Macro Poverty Outlook

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

Spring Meetings 2023

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Spring
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2023

MACRO POVERTY

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OUTLOOK

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

The cutoff date for information for most countries was March 24, 2023.

East Asia and the Pacific

Spring Meetings 2023

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

CAMBODIA

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

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

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

Key conditions and challenges

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

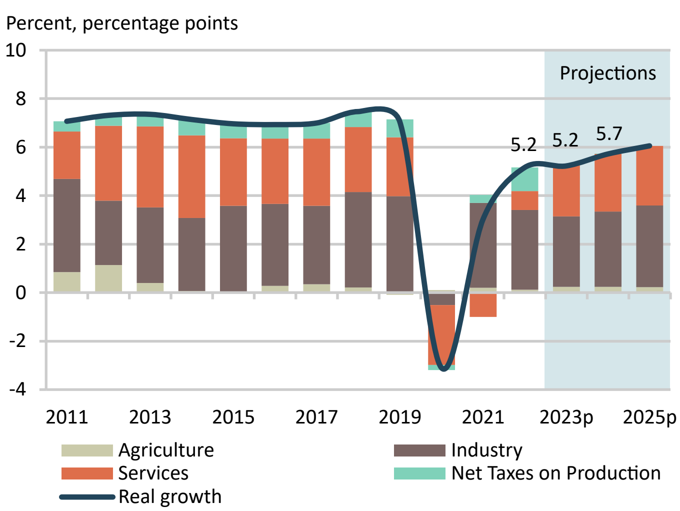
Near-term risks are tilted to the downside. An extended slowdown in external demand is expected to further weaken Cambodia's export-oriented manufacturing which generates about 40 percent of total employment in the industrial sector (17.3 percent of total non-farm employment). Continued global financial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

Recent developments

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

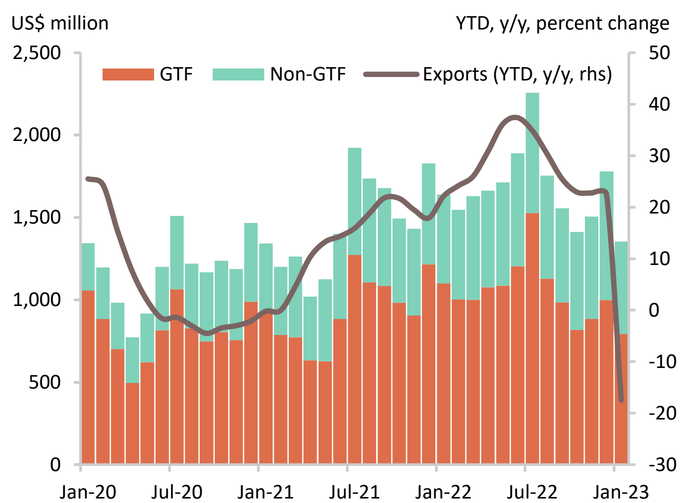
Meanwhile, inflation eased significantly, declining to 2.9 percent y/y in December 2022 as energy and food prices decelerated. The nominal exchange rate continued to be broadly stable, hovering at riel 4,100 per U.S. dollar. Gross international reserves, however, declined marginally to US$17.8 bln, covering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

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



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

FIGURE 2 Cambodia / Merchandise exports (excluding gold)



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

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

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

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

Outlook

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

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

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

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

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

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

CENTRAL PACIFIC ISLANDS

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

Sources: WDI, World Bank staff estimates.

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

Key conditions and challenges

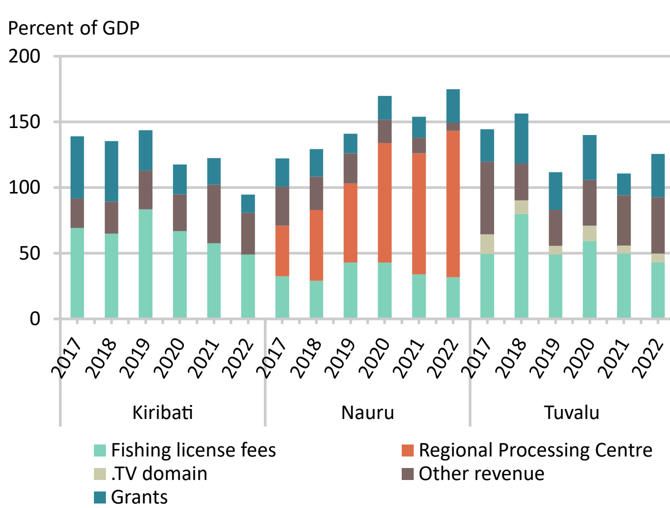
The Central Pacific faces major development challenges due to exogenous factors like climate change, small size, and remoteness; and endogenous forces like concentrated, import-reliant, and volatile economies. All three countries have trust funds to stabilize volatile revenues and provide long-term development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

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

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

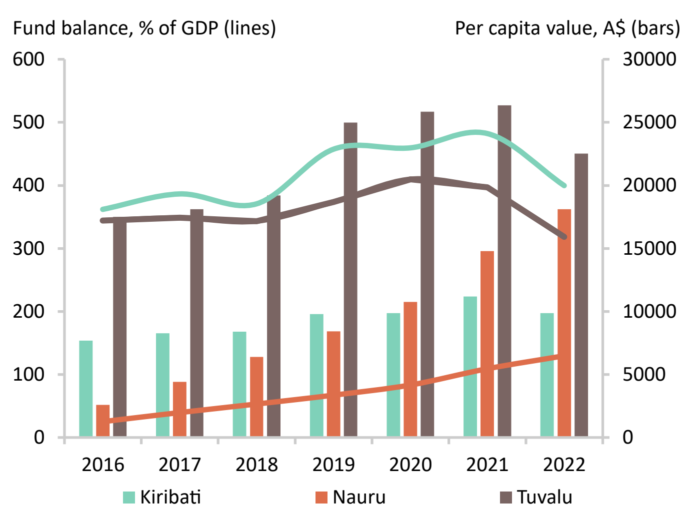
Tuvalu should expand beyond fishing revenues and the.TV domain by increasing trade integration, particularly through the PACER Plus regime. Medium-term macro-fiscal sustainability will require diversifying away from volatile revenue sources and consolidating current expenditures given the longer-term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

FIGURE 1 Central Pacific Islands / Sources of revenue



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

FIGURE 2 Central Pacific Islands / Trust Fund balances



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

Recent developments

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

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

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

Outlook

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

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

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

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

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

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

Sources: World Bank and IMF. e = estimate; f = forecast.
Note: Country authorities and World Bank and IMF staff estimates. Nauru data are based on the fiscal year ended June. Kiribati and Tuvalu are calendar years.
a/ Poverty rate for 2019 is calculated from the 2019 Household Income and Expenditure Survey. Poverty rates for 2020-2025 are projections based on real GDP per capita growth.

CHINA

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

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

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

Key conditions and challenges

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

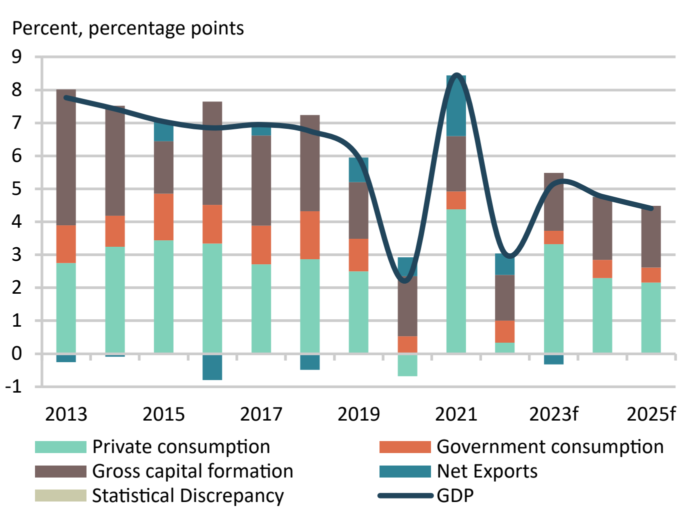
Recent developments

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

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

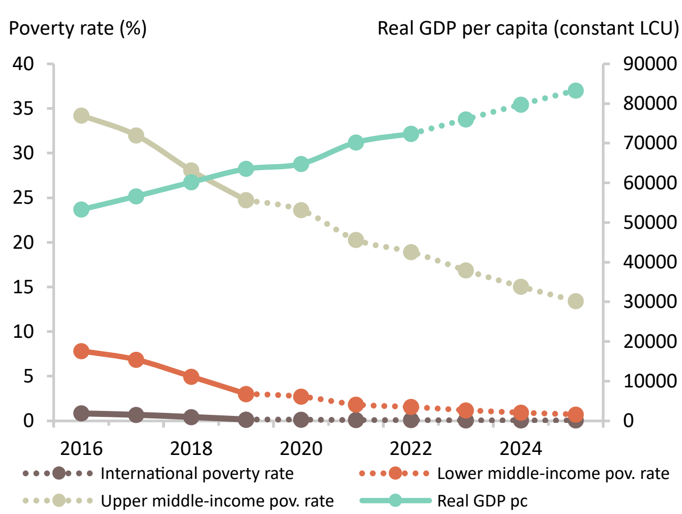
Poverty reduction continued in 2022, albeit at a slower pace. The poverty rate - as measured by the upper-middle income country line in 2017 PPP ($6.85/day) is expected to fall to 18.9 percent in 2022. This decline represents an aditional 19 million people being lifted

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



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

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



Source: World Bank. Notes: see Table 2.

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

Outlook

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

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

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

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

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

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ The adjusted fiscal balance adds up the public finance budget, the government fund budget, the state capital management fund budget and the social security fund budget.
b/ Last grouped data available to calculate poverty is for 2019 provided by NBS. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
c/ Projection using neutral distribution (2019) with pass-through = 0.85 based on GDP per capita in constant LCU.

FIJI

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

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

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

Key conditions and challenges

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

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

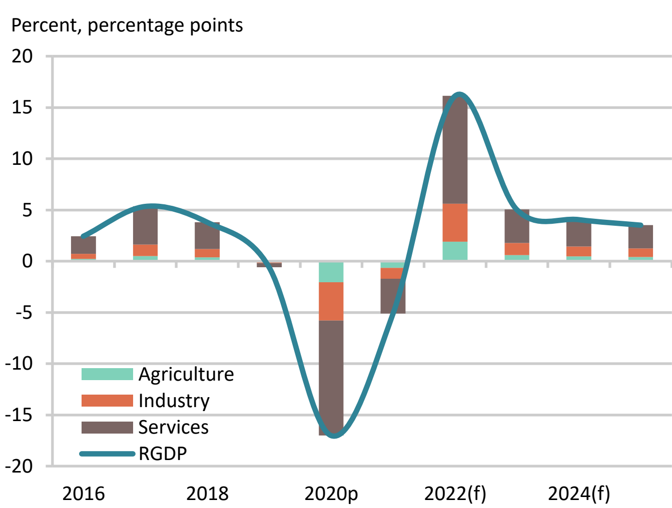
Recent developments

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

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

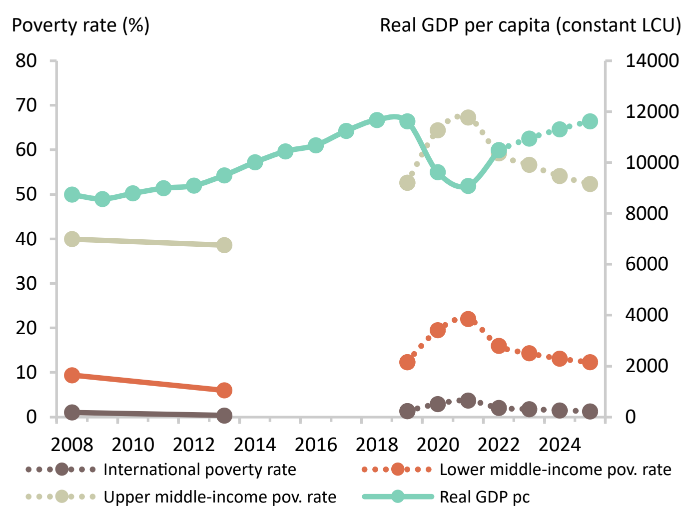
The fiscal deficit declined from 11.7 percent of GDP in 2021 to 10.9 percent of GDP

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



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

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



Source: World Bank. Notes: see Table 2.

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

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

Outlook

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

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

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

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

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

INDONESIA

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

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

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

Key conditions and challenges

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

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

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

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

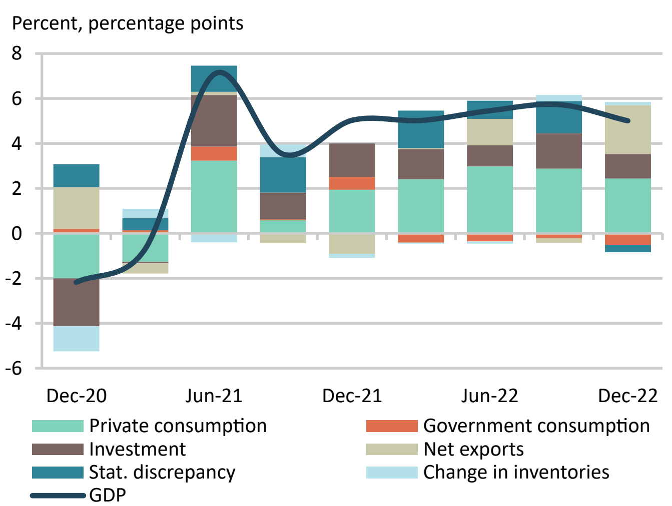
Recent developments

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

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

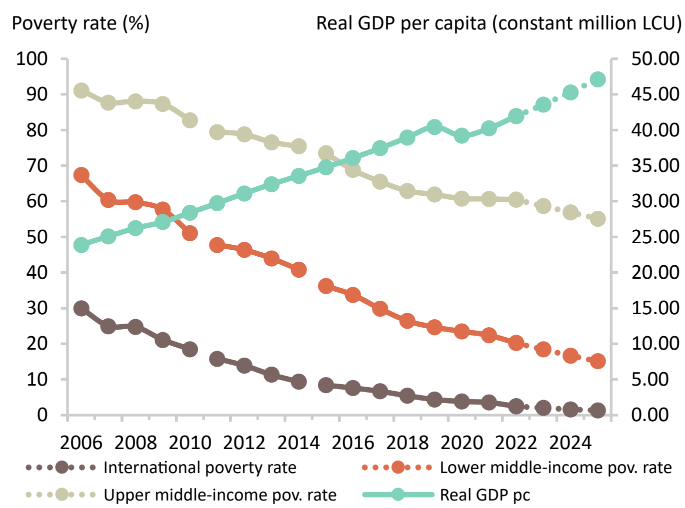
Headline inflation accelerated in 2022, as global food and energy prices rose, and the Rupiah depreciated. Headline CPI peaked at 6.0 percent yoy in September, as fuel subsidies were cut, though moderated later as food price inflation eased. Food price inflation – which places a heavier burden on poorer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

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



Sources: National Statistics Agency and World Bank.

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



Source: World Bank. Notes: see Table 2.

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

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

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

Outlook

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

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

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

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

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

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

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

LAO PDR

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

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

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

Key conditions and challenges

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

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

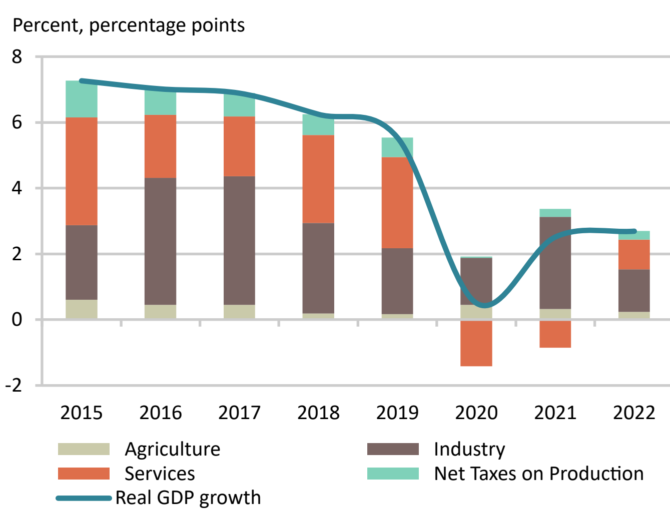
Recent developments

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

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

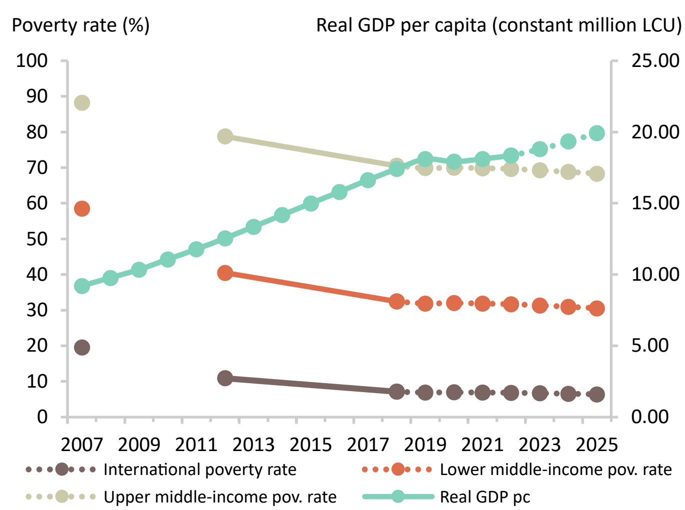
Inflation reached 41.3 percent in February 2023 – owing to a weaker kip and high global commodity prices, particularly fuel. Food and transport price increases were the key drivers. These have passed through to core inflation, which reached 33.6 percent (year-on-year).

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



Sources: Lao Statistics Bureau and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

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

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

Outlook

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

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

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

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

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

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

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

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

MALAYSIA

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

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

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

Key conditions and challenges

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

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

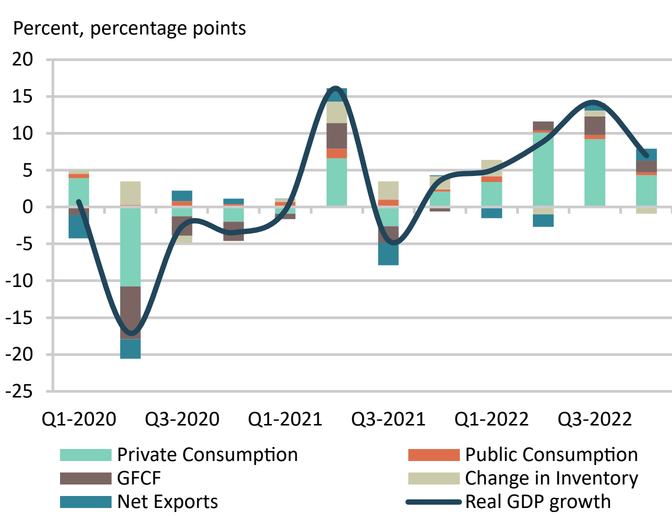
While overall inflationary pressures remained contained at 3.3 percent in 2022 (2021: 2.5 percent), higher food and energy prices have contributed to the rising concern over higher cost of living and food insecurity, particularly in vulnerable households. FAO estimates showed that the incidence of severe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

Recent developments

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

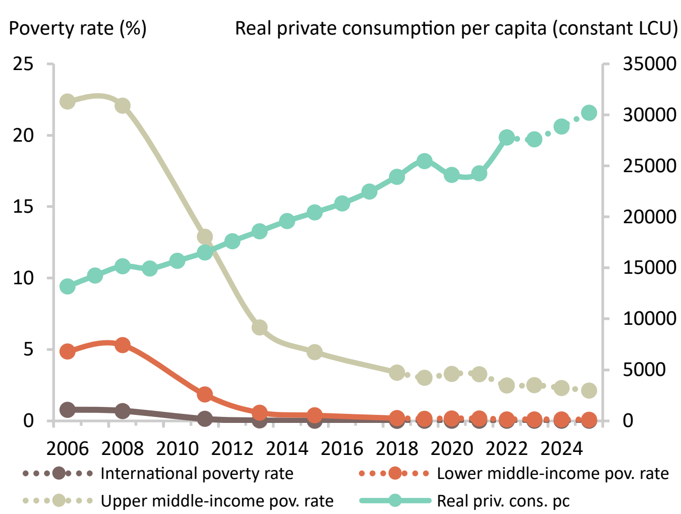
However, there are initial signs of moderation in external demand, with growth in exports moderating to 11.8 percent in Q4 2022 (Q3 2022: 38.3 percent). Gross import growth also decelerated to 18.7 percent (Q3 2022: 46.5 percent), partly reflecting

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



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

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



Source: World Bank. Notes: see Table 2.

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

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

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

Outlook

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

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

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

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

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

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

MONGOLIA

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

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

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

Key conditions and challenges

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

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

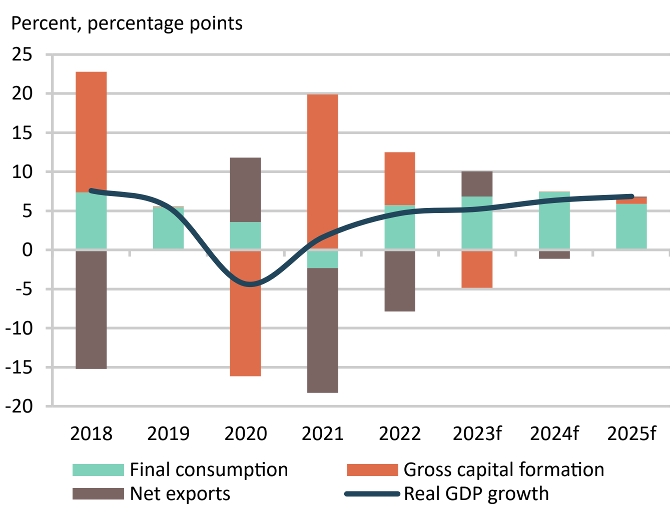
Despite the recent rapid recovery of exports, balance of payment pressures remain significant with low levels of foreign reserves (only 3.1 months of imports coverage as of end-Feb 2023). Large (and still partially confidential) offtake coal export agreements add uncertainty and will likely weigh on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

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

Recent developments

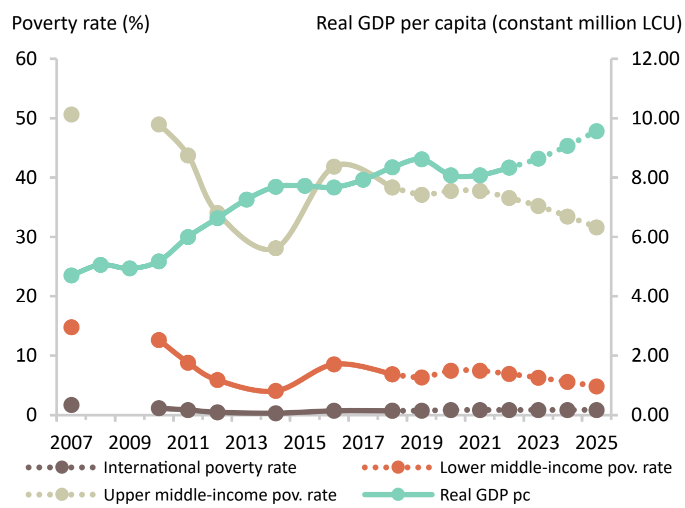
The Mongolian economy grew by 4.7 percent in 2022 driven by increases in exports (in particular, coal following the easing of border frictions with China) and robust consumption. The latter resulted from an improvement in labor market conditions (with the unemployment rate dropping to 5.3 percent by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

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



Sources: National Statistics Office and World Bank.

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



Source: World Bank. Notes: see Table 2.

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

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

Outlook

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

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

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

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

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

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

MYANMAR

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

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

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

Key conditions and challenges

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

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

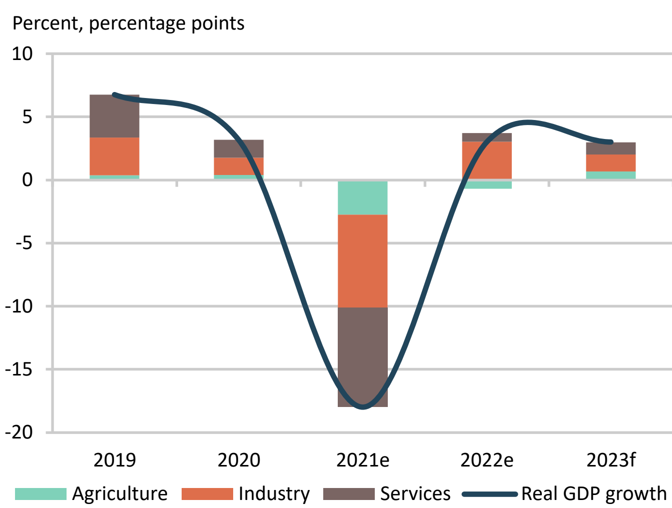
Power outages have worsened in recent months, raising operating costs for businesses, particularly in rural and conflict-affected areas but also in Yangon. Electricity supply has been constrained by lower water levels at hydropower plants, poor maintenance of infrastructure, and a lack of human resources,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

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

Recent developments

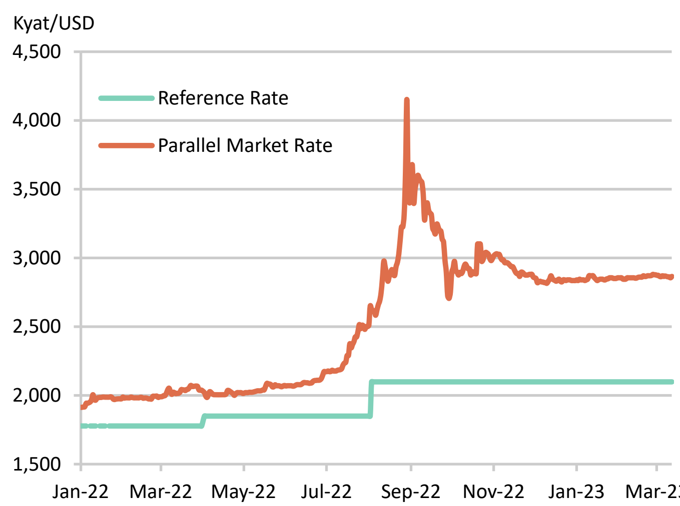
Recent economic indicators have been mixed. Some firms have demonstrated resilience despite being constrained by low demand, higher prices, electricity outages, and trade and foreign exchange restrictions, while others have been more adversely affected. While an improvement

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



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

FIGURE 2 Myanmar / Exchange rates: Reference rate and parallel market rate



Sources: The CBM and Money changers.

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

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

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

Outlook

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

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

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

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

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

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

NORTH PACIFIC ISLANDS

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

Sources: WDI, World Bank staff estimates.

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

Key conditions and challenges

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

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

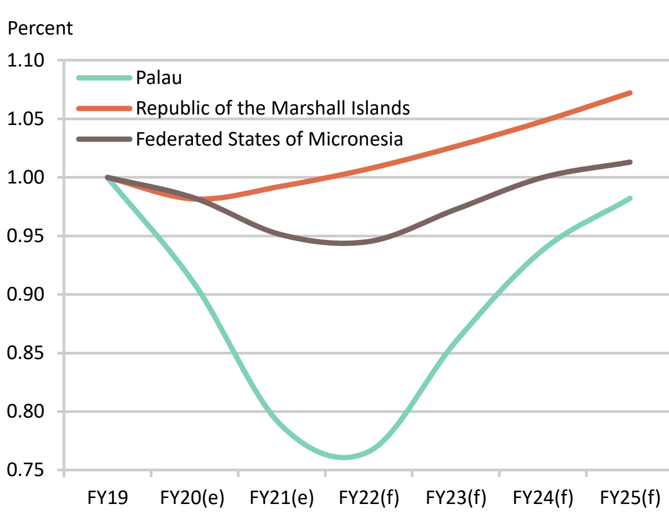
Despite the renewal of the fiscal chapter of the Compact, reform-based fiscal adjustments, such as domestic revenue mobilization and expenditure rationalization, are likely to remain important. Natural disasters and climate change also pose a threat to livelihoods. Finally, governments need to implement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

Recent developments

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

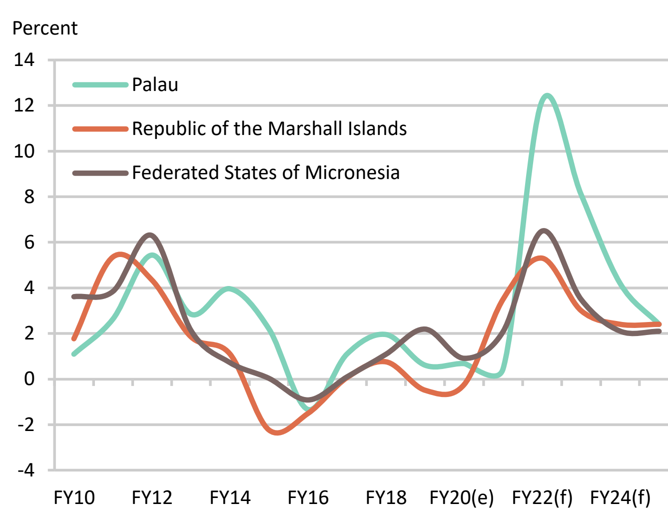
In **Palau**, the pandemic has severely impacted the economy with a third year of consecutive recession in FY22. The tourism industry and its related business activities (around 40 percent of GDP) have been curtailed and trade flows are severely disrupted. GDP is estimated to have contracted

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



Sources: National sources and World Bank projections.

FIGURE 2 North Pacific Islands / Consumer price inflation



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

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

Poverty in the Palau and FSM is expected to have risen relative to pre-crisis levels. The sharp economic contraction in FY20 and FY21 led to formal-sector job losses and lower demand for goods in the informal economy. For Palau, the disruption in tourism activities likely led to increased vulnerability for households employed in the sector. For FSM, many households rely on annual remittance inflows that are estimated to have dropped in FY21 and are expected to remain depressed in FY22. However, in RMI, poverty is projected to have fallen from 2020, given that a decline in GDP in 2020 may not have been as strong as a decline in population. In FSM, poverty reduction is likely to be slower, given that a return to economic growth is not projected until FY23.

Outlook

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

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

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

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

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

	2020e	2021e	2022f	2023f	2024f	2025f
Real GDP growth, at constant market prices						
Federated States of Micronesia	-1.8	-3.2	-0.6	2.9	2.8	1.3
Republic of the Marshall Islands	-2.2	1.1	1.5	1.9	2.1	2.3
Palau	-8.9	-13.4	-2.8	12.3	9.1	4.7
Upper middle-income poverty rate ($6.85 in 2017PPP)[a,b]						
Republic of the Marshall Islands	31.3	28.3	26.9	25.7	24.1	23.0

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

PAPUA NEW GUINEA

Table 1	2022
Population, million	10.1
GDP, current US$ billion	31.3
GDP per capita, current US$	3088.7
National Poverty Rate[a]	39.9
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	116.0
Life expectancy at birth, years[b]	65.8
Total GHG emissions (mtCO2e)	64.3

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

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

Key conditions and challenges

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

Weak human development outcomes present missed opportunities for faster and more inclusive economic growth. PNG has one of the highest rates of stunting in the world. It has one of the highest rates of young people – soon numbering approximately two million individuals – who are not in training, not in education, and not in employment. Weak governance severely constrains the ability to effectively manage this challenging context. Fragility-related risks are exacerbated by the socio-economic impact of exogenous shocks.

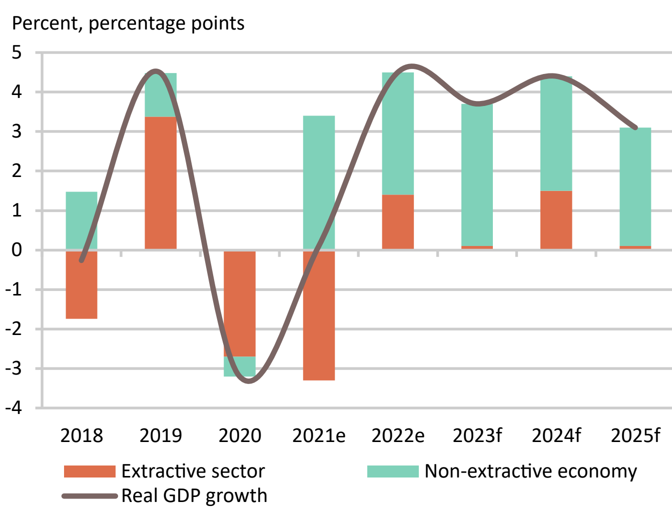
Socio-economic development is lagging for large sections of the population. The last available nationally representative household survey, from 2010, suggested that about 39 percent of the population was living below the US$2.15 per day (2017 PPP terms) poverty line and 74.2 percent of the population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

Recent developments

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

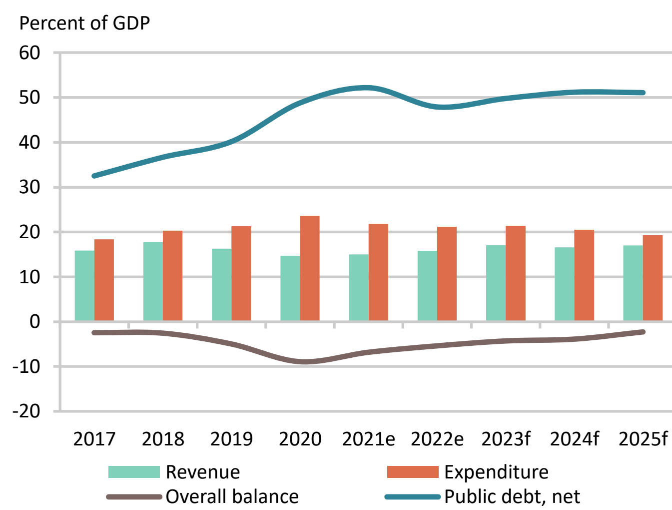
The government continued with fiscal consolidation to safeguard macroeconomic

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



Source: World Bank staff estimates and forecast.

FIGURE 2 Papua New Guinea / Key fiscal and debt indicators



Source: World Bank staff estimates and forecast.

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

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

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

Outlook

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

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

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

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

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

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

PHILIPPINES

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

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

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

Key conditions and challenges

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

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

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

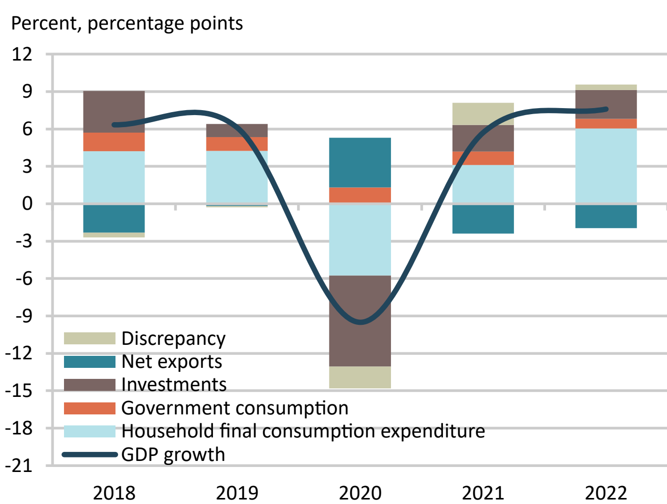
Recent developments

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

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

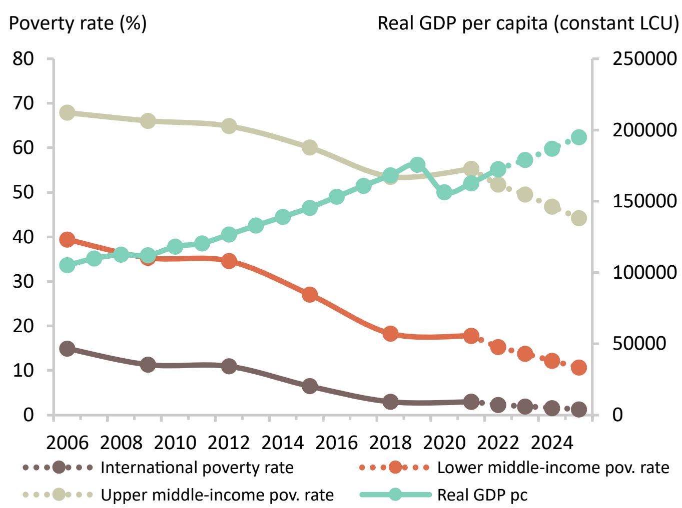
Inflation surpassed the 2-4 percent target range at 5.8 percent in 2022, amid domestic food supply constraints, and elevated commodity prices. In response, the central bank raised the key policy rate by 400 basis points. The government provided input subsidies to vulnerable sectors such as fertilizers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

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



Source: Philippine Statistics Authority.

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



Source: World Bank. Notes: see Table 2.

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

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

Outlook

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

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

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

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

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

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

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

SOLOMON ISLANDS

Table 1	2022
Population, million	0.7
GDP, current US$ billion	1.6
GDP per capita, current US$	2225.2
National Basic Needs Poverty Rate[a]	12.7
School enrollment, primary (% gross)[b]	104.3
Life expectancy at birth, years[b]	70.2
Total GHG emissions (mtCO2e)	46.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Solomon Islands National Statistics Office. Most recent value (2013).
b/ WDI for School enrollment (2019); Life expectancy (2020).

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

Key conditions and challenges

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

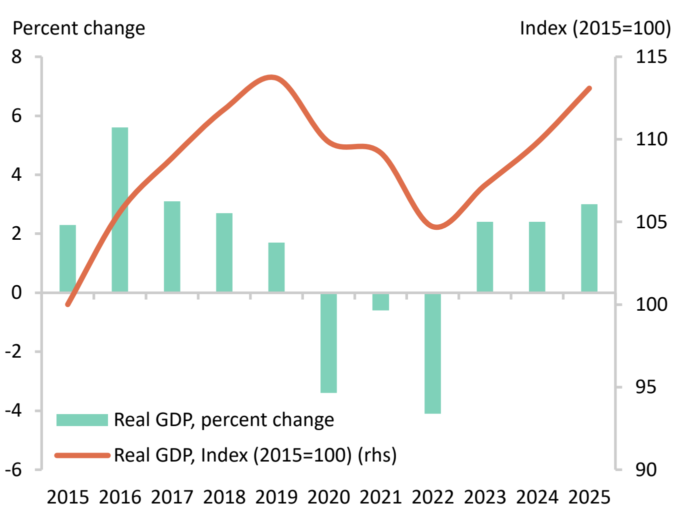
Development challenges have been further exacerbated by the COVID-19 pandemic and the outbreak of riots in 2021, which caused a sharp economic contraction and adversely affected livelihoods. A World Bank phone survey collected in September 2022 indicates that employment had recovered from the COVID-19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

Recent developments

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

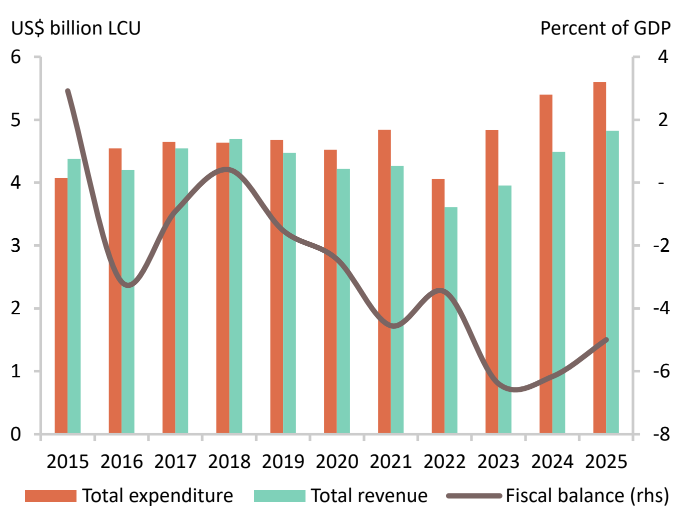
Inflation rose by 5.5 percent in 2022 due to high global fuel and food import prices, as well as supply chain disruptions from the riots. The current account balance worsened further to reach 13.4 percent of GDP in 2022, driven by a deteriorating trade balance. Exports, including logging, fish, and

FIGURE 1 Solomon Islands / Real GDP



Source: World Bank staff estimates.

FIGURE 2 Solomon Islands / Fiscal balance



Source: World Bank staff estimates.

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

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

Outlook

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

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

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

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

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

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

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

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

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

SOUTH PACIFIC ISLANDS

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

Sources: WDI, World Bank staff estimates.

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

Key conditions and challenges

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

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

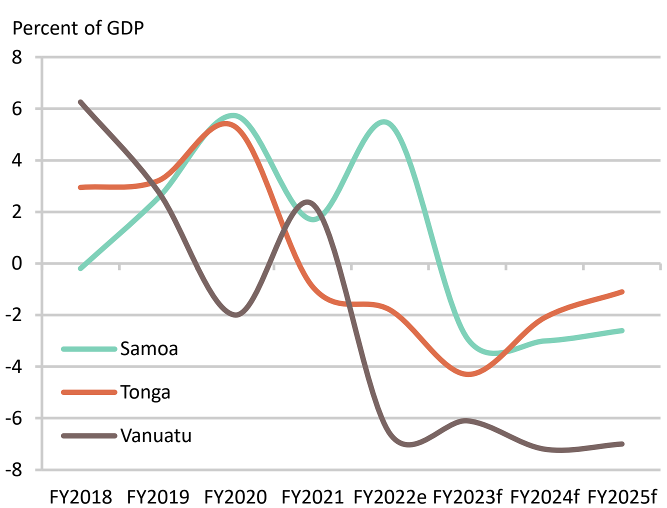
Recent developments

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

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

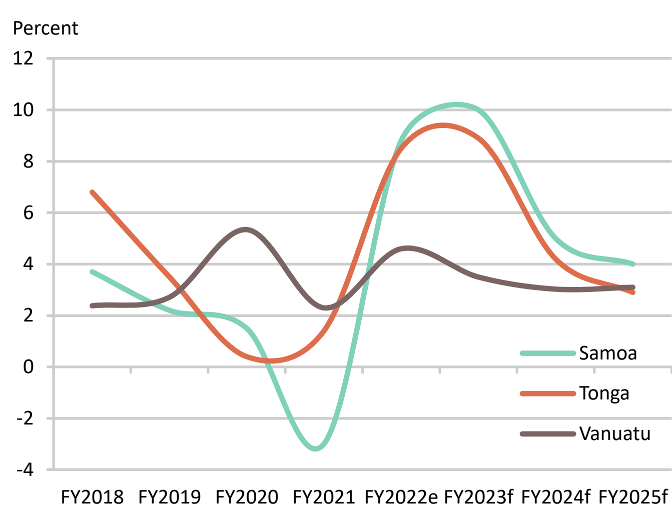
The **Tongan** economy contracted by an estimated 2 percent in FY22. The volcanic eruption and subsequent tsunami in January 2022 led to a sharp fall in agricultural production, travel, and commercial services. According to the World Bank phone surveys collected in 2022, the recovery of

FIGURE 1 South Pacific Islands / Overall fiscal balance



Sources: National sources and World Bank projections.

FIGURE 2 South Pacific Islands / Inflation



Sources: National sources and World Bank projections.

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

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

Outlook

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

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

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

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

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

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

Sources: World Bank and IMF.

Notes: e = estimate; f = forecast. Financial years for Samoa and Tonga are July-June, for Vanuatu it is January-December. Samoa improved the methodology for GDP calculation and revised the historical data in March 2022 GDP release. The MPO write-up for Vanuatu does not include the impacts of TC Judy and TC Kevin that passed over the country in the week of February 27, 2023.

a/ Calculations based on EAPPOV harmonization, using 2019-NSDP.

b/ Projection using neutral distribution (2019) with pass-through = 1 (High) based on GDP per capita in constant LCU.

THAILAND

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

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

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

Key conditions and challenges

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

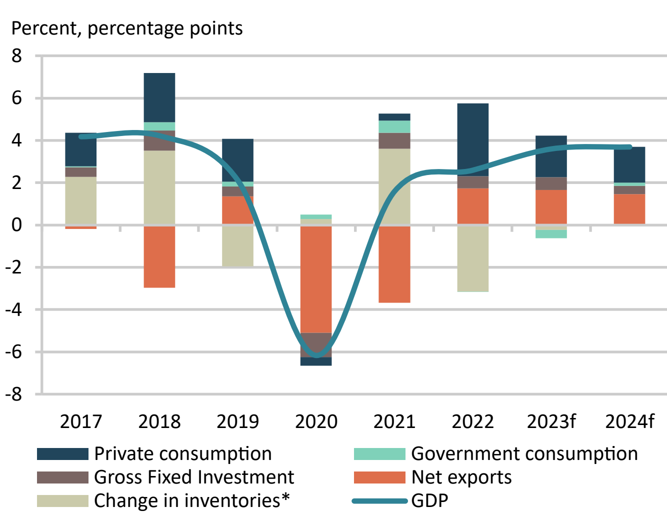
Fiscal measures aimed at mitigating the cost-of-living shock have supported economic activity but slowed fiscal consolidation. While total public spending has declined due to lower Covid-19 relief spending, it remained well above the pre-pandemic level as energy subsidies, including diesel and cooking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

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

Recent developments

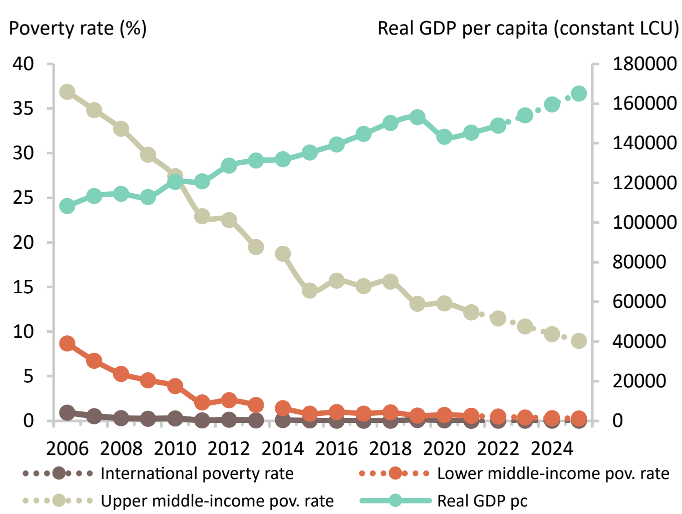
Economic growth decelerated more than expected in 2022Q4 to 1.4 percent (yoy) following weakening goods trade despite resurgent private consumption and strong tourism inflows. On a quarterly basis, GDP declined 1.5 percent (seasonally adjusted). As a result, output, having previously recovered to pre-pandemic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

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



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

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



Source: World Bank. Notes: see Table 2.

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

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

Outlook

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

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

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

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

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

TIMOR-LESTE

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

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

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

Key conditions and challenges

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

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

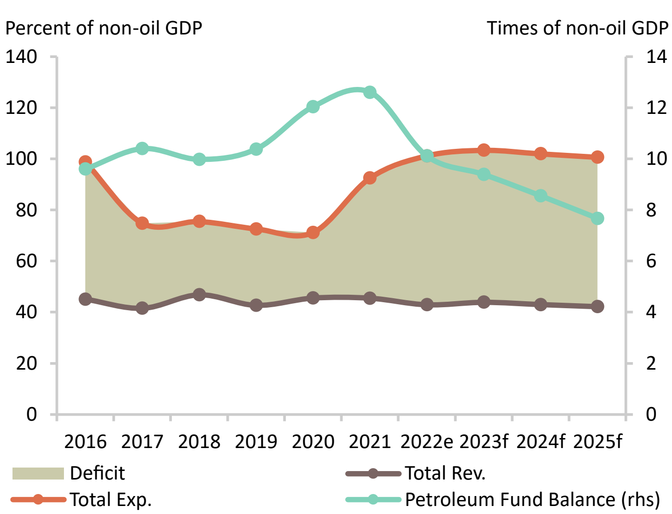
Since 2005, the Government has saved a portion of the oil revenues in the Petroleum Fund (PF), which has been the primary source of financing for large fiscal and trade deficits. However, as hydrocarbons production stopped in early 2023, the Fund balance is rapidly declining. The Ministry of Finance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

Recent developments

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

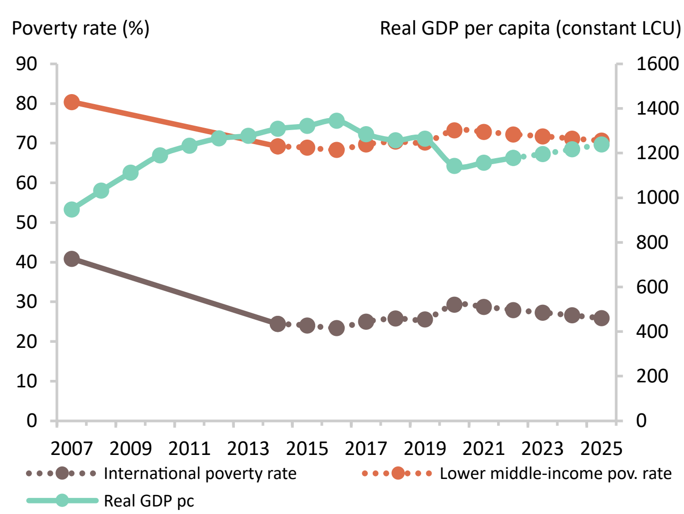
The recovery has turned the current account surplus in 2021 (2.7 percent of non-oil GDP) into an 11.8 percent deficit in 2022. Although service exports, particularly in the tourism sector, expanded, they were outpaced by import growth due to recovering domestic demand. With limited availability of financial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

FIGURE 1 Timor-Leste / Fiscal spending remains high



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

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



Source: World Bank. Notes: see Table 2.

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

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

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

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

Outlook

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

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

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

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

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

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

VIETNAM

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

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

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

Key conditions and challenges

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

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

Recent developments

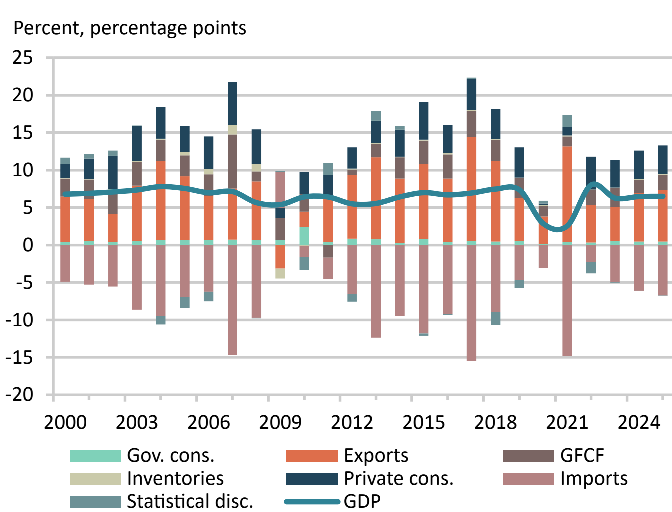
Real GDP expanded by 8.0 percent in 2022, mainly due to low base effects. The rebound was driven by the recovery of private demand after COVID-related restrictions caused a significant decline in 2021. Retail sales expanded by 17.1 percent and the service sector recorded 10 percent growth in 2022. A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

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

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

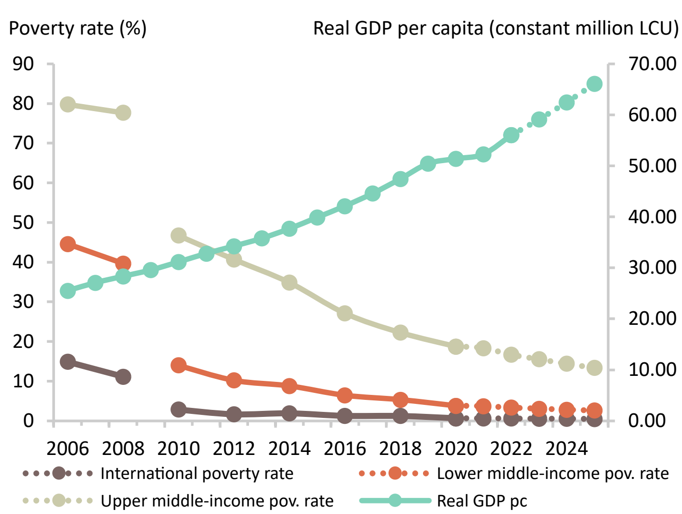
The external balance of payment (BOP) weakened in 2022. The current account registered a deficit of US$4.9 billion in the first nine months of 2022 and is estimated to have remained in deficit for the year. Meanwhile, the financial account surplus

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



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

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

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

Outlook

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

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

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

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

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

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

Europe and Central Asia

Spring Meetings 2023

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

ALBANIA

Table 1	2022
Population, million	2.8
GDP, current US$ billion	20.0
GDP per capita, current US$	7069.2
International poverty rate ($2.15)[a]	3.9
Lower middle-income poverty rate ($3.65)[a]	11.3
Upper middle-income poverty rate ($6.85)[a]	34.2
Gini index[a]	36.0
School enrollment, primary (% gross)[b]	95.9
Life expectancy at birth, years[b]	77.0
Total GHG emissions (mtCO2e)	7.5

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

Growth in 2022 is estimated at 3.5 percent, as private consumption, exports, and investment expanded, despite increasing energy and food prices. Growth is expected to remain subdued for 2023. Poverty is expected to continue its downward trend. Medium-term prospects hinge on global recovery, structural reforms, and fiscal consolidation.

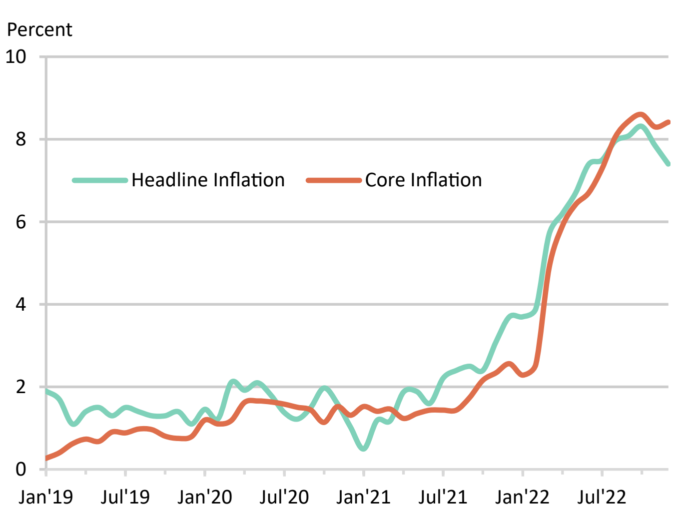
Key conditions and challenges

The Albanian economy has shown considerable resilience in the face of consecutive shocks since 2019-2020. During 2021-2022, the economy experienced a strong rebound, with GDP fully recovering to pre-pandemic levels. Real GDP expanded by 8.5 percent in 2021, surpassing its level in 2019 by 4.7 percent and fully closing the output gap. Poverty levels continued their downward trend in 2022.
Key drivers of Albania's resilience have been the proximity to the European Union (EU), as well as strong remittances and exports. The availability of hydropower, which meets 85 percent of domestic energy demand in a year with average precipitation, has contributed to contain the country's greenhouse gas emissions and has provided some insulation from the ongoing energy crisis; more diversification through other renewable energy (RE) sources, and the development of the RE market, is needed to strengthen energy security at affordable prices. Key challenges are a declining population, also due to large migration; the poor quality of the labor force and of the jobs created; the moderate pace of reforms; and rising fiscal pressures, due also to rising debt and contingent liabilities. The government has to carefully balance the need to mitigate the impact of multiple shocks on the households against the necessity of gradual fiscal consolidation. A sound Medium-Term Revenue Strategy (MTRS) could make a more ambitious, revenue-based consolidation possible.
Unlocking further growth is conditional on the swift implementation of the Government's program, anchored on the EU accession aspiration and built on reforms tackling productivity, including improving the business environment, streamlining government interactions with the private sector, and expanding Albania's integration into foreign markets.

Recent developments

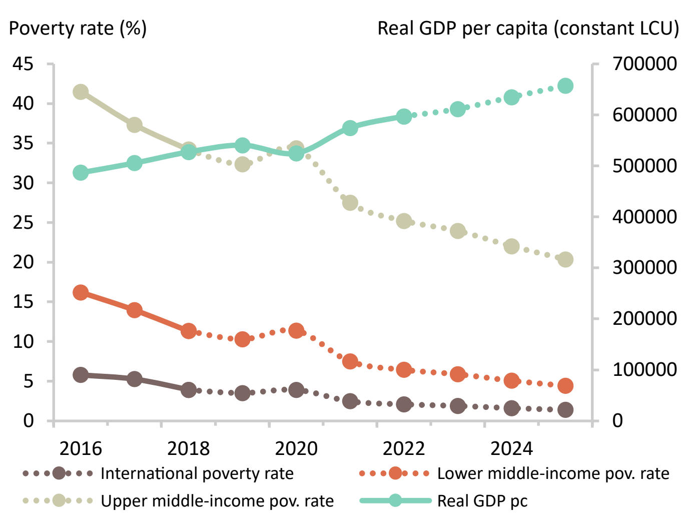
Albania's economy is estimated to grow at 3.5 percent in 2022. Despite increasing energy and food prices, in line with the 2021 trend, household consumption and exports rose by 8.4 and 11.3 percent respectively for the first three quarters. After driving growth in 2021, gross fixed capital formation slowed in 2022, as government capital expenditures declined. On the supply side, trade and construction led growth. Lower energy production from hydropower subtracted from growth, given an exceptionally dry year.
Annual employment growth accelerated to an average of 3.9 percent in the first three quarters of 2022. Job creation was broad-based, while the number of vacancies increased, putting upward pressure on wages. Unemployment fell to a record low of 10.6 percent in Q3 2022, while labor force participation increased.
Given the strong growth in GDP per capita in 2022, poverty is estimated to

FIGURE 1 Albania / Headline inflation and core inflation



Sources: INSTAT and World Bank.

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



Source: World Bank. Notes: see Table 2.

have declined from 27.5 percent in 2021 to 25.2 percent in 2022.

The annual inflation rate rose to 8.3 percent in October 2022, the highest since March 2020, driven by food and transport prices, adversely impacting the poorest citizens. The central bank raised its policy rate to 2.75 percent in November.

Credit growth supported the recovery in 2022. While capital adequacy is above regulatory requirements, the banking system remains susceptible to credit, exchange, and interest rate risks.

In 2022, the fiscal position improved on account of stronger-than-expected revenue collection and spending restraint. To provide temporary and targeted support to the most vulnerable, the Government revised the budget four times in 2022, bringing overall support to 0.6 percent of GDP. Additional subsidies were provided to the electricity state-owned enterprises (SOEs) amounting to 1 percent of GDP.

In 2022, strong exports' growth helped mitigate the impact of rising imports. Yet, the current account deficit remains elevated.

Outlook

Growth is expected to remain subdued in 2023, in the context of tighter global financial conditions, expected economic slowdown in Europe, and the withdrawal of policy support for the post-earthquake reconstruction. Real exports, consumption, and investment are expected to grow at rates below those in the pre-pandemic period.

The inflation rate is projected to start converging toward the 3 percent target by 2025. The central bank is expected to further increase the policy rate by an additional 2–2.5 percentage points in 2023.

The primary balance is projected to reach 0.7 percent of GDP only after 2023, in observance of the fiscal rule. Fiscal consolidation will largely come from the spending side. On the revenue side, the Government plans to introduce a number of tax policy measures, envisioned in the MTRS. The revenue gains of these measures in the short term are expected to be netted off by slower growth and partially by the increase in the minimum taxable wage introduced at the end of 2022.

Public debt is expected to decline slightly to 67.9 percent of GDP in 2023, and more significantly over the medium term, as a result of higher nominal growth and a gradual reduction of the fiscal deficit. Given Albania's growing reliance on external financing, the exchange rate, interest rate, and refinancing related risks remain elevated.

Further increases in food and energy prices are a key risk to growth, as they could affect real disposable income, slow poverty reduction, and constrain fiscal space. As a small, open economy, Albania is highly exposed to external shocks, such as recession in Europe or further tightening of financing conditions in international capital markets beyond the current year. Domestic risks emanate from natural disasters, public-private partnerships, and SOEs, in addition to fiscal risks stemming from the energy sector.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-3.5	8.5	3.5	2.2	3.4	3.4
Private Consumption	-3.5	4.2	2.5	2.6	2.5	2.7
Government Consumption	1.5	7.8	0.7	-0.3	1.6	1.3
Gross Fixed Capital Investment	-0.9	19.8	1.8	0.5	3.1	3.3
Exports, Goods and Services	-27.9	46.0	8.3	5.1	6.3	6.2
Imports, Goods and Services	-19.8	31.7	3.5	3.4	3.3	3.7
Real GDP growth, at constant factor prices	-2.9	8.6	3.5	2.2	3.4	3.4
Agriculture	0.3	1.5	1.4	1.3	1.5	1.5
Industry	-3.5	10.8	2.6	1.3	3.7	3.5
Services	-3.8	10.3	4.6	2.9	4.0	3.9
Inflation (Consumer Price Index)	2.2	2.6	6.7	4.0	3.5	3.0
Current Account Balance (% of GDP)	-8.5	-7.7	-7.7	-7.8	-7.7	-7.6
Net Foreign Direct Investment Inflow (% of GDP)	6.7	6.4	6.5	6.5	6.5	6.6
Fiscal Balance (% of GDP)	-6.7	-4.5	-3.3	-2.7	-2.4	-2.4
Revenues (% of GDP)	25.9	27.0	27.9	28.6	28.3	28.3
Debt (% of GDP)	75.9	74.0	68.5	67.8	66.6	65.5
Primary Balance (% of GDP)	-4.6	-2.6	-1.3	0.0	0.7	0.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.9	2.5	2.1	1.9	1.6	1.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	11.4	7.5	6.4	5.9	5.1	4.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	34.4	27.5	25.2	23.9	22.0	20.4
GHG emissions growth (mtCO2e)	-8.7	-1.7	-4.0	-4.4	-3.7	-10.2
Energy related GHG emissions (% of total)	44.5	44.6	43.0	40.7	38.7	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 ECAPOV harmonization, using 2017-SILC-C and 2019-SILC-C. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection using point-to-point elasticity (2016-2018) with pass-through = 1 based on GDP per capita in constant LCU.

ARMENIA

Table 1	2022
Population, million	2.8
GDP, current US$ billion	19.5
GDP per capita, current US$	7014.2
International poverty rate ($2.15)[a]	0.5
Lower middle-income poverty rate ($3.65)[a]	8.7
Upper middle-income poverty rate ($6.85)[a]	51.7
Gini index[a]	27.9
School enrollment, primary (% gross)[b]	91.1
Life expectancy at birth, years[b]	72.2
Total GHG emissions (mtCO2e)	13.5

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

Economic growth was 12.6 percent in 2022, much higher than initially expected, mainly due to significant increases in services and private consumption, fueled by strong inflows of migrants and capital from Russia. The outlook is subject to significant uncertainty, due to the risk of reversal of inflows, continued geopolitical tensions, and unresolved issues at the Armenian border.

Key conditions and challenges

In 2022, Armenia absorbed a significant inflow of migrants, businesses, and capital following Russia's invasion of Ukraine. The country also benefited from the re-routing of some trade and financial flows through Armenia. These developments fueled domestic demand and supported the appreciation of the currency; they increased reserve levels and reduced credit dollarization.

Armenia's sound macroeconomic policies (active inflation targeting, adherence to prudent fiscal policy, and sound financial sector oversight) have supported generally positive economic performance in the last few years despite several significant shocks. Armenia has also pursued significant reforms, particularly aimed at reducing corruption and increasing transparency. However, significant structural challenges persist, which result in weak productivity, low investment and inability to attract FDI, limited human capital, an undiversified economic structure, and a narrow export base and export destinations.

Recent developments

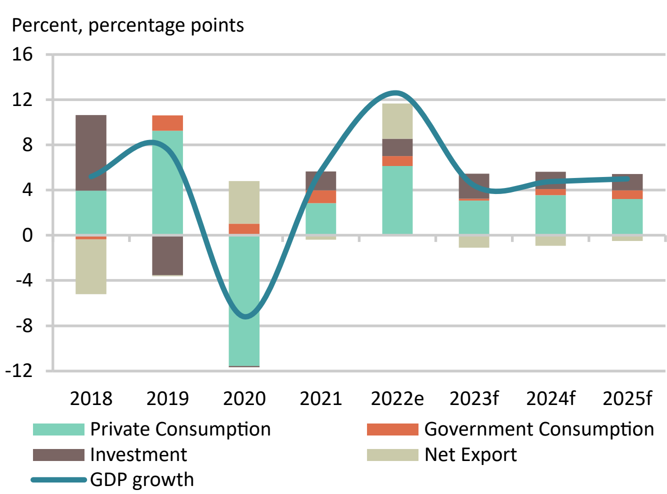
Economic performance in 2022 was unexpectedly strong, with real GDP growth reaching 12.6 percent. Robust growth in services (up 17.7 percent, yoy) contributed to approximately three-quarters of total growth. This was mainly driven by the finance, IT, transport, accommodation, and public catering sub-sectors. Industry and construction grew by 6 percent and 19 percent (yoy), respectively. While mining contracted by 3.2 percent in real term (yoy), manufactured base metal products show 16 percent growth (yoy). Agriculture contracted by 0.7 percent (yoy), reflecting challenges in the sector and possible limitations in actual data collection. On the demand side, growth was driven largely by private consumption (up 8.1 percent, yoy) fueled by exceptionally high inflows of people and funds from Russia, and by a 10 percent increase in real wages, driven by strong growth in wages in IT and finance.

The unemployment rate fell to 11.6 percent in Q3 2022, down from 15.5 percent at end-2021, and this is expected to drive substantial poverty reduction in 2022.

Inflation averaged 8.6 percent in 2022 compared to 7.2 percent in 2021. Inflation eased from a peak of 10.3 percent (yoy) in mid-2022 to 8.1 percent (yoy) in January 2023, as the Central Bank of Armenia (CBA) increased the policy rate by 300 bps in 2022, and international food and energy prices eased in recent months. The unprecedented appreciation of the AMD has also helped contain inflationary pressures.

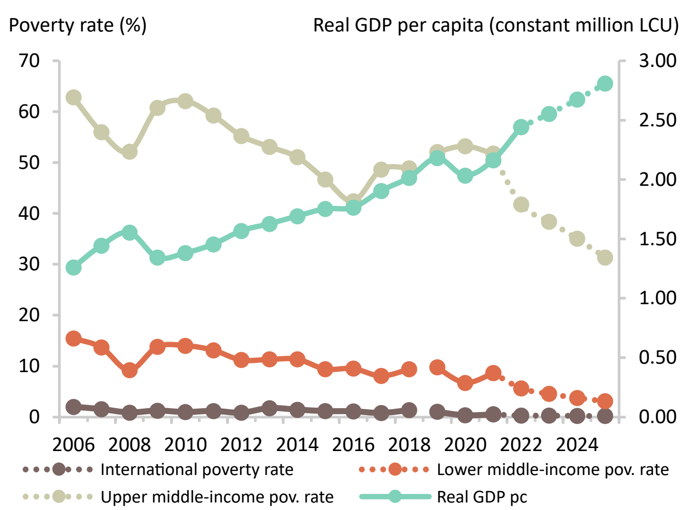
Fiscal performance was robust in 2022, with the budget deficit narrowing from 4.6 percent of GDP in 2021 to 2.2 percent in 2022 due to strong revenue collection. Tax revenues rose by 21 percent (yoy) in nominal terms, mostly driven by VAT and by increases in income and profit tax

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



Sources: Statistical Committee of Armenia and World Bank staff projections.

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



Source: World Bank. Notes: see Table 2.

collection. While current spending grew only by 4 percent, capital expenditures increased by 193 percent (yoy), accounting for 4.6 percent of GDP, the highest level in the last decade. This was partly due to higher defense spending.

Driven by robust economic and fiscal performance and the appreciation of the AMD, government debt to GDP declined sharply, down 13.6 percentage points in 2022, bringing the debt to GDP ratio to 46.7 percent by end-2022.

The external balance improved significantly in 2022 with an unprecedented increase in exports of goods and services. Merchandise exports increased by 77.7 percent in 2022 in nominal terms, as the exports of machines and instruments, transport vehicles, and precious stones, surged, partly driven by re-exports to Russia. In turn, merchandise imports increased by 63.5 percent in 2022. Receipts both from tourism-related services and money transfers tripled (yoy) in 2022, mostly due to a significant increase in inflows from Russia. FDI more than doubled, mostly driven by investment in the financial sector and Russian investment in the real sector (particularly in mining, energy, and real estate). International reserves were boosted to the historically high level of USD 3.7 billion, or 4.4 months of import cover, at end-January 2023. As a result of high financial inflows and the switch to the RUB for gas import payments, the AMD strengthened significantly, with the average exchange rate against the USD appreciating by 14 percent in nominal terms and by 34 percent in real effective terms (yoy) in 2022.

Outlook

Growth is expected to ease to about 4.5 percent in 2023, due to the high base of 2022 and a slowdown among trading partners. Some pick-up in growth in the medium-term will be supported by consumption and higher private investment. On the production side, services are expected to remain the main driver of growth, followed by industry. Inflation is forecast to decline gradually to its target level of 4 percent by 2025. In line with the Government's medium-term expenditure framework, the fiscal deficit is expected to decrease from a planned 3.1 percent in 2023 to 2.5 percent in 2025. The current account deficit is forecast to deteriorate in 2023, after the sharp improvement in 2022, and to stabilize at around 3 percent of GDP over the medium-term.

Macroeconomic projections suggest that the population below the UMIC poverty line (USD 6.85/day, 2017 PPP) will have decreased from 51.7 percent in 2021 to 41.8 percent in 2022, and to a projected 38.4 percent in 2023. However, high inflation, particularly affecting food and real estate, may have a negative impact on the poorest households.

A reversal in inflows coupled with persistent inflation and further monetary tightening in advanced economies would put pressure on the currency, potentially resulting in balance sheet pressures and refinancing challenges. A possible extension of sanctions to Russia's main trade partners as well as geopolitical developments are another source of downside risks. On the upside, stronger inflows from Russia could lift growth above the forecast.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-7.2	5.7	12.6	4.4	4.8	5.0
Private Consumption	-13.9	3.7	8.1	4.2	4.9	4.4
Government Consumption	9.2	8.4	6.5	1.3	4.3	6.2
Gross Fixed Capital Investment	-1.5	6.3	9.5	11.4	7.3	6.7
Exports, Goods and Services	-33.5	16.6	54.4	9.8	9.2	8.5
Imports, Goods and Services	-31.5	12.9	33.8	10.5	9.5	8.1
Real GDP growth, at constant factor prices	-6.8	5.5	13.2	4.4	4.8	5.0
Agriculture	-3.7	-0.6	-0.7	1.2	2.0	2.7
Industry	-2.5	3.4	9.4	4.9	4.2	3.9
Services	-9.6	8.0	18.1	4.7	5.5	5.9
Inflation (Consumer Price Index)	1.2	7.2	8.6	6.5	4.5	4.0
Current Account Balance (% of GDP)	-3.8	-3.7	-0.4	-2.2	-2.7	-3.0
Net Foreign Direct Investment Inflow (% of GDP)	0.7	2.5	4.1	2.1	2.2	2.5
Fiscal Balance (% of GDP)	-5.1	-4.6	-2.2	-3.1	-2.8	-2.5
Revenues (% of GDP)	26.0	25.0	25.1	25.0	25.2	25.6
Debt (% of GDP)[a]	63.5	60.3	46.7	49.2	48.6	48.0
Primary Balance (% of GDP)	-2.4	-2.0	0.2	-0.2	0.2	0.4
International poverty rate ($2.15 in 2017 PPP)[b,c]	0.4	0.5	0.3	0.3	0.2	0.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	6.7	8.7	5.6	4.5	3.8	3.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	53.2	51.7	41.8	38.4	35.0	31.4
GHG emissions growth (mtCO2e)	-1.8	15.4	19.5	7.1	8.3	9.7
Energy related GHG emissions (% of total)	60.3	66.5	72.4	74.5	76.6	78.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Includes Governement and CBA debt.
b/ Calculations based on ECAPOV harmonization, using 2021-ILCS. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.
c/ Projection using neutral distribution (2021) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

AZERBAIJAN

Table 1	2022
Population, million	10.2
GDP, current US$ billion	76.8
GDP per capita, current US$	7533.4
School enrollment, primary (% gross)[a]	94.3
Life expectancy at birth, years[a]	66.9
Total GHG emissions (mtCO2e)	53.3

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

Economic growth was 4.6 percent in 2022, driven by non-energy sectors supported by recovering demand and fiscal expansion. Inflation accelerated sharply to 13.8 percent, driven by import prices. In the medium-term, growth is expected to moderate as non-energy sector growth returns to pre-COVID levels while the energy sector shrinks further. Risks to this outlook are balanced.

Key conditions and challenges

Azerbaijan's continued reliance on hydrocarbons as a major source of export and fiscal revenues remains its main vulnerability. This poses risks to long-term growth due to declining oil production, oil price volatility, and the global transition away from fossil fuels.

Constraints to private sector development include a large state footprint in the economy, lack of a level playing field for firms, shallow financial markets, and a weak human capital base.

Another key development challenge for Azerbaijan is post-conflict reconstruction in liberated territories, which will require substantial public resources and adequate planning and implementation of investments, to ensure efficiency and fiscal sustainability.

Azerbaijan's 2022–2026 Socio-Economic Development Strategy lays out a reform plan to move to a private-sector-led growth model and the development of human capital, with a target of sustained 5 percent growth in non-energy sectors during 2022–2026.

Recent developments

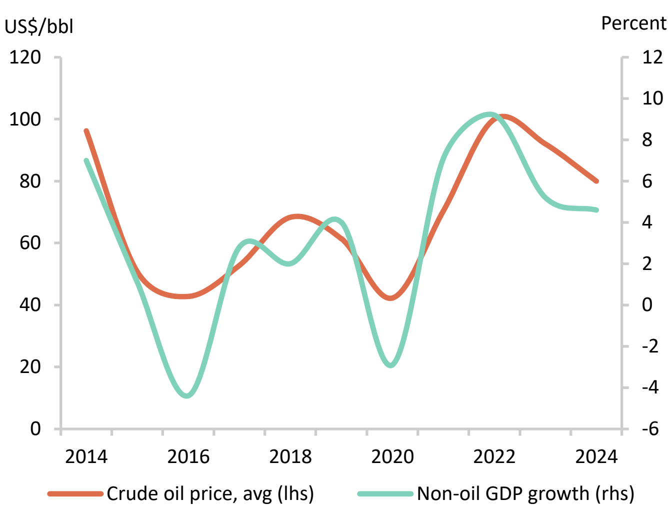
The economy expanded by 4.6 percent (yoy) in 2022, supported by strong growth in non-energy sectors. The energy sector shrank by 2.6 percent (yoy) as continued fall in oil production was only partially offset by an increase in natural gas production. The non-energy sector grew by 9.1 percent (yoy) in 2022 compared to 7.2 percent (yoy) in 2021, driven by services, including transport (largely due to trade rerouting following Russia's invasion of Ukraine), hospitality, and ICT. The construction sector also performed well, expanding by 13.4 percent (yoy) due to a sharp increase in public investment.

On the demand side, consumption grew at a healthy pace in 2022, supported by growth in real wages and a surge in money transfers from Russia (up 5.5-fold, yoy). Investment rebounded strongly, supported by public investment largely directed toward reconstruction in liberated territories.

Inflation rose from 6.7 percent in 2021 to 13.8 percent by end-2022, driven by high import prices, particularly for food. To counter inflationary pressures, the Central Bank of Azerbaijan (CBA) raised the policy rate by 100 bps during 2022 to 8.25 percent. However, the policy rate remains negative in real terms.

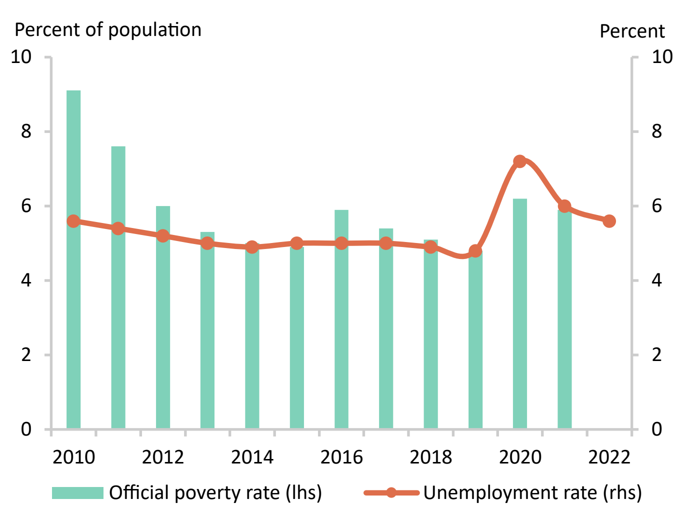
Soaring energy prices boosted exports in the first nine months of 2022 with exports doubling in nominal terms (yoy) while imports increasing by 28 percent (yoy). Strong exports coupled with the sharp increase in money transfers from Russia pushed the current account to a surplus of 30.7 percent of GDP over this period. This was offset partly by net financial outflows, which picked up to 16.6 percent of GDP, largely driven by investment repatriation by energy companies.

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



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

FIGURE 2 Azerbaijan / Official poverty rate and unemployment rate



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

Foreign currency reserves increased by 27 percent in 2022, to USD 9 billion, covering 5.3 months of imports.

The fiscal balance recorded a surplus of 5.4 percent of GDP in 2022. This was driven by a 24.7 percent (yoy) nominal increase in fiscal revenues. Fiscal spending increased by 17 percent (yoy) due to a 31 percent (yoy) increase in public investment. Higher fiscal revenues allowed the Government to cut transfers from the State Oil Fund of the Republic of Azerbaijan (SOFAZ) to the budget in 2022, which increased SOFAZ reserves by 9 percent to USD 49 billion (62 percent of GDP). Public debt declined to 11.7 percent of GDP.

Credit to the economy rose by 18 percent (yoy) in 2022, driven by a 27.3 percent (yoy) increase in consumer lending. The bank NPL ratio fell from 4.2 to 2.9 percent and bank profits increased substantially.

Outlook

Economic growth in 2023 is expected to moderate to 2.2 percent. On the energy side, the slowdown is driven by a projected fall in oil and gas production, due to the main oil field's declining production profile and the main natural gas field's near full capacity.

Growth in non-energy sectors is expected to ease to 5.2 percent, after two years of rapid growth, as it converges to the pre-COVID growth path. Growth will be supported largely by services and construction, which is expected to remain robust due to strong public investment focused on reconstruction. In the medium-term, growth is expected to average 2.5 percent in the absence of structural reforms.

On the demand side, consumption is estimated to ease in 2023, converging to pre-COVID levels. Increase in minimum wages, pensions, and social transfers are expected to prevent a steeper fall in consumption. Investment is expected to ease in the medium-term, as the private investment outlook remains cloudy due to continuing challenges in the business environment. External demand is likely to moderate in the medium-term as well, with slowing global growth and weaker prospects for global energy demand.

Inflation is projected to slow to 8.5 percent in 2023 as international prices ease, while remaining above the CBA's upper range. Over the medium-term, inflation is expected to moderate and return to the CBA's target interval of 4+/–2 percent by 2025.

The external balance is projected to remain in surplus in 2023 supported by high energy prices. Imports are expected to remain robust in 2023 supported by domestic demand, while moderating in the medium-term as growth slows. The fiscal balance is estimated to remain in surplus in the medium-term, averaging 3.9 percent of GDP. High energy revenues are expected to offset higher spending arising from the implementation of the recently approved 2022–2026 Socio-Economic Development Strategy.

The main downside risks to the outlook include the risk of reversals of money transfers from Russia and trade rerouting, which has benefited the Azerbaijani transport sector following the war in Ukraine. Upside risks in the medium-term include higher-than-forecasted energy prices and a potential ramp up of natural gas exports to the EU.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-4.3	5.6	4.6	2.2	2.5	2.6
Private Consumption	-5.1	7.0	4.9	4.0	3.6	3.6
Government Consumption	4.8	3.8	7.4	4.2	3.1	3.1
Gross Fixed Capital Investment	-7.1	-6.0	4.5	3.2	3.3	3.3
Exports, Goods and Services	-8.1	5.6	3.3	0.8	1.6	1.8
Imports, Goods and Services	-10.5	2.5	3.2	2.7	2.7	2.7
Real GDP growth, at constant factor prices	-4.4	5.6	4.6	2.2	2.5	2.6
Agriculture	1.9	3.3	3.4	3.2	3.0	3.0
Industry	-5.2	4.1	2.4	0.5	1.0	1.2
Services	-4.4	8.6	8.5	4.7	4.5	4.6
Inflation (Consumer Price Index)	2.8	6.7	13.8	8.5	6.2	5.4
Current Account Balance (% of GDP)	-0.5	15.2	26.5	19.2	14.8	13.0
Net Foreign Direct Investment Inflow (% of GDP)	-1.5	-4.1	-1.5	-1.0	-1.0	-0.9
Fiscal Balance (% of GDP)	-6.5	4.2	5.5	4.8	4.0	3.0
Revenues (% of GDP)	33.7	36.5	32.4	33.1	33.1	31.6
Debt (% of GDP)	18.4	16.2	11.7	10.9	10.8	11.0
Primary Balance (% of GDP)	-5.7	4.8	5.9	5.1	4.3	3.3
GHG emissions growth (mtCO2e)	-1.4	0.9	1.3	0.3	1.0	1.7
Energy related GHG emissions (% of total)	62.6	64.0	64.4	64.3	64.5	64.8

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

BELARUS

Table 1	2022
Population, million	9.3
GDP, current US$ billion	72.0
GDP per capita, current US$	7732.1
Upper middle-income poverty rate ($6.85)[a]	1.3
Gini index[a]	24.4
School enrollment, primary (% gross)[b]	94.2
Life expectancy at birth, years[b]	74.2
Total GHG emissions (mtCO2e)	57.2

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

Real output dropped by 4.7 percent in 2022 after 2.4 percent growth the year before, largely due to an adverse impact of sanctions. Households' real income declined. As the economy was adjusting to the new environment, trade and financial dependence on Russia increased. Inflation picked up significantly and the government resorted to administrative price controls to bring it down to 15.2 percent.

Key conditions and challenges

Belarus' economy completed 2022 in a recession with the steepest GDP decline recorded in the last twenty years. The economy was adjusting to economic sanctions introduced after the disputed 2020 elections and in response to Belarus' involvement in Russia's invasion of Ukraine. As businesses were exploring new export transportation routes, supply chains and markets, foreign trade dynamics and patterns changed accordingly. The share of Russia and other CIS countries in total merchandise export destinations increased from 60 to 68 percent over one year, while the non-CIS share dropped to 32 from 40 percent. The share of merchandise imports did not change substantially. To offset the repercussions of sectoral economic sanctions and other restrictions, the Belarusian authorities increasingly relied on economic support from Russia. The agreements included: (i) securing preferential gas prices, which are close to domestic prices in Russia, to contain production costs in industry and heating tariffs for households; (ii) obtaining compensation from Russia for the 'tax maneuver' to lower the price of imported crude oil and increasing sales of refinery products to the Russian market; and (iii) using Russian ports and other facilities to reroute export flows.

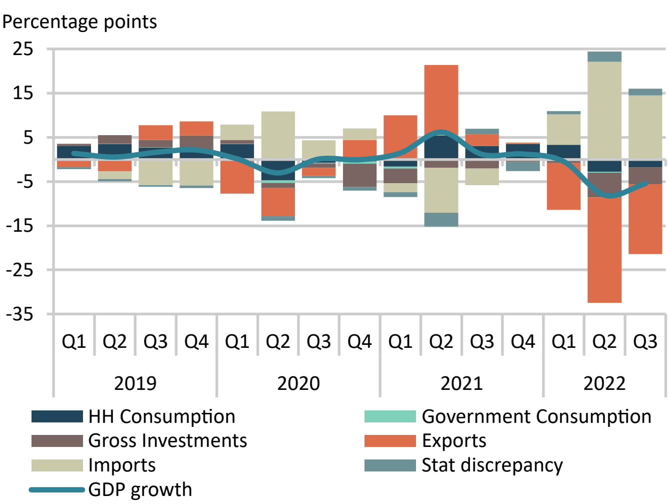
Sanctions against the financial sector limited the possibility to borrow from abroad. The government's decision to service Eurobonds in local currency instead of US$ (including a US$800 million Eurobond repayment in end-February 2023) resulted in a sovereign ratings downgrade to 'RD'. Belarus reached an agreement with Russia to defer repayments totaling US$ 1.4 billion on bilateral loans from 2022-23 to 2028-33 and on the Nuclear Power Plant loan from 2023 to 2024.

The authorities seek to reinvigorate growth by boosting investments into import-substitution projects implemented jointly with Russia.However, downside risks remain significant as the likelihood of additional economic sanctions is high subject to Belarus' role in the war in Ukraine.

Recent developments

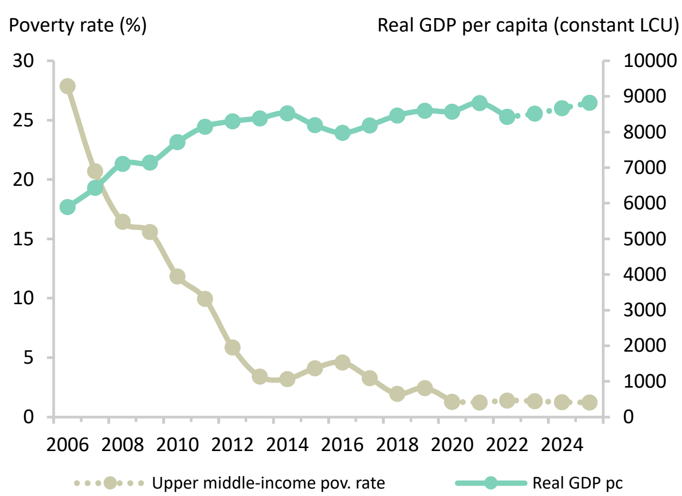
GDP declined by 4.7 percent, vs. 2.4 percent growth in 2021, reflecting a broad-based output contraction in manufacturing, construction, transportation, wholesale, and retail trade due to logistics and supply chain constraints because of sectoral sanctions. ICT, the most rapidly developing sector, recorded for the first time an annual output decline of 2.2 percent (including 10 percent in H2'22) reflecting business relocation and labor outflow. On the expenditure side, domestic demand remained suppressed as final consumption declined and fixed investments contracted by 14.4 percent by Q3 despite falling real interest rates reflecting a highly uncertain business environment.

FIGURE 1 **Belarus** / Contributions to quarterly GDP growth



Source: World Bank calculations based on Belstat data.

FIGURE 2 **Belarus** / Actual and projected poverty rate and real GDP per capita



Source: World Bank. Notes: see Table 2.

Total exports dropped by 5.4 percent y/y while imports declined by 6.6 percent in nominal US$ terms. As companies reoriented export destinations towards the East, merchandise exports to non-CIS countries plunged by 24 percent y/y while CIS increased by 9.1 percent. Merchandise imports from both destinations dropped, however, imports from non-CIS countries remained more resilient and even increased from selected EU countries. As imports declined faster than exports, foreign trade remained in surplus at 7.5 percent of GDP and supported CA surplus of 4.1 percent of GDP in January to September 2022.

Headline inflation picked up to 18.1 percent in July. To curb inflation, the authorities introduced price regulations for 330 goods and administratively limited mark-ups for importers and retail trade which helped to reduce the CPI to 12.8 percent y/y in December but reduced the availability of a range of selected goods. Average annual inflation reached 15.2 percent in 2022.

Households' real disposable incomes declined by 3.6 percent y/y vs. 2.1 percent growth in 2021. Based on the upper middle-income line of US$6.85 a day (2017 PPP), poverty is low and estimated to have increased slightly in 2022.

Outlook

A weak economic growth is projected for 2023 as the economy will be further adjusting to an environment shaped by sanctions. A small uptick in economic activity will be supported by a projected recovery in the petrochemical sector, machinery and food processing industries which are oriented towards the Russian market or have established export routes through Russia. Accommodating monetary policy to support credit expansion and import-substitution projects that are planned to be jointly implemented with and financed by Russian loans would also support some recovery in manufacturing. Supply-side and logistical constraints will still remain and will be partially alleviated by 'parallel' imports. This will still have an adverse impact on producers.

Private sector growth will be affected by tightening business conditions due to changes in the tax code, which imply a 100 percent increase in tax rate paid by self-employed physical persons and individual entrepreneurs, while the simplified tax regime for individual entrepreneurs will be eliminated.

Resuming household income growth will depend on the extent to which economic growth can be maintained in a challenging external environment with constrained fiscal space. Poverty is projected to decrease only marginally in 2023 on the back of weak growth.

The medium-term prospects remain bleak as the downside risks remain significant including the possible introduction of additional sectoral sanctions, possible negative spillovers from the Russian economy, failures to adjust to the sanctions regime, and expansionary domestic policies in a bid to spur growth at the expense of maintaining macroeconomic and financial stability. Also, forecasting is affected by an increasing lack of access to important data, including on fiscal accounts, production and trade of sanctioned commodities, and the structure of foreign reserves.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-0.7	2.4	-4.7	0.6	1.4	1.3
Private Consumption	-1.1	4.9	-1.2	0.2	3.1	3.1
Government Consumption	-2.0	-0.8	-0.1	0.1	0.6	-0.3
Gross Fixed Capital Investment	-3.9	-5.5	-13.3	3.5	2.2	2.5
Exports, Goods and Services	-3.7	10.1	-12.3	3.5	4.0	3.0
Imports, Goods and Services	-7.4	5.7	-11.4	4.5	6.3	5.2
Real GDP growth, at constant factor prices	-0.7	2.4	-4.7	0.6	1.4	1.3
Agriculture	4.8	-4.1	4.4	3.2	2.0	2.6
Industry	-0.4	3.1	-6.2	2.1	2.5	2.3
Services	-1.8	3.0	-5.1	-1.0	0.4	0.3
Inflation (Consumer Price Index)	5.5	9.5	15.2	11.0	10.0	8.0
Current Account Balance (% of GDP)	-0.3	3.1	3.7	-0.1	-0.4	-0.6
Net Foreign Direct Investment Inflow (% of GDP)	2.1	1.9	1.8	1.9	2.0	1.9
Fiscal Balance (% of GDP)	-1.7	0.0	-1.3	-1.1	-0.3	0.0
Revenues (% of GDP)	37.9	37.4	34.7	35.2	35.3	35.1
Debt (% of GDP)	41.1	35.8	38.9	42.1	42.0	41.1
Primary Balance (% of GDP)	0.0	1.7	0.2	0.0	0.7	1.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	1.3	1.2	1.4	1.3	1.2	1.2
GHG emissions growth (mtCO2e)	-2.0	-3.5	-7.6	1.0	-1.5	-1.2
Energy related GHG emissions (% of total)	85.7	85.3	85.2	86.3	86.6	86.6

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 ECAPOV harmonization, using 2020-HHS. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

BOSNIA AND HERZEGOVINA

Table 1	2022
Population, million	3.2
GDP, current US$ billion	23.0
GDP per capita, current US$	7118.9
Life expectancy at birth, years[a]	76.2
Total GHG emissions (mtCO2e)	24.9

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

Real output growth decelerated to 4 percent in 2022 from 7.4 percent the year before largely due to an adverse term of trade shock. The shock accelerated inflation to 14 percent from 2 percent in 2021 and negatively affected welfare, especially for the less well-off. EU candidacy status received in December 2022 could be a catalyst for delayed structural reforms, raising medium-term growth. In 2023, low growth in the EU is expected to dampen economic activity in BiH.

Key conditions and challenges

In December 2022, BiH received EU candidate status. To start the EU accession negotiations, the authorities need to address 14 largely political measures covering democracy, rule of law and fundamental rights, and public administration. In parallel, BiH needs to meet economic criteria that require progress on internal market and state institutional integration, strengthening of state supervisory and regulatory institutions, and reduction of an oversized public sector.

Macroeconomic stability has been maintained over the past decade with the help of three anchors: the currency board linked to the Euro, the state-wide collection of indirect taxes, and EU accession prospects. Macro stability is also enhanced because of fiscal prudence: prior to the pandemic the authorities ran fiscal surpluses between 1 and 3 percent of GDP from 2015 to 2019. The pandemic and post-pandemic period has seen the re-emergence of fiscal deficits, yet public debt levels remain among the lowest in the region, around 35 percent of GDP.

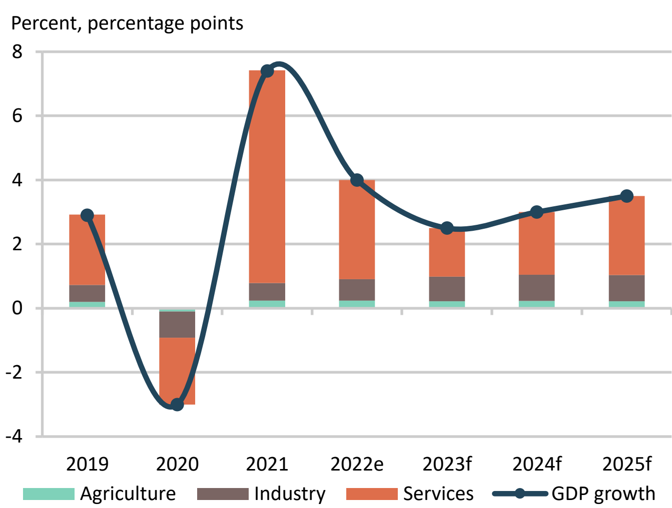
Nevertheless, despite real income growth of 3 percent annually since 2015, per capita GDP has remained at one-third of the EU27 average. Faster economic convergence toward the EU27 average will be difficult to achieve with the country's low investment rates and a growth model that relies heavily on private consumption. Thus, the structural reform agenda needs to gain momentum. Priority reforms include enhancing oversight and management of SOEs, improving the business environment, concluding WTO accession, enhancing employment policies for the youth, reducing the cost of labor, and transitioning to green energy from coal.

Recent developments

Real output growth decelerated to 4 percent in 2022, from 7.4 percent the year before, as a result of two countervailing forces. First, a robust increase in domestic demand of an estimated 6.3 percent driven by private consumption in addition to a surge in investment; and second, adverse terms of trade shock compounded by investment-driven imports, which caused a widening of negative net exports by 26 percent. Private consumption decelerated starting in Q3 of 2022 due to high inflation eroding real disposable income, while on the supply side industrial production growth sharply slowed to 1 percent in 2022.

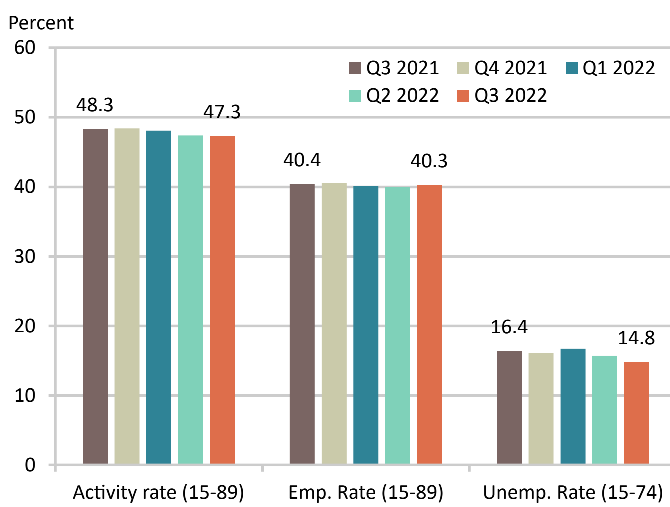
Inflation jumped to 14 percent in 2022 compared to 2 percent in 2021. This sharp rise was driven by surging food and transport prices that grew 22 percent and 26 percent respectively compared to the previous year, and which created challenges for poverty reduction by negatively affecting welfare especially among the poor and vulnerable households. This jump in prices reflected in part the adverse terms of trade shock of a sharp increase in

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



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

FIGURE 2 Bosnia and Herzegovina / Labor market indicators



Sources: LFS 2021-2022 report and World Bank staff calculations.

import prices of processed food and oil products, with the latter feeding into higher prices of other products.

Labor market participation and the employment rate remained unchanged during the first three quarters of 2022, although high unemployment persists at about 14.8 percent, according to LFS Q3.

During 2022, stronger tax revenues supported by high inflation were more than offset by higher spending, which is expected to result in a fiscal deficit of 0.9 percent of GDP in 2022. This compares to a deficit of 0.3 percent of GDP last year, and 5.3 percent of GDP in 2020. Expenditures in 2022 are driven by social measures softening the inflationary impact on households and pre-election spending, including wage hikes, and higher capital expenditures. Nevertheless, public debt remains sustainable at around 35 percent of GDP. Adverse terms of trade and investment-driven imports widened the merchandise trade deficit to 24.4 percent of GDP or by 4.8 percentage points in 2022 compared to the year before. The current account deficit as a result broadened to an estimated 3.1 percent of GDP in 2022 compared to 2.3 percent in 2021. External financing largely entails net FDI inflows and government borrowing.

Outlook

Real GDP is expected to decelerate to 2.5 percent in 2023 as private consumption growth halves due to weakening real disposable income, and negative net exports further deteriorate due to weak output growth in BiH's main export markets. Real output growth is set to reach 3.5 percent by 2025 driven largely by private consumption supported by remittances. Investments in energy and infrastructure are expected to add to the growth stimulus, although not to the same extent as in 2021 and 2022. With general elections completed (October 2022), the attention of policy makers could turn to the structural reform agenda needed for EU accession.

Regarding fiscal policy, phased-out pre-election spending and one-off expenditures in response to the price shock will be in part offset by higher interest payments and the pension hike. That said, a return to fiscal surpluses is expected by 2024.

Inflationary pressures started dissipating toward the end of 2022, and a continuation of this trend is expected in 2023. Nevertheless, inflation is projected to remain around 5 percent in 2023, significantly above pre-pandemic levels. Barring further external shocks, inflation is expected to stabilize in 2024-25 at rates seen prior to the pandemic, at around 2 percent and lower.

Downside risks dominate the outlook. Protracted effects of Russia's invasion of Ukraine could have a negative impact on aggregate demand through depressed consumer and business confidence. Furthermore, war-related uncertainties can dampen the recovery in the EU, adversely impacting demand for BiH exports, except for energy. Adverse labour market developments across the EU could also limit remittances inflows (about 8 percent of GDP), which support private consumption. Inflation, possible lower aggregate demand, and limited remittances inflows create additional challenges for poverty reduction going forward. Finally, geopolitical spillovers could further aggravate domestic political frictions with adverse consequences for the much-needed structural reform push.

TABLE 2 Bosnia and Herzegovina / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-3.3	7.1	4.0	2.5	3.0	3.5
Private Consumption	-4.5	4.0	3.0	2.3	2.5	2.8
Government Consumption	0.5	6.1	2.7	0.5	0.3	0.5
Gross Fixed Capital Investment	-22.0	33.3	19.7	3.5	3.4	2.7
Exports, Goods and Services	-8.5	5.0	9.9	7.0	6.8	6.9
Imports, Goods and Services	-13.4	8.0	12.0	5.0	4.0	3.7
Real GDP growth, at constant factor prices	-3.0	7.4	4.0	2.5	3.0	3.5
Agriculture	-1.5	3.4	3.5	3.3	3.3	3.2
Industry	-3.0	2.0	2.6	3.0	3.2	3.2
Services	-3.2	10.1	4.6	2.2	2.9	3.6
Inflation (Consumer Price Index)	-1.1	2.0	14.0	5.0	2.1	1.9
Current Account Balance (% of GDP)	-4.0	-2.3	-3.1	-5.1	-5.2	-4.9
Net Foreign Direct Investment Inflow (% of GDP)	2.0	3.3	3.0	3.2	3.5	3.4
Fiscal Balance (% of GDP)	-5.3	-0.3	-0.9	0.1	0.8	1.0
Revenues (% of GDP)	41.6	43.5	39.8	39.6	39.6	39.3
Debt (% of GDP)	40.3	38.0	35.9	35.8	35.5	35.1
Primary Balance (% of GDP)	-4.0	1.0	-0.1	0.9	1.6	1.8
GHG emissions growth (mtCO2e)	-4.6	4.5	2.2	1.3	1.6	1.6
Energy related GHG emissions (% of total)	86.3	86.5	86.6	86.6	86.7	86.7

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

BULGARIA

Table 1	2022
Population, million	6.8
GDP, current US$ billion	89.0
GDP per capita, current US$	13135.3
International poverty rate ($2.15)[a]	0.2
Lower middle-income poverty rate ($3.65)[a]	1.4
Upper middle-income poverty rate ($6.85)[a]	4.5
Gini index[a]	40.5
School enrollment, primary (% gross)[b]	85.2
Life expectancy at birth, years[b]	73.6
Total GHG emissions (mtCO2e)	50.1

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

Following robust growth in 2022, the Bulgarian economy is set to slow down in line with EU trends. Inflation is expected to decelerate in 2023 but remain elevated. The fiscal position will likely worsen given the growth deceleration and rollover of government support measures. Political instability is already taking its toll on the prospects of absorption of EU funds and eurozone accession plans. Poverty reduction is expected to slow down as Bulgaria faces slower growth and prolonged elevated inflation.

Key conditions and challenges

Bulgaria's economic growth had slowed markedly in the decade before the Covid-19 pandemic. The country's growth potential is constrained by adverse demographic trends that result in a rapid decline in its working-age population. This, coupled with a relatively low number of years in schooling and declining quality of education as measured by international assessments, has been undermining Bulgaria's growth prospects. In addition, private sector expansion has been hindered by institutional weaknesses and insufficient enforcement of fair competition, which leads to resource misallocation away from the most productive firms. Public investment management is also suboptimal, particularly in ensuring investment efficiency and open and fair competition in public procurement. If Bulgaria succeeds in overcoming these challenges with an ambitious reform agenda, it could accelerate its economic growth to above 4 percent in the period up to 2050. Under a no-reform scenario, however, growth may slow down to 1.2 percent by the middle of the century.

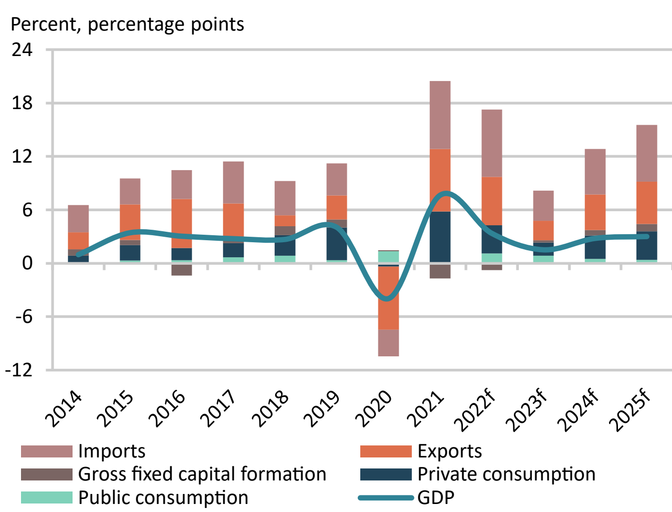
Bulgaria's development path has not been inclusive enough. Despite significant poverty reduction, poverty rates continue to be high by EU standards. Poverty incidence (US$6.85 2017 PPP) declined by 9.6 percentage points in 2015-2020, reaching 4.5 percent in 2020. Inequality has been increasing, and the country has the highest income inequality in the EU, with a Gini Index (of equivalized disposable income) of 39.7 in 2020. The at-risk-of-poverty rate (AROP) has shown an upward trend, with 22.1 percent of the population falling below the national poverty line in 2020 (income year), one of the highest in the EU. Regional disparities, and sizable differences across groups, such as Roma and women, are still highly prevalent. High inequality is linked to persistent disparities in labor market outcomes, inadequate coverage of the social protection system, and a fiscal system characterized by limited progressivity.

Recent developments

GDP growth exceeded expectations in 2022, as the economy expanded by 3.4 percent. Even if the deceleration of growth continued in Q4, the economy proved to be more resilient in 2022 than earlier forecasted. Throughout the year, the main growth driver remained final consumption on the back of labor market buoyancy and increased government spending. In 2022, the labor market recovered to its pre-Covid level, with employment reaching 54.9 percent in Q4/2022, and unemployment down to 3.9 percent against the backdrop of labor scarcity.

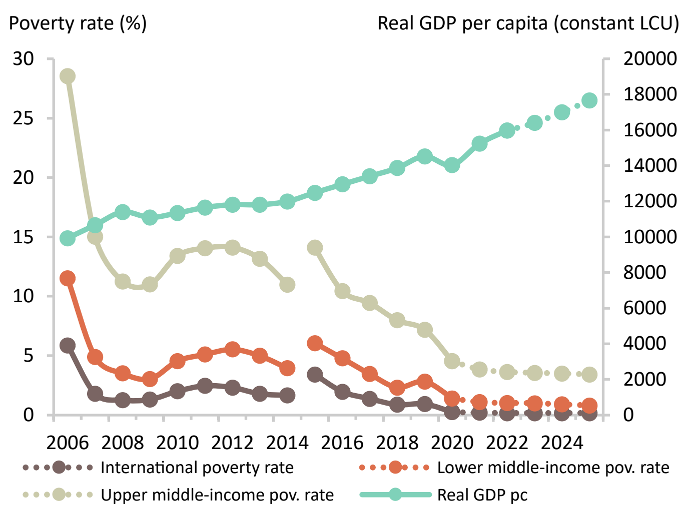
Bulgaria recorded one of the highest inflation rates among EU countries in 2022, with annual average CPI inflation reaching 15.3 percent. Imported inflation through higher energy and food prices

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



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

after Russia's invasion of Ukraine was the key factor. While headline CPI inflation (in y/y terms) started decelerating in October 2022, core inflation (food and energy excluded) went down only in January, 2023, to 12.2 percent y/y. Although y/y CPI inflation surpassed nominal wage growth in most months of 2022, the gap was less than 2 percentage points on average for the year, which helped contain the impact on the real purchasing power of workers. Moreover, the significant boost to pensions in response to the Covid-19 crisis and inflation – by between 56 percent and 136 percent in 2022 depending on the pension type - supported real incomes of pensioners. Nevertheless, food price inflation – 22 percent on average in 2022 - disproportionately impacted poorer households as they spend significantly higher shares of their income on food items.

The fiscal deficit in 2022 surprised on the positive side, reaching 0.8 percent of GDP on cash basis. The accrual-basis deficit was estimated by the Ministry of Finance at 0.1pp below the 3 percent EU ceiling. While current expenditure grew substantially on Covid-19 and inflation-mitigation measures, the deficit was contained due to the revenue-boosting impact of inflation and underperformance on capital spending. The receipt of the first tranche under the National Recovery and Resilience Plan (NRRP) also raised revenues, while not resulting in corresponding expenses due to its late-year arrival. Separately, the current account deficit remained marginal thanks to strong surplus on services trade.

Outlook

Bulgaria's economy is expected to slow down substantially in 2023 – to 1.5 percent - in tune with the downward trend in the eurozone. Growth may be further suppressed if Bulgaria fails to deliver on the reforms embedded in the milestones under the NRRP, resulting in a freeze or reduction of upcoming tranches, depriving the country of substantial resources.

Inflation will continue to subside but remain elevated in 2023. The fiscal deficit is projected to expand to 3.6 percent of GDP due to the economic slowdown and the rollover of fiscal discretionary measures to 2023. The current account is projected to move to a slight surplus in 2024-2025 due to expected downward adjustment of import prices of key raw materials.

Bulgaria's outlook continues to be marred by prolonged political instability. In addition to creating an unpredictable business environment, the political impasse is already impeding the implementation of reforms, the NRRP and eurozone accession plans. The lack of a working parliament has prevented the passage of key pieces of legislation, set as milestones under the NRRP and as commitments under the country's roadmap for euro adoption. Should this situation linger on, the country may lose EU funds and may delay its eurozone entry beyond the likely 2025, which would take a toll on its growth prospects and slow down convergence to average EU income levels.

The economic slowdown and prolonged inflationary pressures are expected to decelerate poverty reduction, with poverty ($6.85/day PPP) declining slowly, from 4.5 percent in 2020 to 3.6 and 3.5 percent in 2022 and 2023, respectively.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-4.0	7.6	3.4	1.5	2.8	3.0
Private Consumption	-0.6	8.8	4.8	2.2	3.9	4.7
Government Consumption	8.3	0.4	6.5	4.8	2.7	2.1
Gross Fixed Capital Investment	0.6	-8.3	-4.3	1.6	3.8	5.1
Exports, Goods and Services	-10.4	11.0	8.3	3.2	5.7	6.6
Imports, Goods and Services	-4.3	10.9	10.5	4.4	6.5	7.8
Real GDP growth, at constant factor prices	-4.0	8.0	3.4	1.5	2.8	3.0
Agriculture	-3.3	28.8	-0.8	0.2	1.5	1.2
Industry	-8.2	1.7	12.5	3.9	6.5	5.2
Services	-2.5	8.7	0.8	0.8	1.6	2.3
Inflation (Consumer Price Index)	1.7	3.3	15.3	8.7	4.8	3.7
Current Account Balance (% of GDP)	0.0	-0.5	-0.4	-0.3	0.6	0.9
Net Foreign Direct Investment Inflow (% of GDP)	4.5	1.4	2.2	1.9	2.7	3.0
Fiscal Balance (% of GDP)	-2.9	-2.7	-0.8	-3.6	-2.5	-1.4
Revenues (% of GDP)	36.8	37.7	39.2	37.6	38.6	39.4
Debt (% of GDP)	24.6	23.9	19.3	21.5	20.4	19.6
Primary Balance (% of GDP)	-2.4	-2.3	-0.4	-3.4	-2.2	-1.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.2	0.2	0.2	0.2	0.2	0.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	1.4	1.1	1.0	1.0	0.9	0.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	4.5	3.8	3.6	3.6	3.5	3.4
GHG emissions growth (mtCO2e)	-4.2	6.5	6.0	2.3	4.1	3.7
Energy related GHG emissions (% of total)	80.4	77.7	75.7	74.0	72.1	70.5

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 ECAPOV harmonization, using 2021-EU-SILC. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

CROATIA

Table 1	2022
Population, million	3.9
GDP, current US$ billion	71.0
GDP per capita, current US$	18368.9
International poverty rate ($2.15)[a]	0.3
Lower middle-income poverty rate ($3.65)[a]	0.8
Upper middle-income poverty rate ($6.85)[a]	2.1
Gini index[a]	29.6
School enrollment, primary (% gross)[b]	92.9
Life expectancy at birth, years[b]	77.7
Total GHG emissions (mtCO2e)	19.5

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

Real GDP growth in Croatia remained strong in 2022, with favorable developments concentrated in the first half of the year. The country is expected to avoid contraction in 2023 but growth is set to be subdued before strengthening in 2024. Fiscal deficit is projected to remain relatively contained ensuring further decline in public debt. Progress in poverty reduction has slowed with the poverty rate expected to have declined modestly to 1.4 percent in 2022.

Key conditions and challenges

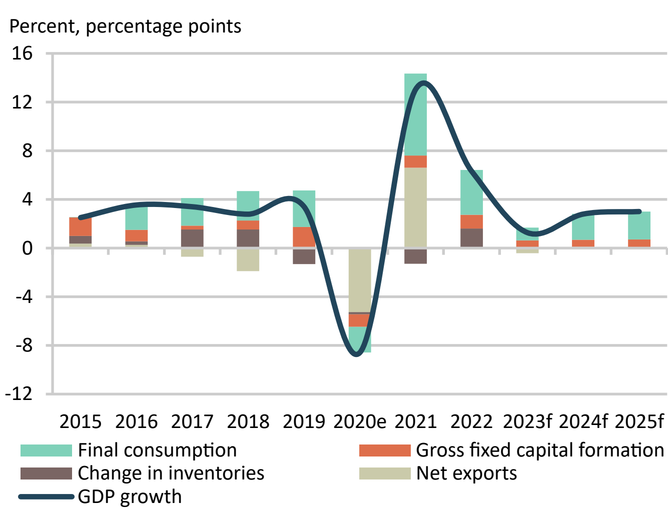
By entering the euro area and Schengen zone in 2023 Croatia has achieved its key strategic objectives but economic convergence is far from complete. GDP per capita (in Purchasing Power Parity nominal terms) reached 70 percent of the average EU27 level in 2021 and further improvements in living standards will critically depend on productivity improvements. Croatia's productivity is lagging its regional peers and is far from the EU frontier. This reflects low levels of Research & Development (R&D) investments, innovation and technology adoption, weaknesses in managerial and organizational practices, and constraints on competition. In addition, while institutions have improved, some lingering structural constraints remain, especially regarding administrative capacity, red tape, and judicial quality and efficiency. Closing the productivity gap with the top performing EU economies would markedly speed up income convergence but this will require an ambitious and comprehensive set of reforms aimed at strengthening institutions, reducing market inefficiencies, and upgrading firms' capabilities.

Over the short and medium term, the main risks include the elevated uncertainty due to Russia's invasion of Ukraine and related developments in wholesale energy and food prices and their pass-through to retail prices. Risks of energy supply disruptions in Croatia and its main trading partners also remain elevated and could lead to lover economic growth if they would materialize. In general, intensification of geopolitical tensions would further amplify commodity disruptions and supply bottlenecks leading to adverse real income and confidence effects. Inflation could also remain higher and more persistent than currently expected requiring stronger than projected monetary tightening with negative effects on the eurozone and the domestic economy. Furthermore, investment projection growth for 2023 largely relies on strong utilization of EU funds by the government, which will depend on improving the absorption capacity of all stakeholders. On the upside, greater resilience of private sector and stronger than expected demand for tourism could strengthen the growth outlook.

Recent developments

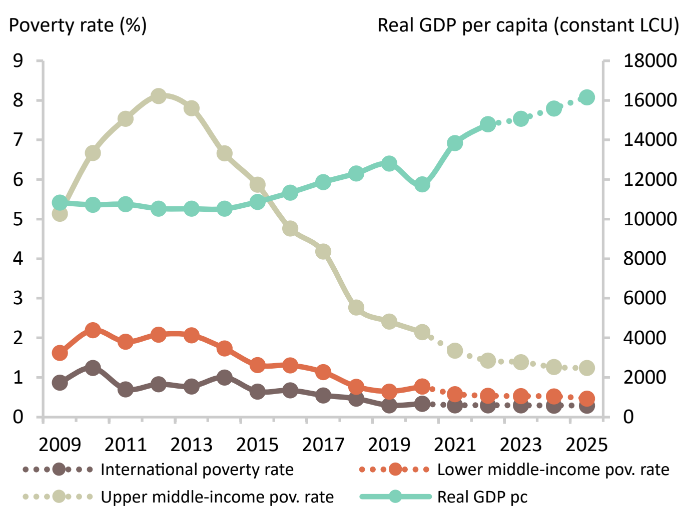
Croatia's real GDP growth in 2022 was strong, at 6.3 percent, supported by robust personal consumption and investments. Favorable developments were, however, concentrated in the first half of the year. Rising inflation, decline in real disposable incomes, and elevated uncertainty surrounding Russia's invasion of Ukraine led to a sharp decline in personal consumption at the end of the year. Exports of goods and services also moderated following negative external developments. However, investment activity held up relatively well, despite rising financing costs. Weakening

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



Sources: CROSTAT and World Bank.

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



Source: World Bank. Notes: see Table 2.

of aggregate demand was reflected in manufacturing, which showed negative quarterly growth rates at the end of the year, while construction activity continued to expand. In 2022, employment growth continued, and the labor market remained relatively tight, but wages failed to keep up with rising inflation. Consumer prices in Croatia accelerated throughout 2022, with year average inflation of 10.7 percent. Price pressures somewhat eased at the beginning of 2023 with moderation in energy and food prices. Croatian authorities prevented stronger spillovers from high wholesale energy prices on CPI by adopting relatively generous stimulus packages at the beginning of the fourth quarter last year. Nonetheless, the budget is estimated to have been broadly balanced in 2022, a significant improvement from 2021. This mainly reflects strong growth in revenues and discontinuation of COVID-19 support schemes. Economic growth and fiscal adjustment led to a marked decline in public debt, which is estimated to have declined to around 68 percent of GDP at the end of 2022.

The rebound of the labor market combined with the government's assistance, supported household income. Poverty is estimated to have declined modestly from 1.7 percent in 2021 to 1.4 percent in 2022. However, rising inflation dampened households' purchasing power, especially for the poorest. Namely, those at the bottom quintile of the income distribution faced estimated inflation that was 2 percentage points higher than those at the top quintile due to the composition of their consumption basket.

Outlook

Growth in Croatia is projected to decelerate to 1.3 percent in 2023 before strengthening to 2.8 percent in 2024. Personal consumption growth in 2023 is expected to slow down but is projected to remain positive as real incomes improve, supported by a catch-up in real wage growth, resilience of labor markets, and continued fiscal support. At the same time, investment growth is expected to be underpinned by a pick-up in government investments, largely financed from EU funds, while, on the other hand, rising financing costs are projected to dampen private sector investments. Despite worsening of the external outlook, exports are also expected to grow further as demand for travel remains strong. Beyond the near term, Croatia's economic growth is set to gradually recover from a weak 2023 as uncertainty declines, the energy market price pressures fade, remaining supply bottlenecks are resolved, and the external outlook improves. Further strengthening of economic activity is expected to have positive effects on labor market developments, with employment growth picking up, and unemployment rate declining to below 6.5 percent in 2025. This also means that the labor market is expected to remain tight, especially in construction and services sectors. Notwithstanding labor supply shortages, inflation is projected to gradually decline over the forecast horizon towards ECB's target level of close to 2 percent, following tightening of monetary policy and unwinding of supply-side constraints. The fiscal balance might slightly worsen compared to 2022, averaging -1.3 percent of GDP over the forecast horizon, but will continue to support a decline in public debt that will fall below 60 percent of GDP in 2025.

Progress in poverty reduction is projected to stall with the poverty rate expected to stay stagnant in 2023 before declining marginally over the next two years, to 1.2 percent in 2025.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-8.6	13.1	6.3	1.3	2.8	3.0
Private Consumption	-5.1	9.9	5.2	1.1	2.8	3.0
Government Consumption	4.3	3.0	3.0	2.0	2.4	2.7
Gross Fixed Capital Investment	-5.0	4.7	5.8	3.2	2.9	3.2
Exports, Goods and Services	-23.3	36.4	25.4	3.6	4.9	4.2
Imports, Goods and Services	-12.4	17.6	25.0	4.2	4.6	4.0
Real GDP growth, at constant factor prices	-7.5	12.6	6.5	1.3	2.8	3.0
Agriculture	-0.2	8.2	6.0	2.5	2.5	2.5
Industry	-4.1	9.0	2.3	1.0	3.0	3.0
Services	-9.1	14.2	8.0	1.3	2.8	3.1
Inflation (Consumer Price Index)	0.2	2.6	10.7	7.2	3.2	2.3
Current Account Balance (% of GDP)	-0.5	1.8	-1.8	-1.4	-0.8	0.3
Net Foreign Direct Investment Inflow (% of GDP)	1.4	4.8	5.2	4.5	4.1	4.0
Fiscal Balance (% of GDP)	-7.3	-2.6	0.2	-1.5	-1.3	-1.1
Revenues (% of GDP)	46.7	45.9	44.8	44.0	43.0	42.2
Debt (% of GDP)	87.0	78.4	67.5	63.3	60.7	58.5
Primary Balance (% of GDP)	-5.3	-1.1	1.4	-0.3	0.0	0.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.3	0.3	0.3	0.3	0.3	0.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.8	0.6	0.5	0.5	0.5	0.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	2.1	1.7	1.4	1.4	1.3	1.2
GHG emissions growth (mtCO2e)	-5.9	9.8	5.4	0.7	0.3	0.1
Energy related GHG emissions (% of total)	88.4	88.6	88.5	88.1	87.6	87.0

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 ECAPOV harmonization, using 2021-EU-SILC. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

GEORGIA

Table 1	2022
Population, million	3.7
GDP, current US$ billion	24.6
GDP per capita, current US$	6657.6
International poverty rate ($2.15)[a]	5.5
Lower middle-income poverty rate ($3.65)[a]	19.1
Upper middle-income poverty rate ($6.85)[a]	55.4
Gini index[a]	34.2
School enrollment, primary (% gross)[b]	100.8
Life expectancy at birth, years[b]	72.8
Total GHG emissions (mtCO2e)	18.1

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 is estimated at 10.1 percent in 2022 due to strong money inflows from Russia and recovery in tourism and investment. As a result, employment recovered and poverty continued to fall. Strong revenue collection contributed to the halving of the fiscal deficit. Growth is expected to slow down in 2023 while uncertainty remains high.

Key conditions and challenges

Georgia has made much progress over the past decade. As a result of sound economic management, GNI per capita converged toward EU levels, increasing from USD 3,048 in 2010 to USD 4,608 in 2021 (constant 2015 USD). The poverty rate (measured by the national poverty line) was more than halved over the same period.

Nevertheless, structural challenges persist, notably weak productivity and limited high-quality job creation. More than a third of all workers are engaged in low-productivity agriculture. Poor learning outcomes and lack of skills also constitute a barrier to private sector growth. Because of its trade openness and reliance on tourism, Georgia is vulnerable to external shocks. High dollarization and persistent dependence on external savings increase the risks associated with foreign exchange depreciation. Nevertheless, the swift post-pandemic rebound and the recovery from the initial impact of Russia's invasion of Ukraine and related sanctions have demonstrated growing economic resilience, supported by sound macroeconomic management. The application for EU candidacy initiated in 2022 provides opportunities for further income convergence while requiring significant and sustained reforms, which if not undertaken, could lead to further tensions.

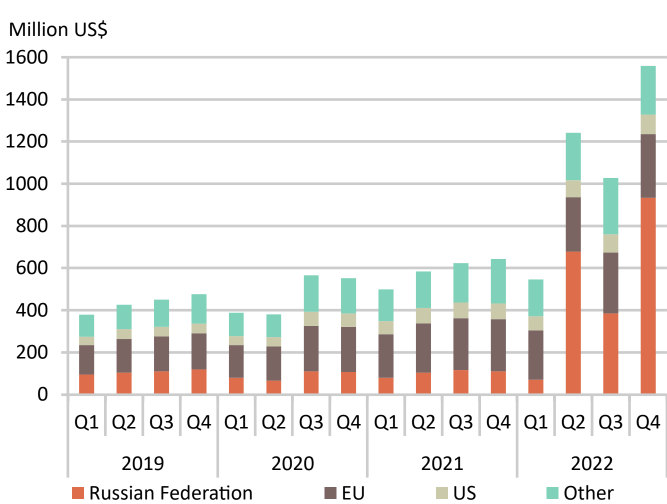
Recent developments

Growth in 2022 is estimated at 10.1 percent, buoyed by a surge in money transfer inflows (up 86 percent, yoy), largely from Russia, and by the recovery of tourism. Investment, on a downward trend since 2019, recovered in 2022. However, in the face of high inflation, private consumption fell slightly in real terms.

Inflation eased in Q4 2022 as global food and energy prices declined. Some demand-side pressures persisted. High rental rates (up 37.4 percent, yoy) and food prices (up 16 percent, yoy) accounted for almost 70 percent of the 9.8 percent headline inflation (eop), stimulated by the large inflows of money and people following the war in Ukraine. Since March 2022, the National Bank of Georgia has kept the monetary policy rate unchanged at 11 percent.

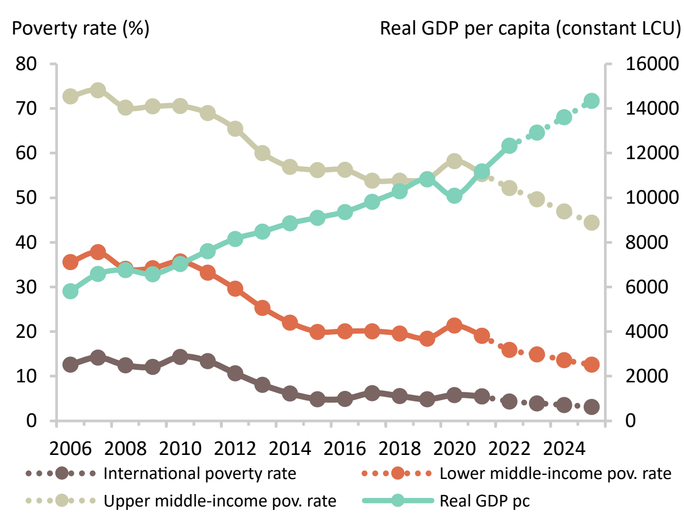
The current account deficit is estimated to have narrowed sharply in 2022 in response to robust growth in remittances, tourism proceeds, and exports of goods. Exports grew by 31.8 percent (yoy) in nominal terms (USD), driven by re-exports of used cars, and favorable market prices for Georgia-produced raw materials (copper and nitrogen fertilizers). Imports also expanded strongly with a 33.8 percent increase (yoy), driven by strong growth in food and fuel imports and capital goods. International reserves benefited from strong foreign exchange inflows, increasing to USD 4.9 billion, providing around 4.3 months of import cover.

FIGURE 1 Georgia / Money inflow by country of origin



Source: National Bank of Georgia.

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



Source: World Bank. Notes: see Table 2.

Strong growth supported fiscal revenues in 2022, which increased by 28 percent in nominal terms. Meanwhile, current spending grew by 9.1 percent (yoy). A key driver of fiscal consolidation in 2022 was the unwinding of COVID-19-related measures, including temporary social programs. Capital expenditure went up by 27.7 percent in 2022 in nominal terms. As a result, the fiscal deficit narrowed to 3.5 percent of GDP in 2022. Public debt stock continued to fall, largely benefiting from the contained fiscal deficit and the appreciation of the GEL.

Against this backdrop, the poverty rate (at USD 6.85 a day, 2017 PPP terms) is estimated to fall to 52.2 percent in 2022. While food inflation adversely impacted poorer households (including the elderly and Targeted Social Assistance recipients), social protection measures helped to soften the negative impact for households in extreme poverty.

Outlook

Growth is expected to ease to 4.4 percent in 2023, reflecting a projected slowdown among trading partners and tightened financial conditions. Growth is expected to stabilize at around 5 percent of GDP for 2024–25 as Georgia benefits from the recovery of trading partners.

Despite continued pressures likely on the demand side, inflation is expected to fall gradually. In the medium-term, as global commodity prices ease, positive real interest rates and the Government's fiscal consolidation efforts are all likely to support a more sustainable return to the inflation target of 3 percent by 2025. Monetary policy is expected to remain tight until inflationary pressures subside.

The economic recovery suggests that prospects for poverty reduction are promising. The overall poverty rate is expected to decline, driven by higher wages and improvements in the labor market.

Despite the widening trade deficit, the current account deficit is expected to remain contained in 2023. Windfalls from the war in Ukraine are expected to stabilize in 2023 and subside in 2024, but the current account deficit should remain well below pre-war levels because of the continued recovery in tourism, a flexible exchange rate policy, and continued efforts to improve Georgia's export competitiveness.

The 2023 state budget law reflects the Government's commitment to fiscal consolidation and improved fiscal discipline by reducing the deficit and public debt to 2.9 percent and 38.7 percent of GDP, respectively. To boost revenue collection, the authorities are committed to the rationalization of tax expenditures, which, together with a reduction in recurrent spending, will contribute to fiscal consolidation.

There are substantial risks to the outlook, reflecting the war in Ukraine and broader uncertainties. Monetary tightening in advanced economies, or a reversal in money inflows, could hinder growth, put pressure on the currency, and increase debt levels and financing needs. Currency mismatches due to dollarization and a high exchange-rate pass-through would also exacerbate vulnerability to currency depreciation. On the upside, tighter monetary and fiscal policy, with adequate buffers, is expected to help cushion a potential shock, while exchange rate flexibility would help shield reserve levels by supporting an adjustment in imports.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-6.8	10.5	10.1	4.4	5.0	5.0
Private Consumption	8.8	8.7	-1.8	2.0	2.5	3.0
Government Consumption	7.1	7.7	0.7	9.8	4.9	4.8
Gross Fixed Capital Investment	-16.5	-12.6	44.6	9.6	4.5	9.0
Exports, Goods and Services	-37.6	24.3	25.6	2.5	11.0	10.0
Imports, Goods and Services	-16.6	11.2	10.0	3.0	5.9	7.8
Real GDP growth, at constant factor prices	-6.6	10.4	10.1	4.4	5.0	5.0
Agriculture	8.1	0.1	2.0	4.0	4.0	2.0
Industry	-6.8	5.9	8.0	4.0	5.0	5.0
Services	-8.1	13.0	11.6	4.5	5.1	5.3
Inflation (Consumer Price Index)	5.2	9.6	11.9	6.6	3.5	3.0
Current Account Balance (% of GDP)	-12.5	-10.4	-3.0	-4.6	-5.1	-5.0
Net Foreign Direct Investment Inflow (% of GDP)	3.6	4.9	7.5	4.0	4.7	5.5
Fiscal Balance (% of GDP)	-9.8	-7.1	-3.5	-2.9	-2.3	-2.1
Revenues (% of GDP)	25.2	25.2	27.0	25.8	25.9	25.8
Debt (% of GDP)	60.1	49.6	41.3	38.7	38.0	37.3
Primary Balance (% of GDP)	-8.2	-5.7	-2.4	-1.6	-1.2	-1.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	5.8	5.5	4.4	4.0	3.5	3.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	21.4	19.1	15.9	14.9	13.6	12.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	58.3	55.4	52.2	49.7	47.0	44.4
GHG emissions growth (mtCO2e)	-3.4	2.1	4.1	3.9	1.4	0.8
Energy related GHG emissions (% of total)	53.8	55.0	57.5	59.5	60.5	61.3

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

KAZAKHSTAN

Table 1	2022
Population, million	19.2
GDP, current US$ billion	220.1
GDP per capita, current US$	11476.5
Upper middle-income poverty rate ($6.85)[a]	14.3
Gini index[a]	27.8
School enrollment, primary (% gross)[b]	100.3
Life expectancy at birth, years[b]	71.4
Total GHG emissions (mtCO2e)	228.1

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

The economy grew by 3.2 percent in 2022. However, a surge in inflation has squeezed the real incomes of low-income households and could undermine efforts to reduce poverty. Inflation is expected to moderate and growth momentum to build in 2023. Russia's invasion of Ukraine and geopolitical tensions, with their attendant risks for disruption in oil transportation, pose downside risks for Kazakhstan.

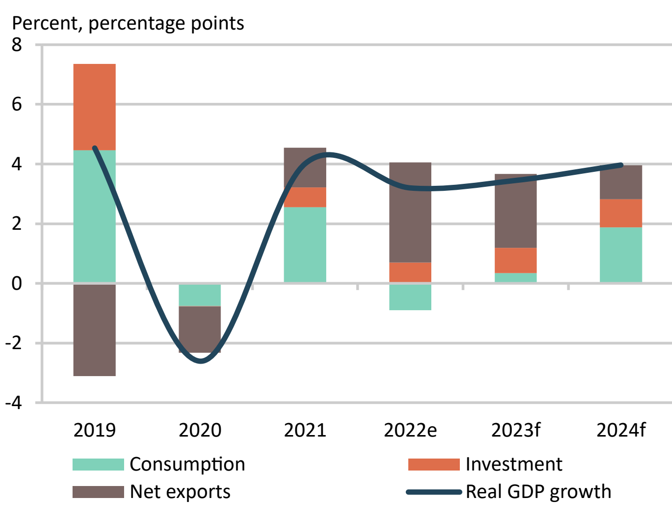
Key conditions and challenges

Since the 2000s, Kazakhstan has seen remarkable economic growth, resulting in a higher living standard and reduced poverty. The country removed trade barriers, privatized a substantial portion of state assets, and opened its energy sector to FDI.
Despite this progress, the country still faces profound challenges. Since 2008, average real GDP growth fell to less than 4 percent as productivity gains stalled. This slowing dynamic, coupled with rising living costs, has intensified public discontent over inequality and elite capture, culminating in the violent protests of January 2022.
To renew strong growth, the authorities should prioritize structural reforms that increase competition, reform SOEs, and strengthen the efficiency of public institutions. Since Kazakhstan's economy relies heavily on oil-related revenues, and given the global shift toward decarbonization, the Government should focus on diversifying the economy. The transition to renewable energy needs to be accelerated to ensure a sustainable and resilient economic future. Investing in renewables, implementing carbon taxes, and energy tariff reforms are key areas to achieving this.

Recent developments

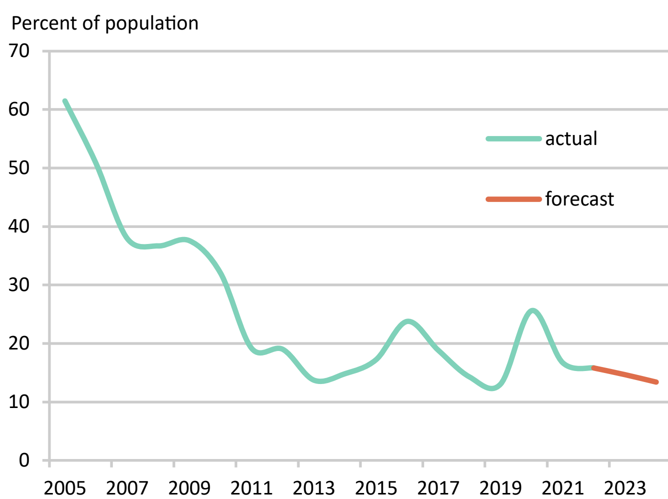
Despite challenges from decreased oil production and supply-chain issues stemming from the country's economic ties with Russia, Kazakhstan recorded 3.2 percent GDP growth in 2022. Growth was driven by non-oil exports to neighboring countries and investment growth of 7.9 percent, primarily in resource sectors, while consumer demand weakened as real incomes shrank under the weight of high inflation. Growth was also supported by an inflow of Russian tourists/immigrants and financial inflows, notably following the announcement of mass conscription in Russia in September. Additionally, following the war in Ukraine, some companies relocated to Kazakhstan, contributing to increased trade with Russia. On the supply side, agriculture, manufacturing, construction, and services sectors all contributed to growth.
The current account recorded a surplus of US$6.2 billion in 2022, supported by high oil export values, a significant reversal from the US$7.9 billion deficit in 2021. The acceleration in FDI was likely due to the high oil prices that drove investment into mining. Gross international reserves grew slightly and stood at 7 months of import cover by end-2022.
Inflation reached 21.3 percent (yoy) by February 2023, the highest in over 20 years, as a result of rising import prices, the large minimum wage and pay increases following the riots, and the depreciation of the tenge. Food prices have risen especially sharply. The Central Bank (NBK) tightened its policy rate to 16.75 percent in February 2023 from 10.25 percent a year ago. Following a depreciation of 8 percent against the US

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



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

FIGURE 2 Kazakhstan / Poverty rate, percent of population living on less than $6.85 (PPP) per day



Source: World Bank staff estimates.

dollar in 2022, the tenge has remained stable in 2023.

The Government increased spending in 2022, on measures to alleviate the negative impacts of the war in Ukraine and the rising cost of living. Notably, it increased its welfare-enhancing programs and transfers to local governments by a total of 3 percent of GDP. Despite the higher spending, improved tax collection from both oil and non-oil resulted in higher revenues and delivered a fiscal surplus of 0.4 percent

The banking sector has remained resilient with robust capital and liquidity levels. Prior to the war in Ukraine, Russian subsidiaries held about 15 percent of assets, but, following sanctions, this fell to 0.4 percent. Real corporate loans contracted in December (yoy), while reduced consumer demand moderated lending growth to households. NPL rates reached 3.6 percent in December 2022, slightly up from 3.3 percent a year earlier.

The unemployment rate held steady at 4.9 percent throughout 2022. Labor strikes and a 41 percent increase in the minimum wage drove up real wages by 2.8 percent in Q4 (yoy).

Outlook

The economy is expected to see a moderate increase in growth to 3.5 percent in 2023 and to 4 percent in 2024, led by the hydrocarbons sector as oil production rises thanks to several new projects. Continued FDI in mining and the Government's affordable housing program will sustain investment. However, growth in household consumption is likely to be dampened by high inflation, rising borrowing costs, and increased indebtedness.

Inflation is expected to decrease but will remain elevated in 2023 due to the prolonged impact of high food prices. Tight monetary policy will contribute to a reduction toward the upper limit of its target range by 2025.

The poverty rate is expected to slightly decline to 14.7 percent (at US$6.85/day poverty line) in 2023 as growth picks up and inflation subsides. The rising cost of food and housing will remain as a key factor impacting the well-being of the population, especially the poorest households.

The 2023 budget plans for moderate real spending growth, particularly social welfare and wage increases. The budget is expected to remain balanced, albeit with continued quasi-fiscal activity. The Government plans to reduce withdrawals from the Oil Fund (NFRK) and raise non-oil tax revenue over time.

Oil prices are projected to soften, moderating export earnings and reducing the current account surplus in 2023, but a deficit may follow in subsequent years as oil prices continue to fall.

