Macro Poverty Outlook

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

Spring Meetings 2021

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Spring Meetings 2021

MACRO POVERTY

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OUTLOOK

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

The cutoff date for information for most countries was March 25, 2021.

East Asia and the Pacific

Spring Meetings 2021

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

CAMBODIA

Table 1	2020
Population, million	16.7
GDP, current US$ billion	25.4
GDP per capita, current US$	1519.0
School enrollment, primary (% gross)[a]	106.5
Life expectancy at birth, years[a]	69.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2019); Life expectancy (2018).

Cambodia's economy is expected to start recovering this year, growing at 4 percent after being hit hard in 2020 by COVID-19-induced global demand shocks. Despite government's unprecedented assistance program, poverty is likely to have increased. While newly signed free trade agreements including the Cambodia-China Free Trade Agreement and RCEP have potential to attract investment and expand trade, realizing the potential requires urgent efforts to boost external competitiveness and diversify the economy.

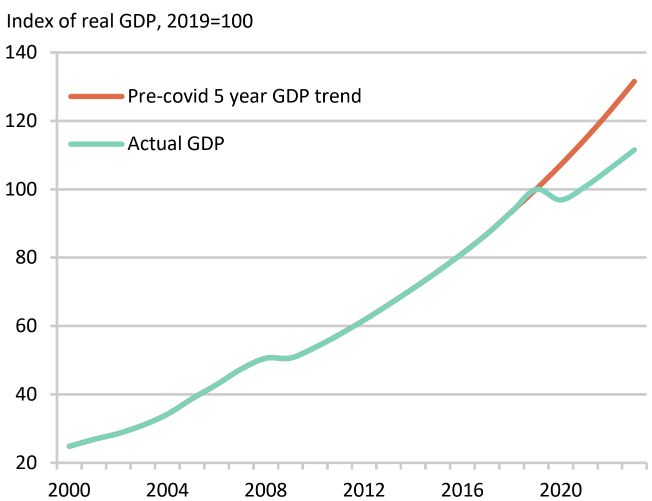
Key conditions and challenges

Cambodia's growth model—characterized by a narrow export base with a high degree of concentration of products and markets—exhibited weaknesses years before the pandemic hit. While the country has a well-established, labor-intensive and export-oriented garment industry, the manufacturing sector has remained largely engaged in the "cut-make-trim" process, the lowest value-added section of the entire value chain, for decades. The vulnerabilities, however, were masked by a surge in capital inflows in the pre-COVID-19 period. With the collapse of the tourism sector and stalled construction boom, the pandemic has exposed Cambodia's structural weaknesses. The country's external competitiveness has gradually eroded, partly caused by rapidly rising wages—made worse by a dollarized economy—and exacerbated by challenges in doing business and investment climate reforms.
Along with domestic weaknesses, an uncertain global outlook remains a key challenge to Cambodia's recovery. Delays in global vaccine distribution could lead to persistence of the pandemic, while recurrence of community outbreaks will trigger more lockdowns. In this regard, risks include decline in tourist arrivals, slowdown in foreign investments and remittances, and a public health crisis. Cambodia's merchandise exports will likely be further impacted by partial withdrawal of the "Everything But Arms" (EBA) arrangement and temporary expiration of the Generalized System of Preferences (GSP), despite emergence of new non-garment manufacturing and agricultural commodity exports. High credit growth in the banking sector remains a key risk to Cambodia's financial stability. More than half of households continued to experience income losses in December 2020 due to the COVID-19 pandemic though there are signs of recovery. In addition, the proportion of households negatively affected by the COVID-19 outbreak are much higher than those currently supported by the government's assistance program.

Recent developments

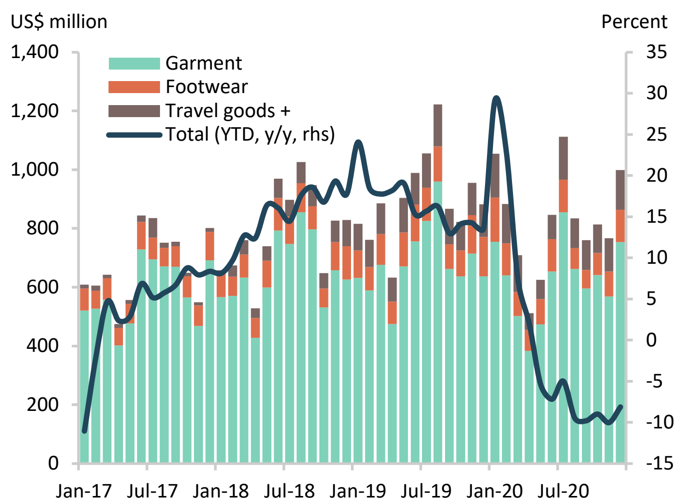
Efforts to contain the impacts of the pandemic continue with emergence of new local outbreak. The COVID-19 vaccination program has also begun. The economy is now adjusting to cope with impacts of the pandemic. The value of approved FDI projects in real sector has been gradually recovering, growing at 3.3 percent y/y in 2020. While key manufacturing exports, which include garment, footwear and travel goods, contracted by 8.1 percent y/y in December 2020 (figure 1), non-garment manufacturing exports have expanded. In the meantime, shipping container shortage has caused shipping costs to rise. Exports of bicycles grew by 27.4 percent in 2020, compared to 5.8 percent growth in 2019. Combined vehicle, electrical, and electronic parts exports surged, increasing by 37.4

FIGURE 1 **Cambodia** / Real GDP levels: Actual vs pre-covid trend



Sources: World Bank; Macro Poverty Outlook.

FIGURE 2 **Cambodia** / Garment, footwear and travel good exports



Source: Cambodian authorities.
Note: Travel goods and denotes travel goods and other textile products.

percent in 2020. The external sector remained sustainable as the current account deficit is fully financed by FDI inflows (and gross foreign reserves have increased to US$21.5 billion in 2020 or more than 10 months of prospective imports). Inflation continued to be contained, reaching 2.9 percent at the end of 2020, partly underpinned by a broadly stable exchange rate of riel 4,042 per U.S. dollar at the end of 2020, down from 4,075 in 2019.

Monetary conditions remained accommodative. Broad money grew at 15.0 percent (y/y) in November 2020, down from 18.2 percent in 2019. Thanks to unprecedented government intervention, estimated at 4 percent of GDP in 2020, the overall fiscal deficit is expected to have widened to 6.5 percent of GDP in 2020 from a surplus of 1.5 percent in 2019.

Household demand for the new cash transfer scheme to support poor and vulnerable households increased as suggested by the number of households benefitting from program. As of January 2021, more than 710,000 households, or 19.5 percent of all households, have received the cash transfer. Employment activity is showing signs of recovery. According to the survey of households, the percentage of respondents who were employed in December 2020, returned to the level recorded in May and August 2020, but remained below its pre-pandemic level.

Outlook

The economy is projected to recover and grow modestly, expanding at 4 percent in 2021, after contracting by 3.1 percent in 2020 (table 2). The authorities are taking steps to attract further investment and promote trade by planning to introduce a new investment law in the second half of 2021, boosted by the recently signed Cambodia-China FTA and RCEP. Under Cambodia's economic recovery plan, efforts are underway to boost competitiveness through investment climate reforms and leveraging of digital technologies. Efforts have also been made to support small and medium-sized enterprises through the newly established SME Bank of Cambodia, and to support innovative businesses through the Entrepreneurship Development Fund. The authorities continue to pursue countercyclical fiscal policy including expanding the social protection program, while boosting public investment financed in large part by government savings.

Bank credit financing to the construction, real estate and mortgage sector shows sign of pick up. While the recovery of construction and real estate activity is a good sign, it is imperative to continue to closely monitor vulnerabilities arising from the prolonged increase of credit provided to the sector.

Cambodia's fiscal position is expected to remain stable due to relatively large government savings. But further extension of the social assistance scheme beyond the currently planned timeframe would put significant pressure on the budget. Yet adverse impacts on the welfare of the population, especially the poor and vulnerable, would likely worsen once government intervention ceases.

Prior to the pandemic, Cambodia was a world leader in economic growth. But in the post-pandemic world, our baseline projection shows that the economy will likely follow a new trajectory (a new normal), expanding only moderately at around 4-5 percent per year in the medium-term (figure 2). This growth slowdown is largely due to a slower-than-expected recovery of exports of goods and services—particularly tourism—and modest expansion of the agriculture sector.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	7.5	7.1	-3.1	4.0	5.2	5.2
Private Consumption	3.0	7.0	-0.8	2.6	4.5	4.5
Government Consumption	5.1	10.0	1.3	7.9	9.3	11.6
Gross Fixed Capital Investment	6.1	6.9	13.5	0.9	6.6	6.0
Exports, Goods and Services	5.3	7.8	1.1	2.7	5.4	5.5
Imports, Goods and Services	4.1	6.0	7.3	1.3	5.3	5.4
Real GDP growth, at constant factor prices	7.4	6.8	-3.1	4.0	5.2	5.2
Agriculture	1.1	-0.5	0.4	1.1	1.0	1.0
Industry	11.6	11.3	-1.4	6.7	7.4	7.9
Services	6.8	6.2	-6.2	2.6	4.8	4.2
Inflation (Consumer Price Index)	3.1	3.2	2.9	3.0	3.0	3.0
Current Account Balance (% of GDP)	-8.9	-9.7	-9.9	-9.8	-10.2	-9.8
Net Foreign Direct Investment (% of GDP)	12.6	13.2	12.5	10.6	10.0	10.5
Fiscal Balance (% of GDP)	0.4	1.5	-6.5	-9.3	-6.8	-5.3
Debt (% of GDP)	28.3	28.1	30.2	32.2	34.7	36.9
Primary Balance (% of GDP)	0.8	1.9	-5.9	-8.8	-6.3	-4.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

CENTRAL PACIFIC ISLANDS

Table 1	**2020**
Population, million	
Kiribati	0.12
Nauru	0.01
Tuvalu	0.01
GDP, US$, billion	
Kiribati	0.19
Nauru	0.12
Tuvalu	0.05
GDP per capita, current US$	
Kiribati	1678
Nauru	9516
Tuvalu	4104

Sources: WDI, World Bank staff estimates.

The Central Pacific countries – Kiribati, Nauru and Tuvalu – have been less severely affected by the pandemic than their tourism-dependent neighbors, thanks to their relative economic isolation and the dominance of the public sector in their economies. Looking forward, Kiribati faces sustainability challenges from rapid expenditure growth, while Nauru will need to adjust to a projected sharp decline in public revenues. All three countries face long-run challenges to growth and poverty reduction from their narrow economic base and vulnerability to climate change.

Key conditions and challenges

Kiribati has been spared from severe economic impacts due to the pandemic, and the key economic challenge currently is to improve the sustainability and effectiveness of public spending. Kiribati has experienced a fourfold increase in public revenues from the fishing sector in the past decade, and now receives fishing license revenues worth 66 percent of GDP on average per year. These new revenues present an unprecedented opportunity to address the country's severe infrastructure deficit, reduce poverty and promote climate resilience. However, Kiribati's small public service faces significant capacity challenges in effectively delivering high-quality spending on this expanded scale. Moreover, after successive years of spending increases, aggregate spending levels have now caught up to and surpassed Kiribati's expanded revenue envelope, seriously threatening fiscal sustainability.

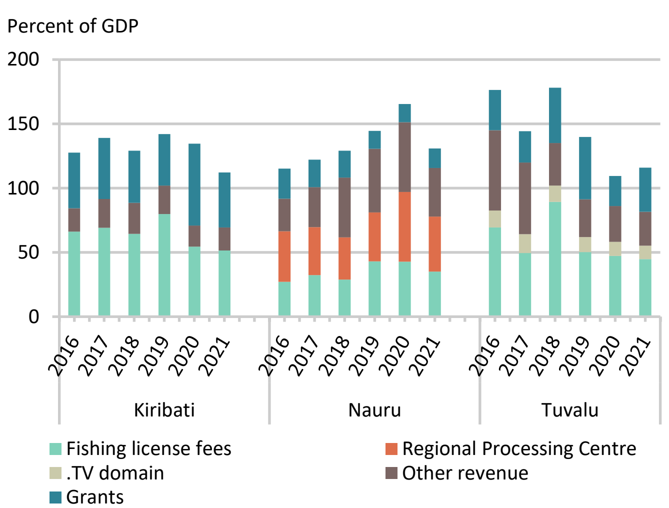
Nauru is also undergoing a significant economic transition. Public revenues and growth have been highly dependent on activity associated with Australia's Regional Processing Centre (RPC) for asylum-seekers, phosphate mining and fishing. However, the country's phosphate resources have now been fully exploited, and the RPC is also expected to wind down in 2021. Nauru now faces the challenge of adjusting to reduced budget revenues and finding new sources of growth over the medium term. In the short term, the impacts of COVID-19 have been relatively limited, thanks to the swift imposition of border controls and the economy's limited exposure to global economic conditions.

Tuvalu is one of world's smallest, remote and most climate challenged countries. It has near total dependence on imports for food and fuel and vulnerability to climate change present significant challenges to macroeconomic performance. Fishing licenses account for around 40 percent of Government revenue. Support from international partners and the Tuvalu's sovereign wealth funds are important cushions for meeting shortfalls in the Government's budget. The Government Financial Reserves (GFR), including the Consolidated Investment Fund, Tuvalu Development Fund and Survival Fund, is valued at 105 percent of GDP. The Tuvalu Trust Fund, an international donor trust fund established in 1987, represents 260 percent of GDP. An estimated 26 percent of the population lives below the national poverty line. The narrow economic base, the financial impact of climate change events and cost of climate-related adaptation projects pose significant macro-economic challenges. Tuvalu also confronts escalating fiscal costs of meeting the health care needs of an aging population and epidemic of non-communicable diseases.

Recent developments

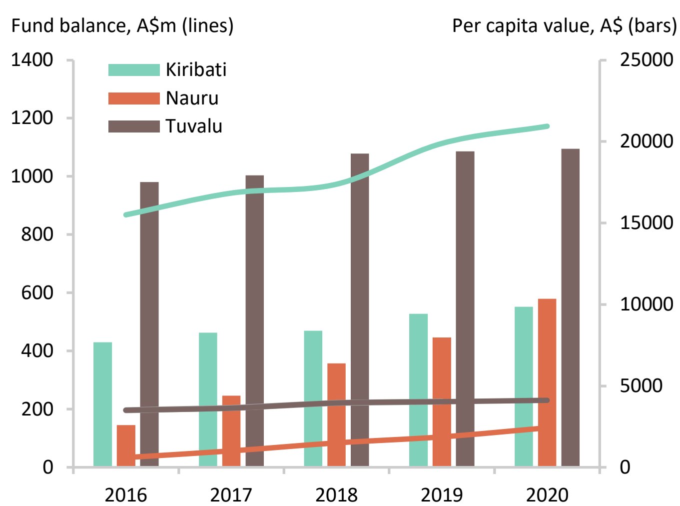
Kiribati's economy is expected to have contracted by about 2 percent in 2020. On

FIGURE 1 Central Pacific Islands / Sources of revenue – projections to 2021



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

FIGURE 2 Central Pacific Islands / Sovereign wealth fund balances



Sources: Country authorities, and 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.

the supply side, border closures have hampered donor-financed project activity and also caused some disruptions to cargo imports. Restaurant-grade fresh tuna exports have also been affected by a lack of international air freight capacity and weak international demand. Lack of expatriate demand has severely impacted on hotels and restaurants, while quarantine measures have also affected demand for fisheries transshipment services. The authorities estimate that about 2 percent of the labor force has been affected by border closures, including temporary workers abroad.

Preliminary estimates suggest a fiscal deficit of around 5 percent of GDP in 2020. The fiscal impact of COVID-19 has been relatively limited, with only slightly lower than expected revenue performance and strong donor support for health spending. Meanwhile, the authorities implemented a more than 20 percent increase in recurrent spending that was unrelated to the pandemic, with the launch of a new unemployment benefit and an expansion of the old age pension. The new benefit schemes are expected to have a major poverty reduction impact, given that more than three quarters of Kiribati's adult population are eligible to receive support.

In **Nauru**, the growth forecast has been revised upwards to 0.7 percent for FY20, due to stronger than expected activity related to the RPC and a 17 percent increase in spending compared with FY19. This has helped to offset negative impacts of the pandemic from border closures, including supply-chain disruptions of construction activity and the departure of expatriates.

The government's initial fiscal response to COVID-19 amounted to 5.5 percent of GDP in FY20. It focused on health measures and financial support to the state-owned Nauru Airlines (to ensure maintenance of critical services) as well as other SOEs. Despite strong expenditure growth, Nauru achieved a fiscal surplus of 17 percent of GDP in FY20 due to much higher than expected revenues from the RPC and fishing licenses. Large fiscal surpluses in recent years have been used to build the Nauru Trust Fund (currently at 70 percent of GDP) and government deposits (around a third of GDP).

In **Tuvalu,** early and effective response to the COVID-19 pandemic prevented adverse public health outcomes and it is one of only a very few countries in the world with no reported cases. The global economic lockdown impacted travel and trade, but fishing license revenues remained resilient. The economy is expected to contract by 0.5 percent in 2020, moderate in comparison to other countries in the region, but a marked downturn from average annual growth of 4.7 percent in 2015 -2019. In March 2020, Parliament approved a supplementary COVID-19 budget (equivalent to 30 percent of 2019 GDP) and an economic recovery package in May 2020 to provide temporary economic support. The latter included a universal cash payout to every citizen. Together they pushed the fiscal deficit to an estimated 31.3 percent of GDP financed primarily with external budget support grants.

Outlook

In **Kiribati**, a bounce back in growth of around 3 percent is expected in 2021 despite the ongoing border closure, thanks to consumer demand stimulus from the new social benefits and a public sector pay rise. Over the medium term, however, there are significant risks to macroeconomic stability stemming from the fiscal sector. The recently passed 2021 budget includes new recurrent spending of 8 percent of GDP, with an additional 5 percent of GDP in new spending projected from 2022 onwards. The deficit is expected to reach nearly 20 percent of GDP in 2021 and will be financed with a drawdown from the sovereign wealth fund. With the deficit expected to remain elevated over the coming years, Kiribati will quickly erode its available cash reserves and the sustainability of the sovereign wealth fund could also be put at risk.

In **Nauru,** modest growth of around 1 percent is expected over the medium term, with the expected closure of the RPC expected to weigh heavily on the outlook. A major port construction project is expected to help offset the winddown in RPC-related activity, although the execution of this and other infrastructure projects may be subject to ongoing delays due to supply chain disruptions. A balanced budget is expected in FY21, with fisheries revenues expected to recover from a relatively weak performance in the first half of the year. However, given the projected sharp decline in RPC-related revenues over the medium term, the large fiscal surpluses seen in recent years are unlikely to persist.

In **Tuvalu** growth is expected to recover to around 3.0 percent in 2021, assuming the reopening of international borders and easing of travel restrictions in the year. The 2021 budget presented as a balanced budget as support from international partners remains strong. The public debt-to-GDP ratio is low (estimated at 16 percent of GDP in 2019), including both direct Government obligations and implicit contingent liabilities. Debt management policies remain prudent. The major risks to the outlook are unpredictability of the COVID-19 pandemic and prolonged shut down of the global economy; volatility in revenue flows; an abrupt reduction in budget support 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)

	2017	2018	2019	2020f	2021f	2022f
Real GDP growth, at constant market prices						
Kiribati	0.9	3.8	3.9	-1.9	3.0	2.6
Nauru	-5.5	5.7	1.0	0.7	1.3	0.9
Tuvalu	3.2	4.3	4.1	-0.5	3.0	4.0

Sources: Country authorities and World Bank and IMF staff estimates.
Notes: f = forecast.
Nauru values correspond to their fiscal year ending June 30; Kiribati and Tuvalu are calendar years.

CHINA

Table 1	2020
Population, million	1402.7
GDP, current US$ billion	14423.9
GDP per capita, current US$	10283.2
International poverty rate ($1.9)[a]	0.5
Lower middle-income poverty rate ($3.2)[a]	5.4
Upper middle-income poverty rate ($5.5)[a]	23.9
Gini index[b]	38.5
School enrollment, primary (% gross)[c]	101.9
Life expectancy at birth, years[c]	76.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) Most recent estimate (2016), based on grouped data.
(c) WDI for School enrollment (2019); Life expectancy (2018).

Economic growth is projected to rebound to 8.1 percent in 2021, largely reflecting statistical base effects. GDP growth would stabilize around 5.4 slightly below its earlier trend rate by 2022, as fiscal consolidation and deleveraging weigh on growth. Amid improving labor market conditions, poverty reduction is projected to return to its pre-COVID-19 trend. Over the medium term, structural reforms to rebalance growth and make it more inclusive and environmentally sustainable are crucial to secure further gains in broad-based income growth.

Key conditions and challenges

While China's economy has recovered relatively swiftly, the COVID-19 shock has accentuated pre-existing imbalances and highlighted structural challenges. The pandemic and ensuing recovery have caused imbalances in the structure of aggregate demand to relapse, as households increased savings, government support stressed investment, and external imbalances widened. Corporate and household debt levels, which were already high before the pandemic, have increased further, eroding deleveraging gains made over the past years. China will need to return to the policy of de-risking adopted prior to COVID-19 to prevent a further rise in leverage in the economy. But this will be challenging because corporate and household balance sheets have been strained by the crisis and signs of distress may multiply as regulatory forbearance ends and extraordinary liquidity support is wound down.

Entrenched economic tensions, most notably persistent bilateral frictions with main trading partners over trade and technology, continue to pose risks to China's growth prospects, especially since external imbalances have resurfaced as a result of the COVID-19 shock. China's current account surplus widened notably to 2.0 percent of GDP in 2020 from 1.0 percent of GDP in 2019.

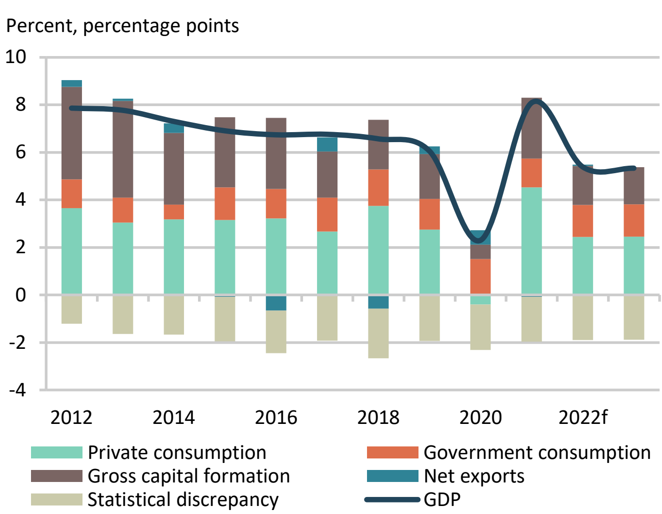
Despite this year's cyclical rebound, China's economy is projected to slow over the medium-term, reflecting longer-term structural trends. Adverse demographics, tepid productivity growth, large regional disparities and the legacies of excessive borrowing and environmental pollution will continue to weigh on growth. Unless structural reforms to rebalance China's economy are accelerated, the slowdown in potential growth is likely to steepen, undermining prospects for further gains in broad-based income growth.

Recent developments

Following a collapse in the first quarter of 2020, economic activity in China has normalized faster than expected, aided by an effective pandemic-control strategy, strong policy support, and resilient exports. Fourth quarter GDP growth accelerated to 6.5 percent yoy, bringing 2020 full year GDP growth to 2.3 percent. Meanwhile, labor markets conditions have improved, and employment has returned to pre-COVID levels.

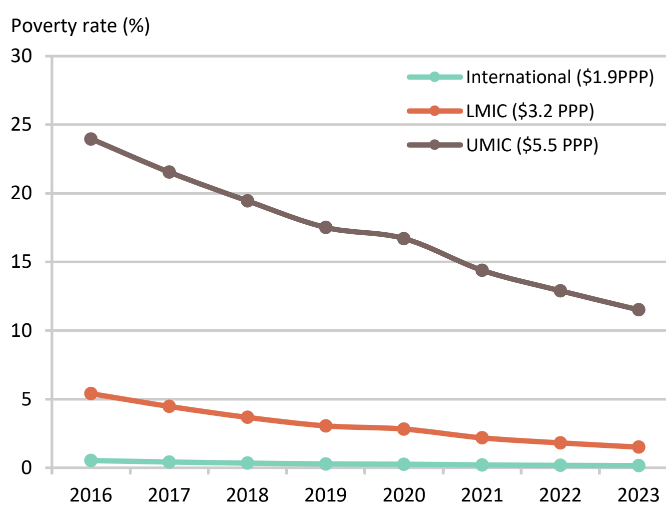
China's recovery has broadened but remains unbalanced. While investment and net exports were running above pre-COVID levels in Q4 2020, consumption continued to lag. This is consistent with supply-side GDP data which suggests industrial production and construction are overshooting while slack remains in the service sector. Amid a resurgence of local COVID-19 cases, China adopted additional lockdown measures at the start of this year, further dimming prospects of a full recovery of consumption and services.

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



Sources: National Bureau of Statistics; World Bank staff estimates.

FIGURE 2 China / Poverty estimates and projections



Sources: World Bank staff estimates using tabulated data from China NBS.

As economic activity recovered, both fiscal and monetary policy support have moderated since Q3 2020. Public investment in infrastructure, which initially drove much of the acceleration in investment, has started to moderate in the second half of 2020 on receding policy support. Meanwhile, the PBOC has refrained from further monetary easing and policy rate cuts, leading to moderating credit growth since November 2020.

Despite the COVID-19 shock, the government announced in November 2020 that it reached its goal of elimination of extreme (rural) poverty, as measured using the official 2010 poverty standard (equivalent to $2.3/day per person, 2011 PPP). At a higher line of $5.50/day per person (2011 PPP), typical of upper-middle income countries, poverty is expected to have declined in 2020, albeit only marginally, from 17.5 percent in 2019 to 16.7 in 2020, representing 10 million fewer poor people.

Outlook

Real GDP growth is projected to rebound to 8.1 percent in 2021, as consumer spending and business investment continue to catch up, along with improving labor market conditions and incomes.

GDP growth would stabilize slightly below its earlier trend rate by late 2022, as the needed fiscal consolidation and deleveraging will weigh on growth. The structure of domestic demand will gradually shift in favor of private domestic spending. Tracking the economic recovery, poverty reduction at the $5.50 per day poverty line is expected to return to a pace similar to the one observed prior to COVID-19. For 2021, poverty is expected to decline to 14.4 percent, representing 32 million fewer poor people than in 2020.

Risks to China's economic recovery are high but broadly balanced. On the downside, recurrent COVID-19 flareups could continue to disrupt economic activity and especially private consumption. The vaccine rollout has proceeded gradually in China, and it is unlikely a majority of the country's adult population will be vaccinated this year. A growing policy divergence between China and major trading partners could also lead to persistent or even rising external imbalances. The COVID-19 shock has accentuated preexisting and interconnected vulnerabilities of corporate, bank and government balance sheets. which will weigh on China's growth. On the upside, a swift and widespread rollout of an effective vaccine would boost consumer and business confidence and support stronger growth.

Navigating near-term uncertainty will require an adaptive policy framework that is carefully calibrated to the pace of the recovery both in China and the rest of the world. A premature policy exit and excessive tightening could derail the recovery. Along with flexible and supportive monetary policy, China could use its fiscal space to hedge against downside risks to growth and ensure a smooth rotation from public to private demand.

Over the medium term, market oriented, structural reforms would help avoid a sharper decline in potential growth, reduce external imbalances and lay the foundation for a more resilient and inclusive economy. Establishing a unified social security system with portable pension and employment benefits for rural and urban residents would reduce inequality, lower the need for precautionary savings and therefore help boost consumption-based growth.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	6.8	6.0	2.3	8.1	5.4	5.3
Private Consumption	9.5	6.6	-1.0	11.5	6.0	5.8
Government Consumption	10.4	8.4	9.7	7.2	8.1	8.0
Gross Fixed Capital Investment	5.3	4.5	1.4	5.8	4.1	4.0
Exports, Goods and Services	4.0	2.5	1.6	5.4	3.3	3.3
Imports, Goods and Services	7.9	1.0	-1.7	6.0	3.5	3.5
Real GDP growth, at constant factor prices	6.8	6.1	2.3	8.1	5.4	5.3
Agriculture	3.3	3.3	3.0	3.4	3.3	3.3
Industry	5.8	5.6	2.3	6.5	4.7	4.7
Services	8.1	6.9	2.2	10.0	6.2	6.0
Inflation (Consumer Price Index)	2.1	2.9	2.5	1.8	2.0	2.0
Current Account Balance (% of GDP)	0.2	1.0	2.0	1.4	1.1	0.9
Net Foreign Direct Investment (% of GDP)	0.7	0.4	0.7	0.7	0.8	0.8
Fiscal Balance (% of GDP)[a]	-4.6	-6.4	-11.8	-8.5	-7.1	-6.6
Debt (% of GDP)	38.6	42.0	52.3	56.0	59.3	61.8
Primary Balance (% of GDP)	-3.6	-5.1	-10.7	-7.2	-5.7	-5.0
International poverty rate ($1.9 in 2011 PPP)[b]	0.3	0.3	0.3	0.2	0.2	0.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b]	3.7	3.1	2.8	2.2	1.8	1.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b]	19.5	17.5	16.7	14.4	12.9	11.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
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 2016 provided by NBS. Projections based on per capita GDP growth estimates, using a neutral distribution assumption with pass through 0.72 to per capita household consumption.

FIJI

Table 1	2020
Population, million	0.9
GDP, current US$ billion	4.2
GDP per capita, current US$	4678.3
International poverty rate ($1.9)[a]	0.5
Lower middle-income poverty rate ($3.2)[a]	7.5
Upper middle-income poverty rate ($5.5)[a]	35.8
School enrollment, primary (% gross)[b]	116.5
Life expectancy at birth, years[b]	67.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2013), 2011 PPPs.
(b) WDI for School enrollment (2019); Life expectancy (2018).

Decimated by the COVID19 pandemic, the economy contracted by 19 percent in 2020, the fourth most severe contraction in the world. Tourism, the life blood of the economy, is at a virtual standstill, trade flows are disrupted, and business activities are curtailed. The impact on livelihoods is severe and exacerbated by three severe tropical cyclones. One third of the total workforce is now unemployed or on reduced working hours and much of the population is exposed to a greater risk of poverty.

Key conditions and challenges

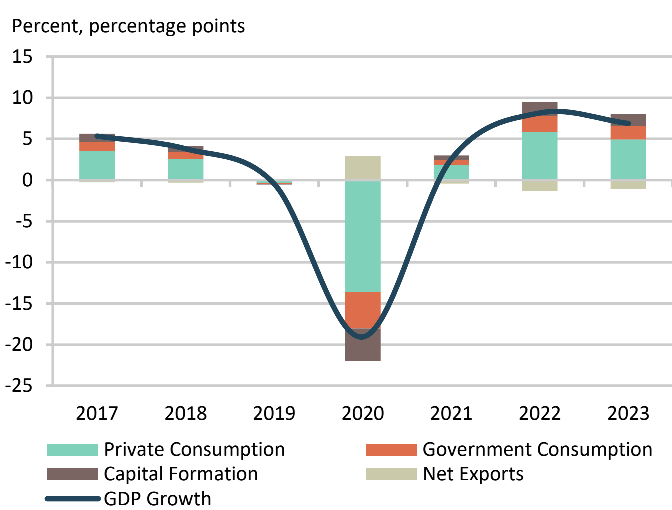
Fiji is a small island nation in the South Pacific Ocean with a population of about 900,000. Remoteness, natural hazards and climate change represent major obstacles to development. Prior to COVID-19, tourism—the main driver of the economy and a major source of foreign exchange—contributed nearly 40 percent of GDP, with close to 900,000 visitor arrivals in 2019. Agriculture is the main source of livelihood for nearly half of rural Fijians, although it contributed roughly 8 percent of GDP prior to COVID-19. The country is highly vulnerable to extreme weather conditions and on a tropical cyclone belt. On average, one cyclone passes through Fijian waters each year, but climate related events have become more frequent. Recent growth was underpinned by robust tourism, rising household consumption and extensive reconstruction after Tropical Cyclone (TC) Winston. TC Winston caused extensive damage and losses in 2016 amounting to FJ$2.9 billion (US$1.5 billion; nearly 20 percent of GDP).

The Government's success in the fight against COVID-19 virus has largely prevented direct health impacts but the economic impact has been devastating. The overall impact of the COVID-19 pandemic will depend on how it continues to unfold. More protracted travel restrictions in Fiji's key tourism markets, Australia and New Zealand, will slow the pace of recovery. Sluggish growth in the global economy will also challenge recovery. Fiji also faces the ever- present threat of natural disasters and the environmental risk is significant. The disasters and rising expenditures have eroded fiscal space in the last five years. Natural disasters not only undermine macroeconomic stability but also divert the bureaucracy, which in ideal circumstances is limited and spread thin, to recovery efforts, thereby delaying essential responses and fiscal consolidation. The structural reform agenda includes building climate resilience and creating a more supportive environment for private-sector-led growth, which will require a modernization of the legal and regulatory framework.

Recent developments

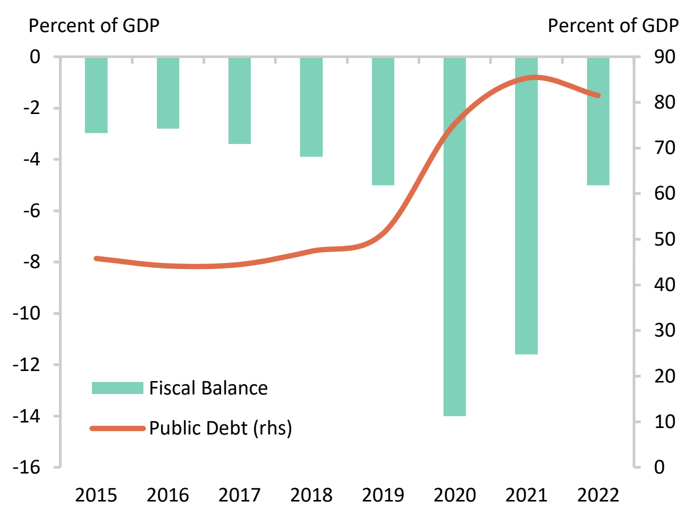
The COVID-19 pandemic presents Fiji with an economic crisis of unprecedented scale with an expected contraction of 19 percent in 2020. International travel restrictions brought tourism to a virtual standstill. This caused a ripple effect on all segments of the economy, had a negative impact on related industries such as retail trade, transport and finance and spillover effect on consumption, finance and investment. Strict measures to contain COVID-19 have also impaired economic activity, leading to 115,000 Fijians becoming unemployed or working reduced hours. Fiji was also hit by Category 4 Tropical Cyclone (TC) Harold in April 2020, Category 5 TC Yasa in December 2020 and Category 3 TC Ana in January 2021. The compounded

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



Sources: Ministry of Economy and World Bank staff estimates.

FIGURE 2 Fiji / Fiscal balance and public debt



Sources: Ministry of Economy and World Bank staff estimates.

effect of lost livelihoods across sectors (tourism from COVID-19 and agriculture from the TCs) and asset damage from the multiple shocks exposes much of the population to a greater risk of poverty.

The shocks strained fiscal buffers and upended short-term fiscal policy goals. Prior to the shocks, the ratio of tax revenue to GDP averaged 24 percent—higher than the average for East Asia and the Pacific - and the Government was implementing an expenditure-based fiscal consolidation. The shocks reversed these trends pushing the fiscal deficit in FY2020[1] to 9 percent of GDP, a substantial increase from the 2.7 percent originally budgeted. Borrowing to close the fiscal gap raised the debt-to-GDP ratio to 65.5 percent in FY2020, from 49.3 percent the prior year. The Central Bank cut the overnight policy rate to 0.25 percent in the first quarter of 2020 in response to the pandemic. Inflation has been negative since October 2019 and decelerated to a historic low of -2.8 percent at end-December 2020 on account of lower food and fuel prices and the domestic slowdown. Tourism receipts dropped 80 percent in 2020 putting pressure on the balance of payments and widening the current account balance to 15.7 percent of GDP. Foreign reserves remained stable, US$1,022 million at end-December 2020, equivalent to 8.1 months of imports cover.

Outlook

Economic recovery hinges on when international borders can reopen and renewed appetite for tourism. The economy is forecast to grow by 2.6 percent this year and rebound to an average of 7.5 percent in 2022 -2023. But this assumes borders reopen in the second half of 2021 and a gradual easing of travel restrictions brings international arrivals back up to pre-crisis levels by 2023. The tourism sector accounts for around 40 percent of the economy and is expected to be the main driver of growth, with domestic demand picking up as the labor market and business activity rebound.

The fiscal deficit is expected to widen to 13 percent of GDP in FY2021 but to gradually decline thereafter to 3.9 percent by FY2024, as the Government reverts to its fiscal consolidation strategy. The strategy combines targeted time-bound revenue and expenditure measures and maximization of concessional financing to cover deficits. The goal is to increase in tax revenue from a projected 18 percent of GDP in FY2021 to 19.4 percent by FY2024 and reduce expenditures to around 29.2 percent of GDP by FY2022 and 25.9 percent of GDP by FY2024. The risks of debt distress have heightened with the debt-to-GDP ratio forecast to climb to 81.1 percent in FY2021, reflecting borrowing to counter the impact of COVID-19 and the contraction in GDP. However, debt management policies are prudent and public debt is assessed as sustainable over the medium-term assuming growth resumes, tourism rebounds and the fiscal consolidation measures are implemented setting the debt-to-GDP ratio on a downward trajectory. The balance of payments is projected to improve as international tourism receipts rebound and exports recover. The current account deficit is forecast to narrow to 12.5 percent of GDP in 2021 and improve steadily thereafter to 6.1 percent of GDP by 2023 as international tourism receipts rebound, exports recover and measures to attract foreign investors take hold.

1/ The Fiji Government fiscal year is from August to July.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.5	-0.4	-19.0	2.6	8.2	6.9
Real GDP growth, at constant factor prices	2.3	0.5	-13.9	1.5	8.1	6.7
Agriculture	3.7	4.4	4.0	3.2	2.9	2.8
Industry	5.5	-0.4	-6.6	1.6	3.1	4.9
Services	1.2	0.2	-18.8	1.2	10.9	8.0
Inflation (Consumer Price Index)	4.8	2.0	-2.8	1.0	1.8	2.0
Current Account Balance (% of GDP)	-8.6	-12.7	-15.7	-12.5	-7.3	-6.1
Fiscal Balance (% of GDP)	-3.9	-5.0	-14.0	-11.6	-5.0	-4.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

INDONESIA

Table 1	2020
Population, million	273.6
GDP, current US$ billion	1058.4
GDP per capita, current US$	3868.5
International poverty rate ($1.9)[a]	2.7
Lower middle-income poverty rate ($3.2)[a]	19.9
Upper middle-income poverty rate ($5.5)[a]	52.2
Gini index[a]	38.2
School enrollment, primary (% gross)[b]	106.4
Life expectancy at birth, years[b]	71.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) Most recent WDI value (2018).

The COVID-19 crisis risks deepening Indonesia's challenges of accelerating medium-term growth, creating middle class jobs, and financing the twin deficit in a stable and sustainable manner. The government is working on landmark reforms to attract foreign investment and strengthen competitiveness which could improve medium-term prospects. In the near term, the government maintains a substantial fiscal package to fight the pandemic, provide relief and support the recovery.

Key conditions and challenges

Indonesia's economy diversified in past decades but suffers from weak competition, limited openness to trade, relatively low human capital, and under-developed financial markets.

Employment saw robust growth in the previous decade, but most jobs were created in low productivity services such as trade, transport, and hospitality. These sectors are contact-dependent and have been more severely impacted by the COVID-19 crisis. They also host many informal workers, which raises challenges for the social protection response to the crisis. The impact of the pandemic on labor income also risks reversing some of the strong poverty reduction gains in the past decade.

The COVID-19 crisis heightens Indonesia's long-standing challenges of financing its development needs and current account in a stable and sustainable manner. Tax revenues are low compared to peer countries (10.6 percent of GDP in 2010-2019) and Indonesia is dependent on volatile portfolio flows whilst FDI is low.

Recent developments

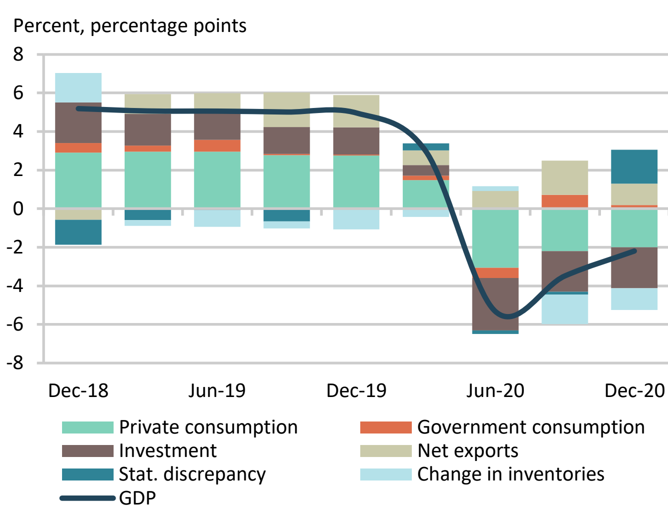
The economy went into recession in 2020 (-2.1 percent growth) for the first time in two decades. This was caused by a sharp drop in domestic demand due to social distancing and high uncertainty. This was only partially offset by increased public spending to support the health sector, households, and firms. Net exports contributed positively to growth as imports plummeted due to weak domestic demand.

Consumer confidence remains pessimistic during the first two months of 2021 amid surging COVID-19 cases and despite positive signals on vaccine rollout. Retail sales are subdued pointing to weak private consumption growth, but manufacturing shows signs of stronger recovery driven by more upbeat external demand and commodity prices.

The crisis adversely impacted employment and labor income. Unemployment rose from 6.3 to 7.1 percent and underemployment increased from 6.4 to 10.2 percent in the third quarter of 2020 compared to the year before. As a result, the national poverty rate increased from 9.8 to 10.2 percent between March and September 2020, its highest level since 2017. A World Bank household survey found that employment recovered partially during the second half of 2020, but many Indonesians still work and earn less than before the crisis. Food insecurity risks remain elevated in some segments of the population.

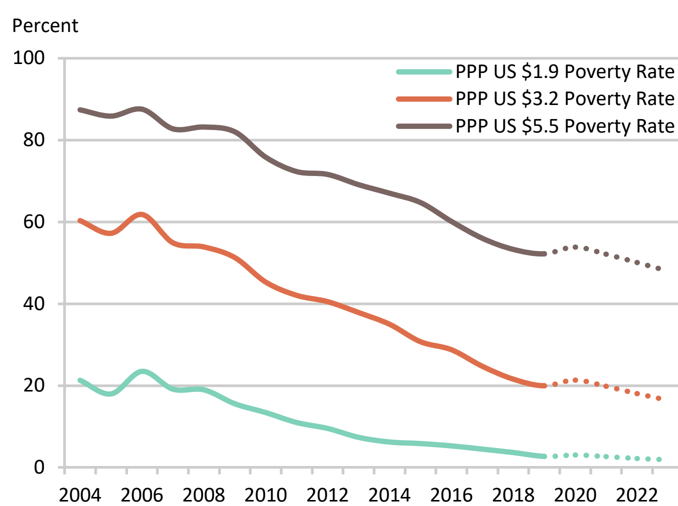
Fiscal and monetary authorities responded boldly to cushion the impact of the COVID-19 shock. Bank Indonesia (BI) cut its policy rate by 150 basis points to 3.5 percent between February 2020 and March 2021. It also eased monetary conditions through liquidity injections and relaxed monetary regulations, including a large local currency government bond

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



Sources: National Statistics Agency; World Bank.

FIGURE 2 Indonesia / Poverty rates, actual and projected



Sources: National Statistics Agency; World Bank.
Note: Forecast is from 2020 onwards, based on unmitigated circumstances.

purchase program (3.7 percent of GDP of which 3.0 percent of GDP in the primary market) to stabilize markets and help finance the fiscal deficit.

In February 2021, the government increased the 2021 COVID-19 fiscal response package from 2.4 to 4.2 percent of GDP. This will finance the COVID-19 vaccination campaign, social protection, and MSME support programs. The COVID-related spending increase will be offset by reductions to non-priority public spending to keep the deficit within the approved Budget. The financing plan has not been fully communicated but some level of Central Bank deficit financing is expected to remain this year with the central bank acting as a stand-by buyer.

Outlook

The economy is projected to rebound to 4.4 percent in 2021 driven by a base effect and a gradual improvement in consumer spending and stronger global growth and export commodity prices. Growth could strengthen to 5.0 percent in 2022 assuming successful rollout of COVID-19 vaccines.

Growth in contact-intensive services sectors is expected to remain muted in 2021-2022 while a stronger recovery in advanced countries and some emerging market economies would support growth in mining and export-oriented manufacturing sectors.

Potential growth is projected to drop to 4.6 percent in 2021-2023 from 5.2 percent before the crisis owing to the scarring effects of COVID-19 largely driven by weak investment. Indonesia's medium-term prospects therefore depend on structural reforms to protect and lift potential growth. The recently approved Omnibus Law on Job Creation would be an important step in this direction if well implemented.

The current account deficit (CAD) is expected to be contained in the short term but to gradually widen as domestic demand recovers. Stronger external buffers, a more stable Rupiah, and low inflation provide BI with some room to ease monetary policy and support the recovery through 2021 if warranted. But external pressures could build up as advanced economies recover and adjust their monetary and fiscal policies.

The fiscal deficit would remain above 3.0 percent until 2023, leading to elevated financing needs (8-9 percent of GDP) and higher public debt (43.0 percent of GDP in 2023). The increased level of interest payments would put pressure on fiscal space in the medium term absent a strong recovery and revenue reforms.

International poverty rate (based on US$3.2 per day threshold for lower-middle income countries) is projected to fall from 2021 onwards to 19.8 and 16.4 percent in 2021 and 2023, respectively. The pace in poverty reduction is expected to slow down in the context of slow economic recovery in the coming years. Long-term efforts are crucial to reverse potential setbacks from lower human capital accumulation, asset depletion and uneven economic recovery.

Risks to the outlook are severely tilted to the downside. Growth could reach only 2.1 percent in 2021 and 3.1 percent in 2022 in a downside scenario of reduced mobility or depressed consumer confidence in Indonesia and a worsening of external conditions. These developments could result a from failure to contain the pandemic, slower than expected vaccination, weaker than expected external demand or sudden stop or reversal in capital flows.

The government ordered a total of 329.5 million doses of COVID-19 vaccines from various sources – of which 28 million doses have been received as of early February - and committed to providing free vaccines to all citizens. The vaccination campaign was launched in mid-January and the government expects to vaccinate all citizens aged 18 years and above (70 percent of the population) by March 2022. But the availability of vaccines and Indonesia's large population and territory are significant hurdles to rapid mass vaccination.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	5.2	5.0	-2.1	4.4	5.0	5.1
Private Consumption	5.1	5.2	-2.7	4.2	4.6	5.1
Government Consumption	4.8	3.3	1.9	3.1	3.8	3.3
Gross Fixed Capital Investment	6.7	4.5	-4.9	3.9	4.8	5.5
Exports, Goods and Services	6.5	-0.9	-7.7	5.3	6.2	7.0
Imports, Goods and Services	12.1	-7.4	-14.7	3.7	4.1	7.5
Real GDP growth, at constant factor prices	4.9	5.0	-1.6	4.1	5.0	5.1
Agriculture	3.9	3.6	1.8	3.7	3.8	3.9
Industry	4.3	3.8	-2.8	5.5	4.3	4.4
Services	5.8	6.4	-1.4	2.9	6.0	6.1
Inflation (Consumer Price Index)	3.3	2.8	2.0	2.3	2.8	3.2
Current Account Balance (% of GDP)	-2.9	-2.7	-0.4	-1.4	-1.6	-2.0
Net Foreign Direct Investment (% of GDP)	1.2	1.8	1.3	1.2	1.4	1.5
Fiscal Balance (% of GDP)	-1.8	-2.2	-6.2	-5.4	-4.1	-3.0
Debt (% of GDP)	30.4	30.0	39.4	41.2	42.6	43.0
Primary Balance (% of GDP)	-0.1	-0.5	-4.2	-3.2	-1.9	-0.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.6	2.7	3.0	2.6	2.2	1.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	21.6	19.9	21.4	19.8	18.1	16.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	53.3	52.2	53.9	52.1	50.1	48.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on EAPPOV harmonization, using 2011-SUSENAS, 2018-SUSENAS, and 2019-SUSENAS data.
Actual data: 2019. Forecast is from 2020 to 2023 and based on unmitigated circumstances.

(b) Projection using annualized elasticity (2011-2019) with pass-through = 1 based on GDP per capita in constant LCU.

LAO PDR

Table 1	2020
Population, million	7.3
GDP, current US$ billion	18.1
GDP per capita, current US$	2489.3
National Official Poverty Rate[a]	18.3
International poverty rate ($1.9)[a]	10.0
Lower middle-income poverty rate ($3.2)[a]	37.4
Upper middle-income poverty rate ($5.5)[a]	38.8
School enrollment, primary (% gross)[b]	100.0
Life expectancy at birth, years[b]	67.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) National Statistics Office. Most recent value (2018).
(b) WDI for School enrollment (2019); Life expectancy (2018).

Lao PDR's long-standing structural vulnerabilities have been exacerbated by the COVID-19 outbreak. Falling revenue collection, limited reserve buffers and mounting public debt service— coupled with the decision to not participate in the G-20 debt services suspension initiative— have forced the government to take costly refinancing options, exacerbating the country's future fiscal burden and the macro situation. Limited fiscal space and hence constrained response to the pandemic, threaten to reverse gains made in poverty reduction.

Key conditions and challenges

The COVID-19 pandemic has intensified existing structural vulnerabilities, leading to deterioration of macroeconomic conditions. Despite some administrative reforms, domestic revenue has dropped sharply, worsening the fiscal situation. The public debt stock is estimated to have increased to 65 percent of GDP in 2020, from 59 percent in 2019. Rising debt levels and a growing proportion of non-concessional borrowing have significantly increased external debt-service payments to around US$1.1 billion a year in the medium term. In addition, credit rating downgrades by Fitch and by Moody's, the growing fiscal imbalance, and limited domestic financing options have led to higher external borrowing costs. Several recent attempts to borrow on external commercial markets have failed, but the government maintains that it will be able to meet debt service obligations for 2021.

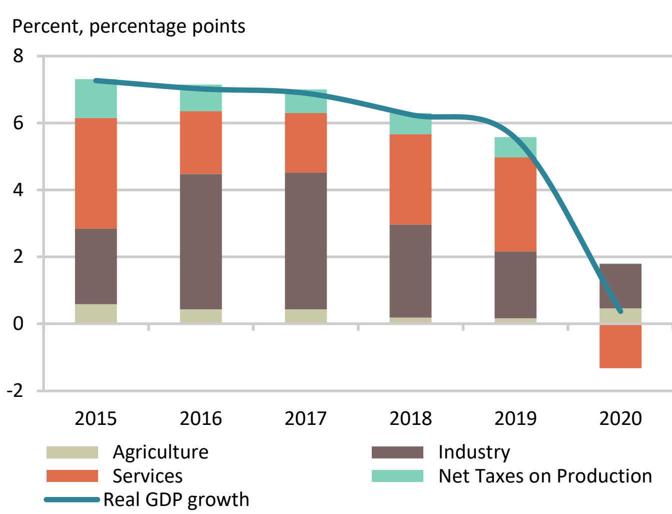
The COVID-19 outbreak has slowed progress against poverty. While steps taken to contain the pandemic, such as travel restrictions and social distancing measures, have been highly successful, these have also resulted in job losses and income reduction. Declining economic activity has pushed the unemployment rate to 23.4 percent while the return of large numbers of migrants from abroad has meant a substantial loss in remittances, which are a major source of income for nearly 10 percent of households. Elevated food inflation has eroded households' purchasing power and the poverty rate (measured as $3.2 a day, 2011 PPP) is expected to increase by at least 1.7 percentage points in 2020, as compared with a non-COVID -19 scenario.

Recent developments

The COVID-19 outbreak has caused growth to further slow. The pandemic has mainly affected tourism-related services and light manufacturing, with demand falling and supplies disrupted during lockdown. Growth is estimated at 0.4 percent for 2020, the lowest level in three decades. The growth estimate was revised upward from the October projection due to strong exports, robust agricultural growth, gradual revivals in manufacturing and domestic transportation, plus financial support to firms affected by the slowdown.

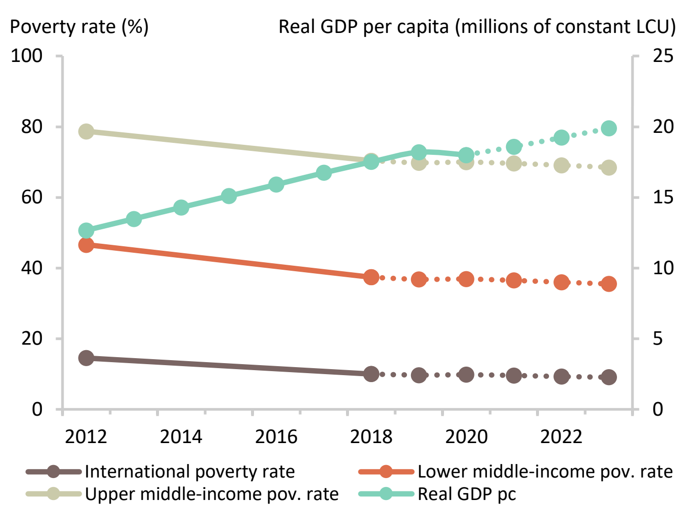
Despite a tightening of expenditure, significant revenue shortfalls have heightened fiscal stress and the public debt burden. In February 2021 the government estimated that domestic revenues were 20 percent below target . With expenditure almost 13 percent below the planned figure, the budget deficit stood at about 5.6 percent of GDP in 2020. Reform of power sector state enterprise is underway and may assist with the budget in future, but progress is slow.

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



Sources: Lao Statistics Bureau, World Bank staff estimates.

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



Sources: World Bank. Notes: see Table 2.

After two failed attempts, a third roadshow is taking place to offer $350 million of bonds so that the government can rollover commercial debts which mature in 2021. In addition, longstanding negotiations on debt rescheduling with China continue. Debt to China accounts for almost 45 percent of total debt stock.

Foreign reserve buffers remain low. Reserves rose to $1.3 billion in December, mostly due to a swap line with the People's Bank of China. A shortage of foreign currency has widened the gap between the official and parallel markets. The gap stood at about 8 percent in early 2021. The government is working with major foreign investors to improve fund flow mechanism in order to increase foreign currency circulation in the economy.

Outlook

Growth is expected to gradually rebound in the medium term, but will remain far below pre-pandemic levels. Gradual recovery is expected to be supported by infrastructure investment, improved services sector performance and increased private consumption. However, the outlook is challenged by downside risks, including natural disasters, slow recovery in key trading partners, a prolonged COVID-19 outbreak and delayed vaccine rollout, heightened difficulties in meeting external public debt service obligations, and financial sector vulnerabilities.

Easing fiscal and public debt pressures depends on progress with revenue reforms and macroeconomic stability. Mounting debt payments, totaling about $1.1 billion annually over 2022–25, and the deteriorating macroeconomic situation will force the country to borrow at higher rates. Concerted efforts are needed to strengthen revenue mobilization, expand the tax base, improve debt management and transparency, and implement public financial management reforms to gradually restore macro stability.

In addition to restoring macro stability, structural reforms are necessary to fully benefit from better connectivity and regional integration in the medium to longer term. Lao PDR needs to accelerate reforms to the business environment, promote links to regional value chains, and invest in human capital. Only then can the country maximize returns from the Lao-China railway, set to open at the end of this year; preferential trade agreements, especially with China; and the newly signed Regional Comprehensive Economic Partnership (RCEP).

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	6.3	5.5	0.4	4.0	4.6	4.7
Real GDP growth, at constant factor prices	6.3	5.5	0.4	4.0	4.6	4.7
Agriculture	1.3	1.2	3.2	2.8	3.1	3.1
Industry	7.8	5.6	3.6	5.4	4.0	3.7
Services	6.8	7.0	-3.4	3.2	5.7	6.2
Inflation (Consumer Price Index)	2.0	3.3	5.1	5.0	5.0	5.0
Current Account Balance (% of GDP)	-11.5	-8.0	-2.8	-3.9	-5.6	-5.8
Fiscal Balance (% of GDP)	-4.7	-5.1	-5.6	-5.3	-4.7	-4.0
Debt (% of GDP)	57.2	58.4	64.5	66.7	65.1	61.4
Primary Balance (% of GDP)	-3.0	-3.1	-3.5	-3.2	-2.7	-2.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	10.0	9.7	9.8	9.6	9.3	9.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	37.4	36.8	36.9	36.5	36.0	35.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	70.4	69.8	70.0	69.6	69.1	68.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on EAPPOV harmonization, using 2012-LECS and 2018-LECS.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.

(b) Projection using annualized elasticity (2012-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

MALAYSIA

Table 1	2020
Population, million	32.4
GDP, current US$ billion	336.7
GDP per capita, current US$	10401.8
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.3
Upper middle-income poverty rate ($5.5)[a]	2.9
Gini index[a]	41.1
School enrollment, primary (% gross)[b]	105.3
Life expectancy at birth, years[b]	76.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2018).

The economy contracted by 5.6 percent in 2020, its sharpest slowdown since 1998. A resurgence in infections and reinstatement of stringent movement restrictions have dampened near-term recovery prospects. Unemployment remained elevated at 4.8 percent in the fourth quarter, above the pre-pandemic rate of 3.2 percent. Following the severe collapse in 2020, the Malaysian economy is projected to grow by 6 percent in 2021, supported by the gradual strengthening of domestic demand following vaccine deployment and cautious improvement in external demand.

Key conditions and challenges

Malaysia faces several structural constraints. Although the country is expected to transition from an upper middle-income to a high-income economy at some point between 2024 and 2028, growth has been on a declining trend since the Asian Financial Crisis because of lower productivity growth and the quality of human capital. Malaysia also has limited fiscal space at a time when adequate government spending is needed to protect vulnerable households, strengthen health sector capacity and provide support to the economy.

Malaysia is experiencing a spike in COVID-19 infections. After successfully containing and mitigating the spread of the virus in the first half of 2020, there has been a surge in infections since mid-September. As a result, stricter mitigation measures were re-introduced in October, and further tightened in January 2021. These measures have included travel restrictions, stricter social distancing rules and temporary closure of non-essential businesses. Some restrictions have been gradually eased since February.

The pandemic has also highlighted the weak aspects of Malaysia's social protection system, which is fragmented and does not cover an estimated 40 percent of Malaysian workers. Most of those not covered are informal workers or self-employed, who have endured the most severe income and employment losses during the pandemic. The crisis has strained savings buffers that were already chronically low for a large segment of low- and middle-income Malaysian households.

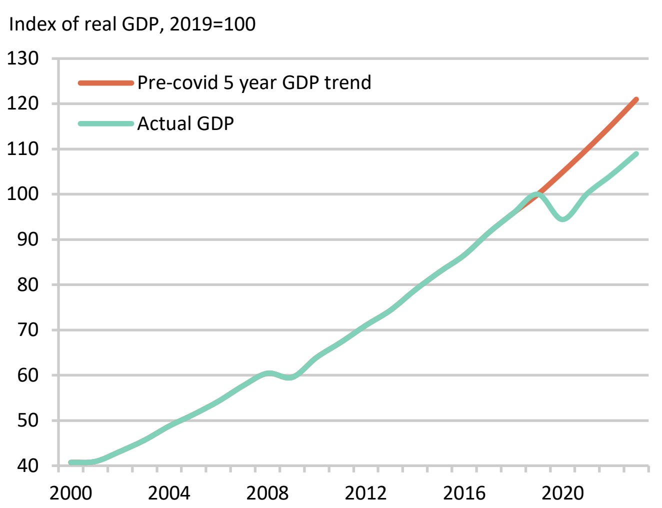
In addition to the impact of the COVID-19 pandemic, domestic political uncertainty also poses a near-term challenge to the economy. Since January 14, 2021 the country has been placed under a state of emergency, which is likely to dampen investors' confidence.

Recent developments

The COVID-19 pandemic and the accompanying mitigation measures have significantly affected the Malaysian economy. Real output contracted by 3.4 percent in Q4 2020 and by 5.6 percent over the entire year. Domestic economic activity in Q4 2020 was adversely affected by the reintroduction of stricter mitigation measures.

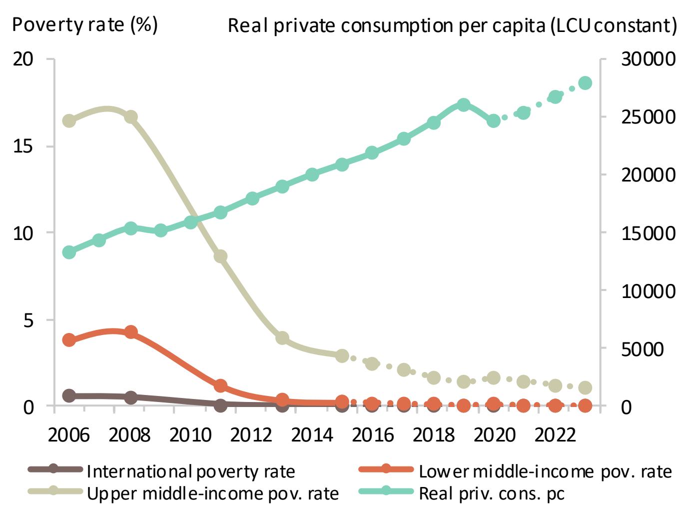
Domestic demand was weaker in Q4 2020. Private consumption registered its third consecutive contraction in the fourth quarter as household spending declined due to movement restrictions and a decline in incomes. Gross fixed capital formation fell, affected by the uncertainty surrounding the pandemic and ongoing domestic political developments. Net exports remained resilient in the second half of 2020, benefitting from robust exports of electrical and electronic products and rubber gloves. This helped to partially offset the weakness in domestic demand.

FIGURE 1 Malaysia / Real GDP levels: Actual vs pre-covid trend



Sources: World Bank; Macro Poverty Outlook.

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



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

On the supply side, the services sector fell for the third consecutive quarter and was a major drag on overall growth. An increase in manufacturing exports led output in the sector to expand for two consecutive quarters. The agriculture, mining, and construction sectors all contracted in Q4 2020.

Unemployment remained elevated at 4.8 percent in the fourth quarter, well above the pre-pandemic rate of 3.2 percent. Weak labor market conditions have raised absolute and relative poverty across Malaysia and particularly in urban areas. During 2020, an estimated 150,000–300,000 additional people fell below the national poverty line, which is approximately US$10/person/day (2011 PPP). Inflation continued to moderate and access to finance remained sufficiently accommodative.

Substantial support from five successive economic packages between 2020-21 amounting to approximately 20 percent of GDP helped to mitigate the impact of the pandemic. Accommodative monetary policy, with the central bank making a cumulative 100-basis-point cut in the overnight policy rate in 2020, ensured that financing conditions remained supportive of economic activities.

Outlook

The economy is projected to grow by 6 percent in 2021, a more moderate pace than previously estimated. The projection was revised downward by 0.7 percentage points since the AM2020 MPO because of the increase in COVID-19 infections in the country, political uncertainty and slower than expected vaccine rollout in advanced economies. Growth is expected to be supported by the gradual strengthening of domestic demand following vaccine deployment beginning March, 2021 and cautious improvements in external demand. The strength and timing of Malaysia's economic recovery, however, will depend largely on the timely availability of an effective mass vaccination program. The vaccination program is expected to cover at least 30 percent of the population by August 2021. Nevertheless, it is anticipated that in the medium term, output for the economy is unlikely to return to the levels seen before the pandemic.

The growth outlook is subject to considerable downside risks. On the external front, further delays in the implementation of vaccination programs could lead to recurrent lockdowns in advanced economies and dampen global growth.

Upside risks include a successful mitigation of the third wave and an effective roll out and implementation of vaccination programs. This could lead to a faster than expected recovery in domestic demand and greater investor confidence.

The number of Malaysians living below the national poverty line is projected to decrease gradually and remain at pre-pandemic levels until 2022. This projection is predicated on the assumption that recovery in household employment and incomes is likely to be uneven, with tourism and other high-contact service occupations expected to be among the slowest to improve. The projection is also contingent upon a substantial rebound in employment and continued government relief measures to protect poor and vulnerable households pending the full recovery of the economy.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.8	4.3	-5.6	6.0	4.2	4.4
Private Consumption	8.0	7.6	-4.3	4.5	6.2	5.9
Government Consumption	3.2	2.0	4.1	2.0	1.2	1.0
Gross Fixed Capital Investment	1.4	-2.1	-14.5	6.5	3.7	3.2
Exports, Goods and Services	1.9	-1.3	-8.8	7.9	4.9	4.4
Imports, Goods and Services	1.5	-2.5	-8.3	6.2	5.3	4.4
Real GDP growth, at constant factor prices	5.0	4.4	-5.6	6.0	4.2	4.5
Agriculture	0.1	2.0	-2.2	4.3	2.7	2.7
Industry	3.3	2.3	-6.1	6.7	3.4	3.6
Services	6.9	6.1	-5.7	5.7	5.0	5.2
Inflation (Consumer Price Index)	1.0	0.7	-1.1	1.7	1.8	1.9
Current Account Balance (% of GDP)	2.2	3.4	4.4	3.7	2.9	2.8
Net Foreign Direct Investment (% of GDP)	2.3	2.5	1.2	1.8	2.0	2.1
Fiscal Balance (% of GDP)	-3.8	-3.4	-6.2	-6.0	-4.6	-4.3
Debt (% of GDP)	51.2	52.5	62.2	62.7	63.7	63.8
Primary Balance (% of GDP)	-1.7	-1.2	-3.8	-3.7	-2.3	-2.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.1	0.1	0.1	0.1	0.1	0.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	1.7	1.4	1.6	1.5	1.2	1.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on EAPPOV harmonization, using 2011-HIS and 2015-HIS.Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021 to 2023.

(b) Projection using annualized elasticity (2011-2015) with pass-through = 0.7 based on private consumption per capita in constant LCU.

MONGOLIA

Table 1	**2020**
Population, million	3.3
GDP, current US$ billion	13.3
GDP per capita, current US$	4047.8
National Official Poverty Rate[a]	28.4
Gini index[a]	32.7
School enrollment, primary (% gross)[b]	104.0
Life expectancy at birth, years[b]	69.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) National Statistics Office. Most recent value (2018).
(b) Most recent WDI value (2018).

Hit by the COVID-19 crisis, Mongolia's economy experienced the worst contraction since the 1990s, but is expected to recover quickly supported by government relief packages, global economic recovery and the rollout of vaccines. The generous transfers have been helpful in keeping households and firms afloat. However, Mongolia needs to return to a fiscal consolidation path to stabilize public debt. The return to substantial quasi-fiscal activities to stimulate the economy will lead to a further build-up in contingent liabilities and renewed external imbalances. Other risks include domestic outbreaks, extreme weather and financial fragility.

Key conditions and challenges

The mining-led development model of Mongolia has brought rapid growth (7.6 percent over the past 15 years). However, policies in general are excessively focused on preserving the mining-driven prosperity at the risk of future stagnation. Mongolia faces deep-rooted, interrelated challenges: extreme macroeconomic volatility, negative productivity growth, overutilization of natural capital, slower pace of poverty reduction, underutilization of human capital and deteriorating institutional quality. Such complacency is ill-timed when climate change concerns and the COVID-19 shock require an acceleration of structural transformation towards sustainability and resilience.

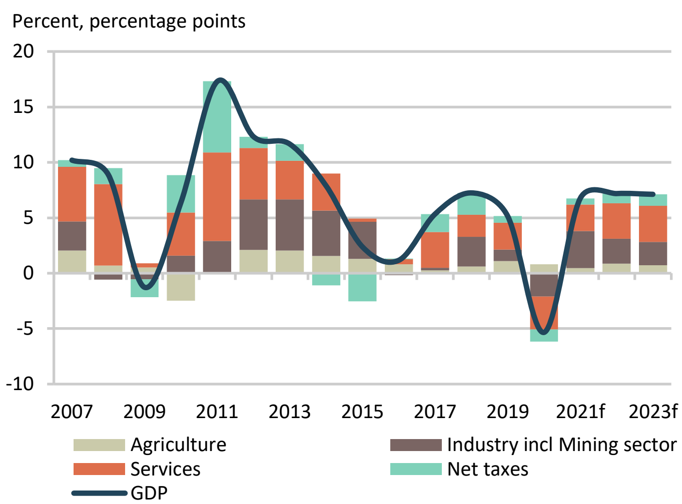
Striving to prevent the risk of COVID-19 contagion, the authorities have been implementing strict travel and social distance restrictions. These measures have helped contain the worst health effects of the pandemic. To mitigate the economic impact the government rolled out a generous relief package focused on supporting households and firms. The stimulus measures are helping to mitigate the income impact, yet a sustainable economic recovery will depend on the roll out of vaccines and global recovery.

The current support measures are expected to be in place until July 2021 (totaling 11 percent of GDP). While an abrupt withdrawal of the generous support amid the strict lockdowns could create difficulties for the households and firms, the fiscal space to carry on is limited. Mongolia therefore will need to transition from short-term relief measures to accelerating recovery and building resilience. The recently announced quasi-fiscal package (a total cost of US$3.5 billion in 2021-23) would accelerate the recovery. However, such a massive injection of stimulus (over 20 percent of GDP) on top of equally large relief package runs the risk of overheating the economy, leading to growing external imbalance, inflationary pressures, higher fragility of financial sector, and contingent fiscal burden. Such developments would erode confidence, lead to currency pressures and capital outflows, and require harsher austerity measures to reestablish macroeconomic stability.

Recent developments

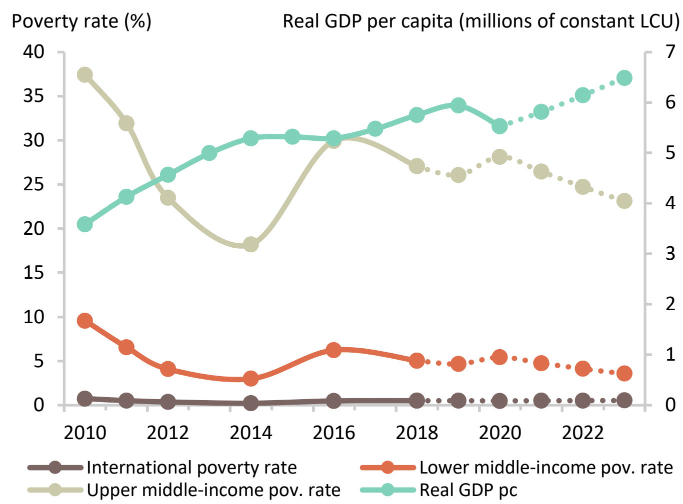
The economic impact of the COVID-19 pandemic has been severe and widespread. In 2020, the Mongolian economy contracted by 5.3 percent. The mining sector was affected significantly by a sharp decline in demand for key commodities and border closures with China. The services sector was also hit hard by domestic containment measures. In fact, a recent phone-based survey of households reported that the pandemic particularly affected those employed in industry, tourism, hospitality, transportation and trade and led to widespread reductions in labor incomes. It found that the government's

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



Sources: National Statistics Office.

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



Sources: World Bank. Notes: see Table 2.

social assistance has generally been helpful in mitigating negative economic impacts for beneficiary households, particularly the poor. Firm-level surveys also indicated that more than a quarter of firms previously surveyed had permanently closed since the COVID-19 pandemic was declared, but that economic support provided by the government allowed many others to continue operating.

Spending on these large stimulus measures, coupled with revenue shortfall amid weaker domestic demand, has resulted in a budget deficit of 9.5 percent of GDP, the largest since 2016. While the fiscal response overall has provided adequate support to firms and households, the size of the deficit has raised questions over its sustainability. In addition to these relief measures (worth 11 percent of GDP in 2020-H12021), the newly announced quasi-fiscal measures raise concern on the public debt sustainability.

The external position improved substantially in the latter half of 2020, exceeding expectations. It was mainly supported by the notable current account adjustment amid a quick recovery of exports and persistent imports compression. Meanwhile, despite a fall in foreign direct investment and sizable private sector external repayments, the balance of payments improved, as the authorities refinanced some external debt under favorable terms. Consequently, the Mongolian tugrug depreciated moderately and the FX reserves reached a historical high of US$4.5 billion, supported also by higher gold purchases by the authorities.

Outlook

After contracting by 5.3 percent in 2020, the Mongolian economy is projected to recover by 6.8 percent in 2021. The forthcoming sizable quasi-fiscal injections are likely to fuel investment and non-mineral sector output through targeted policy loans. Moreover, global economic recovery and rising commodity prices are expected to foster FDI and production in the mining and other mining dependent sectors including transportation. Although the ongoing domestic outbreak and the strict lockdown are likely to continue to limit private consumption and investment in Q1 2021, the authorities are striving to open businesses after testing each household in Ulaanbaatar. Unless the domestic contagion surges further and requires stricter lockdowns, continuation of the fiscal relief measures until mid-2021 and the forthcoming quasi-fiscal injections are likely to support domestic demand, which was already held back by the past strict lockdowns since November 2020.

As a result of the pandemic, poverty is projected to rise in 2020 based on the GDP-elasticity approach but the micro simulation-based projection results, which took into account distributional effects of the government's assistance, suggest that the Child Money Program benefits would eliminate potential welfare loss among poor households. The recovery could be stalled in case the economic weakness exacerbates the financial sector fragility, which is currently shielded by COVID-19 loan forbearance, the agricultural sector is hit by weather shocks, and unchecked injections erode investor confidence.

Following economic recovery, inflation is projected to pick up in 2021–22. In particular, relatively large fiscal spending in 2020 and the forthcoming quasi-fiscal injections are likely to boost the domestic demand and therefore exert pressures on inflation and external balances.

The 2021 budget and the medium-term fiscal framework (MTFF) for 2021–23 (excluding the recently announced package) was broadly consistent with fiscal consolidation and the debt reduction objective. However, medium term fiscal stance could significantly be challenged by potential fiscal risks associated with the forthcoming quasi-fiscal injections.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	7.0	5.0	-5.4	6.8	7.2	7.1
Private Consumption	12.4	9.9	2.7	5.0	6.8	8.0
Government Consumption	-0.8	11.5	16.0	-3.9	1.6	0.6
Gross Fixed Capital Investment	21.3	23.5	-11.8	11.7	20.0	18.0
Exports, Goods and Services	24.0	9.1	-0.1	8.0	10.0	9.8
Imports, Goods and Services	30.9	22.3	-8.9	16.5	11.9	12.0
Real GDP growth, at constant factor prices	7.2	5.2	-5.3	6.8	7.2	7.1
Agriculture	4.5	8.4	6.2	3.0	6.0	5.0
Industry	7.9	3.1	-6.2	10.1	6.6	6.2
Services	7.6	6.0	-8.3	5.5	8.2	8.8
Inflation (Consumer Price Index)	8.1	5.2	2.3	6.5	7.0	8.5
Current Account Balance (% of GDP)	-16.8	-15.4	-4.3	-8.9	-10.7	-10.3
Net Foreign Direct Investment (% of GDP)	16.3	16.5	12.4	14.0	14.8	10.5
Fiscal Balance (% of GDP)	2.6	1.4	-9.5	-2.6	-1.5	-1.3
Debt (% of GDP)	72.7	69.2	78.4	76.9	71.7	67.6
Primary Balance (% of GDP)	5.8	3.6	-6.9	-0.3	0.2	-0.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.5	0.5	0.5	0.5	0.5	0.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	5.0	4.6	5.4	4.7	4.1	3.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	27.1	26.0	28.1	26.4	24.7	23.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on EAPPOV harmonization, using 2016-HSES and 2018-HSES.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.
(b) Projection using annualized elasticity (2016-2018) with pass-through = 1based on GDP per capita in constant LCU.

MYANMAR

Table 1	2020
Population, million	54.4
GDP, current US$ billion	79.9
GDP per capita, current US$	1468.5
Lower middle-income poverty rate ($3.2)[a]	14.9
Upper middle-income poverty rate ($5.5)[a]	54.3
School enrollment, primary (% gross)[b]	112.3
Life expectancy at birth, years[b]	66.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) Most recent WDI value (2018).

In February 2021, the military assumed power in Myanmar, and economic activity has been heavily affected by protests, worker strikes, and military actions; reductions in mobility; and the ongoing disruption of critical public services in addition to banking, logistics, and internet services. These impacts have hit an economy already suffering from the pronounced second surge in COVID-19 cases that began in September 2020. As a result, poverty is likely to increase, and macro-fiscal and financial risks have risen sharply.

Key conditions and challenges

In February 2021 the military assumed power in Myanmar, setting back the country's democratic transition, immediately impacting an economy that had already been weakened by COVID-19, and significantly increasing the uncertainty around the outlook. Domestic activity and trade have been hit by reduced mobility, protests, worker strikes, and the ongoing disruption of key services. While the longer-term implications are difficult to predict at this point, the near-term outlook has worsened considerably. Much will depend on the evolution and persistence of the protests and so-called Civil Disobedience Movement, the actions of the military authorities, and the responses of foreign governments and international investors.

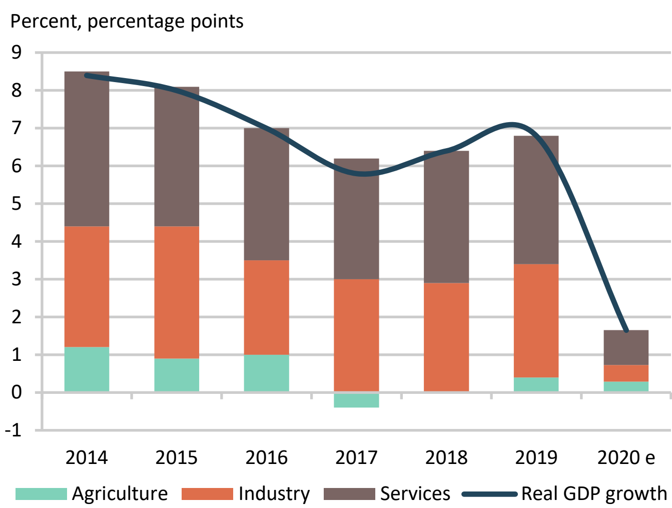
Beginning in late 2020, the surge in COVID-19 cases and second wave of strict containment measures had already struck Myanmar's economy hard. But events since February are likely to have a much larger economic impact in FY2021 (year ended September). Taken together, these shocks have weakened domestic demand and trade, and disrupted businesses' operations and the supply of labor and inputs. Previous gains in poverty reduction are likely to have been substantially unwound. With savings already drained, many poor households have been forced to reduce consumption to cope with income losses. Negative impacts on physical and human capital accumulation will likely constrain the capacity of the economy to grow over the longer-term. At the same time, financial sector risks have been heightened by banking staff shortages, elevated withdrawals, and the debt servicing and cash flow challenges faced by firms.

The fiscal position, already weakened by COVID-19, will be further strained by recent events as they disrupt revenue collection and financing. Fiscal policy is structurally constrained by low revenue collection, with tax revenues at around 6 percent of GDP among the lowest in the world. With limited deficit financing options, low revenues restrict the ability of the government to respond to shocks and limit the envelope for spending on critical public services, which tend to benefit poorer households more.

Recent developments

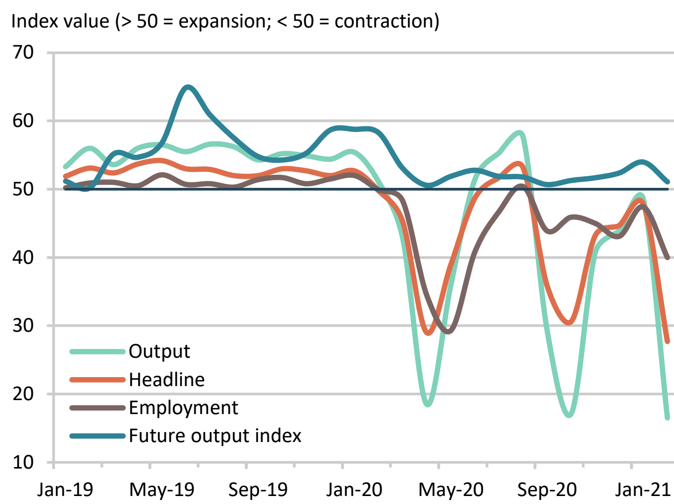
Myanmar's economy is estimated to have grown by 1.7 percent in FY2020, a sharp slowing from 6.8 percent the previous year. In FY2021, the second wave of COVID-19 appears to have had a larger and longer-lasting economic impact than the first. Mobility indicators declined sharply in September and recovered only slowly, remaining significantly below pre-pandemic levels in January 2021. The manufacturing Purchasing Managers' Index (PMI) indicated conditions worsened in each of the months from September 2020

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



Sources: Ministry of Planning and Finance and World Bank staffs estimate.

FIGURE 2 Myanmar / Manufacturing purchasing managers' index (PMI)



Sources: IHS Markit.

to February 2021. Financial vulnerabilities associated with outstanding loans have increased, and half of all firms reported cash flow shortages in December 2020. As of November, more than a third of households' main earners had lost their jobs; of those still working, about half reported earning lower incomes. Workers in the transport and tourism sectors were hardest hit, with 60 percent not working. The agriculture sector has been more resilient, with far fewer workers experiencing a reduction in incomes.

Economic policy measures cushioned some of the economic and social impacts of the pandemic, but were likely insufficient to prevent a substantial increase in poverty. These measures included cash and in-kind transfers to households, soft loans to affected businesses, capital spending, and tax breaks and deferrals. While cash assistance had reached almost half of all households by November, the transfers fell short of meeting needs and food security remains a concern. The fiscal deficit widened to 6.5 percent of GDP in FY2020 as public spending increased.

The economic impacts of recent military actions and ongoing protests have been pronounced. The kyat has depreciated against the US dollar, and the prices of fuel and some other basic items have risen. Banks have closed and internet and logistics services have also been severely disrupted. This has worsened the operating environment for businesses, which are struggling to make and receive payments, transport their goods to markets, and access necessary inputs. Workplace mobility declined to around 60 percent below baseline levels in mid-March (from around 25 percent below baseline at the end of January). Several foreign investors are reviewing their activities in Myanmar, and some have halted operations.

Outlook

The economic outlook is highly uncertain, with a wide range of possible scenarios. Any future recovery in domestic activity will likely be contingent on a rebound in mobility and the restoration of key services. The trade and foreign investment outlook will depend on the reactions of international investors and governments. Moreover, the threat of COVID-19 will rise to the extent that domestic efforts to tackle the pandemic continue to be interrupted.

The second surge in COVID-19 cases was previously expected to lead to a continuation of very modest (though still positive) growth in FY2021, but events unfolding since the beginning of February are likely to instead result in a substantial economic contraction this year. These more recent events will compound the existing welfare challenges faced by the poorest and most vulnerable, and will likely result in a sharp increase in poverty, heightened food security risks, and deeper destitution for those already poor. The success of the dry season harvest and farmers' continued ability to trade will be critical for the large share of households relying on agriculture for all or part of their income.

There is also the risk of significant impacts on the external and fiscal accounts. A sharp reduction in exports and/or foreign investment would put further pressure on the exchange rate and the balance of payments, with foreign exchange reserves – estimated at 4.7 months of imports as of September 2020 – providing a smaller than optimal buffer. Further declines in revenue collection would result in additional pressure on public finances, increasing the fiscal deficit further, while a realization of financial risks could have significant impacts on the real economy.

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

	2017	2018	2019	2020 e	2021 f
Real GDP growth, at constant market prices	5.8	6.4	6.8	1.7	-10.0
Real GDP growth, at constant factor prices	5.8	6.4	6.8	1.7	-10.0
Agriculture	-1.5	0.1	1.6	1.2	-7.4
Industry	8.7	8.3	8.4	1.3	-10.3
Services	8.3	8.7	8.4	2.3	-11.1
Inflation (Consumer Price Index)	4.7	5.9	8.5	6.4	6.0
Current Account Balance (% of GDP)	-6.5	-4.2	-2.6	-3.7	-5.4
Fiscal Balance (% of GDP)[a]	-2.6	-2.9	-3.8	-6.5	-8.9
Public Sector Debt (% of GDP)[a]	38.4	40.3	38.8	40.6	51.6
Primary Balance (% of GDP)[a]	-1.3	-1.4	-2.3	-4.8	-6.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	14.9	13.0	11.2	10.9	14.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	54.3	51.0	47.4	46.8	53.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Fiscal balances are reported in fiscal years (October 1st -September 30th).

(b) Calculations based on 2017-MLCS.Actual data: 2017. Nowcast: 2018-2021.

(c) Projection using neutral distribution (2017) with pass-through = 0.7 based on GDP per capita in constant LCU.

NORTH PACIFIC ISLANDS

Table 1	2020
Population, million	
Federated States of Micronesia	0.11
Republic of the Marshall Island	0.06
Palau	0.02
North Pacific	0.19
GDP, US$, billion	
Federated States of Micronesia	0.40
Republic of the Marshall Island	0.22
Palau	0.24
North Pacific	0.87
GDP per capita, current US$	
Federated States of Micronesia	3523
Republic of the Marshall Island	3810
Palau	13550
North Pacific	4559

Sources: WDI, World Bank staff estimates.

The economic impact of COVID-19 pushed the Federated States of Micronesia (FSM), Republic of the Marshall Islands (RMI) and Palau into recession in FY20. With borders expected to remain closed until at least mid-2021, all three economies are projected to contract further in FY21. While large parts of government revenues are relatively protected from the economic downturn, substantial fiscal risks remain, including due to the scheduled expiry of Compact-related fiscal transfers from the US in 2023-2024.

Key conditions and challenges

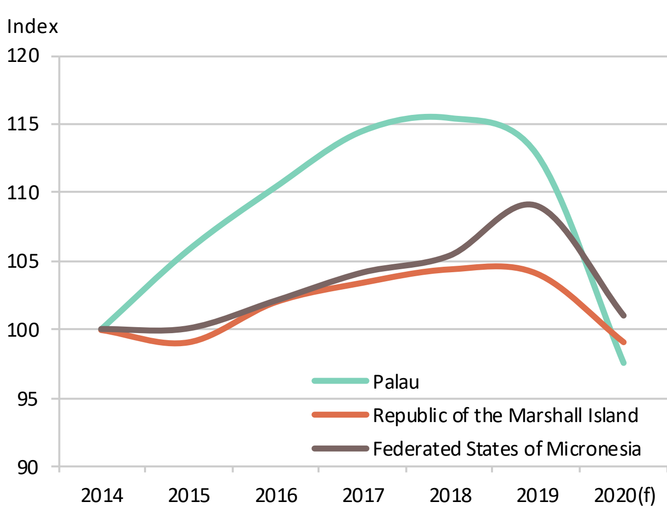
The region's remoteness has helped the North Pacific countries avoid a COVID-19 outbreak, but the prevention strategies have had severe economic consequences. Formal sector employment is estimated to have contracted by 5 to 14 percent across the three economies, and poverty is expected to have increased. Supported by the US, all three nations began their national vaccination programs in December/January. RMI and Palau are on track to vaccinate over 80 percent of their populations by June 2021. In the short term, the key challenges facing the North Pacific countries are: (i) the roll out of a COVID-19 vaccine, thus allowing for strict international border restrictions to be relaxed; and (ii) to support a sustainable and inclusive economic recovery while managing acute fiscal pressures (particularly for Palau).

Over the medium term, the key challenge facing the region is the scheduled expiry of Compact-related grants and programs in 2023-2024. This poses a key structural risk to the long-term fiscal sustainability of all three nations, considering the limited space for additional debt. This has been exacerbated by the recent global financial market volatility that have reduced the balances on the nations' various trust funds—which are supposed to replace the expiring Compact-related fiscal transfers. In 2020 the three nations began negotiations with the US on amending their Compact agreements, but the details of the scope, size and duration of any amendment remain uncertain. Natural disasters pose a constant threat to livelihoods, economic growth, and fiscal sustainability. Sea level rise threatens the physical viability of numerous islands, particularly in RMI. Enhancing resilience to climate change and natural disasters is crucial to achieve sustainable improvements in living standards and poverty reduction. Finally, the lack of recent household data in FSM and Palau poses a risk to policy making and makes it challenging to monitor development progress and impacts of shocks on the poor.

Recent developments

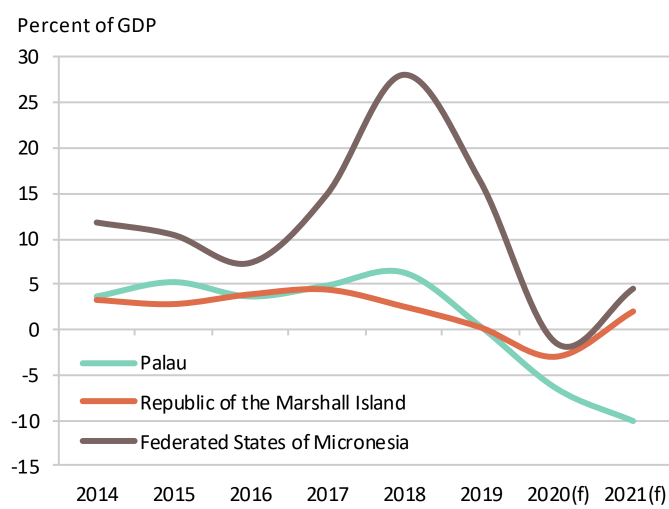
Prior to the pandemic, **FSM** and **RMI** had each registered five consecutive years of positive growth, and the longest period of sustained economic expansion since 2003. However, the economic impact of the pandemic is expected to have driven both economies into recession in FY20 with output contracting by around 1.5 percent in FSM and 4.5 percent in RMI, as strict border closures and related trade disruptions have curtailed construction activity, transport and domestic consumption. In some cases, quarantine requirements have led to delays in goods, food and fuel imports—raising concerns of food shortages. Large parts of FSM and RMI government revenues have been relatively protected from the downturn in domestic

FIGURE 1 North Pacific Islands / Formal sector employment (Index, 2014=100)



Sources: National sources via EconMap and World Bank projections.

FIGURE 2 North Pacific Islands / Overall fiscal balance (share of GDP)



Sources: National sources via EconMap and World Bank projections.

activity—particularly donor grants and fishing revenues, which remained relatively strong in FY20. Grants from the ADB and the U.S. (along with other partners, including the World Bank)—combined with substantial fiscal buffers in FSM—provided the fiscal space for economic and social stimulus packages of 12 and 19 percent of GDP, while limiting the projected FY20 budget deficits to 1.5 to 3 percent of GDP.

In **Palau**, the pandemic represents an economic shock of unprecedented scale. The tourism industry (40 percent of GDP) is at standstill, trade flows are severely disrupted, and business activities have been curtailed. The economy entered the COVID-19 crisis on a weak footing, having contracted by over 4 percent in FY19 due to a fall in tourist arrivals. The government continued to implement its structural reform of the tourism sector away from a high-volume model and towards a high-quality model of sustainable ecotourism development. The collapse in tourist arrivals is estimated to have resulted in a further 10 percent GDP contraction in FY20. A substantial fall in tax receipts, combined with required spending for the health sector and to support businesses and households, led to a deficit of over 6 percent of GDP in FY20. This has been financed by external borrowing, which raised public external debt to GDP to 42 percent.

Outlook

The economic impact of COVID-19 is projected to lead to further contractions in economic activity in all three countries in FY21. The economies of the **FSM** and **RMI** are projected to contract by a further 3.5 percent and 1 percent, owing to very restrictive border and customs policies that are expected to be maintained until at least mid-2021. This will further depress tourism receipts and restrict the entry of foreign workers and merchandise imports—curtailing construction activity. The **Palauan** economy is expected to contract by a further 4 percent in FY21, as the nation's strict arrivals policies are extended into 2021, with tourism arrivals unlikely to recovery until FY22. Fiscal accounts are expected to return to surplus in FY21 in FSM and RMI, as foreign grant assistance and fishing receipts remain resilient, and stimulus spending is unwound. However, another large deficit is projected in Palau. This is expected to be financed by additional external borrowing, which is projected to raise public external debt to GDP to over 53 percent.

Poverty is expected to increase in the North Pacific. Economic contraction is expected to lead to additional formal-sector job losses and lower demand for goods in the informal economy across the three countries. The severe impacts on economic activity and jobs is expected to have led to increased vulnerability for many Palauan households—particularly for the substantial non-resident population that predominantly work in the tourism sector. The RMI and FSM receive annual remittance inflows of around 14 percent and 6 percent of GDP, respectively. These flows are projected to decline due to the impacts of the pandemic on US labor market conditions. An economic rebound is projected in FY22 for all three nations—conditional on a recovery in the global economy and the easing of restrictive domestic arrivals policies.

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

	2018	2019 e	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices						
Republic of the Marshall Islands	3.3	6.6	-4.5	-1.0	3.0	2.0
Federated States of Micronesia	0.2	1.2	-1.5	-3.5	2.5	1.0
Palau	4.1	-4.2	-10.0	-4.0	12.0	6.0

Sources: EconMAP, IMF, and World Bank.
e = estimate; f = forecast.
Note: Values for each country correspond to their fiscal years ending September 30.

PAPUA NEW GUINEA

Table 1	2020
Population, million	8.9
GDP, current US$ billion	23.6
GDP per capita, current US$	2637
Poverty rate ($1.90/day 2011 PPP terms)[a]	38.0
National poverty rate[a]	39.9
Gini index[a]	41.9
Life expectancy at birth, years[b]	64.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2009/10).
(b) Most recent WDI value (2018).

In 2020, Papua New Guinea faced three crises: the COVID-19 health emergency, an economic contraction, and political turmoil. The economy contracted by 3.8 percent in 2020 and is expected to rebound by 3.5 percent in 2021. Considering that the economy entered the COVID-19 crisis with a poor record of resilience to external shocks, strengthening macroeconomic management and accelerating structural reforms will be vital. Strengthening public institutions that deliver basic public services, especially during crises, is also important.

Key conditions and challenges

The ongoing COVID-19 crisis is an unprecedented external shock for the economy, with negative fiscal implications, exposing the government's low capacity to support the poor and vulnerable. The COVID-19 crisis has come on top of boom and bust cycles in PNG driven by swings in the natural resource sector. These cycles have been exacerbated by sub-optimal fiscal and public expenditure management as expenditure goes up during booms, followed by busts when the boom ends. Pandemic-related global and domestic travel restrictions have weakened external and domestic demand and hit commodity prices. This has led to a sharp economic contraction, a sizable fiscal gap, and higher unemployment and poverty, especially among women and the youth.

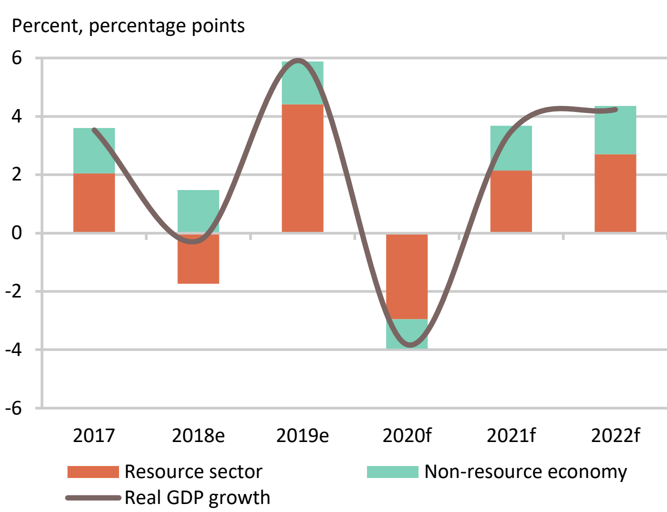
From global as well as regional perspectives, prevalence of extreme poverty in PNG is high. About 38 percent of the population in 2010 (the latest household budget survey available) lived under the international extreme poverty line of US$1.90 per day (2011 PPP terms). The national poverty rate was estimated at 39.9 percent of the population. This incidence of poverty is by far one of the highest rates in the East Asia and Pacific region. It is also higher than in many lower middle-income, resource-rich peer countries. Broadly consistent with the high proportion (87 percent) of the population living in rural areas, almost 90 percent of the country's poor are located in rural PNG and are more likely to be engaged in agricultural activities.

Recent developments

As a result of pandemic-related restrictions and weaker demand, it is estimated that real GDP contracted by 3.8 percent in 2020 (compared to a pre-crisis projection of 2.9 percent growth). The fiscal deficit widened to 8.1 percent of GDP (3 percentage points larger than the pre-crisis projection). Consequently, the debt-to-GDP ratio surged to 49 percent (9 percentage points higher than the pre-crisis projection). At the same time, unemployment increased, affecting the most vulnerable households, including women and the youth. On top of these new challenges, the government faced a political crisis at the end of the year, with a threatened no-confidence vote and delays in approving the 2021 National Budget.

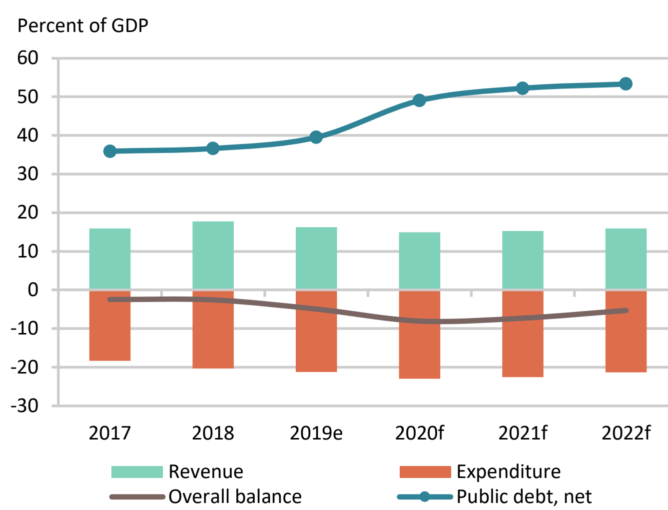
The impact of COVID-19 on livelihoods of the poor and vulnerable households was severe, according to a recent World Bank survey. Two rounds of a mobile phone survey (conducted in June and December 2020) point to considerable impacts of the pandemic at the household level, particularly the poorest segments of the society. In the June round, for the agricultural sector, where most of the poor work, nearly half of households reported projected declines in agricultural income for the current growing season. In terms of employment, about 25 percent of those working at the pre-crisis baseline were no longer working during

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



Sources: World Bank staff estimates and forecast.

FIGURE 2 Papua New Guinea / Key fiscal and debt indicators



Sources: World Bank staff estimates and forecast.

the week prior to data collection. According to the survey, the middle quintile of households, who represent the vulnerable and near poor households, were most impacted by job losses. Preliminary analysis from the December survey shows a limited rebound for key sectors, but that this recovery has been unequal, and many groups are at risk of falling further behind.

In 2020, the government initiated an anti-crisis program of about US$500 million (2.2 percent of GDP), comprising budget and off-budget funding. The lack of formal safety net programs constrained government support to poor households. Cash constraints—due to reduced domestic revenue and backloaded external support from development partners—slowed the implementation of health and economic relief measures initially. The government focused on securing foreign grants and loan support and amended the Central Banking Act to tap into domestically available funding at the Central Bank. Budget support provided by the Government of Australia and the Asian Development Bank led to an increase in international reserves at the end of 2020, affecting the pace of exchange rate adjustment.

Outlook

Economic growth is expected to rebound to about 3.5 percent in 2021–22, but the economy will be 9 percent smaller in 2023 compared to our pre-pandemic forecast. This outlook reflects both delays to forthcoming resource projects and some level of "scarring" caused by pandemic-related disruptions, whereby the consequences of higher unemployment, falling incomes, and reduced economic activity impact future consumer spending and business investment. The outlook is expected to follow a shallow "U-shaped" recovery instead of a more rapid "V-shaped" bounce back. These forecasts are subject to a high level of uncertainty. They will depend on the speed of both domestic and international vaccine rollouts, future levels of demand for Papua New Guinea's exports, and government efforts to improve economic and fiscal resilience to external shocks.

Risks to the outlook are firmly weighted to the downside. Although domestic GDP growth will resume in 2021, the growth rate may be volatile owing to external and domestic factors. If economic growth in PNG's main trading partners (Australia, China, and Japan) is below expectations, demand for PNG's key commodity exports may reduce. This would place downward pressure on the local currency, eroding external buffers. Commodity-price and natural-disaster shocks may continue to impact extractive sector performance, with negative implications for the rest of the economy. These developments would negatively impact resource revenue flows to Papua New Guinea's external and fiscal accounts. Domestically, this volatility is subject to an uncertain performance by the country's major (existing and new) resource projects. Potential delays in the implementation of new resource projects may also impact macroeconomic outcomes, affecting the underlying assumptions of the baseline scenario.

Political risks to the outlook are high, exacerbated by recent political turmoil. Successful motions of no-confidence are relatively frequent, and governing coalitions do not tend to be based on clear programmatic policy platforms, so the policy environment can be quite unpredictable. Although the most recent motion of no-confidence against the current government failed to succeed, the political situation remains fluid. This political uncertainty will remain until next elections to be held in June 2022, with certain risks to the negotiation process with current and potential investors and the overall business sentiment in the country.

For more inclusive and sustainable development over the medium term, the authorities will need to ensure that frontline health services continue to deliver during the crisis, introduce safety nets for the poor and vulnerable, support firms and employment in the informal sector, and strengthen the macroeconomic policy framework, including a renewed focus on fiscal consolidation.

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

	2018e	2019e	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	-0.3	5.9	-3.8	3.5	4.2	2.4
Resource sector[a]	-3.7	9.3	-5.8	4.3	5.6	1.4
Non-resource economy	2.7	2.4	-0.2	1.1	2.0	2.5
Inflation (Consumer Price Index), period average	4.6	3.7	5.3	5.0	5.0	5.0
Current Account Balance (% of GDP)	23.5	22.2	23.8	14.5	9.3	3.8
Resource sector[a]	25.9	28.0	27.0	24.1	22.6	17.9
Non-resource economy	-2.4	-5.7	-3.2	-9.6	-13.3	-14.1
Overall Fiscal Balance (% of GDP)	-2.6	-5.0	-8.1	-7.3	-5.3	-3.2
Non-resource primary balance (% of non-extractive GDP)	-2.7	-5.2	-8.0	-7.6	-5.5	-2.3
Public Debt, net (% of GDP)	36.6	39.5	49.0	52.2	53.3	54.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast; (a) The resource sector comprises agriculture, forestry, fishing, mining, quarrying, petroleum and gas production and related construction.

PHILIPPINES

Table 1	2020
Population, million	109.6
GDP, current US$ billion	362.4
GDP per capita, current US$	3307.4
International poverty rate ($1.9)[a]	2.7
Lower middle-income poverty rate ($3.2)[a]	17.0
Upper middle-income poverty rate ($5.5)[a]	46.9
Gini index[a]	42.3
School enrollment, primary (% gross)[b]	101.9
Life expectancy at birth, years[b]	71.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) Most recent WDI value (2018).

The economy contracted by 9.5 percent in 2020, due to the impact of the pandemic, strict containment measures, and natural disasters. The authorities responded by increasing public spending including on social transfers and by pursuing an accommodative monetary policy. However, the loss of income has reversed some of the gains in poverty reduction. Economic growth is expected to recover in the medium term, alongside the improvement in the external environment and the return of domestic activity.

Key conditions and challenges

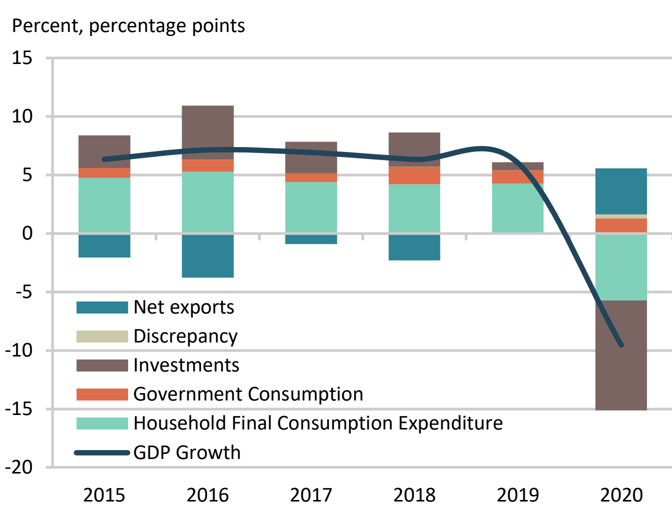
Prior to the pandemic, strong domestic demand and a commitment to structural reforms led to an acceleration of inclusive growth. Growth rose to an annual average of 6.4 percent in 2010-2019 from 4.5 percent in 2000-2009, anchored on sound macroeconomic fundamentals and a supportive policy environment. In recent years, the government increased spending on human and physical capital to 9.1 percent of GDP in 2019 from 5.7 percent in 2010 and pursued a medium-term structural reform agenda to increase competition and foster competitiveness. This period of sustained growth led to significant job creation that reduced unemployment and underemployment to their lowest levels in over a decade. Rising real wages, social protection programs, and increased wage employment boosted household incomes. As a result, the national poverty rate declined from 23.5 percent in 2015 to 16.7 percent in 2018.

The COVID-19 pandemic and natural disasters halted the growth momentum in 2020, setting back gains in poverty reduction. The country's main challenge now is to jumpstart economic recovery, balancing policy priorities between short-term stability and medium-term reform program. While the Philippines has managed to reduce the average daily cases over the past six months, strong containment measures led to depressed economic activity, amplifying existing economic and social vulnerabilities. A recent surge in cases in early-March threatens to delay a further reopening of the economy. In January, food supply challenges pushed inflation to its highest level in two years, further exacerbating the loss of incomes caused by COVID. The government is faced with the challenge of supporting economic recovery under limited fiscal space. To maximize gains from fiscal support, the government has to improve spending efficiency and ensure well-targeted and timely policy interventions, while remaining committed to its ongoing structural reform agenda.

Recent developments

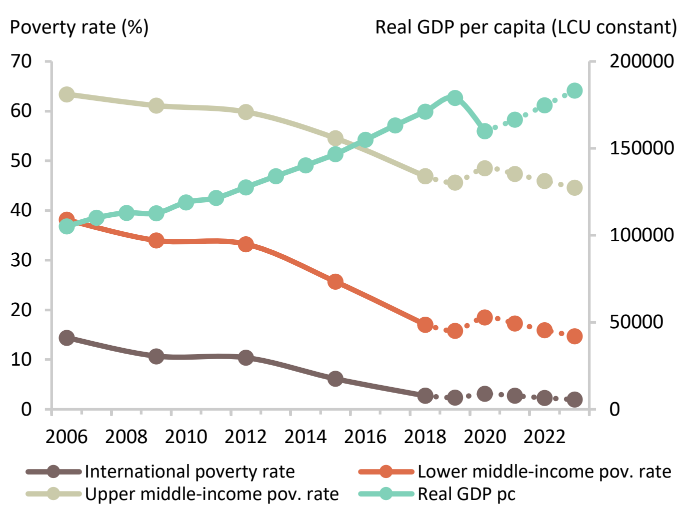
The Philippines recorded its worst recession in post-war history as the economy contracted by 9.5 percent in 2020. The quadruple shock of a health crisis, containment measures, a global recession, and natural disasters resulted in a steep drop in activity. These natural disasters involved a volcanic eruption in early 2020, and damaging typhoons in the fourth quarter. Private investment fell sharply amid uncertainty and an erosion in business confidence. Private consumption posted its worst contraction on record due to the fall in employment and incomes. Meanwhile, trade disruptions, border closures, and a weak external environment resulted in the contraction in external trade. Government consumption was the main growth driver, as public

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



Sources: Philippine Statistics Authority.

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



Sources: World Bank. Notes: see Table 2.

spending ramped up to mitigate the impact of the pandemic.

The fiscal deficit rose to 7.6 percent of GDP in 2020, driven by a sharp decline in tax revenues amid the recession. Public spending increased by 11.3 percent fueled by efforts to contain the impacts of the crisis, including the expansion of social protection programs. As a result, national government debt increased to 54.5 percent of GDP in 2020, the highest since 2006.

The monetary authority pursued an accommodative stance, reducing the key policy rate from 3.75 percent to 2.0 percent in 2020. It maintained the key rate at 2.0 percent in early 2021 despite headline inflation breaching the inflation target range in January.

Around 25 percent of household heads who were working before the pandemic lost their jobs by August 2020 according to the High Frequency Household Survey (HFS). Construction and accommodation services saw the highest job losses. Among those who continued working, about half experienced reduced income. As restrictions were eased by December, unemployment dropped to nearly half of the level at the nadir of the crisis. The second round of the HFS shows that household heads are returning to work, but incomes are recovering at a slower pace. Households still report significant concerns with food insecurity.

Outlook

The economy is projected to grow over the three-year forecast horizon. The growth trajectory hinges on the return of domestic activities conditional on the loosening of movement restrictions and the delivery of mass vaccination. Growth will also be supported by an improving external environment. In 2021, public investment is expected to ramp up, while private investment remains tepid due to subdued lending and elevated uncertainty. Private consumption will gradually recover as remittances return and employment slowly improves, although it may face weakness in the first quarter amid higher inflation. External demand is expected to improve with the recovery of trading partners. Finally, base effect will prop growth up in 2021. Growth is expected to accelerate into 2022-23 as mass vaccination progresses, the election fuels activities, and global conditions further improve.

Despite the government's efforts to mitigate the negative effects of the pandemic on poor and vulnerable households, the poverty incidence is estimated to increase by around 1.4 percentage points between 2018 and 2020 (based on the lower middle-income poverty line of 3.2 dollars a day, 2011 PPP). If wage and nonfarm employment increase with GDP growth and inflation is stable, the poverty rate will likely decline back to its 2018 level by 2021 and maintain a downward trend through 2022.

The most significant downside risk is the resurgence of COVID-19 infections, which may lead to stricter containment measures. Without an effective mass vaccination program, consumer confidence will return sluggishly and prolong the weak domestic activities. This, in turn, may suppress public revenues and limit the fiscal space to support growth. Financial risks could increase as borrowers in the most affected sectors face repayment challenges. Institutional changes in 2022 including the administration change and the implementation of the Mandanas ruling, which increases unconditional block grant transfers to local government units, raise risks associated with the transition. Still, a key upside risk is the U.S. fiscal stimulus which can have positive spillover effect on the domestic economy.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	6.3	6.0	-9.5	5.5	6.3	6.2
Private Consumption	5.8	5.9	-7.9	6.0	6.2	5.9
Government Consumption[a]	13.4	9.6	10.4	7.5	10.5	10.1
Gross Fixed Capital Investment	12.9	3.9	-27.5	27.9	16.7	12.8
Exports, Goods and Services	11.8	2.4	-16.7	13.9	12.7	10.6
Imports, Goods and Services	14.6	1.8	-21.9	28.2	18.7	14.1
Real GDP growth, at constant factor prices	6.3	6.0	-9.5	5.5	6.3	6.2
Agriculture	1.1	1.2	-0.2	1.8	1.6	1.6
Industry	7.3	4.7	-13.1	7.2	6.5	6.6
Services	6.7	7.5	-9.1	5.3	7.0	6.8
Inflation (Consumer Price Index)	5.2	2.5	2.6	3.9	3.2	3.0
Current Account Balance (% of GDP)	-2.6	-0.9	3.2	1.2	-0.8	-1.4
Net Foreign Direct Investment (% of GDP)	2.9	2.0	1.7	1.9	2.2	2.5
Fiscal Balance (% of GDP)	-3.1	-3.4	-7.6	-7.2	-5.9	-5.2
General Government Debt (% of GDP)	34.4	34.1	49.0	53.4	54.6	54.5
Primary Balance (% of GDP)	-1.1	-1.6	-5.5	-4.5	-3.0	-2.3
International poverty rate ($1.9 in 2011 PPP)[b,c]	2.7	2.3	3.1	2.7	2.3	2.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	17.0	15.8	18.5	17.3	15.9	14.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	46.9	45.6	48.5	47.4	46.0	44.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) The implementation of the salary standardization law and the expected increase in public wages and operating costs due to the upcoming national election deviated the government consumption growth from its expected downward trajectory in 2022-2023.

(b) Calculations based on EAPPOV harmonization, using 2006-FIES and 2018-FIES.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.

(c) Projection using annualized elasticity (2006-2018).

SOLOMON ISLANDS

Table 1	2020
Population, million	0.7
GDP, current US$ billion	1.5
GDP per capita, current US$	2317
National basic needs poverty rate (%)[a]	12.7
School enrollment, primary (% gross)[b]	112.6
Life expectancy at birth, years[a]	72.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a)Solomon Islands National Statistics Office. Most recent value (2013).
(b) Most recent WDI value (2017).

A timid, but uncertain, economic rebound is expected in 2021. The economic stimulus package, infrastructure projects and strengthened external demand should contribute to economic growth. A full, post-pandemic recovery is only expected in the medium term. Several downside risks threaten the growth outlook, including reduced logging output, prolonged travel restrictions and investment delays. A strong policy response from the Government is needed to sustain livelihoods, support economic growth and maintain macroeconomic and fiscal sustainability.

Key conditions and challenges

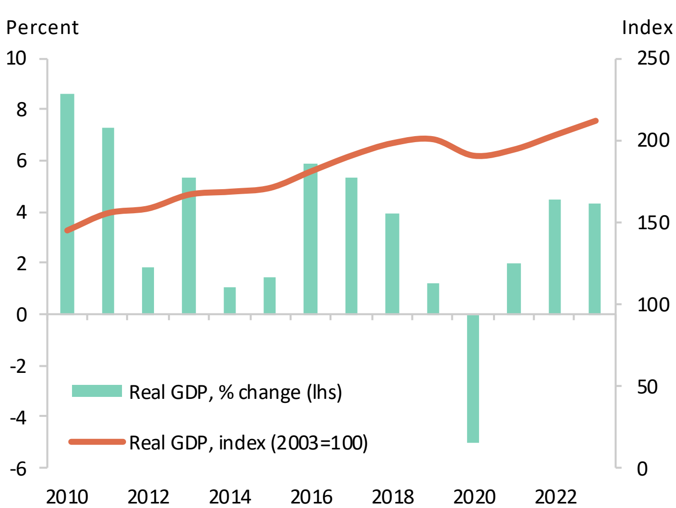
Solomon Islands is a small, remote archipelago that faces a unique set of development challenges, characterized by economic geography and state fragility. A population dispersed across a vast territory complicates access to basic public services. Relatedly, the smallness and dispersion make public service delivery and the provision of infrastructure disproportionally costly. A small domestic economy, internal division and remoteness from large export markets limit private sector development and international trade. Furthermore, natural disasters and the impacts from climate change pose a continuous threat to sustainable development. Limited state capacity and political economy dynamics tend to constrain the design and implementation of effective public policies. Finally, the country's dependence on the logging industry points to the need for economic diversification. The Solomon Islands' unique geographic and institutional features, however, limit the possibilities to diversify its economy.

The more immediate risk factors and challenges relate to COVID-19 and the need to support economic recovery. Further enhancing health sector preparedness and preventing community transmission of COVID-19 are of crucial importance. While a domestic outbreak would have substantial implications, the border restrictions in place continue to constrain economic activity and affect livelihoods. Relaxing the current prevention measures will depend on the vaccination roll-out, which generally has been slower than anticipated. Based on current projections for vaccine roll-out and the resumption of international travel, economic activity is likely to be hampered for most of 2021. Given these conditions, a concerted effort by multiple stakeholders is required to support economic recovery and poverty reduction. Effective policy measures, strong social protection programs and labor-intensive public investment projects are important components to stimulate growth. At the same time there is a need to maintain macroeconomic and fiscal sustainability, guarantee sound public financial management while taking into account the country's fragile context. A rise in export commodity prices and strong external demand from main trading partners may support the country's economic recovery.

Recent developments

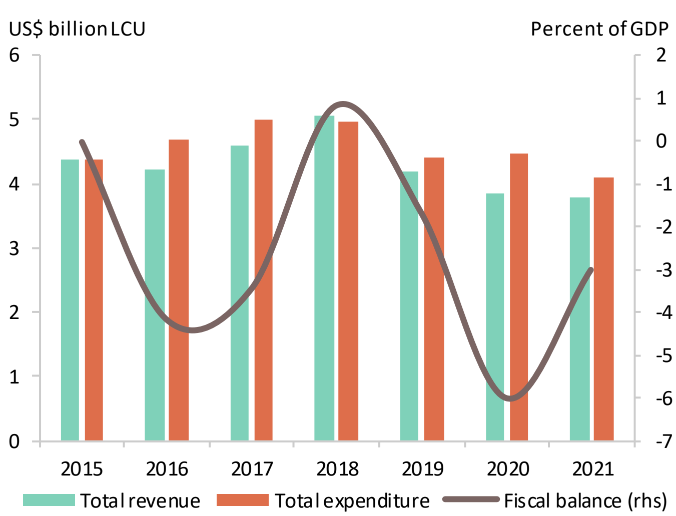
Due to the impacts of COVID-19, the economy is estimated to contract by 5 percent in 2020. Border disruptions, weak external demand and precautionary health measures led to a significant drop in primary sector production, including in fishing and logging. Furthermore, the lack of international visitor arrivals impacted the tourism sector. Visitor arrivals dropped from 8,891 in third quarter of 2019 to 96 in the third quarter of 2020.

FIGURE 1 Solomon Islands / Real GDP



Sources: World Bank staff estimates.

FIGURE 2 Solomon Islands / Fiscal indicators



Sources: World Bank staff estimates.

Large, donor-funded infrastructure projects were delayed due to travel restrictions, therefore dampening construction activity.

Leading indicators, however, suggest an economic rebound in the last quarter of 2020. The Central Bank's production index improved to 81 points in December 2020, up from 65 points in October 2020. Higher output in round logs and fishing are the main drivers of the increased economic activity. Furthermore, international prices for all export commodities trended higher in December, most notably palm oil (6 percent) and fish (5 percent), and to a lesser extent round logs (1 percent). Improved terms of trade for commodity exporters may generate positive consumption effects.

The current account deficit is expected to reach 4 percent of GDP in 2020. Declining imports – especially fuel, machineries and transport equipment – were more than offset by a fall in exports, especially in fish and minerals. The deficit on the current account is offset, however, by large foreign aid inflows. As a result, foreign reserves covered 13.3 months of imports at December 2020.

Revised fiscal estimates indicate a fiscal deficit of 6 percent of GDP in 2020, financed by budget support loans, a complete drawdown on the cash buffers and the issuance of a domestic bond. The government also built up significant domestic payment arrears – estimated 3 percent of GDP, with payments mostly due to SMEs. To provide fiscal stimulus to the economy, the Government launched an economic stimulus package (ESP) in May 2020, totaling about 2.7 percent of GDP. The roll-out of important ESP components was delayed, however, with certain recovery payments only being disbursed in the last quarter of 2020. Furthermore, at the end of 2020, the Government made public its Policy Redirection, a strategy to focus on economic recovery and to safeguard the population from the COVID-19 pandemic.

A June 2020 mobile phone survey indicates that the pandemic is taking a toll on livelihoods. Survey results showed net employment loss of between 7 and 11 percent from Jan 2020 to June 2020 which was more likely to impact women. Of those still working in June, just over half were earning the same as pre-crisis levels and one-third were working for less or not being paid at all. Also, 57 percent of respondents reduced food consumption and 27 percent had increased their household debt by delaying loan repayments or making purchases on credit. The findings thus suggest that near poor households may have been made more vulnerable to falling into poverty.

Outlook

The near-term outlook remains highly uncertain and depends on the evolution of the pandemic and policy effectiveness in supporting economic recovery. Assuming that travel restrictions begin to ease in late 2021, the economy is expected to grow this year with 2 percent. A further implementation of the economic stimulus package, the initiation of important infrastructure projects and strengthened external demand for export commodities should contribute to economic growth. Later years of the projection period may see a full post-pandemic recovery, partly driven by the economic effects of the 2023 Pacific Games. There are, however, several downside risks to the outlook. A local COVID-19 outbreak, social unrest, ineffective policy implementation, investment delays, financial sector stress, reduced logging output, prolonged travel restrictions or a severe natural disaster could all hurt economic growth.

The current account deficit is expected to remain elevated over the medium-term, as the recovery in primary exports is offset by higher imports for infrastructure projects once COVID-related restrictions are eased. The deficit will be financed through current and capital transfers, foreign direct investment and highly concessional project lending. As a result, foreign reserves are expected to cover more than 6 months of imports by 2023.

For 2021, an overall deficit of 3 percent of GDP is expected. Revenue is budgeted to remain flat. While inland revenues are projected to increase compared to 2020, customs and excise revenues are estimated to decline due to reduced log exports. Overall expenditure is expected to drop by 8.6 percent in 2021. The Solomon Islands Government is planning to contain recurrent expenditure – including a civil service hiring freeze, but increase capital spending in 2021. In the medium term, revenue is projected to recover, driven by economic growth and a series of tax reforms. To support economic recovery and finance the large infrastructure pipeline, expenditures are also expected to rise over the projection period. Therefore, it will be critical for the Solomon Islands Government to carefully manage its public finances.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.9	1.2	-5.0	2.0	4.5	4.3
Inflation (Consumer Price Index end of period)	3.9	2.8	3.0	3.5	3.4	3.8
Balance of Payments						
Current account balance (% of GDP)	-3.0	-9.6	-4.0	-16.4	-13.3	-11.9
Fiscal Balance (% of GDP)	1.4	-1.2	-6.0	-3.0	-3.6	-3.7
External Debt (% of GDP)	8.2	10.0	13.5	15.5	17.6	19.9

Source: World Bank and International Monetary Fund staff estimates.
Notes: e = estimate, f = forecast.

SOUTH PACIFIC ISLANDS

Table 1	2020
Population, million	
Samoa	0.20
Tonga	0.10
Vanuatu	0.30
GDP, US$, billion	
Samoa	0.85
Tonga	0.48
Vanuatu	0.92
GDP per capita, current US$	
Samoa	4316
Tonga	4621
Vanuatu	3052

Sources: WDI, World Bank staff estimates.

The economies of Samoa, Tonga, and Vanuatu have been impacted by a range of natural disasters and adverse shocks over the past year. Ongoing strict international travel restrictions related to COVID-19 have had severe effects on tourism-related activity and employment. In addition, Tropical Cyclone Harold struck Tonga and Vanuatu in April 2020. Governments need to maintain macroeconomic sustainability while enhancing health system capacity for COVID-19 vaccine rollout, continuing reconstruction activities and prioritizing measures that lay the foundation for the economic recovery.

Key conditions and challenges

For each of these small South Pacific nations, natural disasters and external shocks pose a constant threat to livelihoods, economic growth, and fiscal sustainability. Enhancing resilience to external shocks is crucial to support long-run growth and achieve sustainable improvements in living standards and poverty reduction. The economic outlook hinges on how quickly and effectively the three nations can obtain and roll out a COVID-19 vaccine, thus allowing for strict international border restrictions to be relaxed. A domestic outbreak of COVID-19 would have severe ramifications, but economic activity will be constrained for as long as international travel restrictions remain in place. Based on current projections for vaccine roll out and the recovery in international travel, economic activity across the three countries may remain depressed for another six to 12 months. This creates significant potential for scarring effects in the longer term—particularly in the tourism sector—as lost firms and jobs create adverse structural changes to the economy that are not reversed when aggregate demand recovers. The economic shocks and slow recovery also greatly increase the risk of poverty for much of the population, particularly as households deplete savings and assets to cope with lost incomes.

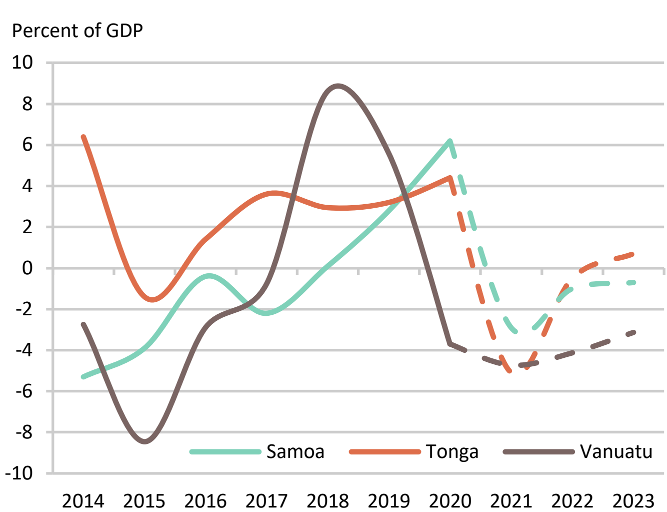
The main immediate challenges are to continue to enhance health sector preparedness and remain free of COVID-19. Over the coming months and years, the key challenge will be to catalyze a sustainable and inclusive economic recovery, and at the same time maintain macroeconomic sustainability in the face of several competing pressures. With limited fiscal space and low capacity to carry debt, governments need to prioritize strategic measures that lay the foundation for the economic recovery, while also supporting livelihoods for the Bottom 40 percent of households. In Tonga and Vanuatu, governments should carefully prioritize cyclone reconstruction and development spending, mindful of budget and local capacity constraints.

Recent developments

Leading indicators suggest that the economic contraction in the South Pacific countries may be less severe than previously projected. Nevertheless, the combined effects of the dual crises represent a major economic shock to Tonga and Vanuatu.

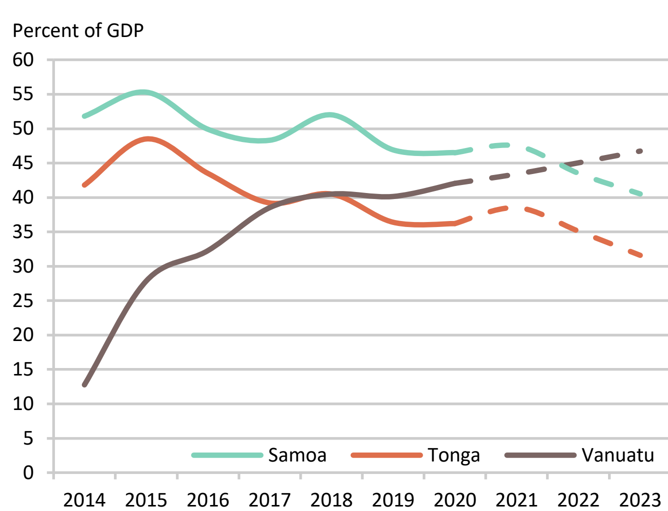
In **Samoa,** travel restrictions imposed in March 2020 resulted in a substantial reduction in tourism activity in late FY20 (July 2019 – June 2020). Economic activity was also adversely affected by declines in construction activity and goods exports, although remittances remained resilient. These impacts resulted in the economy contracting by 3.5 percent in FY20, compared with the prior forecast of 4 percent growth. Of the 7.5 percentage point drop, 5 percentage points is attributable to the

FIGURE 1 South Pacific Islands / Overall fiscal balance



Sources: National sources and World Bank projections.

FIGURE 2 South Pacific Islands / Public and publicly guaranteed external debt



Sources: National sources and World Bank projections.

decline in tourism, 2 percentage points to the impact of the measles that struck the country in December 2019, and 1.5 percentage points to other COVID-19 impacts. These impacts were partially offset by support from fiscal stimulus which is estimated to have contributed 1 percentage point to growth. The fiscal surplus increased as additional donor grants to support crisis response more than offset falls in domestic revenues and additional spending.

In **Tonga,** the dual shocks of COVID-19 and Tropical Cyclone (TC) Harold are estimated to have caused the economy to contract by 1.5 percent in FY20 due primarily to the sharp slowdown in the tourism, hospitality, retail, and construction sectors. These twin shocks increased the risk of falling into poverty for many households, from a combination of increased unemployment and loss or damage of assets. The sharp economic slowdown put pressure on both the fiscal accounts and balance of payments. However, these pressures were more than offset by substantial additional development partners grants to support crisis recovery.

In **Vanuatu,** GDP is estimated to have shrunk by 10 percent in 2020 due to the impacts of COVID-19 and TC Harold. International tourism continues to be at a standstill. As a result, tourism-related employment dropped by an estimated 64 percent. The fiscal deficit for 2020 is estimated at 3.7 percent of GDP, with additional COVID-19 and TC Harold-related spending somewhat offset by higher than expected revenues from the country's Economic Citizenship Program (ECP). On the external accounts, lower remittances and tourism inflows are offset by increased aid flows and receipts from the ECP.

Outlook

The near-term outlook for all three countries remains dependent on the duration of COVID-19 related travel restrictions, and whether the countries continues to remain free of the virus. Current projections assume that travel restrictions begin to ease in early 2022. There remain downside risks to the economic outlook to the extent that the recovery from COVID-19 and TC Harold is slower than expected.

In **Samoa,** GDP is expected to contract by a further 7.7 percent in FY21, before recovering in FY22 and FY23. Lower international tourism would cause GDP to contract by a further 9.5 percent in FY21. Additional negative effects on the construction sector, goods exports, remittances and commercial activity would also have a contractionary impact. These effects would be partially offset by the effects of government stimulus packages, the efforts of the tourism industry to reorient toward domestic tourism and hospitality, and the reallocation of hospitality workers and assets toward other productive activities, including agriculture. Fiscal deficits averaging 1.5 percent of GDP are projected over the period FY21 to FY23.

In **Tonga**, GDP is expected to contract by a further 3 percent in FY21, before recovering to average 2.5 percent in FY22 and FY23 due to the gradual increase in tourist arrivals, combined with a recovery in agriculture production and construction activity. A fiscal deficit of over 5 percent of GDP is projected for FY21, due to lower domestic revenues and increased spending for health sector preparedness, cyclone recovery and economic and social stimulus measures. Nonetheless, the fiscal accounts are projected to return to surplus over the projection period as domestic revenues recover and stimulus spending is unwound.

In **Vanuatu,** GDP is projected to grow by 4 percent in 2021. The economic effects of the stimulus package, increased construction activity and growing domestic tourism demand are expected to lift the economy. Due to increased recovery and infrastructure spending a fiscal deficit of 5 percent is projected in 2021. Continued border restrictions are estimated to negatively impact the current account in 2021. The fiscal and external accounts are expected to remain negative in the later years of the projection period. As economic growth is estimated to slow down in 2022 and 2023, public debt is projected to increase.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices						
Samoa	-2.2	3.5	-3.5	-7.7	5.6	4.9
Tonga	0.3	0.7	-1.5	-3.0	2.3	2.8
Vanuatu	2.8	3.0	-10.0	4.0	3.9	3.3

Note : Financial years for Samoa and Tonga are Jul - Jun, for Vanuatu is Jan - Dec. e= estimate, f=forecast
Source: World Bank and IMF.

THAILAND

Table 1	2020
Population, million	69.8
GDP, current US$ billion	493.4
GDP per capita, current US$	7069.0
Upper middle-income poverty rate ($5.5)[a]	6.2
Gini index[a]	34.9
School enrollment, primary (% gross)[b]	101.1
Life expectancy at birth, years[b]	76.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) WDI for School enrollment (2019); Life expectancy (2018).

The economy contracted by 6.1 percent in 2020 amid the COVID-19 outbreak, its worst contraction since the Asian Financial Crisis. The recovery is expected to be protracted and uncertain as the economy is projected to return to the pre-COVID-19 output level in 2022. Despite relative success in containing the virus, Thailand's openness to trade and tourism has resulted in significant and negative impact on the poor as well as informal workers.

Key conditions and challenges

COVID-19 struck an economy already suffering from several structural weaknesses, including a slowdown in productivity growth, a prevalence of informal, low-quality jobs, declining labor force participation, and a rapidly aging workforce. While the spread of COVID-19 was successfully contained within Thailand's borders for most of 2020, the economic impact has been pronounced. Weak global demand, a near cessation of international tourist arrivals, and domestic mobility restrictions have depressed goods and services exports and private consumption. Private investment has also declined amid continued uncertainty around the medium-term outlook for exports and growth. The resurgence of new COVID-19 cases that began in December 2020 has demonstrated the ongoing economic risks posed by the pandemic.

The government has approved a substantial package of fiscal and financial responses to COVID-19, including cash handouts, economic and social rehabilitation measures, and support for small and medium enterprises. Overall, Thailand has performed relatively well in terms of the scale, speed, and targeting of its response. But the timely, effective implementation of these measures – combined with progress on vaccine procurement and distribution – remains critical to promote economic activity and protect vulnerable households.

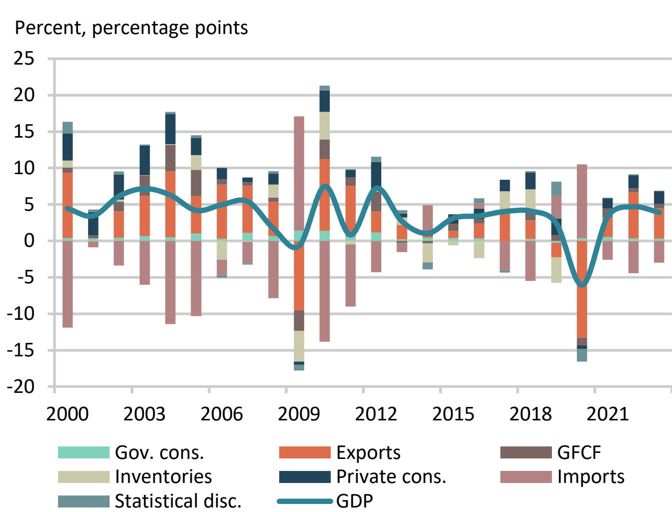
Raising productivity growth and addressing labor market challenges will be necessary to secure economic recovery over the medium and long-term. COVID-19 has exacerbated several of these challenges, including by encouraging workers to move into agriculture from higher-productivity sectors, reversing previous gains in structural transformation. To promote a sustainable recovery, workers need to be provided with the skills necessary to move into higher-productivity activities, in line with the needs of employers. Concurrently, fostering competition can support job creation in higher value-added sectors.

Recent developments

The economy contracted by 4.2 percent (yoy) in 2020 Q4, a smaller fall than the 6.4 percent contraction in Q3, due to a pick-up in private consumption and support from government stimulus. However, exports of goods and services remained weak, with services exports falling by -74.8 percent (yoy) in Q4 as international tourist arrivals continued to be negligible. The current account balance turned negative at -0.8 percent of GDP in Q4. While the restrictions imposed in response to the second wave of COVID-19 have been relatively mild, there is likely to have been a negative impact on consumer spending in early 2021.

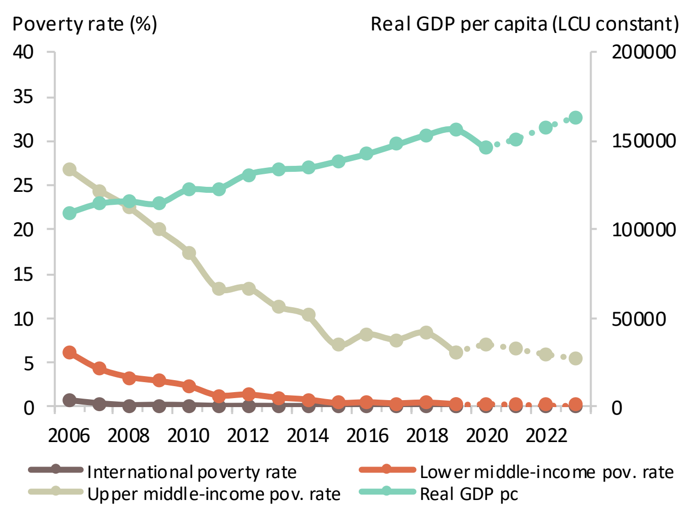
The fiscal deficit widened sharply in FY2020 (year ended September) as government ramped up COVID-19 related spending as

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



Sources: World Bank staff calculations and NESDC.

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



Sources: World Bank. Notes: see Table 2.

part of the approved COVID-19 fiscal package (equivalent to 6 percent of GDP). As a result, public debt has increased to 52 percent at December 2020, up from 41 percent a year earlier, though Thailand's sovereign credit ratings remained unchanged (e.g. Moody's: Baa1). The authorities continue to implement the remainder of the COVID-19 response package (equivalent to 3.8 percent of GDP), with another round of cash transfers for vulnerable households being deployed from February to May 2021. These measures aim to reach 31 million informal workers and 9 million formal workers, and amount to 1.6 percent of GDP. The Bank of Thailand has extended its debt repayment and interest reduction measures until June 2021 to help liquidity-constrained debtors.

From 2018 to 2019, the poverty rate dropped from 8.4 to 6.2 percent (based on the upper middle-income poverty line of 5.5 dollars a day, 2011 PPP). Inequality (Gini index) also declined from 36.5 to 35 percent. These declines were mostly driven by social assistance programs, especially the expansion of the state welfare card programs. However, the COVID-19 crisis is likely to have reversed part of these recent gains with informal sector workers and low-income households being the hardest hit.

Outlook

The economy is expected to recover gradually over the next two years, but the outlook remains highly uncertain. Growth is projected to rebound to 3.4 percent in 2021 and pick up further to 4.7 percent in 2022, at which point output is projected to return to its pre-pandemic 2019 level. Assuming that the recent outbreak is successfully contained, and vaccine distribution proceeds as planned, domestic activity is expected to recover in 2022. In this context, domestic mobility gradually will return to pre-pandemic levels while fiscal policy remains supportive. However, external demand will recover slowly, reflecting only a modest recovery in global goods trade and foreign tourism. Foreign tourism will increase in 2022 when borders are assumed to gradually reopen.

