East Asia and the Pacific

Macro Poverty Outlook

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

Spring Meetings 2024

WORLD BANK GROUP
Macroeconomics, Trade & Investment
Poverty & Equity

1818 H Street NW, Washington DC 20433

Telephone: 202-473-1000

Internet: www.worldbank.org

East Asia and the Pacific

Spring Meetings 2024

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	2023
Population, million	16.9
GDP, current US$ billion	31.8
GDP per capita, current US$	1876.0
School enrollment, primary (% gross)[a]	110.0
Life expectancy at birth, years[a]	69.6
Total GHG emissions (mtCO2e)	77.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2022); Life expectancy (2021).

Despite continued external headwinds, Cambodia's economic recovery and poverty reduction continue. This year's economic growth is projected to marginally improve to 5.8 percent, driven mainly by a revival of services and goods exports. This is expected to partially reverse the pandemic-related increase in poverty. Downside risks include weaker-than-expected global demand, global financial stress amid elevated debt and high borrowing costs, and a slower-than-anticipated recovery in China. Domestically, a faster-than-expected increase in non-performing loans could affect macro-financial stability as the housing market correction continues.

Key conditions and challenges

Despite external headwinds, Cambodia's economic recovery continues, although growth remains at a slower pace than during the pre-COVID-19 period. The recovery is largely underpinned by a revival of services and goods exports, which are contributing to a partial reversal of the pandemic-related increase in poverty. In 2023, services exports improved with international tourist arrivals increasing at 140 percent year-on-year (y/y), while goods exports also expanded, rising by 5 percent y/y.

Goods imports, however, shrank, contracting by 18.5 percent y/y in 2023, caused by subdued domestic demand with stalled construction activity. The decline in the trade deficit, together with rising remittances and tourism receipts, helped to improve the current account balance, which is estimated to have reached an unprecedented surplus of 2.4 percent of GDP in 2023. This helped ease pressures on the exchange rate, while inflation remained contained as food and oil prices moderated.

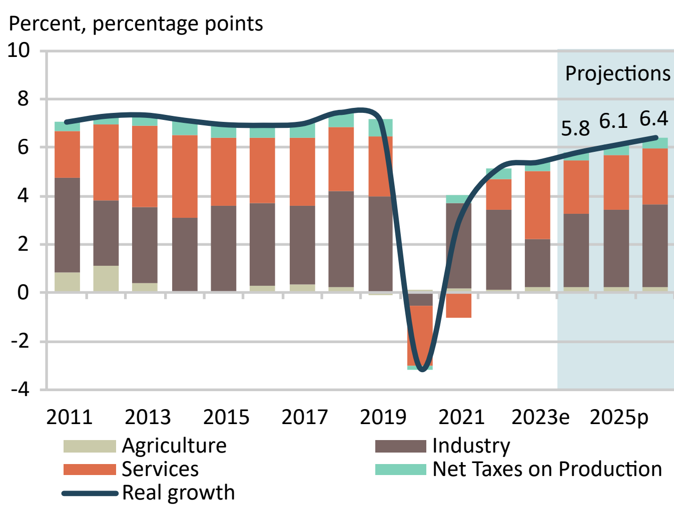
High global interest rates and decelerating credit growth continue to affect Cambodia's financial sector, which is showing signs of deleveraging.

Recent developments

The recovery of the service sector and the resilience of the agriculture sector underpinned an estimated real growth rate of 5.4 percent in 2023. In 2023, international tourist arrivals quickly rebounded, reaching 5.5 million, representing 82.5 percent of 2019's level. The agriculture sector, especially crop production, continued to be resilient, rising to 36.8 million metric tons or 6 percent y/y in 2023. Within the industry sector, the garment, travel goods, and footwear (GTF) manufacturing industries' performance was subdued, caused by the slowdown in global demand. However, the non-GTF industries, which include vehicle, electronic, and electrical component manufacturing, expanded. Compared to pre-pandemic levels, in 2023, merchandise exports reached 160 percent of 2019's level or US$23.6 billion, boosted by non-GTF product exports. Merchandise imports also expanded, but at a slower pace, reaching 120 percent of 2019's level or US$24.4 billion caused mainly by subdued imports of durable goods and construction materials as private consumption eased and construction activity stalled. This helped to improve the trade balance. Better external sector performance helped maintain the exchange rate, which hovered around riel 4,100 per U.S. dollar while boosting gross international reserves to reach US$19.9 billion - an 11.7 percent y/y increase in 2023 and equivalent to about 7 months of imports. The economic recovery supported job creation, while subdued inflation which was contained at 2.7 percent y/y in December 2023 maintained household purchasing power.

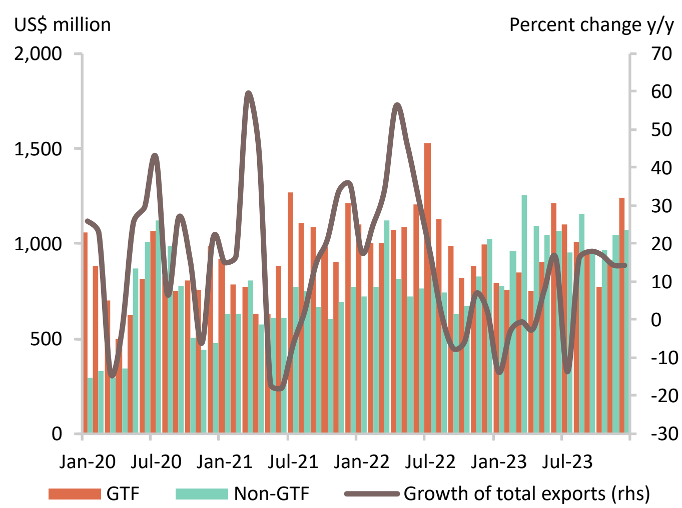
To spur economic growth, the central bank cut the foreign currency reserve requirement ratio by 2 percent, the largest

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



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

FIGURE 2 Cambodia / Merchandise exports, levels and growth rate



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

cut during the post-pandemic period, to 7 percent in December 2023. Indicating improvements in capital inflows, broad money once again expanded, growing at 12.5 percent in 2023, up from 8.2 percent in 2022 as foreign currency deposit growth picked up. Meanwhile, the value of approved FDI-financed investment (outside special economic zones) under the qualified investment project scheme grew at a staggering 130.6 percent y/y in 2023. However, stalled construction activity reduced demand for domestic credit, which decelerated to a 4.1 percent y/y increase in 2023, a 20-year low, down from an 18.9 percent y/y increase in 2022. High global interest rates squeezed the returns on assets of the banking and microfinance (MFI) sectors, which declined to 3.8 percent and 6.0 percent in 2023, respectively, down from 7.0 percent and 17.6 percent in 2022, respectively. In parallel, the non-performing loan ratios rose to 5.4 percent and 6.7 percent in 2023, for Banks and MFIs, respectively, up from 2.2 percent and 2.6 percent in 2022, respectively.

Government revenue, which was buoyed by a short-lived, post-COVID consumer spending boom in 2022, significantly eased and is estimated to have reached only 20.3 percent of GDP in 2023. Taxes on goods and services, especially value-added taxes, excises, and duties on imports, declined with softening imports. In contrast, government expenditure remained elevated, rising to 27.9 percent in 2023, driven by civil servant wage increases and election-related spending. As a result, the fiscal deficit (including grants) is estimated to have widened to 6.4 percent of GDP in 2023. However, government deposits (fiscal reserves) remained healthy at 16.4 percent of GDP in 2023 and public debt is low at 35 percent of GDP.

Household income and consumption fell between 2019/20 and 2021, with the decline in income per capita (5 percent) outpacing consumption per capita decline (20 percent) over this period. The wide gap between income and consumption likely reflects two factors: travel restrictions and lockdown imposed during the pandemic reduced household spending opportunities, and uncertainty regarding future incomes due to the pandemic led to increased savings. In addition, jobs in the manufacturing sector rose, boosted by the increase in jobs in the non-GTF manufacturing industries. Jobs in the formal manufacturing sector increased to 1.04 million in 2023, up from 1.02 million in 2022.

Outlook

This year's economic growth is projected to marginally improve to 5.8 percent, driven mainly by a continued revival of services and goods exports. The recovery, in conjunction with continued social assistance programs, should translate into a decline in poverty, reversing part of the likely increase in poverty in 2020 and 2021.

Real growth is projected to reach 6.1 percent and 6.4 percent in 2025 and 2026, respectively. The tourism and hospitality industries are likely to accelerate further, with a projected increase in international arrivals, reaching and surpassing the pre-pandemic levels in the coming years, while goods exports and FDI inflows are expected to be further strengthened by the newly ratified free trade agreements and a substantial increase in private and public investment in key physical infrastructure.

Downside risks include weaker-than-expected global demand, global financial stress amid elevated debt and high borrowing costs, and slower-than-anticipated recovery in China. Domestically, a faster-than-expected increase in non-performing loans could affect macro-financial stability as the housing market correction continues.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	3.0	5.2	5.4	5.8	6.1	6.4
Private consumption	-0.7	33.0	-16.1	2.2	7.3	7.3
Government consumption	-28.3	23.3	10.5	10.7	0.7	1.1
Gross fixed capital investment	66.3	33.3	-24.8	-10.5	-20.9	-15.8
Exports, goods and services	13.5	20.7	6.9	10.3	14.3	16.9
Imports, goods and services	23.1	40.3	-12.4	3.8	7.6	12.7
Real GDP growth, at constant factor prices	2.9	5.1	5.4	5.9	6.1	6.4
Agriculture	1.2	0.7	1.4	1.4	1.4	1.5
Industry	9.4	8.3	4.8	7.4	7.7	8.1
Services	-2.7	3.5	8.0	6.1	6.3	6.4
Inflation (consumer price index)	2.8	5.5	3.0	2.8	2.7	3.0
Current account balance (% of GDP)	-39.7	-25.5	2.4	3.4	3.4	3.6
Net foreign direct investment inflow (% of GDP)	12.6	11.7	11.4	10.4	10.2	9.4
Fiscal balance (% of GDP)	-7.2	-4.5	-6.5	-5.9	-4.3	-3.8
Revenues (% of GDP)	22.0	23.7	21.4	22.0	22.6	22.8
Debt (% of GDP)	36.3	37.0	34.8	35.8	35.3	35.1
Primary balance (% of GDP)	-6.5	-4.0	-5.9	-5.3	-3.8	-3.3
GHG emissions growth (mtCO2e)	0.6	1.1	1.2	1.3	1.3	1.3
Energy related GHG emissions (% of total)	19.4	20.0	20.5	21.1	21.7	22.2

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	KIR	NRU	TUV
Population, million	0.13	0.01	0.01
GDP, current US$ billion	0.22	0.15	0.06
GDP per capita, current US$	1702	11914	4908
LMIC poverty rate ($3.65)	19.5[a]	20.9[b]	19.6[c]
Gini index	27.8[a]	32.4[b]	39.1[c]

Source: WDI, World Bank, and official data.
Notes: The actual year for the table data is 2022.
Abbreviations: LMIC = Lower middle-income;
KIR = Kiribati; NRU = Nauru; TUV = Tuvalu.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent value (2012), 2017 PPPs.
c/ Most recent value (2010), 2017 PPPs.

In Kiribati, a large increase in public sector wages will support growth but add to fiscal imbalances. In Tuvalu, the 2024 Falepili Union Treaty now allows Tuvaluans to emigrate to Australia, and this will shape development priorities. Nauru faces pressing financial risks as the only bank in the country plans to exit in 2024. Key challenges for growth and poverty reduction include a narrow economic base and vulnerability to climate change.

Key conditions and challenges

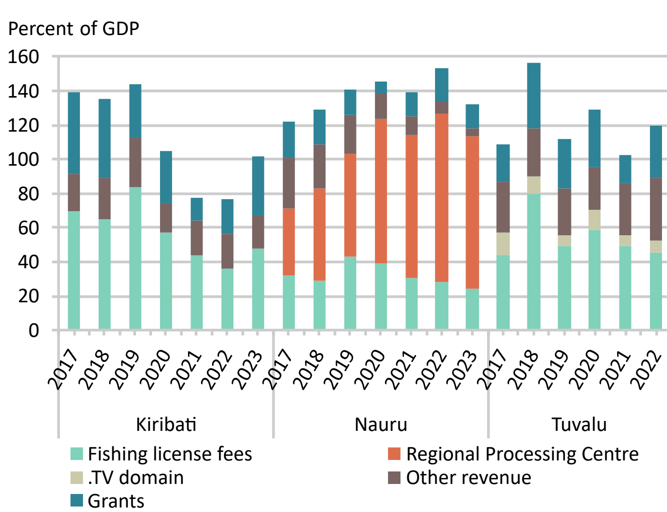
The Central Pacific faces major development challenges due to exogenous factors like climate change, small size, and remoteness; and endogenous forces like concentrated, import-reliant, and volatile economies. All three countries have trust funds to stabilize volatile revenues and finance long-term development.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

Kiribati has a highly centralized economy, with public expenditure at 105 percent of GDP in 2023. Recurrent spending is rapidly expanding, particularly on public wages, social protection, and the copra subsidy. While this has benefited the country's poor, it is distorting goods and labor markets, and creating fiscal imbalances as volatile fishing license fees account for over two-thirds of revenues. The IMF-World Bank Debt Sustainability Analysis from September 2023 concludes that, at 15 percent of GDP, Kiribati's external debt is sustainable, but at high risk of debt distress. To address these challenges, Kiribati must contain recurrent spending, foster private enterprise, and stabilize fiscal revenues using their sovereign wealth fund.

Nauru must adapt to diminishing fiscal revenues and identify new sources of growth in the medium term. Public revenues, economic growth, and employment have historically relied on phosphate mining, fishing, and operating Australia's Regional Processing Centre (RPC) for asylum-seekers. However, phosphate deposits are heavily depleted and fishing revenues are volatile. The RPC was to go on standby in 2023 but remains active due to recent asylum seekers arrivals. In FY23, income from the RPC-related activities constituted 64 percent of fiscal revenues and 92 percent of GDP. With RPC earnings uncertain, Nauru must find alternative sources of growth. The latest IMF Debt Sustainability Assessment of September 2023 found public debt, accounting for 20.2 percent of GDP, to be sustainable. Recently Nauru has significantly reduced domestic and external liabilities. It grapples with environmental challenges from climate change and the legacy of phosphate mining. A persistent effort to rehabilitate extensive former mine sites at the center of the island remains a priority.

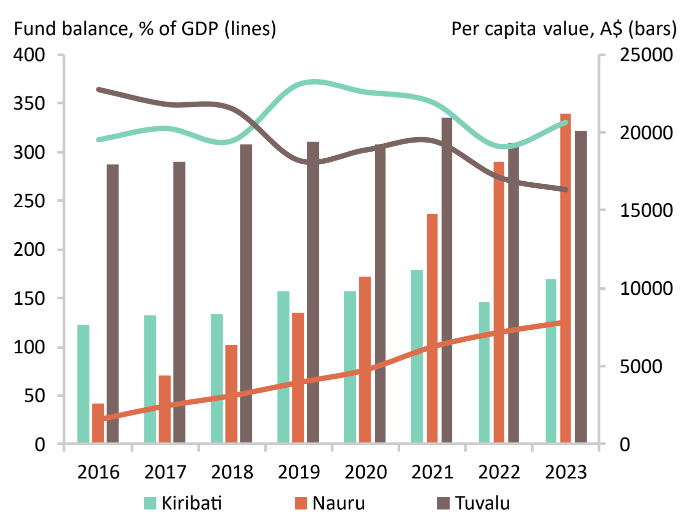
Tuvalu's size, extreme remoteness, high import dependence, and vulnerability to external shocks pose significant challenges to development. Weak growth and widening fiscal deficits are forecast over the medium term due to declining fishing revenues and official grants. This is projected to deplete sovereign wealth funds, which have already shrunk due to weak global market returns. When these funds can no longer finance fiscal deficits the Government plans to seek concessional external financing. The 2023 IMF-World Bank DSA assesses Tuvalu's public debt, at 2.3 percent of GDP, to be sustainable but at high risk of distress. Structural reforms are essential to promote resilience, sustain growth, and encourage diversification.

FIGURE 1 Central Pacific Islands / Selected fiscal revenues



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

FIGURE 2 Central Pacific Islands / Trust Fund balances



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

Recent developments

In **Kiribati**, strong fishing revenues due to favorable weather conditions and the Phoenix Islands Protected Area reopening lifted growth to 4.2 percent in 2023. Inflation reached 9.2 percent, due to higher food, beverage, and transportation prices in the first half of the year. Growth is estimated to have reduced poverty to 18.3 percent in 2022 (US$3.65 lower-middle-income line), below 19.5 percent in 2019. Domestic demand continues to be supported by high recurrent spending on public wages, social protection, and the copra subsidy. In 2023 this led to a fiscal deficit of approximately 4 percent of GDP after budget support. The RERF was worth 330 percent of GDP in December 2023, down from 370 percent in 2019 due to weak investment returns and GDP growth.

In **Nauru**, the economy is estimated to have grown by 0.6 percent in FY23. Inflation was 6.3 percent, lifted by global factors and higher transport costs. The fiscal surplus declined to 8.3 percent of GDP due to lower RPC-related activities. This allowed the Government to pass four supplementary budgets to give extra support to SOEs and public services, build cash buffers, and invest in community housing. The Government also made prepayments into the Intergenerational Trust Fund which was 122 percent of GDP in June 2023, up from 111 percent in June 2022. A new Household Income and Expenditure Survey will be collected between March 2024 and March 2025, which will enable living standards and other key socioeconomic indicators to be monitored.

In **Tuvalu**, growth is estimated to have reached 3.9 percent in 2023 from an average of -0.6 percent in 2020-2022. This strong rebound is due to the border reopening in December 2022, allowing infrastructure projects, and development partner support to resume. Inflation slowed in 2023 but remains elevated at 7.2 percent compared to 12.1 percent in 2022, reflecting global developments. The fiscal surplus of 1.1 percent of GDP in 2023 was largely due to increased donor funds. The total value of Tuvalu's sovereign wealth funds decreased from 311 to 261 percent of GDP between 2022 and 2023 due to global financial market returns.

Outlook

In **Kiribati**, growth is expected to increase to 5.6 percent in 2024 due to a 38 percent increase in public sector wages. This makes Kiribati a regional outlier in the share of GDP spent on public employment, and creates fiscal imbalances. The wage rise was funded by loosening the RERF withdrawal policy and risks depleting its balance over time. A rule that withdraws up to 3 percent of the fund each year would allow annual withdrawals, make budgeting easier, and grow the real value of the fund over time. The RERF could also be used to smooth volatile revenues from fishing license fees, as is common in other resource-rich economies. To boost shared prosperity, maintain its pace of poverty reduction, and remove distortions that inhibit private sector activity, Kiribati should rationalize public wages and redirect copra subsidies towards targeting social protection and investing in human capital. Further rises in recurrent spending could jeopardize the country's fiscal responsibility rules.

In **Nauru** FY24 GDP growth is projected to recover to 1.4 percent due to government spending financed by better fishing and RPC revenues. A pressing challenge is to replace Bendigo Bank, the only bank in the country, which will exit by December 2024. In the medium term, the winding down of the RPC requires Nauru to tighten fiscal spending and diversify its economic base, for example through tourism, labor mobility schemes, or expanding fishing revenues. The installation of the East Micronesian Internet Cable in 2026 offers the opportunity to exploit its favorable time zone between Asia and the Americas, English language, and widespread literacy, by providing online services. A new port provides opportunities for transshipment and local value-addition to fishing products, but the donor-funded project is facing heavy delays and cost overruns.

In **Tuvalu**, economic growth is projected to gradually soften to 2.2 percent by 2026 as gains from border re-opening subside and capital investment growth normalizes. Growth is expected to be driven by construction, hotels, finance, and public administration. The 2023 Australia-Tuvalu Falepili Union Treaty, where Australia will provide a human mobility pathway for Tuvaluans, is expected to impact migration, remittances, and development over the medium to long term. Inflation is expected to moderate to 3.2 percent by 2026 as global inflation pressures and supply chain disruptions dissipate. Fiscal and current account deficits are projected over the medium term as grants and fishing license fees gradually decline. This will be financed by drawing down the sovereign wealth funds, which are projected to decline to 229 percent of GDP over the medium term.

