Small States: 
A Challenging Recovery

M. Ayhan Kose
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Two Questions

1. What are growth prospects for small states? A slow recovery is underway for some countries. Most small states will not return to pre-pandemic per-capita income levels by the end of 2023. The outlook is clouded by multiple downside risks.

2. What are the key policy challenges? Overcoming the pandemic; preparing for the effects of climate change and natural disasters; managing elevated debt; and addressing structural constraints.

* EMDEs = Emerging Market and Developing Economies
Two Questions

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What are growth prospects for small states?

Global Economic Environment
Lagging Services Trade; Rising Commodity Prices; Tightening Financing Conditions

Sources: Bloomberg; CPB Netherlands Bureau for Economic Policy Analysis; Goldman Sachs; World Bank; World Trade Organization.

**GDP Growth**

**Weaker Growth in Small States than EMDEs**

<table>
<thead>
<tr>
<th>GDP growth (Percent)</th>
<th>Small states</th>
<th>EMDEs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2020</td>
<td>2021</td>
</tr>
<tr>
<td>GDP growth</td>
<td>-12</td>
<td>-8</td>
</tr>
</tbody>
</table>

Note: FCS = fragile and conflict-affected. Growth for country groupings is GDP-weighted. Left Panel: Sample includes 34 EMDE small states and 146 EMDEs. Small states include those for which the World Bank produces a growth forecast and which are eligible for IDA lending. The small states aggregate includes commodity-reliant Guyana, which is experiencing a growth boom due to rapid offshore oil industry development. Right Panel: Sample includes 22 tourism-reliant, 11 commodity-reliant, and 7 FCS small states. Guyana is excluded. Tourism-reliant countries are those with inbound tourism expenditure as a share of GDP in the top quartile among 146 EMDEs. Commodity-reliant economies are those where, on average in 2017-19, either (i) total commodities exports accounted for 30 percent or more of total exports or (ii) exports of any single commodity accounted for 20 percent or more of total exports. Economies that met these thresholds as a result of re-exports are excluded.

**Uneven Recovery**

**Slower Recovery in Small States than Other Country Groups**

<table>
<thead>
<tr>
<th>Countries reaching pre-pandemic per capita income (Percent)</th>
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<tbody>
<tr>
<td>2022</td>
</tr>
<tr>
<td>100</td>
</tr>
<tr>
<td>75</td>
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<tr>
<td>50</td>
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<tr>
<td>25</td>
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</tbody>
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Note: IDA refers to International Development Association. Sample includes 146 EMDEs, 70 IDA countries, and 34 EMDE small states. IDA includes all countries eligible for IDA support, including blend economies. The small states aggregate excludes Guyana, which is experiencing a growth boom due to rapid offshore oil industry development. Horizontal dashed line denotes 50 percent.
Economic Scars of the Pandemic
Larges Output Losses in Small States; Elevated Unemployment

Gap with pre-pandemic projections by 2022

Unemployment rate

Source: International Labour Organization; World Bank.
Note: IDA refers to International Development Association. Sample includes 146 EMDEs, 70 IDA countries, and 34 EMDE small states. IDA includes all countries eligible for IDA support, including blend economies. The small states aggregates exclude Guyana, which is experiencing a growth boom due to rapid offshore oil industry development. Left Panel: Figure shows the gaps between the latest projection and the forecasts released in the January 2020 edition of Global Economic Prospects. Right Panel: Lines show medians in the two country groups. Sample includes 26 EMDE small states, 8 tourism-reliant EMDE small states, and 143 EMDEs.

Near-Term Risks to the Outlook
Extended Slump in Tourism; Rising Inflation; COVID-19 Outbreaks

Tourist arrivals

Inflation

Source: Haver Analytics; national sources; World Bank.
Note: Left Panel: Data is seasonally adjusted. Caribbean includes Antigua and Barbuda, Bahamas, Belize, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines. Indian Ocean islands include Maldives, Mauritius, and Seychelles. Last observation is July 2021 for Caribbean and August 2021 for Indian Ocean islands. For Caribbean, the July observation is based on data for a subset of countries (Antigua and Barbuda, Bahamas, Belize). Right Panel: Bars show medians. Sample includes 11 EMDE small states and 106 EMDEs.
Two Questions

What are the key policy challenges?

Policy Priorities
Policies for Recovery and Resilience

Bring the pandemic under control and pursue economic stability
• Accelerate vaccine rollouts and ensure equitable vaccine distribution globally
• Support health system capacity, prepare to contain renewed breakouts effectively and to roll out new therapeutics quickly
• Balance need for macroeconomic support with fiscal sustainability and price / financial stability
• Mitigate the impact of food and energy price increases, especially for importers of these products
• Coordinate policies globally to reduce debt burdens and enhance debt transparency

Promote reforms to bolster medium- and long-growth prospects
• Reduce scarring from the pandemic by improving health and education systems to improve human capital
• Leverage the digital revolution to create new economic opportunities

Improve crisis preparation and climate change response
• Enhance domestic crisis preparedness and response, including through social protection mechanisms and infrastructure investment
• Contribute to the coordination of policies to address global challenges related to climate change (e.g., emissions reduction and pursuit of a just energy transformation)
**Debt Burden**

*Sharp Increase in Debt in Many Small States, Adding to Already High Debt*

**Government debt (Percent of GDP)**

- **Small states**
- **EMDEs**

**Source:** International Monetary Fund; World Bank.

Left Panel: Lines show simple averages. Right Panel: Both Panels: Sample includes 34 EMDE small states and 154 EMDEs in 2011 and 150 EMDEs in 2021.

**Climate Change and Natural Disasters**

*High Vulnerability; Rising Incidence of Disasters*

**Population living in areas of elevation below 5 meters (Percent)**

- **Small states**
- **EMDEs**

**Natural disasters in small states (Number of disasters per year)**

- **Storms**
- **Floods**
- **Droughts**

**Source:** EM-DAT; World Bank.

Left Panel: Bars for small states and EMDEs show simple averages. Whiskers show first and third quartiles. Sample includes 35 EMDE small states and 126 EMDEs. Right Panel: Disasters are counted as the total number in all small states per year. Sample includes 33 EMDE small states.
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Questions & Comments

Thank you!

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Select Publications on Global Prospects and Challenges

- **Global Economic Prospects** – January 2022  
  (January and June)
- **Commodity Markets Outlook** – October 2021  
  (April and October)
- **Global Monthly**
- **One-Stop Source: Global Database of Inflation** – July 2021
- **Inflation During the Pandemic “What Happened? What is Next?”** – July 2021
- **The Aftermath of Debt Surges** – September 2021
- **A Mountain of Debt: Navigating the Legacy of the Pandemic** – October 2021