

**Latin America and the Caribbean**

# Macro Poverty Outlook

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

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Spring  
Meetings  
2023



**WORLD BANK GROUP**  
Macroeconomics, Trade & Investment  
Poverty & Equity

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# Latin America and the Caribbean

Spring Meetings 2023

Argentina  
Bahamas, The  
Barbados  
Belize  
Bolivia  
Brazil  
Chile  
Colombia  
Costa Rica  
Dominica

Dominican Republic  
Ecuador  
El Salvador  
Grenada  
Guatemala  
Guyana  
Haiti  
Honduras  
Jamaica  
Mexico

Nicaragua  
Panama  
Paraguay  
Peru  
Saint Lucia  
Saint Vincent and the Grenadines  
Suriname  
Uruguay

# ARGENTINA

**Table 1** **2022**

Population, million	46.1
GDP, current US\$ billion	637.0
GDP per capita, current US\$	13832.7
International poverty rate (\$2.15) <sup>a</sup>	1.0
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	2.5
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	10.6
Gini index <sup>a</sup>	42.0
School enrollment, primary (% gross) <sup>b</sup>	108.9
Life expectancy at birth, years <sup>b</sup>	75.9
Total GHG emissions (mtCO2e)	413.8

Source: WDI, Macro Poverty Outlook, and official data.  
a/ Most recent value (2021), 2017 PPPs.  
b/ Most recent WDI value (2020).

*A severe drought will curtail growth in 2023, derailing reserve accumulation and fiscal revenues. Inflation has reached historical highs and continues to deter progress in poverty reduction. Growth is expected to gather pace in 2024 as the drought comes to an end. In addition to making progress on macroeconomic stabilization anchored in an IMF program, reforms that aim to bolster investment and facilitate formal private sector job creation would strengthen growth beyond resource-intensive sectors and spur shared prosperity.*

## Key conditions and challenges

Argentina has been struggling to find new sources of growth since the end of the commodity super-cycle that led to an increase in real incomes, and also triggered, in part, an unprecedented expansion of fiscal spending. As the commodity price boom waned, the country has found it difficult to finance public recurrent spending despite a large increase in the tax burden and a collapse in public investment. Persistent monetary financing of fiscal imbalances has gradually pushed up inflation and reduced confidence in the peso.

Several external shocks and policy choices over the past decade have lowered growth and investment, leading to a stagnation in private sector formal job creation. Argentina's external competitiveness has also declined, as evidenced by declines in the number of exporters and quantities exported, narrower export diversification and increased commodity dependence.

Following a three-year recession, economic activity rebounded from the COVID crisis. Unemployment reached the lowest level registered since 2017 at 6.3 percent in 2022Q4, but job quality is low, as most new jobs correspond to vulnerable own-account and informal workers. Poverty decreased from 14.1 percent in 2020 to 10.6 percent in 2021 (using the international poverty line of US\$6.85 per day).

Persistent macroeconomic imbalances do not allow for sustained strong growth.

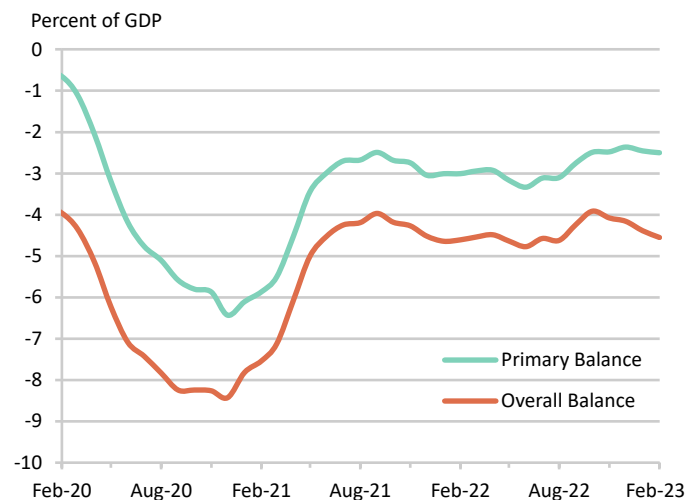
Sound and credible macro-fiscal policies, coupled with bold reforms to incentivize private sector investment and generate exports, are needed to lead the economy beyond a cyclical recovery and create good quality jobs. Closing large infrastructure gaps and strengthening skill acquisition will be key to lifting Argentina's low growth potential and to successfully navigating the twin digital and green transitions.

## Recent developments

After recovering rapidly from the COVID-19 crisis, economic activity expanded in the first half of 2022 to a level slightly above the previous cyclical peak attained in 2017. Growth was supported by expansionary domestic policies, both monetary and fiscal, at the cost of widening macroeconomic imbalances, as evidenced by accelerating inflation, a widening of the fiscal deficit, low foreign reserves and a large gap between official and alternative exchange rates. Fiscal policy shifted gear and turned strongly contractionary in the second half of 2022, owing to the short-run effect of accelerating inflation on most budget items and to the implementation of the energy tariff segmentation scheme. A high-inflation environment, further tightening of import controls and a contractionary fiscal policy curtailed economic activity by 2.9 percent in the last four months of the year.

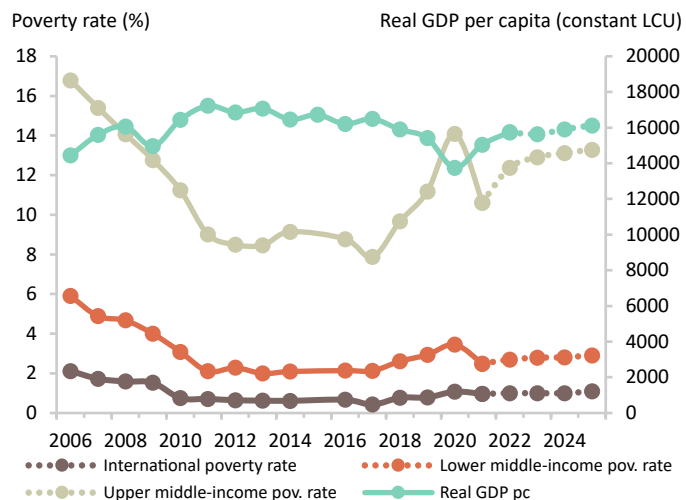
A more restrictive monetary policy in the last quarter of the year has helped stabilize financial variables and partially restore CB net reserves. This has been supported by

**FIGURE 1 Argentina / Fiscal balance (rolling 12-months)**



Source: World Bank staff calculations based on Ministry of Economy.

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



Source: World Bank. Notes: see Table 2.

multiple regulations to access the official FX market and by the launch of two rounds of the “soy dollar” scheme to motivate exporters to frontload liquidation of their stocks. The more prudent management of fiscal and monetary policies in the second half of the year, and the use of preferential exchange rates allowed attaining all the quantitative performance criteria of the Extended Fund Facility arrangement by the end of 2022.

However, and despite tight import controls, net reserves are estimated to have fallen from US\$7.7bn in December to below US\$4bn in March 2023, because of the decline in agricultural exports. Yearly inflation has reached three digits, adversely impacting the poor and vulnerable. Strong inertia, relative price adjustments and heightened uncertainty are making it difficult to bring down inflation.

## Outlook

The economy is expected to stagnate in 2023, owing to the severe drought that will

drastically cut agriculture output and exports and to the negative carry-over effect from the end of 2022. In 2022, the poverty rate is projected to reach 12.4 percent of the urban population under the international poverty line of \$6.85 per day; prospects for a reduction in the poverty rate in 2023 do not look positive as the prices of food and basic consumption basket are increasing at a higher rate than general inflation.

The drought will slash output from the three main crops by about 40 percent, leading to a decline in exports and negatively impacting fiscal revenues and foreign reserve accumulation.

Low reserves and the continued implementation of import controls will hamper private investment. Public investment, primarily focused on completing the first phase of the Nestor Kirschner gas pipeline, will add to capital formation, only partially offsetting the decline in private investment. Import controls and a projected increase in oil exports in the second half of the year will secure a small current account surplus.

A high inflationary environment will continue to hinder private consumption. Fiscal

and monetary policies are likely to remain restrictive as authorities aim to comply with IMF quantitative targets. Additional efforts are likely to be needed to manage the projected reduction in revenues associated with the direct and indirect effects of the drought.

Growth is expected to accelerate in 2024, as improved climate conditions allow for the expansion of agricultural output, with positive effects in manufacturing and transportation via input-output links. Historically high commodity prices are expected to persist, supporting output and exports. Investments in energy efficiency, particularly the NK gas pipeline, will lead to reduced energy imports and a brighter economic outlook.

Significant downside risks persist, and they are mainly domestic. The short-term outlook could worsen, depending on the duration and severity of the drought. Given the low level of reserves, a disorderly correction in the value of the peso could exacerbate inflation in the absence of bolder reforms. High poverty and inflation levels also create potential for social unrest.

**TABLE 2 Argentina / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-9.9	10.4	5.2	0.0	2.3	2.0
Private Consumption	-13.7	10.0	9.4	0.2	2.1	2.0
Government Consumption	-1.9	7.1	1.8	0.3	0.7	1.3
Gross Fixed Capital Investment	-13.0	33.4	10.9	-5.1	3.8	3.4
Exports, Goods and Services	-17.7	9.2	5.7	-11.5	6.8	5.1
Imports, Goods and Services	-18.5	22.0	17.4	-12.2	5.5	5.6
<b>Real GDP growth, at constant factor prices</b>	-10.0	10.0	5.2	0.0	2.3	2.0
Agriculture	-7.7	0.7	-3.8	-9.7	6.5	2.1
Industry	-9.3	15.3	6.0	-0.4	1.4	2.1
Services	-10.6	9.0	6.2	1.4	2.3	1.9
<b>Current Account Balance (% of GDP)</b>	0.8	1.4	-0.2	0.2	0.0	0.1
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	0.9	1.1	0.9	0.8	1.2	1.5
<b>Fiscal Balance (% of GDP)<sup>a</sup></b>	-8.4	-4.2	-4.1	-4.0	-3.4	-3.0
<b>Revenues (% of GDP)</b>	32.4	32.1	31.1	31.0	30.8	30.6
<b>Debt (% of GDP)<sup>a</sup></b>	107.5	87.9	81.2	79.0	75.6	72.9
<b>Primary Balance (% of GDP)<sup>a</sup></b>	-5.9	-2.3	-2.0	-1.7	-0.8	-0.3
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>b,c</sup></b>	1.1	1.0	1.0	1.0	1.0	1.1
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>b,c</sup></b>	3.5	2.5	2.7	2.8	2.8	2.9
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>b,c</sup></b>	14.1	10.6	12.4	12.9	13.1	13.3
<b>GHG emissions growth (mtCO2e)</b>	-1.9	3.2	2.5	0.6	1.6	1.7
<b>Energy related GHG emissions (% of total)</b>	39.8	41.0	41.9	41.7	42.0	42.2

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 data refer to the general government.

b/ Calculations based on SEDLAC harmonization, using 2021-EPHC-S2. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.

c/ Projections using microsimulation methodology.

# THE BAHAMAS

## Key conditions and challenges

Table 1	2022
Population, million	0.4
GDP, current US\$ billion	13.2
GDP per capita, current US\$	32138.8
School enrollment, primary (% gross) <sup>a</sup>	96.1
Life expectancy at birth, years <sup>a</sup>	72.7
Total GHG emissions (mtCO2e)	3.0

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

GDP grew by an estimated 11 percent in 2022, slightly less than in 2021, but remains below its 2019 level. Growth was driven by the recovery of services, particularly by tourism. The fiscal accounts started to improve with the overall deficit decreasing from 13.6 percent of GDP in 2021 to 5.7 percent of GDP in 2022. The current account deficit remains high at 17.2 percent of GDP despite some improvement. Reducing the inflation and the learning losses that occurred during the pandemic are critical to achieving progress toward poverty reduction of future generations.

The Bahamas is a high-income service economy heavily dependent on tourism and financial services. Real GDP has grown on average at 1 percent in the last eight years. The country remains vulnerable due to its small size, lack of economic diversification, and risk of natural disasters.

The Bahamas relies heavily on foreign investment, especially in terms of tourism and other services. The services industry represents 85 percent of GDP, and employs a sizable portion of the country's workforce; it is highly dependent on the economic performance of foreign markets, such as the USA, Canada, UK, and France. Moreover, the economy is heavily dependent on imported goods such as fuel and food.

The Bahamas was recently removed from the Financial Action Task Force's grey list. Efforts to strengthen the country's Anti-Money Laundering regulation and supervision are ongoing. The financial sector remains sound.

For a high-income country, The Bahamas has a relatively high poverty rate and significant inequality, and very limited poverty data. According to the 2013 Household Expenditure Survey, 12.8 percent of the population lived below the national poverty line and the Gini index was high at 41.4. While no official income poverty indicators have been produced since 2013, The

Bahamas has exhibited some improvements in other areas, such as education and life expectancy, as reflected by the increase in the Human Development Index (HDI) in the past two decades. However, part of the increase was reversed by the pandemic. The country's HDI went from 0.801 in 2001 to 0.827 in 2018 and back to 0.812 in 2021. Despite the setback, the HDI is still above the Latin America and the Caribbean average of 0.755, and close to Costa Rica and Trinidad and Tobago.

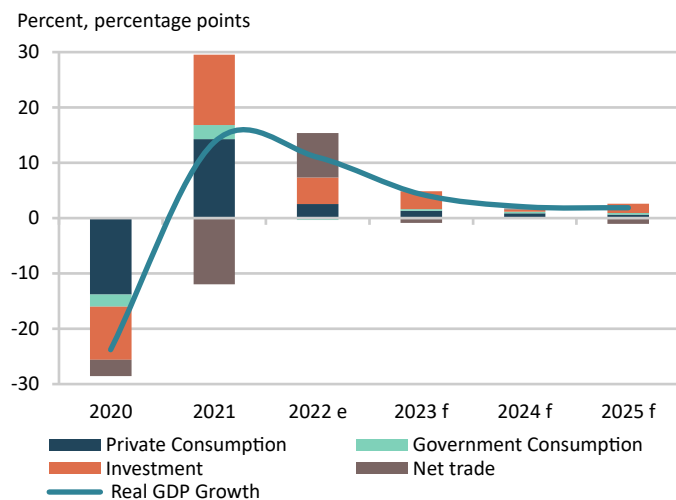
Unemployment in The Bahamas is high. According to ILO estimates, the unemployment rate in 2022 was 10.1 percent. Unemployment is more prevalent among the youth and especially women. Female youth unemployment rate in 2022 stood at 27.8 percent, higher than male youth unemployment rate (21.4 percent). High unemployment among the youth is explained by a lack of economic diversification, inadequate skills, and frictions in the job match services.

Vulnerability to climate change and global health risks jeopardize the country's development trajectory. Sea-level rise associated with increasing temperatures threatens the safety of the island and its citizens.

## Recent developments

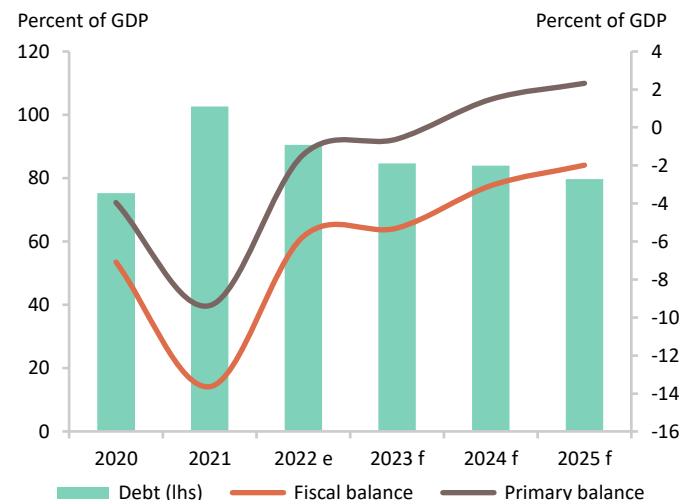
At 11 percent, GDP growth was high in 2022, as the demand for tourism services continues to recover after pandemic restrictions were eased. As of February 2023, only 43 percent of the population has been fully vaccinated, and according to the latest data for

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



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

**FIGURE 2 The Bahamas / Fiscal balance and public debt**



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

2022, the tourist inflow has reached only 83 percent of its pre-pandemic levels.

Tourism-related FDI projects, together with post-hurricane rebuilding efforts supported the construction sector output. Construction projects are mainly driven by the private sector; however, the government also continues to finance the rebuilding of public buildings to increase their resilience to natural disasters as well as to implement a mitigation policy for climate change.

Average inflation accelerated from 2.9 percent in 2021 to 5.7 percent in 2022, largely driven by imported food, clothing, and fuel. The Government tried to mitigate the losses in disposable household income and its impact on poverty, by reducing electricity costs, giving a \$500 lump-sum payment to citizens who were not able to work due to the pandemic, and by increasing the minimum wage in October 2022.

Public finances are entering a consolidation process after worsening during the pandemic. Revenues and output are recovering, and pandemic-related spending is being phased out. The fiscal deficit is estimated to decrease from 13.6 percent of GDP in 2021 to 5.7 percent of GDP in 2022, while public debt is estimated to decrease

from 102.6 percent of GDP to 90.5 percent of GDP over the same period.

The external sector was strongly hit during the pandemic. The current account deficit (CAD) fell from 23.1 percent in 2021 to 17.2 percent in 2022 as net travel receipts have improved but demand for key imports has increased, as have their prices. The CAD has been financed by borrowing from capital markets and IFIs, FDI, and international reserves, which, nevertheless, amounted to almost 6 months of imports at the end of 2022.

## Outlook

Economic growth is projected to slow to 4.3 percent in 2023, as tourism flows and construction projects return to pre-pandemic levels. However, growth is projected to decline to 2 percent in 2024 and 1.9 percent in 2025, after the post-pandemic recovery is completed.

The inflation rate is projected to decrease to 5.3 percent in 2023 and 3.3 percent in 2024 as commodity prices gradually decline.

The primary and overall fiscal deficits will decrease to 0.6 percent of GDP and

5.3 percent of GDP, respectively, in 2023. The downward trend is expected to be sustained in the subsequent two years, due to the government's ongoing efforts to reduce expenditures and resume tax reforms aiming at the expansion of the tax base and enhancing compliance.

Public debt will decrease to 84 percent of GDP in the near term once the economy is back on the growth path and as revenues rebound. In the longer term, by FY2030/31, the Government's target is to decrease debt to 50 percent of GDP.

The CAD will decrease to 14.4 percent of GDP in 2023, as tourism receipts expand. It is expected to continue gradually narrowing in 2024 and 2025, helping to maintain gross international reserves at an adequate level. The sources of CAD financing are expected to remain the same.

The outlook is subject to downside risks, including a slow-down in tourism, which is highly dependent on the economic performance of advanced economies such as the US, the UK, and Canada, more persistent than projected inflationary pressures, the risk of natural disasters, and the global macroeconomic risks related to tightening of financial conditions.

**TABLE 2 The Bahamas / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-23.8	13.7	11.0	4.3	2.0	1.9
Private Consumption	-21.2	21.2	3.5	2.0	1.3	1.0
Government Consumption	-13.4	13.7	-1.9	1.6	1.7	1.7
Gross Fixed Capital Investment	-36.6	58.0	15.9	10.1	1.2	5.1
Exports, Goods and Services	-47.9	25.6	40.0	11.0	9.5	2.9
Imports, Goods and Services	-30.7	42.5	5.6	9.1	6.2	4.0
<b>Real GDP growth, at constant factor prices</b>	-23.8	13.7	11.0	4.2	2.0	1.9
Agriculture	14.1	-31.7	2.0	0.5	0.6	0.6
Industry	-34.5	8.5	15.7	5.0	4.0	4.0
Services	-22.5	14.8	10.5	4.1	1.8	1.6
<b>Inflation (Consumer Price Index)</b>	0.0	2.9	5.7	5.3	3.3	2.9
<b>Current Account Balance (% of GDP)</b>	-24.5	-23.1	-17.2	-14.4	-11.5	-11.6
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	4.0	3.7	3.5	3.4	3.4	3.4
<b>Fiscal Balance (% of GDP)<sup>a</sup></b>	-7.1	-13.6	-5.7	-5.3	-3.1	-2.0
<b>Revenues (% of GDP)</b>	18.8	19.3	20.5	20.8	21.5	21.8
<b>Debt (% of GDP)<sup>a</sup></b>	75.3	102.6	90.5	84.6	84.0	79.7
<b>Primary Balance (% of GDP)<sup>a</sup></b>	-4.0	-9.4	-1.4	-0.6	1.5	2.3
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-2.8	-1.4	-1.2	-0.8	-0.6	-0.4
<b>Energy related GHG emissions (% of total)</b>	88.8	88.2	87.9	87.6	87.3	87.2

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 (July 1st -June 30th).



# BARBADOS

**Table 1** **2022**

Population, million	0.3
GDP, current US\$ billion	5.3
GDP per capita, current US\$	18982.1
School enrollment, primary (% gross) <sup>a</sup>	98.3
Life expectancy at birth, years <sup>a</sup>	77.4
Total GHG emissions (mtCO <sub>2</sub> e)	3.5

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

*Barbados's economy is rebounding, benefiting from a return of tourists that allowed for an economic growth of 10.0 percent in 2022 and likely a poverty reduction. After a pandemic-related interruption, the implementation of the Barbados Economic Recovery and Transformation (BERT) plan which seeks to achieve high primary surpluses and reduce external and natural vulnerabilities has been resumed. Public debt is projected to decrease but remains high at 122.6 percent. Faster than expected slowdown in tourism source markets, higher oil import prices, and climate events pose risks.*

## Key conditions and challenges

Barbados is a high-income service economy. Tourism, financial services, and other services accounted for around 70 percent of GDP in 2021. Due to its small size, its dependence on tourism, and high dependence on imports of essential goods, the economy is vulnerable to external shocks, such as the recent pandemic, hikes in import prices and climate change, and natural disasters. Recent shocks have resulted in a sharp contraction in economic activity and greatly reduced fiscal space. Because of the fixed exchange rate and dependence on imports from the US, increase in the US inflation leads to higher inflation in Barbados. The financial sector has abundant liquidity and excess reserves. The Central Bank has few instruments to tighten monetary conditions in response to the surge in inflation. The government has been advancing important structural reforms in key areas, supported by successor IMF programs and funding under the IMF's new Resilience and Sustainability Trust, including debt restructuring, macroeconomic stability and resilience to climate change, and reduction of greenhouse gas emissions. In 2022, the government launched BERT 2022, which seeks to gradually reduce its public debt (to 60 percent of GDP by FY 2035/36) while incentivizing a green transition, investing in human capital, diversifying the economy, and enhancing competitiveness.

Poverty levels are likely to have decreased in comparison to the pandemic 2020/21 biennium, yet still at a higher level than pre-covid. There are no official poverty estimates since 2017 when 17.2 percent of households and 25.7 percent of consumers were under the basic needs line. Nevertheless, the economic surge led by a 10.8 percent growth in services is likely to benefit those who can get back to work.

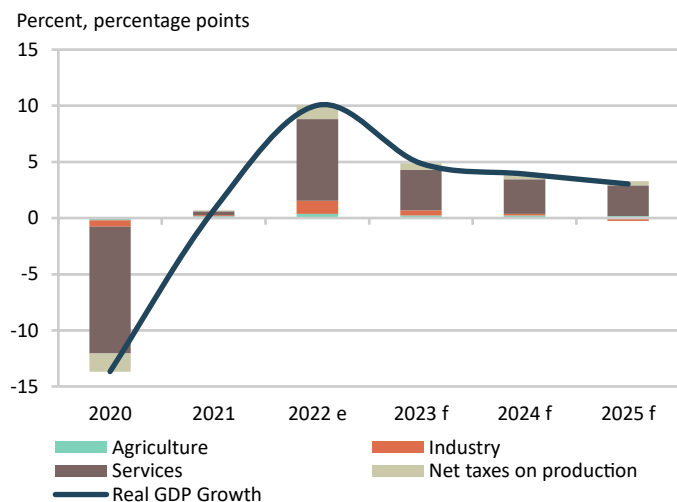
## Recent developments

Real GDP growth is estimated at 10.0 percent in 2022, up from 0.7 percent a year ago. The growth acceleration is due to a recovery of tourism flows, but the output is yet to reach pre-pandemic levels as the number of tourists has not returned to 2019 levels. In 2022, the total number of stay-over visitors reached only 64 percent of its 2019 level, even though it had increased by 206 percent compared to 2021. As of February 2023, 54 percent of the population is fully vaccinated.

The improvement in economic conditions is likely to be increasing the demand for agricultural products; in 2021 the agriculture industry grew by 3.8 percent, driven by the production of livestock, while sugar cane and fishing activities were still lagging.

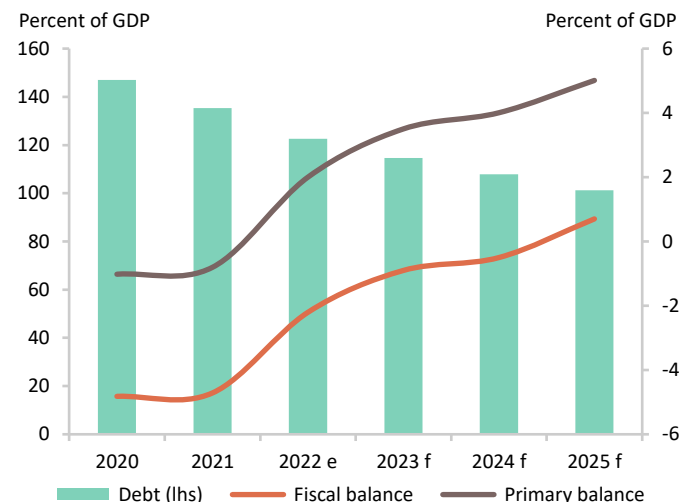
After the severe impacts of the pandemic on Barbados' labor markets, employment was helped by economic growth in 2022. However, labor market indicators have yet to fully recover. ILO estimated the unemployment rate to have risen from

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



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

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



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



8.4 percent of the labor force in 2019 to 10.4 percent in 2020 and 2021. The nominal minimum wage increased by 36 percent between 2020 and 2021, aiming to protect families' purchasing power during the crisis but not necessarily helping employment recovery. The economic recovery in 2022, pushed by the growth of tourism services has stimulated the reabsorption of the workforce. The latest estimates available from a 2016 Survey on Living Conditions suggest that only 38 percent of Barbados workers have a formal job.

The Central Bank of Barbados kept its policy rate unchanged since April 2020 to support the economic recovery. Private-sector credit remains low. The inflation rate only started to accelerate in the second half of 2021. The average annual inflation increased from 3.1 percent in 2021 to 9.4 percent in 2022, largely fueled by food and oil price increases.

The current account deficit remained widened at 11.0 percent of GDP in 2021. Despite the rebound in tourism, the CAD remained elevated at 10.0 percent of GDP

in 2022 due to increased import demand and higher fuel and food prices. Gross international reserves are estimated at 7.3 months of imports as of December 2022.

The Government reduced the overall fiscal deficit from 4.7 percent of GDP in 2021 to 2.2 percent of GDP in 2022, as the revenues are recovering, and the pandemic-related spending is being phased out.

## Outlook

Real GDP growth is expected to reach 4.9 percent in 2023, as the tourism sector returns to pre-pandemic levels, and 3.9 percent in 2024. The fiscal deficit is expected to decline to 0.9 percent of GDP in 2023 and 0.5 percent of GDP in 2024, supported by an increase in revenues and the resumption of SOE reforms. A primary surplus of 3.5 percent of GDP is expected in 2023 and 4 percent of GDP in 2024.

The inflation rate is projected to decrease to 5.8 percent in 2023, and 3.9 percent in 2024

as food and fuel prices ease. The CAD is projected to decrease to 8.9 percent of GDP in 2023 and then narrow to 7.9 percent of GDP in 2024 as the services surplus continues to increase. The trade deficit is expected to remain high (above 17 percent of GDP through 2025) as elevated import prices and increased import demand for private consumption and investment. The CAD will be financed by financial support from IFIs and an increase in private capital inflows.

Returning to pre-pandemic levels of employment and income will take longer and will depend heavily on the recovery of the tourism sector. Additional support for the most vulnerable will be necessary to attain the welfare levels observed over the last decade.

The outlook is subject to downside risks, including the possibility of a slowdown in tourism, which is highly dependent on the economic performance of advanced economies such as the US, the UK, and Canada, the risk of natural disasters, and the global macroeconomic risks related to tightening of financial conditions.

**TABLE 2 Barbados / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-13.7	0.7	10.0	4.9	3.9	3.1
<b>Real GDP growth, at constant factor prices</b>	-13.7	0.7	10.0	4.9	3.9	3.1
Agriculture	-4.8	3.8	7.8	5.0	5.0	3.4
Industry	-3.9	0.6	7.5	3.0	1.0	0.6
Services	-16.3	0.5	10.8	5.3	4.5	3.7
<b>Inflation (Consumer Price Index)</b>	2.9	3.1	9.4	5.8	3.9	3.3
<b>Current Account Balance (% of GDP)</b>	-7.0	-11.0	-10.0	-8.9	-7.9	-6.7
<b>Fiscal Balance (% of GDP)</b>	-4.8	-4.7	-2.2	-0.9	-0.5	0.7
<b>Revenues (% of GDP)</b>	30.1	29.1	29.3	29.1	29.3	29.8
<b>Debt (% of GDP)</b>	147.0	135.3	122.6	114.7	107.8	101.2
<b>Primary Balance (% of GDP)</b>	-1.0	-0.8	2.0	3.5	4.0	5.0
<b>GHG emissions growth (mtCO2e)</b>	-1.6	-5.2	-0.1	2.8	1.2	0.4
<b>Energy related GHG emissions (% of total)</b>	29.8	25.7	25.0	26.1	26.2	26.1

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

Notes: e = estimate, f = forecast.

# BELIZE

**Table 1** **2022**

Population, million	0.4
GDP, current US\$ billion	2.4
GDP per capita, current US\$	5926.7
School enrollment, primary (% gross) <sup>a</sup>	102.6
Life expectancy at birth, years <sup>a</sup>	72.9
Total GHG emissions (mtCO <sub>2</sub> e)	7.0

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

Despite an external debt restructuring in 2021, public debt remains high at 72.8 percent of GDP in 2022. Belize experienced a sound economic rebound, fueled by increased tourism arrivals and tourism-related construction, and real GDP per capita surpassed its pre-pandemic level in 2022. The unemployment rate fell to 5 percent, the lowest ever recorded – though labor participation remains low. The rise in global commodity prices weakened Belize’s external position and reduced the purchasing power of the population. Policy priorities include continued fiscal restraint, growth-enhancing structural reforms, addressing the impacts of climate change, and protecting the vulnerable.

## Key conditions and challenges

Tourism is the most important source of foreign exchange in Belize, followed by agricultural exports and, to a lesser extent, crude oil. Remittance inflows, which account for about 5 percent of GDP, is another major foreign exchange source and provides substantial support for consumption.

Weak fiscal policies, high crime and violence, an unfriendly business environment, and inadequate infrastructure have resulted in low economic growth and employment, a large trade deficit, and a significant debt burden. Between 2006 and 2021, three debt restructurings occurred because of ineffective fiscal policies and external shocks.

With a fixed exchange rate to the US dollar and a reserve cover of less than 4 months of imports, Belize is vulnerable to external shocks such as fluctuations in energy prices, as the country is a net importer of oil and gas, and changes in US monetary policy.

Official consumption poverty estimates from 2018 indicate that more than half of Belize’s population (52 percent) is poor, 10 percent is extremely poor, and 10 percent is vulnerable. Women and Mayans are more likely to be self-employed and poor, underscoring a structural difference in employment and poverty outcomes.

The COVID-19 pandemic has had a severe social impact. According to a World Bank

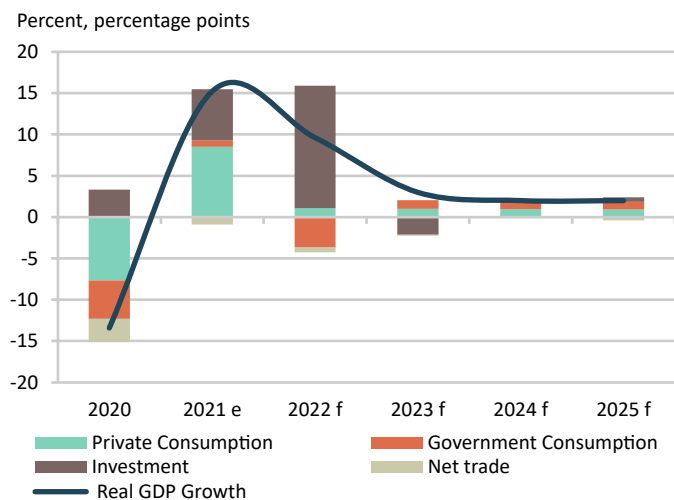
phone survey (HFPS), nearly 40 percent of households had lower incomes at the end of 2021. School participation, which was already low in comparison to other countries in the region, was severely impacted. Belize was one of the five countries in the region with the most severe school closures. The EU Economic and Financial Affairs Council (ECOFIN) removed Belize from the EU grey list of non-cooperative tax jurisdictions; however, gaps in financial sector supervision remain. The government continues to make incremental progress toward moving the country beyond minimum compliance with the Caribbean Financial Action Task Force oversight requirements.

## Recent developments

Belize’s real GDP increased by 11.7 percent in the first three quarters of 2022, fueled by a rebound in tourism and tourism-related investments. Hurricane Lisa which hit some parts of the country in November 2022 did not have adverse effects on economic growth except in the agriculture sector. Belize recorded the lowest level of unemployment in its history in October 2022, at 5 percent. This was due to an increase in the number of people finding work as well as a decrease in the number of people leaving the labor force. However, participation rates are at their lowest in the decade, with women’s recovery being much slower than men’s.

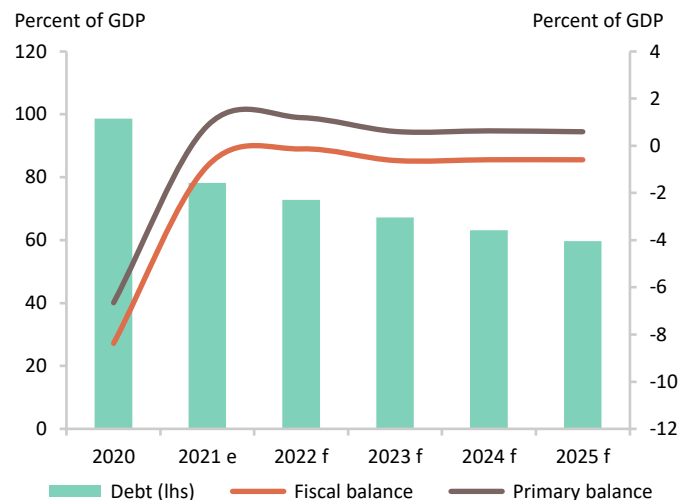
Rising global commodity prices, supply-chain bottlenecks, and Belize’s economic

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



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

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



Sources: Ministry of Finance and World Bank staff calculations.

recovery all contributed to inflation reaching 6.3 percent in 2022. The poor and vulnerable have been hit the hardest by the rise in living costs given that they spend a larger proportion of their household income on food. The 2022-23 Fiscal Budget includes a wage restoration program for public officials, which helps against the rise in prices.

The current account deficit (CAD) widened to 10 percent of GDP in 2022 due to a higher import bill, which was not fully compensated by the increase in tourism-led exports. The CAD was financed by multilateral and bilateral loans as well as FDI inflows concentrated in tourism-related projects. International reserves increased by 11.4 percent by the end of 2022 to US\$468 million, the highest level since 2015, equivalent to 3.6 months of total imports.