The outlook faces several downside risks. Any further disruptions to the Caspian Pipeline Consortium, transporting the majority of oil exports, could significantly impact growth. Persistently high inflation also poses a risk, particularly for low-income households. Access to effective coping mechanisms will be important to protect the poverty reduction gains of the last decade. This may call for continued monetary tightening and tighter control over fiscal spending, to make space for higher spending on social protection programs. Additional tightening of global financial conditions and potential capital flow volatility pose risks to the exchange rate. On the upside, global demand and oil prices exceeding expectations would boost growth.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-2.5	4.3	3.2	3.5	4.0	3.6
Private Consumption	-3.8	5.1	-0.9	2.0	4.2	4.0
Government Consumption	12.8	-1.1	-3.8	0.1	0.7	2.0
Gross Fixed Capital Investment	-0.3	2.6	3.0	3.3	4.1	3.7
Exports, Goods and Services	-12.1	2.0	18.0	8.1	5.1	2.2
Imports, Goods and Services	-10.7	-2.7	11.2	3.5	4.1	4.0
Real GDP growth, at constant factor prices	-2.5	4.1	2.9	3.5	4.0	3.6
Agriculture	5.6	-2.2	9.1	3.2	3.5	3.0
Industry	-0.4	3.6	1.0	6.3	5.1	3.1
Services	-4.5	5.0	3.6	1.8	3.2	3.9
Inflation (Consumer Price Index)	6.8	8.0	15.0	9.2	6.1	5.6
Current Account Balance (% of GDP)	-4.4	-4.0	2.7	0.1	-1.4	-1.6
Net Foreign Direct Investment Inflow (% of GDP)	-3.4	-1.0	-3.8	-2.7	-2.7	-2.9
Fiscal Balance (% of GDP)	-6.5	-4.3	0.4	0.2	-0.3	-0.3
Revenues (% of GDP)	18.0	17.6	22.5	21.4	20.3	19.9
Debt (% of GDP)	24.9	23.7	23.0	23.6	25.3	26.8
Primary Balance (% of GDP)	-5.4	-3.1	1.8	1.5	1.1	1.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	25.6	16.7	15.8	14.7	13.4	12.1
GHG emissions growth (mtCO2e)	-5.8	-13.0	2.5	2.9	3.8	3.2
Energy related GHG emissions (% of total)	76.0	73.5	74.8	76.1	77.5	78.8

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

KOSOVO

Table 1	2022
Population, million	1.8
GDP, current US$ billion	10.3
GDP per capita, current US$	5759.8
Upper middle-income poverty rate ($6.85)[a]	34.2
Gini index[a]	29.0
Life expectancy at birth, years[b]	76.6

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

The terms of trade shock driven by Russia's invasion of Ukraine and the associated energy crisis continued to impact economic activity in 2022, but the economy showed resilience. Real GDP growth moderated to 3.5 percent in 2022, supported by private consumption and export growth. Inflation reached record highs, constraining disposable incomes. The inflationary crisis came with a heavy fiscal cost; yet the fiscal balance improved supported by positive revenue performance

Key conditions and challenges

In 2022, GDP growth moderated after an exceptional performance of almost 11 percent in 2021. The negative terms of trade shock driven by the war in Ukraine are weighing on private investment and consumption. Kosovo's growth model relies heavily on remittances that fuel domestic consumption, as well as diaspora-driven service exports and FDI, which proved resilient throughout 2022. More recently, a positive trend in merchandise export growth and diversification was recorded and could be further leveraged to catalyze growth and reduce poverty. Investment is predominantly construction focused and makes a limited contribution to productivity and growth. Kosovo's education and health outcomes still lag peer countries, limiting the contribution of human capital to inclusive growth. The increase in employment over 2021 and formalization gains in 2022 are encouraging; yet, the labor market continues to reflect weaknesses and gender disparities, with just one in three Kosovars employed and approximately 60 percent classified as inactive. Kosovo's power generation options are highly constrained by the limited availability of renewable resources, and heavy reliance on outdated and unreliable lignite-fired powerplants. The duration of the war in Ukraine, and hence the magnitude of its economic and social consequences remains highly uncertain. To cushion the impact of the terms of trade shock, in 2022 the Government provided support through increased transfers and subsidies, including electricity subsidies, equivalent to approximately 4 percent of GDP. Moving forward, the Government needs to ensure that crisis mitigation measures remain targeted and temporary. It also needs to ensure that public spending is balanced between transfers that support consumption today and support for economic transformation that will drive future growth.

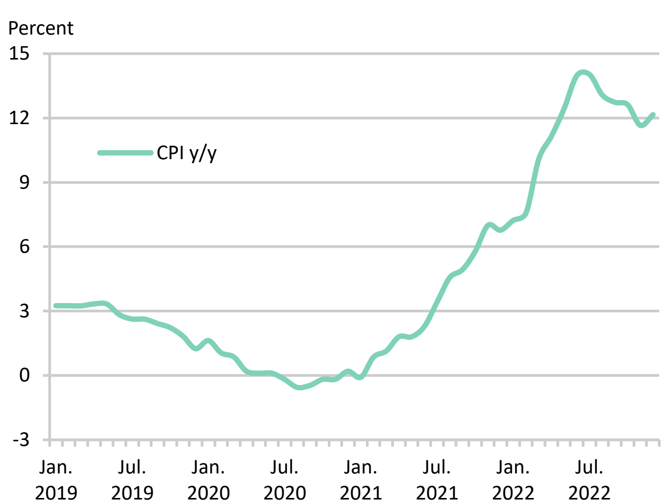
Recent developments

Growth reached 3.5 percent in 2022, driven by exports and private consumption. Consumption was supported by an increase in remittances (6 percent), government transfers (26.3 percent), and lending. On the production side, the construction sector contracted in real terms, contributing to softer growth.

Based on Kosovo's Statistical Agency data, consumer inflation peaked at 14.2 percent (y-o-y) in July, and remained above 11 percent until December, bringing annual average inflation to 11.6 percent. Key inflation drivers in 2022 remained transport (16.9 percent), food (16.3 percent), and energy (12.7 percent).

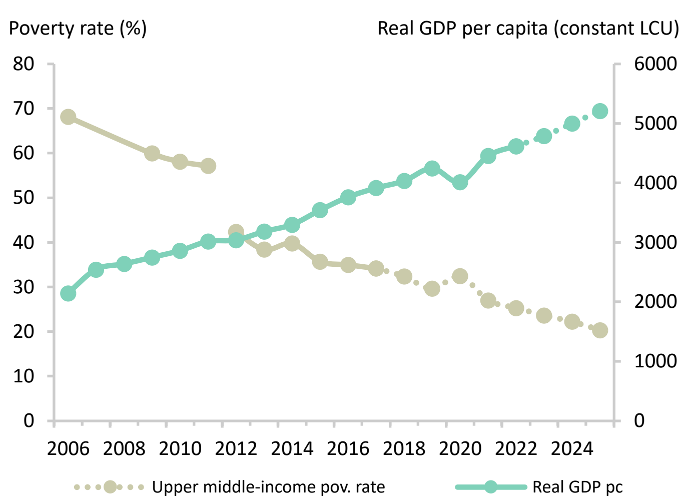
Labor market formalization continued. Pension contribution data show that formal employment increased by 4.9 percent compared to 2021. At the same time, 80.7 thousand jobseekers were registered by

FIGURE 1 Kosovo / Consumer price inflation



Source: Kosovo Statistics Agency.

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



Source: World Bank. Notes: see Table 2.

December 2022, a reduction of 1.5 percent from December 2021.

The current account deficit (CAD) deteriorated to 10.1 percent of GDP (from 8.1 percent in 2021), driven by higher import prices, against a large trade deficit of 32.1 percent of GDP. Nominal export growth reached 29.7 percent (y-o-y), supported by services exports associated to the resilient diaspora-driven demand for travel services, but also a 23.6 percent increase in merchandise exports. In parallel, the value of imports grew by 22 percent, on the back of higher prices for mineral products and food and beverages.

By the end of 2022, the fiscal deficit reached 0.5 percent of GDP, reflecting continued positive revenue growth (13.7 percent) supported by inflation effects as well as formalization gains. The combination of positive tax revenue growth and capital underspending outpaced increases in current transfers (26.3 percent y-o-y), associated to the implementation of crisis mitigation measures (4 percent of GDP).

The financial sector remains robust. In December 2022, the annual change in loans reached 16.1 percent. Bank capital buffers and asset quality remain adequate, with non-performing loans remaining stable at 1.8 percent.

Outlook

GDP growth is expected to pick up modestly, reaching 3.7 percent in 2023. The sizable impulse on private consumption and service exports from diaspora flows over 2021 and 2022 is expected to fade against an expected slowdown in EU growth. The contribution of government transfers to private consumption will also be more limited. However, a hike in public wage spending following the implementation of the new Law on Public Wages will add to consumption growth. After recording a real contraction in 2022, investment is expected to provide a positive contribution to growth in 2023. A gradual stabilization in international prices is expected to boost investment confidence.

The medium-term outlook remains positive, with growth expected to accelerate towards potential. However, continued uncertainties related to the war in Ukraine entail significant downside risks.

Poverty is projected to continue its decline, reaching 24.3 percent in 2023, measured using the upper-middle-income poverty line (US$6.85/person/day in 2017 PPP) but the materialization of downside risks could lead to a stagnation of poverty rates.

Inflation is expected to decelerate in line with international price dynamics; yet price levels could remain elevated throughout 2023. Despite an expected slowdown in service exports and remittances growth, easing import price pressures are expected to lead to minor a CAD improvement in 2023.

The fiscal deficit is expected to increase to 1.1 percent of GDP in 2023, fueled by increases in public compensation and capital investment. Further spending needs for energy subsidies could, however, increase the deficit. Over the medium-term, public debt is projected to remain below 25 percent of GDP.

Over the medium-term, there is a pressing need to preserve fiscal buffers by containing spending on untargeted transfers to respond to the changing macroeconomic environment, and accelerate implementation of structural reforms in energy, education, social protection, and healthcare.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-5.3	10.7	3.5	3.7	4.4	4.2
Private Consumption	2.5	7.3	4.0	2.1	3.4	2.7
Government Consumption	2.1	9.0	-0.8	7.0	5.2	4.8
Gross Fixed Capital Investment	-7.6	13.0	-6.9	6.1	5.8	6.2
Exports, Goods and Services	-29.1	76.7	17.2	3.1	3.5	3.7
Imports, Goods and Services	-6.0	31.4	4.9	2.9	3.2	2.9
Real GDP growth, at constant factor prices	-3.6	7.7	3.5	3.7	4.4	4.2
Agriculture	-5.8	-2.5	2.3	2.0	2.2	1.9
Industry	-1.0	7.8	2.0	3.2	4.6	3.9
Services	-4.8	9.4	4.6	4.2	4.6	4.7
Inflation (Consumer Price Index)	0.2	3.4	11.6	6.0	3.3	2.5
Current Account Balance (% of GDP)	-6.6	-8.2	-10.1	-9.7	-9.6	-9.2
Net Foreign Direct Investment Inflow (% of GDP)	4.0	3.8	6.6	5.7	5.5	5.5
Fiscal Balance (% of GDP)	-7.6	-1.3	-0.5	-1.1	-2.3	-2.9
Revenues (% of GDP)	25.4	27.4	27.6	27.9	26.7	26.9
Debt (% of GDP)	22.0	21.2	19.5	19.7	20.5	22.0
Primary Balance (% of GDP)	-7.1	-0.9	-0.1	-0.7	-1.9	-2.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	32.4	27.0	25.3	23.6	22.2	20.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2017-HBS. Actual data: 2017. Nowcast: 2018-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2017) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

KYRGYZ REPUBLIC

Table 1	2022
Population, million	6.8
GDP, current US$ billion	10.9
GDP per capita, current US$	1607.3
International poverty rate ($2.15)[a]	1.3
Lower middle-income poverty rate ($3.65)[a]	18.7
Upper middle-income poverty rate ($6.85)[a]	67.6
Gini index[a]	29.0
School enrollment, primary (% gross)[b]	99.2
Life expectancy at birth, years[b]	71.8
Total GHG emissions (mtCO2e)	14.9

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

Growth in 2022 was stronger than initially expected, driven by consumption, supported by remittance inflows, largely from Russia, and public investment. Inflation increased sharply, and the external position weakened significantly. Fiscal outcomes were favorable thanks to improved revenue performance. Growth is expected to moderate in 2023 and inflation to remain elevated. Driven by higher spending, the fiscal deficit will widen.

Key conditions and challenges

The Kyrgyz Republic has experienced volatile growth in the past decade because of heavy dependency on gold production and remittances and political instability. On average, gold production accounts for 10 percent of GDP and remittances 25 percent of GDP, while development assistance amounts to about 5 percent of GDP.

High global food and fuel prices have increased domestic inflation, adversely affecting poor households. The last two years have also seen significant political and governance upheavals, with snap parliamentary and presidential elections, and political instability continues to hamper the Government's ability to implement reforms. The nationalization of the largest gold producer, Kumtor Gold Company, put a dent in investor confidence although the dispute with the investor was resolved through a peace agreement.

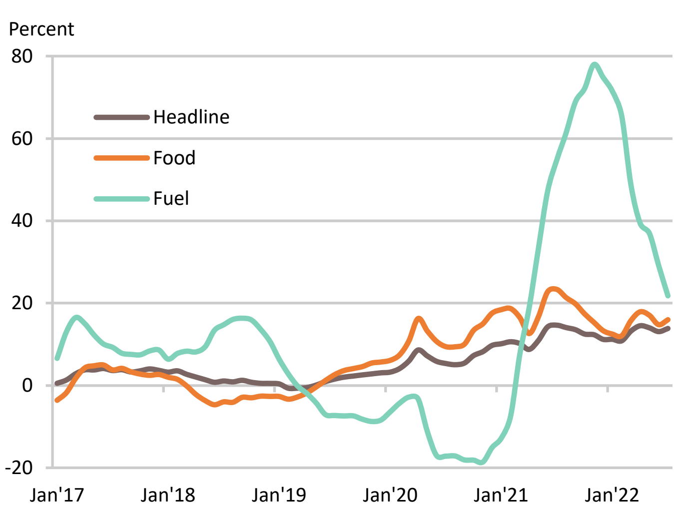
While there has been progress toward fiscal consolidation in recent years, broadening the tax base and improving the efficiency of public spending remain key challenges. The private sector is hindered by excessive bureaucracy. Accelerating economic growth will require stronger institutions and policies to foster private sector growth, spur international trade, and reduce the fiscal burden of the energy sector.

Recent developments

Economic growth reached 7 percent in 2022, which was much stronger than expected prior to Russia's invasion of Ukraine. Robust growth was driven by gold production, agriculture, and the services sector. The latter was supported by trade-related services and additional demand boosted by the relocation of Russian citizens to the Kyrgyz Republic. Non-gold output growth was 5.9 percent. On the demand side, growth was supported by private consumption, with gross remittance inflows increasing by 6.2 percent (in US dollars), and public investment, while net exports contributed negatively.

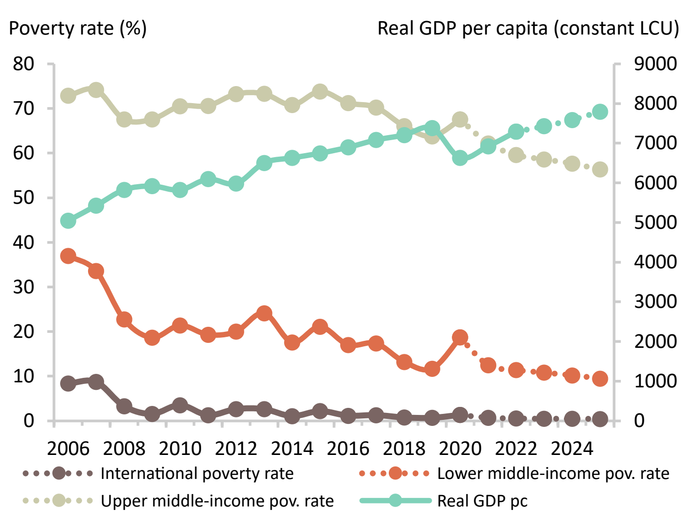
While gold production was strong, gold exports fell by 99 percent as domestic gold was sold to the Central Bank. As a result, the current account deficit is estimated to have widened to 27 percent of GDP from 8.6 percent a year earlier. Total exports are estimated to have shrunk by 31 percent, whereas imports grew by 51 percent, mainly due to increased shipment of goods from China. FDI has been a financing source of the current account deficit. However, a large share of the BOP financing has not been identified, leaving errors and omissions at 30 percent of GDP. The FX market was broadly stable although the Central Bank had to intervene more intensively to avoid sharp fluctuations. Over the year, the nominal Som/USD exchange rate depreciated by only 1.1 percent. In real terms, the effective exchange rate appreciated

FIGURE 1 Kyrgyz Republic / Headline, food and fuel inflation



Source: Kyrgyz authorities.

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



Source: World Bank. Notes: see Table 2.

by an average of 1.2 percent in 2022. International reserves remained unchanged at 4 months of import cover at end-2022. Inflation reached 14.7 percent in 2022. Rising inflation was driven by rises in global food and fuel prices and by higher domestic demand stemming from increased public wages and inflows of Russian citizens. The Central Bank raised its policy rate to 14 percent in March 2022 from 8 percent in December 2021 and reduced it to 13 percent in November, even though inflation remains in double digits. The fiscal deficit increased to 1.4 percent of GDP in 2022 from 0.3 percent a year earlier. The fiscal expansion was less than projected due to strong revenue performance. Tax revenues increased from 24.5 percent to 29.2 percent of GDP due to increased imports and improved tax compliance helped by the installation of cash registers in the retail sector. Expenditures increased from 32.8 percent to 38.4 percent of GDP following significant wage increases for public servants, doctors, teachers, and social workers, and higher capital spending. As a share of GDP, public debt declined to 52 percent in 2022 from 59 percent in 2021.

The poverty rate is estimated to have declined to pre-COVID-19 levels. Public sector salary increases and enhancements to social assistance programs targeting the poor absorbed the negative impact of high food prices on the vulnerable population.

Outlook

GDP growth for 2023 is expected to moderate to 3.5 percent as gold production contracts and agriculture and the services sector experience a slowdown. On the demand side, growth is expected to be supported by consumption and investment while net exports are expected to be negative contributors. GDP is expected to converge to a potential growth rate of 4 percent in the medium-term.

Inflation is expected to remain elevated at about 10 percent in 2023, driven by rising tariffs for electricity and other utilities. Assuming the Central Bank maintains its monetary policy, inflation is projected to moderate gradually to 7 percent by end-2025.

The current account deficit is projected to reach about 14 percent of GDP in 2023 and narrow slightly in 2024–25 as external demand for non-gold goods improves and export of services increases. The deficit is expected to be financed by FDI and external borrowing.

The fiscal deficit is projected to widen in 2023 due to the full year effect of increases in public sector wages and social benefits. However, the fiscal position is expected to be consolidated in 2024–25 due to higher revenues from the mining sector and the containment of expenses on goods and services, and lower capital spending.

High food prices and job insecurity will continue to be the most significant concern for the welfare of the population in 2023. The poverty rate is projected to reduce slightly to 10.8 percent (at the international poverty line of USD 3.65 a day, 2017 PPP) in 2023. Government measures increasing pensions and the scaling up and extension of coverage of social protection programs targeting the poor will help to mitigate adverse effects on the poor.

Risks and uncertainties remain high. The slowdown of the global economy may reduce demand for Kyrgyz export and a further deterioration of the Russian economy may lead to a decline in remittances. The domestic political situation remains sensitive to the upcoming increase in electricity and other utility tariffs.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-8.4	6.2	7.0	3.5	4.0	4.0
Private Consumption	-8.3	20.9	11.6	8.0	5.4	4.3
Government Consumption	0.9	0.4	9.6	0.8	0.0	-0.1
Gross Fixed Capital Investment	-16.2	8.2	22.2	2.2	7.9	13.2
Exports, Goods and Services	-27.3	16.4	-15.9	12.0	12.5	16.7
Imports, Goods and Services	-28.0	39.3	24.0	16.1	12.1	14.3
Real GDP growth, at constant factor prices	-7.4	6.2	7.0	3.5	4.0	4.0
Agriculture	0.9	-5.0	4.4	2.0	2.5	2.5
Industry	-7.0	7.2	10.0	8.7	8.0	8.0
Services	-14.3	16.4	7.7	2.3	3.3	3.1
Inflation (Consumer Price Index)	6.3	11.9	15.2	8.0	6.0	5.8
Current Account Balance (% of GDP)	4.8	-8.6	-27.2	-13.7	-11.4	-10.0
Net Foreign Direct Investment Inflow (% of GDP)	-7.5	6.6	3.8	4.3	4.5	4.5
Fiscal Balance (% of GDP)	-4.2	-0.3	-1.4	-2.7	-2.6	-2.0
Revenues (% of GDP)	30.9	33.6	38.4	35.9	34.3	31.4
Debt (% of GDP)	67.7	59.0	52.0	49.8	49.1	48.1
Primary Balance (% of GDP)	-2.9	1.3	0.0	-1.4	-1.5	-1.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.3	0.7	0.5	0.5	0.5	0.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	18.7	12.5	11.4	10.8	10.2	9.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	67.6	62.2	59.6	58.6	57.7	56.3
GHG emissions growth (mtCO2e)	-2.9	5.1	7.2	7.7	5.7	4.8
Energy related GHG emissions (% of total)	70.4	72.0	73.3	74.3	74.7	74.7

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 ECAPOV harmonization, using 2020-KIHS. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2020) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

MOLDOVA

Table 1	2022
Population, million	2.6
GDP, current US$ billion	14.4
GDP per capita, current US$	5533.7
International poverty rate ($2.15)[a]	0.0
Lower middle-income poverty rate ($3.65)[a]	0.3
Upper middle-income poverty rate ($6.85)[a]	14.4
Gini index[a]	25.7
School enrollment, primary (% gross)[b]	107.8
Life expectancy at birth, years[b]	70.2
Total GHG emissions (mtCO2e)	13.3

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 Moldovan economy has been severely affected by Russia's invasion of Ukraine and a surge in inflation. GDP have contracted by 5.9 percent and inflation to have reached an average of 28.7 percent in 2022. The short-term outlook hinges on the evolution of the war in Ukraine and its ramifications on global commodity markets, particularly energy and weather conditions, while longer-term prospects depend on the unfinished structural reform agenda.

Key conditions and challenges

Moldova has been overtaken by the spillovers of the war in Ukraine, including the energy and refugee crises. Despite the efforts to mitigate the impact of the crises with a forceful fiscal impulse and swift monetary stance, private consumption was restrained by the erosion of households' disposable income and private investments by the uncertainty and challenging financial conditions, causing the economy to plunge into a recession in 2022. The medium-term outlook will be influenced by the ability of the Government to mitigate the households' eroding purchasing power while keeping the momentum on the reform program to address low productivity growth, persistent structural and governance weaknesses, the significant state-owned enterprises footprint, stifled competition, an uneven playing field, and tax distortions. The risks of extreme weather events and energy shocks remain high. Persistent inequality of opportunity limits the ability to access public services and reduces resilience and intergenerational mobility. Significant uncertainty also remains around the impact of the war in Ukraine on the Moldovan economy, and the supply and price of energy in 2023. A further increase in energy costs in the second half of 2023 may require spending reallocation and/or additional financing to mitigate the impact on households. High input costs and dry weather conditions may further reduce agricultural yields, resulting in additional inflationary pressures and dampened economic activity. On this background, the reduction in poverty observed during 2022, is likely to have been short-lived as Moldova felt the impacts of the war in Ukraine, with disproportionate impacts on poorer Moldovans primarily through the impacts of high food and fuel inflation.

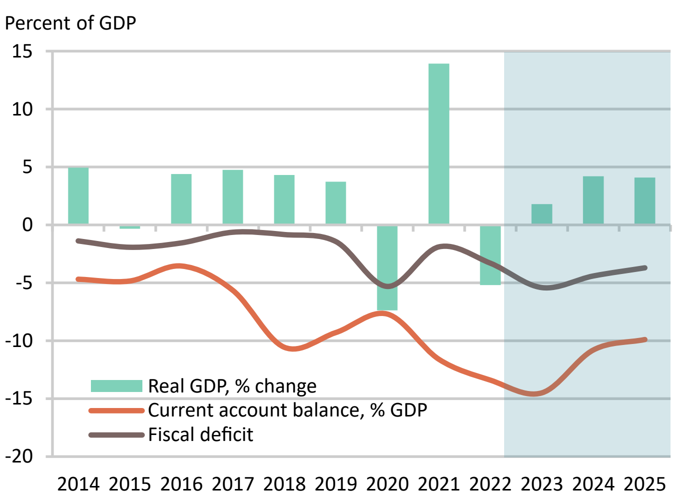
Recent developments

Moldova's GDP dropped by 10.6 percent in the fourth quarter, totaling a 5.9 percent decrease in 2022. High interest rates and proximity to the war in Ukraine had a negative impact on investments while high inflation eroded the disposable income of the population, resulting in a decrease in private consumption. Strong growth in exports (25 percent) on the back of good yields from last year and re-exports to Ukraine, were not however sufficient to compensate for the increase in imports (15.8 percent), mostly driven by high energy costs. As a result, the contribution to growth from net exports was negative. Public consumption increased by around 5 percent, modestly supporting growth.

Moldova's external position has deteriorated due to the impact of the energy crisis and lower remittances. As share of GDP, external debt decreased to 62.1 percent.

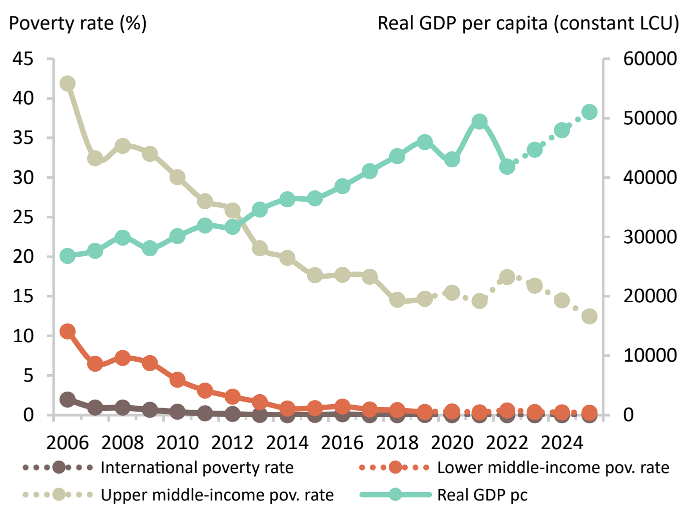
The monetary stance has been relaxed after inflation reached its peak in October 2022. In 2022, inflation surged to 28.7 percent triggered by adjustments in regulated prices. In 2023, the monetary authorities to

FIGURE 1 Moldova / Actual and projected macroeconomic indicators



Source: Author's calculations based on national statistics.

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



Source: World Bank. Notes: see Table 2.

decrease the policy rate twice to 17 percent from 21.5 percent.

The fiscal position proved to be resilient in 2022, registering a deficit of 3.3 percent, thanks to a strong revenue performance. Public spending increased by 22.4 percent led by social spending and subsidies. Cash buffers were used toward the end of the year to secure the supply of energy. Public and publicly guaranteed debt decreased to around 33 percent of GDP in the first 9 months of 2022.

Amidst tight labor market conditions, poverty, as measured by the international US$6.85 2017 PPP per day poverty line, increased from 14.4 percent in 2021 to 17.5 percent in 2022.

Outlook

GDP growth is expected to slowly rebound to 1.8 percent in 2023, reaching its potential only in 2024, due to inflation dynamics, energy security concerns, and the ongoing war in Ukraine. The measures taken by the government in 2021 and 2022 (e.g., an increase in minimum pensions and indexation, social protection measures, and a higher minimum wage) are expected to partially mitigate the impact on households. Nevertheless, the main sources of disposable income are registering negative growth, while consumer credit is low. The proximity to the war in Ukraine poses headwinds to domestic and foreign investment, as well as to net exports.

Double-digit inflation will persist in 2023, only receding slowly toward the NBM's inflation target of 5 percent +/- 1.5 percent in 2024, under the assumption of a moderation in import prices and contained second-round effects. Moldova's external position is expected to weaken, reflecting overall elevated import prices coupled with subdued capital inflows due to heightened uncertainty. In the medium term, the inflow of remittances will stabilize as Moldovan migrants move to other destinations and help reduce the structural deficit of the current account. Overall, the CAD is expected to be higher than in the pre-COVID-19 period and remain reliant on external financing. Revenues are expected to decline in real terms as economic activity subsides, resulting in a fiscal deficit of 5.4 percent in 2023. Public debt remains sustainable despite the deterioration of the short-term outlook.

Poverty as measured by the US$6.85 2017 PPP poverty line is expected to decrease from 17.5 percent in 2022 to 16.3 percent in 2023. With growth anticipated to recover, poverty is projected to fall further to 14.5 percent in 2025. However, the growth outlook, and therefore projected poverty, is subject to substantial downside risks.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-7.4	13.9	-5.9	1.8	4.2	4.1
Private Consumption	-8.3	15.5	-4.0	3.0	4.1	4.2
Government Consumption	3.1	3.8	5.1	1.3	2.1	0.0
Gross Fixed Capital Investment	0.4	1.7	-6.8	1.9	5.0	5.3
Exports, Goods and Services	-9.6	17.5	24.9	3.3	4.5	5.1
Imports, Goods and Services	-5.0	19.2	15.8	3.7	4.0	4.1
Real GDP growth, at constant factor prices	-7.6	15.6	-5.9	1.8	4.2	4.1
Agriculture	-26.4	18.7	-25.8	2.6	3.3	3.5
Industry	-4.3	5.6	-17.9	2.4	4.6	5.1
Services	-4.8	19.3	2.0	1.5	4.2	3.9
Inflation (Consumer Price Index)	4.1	5.1	28.7	14.1	6.2	4.9
Current Account Balance (% of GDP)	-7.7	-11.1	-13.4	-14.5	-10.8	-9.9
Net Foreign Direct Investment Inflow (% of GDP)	1.3	1.6	0.8	1.5	2.8	2.8
Fiscal Balance (% of GDP)	-5.3	-1.9	-3.3	-5.6	-4.6	-3.9
Revenues (% of GDP)	31.4	32.0	33.6	32.1	31.8	32.1
Debt (% of GDP)	36.4	32.4	33.7	36.3	38.2	38.0
Primary Balance (% of GDP)	-4.5	-1.1	-2.0	-4.5	-3.7	-3.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.5	0.3	0.6	0.4	0.3	0.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	15.4	14.4	17.4	16.3	14.5	12.5
GHG emissions growth (mtCO2e)	-5.6	8.9	-4.5	1.2	2.7	2.7
Energy related GHG emissions (% of total)	63.5	65.4	63.5	63.7	64.4	65.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2021-HBSActual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.
b/ Projections using neutral distribution (2021) with pass-through = 1 (High-2022), pass-through = 0.7 (Low-2023), pass-through = 0.87 (Medium-2024), pass-through = 0.87 (Medium-2025) based on GDP per capita in constant LCU.

MONTENEGRO

Table 1	2022
Population, million	0.6
GDP, current US$ billion	6.9
GDP per capita, current US$	11089.9
International poverty rate ($2.15)[a]	2.9
Lower middle-income poverty rate ($3.65)[a]	6.4
Upper middle-income poverty rate ($6.85)[a]	18.5
Gini index[a]	36.9
School enrollment, primary (% gross)[b]	102.3
Life expectancy at birth, years[b]	75.9
Total GHG emissions (mtCO2e)	3.7

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

While growth in 2022 was strong at an estimated 6.1 percent, it decelerated in the second half of the year. Private consumption propelled growth, but its contribution weakened by year-end as inflation surged to an average of 13 percent for the year. At 5.2 percent of GDP, the fiscal deficit was lower than planned, but still high due to forgone revenues and additional spending. The rise in the cost of financing and forthcoming debt repayments require utmost fiscal vigilance.

Key conditions and challenges

Montenegro's small, open, and service-based economy is highly vulnerable to external shocks, while the country's choice of strategies and policies has not always been conducive to enhancing its resilience. After a historic recession of -15.3 percent in 2020, the economy recovered strongly in 2021 and 2022, averaging 13 and 6.1 percent growth, respectively. However, it is facing renewed challenges from the Russian invasion of Ukraine, associated global geopolitical and economic uncertainties, but also domestic instability. Given unilateral euroization, Montenegro relies on fiscal policy and structural reforms to maintain macroeconomic stability. However, the debt-financed highway construction, the pandemic, and a lack of commitment to fiscal targets have increased fiscal vulnerabilities and increased public debt. Despite a significant decline to an estimated 70.8 percent of GDP in 2022, public debt remains high, particularly in the environment of increasing financing costs. In 2022, the government implemented a major tax reform, which reduced labor taxes from a flat 39 percent of total labor cost to an average of 22 percent by removing healthcare contributions and introducing progressive income taxation, while increasing the minimum wage from €250 to €450. The program has the potential to reduce inequalities and increase growth in the medium term, but also poses fiscal risks. These have been further amplified by additional spending, particularly on the social and wage bill. Considering large Eurobond repayments in 2025 and 2027 and higher borrowing costs, Montenegro must show fiscal prudence by consolidating its public finance, by narrowing the fiscal deficit and by further reducing public debt by 2025.

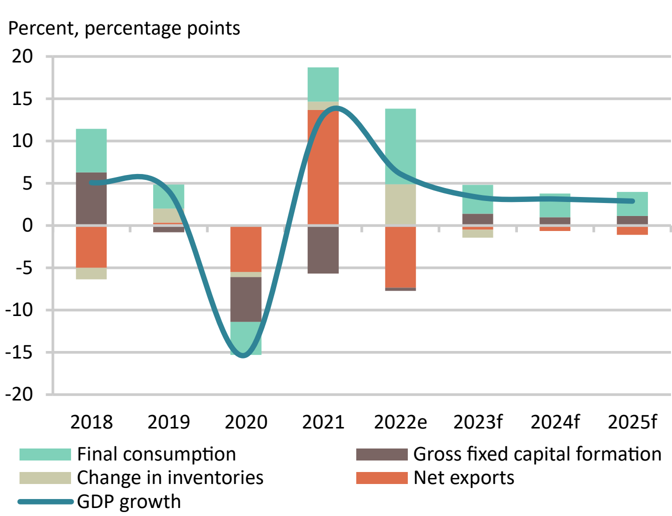
Montenegro has been in a political and institutional standstill since August 2022, when the government received a vote of no-confidence, and the Constitutional Court lost a quorum. The complexity and fragility of the political landscape exacerbates uncertainties, slows the reform process, and not only diverts the focus from imminent economic challenges, but amplifies them. Montenegro's immediate priority should thus be to resolve the institutional and political crisis.

Recent developments

In 2022, economic activity was driven by an increase in real disposable incomes, further recovery in tourism, employment growth, and household lending. Real retail trade grew by 13.4 percent y/y, while the number of tourist overnights reached 92 percent of the 2019 level. However, the value of construction works contracted by 4.4 percent in nominal terms, while industrial production declined by 3.2 percent as unfavorable hydrological conditions affected electricity generation.

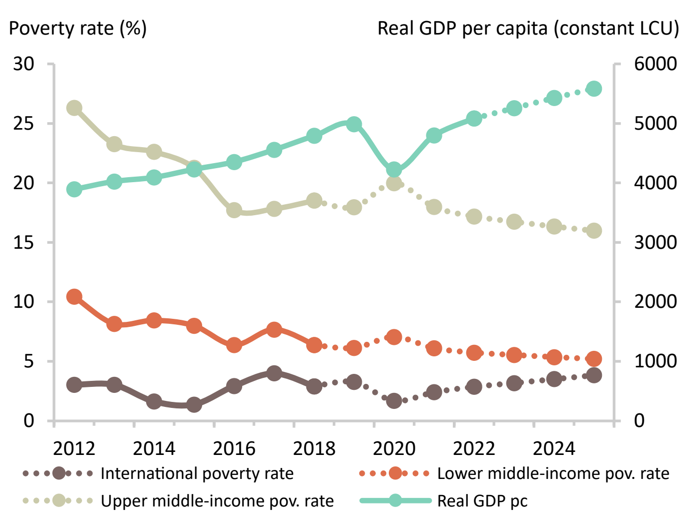
Employment gains were strong in 2022, contributing to a record high activity rate and a record low unemployment rate of

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



Sources: MONSTAT and World Bank.

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



Source: World Bank. Notes: see Table 2.

58.9 and 14.7 percent, respectively. In 2022, real net monthly wages increased by 18.7 percent. Consequently, poverty (income below $6.85/day in 2017PPP) is projected to have declined to 17 percent in 2022.

Inflation averaged 13 percent, led by a surge in food and energy prices. The inflationary impact on households has been largely mitigated by a wage increase through the tax reform program.

By December, lending and deposits increased by 9 and 24.3 percent y/y, respectively. In December, the average capital adequacy ratio was at healthy 19.3 percent, while non-performing loans declined to 6.3 percent from 6.8 percent of total loans a year earlier.

The current account deficit widened to 13.3 percent of GDP but was fully financed by net FDI. The trade deficit expanded by 40 percent, as strong export growth could not compensate for an even stronger increase in imports. Net income accounts further reduced the current account deficit, due to strong net remittances.

A shortfall in social security contributions and personal income tax collections, new spending and ad-hoc spending commitments, the clearance of health insurance arrears, and higher capital spending increased the fiscal deficit from 1.9 percent of GDP in 2021 to an estimated 5.2 percent of GDP in 2022. Public debt declined from 84 percent of GDP in 2021 to an estimated 70.8 percent of GDP in 2022, supported by regular repayment of debt and limited new borrowing.

Outlook

The unfavorable global economic outlook and high domestic uncertainty are weighing on Montenegro's otherwise positive outlook. Over 2023-25, growth is projected to average 3.1 percent, as private consumption growth slows, whereas investment is expected to provide marginally positive contributions to growth. Tourism is likely to continue recovering in 2023 to reach its 2019 level, although deteriorating growth prospects in the EU and the region may have an adverse effect on both tourism and wider growth prospects. Poverty is projected to decline to 16.6 percent in 2023.

Inflation is projected to decelerate to 7.9 percent in 2023 and further to 4 percent in 2024. While higher energy prices are disproportionally affecting the poor, they are also supporting Montenegro's electricity exports, helped by increasing generation capacities. These factors, together with exports of tourism and transport services are projected to support a reduction in the current account deficit to 11.1 percent of GDP in 2025.

The fiscal balance is expected to moderate over the medium term but will remain elevated at 4.9 percent of GDP in 2023 and 4.5 percent of GDP in 2024, due to higher wages, social, and capital spending. As a result, public debt will stay high at around 70 percent of GDP in 2023-25. Additional fiscal consolidation measures (both revenue measures and tighter expenditure control) would, however, result in a better fiscal performance.

Given the tightening of global financial conditions and Montenegro's sizable financing needs of around 10 percent of GDP in 2023, the country will require very careful fiscal management and stronger control over its expenditures.

The outlook is surrounded with multiple downside risks. High geopolitical uncertainties and global inflation may weaken growth prospects in Montenegro's major trading partners. Inflationary pressures are accelerating monetary tightening which translates into more expensive external financing. Political instability and delays in resolving the institutional standstill are major domestic risks. The severity of challenges ahead requires strong political commitment and actions to mitigate these risk.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-15.3	13.0	6.1	3.4	3.1	2.9
Private Consumption	-4.6	4.0	9.7	3.3	2.9	3.1
Government Consumption	0.8	0.5	1.2	1.6	0.4	0.1
Gross Fixed Capital Investment	-12.0	-12.3	-1.1	4.3	3.0	3.4
Exports, Goods and Services	-47.6	81.9	22.7	4.9	4.4	4.1
Imports, Goods and Services	-20.1	13.7	21.3	3.4	3.3	3.5
Real GDP growth, at constant factor prices	-14.4	13.2	4.8	3.3	3.1	2.9
Agriculture	1.1	-0.5	-0.4	0.1	0.1	0.1
Industry	-12.0	0.3	-5.0	2.0	2.0	2.0
Services	-16.9	19.9	8.4	4.1	3.8	3.4
Inflation (Consumer Price Index)	-0.3	2.4	13.0	7.9	4.0	2.8
Current Account Balance (% of GDP)	-26.1	-9.2	-13.3	-12.4	-11.9	-11.1
Net Foreign Direct Investment Inflow (% of GDP)	11.2	11.7	13.5	8.7	7.6	7.4
Fiscal Balance (% of GDP)	-11.0	-1.9	-5.2	-4.9	-4.5	-4.2
Revenues (% of GDP)	44.4	44.0	39.4	39.3	39.1	38.8
Debt (% of GDP)	105.3	84.0	70.8	69.0	70.3	69.6
Primary Balance (% of GDP)	-8.3	0.5	-3.5	-3.1	-2.2	-1.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.7	2.4	2.9	3.2	3.5	3.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	7.1	6.1	5.7	5.5	5.4	5.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	20.0	18.0	17.2	16.7	16.3	16.0
GHG emissions growth (mtCO2e)	-9.2	5.2	-0.9	1.5	1.3	1.3
Energy related GHG emissions (% of total)	68.8	71.1	71.4	72.1	72.5	72.9

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 ECAPOV harmonization, using 2015-SILC-C and 2019-SILC-C. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection using point-to-point elasticity (2014-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

NORTH MACEDONIA

Table 1	2022
Population, million[a]	2.1
GDP, current US$ billion	13.6
GDP per capita, current US$[a]	6567.8
International poverty rate ($2.15)[b]	2.8
Lower middle-income poverty rate ($3.65)[b]	7.6
Upper middle-income poverty rate ($6.85)[b]	19.1
Gini index[b]	33.6
School enrollment, primary (% gross)[c]	95.5
Life expectancy at birth, years[c]	75.7
Total GHG emissions (mtCO2e)	11.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2020) for population.
b/ Most recent value (2019), 2017 PPPs.
c/ Most recent WDI value (2020).

Despite brisk post-pandemic recovery, the energy crisis depressed growth and pushed inflation to a two-decade high, stretching public finances amidst a rise in borrowing costs. Government support for the energy crisis needs to be targeted and temporary to incentivize energy efficiency and the green transition. Structural reforms to boost medium-term growth should be prioritized ahead of the general elections in 2024. Downside risks to the outlook have subsided but prevail.

Key conditions and challenges

Despite a brisk recovery from the pandemic-induced recession, North Macedonia's growth momentum started losing steam as the energy crisis and the war in Ukraine took a toll on the domestic economy. After a decade of muted price increases, inflation accelerated to a peak of close to 20 percent in late 2022 driven by double-digit increases in food and energy prices.

Just as poverty was resuming a downward pathway in 2021, high inflation created additional challenges. Poverty is estimated to have declined moderately in 2022, as higher food and energy prices negatively affected household welfare, particularly among the less well-off who spend a higher proportion of income on these items and have fewer mechanisms to cope with higher prices. Government support measures, including electricity subsidies and an 18-percent rise in minimum wages, have cushioned the shock to some extent.

Corporate credit growth remained robust by December 2022, although worsening financial conditions in times of rising input and borrowing costs could weigh on firm performance and dent an already fragile recovery.

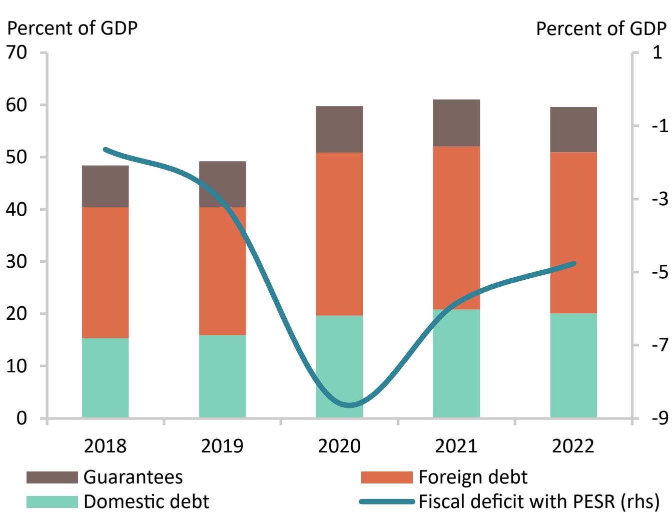
The overlapping crises also had an adverse effect on fiscal accounts and markedly reduced fiscal space for supporting growth over the medium term. Despite a rise in revenues due to inflation and positive growth since 2021, spending pressures to mitigate the impact of multiple crises have delayed fiscal consolidation beyond 2022. Public debt declined to 59.6 percent of GDP in 2022, but arrears increased to 3.2 percent, while the primary deficit remained high and subsidies to the state-owned electricity company to cover the losses hit 2.4 percent of GDP. Ambitious public investment plans are projected to keep the fiscal deficit elevated leaving the debt-to-GDP ratio high over the medium term.

Restoring the country's long-term growth prospects requires following up on pending reforms. Policy actions need to focus on rebuilding sustainability and resilience to shocks to prevent future setbacks to growth. Improving tax compliance and widening the tax base should be a priority as much as targeting social spending and building energy resilience. Reducing business regulatory costs, deepening the trade agreements, increasing market competition, supporting labor market participation, strengthening the independence of public institutions as well as launching the green transition would all be supportive of sustainable, inclusive, and resilient growth in an environment of pronounced uncertainty.

Recent developments

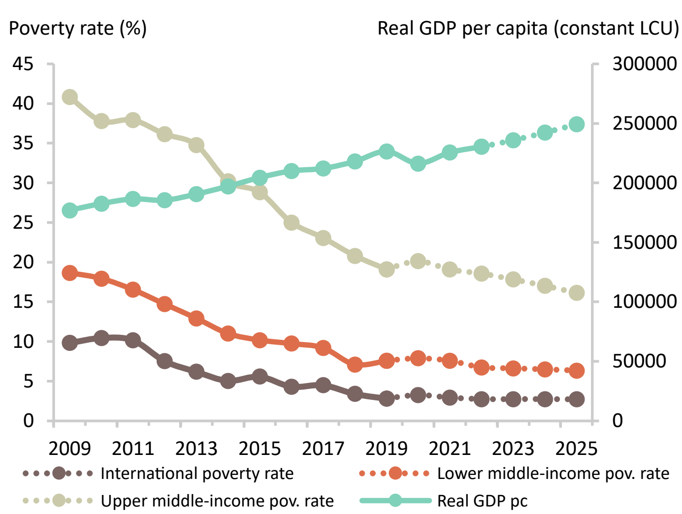
After growing by 3.9 percent in 2021, domestic output increased by 2.1 percent on an annual basis in 2022, as gross investments surged largely due to import-intensive stockpiling. Despite a double-digit

FIGURE 1 North Macedonia / Fiscal performance



Sources: North Macedonia State Statistics Office, Ministry of Finance, and World Bank staff calculations. Note: Fiscal deficit with PESR included.

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



Source: World Bank. Notes: see Table 2.

rate of growth, exports lagged imports while personal consumption decelerated. On the production side, growth was driven by services, as the industry struggled, and construction dove further into negative territory.

The census-adjusted employment rate settled at 47.2 percent in Q4 2022, led by an increase in the female employment rate. The activity rate is still hovering around 55 percent, which is below the pre-pandemic peak. The unemployment rate decreased to 14 percent, but the youth unemployment rate remained high at 31.8 percent in Q4 2022.

Banking sector stability was preserved with an increase in the capital adequacy ratio to 17.7 percent in Q3 2022 despite a drop in the liquidity rate to 19.7 percent. Credit growth remained robust at 9.4 percent y-o-y in December 2022, led by accelerated FX-denominated corporate lending (20 percent of total lending). Headline inflation hit 14.2 percent in 2022, and despite deceleration, core inflation of 10.9 percent at end-2022 remains sticky. Since April 2022, the Central Bank increased the main policy rate to 5.25 percent to curb inflationary expectations. The pegged exchange rate remained stable and FX reserves recovered from losses incurred at the start of the war in Ukraine, as government borrowing and FDI inflows surged in H2 2022. In 2022, the general government deficit at 4.5 percent of GDP ended below the last budget revision as revenues led by personal and corporate income taxes outpaced expenditures, and as capital expenditure fell short of the planned amount. Public debt to GDP slightly declined but is expected to increase again as the highway construction project starts in 2023.

Outlook

The medium-term outlook is positive, and downside risks subsided as financing conditions eased and as the country secured financing for 2023. Growth in 2023 is expected to increase to 2.4 percent, 0.3 p.p. below the autumn round forecast, reflecting continued disruptions from the war in Ukraine, and a protracted energy crisis. Growth is projected to remain below potential, but to moderately accelerate as the large public investment starts and nearshoring of FDIs continues. With commodity prices expected to decline over the next two years, the inflation rate is projected to decelerate to 9.1 percent in 2023 and further to 3 percent in 2024. The baseline scenario is built on the assumption that the energy crisis subsides over the forecast horizon.

While underlying risks remain skewed to the downside and are closely tied to the outlook for the country's main trading partners, moving ahead with EU accession negotiations may provide a much-needed boost to reform appetite and unlock higher growth prospects. At the same time, heightened political uncertainty and a parliamentary impasse prior to elections may delay the implementation of critical reforms. Finally, higher-than-expected inflation may trigger more significant monetary policy tightening that can additionally restrict financing options and suppress economic activity.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-4.7	3.9	2.1	2.4	2.7	2.9
Private Consumption	-3.4	7.8	5.5	3.3	2.1	3.7
Government Consumption	9.7	-0.4	1.0	0.3	0.2	0.2
Gross Fixed Capital Investment	-15.7	0.9	20.0	10.0	5.5	3.0
Exports, Goods and Services	-10.9	11.7	11.0	6.0	5.5	5.0
Imports, Goods and Services	-10.9	11.9	16.5	5.8	4.5	4.5
Real GDP growth, at constant factor prices	-4.3	4.1	2.1	2.4	2.7	2.9
Agriculture	2.5	-5.2	1.8	2.0	2.5	1.8
Industry	-6.9	-1.8	0.4	3.1	3.4	3.0
Services	-4.1	7.5	2.7	2.2	2.5	3.0
Inflation (Consumer Price Index)	1.2	3.2	14.2	9.2	3.0	2.0
Current Account Balance (% of GDP)	-2.9	-3.1	-6.0	-4.2	-3.7	-3.2
Net Foreign Direct Investment Inflow (% of GDP)	1.4	3.3	5.2	5.2	5.9	6.2
Fiscal Balance (% of GDP)	-8.2	-5.4	-4.6	-4.8	-4.2	-3.3
Revenues (% of GDP)	29.9	32.5	32.4	33.5	33.5	34.1
Debt (% of GDP)	59.8	61.0	59.6	61.6	63.8	63.6
Primary Balance (% of GDP)	-7.0	-4.1	-3.4	-3.3	-2.5	-1.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.2	2.9	2.7	2.7	2.7	2.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	7.9	7.6	6.7	6.6	6.5	6.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	20.1	19.1	18.6	17.8	17.1	16.1
GHG emissions growth (mtCO2e)	-3.4	2.0	0.2	0.3	-0.3	-1.1
Energy related GHG emissions (% of total)	71.3	72.2	72.3	72.2	71.9	71.2

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 ECAPOV harmonization, using 2020-SILC-C. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

POLAND

Table 1	2022
Population, million	39.3
GDP, current US$ billion	697.2
GDP per capita, current US$	17740.7
Upper middle-income poverty rate ($6.85)[a]	0.9
Gini index[a]	28.9
School enrollment, primary (% gross)[b]	84.1
Life expectancy at birth, years[b]	76.6
Total GHG emissions (mtCO2e)	328.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2020).

Poland's GDP grew by 4.9 percent in 2022 but high inflation, policy uncertainties, tighter financing conditions, and an unwinding of the inventory cycle will weigh on growth in 2023. The Russian invasion of Ukraine affects the economy, while the large number of Ukrainians joining the labor market relieved some of the pressures in the tight labor market. The share of the population at risk of poverty is expected to remain elevated through 2024.

Key conditions and challenges

The well-diversified Polish economy has proven to be one of the most resilient in the EU, recovering robustly after a relatively small contraction in GDP of 2 percent in 2020.

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

The unprecedented policy response to mitigate the impacts of the COVID crisis and high inflation have, nevertheless, narrowed the available policy space.

Increased spending and tax expenditure efficiency are needed to rebuild fiscal buffers, accommodate higher spending on health, defense, the green transition, and to prepare for the growing fiscal burden arising from aging. Over the medium term, a key challenge is a tightening labor supply made more acute by the aging population. The large influx of displaced people from Ukraine could help address at least temporarily the labor market tightness. Achieving decarbonization commitments is another challenge. Institutional strengthening is also needed for sustained and inclusive growth and for narrowing regional disparities.

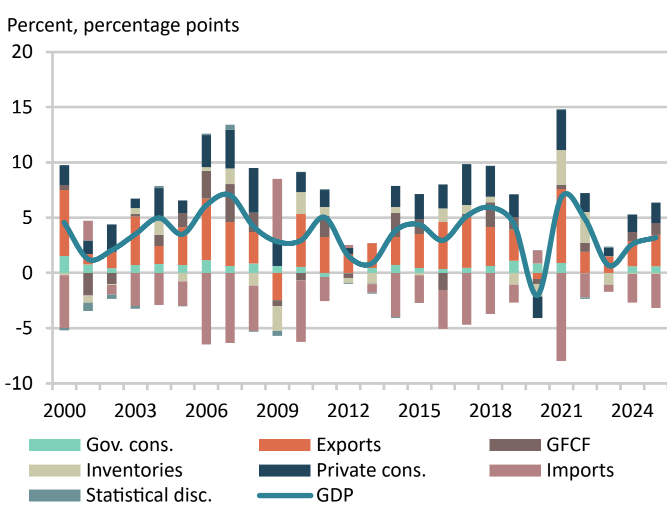
Recent developments

Economic growth decelerated to 4.9 percent in 2022 but remains well above potential GDP growth. Household consumption expanded by 3 percent in 2022, despite a decline in average monthly real gross wages and salaries of 2.1 percent in 2022, as households dissaved. Investment growth accelerated to 4.5 percent, while higher inventories contributed nearly 3 percentage points to growth, as firms moved from a "just-in-time" to a "just-in-case" approach to inventories.

Higher employment, record-low unemployment, increased labor force participation, strong nominal wage growth, and government transfers supported private consumption. Pent-up demand and demand from the nearly 1.3 million displaced Ukrainians in Poland also supported domestic demand in 2022. High-capacity utilization and strong corporate balance sheets supported investments. Supply side disruptions and lower external demand from Russia, Ukraine, and Belarus weighed on exports.

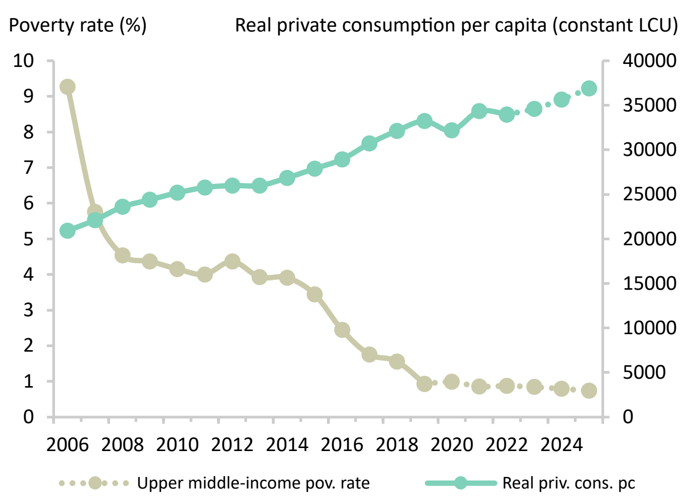
Inflation reached 18.4 percent in February 2023, sharply higher than the targeted range, as reduced VAT rates on electricity, gas and fuel reverted to the standard rate.

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



Sources: GUS and World Bank staff calculations.

FIGURE 2 Poland / Actual and projected poverty rate and real private consumption per capita



Source: World Bank. Notes: see Table 2.

Caps on electricity and gas prices, and interventions on heating fuels, have limited a full passthrough to consumers and firms. Monetary policy tightening to respond to high inflation saw the reference rate increase by 665 basis points since October 2021. Meanwhile, the zloty appreciated by nearly 5 percent so far this year compared with Q4 2022 against the USD. The banking sector remains well-capitalized and has limited direct exposure to Russia, Ukraine, or Belarus, although profitability of the banking sector has declined in recent months.

The number of refugees registered in Poland has decreased to 1 million by early March 2023, from 1.3 million Ukrainian refugees in mid-2022. Refugees have temporary residence and access to the labor market and key public services (health, education), social assistance, and housing.

The current account deficit widened to 3.2 percent of GDP in 2022 as import prices for energy and intermediate goods rose sharply.

The unwinding of the 2020 fiscal stimulus and the strong increase in tax revenues brought the general government deficit to 1.8 percent of GDP in 2021. Measures to protect households and firms from the large energy price shock and high food prices caused the fiscal deficit to increase to an estimated 3.2 percent despite buoyant revenues in 2022.

Extreme poverty rates using the national concept declined in 2021, reversing the rise linked to the COVID-19 pandemic in 2020; the Gini coefficient of inequality however continued the upward trajectory visible since 2017.

Outlook

Economic growth is projected to decelerate to 0.7 percent in 2023, on account of high inflation, monetary policy tightening, negative confidence effects related to the war in Ukraine, a lower number of foreign workers compared with the previous year and slowing demand in key trading partners. Quarterly GDP is expected to register negative growth early in the year, following a larger than expected contraction in the fourth quarter of 2022, before recovering in subsequent quarters, primarily on account of a recovery in private consumption and stronger public spending.

Supply-side disruptions, high input costs, and uncertainty related to war in Ukraine will affect private investments. The National Recovery and Resilience Plan is expected to support public investment, but any further delays in disbursements represent a downside risk.

Elevated energy and food prices will weigh on household demand and will affect heavily poorer segments, who devote 50 percent of their monthly spending on food and energy. The share of the population at risk of anchored poverty is expected to remain elevated at 1-2 percent above 2019 levels.

Lower energy import prices and weaker import demand are expected to result in a slight improvement in the current account deficit to 2.2 percent of GDP in 2023, with further improvements over 2024-2025 as terms of trade and external demand strengthen.

The fiscal deficit is expected to exceed 4.5 percent of GDP in 2023, on account of the impact of the structural tax reform (Polish Deal), the freeze on electricity and gas prices, and the zero-VAT on food, and the public assistance provided to displaced Ukrainian. The fiscal cost of these packages is estimated at 1.1 percent, 2 percent, and 0.2 percent of GDP respectively in 2023. With increased geopolitical risks, defense spending is also increasing, with the government committing to increase defense spending by 0.8 percent of GDP this year.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-2.0	6.8	4.9	0.7	2.6	3.2
Private Consumption	-3.3	6.3	3.0	1.3	2.8	3.3
Government Consumption	4.9	5.0	-0.3	-0.2	3.5	3.5
Gross Fixed Capital Investment	-2.3	2.1	4.5	0.2	4.4	5.7
Exports, Goods and Services	-1.1	12.5	3.4	2.7	4.0	5.0
Imports, Goods and Services	-2.4	16.1	4.0	1.2	4.8	5.6
Real GDP growth, at constant factor prices	-2.0	6.6	4.8	0.8	2.6	3.2
Agriculture	15.3	-11.1	1.9	1.0	0.2	0.1
Industry	-4.5	3.4	7.0	1.2	3.0	3.1
Services	-1.4	8.9	3.9	0.5	2.5	3.3
Inflation (Consumer Price Index)	3.4	5.1	14.4	12.2	5.9	3.5
Current Account Balance (% of GDP)	2.5	-1.4	-3.1	-2.3	-2.2	-2.0
Net Foreign Direct Investment Inflow (% of GDP)	2.4	4.2	4.0	2.0	2.1	2.0
Fiscal Balance (% of GDP)	-6.9	-1.8	-3.2	-4.6	-3.7	-3.1
Revenues (% of GDP)	41.3	42.4	37.9	38.0	38.9	38.8
Debt (% of GDP)	57.2	53.8	48.4	50.6	52.0	53.3
Primary Balance (% of GDP)	-5.6	-0.7	-2.0	-2.4	-1.9	-1.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	1.0	0.9	0.9	0.8	0.8	0.7
GHG emissions growth (mtCO2e)	-3.5	2.5	3.7	1.7	2.0	2.2
Energy related GHG emissions (% of total)	91.9	91.8	91.8	91.9	92.0	92.1

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 ECAPOV harmonization, using 2013-EU-SILC and 2020-EU-SILC. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Projection using point-to-point elasticity (2012-2019) with pass-through = 0.7 based on private consumption per capita in constant LCU.

ROMANIA

Table 1	2022
Population, million	19.9
GDP, current US$ billion	291.7
GDP per capita, current US$	14643.2
International poverty rate ($2.15)[a]	2.2
Lower middle-income poverty rate ($3.65)[a]	4.7
Upper middle-income poverty rate ($6.85)[a]	10.7
Gini index[a]	35.2
School enrollment, primary (% gross)[b]	87.8
Life expectancy at birth, years[b]	74.4
Total GHG emissions (mtCO2e)	84.0

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

Romania's economic growth was robust in 2022 at 4.8 percent, driven by strong private consumption and a pick-up in investment. Economic prospects are moderated by the spillovers from Russia's invasion of Ukraine, and risks are tilted to the downside. Fiscal and current account deficits will remain elevated. Poverty reduction is expected to slow down as a result of inflationary pressures, mainly from food and energy, though some of the impacts are mitigated by government support measures.

Key conditions and challenges

Romania has made impressive strides in raising its economic performance and prosperity over the past two decades. However, the COVID-19 pandemic and the war in Ukraine have tested the resilience of the Romanian economy and exacerbated its structural vulnerabilities, especially in terms of poverty and disparities in economic opportunity, persistently large gender gaps in labor force participation and employment, widening fiscal and current account deficits, and significant institutional constraints hindering the efficient use of resources.

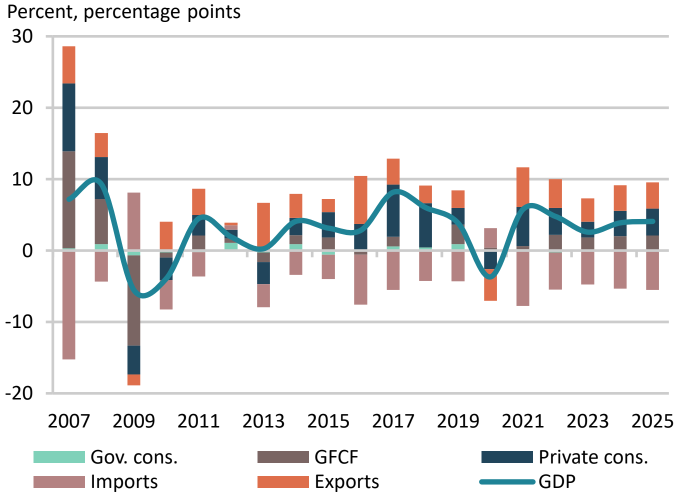
Despite measures to cap energy (gas and electricity) prices, rising costs of food and energy have disproportionally affected poor and vulnerable households as they spend a larger share of their budget on these items. Energy poverty is expected to increase. Romania's at-risk-of-poverty rate remains among the highest in the EU, exceeding that of countries with similar or lower per capita incomes, and the current inflationary environment could push additional people into poverty.

The key challenges in the short term are to contain the socio-economic effects of the war in Ukraine, including the rising cost of living and the significant twin deficits. Soaring inflation led to monetary policy tightening, and high core inflation points to persistent inflationary pressures. In the medium term, fiscal consolidation increased absorption and efficient use of EU funds, and enhanced private sector and investment growth will be critical for a sustainable, green, and inclusive recovery.

Recent developments

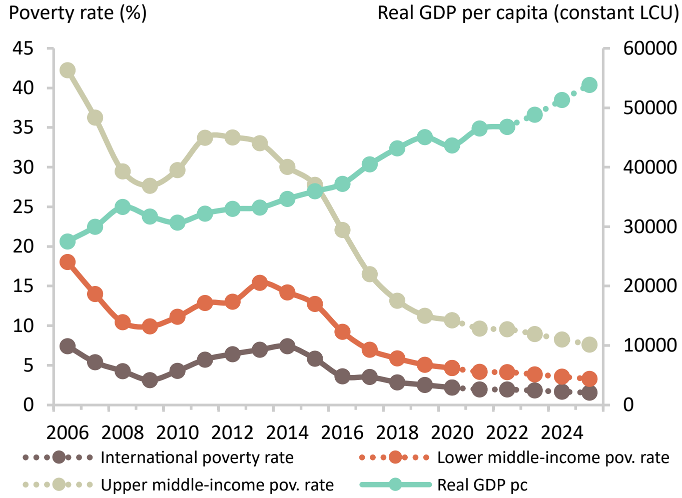
Romania's economy performed better than expected in 2022, expanding by 4.8 percent. Growth was driven by strong private consumption (up 5.5 percent y-o-y) benefiting from the phasing-out of the pandemic restrictions, higher wages, and muted unemployment. However, consumer spending gradually weakened in the second half of the year as higher prices squeezed disposable income. Investment, up 9.2 percent y-o-y, was boosted by new construction works and, to a smaller extent, by machinery and equipment. Strong private consumption coupled with global value chain disruptions and the terms of trade shock led to a significant widening of the goods trade deficit, and the current account deficit widened to 9.4 percent of GDP in 2022. On the supply side, growth was led by Information and Communications Technology (up 20.1 percent y-o-y), which benefited from businesses adopting digital technologies. Construction activity (up 11.2 percent y-o-y) was supported by the revival of the non-residential buildings segment and capital repairs. Unemployment remains contained at 5.6 percent in December 2022 on the back of the economic recovery and labor supply constraints. Elevated inflation, labor shortages, and improvements

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



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

in labor productivity contributed to wage increases, with nominal net wages growing by 13.4 percent y-o-y in December 2022. Annual inflation accelerated to 16.4 percent in December 2022, led by soaring electricity, gas, and central heating prices (up 39.7 percent), while food prices were up by 22.1 percent. Inflationary pressures prompted the National Bank of Romania to gradually increase the policy rate to 7 percent in early January 2023. Private sector credit growth decelerated to 12.1 percent y-o-y in December 2022, from 14.8 percent y-o-y in December 2021, reflecting the slowdown in loans to households.

The fiscal deficit narrowed to an estimated 5.7 percent in 2022 from 7.1 percent in 2021, reflecting higher nominal revenues (up 21.2 percent y-o-y). However, fiscal risks remain significant as financing conditions have tightened, and Romania faces higher spreads than regional peers on government bonds denominated in Euro.

The Rapid Household Survey in June 2022 showed that poorer households suffered most from work stoppage during the crisis, but they succeeded in catching up and finding back a job. However, labor force participation for those aged 15-64 remains below pre-pandemic levels, and gender gaps among uneducated groups- already large- continue to expand. Moreover, rising food and energy prices have affected energy poverty, food insecurity, and strained family budgets, especially among the poor and vulnerable, who often have little financial cushion to help absorb rising prices. The war in Ukraine and further disruptions to the global supply chains will continue to affect the economies of host countries for Romanian migrants, reducing remittances. Thus, despite economic and employment recovery, poverty ($6.85/day PPP) is expected to have declined only modestly, from 10.7 percent in 2020 to 9.6 percent in 2022.

Outlook

Growth is projected to decelerate to 2.6 percent in 2023. The outlook hinges on several factors, including the spillovers from the war in Ukraine impacting the European economy in which Romania is highly integrated, persistent core inflation, and additional volatility in energy and food prices. De-anchoring of inflation expectations could prolong the monetary tightening cycle leading to increased financing costs weighing down investment. Romania's capacity to efficiently absorb the EU funds will be critical for a sustainable, green, and inclusive recovery. The sizable funds, and associated structural reforms, should also partially mitigate the impact of higher interest rates and uncertainty on private investment and alleviate some of the fiscal pressures resulting from the heightened energy and food prices. Strengthened lifelong skills formation and private capital mobilization will be pivotal in boosting potential growth. Over the medium term, fiscal deficits will remain elevated. Renewed attention to fiscal consolidation is needed, particularly aimed at reducing inefficient expenditures and strengthening revenue mobilization.

Poverty is expected to continue declining slowly in 2024, depending on whether food and energy prices remain elevated for longer and the effectiveness of the mitigation measures helping families with low incomes to absorb rising food and gas prices. Declining remittance incomes could also mean a longer recovery process for vulnerable population segments in the coming years. A protracted war in Ukraine may weaken growth prospects in the medium term.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-3.7	5.8	4.8	2.6	3.9	4.1
Private Consumption	-3.9	8.1	5.5	3.2	5.1	5.4
Government Consumption	1.1	1.3	-2.0	1.1	1.2	1.2
Gross Fixed Capital Investment	1.1	1.9	9.2	6.9	7.2	7.4
Exports, Goods and Services	-9.5	12.6	8.6	6.7	7.1	7.0
Imports, Goods and Services	-5.2	14.9	9.2	8.1	8.6	8.5
Real GDP growth, at constant factor prices	-3.4	5.4	4.8	2.6	3.9	4.1
Agriculture	-15.3	5.9	-11.6	6.0	2.1	2.1
Industry	-6.5	6.6	-2.3	1.3	3.4	3.5
Services	-0.8	4.8	9.5	3.0	4.2	4.5
Inflation (Consumer Price Index)	2.6	5.1	13.8	10.1	5.4	4.2
Current Account Balance (% of GDP)	-4.9	-7.2	-9.4	-7.9	-6.8	-6.5
Net Foreign Direct Investment Inflow (% of GDP)	1.4	3.7	3.8	3.9	4.0	4.0
Fiscal Balance (% of GDP)	-9.2	-7.1	-5.7	-4.9	-4.6	-4.1
Revenues (% of GDP)	32.7	32.8	33.2	33.4	33.7	34.1
Debt (% of GDP)	46.8	48.9	48.7	49.4	49.9	50.2
Primary Balance (% of GDP)	-7.8	-5.6	-4.0	-3.4	-3.2	-2.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.2	2.0	2.0	1.8	1.7	1.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	4.7	4.2	4.1	3.9	3.6	3.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	10.7	9.6	9.6	8.9	8.3	7.6
GHG emissions growth (mtCO2e)	-5.0	6.5	5.9	2.1	3.9	4.6
Energy related GHG emissions (% of total)	92.5	93.0	93.8	94.2	94.6	95.1

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 ECAPOV harmonization, using 2014-EU-SILC and 2021-EU-SILC. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projection using point-to-point elasticity (2013-2020) with pass-through = 0.7 based on GDP per capita in constant LCU.

RUSSIAN FEDERATION

Table 1	2022
Population, million[a]	143.4
GDP, current US$ billion	2245.2
GNI per capita, Atlas method, current US$[a]	11610.0
Upper middle-income poverty rate ($6.85)[b]	4.1
Gini index[c]	36.0
School enrollment, primary (% gross)[d]	104.2
Life expectancy at birth, years[d]	71.3
Total GHG emissions (mtCO2e)	1415.8

Sources: WDI, MPO, Rosstat.
a/ Most recent value (2021).
b/ Most recent value (2020), 2017 PPPs.
c/ Most recent value (2020).
d/ WDI for School enrollment (2019); Life expectancy (2020).

Russia's economy contracted by only 2.1 percent in 2022, in the face of severe sanctions, and is expected to contract by a further 0.2 percent in 2023. Sanctions will lower oil production, reducing the current account surplus. Lower revenues, together with larger spending for the war in Ukraine and the need for countercyclical support, will increase the budget deficit. Medium-term growth prospects are muted as Russia's access to inputs and productivity-enhancing technologies is limited.

Key conditions and challenges

The sanctions imposed on Russia following its invasion of Ukraine continue to have significant adverse economic impacts on Russian enterprises due to high uncertainty, restricted access to international markets, restrictions on the export of several commodities, the import of technological goods, higher trade costs, and subdued domestic demand. New sanctions on the export of oil and derivatives are expected to reduce oil production by 7 percent in 2023 and raise transport costs for oil exporters. The fiscal position deteriorated in early 2023 with larger discounts on Russia's oil coupled with higher spending, in part on military needs and related social benefits. While the budget deficit remains manageable in the medium-term given relatively low public debt and accumulated fiscal buffers, higher public borrowing amidst restricted access to international markets will likely increase the cost of borrowing and crowd out the private sector. Longer-term challenges in the banking sector persist, with lending risks elevated. Greater uncertainty and restricted access to technology are likely to dampen private investment and make it less productive. These factors combined with a loss of skilled workers from the country will depress medium to long-term growth prospects.

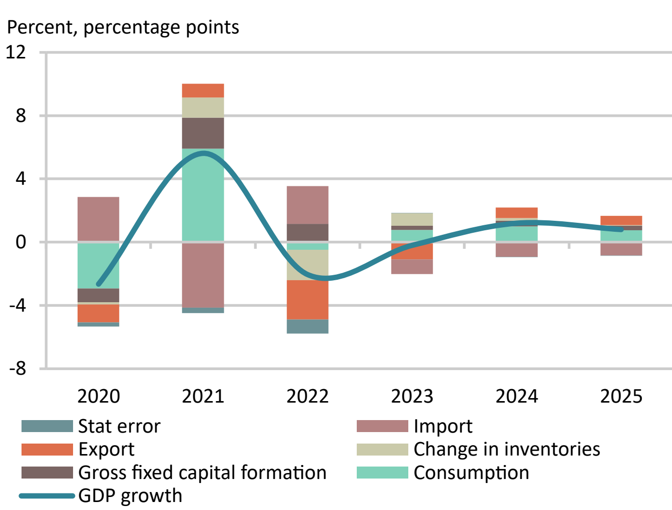
Recent developments

After a steep contraction in Q2 2022 (down 5.9 percent qoq, sa), driven by the imposition of sanctions, economic activity stabilized in H2 (1.9 percent growth hoh, sa) for a 2.1 percent contraction over 2022, considerably better than expected. The contraction was driven by a decline in exports (down 9.6 percent), in household consumption (down 1.8 percent) amidst falling real incomes, outward migration, and restricted imports, and gross capital formation (-0.8 percent) due to a substantial reduction in firms' inventories. Investment growth (5.2 percent) was bolstered by the resource sector, military demand, and investment into logistics.

On the supply side, growth was supported by agriculture (6.6 percent, yoy) with a record-high grain harvest; construction (5 percent); the financial sector (2.8 percent); and oil production (2.1 percent). While some manufacturing sub-sectors suffered from supply chain disruption (e.g., motor vehicles down 43 percent), military needs and import substitution drove growth of other sub-sectors (e.g. fabricated metals up 10 percent, computers and electronics up 4.1 percent, and medical products up 12 percent), resulting in a decline in manufacturing of 2.4 percent.

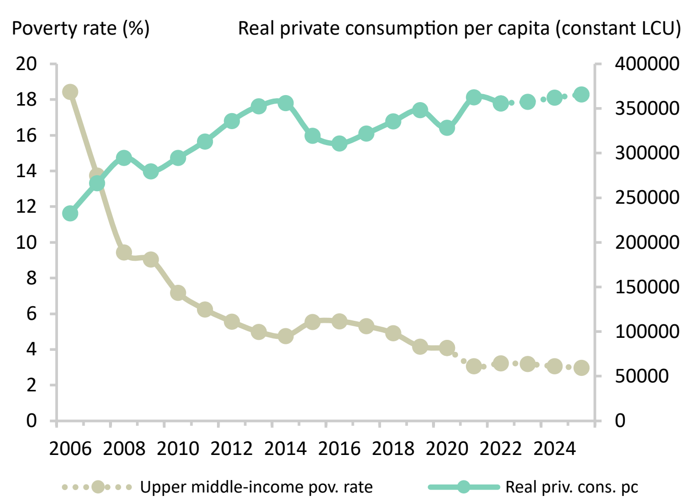
In 2022, the government delivered fiscal stimulus amounting to 4.2 percent of GDP, boosting social benefits, and providing subsidized loans and tax breaks to firms. The budget recorded a deficit of 2.2 percent of GDP, compared to a small surplus in 2021.

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



Sources: Rosstat and World Bank.

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



Sources: World Bank. Notes: see Table 2.

After a surge in March and then a deflationary spell, CPI inflation ended the year around 12 percent and averaged 14 percent in 2022. The Central Bank (CBR) normalized its monetary policy, keeping the policy rate unchanged at 7.5 percent since September.

After a record high current account surplus (CAS) in Q2 and Q3, by Q4 it had shrunk to its lowest level in 18 months as exports fell by 15 percent (qoq) and imports began recovering.

Banks managed to recover from H1 2022 losses of billion RUB 1.5 trillion (US$20.1 billion) to record a modest profit of RUB 0.2 trillion (US$3 billion) by year-end. Regulatory forbearance introduced by CBR limited the impact of volatility on financial markets and, alongside government support measures and capital buffers, allowed banks to continue lending. Over the year, credit to the private sector grew by 10.1 percent in nominal terms, putting real credit growth in negative territory.

The labor market has remained tight due to outward migration, and direct and induced military demand. The unemployment rate fell to an unprecedented low of 3.7 percent by end-2022. Nominal wages grew 12.6 percent in 2022, and nominal pensions by 12.8 percent, slightly below average CPI inflation. Food inflation was higher (14.9 percent). Social support helped reduce the official poverty rate to 10.5 percent in 2022, from 11.0 percent in 2021. Yet over 2022, the decline in private consumption is estimated to have led to a slight increase in poverty (under the UMIC poverty line) to 3.2 percent in 2022.

Outlook

It is presently difficult to produce growth forecasts for Russia due to the significant changes to the economy associated with the war in Ukraine, and the decision by Russia to limit publication of economic data, notably related to external trade, financial and monetary sectors. Available data limits our ability to assess the economic performance.

The outlook assumes that Russia's invasion of Ukraine will continue, as will existing and planned new sanctions. Higher than expected momentum from 2022 and a more moderate than expected contraction in crude oil and oil products in 2023 mean the economy is expected to contract by only 0.2 percent this year. Continued fiscal stimulus is expected to support economic activity and lower revenues from oil and gas, will result in a substantial increase in the fiscal deficit. Household consumption is expected to rebound slightly in view of expanding social benefits and recovering availability of imported products. Growth in investment is expected to wane as capital inflows decline, some large international investment projects are halted, and uncertainty persists. Lower oil revenue receipts and higher expenditures are expected to widen the general government deficit to 3.7 percent. Average annual CPI inflation is expected to drop to 6.0 percent in 2023, as the post-sanction price shock moves into the baseline, and then gradually fall to the CBR target of 4 percent in 2025. Discounts for Russia's oil and oil products, lower export volumes, and rebounding imports are all expected to reduce the CAS to 4.4 percent this year. With continuing economic stagnation, poverty (under the UMIC poverty line) is expected at 3.2 percent.

Moderate growth of 1.2 and 0.8 percent is expected in 2024 and 2025 respectively as the economy stabilizes from the sanctions shock and sees a partial recovery in investment and exports. Growth is expected to remain muted as Russia's access to inputs and productivity-enhancing technologies is limited.

Poverty is expected to decline slowly between 2023 and 2025 if at all, but worsening conditions might easily reverse this trend.

Russia's economic outlook is vulnerable to further rounds of mobilization and sanctions, lower export volumes of crude oil and oil products, and weaker global demand for other commodities. Positive risk comes from higher exports of oil/oil products.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-2.7	5.6	-2.1	-0.2	1.2	0.8
Private Consumption	-5.9	9.9	-1.8	0.4	1.1	0.8
Government Consumption	1.9	2.9	2.8	2.8	1.8	1.5
Gross Fixed Capital Investment	-4.0	9.1	5.2	1.1	1.5	1.2
Exports, Goods and Services	-4.2	3.3	-9.6	-4.6	2.9	2.6
Imports, Goods and Services	-11.9	19.1	-9.7	4.1	4.0	3.5
Real GDP growth, at constant factor prices	-2.2	6.2	-1.4	-0.2	1.2	0.7
Agriculture	0.2	-0.8	6.6	0.4	1.2	1.2
Industry	-2.7	5.4	-0.2	-0.7	1.4	1.2
Services	-2.2	7.0	-2.5	0.0	1.2	0.5
Inflation (Consumer Price Index)	3.4	6.7	13.7	6.0	4.5	4.0
Current Account Balance (% of GDP)	2.4	6.7	10.1	4.4	2.3	2.2
Net Foreign Direct Investment Inflow (% of GDP)	0.2	-1.4	-0.7	-0.6	-0.6	-0.6
Fiscal Balance (% of GDP)	-4.0	0.8	-1.4	-3.7	-2.5	-2.0
Revenues (% of GDP)	35.5	35.6	35.0	32.6	32.9	33.4
Debt (% of GDP)	19.9	17.3	17.2	20.6	22.3	23.8
Primary Balance (% of GDP)	-3.2	1.6	-0.3	-2.5	-1.4	-0.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	4.1	3.1	3.2	3.2	3.1	3.0
GHG emissions growth (mtCO2e)	-4.5	0.3	-6.7	-4.9	-0.1	-1.4
Energy related GHG emissions (% of total)	91.5	90.6	90.2	89.9	89.3	88.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data: CAIT and OECD. Historical data prior to 2023 has been sourced from ROSSTAT, CBR and MOF. Starting in 2022, Russia limited publication of economic data, notably related to external trade, financial and monetary sectors, and this limits our ability to assess the quality of the published data. Notes: e = estimate, f = forecast.

a/ Calculations based on ECAPOV harmonization, using 2020-HBS. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.

b/ Projection using neutral distribution (2020) with pass-through = 0.7 (Low (0.7)) based on private consumption per capita in constant LCU.

SERBIA

Table 1	2022
Population, million	6.8
GDP, current US$ billion	63.6
GDP per capita, current US$	9401.5
International poverty rate ($2.15)[a]	1.6
Lower middle-income poverty rate ($3.65)[a]	2.9
Upper middle-income poverty rate ($6.85)[a]	10.1
Gini index[a]	35.0
School enrollment, primary (% gross)[b]	96.8
Life expectancy at birth, years[b]	74.2
Total GHG emissions (mtCO2e)	64.8

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

Growth decelerated in the second half of the year to an average of 2.3 percent in 2022, largely driven by private consumption. However, real disposable incomes are shrinking with still rising inflation, led by surging food and energy prices. Consequently, the 2022 current account deficit almost doubled but was still fully financed by net FDI. Strong revenue performance and controlled spending have reduced the fiscal deficit to 3.1 percent of GDP. However, multiple risks weigh on the still positive outlook.

Key conditions and challenges

Before the pandemic, Serbia enjoyed several years of solid growth, rising employment, and low inflation. Its strong track record of fiscal consolidation over 2014-19 had helped build the fiscal buffers which allowed the country to weather the pandemic and energy crises. Serbia's economy contracted by 0.9 percent in 2020, lower than in most countries, and rebounded strongly in 2021 averaging 7.5 percent growth. Despite the unfavorable external environment and the energy crisis, 2022 GDP growth was still solid at 2.3 percent. The government's large fiscal support was critical to preserving economic activity in the crisis, while it's timely phasing out allowed for a reduction of the fiscal deficit from 8 percent of GDP in 2020 to 3.1 percent of GDP in 2022. The government is committed to reducing the fiscal deficit and public debt over the medium term. To ensure that these fiscal targets are met, in December 2022, the government changed the deficit ceiling fiscal rule and introduced two new rules for the wage bill and spending on pensions. Commitment to the fiscal rules, together with improving corporate governance of SOEs through a comprehensive reform program will be critical to enhance Serbia's fiscal sustainability over the medium term.

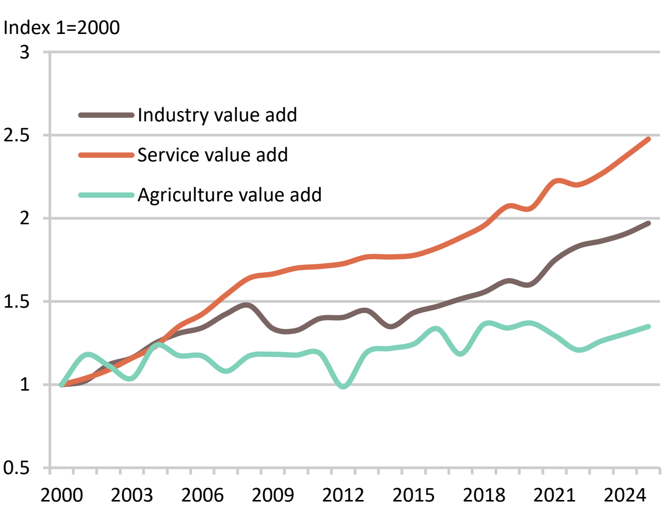
While the impact of the energy crisis in 2022 proved to be milder than initially expected, it has highlighted the importance of the need for Serbia to shift towards greener and more resilient drivers of economic growth. Despite improvements since 2000, Serbia's economy is still almost twice as energy intensive as the EU and relies heavily on fossil fuels for its electricity generation and industrial output. To accelerate the transition toward a more sustainable and greener economy, Serbia's strong commitments to the green growth agenda would require equally strong action.

Recent developments

After a resilient performance in H1 of 4.0 percent, growth slowed to an estimated 0.7 percent in H2, as the contribution of private consumption to growth gradually faded with inflation biting into real disposable incomes. On the production side, the service sectors led growth, while the agriculture and construction sectors contracted strongly. Improvements in the labor market have led to record high employment and activity rates of 51.1 and 56.1 percent, respectively, while the unemployment rate declined to 8.9 percent. Real wage growth was only marginal, as inflation averaged 11.9 percent for the year, driven by food and energy prices. In response, the Central Bank has increased the policy rate several times reaching 5.5 percent in February 2023.

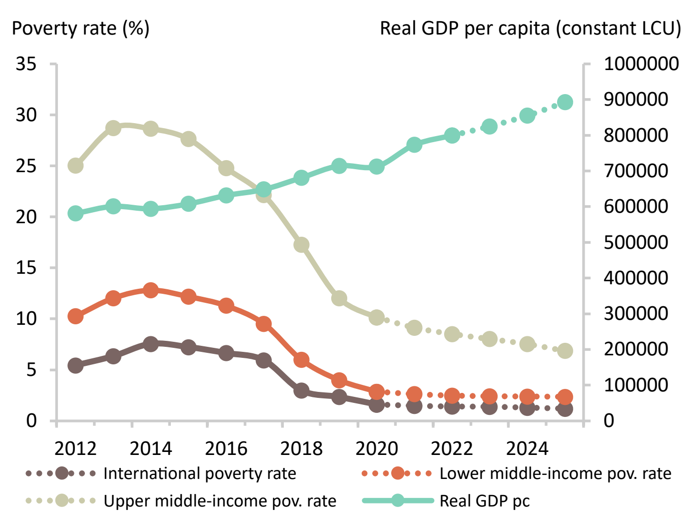
Despite high inflation and a poor agricultural season, poverty (defined as income under $6.85/day in 2017 PPP) is estimated to have declined slightly from 9.1 percent in 2021 to 8.5 percent in 2022, supported by

FIGURE 1 Serbia / Indexes of the level of sectoral GDP



Source: World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

solid economic growth and an improving labor market conditions.

The current account deficit (CAD) widened to 6.9 percent of GDP, due to higher energy imports in the first half of the year, when prices of energy, metals, and other raw materials surged. The widening CAD was still fully financed by net foreign direct investments, which increased by 17.7 percent. NBS official foreign currency reserves increased to a historic high of EUR19.4 billion in December 2022, covering close to 5.5 months of imports. Strong revenue performance and controlled spending led to a better-than-planned fiscal deficit of 3.1 percent of GDP. Total revenues increased by 13.4 percent in nominal terms; more than half of this growth was explained by stronger VAT and social security contribution collections. Total government expenditure growth was more moderate, mainly driven by capital budget transfer loans to the state gas and electricity utilities (up by 300 percent), capital spending (up by 9 percent), and social transfers (up by 9.3 percent). Public debt declined to 55.2 percent of GDP from 56.5 percent of GDP in 2021. In December 2022, the IMF approved a Stand-by Arrangement of EUR 2.4 billion, while in January the country issued a dual-tranche Eurobond of USD 1.75 billion. The proceeds will be used to service debt and build extra buffers.

Outlook

Over the medium term, the economy is expected to grow steadily at around 3 percent annually. The main driver of GDP growth over the medium term will be consumption and to a lesser extent investment, while net exports will have a negative contribution as imports are projected to increase faster than exports. Inflation will remain moderate and is expected to return to the target band only in 2024. Poverty in 2023 is projected at 8.0 percent, lower than its 2022 level.

The fiscal deficit and public debt are expected to remain on their downward path. Based on the Fiscal Strategy 2023-25 approved along with the budget for 2023, the government plans to reduce the fiscal deficit gradually over the medium term and to reach a primary fiscal surplus by 2025. This would lead to a reduction of public debt to an estimated 51.5 percent of GDP in 2024.

However, multiple risks, both external and domestic, weigh on the positive outlook. First, prolonged inflationary pressures would further reduce household disposable income and dampen growth through lower consumption, but also lead to higher cost of financing. Another major risk is associated with the EU economic outlook and the performance of Serbia's other main trading partners. Finally, domestic risks are associated with national and regional political developments and SOE governance. To defy all these risks and achieve faster growth, Serbia should implement structural reforms to boost potential output, through increased human capital (improving the quality of education and increasing the level of labor-force participation), higher productivity (particularly by attracting higher quality FDI) and an improved business environment (including regulatory predictability and increases to market competition).

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-0.9	7.5	2.3	2.3	3.0	3.8
Private Consumption	-1.9	7.6	3.7	2.3	2.4	3.4
Government Consumption	2.9	2.6	0.2	2.4	1.4	3.0
Gross Fixed Capital Investment	-1.9	12.9	-0.6	2.4	3.3	6.8
Exports, Goods and Services	-4.2	19.4	17.6	3.1	4.2	6.0
Imports, Goods and Services	-3.6	19.3	17.8	2.9	3.0	5.8
Real GDP growth, at constant factor prices	-0.8	7.4	2.3	2.3	3.0	3.8
Agriculture	2.2	-5.4	-6.8	4.5	3.4	3.4
Industry	-0.6	7.8	-0.9	3.0	4.5	4.5
Services	-1.2	8.9	4.9	1.7	2.2	3.4
Inflation (Consumer Price Index)	1.6	4.0	11.9	12.2	5.3	3.5
Current Account Balance (% of GDP)	-4.1	-4.4	-6.9	-6.4	-5.4	-5.2
Net Foreign Direct Investment Inflow (% of GDP)	6.3	6.8	7.1	5.6	5.5	5.7
Fiscal Balance (% of GDP)	-8.0	-4.1	-3.1	-3.1	-2.2	-1.4
Revenues (% of GDP)	41.0	43.2	43.4	41.8	41.3	41.6
Debt (% of GDP)	57.8	57.1	55.7	55.5	53.1	51.5
Primary Balance (% of GDP)	-6.0	-2.4	-1.6	-1.3	-0.4	0.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.6	1.5	1.4	1.4	1.3	1.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	2.9	2.6	2.5	2.4	2.4	2.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	10.1	9.1	8.5	8.0	7.5	6.9
GHG emissions growth (mtCO2e)	2.5	5.0	-2.6	3.3	3.6	4.0
Energy related GHG emissions (% of total)	74.7	75.7	75.3	75.8	76.4	77.2

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 ECAPOV harmonization, using 2021-EU-SILC. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

TAJIKISTAN

Table 1	2022
Population, million	10.0
GDP, current US$ billion	10.5
GDP per capita, current US$	1054.7
International poverty rate ($2.15)[a]	6.1
Lower middle-income poverty rate ($3.65)[a]	25.7
Upper middle-income poverty rate ($6.85)[a]	66.4
Gini index[a]	34.0
School enrollment, primary (% gross)[b]	100.9
Life expectancy at birth, years[b]	68.0
Total GHG emissions (mtCO2e)	21.3

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

Tajikistan's economy grew by 8 percent in 2022, supported by strong remittance inflows amounting to over a third of GDP, largely from Russia. The short-term growth outlook is subject to significant downward risks associated with a possible reduction in remittances. Growth is expected to slow over the medium term, in the absence of structural reforms to open up the economy to competition, and greater investment in human capital.

Key conditions and challenges

Tajikistan's economy performed strongly over the last decade, with GDP growth averaging above 7 percent. This helped to halve the poverty rate from 25.7 percent in 2015 to a projected 13.4 percent in 2022 (at the international poverty line of USD 3.65 a day, 2017 PPP). Despite this performance, Tajikistan remains the poorest economy in Europe and Central Asia, with a GNI per capita of USD 1,150 (Atlas method) in 2021.

The growth model is based on natural resources extraction and exports, and substantial remittances from migrants working mainly in Russia. This model presents inherent vulnerabilities associated with the high dependency on income from labor migrants from one country, the limited domestic production base, and the undiversified export basket. The private sector has not been able to invest and grow in an environment with significant barriers to competition, obstacles to business operations, unpredictable tax regimes, and shallow financial markets. Moreover, underinvestment in human capital (in favor of physical infrastructure, mainly for large hydroelectric plants), high trade and connectivity costs, and predominance of inefficient loss-making SOEs, undermine the economy's competitiveness.

Tajikistan needs to accelerate structural reforms, primarily by strengthening the independence of the judicial system; opening up key sectors to competition and leveling the playing field for businesses, notably in backbone sectors such as telecommunications and aviation; refocusing public resources on human capital development; and enhancing management of public finance and the governance of public enterprises.

Recent developments

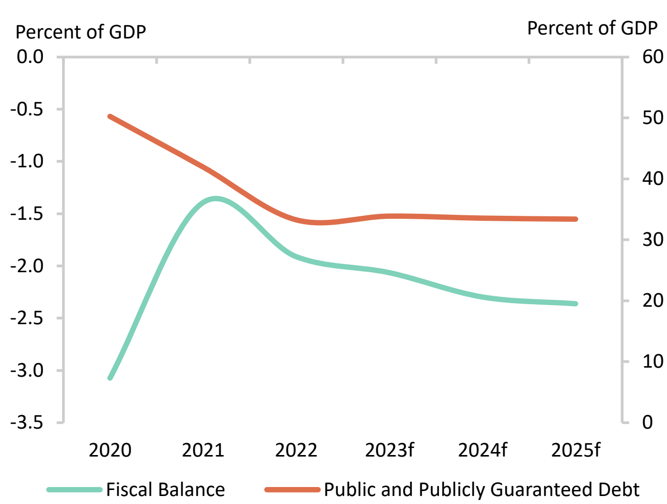
The Tajik economy expanded by 8 percent in 2022, driven by Russia's strong labor demand, which combined with the appreciation of the Russian ruble resulted in substantial remittance inflows. This positive shock fueled household consumption. Private investment was buoyant, led by the mining industry.

The trade deficit widened due to lower exports of precious metals and buoyant imports. However, the substantial remittances offset this and led to a current account surplus of 6.1 percent of GDP. Combined with net FDI inflows of 4.1 percent of GDP to the mining sector, international reserves rose to USD 3.8 billion, providing around 7.5 months of import cover.

Migration increased significantly in 2022 before reversing after Russia announced mobilization in September. The share of households with a migrant increased from 42 percent to 50 percent during H1 2022 but steadily declined afterward.

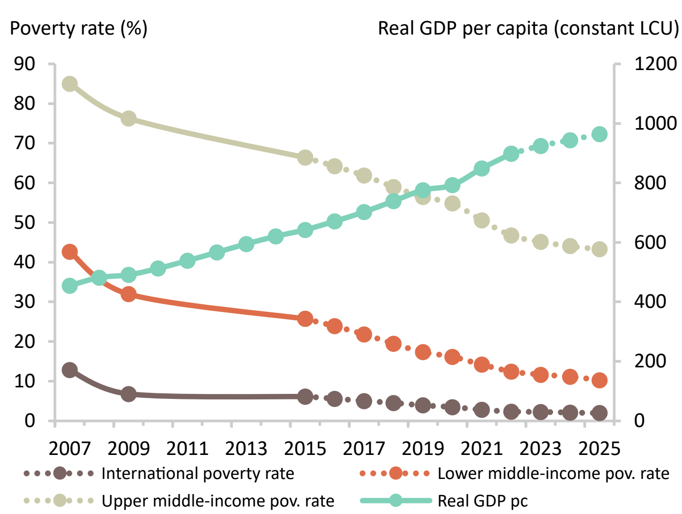
The average CPI inflation declined to 6.6 percent in 2022 from 9 percent a year

FIGURE 1 Tajikistan / Fiscal balance and public debt



Source: World Bank staff estimates and projections.

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



Source: World Bank. Notes: see Table 2.

earlier. The Somoni appreciated by 2.6 percent against the USD in 2022, which helped curb external price pressure, while solid agricultural output and the sale of strategic food reserves contained domestic food inflation. The Central Bank (NBT) raised the policy rate slightly from 13 percent at end-2021 to 13.5 percent in October 2022. Economic growth and FX inflows supported good financial sector performance. Return on assets rose to 5.9 percent (from 1.1 percent in 2021), and the share of the nonperforming loans to total loans declined to 12.2 percent (from 13.7 percent in 2021).

The overall fiscal deficit widened to 1.9 percent of GDP, from 1.4 percent in 2021. Tax collections declined by approximately 2 percent of GDP with the enactment of the new tax code in 2022, which streamlined the number of taxes and reduced rates. The shortfall was partly offset by development partner grants and higher non-tax revenues. The budget deficit was financed primarily through external financing. Tajikistan is at high risk of debt distress (largely due to Eurobond and IMF Rapid Credit Facility principal repayments in 2025-2027) but on a sustainable debt path in the medium term.

Poverty measured at the international poverty line of USD 3.65 is projected to have declined to 13.4 percent in 2022, from 14.3 percent in 2021. The share of households reducing food consumption in H1 2022 was less pronounced than in previous years.

Outlook

Tajikistan's economic growth is expected to decelerate to 5 percent this year as the 2022 positive shock subsides and remittance inflows diminish, which is expected to result in a contraction in private consumption. Inflation is expected to decrease gradually and remain within the NBT's 4–8 percent target range, supported by tight monetary policy.

The external position is expected to normalize after a peak in 2022. Moreover, reduced global demand is expected to weaken Tajikistan's export of precious metals and minerals.

Over the medium term, the fiscal deficit is expected to remain in line with the Government's target of 2.5 percent of GDP. Spending on the Rogun hydropower plant (HPP) and other large infrastructure projects is expected to be financed by improving revenues over time, following the introduction of the new tax code and gradually phasing out tax exemptions.

Tajikistan's outlook faces substantial downside risks. Holders of dual Tajik and Russian citizenship remain at elevated risk of military mobilization in Russia, which could trigger a return of migrants and a greater need for social assistance. Extensive pressure on the state budget due to mounting SOE contingent liabilities, including from the national power company, and pressure on spending to complete the Rogun HPP, could divert resources from spending needed for human capital development. Tajikistan is highly sensitive to climate change risks and needs to adopt better mitigation and adaptation measures.

Poverty, at the USD 3.65 line, is projected to further decline from 13.4 percent in 2022 to 12.6 percent in 2023.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	4.4	9.4	8.0	5.0	4.0	4.0
Private Consumption	3.4	4.7	14.5	-4.0	4.4	4.2
Government Consumption	2.3	4.6	8.1	5.2	4.8	4.8
Gross Fixed Capital Investment	-4.6	12.0	10.3	8.9	7.7	7.7
Exports, Goods and Services	21.8	55.4	-19.1	-1.1	1.1	0.8
Imports, Goods and Services	-0.4	20.0	4.2	-0.3	9.6	5.0
Real GDP growth, at constant factor prices	7.6	9.2	9.2	5.0	4.0	4.0
Agriculture	7.9	-0.3	8.0	4.3	3.0	3.0
Industry	17.3	13.2	12.9	7.2	6.0	6.0
Services	-1.9	10.6	5.4	2.5	1.9	2.0
Inflation (Consumer Price Index)	8.6	9.0	6.6	5.6	6.5	6.5
Current Account Balance (% of GDP)	4.3	8.2	6.1	-1.5	-1.8	-2.3
Net Foreign Direct Investment Inflow (% of GDP)	0.4	0.4	4.0	2.4	3.4	3.8
Fiscal Balance (% of GDP)	-3.1	-1.4	-1.9	-2.1	-2.3	-2.4
Revenues (% of GDP)	26.2	26.6	27.2	26.2	26.6	27.0
Debt (% of GDP)	50.3	41.9	33.3	33.9	33.5	33.3
Primary Balance (% of GDP)	-2.3	-0.5	-1.2	-0.9	-1.3	-1.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.5	2.8	2.3	2.3	2.1	2.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	16.2	14.2	12.4	11.6	11.1	10.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	54.8	50.6	46.8	45.2	44.1	43.3
GHG emissions growth (mtCO2e)	2.2	10.6	8.2	6.5	6.5	6.2
Energy related GHG emissions (% of total)	44.8	46.8	48.9	50.1	50.9	51.9

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 ECAPOV harmonization, using 2015-HSITAFIEN. Actual data: 2015. Nowcast: 2016-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2015) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

TÜRKIYE

Table 1	2022
Population, million	85.0
GDP, current US$ billion	906.0
GDP per capita, current US$	10661.2
Upper middle-income poverty rate ($6.85)[a]	12.6
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	96.5
Life expectancy at birth, years[b]	75.8
Total GHG emissions (mtCO2e)	467.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2020).

Türkiye's economy grew by 5.6 percent in 2022 but has been losing momentum amidst a deteriorating external environment and heterodox monetary policies. Two devastating earthquakes struck on February 6, 2023, with enormous loss of life and physical damage. Pre-election spending and reconstruction efforts are expected to support growth, forecast at 3.2 percent in 2023 and 4.3 percent in 2024. Türkiye's progress in poverty reduction through the pandemic is at risk of being eroded by high inflation and the earthquakes' impact.

Key conditions and challenges

Two devastating earthquakes struck Türkiye and Syria on February 6, 2023, killing over 57,000 people. Beyond the human tragedy, the earthquakes caused significant physical damage to buildings and infrastructure in 11 provinces accounting for 16.4 percent of Türkiye's population and 9.4 percent of its economy. Direct losses are estimated at US$34.2 billion, but the reconstruction needs could be double.

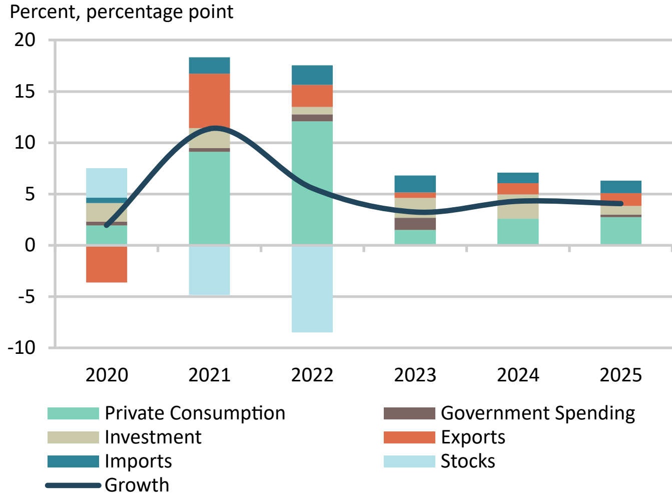
The earthquakes added pressures to an increasingly fragile macro-financial situation amidst a deteriorating external environment and particular domestic policy mix. Russia's invasion of Ukraine slowed Türkiye's exports to the EU and raised energy import prices. However, exports to Russia jumped, and Türkiye benefited from increased financial inflows from unknown origins. Meanwhile, despite rapidly rising inflation, the Central Bank of Türkiye (CBRT) continued to cut interest rates by 550 bps from August 2022 to March 2023, while relying on an increasingly complex mix of heterodox macro-prudential regulatory measures to support the TRY, reduce inflation, and control and direct credit growth.

Recent developments

Türkiye's economy expanded by 5.6 percent in 2022, though growth decelerated to 4.0 percent (yoy) in Q3 and 3.5 percent (yoy) in Q4, as exports, investment, and manufacturing activity lost momentum; investment growth fell from 4.9 percent (yoy) in H1 to 0.9 percent (yoy) in H2, and exports from 15.4 percent (yoy) in H1 to 4.0 percent (yoy) in H2 despite exports to Russia rising 177 percent in TRY in 2022. Private consumption however remained robust, expanding 19.6 percent in 2022. Value-added growth was led by the services sector (up 9.7 percent) and industry (up 3.3 percent) despite manufacturing growth falling from 9.0 percent (yoy) in H1 to 0.1 percent (yoy) in H2. In 2022, the labor market, supported by strong economic growth, rebounded fully from the pandemic. TURKSTAT's Economic Confidence Index remained broadly stable in 2022 but below the 100 thresholds reflecting a pessimistic outlook for consumers and constructors. Similarly, the manufacturing PMI averaged 48.2 points in 2022.

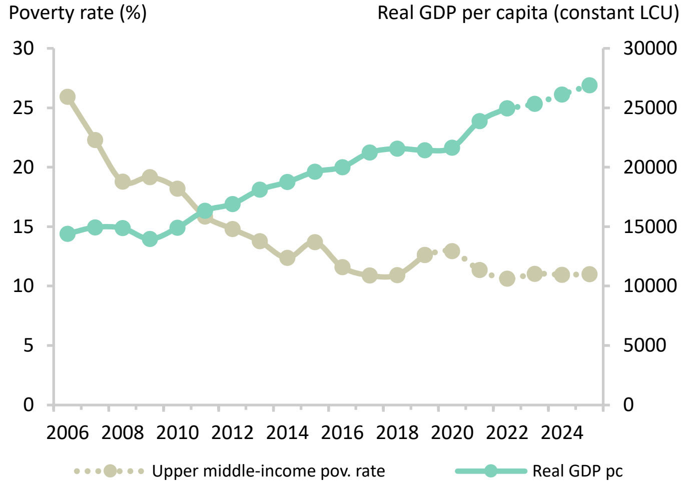
High aggregate demand growth and energy prices drove a nearly 7-fold rise in the current account deficit to US$48.7 billion in 2022, mainly financed through US$27.4 billion of capital inflows with unknown origin recorded as net errors and omissions. The TRY lost 30 percent of its value in 2022 despite some analysts' estimates of US$108 billion in indirect FX interventions by the CBRT. Despite these interventions, CBRT's gross international reserves improved to US$121 billion by end-February 2023 but remain deeply negative after accounting for banks' FX reserve requirements held at the CBRT and swaps with commercial banks and other central banks.

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



Sources: Turkstat and World Bank staff calculations.

FIGURE 2 Türkiye / Actual and projected poverty rate and real GDP per capita



Source: World Bank. Notes: see Table 2.

Macro-financial conditions have become increasingly challenging amidst a proliferation of heterodox macro-prudential policy measures. CPI inflation reached a 24-year high of 85.5 percent in October before easing to 55.2 percent in February largely due to base effects. The heterodox regulatory policy restraints have started to slow credit growth and align lending rates with the reductions in the policy rate. Banking sector profitability increased with the average return on assets at 4.5 percent (yoy) in Q3 2022. The banking sector continues to have adequate FX liquidity buffers to cover short-term liabilities, with the net FX position in surplus at 2.4 percent in December 2022. However, there are concerns about the accessibility of those buffers in times of stress as at least 70 percent of FX liquidity on the balance sheet of Turkish banks is at the CBRT in the form of currency swaps, required reserves, and free deposits. Rising exposure of banks through incentivized holdings of government bonds also increases contagion risks.

Strong revenue collections (up 77.1 percent in nominal terms and above average 2022 CPI inflation of 72.3 percent) despite tax breaks, helped keep the primary fiscal deficit at 0.6 percent of GDP, offsetting a substantial increase in spending (up 81 percent). Fiscal support includes increasing civil servants' salaries and pensions; energy subsidies; personal income tax allowances; eliminating a retirement age requirement; and financing support for businesses. Rapid growth helped reduce debt-to-GDP levels, yet the Government's cost of borrowing remains high despite declining domestic bond yields, due to risk premia on government securities; January 2023's Eurobond issuance was at 9.8 percent interest rate with 10-year maturity.

Outlook

Assuming a normalization in macroeconomic policies, economic growth is projected at 3.2 percent in 2023 and 4.3 percent in 2024. Despite a drag on growth in 2023 due to earthquake-related production, export, and consumption disruptions, economic activity is expected to remain solid in H1 2023, supported by a 55 percent net minimum wage increase in January 2023 and expansionary fiscal policies ahead of the 2023 elections set for May 14, which will counteract weakening global demand. Massive reconstruction efforts in the earthquake zone – with large multiplier effects – will boost growth in late-2023 and beyond. Pre-election spending and earthquake recovery will weaken fiscal balances.

Türkiye's progress in poverty reduction through the COVID-19 pandemic risks being eroded by high inflation and the earthquakes' impact. The 8 most-affected provinces contained 30 percent of Türkiye's poor in 2020 with poverty rates much higher than the national average, which could exacerbate inequality. Initial forecasts indicate a worsening of consumption-based poverty rate in 2023 by 0.4 percentage points to 11 percent through 2025.

The outlook faces considerable uncertainty and risk under the current macroeconomic policy mix. Post-election economic performance will depend on policy decisions to gradually phase out the heterodox regulatory web that distorts financial markets, and the adoption of macroeconomic policies to rebuild buffers and support investor confidence. Inflationary pressures could arise from fiscal expansion and earthquake-induced agricultural and logistics disruptions. External risks remain elevated given the high current account deficit and low net FX reserves; high external share of public debt (reaching 46 percent by Q3 2022); slower than expected recovery in the EU; and tightening global liquidity. There is also a risk that investor confidence will falter, intensifying pressure on the TRY, external balances, and corporate and bank balance sheets with the possibility that policy responses cause a real sector contraction.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	1.9	11.4	5.6	3.2	4.3	4.1
Private Consumption	3.3	15.3	19.6	2.2	3.7	4.0
Government Consumption	2.5	2.6	5.2	8.9	-0.7	1.9
Gross Fixed Capital Investment	7.4	7.4	2.8	7.9	9.3	3.1
Exports, Goods and Services	-14.4	24.9	9.1	2.1	4.5	5.0
Imports, Goods and Services	6.7	2.4	7.9	9.2	7.7	4.5
Real GDP growth, at constant factor prices	1.2	11.9	6.5	3.2	4.3	4.1
Agriculture	5.7	-2.9	0.6	-1.0	1.0	1.0
Industry	1.1	13.0	0.9	7.6	6.8	3.6
Services	0.8	13.1	9.7	1.8	3.5	4.5
Inflation (Consumer Price Index)	12.3	19.6	72.3	41.0	20.0	15.0
Current Account Balance (% of GDP)	-4.4	-0.9	-5.4	-6.0	-5.0	-4.9
Net Foreign Direct Investment Inflow (% of GDP)	0.6	0.8	0.9	1.1	1.2	1.2
Fiscal Balance (% of GDP)	-3.9	-2.6	-2.9	-5.9	-5.2	-3.3
Revenues (% of GDP)	32.4	30.9	26.4	27.4	28.1	29.9
Debt (% of GDP)	39.7	41.8	31.2	34.2	35.1	35.4
Primary Balance (% of GDP)	-1.1	0.0	-0.6	-3.0	-0.9	1.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	12.9	11.3	10.6	11.0	11.0	11.0
GHG emissions growth (mtCO2e)	10.1	0.1	0.1	2.9	3.7	3.2
Energy related GHG emissions (% of total)	76.9	76.6	76.5	76.0	75.4	74.9

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 ECAPOV harmonization, using 2011-HICES and 2019-HICES. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Projection using inequality adjusted methodology based on Lakner, Mahler, Negre, & Espen (2020).

UKRAINE

Table 1	2022
Population, million	43.5
GDP, current US$ billion	150.3
GDP per capita, current US$	3451.6
Upper middle-income poverty rate ($6.85)[a]	7.1
Gini index[a]	25.6
School enrollment, primary (% gross)[b]	99.0
Life expectancy at birth, years[b]	71.2
Total GHG emissions (mtCO2e)	144.5

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

While economic activity had stabilized in mid-2022, attacks on Ukraine's energy infrastructure starting in October have caused disruptions and undermined the recovery. GDP declined by 29.2 percent in 2022 and is expected to grow by only 0.5 percent in 2023. Thanks to international support Ukraine has been able to ensure the delivery of key social services. Continued donor support will be fundamental to maintain these gains.

Key conditions and challenges

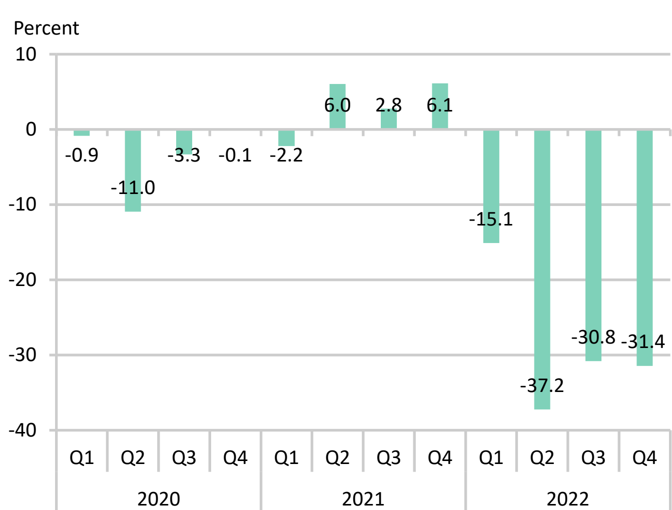
While Ukraine's economy has gradually adjusted to the wartime needs, attacks on the electricity network starting in October 2022 damaged over 40 percent of the country's power grid, thereby exacerbating production constraints for select sectors that drove Ukraine's GDP prior to the war. The attacks also imposed additional external pressure by limiting exports and increasing demand for energy-related imports. Ukraine's economic outlook will depend on the evolution of the war and the country's ability to adjust to continued aggression. With a prolonged war increasingly likely, Ukraine faces significant economic challenges. In the near term, maintaining the stable functioning of the war economy is critical. This will involve identifying opportunities to finance the elevated fiscal deficit - driven by the need to ensure defense and social expenditure while tax collection is limited - and domestic debt service. Annual debt service payments (interest and amortization) are estimated at US$17.6bn equivalent in 2023, of which US$15bn stem from the amortization of short-term domestic debt. Total fiscal needs are estimated to exceed US$41bn in 2023. Maintaining macroeconomic stability will also hinge on controlling inflation. In 2022, Ukraine relied on the monetization of residual financing needs. While the central bank has been able to effectively neutralize the inflationary impacts of such operations, a central challenge will be to encourage higher rollover rates for domestic banks to eliminate the need for monetization. In the medium term, Ukraine will need to set the conditions for economic recovery by funding capital expenditure and by continuing critical institutional reforms.

Considering these challenges, any stop or delay in external funding may lead to broad negative economic and social consequences. Continued foreign aid inflows are an essential lifeline as they help meet financing needs, balance the current account, and provide a lever for Ukraine to control inflation.

Recent developments

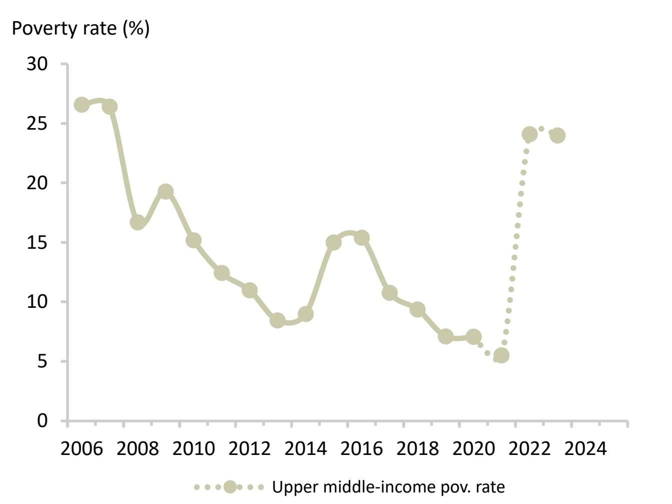
GDP declined by 29.2 percent in 2022. The contraction was less than expected as the UN-brokered grain deal and the return of nearly 4 million migrants boosted economic activity in Q3. The opening of new logistic routes and re-orientation of supply to wartime needs by the private sector added to growth. However, attacks on the electricity infrastructure caused disruptions and a 31.4 YoY contraction in Q4. Inflation stood at 26.6 percent at end-2022. NBU intervened in the currency market to establish an exchange rate peg and mopped up domestic liquidity to control demand, preventing further inflation growth. While the invasion has affected asset

FIGURE 1 **Ukraine** / Quarterly GDP growth, year-over-year



Source: Ukraine's Statistics Office.

FIGURE 2 **Ukraine** / Actual and projected poverty rate



Source: World Bank. Notes: see Table 2.

quality in the financial sector, banks have remained profitable and stable.

Ukraine's current account surplus was 5.7 percent of GDP in 2022, with grant inflows compensating for a growing trade deficit that reached 16 percent of GDP. Annual exports declined by 30 percent, while imports contracted by only 4 percent. The capital account was under pressure due to the withdrawal of foreign exchange by refugees and outflows of trade financing. This was compensated through loan inflows, that helped restore international reserves to US$29.9bn, close to the pre-war level.

Public finances remain under pressure. The consolidated budget deficit excluding grants amounted to 26.5 percent of GDP in 2022. Tax revenue declined by a nominal 8 percent in nominal terms (30 percent in real terms) as indirect taxes suffered contractions. Direct revenue showed resilience, supported by wage increases in the defense sector. Expenditure grew by 65 percent, with war-related spending and essential public and social services prioritized. By contrast, capital expenditure declined by 37 percent. The deficit was financed through international assistance and monetization by NBU.

Poverty is estimated to have increased from 5.5 percent in 2021 to 24.1 percent in 2022, pushing 7.1 million more people into poverty and retracting 15 years of progress.

Outlook

Despite a localization of active combat, Ukraine's economic outlook remains highly uncertain and is dependent on the duration of the war. The projections assume a continuation of economic activity at the level of 4Q22 into the medium term, adjusting for seasonal effects and accounting for recent improvements in the energy supply. GDP is expected to grow by only 0.5 percent in 2023.Domestic trade and light industries, focused on supplying the domestic market and meeting wartime needs, are projected to recover gradually. However, agricultural output is expected to decline by about 15 percent due to problems with sowing and a reduction in arable land. Heavy industry output is also expected to remain subdued. Inflation is expected to decline slightly to 18 percent by the end of 2023 as monetary policy continues to contain domestic demand. This scenario is subject to significant downside risks related to a deterioration of the security situation.

The current account is expected to register a 4.5 percent of GDP deficit in 2023 as a widening trade deficit offsets expected secondary income from international grants of around US$10bn. Exports are estimated to remain low, due to lower agricultural output and persistent logistics bottlenecks. By contrast, imports are expected to increase by a nominal 20 percent YoY, driven by strengthening domestic demand and continued needs for the import of energy-related goods.

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

	2020	2021	2022e	2023f
Real GDP growth, at constant market prices	-3.8	3.4	-29.2	0.5
Private Consumption	1.7	6.9	-15.5	7.7
Government Consumption	-0.7	0.8	16.7	0.0
Gross Fixed Capital Investment	-21.3	9.3	-80.0	5.5
Exports, Goods and Services	-5.8	-8.6	-60.0	15.0
Imports, Goods and Services	-6.4	14.2	-30.0	20.0
Real GDP growth, at constant factor prices	-3.9	3.4	-29.1	0.5
Agriculture	-11.5	14.4	-25.0	-15.0
Industry	-4.5	1.1	-60.0	1.5
Services	-2.3	2.4	-20.3	2.9
Inflation (Consumer Price Index)	5.0	10.0	26.6	18.0
Current Account Balance (% of GDP)	3.4	-1.6	5.7	-4.5
Net Foreign Direct Investment Inflow (% of GDP)	0.0	-2.4	0.0	0.0
Fiscal Balance (% of GDP)[a]	-5.0	-4.0	-26.5	-28.2
Revenues (% of GDP)	39.9	36.3	43.4	39.5
Debt (% of GDP)	60.4	43.3	78.0	97.0
Primary Balance (% of GDP)[a]	-2.1	-0.5	-23.8	-24.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	7.1	5.5	24.1	24.0
GHG emissions growth (mtCO2e)	-3.8	1.7	-33.2	-3.3
Energy related GHG emissions (% of total)	77.8	78.1	73.4	74.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal Balance and Primary Balance are excluding grants in 2022-2023.
b/ Calculations based on ECAPOV harmonization, using 2020-HLCS.
c/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU. 2022 estimate based on simulation reflecting economic contraction and poverty impacts of inflation. Actual data: 2020. Nowcast: 2021-2022.

UZBEKISTAN

Table 1	2022
Population, million	35.6
GDP, current US$ billion	80.4
GDP per capita, current US$	2254.9
School enrollment, primary (% gross)[a]	98.1
Life expectancy at birth, years[a]	70.3
Total GHG emissions (mtCO2e)	174.3

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

Uzbekistan's economy grew by 5.7 percent in 2022, which is better than expected, largely supported by strong remittances and exports. Fiscal consolidation is continuing, albeit on a more gradual trajectory given the need to cushion the impact of external shocks this year as well. The medium-term outlook remains positive as ambitious ongoing economic reforms are expected to continue to invigorate private sector-led growth.

Key conditions and challenges

Uzbekistan has developed an ambitious set of reforms in recent years, but more are needed to continue to spur private sector-led growth and job creation. Notably, reducing the dominance of SOEs and opening up key sectors of the economy to competition, with priority on factor markets and backbone services, strengthening the regulatory environment, and reducing the high trade and transit costs, would strengthen market incentives and sustainability.

The Government recognizes that the transition must be inclusive. In that regard, recent reforms expanding coverage and the targeting of social assistance have been significant.

Natural gas and power outages were experienced in December 2022 in many parts of the country, including in the capital. This highlights the systemic crisis and needs for reforms in Uzbekistan's energy sector.

Recent developments

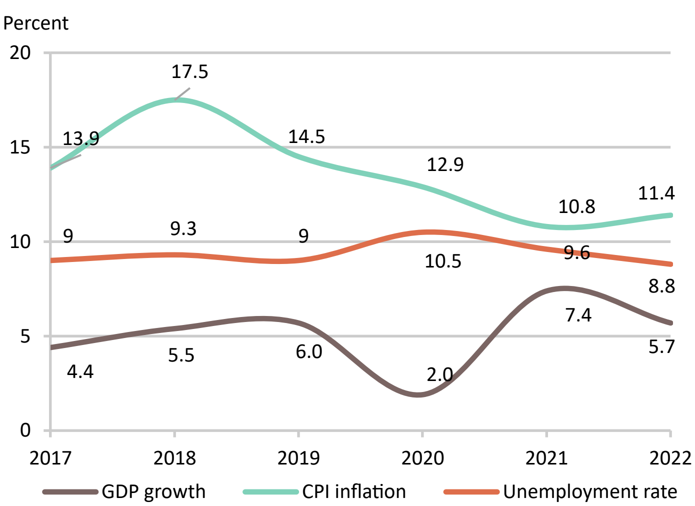
GDP grew by 5.7 percent in 2022, led by strong remittances, consumption, and exports. Non-gold exports grew by 21 percent in 2022 (in USD value), led by textiles, non-ferrous metals, fertilizers, and food, largely driven by high export growth to Russia (52 percent). This constituted around 17 percent of total goods exports in 2022. Services exports, mainly in transport and tourism, increased by 53 percent. This reflects a three-fold increase of tourists or immigrants inflow from Russia, as well as a pick-up in tourism from Kazakhstan, Kyrgyzstan, and Tajikistan. Imports expanded by 20.4 percent as imported food and energy prices rose with rising domestic demand. Remittance inflows doubled as a share of GDP to 18.9 percent in 2022 due to RUB appreciation and increased migrant inflows.A part of these financial inflows reflects the increased private money transfers of Russian citizens fleeing Russia and companies relocating to Uzbekistan following Russia's invasion of Ukraine. This narrowed the current account deficit from 7 percent in 2021 to just 0.6 percent of GDP in 2022.

The fiscal deficit declined from 6.1 percent of GDP in 2021 to 4.2 percent in 2022, supported by higher revenues. By end-2022, international reserves increased slightly to reach USD 35.8 billion, or 14 months of import cover.

Higher costs of food, fuel, and logistics drove CPI inflation up to 12.3 percent (yoy) in December. The UZS depreciated by 3.8 percent against the USD in 2022, and the real effective exchange rate appreciated slightly by 0.4 percent. After initially raising the policy rate by 300 bps to 17 percent, the Central Bank (CBU) cut the rate back to 15 percent in July 2022 and to 14 percent in March 2023.

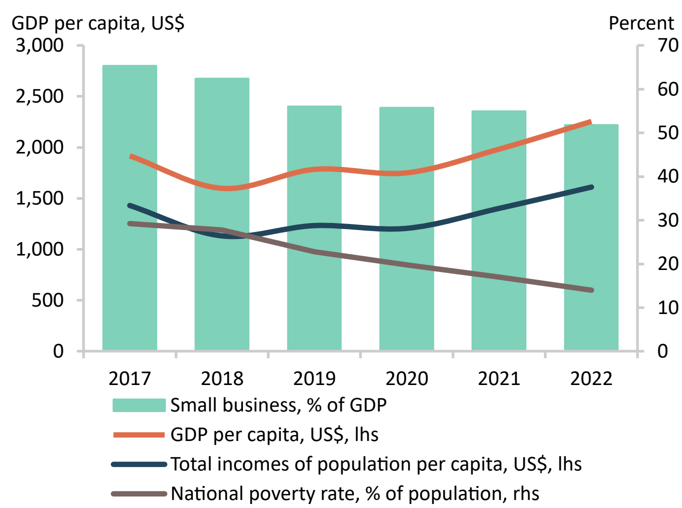
Credit growth in nominal terms stepped up to 21.5 percent in 2022 from 18.5 percent the prior year. The banking sector remains adequately capitalized with a

FIGURE 1 Uzbekistan / GDP growth, inflation, and unemployment



Source: Uzbekistan official statistics.

FIGURE 2 Uzbekistan / Poverty, GDP per capita, SME development



Source: Uzbekistan official statistics. Note: The national poverty line is more ambitious (67 percent higher) than LMIC poverty line.

capital adequacy ratio of 17.8 percent at end-2022 relative to a required CAR of 13 percent. NPLs reduced from 5.1 percent at the end-2021 to 3.5 percent at end-2022.

The unemployment rate fell to the pre-COVID-19 level of 8.8 percent, down from 9.6 percent in 2021, although it remains higher for youth and women and in lagging regions. The poverty rate is projected to have declined from 17 percent in 2021 to 14 percent in 2022 (using the national poverty line) supported by higher remittances.

Outlook

Growth is expected to moderate to 5.1 percent in 2023 and accelerate gradually in the medium term. Russia's protracted war in Ukraine, and increased logistical challenges linked to the sanctions on Russia, are expected to prolong high food and energy prices and reduce private consumption growth. Private investment and trade are expected to grow, and the current account deficit to widen, with remittances to Uzbekistan expected to moderate from their peak in 2022. The projected recovery in China may increase demand for Uzbekistan's textile and food exports.

Higher revenues from gold and copper exports and slower public investment spending will see the fiscal deficit decline to 3.3 percent of GDP in 2023, close to the Government's target of 3 percent. Budget consolidation is expected to continue in future years, supported by both revenue mobilization and spending efficiency. The Government is expected to adhere to its overall debt limits, with public debt and total external debt gradually falling to 32 percent and 55 percent of GDP, respectively, by 2025.

Continued growth and expanded social protection programs are expected to sustain poverty reduction, and the national poverty rate is projected to fall to 12 percent in 2023.

Risks to the outlook are tilted downside, including a possible deeper contraction of Russia's economy and tighter-than-expected global financial conditions. Positive surprises may potentially include higher global gold, natural gas, and copper prices; and stronger productivity growth from ongoing structural reforms.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	2.0	7.4	5.7	5.1	5.4	5.8
Private Consumption	0.2	11.6	10.5	5.0	5.8	6.0
Government Consumption	1.4	3.4	1.4	3.1	3.5	4.4
Gross Fixed Capital Investment	-4.4	2.9	5.0	4.2	5.3	5.6
Exports, Goods and Services	-20.0	13.3	25.3	20.5	17.9	18.4
Imports, Goods and Services	-15.0	19.9	11.5	20.6	20.3	19.6
Real GDP growth, at constant factor prices	2.0	7.4	5.7	5.1	5.4	5.8
Agriculture	2.9	4.0	3.6	3.7	3.9	3.9
Industry	2.5	7.9	5.5	5.0	5.6	5.6
Services	1.2	9.1	7.0	5.9	6.1	6.9
Inflation (Consumer Price Index)	12.9	10.8	11.4	11.8	10.0	6.6
Current Account Balance (% of GDP)	-5.0	-7.0	-0.6	-3.7	-3.8	-4.1
Net Foreign Direct Investment Inflow (% of GDP)	2.9	3.3	2.4	2.8	3.1	3.2
Fiscal Balance (% of GDP)	-4.4	-6.1	-4.2	-3.3	-3.0	-3.0
Revenues (% of GDP)	26.0	26.1	29.5	27.1	27.6	28.2
Debt (% of GDP)	37.4	35.5	34.5	34.2	32.9	31.9
Primary Balance (% of GDP)	-3.4	-5.0	-3.2	-2.4	-2.1	-2.2
GHG emissions growth (mtCO2e)	-1.8	-1.1	-3.2	-2.7	-2.1	-2.6
Energy related GHG emissions (% of total)	60.1	59.4	58.1	56.8	55.7	54.4

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

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)[a]	1.0
Lower middle-income poverty rate ($3.65)[a]	2.5
Upper middle-income poverty rate ($6.85)[a]	10.6
Gini index[a]	42.0
School enrollment, primary (% gross)[b]	108.9
Life expectancy at birth, years[b]	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 in 2021 (using the international poverty line of US$6.85 per day).

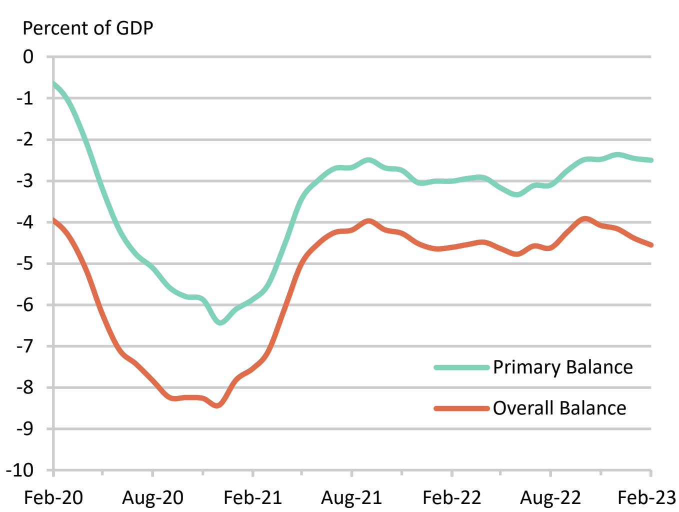
Persistent macroeconomic imbalances do not allow for sustained strong growth. Sound and credible macro-fiscal policies, coupled with bold reforms to incentivize private sector investment and generate exports, are needed to lead the economy beyond a cyclical recovery and create good quality jobs. Closing 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.

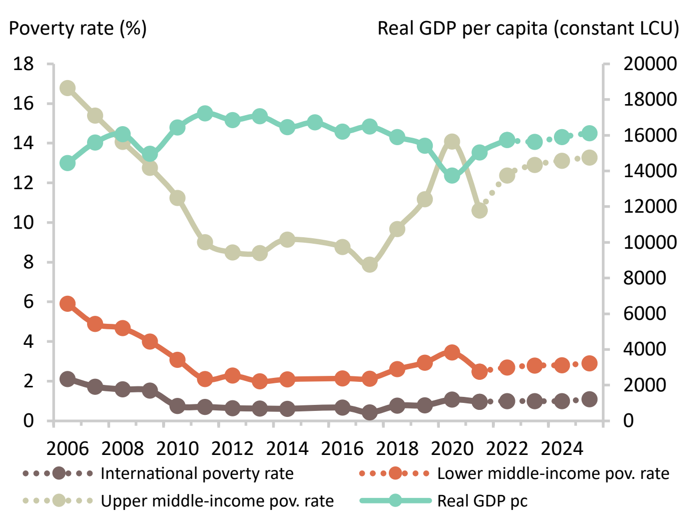
A more restrictive monetary policy in the last quarter of the year has helped stabilize financial variables and partially restore CB net reserves. This has been supported by

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
Real GDP growth, at constant market prices	-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
Real GDP growth, at constant factor prices	-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
Current Account Balance (% of GDP)	0.8	1.4	-0.2	0.2	0.0	0.1
Net Foreign Direct Investment Inflow (% of GDP)	0.9	1.1	0.9	0.8	1.2	1.5
Fiscal Balance (% of GDP)[a]	-8.4	-4.2	-4.1	-4.0	-3.4	-3.0
Revenues (% of GDP)	32.4	32.1	31.1	31.0	30.8	30.6
Debt (% of GDP)[a]	107.5	87.9	81.2	79.0	75.6	72.9
Primary Balance (% of GDP)[a]	-5.9	-2.3	-2.0	-1.7	-0.8	-0.3
International poverty rate ($2.15 in 2017 PPP)[b,c]	1.1	1.0	1.0	1.0	1.0	1.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	3.5	2.5	2.7	2.8	2.8	2.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	14.1	10.6	12.4	12.9	13.1	13.3
GHG emissions growth (mtCO2e)	-1.9	3.2	2.5	0.6	1.6	1.7
Energy related GHG emissions (% of total)	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

Table 1	2022
Population, million	0.4
GDP, current US$ billion	13.2
GDP per capita, current US$	32138.8
School enrollment, primary (% gross)[a]	96.1
Life expectancy at birth, years[a]	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.

Key conditions and challenges

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.

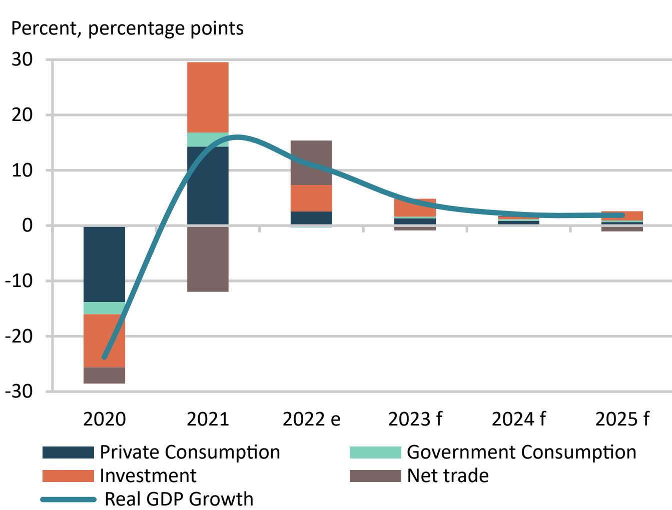
Unemployment in The Bahamas is high. According to ILO estimates, the unemployment rate in 2022 was 10.1 percent. Unemployment is more prevalent among the youth and especially women. Female youth unemployment rate in 2022 stood at 27.8 percent, higher than male youth unemployment rate (21.4 percent). 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

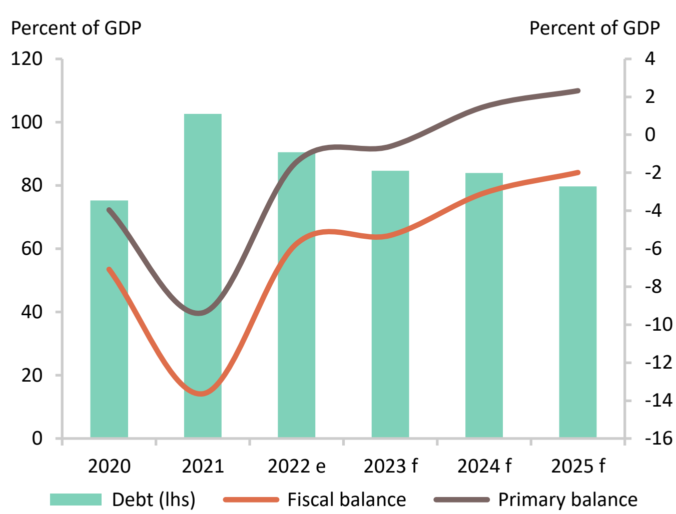
At 11 percent, GDP growth was high in 2022, as the demand for tourism services continues to recover after pandemic restrictions were eased. As of February 2023, only 43 percent of the population has been fully vaccinated, and according to the latest data for

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
Real GDP growth, at constant market prices	-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
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	0.0	2.9	5.7	5.3	3.3	2.9
Current Account Balance (% of GDP)	-24.5	-23.1	-17.2	-14.4	-11.5	-11.6
Net Foreign Direct Investment Inflow (% of GDP)	4.0	3.7	3.5	3.4	3.4	3.4
Fiscal Balance (% of GDP)[a]	-7.1	-13.6	-5.7	-5.3	-3.1	-2.0
Revenues (% of GDP)	18.8	19.3	20.5	20.8	21.5	21.8
Debt (% of GDP)[a]	75.3	102.6	90.5	84.6	84.0	79.7
Primary Balance (% of GDP)[a]	-4.0	-9.4	-1.4	-0.6	1.5	2.3
GHG emissions growth (mtCO2e)	-2.8	-1.4	-1.2	-0.8	-0.6	-0.4
Energy related GHG emissions (% of total)	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)[a]	98.3
Life expectancy at birth, years[a]	77.4
Total GHG emissions (mtCO2e)	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.

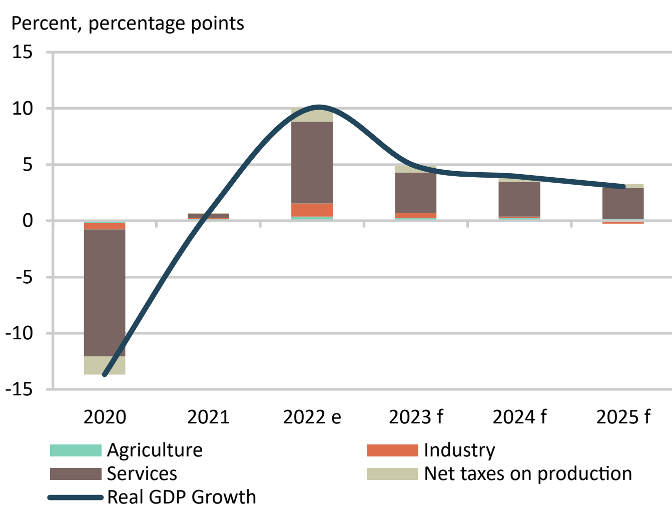
Recent developments

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.

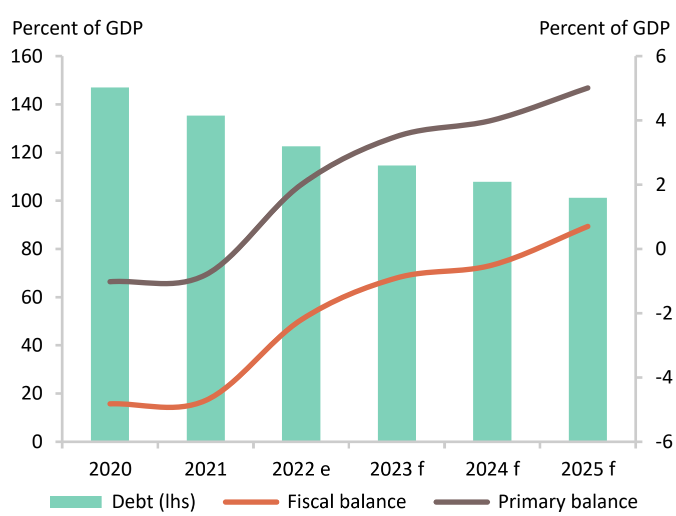
After the severe impacts of the pandemic on Barbados' labor markets, employment was helped by economic growth in 2022. However, labor market indicators have yet to fully recover. ILO estimated the unemployment rate to have risen from

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
Real GDP growth, at constant market prices	-13.7	0.7	10.0	4.9	3.9	3.1
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	2.9	3.1	9.4	5.8	3.9	3.3
Current Account Balance (% of GDP)	-7.0	-11.0	-10.0	-8.9	-7.9	-6.7
Fiscal Balance (% of GDP)	-4.8	-4.7	-2.2	-0.9	-0.5	0.7
Revenues (% of GDP)	30.1	29.1	29.3	29.1	29.3	29.8
Debt (% of GDP)	147.0	135.3	122.6	114.7	107.8	101.2
Primary Balance (% of GDP)	-1.0	-0.8	2.0	3.5	4.0	5.0
GHG emissions growth (mtCO2e)	-1.6	-5.2	-0.1	2.8	1.2	0.4
Energy related GHG emissions (% of total)	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)[a]	102.6
Life expectancy at birth, years[a]	72.9
Total GHG emissions (mtCO2e)	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.