Poverty incidence is estimated to have increased by around 0.9 percentage points in 2020, pushing approximately one million additional people into poverty. In the baseline scenario of protracted recovery, the poverty rate will maintain a downward trend before reaching its 2019 level by 2022. Addressing deep-rooted challenges pre-COVID-19 would help a faster decline in poverty.

With COVID-19 cases still rising globally, risks to the outlook are skewed to the downside. The recovery could be slow and start-stop in nature if the government is forced to reimpose stringent lockdowns, if vaccine distribution and production is slower than anticipated, or if global activity remains weak. Relatedly, the recovery of the tourism sector will depend on when international borders reopen, and whether hesitation to travel internationally persists.

Prolonged political unrest could undermine consumer and business confidence, hindering the economic recovery. It will also distract attention from the critical policy reforms needed to support recovery and bolster long-term growth. The premature removal of fiscal and financial relief could disrupt Thailand's recovery, even if the pandemic remains successfully controlled in the coming months.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.1	2.4	-6.1	3.4	4.7	3.9
Private Consumption	4.6	4.5	-1.0	2.6	3.3	3.3
Government Consumption	1.8	-1.7	2.7	3.4	2.3	2.0
Gross Fixed Capital Investment	5.4	3.3	-4.3	4.8	2.2	2.5
Exports, Goods and Services	3.3	-2.6	-18.6	4.4	10.1	6.3
Imports, Goods and Services	8.3	-4.4	-15.7	4.5	7.5	5.0
Real GDP growth, at constant factor prices	4.2	2.4	-6.0	3.5	4.7	3.9
Agriculture	5.0	2.0	-2.1	1.2	1.2	1.2
Industry	2.7	2.6	-7.2	4.2	3.9	3.9
Services	5.0	2.3	-5.6	3.3	5.6	4.2
Inflation (Consumer Price Index)	1.1	1.1	-0.9	1.0	1.1	1.3
Current Account Balance (% of GDP)	6.5	5.0	1.0	1.5	3.8	6.2
Net Foreign Direct Investment (% of GDP)	-0.2	0.1	0.2	0.5	0.5	0.4
Fiscal Balance (% of GDP)	-0.7	-1.1	-5.9	-6.5	-3.1	-2.6
Debt (% of GDP)	42.2	42.5	51.1	54.4	53.4	52.3
Primary Balance (% of GDP)	0.3	-0.1	-4.7	-5.3	-2.0	-1.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.0	0.1	0.1	0.1	0.1	0.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.5	0.3	0.4	0.4	0.3	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	8.4	6.2	7.1	6.6	5.9	5.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on EAPPOV harmonization, using 2014-SES and 2019-SES.Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.

(b) Projection using annualized elasticity (2014-2019) with pass-through = 0.7 based on GDP per capita in constant LCU.

TIMOR-LESTE

Table 1	2020
Population, million	1.3
GDP, current US$ billion	1.6
GDP per capita, current US$	1218.1
International poverty rate ($1.9)[a]	22.0
Lower middle-income poverty rate ($3.2)[a]	65.9
Gini index[a]	28.6
School enrollment, primary (% gross)[b]	112.5
Life expectancy at birth, years[b]	69.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014), 2011 PPPs.
(b) WDI for School enrollment (2019); Life expectancy (2018).

Economic activity is expected to rebound by about 3 percent in 2021, bolstered by the second largest budget since independence. However, COVID-19 will remain a key risk to the outlook – at least until critical vaccination levels are achieved. Estimates suggest that poverty increased by 3 percentage points in 2020, despite economic relief measures targeting households. While public spending will underpin the economic recovery in the short term, accelerating and sustaining growth will require deep structural reforms to support a more dynamic private sector.

Key conditions and challenges

Fiscal policy remains the key driver of economic activity, but its inability to ease structural constraints has led to a steady growth deceleration since 2008. Public spending levels have been among the highest in the world, averaging 86 percent of GDP in 2008-2020. However, production has struggled to absorb additional demand, which has mainly leaked into imports. Private investment is also low, at about 4 percent of GDP. Given the very large fiscal deficits and the finite nature of petroleum resources, it is vital to secure fiscal sustainability to avoid an agonising fiscal adjustment with damaging socio-economic consequences. Large trade deficits have also been financed by withdrawals from the Petroleum Fund – through divestments in foreign assets – but external balances will be in jeopardy when the Petroleum Fund is exhausted. A more favourable growth outlook will require better (rather than more) public spending, and the adoption of critical reforms to boost productivity and competitiveness.

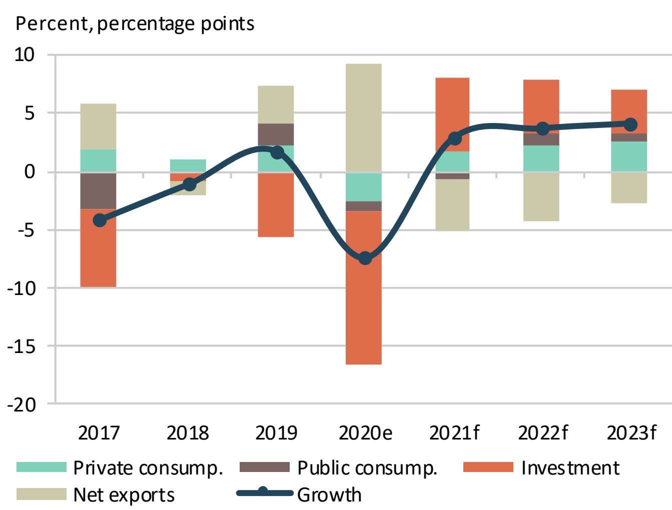
Intermittent political uncertainty in 2017-2020 and the COVID-19 pandemic have undermined recent economic performance – producing three recessions in the past four years. The country has been experiencing a second (and larger) wave of COVID-19 cases since December 2020. The Government has subsequently approved a set of pragmatic containment measures – such as border closures, compulsory use of face masks in public spaces, and limits on public gatherings. However, potential evidence of community transmission could lead to stricter public health measures and changing individual behaviours, which would weaken the economic recovery. A swift COVID-19 vaccination effort and continued political stability will be crucial to support the economy.

Recent developments

The economy contracted by over 7 percent in 2020, owing to political uncertainty and the effects of COVID-19. Tourism-related activities, construction, and commerce were particularly affected. Exports halved, as travel services were hindered by international travel restrictions. Private consumption and private investment also shrank, notwithstanding economic measures to support households and businesses.

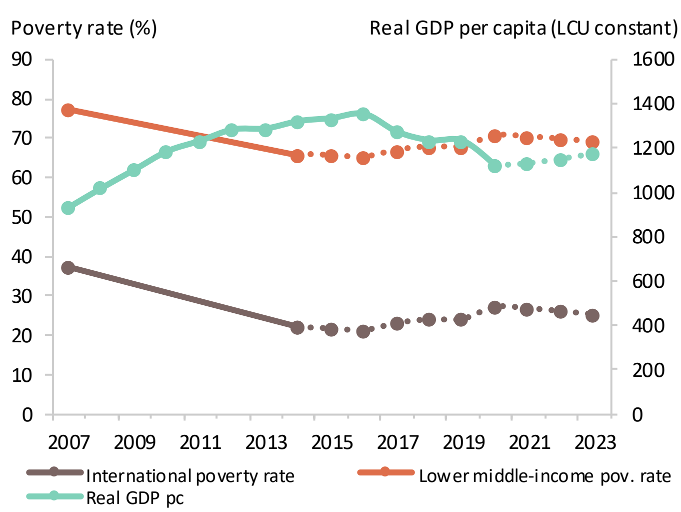
The current account moved from a surplus of 8 percent in 2019 to a deficit of 20 percent of GDP – predominantly due to lower primary income. Lower prices and production reduced petroleum revenues, which are recorded as primary income in the balance of payments. Imports declined by nearly 20 percent, with services being particularly affected by lower domestic demand. Exports of travel services – the main export earner – declined by 64 percent. Nonetheless, the trade deficit narrowed due to the large weight of imports in total trade. Positive asset revaluations pushed the Petroleum Fund balance to a

FIGURE 1 Timor-Leste / Real GDP growth and contributions to real GDP growth



Sources: Ministry of Finance & World Bank staff estimates.

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



Sources: World Bank. Notes: see Table 2.

record high of $19 billion at the end of 2020 – which is now 11 times larger than the size of the economy.

Total public expenditure was 9 percent lower than in 2019, as spending was partly undermined by the lack of an approved budget until October. Public transfers were 14 percent larger, owing to direct support to households – such as a cash transfer in May and a food basket in December. However, capital spending was nearly 50 percent lower than in the previous year, likely due to implementation constraints. Domestic revenues recorded their lowest value since 2015, with tax revenue declining by 6 percent – mostly caused by weak economic activity. The fiscal deficit eased to 26 percent of GDP and was mainly financed by excess withdrawals from the Petroleum Fund.

The real exchange rate appreciated by 1.1 percent in 2020, owing to a stronger US dollar – the legal tender in Timor-Leste. Price differentials played a minor role, as consumer price inflation decelerated to 0.5 percent. Commercial credit grew by 11 percent in 2020, as lending to individuals continued to expand.

The largest economic contraction since independence will likely increase poverty levels, despite policy measures to mitigate the impact of COVID-19. Estimates suggest that the poverty rate will increase by 3 percentage points between 2019 and 2020 – based on the $1.90 international poverty line. It is difficult to assess the impact of the economic recession on the labour market due to limited data. A small-scale UN socio-economic survey conducted in mid-2020 suggested that 59 percent of household members lost their income. Among those who retained their income, 55 percent reported an income reduction.

Outlook

The economy is projected to grow by 2.9 percent in 2021, accelerating to 3.8 percent in 2022. Public spending will be a key force behind this recovery – with a budget of $1.9 billion, equivalent to about 125 percent of GDP. In particular, large capital outlays and public transfers are expected to stimulate growth in the short term. Private consumption is expected to rise by 2.5 percent, as consumer confidence is gradually re-established. Imports will recover on the back of stronger domestic demand, but exports will remain subdued. The current account will persist in deficit, partly because future offshore petroleum income will be insufficient to cover the very large trade deficit. Production from the last field in operation – Bayu-Undan – is expected to cease in the next couple of years. Poverty levels are expected to decline from 2021 onwards.

This outlook assumes that there will be no community transmission of COVID-19 and that vaccination efforts start by mid-2021. However, if stricter public health measures are required to contain the spread of COVID-19, then the economic recovery could be weaker than projected. Political and environmental risks are moderate, but could also have significant impacts on the outlook. In particular, emerging tensions within the coalition government could undermine budget implementation and agreement on much-needed policy reforms.

However, better-than-expected budget execution – possibly accompanied by improvements in the quality of spending – could lead to faster growth. The 2021 budget includes some of the measures proposed in the Economic Recovery Plan (ERP), which was approved in August 2020. The ERP seeks to respond to the challenges caused by the pandemic, as well as tackle some structural weaknesses. The plan is focused on agriculture, tourism, housing, education, health, and social protection. Nonetheless, potential growth will remain hampered in the medium-term, largely due to an incipient private sector and limited productive capabilities.

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

	2018	2019 e	2020 f	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	-1.1	1.8	-7.3	2.9	3.8	4.2
Private Consumption	1.7	3.6	-3.8	2.5	3.2	3.7
Government Consumption	-0.3	3.2	-1.7	-1.1	1.9	1.5
Gross Fixed Capital Investment	-1.5	-17.2	-46.5	39.0	21.4	14.0
Exports, Goods and Services	16.6	-17.2	-50.8	13.5	11.7	13.8
Imports, Goods and Services	2.8	-6.5	-19.1	9.7	8.6	5.6
Real GDP growth, at constant factor prices	-0.6	2.1	-7.8	2.9	3.8	4.2
Agriculture	2.9	2.5	1.2	2.6	2.9	2.9
Industry	5.3	-4.7	-9.3	1.1	2.4	2.4
Services	-2.7	3.6	-9.9	3.4	4.3	4.9
Inflation (Consumer Price Index)	2.2	0.9	0.5	1.6	2.1	2.5
Current Account Balance (% of GDP)	-12.3	7.9	-20.0	-28.8	-36.7	-42.0
Fiscal Balance (% of GDP)[a]	-29.1	-30.5	-25.9	-32.4	-37.3	-42.3
International poverty rate ($1.9 in 2011 PPP)[b,c]	24.0	24.1	27.2	26.8	26.1	25.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	67.8	67.8	70.6	70.3	69.7	69.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
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: 2015-2020. Forecast are from 2021to 2023.
(c) Projection using annualized elasticity (2007-2014) with pass-through = 1based on GDP per capita in constant LCU.

VIETNAM

Table 1	2020
Population, million	97.3
GDP, current US$ billion	271.9
GDP per capita, current US$	2793.6
International poverty rate ($1.9)[a]	1.8
Lower middle-income poverty rate ($3.2)[a]	6.6
Upper middle-income poverty rate ($5.5)[a]	22.4
Gini index[a]	35.7
School enrollment, primary (% gross)[b]	115.4
Life expectancy at birth, years[b]	75.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) WDI for School enrollment (2019); Life expectancy (2018).

Vietnam's economy is set to grow 6.6 percent in 2021 on the back of successful control of Covid-19 infections, strong performance by export-oriented manufacturing and robust recovery in domestic demand. Yet, the crisis has left a lasting impact on households, with 45 percent of households reporting lower household income in January 2021 than in January 2020. To reach upper-middle income status by 2030, Vietnam's development model needs to change to a knowledge based, digitalized and green economy.

Key conditions and challenges

Vietnam experienced sustained growth, averaging about 7 percent a year in the last decade, helping to create millions of jobs. This led to a sharp fall in poverty, from 20.7 percent in 2010 to an estimated 5.9 percent in 2020 (lower middle-income class poverty line ($3.2/day 2011 PPP)). This success has relied on a steady integration with the global economy through rapidly expanding trade and foreign investments and growing investment on human and physical capital. But to transition to upper middle-income status, Vietnam will have to address challenges such as a large low-skilled informal sector, an aging population, and forces of deglobalization, disruptive technology and climate change.

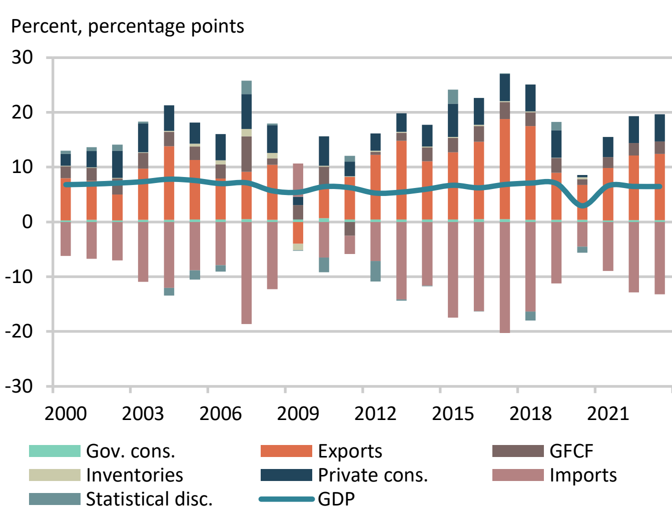
The economy was affected by the April 2020 lockdown to contain the spread of COVID-19 virus and two subsequent outbreaks. But Vietnam was one of the few economies that grew during the pandemic. Exports performed exceptionally well, especially to the US, in part due to trade diversion effect resulting from US-China tensions. The domestic economy has also bounced back but has not returned to pre-COVID growth levels. Domestic demand was affected by COVID-19 preventative measures and by uncertainty about the timeliness of global roll out of vaccines that would affect global recovery, which is necessary for sustained national economic growth.

While the aggregate economy has shown resilience and households have fared better than in most other countries, the crisis has left a lasting impact on the households. Preliminary results from the World Bank COVID-19 high frequency household survey show that almost half of households' report having lower income in January 2021 than in the year before. Fewer households are reporting declining incomes, but the share of affected households is still salient. About 28 percent of households experienced a decline in income in September 2020, compared about 20 percent in January 2021. Female-headed households experienced larger declines in income than male-headed households. Disbursement of COVID-19 specific relief programs were short-lived and faced difficulties in implementation, highlighting a need for a more extensive, effective, and better targeted social protection infrastructure.

Recent developments

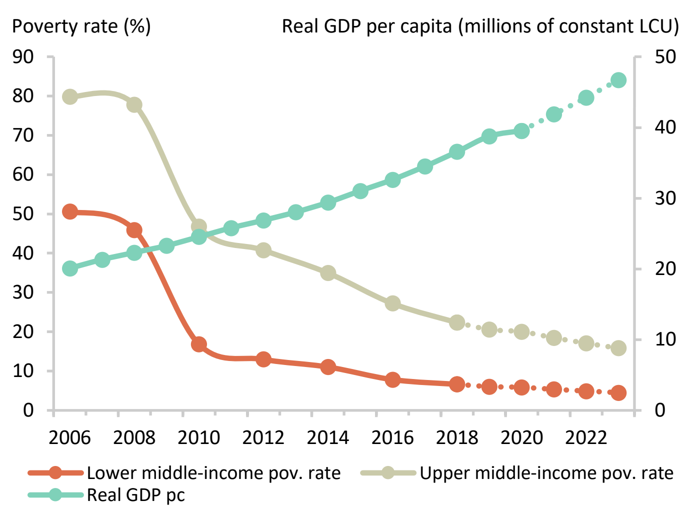
The GDP grew 2.9 percent in 2020, due to exceptional resilience in Vietnam's export and domestic sectors, although this growth performance is significantly lower than the 7 percent growth rate in 2019. At the sectoral level, agriculture turned out to be the most resilient with an estimated growth rate of 2.7 percent. Industries and services grew 4.0 and 2.3 percent, respectively. The tourism-related subsectors have borne the brunt of the COVID-19 crisis with accommodation and catering

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



Sources: World Bank.

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



Sources: World Bank. Notes: see Table 2.

services dropping by about 15.0 percent in 2020 compared to 2019, while the number of foreign visitors in 2020 was only 21 percent of the one recorded a year ago.

Fiscal and monetary policies have been accommodating. On the fiscal front, the authorities launched initiatives to support businesses through a deferral of tax payments, allocated funds to support households and individuals affected by the crisis and increased public investment disbursement by 40 percent (y/y) to bolster aggregate demand. This latter policy appears to have been the most effective. On the monetary front, the authorities reduced the reference rate three times during the year and granted flexibility to banks on forbearance to clients on loan terms. While NPLs are low, the authorities are monitoring the performance of the banking sector.

Outlook

The Socio-economic Development Strategy 2021-2030 sets the objective of Vietnam becoming an industrialized country and belonging to the group of upper middle-income countries by 2030. To achieve this goal, it needs to: (i) improve the quality of market-economy institutions and governance; (ii) develop human capital, science, technology and innovation; (iii) further integrate into the global economy; (iv) continue improving transport, energy and IT infrastructure and green and resilient megacities. The transition years will need to see major investments in human capital, innovation, and green infrastructure to increase productivity and transform the economy into a resilient and knowledge-based economy. Some of the major challenges to overcome include, an aging population, a relatively low skilled labor force, and the high environmental costs of the current growth model. The economy also remains vulnerable to external shocks given its export orientation.

GDP growth is expected to rebound in 2021 reaching 6.6 percent and 6.5 percent in 2022 and 2023, respectively. Exports are expected to perform strongly in 2021, though they face the risks of slackening international demand if vaccinations continue to face slow roll-out and growth in the US and EU, the main destination for Vietnam's exports, falters. Domestic sector growth will pick up further once private demand recovers from ongoing COVID effects. Over the medium term, growth will settle closer to potential growth, on the back of manufacturing and services growth. On the demand side, recovery of private investment and consumption will replace the counter-cyclical policies extended during the crisis. Fiscal deficit and debt will remain sustainable while financial sector health will need to be monitored carefully. Based on the Lower -Middle Income Class poverty line ($3.20/day 2011PPP), the poverty rate is projected to be 5.3 percent in 2021, slightly higher than the 5.1 percent forecast in the absence of COVID.

The effects from COVID are not equitable. Households in the bottom income quintile have experienced on average continued income decline through January 2021, compared to households in the upper income quintile whose income decline has tapered off. Household income loss today will have longer term impacts on spending. About 40 percent of households that still have lower income due to the COVID crisis said this decline has affected their plans, including home renovations, construction, starting a business, or purchase of a motor vehicle.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	7.1	7.0	2.9	6.6	6.5	6.5
Private Consumption	7.3	7.4	0.6	5.6	7.5	7.5
Government Consumption	6.3	5.8	6.3	4.3	4.8	4.8
Gross Fixed Capital Investment	8.2	8.7	3.4	6.3	7.0	7.0
Exports, Goods and Services	14.3	6.7	5.0	7.3	9.0	9.0
Imports, Goods and Services	12.8	8.3	3.3	6.5	9.4	9.4
Real GDP growth, at constant factor prices	7.2	7.1	3.1	6.6	6.5	6.5
Agriculture	3.8	2.0	2.7	2.0	1.9	1.9
Industry	8.9	8.9	4.0	8.4	8.1	8.1
Services	7.0	7.3	2.4	6.6	6.4	6.2
Inflation (Consumer Price Index)	3.5	2.8	3.2	3.6	3.6	4.0
Current Account Balance (% of GDP)	2.4	4.8	5.0	3.6	3.1	3.0
Fiscal Balance (% of GDP)	-1.3	-4.2	-4.4	-6.0	-5.9	-5.4
Debt (% of GDP)	55.0	55.0	56.9	58.3	59.0	58.8
Primary Balance (% of GDP)	0.6	-2.4	-2.6	-4.4	-4.3	-3.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	6.6	6.0	5.9	5.3	4.9	4.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	22.4	20.6	20.0	18.5	17.1	15.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on EAPPOV harmonization, using 2014-VHLSS and 2018-VHLSS.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.

(b) Projection using annualized elasticity (2014-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

Europe and Central Asia

Spring Meetings 2021

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

ALBANIA

Table 1	2020
Population, million	2.8
GDP, current US$ billion	15.1
GDP per capita, current US$	5290.1
Upper middle-income poverty rate ($5.5)[a]	33.8
Gini index[a]	33.2
School enrollment, primary (% gross)[b]	104.8
Life expectancy at birth, years[b]	78.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

Albania was hit hard, first by an earthquake in November 2019 and then the COVID-19 pandemic. As tourism and services contracted sharply, GDP and employment slumped. Reconstruction and COVID19 related stimulus alleviated the shocks, but at the cost of fiscal space erosion in a context of high economic uncertainty for the years ahead. Reconstruction is likely to be the main driver of the recovery in 2021, followed by a milder growth in private demand due to ongoing travel restrictions.

Key conditions and challenges

Albania's economy grew by 3.3 percent in 2015-2019, achieving significant reform progress while aspiring to EU membership. A few large renewable energy projects and expansion in tourism[1] and garments' manufacturing exports drove GDP and employment growth. However, productivity has stagnated below that of peer countries, and wage pressures could reduce competitiveness. Small and Medium Enterprises (SMEs) represent more than 90% of private firms and rely on low-skilled, low-wage labor. Limited access to finance, burdensome logistics and poor market integration discourage private investment, while scarce public revenues limit public infrastructure and human capital investment.

Growth halted in 2019, as the earthquake further exposed the country's low buffers. Fiscal consolidation was put on hold and external vulnerabilities reemerged.

The pandemic hit Albania's key sectors of tourism and manufacturing through the recession in the EU, supply chain disruptions, travel limitations and social distancing measures.

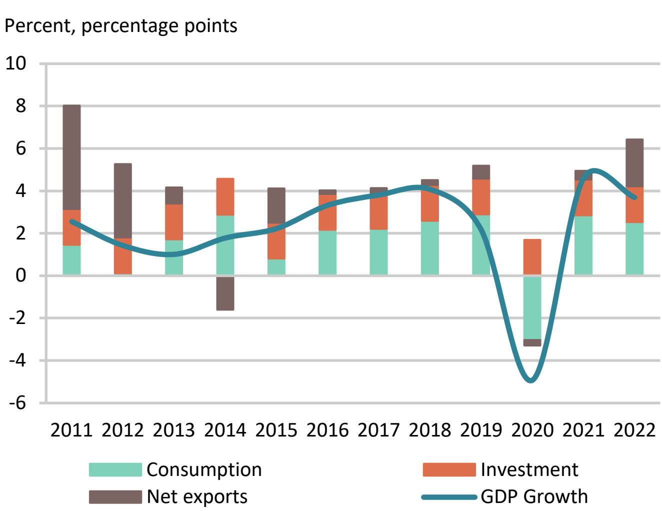
GDP is projected to have declined by 4.7 percent in 2020 due largely to a slowdown in tourism, though smaller than initially projected as domestic tourism demand partially compensated for the drop in foreign visits. Public support packages for reconstruction and to mitigate the crisis had a small estimated success in preventing an increase in poverty and had a significant fiscal cost. Recently introduced tax incentives further stress already declining revenues. Delayed global vaccine rollout could cause long-lasting travel restrictions and prevent a recovery of the country's services and manufacturing, worsening the performance of businesses and delaying the full recovery in employment. The normalization of the global economy will have a significant impact on the shape of the recovery.

Recent developments

As key economic sectors were put in lockdown, the economy experienced a sharp contraction of 10.2 percent in Q2. Travel and tourism services were among the first sectors hit and a combination of official restrictions and post-COVID behavior change reduced both supply and demand. Sales, profits and employment losses affected SMEs disproportionately. Unemployment rose to 11.9 percent in Q2. Social distancing measures were lifted in the summer and employment bounced back, with tourism and reconstruction partially absorbing job losses in manufacturing. While total job losses have been relatively

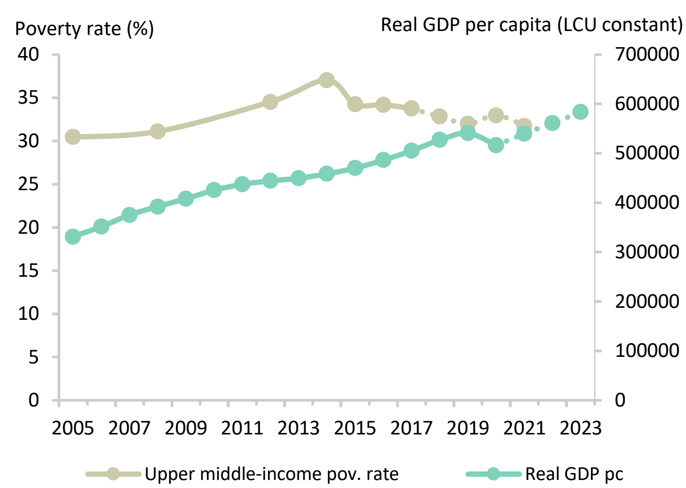
[1]/n = up to 2016 poverty is measured using consumption data from the Household Budget Survey; starting in 2017 income data from the Survey of Income and Living Conditions are used to measure and forecast poverty.

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



Sources: INSTAT and World Bank.

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



Source: World Bank. Notes: see Table 2.

small, the quality of jobs has likely decreased, as Albania employs a large share of labor in the informal economy. Despite the employment recovery, economic activity continued to contract by 3.4 percent in Q3. Private consumption and investment declined sharply, as the number of infections consistently rose during the year. Declining garment processing orders led a sharp decline of 6.7 percent of goods exports, while tourist visits decreased by 60 percent.

Poverty (at USD 5.5 per day) is estimated to have increased in 2020 by 1 percentage point, equivalent to 28 thousand new poor. Response measures included increased social assistance benefits, wage subsidies, credit guarantees to ease salary payments and working capital, which are estimated to have prevented a further poverty increase of about 1.7 percentage points. Tax deferrals and further VAT exemptions were introduced to help SMEs, while public spending rose to 33.7 percent of GDP and public revenues slumped to 26.7 percent of GDP, despite large grants financing reconstruction. The fiscal stimulus package increased public debt to 80 percent of GDP, a first-time increase since 2017, as the fiscal rule mandates that debt-to-GDP ratio should decline annually[2].

Outlook

Tourism and travel are likely to remain limited until global vaccination rollout is completed. In this scenario, GDP is forecasted to grow by 4.4 percent in 2021 as exports, consumption and investment partially rebound. The services sector, led by tourism, and construction are expected to be key drivers of the recovery, in part thanks to reconstruction investment, following evidence from similar disasters in developing economies. Poverty is expected to decline in line with the recovery by about 2 percentage points. In the years following, private consumption will play an increasingly important role in growth, supported by reconstruction efforts. Private investment will contribute to growth, provided that the government continues to implement business climate reforms. Beyond 2021, government spending will likely be constrained by limited fiscal space. The fiscal situation could deteriorate in a downside growth scenario and in the absence of expanded revenue collection. In this case, the government may need to further reduce capital spending to keep the debt to GDP ratio from rising.

The current account deficit is expected to narrow to 8.8 percent of GDP in 2021 and further decline to 6.5 percent in line with the pre-crisis trends, driven by projected improvements in the trade balance. Service exports, including tourism and fast-expanding business-process operations should narrow the trade deficit over the medium term. Import growth will be high at 13 percent in 2021, as infrastructure investment speeds up.

With economic activity picking up, revenues are projected to recover to 27.6 percent of GDP by 2022-2025. Albania's public debt is projected to only marginally decrease to 79.5 percent of GDP in 2021. The employment outlook is largely dependent on the recovery of the services sectors and reconstruction, where jobs are mostly low pay and vulnerable to economic uncertainty.

2/ The fiscal rule includes an escape clause in the case of an emergency, which applied in 2020.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.1	2.2	-4.7	4.4	3.7	3.7
Private Consumption	3.3	3.3	-4.1	2.6	3.2	3.2
Government Consumption	0.7	3.8	2.3	6.4	0.9	3.3
Gross Fixed Capital Investment	2.4	-3.3	-7.1	5.4	-4.6	2.3
Exports, Goods and Services	4.1	6.0	-30.6	20.5	13.7	6.9
Imports, Goods and Services	2.4	3.0	-21.8	12.3	4.3	4.3
Real GDP growth, at constant factor prices	4.1	2.2	-4.6	4.3	3.6	3.6
Agriculture	1.2	0.4	1.7	1.7	1.5	1.5
Industry	9.3	1.8	-2.1	6.9	5.0	5.0
Services	2.9	3.1	-8.1	4.1	3.8	3.7
Inflation (Consumer Price Index)	2.1	1.4	2.2	2.6	2.9	2.8
Current Account Balance (% of GDP)	-6.8	-8.0	-9.3	-8.8	-7.4	-6.5
Net Foreign Direct Investment (% of GDP)	8.0	7.6	5.7	6.2	7.7	7.3
Fiscal Balance (% of GDP)	-1.7	-2.0	-6.9	-5.5	-4.1	-3.9
Debt (% of GDP)	69.5	67.9	80.0	79.5	78.8	77.8
Primary Balance (% of GDP)	0.5	0.1	-4.8	-2.9	-1.4	-1.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	32.8	32.0	33.0	31.7		

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on ECAPOV harmonization, using HBS until 2016 and SILC from 2017.Actual data: 2017. Nowcast: 2018-2019. Forecast: 2020-2021.

(b) Nowcast 2018-2019 using neutral distribution (2017) with pass-through = 1 based on GDP in constant LCU. Projections 2020-2021use sector GDP projections with pass-through = 1.

ARMENIA

Table 1	2020
Population, million	2.9
GDP, current US$ billion	12.6
GDP per capita, current US$	4297.0
International poverty rate ($1.9)[a]	1.1
Lower middle-income poverty rate ($3.2)[a]	9.8
Upper middle-income poverty rate ($5.5)[a]	44.0
Gini index[a]	29.9
School enrollment, primary (% gross)[b]	91.8
Life expectancy at birth, years[b]	74.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

In 2020, Armenia experienced one of the region's sharpest GDP contractions—7.6 percent—as a severe COVID-19 outbreak and a military conflict with Azerbaijan late in the year impacted performance. Poverty is estimated to have increased by 7 percentage points in 2020. The economic recovery will be gradual, with output reaching pre-COVID levels by 2023, assuming that the pandemic is contained, and regional stability maintained. Risks to the recovery include a slow pace of immunization and elevated political uncertainty.

Key conditions and challenges

Before the coronavirus pandemic, Armenia was making gradual improvements to its business environment and establishing a track record of prudent economic management, underpinned by a robust fiscal rule, an inflation-targeting monetary policy framework, and improving financial sector oversight. The authorities launched an ambitious reform program aimed at strengthening governance in 2018. Economic growth was strong, averaging 6.4 percent in 2018 and 2019.

Despite Armenia's reform progress, structural challenges have prevented the country from reaching its full potential. These include governance gaps such as incomplete judicial reform, weak connectivity (resulting in limited trade integration and undiversified trade patterns), an aging population, and a labor market characterized by high unemployment, pervasive informality, and skills mismatches. A tense geopolitical situation exacerbates these challenges.

Armenia's progress was derailed in 2020 by twin shocks: the worst military confrontation with Azerbaijan since 1994 and the coronavirus pandemic. Armenia suffered a severe COVID-19 outbreak, ranking 27th globally in recorded cases per million population. Meanwhile, the country's conflict with Azerbaijan escalated dramatically in September 2020. Although the November 10th ceasefire halted hostilities, Armenia has since entered a period of heightened domestic political instability.

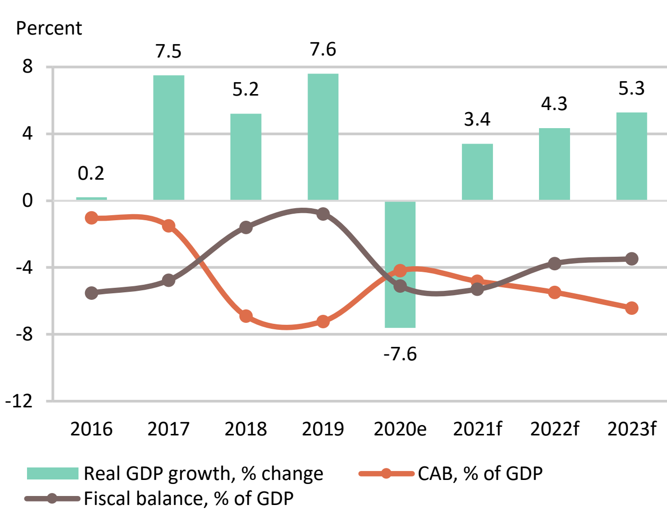
These twin shocks led to a sharp economic contraction, increased poverty, and a fiscal deterioration. Nevertheless, Armenia maintained overall macroeconomic stability and healthy external buffers through the crisis.

Recent developments

Real GDP contracted by 7.6 percent in 2020. Services—trade and the hospitality sector, in particular—were most affected, contracting by 10 percent. Reflecting structural challenges, for the fifth consecutive year agricultural output fell (by 4 percent). On the demand side, private consumption and investment slumped, while the drag from net exports eased as the decline in imports outpaced that of exports.

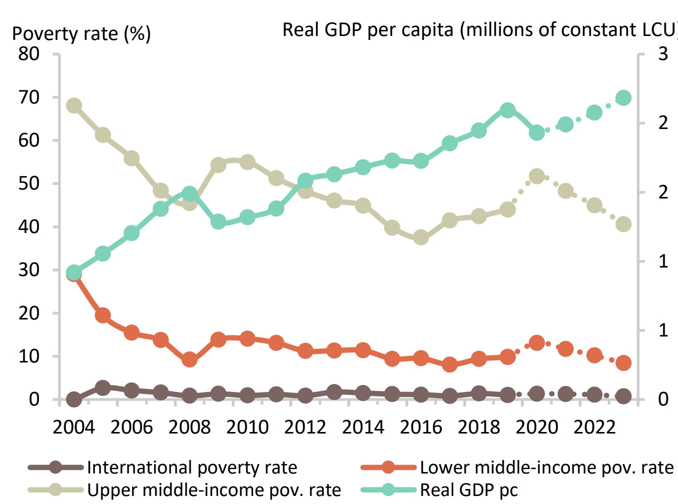
The pandemic's impact on vulnerable households, which has been severe, was only partially mitigated by the government's COVID-19 response (estimated at 3.5 percent of GDP, including support through the banking sector to businesses). The poverty rate (measured at the upper-middle-income economy poverty line) is estimated to have jumped to over 51 percent in 2020, a 7 percentage point rise. The unemployment rate rose by 1 percentage point year on year, reaching 18.1 percent at end-September 2020. Somewhat effective mitigation measures implemented by the government and the relatively short duration of pandemic-related restrictions

FIGURE 1 Armenia / GDP growth, fiscal and current account balances



Sources: Statistical Committee of Armenia; Central Bank of Armenia; World Bank staff projections.

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



Source: World Bank. Note: see Table 2.

prevented an even greater increase in unemployment.

The budget deficit widened sharply to 5.1 percent of GDP in 2020 (from 0.8 percent of GDP in 2019), driven by increased spending associated with the government's pandemic response, higher military spending, and depressed tax revenues. The deficit was financed by a deposits drawdown and increased public borrowing, prompting Armenia to invoke its fiscal rule's escape clause as public debt rose above the statutory level of 60 percent of GDP.

Inflation remained subdued through most of 2020, reflecting weak aggregate demand. However, price pressures accelerated in December and reached 5.3 percent in February 2021, prompting the Central Bank of Armenia (CBA) to raise its policy rate. The recent uptick in inflation was driven by an increase in international food prices and exchange rate depreciation pass-through.

The current account deficit narrowed in 2020 as import compression and higher official grants offset a sharp decline in export earnings and weaker remittances. FDI contracted further from a low base, but higher public sector external borrowing boosted foreign exchange reserves (which provided 4.7 months of import cover at end-2020). The issuance of a $750 million Eurobond in early 2021 further increased external buffers. The CBA intervened to smooth dram volatility, which came under pressure in late 2020 owing to political instability after remaining relatively stable for most of the year.

Outlook

GDP growth is projected to recover partially in 2021 (to 3.4 percent) and more strongly in 2022 (4.3 percent). The recovery will be slow; the economy is unlikely to return to pre-COVID output levels until 2023.

The baseline scenario assumes that the authorities will not enact additional lockdowns and restrictions in 2021. Although the pace of vaccinations will gradually ramp up, the authorities do not expect to vaccinate a significant share of the population until 2022. The baseline scenario also assumes improved political stability.

Private consumption and the services sector are expected to recover gradually. Private investment will likely remain subdued, reflecting weak investor confidence. High post-conflict spending and ambitious public investment plans— although tempered by execution challenges—will keep the fiscal deficit elevated and drive the debt-to-GDP ratio above 70 percent in the medium term.

Average inflation is forecast to remain close to the CBA's 4-percent target in 2021 but could surge higher if global food and fuel prices continue to rise unexpectedly.

The current account deficit is projected to remain near 5–6 percent of GDP in 2021–23, as recovering demand spurs import growth, and the global recovery boosts exports and remittances. FDI inflows are expected to remain subdued, but public borrowing will keep reserves at a comfortable level over the medium term.

The COVID-19 outbreak is estimated to have had a devastating impact on vulnerable households. Forecasts suggest that 48 percent of the population will remain below the $5.5 2011 PPP poverty line in 2021, driven by income losses, down only slightly from 51 percent in 2020.

The risks to the outlook are weighted heavily to the downside. They include uncertainty over progress in containing the pandemic and the pace of vaccination, weak economic recovery in key trading partners like the Russian Federation, geopolitical fragility, and heightened political uncertainty.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	5.2	7.6	-7.6	3.4	4.3	5.3
Private Consumption	4.9	11.7	-14.0	4.9	4.1	5.0
Government Consumption	-3.0	12.5	15.6	-0.6	1.1	2.4
Gross Fixed Capital Investment	4.8	4.4	-8.6	2.3	5.2	5.4
Exports, Goods and Services	5.0	16.0	-31.4	8.7	12.2	12.6
Imports, Goods and Services	13.3	12.0	-32.1	8.3	9.2	9.7
Real GDP growth, at constant factor prices	4.9	7.6	-7.3	3.4	4.3	5.3
Agriculture	-6.9	-2.6	-4.0	1.3	2.2	3.5
Industry	3.7	7.1	-2.8	1.2	2.4	3.8
Services	9.0	10.4	-10.2	5.1	5.8	6.4
Inflation (Consumer Price Index)	2.5	1.4	1.2	3.5	3.8	4.0
Current Account Balance (% of GDP)	-6.9	-7.2	-4.2	-4.8	-5.5	-6.4
Net Foreign Direct Investment (% of GDP)	2.0	2.9	1.2	1.8	2.3	2.6
Fiscal Balance (% of GDP)	-1.6	-0.8	-5.1	-5.3	-3.8	-3.5
Debt (% of GDP)	55.7	53.5	67.3	70.8	70.6	70.0
Primary Balance (% of GDP)	0.7	1.6	-2.4	-2.6	-1.7	-1.4
International poverty rate ($1.9 in 2011 PPP)[a,b,c]	1.4	1.1	1.3	1.3	1.1	0.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b,]	9.4	9.8	13.2	11.7	10.2	8.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b,]	42.5	44.0	51.7	48.3	45.0	40.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2019-ILCS.Actual data: 2019. Nowcast: 2020. Forecast are from 2021 to 2023.

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

(c) The poverty rates for 2019 are not strictly comparable with 2018 due to revisions on the ILCS starting in 2019.

AZERBAIJAN

Table 1	2020
Population, million	10.1
GDP, current US$ billion	42.5
GDP per capita, current US$	4205.4
School enrollment, primary (% gross)[a]	97.9
Life expectancy at birth, years[a]	72.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for school enrollment (2019); life expectancy (2018).

The COVID-19 pandemic and plunging oil prices and production drove Azerbaijan's economy into recession in 2020. Poverty is estimated to have risen as households experienced job losses and financial hardship. Azerbaijan's economy is projected to recover gradually over the medium term, aided by the vaccination effort and increased public spending. However, downside risks remain acute and stem from the possibility of a slower-than-expected vaccine rollout, sluggish recovery in oil output, and persistent structural rigidities.

Key conditions and challenges

Azerbaijan is an upper-middle-income economy rich in hydrocarbon resources. Since the 2000s, inflows of FDI to the oil and natural gas sectors have driven a surge in exports, propelling economic growth and reducing poverty. However, economic performance has stalled in recent years as hydrocarbon production plateaued and prices fell, revealing systemic macroeconomic and structural challenges. A large state footprint, a small and fragile financial sector, and weak institutions impede economic diversification and the development of a vibrant private sector. Additionally, regional inequality persists, informality is widespread, and a considerable part of the population remains socially and economically vulnerable. Azerbaijan's human capital indicators lag its regional and income group peers. The country's human capital constraints, which translate into a shortage of skilled labor, could worsen with more automation in the future.

Simmering tensions with Armenia escalated into a military conflict in late 2020. In addition to a significant human toll, the conflict also inflicted high socio-economic and environmental costs. Numerous facilities, infrastructure and residential areas were destroyed or damaged, and natural habitats devastated.

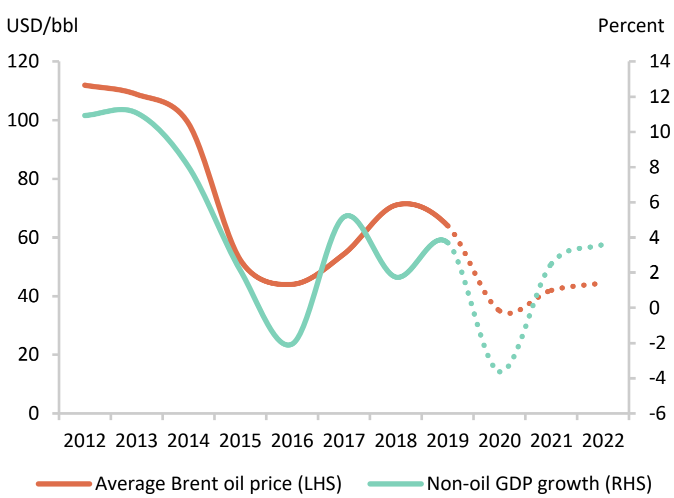
Recent developments

In 2020, Azerbaijan was hit by the triple shocks of the COVID-19 pandemic, reduced oil prices, and the armed conflict. The economy experienced its second recession since 2015, contracting by an estimated 4.3 percent. Three waves of COVID-19 induced lockdowns halted activity in nonhydrocarbon sectors, particularly travel, hospitality, and domestic trade. The energy sector contracted by 7 percent, as adherence to OPEC+ oil production quotas slashed oil output. On the demand side, investment fell by 8.3 percent as business confidence plummeted. Private consumption was also affected, but wage hikes in late-2019 prevented a deeper slump.

The lockdowns were successful in containing new coronavirus infections and easing pressures on the health care system. However, a spike in new cases followed the eventual relaxation of containment measures, prompting the authorities to alternate between loosening and tightening restrictions throughout the year. Azerbaijan launched a COVID-19 vaccination campaign using China's Sinovac vaccine in late January 2021.

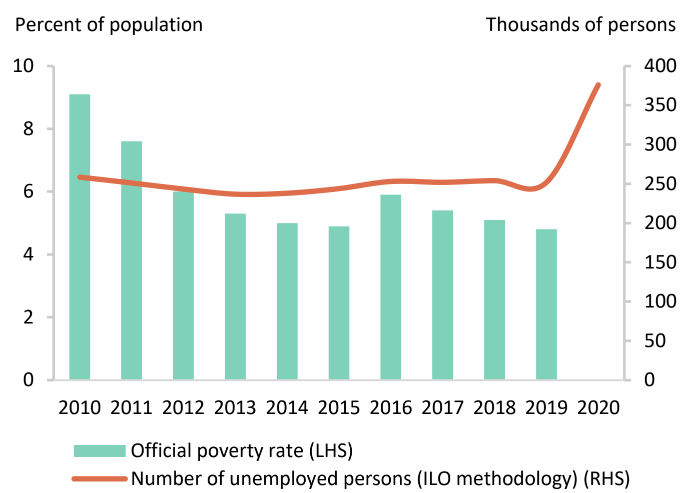
Azerbaijan's consolidated budget recorded a large deficit of 6.5 percent of GDP in 2020, as revenues collapsed and spending rose, including to finance the pandemic policy response (estimated at 2.7 percent of GDP). The deficit was financed by State Oil Fund (SOFAZ) assets.

FIGURE 1 Azerbaijan / Nonoil GDP growth and Oil Price



Sources: State Statistical Committee, World Bank data, and World Bank staff estimates.

FIGURE 2 Azerbaijan / Official Poverty Rate and Unemployment



Source: State Statistical Committee. Note: The World Bank has not reviewed the official national poverty rates for 2013–19.

A narrowing merchandise trade surplus, together with falling services receipts and rising capital outflows, resulted in a balance of payments deficit of 5.9 percent of GDP in the first nine months of 2020. The deficit was financed by increased sales of foreign exchange by SOFAZ.

Depressed domestic demand and a stable exchange rate contained 12-month inflation to 2.7 percent in 2020. The Central Bank of Azerbaijan (CBA) cut the policy rate five times during the year, lowering it from 7.5 percent to 6.25 percent.

Bank performance was uneven in 2020, suggesting that financial sector conditions remain fragile. Bank credit declined by 5 percent year on year owing to plummeting economic activity and the revocation of four banks' operating licenses. Deposits fell by 4.4 percent year on year as households and firms tapped their savings to weather the downturn.

Household welfare deteriorated markedly in 2020. Poverty is estimated to have risen due to a rise in unemployment associated with the recession. The number of unemployed increased by an estimated 124,300 persons in 2020. Fiscal measures only partially mitigated the pandemic's negative impact on households.

Outlook

Azerbaijan's economic recovery is expected to be gradual, with output returning to pre-COVID-19 levels only by end-2022. The early launch of Azerbaijan's vaccination initiative and significantly higher public post-conflict reconstruction spending suggest that the recovery may materialize faster than previously anticipated.

In 2021, an acceleration of domestic demand will support economic growth, but this will be conditional on an improved health situation and increased public spending. Higher oil prices are forecast to narrow fiscal deficit and help current account return to surplus. Beyond 2021, without major structural reforms, the pace of the economic revival is likely to be moderate owing to a protracted recovery in oil output and anticipated fiscal tightening (amid rising fiscal pressures).

Inflation is projected to rise in the medium term as a recent administrative price hike passes through to prices more generally, and demand begins to recover. Once the government phases out measures to support the financial sector, some banks are likely to experience a deterioration of capital and profitability ratios.

Downside risks to this forecast will remain substantial in the medium term. The existing oil market equilibrium is fragile and largely depends on the OPEC+ agreements. In addition, the evolution of the pandemic is still uncertain and will depend on the speed of the vaccine rollout. Finally, regional geopolitical risks will remain elevated in the foreseeable future. Significant SOFAZ reserves—over 100 percent of GDP at end-2020—will help shield the economy from these risks.

The long-term poverty and inequality trajectory will depend on the severity and duration of the crisis. The longer the pandemic's duration, the deeper and broader the impact, particularly on employment and wages in the services sector, which would lead to more severe effects on household welfare and poverty.

Azerbaijan's recently announced 2030 national development vision outlines a renewed, long-run commitment to addressing systemic macroeconomic, structural, and governance challenges. Addressing these challenges could unlock new nonhydrocarbon sources of economic growth and achieve sustainable, resilient, and inclusive development.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.5	2.2	-4.3	2.8	3.9	3.4
Private Consumption	3.0	3.8	-5.1	3.7	3.6	3.5
Government Consumption	1.5	7.9	4.0	4.7	3.6	3.6
Gross Fixed Capital Investment	-0.2	-3.1	-6.5	4.2	1.2	3.2
Exports, Goods and Services	1.0	1.5	-8.1	2.1	4.1	2.3
Imports, Goods and Services	1.5	2.2	-10.5	3.5	3.0	1.7
Real GDP growth, at constant factor prices	1.5	2.2	-4.4	2.8	3.9	3.4
Agriculture	4.6	7.3	1.9	2.5	3.2	3.2
Industry	-0.7	0.4	-5.2	2.8	3.3	2.0
Services	5.1	4.3	-4.4	2.9	5.1	5.7
Inflation (Consumer Price Index)	1.6	2.4	2.7	3.9	3.2	3.0
Current Account Balance (% of GDP)	12.8	9.1	-1.0	2.8	3.9	3.1
Net Foreign Direct Investment (% of GDP)	-1.7	-2.9	-1.5	1.3	1.2	1.1
Fiscal Balance (% of GDP)	5.6	9.0	-6.5	-2.5	2.8	4.0
Debt (% of GDP)	18.9	18.9	18.2	17.1	16.7	16.5
Primary Balance (% of GDP)	6.8	9.8	-5.7	-1.9	3.3	4.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

BELARUS

Table 1	**2020**
Population, million	9.4
GDP, current US$ billion	60.2
GDP per capita, current US$	6371.4
Upper middle-income poverty rate ($5.5)[a]	0.2
Lower middle-income poverty rate ($3.2)	25.3
School enrollment, primary (% gross)[b]	100.5
Life expectancy at birth, years[b]	74.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011PPPs.
(b) Most recent WDI value (2018).

In 2020, the absence of mobility restrictions and credit relief for state-owned enterprises prevented a deeper recession, while external financing needs and domestic foreign exchange pressures were met through a drawdown of reserves and debt financing. Amidst the ongoing political crisis and limited space for fiscal or monetary expansion, the outlook, in the absence of reforms, is for a deepening of the recession in 2021, and a slow recovery thereafter. Poverty rates are expected to stagnate at a low level.

Key conditions and challenges

Even before COVID-19, a lack of progress on reforms had already contributed to a sharp slowdown, with annual GDP growth averaging 0.5 percent since 2011. The COVID-19 outbreak and political turbulence following elections in August 2020 have further depressed household and investor sentiment and contributed to household deposit outflows and an 18-percent currency depreciation against the US$ during 2020. At the same time, policy support may lead to further erosion of already depleted fiscal and FX buffers, undermining macro-financial stability. The possible gradual relocation of the export-oriented ICT sector could affect services exports. Economic sanctions, if further imposed, are likely to increase the costs of doing business for selected exporters. Restoring economic confidence promptly is crucial, given the limited policy buffers and large downside risks.

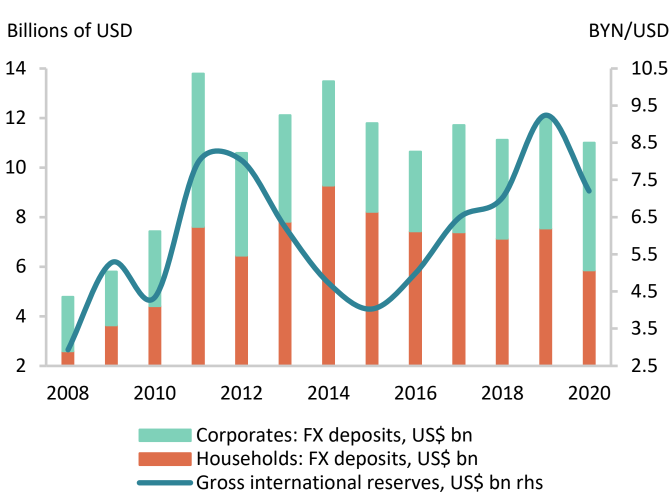
Belarus's incomplete transition to a market economy has saddled it with a low-productivity and highly-leveraged SOE sector, a weak and dollarized banking sector, and heavy dependence on commodity exports. Per National Bank estimates, loans taken by large SOEs, sometimes with questionable ability to be serviced on time, averaged 14 percent of GDP over the past several years. Given the share of FX debt on SOE balance sheets, currency depreciation and economic weakness have further weakened bank asset quality over the past year.

Over the medium-term, the challenge is to move towards an economy less dependent on oil processing that can be competitive as the implicit oil import price subsidies are withdrawn with the implementation of Russia's "tax maneuver". Anchoring fiscal sustainability in the medium term will require SOE restructuring, and rationalization of the public sector wage bill and tax expenditures. A robust social safety net and expanded unemployment support will be critical for maintaining basic incomes of vulnerable households and facilitating reallocation of workers.

Recent developments

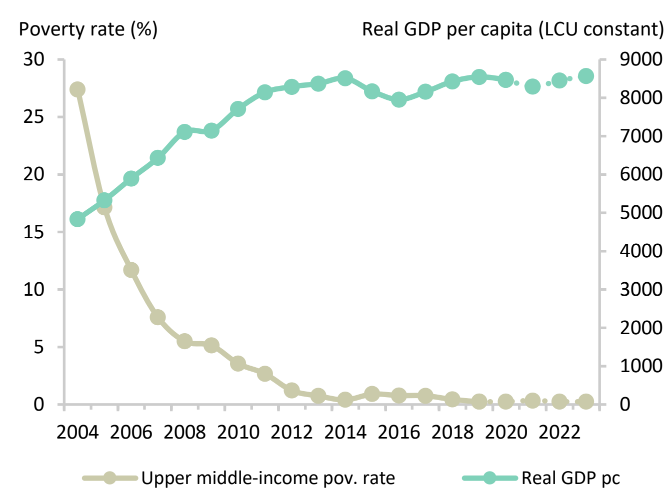
In 2020, the economy contracted by 0.9 percent y/y, dragged back by external headwinds, which were only partially offset by demand-side policy measures. Disagreements with Russia on oil supply terms contributed to a 1.9 percent decline in real merchandize exports y/y during Q1-Q3 2020. The lack of mobility restrictions, coupled with subsidized lending to SOEs (about 1.6 percent of GDP) prevented a deeper contraction of industrial output, while sustained real wage growth supported consumption. The current account deficit remained nearly balanced, as the trade surplus reached 3.2 percent of GDP. During the second half of 2020, forex deposit withdrawals and forex demand by households put strong pressure on the currency and banking sector liquidity,

FIGURE 1 Belarus / FX Reserves and Currency Trends



Sources: Belstat, World Bank.

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



Source: World Bank. Notes: see Table 2.

accommodated by the spending of gross reserves (down 20.5 percent in 2020), and increasing banks' liabilities to non-residents. The weakening currency contributed to an acceleration in headline inflation to 7.4 percent at end-2020 from 4.7 percent in 2019. To prevent additional currency pressures, the National Bank switched from the provision of overnight loans to weekly auctions. In February 2021, the government introduced broad-based price controls by capping monthly price increases on basic food items and drugs.

For the first time since 2009, the general government budget shifted into a deficit: 1.2 percent of GDP. Tax revenues dropped by 2.6 percentage points (pp) of GDP, on lower revenues from profit tax and foreign trade. Spending grew by 1.9pp of GDP as capital expenditures and public sector wages increased by 2pp and 0.6pp of GDP, respectively. External public debt repayment pressures were alleviated by issuances of Eurobonds (US$1.25bn), RUR -denominated bonds (US$135mln), and loans from Russia and the EFSD (totaling US$1 bn).

Real household incomes grew by 4.6 percent in 2020 on account of higher real wages (8 percent y/y), though the pace of disposable income growth decreased in the latter half of 2020. While the national poverty rate remained unchanged in 2020 at 4.8 percent, this outcome was due to favorable dynamics in the Minsk City, Minsk, and Grodno regions. In other areas, rates went above 6 percent. PPP US$5.5/day poverty remained stable at a low level (less than 1 percent).

Outlook

The outlook is for deepening recession during 2021 and weak recovery thereafter, assuming ongoing political tensions, continued headwinds from the Russian "tax maneuver", and lack of structural reforms. Recently announced tax increases – to contain the fiscal deficit and that of the pension system – will hurt an already struggling private sector, hit by the absence of support during the COVID-19 shock. Elevated market interest rates and falling investor confidence will dampen domestic and foreign investment. Recently introduced price controls are unlikely to contain inflation but in certain circumstances might cause shortages of some goods.

A GDP contraction of 2.2 percent is projected in 2021. With weak domestic demand expected to persist, the recovery is expected to be modest in the medium term; however, slow growth will also help to compress imports and the current account deficit.

The outlook is contingent on the availability of external financing. In 2021, external financing needs will be closed by a combination of agreed debt refinancing from Russia and drawdown of reserves, and thus appears manageable. However, 2022-23 are more challenging, on account of repayments coming due of bilateral loans to Russia in 2022, and the principal repayments on Eurobonds and the nuclear power plant loan in 2023.

The government's ability to support vulnerable households is expected to weaken as a result of limited fiscal space. Probably a decline in real wages and incomes will negatively affect household welfare. Yet, measured at the World Bank's US$5.5/day threshold, the welfare impact is projected to be small, with poverty rates increasing by 0.1pp in 2021.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.1	1.4	-0.9	-2.2	1.9	1.2
Private Consumption	7.9	5.1	-3.8	-4.1	3.8	2.6
Government Consumption	-0.4	0.4	1.0	-1.2	0.6	0.3
Gross Fixed Capital Investment	4.4	3.3	-3.9	-6.5	4.3	6.7
Exports, Goods and Services	3.8	1.0	-2.0	2.1	3.0	3.8
Imports, Goods and Services	7.3	5.2	-1.0	-1.1	5.5	7.2
Real GDP growth, at constant factor prices	3.2	1.5	-1.1	-2.1	1.9	1.2
Agriculture	-3.4	3.0	3.3	2.8	3.1	3.1
Industry	5.2	1.4	-4.5	-6.7	3.5	3.3
Services	2.9	1.3	0.8	0.3	0.6	-0.6
Inflation (Consumer Price Index)	4.9	4.7	7.4	8.2	6.1	5.7
Current Account Balance (% of GDP)	0.0	-1.8	-0.3	-0.2	-1.4	-2.4
Net Foreign Direct Investment (% of GDP)	2.4	2.0	0.0	0.0	0.0	0.0
Fiscal Balance (% of GDP)	4.0	2.4	-1.2	-2.6	-1.1	-0.5
Debt (% of GDP)	42.5	37.9	41.9	44.1	44.0	45.4
Primary Balance (% of GDP)	5.9	4.2	0.8	-0.4	1.0	1.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	0.4	0.2	0.2	0.3	0.2	0.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2019-HHS. Actual data: 2019. Nowcast: 2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2019) with pass-through = 0.7 based on GDP per capita in constant LCU.

BOSNIA AND HERZEGOVINA

Table 1	2020
Population, million	3.3
GDP, current US$ billion	19.3
GDP per capita, current US$	5892.7
School enrollment, primary (% gross)[a]	
Life expectancy at birth, years[a]	77.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

Following a sharp contraction of 4 percent in 2020, economic activity is expected to expand by 2.8 percent in 2021. As the world recovers from the COVID-19 crisis and with the implementation of the Economic Reform program, growth is expected to gradually recover. The ongoing crisis highlights the need to implement long-delayed structural reforms to achieve faster recovery. Addressing persistent unemployment and countering the increase in layoffs that occurred during the pandemic is critical to reducing poverty.

Key conditions and challenges

BiH has enjoyed macroeconomic stability over the last decade. However, pre-pandemic the pace of growth has been below that of peer countries in Europe and below what is needed to converge to EU living standards. BiH has not developed the foundations for sustainable economic growth as its economic model remains out of balance.

The economy is driven by consumption, rather than production. Investment is low, and the economy is inward-looking.

Poverty rates have not improved according to the latest data available from 2015 and many people do not have a formal job –or, indeed, any job at all– which could cause many people to grow old in poverty.

The pandemic has highlighted the challenges of BiH's complex institutional set-up. Disbursing fiscal support to households and businesses has been slow, which has weighed heavily on economic activity and could delay the recovery in 2021. Pressures from frequent elections in combination with slow implementation of structural reforms continue to hold back the country's ability to return to growth. The immediate priority for BiH is to control the pandemic and to minimize its economic and social impact. Addressing persistent unemployment and minimizing layoffs remain an important challenge and will be key to curbing emigration.

Recent developments

Real GDP growth is projected at -4.0 percent in 2020 due to a slowdown in most productive sectors, a weaker external environment and high political uncertainty.

In 2020 growth was positive in Q1 but after the introduction of a lockdown and containment measures in Q2 the economy faced a sudden stop as domestic and external demand dropped.

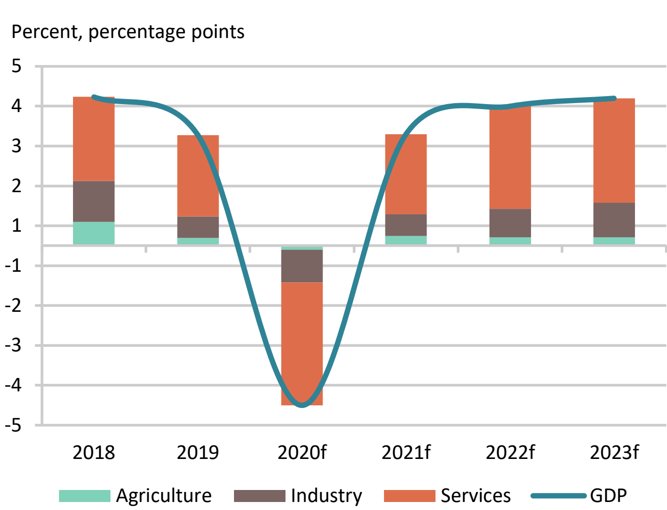
By Q4 2020, economic activity had somewhat improved, but growth remained in negative territory.

Unemployment has recently worsened. According to official estimates, the number of people in paid employment decreased approximately 1 percent y-o-y in November 2020, while the number of unemployed increased by about 3 percent in the same period. Deeper labour market effects have been prevented by wage subsidy programs in both entities and other policy measures targeting affected economic sectors aimed to safeguard potential job losses.

As the economy has fallen into recession and with low oil prices deflation has returned. In December the consumer price index was down 1.6 percent year-on-year (y-o-y).

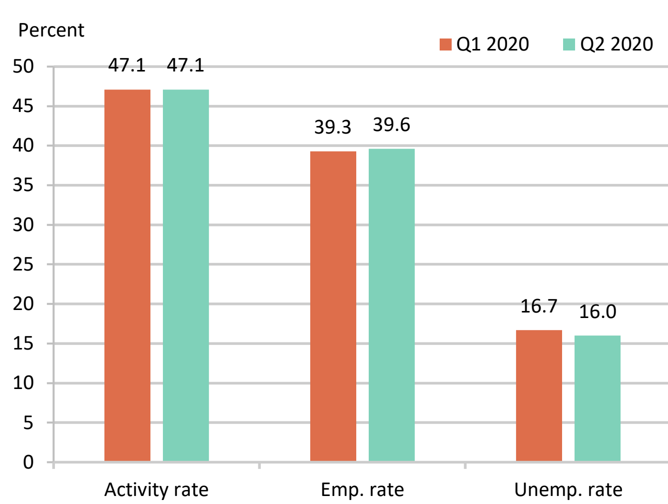
In 2020, a fiscal deficit of 5.5 percent of GDP is expected, down from a surplus of 1.9 percent in 2019. In 2020, revenues fell mainly due to the slump in tax revenue collection, while expenditures rose mainly as a result of higher spending on public wages, goods and services and social benefits.

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



Sources: BiH Agency for Statistics (BHAS), World Bank staff estimate.

FIGURE 2 Bosnia and Herzegovina / Labor market indicators, 2020



Sources: : LFS Q1 and Q2 2020 report, World Bank staff calculations.

The current account deficit is estimated to have worsened slightly in 2020 due to a drop in the services balance and remittances. Total public debt, consisting largely of concessional debt, has increased and is estimated at 40.6 percent of GDP, while the total external debt is estimated at 72 percent of GDP.

Even during the pandemic, the financial sector has been broadly stable. On average, banks are sufficiently capitalized and liquid, but their profitability is eroding.

The latest available poverty data using the national poverty line is for 2015 and the poverty rate was estimated at 16 percent, very close to the 15 percent estimated for 2011.

The slowdown in the economy and the consequent loss of people's employment and earnings have negatively affected household welfare in 2020. Estimates show that many of those who may have been affected were not covered by social protection programs before the crisis.

Outlook

The outlook is marked by the implementation of measures to combat the pandemic. Authorities are currently focused on securing vaccines. As the pandemic subsides the Socio-Economic Program is expected to gain needed attention, mainly through the return of announced investments in energy and infrastructure. Consumption will continue to drive growth, resulting in strong growth of imports. Remittances will recover in the medium term, and, together with progress on reforms, will underpin a gradual pickup in consumption and finance a significant part of the trade deficit. Monetary policy anchored to the Euro will continue to support local currency stability. Safeguarding the banking sector will continue to be important in particular as the full impact of moratoria is yet to be assessed. Authorities have adopted budgets and secured funds to ensure necessary liquidity through credit lines via entity development banks to support affected businesses. As BiH does not have access to international markets, support from IFIs will be critical. As revenues recover BiH's fiscal deficit will return to surplus over the medium term. A stronger push on the capital investment program will need to remain a high priority for the authorities' economic programs. Planned investments in energy, infrastructure, and tourism will also support job creation in those sectors after the crisis.

As the pandemic loses force and the economy gradually recovers in 2021, improvements in labor market participation and employment will remain key for growth to translate into poverty reduction.

There are several risks to the outlook but the main risk is a prolonged pandemic which could lead to lower growth rates in 2021 than projected. In addition, the challenging political environment will affect the implementation of the adopted socio-economic program. The main external risk for BiH remains slow growth in the EU and political tensions in the region.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.1	2.9	-4.0	2.8	3.5	3.7
Private Consumption	2.4	2.8	-4.5	2.8	3.7	3.8
Government Consumption	0.9	2.6	0.5	4.6	3.0	3.0
Gross Fixed Capital Investment	6.3	2.9	-25.8	3.4	4.5	6.3
Exports, Goods and Services	5.9	-0.3	-8.5	2.0	3.5	4.2
Imports, Goods and Services	3.2	0.2	-13.4	3.0	3.7	4.5
Real GDP growth, at constant factor prices	3.7	2.8	-4.0	2.8	3.5	3.7
Agriculture	9.1	2.9	-1.5	3.4	3.0	2.9
Industry	3.8	1.9	-3.0	2.0	2.6	3.2
Services	3.2	3.1	-4.7	3.1	3.9	4.0
Inflation (Consumer Price Index)	1.4	1.2	-0.5	0.7	0.7	0.8
Current Account Balance (% of GDP)	-3.7	-3.2	-3.7	-4.0	-4.7	-5.4
Net Foreign Direct Investment (% of GDP)	2.2	2.9	2.1	3.5	3.6	3.5
Fiscal Balance (% of GDP)	2.5	1.9	-5.5	-2.3	-0.9	0.9
Debt (% of GDP)	36.4	34.6	40.6	39.9	39.3	39.4
Primary Balance (% of GDP)	3.8	2.8	-4.2	-0.9	0.0	1.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

BULGARIA

Table 1	2020
Population, million	6.9
GDP, current US$ billion	67.9
GDP per capita, current US$	9801.8
International poverty rate ($1.9)[a]	0.9
Lower middle-income poverty rate ($3.2)[a]	2.2
Upper middle-income poverty rate ($5.5)[a]	6.9
Gini index[a]	41.3
School enrollment, primary (% gross)[b]	87.4
Life expectancy at birth, years[b]	75.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) Most recent WDI value (2018).

Bulgaria's economy was hit relatively mildly by the pandemic-induced crisis in 2020, as GDP is forecast to have shrunk by 4.2 percent. Consumption remained relatively unabated as government salary subsidies and pension supplements prevented a more severe loss of income. Yet, slow inoculation rates suggest that pandemic-related risks will remain high until at least Q3, 2021. Going forward, policymakers would need to ensure only gradual withdrawal of fiscal support measures and judicious use of unprecedented amount of EU funds.

Key conditions and challenges

Despite robust growth of 3.6 percent on average in the five pre-pandemic years, Bulgaria's real convergence to the average European Union (EU) levels remains slow. The country remains the poorest and the most inequal member of the Union. GDP per capita in PPP terms was just 53 percent of the EU average, poverty was the third highest in the EU, and the Gini coefficient reached 40.8 percent in 2019, illustrating limited redistribution and ineffective social policies. Against rapid aging and population decline, convergence can speed up only if the productivity gap with the rest of the EU shrinks markedly. Bulgaria's growth potential is also undermined by governance and institutional weaknesses, as evidenced by low public confidence in institutions, poor quality of public services and reduced FDI inflows.

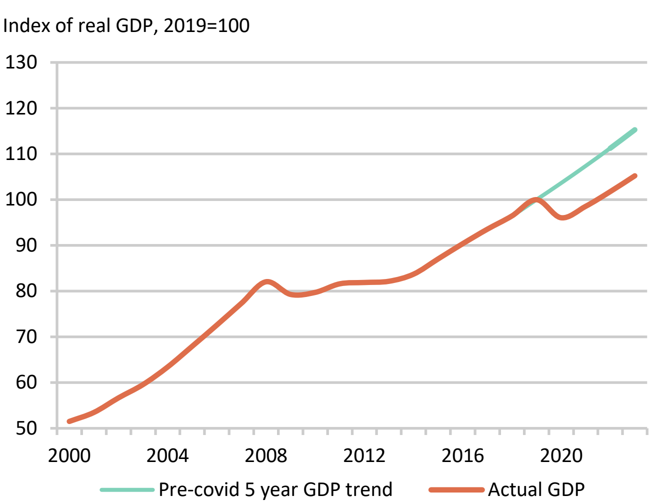
The pandemic has exposed deficiencies in a number of public domains, including health care, education, social protection and administrative services. Insufficiency of medical staff, growing divide in education by socioeconomic status, inadequate and poorly targeted social assistance programmes, and slow digitalization of administrative services are among the challenges that the government is yet to address. Expectedly, the pandemic has also resulted in a deterioration of the fiscal stance, as response measures on the national budget reached 2.4 percent of GDP. Unwinding some of the measures such as a preferential 9 percent VAT rate for certain goods and services may be challenging. In the recovery phase, the biggest task before policymakers would be to ensure only gradual withdrawal of support measures and optimal use of an unprecedented amount of EU funds, estimated at EUR 29 bn for 2021-2027. Going forward, the country's key development challenge would be its transition onto a faster, more inclusive and greener growth path, including costly decarbonisation of a coal-dependent and highly energy intensive economy.

Recent developments

Economic performance in 2020 was largely driven by the waves of domestic containment measures - the first lockdown between early March and mid-May and the second, less stringent restrictions imposed in late November. Yet, with Bulgaria recording the slowest pace of vaccination in the EU - just 4.4 percent of the population vaccinated until Mar 11 – economic activity is not likely to return to normal before the autumn of 2021.

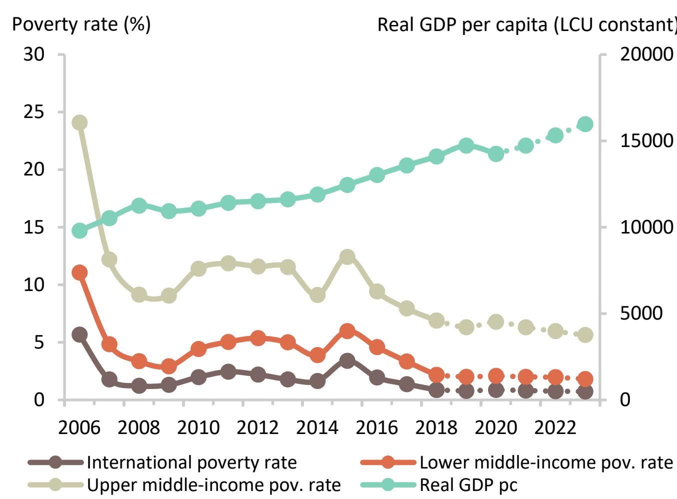
GDP growth in 2020 is estimated at –4.2 percent, as private consumption, which contracted in Q2, bounced back strongly in Q3. Investment shrank notably on escalated uncertainties and savings on public capital spending, used to partly offset the government's response package and automatic fiscal stabilizers. Despite

FIGURE 1 Bulgaria / Poverty rate percentage change and per capita growth



Sources: National Statistical Institute and World Bank.

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



Source: World Bank. Notes: see Table 2.

the pandemic-induced crisis, tax and social security revenues increased 1.6 percent nominally, possibly thanks to public sector salary increases and the growth of consumption in most of the year. Notwithstanding reduced capital spending, total expenditure grew by 5.8 percent y/y, due largely to the fiscal support measures. The budget deficit thus reached 3.0 percent of GDP (against 1 percent in 2019), while public debt picked up to estimated 25 percent against 20 percent at end-2019.

The hardest hit sectors remain tourism and related activities. Overnight stays declined by some 56 percent y/y as foreign tourist arrivals fell markedly. This also showed its impact on external balances, as export of services declined by 32 percent y/y. As a result, the current account surplus shrank to 0.1 percent of GDP in 2020.

The imposition of containment measures led to substantial disruptions to work in the form of work stoppages and reduced hours, though this was not reflected in headline unemployment that increased only moderately. Though the government's salary subsidies and pension supplements helped stabilize incomes for some individuals, work disruptions and higher food prices is projected to have led to a moderate increase in the poverty rate from 6.3 percent in 2019 to 6.8 percent in 2020 using the upper middle income poverty line of US$5.50 PPP per day.

Outlook

The biggest risks to the outlook stem from the epidemiology of the virus and the government's vaccination program. The latter hinges not only on the availability of vaccines and the organization of a well-paced vaccination process, but also on the population's perceptions towards vaccination. Skepticism against vaccines remains high and may decrease only with a stronger pro-vaccination campaign.

Bulgaria is projected to grow by 2.6 percent in 2021 and reach its pre-crisis (2019) level of real output in 2022. The baseline scenario assumes that vaccination in Bulgaria will gain momentum in Q2 and Q3, which will gradually help restore consumer and business confidence. With expectations of reduced infection rates in the summer and increased inoculation in Bulgaria's main market, the EU, external sales of goods are likely to recover but tourism is expected to remain below pre-crisis levels. Drawdowns on the EU Recovery and Resilience Facility are not expected before Q4/2021, with limited impact on this year's investment and growth. Even if non-performing loans have risen moderately until December, 2020 (from 6.5 percent a year ago to 7.4 percent) and the banking sector remains well capitalized, NPL levels may pick up more steeply after the current moratorium on bank loan service is lifted.

In addition to the pandemic-related challenges, upcoming general elections in early April also add to the uncertainties. Swift formation of a new government would be a prerequisite for the smooth continuity of fiscal response measures and the restoration of investor confidence as vaccination gains momentum. Delivery on the fiscal consolidation plans also hinges on the outcome of election.

Barring any unforeseen developments with the COVID-19 virus and under the assumption of high vaccination rates, poverty is projected to decline in 2021 to 6.3 percent as a result of an improved economy facilitating favorable labor market conditions and normalized food inflation.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.1	3.7	-4.2	2.6	3.3	3.4
Private Consumption	4.4	5.5	0.2	2.6	2.8	3.1
Government Consumption	5.4	2.0	7.0	0.8	1.1	0.5
Gross Fixed Capital Investment	5.4	4.5	-5.1	3.2	6.3	5.6
Exports, Goods and Services	1.7	3.9	-11.3	7.1	6.4	5.8
Imports, Goods and Services	5.7	5.2	-6.6	6.5	6.0	5.1
Real GDP growth, at constant factor prices	3.5	3.3	-4.3	2.6	3.3	3.4
Agriculture	-2.0	4.1	-5.3	3.4	1.0	0.5
Industry	-1.1	-0.5	-4.6	3.7	4.0	3.9
Services	5.8	4.6	-4.2	2.1	3.2	3.5
Inflation (Consumer Price Index)	2.8	3.1	1.7	3.2	3.3	3.4
Current Account Balance (% of GDP)	1.0	3.0	0.1	1.8	2.5	2.4
Net Foreign Direct Investment (% of GDP)	-1.4	-1.3	-0.7	-1.7	2.1	1.9
Fiscal Balance (% of GDP)	0.1	-1.0	-3.0	-1.9	-1.5	-0.9
Debt (% of GDP)	22.3	20.2	25.3	26.6	26.7	26.0
Primary Balance (% of GDP)	0.8	-0.4	-2.6	-1.7	-1.2	-0.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.9	0.8	0.9	0.8	0.7	0.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	2.2	2.0	2.1	2.0	2.0	1.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	6.9	6.3	6.8	6.3	6.0	5.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2018-EU-SILC.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.
(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

CROATIA

Table 1	**2020**
Population, million	4.0
GDP, current US$ billion	56.8
GDP per capita, current US$	14101.4
International poverty rate ($1.9)[a]	0.5
Lower middle-income poverty rate ($3.2)[a]	0.8
Upper middle-income poverty rate ($5.5)[a]	2.4
Gini index[a]	29.8
School enrollment, primary (% gross)[b]	94.6
Life expectancy at birth, years[b]	78.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) Most recent WDI value (2018).

As for most countries in Europe, the end of 2020 saw a surge of COVID-19 infections and the reintroduction of social distancing restrictions in Croatia. The country also suffered from a second devastating earthquake in December last year. Progress on vaccination should allow for reopening policies, resulting in a gradual recovery of the Croatian economy led by the tourism sector. GDP is projected to increase by 4.7 percent in 2021, enabling poverty to return to a downward trend.

Key conditions and challenges

The large reliance on tourism has made Croatia highly vulnerable to adverse external shocks such as the current pandemic. GDP contraction in Croatia in 2020, at -8.4 percent, was one of the largest in the EU. The country also suffered from two devastating earthquakes, in March and December 2020. Going forward, generous EU funding through various initiatives should play a key role in supporting the country's economic recovery. However, Croatia will need to use such funds appropriately for both reforms and investment, to maximize the benefits of such financing. While the vaccination program has started, the situation remains highly uncertain because of vaccine supply bottlenecks, its effectiveness on new virus variants, and uptake levels among the population.

At 65.2 percent of the EU27 GDP per capita in 2019 (PPP), Croatia still lags behind EU peers. Strengthening long-term growth is critical to accelerate the income convergence. This will require a diversification of the economy towards more knowledge-based sectors and addressing the economy's structural issues, including public sector governance, education outcomes and the efficiency of the judiciary.

On the fiscal front, the surge in public debt in 2020, reflecting the economic downturn and a large fiscal stimulus package, calls for fiscal prudence and efforts to increase the effectiveness and efficiency of public spending over the coming years.

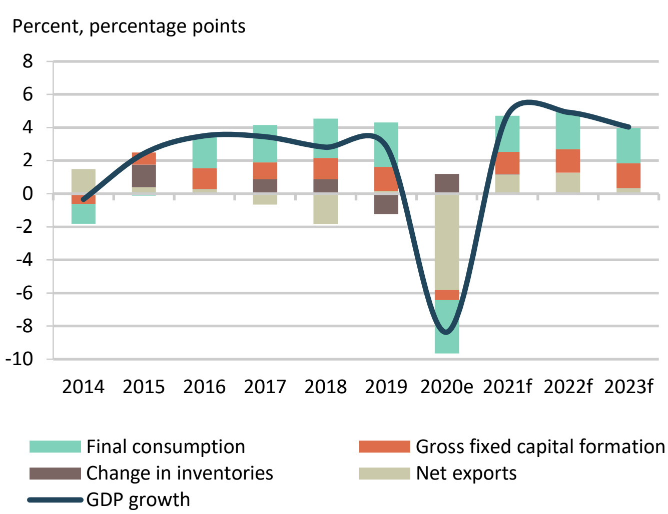
Recent developments

Economic activity continued to recover at the end of the last year from a drop experienced during the first half of 2020. However, the pace of recovery was much slower compared to the summer months due to the reintroduction of social distancing measures. Overall, Croatia's real GDP is estimated to have contracted by 8.4 percent in 2020. The tourism sector bore the brunt of the impact, which was reflected in a sharp drop in export of services. Decline in exports of goods was, on the other hand, relatively moderate following recovery towards the end of the year. Private consumption and investment also strengthened in the second half of 2020, which further helped in cushioning the annual decline in the manufacturing sector, while construction activity continued to increase in 2020.

Due to a sharp deterioration in the trade deficit, the current account balance is estimated to have fallen to -1.3 percent of GDP in 2020, after six years of surpluses.

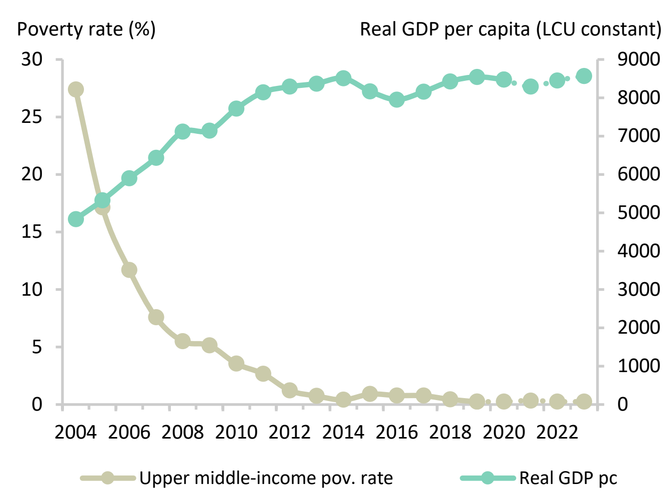
As a result of the fiscal stimulus, the decline in employment was relatively modest, and administrative unemployment averaged 9 percent, 1.3 percentage points higher than in 2019. Fiscal support measures together with decline in economic activity led to a surge in public debt, estimated at 87.2 percent of GDP in 2020.

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



Sources: CROSTAT, World Bank.

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



Source: World Bank. Notes: see notes to Table 2.

The degree of expansionary monetary policy increased, and the liquidity of the banking sector reached historical highs. Also, the NPLs ratio remained stable. This, however, can be partly explained by regulatory relief and agreed moratorium on credit obligations and should therefore be monitored closely.

Results from the second round of the Rapid Household Assessment conducted in December indicate low-wage earners continue to be more affected by the crisis than those in the top income brackets. Also, nearly 30 percent of Croatian households reported an annual reduction in overall income in 2020 and approximately 80 percent of households indicate inadequate savings to weather the shock from the prolonged pandemic. The situation is more challenging for poor and rural households. Poverty is estimated to have increased to 2.6 percent in 2020 – or approximately 14,000 additional Croatian living on less than $5.5 a day at 2011 PPP prices.

Outlook

Economic activity in Croatia is projected to gradually recover from the downturn experienced in 2020 growing at the average annual rate of 4.5 percent in the 2021-2023 period. Implementation of the vaccination strategy and epidemiological measures in Croatia and Europe are expected to put the pandemic under control by the summer of 2021 allowing countries to partially lift travel restrictions. For Croatia this would result in an increase in tourist arrivals, and together with the recovery of its trading partners, would lead to strong growth of exports of goods and services. Investments are projected to be supported by EU funds, including for earthquake reconstruction. Although a pick-up in inflation that could reach 1.8 percent by 2023 will weigh in on real incomes, improved household sentiment and gradual labor market recovery could result in strengthening of personal consumption. The economic situation in Croatia is likely to continue improving till the end of the forecast horizon as the pandemic abates, and with increased uptake of EU funds. The current account balance is projected to return to surplus (estimated at 2.2 percent of GDP in 2023), following trade deficit improvements. Continued increase in economic activity and phasing-out of the fiscal support measures should reduce the fiscal deficit and bring public debt below 80 percent of GDP by 2023.

The gradual rebound of the economy is expected to reduce poverty. However, the compounded impacts of the crisis and the low savings rate among working poor households could mean a longer recovery process for this vulnerable group compared to others. Poverty is estimated to return to the pre-crisis level of 2.2 percent by 2021 and fall further to 2.0 percent by 2023.

The risks for the forecast are tilted to the downside reflecting possible prolongation of the pandemic and related travel restrictions as well as phasing out the fiscal support measures that could lead to a rise in unemployment. This would weaken the recovery and slow down the fall in the poverty.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.8	2.9	-8.4	4.7	4.9	4.0
Private Consumption	3.3	3.5	-6.2	2.8	3.0	3.0
Government Consumption	2.3	3.4	2.0	2.4	2.2	2.2
Gross Fixed Capital Investment	6.5	7.1	-2.9	6.0	6.3	6.5
Exports, Goods and Services	3.7	6.8	-25.0	14.2	15.4	6.3
Imports, Goods and Services	7.5	6.3	-13.8	9.7	11.2	5.2
Real GDP growth, at constant factor prices	2.6	2.5	-6.3	4.7	4.9	4.0
Agriculture	6.2	1.2	3.7	2.4	2.4	2.4
Industry	1.4	2.3	-1.3	3.9	4.6	4.1
Services	2.8	2.7	-8.6	5.2	5.2	4.1
Inflation (Consumer Price Index)	1.5	0.8	0.2	0.9	1.7	1.8
Current Account Balance (% of GDP)	1.8	2.8	-1.3	0.3	0.9	2.2
Net Foreign Direct Investment (% of GDP)	1.6	2.0	2.2	2.1	1.9	1.8
Fiscal Balance (% of GDP)	0.2	0.4	-7.2	-3.7	-2.3	-1.1
Debt (% of GDP)	74.3	72.8	87.2	85.8	82.7	79.2
Primary Balance (% of GDP)	2.5	2.6	-5.1	-1.6	-0.3	0.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.5	0.5	0.5	0.5	0.4	0.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.8	0.7	0.8	0.8	0.7	0.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	2.4	2.2	2.6	2.2	2.1	2.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2018-EU-SILC.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

GEORGIA

Table 1	**2020**
Population, million	3.7
GDP, current US$ billion	15.9
GDP per capita, current US$	4271.7
International poverty rate ($1.9)[a]	3.8
Lower middle-income poverty rate ($3.2)[a]	14.9
Upper middle-income poverty rate ($5.5)[a]	42.0
Gini index[a]	35.9
School enrollment, primary (% gross)[b]	99.3
Life expectancy at birth, years[b]	73.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

The COVID-19 pandemic hit Georgia hard. Mobility restrictions, a sudden halt to tourist arrivals, and weak external demand drove an estimated economic contraction of 6.2 percent in 2020. The poverty rate increased by an estimated 5.4 percentage points. Job and income losses were severe. The fiscal deficit and public debt rose above statutory levels as the crisis put pressure on fiscal and external balances. The recovery will be gradual. The current forecast—with output recovering to pre-COVID levels in 2022—remains subject to considerable downside risks.

Key conditions and challenges

Georgia has a strong record of implementing economic reforms and raising the living standards of its citizens. Economic growth has been strong—averaging 5 percent per annum between 2005 and 2019—and poverty (national measure) declined rapidly to 19.5 percent in 2019, almost half its 2007 rate, spurred by sound macroeconomic policies and improving governance. However, the economy has not created sufficient employment, and many Georgians remain engaged in low-productivity agricultural activities. Georgia's export basket, which is relatively small and undiversified, underscores the economy's incomplete structural transformation. Georgia's human capital outcomes are also weak—learning outcomes and linkages to private sector needs are weak.

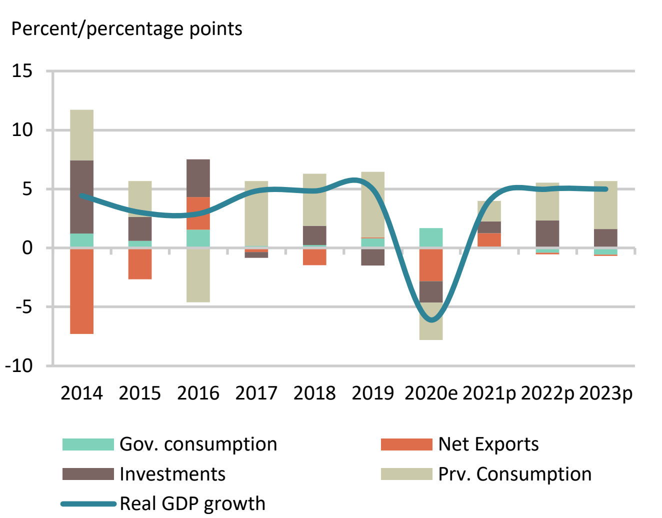
The COVID-19 outbreak threatens to reverse Georgia's past economic gains. Stringent measures, including curfews, a ban on public transport, lockdowns, and border closures, allowed the country to contain the pandemic's spread in early 2020. However, the easing of measures in the summer contributed to a significant second surge in late 2020—Georgia became one of the 20 most affected countries in the world in terms of reported cases per million population. The authorities enacted a second strict lockdown from end-November to early February, leading to a reduction of COVID cases and permitting a gradual reopening of the economy starting March 2021.

Recent developments

The economy fell into recession in 2020, contracting by 6.2 percent. Following a strong start to the year, economic activity collapsed after March as the authorities introduced pandemic-related lockdown measures. The shock has been broad-based, but the transport, tourism, and construction sectors suffered the largest impacts. Job and income losses were severe. The unemployment rate reached 20.4 percent in the fourth quarter of 2020. More than one-third of the employed were unable to work at the peak of the restrictions. Poverty is estimated to have risen by 5.4 percentage points in 2020 (using the national poverty line); even as government's sizeable support package likely prevented an even greater increase in poverty.

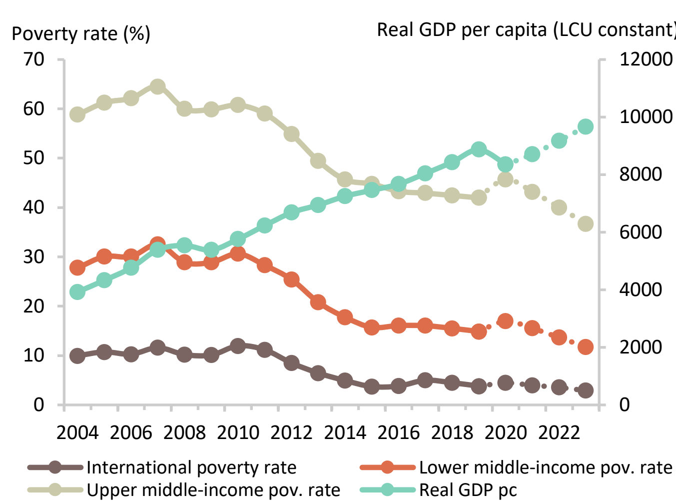
The economic shock also put pressure on the external accounts. The current account deficit reached 12 percent of GDP in the first nine months of 2020, driven by weak services exports as border closings halted tourist arrivals. The deficit was only partially offset by an improving net income balance and transfers from abroad—remittances remained resilient (this could, however, reflect the rising formalization of transfers)—and a narrowing trade deficit driven by import compression as domestic demand weakened. On the financing side, substantial public borrowing fully financed the gap and allowed for

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



Sources: Geostat and WB staff calculations.

FIGURE 2 Georgia / Poverty rate and GDP per capita



Source: World Bank Note: see Table 2.

reserves accumulation. Official reserves rose to $3.9 billion by the end of 2020 (representing nearly 5 months of goods and services imports). However, the external debt-to-GDP ratio jumped to 124 percent of GDP by end-September, up from 102 percent of GDP a year earlier.

The government's fiscal response to the pandemic—estimated at over 7 percent of GDP—drove a widening of the fiscal deficit in 2020, with government spending up by 19 percent year on year. Simultaneously, revenue collection fell by round about 4 percent compared to 2019. As a result, the fiscal deficit widened to 9.7 percent of GDP and public debt to over 60 percent of GDP, above the limits prescribed by the fiscal rule, triggering the rule's escape clause. Support from development partners and stepped-up domestic debt issuance fully met the government's financing needs.

Annual inflation moderated in the second half of 2020 after reaching 7 percent in April 2020. A modest recovery of the lari and lower oil prices helped bring inflation down to 2.4 percent by end-2020 (this includes 2 percentage point downward adjustment owing to a government utility subsidy). The National Bank of Georgia (NBG) responded by lowering its policy rate by 100 basis points between April and August to 8 percent, keeping it steady through February.

The banking sector remained profitable in 2020 despite the frontloading of potential losses in March, as mandated by the NBG. The share of nonperforming loans rose to 2.6 percent in 2020 from 1.9 percent in 2019. Annual credit growth moderated but remained robust at 13 percent in December 2020.

Outlook

Georgia's economy is projected to recover in 2021, growing by 4 percent, with the key baseline assumption that there are no further severe waves of COVID-19 infections that necessitate additional lockdowns and ongoing political impasse is resolved. The recovery will be supported by fiscal stimulus in the form of accelerated capital spending, tax deferrals, accelerated VAT refunds, and targeted support for the most affected businesses, as well as higher social spending. The fiscal deficit is expected to remain elevated at around 7 percent of GDP in 2021.

The external deficit is expected to narrow in 2021 compared to 2020. Still, it will remain high at about 11 percent of GDP as the services sector recovers gradually, and import flows pick up in line with firming economic activity. Recovering FDI and sustained support from international financial institutions are expected to cover Georgia's external financing needs and help maintain a comfortable reserves cushion.

The pace of recovery beyond 2021 will be contingent on vaccine rollout and the restoration of international trade and investment. Under a baseline scenario in which no third wave of infections materializes and a significant share of the population is vaccinated by 2022, economic growth could recover to 5.0 percent in 2022 and 2023. The baseline scenario projects that the fiscal deficit will narrow to reach the levels prescribed by the fiscal rule (3 percent of GDP) by 2023. The pandemic's impact on poverty and inequality will depend on the severity and duration of the crisis and the policy response. Under the baseline scenario, the poverty rate is expected to decline gradually, returning to pre-crisis levels by 2023.

Delayed vaccinations, further restrictions and prolonged political tensions represent the key downside risks to this outlook. Either scenario could lead to a slower recovery in 2021 and a more modest recovery in the medium term, with output not returning to pre-COVID levels until 2024. A delayed recovery could also pose risks to macro-financial stability, given Georgia's high rate of dollarization, unhedged balance sheets, and high gross external debt.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.8	5.0	-6.2	4.0	5.0	5.0
Private Consumption	5.8	7.2	-4.0	2.2	4.0	5.2
Government Consumption	1.6	5.7	11.8	0.7	-2.4	-3.7
Gross Fixed Capital Investment	1.9	-0.1	-8.3	4.4	10.5	6.8
Exports, Goods and Services	10.1	9.8	-30.2	20.9	10.0	9.7
Imports, Goods and Services	10.3	6.6	-19.2	11.5	7.3	7.1
Real GDP growth, at constant factor prices	5.2	5.1	-5.9	3.7	5.1	5.0
Agriculture	13.8	-0.6	3.6	0.7	2.1	2.6
Industry	0.2	2.7	-2.8	3.6	3.8	3.6
Services	5.8	6.4	-7.7	4.0	5.8	5.6
Inflation (Consumer Price Index)	2.6	5.0	5.3	4.0	3.0	3.0
Current Account Balance (% of GDP)	-6.8	-5.5	-12.0	-11.0	-9.4	-7.9
Net Foreign Direct Investment (% of GDP)	5.3	5.9	4.3	5.5	6.8	6.4
Fiscal Balance (% of GDP)	-2.6	-3.4	-9.7	-7.5	-4.4	-3.0
Debt (% of GDP)	41.4	41.8	62.5	62.5	61.1	59.8
Primary Balance (% of GDP)	-1.4	-2.2	-8.2	-5.7	-2.9	-1.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	4.5	3.8	4.5	4.0	3.6	2.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	15.5	14.9	17.0	15.5	13.7	11.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	42.5	42.0	45.7	43.2	40.0	36.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2019-HIS. Actual data: 2019. Nowcast: 2020. Forecast are from 2021 to 2023.

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

KAZAKHSTAN

Table 1	2020
Population, million	18.7
GDP, current US$ billion	159.8
GDP per capita, current US$	8528.4
Upper middle-income poverty rate ($5.5)[a]	4.6
Gini index[a]	27.8
School enrollment, primary (% gross)[b]	104.4
Life expectancy at birth, years[b]	73.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

GDP fell by 2.6 percent in 2020 due to reduced domestic demand and mobility and health safety restrictions brought about by the COVID-19 crisis and the collapse in exports. Inflation moved up driven by higher food prices and tenge depreciation. With employment and incomes negatively affected, the poverty rate increased to 14 percent in 2020. Growth is likely to bounce back in 2021 as disruptions associated with the pandemic dissipate and external demand picks up. The pace of recovery remains vulnerable to the course of the pandemic.

Key conditions and challenges

Since independence in 1991, Kazakhstan has experienced remarkable economic performance. Rapid growth, fueled by structural reforms, tapping of abundant hydrocarbon resources, strong domestic demand, and FDI has helped reduce poverty and transform the country into an upper middle-income economy.

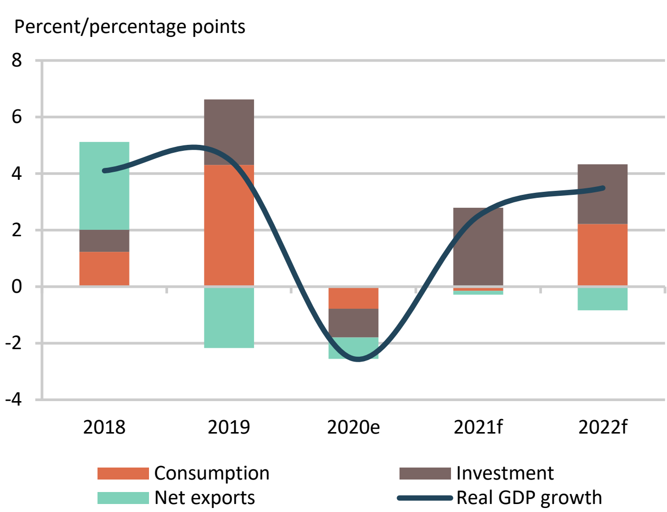
However, productivity growth has weakened, averaging close to zero percent over the past decade, slowing down the pace of economic growth. Over-dependence on hydrocarbons makes the economy vulnerable to external shocks, as nearly 70 percent of country's export earnings comes from crude oil. Half of country's population lives in rural, sparsely populated, and economically isolated areas with poor access to public services and vulnerability to poverty. The COVID-19 pandemic is likely to exacerbate the economic and social vulnerabilities.

To support strong, sustainable, and inclusive economic recovery, the authorities need to advance structural reforms while dealing effectively with the pandemic. The policy imperatives are multifold. The first policy priority is to diversify the economic base by improving competitiveness of the non-oil and gas sectors, including through reforms in the financial sector and investment policies. The second priority is to limit the outsized role of SOEs, enhance competition and create a level playing field for the private sector. The third priority is to improve the quality and progressivity of public spending to address inequality. Finally, it would be essential to strengthen public sector institutions and reinforce the rule of law to attract much-needed investment in the non-extractive sector.

Recent developments

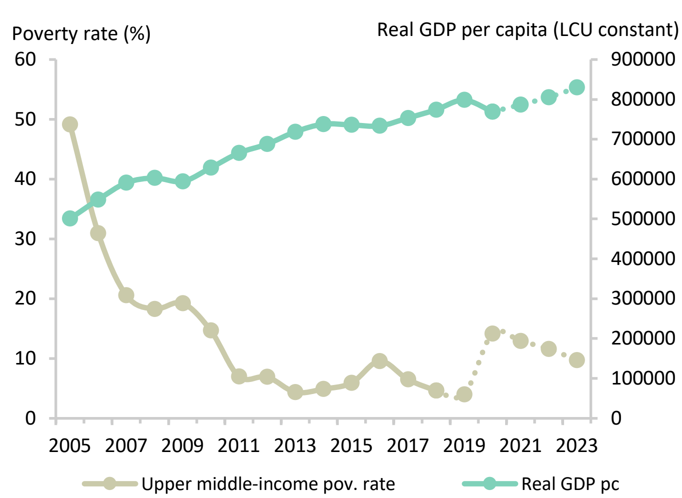
The coronavirus pandemic and the collapse in exports have taken a severe toll on the Kazakh economy. GDP fell for the first time in two decades, down by 2.6 percent in 2020. The nationwide mobility restrictions over COVID-19 led to a contraction in consumer demand and investment. Consumer demand fell 5.0 percent along with a drop in retail trade, while investment dropped by 3.4 percent, largely because of a sharp fall in FDI. Economic activity experienced a severe contraction in April-June of 2020, at the peak of restrictions, followed by a growth rebound in manufacturing, trade and transportation services in the second half of the year. A sharp fall in exports and commensurate reduction in imports left the current account balance broadly unchanged at 3.4 percent of GDP in 2020. NBK reserves rose by almost $6.7 bln. in December to reach $35.6 bln. because of higher gold prices, despite heavy FX market interventions. The tenge fell by 15 percent against the dollar by April 2020 because of the collapse in oil prices but has since regained a third of its losses following the

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



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

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



Source: World Bank. Note: see Table 2.

pickup in oil prices and FX interventions by NBK.

The government responded early to the COVID-19 crisis and introduced a fiscal stimulus package in the size of about 6 percent of GDP directed to SMEs and households. As a result, budget spending surged to an estimated 23.2 percent of GDP from a pre-crisis 19.5 percent. To fund the anti-crisis package, the government reallocated existing budgetary funds, tapped into Oil Fund reserves and scaled up domestic borrowing. The budget deficit rose to 4.0 percent of GDP from a 1.8 percent a year earlier, and public debt moved up to 24.4 percent of GDP.

In February 2021, inflation rose to 7.4 percent y-o-y, up from 6.0 percent a year earlier, largely because of 11.6 percent increase in food prices in January. Higher inflation also reflects the impact of the tenge depreciation. Despite higher inflation, the National Bank (NBK) kept its policy rate at 9.0 percent in January 2021.

Despite the crisis, the banking sector recorded a positive return to assets of 2.3 percent, thanks to strong growth in consumer loans, while corporate lending remained subdued. Nonperforming loans (NPLs) remained little changed at 6.8 percent of the loan portfolio in December. Government support measures, such as loan guarantees, moratoria, and subsidized loans helped halt mass corporate insolvencies during the lockdown. However, the true size of NPLs might emerge higher than officially reported after the pandemic, when support measures taper off.

In 2020, the official unemployment rate changed little from a pre-pandemic level. However, the rate of temporary leave, especially among low-income workers, rose sharply during the national lockdowns. As a result, poverty rate is estimated to have increased to 14 percent in 2020.

Outlook

Economic growth is expected to rebound in 2021, driven by resumption of domestic activity, recovery in global demand for oil, continued fiscal support measures, and a successful national inoculation against the COVID-19 virus.

With the continued pace of recovery, the economy is expected to grow within 3.0-4.0 percent range in 2021.

Private consumption spending is likely to pick up in 2021, driven by the release of pent-up demand as incomes rebound and retail lending continue apace. Higher demand for housing is expected to support residential investment, as government program would allow pensioners to use some their savings to purchase a house or pay down mortgages.

The government is likely to continue an expansionary fiscal stance in 2021 due to rising spending on social assistance, education, and infrastructure. The nonoil deficit is projected to decline to nearly 9.0 percent of GDP in 2021 but remain above the mid-term target of 6 percent. Government debt is likely to increase to 27 percent of GDP due to higher domestic borrowing and disbursement of external loans to finance the deficit.

Inflation is expected to moderate in 2021, as supply disruptions and the crisis precautionary food buying wane. However, an expansionary fiscal stance with significant direct lending provisions can sustain pressure on inflation.

The current account deficit is projected to improve modestly, supported by stronger exports thanks to higher oil prices and rebound in global demand for oil and a gradual pick up in imports.

Despite growth recovery, poverty rate is expected to decrease gradually before reaching to a pre-crisis level of welfare.

However, economic recovery could lose momentum if the progress on vaccination slows, mobility restrictions last longer, public investments delayed, and external demand is weaker than expected. Business insolvencies and layoffs could hit incomes, increase poverty, and expose the banking sector to higher NPLs.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.1	4.5	-2.6	3.2	3.5	4.3
Private Consumption	5.3	5.8	-5.0	4.2	3.4	3.7
Government Consumption	-14.0	15.5	14.2	-0.3	1.4	1.4
Gross Fixed Capital Investment	4.6	11.9	-3.4	3.5	3.5	4.0
Exports, Goods and Services	11.5	2.2	-2.6	2.5	3.1	4.0
Imports, Goods and Services	3.2	11.6	-2.3	4.7	3.1	3.5
Real GDP growth, at constant factor prices	4.1	4.5	-2.5	3.4	3.4	4.3
Agriculture	3.2	0.9	2.6	2.4	2.6	2.6
Industry	4.1	3.8	-1.5	2.9	3.3	5.0
Services	4.2	5.3	-3.7	3.8	3.6	4.1
Inflation (Consumer Price Index)	6.2	5.3	6.8	6.2	5.4	5.0
Current Account Balance (% of GDP)	0.0	-3.6	-3.4	-2.4	-1.1	1.1
Net Foreign Direct Investment (% of GDP)	2.8	3.2	2.2	2.5	4.9	4.5
Fiscal Balance (% of GDP)	-1.1	-1.5	-4.0	-3.8	-1.8	-1.6
Debt (% of GDP)	20.7	19.8	24.4	26.8	27.1	27.1
Primary Balance (% of GDP)	-0.2	-0.5	-3.0	-3.0	-0.8	-0.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	4.6	4.0	14.2	12.9	11.6	9.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2018-HBS.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

KOSOVO

Table 1	2020
Population, million	1.8
GDP, current US$ billion	7.5
GDP per capita, current US$	4145
Upper middle-income poverty rate ($5.5)[a]	24.4
Gini index[a]	29.0
Life expectancy at birth, years[b]	72.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011PPPs.
(b) Most recent WDI value (2018).

Economic activity contracted by 6.9 percent in 2020, driven by plunging diaspora tourism and lower investment. Government and Central Bank policy support measures coupled with higher remittances and goods exports mitigated the contraction. The recovery should start in 2021 with growth hovering above 4 percent in the medium term. However, real economic activity should recover losses only in 2022. Addressing long-standing structural impediments and prioritizing limited fiscal space for high-return human capital investments is vital to supporting a resilient recovery.

Key conditions and challenges

Kosovo entered 2021 under continued pressure from the COVID-19 pandemic and in expectation of a government change following the organization of early elections in February 2021. Given healthcare capacity constraints, stringent containment measures were imposed in Q2 2020 but were relaxed in Q3. Vaccination has not commenced as of March 2021. Because diaspora-related tourism exports accounted for almost one-quarter of GDP prior to the pandemic, recovery will also depend on international travel restrictions and vaccination progress in diaspora host countries.

Growth averaged 3.6 percent over 2009-2019 and, before the pandemic, was expected to exceed 4 percent in the medium term. Private investment added to growth in recent years, but was mostly concentrated in trade and construction industries, with limited productivity spillovers.

Likewise, robust growth did not translate into more jobs as the employment rate remained almost constant between 2017 and 2019. In 2019, 21 percent of the population still lived with under US$5.5 per person per day (in 2011 PPP), and this share is expected to have increased in 2020 by 4-5 percentage points. Poor education and health outcomes limit the contribution of human capital to inclusive growth and the pandemic likely widened this gap. As a largely service and consumption-based economy, Kosovo was particularly vulnerable to the COVID-19 shock.

To support the recovery in 2021, the Government should strengthen compliance with pandemic preventive measures, increase treatment capacity and effectiveness while reducing citizens' out-of-pocket costs, and boost vaccination. Targeting of social protection and private sector support measures should be improved and implementation of public projects with secured financing accelerated. To support a resilient recovery in the medium term, public spending effectiveness and the regulatory environment should be enhanced. Investment in human capital should be prioritized.

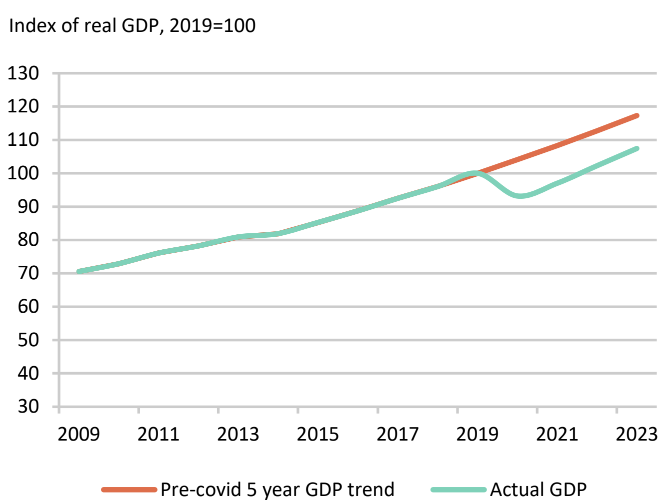
Recent developments

In 2020, economic activity is estimated to have contracted by 6.9 percent, driven by a plunge in exports—principally because of a 51 percent drop of diaspora travel services—and investment. Consumption contributed modestly, with higher government offsetting lower private consumption. Fiscal stimulus combined with increased remittances and goods exports cushioned the contraction.

Consumer price inflation decelerated in 2020 to 0.2 percent because of weak domestic demand and declining import prices.

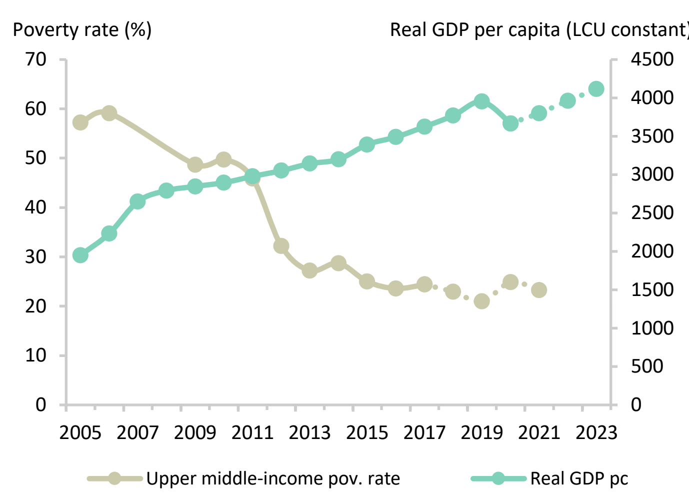
Formal employment weathered the impact of the downturn, but compensation

FIGURE 1 Kosovo / Actual and forecast GDP vs Pre-COVID-19 5-year GDP trend



Sources: Kosovo agency of statistics and World Bank staff calculations.

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



Source: World Bank.

and working hours were reduced. Registered unemployment increased, most likely from informal job losses. Overall, unemployment remains high at 25 percent of the labor force (46.9 percent of youth) in Q3 2020. Projections suggest a poverty increase of 4-5 p.p. in 2020 (70-90 thousand new poor). The expected return to growth in 2021 should modestly reduce poverty as the services sector recovers.

Despite a 28.4 percent reduction in public investment, the budget deficit closed 2020 at 7.6 percent of GDP, due to lower public revenues against the contraction. Current spending increased by 18.6 percent, driven by pandemic-related spending of an estimated 4.4 percent of GDP. The deficit was financed primarily through domestic and external debt and liquidation receipts.

The drop in imports and a rise in secondary income almost compensated the plunge in exports during 2020. As a result, the current account deficit (CAD) deteriorated marginally from 5.5 to 5.7 percent of GDP. CAD was primarily financed by net FDI inflows and other international debt-driven investment flows.

Bank deposits and bank credit increased by 11.5 and 7.1 percent, respectively. New loans increased only by 1.8 percent, reflecting restructuring activity throughout the year. Capital adequacy is above regulatory requirements, while NPLs increased by 0.7 p.p. Forbearance measures by the Central Bank cushioned the impact of the pandemic on the financial sector.

Outlook

Growth is projected to reach 4 percent in 2021. The recovery is expected to be gradual. Economic activity will reach pre-pandemic levels only in 2022, mainly driven by a rise in exports and consumption. Growth in goods exports should continue to be strong in the medium term, as base metal prices are expected to rise. Service exports should also recover driven by a recovery in diaspora-related tourism exports, as international travel restrictions are relaxed, and vaccination accelerates in Europe.

Economic growth is projected to remain over 4 percent in the medium term, but downside risks to the outlook are high. The projected outlook rests on the assumption of relaxed international mobility between Europe and Kosovo, no further strict local containment measures and a recovery in Euro Area growth. There is also potential for higher growth, including through faster implementation of IFI-financed public investment.

Fiscal deficit will remain elevated in 2021 projected at 5.1 percent of GDP, driven by fiscal stimulus measures and the disruption in the growth trajectory induced by the pandemic. Revenues are expected to recover as growth picks up. Fiscal stimulus aimed at supporting businesses and livelihoods should be fully executed in 2021, at about 3.2 percent of GDP.

The CAD should remain at 5.7 percent of GDP in 2021 and gradually improve over the medium-term. Goods exports should increase gradually, while imports also increase on the back of higher aggregate demand. The size CAD will be determined by the pace of remittance growth and recovery of diaspora-related tourism exports.

The pandemic has intensified the developmental gaps, hence progress on structural reforms, including improvements in the design and targeting of social protection spending and regulatory environment for businesses is vital in reversing the adverse economic and social impact of the pandemic and building resilience against future negative shocks.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.8	4.9	-6.9	4.0	4.5	4.1
Private Consumption	5.3	1.6	-0.2	0.8	2.5	3.2
Government Consumption	8.9	9.6	4.8	2.1	-0.3	-1.0
Gross Fixed Capital Investment	6.1	6.8	-13.5	3.3	6.6	8.0
Exports, Goods and Services	2.2	7.5	-27.2	25.5	13.6	7.2
Imports, Goods and Services	8.9	3.3	-7.9	6.7	5.3	4.9
Inflation (Consumer Price Index)	1.1	2.7	0.2	0.7	1.0	1.3
Current Account Balance (% of GDP)	-7.6	-5.5	-5.7	-5.7	-4.9	-4.7
Net Foreign Direct Investment (% of GDP)	3.4	2.7	4.0	3.2	3.2	3.2
Fiscal Balance (% of GDP)	-2.9	-2.9	-7.6	-5.1	-3.1	-3.0
Debt (% of GDP)	16.3	16.9	22.3	24.9	26.5	28.2
Primary Balance (% of GDP)	-2.6	-2.6	-7.2	-4.6	-2.4	-2.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	23.0	21.0	24.9	23.2		

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2017-HBS.Actual data: 2017. Nowcast: 2018-2019. Forecast:2020-2021.

(b) Nowcast using neutral distribution (2017) with pass-through = 0.7 based on GDP per capita in constant LCU. Projection using sector-level GPD forecast for 2020 and 2021with pass-through =1

KYRGYZ REPUBLIC

Table 1	2020
Population, million	6.6
GDP, current US$ billion	7.7
GDP per capita, current US$	1178.4
International poverty rate ($1.9)[a]	0.6
Lower middle-income poverty rate ($3.2)[a]	9.7
Upper middle-income poverty rate ($5.5)[a]	52.6
Gini index[a]	29.7
School enrollment, primary (% gross)[b]	106.0
Life expectancy at birth, years[b]	71.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

Real GDP contracted by 8.6 percent in 2020 because of the COVID-19 outbreak, the policies to limit its impact, and the domestic political turmoil. External trade declined sharply, and the fiscal position deteriorated. The poverty rate is estimated to have more than doubled compared to the precrisis period. GDP growth is forecast to recover in 2021, assuming that domestic economic activity picks up and external trade resumes as the pandemic wanes, political stability is maintained, and external demand recovers.

Key conditions and challenges

The Kyrgyz Republic was making strides toward macroeconomic stability before the COVID-19 pandemic. Real GDP growth averaged 4 percent over the last decade, average inflation was low at 1.1 percent and the fiscal deficit was reduced to 0.5 percent of GDP in 2019. As a result of debt forgiveness from the Russian Federation and prudent debt management policy, government debt fell to 52 percent of GDP at end-2019 from 67 percent in 2015.

The Kyrgyz som was broadly stable against the U.S. dollar, and the country's foreign exchange reserves were equivalent to 6 months of import cover in December 2019.

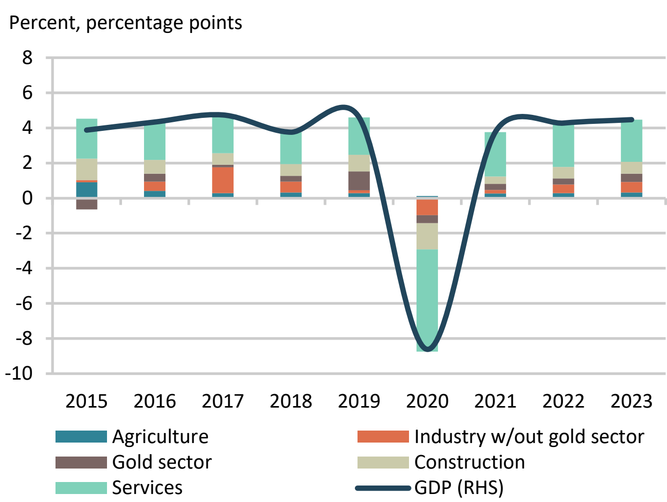
However, the Kyrgyz economy has remained vulnerable to external shocks owing to its heavy dependence on remittances (27 percent of GDP) and gold exports (9 percent of GDP). Together with political instability, these vulnerabilities have resulted in volatile economic growth. Consequently, it has been insufficient to raise living standards or reduce poverty. Substantial import spending for investment kept the current account deficit high (12 percent of GDP).

Strong and sustainable economic growth requires institutional strengthening and policies to develop the private sector, spur international trade, and encourage fiscally sustainable energy production. Constraints to private investment and growth include the large infrastructure gap, weak rule of law and governance, poor business environment, and onerous regulations. The energy sector's financial weaknesses—stemming from below-cost recovery tariffs and a failure to meet WTO and Eurasian Economic Union standards and technical regulations—further limit the Kyrgyz Republic's growth potential.

Recent developments

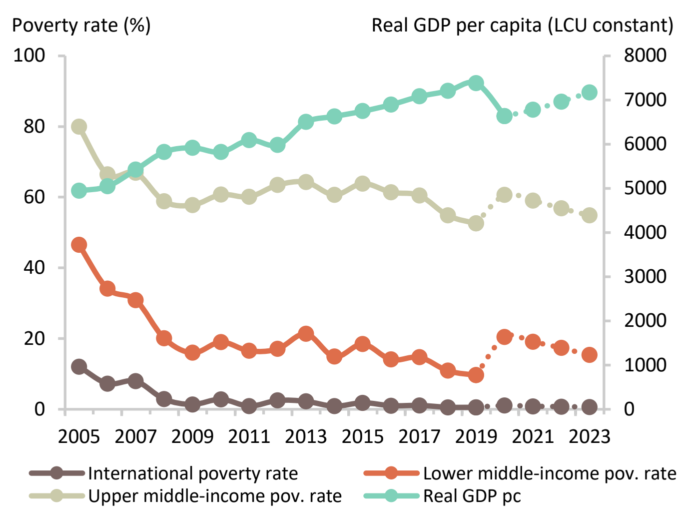
The March–May 2020 lockdown, which included border closures to contain the spread of COVID-19, was a major shock to the Kyrgyz economy, significantly reducing household incomes and business revenues. In October 2020, political turmoil worsened the country's investment climate. As a result—and despite the easing of lockdown restrictions later in the year—real GDP contracted by 8.6 percent in 2020. Twelve-month inflation rose to 9.7 percent in December (from 3.1 percent a year earlier), primarily driven by exchange rate depreciation (19 percent). The current account is estimated to have run a surplus of 4 percent of GDP in 2020, reflecting a 30 percent contraction in imports and resilient export earnings that—supported by gold exports—declined only by about 2 percent. Remittances remained at 2019 levels. Gross official reserves remained adequate at 5.9 months of imports as the central bank purchased domestically-produced gold to offset sales of foreign exchange ($518 million, three times as much as in 2019) to limit som volatility.

FIGURE 1 Kyrgyz Republic / Real GDP growth and contributions to real GDP growth



Sources: Kyrgyz authorities; World Bank staff calculations.

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



Source: Source: World Bank. Note: see Table 2.

The central bank raised the policy interest rate by 75 basis points to 5 percent in February 2020 in response to higher inflation. The rate has remained unchanged since even with inflation trending higher in the fourth quarter. Reflecting heightened uncertainty, the central bank allowed greater exchange rate flexibility, eased regulatory requirements for commercial banks, and provided additional liquidity. This stance was appropriate to absorb the COVID-19 shock and support economic activity.

Surging expenditures and weaker revenues drove a widening of the general government deficit in 2020, to 4.2 percent of GDP (from 0.5 percent in 2019). The fiscal easing was appropriately aimed at supporting private enterprises and addressing health and social needs. Tax payment deferments and temporary tax exemptions for crisis-affected businesses resulted in a decline of 1.4 percent of GDP in tax revenues. An increase in grant receipts partially offset the tax shortfall. Spending increased by 2.2 percent of GDP, driven by increased compensation to medical workers, and spending on medicines, personal protective equipment, and other medical materials. The higher deficit—together with the GDP contraction and som depreciation—drove an increase in public debt to 68 percent of GDP in December 2020.

The combined health and economic shocks of 2020 drove up poverty and diminished social welfare. A significant share of the population is vulnerable and at risk of falling into poverty due to lower incomes, higher food prices, or job losses. The poverty rate is estimated to have more than doubled in 2020 from 9.7 percent in 2019 (US$ 3.2/day, 2011 PPP).

Outlook

The coronavirus pandemic and the political turmoil have weakened the Kyrgyz Republic's macroeconomic outlook, with medium-term growth projections below prepandemic forecasts. Real GDP is projected to recover to its pre-pandemic level only by 2023; the recovery is expected to take even longer in real GDP per capita terms. Our baseline scenario projects real GDP growth of 3.8 percent in 2021 as economic activity recovers, driven by services and construction. Growth is forecast to increase to an average of 4.4 percent in 2022–23. This scenario assumes a reduction of new COVID-19 cases as vaccines are deployed, that political stability is maintained, and external demand and trading conditions improve. With the stabilization of the exchange rate, average inflation is expected to moderate to 5.4 percent. The current account deficit is projected to widen to about 7 percent of GDP in 2021, reflecting a faster pace of import recovery relative to export growth.

The fiscal deficit is projected to narrow to 3.9 percent of GDP in 2021, driven by higher tax revenues thanks to economic recovery and the expiration of tax deferments and exemptions. Over the medium term, the authorities are targeting a fiscal deficit of 3 percent of GDP. Fiscal consolidation requires measures to expand the tax base, roll back pandemic-related expenditures, streamline nonpriority purchases, and reduce the wage bill as a share of GDP.

Under a downside scenario, which assumes a continued impact of COVID-19 owing to a delay in vaccine availability and the reemergence of political instability, real GDP is expected to grow by only 1.5 percent in 2021, with the current account and fiscal deficits deteriorating to around 10 percent and 4.5 percent of GDP, respectively.

The poverty rate is projected to remain elevated in 2021–22 as households continue to face the pandemic's impacts. The social assistance system will remain under pressure as social transfers support poor and vulnerable groups. Existing social protection programs will require scaling up to help the population cope with the shock.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.8	4.6	-8.6	3.8	4.3	4.5
Private Consumption	5.0	0.8	-6.8	3.0	3.4	3.6
Government Consumption	1.3	0.5	-1.2	2.0	-3.7	-1.9
Gross Fixed Capital Investment	6.9	7.1	-21.2	10.2	12.9	12.0
Exports, Goods and Services	-2.7	16.2	-14.3	5.3	7.3	8.0
Imports, Goods and Services	7.4	6.1	-16.5	7.4	8.5	9.3
Real GDP growth, at constant factor prices	3.1	3.6	-8.6	3.8	4.3	4.5
Agriculture	2.6	2.5	1.1	2.0	2.2	2.5
Industry	5.1	6.6	-7.5	5.8	8.4	8.7
Services	2.8	3.2	-17.0	4.6	4.4	4.2
Inflation (Consumer Price Index)	1.5	1.1	6.3	5.4	5.0	5.0
Current Account Balance (% of GDP)	-12.1	-12.1	4.0	-7.0	-7.6	-7.4
Net Foreign Direct Investment (% of GDP)	0.5	3.8	-1.8	0.8	1.2	2.3
Fiscal Balance (% of GDP)	-1.6	-0.5	-4.2	-3.9	-3.4	-2.9
Debt (% of GDP)	54.7	51.6	68.1	68.4	67.7	66.4
Primary Balance (% of GDP)	-0.5	0.5	-3.0	-2.0	-1.6	-1.2
International poverty rate ($1.9 in 2011 PPP)[a,b]		0.6	1.1	0.8	0.7	0.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]		9.7	20.5	19.1	17.3	15.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]		52.6	60.7	59.1	56.9	54.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2019-KIHS.Actual data: 2019. Nowcast: 2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2019) with pass-through = 0.87 based on GDP per capita in constant LCU.

MOLDOVA

Table 1	**2020**
Population, million	2.7
GDP, current US$ billion	11.9
GDP per capita, current US$	4499.4
Lower middle-income poverty rate ($3.2)[a]	0.9
Upper middle-income poverty rate ($5.5)[a]	12.8
Gini index[a]	25.7
School enrollment, primary (% gross)[b]	89.5
Life expectancy at birth, years[b]	71.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

Moldova has one of the highest COVID-19 infection- and death rates per population in Europe. COVID-19 and the recent drought have drastically worsened the outlook for Moldova with a significant recession in 2020. Beyond 2020, high uncertainty on the duration of the pandemic and its economic and social ramifications could further constrain firms, workers and households, hampering the recovery. If downside risks materialize, reduced fiscal space may limit the capacity for further countercyclical measures.

Key conditions and challenges

Despite solid economic performance in recent years, Moldova has fallen short of its aspiration to achieve faster convergence towards EU income levels. The economic model continues to be reliant on remittances-induced consumption. Declining productivity growth resulting from deep structural and governance weaknesses constitutes a key challenge. State enterprises have a significant footprint and lower productivity than the private sector, while the business environment, anticompetitive practices, and taxes distort private initiatives. The bank fraud of 2014 uncovered deep weaknesses in the financial sector.

Moldova has one of the highest COVID-19 infection and death rates per population in Europe. Despite the restrictive measures, the number of cases has been rising progressively on the back of low enforcement and compliance.

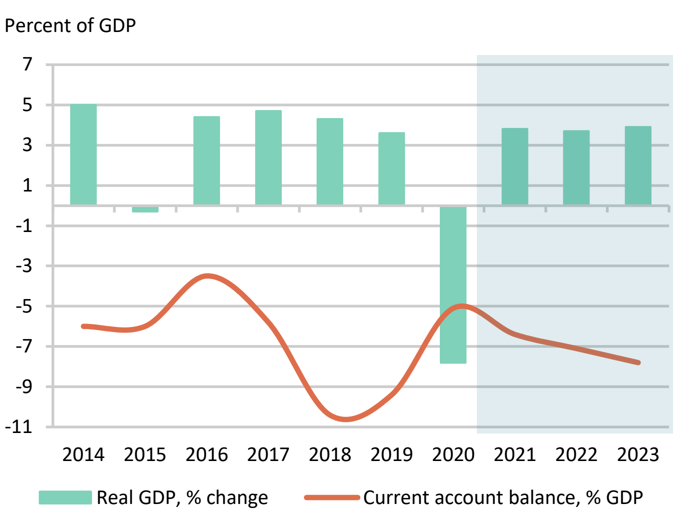
The global recession, disruptions in supply chains, measures to flatten the contagion curve, financial risk aversion, among others, are taking a heavy toll on the key components of aggregate demand. While the medium-term growth prospects remain positive, a sustained recovery hinges on the containment of the pandemic and favorable external environment. A new wave of restrictions in the country and in the main trading partners may further reduce consumer and business confidence leading to even lower remittances and exports. On the fiscal side, though the 2021 budget envisages an ambitious fiscal stimulus, it might not be enough in case of slow roll-out of vaccines and limited foreign financing. Domestic risks relate to political instability, institutional weaknesses, and political constraints to implement reforms of the judiciary and structural reforms. Fragile economic conditions and low productivity levels are exacerbated by the large footprint of the state in the economy, shrinking fiscal space, low financial intermediation and governance challenges. Additionally, as shown by the severe drought episode in 2020, the economy is highly vulnerable to extreme weather episodes.

Recent developments

The combination of the pandemic and the severe drought is expected to affect most sectors of the economy. The economic activity plummeted in 2020, with GDP declining by 7.0 percent. Primary drivers of this deceleration are households' consumption, which declined by 7 percent in 2020, and investments together with de-stocking.

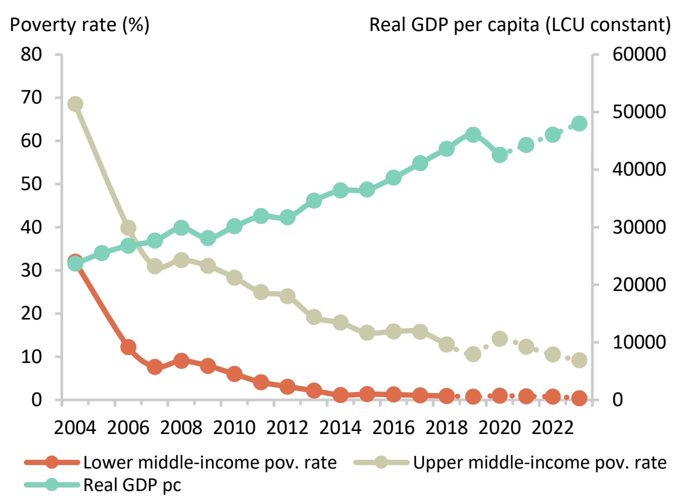
The lockdown measures have halted trade and industrial production while a severe drought has resulted in a decline in agriculture production by over 26 percent. Since the end of the lockdown, the economy has started to rebound gradually, but most of the short-term indicators remain in the negative territory.

FIGURE 1 Moldova / Actual and projected GDP growth and current account balance



Source: World Bank, based on national statistics.

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



Source: World Bank. Notes: see Table 2.

On the back of falling import prices and domestic demand, inflation has decelerated markedly in 2020, fluctuating below the lower band of the corridor of 5 percent (+/- 1.5 percent) since August. In response, the National Bank cut the prime rate 5 times to a new record low of 2.65 percent. The large import compression has led to an improvement in the current account deficit, which was mainly financed by debt instruments, predominantly public.

On this background, fiscal stance deteriorated substantially. From pre-COVID-19 level, tax revenue increased by about 0.3 pp of GDP while spending increased by 4.1 pp of GDP. As a result, the fiscal deficit reached 5.1 percent of GDP in 2020.

Employment dropped by 0.5 percent in the last quarter of 2020, with the most affected sectors being trade and hospitality, followed by agriculture and industry. Job losses, together with declining earnings, the return of the most vulnerable economic migrants, and rising food prices have led to increased strain on households' finances. As a result, poverty, as measured by the US$5.50 PPP a day, is projected to increase from an estimated 10.6 percent in 2019 to an estimated 14.2 percent in 2020.

Outlook

Uncertainties around the evolution of the pandemic will keep the economy below potential. Economic growth is expected to rebound to 3.8 percent in 2021, assuming favorable conditions thanks to the rollout of vaccines. Consumer and investment confidence are expected to improve on the back of favorable external conditions, increase in social transfers, and accommodative monetary stance. Most sectors are expected to bounce back, though the 2019 levels are estimated to be reached only in 2022. The agricultural sector is expected to rebound strongly after a bad yield in 2020. While the current account deficit is expected to have narrowed in 2020, it will gradually widen as the economy accelerates. Inflation is expected to remain lower than the target corridor of 5 percent +/- 1.5 pp in 2021-22 but to pick up as the recovery strengthens.

The authorities plan the fiscal deficit to reach 6.3 percent of GDP in 2021 and will remain higher than historical averages in the medium term due to a decline in revenues as businesses struggle and households suffer from weak job creation. Public debt is expected to increase (by 9.1 pp of GDP from pre-COVID-19 level) to 36.5 percent of GDP in 2021, while still remaining relatively low by international standards. The government faces considerable financing needs which might be difficult to meet domestically despite aggressive monetary loosening. The capacity to mitigate the impact of the crisis and support economic recovery will critically depend on external financing, particularly a successful renegotiation on an IMF program.

Under the assumption of an economic rebound in Moldova and its main migrant destination countries, poverty, as measured by the US$5.50 PPP/day poverty line, is projected to decline from 14.2 percent in 2020 to 12.3 percent in 2021. Going forward, Moldova will need to address the inequality of opportunities and accelerate private sector-driven job creation.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.3	3.7	-7.0	3.8	3.7	3.8
Private Consumption	4.5	3.2	-5.9	2.8	3.0	3.1
Government Consumption	-0.2	-0.5	-0.2	0.2	0.0	-0.1
Gross Fixed Capital Investment	14.5	12.9	-1.7	7.8	8.7	8.9
Exports, Goods and Services	7.2	7.3	-15.5	6.6	7.1	7.5
Imports, Goods and Services	9.7	6.7	-8.9	5.1	6.3	6.5
Real GDP growth, at constant factor prices	4.4	4.0	-7.2	3.8	3.7	3.8
Agriculture	2.6	-2.3	-26.4	10.0	5.0	7.0
Industry	8.3	7.1	-4.3	4.3	4.8	5.4
Services	3.3	4.2	-4.1	2.5	3.0	2.6
Inflation (Consumer Price Index)	3.1	4.7	4.1	4.4	5.0	5.0
Current Account Balance (% of GDP)	-10.4	-9.4	-5.5	-6.8	-7.5	-8.2
Net Foreign Direct Investment (% of GDP)	2.4	4.5	1.3	3.5	3.7	3.5
Fiscal Balance (% of GDP)	-0.8	-1.4	-5.1	-4.0	-2.8	-2.5
Debt (% of GDP)	30.1	27.4	33.5	36.0	37.3	41.4
Primary Balance (% of GDP)	0.0	-0.7	-4.3	-3.2	-2.0	-1.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.9	0.7	1.0	0.8	0.7	0.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	12.8	10.6	14.2	12.3	10.5	9.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2018-HBS. Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

MONTENEGRO

Table 1	2020
Population, million	0.6
GDP, current US$ billion	4.7
GDP per capita, current US$	7567.0
Upper middle-income poverty rate ($5.5)[a]	16.0
Gini index[a]	38.8
School enrollment, primary (% gross)[b]	100.6
Life expectancy at birth, years[b]	76.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

Montenegro suffered a very deep recession in 2020, estimated at 15 percent. The crisis exposed Montenegro's structural challenges and vulnerabilities, reversing economic and social gains of recent years. Despite government support, employment fell across all sectors, and poverty is estimated to have increased to 20 percent. Public debt soared to over 100 percent of GDP, requiring vigilant fiscal management in the years ahead. The economy is projected to rebound in 2021, but GDP will not fully recover before 2023.

Key conditions and challenges

As a small, open, and heavily tourism-dependent economy, Montenegro was hit hard by COVID19, affirming its vulnerabilities to strong boom-bust cycles.

Over the five years prior to the crisis, growth averaged 4 percent, driven by large public investments and consumption. Over two-thirds of Montenegro's jobs are in services, which account for over 70 percent of value added. The external imbalances are structurally high and averaged 15 percent of GDP over 2015-19, largely financed by net FDI and external debt. Montenegro's net international position at negative 170 percent of GDP is amongst the largest in the world. Due to weaker adherence to fiscal plans and debt-financed highway construction, public debt has doubled since independence. Montenegro aspires to join the EU, but significant rule of law challenges slow down progress and reflect a key development constraint.

The crisis has wiped out recent economic and social gains from the period of strong growth and exacerbated Montenegro's vulnerabilities. These include: the lack of fiscal space, small production base and low diversification of the economy, business environment weaknesses, and income and social inequalities. These vulnerabilities translate into significant reversals of progress in creating jobs, raising income, and reducing poverty.

Montenegro ranks third in the number of infections per million inhabitants and records among the highest death rates per capita from COVID-19 in the world. The pace of recovery will depend on when the pandemic is contained and the pace of immunization, which is currently slow.

