East Asia and the Pacific

Macro Poverty Outlook

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

Spring Meetings 2023

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East Asia and the **Pacific**

Spring Meetings 2023

Cambodia
Central Pacific Islands
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North Pacific Islands
Papua New Guinea
Philippines
Solomon Islands
South Pacific Islands
Thailand
Timor-Leste
Vietnam

CAMBODIA

Table 1	2022
Population, million	16.8
GDP, current US$ billion	29.6
GDP per capita, current US$	1768.1
School enrollment, primary (% gross)[a]	102.9
Life expectancy at birth, years[a]	70.4
Total GHG emissions (mtCO2e)	77.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2021); Life expectancy (2020).

Cambodia's economy continued to recover in 2022. The recovery of the services sector is strengthening, driven largely by pent-up consumer demand. Economic growth for 2023 is projected to reach 5.2 percent, underpinning poverty reduction. Downside risks include a marked slowdown in external demand, further global financial tightening, and renewed oil price shock. Domestically, the concentration of domestic credit in the construction sector remains a key risk to financial stability. On the upside, China's reopening presents an opportunity for Cambodia to boost its travel and tourism industry and attract FDI inflows.

Key conditions and challenges

After shifting to "living with COVID-19" in late 2021, the economy has gradually recovered with real GDP growth estimated to have accelerated to 5.2 percent in 2022. Initially led by a recovery of export-oriented manufacturing, growth drivers have started rotating to the services sector, which is accelerating, driven by pent-up consumer demand and the return of foreign tourists. This is offsetting a recent decline in Cambodia's goods exports hit by the recent slowdown in external demand. Domestic consumption is also being boosted by the easing of inflation which declined to 2.9 percent y/y in December 2022 as energy and food prices stabilized.

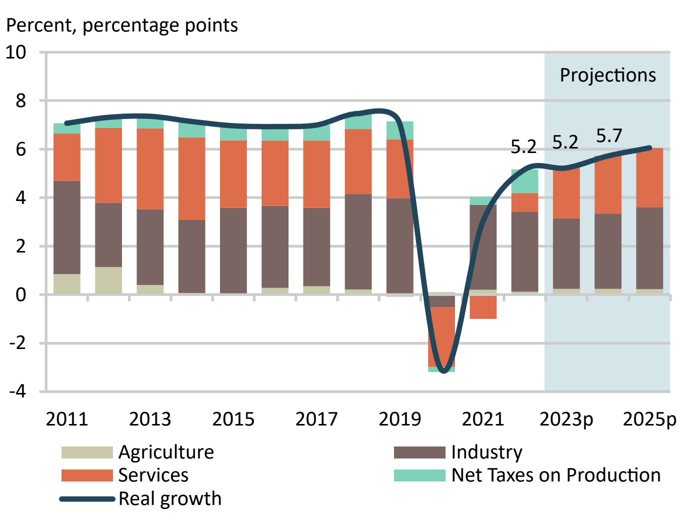
Near-term risks are tilted to the downside. An extended slowdown in external demand is expected to further weaken Cambodia's export-oriented manufacturing which generates about 40 percent of total employment in the industrial sector (17.3 percent of total non-farm employment). Continued global financial tightening is expected to affect the highly leveraged financial sector which has been partly behind the recent construction boom. A renewed oil price shock may stoke up inflation and dampen domestic consumption. On the upside, China's reopening presents an opportunity for Cambodia to boost its travel and tourism industry and attract FDI inflows. Over the medium term, more open trade and investment policies, anchored in Cambodia's participation in bilateral and regional free trade agreements, including the Regional Comprehensive Economic Partnership (RCEP), Cambodia-China Free Trade Agreement, and Cambodia-South Korea Free Trade Agreement, are expected to support further export-led growth.

Recent developments

Cambodia's economic recovery solidified in 2022 with growth accelerating to 5.2 percent. However, recent high-frequency indicators suggest weakening external demand. Caused largely by the decline in exports to the U.S. and EU markets, total goods (excluding gold) exports contracted at 17.1 percent y/y in January 2023, compared to an average growth rate of 6.7 percent in 2019. In contrast, the services sector, especially in the retail, travel, and tourism industry is quickly accelerating, driven largely by pent-up consumer demand. In 2022, international arrivals picked up, reaching 2.2 million. Approved FDI-financed project value expanded at 75.4 percent y/y, reaching US$1.15 billion in 2022.

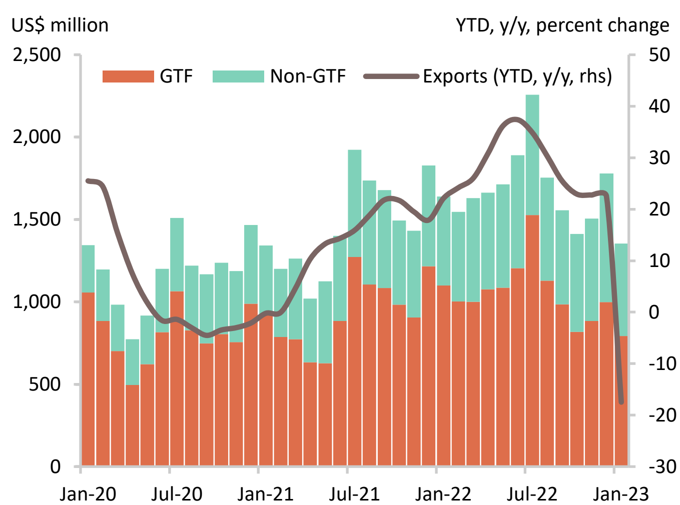
Meanwhile, inflation eased significantly, declining to 2.9 percent y/y in December 2022 as energy and food prices decelerated. The nominal exchange rate continued to be broadly stable, hovering at riel 4,100 per U.S. dollar. Gross international reserves, however, declined marginally to US$17.8 bln, covering about 7 months of imports. In 2022, the current accounts

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



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

FIGURE 2 Cambodia / Merchandise exports (excluding gold)



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

deficit narrowed, thanks to strong exports. Broad money growth decelerated to 8.2 percent y/y in December 2022 as foreign currency deposit growth moderated, while credit growth eased to 18.9 percent.

In 2022, central government revenue collection surged, growing at 19.5 percent, helping contain the overall fiscal deficit which is estimated to have narrowed to 4.7 percent of GDP, boosting government deposits (fiscal reserves) to reach riel 13.5 trillion (US$3.3 billion).

On the spending side, the government extended the COVID-19 cash transfer program with an additional budget of roughly US$400 million. The program has benefited approximately 690,000 households or 17 percent of the population. As of January 2023, it has disbursed US$ 932 million since the launch in June 2020. In addition, the government has launched a new cash transfer program for households at risk due to inflationary pressures, targeting 600,000 vulnerable households with a planned budget of US$65 million. The new cash subsidy aims to some extent stabilize the living condition of vulnerable households during hardship. The poverty rate measured at the national poverty line was 17.8 percent in 2019/20. The employment number was estimated at 8.96 million in 2021, compared with 8.8 million in 2019/20. The minimum wage for the garment, travel goods, and footwear industry increased to US$ 200 per month in 2023.

Outlook

Despite a slowdown in external demand, Cambodia's real GDP growth for 2023 is projected to reach 5.2 percent. The fiscal balance is projected to continue to normalize on the back of stronger revenue collection. While goods exports are expected to slow, the external current account deficit is projected to improve to 19.3 percent of GDP on the back of the recovering tourism sector and services exports. Continued strong FDI inflows and concessional financing will cover external financing needs.

Over the medium term, the economy is expected to trend back to potential, growing at 6 percent. Goods and services exports and strong FDI inflows are expected to be bolstered by the newly ratified free trade agreements, a substantial increase in private and public investment, especially under public-private partnership, in key physical infrastructure such as seaports and roads that the country experienced during the COVID-19 period and beyond, and structural reforms. Poverty is expected to decline due to the projected economic recovery and moderating inflation. Worsening education performance, with a decline in the net enrollment rate and rising number of children out of school several years prior to the pandemic, is one of the major scars. It will likely affect future growth and more importantly, inequality in Cambodia.

The outlook is, however, subject to downside risks which include an extended slowdown in the U.S. and European Union, further global financial tightening, and a renewed global energy price shock. Given lags in monetary policy transmission, the full impact on activity of last year's monetary policy tightening cycle has yet to fully materialize. In this regard, rising financial market stress, together with intensifying geopolitical tensions, is considered one of the main risks to Cambodia's projected path to economic recovery.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-3.1	3.0	5.2	5.2	5.7	6.1
Private Consumption	-4.0	-0.7	9.5	1.7	1.5	1.3
Government Consumption	12.5	-28.3	23.3	13.7	22.0	5.5
Gross Fixed Capital Investment	-2.7	6.8	19.6	14.5	14.2	2.1
Exports, Goods and Services	-11.3	13.5	20.7	6.9	10.3	14.3
Imports, Goods and Services	-8.9	23.1	22.3	6.5	9.3	9.3
Real GDP growth, at constant factor prices	-3.1	2.9	5.1	5.2	5.7	6.1
Agriculture	0.6	1.2	0.7	1.5	1.5	1.5
Industry	-1.4	9.4	8.3	7.1	7.5	8.0
Services	-6.3	-2.7	3.5	4.8	5.5	5.7
Inflation (Consumer Price Index)	2.9	2.8	5.5	2.5	2.5	2.0
Current Account Balance (% of GDP)	-12.4	-42.6	-26.3	-19.3	-16.1	-13.1
Net Foreign Direct Investment Inflow (% of GDP)	13.5	12.6	12.6	13.5	15.0	13.7
Fiscal Balance (% of GDP)	-4.9	-7.0	-4.7	-5.5	-3.7	-3.2
Revenues (% of GDP)	23.8	22.0	23.2	23.4	25.2	26.4
Debt (% of GDP)	36.1	36.1	36.7	35.6	36.1	36.3
Primary Balance (% of GDP)	-4.3	-6.5	-4.2	-4.9	-3.1	-2.7
GHG emissions growth (mtCO2e)	1.8	2.4	4.0	5.7	6.9	7.9
Energy related GHG emissions (% of total)	21.0	23.0	25.7	29.2	33.4	37.8

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

CENTRAL PACIFIC ISLANDS

Table 1	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.

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

Key conditions and challenges

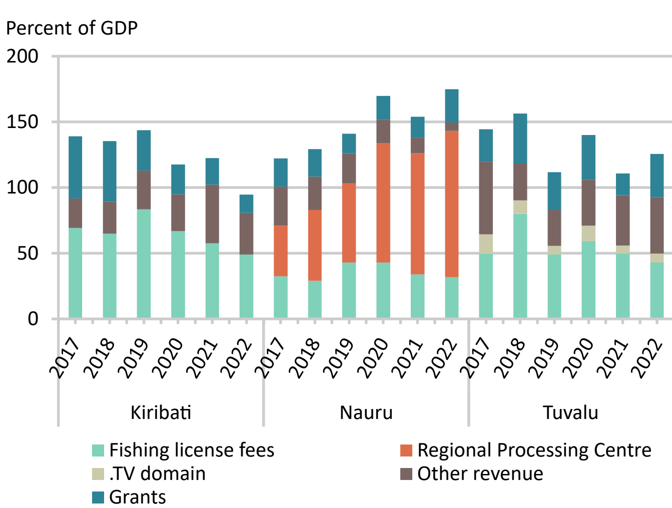
The Central Pacific faces major development challenges due to exogenous factors like climate change, small size, and remoteness; and endogenous forces like concentrated, import-reliant, and volatile economies. All three countries have trust funds to stabilize volatile revenues and provide long-term development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

In recent years, **Kiribati**'s growing fisheries revenues have allowed the government to rapidly increase spending to tackle widespread poverty. According to a 2019 survey, 21.9 percent of the population was 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. The latest IMF-World Bank LIC DSA (April 2021) found Kiribati's external debt, at 15 percent of GDP, to be sustainable but at high risk of debt distress. As its fiscal space is now narrowing, Kiribati must improve the quality of public spending including better targeting social programs.

Nauru must adjust to lower fiscal revenues and identify new sources of growth over the medium term. Public revenues, economic growth, and employment have historically depended on phosphate mining, fishing, and Australia's Regional Processing Centre (RPC) for asylum-seekers. However, phosphate deposits have been exhausted, fishing revenues are volatile, and the RPC has transitioned to an 'enduring capability' setting, which is expected to reduce fiscal revenues by 22 percent (or 38 percent of GDP) in FY2023. The latest IMF DSA (February 2022) found Nauru's public debt, at 27.1 percent of GDP, to be sustainable; improving on the 'unsustainable' assessment in 2019. The improvement was due to public debt falling by 70 percent in March 2021 when long-defaulted yen bonds were settled, and domestic debts from the Bank of Nauru liquidation were reduced. Looking forward, Nauru must diversify its economic base, for example through tourism, labour mobility schemes, or expanding fishing revenues.

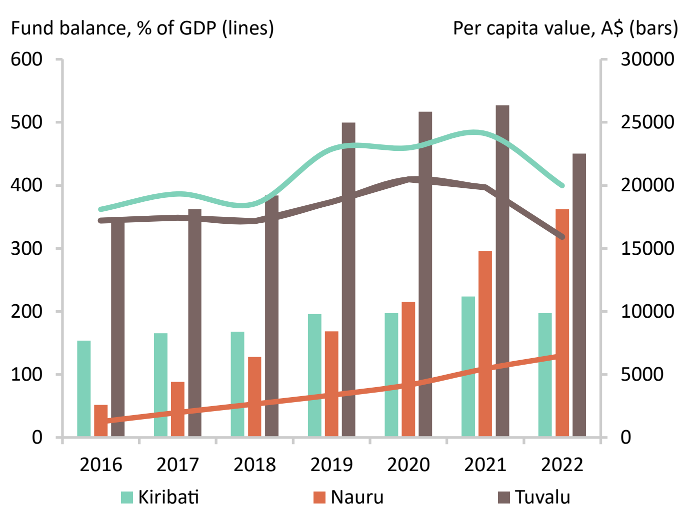
Tuvalu should expand beyond fishing revenues and the.TV domain by increasing trade integration, particularly through the PACER Plus regime. Medium-term macrofiscal sustainability will require diversifying away from volatile revenue sources and consolidating current expenditures given the longer-term nature of capital expenditures. The latest IMF-World Bank LIC DSA (July 2021) assessed Tuvalu as at high risk of debt distress, but public debt is deemed sustainable. Tuvalu does not have any domestic debt; external public debt to GDP in 2022 is 4.0 percent. In the face of high uncertainty, it is critical that Tuvalu pursues prudent fiscal policy that prioritizes grants and concessional external borrowing. Although no recent data on poverty is available, in 2010 an estimated 26 percent of the population lived below the national poverty line.

FIGURE 1 Central Pacific Islands / Sources of revenue



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

FIGURE 2 Central Pacific Islands / Trust Fund balances



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

Recent developments

In **Kiribati**, growth fell to 1.2 percent in 2022 due to COVID-19 restrictions. This follows strong growth in 2021 of 7.9 percent, driven by government spending, construction, and a large new unemployment benefit paid to three-quarters of the adult population. Inflation rose to 5.3 percent (annual average) in 2022, due to food and energy inflation and strong local demand. Strong growth is estimated to have reduced poverty to 17.9 percent in 2021 (US$3.65 lower-middle-income line), below pre-pandemic levels of 19.5 percent in 2019. However, at 10 percent of GDP, the unemployment benefit introduces significant fiscal pressures. These pressures were felt in early 2022 as COVID-19 border closures reduced tax revenues, compounded by drought and weak fishing income. As a result, the government is expected to post a deficit of approximately 20 percent of GDP after budget support in 2022. The RERF was worth 380 percent of GDP in December 2022, down from 450 percent in 2021 due to weak investment returns and GDP growth.

Nauru's economy is estimated to have grown by 3.0 percent in FY22 (ending June 2022). Inflation in FY22 was 2.6 percent, with more effects of global inflation expected to appear in FY23. Fiscal performance in FY22 was better than expected due to strong fisheries revenues and delays to the RPC winddown. This allowed the Government to provide additional support to SOEs and public services, and offset a global oil price spike by lowering the fuel duty by 20 cents per liter in June 2022. The Government also made a prepayment into the Intergenerational Trust Fund which grew to 130 percent of GDP by 30 June 2022, up from 110 percent in June 2021. In July 2022 Nauru experienced its first COVID-19 outbreak, though its effects were offset by fiscal support and the high vaccination rate.

In **Tuvalu**, growth increased from 0.3 percent in 2021 to 0.6 percent in 2022 despite the start of community transmission of COVID-19. Inflation rose sharply to around 10 percent (annual average) in 2022, the highest since 2009, due to supply chain disruptions and global inflation. The fiscal surplus in 2022 is largely due to higher grants from development partners and capital underspending. Total sovereign wealth funds for Tuvalu, comprising the Tuvalu Trust Fund (TTF), the Consolidated Investment Fund (CIF), and the Tuvalu Survival Fund (TSF), stood at 318 percent of GDP at end-2022, down from 397 percent of GDP in 2021 due to GDP growth and poor investment returns.

Outlook

In **Kiribati**, growth is expected to rebound to 2.5 percent in 2023 as donor-led investment resumes with the border reopening. Fishing revenues are expected to gradually return to historical averages, and government services are likely to continue supporting growth. No withdrawals from the RERF are projected in coming years, though their amounts are highly uncertain due to the volatile withdrawal rule. While the rule is an important fiscal anchor a more stable version, like withdrawing a fixed share of assets, would make budgeting easier. To boost growth Kiribati should rationalize spending to target poverty reduction and human capital investment. Any further increases in untargeted fiscal transfers could jeopardize the Government's fiscal responsibility rules.

In FY23 **Nauru**'s GDP growth is projected to fall to 1.0 percent, due to the wind-down of the RPC. This is expected to reduce government revenues by 38 percent of GDP in FY23, so spending must tighten by 27 percent of GDP to achieve a balanced budget and meet fiscal responsibility ratios. The Government plans to reduce spending on operations, social housing, and one-off payments. Recent activity has been supported by the construction of a deep-water port, though many inputs have been imported. From 2024 growth is expected to be supported by the port's opening. Nauru could negotiate higher RPC revenues in the future, or move up the value chain to operate it, which yielded the Australian operating company an FY21 profit worth 56 percent of Nauru's GDP. Nauru also could diversify the economy by expanding the Vessel Day Scheme, international labor mobility schemes, and niche tourism.

In **Tuvalu** growth is expected to accelerate to 4.2 percent in 2023, as borders reopen and infrastructure projects resume. Inflation is expected to ease to 3.4 percent by 2025 as global prices stabilize. A fiscal deficit of 4.7 percent of GDP is projected in 2023-25 due to a slowdown in grants while current expenditure remains at high pandemic levels. Total sovereign wealth funds as a percent of GDP are anticipated to decline over the medium term. Longer-term growth is expected to be of around 2 percent, impacted by public enterprise inefficiencies, capacity constraints, and weak competitiveness.

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

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

	2020	2021f	2022f	2023f	2024f	2025f
Real GDP growth, at constant market prices						
Kiribati	-1.4	7.9	1.2	2.5	2.4	2.3
Nauru	0.7	1.5	3.0	1.0	2.0	2.5
Tuvalu	-4.9	0.3	0.6	4.2	3.1	2.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a]						
Kiribati	21.3	17.9	18.3	17.8	17.2	16.6

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/ Poverty rate for 2019 is calculated from the 2019 Household Income and Expenditure Survey. Poverty rates for 2020-2025 are projections based on real GDP per capita growth.

CHINA

Table 1	**2022**
Population, million	1412.3
GDP, current US$ billion	17929.8
GDP per capita, current US$	12695.4
International poverty rate ($2.15)[a]	0.1
Lower middle-income poverty rate ($3.65)[a]	3.0
Upper middle-income poverty rate ($6.85)[a]	24.7
Gini index[a]	38.2
School enrollment, primary (% gross)[b]	104.1
Life expectancy at birth, years[b]	78.1
Total GHG emissions (mtCO2e)	13067.7

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

Following China's reopening, GDP growth is expected to rebound in 2023 to 5.1 percent, buoyed by private consumption, continued fiscal support, and stronger private investment. Beyond the rebound, the property market downturn and geopolitical tensions may weigh on growth, although there is a potential upside of a faster-than-expected recovery in consumption and external demand. The pace of poverty reduction is expected to accelerate but not quite return to pre-pandemic levels.