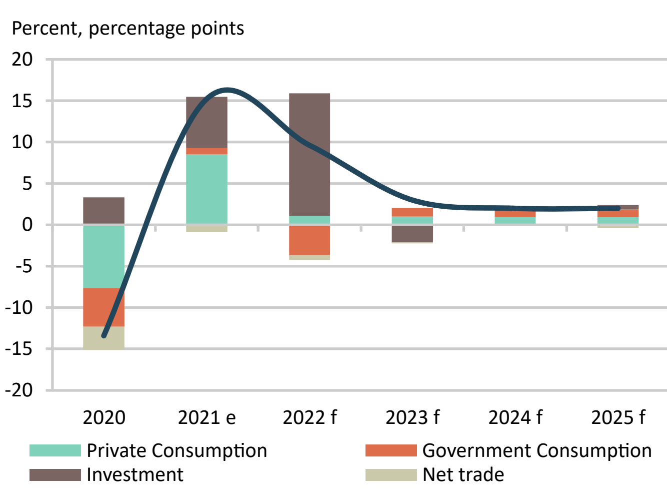
The EU Economic and Financial Affairs Council (ECOFIN) removed Belize from the EU grey list of non-cooperative tax jurisdictions; however, gaps in financial sector supervision remain. The government continues to make incremental progress toward moving the country beyond minimum compliance with the Caribbean 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.

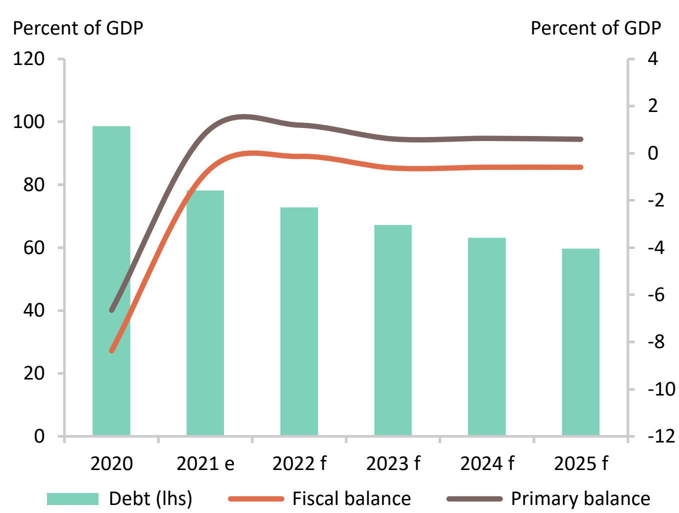
Rising global commodity prices, supply-chain bottlenecks, and Belize's economic

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
Real GDP growth, at constant market prices	-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
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	0.1	3.3	6.3	4.1	2.5	1.6
Current Account Balance (% of GDP)	-6.2	-6.3	-10.0	-8.0	-7.8	-7.6
Net Foreign Direct Investment Inflow (% of GDP)	3.5	5.0	5.3	5.0	5.0	5.0
Fiscal Balance (% of GDP)[a]	-8.4	-0.9	-0.1	-0.6	-0.6	-0.6
Revenues (% of GDP)	21.0	26.6	21.8	22.3	22.6	23.1
Debt (% of GDP)[a]	98.6	78.2	72.8	67.8	63.1	59.7
Primary Balance (% of GDP)[a]	-6.7	0.9	1.2	0.6	0.6	0.6
GHG emissions growth (mtCO2e)	1.8	-0.2	0.1	0.6	0.7	0.8
Energy related GHG emissions (% of total)	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)[a]	2.0
Lower middle-income poverty rate ($3.65)[a]	5.4
Upper middle-income poverty rate ($6.85)[a]	15.2
Gini index[a]	40.9
School enrollment, primary (% gross)[b]	98.8
Life expectancy at birth, years[b]	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.

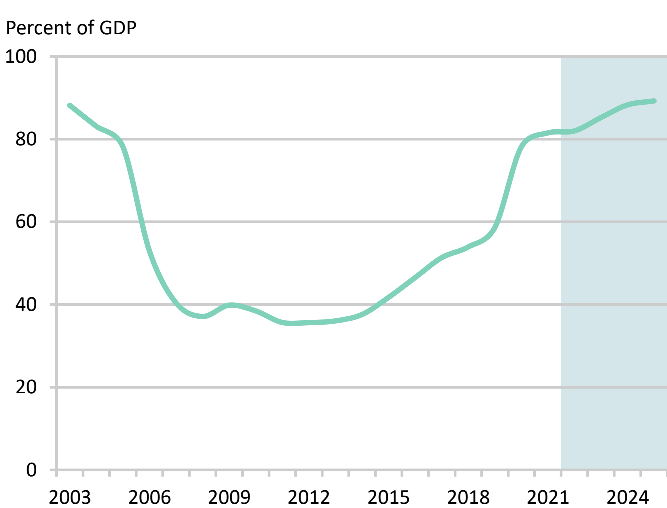
Recent developments

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).

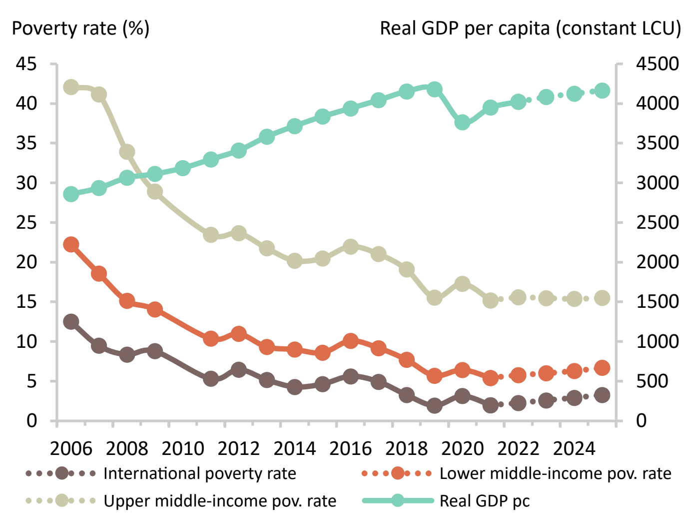
The fiscal deficit fell from 9.3 percent to 7.2 percent of GDP due to higher taxes and stagnant public investment. Declining export

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
Real GDP growth, at constant market prices	-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
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	0.9	0.7	1.7	3.3	3.5	3.5
Current Account Balance (% of GDP)	-0.1	2.1	0.4	0.3	-0.6	-0.6
Net Foreign Direct Investment Inflow (% of GDP)	-2.8	1.2	1.7	1.7	1.8	1.8
Fiscal Balance (% of GDP)	-12.7	-9.3	-7.2	-6.5	-6.0	-5.0
Revenues (% of GDP)	25.3	25.1	27.2	27.4	27.0	27.0
Debt (% of GDP)	78.1	81.5	82.0	85.3	88.3	89.3
Primary Balance (% of GDP)	-11.2	-7.9	-5.6	-4.2	-3.6	-2.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.1	2.0	2.2	2.6	2.9	3.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	6.4	5.4	5.8	6.0	6.3	6.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	17.3	15.2	15.6	15.5	15.4	15.5
GHG emissions growth (mtCO2e)	-2.6	0.7	0.5	0.5	0.5	0.5
Energy related GHG emissions (% of total)	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)[a]	5.8
Lower middle-income poverty rate ($3.65)[a]	11.3
Upper middle-income poverty rate ($6.85)[a]	28.4
Gini index[a]	52.9
School enrollment, primary (% gross)[b]	105.5
Life expectancy at birth, years[b]	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.

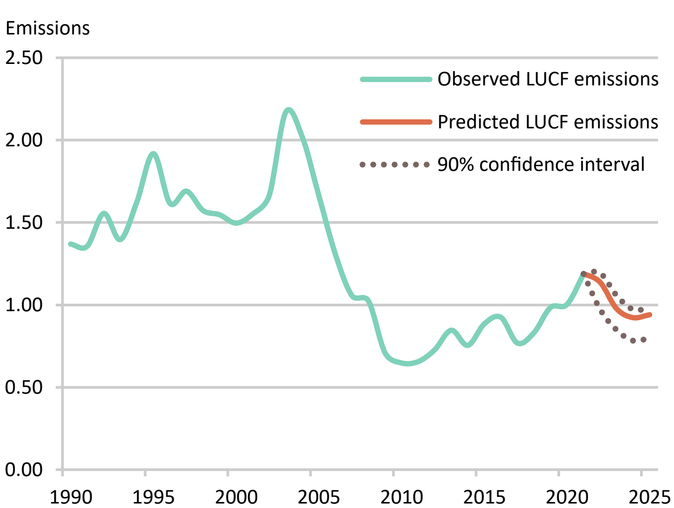
Finally, strengthening resilience to climate change and protecting of natural assets is essential for environmentally sustainable growth, especially in the fragile ecosystems of the Amazon and Cerrado.

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).

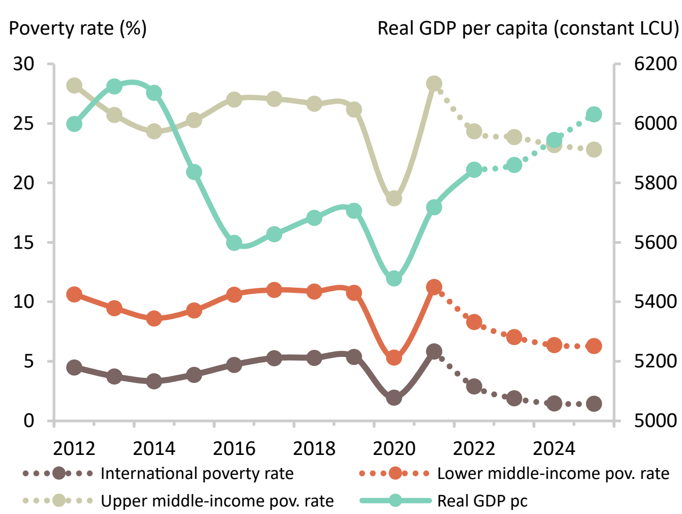
Significant monetary tightening in 2022 (4.5 p.p.) brought the Central Bank policy rate to 13.75 percent in December 2022. This helped lower the 12-month inflation rate to 5.8 percent by December 2022 (from 10.1 percent in 2021) but still above

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
Real GDP growth, at constant market prices	-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
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	3.2	8.3	9.3	5.0	4.5	3.5
Current Account Balance (% of GDP)	-1.9	-2.8	-2.9	-2.4	-2.7	-3.2
Net Foreign Direct Investment Inflow (% of GDP)	2.8	1.8	3.1	3.3	3.3	3.3
Fiscal Balance (% of GDP)	-13.3	-4.3	-4.6	-7.4	-6.0	-5.1
Revenues (% of GDP)	32.4	35.8	36.1	34.6	34.9	35.1
Debt (% of GDP)	86.9	78.3	72.9	76.5	77.8	78.5
Primary Balance (% of GDP)	-9.3	0.7	1.3	-0.7	-0.4	0.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.9	5.8	2.9	1.9	1.5	1.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	5.3	11.3	8.3	7.0	6.4	6.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	18.7	28.4	24.3	23.9	23.2	22.8
GHG emissions growth (mtCO2e)	0.6	12.0	-4.7	-2.6	-1.4	1.9
Energy related GHG emissions (% of total)	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)[a]	0.7
Lower middle-income poverty rate ($3.65)[a]	1.7
Upper middle-income poverty rate ($6.85)[a]	8.0
Gini index[a]	44.9
School enrollment, primary (% gross)[b]	101.5
Life expectancy at birth, years[b]	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.

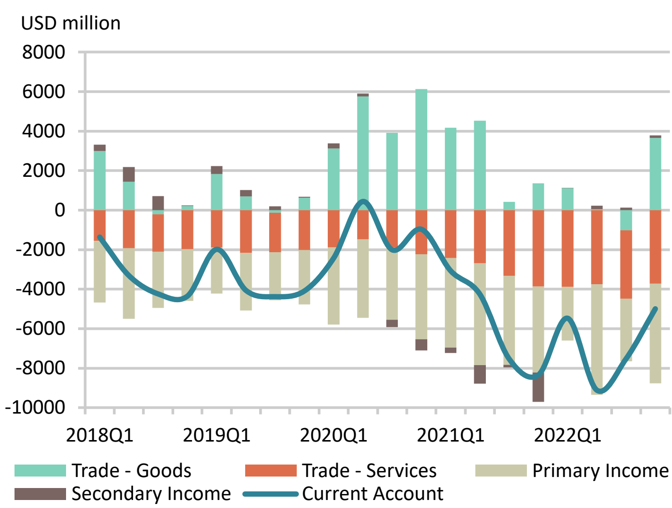
Recent developments

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.

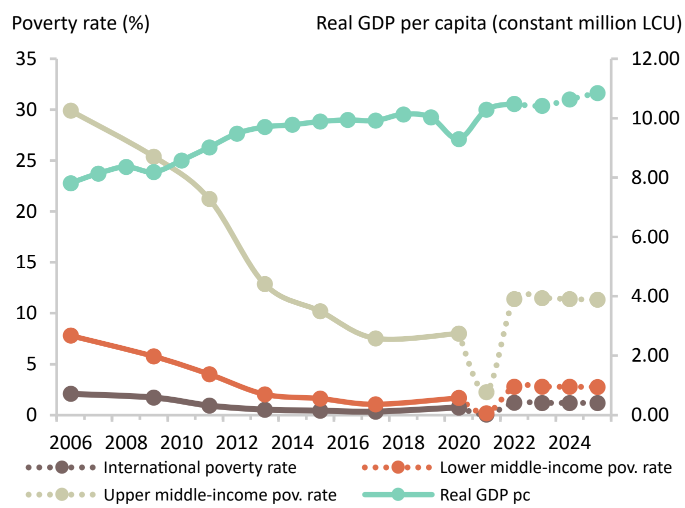
While inflation remained high at 11.9 percent in February, it is on a downtrend from historically high levels in 2022 as external and domestic factors fueling price increases are subsiding. Demand pressures are weakening after a determined monetary tightening by the Central Bank, which hiked the policy 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 (U$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
Real GDP growth, at constant market prices	-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
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	3.0	4.5	11.6	7.5	3.6	3.1
Current Account Balance (% of GDP)	-1.7	-6.4	-9.0	-3.6	-2.6	-2.1
Net Foreign Direct Investment Inflow (% of GDP)	1.0	0.3	2.5	1.9	1.9	2.0
Fiscal Balance (% of GDP)	-7.1	-7.5	1.1	-2.2	-2.2	-1.4
Revenues (% of GDP)	22.1	26.0	25.5	24.1	24.0	24.4
Debt (% of GDP)	32.5	36.3	37.4	37.8	39.5	40.4
Primary Balance (% of GDP)	-6.2	-6.6	2.1	-1.2	-1.1	-0.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.7	0.1	1.2	1.2	1.2	1.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	1.7	0.2	2.8	2.8	2.8	2.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	8.0	2.3	11.4	11.5	11.4	11.3
GHG emissions growth (mtCO2e)	-16.0	0.2	1.2	-0.4	4.4	3.7
Energy related GHG emissions (% of total)	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)[a]	6.6
Lower middle-income poverty rate ($3.65)[a]	16.0
Upper middle-income poverty rate ($6.85)[a]	39.2
Gini index[a]	51.5
School enrollment, primary (% gross)[b]	112.7
Life expectancy at birth, years[b]	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.

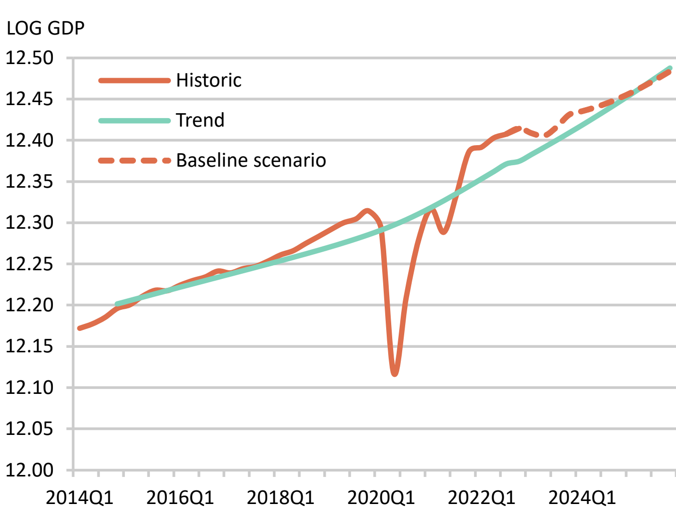
Four, Colombia needs to transition to net zero emissions; to a climate-resilient economy; and to a world that requires less oil and coal. In addition to substantial investment and mobilization of financing, this will require stepping up productivity and technology adoption, managing the job transition, 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.

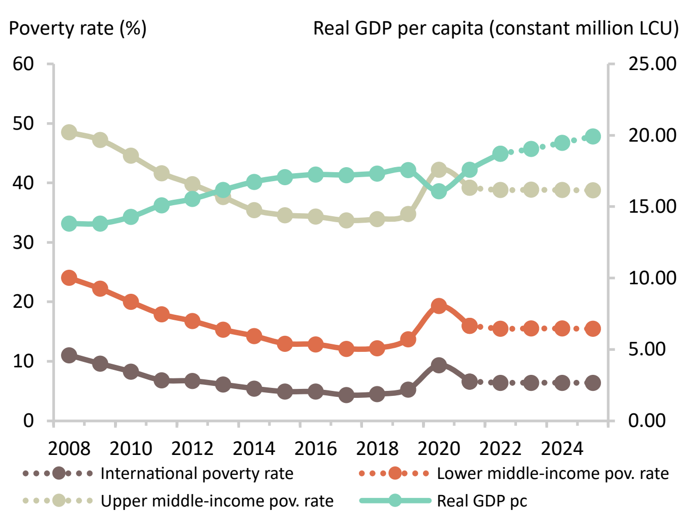
The labor market has been getting tighter. Employment and labor force participation have increased, although less so for rural areas and high-poverty regions, and informality slightly declined. Employment stabilized around 3.5 percent above pre-pandemic levels and the unemployment rate declined to 9.8 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
Real GDP growth, at constant market prices	-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
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	2.5	3.5	10.2	11.2	6.3	3.7
Current Account Balance (% of GDP)	-3.5	-5.6	-6.2	-4.4	-4.2	-4.0
Fiscal Balance (% of GDP)	-7.2	-7.1	-6.1	-4.4	-3.3	-3.2
Revenues (% of GDP)	26.0	26.6	27.4	29.2	28.7	27.9
Debt (% of GDP)	67.3	65.7	65.4	63.1	61.2	61.0
Primary Balance (% of GDP)	-4.3	-3.7	-1.7	-0.1	0.8	0.9
International poverty rate ($2.15 in 2017 PPP)[a,b]	9.4	6.6	6.4	6.4	6.4	6.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	19.3	16.0	15.5	15.5	15.5	15.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	42.2	39.2	38.8	38.9	38.8	38.8
GHG emissions growth (mtCO2e)	-1.9	-0.4	-0.9	-0.9	-0.7	-0.1
Energy related GHG emissions (% of total)	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)[a]	1.2
Lower middle-income poverty rate ($3.65)[a]	3.7
Upper middle-income poverty rate ($6.85)[a]	14.3
Gini index[a]	48.7
School enrollment, primary (% gross)[b]	106.7
Life expectancy at birth, years[b]	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.

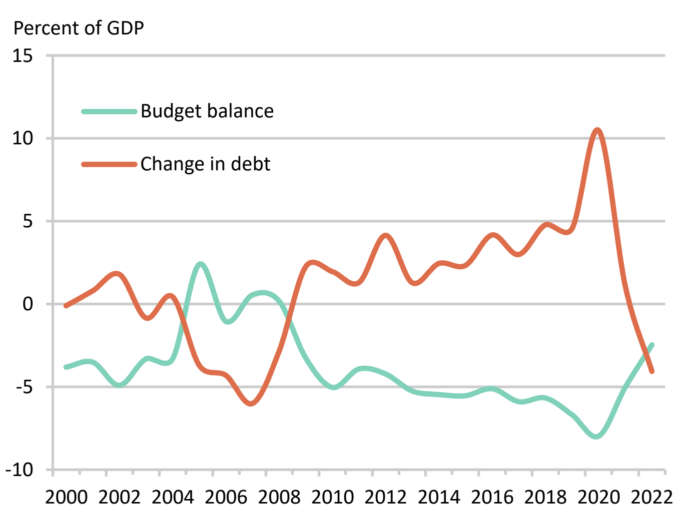
Costa Rica's immediate challenge is to contain inflation and push through its fiscal consolidation, while trying to minimize the adverse economic and social impacts. For growth and shared prosperity, the country needs to sustain reforms to improve education and labor market outcomes to make growth more 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.

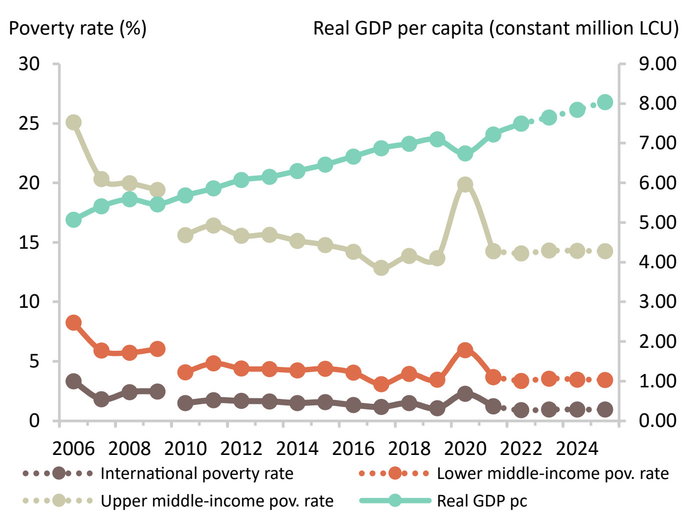
The current account deficit increased from 2.5 percent in 2021 to 3.6 percent in 2022 in terms of GDP with the increase in goods imports due to the sharp deterioration in the terms of trade, especially fuel, and fertilizer,

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
Real GDP growth, at constant market prices	-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
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	0.7	1.7	8.3	5.9	3.8	3.3
Current Account Balance (% of GDP)	-1.0	-2.5	-3.6	-3.2	-3.1	-2.6
Net Foreign Direct Investment Inflow (% of GDP)	2.6	4.9	4.9	4.7	4.8	4.6
Fiscal Balance (% of GDP)	-8.0	-5.0	-2.5	-2.8	-2.4	-2.1
Revenues (% of GDP)	13.1	15.8	16.7	16.0	16.1	16.2
Debt (% of GDP)	66.9	68.0	64.2	62.5	61.4	59.2
Primary Balance (% of GDP)	-3.4	-0.3	2.1	1.9	2.0	2.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.3	1.2	0.9	1.0	1.0	1.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	6.0	3.7	3.4	3.6	3.5	3.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	19.9	14.3	14.1	14.3	14.3	14.3
GHG emissions growth (mtCO2e)	-11.6	-5.7	-4.9	23.7	1.0	2.6
Energy related GHG emissions (% of total)	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-ENAHO. 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)[a]	102.5
Life expectancy at birth, years[a]	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.

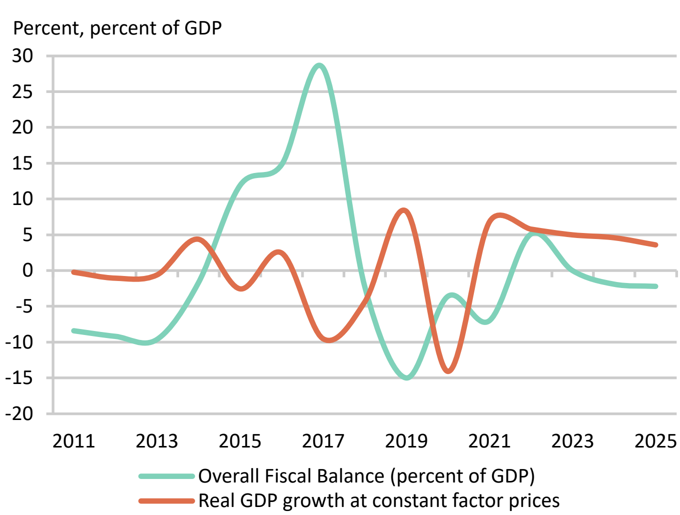
Financial sector vulnerabilities will require close monitoring given implicit contingent fiscal liabilities arising from the large credit union and insurance sectors. These sectors have yet to fully recover from Hurricane Maria, and the impacts of the COVID-19 pandemic continue to be felt on balance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

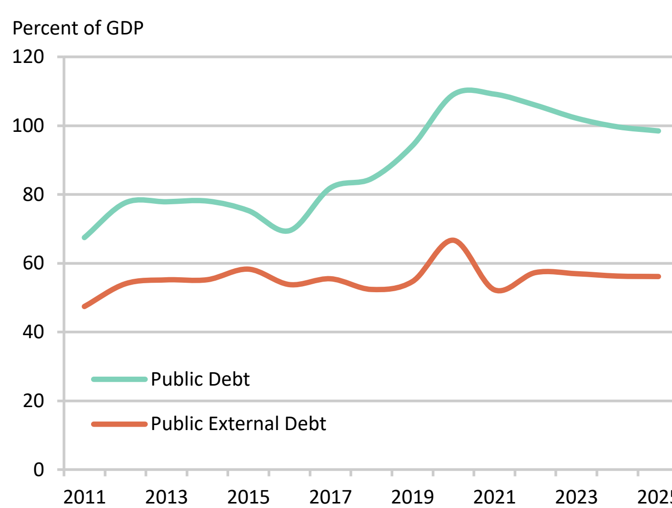
Growth continued to rebound in 2022 at 5.8 percent on relaxation of domestic COVID-19 containment measures and improving tourist arrivals, which are nearing

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
Real GDP growth, at constant market prices	-16.6	6.9	5.8	5.0	4.6	3.6
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	-0.7	1.5	7.5	6.3	2.0	2.0
Current Account Balance (% of GDP)	-35.4	-27.6	-41.3	-37.3	-38.0	-36.5
Fiscal Balance (% of GDP)[a]	-3.6	-7.0	5.1	0.0	-1.9	-2.2
Revenues (% of GDP)	53.3	57.5	59.2	60.5	61.1	62.4
Debt (% of GDP)[a]	109.1	109.2	106.0	102.2	98.5	97.2
Primary Balance (% of GDP)[a]	-1.0	-4.9	7.7	3.3	1.4	0.6
GHG emissions growth (mtCO2e)	-10.4	10.7	0.1	0.1	0.1	0.1
Energy related GHG emissions (% of total)	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

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)[a]	0.9
Lower middle-income poverty rate ($3.65)[a]	4.3
Upper middle-income poverty rate ($6.85)[a]	23.2
Gini index[a]	38.5
School enrollment, primary (% gross)[b]	96.7
Life expectancy at birth, years[b]	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.

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.

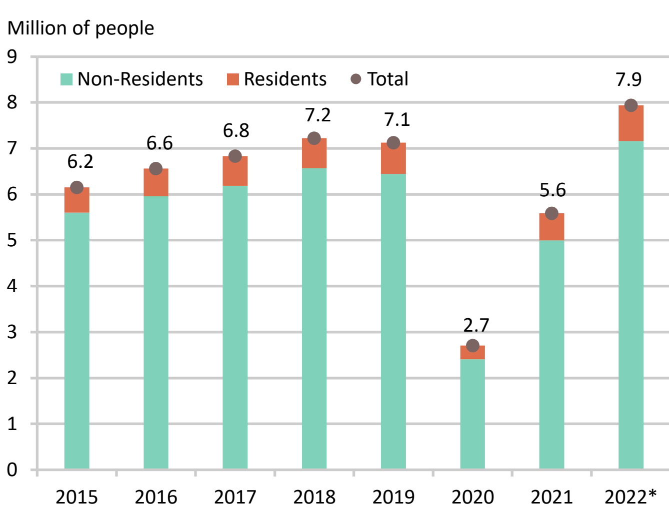
Recent developments

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.

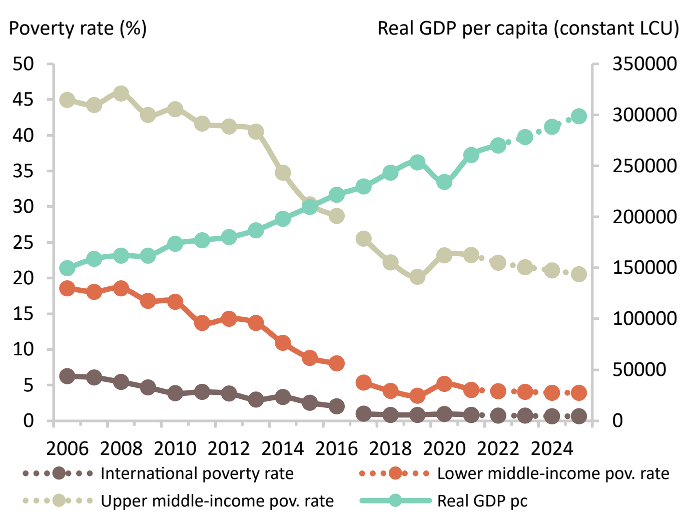
End-of-year inflation reached 7.8 percent y-o-y in 2022, outside the Central Bank's target range of 4±1 percent, prompting the Central Bank to increase the policy rate nine times in 2022, from 3.5 percent in Dec 2021 to 8.5 percent in Dec 2022.

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
Real GDP growth, at constant market prices	-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
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	3.8	8.2	8.8	5.0	4.0	4.0
Current Account Balance (% of GDP)	-1.7	-2.9	-5.7	-4.3	-3.9	-3.7
Net Foreign Direct Investment Inflow (% of GDP)	3.2	3.3	3.3	3.2	3.2	3.2
Fiscal Balance (% of GDP)[a]	-7.9	-2.9	-3.5	-3.1	-2.8	-2.5
Revenues (% of GDP)	14.2	15.6	15.3	14.9	15.0	15.0
Debt (% of GDP)[b]	69.1	62.6	59.1	58.9	58.0	56.3
Primary Balance (% of GDP)[a]	-4.7	0.2	-0.4	0.2	0.6	1.0
International poverty rate ($2.15 in 2017 PPP)[c,d]	1.0	0.9	0.7	0.7	0.7	0.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	5.2	4.3	4.2	4.1	3.9	3.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	23.2	23.2	22.2	21.6	21.1	20.5
GHG emissions growth (mtCO2e)	-6.1	5.1	2.9	2.7	1.9	1.9
Energy related GHG emissions (% of total)	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

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)[a]	3.6
Lower middle-income poverty rate ($3.65)[a]	10.9
Upper middle-income poverty rate ($6.85)[a]	31.7
Gini index[a]	45.8
School enrollment, primary (% gross)[b]	98.1
Life expectancy at birth, years[b]	72.2
Total GHG emissions (mtCO2e)	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.

Key conditions and challenges

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.

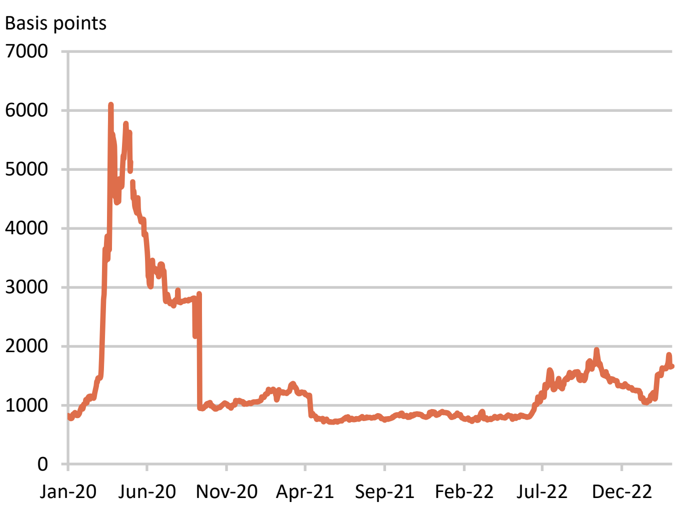
Recent developments

After a 4.2 percent rebound in 2021, GDP slowed to 2.9 percent in 2022. Growth benefitted 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.

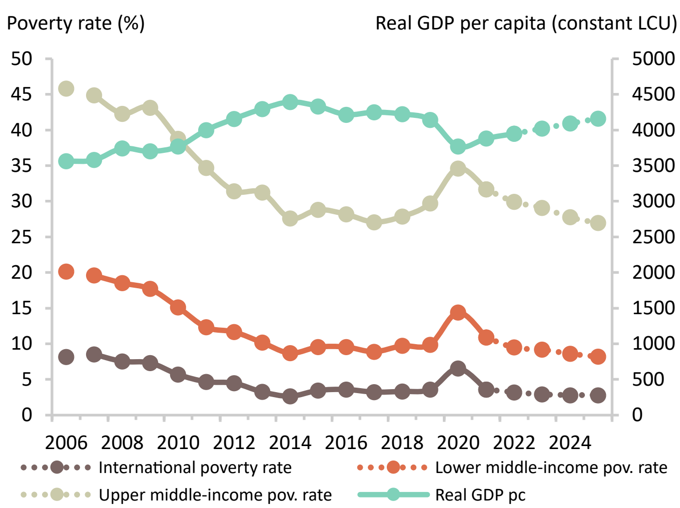
The fiscal balance passed from a 1.7 percent deficit in 2021 to a 0.1 percent surplus in 2022. Higher oil revenues and tax measures passed in late 2021 more than offset higher outlay resulting from surging interest rates and fuel subsidies. The 2021 tax reform aims to increase revenues through a mix 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 multilateral 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
Real GDP growth, at constant market prices	-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
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	-0.3	0.1	3.6	2.5	1.5	1.5
Current Account Balance (% of GDP)	2.7	2.8	2.6	1.8	1.5	1.4
Net Foreign Direct Investment Inflow (% of GDP)	1.1	0.6	0.5	0.5	0.5	0.5
Fiscal Balance (% of GDP)	-7.1	-1.7	0.1	0.8	1.5	1.6
Revenues (% of GDP)	29.5	34.2	34.3	32.7	33.4	33.4
Debt (% of GDP)	60.9	62.3	59.7	58.2	56.2	52.6
Primary Balance (% of GDP)	-4.2	-0.3	1.7	2.5	3.2	3.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	6.5	3.6	3.2	2.9	2.8	2.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	14.4	10.9	9.5	9.2	8.6	8.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	34.6	31.7	29.9	29.1	27.8	27.0
GHG emissions growth (mtCO2e)	-4.0	2.3	0.9	0.9	0.8	0.8
Energy related GHG emissions (% of total)	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

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)[a]	3.6
Lower middle-income poverty rate ($3.65)[a]	8.7
Upper middle-income poverty rate ($6.85)[a]	28.4
Gini index[a]	39.0
School enrollment, primary (% gross)[b]	106.3
Life expectancy at birth, years[b]	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.

Key conditions and challenges

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.

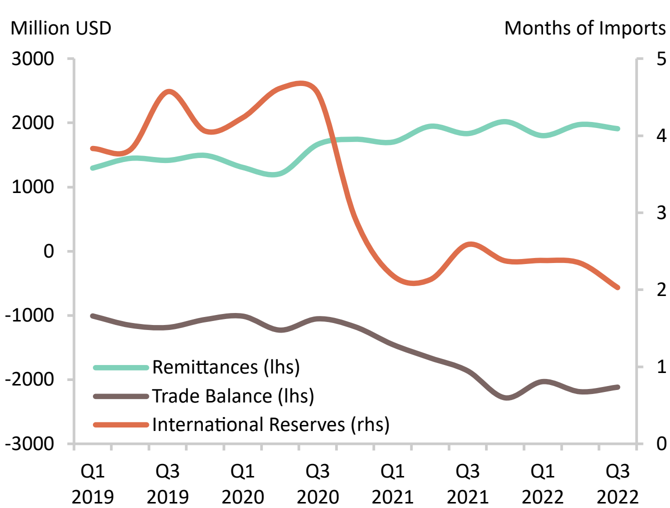
The poverty rate, measured at 6.85 dollars per person per day, is projected to be 28.4 percent, similar to the value in 2021.

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.

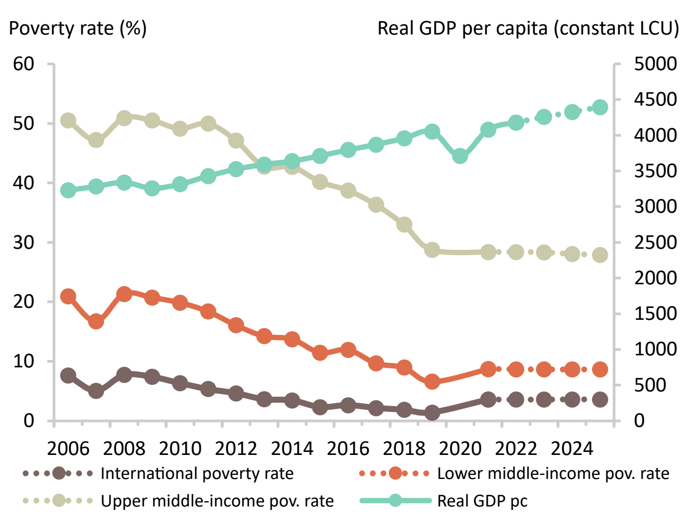
The fiscal deficit declined from $1.4 billion in 2021 to $626 million in 2022 due to a combination of revenue growth (10.9 percent) and a decrease in expenditures (-0.5 percent). Revenues benefited from a boost in income tax (25 percent) generated by increased tax compliance, while expenditures

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
Real GDP growth, at constant market prices	-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
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	-0.4	3.5	7.2	4.4	2.4	1.3
Current Account Balance (% of GDP)	0.8	-5.1	-7.7	-5.0	-4.6	-4.6
Net Foreign Direct Investment Inflow (% of GDP)	1.1	1.1	0.6	1.7	1.8	1.9
Fiscal Balance (% of GDP)[a]	-9.3	-5.0	-2.7	-4.2	-5.4	-5.6
Revenues (% of GDP)	23.0	24.4	24.9	24.6	24.3	24.3
Debt (% of GDP)[b]	92.1	84.8	80.2	79.3	81.3	84.2
Primary Balance (% of GDP)[a]	-4.8	-0.4	2.0	0.9	0.1	0.6
International poverty rate ($2.15 in 2017 PPP)[c,d]	5.7	3.6	3.6	3.6	3.6	3.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	11.7	8.7	8.7	8.7	8.6	8.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	32.7	28.4	28.4	28.3	28.0	27.9
GHG emissions growth (mtCO2e)	-6.9	1.9	0.1	1.1	0.5	0.2
Energy related GHG emissions (% of total)	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)[a]	106.9
Life expectancy at birth, years[a]	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.

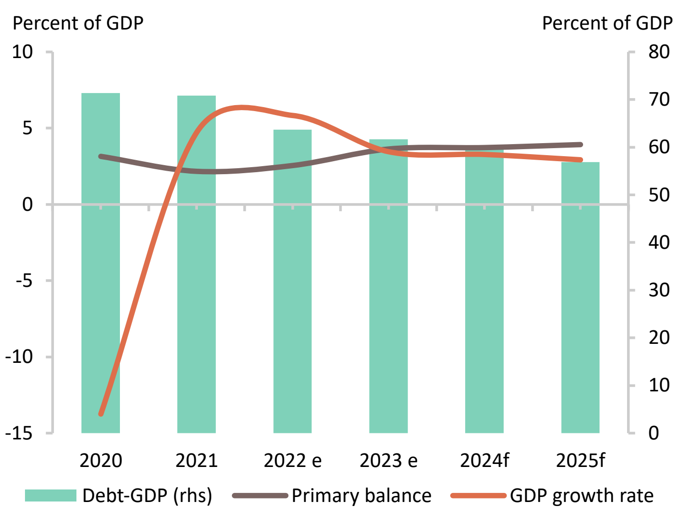
However, vulnerabilities remain mainly due to the intrinsic challenges of a small island developing state (SIDS), severely aggravated by the pandemic and Russia's invasion of Ukraine. As a SIDS, Grenada's economy relies heavily on tourism, a sector that is deeply affected by the global business cycle 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

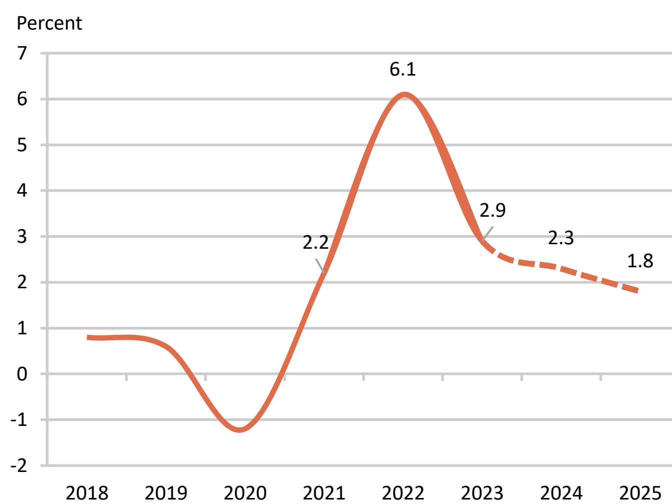
Economic activity and poverty improved gradually in 2021 and 2022, fueled primarily by the strong resumption of tourism. Stayover visitors increased by more than 200 percent from 2021 to 2022 but remained 18 percent below the 2019 level. The implementation of both public and private construction projects 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
Real GDP growth, at constant market prices[a]	-13.8	4.7	5.8	3.5	3.3	2.9
Real GDP growth, at constant factor prices[a]	-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
Inflation (Consumer Price Index)	-1.2	2.2	6.1	2.9	2.3	1.8
Current Account Balance (% of GDP)	-16.4	-13.1	-16.7	-12.9	-11.1	-10.4
Fiscal Balance (% of GDP)[b]	1.2	0.3	0.9	2.0	2.3	2.6
Revenues (% of GDP)	28.1	31.6	32.6	31.2	31.0	31.2
Debt (% of GDP)	71.4	70.8	63.7	61.7	59.9	56.9
Primary Balance (% of GDP)[b]	3.1	2.2	2.5	3.6	3.7	3.9
GHG emissions growth (mtCO2e)	-13.5	4.0	1.7	1.5	0.4	0.4
Energy related GHG emissions (% of total)	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)[a]	9.5
Lower middle-income poverty rate ($3.65)[a]	25.9
Upper middle-income poverty rate ($6.85)[a]	55.4
Gini index[a]	48.3
School enrollment, primary (% gross)[b]	102.0
Life expectancy at birth, years[b]	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), disproportionally affecting women (75.7 percent) and the indigenous populations (84.9 percent).

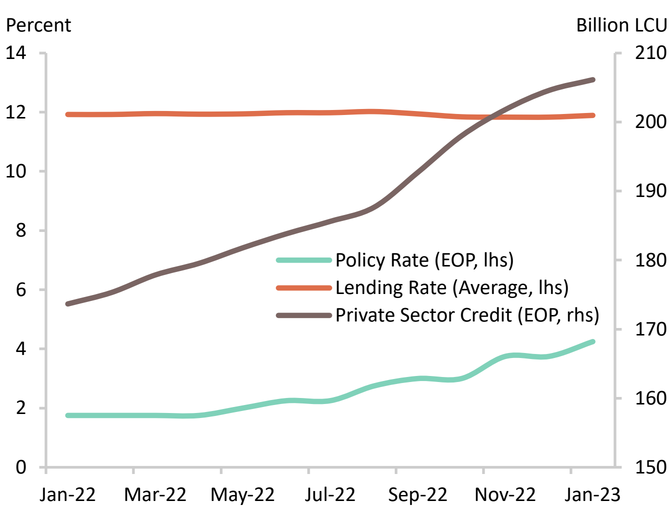
Guatemala has an established track record of prudent macroeconomic policy. The exchange rate has been managed with a soft peg, and its banking system is solid and profitable. The country has maintained current account surpluses since 2016 supported by remittances, which underpin private consumption. 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

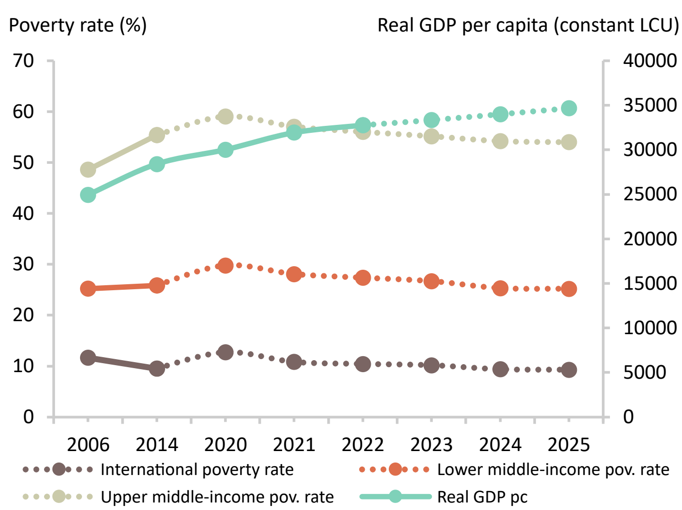
Following a large rebound in 2021 (8 percent), GDP grew by an estimated 4 percent in 2022, driven by private consumption, investment, and public consumption. On the supply side, growth was driven by wholesale & retail trade, and health services. Inflation increased to a 9.8-percent peak in February 2023 (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 (U$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 (U$ 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
Real GDP growth, at constant market prices	-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
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	3.2	4.3	6.9	5.5	4.3	3.7
Current Account Balance (% of GDP)	5.1	2.5	1.1	1.5	1.1	1.4
Net Foreign Direct Investment Inflow (% of GDP)	1.0	3.8	1.3	1.3	1.4	1.4
Fiscal Balance (% of GDP)	-4.9	-1.2	-1.8	-1.6	-1.3	-0.8
Revenues (% of GDP)	10.7	12.3	13.0	13.0	13.1	13.2
Debt (% of GDP)	31.6	30.8	31.0	31.2	30.9	30.4
Primary Balance (% of GDP)	-3.2	0.5	-0.1	0.0	0.3	0.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	12.7	10.8	10.4	10.2	9.4	9.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	29.8	28.1	27.4	26.7	25.3	25.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	59.0	57.0	56.0	55.2	54.2	54.0
GHG emissions growth (mtCO2e)	1.0	2.2	3.6	5.2	5.2	5.5
Energy related GHG emissions (% of total)	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)[a]	97.8
Life expectancy at birth, years[a]	68.5
Total GHG emissions (mtCO2e)	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.

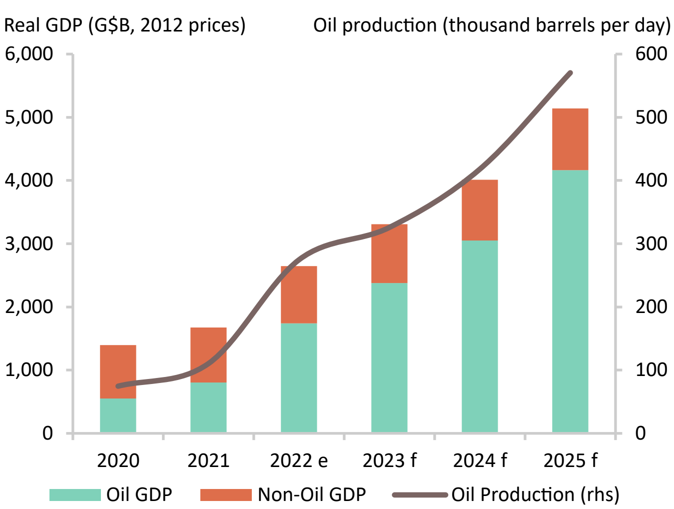
With a large part of its territorial waters still unexplored, Guyana's proven gross oil resources are conservatively estimated at over 11 billion barrels. After two full years of oil production, closing balances in the Natural Resource Fund (NRF), held outside of the economy to mitigate exchange rate 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 drawdowns 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

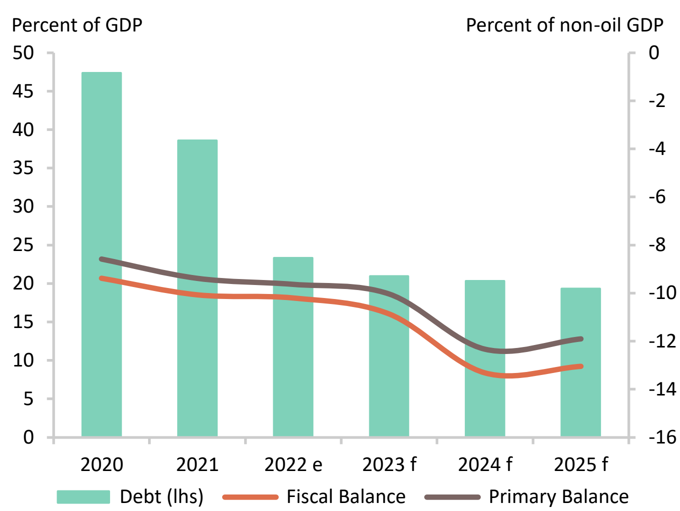
Guyana's economy continued to expand at a record pace in 2022 amidst increased oil production. Real GDP expanded by 57.8 percent, exceeding the annual average

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
Real GDP growth, at market prices (total)[a]	43.5	20.0	57.8	25.2	21.2	28.2
Real GDP growth, at market prices (non-oil)[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
Inflation (Consumer Price Index)	1.0	4.8	6.4	6.0	5.7	5.5
Current Account Balance (% of GDP)[c]	-15.0	-20.5	42.4	29.7	27.7	17.0
Fiscal Balance (% of GDP)[d]	-9.4	-10.1	-10.2	-10.9	-13.3	-13.1
Debt (% of GDP)	47.4	38.6	23.3	20.9	20.3	19.3
Primary Balance (% of GDP)[d]	-8.6	-9.4	-9.6	-10.0	-12.3	-11.9
GHG emissions growth (mtCO2e)	11.9	6.2	18.7	11.8	11.8	16.3
Energy related GHG emissions (% of total)	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)[a]	29.2
Lower middle-income poverty rate ($3.65)[a]	58.0
Upper middle-income poverty rate ($6.85)[a]	85.8
Gini index[a]	41.1
Life expectancy at birth, years[b]	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.

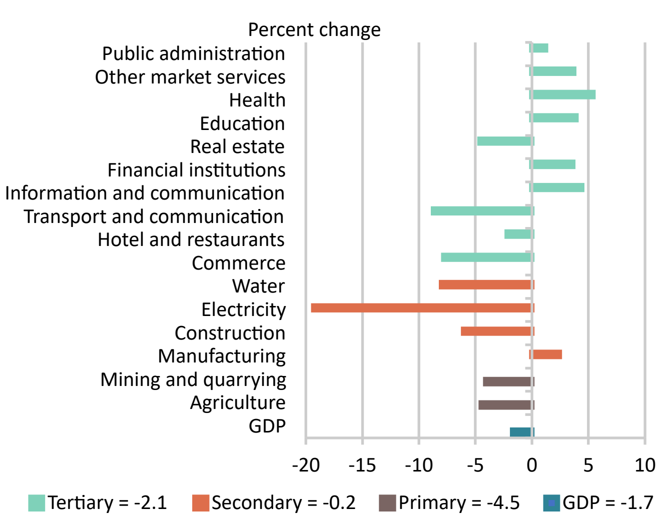
Key conditions and challenges

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 healthcare and education inhibits the possibility of building human capital to break the cycle of poverty.

Recent developments

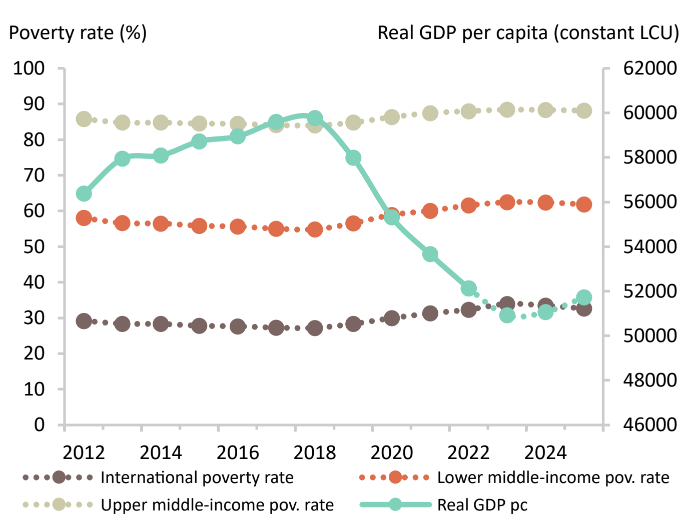
A political and power vacuum pushed gang violence to a crisis point and a GDP contraction by 1.7 percent in 2022, with agriculture, which employs 40 percent of the labor force, registering the largest decline (-4.5 percent). Combined also with an increase in food prices, the poverty rate at the international 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
Real GDP growth, at constant market prices	-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
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	22.9	15.9	27.6	39.8	31.1	22.6
Current Account Balance (% of GDP)	1.1	0.5	-2.5	1.8	-2.0	-2.6
Net Foreign Direct Investment Inflow (% of GDP)	0.2	0.2	0.2	0.1	0.3	0.3
Fiscal Balance (% of GDP)	-3.0	-2.5	-3.2	-3.0	-2.3	-1.4
Revenues (% of GDP)	7.5	6.9	6.6	7.5	7.8	7.6
Debt (% of GDP)	23.5	28.4	27.6	28.5	29.4	26.2
Primary Balance (% of GDP)	-2.7	-2.2	-2.9	-2.7	-2.0	-1.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	29.9	31.3	32.3	33.9	33.5	32.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	58.9	60.1	61.6	62.5	62.4	61.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	86.4	87.5	88.0	88.4	88.3	88.2
GHG emissions growth (mtCO2e)	-1.5	-0.6	-0.3	0.2	0.7	0.7
Energy related GHG emissions (% of total)	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)[a]	12.7
Lower middle-income poverty rate ($3.65)[a]	26.4
Upper middle-income poverty rate ($6.85)[a]	49.5
Gini index[a]	48.2
School enrollment, primary (% gross)[b]	96.5
Life expectancy at birth, years[b]	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.

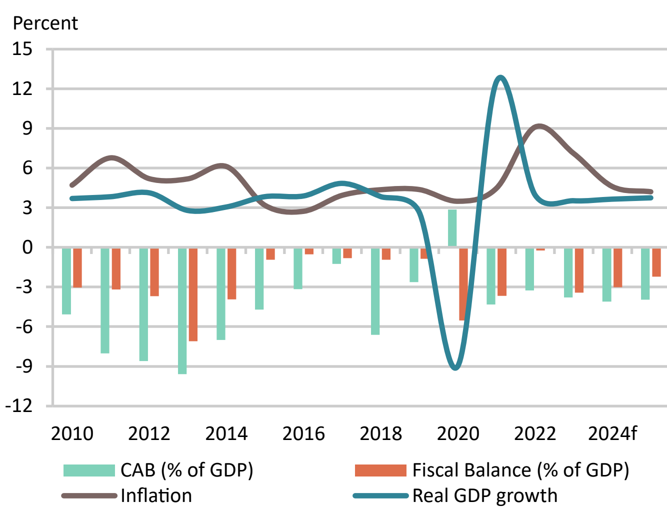
Recent developments

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.

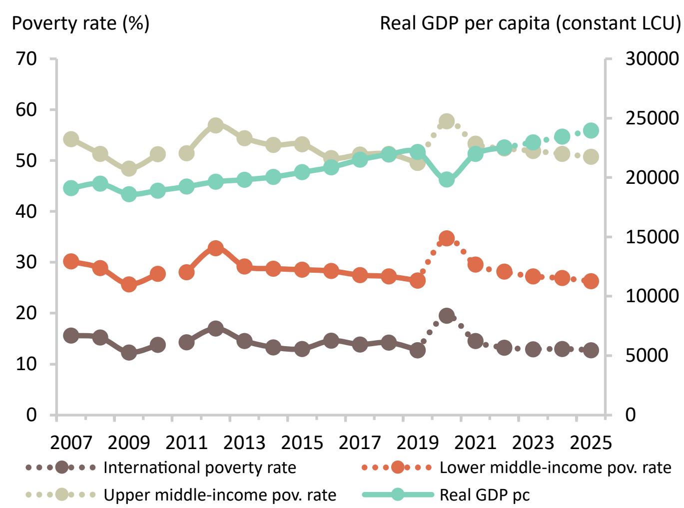
Higher prices and unemployment threaten food security and poverty reduction. Unemployment (8.9 percent in 2022) was still above its pre-pandemic level (5.7 percent),

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 subsidies; 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
Real GDP growth, at constant market prices	-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
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	3.5	4.5	9.1	7.1	4.6	4.2
Current Account Balance (% of GDP)	2.9	-4.3	-3.3	-3.8	-4.1	-4.0
Net Foreign Direct Investment Inflow (% of GDP)	1.6	1.2	1.0	1.2	1.4	1.4
Fiscal Balance (% of GDP)[a]	-5.5	-3.7	-0.2	-3.4	-3.0	-2.2
Revenues (% of GDP)	28.2	30.0	30.5	30.0	30.6	31.1
Debt (% of GDP)[a]	54.1	55.8	51.0	51.7	52.1	50.6
Primary Balance (% of GDP)[a]	-4.3	-2.8	0.8	-2.7	-2.3	-1.6
International poverty rate ($2.15 in 2017 PPP)[b,c]	19.5	14.5	13.3	12.9	13.0	12.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	34.7	29.6	28.2	27.3	26.9	26.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	57.7	53.3	52.4	51.9	51.3	50.7
GHG emissions growth (mtCO2e)	-5.1	8.1	1.6	0.2	1.4	1.7
Energy related GHG emissions (% of total)	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)[a]	90.6
Life expectancy at birth, years[a]	71.9
Total GHG emissions (mtCO2e)	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.

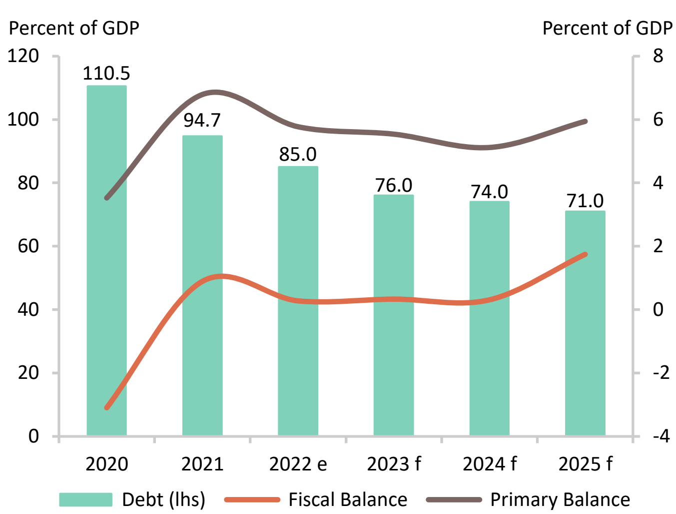
Debt-service costs remain relatively high, crowding out other government spending, including capital investment. In this context, the government needs to strike a careful balance between continuing fiscal consolidation, mitigating the impact of inflation on the poor, and advancing critical growth-enhancing 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

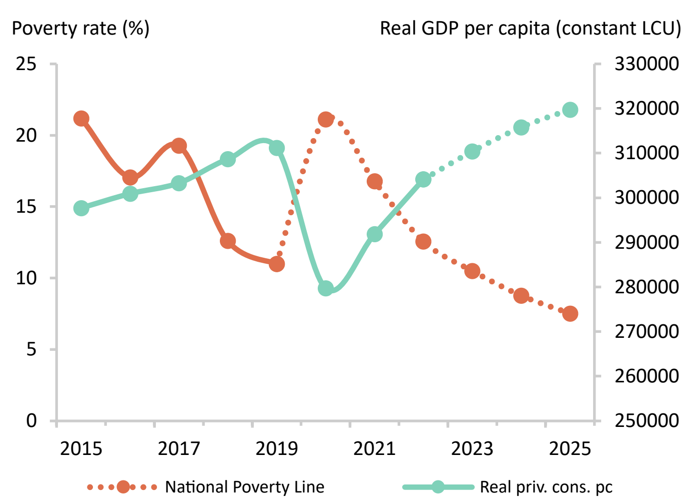
Real GDP expanded by 4.2 percent in 2022, primarily reflecting continued recovery in tourism and agriculture. On the expenditure side, growth was driven by private consumption and net exports. Rising economic

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 JSLC 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 prepandemic 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
Real GDP growth, at constant market prices	-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
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	5.7	5.9	10.3	6.1	5.0	5.0
Current Account Balance (% of GDP)	-0.4	0.7	-3.5	-3.1	-1.9	-1.1
Net Foreign Direct Investment Inflow (% of GDP)	1.9	1.8	1.6	1.7	1.8	1.9
Fiscal Balance (% of GDP)[a]	-3.1	0.9	0.3	0.3	0.3	1.7
Debt (% of GDP)[a]	110.5	94.7	85.0	76.0	74.0	71.0
Primary Balance (% of GDP)[a]	3.5	6.8	5.8	5.5	5.1	5.9
GHG emissions growth (mtCO2e)	-23.8	9.8	6.2	3.7	2.9	1.5
Energy related GHG emissions (% of total)	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)[a]	3.1
Lower middle-income poverty rate ($3.65)[a]	9.9
Upper middle-income poverty rate ($6.85)[a]	32.5
Gini index[a]	45.4
School enrollment, primary (% gross)[b]	103.7
Life expectancy at birth, years[b]	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.

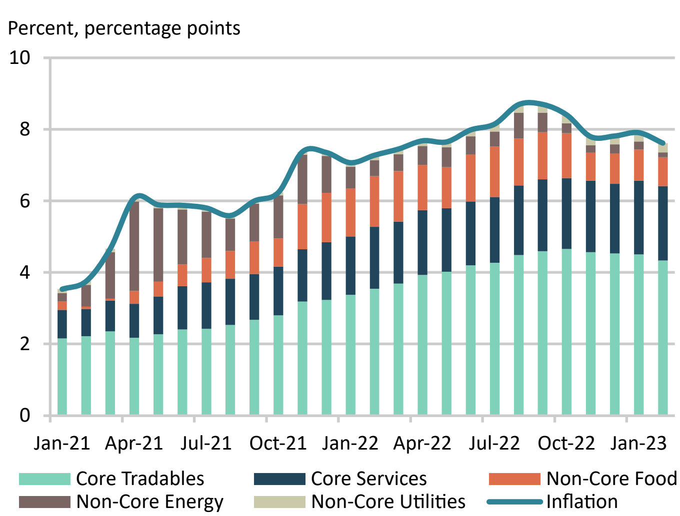
Mexico's overall fiscal deficit and debt are still above 2019 levels but have improved. Mexico needs revenue-enhancing reforms to preserve debt sustainability, particularly given existing expenditure commitments in pensions and spending pressures to increase access to quality public services and infrastructure.

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.

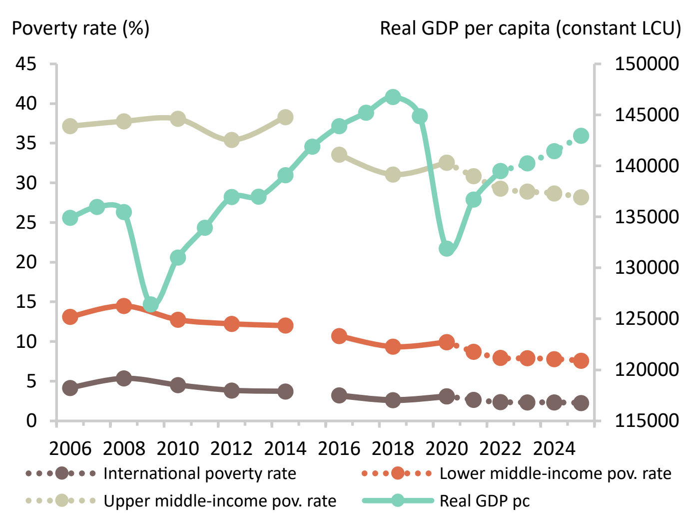
The current account deficit was 0.9 percent of GDP in 2022, covered by foreign direct investment. Import growth outpaced exports in 2022 (19.5 and 17.6 percent, respectively), showing dynamism due to a return to normalcy in supply chains. Supported by a stable fiscal situation and a solid external account, 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 (U$S6.85 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
Real GDP growth, at constant market prices	-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
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	3.4	5.7	7.9	6.2	3.9	3.5
Current Account Balance (% of GDP)	2.1	-0.6	-0.9	-1.4	-1.5	-1.6
Net Foreign Direct Investment Inflow (% of GDP)	-2.4	-2.6	-1.6	-1.8	-2.0	-2.1
Fiscal Balance (% of GDP)	-3.9	-3.9	-4.4	-4.1	-3.2	-3.2
Revenues (% of GDP)	22.8	23.1	23.2	23.0	22.5	22.2
Debt (% of GDP)	51.6	50.8	49.5	49.3	50.0	50.4
Primary Balance (% of GDP)	-1.0	-1.2	-1.6	-0.7	0.1	0.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.1	2.6	2.4	2.3	2.3	2.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	9.9	8.7	7.9	7.9	7.8	7.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	32.5	30.8	29.3	28.9	28.7	28.2
GHG emissions growth (mtCO2e)	-2.8	2.4	1.4	0.3	0.4	0.6
Energy related GHG emissions (% of total)	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

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)[a]	3.9
Lower middle-income poverty rate ($3.65)[a]	14.4
Upper middle-income poverty rate ($6.85)[a]	42.1
Gini index[a]	46.2
School enrollment, primary (% gross)[b]	112.1
Life expectancy at birth, years[b]	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.

Key conditions and challenges

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.

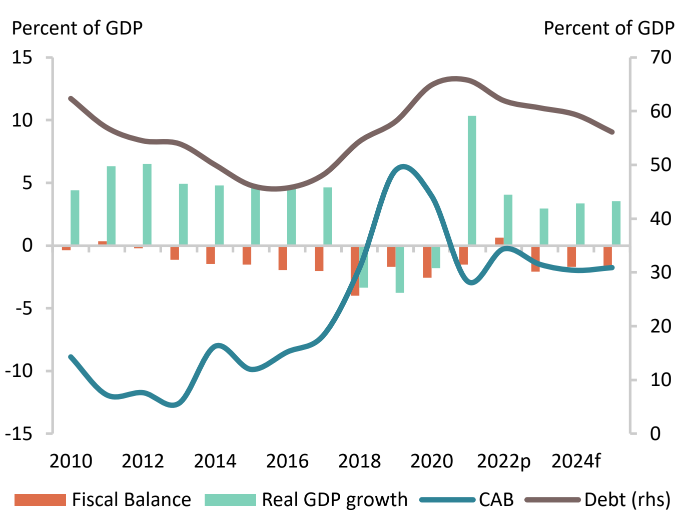
Large-scale public investment (supported by government deposits), external financial assistance, and strong export demand helped Nicaragua recover from the impacts of these multiple shocks. Real GDP rebounded by 10.3 percent in 2021, surpassing pre-2018 levels. Public debt increased steeply from 48.2 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.

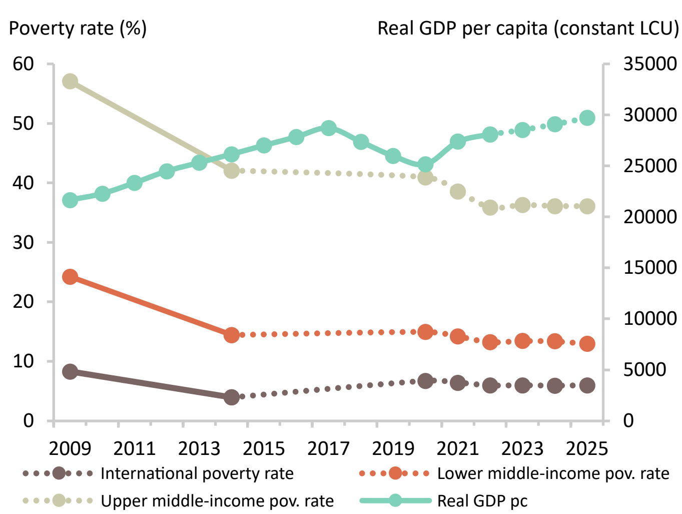
Average annual inflation accelerated to 10.5 percent in 2022 – the highest in the Central American region and more than double the average inflation over the past decade. Inflation was driven by strong domestic consumption and higher import prices amid pandemic-related

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
Real GDP growth, at constant market prices	-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
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	3.7	4.9	10.5	7.2	5.1	4.7
Current Account Balance (% of GDP)	3.9	-2.9	-0.3	-1.5	-2.0	-1.8
Net Foreign Direct Investment Inflow (% of GDP)	5.6	8.6	7.9	7.0	6.5	6.6
Fiscal Balance (% of GDP)[a]	-2.6	-1.5	0.6	-2.1	-1.7	-1.6
Revenues (% of GDP)	29.8	31.7	30.6	30.2	30.8	31.0
Debt (% of GDP)[b]	64.9	65.8	62.0	60.6	59.4	56.1
Primary Balance (% of GDP)[a]	-1.3	-0.3	1.8	-0.9	-0.6	-0.6
International poverty rate ($2.15 in 2017 PPP)[c,d]	6.7	6.4	6.0	6.0	5.9	6.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	15.0	14.2	13.3	13.4	13.4	13.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	40.9	38.6	35.9	36.3	36.1	36.1
GHG emissions growth (mtCO2e)	0.2	1.8	1.3	1.4	1.5	1.6
Energy related GHG emissions (% of total)	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)[a]	1.1
Lower middle-income poverty rate ($3.65)[a]	4.3
Upper middle-income poverty rate ($6.85)[a]	12.9
Gini index[a]	50.9
School enrollment, primary (% gross)[b]	103.0
Life expectancy at birth, years[b]	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.

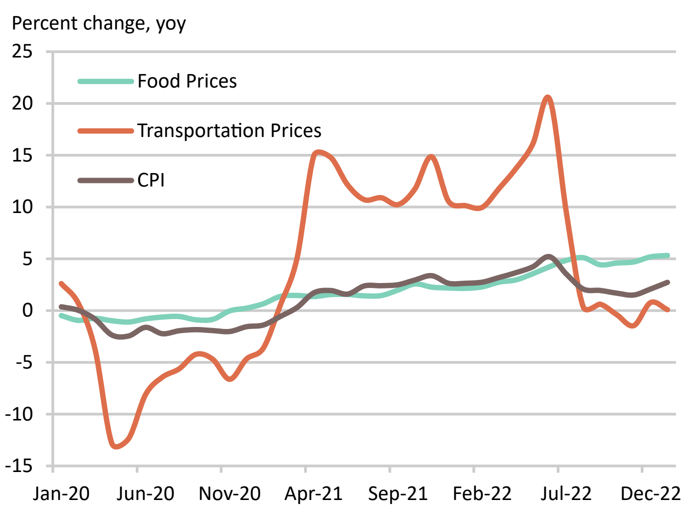
Authorities have implemented important reforms in Public Private Partnerships (PPP) and procurement. However, Panama is still on the grey list of the Financial Action Task Force (FATF) and the EU list of Non-cooperative Jurisdictions for Tax Transparency. Two reforms on the FATF action plan remain to 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).

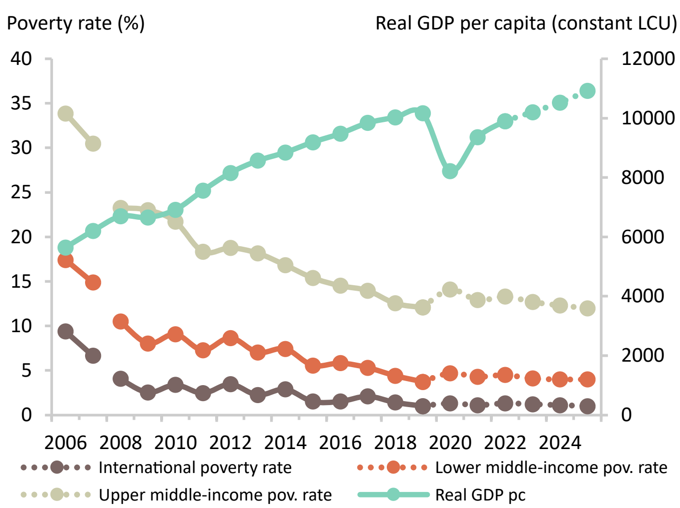
Inflation increased in 2022, led by high transport and food prices, which affected poor households the most, but was partially contained at 2.9 percent through subsidies and tax cuts (Figure 1). Moreover, employment and labor earnings did not recover enough to compensate for the phasing out of NPPS. 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
Real GDP growth, at constant market prices	-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
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	-1.6	1.6	2.9	3.3	2.5	2.0
Current Account Balance (% of GDP)	2.0	-2.2	-2.9	-3.5	-3.2	-3.2
Net Foreign Direct Investment Inflow (% of GDP)	1.2	2.6	4.1	4.3	4.4	4.5
Fiscal Balance (% of GDP)	-10.2	-6.7	-3.9	-3.0	-2.0	-1.5
Revenues (% of GDP)	18.3	18.1	18.1	18.7	19.0	19.1
Debt (% of GDP)	68.5	63.7	61.7	60.6	59.6	58.7
Primary Balance (% of GDP)	-7.6	-4.2	-2.2	-0.7	0.0	0.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.3	1.1	1.3	1.2	1.1	1.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	4.7	4.3	4.5	4.1	4.0	4.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	14.1	12.9	13.3	12.7	12.3	12.0
GHG emissions growth (mtCO2e)	-12.6	-0.1	4.8	3.3	1.5	2.6
Energy related GHG emissions (% of total)	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)[a]	0.7
Lower middle-income poverty rate ($3.65)[a]	4.1
Upper middle-income poverty rate ($6.85)[a]	20.8
Gini index[a]	42.9
School enrollment, primary (% gross)[b]	89.7
Life expectancy at birth, years[b]	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.

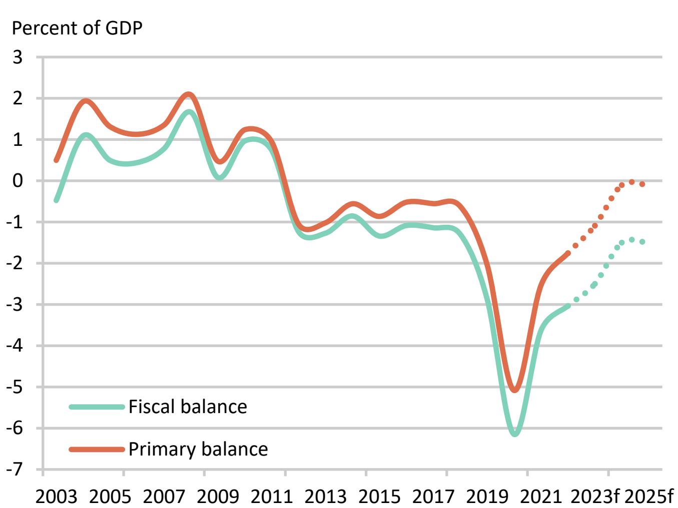
High dependence on natural resources makes Paraguay's economy particularly vulnerable to weather-related shocks and climate change. While structural transformation has occurred, agriculture, livestock, agroindustry, electricity, and water still account for a third of output and three-quarters of all direct exports. This resource-intense 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 macroeconomic 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

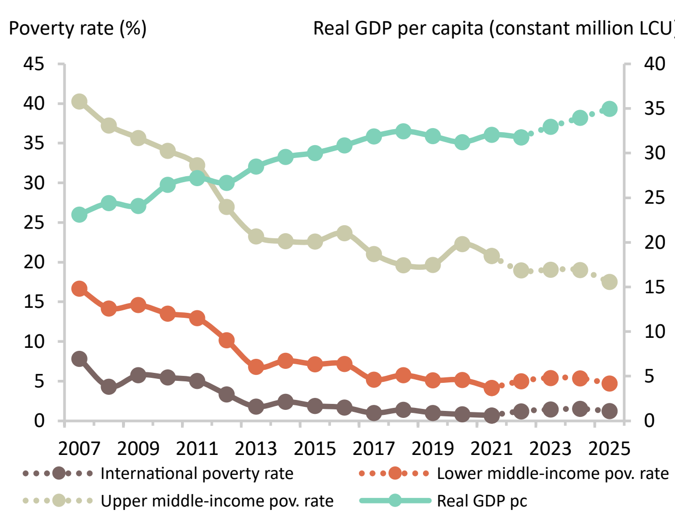
Real GDP contracted by 0.6 percent year-on-year (y-o-y) in the first nine months of 2022 as the drought-induced a slump in agricultural activity. The economy began to rebound in Q3 as weather conditions normalized, but momentum waned. In December, the economic activity indicator contracted by 4.5 percent 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 biofuels 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
Real GDP growth, at constant market prices	-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
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	1.8	4.8	9.8	5.3	4.0	4.0
Current Account Balance (% of GDP)	2.7	0.7	-6.1	0.1	-0.3	-0.7
Net Foreign Direct Investment Inflow (% of GDP)	0.3	0.3	0.8	1.0	1.3	1.3
Fiscal Balance (% of GDP)	-6.1	-3.6	-3.0	-2.5	-1.5	-1.5
Revenues (% of GDP)	13.5	13.7	14.5	14.3	14.4	14.4
Debt (% of GDP)	34.5	34.1	36.9	36.4	35.9	35.1
Primary Balance (% of GDP)	-5.1	-2.5	-1.8	-1.1	-0.1	-0.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.8	0.7	1.2	1.4	1.5	1.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	5.2	4.1	5.0	5.4	5.4	4.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	22.3	20.8	19.0	19.1	19.0	17.5
GHG emissions growth (mtCO2e)	0.7	1.1	-0.8	0.8	1.8	1.8
Energy related GHG emissions (% of total)	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)[a]	2.9
Lower middle-income poverty rate ($3.65)[a]	10.2
Upper middle-income poverty rate ($6.85)[a]	33.7
Gini index[a]	40.2
School enrollment, primary (% gross)[b]	121.9
Life expectancy at birth, years[b]	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.

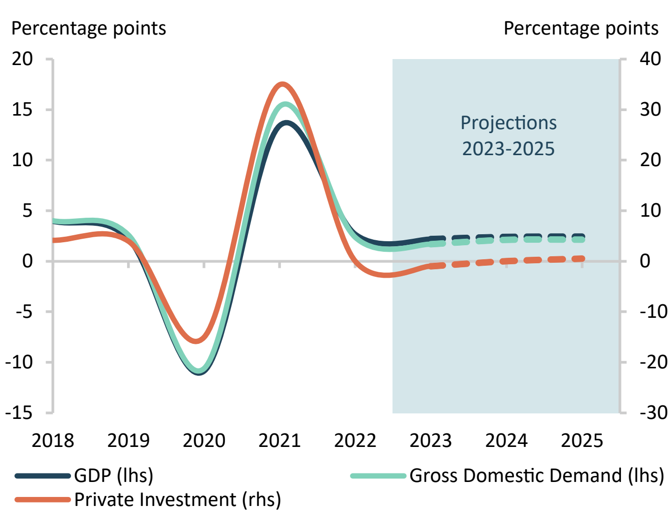
Recent developments

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.

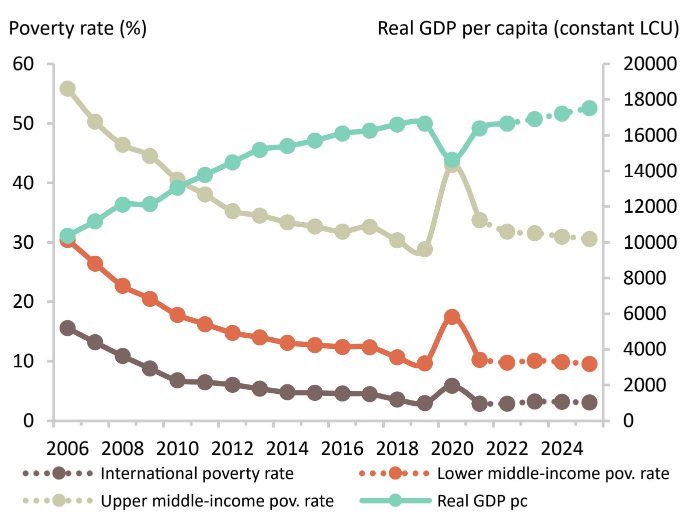
Inflation remained elevated, averaging 7.9 percent in 2022, mainly due to persistent

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
Real GDP growth, at constant market prices	-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
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	1.8	4.0	7.9	4.9	2.6	2.1
Current Account Balance (% of GDP)	1.2	-2.3	-4.3	-3.2	-2.6	-2.1
Net Foreign Direct Investment Inflow (% of GDP)	-0.4	2.5	4.4	3.8	4.2	4.2
Fiscal Balance (% of GDP)	-8.9	-2.5	-1.6	-1.9	-1.7	-1.4
Revenues (% of GDP)	17.8	21.0	22.2	21.7	21.6	21.5
Debt (% of GDP)	34.6	35.9	34.0	33.5	33.5	33.2
Primary Balance (% of GDP)	-7.3	-1.0	0.2	-0.1	-0.3	-0.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	5.9	2.9	2.9	3.2	3.2	3.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	17.5	10.2	9.8	10.1	9.9	9.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	43.0	33.7	31.8	31.6	31.0	30.6
GHG emissions growth (mtCO2e)	-4.9	0.7	0.7	0.5	0.4	0.4
Energy related GHG emissions (% of total)	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-ENAHO. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.
b/ Projections using microsimulation methodology.

SAINT LUCIA

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)[a]	5.1
Lower middle-income poverty rate ($3.65)[a]	11.7
Upper middle-income poverty rate ($6.85)[a]	25.3
Gini index[a]	51.2
School enrollment, primary (% gross)[b]	101.1
Life expectancy at birth, years[b]	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.

Key conditions and challenges

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 socioeconomic 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.

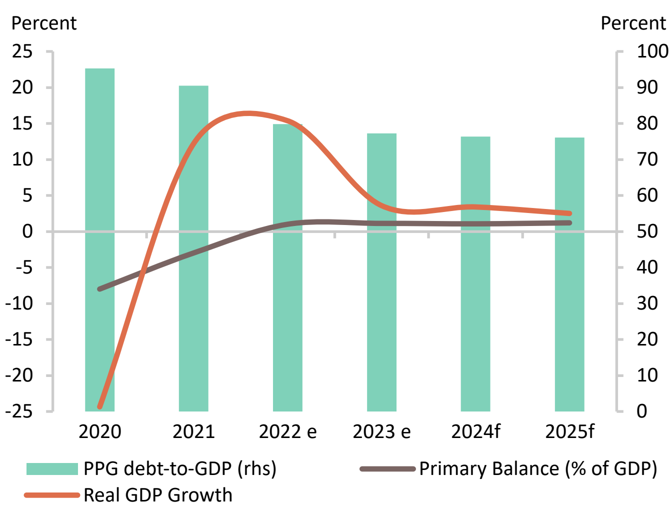
Pandemic-related spending, low revenues, and investment projects to support growth led to a rapid rise in public debt in 2020. High debt burdens limit the government's capacity to provide public services and finance key development projects. The government has committed to implementing several revenue 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.

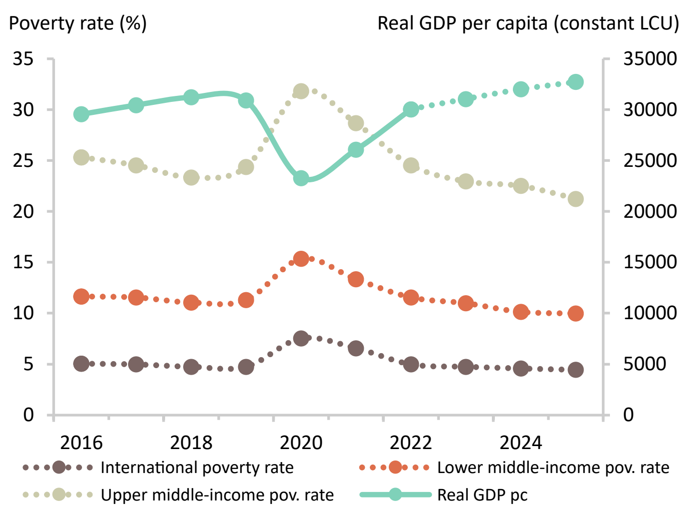
The current account deficit continued declining fast between 2020 and 2022, as recovery in tourism exports outpaced an increase in demand for tourism-related imports and higher costs of imports from the global record-high inflation and continued

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
Real GDP growth, at constant market prices[a]	-24.4	12.2	15.4	3.6	3.4	2.5
Real GDP growth, at constant factor prices[a]	-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
Inflation (Consumer Price Index)	-1.8	2.4	6.7	3.0	2.0	1.5
Current Account Balance (% of GDP)	-15.3	-7.8	-4.6	-2.0	-0.7	1.4
Fiscal Balance (% of GDP)[b]	-12.1	-6.8	-2.2	-1.8	-1.7	-1.6
Revenues (% of GDP)	22.4	24.3	24.4	24.5	23.9	23.3
Debt (% of GDP)[b]	95.3	90.6	79.9	77.3	76.4	76.1
Primary Balance (% of GDP)[b]	-8.0	-3.0	1.0	1.4	1.4	1.5
International poverty rate ($2.15 in 2017 PPP)[c,d]	7.5	6.6	5.0	4.7	4.6	4.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	15.3	13.3	11.6	11.0	10.1	10.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	31.8	28.7	24.5	23.0	22.5	21.2
GHG emissions growth (mtCO2e)	-28.5	12.8	7.3	4.9	1.0	1.0
Energy related GHG emissions (% of total)	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

Table 1	2022
Population, million	0.1
GDP, current US$ billion	0.9
GDP per capita, current US$	8557.1
School enrollment, primary (% gross)[a]	112.8
Life expectancy at birth, years[a]	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.

Key conditions and challenges

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.

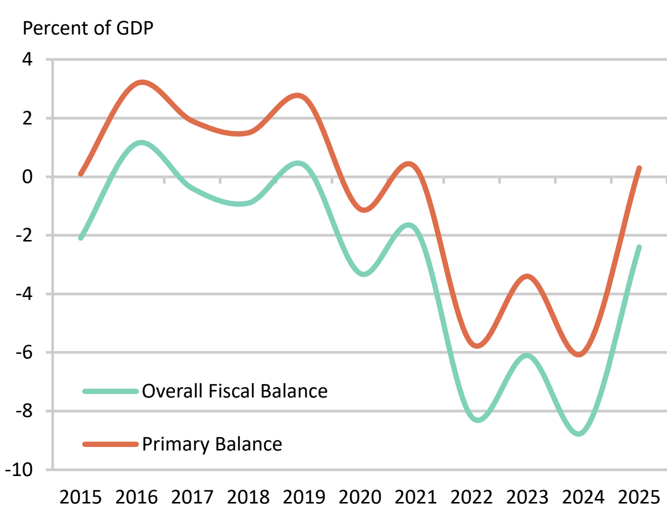
The volcanic eruption, which displaced about 20 percent of the population, compounded the impact of the COVID-19 shock. Heavy ashfall, critical utility interruptions, increased food insecurity, and subsequent flooding and mudslides point to a significant impact on poverty and welfare measures, though 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.

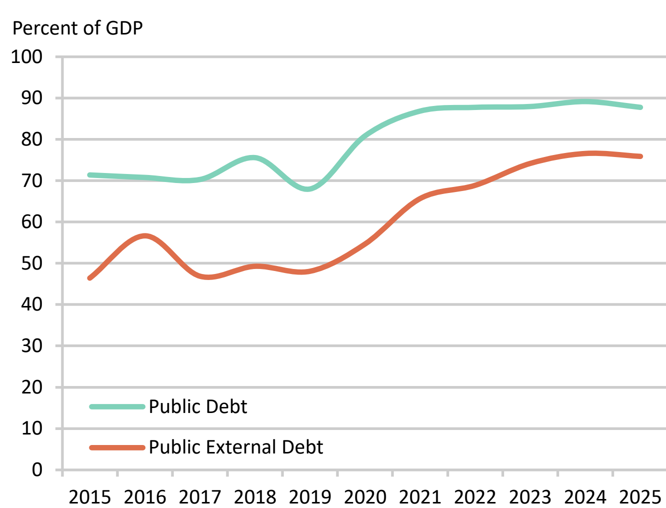
The overall fiscal deficit widened to 8.2 percent of GDP in 2022, largely in response to the fiscal demands imposed by the volcanic eruption and ongoing exceptional COVID-19-related expenditures. Direct fiscal spending measures in response to the volcano totaled 5.5 percent of GDP. Furthermore, the government 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
Real GDP growth, at constant market prices[a]	-5.3	1.3	5.0	6.0	4.8	3.5
Real GDP growth, at constant factor prices[a]	-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
Inflation (Consumer Price Index)	-0.6	1.6	5.8	4.6	2.0	2.0
Current Account Balance (% of GDP)	-15.6	-22.1	-26.5	-27.6	-19.8	-13.8
Fiscal Balance (% of GDP)[b]	-3.3	-1.8	-8.2	-6.1	-8.7	-2.4
Revenues (% of GDP)	32.0	34.2	33.6	33.3	32.7	34.1
Debt (% of GDP)[b]	80.9	86.9	87.8	88.0	89.2	87.8
Primary Balance (% of GDP)[b]	-1.1	0.3	-5.7	-3.4	-6.0	0.3
GHG emissions growth (mtCO2e)	-8.2	6.6	2.0	2.0	1.9	1.9
Energy related GHG emissions (% of total)	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)[a]	100.7
Life expectancy at birth, years[a]	72.6
Total GHG emissions (mtCO2e)	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.

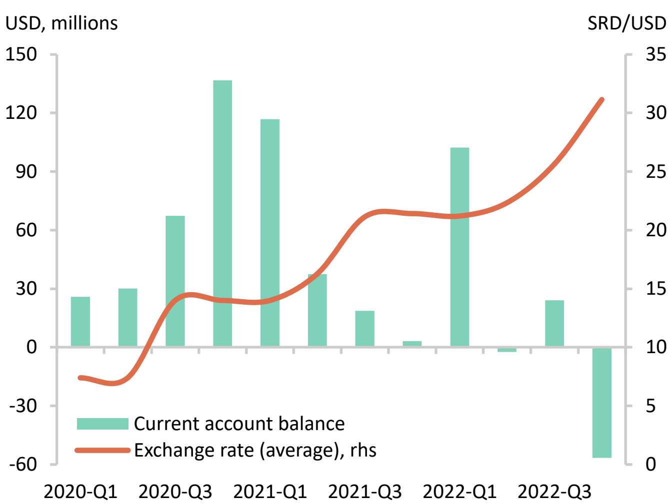
Restoring debt sustainability under an IMF-supported Extended Fund Facility (EFF) will require debt relief from Suriname's private and bilateral creditors. The EFF program targets are currently under revision, owing to unanticipated policy changes in response to global commodity price shocks following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

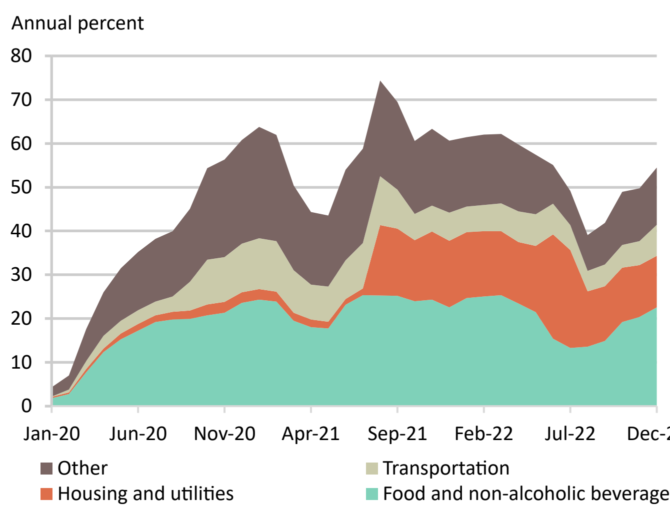
Suriname's economy started to recover in 2022, with a real GDP growth estimated at 1.9 percent after 2 years of contraction following the Covid-19 outbreak. The expansion was largely driven by the services sector. Agricultural output is estimated to have recovered slightly by 1 percent in 2022 after 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
Real GDP growth, at constant market prices	-16.0	-2.7	1.9	2.4	3.2	3.1
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	34.8	59.1	52.4	29.7	17.1	12.9
Current Account Balance (% of GDP)	8.9	5.3	1.9	-0.4	-0.9	-1.2
Net Foreign Direct Investment Inflow (% of GDP)	0.0	-5.6	0.7	3.4	3.1	3.0
Fiscal Balance (% of GDP)[a]	-13.3	-7.0	-3.7	-1.1	0.2	0.2
Debt (% of GDP)[a]	146.3	119.9	118.4	112.9	108.3	102.5
Primary Balance (% of GDP)[a]	-9.6	-1.3	1.0	2.1	3.2	3.0
GHG emissions growth (mtCO2e)	0.6	0.2	0.6	1.5	0.7	1.7
Energy related GHG emissions (% of total)	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)[a]	0.1
Lower middle-income poverty rate ($3.65)[a]	0.8
Upper middle-income poverty rate ($6.85)[a]	6.7
Gini index[a]	40.8
School enrollment, primary (% gross)[b]	104.2
Life expectancy at birth, years[b]	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.

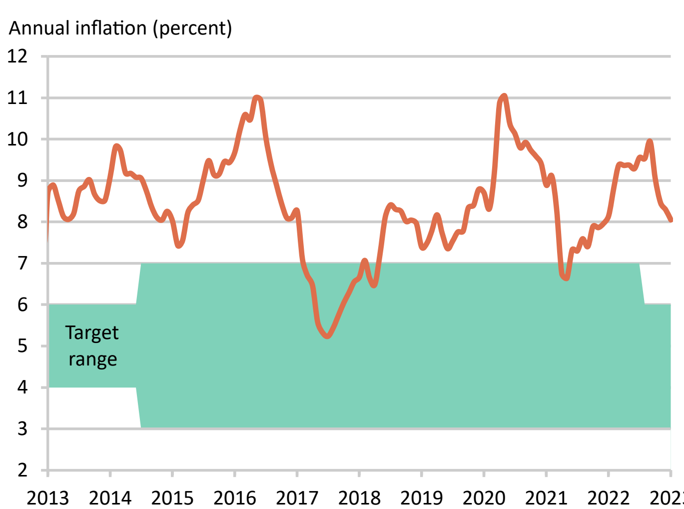
Recent developments

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.

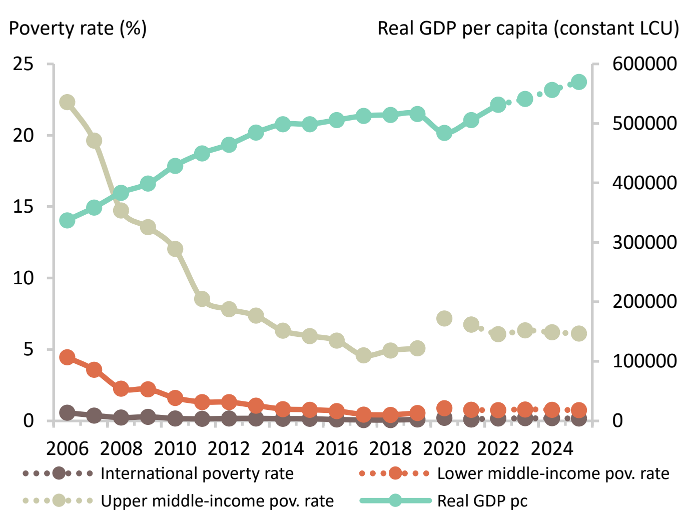
Inflation averaged 9.1 percent in 2022, up from 7.8 percent in 2021, driven by food and fuel prices. The Central Bank (BCU) hiked its benchmark rate to 11.5 percent in December 2022 for a 700 basis points cumulative increase since August 2021, contributing to a strong Uruguayan peso,

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
Real GDP growth, at constant market prices	-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
Real GDP growth, at constant factor prices	-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
Inflation (Consumer Price Index)	9.8	7.7	9.1	6.9	6.0	5.8
Current Account Balance (% of GDP)	-0.9	-2.7	-2.5	-1.4	-0.2	-0.3
Net Foreign Direct Investment Inflow (% of GDP)	1.9	3.0	1.7	1.3	1.3	1.3
Fiscal Balance (% of GDP)[a]	-5.4	-3.2	-2.8	-2.6	-2.4	-2.4
Revenues (% of GDP)	29.7	29.9	29.1	28.9	28.8	28.7
Debt (% of GDP)	67.7	63.9	57.6	56.5	55.6	55.1
Primary Balance (% of GDP)[a]	-2.7	-1.0	-0.7	-0.2	0.1	0.3
International poverty rate ($2.15 in 2017 PPP)[b,c]	0.2	0.1	0.2	0.2	0.2	0.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	0.9	0.8	0.8	0.8	0.8	0.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	7.2	6.7	6.1	6.3	6.2	6.1
GHG emissions growth (mtCO2e)	-2.2	1.6	1.8	0.1	0.2	0.3
Energy related GHG emissions (% of total)	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.

Middle East and North Africa

Spring Meetings 2023

Algeria
Bahrain
Djibouti
Egypt, Arab Republic
Iran, Islamic Republic
Iraq, Republic
Jordan
Kuwait
Lebanon
Libya
Morocco
Oman
Palestinian Territories
Qatar
Saudi Arabia
Syrian Arab Republic
Tunisia
United Arab Emirates
Yemen, Republic

ALGERIA

Table 1	2022
Population, million	44.9
GDP, current US$ billion	191.9
GDP per capita, current US$	4274.1
National poverty rate[a]	5.5
International poverty rate ($2.15)[a]	0.5
Lower middle-income poverty rate ($3.65)[a]	4.0
Gini index[a]	27.6
School enrollment, primary (% gross)[b]	111.3
Life expectancy at birth, years[b]	74.5
Total GHG emissions (mtCO2e)	284.0

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

Algeria's economy continued rebounding from the 2020 recession triggered by COVID-19. The country's external and fiscal balances improved markedly in 2022, as hydrocarbon production and exports picked up steam before this trend reversed in late 2022. The fiscal windfall financed an increase in public spending and some build-up of international reserves. The implementation of reforms supportive of private sector expansion and the improvement of the macroeconomic policy framework will be key to achieve economic diversification and sustainable growth.

Key conditions and challenges

Europe's shift away from Russian energy supply is generating opportunities for investment in the Algerian oil and gas sector, just as the 2019 Hydrocarbon Law aimed to reinforce the sector's attractiveness to foreign investment. However, more private investment outside the hydrocarbon sector is needed to foster faster, inclusive, and sustainable growth.

The Algerian economy remains dominated by the oil and gas sector, which accounted for 19 percent of GDP, 93 percent of merchandise exports, and 38 percent of budget revenues between 2016 and 2021. Over the past 15 years, however, declining investments contributed to stagnating oil and natural gas production, while rising domestic consumption has led to a steep fall in exports.

As a result, large twin deficits have eroded the country's reserves and strained the domestic banking sector. Since 2016 the current account and overall budget deficits have averaged 11 percent and 10 percent of GDP, respectively, leading to a marked decline in international reserves, currency depreciation, import reduction policies, as well as debt monetization. Real public spending stagnated, and GDP growth slowed down to 1.1 percent in 2017-2019, causing GDP per capita (in PPP terms) to decline to its 2014 levels. Nonetheless, non-monetary poverty dropped between 2013 and 2019, amid improvements in education, health, and living standards, while inflation fell to reach 2.2 percent in 2019-2020.

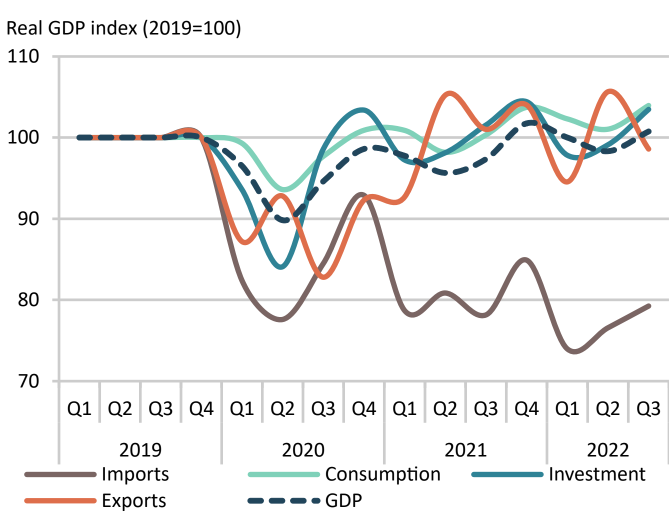
In 2021, a strong recovery in hydrocarbon output helped the economy rebound from the COVID-19-induced recession but inflation picked up, fueled by domestic and international factors.

The September 2021 Government Action Plan (GAP) makes the transition to a private sector-led growth and job creation model a developmental priority and aims to strengthen the macroeconomic framework through spending rationalization and import substitution. Since the GAP's publication, authorities implemented policies to encourage foreign and domestic investment, including the adoption of the Investment Law. Continued reform implementation, notably to improve the business environment, will be key to foster growth in the nonhydrocarbon private sector.

Recent developments

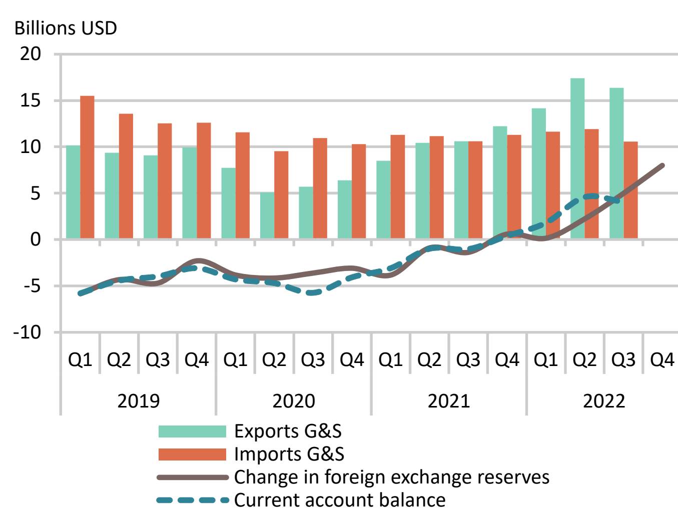
GDP growth moderated over the first 9 months of 2022 (+2.9 percent y-o-y), dragged by the decline in crude oil and natural gas production from their post-COVID peak. Over that period, nonhydrocarbon GDP growth accelerated (+3.7 percent y-o-y), supported by private consumption and declining import volumes, suggesting some degree of import substitution. On the production side, the performance of nonhydrocarbon activity was supported by a rebound in output in

FIGURE 1 Algeria / Real GDP and components, level indexes



Sources: Algerian authorities and World Bank staff estimates.

FIGURE 2 Algeria / Current account, exports, imports and changes in international reserves



Sources: Algerian authorities and World Bank staff estimates.

agriculture as well as consumer-oriented manufacturing and services sectors.

The current account deteriorated in Q3-2022, despite a 10-year peak in Q2, as hydrocarbon exports revenues tracked oil prices and declined more markedly than imports. Nonetheless, the current account is expected to have reached a 5.9 percent of GDP surplus in 2022. Despite subdued domestic investment and stricter import policies, merchandise imports rose by 7.4 percent in 2022, as rising global commodity prices inflated food, raw, and intermediate product imports. External surpluses and a valuation effect led reserves to rise by US$ 15.7 billion, to 61.7 billion at end-2022, or about 16.3 months of imports of goods and services.

The overall budget deficit is expected to have drastically shrunk from 7.2 percent of GDP in 2021 to 0.9 percent in 2022, having been driven by rising tax and hydrocarbon revenues and despite higher public sector wages, the higher cost of the new unemployment benefit scheme, and larger food subsidies. Public debt is estimated to have declined to 51.8 percent of GDP at end-2022, reflecting nominal GDP's expansion, and it has remained overwhelmingly domestically held, at long-term maturities and negative real interest rates.

Monetary policy remained accommodative and broad money increased rapidly in 2022. However, private sector credit growth remained subdued, with new credit having been channeled mostly to Government securities as part of a large state-owned enterprise debt buyback program. Despite moderating in Q4, inflation reached 9.3 percent in 2022, fueled by food inflation, hurting vulnerable Algerians disproportionately, as food accounts for over half of the spending for the bottom 40 percent of the population.

Outlook

GDP growth is expected to moderate in 2023, as hydrocarbon production stabilizes and nonhydrocarbon GDP slows down, amidst tapering agricultural and services growth. Investment is expected to rebound in 2023 while net exports are predicted to act as a drag on growth. In 2024 and 2025, the economy is expected to return to its pre-pandemic trajectory, with a moderate decline in hydrocarbon output and slower growth in nonhydrocarbon sectors.

In 2023, the current account balance is expected to post a moderate surplus, as the sharp decline in hydrocarbon and nonhydrocarbon export prices is partly cushioned by lower commodity import prices and continued import reduction. The overall budget deficit is expected to come close to balance in 2022 but expand in 2023, as further increases in public spending and declining hydrocarbon revenues outweigh expanding tax receipts, buoyed by economic activity and inflation. Despite diminishing hydrocarbon revenues in 2024 and 2025, sustained import control policies and a slowdown in public spending would counterbalance the deterioration in the current account and budget deficits, respectively. Inflation is expected to decline gradually, fueled by rising money supply and public spending but dampened by the dinar's recent appreciation against the Euro, the expected dwindling in import prices, and the strengthening of food subsidy mechanisms.

The trajectory in external and budget balances remains dependent on volatile global oil prices, while a global slowdown could affect OPEC production quotas. Meanwhile, financing large budget deficits through the domestic banking sector and maintaining import reduction policies could increasingly weigh on growth and inflation. Europe's efforts to diversify its energy supply could support hydrocarbon sector investment in Algeria and medium-term growth. At the same time, fostering sustainable and diversified growth – and ultimately job creation – will hinge on ambitious and decisive structural reforms for broader private sector participation in the economy.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-5.1	3.4	3.1	2.0	2.0	1.8
Private Consumption	-3.0	3.7	2.8	2.4	2.2	2.0
Government Consumption	-0.1	1.2	2.1	2.0	2.0	1.9
Gross Fixed Capital Investment	-5.2	5.8	1.4	3.7	3.3	3.1
Exports, Goods and Services	-11.3	13.4	0.0	-2.9	-2.3	-2.5
Imports, Goods and Services	-16.0	-4.1	-3.3	1.8	1.5	1.3
Real GDP growth, at constant factor prices	-4.5	4.0	3.1	2.0	2.0	1.8
Agriculture	1.7	-1.9	4.0	1.9	1.9	1.7
Industry	-6.8	7.7	1.7	0.8	0.9	0.8
Services	-4.3	2.7	4.1	3.0	3.0	2.8
Inflation (Consumer Price Index)	2.4	7.2	9.3	7.8	6.9	6.1
Current Account Balance (% of GDP)	-12.8	-2.9	5.9	1.2	-0.5	-1.8
Fiscal Balance (% of GDP)	-11.9	-7.2	-0.9	-5.2	-6.3	-6.9
Revenues (% of GDP)	30.5	29.8	32.5	29.5	27.3	25.8
Debt (% of GDP)	51.8	62.9	51.8	54.2	56.1	59.3
Primary Balance (% of GDP)	-11.0	-6.5	0.4	-4.0	-5.1	-5.6
GHG emissions growth (mtCO2e)	-2.7	-0.9	4.4	3.1	2.5	2.6
Energy related GHG emissions (% of total)	49.8	49.1	50.4	51.1	51.5	52.0

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

BAHRAIN

Table 1	2022
Population, million	1.5
GDP, current US$ billion	44.2
GDP per capita, current US$	30029.8
School enrollment, primary (% gross)[a]	98.0
Life expectancy at birth, years[a]	79.2
Total GHG emissions (mtCO2e)	54.2

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

Economic growth is accelerating driven by both a continued robust non-hydrocarbon activity and hydrocarbon production expansion. Higher oil prices and renewed fiscal reforms momentum are improving fiscal and external balances considerably. Steadfast implementation of comprehensive fiscal and structural reforms under the FBP will reduce debt vulnerabilities and rebuild fiscal buffers. Potential emergence of new COVID-19 variants, volatility of hydrocarbon prices and weaker global demand, potential delays in the implementation of fiscal reforms, and rising global inflation and interest rate pose significant risks to Bahrain's economic outlook.

Key conditions and challenges

Bahrain's economy is the most diversified in the GCC region with strengths in heavy industry (including the world's largest aluminum smelter), financial services, manufacturing, retail business, and tourism. As such, the non-oil sector dominated, at over 85 percent of GDP (2021). Renewed fiscal reform momentum under the revised Fiscal Balance Program (FBP) announced in October 2021 and high hydrocarbon prices are mitigating Bahrain's fiscal and external vulnerabilities. In January 2023, Bahrain's government endorsed a new four-year program 2023-26, which prioritizes several objectives that aim to raise the standard of living, improve infrastructure and quality of government services, and attain digital transformation, among others.

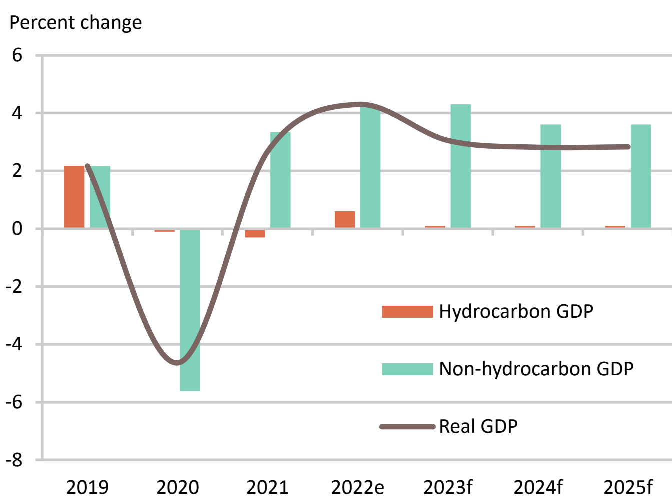
However, challenges remain. Notwithstanding progress on diversification, Bahrain continues to face structural challenges, most notably those relating to fiscal sustainability, the level of youth unemployment, and the depletion of underground water resources. Meanwhile, the hydrocarbon sector remains a critical driver of the economy accounting for almost 60 percent of total budget revenues (2021), thereby making the economy extremely vulnerable to external shocks. Lower energy and commodities prices could renew financing challenges. Downside risks to the outlook are mostly linked to a breakout of new COVID-19 variants, lower hydrocarbon prices, and potential delays in implementing fiscal reforms, which could reverse the recent improvements in the fiscal and external positions, reduce investor confidence, and lead to higher external financing costs. On the upside, adherence to the medium-term fiscal adjustment and reducing the fiscal risks from off-budget expenditures will help build external buffers, contain external borrowing, and put debt on a firm downward path.

Advancing structural reforms including those related to investing in renewable energy and supporting the transition towards a low-carbon economy would ensure a private sector-led inclusive recovery and increase employment opportunities, particularly among women and youth.

Recent developments

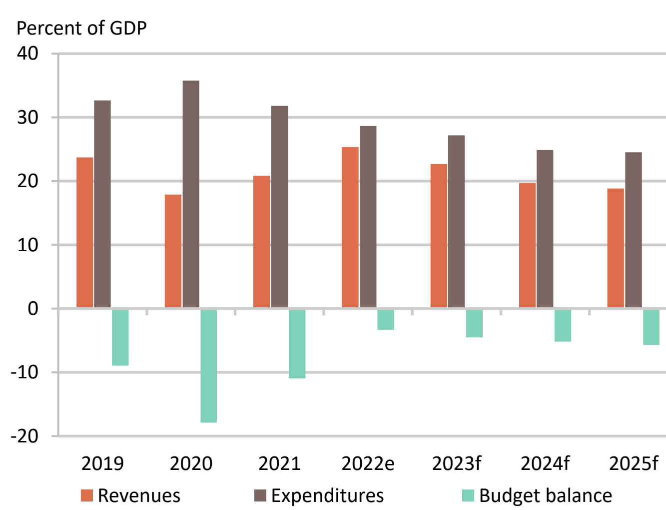
Bahrain's economy continues to show broad-based recovery. Real GDP is estimated to have edged up to 4.3 percent in 2022. This was mainly driven by the non-hydrocarbon sector which grew by almost 5 percent in Q3 2022 y/y as well as 1.2 percent growth in the hydrocarbon sector. The recovery was underpinned by strong performance of the high-contact sectors, of which hotels and restaurants achieved the highest growth rate amongst non-oil sectors (14.7 percent). This was also aided by strong manufacturing sector which expanded by 5 percent with record aluminum output. CPI inflation increased

FIGURE 1 Bahrain / Real annual GDP growth



Sources: Bahrain authorities, World Bank, and IMF projections.

FIGURE 2 Bahrain / General government operations



Sources: Bahrain authorities and World Bank projections.

by 3.6 percent y/y in 2022 driven by stronger aggregate demand, pass through from higher global inflation, and doubling of the VAT rate to 10 percent.

Preliminary fiscal data released for 2022 indicate that the government's total revenues increased by 33 percent y/y supported by higher oil receipts (36 percent) and the rebound of non-oil revenue (28 percent); driven mainly by the doubling of the VAT rate. As a result, and considering prudent management of recurrent spending, the overall fiscal deficit (including extrabudgetary spending) is estimated to significantly decline, to 3.3 percent of GDP, by the end-2022 which, in turn, improves debt dynamics.

Despite the rebound in imports, higher hydrocarbon, and non-hydrocarbon prices and exports strengthened the external balance position remarkably, posting a surplus of US$1.6 billion during Q3 2022, and an estimated surplus in excess of 12 percent of GDP for the whole year. As a result, official reserve assets reached a record high of over US$8 billion (4 months of imports) by end-2022.

In the second year of the National Labor Market Plan (NLMP) 2021-2023, the Ministry of Labor continued to pursue goals of private sector job creation and support for employees and job seekers. The Ministry has also continued efforts to ensure compliance with labor legislation and increase occupational safety, and awareness-raising workshops. About 29,995 Bahrainis found employment in the private sector in 2022, reaching almost 150 percent of the NLMP employment goal for that year.

According to ILO estimates, Bahrain's labor market is continuing to recover from the impact of the COVID-19 pandemic but has not yet rebounded fully. The labor force participation rate and employment-to-population ratio are projected to reach 71.9 percent and 70.8 percent respectively in 2023, each still a little below its level in 2019. The unemployment rate is expected to hold steady at around 1.4 percent in 2023, 0.2 percentage points above the 2019 rate. The gradual decline in the unemployment rate since the height of the pandemic has been slower among women than among men, with the unemployment rate among women expected to increase slightly again in 2023. The unemployment rate for youth (15-24 age) is estimated at 6.7 percent in 2023, up from 6.6 percent in 2022 (ILO).

Outlook

Bahrain's economic outlook hangs on oil market prospects and accelerated implementation of structural reforms agenda under the revised FBP. Growth is projected to moderate around 3.1 percent in 2023 before averaging 2.8 percent during 2024-25 as fiscal adjustments continue. Growth in the hydrocarbon sector is expected to slow down to 0.1 percent in 2023 while the non-hydrocarbon sectors will continue expanding (by 4.3 percent) supported by the recovery in the tourism and service sectors and the continuation of infrastructure projects. Inflation is anticipated to hover around 2.8 percent in 2023 to reflect softening global commodity prices, tighter monetary conditions, and the dissipating impact of doubling the VAT rate.

Declining oil prices, rising global interest rates, and higher cost burden of debt are projected to widen the fiscal balance deficit to 4.5 and 5.2 percent of GDP in 2023 and 2024, respectively. This will in turn keep the debt and financing needs elevated in the absence of sufficient fiscal adjustment.

High hydrocarbon prices are estimated to support maintaining the current accounts in surplus throughout 2023-24, albeit moderating in 2025, as oil prices follow a projected decline. The comfortable external position will boost foreign reserves and strengthens resilience against future external shocks.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-4.6	2.7	4.3	3.1	2.8	2.8
Private Consumption	-4.4	18.9	4.4	2.4	1.8	1.8
Government Consumption	-2.5	6.5	2.4	3.4	3.0	2.6
Gross Fixed Capital Investment	-3.8	-4.2	5.3	5.5	2.8	3.2
Exports, Goods and Services	-2.5	29.5	7.3	5.1	3.4	3.2
Imports, Goods and Services	-0.7	15.2	6.0	4.4	3.8	4.0
Real GDP growth, at constant factor prices	-4.6	2.7	4.3	3.1	2.8	2.8
Agriculture	0.1	7.2	1.2	3.5	3.0	1.8
Industry	-0.9	0.5	0.6	3.5	4.0	2.3
Services	-7.2	4.3	7.2	2.8	2.0	3.2
Inflation (Consumer Price Index)	-2.3	-0.6	3.6	2.8	2.4	2.0
Current Account Balance (% of GDP)	-9.4	6.7	12.5	8.0	5.4	3.5
Net Foreign Direct Investment Inflow (% of GDP)	-3.5	-4.4	-4.0	-4.0	-4.0	-3.9
Fiscal Balance (% of GDP)	-17.9	-11.0	-3.3	-4.5	-5.2	-5.7
Revenues (% of GDP)	17.9	20.8	25.3	22.7	19.7	18.8
Primary Balance (% of GDP)	-12.8	-6.3	1.2	-0.2	-0.5	-0.6
GHG emissions growth (mtCO2e)	3.4	-4.5	0.9	6.2	3.9	2.9
Energy related GHG emissions (% of total)	61.1	58.6	58.4	60.0	60.6	60.7

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

DJIBOUTI

Table 1	2022
Population, million	1.0
GDP, current US$ billion	3.5
GDP per capita, current US$	3470.0
International poverty rate ($2.15)[a]	19.1
Lower middle-income poverty rate ($3.65)[a]	43.8
National poverty rate[a]	21.1
Gini index[a]	41.6
School enrollment, primary (% gross)[b]	73.2
Life expectancy at birth, years[b]	62.7
Total GHG emissions (mtCO2e)	1.4

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

Economic activity in Djibouti remains resilient while soaring global prices associated with Russia's invasion of Ukraine, combined with regional tensions and severe drought in the Horn of Africa, translate into more conservative growth estimates for 2022 at 3 percent. The outlook remains positive thanks to the lasting peace prospect in Ethiopia. Poverty, projected to stand at 15.6 percent in 2023 (at the international poverty line), is expected to follow a downward trend, reflecting sustained economic expansion.

Key conditions and challenges

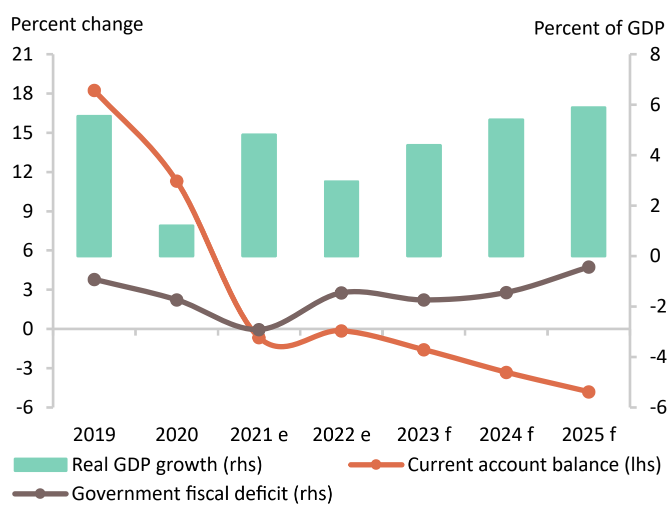
Djibouti's ambition to leverage its geostrategic location to turn a small and resource-constrained economy into a fast-growing transport and logistics regional hub faces a number of challenges. Continued commitment by country authorities to fiscal prudence will be critical. This will include monitoring and rationalizing tax expenditure, as well as avoiding large fiscal gaps that would result in further accumulation of public debt. Shocks in the global transport and logistics value chains, especially those related to port-related public enterprises, also represent a source of risk. Climatic changes, including drought and floods, also pose an increasing threat to households and businesses, which may be disproportionally felt in poorer regions of the country. Poverty rates, which stood at 19 percent in 2017 at the international poverty line, are estimated to have decreased at a slower rate in recent years to around 15.6 percent in 2023, reflecting the COVID-19 effects as well as the economic and social impact of regional instability and accelerating commodity prices up to 2022.

Recent developments

After recovering in 2021, Djibouti's economic activity decelerated in 2022, due to logistical tensions associated with Russia's invasion of Ukraine, subdued Ethiopian demand, and worsening drought in the Horn of Africa – which also contributed to a sharp uptick in food and energy prices. Real GDP growth is estimated to have fallen to 3 percent from 4.8 percent in 2021. Year-on-year inflation reached 6.1 percent, mainly due to higher world commodity prices and to disruptions in the Ethiopian food supply chain.

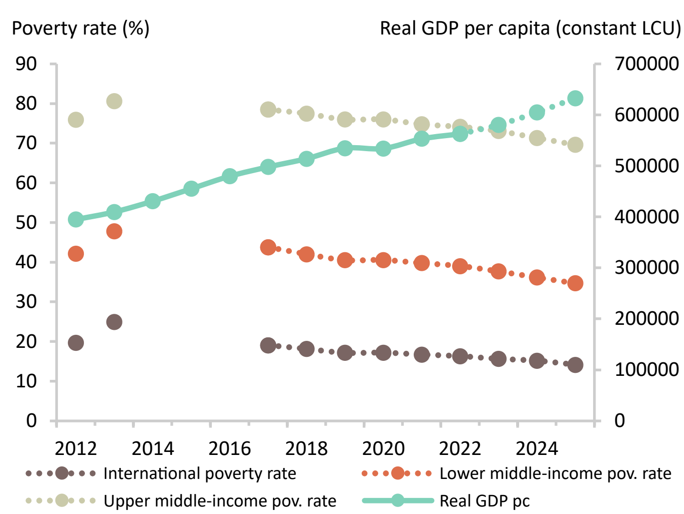
On the fiscal side, the budget has been under pressure because of rising food and energy subsidies and other fiscal measures to mitigate negative effects of the war in Ukraine, worsening drought, and the sharp increase in debt service in 2022. Domestic revenue fell by 1.6 percent of GDP to about 18.5 percent of GDP in 2022. Also, the loss of revenues associated with the tax incentives on refined oil products was estimated at 1.1 percent of GDP in December 2022. The government responded with fiscal tightening, including eliminating exceptional expenditure linked to the COVID 19 crisis and freezing most expenditure items. These measures partially compensated for the decline in revenue, containing the budget deficit (commitment basis) at 1.5 percent of GDP. At the same time, public debt service has tripled to around 4 percent of GDP in 2022, to which the government responded with external arrears accumulation. As a result, Djibouti's stock of public debt external arrears is estimated to have exceeded 3 percent of GDP in 2022. Arrears were mainly accumulated

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



Sources: Government of Djibouti and World Bank staff projections.

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



Source: World Bank. Notes: see Table 2.

on the railway and water pipeline loans financed by China, and on the cement factory loan financed by India.

The external accounts performed well during 2022, as the current account balance is estimated to have closed the year with a slight deficit of 0.1 percent of GDP, and the foreign reserve coverage ratio of the money supply under the currency board remained comfortable at 106 percent, while gross official reserves reached 3.9 months of imports. The banking sector remains stable, despite some deterioration of the liquid assets-to-total assets ratio (from 63.7 percent in December 2020 to 50.2 percent in June 2022, which could limit the banking sector's ability to face future shocks). Nonperforming loans as a share of total gross loans declined from 13.3 percent in 2020 to 7 percent at the end of June 2022.

Outlook

Djibouti's economy is projected to accelerate gradually over the medium term. The Ethiopian demand for transport and logistics services is expected to take up steam following the peace agreement signed in November 2022 between the Tigrayan People's Liberation Front and the Ethiopian Federal government. Locally, the development of the Damerjog Industrial Park Project and infrastructure programs to be undertaken as part of the implementation of the National Development Plan (NDP) would push Gross Fixed Capital Investment upward. Decelerating energy and food price inflation in 2023 should provide a lift to households' real income and boost private consumption. GDP growth is, therefore, projected to accelerate to 4.4 percent in 2023 then to 5.4 percent in 2024, and to 5.9 percent in 2025. Critical fiscal consolidation measures, including the reprioritization of central government investment spending, the freeze on new civil service recruitment, and improvements in fiscal management and tax administration and collection, should help gradually reduce the budget deficit, which is expected to drop to 0.4 percent of GDP by 2025. It is projected that 15.6 percent of the population would continue living under the international poverty line in 2023 and that this rate would decrease to 15.2 percent and 14.2 percent respectively in 2024 and 2025. While poverty rates are expected to continue moving on a downward trend, they are susceptible to shocks related to fiscal constraints, weaker growth, climate change, and uncertainty surrounding global food prices.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	1.2	4.8	3.0	4.4	5.4	5.9
Private Consumption	10.2	7.0	0.9	2.0	3.2	3.5
Government Consumption	1.6	-7.0	-10.6	3.4	2.8	1.0
Gross Fixed Capital Investment	1.0	3.5	3.5	8.8	7.6	6.8
Exports, Goods and Services	-29.7	3.0	9.4	5.4	5.0	5.5
Imports, Goods and Services	-29.5	3.0	7.0	6.0	5.0	4.8
Real GDP growth, at constant factor prices	2.0	4.8	3.0	4.4	5.4	5.9
Agriculture	11.5	11.4	1.2	3.2	4.8	5.4
Industry	-4.4	9.9	1.8	6.1	6.2	6.3
Services	3.1	3.7	3.3	4.1	5.3	5.8
Inflation (Consumer Price Index)	1.0	1.5	5.1	3.3	0.8	0.4
Current Account Balance (% of GDP)	11.3	-0.7	-0.1	-1.6	-3.3	-4.8
Fiscal Balance (% of GDP)	-1.7	-2.9	-1.5	-1.7	-1.4	-0.4
Revenues (% of GDP)	23.5	20.1	18.5	18.7	18.6	18.6
Debt (% of GDP)	75.9	74.1	71.8	72.3	73.7	73.7
Primary Balance (% of GDP)	-1.6	-2.8	-0.6	-0.8	-0.6	-0.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	17.2	16.7	16.3	15.6	15.2	14.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	40.6	39.8	39.0	37.7	36.2	34.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	76.0	74.8	74.1	73.1	71.3	69.6
GHG emissions growth (mtCO2e)	-0.1	0.9	0.7	0.8	0.8	0.6
Energy related GHG emissions (% of total)	25.3	25.4	25.5	25.7	25.9	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.
a/ Calculations based on 2017-EDAM. Actual data: 2017. Nowcast: 2018-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2017) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

ARAB REPUBLIC OF EGYPT

Table 1	2022
Population, million	103.4
GDP, current US$ billion	476.7
GDP per capita, current US$	4610.7
Lower middle-income poverty rate ($3.65)[a]	17.6
National poverty rate[a]	29.7
Gini index[a]	31.9
School enrollment, primary (% gross)[b]	106.4
Life expectancy at birth, years[b]	71.0
Total GHG emissions (mtCO2e)	361.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2020).

Inflation is eroding incomes and constraining business activity. Growth is expected to decline to 4.0 percent in FY23 from 6.6 percent in FY22. Improvements in reserves reflect increases in tourism, Suez Canal revenues, and foreign financing. Yet, hard currency shortages persist. Reforms to boost investment, exports and FDI remain crucial for competitiveness. Further, fiscal consolidation to reduce vulnerabilities and create space for social protection and advanced human development is key for better socio-economic outcomes.

Key conditions and challenges

One year through Russia's invasion of Ukraine and tightening global financial conditions, Egypt continues to face a foreign currency crunch, a spike in domestic prices, and a sharp rise in borrowing costs. While triggered by the overlapping global shocks, Egypt's macroeconomic imbalances reflect pre-existing vulnerabilities, including the sluggish foreign income-earning activities (non-oil exports and FDI) and risks associated with government debt.

A significant share of the Egyptian population is poor (29.7 percent in 2019/20, the latest official estimates). The pandemic, followed by high inflation in 2022 and 2023, are expected to have increased poverty rates further. Meanwhile, recent labor market trends are not conducive to poverty reduction. Employment and labor force participation rates continue to be low at 39.5 percent and 42.7 percent of the working-age population, respectively as of Q1-FY23, with bigger challenges for youth and women in the labor force. Moreover, the fiscal space needed to advance human and physical capital for the (largely youthful) population of above 104 million remains constrained by below-potential revenue mobilization (with tax revenues at 12.6 percent of GDP in FY22), more than half of which is directed to covering budgetary interest payments

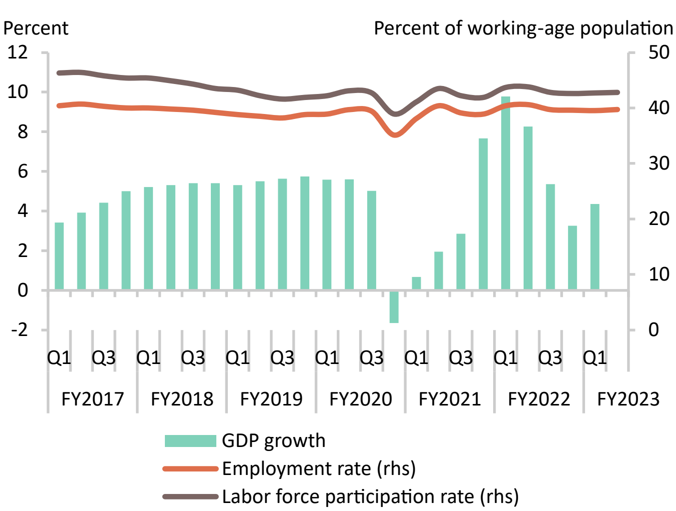
In response to the concurrent shocks, the authorities undertook a series of policy adjustments. These include raising key policy rates by 800 basis points, allowing the exchange rate to depreciate by more than 95 percent since March 2022, and introducing social mitigation measures (including increases to pensions, food subsidies and expansion in the coverage and allocations of the Takaful and Karama programs) to partially shield the vulnerable. The 46-month IMF Extended Fund Facility is expected to support the gradual restoration of macroeconomic stability and to underpin structural reforms, including those outlined in the State Ownership Policy to enhance competitive neutrality for improved private sector participation.

Recent developments

Following the rebound in early FY22, economic activity has been adversely impacted by the overlapping global shocks and domestic supply bottlenecks. While remaining broad-based, with positive contributions from all sectors (except gas extractives), Egypt's real GDP growth declined to 4.2 percent during H1-FY23, from 9.1 percent during the same period last year.

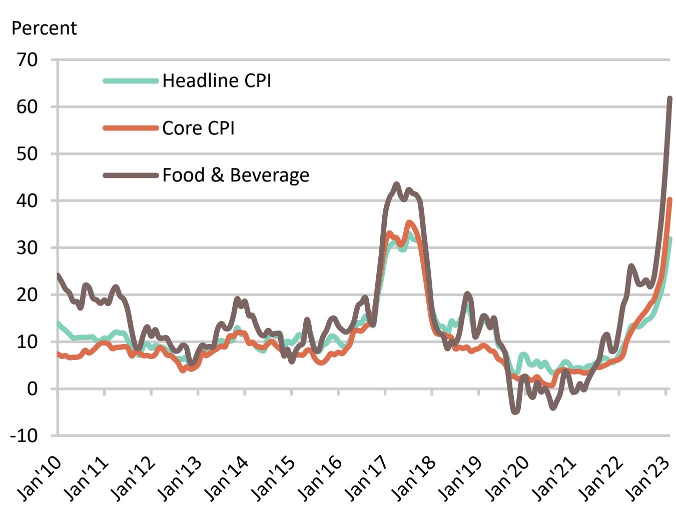
Urban inflation (in double-digits since March 2022) shot up to a 5-year high of 31.9 percent in February 2023; and core inflation jumped to 40.3 percent, exceeding the peak reached during the 2017 inflation episode. Food items (61.8 percent inflation) constitute more than 44 percent

FIGURE 1 Arab Republic of Egypt / Real GDP growth, employment and labor force participation rates



Source: World Bank estimates based on CAPMAS and Ministry of Planning and Economic Development.

FIGURE 2 Arab Republic of Egypt / Inflation rates



Source: CBE.

of the expenditures for the bottom quintile and remain the main driver of inflation. While cost-push factors have been contributing to the inflationary wave, domestic liquidity conditions continue to be loose, with credit extended to the government's continuing to be the key driver of domestic credit growth.

Official reserves (Tier 1 reserves) and other foreign currency assets (Tier 2 reserves) increased gradually over recent months, jointly reaching US$40.2 billion at end-February 2023. These, however, remain around US$14 billion (26 percent) below their level a year earlier. While Balance of Payments outturns indicate that improvements in the services balance (tourism and the Suez Canal), along with FDI (from sales of assets to non-residents) have supported the recent uptick in reserves, hard currency supply remains a key challenge. This is evidenced by the banking system's net foreign assets position [-LE654.43 billion (US$21.7 billion) at end-January 2023] which has been deteriorating even prior to the escalation of the war in Ukraine, as the banking system has been liquidating foreign assets amidst the crunch. The CBE is gradually dismantling restrictions on imports (e.g., letter of credit requirement), but other restrictions remain, and lingering import backlogs at ports are yet to be cleared.

Outlook

Growth is expected to decline to 4.0 percent in FY23 from 6.6 percent a year earlier, as households' purchasing power and firms' activity are constrained by higher costs because of the depreciation, imported inflation, upward adjustments in fuel prices, and monetary tightening. Going forward, growth is projected to increase to 4.7 percent in FY25, benefitting from favorable base effects, and the narrowing net exports deficit.

The current account deficit is forecast to decline from 3.5 percent of GDP in FY22, albeit marginally, as improvements in tourism, Suez Canal, and export proceeds are expected to be counterbalanced by the still-elevated imports costs, downtick in remittances, and as import backlogs/suppliers' credits are paid down. The capital and financial account is expected to remain under pressure, with some mitigation arising from international financing and asset sales to non-residents. The US$1.5 billion Sukuk issued provided some relief for external debt repayment during FY23, although its high interest burden may discourage further issuances before international financial conditions improve.

The budget deficit is projected to also widen, to 7 percent of GDP in FY23, from 6.2 percent a year earlier, as government purchases, subsidies, and interest payments are driven up by higher prices, mitigation measures, and monetary tightening. Fiscal pressures and the valuation effect from the depreciation will drive the debt-to-GDP to a projected 95.8 percent by end-FY23 from 88.3 percent a year earlier. Similar to other emerging markets, Egypt's outlook depends in large part on the containment of the repercussions of the war in Ukraine and developments in international financial markets. Risks stem from the inflation-depreciation dynamics and their implications for households' welfare on the one hand and for the fiscal/debt trajectory on the other hand. Over the medium term, more ambitious fiscal consolidation (through enhanced revenue mobilization and contained budgetary and extra-budgetary expenditures) would strengthen macroeconomic resilience, help narrow the large risk premia (as captured by sovereign spreads) and create fiscal space for advancing human development.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	3.6	3.3	6.6	4.0	4.0	4.7
Private Consumption	7.4	6.2	2.8	2.7	4.0	4.0
Government Consumption	7.9	3.4	4.9	1.7	5.3	3.6
Gross Fixed Capital Investment	-21.1	-3.2	18.5	7.1	3.3	10.2
Exports, Goods and Services	-23.7	-13.9	57.4	35.0	8.0	5.0
Imports, Goods and Services	-18.7	0.5	24.3	22.0	7.0	5.0
Real GDP growth, at constant factor prices	2.5	2.0	6.2	4.0	4.0	4.6
Agriculture	3.4	3.8	4.0	4.5	3.5	3.3
Industry	0.4	-1.0	6.6	2.4	5.1	6.3
Services	3.7	3.5	6.4	4.8	3.4	3.8
Inflation (Consumer Price Index)	5.7	4.5	8.5	18.9	15.0	10.0
Current Account Balance (% of GDP)	-2.9	-4.3	-3.5	-3.4	-3.0	-2.9
Net Foreign Direct Investment Inflow (% of GDP)	1.9	1.1	1.8	2.5	2.5	2.2
Fiscal Balance (% of GDP)	-7.5	-7.1	-6.2	-7.0	-6.9	-6.4
Revenues (% of GDP)	15.9	16.6	16.9	16.6	16.8	16.8
Debt (% of GDP)	82.8	87.9	88.3	95.8	95.2	89.6
Primary Balance (% of GDP)	1.7	1.4	1.3	1.6	1.9	2.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.7	1.7	1.7	2.4	2.4	2.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	20.0	19.9	19.6	24.2	24.0	23.8
GHG emissions growth (mtCO2e)	1.3	-0.6	1.9	1.8	1.6	1.9
Energy related GHG emissions (% of total)	64.6	64.3	64.3	64.2	64.2	65.5

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 2019-HIECS. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Poverty estimates for FY2020 and FY2023 are based on microsimulations.

IRAN, ISLAMIC REPUBLIC

Table 1	2022
Population, million	84.7
GDP, current US$ billion	407.4
GDP per capita, current US$	4809.4
Upper middle-income poverty rate ($6.85)[a]	27.6
Gini index[a]	42.0
School enrollment, primary (% gross)[b]	109.7
Life expectancy at birth, years[b]	74.8
Total GHG emissions (mtCO2e)	912.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2020).

A combination of improving hydrocarbon sector outturns and growth in the non-oil sectors drives economic expansion in Iran. Water and electricity shortages, insufficient job creation, and high inflation pose chronic structural challenges that, together with socio-political grievances, have contributed to recent country-wide protests. Weaker global demand and ongoing economic sanctions present major headwinds to the outlook.

Key conditions and challenges

The Iranian economy is set to grow for a third consecutive year in 2022/23 (Iranian year starting on March 21), albeit at a slower pace than in 2021/22. However, structural challenges, including sluggish long-term growth, high inflation, and low employment, have added to other grievances which contributed to recent protests. Despite some diversification in the economy, Iran remains vulnerable to the volatility of oil markets, as the government's financial and external accounts continue to be heavily skewed on commodity exports and hydrocarbon derivatives.