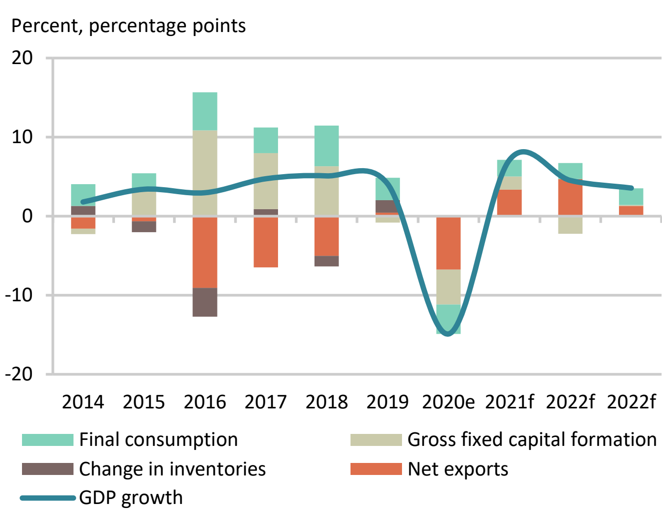
In 2020, the country saw the first democratic change of power. The new government committed to accelerating reforms, strengthening the rule of law, and fighting corruption. These, coupled with strong fiscal and debt management and independent and accountable state institutions, would enable more inclusive, private sector-led growth and efficient service delivery to citizens.

Recent developments

In 2020, tourism plummeted due to COVID19: foreign tourist overnight stays and receipts collapsed by 90 percent. Consequently, retail trade fell by almost 17 percent, while industrial production was at 2019 levels.

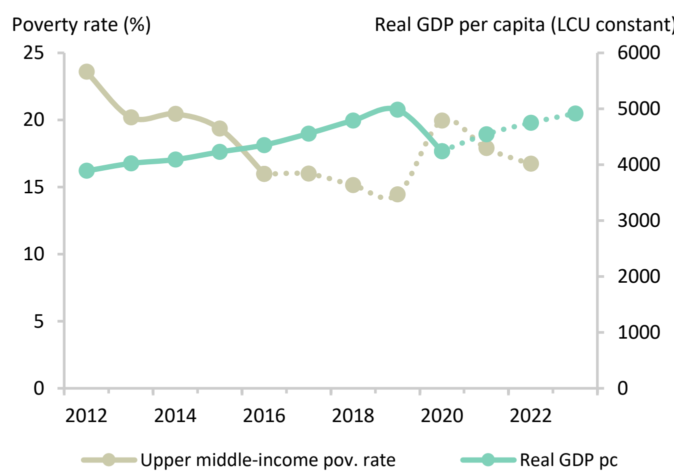
Administrative data show employment was down to a 9-year low, with the tourism, construction, and trade sectors hit hardest. Unemployment went up by 13 percent. Wage subsidies and one-off cash transfers helped to avoid even larger layoffs and increases in poverty, though vulnerable workers in the informal sector might not have received much support. Poverty (income below $5.5/day in 2011PPP) is estimated to increase from 14.5 percent in 2019 to 20 percent in 2020.

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



Sources: MONSTAT, World Bank projections.

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



Source: World Bank. Note: see Table 2.

In 2020, general government revenues declined by 13 percent, strongly driven by declines in VAT (-24 percent). General government spending went up by 4.6 percent, partly due to support measures, while capital spending fell by 25 percent. In December, Montenegro placed a 7-year EUR750 million Eurobond, with an interest rate of 2.875 percent to pre-finance maturing debt and 2021 fiscal deficit.

The financial sector was resilient in 2020: outstanding loans (including those in moratoria) were up by 3 percent, while deposits fell by 3 percent, driven by declining household deposits. Yet, new lending was down by 26 percent and bank profits declined by over 50 percent. In December, non-performing loans edged to 6 percent of total loans and the capital adequacy ratio was at 18.59.3 percent.

As exports plunged and imports showed more resilience, the current account deficit widened to 26 percent of GDP. Net FDI increased by 50 percent (due to smaller outflows, as buying-back of EPCG shares finalized in 2019), covering almost 40 percent of the CAD, with debt and deposit draw-down financing the rest of it. In December, international reserves (stronger due to the Eurobond) covered 10 months of merchandise imports.

Outlook

The blurred outlook due to the pandemic developments and vaccine rollouts is further dimmed by unclarity on the government's medium-term plans. Due to a low base and assuming tourism recovers to 55 percent of 2019 levels, Montenegro's economy is expected to rebound in 2021 with an estimated GDP growth of 7.1 percent.

The total output loss is, however, projected to be fully recovered only in 2023 when the economy is expected to grow 3.5 percent.

External imbalances will remain elevated in 2021, but the finalization of the import-dependent motorway section and stronger exports led by the tourism recovery are projected to reduce the current account deficit to 13 and 10 percent of GDP in 2022 and 2023, respectively. After peaking at 105 percent of GDP in 2020, public debt is estimated to return to pre-crisis levels by 2023. However, the actual debt reduction trajectory might be steeper or flatter, depending on the government's medium-term budgetary plans which are still unknown, as it delayed the 2021 budget adoption. However, implementation of sound and credible fiscal policies is an imperative for debt sustainability.

The outlook on employment is also highly uncertain and depends on the recovery of labor-intensive sectors. The speed of recovery of low-skill jobs will partly determine how fast poor and vulnerable households can return to pre-crisis income levels. The poverty rate is projected to decline to 17.9 percent in 2021.

The current crisis has made the longstanding policy priority of improving economic resilience more urgent than ever.

In order to accelerate recovery and sustain inclusive growth and poverty reduction, Montenegro must keep macroeconomic stability, ensure inclusive and efficient provision of public services, carefully manage its natural resources and strengthen the independence and capacities of its institutions. The government decisions to tackle the SOE governance issues are important steps in the right direction.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	5.1	4.1	-14.9	7.1	4.5	3.5
Private Consumption	4.6	3.1	-4.4	2.2	2.3	2.3
Government Consumption	6.3	1.0	0.5	-0.4	-0.3	-0.1
Gross Fixed Capital Investment	14.7	-1.7	-9.9	3.5	-4.9	0.4
Exports, Goods and Services	6.9	5.4	-51.0	47.3	22.4	8.5
Imports, Goods and Services	9.2	2.4	-20.5	12.0	4.7	3.0
Real GDP growth, at constant factor prices	5.1	4.4	-14.9	7.1	4.5	3.5
Agriculture	3.3	-2.2	-1.5	1.0	1.2	1.5
Industry	15.3	5.6	-9.5	4.0	0.0	3.0
Services	2.2	4.9	-18.3	9.1	6.6	4.0
Inflation (Consumer Price Index)	2.6	0.4	-0.3	1.5	1.5	1.7
Current Account Balance (% of GDP)	-17.1	-15.0	-25.8	-19.4	-13.1	-9.9
Net Foreign Direct Investment (% of GDP)	6.9	7.0	11.1	8.2	7.9	7.9
Fiscal Balance (% of GDP)	-4.6	-3.0	-11.0	-5.1	-1.3	-0.4
Debt (% of GDP)	70.1	76.5	104.8	90.1	82.3	77.7
Primary Balance (% of GDP)	-2.4	-0.8	-8.3	-2.3	1.1	1.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	15.2	14.5	20.0	17.9	16.7	

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2012-SILC-C, 2015-SILC-C, and 2016-SILC-C.Actual data: 2016. Nowcast: 2017-2020.
Forecast are from 2021to 2023.

(b) Projection using point-to-point elasticity (2012-2015) with pass-through = 0.7 based on GDP per capita in constant LCU and simulations of Covid-19 impacts.

NORTH MACEDONIA

Table 1	2020
Population, million	2.1
GDP, current US$ billion	12.1
GDP per capita, current US$	5825.2
Upper middle-income poverty rate ($5.5)[a]	17.9
Gini index[a]	33.0
School enrollment, primary (% gross)[b]	98.2
Life expectancy at birth, years[b]	75.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011PPPs.
(b) Most recent WDI value (2018).

The pandemic led to a growth contraction of 4.5 percent in 2020—the largest since independence. Government response measures partially mitigated the crisis impact on households and firms, but the fiscal deficit tripled to 8.9 percent of GDP, and debt reached 60 percent of GDP. The near-term outlook is positive, but downside risks are high. While economic and social measures to remedy the crisis will take priority in early 2021, fiscal, competition, environmental and governance reforms are needed for recovery and EU accession.

Key conditions and challenges

North Macedonia has enjoyed a period of relative macroeconomic stability over the last decade, accompanied by rising trade integration, especially in GVCs, an improved business environment and inflow of foreign direct investment. While this has resulted in an average GDP growth of 2.6 percent in the period 2010-2019, it was still lower than in peer countries.

Poverty declined in recent years, but about 16.8 percent of Macedonians (using the US$5.5/day at 2011 PPP line) were still projected to live in poverty in 2019. Hit by the pandemic and the related recession, it is estimated that poverty increased between 1 and 4 percentage points in 2020. Support measures introduced by the government (i.e., subsidies and social security contributions to private firms and cash benefits and vouchers for vulnerable people) helped alleviate the impact of the pandemic on poverty.

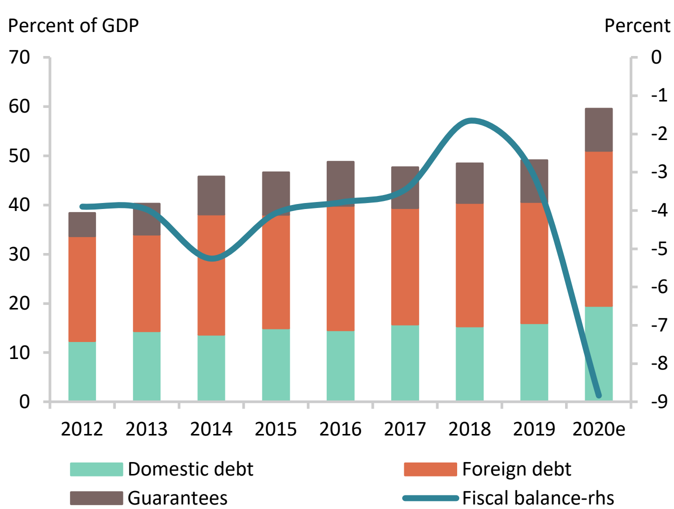
Outlook for the near term, although positive, remains challenging as a result of continued containment measures in place, slow vaccine rollout, and unresolved structural bottlenecks. Human capital development is limited as a result of weak education and workforce skills acquisition which, together with low and declining productivity, has been constraining growth. This has only been further exacerbated by the learning loss caused by COVID-19. In addition, labor resources are underutilized as only 48 percent of working-age Macedonians are employed, while low birth rates and emigration are shrinking the workforce.

The transition to a more dynamic economic model and, with it, the creation of job opportunities for the youth is linked to the implementation of key social sector, economic, and governance reforms in a context of political stability, increased transparency, accountability, voice and participation. The current economic model, based on generous public support through subsidies and broad and growing tax exemptions, is not sustainable and has led to an ever-increasing state involvement in the market. Countercyclical fiscal policies put in place to mitigate the impact of COVID-19 depleted the fiscal buffers and increased sustainability concerns. As the economic recovery firms up, a gradual withdrawal of the state support will be necessary. Finally, further delays in the opening of the EU accession negotiations may reduce willingness to undertake structural reforms.

Recent developments

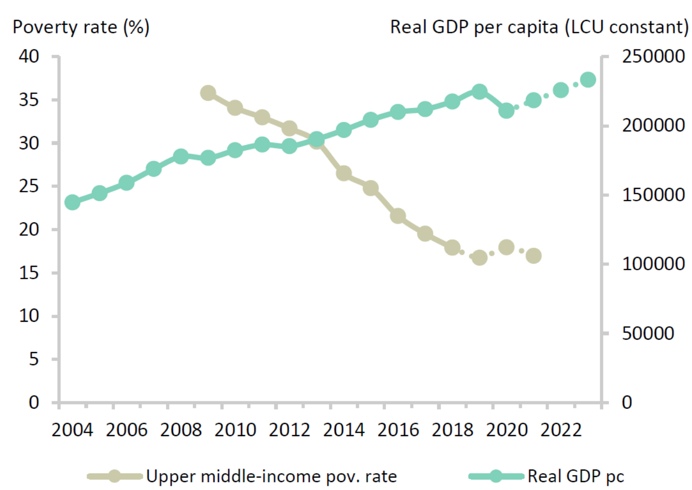
Growth declined by 4.5 percent in 2020; less than earlier projected as the recession sharply eased in Q4. Private consumption, the main driver of growth in the past, experienced a sharp decline of 5.6 percent y-o-y as a result of containment measures. Investment also declined by more than 10 percent, even though it shortly rebounded in Q3. Government consumption that

FIGURE 1 North Macedonia / Fiscal deficit, debt and guarantees



Sources: North Macedonia State Statistics Office and World Bank.

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



Sources: : World Bank. Notes: see Table 2 increased by over 10 percent partly alleviated declining domestic demand. External demand also plummeted, reflected in a 10.9 percent y-o-y decline of exports. The accompanying decline in imports alleviated the pressure on the current account deficit which is expected to remain largely unchanged compared to 2019. On the production side, agriculture, ICT and real estate activities were only sectors growing in 2020.

Government support helped cushion the crisis impact on the labor market by supporting over 130,000 jobs through wage subsidies in April, declining to 60,000 towards the year-end as the economy slowly recovered. The unemployment rate remained largely unchanged, but this was partly a result of people dropping out of the labor market. The activity rate dropped by 0.8 pp to 56.4 percent, the lowest level since 2008.

The banking sector liquidity ratio of over 23 percent in Q3 remained adequate, helped by the central bank measures. Credit continued growing at 4.7 percent y-o-y by end-2020, on account of both household and firm credits supported by strong deposit growth and crisis-support programs. Non-performing loans declined to 3.3 percent given the allowed suspension on credit reclassification requirements until December. However, an upward correction is expected in 2021 as this measure ended. The capital adequacy ratio stood at 16.9 percent in Q3 2020, double the mandatory level. Inflation remained low at 1.2 percent y-o-y in 2020, reflecting subdued output and despite rising food prices in the second half of 2020.

The fiscal deficit tripled to 8.9 percent of GDP in 2020. The drop in VAT and excise revenues amounted to 0.9 percent of GDP and was cushioned somewhat by an increase in social contributions. Spending increased by 4.4 percent of GDP, as health expenditures and subsidy schemes, aimed at employment retention, surged. Spending on wages and pensions also increased as a result of previous policy changes, while capital spending declined. Public and publicly guaranteed debt increased to 60.2 percent of GDP as the government ramped up borrowing to finance the soaring deficit and repay maturing obligations.

Outlook

The economic growth is expected to rebound to 3.6 percent in 2021. This scenario assumes accelerated vaccinations by mid-2021, no further lockdowns, and increased external demand. In this scenario of a gradual recovery, after a protracted recession in Q1 2021, a rebound is expected thereafter, as restored consumer and investor confidence pushes up personal consumption, private investment, and exports. The fiscal deficit is planned at 4.9 percent but given the extended government support to firms and households in early 2021 of an additional 1.4 percent of GDP, the actual deficit will likely be higher. Setting public finances back on a sustainable path will be needed over the medium term, as public and publicly guaranteed debt surpasses 64 percent of GDP in 2021. Targeting a primary balance over the medium term would be needed to stem further public debt growth and not crowd out productive spending. This is even more important in the eventuality that international financing costs rise. Boosting revenues through cutting back on exemptions and strengthening compliance are priorities along with a gradual state withdrawal from the corporate sector. Bringing people back to the labor market, as well as education and governance reforms could help boost potential growth. Poverty is projected to resume its decline as growth gradually recovers in 2021.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.9	3.2	-4.5	3.6	3.5	3.4
Private Consumption	4.5	5.6	-7.4	4.5	3.9	3.7
Government Consumption	2.0	-1.3	10.1	3.6	1.2	0.3
Gross Fixed Capital Investment	-19.8	20.2	-7.7	5.1	5.9	5.1
Exports, Goods and Services	15.6	4.6	-10.9	6.2	7.2	7.3
Imports, Goods and Services	9.1	10.5	-10.5	6.4	6.5	6.2
Real GDP growth, at constant factor prices	3.9	3.2	-3.7	3.6	3.5	3.4
Agriculture	8.6	0.6	1.7	2.7	2.5	2.0
Industry	0.2	4.6	-6.8	5.7	5.0	4.5
Services	4.9	2.9	-3.2	2.9	3.1	3.1
Inflation (Consumer Price Index)	1.5	0.9	1.2	1.6	2.0	2.0
Current Account Balance (% of GDP)	-0.1	-3.3	-3.5	-3.4	-2.6	-1.5
Financial and Capital Account excl. reserves (% of GDP)	5.2	6.6	5.2	3.9	3.1	1.9
Net Foreign Direct Investment (% of GDP)	5.6	3.2	1.9	2.6	2.7	2.7
Fiscal Balance (% of GDP)	-1.1	-2.2	-8.2	-5.4	-4.0	-3.3
Fiscal Balance with Pub. Ent. for State Roads (% of GDP)	-1.7	-3.1	-8.9	-6.0	-4.2	-3.4
Debt (% of GDP)	48.4	49.4	60.2	64.9	65.9	67.2
Primary Balance (% of GDP)	-0.5	-1.9	-7.7	-4.7	-2.8	-2.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	17.9	16.8	18.0	17.0		

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2018-SILC-C. Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021.

(b) Projections based on sectoral GDP growth at constant LCU.

POLAND

Table 1	2020
Population, million	38.0
GDP, current US$ billion	594.2
GDP per capita, current US$	15654.9
Upper middle-income poverty rate ($5.5)[a]	1.2
Gini index[a]	30.3
School enrollment, primary (% gross)[b]	96.9
Life expectancy at birth, years[b]	77.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011PPPs.
(b) Most recent WDI value (2018).

The two COVID-19 waves and containment measures have pushed the Polish economy into recession; however, Poland remained among the most resilient economies in the region. To mitigate the impact on firms and employment, economic measures were introduced that have narrowed the fiscal space. While unemployment impacts have been stymied, work stoppages have resulted in considerable household income impacts. The key challenges over the short term are swiftly rolling out vaccinations and ensuring a robust economic recovery.

Key conditions and challenges

The well-diversified Polish economy is one of Europe's least affected economies by the COVID-19 pandemic. GDP declined however by 2.7 percent in 2020, the first output contraction in over 20 years.

Prudent macroeconomic policies, effective absorption of EU investment funds, a sound financial sector, and better access to long-term credit fed into inclusive growth and poverty reduction. Real wage growth and a range of demographically targeted social programs ("Family 500+", "13th pension") fed into robust consumption growth until early 2020. With an improving business environment, Poland integrated well into regional value chains (RVCs). Higher levels of private investment, an improved innovation ecosystem, and further upgrading of RVCs are needed to boost productivity and growth.

A key challenge over the short term is to continue supporting the sectors most affected by the pandemic, while ensuring public debt sustainability. The unprecedented policy response to the COVID crisis has narrowed available fiscal space.

Increased spending efficiency is needed to rebuild fiscal buffers for future countercyclical policies and to prepare for the growing fiscal burden arising from aging.

The full economic and social impact of COVID-19 hinges on the success of containment efforts, the vaccination rollout and of the policy measures. The second wave of the pandemic weakened the recovery, forcing a lockdown in multiple sectors, in particular retail, accommodations and services, and further straining the healthcare system. The risk of delays in the vaccination rollout and subsequent pandemic waves could undermine the recovery, with implications for jobs and inclusion.

Over the medium term, a key challenge to sustained growth is a tightening labor supply made more acute by the aging population. Achieving decarbonization commitments is another challenge. Strengthening institutions at both the national and subnational level are necessary ingredients for sustained and inclusive growth and for the narrowing of regional disparities.

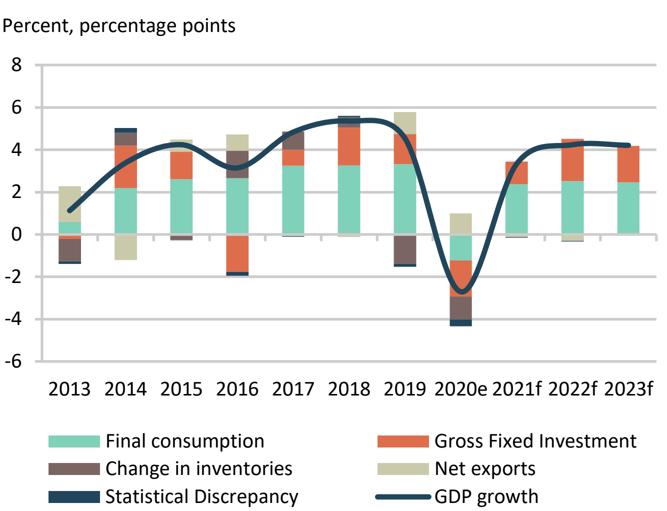
Recent developments

The economy recorded its first contraction since 1991 amid the pandemic, with output contracting 2.7 percent in 2020. The government swiftly implemented exceptional stimulus and accommodative monetary policy to mitigate the health, social impact and prevent economic scarring.

The pandemic, heightened uncertainty, and negative confidence effects dampened private consumption (-3.1 percent) and total investment, (-8.4 percent). Government spending to cushion pandemic impacts and a higher public wage bill contributed to the 3.2 percent increase in public consumption, while public investment remained stable.

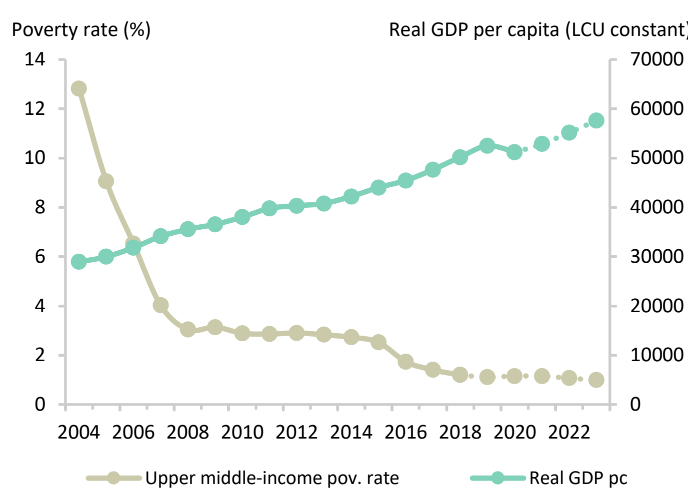
Disruptions to international trade and transport and lower demand from key EU partners caused a 0.5 percent decline in

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



Source: World Bank.

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



Source: World Bank. Notes: see table 2.

exports. Lower domestic expenditure caused imports to decline 2.6 percent, with net exports contributing 1 percentage point to growth in 2020.

Although disruptions to RVCs and lockdown measures affected industrial activity (-9.4 percent in Q2), the Q3 rebound in domestic activity and exports limited the decline to 1.0 percent in 2020. Accommodation and catering collapsed by 45.5 percent, raising the risk of economic scarring. Most sectors contracted at a moderate pace, while real estate activities and ICT expanded.

Household income and employment impacts of the pandemic were mitigated through multiple additional support measures as well as by demographically targeted transfers that acted as an income base for population segments. Rapid assessments show that household income declines were more widespread and pronounced in the first pandemic wave. Work stoppages have however had a more pronounced impact on lower-wage workers and those in non-standard contract types, who are also less likely to be covered by protective leave policies.

The current account surplus rose to 3.5 percent of GDP, as imports dropped by USD 11.6 billion, while primary income outflows declined by USD 6.6 billion.

The stimulus packages appear to have been effective in preventing a sharper increase in unemployment and earnings losses by subsidizing salaries and supporting domestic enterprises via non-returnable transfers, loans, tax reliefs and deferrals among others. The unemployment rate increase was contained to 1 pp. year-on-year by January 2021, rising to 6.5 percent.

The large fiscal stimulus and the decline in economic activity caused the fiscal deficit to widen to an estimated 8.5 percent of GDP in 2020.

Inflation reached 3.4 percent in 2020, primarily on account of lower international fuel prices and food prices. Meanwhile, higher electricity tariffs and a record low reference interest rate prevented a sharper decline in inflation.

The financial sector's asset quality and capital adequacy remain at satisfactory levels.

Outlook

Trade recovery in the euro area, combined with improved confidence and a rebound in private consumption and investment is expected to support a moderate recovery of around 3.3 percent in 2021, bringing output above pre-crisis levels. The outlook incorporates the uncertainty arising from the new strains of the COVID-19 virus and the current pace of vaccination campaigns throughout Europe. Exceptional policy accommodation in Poland and in the EU more broadly is expected to continue throughout 2021, including near-zero policy interest rates. This baseline assumes that the pandemic is contained, with a vaccine effectively rolled out in 2021.

The persistence of the crisis is expected to put a continued financial strain on poor working households that are more vulnerable to reductions in hours worked and job loss. Therefore, the share of the population at risk of poverty is expected to remain elevated through 2021 before gradually recovering in 2022.

Pent-up domestic demand, especially for capital and durable goods, and stronger demand for Poland's exports from key EU trading partners will support a recovery in the industrial sector and exports. Recovery in imports and increased primary income outflows are expected to contribute to a narrowing in the current account surplus. Poland could receive nearly Euro 28 billion in grants and guarantees under the "Next Generation EU" recovery package to fund its national recovery program, providing support for a green and digital transition.

The fiscal deficit is expected to narrow starting in 2021, as the economy recovers and as support measures are targeted to the most affected sectors and vulnerable groups.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	5.4	4.5	-2.7	3.3	4.2	4.2
Private Consumption	4.5	3.9	-3.1	3.1	3.4	3.3
Government Consumption	3.5	6.2	3.2	3.2	3.3	3.3
Gross Fixed Capital Investment	9.4	7.2	-8.4	5.6	10.2	8.4
Exports, Goods and Services	6.9	5.1	-0.5	2.0	5.1	5.5
Imports, Goods and Services	7.4	3.3	-2.6	2.4	6.1	5.8
Real GDP growth, at constant factor prices	5.3	4.5	-2.8	3.5	4.2	4.2
Agriculture	-9.1	0.1	-3.0	5.5	1.0	1.0
Industry	7.0	2.2	-1.0	2.0	2.8	2.9
Services	5.0	5.8	-3.7	4.2	5.0	4.9
Inflation (Consumer Price Index)	1.6	2.3	3.4	2.6	2.5	2.4
Current Account Balance (% of GDP)	-1.3	0.5	3.5	1.4	0.3	-0.6
Net Foreign Direct Investment (% of GDP)	-2.6	-1.6	-0.9	-1.2	-1.1	-1.0
Fiscal Balance (% of GDP)	-0.2	-0.7	-8.5	-5.1	-3.2	-2.9
Debt (% of GDP)	48.8	45.7	58.2	59.5	59.0	58.1
Primary Balance (% of GDP)	1.2	0.7	-7.2	-3.8	-1.6	-1.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	1.2	1.1	1.2	1.2	1.1	1.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2007-EU-SILC, 2017-EU-SILC, and 2018-EU-SILC.
Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.
(b) Projection based off elasticities calibrated on 2007-2017 growth periods and rapid assessment data, allowing for elasticities to vary between periods of contraction, recovery and expansion.

ROMANIA

Table 1	2020
Population, million	19.2
GDP, current US$ billion	245.4
GDP per capita, current US$	12757.5
International poverty rate ($1.9)[a]	2.6
Lower middle-income poverty rate ($3.2)[a]	5.3
Upper middle-income poverty rate ($5.5)[a]	11.0
Gini index[a]	35.9
School enrollment, primary (% gross)[b]	87.3
Life expectancy at birth, years[b]	75.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) Most recent WDI value (2018).

The Romanian economy performed better than anticipated, contracting by 3.9 percent in 2020. A proactive but constrained fiscal response, at 4.4 percent of GDP, supported firms to retain employees and fed into household incomes. Economic growth is expected to rebound to 4.3 percent in 2021, supported by a pick-up in economic activity in the second half of the year. Poverty is anticipated to increase in the short term as the protracted impacts of COVID-19 affect domestic income sources and remittances.

Key conditions and challenges

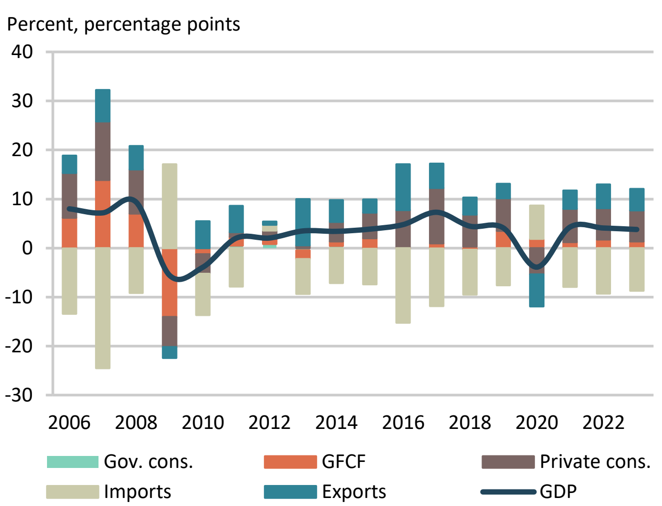
Prior to the COVID-19 pandemic, Romania enjoyed a decade of economic growth; however, the COVID-19 crisis has affected economic activity and household incomes, exposing Romania's structural issues. Fiscal policy has historically been procyclical. The budget deficit averaged -2.8 percent of GDP between 2011-2019 as GDP growth averaged 3.9 percent over the same period. Economic growth was strong despite weak fundamentals. Elevated private consumption, driven in part by unsustainable wage growth, has triggered inflationary pressures and placed the current account deficit on a widening path. The quality and quantity of labor and capital, as well as slower productivity dynamics, have limited potential growth. Private investment has remained at fairly high levels, but a shallow financial sector limits the availability of long-term finance. The Government responded rapidly to the COVID-19 crisis by providing a fiscal stimulus of 4.4 percent of GDP in 2020. This is one of the lowest stimuli in the EU, reflecting the limited fiscal space. In the first COVID wave, poor and vulnerable households were less supported by the fiscal response measures, which extended more directly to those in formal employment structures; subsequent programs for daily wage and seasonal workers extended protections to typically more vulnerable segments.

The key challenge in the short term is to contain the COVID-19 crisis and limit its health, economic and social consequences. The Government's policy response alongside the European Union (EU) support, as well as a successful rollout of the COVID-19 vaccine, will be critical in ensuring recovery. Bringing down the fiscal deficit alongside structural reforms to reduce inefficient expenditures and strengthen revenue mobilization will be paramount for the consolidation of public finance and for averting a sharp increase in public debt over the medium term. Additional challenges stem from Romania's historically low EU fund absorption rates, raising questions on the country's capacity to take advantage of the new recovery funds.

Recent developments

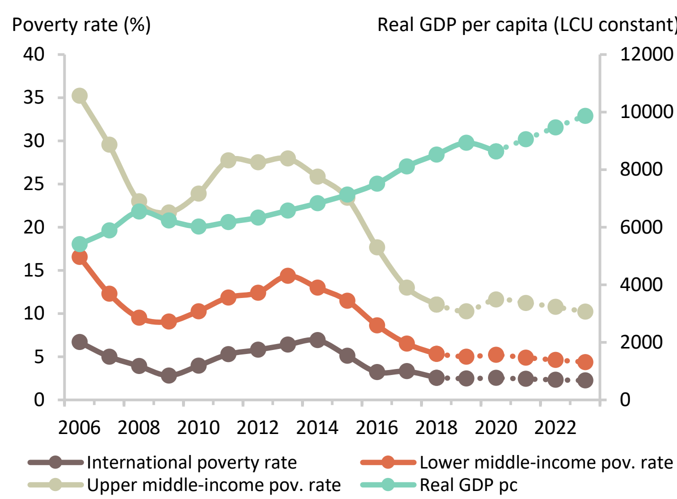
The Romanian economy contracted by 3.9 percent in 2020 on the back of better than expected fourth-quarter performance at -1.4 percent yoy. This reflects in part a smaller disruption of employment and production in the second wave of the pandemic in Q4 2020 compared to the first. Trade and services decreased by 4.7 percent in 2020, and high-frequency indicators point to a quicker recovery contributing to the fourth quarter GDP rebound, although certain sectors – such as tourism and hospitality – remained heavily affected. Industry contracted by 9.3 percent, over the same period, reflecting the weakening of external demand from Europe alongside pandemic-related restrictions

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



Source: World Bank.

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



Source: World Bank. Notes: see table 2.

and supply chain disruptions. The biggest contraction was seen in agriculture, linked to persistent droughts affecting crops. The output contractions led to deteriorating labor market conditions and increased unemployment affecting household income. The unemployment rate reached as high as 5.5 percent in July 2020 before edging down to 5.3 percent in December 2020.

Rapid household assessments of COVID-19 impacts showed a substantial rise in the share of the population at risk of poverty in April 2020, which gradually declined between July 2020 and January 2021 as temporarily inactive workers returned to work. Poverty levels at the start of 2021, however, remain elevated – linked to the combination of the sharp agricultural contraction and the persistence of the pandemic. Lower-earning workers and those on non-standard contracts continue to be more affected by employment stoppages during the second pandemic wave and approximately 20 percent of households reported lower incomes in January 2021 than prior to the pandemic, with impacts felt across income groups.

The fiscal deficit surged to 9.8 percent of projected GDP at the end of 2020 on the back of COVID-19 related expenditures and lower revenues due to the economic downturn and tax relief. Tax facilities, investments, and exceptional expenditures allocated to combat the effects of the COVID-19 pandemic totaled 46.3 billion Ron (4.4 percent of GDP). This included 4.2 billion Ron for benefits granted during the period of temporary suspension of individual employment contracts, 2.7 billion Ron in VAT refunds supporting firm liquidity, and 0.9 billion Ron in bonuses granted for the payment at maturity of the tax on the income of micro-enterprises and the corporate income tax.

To reduce the effects of the COVID-19 crisis, the National Bank of Romania (NBR) has pursued a quantitative easing policy which included the purchase of government bonds from the secondary market, repo operations to provide liquidity to credit institutions and monetary policy rate cuts amounting to 1.25 percentage points from 2.5 percent in February 2020 to 1.25 percent in January 2021.

Outlook

The economy is projected to grow at around 4.3 percent in 2021 on the back of strengthened economic activity in the second half of 2021. The strength of the recovery will depend on the success of the vaccine rollout and the policy response to the health crisis, as well as on developments in the EU. The impact of the stimulus pursued at the EU level will play a critical role in the recovery given limited fiscal space. The NBR will continue its quantitative easing policy, further supporting the recovery. However, as growth recovers, inflationary and current account deficit pressures are expected to reemerge, requiring an appropriate policy response.

A substantial reduction of the fiscal deficit in 2021 is improbable, as the government will have to support the economic recovery process. Over the medium term, the deficit will follow a downward trajectory but is likely to remain above 3 percent throughout the projection period. The widening fiscal deficit would push public debt to 62.2 percent in 2023, from 37.3 percent in 2019. However, public debt remains one of the lowest in the EU.

Poverty is projected to remain elevated due to the triple-hit in incomes facing poorer segments of the population, in the form of the persistent pandemic, the poor agricultural year, and declining remittance incomes.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.5	4.1	-3.9	4.3	4.1	3.8
Private Consumption	6.5	6.4	-5.1	6.5	6.0	5.9
Government Consumption	6.8	5.0	6.5	1.2	3.5	3.0
Gross Fixed Capital Investment	-1.1	13.0	5.6	3.9	5.1	3.9
Exports, Goods and Services	5.3	4.6	-10.0	6.2	7.8	6.8
Imports, Goods and Services	8.6	6.8	-6.0	7.1	8.1	7.3
Real GDP growth, at constant factor prices	3.9	4.0	-3.3	4.3	4.1	3.8
Agriculture	9.4	-5.0	-16.2	14.2	6.1	2.9
Industry	4.3	-0.6	-9.3	5.2	4.3	4.1
Services	3.2	7.6	0.9	3.1	3.8	3.7
Inflation (Consumer Price Index)	4.6	3.8	2.6	3.0	3.2	2.9
Current Account Balance (% of GDP)	-5.3	-4.7	-5.0	-5.4	-5.7	-6.3
Net Foreign Direct Investment (% of GDP)	2.3	2.3	0.9	2.1	2.3	2.4
Fiscal Balance (% of GDP)	-2.9	-4.4	-9.8	-7.2	-6.0	-4.7
Debt (% of GDP)	36.4	37.3	47.7	53.6	58.1	62.2
Primary Balance (% of GDP)	-1.6	-3.1	-8.4	-5.5	-4.0	-2.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.6	2.5	2.5	2.4	2.3	2.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	5.3	5.0	5.2	4.9	4.6	4.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	11.0	10.3	11.6	11.2	10.8	10.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2007-EU-SILC, 2017-EU-SILC, and 2018-EU-SILC.Actual data: 2018. Nowcast: 2019-2020. Forecasts: 2021to 2023.

(b) Projection based off elasticities calibrated on 2007-2018 growth periods and rapid assessment data, allowing for elasticities to vary between periods of contraction, recovery and expansion.

RUSSIAN FEDERATION

Table 1	2020
Population, million[a]	144.5
GDP, current US$ billion	1481.9
GNI per capita, US$ (Atlas method)[a]	11260
International poverty rate ($1.9)[b]	0.0
Lower middle-income poverty rate ($3.2)[b]	0.4
Upper middle-income poverty rate ($5.5)[b]	3.7
Gini index[c]	37.5
School enrollment, primary (% gross)[c]	104.7
Life expectancy at birth, years[c]	72.7

Sources: WDI, MPO, Rosstat.
Notes:
(a) Most recent value (2019).
(b) Most recent value (2018), 2011 PPPs.
(c) Most recent value (2018).

A lower-than-expected GDP contraction in 2020 and a rapid easing of COVID-19–related restrictions have improved growth momentum, spurring an upgrade in the Russian Federation's economic growth forecast to 2.9 percent in 2021 and 3.2 percent in 2022 (from a December forecast of 2.6 percent and 3.0 percent, respectively). However, this outlook remains subject to substantial uncertainty and downside risks. Following an uptick in 2020, the poverty rate is expected to decline in 2021 but remain above pre-pandemic levels until 2022.

Key conditions and challenges

In recent years, Russia undertook significant macro-fiscal stabilization efforts, resulting in an improved fiscal position—including a sizeable accumulation of fiscal and reserve buffers—reduced exposure to oil price volatility and a lower public debt burden. A massive banking sector clean-up, together with enhanced regulation and supervision, fortified capital and liquidity buffers. These efforts strengthened Russia's ability to respond to the pandemic's adverse economic shocks. They allowed the government to provide a substantial countercyclical fiscal stimulus (about 4.5 percent of GDP) and an accommodative monetary policy (the key rate was lowered by 200 basis points between February–July 2020).

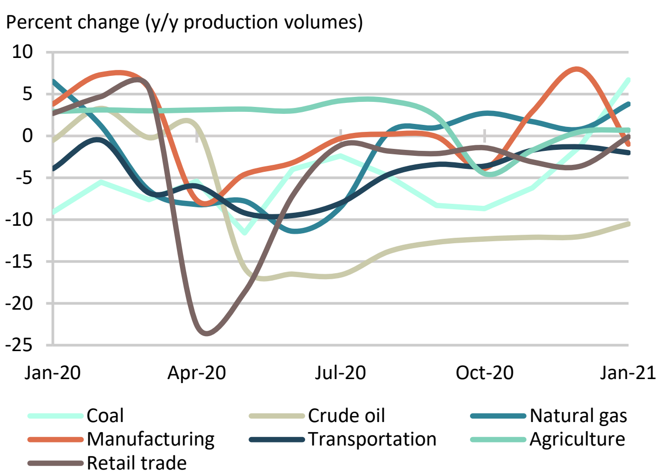
Russia's potential growth has been trending downward since the global financial crisis. While near-term recovery will be contingent on the stemming of the pandemic, longer-term economic prospects will depend on boosting potential growth through promoting economic diversification, reducing the state's economic footprint, leveling the playing field for the private sector, improving governance—particularly of state-owned enterprises—and taking advantage of shifting global value chains. A green transition could pose significant challenges for the Russian economy unless the government undertakes preemptive steps toward decarbonization.

The downward trajectory in poverty rates since 2010 was interrupted by the shocks of 2014–15. Since then, poverty has again declined, reaching 12.3 percent in 2019 (using the national measure). The official poverty rate jumped to 13.3 percent in the third quarter of 2020, reflecting the coronavirus pandemic's impact. Emergency social protection measures prevented an even greater increase in the poverty rate.

Recent developments

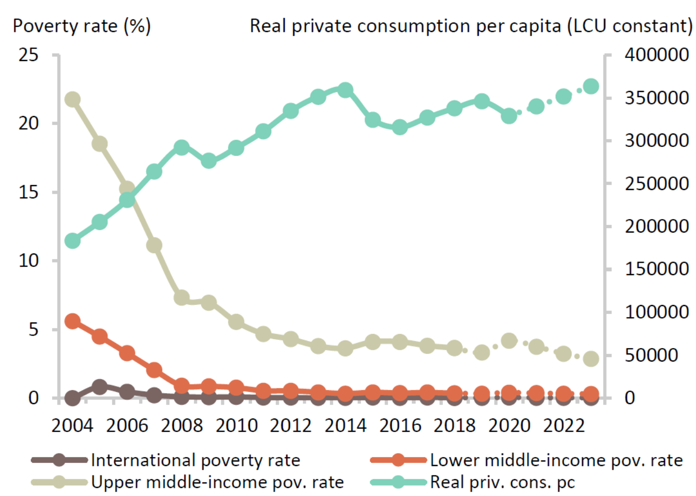
GDP contracted sharply in the second quarter of 2020, declining by 10.9 percent quarter on quarter, saar. Economic activity only partly recovered in the third quarter (rising by 2.8 percent quarter on quarter, saar) as mobility restrictions eased following a decline in COVID-19 cases and households and companies benefited from government support, including countercyclical fiscal, monetary, macroprudential, and regulatory measures. Momentum slowed again in the fourth quarter as the pandemic's second wave swept across Russia and the globe. Pandemic mitigation measures heavily impacted the services sectors, with the transportation and hotels and catering sectors registering double-digit contractions. The 2020 extension of the OPEC+ agreement weighed on mineral resource extraction, which contributed -1 percentage point to GDP growth. Lower energy export receipts, financial market volatility, and increased geopolitical risks fueled a sharp increase in capital outflows in 2020 ($47.8 billion,

FIGURE 1 Russian Federation / High frequency economic indicators



Sources: Russian Statistical Authorities.

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



Source: World Bank. Notes: see Table 2.

up from $22.1 billion in 2019), driving a real effective exchange rate depreciation. The sharp contraction in imports due to the depreciation, a decline in real income, and impediments to outward tourism failed to fully offset the drop in energy exports.

The general government fiscal deficit widened to 4.0 percent of GDP in 2020 (compared to a surplus of 1.9 percent of GDP in 2019), driven by pandemic response spending and the need for economic support measures amid lower energy revenues. Unemployment rose in all regions, but job losses were concentrated in manufacturing, real estate, and hotels and catering. The unemployment rate stood at 5.8 percent in January 2021, down from its peak of 6.4 percent in August but still above the 4.6 percent rate recorded in December 2019.

Weakening asset quality across the corporate, small and medium enterprise, and retail segments put pressure on bank profitability and amplified macro-financial risks. The extent of problem loans on bank balance sheets will only become clearer in mid-2021 when the authorities lift the remaining regulatory forbearance measures.

Since the end of 2020, 12-month consumer price inflation has exceeded the central bank's target of 4 percent, owing mainly to higher global food prices and ruble deprecation. In February 2021, inflation reached 5.7 percent. Elevated inflationary pressure coupled with domestic demand rebound prompted the Central Bank of Russia (CBR) to raise its key interest rate by 25 bp to 4.5 percent in March.

Outlook

Assuming that no third wave of coronavirus infections occurs in Russia, consumer and business confidence are expected to improve, paving the way for a gradual economic rebound. GDP growth is forecast at 2.9 percent in 2021 and 3.2 percent in 2022. The general government deficit is expected to improve, narrowing to about 2.0 percent of GDP in 2021 and turning into 0.5 percent of GDP surplus in 2022. Deficit financing, mainly through domestic debt issuance, will increase general government debt to a still-manageable 20 percent of GDP in 2023 (from 14 percent in 2019). Following 2020's stronger fiscal impulse, the 2021–22 fiscal consolidation in Russia will be deeper than in other emerging markets and will become a drag on growth. Given its relatively low public debt, sizeable macro-fiscal buffers, and expected persisting negative output gap, Russia has the fiscal space for a more gradual consolidation, allowing further increases in social spending and support to regions. In line with the OPEC+ agreement, oil production restrictions will fall away in 2021-–22, supporting growth of oil output and export volumes. Twelve-month consumer price inflation is projected to average 4.3 percent in 2021 before stabilizing around the central bank's target of 4 percent in 2022–23.

In 2021, the poverty rate (using the upper-middle-income poverty line of US$5.5 per day) is expected to decline to below 2020 levels as the economy rebounds. However, it will remain above pre-pandemic levels until 2022.

The outlook faces substantial downside risks. Lower-than-expected vaccine effectiveness or vaccine hesitancy could delay the economic recovery, as could new sanctions. Banks could face deteriorating asset quality, profitability, and capitalization, including from the country's overheated mortgage market. The CBR extended the forbearance on impairment recognition until mid-2021. Although these measures should allow banks to accumulate profits to increase loan loss provisioning, they will also delay the realization of unavoidable and costly losses.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.8	2.0	-3.1	2.9	3.2	2.5
Private Consumption	4.2	3.1	-8.6	4.7	4.9	3.8
Government Consumption	1.3	2.4	4.0	-1.0	-1.0	1.0
Gross Fixed Capital Investment	0.6	1.5	-6.2	2.8	3.4	3.0
Exports, Goods and Services	5.6	0.9	-5.1	1.9	3.6	3.2
Imports, Goods and Services	2.7	3.5	-13.7	5.9	9.3	4.9
Real GDP growth, at constant factor prices	2.8	2.0	-2.8	2.7	3.2	2.4
Agriculture	1.7	2.7	0.0	1.8	1.8	1.8
Industry	2.9	1.5	-3.5	1.9	2.7	2.5
Services	2.8	2.2	-2.6	3.2	3.6	2.4
Inflation (Consumer Price Index)	2.9	4.5	3.4	4.3	4.0	4.0
Current Account Balance (% of GDP)	7.0	3.8	2.2	3.1	2.7	2.0
Net Foreign Direct Investment (% of GDP)	-1.4	0.6	-0.3	0.2	0.2	0.2
Fiscal Balance (% of GDP)[a]	2.9	1.9	-4.0	-1.8	0.5	0.6
Debt (% of GDP)	13.7	14.0	17.8	19.1	19.6	20.0
Primary Balance (% of GDP)[a]	3.8	2.7	-3.1	-0.8	1.6	1.7
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	0.4	0.3	0.4	0.4	0.3	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	3.7	3.3	4.2	3.7	3.2	2.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Fiscal and Primary Balance refer to general government balances.
(b) Calculations based on ECAPOV harmonization, using 2018-HBS.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.
(c) Projection using neutral distribution (2018) with pass-through = 0.7 based on private consumption per capita in constant LCU.

SERBIA

Table 1	2020
Population, million	6.9
GDP, current US$ billion	53.0
GDP per capita, current US$	7673.3
Upper middle-income poverty rate ($5.5)[a]	19.8
Gini index[a]	37.2
School enrollment, primary (% gross)[b]	99.6
Life expectancy at birth, years[b]	75.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

The Serbian economy entered only a mild recession of -1 percent in 2020 thanks to the significant fiscal stimulus program of around 13 percent of GDP. As a result, there was not a substantial increase in poverty, which is estimated to be close to its 2019 level. Downside risks remain, primarily because of uncertainties related to the external environment. To promote economic growth this year the government announced a new fiscal stimulus program worth around 5 percent of GDP.

Key conditions and challenges

The focus of the Government of Serbia in recent years has been on macroeconomic stability, in light of deficits of over 6 percent of GDP (2012-14) and high and increasing public debt. A substantial fiscal consolidation effort started in 2014 to lower total expenditures from 45.2 percent of GDP in 2014 to 42.3 percent in 2019, and to increase revenues from around 38 percent of GDP to 42.1 in 2019. As a result, the large deficits were turned into a surplus in 2017 and a balanced budget thereafter. Tighter fiscal policy together with natural disasters, including a drought in 2012 and major floods in 2014, resulted in lower growth, which averaged 1.9 percent over 2010-19 period. The rate of economic growth started to improve just before the COVID-19 pandemic, averaging 4.4 percent in 2018 and 2019. Growth was primarily led by consumption, and investment remained low as a share of GDP at around 19 percent over 2010-19 period.

The Serbian economy went through the first year of the pandemic with a minimal recession since the government used most of the available fiscal space and buffers at the start of the pandemic. The impact of the program on the economy and living standards was favorable but came at a considerable fiscal cost. With limited space for future stimulus packages, further reforms are needed to bring the economy back to sustained growth and to secure jobs and incomes while strengthening resilience to shocks.

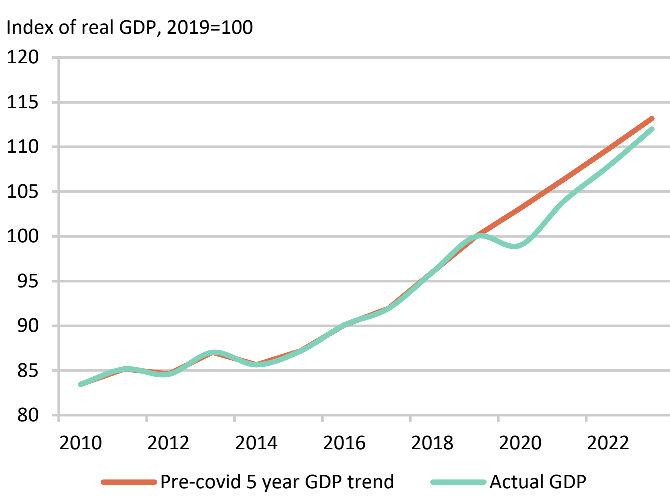
Over the medium term the Serbian economy is expected to return to the pre-COVID-19 growth pattern. However, some challenges that limit growth both over the short and over the medium to long term will remain. Most importantly, Serbia needs to continue efforts to remove bottlenecks for private sector growth stemming from the deteriorating governance environment, insufficiently developed infrastructure and unreformed education sector which creates increasing concern about skills mismatch.

Recent developments

After a robust growth of 4.2 percent in 2019, the COVID-19 pandemic caused a recession of -1 percent in 2020. This is a significantly better result than what was previously projected (a drop of 3 percent). Services sectors were hit most by the pandemic-related events (down 1.5 percent, y/y) while value added in industry remained flat in real terms, and the agriculture sector grew by 4.9 percent. On the expenditure side, both investment and consumption had a negative contribution to growth in 2020 (-1.1 and -0.7pp, respectively) while net exports had a positive contribution to growth (0.8pp).

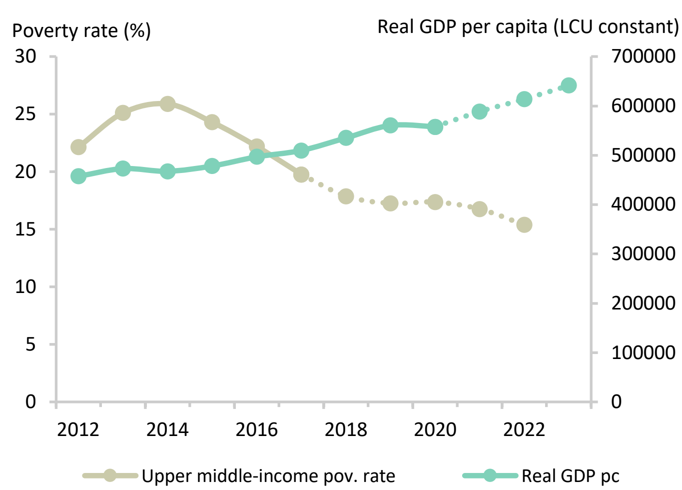
The large fiscal stimulus program, of close to 13 percent of GDP, helped to keep the recession mild. It comprised tax deferrals and increased expenditures of around 8 percent of GDP and guarantees

FIGURE 1 Serbia / Actual and forecast GDP vs 5-year pre-covid trend



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

in the amount of 4.8 percent of GDP. As the largest part of the package (7.4 percent of GDP) went to businesses, it helped to avoid a major reduction in employment. In fact, registered employment increased by 1.9 percent compared to 2019. The Q3 unemployment rate, as measured by the Labor Force Survey, stood at 9 percent in 2020, slightly lower than 2019. The wage subsidy and cash support to citizens also helped to avert a spike in poverty, although at a significant fiscal cost. Due to the support package, limited labor market impacts, and growth in agriculture, poverty (income under $5.5/day in revised 2011 PPP) is estimated to have remained stagnant from 17.3 percent in 2019 to 17.4 percent in 2020.

The fiscal deficit increased significantly in 2020 and reached an estimated 8.1 percent of GDP. This increase is primarily the result of the large fiscal stimulus program. Public debt is estimated at 58.2 percent of GDP by end-2020.

Inflation by year-end reached 1.3 percent y/y, however food prices increased by 2.1 percent. The dinar has remained broadly stable against the euro, supported by significant interventions by the NBS on the foreign exchange market (NBS sold reserves worth 1.5 billion euros in 2020). The banking sector's performance remains robust despite two rounds of debt moratoria introduced in 2020 as part of the COVID-19 response measures. NPLs stood at 3.5 percent as of November. On the external side, CAD decreased significantly – from 6.9 percent of GDP in 2019 to 4.3 percent in 2020.

Outlook

Recovery from the COVID-19 related recession is expected to start in 2021. Growth will be supported by a recently announced new package of measures to support citizens and the economy worth 5.1 percent of GDP. As a result, the economy is expected to rebound by 5 percent in 2021. Over the medium term, growth is expected to be around 4 percent. Growth will be driven by consumption and investment will recover only slowly, which may slow down the impact of growth on labor markets (both employment and wages). This medium-term outlook crucially depends on international developments (including the control of COVID-19), the pace of structural reforms and political developments.

Immediate focus is needed on measures to improve the business environment and governance in order to lower the cost of doing business and ensure security and safety, as well as efforts to improve the quality of infrastructure. Regarding the medium- to long-term challenges the focus should be on demography and climate change. First, an aging and shrinking population will leave Serbia with a smaller available labor force. Labor shortages combined with skills mismatches could significantly hurt the competitiveness of the Serbian economy. Second, the impact of climate change – including more frequent and severe droughts and floods – will hit agriculture and food production hard and will make the cost of infrastructure maintenance much higher.

The pace of labor market recovery will be critical for resumed poverty reduction. The new package is expected to support citizens and economic recovery, though poor and vulnerable households, who tend to depend more on self-employment and less secure jobs, may take longer to regain their income level. Poverty is projected to slowly decline to 16.8 percent in 2021.

In the medium term, regional disputes and slow progress with the EU accession process could affect investment sentiment and therefore delay investment projects in infrastructure and other sectors. Labor market challenges limit the scope for robust welfare improvements and could be exacerbated by a significant brain-drain.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.4	4.2	-1.0	5.0	3.7	3.9
Private Consumption	3.1	3.1	-2.5	5.7	4.2	4.0
Government Consumption	3.7	8.7	11.8	-6.4	1.9	4.0
Gross Fixed Capital Investment	17.8	11.2	-8.2	15.1	5.6	5.2
Exports, Goods and Services	8.3	8.5	-5.9	7.8	8.6	9.5
Imports, Goods and Services	11.6	9.5	-3.5	7.3	8.0	8.7
Real GDP growth, at constant factor prices	4.5	4.2	-1.0	5.0	3.7	3.9
Agriculture	15.2	0.0	4.2	-4.0	1.0	0.0
Industry	2.8	0.2	0.0	4.0	4.5	5.0
Services	4.1	6.8	-2.1	6.6	3.6	3.8
Inflation (Consumer Price Index)	2.0	2.2	1.6	2.5	2.8	2.6
Current Account Balance (% of GDP)	-5.2	-6.9	-4.4	-5.2	-5.9	-6.2
Net Foreign Direct Investment (% of GDP)	3.8	6.3	4.8	5.0	5.6	5.3
Fiscal Balance (% of GDP)	0.6	-0.2	-8.1	-5.0	-2.5	-1.4
Debt (% of GDP)	55.6	52.9	58.2	58.0	56.2	54.9
Primary Balance (% of GDP)	2.7	1.4	-7.1	-3.8	-0.5	0.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	17.9	17.3	17.4	16.8	15.4	

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2013-EU-SILC and 2017-EU-SILC.Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021 to 2023.
(b) Projection using point-to-point elasticity (2013-2017) with pass-through = 0.7 based on GDP per capita in constant LCU and simulations of Covid-19 impacts.

TAJIKISTAN

Table 1	**2020**
Population, million	9.5
GDP, current US$ billion	8.0
GDP per capita, current US$	838.6
International poverty rate ($1.9)[a]	4.1
Lower middle-income poverty rate ($3.2)[a]	17.8
Upper middle-income poverty rate ($5.5)[a]	50.5
Gini index[a]	34.0
School enrollment, primary (% gross)[b]	100.9
Life expectancy at birth, years[b]	70.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2018).

COVID-19 suppressed aggregate supply and demand in 2020, slowing real GDP growth to 4.5 percent. Precious metal exports drove growth while remittance declined, unemployment rose, and households reduced food consumption. Poverty reduction paused for the first time in two decades, underscoring the pandemic's severity. The economy is projected to rebound in 2021–22, subject to a sustained vaccine rollout, improved global trade conditions, and opportunities for migrant workers to travel abroad. Poverty reduction is expected to resume in 2021. However, downside risks prevail.

Key conditions and challenges

Since the 1997 Peace Accord, the Tajik economy has grown steadily, averaging 7.6 percent annually between 1998–20. GNI per capita rose six-fold, to $1,030 by 2019, and poverty fell to 26.3 percent from over 80 percent in the early 2000s. Tajikistan's strong performance reflects a favorable external environment (which drove migrant remittances), generous official donor assistance, and the launch of structural reforms. However, despite high annual growth rates, job creation rates have fallen short. Tajikistan remains highly dependent on migrant remittances and commodity exports to generate foreign exchange. As external financing declines, Tajikistan's other main driver of growth—public investment—also faces greater challenges.

The 2016 taxpayer bailout of domestic banks and commercial borrowing in 2017 for a large infrastructure project squeezed the fiscal space and pushed up the public debt to a level that presents a high risk of debt distress. In the context of large tax expenditures and inefficient state-owned enterprises ambiguous tax revenue mobilization efforts led to a deterioration of the competition required for robust private sector development.

With the credit to GDP ratio at 15.8 percent, Tajikistan's financial sector remains shallow, lacks effective intermediation, and faces difficulties gaining the public's trust.

Tajikistan is making progress in improving its business climate. The country was among the top 10 reformers in Doing Business 2020 while still ranking 106 out of 190 economies worldwide. The protection of property rights, the rule of law, and corruption remain significant challenges to businesses operating in Tajikistan.

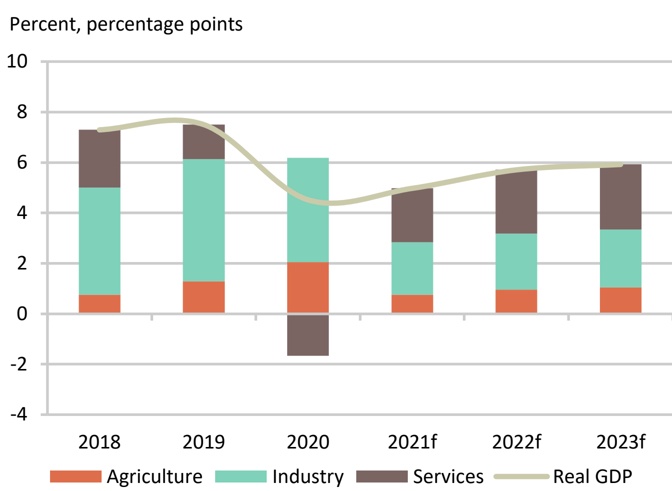
Poverty is largely a rural phenomenon in Tajikistan. Roughly 30 percent of the rural population lives in poverty compared to just 18 percent of the urban population. Labor earnings and remittances from abroad have been the two critical factors for poverty reduction in Tajikistan. In 2020, the loss of employment and reduced incomes, especially from remittances, exerted additional stress on poor households.

Recent developments

The impact of COVID-19 slowed real GDP growth to 4.5 percent in 2020 (from 7.5 percent in 2019). Precious metals exports supported growth in 2020. In contrast, domestic demand suffered from declining private consumption and investment as remittance inflows fell by 6.3 percent year on year. On the supply side, the pandemic mainly affected activities in the hospitality and construction sectors.

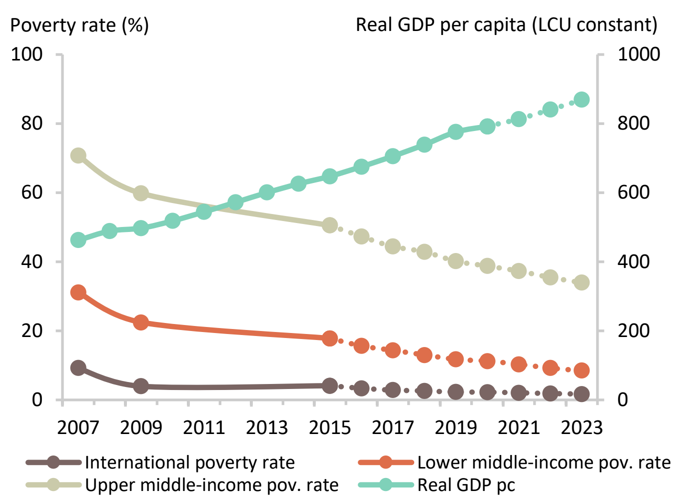
The current account recorded a surplus of 7.6 percent of GDP in the first nine months of 2020 as Tajikistan benefited from surging gold prices. Exports of precious metals rose threefold to $690 million. In contrast,

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



Sources: TajStat; World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

lower disposable incomes amid job and earning losses and a 7.7 percent currency depreciation dampened consumer goods imports. Preliminary data show a significant drop in precious metals exports in the fourth quarter of 2020, which likely rebalanced the current account for the full year. Foreign exchange reserves rose to 8.5 months of import cover at end-2020.

The authorities swiftly responded to the pandemic by allowing tax deferrals for companies. They also ramped up healthcare spending by 44 percent and social expenditures by 10 percent. As a result, the 2020 fiscal deficit widened to 3.3 percent of GDP. The outcome was lower than earlier projections, allowing the authorities to save some of the financial support from international financial institutions. Tajikistan also benefited from the Debt Service Suspension Initiative (DSSI), which suspended 2020 debt servicing equivalent to $43.5 million, creating fiscal space to respond to the pandemic.

The central bank supported domestic demand by cutting the policy rate by 200 bps in 2020, to 10.75 percent. Supply chain disruptions, higher food prices, and currency depreciation pass-through hiked yearly inflation to 9.4 percent. The financial sector was resilient amidst the pandemic. The nonperforming loan ratio fell to 23.8 percent in 2020 (from 27 percent in 2019).

The crisis increased food insecurity in Tajikistan. In May 2020, 42 percent of households reported reducing their food consumption. Estimates suggest that poverty has remained little changed from 26.3 percent in 2019, marking the first time that poverty reduction paused in two decades.

In July 2020, the government expanded the Targeted Social Assistance program from 40 districts to all 68 of the country's districts, increasing the number of beneficiaries from 1.3 million to 1.8 million people.

Outlook

Tajikistan's economy is forecast to rebound in 2021–22, assuming a vaccination rollout to 20 percent in 2021 and 50 percent by the end of 2022 for low- and middle-income countries. Real GDP growth is projected at 5 percent in 2021, subject to improved global trade and opportunities for migrants to return to the Russian Federation. Remittances and foreign investment are projected to rise, reflecting a better growth outlook in Russia and China. Rising fuel and food prices could stoke inflation.

The country's external deficit is expected to deteriorate as higher remittances spur imports and export growth moderates, especially for precious metals.

The approved state budget for 2021 reflects the authorities' ambitious plans for fiscal consolidation. Our projections indicate a fiscal deficit of 2.6 percent of GDP supported by a moderate rebound in economic activity and a corresponding tax collection increase. The government is expected to use concessional external borrowing to close the financing gap.

The authorities are reforming the power utility company, Barqi Tojik, by unbundling it into three independent companies responsible for power generation, transmission, and distribution. Ongoing tax system reforms and the adoption of a new tax code are expected to improve the business climate over the medium term.

A resumption of the downward trend in the poverty rate is expected in 2021. However, downside risks prevail. A delayed vaccination rollout or renewed failure to contain the spread of COVID-19 could impede economic recovery. Meanwhile, a continuation of travel restrictions could suppress international trade and a recovery of remittances. Reduced household income may further exacerbate food insecurity and household well-being.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	7.3	7.5	4.5	5.0	5.7	5.9
Private Consumption	7.2	7.1	-4.4	5.2	4.7	4.3
Government Consumption	3.8	3.5	0.4	2.1	3.0	3.1
Gross Fixed Capital Investment	7.9	-6.4	-6.6	8.6	8.4	8.8
Exports, Goods and Services	2.2	3.5	9.6	1.5	3.2	3.4
Imports, Goods and Services	3.3	2.2	-2.8	2.1	1.7	1.5
Real GDP growth, at constant factor prices	7.8	8.7	4.3	4.8	5.7	5.9
Agriculture	4.0	7.1	8.8	3.3	4.4	4.8
Industry	11.8	13.6	9.7	4.8	5.3	5.5
Services	6.3	4.9	-4.0	5.9	7.1	7.1
Inflation (Consumer Price Index)	3.9	8.0	8.6	7.8	7.0	6.5
Current Account Balance (% of GDP)	-5.0	-2.3	0.5	-1.3	-1.6	-2.4
Net Foreign Direct Investment (% of GDP)	3.3	2.3	1.4	1.9	2.5	2.9
Fiscal Balance (% of GDP)	-2.8	-2.7	-3.3	-2.6	-2.2	-1.9
Debt (% of GDP)	47.9	45.2	53.5	52.6	51.6	47.6
Primary Balance (% of GDP)	-1.6	-1.3	-2.3	-1.2	-0.6	-0.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.6	2.3	2.3	2.1	1.8	1.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	13.0	11.7	11.2	10.3	9.2	8.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	42.9	40.2	38.8	37.3	35.5	34.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2015-HSITAFIEN. Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2015) with pass-through = 1 based on GDP per capita in constant LCU.

TURKEY

Table 1	2020
Population, million	83.4
GDP, current US$ billion	720.1
GDP per capita, current US$	8635.9
Upper middle-income poverty rate ($5.5)[a]	10.2
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	94.9
Life expectancy at birth, years[b]	77.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011PPPs.
(b) Most recent WDI value (2018).

Turkey was the only G20 country aside from China to record an economic expansion in 2020. Real GDP growth of 1.8 percent was driven by an extensive stimulus and effective control of the COVID-19 pandemic. Turkey's economy is expected to grow by 5 percent in 2021 but reducing inflation and rebuilding external buffers—both of which suffered setbacks in 2020—will prove challenging. Poverty is projected to increase further following increases in 2019 and 2020, with informal workers and households outside the social security system being hit hardest.

Key conditions and challenges

Turkey's economy has rebounded strongly from the pandemic-related slowdown of 2020. However, this rapid recovery has raised macroeconomic and financial stability risks. Unless addressed, these vulnerabilities will expose Turkey to heightened risk and continue to limit productivity, which has stagnated in recent years. Recent market turmoil following the replacement of the Central Bank Governor illustrates the importance of a sustained and credible focus on bringing inflation down to the target rate of 5 percent and bolstering the country's international reserves. Structural reforms in labor, product, and financial markets, and to innovation systems can support productivity growth. Corporate sector vulnerabilities—further elevated by the pandemic and higher debt burden— present risks to banks. Developing local- currency, long-term finance sources would alleviate existing imbalances in the financial system and contribute to economic growth.

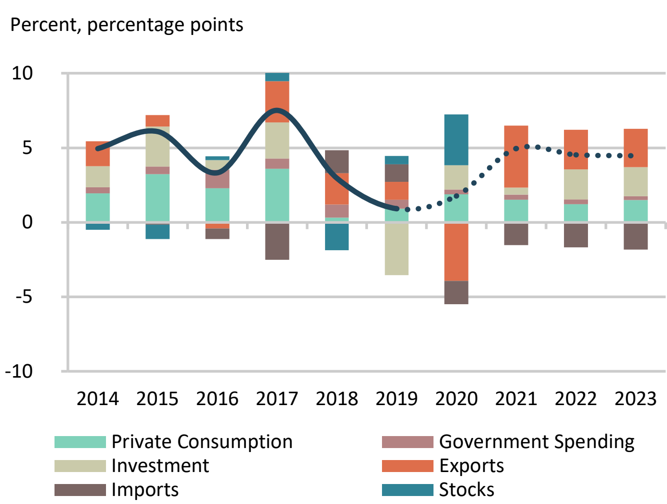
The economic recovery in the second half of 2020 helped recover most of the jobs lost during the pandemic's first wave. However, jobs for informal, lower-skilled, female, and young workers remain well below their pre-pandemic levels. Furthermore, 2.6 million more individuals were out of the labor force in 2020. The poverty rate is projected to increase to 12.2 percent in 2020, which would mark the second successive year that poverty has increased in Turkey, from 8.5 percent in 2018.

Recent developments

Real GDP grew by 5.9 percent year on year in the fourth quarter of 2020, completing a remarkable rebound in the second half and resulting in full-year growth of 1.8 percent despite the economic fallout from the coronavirus pandemic. The recovery was driven by surging domestic demand, buoyed by credit in the second and third quarter. The authorities loosened monetary policy and delivered a stimulus program totaling 13 percent of GDP, most of which was support via the banking sector in the form of partial credit guarantees and loan deferrals. Other fiscal support included social support payments to households, support for furloughed workers, tax deferrals, and other support for firms.

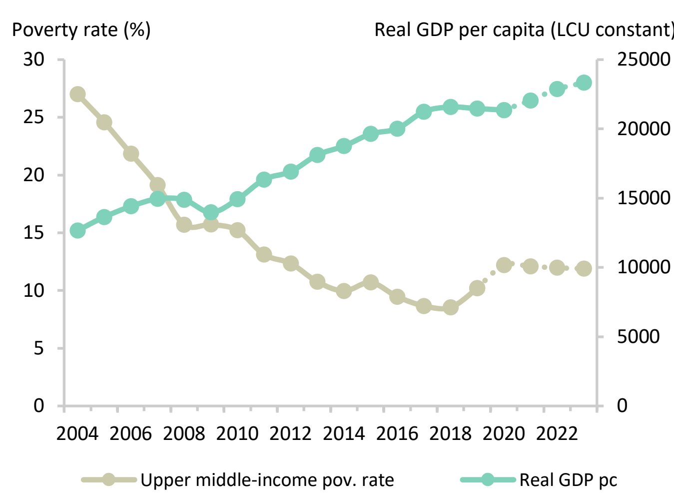
Growth from these policies came at the cost of rising prices and macro-financial vulnerabilities. Inflation trended upward, reaching 15.6 percent in February—the highest level in 18 months. The Turkish lira depreciated by 20 percent against the U.S. dollar in 2020. From a surplus in 2019, the current account moved back into deficit ($36.7 billion or 5.1 percent of GDP) as tourism income evaporated, merchandise exports fell, and gold imports increased. After the central bank stepped in to finance as much as 80 percent of the current account deficit, foreign exchange reserves fell sharply, reaching unprecedented lows on a net

FIGURE 1 Turkey / Real GDP growth and contributions to real GDP growth.



Sources: Turkstat and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

basis. Deposit dollarization rose to 55 percent. Buoyant tax revenues resulted in a central government deficit of 3.4 percent of GDP in 2020, better than the planned deficit of 4.9 percent of GDP.

Toward the end of 2020, a second wave of COVID-19 peaked, with cases reaching 30,000 a day in November. Following the reimposition of containment measures (including masking, weekend curfews, and restaurant closures), new cases declined to around 10,000 a day by February 2021, following which, the government began easing restrictions again, based on a province-level risk assessment.

By late 2020, the authorities had also moved to address economic vulnerabilities, more than doubling interest rates between August and December, repealing exceptional regulations aimed at stimulating credit growth, and increasing transparency. This policy shift helped spur portfolio inflows, stabilize the lira, and strengthen market confidence. Credit growth decelerated sharply to near zero (13-week average) by February, and the banking sector reduced its net open foreign exchange position.

Outlook

The economy is expected to grow by 5.0 percent in 2021 and 4.5 percent in 2022 and 2023. Despite slow quarterly growth expected in 2021—as monetary policy remains tight and external demand weak—GDP in the second quarter will be higher than the year-earlier period when COVID-19 brought Turkey's economy to a near-standstill. These projections assume that cautious reopening continues and that there is no uncontrolled outbreak in Turkey or its major export markets, which could undermine growth.

Recent sharp depreciation of the Lira in response to the replacement of the Central Bank Governor will impact inflation. Average inflation is projected to increase in 2021 to 15.5 percent. The current account deficit is expected to narrow to 3.7 percent of GDP in 2021. The 2021 general government deficit is projected at 3.5 percent of GDP as the need for additional support to cushion the economic and social impact of the pandemic continues, before narrowing to 3.1 percent in 2022 and 2.6 percent in 2023 as temporary tax reductions and other government support is withdrawn.

Regulatory forbearance (especially on nonperforming loan definitions and capital adequacy ratio calculations) is expected to be phased out in mid-2021, after which there may be an increase in nonperforming and distressed loans. Strengthening bad loan resolution, insolvency, and out-of-court corporate debt restructuring frameworks with an effective corporate viability assessment will be critical to shield corporates and the banks from spillovers.

Turkey's external risk profile is high due to its still-low level of international reserves and sizeable external financing needs. The country has limited space to manage exchange rate volatility in the event of new external shocks. The banking sector has adequate foreign exchange buffers, most of which form part of central bank international reserves.

Simulation analysis suggests that poverty may have increased by as much as 2.1 percentage points in 2020—equivalent to 1.6 million new poor. The crisis pushed a similar number of people into poverty as the 2018/19 recession. Had the government not acted swiftly to stem the social effects of COVID-19 the increase in poverty would have been three times greater. Turkey is projected to enter 2021 with the highest poverty rate since 2012. Successful poverty reduction will require ensuring that the recovery benefits informal and unskilled workers and other vulnerable groups through a policy mix of social transfers, inclusive job creation, and labor activation strategies.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.0	0.9	1.8	5.0	4.5	4.5
Private Consumption	0.5	1.6	3.2	2.5	2.6	2.9
Government Consumption	6.6	4.4	2.3	2.3	2.2	1.8
Gross Fixed Capital Investment	-0.3	-12.4	6.5	1.8	8.0	7.2
Exports, Goods and Services	9.0	4.9	-15.4	19.5	9.0	8.5
Imports, Goods and Services	-6.4	-5.3	7.4	7.0	6.5	6.0
Real GDP growth, at constant factor prices	3.2	1.1	1.2	5.0	4.5	4.5
Agriculture	2.1	3.7	4.8	1.5	2.0	2.0
Industry	0.5	-3.0	0.6	5.7	5.0	4.2
Services	4.8	2.8	1.1	5.0	4.6	4.9
Inflation (Consumer Price Index)	16.3	15.2	12.3	15.5	12.0	10.0
Current Account Balance (% of GDP)	-2.8	0.9	-5.1	-3.7	-4.0	-4.0
Net Foreign Direct Investment (% of GDP)	1.2	0.8	0.6	0.9	1.0	1.0
Fiscal Balance (% of GDP)	-2.4	-3.0	-3.9	-3.5	-3.1	-2.6
Debt (% of GDP)	30.2	32.5	39.6	40.6	39.6	38.4
Primary Balance (% of GDP)	-0.2	-0.5	-1.0	-0.4	0.0	0.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	8.5	10.2	12.2	12.1	12.0	11.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2013-HICES and 2019-HICES. Actual data: 2019. Nowcast: 2020. Forecast are from 2021 to 2023.
(b) Projection using point-to-point elasticity (2013-2019) with pass-through = 1based on GDP per capita in constant LCU.

UKRAINE

Table 1	**2020**
Population, million	44.0
GDP, current US$ billion	137.3
GDP per capita, current US$	3118.4
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.2
Upper middle-income poverty rate ($5.5)[a]	2.5
Gini index[a]	26.6
School enrollment, primary (% gross)[b]	99.0
Life expectancy at birth, years[b]	71.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) Most recent WDI value (2018).

With an estimated contraction of 4.5 percent, the economic impact of COVID-19 has been smaller than in most other countries, nevertheless the pandemic has caused a heavy toll on households and weakened the commitment by the government to undertake critical reforms. Only a partial recovery in GDP growth of 3.8 percent is expected in 2021, given high uncertainty regarding the rollout of the vaccine and the slow pace of structural reforms to address bottlenecks to investment and to safeguard macroeconomic sustainability.

Key conditions and challenges

Even prior to the COVID-19 outbreak, Ukraine faced structurally weak growth due to low levels of domestic savings and fixed investment. Until 2020, savings represented up to 5 percent of GDP and gross capital formation was above 10 percent over the last five years. While the pandemic and associated recession has temporarily reversed this trend, savings estimated at 11.3 percent of GDP in 2020 and investment at around 7 percent are well below comparator countries with similar development and infrastructure needs. Reforms that address structural weaknesses in the financial sector; reduce market distortions, including due to still dominant role of SOEs in select sectors; and address macroeconomic vulnerabilities are paramount to increase investment. In addition, while household incomes have grown rapidly in recent years, this has increasingly been driven by transfers rather than labor incomes, a pattern that is unsustainable for effective poverty reduction.

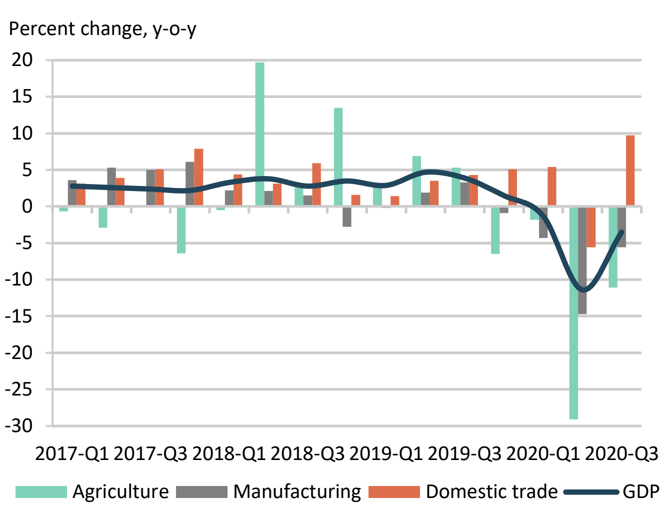
The COVID-19 outbreak redirected government policy from structural reforms towards ad-hoc reactive measures. As a result, macro-fiscal risks have increased. Public sector financial needs are expected to grow due to increases in minimum wages and social transfers, limiting space for public investment, and fueling inflationary pressures in a supply-constrained economy. Additionally, large government domestic borrowings are crowding out much needed private investment. Holdings of government securities already represent close to 30 percent of total assets of the state-owned banks while corporate lending continues to stagnate. Stronger fiscal discipline is needed to reduce risks for medium-term growth prospects.

Recent developments

Although the economic impact from the COVID-19 outbreak appears to be less severe than initially anticipated – GDP declined by estimated 4.5 percent in 2020 (vs 6.5 percent decline 1H2020) – the pandemic has exacted a heavy toll in terms of health and mortality impacts; and undermined the government's commitment to undertake critical reforms. Recent anti-corruption reforms have also suffered setbacks due to adverse court rulings in late 2020.

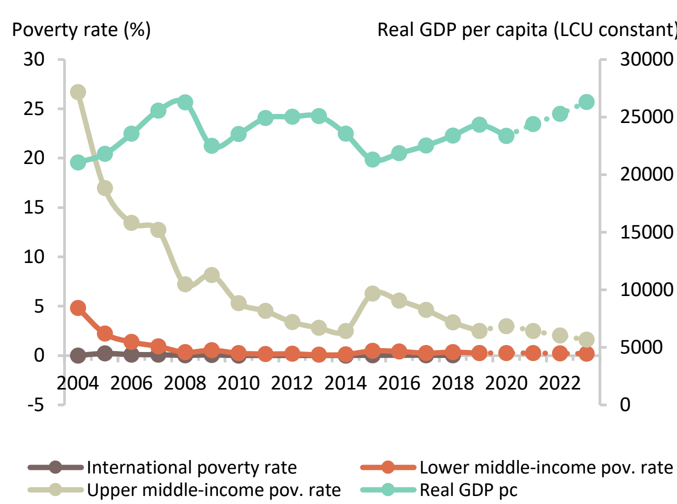
Economic activity recovered in H2 2020 supported by a number of measures to mitigate the impact of COVID-19. Moreover, the full-scale lockdown has been replaced by an adaptive quarantine in June 2020 that enabled many services to return to normal functioning. Domestic demand was boosted by over 10 percent YoY real wage growth due to increase in minimum wages and gradual recovery in economic activity. Thus, on the supply side, retail and wholesale trade grew 7.9 percent YoY in 2020 and made a significant positive contribution to GDP growth. The financial sector has weathered the downturn with its capital adequacy still strong. At the

FIGURE 1 Ukraine / GDP and sectoral growth



Source: State Statistics Service of Ukraine.

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



Source: State Statistics Service of Ukraine.

same time, agriculture output fell almost 12 percent due to drought and a poor harvest.

On the external side, lower energy and higher iron and grain commodity prices resulted in the most favorable terms of trade for Ukraine for the last decade. Combined with import compression, this resulted in a CA surplus of 4.4 percent in 2020. Remittances were relatively resilient, down only 5.3 percent YoY in 2020, while private capital inflows also recovered in 2H2020. Thus, international reserves reached US$29.1bn at end-December, equal to 4.7 months of next year's imports.

Following the smaller-than-expected economic decline, fiscal revenue also performed better than anticipated. On the expenditure side, COVID-19 related outlays were less than budgeted, and a portion of the pandemic special fund was redirected to capital expenditures and to support a public sector wage and pension increase. The fiscal deficit amounted to 6.2 percent of GDP vs. the initial plan of 7.6 percent.

After two years of tight monetary policy, the National Bank of Ukraine gradually cut its key policy rate to 6 percent in June 2020, a level it has since maintained However, a more accommodative fiscal policy stance resulted in an increase in inflation expectations from 6.7 percent in August to 8 percent at year-end. The inflation rate grew from 2.5 percent on average in Q1-Q3 2020 to 6.1 percent in January 2021 that is slightly above the NBU's target of 5+/-1 percent. This triggered the key rate increase to 6.5 percent in March 2021.

While the COVID-19 relief measures were welcome, attention once again needs to turn towards structural reforms that are needed to raise the medium-term growth prospects. Slower reform momentum has undermined investors' confidence and delayed IFI financing; as a result, significant public financing needs in 2020 have been met mostly by domestic borrowing that amounted to 10.5 percent GDP (gross). The composition of external financing was shifted towards more expensive commercial borrowings and Eurobonds comprising 4.3 percent of GDP in total.

The poverty effects of COVID-19 are expected to be relatively muted, with the poverty rate based on US$5.5 a day projected to have increased by 0.5 pp to 3 percent in 2020, as increase of pensions and wages helped to partially offset decline in employment.

Outlook

Ukraine's economic recovery in 2021 is expected to be mild given high uncertainty associated with the vaccine rollout and the direction of economic policies to address bottlenecks to investment and safeguard macroeconomic sustainability. The GDP growth projection of 3.8 percent is underpinned by positive base effects in agriculture and processing industry and takes into account that further temporary lockdowns are possible in the first half of 2021 due to the delays in vaccinations.

The 2021 budget targets a 5.4 percent deficit. Together with 10.5 percent of GDP debt amortization and 1.3 percent of GDP of arrears to private sector, this will increase total fiscal financing needs to 17.2 percent of GDP (vs 15 percent of GDP in 2020). The increase in minimum wages will push the public wage bill to over 11 percent of GDP and create additional pressures on current account imbalances and inflation. Prudent fiscal policy is needed to address inflationary pressures in the medium term.

The poverty rate based on the US$5.5 a day threshold is expected to decrease to 2.5 percent in 2021, similar to the level in 2019. Accelerating the reform momentum is key to achieve faster economic growth and poverty reduction in 2022 and 2023.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.3	3.4	-4.5	3.8	3.0	3.5
Private Consumption	8.9	11.9	-3.0	4.6	3.8	3.5
Government Consumption	0.1	-5.0	1.8	1.5	0.0	0.0
Gross Fixed Capital Investment	14.3	15.0	-27.4	9.7	8.4	7.5
Exports, Goods and Services	-1.6	6.7	-7.4	3.4	2.0	4.4
Imports, Goods and Services	3.2	6.3	-11.5	6.8	5.0	4.8
Real GDP growth, at constant factor prices	3.3	3.4	-4.6	3.9	2.9	3.5
Agriculture	7.8	1.3	-7.0	5.0	4.5	5.0
Industry	2.0	-2.0	-4.0	2.0	3.0	4.5
Services	3.0	5.7	-4.4	4.4	2.6	2.9
Inflation (Consumer Price Index)	9.8	4.1	4.8	5.0	5.0	5.8
Current Account Balance (% of GDP)	-3.2	-0.9	4.4	-1.3	-2.8	-3.3
Net Foreign Direct Investment (% of GDP)	1.9	2.1	2.2	2.4	2.6	6.2
Fiscal Balance (% of GDP)	-2.0	-2.0	-6.1	-5.4	-4.0	-2.5
Debt (% of GDP)	60.6	50.4	63.2	62.4	59.7	57.8
Primary Balance (% of GDP)	1.4	1.1	-2.4	-0.9	0.1	1.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.4	0.2	0.3	0.2	0.2	0.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	3.4	2.5	3.0	2.5	2.0	1.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2019-HLCS. Actual data: 2019. Nowcast: 2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2019) with pass-through = 0.87 based on GDP per capita in constant LCU.

UZBEKISTAN

Table 1	2020
Population, million	34.2
GDP, current US$ billion	57.7
GDP per capita, current US$	1686.7
School enrollment, primary (% gross)[a]	102.2
Life expectancy at birth, years[a]	71.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

Following a sharp deceleration in 2020, Uzbekistan's economy is projected to partially recover from the COVID-19 crisis in 2021. Until a full recovery occurs, vulnerable households will require continued support to mitigate the pandemic's impact. The medium-term economic outlook remains favorable, as global conditions improve, and as authorities advance reforms to reduce the role of state-owned enterprises in the economy to strengthen private sector-led growth and production efficiency. Translating this outlook into faster poverty reduction will require a stronger focus on inclusive reforms that increase employment, incomes, and opportunities.

Key conditions and challenges

After an initial phase of market liberalization, Uzbekistan is moving into a more complex phase of reforms to land, labor, capital markets, and state-owned enterprises. The most significant medium-term challenge will be ensuring reform inclusivity and transparency. Reducing the state's role in the economy by accelerating the reform of state-owned enterprises and creating a competitive and inclusive private sector-led growth model will help address the legacy of the state-led model, which produced high growth rates (averaging more than 6 percent between 2000–16), but insufficient jobs and opportunities.

The COVID-19 crisis made the transition to a market economy even more important. About 9 percent of the population still lives below the World Bank's lower-middle-income poverty line ($3.2 a day, PPP 2011 adjusted), and significantly more live close to this line. During the peak of the COVID-19 lockdowns, these vulnerabilities were acute—nearly 1 million additional Uzbeks slipped into poverty.

To reduce these vulnerabilities, the authorities' strong focus on vibrant growth will need to be complemented by reforms to strengthen safety nets, improve labor market conditions, and remove constraints to human capital development through better health and education services. An important sign of reform success will be greater private sector participation and ownership in the economy and better quality jobs. Addressing these challenges with limited administrative capacity will be even more difficult as the pandemic's impact lingers.

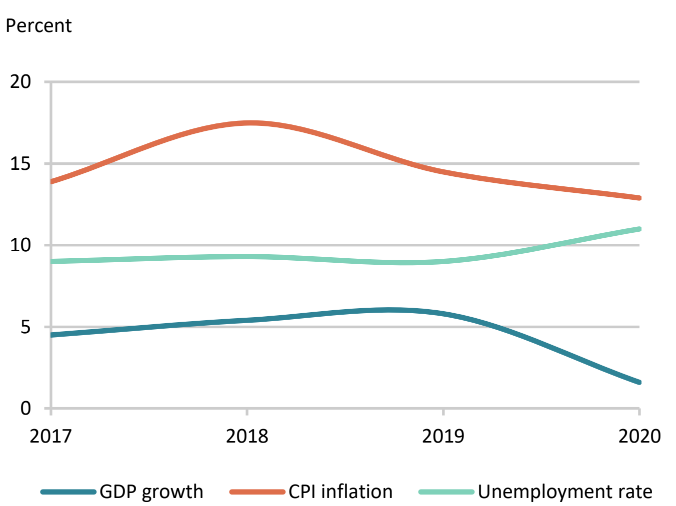
Recent developments

GDP growth slowed sharply in 2020 (to 1.6 percent from 5.8 percent in 2019) due to COVID-19–related lockdowns and trading disruptions. Uzbekistan was one of the few countries in the region to record an economic expansion in 2020. Positive growth was supported by robust agriculture output and substantial anticrisis measures that boosted health spending and supported households and firms. Fiscal stimulus and lower public investment due to the pandemic lifted consumption in 2020, making it the main driver of growth for the first time in over a decade.

The unemployment rate rose sharply, from 9 percent in 2019 to 11.1 percent in September 2020. The poverty rate rose to 9 percent (well above the precrisis projection of 7.4 percent in 2020) as the pandemic led to job losses, income reductions, and declining remittances. A large expansion of social assistance provided some relief to Uzbekistan's affected households.

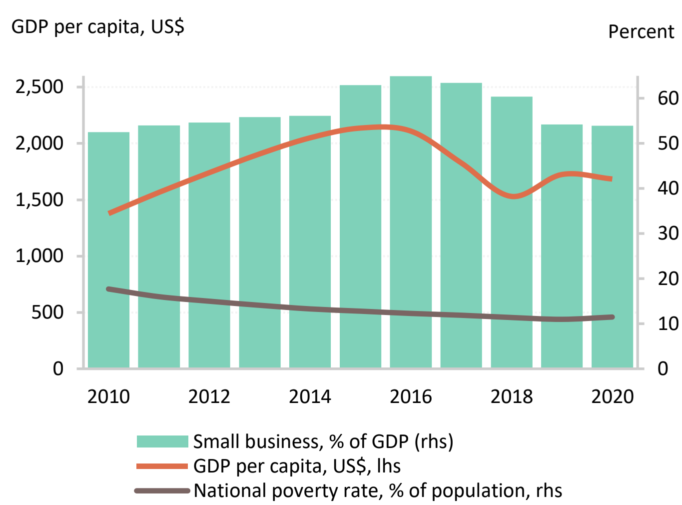
The current account deficit narrowed to 5.2 percent of GDP in 2020 (from 5.7 percent in 2019), reflecting an 18 percent surge in gold exports that helped limit the decline in total exports to 15 percent in 2020. Import spending fell by 17 percent as capital

FIGURE 1 Uzbekistan / GDP growth, inflation, unemployment



Sources: Uzbekistan official statistics.

FIGURE 2 Uzbekistan / Poverty, GDP per capita, and small business development



Sources: Uzbekistan official statistics. Due to the lack of data access, the Bank cannot validate the official figures. Note: The national poverty line is based on a minimum food consumption norm of 2,100 calories per person per day. Both the national poverty line and welfare aggregate exclude nonfood items.

imports declined sharply. Higher external borrowing helped finance the deficit.

Lower revenues and higher spending widened the overall fiscal deficit to 4.4 percent of GDP in 2020 (from 3.9 percent in 2019). Slower GDP growth and tax relief measures in the government's fiscal stimulus package (2.5 percent of GDP) reduced revenues, while spending increases in the package drove up expenditures. Higher gold dividends, the reprioritization of some public expenditure, and a sharp fall in policy lending largely offset the impact of the fiscal stimulus and contained the deficit. Higher borrowing to finance the deficit increased public and publicly guaranteed debt to 37.9 percent of GDP in 2020. Foreign exchange reserves equivalent to 60 percent of GDP provide a substantial buffer.

Smaller increases in administered prices because of the pandemic offset higher food prices to slow 12-month inflation to 11 percent in December 2020 (from 15.2 percent a year earlier). With inflationary pressures low, the Central Bank of Uzbekistan reduced its policy rate from 16 percent to 14 percent. Credit growth in 2020 slowed to 34 percent (from 52 percent in 2019), reflecting higher real lending rates, lower government-subsidized lending, and the impact of COVID-19. Firms and households also received significant loan repayment deferrals during the year. The banking sector's capital adequacy ratio fell to 18.4 percent in November 2020 (from 23.5 percent at end-2019). As a result of the pandemic, nonperforming loans tripled to 4.5 percent in November 2020. Nevertheless, Uzbekistan's financial system remains sufficiently capitalized to absorb potential credit shocks.

Outlook

GDP growth is projected to recover to 4.8 percent in 2021. However, this forecast is subject to uncertainty surrounding the global recovery and the potential pace of the country's COVID-19 vaccination campaign. A gradual resumption of trade and investment flows, a bountiful agricultural harvest, a recovery of remittances, and vaccine distribution will support the recovery and spur further reductions in poverty and unemployment. Stronger GDP growth of 5.5 percent is projected in 2022 as vaccination efforts accelerate and global disruptions ease further. The current account deficit is projected to widen to 5.5 percent of GDP in 2021 as capital imports for large investment projects recover. Although foreign direct investment is expected to partially recover from its decline in 2020, public and private borrowing are expected to continue financing most of the deficit. Lower budget revenues, vaccine purchases, expanding social support, and increased policy lending are expected to contribute to a wider overall fiscal deficit of 5.4 percent of GDP in 2021. This deficit will be financed by increased public borrowing. Uzbekistan's public debt is projected to reach 42 percent of GDP in 2021 and stabilize at about 45 percent over the medium term. As conditions for households and firms improve, a gradual withdrawal of anticrisis measures will reduce the deficit over the medium term.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	5.4	5.8	1.6	4.8	5.5	5.8
Private Consumption	3.8	5.4	2.6	4.6	5.2	5.5
Government Consumption	3.7	5.5	17.3	7.0	3.9	3.1
Gross Fixed Capital Investment	18.1	34.2	-8.0	7.3	8.2	9.8
Exports, Goods and Services	10.7	10.9	-14.9	12.0	15.4	16.1
Imports, Goods and Services	26.8	47.3	-17.8	14.1	15.6	17.2
Real GDP growth, at constant factor prices	5.4	5.8	1.6	4.8	5.5	5.8
Agriculture	0.3	3.1	3.0	3.1	3.3	3.5
Industry	11.5	8.9	2.3	4.0	4.3	4.5
Services	5.2	5.5	0.3	6.4	7.7	8.0
Inflation (Consumer Price Index)	17.5	14.5	12.9	10.6	8.9	6.0
Current Account Balance (% of GDP)	-7.1	-5.7	-5.2	-5.5	-5.1	-4.5
Fiscal Balance (% of GDP)	-2.3	-3.9	-4.4	-5.4	-3.8	-2.4
Debt (% of GDP)	20.4	29.4	37.9	42.6	44.3	43.9
Primary Balance (% of GDP)	-1.9	-3.4	-3.8	-5.0	-3.4	-2.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

Latin America and the **Caribbean**

Spring Meetings 2021

Argentina
The Bahamas
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Honduras
Jamaica
Mexico
Nicaragua
Panama
Paraguay
Peru
Saint Lucia
Saint Vincent and the Grenadines
Suriname
Uruguay

ARGENTINA

Table 1	2020
Population, million	45.4
GDP, current US$ billion	404.4
GDP per capita, current US$	8917.6
International poverty rate ($1.9)[a]	1.5
Lower middle-income poverty rate ($3.2)[a]	4.9
Upper middle-income poverty rate ($5.5)[a]	14.4
Gini index[a]	42.9
School enrollment, primary (% gross)[b]	109.7
Life expectancy at birth, years[b]	76.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) Most recent WDI value (2018).

In 2020 Argentina experienced a major contraction as COVID-19 severely impacted an already fragile economy. GDP is projected to rebound by 6.4 percent in 2021 as ample idle capacity is progressively used, reducing upper middle-income poverty rate to 15.8 percent, from its 2020 peak of 18.4 percent. The implementation of a sound macro-stabilization plan to restore fiscal sustainability and reduce inflation would strengthen the recovery, setting the basis for strong job creation and poverty alleviation.

Key conditions and challenges

The Argentinian economy has struggled to grow since the end of the commodities super cycle. In the absence of measures to contain spending, fiscal and external imbalances progressively built up, leading to high and volatile inflation, hurting investment, growth and livelihoods. GDP growth averaged 1.4 percent in the last decade, in contrast to a 3 percent average in 1993-2009. Labor market outcomes have deteriorated as informality increased and real incomes fell, keeping poverty incidence high.

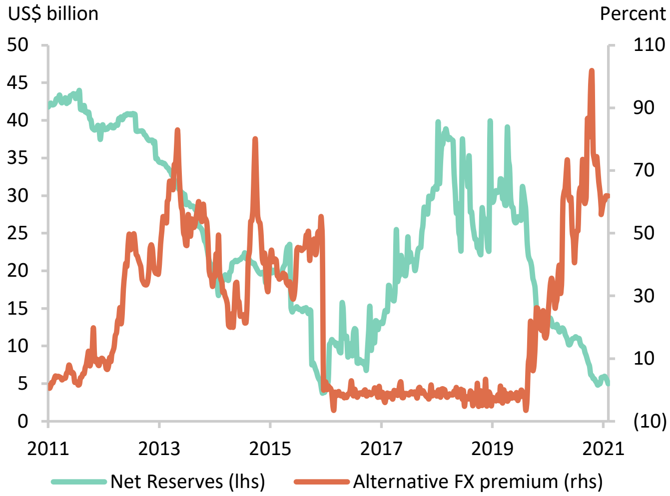
The COVID-19 pandemic broke out a two-year recession. In April 2020, GDP registered the largest contraction ever recorded, and as a consequence employment fell sharply, and firm closures increased markedly. Spending for emergency measures and lower revenues resulted in a historically large deficit. Despite mitigating effects of increased spending in social programs, the proportion of people under the national poverty line reached over 40 percent. The crisis and loss of market access led to a full monetization of the deficit, exacerbating macroeconomic imbalances. As economic activity resumed, this monetary overhang led to increased volatility in exchange rates and an upsurge in inflation.

The adoption of a credible macro-stabilization and growth plan would underpin the strength of the recovery, which could however be delayed by an adverse evolution of the pandemic, notably the re-introduction of containment measures, depending on progress on vaccinations. Beyond overcoming the COVID-19 crisis, the implementation of a sound macroeconomic program remains a fundamental priority for bringing down inflation, restoring confidence, and putting the economy on a sustainable path. Over the medium term, the recent debt swap with private creditors, as designed – reprofiling of debt service obligations and only minor cuts in principal – calls for the swift implementation of reforms to ensure fiscal sustainability and regain access to capital markets. Delays in reform implementation are a major source of risk.

Recent developments

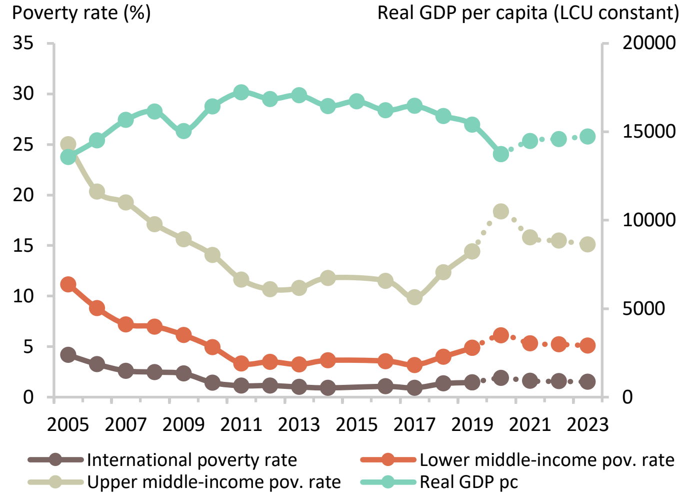
The recovery started in 2020Q4, as lockdown measures have progressively been lifted. The recovery has been heterogenous across sectors and populations groups. The hotels and restaurants sector fell by 50 percent in 2020, transportation by 18 percent, while manufacturing, agriculture, retail and construction ended 2020 almost at or above pre-COVID levels. The negative impact of the crisis on labor market performance has been more pronounced than on economic activity, as household income continued to fall across the distribution, despite mitigating effects of the increased spending in social programs. More than 20,000 firms closed during 2020, 1.4 million people are currently

FIGURE 1 Argentina / Net international reserves and exchange rate premium



Source: WB Staff Calculations based on Central Bank.

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



Source: World Bank. Notes: see Table 2.

unemployed, and despite recovery of economic activity, rates of unemployment have not significantly decreased yet among women and youth. The median labor income has remained below the representative poverty line, reflecting a high probability that wages are not sufficient to lift workers above the poverty line.

After having decelerated to 36 percent in 2020 owing to the lockdown, inflation is accelerating alongside economic recovery, in spite of tight price controls (supermarkets, fuel, housing rentals, transport and energy rates), which dampen the pace and strength of the recovery. Through a series of additional interventions and controls, the authorities have recently managed to stabilize the gap between official and parallel foreign exchange markets, though at historically high levels of around 70 percent. The large foreign exchange gap continues to generate incentives to postpone exports and anticipate imports, thus deteriorating the trade balance and impairing the ability of the Central Bank to substantially rebuild foreign exchange reserves from very low levels. Net reserves fell US$8bn during 2020 and by mid-February were estimated at US$4.9bn (1.6 percent of GDP).

Outlook

GDP is projected to rebound by 6.4 percent in 2021 given the strong 2020-Q4 carry over effect (about 5.5 percent) and as ample idle capacity is progressively used. Private consumption and investment will only moderately pick up, following their three-year contraction. Going forward, price and capital controls risk dampening investment and the renewal of capital stock. Thus, in the absence of macro stabilization and structural reforms to facilitate business entry and exit and access to credit, the rebound is expected to be modest. GDP is projected to reach its end 2019 level only in 2023. The fact that by end-2019 the GDP level was 8 percentage points below its peak in late 2017 illustrates the long-lasting effects of the prolonged crisis.

Poverty rates are expected to decline modestly as the economic recovery materializes. In 2021, it is projected that 15.8 percent of the population will be considered poor under the international poverty line of $5.5 per day. A stronger labor market performance is needed to reverse recent poverty increases.

High commodity prices are expected to cushion the negative impact of “La Niña” on agricultural output, leading to substantial windfall in foreign exchange, which would support the current account surplus and government revenues in 2021. The fading out of COVID-19 stimulus spending together with increases in revenue collection as the economy rebounds will also support the reduction of the fiscal deficit. A partial Central Bank monetization of overall fiscal needs is set to continue in 2021, in the absence of access to markets, putting pressure on monetary policy, and therefore on inflation and external stability. An agreement on a new IMF program that restores fiscal sustainability and strengthens reforms for long term growth would help restore confidence, reduce sovereign risk, facilitate a return to credit markets and incentivize investment.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	-2.5	-2.2	-10.0	6.4	1.7	1.9
Private Consumption	-2.4	-6.4	-11.2	7.6	2.1	2.0
Government Consumption	-3.3	-1.6	-2.7	1.2	0.1	0.0
Gross Fixed Capital Investment	-5.7	-15.9	-20.9	10.9	4.7	6.2
Exports, Goods and Services	-0.7	9.4	-11.1	5.2	2.8	3.1
Imports, Goods and Services	-4.7	-18.7	-18.2	8.9	5.5	5.6
Real GDP growth, at constant factor prices	-2.6	-1.8	-10.0	6.4	1.7	1.9
Agriculture	-14.3	19.7	-3.0	2.3	1.1	1.1
Industry	-3.1	-3.1	-14.0	5.1	1.5	1.5
Services	-0.6	-3.8	-9.2	7.7	1.8	2.1
Inflation (Private Consumption Deflator)	38.0	56.6	42.0			
Current Account Balance (% of GDP)	-5.3	-0.5	1.4	1.1	0.5	-0.4
Net Foreign Direct Investment (% of GDP)	1.9	1.1	0.7	1.1	1.5	1.7
Fiscal Balance (% of GDP)	-5.2	-4.4	-9.2			
Debt (% of GDP)	94.8	100.1	105.6			
Primary Balance (% of GDP)	-2.2	-0.6	-6.6			
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.4	1.5	1.9	1.6	1.6	1.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	4.0	4.9	6.1	5.3	5.2	5.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	12.3	14.4	18.4	15.8	15.5	15.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SEDLAC harmonization, using 2012-EPHC-S2, 2018-EPHC-S2, and 2019-EPHC-S2.Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.
(b) Projection using annualized elasticity (2012-2018) with pass-through = 1based on GDP per capita in constant LCU.

THE BAHAMAS

Table 1	2020
Population, million	0.4
GDP, current US$ billion	10.8
GDP per capita, current US$	27521.8
School enrollment, primary (% gross)[a]	81.4
Life expectancy at birth, years[a]	73.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

GDP is estimated to have contracted by 14.8 percent in 2020 due to the impact of the COVID-19 pandemic on tourism, the country's main economic activity and source of revenue. With over 50 percent of the labor force employed in this sector, unemployment is on the rise, particularly affecting the most vulnerable. Poverty is expected to rise well above 13 percent. The pandemic interrupted the reconstruction efforts following Hurricane Dorian and the structural fiscal reforms aimed to improve and diversify revenues and to strengthen financial stability and the business environment.

Key conditions and challenges

The Bahamas is a high-income service economy heavily dependent on tourism and financial services. Its GDP has risen steadily over the past 3 decades, with annual growth averaging 1.4 percent. Nonetheless, the country's economic position remains vulnerable due to its small size, lack of economic diversification and vulnerability to natural disasters. The Bahamas relies significantly on foreign investment, especially related to tourism. Tourism, together with tourism-driven construction and manufacturing, accounts for approximately 60 percent of GDP and, directly or indirectly, employs half of the country's workforce.

Economic growth in recent decades has not been distributed broadly among all segments of the population. According to the last Household Expenditure Survey collected in 2013, around 13 percent of the population lived below the national poverty line. Moreover, inequality was high, with a Gini index of 41.4. The bottom 40 percent of the population distribution only accounted for 16 percent of total consumption, while the top 10 percent accounted for 31 percent. While no official poverty indicators have been produced since 2013, the country has shown steady improvement in the Human Development Index (HDI), particularly in the education and life expectancy components.

Vulnerability to climate change and global health risk jeopardize the country's development trajectory. Sea-level rise associated with increasing temperatures threatens The Bahamas' low-lying islands. In addition to the severe impacts of Hurricane Dorian in 2019, the country faces an average annual loss from windstorms of US$850 million—over 6 percent of GDP.

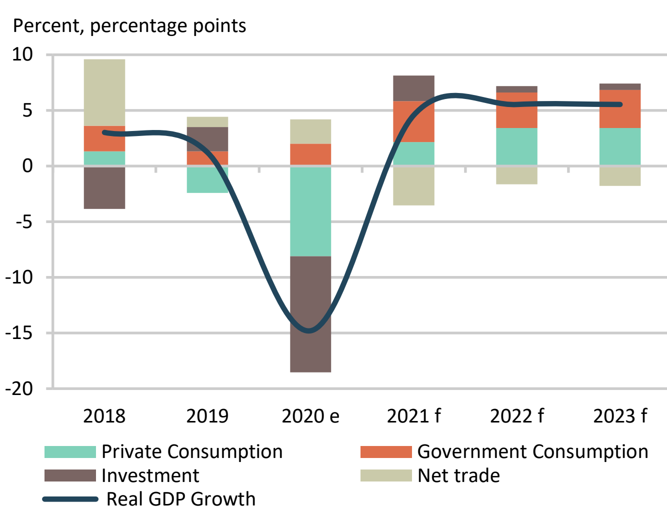
The job losses resulting from COVID-19 have been particularly felt by the vulnerable populations, such as low-income households, informal workers, and women. This will erase some of the progress in recent years in terms of human development and will increase poverty and inequality, underlining the need for the recovery efforts to support these groups decisively and allow a more diversified portfolio of income sources.

Recovery will depend on the roll out of vaccination in the country and in its main tourism-source markets—United States and Canada. New contagion waves and restrictive measures could further postpone economic recovery.

Recent developments

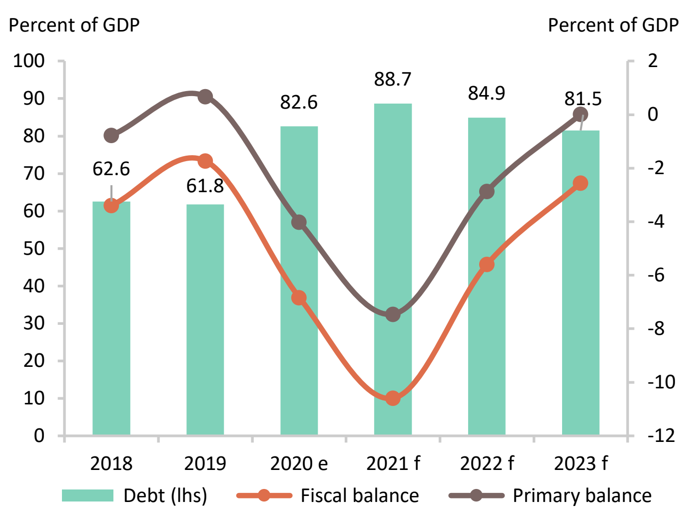
The Bahamas successfully kept COVID-19 cases to a minimum until July 1 when it reopened its borders to tourism. Daily new cases peaked at 123 on October 21, 2020. Cumulative cases increased from 104 to over 6,000 over that period. New cases have remained somewhat stable since, at an average daily rate of 10.

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



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

FIGURE 2 The Bahamas / Fiscal balances and public debt



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

GDP contraction for 2020 is estimated at 14.8 percent. The policy response, of almost 4 percent of GDP was directed towards health expenditures, including the expansion of infrastructure, employment support, and social assistance. VAT revenues almost halved. Preliminary data show that the fiscal deficit for the first quarter of FY20/21 amounted to B$336.3 million compared to just B$48.8 million in the previous fiscal year.

After the COVID-19 pandemic struck, tourist arrivals virtually halted. In January -October 2020 they dropped to 1.75 million, compared to 5.92 million in 2019. The contraction was felt harder during Q2 when the initial measures to contain the pandemic were imposed.

According to the Inter-American Development Bank's rapid survey, the incidence of job losses has been more prevalent among the bottom of the distribution: around 80 of low-income households reported job losses compared to 35 percent of high-income households. In addition, female and informal workers have been particularly affected.

Around fifty percent of households in The Bahamas reported income below the minimum wage right after the pandemic hit, an increase from 16.1 percent in January 2020 (IADB, 2020). Additionally, only 2 in 5 households report having some savings to manage with the shock.

During the first three quarters of 2020, the current account deficit recorded US$1.5 billion, compared to a US$224.5 million surplus in the same period in 2019, reflecting the effects of the pandemic on tourism. The service balance was the most hit, as tourism receipts contracted by over 90 percent in the second quarter of 2020. The impact was partially offset by a 42 percent decrease in non-oil merchandise imports, reflecting a reduction in consumption. Meanwhile, central bank reserves stood at US$2.1 billion, compared to US$1.6 billion in September 2019, mainly on account of foreign currency inflows from borrowing by the government. Total public sector debt was estimated at 75.4 percent in September 2020, up from 56.5 in 2019.

Outlook

2021 GDP growth is projected at 2.0 percent, as tourist flows are expected to rebound by the end of Q3. With the relaxation of domestic containment measures and the resumption of travel, real GDP is expected to grow 8.5 percent in 2022. Poverty rates are expected to gradually decline in line with recovering economic activity over the medium term. However, to avoid long term effects on social mobility and inequality, policies that foster an inclusive recovery and support the vulnerable groups, such as women, will be important.

The primary balance is expected to deteriorate to a deficit of 3.8 percent of GDP in FY2020/21 and 9.1 percent in FY2021/2022, due to lower revenues from tourism, trade, and domestic consumption, combined with government spending to contain the impact of coronavirus and post-Hurricane Dorian reconstruction efforts. In turn, the fiscal deficit is expected to reach 6.6 percent of GDP in FY2020/21 and 12.3 percent in FY2021/2022.

The current account balance is projected to reach a deficit of 21.5 percent of GDP in 2021 and then narrow to 14.8 percent in 2022. Tourism related FDI inflows are projected to halve in 2021 and external financing needs to peak at 23.7 percent of GDP. Meanwhile the expected deterioration of the fiscal accounts in FY2020/21 and FY2021/22 will translate into higher fiscal financing requirements of 10.7 percent of GDP and 17 percent of GDP, respectively.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.0	1.2	-16.2	2.0	8.5	4.0
Real GDP growth, at constant factor prices	3.1	1.2	-16.2	2.0	8.5	4.0
Agriculture	-10.6	-11.9	-6.9	1.7	1.3	1.1
Industry	-8.5	4.6	-4.7	8.7	2.6	2.8
Services	5.3	0.8	-18.1	0.8	9.7	4.2
Inflation (Consumer Price Index)	2.3	2.5	1.8	2.1	2.4	2.2
Current Account Balance (% of GDP)	-12.1	0.7	-17.4	-21.5	-14.8	-11.1
Net Foreign Direct Investment (% of GDP)	3.8	1.9	2.0	2.3	2.5	2.8
Fiscal Balance (% of GDP)[a]	-3.4	-1.7	-6.6	-12.3	-8.9	-4.6
Debt (% of GDP)[a]	62.6	61.8	69.1	89.0	88.4	86.4
Primary Balance (% of GDP)[a]	-0.8	0.7	-3.8	-9.1	-5.7	-1.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Fiscal balances are reported in fiscal years (July 1st -June 30th).

BARBADOS

Table 1	2020
Population, million	0.3
GDP, current US$ billion	4.4
GDP per capita, current US$	15142.9
School enrollment, primary (% gross)[a]	100.3
Life expectancy at birth, years[a]	79.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

With the quarantine measures and impact of the pandemic on tourism, Barbados's GDP is estimated to have contracted 17.3 percent in 2020. The current account deficit is expected to have increased to 7.8 percent of GDP. Poverty is expected to have increased, reflecting the job losses, business closures, and decline in remittances caused by the pandemic. The pandemic interrupted the reform efforts made in the context of the Barbados Economic Recovery and Transformation (BERT) plan to sustain primary surpluses and reduce the debt burden.

Key conditions and challenges

Barbados is a high-income service economy. However, the country's economic achievements remain vulnerable due to its small size, heavy dependence on tourism at 17 percent of GDP, and considerable exposure to climate change risks. The effects of the 2009 Global Financial Crisis were hard felt and long lasting. A combination of negative shocks to its main economic sectors – tourism, financial services and construction – and limited policy response resulted in a significant deterioration of its fiscal and external accounts. Continuous fiscal deficits were financed through public institutions – the Central Bank of Barbados and the National Insurance Scheme. Public debt build-up proved to be unsustainable, increasing consistently from just over 55 percent of GDP in 2008 to 158 percent in 2017, leading to a slowdown in economic growth and prompting downgrades in credit ratings.

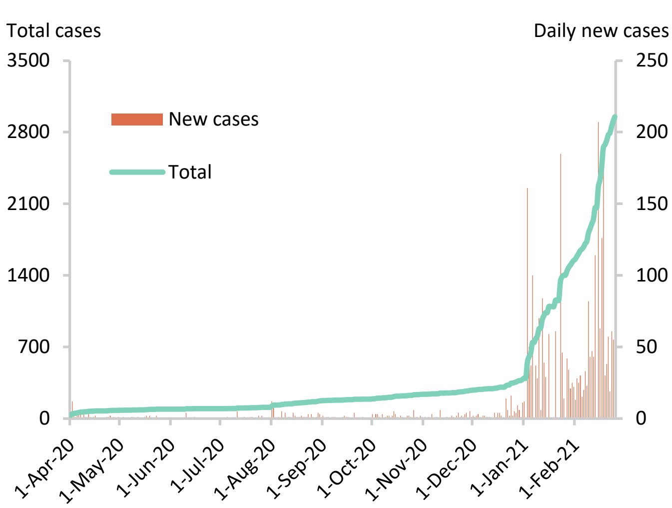
In June 2018, in response to the worsening fiscal and external liquidity position, the newly elected government announced the homegrown BERT Plan aimed at restoring macroeconomic stability. It included the suspension of debt payments and a comprehensive restructuring of domestic and external debt. The completion of the public debt restructuring in December 2019 reduced economic uncertainty prior to the coronavirus pandemic. Under BERT, debt is targeted to reach 60 percent of GDP by FY2033/34. In addition, in 2018, Barbados entered into an adjustment program under the IMF's Extended Fund Facility.

Prior to the pandemic, Barbados experienced an increase in the proportion of the population living in poverty from 15.1 percent in 2010 to 17.2 percent in 2016, according to the 2016-2017 Barbados Survey of Living Conditions. While there is no estimate of monetary poverty since then, it is likely that the poverty rate increased in the two years leading to 2020, in line with the observed economic slowdown. Thus, the country was already facing a deterioration in the living standards before the Covid-19 outbreak.

Recent developments

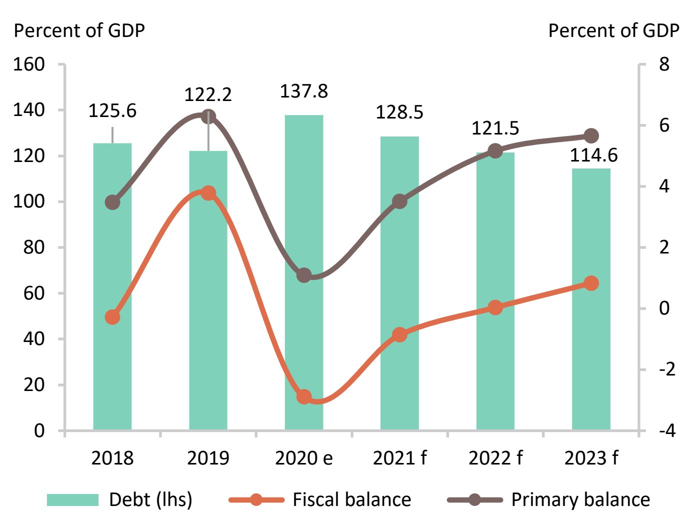
A major fall in tourist arrivals during the first three quarters of 2020 severely affected tourism, retail, and business activities. Hotel occupancy rates were below 50 percent, with a steep decrease in revenues. With the near full travel closure and quarantine measures, the economy is projected to have contracted by 17.3 percent in 2020. The halt in the tourism and construction sectors translated into severe job losses, particularly among the vulnerable population. In a June 2020 rapid assessment survey, almost half of respondents that were employed before the pandemic reported losing their job (IADB 2020). Not surprisingly, the shock affected low-income households more harshly (51 percent reported job losses) compared to middle and high-income ones (40 and 28 percent,

FIGURE 1 Barbados / COVID-19 spread



Sources: JHU CSSE COVID-19 Data.

FIGURE 2 Barbados / Fiscal balances and public debt



Sources: Central Bank of Barbados; IMF and World Bank staff estimates.

respectively). Similarly, women have been more impacted than men (36 percent report losing their job versus 32 percent). The government responded by expanding social assistance and implementing a program that subsidizes continued employment in the tourism sector.

Barbados experienced a rapid spread of COVID-19 in early 2021. The fotal number of cases rose from 395 on January 2 to 2,647 on February 18. This is likely to further exacerbate job losses, business closures, and a decline in remittances that negatively impacted income, and the living standards of Barbadian households in 2020. About one in five households reported losing their main source of income between January and April 2020 and around 40 percent reported not being able to meet their most basic needs. For 2020, poverty is expected to have increased well above the 17 percent registered four years before.

The impact on the balance of payments has been severe. The current account deficit is expected to have risen to 7.8 percent of GDP in 2020 mainly due to the decline in travel receipts, although partially offset by lower oil prices and import demand. The restructuring of external debt – with the resumption of interest payments – widened the income deficit.

Barbados recorded a significant primary surplus of 6.3 percent of GDP in FY2019/20, above the 6 percent target included in the BERT program. The primary surplus was met by adjusting expenditure on goods and services, capital projects, and wages. The increase in health-related expenditures due to the Covid-19 pandemic together with a fall in revenues pushed a revision of the fiscal deficit target to 1 percent of GDP. To finance the higher current account deficit, Barbados received financing from international financial institutions IFIs. As a result, gross international reserves rose to 40 weeks of import cover.

Outlook

Growth is projected to reach an average of 5.8 percent over the medium term with the resumption of travel. Lagging construction activity and renewed fiscal consolidation efforts are expected to moderate growth prospects. The inflation rate is projected to average around 3 percent in the medium term. In response to the pandemic, the government has expanded support through its social protection programs and has expanded available benefits. As a result of higher growth and low inflation, poverty can be expected to decrease over the medium term if the recovery is sustained and fosters new job opportunities. Continued support for the most vulnerable is necessary to avoid long-term consequences of the shock.

The current account deficit is expected to increase to 11.0 percent of GDP in 2021. A rebound in tourism and increased FDI in the tourism sector will contribute to narrowing the deficit to 8.6 percent in 2022.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	-0.6	-0.1	-17.3	4.4	7.2	1.9
Real GDP growth, at constant factor prices	-0.4	-0.1	-17.5	4.2	7.4	2.0
Agriculture	14.8	-6.3	1.0	0.5	0.5	0.4
Industry	-2.3	-3.4	-13.0	3.0	4.5	2.5
Services	-0.3	0.6	-18.6	4.5	8.1	2.0
Inflation (Consumer Price Index)	3.7	4.1	2.9	3.7	2.3	2.3
Current Account Balance (% of GDP)	-5.0	-3.1	-7.8	-11.0	-8.6	-6.1
Fiscal Balance (% of GDP)	-0.3	3.8	-4.7	-3.0	-0.4	0.6
Debt (% of GDP)	125.6	122.2	148.9	142.7	129.4	124.7
Primary Balance (% of GDP)	3.5	6.3	-1.0	1.3	4.4	5.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

BELIZE

Table 1	2020
Population, million	0.4
GDP, current US$ billion	1.8
GDP per capita, current US$	4440.7
School enrollment, primary (% gross)[a]	110.5
Life expectancy at birth, years[a]	74.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2019); Life expectancy (2018).

Belize entered the COVID-19 pandemic with high public debt, external vulnerabilities, and a low economic growth rate. The crisis is expected to increase poverty and unemployment. In turn, protecting the vulnerable remains a policy priority. Authorities have built up reserves and continue to provide ample liquidity. Growth will return slowly over the medium term while downside risks remain high and susceptible to natural shocks and delays in implementing vaccination.

Key conditions and challenges

Tourism is the number one foreign exchange earner, followed by exports of sugar, bananas, citrus, seafood, and crude oil. Supported by expansionary monetary and fiscal policies, average GDP growth was almost 5.6 percent between 1999 and 2008, falling to an average of 1.8 percent between 2009-19. Belize's dependence on energy imports makes it highly vulnerable to energy price shocks, and the peg of the Belize dollar to the US dollar since 1976 leaves no room for inflation targeting. Structurally high unemployment, a growing trade deficit, and a heavy foreign debt burden continue to be major concerns coming out of the pandemic over the medium term amid tepid growth.

The COVID-19 pandemic hit when the economy was already in recession due to drought and a slowdown in tourism in the second half of 2019. The pandemic's impact on the economy is severe due to the collapse in tourism activity and the indirect effects of the necessary containment and mitigation measures. The international airport reopened in October 2020 with appropriate protocols for testing and tracing. However, the number of international flights to Belize is only a fraction of its pre-pandemic levels, and tourism activity is experiencing a slow recovery.

Risks could stem from a resurgence in COVID-19 infections, as mass vaccination programs will take time to roll out. External risks include higher oil prices and exposure to extreme climate-related shocks. The EU Economic and Financial Affairs Council (ECOFIN) excluded Belize from the EU grey list of non-cooperative tax jurisdictions; however, gaps remain in the supervision of the financial sector.

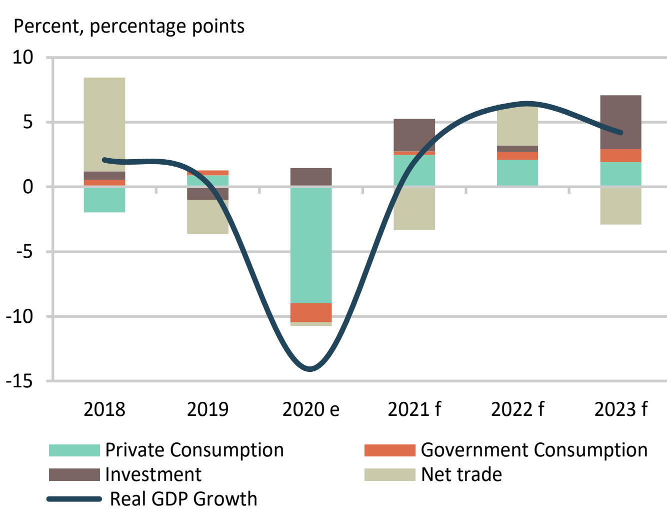
Recent developments

Belize's economy contracted 14.1 percent in 2020, driven by a sharp reduction in net external demand and private consumption, reflecting the impact of the near closure of international travel, curfews, and slowdown in global demand. A severe drought in 2019 that extended into the first half of 2020 caused a falloff in hydroelectric generation. Tropical depression Eta further exacerbated this in the fourth quarter, damaging crops and livestock. With the drop in oil prices and demand in 2020, inflation remained subdued at 0.1 percent.

The current account deficit (CAD) narrowed in 2020 to 8.1 percent of GDP, financed by remittances from abroad, foreign direct investment (FDI) inflows, donations, and multilateral lending. International reserves recovered to US$347 million at the end of 2020, as foreign exchange reserves benefited from the deferral of quarterly interest payments to bondholders since August 2020.

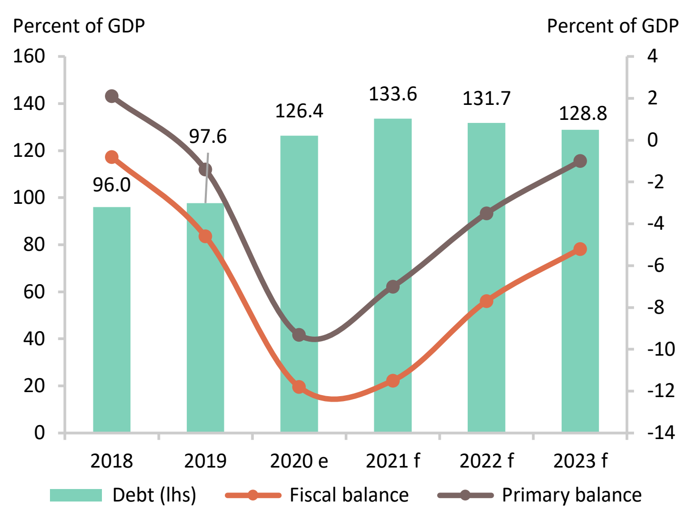
The reduction in tax collection and increased expenditure pushed the fiscal deficit to 10.9 percent of GDP in 2020 and brought up the debt level to 125.4 percent

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



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

FIGURE 2 Belize / Fiscal balances and public debt



Sources: Ministry of Finance and World Bank staff calculations.

of GDP. Following a near default on payments in 2020, Belize managed to renegotiate with creditors the terms on the US dollar-denominated bonds due in 2034.

Authorities established measures to maintain credit flow in the economy, including reducing statutory cash reserve requirements, extending the period to classify targeted non-performing loans and other affected aspects of the banking system balance sheet.

The expected impacts of the COVID-19 crisis on the labor market are significant, likely leading to poverty increases. According to official statistics, approximately 39,000 persons moved out of employment (either to unemployment or out of the labor force) from March to August 2020. About 25 percent of the employed persons reported reduced or partial wages. Overall, the unemployment rate increased by 19.1 percentage points from September 2019 to September 2020.[1] The most affected sector is tourism, with 66 percent of the job losses. The pandemic has affected significantly more the youth, men, and those in the service sector. Overall, about 64.4 percent of the employed population who lost their job due to the pandemic were men. The youth (ages 25-34) accounted for many job losses (28.2 percent).

Outlook

Economic recovery is projected to begin with the launch of the vaccine in 2021. However, the speed at which the vaccine is distributed remains uncertain. Growth will also depend on natural disasters in 2021. Accelerating efforts to build resilience to disasters would reduce economic instability and boost economic growth. Inflation will increase to 2.0 percent over the medium term as the prices of many imported commodities normalize.

The sharp decline in economic activity and employment losses are expected to lead to significant poverty increases in 2020 and possibly lasting through 2021, depending on the recovery speed. An unemployment relief program providing temporary benefits to the unemployed, the upscaling of transfers through Boost (the conditional cash transfers program), a new COVID-19 cash transfer (BCCAT) to uncovered poor households, and a food pantry program has offered temporal relief to the most affected and partially mitigate the poverty increase, particularly in the short term. However, the lack of recent data makes it difficult to assess the beneficiary incidence of these emergency transfers among the 'current' poor.'

The CAD is predicted to widen over the medium term as imports recover and remittances level off. The CAD will be financed by private inflows, donations, and multilateral lending, supplemented by a drawdown in reserves. In this context, the level of international reserves could fall below 5 months of imports as quarterly interest payments to bondholders will begin again in May 2021.

With the expected economic recovery, tax collections will improve, and cash transfers may decrease, reducing the fiscal deficit to 5.1 percent of GDP and lowering the public debt to 127.5 percent of GDP by 2023. Despite short-term relief due to the capitalization of the next three bond interest payments, timely payments of Belize's debt service will depend on favorable financial and economic conditions that could be strained if economic activity recovers at a slower pace.

1/ There were some methodological changes in the LFS from 2019 to 2020 due to revisions in the definitions of unemployment, employment and underemployment that affect comparability. Comparisons here used the previous definition for both years.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.9	1.8	-14.1	1.9	6.4	4.2
Private Consumption	-2.7	-3.3	-14.0	3.8	3.2	3.0
Government Consumption	3.5	2.5	-12.3	6.6	0.6	10.4
Gross Fixed Capital Investment	13.4	10.5	25.2	5.1	3.9	18.0
Exports, Goods and Services	7.5	-7.0	-14.1	2.7	-3.2	-3.3
Imports, Goods and Services	-4.3	3.8	-12.9	7.2	-7.5	5.5
Real GDP growth, at constant factor prices	3.1	1.0	-14.1	1.9	6.4	4.2
Agriculture	-2.9	-3.8	-2.4	3.4	1.6	1.3
Industry	1.0	-4.3	-1.9	4.2	2.1	2.1
Services	4.5	2.9	-18.3	1.1	8.3	5.2
Inflation (Consumer Price Index)	0.3	0.2	0.1	1.0	2.0	2.0
Current Account Balance (% of GDP)	-8.1	-9.6	-8.1	-7.7	-7.4	-7.2
Net Foreign Direct Investment (% of GDP)	6.3	5.3	3.2	3.3	3.8	4.1
Fiscal Balance (% of GDP)[a]	-1.1	-4.7	-10.9	-10.9	-7.3	-5.1
Debt (% of GDP)[a]	95.9	97.3	125.4	132.4	129.7	127.5
Primary Balance (% of GDP)[a]	2.2	-1.4	-8.3	-6.4	-3.1	-0.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

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

BOLIVIA

Table 1	2020
Population, million	11.7
GDP, current US$ billion	36.7
GDP per capita, current US$	3143.1
International poverty rate ($1.9)[a]	3.2
Lower middle-income poverty rate ($3.2)[a]	7.8
Upper middle-income poverty rate ($5.5)[a]	19.9
Gini index[a]	41.6
School enrollment, primary (% gross)[b]	98.2
Life expectancy at birth, years[b]	71.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) Most recent WDI value (2018).

After the pandemic-induced recession, the economy is expected to rebound in 2021 on the back of eased mobility restrictions and expansionary efforts. Growth would slow down in the medium term due to shrinking room for expansionary policies. Consequently, poverty is expected to return to pre-crisis levels only by 2023. Bolivia's medium-term prospects depend on its capacity to reduce macroeconomic imbalances, generate fiscal space to shield social expenditure and protect the vulnerable, and ignite new sources of growth and employment.

Key conditions and challenges

After the commodity boom, a wide range of expansionary policies allowed Bolivia to keep growing despite declining gas production and low private investment. However, as these policies increased the public debt and eroded macroeconomic buffers, Bolivia had limited policy room to deal with the pandemic that plunged the economy into a deep recession and reversed eight years of poverty reduction. This scenario was compounded by structural weakness such as high labor informality and poorly targeted social programs, and political polarization after the contested 2019 elections led to President Morales's resignation.

After a one-year transition government, the new government is intent on boosting domestic demand and resuming earlier state-led development policies. With low hydrocarbon revenues, this agenda depends on external and Central Bank financing that may undermine macroeconomic sustainability.

The recovery from the COVID-19 crisis depends on how fast the vaccination is completed. While a constrained financial situation elevates the risk of a balance of payment crisis, strong growth fundamentals need to be activated.

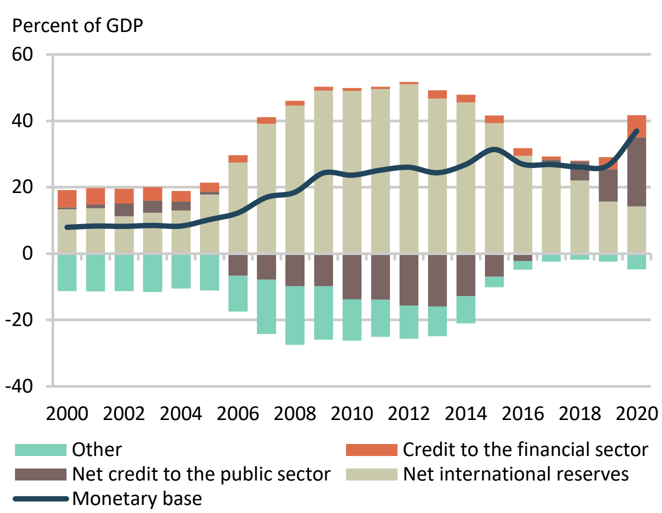
Cementing confidence in the fixed exchange rate requires reducing the fiscal and external imbalances. Improving fiscal policy efficiency and progressivity could help secure fiscal sustainability while shielding social expenditure and supporting the most vulnerable. It would also be critical to adopt a more pragmatic approach toward private and foreign investment to develop new gas reserves and foster new sources of growth and employment. The business environment could be improved by easing administrative agriculture export restrictions, improving logistics, reducing red-tape, and modernizing labor and tax regulation.

Recent developments

The pandemic plunged the economy into a deep recession in 2020. Excepting communication, agriculture, and public administration, most sectors dropped despite showing signs of recovery by the end of the year, after lockdown measures were lifted.

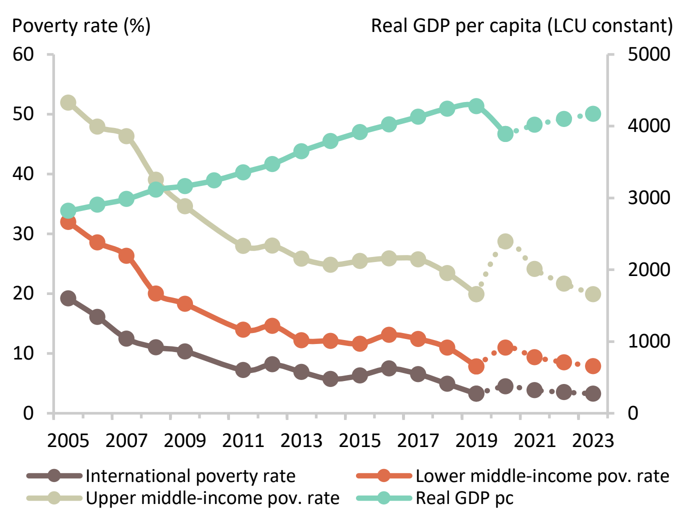
Poverty ($5.5 line in 2011 PPP) is expected to increase from 19.9 percent in 2019 to 28.7 percent in 2020, pushing more than one million people into poverty. Income inequality has increased as many low-skill salaried workers lost their jobs, and most self-employed, who account for more than 40 percent of employment, saw their earnings fall. Despite recent improvements, unemployment and underemployment remained above their pre-crisis levels in late 2020, mainly among women, widening gender gaps. Additionally, despite being almost universal, emergency cash transfers have only partially offset the drop of labor earnings due to their low generosity.

FIGURE 1 Bolivia / Monetary base



Sources: Central Bank of Bolivia.

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



Source: World Bank. Notes: see Table 2.

Despite the collapse in public investment, the fiscal deficit widened to 12 percent of GDP due to low hydrocarbon and tax revenues and high health and social protection expenditures. In conjunction with a fall in nominal GDP, the fiscal deficit increased public debt from 59 percent of GDP in 2019 to 77 percent in 2020. With limited external financing, the Central Bank funded the bulk of the fiscal deficit.

Although import compression reduced the current account deficit, international reserves continued to fall due to low external financing to the public sector, mutted foreign investment, and sizable private capital outflows. The partial recovery of imports and uncertainty around the 2020 elections renewed pressures on international reserves in late 2020.

As the economic contraction reduced average inflation to less than one percent, the Central Bank became the primary domestic credit source. Besides funding the fiscal deficit, the Central Banks also provided liquidity to the financial sector, which saw its profitability fall to a record low level as a result of the loan deferral imposed by the government to support debtors in 2020.