Key conditions and challenges

In the final quarter of 2022, GDP growth waned in the face of increasingly stringent COVID-19 lockdowns. Year-on-year GDP growth slowed to 2.9 percent in the fourth quarter of 2022, down from 3.9 percent in the third quarter. In the near term, December's reopening is expected to usher in a sharp growth rebound. While the investment rebound could remain dampened by the challenged real-estate sector, it is possible that a faster-than-expected recovery in consumption and external demand could result in higher growth. In the medium term, China's economic outlook remains clouded by structural issues including slowing productivity, environmental challenges, geopolitical tensions, and a shrinking working-age population.

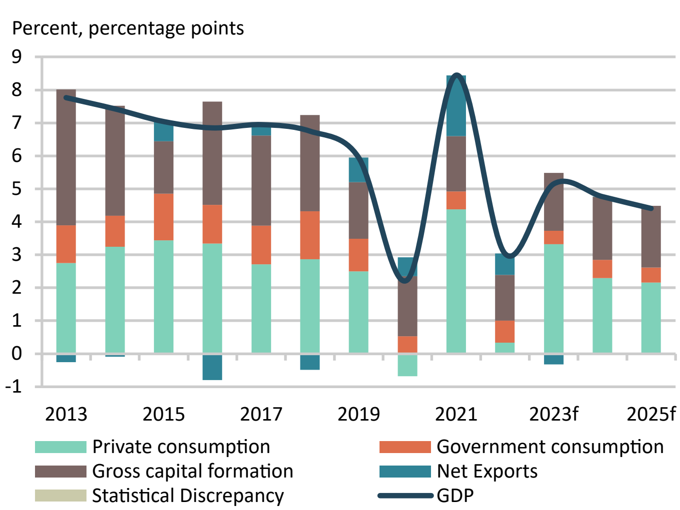
Recent developments

In 2022 full-year growth fell to 3.0 percent. Both the services and industrial sectors saw slowing growth in the fourth quarter in the face of tight COVID-19 restrictions in October and November. By the end of November, public health-related restrictions were reported to be affecting areas worth around a quarter of China's GDP. In response to slowing growth during several large COVID-19 waves over the course of 2022, macroeconomic policies turned expansionary. On the fiscal side, tax, and relief measures were introduced and spending on infrastructure investment projects increased by 9.4 percent year-on-year in 2022, although declining fiscal multipliers during the pandemic have constrained the government's capacity to support the economy. Monetary policy became moderately accommodative with modest interest rate-based easing measures and cuts to the reserve requirement ratio, amongst others.

The sudden loosening of the zero-COVID policy in December was followed by an unprecedented wave of infections, severely disrupting economic activity. On a quarter-on-quarter seasonally adjusted basis, economic activity was flat at 0.0 percent in quarter four, with a contraction in consumption. Simultaneously, the trade surplus also shrank as global demand started to weaken and COVID-related measures caused disruptions to production. A rapid exit wave of COVID-19 infections began to subside in January with consumption beginning a recovery during the holiday period and domestic tourism revenue bouncing back relative to 2022's holiday period. In January there were also tentative signs of a recovery in the housing market, with more cities posting rising rather than falling prices for the first time in more than a year, according to the 70-city home price index.

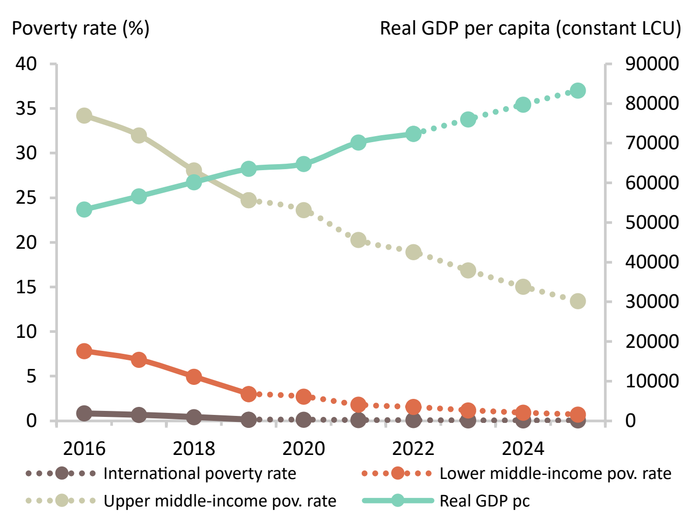
Poverty reduction continued in 2022, albeit at a slower pace. The poverty rate - as measured by the upper-middle income country line in 2017 PPP ($6.85/day) is expected to fall to 18.9 percent in 2022. This decline represents an additional 19 million people being lifted

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



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

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



Source: World Bank. Notes: see Table 2.

out of poverty in 2022, compared with 47 million estimated for 2021. Recurrent lockdowns and a weakened labor market limited welfare improvements in 2022, with urban unemployment rising to 6.1 percent in April, dropping again then rebounding to 5.7 percent in November amidst further lockdowns. Urban households reduced consumption in 2022 (by 1.7 percent relative to 2021) despite a slight increase in their disposable income (1.9 percent over the same period). Rural households were affected to a lesser extent, with average consumption increasing by 2.5 percent in 2022, and income increasing by 4.2 percent.

Outlook

China's GDP growth is expected to rebound to 5.1 percent in 2023, with a sharp recovery expected for the first half of 2023. This expectation is predicated on the rapid rebound experienced after previous reopenings in China in 2020 and 2022. This growth rebound could be even stronger if external demand in export markets and the consumption recovery exceed expectations. Nevertheless, beyond the reopening effect, the outlook remains somewhat clouded in the first half of 2022 by continued challenges in the property sector, which contributes around a quarter of China's GDP. The housing market is expected to gradually recover after the lifting of Covid-19 restrictions and in response to measures from the government to stabilize the property sector, but debt may continue to weigh on property developers. In addition, while the risk of an imminent new wave of COVID-19 infections has subsided, uncertainty will remain over further waves, and associated policy responses and changes in household and firm behavior.

A pro-growth alignment of public health, regulatory, and macroeconomic policy is expected for 2023. Monetary policy is expected to remain relatively accommodative. Fiscal policy is expected to remain supportive, albeit slightly less expansionary in 2023 than in 2022. A rebound in domestic consumption is expected to put moderate upward pressure on inflation, rising to 2.6 percent in 2023, up from 2.0 percent in 2022.

Given the projected economic growth for 2023, the pace of poverty reduction is expected to accelerate but not quite catch up with the pre-pandemic years. Consumption recovery is likely to lead to higher living standards, and the poverty rate at the $6.85 /day line is projected to fall to 16.9 percent, representing 29 million fewer poor people than in 2022. The share of the poor residing in urban areas is projected to continue to grow, reaching 41 percent in 2022.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	2.2	8.4	3.0	5.1	4.8	4.4
Private Consumption	-1.8	11.7	0.9	8.8	6.1	5.5
Government Consumption	3.2	3.3	4.2	2.7	3.5	2.9
Gross Fixed Capital Investment	3.2	3.1	3.5	4.2	4.7	4.5
Exports, Goods and Services	1.7	18.3	0.5	-0.5	2.2	2.0
Imports, Goods and Services	-1.4	10.2	-3.2	1.4	2.8	2.6
Real GDP growth, at constant factor prices	2.2	8.4	3.0	5.1	4.8	4.4
Agriculture	3.1	7.1	4.1	3.1	3.1	3.0
Industry	2.5	8.7	3.8	3.5	3.8	3.5
Services	1.9	8.5	2.3	6.6	5.8	5.2
Inflation (Consumer Price Index)	2.5	0.9	2.0	2.6	2.4	2.0
Current Account Balance (% of GDP)	1.7	1.8	2.3	0.9	0.7	0.5
Net Foreign Direct Investment Inflow (% of GDP)	0.7	1.2	0.2	0.5	0.3	0.3
Fiscal Balance (% of GDP)[a]	-8.5	-4.0	-6.4	-6.5	-4.8	-3.9
Revenues (% of GDP)	34.8	35.2	32.3	31.8	34.4	34.9
Debt (% of GDP)	45.4	46.9	51.0	54.1	55.6	56.2
Primary Balance (% of GDP)	-7.5	-2.9	-5.2	-5.3	-3.5	-2.7
International poverty rate ($2.15 in 2017 PPP)[b,c]	0.1	0.1	0.1	0.1	0.1	0.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	2.7	1.8	1.6	1.2	0.9	0.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	23.6	20.3	18.9	16.9	15.0	13.4
GHG emissions growth (mtCO2e)	0.3	5.7	1.3	2.2	1.9	1.3
Energy related GHG emissions (% of total)	83.1	83.6	83.7	84.0	84.2	84.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ 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: 2020-2022. Forecasts are from 2023 to 2025.
c/ Projection using neutral distribution (2019) with pass-through = 0.85 based on GDP per capita in constant LCU.

FIJI

Table 1	2022
Population, million	0.9
GDP, current US$ billion	4.9
GDP per capita, current US$	5243.2
International poverty rate ($2.15)[a]	1.3
Lower middle-income poverty rate ($3.65)[a]	12.4
Upper middle-income poverty rate ($6.85)[a]	52.6
School enrollment, primary (% gross)[b]	113.7
Life expectancy at birth, years[b]	67.9

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

Robust tourism activity is expected to revive the economy with full recovery expected by 2024. Major risks to the outlook include natural disasters and international commodity price shocks. The government's fiscal consolidation plan, enshrined in its first Medium-Term Fiscal Strategy published in February 2023, is critical to ensuring debt sustainability. Structural challenges include remoteness from markets, vulnerability to natural disasters, and overreliance on tourism.

Key conditions and challenges

Fiji is an upper middle-income country in the South Pacific with more than 300 islands and a population of around 900,000. Economic growth averaged 3.7 percent in 2010-18, supported by tourism. The economy contracted in 2019 due to lower government spending, tighter domestic financial conditions, and the global downswing. The economy suffered a deep contraction of 22.1 percent (cumulative) during 2020-2021 due to the impacts of COVID-19 and multiple tropical cyclones. Fiji faces several structural impediments to economic development that include remoteness from major markets, high exposure to natural disasters, and overreliance on tourism.

Prior to the COVID-19 pandemic, Fiji had a poverty rate of 24.1 percent in 2019/2020 as defined by the national standards of living. The 2019-20 Household Income and Expenditure Survey (HIES) estimated the incidence of extreme poverty (US$2.15 in 2017 PPP) at 1.3 percent, which is on par with other Upper Middle-Income Countries (UMICs). Despite low extreme poverty, Fiji lags behind its UMIC peers in providing higher standards of living for its people, with the upper middle-income poverty rate (US$6.85 in 2017 PPP) of 52.6 percent much higher than the UMICs' average of 23.5 percent during the same period.

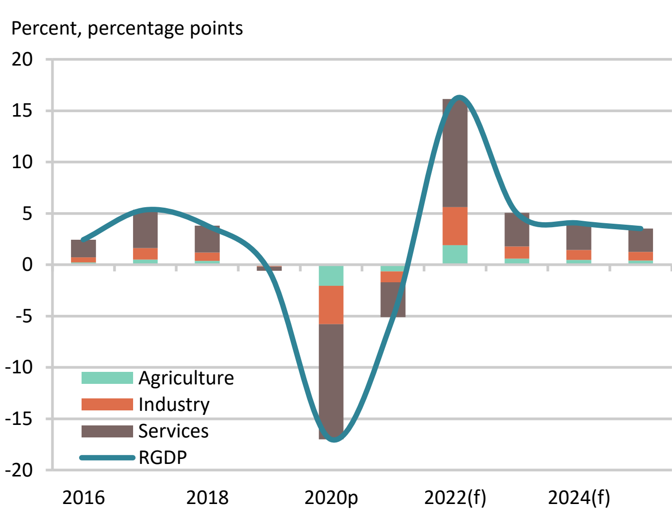
Recent developments

The economy is estimated to have grown by 16.1 percent in 2022. Tourist arrivals for 2022 exceeded expectations with more than 70 percent of pre-pandemic levels, largely from Australia, New Zealand, and the US. This stimulated economic activity across services-related sectors such as accommodation, transport, wholesale, and finance and insurance. Economic recovery is estimated to have reduced extreme poverty from 3.7 percent in 2021 to 2.1 percent in 2022, and poverty by UMIC standards from 67.3 percent to 59.2 percent in the same period.

Inflationary pressure receded towards the end of 2022, registering at 3.6 percent on account of lower-than-expected prices of alcoholic beverages and food items, which have a combined weight of over 45 percent of the CPI basket. Core inflation also declined at the end of 2022 to 0.7 percent (y/y). Inflation levels in Fiji have been low relative to the region as about 36 percent of the items in the CPI basket come under price controls; 16 price-controlled items also have a zero VAT rate. Monetary policy remained accommodative to support recovery with overnight policy rate maintained at 0.25 percent since 2020. The current account deficit narrowed to 15.2 percent of GDP in 2022, reflecting a strong rebound in tourism earnings and remittances. Foreign reserves were at a comfortable level at 6.9 months of import cover as of end-2022.

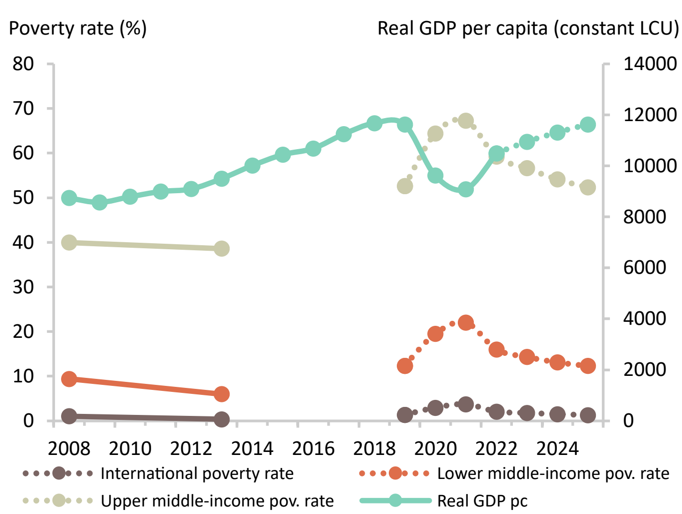
The fiscal deficit declined from 11.7 percent of GDP in 2021 to 10.9 percent of GDP

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



Sources: Ministry of Finance, 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.

in 2022. Revenue to GDP fell from 25.7 percent to 22.8 percent and expenditure to GDP fell from 37.5 percent to 33.6 percent during the same period. The deficit was financed through external concessional and domestic borrowing. Public debt to GDP fell from 93.0 percent in 2021 to 87.1 percent in 2022 due to a declining primary balance combined with higher economic growth. The April 2022 World Bank MAC Debt Sustainability Analysis assessed Fiji with high debt vulnerabilities, but public debt is sustainable with fiscal consolidation, and near-term risks are heightened.

On February 17, 2023, the government tabled its first Medium-Term Fiscal Strategy to the Parliament as required under the Financial Management (Amendment) Act 2021. The strategy aims to instill fiscal discipline and establish a consolidation pathway, targeting around 80 percent of public debt to GDP by July 2026. The government recognizes the importance of immediate tax policy measures such as the review of corporate tax rates and other tax incentives; departure tax; excise tax on alcohol; export income deduction; and VAT regime. Expenditure policies will be guided by the right-sizing of civil service, tightening other operational expenditures, and proper investment appraisals for new capital projects, amongst others.

Outlook

The economy is expected to reach the pre-pandemic level by 2024 conditional upon tourism performance. Growth is projected at 5.0 percent in 2023, driven by an uptick in tourist arrivals to 85 percent of the 2019 level and 4.1 percent in 2024 assuming full tourism recovery to the pre-pandemic level. Key downside risks to growth are natural disasters and international commodity price shocks in the medium term. Headline inflation is forecast to reach 2.0 percent (y/y) in 2023 and remain below 3.0 percent (y/y) in the medium term. Robust tourism earnings and stable remittances are expected to reduce the current account deficit to 11.1 percent of GDP in 2023 and converge to below 8.5 percent over the medium term. Foreign reserves are expected to remain healthy at above 6.0 months of import cover till 2025, adequate considering Fiji's vulnerability to natural disasters. Poverty by UMIC standards is expected to return to pre-pandemic levels (52.6 percent in 2019) around that time, falling to 52.3 percent in 2025. The recovery of the tourism sector, the contraction of which contributed to a quarter of the poverty increase during the pandemic, and remittances, which accounted for 10 percent of household incomes pre-pandemic, are likely to benefit the Bottom 40 households. The fiscal deficit is expected to decline to 5.8 percent of GDP in 2023 and further to 2.3 percent in 2025. As a result, public debt to GDP is projected to fall to 84.8 percent in 2023 and to 80.2 percent by 2025.

The newly elected government has publicly acknowledged constraints to growth such as climate-related shocks, lack of diversification and investment, and sluggish private sector job growth.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-17.0	-5.1	16.1	5.0	4.1	3.5
Real GDP growth, at constant factor prices	-13.4	-3.7	11.8	5.0	4.1	3.5
Agriculture	3.3	0.5	5.5	4.1	3.9	3.2
Industry	-10.6	-8.3	22.1	7.4	3.9	3.5
Services	-16.8	-2.9	9.7	4.3	4.2	3.5
Inflation (Consumer Price Index)	-2.8	3.0	3.6	2.0	2.2	2.4
Current Account Balance (% of GDP)	-13.4	-15.7	-15.2	-11.1	-8.9	-8.3
Fiscal Balance (% of GDP)	-12.8	-11.7	-10.9	-5.8	-3.1	-2.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.9	3.7	2.1	1.8	1.5	1.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	19.5	22.0	16.0	14.3	13.1	12.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	64.4	67.3	59.2	56.6	54.1	52.3

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

INDONESIA

Table 1	2022
Population, million	279.1
GDP, current US$ billion	1319.1
GDP per capita, current US$	4725.7
International poverty rate ($2.15)[a]	2.5
Lower middle-income poverty rate ($3.65)[a]	20.3
Upper middle-income poverty rate ($6.85)[a]	60.5
Gini index[a]	37.9
School enrollment, primary (% gross)[b]	90.1
Life expectancy at birth, years[b]	68.8
Total GHG emissions (mtCO2e)	1990.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ Most recent WDI value (2020).

Robust terms of trade and private consumption boosted growth and reduced poverty in 2022. Elevated inflation triggered a cycle of monetary policy tightening. Commodity windfalls and subsidy adjustments supported fiscal consolidation and a current account surplus, easing external financing needs amid challenging global conditions. Growth is expected to ease from 2023 onwards. Geopolitical uncertainty, inflation, and global monetary tightening pose downside risks, though prospects in key trading partners improved recently.

Key conditions and challenges

The economy sustained a strong recovery on the back of elevated global commodity prices and the unwinding of domestic pandemic restrictions. Pockets of vulnerability are nonetheless evident, including inflationary pressures, tighter monetary and fiscal policy, and downward trending capacity utilization in food-related sectors. Despite steady progress in poverty reduction, ensuring households' economic security remains a key equity challenge.

Robust growth, windfall commodity revenues, and cuts to energy subsidies have improved the fiscal position and mitigated the impact of a sharp consolidation in 2023. However, low revenue collections continue to constrain development spending that is critical for boosting productivity and growth.

Headline inflation (5.3 percent yoy in January) has persisted above the ceiling of Bank Indonesia's (BI) target band, placing stress on household purchasing power especially for the poorest. However, it looks to have peaked and begun its descent. Core inflation, by contrast, has trended higher on account of a narrowing output gap and second-round passthrough of earlier energy price hikes.

Effective management of inflation remains critical to macroeconomic stability and the ongoing economic recovery. BI policy rates have been raised significantly to cool price pressures and prevent the de-anchoring of inflation expectations.

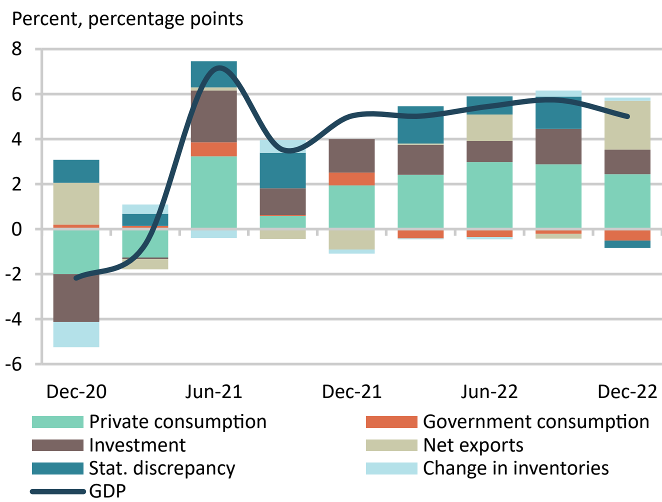
Recent developments

The economy continued its robust recovery, despite the global downturn. GDP grew by 5.3 percent in 2022, up from 3.7 percent a year earlier. Private consumption and investment contributed 3.9 percentage points to growth, amidst a dwindling role for government spending. On the supply side, key contributors were the manufacturing, transportation and warehousing, wholesale and retail trade, and telecommunication sectors.