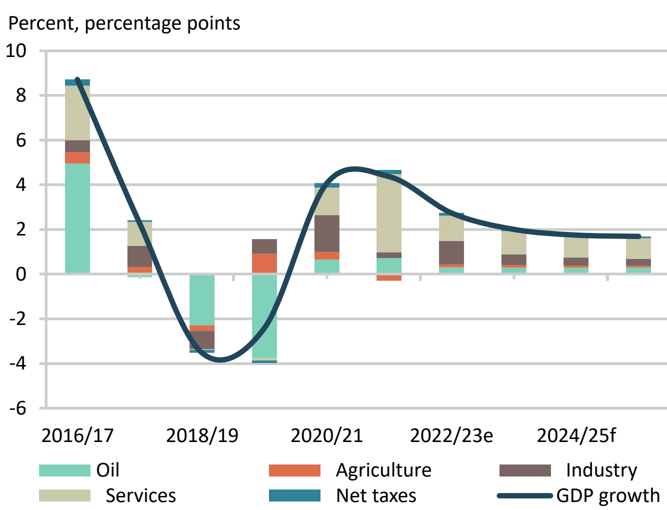
High inflation and inadequate job creation disproportionately impact lower-income households. Although external shocks, including sanctions, pushed average annual inflation to 40 percent in 2019-2023, inflation already hovered above 20 percent in the past four decades, which highlights structural challenges from persistent budget deficits and imbalances in the banking system. Such unabating inflationary pressure not only affected the level of domestic prices but also caused an erosion in the real value of social assistance transfers, thus making poorer households pay the heaviest toll. At the same time, just over a third of the population is employed due to anemic job creation. Even with a highly educated female population, only one out of ten Iranian women is employed. Iran's labor market challenges have been compounded by the increasing emigration of the highly educated workforce. Low employment and the resulting low pension contributions add to financial sustainability risks for the pension system in the longer term.

Urgent reforms are needed to confront pressing structural economic challenges on the monetary and fiscal fronts. Monetary policy should focus on restoring price and financial system stability and moving away from administrated lending and pricing. Counter-cyclical fiscal policy would help control budget deficits and promote investment in productive sectors, renewable energy, and economic diversification, while also freeing up much-needed resources to protect the most vulnerable through well-defined and targeted transfers.

Recent developments

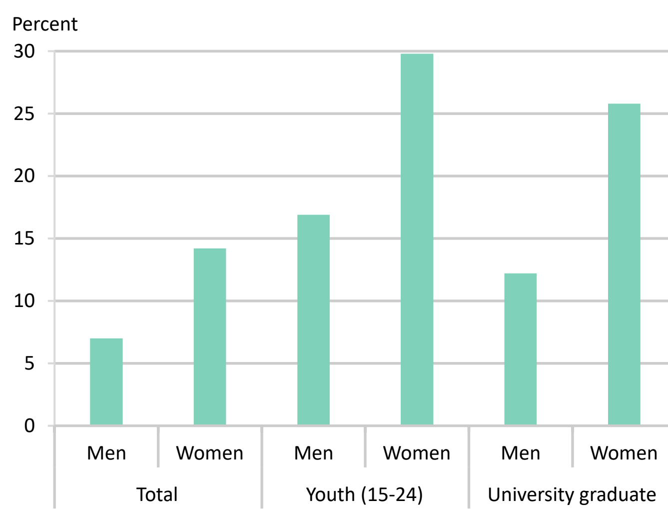
GDP grew by 3.5 percent year-on-year (y-o-y) in the first nine months of 2022/23 (9M-22/23), driven by services and manufacturing. The oil sector also grew by 9.3 percent (y-o-y), aided by favorable supply-and-demand adjustments in global oil markets. On the expenditure side, private consumption was the main driver of GDP growth, while investment growth was insufficient to fully compensate for the decline in the net capital stock in recent years. This economic expansion – coupled with some decline in labor force participation (still 3.3. percentage points

FIGURE 1 Islamic Republic of Iran / Real GDP growth and supply-side contributions to real GDP growth



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

FIGURE 2 Islamic Republic of Iran / Unemployment rates, Q3-22/23



Sources: Statistical Center of Iran and World Bank staff calculations.

below pre-pandemic levels) – contributed to achieving a record low unemployment rate of 8.2 percent. Unemployment remains especially high among women, youth, and university graduates.

The fiscal balance remained negative in 2022/23, constrained by the under-realization of oil income. In response, the government cut capital expenditures to cover rising current expenditures, particularly on the front of the rising wage bill, pension expenditures, and transfers.

Inflation accelerated following new food import policies and the depreciation of the rial, in the context of rising inflationary expectations. In 10M-22/23, headline and core consumer price inflation rose to 43.6 percent and 42.5 percent, respectively. Food prices contributed to half of the total price index increase, driven by the elimination of the subsidized exchange rate for imports of most food items.Inflationary expectations following the stalemate in the nuclear talk led the rial to depreciate by over 56 percent (y-o-y) in the same period, fueling inflation further.

The surge in oil prices led the current account to register a surplus in H1-22/23. Exports grew by 40 percent (y-o-y) in nominal terms, thanks to both higher oil prices and export volumes, while imports grew by 21 percent (y-o-y) primarily supported by the reversal of previous import restrictions. This led to a current account surplus of US$13.4 billion (3.5 percent of GDP equivalent), which was however largely offset by a net capital account deficit of US$12.8 billion, reflecting a recent upward trend in capital outflows.

Outlook

GDP growth is projected to remain modest in the medium term. Declining oil prices, the intensification of US sanctions, and global economic uncertainty weigh down on oil growth in the medium term. Recent social tensions, industrial sector strikes, energy shortages, and internet disruptions are expected to negatively impact growth in 2022/23 and may have long-lasting effects on economic activity. Water shortages are expected to adversely impact both agricultural production and add to energy shortages, especially if critical investments and price reforms in the energy sector do not materialize.

Fiscal and external pressures are forecast to remain high. Expenditures in the 2023/24 budget bill are expected to grow more than revenues, resulting in a growing fiscal deficit. The government plans to rely on sales of assets, which however could only partially finance the gap. On the external side, the current account will be adversely impacted by lower exports due to declining oil prices. Restricted access to international reserves due to ongoing sanctions will continue to exert pressure on the exchange rate. These pressures along with inflationary expectations are projected to keep inflation elevated in the medium term. High inflation and limited job creation will negatively impact household welfare and could add to social grievances.

The economic outlook is subject to high risks. Downside risks include further intensification of climate change shocks leading to protracted disruptions to domestic production due to water and energy shortages, escalation of social tensions due to an inflation-depreciation spiral, in addition to heightened geopolitical tensions. An escalation of sanctions or restrictions would further disrupt trade and financial transactions with main trading partners, including China, Iraq, and UAE. A significant breakthrough or interim agreement in nuclear negotiations can lead to marked changes in the economic outlook.

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

	2020/21	2021/22	2022/23e	2023/24f	2024/25f	2025/26f
Real GDP growth, at constant market prices	3.3	4.7	2.7	2.0	1.8	1.7
Private Consumption	0.5	3.9	3.7	1.8	1.5	1.4
Government Consumption	-0.9	8.3	0.5	2.4	2.5	2.7
Gross Fixed Capital Investment	3.2	0.0	3.9	2.6	2.3	2.2
Exports, Goods and Services	-12.8	5.2	7.3	4.7	3.6	3.3
Imports, Goods and Services	-29.7	24.1	9.2	3.7	3.3	3.1
Real GDP growth, at constant factor prices	4.1	4.4	2.7	2.0	1.8	1.7
Agriculture	3.2	-2.6	1.4	1.2	1.0	1.0
Industry	7.8	3.2	4.4	2.5	2.0	1.9
Services	2.2	6.5	2.1	1.9	1.7	1.7
Inflation (Consumer Price Index)	47.1	46.2	46.1	49.1	44.3	40.4
Current Account Balance (% of GDP)	-0.3	3.5	3.8	3.1	2.3	2.0
Fiscal Balance (% of GDP)	-5.8	-2.0	-2.3	-2.5	-2.9	-3.2
Revenues (% of GDP)	7.3	11.1	11.4	10.8	10.3	10.0
Gross Public Debt (% of GDP)	39.2	42.4	38.0	38.5	39.0	40.0
Primary Balance (% of GDP)	-5.3	-1.6	-1.9	-2.1	-2.5	-2.8
GHG emissions growth (mtCO2e)	-2.4	2.4	2.1	1.6	1.5	1.5
Energy related GHG emissions (% of total)	66.2	66.6	66.2	65.8	65.3	64.8

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

REPUBLIC OF IRAQ

Table 1	2022
Population, million	42.2
GDP, current US$ billion	247.0
GDP per capita, current US$	5858.5
Lower middle-income poverty rate ($3.65)[a]	2.4
Upper middle-income poverty rate ($6.85)[a]	24.7
National poverty rate[a]	22.5
Gini index[a]	29.5
School enrollment, primary (% gross)[b]	108.7
Life expectancy at birth, years[b]	69.1
Total GHG emissions (mtCO2e)	259.1

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

An oil-driven recovery in 2022 drove GDP to pre-pandemic levels and led to significant fiscal and current account surpluses. The recent exchange rate volatility has led to an uptick in inflation, piling pressure on poor and vulnerable households and young people who are already facing limited job opportunities. Growth is forecast to moderate in the medium term in line with weaker global demand and limited non-oil potential GDP.

Key conditions and challenges

Iraq's economy is continuing its recovery after the sharp, pandemic-induced recession in 2020. The rebound has been driven primarily by the capital-intensive oil sector, resulting in limited positive spillover on the labor market. On the other hand, non-oil growth is expected to remain moderate due to inefficient public investment, limited absorptive capacity of the economy, and an unfavorable business environment for the private sector.

In the context of institutional weakness, the drive for fiscal reforms to address budget rigidities and to mobilize non-oil revenues has slowed. After a yearlong political stalemate following parliamentary elections in 2021, the new government unveiled its economic and social plan in October 2022, prioritizing social protection, fighting corruption, and improving service delivery. Institutional challenges became more apparent when, in 2022, the budget was not approved, and full ratification of the budget for 2023 has experienced delays. The draft budget signals a significant expansionary fiscal stance that could lead to rapid depletion of recent oil windfall and renewed fiscal pressures.

The economy faces multiple, intertwined structural challenges. Pre-existing drivers of fragility, including high oil dependence, low labor force participation, especially females, high private sector informality, the lack of job opportunities, financial sector imbalances, poor service delivery, and security risks remain key challenges. External shocks including those related to the impact of climate change, slowing global growth, and heightened geopolitical tensions add to the downward risks.

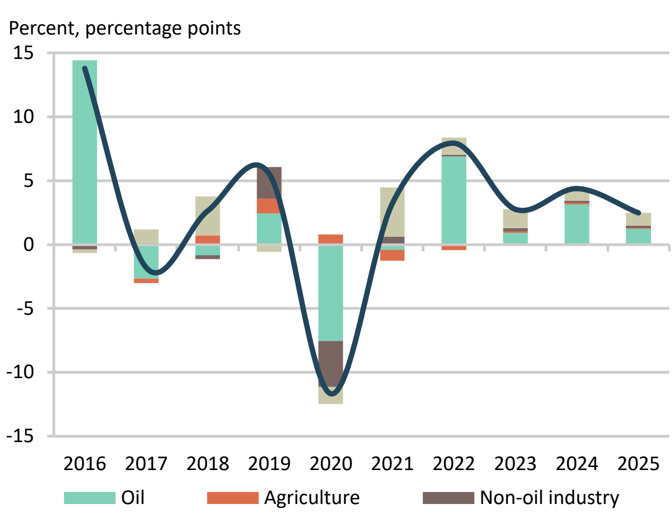
Recent developments

Iraq's economic rebound in 2022 was supported by the revival of the oil sector. GDP growth is estimated to have accelerated to 7.9 percent in 2022 following a 3.2 percent growth in 2021. Growth was driven by a tapering of OPEC+ production cuts in the first nine months of 2022 (9M-22), driving oil GDP up by 14 percent in 9M-22 year-on-year (y-o-y). Oil production was constrained again in Q4-22, as the new OPEC+ agreement extended production limits. Non-oil GDP grew by 1.5 percent y-o-y in 9M-22 led by the transport and construction sectors.

While inflationary pressures overall eased in 2022, the currency depreciation led to an isolated surge in prices in early 2023. Headline and core inflation declined to 5.0 and 4.3 percent in 2022, respectively as the pass-through of higher global commodity prices was muted by the passage of the Emergency Law for Food Security and Development. However, inflation surged in January 2023, following the depreciation of the dinar in the parallel market since November 2022.

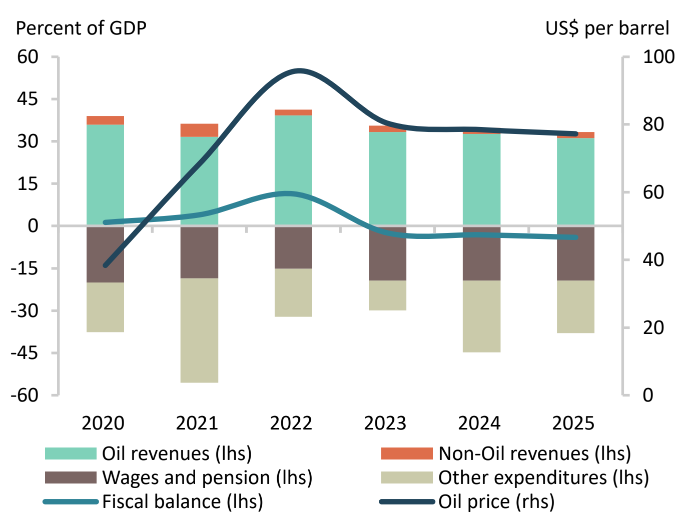
Government revenues, dominated by oil, grew by 48 percent in 2022 y-o-y, directly

FIGURE 1 Republic of Iraq / Real GDP growth and sectoral contributions to real GDP growth



Sources: Iraq's COSIT and World Bank staff calculations.

FIGURE 2 Republic of Iraq / Fiscal account and oil price



Sources: Iraq MoF, MoO, and World Bank staff calculations.

reflecting soaring oil prices. The lack of a budget in 2022 limited expenditures to the previous year's total allocation plus the complementary allocation of the Emergency Bill, which partly curbed the procyclicality of fiscal policy in 2022. Despite a rising wage bill, the oil windfall is estimated to have led to a budget surplus of 11.4 percent of GDP in 2022. The fiscal surplus in tandem with higher nominal GDP is estimated to have reduced the debt-to-GDP ratio to 52.6 percent in 2022. The draft budget for 2023 proposes a 59 percent expansion in expenditures compared to 2022, with recurrent expenditures accounting for 70 percent of total spending.

The current account, driven by oil exports, registered a sizeable surplus of 14 percent of GDP in 9M-2022, despite higher imports. Gross official reserves reached a record high of US$97 billion (equivalent to 14 months of imports) by end-2022. However, enforcement of financial reporting standards of the central bank's dollar auctions since November 2022 has led to a sharp decline in the volume of daily CBI auctions, with part of the demand for dollar being redirected to the parallel market, which in turn resulted in the depreciation of the dinar. In February 2023, the CBI revalued the dinar up by 10.3 percent to IQD1,300/USD to curb inflation, however, the parallel market rate remained elevated at IQD1,590/USD in February 2023, after the announcement.

Outlook

Iraq's economy is forecast to continue to grow, although at a slower pace, assuming global demand for oil weakens. Overall growth is expected to moderate to 2.8 percent in 2023. Specifically, non-oil GDP is projected to grow by 4.5 percent, partly assisted by the anticipated budget expansion. Limited linkage between oil and no-oil sectors coupled with public sector dominance in formal employment will likely continue to result in a stunted and largely informal private sector. An environment of low appetite for reforms amid high oil prices, and Iraq's chronic structural weaknesses could constrain long-term economic growth.

Higher expenditures and imports will worsen both the fiscal and current account balances, with the former turning into a deficit. The re-valuation of the dinar will result in lower dinar-denominated oil revenues for the government while expenditures are expected to increase significantly as per the announced budget. As a result, the fiscal account is forecast to register a widening deficit starting from 2023. The growing fiscal pressures are projected to increase the debt-to-GDP ratio. The current account surplus is forecast to moderate throughout 2023-25, as oil prices follow a projected decline and higher government expenditures and a stronger dinar drive a surge in imports and undermine export competitiveness.

Iraq's economic outlook is subject to significant risks. The economy's high dependence on oil leaves it vulnerable to volatilities in the oil market and fluctuations in global demand. Heightened climate change vulnerabilities and commodity price volatility associated with the Russian invasion of Ukraine will continue to intensify pre-existing poverty trends and raise food insecurity. Competition on export markets for Iraqi oil, with the heavily discounted Russian oil, could also pose risks to growth prospects.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-9.0	-0.6	7.9	2.8	4.4	2.5
Private Consumption	-5.5	2.6	4.5	4.0	3.7	3.5
Government Consumption	-9.5	4.7	6.3	9.0	6.0	4.0
Gross Fixed Capital Investment	-65.3	9.4	5.6	12.5	7.3	5.8
Exports, Goods and Services	-10.1	-13.4	12.1	1.6	5.4	2.1
Imports, Goods and Services	-23.9	7.7	8.5	9.0	7.0	5.1
Real GDP growth, at constant factor prices	-11.7	3.2	7.9	2.8	4.4	2.5
Agriculture	22.5	-17.5	-11.2	4.0	3.5	2.0
Industry	-16.4	0.3	11.3	1.8	5.2	2.2
Services	-4.6	12.5	4.0	4.6	3.0	3.1
Inflation (Consumer Price Index)	0.6	6.0	5.0	7.0	6.0	5.0
Current Account Balance (% of GDP)[a]	-4.0	12.0	12.4	2.6	1.3	0.4
Net Foreign Direct Investment Inflow (% of GDP)[a]	1.7	1.3	1.3	1.3	1.2	1.2
Fiscal Balance (% of GDP)[a]	-12.1	4.0	11.4	-2.4	-3.1	-4.0
Revenues (% of GDP)	29.3	36.2	41.3	35.5	34.7	33.3
Debt (% of GDP)[a]	77.4	55.1	52.6	57.6	58.6	60.0
Primary Balance (% of GDP)[a]	-11.0	4.5	12.3	-1.8	-2.5	-3.5
GHG emissions growth (mtCO2e)	-17.2	-13.8	12.9	9.5	9.7	12.1
Energy related GHG emissions (% of total)	42.8	42.3	45.4	47.6	49.9	50.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Share of factor cost GDP.

JORDAN

Table 1	2022
Population, million	11.3
GDP, current US$ billion	48.4
GDP per capita, current US$	4288.1
National poverty rate[a]	15.7
School enrollment, primary (% gross)[b]	80.0
Life expectancy at birth, years[b]	75.2
Total GHG emissions (mtCO2e)	36.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017/8).
b/ Most recent WDI value (2020).

Jordan has shown resilience vis-a-vis major regional and global crises. However, labor market conditions suggest that incomes have not recovered after Covid, while climate change risks exacerbate food insecurity. Despite a clear willingness to tackle structural constraints, policy, and regulatory reforms often stumble at the implementation phase or are reversed. Amid an uncertain global environment, and limited macroeconomic policy space domestically, a renewed commitment to pursue structural reforms can help unleash growth and resolve long-standing labor market challenges.

Key conditions and challenges

Regional and global pressures have dominated the Jordanian socioeconomic landscape during the past decade, resulting in sluggish growth performance, with real per capita growth contracting for most of the past decade. Jordan has managed to navigate its economy through times of crisis by adopting a progressive and development-oriented response to the large inflow of refugees, preserving macroeconomic stability and showing resilience following the COVID-19 pandemic and Russia's invasion of Ukraine, albeit at the cost of rapidly escalating public sector debt. The main challenge lies in accelerating private sector-led growth, which is suppressed by a challenging business environment and job market bottlenecks.

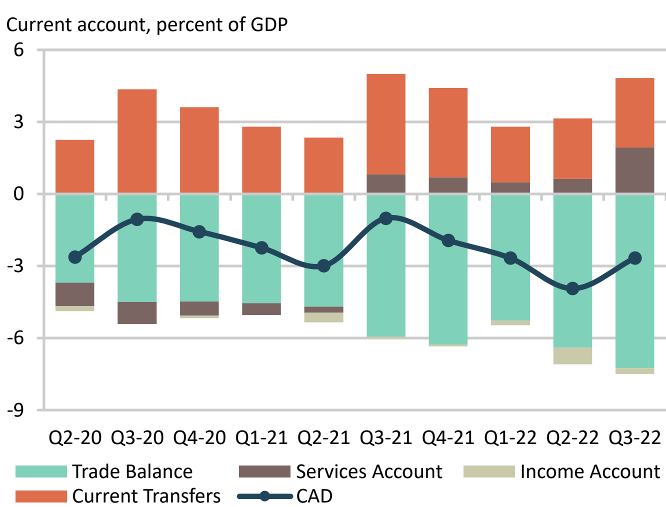
Global risks - including a slowdown in growth, heightened geopolitical tensions, high commodity prices, and tighter financial conditions – pose significant challenges, notably for the water and electricity sectors' financial sustainability. The effects of climate change echoed in rising temperatures and lower precipitation could aggravate Jordan's already acute water scarcity. Without proper mitigation measures, including appropriate water pricing, the country remains highly susceptible to extreme weather conditions and food security risks.

To address these key impediments, and following similarly focused Visions and strategies, Jordan launched a ten-year Economic Modernization Vision in mid-2022, focusing on inclusive, sustainable, and private sector-led growth to generate job opportunities and improve living standards.

Recent developments

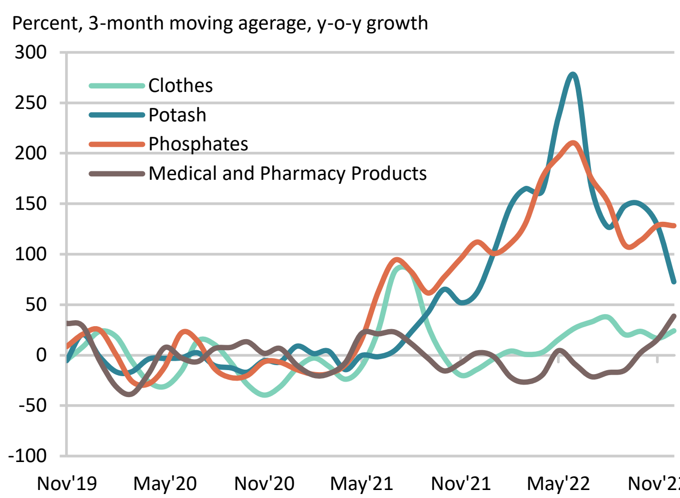
Growth was robust at 2.7 percent (y-o-y) during the first three quarters of 2022, boosted by a recovery of tourism and its spillover to the services sector, as well as solid contributions in the manufacturing and mining sectors. Manufacturing performance stemmed from clothes, machinery, medical and pharmaceutical products, while mining's originated with the potash and phosphate sub-sectors that benefited from the price surge associated with the war in Ukraine. Inflation remained contained at 4.2 percent in 2022, helped by the Central Bank's monetary tightening, price controls, and subsidies. However, the tightening effect on the real sector was limited by the favorable interest rates of its refinancing programs and by real policy rates turning negative. The Central Government (CG) fiscal deficit (excl. grants) narrowed by 0.4 percentage points to 6.0 percent of GDP during 11M-2022, supported by growing tax and non-tax revenues. These outpaced the rise in total expenditures due to temporary fuel subsidies (0.7 percent of GDP) and higher capital expenditures. Government and guaranteed debt reached 113.5 percent of

FIGURE 1 Jordan / The difficult global environment has directly impacted Jordan's external accounts



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

FIGURE 2 Jordan / Jordan's key merchandize exports



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

GDP in November 2022, compared to 112.3 percent of GDP at end-2021.

On the external front, a marked increase in mining exports (42 percent) and a full rebound in travel receipts could not fully mitigate the effect of commodity prices on non-energy import bills, triggering a widening of the current account deficit. The CAD widened to 9.3 percent of GDP in 9M-2022, up from 6.2 percent in 9M-2021. Despite a surge in net FDI (1.8 percent of GDP), the BOP deficit worsened to 2.0 percent of GDP, from a surplus of 3.0 percent a year earlier. Gross foreign reserves declined by US$0.86 billion to US$18.2 billion at end-2022.

Labor market conditions remain the most significant threat to households' welfare. Employment has only modestly recovered, while the labor force participation rate remained low at 33.7 percent. Unemployment reached 22.9 percent in Q4-2022, compared to 19.0 percent during Q4-2019. The national poverty rate stood at 15.7 percent in 2018 (latest available). Labor market conditions, compounded with higher inflation, suggest that real household incomes may have not fully recovered from the COVID-19 crisis and a large share of the non-poor population is vulnerable to poverty due to income volatility. Moreover, the poorest households are particularly vulnerable to recent price increases since they spend a greater share of their income on food.

Outlook

In 2023, the recovery is projected to continue being supported by tourism and services, while the industry will benefit from high potash and phosphate prices, and robust manufacturing growth. However, growth is forecast to decelerate to 2.4 percent, from 2.6 percent in 2022, due to fading base effects. The weakening global growth, monetary tightening, and ongoing fiscal consolidation are all expected to weigh on aggregate demand. Inflation in 2023 is anticipated to be contained at 3.0 percent supported by declining international oil prices, and domestic price controls.

The CG fiscal deficit (incl. grants) is expected to further narrow to 5.0 percent of GDP in 2023, compared to an estimated 5.4 percent in 2022, as various revenue-raising measures and the containment of public wage bill growth will overcompensate for rising interest payments, wheat subsidies, and higher capital expenditures. However, fiscal pressures from the water and electricity sectors - notably the Attarat oil shale project - are likely to increase public debt to 115.2 percent of GDP (with debt excluding SSIF holdings expected to reach 91.2 percent) at end-2023.

On the external front, pressures are expected to ease in 2023 as commodity prices decline and imports retract while exports sustain momentum. As a result, the CAD is projected to decline to 5.7 percent of GDP in 2023 compared to an estimated 9.7 percent of GDP in 2022 and to gradually narrow over the medium term.

Progress in terms of labor incomes and poverty reduction is expected to be limited, whilst large vulnerability persists. While the recovery of tourism and manufacturing is expected to support wage incomes, persistent challenges related to limited private sector job creation, segmented labor markets, high informality, and low labor productivity, continue to hinder household income growth. Considering higher inflation and weak labor market conditions, real incomes will remain suppressed, poverty is expected to remain above pre-Covid levels, and a large segment of the population remains vulnerable to shocks.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-1.6	2.2	2.6	2.4	2.4	2.4
Real GDP growth, at constant factor prices	-1.4	2.2	2.6	2.5	2.4	2.4
Agriculture	1.6	2.8	2.6	2.5	2.4	2.4
Industry	-2.4	3.1	3.7	3.1	2.2	1.5
Services	-1.3	1.8	2.2	2.3	2.5	2.8
Inflation (Consumer Price Index)	0.3	1.4	4.2	3.0	2.5	2.5
Current Account Balance (% of GDP)	-5.7	-8.2	-9.7	-5.7	-4.3	-3.5
Net Foreign Direct Investment Inflow (% of GDP)	1.7	1.3	2.2	2.3	2.6	3.0
Fiscal Balance (% of GDP)[a]	-7.2	-6.3	-5.4	-5.0	-4.5	-4.4
Revenues (% of GDP)	22.4	25.0	25.6	25.4	25.6	25.4
Debt (% of GDP)[b]	107.8	112.3	114.1	115.2	116.1	117.1
Debt, net of SSIF (% of GDP)[b]	87.0	90.7	91.5	91.2	90.4	89.6
Primary Balance (% of GDP)[a]	-3.1	-2.0	-1.2	-0.6	0.0	0.2
GHG emissions growth (mtCO2e)	-3.3	1.9	2.5	2.0	2.1	2.3
Energy related GHG emissions (% of total)	62.2	62.6	62.6	62.5	62.3	61.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ CG fiscal balance incl. grants and adjustment on receivables and payables (use of cash) as per IMF Country Report No. 23/49.
b/ Government and guaranteed gross debt. Includes securitization of domestic arrears in 2019-21.

KUWAIT

Table 1	2022
Population, million	4.4
GDP, current US$ billion	168.8
GDP per capita, current US$	38352.3
School enrollment, primary (% gross)[a]	82.6
Life expectancy at birth, years[a]	76.9
Total GHG emissions (mtCO2e)	155.8

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

Kuwait's economy is expected to slow down in 2023, after performing strongly in 2022, and stabilize over the medium term. The projected economic slowdown is driven by the sluggish global economic activity and OPEC+ cautious production schedule. Softer energy prices will narrow fiscal surpluses and raise deficit concerns in the medium term. Generous subsidies, tight monetary policy, and falling import prices will keep inflation subdued. Downside risks to the outlook include global oil price volatility, a stronger-than-anticipated global economic slowdown, and continued political deadlock over key reforms.

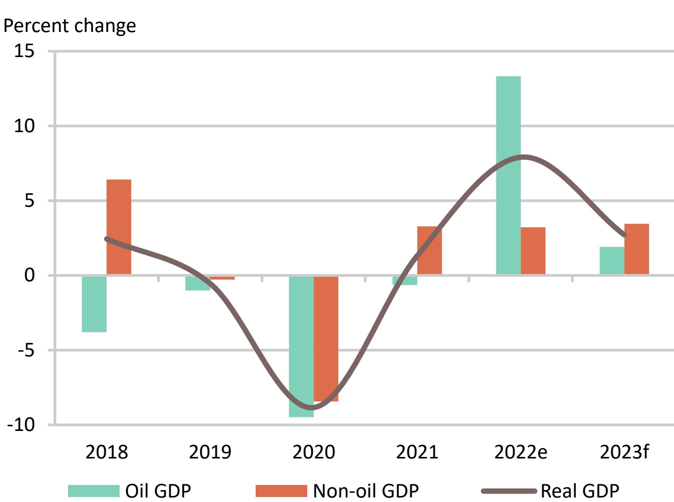
Key conditions and challenges

Kuwait's long-term economic challenges are linked to its dependency on oil, domestic consumption as key driver for growth, and slow implementation of its diversification agenda. Nonetheless, sizable foreign assets held through Kuwait's sovereign wealth fund (KIA), one of the largest globally, continue to underpin the country's economic resilience. These assets, however, cannot mitigate the risk of low future oil demand. Such risk has to be addressed through deep fiscal and structural reforms. Progress on the diversification agenda has been slow to a large extent, due to the political deadlock and repeated resignations of government which is hindering economic reform implementation. The projected elevated oil prices in the medium term could still play a key role in financing economic transformation and promoting sustainable, inclusive, and green growth. Key short- and medium-term risks include the potential impact from a deeper-than-expected global economic slowdown, oil price volatility, delay in fiscal and structural reforms, and labor shortages. These could hamper growth in both the oil and non-oil sectors as well as have a significant impact on macroeconomic balances. Direct adverse economic spillovers from the Russian invasion of Ukraine have been contained in Kuwait due to limited financial linkages and trade flow between both countries.

Recent developments

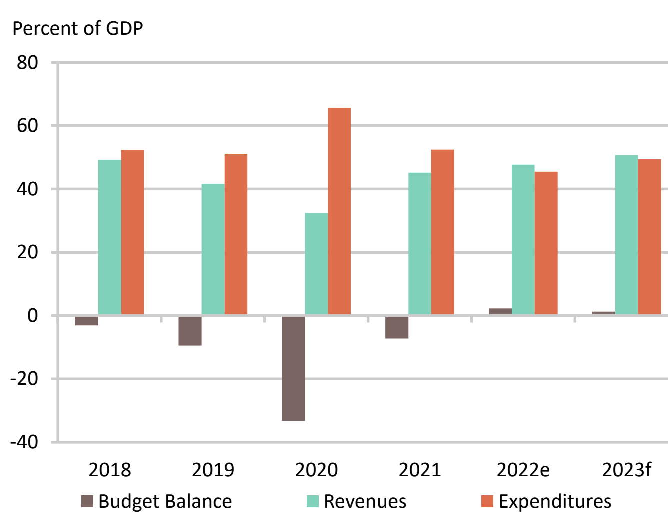
Economic growth rebounded sharply in 2022, reaching 7.9 percent year-on-year, driven by the strong performance of the oil sector which grew by 13.3 percent. However, signs of a slowing oil sector are evident since November 2022 and reflect OPEC+'s latest agreement on cutting production quotas. The non-oil sector continued its recovery trajectory in 2022, growing by 3.2 percent, supported by high oil prices, strengthening consumer spending, increased government spending, and restoration of projects suspended by the pandemic. Private sector credit grew by 7.7 percent in 2022—the fastest rate during the past 7 years—driven by the real estate, construction, and services sectors. Monetary policy tightening as well as government subsidies on food and energy helped to contain the level of inflation, which averaged around 4 percent in 2022. Supported by higher oil production and prices, the fiscal surplus is estimated at 2.2 percent of GDP during 2022. In November 2022, the National Assembly passed the 2022-23 General Budget with an estimated fiscal deficit of KWD 123.8 million (0.2 percent of GDP) based on an oil price assumption of USD 80 per barrel and an average oil production level of 2.7 million barrels/day. The government continues to implement measures to enhance Kuwait's public financial management (PFM) including financial technology improvement, digitalization, and green energy investment.

FIGURE 1 Kuwait / Annual real GDP growth



Sources: Kuwait CSB and World Bank staff estimates.

FIGURE 2 Kuwait / General government operations



Sources: World Bank, MTI Global Practice and IMF WEO.
Notes: Based on the fiscal year cycle (April to March 31). Fiscal balances exclude investment income and FGF transfers.

The banking sector continues to be well-capitalized and liquid. Financial soundness indicators remain strong with non-performing loans estimated to reach 1.9 percent of total gross loans. Following tighter global financial conditions, the Central Bank of Kuwait raised policy rates from 1.6 to 4 percent (7 times) since March 2022, with the most recent hike in February 2023. Official reserve assets continue to stay at their comfortable levels, reaching KWD 14.8 billion (18 months of imports) in 2022.

The strong currency peg and higher oil receipts widened the current account surplus considerably during 2022, reaching 26.3 percent of GDP.

Kuwait's labor market continues to recover from the impact of the pandemic, although many indicators have not yet rebounded to their pre-pandemic levels. The labor force participation rate is projected to increase slightly to 71.7 percent in 2023 (ILO) but remains about 1.3 percentage points lower than in 2019. Unemployment rates are expected to remain relatively steady in 2023 at 1.2 percent among men and 6.4 percent among women, still higher than the 2019 rates by 0.2 and 0.5 percentage points, respectively. The shares of youth not in employment, education or training for 2022 suggest a faster post-pandemic recovery, as they are now estimated at 18.1 percent among men and 34.7 percent among women (below pre-pandemic shares by 0.6 and 0.8 percentage points, respectively).

Outlook

Economic growth is expected to slow to 2.7 percent in 2023 in response to a more cautious OPEC+ production approach and sluggish global economic activity. However, the newly established Al Zour refinery will support growth in the oil sector which is expected to reach 1.9 percent in 2023. Based on the recent trend, political uncertainty is projected to remain elevated and cause delays in deciding and implementing new infrastructure projects as well as in pushing the reform agenda forward. Kuwait's non-oil sector is anticipated to grow by 3.4 and 3.7 percent in 2023 and 2024, respectively; driven primarily by private consumption. Meanwhile, tighter monetary policy and declining global commodity prices will translate into lower inflation rates (to 2.6 percent in 2023, and 2.5 percent in the following two years).

Lower projected oil prices during 2023 will narrow the fiscal surplus to 1.3 percent of GDP—excluding investment income and FGF transfers. Softer projected oil prices will narrow fiscal balance surpluses and raise deficit concerns in the medium term. Implementing the economic diversification program and introducing the VAT, in line with other GCC peers, would enable Kuwait to diversify its revenues and enhance fiscal sustainability.

Monetary policy is projected to continue to closely follow the US Federal Reserve policy as the US dollar is the dominant currency in the Kuwaiti Dinar pegged basket. Despite possible further monetary policy tightening, domestic credit is expected to continue growing but at a slower pace.

Strong oil receipts and cheaper import prices should keep the current account surplus at comfortable levels during 2023 (21.9 percent of GDP) before moderating to an average of 20 percent of GDP in the medium term.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-8.9	1.3	7.9	2.7	2.6	2.4
Private Consumption	-4.5	3.2	4.8	3.4	3.1	3.0
Government Consumption	0.0	1.1	2.0	2.4	2.2	2.0
Gross Fixed Capital Investment	-4.6	3.9	4.4	3.5	3.0	2.9
Exports, Goods and Services	-13.3	2.2	12.1	3.4	2.4	2.1
Imports, Goods and Services	-4.0	5.7	5.3	4.7	2.8	2.5
Real GDP growth, at constant factor prices	-8.9	1.4	7.9	2.7	2.6	2.4
Agriculture	-3.8	0.5	1.1	1.2	1.3	1.3
Industry	-12.2	2.2	8.3	4.0	3.4	2.6
Services	-4.2	0.4	7.3	1.0	1.5	2.3
Inflation (Consumer Price Index)	2.1	3.4	4.3	2.6	2.5	2.5
Current Account Balance (% of GDP)	3.2	16.0	26.3	21.9	20.9	20.2
Fiscal Balance (% of GDP)[a]	-33.2	-7.3	2.2	1.3	0.3	-0.7
Revenues (% of GDP)	32.4	45.2	47.7	50.7	47.8	46.0
Expenditure (% of GDP)[a]	65.6	52.4	45.5	49.5	47.5	46.8
Debt (% of GDP)[a]	11.7	8.7	5.3	5.0	2.4	-1.3
Primary Balance (% of GDP)[a]	-32.1	-5.4	2.4	1.4	0.4	-0.7
GHG emissions growth (mtCO2e)	4.9	0.0	8.6	2.1	1.3	2.2
Energy related GHG emissions (% of total)	65.7	64.8	64.0	62.9	61.5	60.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Based on fiscal year cycle (April to March 31). Fiscal balances exclude investment income and FGF transfers.

LEBANON

Table 1	2022
Population, million	5.5
GDP, current US$ billion	21.6
GDP per capita, current US$	3926.2
National poverty rate[a]	27.4
Gini index[a]	31.8
Life expectancy at birth, years[b]	77.8
Total GHG emissions (mtCO2e)	23.8

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

The Lebanese economy remains in a severe depression amidst continued political deadlock, an institutional vacuum, and high uncertainty. In a context lacking agreement on a comprehensive crisis resolution plan, real GDP is estimated to have further contracted by 2.6 percent in 2022, while inflation averaged 171.2 percent, one of the highest rates globally. Subject to extraordinarily high uncertainty, and assuming the continued absence of adequate and comprehensive reforms all through 2023, real GDP is projected to further contract by 0.5 percent in 2023.

Key conditions and challenges

The Lebanese economy's four-year contraction in real GDP (2018-2022) has wiped out more than 15 years of economic growth. The lack of agreement and implementation of a comprehensive recovery plan is scarring the country's potential for recovery and compounding the physical, human, institutional, and social capital losses. With the government in caretaker status and following the failure to elect a new president upon the end of the president's term on October 31, 2022, Lebanon faces an especially deep institutional vacuum.

Financial losses in the banking system exceed US$72 billion, equivalent to more than three times GDP in 2021. The lack of an equitable banking resolution has compounded the economic costs of the crisis. In the meantime, usable gross foreign exchange reserves are gradually being depleted: between October 2019 (the onset of the crisis) and December 2022, they declined by US$22,745 million, to US$15,194 million (including US$4,796 million in foreign securities).

Absent a crisis resolution plan, the bulk of the economic adjustment continues to fall on the most vulnerable segments of the population. Rapid currency depreciation and triple-digit inflation rates continue to shape the unstable macroeconomic dynamics in the country, resulting in a severe erosion of purchasing power for the local labor force, pensioners, and retirees whose wages are denominated in LBP.

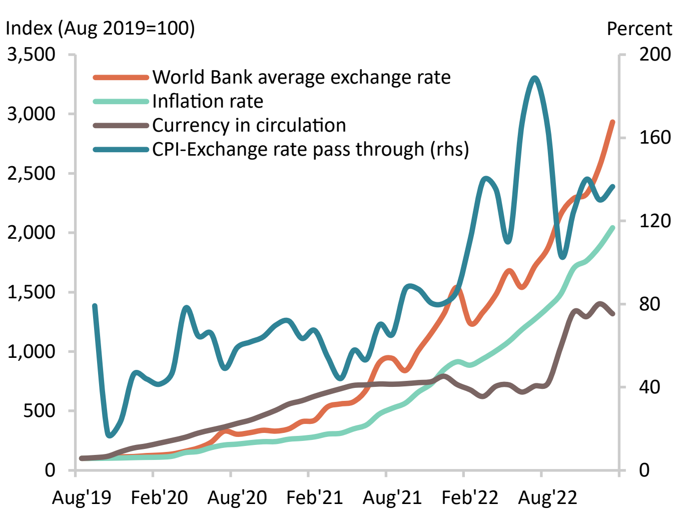
Preliminary data from the 2022-2023 Lebanon Household Survey (LHS) suggests that poverty continues to rise and household living conditions continue to deteriorate. The LHS is ongoing, with over 4,500 households interviewed to date. Around three out of every five households considered themselves to be poor or very poor. Households that do not receive any form of private remittances are even more likely to feel impoverished. While there are indications that adult (15+) employment rates have risen from a year ago, an increasing share of people are working in low-quality, informal jobs out of necessity.

Recent developments

In 2022, the economy continued to contract, albeit at a somewhat slower pace. Owing to better-than-expected high-frequency indicators data, we have revised our real GDP contraction estimate to 2.6 percent from a previous 5.4 percent for 2022. The BLOM-PMI index (capturing private sector activity) has inched up to 48.4 in 2022, up from an average of 46 percent in 2021; tourist arrivals have also increased by 57 percent (8M-2022).

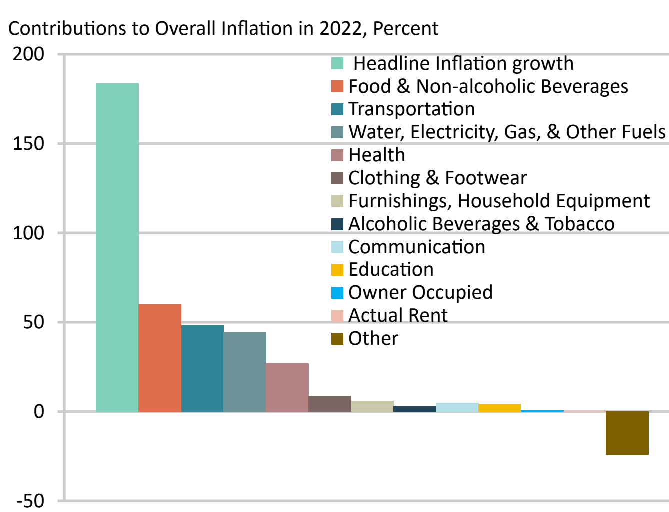
The overall fiscal balance is estimated to have recorded a narrow surplus of 0.3 percent of GDP in 2022, down from 1 percent of GDP in 2021. Revenues are estimated to have declined from an already low 13.1 percent of GDP in 2020 to 6.0 percent of GDP in 2022, one of

FIGURE 1 Lebanon / Exchange rate depreciation drives the surge in inflation



Sources: Lebanese authorities and World Bank staff calculations.

FIGURE 2 Lebanon / Inflation in basic items has been a key driver of overall inflation, hurting the poor and the middle class



Sources: Lebanese authorities and World Bank staff calculations.

the lowest rates globally. This was more than offset by a larger decrease in total expenditures, which declined from 16.4 percent of GDP in 2020 to a record low of 5.7 percent of GDP in 2022, pointing to a massive hollowing out of the state amid an unprecedented crisis.

Testament to the continued atrophy of Lebanon's economy, the Lebanese Pound continues to depreciate sharply. By February 2023, the currency lost more than 98 percent of its pre-crisis value. Despite the central bank (BdL)'s FX interventions to attempt to stabilize the BNR (i.e., the banknote rate/parallel market) using its gross reserves starting in December 2021, the BNR averaged 31,102 LBP/US$ in 2022. The depreciation of the BNR has accelerated since the beginning of 2023, breaching 80,000 LBP/US$ amid rising tensions, bank strikes, and fewer FX interventions by BdL. Multiple exchange rates continue, creating distortions in the economy and rent-seeking opportunities. For the first time since 1997, BdL changed the official peg to the dollar from 1507.5 to 15,000, effective February 1, 2023.

Inflation averaged 171.2 percent in 2022, one of the highest rates globally, primarily due to the depreciation of the LBP. The rise in the food and non-alcoholic beverages category in the consumption basket was the highest contributor to inflation in 2022, averaging a 240 percent increase throughout 2022, and reaching a maximum of 483 percent (y-o-y) in January 2022.

Surprisingly, for a country in a protracted crisis and in sovereign default, Lebanon continues to run a sizable current account deficit driven by a widening trade-in-goods deficit. According to customs data for merchandise goods, imports grew by 39.7 percent (y-o-y) in 2022, combined with a 10.2 percent decrease in exports. In fact, imports to Lebanon reached USD19 billion in 2022, close to pre-crisis levels. Anticipated increases in custom duties and the customs duties exchange rate (which was increased to 15,000 LBP/USD at the end of 2022, have likely contributed to the substantive increase in imports of industrial goods (y-o-y increase of 45.8 percent) and have driven the hoarding of those goods in anticipation of a price adjustment. The quality of BoP data in Lebanon is historically weak.

One year after reaching a staff-level agreement, an IMF program remains elusive as the authorities have yet to complete any of the eight reforms required prior to starting the program. A fragmented parliament, coupled with a governmental and presidential vacuum casts further doubt on the ability to complete prior actions and secure a final agreement in the next few months.

Outlook

Subject to extraordinarily high uncertainty, real GDP is projected to contract by 0.5 percent in 2023. Our economic forecast pays heed to the persistent lack of political will for comprehensive reforms, and an institutional vacuum, both assumed to last throughout the whole of 2023. Inflation is expected to remain in triple digits, at 165 percent, persistently amongst the highest rates globally.

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

	2020	2021	2022e	2023f
Real GDP growth, at constant market prices	-21.4	-7.0	-2.6	-0.5
Private Consumption	-14.0	2.1	2.2	0.3
Government Consumption	-53.7	-76.0	-13.6	-14.5
Gross Fixed Capital Investment	-53.0	-67.6	-92.2	-58.9
Exports, Goods and Services	-53.7	13.1	0.3	-1.5
Imports, Goods and Services	-46.0	-12.2	3.5	-0.3
Real GDP growth, at constant factor prices	-15.9	-5.3	-2.6	-0.5
Agriculture	0.6	-7.1	-2.8	-0.5
Industry	-6.5	-6.9	-2.6	-0.5
Services	-18.3	-4.9	-2.6	-0.5
Inflation (Consumer Price Index)	84.3	154.8	171.2	165.0
Current Account Balance (% of GDP)	-9.3	-12.5	-20.6	-14.0
Net Foreign Direct Investment Inflow (% of GDP)	4.1	2.1	2.2	2.6
Fiscal Balance (% of GDP)	-3.3	1.0	0.3	-0.5
Revenues (% of GDP)	13.1	7.5	6.0	6.3
Debt (% of GDP)	179.2	172.5	162.6	183.5
Primary Balance (% of GDP)	-0.8	1.9	0.9	-0.3
GHG emissions growth (mtCO2e)	-19.4	-7.1	-9.5	-3.8
Energy related GHG emissions (% of total)	72.4	74.3	73.3	72.7

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

LIBYA

Table 1	2022
Population, million	6.8
GDP, current US$ billion	45.8
GDP per capita, current US$	6725.0
School enrollment, primary (% gross)[a]	109.0
Life expectancy at birth, years[a]	72.5
Total GHG emissions (mtCO2e)	120.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2006); Life expectancy (2020).

A fragile context undermines the adequate functioning of institutions. Armed clashes, protests, and inadequate maintenance disrupted oil production and export amid rising global prices. The economy contracted by 1.2 percent in 2022 because of conflict-related constraints to oil production. In 2022 fiscal policy turned highly expansionary, with total spending increasing by 49 percent and the public wage bill, specifically, by 53 percent. Higher food prices due to the impacts of Russia's invasion of Ukraine have increased pressures on vulnerable households.

Key conditions and challenges

A ceasefire and the formation of the Government of National Unity reflected potentially positive developments toward peace resolution. However, the absence of national elections and the creation of a competing government in 2022 have added complexity to the picture, with limited progress being made toward reaching an agreement on a roadmap for elections. While the security situation has overall experienced some improvements – which can bring some benefits to economic development – the war in Ukraine – on the other side – contributed to creating additional pressure.

The Libyan economy remains highly dependent on the oil sector. A disruption of oil production or a decrease in international oil prices can have a rapid and significant impact on growth and on the country's ability to repay its debt that exceeds US$32 billion, although the large foreign assets held in its sovereign wealth fund (the LIA) provide the country with a significant buffer.

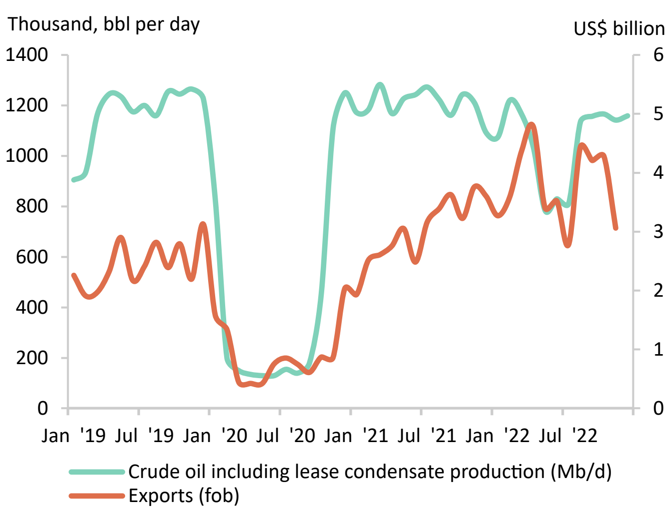
Recent developments

Renewed disruptions in the oil sector impacted both production and exports during April to July 2022. The Libyan Nation Army (LNA), based in the eastern region of Libya, imposed a blockade on oil production facilities, leading to a significant reduction in output (Figure 1). By April 2022, oil production had plummeted to 400,000 barrels per day (bpd), to then resume only in August. By January 2023, the production rebounded to 1.2 million bpd. Against this background, the economy contracted by 1.2 percent in 2022, with the hydrocarbon sector deflating by 12 percent. This decline, however, was partly offset by a 15 percent expansion of the non-hydrocarbon sector, under the massive fiscal stimulus implemented by the authorities. Total public spending increased by 49 percent, including 53 percent increase in public wages.

By the end of 2022, inflation, as measured by the REACH initiative's Minimum Expenditure Basket (see the Spring Libya Economic Monitor for more details and alternative measures of inflation), showed signs of moderation, although remaining elevated and mainly driven by the increases in food and housing prices, as well as electricity costs. The official inflation rate only captures price developments in Tripoli, and reached 4 percent by end-2022. The Minimum Expenditure Basket (MEB) indicates that prices peaked at 38.7 percent (year-on-year) in April 2022, to then hover around 20.7 percent by the end of the year.

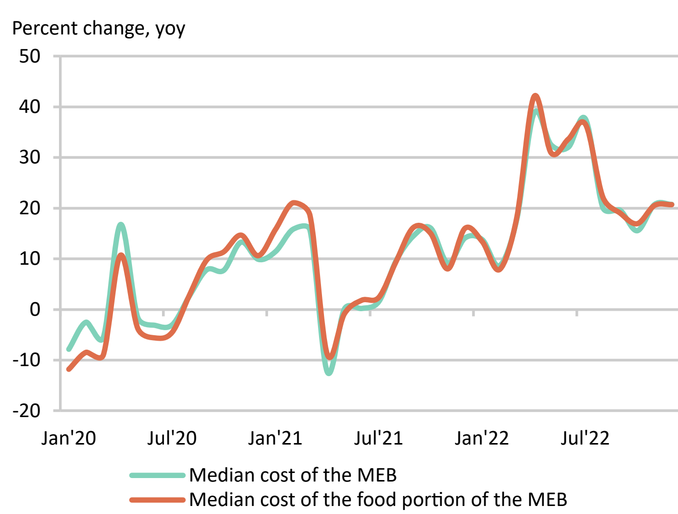
Libya's public finances lack both unity and transparency: the two competing governments have distinct budgets and severely limited financing options. This duality, coupled with the National Oil Corporation (NOC) holding oil receipts in an escrow account for several months

FIGURE 1 Libya / Oil production and exports



Sources: Organization of the Petroleum Exporting Countries (oil production) and IMF Direction of Trade Statistics (exports).

FIGURE 2 Libya / Inflation in the Minimum Expenditure Basket (MEB) and its food component



Sources: REACH and World Bank staff calculation.

during 2022, have created significant challenges to effective public financial management, resulting in uncertainty and inadequate allocation of fiscal resources. The Government of National Unity (GNU) reported a fiscal surplus of 2.5 percent of GDP in 2022. Public salaries represent 25.4 percent of GDP, making it the largest spending category, and salaries are on an increasing trend. Subsidies and transfers remain high, at 10 percent of GDP. Capital spending skyrocketed to 16.8 percent of GDP, from 9.3 percent in 2021, including an 8.1 percent GDP transfer to NOC to finance the maintenance and development strategy of oil fields. GNU's revenue increased by 26.3 percent, driven by hydrocarbon revenue, which accounts for 98 percent of the total revenue.

Despite high levels, public debt is considered sustainable assuming a continuation of hydrocarbon production at current lavels. Libya's total gross public debt amounted to 70.4 percent of GDP in 2022, also equivalent to 126 percent of government revenue. The Libyan Investment Authority (LIA), a sovereign wealth fund, owns assets worth US$ 68.4 billion as per the last available valuation in 2019.

Outlook

Due to the high degree of uncertainty and fragility that characterizes Libya, the World Bank refrains from producing quantitative growth and macro forecasts. The country's economic future hinges significantly on the prospects of peace and stability.

This being said, for 2023 Bank staff assume a low political equilibrium with no significant advances but in a continued context of relative security. The GNU announced its plans to increase NOC’s hydrocarbon production; under this hypothesis, oil production could potentially reach 1.4 million barrels per day in 2023 and 2 million barrels per day within the next 3 to 5 years.

Additionally, growth of the non-hydrocarbon sector is also expected to support GDP expansion in 2023, as the increase in government expenditure and salaries will boost domestic demand. The resultant current account surplus is expected to partially alleviate part of the liquidity shortages and inflationary pressure.

Downside risks to the outlook remain elevated. Political tensions and competition between the rival governments will likely continue to impact the good functioning of state institutions, thus impeding the ability to deliver public services. A protracted global economic deceleration would reduce global oil demand, thereby translating into reduced exports and government revenues for Libya, with knock-on effects on economic growth, fiscal and current account balances, as well as foreign reserves.

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

	2020	2021	2022e
Real GDP growth, at constant market prices	-29.8	31.4	-1.2
Real GDP growth, at constant factor prices	-29.8	31.4	-1.2
Agriculture	-30.1	31.4	10.0
Industry	-34.6	45.0	-9.9
Services	-21.1	11.1	15.0
Inflation (Consumer Price Index)	1.4	2.8	4.6
Current Account Balance (% of GDP)	-9.8	13.9	14.5
Fiscal Balance (% of GDP)	-35.2	11.0	2.5
Revenues (% of GDP)	35.4	58.8	59.0
Debt (% of GDP)	238.2	87.0	70.4
Primary Balance (% of GDP)	-35.2	11.0	2.5
GHG emissions growth (mtCO2e)	-14.0	17.2	-5.8
Energy related GHG emissions (% of total)	25.5	35.3	29.0

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

MOROCCO

Table 1	2022
Population, million	37.5
GDP, current US$ billion	135.8
GDP per capita, current US$	3626.0
National poverty rate[a]	4.8
Lower middle-income poverty rate ($3.65)[a]	9.8
Gini index[a]	39.5
School enrollment, primary (% gross)[b]	113.4
Life expectancy at birth, years[b]	73.9
Total GHG emissions (mtCO2e)	95.4

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

Morocco has undergone a sharp deceleration due to domestic and international shocks: a drought and high commodity prices. This triggered supply-driven inflationary pressures that have broadened, disproportionately affecting poorer households. The authorities' anti-inflationary measures have included the maintenance of untargeted subsidies, regulated prices, and a moderate monetary tightening. Ongoing reforms should allow for a more cost-effective and equitable response to future shocks. Growth is expected to accelerate in 2023 as shocks begin to dissipate.

Key conditions and challenges

The government is implementing reforms to accelerate growth and inclusion. After universalizing access to the national health insurance scheme, a targeted cash transfer program is planned for 2023. Private sector reforms are also underway as the new Mohammed VI investment fund has become operational, a state holding will absorb and streamline Morocco's SOE sector, and a new Investment Charter has been approved.

After a long period of price stability, inflation has surged, particularly for food and energy products. The government has supported citizens' purchasing power with price subsidies on butane gas, electricity, flour, and sugar. However, these subsidies are costly. While dampening the effect of inflation, price increases were more pronounced for poorer households, given that food absorbs almost 50 percent of their consumption basket. Once in place, the new social protection system will provide more cost-effective and equitable instruments to mitigate the impacts of economic shocks.

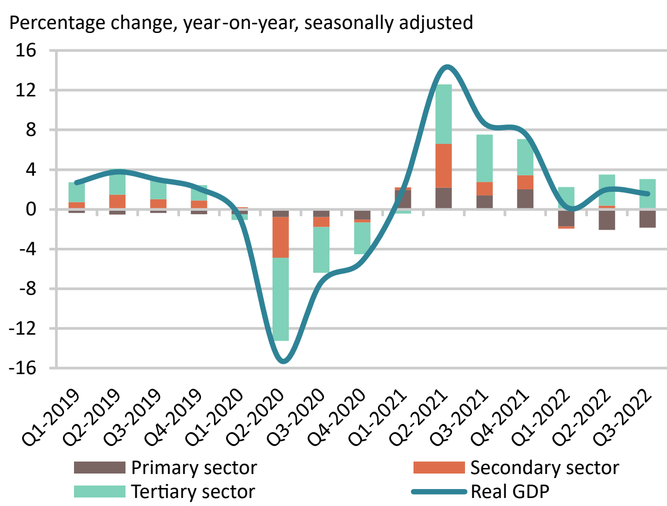
Morocco is heavily exposed to climatic shocks. Due to their impact on agricultural production, rainfall shocks explain 37 percent of GDP growth volatility, and the 2022 drought alone accounted for almost half of the deceleration that took place that year. Morocco has traditionally coped with water scarcity through dams and irrigation investments. But the latest drought has coincided with historically low water reserves, severely reducing the availability of water for irrigation. The government is accelerating desalination projects while exploring options to improve water valuation and rationalize demand.

Recent developments

Real GDP growth plummeted from 7.9 to 1.2 percent between 2021 and 2022. This deceleration unfolded asymmetrically: the agricultural sector contracted by 15.1 percent due to the drought; the manufacturing sector stagnated due to higher production costs and weaker global demand; services expanded by 5.1 percent, supported by the recovery of tourism. The commodity shock, Morocco's reliance on imported energy and food, and a stronger dollar increased the dirham-value of imports by 39.6 percent. Despite the solid performance of exports and workers' remittances, the current account deficit widened from 2.3 to 4.1 percent of GDP, a substantial part of which was financed with FDI inflows.

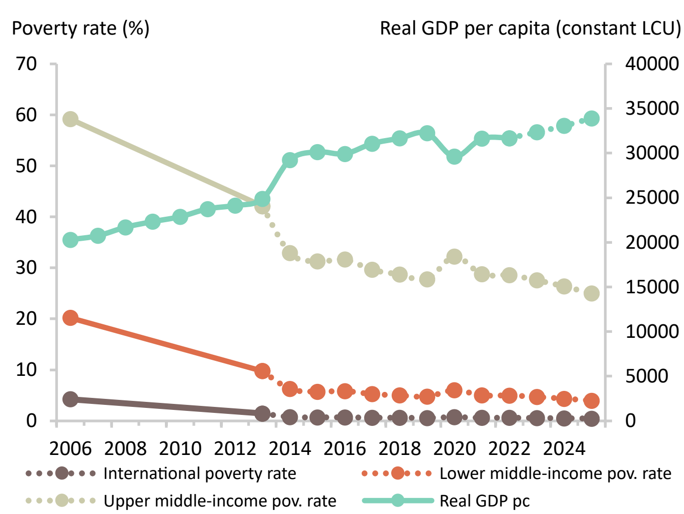
The supply-driven inflationary surge has become more broad-based, pushing core inflation to 8.2 percent in January 2023. Although the central bank has increased the policy rate by 100 basis points to 2.5 percent, monetary policy remains accommodative. The government's anti-inflationary policies have helped contain prices pressures for products that represent 22 percent of the consumption basket. But the budgetary cost of price subsidies

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



Sources: HCP and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

has increased to 3 percent of GDP. The dynamism of tax and non-tax revenues, however, allowed for a reduction of the budget deficit from 5.5 to 5.1 percent of GDP.

Ongoing shocks are having significant impacts on welfare. But the higher inflation undergone by poorer households could have increased poverty by up to 2.1 percentage points. The household confidence index has reached a 14-year low, with 83 percent of respondents declaring a deterioration of their living standards. In 2022, 174 thousand jobs were lost in rural areas, where the incidence of poverty is higher. Urban labor markets performed better, with 150 thousand jobs created in 2022.

Outlook

GDP growth is expected to accelerate to 3.1 percent of GDP in 2023 under the assumption of a return to an average crop. This would boost agricultural growth to 8 percent. Non-agricultural GDP growth is projected to decelerate from 3.2 to 2.5 percent due to weak global growth, tighter financial conditions, and the impact of inflation on consumption and investment. As the recovery of tourism firms is up, the services export should expand by 3.1 percent, while the manufacturing sector is more likely to be impacted by the European economic slowdown. Declining commodity prices should help contain inflation to 4 percent in 2022-2023. They will also contribute to a reduction in the current account deficit, from 4.1 to 3.7 percent of GDP. Despite the fiscal cost of the ongoing health and social protection reform, recent tax measures and the government's public asset monetization operations should lead to a slight reduction of the budget deficit from 5.1 to 4.6 percent of GDP. This trend should be maintained over the medium-term if the government succeeds at financing the new cash transfer program by withdrawing price subsidies, as currently planned.

Risks to this outlook are tilted to the downside. Although the beginning of the 2022-23 agricultural campaign has been relatively humid, the agricultural sector's performance will ultimately depend on how highly erratic precipitations evolve. Should a new drought materialize, the overall growth rate could drop by up to 1 p.p. Weaker global growth and new disruptions in commodity markets could dent Morocco's growth while continuing to feed inflation. Meeting the government's medium-term fiscal targets will depend on the success of asset monetization operations and politically challenging subsidy reform.

The rebound of agricultural production should help improve rural employment, and thus reduce poverty. But the persistence of inflationary pressures could continue to erode households' purchasing power and welfare. The new cash transfer program to be deployed later this year will help increase the disposable income of poorer households.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-7.2	7.9	1.2	3.1	3.3	3.5
Private Consumption	-5.6	8.2	2.2	2.4	3.1	3.3
Government Consumption	-0.5	5.6	5.4	6.7	3.5	3.1
Gross Fixed Capital Investment	-10.0	9.3	1.7	2.1	3.5	3.5
Exports, Goods and Services	-15.0	8.7	21.3	5.2	9.8	13.1
Imports, Goods and Services	-11.9	11.8	19.0	4.6	8.0	10.1
Real GDP growth, at constant factor prices	-7.0	7.8	1.2	3.2	3.3	3.6
Agriculture	-7.1	17.6	-15.1	8.0	2.5	4.0
Industry	-5.2	6.8	0.4	1.6	3.0	3.2
Services	-7.9	6.4	5.1	3.1	3.5	3.6
Inflation (Consumer Price Index)	0.7	1.4	6.6	4.0	4.3	2.3
Current Account Balance (% of GDP)	-1.2	-2.3	-4.1	-3.7	-3.5	-3.3
Net Foreign Direct Investment Inflow (% of GDP)	0.8	1.2	1.5	1.5	1.5	1.4
Fiscal Balance (% of GDP)	-7.1	-5.5	-5.1	-4.6	-4.0	-3.5
Revenues (% of GDP)	27.0	25.5	26.6	26.8	26.0	25.5
Debt (% of GDP)	72.2	68.9	69.4	69.0	67.9	67.5
Primary Balance (% of GDP)	-4.6	-3.4	-3.1	-2.6	-2.0	-1.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.7	0.6	0.6	0.5	0.5	0.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	6.0	5.0	5.0	4.7	4.3	3.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	32.2	28.7	28.6	27.6	26.4	25.0
GHG emissions growth (mtCO2e)	-4.1	5.1	3.8	2.3	3.3	3.1
Energy related GHG emissions (% of total)	72.7	73.9	75.0	75.2	75.7	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/ Calculations based on 2013-ENCDM. Actual data: 2013. Nowcast: 2014-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2013) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

OMAN

Table 1	2022
Population, million	4.6
GDP, current US$ billion	109.8
GDP per capita, current US$	23987.3
School enrollment, primary (% gross)[a]	104.1
Life expectancy at birth, years[a]	74.8
Total GHG emissions (mtCO2e)	119.4

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

Supported by the revival of the hydro and non-hydrocarbon sectors, Oman's economy performed strongly in 2022. Despite the downturn in global activity, the outlook continues to be encouraging driven by increased production capacity and accelerated implementation of structural reforms. Fiscal and external balances are projected to remain in surplus but moderate in the medium term, placing debt on a downward trajectory. A breakout of new COVID-19 variants, uncertainty surrounding the global oil market, tighter global financial conditions, and increased inflationary pressures remain key challenges.

Key conditions and challenges

Oman's economy is continuing its recovery after the sharp pandemic-induced recession in 2020. Recognizing the macroeconomic uncertainty stemming from the twin shocks in 2020 that amplified fiscal and external vulnerabilities, the government committed to implementing strong fiscal and structural reforms under its Medium-Term Fiscal Balance Plan (MTFP) for 2020-24.

High hydrocarbon revenues and substantial fiscal consolidation under the MTFP have improved fiscal and external balances considerably. The fiscal adjustment includes both expenditure rationalization such as a lower wage bill, streamlining capital expenditure, subsidy reforms, as well as revenue reforms such as the introduction of a VAT. While central government debt sustainability improved due to high oil prices and fiscal adjustment, debt remains vulnerable to shocks (e.g., primary balance, GDP growth, exchange, and interest rate fluctuations).

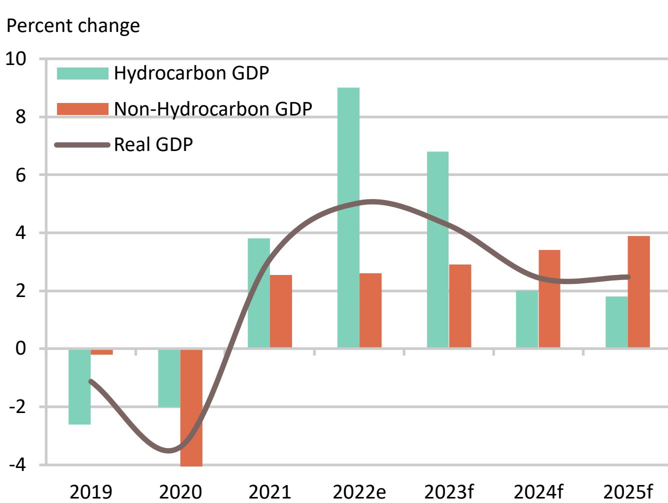
The economic outlook remains favorable, lifted by cyclical and structural factors including higher hydrocarbon windfall, accelerated implementation of reforms under Vision 2040 and MTFP, and planned investments. Picking up speed with climate adaptation, mitigation, and transition management could spur greener growth and mitigate climate risks. However, key risks to the outlook arise from recurring COVID-19 related-disruptions, the uncertainty surrounding the global economy and oil prices, tighter-than-expected global financial conditions, increased inflationary pressures, which could delay implementation of fiscal adjustment and heighten financing risks in the medium-term.

Recent developments

Oman's economy is recovering well from the COVID-19 shock largely thanks to the buoyant hydrocarbon sector and a strong recovery in high-contact sectors. Official data show that the real economy grew by 4.5 percent in the Q3 2022 y/y led by a 12 percent growth in the hydrocarbon sector. The non-hydrocarbon economy rebounded by 1.6 percent during the same period boosted primarily by the services sector. The latter grew by 5 percent due to the sharp expansion in transportation and storage sub-sectors. As such, overall GDP growth is estimated to edge up by 5 percent in 2022. Inflation accelerated to an average of 2.8 percent in 2022 reflecting the recovery of domestic demand and rising global inflationary pressures.

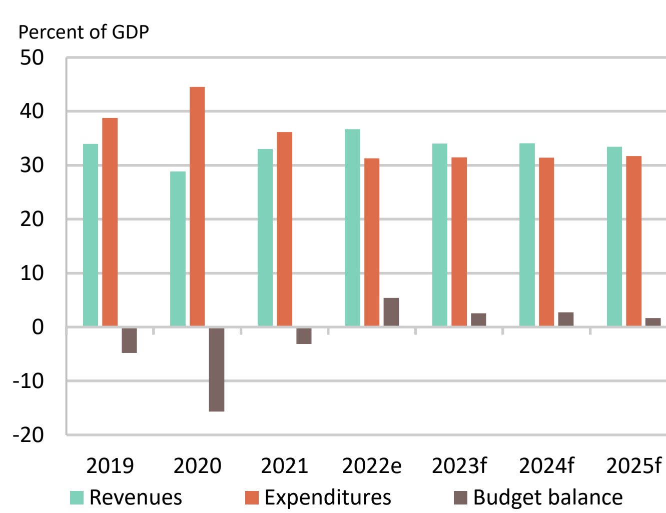
Oman's overall fiscal balance posted a comfortable surplus of over 5 percent of GDP by end-2022, the first surplus since 2013. This improvement stems from both the revenue and expenditure sides. A substantial increase in budgetary revenues (42.3 percent) during the first ten months of 2022 (10M-22) was spurred by higher hydrocarbon receipts (up by over 50 percent y/y) and the implementation of MTFP

FIGURE 1 Oman / Real annual GDP growth



Sources: Oman authorities, World Bank staff projections, and IMF projections.

FIGURE 2 Oman / General government operations



Sources: Oman authorities and World Bank staff projections.

measures. On the expenditures side, the government maintained fiscal prudence by containing the public wage bill and other current expenditures. As a result, Oman's fiscal position shifted to over US$3.0 billion surplus (3.1 percent of GDP) during 10M-22, against a US$2.6 billion deficit (3.0 percent of GDP) for the same period last fiscal year. The positive fiscal developments are estimated to have reduced the debt-to-GDP ratio to 43 percent in 2022—from over 62 percent in 2021.

Similarly, the trade balance surplus widened in the first 10M-22 to US$22 billion (20 percent of GDP) compared to US$9 billion (10 percent of GDP) during the same period of last year. The surplus is driven by higher merchandised exports, of which 75 percent is hydrocarbon-based. Higher hydrocarbon prices and fiscal adjustments are estimated to shift the current account balance into a surplus of almost 6 percent of GDP in 2022. As a result, gross foreign assets reached a record high of US$17.5 billion as of December 2022.

Based on ILO estimates, Oman's labor market continues a slow recovery from the impact of the pandemic but is not expected to fully rebound by 2023. The labor force participation rate and employment-to-population ratio are projected to reach 68.2 percent and 66.5 percent respectively in 2023, still around two percentage points below their 2019 levels. According to the most recent monthly statistical bulletin, employment has expanded faster in the private sector than in the public sector. The unemployment rate is expected by the ILO to remain elevated at around 2.5 percent, with recovery slower among women than among men. Unemployment rates continue to be higher among young adults, with the highest rates among young women (projected at 26.9 percent for 2023).

Outlook

Oman's economy is forecast to continue to grow driven by increased hydrocarbon production capacity, and accelerated implementation of structural reforms under Vision 2040, but at a slower pace as global demand for oil weakens. Overall growth is projected to moderate to 4.3 percent in 2023 and to slow down further thereafter, reflecting softening global demand. However, the hydrocarbon sector will remain the driving force of the economy, which is projected to grow by over 9 percent in 2023 aided by the development of new natural gas fields. The non-oil economy is anticipated to continue its recovery trajectory and grow by almost 3 percent in 2023 supported by frontloading of infrastructure projects, increased industrial capacity from renewable energy, and the tourism sector. Inflation is forecast to slow to an average of 2 percent during 2023-25 on rising interest rates, government subsidies, and lower commodity prices.

Despite the projected decline in the hydrocarbon prices in the forecast period, Oman's overall fiscal balance is expected to remain in surplus averaging nearly 2.3 percent of GDP in 2023-25 assuming continued implementation of fiscal adjustment measures under MTFP.

The current account is projected to remain in a comfortable surplus over the medium term as higher liquified natural gas exports will partially compensate for the decline in hydrocarbon prices. This will help Oman to rebuild its foreign reserves, which are projected to exceed US$24 billion in 2023-25 (6 months of imports), and improve the country's resilience against external shocks.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-3.4	3.1	5.0	4.3	2.4	2.5
Private Consumption	9.6	6.8	4.2	3.5	2.9	3.0
Government Consumption	-14.0	0.9	3.3	1.6	1.3	2.5
Gross Fixed Capital Investment	1.8	-1.5	4.6	4.1	3.0	3.1
Exports, Goods and Services	-14.6	14.2	13.0	6.0	3.5	3.2
Imports, Goods and Services	-8.9	2.7	6.6	5.2	4.8	4.9
Real GDP growth, at constant factor prices	-3.4	3.1	5.0	4.3	2.4	2.5
Agriculture	14.3	9.0	2.2	2.8	1.9	1.5
Industry	0.0	1.1	4.6	4.1	3.5	3.3
Services	-8.1	5.3	5.6	4.6	1.1	1.5
Inflation (Consumer Price Index)	-0.9	1.5	2.8	2.3	2.1	1.9
Current Account Balance (% of GDP)	-16.2	-4.9	5.7	3.5	2.3	1.6
Net Foreign Direct Investment Inflow (% of GDP)	4.7	5.0	-2.0	-1.0	-0.5	-0.2
Fiscal Balance (% of GDP)	-15.7	-3.2	5.4	2.5	2.7	1.7
Revenues (% of GDP)	28.9	33.0	36.7	34.0	34.1	33.4
Debt (% of GDP)	69.5	62.8	42.7	42.2	41.8	41.0
Primary Balance (% of GDP)	-12.6	0.0	8.1	5.4	5.6	4.7
GHG emissions growth (mtCO2e)	7.5	4.2	6.2	4.7	3.8	4.3
Energy related GHG emissions (% of total)	70.9	71.5	72.5	73.1	73.4	73.8

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

PALESTINIAN TERRITORIES

Table 1	2022
Population, million	5.0
GDP, current US$ billion	19.4
GDP per capita, current US$	3846.4
Upper middle-income poverty rate ($6.85)[a]	20.5
Gini index[a]	33.7
School enrollment, primary (% gross)[b]	94.0
Life expectancy at birth, years[b]	74.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ WDI for School enrollment (2021); Life expectancy (2020).

The Palestinian economy's post-pandemic recovery continued during 2022, albeit at a slower rate compared to the 2021 rebound. Despite a significant narrowing of the deficit in 2022, the fiscal situation remains critical, in a context of a rigid expenditure envelope and very low external aid. This has forced the Palestinian Authority to accrue large arrears to the private sector and public pension fund and to pay partial salaries to public employees. The outlook remains precarious and subject to political stability and security conditions.

Key conditions and challenges

The Palestinian economy remained stagnant for years prior to the recent crises emanating from the COVID-19 pandemic and the Russian invasion of Ukraine. During 2017-19, annual GDP growth averaged a mere 1.3 percent due to ongoing Israeli restrictions, recurrent hostilities, the internal divide between the West Bank and Gaza, and falling aid inflows. The economy, in recent years, has been driven by factor accumulation rather than improvements in productivity, and growing slower than the population, resulting in decreasing per capita incomes and rising poverty. Even though gross investment has been robust in recent years, the bulk of it has been channeled into non-tradable activities rather than sectors that could help boost growth and job creation. The combination of sluggish productivity and the complexity of political, security, and health risks have inhibited investment, with very low net FDI levels in the last 5 years.

Subnational trends paint a highly divergent picture. In 2021, GDP per capita in Gaza was estimated at US$1,440 - around a quarter of the West Bank's, where it exceeded US$5,300. In 2016/17, around 20.5 percent of Palestinians lived below the upper-middle income poverty line ($6.85 2017 PPP a day), according to the latest national household survey. Poverty is significantly more prevalent in Gaza, with almost half of the population living below the poverty line in 2016/17, compared to less than 10 percent in the West Bank.

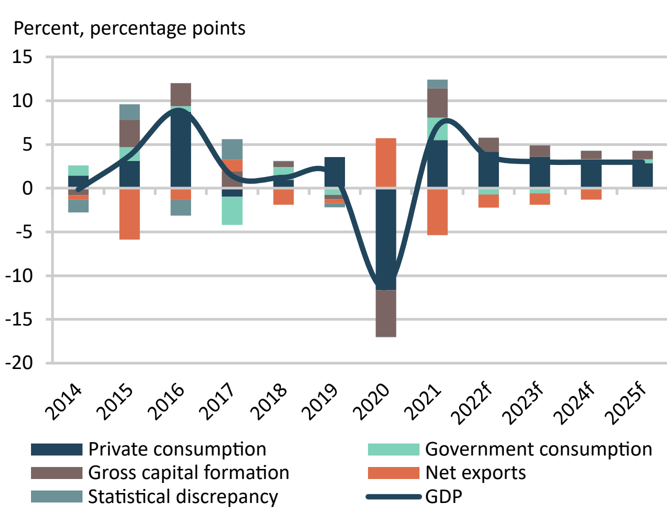
Recent developments

In 2022, the Palestinian economy continued its rebound from the COVID-19 shock, and real GDP growth reached 3.6 percent, year-on-year (y-o-y). The easing of COVID-related measures allowed the economy to expand driven by consumption, which in turn prompted the growth of the wholesale and retail trade sector, as well as services. The increase in the number of Palestinians working in Israel and the settlements also aided the recovery, as the average daily wage of these workers is more than twice as high as that paid in the Palestinian territories, implying a larger impact on aggregate demand. Despite this positive trajectory, the economy is yet to rebound to its pre-pandemic level.

Stronger aggregate demand, coupled with rising global commodity prices and the supply-side shocks determined by the war in Ukraine, generated an inflationary push that brought the CPI up to 3.7 percent (y-o-y) in 2022, from negative territory in 2020. On the other hand, the appreciation of the Israeli Shekel (i.e., the main currency in circulation in the Palestinian territories) contributed to mitigating inflation, in comparison to other countries in the region.

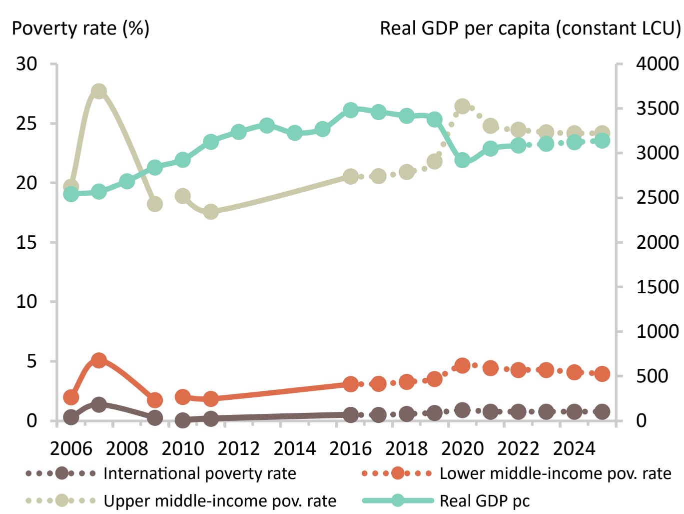
The economic recovery and reforms supported revenue mobilization, while the authorities kept public expenditure contained by reducing transfers, in 2022. Thus, the overall fiscal deficit (after grants)

FIGURE 1 Palestinian territories / Real GDP growth and contributions to real GDP growth



Sources: Palestinian Central Bureau of Statistics and World Bank estimates.

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



Source: World Bank. Notes: see Table 2.

and after accounting for the deductions made by Israel from VAT and import taxes collected on behalf of the Palestinian Authority declined from 5.7 percent of GDP in 2021 to 1.8 percent in 2022. The deficit has been largely financed by the accumulation of arrears to the private sector, the public pension fund, and public employees (as the Palestinian Authority has been paying 80 percent of public sector salaries, while protecting the lowest earners, since November 2021).

Unemployment remained high in 2022, at 24.4 percent, despite marginal improvements from 2021. This overall rate, however, masks wide regional divergences. In the West Bank, unemployment stood at 13.1 percent in 2022, while it reached 45.3 percent in Gaza, reflecting the devastating implications of the movement and access restrictions on the Strip that have created a nearly closed economy.

Based on GDP per capita growth trends, it is estimated that the poverty rate spiked to 26.5 percent in 2020, an increase of around 6 percentage points from 2016 (latest available official data). As the impact of the pandemic receded over the course of 2021 the poverty rate is estimated to have declined to 24.5 percent in 2022. These rates represent a population of approximately 1.25 million people who are deemed poor.

Outlook

Growth is projected to soften over the forecast period. Under a baseline scenario which assumes: a continuation of the restrictions on movement and access, the persistence of the internal divide between the West Bank and Gaza, and stagnating aid levels, growth of the Palestinian economy is expected to hover around 3 percent over the forecast period, implying a stagnation in real incomes. Consequently, the poverty rate is projected to reach 24 percent by 2025.

On the fiscal front, revenues as a share of GDP are projected to further grow over the forecast period driven by the PA's continued efforts to implement the revenue strategy (2022-2025). On the spending side, fiscal expenditures are projected to decline gradually as a percentage of GDP given the authorities' plans to rationalize spending, especially on the wage bill. The overall fiscal deficit, including grants and deductions from clearance revenues, is thus expected to decline to 0.9 percent of GDP by 2025.

Downside risks remain elevated. A further decline in public consumption may negatively impact growth especially as the PA may resort to further spending cuts if aid levels do not recover. Following the recent election of a new Israeli government, tensions have increased as has uncertainty regarding political and security developments, which could exacerbate macro and fiscal risks. Internal decisions under discussion by the new Israeli government may negatively impact the Israeli currency and economy which, in turn, could weigh heavily on economic outcomes on the Palestinian side given the strong links between both economies.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-11.3	7.1	3.6	3.0	3.0	3.0
Private Consumption	-13.1	7.5	3.6	4.1	3.2	3.2
Government Consumption	0.3	10.3	-2.4	-2.6	2.2	2.3
Gross Fixed Capital Investment	-20.9	13.7	7.3	5.0	3.5	3.5
Exports, Goods and Services	-11.2	17.3	5.5	3.8	3.8	3.8
Imports, Goods and Services	-14.2	14.8	5.6	3.6	3.6	3.6
Real GDP growth, at constant factor prices	-12.0	6.2	3.7	3.0	3.0	3.0
Agriculture	-9.1	-0.7	-4.2	-2.0	-1.0	0.0
Industry	-19.4	4.5	7.7	3.0	3.0	3.0
Services	-10.0	7.5	3.4	3.5	3.4	3.2
Inflation (Consumer Price Index)	-0.7	1.2	3.7	1.6	1.2	1.2
Current Account Balance (% of GDP)	-12.3	-8.2	-8.9	-8.6	-8.5	-8.5
Net Foreign Direct Investment Inflow (% of GDP)	0.9	1.0	1.0	1.0	1.0	1.0
Fiscal Balance (% of GDP)	-7.5	-5.7	-1.8	-1.4	-1.2	-0.9
Revenues (% of GDP)	25.2	24.6	25.8	25.8	26.0	26.1
Expenditure (% of GDP)	32.6	30.3	27.6	27.2	27.1	27.1
Debt (% of GDP)	55.5	55.8	52.6	52.0	51.5	50.8
Primary Balance (% of GDP)	-7.1	-5.1	-1.1	-0.7	-0.5	-0.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.9	0.8	0.8	0.8	0.8	0.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	4.7	4.4	4.3	4.3	4.1	4.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	26.4	24.8	24.5	24.3	24.2	24.2

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 2016-PECS. Actual data: 2016. Nowcast: 2017-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2016) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

QATAR

Table 1	2022
Population, million	2.9
GDP, current US$ billion	225.3
GDP per capita, current US$	78219.6
School enrollment, primary (% gross)[a]	102.2
Life expectancy at birth, years[a]	79.1
Total GHG emissions (mtCO2e)	137.3

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

The FIFA World Cup hosted in Qatar in November and December 2022 provided a near-term boon to the economy despite tightening global financial conditions and declining commodity prices. Large external and fiscal surpluses are anticipated in the medium term supported by the development of the North Field LNG expansion project. Key risks to the outlook include a breakout of new COVID-19 variants, tighter global financial conditions, and volatile energy prices. Diversification continues to be the main challenge for the economy.

Key conditions and challenges

The FIFA World Cup, which began in late November 2022, reportedly drew 3.4 million visitors in total. Travel, tourism and hospitality, and retail sectors have all gained momentum and received a major boost during Q4 2022.

The hydrocarbon sector continues to benefit from high yet moderating energy prices. Large surpluses in the external and fiscal balances are expected to remain for the next few years. The main driver of the economy will be the development of the North Field Liquified Natural Gas (LNG) expansion project. Over the forecast period, investment spending on this project will support overall economic growth. LNG production in 2026 and 2027 will rise substantially supporting industrial output and boosting exports.

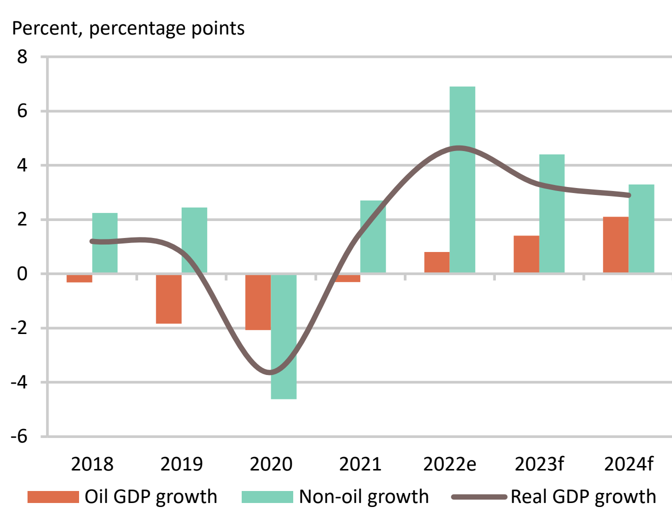
In the medium term, the greatest challenge that the country faces will be how to continue to diversify away from hydrocarbons. In the last ten years, the size of the hydrocarbon economy in relation to total GDP has declined but investments to expand LNG capacity over the next five years will reverse this trend. Within this context, additional structural reforms would boost Qatar's goal to further diversify its economy.

Recent developments

Qatar's Q3 2022 real GDP grew by 4.3 percent with contributions from both non-hydrocarbon (5.3 percent) and hydrocarbon (2.7 percent) sectors. The FIFA World Cup in November and December attracted 3.4 million spectators, including 1.2 million international visitors, leading to increased spending on tourism, food, and hospitality and boosting Q4 GDP growth. Despite a slight drop in the January PMI, the Future Output index rose to a three-year high indicating strong optimism for new business opportunities on the back of the World Cup. In the hydrocarbon sector, Qatar signed several long-term supply agreements in November, including the first Qatari-German LNG supply contract for at least 15 years, and the record-breaking 27-year deal with China. Qatar has already implemented the first phase of LNG production in North Field to increase production from 77 million tons to 110 million tons by 2025 and 126 million tons by 2027. This mega project will further expand Qatar's already dominant position in the LNG global market.

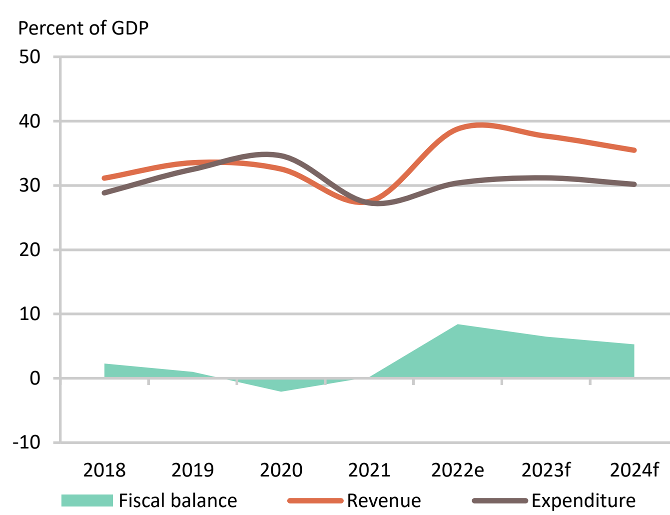
Higher domestic demand led to a significant increase in inflation, with consumer prices rising 5.9 percent in December. In mid-December, the Qatar Central Bank (QCB) raised its key policy interest rate by 50 basis points to 5 percent. The rise in interest rates and a strong currency (pegged to the US dollar) prevented a full passthrough of higher import prices

FIGURE 1 Qatar / Annual real GDP growth



Source: World Bank.

FIGURE 2 Qatar / Fiscal balance



Source: World Bank.

to consumers and businesses. The QCB maintained its policy rate in February, in contrast to the Fed's hike, as inflation eased to 4.2 percent in January as some domestic demand-side pressures associated with the World Cup started to fade.

High hydrocarbon prices have materially strengthened fiscal and external balances, resulting in a large fiscal surplus of 13.2 percent of GDP and an external balance surplus of 27.5 percent of GDP in Q3. In Q4, the large influx of World Cup tourists boosted services export revenues. International reserves and foreign currency liquidity witnessed its highest growth, reaching QAR 230 billion (USD 63.2 billion) at the end of December 2022.

Thanks to continued labor reforms, Qatar's labor market is strengthening. Labor mobility has increased following the dissolution of the kafala sponsorship system. Almost 350,000 applications to change jobs were approved between November 2020 and August 2022, significantly outpacing the estimated 27,000 people who changed jobs in 2018 and 2019. However, progress is still needed in communicating the new process for changing jobs and deterring retaliatory behavior by employers as well as improving working conditions. Expanded electronic monitoring of payments and more channels for raising complaints and resolving disputes have contributed to an increase in the amount paid out from the Workers' Support and Insurance Fund in 2022 relative to the previous year, but it can still take a long time for cases to be processed. As of October 2022, more than 70 private and public entities had established joint committees of management and worker representatives to facilitate social dialogue.

Outlook

Real GDP is estimated to slow down to 3.3 percent in 2023 after the strong performance registered in 2022, with the hydrocarbon sector expanding by 0.8 percent. The North Field expansion project is expected to boost the hydrocarbon sector in the medium term once the field enters commercial operation. Robust growth is anticipated during this year in the non-hydrocarbon sectors, reaching 4.3 percent, driven by private and public consumption. Consumer prices are projected to decelerate, averaging 3.2 percent in 2023, on the back of tightening global financial conditions and declining international commodity prices.

With falling, but still-high, international energy prices, the twin-balance surpluses are projected to narrow but remain large in 2023 compared to 2022. Specifically, the external and fiscal balances are projected to reach 15.9 and 6.5 percent of GDP in 2023, respectively. The strength of Qatar's hydrocarbon sector (currently the largest LNG exporter and third largest producer) underpins the strong performance of the economy. Although the bidding process related to the first phase of the expansion of the North Field intensified, there is no evidence that investments have been accelerated beyond what had been planned prior to the Russian invasion of Ukraine (i.e., an increase in LNG production by 60 percent by 2027).

The much-delayed introduction of value-added tax (VAT), now expected to come into effect during 2023, will offset some of the declines in hydrocarbon revenue and support the budget balance. Notwithstanding a softening of global hydrocarbon prices in the medium term, the expansion of LNG production through 2027 should boost the cumulative increase in Qatar's total GDP by at least 15 percent. However, the economy continues to face challenges and risks, including the potential emergence of new COVID-19 variants, fluctuations in energy prices, and tightening global financial conditions.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-3.6	1.5	4.6	3.3	2.9	3.1
Private Consumption	-5.6	3.4	5.1	3.0	2.6	2.6
Government Consumption	10.3	2.8	4.1	3.0	2.5	2.8
Gross Fixed Capital Investment	-3.1	2.3	3.1	2.4	2.1	2.3
Exports, Goods and Services	-6.8	2.4	5.4	5.1	4.9	4.5
Imports, Goods and Services	-2.7	4.7	6.5	6.1	6.1	6.0
Real GDP growth, at constant factor prices	-3.6	1.5	4.6	3.3	2.9	3.1
Agriculture	18.5	0.5	3.4	3.0	3.0	2.9
Industry	-3.2	0.7	5.2	3.9	3.1	3.1
Services	-4.4	3.1	3.3	2.2	2.6	3.0
Inflation (Consumer Price Index)	-2.7	2.3	5.0	3.2	2.1	1.8
Current Account Balance (% of GDP)	-2.5	14.6	22.5	15.9	12.1	10.9
Fiscal Balance (% of GDP)	-2.1	0.2	8.4	6.5	5.3	5.0
Revenues (% of GDP)	32.6	27.5	38.8	37.7	35.5	34.8
Primary Balance (% of GDP)	-0.3	1.8	9.6	7.5	6.3	6.0
GHG emissions growth (mtCO2e)	2.8	6.5	9.3	7.5	7.9	8.5
Energy related GHG emissions (% of total)	76.5	77.8	79.5	80.8	82.1	83.4

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

SAUDI ARABIA

Table 1	**2022**
Population, million	36.4
GDP, current US$ billion	1019.3
GDP per capita, current US$	27996.9
School enrollment, primary (% gross)[a]	102.1
Life expectancy at birth, years[a]	76.2
Total GHG emissions (mtCO2e)	771.4

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

Following the strong performance in 2022, economic growth is expected to taper off in 2023 driven by stagnant oil production, as part of OPEC+ agreed production schedule. Inflation remains contained supported by relatively strong US dollar, tight monetary policy, and a cap on domestic fuel prices. Elevated oil prices support twin-balance surpluses in the medium-term. A breakout of new COVID surges, volatile oil prices, and tighter-than-expected global financial conditions are key risks to the outlook.

Key conditions and challenges

The Saudi Arabian economy is dominated by oil, and a long-term diversification plan (Vision 2030) promotes structural reforms targeting strong, sustained, inclusive, greener, and service-led growth. Accordingly, the Public Investment Fund (PIF) is aiming to channel SAR150 billion (US$40 billion) annually into pushing the diversification agenda forward. Similarly, the Shareek initiative aims to generate about SAR5 trillion (US$1.3 trillion) of local investment by 2030, helped by the participation of some of the Kingdom's largest companies. Strong emphasis is also being placed on tourism development, with a view to boosting the sector's contribution to 10 percent of GDP by 2030.

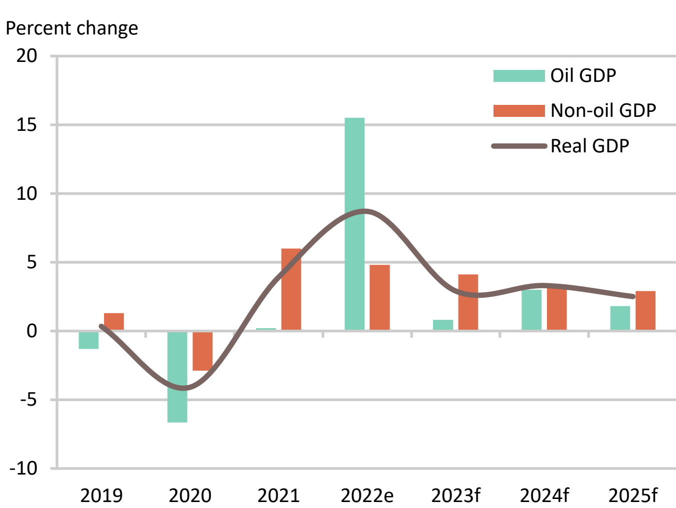
Development opportunities and risks are both numerous. On the upside, an improvement in China's growth prospects—following the abrupt abandonment of its zero covid policy—holds the promise of stronger demand in Saudi Arabia's main export market. On the downside, risks include: new COVID surges, lower oil prices due to reduced global activity (especially if the Russian invasion of Ukraine has lasting effects), tighter-than-expected global financial conditions, and procyclical pressures to spend oil windfalls and deviate from fiscal prudence. Delays or digressions in implementing structural reforms highlighted in the Vision 2030, either due to international shocks or because of the foreseen comfortable twin-balance surpluses, would reduce prospects for stronger long-term growth.

Recent developments

The Saudi Arabia economy grew at an impressive pace in 2022 despite weaker year-on-year growth in Q4, reflecting the OPEC+ decision to cut oil quotas from November onward. Official data suggest that the economy grew by 8.7 percent yearly—the fastest growth rate since 2011—supported by the oil sector which rebounded by a staggering 15.5 percent. Supported by robust consumer spending, loose fiscal policy, and improved labor markets, the non-oil sectors continued to expand, reaching 4.8 percent y-o-y in 2022. Headline inflation stayed moderate and well-below the levels recorded in other comparable countries, with a (monthly) peak of 3.4 percent being registered in January 2023.

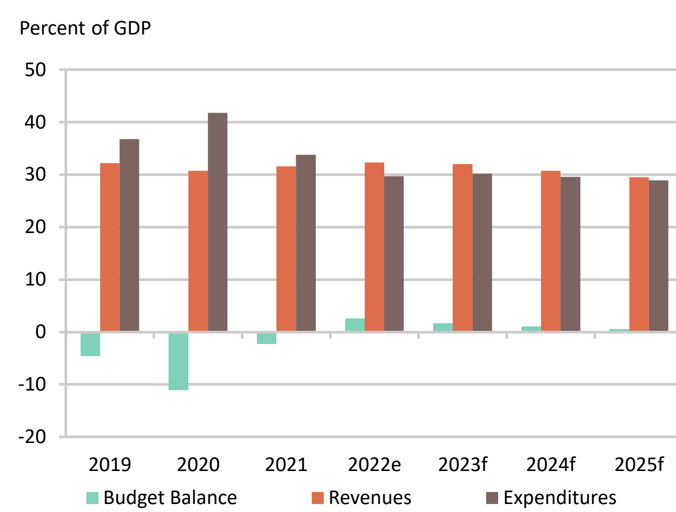
Ministry of Finance data indicate total actual outlays exceeding budgeted expenditures by around 19 percent in 2022. However, booming oil receipts more than compensated for the loose policy, resulting in a fiscal balance surplus of 2.6 percent of GDP—from a deficit of 2.3 percent of GDP in 2021. As a result, public debt fell by more than 5 percentage points in 2022, to hover around 25 percent of GDP. The Q3 2022 balance of payments data show a current account surplus boom, on the back of stronger oil receipts—marking

FIGURE 1 Saudi Arabia / Annual real GDP growth



Sources: GASTAT Saudi Arabia and World Bank staff estimates.

FIGURE 2 Saudi Arabia / Central government operations



Source: World Bank, Macroeconomics, Trade & Investment Global Practice.

the largest surplus recorded in eight years. However, the Saudi Central Bank's foreign reserves only increased by $1.6 billion which suggests that a significant share of oil revenues being rechanneled by PIF into investments abroad. Overall, the current account surplus is predicted to widen to 15.7 percent of GDP in 2022 on the back of higher oil prices and production levels.

The number of Saudis working in the private sector continues to increase. According to administrative data, the number of Saudi employees in the private sector in Q3 2022 reached 2.14 million, up from 1.91 million in Q4 2021. The number of non-Saudi nationals employed in the private sector also increased to 7.16 million in Q3 2022 from 6.17 million in Q4 2021. The overall labor force participation rate and employment-to-population ratio increased slightly from Q3 2021 to Q3 2022, while the unemployment rate decreased. The labor force participation rate among Saudis increased from 49.8 percent to 52.5 percent and the employment-to-population ratio among Saudis increased from 44.2 percent to 47.3 percent, while the same indicators decreased slightly among non- Saudis. Importantly, the labor force participation rate and employment-to-population ratio also continue to increase for Saudi women, reaching 37 percent and 29.4 percent, respectively in Q3 2022.

Outlook

Following a GDP expansion of 8.7 percent in 2022, economic growth is expected to decelerate to 2.9 percent in 2023. Stagnant oil production – as Saudi Arabia abides by OPEC+ agreed production quota – will constrain oil sector growth to 0.8 percent. However, as far as oil prices remain high, governments will have plenty of room to keep fiscal policy loose. Furthermore, the backdrop of high oil prices will support credit growth and soften the adverse impact of tighter monetary conditions on consumption. As a result, the non-oil sectors, which are expected to grow by 4.1 percent, will cushion the softening of the oil sector growth. Meanwhile, a relatively strong US dollar, restrictive monetary policy, and a cap on domestic fuel prices are predicted to curb potential upward pressure on prices, thus keeping inflation rate subdued at 2.4 percent.

Despite the continued expansionary fiscal approach and some reduction in oil receipts during 2023, the fiscal balance is expected to register a surplus of 1.7 percent of GDP—above government's forecast of 0.4 percent of GDP. As a result, and reflecting the reduced financing needs by the government, the debt-to-GDP ratio is expected to reach 24 percent of GDP. The off-budget capital spending by PIF will continue to remain substantial.

Even with the anticipated fall in oil export revenue in 2023, due to softening oil prices and production levels in Saudi Arabia, exports will continue to dwarf imports. As a result, the current account surplus is expected to continue in double-digits during the forecast period.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-4.3	3.9	8.7	2.9	3.3	2.5
Private Consumption	-8.1	9.4	6.5	3.6	3.3	3.0
Government Consumption	3.3	0.8	4.5	3.1	2.9	2.5
Gross Fixed Capital Investment	-10.4	10.1	10.0	7.2	3.3	3.3
Exports, Goods and Services	-10.6	1.0	18.5	1.8	4.2	2.9
Imports, Goods and Services	-19.8	8.3	17.4	5.4	4.3	4.3
Real GDP growth, at constant factor prices	-4.3	3.9	8.6	2.9	3.3	2.5
Agriculture	-1.7	2.6	3.0	2.0	2.0	2.0
Industry	-6.0	1.7	10.4	0.8	2.3	1.5
Services	-2.2	6.7	6.8	5.5	4.5	3.7
Inflation (Consumer Price Index)	3.4	3.1	2.5	2.4	2.2	2.2
Current Account Balance (% of GDP)	-3.1	5.1	15.7	11.0	10.6	10.3
Net Foreign Direct Investment Inflow (% of GDP)	0.1	-0.6	-0.9	-0.9	-1.0	-1.0
Fiscal Balance (% of GDP)	-11.1	-2.3	2.6	1.7	1.1	0.6
Revenues (% of GDP)	30.7	31.6	32.3	31.9	30.7	29.5
Debt (% of GDP)	33.7	30.9	25.7	24.6	23.7	24.2
Primary Balance (% of GDP)	-10.1	-1.3	3.5	2.7	2.1	1.6
GHG emissions growth (mtCO2e)	-0.7	3.6	3.8	2.5	3.7	3.1
Energy related GHG emissions (% of total)	69.8	70.8	70.9	71.2	71.8	72.2

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

SYRIAN ARAB REPUBLIC

Table 1	2022
Population, million	22.1
GDP, current US$ billion	12.4
GDP per capita, current US$	560.5
School enrollment, primary (% gross)[a]	81.7
Life expectancy at birth, years[a]	72.1
Total GHG emissions (mtCO2e)	50.3

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

Syria's real GDP contraction is projected to widen by 2.3 percentage points to 5.5 percent in 2023 as a result of the devastating earthquake that affected significant parts of Syria's northern and western territory; the additional contraction is primarily driven by the destruction of physical capital and disruptions in trade activity. Earthquake-induced displacement added about 20 percent to the staggering count of the 3 million conflict-induced internally displaced people (IDPs) already living in affected areas.

Key conditions and challenges

A decade-long conflict has had devastating socioeconomic consequences. Although the intensity of the conflict has declined from a peak in the mid-2010s, Syria continues to rank amongst the top countries in terms of violent deaths. More than half of Syria's pre-conflict population remains displaced, including 6.8 million IDPs and 6.9 million refugees abroad. The destruction of physical capital, casualties, forced displacement, and the break-up of economic networks have halved the size of the economy compared to 2010. Nighttime light emissions suggest that GDP has further contracted since 2021, particularly in regions where conflict is more intense.

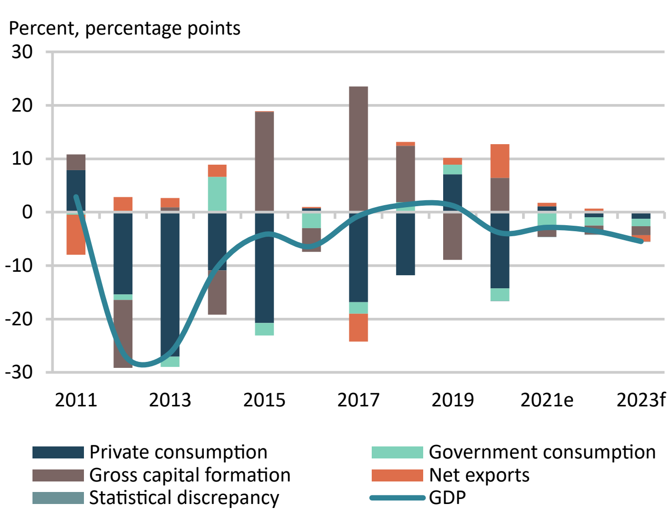
Severe drought, damages to the irrigation infrastructure, and high input costs have halved agricultural production since 2021. Economic instability in neighboring Lebanon and Türkiye, and U.S. sanctions towards Syria under the Caesar Act have further exacerbated crisis conditions. After a decade of war, a severely degraded healthcare system is preventing an effective response to a cholera outbreak that started last summer. With nearly half of the oil consumption and about one-third of cereal consumption being imported, higher commodity prices following Russia's invasion of Ukraine, have weakened Syria's external position, and are fueling inflation. The market exchange rate of the Syrian pound depreciated by about 76 percent against the U.S. dollar in 2022 alone. Currency depreciation has been accompanied by rising inflation, with food prices, as proxied by the World Food Programme's (WFP) minimum food basket price index, rising by 93 percent in 2022.

Syrian households face ever-growing challenges in coping with shocks. According to Humanitarian Needs Assessment Programme (NHAP) data, between 2021 and 2022, the share of households having to rely on at least one extreme negative coping strategy increased from 59 to 76 percent. Deteriorating welfare conditions are further reflected in a higher share of households having to reduce expenditure on essential items, being forced to take up high-risk and exploitative work, or even having to rely on child labor (Figure 2). In 2022, only 15 percent of households report having sufficient income to satisfy essential needs and close to 50 percent of households have had to sell their assets – either productive, unproductive, or both – in order to make ends meet.

Recent developments

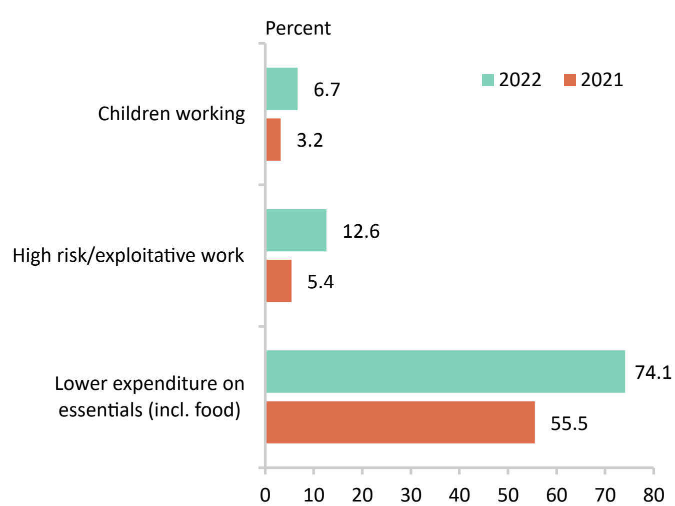
The 7.8 magnitude earthquake that struck the southern region of Türkiye on February 6, 2023, affected significant parts of Syria's northern and western territory. The human toll of the earthquake on the Syrian side of the border was significant, with approximately 6,000 people killed and 12,000 injured. Initial accounts indicate that approximately 600,000 people have been displaced by the earthquake, adding about

FIGURE 1 Syrian Arab Republic / Real GDP growth and contributions to real GDP growth



Sources: Central Bureau of Statistics, Syria and World Bank estimates.

FIGURE 2 Syrian Arab Republic / Share of households relying on extreme coping strategies



Source: World Bank staff calculations based on the Summer 2022 HNAP demographic household survey.

20 percent to the already higher number of 3 million IDPs that already lived in the area affected by the earthquake

Earthquakes and aftershocks caused an estimated $5.2 billion in physical damages and losses in Syria, according to the World Bank Syria Earthquake 2023 Rapid Damage and Needs Assessment (RDNA). The governorate of Aleppo suffered the greatest damages (44 percent of total damages), followed by Idlib (21 percent). By sector, the largest physical damages were incurred in housing (24 percent of the total), followed by transport (19 percent of the total) and environment (16 percent of the total).

Prices have increased in the aftermath of the earthquake. According to the WFP, the nominal prices of key commodities in the food basket, comprised of bread, lentils, vegetable oil, sugar, and rice, increased by about 10 percent in all of the heavily hit governorates (Aleppo, Hama, Idleb, and Lattakia) two weeks after the earthquake. Even in regions that were not seriously impacted by the earthquake, the cost of food and other necessities also increased noticeably.

Outlook

Subject to extraordinarily high uncertainty, the Syrian economy, which was projected to contract by 3.2 percent in 2023 prior to the earthquake, is now projected to contract by 5.5 percent. On the production side, the earthquake would adversely impact the production capacity of the country, mainly through disruptions in physical capital and trade networks. On the consumption side, higher inflation, which is projected to rise from 44 percent to 60 percent as a result of supply chain disruptions and higher transportation costs, would lead to a contraction in private consumption. Earthquake-related reconstruction activity is expected to offset some of these losses, but there is significant uncertainty about the extent and pace of reconstruction.

The fiscal deficit of the Syrian government is projected to rise marginally from a pre-earthquake baseline of 8.6 percent to 8.8 percent of GDP; this is based on the assumption that social and infrastructure needs in the aftermath of the earthquake are largely met by foreign aid. The current account deficit is estimated to increase, rising from a pre-earthquake baseline projection of 2.5 percent to around 3.2 percent of GDP, due mainly to higher imports for reconstruction investment.

High levels of pre-existing welfare vulnerability limit households' capacity to cope with the impact of the earthquake hence exacerbating the risk of long-lasting welfare consequences.

Risks to the economic outlook are significant and tilted to the downside. These include, most notably, a slower-than-expected reconstruction effort, weak private investment, and limited humanitarian assistance for affected areas. GDP losses would be materially higher if reconstruction efforts are delayed.

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

	2020	2021	2022e	2023f
Real GDP growth, at constant market prices[a]	-3.9	-2.9	-3.5	-5.5
Inflation (Consumer Price Index)	114.2	118.8	70.1	60.0
Current Account Balance (% of GDP)	-3.2	-2.8	-2.6	-3.2
Fiscal Balance (% of GDP)	-8.4	-8.6	-8.4	-8.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
a/ Projections based on nighttime light data.

TUNISIA

Table 1	2022
Population, million	12.4
GDP, current US$ billion	46.7
GDP per capita, current US$	3782.6
National poverty rate[a]	16.6
Lower middle-income poverty rate ($3.65)[b]	2.2
Gini index[b]	32.8
School enrollment, primary (% gross)[c]	112.3
Life expectancy at birth, years[c]	75.3
Total GHG emissions (mtCO2e)	38.9

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

Tunisia's economic outlook remains highly uncertain. After a moderate economic rebound in 2021, the economy slowed down in 2022 amid rising global energy and food prices. The price rally has aggravated the fiscal and current account deficits through their effects on consumer subsidies. This exacerbates the already significant debt sustainability concerns and financing needs. Accelerating the recovery and stabilizing the economy will require the speedy implementation of structural reforms.

Key conditions and challenges

A decade after the 2011 revolution, Tunisia faces increasingly difficult economic conditions. Limited reform implementation has left the economy closed to investment and trade and insufficiently equipped to exploit opportunities in the global economy. As growth and private job creation stagnated, the State stepped in as an employer of last resort and price stabilizer through subsidies. This has caused a deterioration of the fiscal situation under the weight of a large public sector wage bill, higher energy and food subsidies, and underperforming state-owned enterprises (SOEs). The COVID-19 pandemic first and the Russia's invasion of Ukraine more recently have exacerbated these weaknesses.

Tunisia's growth prospects hinge critically on timely and decisive structural reforms to address economic distortions and fiscal pressures. The government aims to advance some key reforms including: (i) eliminating business entry permits and unnecessary licenses, (ii) gradually phasing out controls to capital outflows; (iii) reducing consumer subsidies while compensating vulnerable households; (iv) improving the performance of SOEs; (v) making the tax system fairer; and (vi) reducing the public sector wage bill. Progress in these reforms is critical to stabilize the macroeconomic situation and to secure a new IMF program which is essential to mobilize multilateral and bilateral financing and regain access to international financial markets.

Recent developments

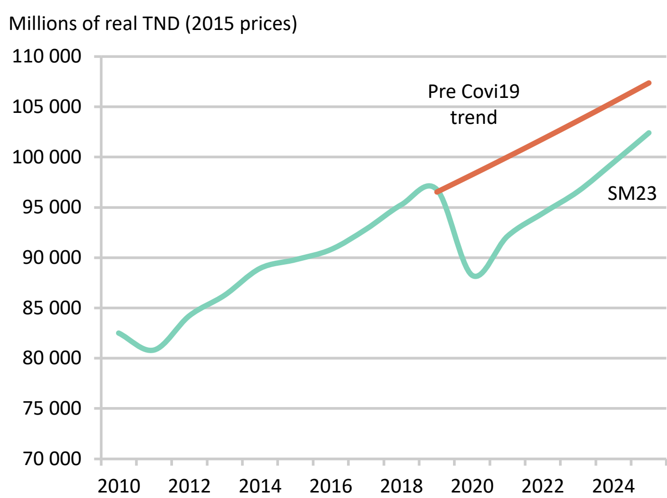
Economic growth has been modest since the sharp contraction in 2020 due to COVID-19 (-8.8 percent). The economy only expanded in real terms by 4.4 percent in 2021 and by 2.5 percent in 2022. The slowdown in 2022 started during the second quarter, a likely sign of the fallout of the war in Ukraine and higher global energy and food prices.

The commodity price hike raised the merchandise trade deficit to 15 percent of GDP in 2022, up from 10.2 percent in 2021 (compared to 13.5 percent in 2017-19). This increase drove up the current account deficit (CAD) from 6.0 to 8.5 percent of GDP in 2021-22, in spite of the encouraging trends in tourism receipts and even more in remittances (which reached 6.5 percent of GDP compared to 4.6 percent in 2017-19).

The increase in global commodity prices has also created additional pressures on public finances, mainly through the energy and food subsidy bill. This translated into continued pressure on public debt, which between 2017 and 2021 had already increased from 66.9 to 79.9 percent of GDP (without including government guarantees and SOE debts).

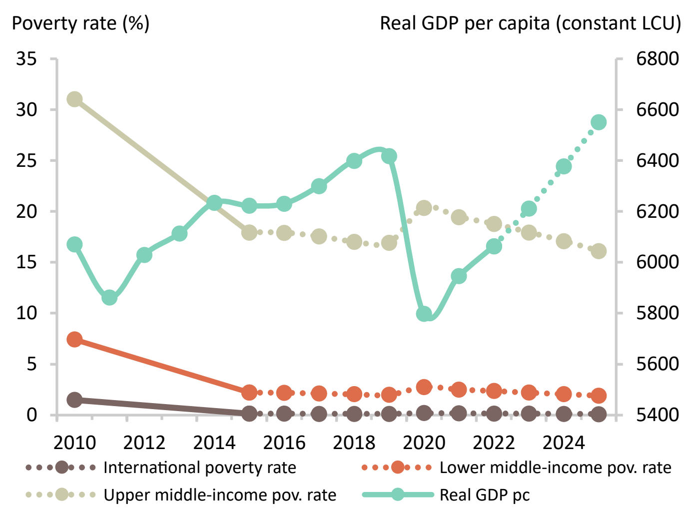
Banks' liquidity needs increased during 2022, largely driven by the financing

FIGURE 1 Tunisia / Real GDP: Actual, forecast and pre-COVID-19 trend



Sources: World Bank estimates and National Institute of Statistics.

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



Source: World Bank. Notes: see Table 2.

needs of the sovereign and also reflecting a renewed, albeit moderate, growth of credits to the economy.

Inflation has risen, driven by higher global energy and food prices and a weakening of the Dinar vis-à-vis the US Dollar. In February 2023, consumer price inflation increased for the 18th consecutive month to 10.4 percent, up from 10.2 percent in January and 6.4 percent in July 2021. Rising inflation pushed the Central Bank to raise its policy rate by 175 basis points since May 2022, to 8 percent. However, the real interest rate remains negative which leaves further room for maneuver.

Even with moderate economic growth, the unemployment rate declined to 15.2 percent in Q4 2022 from 16.2 percent a year ago, returning to pre-pandemic levels (15.1 percent in Q2 2019). This is still one of the highest rates in the region – and it is particularly high among youth and women - and it is associated with a slight year-on-year reduction in labor force participation (from 47 in Q4 2021 to 46.5 percent in Q4 2022). Hence the net job creation during the period has been low with a total of only 13,000 jobs being created, mainly in the services sectors. Out of these jobs, more than 80 percent were taken by female workers.

Outlook

With a projected growth rate of 2.3 percent in 2023, the economy appears to be slowing down relatively to the trend in 2021 and even in 2022. This reflects the challenging global environment and the lack of structural reforms. With this growth rate, real GDP would reach its pre-Covid 19 level in 2023. Growth is expected to eventually gain ground, but it remains modest at around 3.0 percent a year over the medium term, dragged by pre-existing structural weaknesses and the economic consequences of and uncertainty around the Russian invasion of Ukraine.

Tunisia's public finance and external account will remain precarious in the absence of an IMF program and external financing, and uncertain global conditions. The budget deficit is expected to decline somewhat to 4.6 percent of GDP in 2023 (compared to 6.6 percent of GDP in 2022), mainly driven by lower energy subsidies, a lower wage bill in real terms, and an increase in tax revenues, particularly indirect. Financing needs are expected to remain elevated at around 14.9 percent of GDP in 2023 due to significant external debt amortization.

The CAD is projected to moderate somewhat to 8.0 percent of GDP in 2023, mainly the result of improved terms of trade along with the continued strength of tourism receipts and remittances. With FDI projected to be relatively stable and minimal portfolio investments, foreign lending would still have to shoulder the financing of the CAD.

The 2023 growth forecast is subject to significant downside risks. Growth projections could be significantly lower should Tunisia not implement decisive fiscal and pro-competition reforms and/or should available financing not be sufficient to cover Tunisia's external needs, including as a result of protracted delays in finalizing the IMF agreement. If these conditions occur, it may be challenging to secure sufficient foreign currency in the economy, which could lead to pressures on the exchange rates and prices, exerting a negative impact on economic activity and employment.

Given our baseline growth projections, poverty using the $3.65/person/day line (in 2017 PPP term) is projected to decline from 2.4 percent in 2022 to 2.1 percent in 2024 and 1.9 percent in 2025. The share of poor and vulnerable at the upper-middle income country poverty line ($6.85/person/day in 2017PPP) is projected to decline under pre-Covid levels after 2024 and reaching 16.1 percent in 2025.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-8.8	4.4	2.5	2.3	3.0	3.0
Private Consumption	-5.1	3.0	4.3	2.2	2.9	3.1
Government Consumption	-4.1	2.2	-2.2	-0.4	-0.5	-0.5
Gross Fixed Capital Investment	-22.4	4.0	4.5	1.4	1.9	-1.7
Exports, Goods and Services	-20.0	11.8	5.9	5.0	7.1	4.2
Imports, Goods and Services	-16.6	10.9	9.5	3.0	4.6	1.4
Real GDP growth, at constant factor prices	-8.7	4.5	2.5	2.3	3.0	3.0
Agriculture	0.4	-2.7	2.0	1.0	3.0	2.0
Industry	-10.1	8.7	1.9	1.5	2.0	2.5
Services	-9.6	4.1	2.9	2.7	3.3	3.3
Inflation (Consumer Price Index)	5.6	5.7	9.1	10.5	10.0	9.0
Current Account Balance (% of GDP)	-6.0	-6.0	-8.5	-8.0	-8.4	-7.8
Net Foreign Direct Investment Inflow (% of GDP)	-1.4	-1.1	-1.4	-4.7	-4.9	-5.0
Fiscal Balance (% of GDP)	-8.7	-7.6	-6.6	-4.6	-3.4	-2.9
Revenues (% of GDP)	25.5	25.7	28.3	28.3	27.1	26.6
Debt (% of GDP)	77.8	79.9	79.3	76.1	71.7	68.7
Primary Balance (% of GDP)	-5.6	-4.8	-3.4	-1.3	-0.2	0.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.2	0.2	0.2	0.1	0.1	0.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	2.8	2.5	2.4	2.2	2.1	1.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	20.4	19.4	18.8	17.9	17.1	16.1
GHG emissions growth (mtCO2e)	-3.6	2.8	3.7	3.9	2.5	2.0
Energy related GHG emissions (% of total)	70.5	71.0	71.5	72.0	72.1	72.1

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 2015-NSHBCSL. Actual data: 2015. Nowcast: 2016-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2015) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

UNITED ARAB EMIRATES

Table 1	2022
Population, million	9.5
GDP, current US$ billion	485.9
GDP per capita, current US$	51149.2
School enrollment, primary (% gross)[a]	115.4
Life expectancy at birth, years[a]	78.9
Total GHG emissions (mtCO2e)	268.0

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

The UAE's post-pandemic rebound continued strongly in 2022 supported by domestic and global oil demand. Growth is projected to slow in 2023 to reflect global economic downturn and cautious production schedule of OPEC+ alliance. The twin-balances surplus is projected to persist in the medium term while inflation moderates. Key risks to the outlook include a breakout of new COVID-19 variants, tighter global financial conditions, volatile oil prices, and external uncertainties.

Key conditions and challenges

UAE continues to be the region's trade, financial, and travel hub due to the progress made in economic diversification and reducing hydrocarbon dependency. However, the UAE will increasingly face greater regional competition for foreign investment, especially from Saudi Arabia and Qatar, as these countries adopt economic plans similar to Abu Dhabi's Economic and Environment Vision 2030 and Dubai's Industrial Strategy 2030.

Hydrocarbon activity continues to be the main source of government revenue. Steps towards diversifying public revenues are in progress with the introduction of VAT, and most recently, corporate income tax (CIT) and gradually phasing out of the business fee structure. The economic growth outlook of the non-oil sector is strong while elevated energy prices will continue to strengthen external and fiscal positions.

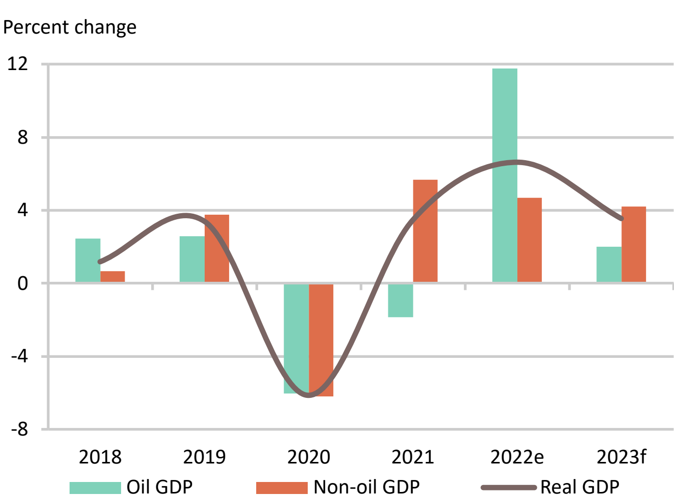
The main impact of extended Russia's invasion of Ukraine on UAE's economy will be through oil price volatility, global inflation, and shocks to the tourism sector. Domestic monetary policy is set to tighten further in line with the US Federal Reserve policy, which might dampen economic recovery and job creation. The main risks to UAE's economic growth are global uncertainty, evolution of the war in Ukraine, potential global economic slowdown, and disagreement among OPEC+ members on production quotas. In addition, delays or digressions in implementing structural reforms would reduce prospects for stronger long-term growth and employment.

Recent developments

UAE's economic performance was strong in 2022, estimated at 6.6 percent, driven by an increase in oil production and improvement in the non-oil sectors. Higher oil prices and loosening of OPEC+ quotas pushed oil production to an average of 3 mbpd in the first half of 2022. Meanwhile, non-oil GDP continued recovery in 2022, estimated at 4.7 percent, driven by strong growth in the construction and tourism sectors. Private consumption is expected to further support non-oil sectors with the launch of mandatory unemployment benefits for local and foreign workers. Business sentiment remains positive, although the global economic slowdown, rising interest rates, and inflation moderated the Purchasers Managers Index (PMI) slightly to 54.2 in February 2023. Headline inflation is estimated at 4.8 percent in 2022 to reflect strong consumption and investments.

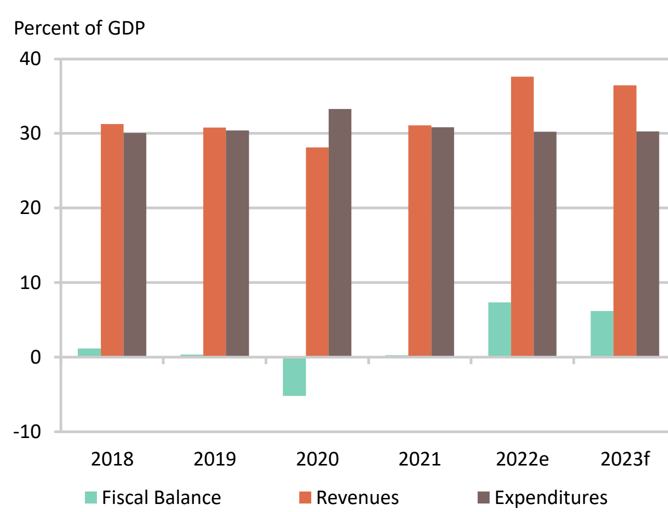
Following the Fed's tightening monetary policy, while maintaining the pegged exchange rate anchor, the Central Bank of UAE (CBUAE) increased the policy interest rates six times in 2022. Despite higher rates, the non-performing loans to gross total loans ratio continued its downward trajectory to reflect a strong economic recovery.

FIGURE 1 United Arab Emirates / Annual real GDP growth



Sources: UAE authorities, IMF WEO, and World Bank staff estimates.

FIGURE 2 United Arab Emirates / Public finances



Sources: UAE authorities, IMF WEO, and World Bank staff estimates.

The spike in oil prices and removal of fiscal measures related to the private sector support during COVID-19 contributed to further widen the fiscal surplus, which is estimated to reach 7.4 percent of GDP in 2022. Furthermore, higher oil receipts and non-oil exports strengthened the current account balance. Signing of free-trade agreements with large Asian and African markets will further strengthen non-oil exports and widen external balance surplus further.

Understanding of poverty, inequality, and livelihoods in the UAE continues to be limited due to sparse representative household and labor data. The labor force participation rate is expected to reach 82.7 percent in 2023 (ILO), slightly above its 2019 level. Employment rebounded in 2022 to pre-pandemic levels and is expected to continue to increase in 2023. The unemployment rate is projected to be 2.7 percent for 2023, a decrease from the height of the pandemic but still not back to 2019 rates. Unemployment rates remain substantially higher among young adults ages 15-24 than among adults ages 25 and over. The gap is especially wide among women, with projected rates of 18.6 percent and 5.5 percent respectively for 2023.

Outlook

Economic growth in 2023 is expected to slow compared to 2022 due to a decline in global economic activity, stagnant oil production, and tightening financial conditions. Real GDP is projected to grow by 3.6 percent in 2023 before moderating slightly over the forecast period. The non-oil sector is anticipated to grow by 4.2 percent in 2023 supported by strong domestic demand; particularly in the tourism, real estate, construction, transportation, and manufacturing sectors. Growth will be further strengthened by the implementation of government's reform agenda and CBUAE's efforts to promote stability, efficiency, and resilience of the financial system. Following tighter OPEC+ production quotas, oil GDP is projected to grow by 2 percent in 2023 before rising to 2.8 and 3 percent in 2024 and 2025, respectively.

Stronger US dollar, tighter monetary policy, and falling global commodity prices will keep inflation rates subdued—hovering around 3.4 percent in 2023.

High oil revenues, supported by strong performance of non-oil sectors, will maintain the large fiscal balance surplus, which is expected to reach 6.2 percent of GDP in 2023. Implementation of fiscal revenue reforms, e.g., introduction of CIT, and maintaining prudent and well-coordinated emirate-specific fiscal anchors and rules should improve fiscal buffers and overall fiscal sustainability.

Bilateral free trade agreements with trading partners will open major markets, raising non-oil exports and offsetting the global headwinds. Therefore, it is expected that the current account balance will stand at 11.7 and 10.8 percent of GDP in 2023 and 2024, respectively, keeping the external account in a comfortable position as oil prices moderate.

TABLE 2 United Arab Emirates / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-6.1	3.5	6.6	3.6	3.4	3.4
Private Consumption	-12.5	5.0	5.5	4.7	3.8	3.6
Government Consumption	0.7	1.4	3.4	3.3	3.2	3.2
Gross Fixed Capital Investment	5.8	5.4	5.8	3.7	3.5	3.4
Exports, Goods and Services	-7.0	6.7	8.4	4.3	4.4	4.4
Imports, Goods and Services	-6.4	8.8	7.4	4.9	4.8	4.7
Real GDP growth, at constant factor prices	-6.1	3.5	6.6	3.6	3.4	3.4
Agriculture	6.9	3.8	3.4	3.7	3.9	4.0
Industry	-5.5	1.3	8.8	3.4	3.5	3.6
Services	-6.9	5.6	4.7	3.7	3.2	3.2
Inflation (Consumer Price Index)	-2.1	0.2	5.1	3.4	2.1	2.1
Current Account Balance (% of GDP)	5.9	10.5	13.7	11.7	10.8	10.7
Fiscal Balance (% of GDP)[a]	-5.2	0.3	7.4	6.2	5.6	4.1
Revenues (% of GDP)	28.1	31.1	37.6	36.5	35.4	33.2
GHG emissions growth (mtCO2e)	-4.1	7.2	7.0	-0.5	1.0	2.2
Energy related GHG emissions (% of total)	72.6	73.6	74.9	74.6	74.4	74.4

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

REPUBLIC OF YEMEN

Table 1	2022
Population, million	33.7
GDP, current US$ billion	22.7
GDP per capita, current US$	674.4
School enrollment, primary (% gross)[a]	93.6
Life expectancy at birth, years[a]	64.7
Total GHG emissions (mtCO2e)	21.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2016); Life expectancy (2020).

Economic conditions in Yemen remained highly volatile in 2022 due to both domestic and external drivers. Humanitarian needs worsened due to the economic effects of compounding crises, including Russia's invasion of Ukraine. During 2022, a temporary nationwide truce, external aid, rising oil prices, and some momentum on macroeconomic reforms supported growth. However, the truce expired in October 2022, renewing stress on macroeconomic stability. Downside risks for 2023 include the volatility of aid, scarcity of foreign exchange, and conflict-related developments.

Key conditions and challenges

Several developments supported economic activity in 2022: (1) a temporary UN-brokered truce; (2) the Internationally Recognized Government's (IRG) President transferring power to a Presidential Leadership Council; (3) KSA and UAE announcing a US$3.3 billion financing assistance package, including US$2 billion in deposits at the Central Bank of Yemen (CBY) Aden, contingent on an Arab Monetary Fund (AMF)-supported government's reform program; and (4) IRG monetary and fiscal policy reforms ushering in a relative exchange rate stability in Southern Yemen.

During Q4-2022, positive developments were reversed. In October, the truce expired without extension, and Houthis initiated a series of attacks on IRG oil export facilities. The attacks continue to constrain oil exports. As a result, IRG fiscal revenues and CBY-Aden foreign exchange reserves decreased. These developments also caused a decline in public expenditures – with civil servant salary payments in IRG-controlled areas taking a toll – a widening of the current account deficit, and the risk of renewed stress on the balance of payments and the currency, given the low level of CBY's FX reserves.

In February 2023, KSA deposited US$1 billion at CBY-Aden and UAE US$300 million, as part of the announced package. In spite of this, Yemen's external financing needs exceed available resources, already in 2023. Therefore, economic stability both in the short and medium run remains contingent on mobilizing additional and sustainable external financing.

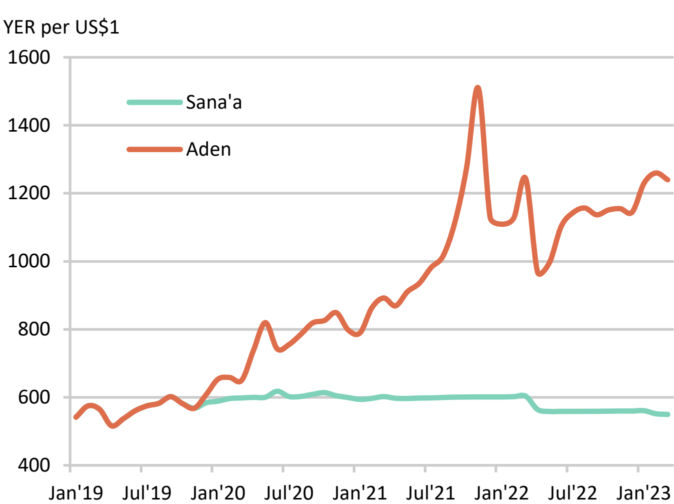
The conflict has heavily jeopardized oil sector activity as well as Yemen's capability to attract foreign investment. Non-oil activity suffers from essential services interruption and acute input shortages, compounded by double taxation (from Yemen's two fiscal authorities) pervasive corruption, uncoordinated policies, and the multiplicity of Yemen's institutions.

Declining civil salary payments and volatile humanitarian assistance have had disastrous impacts on Yemeni households' already precarious living conditions. As a result, food insecurity and poverty are widespread. High food prices make it difficult for households to meet their basic needs. Agriculture – the primary source of subsistence – continues to be highly exposed to disruptive climate, environmental, and pest-related events.

Recent developments

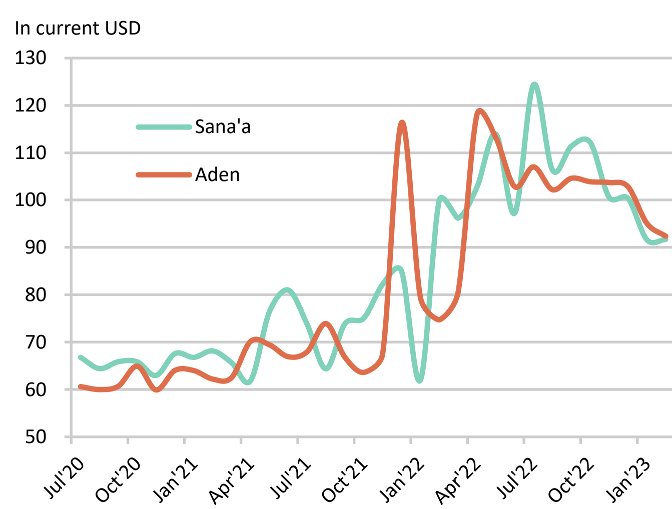
Amid a volatile year, according to IMF and WBG estimates, real GDP grew mildly, by 1.5 percent, in 2022. This tepid growth rate was nonetheless a notable improvement following two consecutive years of contraction. Growth was driven by private consumption and was financed mainly from remittances and official development aid; given Yemen's prevailing conditions, a large amount of unrecorded financial flows also finance economic activity. The

FIGURE 1 Republic of Yemen / Exchange rate trend: Sana'a and Aden



Sources: Telegram Exchange Market Group and World Bank staff calculations.

FIGURE 2 Republic of Yemen / Survival and Minimum Expenditure Basket Price in US$, monthly average



Sources: Yemen Joint Market Monitoring Initiative, Telegram Exchange Market Group and World Bank Staff calculations.

hydrocarbon sector acted as a drag on real GDP growth due to underinvestment and the Houthis' ongoing export embargo. An unprecedented series of torrential rains during the 2022 summer also impacted production, tapering economic expansion.

Regarding fiscal conditions, during the first three quarters of 2022, IRG was on track for a balanced budget; however, the expiration of the truce and subsequent oil export constraints significantly curbed revenues. As a result, IRG's fiscal deficit (cash basis) remained unchanged at 2.2 percent of GDP in 2022 compared to 2021. The deficit was financed through monetary sources, contributing to inflation/depreciation pressure during Q4-2022.

A combination of domestic and external factors pushed Yemen's import bill from 46.4 percent of GDP in 2021 to 59.7 percent in 2022, including (1) the economic rebound; (2) the operationalization of Hodeida port; and (3) global rising global commodity prices. Exports, remittances, and donor assistance increased, though significantly less than imports, resulting in a markedly wider current account deficit (14.0 percent of GDP) in 2022 (CBY Aden data.) The deficit was financed through one-off financial inflows, including the liquidation of CBY-Aden foreign currency reserve accounts held abroad and 50 percent of Yemen's quota from the IMF's latest SDR allocation. At end-2022, CBY-Aden's liquid FX assets stood at less than one month's worth of imports.

Encouraging reforms improved exchange rate stability in 2022. Regular FX auctions prompted greater exchange rate stability in the Aden market; however, declining sentiment due to the truce's expiry, and resumption of inflationary fiscal deficit financing, have renewed pressures on the currency, since late 2022.

The spike in global commodity prices affected Yemen's inflation rate, which rose to approximately 30 percent in 2022 (Joint Market Monitoring Initiative data), though unevenly between IRG and Houthis areas. Rising commodity prices, particularly food prices, negatively impact households purchasing power and consumption, leading to higher food insecurity and poverty.

Outlook

The macroeconomic outlook for 2023 remains highly uncertain, given the oil export constraints and ongoing truce negotiations. Economic stability in the short run hinges heavily on predictable and sustainable hard currency inflows and political/military developments. Even assuming oil exports resumption in H2-2023 at H1-2022 levels, we project real economic activity to contract by 0.5 percentage points during 2023. Should a lasting truce or peace arise, however, Yemen's economy could register more sustained growth within months of such an agreement, driven by an expected rapid rebound of transport, trade, financial flows and reconstruction financing. Over the medium term, growth is conditional on a peace agreement, prudent policymaking, and a robust reform and recovery effort backed by international reconstruction financing.

Risks include a resurgence of hostile activities caused by regional or domestic tensions, terms of trade shocks, and new natural disasters. In addition, policy inaction - reflecting political gridlock by various parties – remains a paramount risk to Yemen's outlook. Nevertheless, sustained government focus on monetary and macroeconomic stability and strengthening policy and institutional capacity can help improve immediate economic prospects.