Outlook

Although the second wave of the pandemic dampened the recovery in early 2021, the economy is set to resume growth this year due to eased mobility restrictions. As the government ruled out a harsh lockdown, local authorities will impose only targeted restrictions until the vaccine is fully rolled out in the first half of 2022. Additionally, the government will apply some expansionary policies, including higher public investment. However, after the 2021 rebound, growth is projected to slow down. The tightening financial situation will constrain the space to boost domestic demand, and trade flows will likely slow down after the rebound from the crisis.

Although growth will reduce poverty from its 2020 peak, poverty is projected to remain above the pre-pandemic level until 2022. Long-term pandemic effects on employment and productivity—such as the hysteresis, decapitalization of businesses, and human capital losses due to school closures and remote learning—are likely to affect the poor and vulnerable the most, preventing inequality from falling and limiting upward intergenerational mobility.

The fiscal deficit is projected to gradually decrease to about 4.7 percent in 2023 as fiscal revenues recover and emergency expenditures fade out. Despite the issuance of international bonds to finance public investment and payback bonds due in 2022 and 2023, the tightening financial situation is expected to induce a partial consolidation, stabilizing public debt near 81 percent of GDP.

Current account deficits and capital outflows are expected to continue eroding international reserves but at a slower pace. The nominal exchange rate is projected to remain fixed as the government is expected to gradually limit its expansionary efforts to prevent a devaluation.

Declining international reserves and rising inflation would limit the Central Bank to continue fueling domestic credit. Moreover, the financial sector could require additional support. The massive reschedule of loans deferred in 2020 and the early withdrawal from the pension funds could add stress on the already hit financial sector, particularly small financial institutions.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.2	2.2	-7.8	4.7	3.5	3.0
Private Consumption	4.3	3.7	-8.1	4.6	3.7	3.3
Government Consumption	5.1	3.8	2.8	1.6	-0.8	0.3
Gross Fixed Capital Investment	3.2	-3.5	-34.1	23.1	2.9	3.5
Exports, Goods and Services	5.2	-1.8	-8.7	6.4	6.4	3.5
Imports, Goods and Services	1.9	1.5	-22.9	14.9	4.2	3.2
Real GDP growth, at constant factor prices	4.3	2.4	-7.8	4.7	3.5	3.0
Agriculture	6.9	5.3	2.4	4.2	4.2	4.2
Industry	2.3	0.1	-12.2	5.4	3.7	3.2
Services	5.2	3.4	-7.6	4.3	3.0	2.5
Inflation (Consumer Price Index)	2.3	1.8	0.9	2.5	3.0	3.0
Current Account Balance (% of GDP)	-4.5	-3.3	-0.8	-3.0	-1.4	-0.7
Net Foreign Direct Investment (% of GDP)	1.0	-0.7	-1.7	0.2	1.1	1.1
Fiscal Balance (% of GDP)	-8.1	-7.2	-12.0	-8.9	-6.0	-4.7
Debt (% of GDP)	53.3	58.8	77.2	81.1	81.3	80.5
Primary Balance (% of GDP)	-7.0	-5.8	-10.3	-7.1	-4.1	-2.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	4.9	3.2	4.5	3.9	3.5	3.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	11.0	7.8	11.0	9.4	8.5	7.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	23.4	19.9	28.7	24.1	21.7	19.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SEDLAC harmonization, using 2008-EH, 2011-EH, and 2019-EH.Actual data: 2019. Nowcast: 2020. Forecast are from 2021 to 2023.

(b) Projection using average elasticity (2008-2011) with pass-through = 1 based on GDP per capita in constant LCU.

BRAZIL

Table 1	2020
Population, million	212.6
GDP, current US$ billion	1424.6
GDP per capita, current US$	6702.2
International poverty rate ($1.9)[a]	4.6
Lower middle-income poverty rate ($3.2)[a]	9.1
Upper middle-income poverty rate ($5.5)[a]	19.6
Gini index[a]	53.4
School enrollment, primary (% gross)[b]	132.5
Life expectancy at birth, years[b]	75.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) Most recent WDI value (2018).

After a strong contraction in the second quarter of 2020, Brazil's recovery was supported by large fiscal stimulus, limiting the annual contraction to 4.1 percent. Recovery momentum is expected to propel growth to 3.0 percent in 2021, but the upsurge of Covid-19 cases raises downside risks. Poverty will likely rise with more limited fiscal support and as the labor market remains soft. The government must find a balance between effective social protection and a sustainable fiscal framework, while re-launching the structural reform agenda.

Key conditions and challenges

In the last decade, the Brazilian economy grew by an average 1.4 percent per year (0.6 percent per capita). Most of the growth in the past ten years was driven by favorable demographics, while total factor productivity declined due to structural bottlenecks, such as a complex tax system and a cumbersome business environment that discouraged entrepreneurship. Despite promoting important projects like the labor and pension reform, a new legal framework for sanitation, changes to the bankruptcy law and the independence of the Central Bank, human capital progress was slow and the state intervention policies in specific sectors were ineffective. The public budget was under increasing pressure from the high level of mandatory current expenditures and increasing pension obligations. The economy was still recovering from the deep recession of 2015 and 2016 when it was hit by the Covid-19 crisis. Uneven income growth, declining incomes of the poorest 40 percent and households in lagging regions falling further behind led to higher poverty and inequality levels than those following the 2015/16 recession.

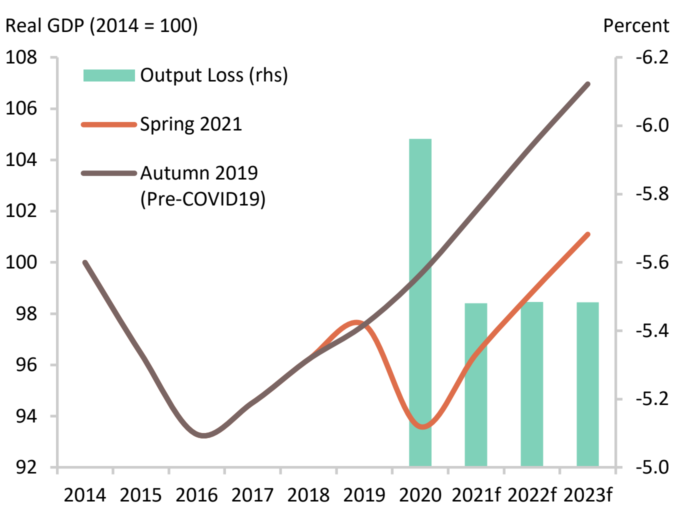
The crisis aggravated Brazil's challenges in poverty reduction. The large federal fiscal response through the direct transfer program *Auxilio Emergencial* (AE) led to a decrease in poverty and inequality in 2020, thanks to the broadened inclusion base and high amount of transfers (up to 750 USD equivalent in total).

A successful vaccination campaign is critical to overcoming the health crisis and recovery in the services sector. Other needed reforms include trade liberalization, privatization of public enterprises, the tax system, flexibilization of the public expenditures and public servants' career.

Recent developments

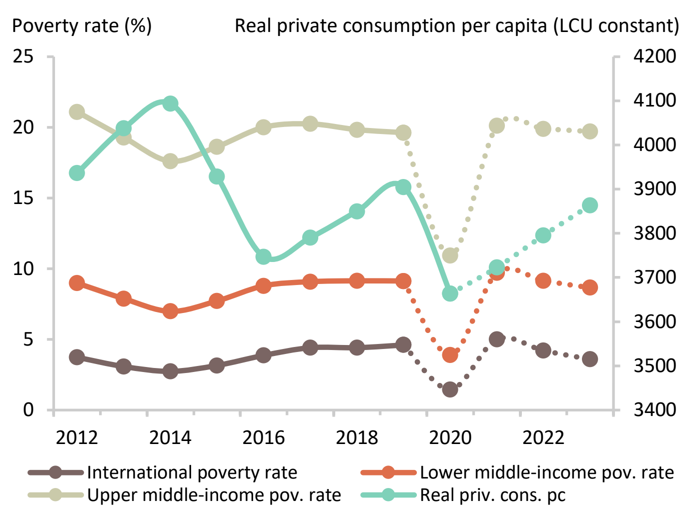
Brazil's economy contracted by 4.1 percent in 2020. The AE program launched in March cushioned the plunge and supported a consumption-led recovery, further aided by lower interest rates, job sustainment programs and the easing of social distancing measures. Industry and retail sales followed suit, exceeding pre-Covid levels by end-2020. Meanwhile, services, that are important for job creation, remain weak as Brazil's high virus case count continues to affect face-to-face activities. Agriculture expanded considering soaring commodities prices and a weakened exchange rate. The labor market deteriorated, with unemployment climbing 2.3 p.p. reaching 13.9 percent in December. Labor force participation fell by 6.8 p.p. between December 2019 and September 2020, recovering by 1.7 p.p. by December 2020 (to 56.8 percent). More than 6mn people lost their jobs in 2020 and most of them gave up looking for a job. Among women, one in five were out of the labor force, due to the need to take care of relatives or housework.

FIGURE 1 Brazil / Revisions to Brazil's GDP growth forecast, compared to last MPO



Sources: WB staff calculations.

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



Source: World Bank. Notes: see Table 2.

The current account deficit narrowed from 2.7 percent in 2019 to 0.9 percent in 2020, due to a steep fall in imports, but FDI flows held up. Inflation accelerated in the second half of 2020, as food prices increased by 15 percent given the increase in commodity prices and the exchange rate depreciation. Nevertheless, the shock is considered temporary, as inflation expectations are well anchored.

The fiscal expansion of 11.2 percent of GDP led the primary deficit to rise from 0.8 percent of GDP in December 2019 to 9.5 percent in 2020. Accordingly, public debt jumped to 88.6 percent in 2020.

The pandemic effects on the labor market led to a fall on households' labor income that was felt across the income distribution. In contrast, the increase in social transfers (with AE representing over 40 percent of households' income for those in the bottom quintile in November) led to a projected decrease in poverty to 10.9 percent (for US$5.5, 2011 PPP line), and 1.4 percent (or 3.2 million people) living in extreme poverty (US$1.90 PPP).

Outlook

Covid-19 erased income gains since the last recession in 2016. In 2021, a partial GDP recovery of 3.0 percent is expected, as the carryover is high, and growth likely resumes its pre-Covid pace. Industry will lead the recovery, while the services sector will be dragged down by the activities whose performance depend on the vaccination program. The vaccination campaign is expected to accelerate throughout the year. Mining and agriculture growth will be supported by improving external conditions. The recovery underway is expected to continue into 2022 with 2.5 percent growth, before the economy converges to a 2.3 percent rate from 2023 onwards.

Poverty reduction is expected to be limited. The expiration of the AE in December 2020 is expected to decrease households' income, especially for those at the bottom of the distribution. Without the labor market absorbing discouraged workers and the unemployed, labor incomes will stall and the reduction in poverty is likely to remain temporary. In 2021, poverty rates (at $5.50 2011 PPP) are projected at slightly higher levels than before Covid-19 and return to 19.7 percent in 2023. Inflation is expected to return to the official target in 2021, as exchange rate related shocks dissipate, while primary deficit decreases to 2.4 percent. Total gross debt will reach 89.7 percent, and further fiscal adjustment will be required to comply with Brazil's expenditure rule.

Risks to the recovery continue to be high. Should the AE transfer program be renewed, currently under discussion in Congress, it will likely increase the primary deficit in 2021, support household consumption and soften poverty increase. The resurgence of the pandemic is leading some local governments to impose new lockdowns, which may slow the pace of recovery. The pace of recovery in the labor market is a risk as job creation depends on a sustained demand recovery scenario and on the implementation of structural reforms, both to boost potential growth and to promote fiscal consolidation.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.8	1.4	-4.1	3.0	2.5	2.3
Private Consumption	2.4	2.2	-5.5	2.3	2.6	2.4
Government Consumption	0.8	-0.4	-4.7	0.0	0.0	0.0
Gross Fixed Capital Investment	5.2	3.4	-0.8	5.1	5.1	4.7
Exports, Goods and Services	4.1	-2.4	-2.2	5.0	5.0	5.0
Imports, Goods and Services	7.7	1.1	-10.2	6.0	6.0	6.0
Real GDP growth, at constant factor prices	1.7	1.3	-3.8	2.9	2.5	2.3
Agriculture	1.3	0.6	2.0	1.5	1.6	1.5
Industry	0.7	0.4	-3.5	5.5	1.9	1.8
Services	2.1	1.7	-4.6	2.2	2.8	2.5
Inflation (Consumer Price Index)	3.7	3.7	3.2	5.4	3.5	3.4
Current Account Balance (% of GDP)	-2.2	-2.7	-0.9	-1.5	-2.1	-2.5
Net Foreign Direct Investment (% of GDP)	4.0	2.5	3.5	2.6	2.6	2.6
Fiscal Balance (% of GDP)	-7.5	-6.6	-14.2	-6.2	-6.8	-6.4
Debt (% of GDP)	75.3	74.3	88.6	89.7	91.1	92.5
Primary Balance (% of GDP)	-1.6	-1.0	-9.5	-2.4	-1.3	-0.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	4.4	4.6	1.4	5.0	4.2	3.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	9.1	9.1	3.9	9.7	9.1	8.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	19.8	19.6	10.9	20.1	19.9	19.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SEDLAC harmonization, using 2013-PNADC-E1, 2018-PNADC-E1, and 2019-PNADC-E1. Actual data: 2019. Nowcast: 2020. Forecasts: 2021 to 2023.
(b) Projection using point-to-point elasticity (2013-2018) with pass-through = 0.87 based on private consumption per capita in constant LCU.
Estimates for 2020-2021 based on microsimulations to reflect emergency policy measures implemented in 2020.

CHILE

Table 1	2020
Population, million	19.1
GDP, current US$ billion	249.7
GDP per capita, current US$	13064.1
Upper middle-income poverty rate ($5.5)[a]	3.6
Gini index[a]	44.4
School enrollment, primary (% gross)[b]	102.2
Life expectancy at birth, years[b]	80.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) Most recent WDI value (2018).

Chile is expected to resume growth in 2021, as the government continues the stimulus and mobility restrictions are eased with the vaccination rollout. Chile's medium-term prospects depend on its capacity to meet demands for more equitable access to opportunities while preserving strong macroeconomic management, restoring private sector confidence, and unlocking productivity gains for a more diversified economy. The same policies would be instrumental in reducing poverty caused by the pandemic and set the ground for more inclusive growth.

Key conditions and challenges

Over the last few decades, Chile achieved important progress on main economic and social indicators. Progress came on the back of a conducive business environment, strong institutions, and sound macroeconomic management. However, after achieving high-income status, the existing policy framework has been insufficient to foster productivity and economic diversification, increase labor opportunities, and further tackle deep-rooted inequality.

The pandemic-led recession in 2020 has amplified demands for higher social expenditure and reforms that preceded the social unrest of 2019, resulting in the vote to rewrite the constitution. The reform process adds to the political uncertainty already associated with subnational elections (April 2021), primaries elections (July 2021), the general election (November 2021), and a referendum on the new constitution (2022).

The constitutional reform process opens opportunities to reform institutions and address long-standing structural challenges. Long-term implications will depend on the balance between fulfilling demands for more equitable policies and other medium-term challenges such as preserving a traditionally sound macroeconomic environment, restoring private sector confidence, and unlocking productivity gains and diversification. Chile still needs to tackle long-standing barriers to productivity such as low competition, innovation, education quality, and female labor participation.

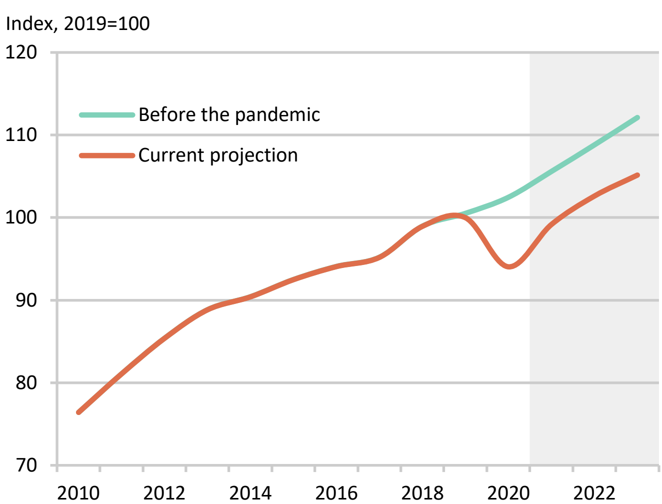
Recent developments

GDP contracted 6.0 percent in 2020, although looser lockdown measures allowed a partial recovery towards the end of the year. Over one million jobs were lost, affecting mostly women and workers in commerce, agriculture, and hospitality. The effects of mobility restrictions and uncertainty were only partially offset by one of the largest policy responses in the region. This response included cash transfers, a job retention scheme, tax deferrals and reductions, liquidity provisions and guarantees, and early withdrawals from pension funds.

The Central Bank reduced the policy rate to 0.5 percent and implemented unconventional monetary policies. Although a food price surge increased annual inflation to around 3.0 percent in recent months, accommodative monetary policy is expected to continue into the medium-term.

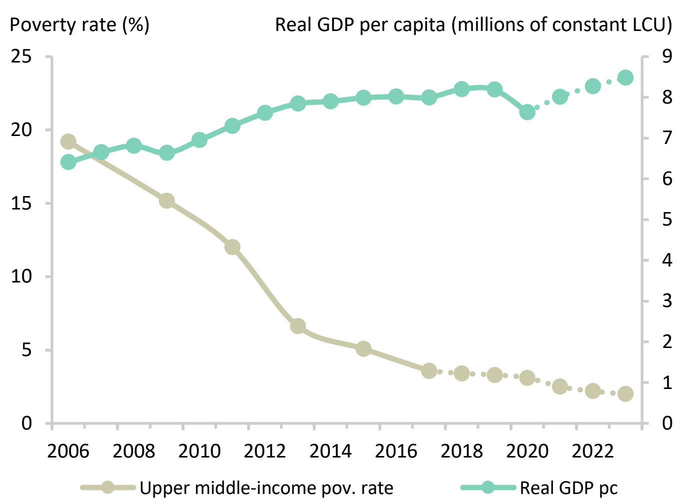
In conjunction with the economic contraction, the fiscal deficit increased to 7.5 percent of GDP in 2020, the largest in over three decades. Although the authorities tapped into fiscal buffers, public debt rose from 28 percent in 2019 to 33 percent in 2020. Additional measures to support the recovery include measures to streamline regulations, higher public investment, tax

FIGURE 1 Chile / Real GDP



Sources: Central Bank of Chile and staff's estimates.

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



Sources: World Bank. Notes: see Table 2.

incentives for firms, hiring subsidies, and transfers to low-income households.

As imports collapsed, the current account recorded a sizable surplus in 2020. However, the Central Bank had to intervene to prevent a larger depreciation linked with subdued private external inflows.

Targeted social protection measures cushioned the effects of the crisis. In 2020, the share of the population living on less than US$5.5 a day and the inequality Gini coefficient are estimated to have remained stable at 3.3 and 44.3 percent, respectively. However, these estimates mask a downward slide in household income among the vulnerable and lower middle class, especially in female-headed households. Using the national poverty line, poverty is expected to have increased from 8.1 to 12.2 percent, meaning that about 780 thousand people are expected to have fallen into poverty.

Outlook

Although the second wave of the pandemic triggered some new mobility restrictions, the economy is projected to rebound by 5.5 percent in 2021 on the back of a successful vaccine rollout—Chile is the fourth country globally and the leader in the region in terms of per capita vaccination rates. Although uncertainty will curb private investment recovery, domestic demand will be spurred by accommodative policies, including the lagged effects of the early withdrawals from the pension funds. Exports would benefit from a strong recovery in advanced economies, China, and higher copper prices.

After that, GDP growth is expected to gradually decrease to 2.5 percent in 2023 as the output gap is reduced, allowing for fading out of the policy stimulus. However, medium-term growth could be constrained by uncertainty around the constitutional reform.

After sustaining a positive fiscal impulse in the upcoming two years, the government is expected to start a gradual consolidation to reach the medium-term structural balance goal. Revenue growth will account for most of the fiscal consolidation as fiscal expenditures will remain above pre-pandemic levels due to higher social spending resulting from the constitutional reform. Maintaining key social safety measures will be needed to ensure an inclusive recovery. However, public debt is projected to increase to 40 percent of GDP by 2023, the highest in the last three decades.

The recovery of imports and factor payments abroad will shift the current account balance into a deficit over the projection period. However, this deficit is expected to be financed by private capital flows, mainly foreign investment, limiting pressures on the exchange market.

The labor market recovery and cash transfers are expected to reduce poverty in 2021. The share of the population living on US$5.50 a day may be reduced slightly to 2.7 percent. Nevertheless, it will take longer for the incomes of the middle class to recover, and poverty rates based on the national poverty line are not expected to revert to the pre-pandemic level until 2022.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.9	1.1	-6.0	5.5	3.5	2.5
Private Consumption	3.7	1.1	-8.5	6.3	3.7	2.7
Government Consumption	4.3	-0.3	-1.9	-4.6	3.3	2.4
Gross Fixed Capital Investment	4.8	4.2	-15.6	17.9	5.6	1.8
Exports, Goods and Services	5.0	-2.3	-4.8	4.5	3.3	1.7
Imports, Goods and Services	7.9	-2.3	-15.4	9.9	5.3	1.5
Real GDP growth, at constant factor prices	4.0	1.2	-6.0	5.5	3.5	2.5
Agriculture	1.7	-1.6	-2.2	3.2	2.2	2.2
Industry	4.9	0.4	-3.2	4.6	3.1	2.9
Services	3.6	1.7	-7.5	6.0	3.7	2.3
Inflation (Consumer Price Index)	2.4	2.6	3.0	3.0	3.0	3.0
Current Account Balance (% of GDP)	-3.6	-3.9	1.5	0.7	-1.1	-1.9
Net Foreign Direct Investment (% of GDP)	2.3	1.2	-0.3	1.9	2.1	2.1
Fiscal Balance (% of GDP)	-1.5	-2.7	-7.5	-3.2	-3.1	-2.2
Debt (% of GDP)	25.6	27.9	33.0	34.5	37.7	40.1
Primary Balance (% of GDP)	-0.6	-1.8	-6.6	-2.3	-1.9	-0.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	3.4	3.3	3.3	2.7	2.3	2.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SEDLAC harmonization, using 2017-CASEN.Nowcast: 2018-2020. Forecast are from 2021to 2023.

(b) Projection using and microsimulation model for 2020.

COLOMBIA

Table 1	2020
Population, million	50.4
GDP, current US$ billion	271.5
GDP per capita, current US$	5389.1
International poverty rate ($1.9)[a]	4.9
Lower middle-income poverty rate ($3.2)[a]	12.7
Upper middle-income poverty rate ($5.5)[a]	29.4
Gini index[a]	51.3
School enrollment, primary (% gross)[b]	114.5
Life expectancy at birth, years[b]	77.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) Most recent WDI value (2018).

GDP contracted 6.8 percent in 2020 and poverty (US$5.5/day poverty line) is estimated to have increased over 5.5 percentage points. The decisive government response to the COVID-19 crisis supported lives and livelihoods but reduced fiscal space. If COVID-19 vaccination proceeds as planned, GDP is projected to grow 5.0 percent in 2021 and the incidence of poverty is expected to stabilize. Supporting economic activity and vulnerable household while normalizing the fiscal accounts will require a strong and credible medium-term fiscal plan.

Key conditions and challenges

Colombia confronted the COVID-19 crisis with a strong macroeconomic framework anchored on inflation targeting, a flexible exchange rate, and a rule-based fiscal framework. This framework supported growth, the absorption of a large flow of migrants from Venezuela, and the build-up of buffers with which to respond to the COVID-19 shock. Yet, Colombia also faced unresolved structural vulnerabilities. Many factors (including infrastructure bottlenecks, low labor productivity, a complex tariff regime and the existence of non-tariff barriers) weigh on total factor productivity and slow down growth. The predominance of oil and mining in exports have been exposing the economy to price shocks. Also, while poverty declined significantly between 2008 and 2018, inequality remains high and labor informality is among the highest in Latin America. These vulnerabilities amplified the effect of the COVID-19 crisis.

The crisis took a toll on the strength of fiscal policies. First, the response to COVID-19 reduced the space to respond to future shocks. Second, activating the suspension clause of the fiscal rule, while warranted to provide the needed flexibility to respond to the crisis, has opened uncertainty about the fiscal policy anchor over the medium-term. With subdued inflation and exceptionally low interest rates, the space for further conventional monetary easing has reduced. Finally, the long-term effect of the crisis on both the level and the growth of potential GDP are still uncertain. With low total factor productivity slowing the recovery, and informality and job insecurity weighing on household income, the prospects for returning both to pre-pandemic GDP trend in level, and to the pre-pandemic potential growth are uncertain.

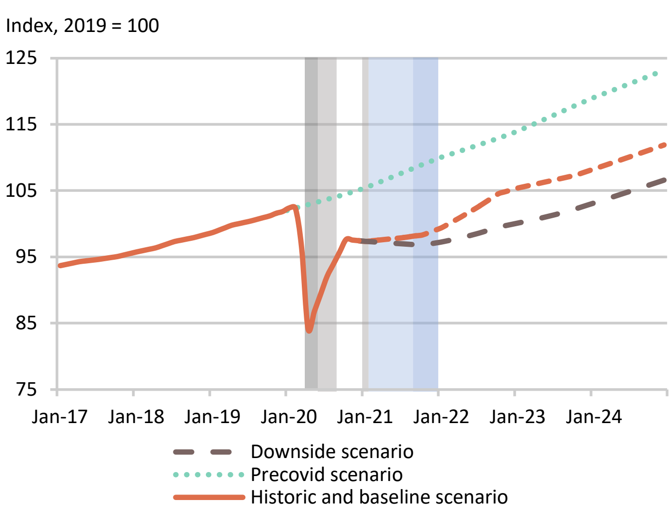
Recent developments

GDP contracted 6.8 percent in 2020. Activity has been on steady recovery since 2020Q2, as mobility restrictions were relaxed and decisive policy actions supported people and the economy. Reflecting weak demand, inflation averaged 2.5 percent in 2020, below the 3 percent inflation target. A second wave of COVID-19 towards the end of 2020 led to a tightening of mobility restrictions, causing a slight contraction of 2021Q1 activity, relative to 2020Q4.

Weak domestic demand brought imports down, but exports equally suffered from weak external demand, especially for oil. Low distribution of dividends abroad, and strong inward remittances reduced the current account deficit to 3.4 percent of GDP, which was financed by FDI inflows and external government borrowing.

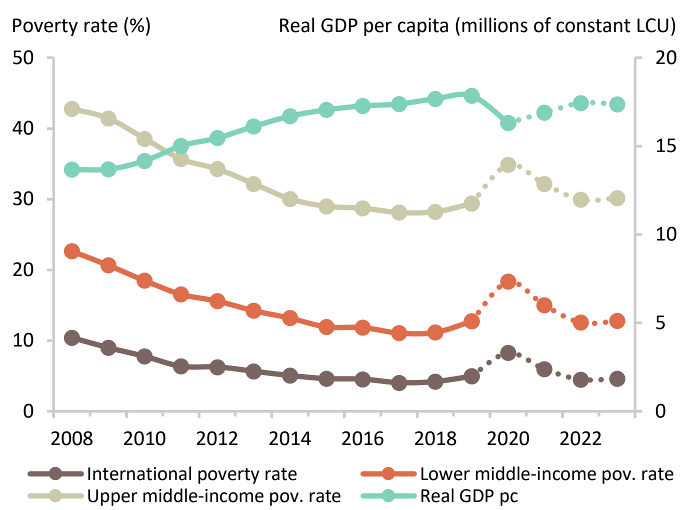
Weak revenues, higher health spending and social transfers, and the contraction in nominal GDP (which in itself pushed up the spending-to-GDP ratio), raised the fiscal deficit of the central government to 7.8

FIGURE 1 Colombia / Real GDP levels under different scenarios



Sources: DANE, Google mobility index, Ministry of Health, World Bank staff calculations. Note: Stringency of mobility restriction in gray (darkest = more stringent). Vaccination plan in blue (light blue = up to 50% of the population; dark blue = >50%).

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



Source: World Bank. Notes: see table 2.

percent of GDP. The general government's debt climbed up to 67 percent of GDP.

The COVID-19 crisis has exacerbated existing labor market weaknesses. Around 2.5 million jobs were lost in 2020, the unemployment rate reached 15.9 percent (with large increases in urban areas and among women, the youth, the self-employed, and workers in small firms), and the fraction of people working less than 20 hours a week increased to 22 percent of total employment. As household income plummeted, other dimensions of wellbeing (especially food security, access to health services and to quality education) worsened (including for the middle class), with potential long-term impacts on human capital and productivity.

Although government emergency transfers mitigated a quarter of the estimated negative impact of the crisis on poverty, around 3 million people are expected to have become poor, including among urban population, the better qualified, and employers, resulting in overall downward economic mobility. The incidence of poverty is projected to have increased by over 5.5 percentage points (US$5.5/day poverty line) in 2020, wiping out the gains since 2011. Inequalities are expected to increase as gender gaps and inequalities between high-skilled and low-skilled workers widen.

Outlook

Under the baseline scenario, the economy is projected to grow 5.0 percent in 2021, and reach 2019 level in mid-2022, driven by the recovery of domestic demand and supported by the recovery of commerce and manufacturing. This assumes that the government's vaccination plan proceeds as planned, and that the government puts together a credible and strong fiscal package that increase revenues on a permanent basis and that allows for a gradual normalization of the fiscal deficit over the medium-term. Under the baseline scenario, the current account deficit is expected to deteriorate in 2021 and normalize in 2022.

The fiscal stance is expected to be expansionary in 2021. As revenues are expected to recover gradually over the medium term, extra revenues from privatization would alleviate financing needs in 2021. For 2022, the unwinding of COVID-19 related health spending, zero real growth in operating spending, a slight real contraction in transfers, and a structural increase in taxes would reduce the deficit to about 5.0 percent of GDP.

Under this scenario, poverty is expected to decline in 2021 but remain above the pre-pandemic level in the coming years.

There are significant downside risks. Slower progress on vaccination, a weak medium-term fiscal plan, or a tightening of financing conditions abroad could lead to slower activity, loss of confidence, and an aggressive contraction of government spending down the road, with severe implications for growth and poverty reduction. Under a downside scenario, GDP growth could bottom to 4.2 percent in 2021. Although the fiscal deficit would still decline, the increase in interest payment would force a reduction of investment spending and cash transfers in 2023. Under this scenario, the economy would reach 2019 GDP levels only in 2023, and poverty would deteriorate further, with long-term impacts from asset depletion and lower human capital accumulation.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.6	3.3	-6.8	5.0	4.3	4.2
Private Consumption	3.2	3.9	-5.8	5.5	4.6	4.6
Government Consumption	7.4	5.3	3.7	-0.5	1.5	0.8
Gross Fixed Capital Investment	1.0	3.1	-21.1	14.0	8.5	5.8
Exports, Goods and Services	0.6	3.1	-17.4	3.5	2.8	2.5
Imports, Goods and Services	5.8	7.3	-18.0	9.4	5.7	3.4
Real GDP growth, at constant factor prices	2.5	3.2	-6.9	4.8	4.1	3.9
Agriculture	1.6	2.3	2.8	4.1	4.2	4.0
Industry	0.3	0.6	-13.6	8.3	3.3	3.4
Services	3.7	4.4	-5.0	3.5	4.5	4.1
Inflation (Consumer Price Index)	3.2	3.5	2.5	2.8	3.0	3.0
Current Account Balance (% of GDP)	-4.1	-4.4	-3.3	-4.6	-4.3	-4.2
Fiscal Balance (% of GDP)	-2.2	-2.6	-7.0	-8.3	-4.9	-3.7
Debt (% of GDP)	51.3	52.2	66.7	70.4	68.9	67.4
Primary Balance (% of GDP)	0.6	0.4	-4.1	-4.7	-1.4	-0.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	4.2	4.9	8.2	6.0	4.5	4.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	11.1	12.7	18.3	15.0	12.6	12.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	28.2	29.4	34.9	32.2	29.9	30.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SEDLAC harmonization, using 2008-GEIH and 2019-GEIH.Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.

(b) Projection using average elasticity (2008-2019) with pass-through = 0.7 based on GDP per capita in constant LCU.

COSTA RICA

Table 1	2020
Population, million	5.1
GDP, current US$ billion	61.8
GDP per capita, current US$	12127.6
International poverty rate ($1.9)[a]	1.0
Lower middle-income poverty rate ($3.2)[a]	3.2
Upper middle-income poverty rate ($5.5)[a]	10.6
Gini index[a]	48.2
School enrollment, primary (% gross)[b]	116.2
Life expectancy at birth, years[b]	80.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) WDI for School enrollment (2019); Life expectancy (2018).

The COVID-19 crisis interrupted Costa Rica's incipient economic recovery and fiscal consolidation, with GDP contracting 4.6 percent in 2020. Job and income losses among the vulnerable resulted in higher poverty and inequality, despite adequate policy response. Growth is expected to recover in 2021 and 2022 led by stronger external demand, including tourism, and a rebound in investment, as structural reforms and fiscal consolidation efforts rebuild market confidence. Poverty reduction hinges on deepening the equity lens of reforms.

Key conditions and challenges

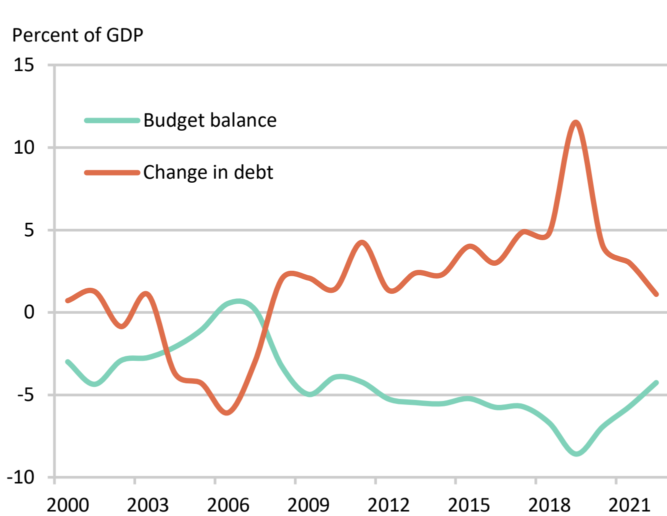
Costa Rica stands out in the region for its good governance and solid institutions, which are key elements of its successful outward-oriented growth model. Trade openness and foreign investment, together with significant investment in human capital and institutions, have allowed the country to double its income per capita in the last two decades. Costa Rica has also been at the forefront of efforts to promote the sustainable use of natural resources and of the fight against climate change, key elements of the country's long-term development plan. After averaging 4 percent per year between 2010 and 2016, GDP growth slowed in the following years as external shocks negatively affected the agricultural sector and further worsened an already weak fiscal situation. The approval of a major fiscal reform, which introduced a VAT, increased income tax, and introduced spending ceilings through a sound fiscal rule, alleviated fiscal sustainability concerns and reduced economic uncertainty, accelerating growth in 2019 and early 2020. The recent accession to the OECD has underpinned reforms that further reinforce growth prospects.

However, the COVID-19 outbreak temporarily interrupted fiscal consolidation efforts as revenues decreased, pandemic-related government expenditures expanded, and the public debt increased further pressuring the country's expensive interest bill. Even though Costa Rica's strong health system and timely response helped mitigate social impacts, poverty increased. A new IMF Extended Fund Facility (EFF) for three years, with expected approval in the first half of 2021, is projected to catalyze multilateral financing, mitigating concerns about Costa Rica's return to fiscal consolidation and providing cushion to downside risks, such as associated with more prolonged Covid-19 crisis that delays the economic recovery until the second half of 2021. Further delays in economic growth could also reduce households' income and employment opportunities, particularly for informal workers, self-employed, and small businesses, with lingering poverty and inequality impacts.

Recent developments

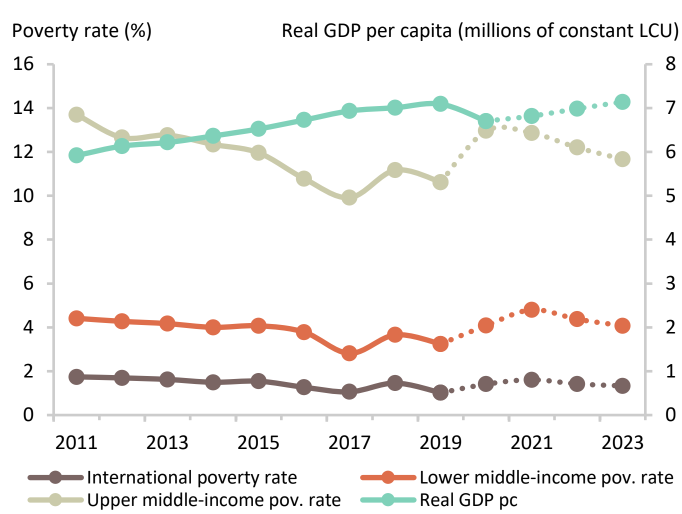
Despite the government's proactive response, the COVID-19 pandemic had a heavy toll on Costa Rica's economy. GDP is estimated to have contracted 4.6 percent in 2020, the largest drop in four decades, driven by sharp declines in investment (-4.8 percent) and private consumption (-4.4 percent). Amid increased global economic uncertainty, private investment contracted. Reduced consumption reflects the severe deterioration of labor markets and family incomes. One out of five workers were unemployed by Q4 2020, with youth, women, and individuals with incomplete secondary education affected the most. Despite strong mitigation-efforts, an estimated 124,000 people fell into poverty

FIGURE 1 Costa Rica / Budget balance and change in debt



Source: World bank.

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



Source: World Bank. Notes: see Table 2.

($5.5/day PPP), leading Costa Rica's poverty rate to rise to 13 percent in 2020 from 10.8 percent in 2019.

The country's response to the crisis was timely and adequate but deteriorated the country's already weak fiscal position. The economic slowdown and tax deferrals decreased revenues, while health-related spending and social transfers pressured expenditures, despite efforts to contain non-priority spending through wage freezes and budgetary reallocations. The fiscal deficit in 2020 expanded to 8.6 percent of GDP, pushing government debt to 67.9 percent of GDP and the interest bill to 4.7 percent.

The effects of the COVID-19 pandemic on the country's external position were reflected in a slight increase in the current account deficit to 2.5 percent of GDP in 2020, as exports deteriorated more than imports. With increased net portfolio outflows and lower FDI, external borrowing helped finance the current account deficit, maintaining reserves at around 7,2 billion (11.8 percent of GDP). The relatively resilient goods exports (led by medical equipment and implements, and food industry) helped mitigate the impact of a sharp drop in services exports, which decreased more than 25 percent y-o-y driven by tourism (estimated declined of 60% y-o-y).

Outlook

GDP is projected to recover by 2.6 percent in 2021, supported by an improvement in foreign demand and less stringent credit conditions. This would support a gradual recovery of the confidence of economic agents and resume investment. As the vaccination campaign rolls out worldwide and tourism recovers, growth is projected to accelerate to 3.3 percent in 2022. The impact of new waves of the COVID-19 on economic activity is expected to be more moderate, as countries have learned how to operate in the new constrained physical-distancing setting. With Costa Rica's main trading partners already recovering, total exports are expected to increase by 8 percent in 2021. Over time, these improvements would positively affect sectors like hotels, restaurants, and transport. Poverty is expected to decrease slowly but would not reach pre-pandemic levels during the forecast period. The heterogenous impact of the COVID-19 would push inequality to its highest in a decade. Social and economic support measures can help contain these effects but are limited by fiscal space.

The government is anticipated to resume its fiscal consolidation plan in 2021, primary spending is expected to decline 3.1 percent of GDP over the 2021-23 period, supported by the fiscal rule and the public employment reform. These efforts, combined with revenue improvements, are projected to yield a primary surplus of 1 percent of GDP in 2023. Public debt is expected to peak at 76.1 percent of GDP in 2023 and gradually decline thereafter.

Extended impacts of the COVID-19 would delay economic recovery and lead to greater fiscal stress, possibly increasing public debt above 80 percent of GDP. Difficulties in reaching consensus around key reforms, including those supported by the IMF program are also a risk. Costa Rica's diversified productive structure, a good level of international reserves and stable financial system, work as mitigating factors.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.1	2.2	-4.6	2.6	3.3	3.1
Private Consumption	1.6	1.6	-4.4	2.5	2.6	2.8
Government Consumption	0.5	5.3	1.0	-0.9	-0.8	-0.6
Gross Fixed Capital Investment	0.8	-5.4	-4.8	5.1	4.4	4.6
Exports, Goods and Services	4.7	3.0	-11.0	8.0	8.4	6.6
Imports, Goods and Services	0.2	-0.5	-9.7	7.7	5.8	5.4
Real GDP growth, at constant factor prices	2.2	2.2	-4.4	2.4	3.3	3.0
Agriculture	2.0	-1.2	-0.9	2.6	2.6	2.1
Industry	1.9	-0.8	-1.4	3.9	4.7	5.0
Services	2.3	3.3	-5.4	2.0	2.9	2.5
Inflation (Consumer Price Index)	2.2	1.5	0.7	1.5	2.0	1.8
Current Account Balance (% of GDP)	-3.0	-2.3	-2.5	-3.2	-3.0	-2.9
Net Foreign Direct Investment (% of GDP)	3.5	3.9	2.9	3.2	3.8	4.3
Fiscal Balance (% of GDP)	-5.7	-6.7	-8.6	-6.9	-5.7	-4.2
Debt (% of GDP)	51.7	56.5	67.9	72.0	75.0	76.1
Primary Balance (% of GDP)	-2.3	-2.6	-3.9	-1.7	-0.3	1.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.5	1.0	1.4	1.6	1.4	1.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	3.7	3.2	4.1	4.8	4.4	4.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	11.2	10.6	13.0	12.9	12.2	11.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SEDLAC harmonization, using 2019-ENAHO.Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.

(b) Projection using microsimulation model.

DOMINICA

Table 1	2020
Population, million	0.1
GDP, current US$ billion	0.5
GDP per capita, current US$	6936.9
School enrollment, primary (% gross)[a]	100.4
Life expectancy at birth, years[a]	76.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

Dominica's economy contracted by 10 percent in 2020 following COVID-induced shocks and the sudden stop in tourism. Poverty is expected to have increased due to this decline in economic activity. Fiscal pressures remain acute, highlighting the need for fiscal consolidation and increased fiscal resilience. Risk of debt distress remains high. As the pandemic subsides, medium-term growth prospects appear favorable as Dominica begins its transition to a more climate- and disaster-resilient economy.

Key conditions and challenges

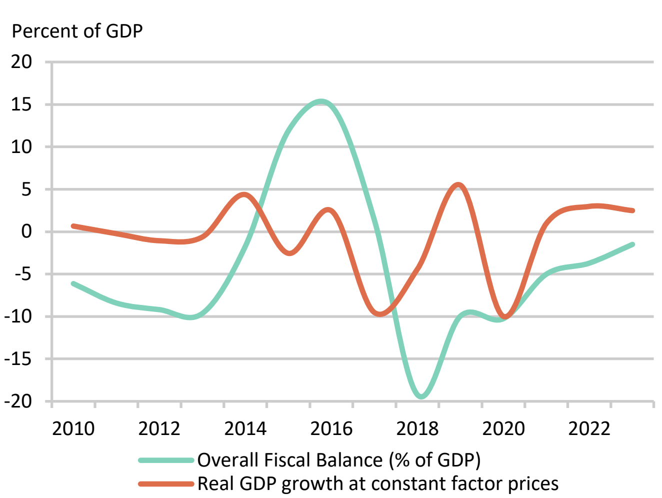
Dominica is a small island developing state with an economy driven largely by tourism and agriculture. Tourism accounts for close to 25 percent of GDP and employment. This makes the country vulnerable to climate change, natural disasters and external economic shocks. The government has a well-articulated Climate Resilience and Recovery Plan (CRRP) 2020-2030 to rebuild Dominica as the world's first fully climate resilient nation. In line with CRRP targets, the government had begun to implement measures aimed at building-back-better following Hurricane Maria (September 2017), including more robust public infrastructure, improved housing, strengthening of health systems climate resilient agriculture, geothermal power investment, and a fiscal consolidation of 6 percent of GDP over 6 years. This agenda, though challenging, was a clear step toward improving fiscal, environmental, and social resilience in a high-risk environment.

The COVID-19 shock to growth and public finances occurred when Dominica was still undertaking reconstruction, rehabilitation, and recovery efforts following damages caused by Hurricane Maria (226 percent of GDP), further exacerbating fiscal and public debt challenges. The global recession, disruptions in international trade and travel, and local containment measures have nearly halted tourism and adversely affected domestic production. The precise poverty and welfare impact of the current challenging economic and social conditions remain unclear, though there is a reasonable expectation that poverty levels have worsened. The latest poverty data are from 2008. With an estimated headcount rate of 28.8 percent, data indicated a strong downward trend in poverty rates at that time. However, Dominica's vulnerability to catastrophic weather events was evident in the period since then. Estimates indicate that poverty increased to 43 percent after Hurricane Maria in 2017. Economic recovery in 2018 and 2019 may subsequently have lowered poverty, but COVID-19 has likely reversed these recent gains.

Recent developments

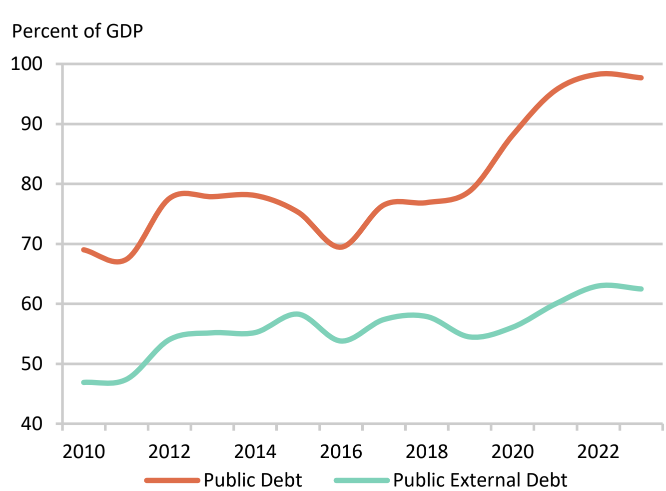
GDP is estimated to have contracted by 10.0 percent in 2020. COVID-19 has impacted growth through several channels, including: the near complete stop in tourism; COVID-related restrictions on domestic activities; lower foreign direct investment (FDI); and falling Citizenship -by-Investment (CBI) revenues. Expectations are that poverty indicators have worsened as household income from tourism-related occupations has fallen significantly and households indirectly dependent on tourism have also been affected. Women are expected to have been especially affected, due to their high participation in the services and informal sectors. Dominica was effective

FIGURE 1 Dominica / Real GDP and fiscal balance



Sources: Government of Dominica (2020), World Bank staff estimates.

FIGURE 2 Dominica / Public debt



Sources: World Bank staff estimates.

in controlling COVID-19 transmission and has so far experienced relatively few cases and no deaths. The government distributed transfers under a variety of social protection and business continuation programs, particularly targeting people who had lost income because of the pandemic, the poor, and the elderly. Agriculture has also rebounded to a considerable degree post-Hurricane Maria and government stimulus programs have focused on local community economic activities. However, these measures are unlikely to have fully offset the impacts on poverty.

Fiscal and debt metrics have deteriorated with an overall fiscal deficit of 10.2 percent of GDP in FY2020 (July 2019-June 2020) following decreased revenues, increased COVID-related expenditures, and lower CBI revenues. Pre-COVID-19, the FY2020 fiscal deficit had been projected at 3.8 percent of GDP, which represents a 6.4 percent of GDP deterioration in the fiscal account resulting from the pandemic. A fiscal deficit of 5.0 percent of GDP is projected in FY2021. Tax revenue projections remain muted given the global recession and ongoing tourism constraints, though budget expenditures are expected to fall modestly going forward as COVID-19 support programs wind down. Public debt levels increased from 78.8 percent of GDP in 2019 to 88.1 percent in 2020, and are expected to peak at 98.3 percent in 2022, declining thereafter. Pre-COVID-19 debt levels had been forecast to peak at 80 percent of GDP in 2020 following post-Hurricane Maria reconstruction.

Outlook

Growth in 2021 remains uncertain and dependent on pandemic developments. The 2021 peak tourism season is considered lost; as such, 2021 growth projections are estimated to be in the range of 1.0 percent. Post-COVID-19 efforts to boost climate resilience, including investments in energy infrastructure, port and airport modernization, and agricultural productivity should contribute to increased growth prospects over the medium term. Fewer losses and damages post-disaster, and a more climate- and disaster-resilient economy over the long term are also seen as growth-enhancing. Success in transitioning to a more climate-resilient economy and will depend on necessary domestic fiscal consolidation as well as donor support. Inflationary pressures are expected to remain low and stable, and external imbalances, remain well-managed by the Eastern Caribbean Central Bank. Considering that macro-economic instability, natural disasters, and inflation are considered to be key drivers of poverty in Dominica, increased growth, reduced post-disaster losses, and low inflation are all expected to contribute to a reduction in poverty rates in the medium term. There is an urgent need for improved poverty data.

There continue to be risks emanating from the COVID-19 pandemic and from potential natural disasters. Risks also include public financing uncertainties, possible financial sector instability, the loss of physical capital, rising public debt vulnerabilities, and transitory increases in poverty. A struggling economy will exert further strain on a very difficult fiscal position and perhaps aggravate financial instability from previously weakened bank balance sheets post-hurricane. These pressures will occur in an environment where transition to a fully climate-resilient economy requires additional efforts to strengthen fiscal consolidation.

Post-pandemic, the government's challenge will be to shift focus from the current emphasis on recovery and reconstruction to building ex-ante resilience based on fiscal buffers, climate resilient investment, and expanded insurance protection, both public and private. Managing these risks will be challenging given capacity constraints.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices[a]	2.3	3.6	-10.0	1.0	3.0	2.5
Real GDP growth, at constant factor prices[a]	-4.4	5.5	-10.0	1.0	3.0	2.5
Agriculture	-27.4	14.9	6.5	2.5	1.1	-4.2
Industry	33.1	3.7	-16.8	2.9	1.7	3.3
Services	-7.6	4.7	-10.5	0.3	3.6	3.4
Inflation (Consumer Price Index)	1.0	1.5	-0.3	1.7	1.3	1.6
Current Account Balance (% of GDP)	-43.5	-27.9	-30.4	-24.8	-20.1	-13.5
Fiscal Balance (% of GDP)[b]	-19.3	-9.8	-10.2	-5.0	-3.7	-1.5
Debt (% of GDP)[b]	76.9	78.8	88.1	95.6	98.3	97.7
Primary Balance (% of GDP)[b]	-17.2	-8.7	-7.9	-3.6	-2.2	0.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

(a) Growth projections for 2021-23 remain sensitive to uncertainties surrounding the timing of the vaccine roll-out and the recovery in tourism.
(b) Fiscal balances are reported in fiscal years (July 1st -June 30th).

DOMINICAN REPUBLIC

Table 1	2020
Population, million	10.4
GDP, current US$ billion	79.4
GDP per capita, current US$	7598.1
International poverty rate ($1.9)[a]	0.6
Lower middle-income poverty rate ($3.2)[a]	2.7
Upper middle-income poverty rate ($5.5)[a]	12.4
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	112.2
Life expectancy at birth, years[b]	73.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) Most recent WDI value (2018).

Following an economic contraction of 6.7 percent in 2020, the economy is starting to recover. While GDP growth is projected to reach 5.5 percent in 2021, a 2.9 percent output gap remains, projected to close in 2023/24. Despite an increase in social expenditures to mitigate the impact of the pandemic, poverty increased by an estimated 2.4 percentage points to 23.4 percent in 2020. The implementation of recovery policies offers an opportunity to address long-standing structural challenges such as formal sector job creation.

Key conditions and challenges

Sustained, long-term growth reduced poverty levels but created limited formal sector employment opportunities. Growth averaged 4.9 percent during the 20 years leading up to 2019, while poverty levels dropped steadily since 2005 to reach 21 percent in 2019. Labor reallocation from inefficient to more efficient sectors contributed little to productivity growth. More than half of the workforce is employed in the informal sector.

Prior to the start of the pandemic, the country's macroeconomic developments were broadly sustainable. Banking supervision was strengthened following the 2003 financial crisis and an inflation targeting regime was gradually adopted. During 2015-20, the current-account deficit was less than 2 percent of GDP and fully financed by foreign direct investment. Leading up to the COVID-19 pandemic, the share of public debt and interest payments in GDP increased steadily but remained sustainable. The country's fiscal revenues are among the lowest in the region, and fiscal risks increased as government contingent liabilities of SOEs and PPPs reached 1.5 percent of GDP in 2020.

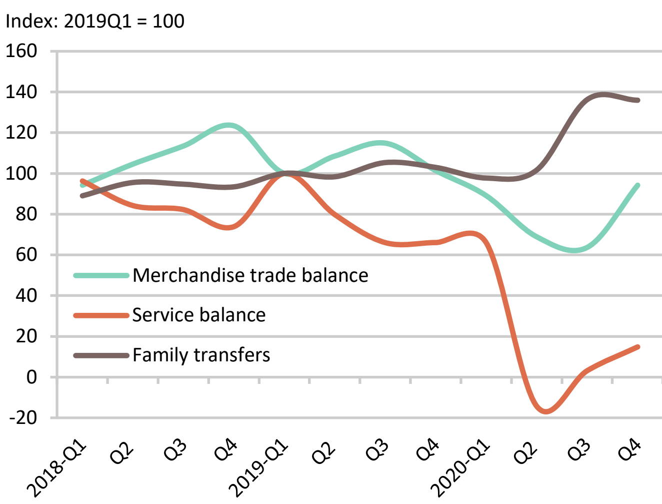
COVID-19 has a major but potentially transitory impact on economic growth and poverty reduction. The pandemic triggered a 6.7 percent contraction of GDP in 2020. Despite a fall in tourism receipts, the current-account deficit deteriorated only modestly following higher gold exports and remittances as well as lower imports. The poverty rate increased by 2.4 percentage points to 23.4 percent, which represents about 250,000 new poor, affecting women and urban population disproportionally. The East region experienced the highest poverty impact given its heavy reliance on tourism. According to Government statistics, poverty would have reached 29 percent in the absence of an expansion of social protection programs. A fiscal impulse, combined a monetary expansion, boosted demand and allowed for a rapid recovery.

Recent developments

Prospects for economic recovery have strengthened, driven by domestic and foreign demand. Year-on-year growth improved from -28.9 percent in April 2020 to -1 percent in December 2020. Foreign arrivals recovered from close to zero in 2020Q2 to almost 40 percent of December 2019 levels at year end, but decelerated again in January 2021, and remittances increased by 30 percent year-on-year in the second half of 2020. Merchandise exports were during 2020H2 just 4 percent below the 2019H2 levels. The 2020Q4 US dollar current account balance was unchanged year-on-year as lower services exports were fully offset (figure 1). As the economy recovered, the fiscal and monetary impulse tapered off during 2020H2.

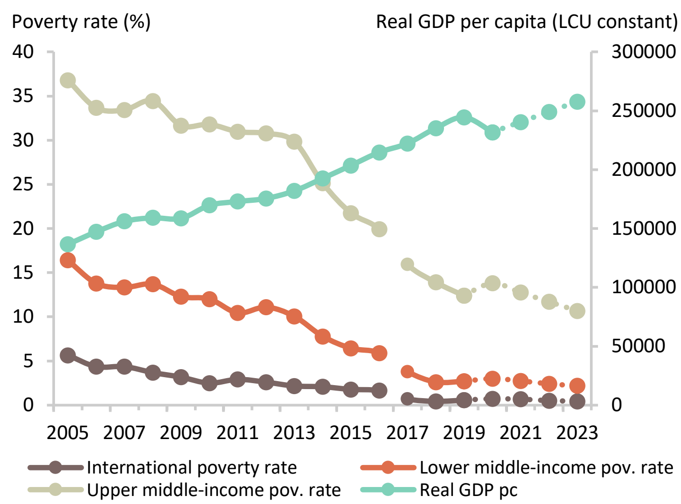
Monetary and financial markets have stabilized, although inflation picked up in

FIGURE 1 Dominican Republic / External account balance, selected items, 2019Q1=100



Source: Central Bank of the Dominican Republic.

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



Source: World Bank. Notes: see Table 2.

late-2020. Following rapid growth during March–August 2020, credit to the private sector stabilized, despite a reduction in the policy rate from 3.5 to 3.0 percent in August. Following an 8 percent currency depreciation to US dollar in 2020Q2, the central bank announced foreign exchange interventions worth US$3.5 billion in July 2020 and the exchange rate stabilized. Even so, gross international reserves increased to US$12.4 billion after a successful bond sale of US$2.5 billion in January 2021. At end-February 2021, inflation reached 7.1 percent, outside the central bank's target of 3-5 percent, and the core inflation rate is estimated at 5.4 percent. Food prices increased by 9.0 percent, year-on-year which especially affected the poor.

However, employment remains below the pre-crisis level, and there was an increase in informal employment in 2020Q3. While the labor participation rate recovered by 3 percentage points to 59.7 percent in 2020Q3, it remains more than 5 percentage points below the pre-crisis level. In 2020Q3, formal-sector jobs continued to decline while informal jobs were recovering. Sales by smaller firms—mostly in the retail sector—are recovering faster than in larger firms. The deterioration of labor markets reduced household income, increasing poverty and vulnerability, affecting women and urban population disproportionally. Continued social programs through April 2021 will limit the impact on poverty though.

Outlook

Economic growth is projected to recover to 5.5 percent in 2021, before transitioning to a more modest but sustainable level in the medium term. Merchandise exports are projected to continue growing, responding to U.S. demand and near-shoring of production. In 2022-23, consumption is projected to pick up, and the output gap is to close in 2023/24. The strength of the economy is projected to reduce poverty defined as living under the US$5.5/day (PPP 2011) by at least 1 percentage point in 2021 (Table 2), allowing the authorities to phase out COVID-19 social protection payments. Rapid growth in 2021 will stabilize the debt-to-GDP ratio. The exchange rate strengthened by 0.4 percent in January–February but inflation puts a floor on future monetary stimulus.

Policy buffers are adequate to mitigate a resurgence in COVID-19, turbulence in international financial markets, or a natural disaster. International reserves cover 6.9 months of projected 2021 imports GNFS, and the country continues to have access to international bond markets. Accumulated reserves, combined with the inflation targeting regime and control over fiscal spending, provide policy options to address macroeconomic shocks. Still, balancing domestic and foreign demand remains a challenge and government bonds are being used to finance a countercyclical fiscal stance. These issuances are also part of a medium-term debt strategy aiming at building a smooth yield curve and benchmarks to facilitate private sector access once the economy start to recover.

Focusing fiscal and regulatory policies on increasing competition and creating formal-sector jobs remains a medium-term challenge. The recovery from the COVID-19 crisis offers an opportunity to reform tax and regulatory policies to level the playing field between large and small companies, increase investment and consumption, and address environmental challenges. The authorities' commitment to greater transparency and predictability in fiscal policy through a "fiscal pact" that would aim to reduce the debt-to-GDP ratio may boost public confidence and reduce bond spreads.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	7.0	5.1	-6.7	5.5	4.8	4.8
Private Consumption	5.7	4.6	-1.6	5.3	5.1	4.8
Government Consumption	2.8	6.3	5.1	0.6	2.3	1.5
Gross Fixed Capital Investment	13.3	8.1	-11.9	8.4	7.1	6.5
Exports, Goods and Services	6.1	1.5	-25.2	8.0	7.0	6.8
Imports, Goods and Services	8.5	5.8	-8.5	8.0	8.1	7.0
Real GDP growth, at constant factor prices	6.1	4.8	-6.9	5.5	4.8	4.7
Agriculture	5.5	4.1	3.2	2.8	3.0	3.1
Industry	7.9	5.9	-7.3	5.4	4.5	4.3
Services	5.1	4.3	-8.6	6.2	5.4	5.4
Inflation (Consumer Price Index)	3.6	1.8	3.8	4.9	4.2	3.6
Current Account Balance (% of GDP)	-1.4	-1.4	-1.8	-2.1	-2.8	-3.0
Net Foreign Direct Investment (% of GDP)	3.0	3.4	3.2	3.3	3.3	3.4
Fiscal Balance (% of GDP)[a]	-2.6	-2.5	-7.7	-4.6	-2.6	-2.1
Debt (% of GDP)[a]	37.6	40.4	56.7	56.7	54.5	52.2
Primary Balance (% of GDP)[a]	0.0	0.3	-4.1	-1.3	0.7	1.0
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.4	0.6	0.7	0.7	0.5	0.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	2.6	2.7	3.0	2.7	2.4	2.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	13.9	12.4	13.8	12.8	11.7	10.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Fiscal indicators are shown for the non-financial public sector (i.e. excluding central bank's quasi-fiscal balances and debt).

(b) Calculations based on SEDLAC harmonization, using 2019-ECNFT-Q03.Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.

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

ECUADOR

Table 1	2020
Population, million	17.6
GDP, current US$ billion	102.6
GDP per capita, current US$	5812.8
International poverty rate ($1.9)[a]	3.6
Lower middle-income poverty rate ($3.2)[a]	9.8
Upper middle-income poverty rate ($5.5)[a]	25.4
Gini index[a]	45.7
School enrollment, primary (% gross)[b]	103.3
Life expectancy at birth, years[b]	76.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) Most recent WDI value (2018).

After a pandemic-driven recession, the economy is expected to start a tame recovery in 2021 on the back of eased mobility restrictions. With no macroeconomic buffers and limited access to external financing, the new government is not expected to deploy a stimulus package to underpin the recovery. Therefore, to maintain confidence, set a solid ground for recovery, and stabilize public debt ratios, additional structural reforms will be needed, including improving fiscal policy efficiency and progressivity, and catalyzing private investment.

Key conditions and challenges

After the commodity boom, Ecuador had to start rebalancing its economy, to cement confidence in dollarization and pave the way for sustained and equitable growth. With a fully dollarized economy and no macroeconomic buffers, the bulk of the adjustment fell on the fiscal front. This process was eventually supported by a medium-term IMF program designed to boost competitiveness and job creation, secure fiscal sustainability, strengthen the institutional foundations of dollarization, protect the poor and vulnerable, and improve transparency.

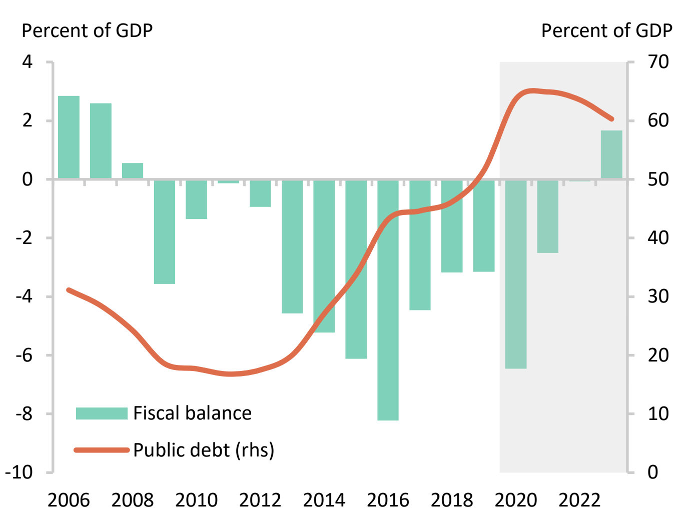
However, with limited policy room, Ecuador struggled to deal with the pandemic, which pushed the economy into a deep recession and increased poverty by an estimated 1.4 million. The crisis also deepened existing inequality of opportunities by curtaining access to education and reducing job opportunities for women, youth, low-skill workers, and migrants. In this context, Ecuador renegotiated debt with international bondholders and China. It also set a new medium-term program with the IMF to protect lives and livelihoods, expand the coverage of social assistance, ensure fiscal sustainability, and strengthen domestic institutions.

The ongoing presidential election cycle creates an opportunity to reevaluate recovery priorities and set Ecuador onto a green, resilient, and inclusive development path. With limited policy room to deploy a stimulus package, the recovery requires accelerated vaccine rollout and sustained confidence in macroeconomic management. The new government also needs to prioritize policies to tackle long-lasting structural challenges. After many years of capital expenditure compression, fiscal sustainability requires reforms to mobilize fiscal revenues and rationalize current expenditure. Improving expenditure quality would also help create budgetary room to support vulnerable people, continue improving poor people's access to quality services and, consequently, recover pre-COVID-19 access to opportunities. Finally, to prevent fiscal consolidation from depressing long-term growth, Ecuador also needs to foster private investment to promote employment, diversity, and productivity gains.

Recent developments

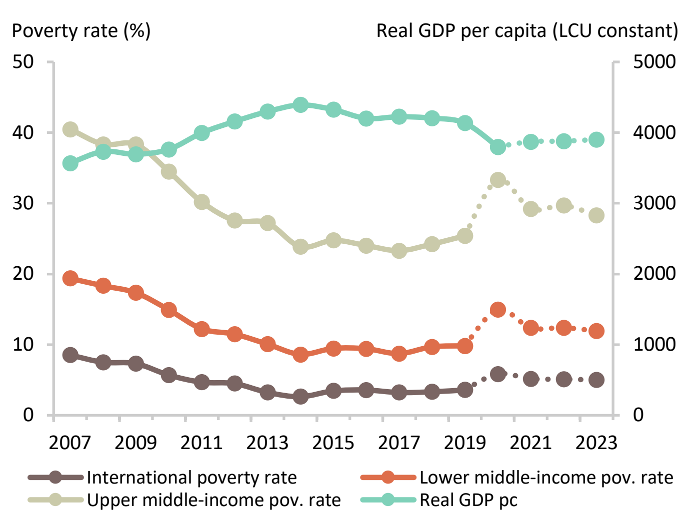
The economy shrank by 6.8 percent in 2020 as the government had limited policy room to cushion the effect of lockdown measures and mounting uncertainty. Additionally, oil production was disrupted in April and May after two landslides damaged the main crude pipelines. Thanks to eased mobility restrictions, most sectors showed stronger than expected recovery by the end of the year. Despite recent improvements, unemployment and underemployment remained well above pre-pandemic levels by the end of 2020, particularly among women, youth, and low-skilled workers.

FIGURE 1 Ecuador / Fiscal balance and public debt



Sources: Central Bank of Ecuador and staff's estimates.

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



Sources: World Bank. Notes: see Table 2.

Additionally, economic contraction eroded self-employed earnings, mainly in retail, tourism, and restaurants.

Lower hydrocarbon and tax revenues, combined with emergency expenditures, widened the fiscal deficit. In the absence of fiscal buffers, this deficit forced the authorities to cut non-emergency expenditure and renegotiate debt with international bondholders and China. Financing from multilateral creditors contributed to meeting financing needs and reduced arrears by the end of the year.

Despite low oil exports and remittances, the current account balance turned into a sizable surplus owing to falling imports and growing non-oil exports, including nascent mining exports. The current account also benefited from low factor payment abroad, including lower interest payments after the debt restructuring. With significant financing to the public sector, the current account surplus increased international reserves to their highest levels since the economy was dollarized in 2000.

The current account surplus and external financing to the public sector translated into higher deposits that contributed to expanding domestic credit, partially cushioning the pandemic's effect.

Poverty increased from 25.4 to an estimated 33.3 percent between 2019 and 2020 as the pandemic-driven recession eroded households' labor earnings. Although the government tried to support a larger number of households through existing and new social protection programs, this effort only partially offset the recession effects.

Outlook

The economy is expected to start recovering in 2021 due to greater mobility and oil output recovery. However, the recovery could be dampened by a slow vaccination rollout, the lack of policy room for a fiscal stimulus, and uncertainty about the next government's development strategy. Moreover, the fragmentation of the recently elected National Assembly could obstruct some reforms.

The fiscal deficit is projected to drop to 2.5 percent of GDP in 2021 on the back of recovering tax and hydrocarbon revenues and lower interest payments. After that, with limited access to international capital markets, the new government will likely need to continue fiscal consolidation until reaching a surplus by the end of the projection period, reducing the public debt from a peak of 66 percent in 2021 to 61 percent in 2023. Failing to do so could force the government to tap alternative financing sources with the risk of adverse effects on the economy, such as accumulation of domestic arrears, Central Bank financing, or costly external financing.

Although exports will be favored by recovering external demand and higher oil prices, recovering imports will gradually reduce the current account surpluses over the projection period. However, with low foreign investment and modest external financing to the public sector, the current account surpluses will stabilize the international reserves.

Poverty is expected to decrease to 28.3 percent in 2023 as the slow recovery will reduce unemployment and increase self-employed earnings. However, poverty and inequality reduction will be constrained by the pandemic's long-term effects on businesses and people, such as decapitalization of small firms, and loss in human capital as consequence of increased in food insecurity and limited access to distance learning. Thus, the recovery is likely to be slow and social exclusion is likely to increase.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.3	0.0	-6.8	3.4	1.4	1.8
Private Consumption	2.1	0.3	-5.9	3.5	1.2	1.7
Government Consumption	3.5	-2.0	-6.7	2.4	-0.3	0.5
Gross Fixed Capital Investment	2.0	-3.3	-8.5	11.1	2.0	1.5
Exports, Goods and Services	1.2	3.6	-4.4	1.9	2.4	2.6
Imports, Goods and Services	4.4	0.3	-9.4	8.1	1.6	1.4
Real GDP growth, at constant factor prices	1.2	0.3	-6.8	3.4	1.4	1.8
Agriculture	0.1	1.6	1.0	2.8	2.8	2.8
Industry	-1.0	0.2	-7.3	3.5	1.3	1.4
Services	2.7	0.1	-7.8	3.4	1.3	1.9
Inflation (Consumer Price Index)	-0.2	0.3	-0.3	0.0	1.3	1.3
Current Account Balance (% of GDP)	-1.2	-0.1	2.8	2.0	1.6	1.4
Net Foreign Direct Investment (% of GDP)	1.3	0.9	1.2	0.6	0.8	0.8
Fiscal Balance (% of GDP)	-3.2	-3.1	-6.5	-2.5	0.1	1.6
Debt (% of GDP)	46.1	51.5	64.9	65.8	64.2	61.0
Primary Balance (% of GDP)	-0.7	-0.5	-3.6	-0.3	2.2	3.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.3	3.6	5.8	5.1	5.1	5.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	9.7	9.8	15.0	12.4	12.4	11.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	24.2	25.4	33.3	29.2	29.7	28.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SEDLAC harmonization, using 2019-ENEMDU.Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.

(b) Projection using microsimulation.

EL SALVADOR

Table 1	2020
Population, million	6.5
GDP, current US$ billion	25.0
GDP per capita, current US$	3854.5
International poverty rate ($1.9)[a]	1.3
Lower middle-income poverty rate ($3.2)[a]	5.7
Upper middle-income poverty rate ($5.5)[a]	22.3
Gini index[a]	38.8
School enrollment, primary (% gross)[b]	94.8
Life expectancy at birth, years[b]	73.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) Most recent WDI value (2018).

El Salvador succeeded in containing the worst effects of the COVID-19 crisis, but at high macroeconomic and fiscal cost, due to fiscal vulnerabilities accrued before the crisis and the generosity of the government fiscal response, which was mostly financed by debt. A large fiscal consolidation is required and the challenge will be to manage it, while also fostering economic recovery and mitigating the continued social and poverty impact of COVID-19 pandemic.

Key conditions and challenges

El Salvador grew at a slow but steady pace – 2.4 percent – from 2015 to 2019. Declining productivity, which has contracted by 0.6 percent a year on average since 2000, was the main reason behind low growth. Poverty and inequality have been declining despite the slow growth. Poverty ($5.50 a day) declined from 32.6 percent in 2015 to 22.3 percent in 2019. Labor income, particularly labor earning, has been the main driver behind poverty reduction. Inequality measured by the Gini Index reached 0.388 percent in 2019, the lowest level in Latin America and the Caribbean (LAC). Moreover, the country has the highest rate of vulnerability in LAC with 48.2 percent of households vulnerable to poverty (daily income between 5.5 USD and 13 USD) in 2019.

The country succeeded in containing the impact of the first waves of the COVID-19 pandemic, but cases accelerated towards the end of 2020. Vaccination is at an early stage but should be deployed more widely in mid-2021. The pandemic has increased poverty by an estimated 4.5 percentage points and shrank GDP in 2020. Unlike other crises, remittances increased by 4.8 percent in 2020, boosted by the reopening of the US economy, and government transfers to Salvadorean households in US.

El Salvador entered the pandemic with a fragile fiscal situation – the largest debt (73.3 percent of GDP) and the third largest budget deficit (-3.0 percent of GDP) in Central America. The fiscal response to the COVID-19 crisis was the most generous in LAC (15.5 percent of GDP) and financed mostly by debt, but not necessarily well targeted, and therefore, with relatively limited poverty impact.

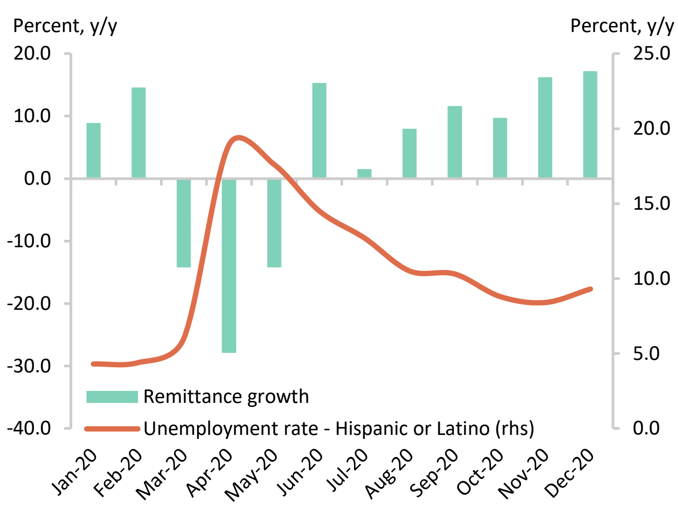
The greatest medium-term challenges El Salvador face are to meet its gross financing needs, put its finances back on a fiscally sustainable path; and mitigate social and poverty impacts of the COVID-19 pandemic in a tight fiscal environment.

Recent developments

The COVID-19 crisis reduced GDP by an estimated 8.6 percent in 2020 with construction and services taking the biggest hit. Reduced economic activity, lower commodity prices and resilient remittances lowered the current account deficit from 2.1 percent of GDP in 2019 to 1.4 in 2020.

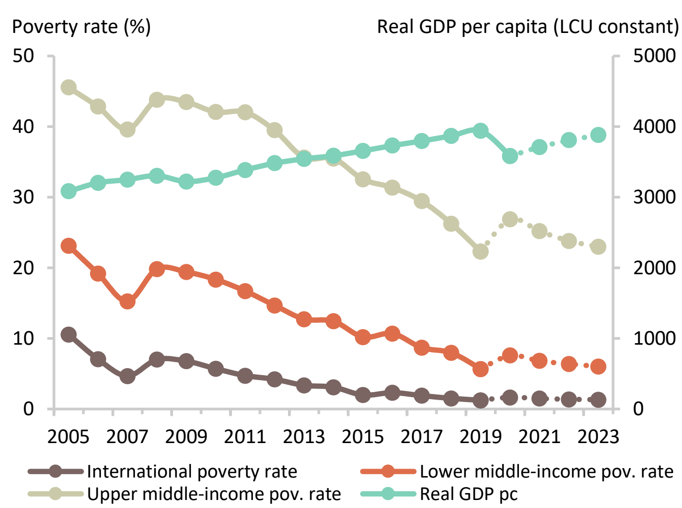
The approved 2021 budget failed to shift fiscal policy in the right direction, as the approved overall deficit is around five percent of GDP. It includes wage increases for teachers, police and health workers, and a 46 percent increase in the minimum pension, fueling pension system imbalances. In addition, it is unclear how the arrears built in 2020 will be cleared, including transfers to municipalities and VAT refunds. Once the new parliament is seated, the government is likely to propose a budget amendment, aiming at reducing refinancing risks and start a fiscal consolidation process.

FIGURE 1 El Salvador / Growth in remittances to El Salvador and hispanic unemployment rate in the United States



Sources: Banco Central de Reserva de El Salvador, Bureau of Labor Statistics.

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



Sources: World Bank. Notes: see Table 2.

The COVID-19 crisis has brought substantial employment losses in El Salvador, but some recovery has been observed recently. About 16 percent of adults reported losing their employment since the beginning of the crisis in May 2020, compared to only 11.3 percent in October 2020. Job losses are concentrated in the service sector and among low-skilled individuals. Job recovery has been uneven, with men regaining employment faster than women. Remittances are not likely to compensate for income losses at the bottom, as only eight percent of the poor received remittances in 2018.

The COVID-19 crisis is estimated to have pushed between 0.25 and 0.5 million additional people into poverty in 2020. Simulations show that poverty (using the $5.5 poverty line) is expected to increase up to 4.5 percentage points, but reduced to 2.8 percentage points after government mitigation measures are considered. The most affected are expected to be informal and self-employed workers, mostly concentrated in services. Inequality is expected to increase (from a 0.388 Gini in 2019 to a 0.39 in 2020 without government measures).

Outlook

El Salvador's economy is expected to grow around four percent in 2021, helped by a base effect, vaccination campaign, and fewer mobility restrictions. The rebound in the US economy, together with a new round of fiscal stimulus in the US, is expected to support an increase in Salvadoran exports and remittances, which in turn is projected to underpin an increase in private consumption. Growth will then converge to its long-term rate of around 2.5 percent, while the current account deficit will increase, reflecting higher growth through higher imports and higher commodity prices. Inflation will remain controlled around 1 percent a year. Given the growth rebound, poverty in 2021 is expected to fall, but at a slower rate.

The fiscal deficit is expected to come down in 2021 as extraordinary expenditures triggered by the COVID-19 crisis will be phased out. However, without a fiscal policy correction, spending levels will steadily increase driven by automatic wage increases (escalafón) and higher debt service, while revenues are expected to remain stable around 20 percent of GDP. In this scenario, the fiscal deficit and debt ratio are expected to increase again starting in 2022, threatening fiscal sustainability.

The result of the recent legislative and municipal elections, in which government-aligned parties gained seats, might pave the way for fiscal consolidation and growth reforms and an eventual IMF program to anchor them. The main medium-term risks are a faltering commitment to fiscal consolidation, securing enough resources from markets and multilateral organizations to meet gross financing needs, and inability to stage economic recovery and poverty reduction.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.4	2.4	-8.6	4.1	3.1	2.4
Private Consumption	3.1	2.6	-8.0	6.2	2.8	2.7
Government Consumption	0.2	-0.2	6.0	1.8	2.4	3.7
Gross Fixed Capital Investment	6.7	9.6	-19.2	2.4	9.4	2.1
Exports, Goods and Services	2.2	6.5	-18.3	6.6	4.2	3.1
Imports, Goods and Services	5.5	3.8	-10.2	7.8	5.0	3.4
Real GDP growth, at constant factor prices	2.3	2.6	-8.6	4.1	3.1	2.4
Agriculture	-3.3	3.0	-2.0	3.0	2.1	2.1
Industry	2.9	4.0	-9.0	4.0	3.2	2.3
Services	2.6	2.0	-9.1	4.3	3.2	2.5
Inflation (Consumer Price Index)	1.1	0.1	0.1	0.6	1.1	1.1
Current Account Balance (% of GDP)	-4.7	-2.1	-1.4	-2.1	-2.7	-3.1
Net Foreign Direct Investment (% of GDP)	3.2	2.4	0.6	2.2	2.4	2.6
Fiscal Balance (% of GDP)[a]	-2.6	-3.0	-9.1	-5.7	-6.3	-7.4
Debt (% of GDP)[b]	72.7	73.3	88.3	89.1	91.1	94.8
Primary Balance (% of GDP)[a]	1.0	0.7	-4.8	-1.7	-1.8	-2.3
International poverty rate ($1.9 in 2011 PPP)[c,d]	1.5	1.3	1.7	1.5	1.4	1.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	8.0	5.7	7.6	6.8	6.4	6.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	26.3	22.3	26.9	25.2	23.8	23.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Fiscal and Primary Balance correspond to the non-financial public sector.
(b) Debt is total public debt.
(c) Calculations based on SEDLAC harmonization, using 2019-EHPM .Actual data: 2019. Nowcast: 2019-2020. Forecast are from 2021to 2023.
(d) Projection using neutral distribution (2019) with pass-through = 1 based on GDP per capita in constant LCU.

GRENADA

Table 1	2020
Population, million	0.1
GDP, current US$ billion	1.1
GDP per capita, current US$	9513.7
School enrollment, primary (% gross)[a]	106.9
Life expectancy at birth, years[a]	72.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

The COVID-19 pandemic hit Grenada hard both socially and economically. The halt in tourism led to a massive economic contraction and a surge in public debt. Despite the government's support measures to the most affected, the poverty rate is expected to have increased significantly. With tourism resuming gradually over the medium term, the economy is expected to recover. However, risks to the outlook remain high depending on the pandemic's evolution and international travel restrictions.

Key conditions and challenges

Preceding the pandemic, a sustained demand for tourism and strong economic reforms in Grenada drove average real output growth of 4.3 percent annually between 2013 and 2019, higher than the average of 2.8 percent for countries in the Organization of Eastern Caribbean States. Prudent fiscal management anchored by the Fiscal Responsibility Law (FRL) and strategic debt restructuring resulted in a decline in the public debt stock from 108.1 percent of GDP to 59.4 percent in the same period.

Even though the virus' spread was broadly contained in Grenada by February 2021, the pandemic hit Grenada hard economically and socially. Tourism in Grenada fell sharply in 2020, following the almost complete halt of international travel. As a result, GDP is expected to contract for the first time in eight years, and unemployment will rise with a decreasing labor force participation rate. Unemployment among the youth is twice as high relative to the overall working-age population. With a high share of the young population depending on the tourism sector, this segment of the population will likely receive a hard hit. Loss of revenues and increases in public spending to mitigate the crisis' negative impacts have reversed the debt trajectory that had been declining pre-pandemic.

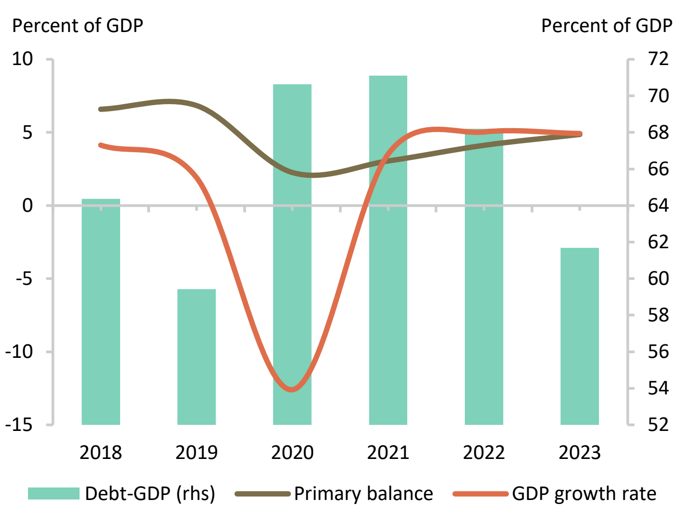
Risks remain substantial, associated mostly with the pandemic's uncertainty and severity, but also with challenges from institutional capacity constraints and Grenada's vulnerability to extreme weather events. The exposure to risks is especially high among the poorest and most vulnerable. Unemployment remained above 15 percent before the pandemic despite years of positive growth, restraining the potential for poverty reduction. Targeted short-term fiscal measures are necessary to contain temporary poverty increases that could otherwise result in long-term economic and social consequences. It is equally crucial for the government to return to the FRL targets once the pandemic abates and continue structural reforms to build resilience over the long term.

Recent developments

Real GDP contracted by an estimated 12.6 percent in 2020, almost doubling the recession following the Global Financial Crisis. Tourism, which accounts for about 40.5 percent of GDP, is expected to shrink by around 65 percent and drive the contraction in economic activities. The private education sector, which contributed to about 20 percent of GDP, is relatively more resilient. However, online learning of international students (more than 7000 in total) outside of the island has led to further domestic demand losses.

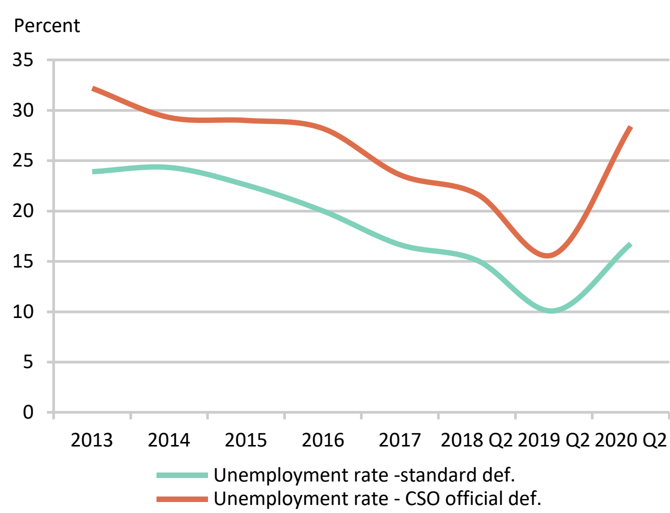
The primary surplus is estimated to have narrowed to 2.3 percent of GDP in 2020, compared with an average of 6.1 percent between 2016-19. Total expenditure increased by 4.5 percent of GDP largely from COVID-related expenditures, including

FIGURE 1 Grenada / The evolution of main macro variables



Sources: IMF; World Bank staff estimates; ECCB.

FIGURE 2 Grenada / Unemployment rate



Sources: Labor Force Survey 2013-2020, Central Statistical Office.

support to households given the fall in labor incomes. Lower tax collections on goods & services and international trade resulted in a decline in tax revenues by around 18 percent year-on-year. General government debt rose by 10 percent of GDP to 70.6 percent in 2020.

The current account deficit is estimated to have risen to 25.2 percent of GDP in 2020, from 15.9 percent in 2019. This reflected the sharp decline in tourism receipts and commodity exports due to interruptions in international transportation. Nevertheless, the slowdown in domestic economic activities also dampened the demand for imports, mitigating the growing external imbalance. After an initial sharp decline, remittances are expected to have rebounded in the second half of the year. Anecdotal information indicated that FDI remained solid, despite the temporary interruption of construction projects in the first half of 2020. The rest of the external financing needs were financed mostly by international development partners.

Outlook

In 2021, GDP is projected to recover modestly at 3.5 percent, given the assumed gradual resumption of international travel in 2021, the expected return of international students, and a rebound in construction projects. However, uncertainty is high depending on travel restrictions and the distribution of vaccines globally.

With the expected return to the FRL in 2022, the debt level is projected to decline gradually to around 62 percent of GDP by 2023, with a primary surplus averaging at 4 percent of GDP over the medium term. However, the gross financing needs are expected to remain high in 2021. Given the severe impacts of the pandemic, the government's support measures are likely to continue in 2021. The ongoing discussions surrounding the deferral of the agreed 4 percent public wage increase for 2021 may lead to additional savings. Public debt sustainability is threatened by the one-off increase in debt levels following the repurchase of the electricity company Grenlec at the end-2020.

While the pandemic's direct health impact has been contained by February 2021, the shock to labor markets remains significant and the poverty rate is expected to increase. With the income and payroll support program focusing on the formal sector, the policy may have limited impacts on the poorest groups. Individuals at the bottom of the distribution are expected to be significantly more affected by the crises, given their higher exposure to the shock and the lack of alternative income sources and limited access to insurance. The severity of the temporary shock may lead to long-term detrimental impacts on the poor households. Without adequate savings or insurance, poor households may be forced to make long-term decisions that are detrimental to their future welfare, such as selling productive assets, which will be hard to acquire or rebuild in the short term.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices[a]	4.1	1.9	-12.6	3.5	5.0	4.9
Real GDP growth, at constant factor prices[a]	3.5	2.4	-12.1	3.5	5.0	4.9
Agriculture	3.0	-4.8	-11.7	15.3	5.1	5.1
Industry	9.9	1.8	-14.2	10.9	4.0	4.0
Services	2.2	3.2	-11.6	0.9	5.3	5.2
Inflation (Consumer Price Index)	0.8	0.6	-0.8	1.2	1.7	1.5
Current Account Balance (% of GDP)	-15.9	-15.9	-25.2	-23.6	-20.9	-13.9
Fiscal Balance (% of GDP)[b]	4.6	5.0	0.3	1.0	2.1	3.1
Debt (% of GDP)	64.4	59.4	70.6	71.1	68.2	61.7
Primary Balance (% of GDP)[b]	6.6	6.8	2.3	3.1	4.1	4.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

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

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

GUATEMALA

Table 1	2020
Population, million	16.9
GDP, current US$ billion	77.7
GDP per capita, current US$	4606.2
International poverty rate ($1.9)[a]	8.8
Lower middle-income poverty rate ($3.2)[a]	24.4
Upper middle-income poverty rate ($5.5)[a]	49.1
Gini index[a]	48.3
School enrollment, primary (% gross)[b]	101.9
Life expectancy at birth, years[b]	74.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014), 2011 PPPs.
(b) Most recent WDI value (2018).

The COVID-19 pandemic interrupted a prolonged period of robust growth driven by domestic demand. However, resilience in remittances and exports, and fiscal stimulus packages helped alleviate the impact of the pandemic. A vaccine rollout in the second half of 2021 will support the recovery, which could be partially offset by an expected fiscal consolidation. Poverty is expected to decline incrementally amid a gradual scaling back of COVID-related social programs.

Key conditions and challenges

Guatemala has experienced a prolonged period of macroeconomic stability and robust growth, with real GDP growth averaging 3.5 percent a year between 2010 and 2019. The latest official poverty estimates correspond to 2014, but projections suggest that poverty levels continued declining through 2020. Prudent fiscal management and credible monetary policy propelled an expansion driven by private consumption and investment. However, very low revenue mobilization effort has contributed to weak investment in social programs leading to very low human capital development relative to the country's income level. Moreover, weak total factor productivity and reliance on factor accumulation has resulted in lower growth potential.

The COVID-19 pandemic and the resulting stringent containment measures had a significant economic impact and aggravated existing vulnerabilities. As the number of COVID-19 cases edged up in the initial months of 2021, the country faces potential sweeping lockdowns and more protracted travel restrictions, implying greater output losses. Developing a coherent vaccination plan will be key to securing a robust recovery. Moreover, too fast a pace of fiscal consolidation could slow growth over the medium term.

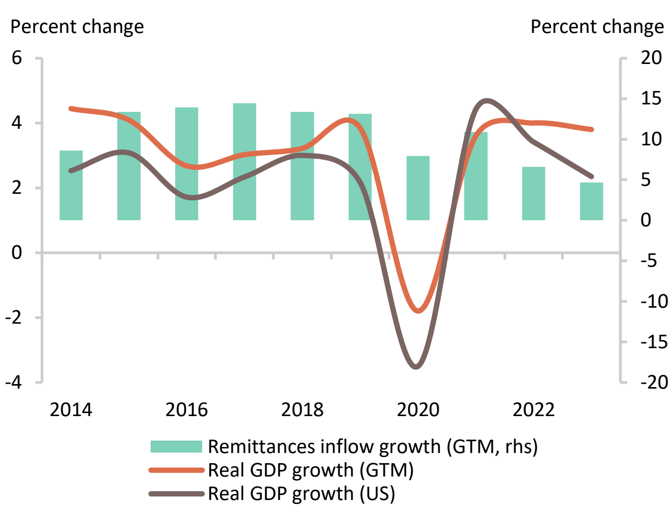
Political instability, fueled by protests over corruption, and a fragmented political landscape have constrained the implementation of urgently needed reforms in investment-friendly policies and social programs. Previous scandals and current elevated levels of corruption perception continue to strain the country's economic potential.

Recent developments

The COVID-19 pandemic and subsequent containment measures had a negative impact on economic activity in 2020. The administration's swift response to the crisis, including suspension of non-essential activities, mass gatherings, and domestic travel, have resulted in an estimated real GDP contraction of 1.8 percent in 2020 (which is milder than previously projected due to a more robust recovery in the fourth quarter). The industry and service sectors were most impacted by the closures. On the demand side, investment, private consumption, and services exports were most affected. The current account balance further improved to an estimated surplus of 4.9 percent of GDP in 2020 as remittance inflows rebounded quickly from a temporary dip and the trade deficit shrank.

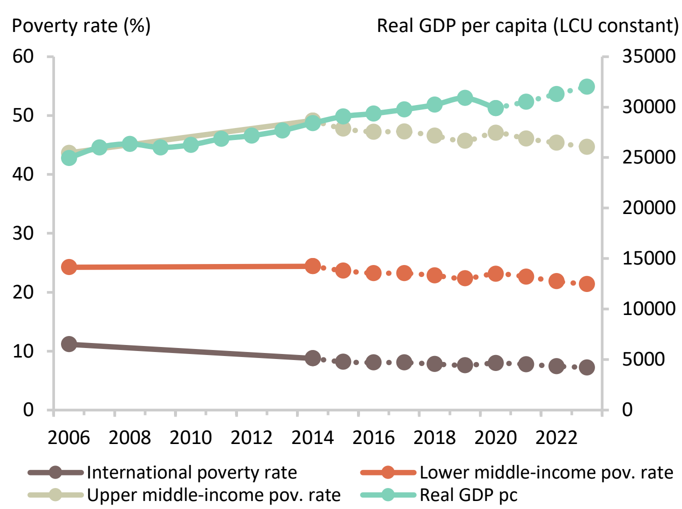
Congress passed three fiscal packages totaling around 3.4 percent of GDP in 2020. Increased social spending on cash transfers, school meals and food rations ameliorated the negative impacts of the economic crisis on vulnerable groups and hastened the recovery. Nevertheless, poverty rates are estimated to increase by 2 percentage points in 2020, representing about 350,000 more people living under the USD 5.5 PPP poverty line. Coupled with lower revenue

FIGURE 1 Guatemala / Real GDP growth in Guatemala, U.S and remittances growth



Sources: Banco de Guatemala, World Bank, Continuous Consensus Forecasts.

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



Source: World Bank. Notes: see Table 2.

collected amid weaker economic activity, the fiscal deficit increased to an estimated 4.9 percent of GDP in 2020. Consequently, debt levels have risen to an estimated 31.4 percent of GDP in 2020.

The Central Bank of Guatemala (CBG) responded promptly to ensure the stability of the quetzal and provided sufficient liquidity to the financial system. Uncertainty linked to the COVID-19 crisis caused excessive forex volatility prompting authorities to intervene in the market. To ensure greater liquidity availability, the CBG reduced the policy rate and allowed early redemption of time deposits, among other proactive policy measures. While inflation remained within the CBG's target of 4 +/- 1 percent at 3.2 percent in 2020, it picked up in 2020Q4 to 5.2 percent year-on-year, driven by food price increases.

Outlook

Growth is expected to rebound in 2021 to 3.6 percent. However, the pace of the rebound is restrained by heightened uncertainty over vaccine rollouts and rising COVID-19 cases. Private consumption and investment are expected to partially recover in 2021 and in earnest in 2022 as vaccinations become globally and domestically available. Manufacturing, construction, hotels and restaurants, financial services, and health are the sectors expected to contribute the most to the recovery. The economic fallout from Hurricanes Eta and Iota (losses estimated at 1.0 percent of GDP) will affect income and food security among smallholder farmers in rural Guatemala due to the impact on agricultural production. Nevertheless, despite the limited scale of new cash transfers to support families affected by the hurricanes, the proportion of poor households living below the international poverty line of US$5.5/day (2011 PPP) is projected to fall from 47 percent in 2020 to 46 percent in 2021, driven by the expected recovery and rebound in services. Ongoing creation of a social registry will allow better targeting and quicker scaling of social assistance in the future.

Despite systematically low revenue mobilization, the fiscal deficit is projected to decline to 3.5 percent of GDP in 2021 as the unwinding of temporary COVID-related fiscal programs leads to lower overall public spending. Nonetheless, capital spending is expected to be higher in 2021 due to hurricane-related reconstruction. Concerns over the debt burden will prompt additional fiscal consolidation efforts, leading the debt-to-GDP ratio to ease to 32.0 percent of GDP in 2023.

Risks to the forecast are tilted toward the downside. Growth could be stalled with the worsening of the political environment, failure to renegotiate a higher fiscal ceiling in 2021, a slower vaccine rollout, and natural disasters. However, earlier resumption of global travel from faster vaccine rollouts in advanced economies can provide a boost to growth.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.2	3.8	-1.8	3.6	4.0	3.8
Private Consumption	3.5	4.3	-2.5	5.5	4.5	4.2
Government Consumption	6.1	3.5	4.3	-1.0	0.8	1.6
Gross Fixed Capital Investment	4.6	7.2	-11.7	5.1	12.4	7.4
Exports, Goods and Services	-0.3	-0.2	-2.5	5.0	2.9	3.0
Imports, Goods and Services	3.9	5.6	-6.3	8.5	6.8	5.1
Real GDP growth, at constant factor prices	2.9	3.7	-1.8	3.6	4.0	3.8
Agriculture	2.4	2.3	2.5	2.1	2.5	2.7
Industry	1.6	3.8	-0.9	3.3	2.9	3.2
Services	3.4	3.9	-2.8	4.0	4.6	4.2
Inflation (Consumer Price Index)	3.8	3.7	3.2	4.1	3.5	3.7
Current Account Balance (% of GDP)	0.8	2.4	4.9	3.2	1.9	0.4
Fiscal Balance (% of GDP)	-1.9	-2.3	-4.9	-3.5	-2.1	-1.6
Debt (% of GDP)	26.2	26.6	31.4	32.9	32.6	32.0
Primary Balance (% of GDP)	-0.4	-0.6	-3.1	-1.6	-0.1	0.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	7.8	7.6	8.0	7.8	7.4	7.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	22.9	22.3	23.1	22.6	21.9	21.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	46.6	45.7	47.0	46.1	45.4	44.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SEDLAC harmonization, using 2014-ENCOVI.Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2014) with pass-through = 0.7 based on GDP per capita in constant LCU.

GUYANA

Table 1	2020
Population, million	0.8
GDP, current US$ billion	6.2
GDP per capita, current US$	7908.7
School enrollment, primary (% gross)[a]	97.8
Life expectancy at birth, years[a]	69.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2012); Life expectancy (2018).

Guyana grew at an extraordinary rate of 43.5 percent in 2020, having completed a year of oil production. The positive spillover effects were dampened by a deep contraction in the non-oil economy, triggered by measures to contain the COVID-19 pandemic. While oil production is boosting growth, significant risks related to the management of this new wealth remain. Guyana will be challenged to transform its burgeoning oil wealth into human capital, physical capital, and financial assets for broad-based welfare increases.

Key conditions and challenges

The transition of the Guyanese economy into a predominantly oil-producing country is underway. The production and export of oil is generating significant fiscal revenues, stimulating private sector investment and creating space for government investments in critical public goods. Maintaining a balance between the pace of resource inflows and the limited absorptive capacity requires prudent macroeconomic management to mitigate the impact of a potential resource curse. A transparent and efficient management framework for oil and gas revenues is crucial, given uncertainties regarding the implementation of the existing sovereign wealth fund (SWF).

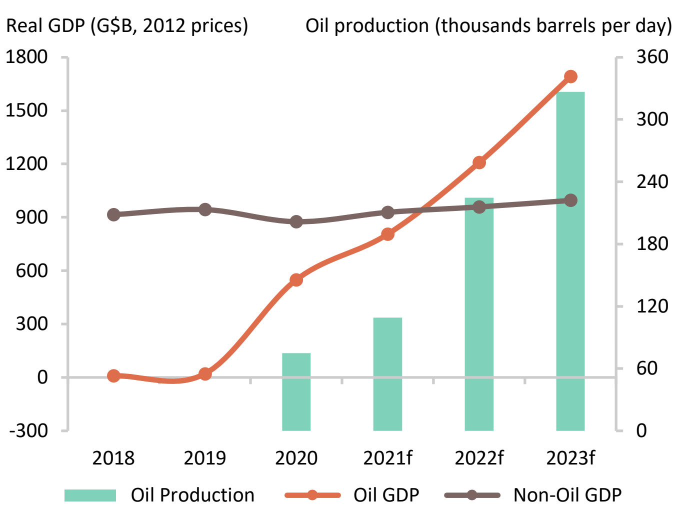
In a context characterized by ethnic and social polarization, Guyana's resource wealth stands in contrast to the welfare of the population. The limited information available suggest that poverty is high, given the country's income level, and inequality has risen. The 2017 Labor Force Survey (LFS) suggests that Guyana's poverty rate is among the highest in the region, at 43.4 percent in 2017, using the upper-middle income poverty line (US$5.5 a day 2011 PPP). Moreover, during the phase of sustained growth between 2006 and 2017, the income of the bottom 40 percent grew slower than the average, resulting in increased income inequality, with the Gini coefficient, rising from 0.46 to 0.48.

The COVID-19 pandemic has exacerbated challenges to tackle poverty effectively and has deepened inequity. Improving efficiency and effectiveness in public service delivery, especially services that enhance human capital, such as health, education, and digital connectivity, will be required for sustainable pro-poor growth including for the remote populations in Guyana's hinterland. Even as the non-oil economy starts an uncertain recovery, a more sophisticated and skilled workforce will be needed to maximize positive spillovers from the growing oil sector.

Recent developments

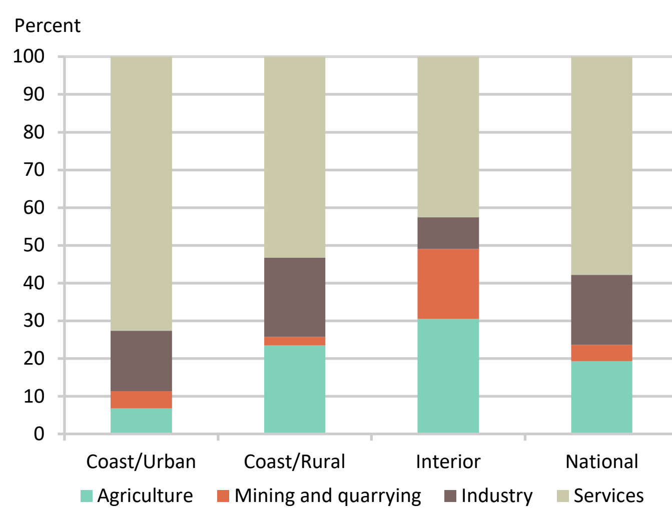
Real GDP in 2020 is estimated to have expanded by 43.5 percent driven primarily by developments in the oil sector, with production averaging 74,300 bbls/day.[1] The impact of the expansion of the oil sector was partly countered by a contraction of 7.3 percent in the non-oil economy. On account of the pandemic, disruptions in key services sectors likely impacted employment and raised poverty in the short term. Half of all employed workers in Guyana are engaged in the services sector, and this share rises to 70 percent in coastal urban areas. While systematic data on the pandemic's impact on households is not yet available, preliminary evidence suggests that movement restrictions adversely impacted livelihoods and inhibited access to markets. It also suggests that food prices

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



Sources: WBG staff estimates. Note: f=forecast.

FIGURE 2 **Guyana** / Employment by sector and region – Services decline to affect coastal urban workers disproportionately



Sources: WBG staff estimates based on Guyana Labor Force Survey 2017.

increased and some households having to reduce their caloric intake. Overall inflation, however, remained subdued in the context of waning demand.

A higher fiscal deficit of 9.4 percent of non -oil GDP is estimated for 2020, primarily due to increased spending related to the pandemic. Revenues were also lower, given the fallout in demand. Notably, the oil proceeds are held in the SWF and have not yet materialized as fiscal revenues. Public debt climbed to 47.4 percent of GDP driven by the higher deficit and the inclusion of overdrafts with the central bank, previously not included in public debt reporting.

The current account deficit (CAD) narrowed to 10.5 percent of GDP in 2020, as oil exports commenced. This was sufficient to offset increased payments for foreign services, including those supporting the oil sector. Remittances remained relatively steady, potentially helping to cushion the impact of the pandemic on poor households. Almost 30 percent of poor households receive remittances, representing an average of 42 percent of their income. The CAD was financed primarily by foreign direct investment inflows.

Outlook

Guyana is expected to remain one of the fastest growing economy in the world over the medium term, as new oil fields are developed and production capacity expands. Oil output is expected to quadruple by 2023, leading to a doubling of GDP. The oil and gas sector are also expected to boost private investment and drive the growth of services, which could contribute to poverty alleviation by increasing demand for labor in the construction, transportation, food service, and hospitality subsectors. However, downside risks remain if the pace of fiscal and investment influx goes beyond the economy's absorptive capacity, generating price instability and macroeconomic distortions. The COVID-19 pandemic continues to pose risks to the poor and vulnerable households as well as the government's fiscal balance. Significant uncertainty remains in terms of the path of the pandemic and vaccine rollout, and supportive policy actions are necessary until a firm recovery is underway. A weaker rebound in the non-oil economy can have detrimental social costs. The fiscal deficit is expected to narrow as the economy recovers and oil revenue starts being transferred from the SWF in 2022.

Guyana also faces increased vulnerability to oil-related shocks including volatilities in price and output. While recent fluctuations in global oil prices did not significantly disrupt production or investment in Guyana's oil sector, an unexpected oil price slump could diminish fiscal revenues and inhibit investment in new oil-fields. Guyana will also be challenged to address risks often faced by resource-dependent economies, such as the lack of diversification and inadequate institutions. Moreover, oil production entails environmental consequences that need to be considered carefully, and the sector may face additional risks in the medium term, as the world transitions toward a lower carbon dependence.

1/ Real GDP growth for 2020 is potentially overstated, on account of the base year (2012) used for the inclusion of the oil sector in GDP. The government is undertaking a rebasing exercise to better capture the value-added from the oil sector, which could result in significant downward revisions of oil GDP growth rates.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices[a]	4.4	5.4	43.5	20.9	26.0	23.0
Real non-oil GDP growth at constant factor prices[b]	3.6	3.1	-7.3	6.1	3.3	3.8
Agriculture	6.6	-0.5	4.1	5.6	4.0	4.5
Industry (non-oil)	1.4	2.4	-8.9	8.0	2.2	2.0
Services	3.2	6.1	-13.5	5.1	3.6	4.7
Inflation (Consumer Price Index)	1.6	2.1	0.9	1.6	2.4	2.5
Current Account Balance (% of GDP)[c]	-57.3	-55.6	-10.5	0.8	15.0	27.3
Fiscal Balance (% of GDP)[d]	-2.7	-2.8	-9.4	-8.6	-4.0	-2.9
Debt (% of GDP)	35.8	32.6	47.4	42.7	38.8	37.5
Primary Balance (% of GDP)[d]	-1.9	-2.0	-8.6	-7.9	-2.9	-1.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Total GDP at 2012 prices. (b) Non-oil GDP at 2012 prices. (c) BOP definition in current US$. (d) Share of non-oil GDP.
Note: Real GDP growth for 2020 is potentially overstated, on account of the base year (2012) used for the inclusion of the oil sector in GDP. The government is undertaking a rebasing exercise to better capture the value-added from the oil sector, which could result in significant downward revisions of oil GDP growth rates.

HAITI

Table 1	2020
Population, million	11.7
GDP, current US$ billion	13.5
GDP per capita, current US$ [a]	1149.5
International poverty rate ($1.9) [b]	24.5
Lower middle-income poverty rate ($3.2) [b]	50.3
Gini index [c]	41.1
Life expectancy at birth, years [c]	63.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Haiti rebased its GDP after thirty-three years, resulting in a 73.8 percent increase in GDP for the new base year 2012.
(b) Most recent value (2012), 2011 PPPs.
(c) Most recent WDI value (2018).

The COVID-19 pandemic and political turmoil took a toll on the Haitian economy, with GDP estimated to have contracted by 3.4 percent in the Haitian fiscal year (HFY) 2020. Disruption of essential health services and school closures have undermined human capital with potential long-term welfare effects. Economic recovery will require containment of the pandemic and, especially, political stability as well as transition towards a more diversified economy and greater resilience to natural hazard shocks.

Key conditions and challenges

Haiti's most critical challenge is solving its protracted political crisis. Also high on the reform agenda, however, are improving governance and the justice system, upgrading basic infrastructure to eliminate spatial frictions that impede movement of goods and disconnect rural communities from urban markets, and creating a more enabling business environment.

The export base is narrow, with textiles representing over 90 percent of total exports. In addition, Haiti's extreme vulnerability to natural hazard shocks has constrained its capacity to sustain growth.

Fiscal dominance has led to rapid monetary growth and high inflation. The continuous fiscal deficits have led to increasing debt/GDP ratios, and a weakened external position. Despite agreements each year between the monetary and fiscal authorities aimed at controlling spending and limiting the monetary financing of deficits, they are seldom met. The lack of a clear, articulated, and credible policy framework erodes confidence and impairs economic agents' ability to plan for the long term and raises the cost of capital.

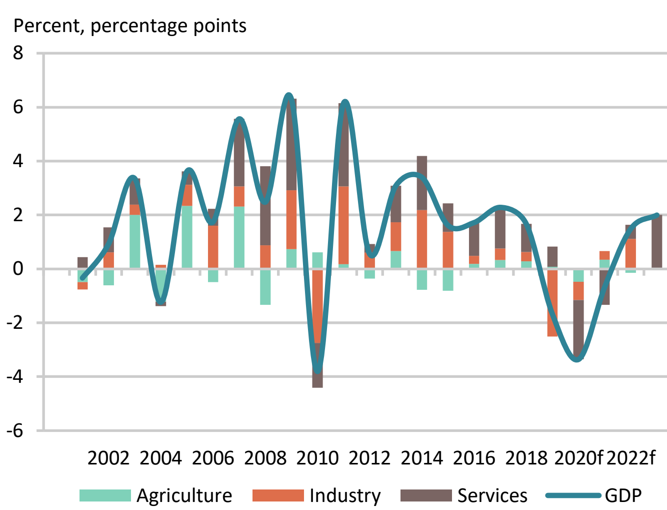
COVID-19 has compounded these issues, making poverty reduction even more difficult. As of May 2020, nearly half of those employed prior to COVID-19 lost jobs due to a halt in business activity. Disruptions in basic services, namely health and education, are undermining human capital. The negative impacts on early childhood development and educational attainment have long-term negative effects on the earning potential of future adults.

Haiti's Post COVID-19 Economic Recovery Plan 2020-2023 (PREPOC) intends to tackle these challenges by relaxing the structural constraints that hinder growth through, inter alia, boosting human capital, strengthening governance, and improving resilience to natural hazard shocks. However, the HFY2021 budget is not clearly aligned with PREPOC's stated intentions. The budget prioritizes security and electricity generation over the PREPOC's above-mentioned pillars.

Recent developments

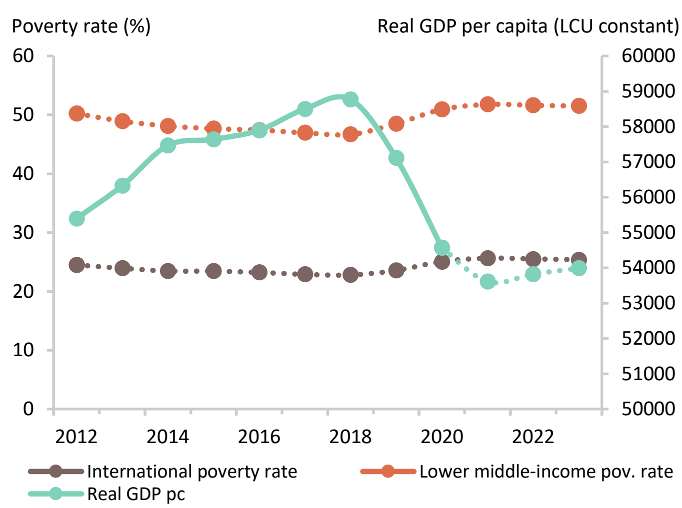
Both the COVID-19 pandemic and Haiti's protracted political crisis took a toll on economic activity during HFY2020, with GDP estimated to have contracted by 3.4 percent. Output of all three sectors declined. The pandemic's impact on the Haitian economy was less severe compared to other Caribbean countries because Haiti's tourism sector is small. The contraction of GDP resulted in job and income losses. The poverty rate at the international poverty line (US$1.90 per day, 2011 PPP) is estimated to have risen to 25.1 percent in 2020, from 23.6 percent in 2019, in line with the economic slump. The health emergency measures enacted to curb the spread of the virus were lifted at the end of HFY2020. However, the political crisis

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



Sources: Haiti Statistical Office (IHSI).

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



Sources: World Bank. Notes: see Table 2.

started intensifying in Q1 HFY2021, keeping economic activity subdued.

The current account turned positive in HFY2020 (5.8 percent of GDP) thanks to a 26.1 percent decline in imports, and a 13.5 percent rise in remittances which offset the 16.3 percent drop in exports. This does not, however, signal a turnaround in Haiti's structural trade deficit (18.2 percent in HFY2020), which is to be tackled via improvement in productivity across all sectors and by broadening the export base.

Due to monetization of large government deficit the local currency (gourde) depreciated by over 23 percent during the first eleven months of HFY2020. This prompted the central bank's intervention in the forex market, as well as a freeze of government spending, to stabilize the gourde, to tame runaway inflation and quell social discontent. In the last month of the HFY the gourde strengthened, closing 2020 with a 7.5 percent year-on-year appreciation against the US dollar. This destabilized the main anchor on which the private sector bases its expectations, with negative impacts on investment planning and long-term growth. The sharp appreciation translated into fewer local currency to households relying on remittances. Nonetheless, appreciation of the gourde proved fleeting after government spending and imports resumed. The gourde depreciated by 13.5 percent between November 2020 and January 2021. Excessive volatility, as experienced recently, can be a destabilizing factor.

The large government deficit (4.1 percent of GDP in HFY2020 compared to 2.2 percent of GDP in FY2019) and low productivity of the agricultural sector fueled inflation that reached 22.8 percent on average during HFY2020. However, as a result of the strong gourde policy and the pass-through effect, CPI inflation declined to 19.2 percent in December 2020 after peaking at 27.8 percent in August. While this reversal can help improve households' purchasing power, it is nonetheless still elevated and will continue to erode any savings.

Outlook

As Haiti remains engulfed in political turmoil, GDP is expected to contract for a third consecutive year, by 0.7 percent in 2021. A return to pre-pandemic GDP levels is not envisioned until after 2023, under the proviso of a return to some political stability. Under this scenario, the poverty rate is projected to increase further to 25.6 percent in 2021 as economic opportunities remain limited.

The strong gourde policy is set to boost imports, particularly consumer goods, while discouraging exports, turning the current account surplus into a deficit in 2021. Over the long term, efforts to diversify the export base and reform the business environment to attract foreign investment could improve the external position.

While control of budgetary spending suggests a narrowing of the fiscal deficit to 3.4 percent of GDP in HFY2021, fiscal pressures are expected to mount as the government embarks on the PREPOC that has a total cost of 24.4 percent of GDP over a three-year period. PREPOC's cost in the first year of implementation is 6.9 percent of GDP, with a 3.2 percent of GDP financing gap. This is likely to be filled via money creation, potentially further fueling inflation and hurting the poor the hardest.

As COVID-19 vaccines become more available and the global economy rebounds, this could help boost demand for Haiti's products. However, the path ahead remains fraught and exposed to ongoing political instability that could continue to hinder economic recovery.

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

	2017/18	2018/19	2019/20 e	2020/21 f	2021/22 f	2022/23 f
Real GDP growth, at constant market prices	1.7	-1.7	-3.4	-0.7	1.5	2.0
Private Consumption	3.4	-0.5	-2.6	0.5	-0.5	2.0
Government Consumption	3.5	-8.0	20.3	11.7	13.5	1.0
Gross Fixed Capital Investment	6.5	5.7	-17.6	32.0	-0.4	3.4
Exports, Goods and Services	-0.8	-1.6	-5.0	-3.0	16.9	0.0
Imports, Goods and Services	8.6	3.6	-4.1	18.6	1.7	2.0
Real GDP growth, at constant factor prices	1.6	-2.4	-2.9	-0.4	1.5	2.1
Agriculture	1.5	-0.2	-2.1	1.4	-0.5	0.0
Industry	1.1	-10.0	-2.1	0.7	4.7	1.0
Services	1.8	0.8	-3.5	-1.5	0.7	3.3
Inflation (Consumer Price Index)	13.5	17.2	22.8	20.0	19.0	15.0
Current Account Balance (% of GDP)	-4.4	-1.7	5.8	-2.0	-0.5	-2.2
Net Foreign Direct Investment (% of GDP)	0.7	0.5	0.1	0.2	0.5	0.5
Fiscal Balance (% of GDP)	-2.6	-2.2	-4.1	-3.4	-2.6	-2.8
Debt (% of GDP)	23.2	25.7	28.8	32.3	32.1	30.8
Primary Balance (% of GDP)	-2.4	-2.0	-3.5	-1.8	-2.2	-2.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	22.8	23.6	25.1	25.6	25.5	25.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	46.7	48.5	51.0	51.8	51.7	51.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SEDLAC harmonization, using 2012-ECVMAS.Actual data: 2012. Nowcast: 2013-2020. Forecast are from 2021to 2023.

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

HONDURAS

Table 1	2020
Population, million	9.9
GDP, current US$ billion	23.2
GDP per capita, current US$	2340.1
International poverty rate ($1.9)[a]	14.8
Lower middle-income poverty rate ($3.2)[a]	29.0
Upper middle-income poverty rate ($5.5)[a]	49.0
Gini index[a]	48.2
School enrollment, primary (% gross)[b]	91.5
Life expectancy at birth, years[b]	75.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) Most recent WDI value (2018).

Honduras's economy is expected to contract by a record 9 percent in 2020 due to the double impact of the COVID-19 pandemic and hurricanes Eta and Iota. This led to high levels of food insecurity and increases in poverty and inequality as vulnerable households lost income. A rebound is expected in 2021, supported by a countercyclical macroeconomic policy and the restoration of trade and investment. However, a slower recovery is possible if the health crisis endures.

Key conditions and challenges

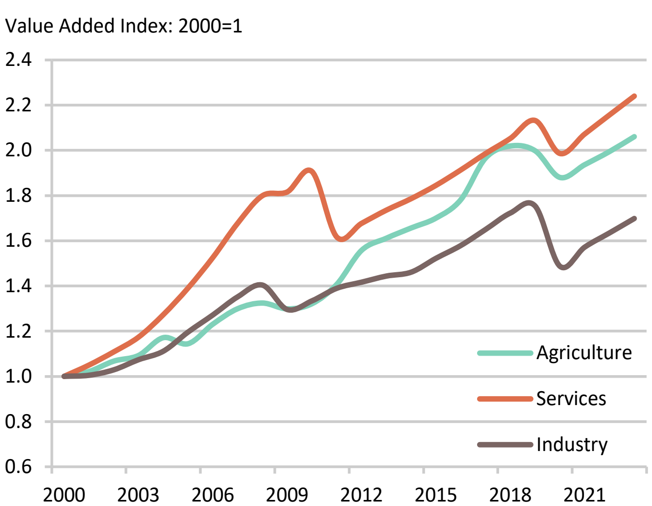
Honduras's export-oriented growth model and poverty reduction strategy have been insufficient to boost growth and incomes. The country's sensitivity to external shocks, natural hazards, fiscal instability, crime, combined with weak institutional and business environments have inhibited economic competitiveness. Real GDP growth averaged 3.1 percent over the past decade aided by remittance-fueled private consumption, while the country remained one of the poorest in the Western Hemisphere: almost half the population (4.8 million people) lived on less than US$5.50 per day in 2019. Meanwhile, a prudent macroeconomic framework supported the Honduran economy in recent years. A crawling peg exchange rate regime with ample foreign reserves (about 20 percent of GDP) aided price and exchange rate stability. Accommodative monetary policy supported economic activity. A low ratio of nonperforming loans and adequate capitalization of the banking sector helped contain financial sector risks. Fiscal policy anchored in the Fiscal Responsibility Law (FRL) – targeting the non-financial public sector (NFPS) deficit at 1 percent of GDP in 2019 and limiting spending growth – helped restore fiscal sustainability. Commitment to fiscal prudence helped control fiscal accounts despite the deteriorating financial position of the state electricity company (ENEE), the main source of fiscal risks for Honduras.

The COVID-19 pandemic and impacts of hurricanes Eta and Iota exacerbated existing economic and social challenges, threatening the health and welfare of the population. Output contracted across all sectors, causing widespread unemployment. Both hurricanes affected about 3.9 million people (38 percent of the population), while social and economic costs are expected at US$1.8 billion (7.2 percent of 2019 GDP) amid damages to infrastructure, land, and crops. Large asset losses, especially amongst the poorest, lower human capital formation due to school closures and lower nutrition, combined with small and insufficient social assistance programs could make it difficult for vulnerable households to rebound from the negative shock.

Recent developments

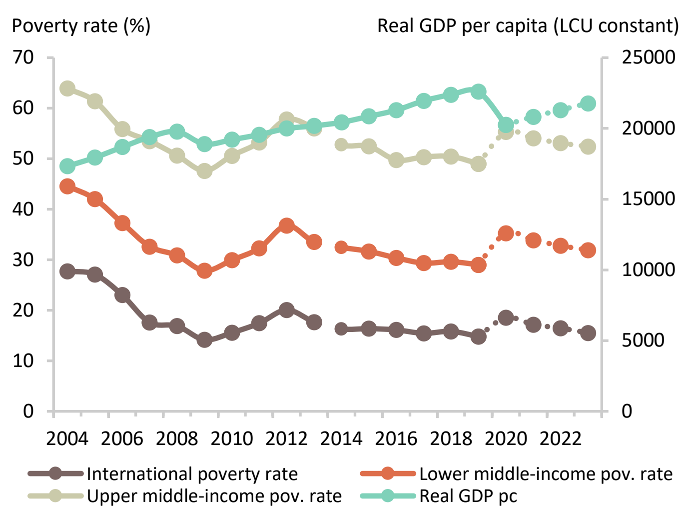
Real GDP is expected to have contracted by 9 percent in 2020 (y/y) due to a sharp fall in trade, investment and consumption amid the global recession, extended lockdown, and damages caused by the hurricanes. Based on World Bank phone surveys, nearly 68 percent of households reported income losses, and more than one-third of households reported food insecurity due to lack of resources in mid-2020. A projected 12.5 percent of people lost employment in 2020, primarily women and low skilled workers in industry and services sectors. Poverty is projected to have increased from 49 to 55.4 percent in 2020 under the US$5.50 line, an increase of more

FIGURE 1 Honduras / Real value added index, 2000=1



Sources: Central Bank of Honduras, The World Bank.

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



Source: World Bank. Notes: see Table 2.

than 700 thousand people. Growth in remittances, that represent 22 percent of GDP and 30 percent of household income for the poorest remittance-receiving households, decelerated to 3.8 percent (y/y) in 2020 from 13 percent (y/y) in 2019, only partially compensating for the income loss. The government enacted targeted policies to cushion the impacts on economic activity and livelihoods, authorizing new borrowing of US$2.5 billion (10 percent of GDP) for 2020-2021. The country's relatively low public debt and deficit levels coupled with good access to concessional financing allowed for the counter-cyclical response amid the activation of the FRL's escape clause.

Weaker domestic demand, lower commodity prices, freezes in prices and a relatively stable exchange rate reduced consumer price inflation, despite higher food prices in the aftermath of hurricanes. Annual inflation decelerated to 3.5 percent (y/y) in 2020 – near the lower limit of the Central Bank's (BCH) target band (4% ± 1 %). As a result, the BCH cut the key policy rate by 250 basis points to 3 percent in 2020.

Despite historically low oil prices, the current account deficit is expected to have widened as depressed exports outweighed import compression amid decelerated economic activity. Nevertheless, the external position remains relatively strong, supported by external financing received. External public debt increased by 5.5 percentage points of GDP in 2020 (from 30.7 percent by end-2019), including a sovereign bond placement (US$600 mil) and multilateral loans (US$1,552.7 mil).

Outlook

Real GDP is expected to reach its pre-pandemic level by 2023 amid the reactivation of domestic economic activity and recovering investment and external demand. A strong pick-up in manufacturing and services is expected, while the recovery in the agriculture sector could be subdued amid severe damages to crops and land. Poverty rates are estimated to begin decreasing in 2021, with poverty under the US$5.50 line reaching 52.5 percent by 2023.

The authorities project a NFPS deficit of 5.6 and 4 percent of GDP in 2020 and 2021. The government is committed to fiscal prudence and aims to return to the 1 percent NFPS deficit ceiling in 2022 while protecting priority spending. The required consolidation is challenging; however, the fiscal position is expected to be supported by a one-off revenue increase from tax-deferrals in 2020, revenue mobilization measures, budget reallocations and strict spending control. Inflation is expected to stay within the target range, while the BCH is expected to maintain accommodative monetary policy in the near term to increase access to credit and boost domestic demand.

A slower global recovery amid the prolonged pandemic and new COVID-19 waves coupled with uncertainty on the effective vaccine rollout could prompt the renewal of containment measures and weaken Honduras's pace of recovery. Further, if growth in remittances stalls, more near-poor households could fall below the poverty line. Prolonged unemployment, particularly for informal low-income households that lack insurance and savings, pose risks to poverty reduction. This would cause additional pressures on public finances and challenge fiscal sustainability. Policymaking could be stalled by possible social unrest amid the general elections in 2021.

The anticipated recovery requires continuous efforts to limit the human and economic impacts of the pandemic and hurricanes. More targeted and faster disbursing economic and social support is needed amid limited fiscal space. Additionally, strengthening resilience to climate risks could improve sustainability (macroeconomic, fiscal, social and environment), while increasing internet connectivity and digitalization would allow to capitalize on the digital economy opportunities, boost productivity, competitiveness, and create jobs.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.7	2.7	-9.0	4.5	3.9	3.8
Private Consumption	4.7	4.1	-7.8	4.7	4.3	3.6
Government Consumption	1.9	0.6	3.0	2.2	-2.7	1.0
Gross Fixed Capital Investment	5.7	-5.9	-11.1	7.9	8.1	4.3
Exports, Goods and Services	0.7	2.3	-15.5	6.5	5.8	4.0
Imports, Goods and Services	2.2	-2.8	-11.5	7.0	5.9	3.3
Real GDP growth, at constant factor prices	3.5	2.5	-9.0	4.5	3.9	3.8
Agriculture	2.7	-1.0	-5.9	3.0	3.0	3.3
Industry	4.4	1.8	-15.2	5.7	4.0	3.9
Services	3.4	3.9	-6.8	4.3	4.1	3.9
Inflation (Consumer Price Index)	4.3	4.4	3.5	4.0	4.1	4.0
Current Account Balance (% of GDP)	-5.4	-0.7	-1.2	-1.5	-1.7	-2.3
Net Foreign Direct Investment (% of GDP)	3.8	2.0	0.9	1.9	3.5	3.8
Fiscal Balance (% of GDP)[a]	-0.9	-0.9	-5.6	-4.0	-1.0	-1.0
Debt (% of GDP)[a]	42.2	43.1	53.9	55.6	55.1	54.5
Primary Balance (% of GDP)[a]	0.0	-0.2	-4.5	-2.7	0.3	0.4
International poverty rate ($1.9 in 2011 PPP)[b,c]	15.8	14.8	18.5	17.1	16.5	15.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	29.6	29.0	35.3	33.9	32.8	31.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	50.4	49.0	55.4	54.1	53.1	52.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Fiscal data refers to non-financial public sector.
(b) Calculations based on SEDLAC harmonization, using 2019-EPHPM. Actual data: 2019. Nowcast: 2020. Forecast are from 2021 to 2023.
(c) Projections using microsimulation methodology.

JAMAICA

Table 1	2020
Population, million	3.0
GDP, current US$ billion	13.0
GDP per capita, current US$	4406.7
School enrollment, primary (% gross)[a]	85.1
Life expectancy at birth, years[a]	74.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

Jamaica made important progress on macroeconomic stability and debt reduction between 2013 and 2020. However, the COVID-19 pandemic has pushed the country into its deepest recession in decades. This is affecting the welfare of households through income and job losses, thereby increasing poverty. Impacts have been uneven across the population, likely increasing inequality. Downside risks are high due to the country's susceptibility to natural disasters and uncertainties regarding the length and depth of the COVID-19 pandemic.

Key conditions and challenges

Jamaica's economy has grown by an average of less than 1 percent per year over the last three decades and many structural obstacles remain to enabling growth. Although Jamaica has been successful in reducing its debt in recent years, its debt stock remains high. Fiscal space is limited and greater participation by the private sector in the economy is undermined by enclave-type industries, low productivity, and a high regulatory burden.

The country is afflicted by rising crime and violence, reducing its attractiveness and contributing to the country's low growth. Jamaica remains vulnerable to climate shocks, including more frequent and severe climate-induced natural disasters. These pose significant challenges to vulnerable groups and key sectors of economic and climate sensitivity, such as tourism and agriculture.

Containment of the COVID-19 pandemic is essential for economic recovery and inclusive growth, given Jamaica's dependence of the country on international tourism. Jamaica implemented a public health response early in the pandemic but has recently experienced an increase in the number of daily cases. The pace of Jamaica's economic recovery will depend on the global containment of the pandemic and easing of travel restrictions with the rollout of vaccines. This is important given that the tourism sector contributes over 30 percent of GDP and supplies a third of the country's jobs.

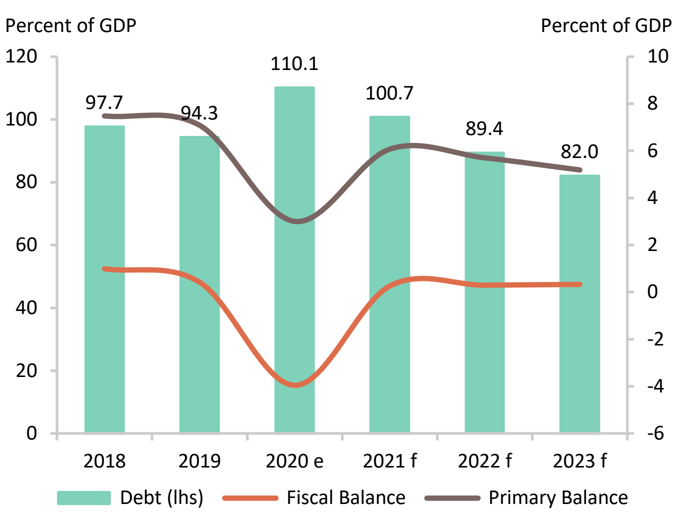
Recent developments

Real GDP contracted by 10 percent in 2020, driven by the collapse in net external demand and private consumption. On the supply side, services recorded the sharpest declines due to the near closure of the tourism sector. Agriculture and industry were held back by disruptions in domestic production linked to the crisis, flooding, and the closure of Jamaica's largest aluminum refinery. Inflation increased slightly but remained within the 4-6 percent target range.

Poverty in Jamaica has declined in recent years, but COVID-19 reversed the trend. World Bank projections based on GDP per capita growth point to a 4.7 percentage point increase in the poverty rate in 2020, bringing it to 23 percent. Disruptions in the tourism sector and related activities reversed prior gains in employment and income, with a higher impact on women. After rising to 12.6 percent in July 2020, the unemployment rate declined slightly to 10.7 percent in October 2020. Government policy responses to COVID-19, including increases in conditional cash transfers, will help mitigate the impact on the poor.

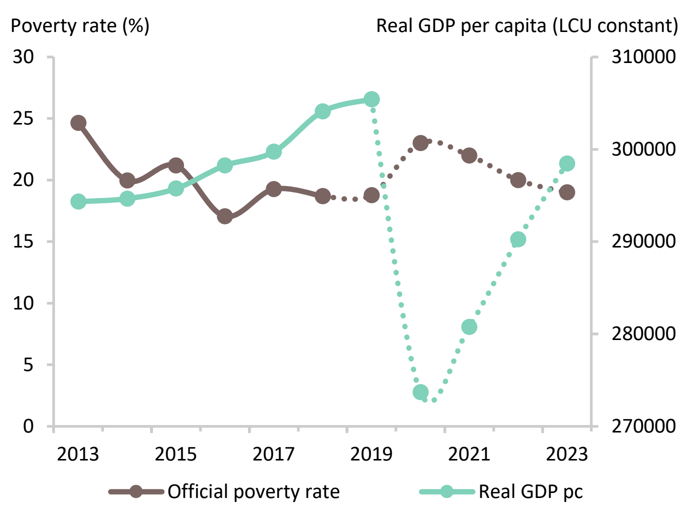
Jamaica's balance-of-payments position has improved steadily in the past five years, with narrower deficits and increased international reserve coverage. In 2020, the current account deficit (CAD) narrowed slightly on the back of strong remittance

FIGURE 1 Jamaica / Fiscal balances and public debt



Sources: GoJ, IMF and WBG staff estimates.

FIGURE 2 Jamaica / Actual and projected poverty rate and real GDP per capita [b c]



Sources: World Bank staff calculations (see notes b and c in Table 2).

inflows. The CAD was financed primarily by private and official inflows.

Fiscal policy has been adapted to allow the authorities to respond to the pandemic, consistent with the existing fiscal rules. An overall fiscal deficit of 4.0 percent of GDP is envisaged for FY2020/21, reflecting the combination of lower revenues and increased outlays to respond to the pandemic. In this context, the public debt ratio is expected to jump to 110 percent of GDP.

Outlook

Recovery of real GDP is expected over the medium-term, driven by the reutilization of spare capacity created by the pandemic and normalization in tourism as vaccination becomes more accessible, as well as the resumption of mining in the second half of 2022. The economy is expected to return to pre-COVID-19 levels by 2024. Inflation is expected to remain within the 4-6 percent target and employment to improve over the medium-term. Poverty is projected to decline to around 19 percent by 2023.

Monetary policy will remain supportive of growth, while ensuring an adequate level of liquidity in the financial system. The authorities have encouraged the banking sector to retain capital by postponing dividend payments to shareholders and by rescheduling loans and mortgages. Jamaica's financial infrastructure remains sound, although the crisis could create some challenges for financial stability should the pandemic last longer than expected.

The CAD is expected to widen as imports recover and remittances decrease. Private flows are expected to recover, limiting the need for official borrowing to finance the CAD. With a gradual recovery of tourism and bauxite exports, the Jamaican dollar will remain broadly stable compared to the US dollar and other currencies. Gross reserves should remain healthy, averaging over 6 months of imports.

The economic recovery is expected to improve tax collections and normalize spending. Total revenues should rebound in line with the pace of normalization in domestic and international trade. At the same time, total expenditure is expected to decline with the winding-down of the COVID-19 cash support program. In this context, public debt is expected to gradually decline over the medium term with primary surpluses accounting for most of the reduction.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.9	0.9	-10.0	3.0	3.8	3.2
Private Consumption	1.0	1.0	-13.2	3.5	2.3	1.8
Government Consumption	0.7	3.1	11.7	-2.8	-1.7	3.6
Gross Fixed Capital Investment	5.4	1.0	-15.9	2.0	8.3	7.1
Exports, Goods and Services	8.3	3.6	-30.0	15.7	4.2	1.8
Imports, Goods and Services	6.1	4.2	-26.7	10.3	1.7	1.9
Real GDP growth, at constant factor prices	1.9	1.0	-10.0	3.0	3.8	3.2
Agriculture	4.1	0.4	0.6	1.9	1.3	1.3
Industry	4.8	-0.7	-6.2	1.0	4.2	-0.8
Services	0.8	1.5	-12.2	3.8	4.0	4.7
Inflation (Consumer Price Index)	3.7	3.9	5.7	5.9	5.0	5.0
Current Account Balance (% of GDP)	-1.5	-2.1	-1.9	-3.3	-4.3	-3.9
Net Foreign Direct Investment (% of GDP)	4.8	1.4	1.6	2.5	3.6	4.0
Fiscal Balance (% of GDP)[a]	1.0	0.4	-4.0	0.3	0.3	0.3
Debt (% of GDP)[a]	97.7	94.3	110.1	100.7	89.4	82.0
Primary Balance (% of GDP)[a]	7.5	7.1	3.0	6.1	5.7	5.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

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

MEXICO

Table 1	2020
Population, million	128.9
GDP, current US$ billion	1075.4
GDP per capita, current US$	8341.1
International poverty rate ($1.9)[a]	1.7
Lower middle-income poverty rate ($3.2)[a]	6.5
Upper middle-income poverty rate ($5.5)[a]	22.7
Gini index[a]	45.4
School enrollment, primary (% gross)[b]	105.0
Life expectancy at birth, years[b]	75.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) Most recent WDI value (2018).

In 2020 Mexico experienced its largest output collapse since the 1930s, with large human and social costs due to the pandemic. The 2021 recovery depends on the vaccination campaign, U.S growth, and private investment. Yet, it may take some years for the country to attain its pre-crisis level of GDP per-capita. Conservative fiscal policies are expected to continue, but with eroded buffers and accumulated spending pressures, fiscal space will have to come from a tax reform. A stronger medium-term recovery could materialize from addressing pre-crisis constraints to growth and inclusion.

