the recent introduction of a corporate income tax (CIT) effective in 2023—a major shift for a country historically known for low taxation. This may provide Dubai with greater resources if corporate debt problems resurface. The UAE's government related entities (GRE's) remain a significant source of vulnerability. The ability of GREs to meet their debt obligations is uncertain. Abu Dhabi's GRE debt increased by 30 percent from 2017 to US$64.2 billion in 2020, while Dubai's GRE debt was US$51 billion in 2020 (IMF). Despite changes in the composition of debt, i.e., a shift from loans to bonds and lengthened maturity profiles, Abu Dhabi and Dubai GREs face short-term rollover risks with a combined US$68.8 billion debt in 2021-23. GRE debt servicing capacity is low and GRE risks could be exacerbated by a prolonged pandemic and/or tightening global financial conditions. Contingent fiscal risks from GREs should be closely monitored and pre-emptively mitigated and GRE efficiency and productivity must be improved.

Recent developments

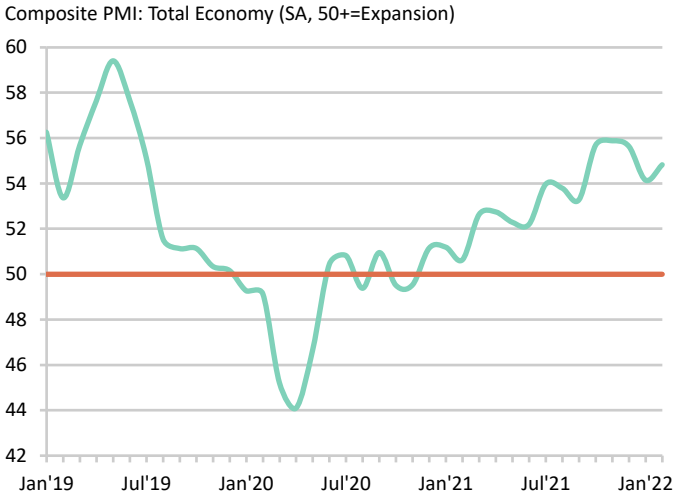
Real GDP growth is estimated at 2.8 percent in 2021 following a contraction of 6.1 percent in 2020. The recovery was aided by a successful vaccination program, and fiscal and monetary stimulus measures that helped the rebound of domestic consumption. Dubai quarterly GDP registered a growth of 6.3 percent Y-o-Y in Q3-2021. In Dubai hotel occupancy increased, owing mostly to the resumption of international travel. The Purchasing Manager's Index (PMI) for October 2021 registered its highest reading since June 2019, with a score of 55.7 supported by increased activity related to Expo 2020 and loosening of COVID-19 restrictions. The recovery is expected to strengthen in 2022 despite a short-term dampening of sentiment due to the Omicron variant as indicated by a

FIGURE 1 United Arab Emirates / Annual real GDP growth



Sources: UAE authorities and IMF/World Bank staff estimates.

FIGURE 2 United Arab Emirates / Composite purchasing manager's index



Sources: IHS Markit Purchasing Managers Survey.

slight dip in January's PMI. The hydrocarbon sector also picked up pace as OPEC+ production quotas were eased; oil production went up by 8 percent in Q4-2021 compared to Q2-2021. The health situation is improving with daily new cases below 800 in February 2022 (on a 7-day rolling average basis) for the first time since 2020 and over 95 percent of the population is fully vaccinated.

Government finances improved in 2021; fiscal outturns for the federal government showed a return to a surplus (estimated at 2.4 percent of GDP) from a deficit of 2.5 percent of GDP in 2020. The consolidated deficit is estimated to have improved from 5.4 percent of GDP in 2020 to 0.5 percent in 2021. Financing needs were mostly met by international debt issuances at the emirate and federal levels.

Inflation returned in 2021 after two consecutive years of deflation, owing to rising global food and energy prices, higher local property prices, and a continuing recovery in domestic demand. Residential real estate market continues to improve, with prices in Abu Dhabi registering Y-o-Y gains for the third consecutive quarter in five years, while declining in Dubai at a marginal pace.

The current account balance improved to 6.8 percent of GDP in 2021 in tandem with improved performance of both hydrocarbon and non-hydrocarbon exports mitigated by higher imports.

Understanding of poverty, inequality, and livelihoods in the UAE continues to be limited due to sparse representative household and labor data. According to data from the UAE Central Bank, employment in Q3 2021 remained at the same level of the previous quarter and above pre-pandemic levels.

Outlook

The economic consequences of the war in Ukraine have triggered an oil price surge which will have positive implications for the UAE economy and its fiscal and external balances. However, tourism and the non-oil economy might face headwinds. Tourism and travel account for almost 20 percent of Dubai's GDP, and their revival is a policy priority. Russia became the third-largest source market for Dubai's travel and tourism sector in 2021, while Ukrainian tourists are among the top 20, which presents a downside risk for its non-oil recovery.

Recent efforts to deepen equity markets, encourage technology businesses and boost the industrial sector coupled with a recovery in global trade, rising oil production and higher oil prices, will support recovery in the medium term. Reforms to improve the business environment such as the new labor code will increase labor market flexibility and attract expats. As OPEC+ quotas are eased and with higher oil prices and the introduction of CIT, fiscal balances will receive a boost. A robust expansion of trade aided by a renewed push by the authorities to increase reexports to Asia and Africa will expand the current account surplus. Higher energy prices will increase inflation in 2022 but easing supply bottlenecks and gradual monetary policy tightening, in line with the US Fed's hike and continuing tightening cycle, should soften inflation over the medium term.

TABLE 2 United Arab Emirates / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.4	-6.1	2.8	4.7	3.4	3.6
Private Consumption	10.0	-12.5	5.1	3.8	3.7	4.0
Government Consumption	10.0	0.7	1.7	2.7	2.9	2.9
Gross Fixed Capital Investment	0.0	5.8	3.9	3.4	3.9	4.0
Exports, Goods and Services	-1.3	-7.0	6.7	5.9	5.1	5.2
Imports, Goods and Services	-5.5	-6.4	8.8	5.4	4.5	4.5
Real GDP growth, at constant factor prices	3.4	-6.1	2.8	4.7	3.4	3.6
Agriculture	3.8	6.9	3.8	4.6	4.9	4.9
Industry	2.6	-5.5	0.4	6.6	3.5	2.9
Services	4.2	-6.9	5.1	2.8	3.1	4.2
Inflation (Consumer Price Index)	-1.9	-2.1	0.2	2.2	1.9	1.7
Current Account Balance (% of GDP)	8.5	6.0	6.8	13.7	11.8	11.3
Fiscal Balance (% of GDP)[a]	-1.0	-5.4	-0.5	4.4	5.0	2.7
GHG emissions growth (mtCO2e)	-2.1	-9.4	-1.6	0.6	0.1	0.4
Energy related GHG emissions (% of total)	71.7	69.9	69.2	68.6	67.7	67.0

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

REPUBLIC OF YEMEN

Table 1	2021
Population, million	30.5
GDP, current US$ billion	21.1
GDP per capita, current US$	690.4
School enrollment, primary (% gross)[a]	93.6
Life expectancy at birth, years[a]	66.1
Total GHG Emissions (mtCO2e)	22.5

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

Economic conditions continue to deteriorate, and acute humanitarian crisis persists. The bifurcation of economic institutions by conflicting parties, and the uncoordinated policy decisions have further compounded the socio-economic crisis stemming from active conflict, now in its seventh year. Donor fatigue, soaring global commodity prices, and adverse climate conditions will continue to pose serious threat to the already dire socio-economic conditions.

Key conditions and challenges

After almost seven years of escalating conflict, Yemen continues to face an unprecedented humanitarian, social and economic crisis. Significant damage to vital public infrastructure has contributed to a disruption of basic services, while insecurity has delayed the rehabilitation of oil exports—which had been the largest source of foreign currency before the war—severely limiting government revenue and supply of foreign exchange for essential imports, including fuel. The bifurcation of national institutions between the conflicting parties—the internationally recognized government (IRG) based in Aden and de-facto authorities in Sana'a—and uncoordinated policy decisions have further compounded the economic crisis and humanitarian suffering from violence.

Reliable information on the economy is absent, as official statistics are no longer produced. Yemen's economy is largely informal and relies on remittances and aid inflows to fund consumption. Agriculture dominates the real economy (after the collapse of the oil sector) but suffers from an increasing frequency of climate- and pest-related disruptive events.

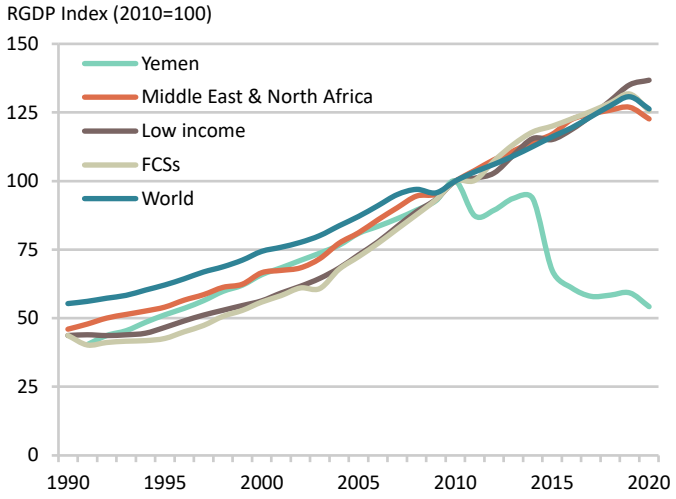
The social conditions are precarious, with the UN estimating more than 24 million people (some 80 percent of the population) in need of humanitarian assistance. With only 50 per cent of Yemen's health facilities functional, the COVID-19 pandemic placed additional pressure on the country's already fragile health system. Vaccination efforts are underway, but so far only two per cent of the population has been vaccinated.

Recent developments

Available information suggests that the Yemeni economy continued to weaken in 2021, affected by macroeconomic instability (especially in southern governorates), escalating hostilities, and heavy rains and flooding, which damaged shelters and infrastructure, destroyed livelihood, and facilitated the spread of diseases such as cholera. The volume of oil production remained significantly below the pre-conflict levels, notwithstanding slight improvements in recent years. Non-oil economic activity continues to suffer from hostilities, interruption of basic services (electricity, telecommunications), and acute shortages of inputs, which were compounded by double taxation and distortions created by uncoordinated policy decisions by the two authorities.

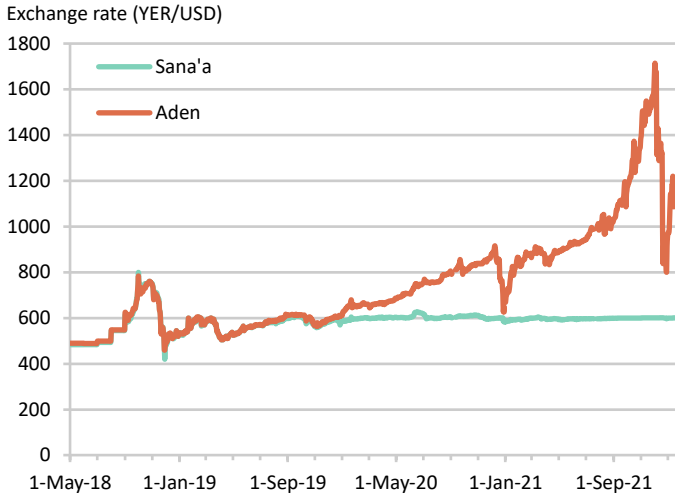
Yemen's public finances remain under severe stress. During 2021, continued monetization of the fiscal deficit in the IRG and STC-controlled areas, coupled with rising global commodity prices, fueled inflation and put a significant downward pressure on the currency in the southern governorates. The suspension of external

FIGURE 1 Republic of Yemen / Real GDP (indexed): Yemen and comparators



Source: MFMod, World Bank.

FIGURE 2 Republic of Yemen / Exchange rate trend: Yemen (Sana'a and Aden)



Sources: IMF and Central Bank of Yemen.

public debt services remained in place except for payments to IDA and IMF. Fiscal policy by the de facto authorities in Sana'a, the country's main commercial and financial center, is operating under a cash budget system. Given the lack of hydrocarbon revenue, the scale of fiscal policy in Sana'a is smaller and mostly depends on revenue from corporate profit tax.

Competing monetary policies by the two conflicting authorities have resulted in a large divergence of the exchange rate of the Yemeni rial. In the southern governorates, the rial depreciated by over 100 percent against the US dollar by early December 2021 (y-o-y). The introduction of a foreign exchange auction mechanism – since mid-November 2021 – coupled with the appointment of new central bank management in Aden on December 6, 2021, contributed to reverse the falling trend, allowing the rial to stabilize since January 2022. The sentiment also improved on account of the expected conversion of (at least part) of the recent IMF SDRs allocation to Yemen, which is expected to take place shortly. In the northern governorate, the exchange rate against the US dollar has remained relatively stable in the absence of monetary expansion, as a result of cash budgeting and a ban on the use of new banknotes printed after 2016.

Sharp depreciation and soring global food prices substantially strained the humanitarian crisis from an already dire situation. Importantly, food access is materially worse in the southern governorates, where the rial plunged substantially during most of the 2021.

The economic consequences of the Russian invasion, war and associated sanctions, on Yemen are expected to be broadly negative. In the short term, reduced imports of key commodities, on account of a supply side shock, and—over both the short and medium term—increased oil and food prices, will weigh heavily on the trade balance, inflation, and household consumption. The negative effects will be partially offset by some improvements on the fiscal front and on remittances—on account of higher global crude oil price (which Yemen exports). Millions may face severe food consumption gaps due to rapidly increasing levels of need, which could turn an already dire food crisis into a catastrophe, if assistance is not scaled up.

Outlook

Economic and social prospects in 2022 and beyond are highly uncertain and hinge critically on a resolution of the conflict and the overall security conditions. In this context, the flare-up of conflict, coupled with surging international oil prices, would be detrimental to the private sector's operational environment. On the upside, robust growth in GCC countries driven by rising global energy prices may boost remittance flows to Yemen. Revenue generation in Yemen as a whole will continue to be deeply challenged by an extremely low tax base. Trade will continue to be negatively affected by blockages of shipment offloading, infrastructural damages to the port facilities, and pervasive shortage of foreign exchange. Risks to the socio-economic outlook are related to potential economic sanctions by the US, elevated cost of wheat imports, and a decaying oil tanker in the Red Sea. The latter could cause lasting environmental and economic damages, by affecting one of the world's richest and most biodiverse marine ecosystems in the Red Sea, with long-term implications for Yemen's fisheries and shipping sectors.

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

	2019	2020	2021e	2022f	2023f
Real GDP growth, at constant market prices	1.4	-8.5	-2.1	0.8	2.5
Inflation (Consumer Price Index)[a]	10.0	35.0	85.1	31.7	15.0
Current Account Balance (% of GDP)	-3.9	-6.9	-3.0	-9.3	-9.0
Fiscal Balance (% of GDP)	-5.6	-5.2	-4.9	-5.5	-5.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
a/ Inflation rates refer to end-of-period figures.

South Asia

Spring Meetings 2022

Afghanistan
Bangladesh
Bhutan
India
Maldives
Nepal
Pakistan
Sri Lanka

AFGHANISTAN

Economic conditions continue to deteriorate following the political crisis of August 2021. Cessation of international grant support is driving a major collapse in aggregate demand, difficult macroeconomic adjustments, and disruptions to service delivery. Disruption to international financial relationships, the freezing of the central bank's overseas assets, and loss of confidence in the banking system is driving a financial sector crisis. Renewed international support for humanitarian activities and basic service delivery is now underway, but a broader program of action will be required for economic stabilization and eventual recovery.

Key conditions and challenges

Afghanistan is experiencing a worsening fiscal, macroeconomic, and financial sector crisis. The sudden cessation of international grants (previously equivalent to 45 percent of GDP and financing 75 percent of public expenditure) has caused a collapse in public spending and aggregate demand. Many frontline public service workers remain unpaid. Declines in aid and government spending have undermined private sector activity, especially in the aid-driven services sector which has accounted for a large proportion of output and growth since 2001. Loss of grant inflows has also left a shortage of hard currency with which to finance imports (Afghanistan was heavily dependent imports for critical items including food, fuel, and electricity, with a trade deficit equal to around 35 percent of GDP). Afghanistan's offshore central bank assets have been frozen, undermining the capacity of the central bank to smooth the required macroeconomic adjustment, while international banking relationships have been heavily disrupted due to international sanctions and associated Anti-Money Laundering (AML) concerns. These factors combined with a shortage of both USD and AFN cash notes have triggered a crisis of confidence in the banking sector, crippling cash shortages, and severe disruptions to domestic and international payments, with severe impacts on the private sector and humanitarian agencies. Disruptions to the banking sector are particularly impairing the operations of businesses that rely on formal financial flows to import necessary inputs, placing their ongoing viability at risk.

Rapidly deteriorating economic conditions in the context of severe drought are driving a humanitarian crisis. Afghans are suffering from rapidly increasing unemployment, deepening impoverishment, and worsening food insecurity. A largescale international humanitarian response is being mobilized, while efforts are underway to restore international development support to critical service delivery functions. Dysfunction of the financial sector, however, continues to both constrain the effective mobilization of aid support and limit prospects for economic stabilization and recovery.

Recent developments

Official GDP statistics are not being produced. Economic output is expected to decline by between 20-30 percent over the year from August 2021. According to a recent private sector survey, firms have laid off more than half of their staff on average. More than one third of small businesses have temporarily or permanently closed operations, while more than three-quarters of large companies report decreased demand for their outputs.

Despite reduced incomes and domestic demand, prices have increased rapidly. Headline y-o-y inflation reached 12.7 percent in December reflecting depreciation, increasing international prices, and import constraints arising from disruptions to international transactions. Food inflation reached 17.7 percent, reflecting heavy reliance on imported wheat. More recent data collected by the World Food Program shows y-o-y inflation for a basket of basic household goods reaching 42 percent in the first week of February.

According to official data, goods imports declined by around 47 percent over the second half of 2021 relative to the same period in 2020, in line with contracting domestic demand, disruptions to international payments, and the central bank's loss of access to overseas assets. Import contraction was broad-based, reflecting lower imports for all categories of goods. Recent data from the Pakistan authorities show imports from Pakistan in January 2022 were only around one-third of 2021 levels. Goods exports, on the other hand, declined only moderately over the second half of 2021 (4.7 percent lower than during the same period in 2020). Positive impacts of improved security and depreciation were offset by the closure of aid-subsidized air corridors for agricultural exports to India and China.

The Afghani has depreciated against most major trading currencies since August, reflecting the decline in aid inflows and heightened uncertainty. The Afghani fell by 14 percent against the USD, 10 percent against the Euro, and 4 percent against the Pakistani Rupee between the end-July 2021 and mid-February 2022. The market value of the AFN is being buoyed by a tightening of the domestic money supply driven by shortages of AFN banknotes and recent injections of USD cash through humanitarian cash shipments.

The abrupt cessation of aid inflows and difficult economic conditions are driving a significant fiscal contraction, with public spending expected to decline by around

75 percent. All development and security aid has ceased (previously equal to around US$8.5 billion per year), leaving only relatively limited humanitarian flows. The interim administration collected US$ 0.5 billion between September-December 2021 – around half of revenue collections over the same period in 2019. In its quarterly budget (December 21-March 21), the interim administration plans spending equal to around only 50 percent of 2019 levels, with the budget including ambitious revenue projections and a significant unfinanced deficit (equal to around US$60 million).[1]

Recent indicators of monetary poverty are not available, but a recent household survey shows that living conditions have deteriorated and food insecurity has worsened since August 2021. 70 percent of households report insufficient incomes to meet basic food and non-food needs (compared to about 35 percent reported for May 2021). A substantial decline in labor earnings and destruction of employment in the public and private sectors are driving increased unemployment and increased informal and casual work. The economic crisis is also weakening safety nets, with disruptions to international financial flows leading to a reduction from 10 to five percent in the share of households receiving remittances. Extreme poverty had led to the widespread adoption of harmful coping mechanisms such as reducing food consumption, borrowing at high interest rates and the sale or consumption of assets. This will have long-term consequences given Afghanistan's very young population.

Outlook

Afghanistan's economic outlook is stark. Under any scenario, Afghanistan will face a smaller economy, significantly higher rates of poverty, and more limited economic opportunities for the 600,000 Afghans reaching working age every year. Human development outcomes are likely to deteriorate in the context of substantial disruptions to basic services and increased poverty. The Russian invasion of Ukraine, war, and associated sanctions may have significant exacerbating impacts via increased prices for imported food and fuel.

Recent moves by the international community will mitigate human impacts. The United Nations is mobilizing a largescale humanitarian response to reach more than 24 million Afghans at a total cost over CY2022 of US$4.4 billion. The international community is also working towards renewed development assistance for basic services, including health, education, food security, and community development, to be delivered through off-budget channels. In the context of financial sector dysfunctions, USD cash shipments managed by the United Nations are providing a vital source of funding for humanitarian activities and an important source of USD liquidity.

All parties acknowledge, however, that current provision of humanitarian and basic services assistance is unsustainably expensive and cannot substitute for a functioning economy and private sector (current humanitarian needs exceed previous levels of civilian aid assistance). Economic stabilization or medium-term recovery would require: i) restoration of core financial sector functions, including effective operation of the central bank; ii) sound economic management; iii) restoration of confidence; and iv) maintenance of adequate security conditions. Such progress would likely require coordinated action between the international community and the interim administration, including in relation to the utilization of frozen assets, provision of technical assistance support for economic management, and measures to restore international banking relationships. Meanwhile, the world bank continues to provide analytical support to inform international community on engagement priorities.

1/ The quarterly budget includes large cuts to security and development project allocations, while maintaining allocations for recurrent health and education expenditures at close to previous levels. It remains unclear whether the budget will be effectively implemented.

BANGLADESH

Table 1	2021
Population, million	166.3
GDP, current US$ billion	415.3
GDP per capita, current US$	2497.0
International poverty rate ($1.9)[a]	14.3
Lower middle-income poverty rate ($3.2)[a]	52.3
Upper middle-income poverty rate ($5.5)[a]	84.2
Gini index[a]	32.4
School enrollment, primary (% gross)[b]	119.6
Life expectancy at birth, years[b]	72.6
Total GHG Emissions (mtCO2e)	247.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

After decelerating to 3.4 percent in FY20, real GDP growth rebounded to 6.9 percent in FY21. While pandemic disruptions are waning, GDP growth is projected to decelerate moderately to 6.4 percent in FY22 with higher commodity prices. Poverty is expected to decline modestly. Downside risks include commodity price volatility, new waves of COVID-19, and worsening financial sector vulnerabilities. Addressing longstanding structural challenges could accelerate the post-COVID-19 recovery and support longer term development objectives.

Key conditions and challenges

GDP has grown rapidly over the past two decades, supported by a demographic dividend, sound macroeconomic policies, and an acceleration in readymade garment (RMG) exports. Job creation and remittance inflows contributed to a sharp decline in poverty. However, the pace of job creation and poverty reduction has slowed since 2013, even as GDP growth accelerated. Persistent structural weaknesses include low institutional capacity, highly concentrated exports, growing financial sector vulnerabilities, unbalanced urbanization, and a business climate that lags peer economies. Bangladesh is also highly vulnerable to the effects of climate change. After graduation from the UN's Least Developed Country status in 2026, Bangladesh will begin to lose preferential access to advanced economy markets.

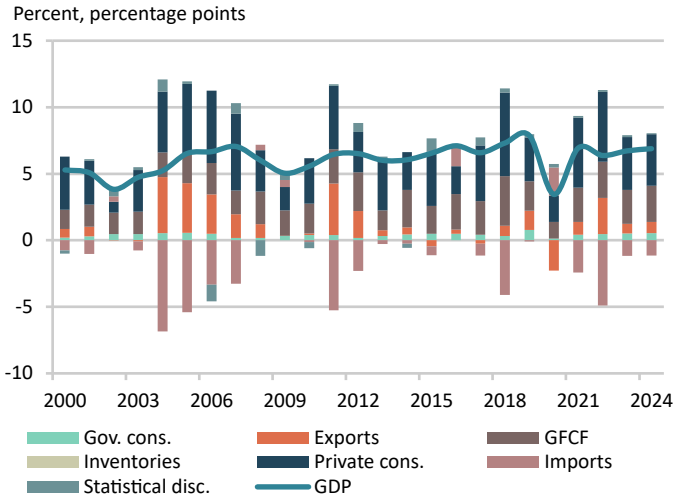
Bangladesh's economy performed well during the pandemic compared to peer countries. The lockdown negatively impacted the work status of approximately half the population. High frequency phone survey data collected in mid-2021 underscore the disproportionate impact of COVID-19 job losses on women. However, restrictions were progressively less stringent with each wave of COVID-19, including the omicron variant, and economic activity gradually recovered from an initial contraction. Bangladesh entered the pandemic with adequate buffers to mitigate the negative impacts of the pandemic, including relatively low debt. A stimulus program protected productive capacity in the manufacturing sector, while monetary policy was accommodative.

Downside risks to the outlook persist and external risks remain elevated. The war in the Ukraine may contribute to rising commodity prices (oil, natural gas, fertilizer, grains), which could increase the current account deficit. Fiscal expenditures on subsidies may rise, depending on the extent of price adjustments, which may also increase inflationary pressure. New waves of COVID-19 could necessitate additional movement restrictions, hampering domestic economic activity. Although not fully reflected in official data due to continued regulatory forbearance, the pandemic has deepened longstanding financial sector vulnerabilities, including high levels of non-performing loans (especially in state-owned banks) and weak capital buffers.

Recent developments

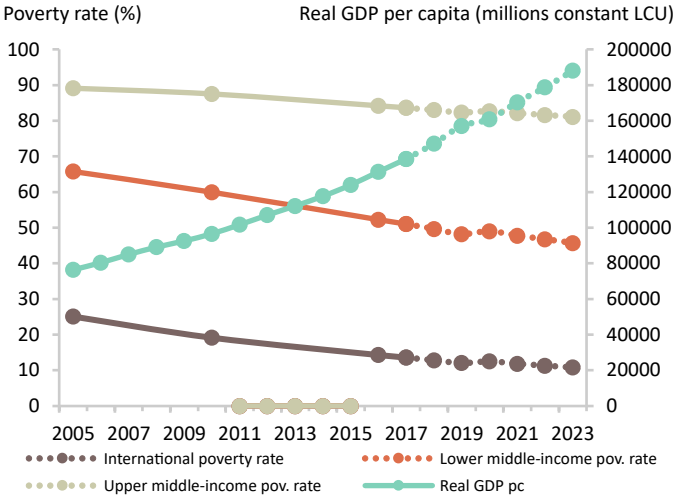
High frequency macroeconomic indicators point to a continued recovery in July-December 2021 (H1 FY22) as COVID-19 infections moderated and global economic growth accelerated. On the demand side, merchandise exports rose by 28.4 percent (y-o-y) in H1 FY22 as RMG exports rebounded strongly. Imports of consumer, capital, and intermediate goods rose by 52.4 percent over the same period, as the recovery accelerated. On the supply side, the industrial production index shows

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



Sources: Bangladesh Bureau of Statistics and World Bank staff estimates.

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



Sources: World Bank. Notes: see Table 2.

strong growth in manufacturing, while services growth was supported by a decline in COVID-19 movement restrictions. Modest agricultural growth was sustained, with no major flooding events.

Inflation rose to 6.1 percent in December 2021, driven by rising global commodity prices, and upward adjustments in administered prices of gas and diesel. Bangladesh Bank (BB) maintained its expansionary monetary policy stance since the beginning of the pandemic. Following a downward trend in FY21, private sector credit growth accelerated modestly to 11.1 percent (y-o-y) by January 2022 but remained below the 14.8 percent target set by the BB.

The current account deficit reached US$ 8.2 billion in H1 FY22, compared to a surplus of US$ 3.5 billion in the same period of FY21. The rising deficit was driven by a 55.4 percent increase in imports and a 20.9 percent decline in official remittance inflows, as the use of informal payment channels resumed with relaxation of international travel restrictions. The balance of payment deficit reached US$ 1.8 billion in H1 FY22, compared to a surplus of US$ 6.1 billion over the same period of FY21. The interbank exchange rate depreciated modestly to 86.0 BDT/US$ in January 2022. Foreign exchange reserves remained adequate at US$ 46.1 billion in December 2021, or 6.7 months of imports.

The estimated fiscal deficit moderated to 3.6 percent of GDP in FY21, as revenues outpaced expenditure growth. Tax revenues increased by 16.8 percent (y-o-y) in H1 FY22, primarily supported by trade-related taxes on rising imports. Estimated expenditure increased due to higher subsidy payments in the energy and agriculture sectors. Deficit financing from the banking sector increased, as the sale of National Savings Certificates (NSCs) declined due to stringent application of eligibility regulations and a reduction in NSC rates.

The COVID-19 pandemic has put the substantial poverty reduction gains of the past two decades at risk. After rising during the COVID-19 pandemic, estimated poverty declined to 11.9 percent in FY21, using the international poverty rate ($1.9 in 2011 PPP). A gradual reduction in poverty is projected to continue, reaching 11.3 percent in FY22.

Outlook

GDP growth is expected to decelerate modestly to 6.4 percent in FY22. While economic disruptions related to the COVID-19 pandemic are waning, a sharp increase in commodity prices and rising uncertainty in European export markets are expected to weigh on growth. Notwithstanding these challenges, GDP growth is expected to remain resilient in FY23, supported by a recovery in investment, and strong domestic demand. Inflation is projected to reach 6.2 percent in FY22, with a high degree of uncertainty in FY23 due to commodity price volatility. Official remittance inflows are expected to grow in FY23, as higher oil prices underpin demand for workers in the GCC. This, in turn, is likely to reduce the current account deficit.

The fiscal deficit is projected to remain within the government's 5.0 percent of GDP target. Gradual revenue growth will be supported by rising imports and modest policy reforms, expenditure growth will be led by infrastructure spending. To sustain GDP growth over the medium term, longstanding structural challenges must be addressed, including increasing domestic revenues, modernizing the tariff regime, resolving sector vulnerabilities, and improving the business climate.

TABLE 2 **Bangladesh** / 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	7.9	3.4	6.9	6.4	6.7	6.9
Private Consumption	4.9	3.0	8.0	7.9	5.9	5.8
Government Consumption	13.4	2.0	6.9	7.7	8.3	8.8
Gross Fixed Capital Investment	6.9	3.9	8.1	8.4	7.7	8.1
Exports, Goods and Services	11.5	-17.5	9.2	25.5	5.8	6.8
Imports, Goods and Services	0.5	-11.4	15.3	28.8	5.7	5.6
Real GDP growth, at constant factor prices	8.0	3.8	7.0	6.4	6.7	6.9
Agriculture	3.3	3.4	3.2	3.2	3.5	3.6
Industry	11.6	3.6	10.3	10.4	10.2	9.9
Services	6.9	3.9	5.7	4.3	4.9	5.3
Inflation (Consumer Price Index)	5.5	5.6	5.6	6.2	6.0	5.8
Current Account Balance (% of GDP)	-1.3	-1.5	-1.1	-4.0	-3.5	-3.2
Net Foreign Direct Investment (% of GDP)	0.7	0.3	0.3	0.4	0.5	0.6
Fiscal Balance (% of GDP)	-4.7	-4.8	-3.6	-4.1	-4.0	-3.5
Debt (% of GDP)	28.5	31.7	32.1	32.8	33.2	33.1
Primary Balance (% of GDP)	-3.0	-2.9	-1.5	-2.1	-1.9	-1.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	12.1	12.5	11.9	11.3	10.8	10.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	48.2	49.0	47.8	46.8	45.7	44.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	82.3	82.7	82.1	81.6	81.1	80.6
GHG emissions growth (mtCO2e)	5.8	2.5	3.1	3.8	4.1	4.2
Energy related GHG emissions (% of total)	40.6	41.4	42.3	43.7	45.1	46.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on SAR-POV harmonization, using 2010-HIES and 2016-HIES.Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2010-2016) with pass-through = 1 based on GDP per capita in constant LCU.

BHUTAN

Table 1	2021
Population, million	0.8
GDP, current US$ billion	2.4
GDP per capita, current US$	3069.5
International poverty rate ($1.9)[a]	1.5
Lower middle-income poverty rate ($3.2)[a]	12.2
Upper middle-income poverty rate ($5.5)[a]	38.9
Gini index[a]	37.4
School enrollment, primary (% gross)[b]	105.8
Life expectancy at birth, years[b]	71.8
Total GHG Emissions (mtCO2e)	-5.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

Output is estimated to have contracted by 3.7 percent in FY20/21, with broad based contractions in the non-hydro industrial and services sector, reflecting COVID-19-related disruptions. The fiscal deficit has increased to 6.3 percent in FY20/21 due to fiscal measures to support livelihoods and the recovery of the economy, amid subdued revenue performance. Poverty is expected to have increased with the economic contraction translating into lower household incomes.

Key conditions and challenges

Economic growth had been strong prior to the COVID-19 pandemic, fueled by the public sector-led hydropower sector and strong performance in the services sector, including tourism. Annual real GDP growth averaged 7.5 percent since the 1980s, and the poverty rate dropped from 36 percent to 12 percent from 2007 to 2017, based on the $3.20/day poverty line. While the hydro sector has provided a reliable source of growth, it did not create many jobs, which remain concentrated in agriculture and the public sector. Growth constraints related to the country's unique geographic and economic characteristics, including high trade costs and a small domestic market, have limited competitiveness of non-hydro sectors.

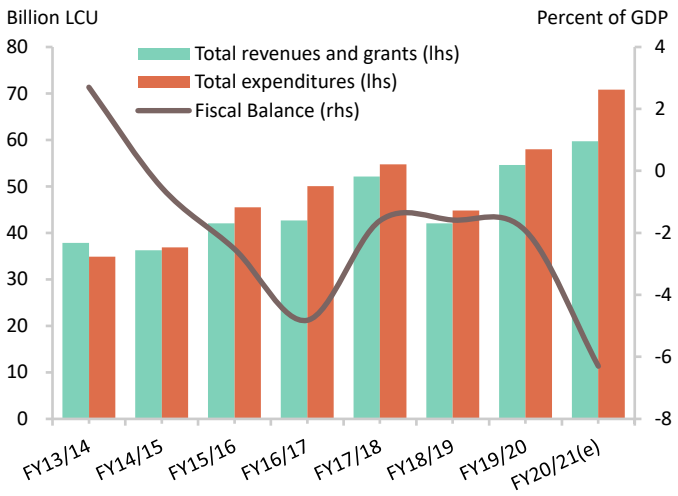
Bhutan has achieved mass vaccination (almost 90 percent of its adult total population has received a booster dose by early March 2022), and managed to contain the virus, despite a recent surge in cases due to the Omicron variant. However, the government's strict zero-COVID policy has significantly constrained livelihoods and economic activity in the non-hydro industrial and services sectors, as stringent social and mobility restrictions – including for inbound tourism and foreign workers – remained in place. This has had a direct impact on worker earnings and contributed to an increase in the estimated $3.20 poverty rate from 11.0 percent in 2019 to 12.6 percent in 2021.

The short term outlook is largely dependent on the speed of return to economic normalcy, and the efficacy of fiscal support, both through COVID-19 relief measures (which includes a partial interest waiver on loans and temporary income support to individuals directly affected by the pandemic) and the scale up of capital expenditures. Addressing vulnerabilities in the financial sector is crucial, as pressures on asset quality are likely to increase once the forbearance measures are phased out. Other risks include delays in hydro projects (the generation capacity is expected to double in the medium term with the completion of four projects), which would have significant impacts on growth, fiscal revenues, and exports. The economic impact from the war in Ukraine on Bhutan will likely be felt through higher energy and food prices, as direct trade with Russia and Ukraine is negligible.

Recent developments

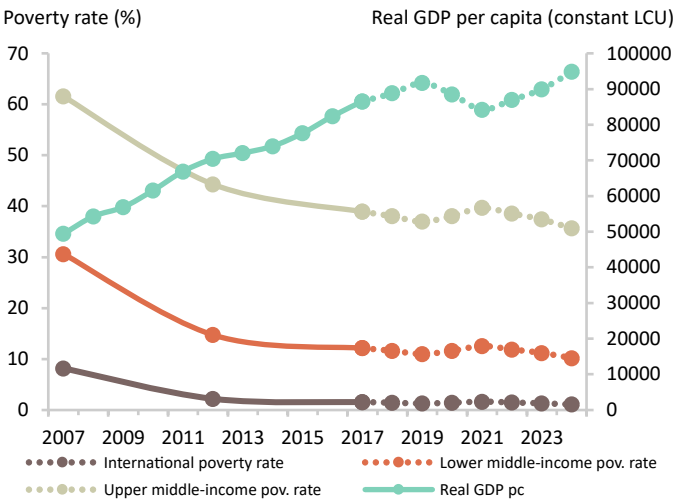
The economy has further contracted by 3.7 percent in FY20/21 (July 2020 to July 2021), after a negative growth of 2.4 percent in FY19/20. The industry sector contracted by 5.5 percent, despite positive growth in the hydro sector. Construction, manufacturing, and mining sectors were adversely affected by foreign labor shortages and high input prices. Services sector output fell by 2.2 percent, as the

FIGURE 1 Bhutan / Fiscal indicators



Source: Ministry of Finance and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

tourism industry remained largely inactive in FY20/21. On the demand side, private investment and consumption contracted sharply due to domestic COVID-19 containment measures and lower incomes.

Average inflation moderated from 8.2 percent in FY20/21 to 6.0 percent in the first half of FY21/22, driven by a slowdown in food inflation. However, non-food inflation remains high, reflecting higher fuel and transport prices, and food inflation has picked up in line with price developments in India.

The current account deficit (CAD) has further narrowed to 11.8 percent of GDP in FY20/21, driven by a smaller trade deficit than in FY19/20. Goods exports (as a share of GDP) increased, supported by an increase in hydro exports and trade facilitation measures for non-hydro goods, mainly mineral products and base metals. Goods imports also increased compared to FY19/20, but to a lesser extent, as private investment projects, including hydro construction, remained subdued. The services deficit deteriorated further, reflecting the standstill in tourism-related services in FY20/21. Gross international reserves stood at US$1.6 billion in November 2021, equivalent to 19.5 months of goods and services imports.

The fiscal deficit widened to 6.3 percent in FY20/21, reflecting fiscal support and subdued revenue performance. The increase in spending was driven by COVID-19 relief measures (6.6 percent of GDP), as well as an increase in capital expenditures. Revenues also increased, but to a lesser extent, driven by hydro profit transfers from the on-streaming of Mangdechhu (4.2 percent of GDP). Tax revenues declined in FY20/21, reflecting the slowdown in the non-hydro economy. Public debt increased to 134.9 percent of GDP in FY20/21 (up from 123 percent in FY19/20). However, risks to debt sustainability remain moderate as the bulk of the debt is linked to hydro project loans from India (to be paid off from future hydro revenues) with low refinancing and exchange rate risks.

Outlook

The economy is expected to grow by 4.4 percent in FY21/22, supported by Bhutan's rapid vaccination campaign, the easing of mobility restrictions, and ongoing fiscal support. On the demand side, public investment and a recovery in domestic and external demand (in particular from India) underpin growth. Output is expected to return to pre-pandemic levels in FY22/23 with a gradual recovery in tourism and a pick up in services sector growth. In the medium term, growth will be driven by the new hydro plants coming on stream and the resulting increase in exports, as well as a recovery in non-hydro industries and the services sector. Inflation is projected to remain elevated in the short and medium term, owing to continued supply disruptions and higher energy and commodity prices.

The CAD is expected to remain low relative to pre-COVID levels, and to moderate further in the medium term due to a sharp increase in electricity exports and a gradual decline in hydro-related imports after the completion of projects.

The fiscal deficit is expected to increase to 10.1 percent of GDP in FY21/22 due to the scale up in capital expenditures and subdued revenue performance, including a decline in hydro profit transfers, and would then decline to 7.4 percent of GDP in FY22/23 as pandemic-related fiscal measures are gradually phased out. Domestic revenues are expected to increase over the medium term, supported by hydro revenues and policies aimed at mobilizing non-hydro revenues, including the introduction of the Goods and Services Tax (GST) in FY22/23. Public debt is projected to remain elevated as a share of GDP in the short term due to high fiscal deficits.

The $3.20 poverty rate is expected to decline from 2021 onwards, although a full recovery to poverty headcount rates estimated before the pandemic is not likely to be achieved until 2023.

TABLE 2 **Bhutan** / 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	4.4	-2.4	-3.7	4.4	4.7	6.7
Private Consumption	10.3	-0.5	-3.5	4.0	2.5	2.0
Government Consumption	7.0	7.3	24.0	-5.6	-11.4	2.8
Gross Fixed Capital Investment	-11.2	-15.2	-18.6	19.1	3.0	2.1
Exports, Goods and Services	9.6	-4.1	-1.2	5.2	20.7	20.8
Imports, Goods and Services	0.0	-9.2	-2.1	8.9	3.8	6.7
Real GDP growth, at constant factor prices	4.6	-0.8	-2.6	4.4	4.7	6.7
Agriculture	2.7	2.9	5.7	3.5	3.5	3.5
Industry	-1.6	-5.6	-5.5	7.5	5.4	11.9
Services	11.1	2.6	-2.2	2.3	4.3	3.2
Inflation (Consumer Price Index)	2.8	3.0	8.2	7.3	5.5	3.9
Current Account Balance (% of GDP)	-20.5	-12.4	-11.8	-11.4	-9.5	-5.2
Fiscal Balance (% of GDP)	-1.6	-1.9	-6.3	-10.1	-7.4	-4.5
Debt (% of GDP)	106.5	123.0	134.9	134.6	131.4	128.1
Primary Balance (% of GDP)	-0.7	-1.5	-5.3	-8.3	-5.8	-2.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.3	1.4	1.6	1.5	1.3	1.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	11.0	11.6	12.6	11.9	11.2	10.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	37.0	38.1	39.7	38.6	37.4	35.7
GHG emissions growth (mtCO2e)	-0.2	1.6	1.5	-2.0	-1.8	-3.8
Energy related GHG emissions (% of total)	-15.6	-15.1	-14.4	-15.2	-16.0	-17.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
a/ Calculations based on SAR-POV harmonization, using 2007-BLSS, 2019-, and 2017-BLSS.Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.
b/ Projection using average elasticity (2007-2019) with pass-through = 1 based on GDP per capita in constant LCU.

INDIA

Table 1	2021
Population, million	1393.4
GDP, current US$ billion	3085.4
GDP per capita, current US$	2214.3
School enrollment, primary (% gross)[a]	99.9
Life expectancy at birth, years[a]	69.7
Total GHG Emissions (mtCO2e)	3254.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2019).

The rebound in FY22 was strong despite the two 'waves' of COVID-19, supported by increased vaccination coverage. The recovery, however, is not broad based with private consumption growth constrained by subdued income and employment. Investment strengthened due to the government's capex push and accommodative financing conditions. However, growth is expected to moderate in FY23 due to rising inflation, supply disruptions stemming from intensifying geo-political tensions, and moderating global growth outlook.

Key conditions and challenges

The growth recovery in FY22 was driven by a strong growth in investment and a rebound in private consumption. The economic impact of the surging COVID-19 infections in January-February 2022 (the 'third wave') was much less pronounced, in contrast to the deep contraction in FY21 due to the national lockdown. The recovery has been strong but not broad-based. Restrictions on activity and sectoral nature of the crisis have hampered the income prospects of low-income households, unskilled labor, and the informal sector. Growth was driven mainly by investment, underpinned by a targeted fiscal stimulus, as well as the exports of services. Latest data shows that the economy expanded by 5.4 percent in the third quarter (October-December) of FY22.

The focus of fiscal policy shifted from mitigating the socio-economic impact of COVID-19, towards increasing capital spending to facilitate the recovery by crowding-in private investment and bolstering revenue to facilitate gradual fiscal consolidation. Despite rising inflationary pressures, the RBI has indicated continuation of the accommodative monetary policy stance.

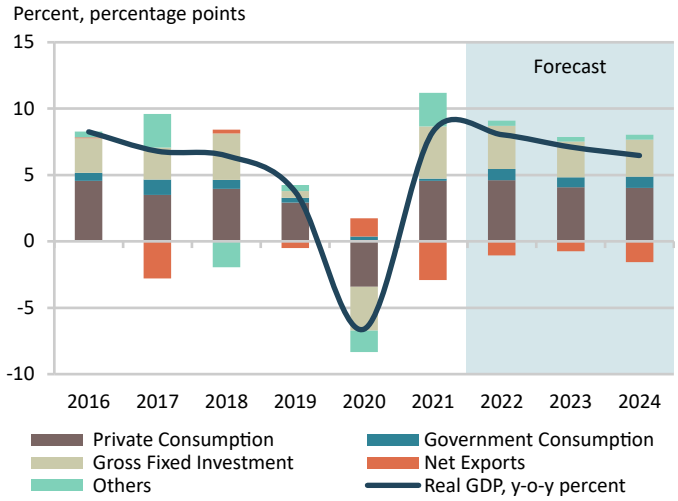
Major headwinds to growth in FY23 include persistently elevated inflation— exacerbated by rising oil and commodity prices and supply disruptions following the conflict in Eastern Europe— denting consumer spending further, localized stress in the financial sector following the withdrawal of regulatory forbearance, moderating global growth and the emergence of new 'variants' of COVID-19 necessitating stringent restrictions on activity vis-a-vis those witnessed in recent months.

Recent developments

The economy expanded by 8.3 percent in FY22 following a contraction of 6.6 percent in FY21. On the demand side, private consumption was supported by the release of pent-up demand post the 'second wave' and investment was spurred by increased government capital spending. Imports increased more than exports, leading to a negative contribution from trade in FY22. On the supply side, mining and manufacturing sectors benefited from the global rally in commodity prices and robust external demand. The services sector expanded but remained below the pre-pandemic level due to slower recovery in contact-intensive segments.

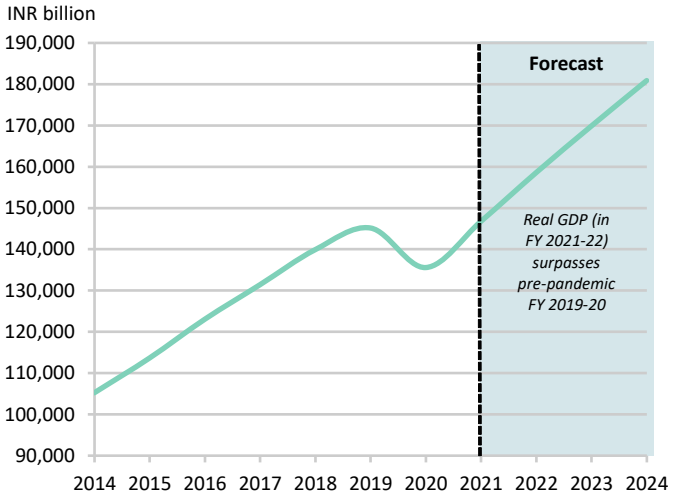
Headline inflation averaged above the midpoint of the tolerance range (2-6 percent) at 5.5 percent in FY22 due to cost-push pressures from higher commodity prices and supply disruptions. Although the RBI maintained an accommodative stance, it has undertaken steps towards gradual policy normalization by pausing the government securities acquisition program and rebalancing liquidity from the overnight to term money market. The financial sector remained resilient with

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



Sources: National Statistics Office (NSO) and World Bank staff calculations.
Note: 2014 refers to the fiscal year 2014-15 (FY15) and so on.

FIGURE 2 **India** / Real GDP



Sources: National Statistics Office (NSO) and World Bank staff calculations.
Note: 2014 refers to the fiscal year 2014-15 (FY15) and so on.

improvement in the performance and asset quality of banks, especially the public sector banks.

The current account balance was in modest deficit of 0.2 percent in Q1-Q2 FY22 as import growth outpaced export growth, despite the buoyant exports of computer and professional services. Further, robust foreign investment inflows and RBI intervention in the foreign exchange market, resulted in a record high accumulation of foreign exchange reserves of USD 622 billion by mid-March 2022 (15 months of FY21 imports).

The general government fiscal deficit, after peaking at 13.3 percent in FY21, declined to 10.9 percent in FY22 driven by stronger growth in revenue vis-à-vis expenditure. The capital expenditure of the union government grew by 27 percent y-o-y over Q1-Q3 FY22, while current spending increased at a relatively modest pace (8 percent). Consequently, public debt declined to 86.9 percent of GDP in FY22 from 88.6 percent in FY21.

After the 'second wave', India's labor market experienced a partial recovery starting July 2021. Unemployment rates declined to 7.4 percent (monthly average) over July 2021-Feb 2022, from 12 percent in May 2021, but it has been accompanied by workers transitioning into lower-paying and less-secure jobs. Labor force participation has declined from an average of 42.8 percent in 2019, to 40 percent through 2021.[1]

Outlook

Real GDP is expected to grow at 8.0 percent in FY23, facing headwinds from geopolitical tensions in Eastern Europe. The recovery in private consumption will be constrained by the incomplete recovery in the labor market, and inflationary pressures weighing on households' purchasing power. Increased government capital spending (especially in infrastructure and logistics), reduced vulnerabilities in the financial sector, government initiatives including the production linked incentive scheme and improvement of the investment climate will support investment. Despite this, surging commodity prices, renewed supply disruptions and heightened business uncertainty can delay a sustainable pickup in private investment.

Inflation is expected to rise on the back of elevated crude oil and commodity prices and extended global supply disruptions, with upside risks stemming from faster passthrough of elevated input costs to consumer prices. Intensifying inflationary pressures may lead to sooner-than-expected tightening of monetary policy in FY23.

The current account deficit will widen substantially as merchandise trade deficit increases on the back of rising commodity prices and a resumption of, albeit slow, domestic recovery and will be only partially offset by resilient services exports. Capital flows, especially foreign direct investment inflows, are expected to remain steady—given the reforms implemented to improve the business environment.

1/ Data from Consumer Pyramids Household Survey (2019-2022).

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

	2019/20	2020/21	2021/22	2022/23e	2023/24f	2024/25f
Real GDP growth, at constant market prices	3.7	-6.6	8.3	8.0	7.1	6.5
Private Consumption	5.2	-6.0	7.9	8.1	7.1	7.1
Government Consumption	3.4	3.6	1.5	8.1	7.0	7.9
Gross Fixed Capital Investment	1.6	-10.4	12.9	10.2	8.3	8.5
Exports, Goods and Services	-3.4	-9.2	21.7	6.2	10.8	8.2
Imports, Goods and Services	-0.8	-13.8	33.2	9.2	11.4	12.3
Real GDP growth, at constant factor prices	3.8	-4.8	7.6	8.0	6.8	6.5
Agriculture	5.5	3.3	3.1	4.0	3.8	3.6
Industry	-1.4	-3.3	9.8	6.7	6.8	6.7
Services	6.3	-7.8	7.7	9.9	7.7	7.1
Inflation (Consumer Price Index)	4.8	6.2	5.5	5.5	4.9	4.2
Current Account Balance (% of GDP)	-0.9	0.9	-1.2	-2.5	-2.0	-1.7
Net Foreign Direct Investment (% of GDP)	1.5	1.6	1.6	1.5	1.6	1.6
Fiscal Balance (% of GDP)	-7.2	-13.3	-10.9	-9.6	-8.5	-8.0
Debt (% of GDP)	73.7	88.6	86.9	86.5	85.8	85.0
Primary Balance (% of GDP)	-2.5	-7.8	-5.4	-3.8	-2.7	-2.1
GHG emissions growth (mtCO2e)	1.8	-10.5	6.7	5.2	4.0	3.3
Energy related GHG emissions (% of total)	70.9	67.8	69.0	70.2	71.1	71.8

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

MALDIVES

Table 1	2021
Population, million	0.5
GDP, current US$ billion	4.9
GDP per capita, current US$	8977.8
Upper middle-income poverty rate ($5.5)[a]	1.7
Gini index[a]	29.3
School enrollment, primary (% gross)[b]	98.0
Life expectancy at birth, years[b]	78.9
Total GHG Emissions (mtCO2e)	2.6

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

Following the recovery in 2021, Maldives is projected to grow at 7.6 percent in 2022, and fully recover to pre-pandemic output levels by 2023. This will be supported by a sustained recovery in tourism, assuming increasing arrivals from traditional markets, such as China and Western Europe, which will partially offset any fall in Russian and Ukrainian tourists. Despite a narrowing of the fiscal deficit, public debt will remain unsustainable.

Key conditions and challenges

Tourism is the main driver of economic growth, fiscal revenues, and foreign exchange earnings in Maldives. After the COVID-19 outbreak in March 2020, Maldives closed its borders for three months, which severely hit the sector. Only 555,494 tourists visited in 2020, a third of the 2019 level. Following a nationwide vaccination campaign that commenced in February 2021, over two-thirds of the population have now been fully vaccinated. This supported a stronger recovery in tourism in the second half of 2021, with total arrivals reaching 1.3 million by the end of the year. However, a high dependence on tourism and limited sectoral diversification remains a key structural challenge as the country is highly vulnerable to external and macroeconomic shocks. Disruptions stemming from the pandemic and shocks due to the Russia-Ukraine war highlight the risks associated with reliance on a single economic sector.

Additional long-standing structural weaknesses also remain. To promote faster growth, the government has rightly scaled up infrastructure investments since 2016. This has helped boost construction activity, productivity growth, and medium-term growth prospects. Investments in physical and social infrastructure have also led to a reduction in poverty, with only 1.7 percent of the population estimated to be living below the poverty line (5.5 PPP USD/person/day) in 2019. However, financing of these large investments through external non-concessional sources and sovereign guarantees has contributed to growing fiscal and debt vulnerabilities, which are unlikely to diminish given significant public investments are expected to continue due to government's commitment to completing these projects before the 2023 presidential elections.

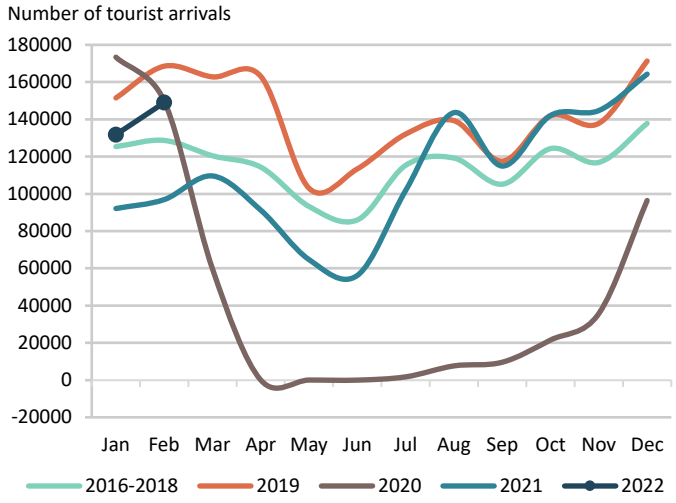
Recent developments

A recovery in tourism has led to a strong economic rebound since Q2 2021. Real GDP grew from a low base by over 70 percent (y-o-y) in Q2 and Q3 2021. Notably, Maldives received over 1.3 million tourists in 2021, which was about 80 percent of 2019 levels. Despite a new wave of COVID-19 infections due to the Omicron variant, the growth momentum has continued into 2022. Tourist arrivals were 43 and 54 percent above 2021 levels in January and February 2022, respectively.

Along with the economic recovery and higher global commodity prices, headline inflation rose slightly to 0.5 percent in 2021, from deflation of 1.4 percent in 2020. This was driven by increases in transport, food, housing, water, electricity, gas, and other fuel prices.

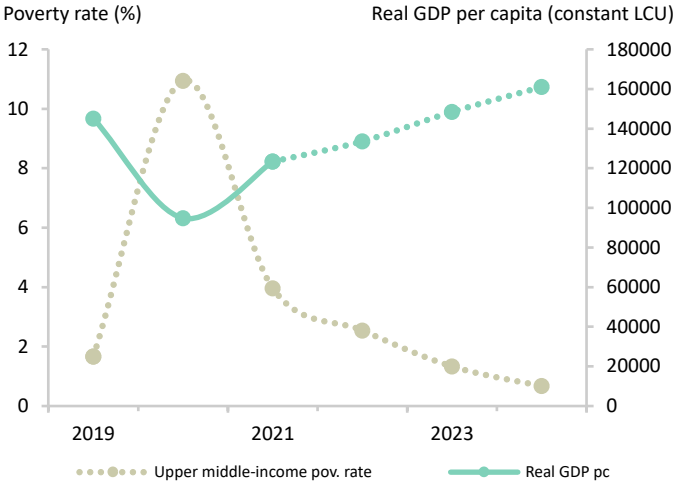
The current account deficit narrowed to an estimated US$1.1 billion (21.7 percent of GDP) in 2021 from US$1.3 billion (35.5 percent of GDP) in 2020, as exports surged by about 97 percent and exceeded the 59 percent growth in imports. The official gross reserves remained stable at above US$800 million (2.5 months of imports) for most of 2021.

FIGURE 1 **Maldives** / Visitor arrivals



Sources: Ministry of Tourism and World Bank staff calculations.

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



Sources: HIES 2019/20 and World Bank POVMOD projections.

Tourism-linked revenues rose alongside the recovery in tourism, with total revenues and grants amounting to US$631 million in Q2 and Q3 2021, which was only 15 percent below 2019 levels. Given that expenditures grew by 12 percent (y-o-y) in Q2 and Q3 2021, with capital expenditure only picking up in Q3 2021, the fiscal deficit is estimated to have narrowed to 17.7 percent of GDP in 2021. Combined with the fast recovery in GDP growth, this led to a fall in public debt from 146 percent of GDP in 2020 to a still unsustainable 129 percent in 2021.

After a sharp increase to 11 percent of the population in 2020, the poverty rate is estimated to have fallen to 4 percent in 2021 due to the economic recovery, and is expected to return to pre-pandemic levels by 2023.

Outlook

Due to a continued recovery in tourism and other sectors impacted by the pandemic, real GDP is expected to grow at 7.6 percent in 2022, and at 9.9 percent in 2023 supported by: (i) greater tourism capacity due to the completion of the Velana airport expansion and new resorts; (ii) a return of Chinese tourists following the reopening of their border; and (iii) continued capital expenditures and election-related spending.

Inflation is projected to rise to 3.5 percent in 2022, but moderate in the medium term as global energy prices normalize. Although service exports will increase as tourism recovers, the return to pre-pandemic levels of consumption and capital goods imports will lead to an expansion in the current account deficit to a projected 24 percent of GDP in 2023, before narrowing in 2024 due to a fall in capital goods imports as large investment projects are expected to be completed by then.

The fiscal deficit is projected to decline to 16 percent of GDP in 2022 and steadily narrow in the medium term as revenues improve due to tourism growth and new revenue mobilization measures (particularly the introduction of new departure taxes and an increased Airport Development Fee). Despite a narrowing of the fiscal deficit, public debt levels will remain high and unsustainable.

Downside risks persist. The baseline projection accounts for the estimated impacts of the Russia-Ukraine war on tourism and oil prices under the current trend, but further increases in global energy prices may cause an additional fiscal burden. Tourism could be adversely impacted by a persistent reduction in Russian and Ukrainian tourists and new waves of COVID-19 infections. However, there is some upside potential for increasing tourist arrivals from traditional markets such as China and Western Europe.

Despite improving fiscal prospects, prudent debt management remains critical to improving fiscal sustainability and lowering the cost of growth-enhancing investments, especially with large debt service obligations coming due in 2026.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	6.9	-33.5	31.0	7.6	10.2	7.1
Private Consumption	4.4	-27.2	29.0	8.5	7.2	6.5
Government Consumption	-4.3	5.4	6.5	7.1	7.8	11.2
Gross Fixed Capital Investment	-2.6	-36.6	14.1	0.0	14.8	-2.6
Exports, Goods and Services	6.7	-51.4	69.6	12.1	10.2	8.5
Imports, Goods and Services	-0.3	-41.1	50.0	10.2	9.3	6.0
Real GDP growth, at constant factor prices	6.9	-31.3	27.3	7.6	10.2	7.1
Agriculture	-7.6	7.0	3.8	2.6	2.4	2.1
Industry	1.9	-25.4	-1.6	9.9	8.1	7.0
Services	8.6	-34.3	34.1	7.7	10.9	7.4
Inflation (Consumer Price Index)	0.2	-1.4	0.5	3.5	1.3	1.2
Current Account Balance (% of GDP)	-26.6	-35.5	-21.7	-23.2	-23.9	-21.3
Net Foreign Direct Investment (% of GDP)	17.1	-11.8	9.0	12.5	13.9	12.8
Fiscal Balance (% of GDP)	-6.7	-23.5	-17.7	-16.0	-13.9	-12.8
Debt (% of GDP)	78.8	146.1	128.8	130.9	129.6	129.2
Primary Balance (% of GDP)	-4.9	-20.8	-14.0	-10.9	-9.2	-8.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	1.7	10.9	4.0	2.5	1.3	0.7
GHG emissions growth (mtCO2e)	3.3	3.1	3.1	3.0	3.1	2.8
Energy related GHG emissions (% of total)	81.5	81.5	81.5	81.5	81.6	81.6

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

NEPAL

Table 1	2021
Population, million	29.7
GDP, current US$ billion	35.1
GDP per capita, current US$	1182.0
International poverty rate ($1.9)[a]	15.0
Lower middle-income poverty rate ($3.2)[a]	50.9
Upper middle-income poverty rate ($5.5)[a]	83.0
Gini index[a]	32.8
School enrollment, primary (% gross)[b]	142.1
Life expectancy at birth, years[b]	70.8
Total GHG Emissions (mtCO2e)	54.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2010), 2011 PPPs.
b/ Most recent WDI value (2019).

After an initial recovery in FY21, growth momentum continued during H1FY22 with progress in vaccination and ongoing COVID-19 related fiscal and monetary support. Growth is expected to accelerate in FY22 to 3.7 percent, weathering new variant waves and rising fuel prices. Going forward, the economy is forecast to grow 4.1 and 5.8 percent in FY23 and FY24, respectively. Downside risks include new COVID-19 variants, the severity of the Russia-Ukraine conflict, and potentially stronger import compression measures to support international reserves.

Key conditions and challenges

Nepal has achieved an average growth rate of 4.9 percent between FY09 and FY19 and attained lower middle-income status in 2020. The country has reduced poverty, thanks in large part to remittances inflows which averaged 21.9 percent of GDP over the same period. Structural constraints to achieving inclusive and sustainable growth remain, including a significant share of population in low-quality low-productivity jobs, high vulnerability to natural disasters and climate change, large infrastructure gaps, and highly concentrated trade markets. Ensuring continued transition to a federalized system of governance and public finance and managing the rising debt levels, in recent years, through prudent fiscal management will be additional challenges that need to be managed.

Recent developments

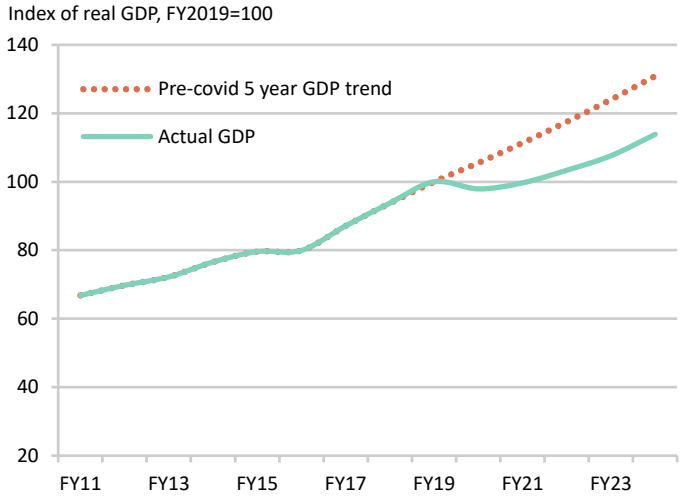
After growing 1.8 percent in FY21, the economy maintained recovery momentum in the first half of FY22 with increased international tourist arrivals and continued expansion of credit to the private sector. Significant progress on vaccination has allowed Nepal to weather a renewed COVID-19 wave in early 2022 with less stringent containment measures, supporting a rebound of activity in the services and industrial sectors. Growth in the agricultural sector has been muted following a reduction in paddy production amid unseasonal rains in October 2021.

Average inflation accelerated from 3.4 percent in FY21 to 5 percent in H1FY22, reflecting higher transportation prices associated with global fuel price hikes and an increased educational fees and housing prices. However, food price inflation slowed to 4.2 percent (year-on-year) in H1FY22 from 4.6 percent in FY21, reflecting a lower vegetable price increase.

The current account deficit widened in H1FY22 relative to H1FY21. Drivers include a surge in imports and a drop in official remittance inflows, which in absolute terms far outpaced an increase in exports. In the absence of significant FDI inflows, the current account deficit was financed by trade credits, external concessional borrowing, and reserve drawdown. Official gross foreign exchange reserves fell to USD 9.9 billion in mid-January 2022 (6.6 months of imports coverage) from USD 11.8 billion in mid-July 2021. In response, the central bank adopted measures to mitigate pressure on reserves, including limiting imports of luxury goods.

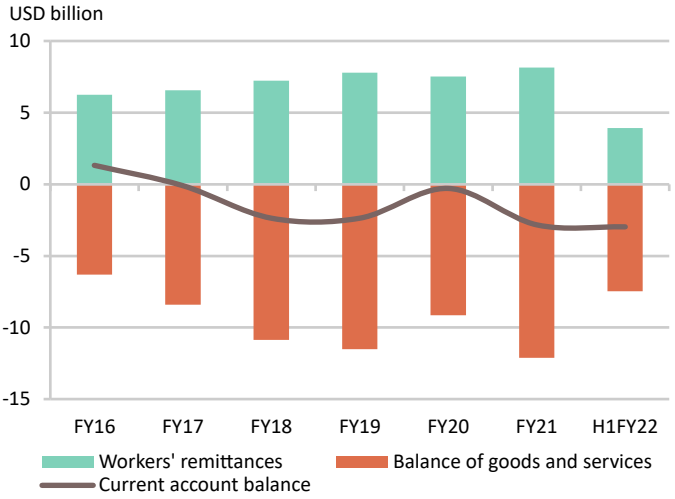
As observed in previous years, a federal fiscal surplus was recorded in H1FY22 as revenue outstripped expenditure growth, as the budget execution tends to accelerate in the last quarter of the fiscal year. Revenue expanded by 28 percent year-on-year in H1FY22 on the back of a strong recovery in trade-related taxes, income taxes, and non-tax revenues especially with strong increase in royalties,

FIGURE 1 **Nepal** / Real GDP levels: Actual vs. pre-covid trend



Sources: World Bank staff projections and Nepal Central Bureau of Statistics.

FIGURE 2 **Nepal** / The current account deficit has widened



Sources: World Bank staff calculations and Nepal Rastra Bank.

dividends, and passport and visa fee collections. Compared to H1FY21, total expenditure rose due to higher social security spending and intergovernmental fiscal transfers to sub-national governments, while capital expenditure remained close to H1FY21 levels. While public debt has risen from 22.7 percent to 41.8 percent of GDP from FY17 to FY21, the risk of debt distress is currently assessed as low as per the Joint Bank-Fund Debt Sustainability Analysis of December 2021.

New analysis based on the World Bank COVID-19 phone monitoring survey (conducted during the later half of 2020) shows that 45 percent of those who recovered from a job loss have switched sectors and taken jobs with lower earnings and skill requirements. This indicates that many households have been pushed to marginally above or below the poverty line. New data on jobs and recovery from January 2022 will help better understand the impacts of the COVID-19 on the labor markets and its welfare implications. Higher inflation will increase the cost of basic needs, which will adversely impact the poor and vulnerable, although this may be partially mitigated by rising remittances.

Outlook

The baseline scenario assumes: (i) that no new nationwide strict containment measures are imposed; (ii) a near complete vaccination of the eligible population by the end of FY22 (81.7 percent of the population aged 18 and higher have received full doses of vaccine by March 25, 2022); and (iii) a gradual increase in international migration and tourist arrivals, reaching pre-pandemic levels by FY24.

The baseline forecast projects a gradual medium-term recovery, with growth accelerating from 3.7 percent in FY22 to 5.8 percent by FY24. Vaccination deployment is expected to unleash pent-up demand for most service sub-sectors. Industry sector growth is projected to be supported by increased production of hydropower including from the recently completed Upper Tamakoshi plant. Agricultural growth is projected to decelerate in FY22, reflecting a decline in paddy production and the rise of global fertilizer prices earlier in the fiscal year. Increasing fuel prices are expected to weigh on aggregate demand.

Inflation is expected to rise to 6 percent during FY22 reflecting higher global commodity prices. From FY22 to FY24, annual inflation is expected to average 5.6 percent.

The current account deficit is projected to widen to 11.9 percent of GDP in FY22 and begin to narrow after. Imports are expected to peak at 43.1 percent of GDP in FY22, driven by resurgent consumption and increased commodity prices. Merchandise exports are projected to grow from a low base as Nepal continues to take advantage of tariff exemptions under the South Asian Free Trade Area agreement and expands electricity exports to India. Remittances are projected to average 21.8 percent of GDP over the medium term, assuming stronger demand for migrant workers in the GCC countries due to stronger economic performance driven by higher oil prices. Larger current account deficits are expected to be financed primarily by concessional borrowing and moderate drawdown on reserves, while FDI is assumed to remain marginal as a funding source.