Poverty declined sharply in 2022. The US$3.65 2017 PPP poverty rate continued its downward trend from 22.4 percent in 2021 to 20.3 percent in 2022. This progress continues to be driven by increased private consumption as the economic recovery boosts labor incomes. Negative impacts from high inflation were mitigated by targeted cash transfers. This included transfers of around 75 percent of monthly per capita household expenditure in September and December 2022 aimed at offsetting the impacts of fuel subsidy cuts.

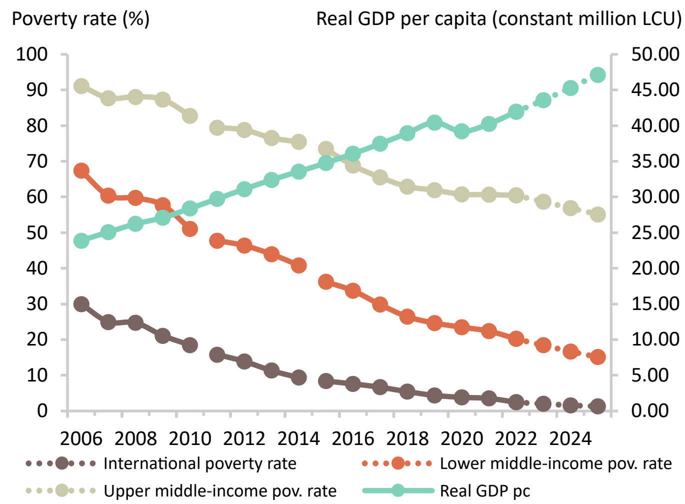
Headline inflation accelerated in 2022, as global food and energy prices rose, and the Rupiah depreciated. Headline CPI peaked at 6.0 percent yoy in September, as fuel subsidies were cut, though moderated later as food price inflation eased. Food price inflation – which places a heavier burden on poorer households – reached 9.4 percent yoy in July, but ended the year averaging just 5.4 percent. The earlier spike was driven by global logistics bottlenecks and disruptions of food supply caused by

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



Sources: National Statistics Agency and World Bank.

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



Source: World Bank. Notes: see Table 2.

Russia's invasion of Ukraine. Core inflation has trended higher since late 2021, reaching 3.3 percent yoy by January 2023.

Strong commodity prices boosted the current account surplus to 1.0 percent of GDP in 2022 and bolstered the external position against the tightening of global financing conditions. Exports growth, up 16.3 percent yoy, benefited from strong coal and base metals performance, while imports growth slumped relative to 2021. Like in other emerging market economies, Indonesia experienced significant capital outflows in 2022, as the US Fed raised rates, putting pressure on the Rupiah. With BI leaning against the ensuing depreciation (down 11.8 percent yoy) international reserves declined by US$7.7 billion. Nevertheless, its level remains adequate covering 5.6 months of imports.

The 2022 fiscal deficit declined to 2.4 percent of GDP, a vast improvement over the Budget Law target and fulfilling the government consolidation objective one year early. Total revenues rose from 11.8 percent of GDP in 2021 to 13.4 percent, buoyed by high commodity prices and the broader economic rebound. Spending declined from 16.4 percent of GDP to 15.8 percent, despite energy prices driving up subsidy spending. It was brought down by an unwinding of pandemic-era programs and adjustments to subsidized fuel prices. Lower fiscal financing needs supported a decline in public debt to GDP.

Outlook

The economy is expected to slow moderately to 4.9 percent in 2023-24, and then nudge higher to 5.0 percent in 2025. Headline inflation will unwind at a slow pace given new pressures from firms gradually passing on their higher input costs to consumers and from a core inflation build-up as the output gap closes in 2024. Higher prices will dampen private consumption, more than offsetting the upside from the removal of pandemic restrictions. As key commodity prices ease from recent highs, the terms of trade will soften. Nonetheless, persistent strength in export volumes should continue to support the current account.

The budget is expected to record a deficit of 2.5 percent in 2023. Declining commodity prices and softer growth will weigh on revenue performance. This will be counterbalanced by emerging fiscal space from fuel price cuts and reduced pressure on the subsidy budget from global energy prices. With fiscal consolidation already complete, the government can expect to meet its fiscal financing needs while navigating emerging external risks. Looking ahead, tax policy and administration reforms are needed to boost revenues and finance productive spending on health, infrastructure, and social protection.

Moderating growth and inflation-driven erosion of household budgets are expected to slow the pace of poverty reduction from around 2.2 percentage points per year in 2021-22 to 1.7 per year until 2025. Boosting growth through structural reforms, keeping a lid on inflation, creating opportunities to increase labor income, and improving the targeting and coverage of social protection will be crucial to achieving faster poverty eradication.

Downside risks to growth are significant, but external factors have improved in recent months. Geopolitical uncertainty and inflation remain a concern, as do amplified spillovers from globally uncoordinated monetary policy tightening. However, Indonesia's largest trading partner, China, is rapidly re-opening, while the US and Euro area may expect less severe slowdowns than previously projected. Domestic risks include moderating growth and rising core inflation as the output gap closes. Balanced macroeconomic policy interventions will be important to reduce inflation pressures without sacrificing growth.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-2.1	3.7	5.3	4.9	4.9	5.0
Private Consumption	-2.7	2.0	4.9	4.6	4.7	5.0
Government Consumption	2.1	4.2	-4.5	3.1	1.4	-1.2
Gross Fixed Capital Investment	-5.0	3.8	3.9	6.2	5.9	6.1
Exports, Goods and Services	-8.4	18.0	16.3	17.1	8.9	9.0
Imports, Goods and Services	-17.6	24.9	14.7	9.0	9.4	9.5
Real GDP growth, at constant factor prices	-1.6	3.3	4.9	4.9	4.9	5.0
Agriculture	1.8	1.9	2.3	5.4	3.9	2.5
Industry	-2.8	3.4	4.1	4.4	4.4	4.5
Services	-1.5	3.5	6.5	5.3	5.7	6.1
Inflation (Consumer Price Index)	2.0	1.6	4.2	4.5	3.8	3.5
Current Account Balance (% of GDP)	-0.4	0.3	1.0	0.0	-0.4	-1.0
Net Foreign Direct Investment Inflow (% of GDP)	1.3	1.5	1.1	1.4	1.4	1.5
Fiscal Balance (% of GDP)	-6.1	-4.6	-2.4	-2.5	-2.5	-2.5
Revenues (% of GDP)	10.7	11.8	13.4	12.5	12.7	12.9
Debt (% of GDP)	39.3	40.7	39.5	39.1	38.7	38.5
Primary Balance (% of GDP)	-4.1	-2.5	-0.4	-0.5	-0.5	-0.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.8	3.6	2.5	2.0	1.6	1.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	23.5	22.4	20.3	18.4	16.7	15.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	60.8	60.7	60.5	58.7	56.9	55.1
GHG emissions growth (mtCO2e)	1.0	1.9	-1.3	1.1	0.5	1.6
Energy related GHG emissions (% of total)	31.2	32.3	31.2	31.7	31.9	32.9

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

LAO PDR

Table 1	2022
Population, million	7.5
GDP, current US$ billion	15.4
GDP per capita, current US$	2045.8
National Official Poverty Rate[a]	18.3
International poverty rate ($2.15)[a]	7.1
Lower middle-income poverty rate ($3.65)[a]	32.5
Gini index[a]	38.8
School enrollment, primary (% gross)[b]	98.5
Life expectancy at birth, years[b]	68.5
Total GHG emissions (mtCO2e)	34.9

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

Amid persistent macroeconomic instability, the economic recovery will be gradual and remain vulnerable to further shocks. Economic growth is expected to reach 3.9 percent in 2023, mostly driven by the services sector. High consumer price inflation, which has been predominantly induced by the sharp depreciation of the Lao kip, has undermined improvements in living standards. The poverty rate, measured at the lower-middle-income poverty line of $3.65-a-day in 2017 PPP, is estimated to stagnate at around 32 percent in 2022.

Key conditions and challenges

Macroeconomic instability persisted in 2022, mainly owing to a sharp currency depreciation. These developments have put pressure on public debt servicing, which further limits fiscal space and exacerbates financial sector vulnerabilities. Public and publicly guaranteed debt (PPG) is estimated to have surpassed 110 percent of GDP in 2022, mainly due to a large kip depreciation. Debt service deferrals have accumulated to about 8 percent of GDP in 2022, while average annual repayment obligations remain at $1.3 billion in the medium term. These pressures are tipping the country towards debt distress, weighing on future growth. A positive outcome from ongoing debt renegotiations with large bilateral creditors is crucial to restoring debt sustainability.

Domestic and external uncertainty continues to cloud the outlook. In the near term, the recovery will likely benefit from the reopening of China, increased exports, and workers' remittances. However, structural imbalances associated with limited foreign reserves, high public debt, and higher import demand will continue to put pressure on the kip and inflation, likely undermining household consumption and investments in human capital. Subdued global and regional economic growth would weaken external demand.

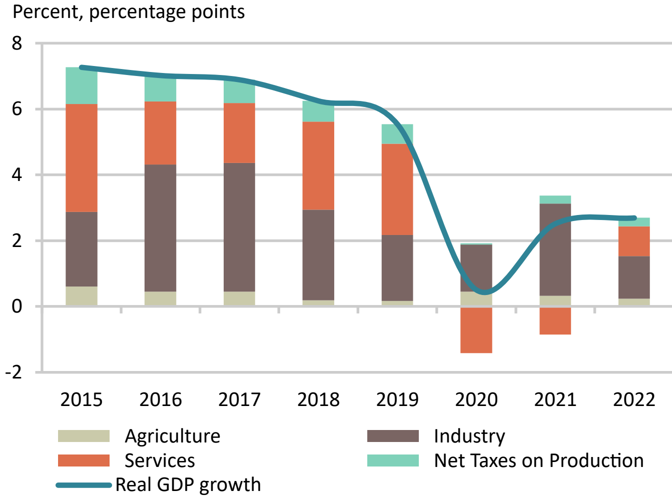
Recent developments

Economic growth was estimated at 2.7 percent in 2022, as the recovery in the services sector was partly undermined by macroeconomic instability. The sector benefited from increased international and domestic tourism. Transport and logistics services benefited from the opening of the Lao-China railway and the Thanaleng dry port in December 2021. On the expenditure side, foreign direct investment and public investment declined substantially in 2022.

The kip/US dollar exchange rate has stabilized since mid-October 2022 due to recent measures, such as widening exchange rate bands, kip savings bond issuances, and the closure of all foreign exchange bureaus – supported by the recent weakening of the US dollar. However, the impact of these measures might be temporary and may lead to the emergence of a black market if the demand for foreign currencies is not fully met. Meanwhile, the kip still depreciated against the USD and Thai baht by 47 percent and 43 percent in the year to February 2023, respectively. This reflects considerable external liquidity constraints despite substantial external debt repayment deferrals.

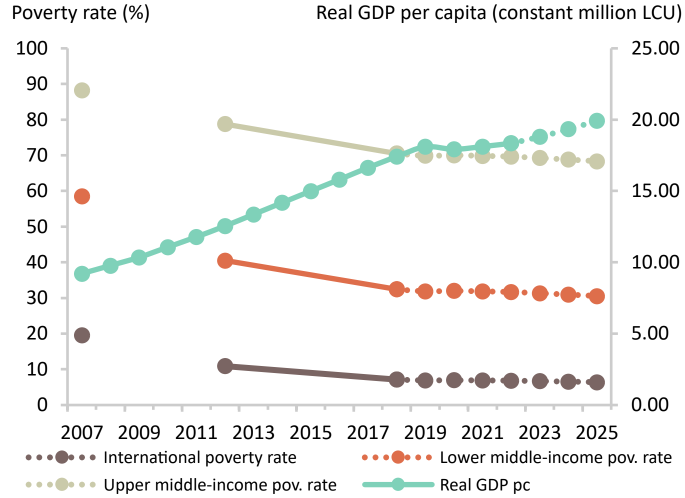
Inflation reached 41.3 percent in February 2023 – owing to a weaker kip and high global commodity prices, particularly fuel. Food and transport price increases were the key drivers. These have passed through to core inflation, which reached 33.6 percent (year-on-year).

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.

Fiscal performance improved in 2022 due to higher domestic revenue and contained public spending. Domestic revenues rose to 13.3 percent of GDP in 2022 from 13 percent in 2021 mostly driven by higher excise and income taxes. However, value-added tax (VAT) collection declined, which mainly resulted from the VAT rate reduction from 10 to 7 percent in January 2022 (and despite price increases), while non-tax revenues also declined. Financing needs remain high. Preliminary data indicates that the current account balance worsened in the first three quarters of 2022 due to higher import growth, which partly offset strong merchandise exports and interest payment deferrals. Foreign reserves declined to about $1 billion in September 2022.

Employment slightly picked up in the second half of 2022, with more workers shifting to services. While household income had gradually recovered from the pandemic's impact, more than one-third of households still experienced income losses from the pandemic in December 2022. Coupled with the rising cost of living, most households had to reduce food consumption (66 percent), switch to cheaper food (77 percent), and cut spending on health or education (70 percent). Contractions in food and human capital expenditures were particularly high among low-income families. Progress in poverty reduction remained slow, with the poverty rate (measured at the lower-middle-income poverty line of $3.65 a day 2017 PPP) estimated to stagnate at around 31.7 percent in 2022.

Outlook

GDP growth for 2023 is projected to accelerate to 3.9 percent, led by a continued recovery in the services and agriculture sectors. Inflation is expected to remain in the double digits, though lower than in 2022. Outlook is also predicated on the assumption of continued deferral of some of Lao PDR's external debt service obligations during the forecast period.

The primary fiscal surplus is expected to improve, owing to higher revenue and contained spending. However, the overall fiscal deficit is expected to worsen due to higher interest payments. The current account deficit is expected to slightly improve as merchandise exports, tourism, and remittances are likely to increase, although higher import demand and external debt service payments will partly offset these improvements.

The outlook is subject to upside and downside risks. Upside risks include a faster-than-expected recovery in China, which could boost external demand though it could place upward pressures on some prices. Downside risks include lower-than-expected growth in regional economies that could lower external demand. Depreciation pressures may reemerge later in the year given high debt service obligations and low foreign reserves, which could exacerbate macroeconomic instability. Fiscal space will remain limited to support the recovery, particularly in the absence of improved revenue collection.

Household incomes are expected to gradually improve, as economic activity continues to pick up in the services sector. However, inflation has eroded purchasing power, depleting household savings and reducing human capital spending, placing many households at risk of falling into poverty. The slow progress in poverty reduction will likely continue. Poverty is expected to decline marginally to 31.4 percent in 2023.

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

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	0.5	2.5	2.7	3.9	4.2	4.4
Real GDP growth, at constant factor prices	0.5	2.5	2.7	3.9	4.2	4.4
Agriculture	3.2	2.3	1.6	2.4	2.8	3.2
Industry	4.0	7.6	3.3	3.9	3.5	3.8
Services	-3.5	-2.2	2.5	4.5	5.5	5.6
Inflation (Consumer Price Index)	5.1	3.8	22.7	16.8	5.1	3.5
Current Account Balance (% of GDP)	-5.9	-2.9	-3.2	-3.0	-3.1	-3.2
Fiscal Balance (% of GDP)	-5.2	-1.3	-1.1	-2.0	-2.2	-2.4
Revenues (% of GDP)	12.7	14.9	15.0	15.1	15.2	15.5
Debt (% of GDP)	62.3	77.9	102.8	100.9	98.7	91.5
Primary Balance (% of GDP)	-3.7	0.0	0.6	0.9	0.8	0.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	7.0	6.9	6.8	6.7	6.5	6.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	32.0	31.9	31.7	31.3	30.9	30.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	70.0	69.9	69.7	69.3	68.8	68.3
GHG emissions growth (mtCO2e)	-3.4	-3.4	-5.1	-5.3	-5.3	-4.8
Energy related GHG emissions (% of total)	42.5	39.2	34.7	29.9	24.7	19.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on EAPPOV harmonization, using 2012-LECS and 2018-LECS. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection using annualized elasticity (2012-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

MALAYSIA

Table 1	2022
Population, million	32.7
GDP, current US$ billion	406.3
GDP per capita, current US$	12443.5
International poverty rate ($2.15)[a]	0.0
Lower middle-income poverty rate ($3.65)[a]	0.2
Upper middle-income poverty rate ($6.85)[a]	3.4
Gini index[a]	41.2
School enrollment, primary (% gross)[b]	103.9
Life expectancy at birth, years[b]	75.9
Total GHG emissions (mtCO2e)	424.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2020).

Growth is expected to slow to 4.3 percent in 2023 amid a substantial slowdown in external demand. Deeper slowdown in major economies, uncertainty surrounding inflation, and relatively high debt levels pose downside risks to growth. Narrow fiscal space remains a key challenge for the economy in the near term. As recovery among vulnerable households may be slower, this reinforces the need to strengthen social safety nets.

Key conditions and challenges

Economic recovery was in full momentum in 2022, with the economy expanding by 8.7 percent (2021: 3.1 percent). Aside from the reopening of the economy, Malaysia's strong performance in 2022 was in part due to several support measures, including the withdrawals from the Employees Provident Fund (EPF), which contributed to higher private consumption in Malaysia than in other countries at the expense of long-term pension savings.

However, several key challenges remain. This includes the further narrowing of the fiscal space, as rigid expenditures in salaries, pensions, and interest payments continue to increase. Concurrently, revenue remains on a declining trend. The government re-tabled a revised budget in February 2023 after a new administration took office following the general elections. In the budget speech, the new government has indicated that it expects the fiscal deficit to decline to 5.0 percent of GDP from 5.6 percent in 2022. The government also indicated that it plans to table the Fiscal Responsibility Act this year.

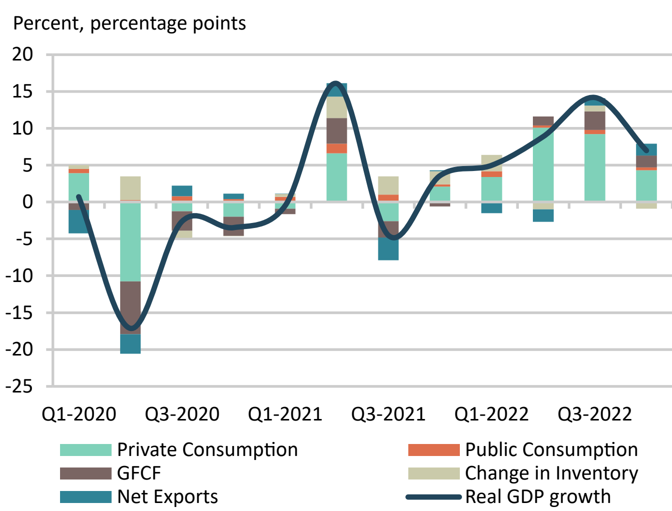
While overall inflationary pressures remained contained at 3.3 percent in 2022 (2021: 2.5 percent), higher food and energy prices have contributed to the rising concern over higher cost of living and food insecurity, particularly in vulnerable households. FAO estimates showed that the incidence of severe food insecurity has been increasing in Malaysia since 2016. Between 2019 - 2021, the prevalence of moderate or severe food insecurity was 15.4 percent, equivalent to 5 million people. Findings from the 3rd round of the World Bank's High-Frequency Phone Survey indicated that the trend of food security among the poor reversed and worsened in May 2022. Despite various price controls and subsidies provided, one in five of the poorest households (earning RM 2,000 and below, monthly) reported running out of food in the past 30 days.

Recent developments

Domestic demand remained the key driver of growth, underpinned by the ongoing recovery in labor market conditions and continued policy support. In Q4 2022, private consumption expanded by 7.4 percent (Q3 2022: 15.1 percent), while gross fixed capital formation (GFCF) grew at 8.8 percent (Q3 2022: 13.1 percent), supported by capital spending in both the private and public sectors. On the supply side, all economic sectors grew in Q4 2022, led by the construction and services sectors which expanded by 10.1 percent and 8.9 percent respectively (Q3 2022: 15.3 percent; 16.7 percent).