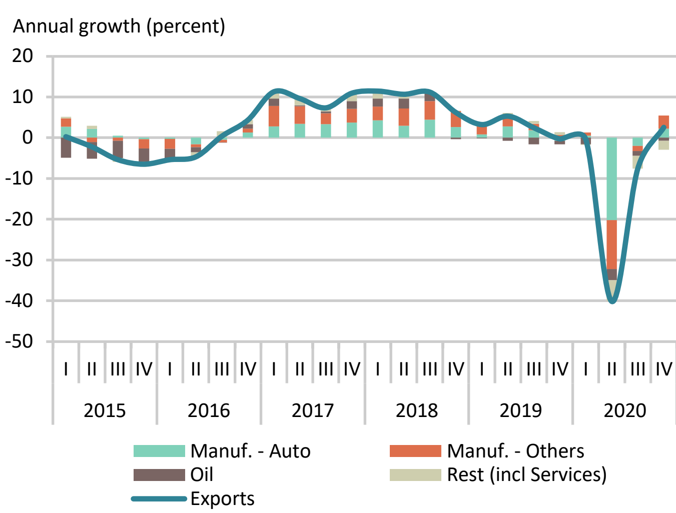
Key conditions and challenges

The recovery in 2021 relies on the speed of vaccination, U.S growth, and the recovery in the labor markets. However, to enable a better and sustained recovery over the medium term, the country will also need to deal with some of the most pressing pre-crisis challenges to growth and inclusion, that at the same time, are bottlenecks for job creation now. They include access to finance, lowering the regulatory burden, enabling resilient infrastructure, improving public services, and facilitating access to the labor market.
In the short term, uncertainty about the pandemic dynamics will continue to weigh on domestic demand until a large portion of the population is vaccinated. Mexico had an excellent performance in securing the contracts for the purchase of vaccines with a portfolio approach. But due to production issues, the deliveries have been somewhat protracted as it has happened in most countries.
The pandemic has also exacerbated labor market weaknesses, including high levels of informality and underemployment, low female labor force participation, and large regional disparities. The re-matching costs in the labor market are again showing to be high, and it will take time for formal jobs to recover to pre-crisis levels. While rural areas suffer from low investments in physical and human capital and high poverty rates, most of the poor live in urban areas. Access to quality education also worsened, with potential long-term impacts on human capital and productivity.
The already gradual investment recovery could be slower if the approach towards private sector involvement in some sectors, particularly energy, is not adjusted.
Eroded fiscal buffers, combined with a growing and delayed spending pressures (in public services and infrastructure) and the authorities' aim to safeguard debt sustainability, call for a tax reform to enable fiscal space. Additionally, to earn market credibility, a turnaround of PEMEX's financial situation will be needed.
On the upside, Mexico has the advantages of being part of the USMCA agreement, being highly open to trade, and having a strong manufacturing base well connected to the Global Value Chains (GVCs), presenting significant opportunities.

Recent developments

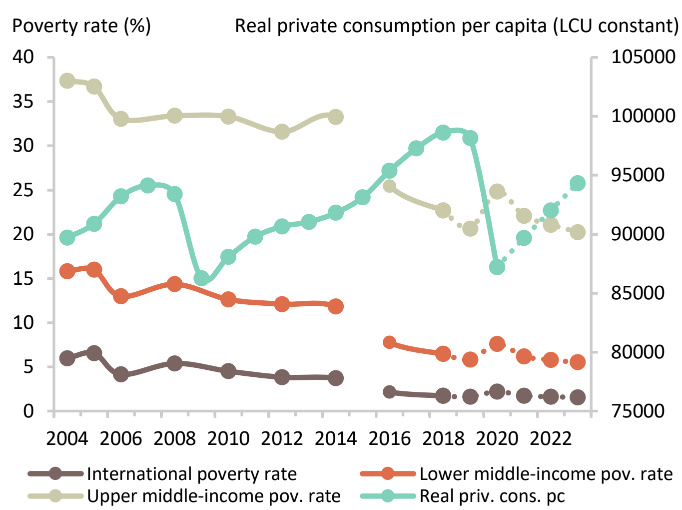
GDP contracted by 8.2 percent in 2020, with a sharp drop in the first half of 2020 as demand and supply shocks stemming from the COVID-19 pandemic had economy-wide impacts. The recovery started in the second half of 2020 as mobility restrictions eased domestically and a gradual reactivation of U.S. export demand began. By December 2020, 3 million jobs were recovered, still falling short by 3.2 million jobs (-5.8 percent) compared to December 2019. Job losses disproportionately affected informal, low-wage, younger, and female workers.

FIGURE 1 **Mexico** / Contribution to exports growth



Source: Banxico.

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



Source: World Bank. Notes: see Table 2.

A current account surplus of 2.5 percent of GDP was experienced in 2020, enabled by an import contraction larger than the decline in exports. Like in past crises, remittances also supported this dynamic with an increase compared to 2019, as migrants in the U.S took advantage of the peso depreciation to send more resources to their families in Mexico, among other factors.

Following a sharp depreciation over the first months of the crisis, the Mexican peso recovered terrain against the U.S. dollar, with capital accounts also registering returning inflows in the last part of 2020.

Monetary and financial policies played a critical role in supporting the economy. With inflation at 3.4 percent for 2020 and medium-term expectations within the Central Bank's band of tolerance (3 percent ± 1 percent), the cut back in policy rates continued (from 7.25 to 4.0 percent between February 2020 and February 2021). The financial sector was also supported by large liquidity and credit facilities and a regulatory forbearance program.

The fiscal response was limited (below 1% of GDP), focused on small credits to SMEs, the informal sector, and targeted social transfers to vulnerable groups. Monetary poverty is expected to have increased from 20.5 percent in 2019 to at least 24.8 percent in 2020 at the US$5.5 poverty rate. Inequality is also projected to have increased, as low-skilled workers have been the most affected.

Mexico's fiscal balance closed at -3.9 percent of GDP, driven by a moderate increase in public spending and close to constant revenues fueled by strong tax administration measures and tax settlements with large companies. Nevertheless, public debt as a share of GDP had a sizeable one-off increase due to the larger deficit, forex-denominated debt reevaluation, and the GDP drop.

Outlook

The economy is projected to expand by 4.5 percent in 2021. In the first half of the year, this will be driven by the carry-over effects of the partial recovery at the end of 2020, a rapid reactivation of the U.S. economy fueling manufacturing exports, and the gradual rollout of the COVID-19 vaccines. In the second half of 2021, and with larger percentages of the population vaccinated, domestic consumption will start a faster recovery, while the tamed imports of late 2020 and early 2021 will also accelerate to replenish inventories. The substantial contraction in 2020 and the projected gradual recovery imply that it may take several years to attain pre-pandemic GDP per capita levels.

While the large negative output gap will help contain prices and enable room to maneuver, monetary policy will need to be mindful of the U.S policy rate developments, particularly in the second half of 2021 and into 2022.

The government is expected to maintain conservative fiscal policies, working mostly through the re-prioritization of expenditures towards health, social programs, and investment. The budget for 2021 aims to stabilize and attain a gradual decline of the public debt-to-GDP ratio over the medium term.

Continued employment and labor income growth, together with social transfers, are expected to lead to a gradual reduction in monetary poverty in 2021 (to 22.1 percent) and 2022.

The recovery is subject to downside risks. The pace of vaccination will be critical to the speed of the economic recovery. Private investment can be significatively affected if proposed reforms related to private sector involvement, particularly in the energy industry, are not amended.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.2	-0.1	-8.2	4.5	3.0	2.5
Private Consumption	2.5	0.6	-11.0	5.5	4.2	3.5
Government Consumption	2.9	-1.3	2.1	1.2	0.8	0.7
Gross Fixed Capital Investment	0.9	-4.6	-18.6	10.5	5.3	5.0
Exports, Goods and Services	6.0	1.5	-8.2	6.4	4.9	4.1
Imports, Goods and Services	6.4	-0.7	-15.1	10.0	7.5	6.5
Real GDP growth, at constant factor prices	2.1	-0.1	-8.1	4.5	3.0	2.5
Agriculture	2.3	0.3	1.9	2.5	2.8	3.0
Industry	0.5	-1.7	-10.0	5.8	3.3	2.6
Services	2.9	0.7	-7.7	4.0	2.9	2.4
Inflation (Consumer Price Index)	4.9	3.6	3.4	3.7	3.6	3.5
Current Account Balance (% of GDP)	-2.1	-0.3	2.5	0.6	-0.5	-1.4
Net Foreign Direct Investment (% of GDP)	2.1	1.8	2.1	1.9	2.0	2.1
Fiscal Balance (% of GDP)	-2.2	-2.3	-3.9	-3.3	-3.2	-3.1
Debt (% of GDP)	44.9	44.5	52.3	51.4	51.2	51.1
Primary Balance (% of GDP)	0.4	0.4	-0.9	-0.5	-0.3	-0.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.7	1.6	2.2	1.8	1.6	1.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	6.5	5.8	7.6	6.2	5.8	5.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	22.7	20.7	24.8	22.1	21.1	20.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SEDLAC harmonization, using 2018-ENIGHNS.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.

(b) Based on microsimulation model for 2019-2021. For 2022-2023, assumes neutral distribution (2018) with pass-through = 0.87 based on private consumption per capita.

NICARAGUA

Table 1	2020
Population, million	6.6
GDP, current US$ billion	12.2
GDP per capita, current US$	1844.7
International poverty rate ($1.9)[a]	3.4
Lower middle-income poverty rate ($3.2)[a]	13.1
Upper middle-income poverty rate ($5.5)[a]	35.4
Gini index[a]	46.2
School enrollment, primary (% gross)[b]	120.6
Life expectancy at birth, years[b]	74.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014), 2011 PPPs.
(b) Most recent WDI value (2018).

Sociopolitical crisis coupled with the COVID-19 outbreak resulted in a three-year economic recession in Nicaragua and a commensurate increase in poverty levels. Eroding business confidence and uncertainty over the evolution of the pandemic have paralyzed consumption and investment. The external sector has been severely affected by a halt in tourism and financing constraints. Continued heightened political uncertainty and anticipated fiscal consolidation will restrain growth over the medium term.

Key conditions and challenges

For nearly two decades prior to the start of the recession in 2018, growth in Nicaragua averaged 4.0 percent a year, benefitting from sound macroeconomic management and a series of reforms to transform the country into a market economy. Consumption and investment were the main engines of the expansion as the country garnered a reputation of a relatively safe destination in a region afflicted by violence. Output growth has been driven primarily by factor accumulation, with total factor productivity lagging. Poverty measured at US$3.2 more than halved between 2005 and 2014, from 28 to 10 percent, driven by rural growth. The last official poverty estimates date back to 2014, but projections suggest that poverty levels continued declining until 2018.

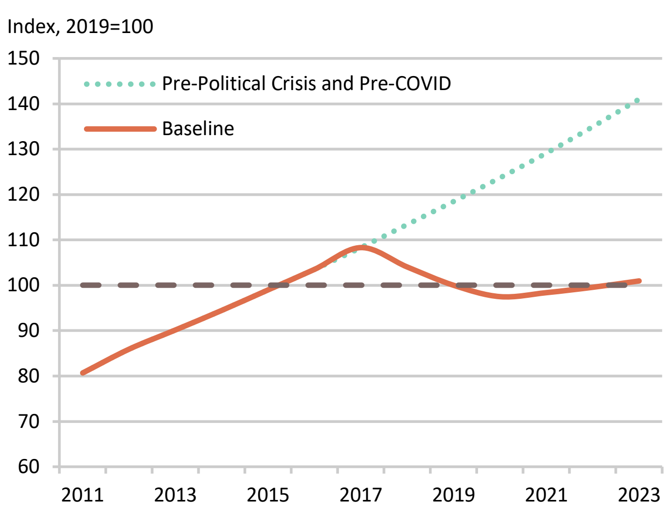
Civil unrest in 2018 followed by the COVID-19 pandemic derailed the economic expansion in Nicaragua and highlighted the country's need for improving institutions and infrastructure. Elevated uncertainty over the political environment and the evolution of the pandemic have led to a collapse in domestic demand, exacerbating vulnerabilities of the fiscal sector – particularly the pensions system. This has exposed the fragility of the country's institutions and has reversed gains in poverty reduction. Nicaragua remains one of the poorest countries in Latin America.

Uncertainties around the forthcoming elections and the evolution of the pandemic are the main immediate challenges the economy faces. Managing political uncertainty will be key to reviving the economy. Otherwise, the country will fail to attract new investment and Nicaragua will remain politically and financially isolated from the international arena, amid a series of sanctions imposed by the United States, Canada and the European Union. Additionally, as COVID-19 cases continue to rise globally, establishing a vaccination plan will be essential in ensuring a revival of tourism, a key sector.

Recent developments

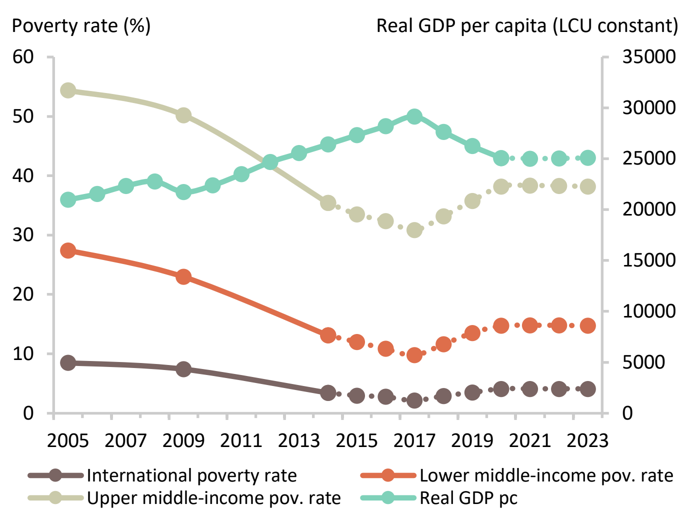
The pandemic derailed an incipient economic recovery at the start of 2020. In the first two months of 2020, a potential rebound was on the horizon driven by agriculture, mining, manufacturing, and hotels and restaurants sectors. However, the COVID-19 outbreak caused real GDP to plunge 7.5 percent (annualized) in 2020Q2 due to rising uncertainty over the evolution of the health crisis, domestic spread of the virus, voluntary private sector shutdowns, capital outflows, and plummeting tourism. Real GDP closed the year contracting an estimated 2.5 percent, which is less acute than early projections given a stronger than expected rebound in 2020Q4. The current account surplus improved to an estimated 7.6 percent of GDP in 2020 (from 6.0 percent in 2019) as a collapse in imports, resilience in remittances, and

FIGURE 1 Nicaragua / GDP level trajectory (pre- and post-crisis)



Sources: Central Bank of Nicaragua, World Bank.

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



Source: World Bank. Notes: see Table 2.

buoyant merchandise exports offset the contraction in tourism receipts. Formal employment dropped by 3 percent in 2020, following a 10 percent decline in 2019.

The fiscal deficit widened in 2020 to an estimated 3.7 percent of GDP (1.7 percent in 2019) due to higher COVID-19-related spending, including health care expenses and targeted social assistance programs, and lower revenue mobilization. The devastating humanitarian impact of the pandemic enabled the authorities to secure exceptional financing from multilateral institutions. Consequently, public debt is projected to have increased to 65.7 percent of GDP in 2020.

Complementing the fiscal policy response, the Central Bank of Nicaragua (BCN) took steps to shore up liquidity in the financial system. BCN lowered the reference rate and enabled banks to reduce the ratio of required reserves in local currency. It also tightened the allowable slide in the crawling peg to the US dollar from 5 percent to 3 percent.

The economic crisis, worsened by Hurricanes Eta and Iota in late 2020 (estimated total economic loss of 6.1 percent of GDP), pushed approximately 90,000 Nicaraguans into poverty by the end of the year. GDP per capita dropped about 14.6 percent from an estimated US$2,159 in 2017 to US$1,845 in 2020.

Outlook

Continued fiscal stimulus and remittance inflows will provide support to consumption and private investment. However, growth will remain muted, well below long-term trend at an average 1.2 percent between 2021 and 2023 amid the absence of a clear plan for the vaccine rollout and pervasive political uncertainty. Continuation of the political status quo is likely to extend Nicaragua's international isolation and deter new private investments.

The sustained inflow of remittances into the country could slow the deterioration of household incomes for many Nicaraguans (four out of every ten households receive remittances from relatives abroad) and thus attenuate the increasing trend in poverty since 2018. The share of poor households living below the international poverty line of US$3.2/day (2011 PPP) is forecasted to stay flat at 15 percent in 2021 after trending upward since 2018. Unfortunately, the impacts on other welfare outcomes may linger on. For instance, school attendance at basic education levels was less than 10 percent of the total number of students officially enrolled, likely exacerbating learning poverty.

Reconstruction efforts related to Hurricanes Iota and Eta are expected to boost fiscal spending in 2021. However, growing concerns over debt sustainability (debt-to-GDP ratios are projected to peak at 69.0 in 2022) and weak growth prospects will prompt a fiscal consolidation, thereafter, weighing on growth.

Risks to the forecast are tilted toward the downside. Growth could be stalled with a more prolonged outbreak amid vaccine rollout delays, late resumption of travel to Nicaragua, intensification of the political crisis, and natural disasters.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	-4.0	-3.9	-2.5	0.9	1.2	1.4
Private Consumption	-4.5	-2.5	-2.1	2.3	2.2	2.3
Government Consumption	-1.5	1.2	6.8	2.1	-4.3	-6.3
Gross Fixed Capital Investment	-20.1	-26.0	1.5	0.5	5.0	6.6
Exports, Goods and Services	-1.0	5.3	-8.5	3.7	3.5	3.5
Imports, Goods and Services	-14.0	-5.4	-3.0	5.1	3.8	3.7
Real GDP growth, at constant factor prices	-3.2	-3.4	-2.4	0.8	1.2	1.4
Agriculture	1.0	2.3	2.2	1.4	1.6	1.6
Industry	-1.3	-3.7	-3.2	1.2	1.3	1.3
Services	-5.0	-4.8	-3.4	0.4	1.0	1.4
Inflation (Consumer Price Index)	4.9	5.4	3.5	3.0	3.2	3.3
Current Account Balance (% of GDP)	-1.9	6.0	7.6	4.5	2.7	-0.2
Fiscal Balance (% of GDP)[a]	-4.0	-1.7	-3.7	-5.4	-3.1	-0.6
Debt (% of GDP)[b]	56.2	58.5	65.7	68.6	69.0	66.5
Primary Balance (% of GDP)[a]	-2.8	-0.4	-2.5	-3.4	-1.2	1.3
International poverty rate ($1.9 in 2011 PPP)[c,d]	2.9	3.5	4.1	4.1	4.1	4.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	11.6	13.5	14.7	14.8	14.8	14.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	33.2	35.8	38.2	38.3	38.3	38.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Fiscal and Primary Balance correspond to the non-financial public sector.
(b) Debt is total public debt.
(c) Calculations based on SEDLAC harmonization, using 2014-EMNV.Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021to 2023.
(d) Projection using neutral distribution (2014) with pass-through = 1 based on GDP per capita in constant LCU.

PANAMA

Table 1	2020
Population, million	4.3
GDP, current US$ billion	54.8
GDP per capita, current US$	12701.4
International poverty rate ($1.9)[a]	1.2
Lower middle-income poverty rate ($3.2)[a]	4.6
Upper middle-income poverty rate ($5.5)[a]	12.1
Gini index[a]	49.8
School enrollment, primary (% gross)[b]	94.4
Life expectancy at birth, years[b]	78.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) Most recent WDI value (2018).

Panama experienced the highest COVID-19 case count in Latin America and a GDP contraction of 17.9 percent in 2020, as its economy relies on sectors severely affected by the pandemic such as air transportation, retail, tourism, and construction. Poverty increased by two percentage points, while public debt shot up by almost 20 percentage points of GDP. Panama is facing the challenge of reigniting growth and poverty reduction, while balancing its fiscal accounts to maintain its coveted investment grade sovereign rating.

Key conditions and challenges

Panama's high growth was driven by construction of large infrastructure projects and real estate as well as logistics, retail, and tourism. In these sectors, labor income grew by 62.1 percent from 2010 to 2018, and the headcount of workers living under US$ 5.5 (PPP) a day was reduced to 3.2 percent. In 2019, however, construction was already slowing down due to oversupply, the completion of large infrastructure projects, and reduced fiscal space for public investment.

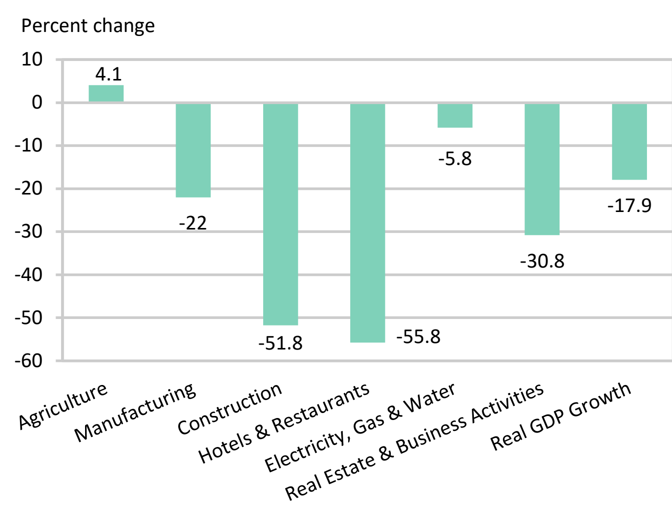
Panama has been the most affected country by the COVID-19 pandemic in LAC with an infection rate almost 50 percent higher than Brazil's, the second most affected country. Mobility restrictions and the economic fallout from the COVID-19 crisis accelerated the downturn in the construction sector and significantly disrupted the logistics, retail, and tourism sectors. The concentration of jobs in the most affected sectors of the economy make households vulnerable to the crisis. Despite recent growth, workers in the high-growth sectors remained vulnerable, with over one-fifth of them living under US$ 13 (PPP) a day in 2018. In addition, inequality remained among the highest in the world (as indicated by a Gini coefficient of 49.8 in 2019).

The main challenge for Panama is to rekindle growth. The government is resorting to measures that had a positive growth impact before the pandemic, such as tax expenditures to attract foreign direct investment (FDI) as well as public investment. However, it is not clear if this strategy will be sufficient to sustain the high-growth levels of the past. The oversupply of real estate, the work-from-home trend and the government's fiscal space limit the construction sector growth potential, while tourism is likely to take longer to recover. While the logistics sector showed some resilience, new tendencies such as reduced outsourcing and nearshoring might reduce the demand for transportation.

Recent developments

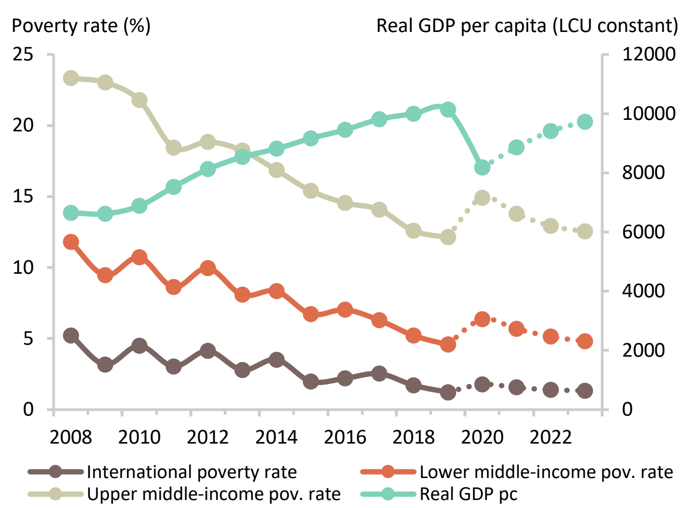
The structural forces shaping growth were amplified by the effects of the COVID-19 crisis, which led Panama to post a GDP decline of 17.9 percent in 2020. This performance reflects both a lack of demand but also a restriction on supply because of COVID-19. For example, construction, which declined by 51.8 percent, was halted from March to September, and the Panamanian airports were closed from March to mid-October. Retail activities contracted 19.4 percent led by a decline of 21 percent in the reexports from the *Colón* Free Trade Zone. There were some bright spots such as the increase in agriculture led by rice, corn, and banana crops and on mining, with copper exports posting a record output. Although energy output declined by 5.8 percent, renewable energies output increased by 37.9 percent. Those bright spots, however, were not sufficient to

FIGURE 1 Panama / Sectoral and real GDP growth, 2020



Sources: Dirección de Estadística y Censo.

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



Sources: World Bank. Notes: see Table 2.

counterbalance the negative effects of COVID-19 in other sectors.

As a result, unemployment reached 18.5 percent in 2020, and near 130,000 people are expected to fall under the poverty line of US$ 5.5 (PPP) a day, which implies an increase in the poverty headcount to 14.9 percent in 2020 from 12.1 percent in 2019. Government policies, which include transfers to households (*Panama Solidario*) for an amount equivalent to 1.3 percent of GDP, played a critical role in mitigating the adverse effects of the crisis. It is estimated that without it, poverty would have increased to 20.8 percent. The crisis has hit urban areas the hardest. Among the most affected are workers in the construction sector and women in retail and hotels and restaurants—two of the most female-intensive sectors.

The abrupt decline in GDP in 2020 together with the lower revenues (20 percent decline) and higher expenditures (four percent growth from an already high level in 2019) yielded a fiscal deficit of almost ten percent of GDP, leading the three major rating agencies to downgrade the country, putting it closer than ever to losing its investment grade.

Outlook

Panama is projected to see a strong rebound in GDP in 2021 helped by base effects, increased mining output, and new public investments being initiated such as the extension of metro line 2 and construction of line 3. The rebound, coupled with the continued support to the vulnerable through mitigation policies, would reduce poverty to pre-pandemic levels by 2023.

On the fiscal side, there does not seem to be consensus to increase taxes to balance the fiscal accounts more aggressively. The country will likely resort to containment of current expenditure, while resorting to more tax expenditures and public investments, including through Public Private Partnerships to boost growth, which in turn could increase their capacity to carry more debt sustainably. This strategy has risks and could face challenges under a more fragile fiscal situation.

The main risks are the fiscal accounts and impacts from Panama's standing in adhering to international standards on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) on FDI inflows. On the fiscal side, the main sources of risk are the pace of fiscal consolidation and the pension system. Panama has chosen a more backloaded consolidation relaying more on growth to sustainably increase its capacity of carrying debt, instead of relying more on revenues. This strategy is risky as growth might not materialize and Panama might lose its investment grade. The pension system is structurally unbalanced and in 2020 had a cash deficit of nearly US$500 million. It is expected that cash reserves will not last more than three years. Finally, partial adherence and compliance to international standards on AML/CFT can prevent Panama from exiting international lists, negatively impacting FDI recovery.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.6	3.0	-17.9	9.9	7.8	4.9
Private Consumption	3.2	3.4	-18.5	12.0	7.5	5.2
Government Consumption	7.7	4.5	1.5	-1.4	3.7	1.8
Gross Fixed Capital Investment	0.9	0.0	-37.1	16.8	11.9	6.3
Exports, Goods and Services	5.1	-0.1	-22.0	9.5	6.0	4.5
Imports, Goods and Services	4.1	-3.3	-29.3	12.0	7.0	4.8
Real GDP growth, at constant factor prices	3.6	3.2	-17.9	9.9	7.8	4.9
Agriculture	2.3	2.5	4.1	1.7	0.8	1.0
Industry	2.8	3.4	-32.1	14.2	9.0	5.2
Services	4.1	3.2	-12.7	8.9	7.7	4.9
Inflation (Consumer Price Index)	0.8	-0.4	0.0	0.2	1.1	2.0
Current Account Balance (% of GDP)	-7.6	-5.4	-0.7	-2.2	-2.8	-3.3
Net Foreign Direct Investment (% of GDP)	7.6	5.5	3.3	5.4	5.8	6.0
Fiscal Balance (% of GDP)	-2.9	-3.5	-10.0	-8.2	-6.7	-5.3
Debt (% of GDP)	39.6	46.4	64.4	63.3	61.3	60.3
Primary Balance (% of GDP)	-1.1	-1.6	-7.3	-5.5	-4.1	-3.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.7	1.2	1.8	1.6	1.4	1.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	5.2	4.6	6.4	5.7	5.1	4.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	12.6	12.1	14.9	13.8	12.9	12.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SEDLAC harmonization, using 2019-EH.Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2019) with pass-through = 0.7 based on GDP per capita in constant LCU.

PARAGUAY

Table 1	2020
Population, million	7.1
GDP, current US$ billion	33.8
GDP per capita, current US$	4739.2
International poverty rate ($1.9)[a]	0.9
Lower middle-income poverty rate ($3.2)[a]	4.5
Upper middle-income poverty rate ($5.5)[a]	15.4
Gini index[a]	45.7
School enrollment, primary (% gross)[b]	104.4
Life expectancy at birth, years[b]	74.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) Most recent WDI value (2018).

Overall, Paraguay is withstanding the economic shock from the COVID-19 and global recession relatively well, and the country is estimated to have had the lowest economic decline in the region in 2020. However, urban poverty has increased over the pandemic period, and the increasing infections and delayed vaccination in early 2021 pose challenges not only for the health sector response, but also for social cohesion and the trajectory of economic recovery.

Key conditions and challenges

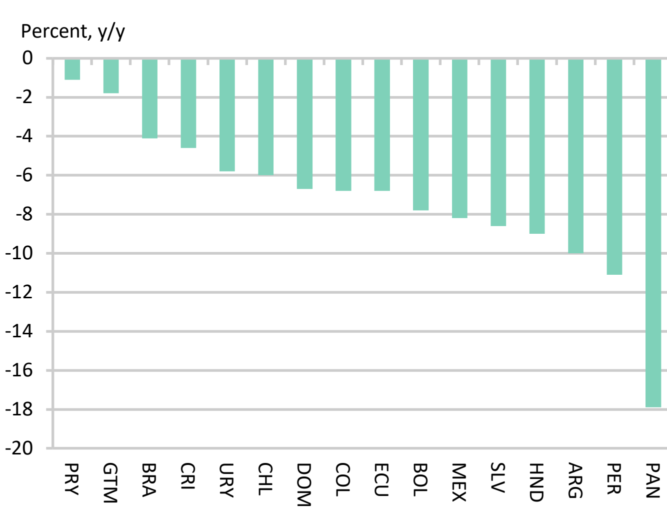
Paraguay's response to the global COVID-19 pandemic and recession was grounded in a solid macroeconomic policy framework based on fiscal rules, inflation targeting, and a flexible exchange rate regime. Its track record of prudent macroeconomic policy over the last decade enabled high economic growth, low public and external debt, and low and predictable inflation. Meanwhile, the poverty rate (less than US$5.5 per day) dropped by more than a half to 15.4 percent between 2003 and 2019. Likewise, the income of the bottom 40 percent grew at an annualized rate of 3.6 percent in the 2003-2019 period. The Gini coefficient fell by almost 5 percentage points to 45.3 since 2010.

While Paraguay's policy framework and initial crisis response measures effectively absorbed part of the COVID-19 shock, resulting in one of the lowest estimated 2020 GDP declines in the region, rising infections in early 2021, coupled with delays with vaccination, have led to social discontent and political protests. The economic downturn in 2020 was driven by the decline in external, cross-border trade and domestic demand, especially in services, because of social distancing measures. Paraguay instituted stringent quarantine measures to contain the spread of COVID early on, while the health system was still reeling from a severe dengue outbreak. The emergency package, which increased the fiscal deficit to its highest level in decades, softened the impact. However, the shock is expected to have reversed in 2020 the trend of substantial poverty reduction and improving shared prosperity since 2013. Moreover, the political crisis of March 2021 underscores the importance of addressing popular demands for better services and greater accountability of public institutions.

Recent developments

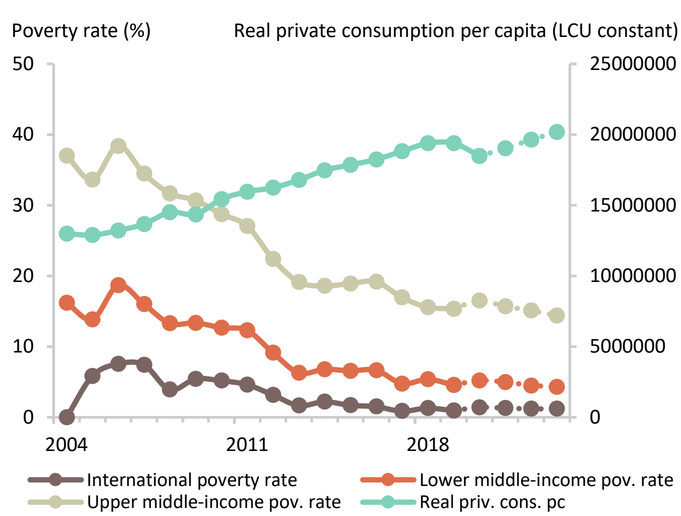
After the pandemic-induced dive in 2020Q2, the economy started to rebound in 2020H2 averaging for an estimated GDP decline of only 1.1 percent for the entire 2020, the lowest in Latin America. Well-enforced policies on social distancing at the beginning of the pandemic initially slowed its spread. As a result, GDP contracted by 6.5 percent y-o-y in 2020Q2. The negative economic impact moderated after the relaxation of some restrictions. Commodities price increases, including of soy, helped minimize the economic decline and cushioned the drop in rural household incomes. In 2020Q3, GDP declined by 1.2 percent y-o-y, and the high-frequency data indicate an even smaller decline in 2020Q4. The labor market was hit hard, partially cushioned by transfers Nangareko (cash transfer for food), Pytyvo (for informal workers), and formal sector support. In 2020Q4, unemployment grew 1.5 p.p. to 7.2 percent y-o-y with the highest increase for women (2.3 percent) and urban areas (2.5 percent). Meanwhile,

FIGURE 1 Paraguay / Real GDP growth in 2020, selected Latin American and Caribbean countries



Sources: National authorities and World Bank Macroeconomics, Trade & Investment Global Practice.

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



Sources: World Bank. Notes: see Table 2.

in rural areas unemployment rate decreased by 0.4 percent.

After reaching its lowest point of 0.5 percent y-o-y in June 2020, the CPI picked up to 2.5 percent y-o-y by February 2021, back to the BCP's target range (4 +/- 2 percent) with limited impact on households. The BCP has maintained its accommodative policy stance, keeping the policy interest rate at a record low of 0.75 percent after the cumulative 325 bps during March-June 2020.

While the original 2020 budget foresaw an annual deficit of 1.5 percent GDP, its final result is estimated at 6.2 percent GDP in 2020. Tax revenue was down 3.8 percent y-o-y, while current expenditure increased 15.6 percent y-o-y. Spending on social benefits was up 59 percent y-o-y mainly due to new social assistance programs. Public capital expenditure increased to 3.6 percent GDP. By end-2020, public debt increased to an estimated 34.2 percent GDP.

Outlook

Growth is expected to return to an average of 3.7 percent over the period 2021-2023, bringing poverty reduction back to its pre-pandemic trend as the global economy recovers. In 2021, the recovery is expected to be gradual, with GDP growth projected at 3.5 percent, due to continuing social distancing and cross-border trade restrictions to contain the contagion, the withdrawal of temporary (2020) fiscal stimulus programs, and a decline in agricultural production after the record harvest of the previous season. Meanwhile, terms of trade gains from high food prices in international markets are likely to support the economy and support household incomes in rural areas. Likewise, the declining trend in poverty incidence is expected to slowly reassume in 2021, reaching 15.7 percent and 15.1 percent by 2022 (US$ 5.5 poverty line), pushed mainly by the recovery of labor incomes in urban areas. However, policies to equalize labor markets will need to be strengthened given the expansion of gender gaps during the pandemic. The expected continuation of coherent macroeconomic policies is also critical for this outlook. Although public debt increased during 2020, the authorities remain committed to fiscal prudence and plan to anchor this commitment in the amended FRL. Inflation is projected to return to the mid-point of the target range (4 percent) by early 2022.

Short-term risks to growth relate to pace of vaccines' availability and the global rebound. Paraguay is vulnerable to a sharper domestic economic slowdown resulting from an increase in contagion rates, extended protests and political upheaval, weaknesses and capacity constraints of the health sector, delayed vaccination, and a longer-than-expected spread of the pandemic. This would extend and deepen the domestic demand shock due to prolonged social distancing, more pronounced uncertainty, and increased fiscal tensions. Similarly, inability to respond to growing demands from society for better public services and more inclusive and accountable institutions is also an important risk that could slow Paraguay's economic growth.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.2	-0.4	-1.1	3.5	4.0	3.8
Private Consumption	4.4	1.8	-3.5	4.3	4.3	4.1
Government Consumption	3.0	4.7	4.2	1.8	0.4	1.4
Gross Fixed Capital Investment	6.9	-6.1	-3.7	1.7	5.4	4.9
Exports, Goods and Services	-0.4	-3.4	-7.8	4.1	4.2	4.1
Imports, Goods and Services	8.3	-2.0	-9.8	3.7	4.0	4.0
Real GDP growth, at constant factor prices	3.2	-0.2	-1.0	3.5	4.0	3.8
Agriculture	4.3	-3.1	8.2	-0.4	3.6	3.6
Industry	1.1	-3.0	3.1	4.2	3.9	3.9
Services	4.5	2.5	-5.9	4.0	4.1	3.7
Inflation (Consumer Price Index)	4.0	2.8	2.5	3.2	4.0	4.0
Current Account Balance (% of GDP)	-0.2	-0.6	0.3	1.1	1.0	0.8
Net Foreign Direct Investment (% of GDP)	1.1	1.4	1.1	1.3	1.3	1.3
Fiscal Balance (% of GDP)	-1.3	-2.8	-6.2	-4.0	-2.6	-2.1
Debt (% of GDP)	21.4	24.5	34.2	35.7	35.5	33.8
Primary Balance (% of GDP)	-0.2	-1.8	-5.0	-2.5	-1.2	-0.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.3	0.9	1.4	1.3	1.2	1.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	5.4	4.5	5.2	5.0	4.5	4.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	15.6	15.4	16.5	15.7	15.1	14.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SEDLAC harmonization, using 2019-EPH. Actual data: 2019. Nowcast: 2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2019) with pass-through = 0.7 based on private consumption per capita in constant LCU.

PERU

Table 1	2020
Population, million	33.0
GDP, current US$ billion	200.1
GDP per capita, current US$	6068.0
International poverty rate ($1.9)[a]	2.2
Lower middle-income poverty rate ($3.2)[a]	7.5
Upper middle-income poverty rate ($5.5)[a]	20.6
Gini index[a]	41.5
School enrollment, primary (% gross)[b]	113.5
Life expectancy at birth, years[b]	76.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) Most recent WDI value (2018).

Peru´s economy is expected to rebound by around 8 percent, induced by a general recovery in domestic demand and exports. Poverty is projected to decline slightly this year, although additional monetary transfers might accelerate its reduction. These projections are conditional on the evolution of the second wave of the pandemic and the successful vaccination rollout. Overcoming structural challenges related to widespread informality, limited economic diversification and poor effectiveness of the state are critical for medium-term prospects.

Key conditions and challenges

The end of the commodity boom and the subsequent slowdown in economic activity revealed the structural weaknesses of Peru´s growth model, related to widespread informality, limited economic diversification and poor governance. Despite maintaining macroeconomic stability and trade openness, the main domestic pillars of the model, productivity growth was close to zero between 2013 and 2019, slowing the pace of poverty and inequality reduction. Although informality prevents most firms from growing and is an important source of low productivity, it employs around 70 percent of workers, reflecting pervasive distortions in the labor market, among other factors. An inefficient state deprives millions of Peruvians from access to quality public services. Also, reduced economic opportunities, combined with a generous availability of minerals, results in a concentrated export structure, rendering the economy vulnerable to fluctuations in commodity prices.

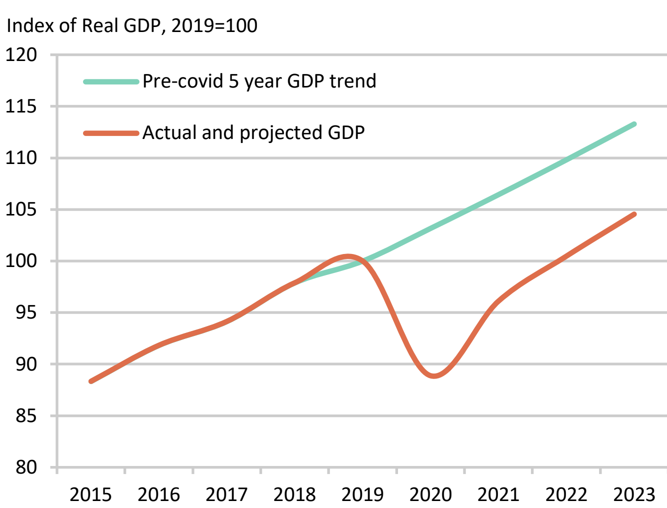
The COVID-19 crisis made these structural shortcomings increasingly visible. Peru has been among the countries hardest hit by the pandemic. Excess deaths of over 300 per 100,000 people in 2020 are amongst the world's highest. Informality, overcrowded housing conditions and poor provision of water and sanitation services are among the main causes. Furthermore, the precarious condition of the health sector led the government to enact a strict and prolonged quarantine, with considerable economic effects. Also, job informality delayed the implementation of the cash transfer program, because of incomplete citizen registries and limited access to bank accounts; however, the program did help mitigate the rise in poverty.

In the short term, the economic rebound will depend largely on the evolution of the second wave of the pandemic, containment measures, and the deployment of the vaccination program. Although the government expects to vaccinate most of the population by the end of the year, delays are likely, given limited global supply. Also, the loss of human capital during the pandemic (enrollment in early childhood and primary education fell by 7.2 and 1.9 percentage points, respectively) will constrain the productivity of the future labor force. The presidential and parliamentary elections to be held between April and June are also a source of uncertainty in the short term. In the medium-term, informality and state effectiveness must be addressed to underpin potential growth.

Recent developments

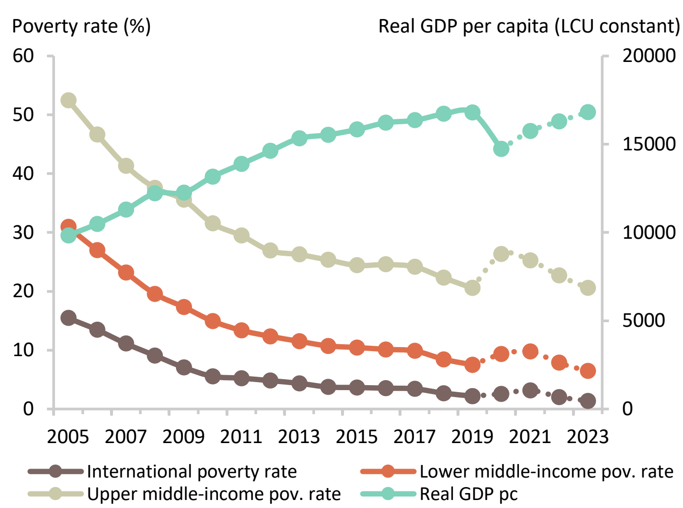
GDP declined 11.1 percent in 2020, one of the deepest recessions in the world. Total employment fell by 40 percent (about 7.1 million workers) in the first half of 2020 while earnings declined substantially for those who remained employed. Informal

FIGURE 1 **Peru** / Real GDP levels, pre-covid trend vs baseline projection



Source: World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

workers experienced a disproportionate increase in unemployment. Gender gaps widened as female-dominated sectors were the most affected by social-distancing measures and also due to the increased responsibilities associated with school closures. While rural areas experienced lower employment losses, the quality of jobs and income levels fell more than in urban ones.

Peru's ample macroeconomic buffers allowed it to adopt a package of monetary, fiscal and financial measures equivalent to around 20 percent of GDP, aimed at supporting companies, households, and economic recovery. Nevertheless, the poverty rate ($5.5 in 2011 PPP) increased by an estimated 6 percentage points, pushing almost two million people into poverty. The Gini coefficient increased by 0.2 points in 2020. The massive roll-out of cash transfers helped mitigate the rise in poverty, which would have otherwise increased by 10 percentage points.

The public deficit increased to 8.9 percent of GDP in 2020, from 1.6 percent the previous year. Revenues fell dramatically due to the sharp contraction in economic activity. Also, the large fiscal package (health expenditures, social transfers, payroll subsidies, etc), estimated at 7 percent of GDP, pushed up expenditures. The public debt closed the year at around 36 percent of GDP, above the 30 percent legal limit.

The current account turned positive in 2020, as more favorable terms of trade, especially in the second half of 2020, helped to improve trade balance despite an abrupt decline in export and import volumes. In addition, lower outflow of investment income supported current account surplus. Inflation remained stable during the pandemic averaging 1.8 percent, while the Peruvian sol depreciated around 10 percent during the year.

Outlook

Peru’s GDP is expected to rebound 8.1 percent in 2021, following last years´ deep recession. Public investment execution is expected to accelerate, and private spending and the labor market will gradually gain momentum with the COVID-19 vaccine rollout. Also, external conditions would support the rebound. Copper price is at the highest level since 2012 and interest rates are projected to remain low this and next year. This would add to the favorable conditions for private investment. Under such a scenario, by end-2022, the economy is projected to return to its pre-COVID output level. Poverty is expected to decline by 1 percentage point in 2021, considering the economic recovery and the cash transfers programs implemented by the government. Inequality is projected to remain above the 2019 levels. Another round of transfers like those of 2020 would help reduce poverty, bringing it close to 2018 levels.

The fiscal deficit is projected to narrow in 2021, but public debt is expected to continue trending upwards. Economic recovery in 2021-22 should bring recovery of revenues, which, combined with the gradual expiration of pandemic-related spending programs, should reduce the fiscal deficit to around 5.5 percent of GDP in 2021. Public debt is projected to continue rising and peak in 2023, with the gradual reduction of the deficit.

The current account is expected to remain close to balance in 2021 and 2022, due to the counterbalancing effects of rising exports and imports. Mining exports are likely to increase due to the recovery in the global markets but also greater domestic supply. On the other hand, imports would mirror the expected recovery in domestic demand. Inflation is expected to remain in the lower half of the Central Bank’s target range, despite temporary price pressures in specific markets and an expansionary monetary stance. Due to weak demand, closing of the negative output gap is likely to be gradual and slow, maintaining prices in check in the medium term.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.0	2.2	-11.1	8.1	4.5	4.1
Private Consumption	3.7	3.0	-9.8	7.6	4.0	4.0
Government Consumption	2.7	4.2	5.5	4.6	4.7	4.0
Gross Fixed Capital Investment	4.7	2.3	-20.5	9.4	6.8	5.4
Exports, Goods and Services	3.9	0.6	-18.0	14.4	5.0	4.3
Imports, Goods and Services	3.3	1.3	-14.5	11.5	5.3	5.0
Real GDP growth, at constant factor prices	4.0	2.2	-11.1	8.1	4.5	4.1
Agriculture	9.6	0.9	1.4	2.2	3.2	3.1
Industry	2.9	-0.2	-13.0	10.0	4.1	3.5
Services	4.1	3.9	-11.3	7.7	5.0	4.5
Inflation (Consumer Price Index)	1.3	2.1	1.8	2.1	2.0	2.0
Current Account Balance (% of GDP)	-1.7	-1.5	0.5	0.3	-0.1	-0.3
Net Foreign Direct Investment (% of GDP)	3.1	4.3	2.1	3.6	4.0	3.7
Fiscal Balance (% of GDP)	-2.3	-1.6	-8.9	-5.5	-3.5	-2.5
Debt (% of GDP)	26.6	27.0	35.0	37.7	38.6	39.3
Primary Balance (% of GDP)	-0.9	-0.3	-7.3	-4.1	-2.1	-1.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.7	2.2	2.6	3.2	2.1	1.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	8.4	7.5	9.4	9.9	7.9	6.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	22.3	20.6	26.6	25.5	22.9	20.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SEDLAC harmonization, using 2007-ENAHO, 2013-ENAHO, and 2019-ENAHO.Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.

(b) Projections for 2020 and 2021consider the impact of emergency cash transfers. Projections for 2022 and 2023 use a poverty-GDP elasticity with 0.7 pass-through.

SAINT LUCIA

Table 1	**2020**
Population, million	0.2
GDP, current US$ billion	1.7
GDP per capita, current US$	9257.4
School enrollment, primary (% gross)[a]	102.3
Life expectancy at birth, years[a]	76.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

The COVID-19 pandemic caused a severe GDP contraction of 20 percent in 2020 and a sharp surge in public debt to 87 percent of GDP. The poor and most vulnerable groups have been disproportionately impacted by the crisis, compounded by potential threats from exposure to extreme climate-related events, exacerbated by climate change. It is critical for the government to balance -term fiscal measures mitigating the impacts on the most disadvantaged with long-term structural reforms maintaining fiscal and economic sustainability.

Key conditions and challenges

Prior to the COVID-19 pandemic, sustained performance in tourism and construction drove growth, averaging 3 percent over 2016-19. Unemployment decreased from 24.1 percent in 2015 to 16.8 percent in 2019, improving the income-generating ability of households. However, as a small island developing state, Saint Lucia faces unique development challenges, including the vulnerabilities of a less diversified economy and high exposure to extreme climate-related events. The rising debt level has constrained the government's capacity to address these development challenges. Although poverty decreased between 2006 and 2016 (the latest available data), income inequality remained high with the Gini index at 51.3 in 2016. The government had made progress in building economic resilience and fiscal sustainability prior to the pandemic, including designing a rules-based Fiscal Responsibility Framework (FRF) and diversifying the economy. Public debt remained stable at around 60 percent of GDP.

The COVID-19 pandemic brought great challenges to public health and has caused significant socio-economic damages. Tourism in Saint Lucia fell sharply in 2020, following the almost complete halt of international travel and caused a severe economic contraction. The pandemic has disproportionately affected the poor and vulnerable, who have limited access to basic goods and services, posing threats to food security.

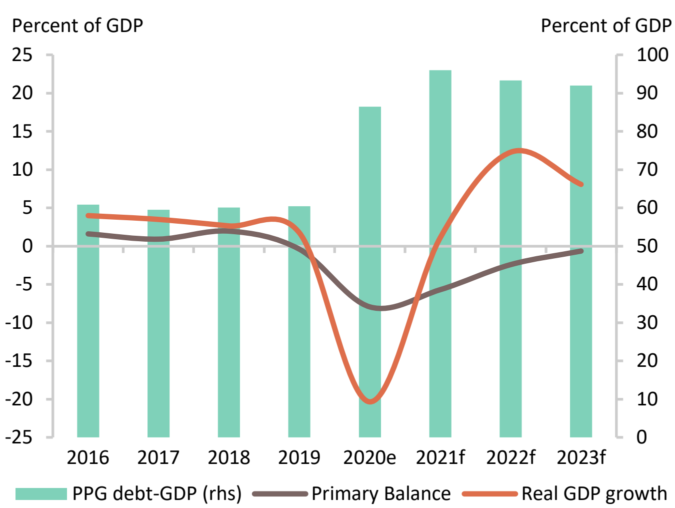
The uncertainty and severity of the ongoing pandemic have magnified the existing high risks related to disasters and external shocks. Weakness in institutional capacity and risks to debt sustainability also constrain the government's ability to cope with these risks. Focused short-term fiscal support is important to protect those most impacted by the pandemic and prevent long-term socio-economic damage. Structural reforms remain crucial to building fiscal sustainability and economic resilience over the long term. This includes the implementation of the FRF once the pandemic abates, reforms on tax expenditures and revenue enhancement, and other reforms to strengthen resilience to climate change and external shocks.

Recent developments

Real GDP contracted by an estimated 20.4 percent in 2020, the deepest decline since 1980. The fallout in tourism, which accounts for about 40.7 percent of GDP, is expected to drive the contraction and increase in unemployment. Almost 45 percent of the population working pre-pandemic had stopped working in May 2020, mostly due to COVID-19 related business closures. Women are more vulnerable to unemployment caused by the pandemic since they are more likely to work in tourism-related sectors.

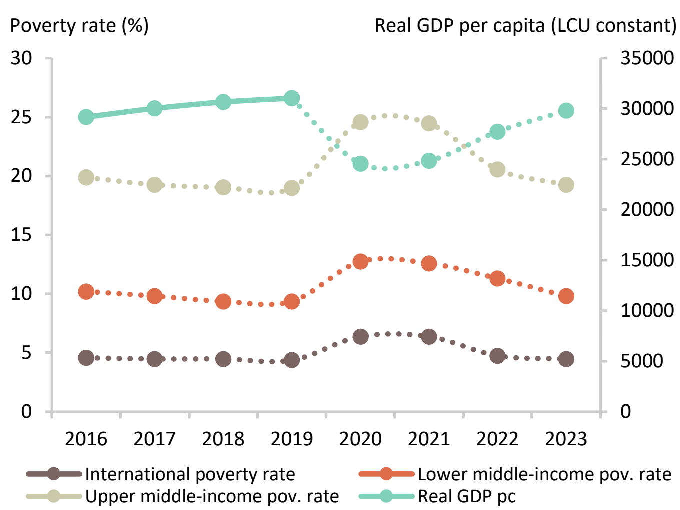
The primary deficit is estimated to have deteriorated to 7.9 percent of GDP in 2020,

FIGURE 1 Saint Lucia / The evolution of main macro variables



Sources: IMF; World Bank staff estimates; ECCB.

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



Sources: World Bank. Notes: see Table 2.

compared with an average of 1.0 percent surplus between 2016-19. General Government debt surged by 20 percent of GDP in 2020, half of which was caused by the large GDP contraction. The more than 30 percent drop of tax revenues also contributed to the deficit, due to losses in taxes on goods & services and international trade. Total expenditure increased by 7 percent of GDP due to a surge in COVID-19 related expenditures, including support to vulnerable groups and public investment projects to create jobs.

The current account deficit is estimated to widen to 14.5 percent of GDP in 2020 from a surplus of 4.6 percent in 2019. The external financing needs are expected to be financed by international development partners, partial rollover of maturing debt, and FDI inflows to tourism-related projects. The deficit is mostly driven by the sharp decline in tourism, which took up 80 percent of total exports in 2019. The drop of commodity exports also contributed to the deficit due to interruptions in international transportation. Nevertheless, the slow pace of domestic economic activities dampened the demand for imports, somewhat tempering the worsening external imbalances. Remittances have picked up in the third quarter, following a sharp temporary decline in the second quarter.

Outlook

In 2021, Saint Lucia's economy is projected to expand only marginally due to the second wave of COVID-19 cases extending into 2021 and delays in the resumption of tourism. Assuming that international travel will gradually restart towards the end of 2021, that private and public sector construction projects rebound, and with the absence of major weather-related events, the economy will rebound strongly after 2022 but will recover its 2019-level only by 2024/25.

Given the severe impacts of the pandemic, it is expected that the fiscal support measures for the most impacted groups will continue in 2021. The fiscal deficit will hence remain elevated, and debt-to-GDP will continue rising in 2021. Due to the expected fast growth, the public debt will gradually decrease, but remain above 90 percent of GDP if no strong fiscal consolidation measures and fiscal reforms are implemented.

As a result of income and job losses, poverty is expected to remain high in 2021, following the spike in 2020. It will, however, be mitigated by the measures implemented by the government, such as the extension of the main social assistance program, the Public Assistance Programme. The poverty rate at the upper middle-income international poverty line of $5.50 per person per day is projected to increase to 24.5 percent in 2021, and then gradually resume its decline to a projected 19.3 percent in 2023. The COVID-19 pandemic is hence expected to undo Saint Lucia's poverty reduction efforts made since 2017.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices[a]	2.6	1.7	-20.4	1.1	12.3	8.1
Real GDP growth, at constant factor prices[a]	2.8	2.8	-20.4	1.1	12.3	8.1
Agriculture	1.7	-0.8	1.9	2.1	2.7	2.5
Industry	-3.4	3.0	-2.7	4.4	3.7	3.3
Services	3.8	2.8	-23.3	0.5	14.1	9.0
Inflation (Consumer Price Index)	2.5	0.6	-1.7	0.3	1.4	1.6
Current Account Balance (% of GDP)	2.2	4.6	-14.4	-13.2	-3.1	1.2
Fiscal Balance (% of GDP)[b]	-1.0	-3.4	-11.5	-9.7	-6.3	-4.2
Debt (% of GDP)[b]	60.1	60.4	86.5	96.0	93.3	92.0
Primary Balance (% of GDP)[b]	1.9	-0.4	-7.9	-5.7	-2.4	-0.7
International poverty rate ($1.9 in 2011 PPP)[c,d]	4.5	4.4	6.4	6.4	4.7	4.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	9.4	9.4	12.7	12.6	11.3	9.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	19.0	19.0	24.6	24.5	20.6	19.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.

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

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

(c) Calculations based on 2016 SLC-HBS. Actual data: 2016. Nowcast: 2017-2020. Forecasts are from 2021 to 2023.Actual data: 2016. Nowcast: 2017-2020. Forecasts are from 2021 to 2023.

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

ST. VINCENT AND THE GRENADINES

Table 1	2020
Population, million	0.1
GDP, current US$ billion	0.8
GDP per capita, current US$	7168.2
School enrollment, primary (% gross)[a]	113.4
Life expectancy at birth, years[a]	72.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

GDP contracted by 4.2 percent in 2020 following COVID-induced shocks and the sudden stop in tourism. Poverty is expected to have increased due to the economic contraction and a drop in household income. After several years of minimal budget deficits and primary surpluses, the COVID-19 economic shock will exert pressure on public finances. Significant public investment, including the port and a new hospital, will pose fiscal challenges as well. Risk of debt distress remains high.

Key conditions and challenges

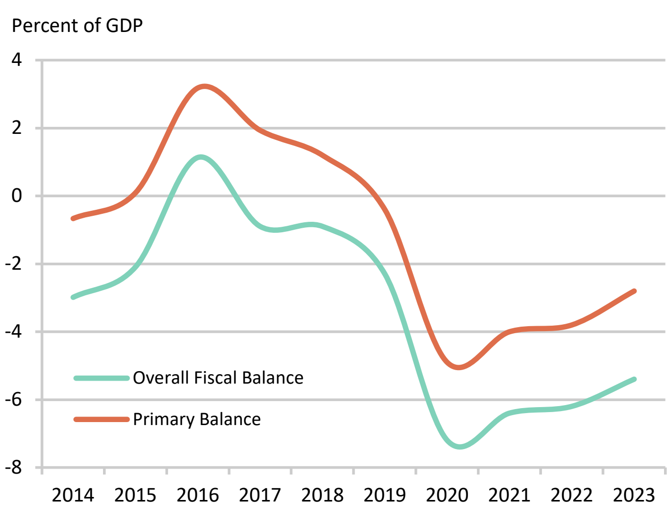
St. Vincent and the Grenadines (SVG) is a small island developing state with an economy driven largely by tourism and agriculture. This makes it particularly vulnerable to climate change, natural disasters, such as tropical storms and hurricanes, and, as experienced most recently, external economic shocks and pandemics. Prior to the COVID-19 pandemic, SVG had been in the process of upgrading essential economic infrastructure to lay the foundation for increased growth and economic diversification, including completion of a new international airport, modernization of the sea port (a 22 percent of GDP public investment), and plans for construction of a new hospital. To accommodate these essential investments, fiscal consolidation had commenced and primary budget surpluses had been achieved over a number of years in order to create fiscal space and maintain public debt at sustainable levels. This included adoption of a Fiscal Responsibility Framework with established fiscal balance, expenditure, wage bill, and debt targets and creation of a contingency fund to create increased fiscal resilience and buffers. The emergence of COVID-19 and the increasing risk of catastrophic volcano activity make this agenda increasingly challenging.

The COVID-19 shock and the resultant global recession have paralyzed the tourism sector and adversely affected domestic production. SVG has one of the highest COVID-19 case counts in the Caribbean. The government responded rapidly to the pandemic, both in terms of an effective health and control response, and in terms of a fiscal stimulus package to limit potential livelihood losses and increases in poverty. The mitigation measures support household consumption, income, and jobs. The precise poverty and welfare impact of current challenging economic and social conditions remain unclear, though there is a reasonable expectation that poverty measures have worsened as most poor work in tourism. The government completed a new household budget survey in 2019 but has not yet published new poverty estimates. Based on the last available data from 2008, the poverty rate was 30.2 percent using the national poverty line of EC$5,523 or US$2,046 per annum per adult.

Recent developments

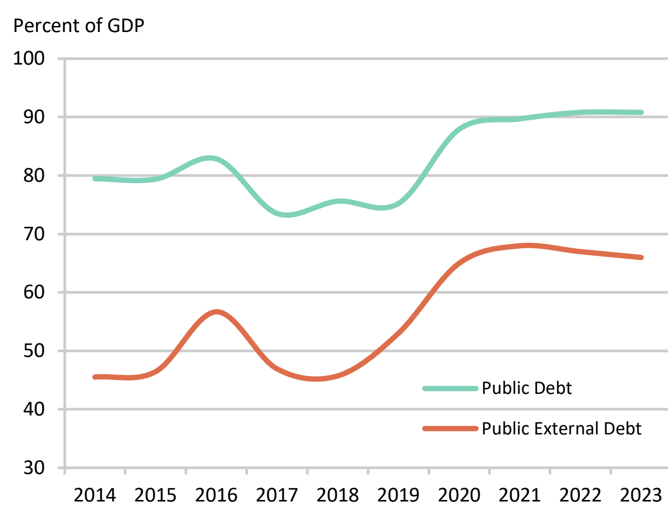
GDP is estimated to have contracted by 4.2 percent in 2020. The government extended transfers under a variety of social protection and business continuation programs, particularly targeting people who lost income because of the pandemic, the poor, and the elderly. However, these measures are unlikely to have fully offset the impacts on poverty. There is a reasonable expectation that poverty measures have worsened as household income from tourism has fallen significantly, which has also affected those indirectly dependent on tourism. Women are expected to have been especially affected, due to their high

FIGURE 1 St. Vincent and the Grenadines / Fiscal balances



Sources: SVG Ministry of Finance (2020), World Bank staff estimates.

FIGURE 2 St. Vincent and the Grenadines / Public debt



Sources: SVG Ministry of Finance (2020), World Bank staff estimates.

participation in the services sector. On top of COVID-related pressures, seismic and increasing volcanic activity at La Soufriere volcano on the main island is posing significant risk of a catastrophic event with attendant fiscal, social, and economic costs. In the event of an eruption, or rupture of the volcanic rim and lava flow from the volcano, all forecasts would need to be revised.

Through 2019, SVG had continued to consolidate spending, achieve primary budget surpluses, and record a declining debt trajectory. However, COVID-19 has led to a widening fiscal deficit, expected to be 7.2 percent of GDP in 2020. Public debt is now estimated to reach 87.9 percent at end-2020 and SVG remains at high risk of debt distress. The widening fiscal deficit in 2020 compared to 2.3 percent in 2019 is driven primarily by pandemic-related expenses and lower revenues as the economy contracts and as direct tourism-related revenues fall. With limited fiscal space to immediately reallocate current expenditures, contraction in the public investment portfolio accommodates to some extent the increased COVID-related expenditures.

Outlook

Growth in 2021 remains uncertain and dependent on pandemic developments. The 2021 peak tourism season is considered lost and, as a result, 2021 growth projections are estimated to be less than 1.0 percent. Inflationary pressures are expected to remain low and stable, and external imbalances, despite pressures from declining tourism receipts, remain well-managed by the ECCB. Risks emanating from the COVID-19 pandemic and the increasing possibility of a volcanic event remain. These risks are accentuated by the existing structural issues, including public financing uncertainties, possible financial sector instability, the loss of physical capital and infrastructure, and rising public debt vulnerabilities. A struggling economy will exert further strain on an already difficult fiscal position and perhaps aggravate financial instability from previously weakened bank balance sheets.

Real GDP growth in recent years had been driven largely by increased tourist arrivals, facilitated by the new airport. Tourism revenue is expected to recover only slowly, depressing growth prospects into 2021 and 2022. Furthermore, in an environment of low growth, high unemployment rates are expected to continue. Considering the impact on the informal sector, it is likely that poverty rates have increased. Economic stimulus and expanded social protection measures will help mitigate the impacts on poverty, though not eliminate them.

Continued fiscal reform is necessary to build fiscal buffers and to ensure public debt returns to a downward trajectory. The government is taking steps to improve tax administration, foster resilience, strengthen SOE governance, and is exploring measures to reform the government workers' pension system. Balances in the contingency fund are growing, which bodes well for future fiscal resilience, though some have been used to respond to COVID-19 demands. Envisaged fiscal consolidation to accommodate the port investment is expected to lead to primary surpluses approaching 3.0 percent of GDP once COVID-19 impacts dissipate and the port modernization is completed in 2024, facilitating a reduction in public debt levels.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices[a]	2.2	0.5	-4.2	0.2	5.0	3.2
Real GDP growth, at constant factor prices[a]	2.0	0.2	-4.2	0.2	5.0	3.2
Agriculture	2.8	-1.0	-6.1	8.3	2.0	-4.1
Industry	2.9	-5.6	-2.8	2.3	3.5	-0.8
Services	1.7	1.7	-4.3	-1.0	5.6	4.7
Inflation (Consumer Price Index)	2.3	0.9	-0.5	0.9	1.9	2.0
Current Account Balance (% of GDP)	-12.0	-10.0	-18.7	-16.9	-15.4	-9.3
Fiscal Balance (% of GDP)[b]	-0.9	-2.3	-7.2	-6.4	-6.2	-5.4
Debt (% of GDP)[b]	75.6	75.2	87.9	89.7	90.8	90.8
Primary Balance (% of GDP)[b]	1.2	-0.4	-4.9	-4.0	-3.8	-2.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

(a) Growth projections for 2021-23 remain sensitive to uncertainties surrounding the timing of the vaccine roll-out and the recovery in tourism.
(b) Budget balances and public debt are for the central government.

SURINAME

Table 1	2020
Population, million	0.6
GDP, current US$ billion	3.4
GDP per capita, current US$	5740.1
School enrollment, primary (% gross)[a]	109.2
Life expectancy at birth, years[a]	71.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

Suriname is a small, natural resource-based economy. Over the past few years, the authorities have not adequately dealt with macroeconomic stability and commodity revenue volatility. A newly elected government has recently adopted a macroeconomic stabilization program and is in discussions with the IMF for support. The COVID-19 pandemic exacerbated existing domestic weaknesses, leading to a sharp GDP contraction and rising unemployment and poverty. The discovery of offshore oil, if adequately managed, may enable fiscal consolidation and higher growth in the medium term.

Key conditions and challenges

Suriname is a small, upper middle-income country. Natural resources play a dominant role in the economy, its exports, employment, and government revenue. The government redistributes revenue earned from extractive industries through significant public sector employment, whereas the private sector is mostly engaged in non-tradeable services. Gold currently represents more than 80 percent of total exports, while the overall mining sector accounts for over 30 percent of public sector revenue.

Suriname has struggled to establish the institutional fiscal and monetary framework that is important to support broader macroeconomic stability given the challenges posed by commodity revenue volatility. As a result, the country has not been able to recover from the recession following the sharp decline in the price of oil and gold and the closure of its bauxite mining operations in 2015. Suriname cancelled a two-year Stand-By Arrangement with the International Monetary Fund (IMF) in 2017.

The most recent poverty estimates for Suriname are from 2017 and poverty is expected to have increased since then. In 2017, over 26 percent of the population was estimated to live in consumption poverty and the Gini coefficient was 0.44. The geographical distribution of poverty was uneven: about half of the population in the rural interior of the country lived in poverty, while poverty rates were markedly lower in the greater Paramaribo region. Suriname ranked 95th out of 144 countries on the World Economic Forum´s Global Gender Gap Index.

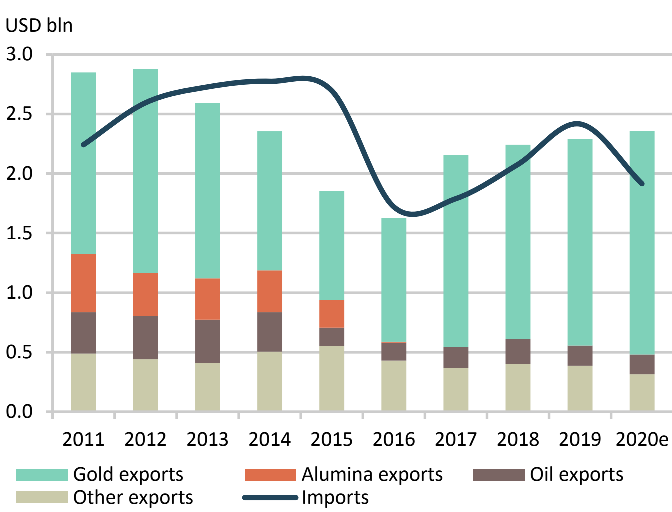
Large macroeconomic imbalances over the past few years, evidenced by high and increasing external and public finance deficits, have been financed by domestic and foreign borrowings as well as significant monetary financing in the run-up to the parliamentary elections on May 25, 2020.

Recent developments

The government, which assumed office mid-July 2020, has recently adopted an adjustment program to deal with the large public sector deficits and balance-of-payments crisis. The fiscal adjustment plan includes several revenue-enhancing and expenditure-containment measures, including a gradual reduction of energy subsidies, a temporary solidarity charge on the highest income tax brackets, and the introduction at a later date of a value added tax instead of the current turnover tax. To mitigate the impact on lower income households, the plan also includes a budget increase to cover an expansion of the social safety net.

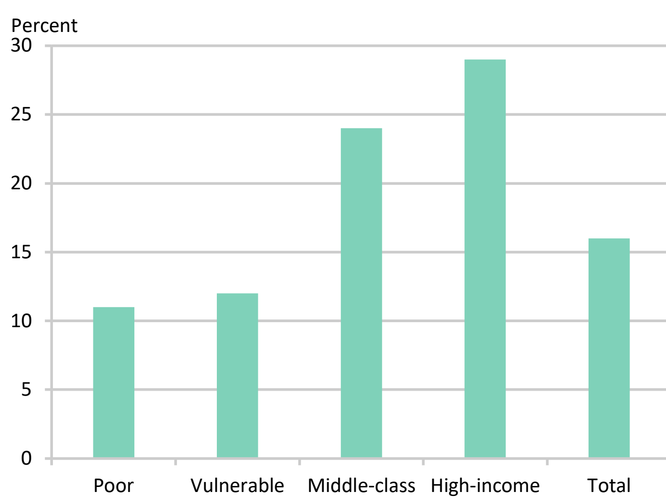
As of mid-September 2020, the Central Bank of Suriname depreciated the official exchange rate to SRD14.3/USD from SRD7.5/USD. Despite the intention to eliminate the premium in the parallel foreign exchange market, the currency still

FIGURE 1 Suriname / External trade, 2011-2020



Sources: Central Bank of Suriname (CBvS).

FIGURE 2 Suriname / Share of workers who can work from home by income group



Sources: World Bank calculations based on 2017 Suriname Survey of Living Conditions.

trades at a discount of approximately 25-40 percent. A depreciation of the official exchange rate was needed as the country had ran out of usable international reserves and has already led to a turnaround in the balance of payments´ current account due to a sharp contraction in imports. The pass-through from currency depreciation to consumer price inflation has been significant as consumer prices experienced an accumulated 12-month inflation of 61 percent by the end of 2020 compared to 4.2 percent end-2019.

Although the confirmed incidence rate is low relative to the regional averages, the COVID-19 pandemic exacerbated an already challenging and volatile situation. The combined impact of the pandemic and macro-economic volatility led to a sharp contraction of output in 2020 by about 14.5 percent and an increase in registered unemployment by at least 7 percent. Though new poverty data are not yet available, increased unemployment, a contraction in output, and a sharp increase in inflation are all expected to have contributed to an increase in poverty and worsened inequality. It is likely that households with the lowest incomes were hit hardest, as their occupations are least amenable to working from home. Women are expected to be particularly affected, as school closures increased their caregiving burden. Up-to-date household survey data are urgently needed to assess poverty and inequality and inform policy decisions.

With nearly three-quarters of public debt denominated in foreign currency, currency depreciation, continued deficit financing, and the contraction of GDP rapidly raised public debt as a share of GDP to about 148 percent by the end of 2020. The government and bondholders of two capital market bonds (to an amount of US$675 million or about 22 percent of total outstanding public debt) agreed last December to reschedule debt service payments on these bonds untill March 31, 2021. Further amendments to the debt service schedule are conditioned on agreement to a new program with the IMF.

Outlook

Agreement on a program with the IMF as well as a restructuring of external debt seems a necessary condition to the success of the country's macroeconomic stabilization. Public sector external financing needs continue to remain substantial over the next couple of years because of a gradual reduction of the large public sector deficits and significant debt service payments. Reduced import demand and higher gold prices already caused a significant turnaround of the current account, which is much needed to rebuild the country's international reserves.

Elevated unemployment rates and negative GDP growth are expected to continue to stymie poverty reduction. During the coming phase of adjustment, efforts to maintain and expand the social safety net are considered key to limit exposure of the poorest and most vulnerable and to mitigate impacts on poverty. A significant, growth-driven reduction in poverty rates is not expected in the immediate future.

Prospects of oil production have improved following potentially large offshore oil discoveries. Apache Corporation and its partner Total have announced four important oil discoveries since January 2020, including one this year. Exxon Mobil and Petronas announced a discovery in December and Royal Dutch Shell completed its acquisition of Kosmos Energy's position in Surinamese waters. The discoveries are expected to support the economy even though it may take a number of years to bring the production on stream.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.6	0.3	-14.5	-1.9	0.1	1.3
Real GDP growth, at constant factor prices	2.6	0.3	-14.7	-2.0	0.1	1.3
Agriculture	-1.8	-2.0	-17.4	-17.9	1.2	4.2
Industry	5.8	-2.4	-18.1	-0.2	0.0	0.7
Services	0.9	3.9	-10.3	1.3	-0.1	1.2
Inflation (Consumer Price Index)	6.9	4.5	34.9	26.8	6.0	4.0
Current Account Balance (% of GDP)	-3.4	-12.2	6.0	9.5	8.3	8.1
Net Foreign Direct Investment (% of GDP)	3.5	-0.5	-2.7	-1.9	1.8	3.6
Fiscal Balance (% of GDP)[a]	-11.4	-21.4	-16.7	-12.7	-8.6	-5.3
Debt (% of GDP)[a]	72.5	93.8	148.3	134.4	139.2	141.2
Primary Balance (% of GDP)[a]	-7.9	-17.9	-12.6	-7.0	-3.5	-0.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Budget balances and public debt are for the central government.

URUGUAY

Table 1	2020
Population, million	3.5
GDP, current US$ billion	54.7
GDP per capita, current US$	15752.3
International poverty rate ($1.9)[a]	0.1
Lower middle-income poverty rate ($3.2)[a]	0.5
Upper middle-income poverty rate ($5.5)[a]	3.2
Gini index[a]	39.7
School enrollment, primary (% gross)[b]	106.0
Life expectancy at birth, years[b]	77.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) Most recent WDI value (2018).

Despite a 5.8 percent GDP contraction in 2020, Uruguay is poised for a rebound of over 3 percent in 2021 and 2022. While immediate fiscal consolidation plans were postponed, the Government's commitment to fiscal sustainability is reflected in the reduction of non COVID-19 expenditures and the adoption of a fiscal rule. The country's existing social safety net protected the most vulnerable from the economic downturn, but risks lie on the downside, notably from the closing of borders to foreign tourism.

Key conditions and challenges

The COVID-19 outbreak put an end to Uruguay's longest consecutive economic growth and poverty reduction period that had lasted for 17 years. In this period, the country's strong institutions were buttressed by prudent macroeconomic and fiscal management and trade diversification. Along with favorable external conditions, this generated substantial gains in economic growth and inclusion. In the process, the country achieved high-income status and its debt was classified as investment grade. Over time, the growth engines however began showing signs of exhaustion, with an average annual GDP growth rate of 0.9 percent since 2015 and a slowdown in poverty reduction. This trend brought GDP growth practically to a halt in 2019.

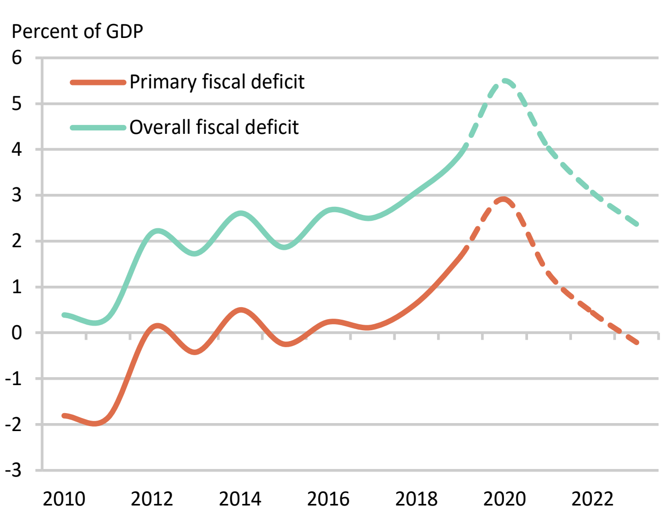
Uruguay's relatively effective handling of the pandemic did not prevent a sharp economic contraction in 2020. An effective containment strategy and the social safety net reinforced by emergency measures initially kept contagion under control, limited the economic impact on the most vulnerable, and allowed for a gradual reopening and economic recovery. In November, following an increase in COVID-19 cases, the Government closed borders to foreign tourism, a key driver of economic activity in the summer season. GDP fell an estimated 5.8 percent in 2020, larger than originally envisioned, but still among the mildest in the region.

The COVID-19 shock postponed the Government's immediate fiscal consolidation plans, seen as a precondition to increase potential growth. Yet, the Government advanced reforms to tackle long-standing structural growth bottlenecks. Most salient reforms are reflected in the Urgent Consideration Law, including the implementation of a fiscal rule, a plan to boost competitiveness that includes SOE reform, a call for a comprehensive pension reform, and a reform to the education system. The new Central Bank (CB) administration announced a new monetary framework, including a narrower inflation target range. Many of the details of these policies are still pending and the short-term outlook for Uruguay is subject to considerable risks, mainly tied to the evolution of the pandemic.

Recent developments

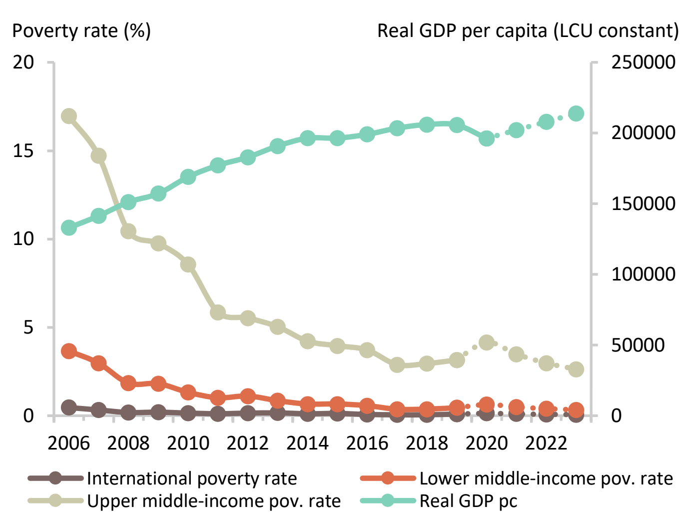
Economic activity fell sharply in the first half of 2020, led by sectors sensitive to social distancing, such as hospitality and retail. The CB issued new (rebased) national accounts, which resulted in higher GDP levels (9 percent on average for 2016-2019), but lower growth for the last 3 years (an average of -0.7pp per year). According to the new national accounts, GDP recovered 7.8 percent in 2020Q3 (qoq) favored by regained mobility, but it was still 5.8 percent below its previous peak. Acceleration in the spread of the pandemic in 2020Q4 and renewed containment measures buffered the prospects

FIGURE 1 Uruguay / Actual and projected primary and overall fiscal deficits



Sources: Ministry of Economy and Finance, Central Bank of Uruguay and World Bank staff calculations.

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



Sources: World Bank. Notes: see Table 2.

of a stronger recovery. Yet, labor participation recovered to 61.3 percent in December (from 57.7 percent in April) and the employment rate increased from 52.1 to 54.9 percent in the same period.

The current account deteriorated due to investments in an ongoing US$3bn paper mill project (UPM 2) and related import demand, coupled with a sharp fall in exports. The initial depreciation of the peso triggered a temporary rise in inflation that subdued once the exchange rate stabilized. Still, average inflation in 2020 reached 9.8 percent, its highest record since 2003. The CB shifted its policy focus from monetary aggregates to the interest rate, announced a tighter monetary policy stance once growth resumes, and lowered the inflation target range to 3-6 percent.

The COVID-19 shock postponed earlier plans for fiscal consolidation. The fiscal deficit grew from 3.9 percent of GDP in 2019 to 5.5 percent of GDP in 2020, due to lower revenues and COVID-19-related expenditures. A real reduction in public wages and capital expenditures, and exceptional taxes raised on public-sector high earners, helped mitigate the fiscal gap and signaled Government's continued commitment to fiscal prudence.

The existing social protection system and the Government's emergency measures mitigated COVID-19-related negative effects on labor income and welfare. Flexibilization of the unemployment insurance scheme has prevented households in the middle of the distribution from falling into vulnerability. Welfare losses in the lower end of the distribution were partly contained by increases in the benefit amounts of existing transfers, and a new transfer targeting informal workers not covered by other programs. Overall, 35,000 people are expected to have fallen under the international upper middle-income poverty line (from 3.2 in 2019 to 4.2 percent in 2020).

Outlook

The late COVID-19 flare-up and its effects on tourism lowered expectations of a strong economic recovery and emphasized the downside risks. However, the expected recovery in external demand conditions and domestic absorption results in a projected 3.4 percent GDP growth in 2021, with quarterly GDP reaching its pre-pandemic level in late 2021. The UPM 2 project is expected to contribute significantly to GDP growth through 2023, during construction and once operational. It will contribute to a larger current account deficit for the next two years, but is expected to boost exports starting in 2023. GDP growth is expected to gradually converge down to 2.5 percent by 2023, by when a stronger anti-inflationary stance is expected to bring inflation down.

The fiscal consolidation plan for 2021 in the quinquennial budget will be eased, given the deeper and longer than anticipated effects of the pandemic. Still, the fiscal deficit is expected to fall to 4 percent of GDP in 2021 and continue to improve going forward in the context of the newly enacted structural fiscal rule, based on the phasing out of COVID-19-related expenditures, stronger economic growth, and efficiency gains. A primary surplus is projected in the forecast horizon. A pension reform, currently under discussion by a multi-party technical committee, will also shape the longer-term fiscal prospects.

Despite a recovery in labor market performance in 2020Q3, the tourism-season shock is expected to deteriorate employment conditions. Recovery dynamics in labor-intensive sectors that fell behind overall economic activity may contribute to increased vulnerability and inequality, and prevent poverty from returning to pre-pandemic levels in 2021. Unemployment among women has been increasing since the onset of the pandemic and may continue this trend if difficult conditions in the hospitality industry persist.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	0.5	0.3	-5.8	3.4	3.1	2.5
Private Consumption	2.1	0.5	-5.6	2.4	2.1	1.4
Government Consumption	2.6	0.2	1.9	0.3	-0.4	0.6
Gross Fixed Capital Investment	-9.0	-1.7	-0.3	5.3	5.6	5.6
Exports, Goods and Services	-1.7	6.3	-13.0	11.1	7.9	3.3
Imports, Goods and Services	0.0	1.5	-5.9	8.5	5.6	1.5
Real GDP growth, at constant factor prices	0.4	0.6	-5.8	3.4	3.1	2.5
Agriculture	4.5	1.3	-5.8	4.0	3.1	2.5
Industry	5.8	-2.2	-6.0	4.5	3.9	2.0
Services	-0.7	1.0	-5.8	3.2	3.0	2.6
Inflation (Consumer Price Index)	7.6	7.9	9.8	7.5	6.9	6.3
Current Account Balance (% of GDP)	0.0	0.9	-0.5	-1.4	-0.7	-0.6
Net Foreign Direct Investment (% of GDP)	4.4	4.5	5.4	5.6	4.9	4.8
Fiscal Balance (% of GDP)[a]	-3.1	-3.9	-5.5	-4.0	-3.1	-2.4
Debt (% of GDP)	55.5	56.7	66.3	67.7	67.3	64.8
Primary Balance (% of GDP)[a]	-0.6	-1.7	-2.9	-1.3	-0.4	0.2
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.1	0.1	0.1	0.1	0.1	0.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	0.4	0.5	0.6	0.5	0.4	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	3.0	3.2	4.2	3.5	3.0	2.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

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

(b) Calculations based on SEDLAC harmonization, using 2013-ECH, 2018-ECH, and 2019-ECH.Actual data: 2019. Nowcast: 2020. Forecast are from 2021 to 2023.

(c) Projection using point-to-point elasticity (2013-2018) with pass-through = 1 based on GDP per capita in constant LCU.

Middle East and North Africa

Spring Meetings 2021

Algeria	Jordan	Palestinian Territories
Bahrain	Kuwait	Qatar
Djibouti	Lebanon	Saudi Arabia
Egypt, Arab Republic	Libya	Tunisia
Iran, Islamic Republic	Morocco	United Arab Emirates
Iraq, Republic	Oman	Yemen, Republic

ALGERIA

Table 1	2020
Population, million	44.1
GDP, current US$ billion	144.9
GDP per capita, current US$	3286.7
National poverty rate[a]	5.5
International poverty rate ($1.9)[a]	0.4
Lower middle-income poverty rate ($3.2)[a]	3.7
Gini index[a]	27.6
School enrollment, primary (% gross)[b]	107.3
Life expectancy at birth, years[b]	76.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2011).
(b) WDI for School enrollment (2019); Life expectancy (2018).

The Algerian economy contracted sharply in 2020 due to measures to contain the pandemic and a significant fall in hydrocarbon production, contributing to a major deterioration of the twin deficits. Swift lockdown measures have helped contain the pandemic, while the vaccination campaign was launched in January. To support the recovery, authorities have announced a longstanding economic reform effort to transition to a private sector-led economic model, reduce severe macroeconomic imbalances and protect the livelihoods of Algerians.

Key conditions and challenges

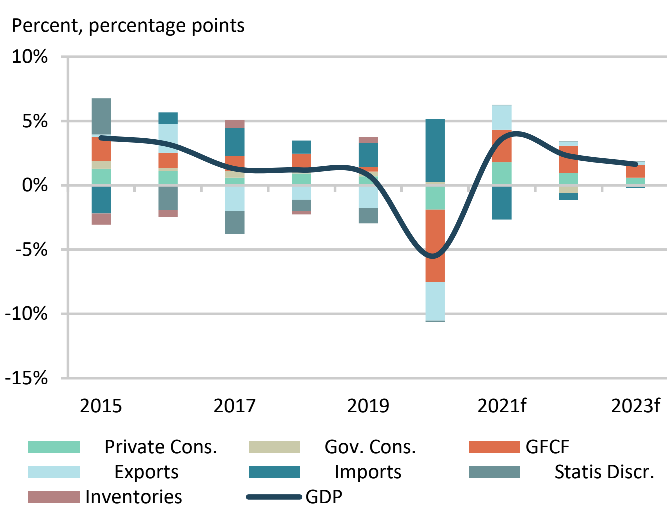
Algeria's economic performance is declining due to stagnating hydrocarbon production and a winded public sector-led model. Average annual real GDP growth reached 3.3 percent between 2010 and 2016, before falling to 1.1 percent after 2017, leading to negative GDP per capita growth. The hydrocarbon sector shrank by 2.1 percent yearly since 2010 due to declining investments, with the rise in domestic consumption leading to a 2.8 percent yearly fall in export volumes. This, combined with the decline in international oil prices, resulted in the current account and overall budget deficits averaging 13 percent and 11 percent of GDP, respectively, since the 2014 oil shock. Real public spending has since stagnated, and the pace of growth of nonhydrocarbon sectors has slowed down. The transition to a private sector-led growth model is proving challenging, with private firms remaining small, of low productivity, largely informal and confronted with significant challenges such as a high regulatory burden, limited access to credit, a labor market skills gap and the omnipresence of state-owned enterprises.

Amid the COVID-19 pandemic and concurrent crash in oil demand and prices, the Algerian economy is facing significant stress. The impact of lockdown measures has been broad-based, with the services and construction sectors, as well as sectors which are labor-intensive and concentrated in the informal segment, being particularly affected. Algeria's borders have been closed for a year, and trade flows have declined sharply. Meanwhile, the abrupt fall in oil prices in February 2020 and decline in hydrocarbon exports have taken a heavy toll on fiscal and external revenues. In March 2021, lockdown measures remain in place, but the vaccination campaign has started, with modest vaccine deliveries in January. The government has adopted the Socio-Economic Recovery Plan in 2020, which lays out a structural reform agenda to foster the transition towards a sustainable, private-led growth model. While numerous reforms have been announced, there remains high uncertainty surrounding their implementation.

Recent developments

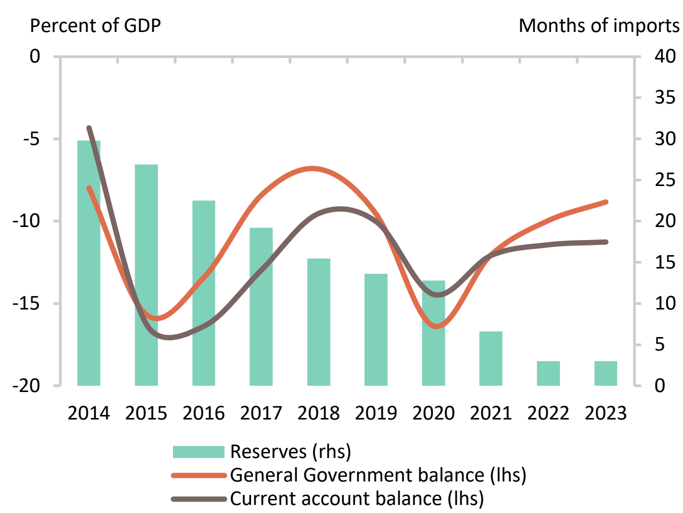
Amid COVID-19 containment measures and a contraction in hydrocarbon output, real GDP is expected to have contracted by 5.5 percent in 2020. The hydrocarbon sector is expected to have declined by 8.5 percent, led by a sharp fall in crude oil production, to below Algeria's OPEC production quota. Although complete national accounts data beyond Q1-2020 remain unavailable, non-hydrocarbon GDP is expected to have fallen by 4.4 percent in 2020. After moderate declines in Q1, the contraction in production, consumption and investment worsened in Q2. The sectors related to services were significantly

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



Sources: Algerian authorities, World Bank staff estimates.

FIGURE 2 Algeria / Twin deficits and international reserves



Sources: Algerian authorities, World Bank staff estimates.

impacted, as were industrial and construction activities, in line with the fall in investments. The economic contraction is expected to have extended to the second semester, with lockdown measures still in place. Despite the lack of recent estimates, poverty is expected to have risen in 2020 due to falling growth and employment, although inflationary pressures have remained contained.

Due to volume and price effects, exports fell by 37 percent in 2020, despite a moderate exchange rate depreciation. During the first eleven months of 2020, imports have declined by 18 percent y-o-y, with a pronounced contraction in machinery and equipment imports. The current account deficit is expected to have increased to 14.4 percent of GDP, and international reserves fell by 24 percent, to around 12.8 months of imports.

On the fiscal front, tax revenues have declined in H1-2020 compared to H1-2019, compounding the sharp fall in hydrocarbon budget revenues. Public spending remained unchanged, as the increase in current expenditure counterbalanced the fall in investment. Off-budget Treasury interventions, however, had already reached 4 percent of GDP by midyear, in the context of increased support to public banks and SOEs. To finance an overall budget deficit expected at 16.4 percent of GDP, significant liquidity was drawn from SOEs, contributing to a fall in banking liquidity despite a significant easing of prudential ratio. Such liabilities are excluded from official public debt, which therefore recorded a moderate increase, and remains on very favorable terms.

Outlook

A slow pace of economic recovery is expected for 2021 and 2022, amid large uncertainties as to the duration of the sanitary and economic crises. To date, the pace of the vaccination campaign suggests that partial containment measures could remain in place until 2022. Falling employment and firm revenues, and low consumer and business confidence, could limit private consumption and investment. The planned increase in public investment will support growth, although project costs will increase, in line with import prices. Hydrocarbon production and exports are expected to recover, supported by higher global demand and oil prices, but the partial recovery in imports will limit the reduction in the current account deficit. The overall budget deficit should remain elevated in 2021 and 2022 despite a recovery in hydrocarbon revenues, as public spending and realized contingent liabilities from public banks exposed to struggling SOEs increase. Further exchange rate depreciation and monetary financing are expected, to address high financing requirements. Imported inflationary pressures will mount and, combined with economic activity and employment remaining below the economic potential, poverty reduction will remain elusive.

Uncertainties surrounding the pace of the global and domestic recovery and domestic reform implementation, remain high. The spread of new variants of COVID-19 could limit the effectiveness of the vaccination campaign, and delay the global and domestic economic recovery, thereby leading to depressed external demand for international travel and Algerian exports. Lower-than-expected hydrocarbon prices would increase the twin deficits, while meeting the large budget financing requirements may adversely impact banking liquidity and undermine recovery efforts. With foreign exchange reserves expected to cover three months of imports by end-2022, the risk of a disorderly exchange rate adjustment has increased. Amid a volatile economic environment and recovered oil prices, insufficient progress in implementing decisive economic reforms to foster private sector activity would hinder the recovery.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.2	0.8	-5.5	3.6	2.3	1.6
Private Consumption	2.8	2.1	-5.5	5.2	2.8	1.7
Government Consumption	2.3	1.9	1.3	-0.2	-2.9	-0.5
Gross Fixed Capital Investment	3.1	1.0	-15.9	8.0	6.4	2.9
Exports, Goods and Services	-3.7	-6.1	-11.1	7.4	1.2	1.0
Imports, Goods and Services	-3.6	-6.9	-19.7	12.3	2.4	0.5
Real GDP growth, at constant factor prices	1.5	1.0	-5.5	3.6	2.3	1.7
Agriculture	3.5	2.7	1.6	1.6	1.5	1.4
Industry	-2.6	-1.7	-7.3	5.1	1.9	1.7
Services	5.6	3.3	-5.3	2.7	2.9	1.7
Inflation (Consumer Price Index)	3.5	2.3	2.1	3.9	4.1	4.0
Current Account Balance (% of GDP)	-9.5	-10.0	-14.4	-12.1	-11.4	-11.3
Fiscal Balance (% of GDP)	-6.8	-9.6	-16.4	-12.1	-10.0	-8.8
Debt (% of GDP)	37.6	45.6	51.4	56.1	60.5	65.3
Primary Balance (% of GDP)	-6.3	-9.0	-15.7	-11.6	-9.4	-8.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

BAHRAIN

Table 1	2020
Population, million	1.7
GDP, current US$ billion	33.3
GDP per capita, current US$	19589.5
School enrollment, primary (% gross)[a]	98.0
Life expectancy at birth, years[a]	77.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2019); Life expectancy (2018).

Significant disruptions related to COVID-19 compounded by sharp fall in oil prices weighed heavily on Bahrain's economy in 2020. Fiscal and external deficits worsened, reversing the narrowing path observed in 2019. Widespread access to the vaccine, higher oil prices, and commitment to implement policies under the Fiscal Balance Program, particularly those pertaining to tackling budget rigidities and providing fiscal support to the most vulnerable, will improve the outlook. Downside risks arise from further resurgence of COVID-19 outbreaks, volatility in hydrocarbon prices, and delays in fiscal reforms.

Key conditions and challenges

The COVID-19 crisis and ensuing oil price slump have highlighted the vulnerability of the country's over-reliance on oil exports for non-oil growth and fiscal revenues. Even prior to the pandemic, lower oil prices since 2014 have generated sizable fiscal and external imbalances and resulted in large financing needs and borrowing costs. The authorities responded by announcing Fiscal Balance Program (FBP) in 2018 supported by US$10 billion commitment from GCC peers, which aims to achieve a balanced budget by 2022. While fiscal reforms under the FBP helped to narrow the fiscal deficit prior to COVID-19, protracted low oil prices and large off-budgetary spending kept the fiscal deficit over 9 percent of GDP in 2019. Lingering fiscal deficits led to rapid debt accumulation that exceeded 100 percent of the GDP in 2019 and is expected to rise in the coming years with sizable gross financing needs.

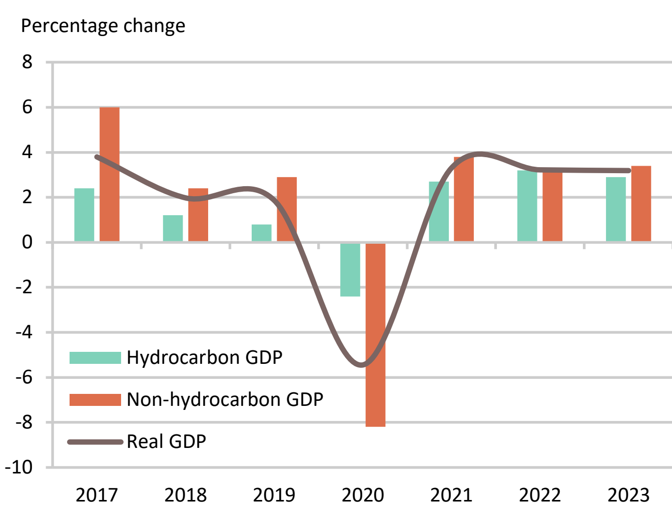
This difficult macro-fiscal situation was significantly worsened by the hit of lower oil prices and the health and economic fallout of COVID-19. The government responded quickly to deliver liquidity support to sectors and households affected by lockdowns and more recently with brisk access to vaccination to limit the spread of the virus. However, the fiscal and monetary stimulus package of headline size over BHD4.5 billion (36 percent of GDP) introduced cumulatively in March and July 2020 to mitigate the impact of the pandemic put additional pressure on an already precarious fiscal position, and will make the pre-pandemic FBP targets more difficult to achieve on time.

The shocks underscore the importance of accelerating key reforms envisaged under FBP, including reduction of the twin deficits to ensure debt sustainability and ease pressures on reserves. Meanwhile, reforms to address the weak fiscal position and lift the growth will be challenging given the government's generous subsidy system amidst limited financial resources, large public debt and bulky gross financing needs. While Bahrain is rapidly rolling out vaccines, the services-based non-oil sector will face a balancing act between resumption of travel and containment of the virus, especially new variants. The dynamism in diversification has come from Bahrain's footholds in global innovator services and labor-intensive tradable services, but these are areas in which other countries are putting considerable effort and comparative advantage can be eroded quickly.

Recent developments

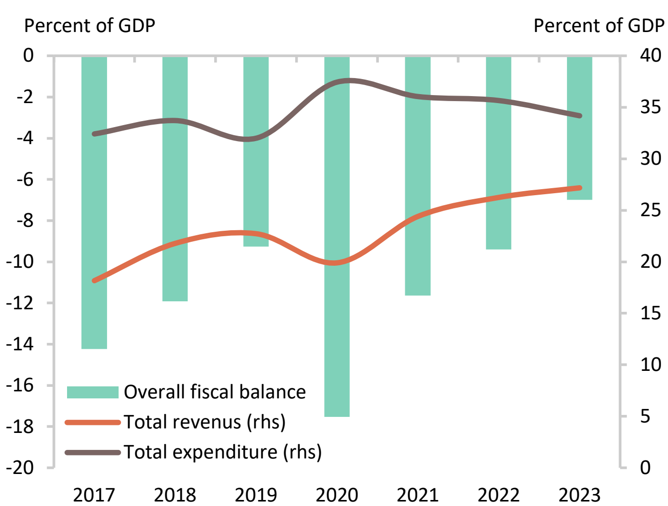
Faced with this multifarious crisis, the economy is estimated to have contracted by 5.4 percent in 2020 weighed down by sharp 8 percent (y/y) contraction in non-oil economy, mainly that related to the all-important services and tourism. Oil GDP saw a 2.0 percent decline as oil production remained capped by the OPEC+ cut agreement.

FIGURE 1 **Bahrain** / Real annual GDP growth



Sources: Bahrain authorities, World Bank; and IMF staff projections.

FIGURE 2 **Bahrain** / General government operations



Sources: Bahrain authorities, World Bank; and IMF staff projections.

Weak consumer demand led to 2.6 percent (y/y) deflation in 2020.

The unprecedented fiscal and monetary mitigation measures introduced to lessen the fallout brought by COVID-19, along with the sharp plunge in oil prices and the concomitant constrained oil production capacity have rapidly widened the overall fiscal deficit to over 17 percent of GDP, reversing the narrowing path observed in 2019. The public debt-to-GDP ratio is estimated to have reached 133 percent in 2020, reflecting the highly strained fiscal position; financing needs are correspondingly sizable.

The current account deficit is estimated to have worsened from 2.1 percent of GDP in 2019 to more than 9 percent of GDP in 2020 primarily due to a sharp decline in oil exports, which accounts for over 55 percent of total exports (2019). Foreign reserves are estimated to have declined to almost 1.4 months of non-oil imports at end-2020.

Poverty data is sparse. The most recent labor data available for Bahrain corresponds to the second quarter of 2019. According to the Labor Market Regulatory Authority (LMRA), foreign workers accounted for 80 percent of the country's total employment. The number of employed Bahrainis had been falling prior to the pandemic (2019 Q2 compared to 2018). Similarly, median monthly wages among Bahrainis fell 1.1 percent between the second quarter of 2018 and 2019.

Outlook

The outlook for Bahrain's hinges on the uncertainty related to the pandemic, the effectiveness of the vaccine, evolution of global oil markets and the reforms process. Economic growth is expected to gradually rebound to 3.3 percent in 2021, underpinned by the rebound in non-oil activity as rapid rollout of the vaccine will boost the sectors most impacted by the pandemic. Growth is projected to remain modest at an average of 3 percent over the medium term as fiscal austerity measures will act as a headwind to post-pandemic catch-up.

In the absence of structural reforms, the fiscal deficit is projected to remain sizable at 11 percent of GDP in 2021 amidst modest recovery in oil prices. In the aftermath of the pandemic, steadfast fiscal reforms and better-targeted subsidies under the FBP, accompanied with development of new oil and gas resources will gradually narrow the fiscal deficit. However, debt to -GDP ratio is expected to increase to over 133 percent in 2021, and to remain elevated in the forecast period implying still large financing needs. Large current account deficits are likely to persist in 2021-23 albeit at slightly moderated levels thanks of modest oil price gains.

Key risks to the outlook arise from the possibility of recurring COVID-19 outbreaks that could force retightening of containment measures and harm the non -oil growth prospects. A further downturn in hydrocarbon prices (e.g. if global supply gets too far ahead of demand recovery) will limit fiscal space to absorb further shocks.

The COVID-19 pandemic and the measures to mitigate the outbreak had a negative impact in sectors such as tourism and services, that are important sources of employment and diversification. The recovery of the labor market will depend on the speed of the rollout of the vaccine not only domestically but, in the case of tourism, in Saudi Arabia and other large markets that are traditional sources of business and leisure travel to Bahrain. These countries are also augmenting their homegrown portfolio of services sectors that increasingly compete with Bahrain.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.0	1.9	-5.4	3.3	3.2	3.2
Private Consumption	1.4	-1.0	-4.0	3.9	2.9	2.7
Government Consumption	1.8	-1.5	6.5	3.3	1.4	1.2
Gross Fixed Capital Investment	9.5	1.4	-6.8	2.3	4.4	4.5
Exports, Goods and Services	3.3	0.4	-10.4	5.0	5.5	5.7
Imports, Goods and Services	5.7	-5.5	-10.0	6.0	4.2	3.4
Real GDP growth, at constant factor prices	2.0	1.9	-5.4	3.3	3.2	3.2
Agriculture	3.8	-1.0	0.8	1.5	1.6	1.5
Industry	0.2	2.3	-4.8	2.5	3.0	3.7
Services	3.3	1.6	-5.9	3.8	3.4	2.8
Inflation (Consumer Price Index)	2.1	1.0	-2.6	2.5	2.3	2.2
Current Account Balance (% of GDP)	-6.6	-2.2	-9.6	-6.9	-4.6	-3.5
Net Foreign Direct Investment (% of GDP)	3.7	3.0	1.1	1.3	1.9	2.6
Fiscal Balance (% of GDP)	-11.9	-9.3	-17.6	-11.7	-9.4	-7.0
Primary Balance (% of GDP)	-7.5	-4.8	-12.6	-6.9	-4.7	-2.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

DJIBOUTI

Table 1	2020
Population, million	1.0
GDP, current US$ billion	3.4
GDP per capita, current US$	3425.5
International poverty rate ($1.9)[a]	17.0
Lower middle-income poverty rate ($3.2)[a]	39.8
National poverty rate[a]	21.1
Gini index[a]	41.6
School enrollment, primary (% gross)[b]	73.8
Life expectancy at birth, years[b]	66.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) Most recent WDI value (2018).

Djibouti's economy weathered the initial impact of the pandemic well, averting a contraction. Output expanded by 0.5 percent in 2020, driven by buoyant free zone re-exports and exports of transportation, logistics, and telecommunication services to and from Ethiopia in the latter half of the year. Yet, extreme poverty increased slightly to 14.7 percent in 2020. Djibouti's growth prospects, while favorable, depends critically on Ethiopia's political and economic conditions. High global food prices raise concern about Djibouti's food security.

Key conditions and challenges

As a small state with a population of less than one million, Djibouti has leveraged its strategic location at the southern entrance to the Red Sea, along some of the world's busiest shipping lanes. Djibouti also plays an important security role in the Horn of Africa, hosting several military bases for foreign countries with forces supporting global anti-piracy efforts including France, the United States and NATO. It also hosts refugees from Yemen and Somalia as well as asylum seekers from Ethiopia who are fleeing political crises and natural disasters.

Over the past decade, Djibouti economy grew rapidly by over 6 percent per year, on average, driven by externally-financed, large-scale investment in transport and port infrastructure, to make the most out of its strategic location and deep-water port to serve as key regional refueling, trade and transshipment center. The economic expansion of Ethiopia, the largest landlocked neighbor, has also fueled Djibouti's growth by stimulating trade and logistic activities, most notably through re-exports by Ethiopian companies in the free zones. However, the development strategy based on sizable investments has come at the cost of rising debt vulnerabilities. Djibouti's public and publicly guaranteed debt rose sharply from 37.5 percent of GDP in 2010 to peak at about 72 percent in 2017. The country is assessed at high risk of external debt distress. The repayment burden of its fast-maturing debts has limited the fiscal space for much-needed spending in social sectors.

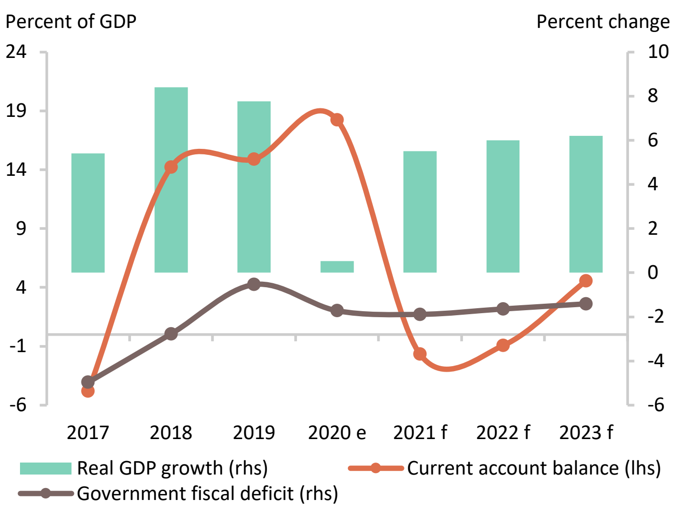
Rapid growth has allowed Djibouti to acquire a lower-middle income status, but poverty, while declining overall, remains a major problem. Due to its arid climatic conditions, Djibouti's agriculture sector has very limited potential to create employment and feed the population. In 2017, an estimated 39 percent of the population lived below the lower-middle income poverty line (US$3.2 per day) and 17 percent in extreme poverty (below the international poverty line of US$1.9 per day). Heavy reliance on food imports is a key vulnerability for the country.

Recent developments

Djibouti weathered the Covid-19 crisis relatively well. Despite a sharp fall, GDP growth remained positive at 0.5 percent in 2020, as a recovery of key domestic market-oriented sectors (construction, trade and energy) and strong economic activity in Ethiopia boosted re-export activities and transportation and logistics services in the latter half of the year. Inflation remained low at 1.8 percent in 2020, down from 3.3 percent in 2019.

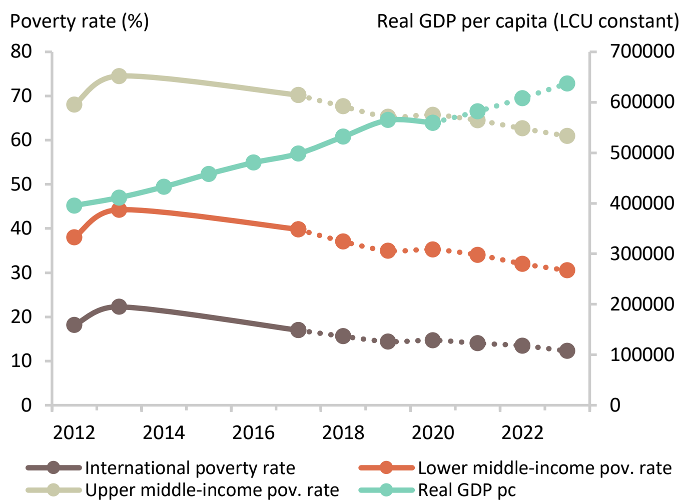
The fiscal deficit rose to an estimated 1.7 percent of GDP in 2020 from 0.5 percent in 2019. The deterioration of the fiscal position was less than initially expected. Although revenue declined, COVID-related

FIGURE 1 Djibouti / Real GDP growth, fiscal, and current account balances



Sources: Government of Djibouti and World Bank staff projections.

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



Sources: World Bank. Notes: see Table 2.

spending increases—hiring of doctors and other medical staff, food vouchers for vulnerable household and support to struggling firms—were more than compensated for by the delays in the execution of ongoing and new investment projects. The participation in the G-20 debt service suspension initiative (DSSI) has also provided Djibouti valuable fiscal space to absorb the fiscal impact of COVID-19. Revenue performance improved in the latter half of 2020, owing to buoyant customs and direct tax revenues. The lease of land used as military bases by foreign armed forces also provided a stable source of nontax revenue. The deficit was financed by concessional borrowing, pushing up public debt to 70 percent of GDP in 2020, from 66.9 percent in 2019.

The current account surplus, including the free zones, rose sharply, due to robust exports and a compression of imports, especially of capital goods. Strong foreign direct investment, IMF Rapid Credit Facility and other disbursing budget support increased reserves from 3.7 months of imports in 2019 to 4.6 months in 2020, resulting in the currency board arrangement coverage of 105 percent, well above the minimum required. The banking sector remained stable and sound and in ample liquidity with a solvency ratio of 14.2 percent in September 2020, a ratio of nonperforming loans to gross loans down by more than 2 points compared to the previous year, and a provisioning rate of NPL of 78 percent.

The poverty rate increased modestly from 14.4 percent in 2019 to 14.7 percent (international poverty rate). In July 2020, phone surveys revealed that 19 percent of urban households' breadwinners had lost their jobs largely due to the pandemic. Nonetheless, subsequent surveys showed that employment has been trending back to its pre-COVID levels. The phone surveys also showed that 12 percent of the households are severely food insecure, while 27 percent are moderately insecure, according to the Household Food Insecurity Access Scale, and that poorer households contended with more severe food security challenges.

Outlook

The medium-term outlook is positive. Output growth is set to reach 5.5 percent in 2021 and average 6.1 percent a year over 2022-23, as a recovery of global trade would drive re-exports and demand for Djibouti's transshipment, logistics, and telecommunication services. The resumption of infrastructure projects, such as the construction of a ship repair yard, is also expected to support non-trade growth and create jobs, while further increasing Djibouti's competitive advantage as a regional trade and logistic hub in the medium run. The current account will likely slip into a deficit in 2021-22, reflecting a surge in capital goods imports for infrastructure projects. A return to fiscal consolidation is not expected in the near future, as the authorities recently announced additional targeted measures to support businesses and households, including a halving of the minimum flat-rate tax and tax exemptions to the ICT, transport and tourism sectors. The fiscal deficit would start narrowing in 2023, provided that the Covid-related fiscal measures are phased out.

There is considerable uncertainty surrounding the economic outlook. Given its heavy reliance on trade, Djibouti's economy is vulnerable to the global economic conditions. In particular, a potential economic and political deterioration in Ethiopia would have knock-on effects on Djibouti's growth. Given the country's reliance on food imports, persistently high global food prices are a cause of concern, as they were during the global financial crisis in 2008-09.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	8.4	7.8	0.5	5.5	6.0	6.2
Private Consumption	4.8	5.0	-5.0	4.9	4.9	4.9
Government Consumption	1.9	-0.5	-2.1	-0.5	3.5	-2.3
Gross Fixed Capital Investment	-30.8	26.4	-37.2	3.9	2.9	12.1
Exports, Goods and Services	10.3	12.9	7.5	5.5	6.0	6.0
Imports, Goods and Services	-15.3	13.9	-0.5	4.8	5.5	5.5
Real GDP growth, at constant factor prices	8.8	7.2	0.5	5.5	6.0	6.2
Agriculture	15.3	0.7	3.5	3.5	3.5	3.5
Industry	45.3	9.4	2.0	5.0	8.2	8.2
Services	3.0	6.8	0.1	5.6	5.5	5.8
Inflation (Consumer Price Index)	-0.1	3.3	1.8	2.0	2.0	2.0
Current Account Balance (% of GDP)	14.2	14.9	18.2	-1.7	-0.9	4.5
Fiscal Balance (% of GDP)	-2.8	-0.5	-1.7	-1.9	-1.6	-1.4
Debt (% of GDP)	69.9	66.9	70.0	67.7	64.5	62.1
Primary Balance (% of GDP)	-1.6	0.8	-0.4	-0.4	-0.1	-0.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	15.6	14.4	14.7	14.0	13.5	12.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	37.1	35.0	35.3	34.0	32.0	30.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	67.7	65.3	65.8	64.5	62.7	61.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2017-EDAM .Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2017) with pass-through = 0.7 based on GDP per capita in constant LCU.

ARAB REPUBLIC OF EGYPT

Table 1	2020
Population, million	102.3
GDP, current US$ billion	360.6
GDP per capita, current US$	3523.7
Lower middle-income poverty rate ($3.2)[a]	28.9
National poverty rate[a]	32.5
Gini index[a]	31.5
School enrollment, primary (% gross)[b]	106.4
Life expectancy at birth, years[b]	71.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) WDI for School enrollment (2019); Life expectancy (2018).

Economic activity and employment started resuming, yet the resurgence in COVID-19 cases is clouding the nascent economic uptick. Pressures arise from the severely affected foreign income sources (tourism, goods exports, FDI) but remittances, portfolio inflows and external financing continue to support international reserves. Besides pandemic-containment efforts, pushing ahead with macro-fiscal and structural reforms, strengthening social protection and advancing the human capital agenda will be crucial for a strong recovery.

Key conditions and challenges

Egypt's macroeconomic reforms helped stabilize the economy in recent years and allowed the country to enter the COVID-19 crisis with improved fiscal accounts and a relatively ample level of foreign reserves. Energy sector reforms helped boost electricity supply and gas exports, opened up the energy market for private activity, especially in renewables. However, the adverse repercussions of the pandemic undermined the recent progress and shed light on long-standing challenges. These include the sluggish non-oil private sector activity, underperforming exports and FDI, the elevated government debt-to-GDP ratio (despite recent significant reduction), below-potential revenue-mobilization and the unfavorable budget structure, with limited allocations to health and education.

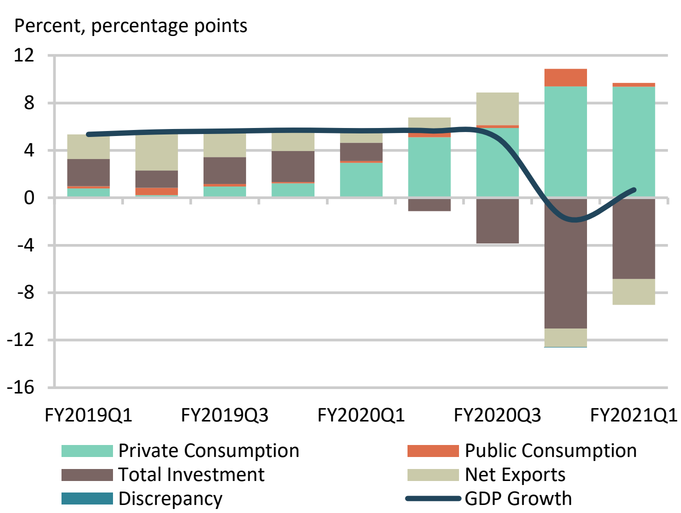
Social conditions remain difficult, as around 30 percent of the population continued to live below the national poverty line (according to the household survey results for October 2019—March 2020). The adverse impact of the pandemic on economic activity and incomes thus warrants an intensification of poverty-reduction efforts. Egypt has been strengthening social protection, and has expanded existing programs and introduced temporary mitigation measures at the outset of the COVID-19 crisis, notably targeting irregular workers.

Pre-pandemic growth was not poverty-reducing. Therefore, beyond important social protection measures, lifting living standards will require boosting job-creation and shifting the economy towards higher value-added activities and private sector-led growth. Key preconditions for a strong recovery include stepping-up efforts to contain the pandemic, maintaining macroeconomic stability, investing in education and health and enhancing social protection. Further, improving governance and reinforcing the role of the State in its policy-making and regulatory functions will be crucial to establish the level-playing-field that would enable the private sector to thrive and unleash its competitive potential to create better earning opportunities for the young and large population.

Recent developments

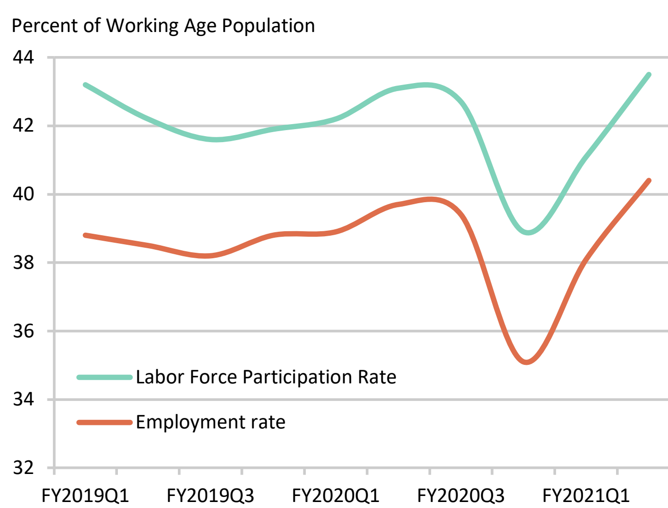
Growth inched up in Q1- and Q2-FY2020/21 (July-September 2020 and October-December 2020) after easing of COVID-19-related restrictions, but remained low at 0.7 percent and 2 percent, respectively (up from a contraction of 1.7 percent in Q4-FY2019/20). Unemployment also declined to 7.2 percent by Q2-FY2020/21 (after spiking at 9.6 percent six months earlier), with the gradual resumption of economic activity, and the continuation of megaprojects throughout the crisis. Both labor force participation and employment rates rebounded from their large (short-lived) dip, although

FIGURE 1 Arab Republic of Egypt / Real GDP growth and contributions to real GDP growth



Sources: Ministry of Planning and Economic Development and WB staff calculations.

FIGURE 2 Arab Republic of Egypt / Labor force participation and employment rates



Sources: Central Agency for Public Mobilization and Statistics.

remaining below-potential at 43.5 percent and 40.4 percent of the working-age population. Key exposed sectors, such as tourism, manufacturing, the Suez Canal and oil and gas extractives continue to be impacted by travel restrictions, the slump in demand and disruptions to domestic and global supply chains and trade.

The Central Bank of Egypt cut key policy rates by 400 basis points cumulatively between March and November 2020, to lower the cost of access to credit for individuals and businesses and enable government domestic borrowing at more favorable terms during the crisis. This monetary expansion was facilitated by the subdued inflation, which averaged 5.7 percent during FY2019/20 and continued to decline thereafter, averaging 4.5 percent during the first half of FY2020/21. Private credit (32 percent of total domestic credit) also accelerated with the monetary easing, but its share to GDP is yet to rise to its pre-2016 levels.

International reserves remain relatively ample at US$40.2 billion in end-February 2021 (covering above 7 months of merchandise imports), despite the impact of COVID-19 on tourism, Suez Canal revenues, and goods export. Although still below their pre-crisis peak of US$45.5 billion, international reserves were bolstered by remittances, rebounding portfolio inflows, and the external financing that Egypt mobilized, Eurobond issuances, and an innovative sovereign Green-bond.

Outlook

Growth is forecast to decline from 3.6 percent in FY2019/20 to 2.3 percent in FY2020/21, in light of the ongoing effect of the pandemic, and the renewed surge in the COVID-19 cases, as well as the slow vaccine roll-out domestically and abroad. Private consumption is expected to be partially supported by remittance inflows, expanded social protection, lower inflation (*favorable for households' purchasing power*) as well as monetary easing. Pre-pandemic labor markets trends, such as the fall of real earnings and the rise of informality, are now compounded by the income losses due to COVID-19 shock, especially among informal workers. This can lead to an uptick in the poverty rate.

If the vaccine is sufficiently deployed by early-2022, Egypt is expected to gradually regain growth momentum during FY2021/22—23, which still means that COVID-19 will have caused at least a 3-year shortfall from pre-pandemic rates. A downside scenario for growth over the forecast horizon would happen if COVID-vaccination becomes more protracted, or if disease variants cause renewed disruptions. The current account deficit is forecast to widen from 3.1 percent of GDP in FY2019/20 to 3.4 percent in FY2020/21 (mainly on the back of a drop in revenues from key services exports such as tourism and the Suez Canal) before narrowing gradually to around 2.7 percent of GDP over the medium term. The capital and financial account is projected to remain buoyed, mainly supported by portfolio inflows (including Eurobonds) and external financing, although FDI inflows are projected to decline from 2.1 percent of GDP in FY2019/20 to around 1 percent of GDP in FY2020/21, amidst the global economic slowdown and then gradually recover over the medium-term.

The overall budget deficit is forecast to increase from 8 percent of GDP in FY2019/20 to 8.2 percent of GDP in FY2020/21, with the uptick mainly driven by the projected increase in subsidies, social protection and public investment, whereas revenues are expected to remain sluggish. This would push the government debt-to-GDP ratio upwards from 87.5 percent at end-FY2019/20 to above 90 percent of GDP by end-FY2020/21, before fiscal consolidation (mainly through domestic revenue mobilization) resumes over the medium-term, notably with the implementation of the recently-approved Medium-Term Revenue Strategy.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	5.3	5.6	3.6	2.3	4.5	5.5
Private Consumption	1.0	1.0	7.3	2.9	3.0	4.1
Government Consumption	1.7	2.8	6.7	1.0	2.0	2.5
Gross Fixed Capital Investment	16.9	14.1	-20.9	-8.1	14.7	16.9
Exports, Goods and Services	31.6	-2.2	-21.7	-11.0	12.0	13.0
Imports, Goods and Services	10.6	-8.9	-17.9	-11.2	8.0	11.0
Real GDP growth, at constant factor prices	5.3	5.1	2.5	2.2	4.4	5.4
Agriculture	3.1	3.3	3.3	3.3	3.3	3.3
Industry	6.4	5.8	0.6	3.8	5.9	7.0
Services	5.1	5.1	3.6	1.0	3.7	4.8
Inflation (Consumer Price Index)	21.6	13.9	5.7	5.3	7.5	8.5
Current Account Balance (% of GDP)	-2.4	-3.6	-3.0	-3.4	-2.8	-2.7
Net Foreign Direct Investment (% of GDP)	3.0	2.6	2.1	1.0	1.8	2.1
Fiscal Balance (% of GDP)	-9.7	-8.1	-8.0	-8.2	-7.0	-6.6
Primary Balance (% of GDP)	0.1	1.9	1.8	1.0	1.8	1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.9	4.1	4.3	4.4	4.2	
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	29.5	30.0	30.5	31.1	30.3	

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

(a) Calculations based on 2017-HIECS.Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022. Poverty rates prior to 2010 are based on a different consumption aggregate.
(b) Projection using neutral distribution (2017) with pass-through = 0.87 based on private consumption per capita in constant LCU.

IRAN, ISLAMIC REPUBLIC

Table 1	2020
Population, million	84.0
GDP, current US$ billion	628.0
GDP per capita, current US$	7472.9
Upper middle-income poverty rate ($5.5)[a]	14.0
Gini index[a]	42.0
School enrollment, primary (% gross)[b]	110.7
Life expectancy at birth, years[b]	76.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) WDI for School enrollment (2017); Life expectancy (2018).

Years of sanctions and the COVID-19 pandemic have mounted pressures on the Iranian economy. Fiscal space remains constrained due to a decline in oil revenues and the cost of COVID-19 mitigation measures, which caused a surge in government debt. Restricted access to foreign reserves due to US sanctions led to a sharp exchange rate depreciation, which in turn heightened inflation. Job losses through the pandemic and high inflation deteriorated welfare, particularly that of already vulnerable households.

Key conditions and challenges

Over the last decade, bouts of GDP growth have been jobless and primarily driven by the oil sector. Real GDP has declined to the same level of a decade ago and the country failed to benefit from growth opportunities like periods of high oil prices (2010-2014) and a highly educated young population that could boost productivity. Job creation has fallen short of meeting labor supply and despite a persistent low labor market participation rate (44 percent average) the rate of unemployment has been in the double digits. Unemployment has been especially high among the youth, female, and the highly educated (23.7, 15.9 and 14.3, respectively in Q4-2020). Despite some progress towards economic diversification, high public sector presence continues to inhibit job creation and capital formation by the private sector.

Iran is grappling with the COVID-19 health crisis. With more than 1.7 million cases and 61,000 deaths, as of mid-March 2021, Iran remains the worst affected country in the Middle East and North Africa region. After stricter lockdown measures were announced in late-2020 confirmed new cases remained stable and daily deaths fell below 100 persons. A gradual relaxation of measures raises the likelihood of a fourth wave of COVID-19 cases. Vaccinations started in February 2021 for 10,000 frontline medical workers, but full coverage of the 84 million population will take time.

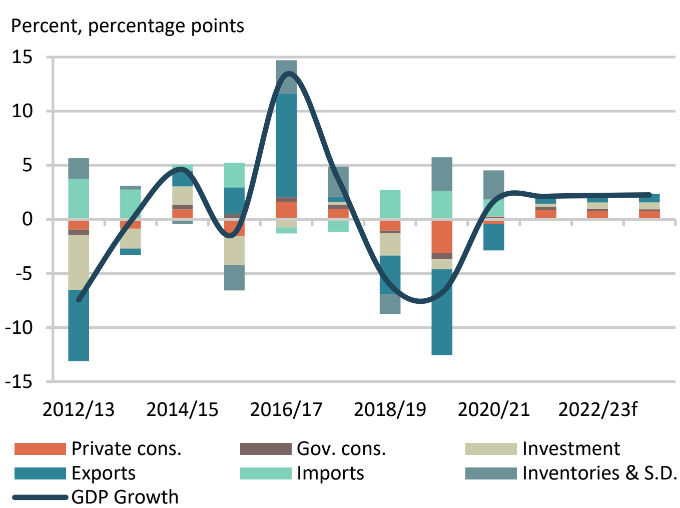
COVID-19 and years of economic sanctions amplify previous economic challenges. The sharp decline in hydrocarbon revenues since 2019/20 combined with the economic and health costs of the pandemic resulted in a large burden on government finances and amplified existing structural challenges. Inflation has remained high since 2018/19 (36 percent YoY on average). The pandemic severely affected jobs and incomes in many labor-intensive activities, including high-contact services and the informal sector.

Recent developments

Despite an initial COVID-19 induced shock to GDP, a strong rebound in mid-2020 led to a modest economic expansion in 2020/21[1] . Iran's GDP is now estimated to expand by 1.7 percent in 2020/21. The COVID-19 output loss since Feb 2020 was less pronounced than in other countries as Iran's economy had already contracted by 12 percent over the previous two years. The economic recovery in Q3 and Q4-2020 was stronger than expected both in oil and non-oil sectors, which grew by 16 percent and 3.1 percent YoY, respectively. The increase in oil GDP vis-à-vis a decline in exports suggests that oil production was largely directed to domestic consumption

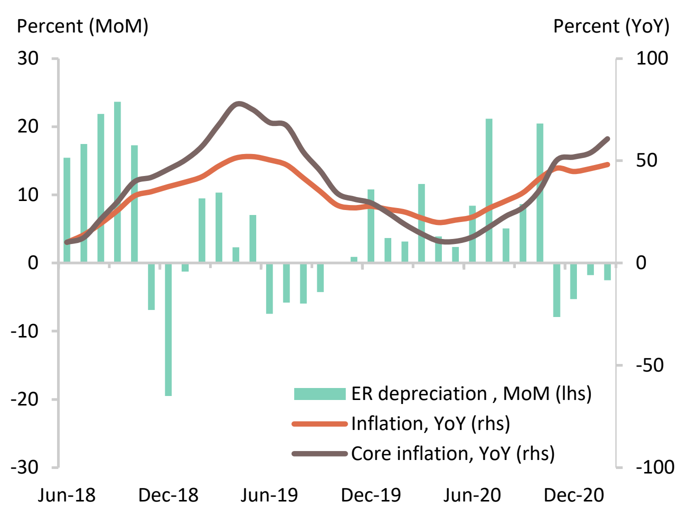
1/ The Iranian calendar year starts on March 21 of every year and ends on March 20 of the following year.

FIGURE 1 Islamic Republic of Iran / Real GDP growth and contributions to real GDP growth



Sources: CBI and World Bank staff calculations.

FIGURE 2 Islamic Republic of Iran / Inflation and parallel market ER



Sources: CBI, SCI and World Bank staff calculations.

and storage in Q3 and Q4-2020. The non-oil sector rebound was driven by the manufacturing sector as the exchange rate depreciation made domestic production more price competitive. Discouragement from the labor market, reflected in lower economic participation, drove the unemployment rate down to 9.4 percent in Q4-2020, despite the employment level falling by over 1 million YoY.

COVID-19 expenditures and plummeting oil revenues increased the fiscal deficit-to-GDP ratio to its highest rate in decades. Government revenues in Apr-Dec 2020 (9M-2020/21) were only 55 percent of the budget approved amount for the entire 2020/21. Similarly, only 14 percent of the anticipated oil income materialized due to both lower oil export volumes and prices. Higher health and social assistance costs from the COVID-19 pandemic pushed total expenditures up by 28 percent YoY. As such, the fiscal deficit is estimated to increase to over 6 percent of GDP and public debt to surpass 50 percent of GDP in 2020/21. The fiscal deficit in 9M-2020/21 was primarily financed through bond issuance (70 percent), followed by sales of assets and withdrawals from strategic reserves.

Inflationary pressures increased in 2020/21 as the rial depreciated due to a limited foreign exchange supply and heightened economic uncertainty. Inflation resurged to over 48 percent (YoY) in February 2021. Since April 2020, the Iranian currency lost half of its value due to US sanctions on accessing reserves abroad. Hopes of sanctions relief after the US elections led the rial to gain about 15 percent of its value. The exchange rate volatility and government financing operations also had negative spillovers in the stock market.

Recent economic developments have added stress on low-income households and stalled poverty reduction. Poverty increased by 1 percentage point from 2017/18 to 2018/19 reaching 14 percent, before the COVID-19 pandemic. The loss in household incomes through the pandemic and rising living costs due to inflation are estimated to raise poverty by 20 percentage points. A range of social protection measures have been introduced in response. While they partially compensate for the lost incomes, their real value will erode with continued high inflation.

Outlook

Iran's economic outlook hinges on the evolution of the COVID-19 pandemic and the pace of global economic recovery. The GDP recovery is projected to be slow and gradual due to a slow vaccination rollout and weak demand from regional trading partners. Inflation is forecast to decrease but remain above 20 percent on average in the medium term. With limited fiscal space and high inflation, economic pressures on poor households will continue. Better targeting of cash transfers can help reduce mitigation costs.

In the absence of a pickup in oil revenues, the fiscal deficit is projected to remain high in the medium term. A slow economic recovery would translate into similarly slow growth in non-oil revenues. Higher reliance on bond issuance, especially in the form of short-term bonds, would increase interest payment and amortizations costs. Further government debt issuance and sales of public assets could increase financial contagion risks in the stock market and place additional stress on the undercapitalized banking sector.

Risks to Iran's economic outlook relate to the recovery path from the pandemic and the prospects of geopolitical developments. The pace of vaccination (purchase and distribution), resurgence in the number of cases such as those from new COVID-19 strains, and subsequent lockdown measures could weigh down on economic activity and prolong the acute phase of the crisis. The burden of further economic deterioration would be felt the most by the poor and vulnerable and increase poverty. Upside risks relate to the possibility of partial sanctions relief which could boost economic activity, as the economy has chronically operated below potential capacity.

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

	2018/19	2019/20	2020/21 e	2021/22 f	2022/23 f	2023/24 f
Real GDP growth, at constant market prices	-6.0	-6.8	1.7	2.1	2.2	2.3
Private Consumption	-2.6	-7.7	-1.1	2.2	2.0	2.0
Government Consumption	-2.9	-6.0	2.3	3.2	1.8	1.5
Gross Fixed Capital Investment	-12.3	-5.9	0.7	1.9	3.9	4.1
Exports, Goods and Services	-12.5	-29.9	-12.2	4.0	4.0	4.3
Imports, Goods and Services	-29.5	-38.1	-32.4	1.5	2.5	2.6
Real GDP growth, at constant factor prices	-5.4	-6.5	1.6	2.1	2.2	2.3
Agriculture	-0.9	8.8	4.0	4.0	4.2	4.2
Industry	-11.0	-15.9	4.3	2.9	3.3	3.7
Services	-0.7	-0.5	-0.7	1.2	1.0	0.8
Inflation (Consumer Price Index)	31.1	41.3	36.9	29.3	21.7	18.9
Current Account Balance (% of GDP)	5.9	0.6	-0.8	0.8	1.1	1.3
Net Foreign Direct Investment (% of GDP)	0.6					
Fiscal Balance (% of GDP)	-1.6	-3.7	-6.3	-6.7	-7.0	-7.0
Gross Public Debt (% of GDP)	38.5	47.9	50.3	52.1	54.7	57.4
Primary Balance (% of GDP)	-1.3	-3.0	-5.3	-5.2	-5.0	-4.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

REPUBLIC OF IRAQ

Table 1	2020
Population, million	41.5
GDP, current US$ billion	166.9
GDP per capita, current US$	4019.5
Lower middle-income poverty rate ($3.2)[a]	14.8
Upper middle-income poverty rate ($5.5)[a]	52.4
National poverty rate[a]	22.5
Gini index[a]	29.5
School enrollment, primary (% gross)[b]	108.7
Life expectancy at birth, years[b]	70.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2012), 2011 PPPs.
(b) Most recent WDI value (2018).

COVID-19 repercussions and oil price volatility are deepening Iraq's economic woes. GDP contracted sharply in 2020 driven by a steep decline in oil production and non-oil output. Twin surpluses turned into large deficits in 2020 putting pressure on public debt and foreign currency reserves. Economic outlook depends on oil market developments and reforms implementation. Key risks relate to deteriorating security situation, delayed vaccination rollout and setbacks in oil markets, with severe consequences on poverty and unemployment.

Key conditions and challenges

Oil price volatility and the pandemic have amplified Iraq's economic woes, reversing two years of steady recovery. These twin shocks have deepened existing economic and social fragilities, which further added to public grievances that existed pre-COVID-19. The absence of fiscal space has limited the ability of the Government of Iraq (GoI) to provide a stimulus to an economy highly dependent on oil exports for growth and fiscal revenues. As a result, the country experienced the largest contraction of its economy since 2003.

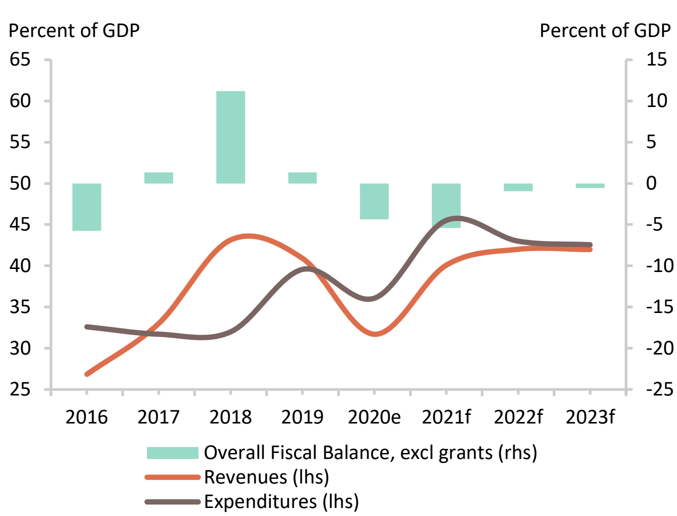
These crises have also impacted the economic welfare of Iraqi households, adding further pressures on unemployment especially among informal workers and those in self-employment. Unemployment remained more than 10 percentage points higher than the pre-pandemic level. Limited fiscal space has impacted transfers, including the universal Public Distribution System and remittances, where the share of households receiving transfers dropped by more than 8 percentage points. The loss of household income and social assistance has increased vulnerability to food insecurity. COVID-19 has also severely limited child learning as evidenced by the small proportion of students engaged in learning activities during school closure. These impacts coupled with reduced access to market and healthcare services undermine human capital accumulation and economic mobility.