The fiscal deficit is projected to narrow to 3.7 percent of GDP in FY22 as growth rebounds continue to support revenue collection. Over the medium-term, the fiscal deficit is projected to further narrow gradually, supported by expected rollback of COVID-19 related tax breaks and modest policy reforms. Total public debt is projected to peak at 44.5 percent of GDP in FY24.

The economic outlook is subject to downside risks. A major uncertainty is the speed of booster dose deployment and vaccine effectiveness to stop transmission of a new COVID-19 variant. The outcomes of local elections in May 2022 and federal and provincial elections in FY23 will pose additional political uncertainty. Risks on the external side stem from increasing pressure on reserves driven by the increasing imports.

Stronger import control measures to mitigate pressures on international reserves could affect growth through lower trade-related tax revenues, depressed private consumption and production, and lower capital expenditures. The ongoing Russia-Ukraine conflict, if it deepens further, could lower travel demand and may threaten the recovery of tourism and tourism related sectors.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	6.7	-2.1	1.8	3.7	4.1	5.8
Private Consumption	8.1	3.6	2.4	2.1	1.9	2.5
Government Consumption	9.8	3.8	-5.0	23.6	0.8	-4.1
Gross Fixed Capital Investment	11.3	-12.4	1.2	7.6	5.5	9.6
Exports, Goods and Services	5.5	-15.9	-19.8	30.7	12.5	15.1
Imports, Goods and Services	5.8	-15.2	16.9	10.2	2.3	3.1
Real GDP growth, at constant factor prices	6.4	-2.1	1.8	3.7	4.1	5.8
Agriculture	5.2	2.2	2.7	1.3	1.8	2.3
Industry	7.4	-3.7	0.9	5.1	5.3	6.9
Services	6.8	-4.0	1.6	4.7	5.0	7.4
Inflation (Consumer Price Index)	4.6	6.1	3.4	6.0	5.7	5.2
Current Account Balance (% of GDP)	-6.9	-0.9	-8.1	-11.9	-9.5	-6.8
Fiscal Balance (% of GDP)	-5.0	-5.3	-4.6	-3.7	-3.5	-3.4
Debt (% of GDP)	27.2	36.3	41.8	43.1	44.2	44.5
Primary Balance (% of GDP)	-4.5	-4.7	-3.7	-2.8	-2.5	-2.3
GHG emissions growth (mtCO2e)	1.3	-2.3	0.8	1.0	1.3	2.3
Energy related GHG emissions (% of total)	42.7	40.5	39.5	39.1	38.9	39.1

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

PAKISTAN

Table 1	2021
Population, million	225.2
GDP, current US$ billion	345.5
GDP per capita, current US$	1534.3
International poverty rate ($1.9)[a]	3.6
Lower middle-income poverty rate ($3.2)[a]	34.4
Upper middle-income poverty rate ($5.5)[a]	77.6
Gini index[a]	29.6
School enrollment, primary (% gross)[b]	95.5
Life expectancy at birth, years[b]	67.3
Total GHG Emissions (mtCO2e)	469.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ Most recent WDI value (2019).

After a definitive economic recovery in FY21, Pakistan's GDP growth is expected to slow in FY22 and FY23 due to macroeconomic challenges emanating on both domestic and external fronts. Symptomatic of the long-standing structural issues associated with low potential growth, the record-high trade deficit and double-digit inflation, require urgent macroeconomic adjustment measures. The ongoing pandemic, a protracted surge in global commodity prices, and faster-than-expected tightening of global financing conditions pose substantial risks to the outlook.

Key conditions and challenges

Since imposing a widespread lockdown in response to the first COVID-19 wave, Pakistan has been effectively using localized lockdowns to curb the infection spread, allowing economic activity to largely continue. Expansion of the national cash transfer program, a mass vaccination campaign, accommodative macroeconomic policies, and supportive measures for the financial sector, all helped mitigate the adverse effects of the pandemic. As a result, growth of real GDP at constant factor 2015-16 prices rebounded to 5.6 percent in FY21, after contracting by 1.0 percent in FY20.

Nevertheless, long-standing structural weaknesses of the economy and low productivity growth pose risks to a sustained recovery. Strong aggregate demand pressures, in part due to previously accommodative fiscal and monetary policies, paired with the continued less conducive external environment for exports have contributed to a record-high trade deficit (Figure 1), weighing on the Rupee and the country's limited external buffers.

Macroeconomic risks are strongly tilted to the downside. They include faster-than-expected tightening of global financing conditions, further increases in world energy prices, and the possible risk of a return of stringent COVID-19 related mobility restrictions. Domestically, political tensions and policy slippages can also lead to protracted macroeconomic imbalances.

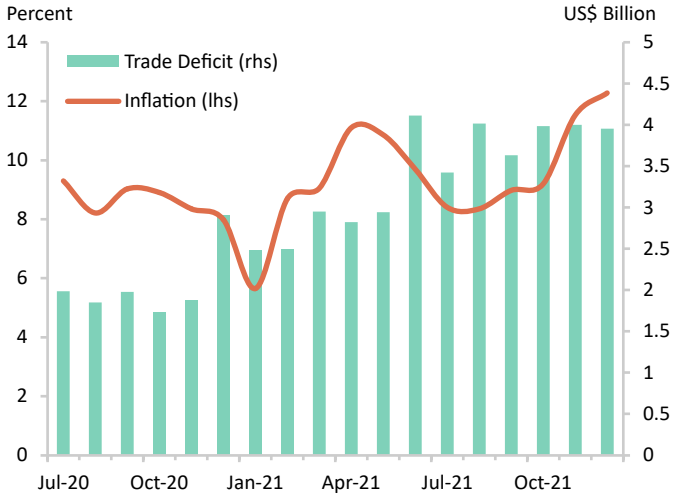
Recent developments

Indicators have mostly signaled positive economic momentum over July-December 2021 (H1 FY22). With continued improvement in community mobility and still robust official remittance inflows, private consumption is estimated to have strengthened. Similarly, investment is also expected to have increased with strong growth of machinery imports and government development expenditure. Government consumption also grew strongly with vaccine procurement. On the production side, agricultural output, mainly rice and sugarcane increased, reflecting better weather conditions. Similarly, large-scale manufacturing growth rose to 7.5 percent y-o-y in H1 FY22, higher than the 1.5 percent for H1 FY21. In contrast, business and consumer confidence have fallen since June 2021, partly due to concerns about higher inflation and interest rates.

Headline inflation rose to an average of 9.8 percent y-o-y in H1 FY22 from 8.6 percent in H1 FY21, driven by surging global commodity prices and a weaker exchange rate. Similarly, core inflation has been increasing since September 2021. Accordingly, the State Bank of Pakistan has been unwinding its expansionary monetary stance since September 2021, raising the policy rate by a cumulative 275 basis points (bps) and banks' cash reserve requirement by 100 bps.

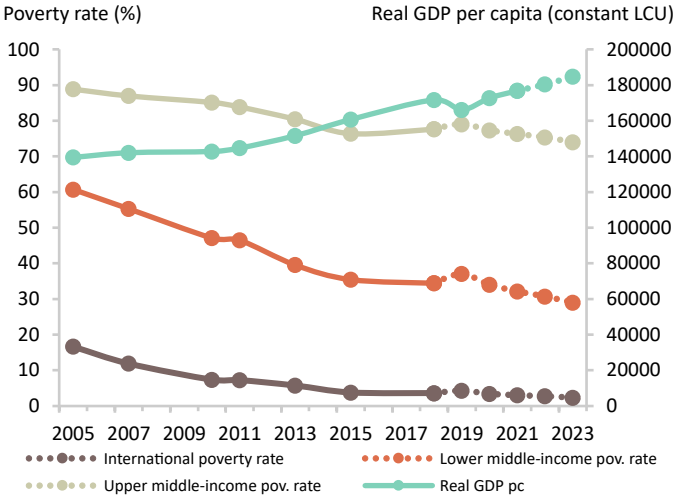
The current account deficit (CAD) in H1 FY22 widened to US$9.0 billion, from a surplus of US$1.2 billion in H1 FY21, as

FIGURE 1 Pakistan / Headline inflation and overall trade deficit



Sources: Pakistan Bureau of Statistics and State Bank of Pakistan.

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



Source: World Bank. Notes: see Table 2.

imports values surged by 54.4 percent, doubling the 27.3 percent growth in exports values. Double-digit growth in remittances in H1 FY22 helped to finance the record-high trade deficit. The financial account recorded net inflows of US$10.1 billion, supported by the new IMF SDR allocation, short-term Government deposits from Saudi Arabia, and a Eurobond issuance in July 2021. In January-February, the Government obtained US$2.1 billion from International Sukuks and the IMF Extended Fund Facility (EFF). Despite these inflows, foreign exchange reserves had fallen to US$13.5 billion by March 25, 2022, equivalent to 2.0 months of imports of goods and services. Meanwhile, the Rupee depreciated by 14.3 percent against the U.S. dollar from July 2021 to end-March 2022.

Despite the high tax revenue growth with the surge in imports, the fiscal deficit widened by 20.6 percent in H1 FY22 due to higher spending on vaccine procurement, settlement of power sector arrears, and development projects. Public debt, including guaranteed debt, reached 70.7 percent of GDP at end-December 2021, compared to 72.0 percent at end-December 2020. To complement the tighter monetary policy, the Government approved a Supplementary Finance Bill in January 2022, withdrew tax exemptions, and cut back on federal development spending, while protecting social sector spending.

With the economic recovery and improved labor market conditions, poverty measured at the lower middle-income class poverty line of $3.20 PPP 2011 per day is estimated to have declined from 37.0 percent in FY20 to 34.0 percent in FY21 (Figure 2). Rising food and energy inflation is expected to diminish the real purchasing power of households, disproportionally affecting poor and vulnerable households that spend a larger share of their budget on these items. In response, the Government introduced a targeted food subsidies program (Ehsaas Rashan Riyat) in February 2022.

Outlook

On the back of high base effects, recent macroeconomic adjustment measures and stronger inflation, real GDP growth is expected to slow to 4.3 percent in FY22 and to 4.0 percent in FY23. However thereafter, economic growth is projected to recover to 4.2 percent in FY24, supported by the implementation of structural reforms to support macroeconomic stability and dissipating global inflationary pressures. Inflation is estimated to rise to 10.7 percent in FY22 but moderate over the forecast horizon. Largely reflecting the imports surge in H1 FY22, the CAD is expected to widen to 4.4 percent of GDP in FY22. Macroeconomic adjustment measures and the weaker currency are expected to tame imports mostly in FY23. The CAD is expected to narrow to 3.0 percent of GDP in FY24, as reforms to reduce import tariffs and the anti-export bias of trade policy gain traction. The fiscal deficit (including grants) is projected to widen slightly to 6.2 percent of GDP in FY22, and gradually narrow over the medium term as revenue mobilization measures, particularly GST harmonization and personal income tax reform, take hold. Public debt as a share of GDP is projected to stay high, but to gradually decline over the medium term. The outlook is predicated on the IMF-EFF program remaining on-track.

TABLE 2 Pakistan / 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[a,b]	2.5	-1.3	6.0	4.3	4.0	4.2
Private Consumption	5.6	-3.1	6.3	5.5	3.0	3.9
Government Consumption	-1.6	8.4	3.1	6.9	6.0	3.8
Gross Fixed Capital Investment	-11.1	-5.5	6.8	4.4	2.5	4.4
Exports, Goods and Services	13.2	1.5	4.8	7.1	1.8	2.8
Imports, Goods and Services	7.6	-5.1	5.5	12.1	-0.7	2.1
Real GDP growth, at constant factor prices[a]	3.1	-1.0	5.6	4.3	4.0	4.2
Agriculture	0.9	3.9	3.5	3.6	3.2	3.3
Industry	0.2	-5.8	7.8	4.0	3.3	3.8
Services	5.0	-1.3	5.7	4.7	4.5	4.7
Inflation (Consumer Price Index)	6.8	10.7	8.9	10.7	9.0	7.5
Current Account Balance (% of GDP)	-4.2	-1.5	-0.6	-4.4	-3.1	-3.0
Net Foreign Direct Investment (% of GDP)	0.4	0.9	0.5	0.6	0.8	0.9
Fiscal Balance (% of GDP)	-7.8	-7.0	-6.1	-6.2	-6.0	-5.2
Debt (% of GDP)	78.0	81.1	76.0	76.0	74.4	72.5
Primary Balance (% of GDP)	-3.0	-1.5	-1.1	-1.4	-1.0	-0.3
International poverty rate ($1.9 in 2011 PPP)[c,d]	3.6	4.3	3.4	3.0	2.7	2.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	34.4	37.0	34.0	32.1	30.7	29.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	77.6	79.0	77.3	76.3	75.3	74.0
GHG emissions growth (mtCO2e)	2.8	0.4	3.8	3.0	3.3	3.4
Energy related GHG emissions (% of total)	45.2	44.6	45.5	45.7	46.0	46.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD. Macroeconomic outlook as of February 2022.
a/ Using re-based national accounts data at 2015-16 prices.
b/ 2020/2021 expenditure accounts are World Bank estimates that conform to the production accounts of the new base year.
c/ Calculations based on SAR-POV harmonization, using 2018-HIES.Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
d/ Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

SRI LANKA

Table 1	2021
Population, million	22.0
GDP, current US$ billion	82.5
GDP per capita, current US$	3750.2
International poverty rate ($1.9)[a]	0.9
Lower middle-income poverty rate ($3.2)[a]	11.0
Upper middle-income poverty rate ($5.5)[a]	42.0
Gini index[a]	39.3
School enrollment, primary (% gross)[b]	100.2
Life expectancy at birth, years[b]	77.0
Total GHG Emissions (mtCO2e)	36.7

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

Sri Lanka faces unsustainable debt and significant balance of payments challenges. The economic outlook is highly uncertain due to the fiscal and external imbalances. Urgent policy measures are needed to address the high levels of debt and debt service, reduce the fiscal deficit, restore external stability, and mitigate the adverse impacts on the poor and vulnerable. The forecasts have been finalized on March 17, 2022.

Key conditions and challenges

Due to the COVID-19 pandemic, the economy contracted by 3.6 percent in 2020, raising the $3.20 poverty rate to an estimated 11.7 percent. In 2021, an expeditious vaccination campaign contributed to economic recovery. However, fiscal deficits sharply widened and public debt significantly increased due the pandemic and pre-pandemic tax cuts. Foreign exchange earnings declined, while large international sovereign bond repayments came due. Heightened fiscal and external risks led to a series of sovereign credit rating downgrades, preventing market-based refinancing. Official reserves declined to critically low levels and a foreign exchange shortage has affected the supply of some essentials. Inadequate fuel supply for thermal generation resulted in scheduled power cuts.

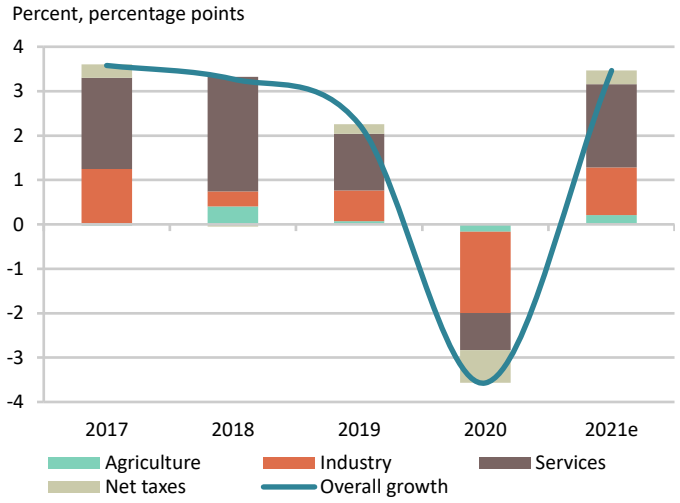
Sri Lanka's macroeconomic challenges are linked to years of high fiscal deficits, driven primarily by low revenue collection, and erosion of export competitiveness due to a restrictive trade regime and weak investment climate. Growth slowed to an average 3.1 percent between 2017 and 2019 from the 6.2 percent between 2010 and 2016, as a peace dividend and a policy thrust toward reconstruction faded away and macroeconomic shocks adversely impacted growth. Structural adjustments are needed to restore debt sustainability, significantly increase revenue collection, and to improve the investment climate, restore competition, and support reforms to improve productivity in agriculture. Public investments and future borrowings should prioritize key sectors and address immediate needs and induce sustainable and resilient growth through economic transformation.

Recent developments

Real GDP is estimated to have expanded by 3.5 percent in 2021 thanks to a strong 12.3 percent, year-on-year, rebound from a low base in the second quarter of the year. Significant contributions came from manufacturing, financial services, construction, transport, and real estate activity. Despite still low tourism receipts, exports expanded significantly, led by the textile industry. Higher imports of intermediate and capital goods increased imports. The $3.20 poverty rate is estimated to have slightly declined to 10.9 percent in 2021, still above pre-pandemic levels.

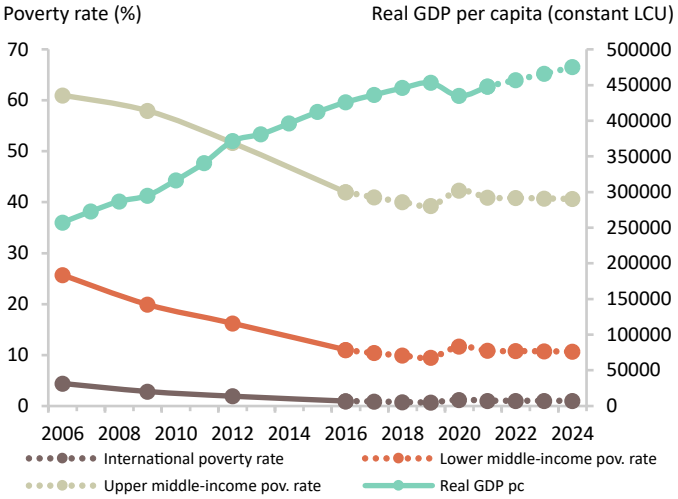
Year-on-year inflation accelerated to 17.5 percent in February 2022, mostly due to high food inflation at 24.7 percent, amid rising global commodity prices, adjustments to fuel prices, and partial monetization of the fiscal deficit. Moreover, an agrochemical imports ban between May and November reduced agricultural production. The increase in prices affected the ability of households to cover living expenses, leading to a deterioration of welfare and more food insecurity. Since August 2021, the central bank has increased policy rates and the statutory

FIGURE 1 Sri Lanka / Real GDP growth and contributions to real GDP growth (production side)



Sources: Department of Census and Statistics, World Bank staff calculations.

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



Sources: World Bank. Notes: see Table 2.

reserve ratio by 200 basis points to mitigate the pressures.

The trade deficit widened to USD 8.1 billion in 2021 from USD 6 billion in 2020 as a rising import bill offset the increase in export earnings, despite import restrictions on non-essential goods. Declines in remittances (22.7 percent) and tourism receipts (61.7 percent) are estimated to have further widened the current account deficit to USD 3.2 billion (or 3.8 percent of GDP) in 2021.

The government has mobilized external financing from bilateral partners, including a financial assistance package from India worth US$ 1.4 billion in January 2022 to pay for essential imports and boost foreign exchange liquidity. A further US$ 1 billion support from India was signed on March 17, 2022. However, official reserves at US$ 2.3 billion in February 2022 (equivalent to 1.3 months of imports) remain low relative to foreign currency debt service, estimated at USD 5.6 billion from April to December 2022 (including domestic instruments issued in foreign currency). Net foreign assets of the banking system declined to US$ -4.9 billion in December 2021, showing escalating foreign exchange liquidity shortages. After keeping the exchange rate broadly fixed around 201 LKR/US$ for seven months, the CBSL floated the currency on March 07 to stem reserve losses. By March 15, the currency had depreciated by 31 percent.

The fiscal deficit is estimated to have remained at 11.1 percent of GDP in 2021, and public and publicly guaranteed debt to have increased to 117 percent of GDP. The fiscal deficit was mostly financed by domestic resources, including the central bank. Fitch, S&P, and Moody's downgraded the sovereign rating deeper into the substantial risk investment category.

Outlook

The heightened fiscal and external risks as well as challenging political situation pose significant uncertainty to the economic outlook and Sri Lanka faces an external financing gap in 2022 and beyond. The real GDP growth outlook is subject to the continuing fiscal and external imbalances. Despite expected further tightening of monetary policy, inflation will likely stay elevated, due the recent currency depreciation and high commodity prices, partly related to the Russia-Ukraine War and associated sanctions. The fiscal deficit is projected to stay high amid low revenue generation and rigid expenditures. The current account deficit is expected to increase due to the high global commodity prices, partially offset by gradually increasing remittances due to the float of the currency. Poverty at $3.20 per day is projected to remain broadly unchanged from 2021. A shortfall of external financing, larger than expected impacts of the Russia-Ukraine War and associated sanctions on commodity prices and tourism, as well as the possible emergence of new COVID variants pose downside risks. On the upside, an opening of China could provide a boost to tourism.

Sri Lanka needs to address the structural sources of its vulnerabilities. This would require reducing fiscal deficits especially through strengthening domestic revenue mobilization. Fiscal consolidation needs to be accompanied by tighter monetary policy to contain pressures on inflation. Sri Lanka also needs to find feasible options to restore debt sustainability. The financial sector needs to be carefully monitored amid high exposure to the public sector and the impact of the recent currency depreciation on banks' balance sheets. The necessary adjustments may adversely affect growth and impact poverty initially but will correct the significant imbalances, subsequently providing the foundation for stronger and sustainable growth and access to international financial markets. Mitigating the impacts on the poor and vulnerable would remain critical.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.3	-3.6	3.5	2.4	2.3	2.3
Private Consumption	3.0	-3.0	3.6	2.3	2.2	2.4
Government Consumption	13.0	4.4	4.4	0.8	-1.3	-0.5
Gross Fixed Capital Investment	1.0	-9.5	5.8	2.3	1.0	1.5
Exports, Goods and Services	7.2	-9.6	18.2	8.9	5.8	2.8
Imports, Goods and Services	-5.8	-11.4	15.7	5.9	2.2	1.3
Real GDP growth, at constant factor prices	2.2	-3.1	3.5	2.4	2.3	2.3
Agriculture	1.0	-2.4	3.0	1.0	1.5	1.5
Industry	2.6	-6.9	4.2	2.3	2.3	2.2
Services	2.2	-1.5	3.2	2.6	2.4	2.5
Inflation (Consumer Price Index)	4.3	4.6	6.0	15.2	8.3	6.1
Current Account Balance (% of GDP)	-2.2	-1.3	-3.8	-4.3	-3.4	-2.9
Net Foreign Direct Investment (% of GDP)	0.7	0.6	0.8	1.1	1.3	1.3
Fiscal Balance (% of GDP)	-9.6	-11.1	-11.1	-9.1	-9.6	-9.7
Debt (% of GDP)	94.3	109.7	117.0	122.7	124.3	125.4
Primary Balance (% of GDP)	-3.6	-4.6	-4.6	-2.0	-2.0	-1.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.7	1.2	1.0	1.0	1.0	1.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	9.5	11.7	10.9	10.8	10.8	10.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	39.3	42.3	40.9	40.8	40.7	40.6
GHG emissions growth (mtCO2e)	-0.1	-4.0	3.1	2.7	2.4	2.4
Energy related GHG emissions (% of total)	63.8	64.4	65.7	67.0	67.9	68.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on SAR-POV harmonization, using 2016-HIES.Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.
b/ Estimates for 2017-2019 and 2021 use a neutral distribution (2016) and assume a medium pass-through (0.87) based on GDP per capita in constant LCU. Estimate for 2020 based on microsimulation of COVID19 impacts. Estimates for 2022-2024 assume a very low pass-through (0.10) based also on GDP per capita.

Sub-Saharan Africa

Spring Meetings 2022

Angola
Benin
Botswana
Burkina Faso
Burundi
Cabo Verde
Cameroon
Central African Republic
Chad
Comoros
Congo, Dem. Republic
Congo, Republic
Côte d'Ivoire
Equatorial Guinea
Eritrea
Eswatini
Ethiopia
Gabon
The Gambia
Ghana
Guinea
Guinea-Bissau
Kenya
Lesotho
Liberia
Madagascar
Malawi
Mali
Mauritania
Mauritius
Mozambique
Namibia
Niger
Nigeria
Rwanda
São Tomé and Príncipe
Senegal
Seychelles
Sierra Leone
Somalia
South Africa
South Sudan
Tanzania
Togo
Uganda
Zambia
Zimbabwe

ANGOLA

Table 1	2021
Population, million	33.9
GDP, current US$ billion	81.8
GDP per capita, current US$	2410.8
International poverty rate ($1.9)[a]	49.9
Lower middle-income poverty rate ($3.2)[a]	71.5
Upper middle-income poverty rate ($5.5)[a]	88.5
Gini index[a]	51.3
School enrollment, primary (% gross)[b]	113.5
Life expectancy at birth, years[b]	61.1
Total GHG Emissions (mtCO2e)	112.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2015); Life expectancy (2019).

Angola recorded marginally positive GDP growth in 2021 following five consecutive years of economic contraction. With oil prices expected to remain high, the outlook for 2022 is favorable. However, despite improvements in macroeconomic policies in recent years, a legacy of underinvestment in physical and human capital poses considerable challenges to poverty reduction and economic diversification, leaving Angola highly exposed to risks from volatile oil prices, the pandemic, and climate change.

Key conditions and challenges

Angola remains excessively dependent on the oil sector. Although oil production declined by 39 percent since its peak in 2015, oil still accounts for 94 percent of exports as of 2021. This lack of diversification reflects the legacy of macroeconomic instability, underinvestment in infrastructure and human capital, and a challenging business environment. The decline in oil prices and production without growth elsewhere in the economy translated into a cumulative GDP contraction of 9.2 percent from 2015 to 2020, loss of formal jobs, and an increase in poverty, which has been exacerbated in recent years by high food inflation.

Underinvestment in the social sectors has resulted in low levels of schooling and poor health outcomes, such that Angola is among the countries with the lowest Human Capital Index (0.36 in 2020). Angola is also highly exposed to climate risks, with parts of the country continuously suffering from severe drought, floods, and soil degradation since around 2012.

Angola's economy suffered from COVID-19 indirectly through falling oil prices, but overall, the country has been relatively resilient against the pandemic. As of February 14, 2022, Angola had 55.9 COVID-19 deaths per million people (compared to 745.9 globally) and 10.9 million people (69.3 percent of the target population) had received at least one dose of a COVID-19 vaccine.

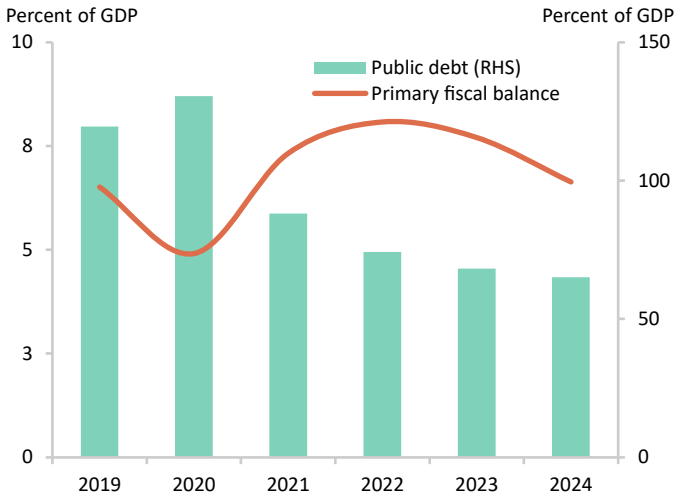
Main challenges include a steeper and renewed decline in oil production, limited economic diversification, difficulty in attracting foreign direct investment in non-oil sectors, as well as Angola's vulnerability to climate change. Moreover, food inflation, already at high levels, will likely be exacerbated by the increase in global commodity prices and economic uncertainty triggered by the Russian invasion of Ukraine and associated sanctions and supply disruptions.

Recent developments

Angola exited the recession in 2021, with growth expected at 0.2 percent as agriculture and services growth offset continued declines in oil production. Oil exports grew 60 percent while imports grew only 23 percent, widening the current account. This, together with an SDR allocation of US$1 billion, increased Angola's net reserves, maintaining import coverage at around eleven months. Non-oil exports (wood, fish, granite, and beverages) remained small and volatile.

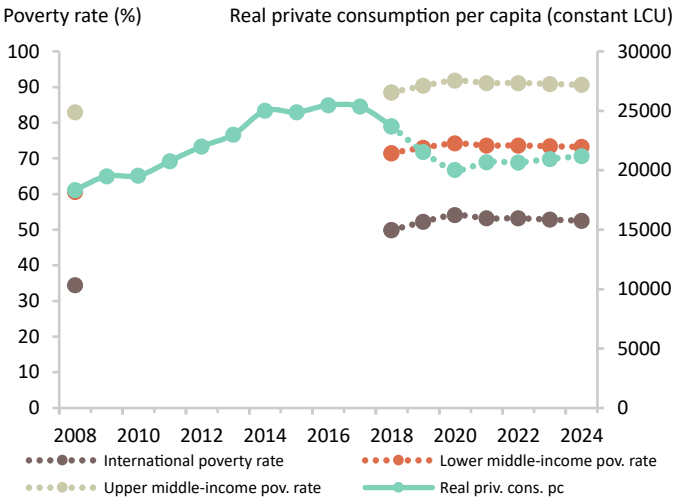
Largely because of higher oil prices, the exchange rate appreciated 13.4 percent YoY by December 2021, recovering almost a third of the 2020 depreciation. The stronger currency has not translated into lower inflation, which remains high at 27 percent, driven by high food prices and the lagged effect of monetary measures from 2020. In response, the central

FIGURE 1 Angola / Actual and projected public debt levels and primary balance



Sources: Angola Ministry of Finance, World Bank MTI.

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



Source: World Bank. Notes: see Table 2.

bank raised the reference rate from 15.5 to 20 percent.

Higher oil receipts combined with buoyant non-oil revenues (especially VAT) led fiscal revenues to grow about 47.5 percent in 2021. Public spending growth, estimated at 18.6 percent, was driven by current spending as public investment grew by 0.2 percent. Most additional oil revenue was saved, increasing the primary surplus. This, together with currency appreciation and GDP growth, drove debt levels from 130.5 to 88.1 percent of GDP from 2020 to 2021. Consequently, bond yields declined, and Angola's credit rating was upgraded.

Employment declined to 61.2 percent of adults in Q4 2021 (from 62.8 percent a year earlier), with the vast majority (81 percent) employed in the informal sector. Food insecurity and poverty were exacerbated by limited employment opportunities and food inflation. After two years of stagnation, the minimum wage rose 50 percent against accumulated inflation of 52 percent. The Kwenda cash transfer program has about 500,000 out of a projected 1.6 million vulnerable families enrolled, 300,000 of whom have received at least one transfer.

Outlook

With soaring oil prices, GDP growth is expected at 2.9 percent in 2022. The non-oil sector is expected to grow 2.3 percent, propelled by mining of diamonds and other minerals, the beverage and construction industry, agriculture and fisheries, and trade. With rising oil prices and a small but temporary recovery of oil production, oil sector growth is projected at 4.4 percent.

The 2022 budget keeps Angola on a path of fiscal consolidation. The government is expected to increase the primary surplus from 7.3 percent of GDP in 2021 to 8.1 percent of GDP, further decreasing public debt levels to 74.2 percent of GDP. This, however, remains subject to oil price risks as non-oil revenues are expected to increase only gradually. Despite continued monetary tightening and currency appreciation, the government is expected to miss its inflation target of 18 percent due to rising global commodity prices which particularly affect staple foods.

Projections suggest that the share of the Angolan population living on less than US$1.90 per day (2011 PPP) will remain at 53.2 percent in 2022 as economic growth fails to keep up with population growth. This includes over 1.3 million people facing severe hunger due to drought in some of the poorest provinces in the country. Meanwhile, the continued expansion of the Kwenda program and improvements in non-oil sectors are expected to increase the welfare of the poorest.

The risks to the outlook arise from possible future waves or variants of COVID-19, oil price volatility, and political uncertainty resulting from the 2022 elections. In addition, escalating geopolitical tensions or climate-related natural disasters can further disrupt global value chains and fuel food prices growth with potentially severe consequences for the food security and welfare of vulnerable households.

TABLE 2 **Angola** / 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	-5.5	0.2	2.9	3.1	3.3
Private Consumption	-6.2	-4.0	6.6	3.1	4.7	4.3
Government Consumption	-1.6	-7.1	6.5	2.8	2.5	4.4
Gross Fixed Capital Investment	-1.9	-1.6	8.0	3.0	4.5	5.5
Exports, Goods and Services	-5.9	-6.3	-10.8	4.3	1.3	-0.3
Imports, Goods and Services	-11.0	-21.7	6.0	6.0	8.0	6.5
Real GDP growth, at constant factor prices	-1.2	-6.7	0.2	2.9	3.1	3.3
Agriculture	-1.3	2.4	12.2	6.5	7.0	6.8
Industry	-3.6	-10.4	-9.1	0.8	-0.2	0.2
Services	2.2	-3.5	9.6	4.4	5.6	5.4
Inflation (Consumer Price Index)	17.1	22.3	25.6	20.0	12.3	9.5
Current Account Balance (% of GDP)	6.2	2.4	9.1	11.0	9.2	6.1
Net Foreign Direct Investment (% of GDP)	-2.1	-3.3	-3.2	-0.2	0.5	0.8
Fiscal Balance (% of GDP)	0.8	-1.9	2.5	2.9	2.0	1.5
Debt (% of GDP)	119.6	130.5	88.1	74.2	68.3	64.6
Primary Balance (% of GDP)	6.5	4.9	7.3	8.1	7.7	6.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	52.2	54.1	53.2	53.2	52.8	52.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	73.0	74.2	73.6	73.7	73.4	73.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	90.4	91.8	91.1	91.2	90.9	90.6
GHG emissions growth (mtCO2e)	-5.0	-3.6	-1.5	-1.2	-0.4	-0.1
Energy related GHG emissions (% of total)	14.6	13.3	13.0	12.3	12.1	12.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2018-IDREA. Projection using point to point elasticity at regional level with pass-through = 0.7 based on private consumption per capita in constant LCU.
b/ Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.

BENIN

Table 1	2021
Population, million	12.5
GDP, current US$ billion	18.5
GDP per capita, current US$	1487.0
International poverty rate ($1.9)[a]	19.2
Lower middle-income poverty rate ($3.2)[a]	51.3
Upper middle-income poverty rate ($5.5)[a]	79.3
Gini index[a]	37.8
School enrollment, primary (% gross)[b]	114.2
Life expectancy at birth, years[b]	61.8
Total GHG Emissions (mtCO2e)	30.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

Backed by a rebound of services and dynamic construction sector, real GDP growth is estimated to have reached 6.6 percent in 2021, in-line with pre-COVID trends. The fiscal deficit deteriorated further as government extended its socio-economic response into 2021 and maintained capital expenditure levels, putting pressure on PPG debt. Global inflation, regional insecurity spreading through the northern border, and tightening global financial conditions cloud the outlook.

Key conditions and challenges

Prior to the pandemic, Benin experienced robust real GDP growth, averaging 6.4 percent between 2017-2019, due to a relatively favorable external environment and commitment to macroeconomic stability. The swift socio-economic response to COVID-19, combined with the continuation of large public infrastructure projects supported growth throughout 2020, keeping the real GDP deceleration among the lowest in SSA. The Government Action Plan (PAG) which initially covered the period 2016-2021 was extended to 2026 following the reelection of President Talon in April 2021, and PAG2 maintains its focus on strengthening governance and on ambitious infrastructure investments (transport, logistics, agriculture, and tourism).

Extending the recovery into the medium term will require continued structural reforms alleviating key constraints. First, productivity growth in services and industry has been slow, due to low quality education and skills mismatches. Second, the COVID-19 crisis highlighted a lack of resilience stemming from high gender disparities and inadequate social safety nets. Finally, even though fiscal consolidation efforts since 2016 enabled the use of countercyclical fiscal policy in response to the COVID-19 crisis, domestic revenue mobilization remains structurally weak, limiting fiscal space for productive spending.

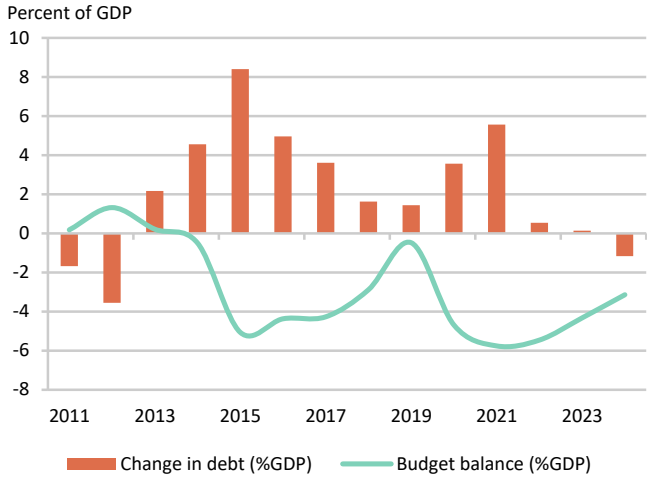
In terms of risks, sustained food and energy price volatility fueled by global geopolitical tensions would negatively impact poor and vulnerable households, increasing food insecurity and slowing poverty reduction. Extreme climate events would also cause damage and jeopardize agricultural output. Increased insecurity in the northern part of the country could threaten the economic development of these rural regions, push more households into fragility and trigger new security spending, reducing fiscal space. Finally, monetary policy tightening in advanced economies would put pressure on Benin's external financing and debt sustainability.

Recent developments

Real GDP growth is expected to have reached 6.6 percent in 2021, 3.8 percent in per capita terms, driven by a strong rebound of the tertiary and construction sectors. Private consumption (+3.9 percent) and total investment (+19.4 percent) benefited from easing cross border restrictions and large public investment projects. Inflation eased to 1.7 percent on average in 2021, notably on the back of lower energy prices until September 2021 and a good, yet delayed, local subsistence farming production.

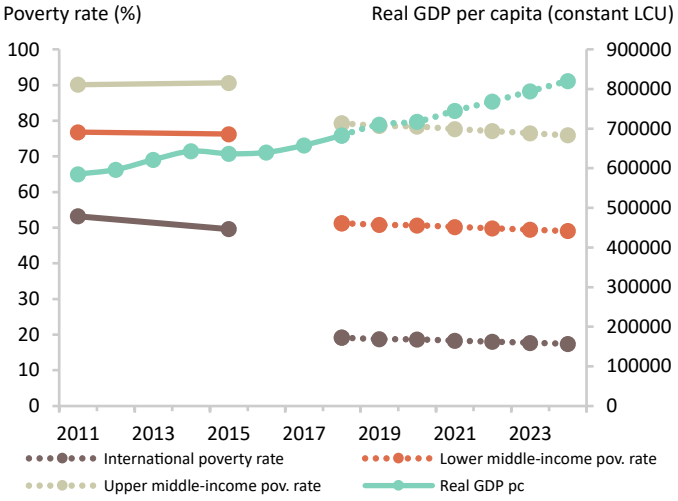
The external current account deficit (CAD) is estimated to have significantly deteriorated to -4.6 percent of GDP in 2021, after a temporary improvement to -1.7 percent of GDP in 2020. In 2021, the resumption of re-export activities following the end of the

FIGURE 1 Benin / Budget balance and change in public and publicly guaranteed debt



Source: World Bank.

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



Source: World Bank Notes: see Table 2.

border closure with Nigeria and the large import demand required for infrastructure projects fueled the deficit. The CAD was mainly financed by external commercial borrowing in 2021.

Fiscal policy remained expansionary for a second consecutive year with the fiscal deficit (incl. grants) up from 4.7 percent of the GDP in 2020, to 5.8 percent of GDP in 2021. The increase was mostly driven by capital expenditure and the extension of COVID related current spending. Revenues, excluding grants, increased from 12.7 to 13.4 percent of GDP in 2021, due to higher customs revenues and resilient tax revenues. Public and publicly guaranteed (PPG) debt increased to 51.7 percent in 2021 (+9.2 ppt compared to 2019), with Eurobond issuances representing the bulk of 2021's financing.

Benin's monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO), which maintains a fixed peg between the CFA Franc and the Euro. Its reserves reached 5.8 months of imports of goods and services in 2021, as a result of increased exports, the August 2021 SDR allocation, and portfolio inflows linked to Eurobond issuances in the region.

Poverty and vulnerability remain high. The poverty rate based on the national poverty line was 38.5 percent in 2019, with strong spatial disparities: rural poverty stood at 44.2 percent, +12.8 ppts higher than in urban areas. Poverty reduction ($1.9 a day, 2011 PPP) based on the 2018 EHCVM was estimated at 19.2 percent, and it slightly slowed down in 2021 (-0.5 percent y-o-y) versus 2020, as extreme poor represented 18.3 percent of the population end-2021.

Outlook

The ongoing war in Ukraine and its repercussions in fuel and food prices, are expected to negatively weigh on the short term outlook. Real GDP growth is expected to decelerate to 5.9 percent in 2022, before stabilizing at around 6 percent with fiscal consolidation muting the rebound. A gradual shift from public to private investments in the medium term is expected to drive growth on the demand side, underpinned by the implementation of the PAG 2.

Inflation is projected to sharply increase to 3.9 percent in 2022, and gradually abate as the impact of the ongoing conflict in Ukraine recedes.

The current account deficit (including grants) is expected to widen to 6 percent of GDP in 2022, as import prices rise driven by imports from construction and energy sectors. The CAD will be mainly financed by regional bond emissions and concessional financing.

Swift response to alleviate the surge in food and fuel prices on households, will keep the fiscal deficit (including grants) high at 5.5 percent of GDP in 2022. A revenue-based fiscal consolidation is expected to narrow the fiscal deficit to 4.4 percent in 2023 and reach the WAEMU target of 3 percent of GDP by 2025. As a result, PPG debt is expected to peak at 52.4 percent end 2023 before gradually decreasing.

WAEMU reserves are expected to fall to around 5.5 months of imports in 2022 and 5.3 months in 2023 and 2024, reflecting faster growth in imports and a reduction in net capital inflows (as a percent of GDP), as the environment for Eurobond issuances remains uncertain. Growth-friendly fiscal consolidation and the implementation of structural reforms are key to maintaining reserves at an optimal level.

Poverty reduction is expected to gradually revert to its pre-crisis downward trend as the economy rebounds, but recent increases in food and energy prices could slow its pace. On the back of improved employment indicators, and social protection programs, the $1.9/day PPP poverty headcount rate is expected to decrease to 18 percent in 2022 (-0.3 percent y-o-y), and to 17.4 percent by 2024.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	6.9	3.8	6.6	5.9	6.1	6.0
Private Consumption	3.5	3.0	3.9	3.5	3.6	4.3
Government Consumption	5.8	19.6	8.5	9.2	-2.0	3.0
Gross Fixed Capital Investment	8.4	-10.9	11.6	11.0	15.4	10.2
Exports, Goods and Services	-1.6	-15.4	23.8	14.0	8.3	5.8
Imports, Goods and Services	-6.1	-21.5	19.8	13.4	6.9	4.6
Real GDP growth, at constant factor prices	6.9	3.8	6.6	5.9	6.1	6.0
Agriculture	7.2	1.8	3.2	5.0	5.4	5.5
Industry	6.2	5.2	9.4	8.4	9.5	10.1
Services	7.1	4.5	7.4	4.7	3.9	2.9
Inflation (Consumer Price Index)	-0.9	3.0	1.7	3.9	2.5	2.0
Current Account Balance (% of GDP)	-4.0	-1.7	-4.6	-6.0	-5.3	-4.8
Net Foreign Direct Investment (% of GDP)	1.3	0.5	1.4	1.5	1.8	2.2
Fiscal Balance (% of GDP)	-0.5	-4.7	-5.8	-5.5	-4.3	-3.1
Debt (% of GDP)	42.5	46.1	51.7	52.2	52.3	51.2
Primary Balance (% of GDP)	1.1	-2.7	-3.6	-3.7	-2.6	-1.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	18.8	18.7	18.3	18.0	17.7	17.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	50.8	50.7	50.2	49.8	49.5	49.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	78.6	78.4	77.7	77.1	76.5	75.9
GHG emissions growth (mtCO2e)	1.6	2.3	4.2	3.6	3.3	3.5
Energy related GHG emissions (% of total)	35.2	36.0	38.0	39.4	40.6	41.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2011-EMICOV, 2015-EMICOV, and 2018-EHCVM.Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using point to point elasticity at regional level with pass-through = 0.7 based on GDP per capita in constant LCU.

BOTSWANA

Table 1	2021
Population, million	2.4
GDP, current US$ billion	16.5
GDP per capita, current US$	6849.4
International poverty rate ($1.9)[a]	14.5
Lower middle-income poverty rate ($3.2)[a]	36.5
Upper middle-income poverty rate ($5.5)[a]	59.1
Gini index[a]	53.3
School enrollment, primary (% gross)[b]	103.2
Life expectancy at birth, years[b]	69.6
Total GHG Emissions (mtCO2e)	59.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2011 PPPs.
b/ WDI for School enrollment (2015); Life expectancy (2019).

Botswana's economic growth is projected to moderate to 4.1 percent in 2022 following a 12.1 percent rebound last year. Despite the headwinds created by COVID-19, economic growth surpassed expectations. Structural policies to deliver a stronger, resilient, equitable and sustainable recovery remain key to tackle among others the unemployment rate of 26 percent and the projected poverty rate of 56.6 percent in 2021, based on the upper middle-income country poverty line.

Key conditions and challenges

Botswana has historically enjoyed strong and stable growth since independence supported by the discovery of large diamond deposits and prudent use of the proceeds. The limitations of the existing diamond sector-led development model have become increasingly pronounced: growth remains sluggish, job creation is low, and inequality is high. Weakened global demand has kept diamond proceeds below pre-global financial crisis levels and competition from synthetic diamonds and higher production costs have added further pressures.

Since 2015, continued fiscal expansion to support growth has created large fiscal deficits, eroded buffers and weakened the external position. Low capital accumulation and sluggish productivity constrained growth in the non-diamond economy. Unemployment remains high, as the private sector struggles to create jobs due to high costs/barriers to doing business and the mismatch between poor domestic supply of skills and high demand.

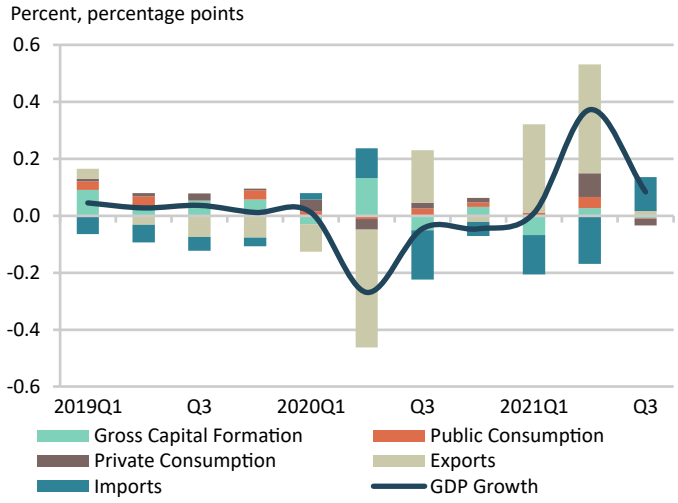
COVID-19 exacerbated existing economic and social challenges, setting back some gains made in alleviating poverty, underscoring the urgent need for a significant shift towards a more diversified and export-led economy, with the private sector playing a leading role. Improving public sector spending efficiency, rationalizing the SOE sector and addressing constraints that hinder private sector engagement in trade and investment are central to the recovery.

Recent developments

Botswana's economy rebounded strongly in 2021 led by the mining sector. GDP growth is estimated to have bounced back to 12.1 percent in 2021, following a contraction of 8.5 percent in 2020, driven by a rebound in diamond activity. Botswana's economy grew 13.5 percent over Q1-Q3 2021 year-on-year (y-o-y). Supported by the rollout of COVID-19 vaccines, domestic consumption also significantly contributed to the recovery. Diamond prices returned to pre-pandemic levels after a sharp decline in 2020. Diamond mining increased 35.4 percent over Q1-Q3 2021, contributing 6.1 percent to overall GDP growth. Non-mining sectors showed more mixed recovery trajectories. The hospitality sector remained affected by intermittent restrictions. Unemployment peaked from 24.5 percent in Q42020 to 26 percent in Q42021. Poverty is projected to have declined to 56.6 percent in 2021 after a projected sharp increase in 2020, based on the upper middle-income country poverty line and remains high compared to other upper middle-income countries.

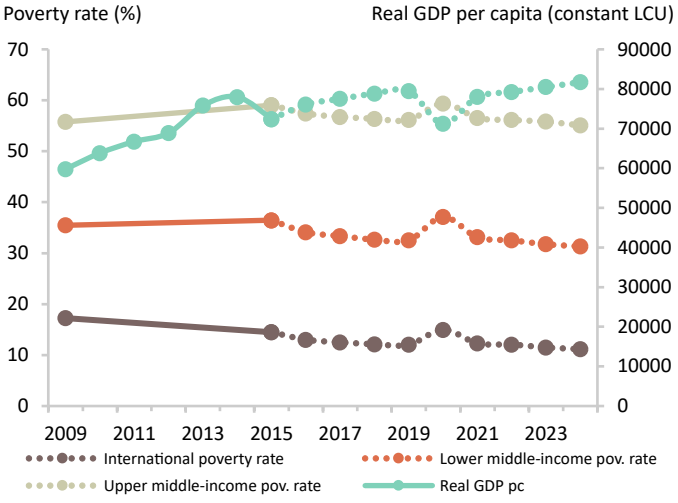
CPI averaged 6.7 percent in 2021 compared to 1.9 percent in 2020. Inflationary pressures were on an upward trajectory driven by adjustments to regulated

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



Source: Statistics Botswana.

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



Source: World Bank. Notes: see table 2.

prices, notably utilities, VAT, Botswana Housing Corporation rentals, and increases in domestic fuel prices. Bank of Botswana maintained an accommodative monetary policy stance, maintaining the repo rate at 3.75 percent. The current account deficit narrowed in 2021 to an estimated 2.1 percent of GDP, buoyed by the rebound in diamond exports. Foreign exchange reserves are estimated to have increased from P58.8 billion (US$4.9 billion) in December 2020 to P61.1 billion (US$5.2 billion) in November 2021 with sound reserves at 10 months of import cover.

With the Government channeling fiscal resources towards healthcare and supporting the economy, the 2020 projected deficit increased to 9.4 percent of GDP hence further Government Investment Account drawdowns, dropping balances from US$ 1.6 billion in 2020 to an all-time low of US$ 0.8 billion as of September 2021. Debt is projected to reach 25.5 percent of GDP in 2021 from 23.9 percent in 2020.

Outlook

The outlook is not without substantial downside risks as the emergence of new COVID-19 variants pose a threat to the recovery. Prolonged higher inflation leading to monetary tightening around the world could slow the recovery exacerbated by the Ukraine-Russia conflict through high food and fuel prices. Muted mineral receipts against envisaged lower SACU receipts would dampen the fiscal position. Poverty levels are projected to reach 56.2 percent in 2022 (measured using the upper-middle-income country poverty line, US$5.5/person/day in 2011PPP).

Growth is envisaged to moderate in 2022 but still maintain a robust recovery at 4.1 percent as the base effects from the pandemic shock fade. Progress in vaccination will support economic activity, especially in the non-mining sectors that have continued to be significantly affected by the pandemic in 2021. Diamond activity is also poised to remain robust, supported by external demand. Investment in renewable energy projects will support growth and contribute to removing the energy supply constraint to higher private sector activity. Abundant copper reserves coupled with record-high copper prices will add the needed impetus. Implementation of structural reforms will support growth over the medium term as Government pursues fiscal consolidation. Growth is expected to average 4 percent over 2023-24.

The current account deficit is expected to narrow to 0.6 percent of GDP in 2022 and record a surplus of 1.6 percent of GDP in 2023 as the rebound in diamond production and favorable terms of trade owing to subdued diamond supply in Russia anchor the projected drop in SACU revenues. The fiscal deficit is expected to decline to 4.2 percent of GDP in FY2022/23, driven by higher revenue collection while expenditure remain under pressure. Public debt is estimated to reach 27.2 percent of GDP this year and 26.8 percent by 2023, driven by external borrowing.

TABLE 2 Botswana / 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	-8.5	12.1	4.1	4.0	4.0
Private Consumption	3.5	-2.7	6.2	6.0	4.2	4.0
Government Consumption	9.8	3.6	0.7	-5.2	-2.2	-1.8
Gross Fixed Capital Investment	10.2	-7.7	7.0	4.1	4.0	4.1
Exports, Goods and Services	-7.1	-18.1	44.0	9.2	8.3	7.3
Imports, Goods and Services	11.9	5.2	5.1	5.0	4.9	4.8
Real GDP growth, at constant factor prices	3.2	-8.9	12.1	4.1	4.0	4.0
Agriculture	3.0	-1.7	3.0	3.0	2.8	2.6
Industry	-1.5	-20.6	26.7	4.6	4.4	4.4
Services	6.8	-0.8	4.1	3.8	3.8	3.8
Inflation (Consumer Price Index)	2.8	1.9	6.7	7.5	4.5	4.5
Current Account Balance (% of GDP)	-8.4	-10.6	-2.1	-0.6	1.6	1.9
Net Foreign Direct Investment (% of GDP)	1.3	-0.6	0.6	0.8	1.2	1.2
Fiscal Balance (% of GDP)[a]	-6.2	-9.4	-5.7	-4.2	-0.5	0.0
Debt (% of GDP)	21.2	23.9	25.5	27.2	26.8	26.4
Primary Balance (% of GDP)[a,b]	-5.5	-8.7	-4.9	-3.4	0.3	1.1
International poverty rate ($1.9 in 2011 PPP)[c,d]	12.0	15.0	12.3	12.1	11.5	11.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	32.5	37.1	33.1	32.5	31.8	31.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	56.2	59.4	56.6	56.2	55.8	55.1
GHG emissions growth (mtCO2e)	0.6	-1.4	3.7	0.4	0.3	0.4
Energy related GHG emissions (% of total)	17.2	15.7	16.8	17.2	17.4	17.7

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).
b/ Refers to Public and Publicly Guaranteed debt.
c/ Calculations based on 2015-BMTHS. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
d/ Projection using neutral distribution (2015) with pass-through = 0.87 based on GDP per capita in constant LCU.

BURKINA FASO

Table 1	2021
Population, million	21.5
GDP, current US$ billion	18.0
GDP per capita, current US$	839.4
International poverty rate ($1.9)[a]	33.7
Lower middle-income poverty rate ($3.2)[a]	61.8
Upper middle-income poverty rate ($5.5)[a]	80.0
Gini index[a]	47.3
School enrollment, primary (% gross)[b]	92.6
Life expectancy at birth, years[b]	61.6
Total GHG Emissions (mtCO2e)	62.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

The economy grew by an estimated 7.0 percent in 2021 (4.2 percent in per-capita terms), with investment-led growth in services, gold mining, and manufacturing. Due to supply bottlenecks in the agricultural sector, food insecurity remains high, and inflation approached a 10-year peak. The transition government, in place since the January 2022 coup d'état, faces significant challenges in addressing the multifaceted security, humanitarian, and food crises.

Key conditions and challenges

Over the past decade, the primary (mainly agriculture) sector has declined in importance, now contributing less than 20 percent to the economy, with a booming gold industry generating almost 20 percent of GDP and 85 percent of exports. Services account for nearly half of GDP, with the public and retail sectors creating most jobs and output. With an increasingly violent security context outside the capital, about a quarter of schools have closed in the two most affected regions, and the number of internally displaced persons reached 1.8 million as of March 2022.

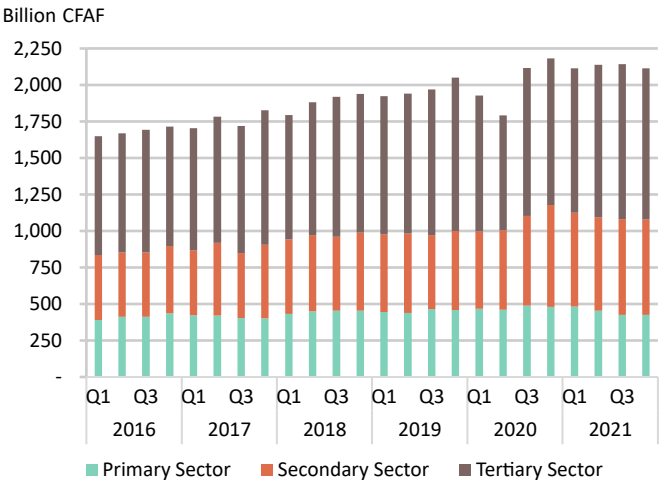
Economic prospects are uncertain after the recent unconstitutional regime change, combined with growing insecurity, the impact of climatic change, and the lingering effects of COVID-19. On January 24, 2022, a military junta seized power in response to the worsening security situation, which reduced international community financial support and could prompt economic sanctions by ECOWAS, the regional bloc from which the country got suspended. The primarily rain-fed agriculture and livestock sectors remain highly vulnerable to climatic shocks and natural disasters, particularly droughts, floods, and locust invasion. A resurgence of COVID-19, with less than 20 percent of the population vaccinated, could also subdue domestic demand and hurt the services sector.

Recent developments

Following a sharp recovery in the second half of 2020, GDP growth remained strong in 2021, estimated at 7.0 percent. This reflected a strong rebound in services and robust gold production and was supported by private investment, mainly into mines, air transport, and beverages. The fiscal deficit remained above 5 percent as the government implemented the Economic Recovery Plan in response to COVID-19 while enacting additional security spending. Despite robust gold production, the trade deficit deteriorated, with imports rising faster than exports. With lower donor grants, the current account deficit is estimated to have widened to 3.0 percent of GDP.

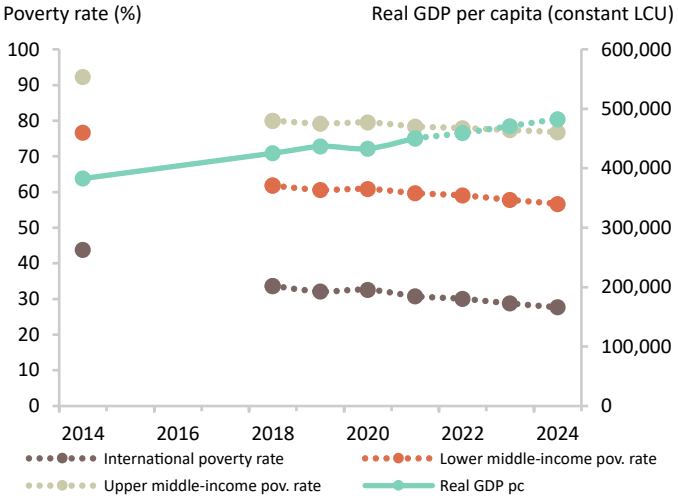
Fueled by an accommodative monetary stance and rising food prices (+14.7 percent) on account of a sharp contraction in agricultural output, inflation (CPI) reached 3.9 percent in 2021, a 10-year high. Food inflation is a particular concern for the poor, as food accounts for 48 percent of their total consumption. The Central Bank of West African States (BCEAO) manages the monetary and exchange rate policies, which maintains a fixed peg between the CFA Franc and the Euro. Its reserves reached 5.8 months of imports of goods and services in 2021 due to increased exports, the August 2021 SDR allocation, and portfolio inflows linked to Eurobond issuances in the region (by Benin, Côte d'Ivoire, Senegal, and BOAD).

FIGURE 1 Burkina Faso / Real GDP and sectoral decomposition of real GDP



Source: : World Bank staff estimates based on the national statistical institute (INSD) data.

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



Source: World Bank. Notes: see table 2.

The international extreme poverty rate (US$1.9/day per capita, 2011 PPP) increased by about half a percentage point to 32.6 percent in 2020, resulting in an additional 290,000 extreme poor. In 2021, poverty projections based on per-capita GDP growth estimated a decline to 30.8 percent. Food insecurity (as measured by the FIES) has followed the same pattern, rising from 44 percent in 2018 to 53 percent in June 2020 and then falling to 37 percent by June 2021 (phone surveys). However, the decline in poverty may be overestimated as mining and services growth is unlikely to quickly translate into increased incomes for poor and rural households, and the same surveys find that almost half of households had lower incomes in 2021, compared to 2020, with only 28 percent reported an increase.

Outlook

Over the medium term, the economy is expected to continue slightly below its pre-pandemic growth path amidst heightened uncertainty. Real GDP growth is projected at 4.8 percent in 2022, assuming that there continue to be no significant sanctions from the international community in response to the January coup d'état and transition arrangements. Growth is expected to be driven by private consumption and a rebound in agriculture, while the current account deficit may widen further due to high oil prices and a decline in donor grants after the coup.

The fiscal deficit is projected to worsen in 2022 due to increased security spending and lower grants before gradually converging toward the WAEMU fiscal target of 3 percent of GDP by 2025. Over the medium term, further tax reforms and wage bill controls could significantly lower the fiscal deficit. Burkina Faso remains at moderate risk of external and overall public debt distress, with some space to absorb shocks on external debt.

WAEMU regional foreign exchange reserves are expected to fall to around 5.3 months of imports by 2024, reflecting faster growth in imports and a reduction in net capital inflows (as a percent of GDP), as the environment for Eurobond issuances remains uncertain. Growth-friendly fiscal consolidation and structural reforms are crucial to maintaining reserves at an optimal level.

The extreme poverty rate is projected to continue to fall by about one percentage point a year over the medium term. The number of poor is also projected to decrease. Still, with high population growth, this means only 50,000 to 100,000 would escape poverty each year, and over 6 million Burkinabe will remain poor for the foreseeable future. Food insecurity is expected to deteriorate due to poor harvests in 2021 and rising food prices, with the situation particularly severe in the north.

There are significant downside risks to the economic outlook with multiple domestic risks, including further political instability, climate shocks, local COVID outbreaks, and widespread social discontent from high food inflation and insecurity. The economic consequences of the Russia-Ukraine war would primarily be through higher global food (grains and fertilizer) and energy prices. The projections already reflect recent sharp price increases of oil, gas, metals, minerals, and agricultural commodities since January 2022, including gold, which benefits Burkina Faso.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.7	1.9	7.0	4.8	5.4	5.3
Private Consumption	3.5	8.6	3.4	9.9	3.4	5.4
Government Consumption	13.4	8.0	6.6	13.7	12.5	3.2
Gross Fixed Capital Investment	3.0	-4.0	29.1	-9.2	6.2	8.0
Exports, Goods and Services	-0.3	-3.6	6.5	9.7	4.5	3.4
Imports, Goods and Services	-2.8	10.0	15.5	10.7	5.1	4.8
Real GDP growth, at constant factor prices	5.9	2.6	7.0	4.8	5.4	5.3
Agriculture	2.1	6.3	-4.1	6.3	4.6	6.2
Industry	2.7	15.6	11.0	4.8	5.9	6.9
Services	9.8	-6.0	10.6	4.1	5.5	3.9
Inflation (Consumer Price Index)	-3.2	1.9	3.9	5.0	3.5	3.0
Current Account Balance (% of GDP)	-3.3	-0.2	-3.0	-4.8	-4.7	-4.9
Net Foreign Direct Investment (% of GDP)	0.9	0.6	0.5	0.5	0.6	0.6
Fiscal Balance (% of GDP)	-3.3	-5.5	-5.5	-6.6	-5.1	-3.8
Debt (% of GDP)	42.0	46.3	55.0	59.3	58.4	56.4
Primary Balance (% of GDP)	-2.1	-4.2	-4.0	-4.4	-2.9	-1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	32.1	32.6	30.8	30.1	28.8	27.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	60.6	60.9	59.7	59.0	57.8	56.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	79.2	79.5	78.4	77.9	77.4	76.8
GHG emissions growth (mtCO2e)	4.3	4.7	4.4	5.1	5.0	4.9
Energy related GHG emissions (% of total)	10.5	10.9	10.7	11.2	11.7	12.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

BURUNDI

Table 1	2021
Population, million	12.3
GDP, current US$ billion	3.5
GDP per capita, current US$	287.3
International poverty rate ($1.9)[a]	72.8
Gini index[a]	38.6
School enrollment, primary (% gross)[b]	119.0
Life expectancy at birth, years[b]	61.6
Total GHG Emissions (mtCO2e)	9.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2013), 2011 PPPs.
b/ Most recent WDI value (2019).

Economic growth is estimated at 1.8 percent in 2021 from 0.3 percent in 2020, driven by agriculture and a recovery in services. Industrial growth was subdued due to mining disputes. While recovery is expected to accelerate over the medium term, the country faces serious downside risks, including from fiscal slippages and inadequate external financing. Poverty continued to rise, reflecting the negative per capita GDP growth as population growth remains high.

Key conditions and challenges

Burundi's development has been hampered by structural weaknesses locking the economy in a low-level equilibrium sustained by mutually reinforcing fragility and poverty. Burundi faces a multidimensional fragility trap with recurring political instability, low economic diversification, high population growth, and environmental degradation, leading to low and volatile growth. The business environment is not conducive to private sector development. The cessation of most aid since 2015 constrained the government's ability to build infrastructure. These weaknesses have been exacerbated by inconsistent macroeconomic policies including foreign exchange restrictions, exchange rate overvaluation, fiscal dominance of monetary policy, and high public sector indebtedness. These factors lead to low capital accumulation, weak productivity growth and limited structural transformation of the economy and contribute to higher poverty rates and curtailed human capital development. The COVID-19 outbreak has increased the economy's vulnerability with a deterioration of macroeconomic accounts. A recent survey revealed that off-farm incomes decreased and food insecurity rose while large proportions of businesses reported declining sales, difficulty accessing inputs and cash flow crunches. The national development plan 2018-2027 and the President's program for peace consolidation, social stability and economic growth aims to sustain growth and resilience by boosting promising sectors, developing human capital, enhancing environmental protection, and strengthening institutional capacity. Implementing this agenda poses significant financing needs and requires deeper economic reforms.

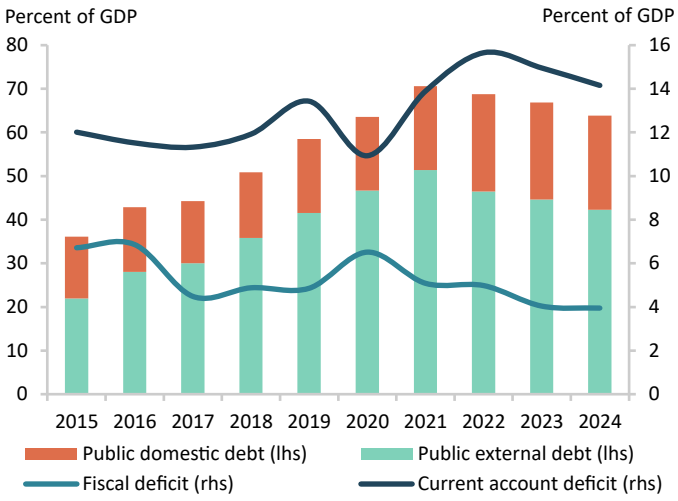
The rising oil and wheat prices resulting from the Russian invasion and associated sanctions, represent a negative term - of trade shock likely to slow economic growth, accelerate inflation, and increase fiscal and current account deficits. Although projected to accelerate in the medium term, economic growth in 2022 and 2023 will be lower than initially projected, which further complicates efforts to reverse poverty trends. The fiscal and current account deficit are projected to remain high in 2022 before improving gradually over the medium term.

Recent developments

Growth in 2021 reached 1.8 percent from 0.3 percent in 2020, with a rebound in services and steady agriculture growth. Industrial growth was subdued due to the ongoing suspension of mining activities as contracts were renegotiated. Private consumption and investment supported growth on the demand side. Inflation accelerated to 8.3 percent in December 2021 from 7.5 percent a year before, driven by food prices.

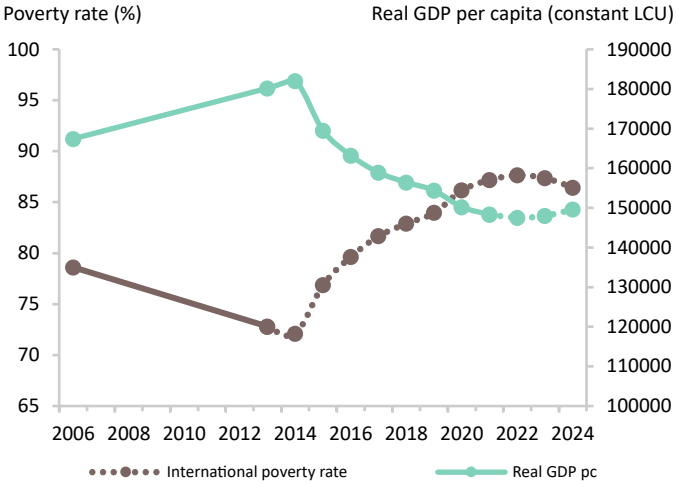
The fiscal deficit remained high at 5.1 percent of GDP in 2021 from 6.5 percent of

FIGURE 1 **Burundi** / Public debt, fiscal and current account deficits



Sources: Official statistics and World Bank calculations.

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



Source: World Bank. Notes: see table 2.

GDP in 2020. The increase in revenue mobilization was not enough to cover expenditures, with increased interest payments. The fiscal deficit continues to be financed mainly by domestic borrowing, bringing public debt to 70.6 percent of GDP (73 percent of which is domestic debt).