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

	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	-8.5	-1.0	1.5	-0.5	2.0
Inflation (Consumer Price Index)[a]	19.6	26.0	29.1	16.8	20.3
Current Account Balance (% of GDP)	-5.9	-5.1	-14.0	-21.0	-13.8
Net Foreign Direct Investment Inflow (% of GDP)	0.0	0.0	-0.4	0.6	0.5
Fiscal Balance (% of GDP)	-4.8	-2.2	-2.2	-2.6	-2.3
Revenues (% of GDP)	6.6	7.1	11.1	8.3	10.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
a/ Inflation rates refer to end-of-period figures.

South Asia

Spring Meetings 2023

Afghanistan
Bangladesh
Bhutan
India
Maldives
Nepal
Pakistan
Sri Lanka

AFGHANISTAN

After a severe contraction in the gross domestic product (GDP) of 20.7 percent in 2021, signs had emerged by mid-2022 that the Afghan economy was settling around a fragile low-level equilibrium. Revenue collection by the Interim Taliban Administration (ITA) was at levels comparable with previous years. In addition, the exchange rate had stabilized, exports increased, and imports showed resilience. Yet these signs of stabilization could not override the substantial pressures Afghan families faced in sustaining their livelihoods. The contraction of the aid-driven service and security sectors had widespread spillovers into other sectors of the economy, affecting the entire welfare distribution. Recent data suggest that aggregate demand has weakened in winter as activities around agriculture, construction, and other associated sectors have slowed. However, this seems broadly in line with seasonal trends.

Key conditions and challenges

The political crisis of Aug 15, 2021, morphed into an economic confidence crisis. The cessation of aid caused a collapse in aggregate demand. The freeze of central bank reserves and the indirect effects of sanctions crippled the financial sector, resulting in a rapid depreciation of Afghani (AFN) and a spike in inflation. Job losses and economic deprivation remained widespread as the economy adjusted to a lower-level equilibrium during 2022 when aid was partially resumed (off-budget and on a smaller scale at about US$3.5 billion compared to US$9 billion in 2020), shipments of cash in US$ (amounting to nearly US$1.8 billion in 2022) by the United Nations eased hard currency shortages and supported exchange rate stabilization. The ITA managed to restore some basic public services and collect revenues.

Some key challenges persist. The financial system remains constricted; trade and other payments flowing into and out of Afghanistan are carried out to a large extent through informal channels. Moreover, the low demand remains a critical constraint to the rebound of the private sector. Poverty was already high at 47 percent in 2019-2020. Recent data shows that by mid-2022, two-thirds of Afghan households reportedly could not afford food and other basic non-food items, forcing many adults to engage in low-productivity activities to generate income. Living conditions during the harsh winter months appear to have worsened partly because of significant electricity shortages in cities.

Recent developments

After remaining elevated during most of 2022, year-on-year headline inflation decelerated substantially to 5.3 percent in December 2022, when the base effect of the exchange rate depreciation took full effect. A reduction in international prices, exchange rate stability, and a seasonal weakening of aggregate demand supported this trend. The slackening of cereal price increases provided some respite for households—especially those at the bottom 40 percent of the welfare distribution. However, the cyclical slowdown of the economy during the winter season translated into a contraction of income-generation opportunities for self-employed and casual workers.

Merchandise exports were strong in 2022. Afghanistan's exports reached US$1.9 billion in 2022, more than twice the average of the previous four years. Unofficial customs data show that a surge in vegetables, minerals, and textiles exports—collectively contributing 94 percent of total exports—drove the strong performance. Major export destinations included Pakistan (63 percent) and India (22 percent). Coal became a significant export commodity (at around US$0.5 billion) for the first time as Pakistani importers switched to cheaper Afghan coal. Food exports to Pakistan also surged (to about US$0.5 billion, compared to US$0.16 billion in 2021) as devastating floods in Pakistan created additional demand. The labor-intensive nature of the exports suggests that at least some windfall gains due to the export surge could have benefited workers in those sectors.

Afghanistan's merchandise imports showed resilience in 2022, reaching US$6.3 billion, like the 2019 level (US$6.5 billion). Major imports include minerals/fuels (21 percent), food products (18 percent), and textiles (10 percent), which collectively contributed around half of the total imports. The primary origin countries for Afghanistan's imports were Iran (22 percent), Pakistan (17 percent), and China (17 percent).

The AFN has recovered following its initial depreciation and remained stable during 2022. The AFN value against the US$ hovered between 87 and 90 over Q4-2022 and, as of January 31, 2023, is trading close to 89.6 AFN/US$—a depreciation of 3.9 percent from its August 15, 2021 value. Cash shipments of US$ and strengthened ITA controls such as regulating the Money Service providers (MSP) sector and prohibiting foreign currency-denominated domestic transactions have supported exchange rate stability. The consistent availability of US$ in the domestic market and a stable AFN suggest that the ITA was able to identify sources to finance the estimated US$2 billion current account deficit for 2022.

Unofficial revenue statistics show that between March 22, 2022, and January 21, 2023 (the first ten months of the fiscal year), collection amounted to AFN149.6 billion (US$1.68 billion), in line with 2020 figures. The most collection comes from indirect taxes collected at borders. The latest available data show that revenue from inland sources totaled AFN 68.6 billion (US$0.8 billion), with non-tax sources contributing the most. Non-tax sources, primarily from royalties (from coal mining) and administration fees collected by ministries, contribute 52 percent of total inland revenues. Anecdotal evidence suggests significant revenue receipts are one-offs (e.g., arrears collection). The availability of public expenditure statistics remains limited. However, it seems that the ITA is using off-budget resources and mining concessions to finance the development projects such as the Qosh Tepa Canal (the first phase of 108km, out of a total of 285km).

The banking sector showed some signs of normalization amid large-scale financial disintermediation. The liquidity situation appears to have improved: although withdrawal limits remain in place for pre-August 15 deposits, most banks can service individual withdrawals up to the limit. At the same time, there is no withdrawal limit for fresh deposits. Deposits appear to have stabilized after decreasing 30 percent from January 2021 to June 2022. Banking sector vulnerabilities have deepened, however. International payments and trade finance are held back by the fractious correspondent banking relationships. The quality of assets is deteriorating, the transition to Islamic finance constrains lending, and banks' revenues from core functions declined by 32 percent. Stability risks are elevated—absent the current forbearance measures; most banks would be undercapitalized. The microfinance sector is dire and close to insolvency unless new equity is injected.

Outlook

Under the baseline scenario, in which Afghanistan continues to receive humanitarian and basic service support from the international community (amounting to about 20–25 percent of GDP), the economy is projected to move to a low growth trajectory (2.0 to 3.0 percent) during 2023–25, with no improvement in per capita income due to high population growth. Inflation is projected to remain between 5 and 10 percent, close to the historical average. Under this scenario, poverty is likely to remain high until the economy has identified new sources of growth that provide income-generation opportunities, especially for the large number of self-employed workers that represent 80 percent of the employment.

The new low-level equilibrium remains fragile, with significant downside risks. First, the non-inclusive nature of the regime and its regressive gender policies, most noticeably the December 2022 edicts, may reduce external support and, over the medium term, result in a loss of human capital, which will permanently lower future growth prospects. Second, the stoppage or reduction of cash shipments of US$ could undermine exchange rate stability. Other risks include the inability of the economy to finance the current account deficit and the worsening of stability concerns in the banking sector. If these risks materialize, real GDP will contract in 2023, pushing even more people into deprivation and food insecurity and potentially creating regional and global negative spillovers.

BANGLADESH

Table 1	2022
Population, million	167.9
GDP, current US$ billion	460.4
GDP per capita, current US$	2742.4
International poverty rate ($2.15)[a]	13.5
Lower middle-income poverty rate ($3.65)[a]	51.6
Upper middle-income poverty rate ($6.85)[a]	86.9
Gini index[a]	32.4
School enrollment, primary (% gross)[b]	115.9
Life expectancy at birth, years[b]	72.0
Total GHG emissions (mtCO2e)	266.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ WDI for School enrollment (2021); Life expectancy (2020).

Real GDP growth slowed in the first half of FY23, as inflation surged and external conditions deteriorated. Full year growth is projected to decelerate to 5.2 percent in FY23 from 7.1 percent in FY22 and downside risks to the outlook are rising. External risks include commodity price volatility and deteriorating economic conditions in key export markets, while domestic risks include unresolved financial sector vulnerabilities. The extreme poverty rate is expected to decline modestly in FY23 to 10.03 percent from 10.44 percent in FY22.

Key conditions and challenges

Real GDP grew by an average of 6.0 percent since 2000, making Bangladesh one of the fastest growing economies in the world. Growth has been supported by a demographic dividend, sound macroeconomic policies, and accelerating ready-made garment (RMG) exports. However, the pace of job creation and poverty reduction slowed over the last decade. Persistent structural weaknesses include low public sector institutional capacity, highly concentrated exports, growing financial sector vulnerabilities, suboptimal urbanization, a business climate that lags peer economies, and high exposure to climate risks. Bangladesh will graduate from UN Least Developed Country status in 2026, which will gradually reduce access to concessional financing and preferential export market access.

Bangladesh navigated the COVID-19 pandemic with prudent macroeconomic policies, maintaining positive real GDP growth. However, pandemic job losses and reduced earnings disproportionately affected the poor, especially among women. Spatial inequality widened with the reemergence of a welfare gap between eastern and western Bangladesh. A post-pandemic recovery has been disrupted by elevated global commodity prices, rising global interest rates, and slowing global growth.

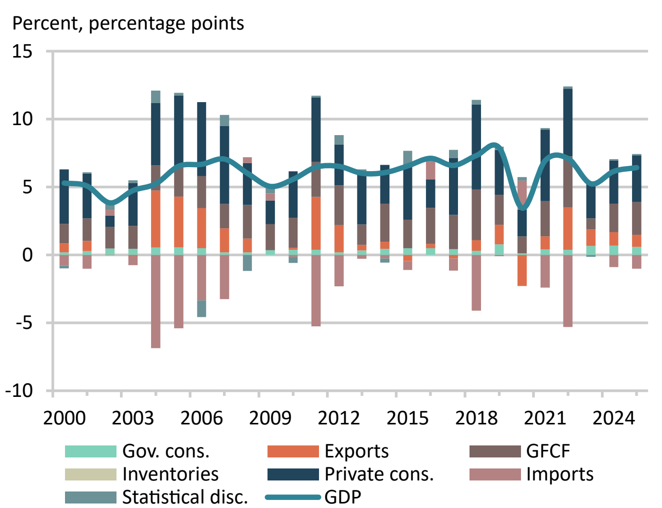
A widening Balance of Payments (BoP) deficit from the second half of FY22 led to a sharp decline in foreign exchange reserves. The declining reserves were further exacerbated by a multiple exchange rate regime that has disincentivized export and remittance inflows. In January 2023, an IMF program to support key policy reforms and rebuild external buffers was approved. Under the program, the authorities agreed to unify the official exchange rate by June 2023.

Downside risks to the outlook are rising and external risks remain elevated. A further rise in commodity prices could increase imports and worsening global economic conditions would limit export growth. Continued import controls and energy rationing would disrupt industrial production. Unresolved financial sector vulnerabilities may disrupt financial sector intermediation.

Recent developments

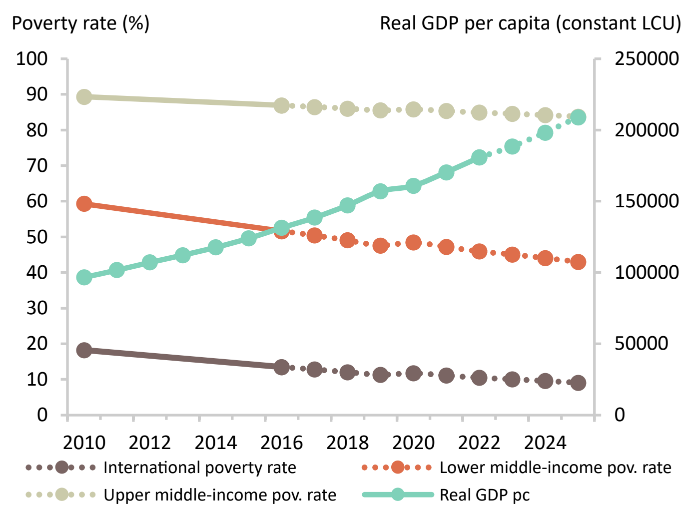
Real GDP growth slowed in the first half of FY23, as high inflation weighed on private consumption and fiscal consolidation measures slowed government consumption and investment growth. Exports remained resilient, growing by 9.8 percent in the first seven months (July-January) of FY23. On the supply side, domestic industrial production was disrupted by a lack of energy supply, rising input costs, and limited issuance of letters of credit due to a shortage of foreign currency. Modest agricultural growth was sustained, although increases in the diesel price impacted production.

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



Sources: Bangladesh Bureau of Statistics and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

Inflation accelerated, driven by rising global commodity prices and an upward adjustment in administered prices of petroleum products. Monetary policy was tightened through higher policy rates, although transmission was impaired by a cap on lending interest rates. Tight liquidity conditions and narrow net interest margins weighed on private sector credit growth.

Employment levels improved, but real earnings have not yet recovered to pre-pandemic levels. Improving labor market conditions were partially offset by the loss of purchasing power. The poorest decile of households are most vulnerable to lost purchasing power, spending more than two-thirds of their income on food, housing and utilities.

The BoP deficit surged in the first half of FY23. Resilient export growth and slowing imports narrowed the current account deficit. However, a sharp contraction in trade credit and lower medium- and long-term borrowing contributed to a financial account deficit, resulting in a US$7.2 billion BoP deficit in the first half of FY23 and a 7.2 percent depreciation of the interbank exchange rate. Gross foreign exchange reserves declined by US$12.6 billion over a one-year period to US$32.6 billion at the end of January 2023.

The fiscal deficit widened to 4.3 percent of GDP in FY22 from 3.7 percent in FY21 but remained below a 5 percent of GDP target. Tax revenue remained among the lowest in the world at 7.6 percent of GDP in FY22. Expenditure growth accelerated with higher subsidy spending as a result of elevated commodity prices. Capital expenditure rose in FY22 led by infrastructure megaprojects, before being rationalized in the first half of FY23 to narrow the budget deficit.

Outlook

Real GDP growth is expected to decelerate to 5.2 percent in FY23 before returning to its long-term trend. Elevated inflation, tighter financial conditions, disruptive import restrictions, and global economic uncertainty will weigh on growth in the near term. Modest export growth is expected in FY23, led by rising RMG market share. Growth is expected to accelerate in FY24, as inflationary pressure eases and reform implementation accelerates, converging to around 6.5 percent over the medium term. A gradual reduction in extreme poverty is expected, from an estimated 10.03 percent in FY23 to 9.54 percent in FY24.

The fiscal deficit is projected to narrow to 3.7 of GDP over the medium term. Revenues will rise with increasing trade and economic activity, higher incomes, and tax administration reform implementation. Public expenditure is expected to remain stable as a share of GDP, as declining subsidy expenditure creates fiscal space to sustain public investment spending and support poverty reduction expenditure.

External conditions are expected to improve over the medium term. The current account deficit will narrow as imports normalize with moderating commodity prices. Remittance inflows are expected to rise with a higher outflow of workers and resilient demand for workers in the gulf region. A financial account deficit is projected to contribute to external sector pressure in FY23, before returning to surplus in FY24.

Addressing longstanding structural challenges and continuing to invest in climate adaptation and resilience would help sustain GDP growth over the medium term. Reform priorities include revenue mobilization, tariff modernization, resolving financial sector vulnerabilities, and improving the business climate.

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

	2019/20	2020/21	2021/22e	2022/23f	2023/24f	2024/25f
Real GDP growth, at constant market prices	3.4	6.9	7.1	5.2	6.2	6.4
Private Consumption	3.0	8.0	7.5	3.9	4.8	5.3
Government Consumption	2.0	6.9	6.2	11.3	10.8	9.1
Gross Fixed Capital Investment	3.9	8.1	11.7	2.4	6.4	7.4
Exports, Goods and Services	-17.5	9.2	29.4	9.4	7.5	6.5
Imports, Goods and Services	-11.4	15.3	31.2	-0.5	4.5	5.2
Real GDP growth, at constant factor prices	3.8	7.0	7.2	5.2	6.2	6.5
Agriculture	3.4	3.2	3.1	3.3	3.3	3.4
Industry	3.6	10.3	9.9	6.5	7.2	7.8
Services	3.9	5.7	6.3	4.7	6.1	6.2
Inflation (Consumer Price Index)	5.6	5.6	6.1	8.6	6.5	5.7
Current Account Balance (% of GDP)	-1.5	-1.1	-4.0	-2.1	-1.5	-1.4
Net Foreign Direct Investment Inflow (% of GDP)	0.3	0.3	0.4	0.2	0.4	0.6
Fiscal Balance (% of GDP)	-4.8	-3.7	-4.3	-4.4	-4.0	-3.8
Revenues (% of GDP)	8.5	9.4	8.5	8.5	8.7	8.8
Debt (% of GDP)	31.7	32.4	33.1	33.8	34.1	34.2
Primary Balance (% of GDP)	-2.9	-1.7	-2.5	-2.5	-2.1	-2.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	11.7	11.1	10.4	10.0	9.5	9.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	48.4	47.2	45.9	45.1	44.1	43.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	85.8	85.3	84.9	84.6	84.2	83.8
GHG emissions growth (mtCO2e)	2.4	4.4	4.8	3.6	4.3	4.5
Energy related GHG emissions (% of total)	39.6	40.8	42.2	43.2	44.4	45.6

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 SAR-POV harmonization, using 2010-HIES and 2016-HIES. Actual data: 2016. Nowcast: 2017-2022. Forecasts are from 2023 to 2025.
b/ Projection using annualized elasticity (2010-2016) with pass-through = 1 based on GDP per capita in constant LCU.

BHUTAN

Table 1	2022
Population, million	0.8
GDP, current US$ billion	2.5
GDP per capita, current US$	3241.2
International poverty rate ($2.15)[a]	0.9
Lower middle-income poverty rate ($3.65)[a]	9.4
Upper middle-income poverty rate ($6.85)[a]	39.5
Gini index[a]	37.4
School enrollment, primary (% gross)[b]	105.7
Life expectancy at birth, years[b]	71.6
Total GHG emissions (mtCO2e)	-5.4

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

Output is estimated to have grown by 4.3 percent in FY21/22, after two years of economic contraction. The COVID-19 pandemic and Russia's invasion of Ukraine resulted in a significant deterioration of fiscal and external balances, resulting in a fragile macroeconomic situation. Measures to support fiscal consolidation and financial sector stability are crucial to address short-term macroeconomic vulnerabilities and support economic recovery. The moderation in prices contributed to a slight decrease in poverty to 8.8 percent in 2021 based on $3.65/day.

Key conditions and challenges

Rapid economic growth in Bhutan has contributed to substantial poverty reduction over the last two decades, but poverty and inequality levels remain high. Annual real GDP growth averaged 7.5 percent since the 1980s, driven by the public sector-led hydropower sector and strong performance in services, including tourism. It was estimated that nearly 9 percent of the population lived below the $3.65/day poverty line in 2017, with poverty being more prevalent in rural areas and significant disparities across districts. More recent data (2022) is being analyzed to establish a comparable poverty trend for Bhutan.

The COVID-19 pandemic and spillovers from the war in Ukraine have resulted in a significant deterioration in the macroeconomic situation. After the economy contracted for two consecutive years in FY19/20 and FY20/21, non-hydro industry and services sector activity picked up. Tourism has been slow to recover, in part due to the new tourism levy act which tripled the sustainable development fee for international tourists from US$65 to US$200 per night. The youth unemployment rate increased from 20.9 percent in 2021 to 29 percent in 2022, which contributed to an increase in outward migration.

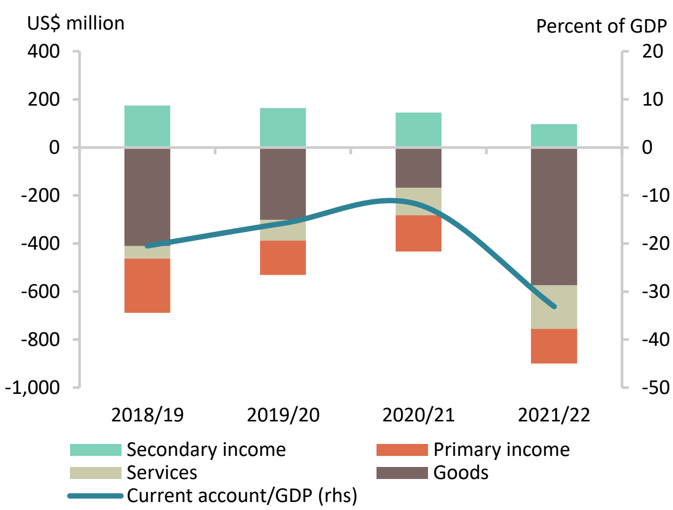
COVID-19 relief measures and subdued revenue performance have resulted in high fiscal deficits and public debt since FY20/21, with limited fiscal space to absorb additional shocks. International reserves have declined rapidly due to an increase in imports. Vulnerabilities in the financial sector with high non-performing loan (NPL) levels have increased fiscal risks, given that about 60 percent of assets of the sector are controlled by the public sector. Labor shortages during the pandemic resulted in significant delays in hydro projects and hence expected delays in additional hydro revenue flows, constraining the country's ability to strengthen fiscal and external balances in the medium term.

The macroeconomic situation is fragile. In addition to continued global uncertainties and additional delays in hydro projects, downside risks to the growth outlook include delays in fiscal consolidation and financial sector vulnerabilities, which constrain the government's ability to support a robust recovery.

Recent developments

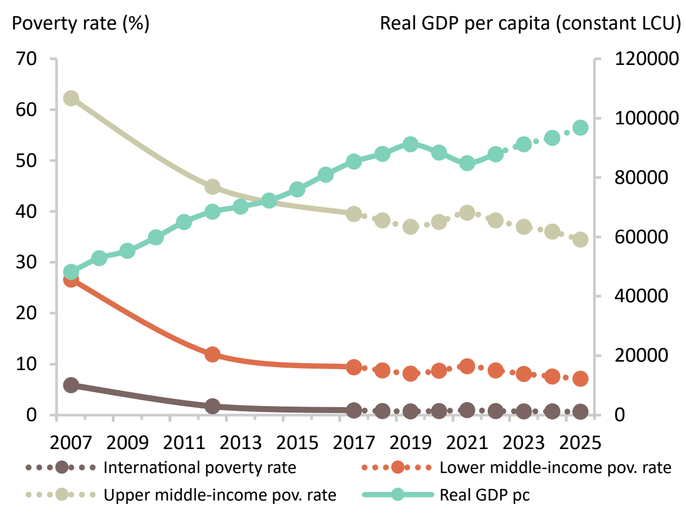
The economy grew by 4.3 percent in FY21/22 (July 2021 to June 2022), supported by the easing of social and mobility restrictions in the second half of FY21/22 and continued fiscal support to boost activity. The industry sector grew by 3.0 percent, supported by a recovery in the construction, manufacturing, and mining sectors. The electricity sector contracted due to maintenance of the Tala hydropower plant, resulting in lower hydro exports and revenues. Services output increased by 5.7 percent, driven by transport and trade activities. The tourism industry remained subdued in FY21/22 due to COVID-related

FIGURE 1 Bhutan / Current account and components



Sources: Royal Monetary Authority of Bhutan and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

travel restrictions. On the demand side, public investment and consumption supported growth, reflecting continued fiscal support, while private investment and consumption have not yet recovered.

Average inflation moderated from 8.2 percent in FY20/21 to 5.9 percent in FY21/22, driven by a moderation in food inflation. However, non-food inflation accelerated to 7.0 percent in FY21/22, reflecting higher fuel and transport prices. The moderation in prices contributed to a slight decrease in poverty to 8.8 percent in 2021 based on $3.65/day (from 9.6 percent in 2020).

The current account deficit (CAD) more than doubled to 33.1 percent of GDP in FY21/22. Exports remained subdued (as a share of GDP) due to lower hydro exports and near-zero tourism-related services exports. Imports surged due to a significant increase in the import of Information and Communication Technology (ICT) equipment and higher prices, particularly of fuel and food. As a result, gross international reserves declined rapidly in FY21/22, reaching US$833 million in June 2022 (a 37 percent decline, y-o-y), equivalent to 6.6 months of FY21/22 imports.

The fiscal deficit widened to 7.8 percent of GDP in FY21/22 from 6.2 percent in FY20/21. Total expenditures declined (as a share of GDP) but capital expenditures increased, reflecting continued fiscal support through accelerated implementation of the Twelfth Five Year Plan (FYP). Total revenues declined because of lower hydro revenues and external grants. Public debt increased to 133.3 percent of GDP in FY21/22 due to an increase in non-hydropower debt.

Outlook

The economy is expected to grow by 4.5 percent in FY22/23. The further reopening of borders in September 2022 is expected to support growth in the industry and services sectors. Tourist arrivals are expected to remain subdued because of slow global growth and the introduction of the new tourism levy act. Growth is expected to remain subdued in FY23/24 due to lower public investments, typical for the first year of a new FYP, and the transition to a new Cabinet following national elections. Medium-term growth will be supported by a recovery in the non-hydro industry and services sectors, and by the commissioning of a new hydropower plant.

Inflation is projected to remain elevated in the short term, owing to higher import prices, before moderating in the medium term. While the incidence of poverty is expected to decline further from 2022, a full recovery to poverty headcount rates estimated before the COVID-19 pandemic is not likely to be achieved until 2023 given elevated consumer prices.

The CAD is expected to remain elevated in FY22/23 at 28.6 percent of GDP due to lumpy imports of ICT equipment and a slow recovery of tourism. The CAD is expected to improve from FY23/24 due to lower ICT imports, and to moderate further in the medium term due to the doubling of hydropower capacity and a decline in imports following the completion of the hydropower projects. International reserves are expected to decline to 4 months of imports until FY24/25, before improving to 5 months of import coverage in FY25/26.

The fiscal deficit is projected to decline to 5.8 percent of GDP in FY22/23, driven by lower capital spending. The deficit is expected to further decline to 4.5 percent of GDP in FY23/24 due to lower public investments in the first year of the new FYP, and measures to rationalize current expenditure and increase domestic revenues.

Despite a decline in hydropower debt, public debt is projected to remain elevated as a share of GDP in the short to medium term due to high fiscal deficits. Risks to debt sustainability are expected to remain moderate as the bulk of the debt is linked to hydro project loans from India (to be repaid from future hydro revenues) with low refinancing and exchange rate risks.

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

	2019/20	2020/21	2021/22e	2022/23f	2023/24f	2024/25f
Real GDP growth, at constant market prices	-2.3	-3.3	4.3	4.5	3.1	4.3
Private Consumption	0.1	-1.1	-2.9	-1.5	3.6	2.1
Government Consumption	7.3	4.9	5.5	2.7	0.9	2.0
Gross Fixed Capital Investment	-16.5	-3.0	13.4	1.5	-4.2	2.2
Exports, Goods and Services	-4.1	-7.3	10.3	10.7	5.4	4.2
Imports, Goods and Services	-9.2	0.8	6.2	-2.0	-2.4	-1.6
Real GDP growth, at constant factor prices	-0.7	-2.2	4.3	4.5	3.1	4.3
Agriculture	2.9	3.3	2.2	2.9	3.4	3.3
Industry	-5.5	-5.9	3.0	5.5	3.8	5.0
Services	2.5	-0.5	5.7	4.1	2.5	4.1
Inflation (Consumer Price Index)	3.0	8.2	5.9	4.4	3.9	3.5
Current Account Balance (% of GDP)	-15.8	-11.9	-33.1	-28.6	-19.2	-10.5
Fiscal Balance (% of GDP)	-1.9	-6.2	-7.8	-5.8	-4.5	-3.0
Revenues (% of GDP)	31.1	33.2	28.4	27.6	23.8	27.0
Debt (% of GDP)	122.8	132.4	133.3	134.2	129.6	120.6
Primary Balance (% of GDP)	-1.5	-5.2	-6.3	-3.8	-2.2	-0.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.8	1.0	0.8	0.7	0.7	0.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	8.7	9.6	8.8	8.1	7.6	7.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	38.0	39.7	38.2	37.0	36.0	34.5
GHG emissions growth (mtCO2e)	1.5	1.6	-1.1	-1.7	-1.3	-1.8
Energy related GHG emissions (% of total)	-15.1	-14.5	-15.1	-15.9	-16.5	-17.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on SAR-POV harmonization, using 2017-BLSS. Actual data: 2017. Nowcast: 2018-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2017) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

INDIA

Table 1	2022
Population, million	1417.2
GDP, current US$ billion	3407.4
GDP per capita, current US$	2404.3
School enrollment, primary (% gross)[a]	102.1
Life expectancy at birth, years[a]	70.2
Total GHG emissions (mtCO2e)	3699.5

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

India has been one of the fastest-growing major economies in the world, but growth in FY23/24 will moderate on the back of global spillovers and slower consumption growth. Lower demand-pull pressures and monetary policy tightening will bring down inflation. Fiscal consolidation will stabilize public debt around 83 percent. Although extreme and moderate poverty remain above pre-pandemic levels, they are expected to decline in FY22/23. Over 40 percent of the population still lives in moderate poverty (3.65 US$ per person per day).

Key conditions and challenges

Real GDP growth in Q1-Q3 FY22/23 was strong at 7.7 percent, making India one of the fastest-growing major economies in the world. However, growth slowed in Q3, was not broad-based, and was bolstered by a favorable base effect. Strong domestic demand was underpinned by robust consumer spending by higher-income groups and a surge in public investment. Although growth has been strong, the labor market recovery has been incomplete as vulnerable employment has increased.

In FY23/24, real growth is expected to remain resilient but moderate to 6.3 percent due to slower consumption growth and global growth. Inflation is likely to ease within the RBI's tolerance range. The FY23/24 Union Budget reflects plans for fiscal consolidation through lower current spending. The current account deficit will decline to 2.1 percent of GDP due to strong growth in service exports and narrowed merchandise trade deficit.

Extreme poverty ($2.15 per capita per day, 2017 PPP) declined in FY21/22 to 13.8 percent but remains above pre-pandemic levels. More than 40 percent of India's population still lives below the $3.65 in 2017 PPP (poverty line usually used by middle-income countries), 16.4 percent of the population is multidimensionally poor (deprived in health, education, and standard of living), and another 18.7 percent is classified as vulnerable to multidimensional poverty.

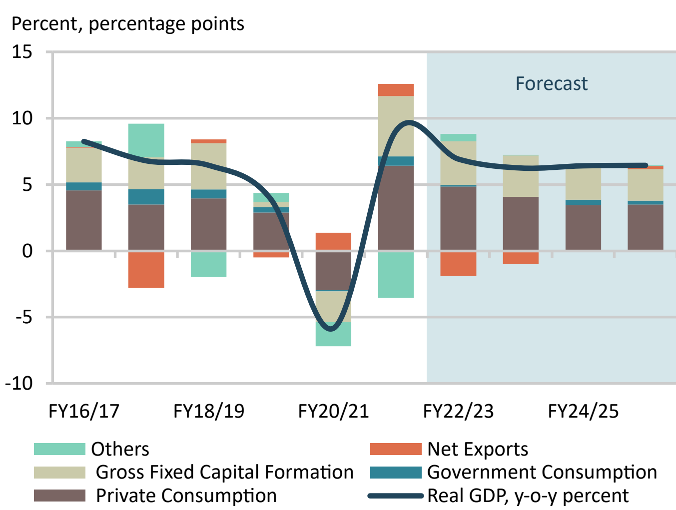
A withdrawal of pandemic relief programs can pose risks to low-income households. The FY23/24 Budget reduced allocation for Mahatma Gandhi Rural Employment Guarantee scheme by 33 percent compared to FY22/23, and a 30 percent reduction in food subsidy due to rollback of the free foodgrain scheme announced in 2020. However, the allocation for Jal Jeevan Mission (safe drinking water in rural areas), Swachh Bharat Mission (waste management), and PM Awas Yojna (housing for urban poor) increased significantly compared to budget allocation in FY22/23.

Recent developments

Real GDP growth was bolstered by solid domestic demand in Q1-Q3 FY22/23, but growth momentum has gradually weakened. Robust discretionary spending of households more than offset the contraction in government consumption. Investment expanded because of solid profits in the corporate sector and the government's capex push. Net exports were a drag on growth due to weak merchandise exports and strong imports of capital goods. On the supply side, the trade, transport, hospitality, and communication services recovered to 1.5 percent above the Q1-Q3 FY19/20 level.

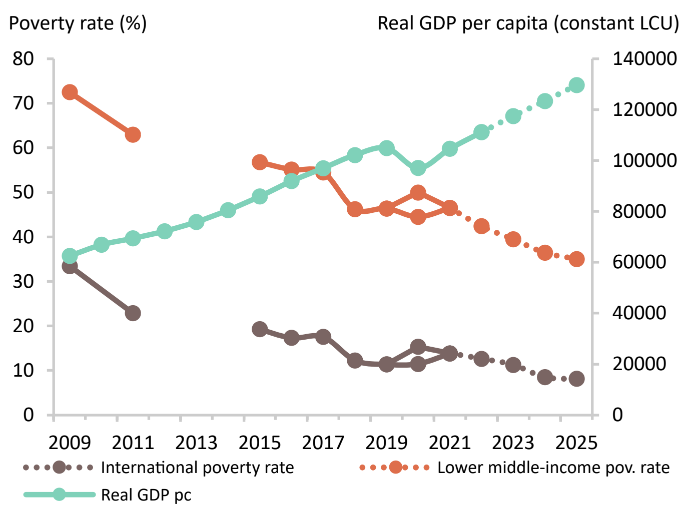
The labor market continued to recover in 2022, particularly in urban areas. The average unemployment rate dropped to 7.6 percent in 2022 from 10 percent in 2021,

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



Sources: National Statistics Office (NSO) and World Bank staff calculations.
Note: FY14/15 refers to the fiscal year 2014-15 (April 2014-March 2015) and so on.

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



Source: World Bank.
Notes: see Table 2. FY14/15 refers to the fiscal year 2014-15 (April 2014-March 2015) and so on.

largely driven by increased self-employed workers, even as the proportion of regular salaried workers declined, raising concerns about job quality. While extreme and moderate poverty are expected to decline in FY22/23, the realized gains to welfare will depend on the prices of necessities and the real value of labor earnings.

Headline inflation eased to 6.4 percent y-o-y in February from an average of 6.8 percent over Q1-Q3 FY22/23, driven by lower food prices, and moderating fuel inflation. Core inflation averaged 6.1 percent over April-February FY22/23 due to recovering demand for services and elevated input prices. Since May 2022, the RBI has hiked the policy rate cumulatively by 250 basis points to contain inflation, which has also helped reduce pressures on the currency.

The current account deficit to GDP ratio (3.3 percent: H1 FY22/23) likely narrowed in Q3 FY22/23 as the trade deficit declined. The financing of the current account remained adequate and FX reserves stayed high. Net portfolio capital outflows and large trade deficits in H1 FY22/23 weighed on the Indian rupee which depreciated by 7.9 percent against the USD. Since October though, the rupee has stayed close to its long-term trend.

The general government fiscal deficit likely fell by 1.1ppts since FY21/22 to 9.4 percent of GDP in FY22/23. The consolidation has been led by strong revenue growth, the withdrawal of most pandemic-related stimulus measures, and reduced current spending. Declining fiscal deficit and a large nominal growth-interest rate differential translated into lower public debt of 83 percent of GDP in FY22/23 from 85.4 percent in FY21/22.

Outlook

Despite global growth headwinds, real GDP growth is likely to moderate to 6.3 percent in FY23/24 from the estimated 6.9 percent in FY22/23. Consumption is expected to be constrained by rising borrowing costs, slower income growth, and continued fiscal consolidation. The government's sustained capex-push, healthy corporate profits, and reduction in NPLs will buoy investment despite reduced risk appetite and elevated input costs. The negative contribution of net exports will be smaller due to stellar performance of service exports and a gradual decline in import bills. On the supply-side, contact-intensive services and construction are expected to grow at a robust pace compared to the manufacturing sector.

Moderating consumption and easing global commodity prices are likely to push down headline inflation to 5.2 percent in FY23/24, within the RBI's tolerance range. While core inflation will be elevated, it is projected to decline as monetary policy tightening takes effect by mid-FY23/24 and demand-pull price pressures ease.

The government will continue with carefully designed fiscal consolidation. The general government deficit will decline by 0.7ppts in FY23/24, due to modest revenue growth and lower current spending, reflecting the withdrawal of pandemic-related support programs. The current level of the fiscal deficit stabilizes the debt-to-GDP ratio at around 83 percent. Poverty is expected to decline, but the withdrawal of expansions in food and workfare entitlements could increase the vulnerability of the economically weaker sections, particularly if inflationary pressures persist.

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

	2020/21	2021/22	2022/23e	2023/24f	2024/25f	2025/26f
Real GDP growth, at constant market prices	-5.8	9.1	6.9	6.3	6.4	6.5
Private Consumption	-5.2	11.2	8.3	6.9	5.8	5.9
Government Consumption	-0.9	6.6	1.2	-1.1	4.4	3.3
Gross Fixed Capital Investment	-7.3	14.6	10.1	9.3	7.1	6.8
Exports, Goods and Services	-9.1	29.3	11.5	9.2	7.6	6.0
Imports, Goods and Services	-13.7	21.8	19.0	11.6	6.4	4.5
Real GDP growth, at constant factor prices	-4.2	8.8	6.6	6.3	6.4	6.5
Agriculture	4.1	3.5	3.2	3.4	3.2	3.5
Industry	-0.9	11.6	3.6	6.8	5.7	6.6
Services	-8.2	8.8	9.5	6.7	7.7	7.1
Inflation (Consumer Price Index)	6.2	5.5	6.6	5.2	4.7	4.1
Current Account Balance (% of GDP)	0.9	-1.2	-3.0	-2.1	-1.1	-0.8
Net Foreign Direct Investment Inflow (% of GDP)	1.6	1.2	1.2	1.6	1.6	1.6
Fiscal Balance (% of GDP)	-13.3	-10.5	-9.4	-8.7	-8.5	-8.2
Revenues (% of GDP)	19.6	20.6	20.2	20.1	20.1	20.3
Debt (% of GDP)	87.5	85.4	83.0	83.4	83.7	84.2
Primary Balance (% of GDP)	-7.8	-5.2	-4.2	-3.3	-3.0	-2.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	11.5-15.3	13.8	12.6	11.3	8.5	8.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	44.5-50.0	46.6	42.4	39.5	36.4	35.0
GHG emissions growth (mtCO2e)	-4.9	8.1	6.9	4.4	3.9	3.6
Energy related GHG emissions (% of total)	69.3	71.1	72.6	73.3	73.9	74.4

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 CPHS data and a methodology for consumption imputation based on Sinha Roy & Roy (2022). Actual data: 2021-2022. Nowcast: 2022-2023. Forecasts are from 2023 to 2025.
b/ Projection using CPHS data and annual growth rates for five sectors of employment with pass-through = 0.65, based on GDP per capita at constant factor prices.

MALDIVES

Table 1	2022
Population, million	0.5
GDP, current US$ billion	5.7
GDP per capita, current US$	10929.5
Upper middle-income poverty rate ($6.85)[a]	3.9
Gini index[a]	29.3
School enrollment, primary (% gross)[b]	100.8
Life expectancy at birth, years[b]	79.9
Total GHG emissions (mtCO2e)	3.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2020).

The economy has recovered to pre-pandemic levels and, with rising tourist arrivals, is expected to maintain a strong growth and poverty reduction trajectory. Commodity price volatility is driving inflation and exerting pressure on fiscal and external balances, through costlier imports and higher subsidies. Despite recent improvements, public debt is expected to remain high, warranting continued efforts to reduce fiscal deficits, including comprehensive subsidy reforms while mitigating impacts on the vulnerable.

Key conditions and challenges

Tourism, which accounts for almost one-third of the economy, has seen a rapid recovery following the pandemic. Despite the war in Ukraine, arrivals from Russia remain strong and growing arrivals from India and Gulf countries have compensated for lower arrivals from Europe and China. However, heavy reliance on tourism and limited sectoral diversification remain a key structural challenge as Maldives is highly vulnerable to macroeconomic shocks. As an economy that is heavily import-dependent, Maldives is facing significant external and inflationary pressures due to the sharp rise in global commodity prices. This is putting pressure on public finances given the government's blanket provision of food and fuel subsidies to help contain domestic price increases, continued high levels of capital expenditure, and an inefficient public health insurance scheme. Untargeted austerity measures pose risks to poverty, particularly in the atolls where 90 percent of the poor live, as past welfare gains have been driven by a strong redistributive model. The latter includes universal access to basic health and education services, public sector employment and pensions, health insurance, price controls and subsidies, and income support programs. Additional challenges to welfare include differential access to economic opportunities in Male relative to the atolls, and overcrowding affecting poorer urban households in Male.

To promote development, Maldives has scaled up infrastructure investments since 2016. This has boosted construction activity, tourism capacity, and medium-term growth prospects. Although these investments have contributed towards poverty reduction and better living standards, financing of these large investments through non-concessional sources and sovereign guarantees has led to growing fiscal vulnerabilities.

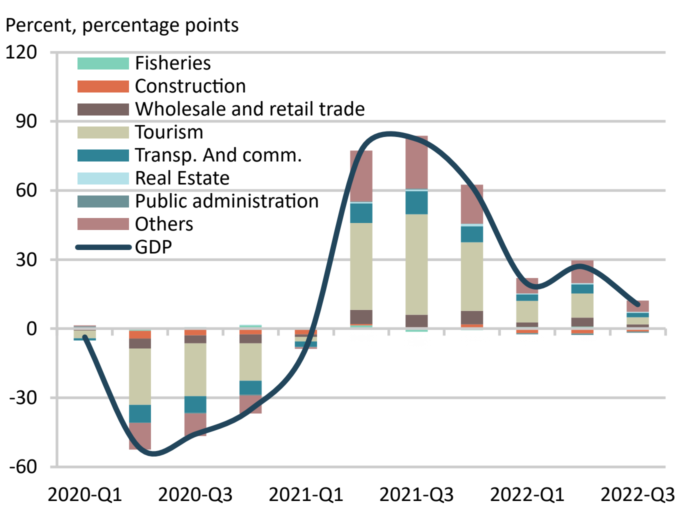
Recently, the increased cost of external borrowing has also compelled the government to turn towards domestic financing sources, which is crowding out the private credits and leading to a concerning rise in the exposure of the financial sector to the sovereign. Public and publicly guaranteed debt stock and debt servicing risks are expected to remain elevated in the medium term.

Recent developments

Tourist arrivals reached 1.68 million in 2022 – only 1.6 percent lower than the pre-pandemic high – which supported growth in the real estate, transport, and trade sectors, as well as driving the overall real economic growth of an estimated 12.3 percent (y-o-y).

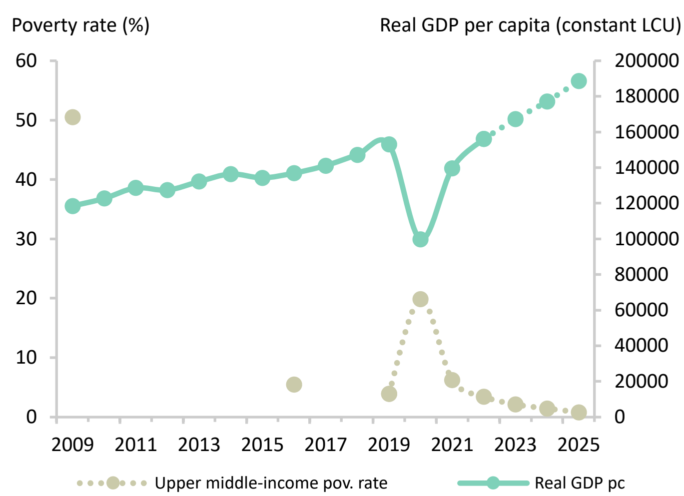
Higher global commodity prices led to rising domestic inflation, which reached an average of 2.3 percent (y-o-y) in 2022, higher than the historical average of 0.5 percent. Price increases were particularly

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



Sources: Maldives Monetary Authority and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

acute in the food, transport, health, and restaurant services sectors.

Despite growth in tourism earnings, the current account deficit widened considerably to an estimated 24.6 percent of GDP in 2022, due to far costlier imports of oil and capital goods. High import costs and external debt repayments put significant pressure on gross reserves, which fell to less than US$500 million (or 1.8 months of imports) in October 2022, before recovering to over US$800 million (3 months of import) by the end of the year due to a US$200 million currency swap deal with India.

Blanket subsidies for energy and food commodities, together with sustained levels of high capital spending, led to an increase in the fiscal deficit to 14.5 percent of GDP in 2022. This was despite several austerity measures to lower administrative costs and the public sector wage bill. Over 80 percent of the deficit was covered by domestic sources, with MMA's asset exposure to government rising to 48 percent of its total financial assets at end-2022, from 43 percent at end-2021.

With ongoing plans to complete key infrastructure projects, and continued inflationary pressures, the government may find it increasingly difficult to finance the subsidy program in its current form. Better targeting of tax and transfer instruments would help mitigate a negative impact of subsidy reforms on the poor.

Outlook

The economy is expected to grow by 6 percent on average in the medium term, supported by robust tourism performance. The return of Chinese tourists together with arrivals from India and Russia are expected to lead to 1.8 million arrivals in 2023 (7.1 percent y-o-y increase). Going forward, tourism will be further supported by the expansion of Velana International Airport (likely to be completed by 2025) and investments in new resorts.

The recent increase in GST rates is expected to help narrow the fiscal deficit. Yet, public debt levels remain high. Additional fiscal adjustment is required to address fiscal vulnerabilities, particularly through expenditure rationalizations on capital expenditure, subsidies, and pharmaceutical spending. Meanwhile, recovery in demand, elevated global commodity prices, and the GST rate hike are expected to increase inflation in 2023, warranting a tighter macroeconomic policy mix. Subsidy reform to target the poor and vulnerable is needed to reduce the fiscal burden.

The current account deficit is expected to remain elevated given high commodity prices and necessary capital imports, as the government aims to complete ongoing infrastructure projects and commence projects in outer Atolls. Despite a recent decline in oil prices, rising external financing needs – including debt servicing – are expected to sustain pressure on official reserves.

Downside risks persist. Tourism could be adversely impacted by further global shocks. Any further widening of the current account deficit could put additional pressure on official reserves. The government faces external debt servicing payments of about US$340 million on average over the next three years amidst tightening global financing conditions. Stronger-than-expected tourism with the return of Chinese tourists offers upside potential to the outlook. In the absence of any pandemic relief measures, the poverty rate would have risen to 19.9 percent in 2020. With the recovery in economic growth, poverty rates are expected to drop to 2.1 percent in 2023.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-33.5	41.7	12.3	6.6	5.3	5.9
Private Consumption	-32.1	48.3	37.2	2.8	3.3	3.9
Government Consumption	-39.6	44.2	30.6	11.2	8.3	8.4
Gross Fixed Capital Investment	-2.8	-21.0	27.6	6.1	3.0	5.2
Exports, Goods and Services	-54.3	82.4	27.1	7.5	6.6	6.0
Imports, Goods and Services	-46.2	42.9	59.7	5.9	5.4	5.2
Real GDP growth, at constant factor prices	-31.3	38.0	12.3	6.6	5.3	5.9
Agriculture	7.1	-0.6	2.5	2.8	3.2	3.5
Industry	-24.8	4.5	-8.7	13.9	5.1	4.2
Services	-34.3	46.8	15.3	6.1	5.4	6.2
Inflation (Consumer Price Index)	-1.4	0.5	2.3	5.7	2.5	2.5
Current Account Balance (% of GDP)	-42.8	-7.8	-24.6	-20.1	-14.9	-15.0
Net Foreign Direct Investment Inflow (% of GDP)	11.8	11.4	11.7	8.8	8.1	7.8
Fiscal Balance (% of GDP)	-23.6	-13.9	-14.5	-9.6	-9.5	-9.0
Revenues (% of GDP)	26.8	25.7	28.7	30.8	30.2	29.3
Debt (% of GDP)	150.2	113.6	110.1	112.0	109.9	113.2
Primary Balance (% of GDP)	-20.8	-11.4	-10.9	-6.1	-5.9	-5.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	19.9	6.2	3.4	2.1	1.4	0.8
GHG emissions growth (mtCO2e)	-10.9	12.2	14.8	12.0	10.2	9.5
Energy related GHG emissions (% of total)	82.4	84.4	85.8	87.0	87.9	88.6

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 SAR-POV harmonization, using 2019-HIES. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Microsimulations for 2020-2022 based on 2019 actual data. Neutral-distribution projections with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU (2023-2025).

NEPAL

Table 1	2022
Population, million	30.5
GDP, current US$ billion	40.1
GDP per capita, current US$	1314.3
International poverty rate ($2.15)[a]	8.2
Lower middle-income poverty rate ($3.65)[a]	40.0
Upper middle-income poverty rate ($6.85)[a]	80.4
Gini index[a]	32.8
School enrollment, primary (% gross)[b]	125.4
Life expectancy at birth, years[b]	69.2
Total GHG emissions (mtCO2e)	52.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2010), 2017 PPPs.
b/ Most recent WDI value (2020).

Following GDP growth of 5.8 percent in FY22, import restrictions contributed to slower growth in the first half of FY23. The fiscal deficit has been held under 4 percent of GDP by sharply reducing expenditures to match revenue weakness. A weak labor market recovery post COVID-19 and lower human capital investments risk rising inequality. Elections in FY22 and FY23 were followed by a collapse of the ruling coalitions.

Key conditions and challenges

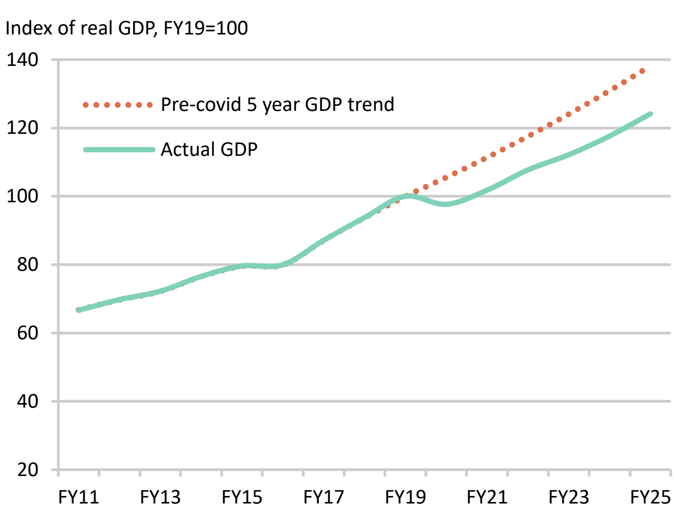
Nepal's economic growth averaged 4.5 percent annually between FY13 and FY22, elevating the country to lower middle-income status in 2020. Growth benefited from substantial remittance inflows averaging 23 percent of GDP per year over the same period. The jobs recovery following COVID-19 has been both slow and weak, therefore raising risks of poverty and inequality in the medium term. Approximately 30 percent of workers who recovered a job experienced more than one employment transition; recovered jobs were of lower quality (23 percent), and they resulted in lower earnings (53 percent) compared to jobs that were lost. Productivity is low across the board and is growing too slowly for Nepal to converge to higher income countries. Underlying constraints include infrastructure gaps, challenging geographic conditions, and remittances appreciating the real exchange rate and thus hindering the development of an export sector. A structural deficit has emerged following the transition to federalism as new administrative structures have been established while spending responsibilities have yet to be fully devolved.

Recent developments

Nepal's economy emerged from the pandemic with real GDP estimated to have grown 5.8 percent in FY22, up from 4.2 percent in FY21. High-frequency indicators suggest slower growth in the first half of FY23 (H1FY23) relative to H1FY22, as monetary policy tightened and import restriction measures continued. Industrial growth has benefitted from additional hydropower generation capacity, while services have benefitted from post-pandemic demand and a gradual pickup in tourism. Agricultural production has been favored by a good monsoon season. Russia's invasion of Ukraine has contributed to rising inflation, peaking in mid-July 2022 at 8.1 percent year-on-year before gradually declining to 7.3 percent year-on-year by mid-January 2023. Inflation has been broad-based, and the rising cost of basic necessities negatively impacted the poor and vulnerable.

The Nepali economy imports much more than it exports and over half of all fiscal revenues are trade related. Expansive monetary policy and sluggish remittances following the pandemic led to a wide current account deficit (CAD) of 12.8 percent of GDP in FY22. Although reserves are deemed adequate, as they approached the policy floor of 7 months of import cover the government raised the policy rate by 350 basis points between February and August 2022 to 7 percent, imposed a ban on selected imports in April 2022, and raised letter of credit and cash backing requirements on imports. These import restrictions reduced the CAD and stabilized foreign exchange reserve stocks as intended in the H1FY23. Unintended consequences include a steep drop in fiscal revenues and slower growth in H1FY23

FIGURE 1 Nepal / Real GDP levels: Actual vs. pre-covid trend



Sources: World Bank staff projections and Nepal National Statistics Office.

FIGURE 2 Nepal / Current account deficit

Sources: World Bank staff calculations and Nepal Rastra Bank.

as goods imports fell. Import restrictions were gradually lifted, with the final restrictions removed in January 2023. Worker migration has recovered, and in H1FY23 remittances were 13.9 percent higher in nominal dollar terms than during H1FY22.

The fiscal deficit narrowed to 3.5 percent of GDP in FY22, driven by capital budget under-execution, delayed passage of the FY22 budget, and greater trade-related revenues associated with elevated imports. This trend reversed quickly as the fiscal balance turned negative in H1FY23 for the first time in five years. Fiscal revenues fell and expenditures were driven by electoral spending and higher public wages. Consecutive fiscal deficits have increased the debt-to-GDP ratio from 22.7 to 41.5 percent from FY17 to FY22, roughly half of which is highly concessional external debt.

Outlook

Nepal's macroeconomic outlook has dimmed, reflecting external shocks such as the war in Ukraine as well as domestic policies including import restrictions, monetary policy tightening, and political uncertainty. Local elections in May 2022 and national and provincial elections in November 2022 were followed by successive changes in administration, the most recent being the collapse of the ruling coalition in March 2023.

The forecast projects growth declining to 4.1 percent in FY23 before rising to 4.9 percent in FY24. As the previous World Bank projection in October 2022 envisaged FY23 GDP real growth at 5.1 percent, the economy is now forecast to be smaller through FY25 than under the previous forecast. It is recommended that the authorities rely more heavily on price signals to reduce credit growth and thus import demand in the future, instead of import quantity restrictions, to manage foreign exchange reserves. Other notable elements of the forecast include a 1.3 percentage point of GDP loss of both fiscal revenues and expenditures in FY23 relative to FY22, as spending was reduced to adjust to the unplanned revenue shortfall. As a result, the fiscal deficit is projected to remain steady at 3.5 percent of GDP in FY23 before narrowing slightly to 3.2 percent in FY24. Total public debt is projected to rise to 41.7 percent of GDP in FY23 before stabilizing in the forecast period. Remittances are forecast to grow through FY25, reflecting strong migration outflows. The CAD is expected to narrow sharply to 2.8 percent of GDP in FY23 and FDI remains very low, leaving external borrowing and reserves drawdowns to continue financing the CAD.

Risks to the outlook are tilted to the downside. No new shocks are included in the forecast; given the increasing frequency of shocks in recent years, this may be optimistic. Political stability may not be achieved in the forecast period. Higher-than-expected inflation would reduce household purchasing power and drag growth. Welfare recovery remains uncertain due to rising inflation and risks to agricultural production. Reduced investments in human capital, especially amongst those yet to recover from a job loss following COVID-19, also impose risks to rising inequality. For the latter group, 8 and 11 percent report dropouts in school enrollment and incomplete early childhood vaccinations, respectively.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-2.4	4.2	5.8	4.1	4.9	5.5
Private Consumption	3.6	4.3	5.4	2.5	3.7	4.5
Government Consumption	3.8	-1.7	5.5	6.3	3.5	6.6
Gross Fixed Capital Investment	-8.9	9.8	4.6	-15.7	21.7	13.3
Exports, Goods and Services	-15.9	-21.1	35.0	9.1	21.6	18.4
Imports, Goods and Services	-20.8	16.3	15.0	-12.3	17.5	12.3
Real GDP growth, at constant factor prices	-2.4	3.8	5.5	4.1	4.9	5.5
Agriculture	2.4	2.8	2.3	2.5	2.6	2.8
Industry	-4.0	4.5	10.2	3.2	6.5	8.9
Services	-4.5	4.2	5.9	5.2	5.6	5.9
Inflation (Consumer Price Index)	6.1	3.6	6.3	6.8	6.0	5.5
Current Account Balance (% of GDP)	-0.9	-7.8	-12.8	-2.8	-4.2	-3.6
Net Foreign Direct Investment Inflow (% of GDP)	0.5	0.5	0.4	0.0	0.3	0.4
Fiscal Balance (% of GDP)	-5.4	-4.1	-3.5	-3.5	-3.2	-3.3
Revenues (% of GDP)	22.2	23.7	23.2	21.9	22.5	22.6
Debt (% of GDP)	36.9	40.6	41.5	41.7	41.6	41.5
Primary Balance (% of GDP)	-4.7	-3.3	-2.6	-2.1	-2.1	-2.4
GHG emissions growth (mtCO2e)	0.4	3.6	4.4	3.5	3.9	4.4
Energy related GHG emissions (% of total)	28.0	28.8	29.9	31.2	33.1	35.7

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

PAKISTAN

Table 1	2022
Population, million	235.8
GDP, current US$ billion	380.6
GDP per capita, current US$	1613.8
International poverty rate ($2.15)[a]	4.9
Lower middle-income poverty rate ($3.65)[a]	39.8
Upper middle-income poverty rate ($6.85)[a]	84.5
Gini index[a]	29.6
School enrollment, primary (% gross)[b]	95.5
Life expectancy at birth, years[b]	66.3
Total GHG emissions (mtCO2e)	490.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2020).

Pakistan's economy is under stress with low foreign reserves and high inflation. Activity has fallen with policy tightening, flood impacts, import controls, high borrowing and fuel costs, low confidence, and protracted policy and political uncertainty. Despite some projected recovery, growth is expected to remain below potential in the medium term. Poverty will inevitably increase with pressures from weak labor markets and high inflation. Further delays in external financing, policy slippages, and political uncertainty pose significant risks to the outlook.

Key conditions and challenges

With high public consumption, economic growth increased substantively above potential in FY22 at the cost of growing imbalances that led to pressures on domestic prices, external and fiscal sectors, the exchange rate, and foreign reserves. These imbalances were exacerbated by the catastrophic flooding in 2022, surging world commodity prices, tightening global financing conditions, and domestic political uncertainty. Furthermore, distortive policy measures, including periods of exchange rate caps and import controls, delayed the IMF-EFF program and contributed to creditworthiness downgrades, lower confidence, high yields, and interest payments, and the loss of access to international capital markets.

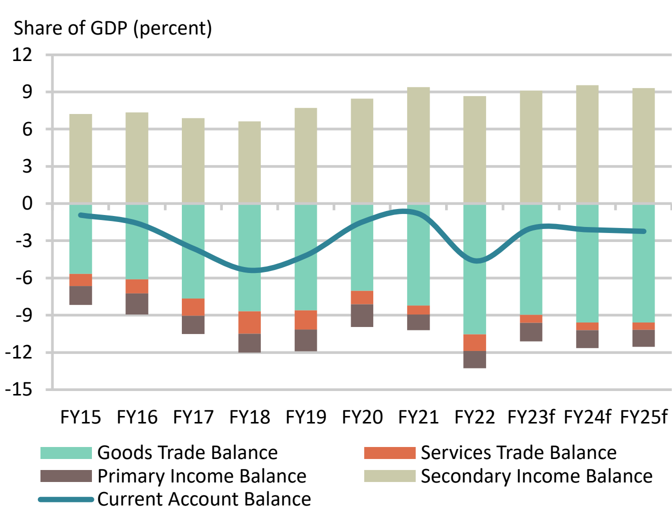
Key risks to the outlook are the non-completion of the IMF program due to policy slippages and the non-materialization of expected financing. Additional risks include political instability, deterioration of domestic security and external economic conditions, and financial sector risks associated with revaluation losses, liquidity shortages, and high sovereign-exposure. Health and education outcomes are also at risk as the high inflation and reduced incomes could lead poor households to lower school attendance and food intake.

Recent developments

Economic activity is estimated to have sharply declined over July-December 2022 (H1 FY23). The devastating floods, along with difficulties in securing quality fertilizers and animal feed, have reduced agricultural output and labor opportunities for low-income workers. Similarly, dwindling foreign reserves, import restrictions, flood impacts, high fuel costs, policy uncertainty, and the slowdown in domestic and global demand have affected industry and service sector activity, with large-scale manufacturing output contracting by an average of 3.7 percent over H1 FY23. With the destruction of infrastructure and disrupted access to schools, medical facilities, and sanitation systems, the floods have negatively impacted health and education outcomes, especially for rural areas, potentially affecting long-term human capital accumulation.

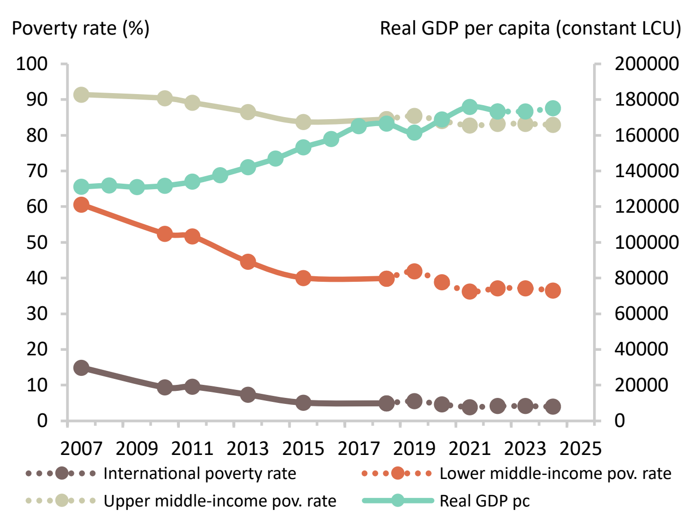
Pakistan's external account weakened in H1 FY23 as foreign reserves fell significantly. With import controls, the trade deficit contracted by nearly 32 percent y-o-y in H1 FY23. Official remittance inflows also fell by 11.1 percent, partly due to the exchange rate cap that made informal non-banking channels preferable. Any decline in overall remittances would reduce households' capacity to cope with economic shocks, adding pressure on poverty. Overall, the current account deficit shrank to US$3.7 billion in H1 FY23 from US$9.1 billion in H1 FY22. With weaker sentiment and lower foreign exchange inflows, the financial

FIGURE 1 Pakistan / Current account balance and major components



Sources: State Bank of Pakistan and World Bank staff estimates.
Note: Pakistan reports data on a fiscal year (FY) basis. The fiscal year runs from July 1 through June 30.

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



Source: World Bank. Notes: see Table 2.

account saw the largest half-year deficit in 12 years. Reserves therefore declined from US$11.1 billion at the end-FY22 to US$4.8 billion at the end-February 2023, equivalent to 0.8 months of total imports. With the release of the exchange rate cap in early-2023, the official exchange rate has fallen by more than 20 percent against the U.S. dollar as of end-February from end-June 2022.

Headline consumer price inflation rose to a multi-decade high of an average of 25.0 percent y-o-y in H1 FY23, up from 9.8 percent in H1 FY22. This reflects the weaker exchange rate, surging global commodity prices, lower domestic fuel and electricity subsidies, and flood-related disruptions. As food constitutes half of their expenditure, the real purchasing power of poor households has fallen significantly with higher food prices, putting poverty gains at risk. The real interest rate remains negative despite the policy rate being raised by a cumulative 625 bps to 20.0 percent since July 2022.

The fiscal deficit reached PKR1,683 billion in H1 FY23, 23.0 percent higher than in H1 FY22. This was driven by higher interest payments as interest rates rose and the currency weakened, leading debt servicing costs to jump by 77.1 percent to PKR2,573 billion. Reflecting fiscal consolidation efforts, non-interest expenditure rose by only 8.2 percent, with reduced spending on subsidies and grants. Meanwhile, revenue increased by 18.8 percent, supported by higher revenue from direct taxes and hikes in the petroleum development levy. Consequently, the primary balance reached a surplus of PKR890 billion – significantly higher than the surplus of PKR81 billion for H1 FY22.

Outlook

Real GDP growth is expected to slow sharply to 0.4 percent in FY23, reflecting corrective tighter fiscal policy, flood impacts, high inflation, high energy prices and import controls. Agricultural output is expected to contract for the first time in more than 20 years due to the floods. Industry output is also expected to shrink with supply chain disruptions, weakened confidence, and higher borrowing costs and fuel prices. The lower activity is expected to spill over to the wholesale and transportation services sectors, weighing on services output growth. Output growth is expected to gradually recover in FY24 and FY25 but remain below potential as low foreign reserves and import controls continue to curtail growth. In the absence of higher social spending, the lower middle-income poverty rate is expected to increase to 37.2 percent in FY23. Given poor households' dependency on agriculture, and small-scale manufacturing and construction activity, they remain vulnerable to economic and climate shocks.

Due to higher energy and food prices, and the weaker Rupee, inflation is projected to rise to 29.5 percent in FY23 but moderate over the forecast horizon as global inflationary pressures dissipate. With dampened imports, the current account deficit is projected to narrow to 2.0 percent of GDP in FY23 but widen to 2.2 percent of GDP in FY25 as import controls ease. The fiscal deficit is projected to narrow to 6.7 percent of GDP in FY23 and further over the medium term as fiscal consolidation takes hold. The macroeconomic outlook is predicated on the completion of the IMF-EFF program, sound macroeconomic policy, continued structural reforms, and adequate external financing.

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

	2019/20	2020/21	2021/22e	2022/23f	2023/24f	2024/25f
Real GDP growth, at constant market prices	-1.3	6.5	6.2	0.4	2.0	3.0
Private Consumption	-2.8	9.3	10.0	1.3	2.3	3.0
Government Consumption	8.5	1.8	-3.4	-16.1	3.8	4.5
Gross Fixed Capital Investment	-6.7	4.5	2.5	-15.6	1.3	2.8
Exports, Goods and Services	1.5	6.5	8.4	-8.3	4.4	3.3
Imports, Goods and Services	-5.1	14.5	15.6	-15.3	4.9	3.9
Real GDP growth, at constant factor prices[a]	-0.9	5.7	6.0	0.4	2.0	3.0
Agriculture	3.9	3.5	4.4	-1.0	2.5	2.8
Industry	-5.7	7.8	7.2	-2.3	1.5	2.9
Services	-1.2	6.0	6.2	1.8	2.1	3.0
Inflation (Consumer Price Index)	10.7	8.9	12.2	29.5	18.5	10.0
Current Account Balance (% of GDP)	-1.5	-0.8	-4.6	-2.0	-2.1	-2.2
Net Foreign Direct Investment Inflow (% of GDP)	0.9	0.5	0.4	0.0	0.3	0.6
Fiscal Balance, including grants (% of GDP)	-7.0	-6.0	-7.8	-6.7	-6.2	-6.0
Revenues (% of GDP)	13.3	12.4	12.1	10.9	11.4	12.0
Debt (% of GDP)	81.1	75.6	78.0	74.0	72.1	72.2
Primary Balance, including grants (% of GDP)	-1.5	-1.1	-3.0	-0.6	-0.4	-0.4
International poverty rate ($2.15 in 2017 PPP)[b,c]	5.6	4.6	3.9	4.1	4.1	4.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	41.9	38.9	36.2	37.2	37.1	36.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	85.4	84.0	82.7	83.2	83.2	82.9
GHG emissions growth (mtCO2e)	1.2	5.1	5.0	2.1	2.7	3.0
Energy related GHG emissions (% of total)	42.6	43.6	44.3	43.8	43.7	43.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ The Government's provisional FY22 estimate of real GDP growth (at 2015-16 prices) is 6.0 percent.
b/ Calculations based on SAR-POV harmonization, using 2018-HIES. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
c/ Projection using neutral distribution (2018) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

SRI LANKA

Table 1	2022
Population, million	22.2
GDP, current US$ billion	74.8
GDP per capita, current US$	3367.9
International poverty rate ($2.15)[a]	1.0
Lower middle-income poverty rate ($3.65)[a]	11.3
Upper middle-income poverty rate ($6.85)[a]	49.3
Gini index[a]	37.7
School enrollment, primary (% gross)[b]	100.3
Life expectancy at birth, years[b]	76.4
Total GHG emissions (mtCO2e)	39.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2020).

The economy contracted significantly in 2022, leading to the worst poverty levels since 2009 and reversing some past human capital gains. Debt restructuring and implementation of deep reforms are needed for economic stabilization and restoring growth. Mitigating the impacts on the vulnerable is critical during this adjustment. The fluid political situation and heightened fiscal, external, and financial sector imbalances pose significant uncertainty for the outlook.

Key conditions and challenges

In the last five years, growth and poverty reduction significantly decelerated due to several shocks, including COVID-19. A restrictive trade regime, weak investment climate, episodes of loose monetary policy, and an administered exchange rate contributed to external imbalances. Years of fiscal indiscipline, driven primarily by low revenue collections, led to high fiscal deficits and large gross financing needs. Combined with these pre-existing fiscal imbalances, tax cuts in 2019 contributed to a rapid build-up of debt to unsustainable levels. Sri Lanka lost access to international financial markets in 2020 after credit rating downgrades.

Without market access, official reserves dropped from US$7.6 billion in 2019 to less than US$500 million (excluding a currency swap equivalent to US$ 1.4 billion with China) in December 2022. Net foreign assets in the banking system also fell to US$ -4.8 billion in December 2022. This severe forex liquidity constraint has been felt across the economy, particularly from Q2 2022, with shortages of fuel, medicine, cooking gas, and other inputs needed for economic activity. Amid depleted reserves, Sri Lanka announced an external debt service suspension in April 2022, pending debt restructuring. A foreign exchange management strategy (covering outflows with available inflows in the absence of debt servicing), implemented in H2 of 2022, somewhat stabilized the external sector.

The IMF Board approved a US$3 billion-48-month Extended Fund Facility program on March 20, 2023, after securing financing assurances from official creditors to provide debt relief consistent with the IMF's debt sustainability framework.

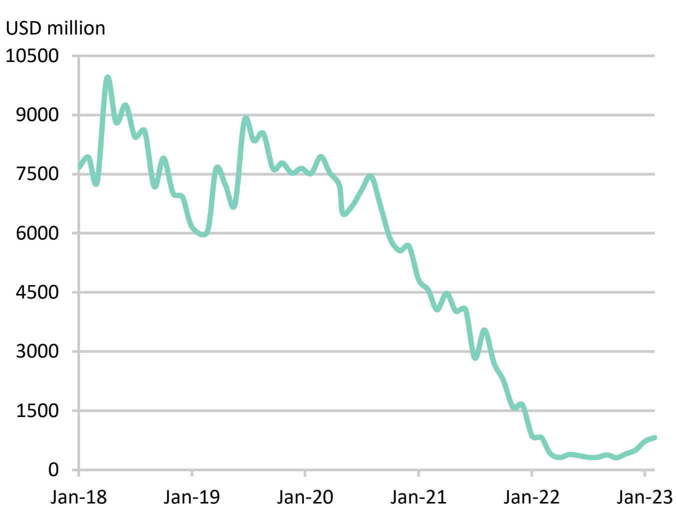
Recent developments

The economy contracted by 7.8 percent (y-o-y) in 2022. While all key sectors contracted, the manufacturing and construction sectors suffered the most amid shortages of inputs and supply chain disruptions. High-frequency indicators, such as purchasing managers' indices, indicate continued stress in Q1 2023.

After peaking at an unprecedented 69.8 percent (y-o-y) in September, headline inflation closed 2022 at 57.2 percent (y-o-y), reflecting the impact of elevated global commodity prices, monetization of fiscal deficits, currency depreciation, and food supply constraints due to the 2021 ban on chemical fertilizers. Since January 2022, the central bank has raised policy rates by a cumulative 1,050 basis points to try curbing inflation.

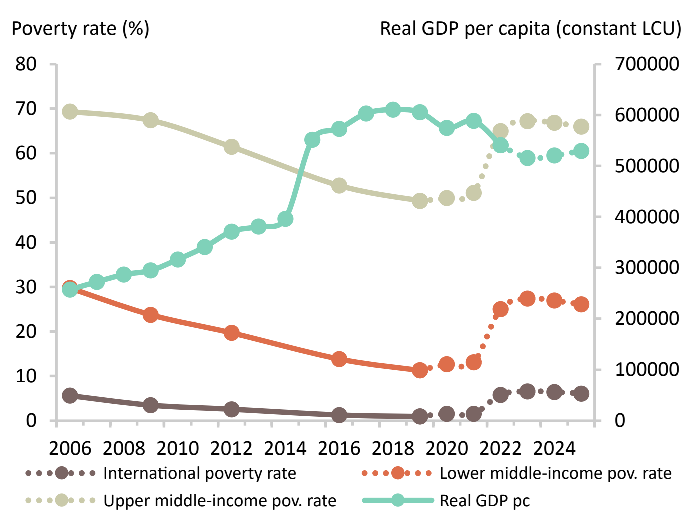
Due to the economic contraction, half a million jobs were lost in industry and services and back-up lower-paying agricultural jobs could not compensate for income losses. Combined with increases in the cost of living, this economic contraction led national and urban poverty to double (to 25 percent) and triple (15 percent), respectively.

FIGURE 1 Sri Lanka / Gross official reserves



Sources: Central Bank of Sri Lanka and World Bank staff calculations.
Note: Gross official reserves exclude a currency swap with China equivalent to US$ 1.4 billion.

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



Source: World Bank. Notes: see Table 2.

The crisis left 52 percent of the population in estate areas living in poverty, exacerbating spatial disparities, and led to an increase in overall inequality.

The trade deficit declined to US$ 5.2 billion in 2022 from US$ 8.1 billion in 2021, as exports, particularly textiles, grew faster than imports. This trade deficit reduction is estimated to have lowered the current account deficit, despite a fall in remittances (by 36 percent, y-o-y) and relatively low tourism receipts. Lower remittances – a source of income for 7.2 percent of the population- contributed to income losses and to the adoption of negative coping mechanisms, further increasing the risk of food insecurity and stunting.

The currency (LKR) depreciated by 78 percent against the US Dollar between March and May 2022 when it was floating. A return to a managed float, amid the ongoing foreign exchange management strategy, restricted the full year depreciation to 81 percent. However, due to low market confidence, bringing export earnings and remittances to Sri Lanka through formal channels has been challenging, despite mandatory repatriation and conversion rules. The unwinding of speculative Dollar holdings led to sharp appreciation of the LKR in early March 2023 amid sluggish import demand.

The overall fiscal deficit is estimated to have declined owing to the implementation of several new revenues measures (including a VAT rate increase from 8 to 15 percent), tightly controlled expenditure and a buildup of arrears to suppliers and contractors. Interest payments continued to absorb more than two-thirds of total revenue.

Outlook

The fluid political situation and heightened fiscal, external, and financial sector imbalances pose significant uncertainty for the outlook. Growth prospects depend on debt restructuring and growth-enhancing structural reforms. At the same time, fiscal consolidation will likely dampen these prospects, with the fiscal deficit expected to gradually fall over the medium term. Inflation is projected to come down from a high base as monetization of fiscal deficits is reined in. The current account deficit is expected to decline thanks to import compression, despite decelerating exports due to weak global demand. Additional resources will be needed in 2023 and beyond to close the external financing gap.

Key downside risks include a slow debt restructuring process, limited external financing support, a sharper global slowdown, and a prolonged recovery from the scarring effects of the current crisis. A lower-level external trade equilibrium could have contagion effects on domestic trade, economic activity, jobs, and incomes. This and adverse effects from revenue-mobilization efforts could worsen poverty projections. The financial sector needs to be managed carefully, given rising non-performing loans and large public sector exposures.

The necessary macroeconomic adjustments may initially adversely affect growth and poverty but will correct overall imbalances, help regain access to international financial markets, and build the foundation for sustainable growth. Mitigating the impacts on the poor and vulnerable remains critical during the adjustment. Reducing poverty requires better-targeted social assistance, an expansion of employment in industry and services, and a recovery in the real value of incomes. On the upside, the government's reform program, supported by financing from international partners, could boost confidence and attract fresh capital inflows key to restarting the labor market and restoring livelihoods.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices[a]	-4.6	3.5	-7.8	-4.3	1.2	2.0
Private Consumption	-5.8	6.2	-8.0	-4.5	1.3	2.1
Government Consumption	3.6	3.1	-13.6	-3.4	-0.7	1.0
Gross Fixed Capital Investment	-13.1	10.6	-12.6	-4.8	1.8	2.0
Exports, Goods and Services	-29.6	10.3	5.6	-4.0	4.7	3.2
Imports, Goods and Services	-20.1	4.1	-5.9	-3.9	4.1	2.4
Real GDP growth, at constant factor prices[a]	-2.9	4.0	-6.7	-4.3	1.2	2.0
Agriculture	-0.9	0.9	-4.6	2.4	1.5	1.5
Industry	-5.3	5.7	-16.0	-5.8	1.0	2.2
Services	-1.9	3.5	-2.0	-4.5	1.2	2.0
Inflation (Consumer Price Index)	4.6	6.0	46.4	21.8	8.0	7.0
Current Account Balance (% of GDP)	-1.4	-3.8	-1.6	-1.1	-1.1	-0.9
Net Foreign Direct Investment Inflow (% of GDP)	0.5	0.8	0.6	1.1	1.2	1.2
Fiscal Balance (% of GDP)	-10.6	-12.0	-8.5	-7.8	-6.0	-5.0
Revenues (% of GDP)	8.8	8.3	8.7	11.0	12.5	13.5
Primary Balance (% of GDP)	-4.4	-5.7	-2.4	-0.4	1.1	2.0
International poverty rate ($2.15 in 2017 PPP)[b,c]	1.6	1.5	5.8	6.6	6.4	6.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	12.7	13.1	25.0	27.4	26.9	26.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	49.9	51.1	65.0	67.2	66.9	66.0
GHG emissions growth (mtCO2e)	4.4	6.3	-6.7	-3.5	1.0	1.2
Energy related GHG emissions (% of total)	66.0	67.7	66.1	64.0	63.9	63.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ GDP by expenditure for 2020 and 2021 are estimates, as the data published on March 15, 2023 by authorities only included GDP by production.
b/ Calculations based on SAR-POV harmonization, using 2019-HIES. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
c/ Microsimulations for 2020-2022 based on 2019 actual data. Neutral-distribution projections with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU (2023-2025).

Sub-Saharan Africa

Spring Meetings 2023

Angola	Côte d'Ivoire	Liberia	Senegal
Benin	Equatorial Guinea	Madagascar	Seychelles
Botswana	Eritrea	Malawi	Sierra Leone
Burkina Faso	Eswatini	Mali	Somalia
Burundi	Ethiopia	Mauritania	South Africa
Cabo Verde	Gabon	Mauritius	South Sudan
Cameroon	Gambia, The	Mozambique	Sudan
Central African Republic	Ghana	Namibia	Tanzania
Chad	Guinea	Niger	Togo
Comoros	Guinea-Bissau	Nigeria	Uganda
Congo, Dem. Republic	Kenya	Rwanda	Zambia
Congo, Republic	Lesotho	São Tomé and Príncipe	Zimbabwe

ANGOLA

Table 1	2022
Population, million	35.0
GDP, current US$ billion	122.1
GDP per capita, current US$	3486.5
International poverty rate ($2.15)[a]	31.1
Lower middle-income poverty rate ($3.65)[a]	52.9
Upper middle-income poverty rate ($6.85)[a]	78.0
Gini index[a]	51.3
School enrollment, primary (% gross)[b]	85.0
Life expectancy at birth, years[b]	62.3
Total GHG emissions (mtCO2e)	126.3

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

Growth accelerated in 2022 due to increased oil production and higher oil prices allowing for an expansive fiscal stance in an election year. With an appreciating currency and food prices easing, inflation declined rapidly, and poverty fell to 32.7 percent. Growth is expected to moderate in the near-term, bogged down by the oil sector. Risks are elevated due to excessive dependence on oil revenue, with policies aimed at removing market distortions and enhancing resilience remaining a high priority.

Key conditions and challenges

Angola's economic fortunes have been tied to global oil demand, which brought volatile growth and left Angola with high levels of poverty and inequality. Reforms over the past 5 years have improved macroeconomic management and public sector governance. Macroeconomic stability has been enhanced through a more flexible exchange rate regime, central bank autonomy, sound monetary policy, and fiscal consolidation. Laws to allow greater private sector participation in the economy, increase the stability of the financial sector and reduce the impact of oil revenue volatility on public finances have also been introduced.

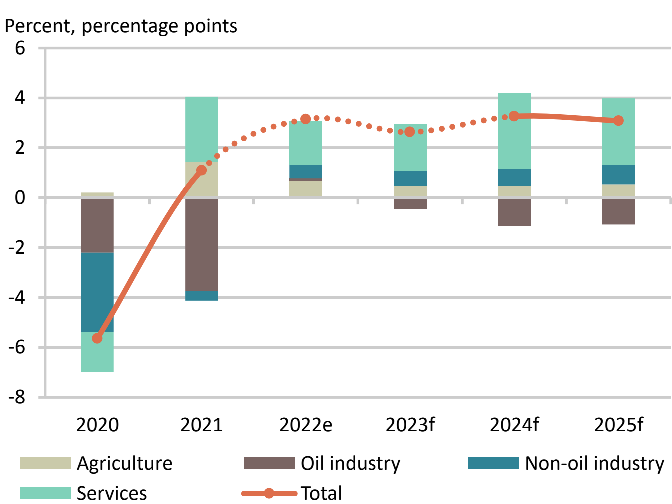
High poverty is linked to a lack of good-quality jobs: 80 percent of jobs are informal, and half are in the primary sector (often subsistence work). Urban and youth unemployment remain high, exceeding 38 percent and 50 percent, respectively. Economic diversification remains elusive while oil production is declining and global decarbonization looms in the medium-term. Angola needs to urgently invest in removing barriers to private sector investment to achieve economic diversification to support growth, job creation, and poverty reduction.

Given the jobs challenge, high poverty, and a rapidly growing population, investing in human capital and poverty reduction is a top priority. Inadequate provision of health and education reduce the potential productivity of a child born in Angola to 36 percent what it could be. Investments in human capital will require sustainably increasing spending and improving management and accountability to ensure results. Investments in education and health have been complemented with the roll-out of a social registry and the Kwenda cash transfer program in 2020, with close to a million rural households registered. A broader social safety net with adaptable income support could substantially reduce extreme poverty, mitigate the impact of shocks on households, and support investments in human capital.

Recent developments

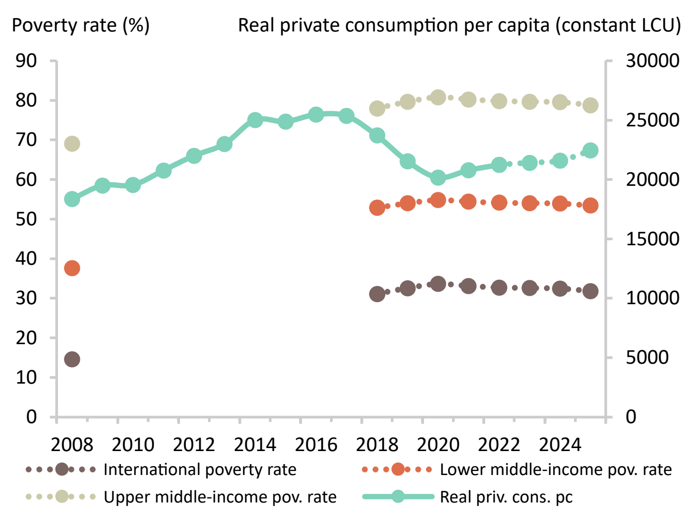
GDP growth accelerated in 2022 to an estimated 3.5 percent - the first time since 2014 that it outpaced population growth - thanks to a small rebound in oil production and high oil revenues. Higher oil prices allowed for fiscal expansion, especially in public investments, and appreciation of the domestic currency, underpinning strengthening domestic demand and generating growth in private consumption estimated at around 5 percent. The oil sector contributed to this recovery with a growth of 1.4 percent, the first expansion since 2015. Non-oil output accelerated with agriculture and fisheries growing almost 7 percent and the services sector recovering to pre-COVID-19 levels. Construction activity expanded, benefitting from higher government investment in the

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



Sources: Angola National Institute of Statistics and World Bank.

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



Source: World Bank. Notes: see Table 2.

context of improved financial conditions and an election year.

With higher oil prices, the currency appreciated by 26.2 percent in 2022, though appreciation pressures have receded since late 2022. The current account surplus stood at about 11 percent of GDP, driven by high growth in oil exports (51 percent year-on-year). International reserves stood at US$14.5 billion dollars at the end of 2022, or about 6 months of imports.

Inflation has fallen rapidly, allowing the Central Bank to moderately loosen monetary policy. The year-over-year rate fell from 27 percent in December 2021 to 13.9 percent in December 2022, the lowest rate since 2015. As inflation pressures subside, the Central Bank lowered the reference rate from 20 percent until September 2022 to 18 percent by January 2023.

Positive per capita growth and slowing inflation are expected to have reduced poverty at $2.15 per day (2017 PPP) by 0.4 percentage points to 32.7 percent, yet the number of people living in poverty continued to grow, surpassing 11.4 million.

The government achieved a fiscal surplus of 2.7 percent of GDP, despite expenditure significantly exceeding budgeted levels, especially on investment and fuel subsidies. However, the non-oil primary deficit, a measure of the structural fiscal position, increased to 7.7 percent of GDP, up from 4.8 percent in 2021 and above the government's medium-term target of 5 percent. Debt-to-GDP declined to about 65 percent, with proactive debt management, including purchase of outstanding Eurobonds reducing near-term external financing needs.

Outlook

Due to decreased oil production and reduced fiscal impulse, growth is expected to moderate to 2.6 percent in 2023, falling once again below population growth (3.1 percent). Growth in the non-oil economy, especially in agriculture, construction and services is expected to remain robust, with non-oil GDP growth exceeding four percent annually. While the poverty rate is expected to continue marginally decreasing, due to rapid population growth, the number of poor will surpass 11.7 million.

Inflation is expected to remain on a moderating trend, however possible adjustments in regulated prices, especially for fuel, could temporarily increase prices. The current account surplus is expected to narrow gradually, as growth in non-oil exports will be insufficient to offset the declining trend of oil production and the expected reduction of oil prices, while import growth remains robust. The flexible exchange rate is expected to mitigate the pressures on external reserves and serve as a first line of defense against external shocks. External financing requirements resulting from the large external debt service are met by bilateral and multilateral loans, bond issuances and, increasingly, foreign direct investment.

Fiscal accounts are expected to remain balanced in the absence of new oil price shocks. The 2023 budget targets a small overall fiscal surplus. A significant decline of oil prices could result in a fiscal deficit and increased financing needs. Fuel subsidy reform, which the government intends to undertake in the course of 2023, could free up fiscal space that can be used for greater investments in poverty reduction and human capital formation.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-5.6	1.1	3.5	2.6	3.3	3.1
Private Consumption	-3.3	6.4	5.5	4.0	4.0	4.0
Government Consumption	-8.2	-6.4	-1.6	10.1	25.0	12.3
Gross Fixed Capital Investment	-15.5	9.2	-0.6	3.7	0.2	1.0
Exports, Goods and Services	-6.2	-10.7	1.5	-1.3	-3.5	-3.4
Imports, Goods and Services	-19.6	-18.3	13.8	9.6	7.0	0.8
Real GDP growth, at constant factor prices	-6.8	-0.1	3.4	2.5	3.1	2.9
Agriculture	2.8	17.2	6.8	4.6	4.6	5.0
Industry	-10.5	-8.3	2.1	0.3	-1.1	-0.7
Services	-3.9	6.2	3.9	4.2	6.7	5.7
Inflation (Consumer Price Index)	22.3	25.8	21.4	9.8	4.4	3.5
Current Account Balance (% of GDP)	2.4	5.8	13.5	8.6	9.1	9.2
Net Foreign Direct Investment Inflow (% of GDP)	3.3	4.5	4.8	1.5	0.6	1.3
Fiscal Balance (% of GDP)	-1.9	3.9	2.6	1.9	0.1	-0.1
Revenues (% of GDP)	20.8	24.1	24.4	22.7	20.6	19.2
Debt (% of GDP)	130.7	85.7	64.5	60.7	54.9	50.8
Primary Balance (% of GDP)	4.9	9.3	7.0	6.0	3.6	3.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	33.6	33.1	32.7	32.6	32.5	31.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	54.8	54.4	54.2	54.1	54.0	53.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	80.8	80.2	79.8	79.7	79.5	78.8
GHG emissions growth (mtCO2e)	0.3	-1.7	-0.1	-0.5	-0.8	-0.8
Energy related GHG emissions (% of total)	16.3	16.0	17.3	18.5	19.3	20.0

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 2018-IDREA. Projection using point to point elasticity at regional level with pass-through = 0.7 based on private consumption per capita in constant LCU.
b/ Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.

BENIN

Table 1	2022
Population, million	13.4
GDP, current US$ billion	20.0
GDP per capita, current US$	1501.3
International poverty rate ($2.15)[a]	19.9
Lower middle-income poverty rate ($3.65)[a]	53.2
Upper middle-income poverty rate ($6.85)[a]	83.4
Gini index[a]	37.8
School enrollment, primary (% gross)[b]	116.7
Life expectancy at birth, years[b]	60.1
Total GHG emissions (mtCO2e)	28.5

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

After a strong rebound in 2021, real growth moderated to 6 percent in 2022. Inflation remained subdued at 2.5 percent due to a strong harvest season and measures to partially offset import price pressure and extreme poverty incidence declined by 1.1 percent. Benin's fiscal response to overlapping crises has significantly reduced fiscal space, with a steep increase in debt levels. Food, energy, and fertilizer price volatility, increased security risks in the North, and extreme weather events cloud the outlook.

Key conditions and challenges

Real GDP growth moderated in 2022 due to the global economic slowdown and uncertainties generated by Russia's invasion of Ukraine. Fiscal consolidation efforts between 2016-19 enabled countercyclical, expansionary fiscal policy to respond to overlapping crises over 2020-22. This, combined with significant infrastructure investment under the second Government Action Plan (PAG, 2021-26) and a resilient agriculture sector, allowed Benin to maintain above-regional average growth and is expected to have led to a reduction in poverty in 2022. However, poverty and vulnerability remain high, with substantial spatial disparities.

With rising global uncertainties and security threats in the North, sustaining economic growth over the medium term will require pursuing structural reforms to alleviate critical constraints. First, rebuilding fiscal space through improved revenue collection and streamlined tax expenditures, while enhancing the efficiency of public spending. Second, the impacts of recent crises and recurrent climate shocks highlighted the need for accelerated implementation of reforms to strengthen shock resilience, notably social protection.

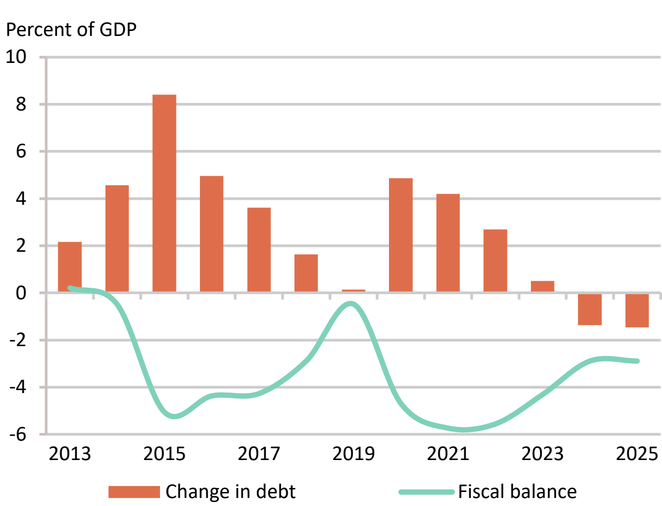
In terms of risks, increased insecurity and social tensions in the North together with sustained food, energy, and fertilizer price volatility would negatively impact poor and vulnerable households, slowing poverty reduction and pushing more households into fragility. Extreme climate events could also cause severe damage and jeopardize agricultural output.

Recent developments

Real GDP growth decelerated to 6 percent in 2022 (3.1 percent in per capita term) due to global geopolitical tensions and regional instability. On the supply side, the primary sector remained resilient despite fertilizer supply disruptions, thanks to higher cotton exports. Services remained the major contributor to growth on the back of strong transport and logistics sectors. On the demand side, private consumption growth slowed moderately, while public investment was scaled back as fiscal space narrowed. Year-on-year inflation accelerated to 2.8 percent at end-2022, remaining well below peers due to a strong harvest supporting local food supply and measures to combat inflation, such as temporary import tax exemptions and export restrictions to neighboring countries. Growth in agriculture combined with relatively low inflation is expected to have reduced the international poverty rate ($2.15 a day, 2017 PPP) from 18.6 percent in 2021 to 17.5 percent in 2022.

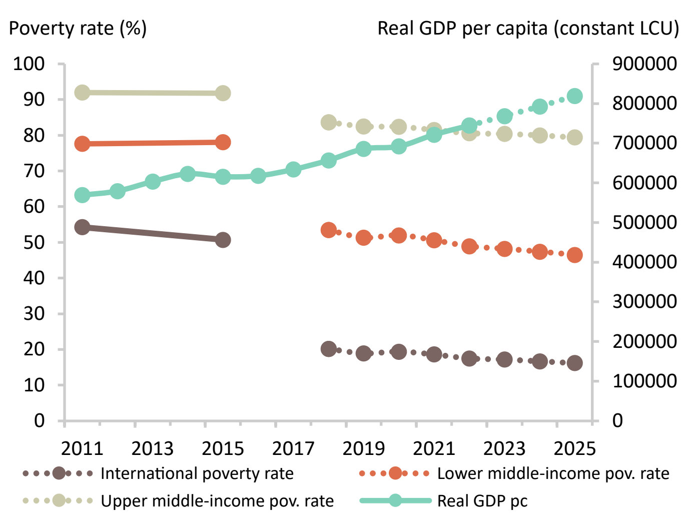
Higher formal oil prices coupled with significant construction and security imports widened the current account deficit (CAD) (including grants) to 6.1 percent of GDP in 2022 from 4.1 percent in 2021. The CAD was primarily financed by regional bond emissions and concessional financing.

FIGURE 1 Benin / Fiscal balance and change in public and publicly guaranteed debt



Source: World Bank.

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



Sources: World Bank. Notes: see Table 2.

The fiscal deficit has remained elevated for the third consecutive year, at 5.7 percent of GDP in 2022, owing to unanticipated spending to cushion the effects of the war in Ukraine and contain rising security threats in the North. Domestic revenues remained resilient in 2022, reaching 13.4 percent of GDP, compared to 13.2 in 2021, thanks to improvements in tax administration and the application of the new Tax Code. Public debt continued to increase, reaching 52.8 percent of GDP in 2022 (+11.6 ppt compared to 2019), with the share of external debt significantly increasing over the last few years. Benin remains at moderate risk of external and overall debt distress, but with limited space to absorb shocks.

To counter inflation across WAEMU countries, the Central Bank of West African States (BCEAO) raised policy interest rates by a cumulative 75 basis points in 2022 (to 2.75 percent for liquidity calls and 4.75 percent for the marginal lending facility). BCEAO will likely need to continue tightening in 2023 in line with other major central banks, and as foreign exchange reserves have declined and inflation remains well above the target range of 1-3 percent. Furthermore, delaying fiscal adjustments towards the regional fiscal deficit target of below 3 percent of GDP by 2025 could exacerbate debt sustainability risks in some countries, while increasing regional financing needs, reducing FX reserve buffers, and elevating inflationary risks.

Outlook

In the medium-term, real growth is expected to hover around 6 percent, equivalent to 3.1 percent per capita. Growth will be driven by private consumption as inflationary pressures abate, and total investment will gradually shift from public to private. On the supply side, the dynamism of the construction sector and agriculture production will support growth. Inflation is projected to reach the WAEMU target of 2 percent in 2024. The CAD should improve progressively, averaging 4.7 percent of GDP over 2024-25, thanks to an expected decrease in the price of oil products. Regional bond issuances will largely finance the CAD as international financial markets are expected to remain tight.

Poverty reduction is expected to gradually revert to its pre-crisis downward trend as economic growth remains robust. However, slower growth in services over the medium term is expected to lead to a deceleration in the pace of poverty reduction, with the headcount rate ($2.15 a day, 2017 PPP) declining only marginally from 17.5 percent in 2022 to 17.2 percent in 2023 and further to 16.2 percent by 2025.

The planned revenue-based fiscal consolidation – complemented by the removal of exceptional subsidies and more efficient spending - should rebuild fiscal space with an expected deficit of 4.3 percent of GDP in 2023 and around 3 percent from 2024, in line with the current WAEMU convergence criterion. Delaying fiscal adjustment towards the regional fiscal deficit target could exacerbate debt sustainability risks in some countries, while a deterioration of the external environment, a strong increase in military and security spending, or an extreme weather event could delay consolidation. Under more benign conditions, public debt is expected to decline gradually after peaking at 53.2 percent in 2023.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	3.8	7.2	6.0	6.0	5.9	6.1
Private Consumption	3.0	4.2	3.7	3.9	4.0	4.1
Government Consumption	19.6	2.0	12.4	3.2	1.7	3.8
Gross Fixed Capital Investment	-6.2	17.7	17.7	9.9	7.6	10.7
Exports, Goods and Services	-6.7	22.2	13.6	3.6	7.8	7.5
Imports, Goods and Services	-11.3	19.6	22.4	1.8	2.8	7.1
Real GDP growth, at constant factor prices	3.8	7.2	6.0	6.0	5.9	6.1
Agriculture	1.8	4.7	5.5	5.7	5.8	5.8
Industry	5.2	10.5	7.0	8.2	6.8	7.2
Services	4.2	7.0	5.8	5.1	5.5	5.7
Inflation (Consumer Price Index)	3.0	1.7	2.5	3.0	2.0	2.0
Current Account Balance (% of GDP)	-1.7	-4.2	-6.1	-5.5	-4.7	-4.7
Net Foreign Direct Investment Inflow (% of GDP)	0.5	-1.0	0.7	1.0	1.1	0.9
Fiscal Balance (% of GDP)	-4.7	-5.7	-5.6	-4.3	-2.9	-2.9
Revenues (% of GDP)	14.4	14.1	13.9	14.4	15.2	15.6
Debt (% of GDP)	46.1	50.3	53.0	53.5	52.1	50.7
Primary Balance (% of GDP)	-2.7	-3.5	-3.7	-2.8	-1.1	-1.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	19.4	18.6	17.5	17.2	16.7	16.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	52.0	50.6	48.9	48.2	47.4	46.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	82.4	81.5	80.6	80.4	80.0	79.4
GHG emissions growth (mtCO2e)	2.1	6.7	1.7	1.1	4.5	4.7
Energy related GHG emissions (% of total)	31.7	35.5	35.8	35.8	37.7	39.7

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 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection based on microsimulation model that accounts for differences in sectoral growth, food and nonfood inflation.

BOTSWANA

Table 1	2022
Population, million	2.5
GDP, current US$ billion	20.4
GDP per capita, current US$	8287.7
International poverty rate ($2.15)[a]	15.4
Lower middle-income poverty rate ($3.65)[a]	38.0
Upper middle-income poverty rate ($6.85)[a]	63.5
Gini index[a]	53.3
School enrollment, primary (% gross)[b]	99.0
Life expectancy at birth, years[b]	65.6
Total GHG emissions (mtCO2e)	59.6

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

Botswana's economy grew strongly, by 6.5 percent in 2022 supported by favorable external demand for diamonds. Growth is expected to slow and average 4.0 percent over 2023-25. The outlook relies on robust though slowing diamond demand and a pickup in non-mineral activities, supported by improved electricity and water supply and continued tourism recovery. Poverty is projected to decrease slightly to 14.6 percent, using the US$2.15 per day international poverty line, while inequality remains among the highest in the world.

Key conditions and challenges

Prudent macroeconomic and fiscal policies explain the low public debt ratio of 20.8 percent of GDP reported by Botswana at the end of 2022, justifying favorable ratings by international rating agencies. However, the significant fiscal buffers accumulated in the Government Investment Account were depleted during the COVID-19 pandemic. Preserving Botswana's strong fiscal position requires efforts to increase domestic revenue mobilization and limit expenditure growth. The government's plan includes improving the efficiency of public spending and reorientating expenditures toward investment and human capital to enable the private sector in order to diversify the economy, raise productivity, and create more jobs.

Botswana's diamond-led growth model has started to show its limitations, including fiscal vulnerabilities, weak economic diversification, and persistent income inequities, which were further exacerbated by the COVID-19 pandemic. Economic growth slowed to 3.3 percent annually on average over 2012-21 and translated into low job creation, resulting in high unemployment (25.4 percent in 2022).

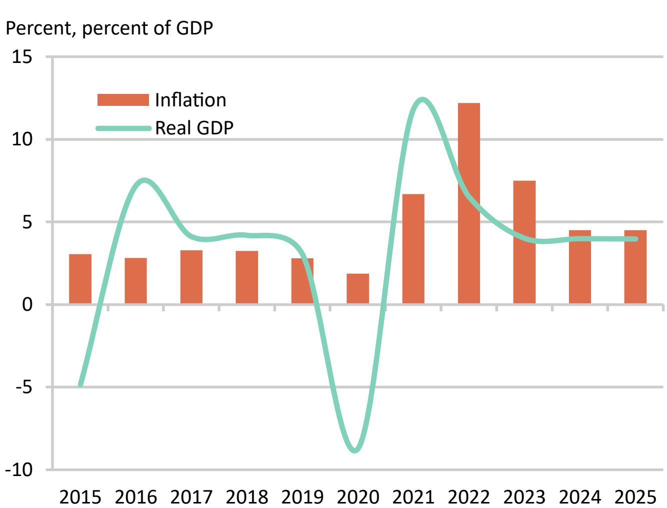
Botswana is vulnerable to external shocks, especially fluctuations in the prices of diamonds and other commodities as well as climate shocks such as droughts. In particular, droughts affect livestock (beef is the primary agricultural export product) and crop production therefore negatively impacting rural households. There is need to reform the public sector and its role in the economy to enable private sector development. Investments in the tourism, agriculture (mainly livestock value chain), energy, and manufacturing sectors bode well to attract international capital flows. Government needs to accelerate the implementation of the "Reset Agenda" to transform the economy into a high-income economy. This should be supported by enhanced accountability, competition, and governance. Excessive reliance on import substitution and restrictions to promote industrialization should be avoided.

Recent developments

Thanks to a favorable global environment (especially the diamond sector), Botswana's GDP grew by an estimated 6.5 percent in 2022, in line with the strong recovery recorded in 2021. This growth was mainly driven by the good performance in mining and diamond trading. The external balance improved, supported by the increased value of diamond exports (20.4 percent in 2022), with the current account recording an estimated surplus of 2.5 percent of GDP.

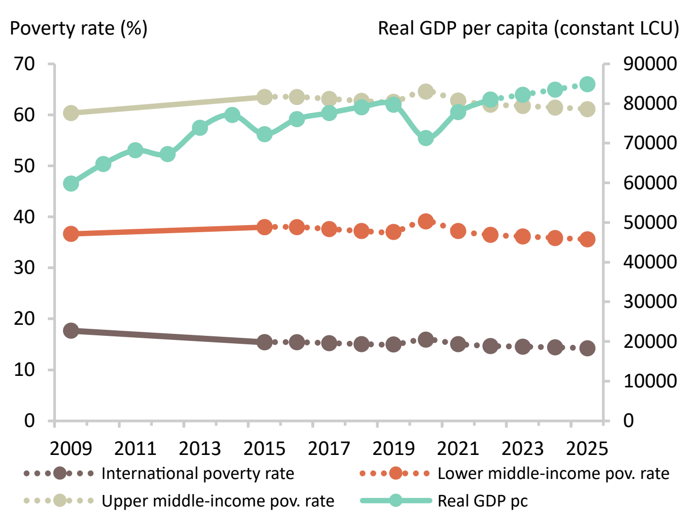
Inflation increased sharply to a decade high of 12.2 percent in 2022 (from 6.7 percent in 2021). It was triggered by an upward adjustment of administered prices, a modest recovery in domestic demand, and higher international food and fuel prices emanating from supply chain shocks from

FIGURE 1 Botswana / Inflation and real GDP growth



Sources: Bank of Botswana and World Bank staff.

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



Source: World Bank. Notes: see Table 2.

Russia's invasion of Ukraine. Import restrictions to promote local industries put pressure on domestic prices. Higher food prices might be a source of income growth for some poor rural households engaged in agriculture, but they are expected to further hurt poor urban households, while higher fertilizer prices hamper agricultural production. As a response, the Bank of Botswana tightened monetary policy by raising the interest rate by a cumulative 151 basis points during 2022.

The overall fiscal deficit narrowed to an estimated 2 percent of GDP in 2022. Fiscal revenues exceeded budgeted levels by 5.4 percent, outpacing the increase in wage expenditure, the fuel subsidy program, and social welfare. Public debt reached 20.8 percent of GDP in 2022. Most of the new borrowing was on the domestic market at relatively low interest rates. Interest payments on debt increased to 0.7 percent of GDP in 2022 compared to 0.5 percent of GDP in 2021 owing to monetary tightening.

Unemployment remains structurally high, posing challenges to Botswana's inclusive development strategy, though it declined slightly from the post-pandemic peak of 26 percent in 2021 to 25.4 percent in 2022. Poverty based on the international poverty line of US$2.15 per person per day (2017 PPP) was estimated at 14.7 percent in 2022.

Outlook

As global demand is expected to decelerate and diamond prices to stabilize, GDP growth is projected at 4 percent in 2023 and into the medium term. The outlook relies on a stable but robust performance of the diamond sector, while a modest pickup is projected in non-mineral activities, supported by improved electricity and water supply. Poverty under the US$2.15 international poverty line is projected to remain relatively high for an upper-middle-income country at around 14.5 percent in 2023.

Fiscal pressures are expected to remain significant amid elevated capital and current spending. Planned capital spending has been increased significantly (27.8 percent in FY23) as an 'economic stimulus' but given the history of underspending due to limited absorptive capacity, it raises concerns of spending inefficiencies. The consolidation of the public sector's wage bill could prove difficult in a high inflation context. The overall fiscal deficit is projected to increase to 2.9 percent in 2023, and then to decline to 0.9 percent of GDP in FY25. Public debt is projected to decline to below 20 percent of GDP by 2025. The current account is expected to improve to a surplus of 3.1 percent of GDP in 2023 and to 4.8 percent of GDP in 2025.

Priorities for reform include accelerating digital connectivity, business environment reforms, value chain development in both mining and non-mining sectors, and accelerating infrastructure development. Emphasis on strengthening fiscal prudence and discipline (including through implementation of state-owned enterprise reforms), enhancing revenue mobilization through improvements in tax collection, and replenishing the Government Investment account to manage debt sustainability are key measures that would aid inclusive growth. The outlook is subject to substantial downside risks mainly related to the broad effects of the war in Ukraine and the projected deceleration in global demand.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-8.7	11.8	6.5	4.0	4.0	4.0
Private Consumption	2.6	2.4	3.0	2.5	2.5	2.0
Government Consumption	5.3	4.0	4.3	7.1	1.3	0.6
Gross Fixed Capital Investment	-9.2	-0.3	7.2	1.3	2.7	3.2
Exports, Goods and Services	-18.6	31.7	12.0	6.8	7.0	7.0
Imports, Goods and Services	5.0	2.3	3.9	4.2	3.5	3.0
Real GDP growth, at constant factor prices	-9.1	11.9	6.5	4.0	4.0	4.0
Agriculture	-2.7	-1.0	0.8	2.8	2.6	2.6
Industry	-20.5	19.3	11.3	8.0	4.4	4.4
Services	-1.3	8.1	3.7	1.3	3.8	3.7
Inflation (Consumer Price Index)	1.9	6.7	12.2	7.5	4.5	4.5
Current Account Balance (% of GDP)	-8.6	-0.5	2.5	3.1	4.3	4.8
Net Foreign Direct Investment Inflow (% of GDP)	0.7	0.6	0.9	0.8	0.7	0.6
Fiscal Balance (% of GDP)[a]	-9.5	0.0	-2.0	-2.9	-2.4	-0.9
Revenues (% of GDP)	28.6	31.8	29.7	29.0	28.5	29.1
Debt (% of GDP)[b]	24.6	22.3	20.8	21.9	20.4	19.9
Primary Balance (% of GDP)[a]	-8.9	0.5	-1.4	-2.0	-1.6	-0.3
International poverty rate ($2.15 in 2017 PPP)[c,d]	16.0	15.1	14.7	14.5	14.4	14.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	39.1	37.2	36.5	36.2	35.9	35.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	64.6	62.8	62.0	61.7	61.5	61.2
GHG emissions growth (mtCO2e)	-1.4	3.7	0.9	0.3	0.4	-9.6
Energy related GHG emissions (% of total)	15.7	16.8	17.5	17.8	18.1	13.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal balances are reported in fiscal years (April 1st -March 31st).
b/ Refers to Public and Publicly Guaranteed debt.
c/ Calculations based on 2009-CWIS and 2015-BMTHS. Actual data: 2015. Nowcast: 2016-2022. Forecasts are from 2023 to 2025.
d/ Projection for $2.15 poverty using annualized elasticity (2009-2015) with pass-through = 0.87 based on GDP per capita in constant LCU. For higher lines use 85% and 50% of the 2.15 elasticity, respectively.

BURKINA FASO

Table 1	2022
Population, million	22.7
GDP, current US$ billion	21.3
GDP per capita, current US$	941.1
International poverty rate ($2.15)[a]	30.5
Lower middle-income poverty rate ($3.65)[a]	59.8
Upper middle-income poverty rate ($6.85)[a]	81.1
Gini index[a]	47.3
School enrollment, primary (% gross)[b]	92.2
Life expectancy at birth, years[b]	59.7
Total GHG emissions (mtCO2e)	64.4

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

GDP growth slowed to 2.5 percent in 2022 (-0.1 percent per capita) as insecurity led to the closure of several gold mines and high food prices drove inflation to a region-high 14.1 percent; poverty incidence increased by 5.9 percentage points. Growth could strengthen to 4.3 percent in 2023 with improved security; however, the medium-term outlook is subject to substantial downside risks with security spending and expensive borrowing delaying fiscal consolidation.

Key conditions and challenges

Insecurity and political instability remain the most critical growth constraints in the short term. Several mines suspended operations in 2022 as a result of insecurity and new mining investments were postponed. As local populations are displaced, agricultural output growth weakens, aggravating food insecurity. The two coups in 2022 triggered a sharp reduction in the international community's financial support while negatively affecting private investment and foreign direct investment (FDI). Continued violent incidents could further reduce mining activity and the country's vital gold exports that provide a hedge amid global uncertainty.

The primarily rain-fed agriculture and livestock sectors, which account for around 20 percent of GDP and employ over 90 percent of the country's poor, remain highly vulnerable to climate shocks and natural disasters.

Recent developments

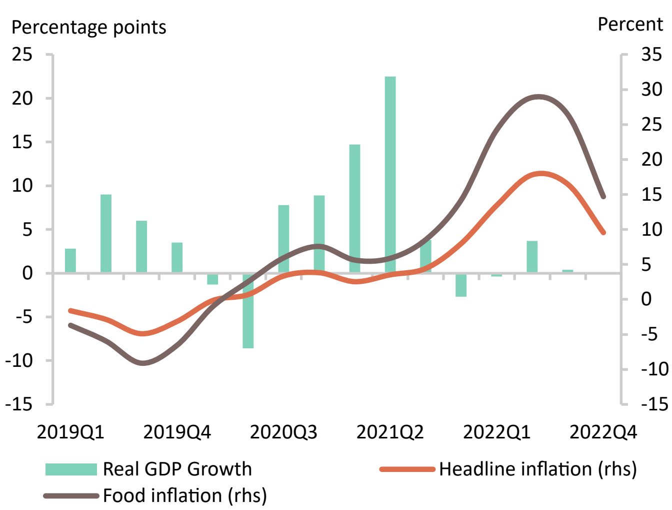
GDP growth slowed to an estimated 2.5 percent in 2022 (-0.1 percent per capita). Growth was driven by the primary and tertiary sectors, which grew 5.1 and 5.6 percent, respectively, underpinned by a return to average rainfall and higher government support to public services. After strong 2021 growth, the secondary sector contracted 4.9 percent in 2022 due to the insecurity-induced closure of several mines. As a result, growth was restrained by lower exports (-0.6 percent) and private investment (-6 percent) while buoyed by higher public investment (+39.8 percent), as the authorities increased security spending.

Soaring food prices (peaking at 30.8 percent year-on-year inflation in July) brought annual inflation to 14.1 percent, which coupled with negative per capita income growth eroded the purchasing power of households. Poverty incidence is estimated to have increased by 5.9 percentage points, implying an additional 1.5 million fell into extreme poverty during 2022. While the rise in import prices related to Russia's invasion of Ukraine fed into domestic inflation, supply-side shocks from a poor harvest in late 2021 and insecurity driving farmers from their lands drove inflation. Providing supplies to blockaded areas has been very difficult and food insecurity has increased, with the country's far north already in an emergency situation. Furthermore, local prices were up to 6 times the 5-year average.

High international gold and cotton prices mitigated the impacts of production shortfalls caused by mine closures and pest infestations. Nevertheless, the current account balance deteriorated to -5.2 percent of GDP with defense spending bringing in higher fuel imports.

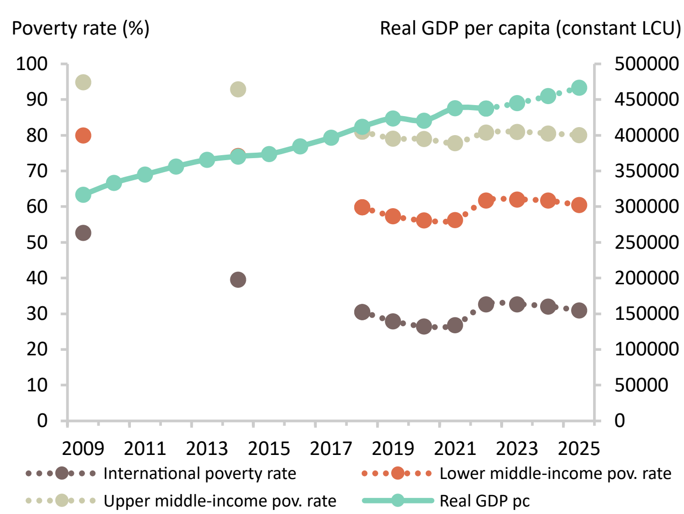
To counter inflation across WAEMU countries, the Central Bank of West African States (BCEAO) raised policy interest rates by a cumulative 75 basis

FIGURE 1 Burkina Faso / Real GDP growth and inflation



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

points in 2022 (to 2.75 percent for liquidity calls and 4.75 percent for the marginal lending facility). BCEAO will likely need to continue tightening in 2023 in line with other major central banks, as foreign exchange reserves have declined, and inflation remains well above the target range of 1-3 percent. Furthermore, delaying fiscal adjustments towards the regional fiscal deficit target of below 3 percent of GDP by 2025 could exacerbate debt sustainability risks in some countries, while increasing regional financing needs, reducing FX reserve buffers, and elevating inflationary risks.

The fiscal deficit increased to 10.6 percent of GDP in 2022 - the largest deficit in the region. Revenues increased as a share of GDP despite an underperforming mining sector, thanks to higher import taxes and ongoing reforms in digitalizing tax administration processes. Given worsening insecurity, security spending rose to 4.6 percent of GDP in 2022 (3.4 percent in 2021). Fiscal transfers (9 percent of GDP) were also higher than normal, partly due to a one-time payment of arrears linked to fuel subsidies (4.6 percent of GDP). Public debt reached 54.3 percent of GDP by the end of 2022, with higher-interest domestic debt making up the majority of the public debt stock.

Outlook

Growth will increase to 4.3 percent in 2023 (1.7 percent in per capita terms), driven by the agriculture and service sectors, and a recovery in gold mining.

Average annual inflation is projected to decline to 4.9 percent in 2023, reflecting a decline in global oil and food prices and assuming no further deterioration in insecurity. The fiscal deficit is projected to remain high, at 6.9 percent of GDP, exceeding the target (4.7 percent) of the adopted budget, due to higher security spending and the inclusion of securitized debt linked to fuel subsidies in spending figures. Convergence to the WAEMU's 3 percent target is not expected before 2027. Financing the deficit will prove challenging as tighter global financing has already increased the cost of funding on the WAEMU regional bond market and access to concessional funding remains constrained. A return to civilian rule, scheduled for mid-2024, could usher in renewed concessional funding, helping debt sustainability.

Assuming improvements in security and the implementation of the transition agenda, growth is projected to improve over the medium term, reaching 5.1 percent by 2025.

Poverty rates are predicted to remain unchanged in 2023, as inflation offsets growth in the incomes of poor households, before beginning to trend downwards by about 1 percentage point a year. This marginal decline will only just keep up with increasing population growth, and the number of poor is expected to remain about 7.5 million.

Persistent insecurity is the primary risk to the outlook. Furthermore, a slowdown in global growth, higher inflation, and monetary tightening internationally could lead to higher financing costs. The price of gold remains at historically high levels, but could weaken in real terms, posing a risk to the current account and domestic revenue mobilization.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	1.9	6.9	2.5	4.3	4.8	5.1
Private Consumption	8.6	3.4	3.4	3.1	4.3	4.1
Government Consumption	7.1	6.6	1.3	10.9	6.9	6.5
Gross Fixed Capital Investment	-4.6	34.8	3.8	5.1	5.0	6.1
Exports, Goods and Services	-7.1	6.5	-0.6	2.8	3.4	4.1
Imports, Goods and Services	5.3	15.5	1.7	4.6	4.0	3.9
Real GDP growth, at constant factor prices	1.9	6.9	2.5	4.3	4.8	5.1
Agriculture	5.2	-4.1	5.1	4.7	4.5	4.3
Industry	12.8	11.0	-4.9	0.5	2.8	4.1
Services	-4.9	10.3	5.6	6.2	6.0	6.0
Inflation (Consumer Price Index)	1.9	3.9	14.1	4.9	3.8	2.4
Current Account Balance (% of GDP)	-0.1	-3.0	-5.2	-4.4	-3.6	-3.0
Net Foreign Direct Investment Inflow (% of GDP)	-0.6	0.5	0.5	0.6	0.5	0.5
Fiscal Balance (% of GDP)	-5.1	-7.5	-10.6	-6.9	-5.4	-5.1
Revenues (% of GDP)	19.1	20.3	20.7	20.6	20.6	20.5
Debt (% of GDP)	44.9	48.2	54.3	58.3	60.8	62.4
Primary Balance (% of GDP)	-3.7	-6.0	-8.5	-5.1	-3.5	-3.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	26.5	26.8	32.7	32.7	32.1	30.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	56.2	56.3	61.8	62.0	61.7	60.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	79.0	77.8	80.8	81.0	80.5	80.0
GHG emissions growth (mtCO2e)	3.2	6.0	4.6	5.0	5.1	5.1
Energy related GHG emissions (% of total)	10.5	11.1	11.4	11.8	12.3	12.7

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 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection based on microsimulation model that accounts for differences in sectoral growth, food and nonfood inflation.

BURUNDI

Table 1	2022
Population, million	12.9
GDP, current US$ billion	3.6
GDP per capita, current US$	279.8
International poverty rate ($2.15)[a]	65.1
Lower middle-income poverty rate ($3.65)[a]	86.7
Upper middle-income poverty rate ($6.85)[a]	96.5
Gini index[a]	38.6
School enrollment, primary (% gross)[b]	115.1
Life expectancy at birth, years[b]	61.6
Total GHG emissions (mtCO2e)	8.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2013), 2017 PPPs.
b/ Most recent WDI value (2020).

Economic growth is estimated at 1.8 percent in 2022, a slight deceleration over 2021, driven by industry and services. Agriculture contracted due to insufficient rainfall and delays in fertilizer distribution. Higher commodity prices due to Russia's invasion of Ukraine lifted inflation. Growth is expected to accelerate in 2023-25, although downside risks, including from fiscal slippage, are substantial. With rapid population growth, per capita GDP continues to contract, while poverty is expected to reach 83 percent in 2023.

Key conditions and challenges

Burundi's economic development has been hampered by structural challenges that reinforced a cycle of fragility and poverty. Burundi is faced with a multidimensional fragility trap characterized by recurring political instability, low economic diversification, high population growth, environmental degradation, and volatile growth. The cessation of aid between 2015-2019 constrained the government's ability to ensure access to services. The macroeconomic policy reaction prevented larger cuts to current expenditures but led to foreign exchange restrictions, exchange rate overvaluation, fiscal dominance of monetary policy, and high public sector indebtedness.

Moreover, human capital accumulation has not kept up with fast population growth. Transition to secondary schooling remains low (48 percent), and below LIC and SSA averages. Learning poverty rates - measured as the share of children who cannot understand a simple text by the end of primary school - remain high (93 percent). Among adolescent girls, as many as 30 percent are out of school. Furthermore, Burundi has one of the highest rates of chronic undernutrition in SSA and worldwide, with almost one in two households being food insecure and over half of the children under five stunted. The share of stunted children among those under the age of five increased to 55.8 percent in 2021 from 52.6 percent in 2020 and this is poised to deteriorate with the inflationary pressures on food prices due to the war in Ukraine. Against this backdrop, monetary poverty has been estimated at 83.0 percent (based on the international poverty line of $2.15/day) in 2022, up from 65.1 in 2013 (the last year with current data availability to the World Bank).

Gradual re-engagement with the international community since 2020 creates an opportunity for reforms to stabilize the country's economy and scale up investments in human capital and infrastructure as a part of a process to change Burundi's growth trajectory.

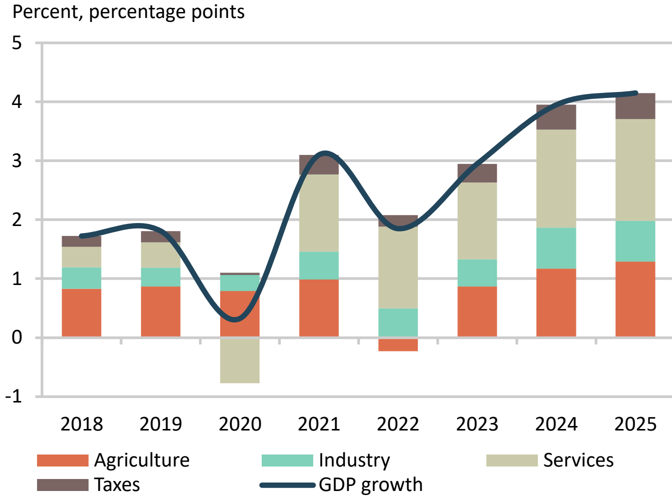
Recent developments

Higher oil and food prices led to negative terms of trade shock which slowed economic growth, accelerated inflation, and increased fiscal and current account deficits.

Growth decelerated to 1.8 percent in 2022 (-0.8 percent in per capita terms) from 3.1 percent in 2021, driven by industry and services. Agriculture contracted by 0.8 percent due to delays in fertilizer supply, limited rainfall, and poor seed quality. Government consumption and investment supported growth on the demand side.

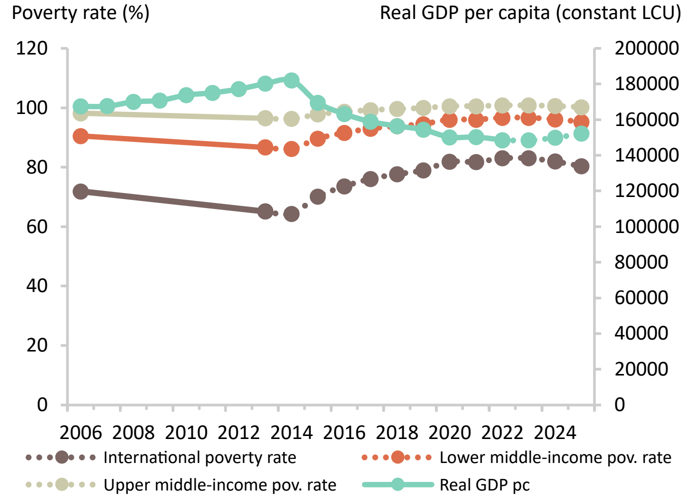
At 11.5 percent of GDP, the fiscal deficit has worsened from 4.6 percent in 2021. This reflects a sharp increase in subsidies, transfers, and stronger capital spending while revenues slightly decreased. The fiscal deficit was mainly financed by T-bonds and credits from the Central Bank with public debt reaching 67.5 percent of GDP.

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



Sources: Official statistics and World Bank calculations.

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



Source: World Bank. Notes: see Table 2.

Driven by oil prices, the current account deficit (CAD) remained high at 15.5 percent of GDP in 2022. Weak demand in key export markets and ongoing mining contract negotiations affected export performance while imports of both capital and consumption goods increased. The CAD is primarily financed by trade credits. International reserves cover 1.8 months of imports at end-2022, down from 3.2 months in 2021. The foreign exchange parallel market premium reached 75 percent in February 2023 (2022: 62 percent).

Headline inflation reached 18.8 percent in 2022, while food inflation was reported at 39.2 percent in December-2022. The latter will disproportionately burden the poor who spend a higher share of their income on food products. In the short term, this is expected to further increase the number of poor. In the longer term, this is likely to lead to human capital depletion as households are forced to adopt coping strategies such as reducing food consumption, selling productive assets, or putting children to work, resulting in premature school dropout, particularly among girls.

Outlook

Growth is projected to increase to 3-4 percent over 2023-25. Services should continue to recover while the pace of agricultural growth is likely to pick up assuming favorable rainfall and good distribution of fertilizers. Industry is projected to accelerate due to a loosening of forex constraints, resolution in mining disputes, and increased power generation. Private consumption and public investment are projected to remain high given economic recovery and a recovery in partner-financed public infrastructure programs. The fiscal deficit is expected to narrow to 5.5 percent of GDP in 2023 and 4 percent by 2025 as revenues increase, aligned with fiscal consolidation efforts under the recently requested IMF program. As a result, public debt is expected to decrease, reaching 62 percent of GDP by 2025. External pressures will aggravate in 2023 before gradually easing as import prices moderate, and exports pick up, but the CAD will remain high at 11 percent of GDP in 2025.

Against the backdrop of Burundi's population set to double as early as 2050 – further exacerbating existing pressures on limited land resources - substantial structural reforms are necessary to dramatically expand the private nonfarm sector and increase agricultural productivity. In the absence of that, Burundi's growth path remains vulnerable to a return to the cycle of fragility and poverty. Under the current trajectory, poverty is projected at 81.9 percent (based on $2.15/day, 2017 PPP) for 2024.

Downside risks are high, particularly on the fiscal front. Weak domestic revenue mobilization efforts could lead to revenue shortfalls and unexpected arrears, which would undermine fiscal sustainability. Weather shocks may hold back agricultural growth and poverty reduction. On the upside, foreign aid could accelerate reflecting the re-engagement with the international community and exports could strengthen as a result of broad structural reforms, which would significantly strengthen the BOP, growth, and revenue collection.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	0.3	3.1	1.8	3.0	4.0	4.2
Private Consumption	0.3	3.0	2.4	3.3	3.6	3.7
Government Consumption	19.2	2.9	5.9	5.1	5.0	4.4
Gross Fixed Capital Investment	-16.6	3.9	4.0	6.6	8.7	10.4
Exports, Goods and Services	-14.9	3.4	5.8	8.2	12.8	13.2
Imports, Goods and Services	3.4	3.2	7.0	7.1	7.1	7.1
Real GDP growth, at constant factor prices	0.3	3.1	1.8	3.0	4.0	4.2
Agriculture	2.8	3.4	-0.8	3.1	4.1	4.5
Industry	1.8	3.0	3.2	2.9	4.4	4.3
Services	-1.7	2.9	3.1	2.9	3.7	3.8
Inflation (Consumer Price Index)	7.5	8.3	18.8	23.8	16.0	13.0
Current Account Balance (% of GDP)	-10.3	-12.3	-15.5	-17.0	-12.9	-11.5
Net Foreign Direct Investment Inflow (% of GDP)	0.2	0.3	0.3	-0.1	-0.1	-0.1
Fiscal Balance (% of GDP)	-6.6	-4.6	-11.5	-5.5	-4.5	-4.0
Revenues (% of GDP)	22.6	23.8	23.3	26.4	27.2	27.7
Debt (% of GDP)	66.0	60.3	67.5	66.5	63.5	61.9
Primary Balance (% of GDP)	-3.6	-1.6	-8.7	-2.6	-1.4	-1.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	81.8	81.8	83.0	83.0	81.9	80.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	96.0	96.0	96.6	96.6	96.1	95.2
GHG emissions growth (mtCO2e)	2.6	3.9	4.0	3.9	3.8	3.7
Energy related GHG emissions (% of total)	8.7	8.7	8.6	8.6	8.7	8.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2006-QUIBB and 2013-ECVMB. Actual data: 2013. Nowcast: 2014-2022. Forecasts are from 2023 to 2025.
b/ Projection using point-to-point elasticity (2006-2013) with pass-through = 1 based on GDP per capita in constant LCU.

CABO VERDE

Table 1	2022
Population, million	0.6
GDP, current US$ billion	2.3
GDP per capita, current US$	3943.9
International poverty rate ($2.15)[a]	4.6
Lower middle-income poverty rate ($3.65)[a]	19.3
Upper middle-income poverty rate ($6.85)[a]	50.9
Gini index[a]	42.4
School enrollment, primary (% gross)[b]	100.9
Life expectancy at birth, years[b]	74.8
Total GHG emissions (mtCO2e)	0.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2020).

Growth rebounded to 15 percent in 2022, with real per capita incomes surpassing pre-pandemic levels, driven by the recovery of tourism. Russia's invasion of Ukraine intensified inflation pressures, which peaked at 7.9 percent. Growth-friendly fiscal consolidation should support growth converging to 5.5 percent over the medium term while the outlook remains subject to downside risks stemming from the war in Ukraine, a global deceleration, delayed structural reforms, and climatic shocks.

Key conditions and challenges

Political stability, democratic institutions, and relatively pro-market reforms have generated significant economic and social progress since independence in 1975. However, Cabo Verde's development model, predominantly based on tourism and foreign direct investment (FDI), has shown signs of fatigue since the 2008 global financial crisis. Ineffective countercyclical fiscal policies led to growing financing needs and increased public debt between 2010-2015. To put public debt back on a sustainable path, the Government initiated a fiscal consolidation program in 2016, including the reform of loss-making state-owned enterprises (SOEs).

The shock resulting from COVID-19 produced the largest economic contraction on record (14.8 percent) in 2020 and exposed the country's economic vulnerabilities. Global travel restrictions led to a sharp contraction in tourism and related activities. Progress in fiscal consolidation and debt reduction were reversed, particularly as contingent liabilities related to SOEs materialized, and the poverty rate peaked at 21.5 percent (using the $3.65 per-day-2017 PPP), driven by substantial job losses, particularly in the tourism sector. Recent shocks have highlighted the economy's exposure to external risks and narrow dependence on tourism, in addition to growing climate risks and fiscal risks, which requires investments and structural reforms to help diversify the economy.

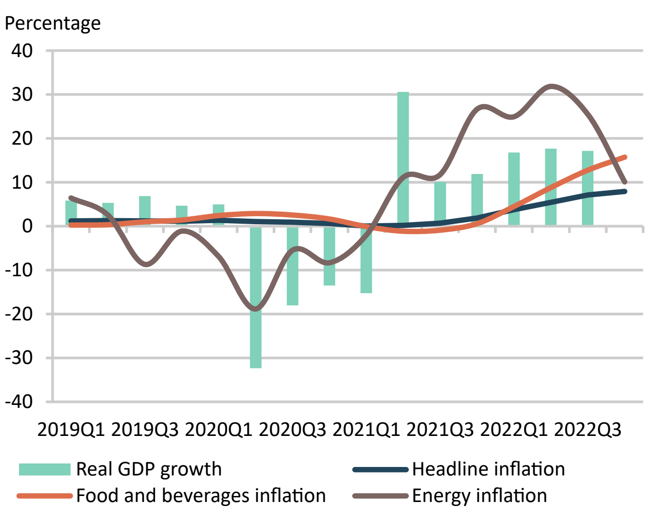
Recent developments

Economic activity is estimated to have expanded by 15 percent in 2022, with per capita incomes surpassing pre-pandemic levels (2019). On the supply side, accommodation, transport, and commerce explained 60 percent of growth. On the demand side, exports (mainly tourism) and private consumption accounted for 90 percent of growth. The rebound in economic activity in 2022 was accompanied by a reduction in poverty (0.8 percentage points to reach 19.3 percent in 2022), despite the spike in inflation.

Headline inflation reached 7.9 percent (y/y) in December 2022 after inflationary pressures emerged in 2021, fueled by high international oil and food prices and global supply chain disruptions due to the war in Ukraine. Food inflation peaked at 15.7 percent while energy and transportation inflation increased to 10.1 and 11.1 percent, respectively. Higher food prices and low agricultural production, driven by the five-year long drought, intensified food insecurity. Cabo Verde's monetary policy is aligned with the Eurozone, as the escudo is pegged to the euro.

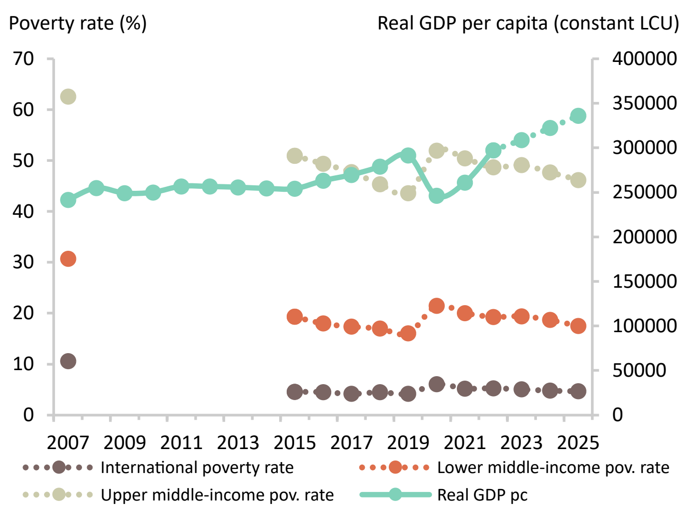
The poverty rate fell from 20.1 percent in 2021 to 19.3 percent in 2022 (using US$3.65 per-day-2017 PPP), reaching the poverty levels of 2015. Economic growth was fundamental for poverty reduction,

FIGURE 1 Cabo Verde / Real GDP growth and inflation



Source: Government of Cabo Verde.

FIGURE 2 Cabo Verde / Actual and projected poverty rates and GDP per capita



Source: World Bank. Notes: see Table 2.

led by the creation of new jobs, especially in the tourism sector. However, poverty reduction was dampened by the increase in inflation in 2022, especially higher food prices. It is estimated that without the increase in food prices, poverty would have been 16.2 percent in 2022 ($3.65 per day PPP 2017), almost 3 percentage points lower and close to the pre-pandemic level (16.1 percent) in 2019.

The fiscal deficit narrowed to 3.8 percent of GDP in 2022, supported by the strong economic performance and increased fiscal revenues. Public debt declined from 142.7 to 126.2 percent of GDP, driven by GDP growth. Total revenue increased 39 percent, driven by personal income and VAT taxes, while total expenditure increased 20.6 percent, reflecting higher current expenditure, estimated at 4.2 percent of GDP, to protect the most vulnerable from rising food insecurity and to control fuel and energy prices. The social protection system, through cash transfers, supported the most vulnerable.

The current account deficit (CAD) declined from 11.2 percent of GDP in 2021 to 0.9 percent in 2022, supported by a higher surplus in net-services exports and robust remittances. The CAD was financed by concessional loans and FDI as international reserves reached 7.2 months of imports.

Outlook

Real GDP growth is projected to reach 4.8 percent in 2023 (3.8 percent in per capita terms). Over the medium-term, private consumption, investment in tourism and the blue economy should support growth. The outlook is subject to substantial downside risks stemming from uncertainties due to the war in Ukraine, mainly through inflation and its impact on private consumption, slow global growth, particularly in Europe, delayed structural reforms to manage fiscal risks, and climatic shocks.

Inflation is expected to moderate in 2023, as global growth moderates, commodity prices stabilize, and supply bottlenecks ease. Headline inflation is projected at 4.5 percent. Over the medium-term, the nominal anchor (peg to the Euro) and return to fiscal consolidation should contain inflation, converging to 2 percent by end-2024.

The authorities are committed to gradual revenue-driven fiscal consolidation over the medium-term, which includes enhanced management of fiscal risks, revenue mobilization, and the waning of exceptional shock measures. Consequently, the fiscal deficit is projected to reach 2 percent of GDP by 2025 and the public debt-to-GDP ratio to improve from 126.2 percent in 2022 to 106 percent by 2025. Fiscal risks will remain high as the fiscal deficit is exposed to contingent liabilities in sectors particularly vulnerable to external shocks.

The CAD is projected to reach 2.1 percent of GDP in 2023, driven by higher imports, particularly for private investment. Over the medium-term, higher public debt amortization outflows are expected to increase external financing needs, which will be covered by official borrowing and FDI. International reserves are expected to remain adequate, at 5.5 months of prospective imports.

Poverty (using US$3.65 per-day-2017 PPP) is projected to remain above 19 percent in 2023 due to higher prices, especially of food items. The poverty rate is expected to fall to 18.7 percent in 2024 and then continue falling to 17.5 percent by 2025, supported by economic growth and the stabilization of inflation.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-14.8	7.0	15.0	4.8	5.4	5.3
Private Consumption	-11.3	9.4	18.6	4.6	5.1	5.0
Government Consumption	0.8	30.1	15.5	5.2	-10.6	-1.0
Gross Fixed Capital Investment	19.7	-9.1	-1.9	11.7	19.3	12.7
Exports, Goods and Services	-58.6	6.4	57.6	9.8	9.6	9.4
Imports, Goods and Services	-22.6	4.4	25.0	11.1	8.9	9.5
Real GDP growth, at constant factor prices	-14.8	7.0	15.0	4.8	5.4	5.3
Agriculture	-6.3	4.8	-10.3	0.5	1.0	1.0
Industry	-2.0	9.5	5.3	4.2	4.9	5.2
Services	-19.2	6.3	20.9	5.3	5.8	5.6
Inflation (Consumer Price Index)	0.6	1.9	7.9	4.5	2.0	2.0
Current Account Balance (% of GDP)	-15.0	-11.2	-0.9	-2.1	-2.4	-1.8
Net Foreign Direct Investment Inflow (% of GDP)	3.7	3.5	5.0	4.2	3.1	2.9
Fiscal Balance (% of GDP)	-9.1	-7.3	-3.8	-3.9	-3.1	-2.0
Revenues (% of GDP)	24.7	22.6	26.1	27.3	26.0	26.2
Debt (% of GDP)	142.6	142.7	126.2	119.2	113.2	106.2
Primary Balance (% of GDP)	-6.5	-5.2	-1.4	-1.6	-0.7	0.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	6.1	5.2	5.3	5.0	4.8	4.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	21.5	20.1	19.3	19.4	18.7	17.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	51.9	50.4	48.7	49.1	47.7	46.2
GHG emissions growth (mtCO2e)	2.9	-2.1	-1.0	-0.5	0.1	0.8
Energy related GHG emissions (% of total)	87.0	86.3	86.0	85.8	85.7	85.7

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 2015-IDRF. Actual data: 2015. Nowcast: 2016-2022. Forecasts are from 2023 to 2025.
b/ Projection based on microsimulation model that accounts for differences in sectoral growth, food and nonfood inflation.