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)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices						
Kiribati	8.5	3.9	4.2	5.6	2.0	2.1
Nauru	7.2	2.8	0.6	1.4	1.2	1.0
Tuvalu	1.8	0.7	3.9	3.5	2.4	2.2
Poverty rates of Kiribati						
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.3	1.2	1.1	0.9	0.9	0.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	16.6	15.5	13.9	12.6	12.5	12.2
Upper-middle income poverty rate ($6.85 in 2017 PPP)[a,b]	66.6	65.3	63.2	59.5	59.2	59.0

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

CHINA

Table 1	2023
Population, million	1411.9
GDP, current US$ billion	17469.3
GDP per capita, current US$	12373.1
International poverty rate ($2.15)[a]	0.1
Lower middle-income poverty rate ($3.65)[a]	2.0
Upper middle-income poverty rate ($6.85)[a]	24.7
Gini index[a]	37.1
School enrollment, primary (% gross)[b]	100.2
Life expectancy at birth, years[b]	78.2
Total GHG emissions (mtCO2e)	13705.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Following moderate post-pandemic growth of 5.2 percent in 2023, growth is projected at 4.5 percent in 2024. Macroeconomic policies remain supportive of growth but the downturn in the property sector and weak business confidence weigh on domestic demand. Poverty reduction, measured by the World Bank poverty line for upper middle-income countries is expected to continue but at a slower pace in line with more moderate growth.

Key conditions and challenges

Domestic demand in China has remained sluggish and contributed to low inflation, while the policy space for stimulus is constrained. Weak business confidence, in part driven by the property market downturn, has weighed on growth. At the same time, the scope for monetary easing is limited by the risk of exchange rate depreciation and capital outflows while high debt has constrained the ability of some local governments to provide fiscal stimulus.

Over the medium term, economic growth is projected to further moderate due to slowing productivity growth, diminishing returns to capital, and a shrinking working-age population. A more challenging external environment and geoeconomic fragmentation also cloud China's medium-term growth prospects. A firm commitment to and sustained implementation of structural reforms would shore up sentiment and revive growth momentum this year while also reinforcing new drivers of growth, including in the service and green economy.

Recent developments

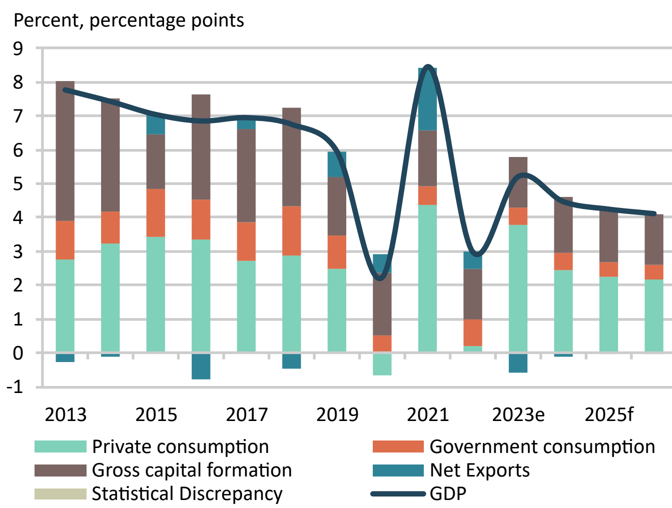
Economic activity picked up in 2023 following the post-pandemic reopening, but the rebound was uneven. GDP growth rose from 3.0 percent in 2022 to 5.2 percent in 2023. Services demand, public infrastructure, and manufacturing investment contributed to the recovery in 2023, but the property market slump and subdued exports weighed on growth. While housing demand remains depressed, consumer spending has been relatively resilient in recent months.

The authorities have provided moderate macroeconomic stimulus. Monetary policy has been eased with reductions in the policy rates and the required reserves ratio for banks and liquidity provision through the targeted credit support by the central bank. The government provided modest fiscal stimulus; however, many local governments face financing constraints, limiting the size of fiscal support. The authorities have also reinforced high-level policy commitment to level the playing field for private and foreign firms.

Weak housing demand and high developer debt continue to constrain the property sector. Despite lower mortgage rates and downpayment ratios, housing demand remains weak and property prices continue to fall. Meanwhile, property developers continued to face funding pressures, leading more than 20 percent contraction in housing starts in 2023.

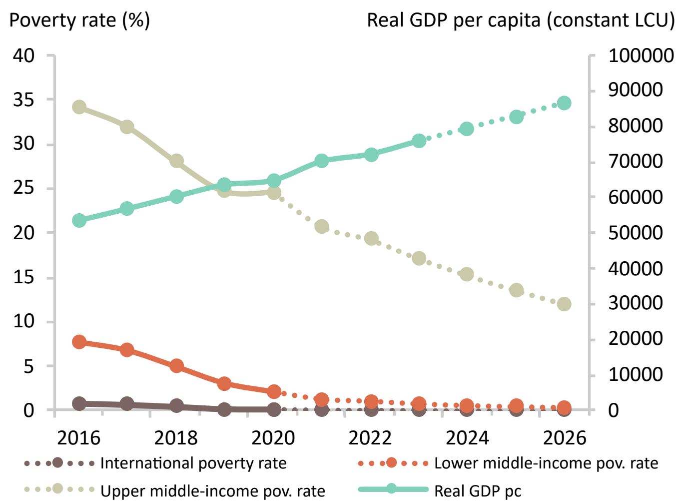
Higher economic growth in 2023 lifted 30 million people out of poverty defined by the upper middle-income country line used by the World Bank ($6.85/day in 2017 PPP). Though this is higher than the 21 million people who exited poverty using the same threshold in 2022, the overall pace of poverty reduction is still slower than in the pre-pandemic years. Wage and property income growth picked up in 2023

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.

but was slower than the pre-pandemic trend. Another income category that remains significantly affected by macroeconomic uncertainty is business income, which accounts for around 16 percent of household income on average. The volatility of business income growth (as measured by its coefficient-of-variation) over the 2022-2023 period jumped eightfold in comparison to the two years preceding the pandemic onset and likely represents an important drag on household consumption growth.

Outlook

Economic growth is projected at 4.5 percent in 2024. Post-COVID pent-up consumer demand has dissipated. While the property sector downturn continues to dampen real estate investment, the reallocation of investment from real estate to manufacturing is likely to continue, due to rising demand for low carbon technologies and government support. Moreover, moderate fiscal expansion is expected to support near-term growth. On the external side, export growth is expected to improve on the back of a recovery of global trade, while import growth is expected to decelerate amid softer domestic demand. Growth is projected at 4.3 percent in 2025 and 4.1 percent in 2026, in line with its long-term potential. Consumer price inflation is expected to gradually increase to 1.0 percent in 2024, as the output gap narrows and the base effects of high commodity prices in 2023 fade.

Risks to the outlook are broadly balanced. Downside risks stem from a longer-than-expected contraction of the property sector, prolonged weakness in confidence, slower pace of reform, and rising trade protectionism. While the investment shift from real estate towards manufacturing has led to short-term improvement in the efficiency of capital allocation, there is some risk that the rapid scale-up of investment and growing state support could lead to overcapacity and inefficiency in certain sectors. On the upside, decisive policy actions, including larger fiscal stimulus, faster restructuring in the property sector, and measures to improve market competition, could enhance business sentiment and lead to a higher-than-expected growth.

Lower projected growth rates in the outer years will also weigh on the pace of poverty reduction which is expected to slow in 2024 and 2025. The poverty rate at the upper-middle income country line is expected to fall to 15.3 and 13.6 percent for 2024 and 2025, respectively.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	8.4	3.0	5.2	4.5	4.3	4.1
Private consumption	11.7	0.5	10.1	6.2	5.6	5.4
Government consumption	3.3	4.8	2.9	3.3	2.9	2.8
Gross fixed capital investment	3.1	3.3	3.7	4.1	4.0	3.7
Exports, goods and services	18.4	-2.3	-0.1	1.6	2.0	2.0
Imports, goods and services	10.3	-6.0	3.6	2.8	2.7	2.7
Real GDP growth, at constant factor prices	8.4	3.0	5.3	4.5	4.3	4.1
Agriculture	7.1	4.2	4.1	3.0	3.0	3.0
Industry	8.7	2.6	4.7	3.4	3.2	3.2
Services	8.5	3.0	5.8	5.5	5.2	4.8
Inflation (consumer price index)	0.9	2.0	0.2	1.0	1.5	2.0
Current account balance (% of GDP)	2.0	2.2	1.5	0.8	0.5	0.2
Net foreign direct investment inflow (% of GDP)	0.9	0.2	-0.9	-0.6	-0.3	0.1
Fiscal balance (% of GDP)[a]	-4.0	-6.3	-5.8	-6.4	-4.4	-4.1
Revenues (% of GDP)	35.2	32.5	32.8	30.4	31.5	29.8
Debt (% of GDP)	46.9	50.4	54.2	57.5	58.7	55.5
Primary balance (% of GDP)	-3.0	-5.2	-4.7	-5.4	-3.4	-3.2
International poverty rate ($2.15 in 2017 PPP)[b,c]	0.1	0.1	0.1	0.1	0.1	0.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	1.3	1.1	0.8	0.6	0.5	0.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	20.8	19.3	17.2	15.3	13.6	12.1
GHG emissions growth (mtCO2e)	5.4	3.1	2.6	2.9	3.1	3.1
Energy related GHG emissions (% of total)	82.6	82.7	82.8	82.9	83.0	83.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ 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 2020 provided by NBS. Actual data: 2020. Nowcast: 2021-2023. Forecasts are from 2024 to 2026.
c/ Projection using neutral distribution (2020) with pass-through = 0.85 based on GDP per capita in constant LCU.

FIJI

Table 1	2023
Population, million	0.9
GDP, current US$ billion	5.4
GDP per capita, current US$	5804.3
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
Gini index[a]	30.7
School enrollment, primary (% gross)[b]	108.0
Life expectancy at birth, years[b]	67.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Output surpassed pre-pandemic levels in 2023, supported by tourist arrivals above 2019 levels. Fiscal policy has shifted towards revenue-based consolidation to reduce high debt accumulated during the pandemic. Growth is expected to revert to its long-term average of 3.3 percent over the medium term. Risks to the outlook include tropical cyclones and elevated commodity prices. Structural reforms and diversification beyond tourism are critical to enhance growth and reduce poverty.

Key conditions and challenges

Fiji is a tropical island nation of 900,000 people in the South Pacific Ocean. It is the second largest economy in the Pacific, most industrially advanced, and the center for re-exports. Its closest major trading partners, Australia and New Zealand, are around 3,000km away. An average of one tropical cyclone (TC) passes through the Fijian waters each year. Tourism remains the main driver of growth and a key source of foreign exchange earnings. Fiji is an upper middle-income country (UMIC) and its size, remoteness, and increasing exposure to climate change restrain economic development. These structural constraints are amplified by substantial obstacles, such as human capital and connectivity deficiencies, and inadequate infrastructure.

Economic growth averaged 3.3 percent in 2010-19. While the economy has fully recovered now, the pandemic left behind high debt with limited fiscal buffers for future shocks. Post-pandemic, Fiji successfully reduced its fiscal deficit considerably attributed to the gradual phasing out of stimulus measures and increased domestic revenues. Additional efforts are required to diminish fiscal deficits and address vulnerabilities associated with elevated debt levels.

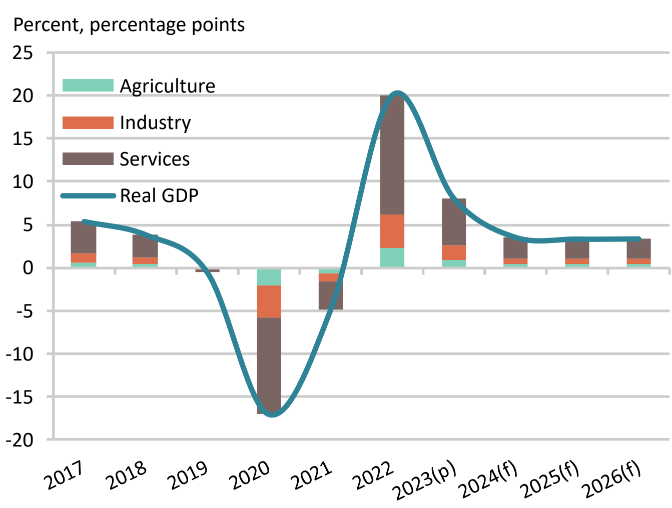
Fiji had a poverty rate of 24.1 percent in 2019/2020 as defined by the national standards of living. The 2019-20 Household Income and Expenditure Survey (HIES) estimated the incidence of extreme poverty at 1.3 percent, which is in line with other UMICs. Extreme poverty is low but Fiji's standard of living is below its UMIC peers. The upper middle-income poverty rate is 52.6 percent, nearly double the UMICs' average of 23.5 percent in the same period.

Recent developments

The economy has fully recovered with a 28 percent growth (cumulative) during 2022-2023 on the back of a swift tourism rebound of 4 percent above 2019 levels by the end of 2023. Moreover, the countercyclical fiscal response to the pandemic and a pick-up in domestic demand contributed to the strong recovery. About 50 percent of the 2022 and 2023 growth came from accommodation, transport, manufacturing, wholesale, retail and finance sectors. This quick recovery is estimated to have reduced poverty by UMIC standards (US$6.85 in 2017 PPP) from 67.2 percent in 2021 to 52.1 percent in 2023.

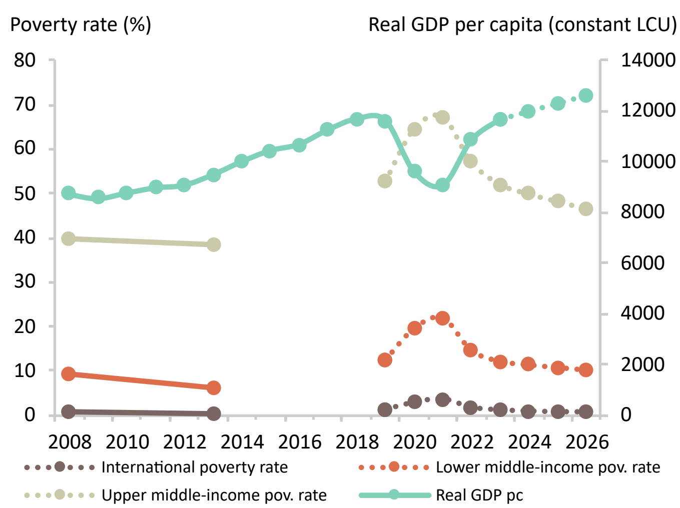
Inflation in Fiji has generally been much lower than elsewhere in the world owing to price controls and various mitigation measures. The consolidation of 9 percent and 15 percent VAT rates in August 2023, and higher import prices and tariff rates led to a 5.1 percent (y/y) headline inflation in December, the highest in the last decade. However,

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



Sources: Ministry of Finance, IMF, and World Bank staff estimates.
Note: 2023(p) - p stands for provisional.

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



Source: World Bank. Notes: see Table 2.

it fell to 3.6 percent in January 2024, partially due to the diminishing impact of tax changes and lower global food prices. Monetary policy remains accommodative to support growth with the overnight policy rate maintained at 0.25 percent since 2020.

The current account deficit decreased to 5.5 percent of GDP in 2023 due to an increase in tourism receipts and remittances, partially from Fijians in various labor mobility schemes in Australia/New Zealand. Foreign reserves remained at a comfortable level of 5.7 months of retained imports as of the end of 2023.

The fiscal deficit declined to 5.1 percent of GDP in 2023 from an average of 11.6 percent in 2020-22 due to high tax buoyancy and lower capital transfers. Gains from revenue measures introduced in 2023 were around 3.3 percent of GDP but were partly offset through higher public spending. The deficit was financed through external concessional and domestic borrowing. Public debt fell to 80.6 percent of GDP in 2023 because of declining primary balance and high growth.

Outlook

Growth is poised to decelerate in the medium term and is projected to average 3.3 percent in 2025-2026, supported by manufacturing, wholesale and retail trade, and finance sectors. This deceleration comes as the initial post-pandemic demand boost for tourism gradually subsides and new source markets are constrained by limited hotel capacity. However, strategic measures such as diversifying beyond tourism, enhancing infrastructure resilience and adaptation, investing in human capital, and harnessing talent are expected to be drivers of sustained growth.

The growth outlook is expected to reduce poverty to below pre-pandemic levels to 49.9 percent in 2024 (compared to 52.6 percent in 2019). Strong rebound in tourism and remittances are expected to positively impact the poorest 40 percent.

Headline inflation is projected to converge to 3 percent over the medium term as global inflationary pressures subside. The current account deficit is projected to remain above 7 percent reflecting a decline in official grants despite steady tourism earnings and remittances. Remittances are expected to be above a tenth of GDP. The current account deficit will be largely financed by official borrowing. Foreign reserves are projected to remain adequate over the medium term at above 4 months of retained imports.

The fiscal deficit is expected to narrow to 4.5 percent of GDP by 2026 due to revenue-generating reforms and expenditure rationalization. The Government intends to review the tax expenditure, advance the investment appraisal and selection process, and freeze nominal spending over the medium term. Public debt is projected to stay around 80 percent by 2026. The World Bank Debt Sustainability Analysis 2024 assesses public debt as sustainable but subject to considerable risks.

Risks to the outlook include persistent outmigration and skilled labor shortages, global commodity price shocks, and natural disasters. Structural reforms, economic diversification, and fiscal consolidation are essential for building resilience, enhancing growth, and reducing poverty.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	-4.9	20.0	8.0	3.5	3.3	3.3
Real GDP growth, at constant factor prices	-3.4	15.7	8.0	3.5	3.3	3.3
Agriculture	0.8	4.1	2.3	2.9	3.4	3.7
Industry	-6.7	5.7	15.3	5.9	4.4	4.4
Services	-3.1	21.1	6.9	2.9	3.0	2.9
Inflation (consumer price index)	3.0	3.1	5.1	3.3	3.2	3.1
Current account balance (% of GDP)	-15.9	-17.3	-5.5	-7.4	-7.8	-7.8
Fiscal balance (% of GDP)	-11.7	-10.3	-5.1	-7.3	-5.9	-4.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.7	1.8	1.2	1.0	0.8	0.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	21.9	14.6	12.2	11.4	10.8	10.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	67.2	57.1	52.1	49.9	48.2	46.6

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: 2020-2023. Forecasts are from 2024 to 2026.
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	2023
Population, million	281.7
GDP, current US$ billion	1371.2
GDP per capita, current US$	4866.7
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]	100.6
Life expectancy at birth, years[b]	67.6
Total GHG emissions (mtCO2e)	1537.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Indonesia's growth remains resilient, supported by domestic demand and the services sector. Prudent macroeconomic policies have enabled the country to build buffers, navigate multiple global shocks, and accelerate poverty reduction. However, productivity growth is falling, limiting wage growth and middle-class financial security. Implementing competitiveness enhancing reforms and strengthening social safety nets are key to reversing the declining productivity cycle, expanding economic security, and boosting growth potential.

Key conditions and challenges

Indonesia has successfully navigated the macroeconomic fallout of a series of global shocks. Growth remains resilient. Yet, the economy is still 6.9 percent smaller than if it had grown at pre-pandemic rate. This gap reflects scarring effects on investments, labor inputs, and productivity. It is consistent with labor market outcomes, which shows a recovery in labor force participation and employment but a deterioration in job quality, with growth concentrated in low-wage informal jobs especially in the services sector.

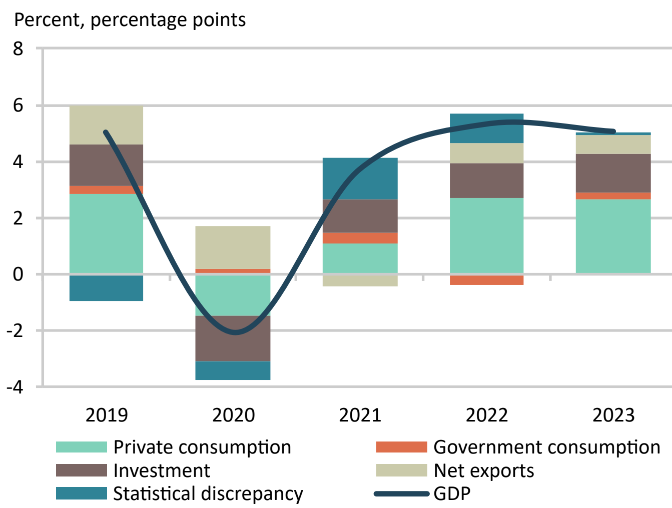
Inflation is on a declining trend and inflation expectations are anchored within the Bank Indonesia target band. However adverse climate conditions and geopolitical tensions have raised prices for basic foods, energy, and transport, prompting price stabilization measures and food aid programs to ease the impact on the poor. Despite food price inflation trending below global averages, disparities exist, with the poorest districts facing higher price pressures due to geographic and logistic factors, as well as policy impacts.

Indonesia is entering a new political and economic cycle. A new President and Parliament were elected in February 2024 with campaign promises to increase social spending and tax collections. On the economy, the end of the commodity cycle boom and high global interest rates present strong headwinds and limit macro policy space. The small twin deficits, low public debt, adequate foreign reserves, and stable external financing constitute though robust buffers to manage downside risks. The challenge is to sustain macroeconomic fundamentals to deliver faster, greener, and more inclusive growth. This requires combining the robust macroeconomic policy framework with structural reforms that boost efficiency, competitiveness, and productivity growth. This includes implementing complex flagship laws: the jobs creation, the tax harmonization, and the financial sector omnibus.