Driven by oil prices, the current account deficit (CAD) remained high at 13.9 percent of GDP in 2021, primarily financed by trade credits. Despite higher prices for Burundi's main exports, export earnings declined due to the absence of gold exports following the suspension of mining. The increase in export volumes focused on a few regionally traded products (e.g., beer). Imports of both capital and consumption goods increased. The SDR issuance strengthened international reserves, covering 4.3 months of imports at end-October 2021 from 0.8 months a year before. The exchange rate remained overvalued with the parallel market premium averaging 70 percent (end-December 2021).

Burundi's Human Capital Index remains low at 0.39, with stunting and learning poverty at 52.2 and 93 percent, respectively. Literacy remains particularly low among women and rural residents. With high population growth, any demographic dividend remains out of reach. GDP growth per capita remains negative, with poverty estimated at 87.2 percent in 2021 (based on international poverty line of $1.90/day, in 2011 PPP), from 72.8 percent in 2013 (the last year with data availability).

Outlook

Growth is projected to range between 2.5 - 4.1 percent in 2022-24. Services should continue to recover while agriculture will keep its growth pace assuming favorable rainfall. Industrial growth is projected to accelerate due to a loosening of forex constraints from the SDR allocation, and assuming resolution in mining disputes and increased power generation. Private consumption and public investment are projected to remain high given economic recovery and public infrastructure programs. The fiscal deficit is projected to 5 percent of GDP in 2022 before narrowing in 2023-24 as current spending is contained and revenue collection increases. However, the deficit will remain high at 4 percent of GDP as external grants increase only gradually. Public debt is expected to decrease to 64 percent of GDP by 2024. The CAD is expected to average 14 percent of GDP in 2024, since export growth (expected from minerals and traditional exports) will be offset by higher imports driven by higher consumption growth and exchange rate overvaluation. The share of the population living below 1.90/day (2011 PPP), is projected to reach 86.4 percent in 2024.

The outlook is vulnerable to climatic hazards, fiscal risks, and further spillover effects of the Ukraine/Russia conflict. Domestic fiscal risks include weaker growth performance and higher domestic debt service costs. External fiscal risks include weaker grants and higher interest rates on external borrowing. Inadequate financing of the CAD could heighten pressure on currency. With weak vaccination, the COVID-19 pandemic could return and affect the economy. On the upside, foreign aid could accelerate with the progress in international cooperation, following the lifting of sanctions by the USA in November 2021 and the EU in February 2022, and the re-engagement of the IMF. However, for growth to accelerate meaningfully, Burundi needs to implement reforms that support export growth and private sector development.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	1.8	0.3	1.8	2.5	3.3	4.1
Private Consumption	3.1	0.3	2.8	3.0	3.4	3.6
Government Consumption	8.3	19.2	5.4	4.0	3.9	3.9
Gross Fixed Capital Investment	32.9	-16.6	17.8	7.7	10.3	13.5
Exports, Goods and Services	-0.5	-14.9	18.2	10.9	9.4	9.8
Imports, Goods and Services	17.1	3.4	13.5	7.3	7.0	7.1
Real GDP growth, at constant factor prices	1.8	0.3	1.8	2.5	3.3	4.1
Agriculture	3.1	2.8	2.9	3.0	3.4	4.0
Industry	2.1	1.8	1.4	2.4	3.1	4.4
Services	0.9	-1.7	1.3	2.2	3.3	4.0
Inflation (Consumer Price Index)	-0.8	7.5	8.3	9.0	6.7	6.7
Current Account Balance (% of GDP)	-13.4	-10.9	-13.9	-15.7	-15.0	-14.2
Net Foreign Direct Investment (% of GDP)	0.0	-0.1	0.0	0.0	0.0	0.0
Fiscal Balance (% of GDP)	-4.9	-6.5	-5.1	-5.0	-4.0	-3.9
Debt (% of GDP)	58.5	63.6	70.6	68.8	66.9	63.8
Primary Balance (% of GDP)	-4.3	-5.2	-2.3	-2.4	-1.8	-1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	84.0	86.2	87.2	87.7	87.4	86.4
GHG emissions growth (mtCO2e)	3.1	3.0	3.2	3.3	3.4	3.5
Energy related GHG emissions (% of total)	14.4	14.2	13.7	13.3	12.9	12.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2006-QUIBB and 2013-ECVMB. Actual data: 2013. Nowcast: 2014-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2006-2013) with pass-through = 1 based on GDP per capita in constant LCU.

CABO VERDE

Table 1	2021
Population, million	0.6
GDP, current US$ billion	1.9
GDP per capita, current US$	3363.6
International poverty rate ($1.9)[a]	3.4
Lower middle-income poverty rate ($3.2)[a]	15.4
Upper middle-income poverty rate ($5.5)[a]	41.3
Gini index[a]	42.4
School enrollment, primary (% gross)[b]	100.9
Life expectancy at birth, years[b]	73.0
Total GHG Emissions (mtCO2e)	0.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2011 PPPs.
b/ Most recent WDI value (2019).

Growth rebounded to 7.1 percent in 2021, led by the gradual recovery in tourism, supporting poverty alleviation. Inflationary pressures increased, driven by energy and food. Growth-friendly fiscal consolidation should see growth converging to 6 percent and put debt-to-GDP on a declining path over the medium term. The outlook is subject to substantial downside risks stemming from new COVID-19 variants, the Ukraine crisis, and climatic shocks.

Key conditions and challenges

Political stability, democratic institutions, and pro-market reforms have generated significant economic and social progress since independence in 1975. However, Cabo Verde's development model, based on tourism and foreign direct investment (FDI) has shown signs of fatigue since the 2008 Global Financial Crisis. The subsequent sluggish recovery in Europe reduced the influx of funds, with dwindling private investment and growth. Ineffective expansionary fiscal policy between 2010-2015 led to growing fiscal financing needs and to put public debt back on a sustainable path, the authorities initiated a consolidation program in 2016, including the reform of loss-making state owned enterprises (SOEs).

The COVID-19 crisis reversed the progress in fiscal consolidation and exacerbated the growth model's vulnerabilities. In addition to the adverse economic effects of mitigation measures, global travel restrictions led to a sharp contraction in tourism and related activities. The authorities responded by expanding public health services and social protection programs, as well as by providing financial support to small businesses. However, poverty reduction gains made since 2015 were reversed in 2020 driven largely by substantial temporary job losses, particularly in the tourism sector. The unemployment rate increased from 11.3 to 14.5 percent in 2020.

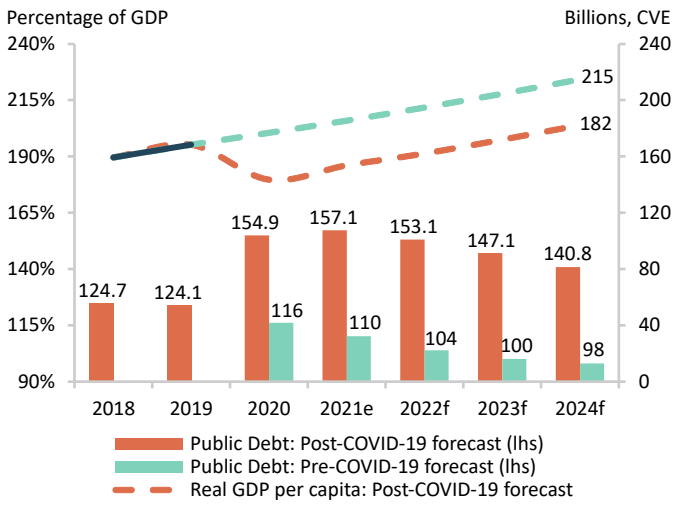
The pace of economic recovery is subject to substantial downside risks associated with rising uncertainty in Europe due to the Ukraine conflict, the emergence of new COVID-19 variants, and climatic shocks. Fiscal risks are high as the government is exposed to contingent liabilities in sectors that are particularly vulnerable to the crisis, such as aviation, ports, and utilities. A sustained Ukraine war could reduce investments and tourism flows and trigger fiscal liabilities. Moreover, Cabo Verde remains highly exposed to natural disasters such as volcanic eruptions, droughts, floods, and rising sea levels that could further weigh on external and fiscal balances.

Recent developments

Economic activity is estimated to have expanded by 7.1 percent in 2021, magnified by base effects after a contraction of 14.8 percent in 2020. Growth was led by a slight recovery of tourism from the second quarter. Retail and wholesale trade, construction, and public administration were the main contributors of growth. On the demand side, public consumption and net exports were the main drivers.

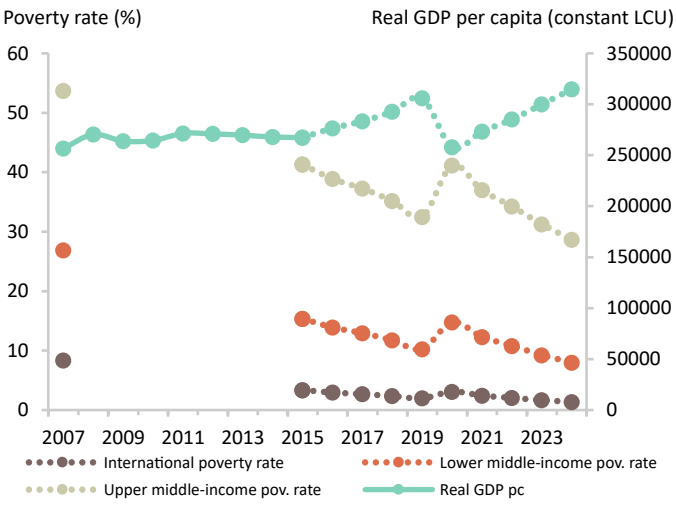
The current account deficit (CAD) is estimated to have declined from 15.9 percent of GDP in 2020, to 14.2 percent in 2021, supported by an increase in remittances and the moderate recovery in services exports. The CAD was financed by concessional loans and FDI. International reserves reached 6.9 months of prospective imports.

FIGURE 1 **Cabo Verde** / GDP per capita and debt outlook



Sources: World Bank and IMF staff estimates. Note: Pre COVID-19 GDP forecast refers to the 2019 Annual Meetings Macro-poverty Outlook.

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



Source: World Bank. Notes: see table 2.

The fiscal deficit is estimated to have narrowed slightly to 9.5 percent of GDP in 2021, driven by sustained high current expenditure (33.8 percent of GDP). Financing needs of 8.8 percent of GDP were covered by concessional credits, grants, domestic borrowing, and resources freed up by the Debt Service Suspension Initiative. Public debt as a share of GDP increased slightly to 157.1 percent of GDP, driven by increased domestic debt, and remains sustainable, but the risk of external and total debt distress is high.

Cabo Verde's monetary policy is aligned with the Eurozone, as the escudo is pegged to the euro. Inflationary pressures increased in 2021 due to higher international oil and food prices. Average headline inflation rose from 0.6 percent in 2020, to 1.9 percent in 2021. Food inflation, which stood at 0.6 percent, affected disproportionally the poor as the bottom forty percent of the population spends about 34 percent of their income on consumption.

The rebound in economic activity in 2021 resulted in a reduction in the poverty rate from 14.7 percent to 12.3 percent (using $3.2 US per day PPP in 2011), reflecting nearly 12,000 fewer people living in poverty. The extreme poverty rate fell slightly from 2.4 percent to 2 percent.

Outlook

Real GDP growth is projected to reach 5.5 percent in 2022 (4.4 percent in per capita terms), driven by the continued recovery of the tourism sector. The Ukraine crisis will weigh on growth, mainly through increasing oil and food prices. Over the medium term, private consumption and investment in tourism and the blue economy will be the main contributors to growth. The outlook is subject to substantial downside risks stemming from climate shocks, new COVID-19 variants, the realization of contingent liabilities, increased global uncertainty due to the Ukraine war, and delays in SOE reforms.

Inflationary pressures are expected to peak in 2022, reaching 3.5 percent, reflecting the stress on global value chains and the impact of the Ukraine war. Inflation is expected to start stabilizing in 2023 as supply disruptions abate and energy prices stabilize. Inflation is projected to converge to 2 percent over the medium-term.

The CAD is projected to reach 11.8 percent of GDP in 2022, falling to 6.7 percent by 2024 driven by the rebound in service exports. Medium-term external financing needs are expected to be covered mainly by FDI, which is expected to reach 5.3 percent of GDP in 2024. International reserves are expected to remain strong, at 6 to 7 months of imports.

The authorities are committed to gradual fiscal consolidation over the medium term, which includes enhanced management of fiscal risks, notably from SOEs, and revenue mobilization. The primary fiscal deficit is projected to decline to 8 percent of GDP in 2022. Fiscal consolidation and prudent borrowing policies should reduce the public debt-to-GDP ratio to 140.8 percent by 2024.

The poverty rate (based on the lower-middle income poverty line of US$3.2 a day, 2011 PPP) is projected to decline to 10.6 percent in 2022 and 8 percent by 2024. Poverty reduction will be supported by growth, mainly in the tourism sector, and the stabilization of inflation over the medium term.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.7	-14.8	7.1	5.5	6.1	6.0
Private Consumption	5.9	-11.3	3.9	2.3	3.4	3.0
Government Consumption	4.8	0.8	7.5	2.3	2.5	1.7
Gross Fixed Capital Investment	-6.3	19.7	11.2	12.5	10.4	10.6
Exports, Goods and Services	8.7	-58.4	8.4	22.4	13.4	12.7
Imports, Goods and Services	0.8	-22.5	7.4	13.6	9.1	8.8
Real GDP growth, at constant factor prices	5.7	-14.8	7.1	5.5	6.1	6.0
Agriculture	-6.8	-6.3	8.1	4.5	2.9	2.6
Industry	7.5	-2.0	10.3	6.4	6.3	5.6
Services	6.3	-19.2	5.9	5.3	6.3	6.5
Inflation (Consumer Price Index)	1.1	0.6	1.9	3.5	2.3	2.0
Current Account Balance (% of GDP)	-0.4	-16.5	-13.5	-11.8	-7.0	-6.7
Net Foreign Direct Investment (% of GDP)	4.2	3.7	5.8	2.6	4.2	5.3
Fiscal Balance (% of GDP)	-2.4	-10.0	-9.5	-8.0	-7.1	-5.9
Debt (% of GDP)	124.1	154.9	157.1	153.1	147.1	140.8
Primary Balance (% of GDP)	0.2	-7.1	-7.0	-4.8	-3.6	-2.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.0	3.1	2.4	2.0	1.6	1.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	10.2	14.7	12.3	10.8	9.2	8.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	32.5	41.1	37.0	34.2	31.2	28.7
GHG emissions growth (mtCO2e)	2.5	2.2	2.1	2.5	2.4	1.5
Energy related GHG emissions (% of total)	87.5	88.1	88.7	88.9	89.1	90.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2007-QUIBB, 2019-, and 2015-IDRF. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2007-2019) with pass-through = 1 based on GDP per capita in constant LCU.

CAMEROON

Table 1	2021
Population, million	27.2
GDP, current US$ billion	42.0
GDP per capita, current US$	1543.7
International poverty rate ($1.9)[a]	26.0
Lower middle-income poverty rate ($3.2)[a]	47.0
Upper middle-income poverty rate ($5.5)[a]	71.0
Gini index[a]	46.6
School enrollment, primary (% gross)[b]	105.7
Life expectancy at birth, years[b]	59.3
Total GHG Emissions (mtCO2e)	126.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2011 PPPs.
b/ Most recent WDI value (2019).

The completion of infrastructure projects is expected to boost GDP growth in 2022. Driven by higher oil prices, the fiscal deficit is projected to narrow in the medium term, while the current account deficit would decline gradually. The impact of the shipping crisis, along with the Ukraine-Russia war, could put further pressure on inflation and incomes. The outlook remains favorable, but is subject to several risks, hence the need to accelerate structural reforms.

Key conditions and challenges

Cameroon is the largest economy in the Economic and Monetary Community of Central Africa (CEMAC), accounting for over 40 percent of the region's GDP and over 60 percent of regional foreign exchange reserves. The oil sector accounts for 4 percent of the country's GDP and 13.8 percent of its fiscal revenues in 2021, highlighting Cameroon's exposure to commodities and oil price shocks. The current development model has run out of steam, as governance indicators have deteriorated, human capital remains weak, and the business environment is unfavorable. High market concentration and state ownership of commercial enterprises also limit domestic competition. The country has become more fragile. Conflicts affecting 6 out of 10 of Cameroon's regions have displaced people, increased violence, and led to a collapse in social services. The current growth level is too low to achieve a substantial poverty reduction. Although the poverty rate has declined over the last decade, the absolute number of poor people has increased consistently due to population growth. The COVID-19 crisis has reversed progress in poverty reduction, with the poverty rate estimated to have increased in 2020. The debt stock has been rising since 2016, calling for improved debt management to attract new investment.

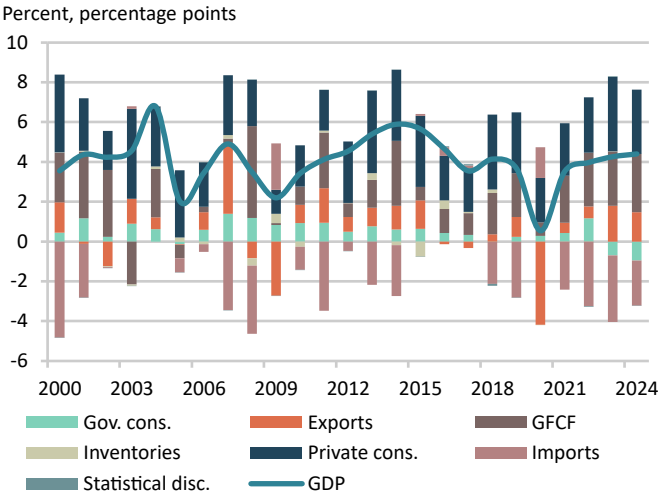
For growth to accelerate and become more inclusive, the government's role needs to shift from being the main driver of economic activity to: (i) providing a stable and fair regulatory environment and adequate infrastructure services; and (iii) effectively delivering basic services to the population.

Recent developments

Cameroon's economic activity gradually recovered in 2021 on the back of dynamic secondary and tertiary sectors and stronger external demand. Real GDP growth reached 3.5 percent in 2021, or 0.8 percent in per capita terms. Higher oil production and prices and a rebound in services and external demand have supported private consumption and investment. Increased shipping costs have put pressure on prices in recent months, limiting the availability of food staples in local markets. Meanwhile, higher exports and oil prices have improved Cameroon's current account balance. Following a sharp decline in 2020, imports moderately increased in 2021, driven by large infrastructure projects, including initiatives related to the Africa Cup of Nations. Despite the improving economic context, vaccination against COVID-19 remains low at 2.9 percent of the total population, as of end-March 2022.

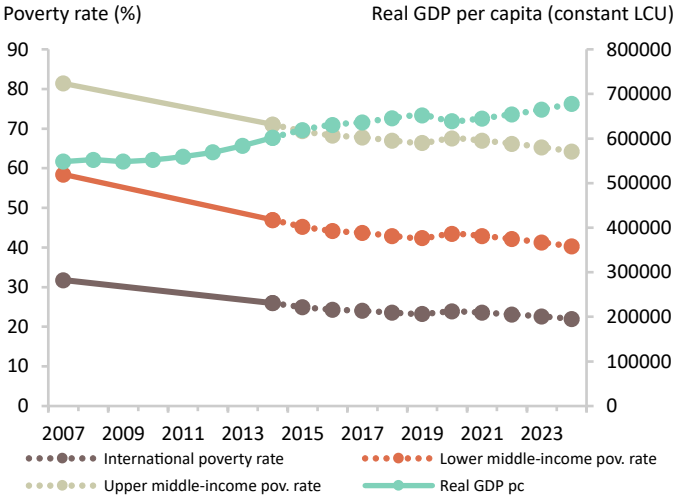
The fiscal deficit remained unchanged to 3.2 percent of GDP in 2021, owing to improved revenue collection and expenditure controls. Oil revenues reached 1.9

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



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

percent of GDP in the same year due to higher oil prices. Tax revenues also increased in 2021 due to better-than-expected collection of the value-added tax (VAT), corporate income tax, and excises. Similarly, efforts to improve the tax administration, including digitization and tax audits, also contributed to the revenue increase. On the expenditures side, even though higher oil prices led to higher fuel subsidies, the authorities cut current expenditures on goods and services, allowing for some expansion of capital outlays. Capital spending increased from 4.6 percent of GDP in 2020 to 5.4 percent of GDP in 2021, while the public debt stock increased from 44.9 percent of GDP in end-2020 to 47.2 percent of GDP by end-2021.

The Bank of Central African States tightened its monetary policy in late 2021 over concerns about the evolution of foreign exchange reserves. Despite higher oil prices and the International Monetary Fund Special Drawing Rights allocation (equivalent to US$1.4 billion), the country's foreign exchange reserves represented just above 3 months' worth of imports of goods and services by end 2021 (same as by end 2020).

Outlook

The economic recovery is expected to consolidate, with growth projected to reach 4.0 percent in 2022 and 4.4 percent in 2023. Economic growth would benefit from sustained higher oil prices as the pandemic comes progressively to an end. Unless the government introduces price subsidies, the Ukraine-Russia war will affect the outlook, have an impact on poverty reduction, and weigh on inflation. Key transmission channels are: (i) increased wheat prices, translating into higher prices for bread; (ii) higher oil and energy prices, leading to higher production costs; and (iii) higher fertilizer prices, affecting the majority of people working in agriculture. Efforts to reduce poverty will also be hampered by the ongoing security crisis in parts of the country. Nevertheless, the poverty rate is expected to remain constant at 23 percent in 2022.

The current account balance should continue to improve, owing to robust oil and non-oil commodity exports. The country's fiscal deficit is projected to narrow from 3.2 percent of GDP in 2021 to 2.8 percent in 2024. Non-oil revenues are expected to increase, due to simplified administrative measures on property income and the new tax on mobile money transfers. Spending reprioritization, including the gradual reduction of subsidies to SOEs, would contain expenditure in the medium term. Still, Cameroon remains at high risk of external and overall debt distress, although debt is assessed as sustainable, according to the latest Debt Sustainability Analysis conducted in February 2022.

The outlook remains subject to risks associated with: (i) a further tightening of monetary policy; (ii) a protracted Ukraine-Russia war; and (iii) a persistent security crisis in the North-West, South-West, and Far North regions. Should such risks materialize, real GDP would grow more modestly than under the baseline scenario, affecting fiscal and external accounts. A sharp rise in global risk premia following a monetary policy tightening in advanced economies would affect the outlook and debt sustainability. The increase in international oil and food prices would add on existing inflationary and fiscal pressures.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.7	0.5	3.5	4.0	4.3	4.4
Private Consumption	4.5	3.3	3.8	4.0	5.4	4.6
Government Consumption	1.8	2.3	3.4	9.1	-5.2	-7.9
Gross Fixed Capital Investment	8.1	2.4	8.2	8.9	8.5	8.9
Exports, Goods and Services	5.1	-21.0	3.2	3.9	11.5	8.8
Imports, Goods and Services	10.5	-5.4	9.0	11.5	11.0	7.0
Real GDP growth, at constant factor prices	3.6	0.5	3.5	4.0	4.3	4.4
Agriculture	2.8	0.1	4.1	4.3	5.6	5.6
Industry	3.6	1.3	4.1	4.4	4.5	4.5
Services	3.9	0.3	3.1	3.7	3.8	4.0
Inflation (Consumer Price Index)	2.5	2.5	2.5	3.0	2.5	2.0
Current Account Balance (% of GDP)	-4.4	-3.7	-4.0	-3.9	-3.8	-3.7
Fiscal Balance (% of GDP)	-3.3	-3.2	-3.2	-3.0	-2.9	-2.8
Debt (% of GDP)	43.0	45.8	47.1	45.1	42.3	39.8
Primary Balance (% of GDP)	-2.4	-2.3	-2.1	-1.9	-2.0	-1.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	23.2	23.9	23.6	23.1	22.6	22.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	42.4	43.4	42.9	42.2	41.3	40.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	66.4	67.5	67.0	66.2	65.3	64.2
GHG emissions growth (mtCO2e)	0.9	0.4	0.9	1.0	1.0	1.1
Energy related GHG emissions (% of total)	9.6	9.5	9.8	10.1	10.3	10.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2007-ECAM-III, 2019-, and 2014-ECAM-IV. Actual data: 2014. Nowcast: 2015-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2007-2019) with pass-through = 1 based on GDP per capita in constant LCU.

CENTRAL AFRICAN REP.

Table 1	2021
Population, million	4.9
GDP, current US$ billion	2.4
GDP per capita, current US$	484.6
Gini index[a]	56.2
School enrollment, primary (% gross)[b]	102.0
Life expectancy at birth, years[b]	53.3
Total GHG Emissions (mtCO2e)	88.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2008), 2011 PPPs.
b/ WDI for School enrollment (2016); Life expectancy (2019).

Renewed insecurity prevented the Central African Republic's (CAR) economy from rebounding in 2021. The outlook is subject to downside risks arising from a reversal in security gains and the impact of the Ukraine-Russia war on commodity and food prices, which could adversely affect public finances and growth and result in significant social hardship and humanitarian costs. The ability of traditional partners to provide support in a geopolitically more complex environment weighs heavily on the outlook, which is vulnerable to headwinds.

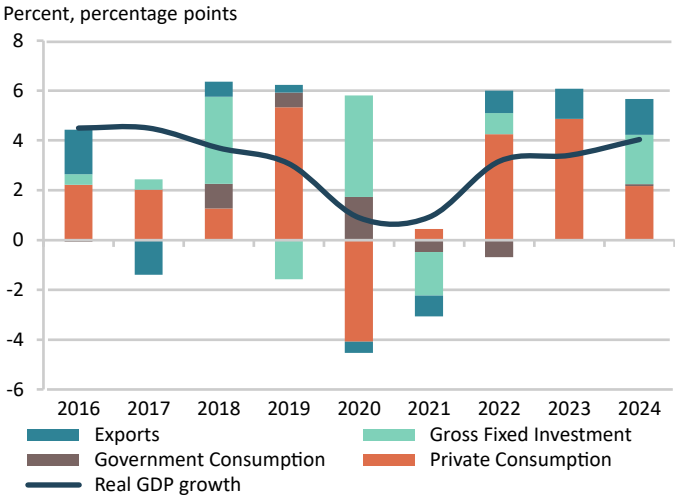
Key conditions and challenges

Repeated instability and violence have exacerbated CAR's socioeconomic indicators and kept the country at the bottom of most development rankings. While endowed with ample natural resources, the country's economy is poorly diversified, with agriculture and forestry constituting the backbone of economic activities. The agriculture sector accounts for more than 75 percent of total employment, and timber, cotton, coffee, diamond, and gold represented more than 85 percent of total exports in 2019. Poverty is high, with more than 7 in 10 Central Africans living below the international poverty line (measured using US$1.90 per day, 2011 PPP). Inadequate social protection systems and limited access to education and healthcare facilities are major bottlenecks for human capital accumulation. The formal private sector is small and constrained by several structural challenges, including limited access to finance, a weak regulatory framework, poor infrastructure (e.g., energy and transportation), lack of skilled labor, and a fragile security and political environment. The humanitarian situation remains precarious, with 43 percent of the population facing acute food insecurity. As of January 2022, there were 734,000 refugees outside the country—the highest level since December 2013—and 652,000 internally displaced persons.

Recent developments

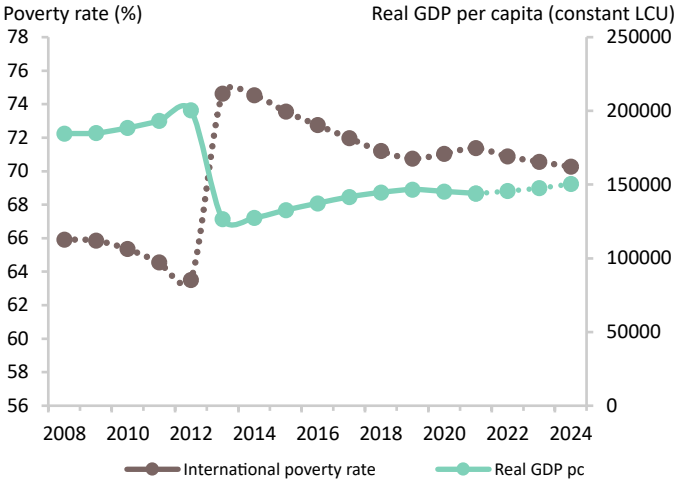
CAR's economic growth stagnated in 2021 due to renewed insecurity, coupled with the protracted effects of COVID-19 on the global economy. Economic activity suffered particularly in 2021Q1 as renewed insecurity amid election disputes disrupted production and trade. Boosted by the resumption of commerce along the Douala-Bangui corridor and security gains, economic activity picked up in the second half of the year. Mining and agricultural production accelerated, owing to improved security around production sites and favorable rainfall. Public investment declined from 11.4 percent of GDP in 2020 to 7.5 percent of GDP in 2021 as the government unwound its COVID-19 fiscal stimulus package. Economic growth is projected to increase by 3.2 percent in 2022, supported by the prospect of improved security and the ceasefire agreed in the Luanda roadmap (i.e., the regional initiative to restore peace). Conflict and COVID-19 have hampered progress in reducing extreme poverty, with 71.4 percent of the population living in extreme poverty in 2021, up slightly from 71.0 percent in 2020. Renewed conflict in late 2020/early 2021 contributed to significant inflationary pressures in the first half of 2021, which decelerated markedly as traffic along the country's lifeline resumed. As a result, inflation reached an average of 3.8 percent in 2021—above the 3 percent regional ceiling. High inflation is projected to linger in 2022 on the back of rising

FIGURE 1 Central African Republic / Real GDP growth and contributions to real GDP growth



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

commodity prices and persistent disruptions in food supply chains. The Bank of Central African States tightened its monetary policy in late 2021 over concerns about the evolution of foreign exchange reserves, which, despite higher oil prices and the International Monetary Fund 2021 Special Drawing Rights (SDR) allocation, represented just above 3 months' worth of regional imports of goods and services by end-December 2021—roughly the same as at end-December 2020.

The overall fiscal deficit widened from 3.3 percent of GDP in 2020 to 6.1 percent of GDP in 2021, reflecting a decline in domestic revenue and the cancelation and postponement of budget support from donors due to geopolitical tensions and the lack of transparency of the country's security expenditures. Pressures on public finances were high throughout 2021 despite cuts in public spending, forcing the government to rely on bridge financing on the domestic market. Cashflow pressures are expected to remain high in 2022, with a risk of a potential liquidity shortage if budget support from donors does not materialize. The government has already revised downward its public expenditure plan and is considering new borrowing on the domestic market to prevent any liquidity shortages.

The current account deficit widened from 8.8 percent of GDP in 2020 to an estimated 10.8 percent of GDP in 2021, owing mainly to delays in the disbursement of official transfers. The SDR allocation (equivalent to 5.8 percent of GDP) did, however, provide additional liquidity to meet some of the country's financing needs. The trade balance improved as the rebound in exports during the second half of 2021 exceeded the uptick in imports. Persistent global uncertainty related to COVID-19 and renewed conflicts translated to a lower-than-expected recovery of foreign direct investment. The current account balance is projected to improve in 2022 as exports recover and official transfers resume.

Outlook

Provided that security gains are not reversed, and the impact of the Ukraine-Russia war on the global economic recovery is contained, economic growth is expected to average 3.5 percent in the medium term, supported by solid agricultural and industrial output on the supply side and high private consumption on the demand side. Under these assumptions, per capita income is expected to return to its pre-COVID-19 level by 2023. Extreme poverty is projected to remain high, with a slow decline between 2022 and 2024.

Inflation is expected to remain below the regional convergence criteria in the medium term, contingent on stable and improved security on the Douala-Bangui corridor and a slowdown in inflationary pressures at the global level. The fiscal balance is projected to remain in deficit in the medium term, as donor financing gradually declines without being offset by domestic revenues. Public debt is projected to remain sustainable. The current account balance is expected to improve in the medium term, reflecting an improvement in the trade balance, but it should remain structurally in deficit.

Risks to the outlook remain high and tilted to the downside. The absence of donor budget support could lead to the accumulation of external arrears and possible nonpayment of public wages, resulting in significant socioeconomic hardship. A reversal in security gains could undermine economic activity and traffic on the main trade corridor. The possible lingering effect of the pandemic, coupled with the impact of the Ukraine-Russia war at the global level, could lead to persistent disruptions in global supply chains and higher commodity prices, resulting in higher fuel and grain prices, with adverse effects on public finances and private consumption, as well as on poverty due to the effects of higher food prices.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.1	0.9	0.9	3.2	3.4	4.0
Private Consumption	5.7	-4.2	0.5	4.7	5.3	2.3
Government Consumption	7.7	21.5	-4.9	-10.3	2.9	1.0
Gross Fixed Capital Investment	-9.6	28.3	-9.6	6.7	-1.4	12.3
Exports, Goods and Services	1.9	-2.8	-5.5	6.3	8.2	9.3
Imports, Goods and Services	4.9	1.0	-10.3	7.1	8.4	4.9
Real GDP growth, at constant factor prices	2.6	0.9	1.2	3.1	3.4	3.9
Agriculture	3.1	4.5	3.2	3.8	4.2	4.0
Industry	2.1	0.0	-0.2	0.6	1.0	1.3
Services	2.3	-1.2	0.4	3.5	3.6	4.6
Inflation (Consumer Price Index)	2.8	2.3	3.8	3.6	2.7	2.5
Current Account Balance (% of GDP)	-4.8	-8.8	-10.8	-6.8	-7.9	-6.6
Fiscal Balance (% of GDP)	1.7	-3.3	-6.1	-2.3	-2.0	-1.8
Debt (% of GDP)	47.9	44.0	48.4	44.9	43.4	41.9
Primary Balance (% of GDP)	2.0	-3.0	-5.8	-1.8	-1.4	-1.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	70.8	71.0	71.4	70.9	70.6	70.3
GHG emissions growth (mtCO2e)	0.9	0.6	0.6	1.9	2.2	2.4
Energy related GHG emissions (% of total)	39.8	39.8	39.7	40.3	40.8	41.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2008-ECASEB. Actual data: 2008. Nowcast: 2009-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2008) with pass-through = 0.7 based on GDP per capita in constant LCU.

CHAD

Table 1	2021
Population, million	16.9
GDP, current US$ billion	11.4
GDP per capita, current US$	672.8
International poverty rate ($1.9)[a]	33.2
Lower middle-income poverty rate ($3.2)[a]	66.4
Upper middle-income poverty rate ($5.5)[a]	87.9
Gini index[a]	37.5
School enrollment, primary (% gross)[b]	89.2
Life expectancy at birth, years[b]	54.2
Total GHG Emissions (mtCO2e)	118.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ Most recent WDI value (2019).

GDP contracted by 1.2 percent in 2021 (4.2 percent per capita) - the second consecutive year of recession – due to a temporary suspension of oil production, socio-political insecurity, and liquidity constraints. This situation likely increased extreme poverty by 2 percentage points. Growing food and general insecurity, climatic shocks, and continued dependency on volatile oil revenues heightens the risks to the fragile recovery during a sensitive political transition.

Key conditions and challenges

Chad's economy has performed below potential since the 2014-15 oil price shock. Notwithstanding the 2018-19 recovery, annual GDP growth contracted by 1.1 percent on average over the past six years, which, given the rapidly growing population, translated into an annual decrease in per capita income of 4.1 percent. Oil constitutes about 20 percent of GDP, 35 percent of revenue, and 75 percent of exports. Chad ranked 187th out of 189 countries on the Human Development Index in 2020. Living conditions and access to essential services remain poor due to severe weather conditions, cyclical insecurity, political unrest, weak governance, including oil revenues management, poor trade networks, low human capital investment, and a lack of infrastructure.

Chad has not strengthened regional integration, economic transformation, or access to electricity and digital technologies. Growing political and security expenses and high levels of debt service relative to domestic revenue have constrained Chad's ability to improve basic services and infrastructure delivery.

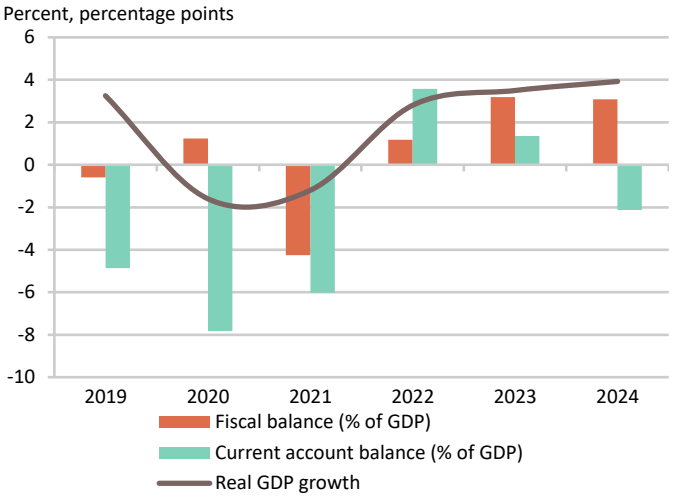
Recent developments

Chad's GDP contracted by 1.2 percent (4.2 percent per capita) in 2021, following a 1.6 percent (4.6 percent per capita) contraction in 2020. The passing of President Deby led to economic disruptions in the second quarter of 2021 as the new authorities consolidated power. Workers' strikes led to the suspension of oil production on Esso plants (one-fourth of Chad's production), driving a decline in oil production of 8.2 percent over the year. Although the country suffered from food insecurity, due partly to weak cereal production after poor rains, agriculture remained the main non-oil growth driver, contributing 1.9 percentage points (pp), while services contracted 4.4 pp. Export value increased by 55.3 percent due to the increase in oil prices (66.4 percent), helping the current account deficit narrow from 7.8 percent of GDP to 5.6 percent in 2021.

As containment measures on domestic supply chains were slowly lifted, inflation dropped from 3.5 percent to one percent in 2021. Food inflation was 3 percent, significantly lower than the rest of Sahel. Chad's monetary and exchange rate policies are managed by the regional Central Bank, which supported regional reserve accumulation by raising its policy rate to 3.5 percent and the marginal lending facility rate from 5 to 5.25 percent. As a result, regional reserves increased to 3.4 months of imports from 3.1 months in 2020, thanks also to regional fiscal consolidation policies and rising oil prices.

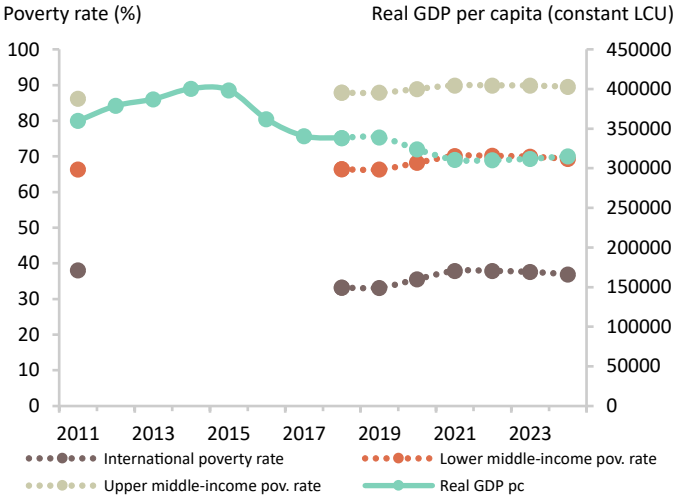
Despite a significant increase in oil prices, the fiscal deficit, excluding grants, stood at 6.7 percent of GDP (4.3 percent including grants) in 2021, due to the one-year lag in the main component of oil-revenue taxation as well as an increase in security and

FIGURE 1 **Chad** / GDP growth, current account and fiscal balance



Source: World Bank

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



Source: World Bank. Notes: see Table 2.

political transition spending. Total public debt slightly increased while debt services remained too high; the Government has requested a debt restructuring under the G20 Common Framework to help restore debt sustainability.

The extreme poverty rate (US$1.9/ day per capita, 2011 PPP) is projected to have increased by more than 2 pp between 2020 and 2021, reaching 37.8 percent, with the number of extremely poor increasing from 5.8 to 6.2 million. The COVID-19 crisis further impacted the livelihoods of poor and vulnerable households. In high-frequency phone surveys in 2021, 76 percent of households reported a loss in their total household income and 21 percent of households seeking health care could not get access to it.

Outlook

Based on current projections for oil prices, the global recovery, and the Government's gradual fiscal consolidation program, the economy is expected to grow by 2.8 percent in 2022 (-0.2 percent per capita). The positive outlook for the oil sector, services, and agriculture should strengthen over the medium-term, with growth averaging 3.7 percent per annum. Higher global energy and food prices due to the Russia-Ukraine war is projected to increase inflation in 2022.

The current account balance is projected to become positive, at 0.9 percent of GDP on average over 2022-24, driven by increased activity in the oil and services sectors. The fiscal balance is expected to stand at 1.2 percent of GDP in 2022 and further improve in 2023-24 due to significant increases in oil revenues, more controlled security spending and less political transition-related expenditures. However, Chad will still need a significant debt restructuring to service its debts while increasing social and investment spending needs, and to reduce oil price volatility risk.

The extreme poverty rate is expected to increase to 38 percent in 2022 due to negative GDP per capita growth. The number of poor will likely increase to 6.4 million. Continued high food inflation, low coverage of social protection programs, and lack of structural economic transformation will limit the space for poverty reduction. The social protection system should be strengthened to extend its coverage and better target the poorest and most vulnerable.

This outlook is subject to high uncertainty and multiple downside risks, including increased political instability during a transition period, intensified security risks, further climate-related shocks, continuing food security challenges, uncontrolled local COVID outbreaks, and widespread social discontent from food and general insecurity. At least one of these risks will likely materialize, and concurrent shocks are a possibility. The economic consequences of the Russia-Ukraine war would primarily be through higher global food (grains/fertilizer) and energy prices. The projections already reflect recent sharp increases in oil and gas, agriculture and metal and mineral prices since January 2022. Chad should benefit from higher global oil prices and direct this benefit towards inclusive growth to reduce poverty.

TABLE 2 Chad / 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	-1.6	-1.2	2.8	3.5	3.9
Private Consumption	1.4	0.5	1.6	2.8	2.9	3.3
Government Consumption	1.7	11.1	3.7	3.7	0.2	0.0
Gross Fixed Capital Investment	6.6	-14.7	-4.5	0.7	5.3	7.2
Exports, Goods and Services	6.0	1.1	-0.4	3.9	4.6	3.7
Imports, Goods and Services	4.0	1.8	5.1	3.5	4.0	3.0
Real GDP growth, at constant factor prices	3.3	-1.6	-1.2	2.8	3.5	3.9
Agriculture	0.1	3.9	6.2	5.0	4.3	4.3
Industry	7.3	-0.1	-4.6	1.3	2.8	1.6
Services	2.5	-7.0	-4.4	2.1	3.3	5.6
Inflation (Consumer Price Index)	-1.0	3.5	1.0	3.5	3.0	3.0
Current Account Balance (% of GDP)	-4.9	-7.8	-6.0	3.6	1.4	-2.1
Fiscal Balance (% of GDP)	-0.6	1.2	-4.3	1.2	3.2	3.1
Debt (% of GDP)	51.1	49.9	52.1	51.6	53.2	47.6
Primary Balance (% of GDP)	1.0	2.9	-2.7	2.8	4.8	4.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	33.1	35.5	37.8	37.9	37.6	36.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	66.4	68.2	70.1	70.2	69.9	69.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	87.9	88.9	89.9	89.9	89.8	89.5
GHG emissions growth (mtCO2e)	3.8	4.0	4.2	4.2	4.2	4.2
Energy related GHG emissions (% of total)	1.6	1.5	1.5	1.5	1.5	1.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

COMOROS

Table 1	2021
Population, million	0.9
GDP, current US$ billion	1.3
GDP per capita, current US$	1444.6
International poverty rate ($1.9)[a]	19.1
Lower middle-income poverty rate ($3.2)[a]	39.7
Upper middle-income poverty rate ($5.5)[a]	64.6
Gini index[a]	45.3
School enrollment, primary (% gross)[b]	99.5
Life expectancy at birth, years[b]	64.3
Total GHG Emissions (mtCO2e)	0.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2011 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2019).

The COVID-19 is still weighing on Comoros, as the economy grew below its potential in 2021. Driven by an expansionary fiscal policy, growth is expected to pick up in 2022-2024. However, the recovery could be constrained. The country, already at a high risk of debt distress, is facing growing imbalances. In addition, Comoros will however face several external headwinds. Poverty will decline in 2022 due to improvement in economic growth.

Key conditions and challenges

Comoros is a small and fragile island with significant structural challenges hindering its development. The GDP per capita growth rate which was, around 0.5 percent, over the last two decades, is a result of institutional and economic weaknesses, poor infrastructure provision, and natural shocks.

Low domestic revenue mobilization, stemming from weak administrative capacity as well as poor economic performance, translated into low human and physical capital. Consequently, between 2002 and 2018, the country's produced physical capital per capita declined by 27.7 percent while the human capital wealth per capita increased by only 0.16 percent. Thus, human and physical capital's contribution to Comoros growth has been marginal.

Growth is primarily led by private consumption, and private remittances are fueling the consumption-driven growth trajectory. On the supply side, growth is heavily driven by the service and agriculture sectors while there is an important untapped potential in the fishing and tourism industries. Realizing a sustainable and inclusive growth would require tapping in those industries while improving human and physical capital, better leveraging the diaspora potential, and improving the institutional quality.

Comoros outlooks face several headwinds related to the risks for additional inflationary pressures that would reflect price trends in commodities and freight costs, the possible spread of new COVID-19 variants that would restrain international travel and trigger stringent restrictions at the national and global levels, and there is a high risk of sovereign debt distress.

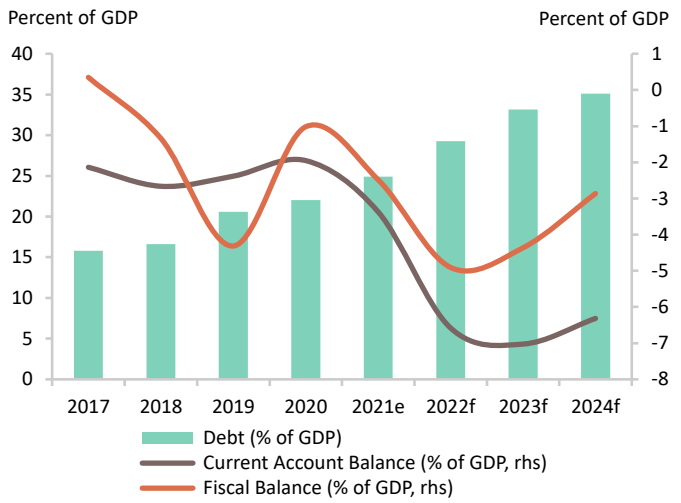
Recent developments

While Comoros has been relatively spared by the COVID-19, the pandemic still weighed on the economy through the impact of national restrictive measures on consumption. Thus, driven by an expansionary fiscal policy and a sluggish private consumption, the economy expanded by 2.4 percent in 2021. The service sector, which was the main driver of the growth, recovered slightly, growing by 2.8 percent in 2021 in comparison to -2.2 percent in 2020. Compared to 2020, the poverty rate remained stable at 39.7 percentage points in 2021.

Moreover, the pandemic and its impacts on the global supply chain fueled shortages and the inflation rate reached 7.1 percent (y-o-y) in December 2021 from -4.8 percent in December 2020. The price increase was primarily driven by food and non-alcoholic beverage products (+12.2 percentage points), health prices (+7.6 percentage points) and transport prices (+5.3 percentage points). Though, it remained low, on average, in 2021 (1.4 percent).

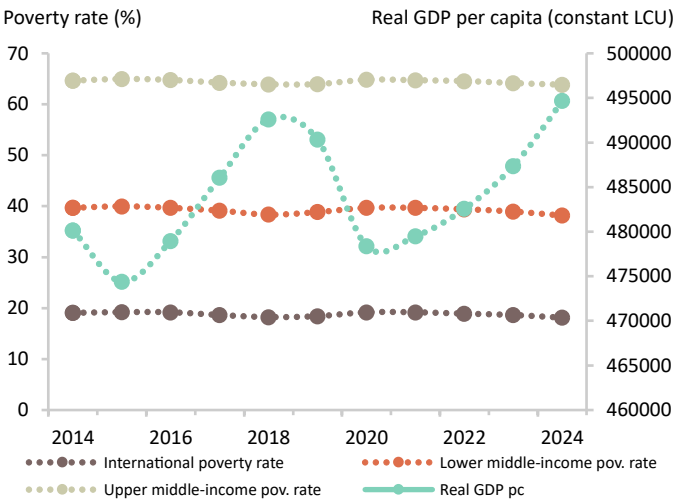
The expansionary fiscal policy led to a higher fiscal deficit (2.5 percent of GDP in 2021 from 1.0 percent in 2020). This policy

FIGURE 1 Comoros / Selected macroeconomic indicators



Sources: National authorities, and staff estimates and forecasts.

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



Source: World Bank. Notes: see Table 2.

was characterized by an increase in transfers (+0.7 percent of GDP) and capital expenditures (+4.5 percent of GDP). Moreover, the government kept the freight cost valuation for imports to pre-March 2021 levels to reduce inflationary pressures. The increased fiscal needs (13.0 percent of GDP in 2021) stemming from this policy was financed by external partners (10.7 percent of GDP), including the World Bank support for the vaccine rollout. The deficit was contained through the implementation of some tax and customs administration reforms under the IMF Staff Monitored Program. With a sluggish growth and expansionary fiscal policy, public debt increased to 24.9 percent of GDP in 2021 from 22.1 percent in 2020. There is a high risk of public debt distress due to the signature of a non-concessional loan for the tourism sector.

Following the decrease in remittances and the increase in the import bill, Comoros recorded a deterioration of its current account deficit to 3.4 percent of GDP in 2021, from 2.0 percent in 2020. However, Comoros' overall external position has marginally improved as reserves had increased to 9.6 months of imports at end-September 2021, in comparison with 9 months at end-2020. This improvement in the overall external position stems from the Special Drawings Rights allocation of US$24 million.

Outlook

The economy is projected to expand by 2.8 percentage points in 2022 on the back of an expansionary fiscal policy. This slow recovery also reflects difficulties in the service sector that would grow below its potential because of structural sectoral issues, existing COVID-19 restrictions, and a lower purchasing power due to increased inflationary pressures at the global and national levels. In fact, the Russian invasion, war, and associated sanctions will impede Comoros recovery through its consequences on increased inflationary pressures, less remittances from France which hosts a substantial share of the Comorian diaspora, and the resulting slower increase in the domestic demand. The economy is expected to grow at a rate of 3.4 percent in 2023-2024 when the vaccination rate will increase, and if advanced economies fully recover, and tourists, mainly the ones from the diaspora, can return to Comoros for the different cycles of Grand Marriage.

A deterioration of the fiscal deficit is projected to increase to 4.9 percent of GDP on the back of an increase in domestically financed investment. With an increase in the import bill due to the expansionary fiscal policy, and a decline of remittances, a deterioration of the external position is projected, and the current account deficit is forecasted to increase to 6.6 percent of GDP in 2022 and reach 7.0 percent in 2023.

Against this backdrop, the poverty rate is expected to decrease only moderately over the next two years. By 2023, poverty is projected to return to its pre-COVID levels at 39.5 percent (when measured against the poverty line for lower middle-income countries of USD 3.2 a day per capita in PPP terms). Poverty rate is expected to continue to decrease to about 39.3 percent in 2024.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	1.8	-0.3	2.4	2.8	3.1	3.7
Private Consumption	3.8	3.8	1.6	2.1	4.6	3.3
Government Consumption	3.5	4.1	2.3	12.1	-1.1	5.3
Gross Fixed Capital Investment	-8.4	-14.4	2.5	6.2	8.1	-1.7
Exports, Goods and Services	6.8	-46.3	23.1	28.4	9.8	4.9
Imports, Goods and Services	5.7	-9.3	0.9	13.8	9.7	0.8
Real GDP growth, at constant factor prices	1.9	-0.8	2.4	2.8	3.1	3.7
Agriculture	0.9	4.3	1.6	-4.5	0.4	4.9
Industry	4.0	-5.6	2.1	6.3	3.1	3.2
Services	1.9	-2.2	2.8	5.6	4.3	3.2
Inflation (Consumer Price Index)	3.7	0.8	1.4	6.4	3.3	1.0
Current Account Balance (% of GDP)	-2.4	-2.0	-3.4	-6.6	-7.0	-6.3
Fiscal Balance (% of GDP)	-4.3	-1.0	-2.5	-4.9	-4.4	-2.9
Debt (% of GDP)	20.6	22.0	24.9	29.3	33.2	35.1
Primary Balance (% of GDP)	-4.1	-0.8	-2.2	-4.5	-3.7	-1.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	18.4	19.2	19.2	18.9	18.6	18.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	38.9	39.7	39.7	39.4	39.0	38.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	63.9	64.8	64.7	64.6	64.2	63.8
GHG emissions growth (mtCO2e)	3.5	2.4	2.6	3.2	3.1	3.1
Energy related GHG emissions (% of total)	42.4	42.3	42.5	43.0	43.4	43.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2014-EESIC. Actual data: 2014. Nowcast: 2015-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2014) with pass-through = 0.87 based on GDP per capita in constant LCU.

DEMOCRATIC REP. OF CONGO

Table 1	2021
Population, million	92.4
GDP, current US$ billion	59.5
GDP per capita, current US$	644.2
International poverty rate ($1.9)[a]	77.2
Lower middle-income poverty rate ($3.2)[a]	91.4
Upper middle-income poverty rate ($5.5)[a]	97.9
Gini index[a]	42.1
School enrollment, primary (% gross)[b]	118.5
Life expectancy at birth, years[b]	60.7
Total GHG Emissions (mtCO2e)	683.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2012), 2011 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2019).

Economic activity rebounded in 2021, with higher prices and production of copper and cobalt lifting GDP growth to an estimated 5.7 percent and supporting a narrower current account deficit. Reserves increased, easing pressures on the currency and inflation. Fiscal consolidation was achieved despite higher social and infrastructure spending. Continued uncertainty around the pandemic and local and international conflicts represent important risks to growth and poverty reduction.

Key conditions and challenges

The Democratic Republic of the Congo (DRC) has suffered from decades of conflict, poor governance, and volatile economic growth, which has led to persistently high levels of poverty. The economy is highly dependent on mineral extraction: copper and cobalt constitute over 80 percent of exports, with China absorbing 40 percent of exports. With its huge agriculture potential untapped, DRC is a net food importer, which increases vulnerabilities to external and climatic shocks. Structural constraints have led to an underdeveloped private sector and fostered a large informal economy. Improving the business environment and closing gaps in infrastructure and human capital are needed to achieve economic diversification and reduce commodity dependence.

DRC is led by a fragile coalition and political risks are high, a legacy of DRC's protracted periods of political unrest. Reaching political consensus and increasing the presence and credibility of the state, including through improved governance, will be key to maintain stability and advance structural reforms that will attract investments and create jobs. The need for the state to deliver more and better services to citizens means that expenditure-led adjustments to revenue shortfalls or external conditions could jeopardize not only long-term growth prospects and pro-poor spending but also political stability. Therefore, improving domestic revenue mobilization to widen fiscal space is crucial.

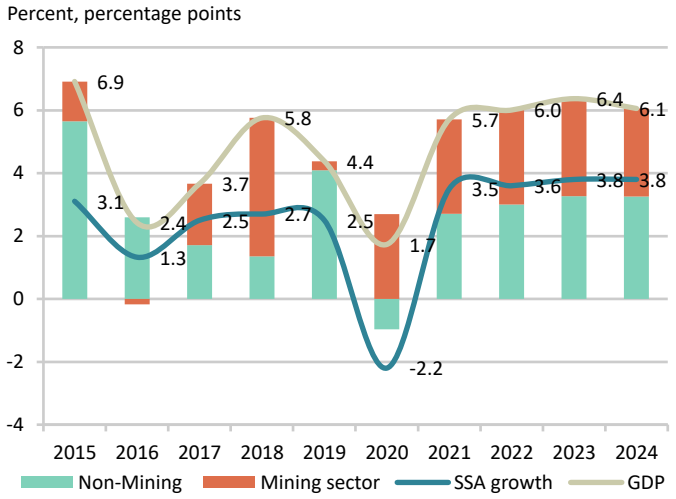
Poverty remains widespread, including in urban areas. Significant geographical disparities exist between provinces, with extreme poverty concentrated in central and northwestern provinces. DRC is second only to Nigeria in Sub-Saharan Africa in the number of extreme poor. Despite some improvements in recent years, social and human development indicators remain weak: in 2020, infant mortality was 63.8 per 1000 live births, higher than the Sub-Saharan average of 50.3, while the HCI of 0.37 is among the lowest of Sub-Saharan African countries.

Recent developments

Economic activity in DRC recovered strongly in 2021 with real GDP growth estimated at 5.7 percent. The mining sector was a key driver of growth- copper and cobalt production rose by 12.0 and 7.6 percent, respectively, as domestic production capacity increased with the launch in mid-2021 of the Kamoa-Kakula mining project. The easing of COVID restrictions, and higher revenues from the mining sector, which also benefited from rising prices, supported growth of non-mining sectors by 3.9 percent (2020: -1.3 percent).

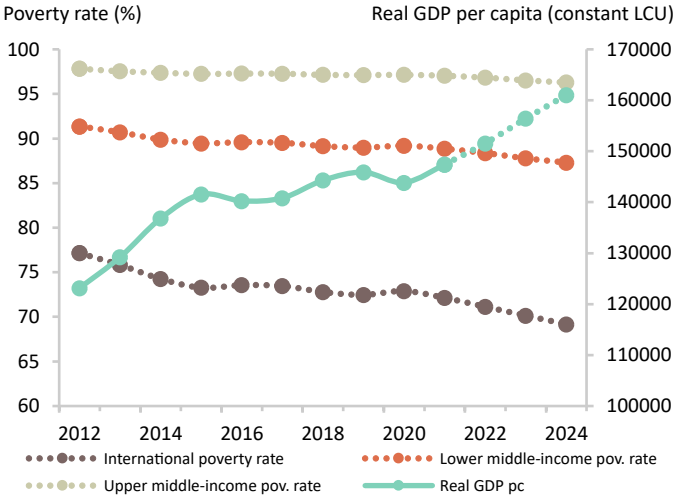
The CAD narrowed to about 1.0 percent of GDP in 2021 (2020: 2.2) due to improved terms of trade and higher mining exports volumes. Despite a small decline in foreign

FIGURE 1 Democratic Republic of Congo / Real GDP growth and sectoral contributions to real GDP growth



Sources: Democratic Republic of Congo Statistical Authorities, World Bank.

FIGURE 2 Democratic Republic of Congo / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

direct investment, the narrower current account and the IMF's SDR allocation boosted international reserves, which reached 6.4 weeks of imports in 2021 (2020: 2.1 weeks). With a slower depreciation rate of the CDF and a deceleration in inflation (to 9.1 in 2021), the Central Bank progressively cut its policy rate from 18.5 percent in January 2021 to 8.5 percent in mid-June 2021 and to 7.5 percent in early 2022.

Fiscal accounts were balanced in 2021 (2020: -1.2 percent) owing to higher revenues despite pressure on social and public infrastructure spending that lifted public expenditure up to 13.1 percent of GDP in 2021 (2020:10.1). Domestic revenue collection increased to 11.2 percent of GDP (2020: 8.7) with higher income and value-added tax collections and a better performance in non-tax revenue (of which mining revenue accounts for 30 percent).

The latest World Bank projections put poverty at 72.1 percent in 2021, a 0.8 percentage points decrease compared to 2020.[1]Despite adverse effects of the COVID-19 pandemic, explaining a slight poverty increase in 2020 with job losses and reduced food consumption for 10 and 20 percent of households, respectively, according to COVID-19 High Frequency Phone surveys in Kinshasa, favorable economic prospects made it possible to reverse the trend by 2021.

1/ The projections, estimated using macroeconomic forecasts, are preliminary and as more data come from the ground, poverty projections will be updated.

Outlook

GDP growth is estimated to accelerate to 6.4 percent by 2023 driven by the services sector (mostly trade and telecommunication). The mining sector is expected to expand further in 2022 and pick up pace by 2024 as Kamoa-Kakula - aiming to become the second largest copper mine in the world- enters its second phase of production in late-2022.

The fiscal deficit could widen to about 2.7 percent by 2022 as the government is likely to provide some cushion to higher oil and food prices. The CAD is projected to narrow further in 2022 with a slight surplus estimated at 0.1 percent as higher commodity prices improve terms of trade (higher oil prices might accelerate further the demand for cobalt, a key component in rechargeable batteries).

Despite the lasting adverse effect of the pandemic, high population growth, and the Russian invasion, extreme poverty is projected to decrease by 2.8 percentage points by 2024 given favorable economic prospects.

DRC's economy remains vulnerable to commodity price movements and growth performance of its major trading partners which might be disturbed by geopolitical conflicts and a resurgence of the pandemic. The economic consequences of the Russian invasion and associated sanctions, through rising global food costs and higher oil prices, could exert strong pressure on inflation and on households' consumption, raising the burden on expenditures by up to 15 percent and subsequently reducing private consumption growth.

With the agriculture sector employing over 60 percent of the working age population, vulnerability to climate change related risks (floods, droughts) is substantial. Finally, continued political uncertainty ahead of planned 2023 presidential elections, might delay reform efforts, worsen fiscal imbalances and generate arrears. DRC's immediate challenge is to maintain political and macroeconomic stability while stepping up ongoing reforms to ensure sustainable growth.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.4	1.7	5.7	6.0	6.4	6.1
Private Consumption	17.3	-8.0	1.6	1.5	2.0	2.2
Government Consumption	6.6	4.1	20.9	11.7	2.6	7.2
Gross Fixed Capital Investment	6.3	31.3	33.6	13.1	17.2	11.3
Exports, Goods and Services	1.4	8.0	14.9	12.5	8.0	8.0
Imports, Goods and Services	25.2	12.0	30.7	11.4	12.4	8.7
Real GDP growth, at constant factor prices	4.6	2.3	5.6	5.9	6.2	6.0
Agriculture	3.1	2.5	2.4	2.5	2.6	2.7
Industry	4.1	4.2	6.6	7.2	7.5	7.0
Services	5.7	0.1	5.6	5.7	6.1	6.0
Inflation (Consumer Price Index)	4.7	11.2	9.1	9.5	7.0	6.0
Current Account Balance (% of GDP)	-3.4	-2.2	-1.0	0.1	-0.5	-0.8
Fiscal Balance (% of GDP)	-2.0	-1.2	0.0	-2.7	-1.6	-1.1
Debt (% of GDP)	19.5	22.4	21.7	21.2	19.8	16.0
Primary Balance (% of GDP)	-1.8	-1.0	0.2	-2.2	-1.1	-1.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	72.5	72.9	72.1	71.1	70.1	69.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	89.0	89.2	88.9	88.4	87.8	87.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	97.1	97.2	97.1	96.8	96.5	96.3
GHG emissions growth (mtCO2e)	0.1	0.0	0.2	0.2	0.1	0.1
Energy related GHG emissions (% of total)	2.2	2.2	2.3	2.3	2.4	2.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2012-E123. Actual data: 2012. Nowcast: 2013-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2012) with pass-through = 0.7 based on GDP per capita in constant LCU.

REPUBLIC OF CONGO

Table 1	2021
Population, million	5.7
GDP, current US$ billion	12.1
GDP per capita, current US$	2132.9
International poverty rate ($1.9)[a]	39.6
Lower middle-income poverty rate ($3.2)[a]	64.1
Upper middle-income poverty rate ($5.5)[a]	83.9
Gini index[a]	48.9
School enrollment, primary (% gross)[b]	93.7
Life expectancy at birth, years[b]	64.6
Total GHG Emissions (mtCO2e)	20.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2011), 2011 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2019).

The Republic of Congo's (ROC) economy contracted by an estimated 3.5 percent in 2021. The poverty rate increased from 51.9 percent in 2020 to an estimated 53.9 percent in 2021. The ROC is expected to make a gradual recovery from the COVID-19 crisis, with GDP growth projected at 3.7 percent in 2022-24. A prolonged war in Ukraine could increase inflationary pressures in the country, but high oil prices may further sustain the recovery.

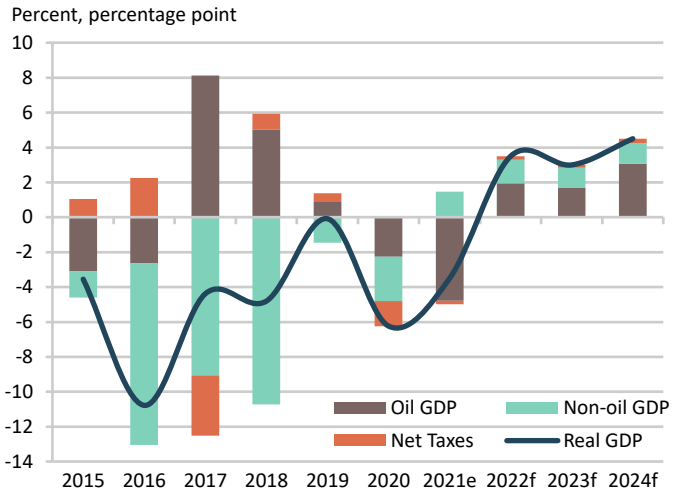
Key conditions and challenges

The Congolese economy, which is highly oil-dependent, has been contracting since the fall of oil prices in mid-2014, with GDP growth averaging -4.8 percent in 2015–21. The exposure to large swings in oil prices and weak governance, reflected in high levels of non-concessional borrowing, led the debt to become unsustainable and the country into debt distress, with its debt-to-GDP ratio increasing from 42.3 percent in 2014 to 113.2 percent in 2020. While debt restructuring agreements concluded in 2021, higher oil prices, and improved debt management (including restricting new external financing on concessional terms) have restored debt sustainability, ROC however remains in debt distress due to outstanding arrears with some external and domestic creditors. Natural resource revenues have not translated into higher income per capita growth, and human capital development remains below that of peer countries, owing to low government spending efficiency and weak governance in key sectors. The proportion of the population living below the international extreme poverty line of US$1.90 PPP per day increased from 39.1 percent in 2015 to 53.9 percent in 2021, with the poverty rate increasing by 5.2 percentage points between 2019 and 2021 alone, driven by the pandemic. The social and economic cost of COVID-19 further highlights the importance of reforms to protect and develop human capital and infrastructure, as well as to improve the business environment for faster, sustained, and inclusive economic growth. The pandemic continues to be a risk to the ROC's economic stability, especially given the slow pace of vaccination, with only about 12 percent of the population fully vaccinated as of March 17, 2022. Diversifying the economy away from oil remains a key challenge to reduce the country's vulnerability to volatile oil prices and production, which was highlighted by the 6.2 percent economic contraction recorded in 2020.

Recent developments

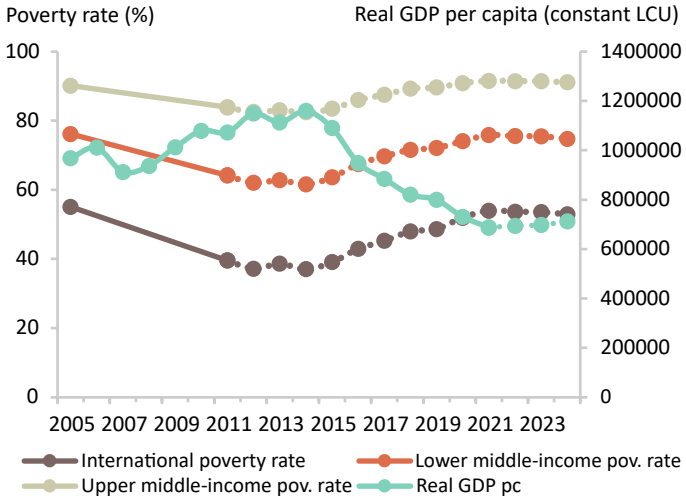
The Congolese economy is estimated to have contracted by 3.5 percent in 2021, a deeper recession compared to the World Bank fall forecast of -1.2 percent, owing to lower-than-expected oil production. Despite higher oil prices and increased global demand, oil production declined by 10.8 percent, year-on-year, in 2021 due to postponed investments, technical challenges, and maturing oil fields. By contrast, non-oil growth reached an estimated 3.4 percent in 2021, the first year of growth since 2014, driven by the resumption of economic activities (following the significant disruptions caused by the pandemic), increased use of locally sourced inputs by large firms, and progress in the repayment of domestic arrears. The overall GDP growth contraction resulted in an increase in extreme poverty from 51.9 percent in 2020 to 53.9 percent in 2021.

FIGURE 1 Republic of Congo / Real GDP growth and sectoral contributions to real GDP growth



Source: World Bank.

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



Source: World Bank. Notes: see table 2.

Overall inflation remained contained at 2.0 percent in 2021, but disruptions in global supply chains and high international commodity and agricultural prices exerted inflationary pressures on domestic food prices, which increased by about 3.4 percent, especially affecting the poor.

Despite the fall in oil production, government revenues increased due to higher oil prices, which, together with a moderation in public spending, led to a fiscal surplus estimated at 2.1 percent of GDP in 2021 (compared to a deficit of 2.4 percent of GDP in 2020). Public debt fell sharply from 113.2 percent of GDP in 2020 to 98.5 percent of GDP in 2021, driven by high external debt service payments tied to oil prices and the increase in nominal GDP. In the external sector, high export receipts resulting from higher oil prices led to an estimated current account surplus of 9.0 percent of GDP in 2021 (compared to a surplus of 0.9 percent of GDP in 2020). The Bank of Central African States tightened its monetary policy in late 2021 over concerns about the evolution of foreign exchange reserves, which, despite higher oil prices and the International Monetary Fund's 2021 Special Drawing Rights allocation (equivalent to US$1.4 billion), represented just above 3 months' worth of the region's imports of goods and services by end-December 2021 (roughly the same as by end-December 2020).