CAMEROON

Table 1	2022
Population, million	27.9
GDP, current US$ billion	47.2
GDP per capita, current US$	1689.6
International poverty rate ($2.15)[a]	25.7
Lower middle-income poverty rate ($3.65)[a]	47.0
Upper middle-income poverty rate ($6.85)[a]	74.8
Gini index[a]	46.6
School enrollment, primary (% gross)[b]	105.7
Life expectancy at birth, years[b]	60.8
Total GHG emissions (mtCO2e)	126.1

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

Recent shocks undermined Cameroon's real GDP growth in 2022 and fueled inflation, with adverse consequences on poverty. The medium-term outlook shows reduced fiscal and current account deficits, with growth remaining firmly positive. Inflation should ease but remain above the regional target of 3 percent in 2023. Extreme poverty incidence (less than $2.15 a day PPP) is expected to be 24.3 percent in 2023, almost unchanged from 2022. Several downside risks surround this outlook, adding the urgency to accelerate structural reforms and rebuild fiscal buffers.

Key conditions and challenges

Cameroon is the largest economy in the Economic and Monetary Community of Central Africa (CEMAC), accounting for over 40 percent of the region's GDP and over 60 percent of regional foreign exchange reserves. The oil sector accounted for 4 percent of the country's GDP and 15 percent of its fiscal revenues in 2022. Cameroon's debt service is on the rise, calling for improved debt management.

The current development model has run out of steam, as governance indicators have deteriorated, human capital remains weak, the business environment is unfavorable, and climate change represents a growing threat. The country has become more fragile since conflicts affecting 6 out of 10 of its regions have displaced people, increased violence, and led to social services collapsing. The country struggles to lower poverty meaningfully faced with modest growth and conflicts.

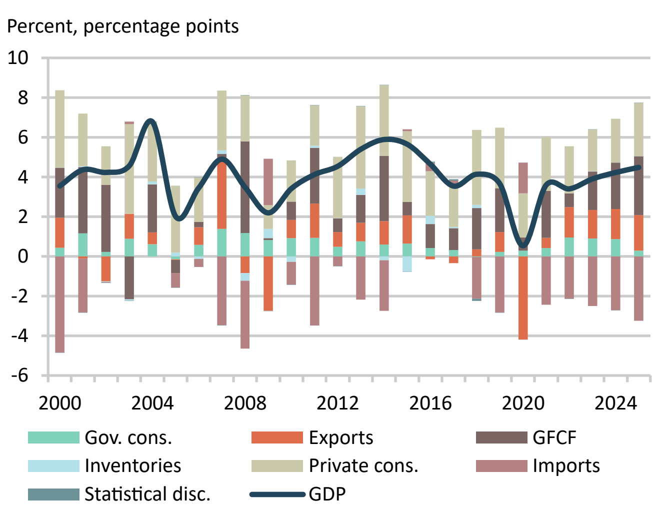
Recent developments

Cameroon's economy expanded at a slightly slower pace in 2022, after growing by 3.6 percent in 2021. Real GDP growth recorded 3.4 percent in 2022, supported by LNG exports, agri-food industries, construction, and services. Oil GDP grew at a slower pace (0.9 percent y-o-y at the end of 2022Q3). In the primary sector, food crop production dropped because of higher farm input prices. In the secondary sector, oil production declined while LNG production was sustained. Financial services and communications drove the expansion of the tertiary sector. Staple food prices and administratively controlled prices of selected mass-consumption products have increased, driving headline inflation up in 2022.

Higher exports (+48.2 percent y-o-y in October) driven by increased oil prices, and private transfers from abroad improved Cameroon's current account balance in 2022. Imports increased by 14.4 percent in end-October 2022, compared to the previous year, as import costs increased due to supply chain tensions. The current account deficit is estimated to have narrowed to 2.9 percent of GDP in 2022 (from 3.8 percent of GDP in 2021).

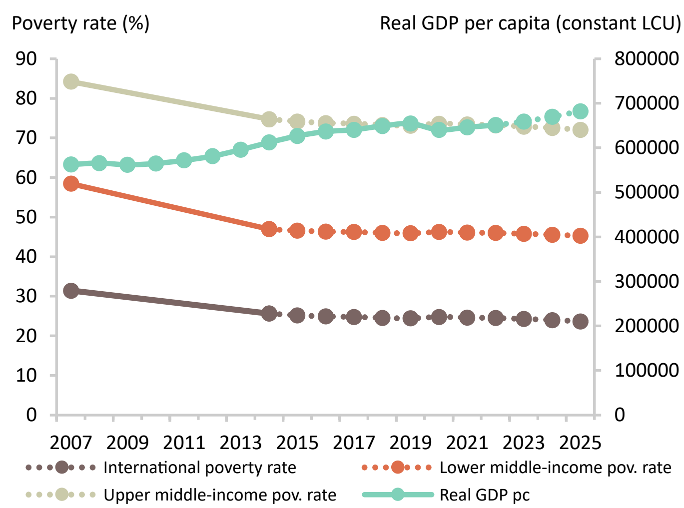
Cameroon's fiscal position has improved amid higher expenses on fuel subsidies, thanks to higher oil revenues (+67 percent y-o-y in end-June 2022) and cuts in current and capital spending to cover the higher fuel subsidy bill (2.9 percent of GDP). Non-oil tax revenues grew by 19 percent over the same period, driven by corporate income tax and VAT collections. Overall, increased spending on fuel subsidies has offset the revenue gains from higher oil prices (1.4 percent of GDP). The overall fiscal deficit (payment order basis, including grants) reached 1.8 percent of GDP in 2022. More arrears have, however, been accumulated (6.5 percent of total expenditures, from 1.5 percent in 2021).

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



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

In 2022, the Bank of Central African States (BEAC) continued to tighten its monetary policy to contain inflationary pressures and support the external viability of the exchange rate arrangement. The BEAC increased the policy rate in September 2022 (to 4.5 percent), its second increase in 2022. Moreover, the BEAC decreased its weekly liquidity injections from CFAF 160 billion in April 2022 to CFAF 50 billion in December 2022.

The last household poverty survey, carried out in 2014, indicated that 25.7 percent of the population lived below the international poverty line of $2.15 PPP per person per day. Simulations suggest that, due to low economic growth and limited safety net programs, the country has struggled to reduce poverty in a substantial manner. Extreme poverty is estimated at 24.3 percent in 2023 – just 1.4 percentage point decline in nine years. In the meantime, the number of poor has increased by 1.2 million since 2014 due to population growth.

Outlook

Economic growth is expected to gain momentum over the medium term and reach 4.2 percent, on average, over 2023-24, supported by sustained activity in the secondary and tertiary sectors. The fiscal deficit is projected to narrow to 1.5 percent of GDP by 2024 amid increasing non-oil revenues. The reduction of fuel subsidies, supported by an average 21 percent increase in retail fuel prices decided in end-January 2023, and other spending reprioritization would contain public spending. The current account deficit is expected to remain below 3 percent of GDP, owing to high oil and non-oil commodity export revenues.

The outlook remains subject to risks associated with (i) tighter financial conditions, (ii) higher inflation, and (iii) a persistent security crisis in the North-West, South-West, and Far North regions. Should such risks materialize, real GDP would grow more modestly than expected, affecting fiscal and external accounts. Higher international oil and food prices would add to inflationary and fiscal pressures, although oil revenues would increase. The government would then have to drastically reduce expenditures to narrow the fiscal deficit and match more limited financing that would be available from external and domestic sources.

As the country recovers from the various shocks, extreme poverty incidence (less than $2.15 PPP a day) is expected to decline in 2024 and in 2025, albeit at a very slow pace of only about 0.3 percentage points per year.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	0.5	3.6	3.4	3.9	4.2	4.5
Private Consumption	3.3	3.9	3.4	3.0	3.2	3.9
Government Consumption	2.3	3.4	7.6	6.9	6.4	2.1
Gross Fixed Capital Investment	2.4	8.2	2.3	6.5	7.6	9.4
Exports, Goods and Services	-21.0	3.2	9.8	8.7	8.8	9.9
Imports, Goods and Services	-5.4	9.0	7.5	8.5	8.8	10.1
Real GDP growth, at constant factor prices	0.5	3.6	3.4	3.9	4.2	4.5
Agriculture	0.1	4.1	4.3	4.7	5.0	5.6
Industry	1.3	4.1	4.2	4.5	4.5	4.5
Services	0.3	3.2	2.7	3.4	3.9	4.2
Inflation (Consumer Price Index)	2.5	2.5	5.5	5.7	4.3	3.0
Current Account Balance (% of GDP)	-3.6	-3.8	-3.0	-2.7	-2.3	-2.1
Fiscal Balance (% of GDP)	-3.2	-3.2	-1.8	-1.6	-1.5	-1.4
Revenues (% of GDP)	12.6	13.7	15.5	15.8	16.1	16.4
Debt (% of GDP)	45.8	47.1	46.4	42.8	40.4	38.5
Primary Balance (% of GDP)	-2.3	-2.1	-0.8	-0.6	-0.6	-0.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	24.8	24.6	24.5	24.3	24.0	23.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	46.3	46.1	46.0	45.8	45.6	45.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	73.6	73.4	73.2	72.9	72.5	72.1
GHG emissions growth (mtCO2e)	0.1	0.3	0.6	0.8	0.9	0.9
Energy related GHG emissions (% of total)	6.8	6.8	7.0	7.1	7.2	7.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2009- and 2014-ECAM-IV. Actual data: 2014. Nowcast: 2015-2022. Forecasts are from 2023 to 2025.
b/ Projection using point to point elasticity at regional level with pass-through = 1 based on GDP per capita in constant LCU.

CENTRAL AFRICAN REP.

Table 1	2022
Population, million	5.6
GDP, current US$ billion	2.4
GDP per capita, current US$	438.8
International poverty rate ($2.15)[a]	61.9
Lower middle-income poverty rate ($3.65)[a]	80.8
Upper middle-income poverty rate ($6.85)[a]	92.8
Gini index[a]	56.2
School enrollment, primary (% gross)[b]	128.1
Life expectancy at birth, years[b]	54.6
Total GHG emissions (mtCO2e)	48.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2008), 2017 PPPs.
b/ WDI for School enrollment (2017); Life expectancy (2020).

After two consecutive years of virtual stagnation, CAR's economy is estimated to have recorded zero growth in 2022 and is projected to grow at an average rate of 3.6 percent in 2023-25, allowing per capita GDP to return to its pre-covid-19 pandemic level. Nevertheless, the poverty rate is expected to remain high despite gradual increases in private consumption. The medium-term outlook remains subject to heightened external and internal risks.

Key conditions and challenges

The Central African Republic (CAR) is a sparsely populated country with an area of 623,000 square kilometers and a population of under six million. Despite its abundant natural resources, the country ranks at the bottom of human capital and development indices and remains one of the most fragile countries in the world. The agricultural sector remains one of the key drivers to economic growth, but its potential (and the potential of the rest of the economy) continues to be constrained by a huge infrastructure deficit, limited human capital accumulation and a fragile security environment. Repeated cycles of armed conflicts have hampered CAR's ability to add value to its local production, create jobs and bridge the poverty gap.

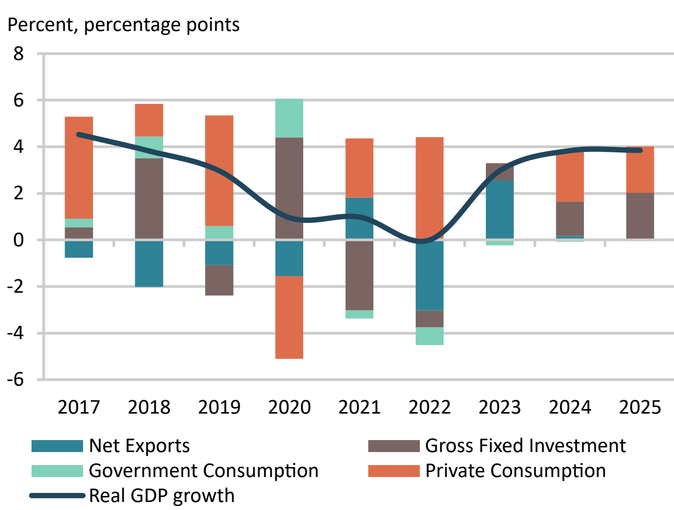
Poverty remains widespread, with the bulk of the poor living in extreme poverty. Limited fiscal space constrains the provision of public goods in remote areas, where access to education and health remains weak: access to basic service delivery is limited and concentrated in the capital city. The private sector continues to suffer from limited access to financing, although the banking sector remains well capitalized. The humanitarian situation is still alarming, exacerbated in 2022 by rising food and energy prices.

Recent developments

After two consecutive years of virtual stagnation, economic activity is estimated to have reached a complete standstill in 2022, due to floods and fuel shortages. The production of the agriculture sector suffered from floods, which destroyed about 18,000 hectares of crops, and forced the displacement of more than 6,000 people since June 2022. Timber production, which accounts for about 56.8 percent of CAR's export earnings, was the hardest hit in 2022, as prices declined steadily by an average of 16.1 percent since the peak reached in January 2021. The positive performance of the mining sector in 2022H1 was offset by persistent fuel shortages, exacerbated by Russia's invasion of Ukraine. On the aggregate demand side, private consumption remained the principal growth driver, supported by increased domestic credit. As cash flow pressures remained high throughout 2022, public investment contracted by 17.7 percent, contributing to a decline in gross fixed investment.

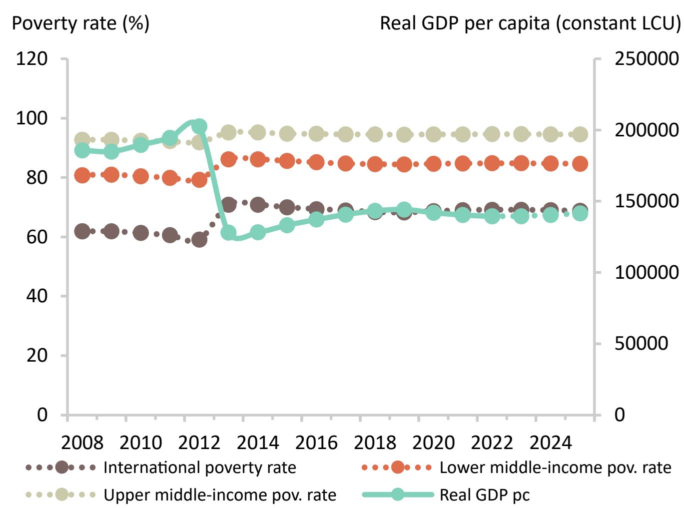
Limited fuel supply, due to the protracted effect of the war in Ukraine has led to an unprecedented increase in the retail price of petroleum products and contributed to inflationary pressures in 2022. The fuel shortage worsened an already worrisome humanitarian situation and pushed thousands of households into extreme poverty. Overall, poverty is projected to remain elevated, with 69.1 percent of the population living in extreme poverty in 2022

FIGURE 1 Central African Republic / Real GDP growth and contributions to real GDP growth



Source: Word Bank.

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



Source: Word Bank. Notes: see Table 2.

(i.e., below the international poverty line of US$ 2.15 per person per day, 2017 PPP).

In 2022, the Bank of Central African States (BEAC) continued to tighten its monetary policy to contain inflationary pressures and support the external viability of the exchange rate arrangement. The BEAC increased the policy rate in September 2022 (to 4.5 percent), its second increase in 2022. Notwithstanding spending moderation, the overall fiscal balance (including grants) improved marginally in 2022 but remained in deficit as a standstill in donor budget support continued to weigh on the budget. Tax revenues declined from 8.2 percent of GDP in 2021 to 7.2 percent of GDP in 2022, driven by persistent fuel shortages which resulted in lower petroleum taxes. Fiscal consolidation efforts have been maintained and are expected to continue, as uncertainty about budget support remains high. Financing needs for 2022 were almost fully covered by the use of the country's SDR allocation, with the residual being covered by domestic borrowing from commercial banks (CFAF 46.1 billion, an equivalent US$74.9 million or 3.0 percent of nominal GDP).

Despite a marginal improvement in net transfers (private and official), the current account deficit widened in 2022, due to lower export earnings and a high import bill resulting from higher international oil prices. Increased capital and financial inflows in the form of foreign direct investment, due to an improved security situation, could only partially cover this wider current account deficit. As a result, the overall balance of payment switched from a surplus of 0.6 percent of GDP in 2021 to a deficit of 8.3 percent of GDP in 2022.

Outlook

The medium-term outlook is of modest rebound. Provided that official fuel prices will reflect regular market prices and the security gains continue, real GDP growth is projected at 3.0 percent in 2023, before reaching 3.8 percent on average over the period 2024-25. Net exports, private consumption and gross fixed investment are expected to drive growth from the demand side over the medium term, supported by higher international timber prices, lower inflation, and a moderate fiscal consolidation effort. Over the medium term, Inflation is projected to fall within the 3 percent CEMAC ceiling. The overall fiscal balance (including grants) is expected to remain in deficit over the medium term despite the introduction of new taxes on electronic communication. Public debt is expected to remain sustainable provided that the government continues to implement reforms to reduce fiscal risks and debt-related vulnerabilities under the Sustainable Development Finance Policy (SDFP). With sustained security gains, capital and financial inflows are expected to more than offset the deficit in the current account, resulting in a moderate balance of payment surplus over the medium term.

The medium-term outlook is subject to high external and internal downside risks. Internal risks include a reversal in security gains due in part to the constitutional referendum, a deterioration in food security due to food price pressures, and climate change-related events (flooding) that could further exacerbate humanitarian needs. A continued freeze on budget support and a decline in international timber prices are the main external risks. Lower international timber prices could affect the agricultural sector, reduce export earnings, and delay prospects for economic recovery. Although the poverty trend is projected to be stable until 2024, the poverty rate remains high and the increase in fuel prices at the pump could impact the cost of the household consumption basket and increase the number of poor if adequate measures are not taken.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	1.0	1.0	0.0	3.0	3.8	3.8
Private Consumption	-3.7	2.8	4.8	0.0	2.3	2.1
Government Consumption	20.6	-3.8	-8.4	-2.8	-0.9	0.0
Gross Fixed Capital Investment	30.0	-15.9	-4.6	4.9	9.6	12.5
Exports, Goods and Services	-10.5	-4.3	-6.5	8.2	3.6	16.3
Imports, Goods and Services	-0.3	-7.2	7.0	-4.7	1.0	7.2
Real GDP growth, at constant factor prices	1.0	1.0	0.0	3.0	3.8	3.8
Agriculture	5.0	2.9	-2.4	3.2	3.3	3.4
Industry	0.6	-0.4	-5.6	0.1	0.3	0.7
Services	-1.9	0.1	4.9	4.1	5.8	5.5
Inflation (Consumer Price Index)	0.9	4.3	5.8	6.3	2.7	2.8
Current Account Balance (% of GDP)	-8.5	-10.6	-13.2	-8.9	-7.2	-7.0
Fiscal Balance (% of GDP)	-3.4	-6.0	-5.6	-4.0	-2.5	-2.3
Revenues (% of GDP)	21.8	13.7	12.3	13.3	14.6	15.6
Debt (% of GDP)	43.4	47.6	52.1	49.5	49.3	49.3
Primary Balance (% of GDP)	-3.1	-5.7	-5.2	-3.5	-1.8	-1.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	68.7	69.0	69.1	69.1	69.0	68.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	84.7	84.7	84.8	84.8	84.7	84.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	94.6	94.6	94.7	94.7	94.6	94.6
GHG emissions growth (mtCO2e)	1.6	1.0	0.6	0.8	0.9	0.9
Energy related GHG emissions (% of total)	0.5	0.5	0.5	0.5	0.5	0.5

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 2008-ECASEB. Actual data: 2008. Nowcast: 2009-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2008) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

CHAD

Table 1	2022
Population, million	17.7
GDP, current US$ billion	12.8
GDP per capita, current US$	720.5
International poverty rate ($2.15)[a]	30.9
Lower middle-income poverty rate ($3.65)[a]	64.6
Upper middle-income poverty rate ($6.85)[a]	89.4
Gini index[a]	37.5
School enrollment, primary (% gross)[b]	93.7
Life expectancy at birth, years[b]	52.8
Total GHG emissions (mtCO2e)	115.4

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

Chad's economic recovery in 2022 was dampened by floods and insecurity; GDP growth was moderate at 2.2 percent (-0.9 percent in per capita terms), while poverty incidence increased by 2.4 percentage points. Growth is expected to remain modest over the medium-term, around 3.2 percent, as oil prices remain high, but downside risks from food scarcity and general insecurity, climatic shocks, an extended political transition and oil price volatility predominate.

Key conditions and challenges

Chad's oil-dependent economy has witnessed successive crises since the 2014-15 oil price shocks. Notwithstanding the 2018-19 recovery, annual GDP growth has been subdued, averaging 0.3 percent over the past six years, which, given high population growth (3.3 percent on average), translates into an average annual decrease in per capita income of 2.9 percent.

The main constraints sustained economic and social development include: oil dependence and poor oil revenue management; insecurity; vulnerability to climate change; political unrest; institutional instability; weak governance and transparency; poor trade networks; weak human capital investment; and a large infrastructure deficit.

Recent developments

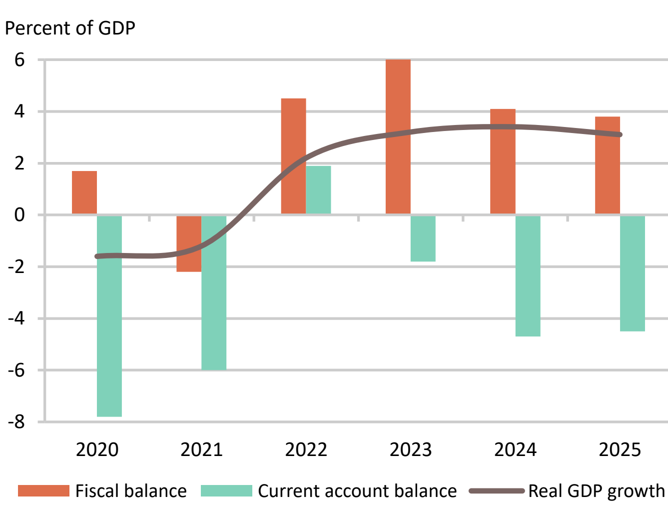
Chad's economy was expected to recover in 2022, following a 1.2 percent contraction in 2021 (-4.3 percent in per capita terms), on the back of higher global oil prices (averaging $99.8/bbl in 2022) coupled with increased oil production. However, this recovery was dampened by floods and a volatile security environment with GDP growth estimated at 2.2 percent (-0.9 per capita), and non-oil GDP growth at 1.3 percent. Industry on account of the oil sector was the main contributor to growth (4.1 percentage points [ppts]), followed by agriculture (0.6 ppts), which experienced inadequate rainfall distribution and severe floods. The value of exports increased by 54.9 percent due to high oil prices, leading to a current account surplus of 1.9 percent of GDP in 2022, versus a 6 percent deficit in 2021.

Inflation increased from 1 percent in 2021 to 5.8 percent in 2022 driven by high global prices in food and energy resulting from Russia's invasion of Ukraine, and food supply restrictions due to the security situation. Food inflation, averaging 12.2 percent in 2022, also suffered from weak domestic agricultural production.

Chad declared a national food emergency in June 2022. The situation was worsened by unprecedented floods during the lean season, which affected over 340,000 people and destroyed 2,700 hectares of crops and farming land. Food insecurity currently affects 2.1 million people (12.1 percent of the population). Cereal production for 2022-2023 is estimated at 2.9 million tons with a gross deficit of 443,950 tons. The extreme poverty rate (US$2.15/ day per capita, 2017 PPP) is expected to have increased by 2.4 percentage points in 2022, reaching 38.7 percent, implying the number of extreme poverty increased by almost 625,000 people to reach 6.8 million.

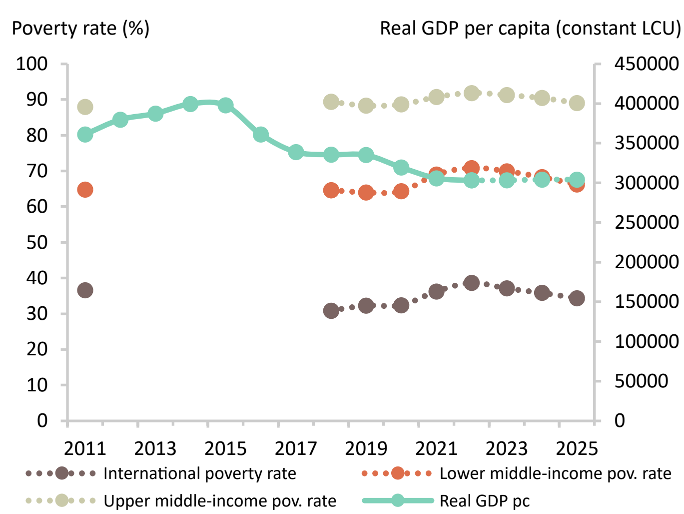
Chad's monetary and exchange rate policies are managed by the regional Central Bank (BEAC), which continued to tighten its monetary conditions in 2022 to contain inflationary pressures and support the external viability of the exchange rate arrangement. The BEAC raised its policy rate in

FIGURE 1 Chad / GDP growth, current account and fiscal balances



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

September 2022 from 4.0 to 4.5 percent, its second increase in 2022. The BEAC also reduced its weekly liquidity injections from XAF 160 billion in April 2022 to XAF 50 billion in December 2022.

The fiscal balance, including grants, reached a surplus of 4.5 percent of GDP in 2022 (non-oil fiscal deficit was 7.4 percent of GDP), due to the one-year lag in the main component of oil-revenue tax collection and lower capital expenditure. Total public debt is estimated to have dropped to 49.6 percent of GDP by end-2022. Chad became the first country to reach an agreement under the G20 Common Framework (CF) in November 2022 with its official and largest private creditors.

Outlook

In 2023, growth will increase to 3.2 percent (zero per capita growth) with 2.4 percent non-oil GDP growth, as oil prices moderate in the global markets. While significant government investments are expected, government consumption will be constrained. Assuming ongoing global recovery in international trade, moderate oil prices and increased government investment, economic growth is expected to remain relatively constant over 2024-25. Inflation is expected to fall slightly to 5.2 percent in 2023, declining to 3 percent in 2025, as food inflation gradually decreases thanks to government measures addressing food insecurity.

Oil-sector driven growth is not expected to lead to poverty reduction without significant structural reforms, as there are few linkages between the extractive sector and the livelihoods of poor and vulnerable groups. Moreover, the continued security restrictions and the low coverage of social protection programs will limit the pace of poverty reduction. Extreme poverty is expected to decrease to 34.4 percent in 2025, in line with moderate growth in the agriculture and services sectors and declining inflation. However, with rapid population growth, the total number of poor declined by only 81,000 people to 6.7 million.

Reflecting significantly higher oil prices in 2022 and more controlled current spending, the fiscal surplus is projected to expand to 6.1 percent of GDP in 2023 (with a non-oil fiscal deficit of 6.5 percent of GDP), before gradually decreasing to an average 4 percent of GDP over 2024-25 as oil prices ease. Total public debt is projected to drop to 36.4 percent of GDP by end-2025. The current account is expected to deteriorate over the medium term (from -1.8 percent of GDP in 2023 to an average -4.6 percent of GDP over 2024-25) owing to the projected decline in oil prices and increased imports to support growing capital investment.

This outlook is subject to significant uncertainty and downside risks, namely: dampening and volatile oil prices; increased political instability surrounding the political transition and elections; intensified security risks; further climate-related shocks; continuing food security challenges and related social discontent.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-1.6	-1.2	2.2	3.2	3.4	3.1
Private Consumption	0.5	1.6	2.1	1.0	2.5	2.6
Government Consumption	11.1	3.7	-1.5	-1.6	-3.2	-1.8
Gross Fixed Capital Investment	-14.7	-4.5	-6.8	16.5	3.2	2.6
Exports, Goods and Services	1.1	-0.4	5.0	5.1	3.9	3.9
Imports, Goods and Services	1.8	5.1	2.0	4.8	1.6	2.8
Real GDP growth, at constant factor prices	-1.6	-1.2	2.2	3.2	3.4	3.0
Agriculture	3.9	6.2	2.0	2.2	1.6	1.7
Industry	-0.1	-4.6	4.1	4.5	2.1	2.0
Services	-7.0	-4.4	0.7	2.8	6.2	5.2
Inflation (Consumer Price Index)	3.5	1.0	5.8	5.2	4.0	3.0
Current Account Balance (% of GDP)	-7.8	-6.0	1.9	-1.8	-4.7	-4.5
Fiscal Balance (% of GDP)	1.7	-2.2	4.5	6.1	4.1	3.8
Revenues (% of GDP)	20.7	16.3	19.9	22.5	19.4	19.5
Debt (% of GDP)	49.9	52.1	49.6	43.4	40.0	36.4
Primary Balance (% of GDP)	3.4	-0.6	5.9	7.8	5.3	5.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	32.4	36.3	38.7	37.1	35.9	34.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	64.3	69.0	70.9	69.9	68.3	66.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	88.6	90.7	91.9	91.3	90.4	89.1
GHG emissions growth (mtCO2e)	2.8	2.9	3.2	3.3	3.3	3.3
Energy related GHG emissions (% of total)	2.2	2.1	2.1	2.0	2.0	2.0

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 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection based on microsimulation model that accounts for differences in sectoral growth, food and nonfood inflation.

COMOROS

Table 1	2022
Population, million	0.8
GDP, current US$ billion	1.3
GDP per capita, current US$	1577.8
International poverty rate ($2.15)[a]	18.6
Lower middle-income poverty rate ($3.65)[a]	39.5
Upper middle-income poverty rate ($6.85)[a]	68.6
Gini index[a]	45.3
School enrollment, primary (% gross)[b]	99.5
Life expectancy at birth, years[b]	64.2
Total GHG emissions (mtCO2e)	0.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2017 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2020).

The Comoros' recovery has been hindered by Russia's invasion of Ukraine. For the fourth consecutive year, growth remained below pre-Cyclone Kenneth levels. Low-income households have been affected by rising prices, which reached record levels in 2022. As the impact of the war lessens, growth is expected to recover slightly in 2023 and 2024, marginally reducing poverty. Debt is projected to increase substantially, but it should remain sustainable.

Key conditions and challenges

The COVID-19 pandemic and the war in Ukraine have emphasized the Comoros' external and structural challenges. Geographical characteristics predispose the Comoros to low exports and a high dependency on imports – about 70 percent of food is imported. The resulting structural trade deficit is primarily financed by remittances and proceeds from the arrival of the diaspora during grand marriage celebrations. Consumption, supported by remittances, is the main driver of growth. The contribution of investment and productivity is constrained by the poor investment environment. Labor participation, particularly by women, is low compared with peer countries. Moreover, given poor economic outcomes, poverty levels remain high, estimated at 39.0 percent in 2022.

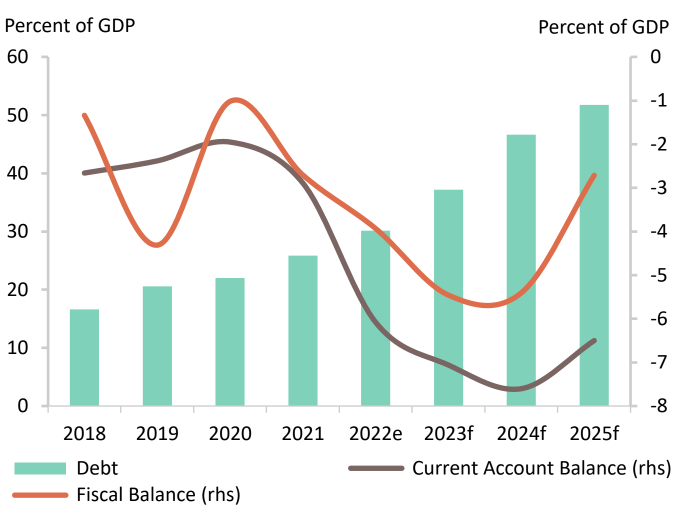
Slow economic growth and weak revenue administration capacities are hindering domestic revenue mobilization. Low tax revenues (7.6 percent of GDP in 2012-21) affect the government's capacity to deliver public services. Moreover, fiscal rigidity remains a major constraint with the wage bill absorbing 53 percent of domestic revenues, while public investment efficiency is below peers' levels. The country remains at high risk of debt distress, with debt at 32.7 percent of GDP in 2022 – nearly twice the value in 2017. With a medium debt-carrying capacity, the debt profile deteriorated following the contracting of a large non-concessional loan with a short maturity in 2018-20. Since then, the debt service to exports ratio and the debt service to revenue ratio have been exceeding their thresholds. The country's vulnerability to climate change and natural disasters could further slowdown the economic recovery, given structural and institutional fragilities.

Recent developments

Rising global food and fuel prices negatively affected the Comoros' economy last year, highlighting its vulnerability to external shocks. Growth has been below potential for the fourth consecutive year. The expected strong recovery in 2022 was thwarted by sluggish consumption in both the private sector and government, although the high number of arrivals of the diaspora to celebrate grand marriages in the third quarter of 2022 significantly contributed to tourism service exports.

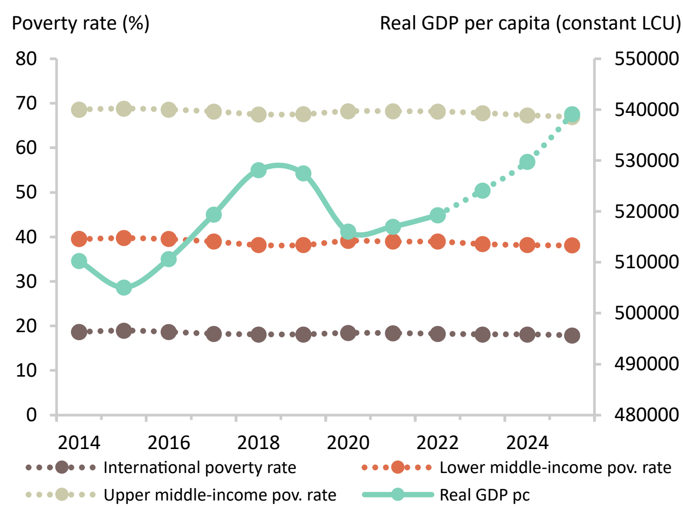
Inflation levels in 2022 set a record, reaching 12.5 percent for the year. By December 2022, headline inflation had surged to 20.6 percent year-on-year, driven by high food prices. As poor households tend to allocate a larger share of their expenditure to food, they are expected to bear the brunt of the shock. To contain rising domestic prices, the central bank tightened its monetary stance by conducting liquidity-absorbing operations (US$ 2.4 million in July-September 2022). These included increasing obligatory reserve requirements to 15 percent in June 2022 and increasing the minimum debit and

FIGURE 1 Comoros / Selected macroeconomic imbalance indicators



Sources: National authorities and World Bank staff estimates and forecasts.

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



Source: World Bank. Notes: see Table 2.

credit interest rate by 2.5 percentage points since August 2022.

Tax measures adopted by the government to help cushion households from rising prices and the underperformance of state-owned enterprises led to a significant decline in government revenues and widened the fiscal deficit from 2.7 percent in 2021 to 3.9 percent in 2022. Containment measures led to a decline in government expenditure by 1.2 percentage points of GDP between 2021 and 2022, but these were insufficient to offset the decline in government revenues (2.4 percentage points). State-owned enterprises are increasingly using commercial loans and have weakened financial conditions due to the business cycle and structural problems. As a result, public guarantees have increased significantly, as evidenced by the increase in credit to the public sector from 1.6 percent of GDP in December 2021 to 2.5 percent in the third quarter of 2022.

On the external side, due to a higher import bill, the current account deficit more than doubled to 6.1 percent of GDP in 2022 (from 2.9 percent in 2021) and external stability weakened, with reserve coverage decreasing to 7.6 months of imports at end-2022 from 9 months at end-2021.

Outlook

Growth is expected to recover modestly to 2.8 percent in 2023, remain subdued in 2024 at 2.9 percent, and then bounce back to 3.6 percent in 2025 after the electoral cycle. With easing inflationary pressures, the recovery is projected to be driven by higher private and government consumption. Investment to complete the El Maarouf project and the Galawa hotel, and to improve the port infrastructure in Mohéli, will also support the recovery. The fiscal deficit is projected to narrow to 3.6 percent of GDP in 2025, based on the assumptions of a marginal increase in tax revenues and lower support to state-owned enterprises.

As the government completes major projects between 2023 and 2025, and the fiscal gap could amount to $26.6 million, public debt is projected to reach a record level of 44.1 percent of GDP in 2025. The debt trajectory remains sustainable because of the limited size and duration of the breaches, but sustainability is contingent on fiscal consolidation and prudent debt management. Inflationary pressures are expected to ease in 2023 thanks to the euro peg system and the decline in global commodity prices. Despite the slow decline in commodity prices, the current account deficit is projected to average 7.1 percent of GDP in 2023, on the back of increased domestic demand, which will fuel imports. The poverty rate therefore is expected to reach 38.4 percent in 2023 and decline to its pre-pandemic level of 38.1 percent in 2025.

There are several downside risks to the outlook, including a potential renewed impact from the war in Ukraine, increased contingent liabilities, slow implementation of the recovery plan due to the electoral cycle, and substantial inflationary pressures due to supply disruptions.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-0.3	2.1	2.3	2.8	2.9	3.6
Private Consumption	3.8	1.0	0.2	2.0	2.6	3.2
Government Consumption	4.1	5.0	2.0	5.3	0.4	-7.4
Gross Fixed Capital Investment	-14.4	9.6	2.5	2.9	2.4	3.0
Exports, Goods and Services	-46.3	48.2	22.6	6.3	8.8	14.3
Imports, Goods and Services	-9.3	7.7	4.2	3.3	3.4	2.6
Real GDP growth, at constant factor prices	-0.8	2.0	2.1	2.8	2.9	3.6
Agriculture	4.4	3.4	3.3	4.7	4.3	4.5
Industry	-5.6	-0.2	0.4	2.3	1.0	1.5
Services	-2.2	1.8	1.8	1.9	2.6	3.5
Inflation (Consumer Price Index)	0.8	0.0	12.5	8.0	4.5	1.7
Current Account Balance (% of GDP)	-2.0	-2.9	-6.1	-7.1	-7.6	-6.5
Fiscal Balance (% of GDP)	-1.0	-2.7	-3.9	-5.5	-5.4	-3.6
Revenues (% of GDP)	18.2	16.1	13.7	14.7	14.9	14.6
Debt (% of GDP)	22.0	25.9	32.7	36.0	40.7	44.1
Primary Balance (% of GDP)	-0.8	-2.4	-3.5	-4.8	-4.4	-2.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	18.4	18.4	18.2	18.1	18.1	17.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	39.2	39.0	39.0	38.4	38.2	38.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	68.2	68.2	68.2	67.8	67.3	66.9
GHG emissions growth (mtCO2e)	1.6	2.1	1.8	2.4	3.1	3.6
Energy related GHG emissions (% of total)	45.2	44.7	44.2	44.3	44.6	45.2

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 2015-EESIC. Actual data: 2014. Nowcast: 2015-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2014) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

DEMOCRATIC REP. OF CONGO

Table 1	2022
Population, million	99.0
GDP, current US$ billion	63.1
GDP per capita, current US$	637.8
International poverty rate ($2.15)[a]	69.7
Lower middle-income poverty rate ($3.65)[a]	87.7
Upper middle-income poverty rate ($6.85)[a]	97.4
Gini index[a]	42.1
School enrollment, primary (% gross)[b]	123.9
Life expectancy at birth, years[b]	59.7
Total GHG emissions (mtCO2e)	681.7

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

DRC's economy grew by 8.6 percent in 2022 as mining production expanded. Elevated prices of imported food and oil led to higher inflation and a wider current account deficit despite rising exports. Capital inflows added to foreign reserves and supported currency stability. Government revenues improved, but the fiscal deficit widened with increased security and infrastructure spending. Prospects for growth and poverty reduction are favorable, but vulnerable to commodity price shocks.

Key conditions and challenges

The Democratic Republic of the Congo (DRC), home to the second-largest rainforest in the world and vast metal deposits, has yet to leverage its natural wealth into economic development. The economy is highly concentrated in the extraction of copper and cobalt, which constitute over 80 percent of exports (40 percent of which headed to China). With its agricultural potential untapped, DRC is a net food importer, increasing vulnerabilities to external shocks. Political instability, weak institutional capacity, poor governance, and recurring episodes of violence have prevented DRC from building the foundations of a diversified and resilient economy capable of generating economic opportunities for a rapidly growing population, leading to high levels of poverty. Persistent structural constraints result in an underdeveloped private sector and large informal economy. Climate change adds to these challenges.

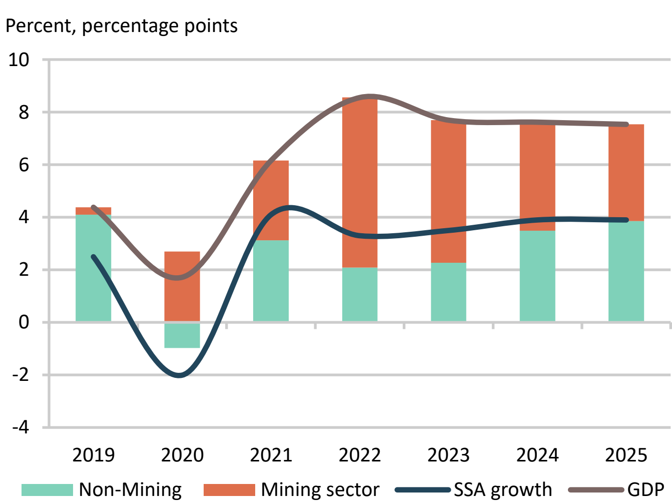
The fragile political context is fueled by the complex dynamics of political coalitions. Reaching political consensus – mainly ahead of the 2023 presidential elections - and increasing the presence and credibility of the state, including through improved governance, are key to maintaining stability, peace and advancing structural reforms that will attract investments and create jobs. The need for the state to deliver more and better services to citizens while maintaining hard-earned macroeconomic stability highlights the crucial role of improving domestic revenue mobilization to widen fiscal space.

Poverty remains widespread in the country, with the bulk of the poor living in extreme poverty. While there are significant geographical disparities between provinces, with the poorest living along two densely populated corridors running from West (Kongo Central) to East (Haut Katanga), and North (Ituri) to South (Tanganyika), poverty exceeds 50 percent even in the wealthier provinces. DRC remains second in Sub-Saharan Africa after Nigeria in terms of the number of extreme poor despite some improvements in the past decades.

Recent developments

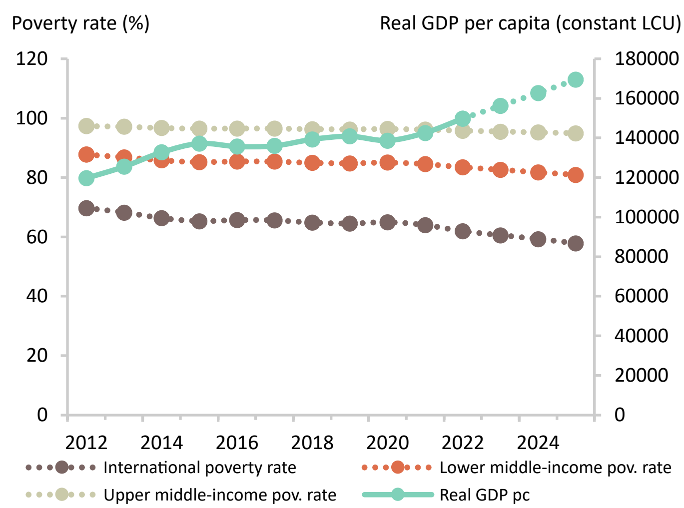
GDP growth picked up to 8.6 percent in 2022 driven by a strong mining sector, which expanded by 20.8 percent, owing to capacity expansion and recovery in global demand. Copper and cobalt production increased by 33.3 and 24.0 percent, respectively, in 2022. However, DRC faced an overall negative terms-of-trade shock due to the Russia's invasion of Ukraine, and growth in non-mining sectors was modest, slowing down to 3.0 percent in 2022 (2021: 4.5 percent). On the demand side, growth was led by public investment and exports, while private consumption was constrained by higher inflation.

FIGURE 1 Democratic Republic of Congo / Real GDP growth and contributions to real GDP growth



Sources: Democratic Republic of Congo Statistical Authorities and World Bank.

FIGURE 2 Democratic Republic of Congo / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

The current account deficit deteriorated to 2.9 percent of GDP in 2022 as strong export earnings could not compensate rising food and fuel import bills. Average inflation accelerated to 9.2 percent in 2022 and the Central bank opted for a tight monetary policy to anchor inflation expectations. Nevertheless, FDI and external financing contributed to build up foreign reserves, reaching 7.9 weeks of imports in 2022 (2021: 5.4 weeks), and to exchange rate stability.

The fiscal deficit widened to 2.7 percent in 2022. Domestic revenues peaked at 15.6 percent of GDP in 2022, owing to favorable commodity prices and digitalization of revenue collection process. In turn, expenditures stood at 19.7 percent of GDP in 2022 due to exceptional security spending and arrears repayments, in addition to wage adjustments and fuel subsidies.

The latest World Bank projections put extreme poverty at 60.5 percent in 2023, a 1.4 percentage points decrease compared to 2022. This decrease is due to favorable economic performance, despite the negative effects of the war in Ukraine.

Outlook

GDP growth is projected to decelerate to 7.7 percent in 2023 and 7.5 percent in 2025 with the end of the Kamoa-Kakula mine expansion in 2024. The mining sector is expected to slightly decelerate, while growth in non-mining sectors (services, manufacturing) gradually picks up, doubling to 6.2 percent by 2025.

The fiscal deficit is expected at 2.1 percent of GDP in 2023, driven by election-related spending, before narrowing to 1.0 percent in 2025. Despite rising imports of capital goods, the current account deficit will narrow to a range of 1.0 percent of GDP in 2023-2025 given improved terms of trade associated with favorable commodity prices. Further FDI inflows will contribute to building-up reserves and maintaining exchange rate stability while the inflation rate is expected to be brought back down to its 7 percent medium-term target.

Extreme poverty is projected to further decrease by 2.7 percentage points by 2025 given favorable economic prospects, despite the lasting negative effects of the pandemic, the insecurity in the east of the country, and the war in Ukraine.

DRC's economy remains vulnerable to commodity price swings and growth performance of major trading partners which might be disturbed by geopolitical conflicts. The continued economic consequences of the war in Ukraine, through rising global food costs and higher oil prices, could exert stronger pressure on fiscal deficit, inflation and on households' consumption, thus, exacerbating poverty and inequality.

With the agriculture sector employing over 60 percent of the working age population, vulnerability to climate change related risks (floods, droughts) is substantial. Finally, an escalating war in the East and continued political uncertainty ahead of the planned 2023 presidential elections, might delay reform efforts, worsen fiscal imbalances and generate arrears. Given persistent conflicts in the East, DRC's immediate challenge is to strengthen security and maintain political and macroeconomic stability while stepping up ongoing reforms to ensure sustainable growth.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	1.7	6.2	8.6	7.7	7.6	7.5
Private Consumption	-8.0	1.6	0.8	4.2	3.8	2.5
Government Consumption	9.5	11.8	25.1	9.2	1.7	-2.2
Gross Fixed Capital Investment	37.8	21.8	25.5	7.8	10.9	11.8
Exports, Goods and Services	4.0	19.9	23.8	15.8	6.0	5.5
Imports, Goods and Services	15.1	21.7	24.5	9.1	6.0	5.0
Real GDP growth, at constant factor prices	2.3	6.2	8.6	7.7	7.6	7.5
Agriculture	2.5	2.4	2.7	2.8	2.9	3.1
Industry	4.2	7.9	15.1	12.4	9.8	9.0
Services	0.1	5.6	3.0	3.3	6.2	7.0
Inflation (Consumer Price Index)	11.4	9.1	9.2	8.5	7.2	6.8
Current Account Balance (% of GDP)	-2.3	-0.9	-2.9	-1.0	-0.9	-1.0
Fiscal Balance (% of GDP)	-1.2	-0.8	-2.7	-2.1	-1.0	-1.0
Revenues (% of GDP)	9.2	13.8	16.9	17.0	16.5	16.3
Debt (% of GDP)	22.9	23.9	25.1	23.3	23.1	23.1
Primary Balance (% of GDP)	-1.0	-0.7	-2.2	-1.5	-0.5	-0.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	64.9	64.0	61.9	60.5	59.3	57.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	85.0	84.5	83.4	82.6	81.7	80.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	96.4	96.1	95.8	95.5	95.2	94.9
GHG emissions growth (mtCO2e)	0.0	0.1	0.2	0.2	0.3	0.4
Energy related GHG emissions (% of total)	1.2	1.2	1.2	1.2	1.2	1.2

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 2012-E123. Actual data: 2012. Nowcast: 2013-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2012) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

REPUBLIC OF CONGO

Table 1	2022
Population, million	5.8
GDP, current US$ billion	14.6
GDP per capita, current US$	2520.2
International poverty rate ($2.15)[a]	35.4
Lower middle-income poverty rate ($3.65)[a]	59.1
Upper middle-income poverty rate ($6.85)[a]	83.5
Gini index[a]	48.9
School enrollment, primary (% gross)[b]	93.7
Life expectancy at birth, years[b]	63.8
Total GHG emissions (mtCO2e)	32.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2011), 2017 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2020).

Following a protracted recession that started in 2015, the Republic of Congo's (ROC) economy grew by an estimated 1.5 percent in 2022. Higher commodity prices stemming from Russia's invasion of Ukraine are improving ROC's fiscal and external positions, but high food inflation could worsen food insecurity. Economic recovery is expected to strengthen in 2023-2025. Uncertainties related to oil prices and production, and spillovers from the war in Ukraine are key risks to the outlook.

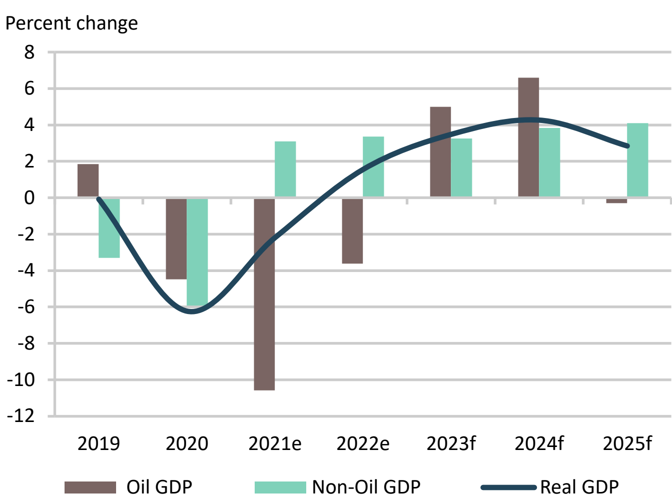
Key conditions and challenges

Between 2015 and 2021, Congo's economy contracted by -4.6 percent on average, with economic activity underperforming since the 2014-16 collapse in oil prices that led to a massive cut in public spending and investment and the accumulation of domestic arrears to private sector firms, impacting private investment. The protracted recession led to a cumulative decline of real GDP by 28 percent and of GDP per capita by 40 percent during 2014-2021. The country's reliance on volatile oil revenue and weak governance, reflected in high levels of non-concessional borrowing, led Congo's debt to be classified as "in distress" and unsustainable in 2017, with its debt-to-GDP ratio increasing from 42.3 percent in 2014 to 113.2 percent in 2020. Higher oil prices, improved debt management, and debt restructuring agreements helped restore debt sustainability in the second half of 2021, but ROC remains in debt distress due to external arrears. The prolonged economic recession reversed previous progress in poverty reduction, with the proportion of the population living below the international extreme poverty line of US$2.15 PPP per day increasing from 34.8 percent in 2015 to 52.0 percent in 2021. Furthermore, human capital development lags that of peer countries. The impact of the war in Ukraine is exacerbating socio-economic challenges, including food insecurity, partly due to ROC's high dependence on food imports. Diversifying the economy and sustaining economic growth are among key challenges. The National Development Plan for 2022-2026 and increased oil revenues offer a good opportunity to transform ROC's economy and boost inclusive and sustainable development to reduce the country's vulnerability to volatile oil prices and unsteady production.

Recent developments

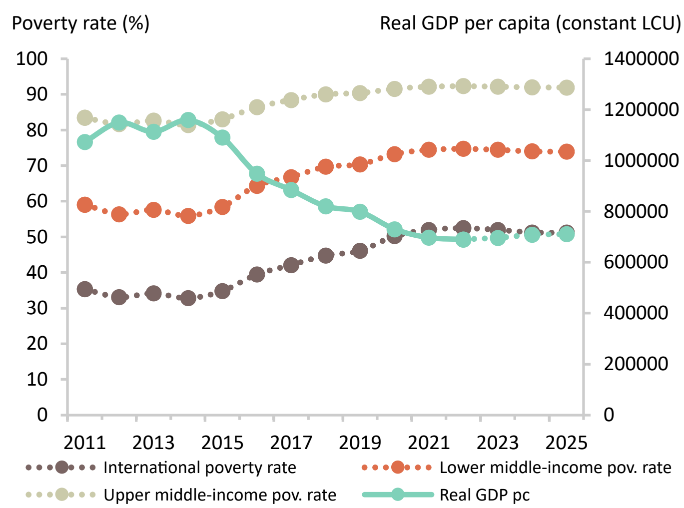
Driven by the non-oil sector, economic activity in Congo is estimated to have increased by 1.5 percent in 2022, compared to a contraction of 2.2 percent in 2021. Non-oil sector growth, estimated at 3.4 percent in 2022, was spurred by the complete removal of COVID-19 restrictions, the clearance of government domestic arrears, which provided liquidity to domestic banks and firms, and to a certain extent, public investment spending. Oil production on the other hand continued to fall, decreasing by 3.6 percent in 2022 percent, y-o-y, due to delayed investment and maturing oil fields. ROC's fiscal and external positions improved. High oil prices led to a significant increase in government revenues, which together with a more moderate increase in government spending, resulted in a budget surplus of 6.8 percent of GDP in 2022. However, the non-oil primary balance deteriorated primarily due to fuel subsidies, which increased from 1.3 percent of GDP in 2021 to 3.6 percent in 2022. Higher export receipts strengthened the current account surplus to 18.2 percent of GDP in 2022.

FIGURE 1 Republic of Congo / Real GDP growth



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

The banking sector remains solvent, but vulnerability to non-performing loans (NPLs) remains high. Bank deposits and credit to the private sector were up as of end-September 2022 (y-o-y) but the NPL to gross loan ratio has been around 19 percent over the past year, which is high by international standards. In 2022, the Bank of Central African States (BEAC) continued to tighten its monetary policy to contain inflationary pressures and support the external viability of the exchange rate arrangement. The BEAC increased the policy rate in September 2022 (to 4.5 percent), its second increase in 2022. Moreover, the BEAC decreased its weekly liquidity injections from CFAF 160 billion in April 2022 to CFAF 50 billion in December 2022.

The poverty rate increased slightly in 2022 to an estimated 52.5 percent in 2022. While overall inflation remained contained at 3.0 percent in 2022, existing supply chain bottlenecks and the effects of the war in Ukraine are pushing up food prices in ROC, with food inflation averaging 6.2 percent (y-o-y) in 2022, which is likely to affect the poorer segments of the population more as they typically spend a higher share of their household budget on food.

Outlook

The Congolese economy is expected to continue to recover gradually from its recent protracted recession. ROC's GDP is projected to grow at 3.5 percent in 2023 and to average 3.6 percent in 2024-25. Oil sector growth (expected to average 3.8 percent in 2023-25) will be driven primarily by the resumption of investments by oil companies. Non-oil sector growth (expected to average 3.7 percent in 2023-25) will be spurred by growth in agriculture and services, and the implementation of structural reforms on the supply side, and by the continued clearance of government arrears, and the gradual increase in social spending and public investment on the demand side. Overall inflation is expected to remain close to BEAC's 3.0 percent target over the medium term, but food inflation is expected to continue to outpace overall inflation. The poverty rate is expected to marginally decrease to 52.0 percent in 2023 and to an average of 51.2 percent in 2024-25, consistent with projected growth in GDP per capita. The fiscal balance is expected to remain positive, fueled by high oil prices, increased oil production and fiscal discipline. In line with the 2023 budget law, the non-oil primary balance is set to improve, partly driven by the reduction in direct oil subsidies to energy SOEs and the increase of fuel retail prices. Although debt vulnerabilities remain elevated (with a high level of non-concessional debt stock and domestic arrears), ROC's debt-to-GDP ratio will decline to 78.8 percent by 2025 due to improved debt management, fiscal discipline, and significant oil revenues. The current account surplus will decline as increased investments will lead to an increase in imports, partially offsetting high oil exports receipts.

Risks to the outlook are tilted to the downside and include volatile oil prices and unsteady oil production, an intensification of the war in Ukraine and related spillovers, weaker-than-expected global demand, renewed supply chain bottlenecks, a further tightening of global or regional financial conditions, and adverse weather conditions.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-6.2	-2.2	1.5	3.5	4.3	2.8
Private Consumption	-6.9	8.5	6.7	6.0	6.0	5.8
Government Consumption	-33.1	16.9	-2.0	3.2	3.8	3.3
Gross Fixed Capital Investment	-45.0	9.5	8.3	11.5	8.5	7.0
Exports, Goods and Services	-11.1	-12.2	-0.9	4.4	6.2	0.9
Imports, Goods and Services	-36.3	2.5	4.8	10.6	10.3	5.2
Real GDP growth, at constant factor prices	-5.1	-2.2	1.5	3.5	4.3	2.8
Agriculture	4.5	1.5	3.1	3.3	3.9	4.3
Industry	-3.7	-7.9	-1.7	4.4	5.8	1.2
Services	-9.2	3.9	3.5	3.3	3.8	3.9
Inflation (Consumer Price Index)	1.4	2.0	3.0	3.2	3.1	3.0
Current Account Balance (% of GDP)	0.9	10.9	18.2	9.7	4.2	2.1
Net Foreign Direct Investment Inflow (% of GDP)	2.4	3.8	3.8	4.2	4.7	5.0
Fiscal Balance (% of GDP)	-2.4	1.4	6.8	4.2	3.5	2.6
Revenues (% of GDP)	21.6	23.4	31.4	27.5	26.7	26.2
Debt (% of GDP)	113.2	102.2	93.8	87.9	82.5	78.8
Primary Balance (% of GDP)	-0.6	3.4	9.1	6.7	5.9	5.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	50.2	52.0	52.5	52.0	51.3	51.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	73.3	74.5	74.8	74.5	74.0	74.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	91.6	92.2	92.3	92.2	92.0	91.9
GHG emissions growth (mtCO2e)	2.4	2.5	2.6	2.7	2.8	2.8
Energy related GHG emissions (% of total)	14.0	14.1	14.3	14.6	15.0	15.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2011-ECOM. Actual data: 2011. Nowcast: 2012-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2011) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

CÔTE D'IVOIRE

Table 1	2022
Population, million	28.2
GDP, current US$ billion	70.1
GDP per capita, current US$	2487.9
International poverty rate ($2.15)[a]	11.4
Lower middle-income poverty rate ($3.65)[a]	39.6
Upper middle-income poverty rate ($6.85)[a]	75.4
Gini index[a]	37.2
School enrollment, primary (% gross)[b]	98.2
Life expectancy at birth, years[b]	59.0
Total GHG emissions (mtCO2e)	57.1

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

Although growth rebounded from COVID-19 in 2021, adverse spillovers from Russia's invasion of Ukraine and global monetary tightening emphasize macroeconomic imbalances. Real growth is estimated at 6.7 percent in 2022 (4 percent per capita) with limited poverty reduction due to higher food prices. Annual inflation reached 5.2 percent in 2022 – a decade high increase given price volatility and deteriorating terms of trade. The outlook hinges on robust revenue mobilization, debt management and structural reforms to rebuild fiscal buffers.

Key conditions and challenges

After being one of the fastest growing economies in SSA for almost a decade – with real GDP growth averaging 8.2 percent over 2012–19 (5.7 percent in per capita terms) – the global crises brought about by COVID-19 and war in Ukraine, have underlined the need for continued structural reforms to move towards the objective of doubling GDP per capita by 2030. Productivity growth has remained flat since 2017. Leveraging private investment, greater capital deepening, reducing allocative inefficiencies through pro-competition policies, improving human capital, as well as increasing resilience to climate risks would create a more resilient and sustainable growth path.

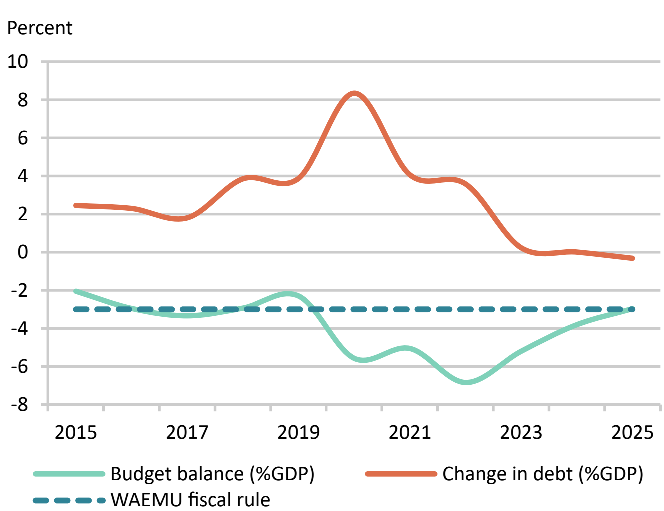
Downside risks predominate in the short term. The war in Ukraine increases commodity price volatility, worsening external balances of net commodity importers, such as Côte d'Ivoire, while increasing energy and food inflation. Tightening global financial markets, despite early signs of monetary policy normalization in advanced economies, put additional pressure on fiscal vulnerabilities and require active debt and fiscal management. Regional insecurity and climate-related factors could also dampen the outlook. In the medium term, the rollout of the National Development Plan will depend on adequate financing, premised on greater domestic revenue mobilization and private investment.

Recent developments

Amid the global turmoil, the Ivorian economy has started to decelerate, posting an estimated 6.7 percent real GDP growth in 2022 (4.0 percent per capita), down from the 7 percent registered in 2021. Growth was driven by private consumption, supported by increases in public sector wages and public investment. Industry, including construction, and services were the main supply-side growth motors, contributing 1.5 and 4.7 percentage points, respectively. Construction and retail trade indices increased by 21.2 percent and 11.9 percent y-o-y, respectively. Inflation averaged 5.2 percent in 2022, up from 4.2 percent in 2021, on account of higher food (+8.9 percent), housing, water, energy (+5.7 percent) and transport (+6.4 percent) prices. Regional security-related disruptions, the war in Ukraine-induced commodity price spike, and the depreciation of the CFAF against the US dollar passed-through via imported and local prices. Price caps on key food staples and fuel subsidies contained further upward pressure with core inflation contributing 2.7 percentage points to headline inflation. To counter inflation across WAEMU countries, the Central Bank of West African States (BCEAO) raised policy interest rates by a cumulative 75 basis points in 2022 (to 2.75 percent for liquidity calls and 4.75 percent for the marginal lending facility).

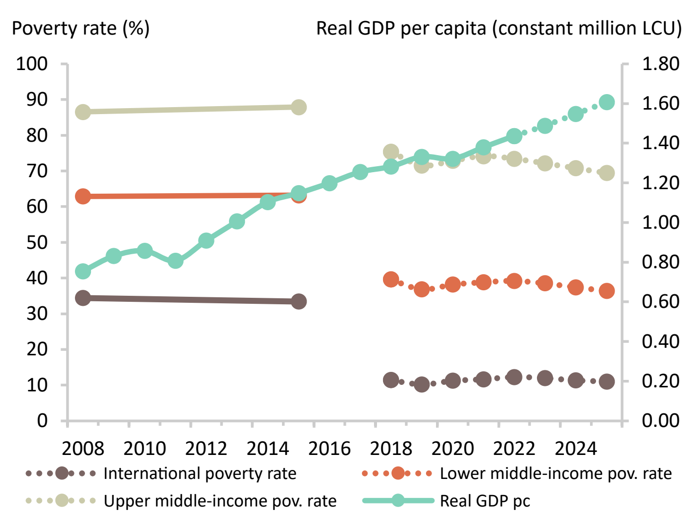
The trade balance turned negative at -2.6 percent of GDP in 2022, widening the current account deficit from 4.1 percent in 2021, to an estimated 6.5 percent in 2022, owing to

FIGURE 1 Côte d'Ivoire / Budget balance and change in public debt



Source: MFMOD and World Bank staff estimates.

FIGURE 2 Côte d'Ivoire / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

sustained infrastructure related imports, higher import prices and declining export demand and prices.

Containing inflationary pressures has been achieved largely through fiscal policy, with expenditures of around 1.6 percent of GDP (including 0.6 percent of GDP in revenue forgone due to implicit fuel subsidies), lifting the fiscal deficit to a decade-high 6.8 percent of GDP in 2022. The hike resulted also from infrastructure spending (at 6.8 percent of GDP), and high interest payments. As a result, public and publicly guaranteed debt increased, to 56.9 percent of GDP, from 52.1 percent of GDP in 2021. The aborted Eurobond operation in 2022 was replaced by more expensive commercial debt set to increase interest payments in the short-term, unless reprofiled.

The extreme poverty incidence (less than $2.15 a day per capita in PPP) is expected to have increased to 12.3 percent in 2022, 0.6 percentage points higher than in 2021. The expansion of services and industry (6.7 and 8.2 percent real growth in 2022), which employ 46.7 and 14.1 percent of the labor force, respectively, were drivers of poverty reduction. However, the increase in food prices offset the effects of economic growth on poverty (without the effects of food inflation, we estimate that poverty would have fallen).

Outlook

Economic activity should decelerate slightly in 2023 on the back of continued global headwinds subduing net exports, clouding private investment expectations, and fueling uncertainty around inflationary expectations. Growth is however expected to remain strong over the medium-term, projected to average 6.5 percent between 2024-2025, driven by domestic demand, continued high public investment increasingly complemented by private investment if pro-competitive market reforms continue and structural reforms aligned with macroeconomic stability deepen.

The fiscal deficit should converge towards the regional target of 3 percent by 2025, stabilizing debt at about 56 percent of GDP. However, this hinges on a credible revenue mobilization strategy. Delaying fiscal adjustment towards the regional fiscal deficit target could exacerbate debt sustainability risks, while increasing regional financing needs, reducing FX reserve buffers, and elevating inflationary risks.

Inflation should decelerate from 2023 and gradually converge below 2 percent, as global commodity prices ease. BCEAO will likely need to continue tightening in 2023 in line with other major central banks, as FX reserves have declined, and inflation remains well above the target range of 1-3 percent. Any delays to fiscal adjustments towards the regional fiscal deficit target could exacerbate debt sustainability risks in some countries and put additional pressure on the regional financial sector.

Despite the deceleration in economic growth in 2023, poverty is expected to fall to 12 percent driven by the industry and services sectors, and the reduction in inflation, especially among food items (expected to fall from 8.9 percent in 2022 to 4.8 percent in 2023). Poverty reduction should continue in the medium term despite the negative headwinds, reflecting higher employment in industry and services. Extreme poverty (US$2.15 2017 PPP) is expected fall to 11.4 percent by 2024 and to 11.0 by 2025.

Heightened market uncertainties and tight monetary policy will continue driving up costs of external and domestic debt, increasing debt vulnerabilities due to rollover risks in the short-term, aggravating tensions between rebuilding fiscal space and sustaining strong growth. Increasing domestic revenue mobilization, efficient public spending, and prudent borrowing remain crucial to ensure macroeconomic stability.

TABLE 2 Côte d'Ivoire / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	1.7	7.0	6.7	6.2	6.5	6.5
Private Consumption	4.7	3.5	3.3	3.7	3.9	4.3
Government Consumption	2.5	8.6	8.0	7.0	2.7	2.3
Gross Fixed Capital Investment	26.8	8.6	9.8	8.5	10.6	9.7
Exports, Goods and Services	10.7	10.6	10.2	8.4	8.8	9.2
Imports, Goods and Services	6.1	13.4	6.8	6.4	6.8	7.6
Real GDP growth, at constant factor prices	1.3	7.0	6.7	6.2	6.5	6.5
Agriculture	8.9	2.7	5.1	-0.4	1.4	11.1
Industry	-1.6	7.4	8.1	10.1	10.0	4.1
Services	-0.2	8.6	6.8	7.0	6.7	6.1
Inflation (Consumer Price Index)	2.4	4.2	5.2	3.5	1.8	1.7
Current Account Balance (% of GDP)	-3.1	-4.0	-6.5	-5.6	-5.0	-4.1
Net Foreign Direct Investment Inflow (% of GDP)	1.1	1.5	1.3	1.7	2.2	1.9
Fiscal Balance (% of GDP)	-5.4	-5.0	-6.8	-5.2	-4.1	-3.0
Revenues (% of GDP)	14.6	15.6	15.0	15.9	16.2	16.4
Debt (% of GDP)	48.1	52.1	56.9	56.6	56.3	56.0
Primary Balance (% of GDP)	-3.6	-3.0	-4.5	-2.6	-1.8	-0.9
International poverty rate ($2.15 in 2017 PPP)[a,b]	11.2	11.7	12.3	12.0	11.4	11.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	38.2	38.8	39.2	38.5	37.4	36.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	72.9	74.2	73.4	72.1	70.8	69.4
GHG emissions growth (mtCO2e)	3.7	3.8	3.1	3.4	3.3	3.1
Energy related GHG emissions (% of total)	25.7	27.8	29.2	30.6	31.7	32.4

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 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection based on microsimulation model that accounts for differences in sectoral growth, food and nonfood inflation.

EQUATORIAL GUINEA

Table 1	2022
Population, million	1.7
GDP, current US$ billion	14.4
GDP per capita, current US$	8577.1
School enrollment, primary (% gross)[a]	61.8
Life expectancy at birth, years[a]	60.7
Total GHG emissions (mtCO2e)	15.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2015); Life expectancy (2020).

Equatorial Guinea's economy expanded by an estimated 2.9 percent in 2022, driven by the rebound in the hydrocarbon sector. The fiscal and external balances improved thanks to an increase in oil production and prices. Barring new substantial hydrocarbon discoveries and progress in structural reforms, growth is projected to turn negative. Further increases in international food prices, lower-than-expected oil production and prices, and a further tightening of global financial conditions represent downside risks to the outlook.

Key conditions and challenges

Equatorial Guinea's oil-dependent economy has been in recession over most of the past decade amid maturing oil fields and low investment. GNI per capita has been declining since 2014, averaging -9.7 percent per year in 2014-2021 and estimated at $US 5,150 in 2021 (58 percent lower than its peak level in 2008). While the country is classified as upper-middle-income, insufficient social spending, a weak social protection system, and poor public service delivery have hampered progress toward shared prosperity and poverty reduction. Public expenditure on education, health, and water sectors combined is estimated to represent only 1.9 percent of GDP. Limited social spending explains poor development outcomes with net primary school enrollment rate of 43.5 percent, well below that of the average upper middle-income country (95.4 percent). Life expectancy at birth is low at only 59 years.

The economy's reliance on the capital-intensive hydrocarbon sector has provided few opportunities for job creation, and the country's business environment is not conducive to investment and private sector development. Hydrocarbon production is expected to decline in the next years as most of the country's largest oil fields are reaching maturity, adding urgency to the government's objective to diversify the economy and change the current growth model.

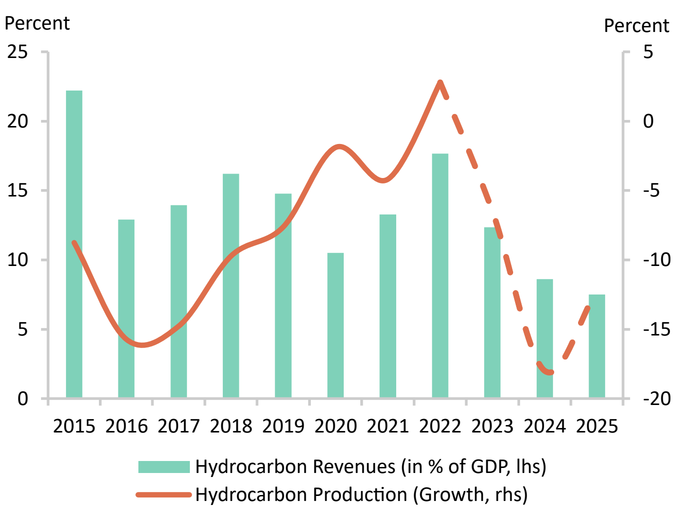
Recent developments

After seven consecutive years of recession, the Equatoguinean economy is estimated to have recorded positive growth of 2.9 percent in 2022 (from -2.8 percent in 2021), mainly driven by the rebound of the hydrocarbon sector (14.2 percent growth in 2022H1 compared to 2021H2). The economic rebound was lower than previously projected due to an incident in the Zafiro offshore platform – the largest crude oil production platform in Equatorial Guinea – in September 2022, which led to a drop in hydrocarbon production of 15.2 percent in 2022Q4 (q-o-q). Growth was also supported by higher public demand and growth in the telecommunications, transport, and construction sectors.

A stronger-than-expected rebound in oil production in the first half of the year and more favorable oil prices boosted government revenues and improved the fiscal balance in 2022 to 3.8 percent of GDP, compared to 2.8 percent of GDP in 2021. While fiscal revenues exceeded budgeted levels by 200 percent as of September-2022, they dropped in the fourth quarter of the year amid the incident in the Zafiro offshore platform. Higher hydrocarbon export earnings narrowed the current account deficit in 2022 which is estimated to have reached 0.8 percent of GDP in 2022, compared to a deficit of 2.3 percent of GDP in 2021.

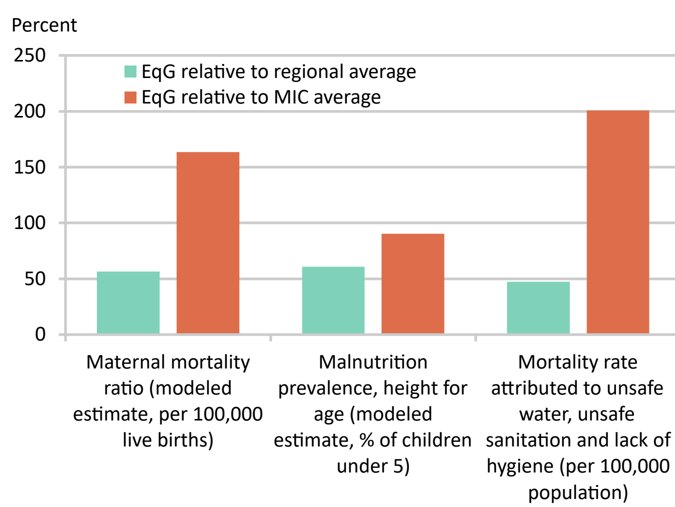
Inflation is estimated to have increased from 1.8 percent in 2021 to 4.9 percent in

FIGURE 1 Equatorial Guinea / Hydrocarbon production and revenues



Sources: Equatorial Guinea Ministry of Mines and Hydrocarbons and World Bank.

FIGURE 2 Equatorial Guinea / Non-income poverty indicators



Source: World Bank.

2022, driven by higher food prices following Russia's invasion of Ukraine. While the rise in food prices has likely impacted food security and poverty in Equatorial Guinea, data to track poverty remain scarce. The results of the National Household Survey II –fieldwork ending in August 2023 – will be critical in this regard.

In 2022, the Bank of Central African States (BEAC) continued to tighten its monetary policy to contain inflationary pressures and support the external viability of the exchange rate arrangement. The BEAC increased the policy rate in September 2022 to 4.5 percent, its second increase in 2022. Moreover, the BEAC decreased its weekly liquidity injections from CFAF 160 billion in April 2022 to CFAF 50 billion in December 2022.

In 2022, the government committed to settling domestic arrears using 90 percent of the IMF SDR allocation and government bonds, which should reduce the share of non-performing loans and improve the liquidity and solvency of the banking sector. The government has cleared US$ 102 million of domestic arrears by 2022H1.

Outlook

Equatorial Guinea is expected to re-enter recession in 2023 (with a negative growth of 3.7 percent) on the back of lower hydrocarbon production and domestic demand. Without significant diversification efforts or discoveries of new hydrocarbon reserves, the projected decline in hydrocarbon production combined with the slow progress in structural reforms are projected to lead to an average negative growth of 4.6 percent in 2024-2025.

The government is expected to continue its fiscal consolidation efforts amid a projected decrease in hydrocarbon production. The decline in public spending is expected to compensate for the decrease in government revenues over the medium term. As a result, the fiscal position is projected to deteriorate slightly but still reach a surplus of 2.1 percent of GDP in 2023, and then narrow further in 2024-25 (average surplus of 0.6 percent of GDP). The current account balance is projected to deteriorate gradually over the medium term to an average of -1.6 percent of GDP over 2023-2025, on the back of declining export earnings.

Risks to the outlook are tilted to the downside. A rise in food prices amid a protracted war in Ukraine would increase food insecurity, especially for the most vulnerable, and possibly cause social tensions. Lower oil prices would further reduce fiscal space over the medium term amid declining oil production, albeit this risk could be attenuated by the end of China's zero-COVID policy. A further tightening of global financial conditions could impact investment flows. Delays in addressing governance issues, and banking sector instability could also hinder further private investment, including into new oil or gas fields.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-4.2	-2.8	2.9	-3.7	-6.0	-3.1
Private Consumption	2.2	2.2	2.2	3.7	2.4	0.9
Government Consumption	-3.2	-5.0	18.1	-11.8	-13.5	-9.8
Gross Fixed Capital Investment	-64.5	-27.5	-35.0	-0.5	-15.0	-5.0
Exports, Goods and Services	-4.9	2.0	0.4	-4.4	-10.1	-6.3
Imports, Goods and Services	-10.8	8.1	3.9	-1.0	-6.5	-6.0
Real GDP growth, at constant factor prices	-4.2	-2.8	2.9	-3.7	-6.0	-3.1
Agriculture	-6.3	9.7	-7.5	2.0	2.2	2.0
Industry	-4.4	-3.2	2.5	-6.5	-17.9	-10.0
Services	-3.8	-2.9	4.1	0.4	11.6	4.3
Inflation (Consumer Price Index)	5.8	1.8	4.9	3.5	2.2	2.3
Current Account Balance (% of GDP)	-10.4	-2.3	-0.8	-2.8	-1.2	-0.9
Net Foreign Direct Investment Inflow (% of GDP)	3.7	5.5	4.7	4.3	4.3	4.8
Fiscal Balance (% of GDP)	-1.7	2.8	3.8	2.1	0.6	0.7
Revenues (% of GDP)	14.1	16.6	21.0	15.7	12.8	12.2
Debt (% of GDP)	48.4	46.3	33.0	36.0	34.9	36.6
Primary Balance (% of GDP)	-0.4	3.9	5.1	3.2	1.8	1.9
GHG emissions growth (mtCO2e)	-6.5	10.3	2.6	-4.1	-5.4	-1.7
Energy related GHG emissions (% of total)	30.0	28.0	24.2	24.8	22.0	21.1

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

ERITREA

Table 1	2022
Population, million	3.7
GDP, current US$ billion	2.4
GDP per capita, current US$	647.4
School enrollment, primary (% gross)[a]	68.6
Life expectancy at birth, years[a]	67.1
Total GHG emissions (mtCO2e)	7.2

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

After rebounding to 2.9 percent in 2021, GDP growth moderated to 2.5 percent in 2022, impacted by sluggish global demand. A convergence to pre-pandemic growth trends over the medium term is anticipated, helped by the ongoing recovery in China. Inflation would moderate from 2023 as commodity prices decline. Low global growth, climate vulnerabilities, and geopolitical tensions cloud the medium-term outlook. National accounts and poverty statistics have not been produced over the last decade.

Key conditions and challenges

With the lifting of UN sanctions in November 2018, Eritrea emerged from a decade of international isolation. During that period, the government followed a self-sufficiency policy. As a result, large state-owned enterprises dominate the economy and, outside the mining industry, the private sector is virtually non-existent. Zinc, copper and gold account for over 90 percent of exports, underscoring the country's heightened exposure to external shocks. Monetary policy is characterized by administrative measures, fiscal dominance, and a fixed exchange rate regime pegged to the US dollar, enabled by severe import restrictions in a context of low foreign exchange reserves. The financial sector is small and underdeveloped. The country is one of the most vulnerable and least adapted to climate change in Sub-Saharan Africa, with frequent weather shocks posing a heavy burden for the economy and rural livelihoods.

The COVID -19 crisis hit Eritrea amid a hiatus in its reengagement with development partners, leaving it without much needed external funding. In addition, informal cross-border trade was affected by the conflict in northern Ethiopia. However, Eritrea's isolation moderated the magnitude of the initial external shock.

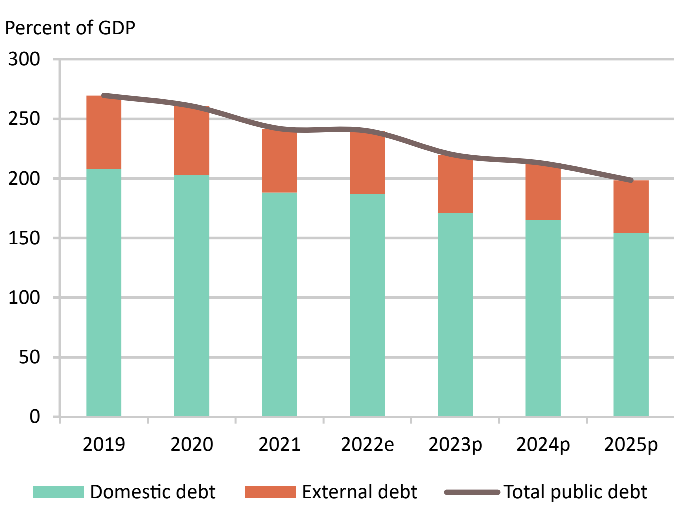
The emergency conditions that prevailed in Eritrea over the past decade led to severe data production capacity constraints. National accounts data are limited to unofficial GDP estimates produced by the Ministry of Finance that are not endorsed by the government. Inflation estimates cover only the capital city, Asmara, and full balance of payments accounts are missing. The last population census in Eritrea took place more than 25 years ago, and little is known about poverty. Data from 1996/97, covering only urban areas, suggest that about 70 percent of the population lived in poverty.

Recent developments

Real GDP slowed from 2.9 percent in 2021 to 2.5 percent in 2022, impacted by weak demand in major trading partners, especially China. Headline inflation averaged 7.4 percent, fueled by rising international commodity prices stemming from pandemic-related value chain disruptions and Russia's invasion of Ukraine, in addition to the continued closure of the Ethiopian border since April 2019. High international prices of wheat and fertilizers, along with severe drought conditions, placed acute strain on the food security of vulnerable populations.

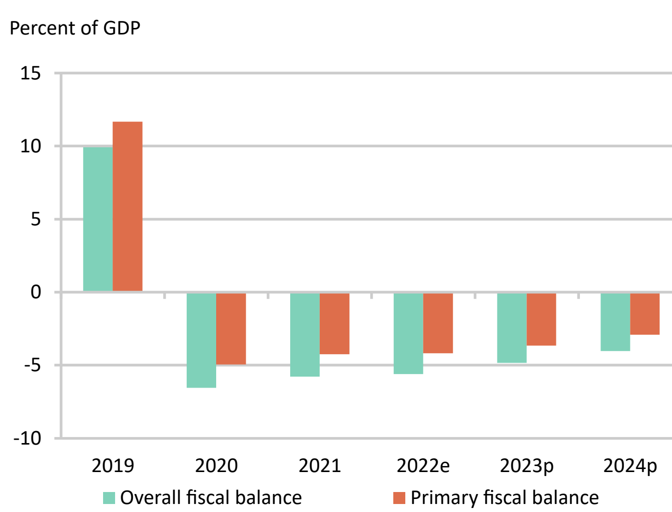
The current account surplus narrowed to 13 percent of GDP in 2022 from 14 percent in 2021, affected by the rising prices of oil and wheat, despite the partial compensation from higher prices of zinc exports.

FIGURE 1 Eritrea / Evolution of total public debt



Source: Ministry of Finance, Planning and Economic Development; IMF and World Bank staff estimates.

FIGURE 2 Eritrea / Primary and overall fiscal balances



Source: Ministry of Finance, Planning and Economic Development; IMF and World Bank staff estimates.

Notwithstanding such large surpluses, international reserves are estimated at around 3 months of imports. High global zinc prices supported fiscal revenues in 2022, reducing the fiscal deficit to 5.6 percent of GDP from 5.8 percent in 2021. Public debt is estimated at around 239.8 percent of GDP, of which nearly 80 percent is owed to domestic banks, and the country is in debt distress.

Eritrea remains mostly isolated but has begun to reengage with development partners and revitalize some bilateral relations. In June 2022, Eritrea and South Sudan signed an agreement to establish direct flights between Asmara and Juba to promote business, trade, and tourism. Following a visit by the Kenyan president to Asmara in December 2022 to discuss trade and regional security, the Kenyan and Eritrean governments agreed on February 9, 2023, to permanently abolish visa requirements for their citizens, with the aim of strengthening bilateral relations and advancing regional integration.

Outlook

Real GDP growth is projected to grow by 2.7 percent in 2023, bolstered by the recovery in China, and continue at just below 3 percent over the medium term, consistent with its pre-pandemic trend. As the international prices of fuel, wheat, and other cereals begin subsiding, inflation is expected to decrease to 6.4 percent in 2023, before stabilizing at around 4.2 percent over the medium term, which would provide some respite to poor households. A recovery in agricultural output would also support households' consumption over the medium term, while construction work associated to mining projects would continue driving capital expenditures. The current account surplus is expected to widen to 14.1 percent in the near term reflecting the decrease in imported commodity prices after sharp increases in 2022, but should narrow modestly over the medium term as the prices of zinc and other Eritrean mineral exports also drop. Steady remittances should also continue to support households' incomes. The fiscal deficit is expected to narrow progressively over the medium term, underpinned by a gradual fiscal consolidation, while the strong growth in nominal GDP should reduce the public debt-to-GDP ratios. Nevertheless, fiscal and domestic debt outcomes and the outlook for public finances remain uncertain given the frequent data revisions due to reporting lags driven by widespread manual processes.

Significant downside risks cloud the horizon. Weak global growth and further disruptions from COVID-19 could dampen growth in China, weakening external demand for Eritrean exports. Eritrea's continued involvement in the northern Ethiopia conflict could attract renewed international sanctions, while the escalation of regional geopolitical tensions could dampen Eritrea's nascent efforts to break its isolation. Finally, severe climate vulnerabilities that burden Eritrea could worsen in coming years, posing high risks to food security.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-0.5	2.9	2.5	2.7	2.9	2.8
Private Consumption	-1.9	3.0	3.6	4.0	4.3	4.1
Government Consumption	16.4	14.0	5.7	3.6	3.7	3.5
Gross Fixed Capital Investment	152.2	39.1	13.1	11.8	14.6	10.6
Exports, Goods and Services	-4.9	31.0	9.2	5.1	3.7	4.1
Imports, Goods and Services	-3.5	21.6	11.0	5.3	4.1	4.3
Real GDP growth, at constant factor prices	-0.5	2.9	2.5	2.7	2.9	2.8
Agriculture	-0.5	4.5	1.6	3.5	3.7	3.2
Industry	-0.7	1.4	3.2	2.9	3.0	3.1
Services	-0.1	5.3	1.3	1.6	2.1	1.8
Inflation (Consumer Price Index)	5.6	6.6	7.4	6.4	4.1	4.3
Current Account Balance (% of GDP)	14.4	14.0	13.0	14.1	12.4	11.1
Net Foreign Direct Investment Inflow (% of GDP)	1.4	1.4	1.3	1.2	1.2	1.1
Fiscal Balance (% of GDP)	-6.5	-5.8	-5.6	-4.8	-4.0	-3.3
Revenues (% of GDP)	24.9	26.7	27.0	27.6	28.5	29.3
Debt (% of GDP)	260.6	241.7	239.8	219.4	212.6	198.4
Primary Balance (% of GDP)	-5.0	-4.2	-4.2	-3.7	-2.9	-2.2
GHG emissions growth (mtCO2e)	1.2	2.1	2.5	2.7	2.8	2.9
Energy related GHG emissions (% of total)	13.1	13.2	13.4	13.7	14.2	14.7

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

ESWATINI

Table 1	2022
Population, million	1.2
GDP, current US$ billion	4.3
GDP per capita, current US$	3569.9
International poverty rate ($2.15)[a]	36.1
Lower middle-income poverty rate ($3.65)[a]	58.0
Upper middle-income poverty rate ($6.85)[a]	78.1
Gini index[a]	54.6
School enrollment, primary (% gross)[b]	114.5
Life expectancy at birth, years[b]	59.7
Total GHG emissions (mtCO2e)	2.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2020).

GDP growth slowed to an estimated 0.4 percent in 2022, partly reflecting the impact of inflationary pressures on domestic demand and weak performance in agriculture. The fiscal deficit increased between FY21-22 and FY22-23, while the current account balance recorded a deficit for the first time since FY10-11, reflecting lower Southern African Customs Union (SACU) revenues. Economic growth is projected to rebound to 3.0 percent in 2023, supported by higher SACU revenues, which should lead to a small decrease in poverty rates.

Key conditions and challenges

Economic growth remains constrained by persistent social and political uncertainties and slow progress in implementing business and structural reforms, which undermine private investment and economic diversification. Investment declined after the end of apartheid as firms relocated to South Africa and it has not recovered since, declining from an average of 11 percent of GDP in the early 1990s to an average of 6 percent over the past decade.

The government's dependence on volatile SACU revenues continues to lead to substantial fluctuations in fiscal policy and public investment over time. Moreover, this dependence deepens Eswatini's reliance on South Africa. Eswatini has little discretion over monetary and exchange rate policies due to the country's membership in the Common Monetary Area, which pegs the lilangeni to the South African rand.

Unemployment and poverty are high in Eswatini partly due to weak job creation in the formal economy. The 2021 labor force survey puts the unemployment rate at 33.3 percent, the highest in over a decade. An estimated 32 percent of the population lived below the US$2.15/day (2017 PPP) international poverty line in 2022, while 55 percent of the population was under the lower-middle-income country poverty line (US$3.65/day, 2017 PPP). High inequality (54.6 percent in 2016) could fuel social tension.

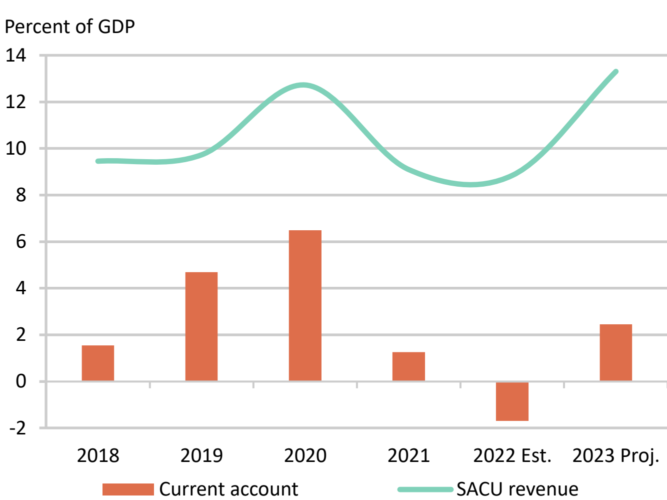
Recent developments

Real GDP growth slowed to an estimated 0.4 percent in 2022 from 7.9 percent in 2021. The low growth reflects weak performance in the agriculture and agro-processing subsectors, mainly the sugar industry, which were affected by higher input costs, above-average rainfall, arson attacks, and labor unrest. Furthermore, higher inflation and supply disruptions emanating from Russia's invasion of Ukraine constrained both demand and supply. Transport and storage, and public administration also underperformed. Nevertheless, faster growth was recorded in electricity, tourism, professional, administrative, and support services.

Annual inflation increased from 3.7 percent in 2021 to 4.8 percent in 2022, largely driven by energy, food, and transport prices, reflecting the impact of the war in Ukraine. In response, between January and December 2022, the central bank increased the discount/repo rate by a cumulative 275 basis points to 6.5 percent. It further increased this rate by 25 basis points in February 2023. Transport and food inflation disproportionately affect the poor, who spend a higher share of their resources on these items. The combination of slow economic growth and high inflation led to a slight increase in the estimated poverty rate in 2022.

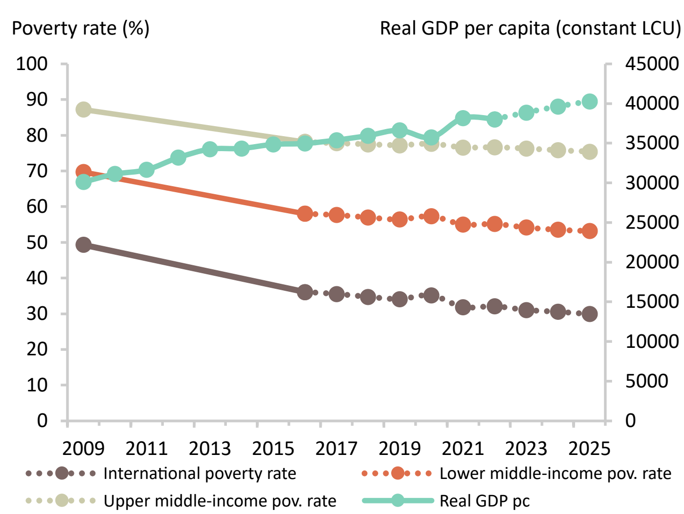
The fiscal deficit reached an estimated 5.5 percent of GDP in FY22-23 from 4.6 percent of GDP in FY21-22, driven by an increase in wages and security spending as well as a decline in SACU revenue. Public debt reached

FIGURE 1 Eswatini / Current account balance and SACU revenues



Sources: Eswatini Ministry of Finance and World Bank staff projections.

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



Source: World Bank. Notes: see Table 2.

a peak of 45 percent of GDP in 2022, as the government increased external borrowing in the aftermath of the pandemic and the shocks emanating from the war in Ukraine. The current account balance recorded an estimated deficit of 1.3 percent of GDP in 2022 for the first time since the FY10-11 fiscal crisis. The trade balance remained in surplus despite a faster increase in imports than exports. The relatively fast increase in imports was largely driven by higher prices of food, fuel, and electricity. Gross official reserves declined in 2022 as import cover stood at 2.5 months of imports compared with 3.5 months in 2021.

Outlook

Real GDP growth is projected to rebound to 3.0 percent in 2023, supported by higher SACU revenue, which will provide additional fiscal space for an expansionary fiscal policy. On the demand side, the projected increase in government expenditure will boost economic activity, including the beginning of major capital projects such as the Mkhondvo-Ngwavuma dam. The wholesale and retail, construction, and public administration sectors are all expected to benefit from higher SACU revenue and public spending. Tourism is expected to continue recovering. However, significant external and domestic risks, including slower global growth, unfavorable weather conditions, and social and political uncertainty may affect the growth outlook. Inflation is projected to increase to 5.7 percent in 2023 due to the expected gradual transmission of higher imported prices to local prices and the increase in administered prices.

The fiscal deficit is projected to decline to 2.3 percent of GDP in 2023 and stabilize around this level in the medium term. SACU revenue is projected to increase from 7.8 percent of GDP in FY22-23 to 14.4 percent of GDP in FY23-24 This increase will finance higher capital expenditure as well as election- and security-related spending. About 1.8 percent of GDP of SACU revenue will be allocated to fund the SACU Revenue Stabilization Fund, to be used to mitigate future unexpected shocks. In the medium term, adherence to the government's three-year Fiscal Adjustment Program is critical to contain fiscal deficits and preserve debt sustainability.

The current account balance is projected to record a surplus in 2023, partly reflecting higher SACU revenues. The trade balance is expected to remain in surplus as exports are expected to increase, boosted by a recovery in sugar production and moderating import prices.

Poverty based on the lower-middle-income country poverty line (US$3.65/day, 2017 PPP) is projected to decline slightly from 55.2 percent in 2022 to 53.2 percent in 2025. While the projected economic recovery will have a positive impact on households, such improvement will be constrained by the negative impact of higher food and energy prices on lower-income households, at least in the short term.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-1.6	7.9	0.4	3.0	2.9	2.7
Private Consumption	0.5	3.3	2.2	3.9	3.6	3.5
Government Consumption	6.8	-8.7	-2.3	8.6	1.7	0.0
Gross Fixed Capital Investment	-8.2	11.4	3.1	2.2	2.7	1.0
Exports, Goods and Services	-2.4	9.9	6.0	3.5	2.6	2.4
Imports, Goods and Services	-1.3	14.4	6.8	6.0	3.0	2.0
Real GDP growth, at constant factor prices	-1.4	7.9	0.4	3.0	2.9	2.7
Agriculture	-7.5	2.5	1.6	1.9	3.1	3.0
Industry	-9.7	15.4	-1.0	2.3	3.1	3.9
Services	5.4	4.1	1.2	3.6	2.7	1.9
Inflation (Consumer Price Index)	3.9	3.7	4.8	5.7	5.4	5.3
Current Account Balance (% of GDP)	6.5	1.3	-1.3	2.1	1.1	0.6
Net Foreign Direct Investment Inflow (% of GDP)	-0.1	-0.7	-0.8	-0.8	-0.8	-0.8
Fiscal Balance (% of GDP)	-4.6	-4.6	-5.5	-2.3	-2.4	-1.1
Revenues (% of GDP)	29.4	25.1	24.9	30.1	28.1	27.5
Debt (% of GDP)	41.6	42.4	45.4	41.8	37.8	34.9
Primary Balance (% of GDP)	-2.4	-2.9	-2.4	0.6	0.0	1.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	35.2	31.9	32.1	31.1	30.6	29.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	57.4	55.0	55.2	54.2	53.6	53.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	77.7	76.6	76.7	76.3	75.8	75.4
GHG emissions growth (mtCO2e)	-0.1	1.5	-0.1	0.9	1.3	1.4
Energy related GHG emissions (% of total)	35.1	36.2	36.0	36.5	37.1	37.6

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 2016-HIES. Actual data: 2016. Nowcast: 2017-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2016) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

ETHIOPIA

Table 1	2022
Population, million	123.5
GDP, current US$ billion	131.8
GDP per capita, current US$	1067.3
International poverty rate ($2.15)[a]	27.0
Lower middle-income poverty rate ($3.65)[a]	65.0
Upper middle-income poverty rate ($6.85)[a]	90.9
Gini index[a]	35.0
School enrollment, primary (% gross)[b]	106.0
Life expectancy at birth, years[b]	65.4
Total GHG emissions (mtCO2e)	198.0

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

Strong agriculture and services output resulted in higher-than-expected GDP growth estimated at 6.4 percent in FY22. But growth remains lower than pre-COVID-19 levels and the economy remains vulnerable to shocks such as global food and supply disruptions. Fiscal and external buffers are nearly exhausted, posing a risk to macroeconomic stability, while poverty and inequality are elevated. As these shocks abate, and as peace endures in northern Ethiopia, an opportunity is emerging to restore macroeconomic balance and revive reforms to accelerate growth and poverty reduction.

Key conditions and challenges

The government's 2019 Homegrown Economic Reform Program aimed to shift the economy from state-led growth and investment toward greater private sector participation and market orientation. The program emphasized growth in energy, logistics, and telecommunications; greater competition; higher exports; and fewer market distortions. A critical priority was establishing a competitive foreign exchange market to boost competitiveness and reduce input shortages in the economy. Implementation of the reforms, however, has been uneven. Multiple shocks (COVID-19, persistent droughts, internal conflicts, and global commodity price shocks) have increased economic costs, exacerbated macroeconomic distortions, and heightened vulnerabilities. This has greatly slowed reform progress and severely affected lives and livelihoods. Already acute food insecurity has worsened due to global food and energy price shocks, disruptions to grain supply due to Russia's invasion of Ukraine, and below-average local crop production. Given the deteriorating humanitarian conditions in Ethiopia due to the combination of climate shocks, disease outbreaks, armed conflict, and the socioeconomic impacts of COVID-19, about 28.6 million people – around one-fourth of the country's population – need humanitarian assistance in 2023, an increase of about 2.7 million from 2022.

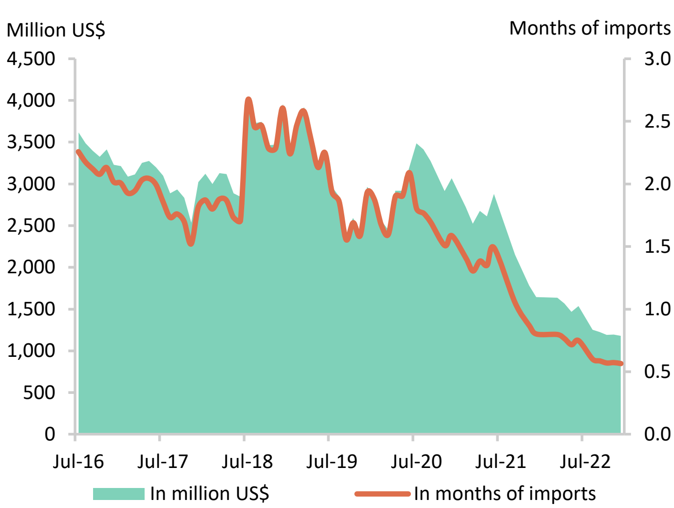
As progress continues in implementing a peace agreement between the federal government and the Tigray People's Liberation Front, there is a renewed opportunity to revive the economic reform agenda. The government is expected to soon launch a revised version of the reform program, which is expected to set out an agenda to reduce macroeconomic imbalances, remove exchange rate and other market distortions, and advance much-needed structural reforms to increase Ethiopia's long-term economic growth potential. A strong focus on protecting the poorest from potential adjustment costs is critical to ensure that reforms are effective and sustainable.

Recent developments

Official growth estimates for FY22 (6.4 percent) were higher than expected due to strong contributions from services and agriculture. Industrial growth, however, slowed as worsening foreign exchange shortages, the conflict in the northern part of the country, and the suspension of preferential US market access hurt manufacturing and construction activities.

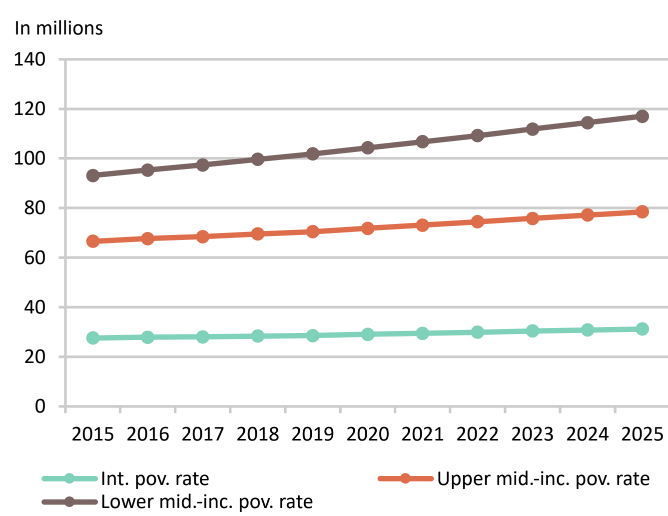
External financing pressures intensified in FY22. Costlier fuel, fertilizer, and food imports and a sharp fall in official development assistance increased the current account deficit to 4 percent of GDP from 2.9 percent in FY21. The larger current account deficit and higher debt-service costs sharply reduced official foreign exchange reserves, which fell to just 2.5 weeks of imports by the end of 2022. This shortage has

FIGURE 1 Ethiopia / Gross foreign exchange reserves



Source: National Bank of Ethiopia.

FIGURE 2 Ethiopia / Number of poor



Source: World Bank.

contributed to a spike in parallel market premiums, which have remained above 80 percent since October 2022.

Despite a sharp fall in public capital spending, the continuing decline in revenue collection (8.1 percent of GDP in FY22 compared with 10.2 percent in FY21) increased the fiscal deficit to 4.2 percent of GDP (from 2.8 percent in FY21). With less external financing available, the fiscal deficit was mainly domestically financed – including 1.3 percent of GDP in direct monetary financing. Public debt levels dropped in FY22 as the disbursement of external loans remained constrained and as the increase in domestic borrowing fell short of inflation.

Direct monetary financing is the main driver of inflation, which remained high at 33.9 percent in January 2023. Overlapping crises – the war in Ukraine, persistent droughts, and a surge in global food and fuel prices – exacerbated the already high inflation. Staple food prices remain well above average and are especially high in conflict and drought-affected areas. Higher nonfood inflation from the phased removal of fuel subsidies, wider parallel market premiums, and looser fiscal policies also contributed to inflation. The poor, who are net consumers of food, remain at high risk of falling into extreme poverty and food insecurity. Poverty reduction is stalling and about 0.43 million people are expected to have fallen into poverty in 2022.

Outlook

Growth is expected to remain relatively strong at 6 percent in FY23 as the effects of recent multiple domestic and external shocks dissipate. Higher crop production in the north (contingent on enduring peace), and the abatement of external price and supply shocks, are likely to moderate inflation and poverty risks. Swift implementation of critical macroeconomic and structural reforms in the forthcoming Homegrown Economic Reform 2.0 could lead to even higher growth in FY23 and the medium term. The most significant downside risk is the resumption of significant conflict which could complicate implementation of reforms and foreign exchange inflows from development assistance and investment.

Fiscal pressures are expected to persist in FY23 but abate over the medium term due to revenue reforms to strengthen value-added tax and excise collections, including introducing new tax sources (such as property taxes). These are expected to support fiscal consolidation and ease budget financing pressures. Foreign exchange reforms will be critical to restoring productivity-led growth by removing price distortions, improving resource allocation, and alleviating external payments risks. Debt treatment under the G-20 Common Framework and the resumption of official external flows will also be critical to ease Ethiopia's external financing pressures. Contingent on the implementation of reforms, inflation, which will remain high through FY24, is expected to fall over the medium term as supply bottlenecks ease and fiscal and monetary policies are tightened.

The stagnation in poverty reduction is driven by armed conflict, persistent droughts in lowland regions, the war in Ukraine, and high inflation. Further shocks could push millions more into poverty and increase spatial inequalities. Accelerating reforms to rebuild fiscal and social buffers will be critical to mitigating this risk.

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

	2019/20	2020/21	2021/22e	2022/23f	2023/24f	2024/25f
Real GDP growth, at constant market prices	6.1	6.3	6.4	6.0	6.6	7.0
Private Consumption	5.0	3.0	4.5	5.6	5.9	6.4
Government Consumption	0.6	12.2	1.5	1.1	3.0	10.1
Gross Fixed Capital Investment	5.6	7.6	11.0	5.9	6.7	7.1
Exports, Goods and Services	3.4	5.5	11.7	8.8	9.1	9.7
Imports, Goods and Services	-1.9	2.0	10.8	2.7	3.6	8.1
Real GDP growth, at constant factor prices	6.1	6.3	6.4	6.0	6.6	7.0
Agriculture	4.3	5.5	6.0	6.3	6.5	6.7
Industry	9.6	7.3	4.8	2.3	3.2	3.6
Services	5.2	6.3	7.9	8.2	8.8	9.3
Inflation (Consumer Price Index)	19.9	20.2	33.7	34.6	32.6	10.4
Current Account Balance (% of GDP)	-4.1	-2.7	-4.0	-3.1	-3.3	-2.9
Fiscal Balance (% of GDP)	-2.8	-2.8	-4.2	-3.4	-2.7	-2.1
Revenues (% of GDP)	11.7	11.2	8.3	7.8	8.3	9.1
Debt (% of GDP)	56.5	56.6	54.4	49.6	41.3	35.0
Primary Balance (% of GDP)	-2.4	-2.2	-3.6	-2.8	-2.2	-1.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	24.8	24.5	24.3	24.0	23.7	23.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	61.3	60.8	60.3	59.9	59.4	58.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	89.0	88.7	88.5	88.2	88.0	87.7
GHG emissions growth (mtCO2e)	2.2	2.8	2.8	2.5	2.5	2.4
Energy related GHG emissions (% of total)	15.3	15.2	15.1	14.8	14.6	14.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2010-HICES and 2015-HICES. Actual data: 2015. Nowcast: 2016-2022. Forecasts are from 2023 to 2025.
b/ Projection using annualized elasticity (2010-2015) with pass-through = 0.87 based on GDP per capita in constant LCU.
Note: Growth projections reflect limited available information, and are subject to revision as better data becomes available.

GABON

Table 1	2022
Population, million	2.4
GDP, current US$ billion	22.0
GDP per capita, current US$	9214.6
International poverty rate ($2.15)[a]	2.5
Lower middle-income poverty rate ($3.65)[a]	8.1
Upper middle-income poverty rate ($6.85)[a]	31.2
Gini index[a]	38.0
School enrollment, primary (% gross)[b]	107.9
Life expectancy at birth, years[b]	66.5
Total GHG emissions (mtCO2e)	22.0

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

Gabon's economy rebounded in 2022, supported by good performances in sectors such as oil, manganese, and wood. High commodity prices contributed to fiscal and current account surpluses, and to a declining public debt-to-GDP ratio. Nevertheless, persistent poverty rates and increased vulnerability caused by rising food prices pose strong risks, especially if structural reforms promoting green, diversified, and inclusive growth fail to materialize.

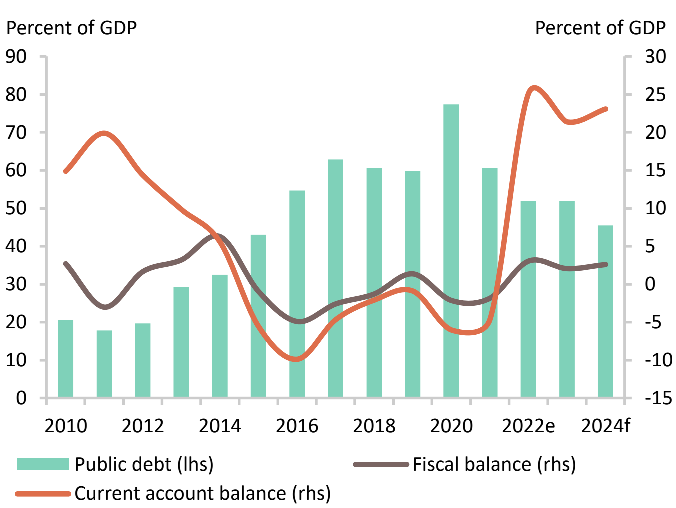
Key conditions and challenges

Gabon has traditionally registered weak oil-based long-term growth, that left per capita income stagnant over the past two decades. Modest productivity growth, especially in agriculture, has hindered poverty reduction. Incentivized by the government's strategy to diversify the economy, launched in 2010, significant new investments are underway, such as in iron extraction (Belinga agreement signed in August 2022, with about CFAF 20 billion of initial investments expected) and liquified gas (an important initiative to reduce oil-related emissions, it is expected to add to the country's strong record of carbon-absorption efforts). Green and blue growth policies promoting sustainable fisheries and timber industries are also being implemented. As Gabon moves to sell credits for 90 million tons of carbon emissions, ensuring transparency and accountability will be key for society at large to benefit from forest conservation. While efforts are being made to improve resource revenue management, with Gabon rejoining EITI in 2021 (first report due by April 2023), these need to be stepped up to reduce fiscal vulnerabilities.
Yet, Gabon faces severe development challenges that stand in the way of accelerating poverty reduction. Governance inefficiencies hamper the state's ability to channel resource-derived revenues into much-needed investments in its young and fast-growing population, which suffers from poor employability. To transform its natural endowments into faster and more inclusive growth, stronger efforts are needed to build human capital and reduce obstacles to trade, access to finance, and entrepreneurship. Structural reforms to improve tax collection, governance, and public investment management would help secure the funds needed to tackle deficiencies in human development, particularly in education, social protection, and healthcare. Equally important are investments to improve infrastructure. Landslides in December 2022 blocked the country's only railway for weeks, disrupting manganese and wood shipments and showcasing the urgent need of investments in transportation.

Recent developments

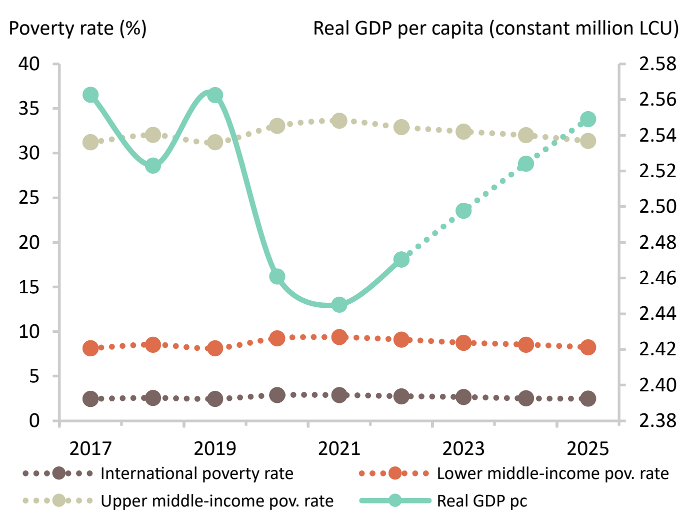
Gabon's economy grew by an estimated 3.1 percent in 2022, up from 1.5 percent in 2021, driven by oil, manganese, wood, and services sectors, with pandemic-related restrictions lifted in early 2022. On the demand side, growth was mainly driven by commodity exports and private investment.
Higher oil prices resulting from Russia's invasion of Ukraine, combined with increased production amid less strictive OPEC+ quotas, benefited Gabon's fiscal and external balances. Oil revenues and improved tax collection, notably thanks to tax expenditure rationalization measures, resulted in a fiscal surplus (3.0 percent of GDP in 2022). However, the cost of fuel

FIGURE 1 Gabon / Public debt, fiscal and current account balances



Sources: Official government data and World Bank calculations.

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



Sources: World Bank. Notes: see Table 2.

subsidies increased, despite the removal of subsidies for industrial consumers in June 2022. Meanwhile, booming exports and lower imports resulted in a current account surplus (25.1 percent of GDP in 2022).

Public debt continued to decline in 2022. While debt remains sustainable, the continuous accumulation of arrears highlights the need to improve public financial management. In February 2023 Fitch Ratings classified Gabon as B- with a positive outlook, thanks to expected IMF-supported reforms.

Thanks to the recovery, poverty decreased slightly in 2022, but inflationary pressures continued to impact the poor and the middle class; food inflation reached 8.8 percent in December 2022 (y-o-y). Vulnerability increased; almost 37 percent of households reported experiencing high food prices in July 2022. Despite having tax exemptions and price controls, Gabon closed 2022 with a 4.3 percent inflation rate, above the CEMAC target rate. To contain inflation and support the exchange rate peg, the Bank of Central African States (BEAC) increased the policy rate to 4.5 percent in September 2022 and decreased weekly liquidity injections to CFAF 50 billion in December 2022. Credit to the private sector grew by 25.9 percent by end-September 2022, pushed by private investments and more prudent debt policy.

Outlook

Improved growth prospects in China are expected to benefit Gabonese exports, especially oil, manganese, and wood. Growth is projected to average 3.0 percent in 2023-2025, driven by extractives but also agriculture (especially rubber and oil palm), services, and public works, pushed by higher public spending in view of the upcoming elections.

The fiscal balance is expected to remain positive, supported by revenue mobilization and elevated commodity prices, along with stable public debt. Nevertheless, reliance on a few commodities highlights risks brought by the exposure of Gabon's trade and fiscal balances to volatile global prices. In the case of oil, lower prices, changes in OPEC+ quotas, and the natural decline in the oil wells' capacity could compromise fiscal revenues, as well as future exports. Weakening fiscal consolidation efforts could exacerbate fiscal fragility, due to the removal of the public sector hiring freeze in 2022 and the increase in capital expenditures needed to carry out investments announced in the government's strategic plan, due for 2025. Gradually declining oil prices are indeed expected to translate into a reduced current account surplus over the years.

Growth prospects and economic diversification will depend on the implementation of a strong reform agenda, which could be stalled in the near term by high oil prices and the upcoming elections. A weakening reform momentum, especially if it hinders actions to tackle the accumulation of arrears, could compromise access to external financing. Furthermore, risks to debt sustainability could be exacerbated under global tightening conditions. In addition, poverty and unemployment remain sources of tension. While the share of Gabonese living on less than US$6.85 per day is expected to remain stable at around 32.4 percent in 2023, it would remain higher than the pre-pandemic poverty rate (31.2 percent).

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-1.8	1.5	3.1	3.1	3.0	3.0
Private Consumption	-2.0	-1.4	-0.2	1.0	2.5	0.1
Government Consumption	5.5	3.2	1.8	0.4	-0.8	2.2
Gross Fixed Capital Investment	-16.7	9.2	11.1	1.9	0.2	3.2
Exports, Goods and Services	10.1	-1.0	7.3	8.3	5.9	2.9
Imports, Goods and Services	-16.7	31.9	10.4	4.0	1.7	1.5
Real GDP growth, at constant factor prices	-1.9	2.9	3.1	3.1	3.0	3.0
Agriculture	5.9	10.2	6.4	6.7	6.8	7.1
Industry	-2.2	3.1	4.8	4.0	3.3	2.6
Services	-2.8	1.6	1.5	1.9	2.1	2.4
Inflation (Consumer Price Index)	1.6	1.1	4.3	3.2	2.5	2.2
Current Account Balance (% of GDP)	-6.0	-4.7	25.1	21.4	23.1	21.7
Net Foreign Direct Investment Inflow (% of GDP)	9.6	7.5	5.5	5.6	5.2	5.2
Fiscal Balance (% of GDP)	-2.1	-1.9	3.0	2.1	2.6	2.4
Revenues (% of GDP)	17.6	15.8	18.6	19.2	18.6	18.6
Debt (% of GDP)	77.4	60.7	52.0	51.9	45.5	39.5
Primary Balance (% of GDP)	1.2	0.9	5.4	4.9	5.1	4.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.9	2.9	2.8	2.7	2.5	2.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	9.3	9.4	9.1	8.8	8.6	8.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	33.1	33.6	32.9	32.4	32.0	31.4
GHG emissions growth (mtCO2e)	3.8	4.0	3.7	-0.7	0.4	0.7
Energy related GHG emissions (% of total)	15.5	16.1	16.8	15.9	15.3	14.6

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 2017-EGEP. Actual data: 2017. Nowcast: 2018-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2017) with pass-through = 1 (High (1)) based on GDP per capita in constant LCU.

THE GAMBIA

Table 1	2022
Population, million	2.7
GDP, current US$ billion	2.2
GDP per capita, current US$	801.1
International poverty rate ($2.15)[a]	17.2
Lower middle-income poverty rate ($3.65)[a]	47.0
Upper middle-income poverty rate ($6.85)[a]	80.6
Gini index[a]	38.8
School enrollment, primary (% gross)[b]	102.7
Life expectancy at birth, years[b]	62.6
Total GHG emissions (mtCO2e)	3.3

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

Economic growth was steady at 4.3 percent in 2022, driven by improved agriculture production, public consumption, and infrastructure investments. Downside risks to the positive medium-term outlook stem from persistent pressures on import prices and exports, largely due to the war in Ukraine and a slowing global demand, and climatic shocks. Consequently, poverty is estimated to have increased reflecting weak per capita growth and high food prices.

Key conditions and challenges

The Gambia has made progress in macroeconomic stabilization but needs to strengthen the foundations for higher and more equitable growth. Structural constraints continue to impair the expansion of the productive base and the diversification of the economy from low-value-added tourism and groundnut production. Low domestic revenue collection limits the provision of public goods and services and hampers fiscal and debt sustainability. The weak business environment and institutional challenges limit private sector development, hindering job creation and economic transformation. Over-reliance on declining-productivity agriculture, along with increasing environmental degradation and climate vulnerabilities, contribute to food insecurity. These factors lead to low capital accumulation, weak productivity, and limited structural transformation of the economy resulting in high poverty rates and curtailing human capital development.

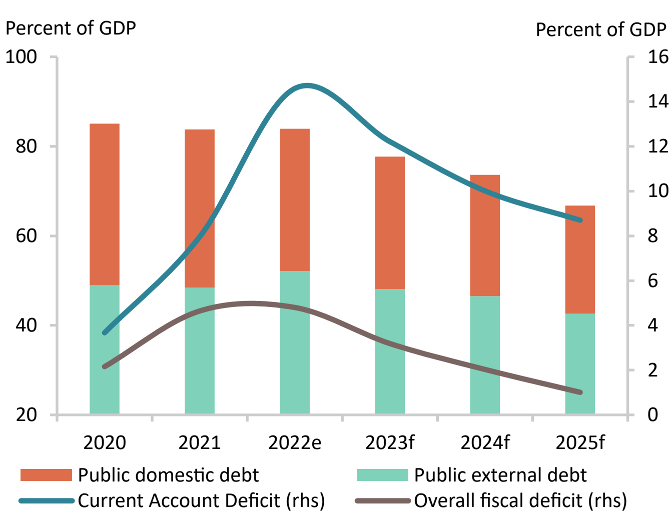
These weaknesses are exacerbated by several downside risks that could negatively affect the medium-term growth outlook. Risks of political instability, as suggested by an attempted coup d'état in December 2022, could reverse hard-won progress in macroeconomic management and negatively affect efforts to boost domestic revenue mobilization and streamline current expenditures, undermining investment, economic growth, and poverty reduction. Persistent pressures on the balance of payments due to the prolonged war in Ukraine, could trigger severe shortages of essential imports and a further decline in foreign exchange reserves, putting pressure on the domestic currency and inflation- especially in food prices. Fiscal risks remain substantial given state-owned enterprises (SOEs) contingent liabilities and the high dependence on external grant financing, which accounted for 31 percent of total revenue over the period 2017-2022, while tax revenue averaged just 10.7 percent of GDP over the same period. The fiscal response to the impacts of the war in Ukraine came at a high cost, with about 2.2 percent of GDP in subsidies, underscoring the fiscal vulnerabilities to external shocks.

Recent developments

Despite the spillovers from the war in Ukraine, real GDP increased by 4.3 percent in 2022 (1.8 percent per capita) driven by improved agriculture production, higher public consumption, and infrastructure investments. High inflation dampened private demand, averaging 11.5 percent (year-on-year), with food and non-food inflation at 14.5 percent and 8.6 percent, respectively.

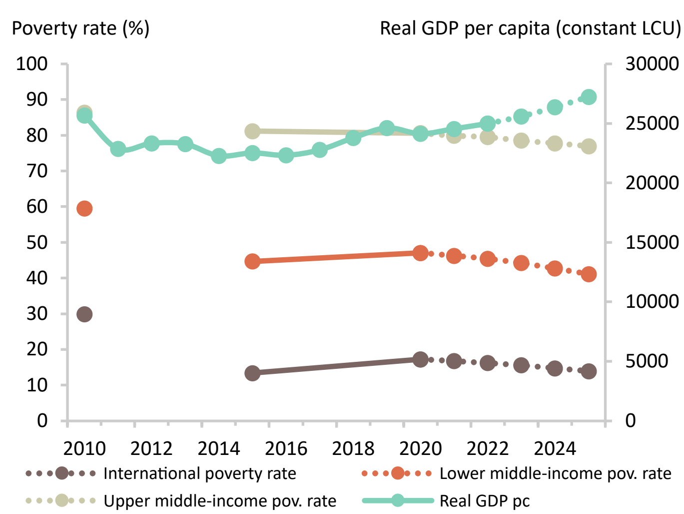
Rising food prices undermine the pace of poverty reduction. Poverty is expected to have increased to 20.3 percent in 2022 from 18.4 percent in 2021, using the international poverty line of $2.15 (in 2017 PPPs). The

FIGURE 1 The Gambia / Fiscal deficit, current account deficit, and public debt



Sources: The Gambian authorities and World Bank estimates.

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



Source: World Bank. Notes: see Table 2.

sharp increase in poverty is largely due to weaker growth in per capita GDP, and high prices eroding the purchasing power of households.

The fiscal deficit deteriorated to 4.8 percent of GDP in 2022, due to lower domestic revenues and higher expenditure, driven by increased spending on infrastructure projects and on wages as part of a civil service reform agenda. Increased subsidies to mitigate the pass-through of higher import prices dampened tax revenues. The total debt stock remains relatively unchanged at 83.9 percent of GDP in 2022, and the Gambia remains at high risk of debt distress.

The current account deficit (CAD) widened to 14.6 percent of GDP in 2022, reflecting a wider trade deficit and lower remittances, which declined by 4.5 ppts to 34.2 percent of GDP. The CAD was financed through FDI, donor support, external borrowing, and partially by international reserves which declined from 7 months of imports in 2021, to 5.1 months in 2022, along with a nominal exchange rate depreciation of 15.6 percent (year-on-year). Monetary policy was tightened by raising the policy rate by 1 ppt in May, September, and December 2022 to 13 percent, to curb inflation.

Outlook

GDP growth is projected to reach 5.5 percent in 2023-25, driven by increased activity in all sectors, recovery in private demand and resilient public demand. Growth projections are below pre-pandemic levels of 6.2 percent in 2019, reflecting the lingering effects of the overlapping crises. Inflation is expected to remain high in 2023 before declining to 7.3 percent in 2024-2025, reflecting global uncertainty and high commodity prices with a protracted war in Ukraine.

Although stronger projected growth in agriculture and the expansion of cash transfers are expected to have a positive effect on poverty reduction, these gains will be tempered by continued high food prices. The international poverty rate is expected to increase by 1.5pp in 2023 and remain high at nearly 22 percent through 2025.

Pressures on the balance of payments are expected to ease only moderately due to the spillovers from the war in Ukraine and continued high global commodity prices. The CAD is expected to remain high, at 12.2 percent of GDP in 2023 before narrowing to 9.4 percent in 2024-25, reflecting a decrease in investment-related imports and robust export growth, especially in tourism. Monetary policy is expected to remain tight, so as to contain persistently high inflation.

The fiscal deficit is projected to narrow to 2.1 percent of GDP over 2023-25 supported by the phasing-out of war and pandemic-related spending, the completion of major infrastructure projects, and domestic revenue mobilization efforts, including improved tax and customs administrations. Public debt is projected to decrease to 73 percent of GDP in 2023-25, but The Gambia will remain at high risk of debt distress. Overall, fiscal risks will remain high – from SOEs contingent liabilities, the end of the debt-service deferrals negotiated with some creditors in 2024, and climatic and other external price shocks – unless further structural reforms are adopted.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	0.6	4.3	4.3	5.0	5.5	5.8
Private Consumption	-1.0	3.5	3.3	4.0	4.1	4.1
Government Consumption	20.1	-7.9	2.6	3.5	3.6	3.6
Gross Fixed Capital Investment	26.7	22.2	18.0	15.5	10.8	12.2
Exports, Goods and Services	-20.0	5.7	-0.4	14.7	16.0	16.0
Imports, Goods and Services	6.0	13.3	10.9	15.0	11.0	11.8
Real GDP growth, at constant factor prices	0.6	4.3	4.3	5.0	5.5	5.8
Agriculture	11.0	4.7	6.9	7.0	5.3	5.1
Industry	8.2	10.4	6.1	6.6	6.4	6.1
Services	-5.1	2.1	2.7	3.6	5.2	6.1
Inflation (Consumer Price Index)	5.9	7.4	11.5	11.1	8.4	6.1
Current Account Balance (% of GDP)	-3.7	-8.0	-14.6	-12.2	-10.0	-8.7
Fiscal Balance (% of GDP)	-2.2	-4.6	-4.8	-3.2	-2.0	-1.0
Revenues (% of GDP)	22.7	16.8	17.8	19.2	19.5	20.6
Debt (% of GDP)	85.1	83.8	83.9	77.7	73.6	66.8
Primary Balance (% of GDP)	1.0	-1.6	-2.8	-1.0	0.9	1.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	17.3	18.4	20.3	21.9	22.0	21.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	47.0	48.6	51.2	52.7	52.7	52.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	80.6	81.9	84.1	84.9	85.0	84.6
GHG emissions growth (mtCO2e)	5.9	4.3	3.2	2.9	2.9	2.8
Energy related GHG emissions (% of total)	20.1	20.4	20.9	21.5	22.0	22.6

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 2020-IHS. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projection based on microsimulation model that accounts for differences in sectoral growth, food and nonfood inflation.

GHANA

Table 1	2022
Population, million	33.5
GDP, current US$ billion	72.8
GDP per capita, current US$	2175.5
International poverty rate ($2.15)[a]	25.2
Lower middle-income poverty rate ($3.65)[a]	48.8
Upper middle-income poverty rate ($6.85)[a]	78.5
Gini index[a]	43.5
School enrollment, primary (% gross)[b]	103.4
Life expectancy at birth, years[b]	64.1
Total GHG emissions (mtCO2e)	19.9

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

Ghana is in a deep macroeconomic crisis. Public debt is being restructured to restore fiscal and debt sustainability, growth has slowed down considerably, inflation is exceptionally high, the cedi has weakened significantly and banking sector vulnerabilities have magnified. Poverty reduction is believed to have slowed.

Key conditions and challenges

Ghana is in a deep macroeconomic crisis. Since the onset of COVID-19, Ghana has experienced a growth slowdown and worsening macroeconomic imbalances that have now reached crisis proportions. Pre-existing vulnerabilities (large fiscal deficits and external financing needs, significant energy and financial sector costs) were compounded by the COVID-19 shock, resulting in loss of access to the international capital market and, by late 2022, unsustainable public debt burdens. Meanwhile monetary financing of the deficits compounded inflationary pressures from currency depreciation, as the cedi lost over 40 percent of its value against the USD.

The authorities have sought IMF support and reached a staff-level agreement (SLA) in December 2022. Ghana is seeking a three-year arrangement under the Extended Credit Facility (ECF) of about US$3 billion. With a view to restoring public debt sustainability, the authorities have announced a comprehensive debt restructuring, implemented a moratorium on external official bilateral and commercial debt repayments, requested debt treatment under the G20 Common Framework, and committed to an ambitious fiscal consolidation plan. They completed a domestic debt exchange (DDE) program in February 2023.

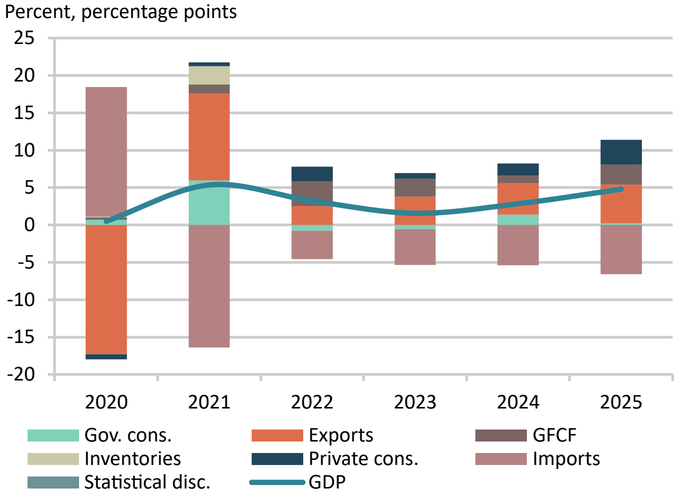
Recent developments

GDP growth is estimated to have slowed to 3.2 percent in 2022, down from 5.4 percent in 2021. Growth declined to 3.5 percent year-on-year over 2022Q1-Q3. The slowdown affected mostly the non-extractive sectors, as the recovery in gold exports supported extractives growth. Agriculture slowed to 4.4 percent and services to 4.7 percent, from 8.7 percent and 10 percent, respectively, in 2021Q1-Q3. High inflation and interest rates depressed private consumption and investment. Government demand was weakened by lack of access to capital markets and high debt service obligations.

The 2022 fiscal deficit was well above target. The overall fiscal deficit (on a cash basis) reached 9.9 percent of GDP against a target of 6.7 percent. The primary deficit reached 2.8 percent of GDP, well above the 0.5 percent target. The slippage was mostly on the expenditure side: total expenditure reached 25.6 percent of GDP, against a 20.4 percent target driven by higher compensations of employees, interest payments and higher project loan disbursements (impacted by the cedi depreciations).

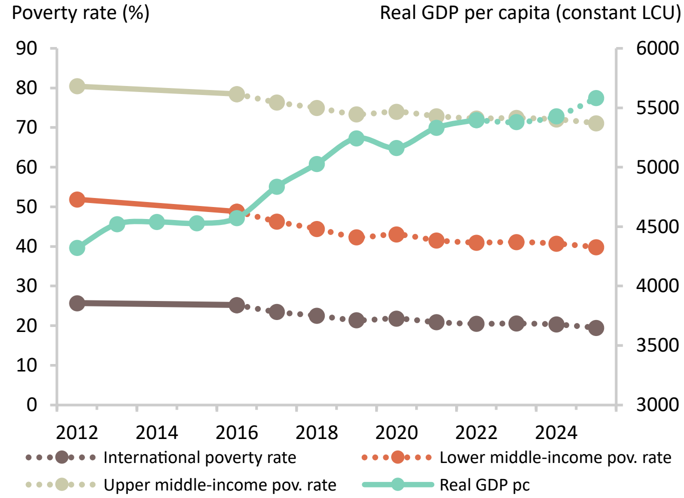
Inflation accelerated throughout the year. In 2022, average CPI inflation was 31.9 percent, (up from 10 percent in 2021), and reached 54.1 percent in December (y-o-y). The Bank of Ghana (BOG) responded by increasing the monetary policy rate from 14.5 to 28 percent over the year. However, these efforts were undermined by the government's extensive use of its overdraft facility with BOG (estimated at 6.7 percent of GDP in 2022).

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



Sources: Statistical Service and World Bank.

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



Source: World Bank. Notes: see Table 2.

The balance of payments recorded a large deficit in 2022, despite improvements in the current account. The current account deficit narrowed due to a higher trade surplus driven by oil exports receipts. However, significant portfolio reversals and reduced FDI led to a capital outflow of 3 percent of GDP. Overall, the balance of payments recorded a deficit of 5 percent of GDP, from a surplus of 1.9 percent in 2021. As a result, international reserves fell to US$5.6 billion (2.5 months of import) in December 2022 from US$9.1 billion (4.2 months of import) a year earlier; while useable reserves fell to less than 1 month of import cover. After remaining stable in 2021, the Cedi lost over 40 percent of its value against the US dollar in 2022.

Banking sector vulnerabilities have increased as a result of the cedi depreciation and the impact of the DDE. The bank-wide capital adequacy ratio (CAR) stood at 16.6 percent in December 2022, above the regulatory minimum of 13 percent, but down from 19.6 percent in December 2021 reflecting rapid growth in risk-weighted assets. Implementation of the DDE will impact Ghana's financial sector due to the heavy exposure of banks, insurance companies and pension funds to government debt. It is estimated that 42.1 percent of government domestic debt is held by these entities.

Poverty reduction slowed. The "international poverty" rate is estimated at 20.5 percent in 2022. Currency depreciation, increased price of electricity and water, and an increase in the VAT have driven up the cost of living, particularly for food. This places considerable strain on household budgets, especially for the poor who devote more than half of their budget to food. Rural farmers were also affected by increases in the prices of fertilizer and other inputs.

Outlook

Growth is expected to decelerate further in 2023 as macroeconomic weaknesses and contractionary fiscal and monetary policies dampen aggregate demand. Growth is expected to slow further to 1.6 percent in 2023 and remain muted in 2024, before returning toward its potential. Non extractives growth is expected to be low compared to the COVID-19 pandemic and 2014 crisis periods, with agriculture affected by high input prices and a disease affecting cocoa trees. Extractives growth is expected to be robust thanks to new gold mines and a recovery in small-scale mining. Going forward, the authorities will need to complement their incipient macroeconomic stability program with growth-enhancing structural reforms such as improving the business environment and promoting export competitiveness, transitioning to the digital economy to boost productivity, and investing in resilient public infrastructure to adapt to the impact of climate change.

The outlook is challenging. Risks to the outlook include delays in external debt restructuring and the IMF program, increased financial sector vulnerabilities, and the realization of contingent energy sector liabilities.

International poverty is projected to decline slowly from 20.5 to 19.5 percent by 2025, consistent with a muted outlook on growth for the country and high inflation. In the shorter term, poverty is expected to increase slightly, due to the cumulative effects of increases in electricity and water tariffs, rising food prices and an increase in VAT. The revised electricity tariffs could be less regressive and reduce poverty if a portion of the increased revenues were targeted to the poor in the form of cash transfers.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	0.5	5.4	3.2	1.6	2.9	4.8
Private Consumption	-1.0	0.8	3.2	1.2	2.6	5.3
Government Consumption	10.1	82.1	-6.2	-4.8	13.0	2.0
Gross Fixed Capital Investment	1.8	5.8	15.0	10.0	3.8	10.1
Exports, Goods and Services	-50.7	69.1	9.4	13.1	13.3	14.7
Imports, Goods and Services	-54.5	113.8	13.0	15.1	14.8	16.3
Real GDP growth, at constant factor prices	0.8	5.3	3.1	1.5	2.9	4.9
Agriculture	7.3	8.4	0.4	1.0	2.3	4.4
Industry	-2.5	-0.8	5.7	2.9	4.2	5.3
Services	0.7	9.4	2.3	0.6	2.1	4.9
Inflation (Consumer Price Index)	10.4	10.0	31.5	45.4	22.2	11.5
Current Account Balance (% of GDP)	-3.2	-3.7	-2.3	-2.9	-1.9	2.4
Net Foreign Direct Investment Inflow (% of GDP)	1.6	2.0	2.0	2.1	2.8	3.3
Fiscal Balance (% of GDP)[a]	-14.7	-11.4	-9.9	-6.4	-8.8	-7.5
Revenues (% of GDP)	14.1	15.3	15.6	17.3	17.8	18.3
Debt (% of GDP)[a,b]	74.4	76.6	89.1	94.7	90.8	89.7
Primary Balance (% of GDP)[a]	-8.4	-4.1	-2.8	0.0	0.5	1.0
International poverty rate ($2.15 in 2017 PPP)[c,d]	21.8	20.9	20.5	20.6	20.3	19.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	43.0	41.5	41.0	41.1	40.7	39.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	74.0	72.9	72.3	72.4	72.1	71.1
GHG emissions growth (mtCO2e)	24.6	13.3	10.5	10.7	12.7	13.0
Energy related GHG emissions (% of total)	136.5	126.7	118.3	111.8	105.5	100.2

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 and debt forecasts do not factor in the impact of the ongoing Debt Restructuring (DR) as the process is yet to conclude.
b/ Starting from 2022, public debt numbers include, in addition to central government debt, explicitly guaranteed (and certain implicitly guaranteed) SOE debt, cocobills issued by Cocobod, and reconciled domestic arrears to suppliers.
c/ Calculations based on 2016-GLSS-VII. 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.