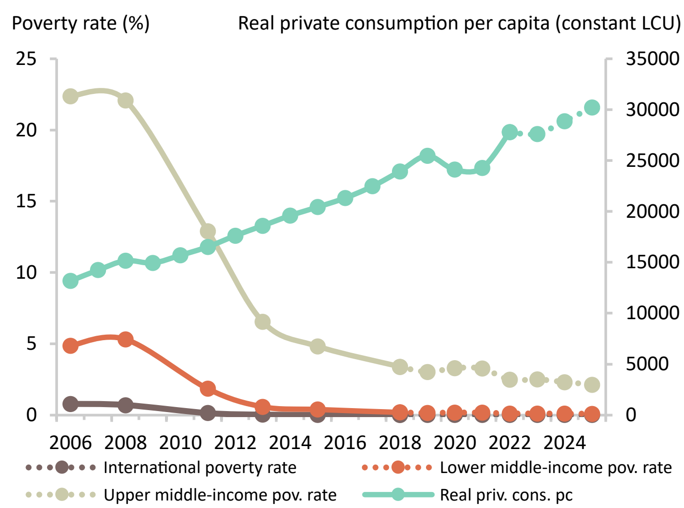
However, there are initial signs of moderation in external demand, with growth in exports moderating to 11.8 percent in Q4 2022 (Q3 2022: 38.3 percent). Gross import growth also decelerated to 18.7 percent (Q3 2022: 46.5 percent), partly reflecting

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.

a slower pace of inventory build-up. The expansion in the manufacturing sector also moderated in Q4 2022 by 3.9 percent (Q3 2022: 13.2 percent) following slower global semiconductor sales.

After rising steadily in the Q2 and Q3 of 2022 on higher food and utility prices, consumer price inflation in Malaysia moderated to 3.7 percent in January 2023 while core inflation was estimated at 3.9 percent. On the labor market front, conditions continued to improve in Q4 2022 with the unemployment rate declining further to 3.6 percent. Private sector wages moderated in Q4 2022, growing by 5.6 percent.

After four successive rate increases (100 bps) in 2022, the central bank kept the overnight policy rate (OPR) unchanged at 2.75 percent in January 2023. The central bank stated that the decision would allow it to assess the cumulative impact of previous OPR adjustments, considering the lag effects of monetary policy on the economy. Following improvements in global investor sentiment, domestic financial conditions continued to ease, partly contributing to the increase in the real effective exchange rate (REER).

Outlook

The economy is projected to grow at a more moderate pace of 4.3 percent in 2023 supported by domestic demand amid an expected slowdown in external demand. Private consumption growth is forecast to remain robust, albeit at a slower rate at 6.3 percent in 2023 (2022: 11.3 percent). This is supported by improvements in labor market conditions, as well as ongoing income support measures from the government. Investment is projected to increase by 4.4 percent in 2023 (2022: 6.8 percent), reflecting the continued flows of capital investments in the private and public sectors. Meanwhile, inflation is projected to moderate to between 2.5 and 3.0 percent in 2023 (2022: 3.3 percent) as global supply constraints ease, and commodity prices stabilize.

As a highly open economy, Malaysia will continue to face substantial risks emanating from the external environment. This includes tighter global financial conditions, deeper slowdown in major economies, and a prolonged Russia's invasion of Ukraine, which could cause a sharper-than-expected slowdown in global growth. On the domestic front, the main sources of downside risk relate to the uncertainty surrounding inflation and relatively high debt levels, which could weigh more heavily on domestic demand.

Going forward, poor and vulnerable households who are most affected by the pandemic may take longer to recover, reinforcing the need for effective and targeted social protection programs. The government's plan to update its poverty line income and multidimensional poverty index is therefore both timely and important to ensure the measures are commensurate with Malaysia's current living standards.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-5.5	3.1	8.7	4.3	4.2	4.2
Private Consumption	-4.2	1.9	11.3	6.3	6.0	5.9
Government Consumption	5.0	5.3	3.9	0.8	0.8	0.5
Gross Fixed Capital Investment	-14.4	-0.9	6.8	4.4	3.1	2.6
Exports, Goods and Services	-8.6	15.4	12.8	3.2	3.3	3.4
Imports, Goods and Services	-7.9	17.7	14.2	3.5	3.8	3.8
Real GDP growth, at constant factor prices	-5.5	3.1	8.7	4.4	4.2	4.2
Agriculture	-2.4	-0.2	0.1	1.6	1.9	2.0
Industry	-6.1	5.6	6.6	4.2	3.6	3.6
Services	-5.6	1.9	11.3	4.9	5.0	4.8
Inflation (Consumer Price Index)	-1.1	2.5	3.3	2.9	2.5	2.5
Current Account Balance (% of GDP)	4.2	3.8	2.6	2.6	2.5	2.5
Net Foreign Direct Investment Inflow (% of GDP)	0.2	1.8	0.9	1.7	1.6	1.5
Fiscal Balance (% of GDP)	-6.2	-6.4	-5.6	-5.0	-4.1	-3.4
Revenues (% of GDP)	15.9	15.1	16.5	15.2	15.0	14.6
Debt (% of GDP)	62.0	63.4	60.4	62.0	63.2	63.8
Primary Balance (% of GDP)	-3.7	-3.9	-3.3	-2.6	-1.6	-0.9
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.2	0.2	0.1	0.1	0.1	0.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	3.3	3.3	2.5	2.5	2.3	2.1
GHG emissions growth (mtCO2e)	-1.8	3.7	5.4	4.8	3.0	2.8
Energy related GHG emissions (% of total)	59.7	60.9	62.4	63.7	64.4	65.0

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

MONGOLIA

Table 1	2022
Population, million	3.4
GDP, current US$ billion	16.8
GDP per capita, current US$	4942.3
Lower middle-income poverty rate ($3.65)[a]	6.9
Upper middle-income poverty rate ($6.85)[a]	38.3
Gini index[a]	32.7
School enrollment, primary (% gross)[b]	102.4
Life expectancy at birth, years[b]	72.1
Total GHG emissions (mtCO2e)	60.1

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

Mongolia's real GDP growth is projected to recover to 5.2 percent in 2023, fueled by a rapid rebound in mining production and robust growth in services. Despite the recovery, poverty is projected to only reach pre-pandemic levels by end-2023 (6.3 percent rate under the lower middle-income class poverty line). Significant risks and challenges lie ahead including high inflation rates (limiting progress in poverty reduction), persistent high debt, increasing fiscal risks, and large external sector imbalances.

Key conditions and challenges

Mongolia's recovery from the pandemic has been relatively slow, dragged down by border frictions with China and the war in Ukraine, with output only recently recovering to its pre-pandemic level and poverty projected to only reach pre-pandemic levels by end-2023 (under the lower middle-income class poverty line).

While the recent refinancing of some external bonds eased the immediate external and fiscal financing pressures, the continuation of a major income support program with limited targeting (Child Money Program, CMP) and substantial increases in capital expenditure continue to jeopardize fiscal and debt sustainability. In addition, sizable infrastructure investments expected under the New Revival Policy through public-private partnerships represent significant fiscal risks.

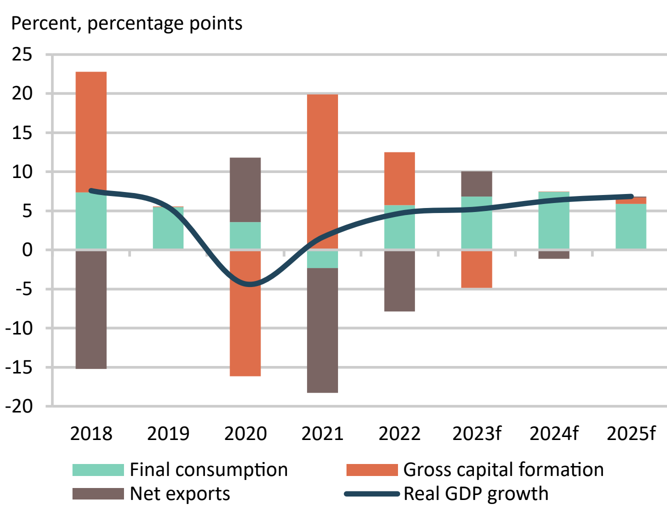
Despite the recent rapid recovery of exports, balance of payment pressures remain significant with low levels of foreign reserves (only 3.1 months of imports coverage as of end-Feb 2023). Large (and still partially confidential) offtake coal export agreements add uncertainty and will likely weigh on the repatriation of export revenues. While the start of the Oyu Tolgoi (OT) underground mining production (scheduled by 2023Q1) will support exports of copper and gold, this will likely only partially compensate for expected increases in imports, notably those related to large public investments planned both on- and off-budget.

International factors will shape the speed of recovery, including the uncertainty about the pace of recovery in China, the evolution of commodity prices, and the tightening of international financial conditions. Reforms to improve fiscal discipline and governance, and promote economic diversification remain imperative to build a sustainable economy resilient to domestic, external, and climate shocks, and mitigate sharp and frequent boom-bust cycles.

Recent developments

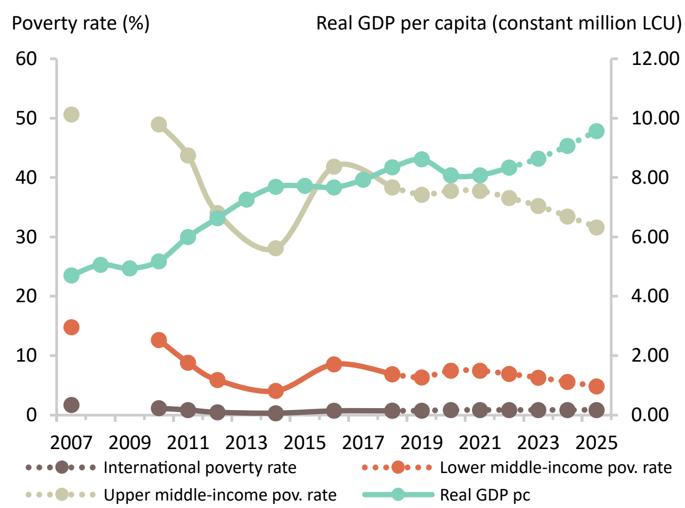
The Mongolian economy grew by 4.7 percent in 2022 driven by increases in exports (in particular, coal following the easing of border frictions with China) and robust consumption. The latter resulted from an improvement in labor market conditions (with the unemployment rate dropping to 5.3 percent by 2022Q4, but with the labor force participation rate still below pre-pandemic levels), sustained social assistance, discretionary raise in pensions, consumers drawing on savings built during the pandemic, and an increase in public consumption. From the production side, the increased number of livestock and meat production and to a lesser extent a rebound in trade and services, explain this robust growth performance. By contrast, mining sector output contracted, mainly because lower copper concentration levels of the ore mined at OT last year led to lower copper mining value added compared to 2021.

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.

For the first time since the start of the pandemic, the fiscal balance turned positive (0.8 percent of GDP in 2022) mainly due to solid revenue collection associated with improved international trade (high commodity prices and a rebound in coal exports) and the domestic recovery. However, government expenditures remained large, with persistently high capital investments, pensions, and social assistance (including the CMP, which recently experienced only limited targeting of beneficiaries effective from January 2023), despite some recurrent spending cuts following the 2022 Austerity Law. Although debt levels remain significant, the recorded fiscal surplus, some debt repayments (notably the full payment of the Chinggis bond), and robust growth resulted in a reduction in the debt-to-GDP ratio (63.8 percent of GDP by end-2022).

Rising food and energy prices, supply bottlenecks amid border closures, and a large exchange rate depreciation resulted in a 15.2 percent inflation rate in 2022. Higher import prices also put pressure on production costs and, together with some demand-driven inflationary pressures (partly due to accommodative fiscal policy and quasi-fiscal activities) progressively started to raise prices of domestically produced goods and services. To respond to these price pressures and also the widening external imbalances, monetary policy tightened with the BOM's policy rate increasing from 6 percent in 2021 to 13 percent in December 2022. Inflation rates are currently on a downward trend, but food inflation remains high (16.2 percent y-o-y in February 2023), limiting progress in poverty reduction and welfare outcomes.

Outlook

Economic growth is expected to accelerate to 5.2 percent in 2023 driven by a rapid recovery in mining production resulting from the removal of border frictions, some decline in coal inventories, and the commencement of the OT underground mining stage. Services (in particular tourism) would continue recovering from restrictions associated with the pandemic, while growth is expected to be weighed down by sluggish agricultural production due to the recent harsh winter.

With the accelerated growth, poverty is projected to reach pre-pandemic levels of 6.3 percent by the end of 2023 under the lower middle-income class poverty line ($3.65, 2017PPP). From the demand side, higher exports, sustained household consumption, and large public investment (through the budget and quasi-fiscal activities) are expected to support growth, while private investment would have a negative contribution with credit conditions tightening and the cost of production increasing. With the rapid recovery in domestic demand, inflation is likely to remain elevated throughout 2023 and could threaten expected progress in poverty reduction, despite some easing in external and supply-related pressures.

The medium-term outlook remains favorable with a substantial increase in mining output from the underground mining phase of OT (particularly in 2025 when production is expected to more than double compared to current levels). However, the outlook is subject to downside risks, including further deterioration of the external and fiscal balances and additional inflationary pressures resulting from a prolonged war in Ukraine, a larger-than-expected tightening of monetary policy in advanced economies, risks related to the current sizable contingent liabilities (including from the large Development Bank of Mongolia's bonds payments), and uncertainties related to existing large (and confidential) offtake coal export agreements and China's economic recovery.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-4.4	1.6	4.7	5.2	6.3	6.8
Private Consumption	2.1	-5.9	7.4	7.0	6.6	6.1
Government Consumption	14.6	9.2	5.4	11.5	14.7	8.1
Gross Fixed Capital Investment	-21.1	17.7	0.3	18.0	7.0	0.0
Exports, Goods and Services	-5.3	-14.6	31.3	14.1	15.2	15.6
Imports, Goods and Services	-15.5	13.6	30.5	5.0	11.5	10.7
Real GDP growth, at constant factor prices	-3.9	0.4	3.9	5.2	6.3	6.8
Agriculture	5.8	-5.5	12.0	0.9	5.5	5.5
Industry	-4.4	-2.2	-2.8	7.7	9.0	10.6
Services	-6.5	3.9	5.5	5.2	5.1	5.1
Inflation (Consumer Price Index)	3.7	7.1	15.2	9.5	6.8	6.0
Current Account Balance (% of GDP)	-5.0	-13.4	-15.8	-14.4	-9.8	-5.6
Net Foreign Direct Investment Inflow (% of GDP)	12.6	13.1	9.7	11.7	9.7	8.1
Fiscal Balance (% of GDP)	-9.1	-3.0	0.8	-1.2	-0.5	0.3
Revenues (% of GDP)	27.6	32.0	34.8	33.7	33.8	34.8
Debt (% of GDP)[a]	79.0	64.5	63.8	60.8	58.5	56.0
Primary Balance (% of GDP)	-6.7	-1.1	2.3	0.6	0.9	1.6
International poverty rate ($2.15 in 2017 PPP)[b,c]	0.8	0.8	0.8	0.8	0.8	0.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	7.5	7.5	6.9	6.3	5.6	4.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	37.7	37.7	36.6	35.2	33.5	31.6
GHG emissions growth (mtCO2e)	-0.3	-1.1	3.1	2.1	3.9	4.2
Energy related GHG emissions (% of total)	36.6	37.7	37.2	37.6	38.3	39.1

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

MYANMAR

Table 1	2022
Population, million	54.2
GDP, current US$ billion	59.4
GDP per capita, current US$	1095.7
Lower middle-income poverty rate ($3.65)[a]	19.6
Upper middle-income poverty rate ($6.85)[a]	68.2
School enrollment, primary (% gross)[b]	112.3
Life expectancy at birth, years[b]	66.8
Total GHG emissions (mtCO2e)	248.2

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

Macroeconomic conditions in Myanmar remain constrained by weak demand, macroeconomic and regulatory uncertainty, ongoing electricity outages, and persistent conflict. Real GDP is projected to expand by 3 percent in the year to September 2023, leaving output well below 2019 levels. Household coping mechanisms remain under severe pressure due to weaker nominal incomes and higher food and fuel prices.

Key conditions and challenges

Over the past year, there has been a shift away from the previously managed float exchange rate regime and toward reliance on administrative controls, including foreign exchange surrender rules. As of end-February 2023, the spread between the parallel market exchange rate and the official fixed rate was about 37 percent. Trade policy has become more restrictive with the imposition of onerous import and export license requirements on a range of traded items. Taken together, these measures have inhibited access to foreign exchange and increased the difficulty of importing many goods, while reducing the price competitiveness of Myanmar's exports. Moreover, recent policy changes have lacked transparency and their implementation appears to have been subject to discretion, increasing business uncertainty and raising compliance costs.

Although some indicators show a decline in conflict over the six months to December 2022, the overall level of conflict remains high. Recent UN estimates indicate that the number of internally displaced people increased by about a quarter to 1.5 million (just under 3 percent of the population) over the same period. In addition to its impacts on lives and livelihoods, conflict also continues to disrupt economic activity and trade. The volatile security situation, combined with a proliferation of roadblocks and checkpoints, has made it harder and more costly to transport goods within the country and across land borders.

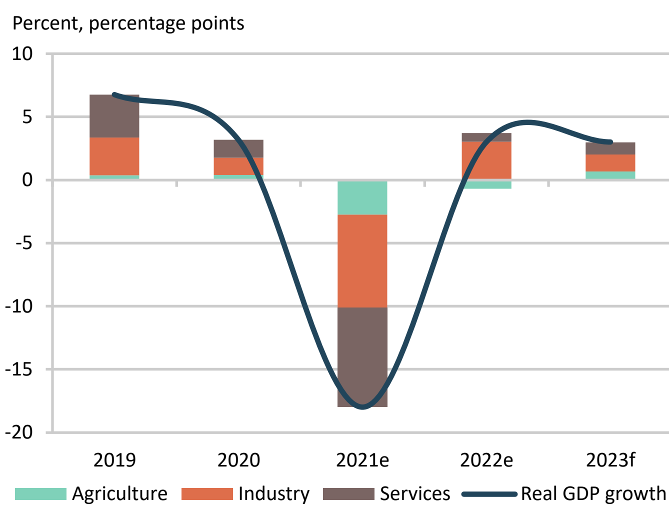
Power outages have worsened in recent months, raising operating costs for businesses, particularly in rural and conflict-affected areas but also in Yangon. Electricity supply has been constrained by lower water levels at hydropower plants, poor maintenance of infrastructure, and a lack of human resources, while some gas-fired power plants have suspended their operations. Some regions also continue to face significant fuel scarcity.

Household welfare has been adversely affected by the cumulative impact of lower nominal incomes, high inflation, and conflict. In an International Food Policy Research Institute (IFPRI) survey conducted in July and August 2022, 46 percent of households reported a decline in incomes from the previous year, 52 percent of households reported reducing food expenditures, and 50 percent of all farming households reported cutting spending on agricultural inputs. There is considerable uncertainty around the pace of poverty changes in the country due to the existing socio-economic conditions.

Recent developments

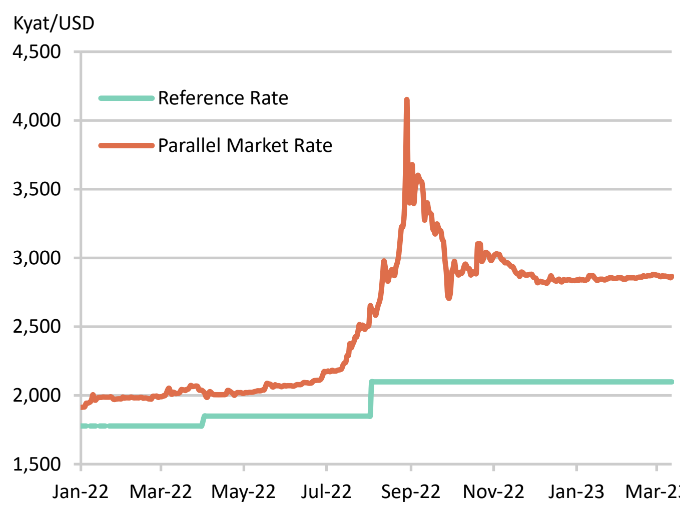
Recent economic indicators have been mixed. Some firms have demonstrated resilience despite being constrained by low demand, higher prices, electricity outages, and trade and foreign exchange restrictions, while others have been more adversely affected. While an improvement

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 / Exchange rates: Reference rate and parallel market rate



Sources: The CBM and Money changers.

from 2021, firms surveyed by the World Bank reported operating at only two-thirds of their capacity on average in late 2022. Mobility had picked up to pre-covid levels by that point, but survey data on retail sales remained very weak, and international tourism has been negligible. After several months of contraction, the manufacturing Purchasing Managers' Index (PMI) indicated that output and new orders had stabilized in early 2023. But two garment factories recently announced that they would discontinue operations, and foreign investors across a range of manufacturing and other sectors have announced exit plans. Despite still elevated input prices and evidence of reduced rice production, surveyed agricultural firms reported operating at higher levels and with fewer constraints at the end of 2022.