The fiscal position improved in 2022 due to the strong economic recovery and spending consolidation. Revenues decreased with measures implemented to mitigate the impact of increased food and fuel prices, including cutting taxes on fuel, and providing subsidies to public transport. Furthermore, the government reduced the business tax levied on banks and financial institutions to encourage lending in strategic sectors. Despite the

reversal of the temporary decrease in public sector wages in July 2022, spending on goods and services and wages fell. These policies reduced debt by 5.4 percentage points to 72.8 percent of GDP.

## Outlook

The Belizean economy is expected to decelerate to 3 percent in 2023 due to the completion of the post-pandemic recovery and slower growth in the countries that generate tourism receipts (primarily the United States and the United Kingdom). Real GDP is expected to continue deaccelerating to a 2 percent annual rate in 2024-25, helped by growth in tourism, particularly cruise ship arrivals, which have lagged the overall recovery in travel, and the start of new tourism-related investment projects. Monetary tightening in the United States and commodity price normalization and a deceleration in domestic demand will reduce inflation. The recovery in economic activity and employment is expected to reduce poverty in the medium term. However, despite the economic recovery, labor market disparities and poverty rates are not expected to return to pre-pandemic levels in the medium term.

The CAD is projected to narrow to 7.8 percent of GDP over the medium term (2023-25), led by the projected decrease in fuel imports and the ongoing recovery of tourism receipts. The CAD will be financed by private inflows and multilateral lending.

The fiscal deficit is expected to average 0.6 percent of GDP during 2023-25 due to inflation-related upward pressure on wages and on goods and services spending – for example, for the first time in 11 years, the government significantly increased minimum wage for all workers, including public servants. The government intends to increase tax collection and compliance efforts while also broadening the tax base through the closure of loopholes. The high real GDP growth rate over the medium term will help to reduce the public debt to 59.7 percent of GDP by 2025.

Tighter monetary policy in the United States, as well as faster than expected global growth slowdown, would negatively affect Belize's growth and fiscal consolidation issues. Political pressures could increase for the government to raise spending. Other risks to growth and continue progress in debt reduction include COVID-19 variants, exposure to extreme weather events and climate change, and social tensions.

**TABLE 2 Belize / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-13.4	15.2	9.6	3.0	2.0	2.0
Private Consumption	-12.4	13.6	1.8	1.7	1.7	1.7
Government Consumption	-25.0	4.9	-25.2	10.4	6.7	8.3
Gross Fixed Capital Investment	14.1	20.0	35.1	2.8	0.6	1.4
Exports, Goods and Services	-29.8	35.1	4.3	3.1	2.9	2.9
Imports, Goods and Services	-22.9	31.8	4.8	2.9	2.4	3.3
<b>Real GDP growth, at constant factor prices</b>	-12.5	14.5	8.5	3.0	2.0	2.0
Agriculture	1.2	17.1	-6.2	2.1	2.0	2.0
Industry	-1.8	15.1	3.8	1.1	1.0	0.6
Services	-17.1	13.9	12.4	3.7	2.3	2.4
<b>Inflation (Consumer Price Index)</b>	0.1	3.3	6.3	4.1	2.5	1.6
<b>Current Account Balance (% of GDP)</b>	-6.2	-6.3	-10.0	-8.0	-7.8	-7.6
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	3.5	5.0	5.3	5.0	5.0	5.0
<b>Fiscal Balance (% of GDP)<sup>a</sup></b>	-8.4	-0.9	-0.1	-0.6	-0.6	-0.6
<b>Revenues (% of GDP)</b>	21.0	26.6	21.8	22.3	22.6	23.1
<b>Debt (% of GDP)<sup>a</sup></b>	98.6	78.2	72.8	67.8	63.1	59.7
<b>Primary Balance (% of GDP)<sup>a</sup></b>	-6.7	0.9	1.2	0.6	0.6	0.6
<b>GHG emissions growth (mtCO2e)</b>	1.8	-0.2	0.1	0.6	0.7	0.8
<b>Energy related GHG emissions (% of total)</b>	9.9	10.6	11.3	11.9	12.5	13.1

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

Notes: e = estimate, f = forecast.

a/ Fiscal balances are reported in fiscal years (April 1st -March 31st).

# BOLIVIA

**Table 1** **2022**

Population, million	12.2
GDP, current US\$ billion	43.1
GDP per capita, current US\$	3524.6
International poverty rate (\$2.15) <sup>a</sup>	2.0
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	5.4
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	15.2
Gini index <sup>a</sup>	40.9
School enrollment, primary (% gross) <sup>b</sup>	98.8
Life expectancy at birth, years <sup>b</sup>	64.5
Total GHG emissions (mtCO2e)	136.8

Source: WDI, Macro Poverty Outlook, and official data.  
a/ Most recent value (2021), 2017 PPPs.  
b/ Most recent WDI value (2020).

*Growth is expected to slow amid lower levels of external financing and diminished macroeconomic buffers. Bolivia would benefit from setting a medium-term strategy to address fiscal and external imbalances, enhance public sector efficiency, and foster private investment to develop its mining reserves, accelerate growth, and promote employment quality. These policies would help to rebalance the economy and create the conditions for poverty reduction.*

## Key conditions and challenges

After years of expansionary fiscal, monetary, and financial policies and the pandemic-led recession, high public debt, and declining international reserves have eroded the country's resilience to external and climate shocks.

The Government continues to implement a state-led development strategy focused on import substitution, public investment, and state-owned enterprises. Limited access to global capital markets, declining gas production, and increasing fuel and food subsidies impose constraints on fiscal policy and prompted the Government to tap into pension funds and Central Bank financing increasingly.

Challenges to household income generation persist, mainly related to employment quality, with more than three-quarters of workers in the informal sector, among the largest in the region.

A credible medium-term plan to improve the business environment, strengthen institutions, and reduce the fiscal deficit is critical to address Bolivia's macroeconomic imbalances, remove structural barriers to growth, make the economy more resilient, and foster poverty reduction. Public expenditure efficiency could be enhanced by rationalizing public investment, including in state-owned enterprises, improving social spending progressivity, making public procurement more efficient,

and strengthening coordination across different levels of Government.

Fostering private investment could help diversify the economy, and ignite new sources of growth, creating quality employment and increasing exchange inflows from exports and foreign investment. Bolivia's investment climate could be improved by reducing red tape, removing tax distortions, modernizing labor regulations, improving transport and logistics, easing agricultural export restrictions, and fostering environmentally and socially sustainable mining, including of lithium.

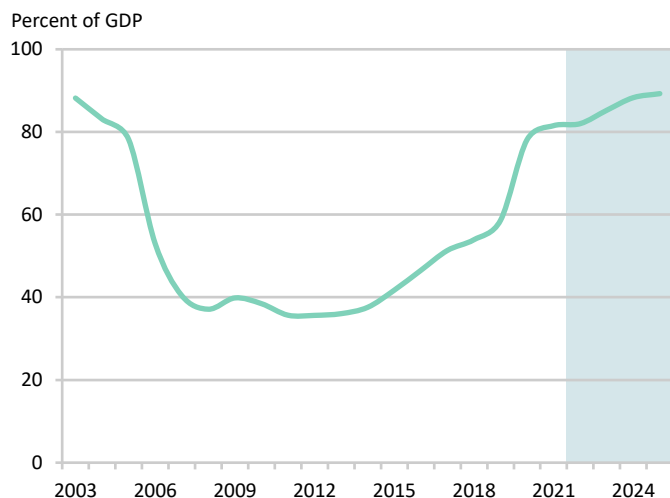
## Recent developments

After the 6.9 percent rebound in 2021, economic growth slowed to 3.1 percent in 2022, driven by a decline in gas exports, stagnating public investment, sporadic diesel shortages, and social unrest on, for example, land tenure, the population census timeline, and domestic coca leaf commercialization.

Between 2021 and 2022, urban unemployment fell from 5.4 to 4.5 percent, continuing its recovery. However, women still lag behind. Despite efforts to control prices, food inflation may erode the increase in labor incomes, which added to the removal of the pandemic-related transfers in 2021, resulted in a poverty increase from 15.2 percent in 2021 to 15.6 percent in 2022 (measured at \$6.85 PPP).

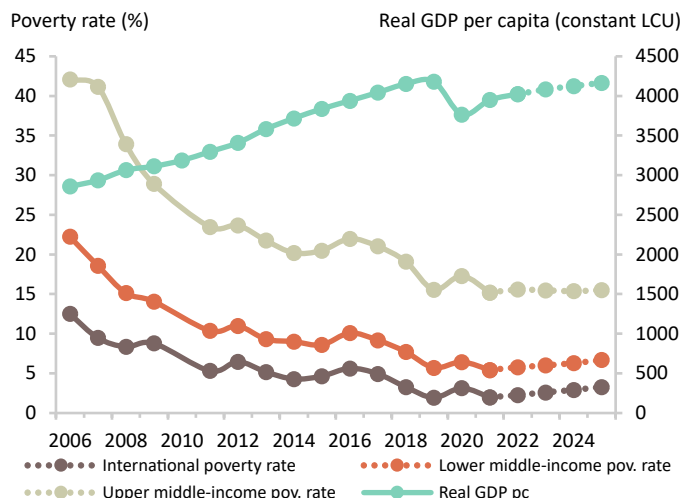
The fiscal deficit fell from 9.3 percent to 7.2 percent of GDP due to higher taxes and stagnant public investment. Declining export

**FIGURE 1 Bolivia / Public debt**



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

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



Source: World Bank. Notes: see Table 2.

volumes and increasing fuel subsidies offset the positive impact of high gas export prices. With limited external funding, the deficit was largely financed by regional financial institutions, pension funds, and the Central Bank. The Government also withdrew part of its already low savings in the Central Bank.

Despite high commodity prices and mining and soybean export volumes, the current account surplus dropped due to lower gas export volumes and higher fuel imports. Notwithstanding this surplus, the refinancing of 2022 bonds, the repatriation of SOEs' foreign assets, and lower mandatory liquidity requirements on dollar deposits, international reserves fell from 5.3 months of imports in 2021 to 3.3 months in 2022 due to informal capital outflows and smuggling, among others.

Money supply continues to grow as domestic credit to the public and private sectors has more than offset the effect of declining reserves. Despite a recent upsurge, inflation remained the lowest in the region due to the fixed exchange rate, frozen fuel prices, smuggling, and Government intervention in food markets, including export restrictions.

## Outlook

Growth is expected to decline gradually to about 2.1 percent as public expenditure, including public investment, will be increasingly curbed by limited access to external financing. Moreover, with substantial Government financing needs, credit to the private sector is expected to slow down, dampening private consumption and investment.

The fiscal deficit will continue trending downward as lower external and Central Bank financing constrain expenditures. Yet, falling hydrocarbon revenues, high fuel subsidies, and government intervention in the food market are expected to prevent the stabilization of public debt, including the debt with the Central Bank, which is expected to increase from 82 percent in 2022 to 89 percent in 2025.

Although the Government has made some effort to attract foreign investment to lithium development, delays and long maturity periods are expected to limit their impact in the projection period. The trade surplus is projected to shrink as

commodity prices and natural gas production continue to decline. Capital outflows and smuggling will likely continue to reduce international reserves, despite the Central Bank's effort to strengthen them by, for example, setting a preferential exchange rate for exporters.

Given this challenging economic context, poverty is expected to remain almost flat. The medium-run outlook is less optimistic considering lagged effects from the pandemic, including human capital losses due to school closures and food insecurity, which will likely affect the poor and vulnerable the most, limiting upward intergenerational mobility. As a result, the need for a more targeted social protection system becomes more urgent.

Bolivia is exposed to downside risks of declining commodity prices, a faster-than-expected decline in global economic activity, tightening global financial conditions, and liabilities resulting from natural disasters. Also, there remains the risk of a lack of consensus around key reform measures to address current macroeconomic imbalances and structural barriers to growth and poverty reduction.

**TABLE 2 Bolivia** / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-8.7	6.1	3.1	2.7	2.1	2.1
Private Consumption	-7.9	5.3	4.1	3.3	3.1	2.9
Government Consumption	-2.8	5.4	0.8	0.3	0.3	0.3
Gross Fixed Capital Investment	-25.9	11.9	6.5	-1.2	-2.1	-1.3
Exports, Goods and Services	-18.8	15.4	8.3	5.6	2.9	2.9
Imports, Goods and Services	-25.0	15.7	11.5	3.3	2.1	2.1
<b>Real GDP growth, at constant factor prices</b>	-8.4	6.4	3.1	2.7	2.1	2.1
Agriculture	3.1	1.8	4.0	4.0	4.0	4.0
Industry	-11.8	9.6	1.3	2.5	2.5	2.4
Services	-9.3	5.8	4.1	2.3	1.1	1.2
<b>Inflation (Consumer Price Index)</b>	0.9	0.7	1.7	3.3	3.5	3.5
<b>Current Account Balance (% of GDP)</b>	-0.1	2.1	0.4	0.3	-0.6	-0.6
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	-2.8	1.2	1.7	1.7	1.8	1.8
<b>Fiscal Balance (% of GDP)</b>	-12.7	-9.3	-7.2	-6.5	-6.0	-5.0
<b>Revenues (% of GDP)</b>	25.3	25.1	27.2	27.4	27.0	27.0
<b>Debt (% of GDP)</b>	78.1	81.5	82.0	85.3	88.3	89.3
<b>Primary Balance (% of GDP)</b>	-11.2	-7.9	-5.6	-4.2	-3.6	-2.5
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	3.1	2.0	2.2	2.6	2.9	3.3
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	6.4	5.4	5.8	6.0	6.3	6.7
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	17.3	15.2	15.6	15.5	15.4	15.5
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-2.6	0.7	0.5	0.5	0.5	0.5
<b>Energy related GHG emissions (% of total)</b>	12.8	12.9	13.1	13.3	13.4	13.6

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 SEDLAC harmonization, using 2021-EH. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.

b/ Projections using microsimulation methodology.



# BRAZIL

**Table 1** **2022**

Population, million	215.3
GDP, current US\$ billion	1935.2
GDP per capita, current US\$	8987.9
International poverty rate (\$2.15) <sup>a</sup>	5.8
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	11.3
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	28.4
Gini index <sup>a</sup>	52.9
School enrollment, primary (% gross) <sup>b</sup>	105.5
Life expectancy at birth, years <sup>b</sup>	74.0
Total GHG emissions (mtCO2e)	2330.5

Source: WDI, Macro Poverty Outlook, and official data.  
a/ Most recent value (2021), 2017 PPPs.  
b/ Most recent WDI value (2020).

*Growth in 2023 is projected to decelerate due to a global economic slowdown, still-high inflation and the lagged effect of monetary tightening. Despite the improved fiscal accounts in 2022, fiscal risks increased with uncertainty over Brazil's future fiscal anchor and increased social expenditures. A stronger labor market and a large expansion of social programs are expected to have decreased poverty in 2022. Further gains may come as a result of reforms to the social transfers program.*

## Key conditions and challenges

After a decade of meager growth, Brazil will need to address significant structural challenges to accelerate productivity growth and reduce high levels of poverty and inequality in a fiscally and environmentally sustainable way. Productivity growth has stalled due to slow and unequal human capital accumulation, low savings, a complex tax system, a cumbersome business environment, high and persistent informality, and limited integration in global markets that discourage innovation and hinder competitiveness. Infrastructure investments are low, with private investment hampered by legal uncertainty and acute production bottlenecks, while public investment is compressed to accommodate higher current spending and increasing pension obligations.

Steady growth in recurrent spending over the last 20 years is a key challenge for Brazil and has contributed to an elevated debt level (69.8 percent of GDP by 2016). In response, Brazil adopted a cap on primary expenditure in 2016 as the main fiscal anchor, but this fiscal rule has come under pressure recently to accommodate COVID expenditures and the costs of scaling the *Bolsa Familia* program (BFP) – Brazil's flagship social safety net program—provoking a loss in the fiscal rule's credibility. The Government has committed to present a new fiscal rule to Congress by mid-2023 to anchor public

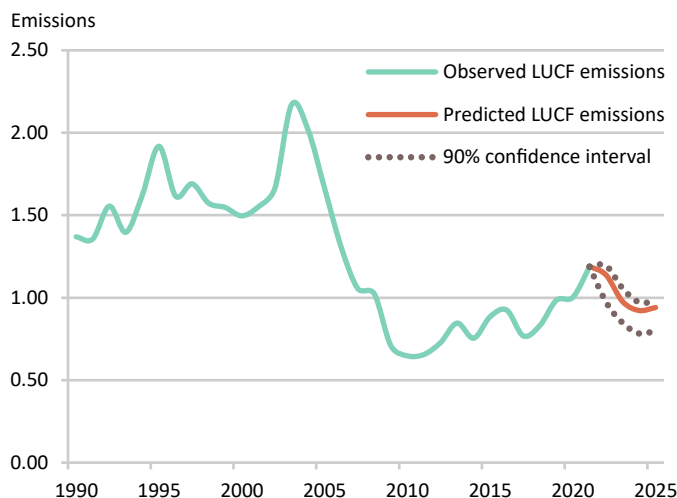
finances and situate spending commitments within a credible fiscal framework. Additionally, two taxation reforms have been prioritized by the authorities for 2023, a VAT reform to simplify indirect taxes and the other on income taxation. These reforms are expected to make taxation more progressive while improving the business environment and productivity growth through tax simplification. Finally, strengthening resilience to climate change and protecting of natural assets is essential for environmentally sustainable growth, especially in the fragile ecosystems of the Amazon and Cerrado.

## Recent developments

In 2022, GDP grew by 2.9 percent y-o-y, largely propelled by household consumption. The labor market recovery continued as unemployment dropped to 7.9 percent by December 2022, reaching levels not seen since 2015. The recovery was broad-based as women, youth, and Afro-Brazilians saw improvements in labor market outcomes. The strong labor market and major expansion of income transfer programs in terms of coverage and average benefits are expected to lead to a decline in poverty rate from 28.4 percent in 2021 to 24.3 percent in 2022 (US\$6.85 2017 PPP).

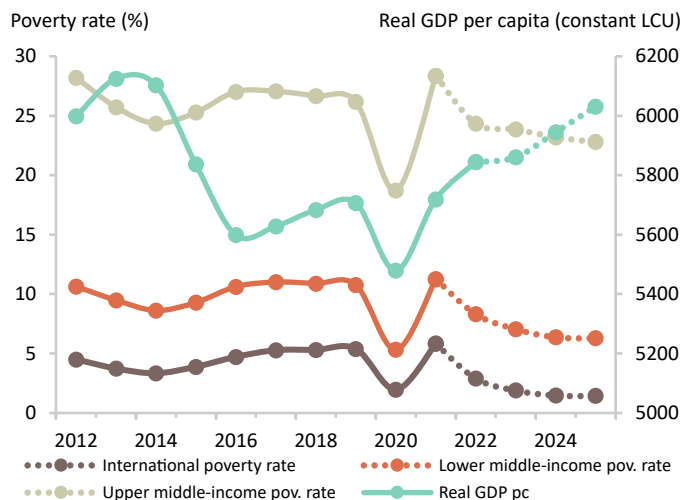
Significant monetary tightening in 2022 (4.5 p.p.) brought the Central Bank policy rate to 13.75 percent in December 2022. This helped lower the 12-month inflation rate to 5.8 percent by December 2022 (from 10.1 percent in 2021) but still above

**FIGURE 1 Brazil / Land use change and forestry emissions based on economic projections (billion tonnes of CO2e)**



Sources: World Bank staff calculations using Greenhouse Gas Emission and Removal Estimating System (SEEG) and World Bank data.

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



Source: World Bank. Notes: see Table 2.

the central bank's target upper band (5.0 percent). Services (7.5 percent) and core (9.1 percent) inflation remains at high levels but are slowly declining, reflecting some persisting price inertia. Real credit growth accelerated (7.7 percent y-o-y in December 2022) despite a worsening of households' indebtedness. The current account deficit (2.9 percent of GDP) was fully financed by net Foreign Direct Investment inflows (3.1 percent of GDP) in 2022. The financial sector remained stable and liquid, with solid buffers.

Fiscal consolidation continued in 2022, supported by higher revenues (8.2 percent real growth y-o-y), partly caused by higher inflation, the economic rebound and elevated commodity prices. The 12-month public sector primary surplus stood at 1.3 percent of GDP in December 2022, (0.6 percent higher than in 2021) and public debt decreased to 72.9 percent of GDP, a 5.4 p.p reduction. However, nominal interest payments reached 5.9 percent of GDP in December 2022 as financing costs increased.

## Outlook

GDP growth is expected to slow to 0.8 percent in 2023 due to the lagged effects of domestic monetary tightening, persistent inflation and the deceleration of the global economy, which are likely to depress private consumption, exports and investments growth. The current account deficit is projected to widen gradually to 3.2 percent of GDP by 2025, as imports accelerate in line with the economic recovery for 2024 and 2025, but remain financed by external capital inflows. A real increase in the minimum wage combined with a major overhaul of the *Bolsa Família* program, including an extra benefit of R\$150 per child in all recipient families are expected to reduce poverty to 23.9 in 2023. Further poverty reductions may occur as the economy recovers but is likely to remain fragile in the absence of stronger investments in human capital among the less well-off.

Public debt is expected to increase gradually to 78.5 percent of GDP by 2025 before stabilizing in 2026, in line with the current federal spending rule. The fiscal anchor is currently being revised. The primary deficit is projected to remain high at 0.7 percent of GDP in 2023, reflecting temporarily higher social spending. The overall fiscal deficit is expected to reach 7.4 percent of GDP in 2023 due to higher refinancing costs.

The balance of risks remains mixed, with high uncertainty. Stickier-than-expected inflation could maintain the policy rate at higher levels longer. On the external side, a faster-than-expected global slowdown in economic activity and monetary policy tightening in advanced economies could raise investors' risk aversion, lowering investment and raising the cost of capital. Nonetheless, strong demand from China could bolster the commodity market, which, along with easing supply chain constraints, would offer an upside risk for Brazil. Low external debt and high international reserves provide solid buffers to weather external shocks.

**TABLE 2** Brazil / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-3.3	5.0	2.9	0.8	2.0	2.0
Private Consumption	-4.6	3.7	4.3	1.3	2.5	2.5
Government Consumption	-3.7	3.5	1.5	0.7	0.0	0.0
Gross Fixed Capital Investment	-1.7	16.5	0.9	-2.4	1.8	1.4
Exports, Goods and Services	-2.3	5.9	5.5	1.0	1.5	2.0
Imports, Goods and Services	-9.5	12.0	0.8	-1.0	2.0	2.0
<b>Real GDP growth, at constant factor prices</b>	-3.0	4.7	3.1	0.8	2.0	2.0
Agriculture	4.2	0.3	-1.7	6.0	2.0	2.0
Industry	-3.0	4.8	1.6	0.2	1.0	1.0
Services	-3.7	5.2	4.2	0.4	2.3	2.3
<b>Inflation (Consumer Price Index)</b>	3.2	8.3	9.3	5.0	4.5	3.5
<b>Current Account Balance (% of GDP)</b>	-1.9	-2.8	-2.9	-2.4	-2.7	-3.2
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	2.8	1.8	3.1	3.3	3.3	3.3
<b>Fiscal Balance (% of GDP)</b>	-13.3	-4.3	-4.6	-7.4	-6.0	-5.1
<b>Revenues (% of GDP)</b>	32.4	35.8	36.1	34.6	34.9	35.1
<b>Debt (% of GDP)</b>	86.9	78.3	72.9	76.5	77.8	78.5
<b>Primary Balance (% of GDP)</b>	-9.3	0.7	1.3	-0.7	-0.4	0.0
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	1.9	5.8	2.9	1.9	1.5	1.4
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	5.3	11.3	8.3	7.0	6.4	6.3
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	18.7	28.4	24.3	23.9	23.2	22.8
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	0.6	12.0	-4.7	-2.6	-1.4	1.9
<b>Energy related GHG emissions (% of total)</b>	17.8	17.8	19.2	20.1	21.0	21.2

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 SEDLAC harmonization, using 2021-PNADC-E5. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.

b/ Projections using microsimulation methodology.



# CHILE

**Table 1** **2022**

Population, million	19.6
GDP, current US\$ billion	287.8
GDP per capita, current US\$	14682.2
International poverty rate (\$2.15) <sup>a</sup>	0.7
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	1.7
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	8.0
Gini index <sup>a</sup>	44.9
School enrollment, primary (% gross) <sup>b</sup>	101.5
Life expectancy at birth, years <sup>b</sup>	79.4
Total GHG emissions (mtCO2e)	47.1

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

*Real GDP is expected to fall in 2023 as the fiscal and monetary contraction in 2022 takes effect, resolving macroeconomic imbalances accumulated during the Covid-recovery. Inflation remains well above target, driven by domestic and external factors, but pressures should recede during the year. Medium-term prospects will be shaped by the capacity to generate more inclusive, productivity-driven growth while preserving sound macroeconomic fundamentals.*

## Key conditions and challenges

Amid an uncertain external outlook, Chile's economy is adjusting after the extraordinary expansion of 2021.

In addition to short-term macroeconomic challenges, Chile is seeking a new path to more equitable and inclusive long-term growth. A second attempt to rewrite the constitution has begun after voters resoundingly rejected the first draft prepared by an elected constitutional assembly. To reduce uncertainty, the new draft under preparation by experts chosen by Congress must respect main principles such as a bi-cameral Congress, Central Bank autonomy, and the Executive's exclusive mandate on fiscal spending. The proposed text will be approved by elected constituents and ratified in a referendum in December 2023.

In March, the government's first and most substantive tax reform bill was rejected in the Lower House and alternatives are being explored. This political defeat derails the government's agenda for larger fiscal spending to address social needs. Reform proposals to raise mining royalties and corrective taxes are still under discussion, although with a lower revenue potential and challenging legislative negotiations. Congress is also debating pension reform with the challenge of increasing replacement rates while maintaining the efficiency and financial sustainability of the system. Three rounds of pension withdrawals

during the Covid pandemic shrunk the existing private system and its key role in funding the capital market.

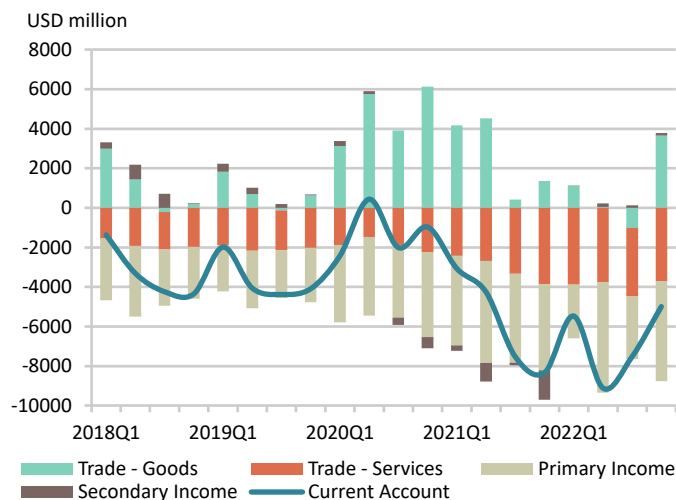
Increasing productivity growth, which has been declining for decades, will be crucial to maintaining social progress. This requires efforts to reduce regulatory barriers, foster innovation, promote resource-use efficiency and competition, enhance education quality, and increase female labor force participation.

## Recent developments

Real GDP growth decelerated to 2.4 percent in 2022 as consumption normalized amid a sharp fiscal and monetary policy contraction. Quarterly growth turned negative in Q1 2022, and annual growth in 2022 was mostly a base effect of the substantial expansion in 2021. Investment moderated by less than expected, but exports remained low.

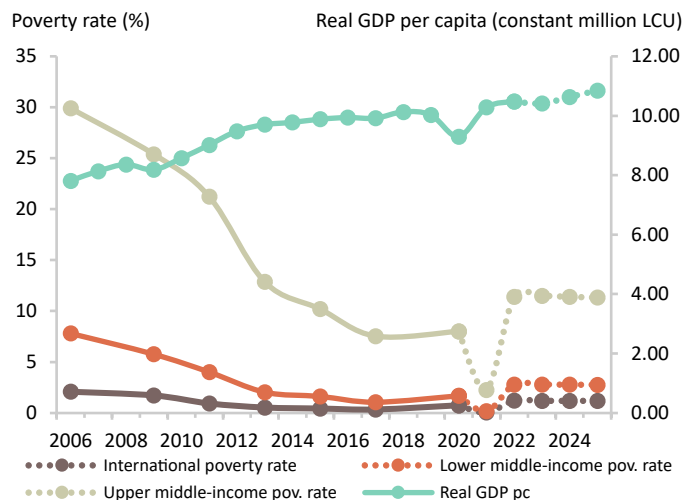
Job loss recovery and new entries to the labor force improved employment levels in 2022. Still, the unemployment rate increased by 0.7 percentage points y-o-y, with the rise being higher among women. While inflation remained high at 11.9 percent in February, it is on a downtrend from historically high levels in 2022 as external and domestic factors fueling price increases are subsiding. Demand pressures are weakening after a determined monetary tightening by the Central Bank, which hiked the policy rate by 10.75 percentage points in the past year and a half. Global supply shocks have diminished, while

**FIGURE 1 Chile / Current account balance**



Source: World Bank based on Central Bank of Chile.

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



Source: World Bank. Notes: see Table 2.

commodity prices especially for energy declined and the peso regained most of the value it had lost in 2022.

The fiscal stance improved significantly in 2022 and the government attained the first surplus in over a decade. Strong consolidation efforts were led by revenue overperformance and the removal of extraordinary Covid stimulus transfers, which were replaced by targeted support to vulnerable households.

Due to the end of broad cash transfers that were implemented in 2021 and high inflation, temporary gains in poverty reduction are estimated to have receded in 2022. The value of the Basic Food Basket rose by 28.2 percent in 2022, significantly impacting households' purchasing power, especially among those in the bottom 40 percent of the income distribution who spend, on average, almost three times more on food than the better off. In this context, poverty (US\$6.85 a day) is estimated to have increased to 11.4 percent in 2022, and the Gini coefficient to 0.46.

The current account accumulated a decades-high deficit of 9 percent of GDP in 2022, driven by a deterioration in terms of trade, high transport costs, and

continually high imports amid lingering liquidity in households.

## Outlook

Economic adjustment is expected to continue in the first half of 2023 led by a further drop in consumption amid contractionary policies, depleted household liquidity, and a weakening labor market. Investment will likely remain hindered by tight financing conditions, but declining political uncertainty should cushion its decline. The economy is projected to recover gradually in the second half of the year leading to an annual decline of 0.7 percent for 2023, driven partially by a negative base effect from 2022. External conditions appear to be improving but remain subject to high uncertainty.

Inflation could remain high in the short term given some inertia but is projected to converge to target by end-2024 amid a negative output gap and receding cost pressures. The Central Bank is expected to cut policy rates this year once the inflation deceleration becomes more sustained.

Amid high inflation and stagnation, poverty (US\$6.85 a day PPP) is projected to remain at around 11.5 percent and the Gini coefficient at 0.46 in 2023, and they are not expected to return to pre-pandemic levels in the medium term.

The fiscal balance is expected to return to a deficit in 2023 amid the economic downturn and higher social spending and investment. In the medium term, it should gradually converge toward the structural deficit target to stabilize the debt-to-GDP ratio at around 40 percent. This is subject to any increases in spending being met by a commensurate increase in revenue.

The current account deficit is projected to narrow amid the deceleration of domestic demand. Declining global transport costs also help reduce the import bill.

Risks to the outlook on the external front include persistent geopolitical tensions, a deeper-than-expected global downturn, and significantly tighter financial conditions. Domestic risks stem from persistently high inflation, potential social discontent, and uncertainty in the context of the constitutional process and the reform agenda.

**TABLE 2 Chile / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-6.0	11.7	2.4	-0.7	2.1	2.2
Private Consumption	-8.0	20.3	2.5	-4.4	2.0	2.1
Government Consumption	-4.0	10.3	3.5	1.3	2.9	2.1
Gross Fixed Capital Investment	-9.3	17.6	2.3	-4.1	0.3	1.8
Exports, Goods and Services	-1.1	-1.5	0.8	3.0	2.9	2.8
Imports, Goods and Services	-12.7	31.3	1.5	-7.0	1.4	2.0
<b>Real GDP growth, at constant factor prices</b>	-5.9	10.5	2.4	-0.7	2.1	2.2
Agriculture	-1.6	2.4	-6.9	5.0	2.3	2.3
Industry	-3.5	5.8	-1.9	-2.1	2.1	2.2
Services	-7.3	13.4	5.0	-0.4	2.1	2.2
<b>Inflation (Consumer Price Index)</b>	3.0	4.5	11.6	7.5	3.6	3.1
<b>Current Account Balance (% of GDP)</b>	-1.7	-6.4	-9.0	-3.6	-2.6	-2.1
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	1.0	0.3	2.5	1.9	1.9	2.0
<b>Fiscal Balance (% of GDP)</b>	-7.1	-7.5	1.1	-2.2	-2.2	-1.4
<b>Revenues (% of GDP)</b>	22.1	26.0	25.5	24.1	24.0	24.4
<b>Debt (% of GDP)</b>	32.5	36.3	37.4	37.8	39.5	40.4
<b>Primary Balance (% of GDP)</b>	-6.2	-6.6	2.1	-1.2	-1.1	-0.4
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	0.7	0.1	1.2	1.2	1.2	1.2
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	1.7	0.2	2.8	2.8	2.8	2.8
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	8.0	2.3	11.4	11.5	11.4	11.3
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-16.0	0.2	1.2	-0.4	4.4	3.7
<b>Energy related GHG emissions (% of total)</b>	179.6	179.0	177.1	178.1	174.9	172.5

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 SEDLAC harmonization, using 2020-CASEN. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.

b/ Projections using microsimulation methodology.

# COLOMBIA

**Table 1** **2022**

Population, million	51.6
GDP, current US\$ billion	343.9
GDP per capita, current US\$	6664.3
International poverty rate (\$2.15) <sup>a</sup>	6.6
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	16.0
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	39.2
Gini index <sup>a</sup>	51.5
School enrollment, primary (% gross) <sup>b</sup>	112.7
Life expectancy at birth, years <sup>b</sup>	74.8
Total GHG emissions (mtCO2e)	262.0

Source: WDI, Macro Poverty Outlook, and official data.  
a/ Most recent value (2021), 2017 PPPs.  
b/ Most recent WDI value (2020).

GDP grew 7.5 percent in 2022, with the economy operating above potential, inflation reaching 13.1 percent, and the current account deficit increasing to 6.2 percent of GDP. As the output gap closes, growth is expected to slow down and inflation to decelerate in 2023. Key risks include inflation inertia, slower-than-expected external demand, and pressures for greater spending. Poverty reduction is projected to decelerate driven by rising costs of living.

## Key conditions and challenges

The macroeconomic policy framework remains solid, with an upgraded fiscal rule, a credible inflation targeting regime, and a flexible exchange rate. This provides a good foundation to secure macroeconomic stability, a key ingredient for poverty reduction, and resolve four vulnerabilities.

One, the rate of potential growth is insufficient to secure a convergence in income per capita to high-income countries. Low capabilities of firms, institutional shortcomings, and inefficient factor markets weigh on productivity growth. Reliance on commodity exports leaves the economy vulnerable to external shocks and decarbonization efforts of trading partners over the long run.

Two, Colombia remains one of the most unequal countries in the world. Economic growth alone has not been sufficient to reduce inequality, as barriers to economic opportunities persist for certain groups (including by gender, ethnicity, and geography), limiting socioeconomic mobility. Reducing poverty durably and increasing resilience among the non-poor will require expanding the coverage and adaptiveness of the social security system, reducing rigidities in inclusion to social programs, making labor markets more efficient and inclusive, and improving the level and quality of education, health, and infrastructure.

Three, a high (although declining) debt-to-GDP ratio reduces the fiscal space to respond to aggregate shocks or increase spending sustainably without additional resources.