Recent developments

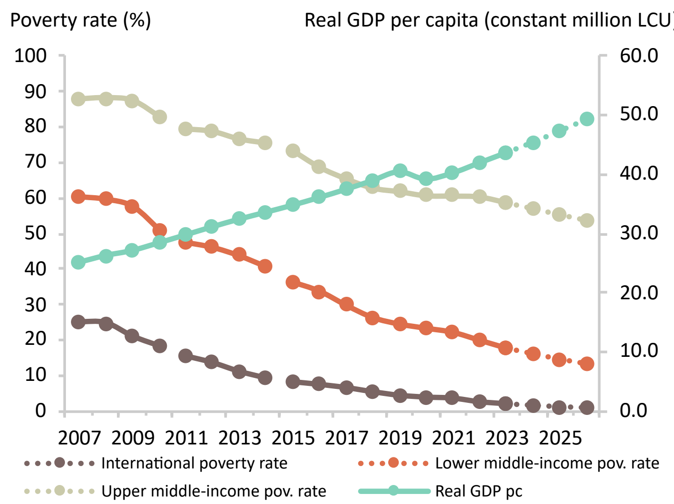
After a post-pandemic high of 5.3 percent in 2022, GDP growth normalized to 5 percent in 2023. Fifty three percent of GDP growth came from private consumption as consumer confidence remained high, buoyed by declining inflation. Budget execution delays rendered government consumption sluggish, while global uncertainty and declining commodity prices affected international trade and softened commodity windfalls throughout the year. Net export contribution to growth remained steady at 0.7 ppts, with a shift in composition as exports strongly decelerated and imports declined. Private investment accounted for 26 percent of GDP, one of the highest in East Asia. Meanwhile, services, particularly in wholesale and retail trade, transportation, tourism, and communication sectors, drove 54 percent of economic activity growth. Manufacturing also contributed a solid 19 percent.

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.

Headline inflation moderated to an average of 3.7 percent in 2023, as the base effect from the 2022 fuel price hike was absorbed. The trend continued in 2024. Inflation recorded 2.8 percent (year-on-year) in February despite intensifying food price pressures. Core inflation also trended downward, signaling a potential widening of the output gap.

The recovery in private consumption, rising employment, and wage growth led to a decline in the poverty rate from 20.3 percent in 2022 to 18.1 percent in 2023, measured at the international lower-middle-income countries (LMIC) poverty line. Using the national line, poverty decreased from 9.5 to 9.4 percent. However, the labor market recovery remains incomplete, with a larger share of jobs concentrated in the informal sector, reaching 59.3 percent of employment in 2023, up 3.4 ppts from 2019.

After two years of surpluses, the current account shifted in 2023 to a small deficit of 0.1 percent of GDP due to worsening terms of trade. With policy rates among the highest in East Asia, tight monetary policy and stable macroeconomic conditions softened portfolio flow volatility. Meanwhile, FDI dropped but remained the largest source of external financing. Foreign currency reserves stayed adequate, covering 6 months of imports.

Despite the late acceleration in public spending, the fiscal deficit fell from 2.4 percent of GDP in 2022 to 1.7 percent in 2023, mainly due to overperforming tax revenue, more prominently VAT, while expenditures were slightly below the budget target. Interest payments reached 2.1 percent of GDP, in line with rising financing costs. Public debt declined to 39 percent of GDP, with the majority of the stock in domestic currency (71.7 percent) and maturities above one year (87.6 percent), reducing currency and rollover risks.

Outlook

GDP growth is projected to average 5 percent in 2024-26, reflecting softer terms of trade and a normalization towards trend growth. Inflation is forecast to ease to a 2.9 percent average and remain within BI's revised target band of 2.5±1 percent. Challenges to the external position are expected to intensify. The current account deficit will gradually expand to 1.4 percent of GDP by 2026, as lower commodity prices and soft global growth hamper exports.

By 2025, growth is expected to lift over 8 million people above the international LMIC poverty line. Improving the effectiveness of existing social safety net programs could substantially reduce poverty further, while social assistance will help limit the disproportionate impact of recent food price hikes on vulnerable households and support the government's inclusive growth targets.

The fiscal deficit is projected to average 2.3 percent in 2024-26. Revenues to GDP are expected to pick up as the effects of tax reforms materialize, while non-tax revenues are expected to ease in line with lower commodity prices. Spending is expected to remain tight in 2024 but gradually return to pre-pandemic levels. A potential fiscal expansion could take place as the new administration starts implementing its priority programs in 2025.

The outlook is subject to downside risks. High-interest rates could weigh on borrowing costs and tighten access to external financing. Geopolitical uncertainty and climate change related shocks could disrupt global value chains and induce a sharper decline in terms of trade, resulting possibly in lower revenues and a tighter fiscal position. Domestically, the economic program of the new administration, which takes office in October, will have important implications for medium-term growth and resilience.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	3.7	5.3	5.0	4.9	5.0	5.0
Private consumption	2.0	5.0	4.9	4.9	5.0	5.0
Government consumption	4.3	-4.5	2.9	4.8	3.5	3.5
Gross fixed capital investment	3.8	3.9	4.4	4.5	5.4	6.0
Exports, goods and services	18.0	16.2	1.3	4.1	4.0	3.5
Imports, goods and services	24.9	15.0	-1.6	2.1	3.0	3.5
Real GDP growth, at constant factor prices	3.3	4.9	5.1	4.9	5.0	5.0
Agriculture	1.9	2.3	1.3	3.7	3.0	3.0
Industry	3.4	4.1	5.0	4.1	4.1	4.1
Services	3.5	6.5	6.1	5.9	6.3	6.2
Inflation (consumer price index)	1.6	4.1	3.7	3.0	2.9	2.9
Current account balance (% of GDP)	0.3	1.0	-0.1	-0.7	-1.2	-1.4
Net foreign direct investment inflow (% of GDP)	1.5	1.4	1.1	1.3	1.4	1.5
Fiscal balance (% of GDP)	-4.6	-2.4	-1.7	-2.2	-2.3	-2.3
Revenues (% of GDP)	11.8	13.5	13.3	12.9	13.1	13.2
Debt (% of GDP)	40.7	39.5	39.0	38.4	38.0	37.3
Primary balance (% of GDP)	-2.5	-0.4	0.4	-0.2	-0.3	-0.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.6	2.5	1.9	1.5	1.2	0.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	22.4	20.3	18.1	16.3	14.7	13.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	60.7	60.5	58.9	57.0	55.2	53.5
GHG emissions growth (mtCO2e)	1.1	0.9	2.1	2.1	1.7	1.2
Energy related GHG emissions (% of total)	37.5	37.6	38.1	38.5	38.8	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/ Calculations based on EAPPOV harmonization, using 2011-SUSENAS and 2023-SUSENAS. Actual data: 2023. Forecasts are from 2024 to 2026.
b/ Projection using annualized elasticity (2011-2023) with pass-through = 1 based on GDP per capita in constant LCU.

LAO PDR

Table 1	2023
Population, million	7.6
GDP, current US$ billion	15.1
GDP per capita, current US$	1983.1
International poverty rate ($2.15)[a]	7.1
Lower middle-income poverty rate ($3.65)[a]	32.5
Upper middle-income poverty rate ($6.85)[a]	70.5
Gini index[a]	38.8
School enrollment, primary (% gross)[b]	97.2
Life expectancy at birth, years[b]	68.1
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 (2022); Life expectancy (2021).

Economic growth remains significantly below pre-Covid-19 levels, partly due to a protracted period of macroeconomic instability. The Lao kip continues to depreciate, while average annual inflation is expected to remain above 20 percent for the third consecutive year. Economic growth is forecast to pick up to 4 percent in 2024, in a context of high economic uncertainty and limited reform progress. Progress in poverty reduction is estimated to have stalled in 2023.

Key conditions and challenges

Tighter monetary and fiscal policies and renewed efforts to enforce foreign exchange restrictions have had limited impacts on restoring macroeconomic stability. The Lao kip continued to depreciate (albeit more mildly since October), while inflation remained high. Limited foreign exchange liquidity and hence a weaker kip have put pressure on external public debt servicing, which constrains fiscal space and exacerbates financial sector vulnerabilities. Sizeable debt service deferrals during 2020-2023 have provided temporary relief, but access to international capital markets remains constrained. Public and publicly guaranteed debt (PPG) reached 112 percent of GDP in 2022, mostly due to the large currency depreciation. This value rises to over 120 percent if a currency swap and expenditure arrears are included. External debt service deferrals accumulated to 16 percent of GDP in 2023. Average annual external debt repayment obligations remain at $1.3 billion (9 percent of GDP) in the medium term. Therefore, a positive outcome from ongoing debt renegotiations with large bilateral creditors is crucial to restoring debt sustainability and economic growth.

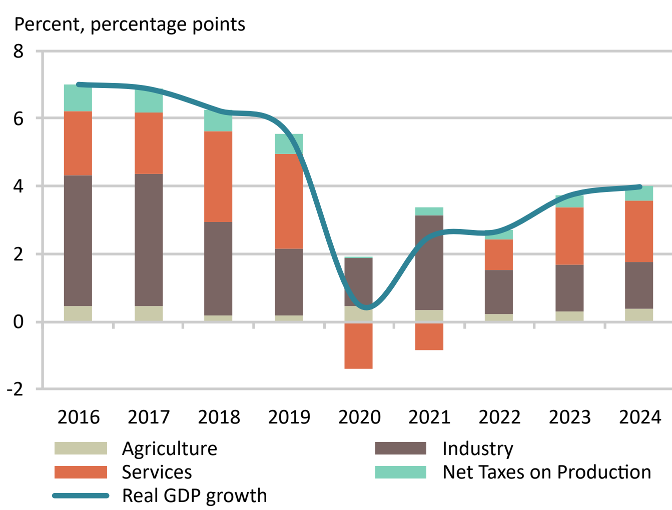
Recent developments

Economic activity grew at 3.7 percent in 2023, benefiting from the services sector recovery. Increased tourism, transport and logistics services, mining, and foreign investment supported growth, while electricity generation was weighed down by weather conditions.

Persistent depreciation reflects foreign exchange liquidity constraints. In 2023, the central bank tightened monetary policy, closed foreign exchange bureaus, and started to enforce the repatriation of export receipts. Despite these measures, the Lao kip still depreciated by 23 percent against the US dollar during January 2023-February 2024, with the parallel market premium reaching 11 percent. This factor feeds into high inflation, which remained at 25 percent in February 2024, while core inflation reached 26 percent. Food and transport price increases were the key drivers.

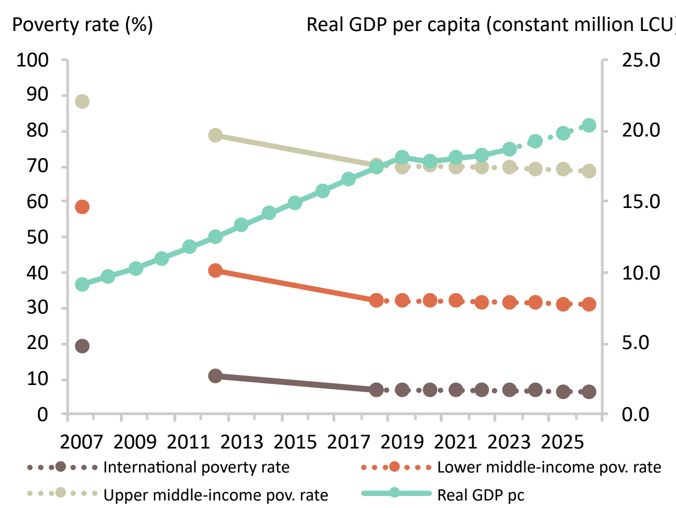
The fiscal deficit remained at 0.2 percent of GDP in 2023, owing to stronger revenue collection, while public spending slightly increased. Domestic revenue recovered, supported by price and exchange rate effects, higher resources tax, fees, value added tax (tax base expansion and price effect). Excise revenue was stable (as a share of GDP), as higher volume sales, price increases, and some rate increases were offset by lower fuel excise rates. Public spending rose slightly as higher capital spending and transfers more than offset a decline in

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.

wages. Interest payments remained stable (as a share of GDP), supported by the deferrals.

The current account deficit narrowed in 2023, supported by strong services exports and lower primary income outflows. Foreign investment recovered strongly, supported by investment in the resource sectors. Gross foreign reserves were reported at $1.8 billion in October 2023. Excluding the $900 million swap arrangement, net reserves is estimated to cover only 1.2 months of imports.

Employment improved in 2023. High inflation and a sharp currency depreciation disproportionately affected wage employment and non-farm businesses, incentivising workers to switch from non-tradable service sectors to agriculture and manufacturing. These shifts, coupled with increasing migration for higher wages, have caused labour shortages in labour-intensive sectors. One-third of households saw their income stagnate or decline in 2023 and therefore were severely hit by the rising cost of living. Food inflation stood high at 25 percent in February 2024, forcing households to reduce food consumption and switch to cheaper food. Progress in poverty reduction stalled, with the poverty rate (measured at the lower-middle-income poverty line of $3.65 a day 2017 PPP) estimated to stagnate at around 32 percent in 2023.

Outlook

Real GDP is projected to grow by 4 percent in 2024, led by a continued service sector recovery. This outlook assumes continued suspension of deferred debt service repayments. Inflation is expected to remain above 20 percent, reflecting continued depreciation pressure. Macroeconomic stability is contingent on critical revenue reforms and a successful conclusion of ongoing debt negotiations.

Elevated debt service levels will continue to constrain fiscal space. Revenue is expected to gradually increase with tax policy and administration improvements, but high-interest obligations, if fully paid, would crowd out other expenditures. The outlook assumes a primary surplus in the next few years, but no further deferrals in 2024 onward. As a consequence, the fiscal deficit is expected to increase, reflecting full interest payments. External debt service obligations average $1.3 billion per year during 2024-2027, keeping total public financing needs high.

The current account deficit is expected to remain at around 3 percent, as improvements in tourism, transport, and logistics services, and remittances are offset by higher import and interest payments. Despite the repatriation requirement of export proceeds, reserve adequacy, net of the swap, is expected to remain thin (covering less than two months of imports).

The outlook is subject to significant domestic and external uncertainty. Limited foreign reserves, high public debt, and higher imports will continue to pressure the kip and thus inflation, undermining household consumption and investments in human capital. Labour shortages could also threaten labour-intensive sector growth. Subdued global and regional economic growth would weaken external demand. Domestic risks include tight foreign exchange liquidity to refinance external debt, slow progress with structural reforms, and deteriorating balance sheets in large banks. The outcome of ongoing debt negotiations will have significant implications for both debt sustainability and macroeconomic stability.

High inflation will continue to affect real household income. Macroeconomic instability will undermine the poverty outlook. Despite the moderate growth, the poverty rate is expected to remain steady in 2024. Meanwhile, a contraction in human capital spending will likely compromise prospects for poverty reduction in the long term.

Addressing macroeconomic instability requires five critical reforms: (i) restoring the VAT rate to 10 percent, curbing tax exemptions, and reforming health taxes; (ii) improving the governance of public and public-private investments; (iii) finalising 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)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	2.5	2.7	3.7	4.0	4.1	4.1
Real GDP growth, at constant factor prices	2.5	2.7	3.7	4.0	4.1	4.1
Agriculture	2.3	1.6	2.4	2.7	3.1	3.1
Industry	7.6	3.3	2.6	3.6	3.4	3.3
Services	-2.2	2.5	5.5	4.9	5.2	5.3
Inflation (consumer price index)	3.8	22.7	31.2	21.2	15.3	6.9
Current account balance (% of GDP)	-2.9	-1.7	-1.3	-2.9	-3.5	-3.8
Fiscal balance (% of GDP)	-1.3	-0.2	-0.2	-1.4	-1.5	-1.6
Revenues (% of GDP)	14.9	14.7	14.9	15.2	15.3	15.4
Debt (% of GDP)	77.9	95.9	95.2	94.7	94.1	93.7
Primary balance (% of GDP)	0.0	1.5	1.7	1.3	1.3	1.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	7.0	6.9	6.8	6.7	6.6	6.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	32.0	31.9	31.7	31.4	31.1	30.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	70.0	69.9	69.6	69.3	69.0	68.7
GHG emissions growth (mtCO2e)	5.0	3.7	4.6	4.7	5.2	5.3
Energy related GHG emissions (% of total)	41.4	42.4	43.5	44.6	45.6	46.6

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 EAPPOV harmonization, using 2012-LECS and 2018-LECS. Actual data: 2018. Nowcast: 2019-2023. Forecasts are from 2024 to 2026.
b/ Projection using annualized elasticity (2012-2018) with pass-through = 0.5 based on GDP per capita in constant LCU.

MALAYSIA

Table 1	2023
Population, million	34.3
GDP, current US$ billion	399.6
GDP per capita, current US$	11648.7
Upper middle-income poverty rate ($6.85)[a]	2.3
Gini index[a]	40.7
School enrollment, primary (% gross)[b]	97.8
Life expectancy at birth, years[b]	74.9
Total GHG emissions (mtCO2e)	400.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Growth is expected to increase to 4.3 percent in 2024, with domestic demand continuing to be the main driver of growth. Narrow fiscal space remains a key challenge for the economy, and the government has announced several spending efficiency measures, including reviewing existing price controls and subsidies. The incidence of national absolute poverty in 2022 was still higher than the pre-pandemic level and remains a key focus for the government.

Key conditions and challenges

Malaysia's economic growth moderated to 3.7 percent in 2023 (2022: 8.7 percent), lower than the government's target of 4-5 percent. In 2024, growth is expected to pick up as the risk of a global recession recedes. The recovery in the tech cycle, which could boost electric and electronics (E&E) exports, could also have positive spillovers to growth. However, growing geopolitical tensions could lead to supply disruptions, further weakening of external demand, and rising commodity prices posing downside risks to the economy.

The narrowing of fiscal space remains a key challenge for the government. The government recently announced its plan to discontinue the pension scheme for new civil servants and its intention to review price controls and subsidies in 2024. It has indicated that targeted subsidies to the public will be given through direct cash transfers. PADU, the national household socioeconomic database, was launched as a foundation for identifying eligible beneficiaries. The details and timing for the subsidies review, however, have not been communicated. On the revenue front, the government introduced several measures during the tabling of Budget 2024, although the fiscal impact from these measures is expected to be marginal.

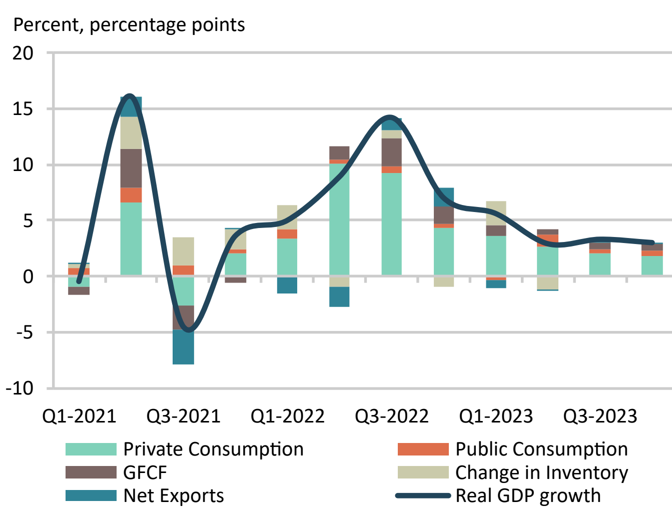
Recent developments

Malaysia's economic growth moderated to 3.7 percent in 2023 (2022: 8.7 percent). Domestic demand remained supportive of the economy. Private consumption continued to expand, albeit at a slower pace of 4.7 percent in 2023 (2022: 11.2 percent), supported by continued improvement in labor market conditions. Growth was also supported by the recovery in the tourism sector, as the number of tourist arrivals reached pre-pandemic levels. On the supply side, the construction and services sectors recorded the highest growth, expanding at 6.1 percent and 5.3 percent respectively (2022: 5 percent; 10.9 percent). Growth in the manufacturing sector declined sharply to 0.7 percent (2022: 8.1 percent) dragged down by a contraction in E&E manufacturing, which contracted by 3.0 percent (2022: 16.7 percent).

The external sector was significantly affected by the weaker external environment. After a marked expansion in 2022, gross exports contracted sharply by 7.9 percent in 2023 (2022: 14.5 percent), reflecting the slowdown in external demand, particularly in E&E exports. Consequently, the current account surplus shrank to 1.2 percent of GDP in 2023 (2022: 3.1 percent).