Recognizing the severity of the crisis, the GoI devised a national reform plan (the 'White Paper') that sets out a blueprint of reforms to achieve sustainable medium-term growth. The 2021 budget proposes measures aimed at boosting domestic revenue mobilization and public financial management, as well as announcing an 18.5 percent devaluation of the IQD against the USD. The ultimate success of reforms depends on political will and public support to implement the proposed measures and lead the country out of a long-standing fragility trap. Amid persistently high perception of corruption and weak public service delivery, fiscal consolidation could give rise to social tensions and undermine reform implementation. Other priorities include limiting the spread of COVID-19 and ensuring a quick vaccine rollout to manage the economic fallout from the pandemic.

Recent developments

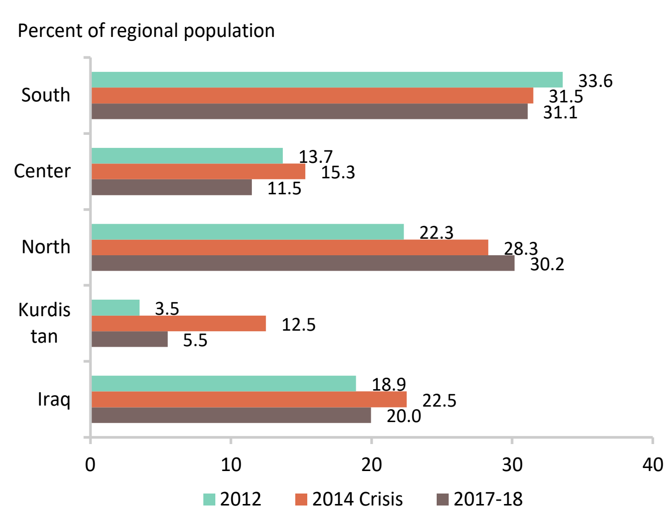
The twin shocks took a heavy toll on Iraq's economy, with GDP (at factor cost) posting a contraction of 10.4 percent in 2020. Growth was weighed down by depressed global oil demand and adherence to OPEC+ production cuts agreement which led to a 17.6 percent contraction in oil GDP. The non-oil economy also underwent a 9 percent contraction as COVID-19 induced lockdown battered domestic demand with religious tourism and services

FIGURE 1 Republic of Iraq / Fiscal revenue, expenditures, and balance



Sources: Ministry of Finance; and World Bank staff projections.

FIGURE 2 Republic of Iraq / Poverty head count rate



Sources: World Bank staff estimates.

sectors suffering the most. Weak domestic demand and cheaper imported goods kept inflation pressures low with headline and core inflation only edging up to 0.6 and 1.0 percent in 2020, respectively.

Cuts in oil production exerted severe pressures on government finances, with oil revenues—accounting for 92 percent of total revenue in 2019–falling by over 45.1 percent in 2020. The GoI responded through cutting discretionary spending and slashing public investment. To deal with Budget rigidities, especially those linked to the public wage bill and pension, the GoI deferred the regularization of new entrants and contractual workers to 2021 thus accruing wage arrears. Hence, the 1.4 percent of GDP fiscal surplus in 2019 turned into a 4.4 percent of GDP deficit in 2020, raising gross budgetary financing needs to over 6.5 percent of GDP following also a restructuring of domestic debt held by state-owned banks and central bank. This together with the higher value of foreign debt following IQD devaluation also caused central government debt-to-GDP ratio to increase by 21 percentage points to 69.3 percent in 2020.

Lower oil exports led to a worsening of the current account balance, which turned from a surplus in 2019 to a 12.9 percent of GDP deficit in 2020. With net FDI flows at only US$3.2 billion and limited other foreign borrowing in 2020, CBI foreign currency reserves fell by almost US$13.6 billion to cover the gap. This brought reserves coverage to 9.6 months of imports by end-2020 despite a decline in imports.

Outlook

Iraq's economic outlook hinges on the evolution of COVID-19, global oil markets prospects, and reforms implementation. The economy is forecast to gradually recover on the back of rising oil prices and OPEC+ production quotas. GDP growth is projected to rise to 1.9 percent in 2021 and 6.3 percent on average over the subsequent two years. Delays in vaccine rollout would lead to additional lockdowns, which in turn impact economic activity. Non-oil GDP is forecast to recover in 2021, growing by 5.5 percent before converging to historical potential GDP growth trend in 2022-23.

Economic recovery and mass vaccination will gradually reverse the surge in poverty, projected by 7 to 14 percentage points rise at the national poverty line of IQD110,881 per person per month. The disproportional impact of the shock on the informal sector, dominated by the poor and vulnerable, will worsen inequality. The currency devaluation is estimated to push inflation to 8.5 percent in 2021 due to limited capacity for import substitution. This will present an additional pressure on households' wellbeing and poverty reduction.

The fiscal stance remains expansionary as the wage bill and pensions are expanded in the 2021 budget law to regularize wage arrears, while reform measures were attenuated in Parliament debate. Higher oil revenues coupled with the devaluation effect are projected to narrow the fiscal deficit to 5.4 percent of GDP in 2021. Financing needs are forecast to remain elevated compared to pre-COVID-19 levels, averaging at US$13.7 billion/year in the outlook period.

The projected oil recovery will boost exports while devaluation is expected to have an impact on imports. This will also contribute to the current account deficit declining to 4.4 percent of GDP by 2023 and reduce pressures on the central bank's FX reserves. Reforms could help motivate new FDI which could further appease external financing needs.

Sizeable risks cloud the prospects for Iraq's economic recovery over the medium-term. Oil price down cycles, failure to implement fiscal and structural reforms in an election year, delays in vaccine rollout, deteriorating security conditions amidst high regional geopolitical tensions are significant downside risks to the outlook.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	6.8	2.4	-11.9	1.9	8.4	4.2
Private Consumption	2.3	1.5	-9.0	1.5	8.0	5.6
Government Consumption	17.7	25.2	-10.6	31.5	2.1	1.1
Gross Fixed Capital Investment	-74.2	-16.2	-40.0	5.0	15.0	10.0
Exports, Goods and Services	9.4	2.7	-15.8	1.1	10.3	5.1
Imports, Goods and Services	16.6	28.4	-9.4	15.0	2.0	3.0
Real GDP growth, at constant factor prices	-1.2	4.4	-10.4	1.9	8.4	4.2
Agriculture	12.8	38.8	34.3	14.0	10.0	5.0
Industry	-2.4	3.7	-11.6	2.7	10.2	4.0
Services	0.7	3.7	-12.2	-1.9	3.6	4.5
Inflation (Consumer Price Index)	0.4	-0.2	0.6	8.5	3.8	3.3
Current Account Balance (% of GDP)	10.6	6.1	-12.9	-11.3	-5.6	-4.4
Net Foreign Direct Investment (% of GDP)	2.4	1.5	1.9	1.9	1.9	1.8
Fiscal Balance (% of GDP)	11.9	1.4	-4.4	-5.4	-1.0	-0.6
Debt (% of GDP)	52.4	48.2	69.3	61.1	55.6	52.7
Primary Balance (% of GDP)	13.1	2.6	-3.2	-4.0	0.9	1.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

JORDAN

Table 1	2020
Population, million	10.2
GDP, current US$ billion	43.7
GDP per capita, current US$	4278.2
School enrollment, primary (% gross)[a]	81.8
Life expectancy at birth, years[a]	74.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2019); Life expectancy (2018).

Jordan is currently facing back-to-back second and third waves of COVID-19 infections, while the country's major economic indicators continue to deteriorate. The twin deficits have substantially widened, the debt level has increased, and unemployment is rising. However, the fall-out on Jordan's economic growth during 2020 remains relatively modest compared to peer countries. Going forward, Jordan's economic outlook largely depends on the rebound in global demand and international travel as well as the pace and scale of domestic vaccination.

Key conditions and challenges

Economic activity in Jordan, before the pandemic, was lackluster due to falling investment, eroding competitiveness and challenging regional conditions. Annual real GDP growth, which averaged at 5.1 percent during 2000-15, dropped to 2.0 percent during 2016-19 – the lowest plateau in a decade. This growth is insufficient to tackle the country's pressing socio-economic pressures to create enough jobs for the young and rapidly growing labor force and to achieve significant poverty reduction.

Stringent lockdown measures, including closing borders and prohibiting movement across cities, helped preserve public health during the first wave of the pandemic. As the lockdown was lifted in May, key manufacturing industries rebounded quickly in H2-2020. However, during the last quarter of 2020, Jordan saw a resurgence of COVID-19 cases, and authorities opted for more targeted restrictions to balance health and economic objectives. Meanwhile, fiscal and monetary measures were taken to lessen the economic fallout. Liquidity measures introduced by the Central Bank of Jordan (CBJ) are estimated to be around 8 percent of GDP. Still GDP in 2020 contracted; for the first time since 1989.

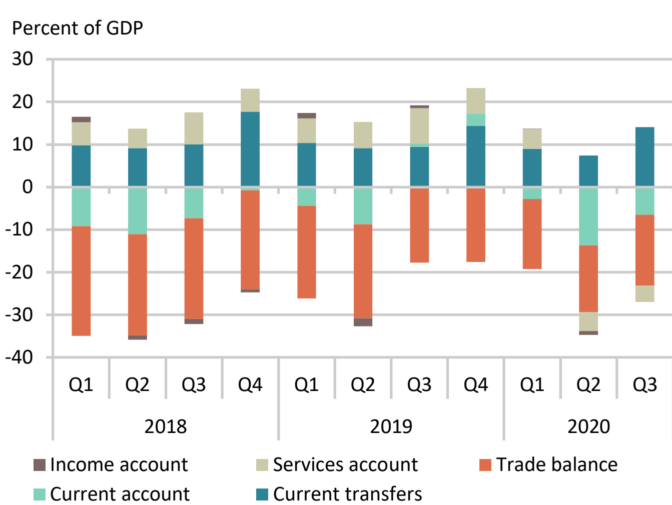
Jordan's economic outlook in 2021 remains contingent upon the evolution of domestic cases along with the pace and scale of vaccination at home and abroad. In February 2021, government announced that at least 3 to 5 million doses of the coronavirus vaccine will be available by April. As the third wave of COVID-19 continues to unfold, vaccination is critical. However, by mid-February vaccination remain abnormally low at around 0.6 percent of the population. Thus, the first half of 2021 is unlikely to see a quick turnaround, while recovery in the second half of 2021 is expected to be protracted unless the pace of vaccination significantly picks up.

Recent developments

The Jordanian economy contracted by 1.5 percent during the first nine months of 2020 (9M-2020). The impact of the shock on GDP remains relatively muted compared to peer countries. Despite this fact, COVID-19 has had a particularly devastating effect on the country's travel and tourism sector, which accounted for around 18 percent of GDP and of total employment in 2019.

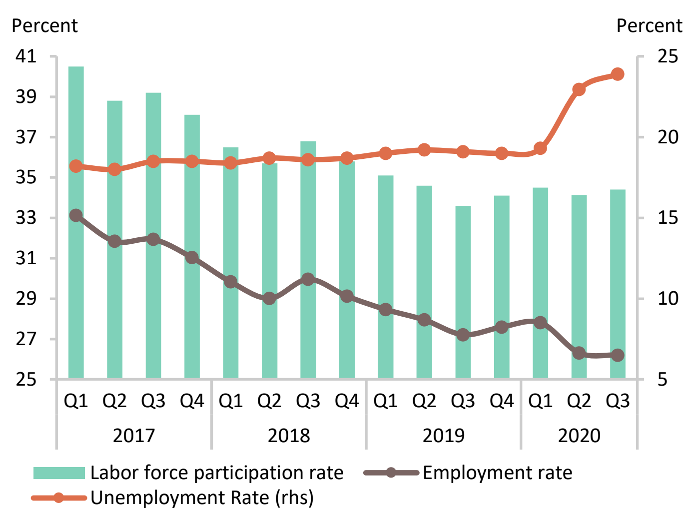
Central Government (CG) fiscal deficit (incl. grants) widened to 5.8 percent of GDP in 11M-2020. Domestic revenues plummeted due to weakened economic activity, deferred tax payments as well as temporarily reduced social security contributions and some consumption tax rates. To alleviate some pressure, the authorities delayed public wage increase, imposed a hiring freeze and postponed non-priority capital investment. Nevertheless, CG debt rose to almost 106.3 percent of GDP during 11M-2020 - almost 10 percentage points of GDP higher than at end-2019.

FIGURE 1 Jordan / Current account indicators



Sources: Central Bank of Jordan and World Bank Staff calculations.

FIGURE 2 Jordan / Labor market indicators



Sources: Department of Statistics and World Bank Staff calculations.
Note: Employment rate is defined as percentage of employed Jordanian adults to total population 15+.

Jordan's current account deficit (CAD) (incl. grants) for 9M-2020 stood at US$2.4 billion, almost twice the size of the deficit recorded in 9M-2019. Despite a reduction in goods' trade deficit and an improvement in current transfers, a substantial deterioration in the services account – driven by dismal travel receipts – was the key driver behind the widening CAD. Nonetheless, both private and official flows remained more than sufficient to cover the widening gap as CBJ's gross foreign reserves increased by almost US$1.5 billion to US$16.9 billion at end-2020.

Poverty was challenging even before the COVID-19 onset. The most recent national poverty rate was 15.7 percent in 2018 raising concern for the welfare of households. Moreover, labor market indicators have deteriorated to unprecedented levels. Amid the crisis, employment decreased to 26.2 percent, and unemployment reached a historical high - 23.9 percent in Q3-2020. Unmitigated declines in employment incomes are likely to increase poverty in the near-term by 11 percentage points.

Outlook

Jordan's real GDP growth is projected to recover to 1.4 percent in 2021 from an estimated contraction of 1.8 percent over last year. In the immediate run, several policy measures are expected to provide some boost including public sector employees' salary increase, social security net programs and the minimum wage increase. Exports are expected to perform better as demand strengthens in the U.S. and Gulf countries. Nevertheless, growth in the immediate run faces significant downside risks due to rising COVID-19 cases and slow vaccination, and over medium-term remains constrained by the country's chronic structural weaknesses.

The current account deficit is projected to remain elevated in 2021 before narrowing steadily over the medium-term. Merchandize trade balance is projected to deteriorate in 2021 due to rising import bills driven by higher international food and oil prices assumptions. Tourism receipts are projected to remain modest in 2021 - at around only 40 percent of 2019 level – before returning to pre-COVID level only by 2023.

The fiscal deficit of the CG (incl. grants) is projected to reach 6.4 percent of GDP in 2021 compared to an estimated 6.7 percent in 2020. This modest consolidation hinges on the revival of domestic revenues as recurrent spending is projected to remain elevated alongside recovery in capital spending. Over the medium term, CG fiscal balance (incl. grants) is projected to improve only gradually. As a result, CG debt is projected to reach 109.0 percent at end-2020, almost 10 percent higher than at end-2019 and remain high over the medium term.

Sluggish economic growth, high unemployment and declining participation in the labor market raise concerns about the extent of poverty reduction that can be achieved. Household recovery is subject to uncertainty and expected to be uneven; young, female, informal workers and those in interaction-intensive services sectors will likely see depressed incomes for longer.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.9	2.0	-1.8	1.4	2.2	2.3
Private Consumption	2.2	1.7	-1.3	0.7	2.0	2.2
Government Consumption	-0.7	4.1	5.0	3.2	2.2	0.6
Gross Fixed Capital Investment	-19.4	-25.7	-3.5	3.4	3.6	4.3
Exports, Goods and Services	0.9	6.5	-24.8	14.6	12.1	7.3
Imports, Goods and Services	-6.6	-3.1	-16.3	9.8	9.0	5.5
Real GDP growth, at constant factor prices	2.0	2.2	-1.6	1.4	2.2	2.3
Agriculture	3.2	2.6	1.8	2.2	2.5	2.5
Industry	1.2	1.4	-2.7	1.1	1.5	1.7
Services	2.3	2.4	-1.4	1.6	2.5	2.5
Inflation (Consumer Price Index)	4.5	0.8	0.3	1.5	2.0	2.3
Current Account Balance (% of GDP)	-6.9	-2.1	-7.2	-7.0	-6.0	-4.6
Net Foreign Direct Investment (% of GDP)	2.2	1.5	1.7	2.4	2.7	3.0
Fiscal Balance (% of GDP)[a]	-3.3	-4.6	-6.7	-6.4	-5.4	-4.9
Debt (% of GDP)[b]	92.9	97.4	109.0	114.0	116.1	116.7
Primary Balance (% of GDP)[a]	0.0	-1.1	-2.5	-2.2	-1.1	-0.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Central Gov. fiscal balance incl. grants, use of cash and unident. measures as per IMF-EFF (Jan 2021) of 0.7% of GDP in 2021, 1.8% of GDP in 2022 and 2.9% of GDP in 2023.
(b) Government and guaranteed gross debt including debt holdings by SSIF. Includes WAJ estimated borrowing for 2020-2023. Includes legacy arrears in 2019.

KUWAIT

Table 1	2020
Population, million	4.5
GDP, current US$ billion	118.3
GDP per capita, current US$	26523.5
School enrollment, primary (% gross)[a]	88.0
Life expectancy at birth, years[a]	75.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2019); Life expectancy (2018).

Kuwait is still adapting to the twin shocks of COVID-19 and slump in oil prices that hard-hit its economy and fiscal and external positions. As fiscal deficits persist in the medium term, and in the absence of a new debt legislation, drawdowns from sovereign assets will be inevitable, potentially without concomitant reforms. Friction between the executive and legislative branches, delays in vaccination rollout to the entire population, and renewed downward pressure on oil prices are all key downside risks to the outlook.

Key conditions and challenges

Long-term challenges relate to the economy's heavy export dependence on oil, domestic dependence on consumption, and slow progress in the implementation of Vision 2035 reforms and the diversification objective therein. Large financial assets underpin Kuwait's economic resilience, but these assets alone cannot substitute for the fiscal and structural reforms that would offset the risks of lower oil prices, low oil demand in the future, and rising marginal cost of oil production. Such measures include non-oil revenue mobilization as well as enhancing human capital and reforming economic governance (e.g., relating to FDI, land, and private sector participation) to invigorate private sector-led development and job creation.

Friction between the executive and legislative branches has led to frequent cabinet reshuffles and parliamentary opposition to critical fiscal reforms exemplifies a lack of consensus around reform direction. This friction is now to the fore in the stalled progress of the draft debt law; given the high financing needs foreseen in the medium term, approval of a debt law could be a useful trigger for another attempt to reach a reform consensus.

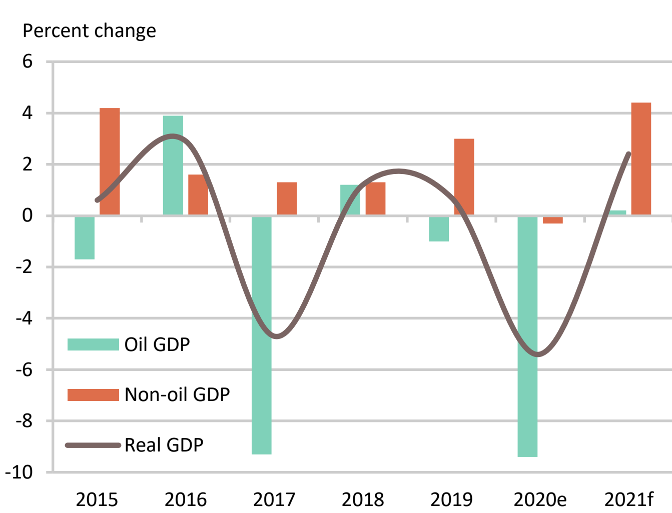
Key risks to the outlook relate to further spikes of COVID-19 and continued volatility in oil demand and prices. If new cases continue to be high, or oil prices continue at their subdued levels, this will lead to unfavorable macro-financial dynamics, further widening fiscal and external imbalances. A more rapid rollout of the vaccine programs in Kuwait and the GCC should partially mute these risks and strengthen domestic recovery, but the persistent challenge of diversification will then return to the fore.

Recent developments

As in other countries, a new wave of the pandemic is an emerging possibility. The 7-day moving average for daily new cases registered a new high in early February (980 cases), after being on a downward trajectory since October 2020. A spike in new cases prompted authorities to renew restrictions in early February. Meanwhile, the national vaccination program rollout started in late December 2020 with the target of inoculating 80 percent of the population by September 2021—by end-March, only 8.7 percent of the population received at least a single dose of the vaccine. A boost in prospects has come from oil prices, which recouped some of their lost ground since Spring 2020 owing to effective OPEC+ supply restraint and a pick-up in global economic activity as countries relax containment measures.

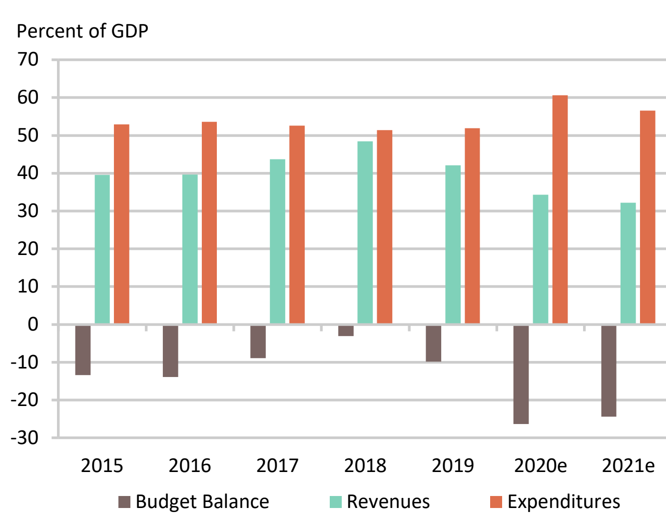
Given a lowering case count and relaxed social distancing restrictions during the second half of the year, real GDP growth in 2020 is expected to perform better than previously projected; revising from -7.9 to -5.4 percent. A stronger rebound in

FIGURE 1 Kuwait / Annual real GDP growth



Sources: CSB Kuwait, IMF Article IV, and WB staff estimates.

FIGURE 2 Kuwait / Central government operations



Sources: World Bank, Macroeconomics, Trade, & Investment Global Practice.

private consumption supported overall performance in the non-oil sectors.

The fiscal deficit is expected to widen from 9.8 percent of GDP in FY19/20 to 26.2 percent in FY20/21 (the fiscal year begins in April). These figures are excluding investment income and before transfers to the Future Generations Fund (FGF). The FGF has a significant financial buffer to weather the current crisis; however, continued drawdowns for deficit financing and the previously legally-mandated 10 percent of budgetary revenue transfers to the FGF have depleted all performing assets in the General Reserve Fund (GRF) in FY20/21.

Kuwait has not issued debt since 2017 as it awaits parliamentary approval to raise the borrowing limit resulting in government recently seeking Parliament's permission to withdraw as much as KD 5 billion annually from the FGF to fill part of its financing needs.

According to the most recent Labor Force Survey from 2017 the Kuwait labor market is highly segmented. Labor force participation rate is 73.8 percent on average but differs considerably by nationality: 39.5 percent of Kuwaitis participate in the labor market, against 82.2 percent of non-Kuwaitis. Nine out of ten employed Kuwaitis work in the public sector, and thus were insulated from the pandemic-related restrictions on economic activity. The labor market also exhibits heterogeneity across gender (female unemployment is 5.8 percent versus 0.9 percent among men) and age, with higher unemployment among the young (unemployment rate in the 15-24 years old group is 15.4 percent, versus a 2.2 percent at the national level).

Outlook

The economy is expected to recover with 2.4 percent growth in 2021, driven by a more accelerated pick up in global energy demand and prices while oil production levels continue to lag, growing only at 0.2 percent, in agreement with OPEC+ commitment. As the vaccination program gains more momentum and COVID-related restrictions are further eased, non-oil sectors will continue its growth trajectory, estimated to reach 4.4 percent in 2021 to reflect stronger domestic demand. Over the medium term, growth will recover even further with continued public spending and credit growth, averaging around 3.2 percent. Inflation is anticipated to pick up as economic activity recovers.

The budget deficit is anticipated to slightly narrow in FY21/22 but continues to be extremely high, reaching around 23 percent of GDP. In the medium-term, a recovery in oil receipts will support improvements in the fiscal position, but will not of itself shift it to surplus. Introduction of the VAT will be a major addition to the fiscal toolkit offering the ability to diversify fiscal revenues and orient the economy away from consumption-led non-oil growth. The trajectory of headline government debt is subject to the passing of the much-anticipated debt law, but the deeper issue is the need for a comprehensive sovereign asset and liability management perspective, since assets will be run down more quickly even if headline debt does not increase, in the absence of fiscal reforms.

As oil export earnings recover in 2021, underpinning improvements in global demand conditions, the current account will shift back into surplus. But as with the fiscal balance, the annual current account surplus does not reflect the needed level of saving of resource revenues to provide for an uncertain future where climate change concerns loom much larger than at present.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.2	0.4	-5.4	2.4	3.6	2.8
Private Consumption	5.4	3.2	-4.7	2.5	2.8	2.0
Government Consumption	6.3	2.6	-0.9	3.6	3.1	3.3
Gross Fixed Capital Investment	4.8	3.3	-2.6	-0.9	3.0	3.5
Exports, Goods and Services	-4.8	-0.4	-11.4	4.6	6.2	5.7
Imports, Goods and Services	-0.9	2.0	-7.7	4.3	6.1	7.0
Real GDP growth, at constant factor prices	1.3	-0.6	-5.0	2.3	2.5	2.0
Agriculture	-0.4	-6.0	1.0	1.5	2.0	2.0
Industry	0.2	-1.5	-9.3	0.3	3.4	2.9
Services	3.1	0.9	1.7	5.2	1.4	0.8
Inflation (Consumer Price Index)	0.6	1.1	0.9	2.0	2.3	2.5
Current Account Balance (% of GDP)	14.1	16.4	-2.7	8.2	11.7	13.8
Fiscal Balance (% of GDP)[a]	-3.0	-9.8	-26.2	-22.6	-19.3	-8.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

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

LEBANON

Table 1	2020
Population, million	6.8
GDP, current US$ billion	33.4
GDP per capita, current US$	4891.3
National poverty rate[a]	27.4
Gini index[a]	31.8
Life expectancy at birth, years[b]	78.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2011).
(b) Most recent WDI value (2018).

Lebanon is enduring a severe and prolonged economic depression in part due to inadequate policy responses to an assailment of compounded crises—the country's largest peace-time financial crisis, COVID-19 and the Port of Beirut explosion. Real GDP growth contracted by 20.3 percent in 2020. Inflation reached triple digit while the exchange rate keeps losing value; poverty is rising sharply. Lebanon lacks a fully functioning executive authority as it attempts to form its third Government in a little over a year.

Key conditions and challenges

Monetary and financial turmoil continue to drive crisis conditions, with interactions between the exchange rate, narrow money and inflation a key dynamic. A multiple exchange rate system includes the official exchange (LL 1,515/ US$), central bank (BdL)-backed lower rates for critical imports, as well as a highly volatile US$ bank-note exchange rate; in fact the banknote rate depreciated by about 50 percent over March 12-16, 2021. Overall, the World Bank Average Exchange Rate (AER) depreciated by 129 percent in 2020 (Figure 1). Meanwhile, currency in circulation (CIC) surged by 227 percent, while inflation rates are in the triple-digits, averaging 84.3 percent in 2020. Regression estimates suggest a coefficient of 0.8 for the impact of growth in CIC on inflation.

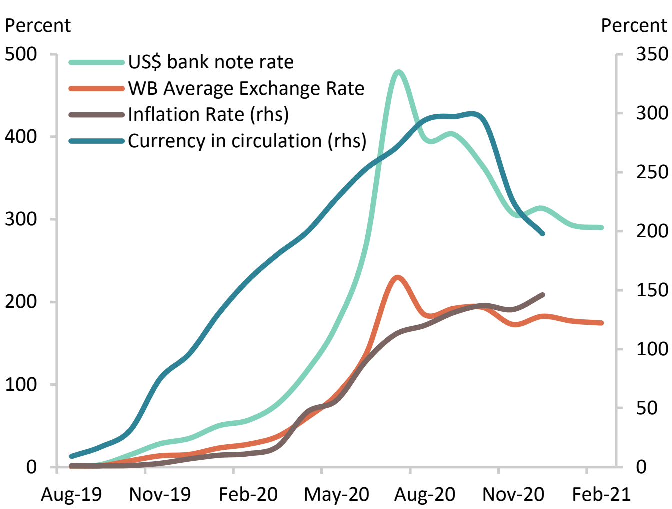
The banking sector, which informally adopted severe capital controls, has ceased lending and does not attract deposits. Instead, it endures in a segmented payment system that distinguishes between older (pre-October 2019) dollar deposits and minimum new inflows of "fresh dollars". The former is subject to sharp deleveraging through de facto lirafication and haircuts (up to 70 percent) on dollar deposits. Deleveraging is also facilitated by netting out bank positions between assets (loans) and liabilities (deposits). The burden of the ongoing adjustment/deleveraging is highly regressive concentrated on the smaller depositors and SMEs.

The social impact, which is already dire, could become catastrophic; more than half the population is likely below the upper income poverty line, higher shares of households are facing challenges in accessing food, healthcare and other basic services and unemployment is on the rise. Inflationary effects are highly regressive factors, disproportionally affecting the poor and middle class. Inflation in the food and non-alcoholic beverages category averaged 254 percent in 2020 and has been a key driver of overall inflation (Figure 2). Those paid in Lira—the bulk of the labor force—are seeing potent purchasing power declines. Phone surveys conducted in November-December by the World Food Program found that 41 percent of households reported challenges in accessing food and other basic needs. The share of households having difficulties in accessing health care rose from 25 percent (July-August) to 36 percent (Nov-Dec). The unemployment rate also rose among the respondents, from 28 percent in February (pre-COVID) to nearly 40 percent in Nov-Dec. Violent street action has erupted across the country even under COVID conditions.

Recent developments

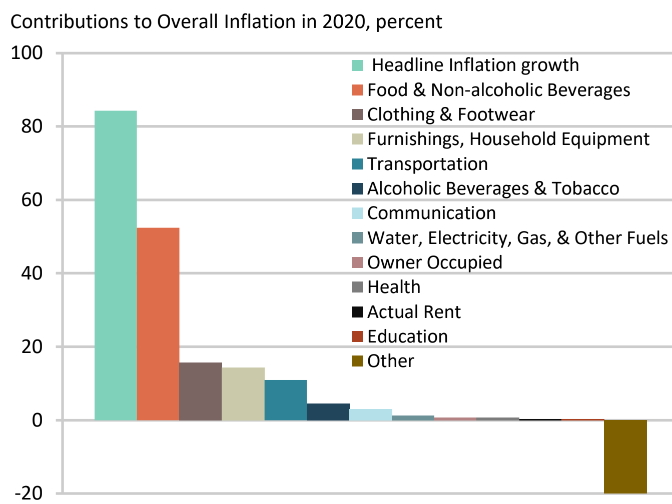
Real GDP is estimated to have declined by 20.3 percent in 2020. High frequency indicators support a substantial contraction in economic activity. The BLOM-PMI index, which captures private sector activity,

FIGURE 1 Lebanon / Exchange rate depreciation along with surging inflation



Sources: Lebanese authorities and WB staff calculations.

FIGURE 2 Lebanon / Inflation in basic items has been a key driver of overall inflation, hurting the poor and the middle class



Sources: Lebanese authorities and WB staff calculations.

averaged 41.1 in 2020 (<50 represents a contraction of activity), the lowest since it was first published in 2013. Construction permits and cement deliveries, which are indicators of construction activities, suffered yoy declines of 33.4 and 48.3 percent, respectively, over 9M-2020. On the demand side, net exports, is expected be the sole positive contributor to GDP, driven by falling imports (merchandize imports declined by 45.4 percent in 11M-2020, yoy).

The sudden stop in capital inflows, coupled with a continued large current account deficit, has implied a steady depletion in foreign exchange (FX) reserves at BdL. By end-2020, gross FX reserves at BdL reached $24.1 billion, declining by $12.5 billion since end-2019. The gross position, however, guises key pressure points (BdL, contrary to other central banks, does not publish net reserves; these are however estimated to be negative). The breakdown includes $5 billion in Lebanese Eurobonds and an unpublished amount lent out to banks since October 2019, leaving much of the remainder as required reserves on banks' customer FX deposits.

Partial-year fiscal data confirm severe fiscal stress. Over the 8M-2020 period, total revenues declined by 20.2 percent (yoy), driven by 56.5, 49.7 and 34.5 percent yoy decreases in telecoms, VAT and customs revenues, respectively. Total expenditures over 8M-2020 have also decreased by 18.4 percent. This, however, is almost exclusively due to cuts in interest payments resulting from the March 2020 Eurobond default and a favorable arrangement with BdL on TBs it holds.

Outlook

Subject to unusually high uncertainty, we project real GDP to contract by a further 9.5 percent in 2021. Our projection assumes that COVID-19 effects carry through 2021, while macro policy responses remain inadequate. We also assume a minimum level of stability on the political and security scenes (i.e. formation of Government) and refrain from assuming runaway inflation-depreciation, which is a realistic scenario.

Lebanon's recession is likely to be arduous and prolonged given the lack of policymaking leadership and reforms. Lebanon's GDP/capita has fallen by around 40 percent over the 2018-2020 period and is expected to decline further. Hence, Lebanon's World Bank income classification is likely to be downgraded from an upper-middle income economy, which should enjoy a GNI per capita of between U$4,046 and US$12,535—to a lower-middle income status.[1]

Macroeconomic stabilization is a key prior action for Lebanon's recovery process. This necessarily includes comprehensive restructurings of the public debt and the financial sector, a new monetary policy framework and a fiscal adjustment program. Meanwhile, discussions with the IMF have stalled and remain at the diagnostic stage.

A contraction of real GDP per capita and high inflation in 2020 will undoubtedly result in substantial increase in poverty rates affecting all groups of the population in Lebanon through different channels such as loss of productive employment, decline in real purchasing power, and so forth. Tracking population wellbeing on a regular basis and protecting the poor and the most vulnerable is an urgent priority for the country. Lebanon also continues to host the largest number of refugees on a per capita basis globally. With poverty levels exceeding those of the host population, their vulnerability has increased with the compounding effects of the economic and health crises in the country.

1/ Latest available Gross National Income per capita for Lebanon is for 2019 US$7,380.

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

	2018	2019	2020 e	2021 f
Real GDP growth, at constant market prices	-1.9	-6.7	-20.3	-9.5
Private Consumption	-1.3	-5.7	-10.7	-7.2
Government Consumption	6.7	-6.2	-55.4	-8.5
Gross Fixed Capital Investment	-0.2	-16.9	-59.3	-57.3
Exports, Goods and Services	-4.7	-1.2	-53.5	3.7
Imports, Goods and Services	1.2	-9.2	-46.6	-8.0
Real GDP growth, at constant factor prices	-1.7	-5.3	-16.0	-9.8
Agriculture	-4.0	6.0	29.7	-9.5
Industry	-4.2	-17.4	-15.8	-9.4
Services	-1.1	-4.0	-19.0	-9.9
Inflation (Consumer Price Index)	6.1	2.9	84.3	80.0
Current Account Balance (% of GDP)	-24.3	-21.2	-11.0	-6.7
Net Foreign Direct Investment (% of GDP)	3.7	3.4	9.3	4.9
Fiscal Balance (% of GDP)	-11.0	-10.5	-4.9	-2.8
Debt (% of GDP)	154.9	171.0	186.7	180.7
Primary Balance (% of GDP)	-1.2	-0.5	-2.7	-1.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

LIBYA

Table 1	2020
Population, million	6.9
GDP, current US$ billion	26.2
GDP per capita, current US$	3813.3
School enrollment, primary (% gross)[a]	109.0
Life expectancy at birth, years[a]	72.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2006); Life expectancy (2018).

Libya entered 2021 as a divided nation aspiring for recovery and healing. With intensifying conflict and a blockade of oil terminals and fields, the economy registered one of the worst performances in recent records for the most part of 2020. Starting in mid-September, a rapprochement between political/military factions brought much-needed relief to the economy, capping the GDP plunge at 31.3 percent, annually. The election of a unity government in early 2021 has rekindled hope, but, the reunification agenda faces formidable challenges ahead.

Key conditions and challenges

In 2020, Libya effectively remained a divided nation, where competing political and military factions operated redundant and often conflicting systems of governance. The Government of National Accord (GNA) controlled western regions around Tripoli and the Interim Government (IG), backed by the Libyan National Army (LNA), controlled other regions. The Central Bank in Tripoli controlled the country's money supply and reserves, while the eastern branch mimicked its currency printing function. The National Oil Company in Tripoli was solely responsible for oil exports; but the Petroleum Facilities Guard, which protects oil assets, was divided between western and eastern forces. These divisions, with culminating coordination problems, have proven to be devastating for Libyans. A 9-month blockade that began in January 2020 cut the country's crude oil output to an average 228,000 barrels per day during the blockade, less than one-sixth of 2019 values. For an acutely undiversified economy where hydrocarbons comprise over 60 percent of GDP and 90 percent of fiscal revenues, this dealt a heavy blow, leading to a near-complete scrapping of development expenditures. With severely limited health infrastructure and services after years of conflict, the COVID-19 pandemic added to the strife faced by Libyans. A recent World Food Programme (WFP)-World Bank (WB) survey showed that 10 percent of Libyans had inadequate food consumption in December 2020. Food insecurity was higher in the Eastern and Southern regions, with deteriorating trends in Tobruk, Murzuq and Alkufra since May 2020.

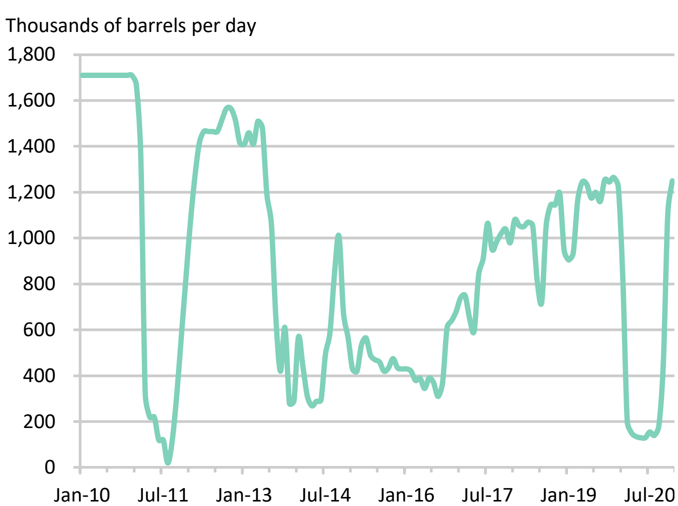
There is reason for cautious optimism for recovery and healing, but downside risks abound. A ceasefire agreement of October 2020 helped resume oil production to 1.25 million barrels per day by December. In mid-November, parties also agreed to hold parliamentary and presidential elections in December 2021 and commissioned a three-member Presidency Council to form a Government of National Unity and facilitate the transition. However, the underlying political and economic divisions pose surmounting challenges and competing international influences can still derail the process.

Recent developments

For the most part of 2020, the performance of the Libyan economy was the worst in recent records. Even with the rebounding oil proceeds in the last quarter, the economy could not recover its earlier losses, and registered a 31.3 percent real decrease in GDP. On average, oil production in 2020 is estimated at 405,000 barrels per day, roughly a third of actual output in 2019 (Figure 1).

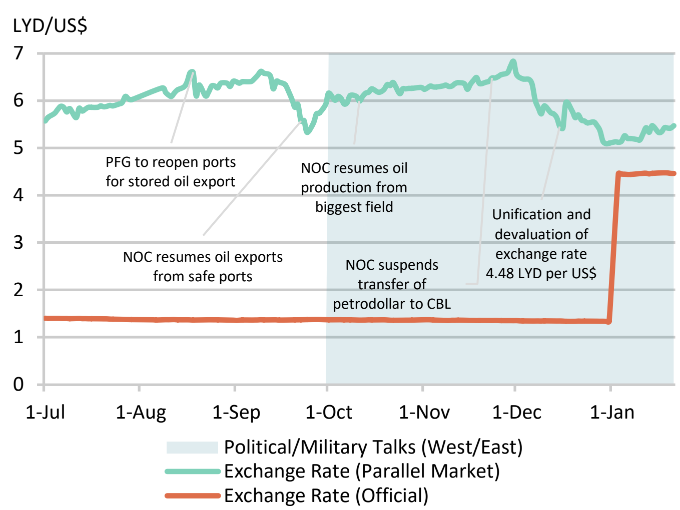
Total fiscal revenues stood at LYD 23 billion in 2020, about 40 percent of those in 2019. The plunge in oil revenues translated

FIGURE 1 Libya / Oil production



Sources: US Energy Information Administration.

FIGURE 2 Libya / Official and parallel market exchange rates



Sources: Authorities, and World Bank calculations.

into lower government spending, LYD 45.9 billion as opposed to LYD 56.2 billion a year ago, about 20 percent reduction in nominal terms. Subsidies, including those for fuel, electricity, water and sewage, sanitation, and medical supply reached LYD 5.6 billion, or 16 percent of total expenditures. Development expenditures were miniscule for the year, LYD 1.8 billion or five percent of total expenditures, compared to LYD 4.6 billion in 2019. All capital expenditures projects for 2020 were essentially canceled. Despite that, however, the overall fiscal balance recorded a deficit of 64.4 percent of GDP.

The collapse of oil revenues strained the ability of the monetary and fiscal authorities to defend the country's currency peg, and on December 16, for the first time in five years, the board of directors of the Central Bank of Libya, agreed to devalue the currency from LYD 1.00 = SDR 0.5175 to LYD 1.00 = SDR 0.156 effective January 3, 2021, with the equivalent rate to the U.S. dollar at LYD 4.48 = US$1.00 using the current US$1.44 = SDR 1.00 rate (Figure 2). The new rate aims to apply to all governmental, commercial, and personal foreign exchange transactions, and largely remove the growing wedge between black market and official rates, also rendering the foreign exchange transactions surcharge unnecessary.

The movements in exchange rates also affected consumer prices in Libya, where domestic food supply relies heavily on imports (e.g., 90 percent of cereals are imported). In December, the price of the Minimum Expenditure Basket (MEB) was 12.8 percent higher than pre-COVID prices in March, while the East (755 LYD) and the South (856 LYD) exceeded the national average (710 LYD). According to the WFP-WB survey, households reported the high prices as the most significant shock they experienced within the past year.

Outlook

With looming uncertainties, projecting future economic trends is a daunting task. However, if the current rapprochement remains on track, a significant economic recovery from the 2020 slump is within reach in the forthcoming year. With major maintenance problems still pending, oil production is projected to reach 1.1 million barrel per day (MBD) in 2021. This would lead to a rebound in real GDP growth, to 67 percent in 2021. In terms of level of GDP, the economy would still be 23 percent smaller than that in 2010, the year prior to the start of the conflict.

With a US$44 per barrel average oil price projection, the country is still expected to run a twin deficit in 2021, that is a 9 percent of GDP fiscal deficit (overall balance) and a 6.2 percent of GDP current account deficit. Higher international oil prices would help further support the overall rebound in oil output, filtering through stronger government consumption and investment, and in turn supporting a recovery in private consumption.

With deep reliance on imports, the recent currency devaluation is expected to "pass-through" on domestic prices in 2021. However, the presence of an expansive FX black-market will limit this effect because a de facto devaluation was already embedded in the black market rates. Overall, a 12 percent CPI is expected in 2021.

The agenda for social policy and institutional reform is full and needs urgent attention. Besides peace and stability, the country needs urgent infrastructure investments. Operationalizing 14 of 27 non-functioning power plants will cost about US$1.1 billion. Budget plans for 2021 include a possible allocation for repairs over the next two years however the budget has not been adopted yet. Libyans are also increasingly affected by the COVID-19 pandemic. With relaxation of containment measures, the spread of the virus has accelerated. As of end-January 2021, there were 116,064 confirmed cases and 1,802 reported deaths due to COVID-19. The true incidence of the disease is almost certainly under-monitored and compounded by an incapacitated health sector, which will slow down the rollout of vaccines even by regional standards. Overall, any potential progress in these areas would be curtailed should the reunification process stall.

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

	2018	2019	2020 e	2021 f
Real GDP growth, at constant market prices	15.1	2.5	-31.3	66.7
Private Consumption	3.6	1.7	-12.8	32.5
Government Consumption	0.0	2.7	-21.6	18.3
Gross Fixed Capital Investment	28.8	17.1	-12.7	40.8
Exports, Goods and Services	32.2	33.6	-64.8	171.6
Imports, Goods and Services	23.8	43.9	-27.5	40.3
Inflation (Consumer Price Index)	9.3	-3.0	-2.0	12.0
Exchange Rate (USD/LYD)	1.4	1.4	1.4	4.5
Current Account Balance (% of GDP)	21.4	11.6	-46.4	-6.2
Fiscal Balance (% of GDP)	-7.0	1.7	-64.4	-9.0
Crude Oil (million bpd)	1.0	1.2	0.4	1.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

MOROCCO

Table 1	2020
Population, million	36.9
GDP, current US$ billion	111.0
GDP per capita, current US$	3006.7
National poverty rate[a]	4.8
Lower middle-income poverty rate ($3.2)[a]	7.3
Gini index[a]	39.5
School enrollment, primary (% gross)[b]	114.8
Life expectancy at birth, years[b]	76.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014).
(b) WDI for School enrollment (2019); Life expectancy (2018).

The combination of a pandemic with an agricultural shock pushed the Moroccan economy into a deep recession in 2020. However, the government response to the crisis has been appropriate, and the ambitious reforms being implemented could set the stage for a solid recovery. Growth is expected to accelerate to 4.2 percent in 2021, although significant downside risks remain. A piecemeal recovery with slow job creation would delay the return to pre-pandemic poverty levels.

Key conditions and challenges

The COVID-19 crisis has been compounded by an agricultural shock in a context of declining long-term growth rates. Although Morocco's last yearly contraction was in 1997, activity had already lost steam before the pandemic due to adverse climatic conditions and to low total factor productivity growth.

The government is putting forward an ambitious growth enhancing and pro-equity reforms program to mitigate the health and economic impacts of the pandemic and to support the recovery. Among other measures, it is revamping its social protection systems to stimulate human capital formation, supporting the capitalization of the private sector through the creation of a Strategic Investment Fund, and upgrading its industrial and agricultural policies. Their successful implementation could increase the growth potential of the Moroccan economy.

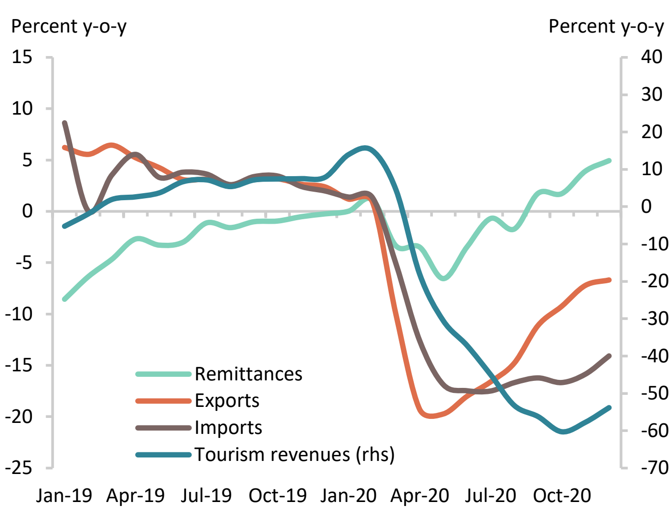
In the shorter-term, however, the recovery could be gradual. Despite encouraging epidemiological trends and the successful beginning of the vaccine rollout, the global environment remains uncertain, and economic activity has recently weakened in Morocco´s trading partners and will affect the recovery of the tourism sector. The COVID-19 crisis has adversely impacted households´ wellbeing and accentuated inequality. According to the High Commission of Planning (HCP), during confinement, 74 percent of workers belonging to the bottom quintile experienced a reduction in income against 44 percent in the top quintile. Also, the loss in monthly income was more pronounced in the bottom rather than top quintile: 66 against 32 percent respectively.

Recent developments

A stringent confinement, collapsing tourism revenues, the disruption of global value chains and an agricultural shock contribute to explain the magnitude of the recession. During the second quarter of 2020, real GDP contracted by 15.1 y-o-y. Although activity began to pick up in the third quarter, preliminary estimates indicate that real GDP contracted by 7 percent in 2020. On the production side, the impact of the crisis has been particularly severe for the hospitality industry and transports, and for the manufacturing segments most exposed to international trade. In addition, agricultural value added contracted by 7.1 percent due to the drought. On the demand side, private consumption contracted by 9.4 percent, partly compensated by a 6.2 increase in public consumption. In this context, headline inflation averaged 0.7 percent in 2020 and the share of non-performing loans increased to 8.4 percent of banks' credit portfolio (7.6 percent in December 2019).

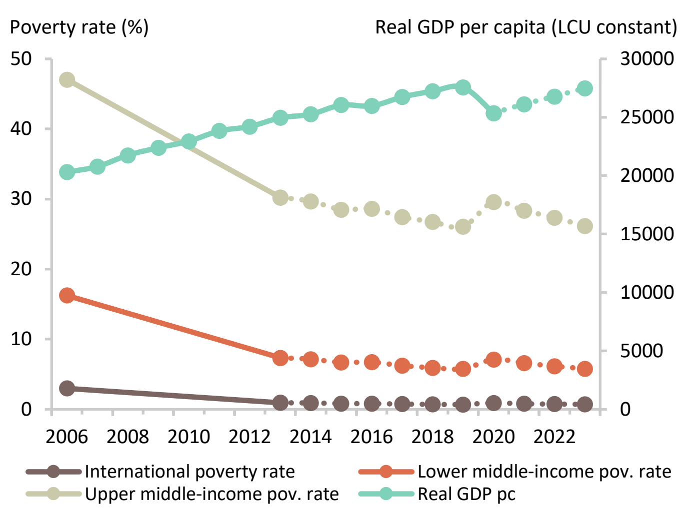
The fiscal response to the pandemic, mostly debt financed, has supported firms and households to compensate for their revenue losses. The resulting increase in

FIGURE 1 Morocco / An asymmetric recovery reflected in the behavior of the current account



Sources: Morocco exchange office.

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



Sources: World Bank. Notes: see Table 2.

expenditures and a sharp contraction in tax revenues led to a deterioration of the budget deficit (7.7 percent of GDP in 2020), and the debt to GDP ratio increased by more than 12 percentage points to 77.8 percent of GDP. This is the largest increase ever registered in the debt-to-GDP ratio in a single year since that series is available. The current account closed with a deficit of just 3 percent of GDP (4.1 percent of GDP in 2019), owing to the contraction of imports and the resilience of workers' remittances. Morocco has preserved good access to external finance, with large multilateral disbursements, two successful sovereign bond issuances (€1 billion in September and US$3 billion in December), and resilient net FDI flows. Foreign exchange reserves increased by 26.6 percent in 2020, reaching 30 percent of GDP, more than seven months of imports.

After several years of declines, the poverty rate (US$3.2 PPP line) is estimated to have increased from 5.8 percent in 2019 to 7.1 percent in 2020, an increase that could have been larger hadn't it been for the government's cash transfer programs. The unemployment rate spiked to 11.9 percent (9.2 percent in 2019) and a recent HCP survey indicates that 37.5 percent of the firms have reduced their workforce in the second half of 2020 (compared to 2019), with larger contractions among very small business and SMEs.

Outlook

GDP growth is expected to accelerate to 4.2 percent in 2021. In this baseline scenario, agricultural output returns to historical trends, the vaccine rollout proceeds according to the government´s plans, monetary policy remains accommodative and the fiscal stimulus is maintained. The recovery of the manufacturing and services sectors is expected to be gradual, initially constrained by the recent slowdown in Morocco´s trading partners and by a protracted return of international tourism. Real GDP growth is expected to remain slightly above its pre-pandemic trend during the projection period as the output gap narrows gradually and the ongoing reforms begin to have an impact. The current account deficit is expected to stabilize below 4 percent of GDP while the fiscal deficit is expected to fall gradually.

There are significant downside risks. The evolution of the pandemic remains uncertain given the global spread of new coronavirus variants, which may lead to the adoption of new containment measures in Morocco or elsewhere. Large gross financing needs have increased the exposure of the economy to an external shock and the ongoing increase in non-performing loans could weigh on banks´ balance sheets. The materialization of the contingent liabilities associated with the credit guarantee program could result in a deterioration of the fiscal outlook.

In 2021, poverty is expected to decline but not to return to the pre-crisis levels. Extreme poverty (US$1.90 PPP line) should remain below 1 percent, while poverty (US$3.2 PPP line) is expected to decrease by 0.5 percentage point in 2021 and reach 6.6 percent. The percentage of "vulnerable" population is expected to slowly decrease in 2021 to about 28.35 from 29.56 in 2020. This trend is expected to continue through 2022 and 2023, but poverty indicators may not return to the pre-Covid-19 situation until 2023. The successful implementation of the social protection reform could accelerate that process.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.1	2.5	-7.0	4.2	3.7	3.8
Private Consumption	3.4	1.8	-9.4	3.7	4.1	4.3
Government Consumption	2.7	4.7	6.2	5.6	4.7	4.5
Gross Fixed Capital Investment	1.2	1.0	-8.5	5.5	5.7	5.9
Exports, Goods and Services	6.0	5.5	-14.1	6.9	7.4	7.9
Imports, Goods and Services	7.4	3.3	-12.1	6.3	7.9	8.4
Real GDP growth, at constant factor prices	3.0	2.5	-6.7	4.2	3.7	3.8
Agriculture	2.4	-4.6	-7.1	10.3	4.1	4.0
Industry	3.0	3.5	-6.3	3.4	3.6	3.7
Services[a]	3.1	4.0	-6.8	3.1	3.7	3.7
Inflation (Consumer Price Index)	1.9	0.2	0.7	1.1	1.4	1.7
Current Account Balance (% of GDP)	-5.3	-4.1	-3.0	-3.5	-3.9	-3.8
Net Foreign Direct Investment (% of GDP)	3.0	1.3	1.5	1.3	1.3	1.2
Fiscal Balance (% of GDP)	-3.8	-3.6	-7.7	-6.5	-6.4	-5.1
Debt (% of GDP)	65.2	64.9	77.8	78.4	78.7	79.0
Primary Balance (% of GDP)	-1.4	-1.3	-5.2	-4.0	-3.9	-2.7
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.7	0.7	0.9	0.8	0.7	0.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	5.9	5.8	7.1	6.6	6.1	5.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	26.7	26.1	29.6	28.3	27.3	26.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Service is recalculated as the residual of GDP at Factor Cost minus Agriculture and Industry to ensure internal consistency; might differ from official sources.

(b) Calculations based on 2013-ENCDM. Actual data: 2013. Nowcast: 2014-2020. Forecast are from 2021 to 2023.

(c) Projection using neutral distribution (2013) with pass-through = 0.7 based on GDP per capita in constant LCU.

OMAN

Table 1	2020
Population, million	5.1
GDP, current US$ billion	63.3
GDP per capita, current US$	12389.1
School enrollment, primary (% gross)[a]	102.9
Life expectancy at birth, years[a]	77.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2019); Life expectancy (2018).

Rapid and well-coordinated measures have limited the spread of COVID-19, but lockdown restrictions weighed heavily on economic activity in 2020. The slump in oil prices and exports have significantly widened fiscal and external deficits and resulted in higher public debt and financing risks. The outlook assumes containing the pandemic, avoidance of another oil price plunge, and successful implementation of fiscal consolidation plans. Materialization of downside scenarios would heighten external financing pressures.

Key conditions and challenges

The twin shocks of Covid-19 and lower oil prices are placing significant and adverse impact on Oman's hydrocarbon-dependent economy. These events pose a new risk to the fiscal and external positions, which have been fragile since the 2014 oil price shock. Despite past efforts to diversify the economy away from oil into sectors such as logistics and tourism and restrain public spending, the hydrocarbon sector continues to account over 34 percent of GDP (2019) and because of the complex nature of Oman's oil and gas resources, the hydrocarbon sector has large investment financing needs. Persistent large fiscal and current account deficits have resulted in further debt build up, a series of credit rating downgrades, and sizable financing needs.

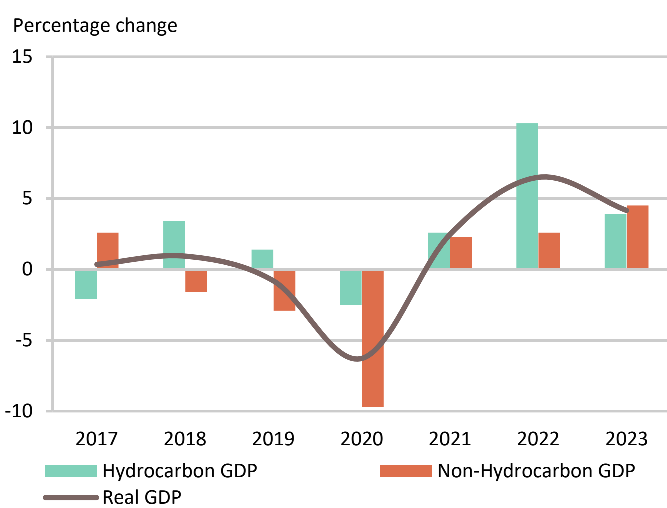
Reflecting the aggravation of the pre-existing fiscal challenge, the government announced the Medium-Term Fiscal Balance Plan (MTFP) 2020-24 at end-2020 with several fiscal adjustment reforms aiming to delink the economy from spending of oil revenues and put public debt on a sustainable path. However, challenges remain. Containing the virus, providing support to vulnerable households and overcoming vaccine-rollout challenges are key immediate priorities. While ambitious reforms are needed to rekindle job growth for nationals, the typical model of services-led growth was already facing pandemic-related risks and oil market volatility. While Oman has had some notable success in reducing and targeting subsidies, such as with petroleum products, there are still expectations of the state as a job provider in a context where young Omanis were already facing high unemployment rates.

Recent developments

Overall growth is estimated to have contracted by 6 percent in 2020. This is mainly driven by more than 9 percent contraction in non-oil GDP as the subsequent lockdown measures weighed heavily on domestic demand where tourism and services sectors have suffered the most. A significant increase in the production of condensates that is not subject to OPEC+ cut deal, has helped the oil sector to adapt to the crisis, at least in volume terms, with oil GDP has seen only 2 percent contraction. Inflation turned negative at -1.0 percent (y/y) in 2020 reflecting weak domestic demand.

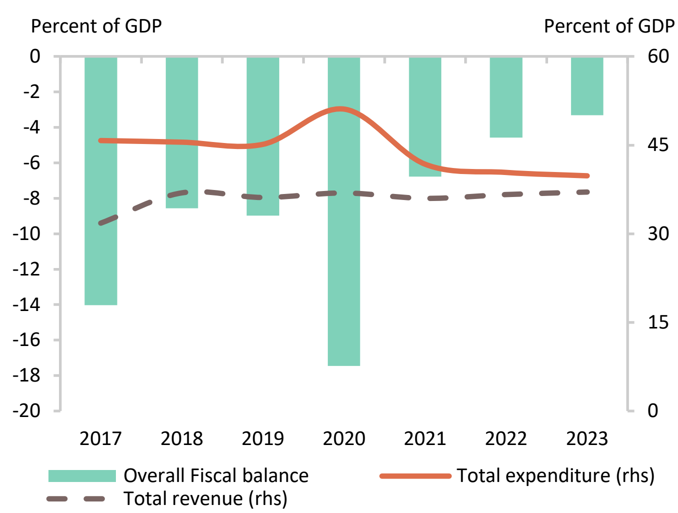
Despite attempts to restrain spending, fiscal stimulus and relief measures in response to COVID and the sharp shortfall in hydrocarbon revenues have widened the fiscal deficit to over 17 percent of GDP in 2020, primarily financed by withdrawal of reserves and external bond issuance and other external loans. The latest imbalance on top of post-2014 deficits pushed the public debt-to-GDP ratio to an estimated 81 percent in 2020.

FIGURE 1 Oman / Real annual GDP growth



Sources: Oman authorities; and World Bank staff projections.

FIGURE 2 Oman / General government operations



Sources: Oman authorities; and World Bank staff projections.

Lower exports and increased income payments have almost doubled the current account deficit to 10.4 percent of GDP in 2020, up from 5.5 percent in 2019. International reserves witnessed a modest decline of US$15 billion in 2020 (or 6.5 months of imports) helped by Eurobond issuance and stable FDI inflows, according to IMF latest estimates.

Latest official data from the National Centre for Statistics and Information shows that the unemployment rate in Oman was 3.0 percent in January of 2021, slightly up from 2.9 percent in December of 2020. However, the unemployment rate was significantly higher among the young population (aged 15 to 24), where it reached 15.6 percent, and among women whose unemployment rate was 10.2 percent. The gender gap in unemployment was especially large among the age group 25 to 29 years old, where female unemployment rate (26.2 percent) was far higher than the male rate (1.8 percent). Pandemic impacts fell heavily on migrant labor: between January of 2020 and 2021, the number of Omanis employed in the private sector fell in 3.1 percent. In contrast, the number of expatriates working in the private sector decreased 14 percent from January 2020 to January 2021.

Outlook

Overall growth is projected to post a tepid recovery of 2.5 percent in 2021 supported by the vaccine roll-out and the ease in lockdown restrictions. A backloaded rebound will see growth peak at 6.5 percent in 2022 lifted by rising oil prices, and further development of the hydrocarbon sector, before declining to 4 percent in 2023 in view of fiscal austerity measures. Inflation is projected to pick up to 3 percent in 2021, reflecting the recovery of domestic demand and the April 2021 introduction of VAT, but to decline in the years to come as VAT-driven impact on inflation dissipates.

A substantial increase in fiscal revenues (mainly driven by introducing 5% VAT in April 2021) and a reduction in spending, are expected to narrow the fiscal deficit to less than 7 percent of GDP in 2021. This positive trend could be also supported by the removal from the budget of expenses related to Petroleum Development Oman (PDO) with the restructuring of the state role in the oil and gas sector in the new entity Energy Development Oman. The fiscal deficit is projected to keep declining to an average of 4 percent over 2022-23 aided by increased gas production and steady implementation of the fiscal reforms outlined in the medium-term plan. Large financing needs estimated at 14 percent of GDP in 2021 will keep the debt-to-GDP ratio elevated over 70 percent in the forecast period.

The current account deficit is projected to show a modest decline of 8 percent of GDP in 2021, before starting to narrow down further reflecting more favorable terms of trade.

Downside risks may include the possibility of pandemic flare-ups, which would imply further strict lockdown measures and severely curtailed private sector activity. Further plunges in oil prices or delays in fiscal adjustment will worsen fiscal and debt positions, leading to higher external financing needs at a time when emerging market debt appetite might be lower than it is today. If this led to procyclical fiscal policy (e.g., further fiscal austerity measures), there would be additional drag to the recovery.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	0.9	-0.8	-6.3	2.5	6.5	4.2
Private Consumption	2.1	0.9	-5.4	3.4	3.8	3.5
Government Consumption	2.7	0.3	-8.0	-4.6	-4.2	-2.3
Gross Fixed Capital Investment	-5.3	-3.8	-7.8	2.6	4.2	3.7
Exports, Goods and Services	2.7	4.8	-8.2	5.5	6.2	5.7
Imports, Goods and Services	-4.4	-0.4	-10.2	4.5	5.4	5.0
Real GDP growth, at constant factor prices	0.9	-0.8	-6.3	2.5	6.5	4.2
Agriculture	27.9	2.0	3.3	3.4	3.4	3.5
Industry	2.2	1.2	-4.9	2.2	4.8	4.0
Services	-2.3	-4.1	-9.4	2.8	9.6	4.5
Inflation (Consumer Price Index)	0.9	0.1	-1.0	3.0	2.5	2.6
Current Account Balance (% of GDP)	-5.6	-5.5	-10.4	-8.1	-5.2	-4.3
Fiscal Balance (% of GDP)	-8.6	-9.0	-17.4	-6.8	-4.6	-3.3
Primary Balance (% of GDP)	-6.4	-6.7	-14.7	-3.7	-2.0	-1.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

PALESTINIAN TERRITORIES

Table 1	2020
Population, million	5.1
GDP, current US$ billion	15.1
GDP per capita, current US$	2980.4
Upper middle-income poverty rate ($5.5)[a]	21.9
Gini index[a]	33.7
School enrollment, primary (% gross)[b]	97.7
Life expectancy at birth, years[b]	73.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) WDI for School enrollment (2019); Life expectancy (2018).

After a successful containment of the COVID-19 first outbreak in the spring of 2020, the second and third waves have been more challenging. Q2 2020 witnessed one of the largest economic contractions on record, but activity has slightly improved since. The fiscal position has worsened not only due to the outbreak but also due to a political standoff that has disrupted the flow of revenues for half of 2020. The outlook remains precarious and subject to numerous political, security and health risks.

Key conditions and challenges

Before the onset of the COVID-19 pandemic, the Palestinian economy was stagnant and the overall socio-economic situation was difficult, due to recurrent hostilities and violence, a deteriorating relationship with Israel, and falling aid inflows. During 2017-19, annual GDP growth averaged 1.3 percent, lower than the population growth rate, resulting in decreasing per capita incomes and increasing poverty. Decomposing growth historically makes it evident that it was driven by accumulation of factors (both capital and labor) and not improvements in productivity. During the 2015-19 period, gross investment averaged about 25-26 percent of GDP, but the bulk of this has been channeled into activities in the non-tradable sectors – not sectors that have served as escalators for growth in other countries. Likewise, Foreign Direct Investment (FDI), at a mere 1 percent of GDP, is very low. Potential sources of growth will be very limited going forward even in the post-COVID environment.

COVID-19 has exacerbated existing economic and social challenges. The West Bank is currently going through a third wave with no sign of a flattened curve anytime soon and the daily cases in Gaza also continue to be high. If this continues and given that the vaccination campaign is still nascent, further stringent lockdowns may become necessary, amid eroding compliance, adversely affecting the outlook.

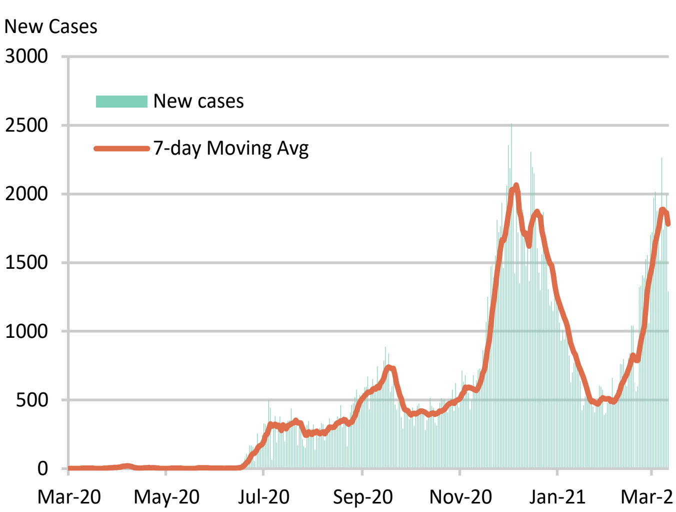
Recent developments

With limited fiscal space and monetary policy tools (due to the lack of a national currency) to mitigate the crisis impact, the economy bore the brunt of the pandemic and containment measures. The decline in activity from March 2020 was rapid and broad, with GDP contracting by 3.4 percent (y/y) in the first quarter of 2020 and then by19.5 percent (y/y) in the second quarter, one of the largest contractions on record. There was a rebound in the third quarter as the economy grew by 12 percent (q/q), but nonetheless, it was still nearly 12 percent lower than the same quarter of 2019 with private consumption and capital investment continuing to record significantly lower levels. In total, the economy shrank by 11.5 percent in 2020, in real terms.

Growth in consumer prices had been modest prior to the outbreak of COVID-19, where prices generally moved in the 1-2 percent range. But since April 2020, growth in prices has turned negative and by December, prices were 1.5 percent lower than in the same month of 2019, reflecting weak demand by consumers.

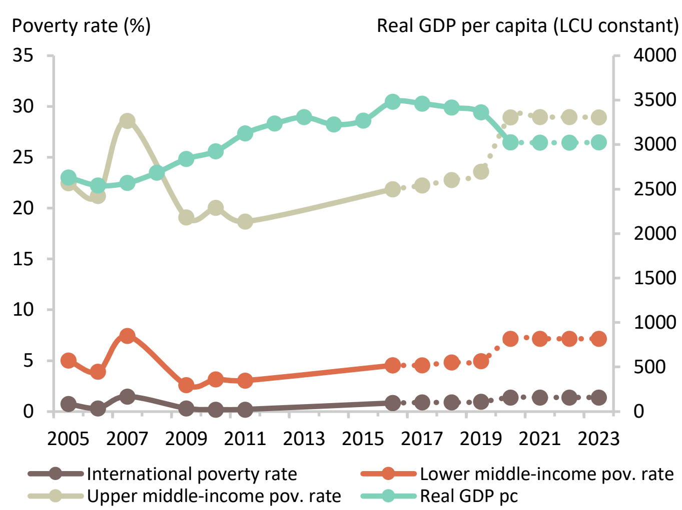
The PA's fiscal stress heightened in 2020 due to the economic slowdown and the decision to halt coordination with Israel. The PA's decision in May 2020 to stop coordination with the Government of Israel (GoI) in response to the proposed

FIGURE 1 Palestinian territories / New daily COVID-19 infections



Sources: John Hopkins University CSEE and World Bank staff calculations.

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



Sources: World Bank. Notes: see Table 2.

annexation plan resulted in a suspension of clearance revenue receipts for six months, compounding the liquidity impact of the Covid-19 crisis given that they constitute the majority of public income. On the expenditure side, public spending increased mainly due to a rise in social assistance to the new poor and affected businesses and increased medical spending. The financing need (deficit after grants) amounted to US$1.1 billion in 2020 forcing the PA to increase its domestic borrowing and accumulate more arrears to the private sector.

During the peak closures of activity in the second quarter, some 121,000 people lost their jobs. Of this, some 96,000 people have lost a job in the Palestinian territories, especially in sectors that have been affected by social distancing measures, such as tourism, restaurants, and construction, while some 25,000 Palestinian workers that cross to Israel lost their job in the second quarter of 2020. Both the third and fourth quarters saw an improvement with some 50,000 people regaining their jobs. This put the unemployment rate at 23.4 percent at the end of the fourth quarter of 2020. In Gaza, 43 percent of those in the labor force were unemployed in the fourth quarter of 2020, while the West Bank recorded an unemployment rate of 15 percent during the same time.

Based on the most recent official data, about 22 percent of Palestinians lived below the upper-middle income poverty line (US$5.5 2011 PPP a day) in 2016/17, a 2.8 percentage points increase with respect to 2011. There is a significant regional income disparity, with 46 percent of the population in Gaza below the poverty line in 2016/17, compared to just 9 percent in the West Bank.

Outlook

Uncertainty about the rollout of COVID-19 vaccinations implies that the ongoing "lockdown-open-surge-lockdown" dynamic will disrupt the economic activity until enough population is vaccinated to achieve herd immunity. Accordingly, a modest bounce back is expected in 2021 with growth returning to around 3.5 percent, reflecting in part the base year effect from a sharp contraction in 2020. Upside risks arise from the signs of renewed engagement by the US with the PA and the potential for the announced Palestinian elections to ease the internal divide between the West Bank and Gaza.

Domestic revenue collections are projected to rise given that full lockdowns and severe disruptions to economic activity are not anticipated. Clearance revenues, whose transfer is now resumed, are projected to decline as deductions by Israel are expected to increase by US$180 million in 2021. Despite additional spending to reinstate wages of Gaza employees as recently decided by the President, overall expenditure as a share of GDP will slightly decline in 2021 as social assistance is expected to drop. Put together, the government balance (deficit after aid) is expected to remain high at 6.4 percent of GDP in 2021 – down from 7.6 percent in 2020.

Projections based on GDP per capita growth suggest that the poverty rate has been increasing since 2016, reaching 28.9 percent in 2020—a significant increase of approximately 7 percentage points in the last four years. This represents approximately 1.4 million people living in poverty in 2020.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.2	1.4	-11.5	3.5	3.2	3.0
Private Consumption	1.1	3.8	-11.0	2.4	2.5	2.5
Government Consumption	7.3	-6.1	8.2	6.5	2.3	2.7
Gross Fixed Capital Investment	2.5	0.9	-31.8	8.4	9.3	5.1
Exports, Goods and Services	2.5	2.0	-9.6	3.8	3.0	3.0
Imports, Goods and Services	4.5	1.4	-12.0	5.0	4.0	3.0
Real GDP growth, at constant factor prices	1.9	1.4	-11.5	3.5	3.2	3.0
Agriculture	1.6	0.0	-3.6	2.2	1.9	1.6
Industry	2.2	-0.9	-19.9	5.0	4.4	3.7
Services	1.8	2.2	-9.7	3.2	3.0	3.0
Inflation (Consumer Price Index)	1.2	0.8	-0.7	0.7	0.9	0.9
Current Account Balance (% of GDP)	-13.2	-10.4	-6.5	-8.1	-8.3	-8.9
Net Foreign Direct Investment (% of GDP)	1.7	1.1	0.9	0.8	0.8	0.8
Fiscal Balance (% of GDP)	-2.5	-4.5	-7.6	-6.4	-5.7	-5.2
Debt (% of GDP)	14.5	16.3	24.2	25.7	26.4	26.9
Primary Balance (% of GDP)	-2.1	-4.2	-7.3	-6.0	-5.2	-4.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.9	1.0	1.4	1.4	1.4	1.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	4.8	5.0	7.1	7.1	7.1	7.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	22.8	23.6	28.9	29.0	29.0	28.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2016-PECS.Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2016) with pass-through = 1 based on GDP per capita in constant LCU.

QATAR

Table 1	2020
Population, million	2.9
GDP, current US$ billion	156.8
GDP per capita, current US$	54428.9
School enrollment, primary (% gross)[a]	103.5
Life expectancy at birth, years[a]	80.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2019); Life expectancy (2018).

Qatar entered COVID-19 with a very particular set of circumstances, namely a high specialization in liquefied natural gas exports and very limited interaction with its immediate neighbors due to a diplomatic rift. These factors somewhat buffered the impact of Covid-19. The fundamentals for a strong recovery are in place through resilient demand for gas as a transition fuel, an extensive set of business environment reforms, and a tourism sector that was gearing up for 2022, not 2020-21.

Key conditions and challenges

Qatar is distinct from other GCC economies in the dominance of natural gas exports, a model in which it has made large investments to bring gas onshore and export it mainly via liquefaction (LNG). As a result, it is the world's second-largest gas exporter and the largest exporter of LNG. The collapse in crude oil prices at the start of the pandemic reverberated through to LNG markets, especially oil-linked LNG contracts. This persisted for most of 2020 and weakened overall GDP growth.

Crude oil exports remain an import source of export earnings and liquidity that help smooth out the lumpy investments and long timeframes of LNG. Exemplifying the scale of investment associated with LNG, Qatar has begun new investments which will total around US$29 billion expanding LNG capacity from the maritime North Field, which will take LNG production capacity to 110 million tons per annum by 2026 (mtpa) up from the current production rate of 77 million mtpa.

Unlike other energy producers in MENA, Qatar is also likely to have a longer timeframe to continue exporting hydrocarbons to the degree that LNG is viewed seen as less brown intermediate feed stock to complement a renewable and / or hydrogen-energy based future economy.

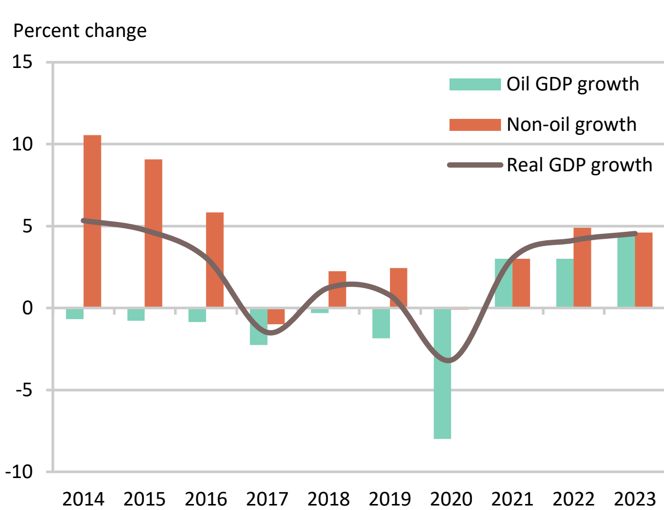
Notwithstanding LNG ambitions, there have been years of efforts to bolster competitiveness. Recently, these included: the abolishment of the Kafala sponsorship system and the strengthening of labor protection that helps facilitate labor mobility and raise productivity; the introduction of a new Public-Private Partnerships law which should help improve FDI attractiveness; and the announcement of the terms, conditions, benefits and procedures for real estate ownership and use of them by non-Qataris. This last step is a recognition that the diversification may involve long-term expatriate residency, moving towards a permanent residency model regarding access to healthcare, education, and level playing field with citizens in some commercial activities.

The prolonged diplomatic rift with four key neighbors (Bahrain, Egypt, Saudi Arabia and UAE) has also been resolved at the start of 2021; this removed some basic obstacles to movement of people, goods, and services between the countries (including airspace restrictions), but it will take some time to reestablish normal economic links between the countries.

Recent developments

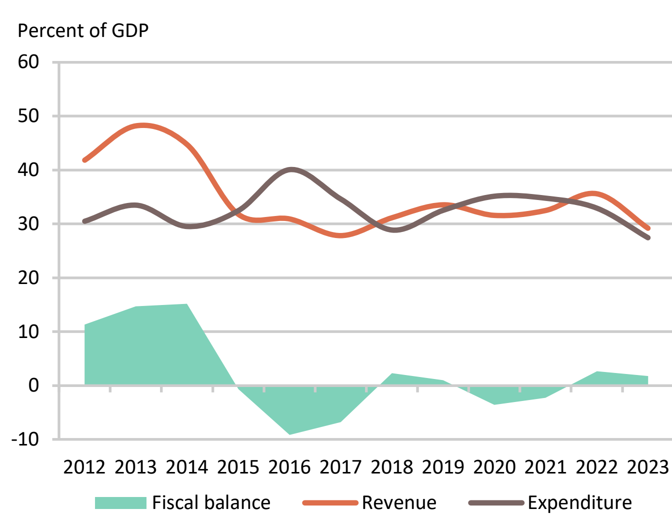
An initial spike of COVID-19 cases in the first and second quarters of 2020 was controlled through a strict lockdown, social distancing and travel restrictions. As a result, the country experienced a path of low and stable new cases as well as a relatively low number of deaths which allowed the authorities to gradually unwind the restrictions. In contrast with other GCC countries, mobility (measured via

FIGURE 1 Qatar / Real GDP growth



Sources: Haver and World Bank staff calculations.

FIGURE 2 Qatar / Public finances



Sources: Haver and World Bank staff calculations.

Google mobility data) returned to pre-pandemic levels by the third quarter. Retail and recreation and transit station footfall, as well as workplace mobility converged to the torrid pace set by residential activity during lockdown.

Following a sharp fall in the first quarter of 2020, Qatar's Purchasing Managers' Index (PMI) has consistently remained above 50 indicating economic expansion. Manufacturing and services activity reached near 60 at the end of the second quarter settling at a more subdued pace in the third and fourth quarters but still showing expansion. A PMI of 51.8 in January 2021 also suggested a strong start to the new year. Nonetheless, a rise in COVID-19 cases (from less than 150 new cases in December 2020 to 469 at the end of February 2021) has led government to announce new measures, especially focused on social gatherings where it is believed much non-compliance was occurring.

In addition to the lift in LNG pricing from the recovery in oil prices, Qatar expanded its share of the LNG market in Asia, where LNG spot prices have recently spiked, being the only major exporter able to respond quickly to the surge in demand.

The fiscal deficit in 2020 is estimated at 3.6 percent of GDP in 2020 in the wake of weak hydrocarbon prices, from where the bulk of government revenues are derived, and strong offsetting expenditures to mitigate the economic effects of COVID-19 amongst hardest hit sectors (travel, tourism and real estate). Consumer price inflation was -2.6 per cent last year. Prices are likely to return to normal from base effects in 2021 and with the possible implementation of VAT, which was postponed due to the pandemic.

The year 2021 began with continued impetus from manufacturing and services as reflected in the PMI, a stronger than expected recovery in oil markets, and final preparations ahead of the fortuitously-timed 2022 FIFA World Cup. Optimism has been dented with a resurgence of new COVID-19 cases, slow vaccination rollout in Europe, and new social restrictions in February 2021.

Outlook

Real GDP growth for 2021 is expected to be 3 percent, with the same rate of growth for both oil and non-oil GDP, driven by domestic and foreign demand as vaccinations roll out and with the end of the diplomatic rift. Strengthening energy prices and final preparations for the FIFA World Cup 2022, as well as expected bumper tourist receipts from what could be the world's first post-Covid mass audience sporting event, should lead to 4.1 percent growth in 2022, with non-oil GDP expected to grow 4.9% (and oil GDP remaining at 3%).

The fiscal deficit is expected to narrow to 2.3 percent in 2021 following recovery in hydrocarbon prices, the potential introduction of VAT in the current year and a general easing of fiscal mitigation as the pandemic unwinds. Like other macroeconomic indicators, the current account in Qatar is largely a function of energy-related commodity prices and export volumes. With a strong improvement in energy prices and higher market share in Asia, the current account will likely return to surplus (1.7 percent of GDP in 2021) and should be further bolstered from World Cup tourist receipts in 2022.

Nonetheless, the economic rebound in 2021 and beyond depends on the control of the COVID-19 pandemic and the effective roll-out of vaccines. Existing testing and tracing infrastructure will be needed for some time. The resolution of the diplomatic rift revives the prospect of further GCC integration and regional crisis burden-sharing.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.2	0.8	-3.2	3.0	4.1	4.5
Private Consumption	5.0	3.5	-5.6	4.8	5.9	5.1
Government Consumption	-3.0	2.5	10.3	4.0	4.3	3.5
Gross Fixed Capital Investment	4.0	2.5	-3.2	3.0	3.3	3.4
Exports, Goods and Services	1.5	1.1	-6.8	2.7	5.3	6.0
Imports, Goods and Services	3.0	6.0	-2.7	5.5	5.8	6.0
Real GDP growth, at constant factor prices	1.2	0.8	-3.2	3.0	4.1	4.5
Agriculture	15.7	1.0	3.0	5.0	7.5	6.8
Industry	0.6	1.2	1.0	2.7	2.6	3.0
Services	2.7	-0.3	-13.7	4.0	8.5	8.7
Inflation (Consumer Price Index)	0.1	-0.9	-2.6	1.0	3.0	2.5
Current Account Balance (% of GDP)	9.1	2.4	-2.5	1.7	2.7	4.1
Fiscal Balance (% of GDP)	2.3	1.0	-3.6	-2.3	2.7	1.8
Primary Balance (% of GDP)	3.7	2.7	-1.7	-0.6	4.3	3.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

SAUDI ARABIA

Table 1	2020
Population, million	34.8
GDP, current US$ billion	701.6
GDP per capita, current US$	20151.6
School enrollment, primary (% gross)[a]	100.7
Life expectancy at birth, years[a]	75.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2019); Life expectancy (2018).

After a deep contraction in 2020, Saudi Arabia's economy is on a recovery path as new COVID-19 cases have stabilized at manageable levels, global conditions improve, and the national vaccination program gains momentum. Improvement in oil prices and easing of containment measures will strengthen medium-term fiscal and external positions. A resurgence of COVID-19 infections and renewed downward pressure on oil prices are key downside risks to the outlook. Further fiscal austerity measures would also act as a headwind to the recovery.

Key conditions and challenges

Saudi Arabia remains highly dependent on the hydrocarbon sector, but a reform acceleration beginning in 2016 had made progress on economic diversification, especially regarding labor force participation of women, mobilization of non-oil revenues, and services-led growth. The economy fell into a deep recession in 2020 in the aftermath of the twin shocks of COVID-19 and lower oil prices, creating large shortfalls in fiscal and external positions. While the oil sector impact of COVID-19 has accelerated the urgency to delink the path of the economy from the oil sector, the pandemic is also likely to change the nature of the services model in many countries, and oil will remain a valuable asset to finance the transformation and adaptation to this emerging model.

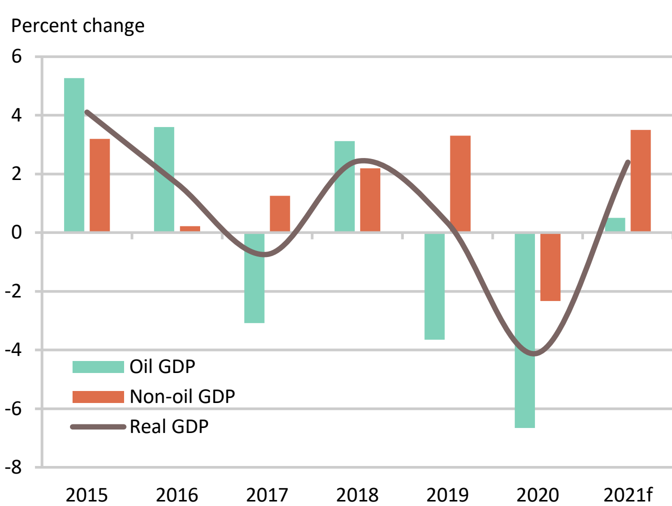
While authorities lifted many stringent public health measures with the improvement of pandemic conditions, a spike in cases due to new variants of the virus risks a cycle of on-off lockdowns, dampening recovery. Saudi Arabia is a regional leader for launching its national vaccination program in mid-December; however, the vaccination rate remains in the large cluster of slowly-progressing countries, an order of magnitude behind countries like the USA, UAE, and Chile. Strong groundwork for a vaccination scale-up and an ample testing apparatus should support efforts in restarting in-person services, especially in light of the importance of travel for religious pilgrimage.

With oil prices rebounding as global demand recovers, the temptation to "cheat" on production quotas by OPEC+ members increases, which might trigger another price war as in March 2020. Imposing further fiscal restraint, whether to tackle the public sector wage bill or mobilize non-oil revenues, will need to be balanced against the case for active fiscal policy to mitigate COVID-19 impacts. To lessen the burden on the budget as a driver of growth, the Public Investment Fund (PIF) is taking on a larger developmental role in the domestic economy; experience of other countries shows that the crowding-in potential of a public fund is enhanced by transparency and predictability for the private sector on the fund's investments and governance thereof.

Recent developments

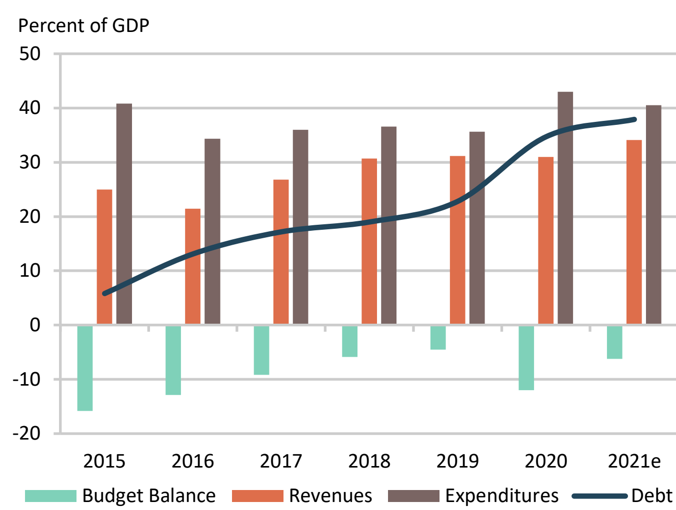
Saudi Arabia has faced a compound challenge of coping directly with the pandemic and with the indirect oil market implications of the pandemic. Daily infections had been on a downward trajectory from its peak in June 2020 (4400 cases) to early January 2021 (100 cases); yet by mid-February new and more transmissible variants of the virus crept up, forcing partial reinstatement of travel bans. Meanwhile, the national vaccination program rollout started in mid-Dec 2020, ahead of many countries in the region, with the aim of inoculating at least 70 percent of population by end 2021. The

FIGURE 1 Saudi Arabia / Annual real GDP growth



Sources: GASTAT Saudi Arabia and WB staff estimates.

FIGURE 2 Saudi Arabia / Central government operations



Sources: World Bank, Macroeconomics, Trade, & Investment Global Practice.

vaccination rate, currently standing at 7 doses per 100 people, is increasing rapidly, but still too low to give sizable immunity. On the other hand, the Kingdom has navigated extraordinary volatility in the oil market, using the OPEC+ structure and its own carefully calibrated production adjustments to keep supply in line with the gradual global relaxation of containment measures. Nevertheless, oil prices are now at a level where unconventional supply will be induced back into the market.

Against this background, GDP contracted by 4.1 percent in 2020, led by oil production cuts. Non-oil sectors reported better-than-expected signs of recovery during the second half of 2020 as containment measures eased—with quarter-to-quarter growth registering 1.8 and 2.8 percent for Q3 and Q4, respectively; yet proxies for consumer spending remain weak reflecting households' adjustment to higher VAT rate and the construction sector seemed to slow. With the VAT increase in mid-2020, headline inflation rose to 3.4 percent for the year.

Despite painful fiscal measures introduced in mid-2020, the budget deficit continued to widen, reaching 11.3 percent of GDP. Thus far, depletion of reserves and ample market access have proven sufficient to finance the deficit, insulating the economy from the full volatility of oil revenues.

There is no publicly available information on official poverty rates in Saudi Arabia and access to survey data to measure welfare conditions is limited. However, in recent years the government has made gains creating the capacity to identify and support low income households.

The most recent employment data from the General Authority of Statistics (GASTAT) shows that unemployment during Q3 of 2020 was 8.7 percent, 2.9 p.p. higher than during the same period of 2019. Unemployment among Saudis is largely made up of the young and educated ; 60.7 percent of all unemployed Saudis belong to the age group 20-to-29 years, and more than half of them (53.9 percent) hold a bachelor's degree. Male labor force participation (66 percent) is more than double that of females (31.3 percent) – itself a doubling of the rate since 2016.

Outlook

The economy is expected to grow by 2.4 percent in 2021, driven by a more accelerated pick-up in global energy demand and prices and Saudi oil production level closer to its OPEC+ original commitment, resulting in oil sector growth of 0.5 percent. As the vaccination program gains more momentum and COVID-related restrictions are eased, non-oil sectors will continue their growth trajectory, estimated to reach 3.5 percent in 2021 and reflecting stronger private consumption, gradual resumption of religious tourism, and higher domestic capital spending signaled through PIF's five-year strategy (2021-2025). Medium-term growth is expected to reach 3.3 percent while headline inflation in 2021 is expected drop, as VAT -driven impact on inflation dissipates.

The budget deficit is anticipated to reach 5.6 percent of GDP in 2021 and will continue its narrowing path in the medium term, but not quickly enough to achieve the self-imposed medium-term balanced budget target articulated in the Fiscal Balance Program (FBP) by 2023. Signs of urgency by authorities to push forward with the privatization program will instill confidence about private sector role in Vision 2030 and ease financing needs, with debt-to-GDP projections staying comfortably below 50 percent target in the medium term. The external current account is projected to return into surplus during 2021-2023 as energy prices and export earnings recover.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.4	0.3	-4.1	2.4	3.3	3.2
Private Consumption	1.9	4.4	-4.9	2.3	2.6	2.7
Government Consumption	6.0	0.6	2.6	2.6	1.2	0.9
Gross Fixed Capital Investment	-2.9	4.9	-14.0	3.9	4.0	4.0
Exports, Goods and Services	6.8	-4.5	-8.7	1.8	4.7	4.5
Imports, Goods and Services	2.7	1.3	-14.6	2.7	3.0	3.1
Real GDP growth, at constant factor prices	2.6	0.3	-4.0	2.4	3.3	3.2
Agriculture	0.3	1.3	0.0	0.1	0.2	0.2
Industry	2.7	-2.6	-5.3	0.4	2.4	2.4
Services	2.5	4.3	-2.5	5.1	4.6	4.3
Inflation (Consumer Price Index)	2.5	-1.2	3.4	3.6	2.0	2.2
Current Account Balance (% of GDP)	9.0	6.6	-2.7	2.6	4.5	5.9
Net Foreign Direct Investment (% of GDP)	0.7	0.8	-0.2	0.5	0.6	0.8
Fiscal Balance (% of GDP)	-5.9	-4.2	-11.3	-5.6	-3.0	-1.0
Primary Balance (% of GDP)	-5.4	-3.4	-10.1	-4.3	-1.7	0.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

TUNISIA

Table 1	2020
Population, million	11.8
GDP, current US$ billion	39.1
GDP per capita, current US$	3311.9
National poverty rate[a]	15.2
Lower middle-income poverty rate ($3.2)[a]	3.0
Gini index[a]	32.8
School enrollment, primary (% gross)[b]	115.4
Life expectancy at birth, years[b]	76.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015).
(b) Most recent WDI value (2018).

As the COVID-19 pandemic stretches into 2021 and in a context of heightened socio-political unrest, Tunisia's growth and fiscal outlook is weaker than before. The recovery will require more stability and a joint national effort to steer the economy to the right path.

Key conditions and challenges

On the tenth anniversary of the Jasmin revolution, Tunisia finds itself on a weak economic footing and a renewed wave of social unrest. With persistent political instability over the past ten years, the economy struggled to garner investor confidence such that GDP growth averaged just 1.5 percent between 2011 and 2019. Growth now relies increasingly on consumption while investment and exports remain significantly below pre-revolution levels. As growth stagnated, a social contract that sees the public sector as a source of jobs and a guarantor of affordability has seen the fiscal context deteriorate under the weight of a large public sector wage bill, underperforming state-owned enterprises and consumer price subsidies.

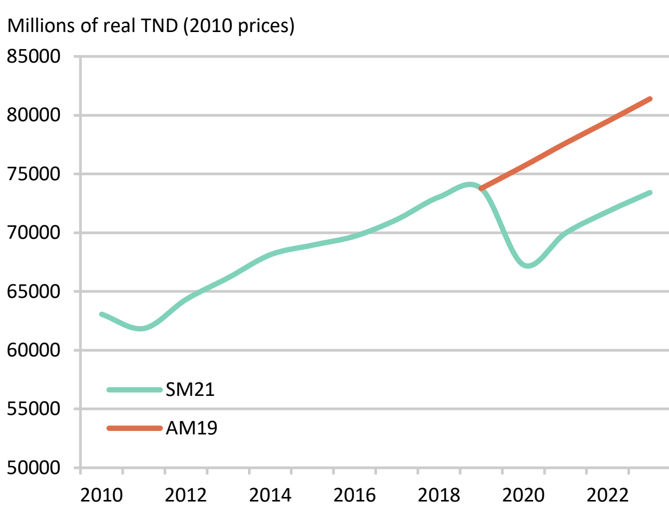
Having handled the first wave of the COVID-19 pandemic well, a deeper and prolonged second wave has been ongoing since September 2020. The number of confirmed new infections averaged around 1700 per day by end 2020, compared to a peak of just 61 new cases in April 2020, but started to decline by February 2021. The authorities are attempting to manage the pandemic with social distancing and internal travel restrictions while avoiding another national lockdown. Adding to the COVID-19 challenge is an increase in social protests by a strained population and renewed political turbulence, whilst economic conditions deteriorate and fiscal space narrows. This offers Tunisia poor prospects unless strong national leadership begins to build political stability and consensus to steer the country on the path to recovery.

Recent developments

Real GDP contracted by 8.8 percent in 2020 as sharp declines in domestic and external demand followed the pandemic. With a 9.3 percent contraction, manufacturing, a mainstay of the Tunisian economy, was deeply impacted. An 80 percent decline in passenger arrivals also caused a downturn in tourism and transport. Notably, business pulse surveys indicate that almost a quarter of formal firms (23.6 percent), mainly in the services sector, were either temporarily or permanently closed by the end of 2020. This has had a knock-on effect on unemployment, which stood at 17.4 percent by end 2020, compared with 14.9 percent pre-pandemic.

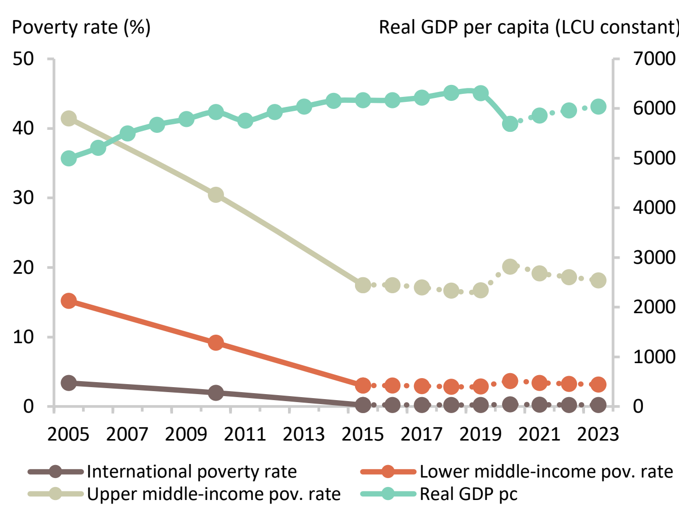
According to a series of telephone interviews conducted by the *Institut National de la Statistique* and the World Bank, during and after confinement (March-November 2020), economic activity sharply declined for most employees, and a decline in incomes has been observed. Results show that although employment in November 2020 rebounded to pre-crisis levels among respondents, labor income among wage workers, and particularly the self-employed, is still below pre-pandemic levels. More than half of households report

FIGURE 1 Tunisia / Real GDP: Actual, forecast and pre-covid trend



Sources: Government of Tunisia; World Bank.

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



Sources: World Bank. Notes: see Table 2.

worsening living standards relative to the pre-pandemic period, and for about 40 percent of the poorest, welfare levels have continued to deteriorate. Although COVID-19 has had negative effects on everyone's welfare, poor and vulnerable households are particularly hit because of their unequal access to basic services, especially heath care in case of infection, as well as coping mechanisms put in place. However, considering the magnitude of the GDP decline, this increase could have been much bigger if the government hadn't reacted very fast by scaling up the existing cash transfer programs to compensate for the loss of employment and the decrease in income.

The current account deficit improved from 8.5 percent of GDP in 2019 to 6.8 in 2020 as imports declined (-19 percent) faster than exports (-12 percent). With this, forex reserves increased to US$8.3 billion (158 days of import cover) by January 2021 against US$7.4 billion at end 2019.

COVID-19 response measures, along with revenue losses, caused the fiscal deficit to balloon to approximately 10 percent of GDP in 2020 (up from 3 percent of GDP in 2019). Central government debt is estimated to have reached 88 percent of GDP by end 2020, compared to 72 percent in 2019. The debt burden exceeds 100 percent of GDP once government guarantees and SOE debts are included.

Outlook

Growth is temporarily expected to accelerate to 4 percent in 2021 as the pandemic's effects on exports begin to abate and domestic demand begins to recover. The uptick is, however, not large enough to return output to pre-pandemic levels of 2019. After this short-term rise, growth is expected to return to a more subdued trajectory, expanding by around 2 percent by 2023, reflecting pre-existing structural weaknesses and a gradual global recovery from the pandemic. These estimates are presented with significant downside risks. The pace of the recovery will depend on the extent of the pandemic in 2021, vaccine rollout in Tunisia and among key trading partners as well as measures to mitigate the pandemic's impact on households and firms.

Extreme poverty - measured using the international poverty line of US$1.9 PPP - is projected to remain below 1 percent through 2023 but poverty measured using the US$3.2 PPP line will only slightly decline compared to 2020 and will not return to pre-crisis levels of 2.9 percent (2019). It was 3.7 in 2020 and it will decline to 3.4 percent in 2021. Also, the percentage of the population "vulnerable" to falling into poverty is not expected to recover to pre-crisis levels in 2021. Using an expenditure threshold of US$5.5 PPP, the number of poor and of those vulnerable to poverty is expected to decline from 20.2 percent to 19.2 percent of the population.

The current account deficit is expected to widen to 9.2 percent of GDP in 2021 as imports begin to recover and oil prices increase. As the effects of the pandemic ease and trade flows recover, manufactured exports and tourism arrivals are expected to pick up gradually, supporting a gradual decline to 8.9 percent of GDP by 2023. But risks to the external outlook remain high, including a sluggish recovery in exports, given the heavy impact of the pandemic on firm capacity and the pace of recovery amongst Tunisia's main trading partners.

Financing needs will continue to be high in the medium-term given the extent of the pandemic's impact on the economy. Public finances will be particularly challenging in 2021, with an expected fiscal deficit in the range of 8-9 percent of GDP, as the authorities deal with the pandemic and maintain support to households, but with depleted fiscal buffers. In particular, meeting the 2021 budget's external financing needs will be challenging given the deterioration of the fiscal setting, the recent sovereign credit rating downgrade and in the absence of an IMF program.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.7	1.0	-8.8	4.0	2.6	2.2
Private Consumption	2.1	0.9	-3.0	2.5	1.5	1.4
Government Consumption	0.2	0.3	-11.4	-15.8	1.3	1.3
Gross Fixed Capital Investment	2.0	-12.3	-32.6	33.9	6.5	6.0
Exports, Goods and Services	4.4	-5.0	-19.0	21.0	12.0	10.0
Imports, Goods and Services	1.7	-8.6	-18.0	16.0	10.0	8.8
Real GDP growth, at constant factor prices	2.6	1.0	-9.1	4.5	2.6	2.3
Agriculture	11.9	0.4	4.4	-3.0	3.5	3.5
Industry	1.4	-1.1	-10.7	9.5	1.4	0.4
Services	1.7	1.9	-10.5	3.8	3.0	2.8
Inflation (Consumer Price Index)	7.3	6.7	5.6	5.8	6.0	6.0
Current Account Balance (% of GDP)	-11.2	-8.5	-6.8	-9.2	-9.0	-8.9
Fiscal Balance (% of GDP)	-4.5	-3.1	-10.0	-8.6	-6.8	-6.4
Debt (% of GDP)	77.8	71.8	87.2	90.3	91.5	94.1
Primary Balance (% of GDP)	-1.8	-0.5	-6.2	-5.0	-3.2	-2.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.2	0.2	0.3	0.3	0.3	0.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	2.9	2.9	3.7	3.4	3.3	3.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	16.7	16.7	20.1	19.2	18.6	18.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2015-NSHBCSL.Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021to 2023.
(b) Projection using neutral distribution (2015) with pass-through = 0.7 based on GDP per capita in constant LCU.

UNITED ARAB EMIRATES

Table 1	2020
Population, million	9.9
GDP, current US$ billion	345.8
GDP per capita, current US$	34961.8
School enrollment, primary (% gross)[a]	108.4
Life expectancy at birth, years[a]	77.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2017); Life expectancy (2018).

COVID-19 and its economic fallout entailed a major shock to the UAE's open economy. Low oil prices and OPEC+ production cuts hobbled the hydrocarbon sector, the backbone of the economy, while the service-oriented non-hydrocarbon economy was severely affected by disruptions in global trade and travel. The UAE's near-term economic prospects depend critically on being positioned to benefit from the recovery of the global economy. The country's long-run priority is to further diversify the economy and create jobs in the private sector.

Key conditions and challenges

Rich in hydrocarbon wealth, the United Arab Emirates (UAE) is the second largest economy in the Middle East after Saudi Arabia. Over the past years, the authorities have intensified efforts to diversify the economy away from hydrocarbon, successfully positioning the UAE as the region's global trade, financial and travel hub. While the non-hydrocarbon sector accounts for two-thirds of GDP, the economy continues to rely on hydrocarbon as the engine of growth and the main source of government revenue, and thus remains vulnerable to volatility of global oil prices.

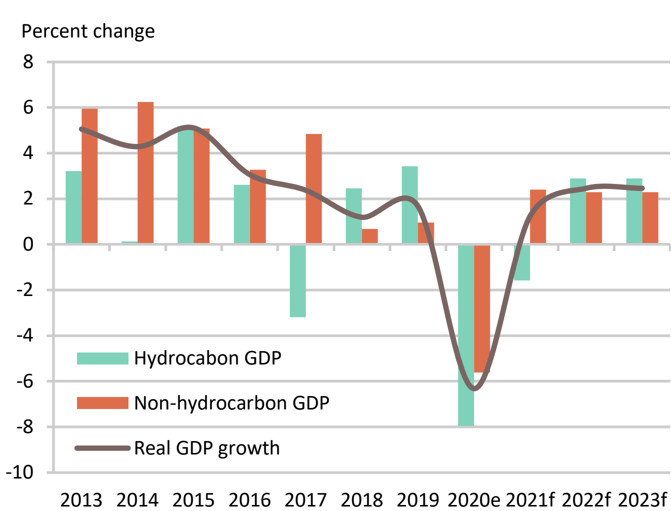
In 2020, the UAE's economy suffered a major blow from COVID-19. The hydrocarbon sector was severely affected by plummeting global oil prices and the OPEC+ production cuts, which led to a sharp contraction of hydrocarbon exports and government revenue, constraining performance of oil-liquidity dependent sectors, especially real estate and construction. Sectors catering to the trade and travel industries were also hard-hit by the global economic contraction and strict containment measures. The brunt of job and income losses due to COVID-19 has likely been borne disproportionally by foreign workers.

While the authorities' major monetary, financial, and fiscal mitigation measures have cushioned the impact of the pandemic on the economy, the UAE's near-term economic prospects depend on the recovery in global demand for oil and their proactive COVID-19 management strategy, including the national-scale rapid testing and ongoing swift roll-out of vaccines. Continued diversification efforts will remain a key priority to maintain the UAE's dynamic comparative advantage in global innovator services and labor-intensive tradable services.

Recent developments

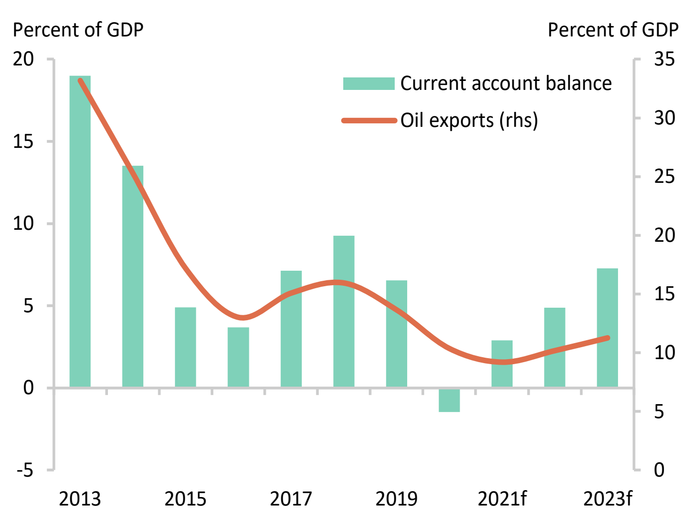
COVID-19 and its economic fallout exerted a heavy toll on the UAE's open economy, leading to a contraction of 4 percent in the first half of 2020 year on year (y/y). The volume of oil production declined by 4.4 percent (y/y) in the second quarter of 2020, in line with the OPEC+ production cuts agreement. The non-hydrocarbon sector contracted by 6 percent for the first half of 2020, as strict lockdown, travel bans, and supply chain disruptions constrained tourism, construction and trade activities. Non-hydrocarbon activity began to show signs of recovery in the third quarter of 2020, with the resumption of international travel, relaxation of lockdowns, and large-scale monetary and fiscal measures. However, the nascent recovery was soon put on hold in late 2020, as a spike in new COVID infections in the UAE and across the globe prompted the authorities to reimpose tight movement restrictions and close travel corridors (in some cases, corridors were closed at the other end). The hydrocarbon sector remained severely depressed due to restrained oil production in line with the

FIGURE 1 United Arab Emirates / Annual GDP growth rate



Sources: UAE authorities and IMF/World Bank Staff estimates.

FIGURE 2 United Arab Emirates / External account



Sources: UAE authorities and IMF/World Bank Staff estimates.

OPEC+ production quota. The overall economy has likely contracted by around 6 percent in 2020. Government finances are under significant strain. The fiscal outturn in the first half of 2020 was a deficit of 2.3 percent of GDP, compared with a surplus of 3.4 percent a year earlier, due to reduced hydrocarbon revenue and the fiscal mitigation measures introduced at both the federal and emirate levels. The mitigation packages, totaling AED 26.5 billion (US$7.2 billion), included a suspension of work permit fees, reduction of labor and other charges to lower the cost of doing businesses and support small and medium enterprises, as well as financial assistance to activities particularly affected by COVID. Financing needs were mostly met by international debt issuances at the emirate level, but a recently released new federal public debt strategy for 2021-23 also points to growing reliance on the local-currency bond market.

The deflationary trend has persisted throughout the year, with the CPI falling by 2 percent in December 2020 (y/y), driven by price declines of non-tradable goods and services (such as rents, transport and recreation) that reflected subdued domestic and external demands. The recession has further depressed real estate prices in the UAE, which had been on the fall due to oversupply of residential properties, undermining banking sector profitability.

The Central Bank of the UAE (CBUAE) has maintained an accommodative monetary policy stance, closely tracking US monetary policy to maintain its currency peg. Early in the pandemic crisis, the CBUAE launched an AED 256 billion (US$70 billion) monetary stimulus, relaxing a number of regulatory requirements for banks to ease repayment pressures for the private sector and boost domestic credit growth. Yet credit to the private sector, particularly lending to business and industries, continued to contract in 2020, and the share of non-performing loans in total lending is on the rise, reaching 7.7 percent in September 2020.

The current account position has likely slipped into deficit in 2020, for the first time on record, due to the significant underperformance of both hydrocarbon and non-hydrocarbon exports. However, the UAE's external position remains strong, with official reserves equivalent to more than 5 months of imports as of September 2020, and assets of various sovereign wealth and development funds are vast.

Outlook

The economy is expected to rebound in tandem with the recovery of the global economy.

The hydrocarbon sector would regain strength with rising global oil prices, helping to restore the fiscal and external positions, and boosting confidence on the overall economy. This, coupled with a sustained recovery of global trade and travel, would allow the non-hydrocarbon sector to rebound. The normalization of relations with Israel and Qatar could expand economic opportunities. But the pandemic could have a lingering impact on global travel, hampering a speedy recovery of the UAE's large tourism industry. The long-run economic prospects continue to hinge on the authorities' efforts to create a favorable business environment to foster growth of the non-hydrocarbon sector and create jobs in the private sector. The introduction of a new Commercial Companies Law in December 2020, which among other things permits foreign nationals 100 percent ownership in most industries, marks a further extension of the free zone investment environment to the "on-shore" economy. Combined with the measures on business costs and the earlier introduction of VAT, there has been a sizable gain in competitiveness, and thus significant upside risks to the outlook.

TABLE 2 United Arab Emirates / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.2	1.7	-6.3	1.2	2.5	2.5
Private Consumption	6.1	13.4	-4.9	2.3	2.2	2.2
Government Consumption	-5.0	14.3	3.2	2.1	2.3	2.3
Gross Fixed Capital Investment	3.6	0.0	-4.5	2.5	2.1	2.1
Exports, Goods and Services	11.5	-2.9	-7.3	3.6	3.9	3.9
Imports, Goods and Services	10.9	3.6	-4.5	2.5	4.2	4.2
Real GDP growth, at constant factor prices	1.2	1.7	-6.3	1.2	2.5	2.5
Agriculture	5.4	2.7	-5.0	3.4	2.1	2.1
Industry	1.8	2.1	-7.2	0.3	2.6	2.6
Services	0.6	1.2	-5.5	2.1	2.3	2.3
Inflation (Consumer Price Index)	3.1	-1.9	-1.6	1.2	2.0	2.0
Current Account Balance (% of GDP)	9.3	6.5	-1.5	2.9	4.9	7.3
Fiscal Balance (% of GDP)	1.2	-1.0	-8.0	-0.5	1.7	-2.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

REPUBLIC OF YEMEN

Table 1	2020
Population, million	29.8
GDP, current US$ billion	19.9
GDP per capita, current US$	668.2
School enrollment, primary (% gross)[a]	93.6
Life expectancy at birth, years[a]	66.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2016); Life expectancy (2018).

An unprecedented protracted humanitarian crisis, aggravated by COVID-19, leaves many Yemenis mostly dependent on relief and remittances. Socio-economic conditions are deteriorating rapidly, driven by a currency depreciation, trade disruptions, rising food prices, severe fuel supply shortages, disruption and downsizing of humanitarian operations. Intensifying violence and fragmentation of macroeconomic policies add further strains on the fragile economic conditions, and the population is at risk of famine in 2021.

Key conditions and challenges

The fallout of COVID-19 has hit the people and the economy of Yemen in a state of extreme fragility after seven years of conflict. Socio-economic conditions deteriorated further in 2020, affected by compound conflict, health, and climate events and depleted coping capacity. Distortions created by the fragmentation of institutional capacity and the divergent policy decisions between the areas of control have led to acute shortages of basic inputs, including fuel.

Without stable sources of foreign exchange, expansionary monetary policy has accelerated the depreciation of the Yemeni rial. Given Yemen's high dependence on imports, the weakening of the currency has passed through to domestic prices, eroding purchasing power of households and businesses. Recovery of oil production and exports remain slow, limiting government revenue. Collection of non-hydrocarbon revenue has been limited. Regular salary payments to public sector workers continue to experience recurring delays and uneven geographical coverage.

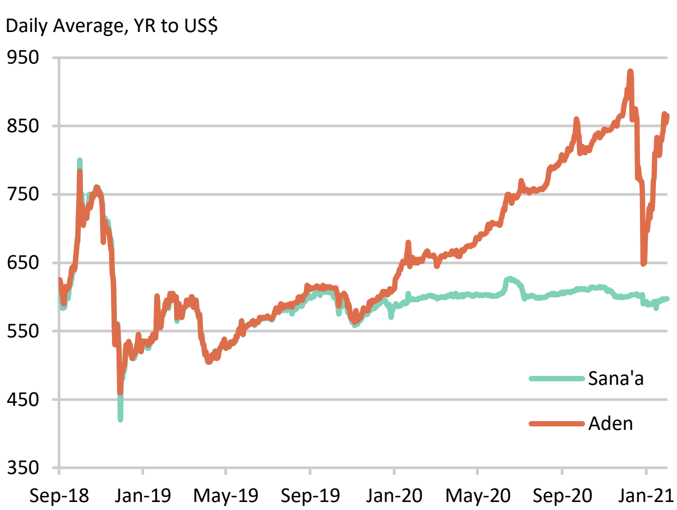
Accurate poverty projections are unable to be produced in the current environment. The latest national poverty rate was estimated using data prior to the conflict, and provides a difficult base from which to estimate how poverty has changed since given the profound impacts the conflict has had on the country. Any projection of poverty is imprecise without a more thorough, data-borne understanding of the significant changes to both inflation and economic activity and the effects of forced displacement. Even though poverty estimates cannot be produced, the welfare situation in the country is dire, where approximately 80 percent of respondents of a monthly mobile phone survey conducted by the WFP in 2020 had difficulty accessing either food or basic services.

The overarching socio-economic risks derive from fragility and conflict. Near-term macroeconomic risks are closely tied to improving external accounts. In the government-controlled areas, there is a difficult trade-off between salary payments and macroeconomic stability, in the absence of other financing sources besides monetary expansion. In the non-government controlled areas, the private sector faces enormous challenges due to an arbitrary and sometimes coercive business environment and numerous interruptions to the inflow of commercial imports. Fragmentation of institutional capacity and the lack of policy coordination risks deepening the divisions in the financial sector and further aggravation of market distortions (e.g., smuggling and arbitrage of goods and currency).

Recent developments

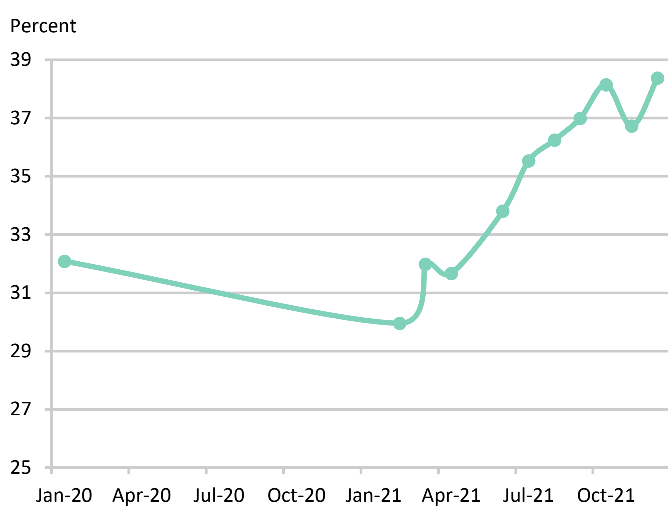
The economy contracted sharply from an already low base. The oil sector—the only large export earner—was hard-hit by low global oil prices. Non-oil economic activity

FIGURE 1 Republic of Yemen / Parallel market exchange rate



Sources: World Bank staff estimates.

FIGURE 2 Republic of Yemen / Share of respondents with poor food access



Sources: WFP Mobile Vulnerability Analysis and Mapping Survey.

suffered significantly from COVID-19 related trade slowdown and exceptionally heavy rainfalls, which caused intense flooding, damage and loss of life. Foreign exchange shortages deepened further with the near depletion of Saudi Arabia's basic import finance facility, reduced oil revenues, and downsizing of humanitarian assistance. Inflation has accelerated quickly in 2020. The weakening of the rial played a major role; other factors such as COVID-19 related disruptions, insecurity, trade restrictions and associated fuel shortages have also influenced price dynamics. The national average cost of the Minimum/ Survivable Food Basket increased by 4 percent in December 2020 (m-o-m) and by 30 percent (y-o-y). Hodeidah port, a major port of entry for much of the country, showed a 6 percent volume reduction of imported food products during 2020, especially flour (30 percent decline) and wheat (20 percent decline). Fuel shortages also contribute to domestic price increases and disruptions in basic services delivery. The total volume of discharged diesel and gasoline imported through Hodeidah have declined by an estimated 34-40 percent in 2020. The divergence in cash exchange rates between Sana'a and Aden have widened in early 2021 reaching nearly YR 268 (approximately 45 percent more depreciated in Aden) at the end of the January 2021. The divergence between exchange rates, and tightening of exchange controls and payment networks on both sides have increasingly fragmented local financial markets, impeding domestic transfer services. The cost of financial transfers through commercial banks and exchange bureaus from new to old banknotes saw a gradual increase in recent months and associated fees reached more than 40 percent at end-January 2021, all eroding the value of remittances. While no recent remittance data is available, global evidence is that formal channel remittances have held up well.

In addition to the decreasing purchasing power, the humanitarian response supporting households through years of conflict was significantly scaled back during 2020. Projections between January and June 2021 from the latest Integrated Food Insecurity Phase Classification (IPC) released in December 2020 suggest that 16.2 million people are expected to fact high levels of acute food insecurity, and UN OCHA is warning of a potential famine in 2021 if humanitarian assistance is not increased.

Initially during 2020, households were able to maintain their food access at the start of the pandemic. However, as food prices in the government-controlled areas and fuel prices in the non-government areas surged, households increasingly struggled to maintain adequate access to food. By the end of 2020, approximately 40 percent of households reported having either poor or borderline consumption, and the trend is getting worse.

Outlook

Economic and social prospects in 2021 and beyond are highly uncertain. A gradual recovery of global oil prices with increasing national production and export capacity, would help ease the strain on public finances in the government-controlled areas; means to support the government in payment of civil salaries would also reduce the recourse to central bank financing. Urgent progress to implement past agreements concerning access to supplies and fuel imports through Hodeidah would improve prices and access to food, the provision of public services and the operational environment for humanitarian operations. A cessation of hostilities and eventual political reconciliation remain prerequisites for the reconstruction of the economy and rebuilding of social fabric.

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

	2018 e	2019 e	2020 f
Real GDP growth, at constant market prices	0.8	2.1	-5.0
Inflation (Consumer Price Index)	27.6	10.0	26.4
Current Account Balance (% of GDP)	-2.0	-3.9	-2.4
Fiscal Balance, cash basis (% of GDP)	-8.0	-5.5	-9.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

South Asia

Spring Meetings 2021

Afghanistan	Maldives
Bangladesh	Nepal
Bhutan	Pakistan
India	Sri Lanka

AFGHANISTAN

Table 1	2020
Population, million	38.9
GDP, current US$ billion	19.9
GDP per capita, current US$	511.0
Poverty headcount ratio[a]	47.1
School enrollment, primary (% gross)[a]	72.5
Life expectancy at birth, years[b]	64.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Income, Exp. and Labor Force Survey (IE-LFS) (2020).
(b) Most recent WDI value (2018).

Afghanistan is expected to experience sluggish growth over 2021, as political uncertainty, insecurity, and declining aid depress the pace of recovery from the COVID-19 crisis. The combination of low revenue collection and declining grants means that the government has limited fiscal space to provide countercyclical support. Poverty remains high and informal and self-employed workers have been hit hard by COVID-19 related disruptions. To reach and sustain higher growth the following will be key: continued support from the international community, a resolution of current political uncertainties, and the mobilization of new sources of growth including the extractives.

Key conditions and challenges

In Afghanistan's recent past, economic activity has been adversely impacted by deep-rooted political instability, institutional weakness, and violent insurgency. Poverty has remained stubbornly high and GDP per capita is among the lowest in the world. Afghanistan also lags in terms of key social indicators and ranked 169th in the 2020 Human Capital Index.

The economy is shaped by the disproportionate weight of aid and security related services, with small spillovers to other sectors of the economy. Aid inflows exceed 45 percent of GDP, and security spending is equivalent to approximately 30 percent of GDP. Grants finance more than 75 percent of total public spending (including off-budget spending) and around half of the budget. The livelihood of seventy percent of the population continues to depend on agriculture. The development of private sector activity unrelated to aid or security development, particularly of industries and manufacturing, has been heavily constrained by political instability, weak institutions and widespread corruption, inadequate infrastructure, and onerous regulation.

As a result, Afghanistan has a small and undiversified production base and structural fiscal and trade deficits, financed almost entirely by international grants. There are only limited economic opportunities for the estimated 300,000 Afghans entering the labor force each year.

The COVID-19 shock has exacerbated economic and social challenges. The pandemic and related containment measures, including border closures and lockdowns of major cities, disrupted commerce and trade. Poverty is believed to have increased significantly, as urban casual workers were impacted disproportionately. Peace talks with the Taliban have stalled, dampening expectations that sustainable peace can be achieved over the short-term.

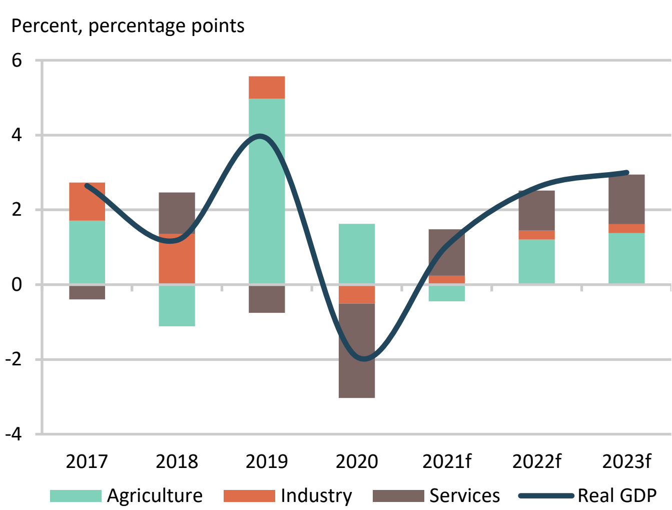
The outlook is highly uncertain. Critical risk factors include: a possible decline in international security support, a deterioration of security conditions (a possible intensification of Taliban attacks), and faster-than-expected reductions in aid support (if governance improvements are not sufficient to reassure donors, who increasingly condition grants on reforms).

Recent developments

The economy is estimated to have contracted by 1.9 percent in 2020, reflecting the impact of the COVID-19 crisis. Thanks to favorable weather conditions and its relative insulation from COVID-19 impacts, agriculture production is estimated to have increased by 5.3 percent. By contrast, lockdowns and intermittent border closures had a significant adverse impact on industrial and services output, which contracted by 4.2 and 4.8 percent, respectively.

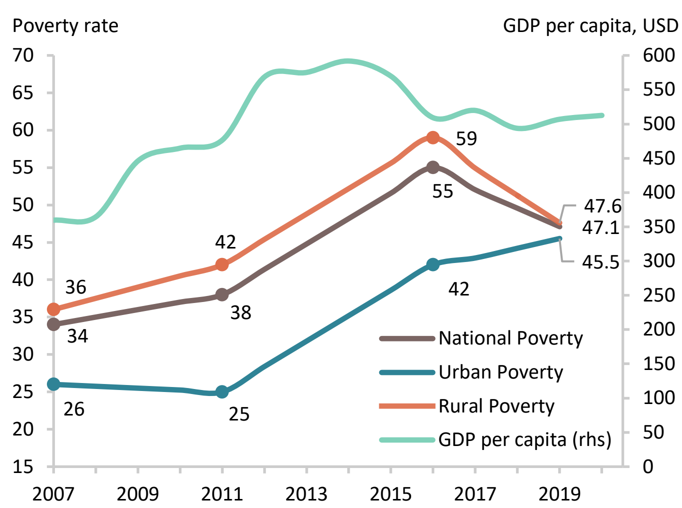
Inflation rose to an annual average of 5.6 percent in 2020, up from 2.3 percent in 2019. This mostly reflected a sharp increase

FIGURE 1 Afghanistan / Real GDP growth and contribution to real GDP growth



Sources: World Bank, Macroeconomics, Trade and Investment Global Practice.

FIGURE 2 Afghanistan / Actual poverty rates and real GDP per capita



Sources: WDI, NSIA, official data, and IE-LFS (2020).

in food prices due to panic buying and import disruptions in the second quarter. Over the second half of the year, inflation decelerated as trade disruptions were resolved.

External balances are estimated to have improved in 2020. The trade deficit is believed to have narrowed slightly to 27.6 percent of GDP (from 30.4 percent in 2019), with imports and exports declining by 4.5 percent and 10 percent respectively (such that value of imports fell more than exports in absolute). Despite the large trade deficit, the current account is estimated to have reached a surplus of 2.9 percent of GDP (up from 0.6 percent in 2019), thanks to continued high foreign grant inflows. The afghani remained stable against the US dollar throughout the year, and international reserves are estimated to have increased to USD 9.7 billion in 2020, corresponding to approximately 16 months of goods and services imports.

The fiscal deficit widened to 2.3 percent of GDP in 2020 (from 1.6 percent in 2019), reflecting reduced revenues and increased expenditures in the context of the COVID-19 crisis. Domestic revenues fell around 17 percent short of budget targets, given weak overall economic activity, low proceeds from import taxes, and poor compliance. Meanwhile, overall expenditure increased by 3.4 percent relative to 2019, amounting to 28.6 percent of GDP.

According to estimates from the 2019-2020 Income and Expenditure Household Survey, some 47.1 percent of Afghans are poor, a slight reduction from the previous estimate (54.5 in 2016-2017). Urban poverty increased from 42 to 45 percent between the two rounds, while rural poverty declined significantly (from 59 to 48 percent). Better rural outcomes reflect the recovery of agriculture incomes in the aftermath of the 2018 drought, and the relatively lower exposure of rural and subsistence communities to the impacts of COVID-19 lockdowns and trade restrictions.

Outlook

The baseline scenario assumes (i) continuation of current security and political conditions, involving high levels of uncertainty, slow progress with peace talks, a sustained US troop presence, and continued widespread violence; (ii) no further COVID-19 lockdowns, despite continued high infection rates; and (iii) a gradual decline in grant support, in line with donor commitments at the 2020 Geneva Conference.

Under this baseline scenario, the economy is expected to grow by one percent in 2021. Industry and services are expected to recover gradually from the COVID-19 crisis, but the onset of drought conditions is expected to dampen agricultural output. Over the medium-term growth is expected to firm up gradually as weather conditions improve and the scarring effect of the COVID-19 disruptions dissipates.

Notwithstanding a slight increase in non-food inflation due to higher global oil prices, inflation is expected to fall to 3.8 percent in 2021, as COVID-19-related supply restrictions fade and growth of food prices moderates (despite impacts of the drought). Over the medium term, inflation is expected to stabilize at around 5.0 percent.

The current account surplus is projected to narrow to 0.3 percent of GDP in 2022, before moving into deficit from 2023 onward, as a result of lower grants and the continuation of a large trade deficit. Thus, international reserve buffers are projected to decline.

Given weak growth prospects, tax revenues will remain constrained. This, coupled with lower projected international grants, will drive a fiscal deficit of around 3.1 percent of GDP in 2021, to be financed largely from cash reserves. Over the medium term, the fiscal deficit is expected to narrow to less than 2 percent of GDP, partly thanks to the expected implementation of the VAT in 2022.

Drought conditions are likely to result in increased poverty and food insecurity in some rural areas, while the recovery from COVID-19 disruptions in commerce and trade may support modest reductions in urban poverty.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.2	3.9	-1.9	1.0	2.6	3.0
Private Consumption	10.0	-2.0	-3.7	1.5	3.0	3.5
Government Consumption	-17.8	15.0	5.6	1.2	1.3	1.8
Gross Fixed Capital Investment	0.0	-15.3	-13.6	-0.1	1.4	1.3
Exports, Goods and Services	49.6	-6.3	-2.3	4.1	7.2	7.3
Imports, Goods and Services	13.1	-6.8	-5.3	2.3	3.1	3.5
Real GDP growth, at constant factor prices	1.2	4.4	-1.9	1.0	2.6	3.0
Agriculture	-4.4	17.5	5.2	-1.5	4.0	4.5
Industry	11.1	4.8	-4.4	2.0	2.0	2.0
Services	1.9	-1.4	-4.9	2.3	2.0	2.5
Inflation (Consumer Price Index)	0.6	2.3	5.6	3.8	4.5	5.0
Current Account Balance (% of GDP)	2.7	0.6	2.9	1.2	0.3	-0.6
Net Foreign Direct Investment (% of GDP)	0.5	0.0	0.0	0.1	0.2	0.3
Fiscal Balance (% of GDP)	0.8	-1.5	-2.3	-3.1	-1.1	-0.7
Debt (% of GDP)	5.8	7.1	8.2	9.7	9.9	9.3
Primary Balance (% of GDP)	1.0	-1.4	-2.2	-3.0	-1.1	-0.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

BANGLADESH

Table 1	2020
Population, million	170.3
GDP, current US$ billion	324.2
GDP per capita, current US$	1903.7
International poverty rate ($1.9)[a]	14.3
Lower middle-income poverty rate ($3.2)[a]	52.3
Upper middle-income poverty rate ($5.5)[a]	84.2
Gini index[a]	32.4
School enrollment, primary (% gross)[b]	116.5
Life expectancy at birth, years[b]	72.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) Most recent WDI value (2018).

Following sharp GDP growth deceleration in FY20 due to the COVID-19 pandemic, the economy started recovering in the first half of FY21, as movement restrictions were lifted and international buyers reinstated export orders. Going forward, a gradual recovery is expected to continue, particularly if the government's COVID-19 recovery programs are implemented swiftly. Downside risks include new waves of COVID-19 infections that may dampen external demand for exports and Bangladesh's labor force overseas. With growth firming up, poverty is projected to decline marginally in FY21.

Key conditions and challenges

Bangladesh made rapid development progress over the past two decades, reaching lower-middle-income country status in 2015. Rapid GDP growth was supported by a demographic dividend, sound macroeconomic policies, and an acceleration in readymade garment (RMG) exports. Meanwhile, job creation and growing remittance inflows contributed to a sharp decline in poverty. However, from 2013 onward, the pace of job creation and poverty reduction slowed, even as GDP growth accelerated. Persistent structural weaknesses include low institutional capacity, highly concentrated exports, growing financial sector vulnerabilities, unbalanced urbanization, and slow improvements in the business environment. Bangladesh is also highly vulnerable to the effects of climate change.

The COVID-19 pandemic impacted the economy profoundly. A national shutdown from March to May 2020 resulted in severe supply-side disruptions in all sectors of the economy. On the demand side, losses in employment income dampened consumption growth, although remittance inflows provided some buffer. The government's COVID-19 stimulus program provided firms with access to working capital and low-cost loans to sustain operations and maintain employee wages in FY20 and FY21. From June onward, movement restrictions have been progressively lifted, and transit and workplace movement patterns returned to pre-pandemic levels by October. Officially recorded infections peaked in July 2020 and declined gradually in subsequent months.

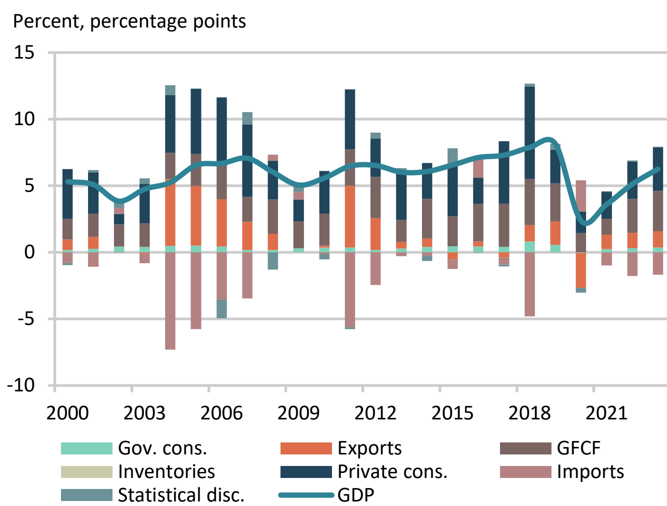
Downside risks to the outlook are likely to persist if new waves of COVID-19 re-emerge in Bangladesh or its trading partner countries. This could necessitate additional movement restrictions, dampen demand for RMG, and/or limit the outflow of migrant workers. Bangladesh's expected graduation from the UN's Least Developed Country status in coming years will present opportunities but also challenges, including the eventual loss of preferential access to advanced economy markets.

Recent developments

After a substantial deceleration in growth in FY20, early signs of recovery emerged in the first half of FY21 (July to December 2020). Following a 16.8 percent decline (y-o-y) in FY20, exports rebounded in the first half of FY21 as RMG export orders were reinstated. On the demand side, growth was primarily supported by private consumption, underpinned by a recovery in labor income and remittance inflows. However, a contraction in capital goods imports (-19.1 percent, y-o-y) suggests that private investment has not yet normalized.

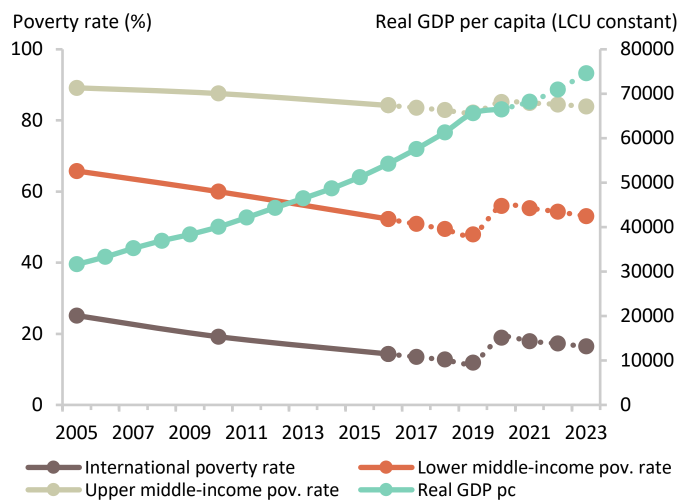
Inflation decelerated from 5.6 percent in FY20 to 5.3 percent by December 2020, as food and non-food prices moderated. Monetary policy was further eased in July

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



Sources: Bangladesh Bureau of Statistics (BBS) and World Bank staff.

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



Sources: World Bank. Notes: see Table 2.

2020. However, growing risk aversion among commercial banks, a cap on lending rates, and rising non-performing loans limited the transmission to lending rates. Private sector credit growth continued to decline, falling from a high of 13.3 percent (y-o-y) in December 2018 to just 8.4 percent (y-o-y) by the end of December 2020.

The current account moved into surplus in the first half of FY21, as the trade deficit declined due to lower imports and surging official remittance inflows. Possible reasons could be that overseas workers switched to formal payment systems as the traditional hundi system was disrupted by international travel restrictions, and/or, returning overseas workers repatriated accumulated savings. Foreign exchange reserves remained adequate at 8.6 months of goods and non-factor services imports in December 2020.

The fiscal deficit widened marginally to an estimated 6.0 percent of GDP in FY20, with a decline in revenue and slower expenditure growth, relative to FY19. Expenditure growth moderated due to the slow implementation of development projects in the context of COVID-19, while revenue collection declined as international trade and the domestic economy stalled. Bangladesh was at low risk of debt distress in a Debt Sustainability Assessment completed in May 2020. Preliminary data from the first four months of FY21 show further reductions in the growth of recurrent and development expenditure, and modest revenue growth.

Estimated poverty rose sharply in FY20 amidst substantial job and income losses. However, household surveys point to a gradual recovery in employment and earnings and a decline in poverty in the first half of FY21. Food security improved across the country, with the greatest increase in Chittagong.

Outlook

The economy is expected to continue to recover gradually. Given the significant uncertainty pertaining to both epidemiological and policy developments, real GDP growth for FY21 could range from 2.6 to 5.6 percent depending on the pace of the ongoing vaccination campaign, whether new restrictions to mobility are required and how quickly the world economy recovers. Over the medium term, growth is projected to stabilize within a 5 to 7 percent range as exports and consumption continue to recover, and investment rises, led by externally financed public infrastructure investments under the recently adopted 8th Five-Year Plan. The recent surge in official remittance inflows is unlikely to persist if (i) the net outflow of migrant workers slows in FY21 (as visa issuance in the Middle East declined during the pandemic) and (ii) the reliance on formal payment channels subside (as normal travel resumes). If weakness in revenue collections persist, the fiscal deficit is projected to remain at 6.0 percent of GDP in FY21, moderating over the medium term with tax reforms and expenditure prioritization. Sustaining the economic recovery and further reducing poverty will depend, inter alia, on the implementation of the government's COVID-19 response program, including credit programs in the banking sector.