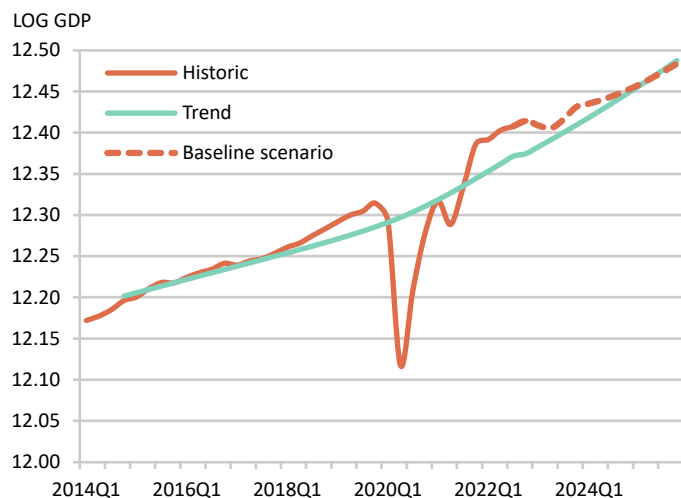
Four, Colombia needs to transition to net zero emissions; to a climate-resilient economy; and to a world that requires less oil and coal. In addition to substantial investment and mobilization of financing, this will require stepping up productivity and technology adoption, managing the job transition, diversifying exports, reversing deforestation, and greening the energy, infrastructure, and transport sectors. Recent reforms (for example to taxes and green finance) tackle some of these issues, but more reforms are needed.

## Recent developments

GDP grew 7.5 percent in 2022, putting activity above potential. The rebound of repressed private consumption and the lagged effects of expansionary fiscal and monetary policies buoyed growth. Commerce and manufacturing were the primary drivers of supply, while extractive industries remained weak owing to lagging investment.

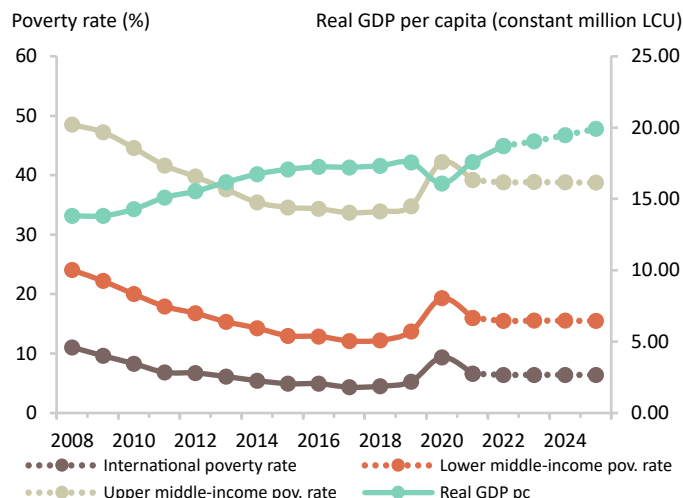
The labor market has been getting tighter. Employment and labor force participation have increased, although less so for rural areas and high-poverty regions, and informality slightly declined. Employment stabilized around 3.5 percent above pre-pandemic levels and the unemployment rate declined to 9.8 percent in 2022Q4. However, formal wage gains were fully

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



Sources: DANE and World Bank staff calculations.

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



Sources: World Bank. Notes: see Table 2.

eroded by inflation, and the inactive population remains high.

Inflation reached 13.3 percent in January 2023, driven by strong demand, inflation inertia, indexation of rents, crop losses due to heavy rains, and currency depreciation. With inflation expectations for end-2023 at 8.9 percent, the central bank has increased the monetary policy rate to 12.75 percent, pushing real policy rate above 4 percent.

The current account deficit (CAD) increased to 6.2 percent of GDP in 2022. The strong recovery of primary income payments offset improvements in the balance of trade, driven by high oil and coal prices. Foreign direct investment (FDI) increased relative to 2021, and net borrowing came down.

The central government deficit continued to decline, driven by buoyant taxes, strong oil-related non-tax revenues, and zero real growth in transfers to households and in wages and salaries. The government has been gradually increasing gasoline prices to reduce spending on fuel subsidies. In November, Congress approved a tax reform worth around 1.3 percent of 2023 GDP. Gross general government debt declined to 65.4 percent of GDP in 2022 and spreads continued to increase, with greater volatility.

Only a modest reduction in poverty is estimated for 2022 (at \$6.85/day). Inflation,

especially food inflation (at 27.8 percent), eroded labor income gains, offsetting an estimated 5 percentage points of growth-driven reduction in the national poverty rate. The strong La Niña phenomenon has affected over 750,000 people and damaged dwellings, as well as health, education, road infrastructure, and crops.

## Outlook

The economy is expected to face a soft landing in 2023, with the closure of the output gap and growth falling to 1.1 percent. Amid high inflation, tighter monetary and fiscal policies, weak external demand, and a deceleration of real credit growth, the bout of repressed consumption is expected to come to an end and investment growth to decelerate. Growth is projected to stabilize at 2.8 percent in 2024, as external demand resumes, and inflation and interest rates come down.

The CAD is projected to decrease to 4.4 percent of GDP in 2023 and to 4.0 percent by 2025, as imports grow weaker, while export volumes contract under a subdued external demand in 2023 and then pick up in 2024, and payments to foreign investors also moderate.

The central government's deficit is projected to decline in compliance with the fiscal rule. The new tax reform, the strengthening of tax administration, and high capital revenues should buoy revenues, allowing to expand social transfers. The debt-to-GDP ratio is projected to keep declining over the medium term.

Poverty is projected to stagnate in 2023, as lower growth hampers the recovery in labor incomes. Inflation, and its impact on real incomes and food security, is a source of concern, as it is the impact of climate shocks. Restructuring the social protection system, including in coverage and adaptiveness to shocks, would help lower poverty in the medium term.

The profile of medium-term risk is tilted to the downside. Risks include high domestic inflation inertia (with high-for-long interest rates); a greater-than-expected slowdown of the world economy and tighter financing conditions (leading to further currency depreciation); rising risk premia weakening private investment; pressures for greater spending and a slower reduction of the deficit. The materialization of these risks could slow down growth, diminishing prospects for reducing poverty and inequality, and delay the reduction of the public debt-to-GDP ratio.

**TABLE 2** Colombia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-7.3	11.0	7.5	1.1	2.8	2.8
Private Consumption	-4.9	14.5	9.5	0.7	2.8	2.8
Government Consumption	-0.8	9.8	1.4	1.3	1.2	1.2
Gross Fixed Capital Investment	-24.0	17.3	11.8	2.3	6.0	5.6
Exports, Goods and Services	-22.7	15.9	14.9	-3.0	6.2	6.5
Imports, Goods and Services	-19.9	26.7	23.9	-2.2	4.4	4.7
<b>Real GDP growth, at constant factor prices</b>	-7.4	10.6	7.2	1.1	2.8	2.8
Agriculture	2.3	3.1	-1.9	2.8	4.5	3.1
Industry	-15.3	8.9	6.8	0.8	4.2	3.1
Services	-4.9	12.1	8.3	1.1	2.1	2.7
<b>Inflation (Consumer Price Index)</b>	2.5	3.5	10.2	11.2	6.3	3.7
<b>Current Account Balance (% of GDP)</b>	-3.5	-5.6	-6.2	-4.4	-4.2	-4.0
<b>Fiscal Balance (% of GDP)</b>	-7.2	-7.1	-6.1	-4.4	-3.3	-3.2
<b>Revenues (% of GDP)</b>	26.0	26.6	27.4	29.2	28.7	27.9
<b>Debt (% of GDP)</b>	67.3	65.7	65.4	63.1	61.2	61.0
<b>Primary Balance (% of GDP)</b>	-4.3	-3.7	-1.7	-0.1	0.8	0.9
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	9.4	6.6	6.4	6.4	6.4	6.4
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	19.3	16.0	15.5	15.5	15.5	15.5
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	42.2	39.2	38.8	38.9	38.8	38.8
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-1.9	-0.4	-0.9	-0.9	-0.7	-0.1
<b>Energy related GHG emissions (% of total)</b>	26.2	24.5	23.1	22.9	22.7	22.5

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 SEDLAC harmonization, using 2021-GEIH. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.

b/ Projections using microsimulation methodology.



# COSTA RICA

**Table 1** **2022**

Population, million	5.2
GDP, current US\$ billion	67.8
GDP per capita, current US\$	13080.6
International poverty rate (\$2.15) <sup>a</sup>	1.2
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	3.7
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	14.3
Gini index <sup>a</sup>	48.7
School enrollment, primary (% gross) <sup>b</sup>	106.7
Life expectancy at birth, years <sup>b</sup>	79.3
Total GHG emissions (mtCO2e)	6.7

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

*Growth remained strong in 2022 helped by a recovery in tourism, supporting robust fiscal results. As in other small open economies, a slowdown in external demand and further tightening of financing conditions are expected to reduce growth in 2023. As a result, poverty is expected to remain stable, but still higher than in 2019. Pursuing fiscal consolidation through more effective taxation and efficient spending, while protecting those most affected by recent shocks is key for sustained growth and social progress.*

## Key conditions and challenges

An outward-oriented growth model, investment in human capital, and good governance allowed Costa Rica to double its income per capita in the last two decades and to consolidate its green trademark. The country upgraded and diversified its exports, increasing resilience to external shocks. Fiscal vulnerabilities, however, built up as spending increased while revenues stayed flat as share of GDP. In the decade before the pandemic, expanded access to education and communication services led to a decline in multidimensional poverty. However, monetary poverty reduction was limited, and inequality increased, as labor market outcomes of women and lower-educated workers did not improve. Poverty rates remained high for historically disadvantaged groups such as single mothers, Afro-descendants, indigenous populations, and migrants. The pandemic intensified fiscal and social challenges. Fiscal consolidation efforts, launched in 2018, were interrupted as revenues collapsed and public spending grew as the government sought to mitigate the impact of the pandemic. The government debt-to-GDP ratio increased from 56 percent in 2019 to 67 percent in 2020. While the economic recovery and spending discipline enable fiscal consolidation in 2021 and 2022, the public debt remains well above 2019. Similarly, poverty (US\$6.85 poverty line) increased from 13.7 percent

of the population in 2019 to 19.8 percent in 2020, as unemployment rates nearly doubled, surpassing 20 percent in mid-2020. While unemployment declined to 11.7 percent in Q42022 and poverty reached 14.1 percent in 2022, both remain above pre-pandemic levels.

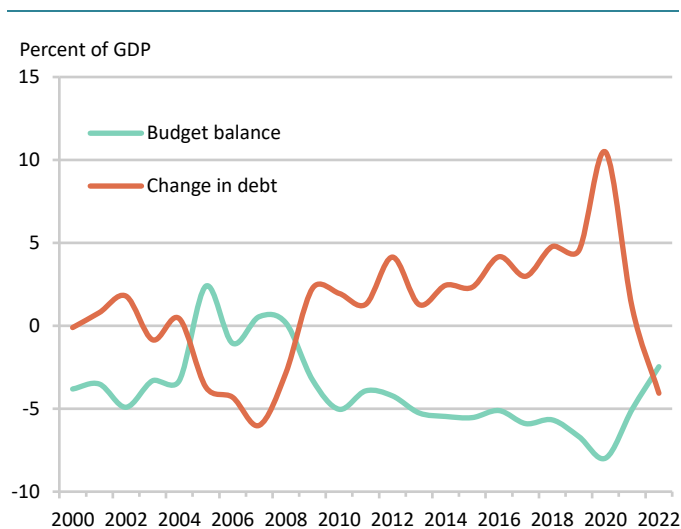
Costa Rica's immediate challenge is to contain inflation and push through its fiscal consolidation, while trying to minimize the adverse economic and social impacts. For growth and shared prosperity, the country needs to sustain reforms to improve education and labor market outcomes to make growth more inclusive as it maintains its green trademark. In parallel, it is important to ensure that the country's institutional setting is consistent with implementing these policy objectives and with the effective protection of the poor and vulnerable.

## Recent developments

Annual real GDP growth reached a solid 4.3 percent in 2022, as services benefited from a strong surge in tourism arrivals, which increased by 74.4 percent in 2022. Agriculture was affected by adverse weather, and the manufacturing and construction sectors lost steam as adverse external conditions started to curb investment.

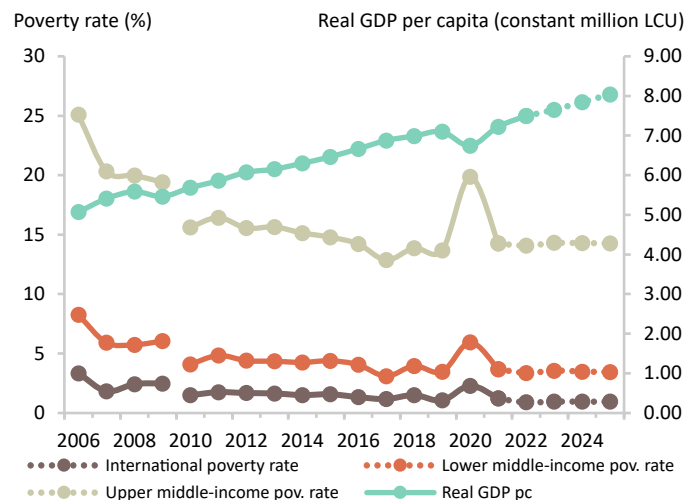
The current account deficit increased from 2.5 percent in 2021 to 3.6 percent in 2022 in terms of GDP with the increase in goods imports due to the sharp deterioration in the terms of trade, especially fuel, and fertilizer,

**FIGURE 1 Costa Rica / Budget balance and change in debt**



Sources: Central Bank of Costa Rica and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

more than offsetting the recovery in tourism. BOP outflows temporarily increased during the first half of this year due to changes in the rules for investment pension funds. However, reserves and the exchange rate recovered in the second half of 2022, supported by strong net FDI (4.9 percent of GDP).

Higher international food and oil prices resulted in the highest inflation for 13 years: 8.3 percent by end-2022, well above the inflation target. Those at the lower end of the income distribution were most affected as food and transport make up a higher share of their spending. To contain inflation, the BCCR has gradually increased the policy rate, reaching 9 percent in October 2022 (up from 0.75 in December 2021).

Although the unemployment rate fell in 2022, average real wages declined by approximately 9 percent, slowing poverty reduction.

Public finances improved significantly in 2022. The primary surplus reached 2.1 percent of GDP and the overall fiscal deficit declined to 2.5 percent of GDP—the lowest since 2008—despite a historically high-interest bill. The result was

supported by increased tax collection and contained spending. Responses to high prices, including new temporary emergency transfers and lower fuel taxes, have not affected the government's ability to meet fiscal consolidation goals. This result supported a recent upgrade of Costa Rica's long-term foreign currency debt rating by S&P to B+ from B.

## Outlook

Global uncertainty and the impact of inflation on real income will moderate consumption and private investment. Growth is expected to moderate to 2.7 in 2023, before rebounding in 2024 supported by Costa Rica's dynamic exporting sectors. The current account deficit is expected to stay at 3.2 percent of GDP in 2023 due to slower growth in Costa Rica's main trading partners and less attractive terms of trade but decline gradually after. The deficit remains fully financed by net FDI.

As inflation stabilizes and labor market conditions improve, driven by growth in

the services sector, the poverty rate is expected to stabilize at around 14.3 percent in 2023 and 2024. Poverty could be reduced by implementing targeted social assistance measures to historically disadvantaged groups and to those living under the poverty threshold.

A small, open economy, Costa Rica is highly vulnerable to external shocks, including global inflationary pressures and tighter financing conditions, increasing uncertainty of the economic outlook both at the macro and household levels. Fiscal consolidation is expected to continue over the forecasting period, anchored in the fiscal rule and an ongoing IMF-supported program. Recent improvements in debt management and opportunities to tap into ESG financing could help attenuate the increase in financing costs. Additional reforms that have been announced, such as reduction of tax expenditures and reduced fragmentation of social programs, are critical to reinforce fiscal consolidation and create buffers against shocks while protecting the poor. Building consensus around reforms is key but will take time.

**TABLE 2 Costa Rica / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-4.3	7.8	4.3	2.7	3.1	3.2
Private Consumption	-6.9	7.0	3.3	2.6	3.0	3.2
Government Consumption	0.8	1.7	1.9	0.3	0.2	0.0
Gross Fixed Capital Investment	-3.4	11.0	0.8	3.0	3.6	4.5
Exports, Goods and Services	-10.6	15.9	12.2	4.7	5.4	6.1
Imports, Goods and Services	-12.9	16.9	3.5	3.5	4.4	5.7
<b>Real GDP growth, at constant factor prices</b>	-3.7	7.3	4.2	2.7	3.1	3.2
Agriculture	0.5	3.8	2.0	2.2	2.4	2.4
Industry	1.0	10.2	3.1	2.4	3.0	3.1
Services	-5.3	6.6	4.6	2.8	3.1	3.3
<b>Inflation (Consumer Price Index)</b>	0.7	1.7	8.3	5.9	3.8	3.3
<b>Current Account Balance (% of GDP)</b>	-1.0	-2.5	-3.6	-3.2	-3.1	-2.6
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	2.6	4.9	4.9	4.7	4.8	4.6
<b>Fiscal Balance (% of GDP)</b>	-8.0	-5.0	-2.5	-2.8	-2.4	-2.1
<b>Revenues (% of GDP)</b>	13.1	15.8	16.7	16.0	16.1	16.2
<b>Debt (% of GDP)</b>	66.9	68.0	64.2	62.5	61.4	59.2
<b>Primary Balance (% of GDP)</b>	-3.4	-0.3	2.1	1.9	2.0	2.1
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	2.3	1.2	0.9	1.0	1.0	1.0
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	6.0	3.7	3.4	3.6	3.5	3.4
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	19.9	14.3	14.1	14.3	14.3	14.3
<b>GHG emissions growth (mtCO2e)</b>	-11.6	-5.7	-4.9	23.7	1.0	2.6
<b>Energy related GHG emissions (% of total)</b>	88.7	85.7	80.9	81.9	79.7	80.2

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 SEDLAC harmonization, using 2021-ENAH0. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.

b/ Projections using microsimulation methodology.

# DOMINICA

**Table 1** **2022**

Population, million	0.1
GDP, current US\$ billion	0.6
GDP per capita, current US\$	8364.3
School enrollment, primary (% gross) <sup>a</sup>	102.5
Life expectancy at birth, years <sup>a</sup>	76.6
Total GHG emissions (mtCO2e)	0.2

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

*Dominica's economy continues to perform well as tourism rebounds following its abrupt stop in 2020. Nonetheless, poverty is expected to remain elevated compared to pre-COVID-19 levels due to the impact of the pandemic on job quality and earnings of the poor and vulnerable and the reduction in households' purchasing power following food and energy price increases. Fiscal performance is improving as Citizen-by-Investment (CBI) revenues remain robust. The risk of debt distress remains high. Medium-term growth prospects appear favorable, although considerable uncertainty remains.*

## Key conditions and challenges

Dominica is a small island developing state highly vulnerable to climate change, natural disasters, and external economic shocks. The economy has rebounded from the COVID-19 pandemic, though high food and fuel prices continue to impact external balances and push inflation. Tourism, which accounted for 25 percent of GDP pre-COVID, is returning and nearing 2019 arrival levels.

The pandemic had negative impacts on employment and household income. A World Bank/UNDP phone survey (December 2021) indicated that about one fifth of those working before the pandemic did not have a job by the end of 2021. Job quality deteriorated, with a notable increase in informal work. Job losses were more common among women (26 percent) than men (15 percent). Women reported a more pronounced increase in time spent on services at home and supporting children's education. Although the government introduced several income support measures, they were insufficient to fully offset the impacts of the pandemic on households' income. By end-2021, 57 percent of households reported not having enough resources to cover basic needs.

Dominica is highly vulnerable to extreme weather events and external shocks. It came under terrible strain after Hurricane Maria hit the island in 2017. Fiscal

pressures were further exacerbated by the COVID-19 pandemic, and public debt levels have risen as a result. The Government has taken measures to consolidate spending and reduce debt, however, an ambitious public investment pipeline, including a new international airport and geothermal energy investments makes attaining this objective challenging. Nevertheless, the fiscal path remains on track to meet fiscal rule targets set for 2024/25, benefiting significantly from strong CBI revenues of approximately 30 percent of GDP.

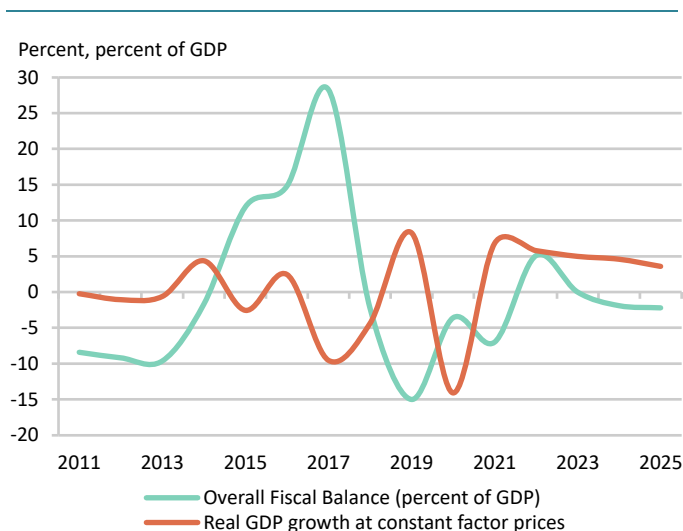
Financial sector vulnerabilities will require close monitoring given implicit contingent fiscal liabilities arising from the large credit union and insurance sectors. These sectors have yet to fully recover from Hurricane Maria, and the impacts of the COVID-19 pandemic continue to be felt on balance sheets.

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

## Recent developments

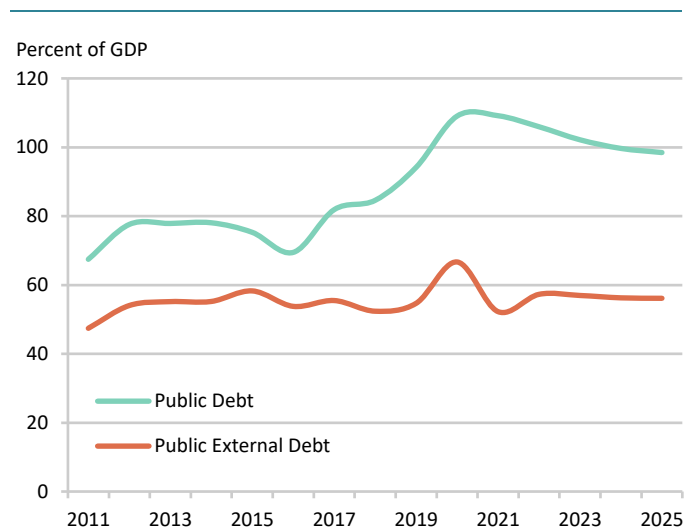
Growth continued to rebound in 2022 at 5.8 percent on relaxation of domestic COVID-19 containment measures and improving tourist arrivals, which are nearing

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



Sources: Government of Dominica and World Bank staff estimates.

**FIGURE 2** Dominica / Public debt



Source: World Bank staff estimates.



2019 levels. Inflation remained modest in 2021 but increased in 2022 to 7.5 percent, driven by fuel and energy prices, and to a lesser extent by food prices.

The increase in inflation has negatively affected households' purchasing power and access to food, especially for poorer households. According to the CARICOM/WFP online survey (August 2022), 98 percent of respondents reported an increase in food prices over the two weeks prior to the survey, as well as significant increases in the cost of electricity and gas in the past six months. Food consumption and diets of the respondents deteriorated, with 36 percent of them skipping meals or eating less than usual, and 30 percent eating less preferred foods in the week leading up to the survey. An increasing number of respondents indicated that they spent savings or sold productive assets to meet food needs, which could compromise their well-being and asset accumulation in the long term.

Still, the rebound in GDP is expected to lead to a recovery in jobs, translating into higher household income. This could partially offset the decrease in purchasing power associated with higher inflation.

The fiscal position improved markedly in 2022 registering an overall fiscal surplus of 5.1 percent of GDP on the back of strong CBI receipts and a winding

down of exceptional COVID-19 expenditure measures. Public debt remains high at 106 percent of GDP at end-2022 after peaking at 109.2 percent in 2021. Public debt has been driven largely by reconstruction, rehabilitation, and recovery efforts post Tropical Storm Erika and Hurricane Maria. Public debt levels are expected to continue to decline over the medium term in line with the OECD target of 60 percent of GDP by 2035.

## Outlook

Growth is forecast to remain strong at 5.0 percent in 2023. Short- to medium-term GDP growth remains driven by a resumption in tourist arrivals but will also be aided by a robust public and private investment pipeline, including new hotel developments and housing construction. Geothermal developments and an international airport bode well for future growth prospects, as does Dominica's commitment to becoming a more climate-resilient economy. These large public investment projects will require careful management and implementation, and additional investments in the pipeline need to be prioritized, in order to ensure fiscal and debt sustainability.

CPI inflation is expected to remain elevated at 6.3 percent in 2023 but to return to around 2.4 percent in 2024.

The large current account deficit is driven by imports associated with the investment pipeline but is forecast to fall over the medium term as tourism capacity increases, travel conditions improve, fuel prices moderate, and fuel imports fall as Dominica transitions to renewable energy.

Increased growth, reduced post-disaster losses, and low inflation are all expected to contribute to a reduction in poverty rates. There is an urgent need for updated poverty data and better documentation that describes the extent to which social protection measures reach those most in need and how to best access it. A population and housing census started in June 2022 and data collection is expected to end during the second quarter of 2023. A poverty and vulnerability analysis is expected to be undertaken after national census data become available.

Forecasts are subject to considerable downside risk given uncertain food and fuel prices, the economic impact of global geo-political developments, and continued reliance on volatile CBI revenues. Risks from natural disasters and the impact of climate change remain, including rising sea levels. Risks also arise from the financial sector and fiscal and public debt vulnerabilities.

**TABLE 2** Dominica / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-16.6	6.9	5.8	5.0	4.6	3.6
<b>Real GDP growth, at constant factor prices</b>	-14.1	6.8	5.8	5.0	4.6	3.6
Agriculture	3.2	23.4	5.4	4.7	1.0	1.2
Industry	-31.5	5.0	2.0	3.7	3.0	3.4
Services	-11.9	4.5	6.7	5.3	5.6	4.1
<b>Inflation (Consumer Price Index)</b>	-0.7	1.5	7.5	6.3	2.0	2.0
<b>Current Account Balance (% of GDP)</b>	-35.4	-27.6	-41.3	-37.3	-38.0	-36.5
<b>Fiscal Balance (% of GDP)<sup>a</sup></b>	-3.6	-7.0	5.1	0.0	-1.9	-2.2
<b>Revenues (% of GDP)</b>	53.3	57.5	59.2	60.5	61.1	62.4
<b>Debt (% of GDP)<sup>a</sup></b>	109.1	109.2	106.0	102.2	98.5	97.2
<b>Primary Balance (% of GDP)<sup>a</sup></b>	-1.0	-4.9	7.7	3.3	1.4	0.6
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-10.4	10.7	0.1	0.1	0.1	0.1
<b>Energy related GHG emissions (% of total)</b>	76.6	75.2	77.0	78.8	80.6	82.4

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

Notes: e = estimate, f = forecast.

a/ Fiscal balances are reported in fiscal years (July 1st -June 30th).

# DOMINICAN REPUBLIC

## Key conditions and challenges

The Dominican Republic (DR) has been one of the fastest-growing economies in Latin America and the Caribbean, expanding at an annual average of 5.8 percent from 2005 to 2019. Prudent monetary and fiscal policy contributed to macroeconomic stability. Foreign direct investment (FDI) inflows (averaging about 4 percent of GDP over the same period) fueled tourism, services, manufacturing, construction, and mining, while strong remittances sustained domestic demand. Despite its strong external position, the DR's participation in global value chains remains low and exports declined from 28 percent to 21 percent of GDP from 2005 to 2021.

While GDP has fully recovered from the pandemic, the fiscal position has weakened. Public debt remains above pre-pandemic levels and the interest bill has already absorbed three percent of GDP in 2022. Reduced fiscal space has reinforced the declining trend in public investment (from 3.9 to 2.8 percent of GDP between 2005 and 2021). Improvements in the quality of domestic resource mobilization and spending efficiency and effectiveness are necessary to improve public services provision.

Fostering long-term growth will require structural reforms in support of increased productivity that would allow the country to take advantage of nearshoring opportunities and diversify more into higher value-added activities. This should include

higher investment in innovation, fomenting economic clusters, and improved public services, particularly in education, while reducing informality.

## Recent developments

Real GDP grew 4.9 percent in 2022, driven by services. Private consumption and investment growth have decelerated in the second semester, affected by a higher interest rate. The hotels, bars, and restaurants sector grew 24.0 percent in 2022, supported by an active government vaccination campaign, and a recovery in global tourism. Expansionary fiscal policy also contributed to growth.

Tourist arrivals exceed pre-pandemic levels in 2022, at 7.9 compared to 7.2 million people in 2019. Import growth (27.8 percent and raw materials 31.6 percent) exceeded merchandise export growth, widening the trade deficit. The current account deficit (CAD) deteriorated to US\$5.3 billion over the first three-quarters of 2022, up from US\$1.7 billion a year earlier. It was mainly financed by FDI, which is expected to remain at about 3.2 percent of GDP, and by an increase in other long-term capital inflows – all together supporting a reserve built-up to US\$14.4 billion, up from \$13 billion a year earlier.

End-of-year inflation reached 7.8 percent y-o-y in 2022, outside the Central Bank's target range of 4±1 percent, prompting the Central Bank to increase the policy rate nine times in 2022, from 3.5 percent in Dec 2021 to 8.5 percent in Dec 2022.

Table 1

2022

Population, million	10.7
GDP, current US\$ billion	109.8
GDP per capita, current US\$	10280.3
International poverty rate (\$2.15) <sup>a</sup>	0.9
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	4.3
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	23.2
Gini index <sup>a</sup>	38.5
School enrollment, primary (% gross) <sup>b</sup>	96.7
Life expectancy at birth, years <sup>b</sup>	72.9
Total GHG emissions (mtCO2e)	40.4

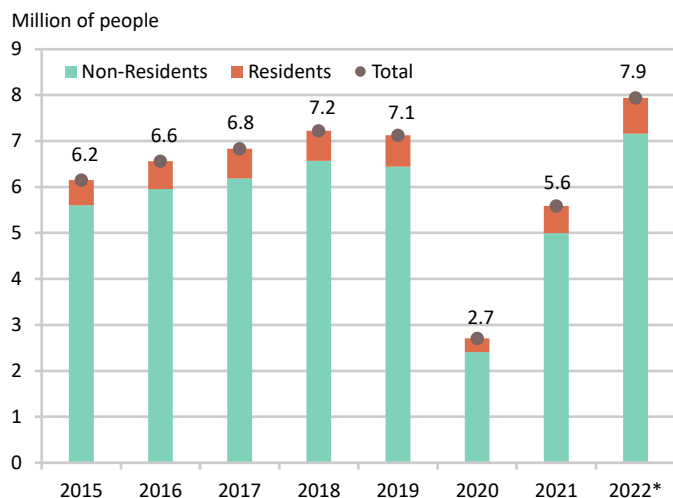
Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2021), 2017 PPPs.

b/ Most recent WDI value (2020).

GDP grew 4.9 percent in 2022 fueled by a recovery in tourism but is expected to cool down in 2023. The Central Bank proactively increased its monetary policy rate in 2022 to 8.5 percent in response to rising inflation, and subsidies that were instated to ameliorate the increase in food and energy prices, temporarily widening the fiscal deficit in 2022. In this context, poverty is expected to continue to decline in 2022 but remain above pre-crisis levels.

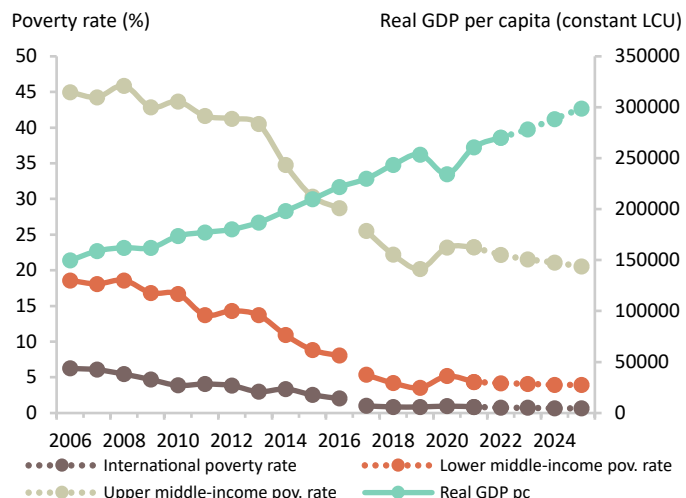
FIGURE 1 Dominican Republic / Tourist arrivals, by air and by residence



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

Note: \* Preliminary data.

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



Source: World Bank. Notes: see Table 2.

Rising inflation is reducing disposable incomes, especially for the vulnerable, as employment has remained below pre-pandemic levels.

The cost of the typical consumption basket increased 23.5 percent in 2022, compared to pre-pandemic levels, with the poorest quintiles being the most affected. During the first three quarters of 2022, the employment rate remained 1.4 percent points below and informality 2.6 percent points higher when compared to pre-pandemic levels. For all these reasons, poverty (defined as living with less than US\$6.85 per day) is expected to remain above pre-pandemic levels in 2022.

The fiscal deficit widened to 3.5 percent of GDP in 2022, up from the 2.9 percent posted in 2021. This result was mainly driven by government efforts to mitigate price increases through subsidies for fuels, energy, transport, and basic food products, resulting in additional expenses of around 1.4 percent of GDP. These additional outlays were financed by a combination of higher-than-expected tax revenue collection, expenditure reallocations, and new public debt. Fiscal revenues decreased 0.3 percentage points of GDP relative to 2021,

a decline explained by the slow dynamism of the corporate income tax relative to the nominal GDP. The debt of the Non-Financial Public Sector (NFPS) stood at 45.8 percent of GDP by the end of 2022, a reduction of 4.6 percentage points compared to 2021.

## Outlook

Growth is expected to decelerate from 4.9 percent to 4.4 percent in 2023, driven by tighter financial conditions which will continue to slow down consumption and investment, continued fiscal consolidation, and the global economic slowdown. Structural reform implementation is expected to sustain growth potential in the medium-term, particularly reforms in energy, water, and public-private partnerships, coupled with efforts to increase the quality of human capital and attract FDI. As a result, growth is projected to accelerate to 5 percent after 2023.

The poverty rate (US\$6.85 PPP 2017 per day) is expected to continue to decline in 2023 relative to 2020 but remain above pre-crisis levels at 22 percent.

The fiscal deficit is projected to narrow in 2023 as the government phases out subsidies to state-owned enterprises in the energy and water sectors, and as improvements are made in tax administration. These efforts are expected to gradually bring the fiscal deficit to 2.5 percent of GDP in the medium term. The public debt-to-GDP ratio is projected to stabilize below 57 percent over the medium term.

Inflation pressures are likely to remain persistent but continued tight monetary policy will bring inflation down to within the target band by 2024.

The macroeconomic outlook faces both external and domestic risks. A faster-than-expected slowdown of the US economy could directly affect tourist arrivals and exports. An escalation of geopolitical risks could amplify and prolong the negative terms of trade shock and its effects on the balance of payment and on inflation, while continued global monetary tightening could increase financing costs. Climate change has intensified the exposure to natural disasters, which, given the country's low degree of financial protection against these risks, could substantially increase contingent fiscal liabilities.