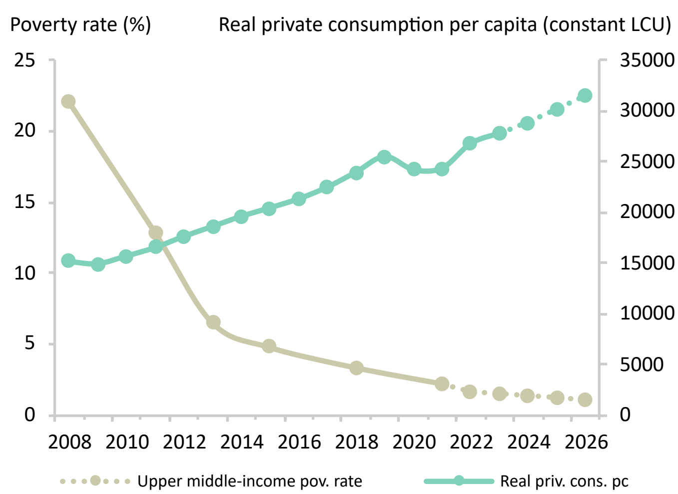
Labor market conditions continued to improve, with the unemployment rate declining further to 3.3 percent in December 2023. The labor force participation rate in Q4 2023 remained stable at 70.1 percent (Q3 2023: 70.1 percent). Private sector nominal wages

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 rate and real private consumption per capita



Source: World Bank. Notes: see Table 2.

grew at a slower pace in Q4 2023, at 3.1 percent (Q3 2023: 3.4 percent).

Headline inflation continued to decline as cost pressures eased. In January 2024, inflation stood at 1.5 percent. Core inflation also moderated to 1.8 percent. The central bank kept its overnight policy rate (OPR) at 3.00 percent in March and expects inflation to remain modest as cost and demand conditions stabilize. Monetary policy is deemed supportive of the economy. Despite the moderating inflation, lower-income households have experienced higher inflation. In December 2023, the inflation for the below RM3,000 (US$630) income group was 1.7 percent, above the headline inflation of 1.5 percent, disproportionately impacting this group given their higher spending on basic necessities.

In February, the ringgit remained on a depreciating trend and was partly driven by Malaysia's declining competitiveness. Similarly, the real effective exchange rate (REER) has been on a downward trend, depreciating by 0.9 percent between July and December 2023.

The latest official estimates show that the incidence of absolute poverty in 2022 remained higher than the pre-pandemic level (2019: 5.6 percent). Using the international poverty line, at the upper-middle income line of $6.85 2017 PPP dollars a day, poverty fell to 2.3 percent in 2021 (2018: 3.4 percent). Meanwhile, inequality reduction has stagnated. Income inequality, measured by the Gini index based on household per capita net income was 40.7 in 2021 (2018: 41.2). Different trends were observed across states, with some states experiencing a widening in their income gap.

Outlook

Growth is forecasted to increase to 4.3 percent in 2024 on the expectation of a likely recovery in global growth and the easing of global financial conditions. Domestic demand will continue to anchor growth. Private consumption is expected to grow by 5.2 percent (2023: 4.7 percent), driven by supportive labor market conditions and continuous household income support measures. Gross exports are projected to grow by 4.8 percent (2023: -7.9 percent), in tandem with the expected recovery in global trade.

Growth is subject to several downside risks. Global growth could be weaker than projected in the event of tighter monetary and financial conditions. Rising geopolitical tensions could also weaken external demand. Higher domestic inflation and weaker real income growth could affect the strength of consumption spending, especially for low-income households.

Headline inflation is expected to moderate to around 2.5 percent in 2024, reflecting stable cost and demand conditions. This forecast, however, is subject to potential changes in government subsidies and price control measures. Core inflation will also likely trend lower in 2024.

Poverty is expected to decline further. One of the government's focuses is to improve the people's standard of living through direct cash transfers, apart from ensuring access to education, healthcare, and basic infrastructure. As announced recently, the government's target of zero hardcore poverty has been reached in some states. Nevertheless, a broader view and a more ambitious target of poverty eradication beyond the current 0.2 percent of national hardcore poverty is needed.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	3.3	8.7	3.7	4.3	4.4	4.3
Private consumption	1.9	11.2	4.7	5.2	5.4	5.4
Government consumption	6.4	4.5	3.9	2.8	1.5	1.2
Gross fixed capital investment	-0.8	6.8	5.5	5.1	3.9	3.5
Exports, goods and services	18.5	14.5	-7.9	4.8	4.4	4.4
Imports, goods and services	21.2	15.9	-7.6	5.3	4.5	4.4
Real GDP growth, at constant factor prices	3.3	8.7	3.6	4.4	4.4	4.3
Agriculture	-0.1	0.1	0.7	1.6	1.8	1.8
Industry	5.8	6.5	1.4	3.8	3.4	3.4
Services	2.1	11.3	5.4	5.1	5.4	5.2
Inflation (consumer price index)	2.5	3.3	2.6	2.5	2.5	2.1
Current account balance (% of GDP)	3.9	3.1	1.3	2.2	2.4	1.8
Net foreign direct investment inflow (% of GDP)	2.0	0.9	0.3	1.6	1.6	1.5
Fiscal balance (% of GDP)	-6.4	-5.6	-5.0	-4.4	-3.6	-2.7
Revenues (% of GDP)	15.1	16.4	17.3	15.7	15.7	15.6
Debt (% of GDP)	63.3	60.3	64.3	63.9	64.5	64.4
Primary balance (% of GDP)	-3.9	-3.2	-2.5	-1.8	-1.0	-0.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	2.3	1.7	1.5	1.4	1.2	1.0
GHG emissions growth (mtCO2e)	4.8	4.6	-0.6	1.4	1.8	2.0
Energy related GHG emissions (% of total)	64.4	65.6	65.1	65.4	65.8	66.2

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 EAPPOV harmonization, using 2022-HIS. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2021) with pass-through = 0.7 (Low (0.7)) based on private consumption per capita in constant LCU.

MONGOLIA

Table 1	2023
Population, million	3.4
GDP, current US$ billion	20.5
GDP per capita, current US$	5956.6
Lower middle-income poverty rate ($3.65)[a]	2.4
Upper middle-income poverty rate ($6.85)[a]	22.1
Gini index[a]	31.4
School enrollment, primary (% gross)[b]	95.6
Life expectancy at birth, years[b]	71.0
Total GHG emissions (mtCO2e)	81.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Mongolia's GDP growth is forecasted to remain robust at 4.8 percent in 2024, despite adverse weather affecting the agricultural sector and a slowdown in coal exports from the peak achieved in 2023. However, with rising wages and pensions, the poverty rate, measured at the lower-middle-income poverty line, is projected to decrease from 2.1 percent in 2023 to 1.9 percent in 2024. Significant risks and challenges persist, including renewed balance of payment pressures, uncertainties in external demand, and an overreliance on coal and other commodity exports.

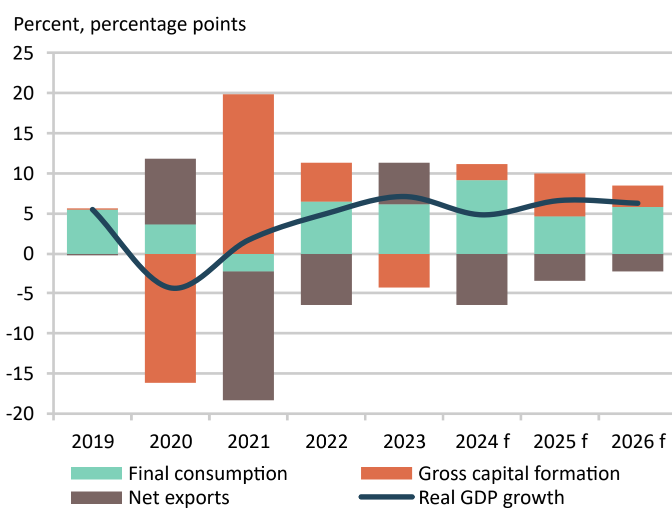
Key conditions and challenges

While macro-fiscal conditions are improving due to an ongoing mining exports boom, without structural and fiscal reforms to address the underlying fiscal vulnerabilities and reduce the dependency on volatile mining, current positive developments could be short-lived. The current mining-led recovery, driven largely by exceptionally strong coal exports, while swift, has exacerbated existing climate and development challenges, reinforcing the importance of structural reforms to diversify the economy. Facing harsh weather conditions for the second consecutive year, Mongolia's agriculture sector, pivotal for economic diversification, is under significant risk, impacting economic growth, elevating domestic food prices, and hindering poverty reduction efforts in 2024. Driven by a strong recovery in revenues, mainly from coal exports, the government's fiscal position improved, resulting in a reduction in public debt. However, despite the country's high exposure to external shocks, policy space to respond to future macroeconomic shocks remains limited given elevated fiscal risks, including the offtake coal export contracts of Erdenes Tavan Tolgoi (a state-owned coal miner). Moreover, persistent public spending pressures may reignite inflationary pressures, prop up demand for imports, and increase the risk of "twin" fiscal and current account deficits for this year.

Recent developments

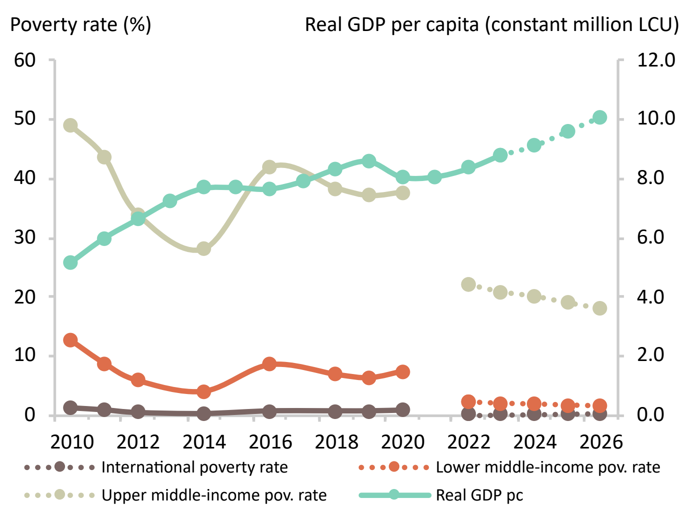
Despite the large contraction in agricultural production attributed to harsh weather conditions, the economy achieved a robust growth rate of 7.1 percent in 2023. This economic expansion was mainly driven by coal mining and its related transportation services. Indeed, coal exports soared to unprecedented levels in 2023, surging by 91 percent above the pre-pandemic 2018-2019 average. This surge was primarily driven by China's heightened demand for coal from Mongolia, aimed at replenishing stocks and bolstering China's steel exports, which heavily rely on coking coal as a key input. On the demand side, both public and private consumption supported the economy, spurred by rising household income and the 2023 supplementary budget, which increased public wages, pensions, and social welfare benefits. Declining inflation and rising wages boosted households' real incomes, translating into a decrease in poverty in 2023. However, the labor market remains weaker than in the pre-pandemic period with meager employment growth and lower labor participation rate. Headline inflation declined to 7.9 percent y-o-y in December 2023, down from 16.9 percent in June 2022, bolstering household purchasing power alongside higher household income. The inflation rate of imported goods decelerated as supply bottlenecks, transportation costs, international energy and food prices, as well as exchange rate

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.

depreciation eased. However, prices of domestically produced food, particularly meat, remained elevated.

The fiscal balance recorded a surplus of 2.6 percent of GDP, driven by robust revenue collection stemming from increased coal exports and a thriving economy, resulting in a reduction in public debt, which stood at 44.1 percent of GDP by the end of 2023 (excluding the Bank of Mongolia's swap agreement with the People's Bank of China). The robust coal exports were partially offset by increased imports of services and consumption goods, leading to a modest current account surplus, the first surplus since 2007. Gross international reserves stood at US$4.9 billion by end-2023, rebounding from their low of US$2.7 billion in August 2022, despite weaker net capital inflows and some payments on external debt obligations by the government, DBM (an SOE), and the central bank.

Outlook

In 2024, economic growth is anticipated to stay firm but moderate compared to the previous year, reaching 4.8 percent. This slowdown is primarily attributed to a significant downturn in the agriculture sector caused by the dzud weather phenomenon, characterized by extreme cold weather and heavy snowfall, while growth in the services and mining sectors is expected to persist, albeit at a slower rate. On the demand side, net export growth is anticipated to undergo a downturn as coal exports revert to standard levels and imports of investment and consumer goods ascend. Nevertheless, the growth trajectory for 2024 is underpinned by robust private consumption and fiscal expansion including augmented public wages, pensions, and investment. Moreover, an anticipated resurgence in private investments is bolstered by amplified lending to businesses and stabilized production costs.

Fiscal expansion and rising household incomes are expected to drive inflationary pressures in 2024. The supply-side shock from the expected agricultural contraction is poised to elevate domestic food inflation, pushing average headline inflation to 8.5 percent in the outlook, slightly exceeding the central bank's upper target of 8 percent. Deficits in the fiscal and current account balances are expected to reemerge in 2024 as coal exports normalize, export commodity prices decline, elevated government spending persists, and demand for imports builds.

Despite low poverty at the lower-middle-income line, several groups are still vulnerable to falling into poverty due to high inflation and recent climatic events. Rising food prices pose greater risks to poor non-agricultural households, who spend a larger share of their budget on purchased food. In addition, high reliance on agricultural income among herder households means that the agricultural contraction can impede further poverty reduction.

In the medium term, growth is expected to reach an average of 6.4 percent over 2025-2026, driven by a substantial increase in mineral production of the Oyu Tolgoi mine, the largest copper mine in Mongolia, which is planning to more than double its 2023 production by 2025. Nevertheless, the economy could face negative spillovers from a faster-than-anticipated slowdown in the Chinese economy (including due to a protracted real estate market slowdown which could dampen demand for steel where Mongolian coal is a major input), and an escalation of geopolitical tensions resulting in a higher price of imported oil.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	1.6	5.0	7.1	4.8	6.6	6.3
Private consumption	-5.9	8.1	7.4	8.6	5.3	6.5
Government consumption	9.2	6.9	6.6	17.7	4.8	6.8
Gross fixed capital investment	17.7	13.2	7.0	17.1	9.8	6.1
Exports, goods and services	-14.6	32.3	42.9	3.5	16.0	6.3
Imports, goods and services	13.6	29.1	21.0	9.2	14.7	6.6
Real GDP growth, at constant factor prices	0.4	4.2	7.0	4.8	6.6	6.3
Agriculture	-5.5	12.0	-8.9	-9.5	8.0	6.5
Industry	-2.2	-4.5	12.6	6.4	11.2	7.8
Services	3.9	6.9	9.0	7.7	3.8	5.3
Inflation (consumer price index)	7.3	15.2	10.6	8.5	8.3	7.5
Current account balance (% of GDP)	-13.4	-13.2	0.7	-11.5	-10.2	-10.1
Net foreign direct investment inflow (% of GDP)	13.1	13.9	7.3	7.0	7.1	6.3
Fiscal balance (% of GDP)	-3.0	0.7	2.6	-1.0	-0.7	-0.5
Revenues (% of GDP)	32.0	33.8	34.5	33.7	34.8	33.9
Debt (% of GDP)[a]	64.5	62.1	44.1	43.8	42.0	40.1
Primary balance (% of GDP)	-1.1	2.1	4.2	0.2	0.4	0.5
International poverty rate ($2.15 in 2017 PPP)[b,c]	..	0.2	0.2	0.2	0.2	0.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	..	2.4	2.1	1.9	1.7	1.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	..	22.1	20.9	20.2	19.1	18.2
GHG emissions growth (mtCO2e)	2.0	3.6	0.5	3.1	3.5	4.2
Energy related GHG emissions (% of total)	30.5	31.4	33.1	33.5	34.5	35.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Debt excludes the BoM's liability under the PBOC swap line (8% of GDP as of end-2023).
b/ Calculations based on EAPPOV harmonization using 2016-HSES, 2018-HSES, and 2022-HSES. The consumption aggregate was updated in 2022. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.
c/ Projection using annualized elasticity (2016-2018) with pass-through = 1 based on GDP per capita in constant LCU.

MYANMAR

Table 1	2023
Population, million	54.6
GDP, current US$ billion	62.3
GDP per capita, current US$	1140.6
International poverty rate ($2.15)[a]	2.0
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]	118.9
Life expectancy at birth, years[b]	65.7
Total GHG emissions (mtCO2e)	246.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Last official estimate based on 2017 Myanmar Living Conditions Survey, 2017 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2021).

GDP growth is estimated at just 1 percent in FY2023/24 reflecting supply chain and transport disruptions, and the impacts of elevated conflict and uncertainty. Sustained exchange rate depreciation and high inflation have put further pressure on household real incomes. Conflict and recently announced conscription rules have also driven migration and internal displacement, disrupting livelihoods and creating labor shortages in some areas.

Key conditions and challenges

Economic conditions have deteriorated over the six months to March amid increased conflict. Conflict has escalated across much of Myanmar causing displacement, labor shortages, and increased logistics costs. As of early March, the UN estimates that around 800,000 people have been displaced since October 2023, bringing the total number of internally displaced people in Myanmar to about 2.8 million. A newly introduced national conscription law that mandates a two-year military service for citizens across various age groups dependent on occupational status has created additional uncertainty, potentially triggering external migration flows. Armed clashes have affected vital trade routes with China, Thailand, and most recently Bangladesh and India. As land border trade accounts for around 15 percent of exports (excluding natural gas) and 21 percent of its imports, the disruption of these routes has the potential to significantly impact economic activity.

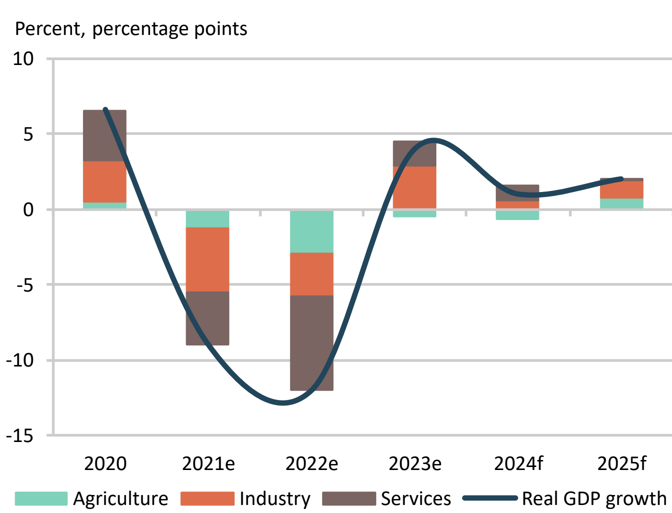
Macroeconomic volatility also increased with renewed pressure on the exchange rate and inflation reflecting a combination of internal and external developments. The kyat has depreciated by almost a quarter against the US dollar over the year to February 2024. Exchange rate pressures have increased since mid-2023 given a decline in exports, the introduction of U.S. sanctions on two large state-owned banks, and the announcement of restrictions on cross-border payments by international banks. The resulting exchange rate depreciation has translated to high inflation (28.6 percent in June 2023), which has been further worsened by elevated conflict and logistics constraints since October.

Household incomes continue to be negatively impacted by successive shocks. 40 percent of households surveyed in IFPRI's Myanmar Household Welfare Survey reported lower income in the first half of 2023 than a year earlier, while only 25 percent reported an increase. According to IFPRI, median real incomes fell by 10.2 percent over the same period.

Recent developments

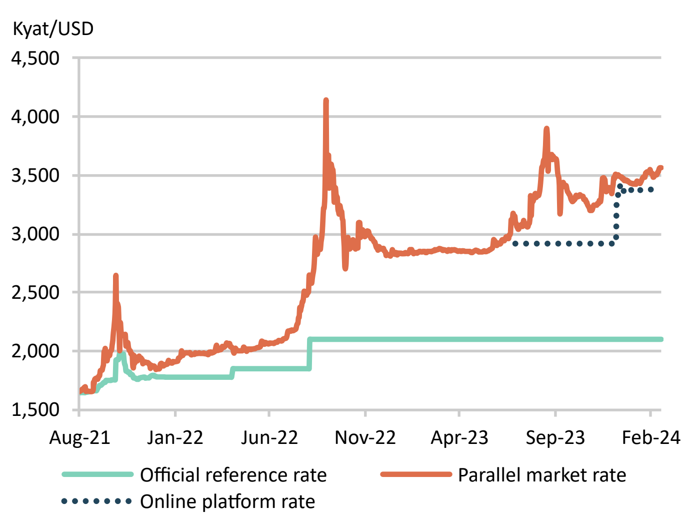
Economic activity has deteriorated since mid-2023. In the September 2023 round of the World Bank Firm Survey, firms reported operating at 56 percent of their capacity on average, 16 percentage points lower than in March 2023. The services sector, including wholesale and retail trade, experienced the most severe downturn due to a substantial drop in reported sales compared to the previous year. The manufacturing purchasing managers' index (PMI) contracted from October 2023 through February 2024 as firms reported a steep decline in output and new orders, largely explained by a slowdown in domestic demand. Agriculture remained constrained by high input costs, conflict,

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 / Official, parallel-market, and online platform rates



Sources: Central Bank of Myanmar and Social Media.

trade restrictions, and flooding with agricultural firms on average reporting to be operating at 62 percent of their capacity, 11 percentage points lower compared to April 2023.