Outlook

The ROC is expected to gradually recover from the COVID-19 crisis, with GDP growth projected at 3.5 percent in 2022 and an average of 3.8 percent in 2023-24. Oil sector growth (expected at 4.0 percent in 2022 and an average of 4.9 percent in 2023-24) would be driven primarily by the resumption of investments by oil companies, including for asset maintenance, which had been postponed due to the pandemic and negotiations with oil companies over taxation arrangements. Non-oil economic growth (expected at 3.0 percent in 2022 and 2.5 percent, on average, in 2023-24) will be spurred by the removal of COVID-19 restrictions in early 2022, continued progress in repayment of domestic arrears, and the resumption of public investments (partially due to an increase in fiscal space from higher oil revenues). However, the war in Ukraine may also translate into higher inflation of about 2.8 percent in 2022 and an average of 3.0 percent in 2023-24. Food inflation is expected to rise even higher, impacting the country's food security, given that food accounts for about 30 percent of the ROC's merchandise imports. The poverty rate is expected to slightly decline to an average of 53.4 percent in 2022–24, consistent with GDP per capita growth. The return of real GDP per capita to the pre-COVID level of US$1,800 by 2030 will require the economy to grow by 4.5 percent, on average, starting in 2025. Meanwhile, the poverty rate is projected to return to pre-pandemic levels by 2028.

The fiscal balance is expected to remain positive at 4.1 percent of GDP in 2022 and an average of 2.3 percent in 2022–24 due to higher oil revenues, fueled by higher oil prices (resulting from the conflict in Ukraine) and improved non-oil revenue mobilization (resulting from tax administration reforms). Higher oil prices are also projected to widen the current account surplus to 15.3 percent of GDP in 2022, before it narrows to an average of 4.6 percent of GDP in 2023-24, as investments in new oil fields will lead to an increase in equipment imports.

Downside risks include uncertainties related to the pandemic and oil production. A prolonged war in Ukraine represents both downside and upside risks. While it would further raise international agricultural prices, adding substantial inflationary pressures, it could also sustain high oil prices, potentially strengthening the economic recovery.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	-0.1	-6.2	-3.5	3.5	3.0	4.5
Private Consumption	1.6	-6.9	7.5	5.0	4.5	5.5
Government Consumption	-18.7	-33.1	9.7	9.4	4.6	4.1
Gross Fixed Capital Investment	-2.3	-45.0	12.7	6.9	10.9	10.9
Exports, Goods and Services	7.4	-11.1	-9.6	4.7	3.4	6.0
Imports, Goods and Services	3.2	-36.3	5.0	11.0	9.8	11.5
Real GDP growth, at constant factor prices	-0.6	-5.1	-3.5	3.5	3.0	4.5
Agriculture	0.2	4.5	1.5	2.7	2.1	2.0
Industry	0.2	-3.7	-9.2	4.0	3.5	6.3
Services	-1.8	-9.2	3.9	3.0	2.6	2.7
Inflation (Consumer Price Index)	2.2	1.4	2.0	2.8	3.0	3.0
Current Account Balance (% of GDP)	-0.8	0.9	9.0	15.3	6.6	2.7
Net Foreign Direct Investment (% of GDP)	3.4	2.4	5.5	5.0	5.7	5.9
Fiscal Balance (% of GDP)	3.4	-2.4	2.1	4.1	2.8	1.9
Debt (% of GDP)	81.9	113.2	98.5	82.6	77.6	71.9
Primary Balance (% of GDP)	8.0	-0.6	4.3	6.0	4.7	3.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	48.7	51.9	53.9	53.6	53.5	52.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	72.1	74.1	75.8	75.5	75.5	74.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	89.6	90.9	91.5	91.5	91.4	91.1
GHG emissions growth (mtCO2e)	2.3	-1.2	0.1	1.5	1.4	1.8
Energy related GHG emissions (% of total)	21.3	19.9	19.5	20.1	20.7	21.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2011-ECOM. Actual data: 2011. Nowcast: 2012-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2011) with pass-through = 0.7 based on GDP per capita in constant LCU.

CÔTE D'IVOIRE

Table 1	2021
Population, million	27.1
GDP, current US$ billion	66.2
GDP per capita, current US$	2445.4
International poverty rate ($1.9)[a]	9.2
Lower middle-income poverty rate ($3.2)[a]	34.9
Upper middle-income poverty rate ($5.5)[a]	67.4
Gini index[a]	37.2
School enrollment, primary (% gross)[b]	100.5
Life expectancy at birth, years[b]	57.8
Total GHG Emissions (mtCO2e)	49.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

The recovery in 2021 registered 7.0 percent growth (4.4 percent per capita), with a rebound in domestic demand. Inflation reached a 10-year high, casting a shadow over the gains for poor households. Headwinds prevail in the short-term from the surge in global commodity prices, the tightening of financial markets, and supply-side disruptions resulting from the Ukraine conflict, along with heightened geopolitical and security tensions from the Sahel.

Key conditions and challenges

One of the fastest-growing economies in sub-Saharan Africa for almost a decade - with real GDP growth averaging 8.2 percent annually over 2012–19 (5.7 percent in per capita terms) - Cote d'Ivoire exits the global COVID-19 crisis facing a renewed imperative: addressing bottlenecks to enable structural transformation and sustain inclusive growth. Total factor productivity growth has remained flat since 2017, and economic complexity has stalled, below the level expected for its income level. The informal sector, although shrinking, still accounts for up to 40 percent of GDP.

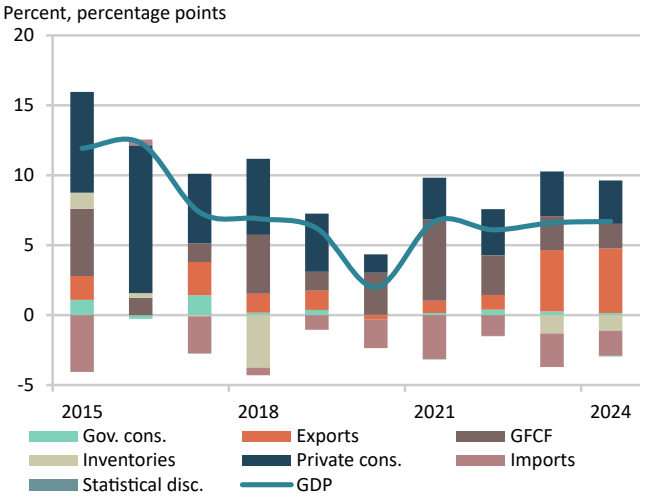
Aiming to double GDP per capita by 2030, the authorities adopted the National Development Plan (NDP) 2021-2025 in December 2021, based on leveraging private investment, capital deepening, improvements in human capital, addressing climate risks, and strengthening governance. Improving factor accumulation while reducing allocative inefficiencies created by market distortions should improve productivity, and support the development of higher-value added sectors in services and manufacturing.

Downside risks in the short term have risen due to the Ukraine conflict's impact on global commodity prices and supply-side disruptions to agricultural inputs. A tightening of global financial conditions could increase debt vulnerabilities, while higher oil and food prices will continue fueling inflationary pressures. While the vaccination rollout is among the highest in West Africa, vulnerabilities from new infection waves remain. Heightened regional and security tensions and climate-related factors could also dampen the outlook. In the medium term, the roll out of the NDP will depend on adequate financing, premised on greater domestic revenue mobilization and private financing.

Recent developments

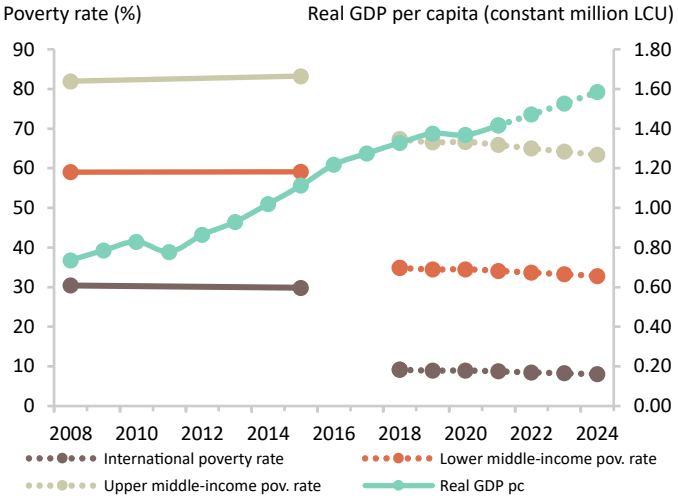
The economy rebounded strongly from the COVID-19-induced slowdown in 2020, aided by fiscal and monetary policy support and less disruptive containment measures. Real GDP growth is estimated at 7.0 percent in 2021 (4.4 percent in per capita terms) against 2 percent in 2020 (-0.6 percent in per capita terms), owing to stronger-than-expected domestic demand. Private consumption and investment were supported by strong credit (+13 percent) and employment (+7.5 percent) growth; while public consumption and investments remained high. Net exports were negative at end-November, as exports of cocoa and cashew nuts were offset by investment-driven imports (+15.1 percent). The supply side was marked by a strong expansion in commerce and services, including trade and telecom despite temporary disruptions in electricity supply caused by climate-related factors in the first half of the year. Agriculture's performance was more mixed with weak food

FIGURE 1 Côte d'Ivoire / Real GDP growth and contributions to real GDP growth



Source: World Bank.

FIGURE 2 Côte d'Ivoire / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

crop production contrasting that of export crops. The current account deficit is expected to have widened to 3.8 percent of GDP in 2021 from 3.2 percent in 2020, reflecting lower trade surplus and higher primary and secondary deficits due to lower official grants and net remittances flows as well as higher interest payments.

Inflation reached a 10-year high of 4.2 percent, 1.2 percentage points above the regional target, mainly driven by foodstuffs because of a water deficit that affected production, and disruptions in the cultivation schedules of some crops because of mobility restrictions lingering since 2020 and increased security in the northern borders.

Côte d'Ivoire's monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO), which maintains a fixed peg between the CFA Franc and the Euro. Its reserves reached 5.8 months of imports in 2021 owing to increased exports, the August 2021 SDR allocation, and Eurobond issuances in the region (by Benin, Côte d'Ivoire, Senegal and the BOAD).

High expenditure levels to support economic recovery were offset by higher-than-expected revenue collection, allowing for a decline of the fiscal deficit to 5.1 percent of GDP in 2021. Tax revenues significantly increased (+20 percent yoy), exceeding the annual target by more than 15 percent, mostly due to tax buoyancy. Meanwhile, expenditure increased on account of further security and health needs, and public investment. Capital expenditure outpaced their target by 20.3 percent, linked to PND projects. Increased financing needs were covered by recourse to the regional market, the allocation of IMF SDRs (1.3 percent of GDP) and Eurobond issuances. As a result, public debt also increased to 52.6 percent of GDP.

The incidence of extreme poverty measured with the US$1.9 a day per capita (2011 PPP) international poverty line declined from 8.95 percent in 2019, to 8.75 percent in 2021, slightly higher in comparison to pre-COVID (2019) poverty projections of 8.6 percent. The recent inflation spike is estimated to have increased extreme poverty rate by 0.2 ppt point over the 2020-21 period.

Outlook

The medium-term outlook is broadly positive, supported by the PND and a commitment to macroeconomic stability, but real GDP growth is projected to decelerate in 2022 due to the Ukraine conflict and its global effects. Trade flows with Ukraine and Russia are small, but the indirect impact through higher food and fuel prices would still impact the external and real sectors. The current account deficit should widen due to higher import prices in the short term. Coupled with worsening regional tensions and insecurity on the northern borders compounding supply disruptions, inflation could become a major threat forcing the BCEAO to tighten monetary policy earlier, increasing financing costs of domestic debt.

The fiscal deficit is now expected to increase in 2022, with fiscal consolidation delayed as a result of the external shock. It should converge towards the WAEMU target of 3 percent of GDP one year later, in 2025, with PPG debt only gradually stabilizing around 52 percent of GDP in 2023-24. In the medium term, creating fiscal space and preserving debt sustainability would require additional revenue mobilization. Increased borrowing in the domestic market could potentially crowd out private investment. Poverty alleviation should continue in the medium term on the back of the economic recovery and the rollout of the new social development plan (PSGOUV2).

TABLE 2 Côte d'Ivoire / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	6.2	2.0	7.0	5.7	6.8	6.6
Private Consumption	6.0	1.9	5.0	4.2	4.5	4.3
Government Consumption	4.1	0.3	1.3	3.1	2.1	-0.2
Gross Fixed Capital Investment	5.5	12.2	21.3	9.1	7.8	6.0
Exports, Goods and Services	5.7	-1.3	3.7	9.8	17.1	15.6
Imports, Goods and Services	4.4	8.8	12.7	9.2	10.8	7.5
Real GDP growth, at constant factor prices	6.3	2.0	7.0	5.7	6.8	6.6
Agriculture	5.3	2.7	1.9	2.0	2.8	2.9
Industry	11.5	1.6	6.2	6.6	10.0	10.9
Services	4.7	1.9	8.7	6.4	6.6	5.8
Inflation (Consumer Price Index)	0.8	2.4	4.2	5.5	3.5	3.0
Current Account Balance (% of GDP)	-2.3	-3.2	-3.8	-4.7	-4.2	-4.0
Net Foreign Direct Investment (% of GDP)	1.3	1.2	1.5	1.3	1.4	1.7
Fiscal Balance (% of GDP)	-2.3	-5.6	-5.1	-5.7	-4.8	-3.9
Debt (% of GDP)	38.8	47.6	52.0	52.6	52.7	51.8
Primary Balance (% of GDP)	-0.8	-3.7	-3.0	-3.4	-2.8	-2.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	8.9	9.0	8.8	8.5	8.3	8.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	34.5	34.5	34.1	33.7	33.3	32.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	66.6	66.7	65.9	65.0	64.2	63.4
GHG emissions growth (mtCO2e)	0.3	-0.5	-0.4	-0.3	0.3	0.0
Energy related GHG emissions (% of total)	21.3	20.2	19.6	18.8	18.1	17.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2015-ENV and 2018-EHCVM.Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using point to point elasticity at regional level with pass-through = 1 based on GDP per capita in constant LCU.

EQUATORIAL GUINEA

Table 1	2021
Population, million	1.5
GDP, current US$ billion	10.7
GDP per capita, current US$	7408.7
School enrollment, primary (% gross)[a]	61.8
Life expectancy at birth, years[a]	58.7
Total GHG Emissions (mtCO2e)	20.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2015); Life expectancy (2019).

The economy is estimated to have recorded its seventh consecutive year of negative growth in 2021 amid disappointed hydrocarbon production. Barring new substantial hydrocarbon discoveries, growth is projected to remain negative over the medium term. Uncertainties related to the Russian invasion of Ukraine, along with a deterioration of the financial sector and fiscal position associated with a prolonged COVID-19 crisis, represent downside risks to the outlook. There are no reliable data to track poverty.

Key conditions and challenges

Since the oil price drop in 2014, Equatorial Guinea's economic growth has been negative amid a declining trend of the dominant hydrocarbon sector. While the country is classified as upper-middle-income, the long recession has likely curtailed progress in shared prosperity and poverty reduction, with GDP per capita growth averaging -6.1 percent over the past decade. Human capital outcomes are weak and undermined by insufficient social spending and poor public service delivery. Public health spending represents only 0.7 percent of GDP, significantly lower than the average of 3.3 percent of GDP for upper-middle-income countries, while life expectancy at birth is low at only 58.9 years. The unfavorable business environment and poor governance (with corruption perception levels among the worst in the world) weigh down private sector development. The dependency on the hydrocarbon sector has made the country highly vulnerable to volatile oil prices, and the social and economic toll of COVID-19 has highlighted the urgent need to diversify the economy away from the hydrocarbon industry.

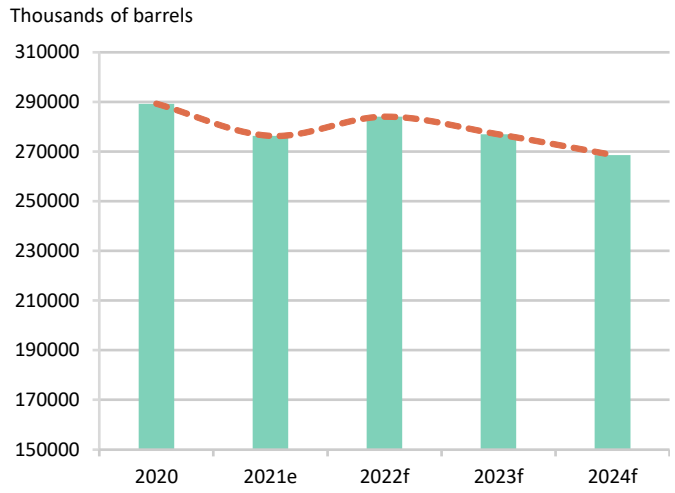
Poverty is likely to have increased during the COVID-19 pandemic, with phone surveys conducted in 2020 showing a significant impact on employment and schooling. Indeed, almost half of the working population stopped working for up to 6 months during the crisis, and only 14 percent of students continued their education (either in person or from home). In the context of data paucity to track poverty, the Living Standard Measurement Survey (expected in 2022) will be key to benchmark poverty incidence.

Recent developments

The economy is estimated to have remained in recession in 2021 as GDP contracted by an estimated 1.6 percent (an improvement from a contraction of 4.9 percent in 2020), mainly due to a decline in hydrocarbon production (despite positive performance in liquified natural gas [LNG]). A new wave of COVID-19 at the end of the year, a slowdown in construction (due to moderate public investment), and the Bata explosions (which occurred in March 2021 and caused widespread damage in Equatorial Guinea's largest city) also contributed to dampening economic growth. The revival of the service sector that followed the end of mobility restrictions, including the full reopening of international borders, limited the extent of the economic downturn.

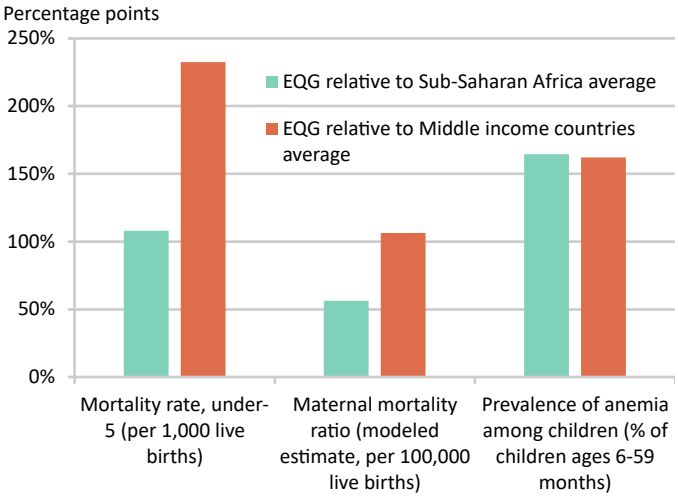
Notwithstanding higher global food and energy prices, inflation rate in Equatorial Guinea is estimated at 1.8 percent in 2021 (lower than 4.8 percent in 2020), driven mainly by the phasing out of restrictive COVID-19-related measures. The authorities made timid progress on the gradual repayment of

FIGURE 1 Equatorial Guinea / Hydrocarbon production (in thousands of barrels per day of oil equivalent)



Sources: National authorities and World Bank.

FIGURE 2 Equatorial Guinea / Non-income poverty indicators



Source: World Bank.

domestic arrears (currently at 36 percent of total public debt), helping to gradually reduce the share of non-performing loans and improve the liquidity and solvency of the banking sector. More favorable oil prices (resulting in higher oil revenues), coupled with government expenditure moderation (in particular public investment), significantly improved the government's fiscal position compared to the previous year, with the fiscal deficit narrowing from 3.3 percent of GDP in 2020 to 1.2 percent of GDP in 2021. In addition to higher year-on-year oil exports in 2021, lower imports also had a favorable impact on the external deficit, which narrowed to 2.4 percent of GDP (from 10.9 percent of GDP in 2020).

The Bank of Central African States tightened its monetary policy in late 2021 over concerns about the evolution of foreign exchange reserves, which, despite higher oil prices and the International Monetary Fund (IMF) 2021 Special Drawing Rights (SDR) allocation (equivalent to US$1.4 billion), represented just above 3 months' worth of regional imports of goods and services by end-December 2021 (roughly the same as by end-December 2020).

Outlook

Economic growth is expected to rebound in 2022 (1.8 percent) due to higher hydrocarbon production (especially LNG) and sustained high oil and gas prices owing to the conflict in Ukraine, which should have positive spillover effects on domestic demand. Barring new substantial discoveries, hydrocarbon production will continue to decline as some of the country's largest oil fields are reaching maturity. As a result, GDP growth is projected to contract by an average of 2.4 percent in 2023-24. In the absence of significant diversification efforts or investments into new hydrocarbon reserves, GDP per capita will take nearly two decades to return to its pre-pandemic level.

The outlook could worsen if the global COVID-19 crisis lingers and the government fails to resolve the elevated outstanding arrears, which could intensify financial sector risks. Moreover, international donor budget support may fail to materialize (in particular, IMF lending program-related disbursements) if progress on key fiscal and governance reforms remains slow. Finally, negative medium-term growth prospects and associated rising fiscal pressures could hamper the government's plans to raise social spending, undermining social outcomes. Upside risks include the use of the IMF SDR allocation to resolve government arrears and stronger-than-projected oil revenues stemming from both higher-than-expected oil prices and oil production. A prolonged war in Ukraine presents both downside and upside risks. While it would raise international agricultural prices (adding inflationary pressures in Equatorial Guinea), it could also sustain high oil prices (which would increase oil revenues).

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	-6.0	-4.9	-1.6	1.8	-2.6	-2.1
Private Consumption	3.4	3.4	1.0	1.4	1.2	0.7
Government Consumption	-4.5	-5.3	2.3	0.4	-8.5	-5.8
Gross Fixed Capital Investment	-55.8	-42.1	-18.0	-6.0	-17.0	-20.0
Exports, Goods and Services	-6.2	-9.0	-1.7	2.9	-0.8	-0.9
Imports, Goods and Services	-9.0	-7.8	2.0	2.0	1.0	0.5
Real GDP growth, at constant factor prices	-6.0	-5.0	-1.6	1.9	-2.6	-2.1
Agriculture	-5.8	0.4	2.8	1.4	1.4	1.4
Industry	-8.7	-6.8	-0.6	3.0	-2.0	-2.4
Services	-1.2	-2.1	-3.5	0.0	-4.0	-1.7
Inflation (Consumer Price Index)	1.2	5.8	1.8	2.8	2.5	2.5
Current Account Balance (% of GDP)	-1.6	-10.9	-2.4	1.4	-1.2	-2.1
Net Foreign Direct Investment (% of GDP)	5.3	3.9	5.9	5.0	5.4	5.6
Fiscal Balance (% of GDP)	2.0	-3.3	-1.2	-0.6	-1.4	-1.5
Debt (% of GDP)	45.9	52.3	47.4	43.2	47.9	45.9
Primary Balance (% of GDP)	2.7	-2.0	0.4	0.8	0.2	0.1
GHG emissions growth (mtCO2e)	-8.5	-2.5	-0.1	0.5	-1.0	0.6
Energy related GHG emissions (% of total)	21.6	17.4	18.2	19.4	19.5	20.8

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

ERITREA

Table 1	2021
Population, million	3.6
GDP, current US$ billion	2.3
GDP per capita, current US$	632.6
School enrollment, primary (% gross)[a]	68.4
Life expectancy at birth, years[a]	66.3
Total GHG Emissions (mtCO2e)	8.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2018); Life expectancy (2019).

Real GDP rebounded by 2.9 percent in 2021 after a 0.6 percent contraction in 2020, aided by external demand uptake and resumption of domestic activity. A significant boost to growth is expected in 2022 from new mining developments and rising prices of mineral exports. However, rising food inflation, climate vulnerabilities and geopolitical tensions cloud the medium-term outlook. National accounts and poverty statistics have not been produced over the last decade.

Key conditions and challenges

After UN sanctions were lifted in November 2018, Eritrea started emerging from a decade of international isolation. Efforts to shift from a centrally planned to a market-led economy have been slow and sporadic, and large SOEs dominate economic activity. Monetary policy is characterized by administrative measures, fiscal dominance, and a fixed exchange rate regime pegged to the US dollar, enabled by severe import restrictions in a context of low foreign exchange reserves. The banking system largely lends to government and lacks international correspondent banks, while payment and settlement systems are absent. The country is among the most vulnerable and least adapted to climate change in Sub-Saharan Africa, and frequent weather shocks pose a heavy burden for the economy and rural livelihoods. The mining sector, which started operating in 2011, accounts for over 90 percent of total exports, yet contributions to budget revenues are limited.

The Covid-19 crisis hit Eritrea amid a hiatus in its reengagement with development partners, leaving it without needed external funding. In addition, informal cross-border trade was affected by the conflict in northern Ethiopia. Yet, Eritrea's isolation moderated the magnitude of the initial external shock.

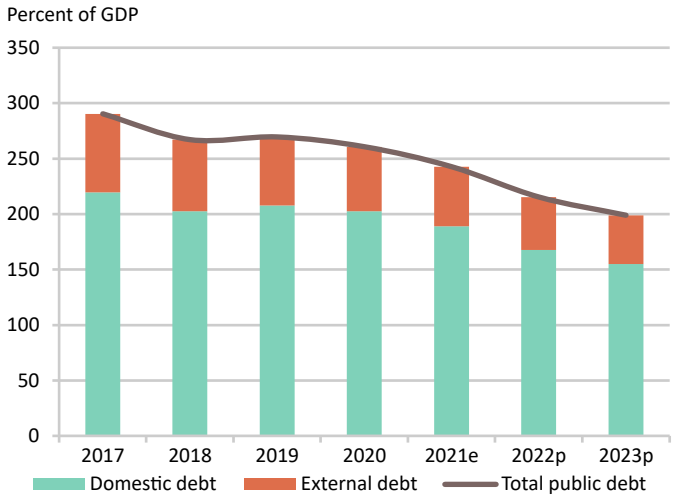
The emergency conditions prevailing in the country over the past decade have led to data production capacity constraints. National accounts data are limited to unofficial GDP estimates by the Ministry of Finance, inflation estimates cover only the capital, Asmara, and full balance of payments accounts are missing. The last population census in Eritrea took place more than 25 years ago. Therefore, little is known about poverty. Data from 1996/97, covering only urban areas, suggests that poverty was widespread with around 70 percent of the population living in poverty.

Recent developments

After contracting by 0.6 percent in 2020 amid the Covid-19 crisis, real GDP rebounded by an estimated 2.9 percent in 2021, supported by external demand uptake and the resumption of economic activity as the restrictions imposed at the onset of the pandemic were lifted. Inflationary pressures that build up following the closure of the border with Ethiopia after its temporary opening for two months in 2019 eased in 2021, and inflation hovered at 4.5 percent. The external current account surplus increased to 13.6 percent of GDP in 2021 from 11.4 percent the year before as commodity exports grew faster than the recovering imports. Reserves are estimated to hover at about two months of imports.

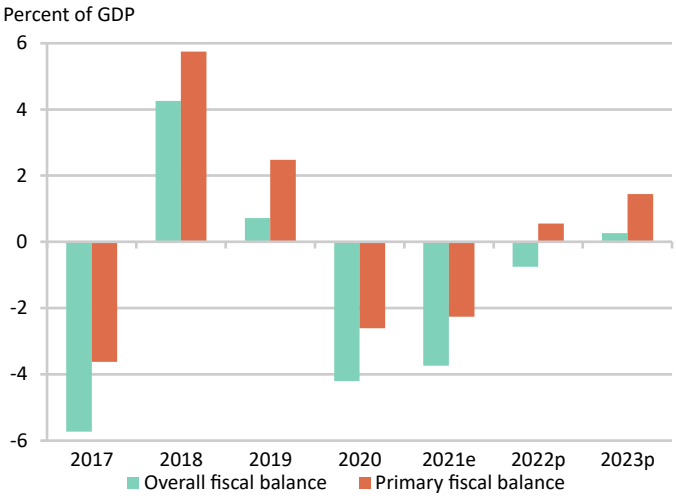
The UN Food and Agriculture Organization said in early March 2022 that the desert locust upsurge that ravaged the Horn of Africa for more than two years

FIGURE 1 **Eritrea** / Evolution of total public debt



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

FIGURE 2 **Eritrea** / Primary and overall fiscal balances



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

has ended as drier conditions prevail, but recommended vigilance as few residual infestations may linger. As part of efforts to reinvigorate the partnership between the UN and Eritrea and prepare for a new Sustainable Development Cooperation Framework for 2022-2026, a 24-person mission to Asmara led by UN Regional Directors took place end-January 2022, with discussions covering COVID-19 vaccination, regional dynamics in the Horn of Africa, regional trade integration and ACFTA, human rights, climate action, and data for development. However, Eritrea remains mostly isolated internationally. On November 12, 2021, the US imposed sanctions on four prominent Eritrean entities and two individuals in response to their role in the ongoing human rights crisis in Ethiopia.

The rebounding economic activity supported stronger revenues in 2021, driving a decline of fiscal deficit to 3.7 percent of GDP from 4.2 in 2020. Construction work associated to the Colluli and Asmara mines continued to drive capital expenditures. Public debt is estimated at around 243 percent of GDP, of which nearly 80 percent is owed to domestic banks. However, fiscal and domestic debt outcomes remain uncertain given frequent data revisions due to reporting lags driven by widespread manual processes.

Outlook

Real GDP growth is expected to accelerate to 4.7 percent in 2022 as the Colluli and Asmara mines start exporting at full capacity. Rising international prices of zinc, gold and copper, which jointly account for over 90 percent of Eritrea's exports, will strengthen the current account and soften the negative impact from rising prices of oil and wheat, which are among the country's top imports, stemming from the Russia-Ukraine war. Similarly, the hike in potash prices, which have trebled over the past year and have low prospects of coming down soon as sanctions weigh heavily on Russia and Belarus, the second and third world producers of the commodity, could further boost Eritrea's growth and external accounts, bolstering government revenue and providing much needed foreign exchange. However, the increasing food inflation and possible shortages of key commodities will weigh negatively on household's consumption, exacerbating poverty and food insecurity. Over the medium term, growth could continue in the range of 3.6 to 3.8 percent, supported by sustained mineral exports and potential spillovers from the new potash mine to fertilizer production, which could enhance agricultural productivity, improving livelihoods and food security.

Nevertheless, downside risks are significant. Rising global geopolitical tensions and new Covid-19 variants could further reduce global growth, negatively impacting exports. Eritrea's continued involvement in the northern Ethiopia conflict could attract renewed international sanctions, while escalation of war in Europe could further push up oil and wheat prices, with potentially dire effects on poverty and food insecurity. The absence of a Covid-19 vaccination campaign heightens risks to lives and livelihoods, while severe climate vulnerabilities that burden Eritrea could worsen in coming years. The fragile macroeconomic situation and severe credit constraints leave the country with little space to boost preparedness facing these risks, and to control damages should they materialize.

TABLE 2 **Eritrea** / 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	-0.6	2.9	4.7	3.6	3.7
Private Consumption	5.5	-1.9	3.0	7.2	5.6	5.9
Government Consumption	39.3	16.4	9.9	3.5	4.0	2.2
Gross Fixed Capital Investment	67.5	152.2	39.1	-18.0	1.6	1.3
Exports, Goods and Services	-5.0	-5.4	49.7	25.7	3.8	1.6
Imports, Goods and Services	1.4	-3.5	42.6	28.0	2.0	3.1
Real GDP growth, at constant factor prices	3.7	-0.7	2.9	4.7	3.6	3.7
Agriculture	27.0	-0.5	4.5	3.1	2.5	3.3
Industry	13.0	-0.7	1.4	10.2	7.6	6.7
Services	-26.0	-1.1	2.0	0.6	0.2	0.3
Inflation (Consumer Price Index)	-16.4	4.8	4.5	6.2	3.5	2.2
Current Account Balance (% of GDP)	13.0	11.4	13.6	13.6	13.3	12.4
Net Foreign Direct Investment (% of GDP)	3.9	3.8	3.7	3.4	3.3	3.2
Fiscal Balance (% of GDP)	0.7	-4.2	-3.7	-0.8	0.3	1.0
Debt (% of GDP)	269.5	260.7	242.7	215.4	198.9	186.6
Primary Balance (% of GDP)	2.5	-2.6	-2.3	0.6	1.4	2.1
GHG emissions growth (mtCO2e)	4.3	-2.8	3.1	4.9	3.7	1.0
Energy related GHG emissions (% of total)	26.1	26.3	26.6	27.5	27.8	28.5

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

ESWATINI

Table 1	2021
Population, million	1.2
GDP, current US$ billion	4.7
GDP per capita, current US$	4009.7
International poverty rate ($1.9)[a]	29.2
Lower middle-income poverty rate ($3.2)[a]	52.1
Upper middle-income poverty rate ($5.5)[a]	72.0
Gini index[a]	54.6
School enrollment, primary (% gross)[b]	114.5
Life expectancy at birth, years[b]	60.2
Total GHG Emissions (mtCO2e)	3.0

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

GDP growth is estimated to have rebounded to 3.1 percent in 2021, reflecting the easing of COVID-19 restrictions and subsequent boost on external demand. The fiscal deficit declined in 2021, as the government implemented expenditure cuts in line with its three-year fiscal adjustment plan. Poverty remains stagnant due to slow growth of per capita GDP. The economy is projected to continue to recover in 2022, albeit at a slower pace, slowing poverty reduction.

Key conditions and challenges

Eswatini has largely relied on government investment and consumption to drive growth since the end of apartheid in South Africa, as foreign private investment declined and relocated back to South Africa. Private investment remains constrained by an unfavorable investment climate and governance challenges. The risk of recurrence of political unrest in Eswatini and heightened global risks create uncertainty for medium-term private sector investment and economic growth.

The fiscal situation has been fragile due to overreliance on volatile Southern African Customs Union (SACU) revenues, which translates into significant fluctuations in public spending and pose a challenge to the management of fiscal operations and growth potential. Volatile SACU receipts have been met by rigid government expenditure, leading to persistent fiscal deficits in the recent past (Figure 1). SACU revenues consist of external trade and excise duties on imported goods, as well as a development component derived from excise taxes. The volatility in SACU revenues largely reflects the volatility in imports and the impact of exchange rate on custom receipts. The fall in SACU revenue was amplified by declining trade and growth during the COVID-19 pandemic.

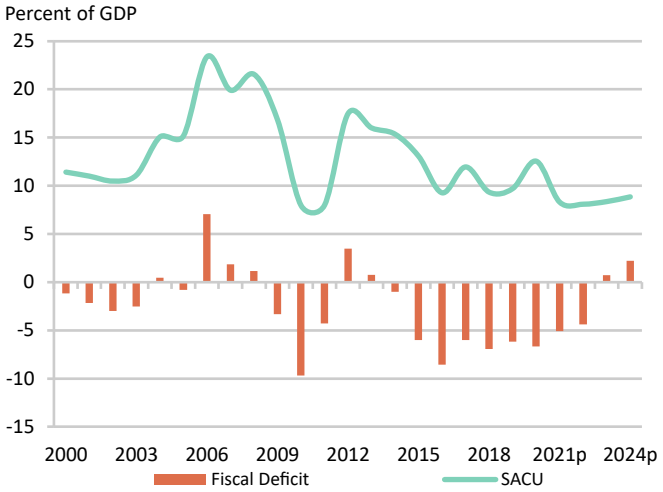
Poverty, unemployment, inequality, and HIV prevalence levels have historically been high. Progress toward reducing poverty has been slow, with close to a third of the population living below the US$1.90/day (2011 PPP) international poverty line. At about 27 percent, Eswatini has the world's highest HIV prevalence rate among adults aged 15 to 49, a driver and consequence of high poverty and inequality.

Recent developments

Despite the continued COVID-19 pandemic and the June 2021 political unrest, economic growth is estimated to have rebounded to 3.1 percent in 2021 from a contraction of 1.9 in 2020. The third and fourth COVID-19 wave containment measures were not as restrictive as those of earlier waves, allowing firms to ramp up production in 2021Q4. A recovery in external demand supported export-oriented manufacturing activities. The vaccination campaign, which reached about 25.3 percent of the population at end December 2021, helped to contain the spread of the virus and eased uncertainties on both demand and supply prospects. Though the June-July political unrest resulted in the destruction of physical assets, theft of inventory, and constrained operational hours, its impact on production was partly mitigated as firms accessed a Reconstruction Fund set up by the government to cushion business from damages of the political unrest.

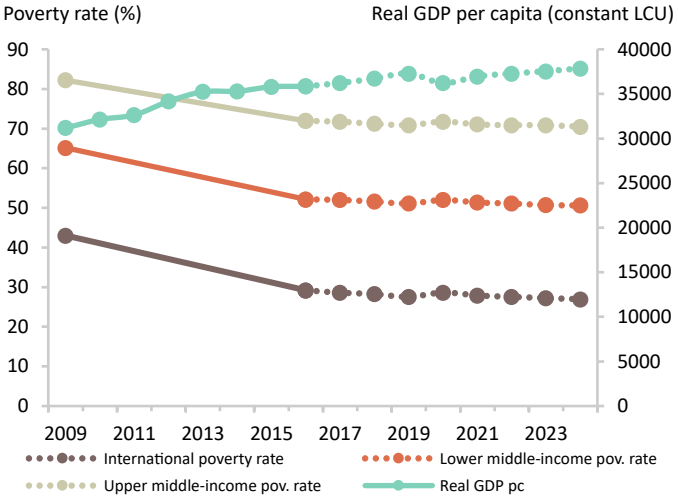
Inflationary pressures weakened in 2021 as the government kept the rental price constant, resulting in annual inflation slowing to 3.7 percent, from 3.9 percent in 2020.

FIGURE 1 **Eswatini** / Fiscal deficit and SACU revenue



Sources: Eswatini Ministry of Finance, and the World Bank staff projections.

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



Source: World Bank. Notes: see Table 2.

Year-on-year inflation started to increase in December 2021 (to 3.5 percent from 3 percent in November 2021) after declining for three consecutive months from September 2021. Inflation increased further in January 2022 to 3.6 percent, prompting the Central Bank to increase the repo rate (for the first time since July 2020) in January 2022, from 3.75 percent to 4.0 percent.

The fiscal deficit is estimated to have declined in FY2021/22 mainly due to underspending on capital expenditure. The fiscal deficit is estimated at 5 percent of GDP, lower than the 6.5 percent of GDP initially projected in the original budget. The underspending on capital expenditure reflects low disbursements due to delays in the procurement process on foreign financed projects. It also reflects commitment to the fiscal adjustment plan that aims to limit the accumulation of expenditure arrears. At the same time, revenue collections declined mainly due to the pandemic and subsequent economic challenges. The current account surplus declined to 0.9 percent of GDP in 2021 from 6.5 percent in 2020 due to the decline in SACU revenues.

Poverty remains stagnant, in a context with limited growth in per capita GDP. About 28.5 percent of the population is estimated to live below the poverty line ($1.90/day).

Outlook

Real GDP growth is projected to slow to 2 percent in 2022, reflecting the implementation of the government's three-year fiscal adjustment program that will dampen growth of sectors linked to government operations, such as construction and public administration. In addition, inflation is expected to rise to 4.7 percent in 2022, driven by higher international oil (partly triggered by the Russia-Ukraine conflict), administered utility prices, and continued supply shocks due to the COVID-19 pandemic. Nevertheless, the continuation of the vaccination program (at 28.6 percent as at mid- February 2022) is expected to strengthen certainty on demand and supply chains. Poverty is projected to remain at around 28 percent, reflecting the slow economic recovery in the medium term.

The fiscal deficit is projected to further decline in 2022, as authorities implement the revenue and expenditure-led fiscal adjustment plan. Although the second-round effects of the pandemic are anticipated to manifest through a further reduction in SACU revenues in 2022, the fiscal deficit is projected to fall, as domestic revenues recover, and the authorities continue to maintain a tight expenditure framework. Public debt is projected to reach a peak in 2022 of 46 percent of GDP and will start to decline from 2023, reflecting declining fiscal deficit.

The current account balance is projected to turn into a deficit of 1.2 percent of GDP in 2022—the first time since the 2010/11 fiscal crisis—partly reflecting declining SACU revenues. The current account surplus is projected from 2023 onward on the back of recovering SACU revenue.

TABLE 2 **Eswatini** / 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	-1.9	3.1	2.0	1.8	1.8
Private Consumption	-1.5	0.5	2.7	2.2	2.4	1.4
Government Consumption	-2.0	6.7	2.2	-0.5	-1.0	-0.5
Gross Fixed Capital Investment	1.0	-5.9	3.8	2.1	-0.8	1.5
Exports, Goods and Services	16.3	-2.4	2.7	3.6	3.9	4.3
Imports, Goods and Services	1.5	-0.7	2.1	2.5	2.3	2.3
Real GDP growth, at constant factor prices	2.7	-1.7	3.1	2.0	1.8	1.9
Agriculture	0.9	-5.4	3.3	3.5	4.5	3.6
Industry	5.5	-9.7	7.8	1.5	1.6	2.0
Services	1.1	4.5	0.2	2.1	1.4	1.5
Inflation (Consumer Price Index)	2.6	3.9	3.7	4.7	4.3	4.4
Current Account Balance (% of GDP)	4.7	6.5	0.7	-1.2	0.4	1.1
Net Foreign Direct Investment (% of GDP)	-2.4	-0.2	-0.7	-0.8	-0.8	-0.8
Fiscal Balance (% of GDP)	-6.2	-6.7	-5.1	-4.4	0.7	2.1
Debt (% of GDP)	40.0	41.7	42.8	45.7	44.7	42.2
Primary Balance (% of GDP)	-4.9	-4.5	-3.3	-1.4	3.4	4.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	27.5	28.6	27.9	27.5	27.2	26.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	51.1	52.0	51.4	51.1	50.7	50.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	70.9	71.8	71.1	70.9	70.9	70.5
GHG emissions growth (mtCO2e)	0.5	0.2	-0.5	0.1	0.2	0.3
Energy related GHG emissions (% of total)	45.7	45.9	46.0	46.1	46.2	46.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2016-HIES.Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2016) with pass-through = 0.87 based on GDP per capita in constant LCU.

ETHIOPIA

Table 1	2021
Population, million	117.9
GDP, current US$ billion	114.6
GDP per capita, current US$	972.5
International poverty rate ($1.9)[a]	30.8
Lower middle-income poverty rate ($3.2)[a]	68.9
Upper middle-income poverty rate ($5.5)[a]	90.2
Gini index[a]	35.0
School enrollment, primary (% gross)[b]	119.4
Life expectancy at birth, years[b]	66.6
Total GHG Emissions (mtCO2e)	213.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

An increased import bill and a decline in official aid flows have led to a weakening of the balance of payments and a significant drawdown in reserves. Growth in FY22 is expected to ease from 6.3 percent in FY21, impacted by the armed conflict, and inflation is likely to remain high, as oil and wheat prices increase. This is expected to result in a slowdown in poverty reduction.

Key conditions and challenges

Ethiopia has been among the fastest growing countries in the world, with GDP expanding at an average rate of 10 percent during FY04-FY20. Growth has been driven by large-scale public investment in infrastructure. While poverty declined by about 10 percentage points during 2004-2016, gains are modest when compared to other countries that saw fast growth, and inequality has increased in recent years.

The limitations of the state-led development model in Ethiopia have become apparent in recent years. Structural transformation remains incipient, and the role of the private sector is constrained by SOE dominance and an uneven playing field. The financing of the large capital investments coupled with a loss in competitiveness, caused by an overvalued exchange rate, have put the country at high risk of debt distress. Acknowledging these shortcomings, the authorities launched a Homegrown Economic Reform Agenda in September 2019, aiming to foster efficiency and introduce competition in key growth-enabling sectors (energy, logistics, and telecom), improve the business climate, and address macroeconomic imbalances. Among other measures, authorities are expected to adopt a market-determined exchange rate and introduce a modern monetary policy framework by end-2022.

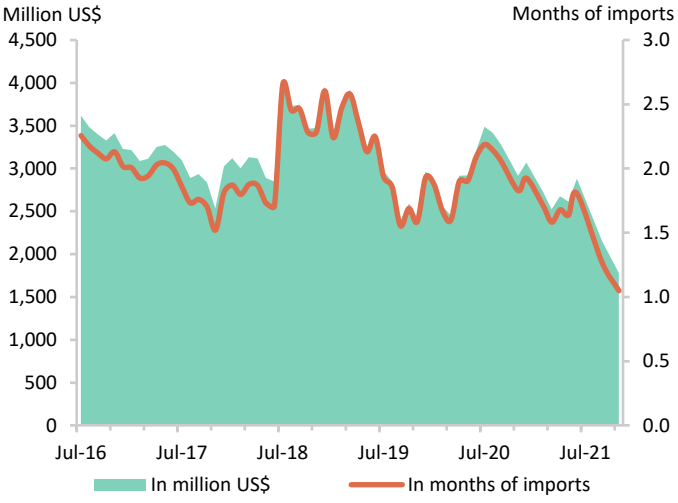
Downside risks loom large over the outlook presented below. While has been a significant de-escalation in the armed confrontation between federal and allied regional forces and Tigrayan forces since December and both sides seem to be more open to seek a solution through diplomacy, the risks associated to a protracted conflict remain significant. Impacts on agriculture are also being compounded by the ongoing drought affecting the Horn of Africa. Finally, there are risks that macroeconomic stability is affected and economic reforms are delayed or reversed.

Recent developments

At 6.3 percent according to official figures, growth surprised on the upside in FY21, as agriculture performance in the second part of the year was better-than-expected. The few available high-frequency indicators suggest growth has been sluggish in the second half of 2021, as electricity generation dropped, capital imports contracted, and regional authorities in Amhara reported that 41 million quintals of agriculture production (or about 10 percent of the production of the previous year) had been lost due to the conflict.

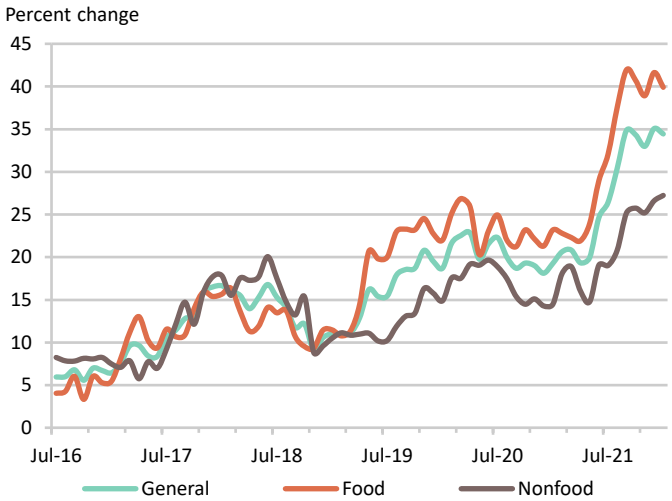
Merchandise exports grew at 21.8 percent year-on-year (y-o-y) during July-November 2021. While gold exports have declined after the surge in FY20, exports of coffee, meat, and vegetables have been strong in both volumes and values, and textile and flower exports have rebounded. Merchandise imports have expanded

FIGURE 1 **Ethiopia** / Gross foreign exchange reserves



Source: National Bank of Ethiopia.

FIGURE 2 **Ethiopia** / Evolution of inflation, y-o-y percentage change



Source: Central Statistical Agency of Ethiopia.

fast (24.3 percent y-o-y), driven by a larger fuel and cereal bill as international prices climb up. This has resulted in a significant widening of the current account deficit. During the first five months of FY22, a significant drawdown of reserves was needed, as official transfers halved (-47.8 percent y-o-y), and despite robust FDI inflows (26.9 percent y-o-y). Reserves stood in November at US$1.8 billion (about one month of imports).

Inflation has averaged above 30 percent during the first seven months of FY22, driven by food prices, a recent increase in fuel prices, and expectations. Despite continued nominal depreciation, high inflation has resulted in the real exchange rate remaining broadly unchanged during this period. After some slowdown over the summer, base money growth has picked up again, reaching 33.4 percent during the first five months of the fiscal year. Broad money growth eased to 24 percent, impacted by the temporary instruction to freeze bank loan disbursements, which was lifted in December.

Revenue collection remains sluggish, growing at an estimate of 15 percent, in nominal terms, during the first half of FY22. In January, the parliament approved a supplementary budget comprising additional outlays on defense and reconstruction amounting to about US$2.5 billion (2.3 percent of GDP).

About 30 percent of households continue reporting inability to purchase essential items (food, medicines), and in the April 2021 round of the high-frequency survey there was a surge in the number of households mentioning high prices were their main impediment. The ongoing armed conflict has had a severe impact on food security: the World Food Program (WFP) estimated that as of November 2021, 9.4 million people needed humanitarian food assistance in northern Ethiopia.

Outlook

The growth figure for FY22 has been revised down on account of the intensification of the conflict during the first months of the fiscal year, the introduction of more stringent foreign exchange surrendering requirements, and the new requirement for banks to invest 1 percent of outstanding credit on Development Bank of Ethiopia bonds, which will likely hold back economic activity. Prices are expected to keep rising the coming months, as monetary policy has loosened again, crop production has likely been impacted by the conflict, and international commodity prices remain high. The economic consequences of the Russian invasion of Ukraine, war and associated sanctions are expected to result in further deterioration of the balance of payments and inflationary pressures. This outlook expects some rebound in economic activity in FY23 assuming the conflict in Tigray does not reignite.

The poverty trajectory is uncertain due to offsetting factors. On one hand, armed conflict, persistent droughts in lowland regions and rising inflation, are expected to have driven a large number of people into poverty. On the other hand, growth in other sectors and parts of the country is expected to alleviate poverty. Whether the poverty effect of growth can fully offset the impact of the conflict, droughts and inflation is unclear, but their intensity suggests that progress in poverty reduction will be lower than in previous periods.

TABLE 2 **Ethiopia** / 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	9.0	6.1	6.3	3.3	5.2	5.9
Private Consumption	5.1	5.0	3.0	2.5	2.8	3.3
Government Consumption	7.2	0.6	12.2	21.1	3.8	3.1
Gross Fixed Capital Investment	15.1	5.6	7.6	-1.0	8.3	9.8
Exports, Goods and Services	3.0	3.4	5.5	6.2	6.8	7.5
Imports, Goods and Services	5.4	-1.9	2.0	3.8	4.2	5.1
Real GDP growth, at constant factor prices	9.0	6.1	6.3	3.3	5.2	5.9
Agriculture	3.8	4.3	5.5	2.5	4.0	4.0
Industry	11.5	9.6	7.3	5.5	9.5	9.5
Services	12.0	5.2	6.3	2.4	3.0	4.7
Inflation (Consumer Price Index)	12.5	19.9	20.2	34.2	25.6	16.9
Current Account Balance (% of GDP)	-5.1	-4.1	-2.7	-4.5	-4.1	-3.8
Fiscal Balance (% of GDP)	-2.5	-2.8	-2.8	-4.2	-3.3	-2.9
Debt (% of GDP)	57.3	56.5	56.6	56.0	55.6	53.2
Primary Balance (% of GDP)	-2.0	-2.4	-2.2	-3.6	-2.7	-2.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	25.9	25.2	24.5	24.4	23.9	23.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	63.7	63.0	62.2	62.0	61.5	60.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	83.4	82.4	81.4	81.2	80.5	79.5
GHG emissions growth (mtCO2e)	2.0	1.1	1.2	0.6	1.2	1.5
Energy related GHG emissions (% of total)	24.6	23.2	21.7	19.9	18.4	17.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2015-HICES, 2018-, and 2015-HICES. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using point to point elasticity at regional level with pass-through = 1 based on GDP per capita in constant LCU.
Note: Growth projections are based on limited information and stand to be updated/revised based on improved data availability.

GABON

Table 1	2021
Population, million	2.3
GDP, current US$ billion	17.6
GDP per capita, current US$	7734.3
International poverty rate ($1.9)[a]	3.4
Lower middle-income poverty rate ($3.2)[a]	11.2
Upper middle-income poverty rate ($5.5)[a]	32.2
Gini index[a]	38.0
School enrollment, primary (% gross)[b]	139.9
Life expectancy at birth, years[b]	66.5
Total GHG Emissions (mtCO2e)	13.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2011 PPPs.
b/ WDI for School enrollment (2011); Life expectancy (2019).

Gabon's economy expanded by an estimated 1.5 percent in 2021, driven by the booming mining and forestry sectors. The fiscal balance deteriorated slightly in 2021. Public debt remains sustainable, but risks are high. The spike in agricultural commodity prices due to the Ukraine conflict could add to food insecurity and disproportionally affect the most vulnerable. While higher oil prices will support the recovery, the transformation of Gabon's growth model to foster green and inclusive growth and accelerate job creation is crucial.

Key conditions and challenges

Gabon's economic recovery is underway, although inadequate governance and a poor business climate remain major challenges to channel resource wealth to sustainable development and ensure broad-based improvements in living conditions. Given the country's young workforce and fast-growing population, increasing human capital is a priority to meet the challenge of economic diversification and reduce the risk of social unrest in a context of high unemployment. Higher global oil prices expected for the forecast horizon might delay the implementation of measures to diversify exports, strengthen social safety nets, and promote competition.

Sustained implementation of reforms to strengthen public financial management and the efficiency of public investment is crucial to meet the country's development needs and improve its growth prospects. Efforts to improve reporting and procurement practices are required to modernize and strengthen public investment management.

Despite the challenging global economic context, it is crucial for Gabon to accelerate its efforts to manage the macroeconomic volatility due to external shocks. Key to his is building fiscal buffers, by strengthening domestic revenue mobilization and ensuring a more selective allocation of tax exemptions. Efforts to foster transparency in natural resource management need to be stepped up to reduce fiscal vulnerabilities. The reintegration of Gabon into the Extractive Industries Transparency Initiative in October 2021 was an important step, and the authorities need to ensure the effective implementation of all membership obligations. Despite reaching historic highs in 2020, public debt remains sustainable, although vulnerabilities are high.

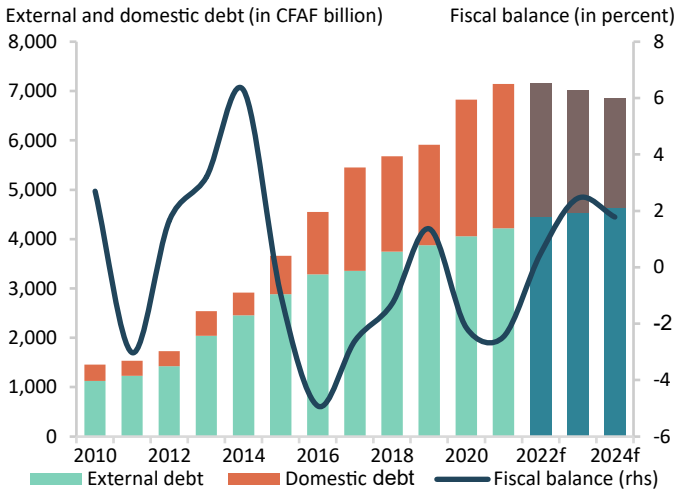
Recent developments

Following a recession in 2020 caused by the COVID-19 pandemic and oil price shocks, the Gabonese economy expanded by an estimated 1.5 percent in 2021. Growth was driven by the non-oil sector, in particular the booming mining and forestry sectors. Oil production is estimated to have declined by 5.5 percent in 2021, year-on-year (y-o-y), to meet the OPEC+ quota.

New measures to encourage vaccination have been in place since the beginning of 2022, but the number of fully vaccinated people remains low at 13 percent of the population in early March 2022. The poverty rate is estimated to reach 34.1 percent in 2021. Living conditions have not yet returned to their pre-COVID-19 crisis levels, when employment levels suffered from restrictive measures, resulting in major income losses, especially for self-employed and informal workers.

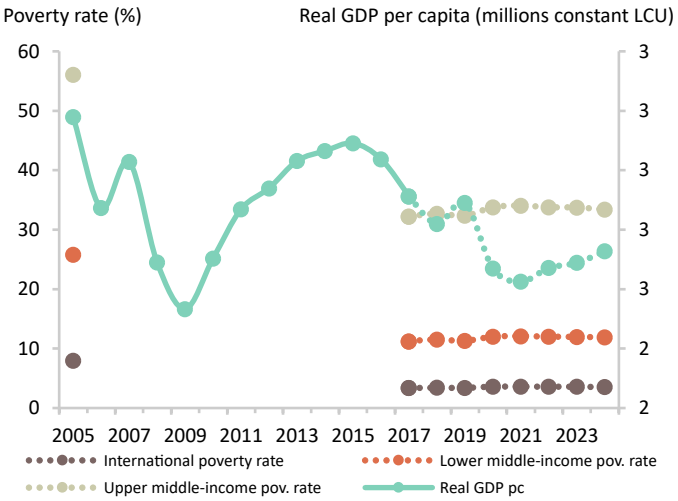
Despite higher global food and energy prices, inflation remained contained in 2021. The consumer price index increased by 2.0 percent in January 2022,

FIGURE 1 Gabon / Debt and fiscal balance



Sources: Official government data and World Bank calculations. Note: e = estimate, f = forecast.

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



Source: World Bank. Notes: see table 2.

y-o-y, as food prices rose moderately by 2.4 percent. The Bank of Central African States tightened its monetary policy in late 2021 over concerns about the evolution of foreign exchange reserves, which, despite higher oil prices and the 2021 Special Drawing Rights allocation, represented just above 3 months' worth of imports of goods and services by end-December 2021.

The fiscal balance deteriorated slightly to an estimated 2.5 percent of GDP in 2021. High oil prices partially compensated for lower oil production and contributed to higher than initially anticipated oil revenue while tax revenues remained fragile. The government continued its efforts to keep spending under control while investment spending increased. Public debt is estimated to have declined to 70.5 percent of GDP at end-2021.

In 2021, the strong performance of the wood and manganese industries, combined with higher commodity prices, contributed to an overall increase in export earnings, while imports rose slightly compared to the previous year. The current account deficit is estimated to have narrowed to 4.9 percent of GDP in 2021.

Outlook

Gabon's economy is projected to gain momentum and grow by an average of 2.8 percent in 2023-24. Higher global oil prices due to the conflict in Ukraine are expected to have spillover effects on internal demand. Medium-term growth critically depends on the government's commitment to structural reforms and economic diversification.

Measures to strengthen domestic revenue collection and rationalize tax exemptions would contribute to higher tax revenues, and oil-revenue would be favorably impacted by higher global oil prices. There may be pressure on the wage bill in 2022 as the public servants' hiring freeze is discontinued. Fiscal balances and debt are expected to improve gradually over the medium term. Concrete efforts to improve public debt management and budget execution should prevent the accumulation of new domestic and external arrears.

The current account is projected to post a surplus in the medium term, supported by higher oil and manganese prices, the continued easing of OPEC+ oil production cuts, and a resumption of investments in wood and agri-business.

Against this backdrop, the share of Gabonese households living on less than US$5.5 per day is expected to decline gradually to 33.4 percent by 2024, which is 1.0 percentage point higher than the pre-pandemic rate estimated for 2019.

The outlook is subject to high levels of uncertainty. Gabon's fiscal sustainability could deteriorate if global financing conditions tighten substantially. While higher-than-expected global oil prices will favorably impact the country's fiscal and external balances, high global food and energy prices due to the Ukraine conflict pose inflation risks and will disproportionally affect Gabon's most vulnerable population and increase food insecurity. The emergence of new COVID-19 variants may also have a negative impact on domestic activity if the government were to impose new restrictions. Uncertainty surrounding the 2023 presidential election and weak institutional capacity could slow the government's implementation of structural reforms aimed at diversifying away from oil, thereby jeopardizing future growth.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	3.9	-1.8	1.5	3.3	2.6	3.0
Private Consumption	0.9	-2.0	-1.0	0.1	3.3	2.6
Government Consumption	6.1	5.5	1.3	0.5	1.5	0.1
Gross Fixed Capital Investment	21.5	-16.7	10.8	-0.2	3.2	5.0
Exports, Goods and Services	14.0	10.1	0.6	6.4	1.8	0.9
Imports, Goods and Services	21.5	-16.7	34.8	0.1	2.7	2.3
Real GDP growth, at constant factor prices	4.2	-1.9	1.5	3.3	2.6	3.0
Agriculture	7.9	5.9	6.7	5.2	4.2	4.8
Industry	6.8	-2.2	0.4	3.0	1.5	2.9
Services	2.3	-2.8	1.3	3.1	2.9	2.7
Inflation (Consumer Price Index)	1.0	1.6	2.0	3.0	2.8	2.5
Current Account Balance (% of GDP)	-0.9	-6.0	-4.9	4.1	3.1	1.2
Net Foreign Direct Investment (% of GDP)	-7.4	-8.4	-7.5	-4.9	-5.0	-4.0
Fiscal Balance (% of GDP)	1.4	-2.1	-2.5	0.5	2.4	1.8
Debt (% of GDP)	59.8	77.4	70.5	61.6	60.0	59.0
Primary Balance (% of GDP)	3.6	1.2	0.4	3.2	5.0	4.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.4	3.6	3.6	3.6	3.6	3.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	11.3	12.0	12.1	12.0	11.9	11.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	32.3	33.8	34.0	33.8	33.7	33.4
GHG emissions growth (mtCO2e)	-1.3	-2.4	-2.1	-1.7	-1.4	-1.2
Energy related GHG emissions (% of total)	17.6	14.7	12.1	9.6	7.4	5.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2017-EGEP.Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2017) with pass-through = 0.7 based on GDP per capita in constant LCU.

THE GAMBIA

Table 1	2021
Population, million	2.5
GDP, current US$ billion	2.0
GDP per capita, current US$	821.4
International poverty rate ($1.9)[a]	10.3
Lower middle-income poverty rate ($3.2)[a]	38.4
Upper middle-income poverty rate ($5.5)[a]	72.7
Gini index[a]	35.9
School enrollment, primary (% gross)[b]	103.5
Life expectancy at birth, years[b]	62.0
Total GHG Emissions (mtCO2e)	3.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

Economic recovery accelerated towards end-2021. However, the pace of recovery will slowdown owing to commodity prices and supply shocks. High fiscal deficits have led to domestic borrowing that could risk sustainability. Inflation may erode household incomes amidst a slow recovery in employment and hinder poverty reduction. The outlook is subject to downside risks from the speed of global recovery, the pandemic, and global contagion from the Russia-Ukraine conflict.

Key conditions and challenges

Semi-enclaved within Senegal, The Gambia is a small, fragile, densely populated country with historically low and volatile economic growth, characterized by limited economic diversification, insufficient capital accumulation, and low productivity. Since the democratic transition of 2017, the Government has taken steps to restore macroeconomic stability and reignite growth (6 percent during 2017-2019). The 2019 debt restructuring helped The Gambia to exit debt distress in early 2020 and paved the way for an IMF program. A successful 2021 election will further these gains.

Despite progress with COVID19 vaccination in tourist markets, it is slow within The Gambia at 13.5 percent, and the recovery will be gradual due to uncertainty around new variants and the Russia-Ukraine conflict. The 2021/22 tourist season (October to March) performed above expectations in 2021, however future travel restrictions, a potential downturn in tourist markets, and the rising cost of living globally could slow the recovery. GDP growth estimates for 2021 were revised up compared to the Fall, reflecting higher-than-projected tourist arrivals, remittances, FDI, project implementation and a private credit rebound. However, continued commodity price and supply shocks will constrain future agricultural growth.

Recovery in the labor market remains slow and unequal as increases in employment occurred mostly in the low-productive agriculture sector (employing 35.5 percent of workers), and not in the higher-paid services sector, slowing the pace of poverty reduction. Moreover, high food inflation exposes poor households – who spend 65 percent on food - to the risk of sliding deeper into poverty.

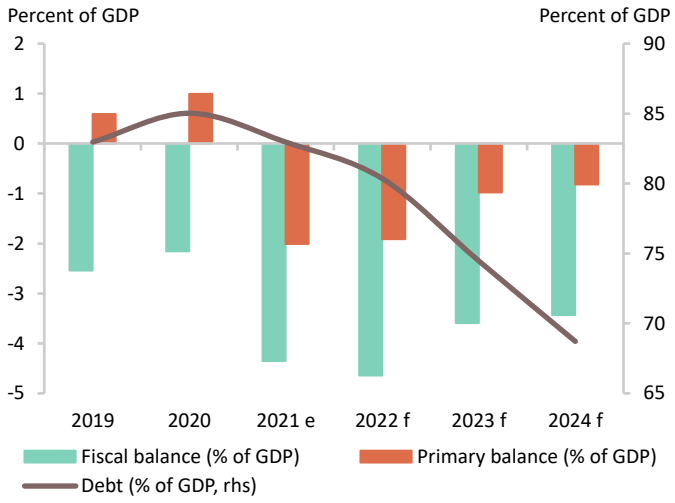
As the risk of debt distress and inflation remain high, The Gambia has limited fiscal and monetary policy buffers to respond to the spillovers from war. The outlook is subject to downside risks from vaccine-resistant virus mutations, slower vaccine roll-out, higher commodity prices, slower reform pace, and frequent climatic shocks.

Recent developments

GDP grew by 5.6 percent (2.6 percent in per capita terms) in 2021, after falling by 0.2 percent in 2020 (-3 percent pc). All sectors grew, as tourist arrivals were above-expectations, rainfall was higher than average (supporting poor, rural and industrial workers) and record-high remittances continued to support the construction and distributive trade sectors. On the demand side, growth was supported by private consumption and investment while imports grew.

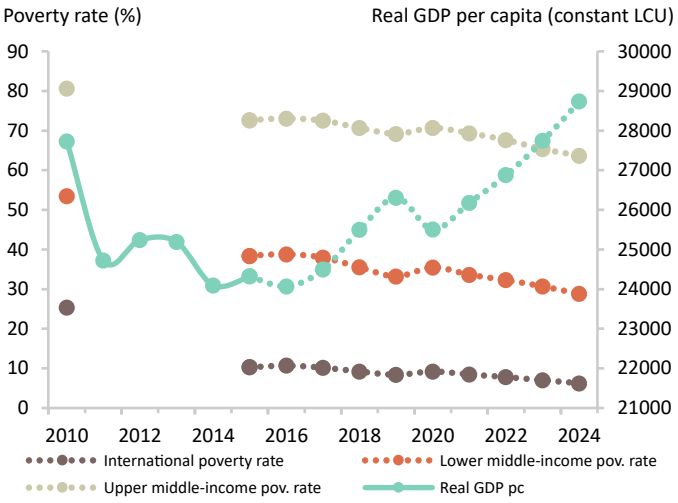
The current account deficit (CAD) widened slightly in 2021 despite a rebound in tourism. FDI financed the deficit, while the exchange rate remained stable. Remittances increased by 31 percent y/y bolstering reserves to above 6 months of next year's imports at end-2021. Remittances

FIGURE 1 The Gambia / Actual and projected fiscal and primary balance



Sources: Gambian authorities and World Bank estimates.

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



Source: World Bank. Notes: see table 2.

were the same for almost half of the bottom 20 percent households responding to high-frequency phone surveys.

The fiscal deficit doubled as capital expenditure accelerated, mainly for locally-funded infrastructure projects, and tax revenues and grants declined. Recurrent spending fell as pandemic-related support was withdrawn. While public debt-to-GDP declined, short-term domestic borrowing increased significantly, elevating risks to debt sustainability.

Headline inflation rose, driven by high food prices (+3 percentage points). A negative output gap implies inflation is mostly imported. The central bank has thus sustained the 10 percent policy rate since May 2020. Broad money continued to grow in 2021, supported by the banking sector's high level of net foreign assets.

Poverty increased in 2020 – for the first time since 2016 - driven largely by COVID-19. Survey data indicate large employment losses and near universal income losses at the peak of the pandemic. However, the extreme poverty rate declined from 9.2 percent in 2020 to 8.5 percent in 2021, lifting over 10,000 people out of poverty, driven by the recovering agriculture labor market. Additionally, ongoing cash transfers in rural areas, where most of the poor live, is likely to have contributed to the decline in poverty.

Outlook

The conflict in Ukraine will slow the recovery as the terms-of-trade worsen, The Gambia being a net oil, fertilizer, and food importer. It has, however, weak direct investment, tourism and trade links with Russia or Ukraine.

Private and public consumption would grow in 2022 to counter the shock, while large infrastructure projects are implemented. Over the medium-term, growth will be driven by services, industry and agriculture, and the pandemic-induced adoption of digital technologies, assuming implementation of structural reforms and normal weather. Real GDP will grow by 5.6 percent in 2022 (2.7 percent in pc) and 6.2 percent in 2023 (3.2 percent in pc).

The CAD will widen further, driven by commodity imports and the high import content of public investments, and by declining grants and private inflows over time. The deficit will be financed by FDI and capital transfers. Reserves should remain above 4 months of imports.

The fiscal deficit will increase further in 2022 as subsidies/transfers increase to partially offset rising fuel, fertilizer and food prices. Starting 2023, fiscal consolidation will resume, supported by improved tax expenditure monitoring and revenue administration, and public finance reforms. The primary deficit is projected to reach 0.8 percent of GDP by 2024, with public debt-to-GDP remaining high but on a declining path.