**TABLE 2 Dominican Republic / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-6.7	12.3	4.9	4.4	5.0	5.0
Private Consumption	-3.4	6.6	4.8	4.5	5.2	5.2
Government Consumption	4.9	0.1	3.6	3.9	6.0	5.4
Gross Fixed Capital Investment	-12.1	22.1	6.6	3.7	4.0	3.8
Exports, Goods and Services	-30.3	36.2	18.8	7.6	4.1	4.3
Imports, Goods and Services	-14.6	24.7	15.5	5.9	3.5	3.7
<b>Real GDP growth, at constant factor prices</b>	-6.3	11.5	4.9	4.4	5.0	5.0
Agriculture	2.8	2.6	5.0	2.5	3.0	3.0
Industry	-6.7	16.5	2.0	3.9	3.9	3.9
Services	-7.1	10.0	6.4	4.8	5.8	5.7
<b>Inflation (Consumer Price Index)</b>	3.8	8.2	8.8	5.0	4.0	4.0
<b>Current Account Balance (% of GDP)</b>	-1.7	-2.9	-5.7	-4.3	-3.9	-3.7
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	3.2	3.3	3.3	3.2	3.2	3.2
<b>Fiscal Balance (% of GDP)<sup>a</sup></b>	-7.9	-2.9	-3.5	-3.1	-2.8	-2.5
<b>Revenues (% of GDP)</b>	14.2	15.6	15.3	14.9	15.0	15.0
<b>Debt (% of GDP)<sup>b</sup></b>	69.1	62.6	59.1	58.9	58.0	56.3
<b>Primary Balance (% of GDP)<sup>a</sup></b>	-4.7	0.2	-0.4	0.2	0.6	1.0
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>c,d</sup></b>	1.0	0.9	0.7	0.7	0.7	0.7
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>c,d</sup></b>	5.2	4.3	4.2	4.1	3.9	3.9
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>c,d</sup></b>	23.2	23.2	22.2	21.6	21.1	20.5
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-6.1	5.1	2.9	2.7	1.9	1.9
<b>Energy related GHG emissions (% of total)</b>	61.6	61.3	60.8	60.3	59.4	58.5

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

Notes: e = estimate, f = forecast.

a/ Fiscal balances are shown for the non-financial public sector (i. e. excluding central bank quasi-fiscal balances).

b/ Consolidated public sector debt.

c/ Calculations based on SEDLAC harmonization, using 2021-ECNFT-Q03. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.

d/ Projections using microsimulation methodology.

# ECUADOR

## Key conditions and challenges

**Table 1** **2022**

Population, million	18.0
GDP, current US\$ billion	115.0
GDP per capita, current US\$	6386.8
International poverty rate (\$2.15) <sup>a</sup>	3.6
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	10.9
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	31.7
Gini index <sup>a</sup>	45.8
School enrollment, primary (% gross) <sup>b</sup>	98.1
Life expectancy at birth, years <sup>b</sup>	72.2
Total GHG emissions (mtCO <sub>2</sub> e)	97.7

Source: WDI, Macro Poverty Outlook, and official data.  
 a/ Most recent value (2021), 2017 PPPs.  
 b/ Most recent WDI value (2020).

*Although Ecuador has significantly reduced macroeconomic imbalances in recent years through a sustained fiscal consolidation and a series of trade surpluses. A polarized political and social context continues to prevent it from advancing critical reforms for achieving its growth and poverty reduction potential.*

As a fully dollarized economy, Ecuador has limited macroeconomic policy tools. However, by addressing imbalances generated in the past, the Government has demonstrated a strong commitment to cementing fiscal sustainability, propelling private investment, protecting the most vulnerable, and addressing climate change-related challenges.

The reduction in the fiscal deficit aided by debt restructuring with international bondholders and China and multilateral financing bolstered confidence, preventing a socially and economically costly disorderly adjustment. Structural challenges, however, weigh on private investment, growth, and employment. With more than half of the workers in informality and only one-third earning at least the minimum wage, job quality remains to limit Ecuador's poverty reduction potential.

Reforms for fostering private investment and productivity include modernizing labor regulation, streamlining insolvency management, reducing market distortions, including financial market repression, and fostering agriculture productivity and tourism. Private investment could help Ecuador sustainably exploit untapped mining resources, enhance non-conventional renewable energy supply, and improve infrastructure.

Lack of a consensus around critical reforms in the National Assembly and society could perpetuate the oil-related booms and busts

and prevent the country from achieving higher and more inclusive growth while adapting to a decarbonizing world.

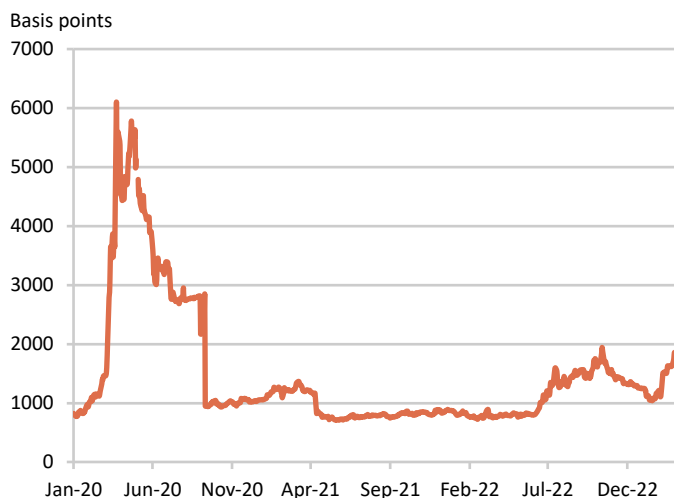
## Recent developments

After a 4.2 percent rebound in 2021, GDP slowed to 2.9 percent in 2022. Growth benefited from favorable external conditions and expanding domestic credit but was dampened by the ongoing fiscal consolidation and uncertainty following an 18-day demonstration in June against fuel prices, among other things.

Labor market indicators such as employment, underemployment, and unemployment are at the pre-pandemic levels. Labor income is recovering but remains 5.2 percent below pre-pandemic levels, affecting vulnerable people the most, especially in informal agriculture. However, since 2020, average labor income has increased by 12.5 percent and total family income by 11.1 percent. Poverty declined from 34.6 percent in 2020 to 29.9 percent in 2022, lifting over a quarter of a million people above the \$6.85-a-day 2017 PPP threshold.

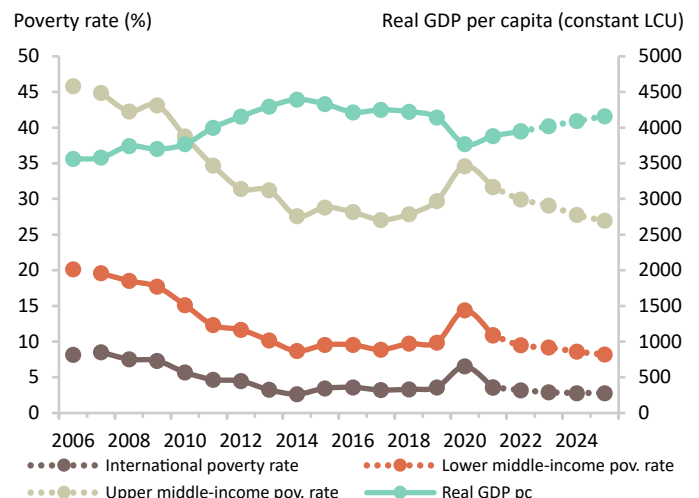
The fiscal balance passed from a 1.7 percent deficit in 2021 to a 0.1 percent surplus in 2022. Higher oil revenues and tax measures passed in late 2021 more than offset higher outlay resulting from surging interest rates and fuel subsidies. The 2021 tax reform aims to increase revenues through a mix of measures, including permanent changes to personal income tax brackets and exemptions. Yet, after freezing gasoline and diesel prices in late 2021, the authorities reduced them

**FIGURE 1 Ecuador / Emerging Market Bond Index**



Source: JP Morgan Chase.

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



Source: World Bank. Notes: see Table 2.

by US\$0.15 per gallon in June 2022 to end social unrest.

The current account surplus slightly decreased as rising imports, mainly fuel imports, more than offset higher oil prices and mining exports. Together with multi-lateral funding, this surplus continued to increase international reserves. Moreover, as banks continued using their excess liquidity to foster domestic credit, dollar inflows kept the money supply growing.

Average inflation rose from 0.1 percent in 2021 to 3.6 percent in 2022 due to high food and transport prices, disproportionately affecting the poor and vulnerable population. Yet, slow growth, dollarization, and controlled fuel prices kept inflation low compared to regional standards.

## Outlook

Average growth is expected to remain around 2.8 percent over the projection

period. Political uncertainty increases the costs of additional external financing and prevents advancing reforms that foster productivity growth and investment. Ecuador's EMBI spread rose in early 2023 after the subnational elections, and an unsuccessful referendum for institutional and security reforms eroded the Government's capacity to move forward with its reform agenda.

Despite prevailing fuel subsidies and Government efforts to reduce the distortive tax on dollar outflows, the Government is expected to remain committed to preserving fiscal surpluses over the projection period, as demonstrated by the recent reduction of fuel subsidies to large shrimp farms. These fiscal surpluses and growth are projected to reduce public debt from 60 percent of GDP in 2022 to 53 percent by 2025.

The current account surplus is projected to decline gradually due to lower commodity export prices and increasing imports. Despite low foreign investment and

limited access to international capital markets, current account surpluses and external financing from international financial institutions will keep the money supply and international reserves growing.

Despite the inflation increase in 2022, poverty decreased due to an improvement in labor income. Poverty is expected to fall to 27.0 percent in 2025 as improving labor conditions (increase in formal employment) move households from the bottom of the income distribution into the vulnerable and middle class.

Poverty and inequality reduction hinge on sustained GDP growth, which is exposed to various risks. In addition to their vulnerability to international oil price fluctuation and tightening of financial conditions, Ecuador's prospects are exposed to natural disasters, like floods and earthquakes, as well as new waves of social unrest and political instability. Additionally, fiscal prudence could be challenged by the political cycle as Ecuador looks toward the 2025 elections.

**TABLE 2 Ecuador / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-7.8	4.2	2.9	3.0	2.8	2.8
Private Consumption	-8.2	10.2	4.8	2.8	2.8	2.7
Government Consumption	-5.1	-1.7	3.2	1.9	1.9	1.9
Gross Fixed Capital Investment	-19.0	4.3	2.9	2.5	2.4	3.2
Exports, Goods and Services	-5.4	-0.1	0.1	5.6	3.5	3.1
Imports, Goods and Services	-13.8	13.2	4.4	4.0	2.8	2.8
<b>Real GDP growth, at constant factor prices</b>	-7.4	3.8	2.9	3.0	2.8	2.8
Agriculture	0.4	3.4	0.9	2.1	2.1	2.1
Industry	-10.0	0.5	1.3	3.6	2.3	2.3
Services	-7.2	5.8	4.1	2.7	3.1	3.1
<b>Inflation (Consumer Price Index)</b>	-0.3	0.1	3.6	2.5	1.5	1.5
<b>Current Account Balance (% of GDP)</b>	2.7	2.8	2.6	1.8	1.5	1.4
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	1.1	0.6	0.5	0.5	0.5	0.5
<b>Fiscal Balance (% of GDP)</b>	-7.1	-1.7	0.1	0.8	1.5	1.6
<b>Revenues (% of GDP)</b>	29.5	34.2	34.3	32.7	33.4	33.4
<b>Debt (% of GDP)</b>	60.9	62.3	59.7	58.2	56.2	52.6
<b>Primary Balance (% of GDP)</b>	-4.2	-0.3	1.7	2.5	3.2	3.1
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	6.5	3.6	3.2	2.9	2.8	2.8
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	14.4	10.9	9.5	9.2	8.6	8.2
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	34.6	31.7	29.9	29.1	27.8	27.0
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-4.0	2.3	0.9	0.9	0.8	0.8
<b>Energy related GHG emissions (% of total)</b>	34.1	34.8	35.2	35.5	35.8	36.1

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

Notes: e = estimate, f = forecast.

a/ Calculations based on SEDLAC harmonization, using 2021-ENEMDU. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.

b/ Projections using microsimulation methodology.



# EL SALVADOR

## Key conditions and challenges

**Table 1** **2022**

Population, million	6.3
GDP, current US\$ billion	31.6
GDP per capita, current US\$	4988.8
International poverty rate (\$2.15) <sup>a</sup>	3.6
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	8.7
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	28.4
Gini index <sup>a</sup>	39.0
School enrollment, primary (% gross) <sup>b</sup>	106.3
Life expectancy at birth, years <sup>b</sup>	71.1
Total GHG emissions (mtCO2e)	13.2

Source: WDI, Macro Poverty Outlook, and official data.  
 a/ Most recent value (2021), 2017 PPPs.  
 b/ WDI for School enrollment (2014); Life expectancy (2020).

*GDP growth accelerated to 2.8 percent in 2022 due to a high carry-over from 2021 and as remittances and private consumption remained strong following significant improvements in security. While the fiscal situation has temporarily improved in 2022 due to a government debt buyback and revenue and expenditure measures, it continues to be fragile in a context of high inflation, a weak external position, and with no access to international financing.*

El Salvador is a small, dollarized economy, with one of the highest remittance net inflows in the world (26.2 percent of GDP). The country also had one of the highest homicide rates in the world until large-scale government efforts against gang activity in 2022 succeeded in reducing violent crime. However, the judicial situation of those incarcerated under the “State of Exception” has still to be addressed. Between 2013 and 2019, El Salvador grew at an annual rate of 2.5 percent. Growth was largely led by remittance-fueled consumption and factor accumulation, and while the quality of human capital improved, productivity declined. Fostering long-term growth will require structural reforms in support of increased productivity, including sustaining ongoing investment to improve public services, particularly education, and improving logistics. However, the country is facing three short-term challenges that are undermining the efforts to increase its potential growth: (i) fiscal imbalances, with no access to external borrowing (ii) a large current account deficit; and (iii) inflation.

El Salvador’s fiscal response to COVID-19 was successful in mitigating the impacts of the pandemic, but at the cost of significantly raising public debt. Recent reforms to the pension system will likely create additional fiscal space in the short run, but they are likely to deepen existing

structural imbalances in the pension system and create contingent liabilities as the government guarantees a minimum pension over time.

External imbalances and declining reserves can pose a challenge, especially as remittance growth moderates. Banks are profitable and have low non-performing loans, but reserve requirements have been reduced to finance the purchase of government short-term debt (11 percent of bank assets). Though a large part of the population has virtual wallets, the use of bitcoin as a legal tender seems limited.

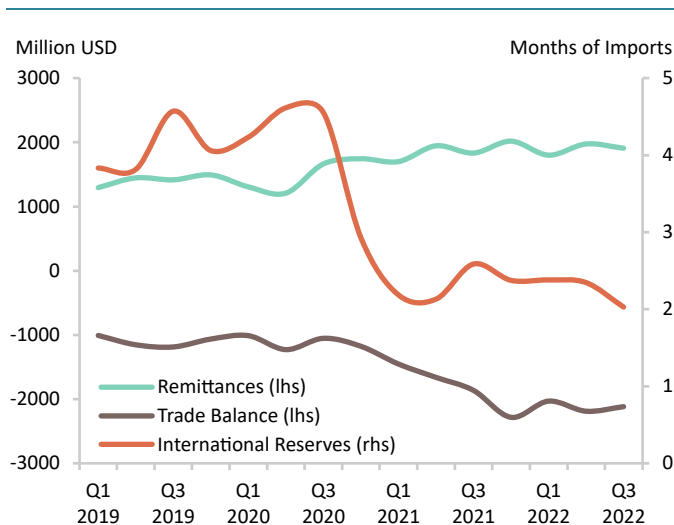
The poverty rate, measured at 6.85 dollars per person per day, is projected to be 28.4 percent, similar to the value in 2021.

## Recent developments

GDP accelerated to 2.8 percent in 2022 on the back of strong remittances, tourism, construction, and the reduction in crime. Inflation doubled from 3.5 percent in 2021 to 7.2 percent in 2022, driven mainly by an increase in food prices (12.2 percent). Temporary energy and fuel subsidies played a major role in reducing the pass-through of higher energy and fuel international prices, but these are expected to be withdrawn for 2023.

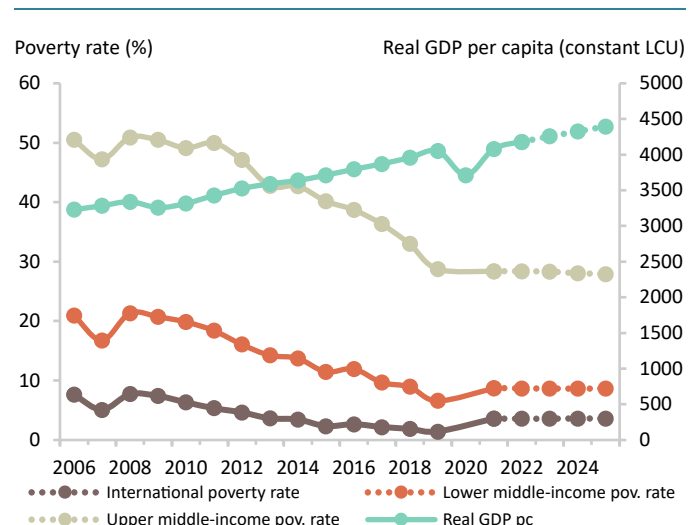
The fiscal deficit declined from \$1.4 billion in 2021 to \$626 million in 2022 due to a combination of revenue growth (10.9 percent) and a decrease in expenditures (-0.5 percent). Revenues benefited from a boost in income tax (25 percent) generated by increased tax compliance, while expenditures

**FIGURE 1 El Salvador / Selected external accounts**



Source: Banco Central de Reserva de El Salvador.

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



Source: World Bank. Notes: see Table 2.

fell due to delays in capital spending (-12.7 percent) that will move to 2023. Despite a lack of access to external borrowing and a stressed fiscal position, El Salvador managed to meet debt payments in January 2023, in part due to two buyback operations that reduced amortizations. Accordingly, the EMBI risk premium has declined by more than two thousand basis points from the peak of 3400 in July 2022.

The current account deficit (CAD) is expected to widen from 5.1 percent of GDP in 2021 to nearly 8 percent of GDP in 2022. This reflects the deterioration of the country's term of trade -implying a higher nominal growth of imports relative to exports, with price-effects dominating quantities-, and a growth in remittances that returned to pre-pandemic growth rates. The deficit was partially financed by other investments (mainly multilateral lending), as reserves declined to around 2 months of imports.

## Outlook

Growth is expected to moderate to 2.3 percent in 2023 on the back of private consumption, public investment, and

tourism. In the medium term, GDP is forecast to converge to 2.1 percent, above historical averages, driven mainly by remittance-fueled household consumption, sustained crime reduction, and tourism. By 2023, both poverty and extreme poverty are projected to have slight decreases with respect to 2021 (less than 0.1 percentage points). While poverty has reached already a figure below the pre-pandemic one, extreme poverty is still above. The percentage of vulnerable households (those with a sizable probability of falling into poverty in case of a negative income shock) has hovered around 40 percent during the same period. All in all, the combined measure of poor and vulnerable households is around 70 percent.

The CAD is expected to improve over time as trade balance shocks subside. However, the persistence of a CA deficit, partially financed with official lending and a recovery in foreign investment, will continue to weigh on the international reserves position in the absence of fiscal consolidation. At 7.2 percent, inflation is expected to have peaked in 2022 and then begin to lessen as external pressures ease due to global monetary tightening. The overall fiscal deficit is expected to increase

in 2023 as additional revenue from the anti-evasion plan is likely to moderate as a share of GDP. At the same time, expenditure pressures (propelled by wage increases, public investment, minimum pensions, and pre-election expenses) will likely result in higher expenditures.

The country's fiscal position remains fragile. The absence of a clear medium-term fiscal framework adds to uncertainty and financing costs and increases pressure on the domestic banking sector to roll over increasing internal debt. Fiscal retrenchment is unavoidable, but it will be important to do it proactively and in an orderly manner to minimize adverse economic impacts.

Risks to growth and fiscal projections are tilted to the downside. The geopolitical environment could deteriorate further, reducing global growth, and weakening the external accounts. A faster pace of monetary tightening in the US could affect El Salvador's economy by weakening exports and remittances, potentially worsening current account dynamics and placing more pressure on international reserves. Finally, on the upside, security measures could increase domestic demand more than expected, and encourage the return of part of the Salvadorian diaspora.

**TABLE 2 El Salvador / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-8.2	10.3	2.8	2.3	2.1	2.1
Private Consumption	-10.8	15.4	3.1	1.0	1.5	1.5
Government Consumption	10.1	7.2	-2.0	3.0	1.0	1.0
Gross Fixed Capital Investment	-6.9	24.5	3.0	6.0	3.5	3.2
Exports, Goods and Services	-21.0	26.1	9.2	8.0	5.8	5.5
Imports, Goods and Services	-10.6	26.6	5.5	5.2	3.7	3.4
<b>Real GDP growth, at constant factor prices</b>	-8.2	9.7	2.8	2.3	2.1	2.1
Agriculture	-2.8	2.1	0.3	0.1	0.0	0.1
Industry	-10.1	9.5	2.5	2.1	2.0	2.0
Services	-7.9	10.5	3.1	2.6	2.3	2.3
<b>Inflation (Consumer Price Index)</b>	-0.4	3.5	7.2	4.4	2.4	1.3
<b>Current Account Balance (% of GDP)</b>	0.8	-5.1	-7.7	-5.0	-4.6	-4.6
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	1.1	1.1	0.6	1.7	1.8	1.9
<b>Fiscal Balance (% of GDP)<sup>a</sup></b>	-9.3	-5.0	-2.7	-4.2	-5.4	-5.6
<b>Revenues (% of GDP)</b>	23.0	24.4	24.9	24.6	24.3	24.3
<b>Debt (% of GDP)<sup>b</sup></b>	92.1	84.8	80.2	79.3	81.3	84.2
<b>Primary Balance (% of GDP)<sup>a</sup></b>	-4.8	-0.4	2.0	0.9	0.1	0.6
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>c,d</sup></b>	5.7	3.6	3.6	3.6	3.6	3.6
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>c,d</sup></b>	11.7	8.7	8.7	8.7	8.6	8.7
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>c,d</sup></b>	32.7	28.4	28.4	28.3	28.0	27.9
<b>GHG emissions growth (mtCO2e)</b>	-6.9	1.9	0.1	1.1	0.5	0.2
<b>Energy related GHG emissions (% of total)</b>	53.3	52.9	51.9	51.7	51.1	50.5

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

Notes: e = estimate, f = forecast.

a/ Fiscal and Primary Balance correspond to the non-financial public sector.

b/ Debt is total public debt.

c/ Calculations based on SEDLAC harmonization, using 2021-EHPM. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.

d/ Projections using microsimulation methodology.



# GRENADA

**Table 1** **2022**

Population, million	0.1
GDP, current US\$ billion	1.2
GDP per capita, current US\$	9901.8
School enrollment, primary (% gross) <sup>a</sup>	106.9
Life expectancy at birth, years <sup>a</sup>	74.9
Total GHG emissions (mtCO2e)	2.2

Source: WDI, Macro Poverty Outlook, and official data.  
a/ WDI for School enrollment (2018); Life expectancy (2020).

*Economic recovery, supported by continued fiscal reforms, is expected to help Grenada return to the Fiscal Responsibility Act in 2023, after a three-year suspension. However, risks to the economic outlook remain substantial due to the lingering impacts of the pandemic and rising global economic uncertainties. Reforms are critical to mitigate fiscal risks including in the pension system; continue enhancing climate adaptation and mitigation; sustain growth and build resilience in the tourism sector through skill development; improve the business environment and enhance infrastructure.*

## Key conditions and challenges

Grenada outperformed its regional peers before the pandemic, achieving higher growth and lower public debt while making substantial progress in poverty reduction. The strong performance was underpinned by a series of pro-growth reforms initiated around 2014. The Fiscal Responsibility Act (FRA), adopted in 2015, provided a strong fiscal anchor and helped lower public debt from 90 percent of GDP in 2015 to 58.5 percent in 2019. Sustained reforms allowed for better resource allocation to cushion shocks, strengthen climate resilience, and invest in human capital projects. Real output growth in Grenada averaged 3.9 percent annually between 2015-2019, resulting in poverty rates (measured at the national poverty line) going down from 37.1 percent in 2008 to 24.8 in 2018.

However, vulnerabilities remain mainly due to the intrinsic challenges of a small island developing state (SIDS), severely aggravated by the pandemic and Russia's invasion of Ukraine. As a SIDS, Grenada's economy relies heavily on tourism, a sector that is deeply affected by the global business cycle and natural disasters. The resulting high economic volatility disproportionately affects the poorest and the most vulnerable groups, especially women. The private sector and households have limited access to finance to cushion the external shocks and invest in new opportunities. The pandemic led to a sharp

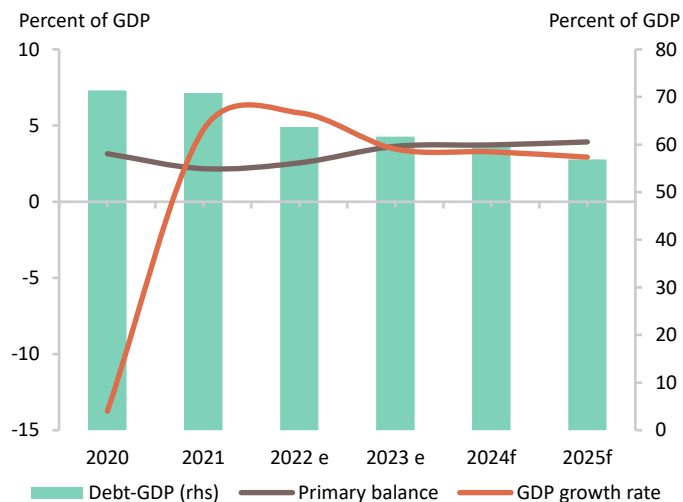
economic contraction of 13.8 percent in 2020, with sizable and durable negative impacts on poverty and equality. The female unemployment rate went from 18.3 percent in 2019-Q4 to its highest level in 2020-Q2 at 30.6, while poverty (measured at the national poverty line) is estimated to have risen to 31.7 percent in 2020. The pandemic also increased public debt to above 70 percent of GDP in 2020 and narrowed the fiscal space to mitigate economic volatilities and support resilient growth.

To sustain growth and reduce poverty, further structural reforms are needed to strengthen social protection, build climate resilience, and provide higher value-added tourism services through skills training and improvements in the business environment. The government has announced a comprehensive reform agenda in the recent inaugural budget speech; but the reforms should be rolled out in a fiscally accountable manner and take into account the capacity constraints of the government to ensure the sustainability and effectiveness of the programs.

## Recent developments

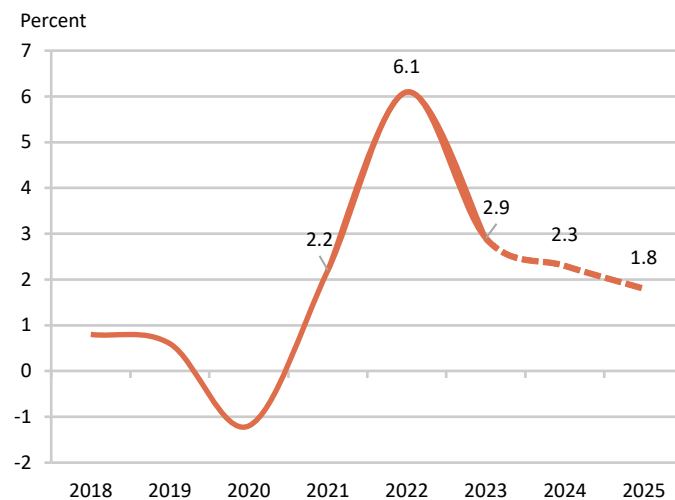
Economic activity and poverty improved gradually in 2021 and 2022, fueled primarily by the strong resumption of tourism. Stayover visitors increased by more than 200 percent from 2021 to 2022 but remained 18 percent below the 2019 level. The implementation of both public and private construction projects also contributed positively to growth in 2022.

**FIGURE 1 Grenada / Key macroeconomic variables**



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

**FIGURE 2 Grenada / Annual average inflation**



Source: World Bank staff calculations.

These positive developments were partially offset by the losses in agriculture due to extreme weather and fuel-related higher costs; and the decline in enrollment in St. George's University, the largest contributor of private education. Inflation reached 6.1 percent y/y in 2022, significantly impacting households' purchasing power and undermining food security, especially among the most vulnerable. Despite government measures to mitigate the increased cost of living, such as providing income support and lowering the cost of fuel and basic food items, poverty (measured at the national poverty line) is estimated to have remained above pre-pandemic levels at 29.4 percent.

The current account deficit is estimated to have widened in 2022, as increased import demand and higher prices of imported goods exceeded the recovery in tourism-driven exports. Remittances are estimated to have slowed down from the peak during the pandemic, possibly caused by the inflationary pressures and the weaker Euro, which eroded migrants' real income. The continued strong Citizenship-by-Investment (CBI) inflows and a pick-up in the Foreign Direct Investment (FDI) helped finance the external deficit, together with additional loans from multilateral and bilateral development partners. Foreign reserves are estimated to have improved in 2022 to around 4.9 months of imports.

The government is estimated to have maintained a fiscal surplus in 2022. Tax revenue is estimated to have outperformed the budgeted amount by EC\$140 million (4 percent of GDP), leading to a 20 percent increase from 2021, owing to the economic

recovery and higher prices. Grant receipts reflected a one-off grant received from St. George's University of EC\$81 million and another from Saudi Arabia for EC\$27 million. These improvements more than compensated for the one-off pension-related payment of EC\$85 million and other additional expenditure measures to mitigate the inflationary pressures on the poor population. The estimated surplus of 0.9 percent of GDP and higher nominal GDP growth lowered public debt significantly from 70.8 percent of GDP in 2021 to 63.7 percent in 2022.

## Outlook

Real output growth is projected to be moderate, averaging 3.2 percent over the medium term, lower than the 5-year pre-pandemic average. Tourism is expected to continue to rebound, especially from cruise and yacht visitors. Enrollment at St. George's University is expected to increase owing to additional scholarships and course offerings. The outlook for agriculture is favorable given the expected support for training, technology, and mechanization. Several ongoing and planned public and private sector projects will contribute to a growth in construction. Despite all this, these positive factors are expected to be partially offset by the continued impacts of elevated food and fuel prices and dampened growth in the main tourism source countries, US and UK. In accordance with the moderate economic expansion, unemployment, and poverty are expected to continue to decline, although

poverty is not expected to return to pre-pandemic levels in the medium term. Inflationary pressures will gradually abate compared to 2022 but remain elevated above historical levels as broad-based inflationary pressures persist.

A return to the FRA is expected in 2023. On the expenditure side, the plan to cautiously increase government capacity will increase the wage bill, the size of which will be contained by the ceiling of 9 percent of GDP under the FRA. Additional annual obligations related to the pension ruling will add another 0.7 percent of GDP to expenditures, compared to pre-pandemic levels. Additional measures to boost economic recovery, including tax incentives for digitalization and tax exemptions on key food items, will create revenue losses. Continued recovery in tax revenue collection, expected strong CBI inflows, and additional revenue enhancement measures, such as environmental levies and taxes on cigarettes and alcohol, are expected to offset the additional spending and maintain a primary balance above the FRA target over the medium term, though below the pre-pandemic average of 5.3 percent between 2015-19. Public debt will continue declining and reach 60 percent of GDP by 2026. Risks to the outlook are substantial and include a steeper-than-expected deceleration of tourism markets, faster tightening of financial conditions, and natural disasters. A sudden rise in pension liabilities poses an important downside to fiscal sustainability. The government's recent announcement to increase the contribution rate and raise the retirement age, and the planned pension reform will help improve the financial position of the pension system.

**TABLE 2 Grenada / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices<sup>a</sup></b>	-13.8	4.7	5.8	3.5	3.3	2.9
<b>Real GDP growth, at constant factor prices<sup>a</sup></b>	-13.7	4.7	5.8	3.5	3.3	2.9
Agriculture	-14.5	11.8	-6.3	2.6	1.8	2.1
Industry	-14.8	4.9	4.2	3.5	2.9	3.4
Services	-13.4	4.1	7.3	3.6	3.5	2.8
<b>Inflation (Consumer Price Index)</b>	-1.2	2.2	6.1	2.9	2.3	1.8
<b>Current Account Balance (% of GDP)</b>	-16.4	-13.1	-16.7	-12.9	-11.1	-10.4
<b>Fiscal Balance (% of GDP)<sup>b</sup></b>	1.2	0.3	0.9	2.0	2.3	2.6
<b>Revenues (% of GDP)</b>	28.1	31.6	32.6	31.2	31.0	31.2
<b>Debt (% of GDP)</b>	71.4	70.8	63.7	61.7	59.9	56.9
<b>Primary Balance (% of GDP)<sup>b</sup></b>	3.1	2.2	2.5	3.6	3.7	3.9
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-13.5	4.0	1.7	1.5	0.4	0.4
<b>Energy related GHG emissions (% of total)</b>	13.6	13.6	13.6	13.6	13.5	13.5

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

Notes: e = estimate, f = forecast.

a/ Growth projections for 2021-23 remain sensitive to uncertainties surrounding the timing of the vaccine roll-out and the recovery in tourism.

b/ The estimates for the fiscal balance and primary balance for 2020 excluded the Grenlec-related payment.

# GUATEMALA

**Table 1** **2022**

Population, million	17.3
GDP, current US\$ billion	92.6
GDP per capita, current US\$	5341.1
International poverty rate (\$2.15) <sup>a</sup>	9.5
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	25.9
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	55.4
Gini index <sup>a</sup>	48.3
School enrollment, primary (% gross) <sup>b</sup>	102.0
Life expectancy at birth, years <sup>b</sup>	71.8
Total GHG emissions (mtCO2e)	41.1

Source: WDI, Macro Poverty Outlook, and official data.  
 a/ Most recent value (2014), 2017 PPPs.  
 b/ WDI for School enrollment (2021); Life expectancy (2020).

While Guatemala continued to grow above the LAC average in 2022, poverty is estimated to exceed pre-pandemic levels. External shocks affected its prudent macroeconomic policy, increasing inflation and government deficits. Fiscal accounts are improving, while inflation remains elevated, limiting poverty and inequality reduction. Structural reforms – such as tax reform, public investment, education, and female labor force participation - are critical for achieving inclusive growth.

## Key conditions and challenges

Real GDP growth averaged 3.5 percent over the last 20 years, above the LAC average (1.1 percent). Yet, the ratio between Guatemala and the US GDP per capita remained between 12 and 14 percent over the same period, evidencing the lack of convergence.

Growth has not translated into a reduction in poverty or inequality. Poverty incidence (US\$6.85 2017 PPP line) remained stagnant between 2006 and 2019, at around half of the population; making Guatemala one of the poorest countries in LAC, despite being an upper-middle income country. The lack of progress is partly explained by declining real wages for all educational levels and slow growth in formal jobs. The country is also characterized by social exclusion and ethnic and geographical disparities, reflected in access gaps to basic services and in human capital indicators, with one of the highest child malnutrition rates in the world, at about 50 percent.

While employment levels recovered in 2021, its quality deteriorated. Close to 70 percent of employment was in the informal sector (from 65.3 percent in 2019), disproportionately affecting women (75.7 percent) and the indigenous populations (84.9 percent).