Headline inflation reached 28.6 percent (yoy) in June 2023, moderating only slightly from its peak of 35 percent in December 2022, explained by the surge in food and transport prices reflecting exchange rate depreciation and increased conflict. The authorities introduced price control measures and export restrictions to respond to the sharp increase in food prices. However, more recent data from the WFP indicates that food prices have increased further, by 9 percent on average between July and December. At the same time, fuel prices have increased by 4-6 percent between December and February.

Myanmar ran a trade deficit of 1.3 percent of GDP in the six months to September 2023, from a surplus of 0.1 percent of GDP in the same period a year earlier, due to softer external demand and increased logistics constraints. While exports contracted by 11 percent, imports remained broadly stable. Manufacturing and agriculture exports declined by 19 and 8 percent, respectively, due to weak global demand and constrained domestic production.

As of the end of February 2024, the gap between the parallel market rate and the official reference rate had widened to around 60-70 percent, with persistent shortages of US dollars at below market rates. In December, the Central Bank of Myanmar (CBM) partially eased foreign currency restrictions: the foreign currency surrender requirement was relaxed to 35 percent of export earnings, down from 50 percent, while banks and licensed dealers were allowed to trade forex at close-to-market exchange rates. In response to persistent exchange rate pressures, the CBM sold about US$ 200 million between December and January 2024 to meet excess demand for forex.

The budget deficit widened to 6.4 percent of GDP during the fiscal year 2022/23, due to a revenue contraction that more than offset a modest spending decrease. Spending on goods and services declined by nearly 2 percent of GDP, partially offset by increased capital spending. The deficit continued to be financed mainly from domestic sources with around 70 percent of gross public financing needs (about 4.8 percent of GDP) covered by the CBM. Total public debt remained above 60 percent of GDP, with the impact of budget deficits on the debt-to-GDP ratio continuing to be broadly offset by faster inflation.

Outlook

Real GDP growth is expected to slow to just 1 percent in FY23/24 and 2 percent the following year (down from 4 percent in FY22/23), due to supply chain disruptions and the impacts of conflict-induced uncertainty on consumption, investment, and productive activity. The agriculture sector is particularly exposed to border trade disruptions with over a third of agricultural exports going to China, India, and Thailand via land. Moreover, high input costs and trade barriers continue to reduce farmers' ability to invest and benefit from favorable export prices. Manufacturing is projected to slow due to power shortages, logistics constraints, and subdued external demand. Wholesale and retail sales are expected to remain subdued due to ongoing pressure on real household incomes.

The risks to the outlook are tilted towards the downside. Any further escalation of conflict could severely obstruct land trade and supply chains, spur further internal displacement, and sharply reduce mobility, consumption, and productive activity. Over the medium to longer term, living standards are threatened by falling real wages, declining labor productivity, labor outflows, and the erosion of human capital.

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

	2020	2021	2022e	2023e	2024f	2025f
Real GDP growth, at constant market prices	6.6	-9.0	-12.0	4.0	1.3	2.0
Real GDP growth, at constant factor prices	6.6	-9.0	-12.0	4.0	1.0	2.0
Agriculture	2.2	-5.7	-12.8	-2.2	-2.8	-2.0
Industry	8.0	-11.8	-8.2	8.0	1.5	2.9
Services	7.8	-8.4	-14.7	3.9	2.4	3.2
Inflation (consumer price index)	9.1	2.2	9.6	27.4	20.1	12.0
Current account balance (% of GDP)	-1.8	-0.4	-2.4	-6.3	-6.8	-6.4
Fiscal balance (% of GDP)[a]	-8.9	-7.6	-4.6	-6.4	-5.9	-5.4
Revenues (% of GDP)	20.7	16.2	22.1	19.8	19.1	18.9
Public sector debt (% of GDP)[a]	42.3	53.9	59.8	60.1	63.1	64.6
Primary balance (% of GDP)[a]	-7.0	-5.2	-1.7	-4.1	-3.5	-3.2
GHG emissions growth (mtCO2e)	1.5	-2.4	1.8	0.4	-0.7	-0.2
Energy related GHG emissions (% of total)	17.0	15.1	15.6	15.3	13.6	12.1

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 estimates and projections are for years ended March. All other estimates and projections are for years ended September.

NORTH PACIFIC ISLANDS

Table 1	FSM	MHL	PLW
Population, million	0.11	0.04	0.02
GDP, current US$ billion	0.42	0.23	0.22
GDP per capita, current US$	3835	5663	11022
LMIC poverty rate ($3.65)	40.8[a]	6.1[b]	
Gini index	40.1[a]	35.5[b]	

Source: WDI, World Bank, and official data.
Notes: The actual year for the table data is 2023.
Abbreviations: LMIC = Lower middle-income;
FSM = Federated States of Micronesia; PLW = Palau;
MHL = Republic of the Marshall Islands; Estimates for poverty rates and Gini index do not exist for Palau.
a/ Most recent value (2013), 2017 PPPs.
b/ Most recent value (2019), 2017 PPPs.

Economic activity rebounded in FY23 in the Federated States of Micronesia (FSM), the Republic of the Marshall Islands (RMI), and Palau. Inflation subsided in FY23 in RMI but remained high in FSM and Palau. Poverty rates are expected to decline in the coming years, contingent on continued growth. The newly approved Compact of Free Association (COFA) agreement with the United States will deliver US$6.5 billion in assistance to the region over the next 20 years. Structural reforms are needed to boost long-term growth and achieve fiscal sustainability.

Key conditions and challenges

Following a contraction in FY22, economic activity gained momentum in the North Pacific in FY23 with a pick-up in capital projects, fisheries output, and tourism. Economic activity is expected to further expand in FY24 but downside risks to the outlook remain high. In the short term, the key challenges include (1) slower than expected recovery of tourist arrivals (particularly in Palau); and (2) higher than expected global food and fuel prices due to an escalation of geopolitical tensions and conflict.

The Compact of Free Association (COFA) agreement approved by the United States on March 9, 2024, will deliver a total of US$6.5 billion in assistance to the three North Pacific countries over the next 20 years starting in FY24. FSM will receive US$3.3 billion, RMI US$2.3 billion, and Palau $889 million. The allocation of funds will be governed by the new Fiscal Procedures Agreement (FPA) and the new Compact Trust Fund Agreement, both of which have been revised and updated, allowing the countries greater autonomy and control of the funds.

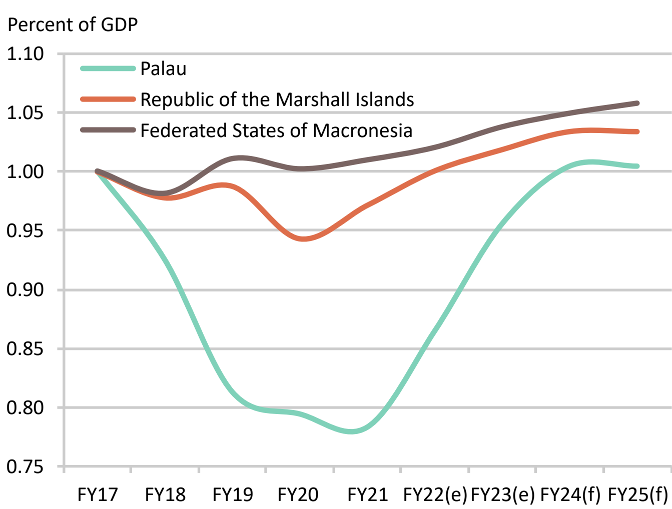
Even with the approval of the new Compact, implementing reform-based fiscal adjustments, such as domestic revenue mobilization and expenditure rationalization, remain crucial to enhancing fiscal sustainability. Natural disasters and climate change continue to pose a threat to economic activity and livelihoods. Structural reforms are needed to ensure a sustainable economic recovery that supports the livelihood of the bottom 40 percent of households and poverty reduction. Based on the Lower Middle Income Class Poverty Line of $3.65 (2017 PPP USD per person per day), FSM has a poverty rate of 40.7 percent (2013 data) and RMI has a poverty rate of 6.1 percent (2019 data). The lack of recent household data for Palau and FSM presents a challenge in monitoring development progress. In Palau, the 2023-2024 household income expenditure survey is currently concluding fieldwork and could be used for poverty measurement.

Recent developments

In **FSM**, growth rebounded to 0.8 percent in FY23, supported by the reopening of borders, resumption of capital projects, and an increase in national government wages. Inflation reached a decade high of 6.2 percent reflecting the lagged effects of elevated global commodity prices and domestic supply constraints. FSM registered fiscal surpluses of 1.6 percent of GDP in FY23, from 7.8 percent in FY22. Government debt declined to 12.4 percent in FSM in FY23 and the risk of overall debt distress has been upgraded to medium from high.

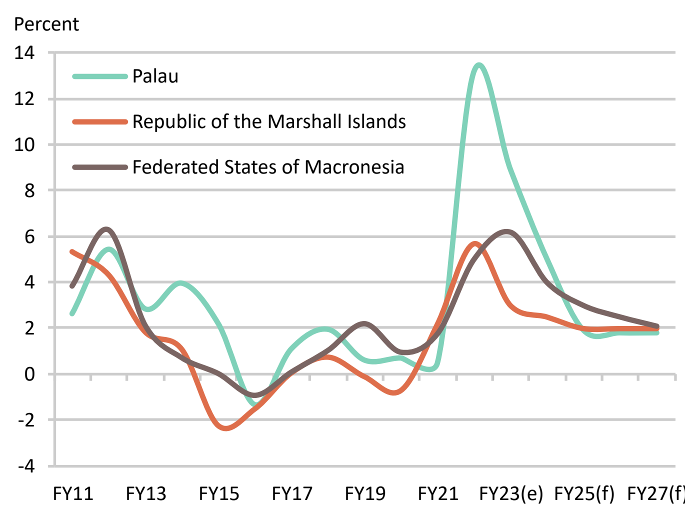
In **RMI**, output expanded by 3 percent due to a revival in fisheries activity as well as strong demand for services. Inflation moderated to 3 percent in RMI from 5 percent in FY22 as supply chain disruptions eased leading to a reduction in food and fuel prices. A balanced budget was achieved as

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



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

FIGURE 2 North Pacific Islands / Consumer price inflation



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

COVID-19-related grants were withdrawn. At 21.6 percent of GDP debt remains sustainable, but the overall risk of debt distress is high.

In **Palau**, economic growth recorded 0.8 percent in FY23, as tourism activity picked up due to arrivals from Macau. While inflation reduced from a peak of 13.3 percent in FY22, it remained high at 8.9 percent in FY23 due to high food and fuel import prices. A modest fiscal surplus of 0.3 percent of GDP was driven by increased consumption tax collections. Debt remains sustainable and debt levels are estimated to have reduced to 66.2 percent of GDP in FY23 as new debt taken during the pandemic is serviced.

Poverty in the North Pacific is expected to have risen between 2020-2022 relative to pre-crisis levels. Poverty is projected to decline in RMI and Palau from FY23 onwards as these economies recover. A decline in poverty is also expected in FSM from FY23, though the real incomes of the poor have been subject to inflationary pressures. In both RMI and FSM, poverty reduction could occur with even very low GDP growth, if per capita GDP growth is higher due to population decline. In RMI, between the 2011 and 2021 census data collections, the population declined from 53,000 to 42,000.

Outlook

In **FSM**, the economy is projected to accelerate slightly to 1.1 percent in FY24, supported by the continued pick-up in public investment and the increase in public sector wages. On the longer term, FSM is faced with the risk of returning to a low-growth trajectory of below 1 percent, as growth prospects are hampered by an increase in outmigration and the low efficiency of public investment. Inflation is expected to remain high at 4 percent in FY24 before subsiding thereafter. Following a surplus of 1.3 percent of GDP in FY24, the fiscal balance is projected to turn into a small deficit in FY25 and thereafter, amid declining fishing revenues and normalizing grants.

In **RMI**, output is expected to grow by 3 percent in FY24 mainly driven by continued expansion of the fishery sector and strong construction and services activity. Economic activity is expected to reach pre-pandemic levels in FY24. In line with easing global food and energy prices, inflation in FY24 is expected to subside to 2.5 percent, before further declining to 2 percent from FY25 onwards. A fiscal surplus of 1.7 percent of GDP is projected for FY24 in RMI, with modest surpluses expected from FY25 onwards due to new Compact funding.

In **Palau**, the recovery in tourism is projected to lead to a double-digit expansion of 12.4 percent in FY24. GDP is projected to remain on a lower trajectory until tourist arrivals reach pre-pandemic levels in FY26. Inflation in Palau is expected to decrease but remain high at 5.9 percent in FY24 and decline further from FY25 onwards. A large fiscal surplus of 2.7 percent of GDP is projected for FY24, as tourism activity leads to an increase in revenues. Modest fiscal surpluses are expected from FY25 onwards due to continued increases in tourism receipts and full implementation of the tax reform bill.

The outlook is subject to significant downside risks. Interest rates are expected to remain high globally and may create adverse spillover effects. If growth in advanced economies is slower than anticipated, the projected recovery in tourism may fail to materialize and weaken growth prospects in Palau. Higher-than-expected global food and fuel prices could reignite inflationary pressures. The region's vulnerability to natural disasters and climate change remains an important underlying adverse risk to economic growth.

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

	2022e	2023e	2024f	2025f	2026f	2027f
Real GDP growth, at constant market prices						
Federated States of Micronesia	-0.9	0.8	1.1	1.7	1.1	0.8
Republic of the Marshall Islands	-0.6	3.0	3.0	2.0	1.5	1.5
Palau	-2.0	0.8	12.4	11.9	3.5	2.0
Poverty rates of the Republic of the Marshall Islands						
International poverty rate ($2.15 in 2017 PPP)[a,b,c]	0.8	0.8	0.8	0.8	0.6	0.6
Lower-middle income poverty rate ($3.65 in 2017 PPP)[a,b,c]	5.6	4.9	4.6	4.3	4.1	3.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b,c]	30.0	27.7	25.7	24.0	23.4	22.3

Sources: ECONMAP, IMF, and Worldbank.
Note: e = estimate; f = forecast. 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.
c/ For 2022-2025 projections, no change in population is assumed due to a lack of updated population projections.

PAPUA NEW GUINEA

Table 1	2023
Population, million	10.3
GDP, current US$ billion	30.4
GDP per capita, current US$	2942.7
International poverty rate ($2.15)[a]	39.7
Lower middle-income poverty rate ($3.65)[a]	67.7
Upper middle-income poverty rate ($6.85)[a]	90.2
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	109.5
Life expectancy at birth, years[b]	65.4
Total GHG emissions (mtCO2e)	51.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2009), 2017 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2021).

The economy has maintained growth momentum in 2023. High commodity prices boosted revenues, helping fiscal consolidation. Inflation has decelerated, and the Bank of PNG allowed greater exchange rate flexibility. PNG's growth model has not been sufficiently inclusive, with monetary poverty rates higher than peer countries. To make growth more inclusive, prudent macroeconomic management, better services, enabling business environment, and stronger resilience are needed.

Key conditions and challenges

Since gaining independence in 1975, the economy has more than tripled. However, real GDP per capita has only seen an annual increase of 0.9 percent—a sluggish rate compared to other lower middle-income resource-exporting nations. The growth trajectory has been marked by pronounced fluctuations, reflecting high susceptibility to shifts in international commodity prices. The inclusiveness of growth has been limited by the heavy reliance on capital in the resource sector and the underperformance of the non-resource sector.

Weak human development outcomes present missed opportunities for faster and more inclusive economic growth. Papua New Guinea (PNG) has one of the highest stunting rates in the world, affecting almost half of all children under the age of five. Furthermore, 26 percent of youth (10 to 29-year-olds) find themselves outside of training, education, and employment. Weak governance compounds the difficulties in effectively addressing these challenges, with external shocks compounding fragility-related risks.

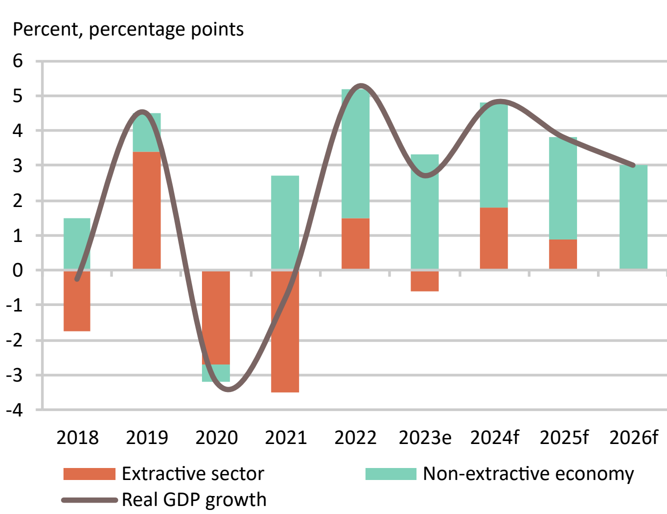
Large segments of the population continue to lag in socio-economic development. The most recent Household Income and Expenditure Survey, from 2010, revealed that around 39 percent of the population lived below the poverty line of US$2.15 per day (2017 PPP terms), with two-thirds of the population (67.7 percent) living below the lower middle-income class poverty line, and 74.2 percent are considered to be multidimensionally poor. Access to basic services remains limited, with only 19 percent of the population having access to safe drinking water, and a mere 15 percent of households having access to electricity, according to the 2022 Socio-Demographic and Economic Survey.

Recent developments

The economy has recovered to pre-COVID output level but remains below the pre-COVID growth trajectory. The COVID-19 crisis led to an economic contraction in 2020-21 before recovering by 5.2 percent in 2022. The recovery in the extractive sector was driven by significant improvement in international prices of key export commodities, although the shutdown of the Porgera gold mine limited the rebound. Growth is estimated to have slowed down to 2.7 percent in 2023, primarily attributed to reduced global demand and domestic supply constraints stemming from scheduled maintenance in extractive facilities.

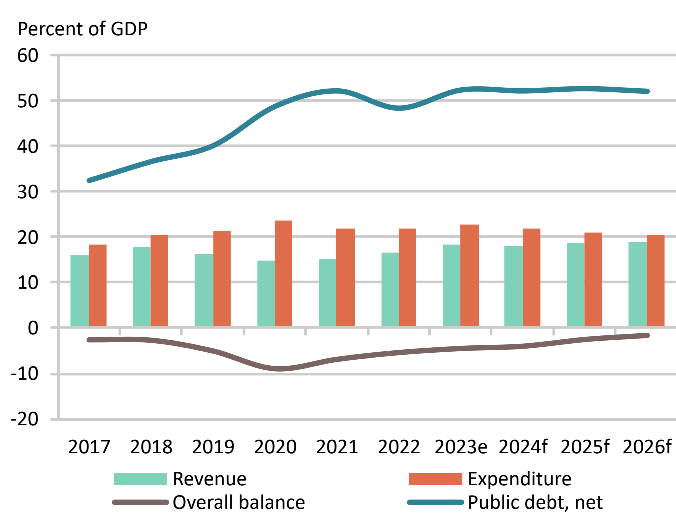
The pandemic exacerbated underlying fiscal weaknesses, and the government has embarked on a gradual fiscal consolidation to safeguard debt sustainability. As the economy recovered to pre-pandemic level, the government reduced the fiscal deficit from 8.8 percent of GDP in 2020 to an estimated 4.4 percent of GDP in 2023. Most of the improvement came from resource revenue. Meanwhile,

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.

the non-resource primary balance, a better measure of the underlying fiscal position not affected by the volatile resource revenue, remained unchanged between 2021 and 2023.

Headline inflation fell from 6.3 percent in 2022Q3 to 1.4 percent in 2023Q2, year-on-year, before inching up to 2.2 percent in 2023Q3. Core inflation followed a similar declining trend and stood at 1.3 percent in 2023Q3. Since September 2023, the Bank of PNG reduced the policy rate three times, by a cumulative 150 basis points, to 2 percent. Supported by an IMF-funded program, BPNG took steps towards greater exchange rate flexibility and allowed, since May 2023, gradual and moderate depreciation of kina to USD.

Monetary poverty likely increased during the initial phases of the COVID-19 pandemic before rebounding to pre-pandemic levels by 2022. High-frequency mobile phone surveys conducted at the beginning of the pandemic illustrate that food insecurity was significantly higher than measured during the 2016-2018 Demographic and Health Survey (DHS), despite the surveys being biased toward better-off households. By the end of the pandemic, food insecurity and employment had both strongly rebounded in these surveys, and food insecurity rates were indistinguishable from pre-pandemic estimates in the 2016-2018 DHS.