Downside risks to the outlook may persist. Fiscal risks include weak domestic revenue growth (if tax reforms are delayed) and higher expenditure for COVID-19 vaccinations (if external financing is limited) and for supporting the Rohingya refugees (if donor fatigue sets in). In the financial sector, contingent liabilities from non-performing loans combined with weak capital buffers could necessitate recapitalizations (resulting in higher domestic government debt) and depress credit growth. External risks could also be elevated. While external demand for RMGs appears to be stabilizing, the recovery is fragile and could be vulnerable to new waves of COVID-19 infections. Demand for Bangladesh's overseas workforce in the Gulf region may also be impacted by the ongoing recession in that region, impairing future remittance inflows.

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

	2017/18	2018/19	2019/20 e	2020/21 f	2021/22 f	2022/23 f
Real GDP growth, at constant market prices	7.9	8.2	2.4	3.6	5.1	6.2
Private Consumption	11.0	3.9	2.6	3.2	4.5	5.3
Government Consumption	15.4	9.5	-0.9	4.3	5.4	6.5
Gross Fixed Capital Investment	10.5	8.4	4.3	3.6	7.4	8.6
Exports, Goods and Services	8.1	11.6	-16.8	8.4	8.6	8.9
Imports, Goods and Services	27.0	-0.2	-12.1	6.0	10.5	9.4
Real GDP growth, at constant factor prices	7.9	8.4	2.6	3.6	5.0	6.1
Agriculture	4.2	3.9	3.0	2.2	3.3	3.1
Industry	12.1	12.7	1.3	4.5	6.1	7.4
Services	6.4	6.8	3.4	3.3	4.8	6.0
Inflation (Consumer Price Index)	5.8	5.5	5.6	5.7	5.7	5.8
Current Account Balance (% of GDP)	-3.5	-1.5	-1.5	-0.5	-2.1	-2.4
Net Foreign Direct Investment (% of GDP)	0.6	0.9	0.4	0.3	0.5	0.6
Fiscal Balance (% of GDP)	-4.6	-5.4	-5.5	-6.0	-6.0	-5.9
Debt (% of GDP)	31.9	33.7	37.6	41.7	44.9	47.2
Primary Balance (% of GDP)	-2.8	-3.4	-3.2	-3.6	-3.4	-3.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	12.7	11.9	18.9	17.9	17.2	16.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	49.4	47.9	55.9	55.3	54.3	53.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	82.9	82.2	85.2	84.9	84.5	83.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SAR-POV harmonization, using 2010-HIES and 2016-HIES.Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021to 2023.
(b) Projection using annualized elasticity (2010-2016) with pass-through = 1based on GDP per capita in constant LCU.

BHUTAN

Table 1	2020
Population, million	0.8
GDP, current US$ billion	2.4
GDP per capita, current US$	3079.8
International poverty rate ($1.9)[a]	1.5
Lower middle-income poverty rate ($3.2)[a]	12.2
Upper middle-income poverty rate ($5.5)[a]	38.9
Gini index[a]	37.4
School enrollment, primary (% gross)[b]	105.8
Life expectancy at birth, years[b]	71.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) WDI for School enrollment (2020); Life expectancy (2018).

Output is projected to contract by 1.8 percent in FY20/21, reflecting the adverse impact of the COVID-19 crisis on tourism and non-hydropower industries. Poverty is expected to slightly increase due to high food price inflation and disruptions in agricultural activities. While the state-led hydropower sector cushioned the impact of the crisis on economic growth and fiscal accounts, accelerating reforms to promote private sector development is important to generate more and better jobs.

Key conditions and challenges

Annual real GDP growth has averaged 7.5 percent since the 1980s, mainly driven by public sector-led hydropower development and electricity sales to India. However, while hydropower has provided a reliable source of growth, it has resulted in high fiscal volatility (temporary one-off profits from the on-streaming of hydropower plants boosting revenues and driving up current spending). The capital-intensive hydropower sector has also failed to generate a large amount of jobs. Thus, over half of Bhutan's workforce remains employed in agriculture, primarily of subsistence nature, while one-third is employed in low value-added services. Nonetheless, poverty reduction was impressive, with a decline in the $3.20 poverty rate from 30.6 percent to 12.2 percent between 2007 and 2017, partly supported by a greater commercial orientation of farmers.

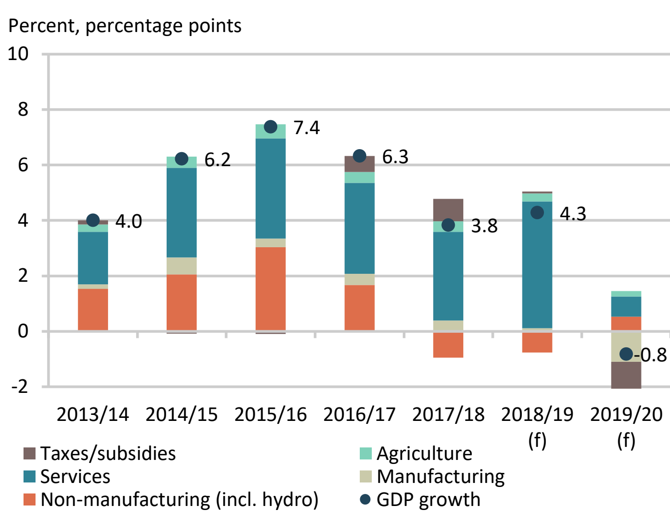
Bhutan has avoided a large-scale domestic COVID-19 outbreak thanks to stringent domestic containment measures, including two nationwide lockdowns in FY20/21. The closure of domestic borders since March 2020 brought the tourism industry to a standstill and disrupted trade with India, Bhutan's main trading partner. As a result, many workers in the services sector, especially in urban areas, experienced job and/or earning losses. The government launched a COVID-19 recovery package, with emphasis on agriculture, tourism, and construction.

The pace of economic recovery will depend on how fast COVID-19 vaccines can be deployed globally, and specifically in India (given significant tourism and trade linkages). Domestic risks include delays in hydro projects and lower-than-expected hydropower production (due to adverse weather patterns) as well as the materialization of financial sector contingent liabilities, which could strain government finances. The implementation of revenue measures, particularly the goods and services tax (GST), is critical to expanding domestic resource mobilization.

Recent developments

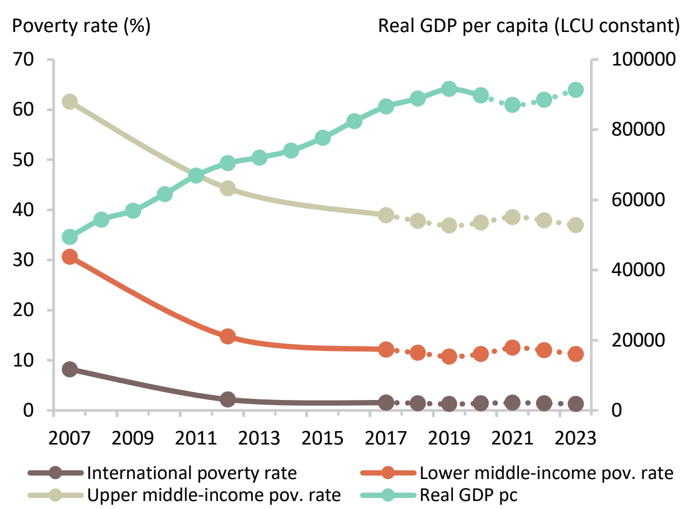
The economy contracted by 0.8 percent in FY19/20. Lower tourist arrivals y-o-y in the second half of FY19/20 (January to June 2020) dampened services sector growth. While the hydropower sector performed well thanks to the on-streaming of the Mangdechhu hydroelectric power plant, other industrial activities have been significantly affected by supply-chain disruptions (for critical inputs, including foreign labor), and depressed external demand (especially from India). On the demand side, public consumption and net exports supported growth. An increase in hydro exports more than offset the decline in non-hydro exports, and imports for infrastructure projects were subdued. However, there was a contraction in private consumption

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



Sources: Government of Bhutan and World Bank staff calculations.

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



Sources: World Bank. Notes: see Table 2.

and investment due to domestic containment measures and disruptions in infrastructure projects.

Average inflation increased from 3.0 percent in FY19/20 to 7.7 percent in the first half of FY20/21. While non-food inflation remained modest, averaging 1.7 percent in the first half of FY20/21, food inflation averaged 15.3 percent–due to import restrictions on food and severe supply disruptions. High food inflation–along with disruptions in the production, transport, and sales of agricultural products–likely eroded the real incomes of many rural poor. This is expected to have led to a slight increase in the $3.20 poverty rate, from 10.7 in 2019 to 11.2 percent in 2020.

The current account deficit narrowed to 12.2 percent of GDP in FY19/20, mainly thanks to a smaller trade deficit. Hydropower exports doubled as a share of GDP, more than offsetting the decline in non-hydro exports, which have been severely impacted by the border closure and lower external demand during the last quarter of the fiscal year. Meanwhile, goods imports declined, as the pandemic depressed public investment–including hydro projects. Gross international reserves increased by 22 percent (y-o-y) to US$ 1.43 billion in November, equivalent to 16.1 months of FY19/20 goods and services imports.

The fiscal deficit widened to 3.2 percent of GDP in FY19/20 with spending growing faster than revenues. While the latter was boosted by one-off profits from hydropower, non-hydro revenues decreased with the discontinuation of excise duty refunds from India and lower-than-normal tourism receipts. The increase in spending was primarily driven by the increase in salaries and wages (40 percent, y-o-y) and an increase in capital expenditures. Public debt rose to 120.7 percent of GDP as of June 2020 (up from 106.6 percent in FY18/19). However, debt sustainability risks are moderate as the bulk of the debt is linked to hydropower project loans from India (to be paid off from future hydro revenues), which reduces re-financing and exchange rate risks.

Outlook

Under the baseline scenario, economic growth is projected to contract further by 1.8 percent in FY20/21 (July 2020 to June 2021). Services sector output is expected to fall by 3.7 percent, as tourism activity is not expected to reopen until mid-2021. Labor shortages, high input prices, and trade disruptions are expected to weigh on construction, manufacturing, and non-hydro exporting industries. Output is expected to return to pre-pandemic levels (in real terms) in FY21/22, when tourist inflows gradually resume and activities in the non-hydro industry pick up.

The current account deficit is expected to remain low relative to pre-COVID levels. Non-hydro exports are expected to recover gradually, supported by the global recovery and a resumption of tourism. Import growth is projected to increase gradually over the medium term, in line with increases in public investment.

The fiscal deficit is projected to increase sharply in FY21/22, with the discontinuation of profit transfers from Mangdechhu (4.0 percent of GDP in FY20/21), upward pressure on current expenditures (due to higher salaries and the COVID-19 recovery package), and downward pressures on non-hydro revenues from weak economic activity. Thereafter, the deficit should narrow to pre-COVID levels (in FY23/24) as profit transfers from Puna II begin. Public debt is expected to remain elevated as a share of GDP due to low economic growth, high financing needs, and an increase in hydropower debt (in FY22/23).

The $3.20 poverty rate is projected to rise further to 12.5 percent in 2021, given continued disruptions in economic activities.

A delay in the domestic rollout of vaccines could further impact economic activity. However, a faster-than-expected implementation of the COVID-19 recovery package, including employment programs and the national credit guarantee scheme to small and medium-sized enterprises, could support domestic job creation and growth.

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

	2017/18	2018/19	2019/20 e	2020/21 f	2021/22 f	2022/23 f
Real GDP growth, at constant market prices	3.8	4.3	-0.8	-1.8	2.9	4.5
Private Consumption	10.0	10.1	1.0	-4.0	3.0	0.2
Government Consumption	3.7	7.0	30.0	1.8	2.2	0.6
Gross Fixed Capital Investment	-3.6	-11.4	-29.2	-8.1	3.7	0.5
Exports, Goods and Services	5.5	9.6	12.5	-23.2	10.3	23.5
Imports, Goods and Services	3.6	0.5	-3.6	-22.0	8.6	6.7
Real GDP growth, at constant factor prices	3.2	4.5	0.4	-1.8	2.9	4.5
Agriculture	3.6	2.7	1.9	2.0	3.0	3.0
Industry	-1.3	-1.6	-1.5	-0.7	2.2	5.4
Services	7.8	10.8	1.6	-3.7	3.4	4.0
Inflation (Consumer Price Index)	3.7	2.8	3.0	7.2	3.7	3.7
Current Account Balance (% of GDP)	-19.1	-21.1	-12.2	-10.2	-10.9	-7.0
Fiscal Balance (% of GDP)	-1.6	-1.6	-3.2	-5.4	-7.4	-5.9
Debt (% of GDP)	110.5	106.6	120.7	121.5	120.5	133.9
Primary Balance (% of GDP)	-0.3	-0.7	-2.7	-4.3	-5.8	-4.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.4	1.3	1.4	1.5	1.4	1.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	11.5	10.7	11.2	12.5	12.0	11.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	37.8	36.9	37.4	38.6	37.9	36.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SAR-POV harmonization, using 2017-BLSS.Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2017) with pass-through = 0.7 based on GDP per capita in constant LCU.

INDIA

Table 1	2020
Population, million	1380.0
GDP, current US$ billion	2590.6
GDP per capita, current US$	1877.2
International poverty rate ($1.9)[a]	22.5
Lower middle-income poverty rate ($3.2)[a]	61.7
Gini index[a]	35.7
School enrollment, primary (% gross)[b]	96.8
Life expectancy at birth, years[b]	69.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2011/2), 2011 PPPs.
(b) WDI for School enrollment (2019); Life expectancy (2018).

India's economy is estimated to have contracted by over 8 percent in FY21, on account of a steep fall in output over the first half of the fiscal year, as the onset of the COVID-19 pandemic and lockdowns brought activity to a halt. To support vulnerable firms and households during the crisis, and underpin an economic recovery, both monetary and fiscal policy levers were triggered. Going forward, growth is expected to rebound to 10.1 percent in FY22, thanks to base effects, but to taper-off thereafter.

Key conditions and challenges

The economy was already slowing when the COVID-19 pandemic unfolded. After reaching 8.3 percent in FY17, growth decelerated to 4.0 percent in FY20. The slowdown was caused by a decline in private consumption growth and shocks to the financial sector (the collapse of a large non-bank finance institution), which compounded pre-existing weaknesses in investment.

In response to the COVID-19 outbreak, the authorities implemented a nation-wide lockdown, which brought economic activity to a near standstill between April and June 2020 (Q1FY21). The most impacted sub-sectors included aviation and tourism, hospitality, trade, and construction, but industrial activity was also deeply disrupted by mobility restrictions. Agriculture, however, was mostly unaffected.

To mitigate the social and economic impacts of the COVID-19 induced crisis, the Reserve Bank of India (RBI) provided liquidity and other regulatory support (including forbearance measures), and the government increased spending on health and social protection through expenditure re-prioritizing and fiscal expansion. Still, the sharp contraction in output between April and September 2020, is expected to have inflicted significant economic and social impacts.

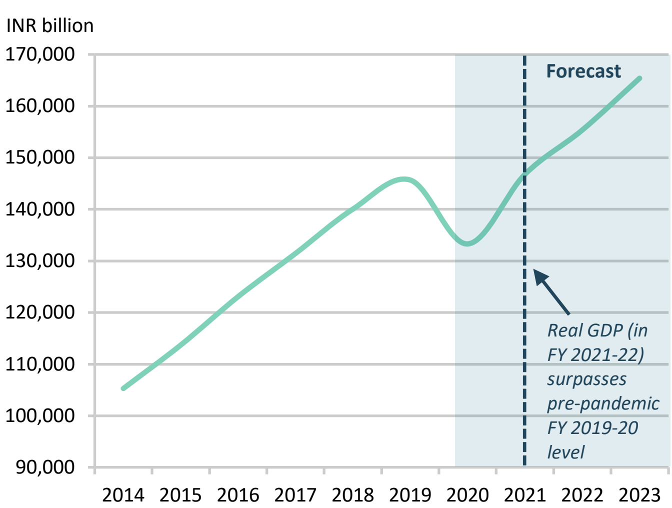
Going forward, the main risks to the outlook include the materialization of financial sector risks, that could compromise a recovery in private investment, and new waves of COVID-19 infections.

Recent developments

Output is estimated to have contracted by 8.5 percent in FY21 (April 2020 to March 2021), with all components of demand – except government consumption- significantly affected. Private consumption, the backbone of India's growth, is estimated to have fallen by 10 percent and investment by about 13 percent. Government consumption provided partial relief (expanding y-o-y by 4.1 percent), as did net exports (due to a steep fall in imports). On the supply side, agriculture was mostly unaffected, but industrial activity was impacted by supply chain disruptions and construction and services by mobility restrictions.

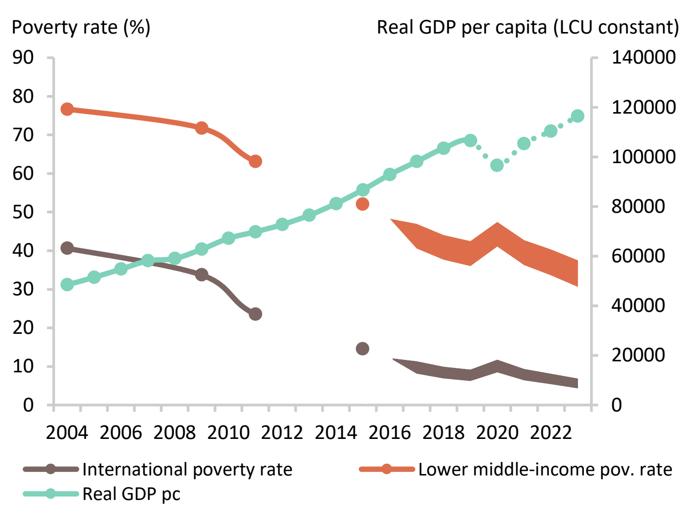
Despite the contraction in output and low oil prices, headline inflation remained elevated throughout the first three quarters of the year, due to supply chain constraints and rising food prices. Inflation averaged 6.6 percent between April and December, only declining in January, to 4.1 percent back within the RBI's target range. Still, the Reserve Bank of India cut the repo rate in May 2020 to 4 percent - leaving it unchanged since then- and maintained significant excess liquidity in the market. It also intervened to mitigate an appreciation of the rupee, which still gained 3.5 percent relative to the dollar between April and December.

FIGURE 1 India / Real GDP



Sources: National Statistics Office (NSO) and World Bank staff calculations.
Note: 2014 refers to the fiscal year 2014-15 (FY15) and so on.

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



Sources: World Bank. Notes: see Table 2.

A decline in the trade deficit combined with an increase in net services receipts and private transfers turned the current account balance into a surplus of 1.3 percent. Together with robust net foreign investment inflows, and unsterilized RBI intervention in forex markets, reserves reached a peak of USD 584.6 billion at end -February, equivalent to around 15 months of FY20 merchandise imports.

The COVID-19 pandemic, together with measures to contain its effects, had a significant impact on public finances in FY21. The fiscal deficit of the central government was revised to 9.5 percent of GDP (from 3.5 percent initially targeted in the budget), reflecting both lower than expected tax revenues, government measures to support the economy, as well as bringing past off-budget expenditures on the books. The fiscal deficit of States is estimated to have been between 4 and 5 percent of GDP against the planned 2.8 percent.

The lockdown, in the first quarter of FY21, appears to have had a major impact on household consumption. Mean per capita consumption is estimated to have dropped by 36 percent over April-July, 2020 y-o-y. Available household survey data indicate that relative to the "traditional poor" the most affected population were relatively younger, more urban and educated. With the end of the lockdown, however, household consumption seems to have recovered to almost pre-pandemic levels.

Outlook

Given the significant uncertainty pertaining to both epidemiological and policy developments, real GDP growth for FY21/22 can range from 7.5 to 12.5 percent, depending on how the ongoing vaccination campaign proceeds, whether new restrictions to mobility are required, and how quickly the world economy recovers.

As economic activity normalizes, domestically and in key export markets, the current account is expected to return to mild deficits (around 1 percent in FY22 and FY23) and capital inflows are projected by continued accommodative monetary policy and abundant international liquidity conditions.

The COVID-19 shock will lead to a long-lasting inflexion in India's fiscal trajectory. The general government deficit is expected to remain above 10 percent of GDP until FY22. As a result, public debt is projected to peak at almost 90 percent of GDP in FY21 before declining gradually thereafter.

As growth resumes and the labor market prospects improve, poverty reduction is expected to return to its pre-pandemic trajectory. The poverty rate (at the $1.90 line) is projected to return to pre-pandemic levels in FY22, falling within 6 and 9 percent, and fall further to between 4 and 7 percent by FY24.

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

	2018/19	2019/20	2020/21 e	2021/22 f	2022/23 f	2023/24 f
Real GDP growth, at constant market prices	6.5	4.0	-8.5	10.1	5.8	6.5
Private Consumption	7.6	5.5	-10.0	11.0	7.7	8.1
Government Consumption	6.3	7.9	4.1	13.8	6.4	9.2
Gross Fixed Capital Investment	9.9	5.4	-12.9	15.2	7.9	8.9
Exports, Goods and Services	12.3	-3.3	-8.0	9.7	8.5	8.7
Imports, Goods and Services	8.6	-0.8	-18.1	14.0	12.0	12.9
Real GDP growth, at constant factor prices	5.9	4.1	-7.1	9.6	5.6	6.5
Agriculture	2.6	4.3	3.4	3.5	3.5	4.0
Industry	5.3	-1.2	-8.6	13.2	6.0	7.3
Services	7.2	7.2	-9.1	9.5	6.0	6.7
Inflation (Consumer Price Index)	3.4	4.8	6.0	4.5	4.0	4.0
Current Account Balance (% of GDP)	-2.1	-0.9	1.3	-1.1	-1.2	-1.4
Net Foreign Direct Investment (% of GDP)	1.1	1.5	2.0	1.5	1.4	1.4
Fiscal Balance (% of GDP)	-5.8	-8.0	-14.0	-10.4	-9.4	-8.5
Debt (% of GDP)	68.6	72.5	89.7	88.4	88.1	86.5
Primary Balance (% of GDP)	-1.1	-3.4	-8.5	-4.6	-3.2	-2.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	6.9-10.0	6.2-9.2	8.5-11.8	6.4-9.3	5.4-8.2	4.4-6.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	37.7-44.0	36.0-42.5	41.0-47.4	36.3-42.8	33.6-40.3	30.6-37.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SARMD harmonization, using 2011NSS-SCH1.

(b) Projection using neutral distribution base on GDP pc in constant LCU with pass-through = .67 for 2018-23, and 2017 international poverty as a range of 8.1 to 11.3 percent (at 1.9 PPP$ a day) estimated for the 2020 PSPR. The latest official data for estimate poverty in India date to 2011/12. Nowcast: 2018-2020. Forecast are from 2021 to 2023.

MALDIVES

Table 1	2020
Population, million	0.5
GDP, current US$ billion	4.0
GDP per capita, current US$	7458.8
Upper middle-income poverty rate ($5.5)[a]	3.6
Gini index[a]	31.3
School enrollment, primary (% gross)[b]	98.0
Life expectancy at birth, years[b]	78.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) Most recent WDI value (2018).

Maldives has suffered an unprecedented shock from COVID-19 as tourism came to a standstill. Output contracted by an estimated 28 percent in 2020, leading to a projected increase in poverty. In 2021, with a partial recovery in tourism and large base effects, growth is expected to rebound to 17 percent. While Maldives' appeal to tourists remains strong, the outlook largely hinges on factors outside its control. More prudent fiscal policies would help reduce debt vulnerabilities, which were already high before the pandemic.

Key conditions and challenges

Maldives has managed to attain upper middle-income status and reduce poverty mainly through the successful development of high-end tourism. According to official estimates, only 3.6 percent of the population lived below the poverty line for upper middle-income countries (US$ 5.50/person/day in PPP) in 2016. However, heavy reliance on tourism, which directly accounts for a quarter of GDP, makes the economy vulnerable to external shocks. Although growth averaged 5.7 percent from 2000 to 2019, natural disasters and global shocks have repeatedly caused large and sudden swings in output. Opportunities for diversification are limited in the near term due to scarce land, remoteness, and other geographical constraints.

The COVID-19 pandemic is the largest shock to have ever hit the Maldives' economy. The government closed borders between end-March and mid-July 2020, resulting in a sudden stop of tourist inflows. To mitigate the adverse welfare impacts of the crisis, the government spent USD 187 million or about 4.7 percent of estimated 2020 GDP on special financing facilities for firms and freelance workers, monthly income support allowances, and discounted utility bills.

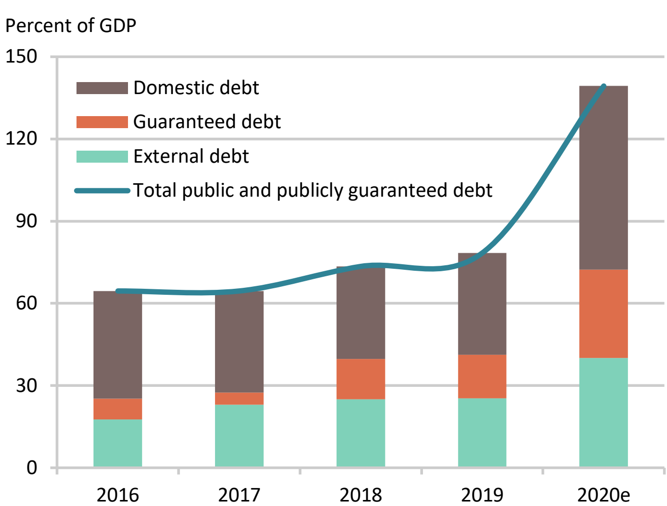
Restoring fiscal and debt sustainability is key to building back better. Even before the pandemic, Maldives was already at high risk of overall and external debt distress. Reliance on external non-concessional loans to finance the ambitious public infrastructure agenda led to a large increase in debt between 2016 and 2019. The large contraction in GDP and additional borrowing due to COVID-19 have further elevated debt vulnerabilities. Delaying large public investment projects until the economy strengthens would help to alleviate these pressures.

Recent developments

Maldives' economy is estimated to have contracted by 28 percent in fiscal (calendar) year 2020 as tourism and construction activity slumped. Only 555,494 tourists visited the country, a third of the number in 2019. Since December, however, tourism has picked up strongly thanks to the absence of quarantine requirements and the unique 'one island, one resort' concept. Approximately 189,000 tourists, mostly from Russia and India visited Maldives in January and February 2021; however, this is still 42 percent below the comparable period in 2019.

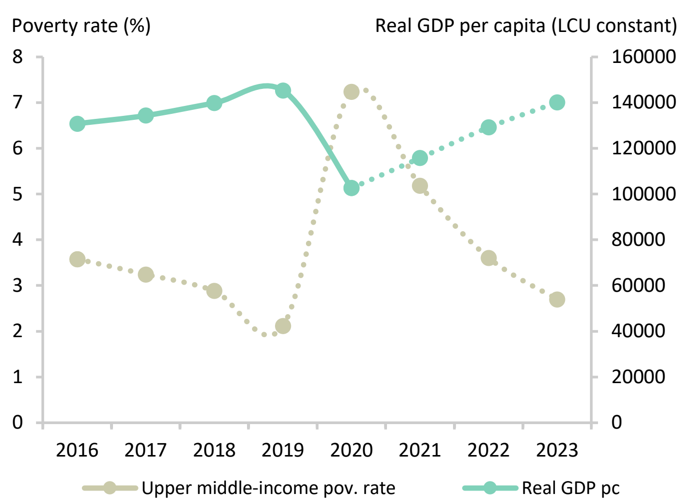
Against this backdrop of anemic economic activity, prices fell by an average of 1.4 percent y-o-y in 2020. The deflation was more pronounced in Malé than in the atolls, but in both cases driven by housing and utilities (reflecting lower rent and oil prices), as well as information and communications services. Food prices, however, rose by 3 percent on average, driven by an increase in tobacco duties.

FIGURE 1 Maldives / Public and publicly guaranteed debt



Sources: Ministry of Finance.

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



Sources: World Bank. Notes: see Table 2.

The goods trade deficit narrowed from US$ 2.5 billion in 2019 to US$ 1.5 billion in 2020, as a compression in imports outweighed the decline in exports. Imports fell by an estimated 36 percent y-o-y, driven by lower imports of raw materials as construction activity contracted. Lower imports of food and fuel due to lower tourist arrivals and lower oil prices, respectively, also contributed. Meanwhile, exports fell by 20 percent y-o-y, mostly due to a large decline in re-exports of jet fuel from fewer international aircraft movements. However, exports of fish increased by 3 percent, boosted by a large increase in exports of processed fish in the second half of the year.

Maldives maintains a de facto stabilized exchange rate arrangement. Official reserves recovered from a low of US$ 569.8 million at end-August 2020 to US$ 855.7 million at end-February 2021, as tourists returned and the Maldives Monetary Authority activated the remainder of its US$ 400 million foreign currency swap arrangement with the Reserve Bank of India. The Monetary Authority also implemented measures to manage shortages of US dollars. Usable reserves—netting out short-term liabilities—amounted to US$ 156.5 million at end-February 2021, equivalent to a month of 2020 goods imports.

The fiscal deficit reached 20 percent of estimated GDP in 2020. While the sudden stop in tourism led total revenues and grants to fall by 35 percent y-o-y, total expenditures fell only by 4.5 percent. Although the government cut recurrent spending by 9 percent, capital expenditures are estimated to have grown by 7 percent. As a result of the higher deficit and negative growth, total public and publicly guaranteed debt is estimated to have increased to 139.3 percent of GDP in 2020 from 78.4 in 2019.

With most Maldivians dependent on tourism and fisheries for their livelihoods, World Bank estimates based on household survey data indicate that the poverty rate has increased from an estimated 2.1 percent in 2019 to 7.2 percent in 2020.

Outlook

Assuming its borders remain open to visitors, Maldives is expected to receive 1 million tourists in 2021, about 60 percent of the 2019 number. Real GDP is therefore projected to grow by 17 percent in 2021. The rebound in growth largely reflects base effects and assumes a continuation of strong tourism inflows especially from Russia and India. Although medium-term prospects for tourism are strong, real GDP is not expected to return to pre-pandemic levels until 2023, in line with global aviation and travel forecasts. The poverty rate is expected to decline slowly over the medium term to 2.7 percent in 2023.

External and fiscal imbalances will remain elevated. Despite the recovery in tourism receipts, the current account deficit is expected to widen over the medium term as imports linked to tourism and construction normalize. The fiscal deficit is expected to decline as revenues recover but is forecast to remain in double-digits due to expansionary fiscal policies. The 2021 Budget, for example, targets a 45 percent increase in capital expenditures from 2020, while revenues are not expected to cover current expenditures. With the recovery in growth, the debt ratio is expected to moderate to 131.4 percent of GDP in 2023.

Risks are heavily tilted to the downside and some are outside Maldives' control, such as the pace and effectiveness of COVID-19 vaccinations globally. The outlook would deteriorate if more stringent restrictions on international travel are reintroduced. The low level of usable reserves and high indebtedness pose significant risks to macroeconomic stability.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	8.1	7.0	-28.0	17.1	11.5	8.3
Private Consumption	10.6	5.5	-35.0	27.0	20.0	12.0
Government Consumption	9.0	-4.2	0.6	2.7	2.3	1.5
Gross Fixed Capital Investment	29.1	-2.7	-5.9	2.3	4.4	4.8
Exports, Goods and Services	10.1	6.1	-45.0	30.0	14.1	11.9
Imports, Goods and Services	12.8	0.3	-38.0	24.0	14.8	12.0
Real GDP growth, at constant factor prices	8.1	7.1	-25.9	16.0	10.7	8.2
Agriculture	4.8	5.0	8.0	5.5	5.6	3.6
Industry	15.6	1.5	-19.7	7.1	6.6	5.8
Services	7.3	8.0	-28.9	18.4	11.7	8.9
Inflation (Consumer Price Index)	-0.1	0.2	-1.4	2.5	1.1	1.0
Current Account Balance (% of GDP)	-28.3	-26.8	-26.3	-27.1	-27.5	-27.7
Net Foreign Direct Investment (% of GDP)	10.9	17.0	7.9	9.3	10.6	14.0
Fiscal Balance (% of GDP)	-5.3	-6.6	-20.1	-18.5	-15.2	-12.7
Debt (% of GDP)	74.0	78.4	139.3	135.2	132.1	131.4
Primary Balance (% of GDP)	-3.5	-4.9	-16.4	-14.2	-10.9	-8.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	2.9	2.1	7.2	5.2	3.6	2.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SAR-POV harmonization, using 2016-HIES.Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021to 2023.
(b) Projection using neutral distribution (2016) with pass-through = 0.87 based on GDP per capita in constant LCU.

NEPAL

Table 1	2020
Population, million	29.1
GDP, current US$ billion	33.9
GDP per capita, current US$	1163.7
International poverty rate ($1.9)[a]	15.0
Lower middle-income poverty rate ($3.2)[a]	50.9
Upper middle-income poverty rate ($5.5)[a]	83.0
Gini index[a]	32.8
School enrollment, primary (% gross)[b]	142.1
Life expectancy at birth, years[b]	70.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2010), 2011 PPPs.
(b) WDI for School enrollment (2019); Life expectancy (2018).

After contracting in FY20, Nepal's economy is expected to grow in FY21, as COVID-19 related disruptions fade and government relief spending materializes. Significant jobs and income losses, however, are likely to have increased vulnerability. To ensure the recovery is sustained and resilient, policy priorities will need to include: strengthening health systems, supporting agriculture production, and a focus on green, resilient, and inclusive development. Downside risks to the outlook stem from new waves of COVID-19 infections and political uncertainties.

Key conditions and challenges

Growth averaged 4.9 percent, over FY09-FY19, supported by remittance inflows but constrained by structural vulnerabilities and periodic shocks. Natural disasters (such as the April 2015 earthquake and recurring floods and landslides) and external developments (such as border closures, trade disruptions, and the recent pandemic) depressed growth and impacted livelihoods. Meanwhile, high political instability (including episodes of civil unrest) and infrastructure gaps impede private investment. The adoption of a new constitution in 2015, created a federal system that decentralizes some responsibilities to the seven provincial and 753 local governments. This is expected to improve service delivery and reduce geographical disparities. At the same time, it has exacerbated pre-existing weaknesses in administrative and implementation capacity that need to be addressed. Against this backdrop, scarce domestic employment opportunities have triggered mass outmigration. The resulting high remittance inflows, averaging around 22 percent of GDP over the past decade, have supported private consumption and poverty reduction, but contributed to a real appreciation of the exchange rate and eroded external competitiveness.

In FY20, COVID-19 related social distancing measures and lockdowns triggered the first economic contraction in 40 years, likely reversing past progress in poverty reduction. While lockdowns impacted all sectors of the economy, they disproportionately affected workers engaged in subsistence activities, who make up over half of the employment. International border restrictions and economic downturns abroad also forced thousands of Nepalese migrants to return home, elevating the risk that many households who have relied on remittances and informal sector jobs may fall back into poverty.

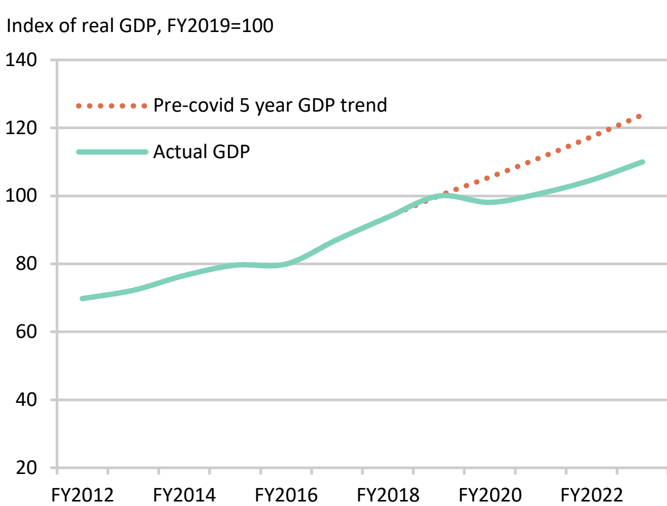
Sources of risk to the outlook include possible new waves of COVID-19, as well as increased political uncertainties, following the dissolution of Parliament's lower house in December 2020 and the Supreme Court's February 2021 decision to reinstate it.

Recent developments

A nation-wide lockdown, implemented during March-July 2020, impacted economic activity in the last four months of FY20. As a result, output contracted by an estimated 1.9 percent in FY20. Wholesale and retail trade, tourism, transport, and associated services such as hotels and restaurants – which are all important drivers of growth - were particularly impacted.

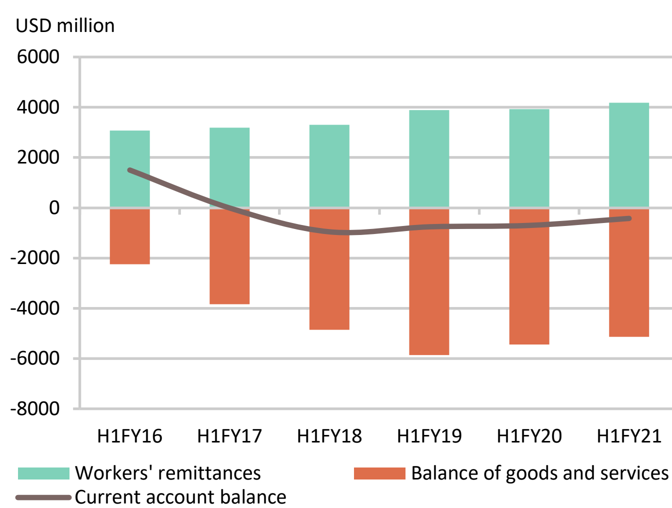
In the first half of FY21 (mid- July 2020 – mid-January 2021), growth has remained sluggish, given that tourism activity was stalled, and private investment constrained by risk aversion and uncertainty. However, there were incipient signs of

FIGURE 1 Nepal / Real GDP levels: Actual vs pre-covid trend



Sources: World Bank staff projections and Nepal Central Bureau of Statistics.

FIGURE 2 Nepal / The current account deficit has narrowed



Sources: World Bank staff calculations and Nepal Rastra Bank.

recovery in wholesale and retail trade, transport, and financial services, as containment measures were gradually eased. Subdued demand and adequate food supply brought consumer price inflation to a three-year low of 3.7 percent y-o-y.

Against the backdrop of muted economic activity, the current account deficit declined by 39.6 percent year-on-year in the first half of FY21. This was driven by a sharp contraction in imports (11.8 percent y-o-y) which, in absolute terms, far outweighed a parallel decline in exports (of 36.6 percent), as well as an increase in remittance inflows (by 6.7 percent). Given modest levels of foreign direct investment, external concessional loans financed the current account deficit. The central bank's foreign exchange reserves reached US$ 11.3 billion by mid-January 2021—equivalent to 11.3 months of imports.

Spending was higher and revenue lower, y-o-y, over the first half of FY21. Higher spending was driven by purchases of COVID-related health equipment and investments at the subnational levels (which offset a 19 percent y-o-y reduction in capital spending). Meanwhile, tax revenues fell by 2.1 percent y-o-y, with trade and consumption taxes as well as corporate income taxes performing poorly. Non-tax revenues continued to suffer from the near standstill in tourism. As a result, public debt increased by 7.4 percent over the first half of FY21 to 36.1 percent of projected FY21 GDP.

A recent World Bank COVID monitoring survey suggests that the pandemic-related economic slowdown had a major impact on jobs and incomes, with more than 2 in 5 economically active workers reporting a job loss or prolonged work absence in 2020.

Outlook

Economic growth is projected to recover gradually, to 5.1 percent by FY23. The baseline projections assume a successful domestic and global vaccination rollout, and a gradual resumption of international tourism. Agriculture should continue to contribute positively to growth. However, industrial activity is expected to remain below pre-pandemic levels up until early FY22, and services are expected to recover only gradually as domestic confinement measures are lifted.

With roughly a third of the population living close to the poverty line before the pandemic, widespread jobs and earning losses are likely to have increased poverty, particularly for women, younger age cohorts, and workers in non-agricultural sectors.

The current account deficit is expected to widen over the medium term. Import growth is expected to accelerate as consumption resumes, while service exports should remain subdued until FY22 (as tourism is only expected to recover fully in FY23). Consequently, the current account deficit is projected to reach 3.2 percent of GDP by FY22, financed primarily by long-term concessional borrowing.

The fiscal deficit is projected to remain elevated over the medium term. While revenue performance is expected to remain weak, additional spending on economic relief measures, vaccinations, and the resumption of project implementation will widen the fiscal deficit to just under 8 percent of GDP in FY22. Thereafter it is projected to stabilize at 6.5 percent of GDP in FY23 as revenues recover. Total public debt is expected to reach 41.9 percent of GDP in FY21 and gradually increase to 51.3 percent by FY23.

The economic outlook is subject to downside risks. Delays in vaccination and/or new outbreaks of COVID-19 both domestically and globally would dampen prospects of economic recovery. The resumption of tourism would be delayed if international travel restrictions are imposed. Domestic risks include political uncertainty, which could undermine investment sentiment. On the upside, effective vaccination campaigns in Nepal and abroad could facilitate the resumption of tourism.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	7.6	6.7	-1.9	2.7	3.9	5.1
Private Consumption	6.2	5.6	3.7	4.0	4.2	4.5
Government Consumption	2.1	7.3	6.2	11.8	15.4	4.1
Gross Fixed Capital Investment	11.8	11.3	-3.5	4.2	9.2	12.2
Exports, Goods and Services	7.7	5.5	-16.0	-18.0	11.1	17.2
Imports, Goods and Services	19.0	5.8	-15.3	4.5	12.4	11.4
Real GDP growth, at constant factor prices	7.4	6.4	-2.0	2.7	3.9	5.1
Agriculture	2.6	5.2	2.2	2.5	2.7	2.8
Industry	10.4	7.4	-4.2	3.1	4.6	6.9
Services	9.3	6.8	-3.6	2.7	4.4	5.9
Inflation (Consumer Price Index)	4.1	4.6	6.1	4.8	5.1	5.7
Current Account Balance (% of GDP)	-7.1	-6.9	-0.9	-1.2	-3.2	-4.4
Fiscal Balance (% of GDP)	-5.8	-5.0	-5.2	-6.9	-7.7	-6.5
Debt (% of GDP)	26.5	27.2	36.0	41.9	47.9	51.3
Primary Balance (% of GDP)	-5.4	-4.4	-4.5	-6.2	-6.8	-5.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

PAKISTAN

Table 1	2020
Population, million	220.9
GDP, current US$ billion	264.5
GDP per capita, current US$	1197.6
International poverty rate ($1.9)[a]	4.4
Lower middle-income poverty rate ($3.2)[a]	35.7
Upper middle-income poverty rate ($5.5)[a]	76.2
Gini index[a]	31.6
School enrollment, primary (% gross)[b]	95.4
Life expectancy at birth, years[b]	67.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) WDI for School enrollment (2019); Life expectancy (2018).

Pakistan's economy was severely impacted by the COVID-19 shock in FY20 leading to an increase in poverty. With the lifting of lockdown measures, the economy is showing signs of a fragile recovery. Growth is expected to gradually strengthen but remain muted in the medium-term. Fiscal deficit and debt levels are projected to remain elevated but to gradually improve. Risks to the outlook include new waves of COVID-19 infections and delays in the implementation of critical structural reforms.

Key conditions and challenges

Pakistan's economy has been growing slowly over the past two decades. Annual per capita growth has averaged only 2 percent, less than half of the South Asia average, partly due to inconsistent macroeconomic policies and an under-reliance on investment and exports to drive economic growth. Short periods of rapid consumption-fueled growth frequently led to sizable current account and fiscal deficits, that ultimately required policy tightening, resulting in recurrent boom-bust cycles (Figure 1).

In early FY20, which runs from July 2019 to June 2020, following one such episode of external and fiscal imbalances, the country entered a 39-month IMF-Extended Fund Facility. The associated adjustment measures, including fiscal consolidation, contributed to a reduction of the imbalances over the year and improved macroeconomic stability.

However, the containment measures adopted in response to the COVID-19 pandemic led to a collapse in economic activity during the final quarter of FY20. As a result, GDP growth is estimated to have contracted by 1.5 percent in FY20. Half of the working population saw either job or income losses, with informal and low-skilled workers employed in elementary occupations facing the strongest contraction in employment. As a result, poverty incidence is estimated to have increased in FY20 from 4.4 to 5.4 percent, using the international poverty line of $1.90 PPP 2011 per day (Figure 2, Table 2), with more than two million people falling below this poverty line. Moreover, 40 percent of households suffered from moderate to severe food insecurity. The government, therefore, focused on mitigating the adverse socioeconomic effects of the pandemic, and the IMF program was temporarily put on hold.

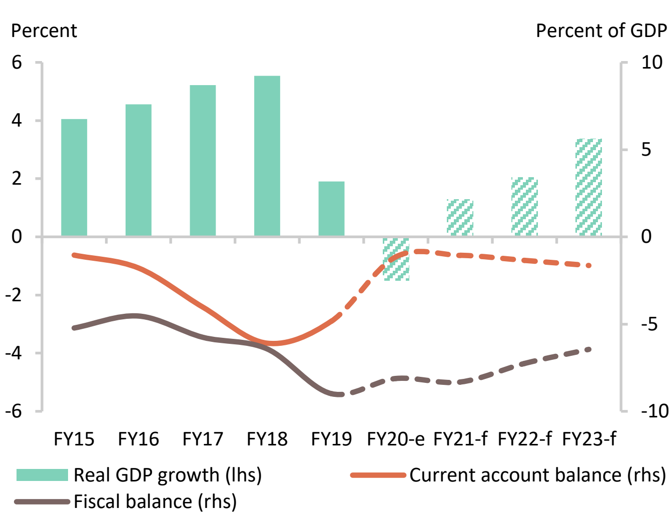
Major risks to the outlook include the possibility of new waves of infections, the emergence of new vaccine-resistant strains, and setbacks in mass vaccinations. In addition, more delays in the implementation of critical structural reforms could lead to further fiscal and macroeconomic imbalances.

Recent developments

Over the first half of FY21 (July to December 2020), there have been signs of a fragile recovery. With increased community mobility, private consumption has strengthened, aided by record official remittance inflows. Investment is also estimated to have slightly recovered, as machinery imports and cement sales both recorded double-digit growth rates.

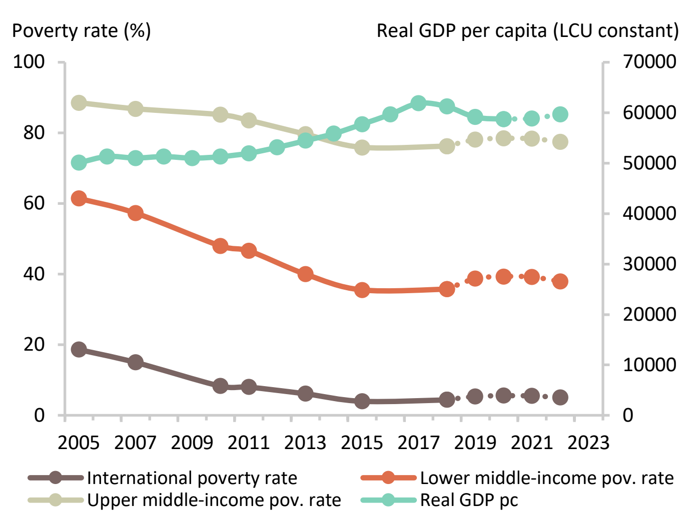
On the production side, crop production was relatively weak in the first six months of FY21, as cotton production was adversely affected by heavy monsoon floods. Following the phased lifting of lockdown measures from May 2020 onwards, indicators of industrial and

FIGURE 1 Pakistan / Twin deficits and real GDP growth



Sources: Ministry of Finance and World Bank staff estimates.
Note: Pakistan reports data on fiscal year (FY) basis. The fiscal year runs from July 1 through June 30.

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



Sources: World Bank. Notes: see Table 2.

services activity have recovered, with "Large Scale Manufacturing" and business confidence indexes exceeding pre-COVID levels in December 2020. As a result, the majority of the informal workers affected by the crisis are expected have been able to return to work.

Although headline inflation fell over July-February FY21 (y-o-y), it is still high at 8.3 percent on average, mostly on account of high food inflation. Since July 2020, the State Bank of Pakistan (SBP) has maintained the policy rate at 7.0 percent to support the economy. The capital adequacy ratio at end-December 2020 remained well above the minimum regulatory requirement, indicating banking sector resilience over the first half of the fiscal year.

Compared to a deficit of US$2.0 billion for June-December 2019, the current account recorded a surplus of US$1.1 billion for June-December 2020, the first half-yearly surplus in almost a decade, as strong official remittance inflows more than offset a wider trade deficit. Both foreign direct investment and portfolio investment inflows decreased during this period, but the improved current account supported a balance of payments surplus.

The Pakistani rupee appreciated by 5.4 percent against the U.S. dollar, from end-June 2020 to end-December 2020, and official foreign exchange reserves increased to US$14.9 billion at end-December 2020, equivalent to 3.3 months of imports of goods and services.

The fiscal deficit widened over the first six months of FY21 (y-o-y), as expenditure growth outpaced an increase in revenues. In line with the recovering of economic activity, total revenues grew by 3.7 percent. Over the same period, total expenditures rose by 6.2 percent, partly driven by higher interest payments. Public debt, including guaranteed debt, reached 87.9 percent of GDP at end-December 2020, up from 86.7 percent of GDP at end-December 2019.

Outlook

Output growth is expected to recover gradually over the medium-term, averaging 2.2 percent over FY21-23, mostly due to contributions from private consumption. However, sectors that employ the poorest, such as agriculture, are expected to remain weak, and therefore poverty is likely to remain high. The baseline outlook is predicated on the absence of significant infection flare-ups that would require more extensive lockdowns.

The current account deficit is projected to narrow to 0.8 percent of GDP in FY21, as a wider trade deficit is more than offset by stronger remittances inflows. However, it is expected to increase over the medium term. Exports are projected to grow from FY22 onwards, as external conditions become more conducive and tariff reforms gain traction, but imports are also expected to increase in line with stronger domestic activity and higher oil prices.

While fiscal consolidation efforts are expected to resume, the deficit is projected to remain elevated at 8.3 percent of GDP in FY21, partly due to the settlement of arrears in the power sector. As critical revenue-enhancing reforms gain pace and expenditure rationalization efforts resume, the fiscal deficit is projected to gradually narrow over the medium-term. Still, public debt will remain elevated in the medium term, as will Pakistan's exposure to debt-related shocks.

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

	2017/18	2018/19	2019/20 e	2020/21 f	2021/22 f	2022/23 f
Real GDP growth, at constant market prices	5.8	1.0	-1.5	1.3	2.0	3.4
Private Consumption	6.2	2.9	-1.0	2.5	2.5	3.4
Government Consumption	8.6	0.8	5.6	0.1	2.2	3.0
Gross Fixed Capital Investment	11.2	-12.8	-17.9	-4.2	1.1	3.7
Exports, Goods and Services	12.7	14.5	-8.6	-1.7	3.0	5.5
Imports, Goods and Services	17.6	4.3	-10.5	0.9	4.3	4.8
Real GDP growth, at constant factor prices	5.5	1.9	-1.5	1.3	2.0	3.4
Agriculture	4.0	0.6	1.5	0.5	2.3	2.6
Industry	4.6	-2.3	-5.0	1.5	1.7	3.5
Services	6.3	3.8	-1.3	1.4	2.1	3.6
Inflation (Consumer Price Index)	4.7	6.8	10.7	9.0	7.0	6.0
Current Account Balance (% of GDP)	-6.1	-4.8	-1.1	-0.8	-1.3	-1.7
Net Foreign Direct Investment (% of GDP)	0.9	0.5	1.0	0.7	0.8	1.0
Fiscal Balance (% of GDP)	-6.4	-9.0	-8.1	-8.3	-7.7	-6.9
Debt (% of GDP)	75.9	89.9	93.6	93.9	94.4	94.1
Primary Balance (% of GDP)	-2.1	-3.5	-1.8	-2.1	-1.7	-1.1
International poverty rate ($1.9 in 2011 PPP)[a,b]		4.4	5.4	5.6	5.6	5.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]		35.7	38.7	39.3	39.2	37.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]		76.2	78.1	78.4	78.3	77.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on SAR-POV harmonization, using 2018-PSLM. Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2018) with pass-through = 1 based on GDP per capita in constant LCU.

SRI LANKA

Table 1	2020
Population, million	21.9
GDP, current US$ billion	80.7
GDP per capita, current US$	3685.6
International poverty rate ($1.9)[a]	0.9
Lower middle-income poverty rate ($3.2)[a]	11.0
Upper middle-income poverty rate ($5.5)[a]	42.0
Gini index[a]	39.3
School enrollment, primary (% gross)[b]	100.2
Life expectancy at birth, years[b]	76.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) Most recent WDI value (2018).

The COVID-19 pandemic resulted in a sharp economic contraction of 3.6 percent in 2020. With jobs and earnings lost, poverty is projected to have increased. Growth is expected to recover to 3.4 percent in 2021, but the medium-term outlook is clouded by the lasting impact of COVID-19. Economic scarring from the slowdown increased risks to debt sustainability and external stability and macroeconomic vulnerabilities will remain elevated due to large refinancing needs.

Key conditions and challenges

The economy was already showing signs of weakness before the COVID-19 pandemic. Between 2017 and 2019, the average growth rate was only 3.1 percent, well below the levels of the beginning of the decade, when the economy reaped a peace dividend and the benefits of a determined policy thrust toward reconstruction. Modest growth, in recent years, is partly a reflection of (i) limited progress on structural reforms to shift the growth model toward greater private sector participation, export-orientation, and integration into global value chains; (ii) frequent macroeconomic shocks, from inclement weather in 2016 and 2017, a political crisis in late 2018, and the Easter Sunday attacks in 2019; and (iii) low fiscal space to support growth (although a fiscal stimulus package was implemented in 2019, further reducing fiscal space).

Against this backdrop, COVID-19 had a significant impact on the economy and welfare. The government reacted swiftly to control the first large outbreak of COVID-19 in mid-March 2020. Related containment measures, especially in the second quarter of 2020, and a standstill of tourism activity, impacted the economy significantly.

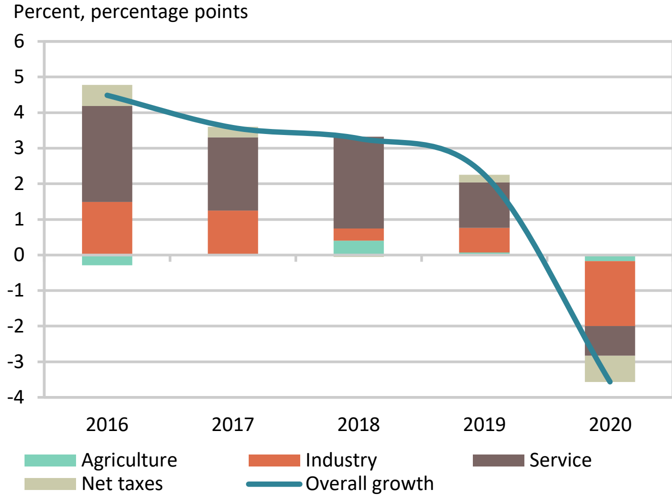
With the slowdown in the economy, fiscal balances were also impacted and particularly so since Sri Lanka is highly exposed to global financial market sentiments (as its debt repayment profile requires accessing financial markets frequently). Further sovereign rating downgrades by major rating agencies could negatively impact market sentiments and constrain market access. Thus, the country will need to strike a balance between supporting the economy and ensuring fiscal and external sustainability.

Recent developments

Real GDP contracted by 3.6 percent in 2020, the worst performance on record. It was caused by contractions in construction, tourism, textile, mining and transport, due to mobility restrictions in the second quarter amid strict lockdowns. Agricultural activities were relatively uninterrupted, but the fishery sector suffered a significant shock. As a result of widespread earnings losses, particularly in industry sectors, poverty using the $3.20 per day poverty line is projected to have increased significantly, from 9.2 percent in 2019 to 11.7 percent in 2020.

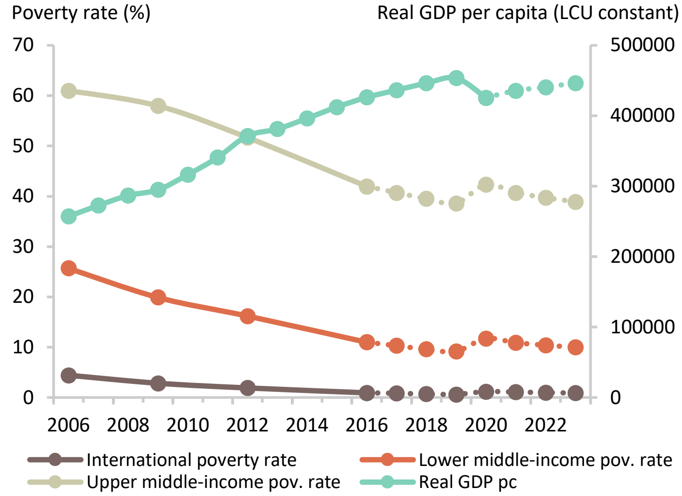
Despite high food inflation, annual average inflation (measured by the Colombo Consumer Price Index) remained low at 4.6 percent in 2020 due to the offsetting effects of weak aggregate demand and low oil prices. This allowed the central bank to reduce policy rates by 250 basis points (Standing Deposit Facility to 4.5 percent and Standing Lending Facility to 5.5 percent) and the reserve ratio by 300 basis points (to 2.0 percent) in 2020.

FIGURE 1 Sri Lanka / Real GDP growth and contributions to real GDP growth (production side)



Sources: Department of Census and Statistics, staff calculations.

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



Sources: World Bank. Notes: see Table 2.

The current account deficit is estimated to have narrowed to 0.9 percent of GDP in 2020, as a reduction in imports due to low oil prices and severe import restrictions offset reduced receipts from exports. However, official reserves declined to an 11-year low of US$ 4.6 billion by February 2021, mainly because reserves were mobilized to service external debt. The US$ 1.5 billion currency swap approved by the People's Bank of China in March 2021 is expected to provide a boost to the reserves. After depreciating by 2.6 percent against the US Dollar in 2020, the LKR further depreciated by 4.1 percent in the first two months of 2021.

The combination of a stimulus package in 2019 (pre-pandemic) and low revenues in the aftermath of the COVID-19 shock resulted in a steep deterioration in fiscal balances. The deficit is believed to have increased to 12.6 percent of GDP in 2020 (after including arrears payments), and public and publicly guaranteed debt to have increased to 109.7 percent of GDP. Citing limited fiscal buffers and external vulnerabilities, Fitch, S&P, and Moody's downgraded the sovereign rating to the substantial risk investment category.

Outlook

The pandemic has further clouded an already challenging outlook. While the economy is expected to grow by 3.4 percent in 2021, output will remain 0.3 percent below its pre-COVID level. With a gradual improvement in labor market conditions, poverty at $3.20 per day is projected to fall to 10.9 percent in 2021, still significantly above the 2019 level. Continued import restrictions and the high debt burden will adversely affect growth and poverty reduction over the medium-term. Inflation is projected to increase gradually, as domestic banking institutions, including the central bank, are contributing to finance the government deficit.

The current account deficit is expected to remain low due to strict import restrictions, which should largely offset a deceleration of export growth. Still, significant additional borrowings will be required to close the external financing gap in 2021 and beyond, as external public debt service requirements are estimated above US$ 4.0 billion each year between 2021 and 2023. External buffers are expected to weaken relative to external liabilities as reserves may need to be used to service the external debt.

The fiscal deficit is expected to be high in the forecast period, despite tightly controlled expenditures, as revenue collection is expected to remain weak. In turn, public and publicly guaranteed debt is expected to reach 115.0 percent of GDP in 2021 and to rise further between 2022-2023. High gross financing requirements will exert pressure on the domestic financial market. This baseline assumes a quick and comprehensive vaccine rollout, in line with the government's aim to vaccinate 60 percent of the population in 2021. Delays in the vaccination process in Sri Lanka and/or major tourist origin countries would extend the horizon and depth of economic disruptions. A longer downturn could push many small and medium enterprises from illiquidity to insolvency, further holding back the recovery process and the return to a path of poverty reduction. Lower growth would also put additional strain on public finances and increase risks to macroeconomic stability. Depleted fiscal buffers, high indebtedness, and constrained market access will continue to pose risks to debt sustainability.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.3	2.3	-3.6	3.4	2.0	2.1
Private Consumption	3.7	2.9	-3.7	3.3	1.9	2.2
Government Consumption	-5.1	9.6	6.0	-1.0	-1.0	-1.0
Gross Fixed Capital Investment	-1.4	4.0	-6.7	3.7	2.0	1.8
Exports, Goods and Services	0.5	7.1	-16.8	5.8	5.3	4.7
Imports, Goods and Services	1.8	-5.8	-12.4	3.1	2.7	2.5
Real GDP growth, at constant factor prices	3.7	2.2	-3.1	3.4	2.0	2.1
Agriculture	5.8	1.0	-2.4	2.0	2.0	2.0
Industry	1.3	2.6	-6.9	3.9	1.8	1.9
Services	4.6	2.2	-1.5	3.3	2.1	2.2
Inflation (Consumer Price Index)	4.3	4.3	4.6	5.2	6.0	6.0
Current Account Balance (% of GDP)	-3.2	-2.2	-0.9	-1.2	-1.3	-1.4
Net Foreign Direct Investment (% of GDP)	1.8	0.7	0.6	0.8	1.0	1.2
Fiscal Balance (% of GDP)[a]	-5.4	-6.8	-12.6	-9.4	-8.9	-8.3
Debt (% of GDP)[a]	92.2	94.3	109.7	115.0	117.7	119.6
Primary Balance (% of GDP)[a]	0.6	-0.8	-6.0	-2.7	-2.2	-1.7
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.7	0.6	1.2	1.1	1.0	0.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	9.6	9.2	11.7	10.9	10.4	10.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	39.5	38.6	42.3	40.7	39.7	38.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Fiscal balance in 2020 includes arrears payments pertaining to 2019 and foreign funded project related expenditures not included in the audited financial statements in 2019.

(b) Calculations based on SAR-POV harmonization, using 2016-HIES.Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021to 2023.

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

Sub-Saharan Africa

Spring Meetings 2021

Angola
Benin
Botswana
Burkina Faso
Burundi
Cabo Verde
Cameroon
Central African Republic
Chad
Comoros
Congo, Dem. Republic
Congo, Republic
Côte d'Ivoire
Equatorial Guinea
Eritrea
Eswatini
Ethiopia
Gabon
The Gambia
Ghana
Guinea
Guinea-Bissau
Kenya
Lesotho
Liberia
Madagascar
Malawi
Mali
Mauritania
Mauritius
Mozambique
Namibia
Niger
Nigeria
Rwanda
São Tomé and Príncipe
Senegal
Seychelles
Sierra Leone
Somalia
South Africa
South Sudan
Sudan
Tanzania
Togo
Uganda
Zambia
Zimbabwe

ANGOLA

Table 1	**2020**
Population, million	32.9
GDP, current US$ billion	62.6
GDP per capita, current US$	1903.05
International poverty rate ($1.9)[a]	49.9
Lower middle-income poverty rate ($3.2)[a]	71.5
Upper middle-income poverty rate ($5.5)[a]	88.5
Gini index[a]	51.3
School enrollment, primary (% gross)[b]	113.5
Life expectancy at birth, years[b]	60.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) WDI for school enrollment (2015); life expectancy (2018).

Angola experienced a fifth consecutive year of recession in 2020, as GDP contracted by an estimated 4 percent. COVID-19 reduced services activity, while low oil prices, reduced OPEC quotas, and logistical disruptions took a toll on the oil sector. Reprofiling of external debt obligations and the oil price recovery since late 2020 have provided some relief but debt risks remain elevated. The lagged effect of exchange rate depreciation is adding to inflation. Rising prices, high unemployment, and limited social safety nets have resulted in rising poverty.

Key conditions and challenges

Angola's oil- and public investment-driven growth model has been exhausted, but inclusive, diversified, private sector-led growth is yet to emerge. Since oil prices declined in 2015, Angola's real GDP has shrunk by a cumulative 9.5 percent, with GNI per capita (in dollar terms) cut in half.

Before 2015, Angola's growth model resulted in an overvalued exchange rate, excessive debt, and an economy dominated by State-owned enterprises. While growth was high at 8.2 percent from 2004 to 2014, growth in non-oil sectors was stunted. As lower oil prices resulted in a prolonged recession and the exchange rate depreciated rapidly after moving to a float in 2018, half of the population lived on less than $1.90 per day (2011 PPP) in 2018 (a rate similar to 2008) and debt-to-GDP ballooned to an estimated 128 percent by the end of 2020.

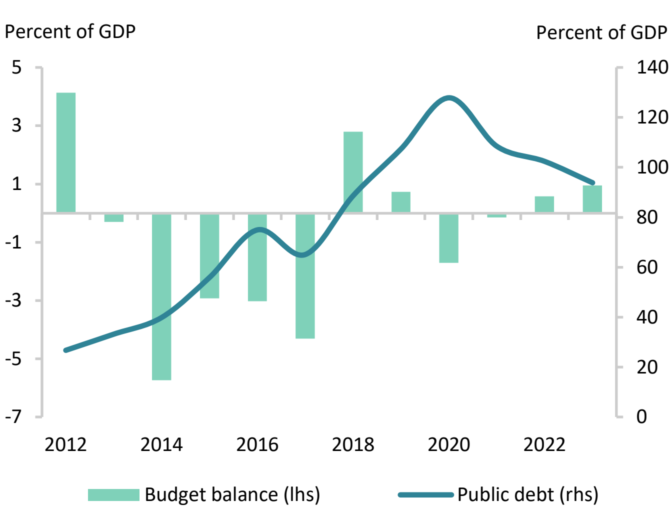
The current administration (elected in late 2017) has embarked on an ambitious reform program. Reforms aimed at macro-economic stabilization included floating of the currency, strengthening tax revenue, and passage of a fiscal responsibility law. Reforms aimed at shifting the Angolan economy from dependence on oil and the SOE sector include privatization of state assets, removal of pervasive price controls, improved regulation and oversight of financial institutions and creation of a competition authority. Finally, to reduce poverty and inequality, the Kwenda cash transfer program was introduced in 2020.

Angola's transition to a more diversified, private-sector led growth model has become even more urgent in the face of COVID-19. Sectors ranging from agriculture to financial services have large untapped potential and can generate the jobs crucial for poverty reduction. Continued progress on structural reforms, including market-based pricing of fuel, and larger and more effective investments in human capital are needed to advance towards a more productive and inclusive Angola.

Recent developments

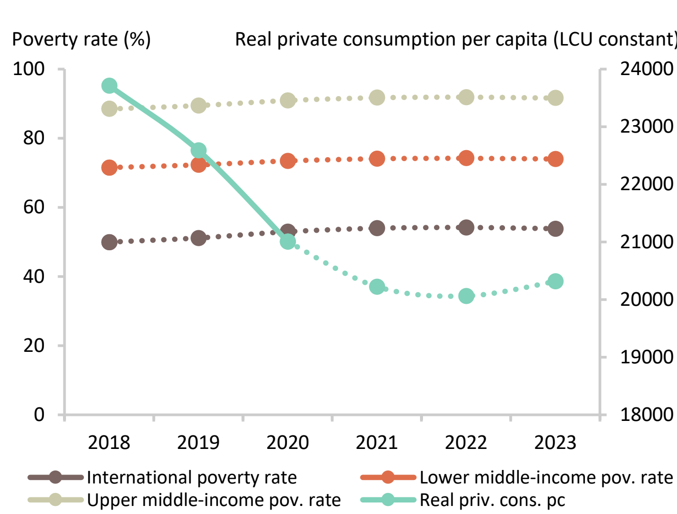
GDP is estimated to have contracted by 4 percent in 2020. Although the spread of COVID-19 in Angola has been limited (124 cases per 100,000 adults as of February 17, compared to 427 cases on average for Sub-Saharan Africa), non-oil activity dropped sharply in the second quarter of 2020 as measures to halt the spread of COVID-19 restricted in- person service provision. As the pandemic resulted in lower oil prices and restrictive OPEC+ quotas, Angola's crude oil production declined 7.1 percent in 2020, standing at 1.28 million barrels per day. Year-on-year, it is estimated that both oil and non-oil activity contracted (by 7.2 and 3.1 percent, respectively).

FIGURE 1 Angola / Budget balance and change in debt



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

Driven by the decline in the volume and value of oil, export revenues (in US dollars) declined by 37.3 percent in 2020. Yet as imports also declined (by 23.3 percent), the current account remained in balance. In the context of the oil price decline and heightened debt vulnerabilities, the currency lost 36.7 percent of its value vis-à-vis the US dollar in 2020. Net international reserves stood at US$8.8 billion in January 2021 equivalent to six months of imports.

With the pass-through from currency depreciation, inflation accelerated, to 25.1 percent in 2020 (from 16.9 percent in 2019). Prices for food, much of it imported, rose faster (by 31.4 percent). Though poverty rates are substantially higher in rural areas, urban households are particularly vulnerable to price shocks due to high unemployment and low subsistence production, with purchased food accounting for 44 percent of their expenditures.

Despite the sharp drop in oil revenues, the primary fiscal balance remained in surplus, though narrower than in 2019. The government has prioritized spending on health (which increased 40 percent) and social protection. Debt reprofiling agreements reached in 2020, including under the DSSI, have reduced near-term financing pressures.

Outlook

A partial recovery is expected in 2021, with GDP projected to grow by 0.9 percent and accelerating to 3.5 percent in 2022, still slower than population growth . The recovery is conditional on a stronger oil sector, loosening of OPEC+ production quotas and resumption of investments to halt the structural decline in production. This is consistent with the recent strength of oil prices and a world economy gradually recovering from COVID-19 as vaccines are rolled out.

Increased competitiveness of local production relative to imports due to currency depreciation and a stronger macro framework will support the non-oil sector. Structural reforms, including restructuring of the banking sector and privatization of unproductive state assets will further improve growth prospects.

The current account is expected to return to surplus in 2021, aided by increased oil proceeds. Inflation is expected to retreat gradually as the lagged impact of rapid currency depreciation between 2018 and 2020 wanes.

Fiscal and debt consolidation is critical to ensure a sustainable recovery. The fiscal deficit is expected to decline to zero in 2021, with non-oil taxes making up an increasing share of revenues. Debt is expected to start declining in 2021, reaching 94 percent of GDP by 2023 based on continued fiscal retrenchment and prudent debt management.

Continued high unemployment and inflation have increased food insecurity and poverty. Projections, tentative due to limited data, suggest that the share of the population living on less than $1.90 per day (2011 PPP) will continue increasing in 2021, reaching about 54 percent, an increase of 2 million people since 2019. Another million may fall into poverty by 2023 before the poverty rate starts to decline modestly. Expanding the Kwenda program and measures to support job creation, especially for youth, are critical to mitigate poverty and negative effects on human capital.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	-2.4	-0.6	-4.0	0.9	3.5	2.5
Private Consumption	-3.4	-1.6	-4.0	-0.6	2.4	4.5
Government Consumption	-1.7	-1.6	-23.9	18.0	-3.2	1.1
Gross Fixed Capital Investment	-5.1	-3.1	-5.6	3.3	6.9	5.4
Exports, Goods and Services	1.2	0.8	-6.8	-1.7	6.4	-1.4
Imports, Goods and Services	-16.9	0.0	-23.3	6.8	6.4	4.5
Real GDP growth, at constant factor prices	-7.5	-1.0	-4.4	0.9	3.6	2.4
Agriculture	-7.6	-4.4	6.9	7.4	3.0	3.7
Industry	-11.4	-2.8	-8.4	0.0	7.0	2.2
Services	-1.7	2.0	-1.3	0.9	-0.3	2.3
Inflation (Consumer Price Index)	19.6	17.1	22.3	22.7	17.0	12.3
Current Account Balance (% of GDP)	7.3	5.7	0.1	3.4	3.4	2.7
Net Foreign Direct Investment (% of GDP)	-6.4	-2.0	-1.4	-1.3	0.2	1.2
Fiscal Balance (% of GDP)	2.8	0.7	-2.6	-0.8	0.1	0.7
Debt (% of GDP)	88.6	107.3	128.2	105.3	100.4	91.9
Primary Balance (% of GDP)	7.5	6.0	4.8	6.5	6.2	6.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	49.9	51.1	52.9	53.9	54.2	53.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	71.5	72.3	73.5	74.1	74.2	74.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	88.5	89.5	90.9	91.7	91.9	91.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2018-IDREA. Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.

(b) Projection using point to point elasticity at regional level with pass-through = 0.7 based on private consumption per capita in constant LCU.

BENIN

Table 1	**2020**
Population, million	12.4
GDP, current US$ billion	15.2
GDP per capita, current US$	1224.7
International poverty rate ($1.9)[a]	49.6
Lower middle-income poverty rate ($3.2)[a]	76.2
Upper middle-income poverty rate ($5.5)[a]	90.6
Gini index[a]	47.8
School enrollment, primary (% gross)[b]	116.7
Life expectancy at birth, years[b]	61.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

Real GDP growth slowed to 2 percent in 2020, as the COVID-19 crisis affected global demand, containment measures hindered services and recession hit Benin's main trading partner, Nigeria. The fiscal balance deteriorated due to large counter-cyclical fiscal spending and lower tax revenues. Growth and poverty reduction are expected to gradually recover over the medium term, supported by the re-opening of the border with Nigeria in early 2021. Uncertainty over the efficacy and accessibility of vaccines cloud the outlook.

Key conditions and challenges

Benin entered the COVID-19 pandemic with real GDP growth averaging 6.4 percent in the period 2017-2019 (3.5 percent in per capita terms), driven by cotton exports, and the construction and transport sectors. The 16-month border closure with Nigeria has however brought to light some of the vulnerabilities of its growth model. Despite some domestic manufacturing in cement and textile, the economy is hampered by its reliance on re-exporting imported goods and commodities (e.g. used cars, rice) to Nigeria through its land border , and the concentration of formal exports in agricultural products (mainly cotton and cashew). Eighty five percent of the labor force is working in the informal economy, which is costly for firms and workers and has hampered productivity growth. Domestic revenue mobilization is low and has remained among the lowest in the WAEMU despite ambitious tax policy and administration reforms since 2016. While economic gains at the macro level have started to translate into better living standards and improved human development indicators, the effects of COVID-19 on informal businesses and households, could reverse recent trends.

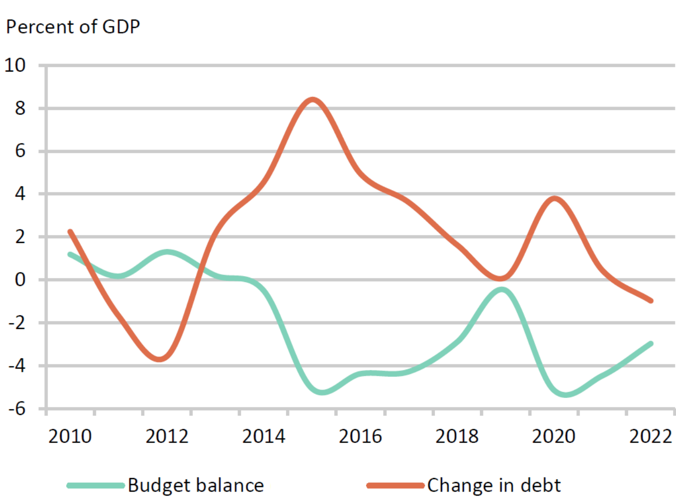
The duration of the COVID-19 pandemic, both regionally and globally, constitute substantial downside risks. A prolonged outbreak would compromise the economic recovery, with new containment measures undermining poverty reduction by threatening the livelihoods of the large informal sector and increasing food insecurity, while raising fiscal and external financing requirements and debt pressures. Diversifying the economy and reducing the fiscal dependence on trade with Nigeria remain medium-term challenges to economic transformation that raises productivity and reduces poverty. Increased security threats spilling over from the Sahel region could also threaten growth.

Recent developments

Due to the COVID-19 crisis real GDP growth slowed to 2.0 percent in 2020 (-1.0 percent in per capita terms). H1 2020 experienced the largest slump with quarterly GDP contracting by 2 percent in Q2, following the imposition of COVID-19 restrictions. GDP grew in Q3 (+1.6 percent y/y) as retail and manufacturing activity picked up once containment measures eased. Agriculture was mildly hit by labor shortages due to restrictions on the regional migrant flows. On the demand side, public expenditure was the main driver of growth. Inflation ramped up and reached +3.3 percent at end-2020, on the back of higher food prices in a context of border closures and trade disruptions.

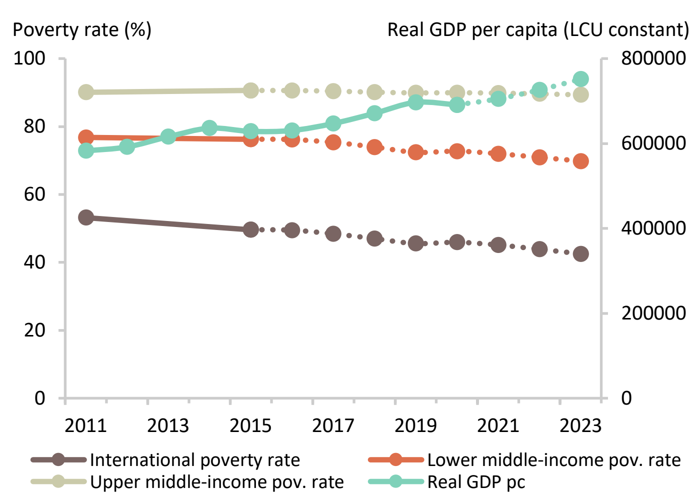
The current account deficit (CAD), including grants, widened from 4.0 percent of GDP in 2019 to 4.6 percent in 2020. Despite the strong cotton production (Benin was the major exporter in West Africa),

FIGURE 1 Benin / Budget balance and change in Public and publicly guaranteed debt



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

exports have been hit by declining commodity prices and lower re-export activities. The fiscal deficit (including grants) significantly widened, from 0.5 percent of GDP in 2019 to 5.1 percent in 2020, as authorities turned to counter-cyclical fiscal spending to counter the crisis. The ambitious health and socio-economic response plan amounted to 2.7 percent of GDP. In parallel, subdued demand, combined with the adverse impact of the border closure reduced total revenues (driven by lost customs earnings).

Benin's monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO), which maintains a fixed peg between the CFA Franc and the Euro. Foreign reserves reached 5.5 months of imports in 2020 (up from 4.4 in 2019), due to large donor support and reduced imports during the pandemic. To support regional economy and COVID-19 related extra spending, the BCEAO announced a set of monetary and macroprudential measures, since March 2020, including a policy rate cut and extended refinancing operations of the 3-month COVID-19 bonds.

Poverty and vulnerability remain high. National poverty stood at 38.5 percent in 2019, with rural poverty at 44.2 percent (+12.8 ppts higher than urban). World Bank estimates suggest that $1.9 a day (2011 PPP) poverty declined from 49.6 percent in 2015, to 45. 5 in 2019 increasing only slightly to 45.9 percent in 2020. Inequality is moderate based on consumption aggregates, with a Gini index of 34.7 percent in 2019, but the COVID-19 crisis is expected to reverse some of these achievements in the short and medium terms.

Outlook

Benin is expected to recover gradually. Growth will rebound to 5.0 percent in 2021, and progressively reach 6.5 percent in 2023. Private consumption and exports should drive the recovery, pushed by higher commodity prices, positive growth in Nigeria and the reopening of its border. In per capita terms, however, Benin will not achieve pre-COVID 19 levels in the next two years given its population growth and growth remaining below potential. Inflation should slow to 2.0 percent, as labor restrictions linked to COVID -19 expire.

The CAD should improve slightly and stabilize at -4.3 percent in 2023 as formal and informal trade resumes, even as imports are expected to remain high on the back of strong construction activity. FDI and portfolio flows should increase gradually.

The fiscal deficit (including grants) is expected to gradually decrease as authorities revert to fiscal consolidation by reigning in recurrent spending. As revenues also bounce back, the fiscal deficit will reach the WAEMU convergence criteria of 3 percent of GDP in 2022. The deficit is expected to be increasingly financed by non-concessional borrowing. On January 2021, Benin raised EUR 1 billion (5.7 percent of GDP) in Eurobonds. Part of the proceeds will serve to rollover the 2019 debut Eurobond and improve Benin's debt servicing capacity. Still, increased exposure to commercial borrowing may raise vulnerabilities linked to low domestic revenue collection. The public debt ratio is projected to reach a peak at 46.4 percent of GDP in 2021, before gradually declining.

Poverty is expected to decline over the projection period as the country recovers from the crisis. Despite increasing slightly in 2020, as a result of the slowdown in per capita growth, the $1.9/day PPP poverty headcount rate is expected to decrease to 42.5 percent in 2023, while the $3.2/day PPP poverty rate declines from 72.8 percent in 2020 to 69.8 percent by 2023. The recent acceleration in the pace of poverty reduction led by growth in agriculture could be compromised by any resurgence of the COVID-19 pandemic or other border shocks.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	6.7	6.9	2.0	5.0	6.0	6.5
Private Consumption	3.5	3.5	2.6	5.0	6.0	6.5
Government Consumption	6.0	5.8	19.6	-0.2	-5.0	-10.3
Gross Fixed Capital Investment	16.3	10.2	-7.8	5.1	11.8	12.6
Exports, Goods and Services	5.0	8.6	-31.4	23.2	13.8	5.1
Imports, Goods and Services	4.8	3.4	-26.9	16.6	12.9	4.6
Real GDP growth, at constant factor prices	6.7	6.9	2.0	5.0	6.0	6.5
Agriculture	7.3	7.2	5.6	6.5	7.6	8.4
Industry	6.2	6.2	-1.9	1.3	1.4	2.2
Services	6.7	7.1	1.8	6.3	7.8	7.7
Inflation (Consumer Price Index)	0.8	-0.9	3.0	2.0	2.0	2.0
Current Account Balance (% of GDP)	-4.5	-4.0	-4.6	-4.5	-4.5	-4.3
Net Foreign Direct Investment (% of GDP)	1.2	1.3	0.6	1.0	1.1	1.2
Fiscal Balance (% of GDP)	-2.9	-0.5	-5.1	-4.5	-3.0	-2.6
Debt (% of GDP)	41.1	41.2	46.1	46.4	45.4	44.0
Primary Balance (% of GDP)	-1.3	1.1	-3.1	-2.1	-1.0	-0.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	47.0	45.6	45.9	45.1	43.9	42.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	74.0	72.4	72.8	72.0	70.9	69.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	90.1	89.9	90.0	89.9	89.6	89.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2015-EMICOV. Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021to 2023.
(b) Projection using neutral distribution (2015) with pass-through = 0.7 based on GDP per capita in constant LCU.

BOTSWANA

Table 1	2020
Population, million	2.4
GDP, current US$ billion	16.1
GDP per capita, current US$	6853.6
International poverty rate ($1.9)[a]	14.5
Lower middle-income poverty rate ($3.2)[a]	36.5
Upper middle-income poverty rate ($5.5)[a]	59.1
Gini index[a]	53.3
School enrollment, primary (% gross)[b]	103.2
Life expectancy at birth, years[b]	69.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) WDI for school enrollment (2015); life expectancy (2018).

Botswana's economy is estimated to have contracted by 7.9 percent in 2020 as the pandemic affected key sectors, notably diamonds and tourism. Unemployment edged up to 24.5 percent and the poverty rate is estimated to have reached 60.2 percent in 2020, up from 57.0 percent in 2019, using the upper-middle-income country threshold. While a growth recovery is expected in 2021, sustaining the momentum in the medium-term will require transformation to overcome the structural limits of the current growth model.

Key conditions and challenges

The discovery of the world's largest diamond deposits in the 1960s allowed Botswana to maintain average growth rates of over 5 percent up until the 2009 global financial crisis, with real GDP per capita growing almost five times faster than the global average. Notably, Botswana has benefited from buoyant diamond exports – at around 80 percent of total export earnings- and accompanying significant revenue inflows (over a third of overall revenue collection). This led the authorities to establish, in 1994, the Pula Fund with the aim of preserving part of the income from diamond exports for future generations. Prudent macroeconomic management has enabled Botswana to accumulate substantial savings, in the form of foreign exchange reserves and the Government Investment Account (GIA).

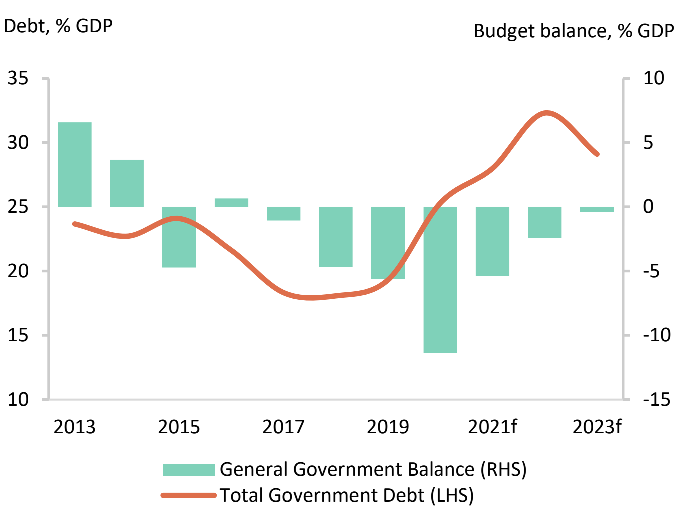
However, Botswana has struggled to maintain its growth momentum in recent years as the diamonds-cum-public sector led growth model has reached its limits and alternative drivers of growth have not materialized. After averaging at 7 percent between 2010 and 2014, weakening global demand for diamonds and severe weather conditions slowed real GDP growth to an average of 2.6 percent between 2015 and 2019. Increased government spending to support growth and greater revenue volatility has resulted in consecutive years of fiscal deficits since FY2015/16, thus eroding fiscal buffers. GIA savings fell from 20 percent of GDP in FY2015/16 to 8 percent at the end of FY2019/20, posing a threat to the sustainability of savings.

COVID-19 has exacerbated existing vulnerabilities, reversing some of the gains made in living standards over the past five years. Low capital accumulation and sluggish productivity have affected growth in the non-resource economy. Unemployment is high and living conditions have deteriorated. The pandemic has underscored the urgent need for a transformation in the growth model so that Botswana can develop a diversified and robust economy and accelerate job creation. Successful implementation of structural reforms under the Economic Recovery and Transformation Plan (ERTP) would improve conditions for a diversified and private sector-led growth model.

Recent developments

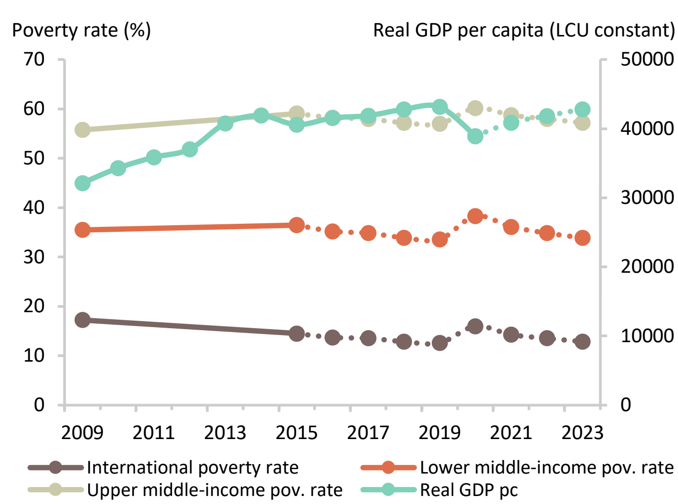
The economy is estimated to have contracted by 7.9 percent in 2020. Diamond production is estimated to have declined by 29 percent as global demand waned. As a result, merchandise exports fell by an estimated 26 percent in 2020, weighed down by a 77 percent drop (y/y) in the second quarter. Travel restrictions affected the private sector, with significant losses registered in the tourism and hospitality industry. Unemployment increased slightly from 23.2 percent in the first quarter of 2020 to 24.5 percent in the last quarter. An additional 103,000 people are estimated to

FIGURE 1 Botswana / Evolution of Public Debt and Fiscal Balance



Source: World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

have fallen below the upper-middle income poverty line (US$5.5 per day, 2011 PPP) in 2020, bringing the total to 1.4 million people.

Botswana's fiscal position has worsened. The fiscal deficit is set to widen to 11.4 percent of GDP in FY2020/21, from 5.6 percent in FY2019/20, reflecting a sharp decline in mineral revenues (55 percent), a rigid and high public sector wage-bill, and the impact of the COVID-19 Economic Response package approved in April 2020. Elevated financing needs have been met by further GIA drawdowns and increased domestic bond issuances. Increased borrowing to close the financing gap is expected to push public debt from 19.3 percent in FY2019/20 to an estimated 27.4 percent of GDP at the end of FY2020/21, although remaining below the 40 percent of GDP statutory cap.

Muted exports caused the current account deficit to widen to an estimated 8.1 percent of GDP in 2020 (from 7.6 percent in 2019). Merchandise exports declined by an estimated 26 percent in 2020 as travel restrictions constrained diamond sales (also known as sights) and year-on-year export fell by 78 percent in Q2 2020. Coupled with relatively stable imports and a significant drop in tourism receipts, the trade deficit increased to 12.5 percent in 2020 from 6.9 percent in 2019. Despite this, increased Southern African Customs Union (SACU) transfers for FY2020/21 helped to alleviate some pressures. Foreign direct investment fell 30 percent in the first half of 2020. International reserves decreased by 23.3 percent year-on-year to US$5.1 billion (10.9 months of imports) at the end of November 2020.

Outlook

Botswana's economy could grow by 6.9 percent in 2021, reflecting recovery of mining production following last year's sharp contraction, with results from the first diamond sight showing exports are up by 18 percent (y/y). However, broad-based recovery will be critical to reduce poverty, as most people who lost jobs due to COVID-19 remain unemployed. Similarly, per capita GDP will not revert to 2019 levels until 2023. Over the medium-term, growth will plateau at around 4.2 percent with private investments in coal and copper mining, along recovering consumption, being the main contributing factors.

The anticipated diamond-led recovery will also improve the fiscal position, with the deficit set to narrow to about 5.4 percent of GDP in FY2021/22 due to higher mineral revenues and revenue enhancing measures including revisions to the VAT rate, fuel levy and withholding tax. These will cushion the anticipated impact of reduced SACU receipts. Expenditures will remain largely unchanged as one-off COVID-19 emergency spending is replaced by ERTP-linked spending, although efforts to "right-size" the wage bill will begin with the abolishment of 50 percent of vacant positions. While total debt is expected to remain sustainable over the medium-term, it is expected to increase to an estimated 28.0 percent of GDP in FY2020/21, reflecting depleted fiscal buffers and subsequent increase in external borrowing.

The outlook is not without substantial COVID-19-related downside risks, particularly as additional waves and mutations of the virus provide added uncertainty. A scenario where waves of infections are followed by worldwide lockdowns could curtail demand in the global diamond industry, thus resulting in a slower recovery for Botswana. Services, particularly tourism, trade and transport, would also be impacted. Lower mineral receipts would worsen the fiscal position, adding to pressures from the anticipated declines in SACU receipts. Both the fiscal and external balance would likely remain in deficit beyond FY2023/24.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.5	3.0	-7.9	6.9	4.3	4.1
Private Consumption	4.1	4.2	-1.8	1.1	3.0	4.1
Government Consumption	3.7	3.3	-0.7	3.3	-7.5	-9.9
Gross Fixed Capital Investment	8.1	6.6	-2.6	3.3	3.2	8.0
Exports, Goods and Services	7.2	-16.7	-28.6	32.5	16.5	6.2
Imports, Goods and Services	11.8	6.7	-8.9	9.7	5.0	2.5
Real GDP growth, at constant factor prices	4.5	3.2	-7.9	6.9	4.2	4.2
Agriculture	2.6	-0.1	3.5	3.0	3.0	2.5
Industry	5.5	0.2	-15.0	14.5	2.7	3.2
Services	4.1	4.5	-5.5	4.4	4.8	4.6
Inflation (Consumer Price Index)	3.2	2.8	1.9	3.1	4.0	4.0
Current Account Balance (% of GDP)	0.6	-7.6	-8.1	-5.2	-2.8	0.5
Net Foreign Direct Investment (% of GDP)	1.1	1.2	1.1	1.7	1.8	1.6
Fiscal Balance (% of GDP)[a]	-4.7	-5.6	-11.4	-5.4	-2.4	-0.4
Debt (% of GDP)	18.1	19.3	25.3	28.0	32.3	29.1
Primary Balance (% of GDP)[a,b]	-4.1	-5.0	-10.5	-4.4	-1.1	1.1
International poverty rate ($1.9 in 2011 PPP)[c,d]	12.9	12.6	16.0	14.3	13.5	12.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	33.9	33.6	38.3	36.1	34.9	33.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	57.2	57.0	60.2	58.7	58.0	57.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

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

(b) Refers to Public and Publicly Guaranteed debt.

(c) Calculations based on 2015-BMTHS. Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021 to 2023.

(d) Projection using neutral distribution (2015) with pass-through = 0.87 based on GDP per capita in constant LCU.

BURKINA FASO

Table 1	2020
Population, million	20.9
GDP, current US$ billion	16.0
GDP per capita, current US$	765.7
International poverty rate ($1.9)[a]	43.8
Lower middle-income poverty rate ($3.2)[a]	76.7
Upper middle-income poverty rate ($5.5)[a]	92.3
Gini index[a]	35.3
School enrollment, primary (% gross)[b]	94.5
Life expectancy at birth, years[b]	61.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014), 2011 PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

Favorable terms-of-trade and good crop production kept the economy growing in 2020, despite the negative COVID-19 shock and persistent security crisis. However, about 450,000 people joined the extreme poor in 2020. With low oil and high gold prices, real GDP is projected to rise by 3.1 percent in 2021 and the extreme poverty incidence rate is projected to decrease only from 2022 onwards. Improvements in the efficiency of social safety nets and public service delivery are critical to resume poverty reduction.

Key conditions and challenges

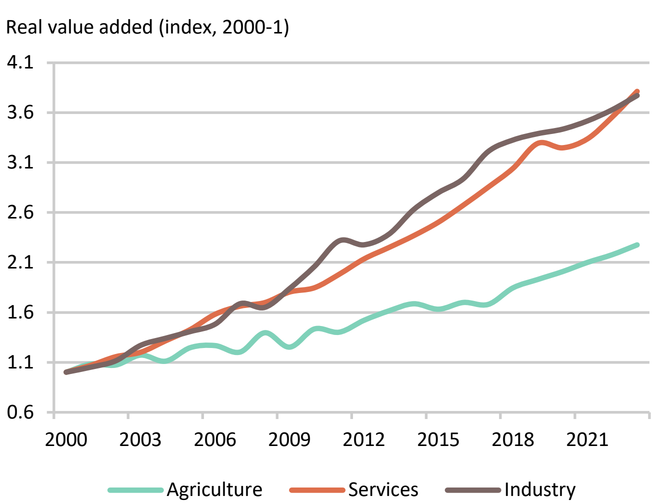
The primary sector employs 80 percent of the adult population, mostly in subsistence agriculture, and contributes a quarter of the country's GDP. Due to a lack of irrigation capacity, agriculture has been highly exposed to the vagaries of weather and climate change. Cotton, once the largest export commodity, remains the major cash crop. The secondary sector contributes a similar share to the economy, almost 75 percent of which is generated by a booming mining industry. Gold now accounts for about 85 percent of export proceeds, placing Burkina Faso among Africa's top five gold exporters. The mining sector has, however, limited linkages to the local economy and generates few jobs. Services account for about half of GDP, with retail, transportation, and the public sector generating most jobs and value added. Public service delivery has been facing an increasingly difficult context with growing violence and conflict, as evidenced by an unprecedented humanitarian crisis.

COVID-19 has had two major effects. Externally, it has supported the BOP through high gold and low oil prices—fuel imports accounted for 20 percent of the 2019 import bill. Domestically, however, it has aggravated the impact of the ongoing security, humanitarian, and social crises. The fiscal accounts are strained by (i) rising spending on military personnel and equipment in response to the deteriorating security situation; (ii) additional social assistance to the over 600 thousand new internally displaced; and (iii) a high and rising wage bill due to strong union pressure in a tense social context. Additional spending is often financed through the issuance of relatively expensive (domestic) debt with increasing debt service payments. Also, low investment in the non-gold sector along with stagnating labor and land productivity, limited access to credit, and the high cost of doing business are constraining potential growth.

Recent developments

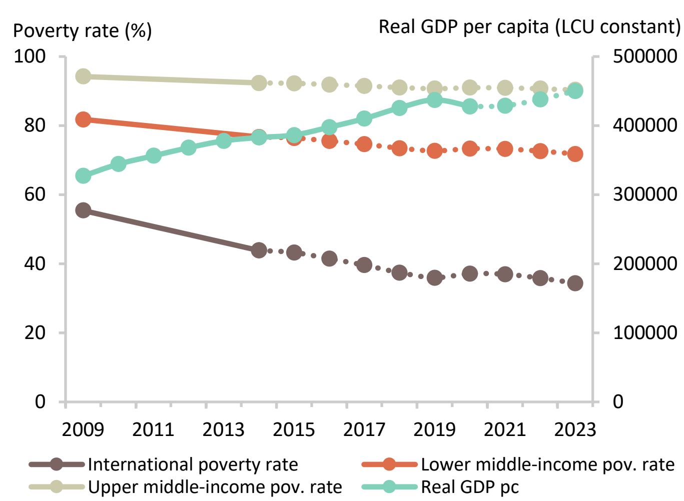
In the first half of 2020, real GDP growth collapsed by 5 percent (y/y) on account of the early COVID-19 containment measures. Exceptionally benign terms of trade and the implementation of the Emergency Response Plan (ERP) helped the economy to rebound by 8 percent in the third quarter (y/y). With booming gold exports, the current account deficit (CAD) decreased to 2.6 percent of GDP from 4.8 percent in 2019. The fiscal deficit, as a share of GDP, increased to 5.6 percent in 2020 from 3.2 percent in 2019, largely due to COVID-19 mitigation measures. Domestic revenue collection (excluding grants at 4.4 percent of GDP) is estimated at 18 percent of GDP, down by 1.5 percentage points compared to 2019, mainly due to temporary tax deferrals or cancellations included in the ERP while tax

FIGURE 1 Burkina Faso / Sectoral real value added



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

administration measures helped prevent a larger decrease.

Burkina Faso's monetary and exchange rate policies are managed by the BCEAO, which maintains a fixed peg between the CFA Franc and the Euro. Its reserves reached an estimated 5.5 months of imports in 2020 (vs 5.9 months in 2019) supported by donor inflows and reduced imports during the pandemic. Between March and October 2020, the REER appreciated by 6.4 percent y/y, reflecting the nominal appreciation of the Euro against the US Dollar. Since March 2020, the BCEAO has supported the regional economy through a policy rate cut and refinancing operations of 3-month COVID-19 bonds.

Simulations suggest that the COVID-19 crisis increased the extreme poverty rate by about a percentage point, to 37.1 percent in 2020, resulting in an additional 450,000 extreme poor and reversing two years of poverty reduction. A direct consequence of the shock is an increase in food insecurity: 28 percent of households can no longer meet their dietary needs and the phenomenon is more pronounced in rural areas (33.5% vs 16.8% in urban areas). Social protection has been limited and not always well targeted. Only 8.8% of households declared receiving COVID-19-related assistance.

Outlook

Amid continued uncertainty, the economy is projected to grow by 3.1 percent in 2021, marginally above the population growth rate. Growth is expected to be driven by a gradual recovery in services (1.2 percentage points contribution) as retail, restaurants, hotels, and transportation services recover. Strong gold production will support the mining sector (0.6 percentage point contribution). Encouraging rainfalls recorded toward the end of 2020 might also translate into a continuation of strong agricultural performance. The CAD is projected to increase by 0.6 percent of GDP in 2021 due to mining profits repatriations and slowing FDIs and portfolio investments. With security, humanitarian, and social challenges persisting throughout the year, the fiscal deficit is projected to remain elevated, at 5.2 percent of GDP, and public debt to rise to 53.1 percent of GDP. The effects of the COVID-19 shock on poverty will persist with the headcount ratio remaining at 37 percent – adding 190,000 new extreme poor – and returning to pre-COVID-19 levels around end-2022.

This growth and poverty outlook is sensitive to risks. On the downside, social unrest, insecurity, or political upheaval could destabilize an already fragile situation. Further, given the high dependence on agriculture and its low level of resilience to natural hazards, the country is highly exposed to natural disasters, including low rainfall, floods, and locust invasions. Finally, in case of a rapid recovery of the world economy, terms of trade could shift quickly to the disadvantage of Burkina Faso's exporters and importers. On the upside, 2021 could bring good weather conditions and an above-average harvest; an effective start of the COVID-19 vaccination campaign by mid-2021 could help prevent another lockdown; and more efficient social safety nets and public service delivery would help enhance the pace of poverty reduction.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	6.8	5.7	0.6	3.1	5.0	5.7
Private Consumption	1.5	7.2	0.9	4.2	6.5	6.3
Government Consumption	8.1	19.6	8.0	1.3	1.4	2.1
Gross Fixed Capital Investment	18.0	-6.4	-7.2	2.9	6.4	10.2
Exports, Goods and Services	6.0	-2.3	0.2	3.2	4.9	5.2
Imports, Goods and Services	3.5	-1.6	-1.0	4.5	7.2	7.9
Real GDP growth, at constant factor prices	6.5	5.7	0.6	3.1	5.0	5.7
Agriculture	9.9	4.6	4.1	4.6	3.7	4.5
Industry	3.6	1.9	1.3	2.4	3.2	3.9
Services	6.6	8.2	-1.4	2.8	6.6	7.2
Inflation (Consumer Price Index)	2.0	-3.2	3.2	2.1	2.4	2.5
Current Account Balance (% of GDP)	-4.1	-4.8	-2.6	-3.2	-3.7	-4.0
Net Foreign Direct Investment (% of GDP)	1.2	1.3	1.1	0.9	0.7	0.7
Fiscal Balance (% of GDP)	-4.2	-3.2	-5.6	-5.2	-4.6	-3.2
Debt (% of GDP)	37.7	42.7	47.6	53.1	55.4	56.3
Primary Balance (% of GDP)	-3.2	-1.9	-4.3	-3.6	-2.6	-1.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	37.4	36.0	37.1	37.0	35.8	34.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	73.5	72.7	73.3	73.2	72.6	71.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	91.0	90.7	91.0	90.9	90.7	90.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2009-ECVM and 2014-EMC. Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021 to 2023.
(b) Projection using annualized elasticity (2009-2014) with pass-through = 1based on GDP per capita in constant LCU.

BURUNDI

Table 1	**2020**
Population, million	11.9
GDP, current US$ billion	3.3
GDP per capita, current US$	274.0
International poverty rate ($1.9)[a]	72.8
Gini index[a]	38.6
School enrollment, primary (% gross)[b]	119.0
Life expectancy at birth, years[b]	61.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2013), 2011PPPs.
(b) Most recent WDI value (2018).

Economic growth is estimated to decelerate to 0.3 percent in 2020 from 1.8 percent in 2019, with poor performance in services and agriculture, partially offset by COVID-19 induced import-substitution in industry. Macroeconomic challenges include large external imbalances, fiscal pressures and high public indebtedness. With rapid population growth, per capita GDP is contracting while poverty is expected to reach 87.5 percent in 2023. The medium-term growth outlook is modest and highly vulnerable to risks from the continuing economic fallout from the COVID-19.

Key conditions and challenges

Economic and social development have been hampered by structural weaknesses that have locked the economy in a low-level equilibrium. These include the dominance of low-productivity agriculture (reliance on poor-quality land and rainfall), limited economic diversification (weak private sector, narrow export base, supply-side constraints), limited fiscal space for public investments, low capital accumulation and weak productivity, and massive human capital challenges compounded by high population growth. These weaknesses have been exacerbated since 2015 by large external imbalances, fiscal pressures, high domestic debt crowding out of private sector credit, and constrained access to forex. The result has been depressed growth, limited job-creation, and high poverty trends.

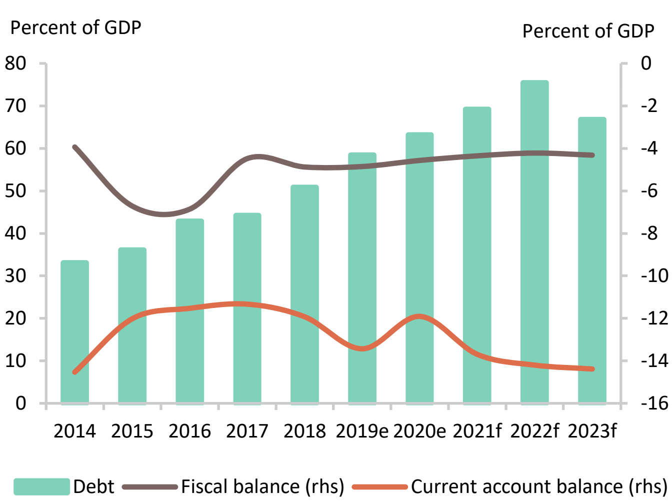
COVID-19 presents additional challenges to households across the income distribution, through both direct and indirect effects. COVID-19 may entail long-lasting repercussions on human capital, as households are forced to adopt harmful coping strategies such as selling productive assets or reducing expenditures on education and food. Border closures particularly affect small farmers as significant trade in agricultural products takes place between Burundi and neighboring countries. Limited fiscal space and scant monetary and financial buffers undermine the government's ability to stimulate the economy and mitigate economic costs of the pandemic. The national development plan for 2018-2027 aims to boost economic growth and resilience notably by supporting growth sectors (such as market-oriented agriculture, infrastructure, mining), developing human capital, and enhancing environmental protection. Implementing this agenda poses significant financing needs and requires political commitment to reforms.

In addition, uncertainty around the second wave of COVID-19 persists. Burundi's increases in cases since December 2020 and the closure of land and sea borders are likely to slow the pace of recovery depending on the duration of these measures.

Recent developments

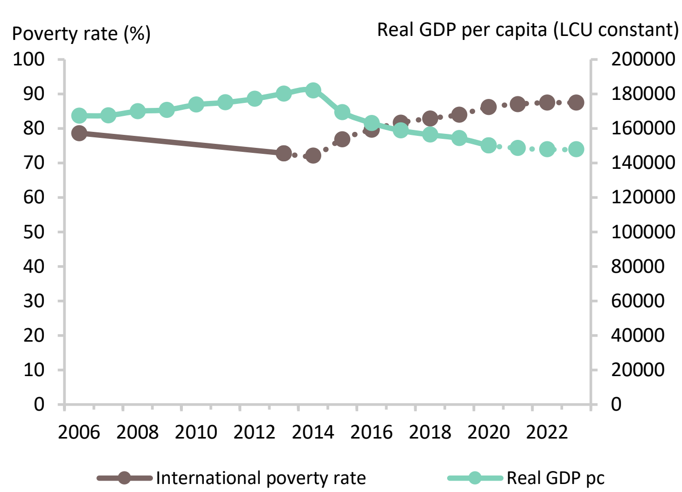
Although COVID-19 cases remain relatively low, the pandemic has impacted Burundi's fragile economy through border closures and lower commodity exports. Economic growth for 2020 is estimated at 0.3 percent from 1.8 percent in 2019, owing to a slowdown in agriculture and a contraction in services. The industrial sector expanded moderately driven by the food industry. Growth was supported by government consumption (especially health) while other demand components tumbled. Inflation rose in 2020 with higher food prices and disruptions to imported consumer products.

FIGURE 1 Burundi / Public debt, fiscal and current account balances



Sources: Official statistics and World Bank calculations.

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



Source: World Bank. Notes: see Table 2.

The fiscal deficit narrowed due to a drastic cut in capital expenditure to address the loss in revenue, but remained high at 4.6 percent of GDP in 2020, leading to a further increase in public debt to 63.2 percent of GDP (of which 26 percent is external).

Helped by lower oil prices, the current account deficit (CAD) narrowed to a still-high 11.9 percent of GDP in 2020. The deficit was mainly financed by trade credits. Exchange rate overvaluation weighs on the economy. In December 2020, the parallel market premium averaged 70 percent while the depreciation of the official exchange rate was limited to 3.8 percent year-on-year. In September 2020, international reserves remained low covering 1.3 months of imports.

GDP growth per capita remains negative. Poverty has been estimated at 87 percent in 2021 (based on international poverty line of $1.90/capita/ day, in 2011 PPP), up from 72.8 percent in 2013 (last year with data availability). Progress has been made in education and health, yet Burundi's Human Capital Index remains low – with children today living up to only 39 percent of their productive potential - compared to the counterfactual if they had enjoyed full health, including adequate nutrition, and education. Literacy rates remain particularly low among women and rural residents. Food insecurity remains alarming, with 56 percent of children under 5 stunted and malnutrition rates even higher outside of the capital city.

Outlook

Under the base case that the COVID-19 is brought under control during 2021, economic growth is projected at 2-3 percent during 2021-23, supported by gains in all sectors. Assuming normal weather conditions, agriculture will grow faster in 2021 as borders start to reopen. Mining activity is expected to pick up as the country exploits its mineral potential and a new coltan mine was opened in 2020. On the demand side, a rise in private and public investment is expected under economic recovery.

The fiscal deficit is expected to narrow in 2021-2023, driven by measures to bolster revenue collection as outlined in the Government's Public Finance Management Strategy 2018-2027. These measures rely on increasing the effectiveness of tax administration and include broadening the tax base (taxation of the informal sector) and improving revenue collection. The strategy also aims at improving the utilization of external resources, notably the accounting and monitoring and evaluation of grants. However, with external grants limited, public debt is expected to rise further to 67 percent of GDP in 2023 mostly due to issuance of new domestic debt. The CAD is expected to remain high at around 14 percent of GDP in 2022–23 as the overvalued exchange rate leads real growth in imports to outstrip export growth (the latter is expected to be driven by minerals).

The outlook remains vulnerable to the continuing economic fallout from the COVID-19 and the availability and distribution of vaccines, fiscal slippages, forex pressures and climatic shocks. Under a low-case scenario that COVID is not controlled and border closures and other restrictive measures recur throughout 2021, economic growth could be reduced by 1 percentage point with attendant impacts on poverty. On the upside, the new administration has shown efforts to reengage with development partners, and the rapid resumption of aid flows could accelerate growth.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.6	1.8	0.3	2.0	2.5	3.0
Private Consumption	3.5	3.1	0.3	2.7	2.8	3.1
Government Consumption	6.7	8.3	19.2	-0.6	4.4	5.1
Gross Fixed Capital Investment	24.9	32.9	-16.6	21.4	7.1	6.0
Exports, Goods and Services	11.0	-0.5	-10.9	4.6	4.7	4.9
Imports, Goods and Services	19.0	17.1	4.3	6.9	6.0	5.8
Real GDP growth, at constant factor prices	1.7	1.8	0.3	2.0	2.5	3.0
Agriculture	3.0	3.1	2.8	3.1	3.2	3.2
Industry	2.4	2.1	1.8	2.0	2.0	2.0
Services	0.7	0.9	-1.7	1.3	2.2	3.3
Inflation (Consumer Price Index)	-2.6	-0.8	7.5	3.4	3.7	3.6
Current Account Balance (% of GDP)	-11.9	-13.4	-11.9	-13.7	-14.2	-14.4
Net Foreign Direct Investment (% of GDP)	0.0	0.0	-0.1	0.0	0.0	0.0
Fiscal Balance (% of GDP)	-4.9	-4.9	-4.6	-4.4	-4.2	-4.3
Debt (% of GDP)	50.9	58.5	63.2	69.2	75.4	66.8
Primary Balance (% of GDP)	-4.5	-4.3	-3.9	-3.6	-3.4	-3.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	82.9	84.0	86.2	87.0	87.5	87.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2006-QUIBB and 2013-ECVMB. Actual data: 2013. Nowcast: 2014-2020. Forecast are from 2021 to 2023.
(b) Projection using point-to-point elasticity (2006-2013) with pass-through = 1based on GDP per capita in constant LCU.

CABO VERDE

Table 1	2020
Population, million	0.6
GDP, current US$ billion	1.7
GDP per capita, current US$	3093.6
International poverty rate ($1.9)[a]	3.4
Lower middle-income poverty rate ($3.2)[a]	15.4
Upper middle-income poverty rate ($5.5)[a]	41.3
Gini index[a]	42.4
School enrollment, primary (% gross)[b]	104.0
Life expectancy at birth, years[b]	72.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2018).

The COVID-19 crisis led to a contraction of real GDP of 14 percent in 2020, exacerbating pre-existing fiscal, debt, and external imbalances. Progress in poverty reduction since 2015 was erased. Over the medium-term, growth is expected to recover gradually as tourism flows and foreign direct investment rebound. The outlook is subject to substantial downside risks stemming from access to vaccines, the emergence of new variants of the virus, the speed of global recovery, and climatic shocks.

Key conditions and challenges

Political stability, democratic institutions, and pro-market reforms generated significant economic and social progress in Cabo Verde since independence in 1975. However, the country's development model, based on tourism and Foreign Direct Investment (FDI) has shown signs of fatigue since the 2008 Global Financial Crisis. The subsequent sluggish recovery in Europe reduced the influx of funds to Cabo Verde, with dwindling private investment and growth. Ineffective expansionary fiscal policy between 2010-2015 led to growing fiscal financing needs, increasing public debt, and a slowdown in productivity. To put public debt on a sustainable path, authorities initiated a fiscal consolidation program in 2016, including the reform of key loss-making State Own Enterprises (SOEs).

The impact and persistence of the COVID-19 pandemic exacerbated the vulnerabilities of the growth model. In addition to the adverse economic effects of domestic containment and mitigation measures, international travel restrictions led to a sharp contraction in tourism and related activities. Rising global uncertainty also depressed FDI. Authorities responded to the crisis appropriately, expanding public health services and social protection programs as well as providing financial support to small businesses and hard-hit sectors, although it set back gain in poverty reduction made in the past five years.

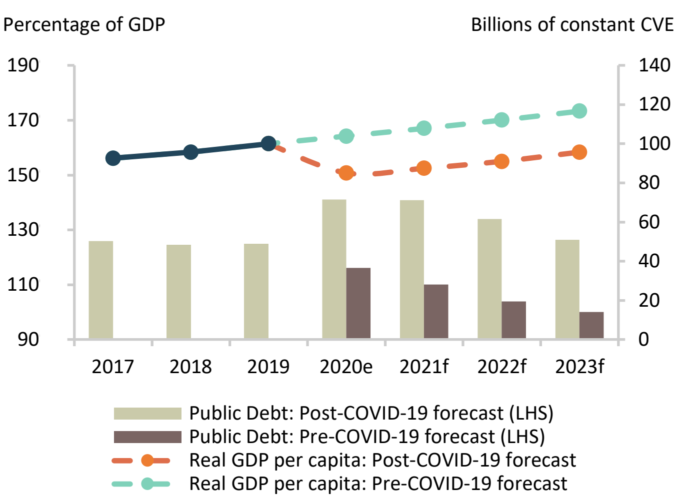
The pace of the economic recovery is tied to the duration of the pandemic, access to vaccines, the emergence of new variants of the virus, and the speed of global recovery, particularly international tourism. Fiscal risks are high as the government is exposed to contingent liabilities in sectors that are particularly vulnerable to the crisis. A protracted pandemic would aggravate the current crisis, triggering these liabilities and leading to macroeconomic instability. The country also remains significantly exposed to natural disasters that could further weigh on external and fiscal balances.

Recent developments

Economic activity contracted by 14 percent in 2020, the largest contraction on record and one of the highest in Africa. The deceleration was driven by the shutdown of the tourism sector and the associated negative spillovers in upstream sectors. The services sector contracted by 18.4 percent, while industrial output declined by 3.6 percent. Agriculture output grew by 2.5 percent as the 3-year long draught came to an end in 2020.

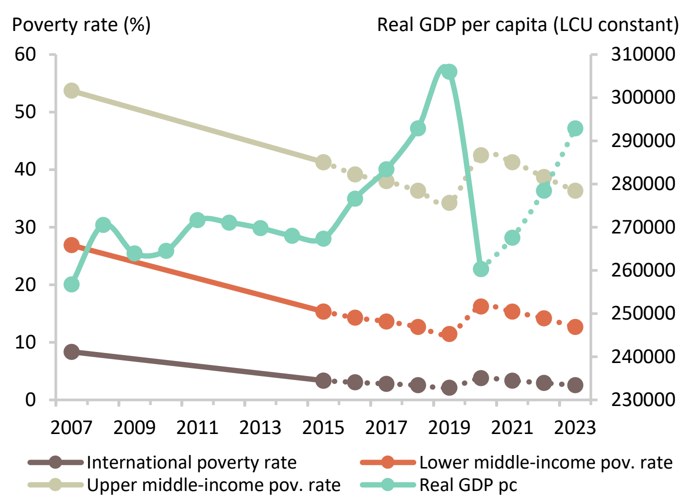
The Current Account Deficit (CAD) increased from 0.4 percent of GDP in 2019 to 13.8 percent in 2020, owing to the collapse in services exports. The CAD was financed primarily by grants and concessional loans. International reserves reached 7.8 months of imports.

FIGURE 1 Cabo Verde / Real GDP per capita and debt outlook



Sources: World Bank and IMF Staff estimates

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



Source: World Bank. Notes: see Table 2.

The overall fiscal deficit reached 9.3 percent of GDP in 2020, driven by a fall of 20 percent in tax revenue and an increase of 21 percent in current spending due to health-related expenditures and temporary subsidies. Financing needs of 12.3 percent of GDP were covered by concessional credits, grants, domestic borrowing, and resources freed by the Debt Service Suspension Initiative (DSSI). The stock of public debt climbed to 141.1 percent in 2020. The risk of external and total debt distress is high but public debt remains sustainable due to its concessional profile, long maturity and low interest rates.

Cabo Verde's monetary policy is aligned with the Eurozone, as the Escudo is pegged to the Euro. Despite an accommodative monetary policy stance, inflation remained subdued at 1 percent in 2020. Liquidity and capital ratios in the banking system are adequate, but exposure to non-performing loans is high.

The crisis reversed the progress in poverty reduction achieved since 2015, pushing close to 10,000 people into temporary poverty. Population living under the international poverty line of US$1.9/day (2011 PPP) increased from 2.3 percent in 2019 to 3.7 percent in 2020.

Outlook

The economy will recover slowly from the pandemic. Real GDP growth is projected to be 3.9 percent in 2021 and gradually accelerate to 6.1 by 2023. GDP per capita is projected to return to the 2019 level by 2024. In the short-term, the recovery will be driven by a gradual reactivation of the tourism sector. Over the medium-term, private consumption and investment in tourism and the blue economy, energy and ICT will contribute to closing the output gap. The resumption of FDI and structural reforms will also unlock investments and accelerate productivity. The outlook is subject to substantial downside risks stemming from delays in the recovery of tourism, financial flows, and SOEs reforms.

The CAD is projected to reach 13.5 percent of GDP in 2021, converging to 4.6 in 2023. Medium-term external financing needs are expected to be covered mainly by private external debt and FDI, which is expected to reach 5 percent of GDP in 2023. International reserves would remain steady at about 6 months of imports.

Authorities are committed to macroeconomic stabilization in the short-term and fiscal consolidation in the medium-term. Consolidation measures will include enhanced management of fiscal risks, notably from SOEs, and revenue mobilization. The primary deficit is projected to reach 6.1 percent of GDP in 2021 and improve over the medium term to 0.5 percent in 2023. The extension of the DSSI in 2021 will free resources amounting to 0.5 percent of GDP and the public debt-to-GDP ratio is expected to fall to 126.4 by 2023. Inflation is projected to remain below 1.5 percent over the medium-term.

The poverty rate (using the international poverty line of $1.9/day) is projected to decline to 3.3 percent in 2021 and reach 2.5 percent in 2023 with significant downside risks associated with an uncertainty about the depth and duration of the pandemic and associated impacts on tourism.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.5	5.7	-14.0	3.9	5.2	6.1
Private Consumption	1.5	5.9	-7.0	2.9	4.1	5.3
Government Consumption	2.2	4.8	5.1	2.6	-5.8	-3.7
Gross Fixed Capital Investment	4.4	-4.5	0.9	0.3	7.6	6.4
Exports, Goods and Services	15.9	10.0	-49.0	15.1	18.2	11.3
Imports, Goods and Services	8.7	2.0	-21.9	5.6	8.9	5.7
Real GDP growth, at constant factor prices	4.5	5.7	-14.0	3.9	5.2	6.1
Agriculture	-18.5	-6.8	2.5	6.2	7.3	8.1
Industry	8.1	7.5	-3.6	4.2	5.5	6.6
Services	6.3	6.3	-18.4	3.6	4.9	5.7
Inflation (Consumer Price Index)	1.3	1.1	1.0	1.2	1.4	1.5
Current Account Balance (% of GDP)	-5.2	-0.4	-13.8	-13.5	-9.7	-4.6
Net Foreign Direct Investment (% of GDP)	4.1	4.1	4.1	4.2	4.5	5.0
Fiscal Balance (% of GDP)	-2.7	-1.8	-9.3	-9.1	-6.3	-3.3
Debt (% of GDP)	124.7	124.9	141.1	140.9	134.0	126.4
Primary Balance (% of GDP)	-0.2	0.8	-6.4	-6.1	-3.5	-0.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.5	2.1	3.8	3.4	3.0	2.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	12.7	11.5	16.2	15.3	14.2	12.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	36.3	34.2	42.5	41.3	38.7	36.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2015-IDRF. Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2015) with pass-through = 1 based on GDP per capita in constant LCU.

CAMEROON

Table 1	2020
Population, million	26.5
GDP, current US$ billion	39.7
GDP per capita, current US$	1494.5
International poverty rate ($1.9)[a]	26.0
Lower middle-income poverty rate ($3.2)[a]	47.0
Upper middle-income poverty rate ($5.5)[a]	71.0
Gini index[a]	46.6
School enrollment, primary (% gross)[b]	105.7
Life expectancy at birth, years[b]	58.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014), 2011PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

The COVID-19 pandemic resulted in the contraction of Cameroon's economy in 2020, and additional 400,000 people fell into extreme poverty. The pandemic has mainly affected service sectors and those linked to global value chains, hampering manufacturing sectors. Despite expenditure controls, the drop in domestic revenue has worsened the fiscal situation. Moreover, the country remains at high risk of debt distress. The outlook is favorable, with the economy recovering gradually and returning to pre-COVID 19 growth rates in 2023.

Key conditions and challenges

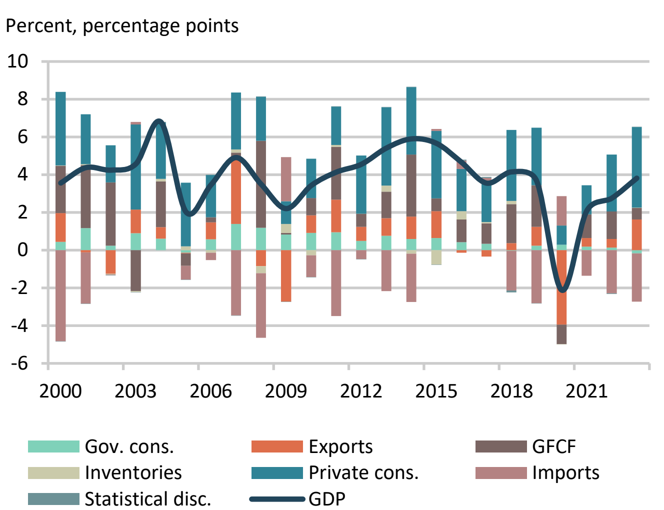
Cameroon is a lower-middle-income country playing a leading role in the Central African Economic and Monetary Community (CEMAC), holding 41.6 percent of the community's GDP in 2019. The country is richly endowed with natural mineral resources, including oil, natural gas, gold, iron, and manganese. The country has shown a relatively strong macroeconomic performance in recent years, with growth reaching 3.7 percent in 2019. Government's expenditures increased continuously in the past decade due to the security crises. Concomitantly, non-oil revenues increased on the back of improved tax collection. Hence, the fiscal deficit reduced significantly and represented 3.3 percent of GDP in 2019, compared to 4.5 percent of GDP in 2014. Over the last decade, the pace of economic growth has not been high enough to lead to a significant poverty reduction because of the lack of redistributive policies and population growth.

The COVID-19 pandemic has compounded the cyclical and long-term risks faced by the country (exposure to external shocks, high risk of debt distress, security issues and political turmoil). Both the drop in production of goods and services, reduced exports, and disruptive global value chains translated into financing needs and daunting socio-economic challenges. The main sources of vulnerabilities that could weigh on debt sustainability include tighter financial conditions, SOEs' contingent liabilities and committed but non-disbursed debt resulting, inter alia, from delays in infrastructure projects. On the social side, a prolonged health crisis together with the weak safety nets have further overstretched the health system. Moreover, ongoing civils conflicts in the South-West and the North-West notably are adding to the challenge of recovering from the pandemic.

Recent developments

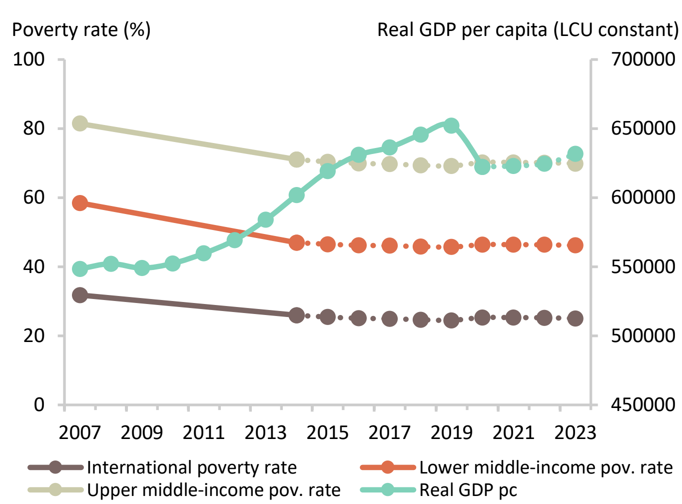
The COVID-19 has hit the economy hard, with the tertiary sector being the most impacted. Branches such as hotels and catering, transport, and public administration services experienced a significant drop in their activities. Consumption and investment fell as income decreased and uncertainty spread as a result of containment measures. As a result, Q2 output contracted by 1.1 percent (y-o-y) from a 4.4 percent growth (y-o-y) in Q2 2019. Global trade weakness entailed a lower demand from Cameroon's main trading partners, but the sharp drop of imports supported the trade account balance to narrow by 6.1 percent in 2020, compared to 2019. Despite a drop in net current transfers (by 18.2 percent between 2019 and 2020), the current account deficit narrowed to 4.6 percent of GDP in 2020, from 5.0 percent of GDP in 2019. At the end of December 2020, inflation has surged by 2.5 percent mainly driven by clothing and footwear items. Food prices also increased

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



Source: World Bank.

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



Source: World Bank.

amid heightened tensions in the North, the Far North, and the South-West regions.

The fiscal accounts deteriorated, albeit less than anticipated, as the two major revenue components performed well (oil and VAT). For instance, the unexpected recovery in oil prices coupled with a good VAT collection helped government revenues to reach 10.3 percent of GDP cumulatively in Q1-Q3 2020, compared to 10.6 percent of GDP in the corresponding period in 2019. Meanwhile, the revised budget law involved expenditures reprioritization, which led the overall fiscal deficit to an estimated 3.9 percent of GDP in 2020, compared to 3.3 percent of GDP in 2019. Public debt increased driven by external debt increase and reached 43.4 percent of GDP at the end of December 2020, compared to 42.8 percent of GDP at the corresponding period in 2019.

The COVID-19 pandemic has reversed parts of progress in poverty reduction. Poverty simulations suggest that the economic downturn in 2020 could have increased extreme poverty incidence to 25.3 percent in 2020, pushing an additional 400,000 people to live with less than PPP $1.90 a day. Containment measures implemented between April and June reduced production levels leading to non-essential staff's lay-off, a drop in remunerations, and lower enterprise turnover in the formal and informal sectors. Also, food insecurity issues increased primarily in conflict-affected areas.

Outlook

Cameroon's economic activity is expected to recover gradually from 2021 onwards on the back of dynamic secondary and tertiary sectors. Higher oil production and prices, services supply, and improved external demand would translate into stronger private consumption and investment. The major upside risk is a rapid vaccine release in the developed part of the world. Real GDP would grow by 2.1 percent in 2021 (0.1 percent in per capita terms), and the country is projected to return to its pre-COVID growth rate (3.8 percent) in 2023. The trade balance is expected to improve, reflecting higher export volumes and improved terms of trade. Hence, the current account deficit should narrow to 3.4 percent of GDP in 2021, from 4.6 percent in 2020, before reaching 2.3 percent of GDP in 2023. Similarly, Cameroon's fiscal position would improve steadily over 2021-23, on the back of fiscal consolidation efforts. The partial elimination of temporary tax incentives and measures to broaden the tax base will support revenue mobilization in 2021, while the postponement of non-priority goods and services and capital expenditures will stabilize government's expenditures. Therefore, the fiscal deficit will narrow to an estimated 3.5 percent of GDP in 2021, contrary to 3.9 percent of GDP in 2020.

The US$ PPP 1.9 poverty rate is expected to remain the same, at 25.3 percent 2021, drawing an additional 166,000 people into extreme poverty. If the COVID-19 pandemic persists till 2022, an additional 166,000 people could move into extreme poverty. Poverty reduction would resume in the medium term as economic growth gradually returns to its pre-COVID path. Downside risks include renewed restrictions due to the recent surge in COVID-19 cases, delayed deployment of the vaccine, and a prolonged closure of borders in major economies, which would affect Cameroon's economy. Should such risks materialize, Cameroon's oil and commodity exports would grow more modestly than in the baseline scenario, affecting both the fiscal and external accounts.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.1	3.7	-2.1	2.1	2.7	3.8
Private Consumption	5.7	4.5	1.5	2.2	4.3	6.0
Government Consumption	-0.2	1.8	2.3	1.4	1.1	-1.4
Gross Fixed Capital Investment	7.9	8.1	-3.6	4.5	5.1	2.1
Exports, Goods and Services	1.8	5.1	-19.7	2.8	2.8	9.8
Imports, Goods and Services	8.1	10.5	-5.4	4.9	8.1	8.6
Real GDP growth, at constant factor prices	4.1	3.6	-2.1	2.1	2.7	3.8
Agriculture	5.1	2.8	-0.2	4.1	4.8	5.6
Industry	3.1	3.6	-3.6	4.3	4.6	4.7
Services	4.4	3.9	-1.8	0.5	1.3	2.8
Inflation (Consumer Price Index)	1.1	2.5	2.5	2.5	2.5	2.5
Current Account Balance (% of GDP)	-3.6	-5.0	-4.6	-3.4	-2.8	-2.4
Fiscal Balance (% of GDP)	-2.3	-3.3	-3.8	-3.5	-2.9	-2.0
Debt (% of GDP)	39.3	42.8	43.4	43.6	43.2	42.9
Primary Balance (% of GDP)	-1.4	-2.3	-2.9	-2.5	-1.9	-1.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	24.7	24.5	25.3	25.3	25.2	25.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	45.9	45.7	46.4	46.4	46.3	46.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	69.4	69.1	70.2	70.2	70.1	69.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2009- and 2014-ECAM-IV. Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021 to 2023.
(b) Projection using point to point elasticity at regional level with pass-through = 1based on GDP per capita in constant LCU.

CENTRAL AFRICAN REP.

Table 1	2020
Population, million	4.8
GDP, current US$ billion	2.2
GDP per capita, current US$	462.6
Gini index[a]	56.2
School enrollment, primary (% gross)[b]	102.0
Life expectancy at birth, years[b]	52.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2008), 2011 PPPs.
(b) WDI for school enrollment (2016); life expectancy (2018).

The Central African Republic (CAR) economy stagnated in 2020 following the COVID-19 pandemic. The outlook is subject to downside risks arising from renewed insecurity amidst election disputes coupled with uncertainty on the global economy related to the impact of new strains of COVID-19 and the rollout of vaccines. Consolidating the peacebuilding process and implementing key structural reforms should remain a key priority. Over 70 percent of the population has been living in extreme poverty over the past decade

Key conditions and challenges

CAR is one of the most fragile and poorest countries in the world. The country is endowed with ample natural resources but has faced continued political instability and cycles of violence since independence. The poverty rate increased from 66.3 percent in 2008 to 71.4 percent in 2020 – 3.4 million people live below the international poverty line (US$1.90 per day, 2011 PPP). Access to education, health care facilities, and basic social services remain limited throughout the country and under pressure due to many internally displaced persons. Consequently, the Human Capital Index is among the lowest in sub-Saharan African countries at 0.29 with a limited contribution to GDP growth. The formal private sector is small, constrained by several structural challenges, including limited access to finance and infrastructure, low skills, gaps in the legal and regulatory frameworks governing economic activities, and a fragile security environment. CAR's economic diversification is limited and has been primarily driven by agriculture, forestry, and mining activities over the past decades, making the country particularly vulnerable to commodity price shocks. The socioeconomic effects of COVID-19, coupled with renewed insecurity amidst post-election disputes, exacerbate an already precarious humanitarian situation. Nearly half of the population requiring humanitarian assistance, and food insecurity affecting over half of the CAR population. Pre-existing structural challenges left CAR particularly vulnerable to a protracted deep political crisis and its socioeconomic impact.

Recent developments

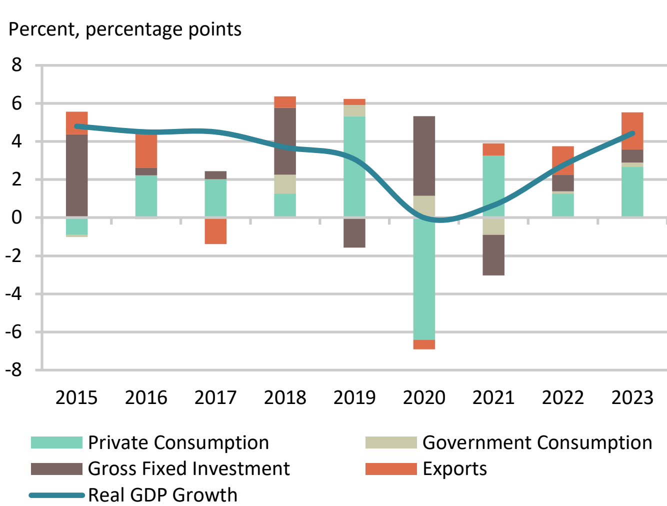
Despite a relatively contained health impact, the COVID-19 pandemic has significantly affected CAR's economy, which is estimated to have stagnated in 2020, compared to an expansion of 3.1 percent in 2019. Disruption in global value chains, low external demand, and domestic containment measures affected trade, transport, tourism, and mining sectors. The agriculture, forestry, and telecommunications sectors were more resilient than expected.

Public investments increased from 5.6 percent of GDP in 2019 to 11 percent of GDP in 2020, driven by measures to fight and contain the COVID-19 pandemic – leading to an overall increase in gross fixed capital investment. Uncertainties and shocks created by COVID-19 have led to a reduction in private investments by 14.1 percent in 2020.

Inflation accelerated in the second quarter of 2020 as measures to curtail the spread of COVID-19 disrupted food supply chains but decelerated during the second half of the year with the reopening of the border. Overall, the average level of inflation in 2020 is estimated at 2.1 percent.

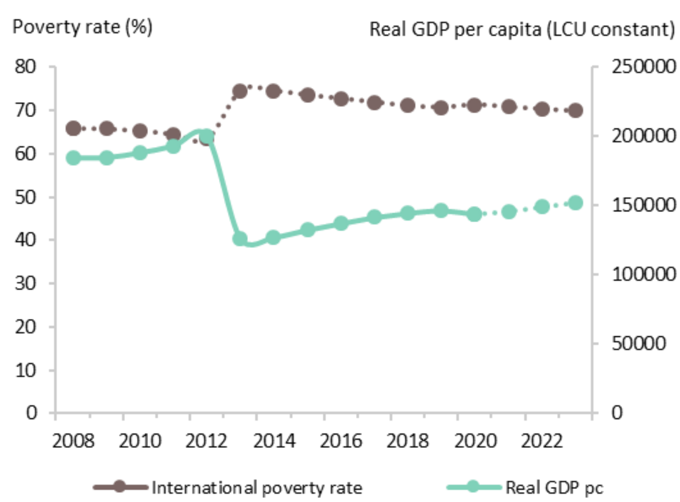
The fiscal balance, including grants, switched to a deficit in 2020, as pressures

FIGURE 1 Central African Republic / Real GDP growth and contributions to real GDP growth



Source: World Bank.

FIGURE 2 Central African Republic / Actual and projected poverty rate and real GDP per capita



Source: World Bank.

mounted from the expenditure side in response to the COVID-19 pandemic. The overall fiscal deficit is estimated at 2.5 percent of GDP in 2020, financed primarily by grants. As a result, public debt declined from 47.2 percent of GDP in 2019 to 46.8 percent of GDP in 2020. CAR remains at high risk of debt distress.