Guatemala has an established track record of prudent macroeconomic policy. The exchange rate has been managed with a soft peg, and its banking system is solid and

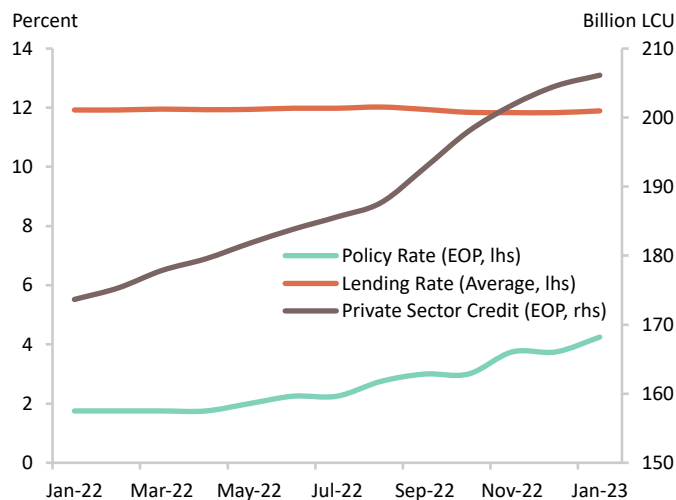
profitable. The country has maintained current account surpluses since 2016 supported by remittances, which underpin private consumption. Tax revenues are low (12.4 percent of GDP in 2022), but expenditures are also low, yielding low debt levels and low sovereign risk.

Guatemala's short-term challenge is to bring inflation down from near 10 percent. Dollar inflows and the central bank's (BANGUAT) aim to keep the exchange rate stable could complicate the disinflationary process. In the medium term, the country needs to increase revenues to address infrastructure and human capital gaps, support higher female labor force participation, and improve overall governance. Elections in 2023 may delay progress on reforms but could foster consensus for inclusive growth.

## Recent developments

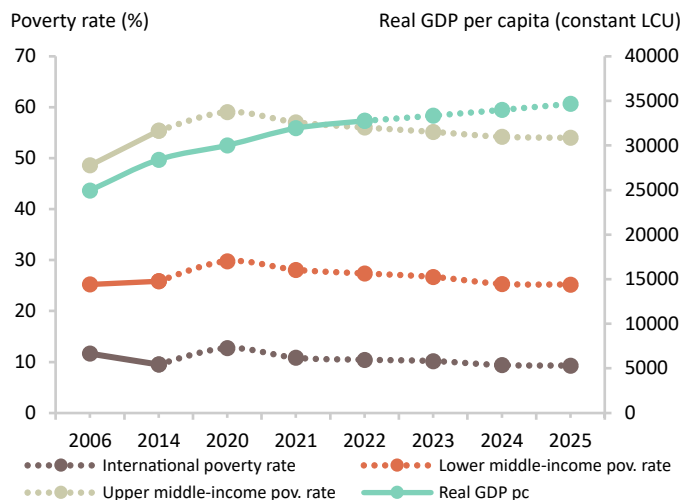
Following a large rebound in 2021 (8 percent), GDP grew by an estimated 4 percent in 2022, driven by private consumption, investment, and public consumption. On the supply side, growth was driven by wholesale & retail trade, and health services. Inflation increased to a 9.8-percent peak in February 2023 (13.3 percent for food). In response, BANGUAT raised interest rates from 1.75 to 4.5 percent between April 2022 and February 2023. Passthrough has been limited; credit to the private sector grew 19 percent in 2022 and interest rates in December of 2022 were lower than a year before.

**FIGURE 1 Guatemala / Interest rates: private-sector credit, bank lending, and policy rates**



Source: Central Bank of Guatemala.

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



Source: World Bank. Notes: see Table 2.

The poverty rate (US\$6.85 2017 PPP line) is expected to have decreased slightly to 56 percent in 2022, still above pre-pandemic levels. Inequality, measured by the Gini coefficient, is expected to remain high at 0.49. Inflation, and more specifically food inflation, has impacted poverty and inequality; microsimulations suggest that if it were not for higher inflation (relative to pre-crisis estimates), poverty and the Gini coefficient would have been 0.4 percentage points and 0.1 points lower in 2022.

Fiscal results have been negatively affected by the COVID-19 crisis and high food and fuel prices, leading the government to introduce energy subsidies and transfers to households, and to increase expenditures from 13.5 in 2021 to 14.7 percent of GDP in 2022. This widened the deficit from 1.2 to 1.8 percent of GDP, despite the increase in revenues from 12.3 percent of GDP in 2021 to 13 percent in 2022.

Trade in goods continued to rebound with exports and imports growing by 17.2 and 23.5 percent respectively, which widened the trade deficit by 30 percent

(US\$15.2 billion). The main driver of the trade balance in 2022 was the increase in oil prices: the value of oil imports more than doubled, while volume declined by 3.4 percent. The current account still registered a surplus of US\$1.1 billion (up to September, a 49 percent decrease from 2021) due to an increase in remittances, which grew by 18 percent in 2022 and almost equals exports (19.4 vs 20.1 percent of GDP).

## Outlook

GDP growth is expected to slow down in 2023 because of tightening monetary policy domestically and abroad, and slower growth in the US. Inflation is expected to decline; however, new rate hikes and a prolonged period of high rates cannot be ruled out.

Poverty is expected to decrease to 55.2 in 2023 and 54.2 in 2024 (US\$ 6.85 in 2017 PPP) while inequality to remain high. This reflects the slowdown in GDP and remittance growth (although they will remain

high), but also a respite in household purchasing power due to lower inflation.

Guatemala is projected to continue achieving external surpluses during the forecast horizon, albeit smaller ones due to lower remittances growth and a stable trade balance.

Revenues are expected to grow marginally, as the payoff of administrative reforms slows down in the absence of tax reform. Expenditure growth is expected to be moderate, in line with Guatemala's prudent fiscal policy, from 2024 onwards. As a result, the deficit is expected to be roughly stable in 2023 and to decline to about 1 percent of GDP by 2025. Similarly, the debt-to-GDP ratio is expected to stabilize at around 30 percent.

Risks to the outlook include: (i) higher and more persistent inflation, (ii) the inability of BANGUAT to balance inflation control, stable exchange rate, and GDP growth, (iii) a drop in remittances caused by negative developments in the US labor market; and (iv) natural disasters, whose frequency and intensity have been accentuated by climate change.

**TABLE 2 Guatemala / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-1.8	8.0	4.0	3.2	3.5	3.5
Private Consumption	-1.4	8.9	4.2	3.4	3.7	3.7
Government Consumption	1.5	5.0	5.9	2.5	1.9	1.8
Gross Fixed Capital Investment	-6.2	20.8	5.0	4.3	4.1	4.1
Exports, Goods and Services	-7.7	11.7	6.3	3.0	3.3	3.3
Imports, Goods and Services	-5.7	22.1	6.5	3.7	3.6	3.6
<b>Real GDP growth, at constant factor prices</b>	-1.6	7.7	4.0	3.2	3.5	3.5
Agriculture	-0.2	3.5	2.3	2.4	2.4	2.4
Industry	-1.2	8.4	2.6	2.8	2.8	2.8
Services	-2.0	8.1	4.8	3.5	3.9	3.9
<b>Inflation (Consumer Price Index)</b>	3.2	4.3	6.9	5.5	4.3	3.7
<b>Current Account Balance (% of GDP)</b>	5.1	2.5	1.1	1.5	1.1	1.4
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	1.0	3.8	1.3	1.3	1.4	1.4
<b>Fiscal Balance (% of GDP)</b>	-4.9	-1.2	-1.8	-1.6	-1.3	-0.8
<b>Revenues (% of GDP)</b>	10.7	12.3	13.0	13.0	13.1	13.2
<b>Debt (% of GDP)</b>	31.6	30.8	31.0	31.2	30.9	30.4
<b>Primary Balance (% of GDP)</b>	-3.2	0.5	-0.1	0.0	0.3	0.7
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	12.7	10.8	10.4	10.2	9.4	9.3
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	29.8	28.1	27.4	26.7	25.3	25.2
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	59.0	57.0	56.0	55.2	54.2	54.0
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	1.0	2.2	3.6	5.2	5.2	5.5
<b>Energy related GHG emissions (% of total)</b>	54.1	53.4	54.2	55.6	56.9	58.2

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 SEDLAC harmonization, using 2014-ENCOVI. Actual data: 2014. Nowcast: 2015-2022. Forecasts are from 2023 to 2025.

b/ Projections using microsimulation methodology.



# GUYANA

**Table 1** **2022**

Population, million	0.8
GDP, current US\$ billion	15.5
GDP per capita, current US\$	19133.4
School enrollment, primary (% gross) <sup>a</sup>	97.8
Life expectancy at birth, years <sup>a</sup>	68.5
Total GHG emissions (mtCO <sub>2</sub> e)	27.9

Source: WDI, Macro Poverty Outlook, and official data.  
a/ WDI for School enrollment (2012); Life expectancy (2020).

*Guyana has emerged as one of the world's fastest-growing economies with the development of its oil and gas sector. The government's aggressive investment program seeks to structurally transform the non-oil economy. Nevertheless, Guyana's increasing reliance on the oil and gas sector, a weak institutional base, and a fragile political environment pose significant risks to long-term development.*

## Key conditions and challenges

Guyana is a small state with abundant natural resources including significant oil and gas (O&G) reserves and extensive forest cover. The development of its O&G sector is leading to a notable scale-up of investments in infrastructure to support the development of other industries including agriculture. Real GDP per capita is expected to reach US\$32,479 by 2025, more than 5 times 2019 levels. With more than 70 percent of the working-age population residing in rural areas in 2021, agriculture, forestry, and fishing remain relevant for jobs and poverty reduction. Guyana's resource wealth contrasts with the overall needs of the population with about half of the population living below US\$5.50 a day in 2019. Poverty and social exclusion, including limited access to basic services, are particularly severe in Guyana's hinterland and among Amerindians.

With a large part of its territorial waters still unexplored, Guyana's proven gross oil resources are conservatively estimated at over 11 billion barrels. After two full years of oil production, closing balances in the Natural Resource Fund (NRF), held outside of the economy to mitigate exchange rate pressures, amounted to US\$1.43 billion at end of 2022. This is after transfers of US\$608 million (8.3 of non-oil GDP) to the consolidated fund to finance the government's 2022 budget. Inflows and outflows from the NRF are governed by the

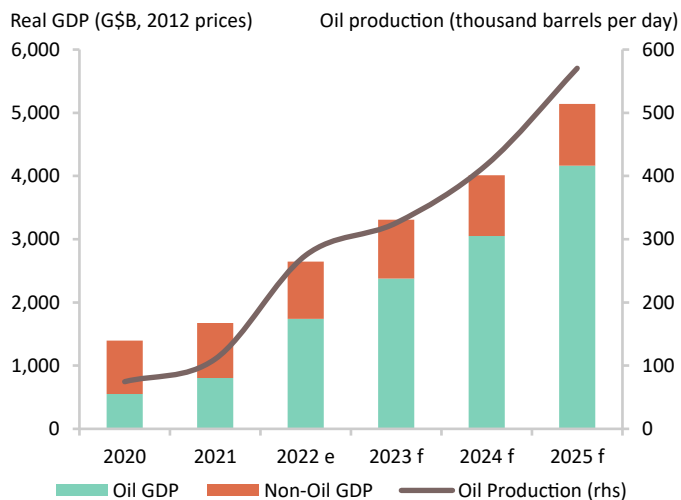
2021 NRF Act. Transfers to the budget, are expected to approximate 13-15 percent of non-oil GDP over the medium term, based on the approved formula linking draw-downs to gross inflows into the NRF. The country is also advancing initiatives to sell carbon credits which represent an additional source of fiscal revenues and will be partly employed in the sustainable management of its forests.

Rising budget resources present opportunities and risks for Guyana. They have allowed the government to respond to the ongoing overlapping crises (e.g., COVID-19 and inflation) while scaling up spending to close gaps in infrastructure, education, and social security systems to boost human capital and poverty reduction, including in Guyana's hinterland where public service provision is particularly weak. The development of the oil and gas sector also increases the urgency to advance the implementation of the government's Low Carbon Development Strategy 2030 to counter anticipated increases in GHG emissions. Sound management of the O&G sector will necessitate strengthening governance, and fiscal and public financial management practices while boosting transparency and accountability to avoid increased social polarization.

## Recent developments

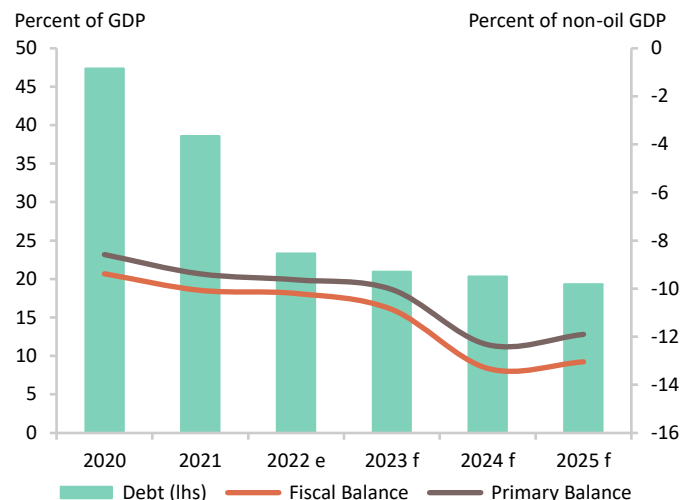
Guyana's economy continued to expand at a record pace in 2022 amidst increased oil production. Real GDP expanded by 57.8 percent, exceeding the annual average

**FIGURE 1 Guyana / Oil production, real oil, and real non-oil GDP, 2020-2025**



Source: World Bank staff estimates.  
Notes: e=estimate, f=forecast. 2023 values assume full-capacity production in Liza I and II.

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



Sources: Guyana Ministry of Finance and World Bank staff estimates.  
Notes: e=estimate, f=forecast.

growth rate of 31.8 percent since the start of oil extraction. Oil GDP more than doubled in 2022, with production rising to approximately 274,433 barrels per day since the Liza Phase 2 plant began operations. In parallel, the non-oil economy grew by 10.7 percent, owing to increased acreage under cultivation and higher agricultural yields, expansions in mining and support services for the oil and gas industries, and a pickup in services. Rising economic activity is expected to have resulted in increased employment and, as a result, contributed to poverty reduction.

Inflation averaged 6.4 percent in 2022, primarily due to rising fuel and food prices. Higher living costs disproportionately affected the poor and vulnerable, who spend a larger portion of their budget on food, and jeopardized food security. While monetary policy remained unchanged, periodic intervention in the foreign exchange market was used to relieve pressure on the exchange rate, which has remained stable at US\$1: G\$208.50 since 2019.

The fiscal deficit was 10.2 percent of non-oil GDP in 2022, despite significant transfers from NRF. Fiscal policy in 2022 focused on increasing capital investment to support non-oil economy growth and development while providing relief to citizens from the adverse impact of the pandemic and rising prices. Relief efforts to increase household incomes and reduce poverty included direct and indirect income support, with adjustments to the

income tax threshold and a reduction in the fuel excise tax. In this context, total revenue peaked at 28.1 percent of non-oil GDP in 2022, while total spending came close to 38.3 percent of non-oil GDP. The public debt to GDP ratio is estimated to have declined to 23.3 percent of total GDP in 2022, 15.3 percentage points lower than in 2021.

A current account surplus of 42.4 percent of GDP was recorded in 2022, reflecting increased earnings from oil exports. Total imports fell in 2022 as a result of significant one-time imports of specific items for the extractive sector in 2021. Guyana's stock of foreign reserves in December 2022 rose to US\$939 million, approximately 2 months of projected total imports.

## Outlook

Guyana's economy is expected to expand at an annual average rate of 24.9 percent over the medium term due to continued expansion of the oil sector. Real non-oil GDP is projected to expand by an average of 7.2 percent per year including through positive spillovers from the oil sector with the implementation of the Local Content Act of 2021. Inflation will remain elevated due to increased government consumption and higher input costs. As such, poverty reduction will depend on efforts to boost the purchasing

power of poor and vulnerable households, as well as on translating the good performance of the non-oil economy into jobs. Increased exports of oil, gold, and bauxite will result in an annual average current account surplus of 24.8 percent of GDP over the medium term. In this context, the international reserves position will gradually improve to above 5 months of projected total imports.

The fiscal deficit is projected to average 12.4 percent of non-oil GDP as the increase in capital spending outstrips inflows from the NRF. Public debt is expected to remain low at approximately 20 percent of GDP.

The extractive sector is becoming the dominant source of growth and fiscal revenues. This increases the country's susceptibility to oil-related shocks, which requires proactive management. Prudent NRF management and use, as well as strengthening the medium fiscal management framework are critical to preventing the economy from overheating. Oil production has environmental consequences that must be carefully considered, and the sector may face additional risks as the world transitions away from fossil fuels. Addressing climate change risks remains central to poverty reduction given that sea level rise and flooding expose a large segment of the population to food insecurity and job losses. Ethnic and political polarization in Guyana are important risks to social cohesion and sustainable growth.

**TABLE 2 Guyana / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at market prices (total)<sup>a</sup></b>	43.5	20.0	57.8	25.2	21.2	28.2
<b>Real GDP growth, at market prices (non-oil)<sup>b</sup></b>	-7.3	4.7	10.7	6.9	6.8	7.9
Agriculture	4.1	-9.1	4.0	1.3	1.8	2.7
Industry	-10.5	5.2	7.3	3.3	2.7	1.2
Services	-21.2	11.0	1.5	3.9	4.1	1.8
<b>Inflation (Consumer Price Index)</b>	1.0	4.8	6.4	6.0	5.7	5.5
<b>Current Account Balance (% of GDP)<sup>c</sup></b>	-15.0	-20.5	42.4	29.7	27.7	17.0
<b>Fiscal Balance (% of GDP)<sup>d</sup></b>	-9.4	-10.1	-10.2	-10.9	-13.3	-13.1
<b>Debt (% of GDP)</b>	47.4	38.6	23.3	20.9	20.3	19.3
<b>Primary Balance (% of GDP)<sup>d</sup></b>	-8.6	-9.4	-9.6	-10.0	-12.3	-11.9
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	11.9	6.2	18.7	11.8	11.8	16.3
<b>Energy related GHG emissions (% of total)</b>	21.8	25.7	35.3	40.9	45.8	52.2

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

Notes: e = estimate, f = forecast.

a/ Total GDP at 2012 prices.

b/ Non-oil GDP at 2012 prices.

c/ BOP definition in current US\$.

d/ Share of non-oil GDP.

# HAITI

**Table 1** **2022**

Population, million	11.6
GDP, current US\$ billion	20.2
GDP per capita, current US\$	1745.9
International poverty rate (\$2.15) <sup>a</sup>	29.2
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	58.0
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	85.8
Gini index <sup>a</sup>	41.1
Life expectancy at birth, years <sup>b</sup>	64.1
Total GHG emissions (mtCO2e)	10.9

Source: WDI, Macro Poverty Outlook, and official data.  
a/ Most recent value (2012), 2017 PPPs.  
b/ Most recent WDI value (2020).

GDP contracted by 1.7 percent in 2022, amid a lingering political crisis and gang violence that curtailed economic activity. Recent gains in human capital accumulation have been reversed due to extended school closures in 2022 owing to insecurity. The country's institutional fragility exacerbates its vulnerability to natural hazard shocks, with attendant consequences on growth prospects. Poverty is rising, and high inflation is disproportionately impacting poorer households.

## Key conditions and challenges

Haiti is a lower-middle-income country with a narrow industrial base and subsistence agriculture. The political and institutional crisis is generating increasing levels of public insecurity, hindering Haiti's economic performance and citizen well-being. Structural key challenges to growth include deficient infrastructure, limited human capital, weak governance and institutions, a non-enabling business environment, underdeveloped finance markets, and limited market contestability. Growth challenges are exacerbated by the combination of weak structural drivers and sustainability issues. Importantly, low agricultural productivity is hampered by limited credit to the sector, as well as by watershed degradation and land fragmentation due to the inheritance system. Haiti's institutional fragility, coupled with extreme vulnerability to natural hazard shocks and climate change will likely continue to pose a threat to growth, hurting the poor and the vulnerable the hardest. Moreover, limited access to quality health-care and education inhibits the possibility of building human capital to break the cycle of poverty.

## Recent developments

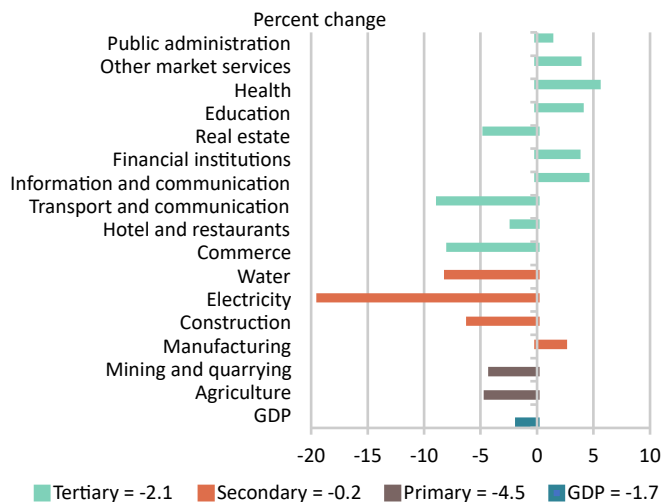
A political and power vacuum pushed gang violence to a crisis point and a GDP

contraction by 1.7 percent in 2022, with agriculture, which employs 40 percent of the labor force, registering the largest decline (-4.5 percent). Combined also with an increase in food prices, the poverty rate at the international poverty line (\$3.65 per day, 2017 PPP) is estimated to have increased to 62 percent in 2022, from 60 percent in 2021. The secondary sector contracted by 0.2 percent, despite a good performance in light manufacturing. Services contracted by 2.1 percent, led by hospitality (-7.8 percent).

With businesses shutting down owing to gang warfare, tax revenue dropped to 5.2 percent of GDP in 2022, down from 5.8 percent of GDP in 2021. Meanwhile, total expenditure rose on higher fuel subsidies, resulting in the widening of the fiscal deficit to 3.2 percent of GDP in 2022 (from 2.7 percent in 2021). The central bank (BRH) monetized 2.5 basis points of the deficit and the remaining gap (0.7 percent of GDP) was filled by T-bills and arrears. Consequently, the gourde depreciated by 17.4 percent against the US dollar over the fiscal year. The BRH enacted measures to mop up excess liquidity in the banking sector, hiked the key policy rate by 150 bps, and restricted forex transactions. But inflation edged up to 38.7 percent by end of FY22, led by higher food and fuel prices, and insecurity impeding the seamless flow of goods across regions. Rising food prices are especially hard on poor households as food tends to make up a larger share of their total expenditures.

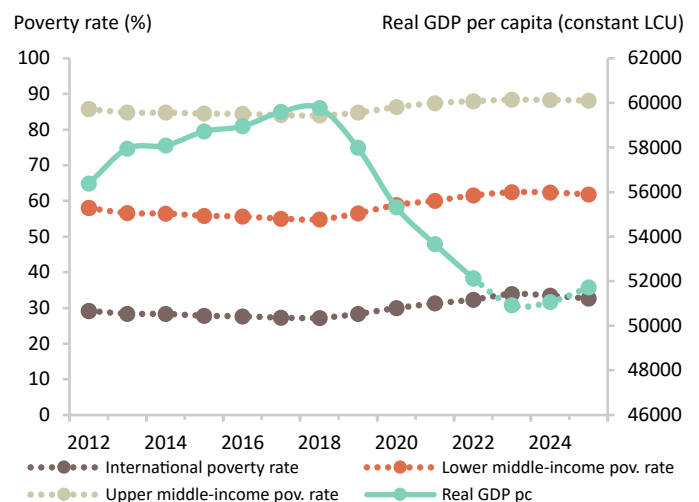
In the external sector, remittances inflow declined for the first time in decades. Despite an expansion of exports, the current

**FIGURE 1 Haiti / Sectoral growth rates, year-over-year, FY22**



Source: Haiti Statistical Office (IHSI).

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



Source: World Bank. Notes: see Table 2.



account turned into a deficit (2.5 percent of GDP), compared to a surplus (0.5 percent of GDP) in 2021. Foreign direct investment (0.2 percent of GDP) did not suffice to offset the CAD. The resulting balance of payments deficit (1.0 percent of GDP) was financed by an accumulation of arrears, debt write-off, and foreign exchange reserves drawdown. Net international reserves declined by 71 percent at the end of the fiscal year, closing at US\$ 141 million. Gross reserves, however, were kept at a healthy level of around 5.4 months of imports.

## Outlook

Private investment is expected to continue to fall as the political crisis and gang violence do not abate in FY23. Private consumption will remain subdued if inflation in the main remittance-sending countries does not recede and domestic agricultural productivity does not improve. All this will contribute to darken the outlook. As such, GDP is expected to contract by 1.1 percent in FY23. In the baseline, growth is expected to firm up into positive territory with a rebound in 2024, thanks to the resumption of economic activity assuming

stabilization of the political context and improvements in security. However, growth will not be strong enough to reverse the poverty trend. Poverty is expected to remain elevated at about 62 percent in 2023 and 2024.

Thanks to fuel price adjustments in FY22, energy subsidies are expected to decline, narrowing the fiscal deficit that is expected to reach 3.0 percent of GDP in FY23, of which 1.3 bps will be monetized. The IMF will supply 0.6 bps of the financing. The remaining 1.2 bps are not likely to be covered by T-bills. Therefore, there will probably be a retrenchment of capital spending and/or additional financing from the BRH, with negative consequences for macroeconomic stability. Fiscal consolidation efforts are expected to continue over the medium term, bringing the fiscal deficit below the 2.0 percent of GDP mark.

Headwinds faced by garment factories at the end of FY22, principally due to the insecure business environment, will likely continue throughout FY23 and hence affect exports. Remittances are projected to decline further, in line with the economic situation in sending countries. The continued depreciation of the currency and a gradual easing of food and fuel prices are expected to dampen imports, outweighing the effect

of lower exports and remittances, and leading to a current account surplus of 1.8 percent of GDP. Over the medium term, as investment picks up, the current account is set to register a deficit slightly above 2.0 percent of GDP, provided security improves and elections to be held in 2023 are not contested.

Sustained high fuel and food prices coupled with low agricultural productivity will continue to exert pressure on CPI inflation, which is expected to close the fiscal year at around 40 percent on average. High inflation will be an impediment to poverty reduction as the poor and the vulnerable's purchasing power is eroded.

High domestic and external uncertainty weigh on an outlook that is fraught with downside risks. There is a high risk that political turmoil continues and security does not improve. The fuel price adjustments were critical but re-enacting the automatic price adjustment mechanism will remain crucial to rein in the fiscal deficit and reduce monetary financing. Strengthening the institutional framework for disaster risk management, including better preparedness and response will be key to laying the foundations for sustained and inclusive growth over the long term.

**TABLE 2 Haiti / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2019/20	2020/21	2021/22e	2022/23f	2023/24f	2024/25f
<b>Real GDP growth, at constant market prices</b>	-3.3	-1.8	-1.7	-1.1	1.5	2.5
Private Consumption	-4.0	1.2	-0.7	-0.2	0.9	0.7
Government Consumption	11.1	9.7	21.7	18.8	8.2	15.2
Gross Fixed Capital Investment	-20.6	-21.8	-13.8	-44.3	10.0	19.8
Exports, Goods and Services	-39.7	1.4	2.4	-2.6	2.8	2.1
Imports, Goods and Services	-18.3	2.7	4.9	-2.7	4.0	5.5
<b>Real GDP growth, at constant factor prices</b>	-2.9	-2.5	-2.1	-1.1	1.5	2.5
Agriculture	-2.5	-4.1	-4.5	-1.5	2.0	2.0
Industry	-6.9	-2.5	-0.4	-1.1	1.5	1.5
Services	-1.2	-2.0	-2.1	-1.0	1.3	3.1
<b>Inflation (Consumer Price Index)</b>	22.9	15.9	27.6	39.8	31.1	22.6
<b>Current Account Balance (% of GDP)</b>	1.1	0.5	-2.5	1.8	-2.0	-2.6
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	0.2	0.2	0.2	0.1	0.3	0.3
<b>Fiscal Balance (% of GDP)</b>	-3.0	-2.5	-3.2	-3.0	-2.3	-1.4
<b>Revenues (% of GDP)</b>	7.5	6.9	6.6	7.5	7.8	7.6
<b>Debt (% of GDP)</b>	23.5	28.4	27.6	28.5	29.4	26.2
<b>Primary Balance (% of GDP)</b>	-2.7	-2.2	-2.9	-2.7	-2.0	-1.1
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	29.9	31.3	32.3	33.9	33.5	32.6
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	58.9	60.1	61.6	62.5	62.4	61.8
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	86.4	87.5	88.0	88.4	88.3	88.2
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-1.5	-0.6	-0.3	0.2	0.7	0.7
<b>Energy related GHG emissions (% of total)</b>	35.0	33.9	32.8	32.1	31.9	31.9

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 SEDLAC harmonization, using 2012-ECVMAS. Actual data: 2012. Nowcast: 2013-2022. Forecasts are from 2023 to 2025.

b/ Projection using neutral distribution (2012) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

# HONDURAS

**Table 1** **2022**

Population, million	10.4
GDP, current US\$ billion	30.7
GDP per capita, current US\$	2942.6
International poverty rate (\$2.15) <sup>a</sup>	12.7
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	26.4
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	49.5
Gini index <sup>a</sup>	48.2
School enrollment, primary (% gross) <sup>b</sup>	96.5
Life expectancy at birth, years <sup>b</sup>	71.5
Total GHG emissions (mtCO2e)	29.3

Source: WDI, Macro Poverty Outlook, and official data.  
 a/ Most recent value (2019), 2017 PPPs.  
 b/ WDI for School enrollment (2012); Life expectancy (2020).

*Honduras's economy expanded robustly in 2022, supported by remittance-fueled private consumption and private investment. GDP growth is expected to moderate in the near term amid a tempering of global demand and persistent inflationary pressures. Poverty and inequality are expected to continue their downward trend, albeit at a slower pace. Progress is limited by high inflation and slow labor market recovery with employment remaining below pre-pandemic levels.*

## Key conditions and challenges

Honduras is one of the poorest and most unequal countries in Latin America and the Caribbean. In 2019, one in two people lived in poverty (US\$6.85 per day, 2017 PPP), concentrated in rural areas.

Annual real GDP growth averaged 3.1 percent from 2010-2019, driven by remittance-fueled private consumption. The country benefited from prudent macroeconomic management anchored in the Fiscal Responsibility Law (FRL), a crawling peg with ample foreign reserves, and a sound financial sector. However, Honduras lacks productive capacity, and its exports have been insufficient to boost incomes and growth, particularly in rural areas. Exports are highly concentrated in agricultural commodities and low-value manufactured goods, destined for the U.S. Several factors undermine competitiveness, including high exposure to external shocks and natural hazards, low levels of climate-related resilience, elevated crime, and institutional and business environment challenges.

The impacts of the pandemic and hurricanes Eta and Iota in 2020 exacerbated existing economic and social challenges. Real GDP contracted by 9 percent y-o-y, and poverty (US\$6.85 line) increased by 8.2 pp to 57.7 percent in 2020. The country's countercyclical response cushioned the impacts of these multiple shocks; however, social assistance programs had a relatively small mitigating impact due

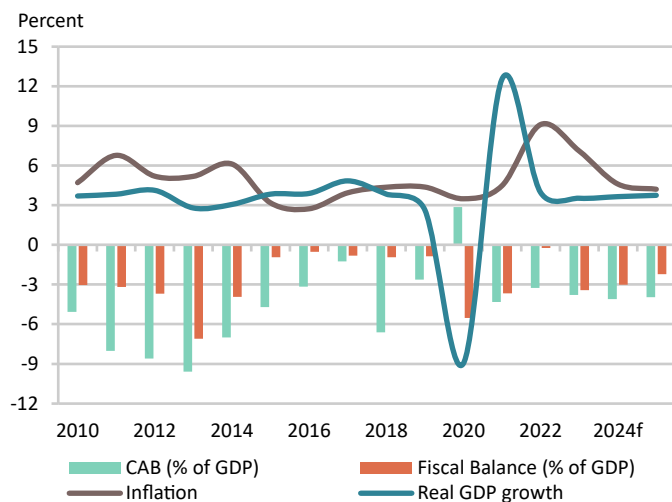
to their low coverage. Public debt increased steeply from 43.5 percent in 2019 to 55.8 percent in 2021, mainly composed of multilateral financing, given the country's high-risk premium. A high food insecurity rate (34.8 percent) and low school attendance persisted in 2021, limiting human capital accumulation.

## Recent developments

Despite global headwinds and impacts from hurricane Julia (1.2 percent of 2021 GDP), annual real GDP is estimated to have expanded by 4 percent in 2022, driven by private consumption and private investment. On the supply side, the growth was driven by maquila and services; the contribution of labor-intensive agriculture remained subdued due to climate shock impacts.

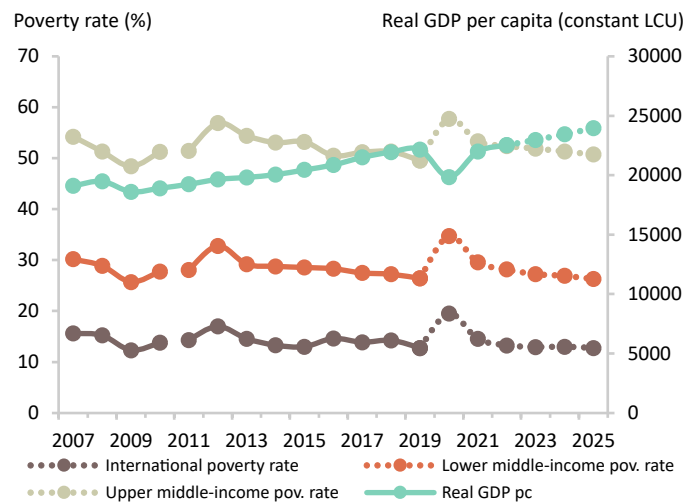
Strong domestic demand, pandemic-related global supply-chain disruptions, and a commodity price spike following Russia's invasion of Ukraine caused high inflation. Average inflation accelerated to 9.1 percent in 2022 – the highest since 2008 and nearly double the upper bound of the Central Bank's (BCH) target band (4 ± 1 percent). Yet, the BCH maintained the key policy rate at 3 percent in the context of shallow capital markets weakening monetary transmission, while speeding up liquidity absorption through open market operations. Higher prices and unemployment threaten food security and poverty reduction. Unemployment (8.9 percent in 2022) was still above its pre-pandemic level (5.7 percent),

**FIGURE 1 Honduras / Real GDP growth, inflation, current account balance (CAB), and NFPS fiscal balance**



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

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



Source: World Bank. Notes: see Table 2.

particularly for women as the unemployment gender gap widened from 3.9 percent in 2019 to 6.7 percent in 2022. Poverty (US\$6.85 line) is estimated to remain above pre-crisis levels, at 52.4 percent in 2022. While remittances, representing 28.1 percent of GDP and about 30 percent of household income for the bottom 40 percent of households receiving remittances, grew by 20 percent in 2022, they did not compensate for deteriorated labor market outcomes and inflationary pressures from the war in Ukraine.

The government announced an expansionary budget, including sizable reconstruction and investment spending, an increase in energy and fuel subsidies, and financial assistance to the agriculture sector. In early 2022, it authorized new borrowing for up to US\$2 bn in 2022-23, withdrew US\$335 m in IMF Special Drawing Rights, and incorporated US\$1 billion (3.3 percent of GDP) in monetary financing into the 2022-2023 budget, setting out a non-financial public sector (NFPS) deficit of 4.9 percent of GDP in 2022. However, a small deficit of 0.24 percent of GDP was registered due to slow budget execution coupled with strong corporate income tax performance. The external position remained strong, supported by remittances and external

financing. Foreign reserves stood at 28 percent of GDP by end-2022, covering 6 months of non-maquila imports and supporting exchange rate stability. Despite unfavorable terms of trade, the current account deficit is expected to narrow to 3.3 percent of GDP in 2022 (from 4.3 percent in 2021) on the back of strong remittances, mainly financed by multilateral debt and foreign direct investment.