Inflation is expected to continue rising from high commodity prices and structural challenges at Banjul Port. Rising food prices will limit the ability of vulnerable households to increase their real incomes. Surveys show that as of December 2021, 78 percent of households reported food prices as the main shock affecting their wellbeing. The economic recovery is expected to offset the negative distributional effects of inflation, so the poverty rate is expected to continue declining, reaching 7.8 percent in 2022 and 6.2 percent by 2024. The planned expansion in cash transfers to urban areas will provide some cushion against price increases and support poverty reduction.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	6.2	-0.2	5.6	5.6	6.2	6.5
Private Consumption	4.0	-2.4	4.3	7.0	6.0	4.7
Government Consumption	14.6	10.8	-2.8	2.6	6.1	7.4
Gross Fixed Capital Investment	28.7	40.7	21.0	7.1	6.5	4.2
Exports, Goods and Services	-10.6	-51.3	6.2	15.5	11.0	7.6
Imports, Goods and Services	-1.7	16.2	7.9	11.2	7.2	1.8
Real GDP growth, at constant factor prices	6.2	-0.2	5.6	5.6	6.2	6.5
Agriculture	-0.5	12.0	1.0	2.0	2.8	3.2
Industry	14.8	9.9	10.7	4.9	6.8	7.0
Services	6.1	-7.3	5.6	7.2	7.2	7.4
Inflation (Consumer Price Index)	7.1	5.9	7.4	8.0	8.0	6.3
Current Account Balance (% of GDP)	-6.2	-3.7	-4.6	-12.3	-12.7	-10.9
Fiscal Balance (% of GDP)	-2.5	-2.2	-4.4	-4.6	-3.6	-3.4
Debt (% of GDP)	83.0	85.0	83.0	80.4	74.5	68.7
Primary Balance (% of GDP)	0.6	1.0	-2.0	-1.9	-1.0	-0.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	8.4	9.2	8.5	7.8	7.0	6.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	33.2	35.5	33.6	32.3	30.7	28.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	69.2	70.7	69.3	67.6	65.3	63.7
GHG emissions growth (mtCO2e)	2.5	2.1	3.4	2.7	2.9	2.5
Energy related GHG emissions (% of total)	30.4	30.3	30.1	30.2	30.2	30.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2015-IHS. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2015) with pass-through = 0.87 based on GDP per capita in constant LCU.

GHANA

Table 1	2021
Population, million	31.7
GDP, current US$ billion	73.0
GDP per capita, current US$	2299.2
International poverty rate ($1.9)[a]	12.7
Lower middle-income poverty rate ($3.2)[a]	29.3
Upper middle-income poverty rate ($5.5)[a]	55.1
Gini index[a]	43.5
School enrollment, primary (% gross)[b]	103.4
Life expectancy at birth, years[b]	64.1
Total GHG Emissions (mtCO2e)	18.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

Economic growth rebounded to 4.1 percent in 2021, but significant macroeconomic imbalances remain. The fiscal deficit and debt remained elevated, and inflation rose to double digits. Medium-term growth prospects are strong, but there are important risks related to fiscal and external vulnerabilities. Poverty reduction has stagnated in recent years as important regional disparities persist; the recent surge in food and fuel prices is likely to have a significant impact on the poor and vulnerable households.

Key conditions and challenges

Ghana has experienced strong economic growth over the past three decades, leading to a near doubling of GDP per capita. However, in the past decade, GDP growth fluctuated between 2.7 and 6.5 percent (except 0.4 percent in 2020 as a result of the pandemic), partially due to dependence on natural resources and exposure to external shocks. Moreover, Ghana's growth has not created sufficient job opportunities for the growing and young population, and the economy is not sufficiently diversified: gold, cocoa, and oil exports accounted for over 75 percent of all goods exports over 2015–2017, with limited manufacturing exports. Labor has continued to move out of agriculture and into low value-added services, and some manufacturing while some services subsectors have experienced fast growth (ICT, Financial and Professional Services) but they employ very few workers. Macroeconomic management has been uneven. Recently, relatively large fiscal imbalances and elevated public debt have put Ghana at high risks of debt distress. Ghana's sovereign spreads widened in the second half of 2021 effectively shutting the economy off from the Eurobond market and risking further strain on external sustainability.

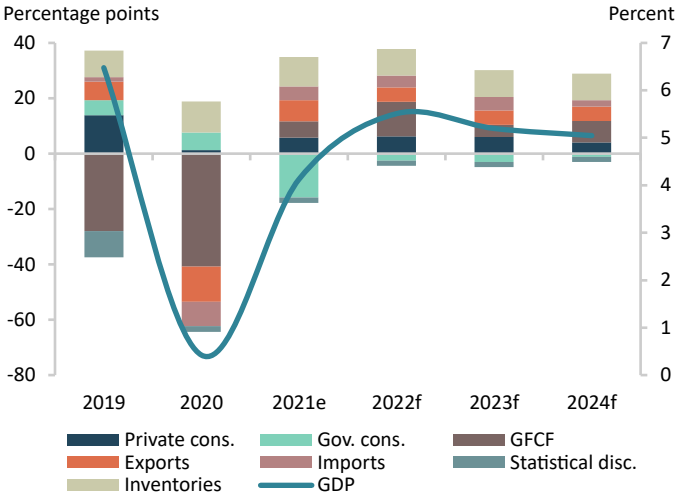
Ghana's economy continues to suffer impacts of the pandemic, and the war in Ukraine and associated sanctions are further complicating the outlook, exacerbating prior inflationary pressures and financing constraints. The developments are expected to raise global prices for several key commodities (including food, fuels, fertilizers, and metals used in manufacturing), lowering households' and firms' purchasing power and increasing poverty; these pressures have already hastened monetary policy tightening. Higher fertilizer and metal prices are expected to negatively impact construction, manufacturing, and agriculture. Although Ghana will enjoy a current account boost from rising commodity prices (particularly for oil and gold), benefits to real GDP are likely to be counteracted by domestic inflation and Ghana's falling oil production until at least 2025.

Recent developments

Ghana's economy rebounded in 2021, after the COVID-induced slowdown in 2020. Growth is estimated at 4.1 percent for 2021 – below pre-pandemic trends. Inflation averaged 10 percent in 2021, and accelerated further in early 2022, driven by exchange rate depreciation and food and non-food price hikes. Inflation reached 15.7 percent in February, its highest rate since 2016 and well above the Central Bank's target band of 6 – 10 percent.

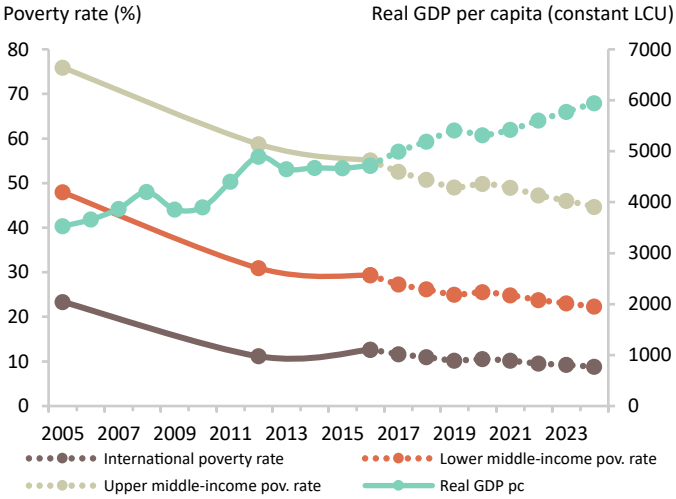
The fiscal deficit was 11.3 percent of GDP in 2021, reflecting significant budget rigidities, debt service obligations, and revenue mobilization challenges. The deficit had doubled from 7.6 percent of GDP in 2019 to 15.2 percent in 2020, due to pandemic-related spending and financial and energy sector

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



Source: World Bank.

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



Source: World Bank. Notes: see table 2.

cleanups. Debt-to-GDP rose by 15.6 percentage points to 78.8 percent of GDP in 2020. New debt has been increasingly contracted from the domestic sector, at higher (nominal) rates and shorter maturities.

The 2021 Balance of Payments surplus is estimated at 2.1 percent of GDP. The trade balance was positive but narrowed as imports recovered more quickly than exports. The Current Account Deficit was 3.8 percent of GDP in 2021, reflecting high investment income outflows, including debt servicing. The Capital and Financial Accounts enjoyed a US$3.7 billion surplus by 2021Q3 and foreign reserves were US$11.0 billion (4.9 months' import coverage) by September 2021, up from US$8.6 billion in December 2020. The exchange rate was relatively stable in 2021 (supported by US$4 billion in Eurobond issuances and Special Drawing Rights allocations) but fell substantially in late 2021 and early 2022 (17 percent against the dollar from end December 2021 to March 2022).

Poverty reduction has slowed in recent years, with persistent spatial inequalities and increasing vulnerabilities. More than 20 percent live under the national poverty line. The poor are concentrated in the three northern regions, where poverty rates are above 50 percent. Using the international poverty line (US$1.9 PPP), poverty declined from 12.7 percent to 10.2 percent from 2016 to 2021, reflecting slow but steady real GDP per capita growth.

Outlook

Growth is projected to reach 5.5 in 2022 and an average of 5.3 over 2022-2024. Growth is expected to be broad-based, led by agriculture and services and a stronger industry sector supported by higher extractives prices. Higher fertilizer prices due to the Ukraine crisis may slightly depress agricultural output in 2023.

The government's 2022 budget set forth an ambitious consolidation plan, which may prove difficult to achieve. The government aims to raise revenue from 16 percent of GDP in 2021 to 20 percent in 2022, which, combined with spending cuts, would reduce the deficit to 4.5 percent of GDP by 2024. However, a significant revenue measure (an e-levy) has faced steep opposition, preventing its introduction so far, while targets for other revenue measures are optimistic. More conservatively, the fiscal deficit may average 7.5 percent in the medium-term (2022-2024), compared to the Authorities' target of 5.8 percent.

Ghana's external position is projected to worsen after a temporary improvement in 2021. The current account deficit is expected to widen to 4 percent of GDP in 2022 and to remain elevated through to 2024, due to a gradual decline in oil export volumes and recovery of imports to pre-pandemic levels. In the coming years, there will be pressure to erode foreign reserves due to the widening current account deficit and constrained access to the Eurobond market.

Using the international poverty line (US$1.9 PPP), poverty rate is projected to decrease from 10.2 in 2021 to 8.8 in 2024. with the uptick in growth. However, the ongoing conflict between Russia and Ukraine places increased pressure on prices. Year-on-year food inflation had already nearly tripled between May 2021 and February 2022 to 17.4 percent. Given that Ghanaians devote nearly half their budget to food, this will tighten the budget of millions of Ghanaians vulnerable to poverty. Combined with other pressures from the Russia–Ukraine conflict and associated sanctions, these risks imperiling the poverty reduction achieved by Ghana during the 21st century.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	6.5	0.4	4.1	5.5	5.2	5.0
Private Consumption	13.9	1.3	5.8	6.2	6.0	4.0
Government Consumption	5.4	6.4	-15.9	-2.6	-3.0	-1.2
Gross Fixed Capital Investment	-27.9	-40.7	5.9	12.4	4.4	7.7
Exports, Goods and Services	6.7	-12.8	7.6	5.2	5.2	5.2
Imports, Goods and Services	1.7	-8.8	4.9	4.2	4.9	2.3
Real GDP growth, at constant factor prices	6.5	0.4	4.1	5.5	5.2	5.0
Agriculture	4.6	7.4	5.4	5.0	5.3	4.3
Industry	6.4	-3.6	-0.5	5.7	4.8	4.2
Services	7.6	0.9	8.0	5.6	5.5	6.2
Inflation (Consumer Price Index)	7.9	10.4	10.0	12.8	12.1	11.0
Current Account Balance (% of GDP)	-2.7	-3.3	-3.8	-4.0	-4.2	-3.0
Fiscal Balance (% of GDP)	-7.6	-15.2	-11.3	-10.6	-6.5	-5.5
Debt (% of GDP)	63.3	78.8	83.5	84.9	86.4	87.4
Primary Balance (% of GDP)	-1.9	-8.8	-3.7	-1.4	0.3	1.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	10.2	10.5	10.2	9.5	9.2	8.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	25.0	25.5	24.9	23.8	23.0	22.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	49.1	49.8	49.0	47.3	46.1	44.7
GHG emissions growth (mtCO2e)	16.1	9.6	-2.0	15.2	13.8	8.2
Energy related GHG emissions (% of total)	148.7	143.9	144.2	137.6	132.3	129.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2016-GLSS-VII. Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2016) with pass-through = 0.87 based on GDP per capita in constant LCU.

GUINEA

Table 1	2021
Population, million	13.5
GDP, current US$ billion	16.1
GDP per capita, current US$	1194.6
International poverty rate ($1.9)[a]	23.2
Lower middle-income poverty rate ($3.2)[a]	60.4
Upper middle-income poverty rate ($5.5)[a]	89.8
National GINI (2018/2019)	27.2
School enrollment, primary (% gross)[b]	100.8
Life expectancy at birth, years[b]	61.6
Total GHG Emissions (mtCO2e)	45.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

A slowdown in bauxite production and a modest recovery in services slowed growth to 3.1 percent in 2021. The fiscal deficit narrowed, reflecting lower capital spending, but public debt increased to 43.1 percent due to PPP infrastructure projects. Mining-related FDI is expected to support growth over the medium term, lowering poverty. Down-side risks include a prolonged political transition, persisting COVID-19 impacts, delayed structural reforms, and spillovers of the Ukraine conflict.

Key conditions and challenges

Growth averaged 8 percent 2016-2020, 5.1 percent in per capita terms, supported by a mining boom and low fiscal deficits (1.3 percent in 2016–2020). However, economic growth had a limited impact on poverty reduction and shared prosperity, with the national poverty rate declining from 48.5 percent in 2014 to 43.7 percent in 2018/19, equivalent to a growth elasticity of poverty of 0.47. The pandemic most likely erased those gains. About 32 percent of the population suffered deprivations in education, health, and access to basic infrastructure in 2018.

Guinea shares many of the economic features of resource-dependent countries. Exports are dominated by few products (e.g., bauxite and gold) and concentrated in few markets (China and the United Arab Emirates), exposing the country to commodity price shocks. The mining boom and high inflation have affected the competitiveness of other sectors through an appreciating local currency— a phenomenon known as 'Dutch disease'. Guinea also has low levels of human capital and widespread gender gaps in education, earnings, agricultural productivity, and political representation. Governance challenges were brought to the forefront by the coup d'état in September 2021. Other constraints to inclusive growth include weak tax revenues, an underdeveloped financial sector, and large infrastructure gap.

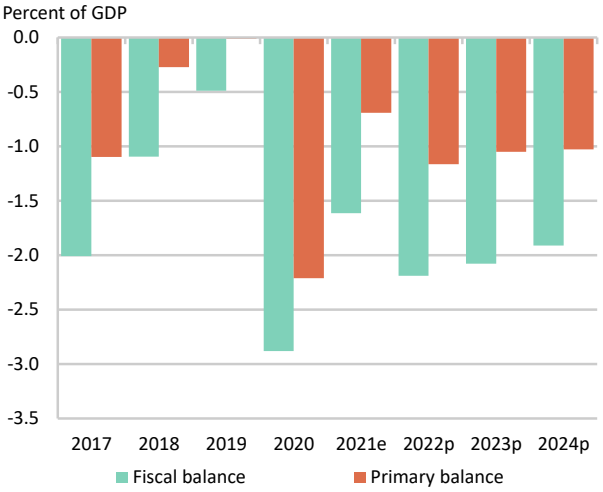
COVID-19 affected the non-mining sector and exacerbated existing development challenges. Enacting structural reforms to diversify the economy and promote inclusive growth has become more pressing. Guinea is at moderate risk of external debt distress with limited space to absorb shocks. This assessment hinges on commitments to maintain a prudent borrowing plan that maximizes concessional borrowing.

Recent developments

Growth decelerated to 3.1 percent in 2021 (0.3 percent in per capita terms). Bauxite exports (in tons) grew by 4 percent in 2021 compared to 24 percent in 2020 because of a slowdown in economic activity after the coup. Gold exports (in ounces) grew 11 percent in 2021, reflecting a strong artisanal production. Inflation accelerated from 10.6 percent in 2020, to 12.6 percent in 2021 due to higher food prices (15.1 percent) and supply disruptions (domestic and external). The Ukraine conflict will likely increase food price inflation in 2022, affecting disproportionally the poorest and threating food security.

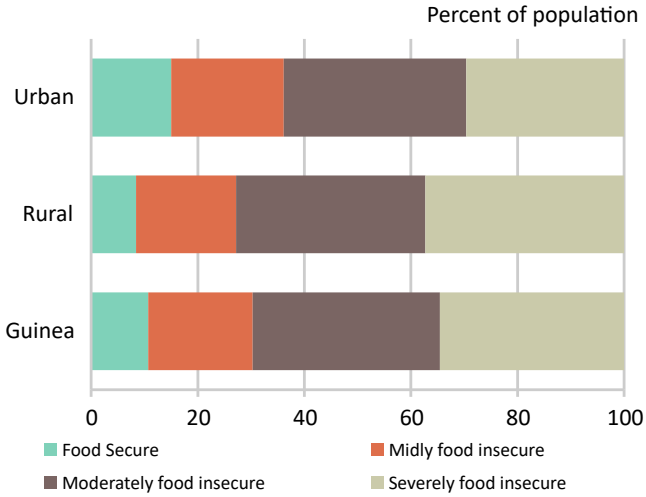
The overall fiscal deficit (including grants) improved to 1.6 percent of GDP in 2021, even though tax revenues remained low (11.4 percent of GDP). Weak tax administration and mining tax exemptions explain low tax revenues. Electricity subsidies doubled in 2021 to 20 percent of spending, reflecting low electricity tariffs and higher electricity generation from the

FIGURE 1 **Guinea** / Primary and overall fiscal balance



Sources: Guinean authorities and World Bank staff projections.

FIGURE 2 **Guinea** / Food security status of the population (January 2021)



Source: World Bank staff calculation based on HFPS 2021. Note: the household high-frequency phone survey (HFPS) includes a module to capture the Food Insecurity Experience Scale (FIES) following the FAO (2017) methodology.

Kaleta-Souapiti hydropower project. Under-executed capital spending helped offset those subsidies. Spending on social safety nets is small (0.5 percent of public spending in 2020). The debt-to-GDP ratio increased from 38.4 percent of GDP in 2018 to 43.3 percent in 2021, reflecting borrowing related to the pandemic and disbursement for the Souapiti hydropower project.

The current account deficit improved to 9.4 percent of GDP in 2021, due to lower imports of intermediate goods. Mining-related FDI continued to be the main source of external financing and increased from 9.9 percent of GDP in 2020 to 10.8 percent in 2021. Estimated international reserves decline slightly in 2021 while the currency appreciated in nominal terms.

Based on GDP per capita growth projections, the extreme poverty rate (percentage of the population living below the international poverty line US$1.90 per capita per day, 2011 PPP) is estimated to have remained stagnant at 21.1 percent in 2020 and 2021. However, when considering that the pandemic most likely pushed into poverty nonpoor vulnerable populations close to the national poverty line (estimated at 5,006,362 GNF per capita per year in 2018/19), the national poverty rate is estimated to have increased 4 percentage points, disproportionately affecting rural populations.

Outlook

Mining-related FDI will continue to drive growth. As the service sector and mining production recover, growth will accelerate in 2022. But the Ukraine conflict lowered growth projections to 4.4 percent in 2022, and to 5.8 percent in 2023–2024 and could affect the operations of Rusal, a Russian conglomerate that accounts for 7 percent of bauxite exports. Investment in energy and transport could support growth in the construction sector. Better provisioning of fertilizer stocks could improve agricultural productivity, but higher fertilizer prices could dampen earnings. Rising oil prices could increase fuel subsidies, widening the fiscal deficit. Uncertainties around the political transition could also decelerate the implementation of reforms to strengthen governance and the financial performance of the public electricity utility, which could reduce private investment, and spending in social programs. Inflation is expected to remain high, but to decline gradually to 8.8 percent by 2024.

The external current account deficit is projected to widen to 13.3 percent of GDP in 2022, reflecting lower exports, higher imports for infrastructure spending, and higher energy and food costs due to the Russia-Ukraine war. The deficit is projected to stabilize thereafter, with exports projected to grow slower than imports, particularly for renewed infrastructure spending for road and railways. FDI inflows could increase, reflecting planned new mining projects, and support financing requirements.

Extreme poverty is projected to decline to 19.0 percent by 2023. Downward risks to poverty reduction include the persistence of high inflation and the deferral of social reforms. Higher fertilizer prices due to the Ukraine conflict could constraint farmers, disrupting the food industry. Following the COVID-19 crisis, 84 percent of Guinean households cited higher input prices as the most common challenge in farming and the prospects for a prolonged period of food insecurity is high.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.6	4.6	3.1	4.3	5.9	5.8
Private Consumption	5.4	3.5	5.5	4.1	4.6	4.7
Government Consumption	-6.3	42.9	-1.3	11.8	9.5	9.4
Gross Fixed Capital Investment	-8.4	-10.2	19.0	18.4	26.4	22.8
Exports, Goods and Services	-0.6	33.5	3.4	3.8	4.0	4.0
Imports, Goods and Services	-9.5	39.4	7.2	10.2	10.1	10.1
Real GDP growth, at constant factor prices	6.5	4.6	3.1	4.4	5.8	5.8
Agriculture	7.6	-1.6	5.4	5.8	6.0	6.0
Industry	7.2	18.5	4.2	5.0	6.7	6.7
Services	5.5	-3.4	1.2	3.3	4.9	4.9
Inflation (Consumer Price Index)	9.5	10.6	12.6	12.0	10.0	8.8
Current Account Balance (% of GDP)	-10.8	-14.0	-9.4	-13.2	-13.4	-12.3
Net Foreign Direct Investment (% of GDP)	9.0	10.1	10.8	13.2	13.2	12.3
Fiscal Balance (% of GDP)	-0.5	-2.9	-1.6	-2.2	-2.1	-1.9
Debt (% of GDP)	33.8	40.0	43.1	42.6	41.6	42.2
Primary Balance (% of GDP)	0.0	-2.3	-0.7	-1.2	-1.0	-1.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	21.8	21.1	21.1	20.2	19.0	18.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	58.7	57.9	57.8	57.0	55.4	53.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	89.2	88.7	88.6	88.3	87.6	86.8
GHG emissions growth (mtCO2e)	3.0	3.7	4.0	4.0	4.0	4.0
Energy related GHG emissions (% of total)	14.7	14.6	14.4	14.3	14.0	13.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

GUINEA-BISSAU

Table 1	2021
Population, million	2.0
GDP, current US$ billion	1.6
GDP per capita, current US$	793.9
International poverty rate ($1.9)[a]	24.7
Lower middle-income poverty rate ($3.2)[a]	59.5
Upper middle-income poverty rate ($5.5)[a]	86.0
Gini index[a]	34.8
School enrollment, primary (% gross)[b]	118.7
Life expectancy at birth, years[b]	58.3
Total GHG Emissions (mtCO2e)	4.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2010); Life expectancy (2019).

Growth is expected to continue to recover over the medium-term, as international cashew demand and production rebound, rising to around 4.5 percent and bolstered by fiscal consolidation and structural reforms. The outlook is subject to significant downside risks stemming from continued inflationary pressures, notably for food and petroleum, potentially exacerbated by conflict in Ukraine, new COVID-19 variants, external shocks affecting international cashew prices, political instability, and climatic shocks.

Key conditions and challenges

Exports of raw cashew nuts, which account for 90 percent of merchandise exports, determine economic performance. Cashew production is dispersed among smallholder farmers, whose income supports overall economic activity. Annual GDP grew 5.4 percent on average between 2015 and 2017 (3.2 percent in per capita terms) as cashew prices reached record highs, but Guinea-Bissau is structurally vulnerable to terms-of-trade shocks and climatic risks. Raw cashew prices had been on a downward trajectory since 2018, adversely affecting economic growth, poverty, and government finances, until a recovery in 2021. Around 15 percent of tax revenue is directly related to cashew exports.

Limited diversification and low agricultural productivity keep the country highly dependent on food and capital imports. Responding to the COVID-19 pandemic and externally financed infrastructure projects led to high primary deficits and considerable debt accumulation in 2021. Entrenched political instability has taken the country through multiple coups, including a failed attempt in February 2022, and precluded the implementation of structural reforms.

The banking sector is a looming risk. The sector continues to depend on the accommodative stance of the central bank injecting liquidity into the economy, which started as a response to COVID-19 and continued into 2021. A systemic bank is undercapitalized. High levels of non-performing loans, 21.8 percent in all banks across the country and 10.3 percent excluding the undercapitalized bank, also represent an important vulnerability. A deterioration in this situation would generate contingent liabilities, adding to fiscal and public debt pressures.

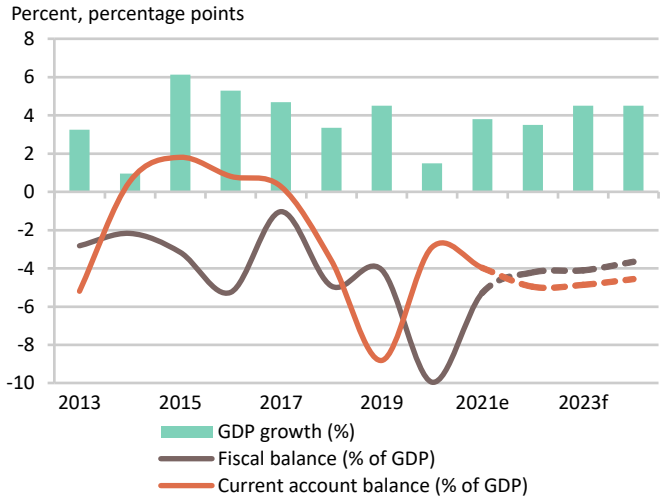
Recent developments

Economic activity expanded to 3.8 percent in 2021 (1.5 percent in per capita terms) from 1.5 percent in 2020. Strong cashew production, up 23.5 percent from 2020, and high international prices drove growth, causing an upward revision of growth forecasts. On the demand side, capital investments and net imports were the main drivers of growth. Inflation rose from 1.5 percent in 2020 to 3.3 percent in 2021, driven by an increase in food (+2 percentage points) and oil prices.

Increased cashew exports only partially offset the increase in oil and food import prices and the current account deficit (CAD) is estimated to have increased from 2.9 percent of GDP in 2020 to 4 percent in 2021. The CAD was financed by concessional loans and grants. The IMF SDR allocation of USD $38.4 million (2.4 percent of GDP) contributed to closing the external financing gap.

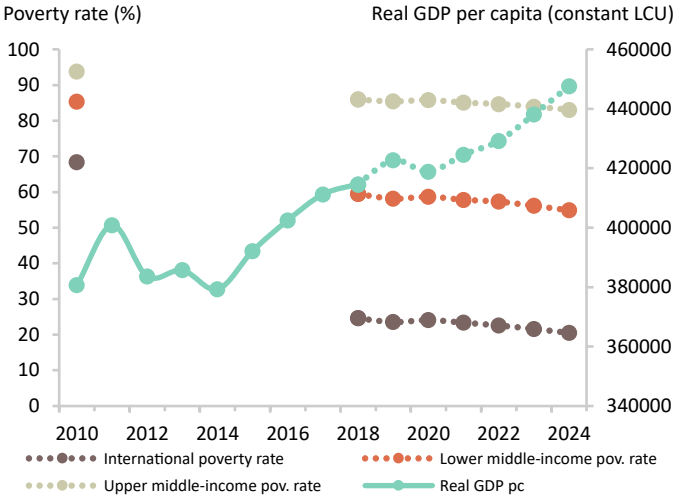
The fiscal deficit fell from 9.9 percent of GDP in 2020 to 5.3 percent in 2021, driven by an increase in tax revenues and

FIGURE 1 Guinea-Bissau / Evolution of main economic indicators



Sources: Ministry of Finance and World Bank.

FIGURE 2 Guinea-Bissau / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

a reduction in current expenditure. Public debt as a share of GDP increased from 78.3 percent in 2020 to 79.8 percent in 2021, driven by the depreciation of the euro against the dollar and the rephasing of legacy arrears. Although the risk of external and total debt distress is high, public debt remains sustainable.

Guinea-Bissau's monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO), which maintains a fixed peg between the CFA franc and the euro. Its reserves reached 5.8 months of imports of goods and services in 2021, because of increased exports, the August 2021 SDR allocation, and portfolio inflows linked to Eurobond issuances in the region (by Benin, Côte d'Ivoire, Senegal and the BOAD).

Using updated poverty indicators from 2018/19 (previous MPOs used 2010 indicators), extreme poverty ($1.9/day PPP poverty line) declined from 24.1 percent in 2020 to 23.4 percent in 2021, lifting over 3,000 people out of extreme poverty. The decline in poverty indicates a slow recovery in the economy. Additionally, recent political events are likely to further dampen the pace of recovery in sectors such as tourism, thereby affecting poverty reduction.

Outlook

The Ukrainian conflict will have a negative effect on the economy. Real GDP growth has been revised down from 4 percent in 2022, to 3.5 percent and medium-term growth from 5 percent to 4.5 percent, despite high forecasted cashew prices and infrastructure investments. The crisis will also cause inflation to rise to 4 percent in 2022, reflecting higher food and oil prices. The outlook is subject to substantial downside risks stemming from political instability, climate shocks, new COVID-19 variants, and non-performing loans in the financial sector.

The CAD will reach 5 percent of GDP in 2022 and 4.6 by 2024. External financing needs will continue to be met by concessional loans and grants in 2022. WAEMU reserves are expected to fall to around 5.5 months of imports in 2022 and 5.3 months in 2023 and 2024, reflecting faster growth in imports and a reduction in net capital inflows (as a percent of GDP), as the environment for Eurobond issuances remains uncertain. Growth-friendly fiscal consolidation and the implementation of structural reforms are key to maintaining reserves at an optimal level.

The authorities are committed to a medium-term fiscal consolidation, which includes enhanced management of fiscal risks, notably from SOEs, revenue mobilization and control of the wage bill. The primary deficit is projected to decline from 2.3 percent of GDP in 2022, to 1.8 by 2024 with the public debt-to-GDP ratio expected to fall to 75 percent of GDP by 2024.

Sustained agricultural growth should continue to reduce poverty rates in 2022, to 22.6 percent and reaching 20.5 percent by 2024, lifting an additional 22,000 people out of poverty. Significant downside risks exist, notably related to the pace of the economic recovery, political and security instability, and the poor, who spend nearly 60 percent of their expenditure on food, are most vulnerable to rising food prices.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.5	1.5	3.8	3.5	4.5	4.5
Private Consumption	1.4	-1.0	3.0	1.0	2.5	2.5
Government Consumption	16.6	9.0	-0.4	16.2	3.2	10.2
Gross Fixed Capital Investment	33.8	7.3	14.1	7.2	16.2	8.4
Exports, Goods and Services	8.7	-2.5	5.3	5.5	6.0	7.0
Imports, Goods and Services	14.1	-1.0	5.9	6.0	6.4	6.4
Real GDP growth, at constant factor prices	4.5	1.5	3.8	3.5	4.5	4.5
Agriculture	5.8	-0.2	4.4	4.6	5.1	5.1
Industry	4.2	-0.2	3.5	3.6	4.4	4.4
Services	3.5	3.5	3.4	2.6	4.0	4.0
Inflation (Consumer Price Index)	0.3	1.5	3.3	4.0	2.0	2.0
Current Account Balance (% of GDP)	-8.8	-2.9	-4.0	-5.0	-4.9	-4.6
Fiscal Balance (% of GDP)	-4.1	-9.9	-5.3	-4.2	-4.1	-3.7
Debt (% of GDP)	65.9	78.3	79.8	80.9	76.1	75.0
Primary Balance (% of GDP)	-2.9	-8.3	-3.7	-2.3	-2.1	-1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	23.6	24.1	23.4	22.6	21.6	20.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	58.2	58.7	57.9	57.4	56.2	54.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	85.4	85.8	85.1	84.7	84.0	83.1
GHG emissions growth (mtCO2e)	1.0	1.2	0.4	1.1	1.3	1.5
Energy related GHG emissions (% of total)	12.8	12.9	13.0	13.1	13.2	13.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

KENYA

Table 1	2021
Population, million	55.0
GDP, current US$ billion	110.3
GDP per capita, current US$	2005.8
International poverty rate ($1.9)[a]	37.1
Lower middle-income poverty rate ($3.2)[a]	66.5
Upper middle-income poverty rate ($5.5)[a]	86.6
Gini index[a]	40.8
School enrollment, primary (% gross)[b]	103.2
Life expectancy at birth, years[b]	66.7
Total GHG Emissions (mtCO2e)	77.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2011 PPPs.
b/ WDI for School enrollment (2016); Life expectancy (2019).

Kenya's economy was severely disrupted by the COVID-19 shock but it has staged a strong recovery, and the poverty rate is projected to fall below its pre-pandemic level in 2022. However, prolonged drought in the north-east has caused severe hardship in affected areas. Progress on fiscal consolidation will be essential to achieve a durable, private sector-led recovery, and to restore space for pro-poor spending and investment in human capital.

Key conditions and challenges

Kenya was making strong economic progress prior to the COVID-19 pandemic, with real GDP growing at an annual average rate of 5 percent and major achievements in human development (the highest Human Capital Index score in continental sub-Saharan Africa); in energy access and sustainability (access to electricity almost doubled to 75 percent of households in 2018, based on a nearly 90 percent green energy mix); and in poverty reduction (the share of the population living below the $1.90 a day poverty line fell from 45.2 percent in 2009 to 34.4 percent in 2019). Kenya aspires to become an upper middle-income country by 2030, which will require a shift away from the economy's recent reliance on debt-financed public investment and towards more private investment to sustainably generate jobs and income growth.

To support structural transformation towards a more inclusive and resilient private sector-led economy, it is critical to reinforce fiscal consolidation, since fiscal space has eroded and debt risks have mounted. Measures are also needed to strengthen productivity and private investment, by addressing economic distortions (including those which arise from an uneven playing field between the private sector and a large and inefficient SOE sector), improving the regulatory and business environment (including by reducing corruption and excessive red tape), and enhancing access to finance.

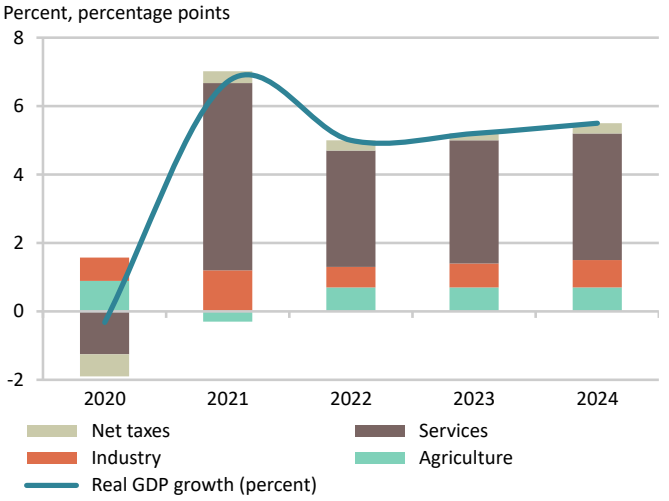
Kenya's economy relies on tourism and rainfed agriculture, and is vulnerable to climate change and extreme weather events such as the severe drought currently affecting the north-east of the country. Over the past decade, climate-related annual losses have been 3-5 percent of GDP, despite Kenya's negligible contribution to global GHG emissions. Climate-related priorities include phasing out the remaining fossil fuel power supply, increasing tree-cover, adopting climate-smart agriculture, and making the transportation and waste management systems more efficient and sustainable.

Recent developments

Whilst the pandemic stalled growth in 2020, the economy has recovered, and output is well above pre-pandemic levels. The economy grew by an estimated 6.7 percent in 2021, supported by a strong recovery of the services sector (Figure 1), particularly education, and growth in manufacturing and construction. Agricultural output, however, contracted by 1.5 percent in 2021, due to below-average rains. Disruption caused by the omicron variant of COVID-19 led to some moderation of economic activity in the fourth quarter of 2021.

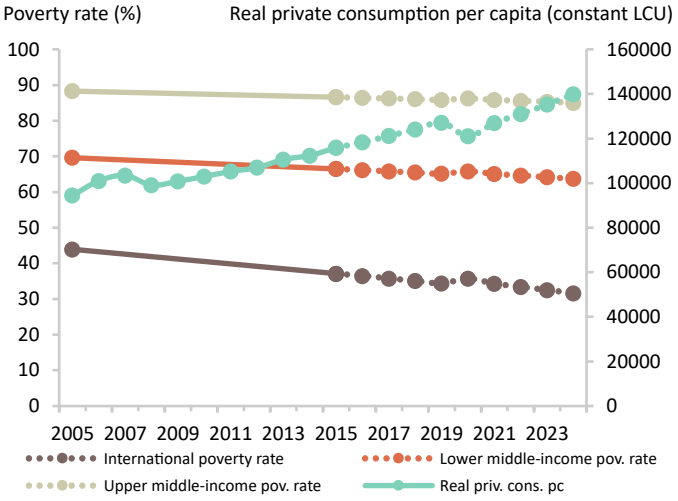
Monetary policy remained accommodative. Inflation pressures remained contained overall but the prices of some staple

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



Sources: Kenya National Bureau of Statistics and World Bank.

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



Source: World Bank. Notes: see Table 2.

products have risen significantly, affected by global supply chain challenges and below-average rains. The below-average rains have also resulted in deteriorating food security, especially in the north and east of Kenya which has been affected by a severe drought (USAID's Famine Early Warning Systems Network). The global fuel and food price shocks caused by Russia's invasion of Ukraine will increase import costs and prices, including of Kenya's significant net fuel and wheat imports, though the duration and magnitude of the price effects are highly uncertain.

The fiscal outturn in the first half (H1) of FY2021/22 improved, driven largely by the economic recovery, a strong rebound in revenues, and new tax policy and administration measures implemented under the government's medium-term fiscal consolidation program. Total expenditures have remained broadly steady at 10.8 percent of GDP in H1, with an increase in recurrent spending being offset by reduced development spending and below-target transfers to county governments. As a result, the fiscal deficit in H1 FY2021/22 decreased to 2.5 percent of GDP from 3.2 percent a year earlier.

Outlook

The course of the pandemic remains key to the outlook but increasing COVID-19 vaccinations will help to mitigate the risks. The government targets to vaccinate all adults by end-2022 and with the improvement in vaccine supply, the proportion of adults fully vaccinated increased from 15.3 percent in December 2021 to 27.8 percent in February 2022.

With GDP growth projected to average 5.2 percent over 2022–24, growth in real per capita incomes will help reverse the rising poverty rates caused by the pandemic. Poverty is expected to fall to 33.4 percent in 2022, below the pre-crisis level of 34.4 percent (2019). The baseline projections assume that normal rains support good agricultural harvests to drive food processing, sustain export growth, help anchor inflation expectations, and support households' consumption.

Progress on fiscal consolidation will bolster confidence and resources for private sector investment. The fiscal deficit is expected to narrow to 4.4 percent of GDP by FY2023/24, through a mix of expenditure restraint and revenue measures, including further rationalization of tax expenditures and introduction of a digital tax. Public debt is expected to decline as a share of GDP, benefiting from economic growth, fiscal consolidation and reduced borrowing costs due to increases in concessional debt in the financing mix. Lower domestic borrowing by government will create more room for banks to finance private sector investment.

Domestic risks facing the outlook stem from election-related disruptions and adverse weather conditions (currently affecting north-eastern Kenya). External uncertainty will stem from re-intensification of the pandemic, and the global price and trade shocks emanating from the Russia-Ukraine conflict with potentially adverse impacts on inflation, the current account balance, and the fiscal deficit (depending on extent to which global oil price increases are passed on to retail fuel consumers).

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.0	-0.3	6.7	5.0	5.2	5.5
Private Consumption	4.9	-2.7	7.3	5.5	5.6	5.8
Government Consumption	7.0	4.3	4.2	4.9	3.6	3.5
Gross Fixed Capital Investment	3.8	3.4	6.4	4.1	6.7	7.6
Exports, Goods and Services	-3.2	-8.2	8.0	6.8	7.1	7.4
Imports, Goods and Services	1.8	-8.5	7.5	7.0	8.0	8.3
Real GDP growth, at constant factor prices	5.2	0.3	6.7	5.0	5.2	5.5
Agriculture	2.6	4.8	-1.5	3.6	3.8	4.2
Industry	3.4	4.0	6.6	3.5	4.0	4.3
Services	6.7	-2.2	9.6	5.9	6.0	6.2
Inflation (Consumer Price Index)	5.2	5.3	6.4	6.0	5.5	5.0
Current Account Balance (% of GDP)	-5.3	-4.6	-5.5	-6.0	-5.5	-5.0
Net Foreign Direct Investment (% of GDP)	0.9	0.5	0.2	0.6	0.8	0.9
Fiscal Balance (% of GDP)	-7.4	-7.9	-8.2	-7.5	-5.5	-4.3
Debt (% of GDP)	59.5	65.8	68.2	68.0	66.8	63.9
Primary Balance (% of GDP)	-3.2	-3.9	-3.7	-2.8	-0.6	0.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	34.4	35.7	34.3	33.4	32.5	31.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	65.1	65.8	65.1	64.7	64.2	63.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	85.9	86.2	85.8	85.6	85.3	85.0
GHG emissions growth (mtCO2e)	3.8	2.2	2.2	2.1	2.5	2.4
Energy related GHG emissions (% of total)	41.2	39.8	42.1	43.0	44.4	45.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2005-IHBS and 2015-IHBS.Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2005-2015) with pass-through = 1 based on private consumption per capita in constant LCU.

LESOTHO

Table 1	2021
Population, million	2.2
GDP, current US$ billion	2.4
GDP per capita, current US$	1111.8
International poverty rate ($1.9)[a]	27.2
Lower middle-income poverty rate ($3.2)[a]	49.9
Upper middle-income poverty rate ($5.5)[a]	73.2
Gini index[a]	44.9
School enrollment, primary (% gross)[b]	120.9
Life expectancy at birth, years[b]	54.3
Total GHG Emissions (mtCO2e)	5.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2011 PPPs.
b/ WDI for School enrollment (2017); Life expectancy (2019).

Economic growth has been modest in recent years. Domestic economy is expected to recover and register a modest growth of 1.6 percent in 2021. However, political instability, fiscal challenges, and the COVID-19 pandemic present significant downside risks. With modest growth expected in 2022, the poverty ratio will stary around 30 percent, using the international poverty line.

Key conditions and challenges

Real GDP contracted by 6.5 percent in 2020 because of the effects of the COVID-19 pandemic. According to the National COVID-19 Secretariat (NACOSEC), about 56 percent of Lesotho's eligible population have been vaccinated as at mid-March 2022. Even though the number of positive COVID-19 cases has been low in recent months, possibility of new waves of infection cannot be ruled out yet, and this is expected to weigh down Lesotho's exports, lower remittances and capital inflows and present downside risks to growth.

The COVID-19 pandemic has exacerbated an already dire fiscal position. Southern African Customs Union (SACU) receipts – the major source of government revenues – have declined further, from 22.1 percent of GDP in 2020 to 18.8 percent in 2021. Public expenditure remains elevated at about 54.8 percent of GDP in 2021. Consequently, the financing gap remains wide in the face of limited government buffers and limited domestic borrowing capacity. Public debt has increased – from 48.1 percent of GDP in 2019 to 60.5 percent of GDP in 2021, reflecting growing current spending and large capital projects.

The country has, in recent years, experienced unstable governments, characterized by weak coalitions and frequent change in government and/or cabinet reshuffles which delays developmental progress. National elections are slated for October 2022 and more splits in the current ruling coalition have emerged ahead of the elections.

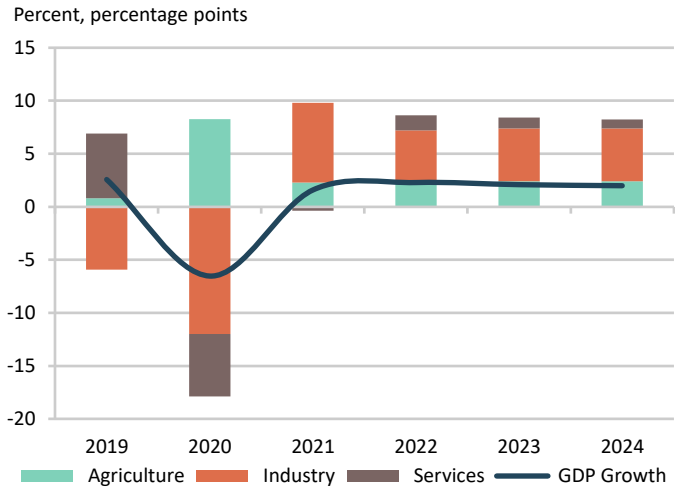
Even before the pandemic, Lesotho grappled with high poverty and unemployment rates. The unemployment rate was 22.5 percent in 2019 (strict definition), rising to 38.3 percent (when the expanded definition that includes discouraged job seekers is used). About a third of the population lives on less than US$1.90/person/day (in 2011 PPP terms). Rural and mountainous regions tend to be the poorest, given their poorer access to basic infrastructure and services, limited economic opportunities, and vulnerability to climatic shocks which weighs down agricultural productivity. Remittances from migrant workers, which play a crucial safety net role, have been hard hit by the pandemic.

Recent developments

Lesotho's economy has been in recession even before the emergence of the COVID-19 pandemic. Real GDP contracted by an average 0.6 percent annually between 2017 and 2019 before the sharp 2020 recession. The downturn continued into the first quarter of 2021, after when some recovery was observed in sectors like information technology and communications, mining, and manufacturing sectors which recorded double-digit quarterly growth rates. It is estimated that the economy rebounded by 1.6 percent in 2021.

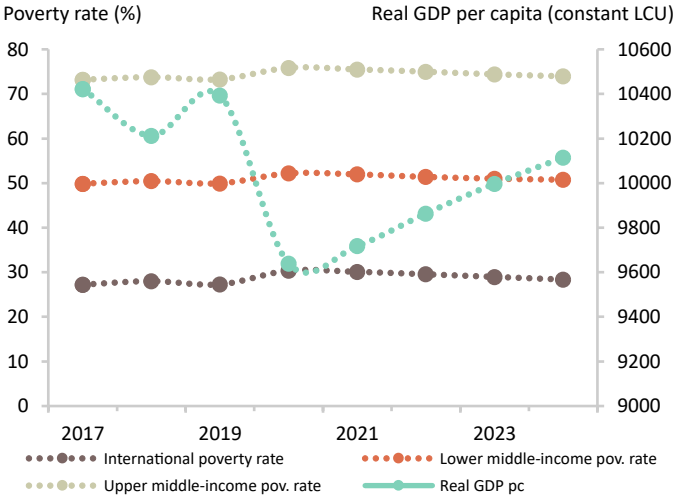
Annual inflation rate averaged 6.0 percent in 2021 compared with 5.0 percent

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



Source: World bank.

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



Source: World Bank. Notes: see table 2.

in 2020, driven by higher food and energy prices, and by increased administered prices domestically. The inflation rate has accelerated to 7.6 percent in January 2022. The current account deficit narrowed from 3.4 percent of GDP in 2019 to 2.0 percent in 2020 primarily due to a decline in imports.

The fiscal situation remains challenging with a fiscal deficit of 5.9 percent of GDP expected in 2021. Central Bank of Lesotho reduced the policy rate four times from 6.25 to 3.5 percent (by 275 basis points) between March and July 2020. The policy rate has since been increased twice to 4.0 percent per annum to ensure that the domestic cost of funds remains aligned with the rest of the region.

Despite the modest recovery in 2021, poverty levels are estimated to have decreased only marginally from 30.4 percent in 2020 to 30.1 percent in 2021 (based on the US$1.90/person/day, 2011 PPP terms). Other factors – such as rising food prices and slow labor market recovery from COVID-19-related lockdown measures – limit poverty reduction. Recurring climatic hazards which adversely affect performance of the agricultural sector exacerbate the challenge and increase levels of food insecurity particularly among the rural population.

Outlook

The economic recovery is expected to pick up momentum over the medium term. Through 2024, real GDP growth is expected to average 2.1 percent annually, driven by strong agricultural sector growth on account of good seasonal rainfall (even though some parts of the country experienced droughts while others experienced floods), the expansion in the horticulture industry which is anticipated to come from the Fresh Produce Market Centre that was launched in 2021, and a growing domestic medicinal cannabis industry. Growth in the mining industry is anticipated as several mines resume production. Construction activities associated with the second phase of Lesotho Highlands Water Project (LHWP-II) should impact growth positively in the medium term, as will the construction of roads, the Mafeteng solar power plant, and Maseru district hospital. Services sector is also expected to recover due to improved business and consumer confidence as the vaccination rollout improves. On the downside, infection waves of the COVID-19 pandemic coupled with emergence of new strains of the virus will challenge economic recovery.

Key inflationary pressures are expected to emanate from food prices, administered prices and spill-over effects of invasion of Ukraine by Russia which will likely drive-up food and energy prices. The precarious fiscal situation and political uncertainly are also weighing down the economic outlook. A wider fiscal deficit of 8.0 percent of GDP is expected in 2022. Public debt is projected to increase steadily to 63.1 percent of GDP by 2023 before moderating. Other downside risks include (a) general elections- that would adversely affect project implementation; (b) heavy rains experienced in the beginning of 2022.

Poverty rates is expected to trend downwards but will remain higher than in 2019 as pressure on food and energy prices as well as a fragile economic environment slow the pace of poverty reduction. The US$1.90/person/day (in 2011 PPP terms) poverty rate is projected to fall slightly to 29.6 percent in 2022 and further to 28.4 percent in 2024.

TABLE 2 **Lesotho** / 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	-6.5	1.6	2.3	2.1	2.0
Private Consumption	2.6	4.8	-2.0	3.6	3.6	3.6
Government Consumption	7.8	19.7	-5.3	13.4	6.3	-0.4
Gross Fixed Capital Investment	-12.2	-42.8	-1.7	-6.4	38.6	49.8
Exports, Goods and Services	-13.3	-17.5	38.1	1.6	2.2	2.2
Imports, Goods and Services	-1.4	-0.5	15.0	6.8	10.3	10.3
Real GDP growth, at constant factor prices	2.6	-6.5	1.6	2.3	2.1	2.0
Agriculture	0.8	8.3	2.3	2.4	2.4	2.4
Industry	-5.9	-12.0	7.5	4.8	5.0	5.0
Services	6.1	-5.9	-0.4	1.4	1.0	0.8
Inflation (Consumer Price Index)	5.2	5.0	6.0	5.3	5.3	5.5
Current Account Balance (% of GDP)	-3.4	-2.0	-4.9	-9.6	-7.7	-6.4
Net Foreign Direct Investment (% of GDP)	1.5	1.3	1.5	1.6	1.7	1.6
Fiscal Balance (% of GDP)	-5.6	-1.1	-5.9	-8.0	-3.6	-0.4
Debt (% of GDP)	48.1	49.7	60.5	60.0	63.1	45.3
Primary Balance (% of GDP)	-4.4	-0.2	-4.9	-7.2	-2.8	0.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	27.3	30.4	30.1	29.6	29.0	28.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	49.9	52.2	52.0	51.4	51.0	50.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	73.3	75.9	75.5	75.0	74.4	74.0
GHG emissions growth (mtCO2e)	-1.3	-5.5	0.1	1.5	1.8	1.9
Energy related GHG emissions (% of total)	66.9	64.1	63.1	62.9	63.0	63.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2017-CMSHBS. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2017) with pass-through = 0.87 based on GDP per capita in constant LCU.

LIBERIA

Table 1	2021
Population, million	5.2
GDP, current US$ billion	3.5
GDP per capita, current US$	673.1
International poverty rate ($1.9)[a]	44.4
Lower middle-income poverty rate ($3.2)[a]	75.6
Upper middle-income poverty rate ($5.5)[a]	93.2
Gini index[a]	35.3
School enrollment, primary (% gross)[b]	85.1
Life expectancy at birth, years[b]	64.1
Total GHG Emissions (mtCO2e)	22.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2011 PPPs.
b/ WDI for School enrollment (2017); Life expectancy (2019).

Liberia's economy is recovering. GDP growth is projected to increase from an estimated 4.0 percent in 2021 to 4.4 percent in 2022, driven by mining and continued recovery from the pandemic. Meanwhile, inflation declined from 17.4 percent in 2020 to 7.9 percent in 2021, and it is expected to stay in single digits in 2022 due to prudent monetary and fiscal policies. However, there are downside risks and uncertainties associated with the Ukraine-Russia conflict, the ongoing currency changeover, and the COVID-19 pandemic.

Key conditions and challenges

Liberia's economy is still recovering from years of poor economic and social performance. Between 2014 and 2020, the economy contracted by an average of 0.4 percent per year, and per capita GDP fell by 12.3 percent cumulatively, owing in part to repeated exogenous shocks such as the Ebola outbreak, the collapse of iron ore and rubber prices, the drawdown of United Nations peacekeeping forces, and the COVID-19 pandemic. As a result, by 2020, the poverty rate is projected to have risen to 52 percent, wiping out nearly half of the gains made post-conflict where poverty decreased from 71 percent to 42 percent between 2007 and 2014. Non-monetary poverty indicators such as access to healthcare, education, electricity, and basic utilities continue to be low by regional and international standards, with rural/urban and gender disparities exacerbated by unequal access to productive assets, infrastructure, public services, and markets.

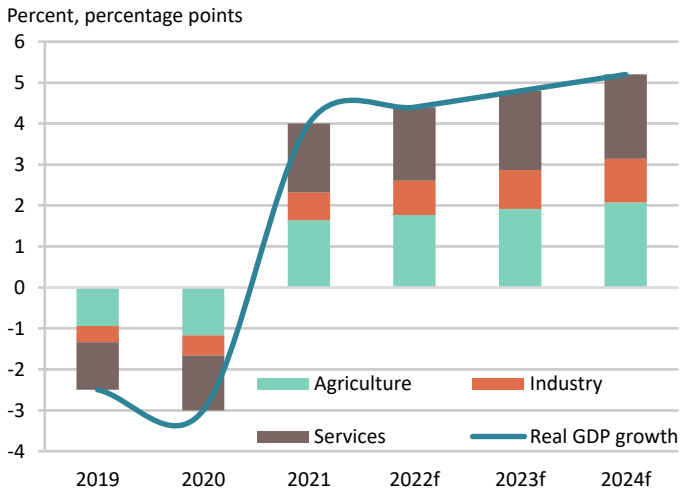
Liberia continues to face complex development challenges, including inadequate physical and human capital, a highly concentrated export structure, a narrow revenue base, significant spending needs, weak governance, and a challenging business environment. Transitioning to an economic path that reliably generates broad-based improvements in poverty and social outcomes would require significant investments in physical and human capital, increased productivity in agriculture and other informal sector activities, accelerated formal job creation, strengthened socioeconomic resilience, improved governance, and expanded institutional capacity.

Recent developments

After contracting by 3.0 percent in 2020, GDP growth recovered to 4.0 percent in 2021, on the back of improved external demand, higher prices for Liberia's exports, and the resumption of normal domestic activity. Rubber production increased by 38 percent, year-on-year [y/y], palm oil (12 percent, y/y), iron ore (3 percent, y/y), and gold (79 percent, y/y), boosting agricultural and mining output. Cement, beverages, and electricity production all increased significantly, reflecting the materialization of pent-up demand and activity in the services sector. Inflation fell to single digits at 7.9 percent in 2021, down from 17.4 percent in 2020 due to the appreciation of the Liberian dollar and prudent fiscal and monetary policies. The Central Bank of Liberia maintained the monetary policy rates at 20 percent in 2021, well above the inflation rate, and began the implementation of a currency changeover to help curb disruptive cash shortages and boost confidence in the financial sector. While the rebound in growth and moderation in inflation led to a small recovery in consumption, poverty levels remained high.

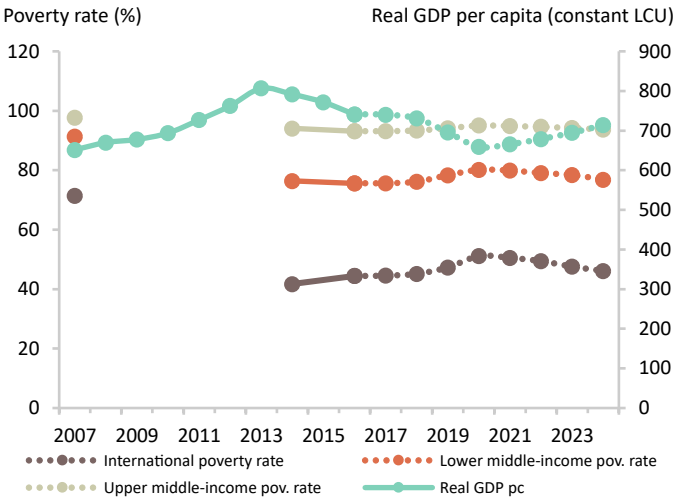
The government's fiscal deficit and public debt ratio improved in 2021. The overall

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



Source: World Bank staff calculations based on IMF and CBL data.

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



Source: World Bank. Note: see table 2.

fiscal deficit narrowed from 3.8 percent of GDP in 2020 to 2.9 percent in 2021, mainly thanks to strong revenue performance and successful efforts to contain the public sector wage bill. As a result, the public debt-to-GDP ratio declined from 55.0 percent in 2020 to 53.3 percent in 2021.

Liberia's current account deficit worsened despite stronger-than-expected export growth. The current account deficit widened from 16.3 percent of GDP in 2020 to 17.7 percent in 2021, mainly due to a worsening trade deficit. While exports increased by 5.4 percentage points of GDP, on the back of higher export prices (e.g., of gold and iron ore), imports also surged. The deficit was financed mainly by foreign direct investment (FDI) (7.3 percent of GDP) and capital grants. In 2021, Liberia benefited from a new Special Drawing Rights (SDR) allocation from the International Monetary Fund of SDR 247.7 million (approximately US$350 million or 7.3 percent of GDP). The additional SDR allocation sharply increased the coverage of international reserves from 2.1 months of imports in 2020 to 4 months in 2021.

Outlook

The economy is projected to expand by 4.4 percent in 2022 and reach an average of 5.0 percent in 2023-24. Per capita GDP will return to pre-crisis levels by 2023. The positive outlook is underpinned by significant tailwinds for mining, the government's planned scale-up of public investment, and the implementation of structural reforms. Specifically, the government has ratified a new mining concession that would triple the production of iron ore, boost employment, and attract FDI over the next decade. The sharp increase in metal prices, especially iron ore, presents terms of trade gains and improved prospects for the mining sector. Inflation is expected to increase due to rising global food and fuel prices, but it is projected to remain in single digits as the government's commitment to regulate the prices of some commodities (e.g., fuel, rice, and transport) helps mitigate the pressure on domestic prices. Even so, the conduct of the currency changeover is crucial for limiting inflation. Fueled by a buoying economy, private consumption per capita is also expected to increase in 2022, despite higher inflation. This will likely push the poverty rate below 50 percent for the first time since the pandemic began. The outlook is subject to the path of the pandemic at home and abroad.

The current account deficit is expected to remain around 16 percent of GDP. Liberia's direct exposure to Ukraine and Russia is very limited, as these two countries together account for 1.5 percent of the country's imports and less than 1 percent of exports. The Ukraine-Russia conflict will affect Liberia mainly through changes in commodity prices, with a likely positive net effect on trade. FDI is expected to increase due to the recent expansion of a mining project. The country's foreign exchange reserves are projected to cover around four months of imports in the medium term. The fiscal deficit will remain at 2021 levels in 2022 as the national budget for the year targets a significant increase in revenue. Domestic revenues are projected to increase, reflecting an increase in both tax and non-tax revenue, thanks to royalties and rents from the mining sector. Meanwhile, total expenditure is projected to increase driven by the rise in government consumption expenditure despite a reduction in the public sector wage bill. Domestically financed capital expenditure is also projected to increase dramatically by 2.2 percentage points of GDP. Nevertheless, the Ukraine-Russia crisis could trigger higher inflation and fiscal overruns.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	-2.5	-3.0	4.0	4.4	4.8	5.2
Private Consumption	-2.8	-1.9	1.2	3.0	3.0	3.0
Government Consumption	4.0	-11.6	-3.7	1.3	-14.4	-5.8
Gross Fixed Capital Investment	-7.8	-7.3	22.0	25.3	27.9	22.4
Exports, Goods and Services	1.6	1.2	15.4	2.0	2.0	2.0
Imports, Goods and Services	0.4	8.1	1.3	3.1	3.1	3.1
Real GDP growth, at constant factor prices	-2.4	-3.0	4.0	4.4	4.8	5.2
Agriculture	0.2	2.4	1.9	3.6	4.8	5.2
Industry	1.0	0.2	16.3	9.0	9.0	6.0
Services	-5.7	-8.8	1.1	3.1	2.8	4.8
Inflation (Consumer Price Index)	27.0	17.4	7.9	8.2	7.0	7.0
Current Account Balance (% of GDP)	-20.5	-16.3	-17.7	-16.3	-15.8	-14.6
Fiscal Balance (% of GDP)	-5.6	-3.7	-2.9	-2.9	-2.8	-2.3
Debt (% of GDP)	48.5	55.0	53.1	51.1	49.9	51.1
Primary Balance (% of GDP)	-5.0	-2.5	-1.9	-1.1	-1.1	-0.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	47.3	51.1	50.6	49.4	47.6	46.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	78.4	80.2	79.9	79.1	78.4	76.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	94.1	95.1	94.9	94.6	94.2	93.8
GHG emissions growth (mtCO2e)	0.0	-0.9	0.0	-0.3	-0.6	-0.6
Energy related GHG emissions (% of total)	35.9	35.0	33.0	30.6	28.0	25.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2016-HIES. Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2016) with pass-through = 1 based on GDP per capita in constant LCU.

MADAGASCAR

Table 1	2021
Population, million	28.4
GDP, current US$ billion	14.1
GDP per capita, current US$	494.5
International poverty rate ($1.9)[a]	78.8
Lower middle-income poverty rate ($3.2)[a]	91.5
Upper middle-income poverty rate ($5.5)[a]	97.5
Gini index[a]	42.6
School enrollment, primary (% gross)[b]	134.1
Life expectancy at birth, years[b]	67.0
Total GHG Emissions (mtCO2e)	42.2

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

An economic recovery started in 2021 but was interrupted in 2022 by the combined impact of a third wave of the pandemic, a series of climate shocks, and the escalating conflict in Ukraine. In this context, growth projections were downgraded to 2.6 percent in 2022 and to an average of 4.4 percent in 2023-24, resulting in the poverty rate remaining close to 80 percent by 2024.

Key conditions and challenges

Development prospects in Madagascar continue to be hampered by the country's low growth potential and exposure to frequent, deep, and persistent shocks. Growth averaged about 3.5 percent from the return to constitutional order in 2013 to the onset of the pandemic and was followed by a recession in 2020 that was about 3 times deeper than in the rest of Sub-Saharan Africa. Activity had started to recover in 2021 but was interrupted in 2022 by a new wave of COVID-19, a series of extreme weather events and the fallout from Russia's invasion of Ukraine. Growth projections was nearly halved for 2022 and are significantly softer than previously-than-expected in 2023 and 2024. As a result, the poverty rate is now predicted to remain close to 80 percent over the next couple of years, compared with an average of 42 percent for the rest of Sub-Saharan Africa.

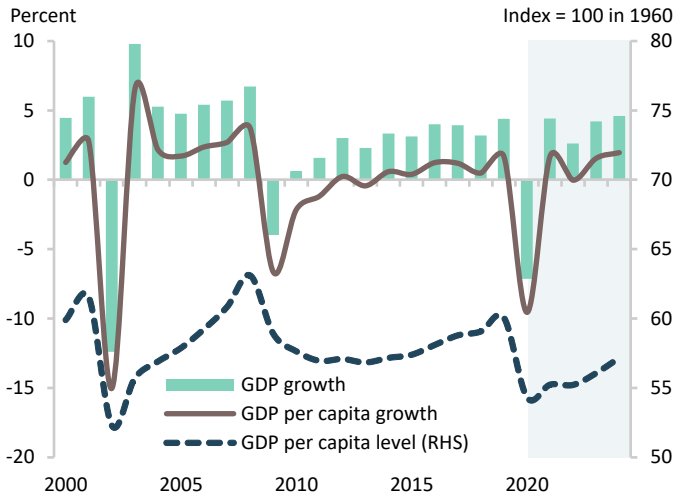
A further escalation of geopolitical tensions could heighten the risk of a hard landing of the global economy, which could jeopardize the recovery in Madagascar. At the national level, vulnerability to additional climate shocks, low vaccination rates, and policy uncertainty are among the key risks to the outlook. Beyond the need to scale up the response to recent shocks, accelerating growth and reducing poverty will require urgent reforms supporting private investment, connectivity infrastructures and access to basic services, all of which require deep governance and institutional reforms.

Recent developments

During 2021, Madagascar faced two additional waves of COVID-19, one starting in March and another in November. Between these two waves, domestic activity had started to recover but private investment remained weak and employment registration started moderating again towards the end of the year. The reopening of the Ambatovy mine in March 2021 and rising international prices of nickel and cobalt bolstered export revenues and industrial activity during most of the year. However, agricultural production, which is the main source of income for an overwhelming majority of the population, remained subdued, which notably reflected a weak rice harvest. Severe droughts in the South also led to widespread crop failure and growing food insecurity. Households in most affected areas ran out of food reserves and have resorted to desperate feeding practices. Many households have also been forced to sell assets, accumulate debt, or migrate in search for food.

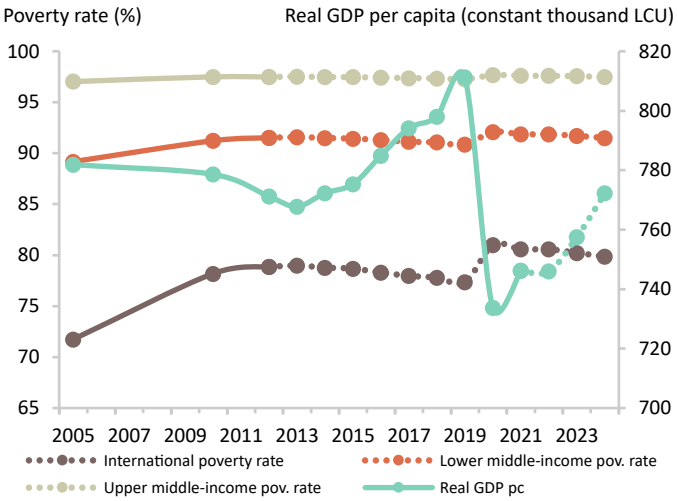
Despite an unprecedented sequence of shocks and growing financing needs, macroeconomic stability has been maintained throughout the crisis. Access to emergency lending allowed the government to increase public spending in both 2020 and 2021, in contrast with the experience of previous recessions when a sharp contraction in public spending deepened

FIGURE 1 **Madagascar** / Growth and income per capita levels



Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

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



Source: World Bank. Notes: see Table 2.

the crisis. While helping to alleviate the impact of the crisis, this countercyclical increase in both current and capital spending led the budget deficit to 4.1 percent in 2020 and 6.3 percent in 2021, which contributed to an uptick in public debt to 52 percent of GDP in 2021 (up from 38.5 percent in 2019), but still well below risk thresholds considered for a country like Madagascar.

Outlook

A third wave of the pandemic followed by a sequence of severe weather events and the adverse effects from the conflict in Ukraine are expected to contribute to decelerating activity in 2022. In particular, more than 450.000 people were affected by four tropical storm systems hitting Madagascar since the start of the year, making it one of the most disruptive cyclonic seasons in recent years. Russia's invasion of Ukraine is also projected to have important repercussions, as it will negatively impact economic prospects in the European Union, which is Madagascar's main trading partner, and has already led to significant upward pressure on global energy and food prices. This conflict will result in slowing export growth, deteriorating terms of trade and rising inflation in Madagascar. The effect on the trade deficit will be somewhat offset by a continued increase nickel and cobalt prices and a gradual pick up in tourism activity. In this context, growth projections for 2022 were downgraded to 2.6 percent, from 5.4 percent previously, which implies that GDP per capita would stagnate and remain about 8.5 percentage points below pre-crisis levels (Chart 1). Growth is expected to pick up to 4.2 percent in 2023 and 4.6 percent in 2024, with structural constraints and slowing external demand preventing a faster rebound. The growth potential of the economy has been negatively impacted by deteriorating human capital, private investment and public sector governance during the crisis and is not expected to exceed 4 percent in the absence of a significant reforms.