Outlook

Growth is projected to accelerate in 2024, mostly due to the reopening of the Porgera gold mine. The mine restarted operations in 2024Q1 and is expected to reach normal levels of production by mid-year. Brief violence and looting in January 2024 dented the economy. According to the Business Council, losses included assets and property and forgone business revenue. This would lower tax collections and hurt investor sentiment. In addition, the dispute between the authorities and the main fuel importer led to disruptions in fuel provision to businesses and households, further slowing economic activity. The medium-term growth is expected to settle at 3 percent.

This projection does not account for potential new resource mega-projects, like Papua LNG. Thus, the final investment decision and the initiation of construction present an upside risk to the outlook. Meanwhile, slower-than-expected economic growth could materialize through lower export demand, a more pronounced decline in commodity prices, and the impact of droughts and other climate-related events.

The growth model has not been sufficiently inclusive and needs an adjustment. Imputed poverty based on common variables across the 2009 HIES survey and the 2016-2018 Demographic and Health Survey, suggest there was no change in poverty from 2009- 2018 and therefore, no significant trickling down of economic growth during this period. When comparing the monetary poverty rate in PNG (based on the 2016-2018 DHS imputation) to the countries with a similar per capita GDP, the average poverty rate at the International Poverty Line of $2.15 (2017 PPP) is one-quarter of the poverty rate in PNG (10.7 percent). To change the situation, the country needs to focus on (1) ensuring prudent macroeconomic policy management, (2) deepening and widening access to quality services to build human capital; (3) enabling private sector development for job creation and inclusive growth; and (4) promoting resilience and environmental sustainability.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	-0.8	5.2	2.7	4.8	3.6	3.0
Real GDP growth, at constant factor prices	-1.0	5.8	2.7	4.8	3.6	3.0
Agriculture	1.1	3.1	4.2	3.9	3.3	3.3
Industry	-7.8	5.6	-1.5	5.7	4.3	2.7
Services	4.4	7.1	5.5	4.5	3.2	3.1
Inflation (consumer price index)	4.5	5.3	2.2	4.1	4.8	4.8
Current account balance (% of GDP)	22.2	33.0	23.0	23.5	22.8	22.3
Net foreign direct investment inflow (% of GDP)	-1.5	-1.2	-1.1	-1.3	-1.3	-1.3
Fiscal balance (% of GDP)	-6.9	-5.3	-4.4	-3.9	-2.5	-1.3
Revenues (% of GDP)	15.2	16.7	19.0	18.8	19.0	19.0
Debt (% of GDP)	52.8	48.4	52.4	52.2	52.3	51.5
Primary balance (% of GDP)	-4.4	-2.8	-1.8	-1.3	0.0	1.0
GHG emissions growth (mtCO2e)	0.2	0.2	0.1	0.1	0.0	0.0
Energy related GHG emissions (% of total)	10.6	10.5	10.4	10.3	10.1	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.

PHILIPPINES

Table 1	2023
Population, million	117.3
GDP, current US$ billion	442.8
GDP per capita, current US$	3773.9
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]	91.9
Life expectancy at birth, years[b]	69.3
Total GHG emissions (mtCO2e)	267.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Economic growth remained robust, at 5.6 percent in 2023, anchored on strong domestic demand and the recovery of services. Growth is projected to rise to an average of 5.9 percent between 2024-2026, fueled by strengthening domestic demand due to a healthy labor market, declining inflation, and firming investment activity. Poverty will gradually decline due to improvements in the labor market, and declining inflation which will likely boost growth in household incomes.

Key conditions and challenges

Elevated inflation, tighter monetary and fiscal policies, and softer global growth continued to weigh on domestic demand. Inflation has declined, but significant upside risks merit sustained efforts to manage price pressures. Timely and efficient imports can help stabilize domestic food supplies in the near term. However, higher international prices, costlier inputs for key food commodities, and risks of disruptions to global supply chains highlight the need for longer-term improvements in agricultural productivity and resilience. The government remains committed to public investment despite fiscal consolidation, but maximizing the impact on economic activity depends on better budget execution and use of public-private partnerships.

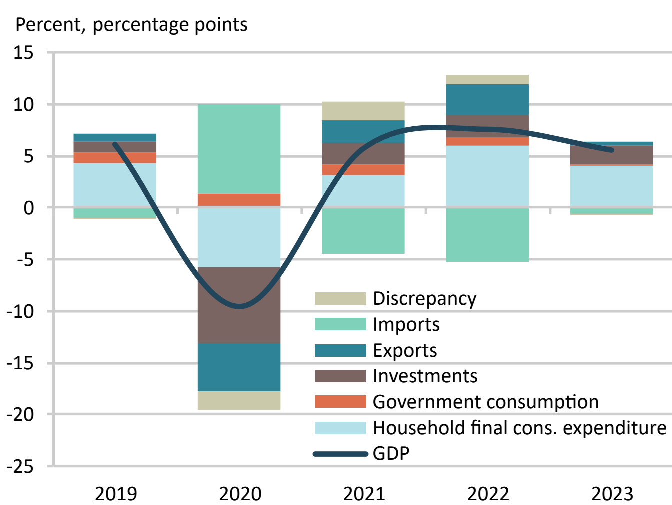
A modest acceleration in medium-term growth depends partly on successfully containing inflation and transitioning towards more accommodative monetary policy, which will support private consumption and investment spending. Ensuring that the budget continues to support inclusive growth will require both prudent spending and urgent implementation of revenue-enhancing reforms. These will be critical to continued and more effective investments in human and physical capital. Subdued global growth, geopolitical risks, and trade fragmentation could weigh on investment inflows and exports. Implementation of reforms and streamlining processes are needed to improve the investment environment and facilitate private sector participation in key sectors to attract investments and boost exports.

Recent developments

The economy grew by 5.6 percent in 2023, supported by robust consumer spending despite elevated inflation. Steady remittances, a strong labor market, and credit growth buoyed private consumption. Services drove growth on the supply side due to the tourism recovery, strong financial services activities, and steady wholesale and retail growth. Soft external demand weighed on manufacturing and exports while the ongoing fiscal consolidation weighed on government consumption. As public investment remained supportive of growth, private investment was constrained by high-interest rates and low export demand.

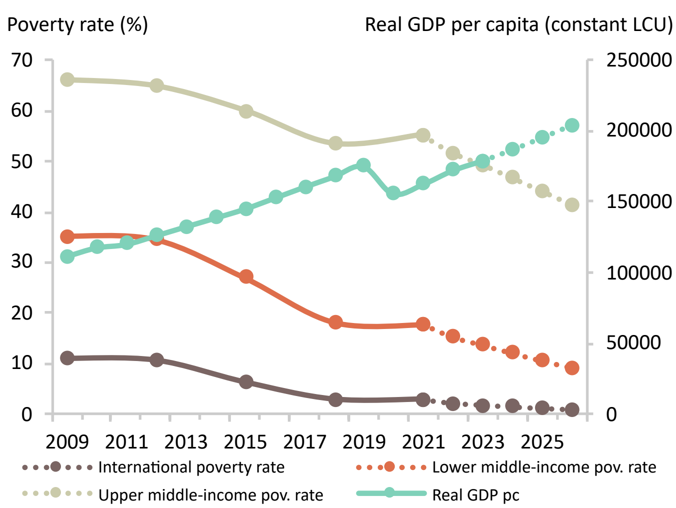
Inflation reached 6.0 percent in 2023, above the 2-4 percent central bank target, due to rising food prices. Core inflation also rose to 6.6 percent in 2023. Both headline and core inflation have settled within target in January 2024, suggesting waning price pressures. In 2023, the Bangko Sentral ng Pilipinas raised the key policy rate by 100 basis points to firmly anchor inflationary expectations. To reduce price levels, the government lowered import tariffs for key commodities and provided support to vulnerable sectors.

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



Source: Philippines Statistics Authority.

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



Source: World Bank. Notes: see Table 2.

Ongoing fiscal consolidation and lower allotments to local government units lowered public spending. As a result, the fiscal deficit narrowed to 6.2 percent of GDP in 2023 (7.3 percent in 2022). The national government debt declined to 60.2 percent of GDP in 2023 from 60.9 percent in 2022.

The current account deficit narrowed to 2.6 percent of GDP in 2023 (4.5 percent in 2022), supported by sustained remittance inflows from overseas workers and robust service exports. Meanwhile, higher foreign borrowing of the government and resident banks and residents' currency deposit withdrawals from abroad more than offset lower FDI net inflows.

The labor market continues to show steady improvement and bodes well for household income growth and poverty reduction. Robust domestic activity led to the creation of 1.5 million additional jobs in December 2023 from 49 million in December 2022, propelled by the recovery of construction, hospitality industry, and agriculture and forestry. The unemployment rate was 3.1 percent in December 2023 and underemployment continues a downtrend and was recorded at 11.9 percent in the same period. The recently released first-semester national poverty estimates show that poverty incidence declined to 22.4 percent in 2023 (23.7 percent in 2021).

Outlook

The growth outlook remains positive, averaging 5.9 percent in 2024-26, anchored on robust domestic demand. The medium-term outlook will be driven by robust private consumption activity, supported by declining inflation, a healthy labor market, and steady remittance inflows. Medium-term growth will be supported by improving investment activity as public investment remains supportive of growth despite fiscal consolidation. The normalization of monetary policy and implementation of several investment liberalization laws will buoy private investment growth. Meanwhile, export demand will strengthen over the forecast horizon, led by robust services export demand and a pick-up in goods trade as global growth rebounds gradually.

The fiscal deficit is expected to narrow to 3.8 percent of GDP by 2026. Fiscal consolidation will be led by the reduction in public spending, as the government trims recurrent spending. In addition, the passage of several priority tax laws by 2025 is expected to strengthen revenues through the introduction of several new tax policy and administration reforms.

The continuous improvement in the labor market and the easing of inflation will likely boost growth in household incomes. Poverty is expected to continue to decline but extreme climatic events continue to pose risks. 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 12.2 percent in 2024 and further decrease to 9.3 percent in 2026.

Risks to the outlook remain tilted to the downside. On the domestic front, persistently high inflation would dampen economic activity by keeping the policy rate higher for longer, erode purchasing power, and threaten to deepen poverty and worsen economic vulnerability. Upside risks to inflation include the possibility of supply disruptions due to ongoing geopolitical tensions, further trade restrictions, weakness in agriculture output due to El Niño and extreme weather events, and wage pressures from tightness in labor market conditions. The possibility of higher-than-expected global inflation, still tight global financing conditions, a further slowdown in growth of China, and escalating geopolitical tensions could cause a sharper-than-expected growth slowdown which would further dampen external demand.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	5.7	7.6	5.6	5.8	5.9	5.9
Private consumption	4.2	8.3	5.6	5.9	6.2	6.0
Government consumption	7.2	4.9	0.4	2.2	3.1	5.0
Gross fixed capital investment	9.8	9.7	8.1	9.1	9.6	10.3
Exports, goods and services	8.0	10.9	1.3	3.8	4.7	4.9
Imports, goods and services	12.8	13.9	1.6	5.3	6.9	7.9
Real GDP growth, at constant factor prices	5.7	7.6	5.6	5.8	5.9	5.9
Agriculture	-0.3	0.5	1.2	0.9	1.0	1.1
Industry	8.5	6.5	3.6	4.2	4.4	4.5
Services	5.4	9.2	7.2	7.2	7.3	7.1
Inflation (consumer price index)	3.9	5.8	6.0	3.6	3.0	3.0
Current account balance (% of GDP)	-1.5	-4.5	-2.6	-2.2	-2.0	-1.8
Net foreign direct investment inflow (% of GDP)	3.0	2.3	2.0	2.0	1.9	1.8
Fiscal balance (% of GDP)	-8.6	-7.3	-6.2	-5.1	-4.1	-3.8
Revenues (% of GDP)	15.5	16.1	15.7	15.9	16.1	16.3
National Government Debt (% of GDP)	60.4	60.9	60.2	59.8	59.5	58.7
Primary balance (% of GDP)	-6.4	-5.0	-3.6	-2.5	-1.2	-0.9
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.0	2.3	1.9	1.6	1.3	1.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	17.8	15.3	13.7	12.2	10.7	9.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	55.3	51.8	49.4	46.8	44.2	41.5
GHG emissions growth (mtCO2e)	5.9	5.2	5.4	5.6	5.7	5.7
Energy related GHG emissions (% of total)	57.1	57.8	56.9	57.8	57.9	59.1

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 EAPPOV harmonization, using 2021-FIES. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2021) with pass-through = 1 (High (1)) based on GDP per capita in constant LCU.

SOLOMON ISLANDS

Table 1	2023
Population, million	0.7
GDP, current US$ billion	1.5
GDP per capita, current US$	2067.9
International poverty rate ($2.15)[a]	26.6
Lower middle-income poverty rate ($3.65)[a]	61.0
Upper middle-income poverty rate ($6.85)[a]	88.5
Gini index[a]	37.1
School enrollment, primary (% gross)[b]	104.3
Life expectancy at birth, years[b]	70.3
Total GHG emissions (mtCO2e)	46.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2012), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2021).

The economy is expected to grow by 2.8 percent in 2024, driven by national election preparations and public infrastructure investments in the energy and transportation sectors. In the medium term (2024-26), growth is projected to average 2.9 percent of GDP, while the fiscal deficit is expected to average 3.7 percent of GDP. State fragility, climate change, and subdued global economic conditions pose downside risks.

Key conditions and challenges

Solomon Islands is a small, secluded archipelago with 721,000 people scattered across 90 inhabited islands. Geographic dispersion, remoteness from global markets, and vulnerability to natural calamities all provide substantial obstacles to development. Limited state capacity and political economic dynamics frequently impede the design and implementation of sound public policies. Poor infrastructure, widespread underemployment, and a limited private sector pose significant growth challenges. The Solomon Islands are particularly vulnerable to natural calamities such as earthquakes, cyclones, and tsunamis, which may cause significant economic harm.

Development challenges have been exacerbated by a series of shocks that have resulted in a significant economic decline during the previous years, including a local COVID-19 outbreak in 2022 and impacts from the Russian invasion in Ukraine. World Bank phone survey data indicates that food insecurity remains elevated, with an increasing share of the population worried about not having enough food to eat. According to the 2012/13 Household Income and Expenditure Survey (HIES), 61 percent of the population was considered poor based on the lower-middle-income poverty line ($3.65 per day in 2017 PPP).

Recent developments

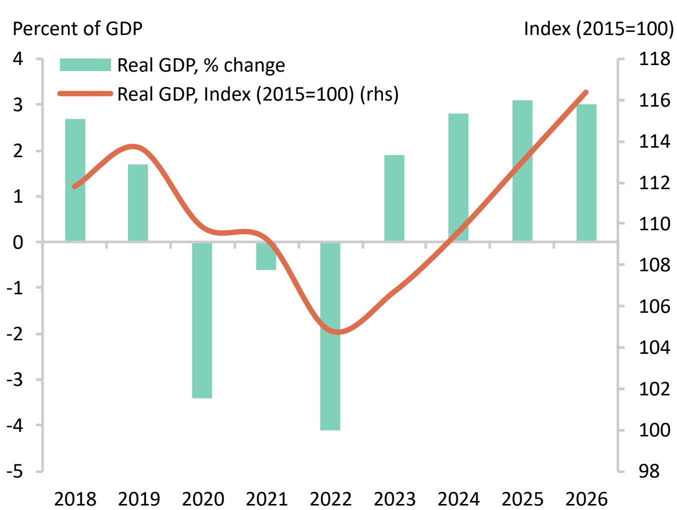
The economy returned to 1.9 percent growth in 2023, driven by the hosting of the Pacific Games in November 2023 and several large public infrastructure projects in the energy and transport sectors. An uptick in international visitor arrivals has positively impacted the accommodation, restaurant, and transport sectors. Increased participation in regional labor mobility programs contributed to household incomes through remittances. Data from high-frequency phone surveys – collected from April to September 2023 – indicate that employment has largely remained unchanged.

Inflation reached 4.7 percent in 2023, down from 5.5 percent in 2022. In March 2023, the Central Bank of Solomon Islands (CBSI) tightened monetary policy by increasing the cash reserves ratio from 5 percent to 6 percent, in response to growing inflationary pressures. The financial sector remains relatively stable, with well-capitalized banks and adequate liquidity levels.

The current account deficit reached 11.6 percent of GDP in 2023, due to a decline in logging and agricultural exports. Foreign reserves fell from 9.5 months of imports in 2022 to 8.4 months of imports by the end of 2023, still above the reserve adequacy range of four to seven months of imports. The current account deficit was financed through external concessional borrowing and FDI inflows.

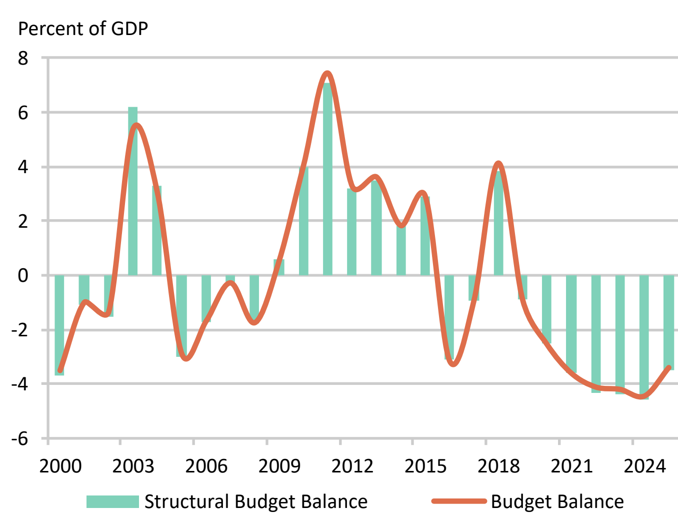
The fiscal deficit in 2023 is estimated at 4.2 percent of GDP. Total revenues expanded

FIGURE 1 Solomon Islands / Real GDP



Sources: IMF and World Bank staff calculations.

FIGURE 2 Solomon Islands / Fiscal balance



Sources: IMF and World Bank staff calculations.

slightly to reach 28.8 percent of GDP. The government managed to contain expenditure growth, despite facing substantial spending demands. Expenditures decreased slightly to 33 percent in 2023, explained largely by a reduction in development spending.

Public debt increased to 20.4 percent of GDP in 2023, up from 16.9 percent of GDP in 2022. This was due to rising primary fiscal deficit and lagging nominal GDP growth. As part of the COVID-19 response, the government issued domestic development bonds during 2020-22, close to doubling the stock of development bonds from SI$360 million at the end of 2020 to SI$650 million at the end of 2021.

Outlook

The economy is expected to grow by 2.9 percent in the medium term (2024–26), boosted by government spending on election preparations, a large infrastructure pipeline, and increased mining activity. An uptick in the labor mobility program is expected to contribute to economic activity through the remittance channel. Whilst inflation is projected to average 3.4 percent during 2024-2026 amid cooling energy and food prices, this is above the average inflation experienced during the past five years (2.7 percent). Nevertheless, poverty is likely to decline with the projected economic growth and increasing remittances. The new HIES, which is to be collected in 2024/25, will help update the poverty measure.

The current account deficit is projected to remain substantial, averaging 9 percent of GDP over the period of 2024- 2026. This is primarily due to increased import needs from infrastructure projects and an expected decline in logging exports. International reserves are expected to decline to 7 months of imports while remaining adequate.

After reaching 4.4 percent of GDP in 2024, the fiscal deficit is projected to decline over the medium term, reaching 3.3 percent of GDP in 2026. This partly reflects declining recurrent expenditure and the normalization of development grants after the pandemic and election preparations. Public debt is sustainable, and the external and overall risk of debt distress is moderate.

Subdued global economic conditions, climate shocks, low levels of cash buffers, and social instability pose downside risks. The upcoming general elections in 2024 may increase economic uncertainty and increase the risk of unrest. The rate of recovery in the tourism industry and increasing participation in regional labor mobility programs may provide economic benefits, while second order impacts of infrastructure investment may drive a stronger recovery. Subdued global economic conditions – especially a Chinese growth slowdown – may lower demand for commodity exports, particularly logs, with negative consequences for growth, the current account balance, and government finances.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	-0.6	-4.1	1.9	2.8	3.1	3.0
Real GDP growth, at constant factor prices	-0.6	-4.1	1.9	2.8	3.1	3.0
Agriculture	-1.0	-11.8	0.0	1.0	2.0	2.0
Industry	3.0	0.1	5.1	6.0	5.9	5.9
Services	-1.1	-2.7	1.7	2.6	2.7	2.5
Inflation (consumer price index)	-0.1	5.5	4.7	3.7	3.3	3.3
Current account balance (% of GDP)	-5.1	-13.3	-11.6	-10.3	-9.4	-7.4
Net foreign direct investment inflow (% of GDP)	1.5	2.5	2.0	1.9	1.7	1.7
Fiscal balance (% of GDP)	-3.6	-4.1	-4.2	-4.4	-3.4	-3.3
Revenues (% of GDP)	31.2	32.6	28.8	30.8	31.4	31.3
Debt (% of GDP)	15.4	16.9	20.4	24.0	26.3	28.4
Primary balance (% of GDP)	-3.4	-3.8	-3.7	-4.0	-2.8	-2.7
GHG emissions growth (mtCO2e)	0.0	0.0	0.0	0.0	0.0	0.0
Energy related GHG emissions (% of total)	0.4	0.4	0.4	0.4	0.4	0.4

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	WSM	TON	VUT
Population, million	0.23	0.11	0.33
GDP, current US$ billion	0.93	0.55	1.10
GDP per capita, current US$	4114	5156	3323
LMIC poverty rate ($3.65)	10.5[a]	1.6[b]	34.9[c]
Gini index	38.7[a]	27.1[b]	32.3[c]

Source: WDI, World Bank, and official data.
Notes: The actual year for the table data is 2023.
Abbreviations: LMIC = Lower middle-income; WSM = Samoa; TON = Tonga; VUT = Vanuatu.
a/ Most recent value (2013), 2017 PPPs.
b/ Most recent value (2021), 2017 PPPs.
c/ Most recent value (2019), 2017 PPPs.