GUINEA

Table 1	2022
Population, million	13.9
GDP, current US$ billion	21.1
GDP per capita, current US$	1519.6
International poverty rate ($2.15)[a]	13.8
Lower middle-income poverty rate ($3.65)[a]	46.6
Upper middle-income poverty rate ($6.85)[a]	86.8
Gini index[a]	29.6
School enrollment, primary (% gross)[b]	100.8
Life expectancy at birth, years[b]	59.3
Total GHG emissions (mtCO2e)	45.7

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

Mining and the recovery of non-mining activity will boost growth to 5.6 percent in 2023, but poverty rates will increase, and the fiscal deficit widen to 2.6 percent of GDP as capital spending rises. Mining-related FDI sustains current account deficits and medium-term growth. Downside risks include delays to the political transition and structural reforms. Extreme poverty will decline in 2024, as food prices moderate and agricultural and service growth strengthens.

Key conditions and challenges

Growth was robust over 2018-22, averaging 5.2 percent (2.6 percent per capita) driven by the mining sector (bauxite, gold), and supported low fiscal deficits (1.5 percent on average). However, weak mining sector linkages to the rest of the economy, including through employment, mean economic growth does not translate into proportional poverty reduction and shared prosperity. The national poverty rate declined from 48.5 percent in 2014, to 43.7 percent in 2018-19, equivalent to a growth elasticity of poverty of only 0.47. Annualized consumption growth of the bottom 40 percent of the population was negative, suggesting that growth was not pro-poor; about 32 percent of the population suffered deprivation in access to education, health, and basic infrastructure in 2018. A rapid phone survey in September-October 2022 reported 9 percent of households being unable to access medicines when needed, due to scarcity following the onset of Russia's invasion of Ukraine.

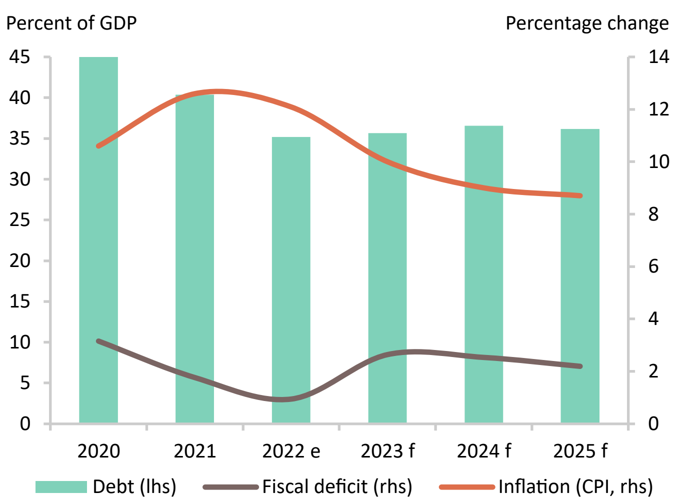
Guinea's exports are concentrated in a few products (bauxite and gold), exposing current and fiscal accounts to commodity price volatility. The recent mining boom and high inflation affect the competitiveness of other sectors, through a real appreciation of the local currency, hampering economic diversification. Guinea has low human capital levels, weak institutional capacity, and widespread gender gaps in education, earnings, agricultural productivity, and political representation.

Challenges and risks are substantial. Major structural constraints include weak tax revenue mobilization, an underdeveloped financial sector, and large infrastructure gaps. Recent progress through digitalizing economic and government transactions has expanded mobile financial accounts, helped bolster economic activity during the pandemic, and streamlined tax collection; yet further digital expansion and structural reforms are needed to spur diversification and inclusive growth. Guinea is at moderate risk of external debt distress with some space to absorb shocks and must maintain prudent borrowing that maximizes concessional financing.

Recent developments

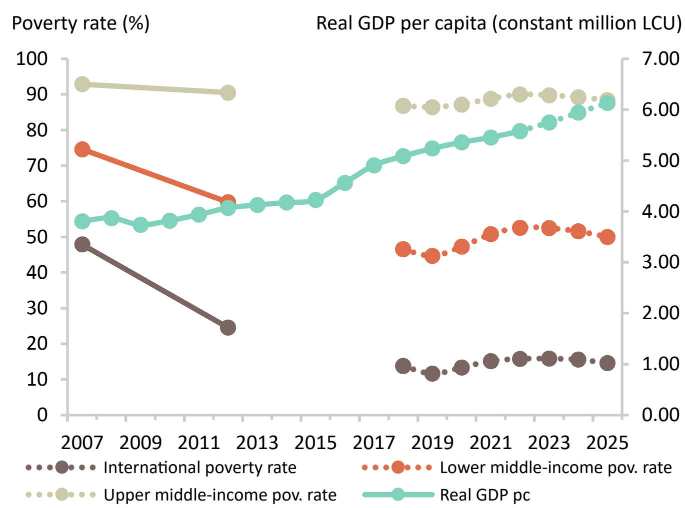
Growth accelerated to 4.7 percent in 2022 (2.2 percent per capita) due to a strong mining sector, largely unaffected by the war in Ukraine, while non-mining recovery was slowed by global fuel and fertilizer price shocks and domestic political instability. External price pressures were partially offset by the Guinean franc appreciation vis-à-vis the US dollar, the government's repayment of central bank advances earlier in the year, and general non-reliance on central bank financing. Inflation persisted but decelerated from 12.6 percent in 2021 to 12.1 percent in 2022. Extreme poverty incidence is estimated at 15.8 percent in 2022, up 0.7 percentage

FIGURE 1 Guinea / Debt, fiscal deficit, inflation



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

points from 2021, as the rapid phone survey indicated that 94 percent of the poorest 40 percent reported being worried about not having enough food (up from 91 percent during the early months of the pandemic).

The fiscal deficit (including grants) narrowed to 0.9 percent of GDP in 2022, from 1.8 percent in 2021, reflecting a decline in current expenditures and energy subsidies that outweighed an increase in capital expenditures. Tax revenues fell a percentage point to 11 percent of GDP, due to weak tax administration and low mining revenue relative to the sector's value-added. Subsidies (electricity and petrol) remained high, at 4 percent of GDP, due to low electricity tariffs and higher hydropower generation, though petrol pump prices were increased mid-year. Debt-to-GDP decreased from 40.4 percent in 2021, to 35.2 percent in 2022, due to repayment of domestic bonds and securitized debts. The current account deficit deteriorated from 2.1 percent of GDP in 2021, to 7.1 percent in 2022, due to a smaller trade surplus. Mining-related FDI, the main source of external financing, remained stable at 10.5 percent of GDP in 2022. Estimated international reserves declined slightly in 2022, to 2.5 months of import coverage, while the currency appreciated in real terms.

Outlook

Mining-related (foreign direct) investment will continue to drive growth and as non-mining sectors recover, growth is projected to accelerate to 5.7 percent on average in 2024–2025, still below potential of around 5.7 percent. Commensurately, extreme poverty, estimated at 15.8 percent in 2023, is projected to decline to 14.6 percent in 2025 as agriculture recovers and inflation eases. Given the limited poverty impact of mining-driven growth, redistribution mechanisms from the mining sector to vulnerable populations and more generalized productivity gains in other sectors will be required for inclusive growth. Public investments to improve roads, agricultural productivity, human capital, and urban and local development could support non-mining growth. Better provisioning of fertilizer could further improve agricultural productivity, though higher prices may dampen earnings. Poor quality transport infrastructure is likely to keep food prices high, reducing household purchasing power and thereby undermining poverty reduction.

The current account deficit is projected to improve to 6.6 percent of GDP in 2023 and to an average 3.1 percent in 2024-2025, reflecting an increasing mining-related trade surplus that outweighs net outflows for non-factor services and transfers and higher imports of intermediate goods and food. The fiscal deficit is expected to increase in 2023 to 2.6 percent of GDP, due to increased capital spending. But fiscal space would be rebuilt as recent tax administration reforms, including digitalized tax declarations and payments, start bearing fruit. Inflation is expected to remain high yet to decline gradually to 10 percent in 2023, and average 9 percent in 2024-2025.

Risks are tilted to the downside. Political transition uncertainties, following the coup d'état in 2021, could slow implementation of reforms to strengthen governance and financial performance of the public electricity utility, potentially reducing private investment and slowing social spending. On the upside, mining-related FDI inflows could increase, reflecting planned new projects.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	4.9	4.3	4.7	5.6	5.8	5.6
Private Consumption	-2.4	0.6	7.6	1.0	4.7	4.7
Government Consumption	4.4	16.8	-22.4	19.2	22.1	6.7
Gross Fixed Capital Investment	4.8	3.1	16.1	20.6	18.1	27.9
Exports, Goods and Services	77.0	10.8	14.8	18.3	15.6	15.6
Imports, Goods and Services	57.0	3.8	16.7	20.2	20.3	20.3
Real GDP growth, at constant factor prices	4.0	4.3	4.7	5.6	5.8	5.6
Agriculture	-1.1	3.9	3.1	4.0	5.0	5.0
Industry	11.3	4.9	8.6	7.7	6.9	5.9
Services	1.4	4.0	2.4	4.6	5.2	5.6
Inflation (Consumer Price Index)	10.6	12.6	12.1	10.0	9.0	8.7
Current Account Balance (% of GDP)	-10.7	-2.1	-7.1	-6.7	-3.9	-2.3
Net Foreign Direct Investment Inflow (% of GDP)	10.7	10.5	10.5	9.3	8.9	9.8
Fiscal Balance (% of GDP)	-3.2	-1.8	-0.9	-2.6	-2.5	-2.2
Revenues (% of GDP)	14.0	13.5	12.5	13.0	14.0	14.8
Debt (% of GDP)	47.1	40.4	35.2	35.7	36.6	36.2
Primary Balance (% of GDP)	-2.3	-0.7	-0.1	-1.5	-1.5	-1.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	13.4	15.1	15.8	15.8	15.5	14.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	47.3	50.8	52.6	52.5	51.6	50.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	87.2	88.8	90.0	89.8	89.3	88.4
GHG emissions growth (mtCO2e)	4.0	4.3	3.8	3.7	3.7	3.7
Energy related GHG emissions (% of total)	9.9	10.0	10.2	10.4	10.7	11.0

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 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection based on microsimulation model that accounts for differences in sectoral growth, food and nonfood inflation.

GUINEA-BISSAU

Table 1	2022
Population, million	2.1
GDP, current US$ billion	2.0
GDP per capita, current US$	936.6
International poverty rate ($2.15)[a]	21.7
Lower middle-income poverty rate ($3.65)[a]	56.8
Upper middle-income poverty rate ($6.85)[a]	87.2
Gini index[a]	34.8
School enrollment, primary (% gross)[b]	118.7
Life expectancy at birth, years[b]	60.0
Total GHG emissions (mtCO2e)	4.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ WDI for School enrollment (2010); Life expectancy (2020).

Poor cashew exports and high inflation slowed growth to 3.5 percent in 2022, causing the pace of poverty to increase. Salary overspending, energy costs and lower tax revenues limited fiscal consolidation as debt levels increased. Medium-term growth may improve as infrastructure investments come online, but the outlook is subject to downside risks from continued inflationary pressures, shocks to the cashew sector, political instability, fiscal risks, and climatic shocks.

Key conditions and challenges

Exports of raw cashew nuts, which account for 90 percent of merchandise exports, determine economic performance. Cashew production is dispersed among smallholder farmers, whose income supports overall economic activity. Poverty remains widespread, with high levels of inequality and increasing rural-urban disparities. Human development indicators remain among the lowest in the world, and low access to basic services contributes to exclusion and marginalization. Despite a gradual recovery of the economy post-pandemic, rising food and fuel prices stemming from Russia's invasion of Ukraine are a concern, especially for the poor who spend nearly 60 percent of their income on food.

Guinea-Bissau lacks the enabling environment for private sector-led growth due to poor infrastructure, low levels of human capital, and poor public services. This situation is compounded by strong elite competition for rents and weak public administration. Access to credit is limited, and the functioning of markets is undermined by the absence of public investments in basic economic services and public goods. Infrastructure is in a poor state, but there have been recent investments to improve this, mostly donor financed.

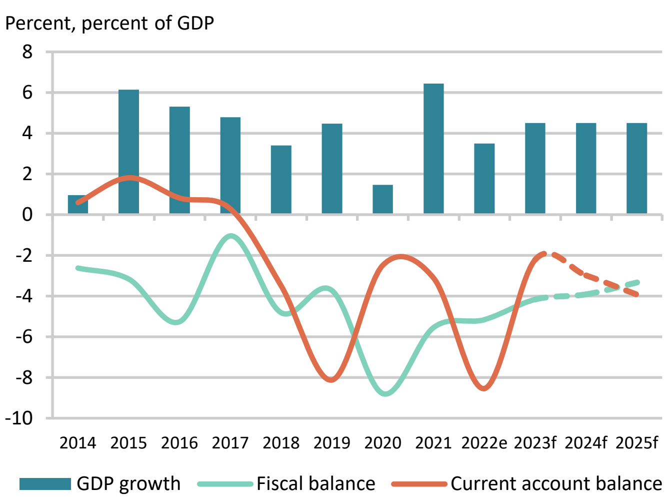
Political economic factors limit the transparency of the SOE sector in Guinea-Bissau. This is especially the case with the national utility company EAGB, which accrued substantial public debt through government guaranteed letters of credit, worth 0.7 percent of GDP, to cover arrears in the energy sector. A lack of transparency in the SOEs makes identifying contingent liabilities difficult, which increases the fiscal risk in a country with very little debt absorption capacity for additional shocks. High non-performing loans continue to make the banking sector another possible contingent liability.

Recent developments

Economic activity slowed to 3.5 percent in 2022 (1.3 percent in per capita terms) from 6.4 percent in 2021. On the supply side, growth was driven by agriculture and government infrastructure investment stimulated the construction sector. On the demand side, inflationary pressures caused private consumption growth to decelerate. Inflation reached 7.8 percent (y/y) in 2022, driven by food and energy inflation as a spillover from the war in Ukraine, after reaching 3.3 percent (y/y) in 2021. This followed an average of 1 percent between 2015 and 2020.

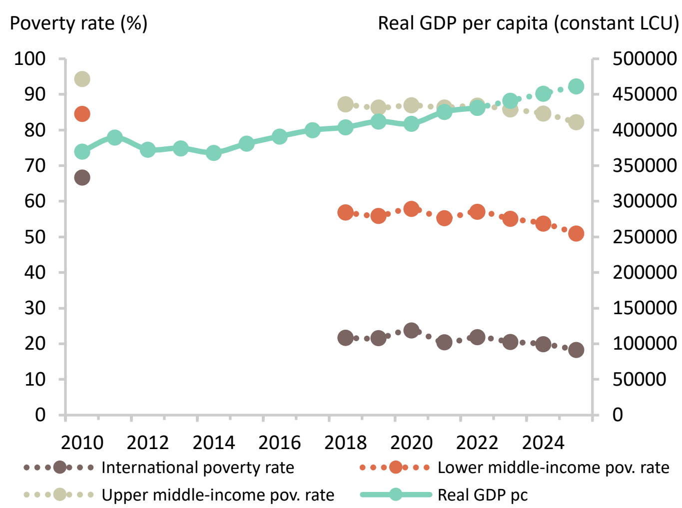
A cashew campaign marred by problems, including shipping and fuel shortages affecting domestic haulage, and low international demand, meant exports reached just 177 thousand tons in December, from an overall production of 235 thousand tons. Combined with an increase in oil and food import prices, the current account deficit (CAD) widened to 8.5 percent in 2022, from 3.1 percent in 2021.

FIGURE 1 Guinea-Bissau / Evolution of main macroeconomic indicators



Source: Ministry of Finance and World Bank.

FIGURE 2 Guinea-Bissau / Actual and projected poverty rates and real GDP per capita



World Bank. Notes: see Table 2.

The fiscal deficit (including grants) fell only marginally, from 5.5 percent to 5.2 percent of GDP, slowed by low cashew exports translating into less revenue, and an overspend on salaries in the first half of the year, the realization of liabilities to EAGB, and road infrastructure investments, which increased debt to 80.2 percent of GDP.

To counter inflation across WAEMU countries, the Central Bank of West African States (BCEAO) raised policy interest rates by a cumulative 75 basis points in 2022 (to 2.75 percent for liquidity calls and 4.75 percent for the marginal lending facility). BCEAO will likely need to continue tightening in 2023 in line with other major central banks, and as foreign exchange reserves decline, and inflation remains well above the target range of 1-3 percent. Furthermore, delaying fiscal adjustments towards the regional fiscal deficit target of below 3 percent of GDP by 2025 could exacerbate debt sustainability risks in some countries, while increasing regional financing needs, reducing FX reserve buffers, and elevating inflationary risks.

Using the international poverty line of $2.15 (in 2017 PPPs), poverty increased to 21.9 percent in 2022, up from 20.4 percent in 2021. The sharp increase in poverty (1.4pp increase in 2022; compared to a 3.4pp decline in 2021) is partly due to weaker growth in per capita GDP, high food prices and low cashew prices.

Outlook

Real GDP growth is projected to be 4.5 percent over the medium term (2.3 percent per capita), due to higher forecasted cashew production and prices, and as road and energy infrastructure investments come online. Inflation is expected to decelerate to reach 2 percent by 2025, as the spillover from the war in Ukraine dissipates. The outlook is subject to substantial downside risks stemming from political instability, climate shocks, uncertainty surrounding the fiscal consolidation, notably from EAGB, and non-performing loans in the financial sector.

The CAD will improve to 2.2 percent of GDP in 2023 as inflationary pressure eases and cashew exports increase. External financing needs will continue to be met by concessional loans and an IMF program crowding in grants.

The authorities are committed to an ambitious medium-term fiscal consolidation, which includes enhanced management of fiscal risks, notably from SOEs, revenue mobilization, and control of the wage bill. The fiscal deficit is projected to decline to 3.3 percent by 2025 with the public debt-to-GDP ratio expected to fall to 69.8 percent, as the government's fiscal consolidation efforts bear fruit.

The poverty rate is expected to decline in line with higher agricultural growth and lower inflation, falling by 1.3pp in 2023 to 20.6 percent and reaching 18.3 percent by 2025. Rising food prices will remain a concern, especially for the poor. Ongoing reforms, and price controls on basic food items (rice, sugar, and wheat flour), are expected to partly cushion the negative distributional effects of inflation, but raise fiscal risks.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	1.5	6.4	3.5	4.5	4.5	4.5
Private Consumption	-9.6	9.2	5.0	2.5	2.5	2.5
Government Consumption	10.1	10.8	16.6	9.3	-2.6	12.2
Gross Fixed Capital Investment	1.5	2.3	11.3	-2.1	18.4	4.5
Exports, Goods and Services	-12.4	13.0	-20.0	32.8	7.0	7.0
Imports, Goods and Services	-15.5	7.4	9.5	8.5	6.2	6.2
Real GDP growth, at constant factor prices	1.5	6.4	3.5	4.5	4.5	4.5
Agriculture	3.2	5.4	5.4	5.1	5.1	5.1
Industry	1.1	5.6	7.1	4.4	4.4	4.4
Services	0.4	7.5	1.0	4.0	4.0	4.0
Inflation (Consumer Price Index)	1.5	3.3	7.8	5.0	3.0	2.0
Current Account Balance (% of GDP)	-2.5	-3.1	-8.5	-2.2	-3.0	-3.9
Fiscal Balance (% of GDP)	-8.8	-5.5	-5.2	-4.2	-3.9	-3.3
Revenues (% of GDP)	14.0	19.0	18.2	19.4	18.0	18.0
Debt (% of GDP)	69.8	76.9	80.2	78.1	73.1	69.8
Primary Balance (% of GDP)	-7.3	-4.0	-3.7	-2.0	-1.9	-1.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	23.8	20.4	21.9	20.6	19.9	18.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	57.9	55.3	57.1	55.1	53.8	51.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	87.0	86.4	86.9	85.8	84.7	82.2
GHG emissions growth (mtCO2e)	1.1	1.2	1.1	1.2	1.1	1.2
Energy related GHG emissions (% of total)	8.0	8.2	8.5	8.7	9.0	9.3

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

KENYA

Table 1	2022
Population, million	54.0
GDP, current US$ billion	115.7
GDP per capita, current US$	2141.0
International poverty rate ($2.15)[a]	29.4
Lower middle-income poverty rate ($3.65)[a]	59.6
Upper middle-income poverty rate ($6.85)[a]	85.7
Gini index[a]	40.8
School enrollment, primary (% gross)[b]	77.3
Life expectancy at birth, years[b]	62.7
Total GHG emissions (mtCO2e)	89.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2017 PPPs.
b/ Most recent WDI value (2020).

Kenya's recovery remains strong despite multiple shocks, but high inflation and prolonged drought slowed down poverty reduction. Growth is projected to remain above pre-covid average. Fiscal consolidation to address emerging fiscal and debt risks while safeguarding social spending remains a top priority to address fiscal, external, and social challenges facing Kenya. The private sector is prioritized to play a bigger role in the economy coupled with investment in climate-smart agriculture.

Key conditions and challenges

Kenya has demonstrated an impressive record of economic growth and resilience in the past but increasingly faces looming challenges. Decades of public-investment-led growth led to rapid debt accumulation that cannot be sustained. The economy's strong post-pandemic recovery is not generating enough jobs to sustain and accelerate poverty reduction. The private sector faces major challenges from a weak business environment. FDI is low. Climate shocks disrupt output and threaten livelihoods. Building resilience will require large investments, e.g., in climate-smart agriculture. The successive shocks from the global pandemic, regional drought, commodity price volatility, and tightening of credit markets have both exposed and exacerbated underlying vulnerabilities in the Kenyan economy.

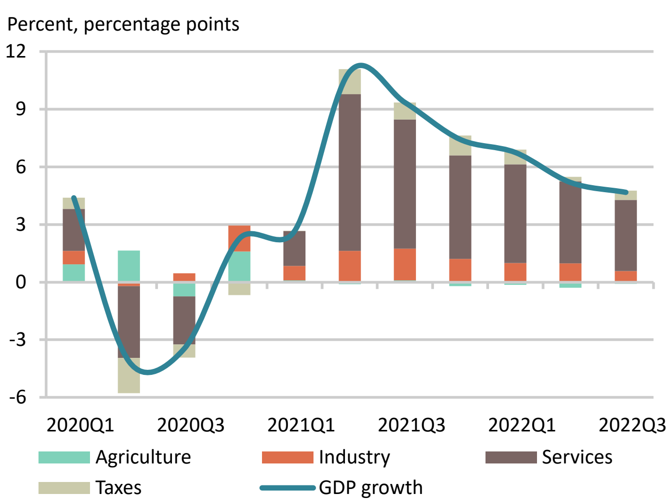
Making GDP growth more inclusive is Kenya's top priority. Economic growth of the past two decades improved living standards and reduced poverty from 36.7 percent in 2005 to 27.2 percent in 2019 (based on $2.15 a day poverty). The COVID-19 pandemic, however, sharply increased poverty in urban areas, and the post-pandemic recovery was interrupted by a severe drought across many parts of Kenya and a spike in food prices. Kenya faces persistent regional differences in the incidence of poverty. The share of workforce in non-farm wage jobs remains at 30 percent. Kenya will see its largest ever youth cohorts joining the workforce over the next decade. Translating this into a demographic dividend through earning opportunities and sustained structural transformation is a key priority for Kenya.

Shifting towards more sustainable and inclusive growth requires transforming the government's role in the economy to enable the private sector to expand and create jobs. Weak regulatory and business conditions hamper the private sector's potential. The economy faces market distortions, a lack of level-playing field in many sectors, and inefficient SOEs. Small enterprises lack access to finance and further limit the private sector's contribution to growth.

Recent developments

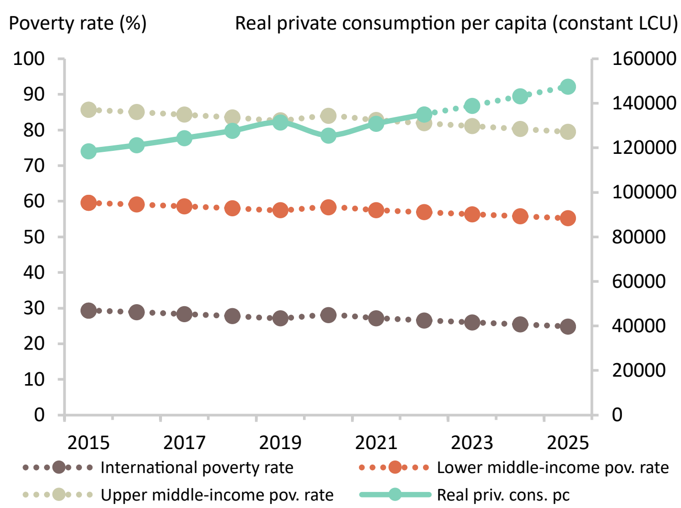
Kenya's recovery remained strong despite domestic political uncertainty in the run up to the August 2022 elections, downturn in the international financial cycle, and global commodity shocks. Real GDP grew by an estimated 5.0 percent in 2022, driven by increases in services and industry (Table 2) and underpinned by a pickup in private sector credit, improved investor confidence, high international prices for Kenya's commodity exports, and a recovery in tourism. Agricultural output, however, continued to contract amid one of the most severe droughts on record. High frequency monitoring of households shows a rise in food insecurity, most severely in rural and Arid and Semi-arid Lands

FIGURE 1 Kenya / GDP growth and contributions to real GDP growth



Sources: World Bank and Kenya National Bureau of Statistics.

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



Source: World Bank. Notes: see Table 2.

(ASAL) as farmers plant fewer crops and the prices of agricultural inputs rise.

Increased exports of tea, manufactures, tourism, and transport services contributed to reducing the current account deficit to 4.9 percent of GDP in 2022. Kenya's foreign exchange reserves, however, declined to around four months of imports cover as global financing conditions reduced net inflows in the capital and financial accounts.

International commodity price shocks and the prolonged regional drought pushed the inflation rate above the Central Bank of Kenya's (CBK) upper bound of 7.5 percent in 2022 leading CBK to increase the policy rate by a cumulative 175 basis points between May and November 2022. It retained the rate at 8.75 percent in January 2023. Inflation peaked at the end of 2022, declining marginally to 9.2 percent in February 2023 as food price inflation subsided.

The newly elected government has maintained the pace of fiscal consolidation in FY2022/23. Strong growth in revenue, rationalization of non-priority spending, and unwinding of subsidies have created fiscal space and enabled the government to safeguard social spending. The revised fiscal deficit for FY2022/23 is estimated at 5.7 percent of GDP, lower than 6.2 percent budgeted earlier.

Outlook

Real GDP is projected to grow at 5.2 percent on average in 2023–25, increasingly driven by the private sector. Improved investor confidence and credit to the private sector—helped by reduced domestic borrowing by the government—will be key drivers of private investment and GDP growth in the medium term. The continued rebound in tourism exports and remittances, along with a stabilization of commodity prices, will maintain the current account deficit in a range of 5.0 to 5.5 percent of GDP. The outlook also assumes an end to the drought.

This outlook assumes continued government commitment to the multi-year fiscal consolidation leading to a primary fiscal surplus and positive public savings in FY2024/25 (Table 2). The government projects revenue growth from rationalizing tax exemptions and broadening of the tax base while strengthening tax administration and compliance. Controls on government recruitment, remuneration and benefits and a push for strengthening of public investment management and procurement will constrain expenditure growth.

Real per capita incomes are expected to grow, and poverty is expected to resume its pre-pandemic downward trend, declining by around half a percentage point each year. The $2.15 poverty rate is expected to fall from 26.6 percent in 2022 to 26.0 percent in 2023, below its pre-crisis level of 27.2 percent (2019).

The outlook is subject to elevated uncertainty. Lower than anticipated growth in Europe could undercut ongoing recovery in exports, tourism, and remittances. There are also risks from further tightening of financial conditions if inflation in advanced economies remains elevated. Spending pressures (e.g., if consumption subsidies are reintroduced) and failure to achieve fiscal consolidation would exacerbate Kenya's debt vulnerabilities. Upside risks are mostly linked to faster-than-expected normalization in global financing conditions and lower international fuel and food prices, which would strengthen Kenya's external balances.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-0.3	7.5	5.2	5.0	5.2	5.3
Private Consumption	-2.5	6.2	5.2	5.0	5.1	5.1
Government Consumption	3.0	5.7	4.9	4.8	4.1	3.9
Gross Fixed Capital Investment	2.5	10.9	7.0	7.7	8.4	8.8
Exports, Goods and Services	-8.8	12.9	10.3	7.4	7.8	7.6
Imports, Goods and Services	-9.2	18.9	9.0	8.3	8.3	8.1
Real GDP growth, at constant factor prices	0.4	7.1	5.2	5.0	5.2	5.3
Agriculture	4.6	-0.2	-1.6	3.8	4.2	4.2
Industry	3.3	7.2	4.7	4.9	5.1	5.3
Services	-1.8	9.5	7.5	5.4	5.6	5.7
Inflation (Consumer Price Index)	5.3	6.1	7.6	7.8	5.8	5.5
Current Account Balance (% of GDP)	-4.8	-5.5	-4.9	-5.0	-5.5	-5.5
Net Foreign Direct Investment Inflow (% of GDP)	0.5	0.0	0.5	0.8	0.9	0.9
Fiscal Balance (% of GDP)	-7.8	-7.2	-6.0	-5.1	-4.2	-3.8
Revenues (% of GDP)	16.3	16.8	17.6	17.8	18.1	18.1
Debt (% of GDP)	66.0	67.9	66.1	63.5	60.9	58.2
Primary Balance (% of GDP)	-3.9	-2.6	-1.4	-0.5	0.1	0.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	28.1	27.2	26.6	26.0	25.4	24.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	58.4	57.6	56.9	56.4	55.8	55.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	84.0	82.8	81.9	81.2	80.3	79.5
GHG emissions growth (mtCO2e)	9.3	7.7	3.2	2.8	3.7	4.3
Energy related GHG emissions (% of total)	32.0	32.7	33.3	34.0	34.6	35.0

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 2013-, 2018-, and 2015-IHBS. Actual data: 2015. Nowcast: 2016-2022. Forecasts are from 2023 to 2025.
b/ Projection using point to point elasticity at regional level with pass-through = 1 based on private consumption per capita in constant LCU.

LESOTHO

Table 1	2022
Population, million	2.2
GDP, current US$ billion	2.3
GDP per capita, current US$	1045.9
International poverty rate ($2.15)[a]	32.4
Lower middle-income poverty rate ($3.65)[a]	54.7
Upper middle-income poverty rate ($6.85)[a]	81.0
Gini index[a]	44.9
School enrollment, primary (% gross)[b]	108.4
Life expectancy at birth, years[b]	54.7
Total GHG emissions (mtCO2e)	2.5

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

Lesotho's economy expanded by a modest 1.8 percent in 2022 due to domestic political uncertainties and external shocks. GDP growth is projected to accelerate to about 2.3 percent in 2023, driven by the construction sector and public investment. The outlook is subject to downside risks emanating from global geopolitical tensions, climate change, and the war in Ukraine. Poverty is expected to remain at about 33 percent in the near term, using the international poverty line.

Key conditions and challenges

Lesotho's economy expanded by a modest average of 1.9 percent between 2017 and 2021 due to increasing pressure on the budget, the COVID-19 pandemic, growing climate risks, and political uncertainty. The war in Ukraine has exerted pressure on food and energy prices, leading to monetary policy tightening and negatively affecting households' budgets. Due to Lesotho's trade links with South Africa, several exporting sectors have been affected by the weak economic performance of its neighbor.

A new government came into power in November 2022. Its key priority is to secure inclusive and sustainable growth by increasing private sector participation and strengthening governance and institutions.

Lesotho continues to face multifaceted socioeconomic challenges. Unemployment was high even before the pandemic, estimated at 22.5 percent (strict definition) and 38.3 percent in 2019 (expanded definition to include discouraged job seekers). As a result, over a third of the population was estimated to live on less than US$2.15 per day (2017 PPP) in 2022. Additionally, inequality is high by global standards with the Gini index at 44.9 (2017 data).

Recent developments

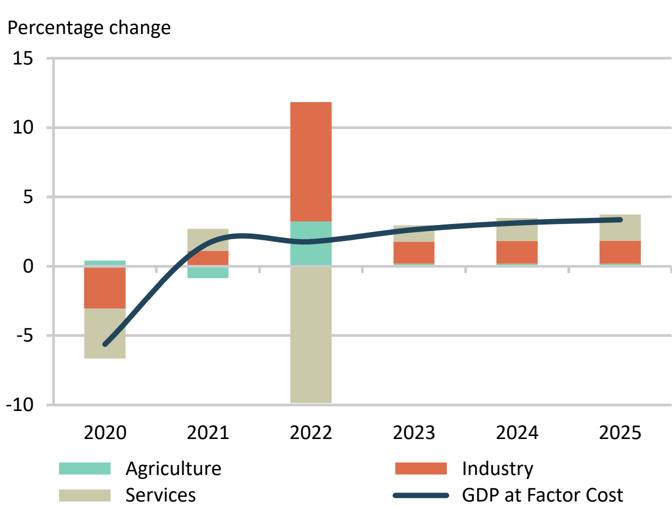
Lesotho's economy grew by 1.8 percent in 2022, following a 1.6 percent rebound in 2021. The main growth drivers were construction, mining, manufacturing, business services, and public administration. The agricultural sector has also contributed positively due to good seasonal rainfalls and the subsidization of inputs, leading to increased harvests.

Annual inflation averaged 8.3 percent in 2022 compared with 6 percent in 2021. The main reasons were the transmission from higher international food and energy prices to domestic prices and the hikes in administered prices domestically. The current account deficit widened from 1.4 percent of GDP in 2021 to 2.4 percent in 2022, primarily due to higher imports of goods and services, with limited exports growth.

The fiscal deficit deteriorated to 7.5 percent of GDP in 2022 compared to 4.2 percent in 2021. The increase in expenditures was driven by a rise in both recurrent expenses and capital spending, while revenue declined due to lower Southern African Customs Union (SACU) receipts. The public debt stock is estimated to have declined slightly to 58.6 percent of GDP in 2022, from 59.1 percent in 2021, mainly due to the redemption of a 7-year and a 10-year Treasury bond.

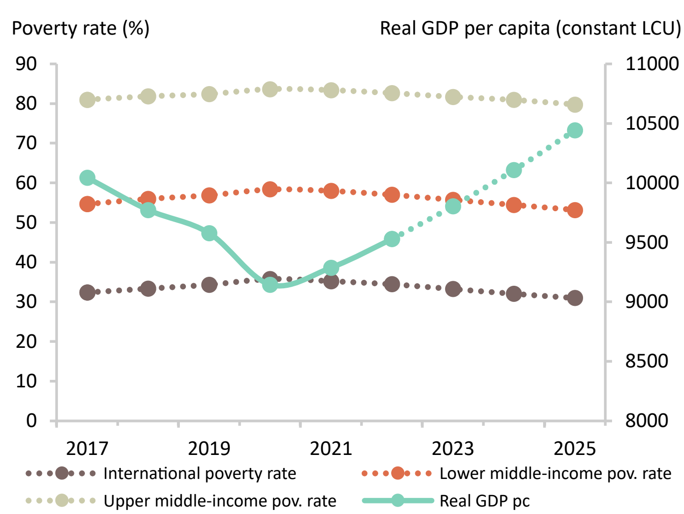
Given the limited recovery in 2022, poverty remained high, with 34.7 percent of the population estimated to be living on less than US$2.15 per day (2017 PPP). Other factors – such as rising food prices and climate shocks – put additional pressure on vulnerable households. Despite recent growth in the agricultural sector, food security remains a challenge, particularly among the rural population, owing to high rainfall variability. Estimates suggest that between

FIGURE 1 Lesotho / Real GDP at factor costs



Sources: WDI and World Bank staff estimates.

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



Source: World Bank. Note: See Table 2.

October 2022 and March 2023, about 320,000 people (22 percent of the population) in rural areas were experiencing a food security crisis – an increase from 15 percent between July and September 2022.

Outlook

Real GDP is projected to grow by 2.6 percent in 2023, with a faster expansion of 3.1 percent in 2024 and 3.3 percent in 2025. Construction and public investment are projected to drive the country's economic expansion, especially the implementation of Phase II of the Lesotho Highlands Water Project. The services sector is also expected to contribute to growth, benefiting from the positive spillovers from the construction subsector and higher domestic demand. Furthermore, the diamond industry is expected to recover on the back of higher prices and stronger demand amid declining global supply. The agricultural sector is also expected to contribute modestly to growth depending on the weather conditions.

The annual inflation rate is expected to decline gradually, to average 5.6 percent in the medium term, as food and fuel prices moderate. The fiscal position is projected to improve to a surplus of 1.7 percent of GDP in 2023 from a deficit of 7.5 percent of GDP in 2022. This turnaround is mainly explained by the surge in SACU revenue, which will increase by about 40.7 percent between 2022 and 2023. Other tax revenues are also expected to improve in the medium term due to more effective tax collection. The government expects to control the public sector wage bill (accounting for about 40 percent of total expenditure), while slightly increasing capital spending. The public debt-to-GDP ratio is expected to decline from 59 percent of GDP in 2022 and stabilize at 55.3 percent of GDP in the medium term. The current account deficit is expected to widen moderately in the medium term and average 0.9 percent of GDP due to the anticipated increase in imports of raw materials for the construction activities associated with the Lesotho Highlands Water Project.

Poverty rates are expected to decline but increases in food and energy prices as well as an uncertain economic environment may constrain the budgets and livelihoods of lower-income households. The US$2.15 per day (in 2017 PPP terms) poverty rate is projected to fall from 34.7 percent in 2022 to 32.6 percent in 2024.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-5.6	1.6	1.8	2.6	3.1	3.3
Private Consumption	6.9	-6.7	9.1	3.6	3.6	3.6
Government Consumption	19.7	-5.3	2.4	5.0	1.1	-1.6
Gross Fixed Capital Investment	-46.3	1.6	14.8	40.8	42.9	38.0
Exports, Goods and Services	-17.2	5.1	36.7	2.2	2.2	2.2
Imports, Goods and Services	-0.6	-0.4	22.5	10.3	10.3	10.3
Real GDP growth, at constant factor prices	-5.6	1.6	1.8	2.6	3.1	3.3
Agriculture	8.7	-16.0	72.3	2.4	2.4	2.4
Industry	-12.2	4.7	36.0	5.0	5.0	5.0
Services	-4.4	1.9	-11.9	1.6	2.3	2.7
Inflation (Consumer Price Index)	5.0	6.0	8.3	6.5	5.2	5.0
Current Account Balance (% of GDP)	-2.8	-1.4	-2.4	0.7	-1.5	-2.0
Net Foreign Direct Investment Inflow (% of GDP)	1.3	1.2	1.2	1.3	1.3	1.3
Fiscal Balance (% of GDP)	4.2	-4.2	-7.5	1.7	-0.9	0.4
Revenues (% of GDP)	48.3	49.4	39.1	48.7	44.3	42.2
Debt (% of GDP)	51.2	59.1	59.0	56.5	56.5	53.0
Primary Balance (% of GDP)	5.1	-3.2	-6.6	2.4	-0.2	1.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	35.8	35.2	34.5	33.3	32.1	31.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	58.4	58.0	57.0	55.7	54.4	53.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	83.6	83.4	82.6	81.7	80.9	79.8
GHG emissions growth (mtCO2e)	-2.6	0.8	1.6	1.6	1.6	1.4
Energy related GHG emissions (% of total)	28.4	27.7	27.6	27.7	27.9	28.1

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 2017-CMSHBS. Actual data: 2017. Nowcast: 2018-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2017) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

LIBERIA

Table 1	2022
Population, million	5.3
GDP, current US$ billion	4.0
GDP per capita, current US$	754.5
International poverty rate ($2.15)[a]	27.6
Lower middle-income poverty rate ($3.65)[a]	60.6
Upper middle-income poverty rate ($6.85)[a]	88.9
Gini index[a]	35.3
School enrollment, primary (% gross)[b]	77.5
Life expectancy at birth, years[b]	60.9
Total GHG emissions (mtCO2e)	17.0

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

Liberia's economy grew by 4.8 percent in 2022, following a strong rebound in 2021. Growth is expected to slow to 4.3 percent in 2023, reflecting global slowdown and uncertainties surrounding Russia's invasion of Ukraine and the 2023 elections. The medium-term macroeconomic outlook nonetheless remains positive. The poverty rate is expected to decline moderately reaching 33.8 percent by 2025.

Key conditions and challenges

Liberia is highly vulnerable to both domestic and external shocks. Given its reliance on commodity exports (mainly iron ore, gold, and rubber), the economy is exposed to fluctuations in global commodities prices. Most Liberians rely on subsistence agriculture, forestry, and artisanal fisheries for livelihood in rural areas, and on low-productivity services (mainly commerce and transport) in urban areas. In recent years, the country has made notable progress on economic management, maintaining macroeconomic stability through prudent monetary and fiscal policies. Growth has rebounded since 2021 after two consecutive years of contraction and inflation has been brought down to single digits from 27 percent in 2019 despite elevated external price pressures.

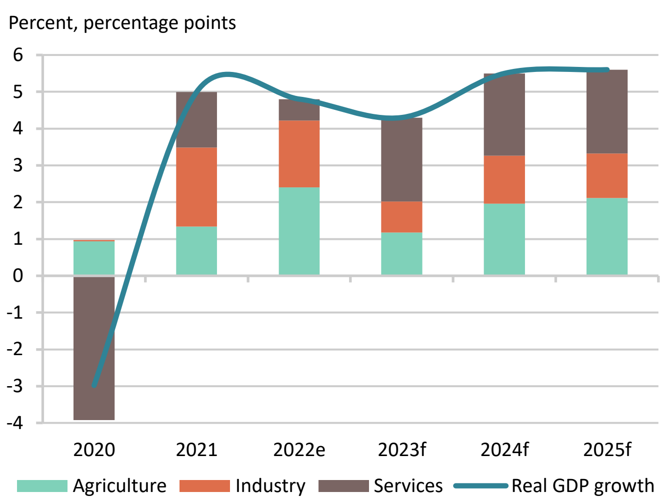
Low levels of human and physical capital and overall productivity continue to impede development. For instance, Liberia has a human capital index of only 0.32, only 7 percent of the country's overall road network is paved, and just about 30 percent of the population has access to electricity. Investments in human and physical capital have been prioritized under the government's medium-term development strategy for 2018-2023, the Pro-Poor Agenda for Prosperity and Development, but fiscal space to address these fundamental development constraints is limited by low domestic revenue mobilization and declining external grants. Boosting domestic resource mobilization to make space for investment and fostering an enabling business environment for private investment are among the main policy challenges that must be addressed.

Recent developments

Liberia's economy expanded by 4.8 percent in 2022 despite global headwinds (from the war in Ukraine, high global inflation, and depressed demand in advanced economies). The expansion was driven by mining (specifically gold) and a relatively good agricultural harvest. Growth in the agricultural sector accelerated to 5.9 percent, from 3.3 percent in 2021, on the back of increased rice and cassava production. Thanks to increased gold production, industrial output grew by 10.4 percent in 2022: while iron ore production remained stable, gold output surged by 49.1 percent, year-on-year. From 3.0 percent in 2021, services growth slowed to 2.8 percent, reflecting a slowdown in construction services and hospitality.

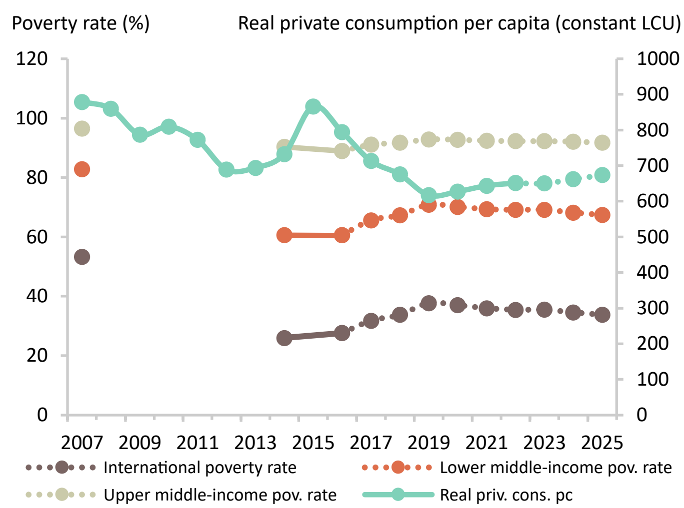
Average inflation slowed to 7.6 percent in 2022, down from 7.8 percent in 2021, even as headline inflation increased from 5.5 percent in December 2021 to 9.2 percent in December 2022. Food prices declined by 1.6 percent thanks to relatively good agriculture harvests, whereas non-food inflation reached 10.6 percent, primarily due to energy prices. The Central Bank of Liberia kept reserve requirements unchanged in 2022 while maintaining a relatively restrictive

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



Sources: Liberian authorities, IMF, and World Bank staff.

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



Source: World Bank. Notes: see Table 2.

monetary policy stance. The policy rate was held at 20 percent from January to July before being cut to 15 percent in August as inflation remained in single digits. Robust GDP growth and moderate inflation have boosted private consumption per capita. Liberia's international poverty rate (US$2.15 person/day PPP) decreased by 0.5 percentage points to 35.5 percent in 2022.

The fiscal position worsened in 2022. The deficit rose to 5.2 percent of GDP in 2022, up from 2.4 percent in 2021. This was partly due to the decline in grants (by 2.9 percentage points of GDP) and lower-than-expected royalties from iron ore due to delayed expansion of the Arcelor Mittal mining project. On the expenditure side, grants and subsidies increased by 0.9 percentage points of GDP to 3.0 percent. With a debt-to-GDP ratio of 53.4 Liberia is assessed to be at moderate risk of external debt distress and high risk of overall debt distress.

Liberia's current account balance improved in 2022, thanks to booming gold exports. The current account deficit narrowed to 15.5 percent of GDP, down from 17.8 percent in 2021. Despite robust foreign direct investment (7.4 percent of GDP in 2022), the financing of the current account deficit was challenging as project grant disbursements declined (from 5.9 percent of GDP in 2021 to 4.6 percent of GDP) while the net disbursement of loans decreased from 13.9 percent of GDP in 2021 to 2.4 percent of GDP in 2022. Thus, the overall balance of payment showed a deficit of 1.1 percent of GDP, covered by drawing from the international reserves which declined to US$644 million (3.5 months of import cover) in 2022, from $700 million (4.0 months of import cover) in 2021. The drawdown of reserves also enabled the Liberian dollar to appreciate by 8.0 percent against the dollar between 2021 and 2022. Commercial banks were typically in compliance with prudential capital and liquidity requirements in 2022. By December 2022, the share of non-performing loans (NPL) fell from 22.9 percent to 16.4 percent of all loans.

Outlook

Growth is expected to taper off to 4.3 percent in 2023 before reaching an average of 5.6 percent over 2024-25 as the country benefits from tailwinds for mining and structural reforms in key enabling sectors such as energy, trade, transportation, and financial services. Inflation is projected to increase to 7.8 percent in 2023 and moderate gradually to 5.5 percent by 2025 in line with global projection of energy and food prices.

The fiscal deficit is projected to narrow to 4.6 percent of GDP in 2022 and further to under 4.0 percent in the medium term as the authorities strengthen expenditure controls. The 2023 draft budget targets a decline in the fiscal deficit to 2.6 percent of GDP. The current account deficit is expected to hover around 18 percent in the medium term, as import growth remains high, driven by robust aggregate demand and persistent high global food and fuel prices. The poverty rate is expected to stagnate in 2023 and decline moderately in the medium term as economic growth takes off and inflation moderates.

Besides the fluctuations in commodity prices, the main risks to the outlook are uncertainties associated with the 2023 elections. The outlook may be hampered by fluctuations in prices of major imports and exports, but election-related spending pressures could undermine the viability of the current fiscal framework. In anticipation of the 2023 elections, businesses might delay investment decisions, and this could further slow the pace of economic recovery.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-3.0	5.0	4.8	4.3	5.5	5.6
Private Consumption	3.8	4.7	3.3	2.1	4.0	4.0
Government Consumption	0.8	0.2	-5.7	-10.7	7.4	9.5
Gross Fixed Capital Investment	-5.5	-7.9	9.4	9.8	2.0	-1.0
Exports, Goods and Services	-1.4	14.7	7.7	9.8	13.6	13.6
Imports, Goods and Services	11.7	1.8	3.1	2.3	5.5	4.7
Real GDP growth, at constant factor prices	-2.9	4.8	5.4	4.3	5.5	5.5
Agriculture	2.4	3.3	5.9	2.9	4.9	5.3
Industry	0.2	13.3	10.4	4.6	7.1	6.5
Services	-8.6	3.0	2.8	5.7	5.2	5.3
Inflation (Consumer Price Index)	17.0	7.8	7.6	7.8	5.8	5.5
Current Account Balance (% of GDP)	-15.6	-17.8	-15.5	-17.2	-18.1	-18.6
Fiscal Balance (% of GDP)	-3.7	-2.4	-5.2	-4.6	-3.3	-3.5
Revenues (% of GDP)	29.9	27.2	23.5	23.0	22.9	22.6
Debt (% of GDP)	55.8	53.2	53.4	55.4	54.5	53.0
Primary Balance (% of GDP)	-2.4	-1.6	-4.3	-3.6	-2.5	-2.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	37.0	36.0	35.4	35.5	34.6	33.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	70.1	69.3	69.1	69.1	68.2	67.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	92.8	92.5	92.3	92.3	92.1	91.8
GHG emissions growth (mtCO2e)	0.6	3.2	3.1	3.1	3.1	3.1
Energy related GHG emissions (% of total)	6.8	6.6	6.4	6.1	5.9	5.7

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 2016-HIES. Actual data: 2016. Nowcast: 2017-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2016) with pass-through = 0.7 (Low (0.7)) based on private consumption per capita in constant LCU.

MADAGASCAR

Table 1	2022
Population, million	29.6
GDP, current US$ billion	14.9
GDP per capita, current US$	504.9
International poverty rate ($2.15)[a]	80.7
Lower middle-income poverty rate ($3.65)[a]	92.4
Upper middle-income poverty rate ($6.85)[a]	98.2
Gini index[a]	42.6
School enrollment, primary (% gross)[b]	134.1
Life expectancy at birth, years[b]	65.2
Total GHG emissions (mtCO2e)	39.6

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

Growth is estimated to have weakened in 2022, mainly due to natural disasters and the indirect effects of Russia's invasion of Ukraine. Although growth is projected to recover to an average of 4.7 percent over 2023-25, risks remain tilted to the downside. These include the severity of recurrent natural disasters, a deterioration in the global environment, and social and political volatility in the event of a reversal of the reform agenda. Poverty remains elevated and on the rise in urban areas.

Key conditions and challenges

Madagascar is one of the poorest countries in the world, with high levels of inequality and unemployment. Progress in achieving the development objectives articulated in the Plan Emergence Madagascar remains slow and Madagascar continues to face major economic and social challenges, exacerbated by external shocks. In addition, low productivity, driven by poor structural transformation, is hampering growth. Although the COVID-19 pandemic and multiple climate shocks have exacerbated Madagascar's fragility, a recovery in the mining, services, and construction sectors raised economic growth to 5.7 percent in 2021, following a contraction of 7.1 percent in 2020. Poverty remains elevated and on the rise in urban areas, reflecting the impact of rural-urban migration, the lack of job opportunities in the cities, and a decline in the productivity of private enterprises.

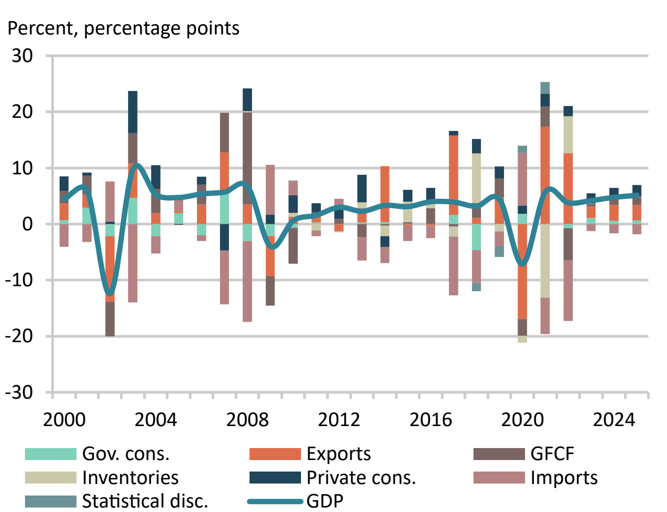
Beyond the need to strengthen resilience (including through improving budget execution of social spending), accelerating growth and reducing poverty will require urgent reforms supporting private investment, trade, connectivity, and access to basic services – all of which face deep governance and institutional challenges. Moreover, efforts to gradually transition the monetary policy framework to interest rate targeting are supported, among others, by the implementation of the securities repurchase operations law of December 2021 to encourage longer-term interbank loans, and the narrowing of the interest rate corridor to stabilize the short-term interest rate on the money market.

Recent developments

Following a strong rebound in 2021, growth decelerated to an estimated 3.8 percent in 2022, reflecting the impact of repeated natural disasters compounded by a deteriorating global context. In early 2023, two severe tropical storms hit Madagascar, submerging many roads and flooding and destroying schools and health centers. Moreover, recent evidence indicates that repeated cyclones increased the poverty rate among affected households.

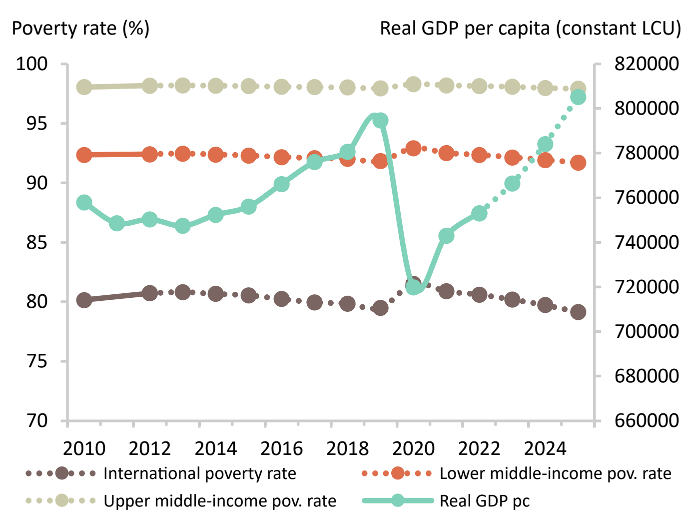
Rising basic necessity prices – exacerbated by the impact of the war in Ukraine on the prices of imported products – fueled inflation, which reached 11.4 percent year-on-year in January 2023. Inflation began to rise in mid-2022 following the government's decision to raise fuel prices at the pump by an average of 34 percent (gasoline: 44 percent, diesel: 44 percent, and oil: 14 percent). Rising food and fuel prices eroded households' purchasing power, exacerbating already high poverty levels, especially in urban areas. Although the inflation hike in recent months was mainly due to supply shocks, the Central Bank of

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



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

Madagascar has consistently raised interest rates to contain inflation expectations and second-round effects. Between January and October 2022, the central bank increased the interest rate by a cumulative 290 basis points, from 7.2 percent to 10.1 percent.

The fiscal deficit rose from 2.8 percent of GDP in 2021 to an estimated 3.1 percent of GDP in 2022 reflecting the government´s settlement of its liabilities to oil distributors related to the implicit fuel price subsidy. In addition, customs duties assessed (but not paid) on oil continued to be recorded in the central government's budgetary transactions with an offset on the expenditure side and thus did not contribute to deficit reduction.

The current account deficit increased to an estimated 5.6 percent of GDP in 2022 (from 5 percent of GDP in 2021), as a recovery in mineral exports was offset by higher imports of refined petroleum products, food, and intermediate goods. Gross international reserves declined, but remained broadly adequate, from 5.9 months of imports in 2021 to 5 months of imports in 2022.

Outlook

Real GDP growth is projected to improve to 4.2 percent in 2023 and to accelerate to about 5 percent in 2024-25, mostly boosted by a recovery of the mining industry coupled with the gradual reopening of air traffic, especially with South Africa. Primary sector output is expected to increase by an average of about 3 percent per year over 2023-25, from a decade high of 5.9 percent in 2019, reflecting the adverse effects of climate change. The industrial sector is expected to remain the main driver of growth due to an increase in mining activities despite decelerating key commodity price projections.

Moreover, the sluggish outlook projected in 2023 for Madagascar's main trade partners, notably the euro area and the United States, would slow down export demand for Madagascar's key agricultural products and textiles, as will a slower-than-expected recovery in tourist arrivals, even with the easing of entry procedures. In addition, restrictive policies implemented in the vanilla sector (including price control) is expected to decelerate the prospect of export earnings. Madagascar's poverty is projected to remain elevated at 79.4 percent in 2024-25 (based on an international poverty line of US$2.15 per person per day, in 2015 PPP).

The fiscal deficit will improve in 2023 and beyond as a result of an agreement with oil distributors to clear their overdue taxes and the government implementing planned reforms for more efficient spending and domestic revenue mobilization. Moreover, the gradual increase in capital expenditure from 5.1 percent of GDP in 2021 to 5.9 percent in 2025 reflects the implementation of the government's priority projects, most of which are financed by external concessionary sources.

Risks remain tilted to the downside, including the recurrence of natural disasters and the indirect effects of the war in Ukraine. Moreover, prolonged weak budget execution in health and education spending, along with reversals in reform agenda, could also lead to social and political volatility, especially ahead of the 2023 presidential elections.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-7.1	5.7	3.8	4.2	4.8	5.1
Private Consumption	2.2	3.0	2.5	2.5	2.8	3.0
Government Consumption	24.3	0.2	-8.0	12.8	6.7	6.8
Gross Fixed Capital Investment	-10.3	12.7	-19.1	2.0	4.0	5.8
Exports, Goods and Services	-36.6	55.0	27.5	3.6	5.0	5.0
Imports, Goods and Services	-16.6	12.7	19.8	2.0	2.7	3.0
Real GDP growth, at constant factor prices	-9.4	6.5	3.7	4.3	4.8	5.2
Agriculture	-1.4	-1.6	0.9	2.3	3.1	3.6
Industry	-29.5	19.7	10.9	8.6	8.9	9.1
Services	-6.9	7.3	3.1	3.9	4.3	4.7
Inflation (Consumer Price Index)	4.2	6.2	8.2	8.5	8.0	7.7
Current Account Balance (% of GDP)	-4.8	-5.0	-5.6	-6.2	-5.7	-5.5
Net Foreign Direct Investment Inflow (% of GDP)	1.8	1.7	2.0	1.5	1.9	2.1
Fiscal Balance (% of GDP)	-4.0	-2.8	-3.1	-1.6	-2.8	-2.9
Revenues (% of GDP)	12.8	11.4	12.1	13.5	12.1	12.3
Debt (% of GDP)	49.6	53.5	57.1	53.4	52.3	52.5
Primary Balance (% of GDP)	-3.2	-2.2	-2.4	-0.7	-2.1	-2.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	81.5	80.9	80.6	80.2	79.7	79.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	92.9	92.5	92.4	92.1	91.9	91.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	98.3	98.2	98.1	98.1	98.0	97.9
GHG emissions growth (mtCO2e)	-2.1	-0.1	0.5	8.2	0.9	1.3
Energy related GHG emissions (% of total)	14.8	15.2	15.5	17.1	17.5	18.0

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 2012-ENSOMD. Actual data: 2012. Nowcast: 2013-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2012) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

MALAWI

Table 1	2022
Population, million	20.4
GDP, current US$ billion	11.9
GDP per capita, current US$	581.1
International poverty rate ($2.15)[a]	70.1
Lower middle-income poverty rate ($3.65)[a]	89.1
Upper middle-income poverty rate ($6.85)[a]	97.3
Gini index[a]	38.5
School enrollment, primary (% gross)[b]	144.8
Life expectancy at birth, years[b]	63.7
Total GHG emissions (mtCO2e)	20.3

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

With lower agricultural output, erratic electricity supply, forex shortages affecting importation of raw materials and high global commodity prices, GDP growth declined to 0.9 percent in 2022. Economic growth is projected to increase only slightly to 1.4 percent in 2023 with the impacts of Tropical Cyclone Freddy on the South negating anticipated improvements in agricultural performance. In light of persistently elevated inflation, poverty rates are expected to remain high.

Key conditions and challenges

Malawi's overreliance on rainfed and primary agriculture limits the economy's potential for inclusive growth. Output is disrupted by changing weather, flooding, and the unreliable supply of fertilizer. Policies that distort agricultural markets discourage investments that could boost productivity, exports, and foreign exchange needed to finance essential imports.

Growth remains vulnerable to internal and external risks. Volatile agriculture growth driven by the occurrence of disruptive weather patterns and erratic electricity supply emanating from delays in the repair of the Kapichira hydropower plant continues to undermine economic growth. This has been compounded by persistent forex shortages constraining the importation of raw materials for production. Weak governance and policy implementation are creating additional challenges for the business environment.

Export recovery remains weak. With imports expected to significantly recover from the slump in 2022, this will continue to strain the current account balance, exacerbating the foreign exchange reserves accumulation efforts. The limited efforts to address the widening exchange rate premium will also exert additional pressures on reserves.

The government is still implementing an expansionary fiscal policy and growing statutory spending consumes almost all revenue. This creates significant challenges for fiscal consolidation. The government's recourse to high-cost domestic borrowing, due to limited external financing, exerts additional pressure on public debt, which the November 2022 Debt Sustainability Analysis rates as in distress. With debt restructuring negotiations progressing slowly, there is a risk that public debt may rise further.

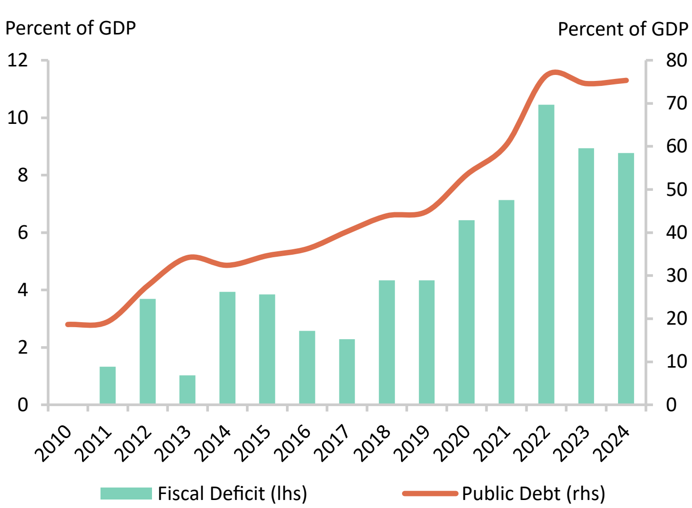
Recurrent weather shocks, including a drought in 2016 and cyclones in 2019, 2022 and again recently in March 2023, have contributed to high vulnerability and food insecurity. This has been compounded by high population growth and weak economic dynamism. As a result, incomes remain low and stagnant, with the share of people living below $2.15 a day increasing from 66 percent to 70 percent in one decade.

Recent developments

A series of exogenous shocks in 2022 delayed the country's recovery from the COVID-19 pandemic. Tropical cyclones disrupted agriculture and electricity generation. High global commodity prices reduced raw materials imports. Economic growth declined to 0.9 percent in 2022 from 2.8 percent in 2021.

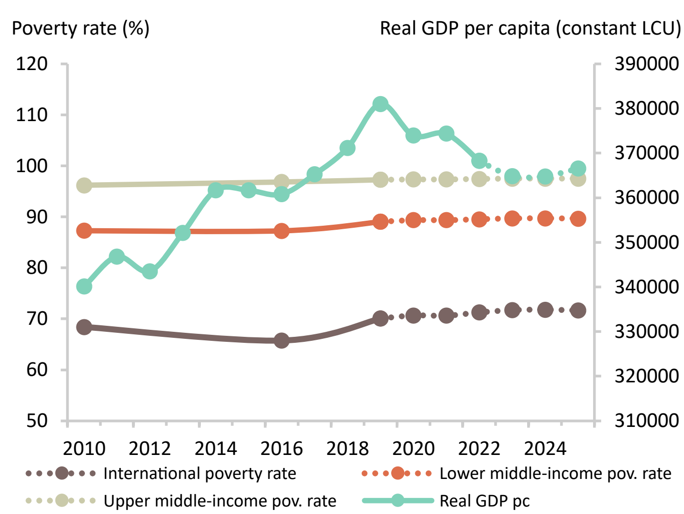
The pass-through of high global commodity prices, compounded by the devaluation of the Malawi kwacha in May 2022, pushed domestic inflation upwards, peaking at 26.7 percent in October 2022 and again in February 2023 (year-on-year), the highest rate since 2013. To contain the effect of inflation, the Reserve Bank of Malawi increased the policy rate

FIGURE 1 Malawi / Fiscal deficit and public debt



Sources: Ministry of Finance, Economic Planning and Development, World Bank.

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



Source: World Bank. Notes: see Table 2.

to 18 percent in October 2022. Pressures on the official exchange rate remain significant, with the premium increasing to over 50 percent as of end of March 2023.

Despite good revenue performance, there has been limited progress toward fiscal consolidation in FY2022/23. By the end of the third quarter (December 2022), revenue amounted to 11.6 percent of GDP. Expenditure totaled 18.3 percent of GDP driven by higher spending on interest, wages and salaries, and goods and services. Consequently, the fiscal deficit widened, reaching 6.7 percent of GDP for the first nine months of the year. High deficits have constrained fiscal space, in turn reducing expenditure to support poverty reduction aims.

Forex shortages and rising global commodity prices resulted in a significant import compression, narrowing the current account deficit to 3.2 percent of GDP. Gross official reserves remained low, with import cover at less than one month at the end of 2022.

High domestic food prices for maize and other staples continue to exert pressure on household incomes, pushing many into poverty. In turn for 2022, the proportion of people living on less than $2.15 a day has increased slightly to at 71 percent.

Outlook

Malawi's economy is projected to grow by 1.4 percent in 2023. This modest acceleration assumes gradual macroeconomic stabilization and resumed electricity generation at the Kapichira hydropower plant. While some recovery in agriculture is expected, the impacts of Cyclone Freddy, which hit Malawi in March 2023, as well as disruptions in fertilizer distribution could lower yields, especially in the Southern Region. Domestic food prices will likely remain relatively high, but global commodity prices are projected to continue easing, contributing to a projected decline in inflation to 19.7 percent in 2023.

Fiscal consolidation efforts are challenged by continued spending pressures and in particular the high share of statutory expenditures. While revenue collection is projected at 14.5 percent of GDP, expenditure is projected to decrease to 23.3 percent of GDP, driven by the wage bill and high debt servicing costs. The fiscal deficit is projected to stagnate at 8.8 percent of GDP in FY2023/24 from a likely outturn of 8.9 percent of GDP in FY2022/23.

Reliance on high-cost domestic borrowing will keep the government from reducing interest spending and keep public debt high. Successful efforts to finalize debt restructuring will be key to bolster fiscal consolidation efforts and stabilize the economy.

As imports are projected to significantly pick up in 2023, a worsening current account deficit will continue straining foreign reserves and likely result in continued forex shortages. Agricultural exports are also expected to improve, albeit moderately. Consequently, the current account deficit is projected to widen further to 11.3 percent of GDP in 2023.

Malawi will remain vulnerable to external shocks. Flooding induced by Tropical Cyclone Freddy will negatively affect agricultural production and food security. High food prices will continue constraining food availability, especially for net consumers. As growth remains low, the poverty rate is likely to increase to 72 percent in 2023.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	0.8	2.8	0.9	1.4	2.4	3.0
Private Consumption	0.8	2.6	0.6	3.5	3.6	3.5
Government Consumption	0.8	-1.1	4.3	3.5	-0.5	5.7
Gross Fixed Capital Investment	0.8	-0.2	-6.5	-7.3	1.4	1.7
Exports, Goods and Services	0.8	2.9	3.6	4.6	5.8	5.9
Imports, Goods and Services	0.8	0.4	0.1	5.8	5.9	6.0
Real GDP growth, at constant factor prices	0.8	2.8	0.9	1.4	2.4	3.0
Agriculture	3.4	5.2	-1.0	0.5	2.4	2.6
Industry	1.2	1.9	0.9	1.3	2.4	3.0
Services	-0.5	2.0	1.8	1.8	2.5	3.1
Inflation (Consumer Price Index)	8.6	9.2	21.8	19.7	16.8	14.3
Current Account Balance (% of GDP)	-13.8	-14.3	-3.2	-11.3	-11.3	-11.7
Net Foreign Direct Investment Inflow (% of GDP)	3.5	0.8	1.3	1.3	1.4	1.4
Fiscal Balance (% of GDP)	-6.4	-7.1	-10.4	-8.9	-8.8	-8.9
Revenues (% of GDP)	14.7	14.1	13.0	14.7	14.5	14.6
Debt (% of GDP)	53.4	60.5	76.5	74.6	75.3	76.1
Primary Balance (% of GDP)	-3.4	-3.3	-5.2	-2.3	-2.3	-2.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	70.7	70.6	71.3	71.7	71.8	71.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	89.4	89.4	89.5	89.7	89.7	89.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	97.4	97.4	97.5	97.5	97.5	97.5
GHG emissions growth (mtCO2e)	1.7	1.6	1.4	1.5	1.5	1.5
Energy related GHG emissions (% of total)	7.1	7.0	7.0	6.9	6.8	6.7

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 2019-IHS-V. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2019) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

MALI

Table 1	2022
Population, million	22.6
GDP, current US$ billion	20.5
GDP per capita, current US$	907.6
International poverty rate ($2.15)[a]	14.8
Lower middle-income poverty rate ($3.65)[a]	47.5
Upper middle-income poverty rate ($6.85)[a]	80.5
Gini index[a]	36.1
School enrollment, primary (% gross)[b]	78.7
Life expectancy at birth, years[b]	58.6
Total GHG emissions (mtCO2e)	48.1

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

GDP growth fell to 1.8 percent in 2022 due to ECOWAS sanctions, high food inflation, and parasite infestations affecting cotton production. This led to negative per capita income growth, a 3.2 percentage points increase in poverty incidence, while delaying fiscal consolidation. Economic growth is projected to rebound to 4 percent in 2023, while the medium-term outlook is subject to significant downside risks from the political transition, insecurity, and climate-related shocks.

Key conditions and challenges

Mali's economy has experienced little structural change over the last three decades. Agriculture and low-productivity services dominate the economy and employment, while manufacturing remains limited and concentrated in agro-industries and cotton ginning. Exports are dominated by gold and cotton, exposing the economy to commodity-price and climatic shocks. GDP growth per capita stagnated during the last decade limiting progress in poverty reduction while human development indicators show mixed results.

Persistent insecurity and a weakened social contract have emerged as key bottlenecks for inclusive growth and, with the absence of the State in remote areas, are increasingly disrupting service delivery. Political instability has also become a significant constraint to growth with the coups in 2020 and 2021 and the six-month ECOWAS sanctions in 2022 in response to the authorities' decision to delay elections initially scheduled for February 2022. The sanctions were lifted in July 2022, after the transitional government agreed with ECOWAS on an elections timetable over the period 2023-2024.

Recent developments

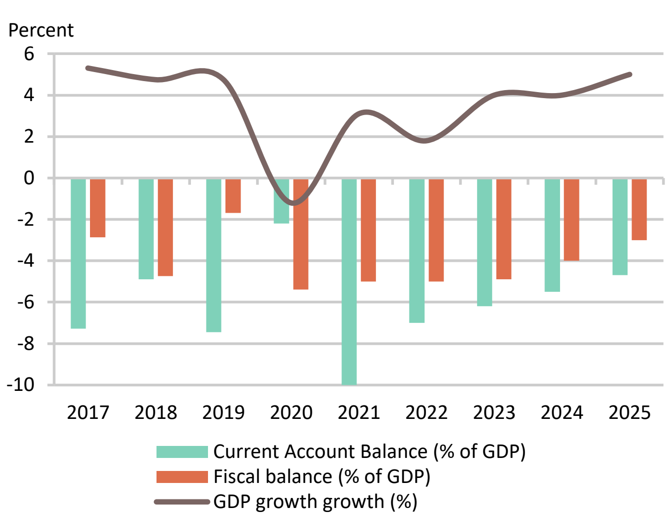
Despite the 6-month ECOWAS sanctions, real GDP growth reached 1.8 percent (-0.9 percent per capita) in 2022, highlighting the recovery of food agriculture (7.6 percent growth) from exceptionally low 2021 levels as well as the resilience of gold mining (0.5 percent growth) and trade and telecommunications. In contrast, export agriculture – cotton production – declined 29 percent, reflecting parasite infestations and the combined effects of the ECOWAS embargo and Russia's invasion of Ukraine on fertilizer costs and availability.

Inflation increased to 9.7 percent in 2022, driven by food inflation which accelerated to 13.9 percent as a result of persistent insecurity forcing farmers' displacements, the ECOWAS sanctions disrupting trade networks, and elevated global food prices.

As a result, the extreme poverty rate is expected to have increased to 19.1 percent in 2022, a 3.2 percentage points increase compared to 2021. The relative incomes of poor households deteriorated, exposing them to food insecurity, especially in the center and north. From January to June 2022, about 1.5 million Malians (77 percent of those targeted) benefited from food assistance. Population displacement continues, particularly in the border areas with Burkina Faso and Niger, with over 370,000 registered displaced persons as of April 2022.

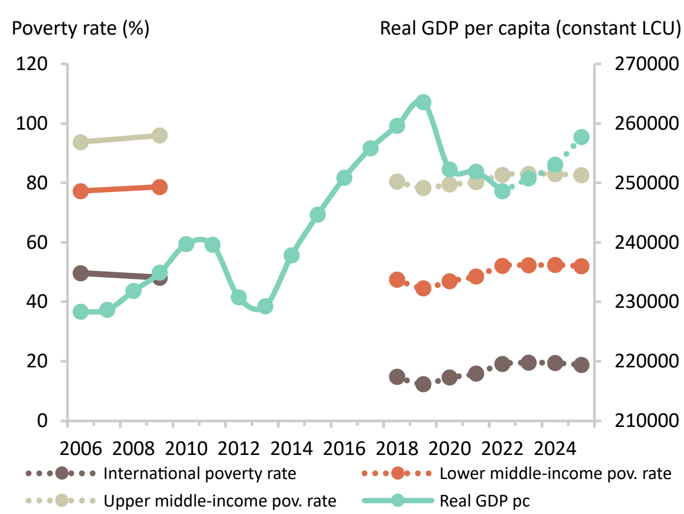
Despite the deteriorating terms of trade, the CAD narrowed to 7 percent of GDP in 2022 as net imports were kept artificially low due to the ECOWAS sanctions disrupting regional trade and suspending regional financial transactions during the first half of 2022. Merchandise exports (-3.5 percent y/y) and imports (-15.1 percent y/y) declined significantly during the first three quarters of 2022.

FIGURE 1 Mali / GDP growth, current account and fiscal balances



Sources: Malian government and the World Bank.

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



Source: World Bank. Notes: see Table 2.

To counter inflation across WAEMU countries, the Central Bank of West African States (BCEAO) raised policy interest rates by a cumulative 75 basis points in 2022 (to 2.75 percent for liquidity calls and 4.75 percent for the marginal lending facility). BCEAO will likely need to continue tightening in 2023 in line with other major central banks, as foreign exchange reserves have declined, and inflation remains well above the target range of 1-3 percent. Furthermore, delaying fiscal adjustments towards the regional fiscal deficit target of below 3 percent of GDP by 2025 could exacerbate debt sustainability risks in some countries, while increasing regional financing needs, reducing FX reserve buffers, and elevating inflationary risks.

The fiscal deficit stabilized at an elevated level of 5 percent of GDP in 2022. After declining due to the sanctions, tax revenues recovered during the second half of 2022, and increased by 1 percent on the year despite fuel tax expenditures (foregone fuel excise and oil customs revenue at 1.9 percent of GDP). Meanwhile, wages (8 percent of GDP) and security (6.2 percent of GDP) spending increased in 2022, crowding out public investment (4.3 percent of GDP). With limited access to external financing, the fiscal deficit was mainly financed through expensive domestic borrowing on the regional market. Public debt rose to 55.2 percent of GDP in 2022, while the risk of debt distress remains moderate.

Outlook

Growth is expected to rebound to 4 percent in 2023, and an average of 4.5 percent over 2024-25, supported by a continued recovery of agriculture and services. Annual inflation is projected to fall to 5 percent in 2023 due to the recovery of food agriculture and to normalize towards the midpoint of the regional target range (2 percent) by 2025. Consequently, extreme poverty incidence measured against the international poverty line (2.15$PPP a day per capita) is expected to increase to 19.6 percent in 2023 before slightly decreasing to 18.8 percent in 2025.

The CAD will decline to 6.2 percent of GDP in 2023, gradually narrowing to 4.7 percent of GDP by 2025 as fuel prices and supply constraints ease. The fiscal deficit is projected to stabilize at 4.9 percent in 2023 with tax administration measures improving revenue but could further increase if projected external grants (0.4 percent of GDP) do not materialize. The fiscal deficit is expected to gradually converge to the WAEMU ceiling of 3 percent by 2025, while public debt will increase to 55.9 percent by 2025.

The outlook is subject to multiple downside risks. Further delays in the electoral timetable could trigger another round of economic sanctions and further reduce external grants and loans that support development spending in the budget. Other risks relate to intensified insecurity, lower appetite for Mali's bonds on the regional market, and climatic shocks. Furthermore, a slowdown in global growth, higher inflation, and monetary tightening internationally could lead to higher financing costs for Mali.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-1.2	3.1	1.8	4.0	4.0	5.0
Private Consumption	1.9	3.0	2.0	3.0	3.0	4.4
Government Consumption	4.5	5.8	7.1	4.1	2.1	2.1
Gross Fixed Capital Investment	-1.2	4.8	-10.4	7.4	9.1	7.8
Exports, Goods and Services	0.5	-1.0	2.6	5.0	5.0	5.0
Imports, Goods and Services	-2.9	14.1	-2.5	4.0	4.0	4.0
Real GDP growth, at constant factor prices	-1.1	3.0	1.8	4.0	4.0	5.0
Agriculture	-4.8	1.4	1.7	5.0	5.0	5.0
Industry	-0.1	1.0	3.0	6.0	4.0	4.0
Services	1.4	5.1	1.5	2.4	3.3	5.4
Inflation (Consumer Price Index)	0.5	4.0	9.7	5.0	2.5	2.0
Current Account Balance (% of GDP)	-2.2	-10.0	-7.0	-6.2	-5.5	-4.7
Net Foreign Direct Investment Inflow (% of GDP)	3.1	5.5	4.4	3.2	3.1	2.9
Fiscal Balance (% of GDP)	-5.4	-5.0	-5.0	-4.9	-4.0	-3.0
Revenues (% of GDP)	20.7	22.2	19.5	20.7	22.2	21.4
Debt (% of GDP)	47.3	51.9	55.2	55.1	55.6	55.9
Primary Balance (% of GDP)	-4.2	-3.6	-3.5	-3.1	-2.0	-1.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	14.6	15.9	19.1	19.6	19.5	18.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	46.9	48.5	52.1	52.3	52.4	52.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	79.5	80.2	82.7	83.0	83.0	82.6
GHG emissions growth (mtCO2e)	2.4	3.1	3.2	3.7	4.4	4.8
Energy related GHG emissions (% of total)	14.7	15.6	16.2	16.8	17.6	18.6

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 2018/19 EHCVM. This survey replaced the previous 2009-ELIM survey used to calculate poverty rates in previous years.
b/ Projection based on microsimulation model that accounts for differences in sectoral growth, food and nonfood inflation.

MAURITANIA

Table 1	2022
Population, million	4.9
GDP, current US$ billion	10.4
GDP per capita, current US$	2117.6
International poverty rate ($2.15)[a]	6.5
Lower middle-income poverty rate ($3.65)[a]	26.2
Upper middle-income poverty rate ($6.85)[a]	66.8
Gini index[a]	32.6
School enrollment, primary (% gross)[b]	94.3
Life expectancy at birth, years[b]	64.5
Total GHG emissions (mtCO2e)	14.4

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

In 2022, growth is estimated at 5.2 percent, up from 2.4 percent in 2021, driven by gold production and an exceptional agricultural output. The sharp increase in food and energy prices led to a deterioration of the current account and fiscal balances and record-high inflation. Poverty is expected to have increased, amid food insecurity. Medium-term growth is expected to pick up with the onset of gas production.

Key conditions and challenges

Mauritania recovered strongly from the COVID-19 pandemic but has been facing the fallout of Russia's invasion of Ukraine. High oil and food prices for most of 2022 caused inflation to spike, increased food insecurity and poverty, and contributed to the deterioration of the external balance. The country remains very dependent on extractives, making it vulnerable to international price movements. The fiscal balance turned into a deficit for the first time since 2017 as the government took measures to mitigate the high cost of living and fuel subsidies increased substantially.

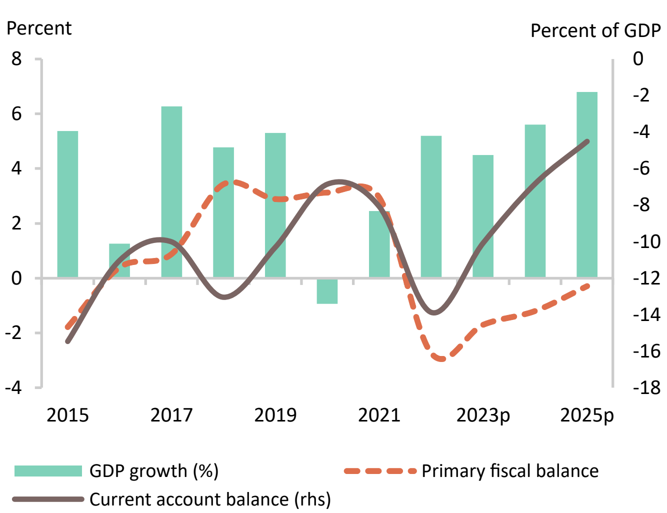
Despite the uncertainty related to the war in Ukraine and the elections in 2023 and 2024, the medium-term outlook is positive mainly due to the onset of gas production, but subject to downside risks. Risks include delayed onset of gas production, weaker global commodity markets, global disruptions that keep food and fuel inflation high, or failure of structural fiscal reforms to reach the poor through investments and social protection. Mauritania is exposed to recurring cycles of droughts and recent floods that impact agricultural output and household incomes. Regional insecurity in the Sahel also remains a risk. Poverty is associated with climatic conditions — i.e., if rains are scarce pastoral households are more likely to fall into poverty, and poverty rates in this group can increase by 27 percent. Households with smaller herds are especially vulnerable. Counterfactual simulations using the 2019 household survey suggest a one percentage point (pp) increase in poverty during irregular rainy seasons.

Recent developments

Growth is estimated at 5.2 percent in 2022 (2.5 percent in per capita terms), close to the pre-COVID-19 level, but below potential. Growth was mainly driven by the primary sector thanks to good rainfall. Headline inflation averaged 9.5 percent (y/y) resulting from high global food prices. Prices decelerated in November and December supported by a good harvest and tightening monetary policy.

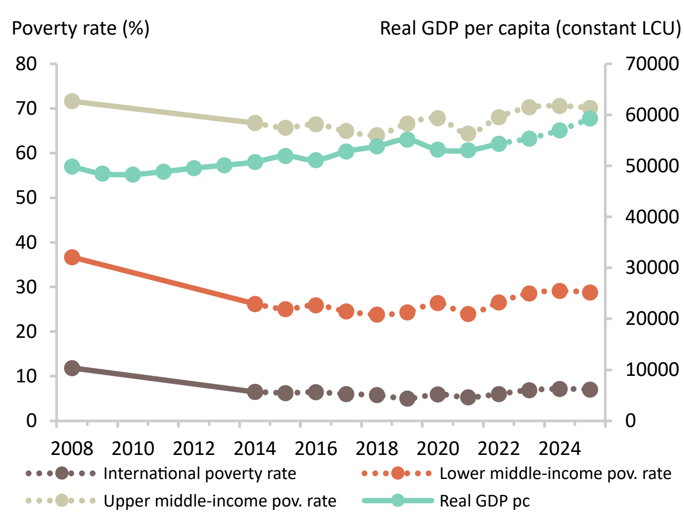
Good performance in the primary sector has not resulted in poverty reduction, due to the counter-effect of high inflation. Poor households mostly work in the primary sector and have been significantly affected by increases in food prices (+15 percent). Food insecurity remained high throughout 2022 and the US$3.65 in 2017 PPP poverty rate is expected to have increased from 23.9 percent in 2021 to 26.5 percent in 2022. Poverty likely affects rural areas more than urban areas. Indeed, poverty is expected to increase from 37 percent in 2021 to 40.4 in rural areas and respectively from 10 percent to 11.7 percent in urban areas. At least 176,000 additional people are expected to have fallen into poverty, amounting to 1,335,000 poor in 2022.

FIGURE 1 Mauritania / Evolution of main macroeconomic indicators



Sources: World Bank.

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



Source: World Bank. Notes: see Table 2.

In response to rising prices, the Central Bank fulfilled all foreign exchange demands by banks, raised the policy rate from 5 percent to 7 percent in August 2022, and eased its gold purchases. Credit growth decreased from 20.3 percent (y/y) in July 2022 to 12.5 percent (y/y) in December 2022.

The overall fiscal balance registered a deficit of 3.5 percent of GDP in 2022, compared to a surplus of 2.2 percent of GDP in 2021. This reflects a sharp increase in fuel subsidies (2.9 percent of GDP) and transfers and stronger capital spending which was partly offset by higher revenues (excluding grants). Grants decreased from 2.1 percent of GDP in 2021 to 1.7 percent of GDP in 2022. The debt-to-GDP ratio remained stable in 2022 around 49.2 percent. The January 2023 joint WB/IMF Debt Sustainability Assessment suggests that the risk of overall and external public debt distress is moderate, down from high in the previous DSA, thanks to a recent bilateral debt restructuring.

The current account deficit is estimated at 13.9 percent of GDP in 2022, up from 8.1 percent of GDP in 2021, due to high energy and food import prices, and lower export prices. International reserves decreased to approximately US$1.6 billion at end-October 2022, from US$2.3 billion at end-2021.

Outlook

In 2023, growth is projected to decelerate to 4.5 percent, driven on the supply side by lower growth in the extractive industry, notably the production of iron ore and gold, and lower agricultural output. Growth will be supported by investments and an improved net external position, while private demand growth is projected to decelerate, negatively affected by monetary policy tightening and the global economic slowdown. In 2024-2025, growth is projected to average 6.2 percent (3.5 percent per capita) with the onset of gas production. Inflation is projected to gradually moderate to 5 percent in 2025 as external pressures subside.

Poverty is projected to further increase in 2023, to 28.6 percent, and reach 28.8 percent in 2025 as food price inflation slowly decelerates and in line with modest agricultural growth. The number of poor is expected to increase by 50,000 people through 2025, partly due to demographic growth.

The fiscal deficit is expected to decrease to 2.3 percent of GDP in 2023, supported by lower current expenditures with the announced rationalization of fuel subsidies (-2.2 pp of GDP) while gradually increasing targeted cash transfers using the social registry (+0.1 pp of GDP). The additional fiscal space will enable an increase in public investment. Over the medium term, the fiscal deficit should narrow to 0.9 percent of GDP in 2025 with the onset of gas production. The CAD is projected to improve with normalization of oil and food prices from 2023, a higher projected gold and iron-ore production, and the start of gas exports in 2024.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-0.9	2.4	5.2	4.5	5.6	6.8
Private Consumption	2.7	2.7	2.6	2.2	2.4	2.7
Government Consumption	9.2	26.1	14.8	6.9	6.2	5.7
Gross Fixed Capital Investment	4.4	39.2	11.4	11.3	11.1	10.0
Exports, Goods and Services	-8.6	-11.7	6.2	5.5	6.7	9.7
Imports, Goods and Services	2.1	25.1	10.1	8.7	8.2	7.5
Real GDP growth, at constant factor prices	-0.1	0.8	5.1	4.5	5.6	6.8
Agriculture	-2.6	-3.6	4.0	3.5	3.8	3.8
Industry	2.5	-6.6	7.7	5.2	6.5	9.1
Services	-0.3	6.4	4.5	4.6	5.9	6.9
Inflation (Consumer Price Index)	2.4	3.6	9.5	8.0	6.0	5.0
Current Account Balance (% of GDP)	-6.9	-8.1	-13.9	-10.1	-6.8	-4.5
Net Foreign Direct Investment Inflow (% of GDP)	11.0	10.6	9.9	8.0	3.9	3.6
Fiscal Balance (% of GDP)	2.2	2.2	-3.5	-2.3	-1.7	-0.9
Revenues (% of GDP)	20.4	21.3	22.7	23.1	23.1	23.3
Debt (% of GDP)	55.8	49.1	49.2	50.3	49.7	49.1
Primary Balance (% of GDP)	3.1	2.9	-2.7	-1.7	-1.2	-0.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	5.9	5.3	6.0	6.9	7.1	7.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	26.4	23.9	26.5	28.6	29.1	28.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	67.9	64.4	68.1	70.3	70.6	70.2
GHG emissions growth (mtCO2e)	3.4	2.8	2.9	3.0	3.4	0.0
Energy related GHG emissions (% of total)	31.1	31.3	31.6	32.1	32.7	32.7

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 2014-EPCV. Actual data: 2014. Nowcast: 2015-2022. Forecasts are from 2023 to 2025.
b/ Projection based on microsimulation model that accounts for differences in sectoral growth, food and nonfood inflation.

MAURITIUS

Table 1	2022
Population, million	1.3
GDP, current US$ billion	12.7
GDP per capita, current US$	10062.7
Lower middle-income poverty rate ($3.65)[a]	1.8
Upper middle-income poverty rate ($6.85)[a]	13.5
Gini index[a]	36.8
School enrollment, primary (% gross)[b]	98.4
Life expectancy at birth, years[b]	74.2
Total GHG emissions (mtCO2e)	6.5

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

Growth is expected to decelerate to 4.7 percent in 2023 from 8.3 percent in 2022, negatively impacted by lower global demand. Inflation will begin to ease after reaching 10.8 percent in 2022, the highest in over a decade. Strengthening macro-fiscal institutions and pursuing fiscal consolidation will be essential to maintain debt sustainability. Addressing skill shortages and developing knowledge-based sectors would support the transition to high-income country status over the medium term. Poverty is falling again after COVID-19 reversed recent gains.

Key conditions and challenges

Mauritius sustained spectacular growth since its independence in 1968. It briefly reached high-income country status in July 2020 (based on 2019 data), before falling back into the upper-middle-income category in July 2021 as real GDP plunged by 14.6 percentage points in 2020 amid the COVID-19 pandemic. Nevertheless, over the decade that preceded the pandemic, several interrelated structural challenges rendered the country's growth trajectory more fragile. These include stagnating private investment, sustained loss of export competitiveness, skills shortages coexisting with high structural unemployment, rising inequality, and mounting pressure on public finances from high and increasing social security spending driven by the aging population, leading to persistent fiscal deficits and a growing public debt-to-GDP ratio.

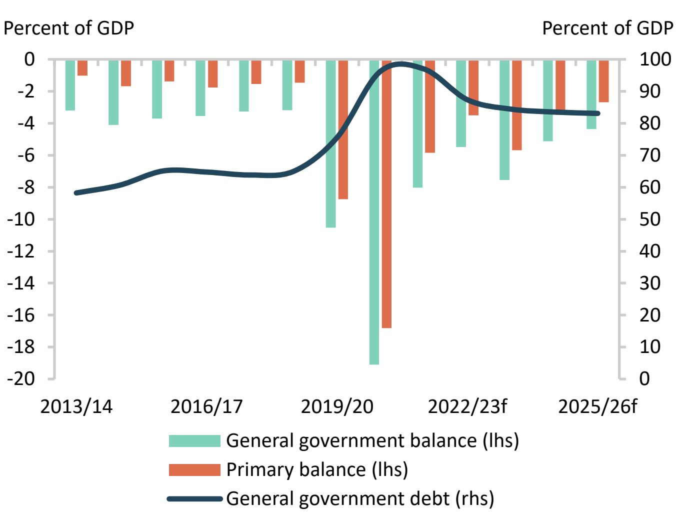
The government's swift response to the COVID-19 shock was successful in controlling the public health emergency and protecting livelihoods, but came at a high fiscal cost. Public debt spiked despite a MUR 55 billion (12.3 percent of GDP) non-refundable transfer to the government from the Bank of Mauritius in FY2020/21, which followed a previous MUR 18 billion transfer (3.5 percent of GDP) under the FY2019/20 budget. The central bank's involvement in fiscal policy, both directly and through the Mauritius Investment Corporation (MIC), has weakened the separation of institutional mandates while increasing contingent liabilities.

Disproportionately low labor market participation among young people and women remains a constraint on more inclusive growth. Over 50,000 young people aged 16 to 24 are neither working nor studying. Additionally, only 43 percent of women actively participate in the labor force, whereas the average for men is 68 percent. While 57 percent of women with higher education participate in the labor force, only 38 percent of those who completed primary school or less are active. Women were disproportionately displaced from the labor force by the COVID-19 pandemic and their return has been challenging for those with lower education levels.

Recent developments

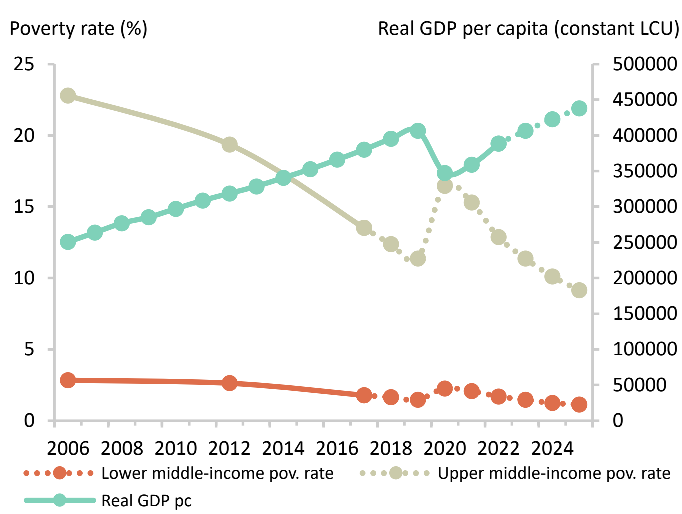
GDP grew by an estimated 8.3 percent in 2022, supported by the strong tourism recovery despite headwinds from the Omicron variant wave and Russia's invasion of Ukraine. Arrivals totaled 997,290 in 2022, up from 179,780 in 2021. The average stay duration and spending by visitors also increased. Nevertheless, arrivals are still almost 30 percent below pre-pandemic levels. Total exports increased by 24 percent in 2022 compared to 2021, whereas imports increased by 36.1 percent, driving an increase in the current account deficit from 13.2 percent in 2021 to 14.2 percent in 2022. Headline inflation rose from 4 percent in 2021 to 10.8 percent in 2022 – the highest in

FIGURE 1 Mauritius / General government balance and debt



Sources: Statistics Mauritius, World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

over a decade – driven by external supply shocks stemming from the war in Ukraine, which increased the prices of energy and food products, of which Mauritius is a net importer. Seeking to control inflation, the central bank hiked the key repo rate five times between March and December 2022 by a cumulative 265 basis points, reaching 4.5 percent. Effective January 16, 2023, the central bank introduced a new monetary policy framework with a flexible inflation-targeting regime, which is expected to strengthen the effectiveness of monetary policy by enhancing its transmission mechanism. Gross official international reserves remain broadly adequate, standing at 16.1 months of imports in December 2022.

The fiscal deficit decreased from 19.1 percent of GDP in FY20/21 to 8 percent in FY21/22 aided by the sale of public shares of Airport Holdings Ltd to MIC in December 2021 for MUR 13 billion (2.7 percent of GDP), which helped lower the borrowing requirement. The recovery of GDP also prompted a strong rebound of tax receipts, while the unwinding of COVID-19 support measures lowered public expenditures.

Poverty (upper-middle-income country threshold of US$6.85 a day, 2017 PPP) fell from 19 percent to 11 percent between 2012 and 2019. However, given the dramatic contraction of GDP in 2020, poverty is projected to have increased by over 5 percentage points and fallen down to around 13 percent by 2022.

Outlook

GDP growth is expected to decelerate to 4.7 percent in 2023, negatively impacted by the slowdown in global economic growth, before converging to its long-term trend over the medium term. Inflation is expected to moderate progressively, tamed by tightening monetary conditions in major trading partners, while the rollout of the new monetary policy framework should aid in anchoring domestic inflation expectations.

The current account deficit is projected to decrease to 8.7 percent of GDP in 2023 as commodity prices normalize and exports continue to recover, gradually narrowing over the medium term, assuming a continued recovery in tourism and efforts to strengthen export competitiveness.

The fiscal deficit is expected to decrease to 5.5 percent in FY22/23, aided by the unwinding of COVID-19 support measures, although the phasing in of the Contribution Sociale Généralisée in FY23/24 will cause a temporary rise. Public debt should continue to gradually decrease to around 83.5 percent of GDP over the medium term, assuming a progressive fiscal consolidation supported by improved efficiency of public spending and revenue collection, the sale of non-strategic assets, and the introduction of new revenue raising measures.

The outlook is subject to significant downside risks. As the rebound of tourism tapers off, growth could become sluggish in the absence of dynamic new growth sectors. Escalation of global geopolitical tensions and new COVID-19 waves could further disrupt global supply chains, weighing down growth and fueling inflation. Strengthening macro-fiscal institutions and supporting fiscal discipline, including through pension reform, will be essential to maintain debt sustainability and control contingent liabilities, providing the foundation to regain and sustain high-income status.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices[a]	-14.6	3.5	8.3	4.7	4.1	3.6
Private Consumption	-15.3	3.0	3.5	3.1	3.4	2.6
Government Consumption	-1.0	-1.8	2.6	-0.5	1.6	1.5
Gross Fixed Capital Investment	-25.8	13.9	6.0	7.0	2.9	2.8
Exports, Goods and Services	-28.7	11.6	37.0	9.7	9.3	9.0
Imports, Goods and Services	-28.6	7.7	22.9	6.8	7.2	7.0
Real GDP growth, at constant factor prices	-14.1	3.8	8.3	4.7	4.1	3.6
Agriculture	-1.9	7.2	2.9	3.2	3.0	1.9
Industry	-19.7	10.9	5.5	3.6	3.4	2.3
Services	-13.2	1.9	9.3	5.0	4.4	4.0
Inflation (Consumer Price Index)	2.5	4.0	10.8	9.8	7.0	5.3
Current Account Balance (% of GDP)	-8.8	-13.2	-14.2	-8.7	-6.9	-6.3
Net Foreign Direct Investment Inflow (% of GDP)	-111.7	31.3	18.0	29.6	29.7	29.6
Fiscal Balance (% of GDP)[b]	-19.1	-8.0	-5.5	-7.5	-5.1	-4.3
Revenues (% of GDP)	22.0	25.9	25.4	24.6	24.3	24.1
Debt (% of GDP)[b]	96.3	97.1	87.4	84.5	83.6	83.2
Primary Balance (% of GDP)[b]	-16.3	-5.2	-3.1	-5.3	-3.1	-2.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	2.3	2.1	1.7	1.5	1.2	1.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	16.5	15.3	12.9	11.4	10.1	9.1
GHG emissions growth (mtCO2e)	-13.6	6.3	3.7	3.2	2.2	2.2
Energy related GHG emissions (% of total)	62.4	60.7	60.8	60.6	60.2	59.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Historical demand-side data is being revised due to a consistency problem.
b/ Fiscal balances are reported in fiscal years (July 1st - June30th).
c/ Calculations based on 2017-HBS. Actual data: 2017. Nowcast: 2018-2022. Forecasts are from 2023 to 2025.
d/ Projection using neutral distribution (2017) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

MOZAMBIQUE

Table 1	2022
Population, million	33.0
GDP, current US$ billion	17.9
GDP per capita, current US$	543.5
International poverty rate ($2.15)[a]	64.6
Lower middle-income poverty rate ($3.65)[a]	83.1
Gini index[a]	54.0
School enrollment, primary (% gross)[b]	118.4
Life expectancy at birth, years[b]	61.2
Total GHG emissions (mtCO2e)	109.4

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

Economic recovery has strengthened, growth reached 4.1 percent in 2022, driven by strong export performance and services, as mobility fully resumed. Growth is expected to accelerate further in the medium term, supported by liquefied natural gas (LNG) production and good agricultural performance. As a result, poverty is projected to fall from 64.3 percent in 2022 to 60.6 percent by 2025. However, medium-term prospects are subject to substantial downside risks, including Russia's invasion of Ukraine, natural hazards, and conflict in the north.

Key conditions and challenges

Economic growth slowed down in recent years owing to multiple shocks, including the hidden debt crisis, the escalation of insurgency in northern Mozambique, tropical cyclones, and the COVID-19 pandemic. The country is endowed with rich natural resources, but widespread poverty and inequality, vulnerability to climate shocks, and fragility and conflict pose substantial development challenges. The economy's dual focus on labor-intensive, low-productivity agriculture and capital-intensive extractives, with weak sectoral links, constraints inclusive development. About two thirds of the population remain poor, and inequality is among the highest in Sub-Saharan Africa.

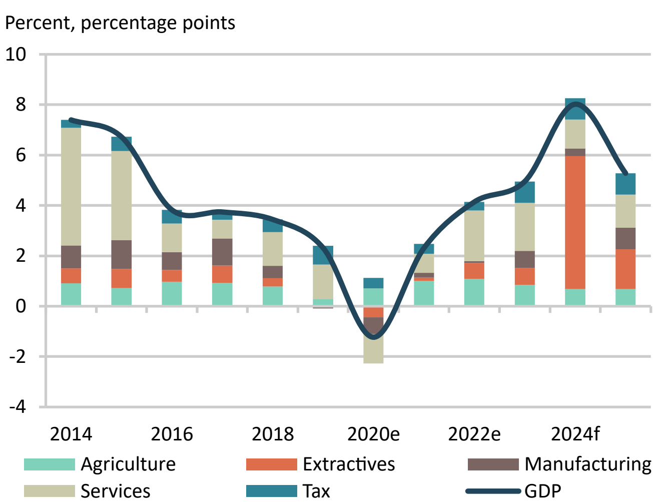
With over half a million people entering the labor force but only 25,000 new formal jobs each year, creating more and better jobs is a pressing need for Mozambique. However, the private sector's potential to create jobs and transform the economy is hampered by regulatory bottlenecks, large infrastructure deficits, and the high cost of credit. Lending interest rates in Mozambique are among the highest in Sub-Saharan Africa, reflecting a thin financial sector, rising government domestic borrowing, and high credit risks. The global economic slowdown and elevated inflation led to a further rise in the cost of credit, limiting growth opportunities outside extractives. Mozambique is at high risk of debt distress, with the country lacking access to international capital markets, and concessional financing remains limited. The government's capacity to finance development is heavily constrained, worsened by wage, pension, and debt-service costs that absorb 90 percent of total revenues.

Mozambique needs to diversify its sources of growth and jobs. Sustained, broad-based, and inclusive growth will require raising agricultural productivity and accelerating economic transformation by bolstering the services sector and strengthening intersectoral links. Policy priorities include enhancing macroeconomic stability, improving governance, strengthening resilience to shocks, and leveraging private sector potential. In the short to medium term, Mozambique needs to improve the business environment, expand private financing, and enhance labor market performance. Supporting access to skilled labor requires alleviating restrictions on the recruitment of foreign labor and encouraging knowledge transfer programs.

Recent developments

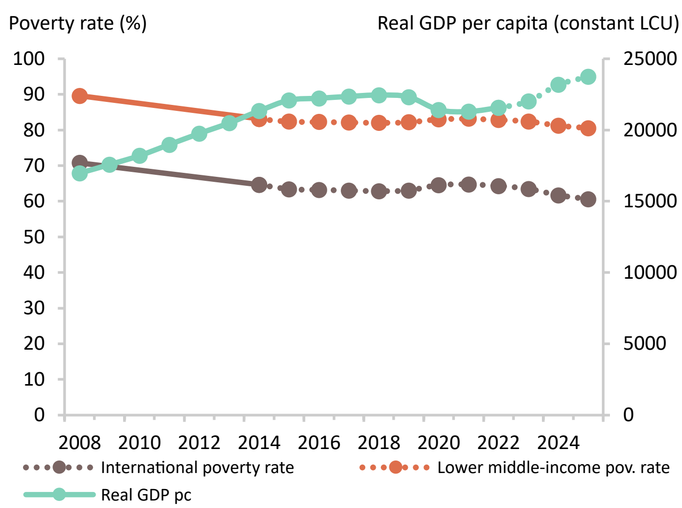
The economy is recovering from the pandemic, with growth increasing from 2.3 percent in 2021 to 4.1 percent in 2022. Services and agriculture performed well, thanks to higher farm productivity and the full resumption of mobility. Increased external demand and prices for Mozambique's key export commodities (notably, coal and aluminum) have supported the recovery further. However, inflation hit a five-year high as global fuel and food

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



Source: World Bank estimates.

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



Source: World Bank. Notes: see Table 2.

prices surged, and adverse weather reduced domestic food production, disproportionally affecting the poor. In response to the inflation hike, the Bank of Mozambique raised policy interest rates by 400 basis points to 17.3 percent in 2022. The nominal and real effective exchange rates remained stable, reflecting a comfortable supply of foreign currency. Low per capita income growth and high inflation have undermined poverty reduction, with the number of poor rising by half a million between 2021 and 2022.

Expenditure pressures persist owing to higher spending associated with ongoing wage bill reforms, debt service, and social transfers. The overall fiscal deficit increased from 4.8 percent of GDP in 2021 to 5.9 percent in 2022. Revenue performance remains strong thanks to improved income tax collection, and coupled with the under-execution of capital spending and budget support, moderated fiscal pressures. Public debt has been declining, but domestic debt has continued to rise, with the government resorting to the expensive domestic debt market to cover financing needs.

The current account deficit (CAD) increased from an average of 23.6 percent of GDP over 2017-21 to 36 percent in 2022, reflecting LNG equipment imports, and higher fuel and food import bills. The external financing gap was covered by World Bank Development Policy Financing, International Monetary Fund credits, debt, and a drawdown in reserves. Gross international reserves fell from US$3.3 billion in 2021 to US$2.5 billion (equivalent to 3.4 months of non-megaproject imports), as the central bank covered foreign currency needs for fuel imports.

Outlook

Medium-term prospects remain positive, but downside risks are substantial. Real GDP growth is expected to accelerate, averaging 6.2 percent between 2023-2025 as the offshore Coral South LNG terminal reaches full capacity and the Area 1 LNG project resumes. High commodity prices will continue to favor export growth. As international oil prices decline, inflation is also projected to decline, averaging 7.4 percent between 2023 and 2025. Poverty is projected to fall from 64.3 to 63.5 percent between 2022 and 2023. Downside risks, including a protracted war in Ukraine, a continued rise in fuel prices, and natural hazards, could lower medium-term GDP growth to 4.5 percent.

As revenue grows, the fiscal deficit is projected to decline to an average of 3.8 percent between 2023 and 2025. In the short term, revenue increases will be underpinned by collections from LNG resource revenue and increased grants. The fiscal outlook also hinges on successfully implementing the fiscal consolidation program. However, considerable challenges remain, notably the upfront costs of the ongoing wage bill reform and elections in 2024. If the wage bill continues to grow at the current pace, the overall fiscal deficit could reach 5 percent of GDP in the medium term. Unplanned fiscal financing needs will likely be met by domestic financing, adding to the high debt burden. The country will remain at high risk of debt distress, but debt is deemed sustainable in a forward-looking sense.

The CAD is poised to increase, projected at 29.3 percent of GDP in the medium term, as LNG projects advance. Total imports of goods are expected to average 45 percent of GDP over 2023-25, from 30 percent in 2019-21, largely due to LNG-related imports. Gas exports will partly offset this increase. Trade credits and foreign direct investment will continue to be the main financing sources for the CAD. Gross reserves are expected to stay at the equivalent of 4 months of imports, excluding megaprojects.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-1.2	2.3	4.1	5.0	8.3	5.3
Private Consumption	-2.2	17.3	2.9	0.9	13.1	4.4
Government Consumption	-19.1	-7.8	17.2	-18.9	-3.9	-4.0
Gross Fixed Capital Investment	60.9	32.5	-6.4	10.3	2.5	10.5
Exports, Goods and Services	-14.9	23.8	10.2	19.5	4.7	5.1
Imports, Goods and Services	0.0	37.2	1.9	3.3	4.1	5.0
Real GDP growth, at constant factor prices	-1.8	2.3	4.1	5.0	8.3	5.3
Agriculture	3.6	3.7	4.4	4.5	3.4	3.9
Industry	-5.7	1.6	3.8	9.4	33.3	13.0
Services	-2.9	1.9	4.2	3.4	0.5	1.8
Inflation (Consumer Price Index)	3.1	5.7	9.8	7.3	7.5	7.4
Current Account Balance (% of GDP)	-27.4	-22.8	-36.0	-14.5	-34.5	-38.8
Net Foreign Direct Investment Inflow (% of GDP)	21.5	32.2	10.5	18.9	16.9	11.6
Fiscal Balance (% of GDP)[a]	-5.3	-4.8	-5.9	-4.4	-3.7	-3.3
Revenues (% of GDP)	27.7	27.0	28.9	26.8	25.7	26.9
Debt (% of GDP)	118.9	106.4	102.7	101.6	101.2	100.2
Primary Balance (% of GDP)[a]	-2.2	-2.1	-2.4	-1.4	-0.6	-0.6
International poverty rate ($2.15 in 2017 PPP)[b,c]	64.5	64.7	64.3	63.5	61.7	60.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	83.0	83.2	82.9	82.4	81.2	80.5
GHG emissions growth (mtCO2e)	1.0	1.4	0.0	1.0	2.9	2.7
Energy related GHG emissions (% of total)	8.5	9.2	8.7	8.8	10.1	11.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Figure includes once-off capital gains revenues in 2017, estimated at 2.7 percent of GDP.
b/ Calculations based on 2014-IOF. Actual data: 2014. Nowcast: 2015-2022. Forecasts are from 2023 to 2025.
c/ Projection using neutral distribution (2014) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

NAMIBIA

Table 1	2022
Population, million	2.6
GDP, current US$ billion	12.1
GDP per capita, current US$	4732.6
International poverty rate ($2.15)[a]	15.6
Lower middle-income poverty rate ($3.65)[a]	33.3
Upper middle-income poverty rate ($6.85)[a]	57.3
Gini index[a]	59.1
School enrollment, primary (% gross)[b]	125.7
Life expectancy at birth, years[b]	62.8
Total GHG emissions (mtCO2e)	20.8

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

Boosted by the mining sector, Namibia's economy expanded by 3.5 percent in 2022. In 2023, the economic recovery is expected to continue at a slower pace amid negative spillovers from Russia's invasion of Ukraine and uncertainty about commodity prices. Planned investments in green hydrogen and mining could boost growth in the coming years. The population living on less than US$2.15 per day is estimated at 19 percent for 2023.

Key conditions and challenges

Namibia's economy was already constrained by structural problems before the COVID-19 pandemic, including weaknesses in the business environment and skills mismatches in the labor market. Its dependence on mineral extraction and exports as well as on agriculture has made it vulnerable to global commodity price shifts and climate shocks and droughts. As a result of these vulnerabilities, the country's economy contracted by an average of 0.2 percent between 2016 and 2019. Poverty remains high for the country's level of development, and it is one of the most unequal countries in the world. Unemployment is persistently high amid relatively weak job creation in the more-productive formal sector that has not been sufficient to compensate for the loss of jobs in the stagnating agricultural sector.

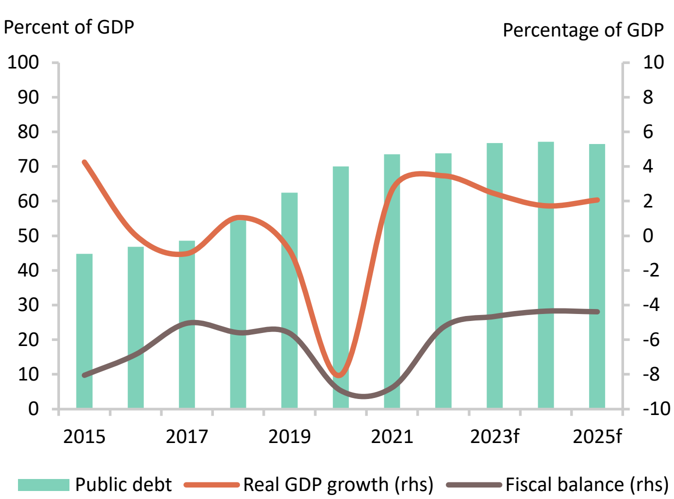
The lingering impacts of the pandemic, which led to a sharp economic downturn in 2020, and the ongoing war in Ukraine continue to weigh on the country's growth performance. The continuing recovery presents an opportunity for Namibia to transition toward more sustainable growth by implementing structural reforms to boost productivity and competitiveness and create new and higher-skilled jobs. With adequate management, the projected large investments in the mining and energy sectors can significantly advance these efforts. Structural reforms are needed in an environment where fiscal balances are vulnerable to external shocks and volatile Southern African Customs Union (SACU) revenues, while monetary policy is constrained by the Namibian dollar's peg to the South African rand.

Recent developments

Growth in 2022 reached 3.5 percent, driven by mining (especially the growth of diamond production), manufacturing, and the continued recovery of services. Diamond production increased by 46 percent, boosted by the use of Debmarine's new recovery vessel. Many services sectors, such as trade and finance, which rely on face-to-face interaction, continued to recover following the removal of all remaining pandemic-related restrictions mid-year. On top of both droughts and flooding, agricultural production has been hampered by higher fertilizer prices due to the war in Ukraine.

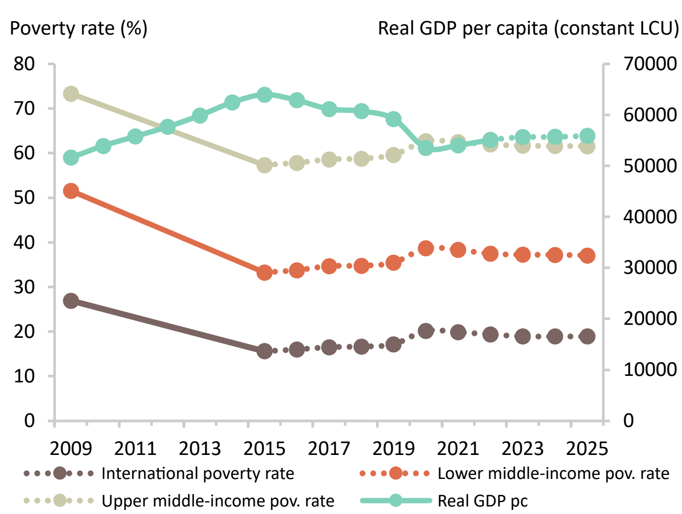
Stronger-than-expected growth and domestic revenue overperformance helped improve the fiscal position in 2022, despite a decrease in SACU receipts. The overall fiscal deficit was estimated at 5.3 percent of GDP, down from 8.8 percent in 2021. Public debt remained relatively high, at an estimated 73.8 percent of GDP in 2022. On the external side, exports were boosted by increasing diamond and other mineral production, but the current account deteriorated substantially due to the high prices of imported fuels. The deficit was partly

FIGURE 1 **Namibia** / Real GDP growth, fiscal balance, and public debt



Source: World Bank staff estimates.

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



Source: World Bank. Note: see Table 2.

financed by higher foreign direct investment inflows, mainly in the mining and oil exploration sectors.

Despite the economic recovery in 2022, the socioeconomic situation did not improve significantly. Employment is estimated to remain below pre-pandemic levels as labor-intensive manufacturing subsectors have added jobs relatively slowly. Spurred by higher fuel prices, inflation increased to a five-year high of 6.1 percent in 2022, disproportionately affecting the most vulnerable and decreasing consumers' real income. Poverty rates are estimated to remain above pre-pandemic levels, with an estimated 19.4 percent of the population living on less than US$2.15 per day.

Outlook

GDP growth is projected at 2.4 percent in 2023 and is expected to average just under 2 percent in the outer years, supported by the recovery of construction, services, and private investment. The rebound from the pandemic is expected to wane gradually over time, driven by the projected slowdown in the global economy and volatile commodity prices. Inflationary pressures should ease following the monetary tightening both globally and in the Common Monetary Area and diminishing increases in imported energy and food prices.

The current account deficit is projected to improve, driven by favorable forecasts for exported minerals and lower imported fuel prices, as well as increasing SACU revenues. The deficit is expected to persist over the medium term and is vulnerable to changes in the prices of minerals and energy. Planned new investments in green hydrogen could boost foreign direct investment and growth over the medium term, though there is uncertainty about feasibility and timelines.

Fiscal consolidation is expected to continue, and small primary surpluses are projected for the next three years. On the revenue side, such efforts would be boosted by increasing SACU receipts, which are expected to increase by 71 percent from 2022 to 2023 and an improved outlook for revenues, supported by the ongoing economic recovery and tax administration reforms. On the expenditure side, the government is expected to manage operational outlays more effectively, including containing the public sector wage bill relative to GDP. Expenditure containment policies are expected mostly in the outer years and would largely preserve development expenditure and social protection programs. Debt is forecast to peak at about 77 percent of GDP in 2024 and decrease thereafter. Additional interest rate increases would raise the cost of financing the deficit and servicing Namibia's public debt, making fiscal consolidation more difficult. Containing the public sector wage bill and other spending items through more effective expenditure management in the outer years may be challenging amid very high unemployment and other socioeconomic problems. Furthermore, if downside risks to economic conditions are realized, revenue outturns may be below ambitious targets amid rising pressures on spending.

Protecting the most vulnerable through well-targeted social spending programs and implementing structural reforms to stimulate private sector investment and create productive jobs will be critical to put Namibia on a sustainable growth path. However, as the impacts of policies like investment in skills development are expected to take time to affect people's livelihoods, the poverty rate is expected to only decline slightly over the medium term.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-8.0	2.7	3.5	2.4	1.7	2.1
Private Consumption	-11.3	12.6	8.5	3.0	2.8	2.7
Government Consumption	0.4	1.7	-0.3	3.8	-1.3	-1.8
Gross Fixed Capital Investment	-19.2	4.0	4.9	5.0	5.4	5.6
Exports, Goods and Services	-17.3	-2.3	18.4	2.8	3.5	3.9
Imports, Goods and Services	-18.0	15.6	16.0	4.7	3.5	3.2
Real GDP growth, at constant factor prices	-6.6	1.8	3.5	2.4	1.7	2.1
Agriculture	6.3	2.0	3.0	2.0	2.0	2.0
Industry	-12.9	1.4	7.6	3.5	2.1	2.1
Services	-5.3	1.9	1.8	1.9	1.5	2.1
Inflation (Consumer Price Index)	2.2	3.6	6.1	5.3	4.5	4.5
Current Account Balance (% of GDP)	2.8	-9.8	-11.5	-9.3	-8.0	-7.8
Net Foreign Direct Investment Inflow (% of GDP)	-1.9	5.2	7.5	4.2	4.3	4.2
Fiscal Balance (% of GDP)	-8.9	-8.8	-5.3	-4.7	-4.4	-4.4
Revenues (% of GDP)	33.4	29.9	32.6	34.7	33.6	32.0
Debt (% of GDP)[a]	70.0	73.5	73.8	76.8	77.1	76.5
Primary Balance (% of GDP)	-4.7	-4.5	-0.6	0.3	0.4	0.3
International poverty rate ($2.15 in 2017 PPP)[b,c]	20.2	19.9	19.4	19.0	18.9	18.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	38.7	38.3	37.5	37.2	37.2	37.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	62.7	62.5	62.0	61.7	61.6	61.5
GHG emissions growth (mtCO2e)	-1.5	-0.6	0.1	3.1	2.9	0.4
Energy related GHG emissions (% of total)	18.0	18.2	18.0	18.7	18.7	19.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Refers to Public and Publicly Guaranteed debt.
b/ Calculations based on 2015-NHIES. Actual data: 2015. Nowcast: 2016-2022. Forecasts are from 2023 to 2025.
c/ Projection using neutral distribution (2015) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

NIGER

Table 1	2022
Population, million	26.2
GDP, current US$ billion	17.1
GDP per capita, current US$	654.3
International poverty rate ($2.15)[a]	50.6
Lower middle-income poverty rate ($3.65)[a]	81.1
Upper middle-income poverty rate ($6.85)[a]	95.0
Gini index[a]	37.3
School enrollment, primary (% gross)[b]	64.8
Life expectancy at birth, years[b]	61.5
Total GHG emissions (mtCO2e)	49.4

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

After a slowdown in 2021 GDP growth accelerated to 11.5 percent in 2022 (7.6 percent in per capita terms) as agricultural production increased, while the extreme poverty rate declined to 46.9 percent. Growth is expected to remain robust at 6.9 percent in 2023 and then accelerate as oil revenues come onstream. Growth and poverty reduction are subject to significant downside risks including delays in oil production, climate-related shocks, and insecurity.

Key conditions and challenges

Niger's economy is agriculture-dependent and remains vulnerable to climate-related shocks. This is reflected in a robust but volatile growth trajectory that ranged between 2.4 and 10.5 percent from 2011 to 2019. As growth has been associated with limited improvements in productivity and high population growth (averaging 3.9 percent over 2010-19) per capita GDP remains at US$640 in 2022, towards the bottom of the world's income distribution. Around 50 percent of the population lives in extreme poverty, aggravated by gender disparities.

After the COVID-19 pandemic and the global economic downturn, the country has continued to be shaken by natural disasters, worsening regional and domestic insecurity, and to a more limited extent by Russia's invasion of Ukraine. Deteriorating regional security affects important agricultural areas, and addressing insecurity is key to improving economic performance, public finances, service delivery, and access to markets.

Recent developments

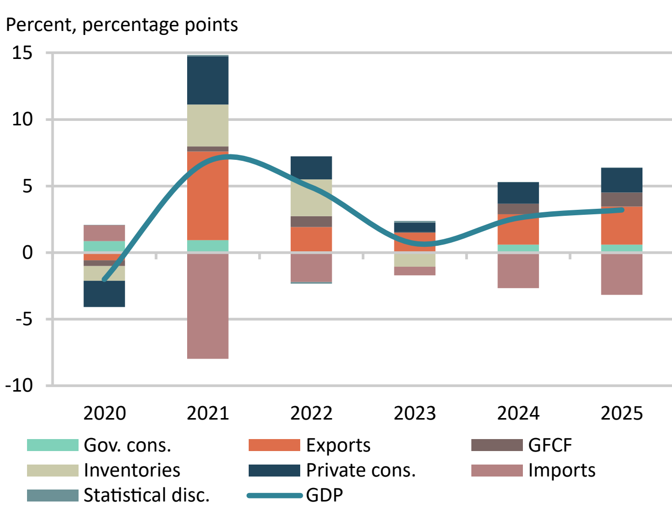
After the lackluster GDP growth in 2021 (1.4 percent) with a decline of 2.3 percent in per capita terms, economic growth is estimated to have jumped to 11.5 percent in 2022 (7.6 percent in per capita terms) as agriculture production increased by 73 percent following a better-than-average rainy season and the expansion of irrigated land, more than offsetting the decline in the extractive and manufacturing activity. The service sector benefited from the expansionary fiscal policy and the construction of the pipeline boosting market services and transportation.

Average annual inflation reached a 10-year high of 4.2 percent in 2022, up from 3.8 percent in 2021, resulting from continued pressures on the domestic food market and global commodity prices. Nevertheless, Niger had the lowest inflation rate in the WAEMU region.

The extreme poverty rate (less than $2.15 a day per capita in PPP) is expected to have declined to 46.9 percent in 2022 from 53.3 percent in 2021, as growth, particularly in agriculture, recovers. The number of extreme poor is projected at 12.3 million in 2022, with important regional differences. High food inflation coupled with insecurity disrupted livelihoods and markets in some regions (Tillabéry, Diffa, Tahoua, and Maradi) and negatively affected household food security. This situation was exacerbated by flooding, dry spells, and limited access to inputs, which are expected to have affected 15 percent of farming villages and led to declines in their agricultural production.

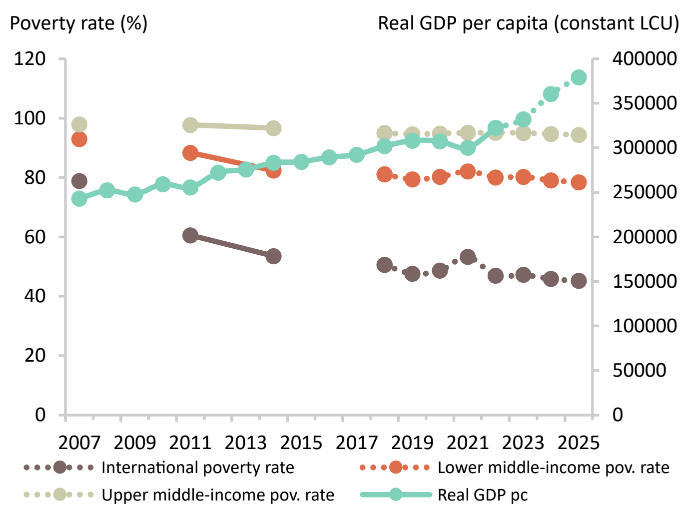
To counter inflation across WAEMU countries, the Central Bank of West African States (BCEAO) raised policy interest rates by a cumulative 75 basis points in 2022 (to 2.75 percent for liquidity calls and 4.75 percent for the marginal lending facility). BCEAO will likely

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



Sources: INSN and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

need to continue tightening in 2023 in line with other major central banks, as foreign exchange reserves have declined, and inflation remains well above the target range of 1-3 percent. Furthermore, delaying fiscal adjustments towards the regional fiscal deficit target of below 3 percent of GDP by 2025 could exacerbate debt sustainability risks in some countries, while increasing regional financing needs, reducing FX reserve buffers, and elevating inflationary risks.

The fiscal deficit increased to 6.9 percent of GDP in 2022 to accommodate additional social spending to address food insecurity, an emergency plan to support agriculture and livestock, and additional security spending. The fiscal deficit has been largely financed by external loans (3.8 percent of GDP) and debt issuance on the regional market (3 percent of GDP). The current account deficit widened to 14.6 percent of GDP amid food and extractive projects-related imports.

As a result of the widening fiscal deficit and the CFAF depreciation vis-à-vis the US dollar, public debt increased to 56 percent of GDP – an increase of 16 percentage points since 2019.

Outlook

Real GDP growth is expected to be in line with the potential, at 6.9 percent (3 percent per capita)\ in 2023, and to further rise in 2024 (12.5 percent) due to the start of large-scale oil production and exports, continued donors' support and an economic reform program designed to increase overall productivity and strengthen economic governance (including investment of rents from the petroleum sector and the sustained flow of international aid to improve access to basic services, infrastructure, and financial inclusion) bringing GDP per capita to a level 15 percent higher than in 2021. Inflation is expected to fall to 3.2 percent in 2023, and to 2.8 percent in 2024 as food inflation moderates, before picking up slightly in 2025 driven by additional demand fueled by oil revenues.

The poverty headcount rate is projected to decline by almost 1.7 percentage points by 2025, in line with higher non-oil growth, moderate agricultural growth and lower inflation in 2023 and 2024. Despite projected GDP growth being above Niger's population growth rate of 3.8 percent, the absolute number of poor will remain roughly constant at 13 million between 2021 and 2024.

An ambitious fiscal adjustment aims to bring the fiscal deficit down to 5.3 percent in 2023, supported by an IMF program, and to 3 percent by 2025 through measures to improve the structurally low level of domestic non-oil revenues. This would facilitate putting the debt-to-GDP ratio back onto a declining trajectory from 2024. With higher food imports, the current account deficit will grow to 16.2 percent before narrowing to 10.7 percent with the onset of oil exports.

This outlook is subject to a high degree of uncertainty and multiple downside risks, including intensified climate change-related shocks (which require improvements in disaster risk management and resilience through adaptation investments), deterioration of the security situation which can drain additional resources, dampening global oil prices and/or delays in oil production expansion, and delays to key structural economic reforms and complementary investments.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	3.6	1.4	11.5	6.9	12.5	9.1
Private Consumption	7.7	-0.2	3.2	4.2	5.0	5.6
Government Consumption	5.0	9.8	0.6	1.9	19.0	15.0
Gross Fixed Capital Investment	-3.4	7.7	33.0	18.5	1.3	7.7
Exports, Goods and Services	-6.3	6.7	0.0	19.4	90.6	17.5
Imports, Goods and Services	2.7	6.9	5.1	17.1	13.7	9.1
Real GDP growth, at constant factor prices	4.2	1.0	11.5	6.9	12.5	9.1
Agriculture	7.7	-5.1	27.0	5.1	5.2	5.2
Industry	1.9	4.1	-0.7	7.5	27.7	9.6
Services	2.1	5.4	4.5	8.5	12.1	12.6
Inflation (Consumer Price Index)	2.8	3.8	4.2	3.2	2.8	3.4
Current Account Balance (% of GDP)	-13.2	-14.4	-14.6	-16.2	-10.7	-7.5
Net Foreign Direct Investment Inflow (% of GDP)	2.5	3.3	4.1	4.1	4.1	3.8
Fiscal Balance (% of GDP)	-5.4	-6.1	-6.9	-5.3	-4.0	-3.0
Revenues (% of GDP)	17.4	18.2	15.0	17.4	19.6	19.2
Debt (% of GDP)	45.0	51.3	56.0	57.5	54.0	48.8
Primary Balance (% of GDP)	-4.4	-5.0	-5.5	-3.9	-2.7	-1.8
International poverty rate ($2.15 in 2017 PPP)[a,b]	48.6	53.3	46.9	47.2	45.9	45.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	80.2	82.1	80.1	80.3	79.0	78.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	94.8	95.1	95.1	95.0	94.6	94.4
GHG emissions growth (mtCO2e)	4.2	3.8	4.0	4.2	4.6	4.4
Energy related GHG emissions (% of total)	6.9	6.8	6.8	7.0	7.4	7.6

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 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection based on microsimulation model that accounts for differences in sectoral growth, food and nonfood inflation.

NIGERIA

Table 1	2022
Population, million	218.5
GDP, current US$ billion	477.4
GDP per capita, current US$	2184.4
National poverty rate[a]	41.1
Gini index[b]	35.1
School enrollment, primary (% gross)[c]	85.7
Life expectancy at birth, years[c]	52.9
Total GHG emissions (mtCO2e)	383.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022).
b/ Most recent value (2018), 2017 PPPs.
c/ WDI for School enrollment (2019); Life expectancy (2020).

Oil price booms have previously supported the Nigerian economy, but this has not been the case since 2021. Instead, macroeconomic stability has weakened amidst declining oil production, costly fuel subsidies, exchange rate distortions, and monetization of the fiscal deficit. The deteriorating economic environment is leaving millions of Nigerians in poverty. Risks are tilted to the downside given the lack of macro-fiscal reforms, the naira demonetization, and an uncertain external outlook.

Key conditions and challenges

Macroeconomic stability has weakened considerably due to multiple FX rates, high and increasing inflation, rising fiscal pressures, and declining forex reserves. Nigeria's fiscal position has deteriorated since 2015 due to declining oil revenues and rising expenditures, resulting in persistently high fiscal deficits. To finance the growing deficit, the government has resorted increasingly to costly financing from the central bank, which in turn has increased interest costs, crowding out private sector credit, and contributing to inflation.

Nigeria's chronically high inflation has increased since 2019, especially for food items, eroding the purchasing power of poor and vulnerable Nigerians and increasing poverty. The effectiveness of monetary policy is compromised by multiple FX windows, the central bank's provision of development finance at subsidized rates, and monetization of the fiscal deficit.

Persistent structural economic issues (volatile growth, low private investment, low and inefficient public spending, due to low revenue collection, and low social development outcomes leading to low productivity) have prevented any meaningful acceleration of growth. Insecurity remains widespread, with more violent conflict events occurring across the country, adversely impacting private investment and growth.

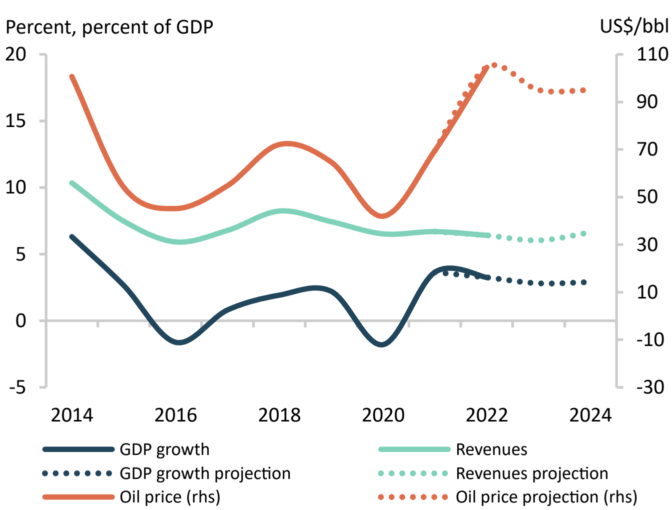
The oil sector, historically the main contributor to fiscal revenues and accounting for about 90 percent of total exports, has underperformed since 2020. Declining oil production and the mounting cost of the petrol subsidy have prevented Nigeria from reaping the benefits of higher global oil prices. The weakness in oil production stems from technical and security challenges in the oil-producing Niger Delta region, aging infrastructure and inadequate investments in the sector, and the Nigerian National Petroleum Company's (NNPC) delays in paying for the government's share of costs in joint-venture operations.

Recent developments

In 2022, oil revenues, the fiscal deficit outturn, FX reserves, and economic growth decoupled from the cycle of higher global oil prices. GDP growth decelerated from 3.6 percent in 2021 to 3.3 percent in 2022. Growth was driven by manufacturing, construction, and most services. In contrast, the oil sector shrank by 19.2 percent. From the demand side, growth was driven by private consumption and investment.

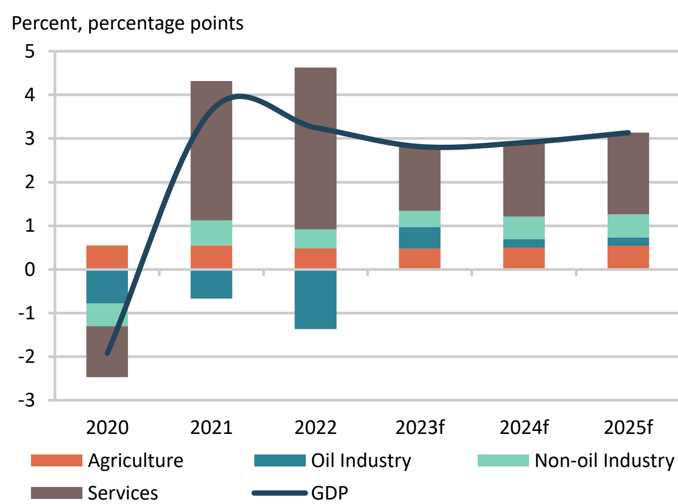
Inflation reached an annual average 18.8 percent in 2022, a 21-year high. Food inflation in 2022 is estimated to have pushed five million Nigerians into poverty. The increase in inflation resulted from higher global commodity prices, the sharp depreciation of the parallel market exchange rate, floods that impacted several states,

FIGURE 1 Nigeria / Oil price, Government revenues, and real GDP growth



Sources: WDI, NBS, and World Bank.

FIGURE 2 Nigeria / Real GDP growth and sectoral contributions to real GDP growth



Sources: NBS and World Bank.

and the monetization of the fiscal deficit. The central bank has increased the reference rate by 600 basis points since May 2022, but inflation continued rising throughout the year. While banking sector indicators remain sound at the system level, the deteriorating fiscal and external environment could expose the financial system to shocks that it lacks adequate buffers to withstand.

The fiscal position deteriorated. In 2022, the cost of the petrol subsidy increased from 0.7 percent to 2.3 percent GDP. Low non-oil revenues and high interest payments compounded fiscal pressures. The fiscal deficit was estimated at 5.0 percent of GDP in 2022, breaching the stipulated limit for federal fiscal deficit of 3 percent. This has kept the public debt stock at over 38 percent of GDP and pushed the debt service to revenue ratio from 83.2 percent in 2021 to 96.3 percent in 2022.

The current account balance recorded a deficit of 0.3 percent of GDP in Q1-Q3 2022. The increase in crude oil exports reflecting higher oil prices was outpaced by higher imports of refined petroleum products and lower remittances and capital inflows. As of December 2022, FX reserves were enough to cover 6.9 months of imports, compared to 7.5 months in end-2021.

Outlook

Nigeria is in a more fragile position than before the late 2021 global oil price boom. Growth and poverty reduction have further been affected by cash scarcity in the context of the Naira redesign. The economy is projected to grow by an average of 2.9 percent per year between 2023 and 2025, only slightly above the population growth rate of 2.4 percent. Growth will be driven by services, trade, and manufacturing. Oil production is projected to remain subdued in part because of inefficiencies and insecurity.

With Nigeria's population growth continuing to outpace poverty reduction, and persistent high inflation, the number of Nigerians living below the national poverty line will rise by 13 million between 2019 and 2025 in the baseline projection.

Fiscal and external pressures are expected to persist due to rising global and domestic interest rates and low oil revenues resulting from the moderation in oil prices and inability to significantly increase oil production. In the absence of significant FX management reforms, international reserves are projected to remain stagnant. Meanwhile, non-oil revenues will not increase as a share of GDP without significant tax revenue reforms. As a result, the fiscal deficit will remain above 5.0 percent of GDP in 2023-2025.