Against this backdrop, the poverty rate is projected to remain well above pre-crisis levels. The expected recovery in economic activity will translate into a gradual decline in poverty rates, from an historical high of 81 percent in 2020 to 80.2 percent in 2023 and 79.9 percent in 2024, thereby remaining above pre-crisis levels (Chart 2). Progress with poverty reduction will largely be determined by progress with the policy response to recent crises, the capacity of the economy to rebound and the absence of additional climate shocks.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.4	-7.1	4.4	2.6	4.2	4.6
Private Consumption	1.2	-2.9	1.9	2.5	3.4	3.6
Government Consumption	1.9	1.8	15.5	-0.7	0.9	2.2
Gross Fixed Capital Investment	12.9	-10.1	3.0	5.2	8.9	8.5
Exports, Goods and Services	10.9	-22.6	11.6	4.9	5.4	6.4
Imports, Goods and Services	4.6	-13.8	7.4	4.5	5.4	6.1
Real GDP growth, at constant factor prices	4.3	-8.5	4.7	2.6	4.2	4.6
Agriculture	5.5	0.6	1.5	1.8	2.8	2.8
Industry	6.6	-29.5	13.2	5.0	5.6	5.9
Services	3.1	-6.2	4.4	2.4	4.5	5.1
Inflation (Consumer Price Index)	5.6	4.2	6.2	7.5	6.4	6.1
Current Account Balance (% of GDP)	-2.3	-5.4	-5.3	-6.2	-6.1	-6.1
Fiscal Balance (% of GDP)	-1.4	-4.1	-6.3	-6.0	-5.4	-4.4
Debt (% of GDP)	38.5	49.0	52.1	53.9	55.1	55.2
Primary Balance (% of GDP)	-0.7	-3.4	-5.4	-5.0	-4.3	-3.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	77.4	81.0	80.6	80.6	80.2	79.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	90.9	92.1	91.9	91.9	91.7	91.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	97.3	97.7	97.6	97.6	97.6	97.5
GHG emissions growth (mtCO2e)	2.8	-1.4	0.7	0.4	0.7	0.9
Energy related GHG emissions (% of total)	14.5	14.1	14.9	15.0	15.4	15.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2012-ENSOMD. The historical poverty rates have been revised with respect to their CPI to account for the fact that the 2012-ENSOMD survey work took place from September 2012-November 2013. Previously, CPI measures used the starting year (2012) of the survey field work only.
b/ Projection using neutral distribution (2012) with pass-through = 0.87 based on GDP per capita in constant LCU.

MALAWI

Table 1	2021
Population, million	19.6
GDP, current US$ billion	12.3
GDP per capita, current US$	626.3
International poverty rate ($1.9)[a]	73.5
Lower middle-income poverty rate ($3.2)[a]	90.4
Upper middle-income poverty rate ($5.5)[a]	97.1
Gini index[a]	38.5
School enrollment, primary (% gross)[b]	144.8
Life expectancy at birth, years[b]	64.3
Total GHG Emissions (mtCO2e)	28.2

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

Malawi's GDP growth rose to 2.8 percent in 2021, boosted by an improved agricultural harvest and the diminishing impact of the COVID-19 pandemic. However, growth is projected to stagnate in 2022 due to weather shocks and increased commodity prices, contributing to rising inflation and challenging the government's fiscal consolidation efforts. These dynamics reduce the impact of growth on poverty, which remains persistent and is among the highest in the region.

Key conditions and challenges

The economy continues to recover from the impacts of the COVID-19 pandemic. Cases surged during the spread of the Omicron variant in late 2021, but symptoms associated with the strain were milder and the government did not impose substantial additional mobility restrictions. However, vaccine uptake is low, and the country remains susceptible to new strains of the virus.

Exports continue to recover slowly, while imports have been increasing from a higher base, which continues to weaken the current account balance. Investment is limited by a weak business environment characterized by limited access to credit, numerous non-tariff barriers, and high transport costs. Together with erratic electricity supply, this constrains diversification and increased value addition despite the growth of some sectors, such as soya and mining. High reliance on subsistence rain-fed agriculture, susceptible to weather shocks, further impedes economic activity.

Implementation of expansionary policies and weak fiscal management have contributed to high fiscal deficits, resulting in increased high-cost domestic debt. This has crowded out private investment. The recent uptake of non-concessional external debt has pushed Malawi into high risk of public debt distress. Associated higher debt servicing costs further reduce fiscal space for government investment.

Frequent weather shocks, along with the slow pace of structural transformation, have contributed to the high and stagnant poverty rate in the last decade. Between 2010 and 2020, the share of people below the $1.90 per day poverty line increased from 72 percent to 74 percent.

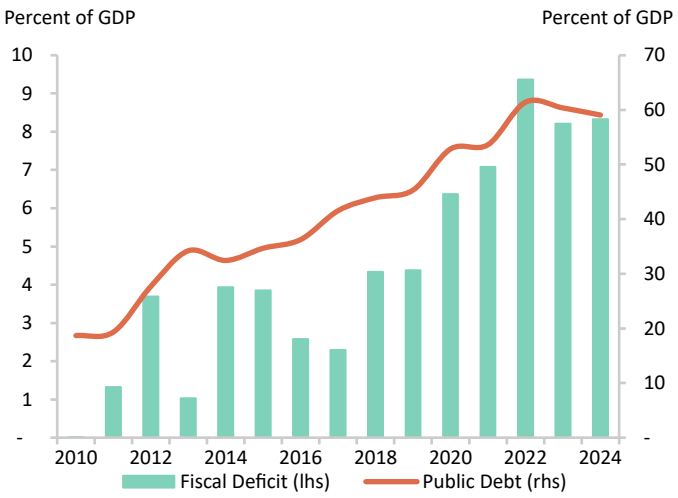
Recent developments

Economic growth increased to 2.8 percent of GDP in 2021 despite three waves of COVID-19 infections. Growth was driven by the strong performance of the agricultural sector, aided by favorable weather and increased input use. This offset weak growth in industry and services, which were more significantly impacted by restrictions related to COVID-19.

Headline inflation increased to 13.0 percent in February 2022, above the monetary policy rate of 12 percent. Food inflation reached 15.3 percent, largely due to an increase in maize prices, while non-food inflation has been driven by rising fuel prices. The official exchange rate remained relatively stable for the second half of 2021 but rising global commodity prices contributed to inflation, and the spread between the official and cash exchange rate has widened.

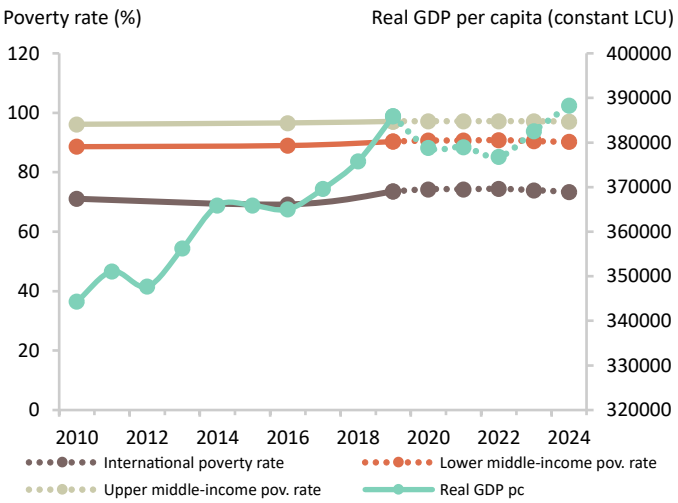
The FY22 budget deficit is expected to increase further, reaching 9.4 percent of GDP. The government is optimistic

FIGURE 1 **Malawi** / Fiscal deficit and public debt



Sources: Ministry of Finance, Economic Planning and Development, World Bank.

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



Source: World Bank. Notes: See Table 2.

that revenues (including disbursement of grants) will increase to 16.7 percent of GDP. Expenditure is expected to increase significantly to 26.0 percent of GDP, driven by a surge in domestically financed development expenditure, rising debt servicing costs, social benefits (including implementation of the Affordable Input Program), and grants. The resultant deficit will be financed using high-cost domestic resources, further exacerbating an already challenging public debt situation.

The current account deficit remained large in 2021, at 13.0 percent of GDP. As mobility restrictions imposed to contain the pandemic were slowly eased, the performance of exports improved. Rising prices of goods such as fuel and fertilizer have resulted in rising import costs. Rising food prices have impacted households' budget by reducing consumption levels, resulting in declining welfare and counteracting improvements in economic growth. In turn, Malawi's $1.90 international poverty rate has remained at 74 percent.

Outlook

Growth is projected to decline to 2.1 percent in 2022, from 2.8 percent in 2021. This reduction is largely due to weather-related shocks, macro-fiscal imbalances, and the impacts of the Russia-Ukraine war. The late onset of rains has been compounded by heavy rainfall and floods caused by Tropical Cyclones Ana and Gombe, which have negatively impacted production of key export crops and other sectors that rely on agricultural inputs. Electricity disruptions from the damaged Kapichira hydroelectric power station are affecting industry. The Russia-Ukraine conflict has impacted the economy through both direct price effects and implications on downstream activities. Instability in global commodity markets is resulting in higher prices for fuel and fertilizer, further constraining foreign currency reserves and exerting downward pressure on the exchange rate. Global commodity prices, which were already elevated from pandemic-induced supply-chain disruptions and increased global demand, are also rising due to the conflict.

The current account deficit is estimated to increase to 14.4 percent of GDP. Exports are expected to maintain their current upward momentum, but the cost of imports is expected to increase, offsetting export gains. Rising commodity prices will also exert upward pressure on inflation. Supply-related pressures on the agriculture sector due to weather shocks could push average annual inflation into double digits.

As a result of consolidation efforts on both revenues and expenditures, the FY23 fiscal deficit is expected to decline to 8.2 percent of GDP. Revenue is projected to increase to 16.8 percent of GDP driven by an increase in grant disbursements. Meanwhile, expenditure is expected to drop to 25 percent of GDP.

Due to the weather-related shocks affecting agricultural productivity and incomes, the share of the population below the international $1.90 poverty line is projected to stagnate around 74 percent in 2022 and 2023.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.4	0.8	2.8	2.1	4.3	4.2
Private Consumption	5.4	0.8	2.9	2.5	5.0	5.2
Government Consumption	5.4	0.8	-2.9	7.1	0.5	-3.6
Gross Fixed Capital Investment	5.4	0.8	6.1	0.8	2.5	6.2
Exports, Goods and Services	5.4	0.8	5.5	2.1	3.6	4.1
Imports, Goods and Services	5.4	0.8	4.3	3.6	4.0	5.2
Real GDP growth, at constant factor prices	6.0	0.8	2.8	2.1	4.3	4.2
Agriculture	5.9	3.4	5.2	-3.0	3.4	3.1
Industry	7.7	1.2	1.9	2.0	4.1	4.5
Services	5.5	-0.5	2.0	4.4	4.7	4.6
Inflation (Consumer Price Index)	9.4	8.6	9.3	12.6	11.5	9.8
Current Account Balance (% of GDP)	-13.8	-11.7	-13.0	-14.4	-13.6	-13.4
Net Foreign Direct Investment (% of GDP)	0.3	0.6	0.3	0.8	0.6	0.6
Fiscal Balance (% of GDP)	-4.4	-6.4	-7.1	-9.4	-8.2	-8.3
Debt (% of GDP)	45.3	52.8	53.6	61.5	60.3	58.9
Primary Balance (% of GDP)	-1.5	-3.3	-3.3	-4.9	-2.9	-3.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	73.5	74.3	74.3	74.4	74.0	73.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	90.4	90.7	90.7	90.8	90.5	90.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	97.1	97.2	97.2	97.2	97.1	97.1
GHG emissions growth (mtCO2e)	1.6	1.4	2.1	1.9	2.4	1.8
Energy related GHG emissions (% of total)	34.2	34.2	34.2	34.5	34.7	34.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2019-IHS-V.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.

MALI

Table 1	2021
Population, million	20.9
GDP, current US$ billion	18.5
GDP per capita, current US$	887.2
International poverty rate ($1.9)[a]	16.3
Lower middle-income poverty rate ($3.2)[a]	49.5
Upper middle-income poverty rate ($5.5)[a]	77.8
Gini index[a]	36.1
School enrollment, primary (% gross)[b]	75.6
Life expectancy at birth, years[b]	59.3
Total GHG Emissions (mtCO2e)	47.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2019).

Two military coups in August 2020 and May 2021 and growing insecurity have resulted in a stagnant economy, with negligible per capita growth in 2021 and projected for 2022, exacerbated by food price inflation that particularly hurt the poor. The medium-term outlook is subject to significant downside risks, notably with uncertainty over the political transition and regional sanctions, with poverty expected to decline only slightly due to limited per capita income growth.

Key conditions and challenges

Insufficient investment in human and physical capital has hindered Mali's structural transformation. Subsistence farming with low productivity still dominates agriculture, manufacturing is concentrated in low-value added textiles and agri-food, while cotton and gold dominate exports. The services sector expanded rapidly over the last decade but lacks the skilled labor and infrastructure base for sustained growth. The under-diversified economy remains vulnerable to commodity price volatility and climate-related shocks. Contingent liabilities related to the energy utility and the surge of domestic debt constitute significant fiscal risks. National monetary poverty has stagnated over 2011-2020 while nonmonetary poverty indicators show mixed results: from 2011 to 2020 the share of households with a child not attending school fell from 62 to 41 percent, while the share with sick members unable to receive healthcare rose from 22 to 37 percent.

Violent conflict and insecurity have expanded to central and southern regions, disrupting agriculture and service delivery outside Bamako. Though transfers to local governments have increased, newly created administrative regions are not adequately staffed to provide public services. Following the postponement of national elections, due in February 2022, ECOWAS imposed tough sanctions against Mali in January 2022 including border closure, suspension of commercial and financial transactions, freeze of public assets and suspension of regional funding.

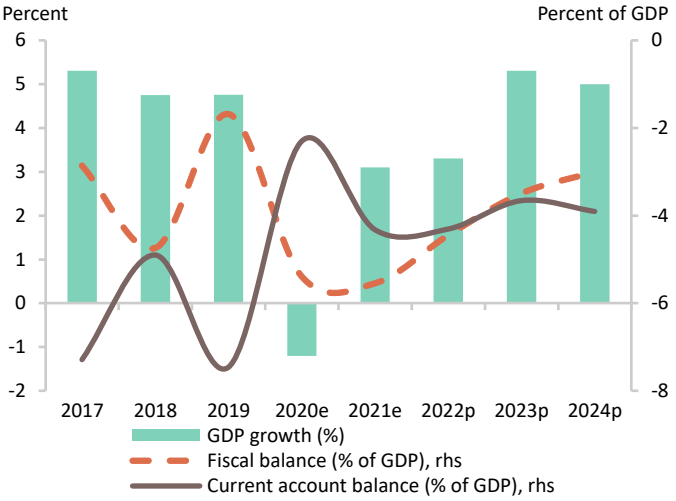
Recent developments

The economy grew by 3.1 percent, 0.1 percent in per capita terms, in 2021, driven by services and agriculture as the cotton sector recovered. Private consumption and public investment also rebounded. The current account deficit (CAD) widened in 2021 to 4.3 percent of GDP, as the terms of trade deteriorated following the gold price stabilization and oil price rise. Exports declined from lower gold and cotton exports, while imports rose from higher domestic demand.

The fiscal deficit stayed high, at 5.5 percent of GDP, with public expenditure estimated at 27.9 percent of GDP, driven by a larger wage bill, capital expenditure and quasi-fiscal measures to contain retail food and fuel prices. Revenues increased following improved indirect tax collections. Financing was covered by concessional credits, grants and domestic borrowing. Public debt rose to 52.7 percent of GDP though Mali remains at moderate risk of debt distress.

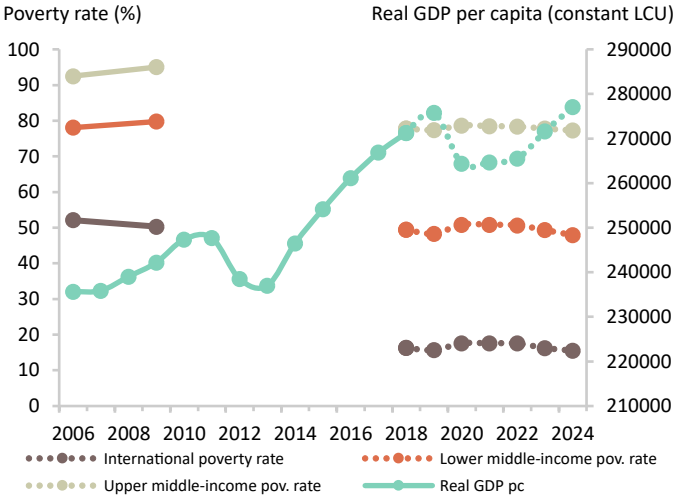
Annual average inflation rose to 4 percent in 2021, reaching 8.9 percent (y/y) in December, driven by food (5.2 percent), particularly cereals (8.9 percent), and services. Mali's monetary and exchange rate policies are managed by the BCEAO, which maintains a peg between the CFA

FIGURE 1 **Mali** / GDP growth, fiscal and current account balances



Sources: Malian government and the World Bank.

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



Source: World Bank. Notes: see table 2.

Franc and the Euro. Its reserves reached 5.8 months of imports of goods and services in 2021 following the recovery in export repatriation proceeds. Mali's WAEMU membership was suspended as part of the sanctions. Commercial banks still benefit from the Central Bank's refinancing operations (at a reduced level), while the government's access to the regional market was suspended.

With near zero per capita income growth, the extreme poverty rate (US$1.90/day per capita, 2011 PPP) remained at 17.6 percent, though high food inflation and insecurity disproportionately impact poor and vulnerable households, who spend 46 percent of the budget on food, compared with 31 percent for the non-poor.

Outlook

In 2022, the economy is expected to grow at 3.3 percent, which reflects the impact of regional sanctions on the construction and service sectors that depend on regional supply networks. However, this projection assumes that the sanctions will expire by the end of March 2022. Growth is expected to recover gradually, reaching 5.2 percent on average over 2023-24. High levels of inflation will continue in 2022 but will normalize towards the regional target (2 percent) by 2024. The CAD is projected to stabilize around 4.2 percent of GDP in 2022 and narrow to 3.5 percent of GDP by 2025 with the easing of oil prices.

The fiscal deficit is expected to narrow to 4.5 percent of GDP in 2022, as part of a fiscal consolidation program that targets returning to the regional ceiling of 3 percent of GDP by 2024. Tax revenue is expected to slightly decline due to the slow recovery and trade embargo, while the suspension of international financial flows limits financing options. Spending should be reprioritized away from non-priority capital investment in response to the fiscal constraints. Public debt will subsequently decline to 48.2 percent of GDP by 2024.

WAEMU reserves are expected to fall to around 5.5 months of imports in 2022 and 5.3 months in 2023 and 2024, reflecting faster growth in imports and a reduction in net capital inflows, due to the uncertain environment for Eurobond issuances.

The extreme poverty rate is projected to stagnate at around 17.5 percent in 2022, due to the high projected population growth rate of 2.9 percent over 2021-2023. Protracted sanctions may reduce employment and incomes for the urban poor engaged in construction, transport, commerce and hospitality. Internally displaced persons and refugees will increasingly flock into Bamako when the government is ill-equipped to mitigate humanitarian crises and support the vulnerable.

The outlook is subject to multiple downside risks, the most important being regional sanctions extending beyond March, but also from intensified insecurity, further climatic shocks, food insecurity and new COVID outbreaks. It is likely that at least some of these risks will materialize and concurrent shocks are possible. The Russia-Ukraine war presents additional risks through higher food and energy prices. The projections reflect recent sharp increases in commodity prices since January 2022, though with a high degree of uncertainty. Higher gold prices could help offset the negative impact of surging oil prices.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.8	-1.2	3.1	3.3	5.3	5.0
Private Consumption	3.8	1.9	5.0	4.0	4.0	4.0
Government Consumption	4.0	4.5	11.2	2.8	4.1	2.1
Gross Fixed Capital Investment	6.3	-1.2	3.8	-2.1	8.4	7.5
Exports, Goods and Services	2.3	0.5	-0.5	2.1	5.0	5.0
Imports, Goods and Services	5.9	-2.9	10.1	1.0	3.7	3.1
Real GDP growth, at constant factor prices	4.5	-1.1	3.1	3.3	5.3	5.0
Agriculture	4.0	-4.8	2.2	4.8	5.0	5.0
Industry	3.7	-0.1	0.7	2.6	6.0	4.0
Services	5.2	1.4	4.9	2.5	5.2	5.4
Inflation (Consumer Price Index)	-2.9	0.5	4.0	7.0	2.5	2.0
Current Account Balance (% of GDP)	-7.5	-2.3	-4.3	-4.3	-3.7	-3.9
Net Foreign Direct Investment (% of GDP)	5.0	3.1	2.4	2.4	2.4	2.6
Fiscal Balance (% of GDP)	-1.7	-5.4	-5.5	-4.5	-3.5	-3.0
Debt (% of GDP)	40.7	47.3	52.7	49.8	49.0	48.2
Primary Balance (% of GDP)	-0.7	-4.2	-4.0	-2.5	-1.8	-1.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	15.7	17.6	17.6	17.5	16.3	15.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	48.3	50.8	50.8	50.6	49.3	47.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	77.4	78.7	78.5	78.4	77.8	77.3
GHG emissions growth (mtCO2e)	4.8	-1.5	6.4	4.0	4.3	4.4
Energy related GHG emissions (% of total)	17.6	17.6	17.9	18.1	18.5	19.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2018/19 EHCVM. This survey replaced the previous 2009-ELIM survey used to calculate poverty rates in previous years.
b/ Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

MAURITANIA

Table 1	2021
Population, million	4.8
GDP, current US$ billion	8.3
GDP per capita, current US$	1735.8
International poverty rate ($1.9)[a]	6.0
Lower middle-income poverty rate ($3.2)[a]	24.1
Upper middle-income poverty rate ($5.5)[a]	58.8
Gini index[a]	32.6
School enrollment, primary (% gross)[b]	100.4
Life expectancy at birth, years[b]	64.9
Total GHG Emissions (mtCO2e)	14.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2011 PPPs.
b/ Most recent WDI value (2019).

Growth rebounded in 2021 to 2.3 percent, supported by extractives and services, while extreme poverty remained at 5.8 percent. Fiscal balances remained positive, at 2.5 percent of GDP, supported by donor financing. Growth is expected to reach 7.7 percent by 2024 with the start of gas production. Downside risks include rising inflation pressures, potentially exacerbated by a prolonged conflict in Ukraine, export price volatility, and regional insecurity.

Key conditions and challenges

Macroeconomic stability had improved before the Covid-19 pandemic from improved terms of trade and reforms to reduce fiscal deficits after the 2014-2015 commodity price shock. Growth increased to 5.8 percent in 2019, driven by extractive sector growth of 14.9 percent. However, with the pandemic, structural reforms were delayed, and the economy remains undiversified and reliant on the extractives sector. Between 2015 and 2019, the Human Development Index remained unchanged, ranking Mauritania 157th out of 189 countries. This may be partially explained by insufficient investment in human capital and basic infrastructure, and the challenges of channeling economic gains to address development constraints.

The negative impact of the pandemic on human, economic, and social activities declined markedly in 2021, reflected by a rebound in growth and government mitigations measures. The numbers of people in extreme poverty fell to 7,200 in 2021 from 38,000 in 2020. Phone survey results suggest that 20 percent of households fell into extreme poverty in July 2020 compared to 16 percent in May 2021. Since 2021, the Government has been implementing priority programs to sustain growth by supporting inclusive job creation, social protection, and infrastructure development, as well as mitigating the impact of climate related shocks on the primary sector, especially fisheries.

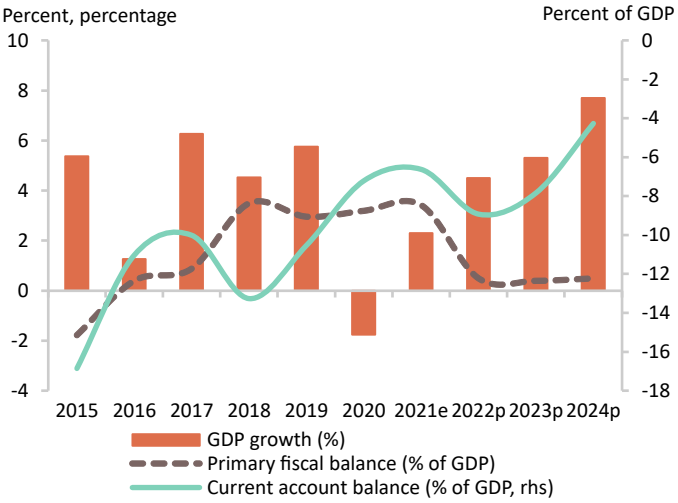
Poverty reduction is threatened by rising food and energy prices, a higher cost of living, and supply disruptions. These imply a decline in extreme poverty rates of just 0.11 and 0.2 percent points per year between 2022 and 2024 using the US$1.9/day and US$3.2/day (2011 PPP) international poverty lines respectively. To meaningfully reduce the absolute number of the poor by 2024, agriculture sector reforms are necessary to support the mechanization, irrigation, and the use of improved seedlings to enhance domestic food production and resilience, and the consumption of cheaper locally produced cereals and grains.

Recent developments

Growth rebounded in 2021 to 2.3 percent (-0.4 percent in per capita terms) from a contraction of -1.8 percent in 2020. Services contributed 1.1 percentage points (pp) to GDP growth supported by the relaxation of containment measures, vaccination of the population, and the growing extractives sector. The main drivers of growth were private investment, government consumption and exports. The exchange rate remained stable in 2021, while average headline inflation rose from 2.4 percent y/y in 2020, to 3.6 percent y/y in 2021, driven by higher food prices.

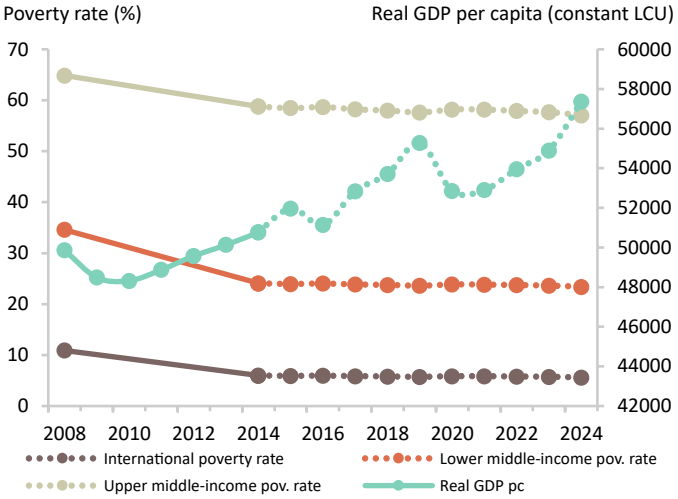
The current account deficit (CAD) narrowed from 7.1 percent of GDP in 2020, to 6.6 percent of GDP in 2021 on account of favorable exports prices. The CAD was

FIGURE 1 Mauritania / Evolution of main macroeconomic indicators



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

financed by foreign direct investment, donor financing, the suspension of debt service, and the allocation of special drawing rights. Gross international reserves increased to 6.2 months of imports of goods and services in 2021, from 4.8 months of imports in 2020.

The overall fiscal balance remained in surplus at 2.5 percent of GDP in 2021 driven by increases in taxes and mining revenues. Domestic revenues rose with increased economic activity, stronger domestic demand, and higher dividend payments. Expenditure increased from 19.5 percent of GDP in 2020 to 22.8 percent in 2022, driven by higher current expenditure. Though at high risk of external debt distress, public debt remains sustainable, falling from 59.3 percent of GDP in 2020, to 56.7 percent in 2021.

The 2021 economic recovery was led by the industrial sector, though it employs one percent of the poor (Table 2). Agricultural and services sectors, which employ 57 percent and 42 percent of the poor, respectively, grew by 0.7 percent and 2.5 percent. Extreme poverty, based on the international poverty lines of US$1.9/day and US$3.2 (2011 PPP), remained unchanged in 2021, at 5.8 percent and 23.8 percent, respectively.

Outlook

The ongoing conflict in Ukraine is expected to have a mixed impact on Mauritania. It is projected to have negative impact on inflation, through higher imports prices of food and crude oil, and a positive impact through higher iron ore and gold export prices. The net effect should be positive on the current account, but negative on the fiscal account, as government fuel subsidies may be increased to maintain a constant administered price.

The economy is expected to continue to rebound in 2022, by 4.5 percent (5.1 per capita terms) and over the medium term. Growth will be driven by a successful vaccine roll-out, higher gold and iron production in response to rising international prices, and stronger substitution of imported cereals with locally produced alternatives. In the medium term, growth will be sustained by gas production starting in 2024, financial services and public sector investments. Inflation is expected to gradually fall to 4 percent y/y in 2024 from 5.3 percent in 2022.

The CAD is projected to deteriorate to 8.9 percent of GDP in 2022 with higher imports of equipment for mining and gas industry. It should improve to 4.3 percent of GDP in 2024 as new gas exports offset lower projected prices for iron exports. FDI related to the extractive industry and concessional borrowing should finance the current account, with resulting gross international reserves of more than 5 months of non-extractive imports.

Fiscal balances are projected to slightly deteriorate to a deficit of 0.5 percent of GDP in 2022, due to the scaling up of public investment and stronger spending on education, health, and social protection. The authorities are expected to continue renegotiating for better financial terms for public debt to lower costs and levels. As real GDP per capita rises, poverty rates are projected to trend downwards (Figure 2).

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.8	-1.8	2.3	4.5	5.3	7.7
Private Consumption	2.7	2.7	2.5	2.3	2.4	2.7
Government Consumption	1.0	9.2	12.6	5.7	3.5	7.6
Gross Fixed Capital Investment	24.4	-8.9	12.8	5.2	6.4	6.9
Exports, Goods and Services	19.1	-1.9	-2.5	3.4	4.8	8.6
Imports, Goods and Services	11.7	2.0	2.1	2.4	2.5	2.4
Real GDP growth, at constant factor prices	6.6	-1.0	2.3	4.5	5.3	7.7
Agriculture	8.7	-4.0	0.7	0.9	1.0	1.1
Industry	5.6	2.7	3.3	3.9	4.0	6.1
Services	6.2	-1.5	2.5	6.4	7.8	11.2
Inflation (Consumer Price Index)	2.3	2.4	3.6	5.3	5.1	4.0
Current Account Balance (% of GDP)	-10.5	-7.2	-6.6	-8.9	-7.8	-4.3
Net Foreign Direct Investment (% of GDP)	11.2	11.4	11.7	11.4	8.5	8.0
Fiscal Balance (% of GDP)	2.0	1.9	2.5	-0.5	-0.6	-0.4
Debt (% of GDP)	63.5	65.5	59.3	56.7	56.7	54.5
Primary Balance (% of GDP)	3.0	3.2	3.4	0.5	0.4	0.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	5.7	5.8	5.8	5.8	5.7	5.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	23.6	23.8	23.8	23.7	23.6	23.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	57.6	58.2	58.2	57.9	57.7	57.1
GHG emissions growth (mtCO2e)	2.2	1.5	4.5	2.2	2.9	3.4
Energy related GHG emissions (% of total)	33.5	34.3	33.8	34.3	34.9	35.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2008-EPCV and 2014-EPCV.Actual data: 2014. Nowcast: 2015-2021. Forecasts are from 2022 to 2024.
b/ Projection using point to point elasticity at regional level with pass-through = 0,7 based on GDP per capita in constant LCU.

MAURITIUS

Table 1	2021
Population, million	1.3
GDP, current US$ billion	11.1
GDP per capita, current US$	8654.6
Lower middle-income poverty rate ($3.2)[a]	2.2
Upper middle-income poverty rate ($5.5)[a]	12.7
Gini index[a]	36.8
School enrollment, primary (% gross)[b]	99.5
Life expectancy at birth, years[b]	74.2
Total GHG Emissions (mtCO2e)	6.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2011 PPPs.
b/ Most recent WDI value (2019).

GDP grew 3.9 percent in 2021 aided by widespread Covid-19 vaccination, although subsequent virus waves dampened tourism recovery and output remains below pre-pandemic levels. External factors fuel inflation, while public debt is at a historically high level. Recovery hinges on the creation of fiscal space to address longstanding structural challenges and boost preparedness for future shocks. The effects of Covid-19 reversed recent gains in poverty reduction and female labor force participation.

Key conditions and challenges

Mauritius became a High-Income Country in July 2020 based on 2019 data, but fell back into Upper-Middle income category in July 2021 as real GDP plunged by 14.9 percentage points in 2020 amid the Covid-19 pandemic. Even before the Covid pandemic, several interrelated structural challenges had rendered the country's growth trajectory more fragile. These include stagnating private investment, sustained loss of export competitiveness, skill shortages coexisting with high structural unemployment, rising inequality, and mounting pressure on public finances from high and increasing social security spending driven by the ageing population, leading to persistent fiscal deficits and a growing public debt to GDP ratio.

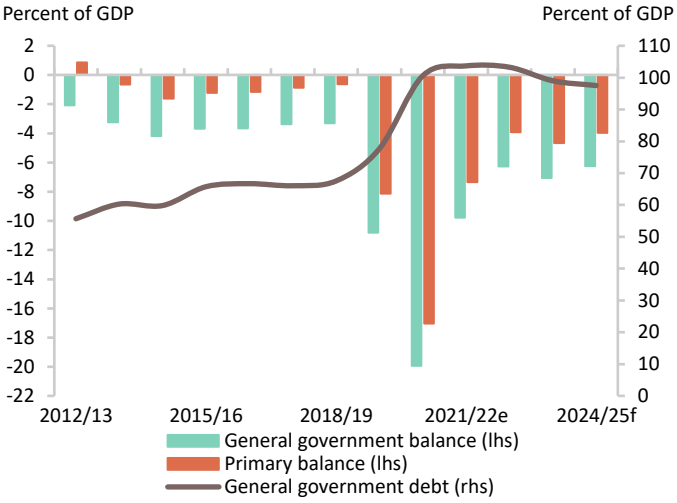
Mauritius' handling of the Covid-19 health emergency was very successful, and the extensive state support was effective in protecting livelihoods. However, this came at high fiscal cost, causing public debt to spike despite a Rs 55 billion (12.6 of GDP) non-refundable transfer to government from the Bank of Mauritius in FY2020/21, which followed a previous Rs 18 billion transfer (3.9 of GDP) under the FY2019/20 budget. Additionally, the blurring in the separation of monetary and fiscal functions stemming from the direct involvement of the BoM in the Covid-19 response, as well as through the newly created Mauritius Investment Corporation owned by it, increased contingent liabilities.

Achieving inclusive growth will require overcoming constraints to a more inclusive labor market. This includes increasing the participation of youth and women with low educational attainments. Over 50,000 youth aged 16 to 29 are neither in education nor in employment, and about 1 out of 3 of these has obtained at most a certificate of primary education. Similarly, only 1 in 2 women participates in the labor market, and only 1 in 3 among women with low education. The impact of Covid-19 reversed recent gains in labor force participation of women. Women were significantly more likely to be displaced during this time, while men and women with a better education were significantly less likely to be laid off overall.

Recent developments

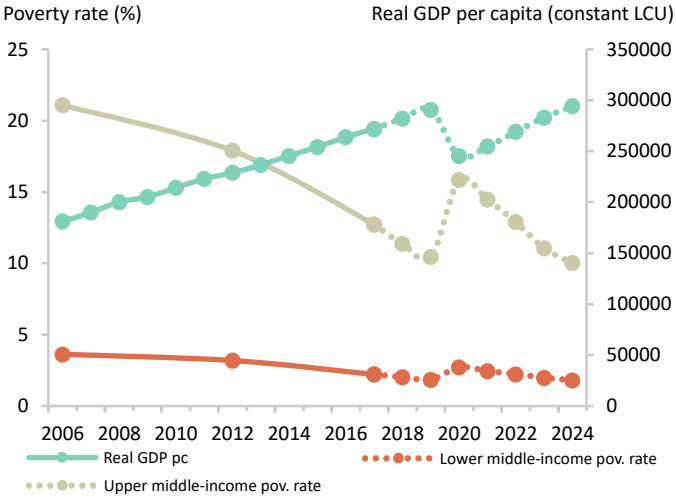
GDP grew an estimated 3.9 percent in 2021, although subsequent Covid-19 waves dampened growth and output remains below pre-pandemic levels. A successful Covid-19 vaccination campaign resulting in 76 percent of the population being fully vaccinated by end-February 2022 has been a cornerstone of recovery. However, a large output gap remains in tourism, with 179,780 arrivals in 2021 marking a 41.8 percent decrease compared to 308,980 in 2020. Even after full reopening of borders since October 1, monthly arrivals hovered below 50 percent of pre-pandemic figures. Total exports increased

FIGURE 1 **Mauritius** / General government balance and debt



Sources: Statistics Mauritius, World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

16.9 percent in 2021 compared to 2020, driven by manufactures. As total imports increased by 29.8 percent, the trade deficit was 39.4 percent higher. However, the current account deficit still narrowed from 12.5 to 11.1 percent of GDP, aided by net income inflows.

Fiscal deficit escalated to 19.9 percent in FY20/21, and despite being partially financed through a 12.6 percent of GDP non-refundable Central Bank transfer, still caused public debt to spike to 100.6 percent of GDP. Headline inflation rose to 4 percent in 2021 from 2.5 percent in 2020, driven by external supply shocks leading to higher freight, energy, and food prices. As oil prices rose to historical heights in the wake of the Russian invasion of Ukraine and ensuing sanctions on Russia, the BoM raised the Key Repo Rate 15 bps to 2 percent on March 9, representing its first hike since June 2011. The removal of Mauritius from the FATF, UK and EU watchlists between October 2021 and January 2022 bolstered the financial sector, and following closing of the Mandatory Offer made by Airport Holdings Limited on October 15, 2021, the state-controlled entity expects to fully control Air Mauritius by end-March 2022. The rising of the Mauritian flag in the Chagos archipelago on February 14 during a scientific expedition to the Blenheim reef signaled Mauritius' intent to recover the islands in dispute with the UK.

Poverty (Upper-MIC threshold of $5.5 a day 2011 PPP) fell from 18 to 10 percent between 2012 and 2019. However, given the dramatic contraction of GDP in 2020, poverty is estimated to have increased by over 5 percentage points in 2020, subsequently dropping by over 1 point in 2021.

Outlook

GDP is expected to grow by 5.9 percent in 2022 and 6.0 in 2023, before decelerating to 3.9 percent in 2024, in a global context of low growth, high inflation, and heightened geopolitical tensions.

The current account deficit would rise to 14.2 percent of GDP in 2022 hit by higher oil and food import costs and with rising airfare costs hindering a stronger recovery of tourism, before gradually narrowing down over the medium term, assuming continued recovery of tourism and efforts to strengthen export competitiveness. The fiscal deficit is expected to moderate to 9.8 percent in FY21/22 as the economic recovery accelerates and Covid-19 support measures are lifted, aiding a progressive fiscal consolidation. Public debt would peak at 103.7 percent of GDP in FY21/22 and gradually decrease over the medium term. Projections indicate that poverty will fall to 10 percent, the pre-COVID-19 level, well into 2024.

Significant downside risks cloud the horizon. New Covid-19 variants may continue to inhibit the rebound of tourism, while escalation of war in Europe and harsher economic sanctions could push fuel and food prices higher and further disrupt global supply chains, fueling inflation. Pensions' reform and the phased unwinding of Covid-19 support will be key to maintain debt sustainability and create fiscal space to address structural challenges and boost preparedness facing future shocks, including from climate change.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices[a]	3.0	-14.9	3.9	5.9	6.0	3.9
Private Consumption	3.2	-18.6	6.3	2.0	2.0	2.2
Government Consumption	2.0	-1.2	2.9	1.4	2.9	2.9
Gross Fixed Capital Investment	6.1	-26.1	19.0	3.8	5.7	4.7
Exports, Goods and Services	-4.2	-38.1	-1.4	32.0	12.7	7.0
Imports, Goods and Services	2.1	-28.9	5.9	12.3	2.5	2.6
Real GDP growth, at constant factor prices	3.2	-14.7	3.9	5.9	6.0	3.9
Agriculture	4.1	-2.5	6.6	1.5	3.8	1.8
Industry	2.4	-19.1	13.2	1.7	3.3	1.3
Services	3.3	-14.3	1.4	7.3	6.9	4.7
Inflation (Consumer Price Index)	0.5	2.5	4.0	8.4	5.7	5.0
Current Account Balance (% of GDP)	-5.4	-12.5	-11.1	-14.2	-10.4	-9.3
Net Foreign Direct Investment (% of GDP)	14.3	26.0	31.9	32.5	32.3	33.1
Fiscal Balance (% of GDP)[b]	-10.8	-19.9	-9.8	-6.3	-7.1	-6.2
Debt (% of GDP)[b]	77.7	100.6	103.7	103.2	99.0	97.5
Primary Balance (% of GDP)[b]	-8.1	-17.0	-7.4	-3.9	-4.7	-4.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	1.8	2.7	2.4	2.2	2.0	1.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	10.5	15.8	14.5	12.9	11.1	10.0
GHG emissions growth (mtCO2e)	0.4	-12.9	7.5	5.7	4.5	6.5
Energy related GHG emissions (% of total)	61.5	62.1	61.2	61.5	61.4	61.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Historical demand-side data is being revised due to a consistency problem.
b/ Fiscal balances are reported in fiscal years (July 1st - June30th).
c/ Calculations based on 2017-HBS.Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.
d/ Projection using neutral distribution (2017) with pass-through = 0.87 based on GDP per capita in constant LCU.

MOZAMBIQUE

Table 1	2021
Population, million	32.2
GDP, current US$ billion	16.1
GDP per capita, current US$	500.0
International poverty rate ($1.9)[a]	63.7
Lower middle-income poverty rate ($3.2)[a]	82.4
Gini index[a]	54.0
School enrollment, primary (% gross)[b]	118.4
Life expectancy at birth, years[b]	60.9
Total GHG Emissions (mtCO2e)	112.2

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

Mozambique's economy recovered moderately in 2021. Growth reached 2.2 percent, driven by agriculture and a gradual rebound in demand. Yet, the poverty rate remains high at 63.5 percent as per capita income declined. The medium-term outlook is positive with growth projected to reach 6 percent in 2023, largely reflecting the start of LNG production. However, considerable uncertainties remain, including from the pandemic, insurgency in the north, and natural disasters.

Key conditions and challenges

The economy was already weak when it entered the pandemic. Growth plunged from 8 percent in 1993–2015, to 3 percent in 2016–2019, due to the hidden debt crisis in 2016, the insurgency escalation in Northern Mozambique, and the cyclones in 2019. In 2020, COVID-19 led to a GDP contraction of 1.2 percent, as demand fell and liquified natural gas (LNG) investments were delayed. The pandemic exacerbated pre-existing vulnerabilities stemming from overreliance on large investments in the extractive industry and exports of commodities, with weak domestic linkages. The private sector's potential remains untapped due to weak governance, a difficult business environment, and infrastructure and human capital deficits. Structural transformation has been limited with most jobs remaining in low productivity activities. Despite considerable downside risks—including COVID-19, natural disasters, and insurgency— economic prospects remain positive. Growth is projected to average 5 percent in 2022-2024, driven by developments in the LNG sector. The poverty rate is expected to fall marginally from 63.2 to 61.1 percent between 2022 and 2024, but the number of poor will increase by some 600,000 people due to rapid population growth.

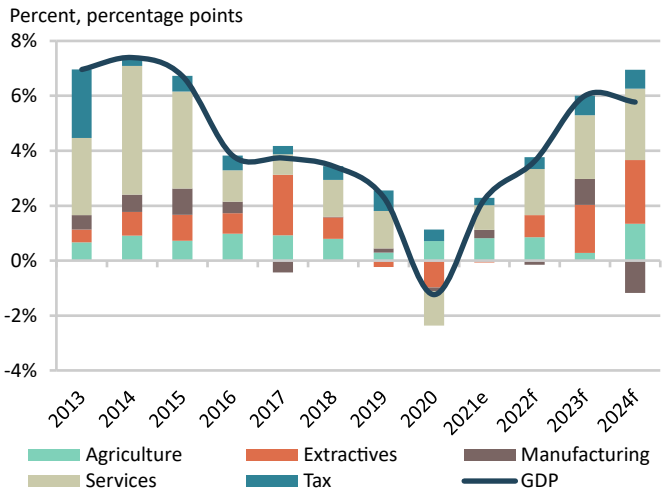
Mozambique needs to capitalize on the gains from the economic recovery to promote inclusive growth. Achieving this requires, among others, investments in infrastructure and social sectors, but the country faces substantial fiscal constraints. The public sector wage bill and debt service absorb about 90 percent of total tax revenues. In addition, significant fiscal revenues from the LNG sector may materialize only in about a decade. Mobilizing additional financing needs involve: (i) resuming fiscal consolidation, notably through wage bill reforms; (ii) increasing public spending efficiency; (iii) improving debt management and bringing public debt back to more sustainable levels; and (iv) greater private sector development.

Recent developments

Growth reached 2.2 percent in 2021, driven by increased agricultural and services output. The resumption of mobility supported the recovery of private consumption. The global recovery impacted food, energy, and fuel prices, contributing to a rise in inflation to 5.7 percent in 2021, double the rate registered in 2020. The loss of income and employment due to the pandemic meant that the poverty rate remained unchanged at 63.5 percent in 2021, but the number of poor increased by 650,000, totaling 20.4 million as of end-2021.

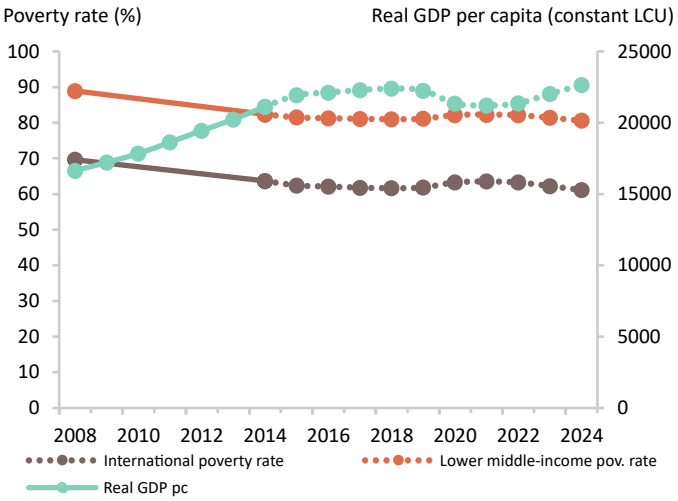
Although revenues held up well in 2021, fiscal pressures persisted. The overall fiscal deficit declined to an estimated 4.8 percent of GDP in 2021, down from 5.7 percent in

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



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

2020. Despite the pressures from COVID-related as well as humanitarian and security spending, total public expenditure fell to 31.6 percent of GDP in 2021 (from 33.6 percent in 2020). This was driven by lower debt service, reflecting currency appreciation and debt service deferral under the DSSI. Total public debt dropped from 125 to 117 percent of GDP in 2021, largely due to the currency appreciation. Mozambique is in debt distress with debt assessed to be sustainable in a forward-looking sense.

Recovering trade and delayed implementation of LNG projects have led to a stable current account deficit (CAD). The CAD declined from 25.7 to 22 percent of GDP between 2020 and 2021. The drop was mainly driven by lower imports of services, due to the delays in LNG projects. Total exports—mainly coal and aluminum—grew by 55 percent, following a decline of 23 percent in 2020. The CAD was mostly financed by FDI and, to some extent, private borrowing. FDI was considerably high at US$ 5.1billion (against US$ 3 billion in 2020), surpassing pre-pandemic levels. As a result of these developments, net external reserves closed at US$3.2 billion (equivalent to 6-7 months of imports, excluding megaprojects) in November of 2021—representing a drop of 14 percent (y-o-y).

Outlook

Growth is projected at 3.6 percent in 2022, before peaking at 6 percent in 2023. The start of LNG production at the Coral South offshore is expected to boost exports. Agricultural output growth is expected to remain considerable, given favorable weather conditions, and services activities will continue to steadily recover. Inflationary pressures will remain substantial as fuel and food prices continue to increase. Nonetheless, inflation is projected to remain within single digit in the medium-term, supported by a conservative monetary policy and a stable exchange rate. Poverty is expected to remain over 63 percent in 2022, despite the growth recovery and increased social transfers.

Fiscal pressures are likely to persist. The deficit is projected at 6.3 percent in 2022 but expected to decline to 3.6 percent of GDP over 2023–2024, partly driven by a lower wage bill. Structural reforms, including streamlined salary and career structures, and fiscal consolidation measures are expected to reduce wage bill pressures. Revenue is projected to perform well as the economy recovers. Despite this, financing needs will remain substantial in 2022-2024, due to high debt service and short-term cost of wage bill reforms.

The CAD is expected to reach 32.5 percent of GDP in 2022, and stay close to 40 percent in 2023-2024 owing to increased imports of services and machinery for LNG development. Further, the push in fuel, and wheat will add extra US$ 300 million to total imports. However, exports are set to grow significantly as LNG production begins and commodity prices recover. The external financing gap will be covered by FDI inflows and external loans, mainly for LNG investments. These FDI inflows, combined with the anticipated World Bank DPF and the IMF program, will allow external reserves to remain at comfortable levels.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.3	-1.2	2.2	3.6	6.0	5.8
Private Consumption	3.1	-2.1	18.1	0.3	7.6	3.7
Government Consumption	3.6	-19.3	-5.8	10.5	-18.7	-7.5
Gross Fixed Capital Investment	-0.6	60.1	36.1	-0.9	3.8	6.8
Exports, Goods and Services	-9.5	-15.0	24.1	9.6	15.1	6.4
Imports, Goods and Services	-1.5	-0.4	40.7	2.1	3.5	2.5
Real GDP growth, at constant factor prices	1.8	-1.9	2.2	3.6	6.0	5.8
Agriculture	1.3	3.1	3.4	3.5	1.2	5.8
Industry	-0.4	-5.8	1.3	3.6	14.9	5.8
Services	2.9	-2.7	2.0	3.7	5.1	5.7
Inflation (Consumer Price Index)	2.8	3.1	5.7	6.4	5.5	5.5
Current Account Balance (% of GDP)	-19.6	-25.7	-22.1	-32.5	-39.0	-42.0
Net Foreign Direct Investment (% of GDP)	14.4	16.7	31.8	22.2	20.6	19.1
Fiscal Balance (% of GDP)[a]	-0.5	-5.7	-4.8	-6.3	-3.7	-3.5
Debt (% of GDP)	107.5	125.3	117.4	120.0	113.5	104.1
Primary Balance (% of GDP)[a]	2.7	-2.3	-1.1	-2.4	0.1	0.8
International poverty rate ($1.9 in 2011 PPP)[b,c]	61.9	63.3	63.5	63.2	62.2	61.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	81.1	82.2	82.3	82.1	81.4	80.6
GHG emissions growth (mtCO2e)	0.9	0.7	0.3	1.1	1.7	1.5
Energy related GHG emissions (% of total)	8.0	8.3	8.0	8.2	8.7	9.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Figure includes once-off capital gains revenues in 2017, estimated at 2.7 percent of GDP.
b/ Calculations based on 2014-IOF. Actual data: 2014. Nowcast: 2015-2021. Forecasts are from 2022 to 2024.
c/ Projection using neutral distribution (2014) with pass-through = 0.87 based on GDP per capita in constant LCU.

NAMIBIA

Table 1	2021
Population, million	2.6
GDP, current US$ billion	12.4
GDP per capita, current US$	4794.1
International poverty rate ($1.9)[a]	13.8
Lower middle-income poverty rate ($3.2)[a]	30.3
Upper middle-income poverty rate ($5.5)[a]	51.0
Gini index[a]	59.1
School enrollment, primary (% gross)[b]	124.2
Life expectancy at birth, years[b]	63.7
Total GHG Emissions (mtCO2e)	22.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2011 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2019).

Namibia's growth rebound in 2021 is estimated to have been weaker than expected. The outlook for 2022 is favorable boosted by an improved pandemic situation and strong prospects for the mining sector. The protracted effects of the pandemic have left significant scarring in the economy, worsening socio-economic indicators. The projected upper middle-income poverty rate remains high at 65 percent for 2021 while employment is estimated to be below pre-pandemic levels.

Key conditions and challenges

Namibia's growth challenge predated the COVID-19 crisis. In the decade leading up to 2015, economic growth averaged nearly 5 percent annually boosted by investments in mineral extraction, a boom in exports and government spending. The period from 2016 onwards has mostly been marked by recession. Pre-pandemic, fiscal retrenchment, weak export prices, completion of major investment projects and poor growth in key trade partners brought growth to a halt. In real terms, GDP per capita has contracted since 2016, with corresponding projected poverty increases. Weak demand and skills mismatches have constrained job creation with the unemployment rate averaging above 20 percent since 2016. With persisting labor market challenges, Namibia remains one of the most unequal countries in the world.

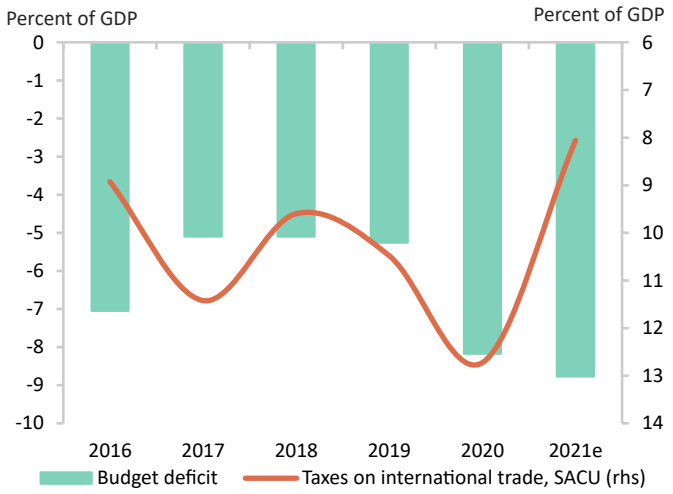
Global and regional developments are an important driver of Namibia's fiscal and external positions as the country is highly reliant on commodity exports and SACU transfers. Volatility in prices of Namibia's exports, particularly diamonds and uranium, present risks. While Namibia enjoyed good rains in 2021, the country is amongst the driest in the world and severe drought is a persistent threat for economic performance and for the welfare of poor subsistence farmers.

Raising productivity, including through reforms to improve the business environment and foster job-rich growth, is critical to reverse the trend of declining potential output. In the long term, progress in the planned development of a green hydrogen sector carries significant upside potential for the economy. Short-term risks to Namibia's recovery are dominated by pandemic uncertainties, amid relatively low vaccine coverage, and evolving effects of the war in Ukraine.

Recent developments

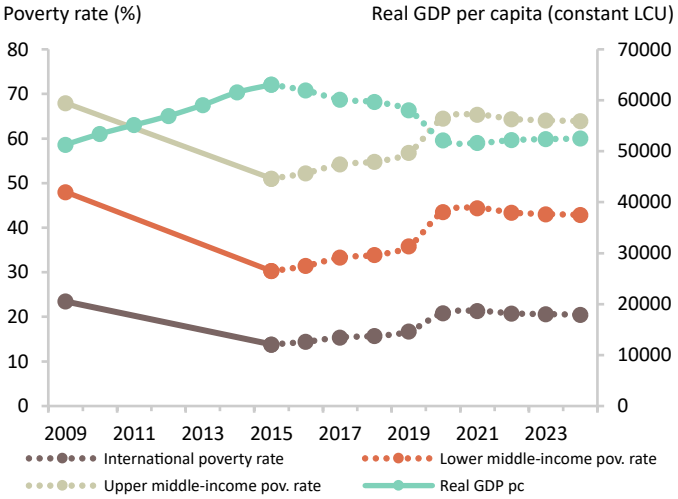
Mainly driven by a rebound in private consumption, the economy is estimated to have expanded by 0.8 percent in 2021 following the historic contraction of -8.5 in 2020. The economic rebound was weaker than projected in October 2021 due to a marked deterioration in the net export balance. Exports contracted further and imports rebounded. The supply side assessment suggests that the tertiary sector underpinned growth in 2021, coming from depressed levels in the prior year, while industry output contracted, led by declines in construction activity and electricity generation. Tight COVID-19 restrictions were in place during parts of the year to manage surges in infections. The protracted effects of the pandemic have left significant scarring in the economy, worsening socio-economic indicators. Given the sluggish economic expansion, the projected upper middle-income poverty rate remained high at 65 percent while employment is estimated to be well below pre-pandemic levels.

FIGURE 1 **Namibia** / Budget balance and SACU revenues



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

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



Source: World Bank. Notes: See table 2.

Namibia experienced a deterioration of its current account balance to an estimated deficit of 8 percent of GDP in 2021 from an atypical surplus of 3.3 percent of GDP in 2020, while being able to maintain an adequate level of international reserves. The weaker external balance was due to lower mineral exports, a decrease in SACU receipts, investment income outflows, and an increase in imports that has been fueled by rebounding domestic demand. Thanks to significant financial inflows from International Financial Institutions, gross reserves increased from US$2.2 billion at end-2020 to US$2.8 billion at end-2021 (representing about 5.5 months of imports).

Amid the limited growth rebound, the fiscal position deteriorated with the budget deficit increasing to 8.8 percent of GDP in 2021 (from 8.2 percent in 2020), and public debt (including guarantees) further rising to 75.3 percent of GDP from 69.2 percent in 2020. The wider deficit was on the back of lower SACU revenues, which fell from 12.5 percent of GDP in FY2020 to 7.9 percent of GDP in FY2021. Namibia redeemed its Eurobond which matured in November 2021, limiting the rise in debt levels.

Monetary policy remained accommodative and aligned with the SARB. The policy rate was unchanged at 3.75 percent through 2021, before the Bank of Namibia hiked by 25 basis points in February 2022. Inflation remained contained in 2021, averaging 3.6 percent.

Outlook

Namibia's economic performance is expected to improve in 2022-23, premised on waning effects of the pandemic and strong prospects for the mining sector. GDP growth is projected to accelerate to 2.9 percent in 2022. Diamond output, in particular, is expected to increase as the new Debmarine vessel begins operating and the life of mines that were previously slated to close is extended. The new diamond recovery vessel is expected to boost production by at least a third. Activity in the mining sector is broadly expected to find support from firm global commodity prices. So long as the effects of the conflict in Ukraine last, higher mineral prices will benefit Namibia's terms of trade but the related oil price shock will raise the import bill and inflationary pressures.

Government consumption is expected to be a drag on growth over the medium term given fiscal consolidation. Authorities remain committed to restoring fiscal sustainability over the MTEF period, although the speed of consolidation will depend on recovery in revenues. Monetary policy normalization is expected to continue at a prudent pace, driven by the exchange rate peg with the rand. As mining exports rebound and SACU receipts increase from next year, the current account deficit is expected to narrow gradually over the medium term and projected at 6.3 percent of GDP in 2022. The trajectory of the pandemic globally is an intractable risk to the outlook while the projected growth path is insufficient to address socio-economic challenges. Poverty is projected to remain high at 64 percent (US$5.50 line, 2011 PPP) in 2022 due to weak per capita GDP growth and slow job creation.

TABLE 2 **Namibia** / 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	-8.5	0.8	2.9	2.1	2.0
Private Consumption	0.4	-10.3	11.9	3.3	3.0	3.0
Government Consumption	1.5	-1.5	0.5	-0.6	-0.1	-0.2
Gross Fixed Capital Investment	-8.9	-11.2	-8.8	5.0	4.3	4.7
Exports, Goods and Services	-9.0	-17.7	-9.8	13.1	6.0	3.5
Imports, Goods and Services	-3.4	-14.7	8.0	6.9	5.1	4.0
Real GDP growth, at constant factor prices	-0.2	-7.1	0.5	2.9	2.1	2.0
Agriculture	-3.2	6.1	-0.1	2.0	2.0	2.0
Industry	-2.3	-13.7	-2.9	7.2	2.1	2.5
Services	1.1	-5.7	1.9	1.4	2.1	1.7
Inflation (Consumer Price Index)	3.7	2.2	3.6	5.2	4.5	4.5
Current Account Balance (% of GDP)	-1.8	3.3	-8.0	-6.3	-4.5	-3.8
Net Foreign Direct Investment (% of GDP)	-1.5	-2.0	2.3	1.6	1.6	1.9
Fiscal Balance (% of GDP)	-5.3	-8.2	-8.8	-7.4	-6.2	-5.4
Debt (% of GDP)[a]	62.8	69.2	75.3	79.5	81.5	83.6
Primary Balance (% of GDP)	-1.4	-3.8	-4.3	-2.6	-1.1	-0.4
International poverty rate ($1.9 in 2011 PPP)[b,c]	16.7	20.8	21.3	20.8	20.6	20.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	35.8	43.5	44.4	43.4	43.1	42.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	56.8	64.5	65.3	64.4	64.1	63.9
GHG emissions growth (mtCO2e)	-1.1	0.0	-0.1	1.5	1.5	0.3
Energy related GHG emissions (% of total)	19.9	19.3	19.2	19.5	19.9	19.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Refers to Public and Publicly Guaranteed debt
b/ Calculations based on 2009-NHIES and 2015-NHIES. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
c/ Projection using annualized elasticity (2009-2015) with pass-through = 1 based on GDP per capita in constant LCU.

NIGER

Table 1	2021
Population, million	25.1
GDP, current US$ billion	14.3
GDP per capita, current US$	569.8
International poverty rate ($1.9)[a]	41.4
Lower middle-income poverty rate ($3.2)[a]	75.2
Upper middle-income poverty rate ($5.5)[a]	91.8
Gini index[a]	37.3
School enrollment, primary (% gross)[b]	66.4
Life expectancy at birth, years[b]	62.4
Total GHG Emissions (mtCO2e)	52.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ Most recent WDI value (2019).

Niger avoided recession in 2020, but the recovery was interrupted in 2021 with growth falling to 1.4 percent (-2.3 percent per capita), due to heightened insecurity and climatic shocks (drought, erratic rains and flash floods) that significantly reduced agricultural output. Consequently, extreme poverty increased to 41.8 percent in 2021. While the outlook remains positive, with oil revenues coming onstream in 2024, significant downside risks require a strong reform effort.

Key conditions and challenges

Despite robust GDP growth (averaging 6.2 percent annually over 2010-2019), the level of per capita GDP (US$ 554 in current prices) in 2019 remains well below regional peers. High demographic growth is the main drag to a more sustained increase in per capita incomes.

Niger needs to address at least two key factors to reduce its structural fragility and sustain a higher pace of economic growth. First, Niger needs to better adapt to climatic changes as 75 percent of the workforce is still in subsistence agriculture and volatile climatic conditions have led to large agricultural production fluctuations (as highlighted by the collapse of production in 2021) and food insecurity. Second, Niger needs to address domestic insecurity and regional instability, which impact Niger's overall economic performance, public finances, service delivery and access to markets.

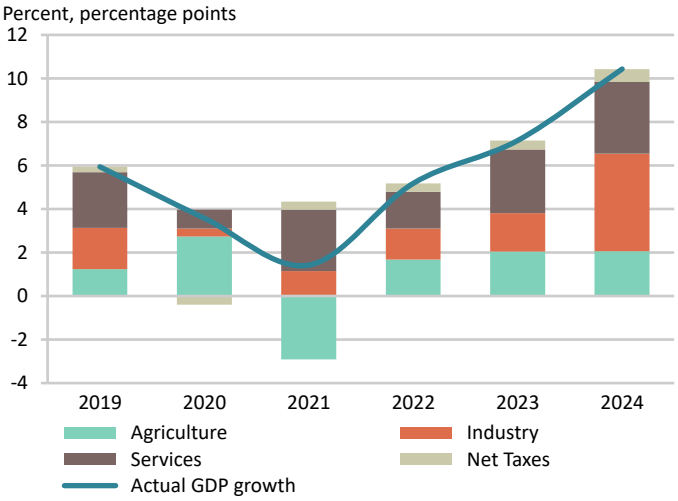
With relative political stability in a turbulent region, Niger is relatively well positioned to adopt structural reforms that lay the foundations for more inclusive and resilient economic growth. Reforms need to increase overall productivity (especially in agriculture) by strengthening economic governance, promoting financial inclusion, adopting digital technologies, and broadening access to education and training to support waged jobs creation. Accelerating crisis preparedness through climate adaptation investments, a stronger disasters management framework, and robust social safety nets, are also key to increase resilience to natural shocks. Supporting demographic transition by reducing large gender gaps also needs to be a central piece of Niger's development strategy, while the pace of vaccination for COVID-19 needs to accelerate to reach the target of 42 percent of the population.

Recent developments

The pace of economic growth came to a sudden halt in 2021, falling to 1.4 percent from 3.6 percent in 2020 due to the collapse of cereal production (-38 percent), caused by drought in September, crop infestation, and insecurity. This agricultural production shock left more than 2.5 million people food insecure.

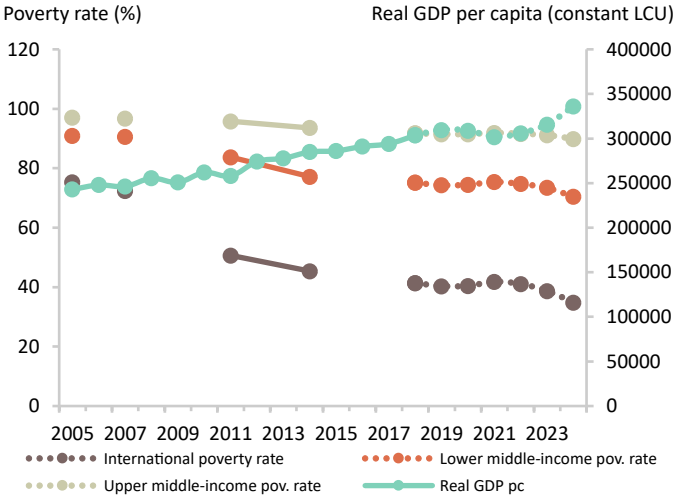
The fiscal deficit remained high, at 6.6 percent of GDP, in 2021 due to the increase in spending to support the recovery and to address security and food insecurity issues, for example by strengthening food for work, school feeding, or cereal distribution programs. As a result of lower growth and the higher deficit, public debt is projected to have reached 52.3 percent of GDP in 2021, and the risk of debt distress is assessed as moderate. The current account deficit (CAD) is estimated to have widened to 14.9 percent of GDP in 2021, driven by a deterioration of the trade balance amid high oil and gas projects-related imports and higher food import prices.

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



Sources: INSN and World Bank staff estimates.

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



Source: World Bank. Note: See table 2.

Inflationary pressures persisted, fueled by rising food prices (7.8 percent), particularly cereals (16.8 percent). Average annual inflation reached 3.8 percent for 2021. Niger's monetary and exchange rate policies are managed by the BCEAO, which maintains a fixed peg between the CFA Franc and the Euro. Its reserves reached 5.8 months of imports of goods and services in 2021, as a result of the recovery in export repatriation proceeds, the August 2021 SDR allocation, and portfolio inflows linked to Eurobond issuances in the region.

The 2.3 percent decline in per capita GDP in 2021 resulted in an increase of 1.4 percentage point in the international extreme poverty rate (US$1.90/day per capita, 2011 PPP) to 41.8 percent in 2021. As a result, the number of extreme poor rose from 9.8 million to 10.5 million. Data from high frequency phone surveys indicated that 40 percent of households experienced an income loss during the pandemic. Furthermore, higher food inflation would have impacted poor households as 40 percent of Nigerien households are net food buyers and food represent 58 percent of their consumption basket.

Outlook

Amidst high uncertainty, economic growth in 2022 is projected at 5.2 percent. This forecast hinges upon several positive developments, particularly the absence of new climatic shocks, and on an improvement in the security situation. Over the medium term, growth is expected to surpass 10 percent in 2024 due to the start of oil production. Inflation is set to overshoot the standard 3 percent target again in 2022, driven by higher food and energy prices. An ambitious fiscal adjustment supported by the IMF program, aimed at reducing the deficit from 5.5 percent of GDP in 2022, to around 3 percent in 2024, would put the debt-to-GDP ratio onto a declining path.

Extreme poverty is expected to decline to 41.0 percent in 2022 as growth, particularly in agriculture improves. However, in order to achieve a reduction in the absolute number of poor, annual GDP growth must be significantly above Niger's projected high population growth rate of 3.8 percent during the period 2022-2024, and the rents from the petroleum sector must be broadly shared through proactive government policies for inclusive growth.

The GDP growth outlook is subject to a high degree of uncertainty and multiple downside risks, including intensified security risks, further climatic-shocks, continuing food security challenges, local COVID outbreaks, and widespread social discontent from food inflation and insecurity. It is likely that at least one/some of these risks will materialize and concurrent shocks are possible. The economic consequences of the Russia-Ukraine war are a further source of risk, primarily through higher global food (grains/fertilizer) and energy prices. The projections already reflect recent sharp increases in oil and gas, agriculture and metal and mineral prices since January 2022.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.9	3.6	1.4	5.2	7.1	10.4
Private Consumption	3.7	4.4	-1.5	5.1	5.9	6.7
Government Consumption	8.1	3.7	2.0	7.6	13.0	12.1
Gross Fixed Capital Investment	13.6	4.9	9.1	5.4	6.0	6.5
Exports, Goods and Services	1.1	-6.3	3.6	5.5	20.8	41.7
Imports, Goods and Services	6.2	2.7	3.5	6.8	11.1	11.0
Real GDP growth, at constant factor prices	6.1	4.2	1.1	5.1	7.1	10.4
Agriculture	3.4	7.7	-7.9	5.0	6.1	6.2
Industry	9.0	1.7	5.4	6.4	7.9	20.0
Services	7.0	2.3	7.7	4.4	7.6	8.5
Inflation (Consumer Price Index)	-2.5	2.8	3.8	3.5	3.0	3.0
Current Account Balance (% of GDP)	-12.2	-13.2	-14.9	-16.9	-15.5	-12.2
Net Foreign Direct Investment (% of GDP)	5.3	2.5	4.6	5.2	3.5	2.8
Fiscal Balance (% of GDP)	-3.6	-5.4	-6.6	-5.5	-4.5	-3.2
Debt (% of GDP)	39.8	45.0	52.5	53.0	52.2	48.7
Primary Balance (% of GDP)	-2.6	-4.4	-5.5	-4.1	-3.1	-2.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	40.3	40.4	41.8	41.0	38.7	34.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	74.3	74.5	75.5	74.8	73.5	70.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	91.5	91.5	91.9	91.6	91.1	89.9
GHG emissions growth (mtCO2e)	4.8	3.8	3.9	4.3	4.8	5.3
Energy related GHG emissions (% of total)	14.8	14.6	14.6	14.9	15.5	16.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

NIGERIA

Table 1	2021
Population, million	211.4
GDP, current US$ billion	488.6
GDP per capita, current US$	2311.1
International poverty rate ($1.9)[a]	39.1
Lower middle-income poverty rate ($3.2)[a]	71.0
Upper middle-income poverty rate ($5.5)[a]	92.0
Gini index[a]	35.1
School enrollment, primary (% gross)[b]	87.5
Life expectancy at birth, years[b]	54.7
Total GHG Emissions (mtCO2e)	387.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2019).