The economies of Samoa, Tonga, and Vanuatu expanded, largely driven by a resurgence in travel and reconstruction activities, while benefitting from remittances. Although economies are projected to recover to pre-pandemic levels in 2024-25, uncertainties in the global environment pose risks to the outlook and the pace of economic growth. To increase potential growth, governments must embark on structural reforms that can boost investment, and adapt fiscal policy to promote resilience to mitigate future shocks.

Key conditions and challenges

Due to their high exposure to tourism and travel, the countries are susceptible to external shocks such as those caused by COVID-19. Combined with the natural disasters, shocks have resulted in significant setback in economic growth and fiscal sustainability. Supply bottlenecks, particularly in the aftermath of disasters, amid heightened demand, including for reconstruction, continue to exert pressures on prices and threaten livelihoods. Fiscal policy should aim to support more adaptive and targeted social protection systems while continuing to build fiscal space to mitigate vulnerability to external shocks. Finally, boosting potential growth through increased investment will require implementing structural reforms that foster a conducive environment for business and the private sector. In the near term, this includes ramping up reconstruction efforts in Tonga and Vanuatu following recent natural disasters.

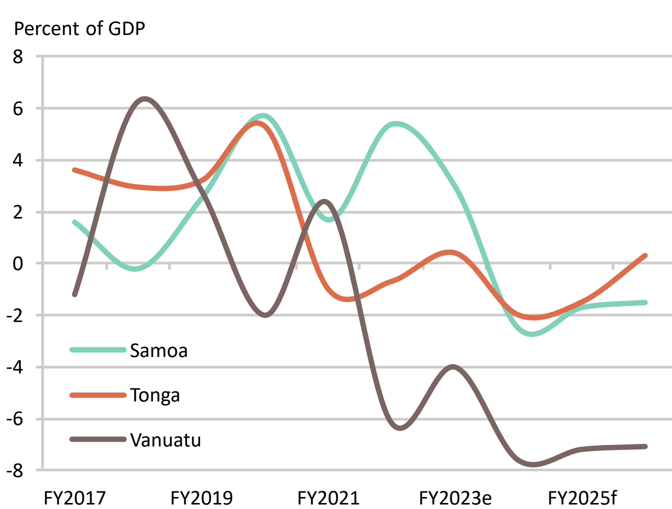
Recent developments

In FY23, for the first time since the pandemic, all three countries experienced positive economic growth. Headline inflation surged but began to recede in the later months.

In **Samoa**, growth rebounded strongly by 8 percent in FY23, following three consecutive years of economic contraction. Growth was fueled by a strong pick-up in tourism post-border reopening and robust remittance inflows supporting consumption. Inflation surged to 12.0 percent in FY23 but has been easing in recent months.The current account deficit narrowed significantly to 4 percent of GDP in FY23 compared to 11.3 percent of GDP in FY22, primarily on account of strong tourism earnings and remittances. The government recorded another year of fiscal surplus of around 3 percent of GDP in FY23, supported by buoyant revenue collections and lower recurrent expenses. A recently published report on the 2022 Samoa Labor Force Survey showed positive employment trends between 2017 and 2022, with unemployment dropping from 14.5 percent to 5.0 percent, youth unemployment (ages 15-24) dropping from 31.9 percent to 13.4 percent, and informality dropping from 37.3 percent to 25.3 percent.

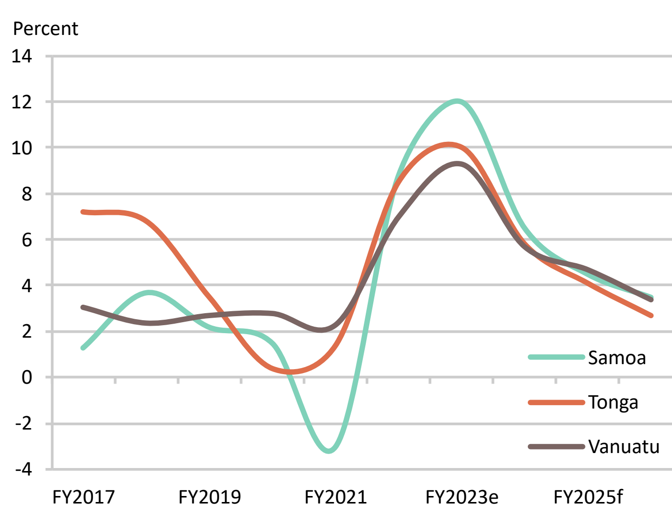
In **Tonga**, the economy expanded by an estimated 2.6 percent in FY23, rebounding from a contraction in FY22. As borders reopened, strong domestic demand supported by remittances and a pick up in tourist arrivals bolstered growth. Inflation reached about 10 percent in FY23, driven by prolonged domestic supply disruptions. The current account deficit widened to 7.9 percent in FY23 as imports increased to support reconstruction and recovery. The fiscal accounts showed a small surplus of 0.4 percent of GDP in FY23, primarily due to increased grants and slower-than-expected execution of expenditures related

FIGURE 1 South Pacific Islands / Overall fiscal balance



Sources: National sources and World Bank projections.

FIGURE 2 South Pacific Islands / Inflation (annual average)



Sources: National sources and World Bank projections.

to reconstruction. World Bank phone surveys conducted in late 2023 reveal that about half the households were worried about their finances in the upcoming month. About 11 percent of the poorest group are facing severe food insecurity, as opposed to 3 percent in the richest group, reflecting the influence that persistent high inflation may have on livelihoods. According to the 2021 Household Income and Expenditure Survey (HIES), the poverty rates were 1.6 percent based on the lower-middle-income poverty line of $3.65 (2017 PPP USD) and 21.5 percent based on the upper-middle-income poverty line of $6.85 (2017 PPP USD).

In **Vanuatu**, despite the impact of twin cyclones earlier in the year and growth initially being downgraded, growth reached 2.5 percent in FY23. Economic activity was mainly attributed to the industry and services sectors, especially as tourist arrivals improved, reaching 65 percent of pre-covid levels as of 2023. In the agriculture sector, the contraction from cyclone damage was less severe than anticipated, as economic activity is concentrated in the north, which was less affected by the cyclones. Inflation is estimated to have averaged 9.3 percent, mainly owing to domestic supply chain disruptions caused by the cyclone impacts, minimum wage factors, and high food prices. A current account deficit of 4.1 percent of GDP is estimated, as pick up in remittances and tourism increased demand for imports. Vanuatu faced an estimated fiscal deficit of 4 percent of GDP bolstered by strong Value Added Tax (VAT) revenue amid delayed project spending an improvement from 2022. The government is working towards rolling out the Universal Cash Transfer (UCT) initiative, which aims to support household recovery from the dual cyclones.

Outlook

A gradual economic recovery is expected, with Tonga and Vanuatu potentially returning to pre-pandemic GDP levels by 2024, and Samoa by 2025. Adverse global economic growth, trade, and tourism development; geopolitical tensions; and persistent threats to natural disasters present downside risks. These factors could slow economic recovery, hampering progress in poverty reduction.

In **Samoa**, the economy is projected to grow by a further 4.5 percent in FY24, followed by an average growth of 3.3 percent in FY25 and FY26. The continued recovery in tourism and spillovers to construction and other service sectors, combined with increased public investment are expected to drive growth. Inflation is estimated to halve in FY24 and continue to decline over the medium term. The current account deficit is expected to narrow to 3.0 percent of GDP over the medium term, supported by tourism recovery and continued remittance inflows. A fiscal deficit of 2.5 percent of GDP is estimated for FY24 as grants revenue normalizes and expenditure increases to support the hosting of the Commonwealth Heads of Government Meeting scheduled for October 2024. The fiscal deficit is expected to narrow to approximately 1.5 percent of GDP over the medium term. While direct projections of poverty rates are not available, regional peers with a similar trajectory of economic recovery are expected to return to pre-pandemic poverty levels in FY25.

In **Tonga**, growth is projected to maintain its upward momentum, reaching 2.5 percent, before subsequently easing in FY25 and further down in FY26. The short-term growth is underpinned by the ramping up of reconstruction activities, coupled with recovery in agriculture and tourism. Inflation is anticipated to subside in FY24 and reach below the 5 percent reference rate in FY25. The current account deficit is forecasted to persist at a high level of 7.1 percent of GDP in FY4, driven by substantial imports amid modest export performance. The fiscal balance is anticipated to swing back into deficit in FY24-25, due to normalization in grants and upsurge in expenditure related to reconstruction efforts. Following sluggish execution in FY23, reconstruction projects are expected to gather momentum in FY24 with this trend continuing in FY25. With the projected steady economic growth, the poverty rate measured with the upper-middle-income poverty line is likely to decline to 16.7 percent in 2026.

In **Vanuatu**, the economy is projected to grow by 3.7 percent in 2024, mostly driven by the infrastructure investment, such as the upgrade of airports and roads construction, significantly scaled up in the 2024 budget. As the implementation of the capital budget is expected to continue over 2024-2026, expansionary fiscal policy will continue to support growth. Reconstruction efforts are expected to stimulate economic activity over the medium term. Inflation is projected to remain above the reserve bank band of 0-4 percent in the near term. A current account deficit of 4.5 percent of GDP is projected for 2024, partially offsetting the modest recovery of tourism and goods exports. The fiscal deficit is projected at 7.6 percent of GDP due to higher capital expenditures, despite improved fishing revenues. The poverty rate measured with the lower-middle-income poverty line is projected to remain high, around 43 percent until 2026. Given the country's relatively high population growth, the growth in per capita income is not strong enough to reduce poverty.

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

	2021	2022e	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices						
Samoa	-7.1	-5.3	8.0	4.5	3.6	3.0
Tonga	-2.7	-2.0	2.6	2.5	2.2	1.6
Vanuatu	0.6	1.9	2.5	3.7	3.5	3.1
Poverty rate[a,b]						
Tonga (Upper-middle income poverty rate, $6.85 in 2017 PPP)	21.5	22.3	21.1	18.7	17.3	16.7
Vanuatu (Lower-middle income poverty rate, $3.65 in 2017 PPP)	41.5	42.4	43.2	42.8	42.6	42.9

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.

a/ Calculations based on EAPPOV harmonization, using 2021-HIES for Tonga and 2019-NSDP for Vanuatu.

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

THAILAND

Table 1	2023
Population, million	71.8
GDP, current US$ billion	514.9
GDP per capita, current US$	7171.8
Upper middle-income poverty rate ($6.85)[a]	12.2
Gini index[a]	35.1
School enrollment, primary (% gross)[b]	101.6
Life expectancy at birth, years[b]	78.7
Total GHG emissions (mtCO2e)	480.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Thailand's economic recovery lagged further behind ASEAN peers as growth disappointed at 1.9 percent in 2023. Growth was hampered by a weak external sector and delayed budget approval. Inflation remained negative for the third consecutive month due to falling energy and food prices as well as energy subsidies. While private consumption and tourism are expected to support the recovery, the outlook for 2024 is weaker than previously projected due to dimmer export and public investment prospects.

Key conditions and challenges

Thailand's recovery diverged further from peers such as Malaysia and the Philippines due to external and internal challenges. Weak external demand weighed on manufacturing while the delayed budget caused public investment to slow. The economy is expected to pick up in 2024, bolstered by private consumption and tourism recovery, with upside risks to domestic demand if the Digital Wallet program (THB 10,000 or USD 286 transfer to 50 million Thais) is rolled out. The measure has the potential to boost growth but will increase the public debt.

Fiscal responses to high energy prices have slightly slowed the path toward consolidation but supported the recovery. Headline inflation remained the lowest in ASEAN in part due to continued energy subsidies and lower global energy prices.

In the medium term, the country is facing the challenge of addressing the rising spending needs associated with aging, environmental degradation, climate change, and the need to rebuild the policy buffers to prepare for future shocks. substantial potential lies in implementing structural reforms and mobilizing private financing for low-carbon growth. The escalating impact of climate events on low-income households remain a significant obstacle to poverty reduction.

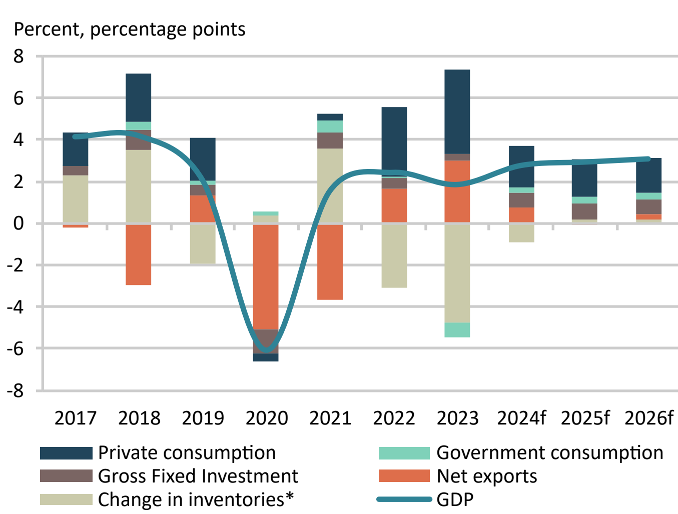
Recent developments

Thailand's recovery trajectory slowed compared to its ASEAN peers due to weak manufacturing and public investment despite robust private consumption. Overall, for 2023, the economy grew by 1.9 percent, down from 2.5 percent the previous year. Thailand's output recovery from pre-pandemic levels further lagged behind peers by 14 percent.

Good export contracted, albeit less than ASEAN peers. In 2023, goods exports contracted 1.7 percent (year-on-year), declining from the previous 5.4 percent. This contraction was driven by declines in exports of manufacturing, including agro-manufacturing, hard disk drives, plastics, and metal and steel, while exports of agricultural and automotive products expanded.

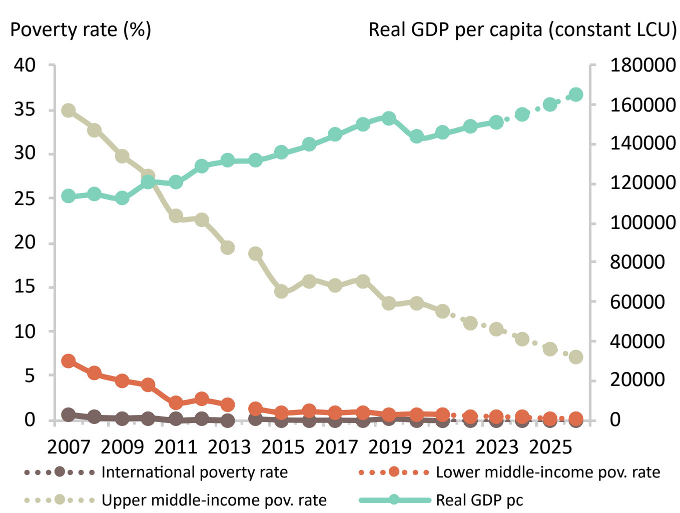
The Thai baht remained stable as the current account shifted to surplus, despite ongoing capital outflows. In December, the current account turned positive, reaching 5 percent of GDP, with Q4 recording a surplus of 1.2 percent of GDP. This improvement was driven by a surplus in goods trade, attributed to a decrease in the import bill. Additionally, deficits in services, primary, and secondary income narrowed, supported by increased tourism receipts and income transfers. In January, the Nominal Effective Exchange Rate (NEER) remained stable, in contrast to the depreciation of other major ASEAN currencies. This stability was linked to anticipated improvements in the current account balance

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.

as tourist arrivals surged. However, net foreign portfolio outflows surged to THB 37 billion, marking the largest outflows in four months, primarily due to outflows from the equity market.

Headline inflation declined the fastest in ASEAN and remained negative for four consecutive months at -1.1 percent (yoy) in January due to the ongoing energy subsidies, falling global energy prices and domestic fresh food prices, and a slow recovery. Core inflation remained stable at 0.5 percent. The Bank of Thailand maintained a neutral stance with its policy rate at 2.5 percent due to lowered inflation pressure and continued strong domestic demand. In January, the Thai baht was stable linked to the expected improved current account balance as tourist arrivals surged, while capital outflows continued.

Per capita household consumption surged by 8.1 percent between 2021 and 2022, with the bottom 40 percent experiencing even faster growth. The national poverty rate dropped from 6.3 percent to 5.3 percent during the same period. However, this decline varied across regions; the northeast saw the largest drop by 2.4 percentage points, while Bangkok experienced an increase in poverty. Household debt remained high at 90.6 percent of GDP, the highest in ASEAN in 2023Q1.

Outlook

Growth is projected to accelerate from 1.9 percent in 2023 to 2.8 percent in 2024. The outlook for 2024 is weaker than previously projected due to dimmer export and public investment prospects. Tourism and private consumption will be key drivers. Goods exports are expected to grow due to favorable global trade despite the slowing Chinese economy. Tourism recovery is projected to return to pre-pandemic levels in mid-2025. Tourist arrivals are projected to reach 90 percent of pre-pandemic levels in 2024, with Chinese visitors expected to reach 62 percent of pre-pandemic levels. Public investment will be hampered by prolonged delay in budget approval for FY2024. Public debt is projected to remain slightly above 60 percent of GDP. While the planned Digital Wallet is not included in the baseline, it could boost near-term growth by approximately 1 percent.

Headline inflation will slow to a regional low of 1 percent in 2024 due to energy subsidies and falling global energy prices, while food prices and core inflation are expected to remain positive. Core inflation is expected to be supported by strong domestic consumption and the closing output gap. The current account surplus will remain at 1.3 percent of GDP in 2024, driven by both goods and services trade as well as reduced oil import bills.

Risks to outlook are more balanced, with upside risks to domestic demand if the Digital Wallet is rolled out. However, risks persist due to heightened geopolitical conflict and high oil prices, which could trigger another inflationary surge given the country's dependency on energy imports and increase inequality while eroding fiscal space unless social assistance is better targeted.

The poverty headcount, measured at the upper-middle-income poverty line of $6.85 in 2017 PPP, was estimated at 12.2 percent in 2021 and is anticipated to decline to 10.3 percent in 2023 and maintain a downward trajectory throughout 2024 and 2025.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	1.6	2.5	1.9	2.8	3.0	3.1
Private consumption	0.6	6.2	7.1	3.4	3.0	2.8
Government consumption	3.7	0.1	-4.6	1.7	2.5	2.0
Gross fixed capital investment	3.1	2.3	1.2	2.7	3.1	3.1
Exports, goods and services	11.1	6.1	2.1	5.0	3.7	3.6
Imports, goods and services	17.8	3.6	-2.2	4.1	4.1	3.4
Real GDP growth, at constant factor prices	1.9	3.2	1.9	2.8	2.9	3.1
Agriculture	2.5	1.4	1.9	1.6	2.2	2.0
Industry	6.0	3.6	-2.3	1.2	2.7	2.7
Services	-0.3	3.1	4.3	3.8	3.2	3.5
Inflation (consumer price index)	1.2	6.1	1.2	1.0	1.8	1.1
Current account balance (% of GDP)	-2.0	-3.2	1.3	1.3	3.0	4.2
Net foreign direct investment inflow (% of GDP)	-0.8	0.8	-0.4	-1.0	-1.1	-1.0
Fiscal balance (% of GDP)	-6.7	-4.4	-2.3	-1.9	-2.3	-2.1
Revenues (% of GDP)	19.8	19.8	20.8	21.1	22.3	22.3
Debt (% of GDP)	57.7	59.7	62.1	62.6	61.8	61.0
Primary balance (% of GDP)	-5.4	-3.1	-1.1	0.2	-0.3	-0.3
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]	0.6	0.5	0.4	0.3	0.2	0.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	12.2	11.0	10.3	9.1	8.1	7.1
GHG emissions growth (mtCO2e)	2.7	1.6	1.9	1.3	2.7	3.1
Energy related GHG emissions (% of total)	53.7	53.0	52.5	51.4	50.5	49.6

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 EAPPOV harmonization, using 2014-SES, 2020-SES, and 2021-SES. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.
b/ Projection using annualized elasticity (2014-2020) with pass-through = 1 based on GDP per capita in constant LCU.