Merchandise exports dipped lower in the December quarter and remain below pre-COVID levels, in sharp contrast to the rest of East Asia. While the market exchange rate has stabilized since October 2022, over the past year (to February 2023) the kyat has depreciated by around 31 percent against the US dollar. Official CPI data shows that inflation increased to 19.5 percent in July 2022, reflecting kyat depreciation and rising fuel and food prices, but inflationary pressures appear to have eased in the period since. Nevertheless, higher input prices and material shortages continue to constrain production across the economy while higher consumer prices (rice, cooking oil, fuel prices) have put pressure on already-stretched household budgets.

The fiscal deficit has remained elevated since 2020 and is expected to be around 7 percent of GDP in the year to March 2023. In this twelve-month period, the central bank is expected to have monetized around two-thirds of public financing needs, contributing to inflationary and exchange rate pressures. Within a declining overall budget, allocations to social spending have been reduced. Health and education spending together fell to just 8.5 percent of total spending in the six months to March 2022, down from 12.6 percent in 2020. Public debt is estimated to have risen above 60 percent of GDP, reflecting a combination of weak growth, large budget deficits, and exchange rate valuation effects.

Outlook

GDP is projected to increase by 3 percent in the year ending September 2023, with growth relatively balanced across the productive sectors. The forecast implies that GDP would still be around 10 percent lower than in 2019, in sharp contrast to the rest of the East Asia region where output has already recovered to above pre-pandemic levels. Inflation is expected to ease, assuming that the exchange rate remains relatively stable and that global commodity prices continue to moderate. Given continued pressure on real household incomes and employment, rates of poverty and food insecurity are likely to remain relatively high.

The outlook is subject to significant risks. Policy missteps, heightened conflict, and a worsening of electricity outages all have the potential to further disrupt economic activity. External demand could be weaker than expected in the baseline, including because of worsening geopolitical tensions, which could also result in higher commodity prices. On the upside, a stronger-than-expected recovery in China after the recent roll-back of covid-related restrictions may provide an added boost to bilateral trade and investment flows.

Over the longer term, Myanmar's potential for inclusive growth has been severely diminished. Lost months of education, increased unemployment, and significant emigration and internal displacement are expected to reduce already low levels of human capital and harm productive capacity over the longer term. Indicators of investment in physical capital remain very weak: in 2022, capital imports and FDI commitments were 42 and 59 percent below 2019 levels respectively. And the business environment is unlikely to improve materially while electricity shortages, logistics disruptions, trade and foreign exchange restrictions, and regulatory uncertainty persist.

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

	2018	2019	2020	2021e	2022e	2023f
Real GDP growth, at constant factor prices	6.4	6.8	3.2	-18.0	3.0	3.0
Agriculture	0.1	1.6	1.7	-12.5	-3.0	3.0
Industry	8.3	8.4	3.8	-20.6	8.6	3.7
Services	8.7	8.3	3.4	-18.7	1.7	2.4
Inflation (Consumer Price Index)	5.9	8.5	5.8	3.6	16.5	7.0
Current Account Balance (% of GDP)	-4.7	-0.2	-2.0	-1.4	-3.3	-4.7
Fiscal Balance (% of GDP)[a]	-2.9	-3.2	-7.0	-9.2	-4.7	-6.5
Public Sector Debt (% of GDP)[a]	38.4	38.7	42.2	60.0	61.5	62.2
GHG emissions growth (mtCO2e)	2.3	1.2	1.9	-2.7	2.9	4.2
Energy related GHG emissions (% of total)	14.8	16.2	17.3	15.2	16.6	18.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal balances are reported in fiscal years (October 1st -September 30th).

NORTH PACIFIC ISLANDS

Table 1	2022
Population, million	
Federated States of Micronesia	0.12
Republic of the Marshall Islands	0.06
Palau	0.02
GDP, US$, billion	
Federated States of Micronesia	0.41
Republic of the Marshall Islands	0.22
Palau	0.21
GDP per capita, current US$	
Federated States of Micronesia	4072
Republic of the Marshall Islands	6651
Palau	10500

Sources: WDI, World Bank staff estimates.

COVID-19 led to recessions in the Federated States of Micronesia (FSM), Republic of the Marshall Islands (RMI), and Palau. Economic activity remained subdued in FY22, and to gain momentum from FY23 onwards as international travel returns. Short-term fiscal surpluses are projected for FSM and RMI, and smaller deficits for Palau. While the agreement was reached with the US on the renewal of Compact-related fiscal transfers, structural reforms are needed to enhance fiscal sustainability and support growth.

Key conditions and challenges

COVID-19 outbreaks in FSM and RMI in the second half of 2022 delayed border reopening plans. The outbreaks were swiftly contained, allowing borders to fully reopen. However, tourism is yet to recover, with the visitor arrivals in Palau in 2022 at only 10 percent of pre-COVID levels. In the short term, the key challenges facing the North Pacific include: (1) elevated global food and energy prices; (2) slow recovery of tourist arrivals (particularly in Palau); and (3) fiscal risks.

Although the North Pacific countries have come to an agreement with the US on a new fiscal chapter of the Compact, there remains several challenges that can hinder long-term fiscal sustainability. First, details of the new fiscal chapters are not yet public, so it is unclear if the shortcomings of the previous agreement have been addressed. Second, the fiscal chapter is not in perpetuity and will expire again, subject to negotiations. Third, the new agreement can lower the incentive to enact meaningful fiscal reforms, especially in FSM and RMI where the reform agenda has been slow.

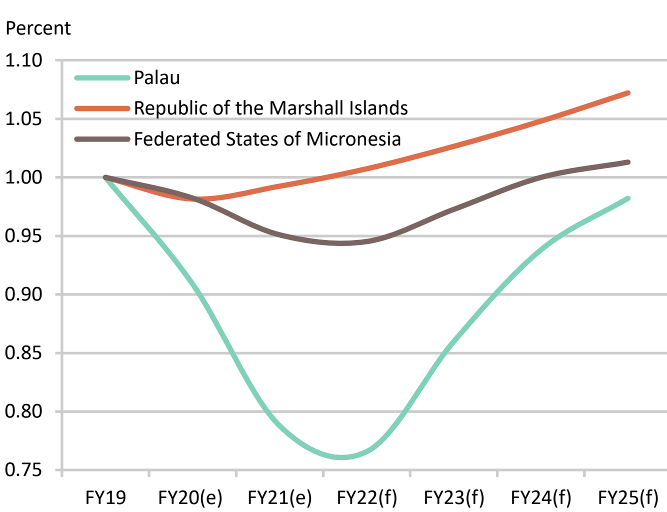
Despite the renewal of the fiscal chapter of the Compact, reform-based fiscal adjustments, such as domestic revenue mobilization and expenditure rationalization, are likely to remain important. Natural disasters and climate change also pose a threat to livelihoods. Finally, governments need to implement structural reforms to ensure a sustainable economic recovery that supports the livelihood of the bottom 40 percent of households. However, the lack of recent household data makes it challenging to monitor development progress and the impacts of shocks and limits the potential for evidence-based policy.

Recent developments

Strict border closures and related trade disruptions in the past three years curtailed construction activity, transport, and domestic consumption in the North Pacific. In **FSM**, the pandemic led to three years of recession in FY22, with a cumulative output contraction of 5.7 percent in FY20-FY22. In **RMI**, after a contraction in FY20, fish exports supported an economic expansion of 1.1 percent in FY21. Inflation rose rapidly in FY22, reaching 5.3 percent in RMI and 5.8 percent in FSM. Large parts of FSM and RMI fiscal revenues have been protected from the downturn in domestic activity, particularly donor grants and fishing revenues. Pending the release of FY22 fiscal data, FSM and RMI registered fiscal surpluses of 1.5 percent and 0.7 percent of GDP in FY21, respectively. Consequently, government debt declined to 22 percent of GDP in RMI and to 15 percent in FSM.

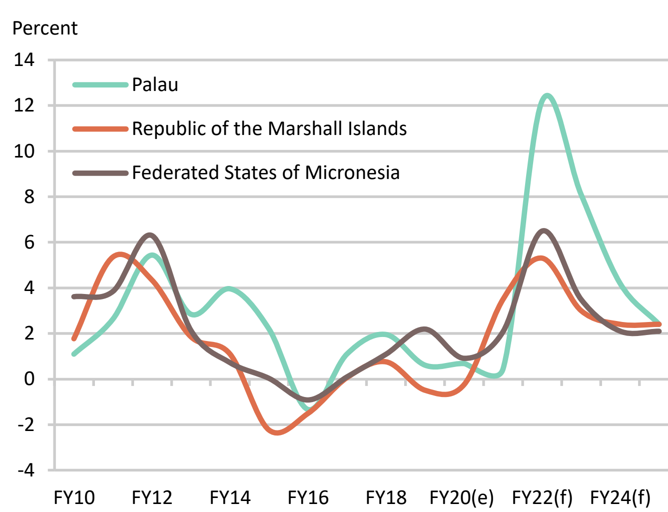
In **Palau**, the pandemic has severely impacted the economy with a third year of consecutive recession in FY22. The tourism industry and its related business activities (around 40 percent of GDP) have been curtailed and trade flows are severely disrupted. GDP is estimated to have contracted

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



Sources: National sources and World Bank projections.

FIGURE 2 North Pacific Islands / Consumer price inflation



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

further by 2.8 percent in FY22, with tourism arrivals remaining subdued due to a lack of direct flights from major destinations. Inflation surged in FY22 to over 12 percent due to higher food and fuel import prices which form a large share of household spending. The fiscal deficit remained sizeable at over 9 percent of GDP in FY22 due to a decline in non-grant revenue as economic activity slowed. This deficit has been financed by concessional external borrowing, which is estimated to have raised general government debt to around 90 percent of GDP from around 39 percent in FY19.

Poverty in the Palau and FSM 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. For Palau, the disruption in tourism activities likely led to increased vulnerability for households employed in the sector. For FSM, many households rely on annual remittance inflows that are estimated to have dropped in FY21 and are expected to remain depressed in FY22. However, in RMI, poverty is projected to have fallen from 2020, given that a decline in GDP in 2020 may not have been as strong as a decline in population. In FSM, poverty reduction is likely to be slower, given that a return to economic growth is not projected until FY23.

Outlook

The projected global high inflation and modest growth in 2023 are expected to lower economic growth prospects in the North Pacific. With all major economies of the world – the US, Euro area, and China - expected to slow down, the softening of aggregate demand in major trading partners does not bode well for the North Pacific Countries, especially for tourism-dependent Palau. Given t FSM and RMI's reliance on fish exports, economic prospects will depend on the terms of trade. In FY23, **FSM**'s economy is projected to expand by 2.9 percent, and **RMI**'s economy is expected to grow by 1.9 percent. While GDP in RMI is expected to have recovered to its pre-pandemic level in FY22, it is not expected to do so in FSM until FY24. In line with easing global food and energy price prices, inflation in FY23 is expected to subside to 3 and 3.7 percent in FSM and RMI, respectively. In FY23, **Palau** is projected to grow by 12.3 percent, on the back of robust recovery of tourist arrivals to around 50 percent of the pre-crisis level. However, GDP is projected to remain on a lower trajectory until tourist arrivals reach the pre-pandemic level in FY24. Inflation in Palau will remain elevated in FY23 at 8 percent due to higher food and fuel import prices.

Fiscal surpluses of 1.6 percent and 1.3 percent of GDP are projected in FSM and RMI for FY23, as fiscal stimulus is unwound and grants from donors are sustained. Another large deficit of 4.1 percent is projected in Palau in FY23, as non-grant revenues remain below pre-crisis levels.

The outlook is subject to significant downside risks. First, international food and energy prices could rise further or stay elevated for longer than expected due to the ongoing or deepening Russian invasion of Ukraine. If growth in advanced economies is slower than anticipated, projected recovery in tourism may fail to materialize and weaken growth prospects in tourism-dependent economies. Finally, the region's vulnerability to natural disasters and climate change remains an important underlying adverse risk.

In RMI, the fiscal surplus is projected to improve further to 2.2 percent of GDP by end of FY24. Palau's fiscal deficit is expected to gradually narrow, reaching about 1 percent of GDP in FY24 and FY25 due to an increase in tourism receipts and full implementation of the tax reform bill. Going forward, although the finer details are currently unclear, a recently signed Memorandum of Understanding between the US and FSM, RMI, and Palau about the fiscal chapter of the Compact is potentially a boost to the fiscal outlook in these countries beyond FY2024.

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

	2020e	2021e	2022f	2023f	2024f	2025f
Real GDP growth, at constant market prices						
Federated States of Micronesia	-1.8	-3.2	-0.6	2.9	2.8	1.3
Republic of the Marshall Islands	-2.2	1.1	1.5	1.9	2.1	2.3
Palau	-8.9	-13.4	-2.8	12.3	9.1	4.7
Upper middle-income poverty rate ($6.85 in 2017PPP)[a,b]						
Republic of the Marshall Islands	31.3	28.3	26.9	25.7	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	2022
Population, million	10.1
GDP, current US$ billion	31.3
GDP per capita, current US$	3088.7
National Poverty Rate[a]	39.9
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	116.0
Life expectancy at birth, years[b]	65.8
Total GHG emissions (mtCO2e)	64.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2009/10). National values.
b/ WDI for School enrollment (2018); Life expectancy (2020).

The economy accelerated and reached the pre-COVID level in 2022, with support from both extractive and non-extractive sectors. High commodity prices contributed to a higher current account surplus and additional fiscal revenue, but also to elevated inflation that hurt poor and vulnerable households. The government continued to reduce the fiscal deficit in 2022, but additional progress would be more challenging as commodity prices are expected to moderate.

Key conditions and challenges

Whilst the economy has more than tripled in size since independence in 1975, real GDP per capita has increased by only 0.9 percent per year – a low growth rate in comparison to other lower middle-income resource exporters. Economic growth has been and continues to be subject to significant upward and downward swings, reflecting an acute vulnerability to international commodity price changes, and these swings tend to be magnified rather than dampened by the economic policies. The inclusivity of recent growth has been limited by the relatively high capital intensity of the resource sector and the lower performance of the non-resource sector. The COVID-19 crisis has come on top of structural economic challenges.

Weak human development outcomes present missed opportunities for faster and more inclusive economic growth. PNG has one of the highest rates of stunting in the world. It has one of the highest rates of young people – soon numbering approximately two million individuals – who are not in training, not in education, and not in employment. 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.

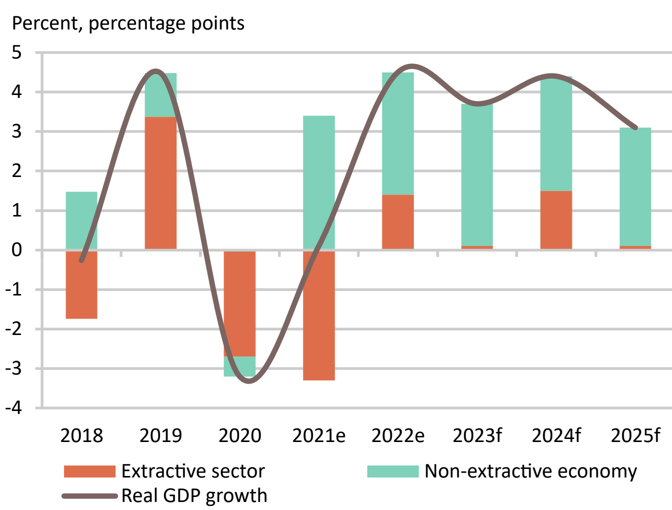
Socio-economic development is lagging for large sections of the population. The last available nationally representative household survey, from 2010, suggested that about 39 percent of the population was living below the US$2.15 per day (2017 PPP terms) poverty line and 74.2 percent of the population could be considered to be multidimensionally poor. According to phone surveys conducted by the World Bank in December 2021 and June 2022, less than five percent of households reported growth in household incomes and to make ends meet, most households had to use coping strategies such as spending from savings or receiving financial support from friends and family. More than a quarter of households experienced either moderate or severe food insecurity over the past twelve months.

Recent developments

High commodity prices and the removal of COVID-19 restrictions spurred economic recovery in 2022. Following a sharp contraction in 2020, the economy is estimated to have inched up by 0.1 percent in 2021, before accelerating to 4.5 percent in 2022. The significant improvement in international prices of key export commodities fueled growth in the extractive sector, after two consecutive years of decline. Employment increased 3.2 percent year-on-year in 2022Q2, the highest rate since 2019Q2, with the construction sector posting the sharpest increase, underpinning the recovery of demand.

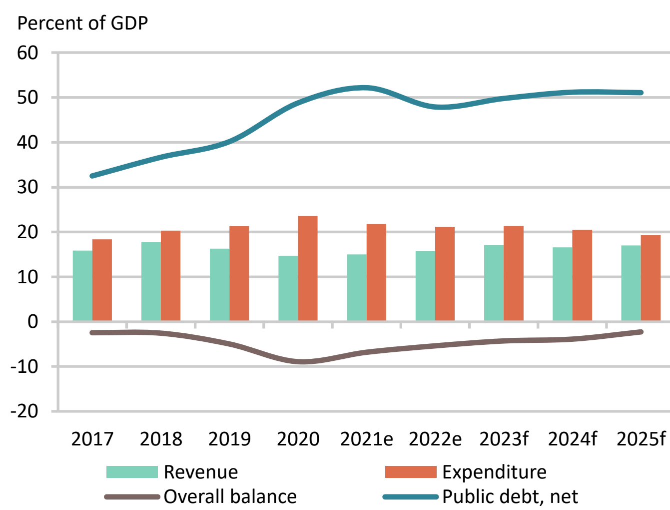
The government continued with fiscal consolidation to safeguard macroeconomic

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.

stability. The fiscal deficit is estimated to have narrowed to 5.4 percent of GDP in 2022 from 6.8 percent of GDP in 2021. However, most of the improvement came from the resource revenue that increased four-fold in nominal terms. Meanwhile, the non-resource primary balance, a better measure of underlying fiscal position not affected by the volatile resource revenue, has widened continuing historical patterns of pro-cyclical policies. According to the latest World Bank–IMF DSA, the country remains at high risk of debt distress. Conditional on the implementation of the authorities' plans for further fiscal consolidation and conservative financing strategies, PNG's external and overall debt is judged as sustainable.

Inflation remains elevated reaching 6.3 percent in 2022Q3 (core inflation was 5 percent). Since July 2022, the Bank of PNG raised the policy rate by cumulative 50 basis points to 3.5 percent, recognizing the need to contain inflationary pressures. Driven by high commodity prices (especially oil and NLG), the external current account surplus is estimated to have reached a new record of over 30 percent of GDP in 2022 and international reserves covered about eleven months of imports as of end 2022.

The impact of COVID-19 on the livelihoods of the poor and vulnerable households was severe, according to five rounds of a World Bank mobile phone survey conducted between June 2020 and June 2022. More than one-quarter of those working in January 2020 were estimated to have stopped working by December 2020, with no significant recovery across 2021. Analysis from the June 2022 survey shows growth in agricultural jobs compared to June 2021, but no recovery in household incomes.

Outlook

Economic growth is projected to slow down in 2023 due to lower global demand and supply constraints due to planned maintenance in extractive facilities and the delayed reopening of the Porgera gold mine. The non-extractive economy (70 percent of GDP) is expected to post a robust growth, especially in agriculture. The baseline projection does not include potential new resource mega-projects (Papua LNG, P'nyang LNG, or Wafi-Golpu), so the medium-term growth is expected to settle at 3 percent. Meanwhile, the global economy remains fragile, and slower-than-expected economic growth could materialize via lower demand for PNG's exports and a sharper reduction in commodity prices.