Nigeria's real GDP is expected to grow by 3.8 percent in 2022. Nevertheless, given high population growth and stagnant poverty reduction, the number of Nigerians living below the international poverty line is projected to rise by 2.5 million between 2021 and 2024. Nigeria's growth outlook remains uncertain due to the war in Ukraine and its impact on the global economy. Macroeconomic and business climate reforms will be necessary to ensure a sustained recovery beyond the base effects seen in 2021.

Key conditions and challenges

After two decades of uneven growth, poverty in Nigeria remains widespread, affecting around 4 in 10 Nigerians. Nigeria grew rapidly between 2000 and 2014 (average of 7 percent per year), but the 2014-2015 collapse in global oil prices, a reversal in macroeconomic reforms, and the fall in domestic non-oil production led to a cycle of sluggish growth. Subsequently, economic growth has been muted at 1.1 percent, on average, in 2015–21, below the rate of population growth of 2.6 percent.

Nigeria's fiscal position has been deteriorating since 2015, mainly due to low and declining oil revenues (50 percent of consolidated revenues come from oil) and rising expenditures, resulting in fiscal deficits averaging 5.4 percent of GDP in 2020-21. After the 2015-16 recession, Nigeria's already low level of general government revenue fell and averaged 7.0 percent of GDP between 2016 and 2020, the second lowest globally. As a result, general government expenditure remains low.

In the short term, recouping the welfare and human capital losses incurred during the COVID-19 pandemic remains vital. To this end, the authorities should consider three policy priorities. First, a fast and equitable vaccine rollout is still needed to tackle the virus' direct health effects. Second, reversing learning losses from school closures can mitigate long-term effects on human capital. Finally, social protection, which remains scant, should be expanded to offset income losses and prevent households from falling into—or further into—poverty.

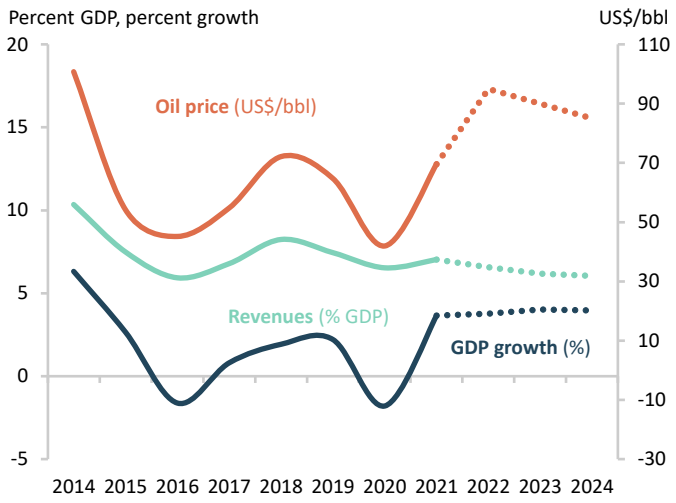
In the medium term, the government must adopt reforms to sustain Nigeria's economic recovery. These include merging its multiple exchange rates, reducing trade restrictions, improving the business climate, and reducing the monetization of the fiscal deficit. In addition, diversifying the economy, especially reducing the dependence of revenues on oil, is essential to build resilience against future shocks, create productive jobs, and reduce poverty.

Recent developments

GDP grew by 3.6 percent in 2021, exceeding population growth for the first time since 2015, led by base effects in most sectors and organic growth in agriculture, telecommunications, and financial services. Oil production, however, continued to decline and reached a two-decade low due to inefficiencies and insecurity.

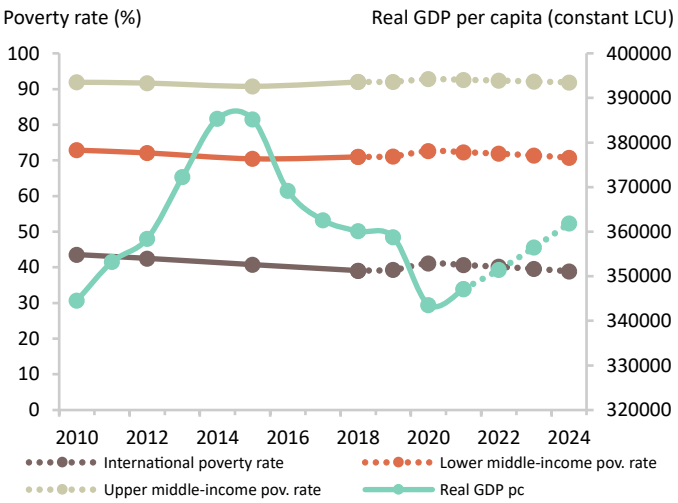
Inflation remains high in Nigeria, reaching 15.6 percent, year-on-year, in January 2022—above the average of the last 4 years and one of the highest in Sub-Saharan Africa. Inflation has been driven by higher prices of staples, which are especially reducing the purchasing power of poor and vulnerable Nigerians, constraining any potential poverty reduction. Nigerian authorities have not taken any recent concerted actions to tackle inflationary pressures.

FIGURE 1 **Nigeria** / Oil price shock transmission channels



Sources: WDI, NBS, and World Bank.

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



Source: World Bank. Notes: see Table 2.

The government's fiscal position typically improves when oil prices rise, but this was not the case in 2021 when the consolidated fiscal deficit remained above 5.0 percent of GDP. Nigeria has not been able to fully benefit from the current price boom because: (i) oil production declined in 2021; and (ii) the domestic price of petrol remained fixed while global petrol prices rose, increasing the cost of the Premium Motor Spirit (PMS) subsidy. The PMS subsidy disproportionately benefits richer Nigerians and imposes a massive and unsustainable fiscal burden. Its cost rose from 4 to 35 percent of oil and gas revenues in 2021 (US$4.5 billion, roughly 1 percent of GDP).

Buoyed by rising oil prices and improved remittance inflows, Nigeria's external position improved in 2021. The current account balance improved from -2.4 percent of GDP in 2020 to 2.0 percent of GDP in 2021. Despite the central bank taking steps to merge its multiple exchange rates by adopting the Importer and Exporter FX window rate as its official rate in May 2021, the parallel rate premium increased to 37 percent of the official rate in 2021.

Outlook

Nigeria's GDP growth is projected at 3.8 percent in 2022, driven by growth in the services, trade, agriculture, and construction sectors as well as a recovery in oil production. Yet, GDP per capita at end-2022 is expected to be below the level recorded in 2014, and it is not expected to return to pre-COVID-19 levels before 2027.

The impact of the pandemic on poverty could linger. Combining the effects of the COVID-19 crisis and high population growth, the number of Nigerians living in extreme poverty (measured using the international poverty line of US$1.90 per day, 2011 PPP) could rise by 10 million between 2019 and 2024, with the absolute number of poor people reaching 89 million by 2024. While these forecasts are slightly rosier than the World Bank fall forecasts, they still paint a sobering picture of Nigeria's prospects for poverty reduction.

The country's economic outlook remains highly uncertain. The projected recovery can be threatened by: (i) the impact of the Russia-Ukraine conflict on the global economy through lower capital flows, heightened uncertainty, higher prices of imported food and inputs for fertilizers, lower global growth, and volatile oil prices; (ii) lower-than-expected oil production due to technical inefficiencies; (iii) heightened insecurity; (iv) higher uncertainty on policy direction arising from the upcoming February 2023 general elections; and (v) worsening fiscal risks related to the PMS subsidy deductions. Even in the most favorable global context, the policy response of Nigeria's authorities will be crucial to lay the foundation for a robust recovery. The authorities can boost growth by strengthening macroeconomic reform efforts, including measures aimed at: (a) adopting a more flexible and transparent foreign exchange management regime; (b) accelerating revenue-based fiscal consolidation; (c) strengthening expenditure and debt management; and (d) improving the business climate.

TABLE 2 **Nigeria** / 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	-1.8	3.6	3.8	4.0	4.0
Private Consumption	-2.4	1.3	0.2	2.4	2.6	2.9
Government Consumption	15.0	13.6	-1.1	4.8	0.4	7.5
Gross Fixed Capital Investment	11.8	19.0	8.5	3.2	5.2	7.9
Exports, Goods and Services	15.0	-32.2	10.4	8.5	7.5	5.0
Imports, Goods and Services	27.3	-23.5	3.5	5.5	4.3	9.0
Real GDP growth, at constant factor prices	2.3	-1.9	3.7	3.8	4.0	4.1
Agriculture	2.4	2.2	2.1	2.7	2.7	3.0
Industry	2.3	-5.9	-0.2	4.5	5.1	3.5
Services	2.2	-2.2	6.0	4.1	4.1	4.8
Inflation (Consumer Price Index)	11.4	13.2	17.0	14.8	13.0	11.0
Current Account Balance (% of GDP)	-3.8	-2.4	2.0	5.8	4.9	3.2
Net Foreign Direct Investment (% of GDP)	0.4	0.2	0.6	0.5	0.4	0.4
Fiscal Balance (% of GDP)	-4.6	-5.8	-5.8	-5.1	-4.9	-5.3
Debt (% of GDP)	21.7	25.2	29.6	29.6	30.4	31.7
Primary Balance (% of GDP)	-2.6	-4.1	-3.6	-2.6	-2.4	-2.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	39.3	41.1	40.7	40.2	39.6	38.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	71.1	72.6	72.3	71.9	71.4	70.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	92.1	92.8	92.6	92.4	92.1	91.9
GHG emissions growth (mtCO2e)	3.1	1.1	3.9	4.0	4.4	4.6
Energy related GHG emissions (% of total)	39.3	38.1	38.0	37.8	37.9	38.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2018-LSS.Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

RWANDA

Table 1	2021
Population, million	13.3
GDP, current US$ billion	11.0
GDP per capita, current US$	828.7
International poverty rate ($1.9)[a]	56.5
Lower middle-income poverty rate ($3.2)[a]	80.3
Upper middle-income poverty rate ($5.5)[a]	91.9
Gini index[a]	43.7
School enrollment, primary (% gross)[b]	131.3
Life expectancy at birth, years[b]	69.0
Total GHG Emissions (mtCO2e)	8.4

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

Rwanda's economy grew at around 11 percent in 2021, as targeted measures helped economic activities to effectively navigate the pandemic. The twin deficits remained—requiring more external financing—and are expected to ease below their pre-crisis levels in 2022–2024. Despite an unprecedented assistance program, poverty likely increased due to the adverse effects of the pandemic on output and employment, but is expected to return to pre-crisis levels in 2022.

Key conditions and challenges

Despite exceptional economic performance in recent decades, including rapid growth in per capita income over 2005–2019, Rwanda faces major development challenges. Poverty rates (measured as US$1.90 a day) fell from 69.1 percent in 2005 to 56.5 percent in 2017 and was projected to fall even further to 52.9 percent in 2019 behind strong growth in GDP and private consumption. With the emergence of COVID-19, poverty is expected to have increased to 56.0 percent for 2020. Rwanda has relatively higher poverty rates than African peers with similar income per capita, and poverty reduction has become less responsive to growth in recent years. Rwanda now faces challenges in fully translating its strong growth into commensurate gains in poverty reduction and shared prosperity, with the aim of eliminating poverty by 2050.

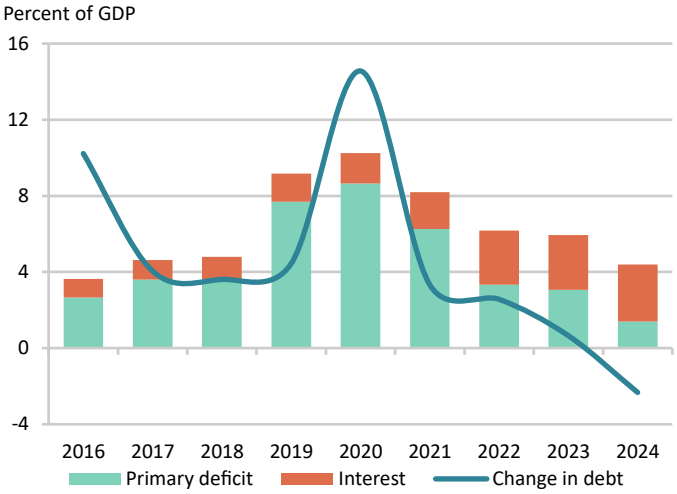
A shift from public investment-led growth to the private sector is key to Rwanda's aspiration of becoming an upper-middle income country by 2035 and a high-income country by 2050. Capital accumulation, mostly large-scale public investment in infrastructure, has been the main driver of growth. Limitations of the state-led development model have become apparent. Labor productivity and total factor productivity are low for its income level. Moreover, the private sector still maintains a relatively limited presence, restricted in part by high costs of finance, energy, and transport, coupled with dominance of SOEs. Key reforms should aim to enable competitive domestic enterprises, foster innovation, develop long-term finance, and foster regional integration.

Recent developments

Effective vaccination measures helped Rwanda navigate the pandemic. After grappling with the third—and more severe—wave in June–August 2021, Rwanda successfully contained the spread of infections while continuing its vaccination campaign. By end-February, about 68 percent of the total population had received at least one dose of COVID vaccine, while 60 percent had received two doses. These vaccination rates place Rwanda among the top ten countries in Africa. Rwanda started administrating a booster shot dose in December 2021.

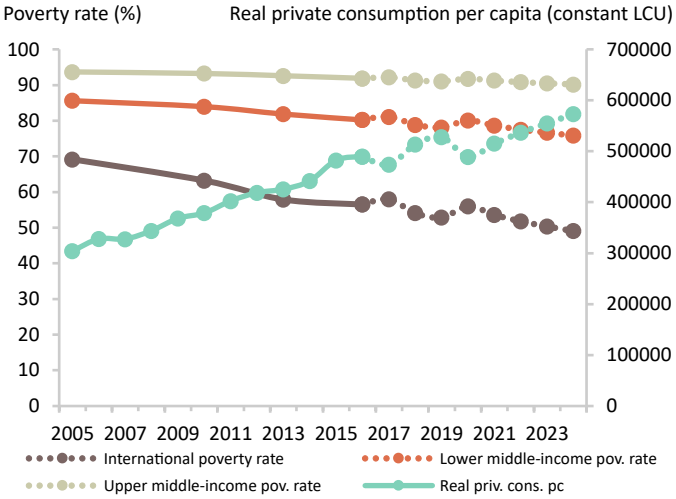
The economy surged in 2021, growing by about 11 percent. Gradually easing mobility restrictions have supported a broad-based rebound, stimulating private consumption, by increasing incomes amid the reopening of economic activities, and falling inflation. Household consumption made significant contribution to growth, thanks to government transfers rolled out to households affected by the pandemic. Government investment spending contributed significantly, accounting for one-third of GDP growth. However, unemployment continued to be higher relative to the pre-crisis levels as firms were not yet

FIGURE 1 Rwanda / Primary deficit, interest payments, and public debt



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

confident about the recovery sustainability and did not hire permanent employees. In August 2021, the unemployment rate was more than 3 percentage points higher than in August 2019.

The authorities have maintained a fiscal expansion to support the recovery amid rising revenues. Total government revenues (including grants) peaked in 2021, estimated at 25.5 percent of GDP, up from 23.6 percent in 2020. Government outlays also increased, reaching 33.3 percent of GDP in 2021, compared to 32.9 percent in 2020, driven mainly by continued fiscal support for firms and households affected by the pandemic. The government fast-tracked a US$250 million package to support private investments in manufacturing and construction. The overall fiscal deficit eased to 8.2 percent of GDP in 2021, compared to 10.3 percent of GDP in 2020, as Rwanda continued to benefit from large external COVID-related support.

Driven mainly by rising prices of fresh food and energy products, annual urban inflation rose to 5.8 percent in February and is expected to remain high in 2022. In expectation of higher inflationary pressures from higher international commodities, the National Bank of Rwanda raised the policy interest rate by 50 basis points (to 5 percent) in mid-February 2022, while continuing to support the recovery.

Outlook

Short- to medium-term growth prospects of Rwanda's economy are positive but conditional on continued national vaccination, recovery of the domestic economy, as well as the economic consequences of the Russian invasion in Ukraine. Energy and commodity prices (especially wheat) have surged, adding to inflationary pressures from supply chain disruptions and hobbling the rebound from the COVID-19 pandemic. While the economic consequences of the Russian invasion, war, and associated sanctions are still unfolding, Rwanda's GDP growth is likely to be lower than expected in 2022. Commodity prices and fiscal subsidies are expected to be the main channels of the crisis. Even though poverty is expected to return to pre-crisis levels in 2022 behind expected increases in household consumption, large increases in food prices have the potential to delay or even revert these poverty gains. With eased COVID-19 restrictions, domestic demand and trade are expected to gradually improve, raising GDP growth to around 7 percent over 2022–2024, a lower growth trajectory than before the pandemic. Rwanda is likely to reach its pre-pandemic trend on its real per capita US$ GDP by 2023. The pace of national vaccination should be kept up to ensure that 70 percent of the population 12 years and above is fully vaccinated by mid-2022.

The fiscal deficit is expected to remain elevated at around 7.4 percent of GDP in 2022 before gradually declining as revenues recover and emergency spending subsides. The deficit is projected to narrow to about 4 percent of GDP in 2024 in line with government commitments. Public debt is forecast to peak in 2023 (Table 2), but Rwanda remains susceptible to external shocks to growth and/or exports, and worse-than-expected external financing conditions, which can be aggravated by a prolonged pandemic and uneven recovery. Rwanda needs to identify credible revenue and spending measures for a growth-friendly fiscal consolidation with a view to reaching their debt anchor within a reasonable timeframe and further strengthening their debt management capacity. However, higher interest payments could put pressure on fiscal space in the medium-term, absent revenue reforms.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	9.5	-3.4	10.9	6.8	7.2	7.4
Private Consumption	5.5	-5.0	8.8	6.2	6.1	5.8
Government Consumption	17.5	1.9	4.3	7.7	7.5	8.3
Gross Fixed Capital Investment	32.1	-4.5	17.0	15.2	7.6	6.6
Exports, Goods and Services	19.9	-9.2	2.8	14.9	16.2	15.7
Imports, Goods and Services	18.0	-3.4	3.6	17.7	11.0	9.3
Real GDP growth, at constant factor prices	8.9	-3.5	10.9	6.8	7.2	7.4
Agriculture	5.0	0.9	5.8	5.5	5.5	5.0
Industry	16.6	-4.2	14.7	10.7	9.2	8.5
Services	8.3	-5.5	12.2	6.0	7.2	8.2
Inflation (Consumer Price Index)	2.4	7.7	0.8	7.2	6.8	5.0
Current Account Balance (% of GDP)	-11.9	-12.2	-10.9	-11.8	-11.4	-10.2
Net Foreign Direct Investment (% of GDP)	2.5	1.0	1.9	3.2	3.6	3.7
Fiscal Balance (% of GDP)	-9.2	-10.4	-8.4	-7.4	-5.7	-4.2
Debt (% of GDP)	56.8	72.4	74.9	77.9	78.8	76.0
Primary Balance (% of GDP)	-7.7	-8.8	-6.3	-5.0	-3.2	-1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	52.9	56.0	53.6	51.8	50.4	49.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	78.1	80.0	78.6	77.5	76.6	75.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	91.1	91.8	91.3	90.8	90.5	90.2
GHG emissions growth (mtCO2e)	2.8	2.1	2.9	3.2	3.3	3.2
Energy related GHG emissions (% of total)	26.1	25.9	25.3	24.6	24.0	23.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2010-EICV-III and 2016-EICV-V.Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.
b/ Projection using average elasticity (2010-2016) with pass-through = 0.7 based on private consumption per capita in constant LCU.

SÃO TOMÉ AND PRÍNCIPE

Table 1	2021
Population, million	0.2
GDP, current US$ billion	0.5
GDP per capita, current US$	2559.2
International poverty rate ($1.9)[a]	25.6
Lower middle-income poverty rate ($3.2)[a]	57.0
Upper middle-income poverty rate ($5.5)[a]	82.9
Gini index[a]	40.7
School enrollment, primary (% gross)[b]	106.8
Life expectancy at birth, years[b]	70.4
Total GHG Emissions (mtCO2e)	0.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2011 PPPs.
b/ WDI for School enrollment (2017); Life expectancy (2019).

The challenges presented by the COVID-19 pandemic and the energy crisis on São Tomé and Príncipe have been further aggravated by flooding and landslides from severe rain in end-2021. Nevertheless, the economy continues to grow and the outlook for 2022 is encouraging as tourism is projected to recover. Implementing reforms in the tax system and energy sector is paramount to ensure fiscal sustainability, robust growth, and long-term poverty reduction.

Key conditions and challenges

STP is a small island country heavily exposed to shocks and constrained by its remote location, weak private sector, limited institutional capacity, and low human capital. Underdeveloped infrastructure, especially unreliable and costly electricity, is a key challenge to growth and fiscal sustainability. STP is highly dependent on external concessional financing and has effectively pursued a "public expenditures-led" growth model. With the structural decline in external financing compounded by low domestic revenue mobilization, the pace of growth has slowed in recent years.

STP's fast-growing population is young and lacking employment opportunities, heavily relying on informal and subsistence activities. Poverty remains widespread, with about 25.9 percent of the population living on less than $1.90 per day (in 2011 PPP terms) in 2017.

The COVID-19 pandemic in STP brought the highest death rate in Africa, at about 33 deaths per 100,000 inhabitants, compared to 19 in the rest of the continent. Vaccination has been advancing well, however, and as of end-February, nearly 112 thousand Santomean (corresponding to 97 percent of the adult population or 49 percent of the total population) had received at least one vaccine dose. In December 2021, heavy rainfall and the consequent flooding caused significant damage, which led the authorities to declare a state of emergency. The December 2021 floods led to agricultural and livestock losses and, if uncompensated, will lead to an increase in poverty. Most Santomean households lack insurance or strategies for coping with shocks, with 65 percent reporting either having to reduce spending or having no strategy in the event of a shock.

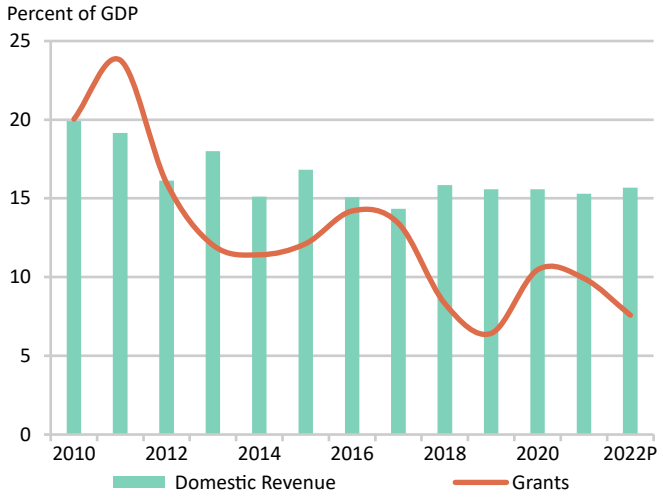
Recent developments

Real GDP growth is estimated to have slowed down from 3.1 percent in 2020 to 1.8 percent in 2021 as international financing from development partners for COVID-19 response declined, continued global travel restrictions dampening the recovery of tourism, and prolonged energy shortages in mid-2021 disrupting economic activity.

The current account deficit (CAD), excluding grants, is expected to have widened given the increase in imports, which was driven primarily by higher oil prices, while low tourism activity undermined receipts. To address the unexpected fiscal expenditures resulting from rainfall and floods, the government drew on the recently allocated SDRs. Thus, net international reserves in early 2022 were reduced to around US$ 30 million (28 percent YoY) and covered two months of imports.

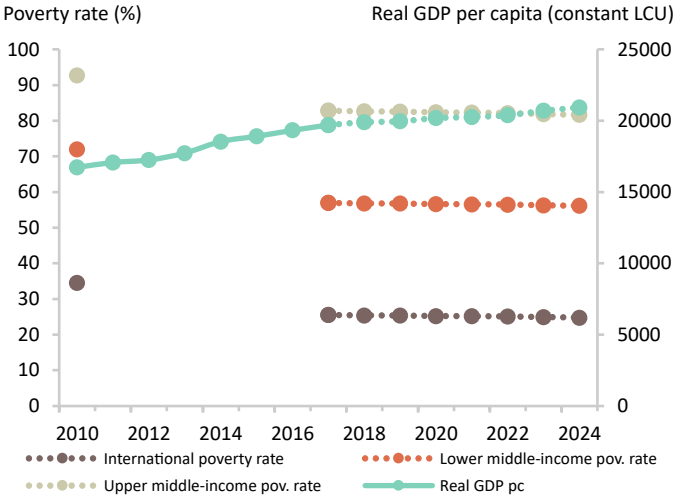
Lower levels of external grants and domestic revenues due the economic deceleration reduced overall fiscal revenues. However, expenditures increased given

FIGURE 1 São Tomé and Príncipe / Domestic revenue and grants



Sources: Ministry of Finance, IMF, World Bank MTI.

FIGURE 2 São Tomé and Príncipe / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

the continued pandemic-related needs. The domestic primary deficit is estimated to have deteriorated to around 3.8 percent of GDP and debt-to-GDP ratio increased to 95.6 percent in 2021, with new debt mostly from multilateral lenders.

Inflation stood at 9.5 percent in 2021 driven by higher food prices, mainly explained by the hike in global commodity prices. The central bank continues to tighten liquidity that was earlier injected to support the economic response to the pandemic: the growth rate of the monetary aggregate (M2) went from an increase of 14 percent in 2020 to a contraction of 4.1 percent in 2021.

To help poor families better absorb shocks and alleviate poverty, the authorities have expanded youth skills training programs and the vulnerable families' cash transfer program. They also extended the emergency COVID-19 shock response program providing cash transfers to an additional 16,000 households in 2021 and 2022, which will help mitigate the impacts of the flood and prevent an increase in poverty.

Outlook

Real GDP growth is expected to increase modestly to 2.8 percent in 2022, driven by higher agricultural production and exports (cocoa and palm oil), a more robust recovery of tourism, and improved industrial activity due to better conditions in the energy sector and the implementation of externally financed projects. Additional fiscal needs resulting from the floods, remaining pandemic-related expenditures, and the slow recovery of domestic revenues are expected to cause a deterioration of internal and external balances in 2022. While inflation dynamics should be generally favourable, the introduction of the VAT may lead to temporary increase in inflation. Food inflation and insecurity may be further exacerbated by the increase in food prices triggered by the economic consequences of the Russian invasion, war and associated sanctions.

As global economic conditions improve, exports and tourism earnings will bolster the current account, although this may be offset by the higher costs of food and fuel imports. Private and official external capital could finance a wider deficit. Addressing prolonged unsettled external arrears in the energy sector is the main challenge for debt sustainability.

Infrastructure destruction and economic disruption due to the December 2021 floods highlight the risks faced by São Tomé from climate events as well as the need to focus on adaptation to climate change as a key priority in the country's development strategy. Uninsured household losses due to the recent flooding and the potential increase in inflation of some basic items, partially due to the current increase in the price of grains, could increase poverty. These effects are mitigated by the continued economic recovery that is expected to improve household earnings and the extension to the temporary cash program that will maintain elevated levels of social protection coverage through end-2022. As a result, poverty projections suggest little movement in overall poverty rates.

TABLE 2 São Tomé and Príncipe / 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	3.1	1.8	2.8	3.0	3.3
Real GDP growth, at constant factor prices	2.5	2.3	1.8	2.8	3.0	3.3
Agriculture	1.0	-1.1	1.1	2.4	3.2	3.5
Industry	0.7	4.4	-0.8	3.8	4.0	4.2
Services	3.2	2.2	2.5	2.6	2.7	3.1
Inflation (Consumer Price Index)	7.7	9.4	9.5	12.5	11.0	9.5
Current Account Balance (% of GDP)	-19.9	-11.4	-10.8	-12.0	-9.6	-8.6
Fiscal Balance (% of GDP)	-2.6	-4.9	-4.5	-3.7	-5.3	-4.7
Debt (% of GDP)	99.9	87.1	95.6	93.3	89.9	85.3
Primary Balance (% of GDP)	-2.0	-4.5	-3.8	-3.3	-4.9	-4.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	25.4	25.2	25.2	25.1	24.9	24.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	56.8	56.6	56.6	56.5	56.3	56.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	82.6	82.4	82.3	82.2	81.9	81.7
GHG emissions growth (mtCO2e)	1.2	0.8	0.9	0.8	1.0	1.1
Energy related GHG emissions (% of total)	39.3	39.6	39.9	40.1	40.3	40.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Projection using point to point elasticity at regional level with pass-through = 0.7 based on GDP per capita in constant LCU. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.
b/ Actual data: 2017. Nowcast: 2018-2021. Forecast are from 2022 to 2024. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.

SENEGAL

Table 1	2021
Population, million	17.2
GDP, current US$ billion	26.6
GDP per capita, current US$	1549.2
International poverty rate ($1.9)[a]	7.6
Lower middle-income poverty rate ($3.2)[a]	34.0
Upper middle-income poverty rate ($5.5)[a]	66.8
Gini index[a]	38.1
School enrollment, primary (% gross)[b]	83.0
Life expectancy at birth, years[b]	67.9
Total GHG Emissions (mtCO2e)	39.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

Growth accelerated to 6.1 percent in 2021, from 1.3 percent in 2020, driven by industrial production and a recovery in services as COVID-19 restrictions eased. The fiscal deficit remained at 6.2 percent of GDP, further increasing the debt-to-GDP ratio. Risks to the outlook include inflationary pressures, potentially exacerbated by a prolonged conflict in Ukraine, regional insecurity, new COVID-19 variants, and extreme climate events.

Key conditions and challenges

Over the last decade, Senegal benefited from enhanced international competitiveness, lower fertility rates, and structural transformation. Pre-COVID, real GDP growth averaged around 6 percent between 2014-19, boosted by investment, private consumption, and a favorable external environment. However, growth was less inclusive, characterized by slow poverty reduction and stagnating inequality. The poverty incidence (using the national poverty line at FCFA 332,539 a year) declined from 43 percent in 2011 to 37.8 percent in 2018/19 – falling short of top performing sub-Saharan African countries, while socio-economic disparities persist. COVID-19 worsened the situation, especially in urban areas, where service activities are concentrated. However, the poverty gap deteriorated more in rural areas, suggesting that the rural poor suffered most. In addition, the pandemic worsened non-monetary poverty with potential long-term negative effects on human capital, notably through lower school attendance.

Structural vulnerabilities hamper Senegal's potential growth. Total factor productivity declined from 2000 to 2014 and grew tepidly from 2015, highlighting both the low level of human capital and structural labor-supply constraints. In addition, insufficient competition, and inadequate financing have constrained the development of the private sector, limiting job creation in productive sectors.

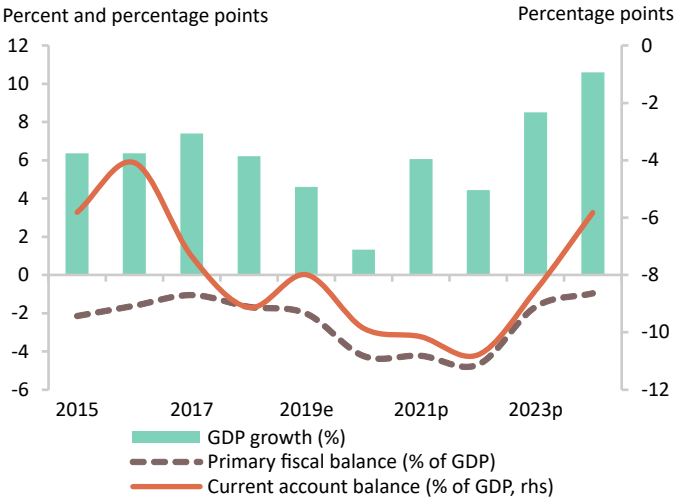
Risks are mainly on the downside. A more prolonged conflict in Ukraine could increase pressure on food and energy prices, further reducing global demand and increasing the risk of food insecurity in the rural regions. The COVID-19 crisis aggravated emerging fiscal vulnerabilities, underlining the importance of transparent, effective fiscal and debt management in the mid-term. In addition, insecurity spreading from the Sahel and political turmoil in neighboring countries could negatively affect economic activity and investments in the eastern provinces and reduce exports. Finally, Senegal is exposed to climate shocks (floods, droughts, and associated health hazards), which could reduce agricultural productivity and adversely impact the recovering tourist industry.

Recent developments

Growth accelerated in 2021 to 6.1 percent (3.3 percent in per capita terms), from 1.3 percent in 2020 (-1.4 percent in per capita terms), driven by private consumption and investment. Industrial production and services were strong while agriculture grew moderately after a record contribution in 2020.

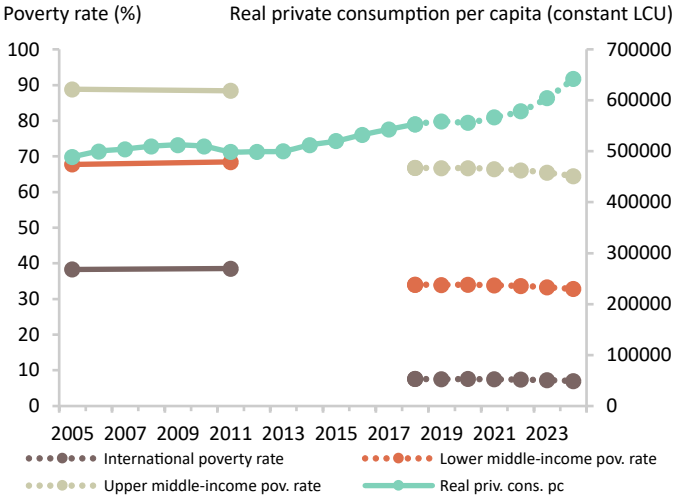
Inflation decelerated from 2.5 in 2020, to 2.2 in 2021 percent, due to a slower increase for food prices and lower telecommunication prices. Food prices contributed 1.4 ppts in 2021, compared to 1.6 ppts in 2020 driven by robust domestic supply in H1-2021, from record production in 2020, and fiscal measures implemented to limit basic food price increases. However, food

FIGURE 1 Senegal / Evolution of main macroeconomic indicators



Sources: Senegalese authorities and World Bank staff calculations.

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



Sources: Senegalese authorities and World Bank staff calculations. Notes: see Table 2.

prices started picking up in June 2021, reaching 3.8 percent y/y in December 2021. The current account deficit (CAD) widened slightly from 9.9 percent of GDP in 2020, to 10.2 percent in 2021, driven by oil and gas investment-related services imports, while key export markets such as tourism remained subdued. The deficit was financed by strong hydrocarbon related foreign direct investment and commercial borrowing. The fiscal deficit remained high for a second consecutive year, at 6.2 percent of GDP in 2021 (6.3 percent of GDP in 2020) as COVID response measures extended into 2021. An increase in tax revenues partly offset a drop in grants, with total expenditures at 25 percent of GDP. The debt-to-GDP ratio reached 72.5 percent of GDP end 2021, a +9.4 ppt increase since 2019.

Senegal's monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO), which maintains a fixed peg between the CFA Franc and the Euro. Its reserves reached 5.8 months of imports of goods and services in 2021, as a result of increased exports, the August 2021 IMF SDR allocation, and portfolio inflows linked to Eurobond issuances in the region (by Benin, Côte d'Ivoire, Senegal and BOAD).

Poverty incidence (USD 3.2 a day, 2011 PPP) is estimated to have remained at around 34 percent in 2021. Spatial inequalities increased as growth drivers were concentrated in urban areas, while rural areas remain more vulnerable to shocks as social safety nets remain nascent.

Outlook

The recovery momentum is jeopardized by the conflict in Ukraine. Real growth is expected to decelerate to 4.4 percent in 2022, as private consumption and investment decline with higher food and energy prices and greater uncertainty. In 2023-2024, growth could average 9.5 percent, driven by the expected start of hydrocarbon production. Inflation is expected to peak at 3.8 percent in 2022, due to trade disruptions exacerbated by the conflict in Ukraine, with energy and food prices rising the most.

The CAD is expected to widen to 10.8 percent of GDP as import prices, notably for energy, sharply increase. Hydrocarbon receipts should significantly improve CAD balances in 2023-2024. The deficit will be financed by oil-sector related foreign investment and a mix of concessional and commercial borrowing.

Fiscal policy is expected to remain expansionary for a third consecutive year as the government tries to shield the population from the impacts of the Ukraine crisis. The fiscal deficit is projected to increase to 6.8 percent of GDP in 2022 up from a projected 4.8 percent before the war, as fuel subsidies rise and import duties and VAT tax holidays are implemented to limit the increase in domestic food prices. The deficit should gradually narrow to reach the WAEMU target of 3 percent by 2024, driven by a revenue based fiscal consolidation. The debt-to-GDP ratio should peak at 73.1 percent in 2022, before gradually decreasing driven by higher nominal GDP and lower fiscal deficits.

WAEMU reserves are expected to fall to around 5.5 months of imports in 2022 and 5.3 months in 2023 and 2024, reflecting faster growth in imports and a reduction in net capital inflows (as a percent of GDP), as the environment for Eurobond issuances remains uncertain. Growth-friendly fiscal consolidation and the implementation of structural reforms are key to maintaining reserves at an optimal level.

The poverty rate is expected to remain stable at around 34 percent in 2022 as growth remains concentrated in urban areas. Recent fiscal measures, including the removal of regressive tax exemptions, should contribute to alleviate poverty. Over the medium-term, poverty rates are expected to gradually revert to pre-crisis levels with more progressive fiscal measures, combined with the extension of social safety nets, preventing vulnerable households from falling into poverty.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.6	1.3	6.1	4.4	8.5	10.6
Private Consumption	3.8	2.2	6.0	4.0	6.1	8.9
Government Consumption	7.5	2.6	5.4	11.5	10.4	7.8
Gross Fixed Capital Investment	10.3	4.3	5.0	3.3	4.3	5.3
Exports, Goods and Services	14.7	-13.2	14.7	9.1	16.9	16.0
Imports, Goods and Services	6.8	7.0	8.0	7.5	7.0	6.8
Real GDP growth, at constant factor prices	4.5	1.9	5.8	4.4	8.5	10.6
Agriculture	4.3	12.8	-1.0	5.1	5.4	6.5
Industry	5.0	-0.4	10.9	5.3	10.0	12.8
Services	4.3	-0.1	5.7	3.8	8.7	10.8
Inflation (Consumer Price Index)	1.0	2.5	2.2	3.8	2.9	2.6
Current Account Balance (% of GDP)	-8.0	-9.9	-10.2	-10.8	-8.5	-5.8
Fiscal Balance (% of GDP)	-3.9	-6.3	-6.2	-6.8	-3.9	-3.0
Debt (% of GDP)	63.1	67.8	72.5	73.1	69.7	64.5
Primary Balance (% of GDP)	-2.0	-4.2	-4.2	-4.7	-1.7	-1.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	7.6	7.6	7.5	7.4	7.3	7.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	33.9	34.0	33.8	33.7	33.3	32.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	66.7	66.7	66.4	66.1	65.4	64.5
GHG emissions growth (mtCO2e)	6.2	2.9	4.1	3.7	6.4	6.3
Energy related GHG emissions (% of total)	36.1	36.4	37.4	38.2	39.9	41.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2011-ESPS-II and 2018-EHCVM.Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using point to point elasticity at regional level with pass-through = 0,7 based on private consumption per capita in constant LCU.

SEYCHELLES

Table 1	2021
Population, million	0.1
GDP, current US$ billion	1.4
GDP per capita, current US$	13991.5
International poverty rate ($1.9)[a]	0.5
Lower middle-income poverty rate ($3.2)[a]	1.1
Upper middle-income poverty rate ($5.5)[a]	5.2
Gini index[a]	32.1
School enrollment, primary (% gross)[b]	100.8
Life expectancy at birth, years[b]	73.9
Total GHG Emissions (mtCO2e)	0.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

Real GDP increased by 7.9 percent in 2021 and is projected moderate to 4.6 percent in 2022 as tourist arrivals decline because of the impact of the Russian invasion of Ukraine. In the medium-term the fiscal balance is expected to return to a sustainable path as the government undertakes fiscal consolidation and the economy continues to recover. Poverty declined in 2021 due to improvement in economic growth.

Key conditions and challenges

Tourism and fisheries are the key sectors of the Seychelles' economy. The fishing industry, which is host to one of the largest tuna canneries in the world, contributes to between 8 and 20 percent to GDP annually and the tourism sector contributes 30 percent to GDP. The country is also dependent on imports. This lack of economic diversification exposes Seychelles to external shocks. These shocks are transmitted through disruptions in international travel and tourism demand, as well as through fluctuations in fishing stocks and instabilities in the price of essential commodities such as food and fuel prices.

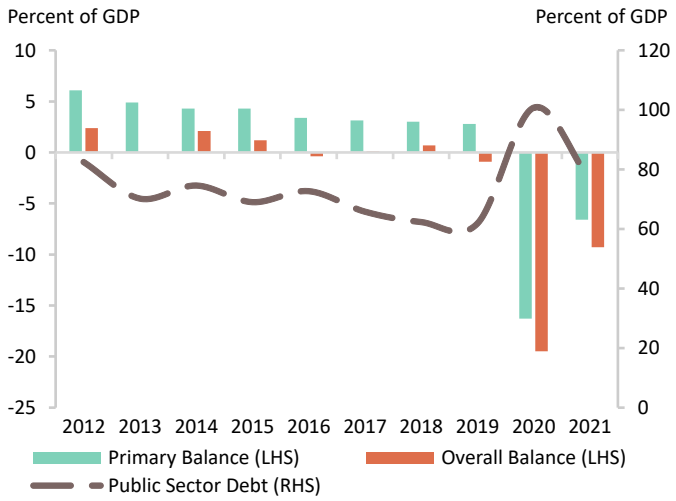
Before the pandemic, Seychelles was on a steady path to decrease poverty, reaching around 5.0 percent in 2019 (when measured against the poverty line for upper middle-income countries of USD 5.5 a day per capita in PPP terms). While the decline in the poverty rate has been driven by a rise in incomes from paid employment and self-employment and substantial benefits from various social protection programs, salary cuts and job losses in the tourism industry due to COVID-19 increased poverty rates to 6.6 percent in 2020. To limit the poverty impacts of the crises, the government introduced several social protection programs and some low-income households opened temporary roadside stalls to sell fruits and seafood products to cope with the shock. As tourism started to return, social protection programs were ended as they became a burden to the national budget. While the end of social protection programs reduced government fiscal pressures, there are reasons to believe that poverty may have been negatively affected.

The recovery process may be hindered by the emergence of new COVID-19 variants. In addition, Russia's attack on Ukraine is expected to increase the concerns around inflation since Russia is among the world's biggest oil exporters and a major grain exporter along with Ukraine, whose Black Sea ports have been closed to shipping.

Recent developments

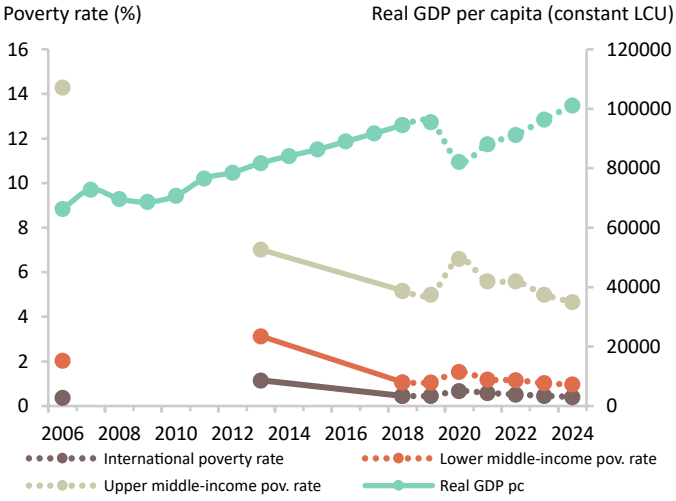
Economic growth is estimated at 7.9 percent for 2021 due primarily to a recovery in the tourism sector. Tourist arrivals rebounded in 2021 following the reopening of borders in late March 2021, and the emergence of new tourist markets (Russia, UAE and Israel). With the fishery sector selling about 50 percent of the domestic artisanal catches to resorts and restaurants, the fishery sector grew by 2.5 percent in 2021 as the tourism sector recovered. Private consumption also contributed to the recovery in the economy. The average inflation rate was 10.0 percent in

FIGURE 1 Seychelles / Fiscal balance and public sector debt



Sources: WDI and World Bank staff estimates.

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



Source: World Bank. Notes: see table 2.

2021 due to increased domestic demand and rising imported inflation due to tight supply conditions. Despite a gradual revival of tourist activity, the current account deficit remained high at -20.3 percent of GDP in 2021 (compared to -29.7 percent in 2020). Gross international reserves stood at US$ 702 million at end-December 2021 (4.8 months of imports). Due to the withdrawal of the COVID-19 fiscal support package, the fiscal balance deficit improved from 17.8 percent of GDP in 2020 to 9.1 percent of GDP in 2021. The decline in transfers (to around 9.0 percent of GDP in 2021 from 18.0 percent of GDP in 2020), reflects the removal of COVID-19 measures such as the guarantee of salaries to the private sector and the increase in allocation to social protection to finance the unemployment relief scheme program which were all stopped in early 2021.

As a result of the increase in visitor arrivals, poverty is expected to decrease from 5.3 percent in 2021 to 5.2 percent in 2022. However, due to the end of the financial assistance for job retention program that the government had introduced to mitigate the poverty impacts of COVID-19, poverty numbers for 2021 and 2022 could be higher than the above projection.

Outlook

Economic growth is projected to average 5.1 percent over the medium-term. Given the structure of the domestic economy, its recovery is conditional on external developments, specifically the revival of the global travel and tourism industry. Tourist arrivals are projected to moderate to a growth rate of 14 percent in 2022, relative to 59 percent in 2021 (due to projected lost in tourist arrivals from Russia and Ukraine (23 percent of arrivals in 2021)) and the economy is projected to grow by 4.6 percent. In 2023 and 2024, economic growth is projected to be 5.6 percent and 5.0 percent, respectively, as tourism continues to rebound. Food and oil prices are expected to remain elevated in 2022 as the Russian invasion of Ukraine continues and cause supply disruptions in commodity (wheat and maize) and fuel.

The fiscal deficit is expected to contract over the medium-term, as the government continues fiscal adjustment. The GOS introduced expenditure-saving measures in 2021 that are expected to continue in the medium term, including: limiting new recruitments to key positions in certain ministries and departments; freezing salaries for public service employees; freezing long term service allowance; and limiting the introduction of new schemes of government service. In the medium-term, revenue collection will increase, driven by a resumption of economic activities as well as measures to improve tax policy such as: (i) the prevention of base erosion of the corporate tax base through international profit shifting; (ii) streamlining of VAT exemptions.

Poverty is projected to continue to decline gradually to 5.1 percent and 5.0 percent by 2023 and 2024 ($5.5 a day per capita line), respectively. Nevertheless, this depends on the ability of the tourism and services sectors to fully bounce back to their pre-COVID-19 levels over the next few years.

TABLE 2 Seychelles / 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	-13.3	7.9	4.6	5.7	5.0
Private Consumption	4.8	-10.8	8.8	6.8	7.0	4.7
Government Consumption	-0.2	4.3	2.3	0.4	-3.8	4.0
Gross Fixed Capital Investment	-2.7	-37.7	22.1	7.1	9.7	3.5
Exports, Goods and Services	2.0	-39.6	12.2	16.8	17.8	17.4
Imports, Goods and Services	0.9	-38.2	14.3	15.3	14.4	14.9
Real GDP growth, at constant factor prices	1.8	-13.4	7.9	4.6	5.6	5.0
Agriculture	1.1	-0.2	3.1	1.0	1.4	1.1
Industry	2.1	0.7	3.6	2.4	2.0	2.0
Services	1.7	-15.4	8.7	5.0	6.2	5.5
Inflation (Consumer Price Index)	2.0	1.2	10.0	5.7	1.6	1.2
Current Account Balance (% of GDP)	-18.8	-29.7	-20.3	-27.7	-23.0	-18.4
Net Foreign Direct Investment (% of GDP)	17.7	10.1	13.1	11.0	14.6	13.1
Fiscal Balance (% of GDP)	1.0	-17.8	-9.1	-5.7	-1.6	0.9
Debt (% of GDP)	58.7	102.3	76.5	79.6	76.8	73.5
Primary Balance (% of GDP)	3.6	-14.3	-6.6	-3.2	0.9	3.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.5	0.7	0.6	0.5	0.5	0.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	1.1	1.5	1.2	1.2	1.0	1.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	5.0	6.6	5.3	5.2	5.1	5.0
GHG emissions growth (mtCO2e)	3.7	-2.8	7.3	5.8	6.3	5.3
Energy related GHG emissions (% of total)	79.8	80.6	81.5	82.1	82.8	83.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2018-HBS. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

SIERRA LEONE

Table 1	2021
Population, million	8.1
GDP, current US$ billion	4.1
GDP per capita, current US$	504.4
International poverty rate ($1.9)[a]	43.0
Lower middle-income poverty rate ($3.2)[a]	76.0
Gini index[a]	35.7
School enrollment, primary (% gross)[b]	141.3
Life expectancy at birth, years[b]	54.7
Total GHG Emissions (mtCO2e)	11.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

After contracting in 2020, Sierra Leone's economy grew by 3.1 percent in 2021, driven mainly by agriculture and mining. The fiscal deficit remained elevated, despite improvements in revenues, driven by overruns in recurrent spending. With growth averaging 4.4 percent during the medium-term, poverty is expected to return to its 2019 level by 2023, but high inflation is eroding real incomes and may affect the outlook. The Ukraine-Russia crisis presents risks to the outlook primarily through fluctuations in commodity prices.

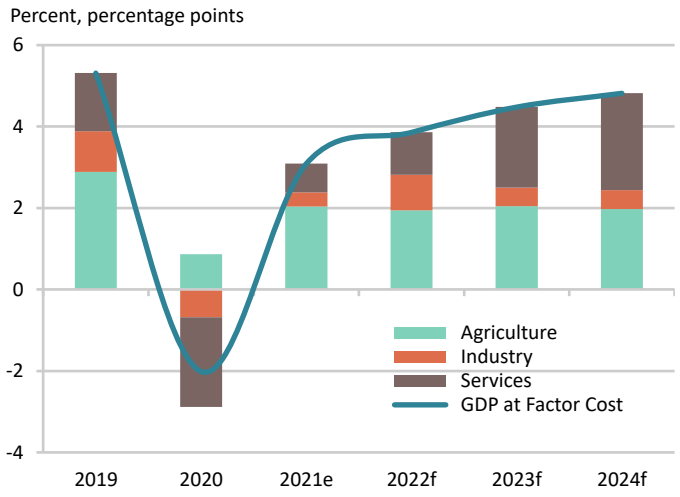
Key conditions and challenges

Sierra Leone's economy is highly dependent on mining and agricultural activities, making it vulnerable to external (e.g., commodity prices and global demand) and domestic shocks (e.g., weather). Prior to the Ebola epidemic, mining, primarily iron ore, accounted for 15 percent of GDP and about 80 percent of merchandise exports. However, the sector has exhibited significant volatility in recent years, with iron ore output declining to almost zero in 2018–20. Thus, while growth averaged 4.2 percent over the past decade, it has fluctuated widely (by 10.3 percent from the mean, two-thirds of the time). In 2015, the economy was hit simultaneously by a collapse in global commodity prices and the Ebola epidemic. In 2020, the COVID-19 pandemic also affected domestic and external demand concomitantly. Mobility restrictions adversely impacted private sector employment and incomes, especially in urban areas, leading to a likely increase in poverty. The authorities have struggled to restore macroeconomic stability and fiscal balances since the Ebola shock. Since 2014, the budget deficit has exceeded 5.5 percent of GDP, due to low domestic revenue mobilization (average of 12.6 percent of GDP) and expenditure overruns (average of 22.0 percent of GDP). Sierra Leone is at high risk of debt distress, with debt dynamics partly affected by increased reliance on expensive domestic borrowing. The ratio of interest payments to domestic revenue was estimated at 19.8 percent in 2020. Inflation has remained elevated, largely in double digits, raising concerns for food security. Economic growth has translated into modest per capita income gains because of rapid population growth (averaging 2.1 percent per annum). About 80 percent of the population is under the age of 35 years, making efforts to accelerate job creation and increase access to public services (e.g., healthcare and education) a critical challenge. Poverty (measured using the international poverty line of US$1.9 per day, 2011 PPP) fell by 11.7 percentage points over the last decade to 43 percent in 2018. Since three-quarters of the poor live in rural areas, poverty among subsistence farmers remains a major challenge.

Recent developments

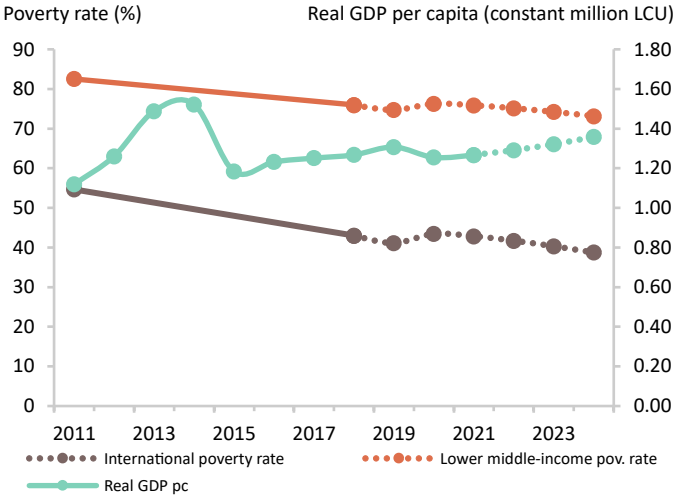
After contracting by 2 percent in 2020, the economy grew by 3.1 percent in 2021, reflecting the easing of mobility restrictions as well as fiscal stimulus and structural reform efforts. Agriculture contributed more than half of overall growth (1.9 percentage points) due to increased private sector participation in input market. Both industry and services contributed 0.6 percentage points each, reflecting a gradual recovery of mining and manufacturing as well as trade and tourism. On the demand side, growth was driven by final consumption and gross investments (mainly public investment following the resumption of capital projects). Headline

FIGURE 1 Sierra Leone / Real GDP growth and sectoral contributions to real GDP growth



Sources: StatSL and World Bank.

FIGURE 2 Sierra Leone / Actual and projected poverty and real GDP per capita



Source: World Bank. Notes: See Table 2.

inflation declined to 8.9 percent in March 2021, before it accelerated to 17.9 percent (year-on-year) by end-December, reflecting global food price increases as well as a combination of recovering domestic consumer demand and enduring supply chain disruptions. High food inflation increased the share of the food insecure population from 50 percent (3.6 million) in 2015 to 57 percent (4.7 million) in 2020. The share of the population living in poverty is estimated to have increased during the early stages of the pandemic in 2020 (especially in urban areas among the self-employed) by about 2 percentage points, before it fell marginally in 2021.

The overall fiscal deficit increased slightly by 0.1 percentage points to 5.9 percent of GDP in 2021, mainly due to higher-than-expected expenditure on wages, goods and services, and subsidies for electricity generation. The expenditure overruns were aggravated by inflation as the price of goods and services rose. However, revenue collection improved remarkably, and tax revenue reached 15.3 percent of GDP, up from 13.8 percent of GDP in the previous year, due in part to one-off mining revenues. Public debt increased from 76.3 percent in 2020 to an estimated 76.9 percent of GDP in 2021, mainly because of new multilateral borrowing. The current account deficit widened with the recovery in domestic demand and the depreciation of the Leone (by 11 percent against US dollars, and 9 percent in the parallel market). However, gross external reserves increased to US$933 million (6.1 months of imports), with the new International Monetary Fund Special Drawing Rights allocation (US$281 million) enhancing the country's ability to cushion external shocks.

Outlook

The economy is expected to gradually recover, mainly due to mining and agriculture. Real GDP growth is projected to average 4.4 percent over the medium term (2022–24), with contributions from investments (especially in mining and agriculture) on the demand side, and from agriculture, tourism, construction, and mining and manufacturing on the supply side. Headline inflation is expected to remain elevated in the coming years and decline gradually to single digits as domestic food production increases by 2024 and offsets the effect of high international prices. A sustained increase in fertilizer and fuel prices in 2022 due to the ongoing Ukraine-Russia conflict is likely to hamper agricultural production. While strong overall growth may reduce poverty, headwinds from inflation, including the rise of fuel and fertilizer prices, may dampen progress, keeping the poverty rate above the level recorded in 2019 for longer than expected. The overall fiscal deficit is projected to narrow to 3.0 percent of GDP by 2024, driven by gains in domestic revenue mobilization, expenditure rationalization, and public financial management reforms. Fiscal policy would focus on protecting social expenditures to support human capital development. The current account deficit is expected to narrow to 12.9 percent of GDP by 2024 as the recovery in the mining sector boosts export growth.

The outlook is subject to significant downside risks and uncertainties related to the Ukraine-Russia crisis, the 2023 general elections, and the path of the pandemic. Wide fluctuations in commodity prices due to the war in Ukraine can pose both gains and losses for the economy, while a sharp rise in global food and fuel prices poses a risk of higher inflation and potentially increased food insecurity. Higher domestic inflation can cause expenditure overruns, while higher fuel prices, if not passed through to consumers, can put pressure on the government's subsidy bill. On the upside, a sharp increase in the price of metals such as iron ore can: (i) significantly affect the mining outlook; (ii) present terms of trade gains; (iii) bolster the demand for Sierra Leone's iron ore as the world searches for alternative sources; and (iv) increase government revenue from mining.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.3	-2.0	3.1	3.9	4.4	4.8
Private Consumption	4.3	4.3	4.2	6.2	4.9	5.9
Government Consumption	5.1	2.7	0.1	0.0	15.7	0.9
Gross Fixed Capital Investment	-34.2	-4.1	7.6	9.8	13.1	12.4
Exports, Goods and Services	-1.6	-9.8	40.5	18.0	9.5	10.1
Imports, Goods and Services	-7.0	7.5	18.4	12.4	13.1	7.8
Real GDP growth, at constant factor prices	5.3	-2.0	3.1	3.9	4.4	4.8
Agriculture	5.4	1.6	3.7	3.5	3.6	3.6
Industry	10.9	-7.1	3.8	9.4	4.7	4.7
Services	3.8	-5.9	2.0	2.9	5.5	6.7
Inflation (Consumer Price Index)	14.8	13.5	11.9	14.2	12.1	10.9
Current Account Balance (% of GDP)	-15.3	-7.0	-13.7	-15.9	-13.9	-12.9
Net Foreign Direct Investment (% of GDP)	7.9	3.4	8.5	8.0	6.8	6.2
Fiscal Balance (% of GDP)	-3.1	-5.8	-5.9	-5.0	-4.2	-3.0
Debt (% of GDP)	70.9	76.3	76.9	76.8	76.8	75.3
Primary Balance (% of GDP)	-0.4	-2.7	-2.8	-2.0	-1.4	-0.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	41.1	43.4	42.8	41.7	40.3	38.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	74.7	76.3	75.9	75.2	74.2	73.1
GHG emissions growth (mtCO2e)	3.1	1.4	3.0	3.0	2.7	2.8
Energy related GHG emissions (% of total)	15.1	14.6	14.5	14.4	14.3	14.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2011-SLIHS and 2018-SLIHS. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2011-2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

SOMALIA

Table 1	2021
Population, million[a]	15.2
GDP, current US$ billion	7.3
GDP per capita, current US$	480.0
International poverty rate ($1.9)[b]	69.1
Gini coefficient[b]	37.0
School enrollment, primary (% gross)[c]	33.0
Life expectancy at birth, years[d]	57.4

Sources: World Development Indicators (WDI), World Bank, UNFPA, and Macro Poverty Outlook.
a/ Estimates based on 2013 population estimates by UNFPA and assumes an average annual population growth of 2.8 percent.
b/ Most recent value (2017).
c/ Somali Poverty and Vulnerability Assessment Report (World Bank, 2019).
d/ Life expectancy for 2019 from WDI.

The economy is showing modest signs of recovery with real GDP growth estimated at 2.2 percent in 2021, following a contraction of 0.3 percent in 2020. Increased private sector activity in urban areas, higher remittance inflows, and a rebound of exports are driving the recovery. However, recurrent climatic shocks and political uncertainty are affecting the economy and wellbeing of the population, contributing to forced displacement and widespread poverty.

Key conditions and challenges

While Somalia is making gradual progress towards building its foundational institutions, key drivers of fragility prevail. Decisions on power and resource sharing between the Federal Government and the regions are still to be made, particularly in sectors such as security and natural resources. Decades of conflict destroyed infrastructure, led to a flight of human capital, and eroded the social contract. The current administration's term ended in February 2021, but disagreements over election modalities have led to delays in the elections and contributed to rising tensions between the regions.

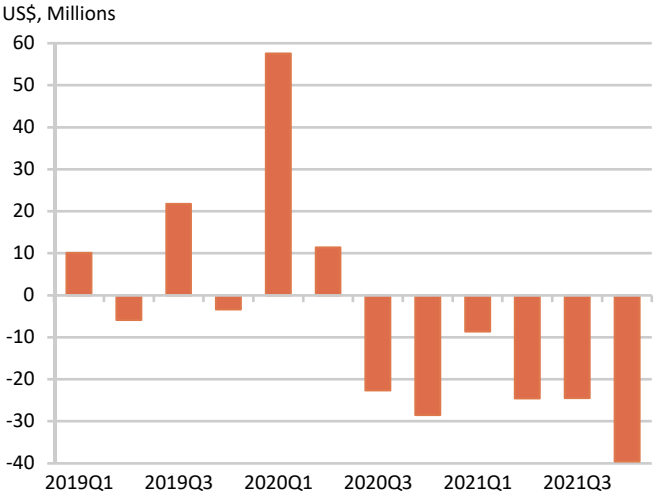
Poverty levels are high and widespread. The international poverty rate (using the US$1.90/person/day poverty line) was estimated at 69 percent in 2017. Although remittance inflows support household consumption, most Somalis will remain poor without growth in per capita income. External shocks such as climatic disasters and the COVID-19 pandemic have led to a loss of livelihoods, increased food insecurity, and contributed to forced displacement.

Economic growth has been low and volatile due to persistent insecurity and climatic shocks, leading to insufficient job creation. Real GDP growth averaged 2.9 percent between 2014 to 2021, on par with population growth rate. Overall employment remains low, with just over half of the population participating in the labor market. The traditional economic activities such as livestock production and the booming new services sectors such as telecommunications provide insufficient jobs to move people out of poverty. With no monetary policy instruments and almost no fiscal space, Somalia lacks the policy options to respond to shocks or to invest in human and physical capital. Somalia is addressing high levels of indebtedness through the Heavily Indebted Poor Countries (HIPC) initiative, which provides an anchor for implementing structural reforms and accessing financing for investments required to stimulate growth and reduce poverty.

Recent developments

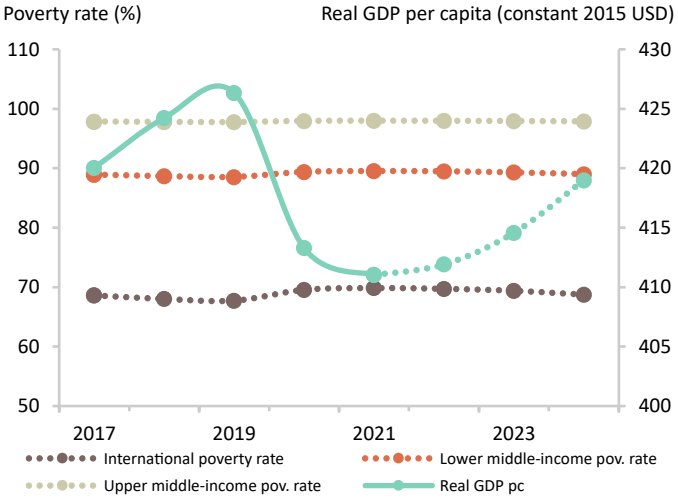
The economy made a modest recovery in 2021, growing by an estimated 2.2 percent following a contraction of 0.3 percent in 2020. By February 2022, only 5.5 percent of the population was fully vaccinated, raising the prospect of a lingering COVID-19 pandemic. Economic activities in cities are the main drivers of growth and higher demand for imported consumer goods (y-o-y increase of 9 percent in 2021) is supporting consumption and investment. Credit to the private sector grew by over 40 percent and remittance inflows increased by 30 percent in 2021 compared to the previous year. Exports in 2021 have recovered to the pre-COVID-19 level, although a severe drought muted performance in the fourth quarter. Inflation has remained below 5 percent due

FIGURE 1 **Somalia** / Overall budget balance



Sources: Somalia authorities and World Bank staff calculations.

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



Source: World Bank. Notes: see table 2.

to de facto dollarization. However, the worsening drought and the Ukraine/Russia crisis are pushing up prices and worsening the external position. A 35 percent increase in both wheat and oil prices will widen the import bill by 2.2 percent of GDP in 2022.

The delayed election is contributing to fiscal challenges. While domestic revenue mobilization improved in 2021 (rising by 9 percent compared to 2020), multilateral partners have withheld budget support until the elections are completed. Total expenditures outstrip revenue collection (see Figure 1) leading to liquidity pressures which were addressed through the 2021 SDR allocation. To mitigate the impact of recent climatic shocks, the government's social safety net program, Baxnaano, has been supported by development partners. The need for humanitarian assistance remains critical as over 4.1 million people are estimated to be food insecure.

Poverty in Somalia is deep and widespread, increasing susceptibility to negative shocks. 70 percent of the population are projected to have lived below the poverty line in 2021 with the majority of the population having experienced a reduction in income compared to pre-pandemic levels.

Outlook

The COVID-19 vaccination rate is expected to pick up with increasing support from development partners in the health sector. The economy is projected to grow over the medium-term, but risks remain significant. Real GDP growth is estimated at 3.0 percent in 2022 and is projected to reach 3.5 percent in 2023. The outlook assumes sustained growth in remittances which will boost investment and consumption; continued social protection measures to cushion household incomes, especially among the vulnerable; as well as elections dividends which will support improved business confidence and unlock donor flows. Economic reforms and increased public investment should attract FDI and encourage broad-based private sector activity, which will gradually boost Somalia's low domestic productive capacity. Climate shocks, political risks, and insecurity pose significant challenges to growth prospects. A prolonging of the Russian invasion in Ukraine could further exacerbate inflationary pressures for food and fuel, which are likely to hurt the poor, and increase the overall import bill.

While the economic rebound has pushed nominal GDP per capita to US$480 in 2021 from US$471 in 2020, real per capita GDP declined by -0.5 percent per year on average between 2017 and 2021, depressing living standards for most Somalis. The international poverty rate is projected to remain at around 70 percent between 2022 and 2024. Accelerating the pace of poverty reduction will require policy interventions and public investments that raise productivity, create jobs, and expand pro-poor programs which focus on women and youth.

TABLE 2 Somalia / Macro poverty outlook indicators (percent of GDP unless indicated otherwise)[a]

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.3	-0.3	2.2	3.0	3.5	3.9
CPI Inflation, annual percentage change	4.8	4.2	4.6	5.0	4.0	3.8
Current Account Balance	-10.9	-11.7	-13.2	-12.9	-14.4	-15.3
Trade balance	-66.3	-66.6	-69.4	-73.8	-76.2	-75.7
Private remittances	24.4	23.2	28.7	32.3	32.1	31.5
Official grants	29.4	29.9	28.2	29.8	30.8	30.1
Fiscal Balance[b]	0.3	0.1	-1.3	0.0	0.1	-1.1
Domestic revenue	3.5	3.0	3.1	3.2	3.7	4.0
External grants	1.7	4.2	2.0	3.3	3.5	2.3
Total expenditure	4.9	7.1	6.5	6.5	7.0	7.3
Compensation of employees	2.5	3.3	3.4	3.2	3.0	3.1
External debt	82.0	65.0	61.8	58.0	54.4	49.9
International poverty rate ($1.9 in 2011 PPP)[c,d]	67.7	69.5	69.8	69.7	69.4	68.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	88.5	89.4	89.5	89.5	89.3	89.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	97.8	98.0	98.0	98.0	97.9	97.9

Sources: Federal Government of Somalia, IMF, and World Bank staff estimates.
Notes: e = estimate; f = forecast.
a/ GDP baseline estimates 2019-20 are by Somalia National Bureau of Statistics (SNBS, June 2021).
b/ Federal Government of Somalia (FGS).
c/ Calculations based on 2017 SHFS-wave 2. Actual data: 2017. Nowcast: 2018-20. Forecasts are from 2022-24.
d/ Projection using neutral distribution (2017) with pass-through = 1 based on private consumption per capita in constant US dollars.