Downside risks to Nigeria's outlook have intensified, with most of the risks coming from domestic policies, continued low oil production, and heightened scarcity of foreign exchange and local currency. Fiscal and debt pressures will increase if the petrol subsidy is not phased out in June 2023, as envisaged in the 2023 Budget. The authorities can strengthen the economy by restoring macroeconomic stability through reforms to (i) increase oil and non-oil revenues, (ii) tighten monetary policies to reduce inflation, and (iii) unify the multiple FX windows and adopt a single, market-responsive exchange rate. Increased insecurity as well as adverse climate change effects could further dampen the economic outlook for Nigeria.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-1.8	3.6	3.3	2.8	2.9	3.1
Private Consumption	-1.0	25.6	5.0	2.4	2.1	2.5
Government Consumption	61.6	-34.0	1.3	-15.7	12.1	3.5
Gross Fixed Capital Investment	-14.7	4.7	-6.8	4.4	1.8	2.6
Exports, Goods and Services	-33.4	-32.1	5.4	11.2	6.0	7.0
Imports, Goods and Services	-61.9	44.4	4.0	2.5	4.4	4.8
Real GDP growth, at constant factor prices	-1.9	3.4	3.1	2.9	2.9	3.1
Agriculture	2.2	2.1	1.9	1.9	2.0	2.2
Industry	-5.8	-0.5	-4.6	4.6	3.7	3.7
Services	-2.2	5.6	6.7	2.8	3.1	3.3
Inflation (Consumer Price Index)	13.2	17.0	18.8	16.5	13.5	11.5
Current Account Balance (% of GDP)	-3.7	-0.4	0.0	0.7	0.1	0.0
Net Foreign Direct Investment Inflow (% of GDP)	-0.2	-0.3	0.1	-0.3	-0.4	-0.4
Fiscal Balance (% of GDP)	-5.1	-6.3	-5.0	-5.4	-5.3	-5.8
Revenues (% of GDP)	6.5	6.9	6.4	6.0	6.7	6.4
Debt (% of GDP)	36.0	38.8	38.6	39.3	40.8	42.2
Primary Balance (% of GDP)	-2.8	-3.6	-1.8	-1.9	-1.4	-1.6
Poverty rate, national line[a,b]	42.0	41.5	41.1	40.9	40.7	40.4
GHG emissions growth (mtCO2e)	-0.2	4.2	4.0	2.6	3.0	3.3
Energy related GHG emissions (% of total)	36.3	37.3	38.0	37.9	37.9	38.0

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 2018-LSS. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2025.
b/ These calculations use the national poverty line of 137,430 naira per person per year, in 2018/19 prices. The national line is used, as it will remain the yardstick on which policymakers in Nigeria focus, even as the PPP price data and international poverty lines for cross-country comparisons are updated. For further details see https://blogs.worldbank. org/africacan/what-does-moving-2017-ppps-and-new-international-poverty-lines-mean-nigeria.

RWANDA

Table 1	2022
Population, million	13.8
GDP, current US$ billion	12.6
GDP per capita, current US$	914.8
International poverty rate ($2.15)[a]	52.0
Lower middle-income poverty rate ($3.65)[a]	78.0
Upper middle-income poverty rate ($6.85)[a]	92.2
Gini index[a]	43.7
School enrollment, primary (% gross)[b]	140.7
Life expectancy at birth, years[b]	66.8
Total GHG emissions (mtCO2e)	7.2

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

Rwanda's economy has shown some resilience in 2022 growing about 8 percent, mainly driven by the recovery in tourism-related sectors. However, high inflation pressures posed some risks to vulnerable households. Despite higher inflows of grants and remittances, the current account deficit remained wide, affected by global commodity market shocks. Real GDP growth is estimated at 6.2 percent in 2023 and is projected to be 7.5 percent on average in 2024–2025.

Key conditions and challenges

Rwanda has been among the fastest growing economies in the world for almost a decade, averaging 7.2 percent over 2010–19. Capital accumulation, mostly large-scale public investment, was the main growth driver. Limitations of this development model have become clear. Labor productivity and total factor productivity are low for its income level. Public debt grew rapidly as well—more than tripling relative to GDP since 2010—raising concerns about its long-term sustainability. Since June 2020, Rwanda's external and overall public debt distress is classified as moderate. Inclusive growth also remains a main challenge to Rwanda's development ambitious targets, as the poverty reduction momentum has weakened in recent years.

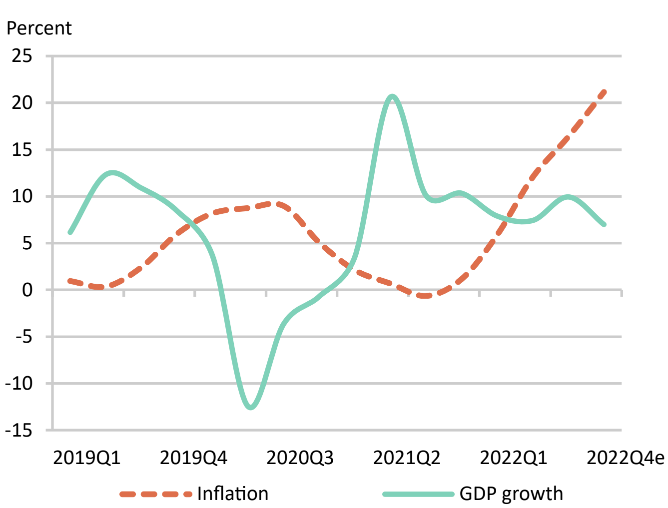
High reliance on rainfed agriculture and livestock production makes Rwanda highly exposed to seasonal weather patterns. Rapid urbanization and depletion of forest and water resources in recent years led to increased vulnerability to flooding risks, land degradation, and biodiversity loss.

Recent developments

After a strong recovery in 2021, Rwanda's economy encountered multi-faceted challenges. The economy experienced setbacks stemming from the slowdown in global growth and rising global inflation. Agriculture output underperformed due to unfavorable weather coupled with lower use of fertilizers and other inputs—a consequence of higher prices linked to global supply chain disruptions. Despite these challenges, Rwanda's economy has shown some resilience, and it is estimated to have expanded by about 8 percent in 2022 (Table 2). Spurred by the revival of tourism, the services sector drove growth, while the industrial and agricultural sectors slowed down in 2022. Even though employment indicators improved in the third quarter to levels, similar to those at the beginning of the pandemic, the unemployment rate of 24.3 percent in November 2022 was 8.9 percentage points higher than in November 2019, resulting in an increase of 85 percent in the number of unemployed. Employment outcomes for women and youth were more affected by the pandemic.

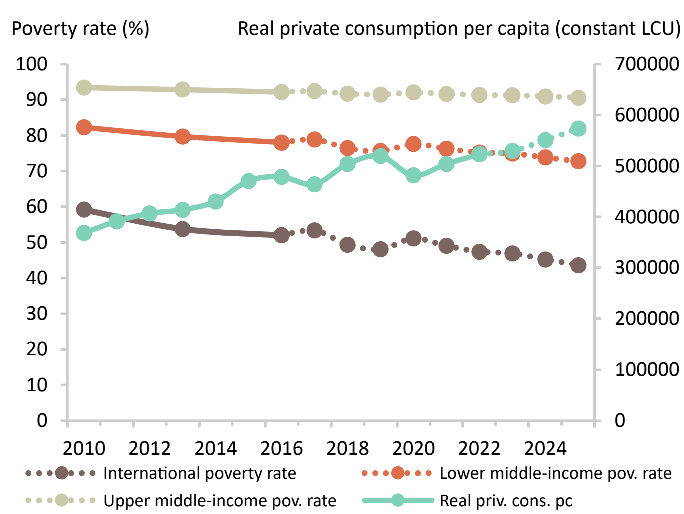
Inflation reached its highest level in over thirteen years—21.7 percent in the year to November 2022—owing to rising global commodity prices and the poor agricultural harvest. Food prices were the most affected inflation categories. Rising food prices particularly burdened poor households and those in rural areas, who devote more than 70 percent of their budgets to food purchases. As inflationary pressures started mounting, the National Bank of Rwanda (NBR) quickly tightened its monetary policy. The NBR raised policy rate by a cumulative 250 basis points between February 2022 and February 2023 to 7 percent (a level not seen since

FIGURE 1 Rwanda / Quarterly inflation and real GDP growth



Source: World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

June 2014). This led to increases in short-term money market rates. The NBR took additional measures to curb inflation pressures, such as the resumption of mop-up operations since June 2022 and the re-establishment of the reserve requirement ratio to the pre-COVID level of 5 percent in January 2023.

The current account deficit is estimated to have declined from 10.9 percent of GDP in 2021 to 10.6 percent in 2022, supported by the recovery in tourism and strong re-exports. Exports increased by 37.9 percent, driven by higher commodity prices and re-exports to the DRC as pandemic restrictions were lifted. Increases in global prices for oil and other commodities expanded import payments by 25.1 percent in 2022. Foreign direct investment and government borrowing partially financed the current account deficit, leading to a drawdown on foreign reserves.

The government has begun consolidation efforts to preserve fiscal space for development priorities. The overall deficit is estimated at 6.1 percent of GDI in 2022, one percent lower than in 2022. Capital expenditure was lower by 0.6 percent of GDP, while current expenses were consistent with the recent trends. Reduction in fiscal deficit has brought down the public debt to 71.3 percent in 2022 from 73.3 percent in 2021. Bonds and other commercial loans account for 11.5 percent of the total public debt.

Outlook

GDP growth is expected to moderate to 6.2 percent in 2023 due to sluggishness of the global economy and external demand as well as to elevated inflation but regain momentum in 2024. GDP growth is projected to accelerate to 7.5 percent on average in 2024–2025 driven by the pickup in construction of the new airport and the subsequent boost to the services sector in line with global growth outlook and the expected decline in inflation.

Inflationary pressures are expected to remain high in the first half of 2023 before the inflation rate converges toward the target band toward the end of the year, reflecting the monetary policy measures undertaken. Persistently high food price inflation could delay or even revert the expected small poverty gains in the next few years behind tapering growth in private consumption. Projected poverty reductions of 2 percentage points between 2022 and 2024 (from 47.4 to 45.3 percent) will only be enough to keep the number of poor constant given population growth.

The government plans to rationalize both recurrent non-wage spending and capital budgets to stabilize debt levels while safeguarding fiscal space for social and human capital spending. It is phasing out the spending measures introduced during the pandemic or that were financed by the 2021 SDR increase, as well as tightly controlling recurrent spending, dropping underperforming public investment, introducing efficiencies, and strengthening the oversight of state-owned enterprises. The implementation of the Medium-Term Revenue Strategy through tax policy reforms is also a major part of the fiscal consolidation plan. Debt levels are expected to rise in the medium term as Rwanda continues to rely on credit option, tough on concessional terms.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-3.4	10.9	8.1	6.2	7.5	7.5
Private Consumption	-5.0	7.2	6.2	3.5	6.4	6.4
Government Consumption	-1.9	4.3	6.6	-1.3	3.8	2.9
Gross Fixed Capital Investment	-2.3	21.1	13.9	14.2	5.9	6.3
Exports, Goods and Services	-9.2	2.8	31.5	20.1	13.2	11.2
Imports, Goods and Services	-3.4	3.6	22.8	13.9	7.0	5.9
Real GDP growth, at constant factor prices	-3.5	10.9	8.1	6.2	7.5	7.5
Agriculture	0.9	5.8	1.6	5.5	5.0	5.0
Industry	-4.2	14.7	5.5	9.2	8.5	8.5
Services	-5.5	12.2	12.5	5.5	8.3	8.3
Inflation (Consumer Price Index)	7.7	0.8	13.9	7.9	5.0	5.0
Current Account Balance (% of GDP)	-12.2	-10.9	-10.6	-12.4	-11.6	-10.7
Net Foreign Direct Investment Inflow (% of GDP)	1.0	1.9	2.9	3.1	3.3	3.6
Fiscal Balance (% of GDP)	-10.4	-7.1	-6.1	-6.9	-6.0	-5.5
Revenues (% of GDP)	23.9	24.6	25.2	23.3	23.8	23.8
Debt (% of GDP)	72.4	73.3	71.0	76.2	79.3	79.7
Primary Balance (% of GDP)	-8.8	-5.2	-3.9	-5.0	-4.3	-3.9
International poverty rate ($2.15 in 2017 PPP)[a,b]	51.1	49.0	47.4	46.9	45.3	43.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	77.6	76.3	75.3	74.9	73.8	72.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	92.1	91.7	91.4	91.3	90.9	90.6
GHG emissions growth (mtCO2e)	-0.7	1.8	2.1	2.4	2.8	2.9
Energy related GHG emissions (% of total)	15.4	14.3	13.1	12.0	11.0	10.0

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 2010-EICV-III and 2016-EICV-V. Actual data: 2016. Nowcast: 2017-2022. Forecasts are from 2023 to 2025.
b/ Projection using average elasticity (2010-2016) with pass-through = 0.7 based on private consumption per capita in constant LCU.

SÃO TOMÉ AND PRÍNCIPE

Table 1	2022
Population, million	0.2
GDP, current US$ billion	0.5
GDP per capita, current US$	2401.3
International poverty rate ($2.15)[a]	15.6
Lower middle-income poverty rate ($3.65)[a]	44.8
Upper middle-income poverty rate ($6.85)[a]	79.7
Gini index[a]	40.7
School enrollment, primary (% gross)[b]	106.8
Life expectancy at birth, years[b]	67.8
Total GHG emissions (mtCO2e)	0.4

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

STP has faced severe macroeconomic imbalances. Growth stagnated amid successive shocks, most recently the impact of Russia's invasion of Ukraine, and recurrent energy crisis. Inflation spiked to 25 percent as a monetary-financed fiscal deficit depleted foreign reserves. Measures to restore macroeconomic stability included ceasing monetary financing and adjusting fuel prices. Delayed implementation of structural reforms and an uncertain global environment poses risks to outlook.

Key conditions and challenges

São Tomé and Príncipe (STP) is a small island lower-middle income country (LMIC) constrained by remoteness, a small private sector, fragile institutions, and low human capital. Growth has been driven by externally financed public spending, but a declining trend in external financing and low domestic revenue mobilization have exposed the limitations of the Government-expenditure-led growth model. Underdeveloped infrastructures, especially unreliable electricity supply and low road density, constrain growth. Energy reforms are paramount to fiscal sustainability, to achieve transition to a cleaner and cheaper energy matrix and to enable private sector growth.

Economic growth in recent years has been hampered by persistent energy shortages, the COVID-19 pandemic, climate shocks, and high commodities prices triggered by the war in Ukraine. Moreover, the political uncertainty caused by the legislative elections in 2022 resulted in lower external financing disbursements. The new government adopted measures to restore macroeconomic stability by ending monetary financing of the budget and adjusting fuel prices in early February. A new IMF program requested by the government is expected to support a fiscal adjustment program, including expenditure control and the introduction of value-added tax (VAT) in June 2023, and a tighter monetary stance to curb inflation and support the peg to the Euro.

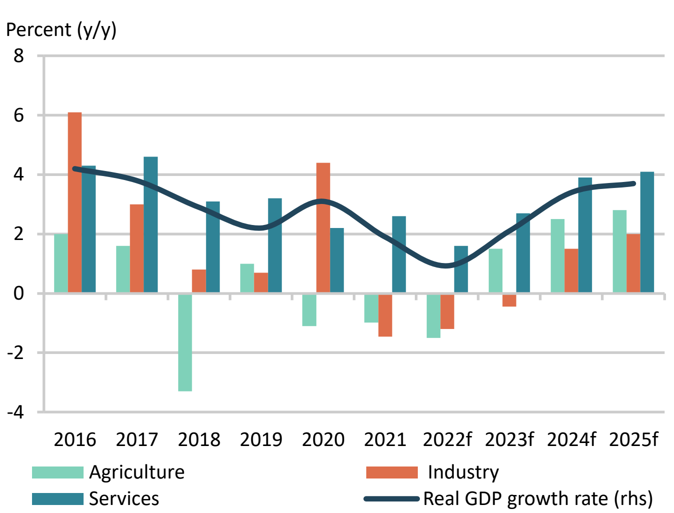
STP's young and fast-growing population lacks employment opportunities, heavily relying on informal and subsistence activities. Low access to finance further limits income-generating opportunities. Extreme poverty remains high for STP's income levels, with about 15.4 percent of the population living on less than US$2.15 per day (in 2017 PPP terms), 44.6 percent on less than US$3.65 per day (the poverty line for LMIC), and almost 20.6 percent facing food insecurity.

Recent developments

Amid renewed shocks, growth declined from 1.9 percent in 2021 to 0.9 percent in 2022, reflecting persistent energy shortages and the burden of higher food and fuel prices driven by the war in Ukraine. Due to high population growth, GDP per capita declined. The high cost of imported inputs such as seeds and fertilizers reduced agricultural production, as did repeated flooding caused by heavy rains. Industrial production suffered from delays in the execution of externally financed infrastructure projects, the high cost of fuel, and persistent blackouts. Growth in 2022 was sustained mostly by rebounding tourism, although activity remains below pre-pandemic levels.

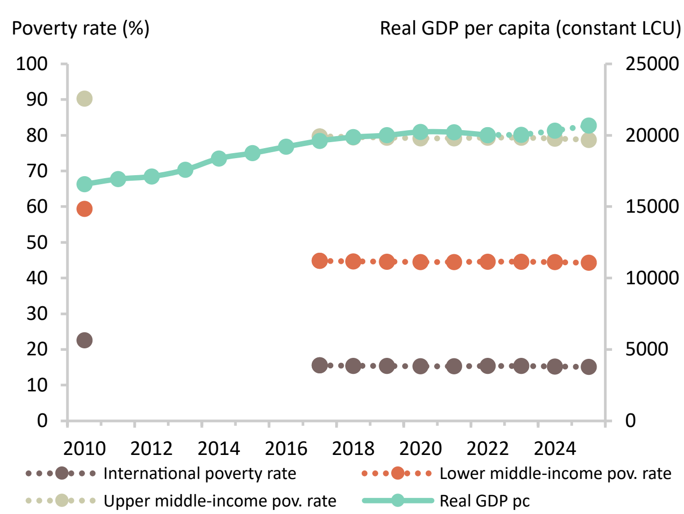
The current account deficit, excluding grants, is estimated to have widened to 22 percent of GDP due to higher costs of imports, in particular food, fuel, and

FIGURE 1 São Tomé and Príncipe / Real GDP growth and contributions to real GDP growth



Sources: São Tomé and Príncipe authorities' data, IMF, World Bank.

FIGURE 2 São Tomé and Príncipe / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

fertilizer, which was only partially offset by services exports from the rebounding tourism sector. Net international reserves plummeted to a negative level in November 2022, threatening the currency peg to the Euro before reserves were shored up by an emergency loan in December. The authorities are negotiating with Portugal an additional disbursement of €40 million under a credit facility backing the exchange rate peg.

Fiscal expansion undermined macroeconomic stability. Domestic revenue collections suffered from the delayed implementation of revenue mobilization measures and persistent energy shortages. Public expenditures increased, in part driven by the need to respond to climate-related emergencies, but also by the public sector wage bill, which increased by 22.9 percent. Consequently, the domestic primary deficit (excluding oil) is estimated to have increased from 3.1 percent in 2021 to 5.6 percent of GDP in 2022. Public debt is estimated at 92.3 percent of GDP.

By December 2022, inflation reached a historic high of 25.2 percent, largely driven by pressures on prices of imported goods (such as food and fuel), fuel prices adjustments, and the monetary financing of the fiscal deficit. Food inflation reached 29 percent, disproportionately affecting the poorest. The high inflation differential with the euro area appreciated the real exchange rate. The central bank tightened monetary policy by increasing the reference rate from 9 to 10 percent in June 2022 and raising mandatory reserves requirements.

Outlook

Real GDP growth is projected to rebound to 2.1 percent in 2023, sustained by a continued recovery in tourism, along with higher disbursements of external financing from multilateral development partners. The recession in the industry sector is expected to slow due to the resumption of externally financed infrastructure projects and improved energy supply. Despite growing tourism and improved terms of trade, the current account deficit is expected to widen to 25 percent of GDP due to the recovery of investment-related imports.

The fiscal position is projected to improve with the planned freeze in the wage bill, cuts in domestically-financed public investment, and improvement in domestic revenue mobilization including the introduction of VAT. Therefore, the domestic primary deficit is expected to narrow to 2 percent of GDP in 2023. Inflation is projected to decline to 10.7 percent, supported by a more conservative fiscal policy and the central bank´s policies to drain excessive liquidity by issuing certificates of deposit.

Poverty reduction is likely to stagnate in the short term. The share of people living on less than US$2.15 a day (in 2017 PPP terms) is expected to remain broadly the same in 2023. The growth rebound remains modest and households are likely to face price increases with the introduction of the VAT.

The outlook is subject to significant uncertainty and downside risks. Delays in the implementation of reforms and fuel price adjustments could once again pressure on the government's fiscal position and foreign exchange reserves. Furthermore, continued disruption in global supply chains, lower availability of external financing and new exogenous shocks to food and fuel prices, including from climate events, could undermine STP's growth prospects and further deteriorate households' purchasing power.

TABLE 2 São Tomé and Príncipe / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	3.1	1.9	0.9	2.1	3.4	3.7
Real GDP growth, at constant factor prices	2.3	1.6	0.9	2.1	3.4	3.7
Agriculture	-1.1	-1.0	-1.5	1.5	2.5	2.8
Industry	4.4	-1.5	-1.2	-0.5	1.5	2.0
Services	2.2	2.6	1.6	2.7	3.9	4.1
Inflation (Consumer Price Index)	9.4	9.5	25.2	10.7	8.7	6.2
Current Account Balance (% of GDP)	-11.4	-17.1	-20.6	-18.9	-18.1	-17.1
Fiscal Balance (% of GDP)	-4.9	-5.9	-5.7	-4.9	-2.8	-1.0
Revenues (% of GDP)	26.0	19.7	18.6	19.1	20.4	20.7
Debt (% of GDP)	87.6	91.6	92.3	85.0	84.3	81.5
Primary Balance (% of GDP)	-4.6	-5.7	-5.3	-4.5	-2.4	-0.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	15.3	15.3	15.4	15.4	15.3	15.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	44.5	44.5	44.6	44.6	44.5	44.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	79.1	79.2	79.3	79.3	79.1	78.7
GHG emissions growth (mtCO2e)	1.2	0.9	0.6	1.0	1.2	1.3
Energy related GHG emissions (% of total)	37.0	37.1	37.2	37.4	37.8	38.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Projection using point to point elasticity at regional level with pass-through = 0.7 based on GDP per capita in constant LCU. Actual data: 2017. Nowcast: 2018-2022. Forecasts are from 2023 to 2025.
b/ Actual data: 2017. Nowcast: 2018-2022. Forecasts are from 2023 to 2025. Actual data: 2017. Nowcast: 2018-2022. Forecasts are from 2023 to 2025.

SENEGAL

Table 1	2022
Population, million	17.3
GDP, current US$ billion	31.1
GDP per capita, current US$	1798.3
International poverty rate ($2.15)[a]	9.3
Lower middle-income poverty rate ($3.65)[a]	37.4
Upper middle-income poverty rate ($6.85)[a]	74.4
Gini index[a]	38.1
School enrollment, primary (% gross)[b]	81.2
Life expectancy at birth, years[b]	68.0
Total GHG emissions (mtCO2e)	35.7

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

Growth slowed to 4.2 percent in 2022, from 6.5 percent in 2021, alongside soaring food and energy prices stemming from Russia's invasion of Ukraine. The fiscal deficit and debt levels remained elevated, mainly due to the sharp rise in energy subsidies. Growth is expected to accelerate in 2024 driven by hydrocarbon production. Risks, tilted to the downside, include delays to hydrocarbon production, election costs, and failure to eliminate energy subsidies.

Key conditions and challenges

Low productivity and informality continue to hamper the structural transformation of the economy. The use of traditional production techniques, uncertainty over land tenure, limited access to credit, climate unpredictability, and supply bottlenecks impede agricultural sector productivity growth. This poses serious challenges in terms of poverty reduction as three quarters of the poor in Senegal live in rural areas and rely on agricultural activities and small non-farm enterprises. Most low-skilled labor force that was shed by the agricultural sector is engaged in informal trade, rather than in high value-added services or technology-based industries. The manufacturing sector is constrained due to the lack of skilled human capital. The private sector is hampered by restrictive business regulations. The Human Development Report 2021-2022 ranked Senegal 170th out of 191 countries, below the average for sub-Saharan Africa.

Strengthening macroeconomic management would support Senegal's structural transformation. Fiscal and current account deficits (at 6.7 and 19.5 percent of GDP respectively) and debt levels (75 percent of GDP) remain elevated in 2022. Fiscal costs related to electricity sector subsidies are significant, but the government's decision to progressively phase out generalized energy subsidies, combined with expanding targeted social protection measures, signals commitment to implement a medium-term fiscal consolidation that protects the poorest and creates space for public investment.

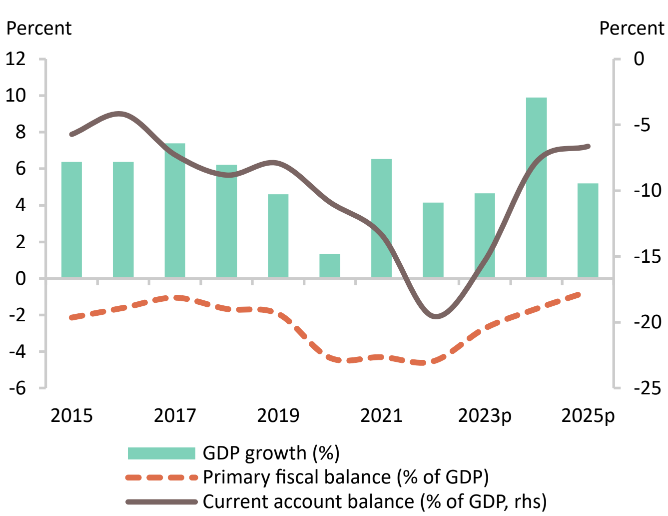
Recent developments

GDP growth decelerated from 6.5 percent in 2021 to 4.2 percent in 2022 following a decline in exports, agriculture, and mining. Real export growth declined from 22.6 percent in 2021 to 8.1 percent in 2022 due to lower external demand and the closure of the borders with Mali in the first half of 2022. Agriculture sector growth decelerated from 0.6 percent in 2021 to 0.3 percent in 2022, reflecting higher input costs and poor performance in peanuts production (affected by heavy rains) and cotton production (affected by parasite infestations). Tightening supply chains and soaring commodity prices affected growth in the industry sector which declined from 7.8 in 2021 to 1.1 percent in 2022. Inflation reached 9.6 percent in 2022.

The poverty rate (using the lower middle-income poverty line of $3.65 a day) is expected to slightly increase to 36.3 percent in 2022 compared to 35.9 percent in 2021, given the high level of inflation, particularly on food, which reached 15 percent.

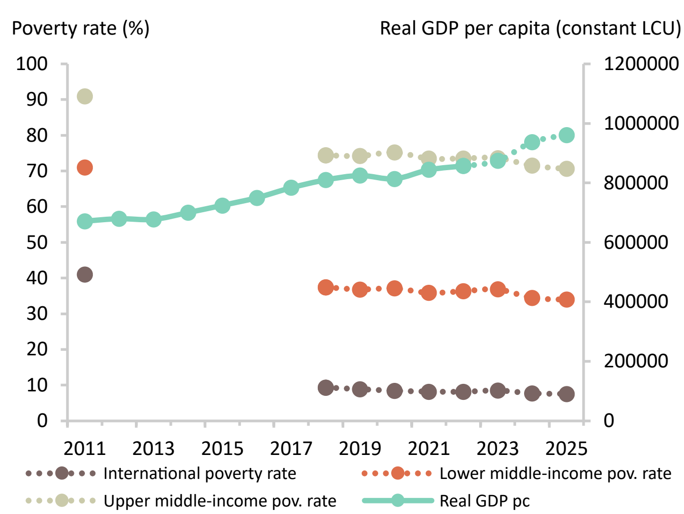
The current account position deteriorated from 13.3 percent of GDP in 2021 to 19.5 percent of GDP in 2022, following higher food and oil import prices and higher services imports associated with the FDI-financed hydrocarbon projects. The current account deficit will be financed mostly by FDI and donor financing.

FIGURE 1 **Senegal** / Evolution of main macroeconomic indicators



Source: World Bank.

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



Source: World Bank. Notes: see table 2.

To counter inflation across WAEMU countries, the Central Bank of West African States (BCEAO) raised policy interest rates by a cumulative 75 basis points in 2022 (to 2.75 percent for liquidity calls and 4.75 percent for the marginal lending facility). BCEAO will likely need to continue tightening in 2023 in line with other major central banks, and as foreign exchange reserves have declined, and inflation remains well above the target range of 1-3 percent. Furthermore, delaying fiscal adjustments towards the regional fiscal deficit target of below 3 percent of GDP by 2025 could exacerbate debt sustainability risks, while increasing regional financing needs, reducing FX reserve buffers, and elevating inflationary risks.

The overall fiscal balance increased slightly from 6.3 percent of GDP in 2021 to 6.7 percent of GDP in 2022. Total revenues increased to 20.4 percent of GDP in 2022, driven by tax revenues (18.1 percent against 17 percent in 2021). The increase in total revenue was offset by an increase in spending (27.1 percent in 2022), as the government turned to social transfers and tax exemptions to mitigate the contraction in household incomes. To help rebuild fiscal space, the government adopted in January 2023 a roadmap to phase out energy subsidies by 2025, to move towards the domestic regional market financing, and to shift away from non-concessional financing.

Outlook

The economic outlook hangs on hydrocarbon prospects. Under the assumption of hydrocarbon production starting in 2024, overall GDP growth is forecast to reach 4.7 percent in 2023, before accelerating to 9.9 percent in 2024. Hydrocarbon production should drive an increase in exports of 22.9 percent in 2024 and boost industry growth to 17.7 percent in 2024. Service sector growth is projected to average 6.3 percent in 2024-2025, mainly supported by the dynamism of the transport sector with the Regional Train Express and the Bus Rapid Transit. Financial services and insurance sectors should also grow strongly thanks to the spillovers from hydrocarbon production.

Inflation is expected to decelerate to 2 percent by 2025. The current account deficit is projected to narrow to 15.3 percent of GDP in 2023 and further to 7.8 percent in 2024 thanks to hydrocarbon exports. The fiscal deficit is expected to decrease to 3 percent in 2025, with the elimination of energy subsidies and increase in tax revenues. Furthermore, the implementation of fiscal consolidation measures should create fiscal space for social spending. The poverty rate ($3.65 in 2017 PPP) is expected to slightly increase in 2023, before declining in 2024 and 2025, in line with moderate growth and lower inflation. The rate at which poverty declines will partly depend on social assistance payments, which are expected to increase in generosity and coverage, partly due to savings from the elimination of energy subsidies.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	1.3	6.5	4.2	4.7	9.9	5.2
Private Consumption	2.3	3.1	4.8	4.6	4.8	5.0
Government Consumption	0.8	13.3	6.4	5.4	5.4	4.0
Gross Fixed Capital Investment	7.2	16.5	4.4	6.8	9.3	5.1
Exports, Goods and Services	-13.2	22.6	8.1	10.0	22.9	10.3
Imports, Goods and Services	7.0	15.5	29.1	8.3	8.4	7.1
Real GDP growth, at constant factor prices	1.9	6.3	3.9	4.7	9.9	5.2
Agriculture	12.2	0.6	0.3	0.7	1.4	1.5
Industry	-1.5	7.8	1.1	5.4	17.7	10.1
Services	0.6	7.5	6.2	5.5	8.8	3.9
Inflation (Consumer Price Index)	2.5	2.2	9.6	5.0	3.0	2.0
Current Account Balance (% of GDP)	-10.9	-13.3	-19.5	-15.3	-7.8	-6.6
Fiscal Balance (% of GDP)	-6.4	-6.3	-6.7	-4.9	-3.9	-3.0
Revenues (% of GDP)	20.1	19.5	20.4	20.8	22.0	22.6
Debt (% of GDP)	69.1	73.3	75.0	73.7	68.9	67.3
Primary Balance (% of GDP)	-4.3	-4.3	-4.5	-2.7	-1.7	-0.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	8.4	8.2	8.1	8.5	7.7	7.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	37.1	35.9	36.3	36.8	34.5	34.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	75.2	73.5	73.5	73.6	71.5	70.6
GHG emissions growth (mtCO2e)	0.5	4.0	1.8	2.8	5.1	4.1
Energy related GHG emissions (% of total)	25.1	25.4	25.9	26.6	27.8	28.0

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 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection based on microsimulation model that accounts for differences in sectoral growth, food and nonfood inflation.

SEYCHELLES

Table 1	2022
Population, million	0.1
GDP, current US$ billion	1.6
GDP per capita, current US$	15931.5
International poverty rate ($2.15)[a]	0.5
Lower middle-income poverty rate ($3.65)[a]	1.2
Upper middle-income poverty rate ($6.85)[a]	6.7
Gini index[a]	32.1
School enrollment, primary (% gross)[b]	99.3
Life expectancy at birth, years[b]	77.2
Total GHG emissions (mtCO2e)	0.7

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

A rebased GDP and the methodological changes to tourism's contribution, indicated growth was 8.8 percent in 2022, and will moderate to 3.8 percent in 2023, driven by tourism and fisheries, household consumption, and investment. The fiscal balance improved and is expected to return to a stronger and more sustainable path, assuming the exchange rate appreciates as the economy recovers. Strong growth and a healthy job market has reduced poverty by 0.6 percentage point to 6.2 percent of the population.

Key conditions and challenges

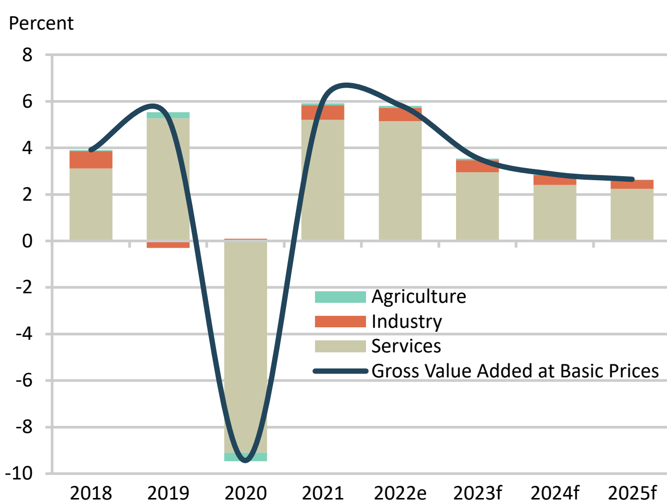
The Seychelles' economic growth has been volatile and vulnerable to external shocks, averaging 3 percent over the past two decades. Growth has been driven largely by capital accumulation, with moderate increases in productivity. Investment declined from 33.7 percent of GDP in 2015 to 25.6 percent of GDP in 2021, with a negative effect on growth. Total factor productivity growth has stagnated since 2017, reflecting, in part, the challenges of diversification in a relatively isolated, small-island economy. Skills gaps and a high incidence of non-communicable diseases have hampered productivity growth. Promoting labor participation in anticipation of an increasingly skills- and knowledge-intensive economy remains a key challenge. Labor market policies still offer limited opportunities for low-skilled youth and middle-aged workers in the job market. Nevertheless, employment has increased with the recent economic recovery, while poverty declined in 2022.

As a small island state, the Seychelles is highly vulnerable to climate, health, and other external shocks, such as the war in Ukraine. The COVID-19 pandemic hit the economy hard, creating macroeconomic imbalances and increasing poverty. To bridge its financing gap and lay the foundation for an inclusive and sustained recovery, the government received in 2020 and 2021 financial support estimated at US$76 million from the International Monetary Fund (IMF), the World Bank, and the African Development Bank (AfDB). World Bank technical support helped the government channel relief to affected households and firms, advance reforms to improve the transparency and accountability of the financial system and implement policies to increase resilience to climate change. Enhanced economic governance has become even more critical given rising climate and economic risks. In addition, the Seychelles could capitalize on its "blue economy" assets, which already provide global public goods in the form of carbon sequestration.

Recent developments

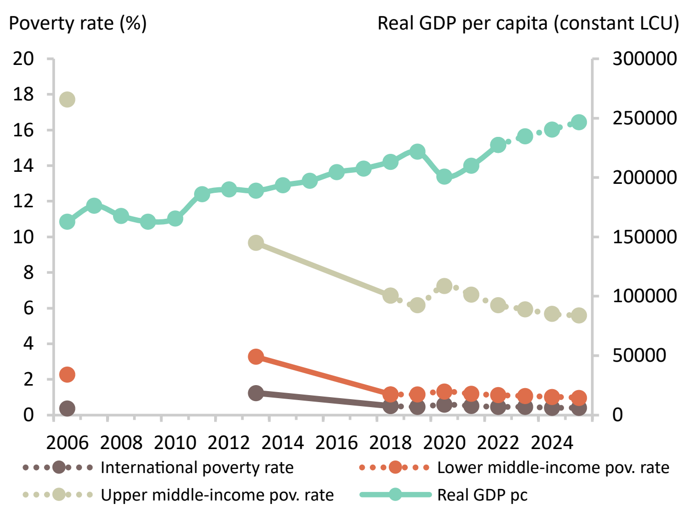
GDP was rebased (from 2006 to 2014) and methodological changes to the contribution of tourism to GDP were introduced in line with international practices (changes to the survey sample and estimation of the sector's value added based on occupancy rates rather than arrivals). Based on provisional GDP figures, growth reached 5.4 percent in 2021 and 8.8 percent in 2022, driven by tourism, fisheries, household consumption, and investment. Western European tourist arrivals offset lost arrivals from Ukraine and Russia, due to the war. Unlike many countries, inflation in the Seychelles was relatively low in 2022, reflecting base effects and the large exchange-rate appreciation (due to increased tourist arrivals) in 2021 and 2022 that mitigated part of the imported inflationary

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



Sources: National Bureau of Statistics and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

pressures. Average annual inflation declined to 2.6 percent in 2022.

The current account deficit narrowed by 12.4 percentage points to 10.8 percent of GDP in 2022, reflecting much higher tourism receipts. However, reserves declined to US$639 million (3.2 months of imports) as of end-December 2022, due to higher foreign exchange demand for goods and services imports. Fiscal consolidation continued, causing the deficit to decline to 2.2 percent of GDP in 2022. Revenues collection performed broadly in line with projections while expenditure was less than projected, driven by measures implemented by the government to reduce the wage bill and social programs. This reduced the debt-to-GDP ratio by 8.3 percentage points from 2021 to 67.9 percent in 2022, helped by strong implementation of the IMF, World Bank, and AfDB programs, and a stiff fiscal adjustment as most of the COVID-19 response measures were unwound.

The rapid GDP growth has also been accompanied by a strong labor market. In the third quarter of 2022, total employment increased by 11.4 percent while average earnings increased by 0.3 percent, relative to the same period in 2021. Consequently, the poverty rate declined from 6.8 percent in 2021 to 6.2 percent in 2022.

Outlook

Real GDP growth is projected at 3.8 percent in 2023, driven by robust tourism, before moderating to an average of 2.8 percent over the medium term. Medium-term growth will be supported by continued recovery in tourism, global economic growth, private consumption, and trade. Stronger economic activity is expected to further improve employment in 2023. Average inflation is projected to average 3.8 percent in the medium term, reflecting a moderation in global energy and food prices. The current account deficit is expected to narrow further to 9.5 percent of GDP in 2023 and continue its downward trend, buoyed by robust tourism growth and foreign direct investment inflows. This is expected to help raise reserves to US$708 million (3.4 months of imports) in 2023. Improved revenue collection and continued fiscal consolidation are projected to narrow the deficit to 1.3 percent of GDP in 2023. In 2023 and over the medium term, the primary balance will shift to a surplus, as revenue measures will more than compensate for the planned increase in capital expenditure on climate change mitigation and adaptation.

The government has scaled back COVID-19-related programs and focused on a targeted program of social support and temporary cash transfers to protect the most vulnerable and empower Seychellois to get well-paying jobs. Reforms to the social protection system are ongoing to ensure its sustainability and promote increased labor force participation of working-age beneficiaries. This would contribute to reducing poverty. A planned increase in the wage bill of 0.6 percent of GDP would be partially financed by cuts in allowances. The Seychelles' public debt is expected to continue to decrease, given proactive debt management and fiscal consolidation.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-8.6	5.4	8.8	3.8	3.0	3.1
Private Consumption	-5.1	4.0	6.8	4.7	3.5	2.0
Government Consumption	17.0	7.3	2.0	1.4	1.2	1.3
Gross Fixed Capital Investment	-12.7	1.8	2.7	1.9	1.7	1.7
Exports, Goods and Services	-25.7	9.9	9.1	2.7	2.5	3.0
Imports, Goods and Services	-15.5	7.7	3.1	1.8	1.6	1.2
Real GDP growth, at constant factor prices	-9.4	5.4	8.8	3.8	3.0	3.1
Agriculture	-13.5	3.1	3.8	2.9	2.1	2.0
Industry	0.5	2.9	3.5	3.0	2.3	2.5
Services	-11.3	6.1	10.2	4.0	3.2	3.3
Inflation (Consumer Price Index)	1.2	9.8	2.6	4.2	3.8	3.5
Current Account Balance (% of GDP)	-29.3	-23.2	-10.8	-9.5	-8.7	-7.1
Net Foreign Direct Investment Inflow (% of GDP)	10.0	13.3	15.1	13.2	15.2	14.7
Fiscal Balance (% of GDP)	-18.6	-6.8	-2.2	-1.3	1.0	1.7
Revenues (% of GDP)	35.0	38.4	40.0	42.2	44.4	45.9
Debt (% of GDP)	88.7	76.2	67.9	64.6	60.3	55.3
Primary Balance (% of GDP)	-15.5	-3.4	0.7	0.9	2.1	3.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.6	0.5	0.5	0.5	0.4	0.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	1.3	1.2	1.1	1.1	1.0	1.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	7.2	6.8	6.2	5.9	5.7	5.6
GHG emissions growth (mtCO2e)	-7.1	-15.6	15.2	16.6	5.0	4.8
Energy related GHG emissions (% of total)	78.6	74.1	77.0	79.8	80.4	80.9

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 2018-HBS. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2018) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

SIERRA LEONE

Table 1	2022
Population, million	8.6
GDP, current US$ billion	3.4
GDP per capita, current US$	392.9
International poverty rate ($2.15)[a]	26.1
Lower middle-income poverty rate ($3.65)[a]	64.3
Upper middle-income poverty rate ($6.85)[a]	89.9
Gini index[a]	35.7
School enrollment, primary (% gross)[b]	156.4
Life expectancy at birth, years[b]	59.8
Total GHG emissions (mtCO2e)	9.7

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

Sierra Leone's post-pandemic recovery was disrupted by concurrent domestic and external shocks, as global spillovers from Russia's invasion of Ukraine exacerbated existing macro-fiscal vulnerabilities. Inflation and exchange rate depreciation reached record levels, depressing economic activity, and triggering a severe cost-of-living crisis. Fiscal accounts have deteriorated on account of macroeconomic headwinds and policy slippages, and risks to debt sustainability have intensified.

Key conditions and challenges

Sierra Leone's economic development has been constrained by concurrent global and domestic shocks. Growth has been especially volatile over the past decade, reflecting underlying issues with the growth model combined with persistent macroeconomic and institutional vulnerabilities. Exports are overwhelmingly concentrated in natural resources, and low value-added agriculture, mining, and wholesale trade account for the bulk of employment but just over half of economic output.

Between 2012 and 2022, economic growth averaged 4 percent (half the rate of the previous decade), with significant variation across years (from 21 percent during the mining boom in 2013, to a 20 percent contraction in 2015 in the wake of the Ebola outbreak and global commodity price collapse). The COVID-19 pandemic and war in Ukraine have perpetuated this cycle, with economic growth slowing between 2020 and 2022 to less than a third of the pre-pandemic (2017-2019) average.

Macroeconomic management remains weak. Fiscal pressures have progressively intensified, the debt burden has worsened, and inflation has soared, driven- in addition to internal imbalances - by global supply shocks, exchange rate depreciation and a deterioration in the terms of trade.

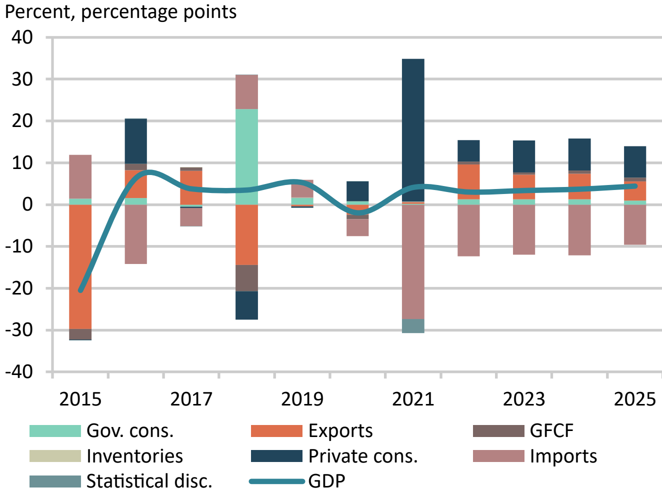
The rise in the cost of living combined with weak growth and a decline in macroeconomic fundamentals threatens to increase the level of poverty within a context of inadequate social safety nets.

Recent developments

Estimated GDP growth for 2022 has been revised downwards from 3.8 percent to 3.0 percent. This marks a reversal of the encouraging rebound observed in 2021 when GDP grew by 4.1 percent following a 2 percent contraction in 2020. Economic activity has been depressed by a net negative terms-of-trade shock, stemming from the spillovers of war in Ukraine and the increase in global food and fuel prices.

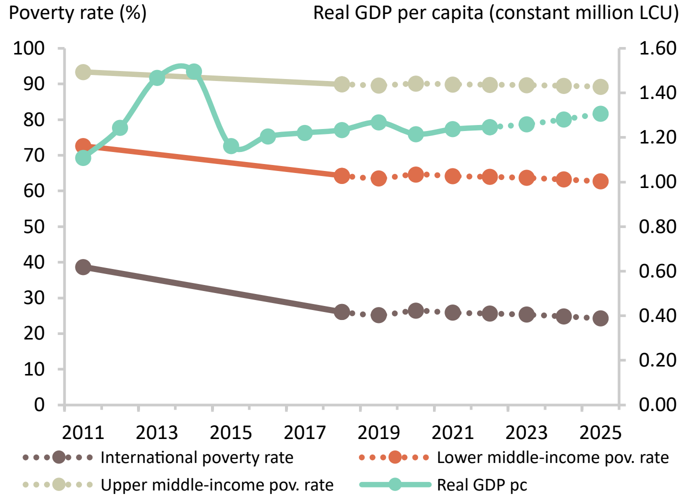
Inflationary pressures have complicated macroeconomic management and constrained private consumption and investment. Headline inflation averaged 27 percent in 2022 compared to 12 percent the previous year. Initially, inflation was driven by supply-side factors such as global supply chain disruptions and rising commodity prices. However, later in the year, despite a decrease in global food and fuel prices, inflation worsened due to the Leone's depreciation (60 percent during 2022) and the monetization of the fiscal deficit. Over the year, the Bank of Sierra Leone tightened its monetary policy stance and cumulatively revised the benchmark interest rate by over 300 basis points. However, monetary policy effectiveness was limited by underdeveloped financial markets and fiscal dominance, and further complicated by the redenomination of the Leone.

FIGURE 1 Sierra Leone / Real GDP growth and contributions to real GDP growth



Sources: Statistics Sierra Leone and World Bank.

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



Source: World Bank. Notes: see Table 2.

Fiscal weaknesses and risks to debt sustainability have intensified. The fiscal deficit for 2022 is estimated to have risen to 9.7 percent of GDP – 2.3 pp higher than in 2021, and 4.9 pp higher than the revised budget targets presented in November 2022. The increase was due mostly to unplanned capital expenditures and emergency domestic security costs (following protests against the worsening cost-of-living-crisis). Meanwhile, domestic revenues declined from 15.6 percent to 13.2 percent of GDP. As a result of fiscal weaknesses and exchange rate dynamics, the debt-to-GDP ratio is estimated to have risen to nearly 100 percent; two-thirds is owed to multilateral organizations, and the remaining is high-interest and short-term domestic debt.

External accounts also deteriorated. The current account deficit is estimated to have increased by 1.4 pp to 15 percent of GDP in 2022, driven by lower merchandise export receipts for major export goods (timber and diamonds) and higher import values reflecting energy and food price. As a result of lower-than-expected FDI inflows, but also reflecting central bank interventions in the forex market, reserves fell to around 3 months of imports by end-2022 (from close to 4 months in Q3).

Simulations suggest that the pandemic-induced economic downturn increased poverty by 2 pp since 2018 to 58.9 percent in 2020. Urban poverty almost doubled compared to rural areas. Global spillovers from the war in Ukraine, particularly energy price hikes, have further adversely affected welfare. The 2022 global hunger index ranks Sierra Leone at 112 out of 121 countries classifying the hunger level as serious.

Outlook

The economy is projected to grow at 3.8 percent on average during 2023–25, below its long-term average. In 2023, a modest recovery is expected to be supported by (i) the government's efforts to restore macro stability through fiscal discipline and prudent monetary policy; (ii) continued expansion of iron-ore mining operations; and (iii) some modest easing of inflationary pressures. Headline inflation will continue to be influenced by trends in global commodity prices and is expected to moderate only to 14.3 percent in the medium term by 2025.

Fiscal discipline will be crucial to restoring macroeconomic stability. Lowering the deficit will require strong and difficult measures on increasing tax rates and expenditure cuts. The fiscal deficit is projected to decline below 3 percent of GDP by 2025. However, this is vulnerable to several downside risks especially given recent fiscal slippages and expenditure overruns, which have raised concerns about the credibility of the budget process. Risks to debt sustainability will remain elevated until fiscal balances improve further, and the reliance on expensive and short-term domestic borrowings can be addressed through the lengthening of maturities and greater access to concessional borrowings.

The international poverty rate (US$2.15 per person/day at 2017 PPP) is projected to decline slowly, from 26.1 percent in 2018 to 24.6 by 2025. Economic growth is strongly tied to exports, which are dominated by minerals. However, the mining sector has limited spillover effects on households and constrains the growth of other sectors of the economy by undermining the competitiveness of those sectors. Poverty reduction requires increased agricultural productivity and the creation of good jobs outside agriculture for the low-skilled labor force.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-2.0	4.1	3.0	3.4	3.7	4.4
Private Consumption	5.4	36.7	4.2	6.2	6.0	5.8
Government Consumption	2.7	0.6	4.0	3.9	4.0	2.9
Gross Fixed Capital Investment	-9.6	0.1	7.2	5.4	6.7	7.7
Exports, Goods and Services	-9.8	1.9	38.0	20.0	18.0	12.0
Imports, Goods and Services	7.5	46.6	15.0	13.0	12.0	8.8
Real GDP growth, at constant factor prices	-2.0	4.0	3.1	3.3	3.7	4.4
Agriculture	1.6	2.5	3.0	3.3	3.6	3.6
Industry	-7.1	17.4	6.7	5.2	6.2	8.0
Services	-5.8	2.8	2.1	2.6	3.2	4.6
Inflation (Consumer Price Index)	13.5	11.9	22.0	20.0	17.8	14.3
Current Account Balance (% of GDP)	-6.8	-13.6	-15.0	-12.8	-10.2	-12.2
Net Foreign Direct Investment Inflow (% of GDP)	3.3	8.2	9.9	7.1	5.6	4.5
Fiscal Balance (% of GDP)	-6.7	-7.4	-10.6	-5.7	-3.8	-3.1
Revenues (% of GDP)	19.0	20.4	20.2	20.8	21.1	21.4
Debt (% of GDP)	78.0	81.9	100.3	97.1	90.8	84.9
Primary Balance (% of GDP)	-3.7	-4.1	-7.0	-1.8	-0.5	-0.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	26.4	25.9	25.7	25.3	24.9	24.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	64.6	64.2	64.0	63.7	63.2	62.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	90.1	89.9	89.8	89.7	89.5	89.3
GHG emissions growth (mtCO2e)	-1.4	0.8	3.3	2.5	3.0	3.3
Energy related GHG emissions (% of total)	9.1	9.1	8.7	8.4	8.1	7.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2011-SLIHS and 2018-SLIHS. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection using point-to-point elasticity (2011-2018) with pass-through = 0.4 based on GDP per capita in constant LCU.

SOMALIA

Table 1	2022
Population, million[a]	15.6
GDP, current US$ billion	8.1
GDP per capita, current US$	520.4
School enrollment, primary (% gross)[b]	39.0
Life expectancy at birth, years[c]	56.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Estimates based on 2013 population estimates by UNFPA and assumes an average annual population growth of 2.8%.
b/ Somalia Integrated Household Budget Survey 2022 (SNBS, 2023).
c/ Most recent WDI value (2020).

The economy is projected to grow by 2.8 percent in 2023, as economic conditions are expected to improve following a prolonged drought and rising commodity prices throughout 2022. Multiple shocks have contributed to rising displacement, food insecurity and a risk of more people falling below the poverty line. The poverty projection in 2023 is 73 percent.

Key conditions and challenges

Somalia continues to contend with increasingly frequent shocks in the context of widespread fragility, conflict, and violence. Repeated climate-related shocks such as cycles of droughts, floods, and locusts' infestation, lingering impacts of the COVID-19 pandemic, higher international commodity prices, as well as security incidences have interrupted Somalia's growth trajectory and slowed the transition from fragility. Growth has been low and volatile averaging only 2.8 percent in 2014–22 with no growth in real GDP per capita.

The economy does not generate the jobs needed to reduce poverty. Only about 30 percent of the workforce participates in the labor market, and this is markedly lower for women compared to men at 15 percent and 38 percent, respectively. Households suffer from food insecurity and loss of productive assets in a context of poor human capital and widespread insecurity. Repeated shocks contribute to internal displacement and rapid urbanization (estimated at 4 percent per annum), as well as conflict due to competition for limited resources.

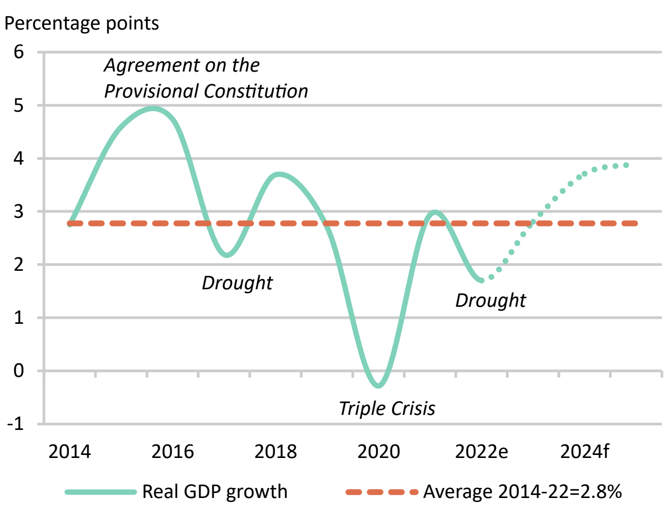
The government has limited fiscal space to respond to shocks and development priorities, including taking over the provision of security services as the African Union plans to withdraw peacekeeping operations in 2024. Alongside efforts to increase domestic revenues, institutions need to be strengthened to mobilize private capital to support much-needed investments in human and physical capital to boost resilience, growth, and productive jobs to support poverty reduction.

Somalia is progressing towards attaining debt relief through the Heavily Indebted Poor Countries (HIPC) initiative, which would reduce its debt to sustainable levels. Upon reaching the HIPC Completion Point, Somalia will enjoy access to new sources of financing, but terms of financing will shift from grants to loans. Therefore, it is critical for the country to raise domestic revenues and improve institutions for debt management.

Recent developments

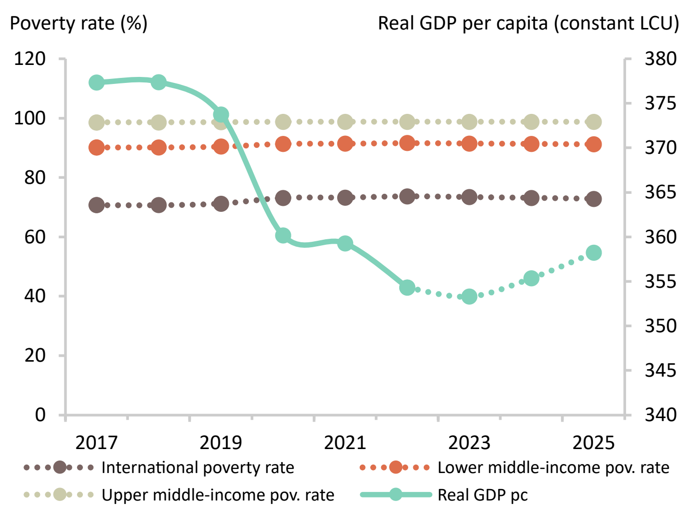
Somalia is experiencing a prolonged severe drought, with a fifth consecutive season of failed rains, against a backdrop of higher commodity prices following Russia's invasion of Ukraine. These paused 2021's modest economic recovery from the pandemic with a slowdown in real GDP growth to an estimated 1.7 percent in 2022 (Table 2). Furthermore, 7.1 million people—nearly half of the population—were food insecure at the end of 2022 due to the drought and 1.3 million people were displaced. Agricultural and livestock production has suffered, with live goats and sheep that dominate the export basket declining by 3.1 percent of the total live animals exported in 2022. Overall merchandise exports declined by 3.8 percent. Similarly, inflationary pressures intensified in 2022 with food inflation rate at its peak

FIGURE 1 Somalia / Real GDP growth



Sources: Somalia authorities and World Bank and IMF estimates.

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



Source: World Bank. Notes: see Table 2.

of 17.5 percent in July—almost four times higher than in mid-2021. Overall inflation averaged 6.8 percent in 2022. Official development assistance (ODA) including grants for social safety net programs, which are targeted to rural poor and vulnerable households, as well as remittances finance the trade deficit and play a vital role in supporting the vulnerable.

Poverty remains high across the country. An estimated 73.7 percent of the population living below the poverty line in 2022, the majority of whom are informal settlers, displaced people, rural communities, and nomads. According to the 2022 Integrated Household Budget Survey, the food price crisis in 2022 has eroded real household incomes, further contributing to household vulnerability from the ongoing drought. Although the international community has been supporting the humanitarian crisis through food assistance, an expansion of social safety net programs, and support to informal settlers in urban areas, there are risks of more people falling below the poverty line. In a context of increasing global shocks, there are competing demands for limited development assistance, underscoring the importance of Somalia strengthening resilience through advancing reforms to support growth and food security.

The fiscal situation remains challenging, offering limited opportunities to respond to recurrent shocks or investments in human capital or infrastructure. While domestic revenue mobilization has outperformed its pre-pandemic levels by 14 percent in 2022, largely dominated by trade-related taxes, it remains low and insufficient to meet expenditure needs. Public expenditures continue to rise, dominated by personnel costs with social spending largely financed by grants.

Outlook

The economy is expected to make a modest recovery in the medium-term, despite the persistent severe drought. Real GDP growth is projected to recover to 2.8 percent in 2023 and increase to 3.7 percent in 2024 and 3.9 percent in 2025. The reforms supported through the HIPC Initiative and the prospect of receiving debt relief should boost business confidence. New private investments are anticipated in energy and telecommunications, while ongoing investments in sectors such as transport, education, and health are expected to improve conditions for trade and gradually contribute to improvements in human capital. Strengthening the framework for fiscal federalism by enhancing the dialogue between the Federal Government of Somalia and the Federal Member States can help to bring political stability, which can encourage investment from the private sector. Harmonizing the currently disparate regimes for customs and inland revenues across the federation can also support revenue raising. Collecting sufficient revenues to cover the wage bill, rising security costs as well as human and physical capital remain pressing priorities.

As the country continues to cope with ongoing severe drought, the overall humanitarian situation remains dire, and the number of food insecure could grow to 8.3 million people by mid-2023 if food assistance is not sustained. The poverty rate is projected to remain at around 73 percent between 2022 and 2024. Accelerating the pace of poverty reduction will require policy interventions and public investments that raise productivity, strengthen resilience, create jobs, and expand pro-poor programs which focus on women and youth.

TABLE 2 **Somalia** / Macro poverty outlook indicators (percent of GDP unless indicated otherwise)[a]

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-0.3	2.9	1.7	2.8	3.7	3.9
CPI Inflation, annual percentage change	4.3	4.6	6.8	4.2	3.8	3.6
Current Account Balance	-14.9	-12.5	-18.4	-15.9	-16.1	-16.8
Trade balance	-67.4	-65.7	-74.1	-72.5	-70.2	-70.2
Private remittances	23.2	27.3	27.7	28.2	28.4	28.4
Official grants	30.6	27.2	28.6	29.0	26.1	25.5
Fiscal Balance[b]	0.4	-1.1	-0.1	-0.5	-2.1	-1.9
Domestic revenue	3.1	3.0	3.2	3.3	3.4	3.8
External grants	4.3	1.9	5.6	4.1	0.5	0.3
Total expenditure	7.0	6.0	9.0	7.9	6.1	6.0
Compensation of employees	3.3	3.3	3.2	3.4	3.3	3.3
External debt	56.8	45.0	42.7	6.6	9.5	10.7
International poverty rate ($2.15 in 2017 PPP)[c,d]	73.1	73.3	73.7	73.4	73.2	72.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	91.4	91.4	91.6	91.5	91.4	91.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	98.8	98.8	98.8	98.8	98.8	98.8
GHG emissions growth (mtCO2e)	-0.2	0.0	0.0	0.0	0.0	0.0
Energy related GHG emissions (percent of total)	1.6	1.6	1.6	1.6	1.7	1.7

Sources: World Bank, IMF, and FGS. Emissions data sourced from CAIT and OECD.
Notes: e = estimate; f = forecast.
a/ GDP baseline estimates 2020-21 are by Somalia National Bureau of Statistics (SNBS, June 2022).
b/ Federal Government of Somalia (FGS).
c/ Calculations based on Takamatsu et al (2022) "Rapid Consumption Method and Poverty and Inequality Estimation in Somalia Revisited". Actual data: 2017. Nowcast: 2019–22. Forecasts are from 2023–25.
d/ Projection using neutral distribution with pass-through = 1 (High) based on GDP per capita in constant LCU.

SOUTH AFRICA

Table 1	**2022**
Population, million	59.9
GDP, current US$ billion	405.9
GDP per capita, current US$	6776.5
International poverty rate ($2.15)[a]	20.5
Lower middle-income poverty rate ($3.65)[a]	40.0
Upper middle-income poverty rate ($6.85)[a]	61.6
Gini index[a]	63.0
School enrollment, primary (% gross)[b]	97.4
Life expectancy at birth, years[b]	65.3
Total GHG emissions (mtCO2e)	611.9

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

After a strong recovery in 2021, GDP grew by only 2 percent in 2022, supported by a favorable global environment but constrained by domestic challenges – especially the electricity crisis and transport disruptions. While the government recognizes the need to address these constraints, economic growth is expected to decline to 0.5 percent in 2023 and to average 1.5 percent over 2024-25. With weak growth and job creation, poverty and inequality are expected to remain elevated in the near future.

Key conditions and challenges

Electricity supply shortages have constrained South Africa's growth for several years. Rolling scheduled power cuts (load-shedding) started in 2007 and have intensified exponentially over the past few years, reaching close to 9 hours daily in 2022. This severe electricity shortfall has disrupted economic activity and increased operating costs for businesses (many of which rely on costly diesel generators). It has also affected other infrastructure such as water and IT, and service delivery (health and education). Although new reforms and investments are being considered, load-shedding is expected to continue for two more years at least. Other structural challenges have also increased, in particular transport and logistics, which have deteriorated due to weak maintenance, theft, sabotage, and slow reforms constraining South Africa's export capacity.

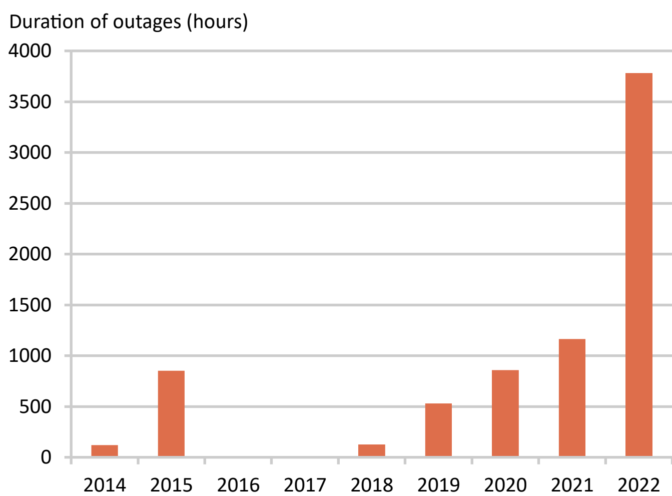
Persistent weak growth and the COVID-19 pandemic have exacerbated socioeconomic challenges. South Africa has recovered its pre-pandemic GDP but not its employment level. At end-2022, there were still close to half a million fewer jobs than at end-2019, with women and youth persistently more impacted. Inequality remains among the highest in the world, and poverty was an estimated 62.6 percent in 2022 based on the upper-middle-income country poverty line, only slightly below its pandemic peak. These trends have prompted growing demands for government support, which could put the sustainability of public finances at risk if they are met.

Fiscal and monetary policy space is limited due to the deteriorated public finances and the prudent monetary policy required to control inflation – in line with the South African Reserve Bank's mandate. South Africa needs to accelerate structural reforms to boost inclusive growth and job creation while supporting fiscal sustainability. Along these lines, Eskom, the national power utility, is set to benefit from a conditional R254 billion debt-relief arrangement with the National Treasury over the next three years to support its reform plan. However, the political consensus needed to tackle reforms is elusive ahead of the 2024 general elections amid widespread corruption allegations, rising crime, weak service delivery and high unemployment and poverty.

Recent developments

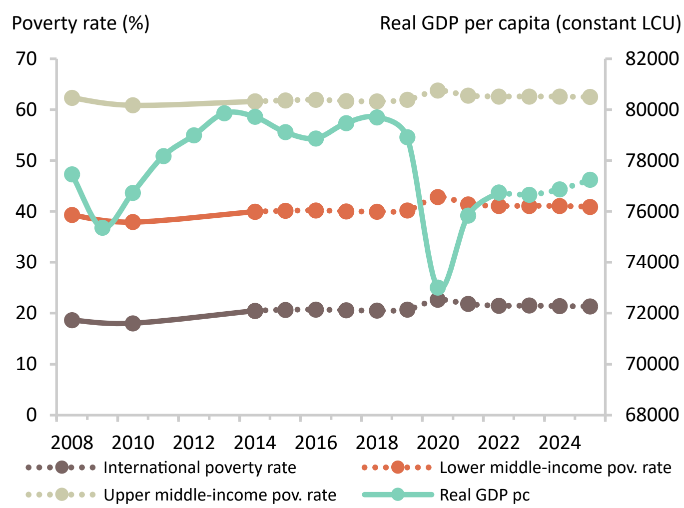
The global environment remained supportive, but increasingly severe domestic constraints led to GDP growth slowing to 2 percent in 2022 from 4.9 percent in 2021. Mining production fell while manufacturing production stagnated, as load-shedding and transport bottlenecks intensified. The services sectors (financial, transport, and personal) and domestic trade were key drivers of growth. The labor market has remained weak. The employment ratio only increased slightly to 39.4 percent at

FIGURE 1 South Africa / Hours of electrical service lost due to load shedding



Source: CSIR.

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



Source: World Bank. Notes: see Table 2.

end-2022 from a pandemic low of 35.9 percent in September 2021. In this context, the COVID-19 social relief of distress grant, introduced in May 2020, was extended for another year until March 2024. Socioeconomic challenges were further exacerbated by rising fuel and food (bread and cereals) prices, which disproportionately affected the poor. Inflation averaged 6.9 percent in 2022 but was 8.2 percent for those at the bottom 20 percent of the income distribution.

High global commodity prices supported South Africa's fiscal and external balances. Fiscal revenue overperformed again in 2022. As the government contained expenditure growth, the overall deficit is estimated to have reached 4.2 percent in FY22, smaller than the initial budget forecast of 6 percent of GDP. The current account balance returned to a small deficit of 0.5 percent of GDP in 2022 as imports growth outpaced exports growth. It was financed through financial inflows, and international reserves increased by US$3 billion to US$60.6 billion. In the context of rising global risk aversion, the exchange rate, which is fully flexible, depreciated by about 10 percent in 2022.

Outlook

In the short term, the electricity crisis and transport bottlenecks will hamper domestic activity even if external demand for commodities, notably coal, will provide some support to the economy. GDP growth is expected to slow to 0.5 percent in 2023 and average 1.5 percent in 2024-25 as the investments in power generation materialize and load-shedding gradually eases. The duration and intensity of load-shedding will depend on Eskom's ability to increase the availability of existing generation capacity while the reform program developed by the government is gradually implemented. Investment in least-cost renewable energy would also support a faster resolution of the crisis. Investment in rooftop solar is rising quickly but remains constrained by limited incentives to sell excess generation back to the grid. Based on this growth outlook, the poverty rate is expected to remain high, hovering close to 63 percent over 2023-25.

The government is expected to limit public expenditure growth. However, lower revenue associated with the tapering of global commodity prices in the medium term and weaker domestic growth will translate into persistent deficits. As a result of the debt-relief arrangement with Eskom, government debt is expected to increase to 72.6 percent of GDP in 2023 and 74.9 percent by 2025. External balances are expected to remain sound even as the current account returns to a deficit.

Risks are tilted to the downside. Lower external demand for South African commodities or worsening transport bottlenecks constraining export capacity would further weaken economic growth. Deteriorating global financial conditions in the context of monetary policy tightening in advanced countries could weaken the South African rand, increase inflation, and raise the borrowing costs for the government (about a quarter of domestic debt is held by foreign investors). Domestically, persistent weak growth and job prospects may fuel social discontent. Moreover, rising crime and deteriorating state capacity could further hamper business confidence and investment and affect the government's capacity to implement much-needed reforms.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-6.3	4.9	2.0	0.5	1.3	1.6
Private Consumption	-5.9	5.6	2.6	1.7	1.7	1.7
Government Consumption	0.8	0.6	0.9	-2.7	-0.6	-0.4
Gross Fixed Capital Investment	-14.6	0.2	4.7	4.2	4.9	4.4
Exports, Goods and Services	-11.9	10.0	7.5	2.3	3.0	3.0
Imports, Goods and Services	-17.4	9.5	14.2	4.5	4.5	3.5
Real GDP growth, at constant factor prices	-5.9	4.7	2.1	0.5	1.3	1.6
Agriculture	14.9	8.8	0.3	2.7	2.0	2.0
Industry	-12.5	6.1	-2.3	-1.2	0.5	1.1
Services	-4.4	4.1	3.6	1.0	1.5	1.7
Inflation (Consumer Price Index)	3.3	4.5	6.9	5.5	4.5	4.5
Current Account Balance (% of GDP)	2.0	3.7	-0.5	-1.6	-1.9	-2.2
Net Foreign Direct Investment Inflow (% of GDP)	1.5	9.8	0.5	0.7	0.7	0.7
Fiscal Balance (% of GDP)[a]	-9.9	-4.6	-4.2	-4.4	-4.1	-3.4
Revenues (% of GDP)	25.1	27.8	28.5	27.7	27.7	27.9
Debt (% of GDP)	70.2	68.0	71.1	72.6	73.7	74.9
Primary Balance (% of GDP)	-5.8	-0.4	0.5	0.5	0.8	1.7
International poverty rate ($2.15 in 2017 PPP)[b,c]	22.7	21.8	21.5	21.5	21.4	21.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	42.8	41.4	41.1	41.1	41.1	40.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	63.8	62.8	62.6	62.6	62.6	62.5
GHG emissions growth (mtCO2e)	-2.6	4.0	7.5	-5.7	-0.7	0.7
Energy related GHG emissions (% of total)	77.7	78.5	79.6	78.4	78.0	77.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ As in the 2023 Budget Review, the Eskom debt-relief arrangement is reported below the line.
b/ Calculations based on 2014-LCS. Actual data: 2014. Nowcast: 2015-2022. Forecasts are from 2023 to 2025.
c/ Projection using neutral distribution (2014) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

SOUTH SUDAN

Table 1	2022
Population, million	11.4
GDP, current US$ billion	5.2
GDP per capita, current US$	457.1
International poverty rate ($2.15)[a]	67.3
Lower middle-income poverty rate ($3.65)[a]	86.5
Upper middle-income poverty rate ($6.85)[a]	96.6
Gini index[a]	44.1
School enrollment, primary (% gross)[b]	73.0
Life expectancy at birth, years[b]	55.5
Total GHG emissions (mtCO2e)	60.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ WDI for School enrollment (2015); Life expectancy (2020).

Falling oil production will continue to drag on growth for a third consecutive year, although the pace of decline is lessening. Climate and external shocks, and declining official development assistance – coupled with structural challenges related to weak governance, inadequate service delivery, and ongoing localized conflict – contributed to high levels of food insecurity and widespread extreme poverty. Key downside risks include heightened conflict, oil price volatility, and climate shocks amid limited fiscal resources and pressing humanitarian needs.

Key conditions and challenges

A decade after independence, South Sudan's development prospects remain constrained by high levels of fragility amid localized conflict. A 2018 peace agreement ended five years of civil war; however, the transition period needed for its full implementation has been extended until 2025. The country is vulnerable to climate change and external shocks. Oil accounts for nearly all exports and about 90 percent of government revenues. A modest economic recovery in 2019 was upended by historic floods and the COVID-19 pandemic, which led to a massive loss in oil revenues.

Since 2021, reforms initiated under an International Monetary Fund staff-monitored program have helped improve macroeconomic and price stability. Higher oil prices following Russia's invasion of Ukraine have supported foreign exchange buffers and fiscal revenues, although expenditures have also increased. Poverty remains dire, with 7 in 10 people living in extreme poverty. Some 8.9 million people, comprising 78 percent of the population, face severe food insecurity, which is compounded by higher global food prices and domestic floods. In addition, 2.2 million people are internally displaced (55 percent of whom are women and girls), and 2.3 million remain refugees in neighboring countries.

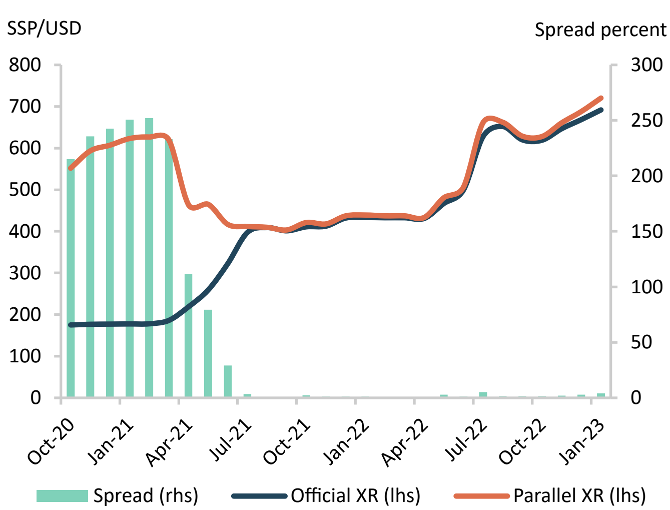
External risks relate to adverse global oil and food prices, which reduce scarce fiscal resources amid pressing humanitarian needs. Implementing the 2018 peace deal is essential for domestic peace and stability, and the resumption of growth. Macroeconomic, governance, and transparency reforms are urgently needed to ensure scarce resources are spent on development needs and to facilitate a sustainable and inclusive economic recovery. Reforms and investments are especially critical in agriculture, which supports livelihoods for 80 percent of the population; these will help to support diversification away from the oil sector, create jobs, and build resilience to climate change.

Recent developments

Economic activity remained weighed down by a fourth consecutive year of flooding, violence flareups, higher food inflation due to the war in Ukraine, and lingering impacts of the COVID-19 pandemic. Oil production fell by 7.6 percent in FY22 due to floods and low investments in oil fields. Agricultural prospects remain weak with reduced yields in crop production due to widespread floods and prolonged dry spells. These dynamics reduce households' purchasing power and worsen food insecurity. GDP contracted by an estimated 2.3 percent in FY22, following a 5.1 percent decline the previous year.

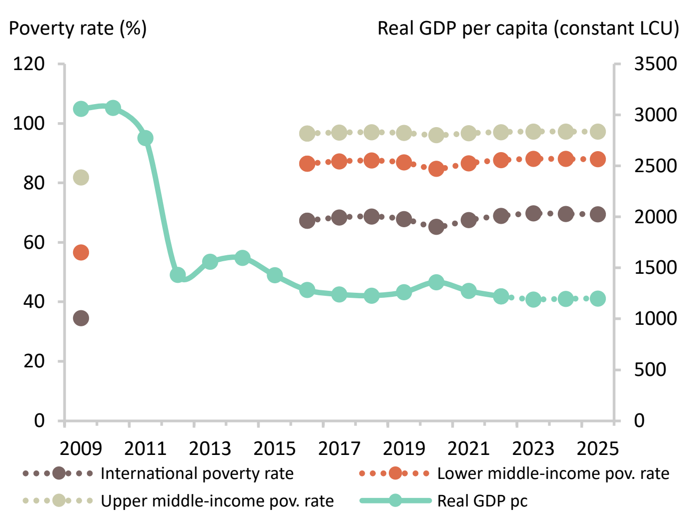
Tighter monetary policy and successful exchange rate reforms have helped to ease price pressures: barring mid-2022 when the South Sudanese pound depreciated briefly, inflation has remained in negative territory since November 2021.

FIGURE 1 South Sudan / Exchange rate developments



Sources: Bank of South Sudan and World Bank.

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



Source: World Bank. Note: see Table 2.

Urban inflation, proxied by official Juba consumer price index data, picked up in the first half of FY23, reflecting pass-through from earlier depreciation. The exchange rate premium between official and parallel markets increased from 1.4 percent in November 2022 to 4.7 percent in January 2023, following the appreciation of the US dollar and drawdowns on foreign exchange reserves at the central bank since October 2022.

Notwithstanding higher oil revenues, fiscal pressures proved greater than anticipated in FY22. Expenditure outturns exceeded planned outlays by 168 percent, offsetting higher oil revenues and causing the government to return to oil advances and monetary financing of the fiscal deficit in mid-2022. Higher oil prices, and revenue and customs administration reforms lifted overall revenues by 55 percent.

The FY23 draft budget envisages sustained increases in capital expenditures, a 20 percent increase in public sector salaries to protect against the impact of inflation, and rising transfers to regions, which will further widen the fiscal deficit. Public financial management reforms to strengthen expenditure controls and cash management have been initiated, including an integrated financial management information system (IFMIS). But there is limited transparency on oil revenues, including servicing of non-concessional external debt. South Sudan remains at a high risk of debt distress for both external and domestic debt.

Despite increased oil receipts and weaker demand for capital imports, the current account balance widened in line with rising food import costs, increased repatriation of investors' profits, and continued transfers to Sudan.

Outlook

GDP growth is expected to remain negative in FY23, reflecting the continued impact of floods on agricultural and oil output, with oil production projected to drop by 3.7 percent. Nonetheless, higher government current spending and expanding domestic credit should support a recovery in the non-oil sector, with farm output also expected to improve as floods eventually recede.

Over the medium term, growth should rise to above 2 percent as oil output recovers and non-oil activity improves, supported by higher government outlays on critical public investments in roads, health, and education, and moderating inflation. This outlook is predicated on prudent monetary and fiscal policies that anchor macroeconomic stability; progress on governance, transparency, and structural reforms; and steady implementation of the peace deal. Pressure on the current account balance is expected to increase from higher debt-service obligations, a decline of oil prices, and a decline in international aid in the face of the fallout from the war in Ukraine.

Poverty is expected to remain stagnant at around 70 percent in the medium term as real growth prospects are limited. Addressing this reinforces the urgency of fiscal and public financial management reforms that generate budgetary resources to increase social expenditures. While efforts to modernize tax administration using digital solutions and expand the tax base will help, fiscal pressures will remain substantial given sizable debt-service obligations, the reduction of legacy arrears, and rising social and humanitarian expenditures. It is, thus, also vital to strengthen the management and transparency of oil revenues.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	9.5	-5.1	-2.3	-0.4	2.3	2.4
Real GDP growth, at constant factor prices	9.5	-5.1	-2.3	-0.4	2.3	2.4
Agriculture	6.0	-4.0	-1.8	-1.4	2.8	2.8
Industry	27.5	-2.3	-4.8	-2.2	1.2	1.2
Services	-9.6	-9.7	1.7	2.7	3.8	4.0
Inflation (Consumer Price Index)	33.3	43.1	22.0	18.0	16.1	8.5
Current Account Balance (% of GDP)	-20.3	-5.5	-1.4	4.2	3.8	3.6
Net Foreign Direct Investment Inflow (% of GDP)	-0.4	0.9	1.0	-0.4	-0.9	-1.4
Fiscal Balance (% of GDP)	-9.8	-6.8	-6.1	4.0	5.6	6.0
Revenues (% of GDP)	29.5	30.9	30.1	31.6	30.7	30.5
Debt (% of GDP)	40.7	57.6	59.5	53.7	47.4	42.9
Primary Balance (% of GDP)	-7.8	-4.4	-4.0	5.3	6.8	7.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	65.3	67.5	68.9	69.7	69.6	69.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	84.7	86.6	87.7	88.1	88.1	88.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	96.1	96.7	97.1	97.3	97.3	97.2
GHG emissions growth (mtCO2e)	-0.2	0.6	0.1	0.0	0.1	0.4
Energy related GHG emissions (% of total)	3.0	2.9	2.9	2.9	3.1	3.2

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 2016-HFS-W3. Actual data: 2016. Nowcast: 2017-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2016) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

SUDAN

Table 1	2022
Population, million	46.9
GDP, current US$ billion	51.7
GDP per capita, current US$	1102.2
International poverty rate ($2.15)[a]	15.3
Lower middle-income poverty rate ($3.65)[a]	49.7
Upper middle-income poverty rate ($6.85)[a]	86.2
Gini index[a]	34.2
School enrollment, primary (% gross)[b]	79.0
Life expectancy at birth, years[b]	65.6
Total GHG emissions (mtCO2e)	127.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2017 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2020).

The October 2021 military takeover weakened domestic activity, slowing progress toward debt relief as part of the heavily indebted poor countries initiative. Despite food insecurity, floods, higher input costs, and supply shortages, good rains helped agriculture recover. Growth is projected at 0.4 percent in 2023 following five years of recession. Inflation remains in double digits. The population living on less than US$2.15 per day is estimated to have risen from 30.6 percent in 2021 to 32.3 percent in 2022.

Key conditions and challenges

The October 2021 military takeover has come at a high economic cost for Sudan and has slowed progress in receiving debt relief under the HIPC initiative. Sudan's economy contracted for four consecutive years between 2018 and 2021, resulting in a cumulative 10.4 percent decline in output. The pause in foreign inflows caused depreciation pressures, leading the Central Bank of Sudan to shift to a fully flexible exchange rate for a brief period in March 2022. Consequently, the currency rapidly depreciated from SDG 600 to SDG 800 per US dollar in one week. The central bank immediately reverted to a managed float to curb the sharp depreciation and reduce the spread between the parallel and formal market rates. An appropriately valued and stable exchange rate is central to achieving sustained and inclusive economic growth.

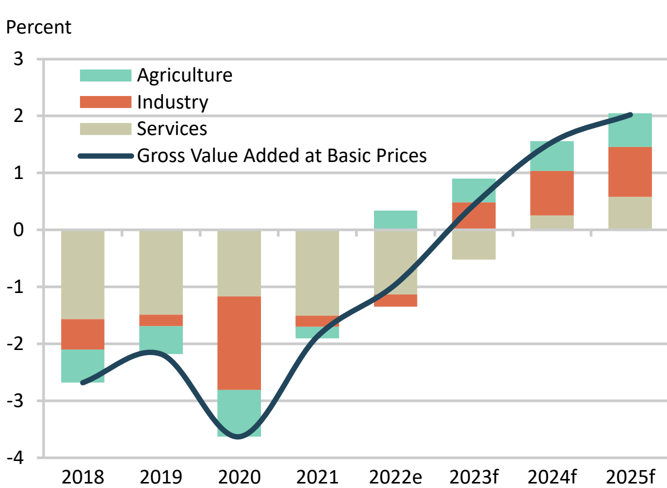
Sudan is vulnerable to risks primarily from political and macroeconomic uncertainties and continued spillovers from Russia's invasion of Ukraine. Although an agreement framework that sets the groundwork for establishing a civilian-led transitional government was signed in early 2023, the political context remains uncertain and unstable. Macroeconomic risks remain high even with efforts to reduce subsidies and contain inflation. Access to external finance is also limited. Moreover, Sudan is vulnerable to natural hazards, including localized flooding, drought, and locust infestations. Food insecurity will likely worsen if more climate shocks occur amid rising global commodity prices. Mitigating these risks will require resolving the political situation and maintaining economic stability.

Recent developments

The pace of GDP contraction slowed to an estimated 1 percent in 2022, backed by stable agriculture and livestock production and modest growth in gold exports. However, both the manufacturing and service sectors shrank (0.7 percent and 3 percent, respectively) due to continued fiscal tightening from substantially higher taxes and fees, ongoing civil disturbances, and disrupted business logistics.

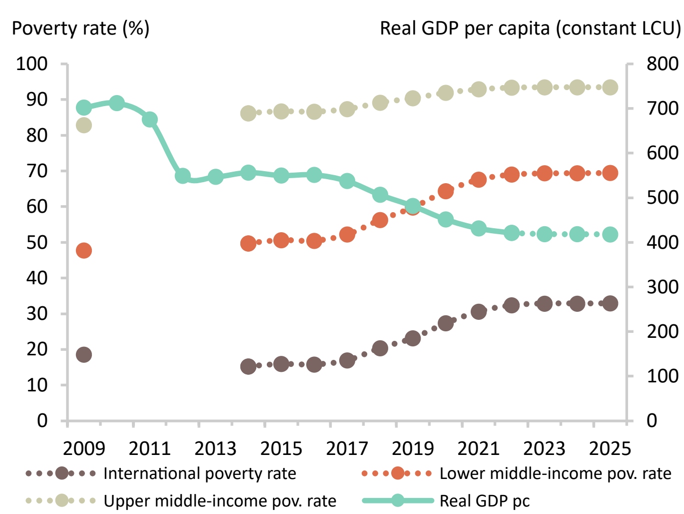
The fiscal deficit increased from 0.3 percent of GDP in 2021 to 1.7 percent of GDP in 2022, reflecting budget rigidities. Spending in 2022 rose by 131 percent to reach 11.7 percent of GDP, as wage expenditures more than tripled, while transfers (including social benefits and transfers to states) increased more than fivefold. Despite the nominal increase, spending contracted in real terms. The authorities continued efforts to reduce subsidies, which declined from 3.8 percent in 2021 to 2.9 percent of GDP in 2022. The deficit was financed by higher taxes, transit tariffs, customs duties, and domestic borrowing. Public debt declined to 183.6 percent of GDP in 2022 (from 215.6 percent in 2021).

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



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

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



Source: World Bank. Notes: see Table 2.

Average annual inflation declined from 359.7 percent in 2021 to 164.2 percent in 2022, driven by a slowdown in base money growth due to reduced monetization. Weak domestic demand also contributed to slow inflation. After rapidly depreciating in March, the currency remained relatively stable, with the premium between the parallel and official rate averaging 0.6 percent from April 2022. As of end-December 2022, the parallel exchange rate stood at SDG 580 per US dollar and the official rate averaged SDG 575 per US dollar. Strong export performance (especially for gold and livestock), higher oil transit fees, and lower domestic demand helped narrow the current account deficit to 6 percent of GDP in 2022. Gross international reserves fell to roughly US$1.2 billion in 2022 (1.4 months of imports), down from US$1.63 billion at end-2021.

Although official poverty statistics are not available after 2014, the percentage of the population living on less than US$2.15 per day (2017 PPP) is estimated to have increased from 20.4 percent in 2018 to 32.9 percent in 2023. The protracted economic crisis contributed to an estimated 12-percentage-point increase in extreme poverty.

Outlook

The economy is expected to recover at a weak pace of 0.4 percent in 2023, weighed down by the slow resolution of Sudan's political crisis and as widespread social unrest and insecurity persist. Thereafter, GDP growth is expected to average around 2 percent between 2023 and 2025, driven by rising agricultural output and exports of livestock, as well as mining and services. Inflation is expected to continue declining, reflecting the authorities' aim to contain the fiscal deficit and limit monetization. However, it will remain elevated given domestic shortages coupled with high import prices for consumer goods and production inputs. The central bank aims to reduce base money supply growth to 27 percent in 2023 from 49.4 percent in 2022.

The current account is expected to remain in a significant deficit over 2023-25, reflecting Sudan's low domestic production and high import requirements. A persistent trade deficit will continue to impede the accumulation of foreign reserves and hinder investor sentiment. The fiscal deficit is projected to average about 2.5 percent of GDP over the medium term, reflecting higher outlays on wages and transfers. Subsidies are expected to continue to decline. In the absence of grants to finance increased wages and transfers, the government is expected to delay capital spending and rely on trade receipts from exports of gold and animal products.

Projections suggest that extreme poverty will continue to increase until 2024. Even though extreme poverty is expected to stagnate at around 33 percent up to 2025, poverty rates measured by all poverty lines are still high.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-3.6	-1.9	-1.0	0.4	1.5	2.0
Private Consumption	-3.4	-0.8	-0.3	1.1	1.8	2.1
Government Consumption	-8.8	-9.8	-3.0	-2.7	1.3	2.3
Gross Fixed Capital Investment	-2.0	-2.1	-1.6	0.1	1.0	1.4
Exports, Goods and Services	5.2	2.0	4.5	6.0	12.0	15.0
Imports, Goods and Services	-9.0	-0.5	6.0	5.0	5.5	5.5
Real GDP growth, at constant factor prices	-3.6	-1.9	-1.0	0.4	1.6	2.0
Agriculture	-2.5	-0.6	1.0	1.2	1.5	1.7
Industry	-5.7	-0.7	-0.7	1.7	2.7	3.0
Services	-3.0	-3.9	-3.0	-1.4	0.7	1.6
Inflation (Consumer Price Index)	163.3	359.7	164.2	75.0	35.0	20.0
Current Account Balance (% of GDP)	-21.6	-7.3	-6.0	-7.0	-7.6	-7.8
Net Foreign Direct Investment Inflow (% of GDP)	-2.7	-1.6	-1.3	-1.6	-2.0	-2.0
Fiscal Balance (% of GDP)	-5.9	-0.3	-1.7	-2.0	-2.4	-2.5
Revenues (% of GDP)	4.8	10.5	10.0	10.5	11.0	11.2
Debt (% of GDP)[a]	281.4	215.6	183.6	167.3	157.9	149.5
Primary Balance (% of GDP)	-5.9	-0.3	-1.4	-1.6	-2.0	-2.1
International poverty rate ($2.15 in 2017 PPP)[b,c]	27.3	30.6	32.4	32.9	32.9	32.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	64.4	67.6	69.0	69.3	69.4	69.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	91.9	92.9	93.4	93.5	93.5	93.5
GHG emissions growth (mtCO2e)	0.0	-0.1	0.4	0.9	1.3	1.5
Energy related GHG emissions (% of total)	16.6	16.6	16.9	17.4	17.9	18.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Debt projections do not include any restructuring achieved during the HIPC process.
b/ Calculations based on 2014-NBHS. Actual data: 2014. Nowcast: 2015-2022. Forecasts are from 2023 to 2025.
c/ Projection using neutral distribution (2014) with pass-through = 1 (High (1)) based on GDP per capita in constant LCU.

TANZANIA

Table 1	2022
Population, million	65.6
GDP, current US$ billion	75.5
GDP per capita, current US$	1151.4
International poverty rate ($2.15)[a]	44.9
Lower middle-income poverty rate ($3.65)[a]	74.3
Upper middle-income poverty rate ($6.85)[a]	92.3
Gini index[a]	40.5
School enrollment, primary (% gross)[b]	97.2
Life expectancy at birth, years[b]	66.4
Total GHG emissions (mtCO2e)	159.8

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

Tanzania's economy has maintained its growth momentum, expanding by 4.6 percent in 2022, up from 4.3 percent in 2021. GDP per capita rose by 1.4 percent in 2022 and the international poverty rate dropped marginally by 0.3 percentage points. Headwinds from high commodity prices kept growth below potential, however. Sustaining the growth momentum hinges on the Government facilitating private sector investment that creates jobs. The economy continues to face headwind as result of ongoing Russia's invasion of Ukraine.

Key conditions and challenges

Tanzania's economy emerged from the pandemic in relatively good shape because of strong macroeconomic conditions: relatively low and stable inflation and manageable external and fiscal balances. However, the economic recovery has been relatively subdued due to strong headwinds associated with the war in Ukraine and the weak domestic business environment, which reduced private investment, including FDI. Tanzania's private sector has been challenged by a costly business regulatory environment, high taxes, weak infrastructure, and inadequate skills.

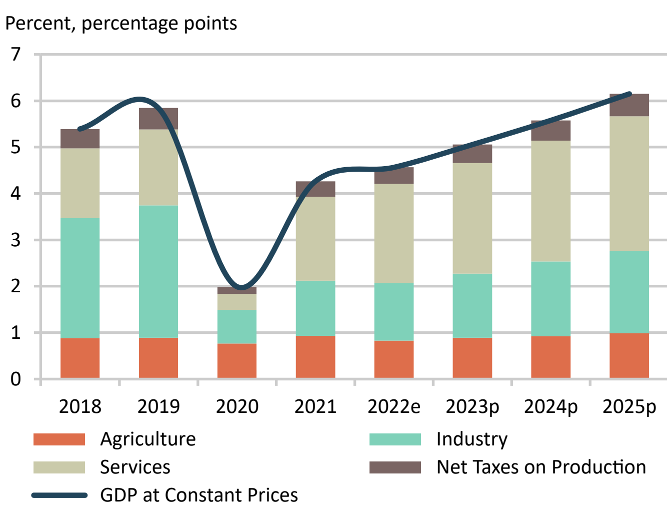
The elasticity of poverty reduction to growth has been very low, indicating the importance of policy measures to ensure growth benefits all households including the poor, for example through public spending on social sectors and rural infrastructure. Priority reforms should aim to strengthen the efficiency of public investment, strengthen debt management and data transparency, and augment fiscal space to increase investments in physical and human capital by enhancing public expenditure efficiency and domestic revenue mobilization. To enhance the impact of growth on poverty reduction, investing in human capital, raising smallholder agricultural productivity, and supporting the creation of good jobs by facilitating private sector investment through deregulation will be essential. Moreover, helping women access economic opportunities and assets such as land remains critical.

Recent developments

In 2022, Tanzania maintained its growth momentum, with estimated real GDP growth of 4.6 percent, up from 4.3 percent in 2021 but slightly lower than the authorities' forecast of 4.9 percent. Led by the services and industry sectors, the recovery remained broad-based as all subsectors surpassed their pre-pandemic production levels by Q3-2022. This is consistent with high frequency indicators including cement production, electricity generation, and tourist arrivals, all of which grew substantially in 2022. Shocks from global commodity markets and prolonged droughts pushed headline inflation up, averaging 4.3 percent in 2022 and reaching 4.9 percent (y/y) in January 2023. A combination of tight monetary policy stance and fuel subsidies have managed to keep inflation low relative to Tanzania's neighbors.

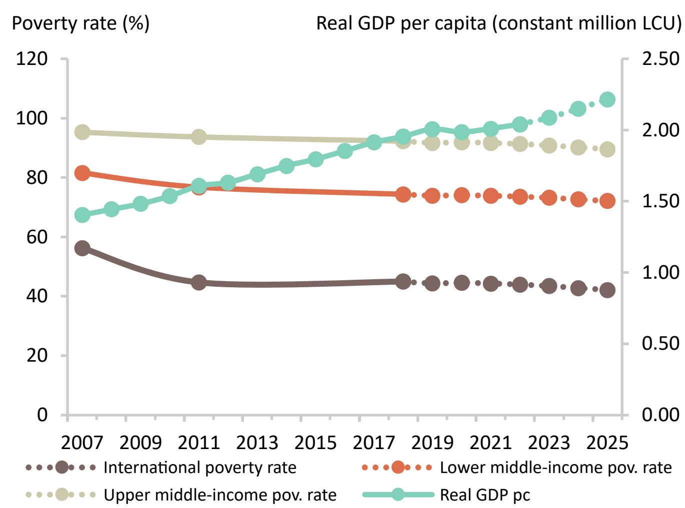
Global headwinds have challenged Tanzania's external sector. The current-account deficit widened to an estimated 5.6 percent of GDP in 2022, up from 3.2 percent of GDP in 2021, as higher food and fuel prices meant the import bill grew faster than exports earnings. The current account deficit has been funded mainly by external loans and foreign reserves. Gross official liquid reserves of the BOT declined by US$ 1.2 billion over the past one year reaching US$ 5.2 billion at end-2022 (equivalent to 4.7 months of imports). The Tanzanian Shilling has remined relatively

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



Source: World Bank staff estimates and projections.

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



Source: World Bank. Notes: see Table 2.

stable against the currencies of major trading partners.

During FY2021/22, the overall fiscal deficit narrowed to 3.6 percent of GDP, down from 4.0 percent of GDP in FY2020/21. This performance was due to a combination of higher tax revenue collections and expenditure restraint notwithstanding the implementation of fuel and fertilizer subsidy programs. Both external and domestic loans remained almost equally important for financing the deficit (on net basis). According to the latest debt sustainability analysis, Tanzania's public and publicly guaranteed debt as a share of GDP remains relatively modest at 42.1 percent of GDP as of FY2022/23. The latest DSA indicates that Tanzania's risk of external debt distress remains moderate.

Only a minor reduction in the poverty rate is anticipated in 2022. The international poverty rate for mainland Tanzania is projected to drop from 44.3 in 2021 to 44.0 percent in 2022, about 0.3 percentage points below pre-pandemic levels.

Outlook

GDP growth is projected to reach 5.1 percent in 2023 – about 2.2 percent per capita - as investment increases and external terms of trade improve. However, Tanzania is only projected to reach its potential growth rate of 6 percent in 2025. The current account is projected at 6.1 percent of GDP in 2023 as import demand to support public investment remains elevated. Driven by increased revenue collection from expanding economic activities, the fiscal deficit is projected to narrow marginally to 3.0 percent of GDP in 2023. However, this hides a large quantity of VAT refunds and domestic payment arrears that remain outstanding and are estimated at 3-4 percent of GDP end 2022. Addressing this key issue further to the strategy the authorities put forward will be critical to fiscal management.

A deterioration of the external environment and the slow pace of implementation of domestic policies are the major risks to the macroeconomic outlook, with real GDP growth ranging between 4.5 – 5.5 percent in 2023 under alternative scenarios (1.6 to 2.6 percent per capita). Supply shocks and commodity-price pressures associated with the war in Ukraine and a slow recovery of global demand coupled with tightening external financial conditions are major downside risks. Domestic risks include slow or incomplete implementation of structural reforms particularly related to key issues such as private sector and gender as well as climate change effects on the agriculture and tourism sectors.

In 2023 poverty is expected to drop by 0.6 percentage points based on a GDP per capita growth rate of 2.2 percent and the average poverty to growth elasticity for Sub-Sahara Africa. A new nationwide integrated household budget survey will be conducted in 2023/24 which will enable an update of the official poverty rate.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	2.0	4.3	4.6	5.1	5.6	6.2
Private Consumption	0.9	2.3	4.8	3.8	3.2	3.4
Government Consumption	7.4	9.0	8.4	6.2	4.6	7.3
Gross Fixed Capital Investment	2.4	7.8	9.3	6.8	4.8	7.0
Exports, Goods and Services	-8.6	5.2	10.2	12.3	11.5	8.9
Imports, Goods and Services	-7.6	9.6	23.7	11.5	1.9	3.6
Real GDP growth, at constant factor prices	2.0	4.3	4.5	5.0	5.6	6.2
Agriculture	3.1	3.7	3.3	3.6	3.8	4.1
Industry	2.5	4.1	4.3	4.8	5.6	6.2
Services	0.9	4.8	5.5	6.1	6.8	7.5
Inflation (Consumer Price Index)	3.3	3.7	4.3	5.2	4.5	3.9
Current Account Balance (% of GDP)	-2.5	-3.2	-5.6	-6.1	-4.8	-4.1
Net Foreign Direct Investment Inflow (% of GDP)	1.4	1.6	1.8	2.1	2.4	2.7
Fiscal Balance (% of GDP)	-2.9	-3.8	-3.5	-3.1	-2.7	-2.2
Revenues (% of GDP)	14.3	14.5	15.6	16.1	16.1	16.6
Debt (% of GDP)	39.3	42.0	42.2	42.1	41.9	41.3
Primary Balance (% of GDP)	-1.3	-2.1	-1.8	-1.4	-1.1	-0.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	44.6	44.3	44.0	43.4	42.8	42.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	74.1	73.8	73.6	73.2	72.7	72.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	91.9	91.7	91.3	90.8	90.2	89.6
GHG emissions growth (mtCO2e)	0.8	0.8	1.5	1.9	1.7	1.6
Energy related GHG emissions (% of total)	10.0	9.4	9.4	9.7	9.8	9.9

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 2013- and 2018-HBS. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection using point to point elasticity at regional level with pass-through = 0.7 based on GDP per capita in constant LCU.

TOGO

Table 1	2022
Population, million	8.8
GDP, current US$ billion	8.4
GDP per capita, current US$	952.3
International poverty rate ($2.15)[a]	28.1
Lower middle-income poverty rate ($3.65)[a]	56.8
Upper middle-income poverty rate ($6.85)[a]	84.0
Gini index[a]	42.4
School enrollment, primary (% gross)[b]	124.2
Life expectancy at birth, years[b]	61.0
Total GHG emissions (mtCO2e)	10.1

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

Following a post-COVID rebound in 2021, growth moderated in 2022 and 2023 due to disruptions associated with the Russia's invasion of Ukraine while government efforts to address security threats in the North and higher food and energy prices led to increased fiscal deficits and higher debt. Having risen in 2020-23, extreme poverty is projected to resume its downward trend in 2024-25 as the recovery strengthens, albeit at a modest pace due to fiscal consolidation measures.

Key conditions and challenges

Despite recent shocks, growth in Togo has shown signs of resilience thanks in part to increased public spending but the country is facing rising social, security and fiscal challenges. The extreme poverty rate (percent of the population living below the new international poverty line of US$2.15 per capita per day, 2017 PPP) is estimated to have increased to 30.6 percent in 2022 (from 29.6 percent in 2021) largely due to a sharp increase in consumer price inflation and slowing agricultural production. The Savanes region, Togo's poorest, has experienced an uptick in terrorist attacks since 2021 as Jihadist groups operating in the Sahel expand southward.

A lack of economic opportunity for youth and weak service delivery further exacerbates the situation. Climate change also constitutes an increasing threat, disproportionally affecting poorer regions.

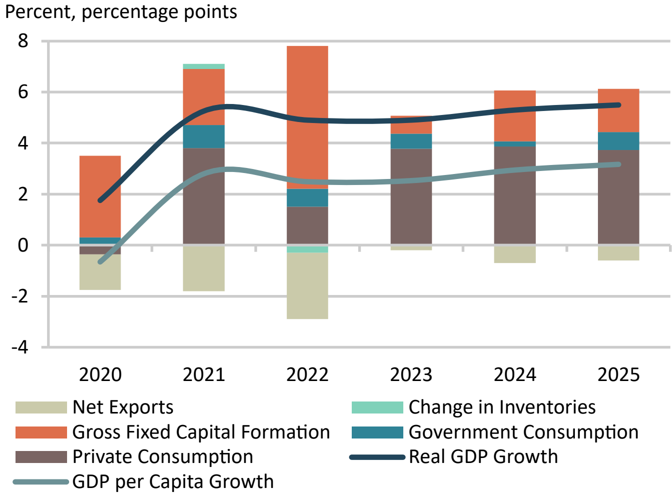
Growth is expected to strengthen gradually in 2024-25, as external demand regains momentum and domestic inflation moderates, but fiscal consolidation measures and tighter financing conditions will keep a lid on the recovery. Risks remain tilted to the downside, including the possibility of weaker-than-expected global demand, growing insecurity in the North, fiscal financing pressures, and climate shocks disrupting agriculture production.

Recent developments

Real GDP growth is estimated to have slowed to 4.9 percent in 2022, down from 5.3 percent in 2021, as disruptions associated with the war in Ukraine led to weakening export revenues and increased cost of living at home, which was only partially offset by higher public spending. In particular, a sharp uptick in food and energy prices led headline inflation to reach a 20-year high of 7.5 percent in 2022, which contributed to a significant deceleration in consumer spending. Increased energy and fertilizer costs also negatively impacted the agriculture sector, which together with more variable rainfall contributed to slowing production. In this context, extreme poverty increased to 30.6 percent nationwide, and reached up to 45.9 percent in rural areas.

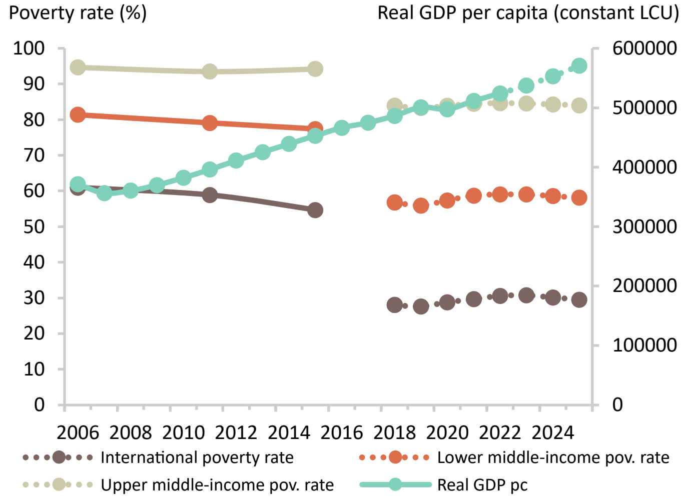
Rising inflation and growing insecurity in the Savanes region led the government to implement emergency spending in a revised 2022 budget, including higher subsidies for fertilizers and fuel, tax exemptions, public sector wage and pension increases amounting to 1.3 percent of GDP, and new capital expenditure for security purposes amounting to 2 percent of GDP. These emergency measures, some of which appear poorly targeted, contributed to the fiscal deficit increasing to 8.3 percent of GDP in 2022, up from 4.8 percent in 2021. The government was able to meet rising borrowing needs through additional external concessional financing and higher regional

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



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

bond issuances where appetite for debt remained strong throughout the year despite tightening financing conditions.

To counter inflation across WAEMU countries, the Central Bank of West African States (BCEAO) raised policy interest rates by a cumulative 75 basis points in 2022 (to 2.75 percent for liquidity calls and 4.75 percent for the marginal lending facility). BCEAO will likely need to continue tightening in 2023 in line with other major central banks, and as foreign exchange reserves have declined, and inflation remains well above the target range of 1-3 percent. Furthermore, delaying fiscal adjustments towards the regional fiscal deficit target of below 3 percent of GDP by 2025 could exacerbate debt sustainability risks in some countries, while increasing regional financing needs, reducing reserve buffers, and elevating inflationary risks.

Outlook

Growth is projected to stabilize at 4.9 percent in 2023, as an uptick in consumer spending driven by subsiding energy and food price inflation should be offset by decelerating public investment and external demand. As the global economy regains momentum in 2024-25, growth in Togo is projected to strengthen as well, reaching 5.3 percent in 2024 and 5.5 percent in 2025, but fiscal consolidation measures and tighter financing conditions will keep a lid on domestic demand. While extreme poverty is expected to remain elevated in 2023, at 30.7 percent, it is projected to gradually decline to 30.1 percent in 2024 and 29.5 percent in 2025 as inflation moderates and agriculture production recovers, though still remaining above pre-COVID levels. The decline in poverty is projected to be the strongest in rural areas, given the positive outlook for the agriculture sector. Lower poverty reduction is expected in urban areas, reflecting steady but more moderate growth in services activity.

The Government's fiscal consolidation plan, which includes reduced capital spending and increased revenue mobilization, is expected to bring the deficit to 4.5 percent of GDP in 2025, thereby remaining above the WAEMU convergence criterion of 3 percent. While external debt distress risks are moderate, elevated domestic debt, ongoing refinancing pressures and tighter global financing conditions are a source of vulnerability. Downside risks to the outlook also stem from regional security threats, disruptions from more frequent extreme weather events, and uncertainty around global demand and commodity markets.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	1.8	5.3	4.9	4.9	5.3	5.5
Private Consumption	-0.5	5.3	2.1	5.4	5.5	5.3
Government Consumption	2.0	6.4	5.9	3.3	1.3	5.2
Gross Fixed Capital Investment	15.0	8.9	21.8	2.9	6.9	5.8
Exports, Goods and Services	-4.7	12.0	5.2	4.9	5.8	6.8
Imports, Goods and Services	0.8	13.8	11.0	3.7	5.8	6.1
Real GDP growth, at constant factor prices	2.0	5.1	5.0	4.9	5.3	5.5
Agriculture	1.3	6.0	3.9	4.5	5.1	5.3
Industry	5.3	6.8	3.1	4.8	6.2	6.4
Services	0.9	4.0	6.3	5.1	4.9	5.2
Inflation (Consumer Price Index)	1.8	4.5	7.5	5.3	3.5	3.0
Current Account Balance (% of GDP)	-0.3	-1.3	-5.8	-5.6	-5.3	-4.2
Net Foreign Direct Investment Inflow (% of GDP)	0.7	-1.1	0.9	1.8	2.0	2.0
Fiscal Balance (% of GDP)	-6.9	-4.8	-8.3	-6.6	-5.4	-4.5
Revenues (% of GDP)	16.2	17.0	17.4	17.3	16.6	16.3
Debt (% of GDP)	60.4	63.6	68.0	70.1	70.4	69.6
Primary Balance (% of GDP)	-4.6	-2.3	-6.0	-3.8	-2.5	-1.9
International poverty rate ($2.15 in 2017 PPP)[a,b]	28.8	29.6	30.6	30.7	30.1	29.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	57.4	58.7	59.0	59.0	58.6	58.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	83.9	84.4	84.7	84.5	84.3	84.1
GHG emissions growth (mtCO2e)	2.7	7.8	5.2	3.1	4.6	4.4
Energy related GHG emissions (% of total)	23.1	25.1	25.9	25.2	25.0	25.2

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 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection based on microsimulation model that accounts for differences in sectoral growth, food and nonfood inflation.

UGANDA

Table 1	2022
Population, million	47.2
GDP, current US$ billion	38.8
GDP per capita, current US$	822.2
International poverty rate ($2.15)[a]	42.2
Lower middle-income poverty rate ($3.65)[a]	71.9
Upper middle-income poverty rate ($6.85)[a]	91.1
Gini index[a]	42.7
School enrollment, primary (% gross)[b]	102.7
Life expectancy at birth, years[b]	62.9
Total GHG emissions (mtCO2e)	62.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2020).

Uganda's economy is expected to grow above 5 percent in FY23, as investment picks momentum, supported by lower inflationary pressures and easier monetary policy. Reducing the fiscal deficit to 3.5 percent by FY24 would make debt more sustainable. GDP growth will accelerate beyond 6 percent in FY24 and FY25, if not derailed by a global slowdown, disruptions to global finances and weather shocks. Poverty will fall as incomes recover.

Key conditions and challenges

Increased shocks and less momentum behind policy reform create challenges for sustaining economic growth and reducing poverty in Uganda. Real GDP per capita grew by only 1.0 percent per year between 2011 and 2022 in the context of rapid population growth, drought and other external shocks, a less supportive external environment, and weakening policy and institutional framework (including centralization of policymaking). The pace of poverty reduction decelerated as most households rely heavily on agriculture and are vulnerable to climate change and weather shocks. Ahead of possibly transitioning into an oil producer, the Ugandan economy needs to structurally transform and shift labor into a more productive employment to reinvigorate economic activity and reduce poverty. Labor is not moving to high-productivity activities. Approximately two-thirds of the Ugandan workforce remain occupied in agriculture, which produces less than a quarter of the GDP. Although services constitute a large share of GDP, many jobs in the sector are informal and low-skilled. Given Uganda's small domestic market and distortions, international trade must support this transformation and boost economic growth and development.

The private sector must drive this transformation and diversification. Uganda's growth model of debt-financed public spending—which has emphasized physical infrastructure—has crowded out private sector investment and is not sustainable. A more appropriate role for the state is to build human capital, facilitate private investment and job creation, and pursue measures to reduce inequality and strengthen resilience. The prospects for the shift to private sector-led growth depend on macroeconomic stability, more efficient and effective public spending, increased government support for the most vulnerable, and the uptake of digital and other innovative technologies.

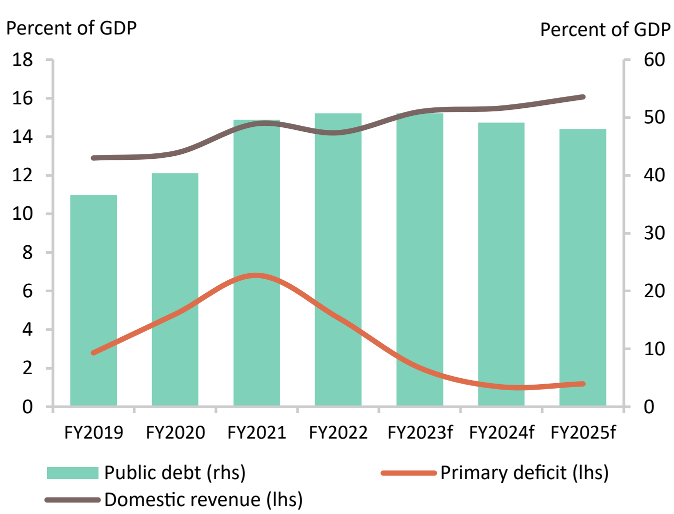
Recent developments

Uganda's economy weathered successive shocks in 2022 with GDP growth expected to recover to 5.7 percent y/y during FY23 (July 2022 to June 2023). A post-COVID-19 recovery in services and industrial sectors offset the weather-induced decline in agriculture. An uptick in investments and employment growth reinforced domestic demand before lending rates rose in response to a tighter monetary stance starting in June 2022.

High-frequency phone surveys find that employment, labor, and farm incomes improved through November 2022, although more than half of the population remained moderately food insecure, while 15 percent were severely insecure. Due to inflation, the poorest households in rural areas were unable to access or buy food in desired amounts.

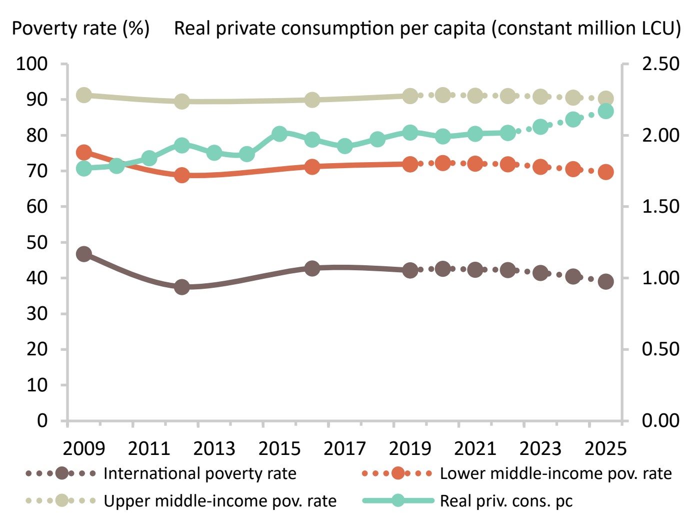
The external current account deficit is expected to widen to 9 percent of GDP in FY23 due to a deterioration in the terms of trade.

FIGURE 1 Uganda / Fiscal adjustment



Source: Ministry of Finance, Planning and Economic Development.

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



Source: World Bank. Notes: see Table 2.

While Uganda's exports benefitted from the surge in commodity prices, the re-opening of the Rwanda–Uganda border, easing of non-tariff barriers with Kenya, resumption of the gold trade, and recovery of tourism, imports growth has been stronger, partly to support investments.

Inflation subsided beginning November 2022, thanks to lower international commodity prices and Bank of Uganda's (BoU) tight monetary policy. In February 2023, BoU maintained its policy rate at 10 percent, 350 basis points above its level a year ago, for the fourth consecutive month. Hence, the annual headline and core inflation slid to 9.2 percent and 7.8 percent, respectively, as the energy and utilities prices reduced.

Due to shocks, government revenues remained below target, while recurrent spending overshot the underspending on the capital budget. The fiscal deficit is expected at 5.1 percent of GDP and public debt at 50 percent of GDP. Despite efforts to repay domestic arrears, government's reliance on the domestic market to finance its deficit hurts the private sector's recovery.

Outlook

Uganda's economic growth is expected to accelerate to above 6 percent per year in the medium-term, as inflationary pressures subside, BoU eases monetary policy, and the government relies mainly on revenue collection and spending efficiencies to cut the deficit. The investments and exports of oil will support government's other promotional efforts for tourism, export diversification, and agro-industrialization. Nonetheless, the slowdown of global growth, disruptions in global financial conditions, and increasingly volatile weather remain major downward risks.

Accelerated growth may reduce poverty (measured at the $2.15/day international poverty line) from 41.4 percent in 2023 to 39 percent by 2025. But given that households have limited adaptive capacity, the pace of poverty reduction will ultimately depend on how food access and affordability evolve, and on the incidence of weather and any environmental shocks.

Inflation expectations are lower as global supply chains improve, energy prices stabilize, and the shilling stabilizes with increased foreign capital inflows. Core inflation is projected to return to the target of 5 percent by December 2023. However, drought conditions will exert pressure on food prices and sustain headline inflation above 6 percent. With the balance of risks tilted downwards, BoU is expected to cautiously ease monetary policy to support economic recovery.

To sustain the fiscal consolidation into the medium-term, the planned reduction in recurrent spending is expected to be followed with improved efficiency in public investment projects and sustained revenue effort. A lower fiscal deficit is expected to reduce debt accumulation and combined with a deliberate effort to minimize non-concessional borrowing, reduce fiscal risks. The government plans to reduce domestic borrowing while maintaining the debt below 50 percent of GDP beyond FY23 to avoid crowding out the private sector.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	3.0	3.4	4.7	5.7	6.2	6.7
Private Consumption	2.0	4.2	3.4	5.0	5.3	5.6
Government Consumption	7.9	6.1	-17.4	-0.6	2.2	2.5
Gross Fixed Capital Investment	-0.1	5.1	20.1	9.1	8.0	8.3
Exports, Goods and Services	-1.2	2.6	-18.6	18.0	16.7	15.3
Imports, Goods and Services	-5.4	8.6	-8.9	14.4	11.7	10.6
Real GDP growth, at constant factor prices	3.0	3.4	4.7	5.7	6.2	6.7
Agriculture	4.6	3.8	4.4	4.2	4.0	4.3
Industry	3.1	3.4	5.4	6.3	7.9	8.1
Services	2.2	3.3	4.4	6.1	6.3	7.0
Inflation (Consumer Price Index)	2.3	2.5	3.7	8.3	7.2	5.0
Current Account Balance (% of GDP)	-6.7	-10.2	-7.9	-9.0	-10.6	-12.2
Net Foreign Direct Investment Inflow (% of GDP)	2.6	2.1	3.1	5.2	6.3	6.6
Fiscal Balance (% of GDP)	-7.1	-9.5	-7.4	-5.1	-3.5	-3.4
Revenues (% of GDP)	13.1	14.7	14.2	15.3	15.5	16.1
Debt (% of GDP)	40.4	49.6	50.7	50.7	49.1	48.0
Primary Balance (% of GDP)	-4.8	-6.8	-4.6	-2.0	-1.0	-1.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	42.6	42.4	42.3	41.4	40.5	39.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	72.3	72.0	71.9	71.2	70.5	69.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	91.3	91.1	91.1	90.9	90.6	90.3
GHG emissions growth (mtCO2e)	0.6	1.6	3.5	3.7	3.9	4.0
Energy related GHG emissions (% of total)	17.8	16.8	17.1	17.4	17.8	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/ Calculations based on 2019-UNHS. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2019) with pass-through = 0.7 (Low (0.7)) based on private consumption per capita in constant LCU.

ZAMBIA

Table 1	2022
Population, million	19.6
GDP, current US$ billion	28.3
GDP per capita, current US$	1445.4
International poverty rate ($2.15)[a]	61.4
Lower middle-income poverty rate ($3.65)[a]	77.5
Upper middle-income poverty rate ($6.85)[a]	90.7
Gini index[a]	57.1
School enrollment, primary (% gross)[b]	98.7
Life expectancy at birth, years[b]	62.4
Total GHG emissions (mtCO2e)	94.5

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

Challenges in agriculture, mining, and construction slowed economic growth to 3.9 percent in 2022 after the post-pandemic rebound in 2021. Strong momentum in services, continued government commitment to reform, a boost in business confidence from expected debt restructuring, and favorable copper prices should support a modest but steady growth acceleration in 2023–24.

Key conditions and challenges

Zambia is in debt distress and requires debt relief. Weak fiscal discipline, excessive non-concessional borrowing, and falling copper prices caused external debt to jump to 66.4 percent of GDP in 2019 from 6.7 percent in 2011. The COVID-19 pandemic exacerbated Zambia's debt vulnerabilities, leading to a default on Eurobond payments in 2020. The government elected in August 2021 has launched policy reforms and begun a sharp fiscal adjustment but a substantial reduction in the net present value of Zambia's debt stock is also required to restore debt sustainability. Currently, Zambia's creditors—official and private—are discussing terms for a debt restructuring agreement.

In addition, job creation, increased productivity, and economic transformation is needed to ensure that future economic growth lifts more Zambians out of poverty, currently estimated at 62 percent. This is needed over the medium term to counter the track record of low and uneven growth, slow structural change, weak productivity especially in agriculture, insufficient human capital accumulation, and lack of adequate enablers for private sector-led growth. The Human Capital Index shows that a child born in Zambia will be 40 percent as productive when they grow up as they could be if they enjoyed complete education and full health, which is below the regional average.

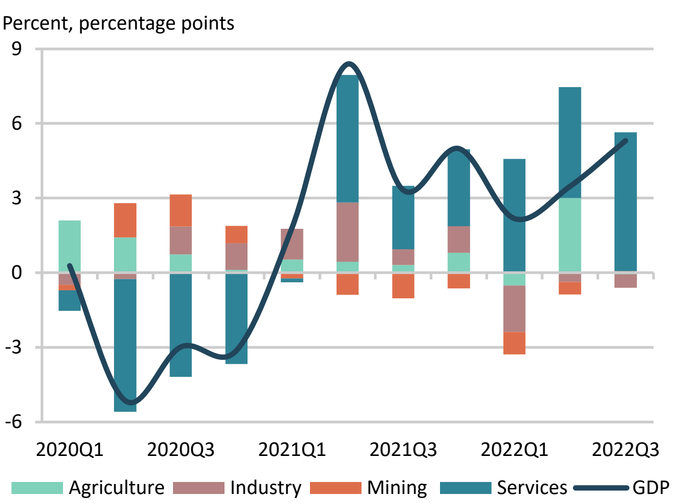
Recent developments

External and domestic headwinds slowed the pace of recovery in 2022. Real GDP grew by 3.7 percent, year-on-year, in Q1–Q3, driven by services (Figure 1). But falling world copper prices and operational challenges reduced copper production by 4.4 percent in 2022. Meanwhile, adverse weather and disruptions in the supply of fertilizer dampened crop output. The current account surplus narrowed to 2.3 percent of GDP in 2022 as spillovers from Russia's invasion of Ukraine raised Zambia's import bill while falling copper prices and output slowed growth in nominal export revenue. Uncertainty about debt restructuring reversed portfolio capital flows, triggering a 28.6 percent depreciation of the kwacha between September 2022 and February 2023 and placing pressure on reserves.

Inflation has remained in single digits since June 2022 and was 9.6 percent (y/y) in February 2023, supported by fiscal and monetary restraints. In February 2023, the Bank of Zambia increased the statutory reserve ratio on deposits by 2.5 percentage points and hiked the policy rate by 25 basis points.

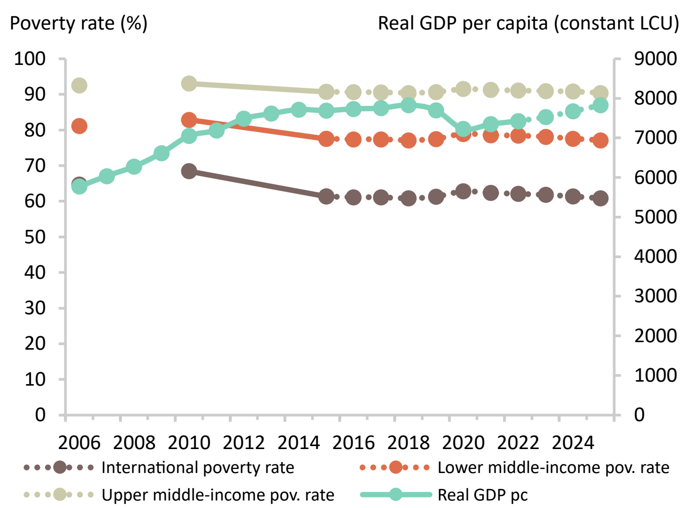
The government remains committed to fiscal prudence and in 2022 delivered 6 percentage points of GDP improvement in the primary fiscal balance (commitment basis). The debt service standstill, controls on recurrent spending, rationalization of capital projects, and increased income tax revenue

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



Source: Zambia Statistics Agency.

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



Source: World Bank. Notes: see Table 2.

created space to increase social spending—ensuring that fiscal consolidation did not excessively drag growth.

Available data point to a slow and uneven recovery of household welfare in the last couple of years. The annual Labor Force Survey indicates that urban unemployment returned to pre-COVID-19 levels by 2021 but rural unemployment did not recover from the sharp increase in 2018. Household earnings, in turn, decreased across the board 2020–21. A phone survey from July 2022 found that as many as 50 percent of households did not fully meet their demands of basic staples, overwhelmingly citing economic reasons as the main barrier to access (increased prices or lack of money).

Outlook

The recovery is expected to strengthen, with GDP growing by around 4.5 percent annually 2023–25. A debt restructuring deal will boost market confidence, external capital flows, and macroeconomic stability. Firmer copper demand from China and commencement of fertilizer production at a newly established domestic plant will broaden the base of GDP growth. Completion of reforms to agricultural policies, business regulations, and the energy sector will ensure fiscal sustainability and promote private sector-led growth. However, the Bank of Zambia expects inflation to rise and remain above its target band of 6–8 percent over the next two years on account of inflationary pressure from sustained exchange rate depreciation, increase in energy costs, and lingering external headwinds.

The risks to the outlook are balanced but there is substantial uncertainty. Sooner-than-anticipated debt restructuring deal would create fiscal space, accelerate foreign aid delivery, and improve engagement with the international community. Firmer-than-expected copper prices will boost the external sector's performance and support exchange rate stability. However, the prolonged war in Ukraine will continue to impact the terms of trade for Zambia as it heavily depends on imported petroleum. Growing rainfall variability leading to floods and sometimes droughts is a risk that is undermining agriculture production and rural livelihoods.

Under current GDP-based projections, the incidence of poverty is projected to slowly return to pre-pandemic levels by 2025. Projected sustained growth in the services and construction sectors are expected to benefit the urban poor and reverse the recent increase in urban poverty. Progress with rural poverty, however, is more uncertain. While the agriculture sector is projected to grow, rates are just above population growth and the sector is subject to high volatility. Structural barriers to agricultural productivity and limited ability to cushion external shocks among the rural poor mean that additional support may be needed to improve their livelihoods.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-2.8	4.6	3.9	4.2	4.7	4.8
Private Consumption	3.1	3.6	4.5	4.5	4.5	4.5
Government Consumption	10.8	5.6	-3.4	12.8	8.8	8.8
Gross Fixed Capital Investment	-29.7	25.3	9.2	11.3	0.2	7.4
Exports, Goods and Services	21.8	-6.6	6.0	-4.6	3.5	2.6
Imports, Goods and Services	10.6	2.5	9.3	1.6	-0.6	4.7
Real GDP growth, at constant factor prices	-2.2	4.7	3.0	4.2	4.7	4.8
Agriculture	17.2	6.9	-3.9	2.0	3.0	3.0
Industry	1.3	4.2	-3.9	1.0	2.5	2.5
Services	-6.1	4.7	7.8	6.1	5.9	6.1
Inflation (Consumer Price Index)	15.7	22.3	10.7	11.1	10.1	7.1
Current Account Balance (% of GDP)	10.7	8.4	2.3	3.4	4.3	3.7
Net Foreign Direct Investment Inflow (% of GDP)	-1.0	1.9	-2.5	-2.9	-3.5	-4.1
Fiscal Balance (% of GDP)	-13.3	-9.3	-7.9	-8.5	-7.7	-6.9
Revenues (% of GDP)	21.0	23.1	21.9	21.5	22.3	20.3
Primary Balance (% of GDP)	-7.3	-2.9	-0.2	-0.1	0.7	0.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	62.7	62.2	61.9	61.7	61.2	60.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	78.7	78.5	78.3	78.0	77.5	77.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	91.5	91.2	91.1	90.9	90.6	90.4
GHG emissions growth (mtCO2e)	1.0	1.5	0.9	1.0	1.4	1.4
Energy related GHG emissions (% of total)	8.2	8.7	8.8	9.0	9.4	9.9

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 2015-LCMS-VII. Actual data: 2015. Nowcast: 2016-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2015) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

ZIMBABWE

Table 1	2022
Population, million	16.3
GDP, current US$ billion	20.7
GDP per capita, current US$	1267.0
International poverty rate ($2.15)[a]	39.8
Lower middle-income poverty rate ($3.65)[a]	64.5
Upper middle-income poverty rate ($6.85)[a]	85.0
Gini index[a]	50.3
School enrollment, primary (% gross)[b]	96.1
Life expectancy at birth, years[b]	61.1
Total GHG emissions (mtCO2e)	122.9

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

Real GDP growth is estimated to have slowed to 3.4 percent in 2022 on the back of worsening agriculture conditions and macroeconomic instability. Annual inflation returned to triple digit levels in 2022, driven by both monetary expansion and external shocks. Poverty levels, albeit declining, remained elevated. Economic growth is projected to slow to 2.9 percent in 2023 and remain subdued in the medium term, reflecting global shocks and structural bottlenecks.

Key conditions and challenges

Zimbabwe's economic development continues to be hampered by price and exchange rate instability, misallocation of productive resources, high informality, low investment, and limited structural transformation. High inflation, multiple exchange rates, unsustainable debt levels, and ineffective control over government spending have increased the cost of production, reduced incentives for productivity-enhancing investment, and encouraged informality. Trade integration has declined, and foreign direct investment (FDI) remains low, limiting transfer of new technologies and investment in modernizing the economy.

High unsustainable debt and arrears to international financial institutions (IFIs) limit Zimbabwe's growth potential. External debt is estimated at 107 percent of GDP in 2022. The government has prepared an Arrears Clearance, Debt Relief and Restructuring Strategy, resumed token payments to IFIs and Paris Club creditors, and initiated a high-level structured Dialogue Platform with creditors and development partners.

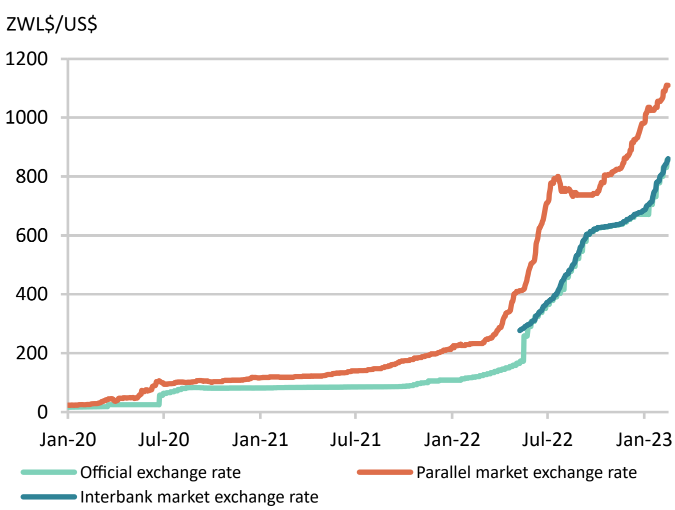
Although it has declined since its peak of 2020, extreme poverty remains high in the context of cyclical agricultural production and elevated food prices. Persistent inflation, high dependence on low-productivity agriculture, slow structural transformation, and intermittent shocks like drought, natural disasters, and pandemic have contributed to the high rate of poverty and vulnerability in Zimbabwe.

Recent developments

Real GDP slowed to 3.4 percent in 2022 from 8.5 percent in 2021 on the back of worsening agriculture conditions and price and exchange rate instability. Due to low rainfall, agriculture output contracted by 14 percent, after growing at double digits in 2021. Triple digit inflation constrained private sector demand, while fiscal austerity limited growth of government demand and investment. Mineral exporters benefited from high global prices and together with tourism contributed most to overall economic growth.

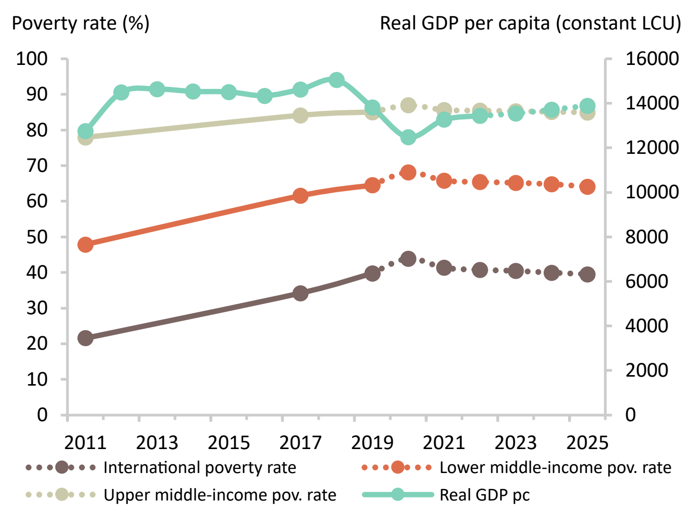
Inflation returned to triple digits, albeit declining since August 2022, fueled by broad money expansion and surge in global prices. Russia's invasion of Ukraine, through high food and energy prices, has exacerbated domestic inflationary pressures that emanated from lose monetary policy and quasi-fiscal operations, with annual inflation returning to triple digits in May 2022. End of period inflation reached 244 percent in 2022. However, monetary tightening, including sharp hike in interest rates, and fiscal policy measures brought inflation down to 230 percent in January 2023. Further, the relative relaxation on foreign currency auction controls contributed to declining parallel market premium from over 93 percent in July 2022 to 30 percent in February 2023. Despite still

FIGURE 1 Zimbabwe / Exchange rates



Sources: Zimstat and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

high inflation, the Central Bank reduced the interest rate from 200 percent per annum to 150 percent in February 2023.

The fiscal deficit was contained for a fourth year in a row, but quasi-fiscal operations continued. The fiscal deficit is estimated at 1.5 percent of GDP in 2022, from 1.7 percent in 2021. Additional spending driven by inflation was matched by higher revenue. The large part of additional spending was allocated for wages, public investment, procurement of grain, and social protection. Revenues increased significantly due to high inflation and exchange rate valuation gains as some of the taxes (45 percent) were collected in U.S. dollars.

The current account remained in surplus though narrowing from 1.5 percent of GDP in 2021 to 1.1 percent in 2022 as trade deficit widened. The merchandise trade deficit increased sharply as import growth continued to outpace growth of exports on the back of high global prices. However, strong remittances and improvements in tourism receipts from abroad kept the current account in surplus.

The job loss and economic disruptions associated with the COVID-19 pandemic have mostly dissipated. The modest economic growth in 2022 translated into a marginal decline in the international poverty rate. Nevertheless, about 6.2 million people lived below the international poverty line in 2022.

Outlook

Real GDP growth is projected to slow further to 2.9 percent in 2023 and remain subdued in the medium term, reflecting global shocks, structural bottlenecks, and price and exchange rate instability. Growth in 2023 will be driven mostly by agriculture, mining, and further recovery of tourism and other related services. Agriculture output is expected to grow on account of better rains, but costly inputs and financing issues are likely to weigh on yields of key crops.

Downside risks to the outlook are high reflecting potential policy loosening prior to elections, sharp global slowdown of growth, volatile commodity prices, and climate change. Inflation will slow down but remain in triple-digits in 2023. Further monetary tightening and liberalization of the exchange rate could bring inflation to double-digit levels from 2024.

The fiscal deficit is projected to increase in 2023, reflecting election spending pressures. Higher wages and transfers will drive expenditure while investments in public infrastructure are expected to be moderate. Revenue will continue to benefit from high inflation and exchange rate depreciation. With limited access to concessional financing and rising costs of commercial financing, financing of future deficits will become more difficult, necessitating further fiscal consolidation. The current account surplus will continue shrinking, reflecting increase in imports and slowdown in remittances inflows.

The international poverty rate is expected to decline modestly in the medium term along with the projected increase in GDP per capita. Although the agriculture sector is expected to do relatively well thanks to the timely rain, high food prices and slow economic growth will continue to retard the pace of poverty reduction. Breaking the correlation of household welfare with the weather cycles, increasing labor productivity through capital deepening and structural transformation, and instituting a robust social protection system are the structural priorities to reduce poverty and vulnerability.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-7.8	8.5	3.4	2.9	3.4	3.4
Private Consumption	-2.7	4.7	3.4	3.5	3.2	3.2
Government Consumption	-23.8	142.1	0.8	2.6	1.9	2.2
Gross Fixed Capital Investment	-4.1	-3.8	6.9	1.1	5.6	5.3
Exports, Goods and Services	-39.8	41.1	6.0	2.8	3.8	3.8
Imports, Goods and Services	-29.0	54.8	5.5	3.1	3.1	3.1
Real GDP growth, at constant factor prices	-7.7	8.4	3.4	2.9	3.4	3.4
Agriculture	4.1	17.5	-14.1	3.0	3.4	3.4
Industry	-8.2	6.4	7.4	3.3	3.5	3.7
Services	-9.6	7.7	5.1	2.7	3.3	3.2
Inflation (Consumer Price Index)	557.2	98.5	193.4	124.0	74.0	54.0
Current Account Balance (% of GDP)	3.0	1.5	1.1	0.4	0.7	0.5
Net Foreign Direct Investment Inflow (% of GDP)	0.7	0.4	0.8	0.7	0.6	0.5
Fiscal Balance (% of GDP)	1.5	-1.7	-1.5	-1.7	-1.5	-1.5
Revenues (% of GDP)	13.3	15.2	18.9	17.6	17.5	17.8
Debt (% of GDP)	92.1	81.7	111.6	106.2	87.2	79.2
Primary Balance (% of GDP)	1.5	-1.7	-1.4	-1.6	-1.1	-1.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	43.9	41.4	40.8	40.5	40.0	39.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	68.1	65.8	65.4	65.2	64.8	64.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	86.9	85.6	85.4	85.3	85.1	84.9
GHG emissions growth (mtCO2e)	-1.3	3.2	2.3	1.6	1.7	1.8
Energy related GHG emissions (% of total)	10.7	11.4	12.1	12.2	12.3	12.5

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 2019-PICES. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

Macro Poverty Outlook

04/
2023

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