Further plans for fiscal consolidation could become more challenging. No substantial resource revenue boost from commodity prices, compared to 2022, is expected in the coming years. Meanwhile, containing expenditure growth becomes more difficult, given the sizeable need for human capital and infrastructure spending. Therefore, the government should consider additional domestic revenue mobilization, both from taxes and from higher collection of dividends from state entities in the resource sector.

High food and energy prices prevailing in the international markets and inflationary pressures in the major trading partners imply that headline inflation will remain elevated in 2023, although on a decelerating trend. Given the inflation, the real incomes of poor and near-poor households are likely to stagnate.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-3.2	0.1	4.5	3.7	4.4	3.1
Real GDP growth, at constant factor prices	-2.9	0.1	4.5	3.7	4.4	3.1
Agriculture	4.7	4.5	4.9	4.2	4.3	3.6
Industry	-7.5	-7.8	5.6	2.3	4.9	2.9
Services	-1.3	5.5	3.5	4.6	4.0	3.1
Inflation (Consumer Price Index)	4.9	4.5	6.6	5.3	4.9	4.6
Current Account Balance (% of GDP)	19.4	21.9	33.2	22.7	22.9	21.9
Net Foreign Direct Investment Inflow (% of GDP)	-3.5	-1.4	-1.2	-1.1	-1.2	-1.1
Fiscal Balance (% of GDP)	-8.9	-6.8	-5.4	-4.3	-3.9	-2.3
Revenues (% of GDP)	14.7	15.0	15.8	17.1	16.6	17.0
Debt (% of GDP)	48.8	52.2	47.9	49.8	51.2	51.1
Primary Balance (% of GDP)	-6.2	-4.3	-3.2	-1.9	-1.6	0.1
GHG emissions growth (mtCO2e)	0.4	0.5	0.5	0.5	0.5	0.6
Energy related GHG emissions (% of total)	11.9	11.8	11.7	11.5	11.3	11.1

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

PHILIPPINES

Table 1	2022
Population, million	115.6
GDP, current US$ billion	404.1
GDP per capita, current US$	3496.9
International poverty rate ($2.15)[a]	3.0
Lower middle-income poverty rate ($3.65)[a]	17.8
Upper middle-income poverty rate ($6.85)[a]	55.3
Gini index[a]	40.7
School enrollment, primary (% gross)[b]	92.4
Life expectancy at birth, years[b]	72.1
Total GHG emissions (mtCO2e)	273.7

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

The recovery is well underway owing to strong domestic pent-up demand following the reopening. However, fiscal and monetary policy space has narrowed in recent years amid the pandemic and as global conditions deteriorated. Medium-term growth averaging 5.8 percent per year will be supported by private consumption, public investment, and investment policy reforms. Poverty incidence will gradually decline owing to the economic recovery and gains in the labor market.

Key conditions and challenges

The economic reopening fueled a sharp growth recovery buoyed by strong domestic demand, amid firming external headwinds. As a result, GDP has surpassed its pre-pandemic levels in 2022. The reopening boosted the services sector recovery and drove robust private consumption growth despite the high inflation.

However, a weak external environment may continue to threaten the recovery. Moreover, inflation remains persistently high at 8.6 percent year-on-year in February 2023, prompting continued monetary policy tightening to keep inflation expectations anchored. Efficiently addressing local food supply challenges is key to achieving stability in prices. With narrowing policy space, implementing the government's medium-term fiscal consolidation plan is vital in attaining fiscal sustainability.

Longstanding structural challenges, such as underinvestment in physical and human capital and low productivity, may constrain the sustainability of the recovery. Deficiencies in human capital were magnified during the pandemic and led to learning losses and high incidence of malnutrition. Accelerating investments in health and education are important in overcoming the scarring impact of the pandemic. Recent reforms that liberalized investment, will also support growth and help steer the country back to its long-term inclusive growth path. Moreover, improving the effectiveness of public spending on agriculture will enhance productivity, ensure food security, and reduce the volatility of food prices which affect the poor the most.

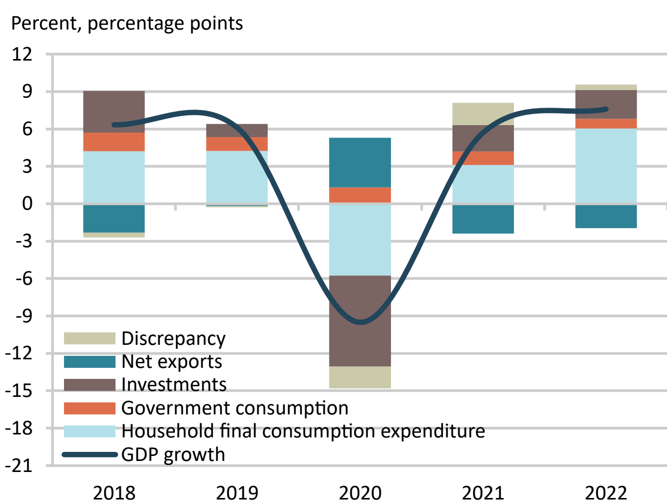
Recent developments

The economy grew by 7.6 percent in 2022 fueled by domestic demand. Private consumption growth doubled from a year ago, boosted by the release of pent-up demand and recovery in household incomes. Meanwhile, services led growth on the production side. Industry sector growth moderated as soft external demand for goods led to a slowdown in manufacturing activities. However, agriculture remained tepid amid structural weaknesses, typhoons, and rising input costs.

Softer export growth combined with strong import growth driven by the domestic recovery widened the current account deficit from 1.5 percent of GDP in 2021 to 4.4 percent in 2022. Capital outflows arising from tighter US monetary policy resulted in a depreciation of the Philippine peso. Reserves declined from 9.7 to 7.3 months of imports.

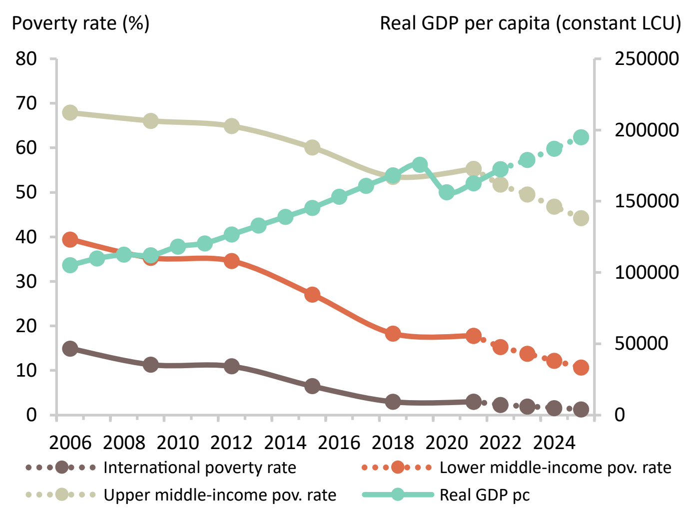
Inflation surpassed the 2-4 percent target range at 5.8 percent in 2022, amid domestic food supply constraints, and elevated commodity prices. In response, the central bank raised the key policy rate by 400 basis points. The government provided input subsidies to vulnerable sectors such as fertilizers and targeted fuel grants while providing cash transfers to the poorest households.

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



Source: Philippine Statistics Authority.

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



Source: World Bank. Notes: see Table 2.

The fiscal deficit eased from 8.6 percent of GDP in 2021 to 7.3 percent in 2022 as tax collections surged amid the recovery while public spending shrank as COVID-related spending was unwound. National government debt increased only moderately from 60.4 percent of GDP in 2021 to 60.9 percent in 2022.

The economic recovery was accompanied by positive gains in the labor market. Full resumption of commercial activities led by wholesale and retail trade, accommodation, and food service activities helped improve labor outcomes. Unemployment declined from 6.6 in 2021 to 4.3 percent in 2022. The labor force participation rate reached 66.4 percent in 2022 from 65.1 percent in the previous year. Underemployment fell by 2.1 percentage points compared to a year ago as more are working full-time jobs.

Outlook

Medium-term growth is projected to moderate to an average of 5.8 percent between 2023-2025. Growth will remain anchored on domestic demand, an increase in private investments due to recent reforms, and sustained public investment. However, growth is expected to slow to 5.6 percent in 2023 amid the global growth moderation and as pent-up demand fades, alongside elevated inflation, and a higher interest rate environment. Inflation is expected to remain elevated in 2023 due to high food inflation early in the year and second-round effects on wages, rent, and transport prices. Domestic demand is expected to improve in the medium term as inflation falls within the target range by 2024.

The fiscal deficit is projected to decline to 4.1 percent of GDP by 2025. The path will initially be anchored by a reduction in public spending resulting in softer public consumption and investment growth. Over time, consolidation will be complemented by a series of tax policy and administration measures that are in the legislative pipeline.

Economic and labor market recovery will support poverty reduction. Poverty incidence using the World Bank's poverty line for lower-middle income countries of \$3.65/day, 2017 PPP is projected to decrease from 17.8 percent in 2021 to 13.8 percent in 2023 and further decrease through 2025. However, these projections could be tempered by higher-than-expected inflation. The increase in household incomes brought by the gains in the labor market are offset by the persistent high prices particularly of food and energy, especially among poor households.

Despite a moderation in adverse risks externally, risks remain tilted to the downside. The threat of high global inflation remains amid geopolitical uncertainty, which could require further policy tightening and may lead to increased financial market stress. Domestically, persistent local food supply challenges, and additional shocks from natural disasters, could weaken domestic demand and put increased pressure on the country's limited fiscal space. However, a faster-than-expected recovery from China and resilience from advanced economies could provide positive spillovers to global activity, benefitting the Philippines through the tourism and trade channels.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-9.5	5.7	7.6	5.6	5.9	5.9
Private Consumption	-8.0	4.2	8.3	5.8	6.2	6.4
Government Consumption	10.5	7.1	5.0	6.4	7.2	7.7
Gross Fixed Capital Investment	-27.3	9.9	10.4	8.6	10.9	12.5
Exports, Goods and Services	-16.1	8.0	10.7	7.0	7.8	8.3
Imports, Goods and Services	-21.6	13.0	13.1	9.1	11.0	12.8
Real GDP growth, at constant factor prices	-9.5	5.7	7.6	5.6	5.9	5.9
Agriculture	-0.2	-0.3	0.5	0.9	1.0	1.2
Industry	-13.1	8.5	6.7	4.9	5.4	5.7
Services	-9.1	5.4	9.2	6.6	6.8	6.6
Inflation (Consumer Price Index)	2.4	3.9	5.8	5.7	3.6	3.0
Current Account Balance (% of GDP)	3.2	-1.5	-4.4	-4.2	-3.5	-3.0
Net Foreign Direct Investment Inflow (% of GDP)	1.9	3.0	2.3	2.4	2.6	2.8
Fiscal Balance (% of GDP)	-7.6	-8.6	-7.3	-6.0	-5.1	-4.1
Revenues (% of GDP)	15.9	15.5	16.1	15.8	15.8	16.0
National Government Debt (% of GDP)	54.6	60.4	60.9	61.3	62.0	61.5
Primary Balance (% of GDP)	-5.5	-6.4	-5.0	-3.6	-2.6	-1.3
International poverty rate (\$2.15 in 2017 PPP)[a,b]		3.0	2.3	1.9	1.6	1.3
Lower middle-income poverty rate (\$3.65 in 2017 PPP)[a,b]		17.8	15.3	13.8	12.2	10.7
Upper middle-income poverty rate (\$6.85 in 2017 PPP)[a,b]		55.3	51.7	49.5	46.8	44.3
GHG emissions growth (mtCO2e)	-1.6	8.2	8.6	7.5	6.4	5.8
Energy related GHG emissions (% of total)	58.7	60.5	62.5	64.0	64.9	65.7

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

SOLOMON ISLANDS

Table 1	2022
Population, million	0.7
GDP, current US$ billion	1.6
GDP per capita, current US$	2225.2
National Basic Needs Poverty Rate[a]	12.7
School enrollment, primary (% gross)[b]	104.3
Life expectancy at birth, years[b]	70.2
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/ WDI for School enrollment (2019); Life expectancy (2020).

The lingering impact of the 2021 riots along with a local outbreak of COVID-19 and Russia's invasion of Ukraine resulted in a deep recession. However, the economy will start to recover in 2023 and 2024 and grow at about 2.5 percent. The hosting of the Pacific Games and the 2022 reopening of international borders will fuel growth in 2023. Inflation is expected to decrease over the medium-term due to the cooling of energy and commodity prices. Downside risks to the outlook include slowing growth in trading partners, a reemergence of social unrest, and climate-related disasters.

Key conditions and challenges

Solomon Islands is a country in the South Pacific with 721,000 people dispersed across 90 inhabited islands. The country faces substantial economic, development, and governance challenges shaped by its geographical dispersion, remoteness to international markets, and vulnerability to natural disasters. In particular, lack of infrastructure, high unemployment, and a limited private sector pose significant development challenges. The country is heavily dependent on development assistance, while governance challenges limit state effectiveness. Solomon Islands is also vulnerable to natural disasters, such as earthquakes, cyclones, and tsunamis, which can cause significant economic damage.

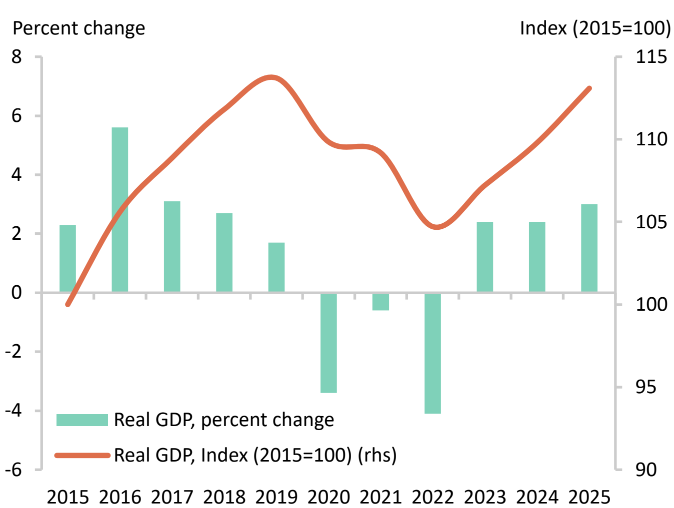
Development challenges have been further exacerbated by the COVID-19 pandemic and the outbreak of riots in 2021, which caused a sharp economic contraction and adversely affected livelihoods. A World Bank phone survey collected in September 2022 indicates that employment had recovered from the COVID-19 restrictions imposed by the government. However, 40 percent of households reported income reductions, while one-fifth of households experienced moderate food insecurity. In addition to reduced food consumption, around a third of households had to make ends meet by purchasing on credit or borrowing from others. In Solomon Islands, the most recent official poverty measure was based on the 2012/13 Household Income and Expenditure Survey (HIES). According to the survey, 12.7 percent of the population lived below the poverty line.

Recent developments

The economy has been impacted by three shocks in recent years: the COVID-19 pandemic, the civil unrest, and the war in Ukraine. Initially, COVID-19 affected the economy through border closures, but in 2022 the country also experienced a local outbreak of COVID-19. This resulted in a 4.1 percent contraction in 2022, marking the third consecutive year of economic decline. Rising fuel prices, as well as subdued global economic conditions, were key external factors undermining economic activity. Reduced agriculture and logging production contributed to the economic decline, reflecting lower demand for commodity exports (mainly log exports). The fishing sector also shrunk due to a decrease in fish catch and disruptions from riots. Conversely, the tourism sector experienced a modest recovery after borders reopened in mid-2022. The number of visitors rose from 360 in June to 4,207 in December 2022.

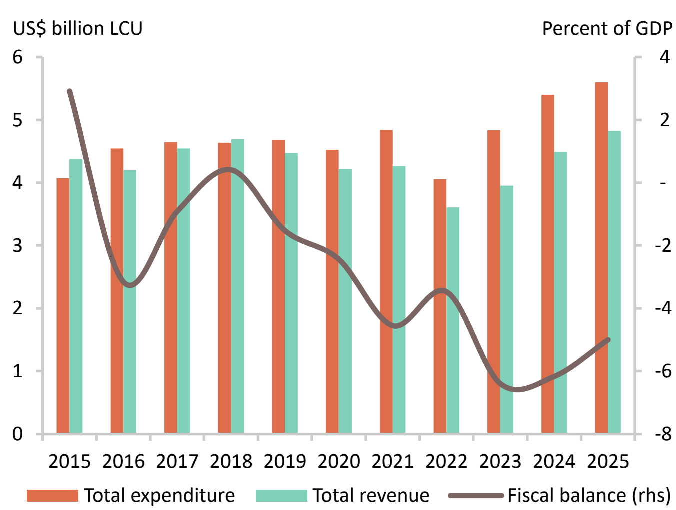
Inflation rose by 5.5 percent in 2022 due to high global fuel and food import prices, as well as supply chain disruptions from the riots. The current account balance worsened further to reach 13.4 percent of GDP in 2022, driven by a deteriorating trade balance. Exports, including logging, fish, and

FIGURE 1 Solomon Islands / Real GDP



Source: World Bank staff estimates.

FIGURE 2 Solomon Islands / Fiscal balance



Source: World Bank staff estimates.

agricultural products declined, only partly offset by a modest increase in tourism receipts. As a result, foreign reserves fell from 11.5 months of imports in 2021 to 9.4 months of imports by the end of 2022.

A slowdown in economic activity and a reduction in logging revenue caused a 5 percent decrease in overall revenue. However, the government managed to contain expenditure growth, despite facing substantial spending demands. As a result, an overall deficit of 3.5 percent of GDP was observed in 2022, causing public debt stock to increase to 18.6 percent of GDP, which is double the pre-pandemic level.

Outlook

The economy is expected to recover in 2023, with a projected 2.5 percent growth in real GDP and 2.4 percent growth in 2024, boosted by the 2023 South Pacific Games. The services sector is expected to lead growth, followed by the construction sector and increased mining activity, including the exploitation of the Gold Ridge mine. The primary sector is expected to decline due to a decrease in logging activity.

While inflation is expected to ease to 5 percent in 2023 amid cooling energy and food prices, the forecast is well above the average inflation experienced during the past five years (2.7 percent). Despite a modest growth in exports due to a projected recovery in international and domestic activity, faster import growth is expected to deteriorate the trade balance. This will lead to an increase in the current account deficit to 15.1 percent of GDP. As a result, official reserves are projected to decline to 9 months of imports in 2023. Despite this drop, foreign reserves are projected to remain above the reserve adequacy range of 3 to 7.5 months assessed by the IMF.

Revenue is expected to be driven by a recovery in economic activity and new policy measures, including reforms to the tax administration system. Some of these steps have already been taken (e.g., the passage of Tax Administration Bill, the introduction of export duty), while others are expected to be implemented in the coming years (e.g., VAT Bill). As a result, domestic revenue is expected to grow from 22.6 percent of GDP in 2022 to 24.5 percent of GDP in 2024. However, expenditure will continue to exceed revenue during this period, generating an average fiscal deficit of 6.3 percent of GDP over 2023-2024. Over this period debt is anticipated to increase to 23 percent of GDP. Public debt is sustainable and the risk of public and external risk of debt distress is moderate, according to the IMF-WB 2022 Debt Sustainability Analysis.

Macroeconomic risks are mostly tilted to the downside. Continuation and further escalation of the war in Ukraine may put continued upward pressure on prices, which could severely affect the incomes of poor and vulnerable populations. In addition, subdued global economic conditions may reduce demand for commodity exports, in particular demand for logs, with negative impacts on growth, the current account balance, as well as government finances.

Solomon Islands remains highly susceptible to climate-related risks. These risks can have far-reaching consequences, including damage to infrastructure and disruption of key economic sectors such as agriculture and fishing. The 2024 general elections increase the risk of political instability and social unrest, accompanied by economic uncertainty.