SOUTH AFRICA

Table 1	2021
Population, million	60.0
GDP, current US$ billion	418.1
GDP per capita, current US$	6963.9
International poverty rate ($1.9)[a]	18.7
Lower middle-income poverty rate ($3.2)[a]	37.3
Upper middle-income poverty rate ($5.5)[a]	56.9
Gini index[a]	63.0
School enrollment, primary (% gross)[b]	98.4
Life expectancy at birth, years[b]	64.1
Total GHG Emissions (mtCO2e)	565.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2011 PPPs.
b/ Most recent WDI value (2019).

The South African economy rebounded by 4.9 percent in 2021, driven by a more favorable global environment and less severe economic impact of domestic COVID-19 waves. However, the recovery has been jobless so far. Poverty has reached levels not seen in over a decade, which puts further pressure on budget spending. Domestic growth drivers remain weak and structural reforms need to continue to achieve higher growth and job creation.

Key conditions and challenges

The global environment – especially favorable commodity prices – has driven South Africa's economic recovery so far, supporting GDP growth, the current account, and fiscal revenues. Households' consumption growth has recovered from last year's recession but the deteriorated labor market is likely to hamper a more dynamic and sustainable growth trend. Investment continues to be weak amid persistent structural constraints, such as electricity outages. Despite slow vaccination uptake (29.6 percent of the population is fully vaccinated), the last wave of COVID-19 infections, driven by the Omicron variant, has had limited health and economic impacts. However, some sectors, such as tourism, remain affected by the global pandemic.

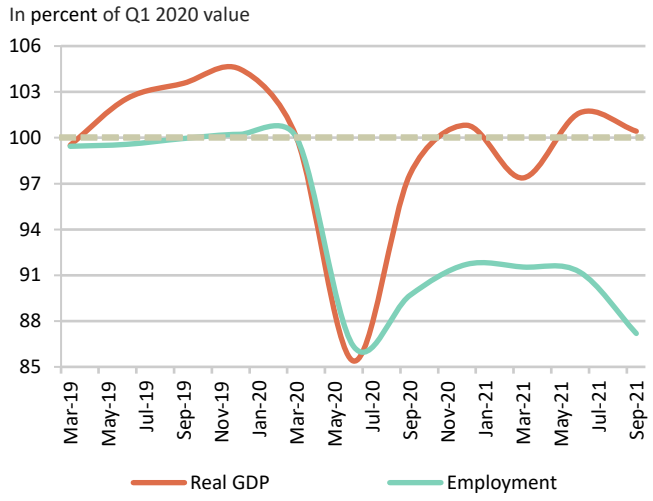
The recovery has not improved social outcomes. Net jobs have continued to contract over Q1-Q3 2021. The unemployment rate reached 34.9 percent end-September 2021. Labor force participation is also low, resulting in only about 1 in 3 South African of working age having a job. Consequently, poverty rates have climbed to the levels of more than a decade ago, undoing years of progress. This social hardship translated into civil unrest in July 2021, causing significant economic damage and putting pressure on the government to increase social support, with calls from different stakeholders to introduce basic income support.

South Africa's economy remains fragile and is only expected to get back to its 2019 real GDP level this year. After more than a decade of slow growth, real GDP per capita is close to its 2015 level. As domestic growth drivers remain weak, South Africa is vulnerable to changes in the global environment, including external demand and prices, inflationary pressures, and financing conditions, especially in the context of the Russia-Ukraine war and associated sanctions from other countries. Elevated global oil prices are expected to translate into more inflation, which affects the poor disproportionately. Higher metal prices should help cushion the impact on the trade balance and growth and support fiscal revenue. Domestically, additional waves of COVID-19 infections could translate into further job losses. A lack of improvement in living standards would threaten social stability and put additional pressure on already strained public finances.

Recent developments

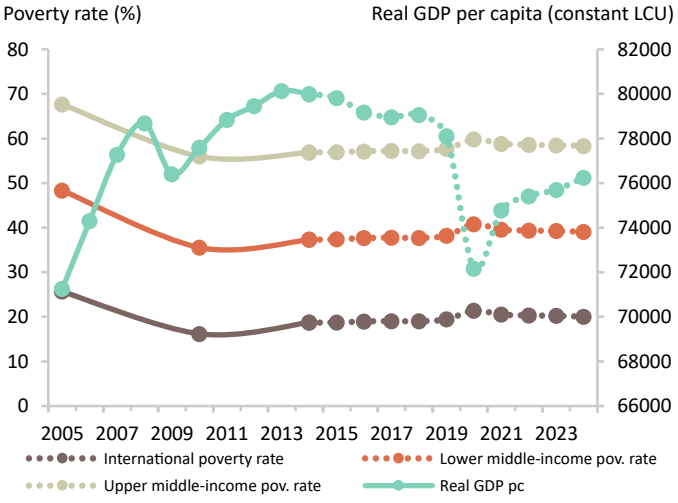
South Africa's economy started to recover in 2021, with GDP growth reaching 4.9 percent. Buoyed by favorable global demand and prices, the mining sector grew by 11.8 percent. Terms of trade are more than 10 percent higher than their pre-pandemic level, supporting the external sector. The merchandise trade balance recorded a surplus of 7.2 percent of GDP in 2021.

FIGURE 1 **South Africa** / Real GDP and employment



Sources: Stats SA, World Bank.

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



Source: World Bank. Notes: see table 2.

South Africa's inflation rate has been rising but pressures have been more muted than in other emerging countries, with inflation expectations well anchored within the Central Bank's target band of 3-6 percent. Average inflation reached 4.6 percent last year while core inflation was 3.1 percent. This allowed the South African Reserve Bank (SARB) to maintain an accommodative monetary policy stance. It only started hiking the key repo rate end-2021. After three 25 basis points increases, the monetary policy rate stands at 4.25 percent.

Boosted by higher growth and commodity prices, fiscal revenue outperformed budget forecasts. Tax revenue is estimated at R1.55 trillion for fiscal year 2021, R182 billion more than in the budget (+2.9 percent of GDP). This windfall has been used to increase spending, notably R38 billion (about 0.6 percent of GDP) to mitigate the persistent effects of the pandemic after the July unrest, and to reduce the fiscal deficit, now projected at 5.8 percent of GDP (against 7.8 percent of GDP in the last MPO).

Outlook

Hampered by persistent structural constraints, GDP growth is expected to slow down to 2.1 percent in 2022 and to average 1.7 percent over the medium term. Weak investment, electricity shortages, transport and logistical costs, and bottlenecks continue to weigh on economic activity. Important long-standing steps were taken last year, including the increase in the licensing threshold for embedded electricity generation. However, more needs to be done to stimulate private investment and job creation. Inflation is projected at 5.5 percent in 2022, before returning to the SARB target rate in 2023-2024.

Unemployment is expected to remain elevated, projected at 33.4 percent in 2022, which will limit the potential for progress on poverty and inequality. The upper-middle-income-country poverty rate is estimated to reach 58.6 percent this year and decline only marginally to 58.3 percent in 2024. To mitigate theses social impacts, Government has extended the Social Relief of Distress grant ("COVID-19" grant) provided to unemployed working-age adults by another year, for an estimated cost of R44 billion.

Despite recent improvements, South Africa's public finances remain in a difficult situation. The revenue performance is expected to be temporary. The government has an ambitious consolidation plan, which mostly relies on controlling the public sector wage bill. Slippages coming from pressures from the wage bill, financially distressed SOEs, and social protection would put fiscal sustainability at risk. This would also crowd-out developmental expenditure, as debt service costs are already the fastest spending category and represent about 15 percent of total spending. Prioritizing the allocation of limited resources where they can have the highest impact will be critical to balance fiscal sustainability and developmental needs.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	0.1	-6.4	4.9	2.1	1.5	1.8
Private Consumption	1.1	-6.5	5.7	3.0	2.8	2.4
Government Consumption	2.7	1.3	0.0	-0.9	-1.6	0.6
Gross Fixed Capital Investment	-2.4	-14.9	2.0	5.5	4.4	4.4
Exports, Goods and Services	-3.4	-12.0	9.9	2.5	2.5	3.0
Imports, Goods and Services	0.5	-17.4	9.4	6.0	5.0	5.0
Real GDP growth, at constant factor prices	0.1	-5.9	4.8	2.1	1.5	1.8
Agriculture	-6.3	13.4	8.3	2.5	2.5	2.5
Industry	-1.7	-12.6	6.2	1.6	1.2	1.2
Services	0.9	-4.3	4.2	2.3	1.6	2.0
Inflation (Consumer Price Index)	4.1	3.3	4.6	5.5	4.3	4.5
Current Account Balance (% of GDP)	-2.6	2.0	3.7	0.4	-1.0	-1.5
Net Foreign Direct Investment (% of GDP)	0.5	1.5	9.5	0.4	0.5	0.5
Fiscal Balance (% of GDP)	-5.1	-10.0	-5.8	-6.2	-5.9	-5.5
Debt (% of GDP)	57.4	70.7	69.1	73.7	76.6	78.4
Primary Balance (% of GDP)	-1.5	-5.8	-1.4	-1.5	-0.9	-0.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	19.4	21.4	20.5	20.3	20.3	20.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	38.2	40.8	39.6	39.4	39.3	39.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	57.7	59.8	58.8	58.6	58.5	58.3
GHG emissions growth (mtCO2e)	4.5	0.9	3.1	1.4	0.3	0.1
Energy related GHG emissions (% of total)	83.8	83.8	84.4	84.3	84.1	83.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2014-LCS. Actual data: 2014. Nowcast: 2015-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2014) with pass-through = 0.87 based on GDP per capita in constant LCU.

SOUTH SUDAN

Table 1	2021
Population, million	11.4
GDP, current US$ billion	5.0
GDP per capita, current US$	437.3
International poverty rate ($1.9)[a]	76.5
Lower middle-income poverty rate ($3.2)[a]	91.7
Upper middle-income poverty rate ($5.5)[a]	97.8
Gini index[a]	44.2
School enrollment, primary (% gross)[b]	73.0
Life expectancy at birth, years[b]	57.8
Total GHG Emissions (mtCO2e)	71.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2011 PPPs.
b/ WDI for School enrollment (2015); Life expectancy (2019).

South Sudan's recovery is constrained by falling oil production and climate shocks. Consequently, the economy is projected to contract by 0.8 percent in FY2021/22 despite higher oil prices. Food insecurity deteriorated, and poverty is estimated to increase for the second consecutive year, reaching 80 percent in FY2021/22. Living conditions continue to be impacted by violence, displacement, climate shocks, and inadequate service delivery.

Key conditions and challenges

South Sudan is at a crossroads in its recovery, reconstruction, and development path. Having gained independence in 2011 in what was expected to be a new dawn for the conflict-torn country, optimism was high on the back of high commodity prices, abundant natural resources, and international goodwill. However, weak institutions and recurring cycles of conflict have curtailed progress. Initial peace efforts proved futile as successive peace agreements collapsed and the country relapsed to conflict in 2013 and again in 2016. The conflict precipitated a macroeconomic crisis and economic decline with widening fiscal deficits, high and persistent inflation, and spiraling foreign exchange rate premia. Oil production plummeted and did not recover to pre-independence levels.

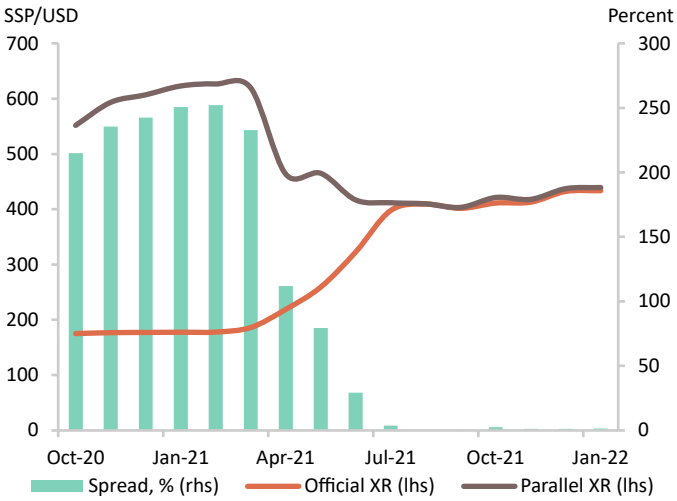
Consequently, a decade after independence, South Sudan remains caught in a web of fragility, economic stagnation, and instability. Due to this fragility, real household incomes declined and living standards deteriorated. Poverty and food insecurity remain major concerns and have been reinforced by inadequate provision of services, infrastructure deficits, displacement, and recurring climatic shocks. In 2021, there were 2 million internally displaced persons in the country (55 per cent of whom were women and girls), as compared to 1.7 million in 2020. An additional 2.3 million South Sudanese remain refugees hosted in neighboring countries.

While the signing of the 2018 peace deal started to bring positive economic outcomes in FY2018/2019, the COVID-19 pandemic and natural disasters halted this positive dynamic. With lower oil exports, government revenues, and disrupted agricultural production, the economy contracted by an estimated 5.1 percent in FY2020/21, while 4 in 5 individuals remain under the international poverty line. Going forward, strengthening service delivery institutions, governance, and economic and public financial management systems will prove critical as the country seeks to build resilience to future shocks, providing building blocks for a diversified, inclusive, and sustainable growth path.

Recent developments

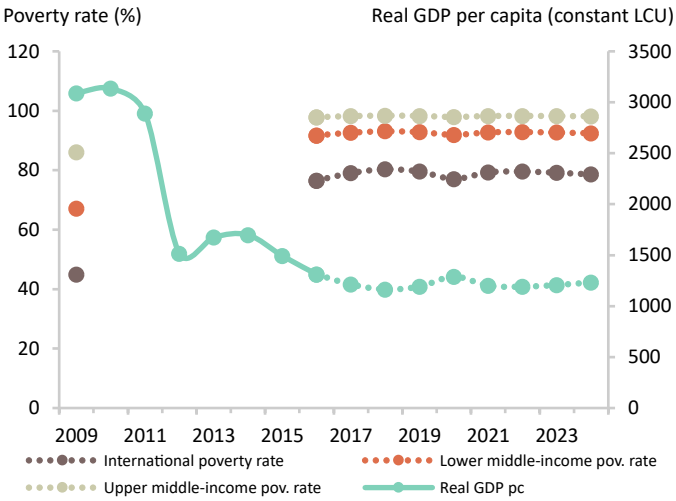
South Sudan faced significant headwinds in FY2020/21, with the pandemic, floods, and violence flareups affecting economic activities. Consequently, the economy is estimated to have contracted by 5.1 percent in FY2020/21 and poverty to increase by 2.3 percentage points. Oil production declined by 0.3 percent, as floods affected production and the COVID-19 pandemic delayed new investments to replace exhausted wells. In the agriculture sector, cereal production declined by 4 percent as flooding precipitated estimated losses of 38,000 tons of cereals and 800,000 livestock according to FAO estimates. These events had

FIGURE 1 South Sudan / Exchange rate developments



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

detrimental effects on household wellbeing as flooding was concentrated in areas that were already facing high levels of food insecurity.

Inflation averaged 43 percent in FY2020/2021 (compared to 33 percent in FY2019/2020) but was on a declining path in the first half of FY2021/2022. According to official CPI data, the 12-month inflation rate for Juba declined to 1.6 percent in December 2021, from a peak of 93.8 percent in January 2021. This brings some degree of relief to households amid stalled disposable incomes. These positive developments are consistent with recent reform efforts. The premium between the official and parallel exchange rates has been eliminated in 2021 and monetization of the fiscal deficit has ceased since September 2020.

The FY2021/22 budget includes a fiscal surplus equivalent to 1.1 percent of GDP, reflecting a large planned fiscal adjustment from an estimated fiscal deficit of 6.9 percent realized in FY2020/21. However, the financing gap in the FY2021/22 budget is estimated at 1.8 percent of GDP, despite a budgetary drawdown of SDRs equivalent to 2.7 percent of GDP. Due to higher oil export values, lower financial transfers to Sudan, and weaker import demand growth for capital projects, the current account deficit is estimated to have narrowed to 5.5 percent in FY2020/21 from 20.3 percent in FY2019/20. South Sudan remains at a high risk of debt distress for both external and overall public debt.

Outlook

South Sudan's economy is projected to contract by 0.8 percent despite higher oil prices and improving macroeconomic conditions in FY2021/22. These developments reflect falling oil production, which is projected to decline by 7.2 percent in FY2021/22, and the impact of climate shocks on agriculture. Nevertheless, higher budget revenues are expected to support domestic demand, with growth in the services sector projected to recover to 4.7 percent in FY2021/22 from a contraction of 9.7 percent in previous year. Over the medium-term, growth could average around 2.5 – 4.0 percent, with developments in the non-oil sectors and a recovery in consumption being the main contributing factors. Poverty, in turn, is expected to remain stagnant at 80 percent in the coming years. Successful implementation of the ongoing public financial management reforms and macroeconomic stabilization program, along with prudent use of budgetary resources, are vital to create opportunities for the achievement of faster and more inclusive growth.

High frequency data indicate that food prices started increasing in February 2022. Nevertheless, inflation is expected to decline gradually over the medium term and will benefit from improved fiscal and monetary discipline, exchange rate market liberalization, and deepening public financial management reforms. Non-oil tax revenue performance is projected at 3.2 percent of GDP in FY2021/22, higher than the 2.6 percent of GDP contained in the FY2021/22 budget, reflecting the National Revenue Authorities' efforts to expand the tax base and the implementation of a range of measures to strengthen its tax administration functions.

The fiscal deficit could narrow to 2.5 percent of GDP in FY2021/22 from an estimated 6.9 percent of GDP in FY2020/21, on the back of a strong recovery of international oil prices. In parallel, the current account is expected to record a surplus of 0.3 percent of GDP in FY2021/22, from a deficit of 5.5 percent in FY2020/21, reflecting higher oil export revenues, lower financial transfers to Sudan, and lower import demand for capital projects especially in the oil sector.

TABLE 2 South Sudan / 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	9.5	-5.1	-0.8	2.5	4.0
Real GDP growth, at constant factor prices	3.2	9.5	-5.1	-0.8	2.5	4.0
Agriculture	9.9	6.0	-4.0	-1.3	2.1	3.4
Industry	20.9	27.5	-2.3	-4.0	0.9	3.1
Services	-12.1	-9.6	-9.7	4.7	5.1	5.6
Inflation (Consumer Price Index)	63.6	33.3	43.1	24.0	16.0	12.1
Current Account Balance (% of GDP)	-6.3	-20.3	-5.5	0.3	2.8	1.2
Net Foreign Direct Investment (% of GDP)	-1.7	-0.4	0.9	0.9	0.8	2.1
Fiscal Balance (% of GDP)	-1.0	-9.8	-6.8	-2.6	-1.8	-3.5
Debt (% of GDP)	32.7	40.7	57.6	53.7	49.2	44.9
Primary Balance (% of GDP)	-0.5	-7.8	-4.4	-0.5	-0.2	-2.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	79.6	77.0	79.3	80.2	80.2	79.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	92.9	91.9	92.7	93.1	93.0	92.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	98.3	97.9	98.2	98.4	98.4	98.3
GHG emissions growth (mtCO2e)	1.3	0.5	1.9	3.9	6.5	10.7
Energy related GHG emissions (% of total)	2.4	2.1	1.8	1.6	1.3	1.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2016-HFS-W3.Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2016) with pass-through = 0.87 based on GDP per capita in constant LCU.

TANZANIA

Table 1	2021
Population, million	61.4
GDP, current US$ billion	67.3
GDP per capita, current US$	1095.8
International poverty rate ($1.9)[a]	49.4
Lower middle-income poverty rate ($3.2)[a]	76.8
Upper middle-income poverty rate ($5.5)[a]	91.8
Gini index[a]	40.5
School enrollment, primary (% gross)[b]	96.9
Life expectancy at birth, years[b]	65.5
Total GHG Emissions (mtCO2e)	191.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

The Tanzanian economy is on a gradual recovery path. GDP growth increased from 2.0 percent in 2020 to an estimated 4.3 percent in 2021. As employment and nonfarm business revenues recover, the poverty rate should fall slightly in 2022. Continued recovery hinges on easing pandemic conditions and supportive private sector policies, but faces risks from an uncertain external environment. Policy priorities should be to strengthen pandemic response while laying the groundwork for inclusive private-sector-led growth.

Key conditions and challenges

Tanzania became a lower middle-income country in July 2020 following a long period of sustained income growth and macroeconomic stability. In the last two decades, GDP growth averaged 6.5 percent annually and inflation remained low while fiscal and current-account deficits remained manageable. Investment was a key driver of growth, with about three quarters coming from private sources. In recent years, however, private investment has declined with waning extractives FDI and a more challenging business environment, including excessive bureaucracy, high taxes, inadequate infrastructure, and skills shortages.

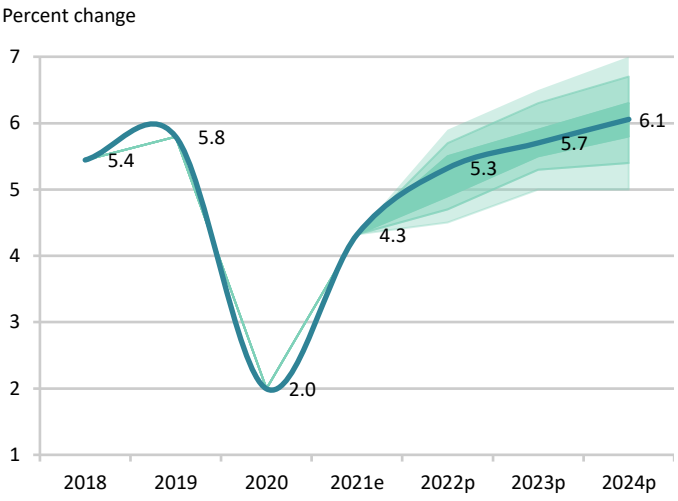
The poverty impact of economic growth has waned in recent years. High population growth, insufficient levels of education, low agricultural productivity, and slow and uneven creation of more productive income earning opportunities have hindered the inclusiveness of growth. The COVID-19 pandemic has further exacerbated these challenges, reversing some of the gains in poverty reduction achieved over the last decade, especially in urban areas. The Tanzanian government is implementing a nationwide COVID-19 vaccination program, but the pace of vaccination remains slow.

The government will need to strengthen its pandemic response in the short term while laying the groundwork for a private-sector-led recovery over the medium-to-long term. Priority policy actions should focus on saving lives, protecting poor and vulnerable households, attracting new foreign and domestic investment, supporting an employment-intensive and resilient recovery, and expanding the available fiscal space while maintaining debt sustainability. Achieving Tanzania's development vision of becoming a successful middle-income country by 2025 will require the government to revise, strengthen, and expand its existing efforts to support struggling firms while implementing structural reforms to address longstanding constraints on private investment and women's access to economic opportunities.

Recent developments

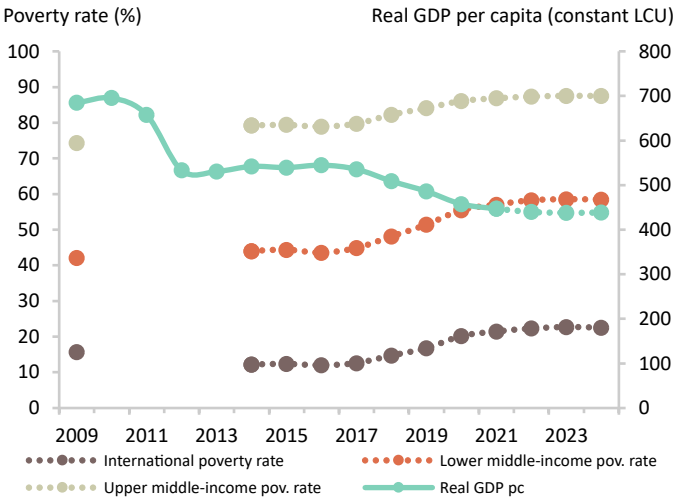
High-frequency indicators suggest that economic activity is gradually recovering. The accommodation and restaurants, mining, and electricity sectors drove a sharp rebound of 5.2 percent in quarterly GDP during Q3 2021. Leading indicators such as cement production, electricity generation, private-sector credit, goods and services exports, nonfuel goods imports, telecommunications, mobility, and tourist arrivals all improved in 2021, though activity in most sectors remains below pre-pandemic levels. Meanwhile, the preliminary findings from a recent survey suggest that by the end of 2021, the proportion of heads of household indicating they were working was higher than the pre-pandemic level by about 5 percentage points, with stronger recovery for men than for women. As a result, the World

FIGURE 1 Tanzania / Real GDP growth forecasts under alternative scenarios



Sources: World Bank Staff Estimates and Projections (2018-2024).

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



Source: World Bank. Notes: See table 2.

Bank estimates a real GDP growth rate of 4.3 percent. Inflation remained low and stable averaging 3.7 percent in 2021 but increased to 4.0 in January 2022, largely driven by higher energy prices.

Tanzania's current-account deficit has widened slightly to 2.0 percent of GDP at end-September 2021, as imports grew faster than exports. The current-account deficit was funded largely by external loans and, and to a lesser extent, by foreign direct investment. The Tanzanian shilling remained relatively stable against the currencies of major trading partners in 2021. Gross official reserves increased to about US$6.7 billion by end-October 2021.

The fiscal deficit, which was largely funded by increased domestic borrowing, expanded to 4.2 percent of GDP in 2020/21 as a result of significant shortfalls in revenue. The public and publicly guaranteed debt stock remained relatively low at US$29.6 billion (40.6 percent of GDP) in October 2021 and interest payment consumes about 12 percent of domestic revenue. The latest joint IMF-World Bank Debt Sustainability Analysis, conducted in September 2021, concluded that Tanzania's risk of external debt distress had increased from low to moderate.

The GDP per capita growth rate is estimated at 1.3 percent in 2021, following a 1.0 percent of per capita GDP contraction in 2020. Meanwhile, the national poverty rate is estimated to have declined marginally from 27.1 percent in 2020 to 27.0 percent in 2021, driven by the recovery of employment and agricultural growth.

Outlook

Tanzania's real GDP growth rate is projected to reach 5.3 percent in 2022 assuming continued easing of pandemic conditions and implementation of supportive policies for the private sector, but risks from an uncertain external environment have increased. The current-account deficit is projected to widen to 3.9 percent of GDP in 2022 due to rising imports (capital goods and oil), which will more than offset an expected increase in exports. The fiscal deficit is projected to widen to 3.7 percent of GDP in 2022, driven by pandemic-related public spending and the implementation of several major capital projects, including SGR and the Nyerere Hydro Power Project.

Under alternative scenarios, real GDP is expected to grow by between 4.5 and 5.5 percent in 2022, below its long-run potential growth rate of about 6 percent. Tanzania's vulnerability to the global pandemic remains high amid the slow vaccination rollout. Additionally, the Russia-Ukraine conflict would affect Tanzania through the commodity prices channel, which could result in inflationary pressures and expanded current and fiscal deficits. An accelerated domestic vaccination program, increased regional trade and cooperation, and policy reforms designed to improve the business environment and support the growth of the private sector have somewhat mitigated downside risks, but the emergence of new coronavirus variants, reduced capital flows, elevated debt levels, persistent inflationary pressures, supply bottlenecks, and the Russia invasion and associated sanctions continue to threaten the projected recovery.

The international poverty rate is projected to fall by more than a percentage point to 48.6 percent in 2021 and drop to below the pre-crisis level. But to sustainably reduce poverty, and lower the number of poor people, the recovery must create more jobs, including for low-skilled workers, enable small enterprises growth, and foster productivity of agriculture, on which three-quarters of poor households depend. Inflation driven by higher energy and grain prices caused by the Russia-Ukraine crisis could undermine purchase power, with the poor and the urban consumers being particularly vulnerable to food price rises putting poverty reduction at risk. The government will need to carefully monitor the impact of price rises on low-income groups and expand the TASAF social safety net to affected population groups.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.8	2.0	4.3	5.3	5.7	6.1
Private Consumption	3.1	1.0	3.9	5.2	3.9	3.5
Government Consumption	2.3	7.4	10.9	6.2	3.6	3.3
Gross Fixed Capital Investment	8.0	2.4	7.5	8.2	8.0	8.9
Exports, Goods and Services	19.0	-8.6	2.2	5.2	7.5	7.6
Imports, Goods and Services	-1.4	-7.6	13.3	12.6	6.3	5.2
Real GDP growth, at constant factor prices	5.8	2.0	4.3	5.3	5.7	6.1
Agriculture	3.5	3.1	3.5	3.8	4.1	3.9
Industry	10.3	2.5	6.5	7.6	8.2	8.6
Services	4.2	0.9	3.0	4.4	4.6	5.4
Inflation (Consumer Price Index)	3.5	3.4	3.7	4.5	4.2	4.0
Current Account Balance (% of GDP)	-2.3	-1.6	-2.9	-3.9	-3.6	-3.1
Net Foreign Direct Investment (% of GDP)	2.0	1.1	1.0	1.3	1.4	1.6
Fiscal Balance (% of GDP)	-2.2	-2.0	-3.5	-3.7	-3.2	-2.5
Debt (% of GDP)	38.3	38.7	38.8	39.0	39.1	38.8
Primary Balance (% of GDP)	-0.5	-0.3	-1.7	-1.9	-1.3	-0.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	49.3	50.4	49.8	48.6	48.0	47.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	76.7	77.5	77.1	76.3	75.8	75.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	91.8	92.1	92.0	91.6	91.4	91.3
GHG emissions growth (mtCO2e)	3.0	2.5	3.1	2.9	3.3	3.2
Energy related GHG emissions (% of total)	21.3	21.9	22.7	23.2	23.7	24.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2018-HBS. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 1 based on private consumption per capita in constant LCU.

TOGO

Table 1	2021
Population, million	8.5
GDP, current US$ billion	8.0
GDP per capita, current US$	940.1
International poverty rate ($1.9)[a]	24.1
Lower middle-income poverty rate ($3.2)[a]	51.8
Upper middle-income poverty rate ($5.5)[a]	78.0
National GINI (2018/19)	38.1
School enrollment, primary (% gross)[b]	126.3
Life expectancy at birth, years[b]	61.0
Total GHG Emissions (mtCO2e)	9.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

Growth rebounded to pre-crisis levels in 2021, reflecting health measure rollbacks and a global recovery. Growth is expected to stabilize in 2022 and strengthen in the medium term, supported by investment and consumption, while poverty should decline. New debt management and revenue mobilization measures should create fiscal space. Risks include slower global growth and higher inflation due to the impact of the Ukraine conflict, regional insecurity, debt vulnerabilities, and climatic shocks.

Key conditions and challenges

Togo experienced a robust economic growth prior to the COVID-19, but with only limited impacts on living standards and poverty. Growth averaged 5 percent between 2017-19 (2.4 percent in per capita terms), driven by private investment as the business climate improved. Prudent fiscal management underpinned growth and helped reduce debt vulnerabilities. However, growth did not translate into higher living standards, i.e. access to electricity and safe drinking water were 52.2 percent and 60.3 percent respectively in 2018/19, whereas in rural areas these were only 27.2 percent and 44.5 percent, respectively.

COVID-19 disrupted growth, fiscal consolidation, and poverty reduction. It heightened the urgency to deal with major development challenges and to revert toward the WAEMU fiscal target to contain debt vulnerabilities. Structural reforms to improve infrastructure, notably in energy and telecommunications, governance and customs procedures would help Togo harness its potential as a transport and logistics hub. Digital technology also presents untapped opportunities for innovation in key economic sectors despite large inequalities in access: the share of the population aged 15 years or older with access to the internet was 6 percent and 35 percent, respectively, among the poor and the nonpoor.

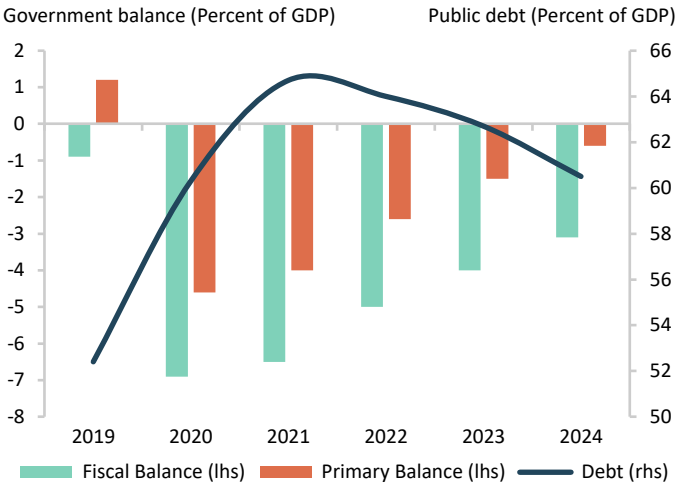
Despite the ongoing recovery, the Ukraine conflict could further increase food/fertilizer and energy price inflation and is a threat to poverty reduction and could lead to increased social tensions. According to a household survey realized by the National Statistics Office, over 30 percent of Togolese households were unable to access main staple foods when needed, with poor and rural households disproportionately affected (40 percent of the poor and 43 percent of the rural households). Heightened regional insecurity could trigger higher security spending and increase fragility in the north. Other risks include domestic debt vulnerabilities and weather shocks, which could negatively affect agricultural production.

Recent developments

After decelerating to 1.8 percent in 2020, growth rebounded in 2021 to 5.1 percent (2.7 percent per capita). The global economic recovery enabled export expansion, and domestic activity rebounded following containment measure abatements. Private consumption picked-up, benefitting from increases in business activity and labor income (6.5 percent). Growth was partially offset by rising inflation, at 4.3 percent in 2021, as higher consumption demand and supply chain disruptions raised food and energy prices.

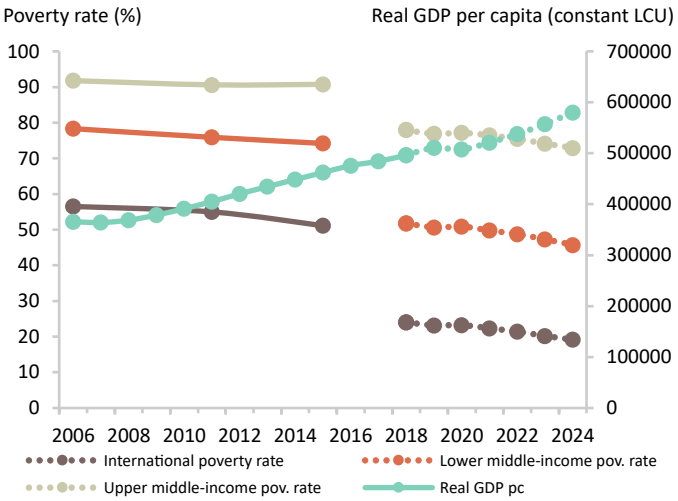
The current account deficit widened to 3.2 percent in 2021, more than doubling its 2020 level. Increases in imports outpaced exports due to import growth

FIGURE 1 **Togo** / Evolution of fiscal indicators



Sources: INSEED and World Bank staff estimates.

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



Source: World Bank. Note: See table 2.

from increasing domestic demand from infrastructure projects and increases in private consumption.

The fiscal deficit remained high at 6.5 percent of GDP in 2021. Tax revenues rebounded in 2021, reflecting an improvement in economic conditions and new tax measures (digitalization of tax administration and tax registries), but remained below pre-crisis levels. Expansionary public spending continued with the implementation of an ambitious investment program. Reliance on external financing continues to cover the fiscal deficit. Public debt increased from 60.3 percent of GDP in 2020 to 64.7 percent in 2021. The risk of external debt distress remains moderate, while the risk of overall debt distress was high.

Togo's monetary and exchange rate policies are managed by the BCEAO, which maintains a peg between the CFA Franc and the Euro. Reserves reached 5.8 months of imports in 2021, due to a recovery in exports, an SDR allocation, and portfolio inflows.

Poverty remains high and concentrated in rural areas. The national poverty incidence was 45.5 percent in 2018-19 (749.6 CFAF/day), while extreme poverty was 23.15 percent (US$1.9 2011 PPP/day) in 2019. Poverty projections estimate that extreme poverty rate maintained at 23.2 percent between 2019 and 2020. Despite steady extreme poverty, the pandemic probably pushed some households into poverty: simulations show an increased poverty of about 4 percentage points, disproportionately affecting urban populations.

Outlook

Real GDP is projected to stabilize at 5 percent in 2022, 2.6 percent in per capita terms, and accelerate over 2023-24. Downward revisions to the forecasts in 2022 mainly reflect the negative impacts of the Ukraine conflict, through higher energy and food prices, lower public investment as authorities allocate more resources to transfers to the poorest, and lower private investment because of higher uncertainty. Growth should still be supported by the "Togo 2025 Roadmap" public investments, before gradually giving way to private investment following positive business climate developments, but a changing global policy environment creates significant uncertainty around the investment climate. The current account deficit will keep deteriorating, reaching 6.4 percent of GDP in 2022, as rising import demand from increased consumption and investment outpaces export growth.

The fiscal deficit is projected to gradually decline from 5 percent of GDP in 2022. Current forecasts indicate meeting the WAEMU convergence criteria in 2024, with delays to 2025 if additional expenditure requirements materialize. Revenues should rise with GDP growth, supported by improvements in revenue management and tax holiday expirations. Total expenditure as a percent of GDP will decrease starting in 2023, as counter-cyclical pandemic spending winds-down. Public debt will decrease to 64 percent of GDP in 2022, declining over the medium-term as growth outpaces a declining primary fiscal deficit, to almost reach 60 percent in 2024.

WAEMU reserves will decrease to around 5.5 months of imports in 2022 and 5.3 in 2023/24, reflecting fast growth in imports and a reduction in net capital inflows (as a percent of GDP), with uncertainty around global monetary policy. Growth-friendly fiscal consolidation and implementation of structural reforms will be key to maintaining reserves at an optimal level.

Extreme poverty declined to 22.4 percent in 2021 (-0.9 percentage points from 2020), as food prices remain high. Extreme poverty should decrease by one percentage point to 21.4 percent in 2022 and decrease in the medium-term, supported by the scaling-up of Government cash transfer programs. Inclusive service-sector programs and agricultural growth will be needed for inclusive and sustained poverty reduction.

TABLE 2 **Togo** / 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	1.8	5.1	5.0	5.8	6.4
Private Consumption	3.0	-4.9	5.3	5.5	7.1	7.4
Government Consumption	-2.9	21.1	6.4	0.2	7.0	8.9
Gross Fixed Capital Investment	20.2	13.7	8.9	12.9	2.7	2.5
Exports, Goods and Services	1.0	3.6	12.0	7.0	6.5	5.5
Imports, Goods and Services	1.2	4.1	13.8	10.5	6.9	6.1
Real GDP growth, at constant factor prices	4.4	1.9	5.1	4.9	5.9	6.4
Agriculture	1.9	4.0	6.0	5.6	3.6	5.9
Industry	6.5	0.8	6.8	7.3	5.6	7.3
Services	4.5	1.5	4.0	3.4	7.1	6.2
Inflation (Consumer Price Index)	0.7	1.8	4.3	6.0	4.0	2.0
Current Account Balance (% of GDP)	-0.8	-1.5	-3.2	-6.4	-7.3	-6.3
Net Foreign Direct Investment (% of GDP)	-4.2	-0.2	-0.3	-0.4	-0.5	-0.6
Fiscal Balance (% of GDP)	-0.9	-6.9	-6.5	-5.0	-4.0	-3.1
Debt (% of GDP)	52.4	60.3	64.7	64.0	62.7	60.5
Primary Balance (% of GDP)	1.2	-4.6	-4.0	-2.6	-1.5	-0.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	23.2	23.2	22.4	21.4	20.2	19.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	50.6	50.9	49.8	48.7	47.3	45.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	76.9	77.2	76.5	75.5	74.1	72.9
GHG emissions growth (mtCO2e)	1.9	1.4	3.3	3.6	4.2	4.4
Energy related GHG emissions (% of total)	29.7	27.8	26.6	25.4	24.3	23.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

UGANDA

Table 1	2021
Population, million	47.1
GDP, current US$ billion	34.6
GDP per capita, current US$	733.9
International poverty rate ($1.9)[a]	41.0
Lower middle-income poverty rate ($3.2)[a]	70.5
Upper middle-income poverty rate ($5.5)[a]	89.0
Gini index[a]	42.7
School enrollment, primary (% gross)[b]	102.7
Life expectancy at birth, years[b]	63.4
Total GHG Emissions (mtCO2e)	75.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2011 PPPs.
b/ WDI for School enrollment (2017); Life expectancy (2019).

Real GDP growth is expected to rise from 3.4 percent in FY21 to 3.7 percent in FY22, as the economy reopens. The planned reduction in the fiscal deficit, to 3.5 percent of GDP by FY24, augurs well for debt sustainability. Growth is expected to average 5.7 percent in FY23 and FY24, given the elevated trade, inflation, and investment risks from the Russia-Ukraine crisis. Poverty should fall as incomes recover.

Key conditions and challenges

Compared to the strong performance in the 2000s, recent economic growth has slowed considerably. With reduced reform momentum, a less supportive external environment, and other exogenous shocks like droughts, growth since 2011 has barely surpassed the high population growth rate. As a result, in the five years prior to the COVID-19 crisis, per capita real GDP growth halved to 1.1 percent on average per year.

Structural transformation is key for growth and poverty reduction. However, most of the workforce remains in low productivity jobs, and total factor productivity growth has been negative. Whereas the services sector contributes to a large share of growth, many jobs are informal and low-skilled. Instead, the majority of the poor rely heavily on agriculture and remain vulnerable to climate change and weather shocks. Although there were positive signs leading into the COVID-19 crisis – including a decline in poverty, reduction in the workforce employed in agriculture, take-off in agro-processing, and expansion of the services sector – some of this has been reversed, and poverty and inequality have increased.

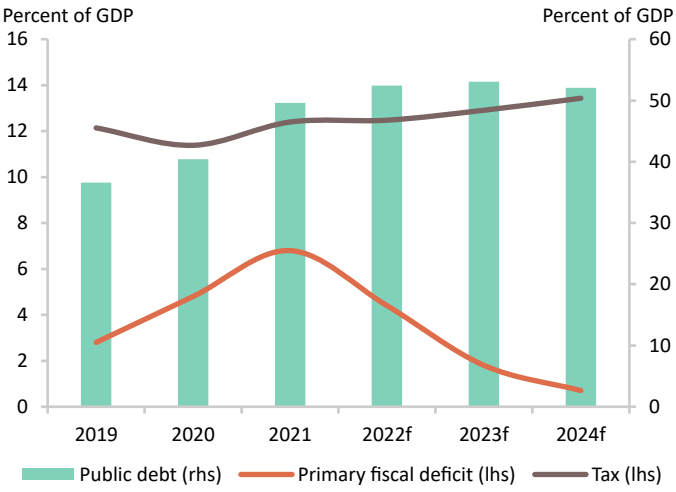
As Uganda moves towards oil production, achieving structural transformation will require changing the growth model and role of the state. The current model of debt-financed public spending – which emphasizes infrastructure and has crowded out private sector borrowing – needs to be replaced with one where the private sector drives growth. The state can then provide support through a better balance of investments in human capital and infrastructure, alongside targeted regulations to promote inclusive growth that reduces inequality and ensures sustainability. The prospects for this shift will also rely on maintaining macroeconomic stability; better supporting the vulnerable, farmers, and small enterprises; increasing the uptake of digital technologies; and more effective use of public resources.

Recent developments

Uganda's recovery slowed after the second COVID-19 wave and lockdown in mid-2021. Although Omicron introduced some uncertainty, the economy has since rebounded, with the PMI increasing for the seventh successive month to a high of 55.7 in February 2022. Economic conditions continue to improve, buoyed by the reopening of schools, lifting of all mobility restrictions, and a milder third wave of infections. Over 5 of the 22 million target population (aged 18+) were fully vaccinated by mid-February 2022.

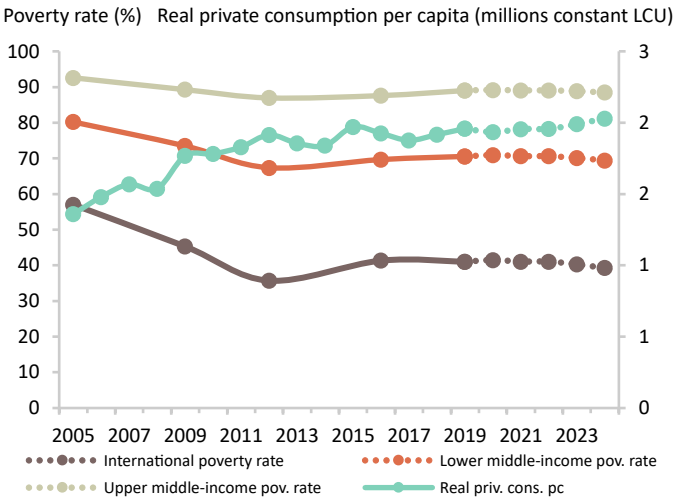
Despite the economic rebound, inflation has been modest, which has allowed the central bank to maintain the policy rate at 6.5 percent to support the recovery. Lending rates remain high though, thereby slowing growth in private sector credit. An

FIGURE 1 Uganda / Fiscal adjustment



Sources: Ministry of Finance, Planning and Economic Development, and World Bank calculations.

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



Source: World Bank. Notes: see Table 2.

uptick in annual headline inflation to 3.2 percent in February was anticipated, given the reopening of the economy and sudden increase in demand.

Whilst gold imports and exports have stalled in the first half of FY22 – due to a new FY22 tax levy on gold exports – coffee exports are up over 60 percent and tourist receipts in early FY22 were approaching pre-COVID levels. This bodes well for an improvement in the current account deficit compared to the sharp deterioration in FY21.

In line with government's consolidation agenda, the fiscal deficit has narrowed to an estimated 5 percent of GDP in the first half of FY22, driven by cuts to lower priority recurrent spending (e.g. travel and workshops) and delaying investments that are not critical or ready.

With lower consumption growth – due to reduced remittances, limited credit, and job losses – poverty increased from 27.5 to 32.7 percent (using Uganda's official upper poverty line) after the first lockdown in 2020. Employment rates fell again after the second lockdown, accompanied by increased food insecurity and significantly lower revenues for non-farm household enterprises.

Outlook

Given a more positive COVID-19 and vaccine outlook, and the recent signing of the final investment decision in the oil sector, growth was projected to accelerate to an average of over 6 percent in FY23 and FY24. Following Russia's invasion of Ukraine, this average will likely drop to below 6 percent and possibly lower, given the trade disruptions, higher commodity prices, and increased risk aversion that may slow investments. Costlier inputs (e.g. fertilisers and transport) will also pose challenges for agricultural production, food security, and household incomes that are still recovering.

The combination of pent-up domestic demand – as economic activity picks up – and increasing commodity prices will exert additional pressures on prices, which could raise inflation above the official target of 5 percent over the next year. Inflationary and exchange rate pressures may then induce monetary policy tightening, which would constrain the private sector recovery.

The decline in the fiscal deficit will be driven by expenditure cuts (Figure 1), as measures to enhance revenues will take longer to pay off. This adjustment will ultimately shift debt to a more sustainable path – peaking at around 54 percent of GDP in FY23 – and limit private sector crowding out. Nonetheless, debt vulnerabilities will persist if spending pressures remain, new shocks arise, or reliance on non-concessional and/or domestic debt continues.

Even with stronger growth in the medium-term, per capita GDP will remain below the NDPIII target. As a result, zero growth is projected in private consumption per capita, which will keep the international poverty rate at about 41 percent in 2022. Accelerated growth may reduce poverty to 39.3 percent by 2024, but this will depend on how COVID-19 evolves, how long Russia's invasion continues, the pace of food inflation, and any environmental shocks that adversely affect households due to their limited adaptive capacity.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	6.4	3.0	3.4	3.7	5.1	6.5
Private Consumption	5.9	2.0	4.2	2.8	4.4	4.6
Government Consumption	6.9	7.9	6.1	0.9	-0.6	0.7
Gross Fixed Capital Investment	9.9	-0.1	5.1	4.1	7.0	10.5
Exports, Goods and Services	6.3	-1.2	2.6	11.1	12.4	13.3
Imports, Goods and Services	8.6	-5.4	8.6	5.3	8.4	8.6
Real GDP growth, at constant factor prices	6.4	3.0	3.4	3.7	5.1	6.5
Agriculture	5.2	4.6	3.8	3.4	3.6	4.0
Industry	9.0	3.1	3.4	2.6	6.8	7.9
Services	5.6	2.2	3.3	4.6	4.9	6.9
Inflation (Consumer Price Index)	2.6	2.3	2.5	3.7	6.0	5.0
Current Account Balance (% of GDP)	-7.1	-6.7	-10.2	-8.2	-7.9	-7.0
Net Foreign Direct Investment (% of GDP)	3.5	2.6	2.1	2.5	2.7	3.3
Fiscal Balance (% of GDP)	-4.9	-7.1	-9.5	-7.5	-4.7	-3.5
Debt (% of GDP)	36.6	40.4	49.6	52.5	53.5	52.4
Primary Balance (% of GDP)	-2.8	-4.8	-6.8	-4.4	-1.9	-0.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	41.0	41.5	41.1	41.0	40.3	39.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	70.5	71.0	70.6	70.6	70.1	69.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	89.0	89.2	89.1	89.1	88.9	88.5
GHG emissions growth (mtCO2e)	2.5	1.8	2.8	3.9	4.0	4.1
Energy related GHG emissions (% of total)	31.9	31.3	31.0	31.4	31.9	32.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2019-UNHS.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 private consumption per capita in constant LCU.

ZAMBIA

Table 1	2021
Population, million	18.9
GDP, current US$ billion	21.2
GDP per capita, current US$	1120.6
International poverty rate ($1.9)[a]	58.7
Lower middle-income poverty rate ($3.2)[a]	75.4
Upper middle-income poverty rate ($5.5)[a]	88.1
Gini index[a]	57.1
School enrollment, primary (% gross)[b]	98.7
Life expectancy at birth, years[b]	63.9
Total GHG Emissions (mtCO2e)	99.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2011 PPPs.
b/ WDI for School enrollment (2017); Life expectancy (2019).

The Zambian economy grew by an estimated 3.6% in 2021 following a 2.8% recession in 2020; bolstered by firmer copper prices, favorable external demand, good rainfall, and post-election market confidence. However, poverty remained high, at about 60%, reflecting the impact of the COVID-19 crisis. The medium-term outlook, while positive, faces downward risks from prolonged debt negotiations, low COVID-19 vaccination rates, and the impact of the Russia-Ukraine war.

Key conditions and challenges

The Zambian economy remains structurally fragile and vulnerable to external shocks. The economy was already weak before the COVID-19 crisis, with declining growth, increasing inflationary pressures, a tightening fiscal space and weak external balances. The public-investment-led growth model that relied heavily on debt financing did not deliver sustained economic growth or poverty reduction. As a result, Zambia's public debt became unsustainable by 2019. The onset of the COVID-19 crisis unraveled these structural weaknesses and amplified existing macroeconomic vulnerabilities. The country has had persistently high poverty rates. Poverty in Zambia is concentrated in rural areas – where 80% of the poor reside. In contrast, the recent surge following the COVID-19 pandemic has disproportionately come from urban households.

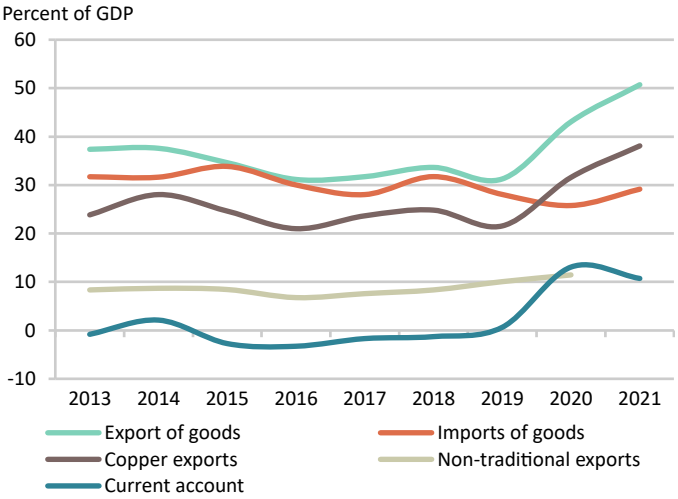
The key challenge for Zambia is to restore macroeconomic stability and debt sustainability and to return to an economic growth path that uplifts more Zambians out of poverty. Resolving the severe macroeconomic imbalances that built up over the past decade and culminated into a debt crisis will require a combination of ambitious fiscal adjustment, structural fiscal reforms, and public debt restructuring. The new administration, elected to office in August 2021, has shown willingness to undertake some of these significant economic reforms, including to improve the efficiency and inclusiveness of public spending and promoting a private sector-led and export-oriented growth path. To bear fruits on debt sustainability and growth, these reform efforts will need to be complemented by comprehensive and timely debt restructuring. In early 2021, Zambia asked for debt treatment under the G-20 Common Framework (CF) to help restore public debt to sustainable levels.

Recent developments

Economic activity picked up in 2021 with GDP growth at an estimated 3.6% per annum, reflecting recovery from initial COVID-19 shocks and lockdown measures, post-election market confidence, and improved global copper price outlook. Monetary policy stance tightened by a cumulative 100 basis points during the year, as the central bank balanced between responding to persistently high inflationary pressures and weak aggregate demand.

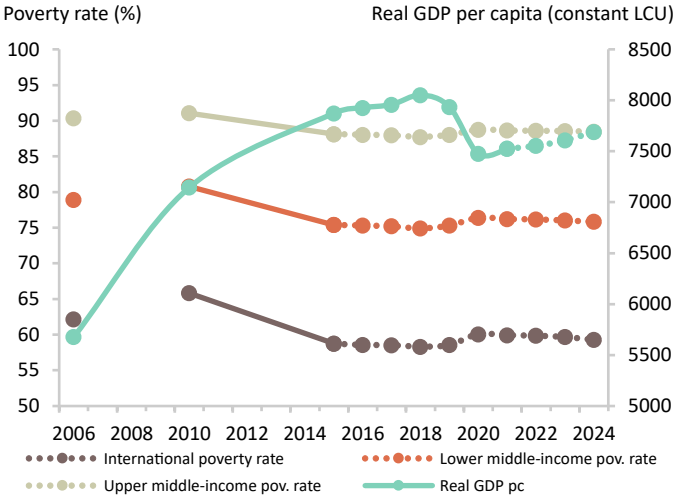
Despite stronger revenue performance, the fiscal outturn was more expansionary than planned, resulting in a deficit (on cash basis) of over 10% of GDP. Domestic revenues performed better on account of favorable copper prices and improved non-tax revenue collection. However, this was outweighed by expenditure overruns in the run-up to the elections, including in goods and services, and agriculture and fuel subsidies. The large deficit was financed by

FIGURE 1 Zambia / Developments in the current account balance (2013-21)



Sources: Zambian authorities and World Bank staff estimates and projections.

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



Source: World Bank. Notes: see table 2.

further accumulation of domestic arrears and increased domestic borrowing.

On the external sector, strong growth in exports outpaced the rebound in imports resulting in a large trade surplus and a current account surplus of 7.7% of GDP in 2021. The Kwacha appreciated by 21% in 2021, reflecting an improved reserve position from the new IMF SDR allocation, high post-election consumer and investor confidence, and increased portfolio inflows from non-resident holders of domestic sovereign debt. However, the continued weak fiscal position saw Zambia continue to accumulate external debt service arrears, which amounted to $1.8 billion at end-September 2021.

The effects of the pandemic on poverty and vulnerability have continued in 2021. After an estimated 1.5 percentage point increase in the international poverty rate between 2019 and 2020, the poverty headcount is projected to have remained stagnant at 60% in 2021, with GDP per capita growth projected to be at only 0.7% in 2021. The rise in poverty has been largely driven by falling incomes in urban areas, especially among those relying on employment income from the informal sector. A World Bank Household Monitoring phone survey found that 4 in 5 households reported a drop-in income from nonfarm business, and that 1 in 3 reported a reduction or disappearance of wages due to the pandemic. Job losses have been particularly severe in the tourism, manufacturing, and services sectors. Food security indicators are also of increasing concern. A recent Socio-economic Impact Assessment conducted by the National Statistical Office found that 9 in 10 households have experienced spikes in the price of food, and that 64% of these had to reduce food consumption as a result.

Outlook

Growth is projected to pick up over the medium-term, averaging 3.8% in 2022-24, buoyed by an improved macroeconomic environment; a positive copper price outlook and stable and predictable mining policy environment; and improved electricity supply supported by new generation capacity at Kafue Gorge. The outlook is anchored on government's implementation of the macro-fiscal reforms outlined in its 2022-24 medium-term budget plan, aimed at restoring fiscal sustainability and credibility, re-orienting expenditure away from inefficient subsidies to more social spending (education, health, and social protection), and bringing public services closer to the communities. Implementation of structural reforms aimed at removing market distortions and bringing financial sustainability in the energy sector (electricity and petroleum), improving transparency, and fighting corruption, will also be critical to achieving this growth path. It also assumes normal rainfall patterns and timely completion of the debt restructuring process. The pace of poverty reduction, however, is expected to remain slow. At current growth rates, the poverty rate will fall by less than a percentage point by 2024. Risks to the baseline outlook are tilted downwards. A sustained upward trajectory in global copper prices will boost copper production, domestic revenue, and external stability. However, delays in concluding the debt restructuring process and risks of any COVID-19 resurgence given the low vaccination rates could dampen market confidence and perpetuate an uncertain economic environment. Moreover, the impact of the Russia-Ukraine war on global oil and fertilizer prices presents key risks to Zambia's economic recovery and reform efforts.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	1.4	-3.0	3.6	3.3	3.6	4.0
Private Consumption	2.3	3.1	3.6	4.5	4.5	4.5
Government Consumption	-10.1	10.8	3.6	-6.1	13.7	7.2
Gross Fixed Capital Investment	-14.3	-35.8	-15.9	44.0	6.6	2.4
Exports, Goods and Services	-7.2	10.7	24.3	-3.9	6.9	6.9
Imports, Goods and Services	-13.7	-10.7	17.4	14.3	13.1	7.5
Real GDP growth, at constant factor prices	1.5	-2.5	3.6	3.3	3.6	4.0
Agriculture	7.7	17.2	14.2	3.0	4.0	4.0
Industry	-3.3	0.6	1.8	3.3	3.5	3.9
Services	3.5	-6.2	3.2	3.3	3.6	4.0
Inflation (Consumer Price Index)	9.1	15.7	22.1	13.0	10.0	9.7
Current Account Balance (% of GDP)	0.6	12.8	10.7	3.7	4.3	4.1
Net Foreign Direct Investment (% of GDP)	-0.6	-1.1	1.9	2.4	2.3	2.1
Fiscal Balance (% of GDP)	-9.6	-11.0	-10.3	-7.8	-5.5	-4.6
Debt (% of GDP)	87.8	86.2	77.6	74.9	99.2	114.2
Primary Balance (% of GDP)	-5.6	-7.7	-7.0	-4.3	-2.9	-2.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	58.6	60.1	59.9	59.9	59.7	59.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	75.3	76.4	76.2	76.2	76.0	75.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	88.0	88.8	88.6	88.6	88.6	88.5
GHG emissions growth (mtCO2e)	-1.8	2.0	3.2	2.6	2.9	2.6
Energy related GHG emissions (% of total)	11.6	11.5	10.8	10.6	10.8	11.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2015-LCMS-VII. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2015) with pass-through = 0.7 based on GDP per capita in constant LCU.

ZIMBABWE

Table 1	2021
Population, million	15.1
GDP, current US$ billion	26.2
GDP per capita, current US$	1737.2
International poverty rate ($1.9)[a]	39.5
Lower middle-income poverty rate ($3.2)[a]	63.8
Upper middle-income poverty rate ($5.5)[a]	82.8
Gini index[a]	50.4
School enrollment, primary (% gross)[b]	97.3
Life expectancy at birth, years[b]	61.5
Total GHG Emissions (mtCO2e)	116.1

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

GDP growth is estimated to have rebounded to 5.8 percent in 2021, reflecting an exceptionally good harvest and relative stabilization of prices. Disinflation policies were effective in bringing down inflation to double digits for the first time in two years. As a result, poverty levels declined. The economy is projected to continue to recover in 2022, albeit at a slower pace, as agriculture conditions worsen and food and fuel prices surge.

Key conditions and challenges

Macroeconomic challenges and natural disasters have kept Zimbabwe's growth volatile. High inflation, unstable exchange rates, and unsustainable debt have constrained macroeconomic stability and productivity growth. Trade integration has declined, and foreign direct investment (FDI) remained low, limiting transfer of new technologies and investment in modernizing the economy. After almost three years of droughts, favorable rains boosted economic growth in 2021, supporting the recovery. Steps to stabilize prices and exchange rates, as well as relaxation of COVID-19 restrictions, improved the environment for doing business. As a result, after two years of recession, Zimbabwe's economy is estimated to have grown by 5.8 percent in 2021.

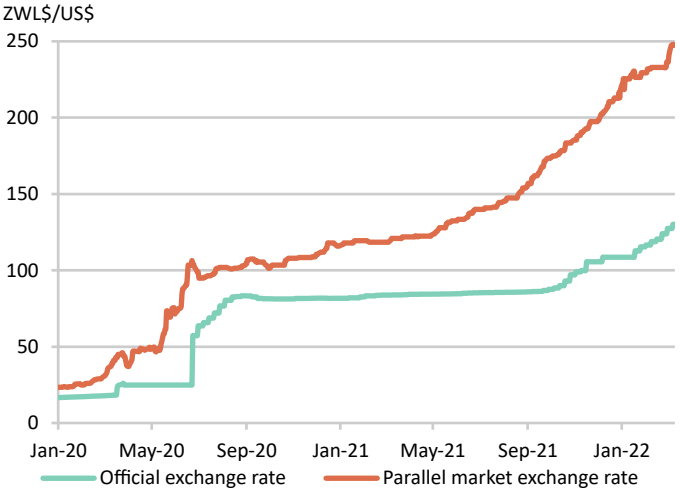
The extreme poverty rate has increased steadily between 2011 and 2020, only declining in 2021 following exceptionally good harvest and disinflation policies. International poverty rate was 22 percent in 2011, and it was estimated to be 41 percent in 2021 and 40 percent in 2022. Although poverty remains an overwhelmingly rural phenomenon, in recent years it has increased relatively faster in urban areas, leading to an urbanization of poverty. Zimbabwe's international poverty rate (PPP $1.90/person/day) was half the level in sub-Saharan African in 2011 but by 2019, it was on par with the rest of the continent (42 percent). Inequality has also increased over the last decade, with the Gini coefficient increasing from 42 in 2011 to 50.3 in 2019 – among the highest in the world. Unemployment remained high at 19.1 percent in 2021.

In addition to further efforts to solidify macroeconomic stability, Zimbabwe's recovery needs to be underpinned by policies promoting productivity growth. These policies would include reducing state intervention in the economy, lessening the regulatory burden, strengthening governance and anti-corruption efforts, lowering barriers to regional trade integration, and removing forex retention requirements. Service delivery needs to be strengthened and household vulnerability reduced through robust social safety net programs.

Recent developments

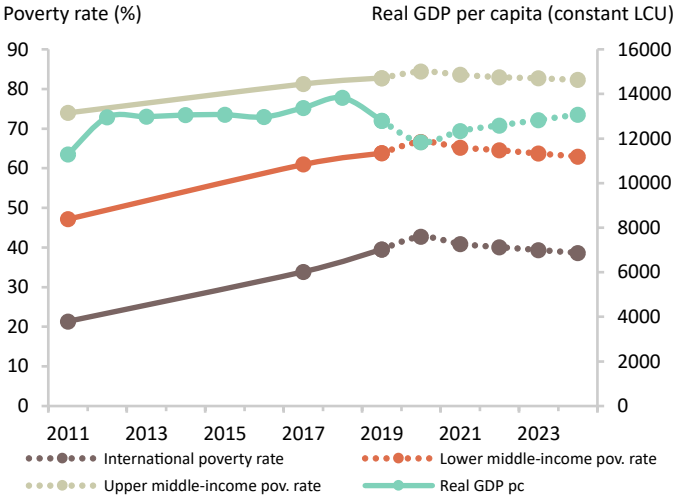
The economy rebounded in 2021 driven by recovery of agriculture and industry and relative stabilization of prices and exchange rates. GDP is estimated to have grown by 5.8 percent in 2021 after contracting by 6.2 percent in 2020. An exceptionally good agriculture season, coupled with slowing inflation and higher remittances boosted domestic demand. Relaxed pandemic restrictions, good vaccination levels, and favorable terms of trade supported stronger industrial production and exports, with exports of minerals expanding by over 51 percent in a year. A widening of the current account

FIGURE 1 **Zimbabwe** / Exchange rates



Sources: Zimstat and World Bank staff estimates.

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



Source: World Bank calculations using data from Zimstat PICES surveys 2011, 2017 and mini-PICES 2019.

surplus in 2021 and the SDR allocation helped increase international reserves.

Disinflation policies were effective in bringing down inflation in 2021. Inflation slowed from 838 percent in July 2020 to 60.7 percent in December 2021. Monetary policy was further tightened in the end of 2021 and in early 2022 to calm inflationary pressures from continuing distortions in the foreign exchange market and rising international prices.

Fiscal policy remained relatively tight, with most of the additional spending financed by SDRs. The fiscal balance turned into a cash deficit of 1.5 percent of GDP. Procurement of vaccines and higher spending on agriculture and public infrastructure contributed most to the fiscal deficit. Revenue collection improved, driven by better performance of corporate income tax, VAT, and money transfer tax. Public indebtedness worsened further as the government assumed RBZ's legacy debt, adding over US$2.5 billion to external arrears and external debt reached US$14.5 billion.

Poverty levels decreased, reflecting the bumper maize harvest of the 2021 season. After peaking at 43 percent, in 2020, international poverty rate fell to 41 percent in 2021. The decline in poverty is primarily driven by rural areas thanks to the bumper harvest of 2021. There was also a marked improvement in food security, with the share of population in severe or moderate food insecurity falling from 61 to 38 percent between March and November 2021. The lack of improvement in the extreme poverty rate in urban areas suggests that despite the reopening of the economy and loosening of mobility restrictions, intermittent closures continue to affect employment, incomes, and livelihoods of urban residents. Social assistance programs play a limited role in reducing poverty and vulnerability due to their low coverage and lack of poverty focus in targeting.

Outlook

The economy is projected to continue to recover in the medium term, amid downside risks. GDP is projected to grow by 3.7 percent in 2022 but slowdown in the medium term as the positive base effects diminish. The downward revision to the growth outlook is based on worsening agriculture conditions as well as global price increases and supply side disruptions due to the conflict in Ukraine and associated sanctions on Russia. Agriculture output is set to contract by 1.5 percent in 2022 from double digit-growth in 2021 on the account of falling rain levels and rising prices of key agriculture inputs. Mining production and exports are expected to benefit from continuing high international prices while tourism, trade, and transport are likely to start recovering with positive spillover effects on other sectors of the economy. The risks to the outlook are significant with heightened global risks as global growth slows down and uncertainty about the pandemic remains. Domestic risks also weigh on growth performance and are linked to climatic shocks, expansionary fiscal and monetary policy in the run up to the 2023 parliamentary elections that might undermine disinflation policies and keep large distortions in the foreign exchange market, thereby delaying economic recovery.

Poverty levels are expected to further decline in 2022, albeit marginally. As conditions for a good harvest deteriorate, prices remain high, and the capacity of the social system to target and reach the poor with adequate social safety nets is constrained. If inflation is not adequately managed, the purchasing power of incomes will be eroded, putting more people in or at risk of poverty and delaying improvements in basic service delivery.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	-6.1	-6.2	5.8	3.7	3.6	3.6
Private Consumption	-19.9	-5.2	11.6	3.3	3.4	3.5
Government Consumption	-1.7	-2.0	3.0	4.3	5.5	4.4
Gross Fixed Capital Investment	-9.0	-3.0	6.2	4.9	4.8	4.0
Exports, Goods and Services	29.7	1.6	6.0	3.3	3.2	3.4
Imports, Goods and Services	-29.5	9.8	25.1	2.9	3.4	3.5
Real GDP growth, at constant factor prices	-7.5	-6.6	5.8	3.7	3.6	3.6
Agriculture	-17.8	4.2	17.2	-1.5	2.5	2.7
Industry	-11.1	0.0	6.4	4.6	3.6	4.1
Services	-2.1	-13.6	2.5	4.3	3.9	3.5
Inflation (Consumer Price Index)	255.3	557.2	98.5	72.0	44.0	34.0
Current Account Balance (% of GDP)	4.6	3.6	4.0	2.6	0.3	-0.7
Net Foreign Direct Investment (% of GDP)	-1.2	-0.8	-0.4	-0.7	-0.5	-0.4
Fiscal Balance (% of GDP)	0.2	1.7	-1.5	-1.7	-2.0	-1.1
Debt (% of GDP)	94.8	109.7	88.4	81.6	78.3	76.3
Primary Balance (% of GDP)	0.4	1.8	-1.4	-1.5	-1.9	-0.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	39.5	42.7	40.9	40.1	39.4	38.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	63.8	66.7	65.2	64.6	63.7	63.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	82.8	84.4	83.6	83.0	82.7	82.3
GHG emissions growth (mtCO2e)	-1.6	-2.9	2.3	1.2	0.7	0.8
Energy related GHG emissions (% of total)	12.6	10.5	10.4	10.1	9.5	8.9

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

Macro Poverty Outlook

04/
2022

WORLD BANK GROUP
Macroeconomics, Trade & Investment
Poverty & Equity