TIMOR-LESTE

Table 1	2023
Population, million	1.4
GDP, current US$ billion	1.7
GDP per capita, current US$	1275.8
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]	67.7
Total GHG emissions (mtCO2e)	5.5

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

The economy continues to recover following the pandemic and Cyclone Seroja. Growth decelerated to an estimated 2.1 percent of GDP in 2023 due to election-related fiscal drag. Inflation peaked at 9.0 percent (y/y) in November 2023 but has since declined. Medium-term growth is expected to reach 4.0 percent, supported largely by increased government infrastructure spending. Downside risks include escalated global commodity prices of food and energy.

Key conditions and challenges

Despite development gains since independence, Timor-Leste remains a fragile post-conflict country grappling with economic challenges stemming from its size and geographical location. An institutional framework for macroeconomic management, supported by the Petroleum Fund (PF), the country's sovereign wealth fund, has facilitated major infrastructure improvements. Advances in basic healthcare access and school enrollment rates have also materialized. However, low and volatile economic growth persists, hindering progress in development outcomes and poverty reduction.

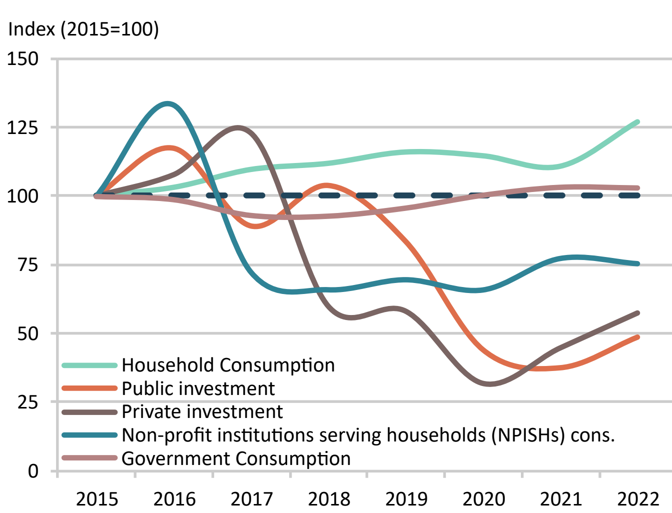
Fragility is exacerbated by a lack of economic diversification and significant fiscal and external imbalances. The economy heavily relies on the public sector, benefiting primarily certain public-sector-linked service sectors such as construction. Diversifying the economy has been a perennial goal of the government, but progress has been hindered by a lack of enabling factors, including unreliable electricity and access to finance. Ample bank liquidity has not been channeled to the real sector, with the loan-to-deposit ratio remaining low. Challenges in assessing borrower risk and the absence of a robust legal framework persist as structural impediments to access to finance. Oil and gas production ended in 2023, leaving coffee as the main commodity export. Tourism-driven services account for less than 4 percent of total exports. In contrast, a lack of domestic production necessitates imports to meet domestic consumption, resulting in susceptibility to commodity price volatility.

Timor-Leste is facing a fiscal cliff. Government spending reached 87 percent of GDP in 2023, among the highest globally, while non-oil-related revenue stood at merely 14.1 percent of GDP. To bridge the resulting large budget gap, Timor-Leste is drawing down on its diminishing Petroleum Fund. The balance of the Fund stood at 18.2 billion by the end of 2023 (10.6 times of GDP). However, due to the cessation of oil and gas production, the revenues of the Petroleum Fund are outweighed by the annual withdrawals needed to finance the budget. Official estimates predict that the Petroleum Fund will be depleted by 2034. The government must urgently identify alternative sources to replace the rapidly declining revenues from the oil and gas sector. Alternatively, significant spending cuts are inevitable, leading to a sharp decrease in public service provision.

Recent developments

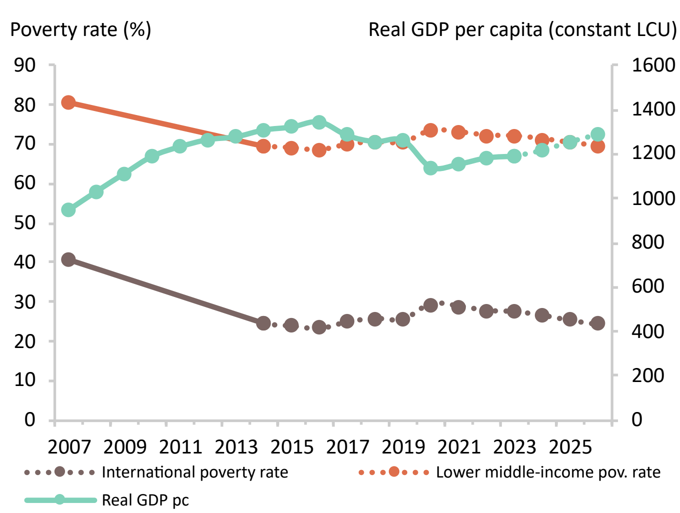
Following the pandemic-induced decline of 8.3 percent in 2020, the non-oil economy expanded by 2.9 percent and 4.0 percent in 2021 and 2022, respectively. Despite the gains, economic output has not returned to its pre-pandemic levels. Amidst challenges in budget implementation, attributable to electoral processes, fiscal drag resulted in a

FIGURE 1 Timor-Leste / Public and private investment are still below the 2015 level.



Source: Timor-Leste Ministry of Finance.

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



Source: World Bank. Notes: see Table 2.

deceleration of growth in the non-oil economy to an estimated 2.1 percent in 2023. Nevertheless, the post-pandemic recovery has been driven by consumption. Public and private investment levels remain below their 2015 peak, constraining future output potential and productivity.

Consumer price inflation remained high, averaging 8.4 percent during 2023, driven by escalating prices of food, non-alcoholic beverages, alcohol, and tobacco. Price pressures were contained by an appreciation of the US Dollar, legal tender in Timor-Leste.

The government has set an ambitious target of creating 50,000 jobs over the next five years. However, the lack of economic dynamism has hindered job creation for the rapidly expanding workforce. Labor force participation has stagnated at approximately 30.6 percent in the past decade. Labor productivity has decreased, and employment is increasingly concentrated in sectors with the lowest labor productivity.

The 2023 budget was revised down by 12 percent to improve budget execution and align with the new government's objectives. Expenditures, excluding wages and salaries, were cut, with capital spending seeing the largest reduction. As of December 2023, 87 percent of the rectified budget was executed. The fiscal deficit is estimated to have declined to 44.4 percent of GDP from close to 60 percent in 2022.

The impact of recent developments on poverty reduction remains uncertain due to the absence of updated data. Between 2007 and 2014, poverty dropped from 50.4 percent to 41.8 percent. When assessed using an internationally comparable poverty line of US$2.15 per person per day (2017 PPP), the decline is even starker, with poverty rates dropping from 40.9 percent in 2007 to 24.4 percent in 2014. A new Living Standards Survey is planned for 2024.

Outlook

Economic growth is projected to average 4.1 percent in 2024 and 2025. The government's focus on capital expenditure and infrastructure investment, increasing the budget from 18.4 percent of GDP in 2023 to 24.5 percent of GDP in 2024, is likely to drive growth. However, export growth may face constraints, largely due to the dependence on coffee as the primary export commodity.

Inflation is projected to ease in 2024, driven by a moderation in global commodity prices. Reduced inflation rates in Timor-Leste's trading partners are expected to lessen the impact of imported inflation.

The fiscal deficit is expected to hover around 45 percent of GDP over the medium term. The budget shortfall is being covered through withdrawals from the rapidly declining Petroleum Fund.

The outlook is subject to several downside risks. Slow global growth may negatively affect the returns of the Petroleum Fund. Extreme weather events, notably those associated with El Niño, could disrupt rice availability and imports. Additionally, high energy prices are likely to increase transportation and electricity costs domestically.

Reaching the government's target of 5 percent annual economic growth will depend on policies that support a sustainable, diversified economy. As such, strong contributions of private consumption and investment are crucial. The success of the private sector, in turn, depends on policies that foster an environment conducive to dynamism and expansion.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	2.9	4.0	2.1	3.6	4.5	4.0
Private consumption	-2.7	14.0	3.0	4.0	5.0	5.5
Government consumption	2.9	-0.2	3.1	2.4	2.4	1.4
Gross fixed capital investment	-6.1	29.4	10.8	10.6	10.7	9.3
Exports, goods and services	79.3	30.3	1.0	2.0	2.0	2.0
Imports, goods and services	-9.0	22.8	5.5	5.0	5.0	5.0
Real GDP growth, at constant factor prices	3.9	3.8	2.1	3.6	4.5	4.0
Agriculture	5.5	5.4	2.9	2.9	2.9	2.9
Industry	-14.0	38.2	2.4	2.4	2.4	2.4
Services	4.0	2.6	1.9	3.9	5.0	4.3
Inflation (consumer price index)	3.8	7.0	8.4	3.3	2.8	2.5
Current account balance (% of GDP)	2.8	-17.0	-20.4	-41.7	-42.8	-45.1
Net foreign direct investment inflow (% of GDP)	-4.3	-4.1	1.7	1.7	1.6	1.6
Fiscal balance (% of GDP)[a]	-47.0	-60.7	-44.0	-43.1	-45.6	-47.6
Revenues (% of GDP)	45.5	43.4	42.2	40.7	39.0	37.5
Debt (% of GDP)	15.2	15.2	18.3	19.4	19.7	22.0
Primary balance (% of GDP)	-46.8	-60.5	-44.0	-43.1	-45.5	-47.6
International poverty rate ($2.15 in 2017 PPP)[b,c]	28.8	27.8	27.5	26.6	25.4	24.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	72.9	72.1	71.9	71.2	70.2	69.4
GHG emissions growth (mtCO2e)	-3.3	-2.8	-2.7	-2.4	-2.1	-5.0
Energy related GHG emissions (% of total)	7.9	8.4	9.0	9.6	10.3	11.3

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 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: 2015-2023. Forecasts are from 2024 to 2026.
c/ Projection using annualized elasticity (2007-2014) with pass-through = 1 based on GDP per capita in constant LCU.

VIETNAM

Table 1	2023
Population, million	98.9
GDP, current US$ billion	426.9
GDP per capita, current US$	4318.1
International poverty rate ($2.15)[a]	1.0
Lower middle-income poverty rate ($3.65)[a]	4.2
Upper middle-income poverty rate ($6.85)[a]	19.7
Gini index[a]	36.1
School enrollment, primary (% gross)[b]	123.1
Life expectancy at birth, years[b]	73.6
Total GHG emissions (mtCO2e)	515.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Vietnam's real GDP is expected to grow by 5.5 percent in 2024. Poverty is expected to decline from 3.9 percent in 2023 to 3.6 percent in 2024. Downside risks to growth include slower-than-expected growth in main trade partners and deterioration of asset quality in Vietnam's banking sector. On the upside, stronger-than-expected global growth could lift growth above the baseline forecast.

Key conditions and challenges

After a difficult year, Vietnam's growth is expected to pick up moderately in 2024. External demand for Vietnam's exports is expected to firm gradually during the year and domestic real estate market is expected to start recovering in late 2024. However, tight global financial conditions, heightened financial sector vulnerabilities, and underinvestment in backbone infrastructure are challenges to Vietnam's short and medium-growth prospects.

Recent developments

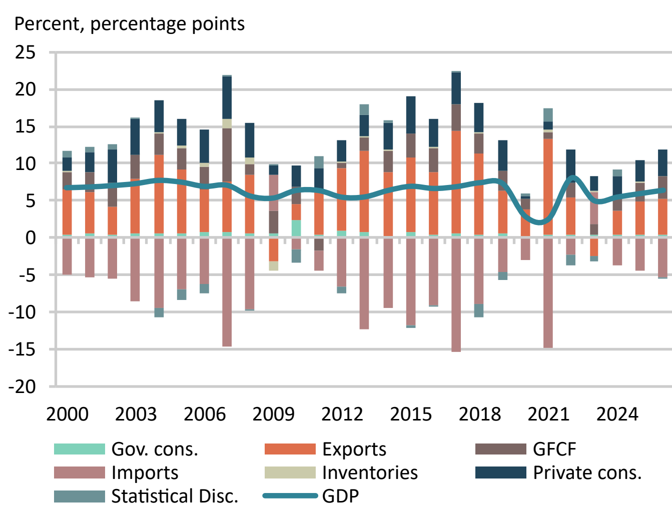
Real GDP growth decelerated from a strong post-pandemic rebound of 8 percent in 2022 to 5 percent in 2023, well below potential. This slower growth reflected weak external demand and a downturn in the real estate market. Vietnam's exports declined by 2.5 percent (y/y) as demand from key export markets cooled. Meanwhile, in the real estate market, the number of projects for residential housing and transactions fell by 46.8 percent (y/y) and 18.8 percent (y/y), respectively. The downturn was driven by lower demand due to higher interest rates and slowing construction due to financing constraints experienced by property developers due to tightening regulations on corporate bond issuance in late 2022. Reflecting these developments, the industrial sector (industry and construction) grew by a tepid 3.7 percent in 2023 compared to 7.8 percent in 2022. Meanwhile, services sector growth slowed to 6.8 percent compared to 10 percent in 2022 as the strong recovery of domestic and foreign tourism was offset by moderating wholesale and retail sales. The agricultural sector grew by 3.8 percent in 2023 compared to 3.4 percent in 2022.

Headline and core inflation slowed as the economy cooled. Average headline inflation in 2023 came in at 3.25 percent (y/y), well below the 4.5 percent inflation target as transport costs softened and domestic consumption moderated. Core inflation averaged 4.1 percent (y/y) in 2023 due to higher housing prices and construction materials.

Amid slower growth, employment and income growth weakened. Total employment growth slowed, dipping from 2.2 to 0.8 percent (y/y) between the first and last quarters of 2023. Average monthly real income growth slowed to an estimated 1.3 percent during 2022–23 compared to 8.3 percent in 2017–19. After a slight rise in poverty (LMIC) in 2022, poverty is estimated to fall to 3.9 percent in 2023 despite slower growth.

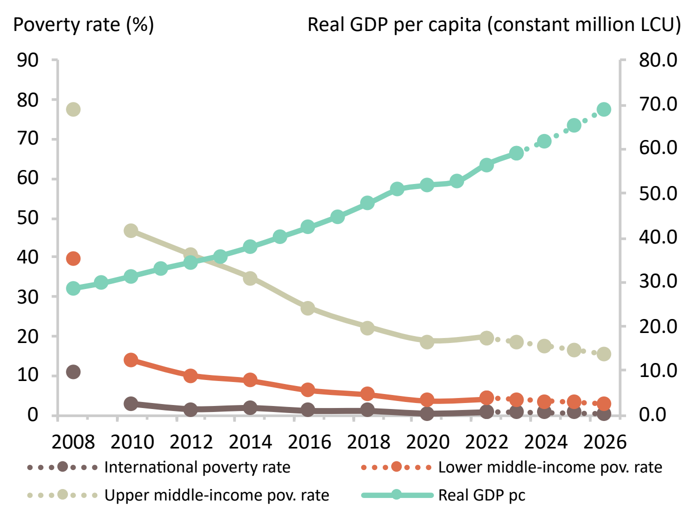
The balance of payments registered a surplus of 1.1 percent of GDP in the first three quarters of 2023, compared to a deficit of 7.2 percent of GDP registered in 2022, underpinned by a large current account surplus (5.1 percent of 2023 GDP). The current account surplus was driven by a mounting surplus in the

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.

merchandise trade balance (11.1 percent of GDP) as real imports contracted more than real exports. On the other hand, the financial account registered a small deficit (0.6 percent of GDP), as a net outflow of short- and medium-term capital (-$15.5 billion) outweighed a robust FDI disbursement (US$13.7 billion). In addition, large errors and omissions suggest continued unrecorded capital outflows amid persistent interest rate gaps with major economies.

To bolster economic activity, the authorities adopted supportive macroeconomic policies. The State Bank of Vietnam cut policy rates by 150 basis points. However non-performing loans rose from 1.9 percent in December 2022 to 4.9 percent in September 2023, despite reintroduced forbearance measures. The fiscal stance was moderately expansionary as deficit rose to 1.2 percent of GDP in 2023 from 0.2 percent in 2022 due to higher public investment and lower revenues. While the disbursement volume of public investment rose 33.3 percent compared to 2022, it only constituted 73.5 percent of planned 2023 budget. Public and publicly guaranteed debt registered 39.8 percent of GDP, significantly below the 60 percent debt-to-GDP threshold.

Outlook

Real GDP is expected to grow by 5.5 percent in 2024 and inch up to 6.5 percent by 2026. We expect a gradual recovery of external demand which will in turn support labor market recovery and firm consumer confidence. The real estate market is forecast to turn the corner in late 2024 and into 2025 as financing constraints for developers ease and housing demand recovers to trend. A new Land Law and other real estate related laws that will come into effect will enhance land valuation and land use, providing additional support to the recovery. This in turn is expected to support recovery of private domestic investment. The CPI will rise slightly from an average of 3.2 percent in 2023 to 3.5 percent in 2024, reflecting an increase in the prices of education and health services, before moderating to 3.0 in 2025-2026. The fiscal deficit is projected to widen to 1.6 percent of GDP given expected weak revenue collection and a civil service salary increase, but the government will revert to fiscal tightening in 2025-2026, in line with the Financial Strategy for 2021-2030. The current account is expected to remain in surplus, thanks to continued recovery of goods exports and tourism. The poverty rate (LMIC) is projected to fall from 3.9 percent in 2023 to 3.6 percent in 2024. expected weak revenue collection and a civil service salary increase, but the government will revert to fiscal tightening in 2025-2026, in line with the Financial Strategy for 2021-2030. The current account is expected to remain in surplus, thanks to continued recovery of goods exports and tourism. The poverty rate (LMIC) is projected to fall from 3.9 percent in 2023 to 3.6 percent in 2024.

The risks to the outlook are broadly balanced. Slower-than-expected growth in partner countries could further dampen external demand for Vietnam's exports. A slower recovery of the real estate market could weigh on private sector investment. Finally, heightened financial vulnerabilities could affect the banking sector. On the upside, stronger-than-expected global growth could support a faster recovery of Vietnam's export sector.

Continued efforts to speed up the implementation of public investment would help support aggregate demand in the short run while also helping to close emerging infrastructure gaps. On the monetary side, the space for additional interest rate cuts is limited due to the interest rate differential between domestic and international markets. The authorities should improve the banking sector supervisory framework, including monitoring and resolution.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	2.6	8.1	5.0	5.5	6.0	6.5
Private consumption	2.2	7.7	3.5	5.0	5.5	6.5
Government consumption	4.5	3.6	4.9	4.5	4.5	4.4
Gross fixed capital investment	2.8	5.6	4.1	5.5	7.4	8.5
Exports, goods and services	14.0	5.0	-2.5	3.5	4.9	5.5
Imports, goods and services	15.8	2.2	-4.3	4.0	5.0	6.0
Real GDP growth, at constant factor prices	2.6	8.4	5.2	5.6	5.9	6.4
Agriculture	3.7	3.5	3.8	3.0	3.0	3.0
Industry	3.2	7.9	3.7	8.3	8.0	7.9
Services	1.7	10.1	6.8	3.9	4.8	5.9
Inflation (consumer price index)	1.8	3.1	3.2	3.5	3.0	3.0
Current account balance (% of GDP)	-1.3	-0.3	1.9	1.7	1.6	1.7
Net foreign direct investment inflow (% of GDP)	4.2	3.7	4.3	4.3	4.3	4.3
Fiscal balance (% of GDP)	-1.4	-0.2	-1.3	-1.6	-1.1	-1.1
Revenues (% of GDP)	18.8	19.0	17.2	15.2	15.3	14.6
Debt (% of GDP)	38.7	34.0	37.3	37.7	36.9	33.3
Primary balance (% of GDP)	-0.2	0.7	-0.4	-0.5	0.0	-0.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	..	1.0	0.9	0.8	0.7	0.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	..	4.2	3.9	3.6	3.3	2.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	..	19.7	18.7	17.6	16.5	15.3
GHG emissions growth (mtCO2e)	1.2	6.4	4.4	5.4	5.5	5.6
Energy related GHG emissions (% of total)	64.2	64.8	64.6	64.6	64.5	64.3

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 EAPPOV harmonization, using 2016-VHLSS, 2020-VHLSS, and 2022-VHLSS. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.
b/ Projection using annualized elasticity (2016-2020) with pass-through = 0.7 based on GDP per capita in constant LCU.

Macro Poverty Outlook

04/
2024

WORLD BANK GROUP
Macroeconomics, Trade & Investment
Poverty & Equity