On the upside, economic recovery in major trading partners, including in China, could lead to stronger demand for Solomon Islands exports. Furthermore, the pace of recovery in the tourism sector and increased participation in regional labor mobility programs may bring economic benefits.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-3.4	-0.6	-4.1	2.5	2.4	3.0
Real GDP growth, at constant factor prices	-3.4	-0.6	-4.1	2.5	2.4	3.0
Agriculture	-3.8	2.2	-1.8	1.1	0.9	2.3
Industry	-3.9	39.1	-3.9	8.5	3.2	3.2
Services	-3.0	-11.9	-5.6	1.0	3.1	3.3
Inflation (Consumer Price Index)	3.0	-0.1	5.5	5.0	3.9	3.3
Current Account Balance (% of GDP)	-1.6	-5.0	-13.4	-15.1	-12.0	-11.2
Net Foreign Direct Investment Inflow (% of GDP)	0.4	1.5	2.5	2.5	2.5	2.5
Fiscal Balance (% of GDP)	-2.4	-4.6	-3.5	-6.4	-6.2	-5.0
Revenues (% of GDP)	33.4	33.6	27.9	28.5	30.6	30.9
Debt (% of GDP)	10.3	13.2	18.6	21.3	23.2	23.3
Primary Balance (% of GDP)	-2.3	-4.3	-3.1	-5.9	-5.7	-4.4
GHG emissions growth (mtCO2e)	0.0	0.0	0.0	0.0	0.0	0.0
Energy related GHG emissions (% of total)	0.8	0.8	0.8	0.8	0.8	0.8

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

SOUTH PACIFIC ISLANDS

Table 1	2022
Population, million	
Samoa	0.20
Tonga	0.11
Vanuatu	0.32
GDP, US$ billion	
Samoa	0.83
Tonga	0.50
Vanuatu	0.98
GDP per capita, current US$	
Samoa	4128
Tonga	4695
Vanuatu	3050

Sources: WDI, World Bank staff estimates.

The economies of Samoa, Tonga, and Vanuatu have been hit by multiple shocks, including natural disasters and the COVID-19 pandemic. Travel restrictions hit tourism-related activity with negative spillovers to the rest of the economy. These restrictions have also delayed the reconstruction progress from volcanic eruption and tsunami in Tonga. To achieve inclusive recovery, governments must embark on structural reforms while gradually redirecting assistance to become more targeted.

Key conditions and challenges

External shocks and natural disasters constantly threaten livelihoods, economic growth, and fiscal sustainability in the South Pacific. The prolonged border closure due to the community transmission of COVID in early 2022 has adversely impacted the tourism industry, a major economic sector for these countries. The pandemic and the pressure from commodity prices have decreased macroeconomic policy buffers. For Tonga, the price pressure, reflected in the higher cost of building materials, and border restrictions also have impeded the reconstruction efforts following the volcanic eruption and tsunami in January 2022.

The main immediate challenge is limiting rising inflation's harm to the most vulnerable households. The near-term challenge will be to strike an appropriate balance between laying the foundation for inclusive economic recovery and maintaining macroeconomic balance in the face of competing pressures. Effective implementation of fiscal consolidation will be critical to ensure that the government has enough fiscal space to implement policy measures. Finally, to achieve sustainable growth, the private sector will play a crucial role in economic recovery, including in tourism and investment. This will require key reforms to lift burdensome business regulations and restrictive investment policies.

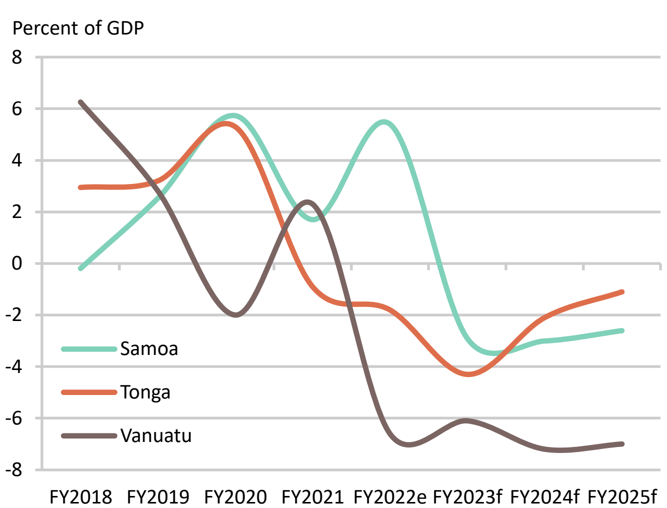
Recent developments

Multiple shocks have resulted in another year of contraction for Samoa and Tonga, while Vanuatu started to experience a rebound. In all countries, inflation rose significantly driven by supply chain disruption and high global commodity prices.

The **Samoan** economy recorded a third consecutive year of economic contraction in FY22 by 6 percent, an accumulation of more than 16 percent due to the impacts of COVID-19. During the same period, the overall unemployment rate increased to 9.8 percent in 2021 from 8.4 percent in 2019. Inflation spiked to 8.8 percent (annual average) in FY22, driven by supply chain disruption and high global food and oil prices. The current account deficit narrowed to 11.6 percent of GDP in FY22 compared to 14.9 percent of GDP in FY21 on account of robust remittances. As opposed to a budgeted fiscal deficit, Samoa recorded yet another year of fiscal surplus (5.4 percent of GDP) in FY22. The inadvertent fiscal tightening due to capital expenditure under-execution contributed to a larger-than-expected economic contraction in FY22 and is expected to weigh on the pace of economic recovery going forward.

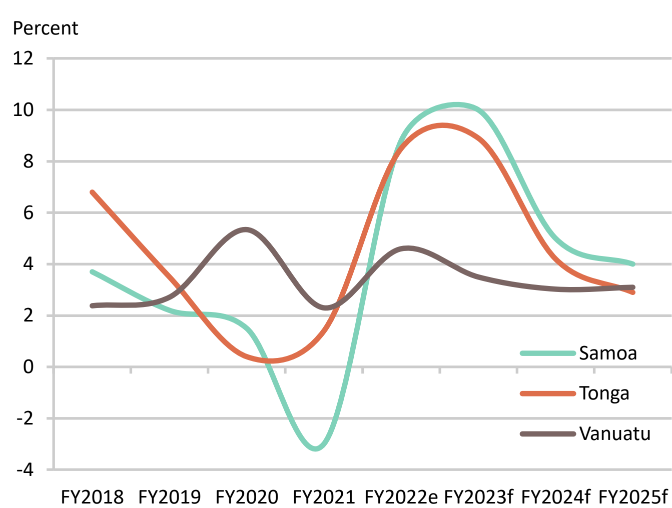
The **Tongan** economy contracted by an estimated 2 percent in FY22. The volcanic eruption and subsequent tsunami in January 2022 led to a sharp fall in agricultural production, travel, and commercial services. According to the World Bank phone surveys collected in 2022, the recovery of

FIGURE 1 South Pacific Islands / Overall fiscal balance



Sources: National sources and World Bank projections.

FIGURE 2 South Pacific Islands / Inflation



Sources: National sources and World Bank projections.

income remained slow, particularly among female, informal, and/or poorer workers. Food insecurity continued to persist in FY22. Consumer price inflation rose by 8.5 percent on average in FY22, up from 1.4 percent in FY21. The rise in inflation was primarily driven by higher global prices and domestic supply disruptions due to the recent disaster. Current account balance swung to a deficit of 6.1 percent in FY22 due to a surge in imported foods and building materials and lower exports. The fiscal deficit doubled to 1.8 percent of GDP in FY22 on the account of significantly higher needs for reconstruction spending amid lower domestic revenue.

In **Vanuatu**, economic growth is estimated to have recovered with a slight increase of 1.9 percent of GDP in 2022 from 0.6 percent in 2021. The adoption of the fiscal stimulus program, an increase in industrial production, increased agricultural output, and the reopening of borders all contributed to the recovery. However, the preliminary results of the World Bank phone survey collected in mid-2022 indicate the negative impacts of the COVID-19 outbreak and the resulting lockdown on household income. In 2022, inflation averaged 4.6 percent, which is above the Reserve Bank of Vanuatu's target range of 0 to 4 percent. The current account posted a deficit of 2.2 percent of GDP, primarily due to weak tourism revenues and increased demand for imported industrial and transportation equipment. The fiscal deficit is recorded at 3 percent of GDP in 2022 due to a drop in revenue collection.

Outlook

With the reopening of borders in mid-2022, economies were expected to recover gradually. However, the external headwinds affected the recovery with elevated inflation levels. Despite the projected economic growth over the next few years, continued inflation will limit the positive spillover of growth on poverty reduction.

In **Samoa**, the economy is projected to recover in FY23 with a 5.0 percent growth and average growth of 3.5 percent projected in FY24 and FY25. Key drivers of growth over the medium-term include easing of border restrictions in the first quarter of FY23, rebound in tourism activity and increase in capital projects. Inflation is anticipated to be around 10 percent in FY23 but expected to decrease to around 4 percent in FY25 as supply disruption and high international food and fuel prices taper off. The current account deficit is expected to narrow to 3.2 percent of GDP over the medium term, supported by tourism recovery and continued remittance inflows. A fiscal deficit to GDP of 2.9 percent is estimated in FY23 with an average deficit of 2.8 percent in FY24 and FY25.

In **Tonga**, growth is projected to rebound to 3 percent in FY23 and an average of 2.7 percent in FY24 and FY25. However, should reconstruction efforts experience further delays, economic recovery will be more gradual. Inflation will remain elevated in FY23 but is expected to drop below the 5 percent reference rate in FY24. Current account deficit is projected to widen in FY23 due to reconstruction combined with the gradual normalization of grant financing and remittances. Imports are expected to remain high while agricultural exports and tourism services are projected to only increase marginally. Fiscal deficits are expected to persist over the course of FY23-FY25 owing to the significant reconstruction spending needs.

In **Vanuatu**, the economy is projected to grow 3.5 percent in FY23. With this steady uptick in tourism and ongoing growth in agriculture and construction, the economy is predicted to grow at 3.6 percent and 3.9 percent in FY24 and FY25. Nevertheless, the poverty rate based on the lower-middle-income poverty line (US$3.65 per day in 2017 PPP terms) is projected to remain high from 42.5 percent in 2023 to 42.3 percent in 2025. Despite high global commodity prices, inflation is expected to moderate to around 4 percent in FY23 before further declining in the medium-term. The current account deficit is projected to widen during FY23-24 due to increased import costs but is forecast to start narrowing in FY25. Following the resumption of construction, the fiscal deficit is expected to persevere in the medium term.

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

	2020	2021e	2022f	2023f	2024f	2025f
Real GDP growth, at constant market prices						
Samoa	-3.1	-7.1	-6.0	5.0	3.4	3.3
Tonga	0.5	-2.7	-2.0	3.0	2.9	2.6
Vanuatu	-5.0	0.6	1.9	3.5	3.6	3.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]						
Vanuatu	39.9	41.5	42.5	42.9	42.8	42.3

Sources: World Bank and IMF.
Notes: e = estimate; f = forecast. Financial years for Samoa and Tonga are July-June, for Vanuatu it is January-December. Samoa improved the methodology for GDP calculation and revised the historical data in March 2022 GDP release. The MPO write-up for Vanuatu does not include the impacts of TC Judy and TC Kevin that passed over the country in the week of February 27, 2023.
a/ Calculations based on EAPPOV harmonization, using 2019-NSDP.
b/ Projection using neutral distribution (2019) with pass-through = 1 (High) based on GDP per capita in constant LCU.

THAILAND

Table 1	2022
Population, million	71.7
GDP, current US$ billion	495.3
GDP per capita, current US$	6908.8
Upper middle-income poverty rate ($6.85)[a]	12.2
Gini index[a]	35.1
School enrollment, primary (% gross)[b]	99.7
Life expectancy at birth, years[b]	79.3
Total GHG emissions (mtCO2e)	443.0

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

Strong private consumption and further tourism recovery, especially after the reopening of China's border, will continue to support economic growth, rising household incomes, and a decline in the poverty headcount rate to 10.6 percent in 2023. However, Thailand's economic recovery continued to lag that of ASEAN peers; falling goods exports have clouded the outlook. The slowing external environment, domestic price pressures, and elevated household debt pose downside risks. Political uncertainty remains regarding the timeline of general elections and government formation.

Key conditions and challenges

The continued reopening of the economy has boosted domestic demand. However, stubbornly high inflation and high household debt continued to exert pressure on household consumption. The household debt situation remains precarious, with the average household debt rising from 118 percent of the average household income in 2019 to 123 percent in 2021, driven mainly by consumer loans. Household debt level increased from 80 percent of GDP in 2019 to 87 percent of GDP in 2022Q3, the highest among ASEAN peers.

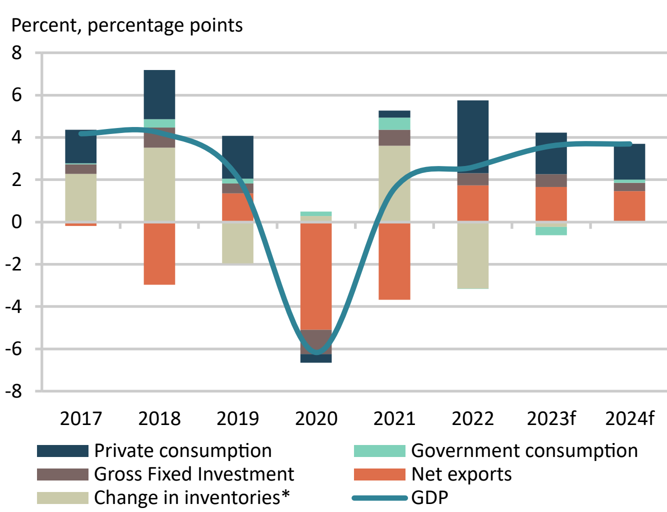
Fiscal measures aimed at mitigating the cost-of-living shock have supported economic activity but slowed fiscal consolidation. While total public spending has declined due to lower Covid-19 relief spending, it remained well above the pre-pandemic level as energy subsidies, including diesel and cooking gas, and cash transfers, continued to be implemented. Additional shocks, including a prolonged period of high energy prices, may increase inequality and further erode fiscal space unless more targeted social assistance spending is introduced.

Despite recent resurgent growth, the medium-term growth path is expected to remain well below the pre-pandemic trend unless productivity growth is revitalized. This path could be dampened further by the difficult external environment and possible re-escalation of energy prices. Domestic structural challenges, such as aging, low capital investment accumulation, declining export competitiveness, and high household debt, may further limit potential growth. High dependence on social assistance to support household livelihoods in the absence of labor income growth also poses key challenges to sustainable development.

Recent developments

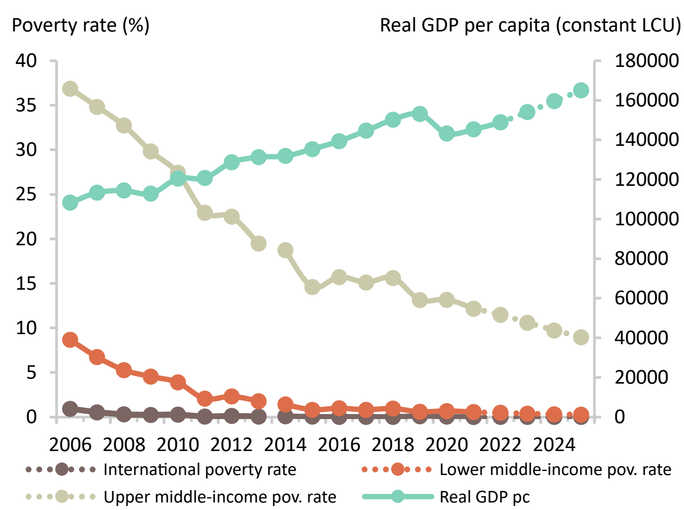
Economic growth decelerated more than expected in 2022Q4 to 1.4 percent (yoy) following weakening goods trade despite resurgent private consumption and strong tourism inflows. On a quarterly basis, GDP declined 1.5 percent (seasonally adjusted). As a result, output, having previously recovered to pre-pandemic levels fell below again and diverged from ASEAN peers. Overall, in 2022, GDP grew 2.6 percent, up from 1.6 percent the previous year. In December 2022, tourism arrivals reached 57 percent of the pre-pandemic level. However, goods exports contracted sharply by 8.3 percent (yoy) in 2022Q4, similar to ASEAN peers and consistent with the weakening global demand. The current account recorded a surplus for the first time in eight quarters at 1 percent of GDP, as tourism receipts recovered. The Real Effective Exchange Rate (REER) appreciated by 5.9 percent from October 2022 to January 2023, the strongest among ASEAN peers due to expectations of slower Fed tightening and the relaxation of China's travel restrictions, which boosted the outlook for the current account.

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.

Price pressures remained elevated and broadened to core inflation. Global energy prices declined but headline inflation remained high at 5.0 percent in January 2023, above the Bank of Thailand's target range of 1-3 percent. Despite price controls, core inflation (excluding raw food and energy) has increased steadily since the beginning of 2022, and reached 3.0 percent in January, indicating rising second-round inflationary pressure. The central bank maintained gradual monetary normalization and has steadily raised the policy rate from 0.5 percent to 1.50 percent since May 2020. The fiscal measures to mitigate cost-of-living pressures, including energy subsidies, helped to support the recovery but came at a cost. The central government fiscal deficit remained substantial at 5.6 percent of GDP in FY2022 (Oct 2021-Sep 2022). However, it was lower than last year, as emergency spending for COVID relief declined. Public debt stayed well above the pre-pandemic level at 60.7 percent of GDP and remain sustainable.

Employment has improved but real wages have stagnated due to high inflation. The official unemployment rate declined to 1.2 percent in 2022Q4, approaching its pre-pandemic level of 1.0 percent. Average wages grew by 5.4 percent in 2022Q2 but trailed behind the rising cost of living. As labor market conditions improved, the average monthly wage for employees rose 5.4 percent over the year to mid-2022, compared to a 0.9 percent increase in the preceding year. However, average real wages stagnated as the increase in the average nominal wages was fully offset by the rising cost of living. The poverty rate is estimated to have declined to 11.5 percent in 2022.

Outlook

Economic growth is estimated to expand by 3.6 percent in 2023, up from 2.6 percent in 2022. Growth will be supported by stronger private consumption and services exports, due to the nascent tourism recovery and strong pent-up demand following the relaxation of travel restrictions in China. Tourist arrivals are projected to increase to 27 million arrivals in 2023, reaching 68 percent of the pre-pandemic level. Arrivals are expected to accelerate thereafter and surpass the pre-pandemic level by 2024. However, goods exports are expected to contract by 1.8 percent (in US dollar terms) in 2023, due to the global slowdown. Investments will continue to expand, helped by robust foreign direct investment inflows and accelerated disbursements of public investment projects. Headline inflation is projected to moderate to 3.2 percent in 2023, down from 6.1 percent in 2022. However, the second-round pressure from elevated input costs to core prices remains. The current account is expected to reverse from its deep deficit in the past 2 years and get to positive territory in 2023.

The labor market condition will continue to improve supported by employment in the services sector as growth in manufacturing employment is expected to slow. While rising commodity prices will continue to disproportionately affect poor and vulnerable households, the expansion of the State Welfare Card program (from 13.5 million to at least 14.6 million beneficiaries) will likely alleviate these impacts. Household income is expected to increase, and the poverty headcount is projected to decline to 10.6 percent in 2023.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-6.2	1.6	2.6	3.6	3.7	3.5
Private Consumption	-0.8	0.6	6.3	3.5	3.0	3.0
Government Consumption	1.4	3.7	0.0	-2.6	1.1	2.3
Gross Fixed Capital Investment	-4.8	3.1	2.3	2.5	1.6	3.0
Exports, Goods and Services	-19.7	11.1	6.8	6.2	7.4	6.4
Imports, Goods and Services	-13.9	17.8	4.1	3.8	5.5	5.5
Real GDP growth, at constant factor prices	-5.4	2.0	2.6	3.6	3.7	3.5
Agriculture	-2.9	2.6	0.5	1.4	2.0	2.2
Industry	-5.1	6.0	-1.0	0.7	2.8	3.6
Services	-5.8	-0.3	4.9	5.4	4.4	3.6
Inflation (Consumer Price Index)	-0.8	1.2	6.1	3.2	1.3	1.0
Current Account Balance (% of GDP)	4.2	-2.1	-3.4	0.2	1.8	2.4
Net Foreign Direct Investment Inflow (% of GDP)	-4.8	-1.2	-1.0	-1.0	-1.0	-1.0
Fiscal Balance (% of GDP)	-4.5	-7.0	-4.7	-1.3	-0.6	-0.5
Revenues (% of GDP)	20.7	20.0	20.1	20.6	20.7	20.9
Debt (% of GDP)	50.1	57.8	60.4	60.1	59.6	59.5
Primary Balance (% of GDP)	-3.6	-5.7	-3.0	0.4	1.1	1.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.7	0.6	0.5	0.4	0.3	0.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	13.2	12.2	11.5	10.6	9.7	9.0
GHG emissions growth (mtCO2e)	-3.0	2.2	2.2	1.5	2.4	2.6
Energy related GHG emissions (% of total)	57.9	58.4	58.7	58.6	58.8	58.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on EAPPOV harmonization, using 2014-SES, 2019-SES, and 2021-SES. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.
b/ Projection using annualized elasticity (2014-2019) with pass-through = 1 based on GDP per capita in constant LCU.