## Outlook

Real GDP growth is projected to decelerate to 3.5 percent in 2023, given lower growth among trading partners and persistent inflationary pressures. Weaker export demand coupled with elevated import prices are likely to widen the current account deficit in 2023; robust import demand will maintain the current account deficit over the medium term. Gradual disinflation is projected over the medium term as global inflation subsides; however, inflationary pressures could persist if the policy rate is maintained, and the government implements its spending plan. Slower growth and persistent inflation will likely curb progress in poverty

and inequality reduction in the medium term. Poverty (US\$6.85 line) is expected to decrease slightly to 51.9 percent in 2023, and 51.3 percent by 2024. Growth is projected to rise modestly by 2025, fueled by remittances, investment, and export demand.

The 2023 budget foresees a significant increase in spending as the execution of ongoing and new investment projects accelerate, which could weaken public finances and increase Honduras's financing needs. A wider NFPS deficit relative to 2022 is projected over the medium term, bound by the FRL's escape clause ceilings: 4.4 percent in 2023, 3.9 percent in 2024, and 3.4 percent in 2025. The government plans a gradual fiscal adjustment to return to the FRL target of 1 percent of NFPS deficit; however, the timeline is uncertain. The adjustment is planned to be supported by revenue mobilization measures, improving the efficiency of public spending, and budget reallocations. However, challenging legislative position of the ruling party could affect the progress on fiscal, social, and structural reforms. Along with budget execution issues, this could depress private investment, weaken growth, and cause a deterioration in the labor market and living standards of the population.

**TABLE 2 Honduras / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-9.0	12.5	4.0	3.5	3.6	3.7
Private Consumption	-6.2	15.1	5.0	3.2	3.7	3.9
Government Consumption	2.9	8.5	1.7	0.5	0.1	0.4
Gross Fixed Capital Investment	-23.8	33.3	2.8	6.9	4.1	4.0
Exports, Goods and Services	-20.8	21.5	5.0	4.2	5.1	5.2
Imports, Goods and Services	-18.5	33.0	5.2	3.9	4.1	4.3
<b>Real GDP growth, at constant factor prices</b>	-9.0	12.5	4.0	3.5	3.6	3.7
Agriculture	-6.3	0.4	1.7	2.1	2.2	2.3
Industry	-14.3	20.1	5.3	4.8	4.9	5.0
Services	-7.2	12.5	3.9	3.3	3.4	3.5
<b>Inflation (Consumer Price Index)</b>	3.5	4.5	9.1	7.1	4.6	4.2
<b>Current Account Balance (% of GDP)</b>	2.9	-4.3	-3.3	-3.8	-4.1	-4.0
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	1.6	1.2	1.0	1.2	1.4	1.4
<b>Fiscal Balance (% of GDP)<sup>a</sup></b>	-5.5	-3.7	-0.2	-3.4	-3.0	-2.2
<b>Revenues (% of GDP)</b>	28.2	30.0	30.5	30.0	30.6	31.1
<b>Debt (% of GDP)<sup>a</sup></b>	54.1	55.8	51.0	51.7	52.1	50.6
<b>Primary Balance (% of GDP)<sup>a</sup></b>	-4.3	-2.8	0.8	-2.7	-2.3	-1.6
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>b,c</sup></b>	19.5	14.5	13.3	12.9	13.0	12.7
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>b,c</sup></b>	34.7	29.6	28.2	27.3	26.9	26.3
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>b,c</sup></b>	57.7	53.3	52.4	51.9	51.3	50.7
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-5.1	8.1	1.6	0.2	1.4	1.7
<b>Energy related GHG emissions (% of total)</b>	33.8	36.3	36.3	35.5	35.4	35.5

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

Notes: e = estimate, f = forecast.

a/ Fiscal data refers to non-financial public sector.

b/ Calculations based on SEDLAC harmonization, using 2019-EPHPM. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.

c/ Projections using microsimulation methodology.

# JAMAICA

**Table 1** **2022**

Population, million	2.8
GDP, current US\$ billion	13.1
GDP per capita, current US\$	4618.6
School enrollment, primary (% gross) <sup>a</sup>	90.6
Life expectancy at birth, years <sup>a</sup>	71.9
Total GHG emissions (mtCO <sub>2</sub> e)	9.0

Source: WDI, Macro Poverty Outlook, and official data.  
a/ WDI for School enrollment (2007); Life expectancy (2020).

*Jamaica's economy continues to recover from the record contraction of 2020. A track record of policy and institutional reforms to strengthen macroeconomic management in recent years allowed the government to respond to the pandemic and inflation shocks without impairing fiscal sustainability and poverty reduction objectives. Continuity of the fiscal austerity program could become more difficult if the weakening global economic environment becomes protracted and if known constraints to growth and poverty reduction are not addressed.*

## Key conditions and challenges

After decades of weak macroeconomic performance, Jamaica implemented an austerity program in 2013 which helped to reduce the public debt-to-GDP ratio by more than 50 percentage points. Improved fiscal discipline allowed the country to weather the impact of recent overlapping crises, including the COVID-19 pandemic and tightening global financial conditions. Notably, during the peak of the pandemic, the government was able to provide temporary assistance to vulnerable households and businesses to offset income losses, protect jobs, and stimulate demand. Additional assistance was provided to vulnerable households to mitigate the potential impact of rising prices on poverty. To strengthen fiscal, financial, and social resilience to climatic shocks, Jamaica has gradually integrated climate change adaptation into its policy framework. The social protection system has also been strengthened, which has contributed to increased equity, social resilience, and poverty reduction.

The country is recovering from a deep recession caused by the pandemic. GDP is expected to return to its 2019 level in 2023. The underlying drivers of its historically low growth experience have not been fully addressed. Prior to the pandemic, Jamaica was among the slowest growing economies in LAC given its concentration in low productivity services,

limited innovation, a weak business environment, high connectivity costs, and pervasive crime. Furthermore, disruptions in learning during the pandemic will have longer-term effects on growth and human capital, and the future earning potential of students if not addressed adequately.

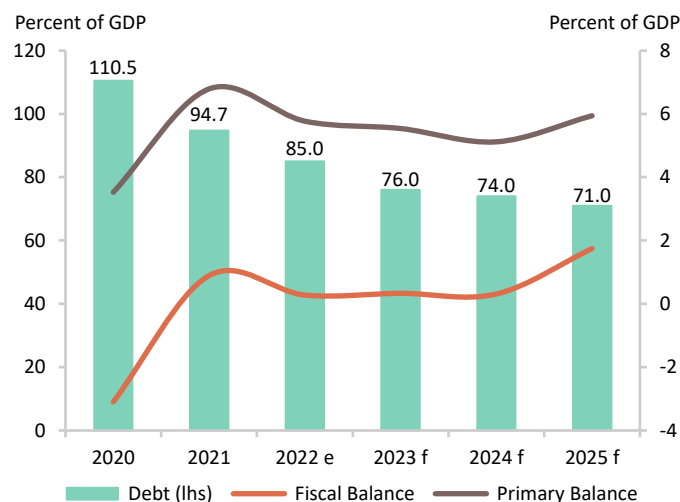
Debt-service costs remain relatively high, crowding out other government spending, including capital investment. In this context, the government needs to strike a careful balance between continuing fiscal consolidation, mitigating the impact of inflation on the poor, and advancing critical growth-enhancing reforms. Tourism and agriculture, which account for more than a third of available jobs, are vulnerable to shocks, which could undermine economic growth and poverty reduction efforts.

Jamaica remains highly vulnerable to external developments given its reliance on imported essentials and external financing. Progress on addressing anti-money laundering and counter-terrorism deficiencies, as well as strengthening financial supervision is also necessary to attract private investments and to assure financial system stability. While the financial sector is sound, it remains susceptible to various shocks.

## Recent developments

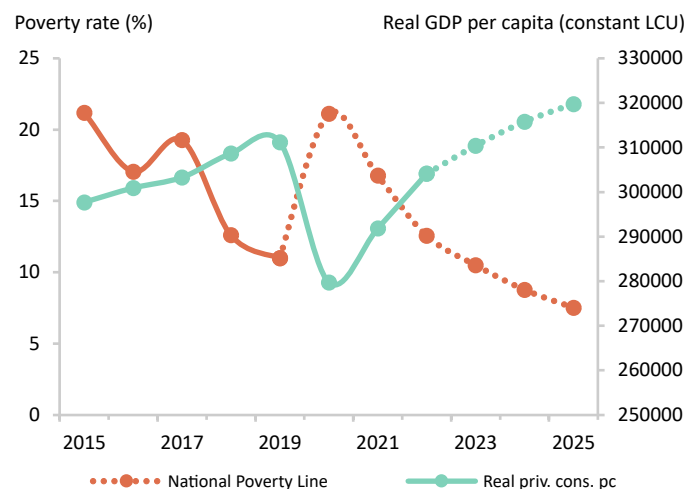
Real GDP expanded by 4.2 percent in 2022, primarily reflecting continued recovery in tourism and agriculture. On the expenditure side, growth was driven by private consumption and net exports. Rising economic

**FIGURE 1 Jamaica / Fiscal balances and public debt**



Sources: Government of Jamaica, IMF and WBG staff estimates.

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



Sources: Government of Jamaica and World Bank estimates.

Notes: Poverty projections based on JSJC 2019, growth semi-elasticity of poverty = -1, and GDP per capita.



activity boosted labor market conditions and the unemployment rate fell below 7 percent in 2022 from 8.5 percent in 2021. Nevertheless, the quality of employment remains a concern given high informality and fewer average hours worked relative to pre-pandemic levels. The poverty rate is estimated to have declined to 12.6 percent in 2022, from 16.8 percent in 2021.

Inflation accelerated to an average of 10.3 percent in 2022, influenced primarily by the pass-through of higher global commodity prices to domestic fuel and food prices. To mitigate a possible decoupling of inflation expectations, the benchmark policy rate was adjusted by a total of 3 percentage points to 7 percent during 2022. In this context, the exchange rate remained relatively stable.

The fiscal account recorded a smaller surplus of 0.3 percent of GDP in 2022, relative to 0.9 percent of GDP in 2021. This was on account of increased spending on wages and salaries, consistent with the recently approved three-year compensation cycle. Higher spending also reflected transfers (0.25 percent of GDP) to vulnerable families to counter inflation pressures. As such, spending increased by 1.7 percentage points to 31.7 percent of GDP. Revenues remained robust at 31.9 percent of GDP. In this context,

the public debt to GDP ratio fell by 9.7 percentage points to 85 percent of GDP.

A current account deficit of 3.5 percent of GDP was recorded in 2022. Higher spending on imports, including on food and fuel, offset the impact of increased earnings from tourism. Although total visitor arrivals continued to recover in the year, they remain below 2019 levels by over 20 percent. In this context, Jamaica's international reserves fell by US\$317 million to US\$4,520 million (5.8 months of total imports).

## Outlook

Real GDP growth is expected to average only 1.6 percent between 2023-25, driven by continued recovery in the tourism sector and increased mining and quarrying activities. On the demand side, growth will be driven by consumption and investments. Monetary policy will remain supportive of growth, ensuring adequate liquidity in the financial system; minimizing pressures on the currency; and returning inflation to within its target 4-6 percent range. Poverty is projected to fall to around 8 percent by 2025 as incomes improve with the economic recovery.

The fiscal account is expected to record an average annual surplus of 0.8 percent of GDP over the medium term with stronger revenues underpinned by the continued economic recovery. Spending is expected to decline slightly as a result of savings on interest payments. As such, public debt is projected to remain on a downward trajectory, declining to 71 percent of GDP by 2025.

The external account balance is expected to improve amidst continued recovery in tourism strong remittance inflows and reduced spending on imports given lower commodity prices. As such, gross reserves will remain at healthy levels, averaging more than 5 months of imports.

There are significant downside risks to the economic outlook including a possible deeper-than-expected slowdown in the global economy, which could undermine the recovery in tourism and depress remittance inflows. Further tightening in financial market conditions could raise the cost of borrowing, curtail private investments and derail longer-term growth, climate change, and debt objectives. Worsening crime, social unrest, and potential natural disasters could also impair growth and poverty reduction efforts.

**TABLE 2 Jamaica / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-9.9	4.6	4.2	2.0	1.7	1.2
Private Consumption	-13.2	3.0	4.0	2.0	1.4	1.4
Government Consumption	11.7	2.1	16.8	2.1	2.3	2.1
Gross Fixed Capital Investment	-15.4	-4.1	-9.6	0.2	2.5	1.1
Exports, Goods and Services	-30.0	25.8	15.1	5.2	1.3	1.3
Imports, Goods and Services	-26.7	12.0	11.8	4.2	1.3	1.5
<b>Real GDP growth, at constant factor prices</b>	-9.9	4.6	4.2	2.0	1.7	1.2
Agriculture	-1.4	8.3	7.7	0.8	1.4	1.3
Industry	-5.7	2.4	-1.2	1.2	0.9	0.9
Services	-12.0	4.9	5.5	2.4	2.0	1.3
<b>Inflation (Consumer Price Index)</b>	5.7	5.9	10.3	6.1	5.0	5.0
<b>Current Account Balance (% of GDP)</b>	-0.4	0.7	-3.5	-3.1	-1.9	-1.1
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	1.9	1.8	1.6	1.7	1.8	1.9
<b>Fiscal Balance (% of GDP)<sup>a</sup></b>	-3.1	0.9	0.3	0.3	0.3	1.7
<b>Debt (% of GDP)<sup>a</sup></b>	110.5	94.7	85.0	76.0	74.0	71.0
<b>Primary Balance (% of GDP)<sup>a</sup></b>	3.5	6.8	5.8	5.5	5.1	5.9
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-23.8	9.8	6.2	3.7	2.9	1.5
<b>Energy related GHG emissions (% of total)</b>	75.9	77.8	79.0	79.7	80.2	80.5

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

Notes: e = estimate, f = forecast.

a/ Fiscal balances are reported in fiscal years (April 1st -March 31st).



# MEXICO

**Table 1** **2022**

Population, million	131.6
GDP, current US\$ billion	1414.2
GDP per capita, current US\$	10749.1
International poverty rate (\$2.15) <sup>a</sup>	3.1
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	9.9
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	32.5
Gini index <sup>a</sup>	45.4
School enrollment, primary (% gross) <sup>b</sup>	103.7
Life expectancy at birth, years <sup>b</sup>	70.1
Total GHG emissions (mtCO2e)	677.3

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

*Real GDP growth is expected to slow to 1.5 percent in 2023 due to continued policy tightening and external headwinds, converging to 2.0 percent by 2025. Mexico faces risks of more persistent inflation, higher-than-expected monetary tightening in the U.S., and supply chain disruptions. Monetary poverty is projected to decline slightly due to the slow recovery of labor earnings. Vulnerability because of unmet social needs affects over a fifth of Mexicans. Tackling structural constraints to economic growth and inclusion remains critical for medium-term progress.*

## Key conditions and challenges

As one of the most open economies in the world, Mexico's economic growth is fueled by a strong and diversified manufacturing base connected to Global Value Chains (GVC) integrated with the U.S. and a stable macroeconomic framework. These factors supported economic activity during the pandemic, despite global uncertainty and lack of economic stimulus.

Mexico has recovered its 2019 GDP and employment levels. However, potential output growth has declined in the last decade, reflecting weak productivity growth and low investment, hampered by limited access to finance, insecurity, informality, regulatory burdens, infrastructure bottlenecks, uncertain business environment, and inadequate provision of public services, with significant heterogeneity across sectors and regions. Facing these challenges is critical to exploiting nearshoring opportunities and adding value to Mexico's exports.

Progress toward poverty reduction has been limited and was reversed by the pandemic. The official multidimensional poverty rate decreased from 43.2 percent in 2016 to 41.9 percent in 2018 but rebounded to 43.9 percent in 2020. Southern rural areas display higher social deprivation, with Chiapas and Guerrero having the highest poverty rates in 2020 at 66.4 and 75.5 percent, respectively.

The economy continues to face significant and persistent inflation. Banco de Mexico

raised the policy rate by more than 600 basis points since early 2021 to anchor inflation expectations. The federal government has also reacted by reducing fuel taxes, increasing electricity subsidies, incentivizing grain production through price guarantees and fertilizer distribution, reducing tariffs and quotas for fertilizers, and freezing transportation costs.

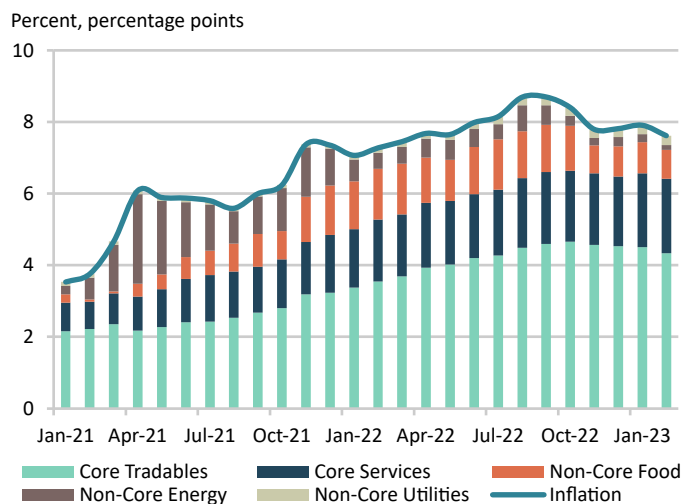
Mexico's overall fiscal deficit and debt are still above 2019 levels but have improved. Mexico needs revenue-enhancing reforms to preserve debt sustainability, particularly given existing expenditure commitments in pensions and spending pressures to increase access to quality public services and infrastructure.

## Recent developments

Real GDP grew by 3.1 percent in 2022. Manufacturing, transportation, wholesale, food, and services sectors drove the growth. Between 2021Q4 and 2022Q4, the economy added 1.7 million jobs, two-thirds of which were in the formal sector. Unemployment, underemployment, and female labor force participation rates have returned to pre-pandemic levels.

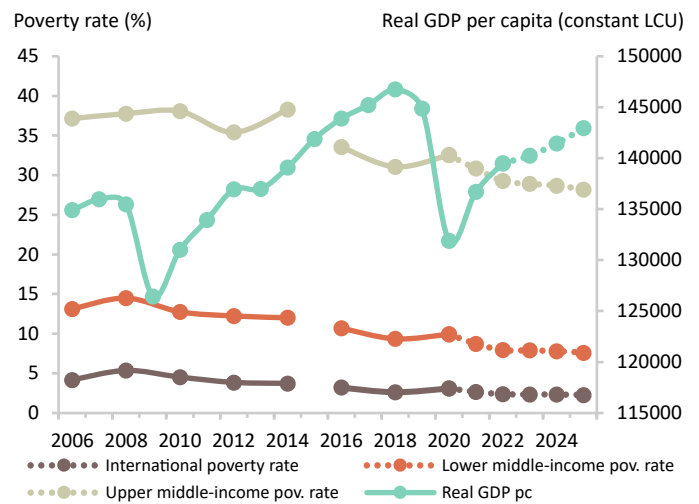
The current account deficit was 0.9 percent of GDP in 2022, covered by foreign direct investment. Import growth outpaced exports in 2022 (19.5 and 17.6 percent, respectively), showing dynamism due to a return to normalcy in supply chains. Supported by a stable fiscal situation and a solid external account, the Mexican peso appreciated to 18.4MXN/USD in mid-February 2023. In

**FIGURE 1 Mexico** / Inflation, and contributions to overall inflation



Source: INEGI.

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



Source: World Bank. Notes: see Table 2.

2022, remittances amounted to US\$58.5bn, while portfolio investment outflows moderated to US\$5.6bn in 2022 from US\$41.6bn in 2021. International reserves stood at US\$200bn in mid-February 2023.

Annual headline (core) inflation reached 7.6 (8.3) percent in February 2023, with the cost of the basic basket of goods increasing by 8.0 percent. Goods, especially food, and food-related services, explain the bulk of total inflation. The central bank raised the policy rate from 6.0 percent in February 2022 to 11.0 in February 2023.

The poverty rate is estimated at 29.3 percent in 2022 (using the \$6.85 in 2017 PPP poverty line), a decline compared to 2020. The labor market recovery was sustained, with 3 million new jobs added between 2019Q4 and 2022Q4. However, inflation counteracted employment gains. The share of the population with labor earnings below the food poverty line increased from 38.9 percent in 2019Q4 to 46.0 at the peak of the pandemic in 2020Q3 but rebounded to 38.5 percent in 2022Q4. Job quality trails the overall recovery as the share of jobs earning one minimum wage or less stood at 33 percent in 2022Q4 relative to 21 percent in 2019Q4. By the end of 2022, the share of informal employment reached 55.8 percent, in line with its pre-pandemic levels.

The overall fiscal deficit in 2022 was 4.4 percent of GDP. Public sector revenues benefited from oil prices. However, the oil windfall was offset by fiscal actions to contain inflation, increased debt service costs, and a boost in public investment. Mexico's credit rating remains investment grade.

## Outlook

The economy is expected to expand by 1.5 percent in 2023, 1.8 in 2024, and 2.0 percent in 2025, reaching pre-pandemic real GDP per capita levels by 2025. Strong exports support growth as the U.S. economy is projected to remain resilient. High inflation, moderate labor market recovery, high interest rates, and regulatory uncertainty are expected to result in subdued private consumption and investment. Inflation is projected to fall within the target band in 2024.

The 2023 public budget envisions stabilizing the public debt-to-GDP ratio to around 50 percent, supported by the tax administration reform, economic growth, and continued high oil prices. Public expenditure continues to be focused on investment projects and social programs such as pensions and social transfers. As the former are completed

and the debt service cost normalizes, the fiscal deficit is expected to decrease to 3.2 percent of GDP by 2024.

Monetary poverty (US\$6.85 in 2017 PPP) is projected to decline from 28.9 percent in 2023 to 28.7 and 28.2 percent in 2024 and 2025, respectively. Households have been struggling with high food and energy prices, which in the absence of further stimulus, could increase food insecurity. In 2022 Q4, 52.3 (34.0) percent of the rural (urban) population had labor incomes below the cost of the basic food basket.

Risks are tilted to the downside. Persistent inflation may further erode households' purchasing power, increase poverty, and keep interest rates high, affecting investment and consumption. Fiscal pressures and the lack of revenue-increasing measures might reduce productivity-enhancing spending in areas such as education and infrastructure. Supply chain disruptions may affect the manufacturing sector. Lower-than-expected economic growth or tighter-than-anticipated monetary policy in the U.S. could reduce exports, FDI, and remittances. Regulatory uncertainty around the energy sector may result in international disputes and lower private investment. Nearshoring represents an upside opportunity for Mexico in the current international environment.

**TABLE 2 Mexico / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-8.0	4.7	3.1	1.5	1.8	2.0
Private Consumption	-10.3	7.6	6.7	1.5	2.3	2.4
Government Consumption	-0.3	-0.6	0.5	0.3	-0.2	-0.2
Gross Fixed Capital Investment	-17.7	10.5	6.5	1.5	2.2	2.5
Exports, Goods and Services	-7.3	7.1	7.9	6.2	6.0	5.6
Imports, Goods and Services	-13.7	15.6	9.2	5.7	6.5	5.9
<b>Real GDP growth, at constant factor prices</b>	-7.8	4.6	2.9	1.5	1.8	2.0
Agriculture	0.7	2.5	2.8	2.2	1.8	1.6
Industry	-9.4	5.4	3.3	1.6	1.6	1.7
Services	-7.4	4.3	2.8	1.4	1.9	2.1
<b>Inflation (Consumer Price Index)</b>	3.4	5.7	7.9	6.2	3.9	3.5
<b>Current Account Balance (% of GDP)</b>	2.1	-0.6	-0.9	-1.4	-1.5	-1.6
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	-2.4	-2.6	-1.6	-1.8	-2.0	-2.1
<b>Fiscal Balance (% of GDP)</b>	-3.9	-3.9	-4.4	-4.1	-3.2	-3.2
<b>Revenues (% of GDP)</b>	22.8	23.1	23.2	23.0	22.5	22.2
<b>Debt (% of GDP)</b>	51.6	50.8	49.5	49.3	50.0	50.4
<b>Primary Balance (% of GDP)</b>	-1.0	-1.2	-1.6	-0.7	0.1	0.2
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	3.1	2.6	2.4	2.3	2.3	2.2
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	9.9	8.7	7.9	7.9	7.8	7.6
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	32.5	30.8	29.3	28.9	28.7	28.2
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-2.8	2.4	1.4	0.3	0.4	0.6
<b>Energy related GHG emissions (% of total)</b>	63.2	63.6	63.7	63.5	63.3	63.0

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 SEDLAC harmonization, using 2020-ENIGHNS. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.

b/ Projections using microsimulation methodology.

# NICARAGUA

## Key conditions and challenges

Table 1	2022
Population, million	6.9
GDP, current US\$ billion	15.4
GDP per capita, current US\$	2220.7
International poverty rate (\$2.15) <sup>a</sup>	3.9
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	14.4
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	42.1
Gini index <sup>a</sup>	46.2
School enrollment, primary (% gross) <sup>b</sup>	112.1
Life expectancy at birth, years <sup>b</sup>	71.8
Total GHG emissions (mtCO2e)	39.7

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

Nicaragua's economy expanded in 2022 supported by remittance-fueled private consumption, external demand, and higher prices of gold and agricultural exports. While partially offset by strong remittances, pandemic-associated negative welfare impacts lingered in 2022 as employment and wages remained below the pre-crisis levels. GDP growth is projected to moderate in the medium term amid fiscal tightening and deceleration in external demand and private investment, restraining poverty reduction efforts over the medium term.

Nicaragua's economic expansion prior 2018 was underpinned by market-oriented reforms, sound macroeconomic management (anchored in a crawling peg exchange rate regime and prudent fiscal policy), and a growing labor supply. Annual real GDP growth averaged 3.9 percent from 2000-2017, led by remittance-fueled consumption and foreign direct investment (FDI). Poverty (US\$3.65/day) fell from 29 to 12 percent between 2005 and 2017, driven by growth in rural areas. A small, open economy that depends on agriculture and light manufacturing, Nicaragua has not been able to further boost per capita incomes and growth as low human capital, large infrastructure gaps and the institutional, business, and social challenges undermine its long-term growth. Coupled with high vulnerability to external shocks and natural hazards, this makes Nicaragua one of the poorest countries in the region, despite opportunities.

The sociopolitical crisis of 2018, two major hurricanes in 2020, and the COVID-19 pandemic led to a protracted contraction during 2018-2020. Cumulative GDP losses from these shocks amounted to 8.7 percent, while poverty ratcheted up to 16 percent by end-2020.

Large-scale public investment (supported by government deposits), external financial assistance, and strong export demand helped Nicaragua recover from the

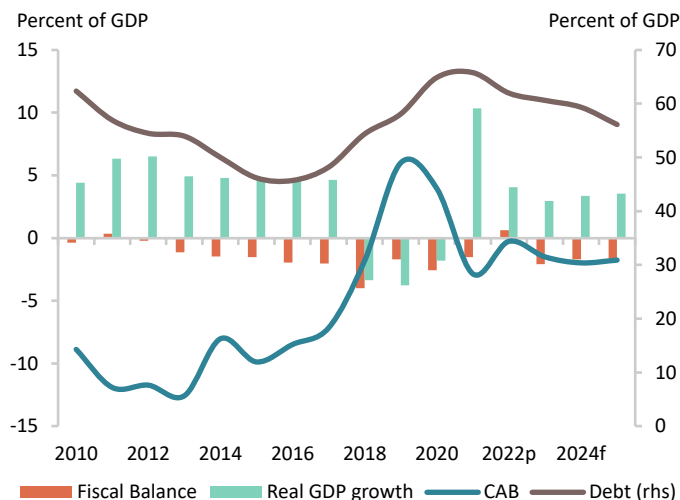
impacts of these multiple shocks. Real GDP rebounded by 10.3 percent in 2021, surpassing pre-2018 levels. Public debt increased steeply from 48.2 percent in 2019 to 65.8 percent in 2021. However, welfare impacts from the pandemic lingered as around 10 percent of formal employees in 2019 transitioned to an informal sector by end-2021. Lower employment and wages reduced family incomes of 28 percent of households.

## Recent developments

Despite global headwinds and impacts from hurricane Julia (2.5 percent of GDP), annual real GDP is estimated to have expanded 4 percent in 2022, driven by strong remittance-fueled private consumption and net exports. On the supply side, the expansion was broad-based, driven by services. Remittances expanded sharply (57.7 percent y-o-y) in 2022, reaching around 21.8 percent of GDP due to a spike in emigration. Further, credit growth was robust in 2022 as deposits surpassed the pre-crisis level (in Cordobas). As a result, and despite weak employment growth and high inflation, poverty (US\$3.65/day PPP) is estimated to have declined to 13.3 percent in 2022 from 14.2 percent in 2021.

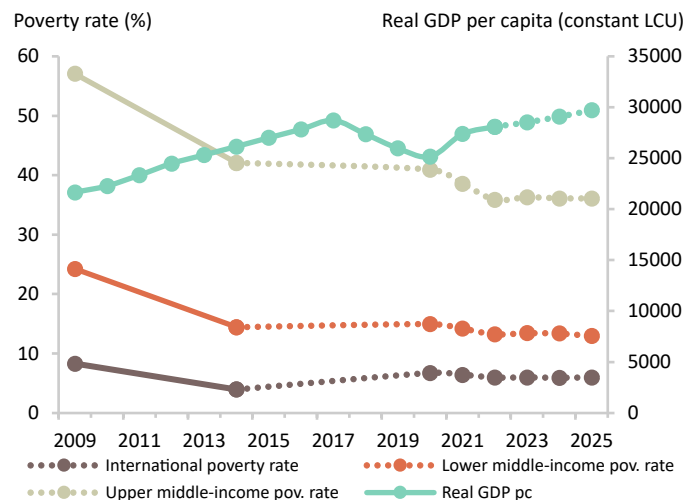
Average annual inflation accelerated to 10.5 percent in 2022 – the highest in the Central American region and more than double the average inflation over the past decade. Inflation was driven by strong domestic consumption and higher import prices amid pandemic-related

**FIGURE 1 Nicaragua** / Real GDP growth, fiscal balance, current account balance (CAB), and public debt



Sources: Central Bank of Nicaragua and World Bank.

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



Source: World Bank. Notes: see Table 2.

supply-chain disruptions and Russia's invasion of Ukraine. In response to inflationary pressures, the Central Bank gradually raised its reference repurchase agreement (repo) rate from 3.5 to 7 percent throughout 2022.

Given the high debt, projected onerous repayment burden in 2023-27, as well as limited access to concessional financing, the government has been tightening fiscal accounts through the deceleration of public consumption and gradual unwinding of pandemic and reconstruction projects. An estimated fiscal surplus of 0.6 percent of GDP is expected in 2022 despite expanded energy, fuel, and agricultural subsidies (about 1.2 percent of GDP). Higher revenues, particularly from income tax and VAT on imports, and multilateral loans (mainly from BCIE) financed spending.

The external position remained strong. The current account deficit is expected to narrow to 0.3 percent of GDP in 2022 as a rising imports bill was offset by strong merchandise exports, a gradual resumption in tourism, and strong remittances. FDI remained robust at 6.9 percent of GDP in the third quarter of 2022, in part destined for mining and energy projects,

while international reserves reached US\$ 4.5 billion in December 2022, comfortably covering 3.6 times the monetary base and 7 months of non-maquila imports.

## Outlook

Growth is projected to slow to 3 percent in 2023 amid fiscal consolidation, slowing external demand, and elevated inflation. Over the medium-term, real GDP growth is projected to rise modestly, driven by remittance-fueled consumption. Growth could be supported by trade and investment in the context of cooperation on China's Belt and Road Initiative and a free-trade agreement with China. Inflation is projected to fall gradually in the medium term in line with fiscal and monetary tightening and decelerating commodity prices. Remittances growth deceleration amid slower growth in remittance-sending countries and fiscal consolidation could restrain further reduction in poverty (\$3.65/day 2017 PPP), which is expected to remain around 13.4 percent in 2023-24.

The current account deficit is projected to widen slightly as the country's terms of trade weaken and imports grow in line with the domestic demand, supported by remittances. While FDI inflows could slow amid the country's complex political situation, they are expected to continue to finance the current account deficit.

Despite an anticipated fiscal consolidation, the fiscal deficit is expected to remain around 2.1 percent of GDP in 2023 amid government subsidies, narrowing thereafter. Fiscal consolidation will be supported by domestic revenue mobilization measures (streamlining VAT exemptions and strengthening tax compliance), reduction in current expenditures, and improving the targeting of subsidies. Financing needs will be met through domestic borrowing and semi-concessional external borrowing, which will increase the cost of debt. The debt burden is expected to decline to 56.1 percent of GDP by 2025.

Risks to the forecast include: (i) deterioration of the political context; ii) deterioration in the terms of trade; iii) faster than expected slowdown in advanced economies, and (iv) natural hazards.

**TABLE 2 Nicaragua / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-1.8	10.3	4.0	3.0	3.4	3.5
Private Consumption	-0.6	8.1	3.8	3.3	3.4	3.5
Government Consumption	1.8	4.4	2.3	1.0	1.1	1.1
Gross Fixed Capital Investment	10.4	33.9	5.0	3.8	4.1	4.7
Exports, Goods and Services	-8.9	18.0	3.8	2.0	2.9	3.3
Imports, Goods and Services	0.4	18.5	3.7	2.6	3.0	3.1
<b>Real GDP growth, at constant factor prices</b>	-1.8	10.3	4.0	3.0	3.4	3.5
Agriculture	0.1	6.9	2.1	2.0	2.3	2.4
Industry	-1.4	17.7	2.9	2.7	2.8	2.9
Services	-2.5	8.4	5.1	3.4	3.9	4.2
<b>Inflation (Consumer Price Index)</b>	3.7	4.9	10.5	7.2	5.1	4.7
<b>Current Account Balance (% of GDP)</b>	3.9	-2.9	-0.3	-1.5	-2.0	-1.8
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	5.6	8.6	7.9	7.0	6.5	6.6
<b>Fiscal Balance (% of GDP)<sup>a</sup></b>	-2.6	-1.5	0.6	-2.1	-1.7	-1.6
<b>Revenues (% of GDP)</b>	29.8	31.7	30.6	30.2	30.8	31.0
<b>Debt (% of GDP)<sup>b</sup></b>	64.9	65.8	62.0	60.6	59.4	56.1
<b>Primary Balance (% of GDP)<sup>a</sup></b>	-1.3	-0.3	1.8	-0.9	-0.6	-0.6
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>c,d</sup></b>	6.7	6.4	6.0	6.0	5.9	6.0
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>c,d</sup></b>	15.0	14.2	13.3	13.4	13.4	13.0
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>c,d</sup></b>	40.9	38.6	35.9	36.3	36.1	36.1
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	0.2	1.8	1.3	1.4	1.5	1.6
<b>Energy related GHG emissions (% of total)</b>	13.1	13.4	13.1	12.9	12.8	12.8

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 and Primary Balance correspond to the non-financial public sector.

b/ Debt is total public debt.

c/ Calculations based on SEDLAC harmonization, using 2014-EMNV. Actual data: 2014. Nowcast: 2015-2022. Forecasts are from 2023 to 2025.

d/ Projections using microsimulation methodology.



# PANAMA

**Table 1** **2022**

Population, million	4.4
GDP, current US\$ billion	73.8
GDP per capita, current US\$	16731.6
International poverty rate (\$2.15) <sup>a</sup>	1.1
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	4.3
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	12.9
Gini index <sup>a</sup>	50.9
School enrollment, primary (% gross) <sup>b</sup>	103.0
Life expectancy at birth, years <sup>b</sup>	76.7
Total GHG emissions (mtCO2e)	23.2

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 2021 strong growth rebound continued in 2022 (10.5 percent), supported by a recovery in wholesale and retail commerce, transport, storage and communications, and construction. However, government cash transfers remain critical to contain poverty as employment and labor earnings have not recovered to their pre-pandemic levels. Subsidies and tax cuts for fuel and food implemented in July 2022 in response to social unrest added \$300 million to expenditures in 2022, while delays in pension reform pose risks to the medium-term fiscal program.