TIMOR-LESTE

Table 1	2022
Population, million	1.3
GDP, current US$ billion	1.7
GDP per capita, current US$	1284.3
International poverty rate ($2.15)[a]	24.4
Lower middle-income poverty rate ($3.65)[a]	69.2
Gini index[a]	28.7
School enrollment, primary (% gross)[b]	110.7
Life expectancy at birth, years[b]	68.5
Total GHG emissions (mtCO2e)	5.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2017 PPPs.
b/ Most recent WDI value (2020).

The economy rebounded in 2022 on the back of rising public consumption and investment as well as release of pent-up demand. The re-opening of the economy has also supported a rise in the employment rate, but the quality of jobs remains challenging. The economy is projected to grow by about 3.1 percent per year over the medium term. However, the outlook is subject to material downside risks namely from global slowdown and slow implementation of structural reforms.

Key conditions and challenges

Sustaining economic growth in Timor-Leste is hindered by numerous challenges, many of which stem from its small state status and post-conflict legacy. Its remoteness from international markets and poor connectivity leads to higher input costs for domestic production and exports. Moreover, the small domestic market makes it difficult for firms to achieve economies of scale and agglomeration economies. Other challenges include low economic diversification and vulnerability to shocks and natural disasters. Institutional weaknesses, gaps in infrastructure and human capital, and political instability have further exacerbated these challenges.

The economy relies heavily on government spending, but domestic revenues are limited. Public expenditure levels are among the highest globally, equivalent to 92.5 percent of non-oil GDP in 2021, while domestic revenue collection stands at around 10 percent of non-oil GDP. Although government spending has led to some improvements in infrastructure, including near-universal access to electricity, as well as human capital development through improved access to basic healthcare and education, economic growth remains low. This reflects weak fiscal multipliers and the significant import content of government spending.

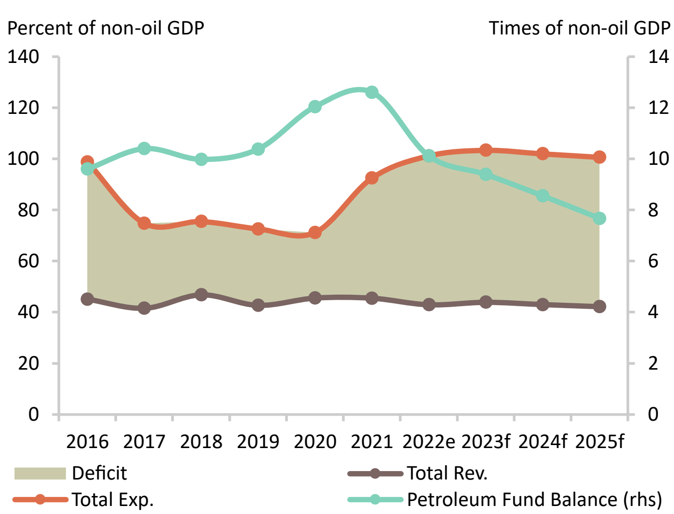
Since 2005, the Government has saved a portion of the oil revenues in the Petroleum Fund (PF), which has been the primary source of financing for large fiscal and trade deficits. However, as hydrocarbons production stopped in early 2023, the Fund balance is rapidly declining. The Ministry of Finance projects that under current spending levels, the PF will be depleted by 2034. Avoiding this fiscal cliff is the most important policy challenge facing the country.

Recent developments

As the impact of the pandemic recedes, the economy is showing signs of recovery, with non-oil GDP growth reaching 3.5 percent in 2022, up from 2.9 percent in 2021. Growth was largely attributed to a rise in government spending. The lifting of the emergency status and the resumption of cross-border movement also helped release pent-up demand and boost private consumption. The re-opening of the economy has also supported a rise in the employment rate. Nevertheless, the quality of jobs remains challenging, with more than 70 percent being informal.

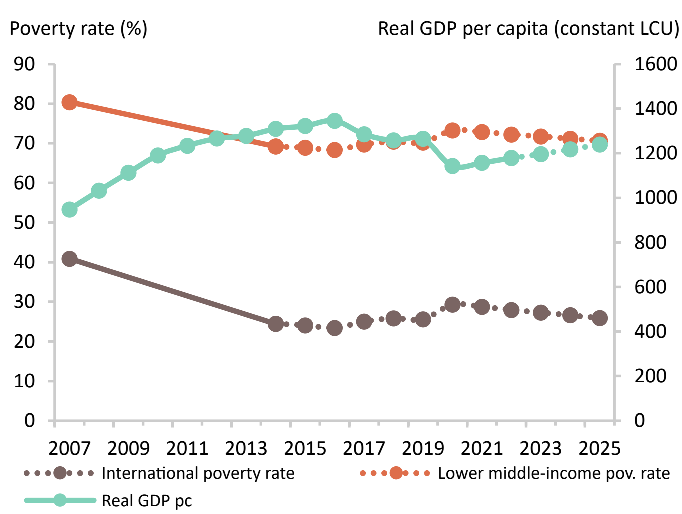
The recovery has turned the current account surplus in 2021 (2.7 percent of non-oil GDP) into an 11.8 percent deficit in 2022. Although service exports, particularly in the tourism sector, expanded, they were outpaced by import growth due to recovering domestic demand. With limited availability of financial inflows, including FDI at only 2 percent of non-oil GDP, external financing requirements were primarily met

FIGURE 1 Timor-Leste / Fiscal spending remains high



Source: World Bank staff calculations using data from the Ministry of Finance.

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



Source: World Bank. Notes: see Table 2.

through Petroleum Fund withdrawals. Foreign reserves stand at close to US$1 billion or 7 months of imports.

Headline inflation rose to 6.9 percent in December 2022, driven by global fuel and food prices. Rising agriculture input costs such as transport, fertilizer, and animal feed have led to soaring food prices (up 6.8 percent in December). In response, the authorities allocated in-kind transfers and subsidies to ease the impact on vulnerable households. The stronger US dollar, which Timor-Leste has adopted as legal tender, helped to moderate price pressures somewhat but weighs on export competitiveness.

The lack of recent household data makes it challenging to monitor development progress. Poverty stood at 24.4 percent of the population (at USD 2.15 per day line, 2017 PPP) according to the latest representative household survey conducted in 2014. However, there are indications of mixed progress since then. Recent household phone surveys reveal that the prevalence of severe food insecurity has halved from 19.3 percent in 2021 to 8.7 percent in 2022. Labor force participation rate, however, has declined from 46.9 in 2016 to 30.5 percent in 2021 partly due to the increasing share of subsistence farmers. A concerted effort by the Government to collect more recent household data is underway including the Timor-Leste Survey of Living Standard planned in the second half of 2023.

With the pandemic impact receding, government spending in 2022 increased from 92.5 to 101.2 percent of non-oil GDP on the back of rising government goods and services, as well as capital spending. Domestic revenue collection has not returned to pre-pandemic level and consequently the fiscal deficit widened from 47 percent of non-oil GDP in 2021 to 58.3 in 2022. Budget financing was secured from PF withdrawals, depleting the Fund further. PF balance was down from 12.6 times of non-oil GDP in 2021 to 10.1 times in 2022. By August 2022, the debt-to-GDP ratio stood at 15.5 percent.

Outlook

Over the medium term (2023-2025), the economy is projected to grow at an average annual rate of 3.1 percent driven by higher public consumption and investment as more infrastructure projects and government activities are executed following the cessation of mobility restrictions. High food and commodity prices coupled with a closing output gap are expected to drive inflation, which is projected to average 3.9 percent (2023-2025). Without oil export, the balance of the PF will deteriorate further, and the current account balance will shift back to staggering deficits. Without revenue reforms, the fiscal deficit is projected to hover at 50 percent of non-oil GDP in the medium-term.

Downside risks are material and include global slowdown, natural disasters and worsening global financial conditions. High international commodity prices, especially food, can significantly impact the purchasing power of poorer households and therefore impact private consumption. The appreciation of the US dollar could strengthen the purchasing power of Timorese, but this effect may be offset by cost-push inflation given the large dependency on imported goods. Meanwhile depressed international stock markets would affect the PF's investment returns.

To achieve the 7 percent growth target envisaged in the government program, it is crucial to support private sector development and enhance competitiveness through structural reforms including investing in human capital formation. Furthermore, fiscal consolidation is essential to avoid the fiscal cliff and ensure the perpetuation of government spending to support economic growth.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-8.3	2.9	3.5	3.0	3.2	3.2
Private Consumption	-3.1	-2.7	3.8	3.6	3.7	3.8
Government Consumption	4.9	3.5	4.3	2.9	3.5	3.3
Gross Fixed Capital Investment	-42.5	-13.0	15.2	6.9	3.6	3.9
Exports, Goods and Services	-51.1	151.9	3.0	3.0	3.6	3.7
Imports, Goods and Services	-7.1	-9.1	8.5	5.0	4.3	4.4
Real GDP growth, at constant factor prices	-8.3	3.8	3.5	3.0	3.3	3.2
Agriculture	0.6	5.5	5.5	2.9	2.9	2.9
Industry	-14.0	-14.0	2.4	2.4	2.4	2.4
Services	-10.1	3.8	3.0	3.0	3.4	3.2
Inflation (Consumer Price Index)	0.5	3.8	7.0	5.5	3.3	2.8
Current Account Balance (% of GDP)	-19.1	2.7	-11.8	-45.2	-52.2	-56.3
Net Foreign Direct Investment Inflow (% of GDP)	-4.6	-4.4	-4.0	-4.1	-4.0	-4.0
Fiscal Balance (% of GDP)[a]	-25.9	-47.0	-58.3	-59.4	-58.8	-58.3
Revenues (% of GDP)	46.1	45.5	42.9	43.9	43.0	42.2
Debt (% of GDP)	13.8	15.2	17.0	17.5	18.5	19.0
Primary Balance (% of GDP)	-25.8	-46.8	-58.1	-59.3	-58.8	-58.3
International poverty rate ($2.15 in 2017 PPP)[b,c]	29.3	28.8	28.0	27.3	26.6	25.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	73.3	72.9	72.3	71.8	71.2	70.6
GHG emissions growth (mtCO2e)	-4.4	-3.2	-2.8	-2.7	-2.3	-2.0
Energy related GHG emissions (% of total)	9.3	9.9	10.6	11.4	12.1	12.9

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

VIETNAM

Table 1	2022
Population, million	99.0
GDP, current US$ billion	408.7
GDP per capita, current US$	4130.5
International poverty rate ($2.15)[a]	0.7
Lower middle-income poverty rate ($3.65)[a]	3.8
Upper middle-income poverty rate ($6.85)[a]	18.7
Gini index[a]	36.8
School enrollment, primary (% gross)[b]	118.4
Life expectancy at birth, years[b]	75.4
Total GHG emissions (mtCO2e)	496.1

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

Vietnam's economy grew by 8.0 percent in 2022, mainly due to low base effects. In 2023, the economy is expected to grow by 6.3 percent, as domestic demand normalizes after the 2022 post-COVID recovery and exports face headwinds. Poverty is expected to decline from 3.3 in 2022 to 3.1 percent in 2023. The economy faces risks associated with higher inflation, heightened financial risks, and sharper than expected slowdown in exports.

Key conditions and challenges

Vietnam's economy faces domestic and external headwinds in 2023. Domestic inflation has continued to rise and further monetary tightening could dampen demand and increase pressure on the financial sector. The ongoing slowdown in some of Vietnam's main trade partners may affect exports.

Achieving Vietnam's goal of becoming a high-income economy by 2045 will depend on reviving productivity growth while ensuring environmental sustainability and social equity. This would entail modernizing economic governance and market institutions to facilitate a more efficient use of physical, human, and natural capital.

Recent developments

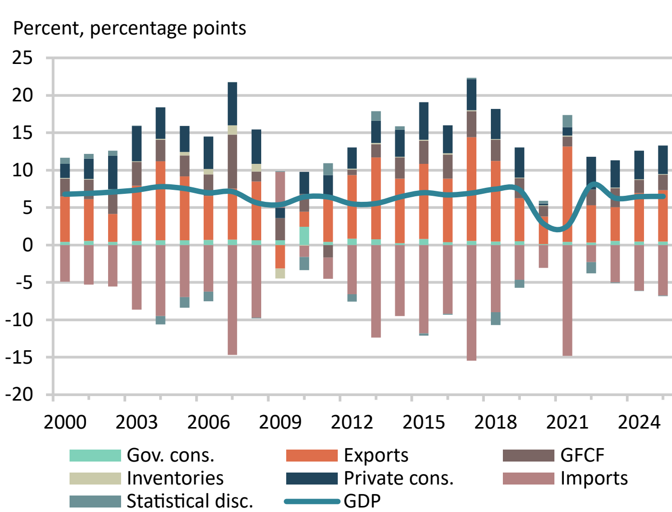
Real GDP expanded by 8.0 percent in 2022, mainly due to low base effects. The rebound was driven by the recovery of private demand after COVID-related restrictions caused a significant decline in 2021. Retail sales expanded by 17.1 percent and the service sector recorded 10 percent growth in 2022. A strong rebound in manufacturing exports (+10.3 percent) also supported the recovery in 2022, with the industrial sector growing by 8.1 percent, although exports slowed in the fourth quarter along with weaker external demand. Agriculture continued to perform on trend, growing by 3.4 percent in 2022.

CPI inflation rose throughout 2022, from 1.95 y/y in January to 4.54 y/y in December, as the second-round effects of the March 2022 commodity supply shock contributed to an increase in the cost of food (+14.7 percent), education (15.2 percent), health (8 percent) and housing (10.9 percent). Core inflation also rose from a low of 0.66 y/y in January to 5.0 y/y in December.

Nominal labor incomes in 2022 recovered to pre-pandemic levels. However, with high inflation, real monthly labor incomes in 2022 are only 3.8 percent higher than in 2019. Labor participation reached 68.5 percent, still below pre-covid rate of 71.3 percent. The poverty rate (as measured by the World Bank's lower middle-income country poverty line US$3.65/day 2017 PPP) declined from an estimated 3.6 percent in 2021 to a projected 3.3 percent in 2022. A survey of consumers in January 2023 finds that 60 percent identified inflation as their primary concern compared to 36 percent in January 2022. As a result, consumers have become more cautious, reporting increased saving rates (from 25 percent in the Q3-2022 to 30 percent in the Q1-2023).

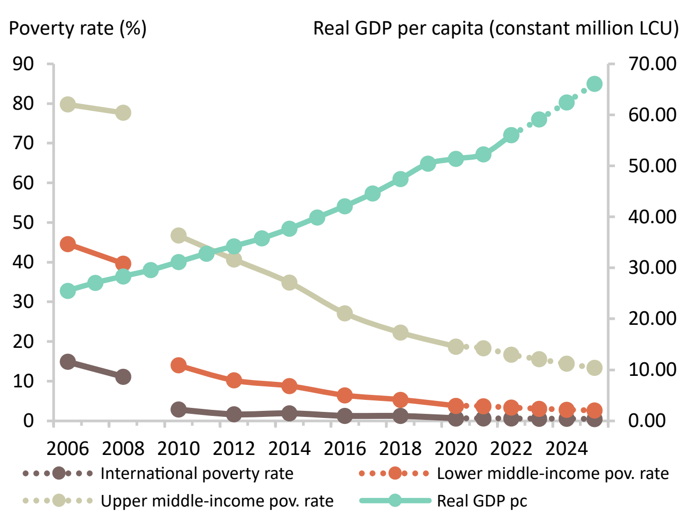
The external balance of payment (BOP) weakened in 2022. The current account registered a deficit of US$4.9 billion in the first nine months of 2022 and is estimated to have remained in deficit for the year. Meanwhile, the financial account surplus

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



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

narrowed to US$7.5 billion in Q3-2022 compared to a US$26.4 billion surplus in Q3-2021, mostly connected to short-term capital outflows induced by monetary tightening in the United States.

Monetary policy responded to exchange rate pressures while fiscal policy continued to be hampered by implementation challenges. As global financial conditions started to tighten and Vietnam's BOP started to show signs of weakening, the Dong came under pressure. The SBV used FX sales, increased exchange rate flexibility, and increased policy interest rates by 200 basis points. By end-December, the Dong/US$ exchange rate had only depreciated about 3.4 percent, the lowest among regional comparators. On the other hand, the budget registered a US$9.7 billion surplus by end of 2022 due to higher-than-expected revenue collection and budget under-execution. Public and publicly guaranteed debt (PPG-GFS) fell from an estimated 39.3 percent of GDP in 2021 to an estimated 35.7 percent of GDP in 2022, of which about 64 percent were domestically held bonds.

Outlook

As low-base effects dissipate, real GDP growth is expected to slow to 6.3 percent in 2023, returning to trend in 2024 (6.5 percent). Domestic demand is expected to remain the main driver of growth, with contributions from net exports expected to weaken this year before recovering in 2024-25. While slower growth in the US and the EU will weigh on exports, the reopening of the Chinese economy may further help. The current account deficit is expected to decrease to -0.3 percent of GDP in 2023 and to turn positive in the medium term as goods and services exports recover. Inflation is projected to average 4.5 percent in 2023 partly due to planned electricity prices and civil service salaries increases and the return of the standard VAT rate back to 10 percent. Inflation is expected to fall to 3.5 percent in 2024 and 3.0 percent in 2025, as these effects dissipate. The poverty rate in 2023 is expected to decline to a projected 3.1 percent, compared to a projected 3.3 percent in 2022. The government plans to implement the investment component of the 2022-23 Economic Support Program (1.6 percent of GDP). However, the PPG debt is estimated to continue to fall in 2023-2025.

The risks are broadly balanced. In the near term, Vietnam faces external headwinds and domestic vulnerabilities. External risks include further tightening of global financing conditions and weaker-than-expected global growth. Domestically, higher inflation and heightened financial risks could affect growth. On the upside, improved growth prospects in China, the US, or the EU and stronger than expected global demand could lift exports and hence growth above the baseline projection.

In the short term, given available fiscal space, a more supportive fiscal policy stance with a focus on improving the implementation of the capital budget could hedge against downside risks to growth. Monetary and exchange rate policies will need to remain agile, including by allowing greater exchange rate flexibility to accommodate potential external shocks. Financial risks highlight the need to strengthen monetary policy and supervisory frameworks for the financial sector.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	2.9	2.6	8.0	6.3	6.5	6.5
Private Consumption	0.4	2.0	7.8	6.5	6.8	6.8
Government Consumption	1.2	4.7	3.6	6.3	5.2	5.1
Gross Fixed Capital Investment	4.1	3.7	6.0	7.2	4.9	5.9
Exports, Goods and Services	4.1	13.9	4.9	4.5	6.6	7.0
Imports, Goods and Services	3.3	15.8	2.2	5.0	6.2	6.9
Real GDP growth, at constant factor prices	3.1	2.6	8.4	6.3	6.4	6.5
Agriculture	3.0	3.3	3.4	2.2	2.2	2.1
Industry	4.4	3.6	7.8	6.6	7.4	7.3
Services	2.0	1.6	10.3	7.1	6.7	6.8
Inflation (Consumer Price Index)	3.2	1.8	3.1	4.5	3.5	3.0
Current Account Balance (% of GDP)	4.3	-1.0	-1.7	-0.3	0.1	0.1
Net Foreign Direct Investment Inflow (% of GDP)	4.4	4.2	3.7	3.4	3.4	3.4
Fiscal Balance (% of GDP)	-2.9	-3.4	1.4	-0.3	0.8	1.4
Revenues (% of GDP)	18.4	18.4	18.9	18.4	18.2	18.2
Debt (% of GDP)	41.3	39.3	35.7	35.0	33.2	31.0
Primary Balance (% of GDP)	-1.5	-2.2	2.5	0.7	1.8	2.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.7	0.6	0.6	0.5	0.5	0.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	3.8	3.7	3.3	3.1	2.8	2.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	18.7	18.3	16.7	15.5	14.4	13.4
GHG emissions growth (mtCO2e)	2.9	2.9	6.9	5.5	5.6	5.8
Energy related GHG emissions (% of total)	64.9	64.4	64.9	64.8	64.7	64.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on EAPPOV harmonization, using 2014-VHLSS, 2018-VHLSS, and 2020-VHLSS. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projection using annualized elasticity (2014-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

Macro Poverty Outlook

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