## Key conditions and challenges

Panama's economic strength mainly comes from the services sector (led by wholesale and retail and transport, storage, and communications). Construction, manufacturing, and mining also played an important role, though since 2021 mining outpaced manufacturing, as a copper mine opened in 2019 and started producing close to its full capacity. The Panama Canal has continued to support these sectors. Over the past thirty years, the country excelled in job creation, leading to an outstanding decrease in poverty (from 48.2 percent in 1991 to 12.1 percent in 2019 at \$6.85 a day 2017 PPP). However, mega investments that fueled Panama's growth have declined. As a result, unemployment and informality increased between 2017 and 2019 and worsened during Covid-19. Despite a partial recovery in labor markets in 2021-2022, poverty reduction still depends on the government's emergency transfer program Nuevo Panama Solidario (NPPS).

Panama's high growth performance has been driven by capital and labor accumulation, rather than total factor productivity (TFP), which is key to attain a sustainable growth path. The country can promote its TFP by increasing the quality and level of education, innovative capacity of firms, inclusion, and the effectiveness of public sector institutions, among others.

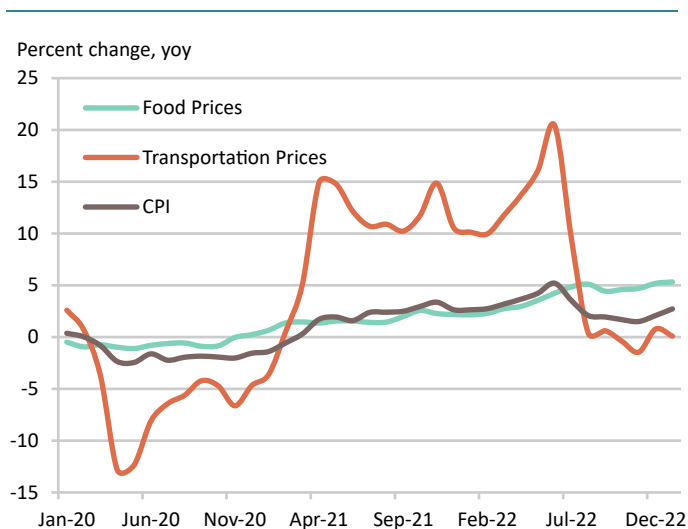
Authorities have implemented important reforms in Public Private Partnerships (PPP) and procurement. However, Panama is still on the grey list of the Financial Action Task Force (FATF) and the EU list of Non-cooperative Jurisdictions for Tax Transparency. Two reforms on the FATF action plan remain to be completed: ensuring that resident agents adequately verify and maintain current Beneficial Ownership information and taking measures to prevent the misuse of nominee shareholders and directors.

## Recent developments

Panama's strong rebound in 2021-2022 is supported by investment, private consumption, and services sector. During the first three quarters of 2022, services grew 10.9 percent compared to the first three quarters of 2021 and contributed 7.4 percentage points to real GDP growth, led by wholesale and retail (with 3 pp contribution to growth), transport, storage, and communications (2 pp). The industry grew 10.5 percent during the same period and contributed 2.9 pp to growth, led by construction (2 pp).

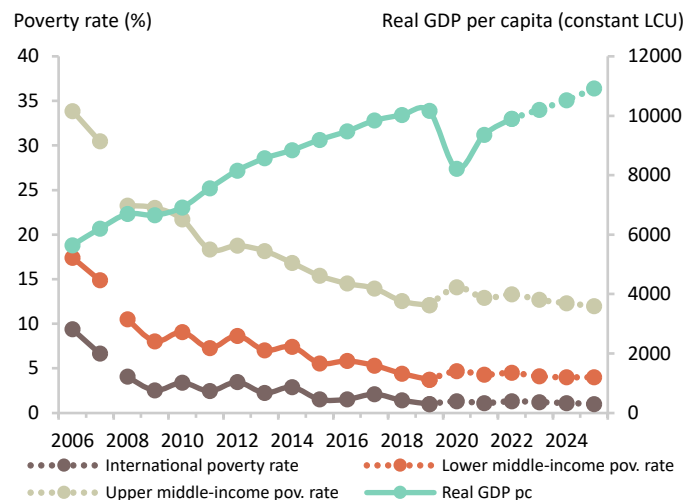
Inflation increased in 2022, led by high transport and food prices, which affected poor households the most, but was partially contained at 2.9 percent through subsidies and tax cuts (Figure 1). Moreover, employment and labor earnings did not recover enough to compensate for the phasing out of NPPS. Thus, it is estimated that poverty under US\$6.85 a day (2017 PPP)

**FIGURE 1 Panama / Total, food and transport inflation**



Source: INEC.

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



Source: World Bank. Notes: see Table 2.



increased by 0.4 percentage points, reaching 13.3 percent (Figure 2). The employment rate reached 62.3 percent and the unemployment rate decreased to 9.9 percent, but they are still behind 2019 levels (66.5 and 7.1 percent, respectively). Informality rates remained high, at 48.2 percent. Therefore, poverty levels are still highly dependent on NPPS: without the program, poverty would have reached 16 percent in 2022.

Strong growth in 2021 and 2022, gradual fiscal consolidation, and low borrowing costs led to a decline in the fiscal deficit and public debt to 3.9 and 61 percent of GDP in 2022, respectively. Revenues increased due to higher royalties and tax revenues from the mining sector and growing canal receipts. Government expenditures declined, despite the food and fuel subsidies, as a result of a decrease in current and capital expenditures.

The current account deficit increased from 2.2 percent of GDP in 2021 to 2.9 percent in 2022, driven by a decline in the merchandise balance and the sharp deterioration in terms of trade, although an increase in copper exports partially offset this shock. At the same time, FDI reached 4.1 percent of GDP in 2022, however, still below its pre-pandemic level of 5.6 percent in 2019.

## Outlook

Due to the expected slowdown in global economic growth, further tightening in the US monetary policy and a decrease in the prices of main commodity exports, growth is projected to slow to 5.7 percent in 2023 and reach 5.9 percent by 2025, when external conditions improve. Growth in the medium term will be supported by new investments, private consumption, and trade. Inflation is projected to increase in 2023 (3.3 percent) as fuel and food subsidies expire, before converging to 2 percent by 2025. As labor markets recover, and with NPPS reducing its base of beneficiaries but continuing to support vulnerable households, poverty rates should reach their pre-pandemic levels by 2025. The careful targeting of NPPS is key for both poverty reduction and spending efficiency.

The current account deficit is expected to widen to 3.5 percent of GDP in 2023 on the back of higher import prices, despite increased services exports, before stabilizing at 3.2 percent in the medium term as food and oil prices decrease. It is expected to be fully covered by net FDI inflows, forecast to reach 4.5 percent by 2025.

The fiscal deficit is expected to decline further, through tax administration reforms, higher canal revenues, and contained public sector wage bill and other current spending. In the medium term, Panama will likely require additional structural fiscal reforms to meet the targets set by the Social and Fiscal Responsibility Law (SFRL), including pension and tax reforms. The public debt and fiscal deficit are projected to decrease to 58.7 and 1.5 percent of GDP by 2025, respectively. Public debt cost and risks are relatively low: More than 80 percent of public debt has fixed interest rates and its average maturity is 13.7 years. Panama has good access to capital markets as a dollarized economy with a stable macroeconomic environment, investment grade, and low sovereign bond spread.

Economic risks could arise from: (i) the design of a needed pension reform to curb the increase in government transfers to cover the actuarial deficit of the Defined Benefit Subsystem; (ii) the timing for exiting the list of FATF and the EU, which could have adverse effects on investment flows and capital market access; (iii) sustained high food and commodity prices; (iv) rising interest rates; (v) climate change and natural disasters.

**TABLE 2 Panama / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-17.9	15.3	10.5	5.7	5.8	5.9
Private Consumption	-15.9	7.0	10.9	5.6	5.7	5.8
Government Consumption	16.2	9.8	6.3	4.0	1.2	1.8
Gross Fixed Capital Investment	-49.3	29.6	20.1	9.1	8.5	8.5
Exports, Goods and Services	-20.6	20.6	12.7	6.3	7.7	7.9
Imports, Goods and Services	-34.0	25.2	12.5	7.5	7.9	8.2
<b>Real GDP growth, at constant factor prices</b>	-17.9	15.8	10.5	5.7	5.8	5.9
Agriculture	3.4	2.9	2.9	2.5	2.0	2.0
Industry	-31.4	36.0	5.4	3.7	3.9	4.1
Services	-13.1	9.7	12.9	6.6	6.6	6.7
<b>Inflation (Consumer Price Index)</b>	-1.6	1.6	2.9	3.3	2.5	2.0
<b>Current Account Balance (% of GDP)</b>	2.0	-2.2	-2.9	-3.5	-3.2	-3.2
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	1.2	2.6	4.1	4.3	4.4	4.5
<b>Fiscal Balance (% of GDP)</b>	-10.2	-6.7	-3.9	-3.0	-2.0	-1.5
<b>Revenues (% of GDP)</b>	18.3	18.1	18.1	18.7	19.0	19.1
<b>Debt (% of GDP)</b>	68.5	63.7	61.7	60.6	59.6	58.7
<b>Primary Balance (% of GDP)</b>	-7.6	-4.2	-2.2	-0.7	0.0	0.4
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	1.3	1.1	1.3	1.2	1.1	1.0
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	4.7	4.3	4.5	4.1	4.0	4.0
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	14.1	12.9	13.3	12.7	12.3	12.0
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-12.6	-0.1	4.8	3.3	1.5	2.6
<b>Energy related GHG emissions (% of total)</b>	46.4	44.2	46.3	47.4	47.3	47.7

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 SEDLAC harmonization, using 2019-EH. Actual data: 2019 and 2021. Nowcast: 2020 and 2022. Forecasts are from 2023 to 2025.

b/ Projections using microsimulation methodology.

# PARAGUAY

**Table 1** **2022**

Population, million	6.7
GDP, current US\$ billion	40.7
GDP per capita, current US\$	6038.1
International poverty rate (\$2.15) <sup>a</sup>	0.7
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	4.1
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	20.8
Gini index <sup>a</sup>	42.9
School enrollment, primary (% gross) <sup>b</sup>	89.7
Life expectancy at birth, years <sup>b</sup>	73.2
Total GHG emissions (mtCO2e)	97.5

Source: WDI, Macro Poverty Outlook, and official data.  
a/ Most recent value (2021), 2017 PPPs.  
b/ WDI for School enrollment (2015); Life expectancy (2020).

*A severe drought depressed growth in 2022. This, combined with high inflation, is estimated to have increased extreme poverty. As weather conditions normalize, the economy is expected to rebound by 4.8 percent in 2023. The magnitude of the recovery is smaller than previously expected given muted fixed investment growth. Improving management of natural assets, tackling institutional weaknesses, and closing the infrastructure gap can help Paraguay achieve faster, more sustainable growth.*

## Key conditions and challenges

The last four years have been exceptionally challenging for the Paraguayan economy. In 2020, the COVID-19 pandemic hit just as Paraguay was emerging from a drought-induced recession. The economy rebounded strongly in 2021 but a severe drought dampened growth again in 2022. Average annual growth thus slowed from 4.4 percent over 2003-2018 to 0.7 percent over 2019-2022. Given this context, the poverty rate, as measured by the international poverty line of US\$6.85 per person per day, 2017 PPP, has stagnated at 19 percent in 2022.

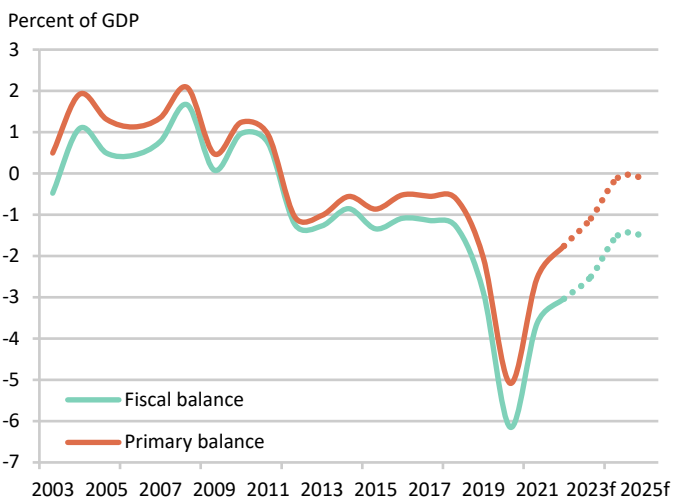
High dependence on natural resources makes Paraguay's economy particularly vulnerable to weather-related shocks and climate change. While structural transformation has occurred, agriculture, livestock, agroindustry, electricity, and water still account for a third of output and three-quarters of all direct exports. This resource-intensive growth model, coupled with weak enforcement of forest protection laws, have led to high rates of deforestation, exacerbating the impact of climate shocks. These tend to hit poor communities the hardest and have become another cause of rising inequality. Sustaining faster, more resilient, and inclusive growth requires a more strategic approach to economic diversification. While Paraguay has successfully lured large private investments in resource-rich sectors,

attracting more private capital toward non-agricultural manufacturing and services sectors could create more climate-resilient jobs and reduce pressure on natural assets. To do so, the government needs to invest more in human capital and public infrastructure while maintaining macro-economic stability. Planned reforms to make public spending more efficient are important, but Paraguay also needs to raise additional domestic revenue to finance its large investment needs. Progress on such reforms could accelerate once the new administration takes office in August 2023.

## Recent developments

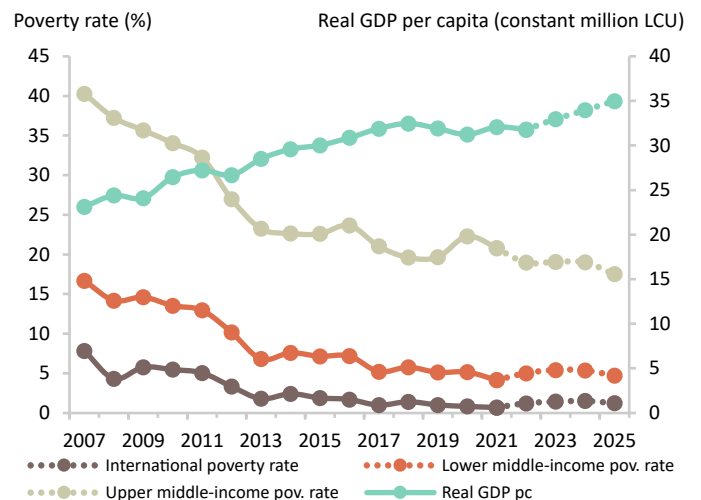
Real GDP contracted by 0.6 percent year-on-year (y-o-y) in the first nine months of 2022 as the drought-induced a slump in agricultural activity. The economy began to rebound in Q3 as weather conditions normalized, but momentum waned. In December, the economic activity indicator contracted by 4.5 percent on a quarter-on-quarter, seasonally adjusted, and annualized basis, or by 15.4 percent excluding agriculture and hydropower. The business conditions indicator contracted by 3.8 percent y-o-y. Nonetheless, unemployment fell to 5.7 percent y-o-y in Q4 2022 from 6.8 percent a year prior, the lowest level since Q4 2019, although it remains a challenge for women in rural areas, who are twice as likely to be unemployed or underemployed compared to men. Informal employment remains high at 63.4 percent.

**FIGURE 1 Paraguay / Fiscal and primary balance**



Sources: Ministry of Finance of Paraguay and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

The merchandise trade deficit widened to US\$1.3 billion or 3.2 percent of GDP at end-2022 from a surplus of 2.5 percent of GDP at end-2021. This was primarily driven by 16.1 percent y-o-y nominal growth in total imports, driven by higher fuel prices. A bumper corn harvest and favorable agriculture prices ameliorated the impact of the smaller soybean harvest, but total exports still declined 1.6 percent y-o-y. The exchange rate vis-à-vis the US dollar depreciated by 6.2 percent in nominal terms in 2022. Reserves stood at US\$9.3 billion in mid-February 2023, equivalent to 8 months of goods and services imports.

Inflation continued to ease from its peak of 11.8 percent y-o-y in April 2022 to 6.9 percent in February 2023 as global food and fuel prices moderated. However, inflation remained well above the target range of 2-6 percent, reflecting still-high fuel prices relative to before the war in Ukraine. Core inflation also remained high at 7.2 percent y-o-y. The Central Bank maintained the policy rate at 8.5 percent for the fifth consecutive month in February.

The fiscal deficit is estimated to have met the government target of 3 percent of GDP in 2022. Despite reductions in fuel excise and value-added taxes for certain groups, total revenues grew 0.9 percent y-o-y in real

terms. This was mainly driven by personal and corporate income taxes, reflecting robust profits in 2022 and the effects of the 2019 tax reform. Real expenditures fell by 3.5 percent y-o-y, driven by lower material expenses. Public debt is estimated to have increased to 36.9 percent of GDP from 34.1 percent in 2021.

At 19 percent, poverty returned to pre-pandemic levels but the drought, high inflation, and lower pandemic-related transfers led extreme poverty to increase to 5.0 percent in 2022 from 4.1 percent in 2021. Inequality is estimated to have also increased to 44.7 Gini points.

## Outlook

Real GDP is forecast to grow by 4.8 percent y-o-y in 2023. The soybean harvest is expected to normalize, boosting exports and private consumption. Fixed investment growth, however, is forecast to be more muted than previously expected, reflecting considerable monetary and fiscal tightening, and slower progress on large private investments such as a pulp mill and a bio-fuels plant. These projects are nonetheless expected to advance significantly in

2024-2025 as they near their targeted operational dates, keeping medium-term growth robust. Poverty is expected to remain at 19 percent in 2023-2024, falling to 17.5 percent in 2025.

The current account is expected to return to a small surplus in 2023 as growth in exports outpaces that of imports. This is expected to revert to a small deficit in 2024-2025 as imports of machinery and capital goods increase, in line with progress on the above-mentioned investments.

Average inflation is projected at 5.3 percent in 2023 and is expected to decline toward the midpoint of the target range in 2024-2025, assuming continued easing in global fuel and food prices.

Fiscal consolidation is expected to continue toward the legal target of 1.5 percent of GDP in 2024. The government intends to meet the target primarily by reverting public investment as a share of GDP back towards historical levels of 2 percent, as well as by containing the growth of personnel and material expenditure. The debt ratio is expected to fall and stabilize at around 35-36 percent.

A faster-than-expected pace of US monetary tightening, lingering inflation, and a weaker global economy are the key risks to the medium-term outlook.

**TABLE 2** Paraguay / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-0.8	4.0	-0.3	4.8	4.3	4.3
Private Consumption	-3.6	6.1	2.2	3.0	3.8	3.8
Government Consumption	5.1	2.6	-3.7	2.6	-3.1	2.1
Gross Fixed Capital Investment	5.3	18.2	-0.1	0.7	6.8	7.0
Exports, Goods and Services	-9.0	2.1	-4.5	8.8	6.5	6.5
Imports, Goods and Services	-15.2	21.8	5.2	1.0	4.0	6.0
<b>Real GDP growth, at constant factor prices</b>	-0.5	3.6	-0.1	4.8	4.3	4.3
Agriculture	7.4	-11.6	-13.0	20.0	6.0	6.0
Industry	0.7	5.0	1.0	2.2	3.0	3.0
Services	-3.1	6.5	1.8	3.9	4.7	4.8
<b>Inflation (Consumer Price Index)</b>	1.8	4.8	9.8	5.3	4.0	4.0
<b>Current Account Balance (% of GDP)</b>	2.7	0.7	-6.1	0.1	-0.3	-0.7
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	0.3	0.3	0.8	1.0	1.3	1.3
<b>Fiscal Balance (% of GDP)</b>	-6.1	-3.6	-3.0	-2.5	-1.5	-1.5
<b>Revenues (% of GDP)</b>	13.5	13.7	14.5	14.3	14.4	14.4
<b>Debt (% of GDP)</b>	34.5	34.1	36.9	36.4	35.9	35.1
<b>Primary Balance (% of GDP)</b>	-5.1	-2.5	-1.8	-1.1	-0.1	-0.1
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	0.8	0.7	1.2	1.4	1.5	1.2
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	5.2	4.1	5.0	5.4	5.4	4.7
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	22.3	20.8	19.0	19.1	19.0	17.5
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	0.7	1.1	-0.8	0.8	1.8	1.8
<b>Energy related GHG emissions (% of total)</b>	8.5	9.5	9.7	9.7	10.0	10.4

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 SEDLAC harmonization, using 2021-EPH. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.

b/ Projections using microsimulation methodology.

# PERU

**Table 1**

	2022
Population, million	34.0
GDP, current US\$ billion	246.1
GDP per capita, current US\$	7227.1
International poverty rate (\$2.15) <sup>a</sup>	2.9
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	10.2
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	33.7
Gini index <sup>a</sup>	40.2
School enrollment, primary (% gross) <sup>b</sup>	121.9
Life expectancy at birth, years <sup>b</sup>	73.7
Total GHG emissions (mtCO2e)	183.8

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

*Peru's economy is expected to grow close to the pre-pandemic pace in 2023-25, supported by higher exports and a gradual recovery of business confidence. However, a slow recovery in quality employment and uncertainty around the policy agenda would limit the momentum of domestic demand. Poverty is projected to remain above pre-pandemic levels, hampered by lower employment quality. Overcoming structural challenges related to low-productivity jobs and low-quality public services is critical to boosting long-term growth and poverty reduction.*

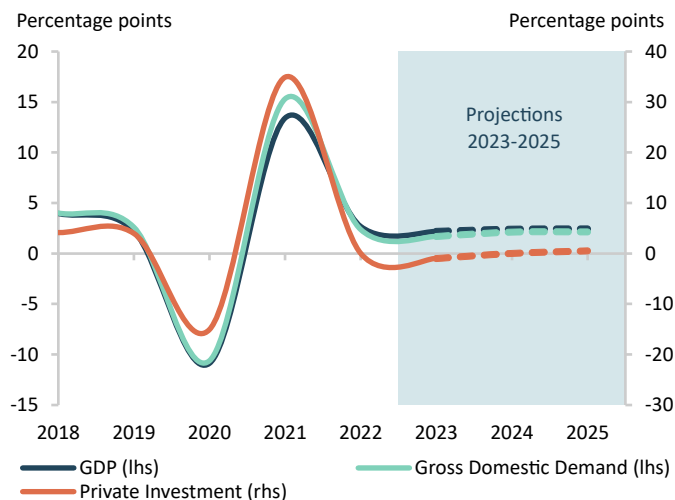
## Key conditions and challenges

The macroeconomic environment remains stable with low public debt, ample international reserves, and a credible central bank. The financial system is well-capitalized and recent stress testing indicates it is well-placed to endure liquidity shocks. Yet, structural conditions related to persistent informality, limited economic diversification, and weak state capacity limits economic growth, also attenuating the pace of poverty and inequality reduction. Efforts to reduce the size of the informal sector, which employs a sizable portion of the population in low-productivity jobs, have been limited. Currently, 31.8 percent of the population live in households with income below the poverty line (US\$ 6.85 per capita per day), but informal jobs and lack of adequate social protection leave another 37.7 percent vulnerable and at risk of falling below such line. Furthermore, inadequate government services, particularly in education, health, and water, hamper progress in reducing poverty and inequality. Better quality of education and health services, improved access to economic opportunities and financial services, stronger governance, a sound business environment, and political stability will be critical for higher and inclusive growth.

## Recent developments

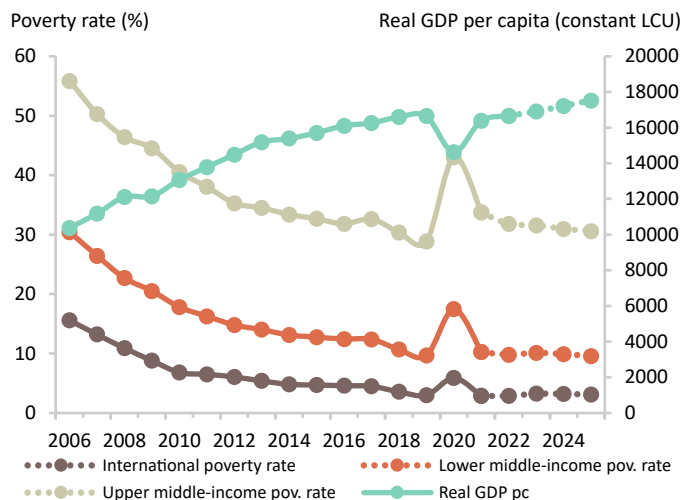
After a solid rebound from the devastating effects of the Covid-19 pandemic, Peru entered into a political crisis. GDP grew 2.7 percent in 2022, driven by private consumption and exports. Consumption growth was supported by government transfers and withdrawals of savings from private pension funds. Exports were boosted by fewer sanitary restrictions and the start of operations of the Quellaveco mining project. Further expansion of output was held back by social unrest that led to a temporary halt in activities in some mines. Although the overall employment rate has recovered after the pandemic, the formal labor market registered little dynamism. Informal employment reached 76 percent; 3.3 percentage points higher than in 2019. Higher informality and a higher concentration of workers in micro and small firms are negatively linked to the quality of employment and salaries. The fiscal deficit declined to 1.6 percent of GDP in 2022, well below the 3.7 percent fiscal rule ceiling for the year, driven by a record tax collection of 17.2 percent of GDP and a decline in current spending. Higher corporate profits in the context of elevated mineral prices favored tax collection. Current spending decline was due to the expiration of Covid-19-related support measures. Public sector's gross debt declined to 34 percent of GDP, among the lowest in Latin America. Inflation remained elevated, averaging 7.9 percent in 2022, mainly due to persistent

**FIGURE 1 Peru / Real GDP growth, domestic demand and private investment**



Source: MFMOD World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.



external and domestic factors. High international food and energy prices, shortages of inputs, and localized droughts combined with temporary breakdowns of distribution chains (due to social unrest) to increase the costs of local goods and services. The Central Bank pursued strong monetary tightening, raising its benchmark interest rate to 7.75 percent by January 2023, the highest level in more than two decades. It pushed the real rate above its neutral level to moderate demand and inflation expectations.

The poverty headcount in 2022 remained about 3 percentage points higher than pre-pandemic levels (\$6.85 poverty line), despite cash transfers (Bono Alimentario) to mitigate its impact. Higher inflation and a stagnant labor market affected also the vulnerable and the middle class. About 700 thousand Peruvians fell from middle-income to vulnerable and a further 700 thousand moved from vulnerable to poverty.

The current account deficit stood at 4.3 percent of GDP in 2022, driven by outflows associated with higher corporate profits. Long-term capital inflows financed the deficit and partially compensated for outflows of short-term capital. International reserves fell but remained elevated, ending the year at 29 percent of GDP. Although

the exchange rate exhibited some volatility, the local currency appreciated 5 percent in the year.

## Outlook

GDP growth is expected to slow to around 2.4 percent in 2023, below the pre-pandemic average, as political uncertainty and stagnant real wages weigh on domestic demand. This will be partially compensated for by the surge in exports arising from the full operation of the Quellaveco mining project. Growth is expected to rebound in subsequent years, assuming political tensions subside, business prospects become more favorable, and the implementation of major mining projects resumes. Still, economic growth would remain below three percent only allowing for a slow recovery of labor income, and a delayed recovery in female employment and salaries. In this context, poverty is projected to fall slowly to 31 percent in 2024 and would remain above pre-pandemic levels through 2025.

The fiscal deficit is projected to remain below two percent in 2023-25, complying with fiscal rules. The public deficit is only expected to widen this year, due to lower

regularizations of tax payments. In subsequent years, under a benign forecast for metal prices, revenues would remain relatively high, facilitating convergence to the fiscal deficit target of 1 percent of GDP by 2026. Public debt is expected to remain low and stable in the next few years.

The current account deficit will gradually moderate in the coming years, mainly associated with an increasing surplus in the trade balance. Higher exports in the context of growing demand from main trading partners, especially China, and lower shipping costs would be conducive to that result. The deficit would continue to be financed by long-term capital inflows.

Annual inflation is projected to decline in 2023, with a faster pace in the second half of the year, and is expected to reach the upper limit of the target range (1-3 percent) by end of 2023.

Peru faces significant domestic and external risks. Domestic risks include continued social unrest, which could undermine exports and private investment. A slower-than-projected slow-down in inflation would weigh on domestic demand. External risks include a faster than projected slowdown in the global economy, declining commodity prices, higher food, and energy prices, and increased risks from climate change.

**TABLE 2 Peru / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-10.9	13.4	2.7	2.4	2.8	2.8
Private Consumption	-9.9	12.4	2.9	2.4	2.4	2.5
Government Consumption	9.1	4.7	-1.5	3.6	4.1	3.2
Gross Fixed Capital Investment	-16.0	33.0	3.2	-0.2	1.7	2.1
Exports, Goods and Services	-16.4	19.2	5.2	5.0	4.0	4.0
Imports, Goods and Services	-15.4	26.3	3.9	3.5	3.0	3.0
<b>Real GDP growth, at constant factor prices</b>	-10.8	13.1	2.7	2.4	2.8	2.8
Agriculture	1.0	5.3	2.0	1.9	2.1	2.1
Industry	-13.0	17.1	2.0	2.1	2.1	2.1
Services	-10.7	11.6	3.2	2.6	3.3	3.3
<b>Inflation (Consumer Price Index)</b>	1.8	4.0	7.9	4.9	2.6	2.1
<b>Current Account Balance (% of GDP)</b>	1.2	-2.3	-4.3	-3.2	-2.6	-2.1
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	-0.4	2.5	4.4	3.8	4.2	4.2
<b>Fiscal Balance (% of GDP)</b>	-8.9	-2.5	-1.6	-1.9	-1.7	-1.4
<b>Revenues (% of GDP)</b>	17.8	21.0	22.2	21.7	21.6	21.5
<b>Debt (% of GDP)</b>	34.6	35.9	34.0	33.5	33.5	33.2
<b>Primary Balance (% of GDP)</b>	-7.3	-1.0	0.2	-0.1	-0.3	-0.1
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	5.9	2.9	2.9	3.2	3.2	3.1
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	17.5	10.2	9.8	10.1	9.9	9.6
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	43.0	33.7	31.8	31.6	31.0	30.6
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-4.9	0.7	0.7	0.5	0.4	0.4
<b>Energy related GHG emissions (% of total)</b>	25.4	25.6	26.0	26.2	26.3	26.5

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 SEDLAC harmonization, using 2021-ENAH0. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.

b/ Projections using microsimulation methodology.



# SAINT LUCIA

## Key conditions and challenges

**Table 1** **2022**

Population, million	0.2
GDP, current US\$ billion	2.1
GDP per capita, current US\$	11439.1
International poverty rate (\$2.15) <sup>a</sup>	5.1
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	11.7
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	25.3
Gini index <sup>a</sup>	51.2
School enrollment, primary (% gross) <sup>b</sup>	101.1
Life expectancy at birth, years <sup>b</sup>	73.4
Total GHG emissions (mtCO2e)	0.6

Source: WDI, Macro Poverty Outlook, and official data.  
 a/ Most recent value (2016), 2017 PPPs.  
 b/ Most recent WDI value (2020).

*Saint Lucia's economic growth accelerated further in 2022, due to a strong rebound in the tourism sector. However, inflation also picked up due to higher import prices, likely slowing gains in poverty reduction and raising costs of critical investment projects. Given its high public debt and large financing needs, the government will need to actively implement a fiscal consolidation that turns fiscal policy more inclusive and efficient while advancing on critical growth-enhancing reforms.*

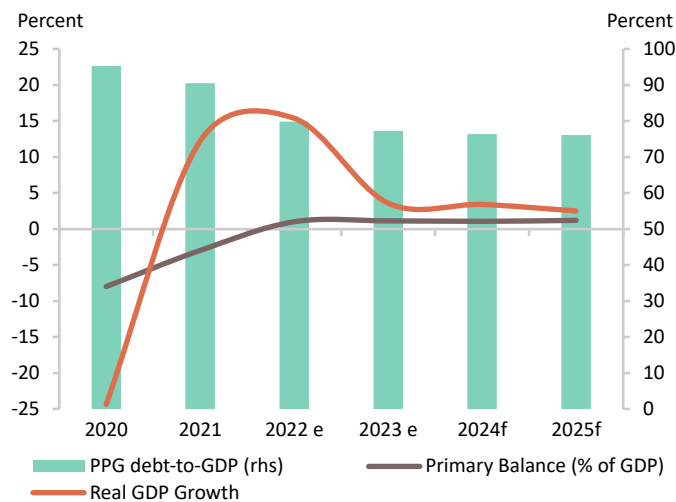
With a population of around 180,000, Saint Lucia is a small open island economy, highly dependent on tourism. Frequent natural disasters and the effects of climate change cause significant socio-economic losses. Prior to the pandemic, economic growth had been volatile and relatively low, averaging 1.5 percent between 2010-2019. About 1 in 4 Saint Lucians were poor in 2019 (by international poverty line; see Table 2). The pandemic crisis and the subsequent surge in food and fuel prices made the situation worse, particularly for the poor and vulnerable groups, which include female-headed households with small children, the elderly, and people living in hazard-prone communities. Though liquidity in the banking sector remained sizable, the buildup of non-performing loans and the gaps in AML/CFT compliance caused concerns and impeded credit intermediation. The pegged exchange rate under the Eastern Caribbean Currency Union helped maintain low inflation before the pandemic and anchored price stability for a small open economy like Saint Lucia. Pandemic-related spending, low revenues, and investment projects to support growth led to a rapid rise in public debt in 2020. High debt burdens limit the government's capacity to provide public services and finance key development projects. The government has committed to implementing

several revenue enhancement measures, but additional reforms should be explored to reduce inefficiencies in the tax incentive regime, especially in the tourism sector. Given limited fiscal resources, it will be critical to prioritize and efficiently implement key investment projects.

## Recent developments

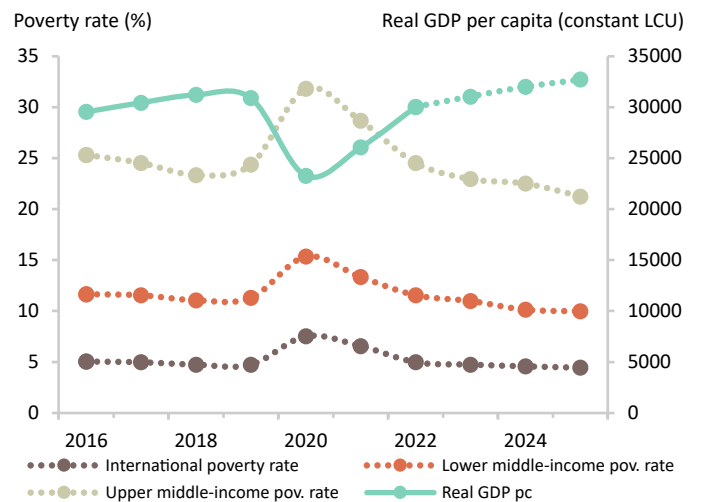
Economic growth accelerated in 2022 and brought the economy close to its 2019 level, driven by a buoyant tourism sector. Stayover tourism increased by 79 percent from 2021 to 2022 but is still 16 percent below the 2019 level. The agricultural sector recovered from the impacts of Hurricane Elsa in 2021 but remained constrained by the logistic fallout from banana exports. The pick-up in private sector activities partially offset the slowdown in public construction. The official unemployment rate fell from a record high of 24.1 percent in 2020 (Q3) and returned to pre-pandemic levels of 16.0 and 17.5 percent in Q1 and Q2 of 2022 respectively. Nevertheless, the recovery has been uneven; data from the LAC High-Frequency Phone Survey collected at the end of 2021 showed that women who lost their pre-pandemic job found it harder than men to return to work and that informality had increased. The current account deficit continued declining fast between 2020 and 2022, as recovery in tourism exports outpaced an increase in demand for tourism-related imports and higher costs of imports from the global record-high inflation and continued

**FIGURE 1 Saint Lucia / Key macroeconomic variables**



Source: World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

disruptions to the supply chains. Remittances in 2022 are estimated to have dropped from the peak level in 2020-2021 but remained more elevated than the pre-pandemic level. Foreign direct investment inflows are estimated to have exceeded the 2019 level in 2022, owing to the increased investment in tourism-related sectors. Improved rollover of government securities, new issuance, and financing from multilateral and bilateral development partners are expected to meet the remaining financing needs. The total amount of international reserves lowered marginally in 2022 and remained sufficient at 3.9 months of imports.

Inflation further accelerated to an estimated 6.7 percent in 2022, owing to the economic recovery and increased import prices. High inflation has put pressure on living costs, especially for the most vulnerable, with negative impacts on food security. The Caribbean COVID-19 Food Security & Livelihoods Impact Survey shows a worsening in food insecurity indicators from February 2022 to August 2022.

The primary balance is estimated to have turned into a surplus in 2022, for the first time since 2019. The improvement was mainly driven by the recovery in tax revenue from higher commodity prices and increased economic activities. Spending reverted to the pre-pandemic level at around 26 percent of GDP the retroactive public wage payment of EC\$23 million (0.9 percent of GDP), thanks to the high nominal GDP

growth, the rolling back of fiscal stimulus measures, and a slowdown of public infrastructure projects. The estimated primary surplus and the significant increase in nominal GDP lowered the public debt-to-GDP ratio significantly in 2022 to an estimated 79.9 percent of GDP. Domestic payables declined substantially and public sector gross financing needs declined to around 22 percent of GDP (down from 33 percent in 2020), which was financed by the recovered market demand for Saint Lucia sovereign securities and bilateral and multilateral financing.

## Outlook

Real output growth is projected to slow down gradually over the medium term, compounded by a slowdown in global growth and the tightening in global financial conditions, though the resumption of the airport construction and the commencement of several major hotel construction projects will support growth. Agriculture is also expected to expand due to the government's efforts to diversify products, introduce technology and provide training. Inflationary pressures are expected to be eased over the medium term.

The primary fiscal surplus is expected to average 1.4 percent of GDP over the medium term, as the government implements

tax enhancement measures and improves tax administration while consolidating public investment projects. The interest payment is projected to decline but remain above 3 percent of GDP over the medium term. The overall deficit averaging 2 percent of GDP will be financed by primarily a combination of multilateral and bilateral support, as well as the government's new issuance of bonds and bills. The government's fiscal consolidation plan, along with the reforms in Public Finance Management and public procurement to strengthen public resources management, will anchor the market demand for Saint Lucia's securities. Public debt will continue to decline, but at a slower pace, as the nominal GDP growth reverts to normal.

Risks are tilted to the downside and include delayed implementation of fiscal consolidation measures; deeper-than-baseline economic deceleration in the main tourism source countries; tightening financial conditions; and natural disasters. The materialization of downside risks would hamper economic growth and poverty reduction, further constraining the government's ability to finance social programs and needed investments in physical and human capital accumulation. Lingering socio-economic impacts from the pandemic, compounded by recent increases in living costs, pre-existing vulnerabilities, and heightened uncertainties call for continued efforts to improve safety nets and the economic resilience of the population.

**TABLE 2 Saint Lucia / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices<sup>a</sup></b>	-24.4	12.2	15.4	3.6	3.4	2.5
<b>Real GDP growth, at constant factor prices<sup>a</sup></b>	-24.4	12.2	15.1	3.6	3.4	2.5
Agriculture	-13.1	-0.5	3.1	3.3	4.2	4.9
Industry	-10.2	11.1	5.6	2.1	3.2	3.5
Services	-26.4	12.7	16.9	3.8	3.4	2.3
<b>Inflation (Consumer Price Index)</b>	-1.8	2.4	6.7	3.0	2.0	1.5
<b>Current Account Balance (% of GDP)</b>	-15.3	-7.8	-4.6	-2.0	-0.7	1.4
<b>Fiscal Balance (% of GDP)<sup>b</sup></b>	-12.1	-6.8	-2.2	-1.8	-1.7	-1.6
<b>Revenues (% of GDP)</b>	22.4	24.3	24.4	24.5	23.9	23.3
<b>Debt (% of GDP)<sup>b</sup></b>	95.3	90.6	79.9	77.3	76.4	76.1
<b>Primary Balance (% of GDP)<sup>b</sup></b>	-8.0	-3.0	1.0	1.4	1.4	1.5
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>c,d</sup></b>	7.5	6.6	5.0	4.7	4.6	4.4
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>c,d</sup></b>	15.3	13.3	11.6	11.0	10.1	10.0
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>c,d</sup></b>	31.8	28.7	24.5	23.0	22.5	21.2
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-28.5	12.8	7.3	4.9	1.0	1.0
<b>Energy related GHG emissions (% of total)</b>	77.0	75.6	74.5	73.8	73.5	73.1

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

Notes: e = estimate, f = forecast.

a/ Growth projections for 2021-23 remain sensitive to uncertainties surrounding the timing of the vaccine roll-out and the recovery in tourism.

b/ Fiscal balances are reported in fiscal years (April 1st -March 31st).

c/ Calculations based on SEDLAC harmonization, using 2016-SLC-HBS. Actual data: 2016. Nowcast: 2017-2022. Forecasts are from 2023 to 2025.

d/ Projection using neutral distribution (2016) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

# ST. VINCENT AND THE GRENADINES

## Key conditions and challenges

**Table 1** 2022

Population, million	0.1
GDP, current US\$ billion	0.9
GDP per capita, current US\$	8557.1
School enrollment, primary (% gross) <sup>a</sup>	112.8
Life expectancy at birth, years <sup>a</sup>	72.1
Total GHG emissions (mtCO2e)	0.3

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

*Growth resumed in 2022 following COVID-19 and volcanic disruptions in 2020 and 2021. Tourism is performing well. Still, poverty is expected to have remained above its pre-pandemic level. After several years of primary surpluses, recent shocks have exerted pressure on public finances. Ambitious public investment plans will pose fiscal challenges. Natural disasters, and high food/fuel prices pose additional risks. The risk of debt distress remains high.*

St. Vincent and the Grenadines (SVG) is a small island developing state particularly vulnerable to climate change, external economic shocks, and natural disasters. Prior to the pandemic, SVG was upgrading essential infrastructure to lay the foundation for stronger growth and economic diversification, including the completion of a new international airport, modernization of the seaport, and construction of a new hospital. To ensure sustainability of these essential investments, fiscal consolidation had commenced, and primary fiscal surpluses had been achieved from 2016 through 2019. However, the COVID-19 shock and the volcanic eruption disrupted this fiscal reform agenda, and deficits and public debt have increased. The challenge will be to reduce fiscal deficits by winding down exceptional COVID-19 and volcano recovery spending, while directing limited fiscal resources toward high priority public investment projects.

The volcanic eruption, which displaced about 20 percent of the population, compounded the impact of the COVID-19 shock. Heavy ashfall, critical utility interruptions, increased food insecurity, and subsequent flooding and mudslides point to a significant impact on poverty and welfare measures, though difficult to quantify in the absence of recent data. Based on the latest available data from 2008, 30.2 percent of the population was poor, using the

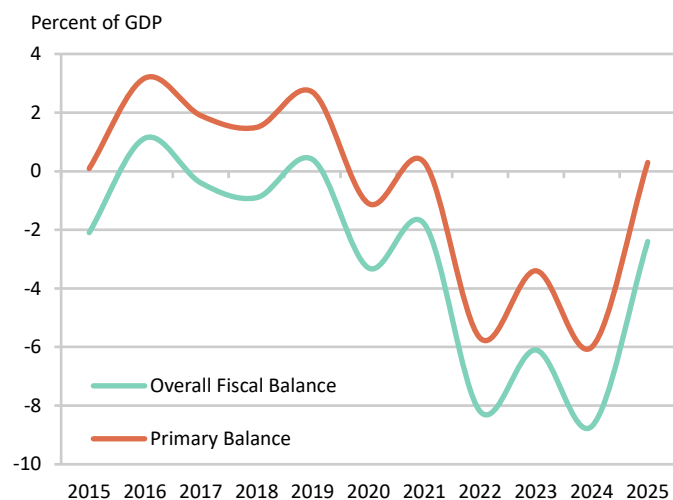
national poverty line of EC\$5,523 or US\$2,046 per annum per adult.

## Recent developments

Tourism is rebounding after the pandemic-induced fall and is nearing 2019 levels. With the volcanic eruption now in the rearview mirror, the pandemic becoming somewhat normalized, and tourism rebounding, growth is returning, and 2022 growth is expected to have reached 5.0 percent following 1.3 percent growth in 2021. Nonetheless, the impact of the volcanic eruption lingers as livelihoods and the economy were completely disrupted by the April 2021 eruption, when 22,800 people were evacuated from their homes, farms, and businesses.

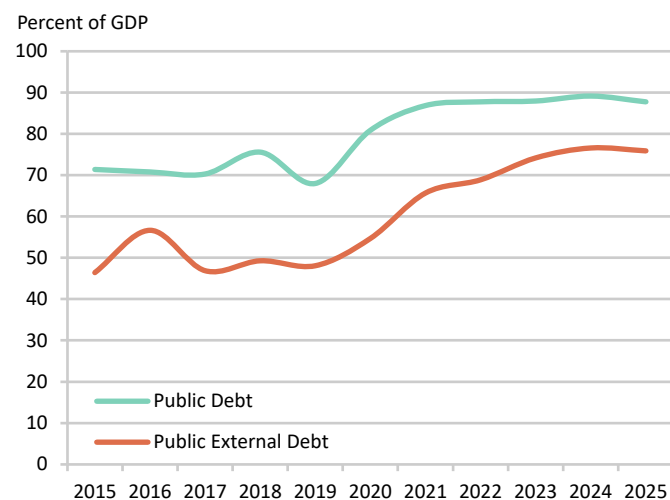
The overall fiscal deficit widened to 8.2 percent of GDP in 2022, largely in response to the fiscal demands imposed by the volcanic eruption and ongoing exceptional COVID-19-related expenditures. Direct fiscal spending measures in response to the volcano totaled 5.5 percent of GDP. Furthermore, the government has taken several measures to cushion the impact of rising food and fuel prices, including the expansion of existing social programs, subsidies on electricity, the provision of social safety net payments to food-vulnerable households, and agricultural incentives. Total support exceeds US\$20 million (2.5 percent of GDP). This posed challenges in a context where the government is implementing critical large investment projects, such as the port modernization project. Fiscal rule

**FIGURE 1 St. Vincent and the Grenadines / Overall and primary fiscal balances**



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

**FIGURE 2 St. Vincent and the Grenadines / Public debt**



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

targets have been suspended given the disruptions caused by the COVID-19 pandemic and the volcanic eruption.

The current account deficit widened to 26.5 percent of GDP in 2022, from 22.1 percent in 2021, due to higher imports arising from volcano recovery efforts and port modernization, higher food and fuel import costs, and a drop in exports following the volcanic eruption. The CAD is financed largely by FDI, private flows (remittances), and borrowing. International reserves are sufficient at over 5 months of import coverage.

Public debt was 87.8 percent of GDP at end-2022, of which external debt is 68.9 percent. As a result, SVG remains at a high risk of debt distress. Debt is currently assessed as sustainable given the authorities' fiscal consolidation plans, which would ensure that the public debt to GDP ratio would fall to under 60 percent of GDP by 2035, the Eastern Caribbean Currency Union's regional goal. Government gross financing needs are covered primarily by official external financing and by some recourse to domestic financing through T-Bill and bond issuances.

## Outlook

Growth is expected to continue strong at 6.0 percent in 2023 as tourism continues to rebound and approaches pre-COVID levels. Poverty is expected to follow a similar trajectory. Tourism growth over the medium term is expected to be further facilitated by the new airport and new hotel and resort facilities. Inflation is expected to reach 4.6 percent in 2023, after reaching 5.8 in 2022 fueled by food and fuel prices. It is expected to moderate to near 2.0 percent by 2024 and thereafter, as food and fuel prices normalize and domestic agricultural production resumes post-volcano.

Authorities have taken concrete steps to rebuild fiscal buffers and to ensure public debt returns to a downward trajectory. The contingency fund continues to be replenished monthly following its usage in response to the volcano, as does their sinking fund. Fiscal consolidation measures include: prioritizing public investment by focusing on port modernization and the new hospital, while scaling back other projects;

increasing the customs service charge; enhancing taxpayer compliance; limiting import duty and VAT exemptions; and strengthening SOE governance. The fiscal deficit is forecast to fall to 6.1 percent of GDP in 2023, though increase to 8.7 percent in 2024 as port and hospital construction peak. A meaningful primary surplus is expected by 2026 as the large public investment pipeline declines. Nonetheless, limiting the deficit, given the uncertain global economic environment, will require careful management of the ambitious public investment program, further fiscal consolidation, and continued revenue mobilization measures. As the economy stabilizes and returns to a more traditional growth path, fiscal rule targets will need to be adjusted and the FRF fully operationalized. Primary fiscal surpluses beginning in 2026 should facilitate a reduction in public debt levels over the medium term.

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

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

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices<sup>a</sup></b>	-5.3	1.3	5.0	6.0	4.8	3.5
<b>Real GDP growth, at constant factor prices<sup>a</sup></b>	-5.9	-0.1	5.0	6.0	4.8	3.5
Agriculture	1.6	-17.7	5.6	8.0	-1.9	0.4
Industry	-7.8	5.7	6.3	6.5	1.2	1.2
Services	-6.1	0.4	4.7	5.7	6.0	4.2
<b>Inflation (Consumer Price Index)</b>	-0.6	1.6	5.8	4.6	2.0	2.0
<b>Current Account Balance (% of GDP)</b>	-15.6	-22.1	-26.5	-27.6	-19.8	-13.8
<b>Fiscal Balance (% of GDP)<sup>b</sup></b>	-3.3	-1.8	-8.2	-6.1	-8.7	-2.4
<b>Revenues (% of GDP)</b>	32.0	34.2	33.6	33.3	32.7	34.1
<b>Debt (% of GDP)<sup>b</sup></b>	80.9	86.9	87.8	88.0	89.2	87.8
<b>Primary Balance (% of GDP)<sup>b</sup></b>	-1.1	0.3	-5.7	-3.4	-6.0	0.3
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-8.2	6.6	2.0	2.0	1.9	1.9
<b>Energy related GHG emissions (% of total)</b>	73.9	74.6	75.0	75.4	75.8	76.2

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

Notes: e = estimate, f = forecast.

a/ Growth projections for 2021-23 remain sensitive to uncertainties surrounding the timing of the vaccine roll-out and the recovery in tourism.

b/ Budget balances and public debt are for the central government.



# SURINAME

**Table 1** **2022**

Population, million	0.6
GDP, current US\$ billion	3.6
GDP per capita, current US\$	5836.8
School enrollment, primary (% gross) <sup>a</sup>	100.7
Life expectancy at birth, years <sup>a</sup>	72.6
Total GHG emissions (mtCO <sub>2</sub> e)	14.0

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

*Suriname's economy started to recover in 2022 after two years of contraction. Significant challenges remain as the government tackles severe macroeconomic imbalances that built up due to volatility in commodity revenue and prior economic mismanagement in fiscal and monetary policy. Successful implementation of the macroeconomic stabilization program is critical to contain currency depreciation and soaring inflation, which is aggravating poverty and food insecurity. Poverty remains elevated and could be alleviated by improved delivery and targeting of social assistance.*

## Key conditions and challenges

Suriname is a small, natural-resource-rich, upper-middle-income country. Gold currently represents more than 75 percent of total exports and the overall mining sector accounts for about half of the public sector revenue. The government redistributes revenues from the extractive industries through significant public sector employment, price subsidies, and targeted income support to people with disabilities, the elderly, vulnerable households, and those with children.

Suriname built up severe macroeconomic imbalances due to volatility in commodity revenue and past economic mismanagement, which were exacerbated by the pandemic. The current government adopted a comprehensive program of policy measures to address debt sustainability, improve monetary and exchange rate policy, and promote financial sector stability and good governance in mid-2020. However, stabilizing inflation, exchange rates, and public debt remain key challenges.

Economic challenges confronting the country since early 2020, including extraordinarily high inflation, have weakened households' economic situation. Although up-to-date poverty estimates are not available for Suriname, there is ample evidence (based on less-recent data sources) of regional and ethnic disparities; poverty rates are structurally higher in the interior of the country and among Surinamese of Maroon

or mixed ethnicity. They are also higher for women and those with low levels of education. Simulations suggest that these same groups were most heavily affected by the macroeconomic challenges described above.

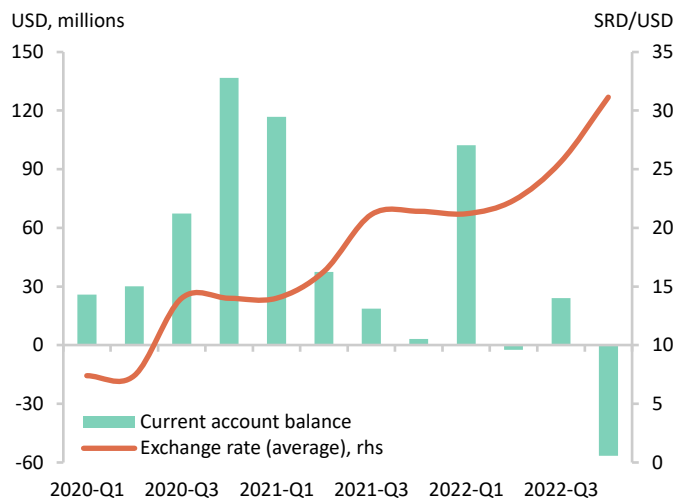
Restoring debt sustainability under an IMF-supported Extended Fund Facility (EFF) will require debt relief from Suriname's private and bilateral creditors. The EFF program targets are currently under revision, owing to unanticipated policy changes in response to global commodity price shocks following Russia's invasion of Ukraine.

Newly found offshore oil may significantly increase Suriname's fiscal space in the coming years. However, unlocking sustainable and inclusive economic growth will require resolving governance and institutional challenges, which hamper reforms in many sectors. It will also require improving education outcomes, addressing the migration of skilled workers overseas, and responding to increasing exposure to extreme weather events.

## Recent developments

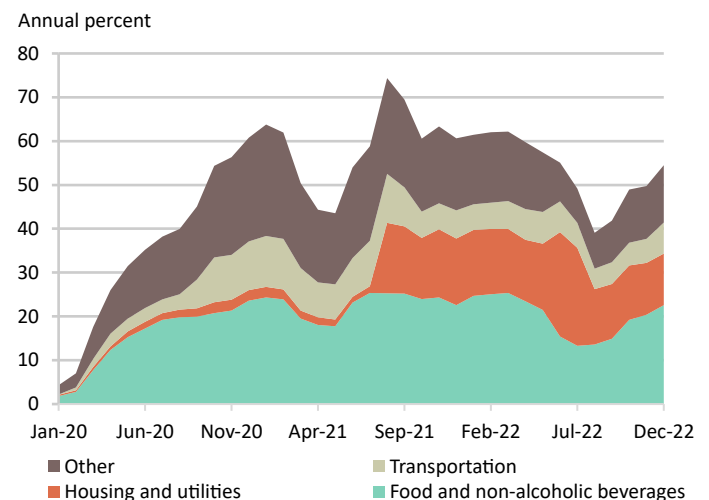
Suriname's economy started to recover in 2022, with a real GDP growth estimated at 1.9 percent after 2 years of contraction following the Covid-19 outbreak. The expansion was largely driven by the services sector. Agricultural output is estimated to have recovered slightly by 1 percent in 2022 after several years of declining output as production of paddy rice and forestry

**FIGURE 1 Suriname / Exchange rate and current account balance**



Source: Central Bank of Suriname.

**FIGURE 2 Suriname / CPI inflation and contributions to inflation**



Sources: General Bureau of Statistics and World Bank.



increased. The mining and manufacturing sectors continued to contract, largely due to the drop in gold production.

Despite positive GDP growth, it is reasonable to assume that labor market indicators have not returned to pre-pandemic levels. Phone survey data collected in July 2022 indicate that unemployment rates remained elevated especially for those groups that already were more likely to be poor, and that informal employment was more prevalent than before the pandemic. The exchange rate depreciated sharply in the second half of 2022, contributing to higher import prices and a smaller trade surplus. The exchange rate against the USD, which had been reasonably stable at around 21.5 up to June 2022, weakened significantly to 31.9 by December 2022. The increase in the price of imports, including oil imports, reduced the current account surplus to an estimated 1.9 percent of GDP in 2022, down from 5.3 percent in 2021. The elevated price of gold over the past few years has kept the value of gold exports at more than 75 percent of total exports.

In line with the currency depreciation, inflation remained high at 52.4 percent in 2022, putting further pressure on food security. In July 2022, 25.3 percent of all households indicated that they had run out of food due to a lack of resources (up from 13.7 percent pre-pandemic). The increase was markedly higher for households with a less-educated head and in the interior of the country. Recent price increases were particularly high in food, housing, and utilities, further exacerbating an already challenging situation.

The government's fiscal position improved in 2022 as revenues increased, owing to higher incomes from mining and non-mineral

sectors. The increased royalty rate for the gold sector and the exchange rate depreciation contributed to the increase in mining income. Value-added tax (VAT) was introduced in January 2023 at a rate of 10 percent. However, the primary surplus fell behind the target in 2022 due to increased public spending, notably on subsidies. The government introduced fuel subsidies in 2022, accounting for approximately 1.5 percent of GDP, to keep prices affordable following the spike in energy prices. The government also announced plans to phase out the subsidies in 2023 which, along with allegations of high-level corruption, led to mass protests in February.

Public debt remained stable, estimated at 118.4 percent of GDP in 2022. The authorities have been actively negotiating with official and private creditors to reach agreements on the restructuring of external debt to restore debt sustainability and strengthen their fiscal position. Agreements have been achieved with India and the Paris Club, while negotiations are ongoing with China and private creditors.

## Outlook

The near-term outlook for Suriname critically depends on the successful implementation of the macroeconomic stabilization program. Building on the moderate economic recovery of 2022, a gradual resumption of economic growth is expected at nearly 3 percent per year in the medium term. The country's fiscal position is also expected to improve as the government remains committed to fiscal reforms and debt restructuring.

The modest economic recovery, however, is not enough for the labor market to return to pre-pandemic levels, therefore not fully offsetting the significant challenges faced by many households. Inflation is also expected to remain elevated, with negative implications for poverty, as such, the risk of continued public discontent and protests remains.

Fiscal adjustments in the context of the macroeconomic stabilization program will continue to define the government's space to operate and alleviate the challenges experienced by the poorest Surinamese. Efforts to wind down energy subsidies may have important implications for poor and vulnerable households. Plans to offset these impacts through a "subject subsidy" have been delayed, which means that measures to improve the delivery and effectiveness of social assistance remain a priority.

The longer-term growth and fiscal outlook may be more positive following the discoveries of several offshore oil deposits in 2020. A Final Investment Decision (FID) by one of the major oil companies is expected in mid-2023 at which point there will be more certainty about a possible revenue flow from offshore oil production.

However, increased reliance on the oil sector further raises Suriname's vulnerability to commodity price shocks and has environmental consequences. Suriname also faces well-known risks associated with resource-dependent economies, such as a lack of diversification and an erosion of institutions. Measures to strengthen governance institutions and enhance human capital will therefore be critical to alleviate these risks and create a foundation for efficient and equitable management of oil revenues.

**TABLE 2 Suriname / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-16.0	-2.7	1.9	2.4	3.2	3.1
<b>Real GDP growth, at constant factor prices</b>	-16.0	-2.7	1.9	2.4	3.2	3.1
Agriculture	-10.3	-7.5	1.0	-0.3	3.0	3.0
Industry	-17.5	-10.9	-0.9	1.5	0.9	1.2
Services	-16.0	1.7	3.2	3.1	4.1	3.9
<b>Inflation (Consumer Price Index)</b>	34.8	59.1	52.4	29.7	17.1	12.9
<b>Current Account Balance (% of GDP)</b>	8.9	5.3	1.9	-0.4	-0.9	-1.2
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	0.0	-5.6	0.7	3.4	3.1	3.0
<b>Fiscal Balance (% of GDP)<sup>a</sup></b>	-13.3	-7.0	-3.7	-1.1	0.2	0.2
<b>Debt (% of GDP)<sup>a</sup></b>	146.3	119.9	118.4	112.9	108.3	102.5
<b>Primary Balance (% of GDP)<sup>a</sup></b>	-9.6	-1.3	1.0	2.1	3.2	3.0
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	0.6	0.2	0.6	1.5	0.7	1.7
<b>Energy related GHG emissions (% of total)</b>	19.8	20.0	20.0	21.0	21.4	22.5

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

Notes: e = estimate, f = forecast.

a/ Budget balances and public debt are for the central government.

# URUGUAY

**Table 1** **2022**

Population, million	3.4
GDP, current US\$ billion	71.4
GDP per capita, current US\$	20854.3
International poverty rate (\$2.15) <sup>a</sup>	0.1
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	0.8
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	6.7
Gini index <sup>a</sup>	40.8
School enrollment, primary (% gross) <sup>b</sup>	104.2
Life expectancy at birth, years <sup>b</sup>	78.4
Total GHG emissions (mtCO2e)	34.7

Source: WDI, Macro Poverty Outlook, and official data.  
a/ Most recent value (2021), 2017 PPPs.  
b/ Most recent WDI value (2020).

*GDP growth is projected to decelerate in 2023 despite a strong tourism season, as the solid post-pandemic recovery phase comes to an end and a sizeable drought affects primary production and related activities. Tight monetary policy mitigated the inflation spike in 2022 and – complemented by continued fiscal consolidation – is expected to gradually bring inflation down to the target range. Unequal recovery of employment for low-skilled workers and the impact of inflation on real wages explain recent limited poverty reduction.*

## Key conditions and challenges

Uruguay's economy has expanded each year for the last two decades, except for the COVID-19-induced recession in 2020. The pandemic response was effective and fiscally prudent, building on the country's wide social safety net and an early and widespread vaccination roll-out. A stable democracy with a relatively large middle class, the country has the highest income per capita and the lowest country spreads in the region.

As GDP surpasses its pre-pandemic levels and fiscal accounts improve, Uruguay is turning its attention to structural bottlenecks that had attenuated economic growth in the pre-pandemic years. Some of the underlying challenges include disappointing education outcomes, insufficient integration into the global economy, structurally high inflation, and a weak competition framework. In addition, Uruguay's financial system is small and dominated by a highly-dollarized banking sector. Addressing these challenges will be key to reigniting an inclusive development process that tackles regional inequalities and relatively high levels of poverty among children and Afro-descendants.

An ongoing sizeable drought is a reminder of the country's vulnerability to climate shocks. Uruguay is a vocal promoter of financial incentives for climate action in international fora. Last October, Uruguay put its ideas to the test with a successful

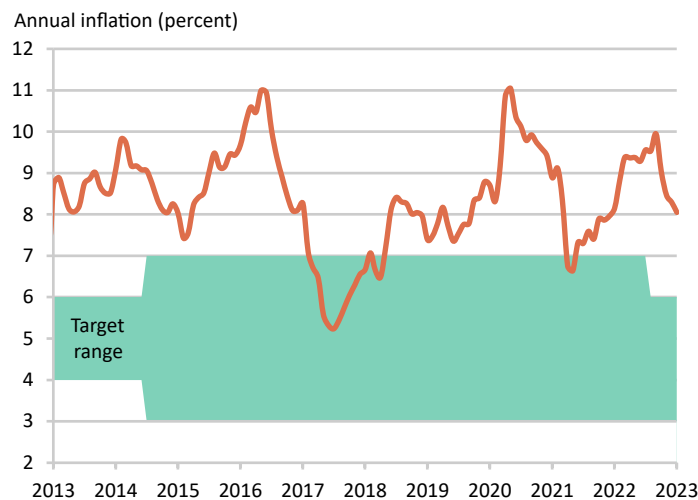
US\$1.5bn market issuance of innovative sustainability-linked bonds, which reward the overachievement of specific Nationally Determined Contribution (NDC) targets with interest-rate buy-downs.

## Recent developments

GDP continued to expand in the first three quarters of 2022, underpinned by the opening of borders to tourism, favorable export prices, and a strong agricultural harvest. Agriculture's strong performance was mirrored in exports, which increased 19 percent in real terms in the first nine months of 2022. Private and public investments related to a US\$3bn paper mill project played an important role in the 12.8 percent increase in gross fixed capital formation in the same period. Private consumption continued to recover from pandemic lows.

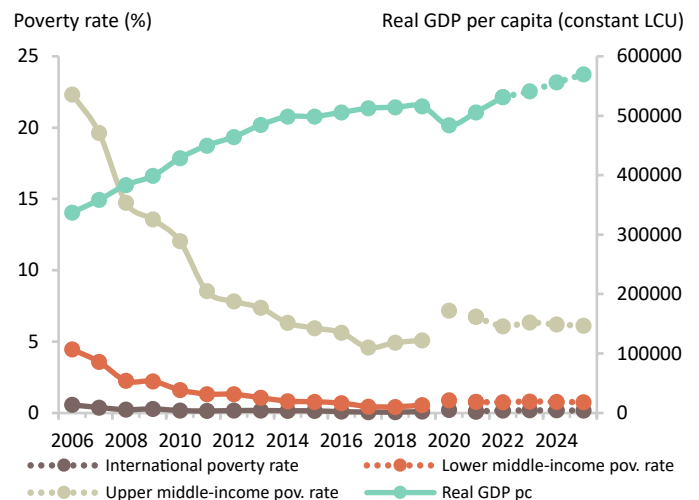
The price of Uruguay's imports rose more steeply than that of its exports following Russia's invasion of Ukraine, for a slight fall in the terms of trade. In this context, imports outpaced exports measured in US Dollars, despite strong sales of soybeans and beef. At around US\$15.4 billion as of January 2023, gross reserves cover roughly the equivalent of 10 months of imports. Inflation averaged 9.1 percent in 2022, up from 7.8 percent in 2021, driven by food and fuel prices. The Central Bank (BCU) hiked its benchmark rate to 11.5 percent in December 2022 for a 700 basis points cumulative increase since August 2021, contributing to a strong Uruguayan peso,

**FIGURE 1 Uruguay / Inflation and the inflation target range**



Source: Central Bank of Uruguay.

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



Source: World Bank. Notes: see Table 2.

which appreciated 10.3 percent with respect to the USD in 2022.

To mitigate the impact of inflation, the government frontloaded wage increases for public employees and pensions, limited the pass-through of international oil price spikes, and increased VAT exemptions for recipients of main social programs. The result was an average real wage increase of 1 percent (yoy) even though employment rates and real wages among low-skilled workers are still below pre-pandemic levels (41.8 percent in 2021, compared to 50.5 percent in 2019), largely due to the rebound being driven by non-labor-intensive sectors. This helps explain the limited poverty reduction (which remained at 6.7 percent in 2021 measured by the international upper-middle income line) and a slight increase in inequality.

Despite support measures, fiscal accounts improved in 2022, largely due to an unwinding of COVID-19-related programs and cyclical revenues. The deficit of the non-monetary public sector fell from 5.4 percent of GDP in 2020 to 3.2 percent in 2021 and 2.8 percent in 2022. Despite the gradual phase-out, expenditures directly related to COVID-19 still amounted to 0.5 percentage points of GDP.

## Outlook

After an estimated 5 percent increase in 2022, GDP growth is forecast to fall to 1.8 percent this year, dampened by the drought, tight monetary policy, and continued fiscal consolidation. Growth is projected to recover in 2024 and converge closer to potential GDP by 2025. In this context, the poverty rate and the proportion of the population considered middle-class are expected to change only slightly from their current levels (6.7 and 65.8 percent respectively).

Despite the drought, export growth is expected to remain positive in 2023, due to service exports, tourism, and the production of the new pulp plant. Imports will moderate given lower domestic demand. Terms of trade are expected to improve, as the fall in oil prices outpaces agricultural commodity prices. Trade balance trends are projected to dominate the deficit in primary income, for a gradual reduction in the current account deficit, which is expected to be financed by foreign direct investment in the forecast horizon.

The BCU is expected to maintain its commitment to bring inflation down. In a

context of high inflationary inertia, inflation would converge only gradually to the 3-6 percent target range by 2025. The Uruguayan peso is expected to remain strong in the baseline scenario, underpinned by high terms of trade and tight monetary policy.

Despite a planned tax reform to reduce the personal and corporate income taxes, fiscal accounts are projected to improve in 2023 and beyond, mainly through the continued phase-out of COVID-19-related expenditures, a decline in capital expenditures, and as the incomplete pass-through from the oil price spike normalizes. Public debt is expected to decline from 57.6 percent in 2022 to 55.1 percent of GDP in 2025. Pension reform to improve the system's long-term sustainability is currently being discussed in Congress.

The outlook is subject to downside risks, including a stronger-than-expected deceleration of global economic growth, a faster-than-expected tightening of global interest rates, and more pervasive impacts of the current drought. In addition, persistent inflation in the face of high domestic interest rates could perpetuate a strong real exchange rate beyond its fundamentals and challenge Uruguay's competitiveness.

**TABLE 2 Uruguay / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-6.1	4.4	5.0	1.8	2.8	2.4
Private Consumption	-6.9	2.3	5.5	2.0	2.5	2.2
Government Consumption	-7.3	8.0	0.7	-0.4	0.1	0.1
Gross Fixed Capital Investment	1.6	15.2	8.8	0.5	0.4	6.1
Exports, Goods and Services	-16.0	14.4	14.1	3.0	5.6	1.0
Imports, Goods and Services	-12.0	20.9	12.0	1.5	2.4	1.5
<b>Real GDP growth, at constant factor prices</b>	-6.3	4.3	5.0	1.8	2.8	2.5
Agriculture	-5.4	5.0	-2.8	-8.6	9.5	3.0
Industry	-6.1	6.7	3.1	1.5	2.0	2.0
Services	-6.4	3.9	6.0	2.7	2.4	2.5
<b>Inflation (Consumer Price Index)</b>	9.8	7.7	9.1	6.9	6.0	5.8
<b>Current Account Balance (% of GDP)</b>	-0.9	-2.7	-2.5	-1.4	-0.2	-0.3
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	1.9	3.0	1.7	1.3	1.3	1.3
<b>Fiscal Balance (% of GDP)<sup>a</sup></b>	-5.4	-3.2	-2.8	-2.6	-2.4	-2.4
<b>Revenues (% of GDP)</b>	29.7	29.9	29.1	28.9	28.8	28.7
<b>Debt (% of GDP)</b>	67.7	63.9	57.6	56.5	55.6	55.1
<b>Primary Balance (% of GDP)<sup>a</sup></b>	-2.7	-1.0	-0.7	-0.2	0.1	0.3
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>b,c</sup></b>	0.2	0.1	0.2	0.2	0.2	0.2
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>b,c</sup></b>	0.9	0.8	0.8	0.8	0.8	0.8
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>b,c</sup></b>	7.2	6.7	6.1	6.3	6.2	6.1
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-2.2	1.6	1.8	0.1	0.2	0.3
<b>Energy related GHG emissions (% of total)</b>	18.0	18.4	18.8	18.5	18.3	18.2

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

Notes: e = estimate, f = forecast.

a/ Non-Financial Public Sector. Excluding revenues associated with the "cincuentones".

b/ Calculations based on SEDLAC harmonization, using 2021-ECH-S2. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.

c/ Projections using microsimulation methodology.

# Macro Poverty Outlook

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2023



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