The current account balance deteriorated from 4.8 percent of GDP in 2019 to 7.6 percent of GDP in 2020, driven by weak external demand and private transfer and an increase in non-oil imports fueled by donors funded investments. Trade balance deteriorated by 4.1 percent as the export of merchandise declined, and imports increased slightly. The capital account balance improved from 3.6 percent in 2019 to 7.6 percent of GDP in 2020, reflecting an upward trend in project grants. Foreign direct investment declined by more than 60 percent, driven by uncertainties created by the COVID-19 pandemic. Consequently, the balance of payments is estimated to have generated a lower deficit of 0.3 percent of GDP in 2020.

The latest household survey was conducted in 2008, and the recent trends in household consumption and poverty are based on projections. In 2008, nearly 66.3 percent of the population lived in extreme poverty. The coup in 2013 precipitated an unprecedented political and economic crisis that increased the incidence of extreme poverty to 75 percent. Since then, progress was made to reduce extreme poverty, notably over the past 4 years, albeit at a very slow pace. The Covid-19 pandemic has reversed this hard won modest progress, and the extreme poverty rate is projected to have 71.3 percent in 2020, which equates to about 3.5 million people living in extreme poverty.

Outlook

CAR's economy was expected to recover, but the outlook is now less sanguine as renewed insecurity amid election disputes is undermining the prospect of a post-COVID-19 recovery. Real GDP growth is projected at 0.7 percent in 2021 – 2.5 percentage points below initial projections before the December 2020 elections. Economic activity is expected to rebound gradually, contingent on an improvement in the security environment. In the medium term, CAR's economy is forecasted to grow at 3.6 percent on average –1.5 percentage points below pre-COVID-19 projections. Extreme poverty is projected to decline at a slower pace and remains high.

The consumer price index is expected to increase to 3.5 percent in 2021, reflecting inflationary pressures with the blockade of the Bangui-Douala corridor amidst election disputes. Inflation is projected to fall below the regional convergence criterion of 3 percent in the medium-term.

The fiscal position is expected to deteriorate further in 2021 with a deficit of 2.7 percent of GDP as grants decline and revenues drop with renewed insecurity and the blockade of the Bangui-Douala corridor. In the medium term, the external position is projected to worsen as a result of a higher trade deficit and lower investment inflows. The current account balance is expected to improve with an improvement in the balance of goods and services but will remain structurally in deficit.

CAR's economy is likely to enter a deeper recession if renewed insecurity lingers. The humanitarian situation will likely deteriorate, with thousands of additional people fleeing for their safety and falling into poverty. Further violence and insecurity are likely to increase the country risk premium, heighten investment uncertainty, delay the reform agenda, critical to leverage domestic resources and strengthen the social contract.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.7	3.1	0.0	0.7	2.8	4.4
Private Consumption	1.3	5.7	-6.7	3.6	1.4	2.9
Government Consumption	14.1	7.7	14.4	-9.7	1.5	3.0
Gross Fixed Capital Investment	26.0	-9.6	29.0	-11.6	5.2	4.1
Exports, Goods and Services	3.8	1.9	-3.2	4.2	9.6	11.6
Imports, Goods and Services	8.0	4.9	-4.8	0.6	3.1	3.3
Real GDP growth, at constant factor prices	3.6	2.6	0.0	1.0	2.6	4.4
Agriculture	3.4	3.1	4.0	2.0	2.7	4.1
Industry	1.5	2.1	-2.0	1.0	1.5	1.8
Services	4.4	2.3	-1.9	0.3	2.9	5.4
Inflation (Consumer Price Index)	1.6	2.8	2.1	3.5	2.5	2.5
Current Account Balance (% of GDP)	-8.0	-4.8	-7.6	-6.8	-5.2	-5.2
Fiscal Balance (% of GDP)	-1.0	1.7	-2.6	-2.7	-1.5	1.0
Debt (% of GDP)	50.0	47.9	46.5	44.4	41.0	38.7
Primary Balance (% of GDP)	-0.6	2.0	-2.3	-2.4	-1.1	1.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	71.1	70.7	71.4	71.6	71.4	70.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2008-ECASEB. Actual data: 2008. Nowcast: 2009-2020. Forecast are from 2021to 2023.
(b) Projection using neutral distribution (2008) with pass-through = 0.7 based on GDP per capita in constant LCU.

CHAD

Table 1	2020
Population, million	16.4
GDP, current US$ billion	9.9
GDP per capita, current US$	603.6
International poverty rate ($1.9)[a]	38.1
Lower middle-income poverty rate ($3.2)[a]	66.3
Upper middle-income poverty rate ($5.5)[a]	86.2
Gini index[a]	43.3
School enrollment, primary (% gross)[b]	89.2
Life expectancy at birth, years[b]	54.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2011), 2011PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

The COVID-19 pandemic has significantly altered Chad's economic recovery, started in 2018. GDP contracted by 0.9 percent in 2020, and the poverty rate increased by 1 percentage point to 41.7 percent. Both the fiscal and current account balances deteriorated substantially, and difficulties in financing fiscal deficit could lead to domestic arrears' buildup. The pandemic has highlighted Chad's oil dependence and vulnerability to shocks. Recovery will be fragile and subject to significant downside risks such as regional conflicts and climate shocks.

Key conditions and challenges

Chad's economic performance has been below potential for most of the 2010s, keeping the country in the bottom part of most development rankings. Growth averaged negative 0.2 percent over the past five years, about negative 3.2 percent in per capita terms. Living conditions and access to essential services remain poor, due in part to cyclical insecurity, to exogenous constraints such as being landlocked and without good trade networks, experiencing severe weather conditions, and endogenous constraints related to a weak governance, including in the management of oil revenues, low human capital investment despite a rapidly growing population, and lack of infrastructure.

COVID-19 has highlighted the economic weaknesses related to the dependency on the oil sector. The combination of the global recession, disruptions in global and domestic supply chains, measures to flatten the contagion curve, and investment risk aversion have taken a heavy toll on the economy. This underscored Chad's fragility due to low levels of regional integration, poor quality health care and education, and the lack of access to electricity and digital technology. The uncertain nature of the depth and duration of the pandemic coupled with fiscal liquidity constraints exacerbate an economic context already witnessing several downside risks. Regional conflicts may further disrupt bilateral trade and stretch government finances as the flow of refugees from neighboring countries increases. Presidential and legislative elections scheduled for April and October 2021 respectively could increase uncertainty.

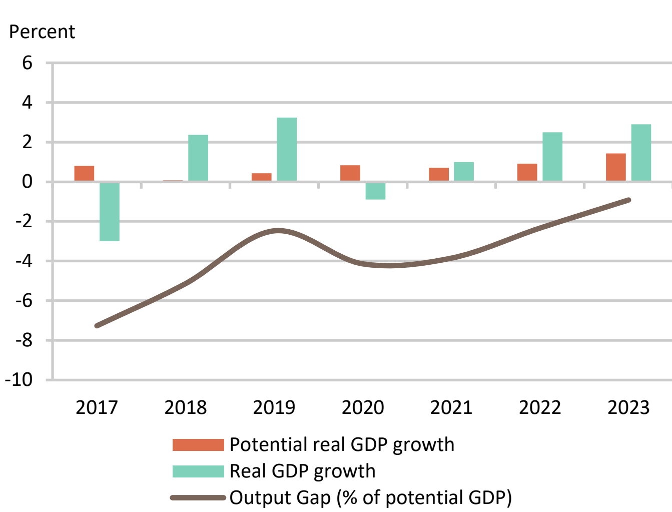
Recent developments

The dual effect of the persistent COVID-19 pandemic and the sharp collapse of oil prices have plunged Chad into recession. The economy contracted by 0.9 percent in 2020 and the negative output gap widened to 4.1 percent. Agriculture and the oil sector remained the main drivers of growth, contributing 1.1 percentage point, while services contributed negatively (-2.0 percent). The impact of containment measures on domestic supply chains pushed up prices and inflation rose from -1.0 percent in 2019, to 3.5 percent.

The current account deficit widened from 4.9 percent of GDP in 2019, to 9.3 percent. The value of exports decreased by 21.9 percent driven by a sharp drop in oil prices (-35.1 percent); although in real terms, export growth increased by 1.1 percent (as oil exports grew by 2.4 percent). Import growth did not adjust in the same proportion as the government imported goods needed to control the pandemic. The fiscal deficit was financed by a significant increase in external grants.

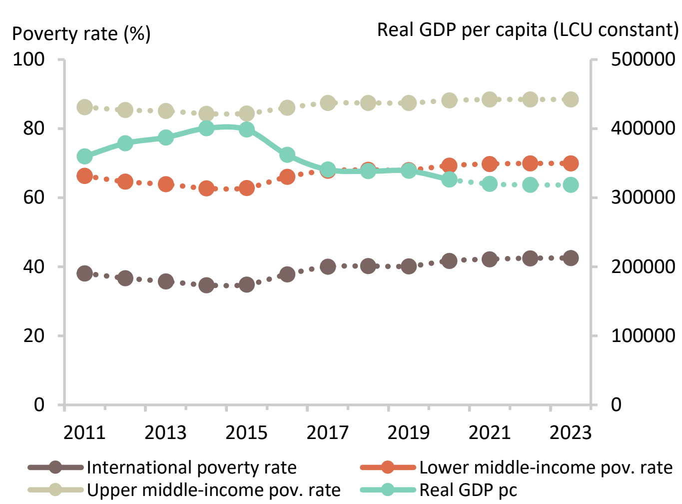
Chad's monetary and exchange rate policies are managed by the regional Bank of Central African States (BEAC). BEAC relaxed the monetary stance by cutting the policy interest rate from 3.5 percent, to 3.25 percent in March 2020, to cushion the

FIGURE 1 Chad / Real GDP and potential GDP growth, output gap



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

pandemic's impact. Regional reserves stayed at their 2019 level of 3.5 months of imports in 2020.

Despite a significant increase in oil revenue (thanks to a one-year lagged in oil-revenue taxation), Chad posted a fiscal deficit (excluding grants) of 3.7 percent of GDP, as it increased its spending to mitigate the impact of the pandemic. An increase in grants, which stood at 4.8 percent of GDP, led to an overall fiscal surplus (including grants) of 1.1 percent of GDP. Public debt reached 47.3 percent of GDP, and the risk of debt distress remained high.

Chad's poverty rate remains high, with about four out of ten Chadians (41.7 percent) leaving below the international poverty line of US$1.90 a day in 2011 Purchasing Power Parity (PPP), while 53 percent of Chadian households are vulnerable. Poverty is estimated to have increased by 1.6 percentage points between 2019 and 2020, and the number of poor to have increased by about four hundred thousand people bringing the total of poor from 6.4 million to 6.8 million. Based on the 2020 high frequency survey, i) two third of Chadian households reported a loss in their total income, and ii) 57 percent of transfer receivers reported a decline in this source of income. The combined effect of the loss of income, a reduction of domestic transfers and remittances, and increased market prices due to the pandemic increased the national poverty rate by 5.5 percent. Income inequality remains high with a Gini coefficient of 43.3.

Outlook

The economy is projected to slowly recover, thanks to the global oil markets resumption that would boost international trade, in 2021 with growth reaching 1 percent, and a decrease in per capita growth contraction to -1.9 percent of GDP, from -3.8 percent of GDP in 2020. With the rollout of COVID-19 vaccines in the second half of 2021, the recovery is expected to gain momentum in 2022-23 with economic growth reaching 2.7 percent on average. Inflation should decelerate to 3 percent and remain below the CEMAC convergence criteria as the effects of supply chain disruptions subsides and GDP growth converges towards its potential.

The current account deficit is expected to decrease slightly in 2021; export growth is expected to reach 4.8 percent, driven by crude oil exports. Still, the current account deficit will remain substantial, averaging 8.5 percent of GDP over 2021-23. Foreign direct investment and financial support from donors should help finance the current account deficit. CEMAC regional reserves are projected to remain below 5 months of imports by 2023.

The fiscal balance will turn into a deficit of 1.1 percent of GDP (including grants and 5.6 percent of GDP (excluding grants) in 2021. Fiscal revenues are projected to decrease by 14.3 percent, due to a 39.1 percent fall in oil revenue. Public expenditures are also expected to decrease by 4.2 percent as the COVID-19 related spending engaged is gradually removed. By 2022, the fiscal deficit should narrow to 0.8 percent of GDP with the government's efforts to mobilize more domestic revenues outside the oil sector and a slight decrease in government's expenditures. Although public debt will remain at around 47 percent of GDP, difficulties to pay debt services will lead the country in debt distress.

The adverse effects of the COVID-19 crisis on poor and vulnerable households are expected to last for several years, with the poverty rate expected to increase to 42.5 percent by 2023. The weakness of redistribution programs or structural economic transformation limit the space for poverty reduction. In particular, poor and vulnerable households who earn a part of their livelihood from transfers and family enterprises that have been closed because of the pandemic, are in risk of remaining or falling into poverty.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.4	3.2	-0.9	1.0	2.5	2.9
Private Consumption	0.7	1.4	0.3	0.6	2.5	2.5
Government Consumption	-11.8	1.7	18.1	-4.4	3.4	2.8
Gross Fixed Capital Investment	5.4	6.6	-9.8	-0.6	13.3	15.8
Exports, Goods and Services	4.6	6.0	1.1	4.8	0.7	0.4
Imports, Goods and Services	1.4	4.0	2.0	4.0	4.1	4.1
Real GDP growth, at constant factor prices	2.3	3.3	-0.9	1.0	2.4	2.8
Agriculture	4.0	4.6	2.4	5.8	3.2	2.8
Industry	0.6	0.9	-0.2	0.8	1.6	1.6
Services	1.0	2.5	-5.2	-5.4	1.6	3.3
Inflation (Consumer Price Index)	4.0	-1.0	3.5	3.0	3.0	3.0
Current Account Balance (% of GDP)	-4.7	-4.9	-9.3	-7.8	-8.7	-9.3
Fiscal Balance (% of GDP)	1.5	-0.6	1.1	-1.1	-0.8	2.2
Debt (% of GDP)	48.3	44.4	47.3	46.9	47.0	47.0
Primary Balance (% of GDP)	3.0	1.0	2.9	0.4	0.3	3.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	40.2	40.1	41.7	42.2	42.4	42.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	68.0	68.0	69.3	69.8	69.9	69.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	87.4	87.4	88.2	88.4	88.5	88.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2011-ECOSIT-III. Actual data: 2011. Nowcast: 2012-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2011) with pass-through = 0.7 based on GDP per capita in constant LCU.

COMOROS

Table 1	2020
Population, million	0.9
GDP, current US$ billion	1.2
GDP per capita, current US$	1348.3
International poverty rate ($1.9)[a]	19.1
Lower middle-income poverty rate ($3.2)[a]	39.7
Upper middle-income poverty rate ($5.5)[a]	64.6
Gini index[a]	45.3
School enrollment, primary (% gross)[b]	99.5
Life expectancy at birth, years[b]	64.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2013), 2011 PPPs.
(b) Most recent WDI value (2018).

The COVID-19 shock hit the economy significantly in 2020, but the fallout from the pandemic is fully materializing only this year. A prompt vaccination roll-out would allow Comoros to progressively return to normality. In a context of longstanding fragility, inadequate government response to the pandemic may cause social discontent and financial sector vulnerability. In addition, the pandemic is likely to have increased the share of those living in poverty and deepened poverty among the poor.

Key conditions and challenges

Comoros has been in a persistent low-growth equilibrium, in a context of social, political, and institutional fragility. The economy over the last decade has been primarily consumption-driven, fueled by remittances and tourism receipts from the diaspora, and relying on external aid. Low domestic revenue along with a high public wage bill and weakly managed SOEs constrain social spending and crowd out the space for critical infrastructure. Private sector development is limited by a small domestic market and a weak rule of law, a fragile financial system and an onerous business environment. Poverty reduction has remained modest while inequality has been on the rise, including between rural-urban regions and across islands. Labor force participation is remarkably low, especially among female workers, and low quality education has undermined the contribution of human capital to productivity growth, with overall factor productivity growth missing. The monetary agreement with France has contributed to fairly conservative fiscal policy, low inflation rates, and adequate levels of foreign reserves, with no signs of significant currency misalignment in recent years.

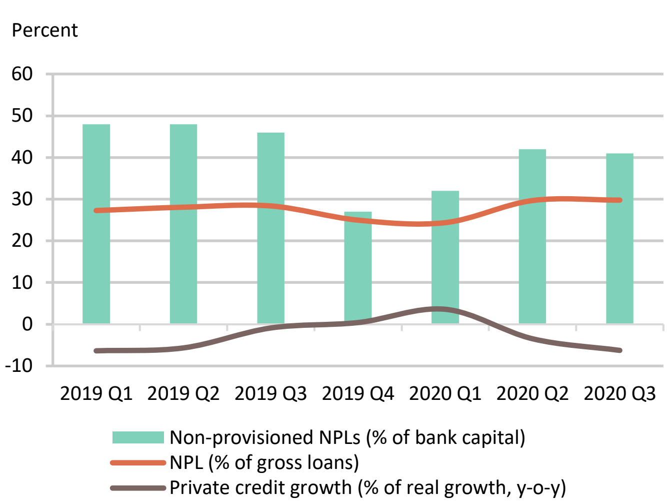
COVID-19 is exacerbating existing economic and social challenges with short-term risks aggravated by the rapid spread of the virus since the beginning of the year. High levels of non-performing loans and longstanding solvency issues are testing the stability of the financial sector. Deterioration of SOEs' financial situation, including of Comores Telecom, a national telecom provider that is facing increased competition, could intensify risks associated with SOEs' contingent liabilities. In light of the spatial inequalities between the islands, a delayed or uneven response by the government could lead to a renewed cycle of social discontent and political instability.

Recent developments

Despite a relatively contained first wave of COVID-19 in Comoros in 2020, most economic activity was disrupted due to mobility restrictions and the suspension of international travel, resulting in a drop of tourism receipts. Demand for agricultural products and services (leisure and transport) were the most hit. Notwithstanding this, the limited spread of the pandemic, along with strong support from the diaspora and sustained government health and social spending, led to a smaller contraction in growth (-0.5 percent) than previously anticipated. Inflation remained low in 2020 supported by government measures to contain the price of selected imports.

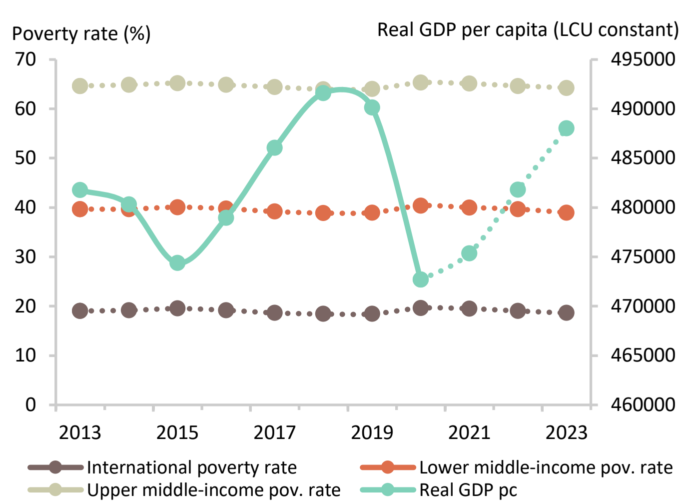
Vulnerabilities in the financial sector have intensified. After years of insolvency of SNPSF, a public systemic financial institution, the authorities started the restructuring process with the separation of the postal from banking services (planned for

FIGURE 1 Comoros / Non-performing loans and credit growth



Sources: WB Financial Stability Monitor for Comoros (December 2020).

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



Source: World Bank. Notes: see Table 2.

the second half of the year). Other two small banks have been under provisional administration due to capital shortfalls. The BCC eased liquidity strains through lower reserve requirements and requested banks to extend maturities for hard-hit debtors, limiting, at least temporarily, the rise of NPLs (see Figure 1).

Fiscal policy measures have been taken to mitigate the impacts of the pandemic which include reduced taxation of selected imports, increased spending on health, subsidized pay for workers in key SOEs and cash transfers to the poor. Despite a shortfall in domestic revenues, the fiscal deficit was curbed to -0.1 percent of GDP in 2020 (compared to –1.9 percent in 2019), thanks to strong external budget support from official donors and participation in the Debt Service Suspension Initiative.

The current account balance was only slightly negative in 2020 (-0.7 percent of GDP compared to –3.9 percent in 2019) despite the decrease in tourism receipts, due to lower imports and an increase in remittances, which proved to be resilient despite the economic slowdown in Europe (France in particular, where most of the diaspora lives). The poverty rate (at US$1.90 per day) is estimated to have increased from 18.5 percent in 2019 to 19.6 percent in 2020 owing to social-economic fallouts from the pandemic (Table 2).

Outlook

The new and stronger COVID-19 wave since January and the anticipated challenges to vaccine acquisition and distribution, will likely delay economic recovery. Recovery may start only during the second half of 2021, resulting in a nearly absent growth this year (0.2 percent). The tightening of social distancing measures to contain the spread of the new wave, and the decision of the French government to close its borders, would decrease tourism receipts and aggravate the economic impact of the pandemic. Despite weak domestic revenues, the government is expected to continue boosting social and health spending to mitigate the impact of the pandemic.

The economy is expected to recover in 2022 and 2023, depending on the pace of vaccination in Comoros and abroad, which would allow for a normalization of economic activity, and globally. Likewise, Comoros' fiscal stance is expected to progressively return back to pre-crisis levels, with external aid decreasing accordingly. There are significant downside risks to the outlook, however, including a prolonged pandemic and growing vulnerabilities in the financial sector. The Comorian financial sector was already highly vulnerable prior to the pandemic, with at least three financial institutions undercapitalized, including one insolvent (SNPSF). Less resilient remittances and growing difficulties among SOEs, including Comores Telecom, and political tension from growing social frustration also represent significant risks to the outlook. Poverty (measured against the US$ 3.20 poverty line) is expected to decline progressively (see Figure 2), contingent on Comoros' ability to contain the economic impacts of COVID-19, the rollout of vaccinations, and the success of mitigation measures adopted by the government.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.4	1.9	-0.5	0.2	2.2	4.2
Private Consumption	1.8	2.0	0.9	0.1	2.5	3.8
Government Consumption	0.0	-7.2	4.0	7.0	-0.8	4.4
Gross Fixed Capital Investment	19.0	11.9	-4.9	0.4	2.8	3.7
Exports, Goods and Services	19.2	0.5	-7.7	0.1	2.2	4.8
Imports, Goods and Services	10.9	5.2	-1.7	2.3	2.4	3.3
Real GDP growth, at constant factor prices	3.0	1.9	-0.5	0.2	2.2	4.2
Agriculture	2.7	-0.9	1.1	1.7	2.0	2.2
Industry	1.7	1.4	2.0	2.2	2.6	2.9
Services	3.3	3.3	-1.7	-0.8	2.2	5.3
Inflation (Consumer Price Index)	1.7	3.3	1.4	0.9	2.0	2.0
Current Account Balance (% of GDP)	-2.4	-3.9	-0.7	-2.3	-3.5	-3.6
Fiscal Balance (% of GDP)	-1.7	-1.9	-0.1	-2.4	-2.1	-2.0
Debt (% of GDP)	17.4	23.9	29.7	33.1	34.0	35.5
Primary Balance (% of GDP)	-1.5	-1.7	0.3	-1.9	-1.5	-1.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	18.4	18.5	19.6	19.5	19.1	18.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	38.9	39.0	40.4	40.0	39.7	39.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	63.9	64.0	65.3	65.1	64.6	64.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2013-EESIC. Actual data: 2013. Nowcast: 2014-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2013) with pass-through = 0.87 based on GDP per capita in constant LCU.

DEMOCRATIC REP. OF CONGO

Table 1	2020
Population, million	89.6
GDP, current US$ billion	48.8
GDP per capita, current US$	544.6
International poverty rate ($1.9)[a]	77.2
Lower middle-income poverty rate ($3.2)[a]	91.4
Upper middle-income poverty rate ($5.5)[a]	97.9
Gini index[a]	42.1
School enrollment, primary (% gross)[b]	118.5
Life expectancy at birth, years[b]	60.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2012), 2011 PPPs.
(b) Most recent WDI value (2018).

Economic activity weakened in DRC in 2020 due to COVID-19, with GDP growth estimated at 0.8 percent. The current account deficit widened, significantly reducing international reserves, causing exchange rate depreciation and rising inflation. Moderate growth prospects are forecast for 2021 based on recovery in the non-extractive sector and increase in world commodity prices. However, uncertainty around the duration of the pandemic and global recovery as well as political stability continue to weigh on medium-term prospects for economic growth and poverty reduction.

Key conditions and challenges

DRC relies heavily on extractives as growth drivers, which contributed 1.9 percentage points to growth in 2020. The country's high product and market concentration- copper and cobalt constitute over 80 percent of exports while China absorbs 40 percent of exports - renders it vulnerable to commodity price volatility and export partners' demand. With huge untapped potential in agriculture, DRC is a net food importer, which reduces fiscal and foreign exchange buffers and contributes to food insecurity. Major structural constraints lead to an under-developed service sector. Improving the business environment and narrowing the infrastructure gap are needed to achieve economic diversification.

Political uncertainty, a legacy of DRC's period of political unrest, continues to weigh on growth. Consensus is key to advance structural reforms and attract investors. Additionally, fiscal policy has limited scope as expenditure-led adjustments could further jeopardize long-term growth prospects and pro-poor spending. Therefore, improving domestic revenue mobilization to sustainably widen fiscal space is crucial.

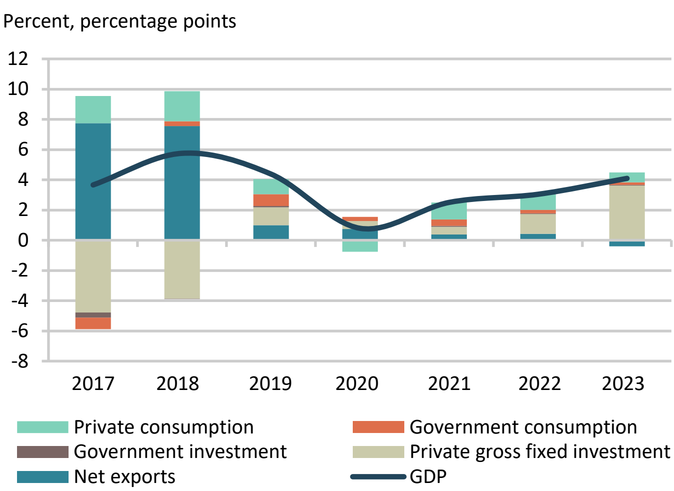
DRC is second only to Nigeria in Sub-Saharan Africa on the number of extreme poor. Poverty remains high in the country, including in urban areas, and significant geographical disparities exist, with extreme poverty concentrated in central and northwestern provinces. Despite some improvement, social and human development indicators remain weak: in 2019, infant mortality of 66.1 per 1000 live births was higher than the Sub-Saharan average of 51.7, while the HCI of 0.37 in 2020 remains below the Sub-Saharan average of 0.40.

The COVID-19 pandemic further exposed DRC's weak health and social protection system. Strengthening the healthcare system remains a key challenge as the country continues to address both COVID-19 and Ebola outbreaks. A longer health crisis and its related economic disruptions could result in behavioral changes that may delay the recovery, dampen growth prospects, widen inequality, and increase vulnerabilities.

Recent developments

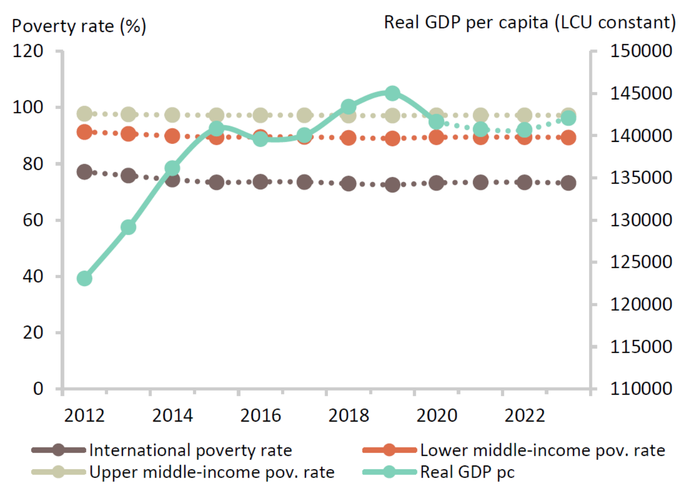
Economic growth decelerated to 0.8 percent in 2020 from 4.4 percent in 2019 as non-mining sectors contracted by 1.6 percent (2019: 5.7 percent growth) due to mobility restrictions, weaker trading activities and constrained government spending. Private consumption and government investment fell in 2020 by 1.0 and 10.2 percent, respectively. The extractives sector in contrast grew 6.9 percent in 2020 (2019: 1 percent), helped by China's robust demand, the containment of workers on mining sites and a recovery in commodity prices. Copper and cobalt output rose by 12.7 and 11.4 percent (y-o-y), respectively.

FIGURE 1 Democratic Republic of Congo / Real GDP growth and contributions to real GDP growth



Sources: Democratic Republic of Congo Statistical Authorities, World Bank.

FIGURE 2 Democratic Republic of Congo / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

The current account deficit (CAD) widened by 0.5 percentage points to 4.0 percent in 2020, as the deterioration in the income balance largely outweighed the improvement in trade balance. Capital inflows only partly financed the deficit and international reserves declined to 2.9 weeks of imports at end-2020 (2019: 3.1 weeks). The Congolese franc depreciated by 13 percent on average in 2020, putting pressure on inflation, which averaged 11.2 percent. BCC first loosened then tightened monetary policy, raising its policy rate to 18.5 percent to maintain positive real interest rates and re-anchor inflation expectations.

The government's pandemic response widened the fiscal deficit by 0.7 percentage points to 1.9 percent of GDP in 2020. Revenue decreased to 9.0 percent of GDP in 2020, forcing expenditures down to 10.9 percent of GDP in 2020. The government resorted to BCC's advances for financing until April-2020 and subsequently mobilized emergency support from the IMF and AfDB. It also increased domestic debt issuance and accumulated arrears.

Poverty is estimated at 73.3 percent in 2020, an increase of 0.7 percentage points compared to 2019, due to the COVID-19 pandemic. This might not fully capture the deteriorating living conditions since, according to COVID-19 High Frequency Phone surveys in Kinshasa, over 10 percent of households have seen members lose their jobs while 20 percent have reduced their food consumption.

Outlook

Economic growth is projected to slightly recover to 2.5 percent in 2021 before accelerating to 4.1 percent in 2023, closer to its pre-COVID level. The non-extractive sector should resume growth in 2021 as pandemic-related disruptions progressively fade and production normalizes. The mining sector is expected to expand further in 2021 and pick up pace in 2022. The Kamoa-Kakula copper project is on track to begin production in July 2021.

The fiscal deficit should decline slightly with a moderate recovery and efforts to improve domestic revenue mobilization. However, given the prolonged pandemic and delays in the roll-out of vaccines, the deficit is only expected to narrow to about 1.2 percent over 2021-22, before widening again in 2023 considering the election cycle. The CAD is also projected to narrow by 2022 to 2.7 percent as higher commodity prices improve terms of trade. Net FDI inflows are also expected to increase fueled by higher global demand.

Given the lingering adverse effects of COVID-19 and with high population growth likely to partially offset economic growth, extreme poverty is projected to stagnate with only a slight reduction of less than 0.1 percentage point by 2023.

DRC's economy remains vulnerable to commodity price movements and the growth performance of its major trading partners. Also, underperformance in the projected revenue mobilization -derived from potentially reduced economic activity and extended fiscal relief measures- coupled with substantial spending pressure associated with a prolonged pandemic, could worsen fiscal imbalances and generate further arrears. Finally, renewed political uncertainty might lead to further economic instability and weak investment. Should these risks materialize, the medium-term growth prospects could be much weaker, hovering closer to 2.0 percent in 2021 and 2.9 percent in 2022.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	5.8	4.4	0.8	2.5	3.0	4.1
Private Consumption	2.7	1.4	-1.0	1.6	1.5	1.0
Government Consumption	8.4	20.2	6.6	9.0	4.7	3.5
Gross Fixed Capital Investment	-29.5	14.4	5.1	5.7	13.0	32.2
Exports, Goods and Services	25.7	-2.5	2.8	4.6	5.0	5.6
Imports, Goods and Services	5.9	-7.6	1.5	6.0	6.5	10.5
Real GDP growth, at constant factor prices	5.9	4.3	0.8	2.5	3.0	4.1
Agriculture	1.5	2.8	1.9	3.2	3.2	3.2
Industry	12.1	6.8	2.8	3.0	3.6	4.1
Services	1.3	2.1	-2.1	1.6	2.3	4.5
Inflation (Consumer Price Index)	29.3	4.7	11.2	10.0	7.0	5.0
Current Account Balance (% of GDP)	-3.7	-3.5	-4.0	-3.9	-2.7	-2.5
Fiscal Balance (% of GDP)	0.1	-1.2	-1.9	-1.4	-1.0	-1.8
Debt (% of GDP)	10.4	10.2	10.5	10.2	9.3	8.8
Primary Balance (% of GDP)	0.4	-0.9	-1.6	-1.2	-0.8	-1.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	73.0	72.6	73.3	73.5	73.5	73.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	89.2	89.1	89.5	89.5	89.5	89.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	97.2	97.1	97.3	97.3	97.3	97.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2012-E123. Actual data: 2012. Nowcast: 2013-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2012) with pass-through = 0.7 based on GDP per capita in constant LCU.

REPUBLIC OF CONGO

Table 1	2020
Population, million	5.5
GDP, current US$ billion	10.7
GDP per capita, current US$	1938.3
International poverty rate ($1.9)[a]	39.6
Lower middle-income poverty rate ($3.2)[a]	64.1
Upper middle-income poverty rate ($5.5)[a]	83.9
Gini index[a]	48.9
School enrollment, primary (% gross)[b]	106.6
Life expectancy at birth, years[b]	64.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2011), 2011PPPs.
(b) WDI for school enrollment (2012); life expectancy (2018).

The Congolese economy contracted by an estimated 7.9 percent in 2020, driven by the underperformance of the oil sector and a slowdown in non-oil activities. The extreme poverty rate increased sharply by 4 percentage points, reaching 52.5 in 2020. The debt level has worsened, maintaining Congo in debt distress. Although the economy is set to return to positive growth in 2022, the poverty rate is expected to further increase by 0.7 percentage point between 2020 and 2023.

Key conditions and challenges

Congo experienced a negative average real growth rate of -5.2 percent over 2015-2020. This contraction in the economy is primarily a result of the country's high dependency on oil. The decline in oil prices observed in recent years and weak governance reflected in high levels of non-concessional borrowing have led Congo into debt distress; its debt-to-GDP ratio has more than doubled from 47.4 percent in 2014 to an estimated 103 percent in 2020. Moreover, weak governance in key sectors has prevented revenues from natural resources from translating into higher growth and investment in human capital.

The COVID-19 pandemic has exacerbated these issues striking a particularly severe blow on the poor. The proportion of the population living below the international extreme poverty line of $1.90 PPP per day has risen by about a third from 39.1 percent in 2015 to 52.5 percent in 2020.

The risks to Congo's economic stability stem not only from the spread of the COVID-19 pandemic in the country but also from its international repercussions. The country is overwhelmingly reliant on the hydrocarbon sector. On average, it contributed 78 percent of Congo's exports and 30 percent of its GDP between 2015 and 2020. This makes the Congolese economy extremely vulnerable to volatile oil prices. Congo's ability to reduce its debt through the successful clearance of arrears and the restructuring of private commercial claims, among other channels, will determine how soon the country can return to a sustainable debt level. Furthermore, as Congo is already a country affected by FCV, potential internal social unrest due to falling incomes and post-elections security concerns could also impact macroeconomic stability and sustainable growth.

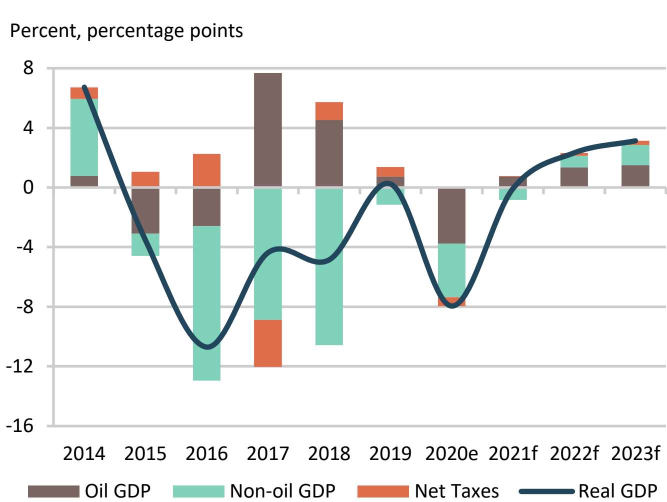
Recent developments

The COVID-19 pandemic and associated oil price shocks are placing an unprecedented strain on the Congolese economy. GDP is estimated to have contracted by 7.9 percent in 2020. Hydrocarbon production shrank by 7.7 percent due to a contraction in global demand for oil and technical difficulties in some oil fields.

The overall budget deficit in 2020 is estimated at 1.3 percent of GDP, in contrast to a surplus of 3.5 percent in the preceding year. However, the fiscal deficit for 2020 is estimated to be less than the earlier (October) World Bank forecast of 13.4 percent of GDP, owing to better than expected oil revenues in the second half of 2020 combined with lower than anticipated government spending.

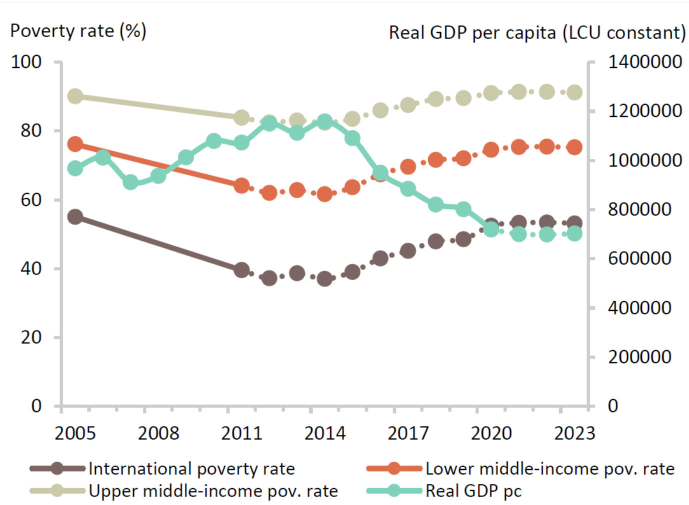
Driven by a decrease in exports and a collapse in commodity prices, Congo is expected to record a current account deficit of 2.8 percent in 2020, wider than the 0.8 percent registered in 2019. Meanwhile, the debt-to-GDP ratio increased from 82.3 percent in 2019 to 103 percent of GDP at the end of 2020. Negotiations

FIGURE 1 Republic of Congo / Real GDP growth and contributions to real GDP growth



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

to restructure external commercial debt have intensified recently. However, Congo has not been able to finalize the debt restructuring negotiations with oil traders. Although Congo is benefitting from the Debt Service Suspension Initiative (DSSI), the restructuring of the external commercial debt will be critical to ensure debt sustainability.

The economic crisis and the COVID-19 pandemic have worsened poverty rates and living conditions. Poverty rates have risen by more than four percentage points in just one year: 48.5 in 2019 to 52.5 in 2020. Recent household surveys also reveal that about 75 percent of households experienced a reduction in their ability to pay rent and 69 percent in their ability to meet food needs, highlighting the need to allocate more resources for social spending.

Outlook

Congo needs to strengthen its macro-fiscal situation, bolster institutions to foster greater non-oil economic activities, while improving the scope and quality of service delivery to build the country's human capital and basic infrastructure. The economy is not expected to recover fully in 2021 as the outlook is subject to heightened risks including the duration and severity of the COVID-19 pandemic, the COVID-19 vaccine rollout, potential internal social unrest due to falling incomes, as well as the government's ability to put in place fiscal consolidation measures to address its debt situation.

The economy is expected to contract by 0.1 percent in 2021. Economic activity is projected to rebound gradually over 2022-2023, with GDP growth averaging 2.7 percent as the oil sector starts to recover and life returns to a new normal. However, the proportion of people living below the international poverty line is set to rise from a level of 52.5 percent in 2020 to 53.2 percent in 2023 despite the gradual recovery of the economy. Furthermore, the recent flooding disaster that started in late 2020 and has continued in early 2021 presents an additional challenge that could impact the most vulnerable and add further stress to the weak fiscal situation. It also calls for Congo's readiness to address climate change vulnerabilities and mitigate disaster risks.

While fiscal consolidation is expected to resume in 2021, its success remains uncertain given the reliance on the hydrocarbon sector, the volatility of oil prices and a procyclical fiscal policy stance. Macroeconomic stabilization would require restoring fiscal sustainability through continued public debt restructuring and public financial management reforms.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	-4.8	0.2	-7.9	-0.1	2.3	3.1
Private Consumption	4.5	2.5	-4.2	2.0	2.5	3.5
Government Consumption	-4.7	-18.7	13.8	-1.2	-0.5	0.9
Gross Fixed Capital Investment	-24.9	-2.4	-20.5	-1.5	5.0	6.0
Exports, Goods and Services	11.4	7.4	-8.5	2.0	3.6	3.9
Imports, Goods and Services	5.1	3.2	-10.4	4.5	6.0	6.5
Real GDP growth, at constant factor prices	-6.4	-0.4	-8.0	-0.1	2.3	3.1
Agriculture	-1.0	0.7	-6.0	-1.5	1.5	2.0
Industry	-8.5	0.3	-7.7	1.5	2.7	3.0
Services	-4.3	-1.7	-8.7	-2.0	1.9	3.4
Inflation (Consumer Price Index)	1.2	2.2	1.4	2.0	2.2	2.5
Current Account Balance (% of GDP)	8.5	-0.8	-2.8	1.5	3.2	3.8
Net Foreign Direct Investment (% of GDP)	3.0	3.4	1.8	2.0	2.5	2.3
Fiscal Balance (% of GDP)	5.7	3.5	-1.3	0.8	2.4	1.8
Debt (% of GDP)	77.2	82.3	103.0	94.6	86.0	81.7
Primary Balance (% of GDP)	7.6	8.0	0.0	2.4	3.9	3.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	47.9	48.5	52.5	53.3	53.4	53.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	71.6	72.1	74.5	75.3	75.4	75.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	89.3	89.6	91.0	91.3	91.4	91.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2011-ECOM. Actual data: 2011. Nowcast: 2012-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2011) with pass-through = 0.7 based on GDP per capita in constant LCU.

COTE D'IVOIRE

Table 1	**2020**
Population, million	26.4
GDP, current US$ billion	60.0
GDP per capita, current US$	2275.1
International poverty rate ($1.9)[a]	29.8
Lower middle-income poverty rate ($3.2)[a]	59.1
Upper middle-income poverty rate ($5.5)[a]	83.2
Gini index[a]	41.5
School enrollment, primary (% gross)[b]	100.3
Life expectancy at birth, years[b]	57.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

The COVID-19 pandemic negatively impacted the economy in 2020 through disruptions to services, trade, lower external demand and reduced foreign financing flows, reducing real growth to 1.8 percent. Fiscal and external balances deteriorated, debt pressures increased, and poverty rose. Downside risks to the economic outlook predominate, including a second COVID-19 wave, a decline in agricultural commodity prices, a sluggish global recovery and security vulnerabilities.

Key conditions and challenges

During the last decade, Côte d'Ivoire has been one of the fastest-growing countries in Sub-Saharan Africa (SSA), with real GDP growth averaging 8.2 percent per year (5.7 percent in per capita terms) over 2012–2019. This was driven mainly by a post-conflict recovery, public investment, and reforms that supported a credit expansion. However, the catch-up effects are dissipating, and the country will need to attract private investment and accelerate the structural shift towards higher value-added activities.

Meanwhile, within-firm productivity rose in manufacturing, but there has been little structural change between firms allocating resources to the most productive ones. Côte d'Ivoire has made significant progress on improving the business environment in terms of easing regulations and was one of the strongest reformers according to the World Bank's Doing Business report until 2019, although progress has been limited in the past year. Private investment is below levels seen in other emerging market economies. Difficulties accessing industrial land, higher transport and logistics costs, and limited access to finance, especially for SMEs, remain key barriers to investment. Further structural reforms (access to finance, access to land, tax reforms) will be essential to sustain the pace of private sector led growth.

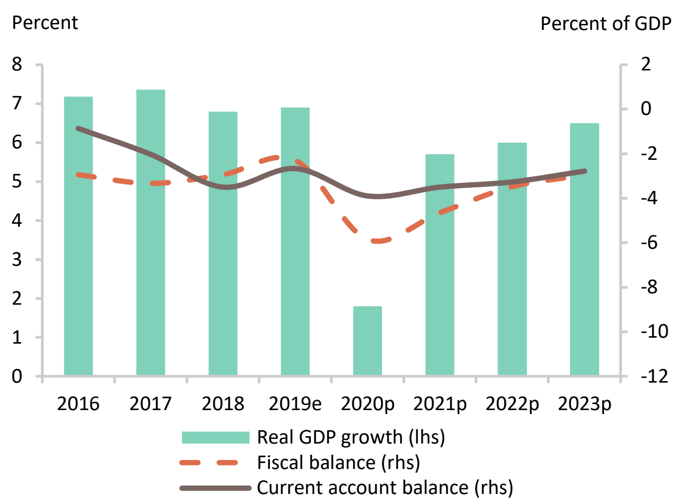
The economic recovery since 2012 translated into some improvement of households' livelihoods. The national poverty rate declined from 44.4 percent in 2015, to 39.5 percent in 2018, but rose in 2020 due to the pandemic. The crisis highlighted vulnerabilities in social safety nets, and poverty, inequality and regional disparities remain key concerns that require continued government expenditure (social programs and basic infrastructure). In addition, domestic resource mobilization is insufficient to match spending needs. Therefore, it is critical to expand the tax base and improve governance in revenue administration (including digitalization of tax procedures) to create the fiscal space necessary to promote equitable and inclusive growth.

Recent developments

GDP growth slowed to 1.8 percent (near 7 percent projected pre-COVID). The volatility in global demand and commodity prices led to lower exports, while FDI and external financial flows shrank. Household consumption grew by 1.9 percent. Agriculture showed some resilience, but services and industry were hit hard by the confinement restrictions and supply chain disruptions. Inflation increased moderately, due mainly to higher food costs.

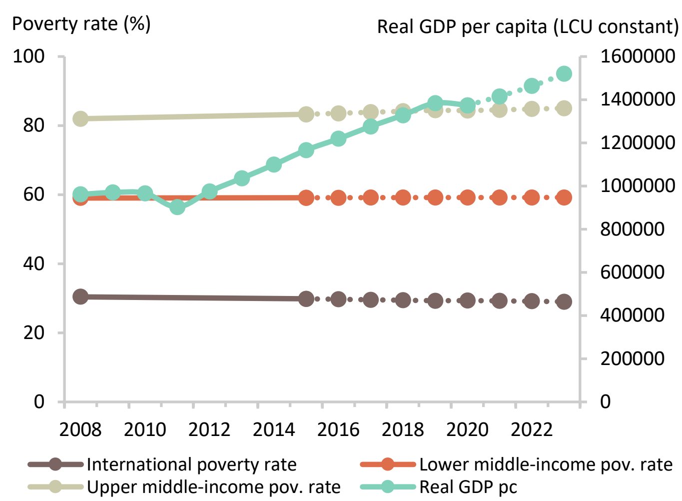
High frequency surveys suggest formal private sector employment dropped by 41 percent during COVID-19 restrictions. The national poverty rate rose and remained above previous levels (39.4 percent in

FIGURE 1 Cote d'Ivoire / Real GDP Growth, current and fiscal account balances



Source: World Bank.

FIGURE 2 Cote d'Ivoire / Poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

2018) at 41.5 percent in October 2020, corresponding to nearly 425 thousand additional poor.

The fiscal deficit widened to 5.9 percent of GDP in 2020 and debt rose to 45.8 percent of GDP (from 41.2 in 2019), driven by the government's COVID-19 emergency response package. Tax revenues narrowed, reflecting the toll on economic activity and the fiscal cost of crisis measures.

The current account deficit increased to 3.8 percent of GDP in 2020, mainly reflecting a lower trade surplus, as global prices for cocoa beans – 27 percent of exports in 2018 – and external demand for the country's exports were subdued.

Côte d'Ivoire's monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO), with a fixed peg between the CFA Franc and the Euro. To support COVID-19 related extra spending, the BCEAO announced monetary and macroprudential measures since March 2020, including a policy rate cut and extended refinancing operations of the 3-month COVID-19 bonds to support governments and businesses. Cote d'Ivoire's reserves reached an estimated 5.5 months of imports in 2020. Between March and October 2020, the REER appreciated by 6.4 percent y/y, reflecting the nominal appreciation of the Euro against the USD.

Outlook

Economic growth should gradually return to pre-pandemic levels by 2023. Real GDP is projected to grow by 5.7 percent in 2021, building on the recovery of late 2020 which was reflected in some high frequency monthly indicators picking up again (export volumes, google mobility indicators, etc.). Domestic consumption will continue to pick up alongside the recovery. Inflation is projected to remain below the WAEMU target, anchored by the CFAF/Euro peg and a prudent monetary policy. The external current account deficit is expected to narrow gradually, reaching 2.7 percent of GDP by 2023 as exports recover and grow faster than imports, strengthening the country's trade balance.

The fiscal deficit is projected to gradually narrow towards the WAEMU criterion of 3 percent by 2023. Continued crisis-support spending for households and firms, and accelerated public investment, will put pressure on public expenditures in 2021. Fiscal consolidation in the medium-term should come from increased digitalization in revenue administration, renewed efforts in collections and tax policy reforms, combined with the gradual withdrawal of COVID spending and control over current spending.

Poverty incidence increased during the pandemic, but the economic recovery, continued government expenditure and expansion of the country's social safety net through cash transfers are expected to put poverty back onto a downward trajectory in 2021.

Despite this relatively favorable outlook, downside risks are significant. Côte d'Ivoire may yet face a second domestic peak of COVID-19 outbreaks if new strains become more prevalent, which may require further confinement measures. The country has ordered vaccines and the vaccination campaign (to begin with essential staff from the healthcare, security and education sectors) has started in March 2021. In addition, continued pandemic restrictions in trade partners (the US and EU) may depress export prices and demand, while slowing down the recovery of foreign direct investments.

TABLE 2 Côte d'Ivoire / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	6.9	6.2	1.8	5.7	6.0	6.5
Private Consumption	8.0	6.0	1.9	3.0	6.0	6.5
Government Consumption	1.9	4.1	0.3	5.1	0.1	-5.3
Gross Fixed Capital Investment	18.7	5.5	6.2	9.7	4.5	5.8
Exports, Goods and Services	5.6	5.7	-4.6	4.6	4.8	5.7
Imports, Goods and Services	2.2	4.4	-0.2	1.5	1.4	1.1
Real GDP growth, at constant factor prices	6.9	6.2	1.8	5.7	6.0	6.5
Agriculture	5.3	1.4	0.7	1.8	1.9	1.7
Industry	10.7	10.1	4.0	5.0	7.0	7.0
Services	6.1	6.1	1.3	6.9	6.6	7.3
Inflation (Consumer Price Index)	0.4	0.8	1.2	1.4	1.6	1.8
Current Account Balance (% of GDP)	-3.5	-2.7	-3.8	-3.4	-3.2	-2.7
Net Foreign Direct Investment (% of GDP)	1.2	1.0	0.2	1.6	1.8	1.7
Fiscal Balance (% of GDP)	-2.9	-2.3	-5.9	-4.7	-3.4	-2.9
Debt (% of GDP)	40.1	41.2	45.8	46.1	46.3	45.8
Primary Balance (% of GDP)	-1.6	-0.7	-4.0	-3.0	-1.7	-1.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	29.4	29.3	29.3	29.2	29.1	29.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	59.1	59.1	59.1	59.2	59.2	59.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	84.1	84.4	84.3	84.5	84.8	85.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2008-ENV and 2015-ENV. Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021 to 2023.
(b) Projection using annualized elasticity (2008-2015) with pass-through = 1based on GDP per capita in constant LCU.

EQUATORIAL GUINEA

Table 1	2020
Population, million	1.4
GDP, current US$ billion	9.6
GDP per capita, current US$	6852.7
School enrollment, primary (% gross)[a]	61.8
Life expectancy at birth, years[a]	58.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for school enrollment (2015); life expectancy (2018).

Equatorial Guinea experienced its sixth consecutive year of economic contraction as lower hydrocarbon exports and fiscal consolidation dampened growth. The country is affected by the COVID-19 pandemic, its global consequences and the implementation of containment measures. The economy is expected to remain in recession in the medium term. Downside risks include a protracted COVID-19 pandemic, delays in the implementation of the structural reforms that are needed to improve competitiveness, and the effectiveness of fiscal policy.

Key conditions and challenges

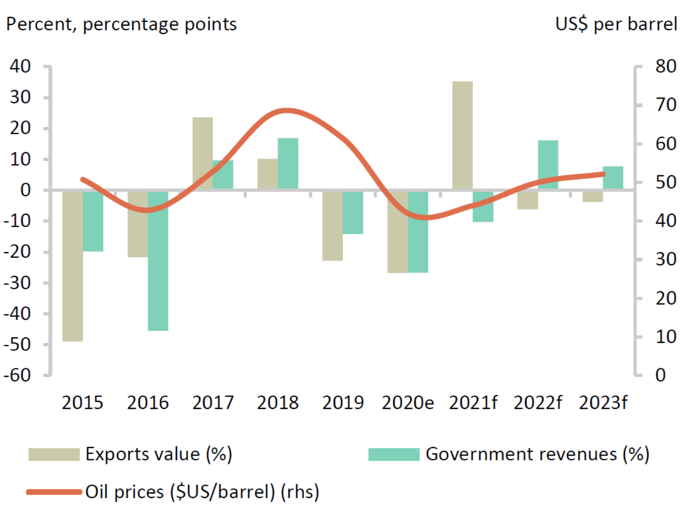
Equatorial Guinea entered 2020 with a challenging macroeconomic situation characterized by five years of economic contraction and a fragile fiscal position. The Equatorial Guinean economy is an undiversified economy which is dominated by a declining hydrocarbon sector that represents 55.7 percent of GDP, 87.6 percent of exports and 80.2 percent of government revenues in 2017-2019. Weak governance and a poor business environment constraint the use of the country's resources to reduce poverty, and the unleashing of the country's economic potential to achieve inclusive growth.

The impact of the COVID-19 pandemic on the real and fiscal sectors stressed the need to diversify the economy to achieve more inclusive growth, and to implement reforms that will help restore fiscal sustainability. Improving human capital and the business environment remain critical to diversifying the economy. As data remain scarce, there is a need to conduct the Living Standard Measurement Survey (LSMS), planned in 2021, to benchmark poverty incidence and undertake a poverty assessment to understand challenges faced by low-income households and inform design of the next National Economic and Social Development Plan, and implement the interim national development strategy. Economic prospects are subject to several headwinds. Despite the recent developments on different vaccines in 2020, there is still an uncertainty surrounding their effectiveness and the timeline of their deployment in developing countries. In addition, investors could be concerned by the possible exuberance in equity markets and volatility in these markets could further feed uncertainty. In its 2021 Budget Law, the government adopted some tax cuts to increase liquidity in firms but it also adopted withholding taxes to adequately collect domestic tax revenues. However, the impact of these domestic resource mobilization (DRM) measures could be reduced by weak capacity to enforce the tax law and the absence of e-platforms which could help the tax administration. Finally, increased spending pressures and the government's capacity to secure external financing – in the form of budget support – could negatively affect the fiscal balance.

Recent developments

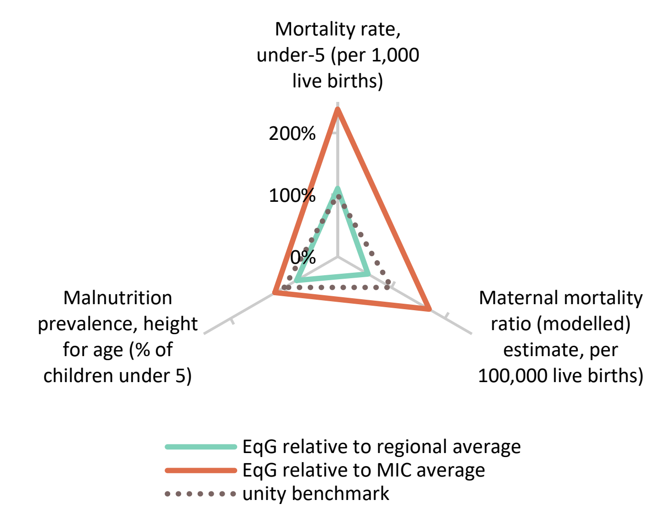
The COVID-19 pandemic resulted in an economic recession which was driven by lower domestic and external demand. With the implementation of containment measures at the national and international levels, real gross domestic product (GDP) contracted by 4.9 percent in 2020, compared with -6.0 percent in 2019. On the supply side, the recession was broad-based. Compared to our initial projections, the economic contraction was less severe because oil production stabilized with the drilling of additional wells.

FIGURE 1 Equatorial Guinea / Major sources of macroeconomic changes



Sources: National authorities, World Bank Commodity Pink Sheet and World Bank staff estimates.

FIGURE 2 Equatorial Guinea / Non-income poverty indicators



Source: World Development Indicators (WDI).

The prolonged lockdown, the associated disruption of economic activities and the sixth year of economic recession are likely to have resulted into additional losses in jobs and earnings. The proportion of the population living below the poverty line is expected to have increased as Equatorial Guinea has very limited social safety nets, and the tertiary sector, which employs about 38.6 percent of the labor force, has been particularly affected by containment measures. Additionally, the number of COVID-19 cases is increasing due to an erosion in compliance with containment measures, misuse of face masks and lack of hand sanitation.

Due to the decline in oil price that resulted in lower government revenues (-3.2 percent of GDP in 2020) and an increase in government expenditures (+2.1 percent of GDP in 2020), Equatorial Guinea recorded a shift from a fiscal surplus of 2.0 percent of GDP in 2019 to a fiscal deficit of 3.3 percent of GDP in 2020. In addition to the decline in government revenues, the government adopted some targeted and temporary measures to support the private sector (estimated cost of 0.3 percent of GDP) in 2020. In this challenging economic environment, the government cleared a portion of domestic arrears in 2020 (1.9 percent of GDP) but they were still estimated at 20.6 percent of GDP at end-2020. This fiscal stance resulted into a higher total public debt estimated at 52.3 percent of GDP (at end-2020).

Lower oil prices also deteriorated the country's external position as its contribution to net foreign assets declined by Euro 265 million as the value of exports declined by 30.4 percentage points in 2020, and the current account deficit increased to 10.9 percent of GDP in 2020 from 1.6 percent of GDP in 2019.

Outlook

With more favorable economic prospects in trading partners, real GDP is projected to increase by 2.4 percent in 2021 on the back of an increase in gas production from the Alen field and the backfill project to the LNG plant. The current account deficit is projected to narrow to 4.7 percent of GDP 2021. However, the economy is projected to be back in recession in 2022-2023 as existing oil wells will reach maturity and major projects, such as the Fortuna gas project, have not yet materialized.

This outlook is subject to headwinds related to the management of the pandemic at the national and global level, the volatility of financial markets, the access to external financing to implement the government budget, and potential delays in the implementation of critical reforms.

In its 2021 budget law, the government anticipated an increase of the fiscal deficit to about 3.8 percent of GDP in 2021 on the back of lower government revenues. The fiscal deficit is, however, forecasted at about 4.2 percent of GDP 2021 because of the above-mentioned headwinds. Progress in the implementation of the IMF program could help to finance the substantial gross total financing needs, estimated at 11.9 percent of GDP. The clearance of a portion of domestic arrears (about 2.1 percent of GDP), planned in 2021, could marginally strengthen the banking system and affect private sector confidence in the non-hydrocarbon sector despite uncertain outlooks. Public debt is projected at 46.6 percent of GDP in 2021, and to average 53.3 percent of GDP in 2022-2023.

With growth in 2021 being primarily driven by the hydrocarbon sector and the service sector projected to record a sluggish economic expansion, unemployment and poverty are likely to increase. The design of effective social policies depends on results from the Survey on the Impact of COVID-19 conducted in December 2020.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	-6.2	-6.0	-4.9	2.4	-5.6	-2.3
Private Consumption	3.4	3.4	3.4	3.4	2.8	2.8
Government Consumption	1.6	-4.5	-5.3	-4.2	-10.9	1.2
Gross Fixed Capital Investment	-10.1	-55.8	-42.1	-34.0	1.9	5.5
Exports, Goods and Services	-5.7	-6.2	-9.0	3.5	-9.2	-5.0
Imports, Goods and Services	6.2	-9.0	-7.8	-0.7	-4.0	1.1
Real GDP growth, at constant factor prices	-6.2	-6.0	-5.0	2.4	-5.5	-2.3
Agriculture	-2.4	-5.8	0.4	2.8	1.4	1.4
Industry	-11.7	-8.7	-6.8	3.7	-13.2	-8.5
Services	5.8	-1.2	-2.1	0.3	6.8	6.0
Inflation (Consumer Price Index)	1.3	1.2	5.8	3.5	3.4	3.3
Current Account Balance (% of GDP)	-2.8	-1.6	-10.9	-2.7	-3.0	-6.9
Net Foreign Direct Investment (% of GDP)	3.0	5.3	3.9	5.6	5.5	5.5
Fiscal Balance (% of GDP)	0.1	2.0	-3.3	-4.2	-2.6	-1.7
Debt (% of GDP)	42.1	45.9	52.3	46.6	53.0	53.7
Primary Balance (% of GDP)	0.8	2.7	-2.0	-2.3	-0.5	0.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

ERITREA

Table 1	2020
Population, million	3.5
GDP, current US$ billion	2.1
GDP per capita, current US$	588.8
School enrollment, primary (% gross)[a]	68.4
Life expectancy at birth, years[a]	65.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

Real GDP growth declined 0.6 percent in 2020 as a drop in net exports and private consumption was cushioned by a sharp increase in capital spending in mining. The latter resulted in a fiscal deficit of 4.8 percent of GDP. Despite the positive impact of the new mines on growth, the medium-term outlook remains bleak without a re-engagement with the broader international community and the resolution of the external arrears. Latest available data from 1996/97 suggests poverty is widespread.

Key conditions and challenges

With UN sanctions lifted in November 2018, Eritrea has started emerging from a decade of international isolation. However, the re-engagement progress with development and international partners stalled a year ago. Efforts to shift from a centrally planned to a market-led economy have been very slow and sporadic, and large SOEs dominate economic activity. Monetary policy is characterized by administrative measures and fiscal dominance, while severe import restrictions enable a fixed exchange rate regime pegged to the US dollar and characterized by low foreign exchange reserves. The banking system is largely lending to the government and lacks international correspondence banks, while payment and settlement systems are absent. The country is among the most vulnerable and least adapted to climate change in Sub-Saharan Africa, and frequent weather shocks pose a heavy burden for the economy and rural livelihoods. The mining sector, which started operating in 2011, accounts for over 90 percent of total exports, yet contributions to budget revenues are limited.

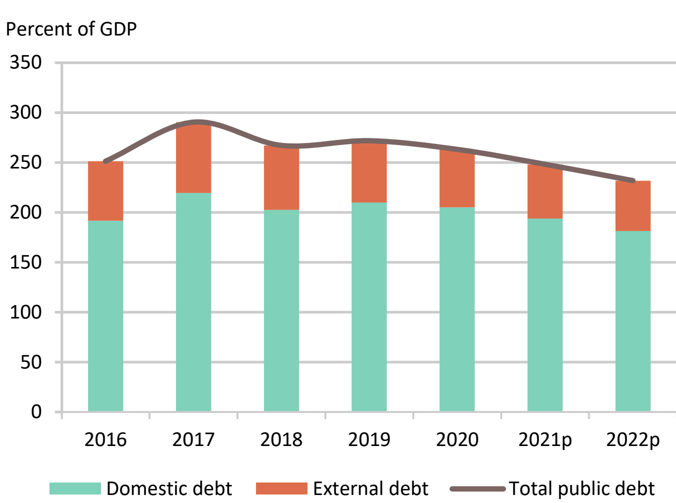
The Covid-19 crisis hit Eritrea amid a hiatus in its reengagement with development partners leaving it without needed external funding. In addition, informal-cross border trade was affected by the conflict in northern Ethiopia. Yet, Eritrea's isolation moderated the magnitude of the initial external shock.

The emergency conditions prevailing in the country over the past decade have led to data production capacity constraints. Specifically, national accounts data are limited to unofficial GDP estimates by the Ministry of Finance and inflation estimates are produced only for the capital, Asmara, while full balance of payments accounts are missing. The last population census in Eritrea took place more than 25 years ago. Therefore, little is known about socioeconomic outcomes, including poverty. Data from 1996/97, covering only urban areas, suggests that poverty was widespread with around 70 percent of the population living in poverty.

Recent developments

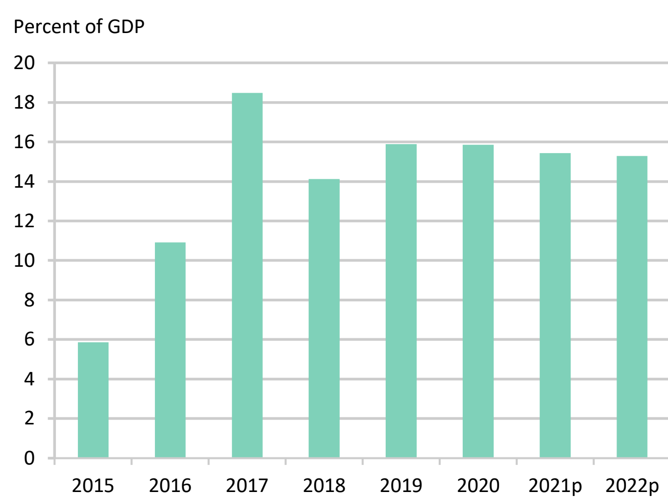
Hit by the COVID-19 crisis, real GDP growth declined an estimated 0.6 percent in 2020 from 3.8 percent in 2019. A lockdown over several months and border closures weighed heavily on private consumption. Yet, the sharp rise in government capital spending moderated the impact of the Covid crisis on output growth. Specifically, the sharp decline in exports of about 6.5 percent was offset by a contraction in imports and sharp increase in government investment totaling about 5 percent of GDP. The latter marked the opening of two mines (Colluli and Asmara) supported by net FDI inflows. The government also continued building the

FIGURE 1 Eritrea / Evolution of total public debt



Sources: Ministry of Finance, Planning and Economic Development.

FIGURE 2 Eritrea / Wage bill



Sources: Ministry of Finance, Planning and Economic Development.

important connection road from the Ethiopian border to the port of Massawa. Deflationary pressures aggravated prior to the Covid-19 crisis by the temporary opening of borders with Ethiopia in 2019 have eased and inflation reached 4.9 percent in 2020.

The external current account surplus is set to narrow to 10.7 percent of GDP in 2020 from 12.1 percent in 2019, largely due to a slowdown in remittances but also due to a compression of the merchandise trade surplus to around 3 percent in 2020 from 4.5 percent of GDP in 2019. The traditionally large net errors and omissions stem largely from trade with Ethiopia undertaken by the private sector rather than the government.

Meanwhile, the fiscal deficit widened to close to 5 percent of GDP in 2020 from 1.5 percent in 2019. The fiscal expansion was driven by an investment push in two mines and the road to Massawa as well as small dams. Public debt is estimated at above 260 percent of GDP, of which 80 percent is owed to domestic banks. That said, fiscal and domestic debt outcomes remain uncertain given frequent data revisions due to reporting lags of several months due to widespread manual processes.

Outlook

Aided primarily by the economic recovery in China, export growth of commodities is likely to lift real GDP growth to 2 percent in 2021 from -0.6 percent in 2020. As the Colluli and Asmara mines export at full capacity and aggregate demand rebounds on the back of sustained and widespread vaccination, real output growth could accelerate to an average of about 4.5 percent over the next two years. The government also expects spillover effects from the new potash mine of Colluli to fertilizer production, which in turn could increase productivity in agriculture, improving food security and livelihoods, especially if introduced in parallel with policy reforms that foster private sector development.

Nevertheless, significant downside risks cloud the horizon. Sizable uncertainties surround the evolution of the Covid-19 pandemic, including logistical and economic roadblocks hampering the prospects of timely and widespread vaccination domestically and abroad. Furthermore, severe climate vulnerabilities continue to burden Eritrea and could worsen in coming years. Finally, the fragile macroeconomic situation and severe credit constraints leave the country with little space to boost preparedness facing these risks, and to control damages should they materialize.

In this context, efforts to normalize the country's relations with the international community could result in a pathway to reduce significantly external arrears and provide much-needed external financing. This in turn would provide resources to build much needed infrastructure over the medium term, to help abate the risks associated with climate change and jump-start the private and financial sectors.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	13.0	3.8	-0.6	2.0	4.9	3.8
Private Consumption	13.2	5.5	-1.9	2.0	8.0	6.1
Government Consumption	0.8	39.3	16.4	8.8	4.7	4.1
Gross Fixed Capital Investment	-62.8	67.5	152.2	17.7	-10.4	0.4
Exports, Goods and Services	8.9	-5.0	-6.5	35.6	6.4	4.2
Imports, Goods and Services	18.7	1.4	-3.8	22.9	6.4	6.3
Real GDP growth, at constant factor prices	12.8	3.7	-0.7	2.0	4.9	3.7
Agriculture	24.0	27.0	-0.5	3.4	3.1	2.5
Industry	11.1	13.0	-0.7	1.4	10.2	7.6
Services	4.9	-26.0	-1.1	0.3	1.5	0.5
Inflation (Consumer Price Index)	-14.4	-16.4	4.9	2.9	1.9	2.0
Current Account Balance (% of GDP)	15.4	12.1	10.7	13.9	13.5	12.1
Net Foreign Direct Investment (% of GDP)	2.9	3.9	3.8	3.6	3.5	3.4
Fiscal Balance (% of GDP)	4.3	-1.5	-4.8	-4.4	-0.8	-0.7
Debt (% of GDP)	267.1	271.8	263.1	248.2	231.8	219.7
Primary Balance (% of GDP)	5.7	0.2	-3.2	-2.9	0.6	0.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

ESWATINI

Table 1	2020
Population, million	1.2
GDP, current US$ billion	4.5
GDP per capita, current US$	3918.9
International poverty rate ($1.9)[a]	29.2
Lower middle-income poverty rate ($3.2)[a]	52.1
Upper middle-income poverty rate ($5.5)[a]	72.0
Gini index[a]	54.6
School enrollment, primary (% gross)[b]	114.7
Life expectancy at birth, years[b]	59.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011PPPs.
(b) Most recent WDI value (2018).

Economic growth is estimated to have contracted by 3.1 percent in 2020-an upward revision from previous projection of -3.5 percent reflecting some recovery witnessed during the second half of 2020. However, the second wave of pandemic is dampening the recovery in 2021. Fiscal deficit increased in 2020 reflecting higher COVID-19 related expenditure and declining revenues. The slow recovery from the pandemic, will contribute to stagnation in poverty reduction, with around a third of the population projected to live in extreme poverty.

Key conditions and challenges

The Eswatini economy is closely integrated with the South Africa economy which makes it vulnerable to developments in South Africa. It exports over 65 percent of its exports and imports over 70 percent from South Africa. Eswatini's currency, the emalangeni, is pegged to the South African rand, with the banking sector dominated by South African banks. Fiscal revenues largely depend on Southern African Customs Union (SACU) revenues, which are shaped by developments in South Africa. The country's heavy dependence on highly volatile SACU revenues translate into significant fluctuations in public spending and pose a challenge to the management of fiscal resources.

The COVID-19 pandemic has exposed Eswatini's deeper economic and health challenges. COVID-19 related deaths increased significantly during the second wave, increasing by over 500 in just two months compared to less than 150 during the first phase. The pandemic has stretched the health care system complicated by high prevalence of HIV/AIDS. The pandemic contributed to the contraction of the economy in 2020. Over the past decade, poverty levels, jobs and the incomes of the average Eswatini citizens have stagnated, while public finances have deteriorated. Addressing the underlying structural challenges remain a key priority for the economy to sustainably grow at higher levels.

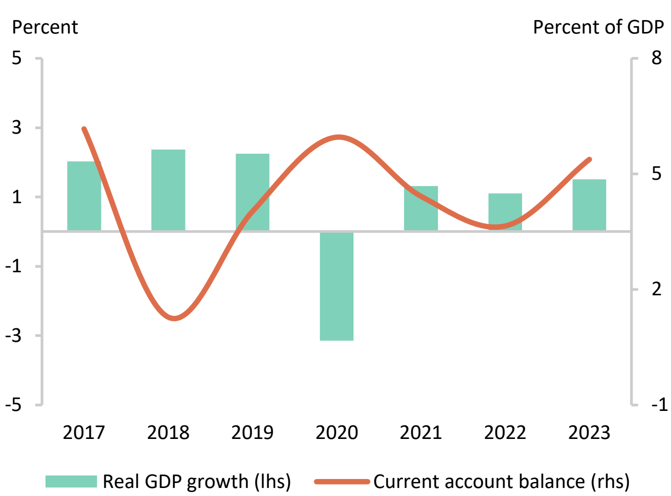
Poverty levels have historically been high and there has been little progress in reducing them, with close to 30 percent of the population living below the US$1.90/day (2011 PPP) international poverty line. The poverty level rises to just over half of the population when the lower-middle-income-country threshold of US$3.20/day is used. This, together with high inequality levels – with a consumption per capita Gini index of 54.6 in 2017 – increases vulnerability to economic shocks. Unemployment was high even before COVID-19, affecting 23 percent of the labor force in 2016.

Recent developments

The economy partly recovered during the second half of 2020, as reflected in the service and industry sectors. It is estimated to have contracted by 3.1 percent in 2020, a slight upward revision from a previously projected contraction of 3.5 percent. Easing of lockdown restrictions supported some construction, manufacturing and services activities. Though the manufacturing sector contracted in 2020, some signs of recovery were witnessed through a lesser decline in exports in 2020H2 compared to 2020H1.

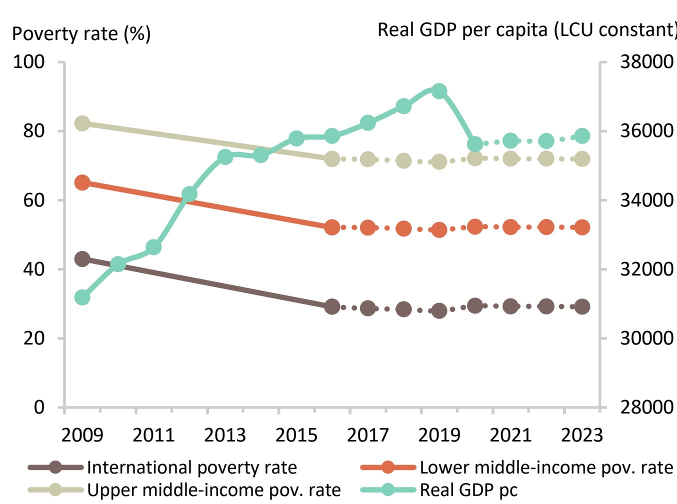
Domestic revenue declined year on year (y/y) by 2.7 percentage points of GDP in 2020 due to the COVID-19 pandemic while SACU revenues increased by 3 percent to 12.9 percent of GDP. The decline in

FIGURE 1 Eswatini / Real GDP growth and Current account balance



Sources: Ministry of Finance, Eswatini.

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



Source: World Bank staff calculations.

revenues reflects lower economic activity due to COVID-19 containment measures. Expenditures remained within the supplementary budget approved in June 2020. The fiscal deficit for FY2020/21 is estimated to have reached 8.5 percent of GDP, mainly financed by higher SACU receipts and loans from the World Bank and the IMF to deal with the pandemic. Public debt increased to about 45 percent of GDP in 2020, driven by external debt.

Annual inflation increased to 3.9 percent in 2020, from 2.6 percent in 2019, reflecting COVID-19 induced supply chain disruptions. The freeze of utility prices kept inflationary pressures lower in 2020. Monetary policy remained accommodative in January 2021, as the repo rate was kept constant at 3.75 percent since July 2020.

Current account surplus increased in 2020, partly due to surpluses recorded in trade balance and secondary income account (largely higher SACU revenue). Although both exports and imports contracted in 2020, trade balance remained in surplus.

As a result of the socio-economic impact of the pandemic, poverty is projected to increase. The $1.90/person/day international poverty rate is estimated to have increased from 28 percent in 2019 to 29.4 percent in 2020. This was mainly due to lower household consumption as reduced economic activity resulted in loss of employment. The dominance of the informal sector means most businesses have no means or safety nets to withstand the economic shock induced by COVID-19. Furthermore, the pandemic has exacerbated the household food insecurity challenge.

Outlook

The second wave of the COVID-19 pandemic is projected to reverse the economic gains witnessed during the second half of 2020 and constrain economic activity in the short to medium term. The economy is projected to grow by 1.3 percent of GDP in 2021, reflecting COVID-19 related containment measures implemented in early 2021. Inflation is expected to increase in 2021, partly due to rising oil and domestic administered prices. The US$1.90/person/day international poverty rate is projected at 29.3 percent in 2021 and 29.3 percent in 2022 given the mild economic recovery, together with high unemployment. Overall, the recovery remains uncertain and hinges on the evolution of the COVID-19 pandemic, rollout of the vaccines and the pace of recovery of the global and regional economies, particularly that of South Africa.

The fiscal deficit is projected to decrease to 6.5 percent of GDP in 2021, reflecting the start of the implementation of three-year Fiscal Adjustment Plan. In 2021, the plan focuses on recurrent expenditure containment amounting to 0.6 percent of GDP (reducing wages, goods and services and transfers to SOEs) and boosting domestic revenue by 1.1 percent of GDP. Further, the recovery in 2021 will lead to increase in revenues, while the loans already disbursed by the World Bank and IMF have helped to cushion the financing gap and reduced domestic expenditure arrears. Debt levels will remain high in 2021, as the country is projected to borrow externally, given constrained domestic financial market.

The current account surplus is projected to decrease in 2021, partly due to declining SACU revenues and higher imports of medical necessities to deal with the second wave of COVID-19. However, fiscal adjustments are projected to contain the growth of other imports while supply disruptions are projected to ease in the second half of 2021 boosting exports.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.4	2.2	-3.1	1.3	1.1	1.5
Private Consumption	2.7	2.6	-3.7	2.6	2.2	2.2
Government Consumption	-4.7	-3.5	-5.4	-3.7	-2.5	-2.5
Gross Fixed Capital Investment	35.1	3.3	2.3	0.3	2.9	5.3
Exports, Goods and Services	10.9	8.0	-3.2	4.9	3.7	3.9
Imports, Goods and Services	-8.7	6.0	-3.6	4.1	4.5	5.1
Real GDP growth, at constant factor prices	2.4	2.2	-3.1	1.3	1.1	1.5
Agriculture	5.9	-0.6	1.9	4.5	3.4	2.5
Industry	-0.3	4.4	-7.6	3.0	-0.3	4.2
Services	3.7	1.3	-0.9	-0.3	1.6	-0.4
Inflation (Consumer Price Index)	4.8	2.6	3.9	5.6	4.6	4.8
Current Account Balance (% of GDP)	1.3	4.0	5.6	4.0	3.3	5.0
Net Foreign Direct Investment (% of GDP)	-0.9	-2.1	-0.1	-0.6	-0.7	-0.7
Fiscal Balance (% of GDP)	-10.0	-7.2	-8.5	-6.5	-6.2	-2.9
Debt (% of GDP)	24.6	30.9	45.7	51.2	55.8	52.8
Primary Balance (% of GDP)	-8.8	-5.6	-6.4	-3.6	-3.1	0.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	28.4	28.0	29.4	29.3	29.3	29.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	51.8	51.4	52.3	52.2	52.2	52.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	71.4	71.1	72.1	72.0	72.0	72.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2016-HIES. Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2016) with pass-through = 0.7 based on GDP per capita in constant LCU.

ETHIOPIA

Table 1	2020
Population, million	115.0
GDP, current US$ billion	107.4
GDP per capita, current US$	934.6
International poverty rate ($1.9)[a]	30.8
Lower middle-income poverty rate ($3.2)[a]	68.9
Upper middle-income poverty rate ($5.5)[a]	90.2
Gini index[a]	35.0
School enrollment, primary (% gross)[b]	90.0
Life expectancy at birth, years[c]	66.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011PPPs.
(b) Ethiopia LSMS (2018/19).
(c) Most recent WDI value (2018).

After a better-than-expected outturn in FY20, the economy is expected to slow down further in FY21. While employment levels have recovered, a quarter of households still reported reduced income in October, and firm revenue has been hit. Base money expansion has presumably helped ease liquidity constraints and fuel credit growth, but it may have also contributed to inflation, which reached 19.2 percent in January 2021. The Ethiopian economy would rebound in the medium term as macroeconomic and structural reforms are completed.

Key conditions and challenges

Ethiopia has been among the fastest growing countries in the world, with GDP expanding at an average rate of 10.3 percent during 2004-2019. Growth has been driven by large-scale public investment in infrastructure. While poverty declined by about 10 percentage points during 2004-2016, gains are modest when compared to other countries that saw fast growth, and there is evidence that rural dwellers and the poorest have not equally benefited from growth in recent years.

The limitations of the state-led development model in Ethiopia have become apparent. Structural transformation remains incipient, and the role of the private sector is constrained by SOE dominance and an uneven playing field. The financing of the large capital investments coupled with a loss in competitiveness, caused by an overvalued exchange rate, have put the country at high risk of debt distress. Acknowledging these shortcomings, the authorities launched a Homegrown Economic Reform Agenda in September 2019, which aims to foster efficiency and introduce competition in key growth-enabling sectors (energy, logistics, telecom), improve the business climate, and address macroeconomic imbalances. Among other measures, authorities are expected to adopt a market-determined exchange rate and introduce a modern monetary policy framework by end-2022.

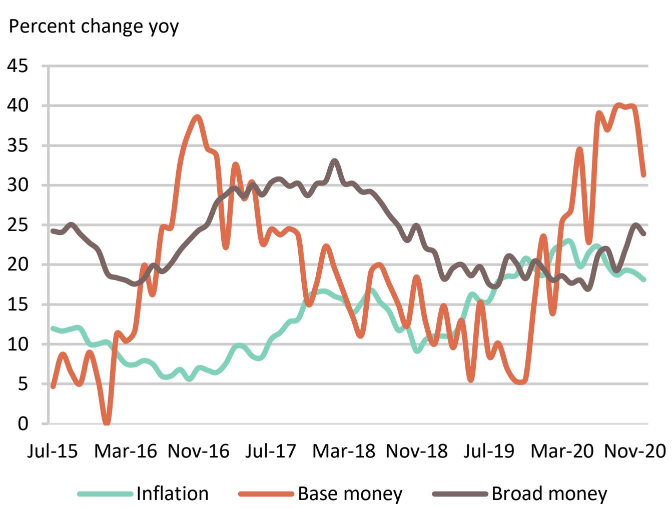
Ethiopia is facing formidable challenges. While the armed confrontation in the North of the country seems to have been geographically contained so far, risks of a protracted and more widespread conflict persist. The humanitarian situation is reported to be dire, with thousands of people displaced. The desert locust invasion could affect crops, threatening food security. And there is risk that poverty increases due to the COVID-19 impacts given the high levels of vulnerability to shocks.

Recent developments

Ethiopia grew at 6.1 percent in FY20, as the impact of the COVID-19 pandemic took place largely in the final quarter of the fiscal year. Crop production improved, while growth in services and manufacturing eased to single digits.

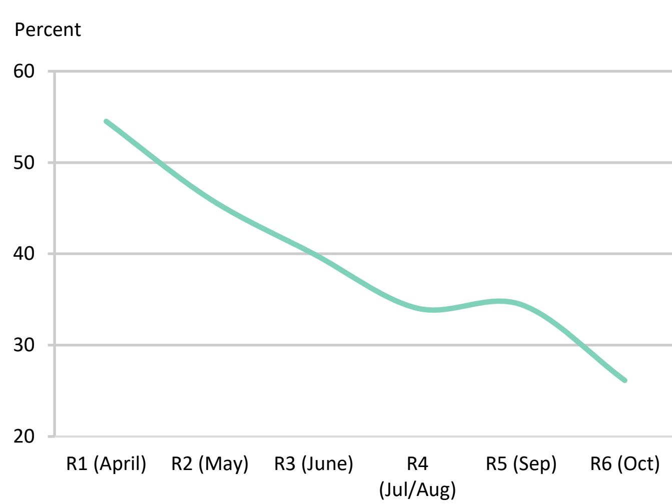
While external demand remains depressed due to COVID-19, it is showing some signs of recovery. Merchandise exports excluding gold declined by 4.1 percent during July-December 2020 (year-on-year), while most items (except garments) showed signs of recovery in the second quarter of the fiscal year. Including gold, merchandise exports grew at 21 percent. Exports of services (including air travel) dropped by 9.2 percent. An even sharper drop in imports, driven down by limits in SOE spending and currency depreciation has resulted in the narrowing of the current account balance. Remittances, which dropped by 10 percent in FY20, rebounded during the first half of FY21 (19.1 percent). Meanwhile, net

FIGURE 1 Ethiopia /Inflation and monetary aggregates



Source: National Bank of Ethiopia.

FIGURE 2 Ethiopia / Share of respondents who reported income reduction or loss.



Source: Wieser et al., 2020.

foreign direct investment remains depressed, dropping by 1.7 percent during the same period.

While healthcare spending increased significantly as part of the response to the pandemic, total expenditure dropped in FY20. Revenue collection deteriorated mainly due to the drop in indirect tax collections as demand has weakened. Overall, the general government deficit is estimated to have increased to 2.8 percent of GDP in FY20, compared to 2.5 percent of GDP in FY19.

Reserve money surged by 37 percent during July-December 2020 (year-on-year), and bank credit has continued to expand strongly (28.7 percent nominal growth, yoy). A 5 percent decrease in payment collection by commercial banks suggest some firms and households are struggling to repay their loans. Inflation, which had slightly eased in recent months, picked up again, reaching 19.2 percent in January, possibly pushed by seasonality factors and monetary expansion. Faster nominal depreciation resulted in a reduction in real overvaluation during the first half of FY21, although the still elevated parallel market premium suggest foreign exchange shortages persist.

The COVID-19 pandemic has had severe economic impacts, resulting from reduced employment and income. Employment rates plunged in the early days of the pandemic, with 8 percent of respondents losing their jobs by April 2020. While employment levels have recovered (except for some persistent job losses in urban areas), the situation faced by households remains challenging. According to the high frequency phone surveys, more than half of the households reported in April 2020 that their incomes were either reduced or had totally disappeared. While the proportion of those who reported reduction of income decreased in subsequent months, it remained high as of October 2020, at 26 percent.

Outlook

Growth is expected to decelerate further in FY21, to about 2 percent, impacted by reduced income reported by firms and households and a slowdown in crop production. Continued import compression and favorable terms of trade are expected to contain the current account deficit in FY21. The fiscal deficit is expected to reach about 3 percent of GDP in FY21, slightly above FY20 outturn. Inflation would remain elevated in FY21, while trending down in the medium term as a tighter macroeconomic stance is implemented once the pandemic abates. As key macroeconomic and structural reforms are fully implemented by 2022, foreign direct investment, exports, and economic growth are expected to strengthen in the medium term.

The effects of the COVID-19 pandemic on livelihoods are expected to be severe. Household incomes, as shown by the high -frequency phone surveys, are impacted through a reduction in aggregate demand that affects low-income households disproportionately. Results from the phone survey of firms show that Covid-19 and related containment measures have substantially impacted firms' operations. With formal firms not hiring, a reduction in aggregate demand will also affect the self-employed. Casual laborers and self-employed (44 percent of urban households) are hit particularly hard with an expected downturn of the economy. Moreover, reduced fiscal space will put pressure on the provision of social services during and after the economic downturn, potentially having detrimental long-term effects on the poor.

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

	2017/18	2018/19	2019/20 e	2020/21 f	2021/22 f	2022/23 f
Real GDP growth, at constant market prices	7.7	9.0	6.1	2.3	6.0	7.5
Private Consumption	5.3	5.1	5.0	2.5	4.0	6.5
Government Consumption	3.6	7.2	0.6	17.6	9.0	14.0
Gross Fixed Capital Investment	6.8	12.4	6.3	-3.5	5.2	4.8
Exports, Goods and Services	5.0	3.0	-0.9	7.0	12.0	5.7
Imports, Goods and Services	0.2	0.6	-2.3	1.5	2.2	2.5
Real GDP growth, at constant factor prices	7.7	9.0	6.1	2.3	6.0	7.5
Agriculture	3.5	3.8	4.3	4.0	4.0	4.0
Industry	12.2	11.5	9.6	3.5	9.0	16.0
Services	8.7	12.0	5.2	0.1	5.5	4.1
Inflation (Consumer Price Index)	14.5	12.5	19.9	19.0	10.0	9.0
Current Account Balance (% of GDP)	-6.2	-5.1	-4.1	-3.3	-3.7	-3.7
Fiscal Balance (% of GDP)	-2.9	-2.5	-2.8	-3.2	-2.2	-1.9
Debt (% of GDP)	59.6	57.3	56.5	56.6	55.6	53.3
Primary Balance (% of GDP)	-2.4	-2.0	-2.3	-2.5	-1.5	-1.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	27.6	26.5	25.9	25.9	25.4	24.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	65.6	64.4	63.7	63.8	63.1	62.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	85.8	84.2	83.4	83.4	82.6	81.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2010-HICES and 2015-HICES. Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021 to 2023.
(b) Projection using point to point elasticity at regional level with pass-through = 0.87 based on GDP per capita in constant LCU.

GABON

Table 1	2020
Population, million	2.2
GDP, current US$ billion	14.5
GDP per capita, current US$	6503.1
International poverty rate ($1.9)[a]	3.4
Lower middle-income poverty rate ($3.2)[a]	11.2
Upper middle-income poverty rate ($5.5)[a]	32.2
Gini index[a]	38.0
School enrollment, primary (% gross)[b]	139.9
Life expectancy at birth, years[b]	66.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) Most recent WDI value (2018).

Gabon's economy is set to contract by 1.9 percent in 2020 as COVID-19 induced a downturn in global demand and a fall in oil prices. The pandemic is continuing to damage Gabon's public finances with a significant hit to its revenues leading to record high levels of debt and the accumulation of arrears. As the COVID-19 crisis is unfolding, the medium-term outlook suggests a timid recovery and no prospects of poverty reduction before 2023.

Key conditions and challenges

Gabon's economic recovery was gaining pace as economic diversification and fiscal adjustment efforts had started to pay off. This progress has been threatened, however, by the COVID-19 pandemic and the decline in oil prices. Inadequate governance and a poor business climate are major challenges for Gabon's economy to transform its wealth in natural resources into sustainable development and broad-based improvement of living conditions. A second wave of COVID-19 cases triggering tighter restrictions on economic activity may cause even more hardship for the population. Efforts to improve supply chains and in particular food supply to urban areas should be maintained to contain food price pressures and tackle food security issues.

Fluctuations in oil and manganese prices remain the main risk factors, given the country's reliance on these commodities. A reduction in Gabon's oil production to align it with the decision made by the OPEC and its allies to cut production would require the country to accelerate fiscal consolidation or seek debt reprofiling. Despite the challenging economic context, it is still important for the Government to preserve public investment, maintain efforts to repay current domestic arrears and avoid any additional accumulation to lay the ground for a rapid economic recovery and mitigate the negative poverty and social impacts in the medium term. Sustained implementation of reforms to support domestic revenue mobilization, reduce the civil service wage bill, strengthen public finance management and the efficiency of public investment are crucial for improving the country's growth prospects.

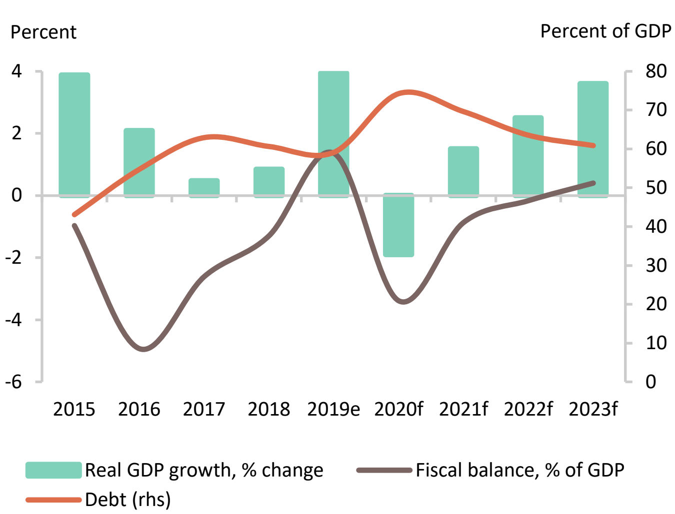
COVID-19 has exacerbated existing social challenges, with a significant impact on the most vulnerable. The reduction in government revenues is a major threat to the financing of the social protection program benefiting the most vulnerable, which is already underfinanced. Self-employed workers and workers in informal activities, who are excluded from the social protection system, will experience major income losses.

Recent developments

The COVID-19 crisis has pushed Gabon into recession in 2020. Evidence suggests that real GDP contracted by 1.9 percent in 2020 after growing at 3.9 percent in 2019. The contraction was led by the decline in oil production and the weakness in the service sector while manganese and mineral production significantly increased. Price pressures remained limited in 2020, well below the 3 percent limit in the CEMAC zone. Pressures on food prices have been largely contained.

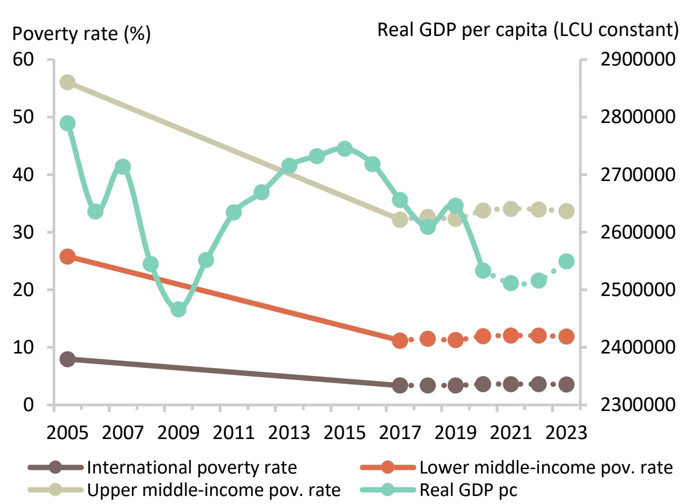
The deterioration of the overall fiscal deficit in 2020 may be more contained than anticipated in the 2020 revised budget law. Lower tax revenues due to

FIGURE 1 Gabon / Real GDP growth, fiscal balance and government debt



Sources: Gabonese authorities and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

the expected recession and tax relief related to the COVID-19 pandemic were combined with declining oil revenues owing to low crude oil prices. Both current and investment spending contracted in 2020. Debt levels have reached historical highs, estimated at 75 percent of GDP in December 2020. Gabon has started accumulating arrears on external and domestic debt again due to cash pressures resulting from delays in mobilizing external funding, equivalent to 1 percent of GDP by the end of 2020.

With lower oil prices, Gabon's export earnings decreased in 2020 despite higher export volumes of oil and manganese. Imports also declined in 2020 mostly driven by lower imports of manufactured and capital goods. Overall, the trade balance recorded a smaller surplus than in the previous year. The current account deficit is expected to widen to 4.1 percent of GDP in 2020.

Poverty has been exacerbated by the COVID-19 pandemic with a poverty rate estimated at 33.8 percent in 2020, up from 32.3 in 2019. The negative impact of the COVID-19 crisis on households is significant with income and jobs losses, and constrained access to health and other basic services as evidenced by the share of adults and children who were not able to receive care to fulfill their needs (29.2 percent and 33.3 percent respectively) in September 2020.

Outlook

Amid exceptional uncertainty on the turnaround in the pandemic despite hopes from recent vaccine approvals, Gabon's economy is projected to grow 1.5 percent in 2021 and 2.5 percent in 2022. Growth will be supported mainly by sustained private investments in agribusiness, wood processing and mining in the medium term thanks to the gradual global recovery. The medium-term outlook suggests a timid recovery with output levels expected to take about three years to return to their 2019 levels.

The authorities are expected to revert to the path towards fiscal consolidation once the fallout from the pandemic subsides. Hence, the fiscal deficit is expected to narrow gradually over the medium term. The projected rise in tax revenue, combined with efforts to limit tax exemptions, is expected to offset partly the projected decline in commodity revenues. Cuts in current spending are also expected to contribute to improving the fiscal balance. The current account deficit is expected to gradually narrow in the medium term supported by higher oil prices and a resumption of investment in wood and agribusiness thanks to the expected progressive global economic recovery.

Due to current constraints faced by the Gabonese economy and the impact of the pandemic on household income, the share of households living on less than $5.5 per day is expected to reach 34 percent in 2021 before decreasing to 33.7 percent in 2023.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	0.8	3.9	-1.9	1.5	2.5	3.6
Private Consumption	-0.4	0.9	-2.6	0.2	1.5	1.9
Government Consumption	-18.2	1.9	-3.4	-3.1	-0.1	1.3
Gross Fixed Capital Investment	8.0	6.1	-30.6	2.3	2.8	6.4
Exports, Goods and Services	4.2	21.2	11.8	3.0	4.1	4.8
Imports, Goods and Services	-0.6	20.5	-8.9	1.0	3.0	4.3
Real GDP growth, at constant factor prices	0.9	4.3	-1.9	1.5	2.5	3.6
Agriculture	9.5	7.9	1.6	3.0	5.0	5.0
Industry	-0.7	7.4	2.6	4.3	6.3	7.3
Services	0.7	2.1	-5.1	-0.5	-0.5	0.7
Inflation (Consumer Price Index)	6.3	3.0	2.0	3.0	3.0	3.0
Current Account Balance (% of GDP)	-3.2	-0.3	-4.1	-2.4	-0.4	-0.1
Fiscal Balance (% of GDP)	-1.3	1.4	-3.5	-1.0	-0.3	0.2
Debt (% of GDP)	60.6	59.1	75.0	70.4	64.6	61.9
Primary Balance (% of GDP)	1.1	3.6	-0.1	1.9	2.6	3.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.4	3.4	3.6	3.6	3.6	3.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	11.5	11.3	12.0	12.1	12.1	11.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	32.7	32.3	33.8	34.0	34.0	33.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2017-EGEP. Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2017) with pass-through = 0.7 based on GDP per capita in constant LCU.

GAMBIA

Table 1	2020
Population, million	2.4
GDP, current US$ billion	1.9
GDP per capita, current US$	788.1
International poverty rate ($1.9)[a]	10.3
Lower middle-income poverty rate ($3.2)[a]	38.4
Upper middle-income poverty rate ($5.5)[a]	72.7
Gini index[a]	35.9
School enrollment, primary (% gross)[b]	101.7
Life expectancy at birth, years[b]	61.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

Growth stagnated in 2020, driven by a pandemic-induced fall in tourism and private consumption. Despite the crisis, the external and fiscal deficits were kept in check due to increased donor support. Growth and poverty reduction are expected to gradually recover over the medium term, as the pandemic recedes. The outlook is subject to downside risks stemming from the speed of global recovery, the magnitude of the domestic COVID-19 outbreak, the vaccine roll-out, and the pace of fiscal and structural reforms.

Key conditions and challenges

Since the democratic transition of 2017, the Government has taken important steps to lay the foundations for democracy, improve the rule of law, restore macroeconomic stability, and reignite growth, which averaged 6 percent between 2017-2019. Following strong economic performance and debt restructuring, The Gambia exited debt distress in early 2020, paving the way for an IMF Enhanced Credit Facility. However, the new Constitution was rejected in Parliament, foreshadowing possible difficulties with sustaining economic governance reforms in the run-up to the 2021 elections.

COVID-19 has exacerbated existing economic and social challenges, particularly as tourism stopped, partially reversing gains in poverty reduction. Given that the risk of debt distress remains high, The Gambia has limited fiscal policy buffers to respond to a downturn. Its outlook is subject to downside risks stemming from the depth and duration of the pandemic, possible virus mutations, the deployment of vaccines across key tourist markets, the reform pace ahead of the elections and climatic shocks. Upside risks are limited, originating from a faster pandemic recovery and tourism rebound.

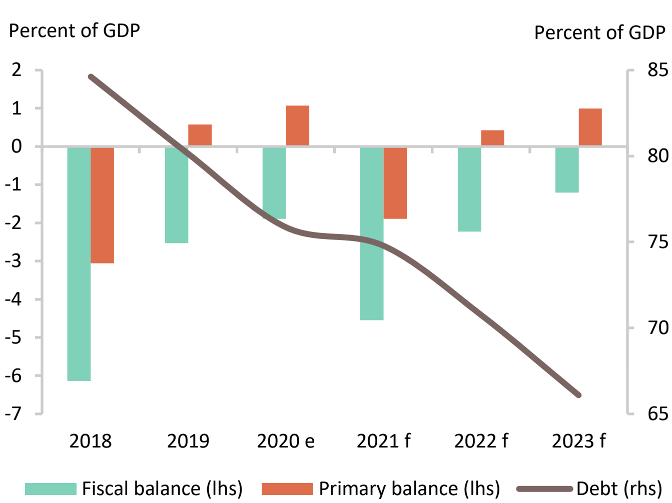
Recent developments

GDP growth fell to 0 percent in 2020 (-2.9 percent in per capita terms). The services sector was affected most, as containment measures suppressed private consumption and tourism declined, with flight arrivals falling by 62.4 percent. Nevertheless, ample rains spurred a rebound in agriculture, while strong private foreign inflows, especially remittances, supported construction and commerce.

The current account deficit widened to 5.5 percent of GDP, as the tourism drop was partially offset by remittances and official transfers. FDI financed the deficit, while the exchange rate remained stable. International reserves reached 4.9 months of next year's imports, supported by a record 80.9 percent growth in net remittances, which may reflect some transfers moving to the formal financial sector.

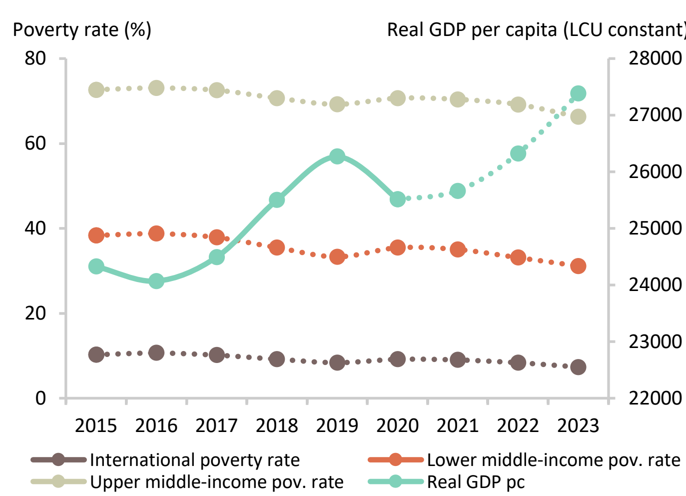
The Government registered a primary surplus, reducing the fiscal deficit to 1.9 percent of GDP and public debt-to-GDP to 75.8 percent, as grant increases supported most of the pandemic-related spending. Tax collections decreased by 0.4 percent of GDP but reached 95 percent of the pre-COVID-19 target, supported by the revision of reference prices combined with the adoption of transactional-value-based customs and excise levies. The tax shortfall was compensated by higher non-tax revenue due to one-off proceeds from recovery of assets stolen by the previous autocratic regime. Although expenditure

FIGURE 1 Gambia / Fiscal and primary balances and debt



Sources: The Gambian authorities and World Bank estimates.

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



Source: World Bank. Notes see Table 2.

remained stable, recurrent spending increased to accommodate COVID-19 needs, while reallocating funding from lower-priority areas. However, capital expenditure declined due to pandemic-related implementation challenges. Due to previous debt restructuring, relief under the Debt Service Suspension Initiative (DSSI) was modest (0.23 percent of GDP).

Inflation decreased to 5.9 percent, driven by a demand drop, low fuel prices, a stable exchange rate, temporary administrative price controls on essential goods and the dissipation of the postal rate increase of April 2019. The central bank continued with cautious monetary easing, lowering the policy rate from 12.5 percent in end-2019 to 10 percent by end-2020, while reducing the statutory reserve requirement ratio by 200 basis points to 13 percent in May. Broad money continued to grow by 22.0 percent, supported by the buildup of net foreign assets in the banking system.

The COVID-19 pandemic has adversely affected households' labor market activities, access to markets and health care. Despite government support, stable prices, and improved labor market conditions following the relaxation of containment measures in the third quarter of 2020, households have experienced a rapid income decline. As a result, the poverty rate is estimated to have increased from 8.4 percent in 2019 to 9.2 percent in 2020, equivalent to over 25 thousand additional poor.

Outlook

The economy is expected to gradually recover in 2021, as private consumption is less constrained by lockdowns and large public infrastructure projects are implemented. However, the exceptional rainfall-driven agricultural performance of 2020 is not expected to continue, and private construction would slow down, given the subdued economic activity in 2020 and normalized remittance inflows. Over the medium-term, growth would be spurred by services/ tourism, industrial activity, agriculture recovery, and the pandemic-induced absorption of technology. This assumes renewed focus on reforms, political stability, and normal weather. As a result, real GDP is projected to grow by 3.5 percent in 2021 and 5.5 percent in 2022. Inflation will temporarily increase before steadily dropping to 5.1 percent in 2023, close to the 5 percent target.

The current account deficit is expected to widen, driven by the high import content of public investments, as the recovery begins in 2021, and by declining grants and private inflows over time, which were partially frontloaded in 2020. Exports would grow, supported by revitalized re-exports. The deficit will largely be financed by FDI and capital transfers. Foreign exchange reserves would hover around 4.5 months of next year's imports.

The fiscal deficit is projected to widen to 4.5 percent of GDP in 2021 due to lower grants and continued spending on infrastructure. As the economy recovers, tax revenues should increase, supported by improved tax expenditure monitoring and administrative measures. Expenditures would decrease over the medium-term, as recurrent spending slows down. Transfers to SOEs and subvented agencies are expected to fall, as the Government strengthens SOE corporate governance and balance sheets and rationalizes agencies. The fiscal deficit would gradually start decreasing after 2021, anchored in the new Medium-Term Fiscal Framework 2021-25. Furthermore, savings under DSSI would extend to 0.15 percent of GDP in 2021. Public debt-to-GDP should remain on a downward path, reaching 66.1 percent by 2023. Although the recovery is expected to start in 2021, COVID-19 will undermine poverty reduction in the near future, in the context of subdued growth. With uncertainty about the future of international tourism, labor demand may also be adversely impacted. The international poverty rate is expected to decline to 9.0 percent in 2021 and 7.3 percent by 2023, with significant downside risks associated with an uncertain recovery.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	7.2	6.1	0.0	3.5	5.5	7.0
Private Consumption	9.7	4.1	1.0	2.6	6.1	5.8
Government Consumption	3.7	14.6	22.9	-1.0	-4.0	5.2
Gross Fixed Capital Investment	2.0	25.3	11.6	15.8	8.7	9.4
Exports, Goods and Services	44.2	-1.2	-37.9	20.0	25.3	20.0
Imports, Goods and Services	17.6	3.1	-6.3	16.3	14.8	11.9
Real GDP growth, at constant factor prices	7.2	6.1	0.0	3.5	5.5	7.0
Agriculture	3.7	-1.3	5.0	2.8	3.3	3.4
Industry	2.0	14.3	6.4	6.2	5.2	7.9
Services	10.1	6.5	-3.6	2.8	6.4	7.9
Inflation (Consumer Price Index)	6.5	7.1	5.9	6.3	5.5	5.1
Current Account Balance (% of GDP)	-9.5	-5.3	-5.5	-12.5	-12.9	-10.9
Fiscal Balance (% of GDP)	-6.1	-2.5	-1.9	-4.5	-2.2	-1.2
Debt (% of GDP)	84.6	80.1	75.8	74.8	70.7	66.1
Primary Balance (% of GDP)	-3.0	0.6	1.1	-1.9	0.4	1.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	9.2	8.4	9.2	9.0	8.4	7.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	35.5	33.3	35.5	35.1	33.1	31.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	70.7	69.2	70.7	70.4	69.2	66.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2015-IHS. Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2015) with pass-through = 0.87 based on GDP per capita in constant LCU.

GHANA

Table 1	2020
Population, million	31.1
GDP, current US$ billion	69.6
GDP per capita, current US$	2239.4
International poverty rate ($1.9)[a]	12.7
Lower middle-income poverty rate ($3.2)[a]	29.3
Upper middle-income poverty rate ($5.5)[a]	55.1
Gini index[a]	43.5
School enrollment, primary (% gross)[b]	104.8
Life expectancy at birth, years[b]	63.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011PPPs.
(b) Most recent WDI value (2018).

Ghana's increasing dependence on commodities and limited structural transformation left it vulnerable to shocks. COVID-19 hit the economy in 2020, leading to a significant decline in per capita GDP for the first time since 2013 and to a rise in poverty. The government's response helped contain the crisis, but the fiscal deficit and public debt skyrocketed. Economic activity is expected to remain subdued until 2023, with recovery threatened by a COVID-19 rebound and the recent Ebola outbreak in Guinea.

Key conditions and challenges

After thirty years of strong economic growth, Ghana's economic model has shown some vulnerabilities over the past decade, despite real GDP growth averaging 6.8 percent per annum. The economy has become increasingly reliant on primary commodities, with limited diversification or growth-enhancing structural transformation, resulting in fast depletion of natural capital and increased vulnerability to external shocks. Per capita GDP growth over the past decade has slowed down (averaging 3.3 percent), reflecting the sustained high average population growth rate of 2.3 percent per annum. Ghana has also suffered from repeated episodes of macroeconomic instability, linked to election-cycle overspending and commodity price volatilities and, more recently, an energy crisis and a weak financial sector.

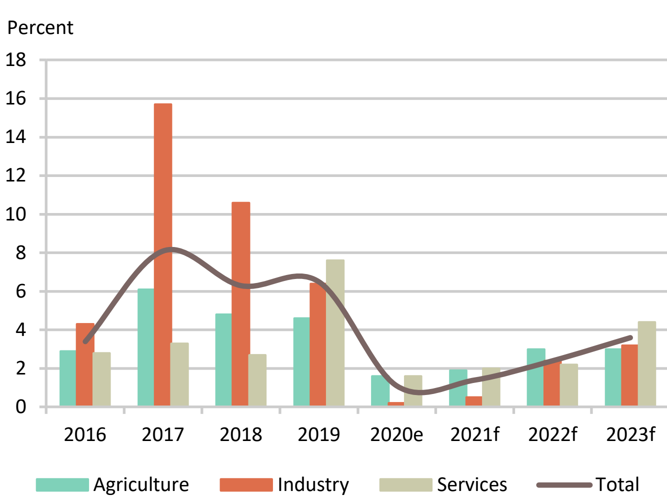
Over the past decade, the pace of poverty reduction has slowed, in large part reflecting limited creation of productive jobs. Uneven regional distribution of social and physical infrastructure has increased spatial disparities making it difficult for the poor to escape poverty. In 2016, the poverty rate was 29.3 percent (using the lower -middle-income threshold) and by 2019 had fallen to 27.0 percent. However, the COVID crisis significantly impacted household welfare and poverty has jumped to 30.4 percent in 2020. Surveys administered in May-June 2020 suggest that three-quarters of households saw a decrease in their incomes, especially from self-employment, remittances, and private transfers. Ghana has suffered a slowdown in many services sectors, such as wholesale and retail trade and hospitality. The poverty and social effects are also being felt through loss of incomes in agriculture, particularly in the cocoa sector, and manufacturing, despite public support programs.

Recent developments

Ghana's economy contracted by 3.2 and 1.1 percent in the second and third quarters of 2020, respectively, pushing the country into a recession for the first time in 38 years. However, a modest growth of 1.1 percent is estimated for the full year of 2020 thanks to a strong 4.9 percent growth in Q1, at the onset of the COVID-19 crisis. The Government attempted to mitigate the pandemic's impact on households and businesses by enacting the Corona Virus Alleviation Plan (CAP) and the medium-term COVID-19 Alleviation and Revitalization of Enterprises Support (CARES) program in mid-2020. But the low growth in 2020, coupled with high population growth, has pushed real per capita incomes 1 percent lower than in 2019.

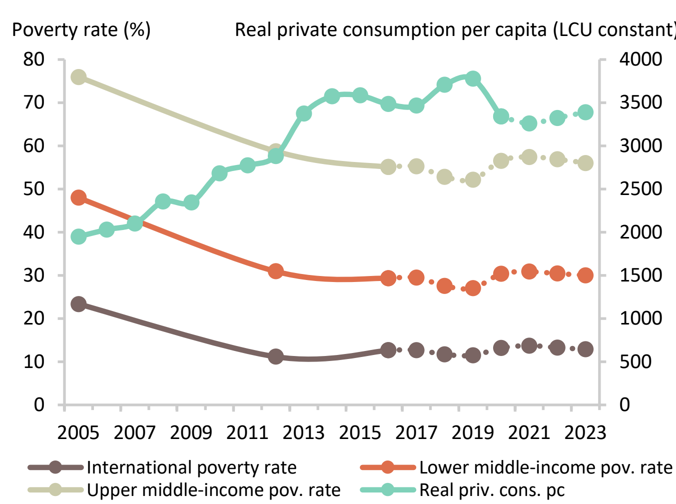
Government financing needs increased substantially during the pandemic, pushing the Government to resort to central bank financing, resulting in sharp increases in debt and debt service cost. Fiscal pressures arose from costly financial sector

FIGURE 1 Ghana / Real GDP growth and real sectoral growth rates



Sources: Ghana Statistical Service and World Bank.

FIGURE 2 Ghana / Actual and projected poverty rates and GDP per capita



Source: World Bank. Notes: see Table 2.

reforms in 2018-2020 and the Energy Sector Recovery Program (ESRP), started in 2019. The overall fiscal deficit, including energy and financial sector costs, was therefore already elevated at 7.6 percent of GDP in 2019 and the debt-to-GDP ratio at 63.9 percent. The COVID-19 crisis and election related spending led to the suspension of the fiscal rule and the fiscal deficit is estimated at 16.2 percent of GDP in 2020. While debt remains sustainable, the April 2020 Debt Sustainability Analysis (DSA) concluded that Ghana remains at high risk of debt distress.

Ghana's current account deficit widened to 3.0 percent of GDP at the end of 2020 from 2.9 percent in 2019, reflecting a lower trade surplus and higher services outflows. However, stronger remittance inflows and lower net investment income outflows, especially from the extractive sector, helped moderate the impact on reserves. The Ghana Cedi depreciated at a much slower rate of 3.9 percent against the US dollar in 2020, compared with 12.9 percent in 2019. This reflected the improved risk sentiment in the global financial market, increased inflows from mining, remittances, and BOP support which helped ease demand pressures.

Inflation has been kept in check in 2020, despite a slight acceleration at the end of the year. The year-on-year change of the Consumer Price Index was 10.4 percent in December, above the upper limit of the central bank's target range of 6-10 percent, mainly due to higher food inflation. To minimize the pandemic's impact on the economy and the banking sector, the Bank of Ghana (BoG) lowered the Monetary Policy Rate (MPR) by 150 basis points to 14.5 percent, and reduced the Primary Reserve Requirements and the Capital Adequacy Ratio. Yet, net private credit growth slowed to 5.8 percent at the end of December 2020, sharply down from 23.8 in December 2019. Overall, however, the banking sector's performance remained strong during 2020.

Outlook

Ghana's economy showed early signs of recovery in the second half of 2020 as business sentiments improved with the ending of the lockdowns. The economic contraction was smaller in Q3 than Q2, thanks to strong year-on-year performance in the agriculture, manufacturing and tradable services sectors. The medium -term negative impact of the pandemic on growth will continue to be felt through low external demand, low commodity prices, particularly of oil, and lower FDI and tourism receipts. However, continued recovery could spur growth to 1.4 percent in 2021 and further to 3.6 percent by 2023. With relative stability in the exchange rate and the central bank's gradual return to a tighter monetary policy stance, inflation is expected to moderate to the central bank's target range. The fiscal and current account balances are expected to improve only slowly over the medium term (see Table 2), largely reflecting adverse external factors and a slow return to normalcy in domestic revenue mobilization. Against this backdrop of economic slowdown and new restrictions, poverty is likely to continue to rise in 2021 to 30.9 percent before declining as private consumption growth recovers.

The two major short-to-medium term risks are health related. First, risks stem from the second pandemic wave already affecting some African countries with more virulent variants of the COVID virus. There has been a sharp rebound in cases in Ghana requiring further restrictions. A fast vaccine rollout could help mitigate this risk. Second, the Ebola outbreak in Guinea in mid-January poses significant health and economic risks for Ghana given the very porous land borders. Ghana's fiscal position is also a major risk factor with rising domestic and external debt, including Eurobonds.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	6.3	6.5	1.1	1.4	2.4	3.6
Private Consumption	9.4	4.2	-9.7	-0.3	4.1	4.1
Government Consumption	1.8	5.4	6.4	-11.0	-10.0	-10.1
Gross Fixed Capital Investment	13.2	-10.0	34.5	9.2	1.8	5.1
Exports, Goods and Services	10.3	6.7	-2.3	-3.2	1.0	1.0
Imports, Goods and Services	4.6	1.7	-2.3	-3.0	0.4	0.4
Real GDP growth, at constant factor prices	6.2	6.5	1.1	1.4	2.4	3.6
Agriculture	4.8	4.6	1.8	1.9	3.0	3.0
Industry	10.6	6.4	0.2	0.5	2.4	3.2
Services	2.7	7.6	1.6	2.0	2.2	4.4
Inflation (Consumer Price Index)	9.8	7.9	10.4	9.8	9.6	6.8
Current Account Balance (% of GDP)	-3.1	-2.9	-3.0	-3.3	-3.1	-3.0
Fiscal Balance (% of GDP)	-7.0	-7.6	-16.2	-12.1	-11.1	-10.7
Debt (% of GDP)	59.0	63.9	78.7	78.9	80.1	81.0
Primary Balance (% of GDP)	-1.4	-1.9	-9.8	-4.5	-4.1	-3.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	11.7	11.5	13.2	13.7	13.2	12.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	27.5	27.0	30.4	30.9	30.5	30.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	52.8	52.1	56.5	57.4	56.9	56.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2016-GLSS-VII. Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2016) with pass-through = 0.7 based on private consumption per capita in constant LCU.

GUINEA

Table 1	2020
Population, million	13.1
GDP, current US$ billion	15.2
GDP per capita, current US$	1159.3
International poverty rate ($1.9)[a]	36.1
Lower middle-income poverty rate ($3.2)[a]	70.9
Upper middle-income poverty rate ($5.5)[a]	92.5
Gini index[a]	33.7
School enrollment, primary (% gross)[b]	91.5
Life expectancy at birth, years[b]	61.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2012), 2011 PPPs.
(b) WDI for school enrollment (2016); life expectancy (2018).

Growth was resilient to the pandemic, slowing to 4.7 percent in 2020. Capital investment was reduced to contain the increase in the fiscal deficit, following Covid-19 measures. The fiscal and external deficits were supported by increased donor financing and improved terms of trade. Growth and poverty reduction are expected to recover, supported by sustained mining growth and a rebound in services. Downside risks include prolonged COVID-19 and Ebola outbreaks, delayed vaccine rollouts, the slow pace of fiscal and structural reforms, and social unrest.

Key conditions and challenges

Over the past five years, Guinea's robust macroeconomic performance and growth has been supported by prudent fiscal management. However, the economy remains undiversified, highly dependent on mining (15 percent of GDP) and agriculture (25 percent of GDP). Mining (bauxite and gold) accounts for about 80 percent of exports, rendering the economy exposed to fluctuations in commodity prices Domestic credit amounts to less than 10 percent of GDP, reflecting the underdevelopment of financial markets. Growth is also constrained by low investment levels and large infrastructure gaps. Tax revenues have been declining, after reaching a peak of 14.2 percent of GDP in 2016, mainly as a result of tax exemptions for the mining sector. The low rate of tax collection is a key constraint to development given the large infrastructure and social needs. Guinea's human capital index (HCI) is below what would be predicted for its income level. Although income inequality is relatively low, gender gaps are widespread across all dimensions, with a substantial divide in school enrollment, wages, agricultural productivity, and political representation.

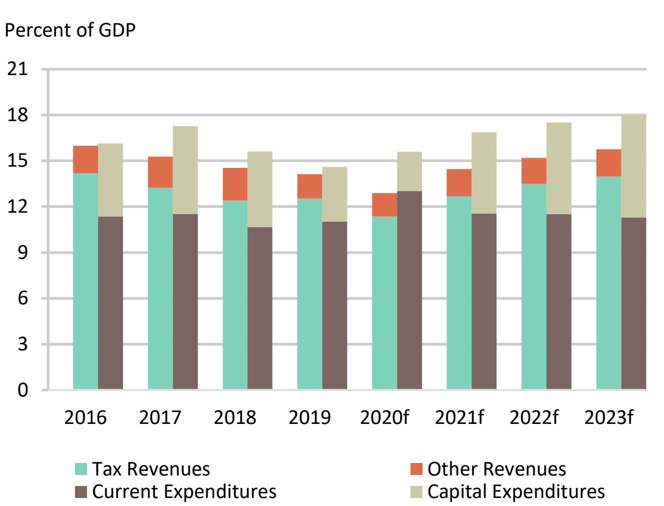
COVID-19 has exacerbated existing economic and social challenges, slowing poverty reduction. It has also underscored the urgent need to enact deeper structural reforms to diversify the economy and promote a more inclusive growth model. Guinea is at moderate risk of external debt distress, but with limited space to absorb shocks. This assessments hinges on commitments to maintain a prudent borrowing plan, respecting the limits embedded in the December 2020 Debt Sustainability Analysis (DSA). Risks to the economic outlook remain skewed to the downside, particularly due to the evolution of the COVID-19 pandemic and a recent Ebola outbreak, with the distribution of vaccines being critical factor to address both.

Recent developments

Economic growth decelerated to 4.7 percent in 2020, 1.8 percent in per capita terms, due to the COVID-19 pandemic. While mining production sustained growth in 2020, the service sector is estimated to have grown only 0.4 percent due to declining activity in the hotel, restaurant and transport sectors. Investments in the mining sector boosted bauxite production while higher gold prices bolstered artisanal gold exports. Inflation accelerated to 10.6 percent in 2020, from 9.5 percent in 2019, with higher food prices partly due to supply disruptions and an increase in central bank financing to meet the larger fiscal deficit resulting from COVID-19 impact.

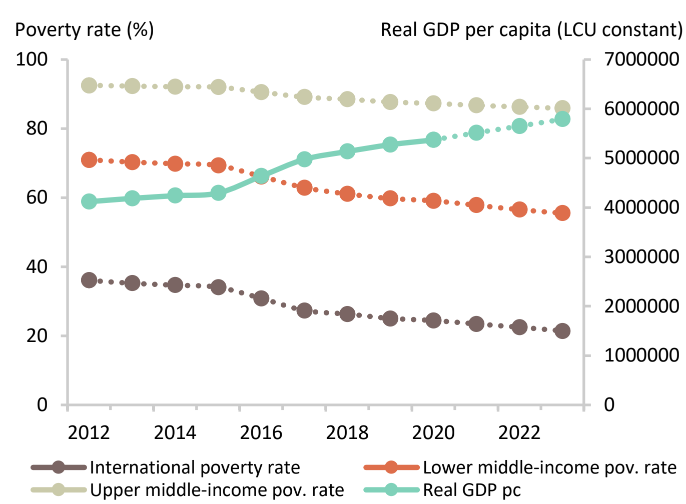
The current account deficit narrowed to 12.5 percent of GDP with higher mining exports compensating for higher imports of medicines, sugar, and intermediate and capital goods. Mining-related FDI continued to be the main source of external

FIGURE 1 Guinea / Fiscal revenues and expenditures



Sources: Guinean authorities; and World Bank staff projections.

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



Source: World Bank. Notes: see Table 2.

financing and declined to 10.7 percent of GDP in 2020. International reserves are estimated at 3.8 months of imports in 2020.

The overall fiscal deficit (including grants) widened to 2.7 percent of GDP in 2020, driven by two factors. First, at 11.4 percent of GDP in 2020, tax revenues reached its lowest level since 2011, due to tax exemptions for mining projects and under the COVID-19 response plan, as well as weak tax administration. Second, subsidies to the public electricity utility, which had more than doubled in 2019, further increased in 2020 because of electricity subsidies offered under the COVID-19 response plan, and reliance on expensive thermal technology. Under-executed capital expenditures partially offset higher current transfers and social spending to protect vulnerable households. The debt-to GDP ratio increased to 39.1 percent of GDP in 2020.

Projections based on GDP per capita growth suggest that extreme poverty incidence has declined from 25 percent in 2019 to 24 percent in 2020. This corresponds to over 3.2 million people living in extreme poverty in 2020. While this indicates that some of the extreme poor have been lifted out of extreme poverty, the COVID-19 pandemic has likely pushed part of the vulnerable population into poverty. Indeed, statistics from the COVID-19 household High-Frequency Phone Survey conducted in October-November 2020 show that over 8 out of 10 households experienced earning losses due to the COVID-19 pandemic with households receiving transfers and those owning nonfarm enterprises being the most affected. Non-monetary poverty – the Multidimensional Poverty Index – estimated at nearly 32 percent in 2018, remains high.

Outlook

Over the medium-term, mining-related infrastructure investment will continue to drive growth. Economic growth will accelerate to 5.5 percent in 2021 but will decline to 5.2 percent in 2022-2023 because of lower growth in the service sector. Public and private investment for infrastructure (energy and transport) will support the construction sector. Better provisioning of agriculture inputs and infrastructure investments should also improve agricultural productivity. The implementation of structural reforms to strengthen governance and the business climate, as well as more reliable electricity provision, following completion of the Souapiti hydropower project in 2020, should attract private investments and support private sector development. Inflation is expected to remain high but decline gradually to 7.8 percent by 2023.

The external current account deficit is projected to increase to 14.8 percent of GDP in 2021, reflecting higher imports for infrastructure spending and other capital goods. The deficit is projected to decline thereafter, to 11.6 percent of GDP by 2023, with exports projected to grow faster than imports after completion of the dam. FDI inflows will meet over 70 percent of financing requirements between 2021 and 2022, with long-term loans meeting the rest.

The extreme poverty rate is projected to decrease to 23.4 percent in 2021 aligned with modest expected growth and will further decrease to 21.4 percent by 2023 based on growth projections. However, according to results from the High-Frequency Phone Survey, the impact of the COVID-19 pandemic on job and income losses has not been subsiding. With the risk of a sustained negative impact of the COVID-19 pandemic combined with the Ebola outbreak, poverty reduction is likely to be undermined. The recovery of the service sector may support earnings and employment in urban areas.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	6.2	5.6	4.7	5.5	5.2	5.2
Private Consumption	3.8	5.4	3.5	3.2	1.4	1.4
Government Consumption	-7.2	-6.3	42.9	-5.5	8.7	7.8
Gross Fixed Capital Investment	8.7	-8.4	16.5	40.9	7.1	7.6
Exports, Goods and Services	7.2	-0.6	8.9	6.0	5.6	5.6
Imports, Goods and Services	3.7	-9.5	26.9	8.6	3.6	3.6
Real GDP growth, at constant factor prices	6.7	6.5	4.7	5.5	5.2	5.2
Agriculture	5.4	4.8	3.1	3.9	4.4	4.4
Industry	6.4	8.0	11.3	8.6	7.8	7.8
Services	7.4	5.9	0.4	3.6	3.3	3.2
Inflation (Consumer Price Index)	9.8	9.5	10.6	8.0	7.9	7.8
Current Account Balance (% of GDP)	-18.7	-13.7	-12.4	-14.7	-11.9	-11.5
Net Foreign Direct Investment (% of GDP)	11.0	12.9	10.5	7.2	8.0	8.3
Fiscal Balance (% of GDP)	-1.1	-0.5	-2.7	-2.4	-2.3	-2.2
Debt (% of GDP)	37.4	33.1	39.1	41.7	42.1	41.0
Primary Balance (% of GDP)	-0.3	0.0	-2.1	-1.5	-1.3	-1.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	26.3	25.0	24.4	23.4	22.5	21.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	61.1	59.8	59.1	57.8	56.6	55.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	88.5	87.7	87.3	86.7	86.3	85.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2012-ELEP. Actual data: 2012. Nowcast: 2013-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2012) with pass-through = 0.7 based on GDP per capita in constant LCU.

GUINEA-BISSAU

Table 1	2020
Population, million	2.0
GDP, current US$ billion	1.4
GDP per capita, current US$	714.9
International poverty rate ($1.9)[a]	68.4
Lower middle-income poverty rate ($3.2)[a]	85.4
Upper middle-income poverty rate ($5.5)[a]	93.8
Gini index[a]	50.7
School enrollment, primary (% gross)[b]	118.7
Life expectancy at birth, years[b]	58.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2010), 2011 PPPs.
(b) WDI for school enrollment (2010); life expectancy (2018).

Containment measures against COVID-19 and weak external demand for cashew nuts caused GDP to contract by 2.4 percent in 2020. High spending needs and a slump in tax income widened the fiscal deficit to 9.0 percent of GDP and raised the debt to GDP ratio to 78.4 percent. Growth is projected to increase to 3 percent in 2021 with a slight recovery in the cashew market. The medium term will be characterized by fiscal consolidation to maintain debt sustainability.

Key conditions and challenges

Exports of raw cashew nuts, which account for 90 percent of merchandise exports, determine economic performance in Guinea-Bissau. Cashew production is dispersed among many smallholder farmers, whose income supports overall economic activity. Annual GDP grew 5.4 percent on average between 2015 and 2017 (3.2 percent in per capita terms) as cashew prices reached record highs, but Guinea-Bissau is structurally vulnerable to terms-of-trade shocks and climate change risks. Raw cashew prices have been on a downward trajectory since 2018, adversely affecting economic growth, poverty, and government finances. Around 13 percent of tax revenue is directly related to cashew nut exports.

A small tax base and poor tax administration generate tax receipts of less than 10 percent of GDP. Deficient revenue collection capacity has created a high dependency on indirect taxes which are mostly collected through customs procedures. The public wage bill corresponds to more than 50 percent of tax income, limiting public service provision and domestically financed capital expenditure. Primary deficits and externally financed infrastructure projects have led to considerable debt accumulation and high debt servicing costs. However, the country's infrastructure remains in a dire state.

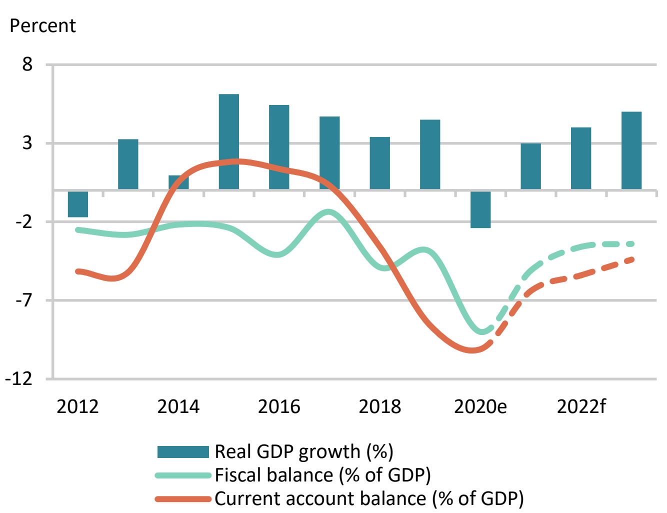
Persistent political instability has taken a heavy toll on economic development and diversification. Policy uncertainty and poor business environment lay at the source of a practically missing industry sector, which combined with low diversification and productivity in the primary sector, keeps the country highly dependent on food and capital imports. As COVID-19 has accentuated the urgent need for transformation, the Government drew a new development plan aiming to i) modernize public institutions, ii) accelerate job creation iii) boost the productive sector and infrastructure iv) improve human capital and living conditions v) promote regional integration and vi) preserve biodiversity. Its success depends on strong political engagement and sufficient means of financing.

Recent developments

The pandemic struck at the onset of the annual cashew marketing season, which reduced external demand, causing farmgate prices to reach their lowest in 6 years. Strict lockdown measures affected the supply of goods and services, and increased unemployment. Private consumption and investment weakened, while public expenditure grew considerably, supported in part by the international community. Overall, GDP contracted by 2.4 percent in 2020 (-4.7 percent in per capita terms).

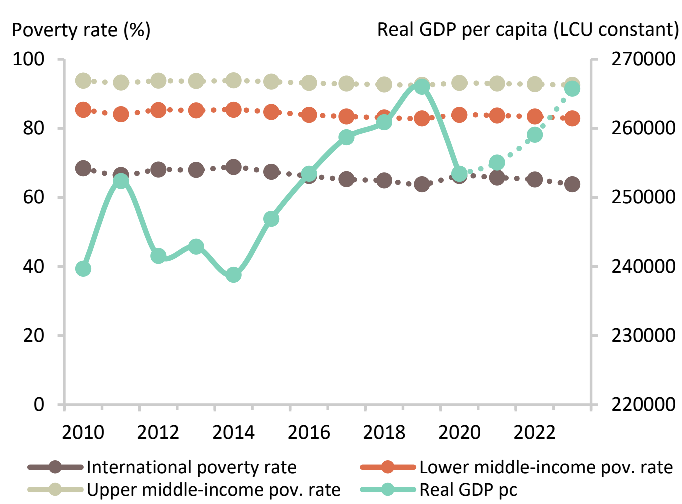
Tax receipts dropped 16.1 percent, but increased non-tax revenue, grants, and

FIGURE 1 Guinea-Bissau / Evolution of main economic indicators



Sources: Ministry of Finance and World Bank.

FIGURE 2 Guinea-Bissau / Actual and projected poverty rates and real GDP per capita



Source: World Bank: see Table 2.

debt service adjustments supported the fiscal space. High recurrent expenses, particularly health and social spending, and new infrastructure investments, significantly increased total expenditure by 32 percent. Thus, the overall fiscal deficit grew from 3.9 percent of GDP in 2019 to 9 percent in 2020. High financing needs of 10 percent of GDP, which includes the payments of arrears, were addressed with concessional borrowing and domestic lending, raising public debt to 78.4 percent of GDP. The latest Debt Sustainability Assessment (DSA) concluded that the risk of external and overall debt distress is high, but public debt is assessed as sustainable on a forward-looking basis.

The current account deficit worsened from 8.6 percent of GDP in 2019 to 10.1 percent in 2020, driven by a drop of 22 percent in export value of cashew nuts. Lower prices of oil imports were counterbalanced by high import prices for rice, the main staple food.

Guinea-Bissau's monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO), which maintains a fixed peg between the CFA Franc and the Euro. Its reserves reached an estimated 5.5 months of imports in 2020 due to large donor support and reduced imports during the pandemic. Between March and October 2020, the REER appreciated by 6.4 percent y/y, reflecting the nominal appreciation of the Euro against the USD. To support regional economy and COVID-19 related extra spending, the BCEAO announced a set of monetary and macroprudential measures since March 2020, including policy rate cut and extended refinancing operations of the 3-month COVID-19 bonds. Inflation accelerated from 0.3 percent in 2019 to 1.5 percent in 2020, reflecting increased food prices (+3.5 percent) as a result of disruption in international trade and national supply channels.

Poverty measured using $1.90 international poverty line increased from 63.8 to 66.2 percent between 2019 and 2020 corresponding to an augmentation of the number of poor by around 75,000 people.

Outlook

Based on a subsiding of the COVID-19 pandemic around mid-2021, a gradual recovery of the international cashew market and higher investments, GDP growth is set to reach 3 percent in 2021 and increase to 5 percent until 2023.

Fiscal consolidation is set to bolster the medium-term debt sustainability. Better tax administration, increased tax rates, and efforts to broaden the tax base shall substantially increase revenue in 2021. Prudent current spending, including on the public wage bill, will limit the fiscal deficit to 5.1 percent of GDP in 2021. Over a term of 5 years, the fiscal deficit is set to narrow to 3 percent and the debt ratio to 70 percent of GDP, in line with the WAEMU convergence criteria.

Due to the country's high import dependence, the trade balance will remain in a large deficit over the medium term, despite an increase in cashew exports. Increased foreign aid inflows are set to narrow the current account deficit to 6.4 percent in 2021.

The outlook is subject to high downside risks, including lower cashew nut prices and a more prolonged fallout from the COVID-19 pandemic, as a vaccination program may be delayed. The country's fragile socio-economic context may increase social tensions, which could trigger a renewed political instability, or hinder the authorities' commitment to macroeconomic stability and prudent fiscal policies.

The economic recovery is expected to maintain the poverty rate around 66 percent in 2021. Poverty will gradually decline from 2021 and will stand at 63.8 percent in 2023, accompanied by a decrease of the number of poor by about 22,000 people.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.4	4.5	-2.4	3.0	4.0	5.0
Private Consumption	-0.5	1.4	-3.8	2.1	2.3	3.5
Government Consumption	5.1	16.6	9.0	2.4	2.7	4.0
Gross Fixed Capital Investment	7.6	33.8	9.6	4.7	8.0	6.9
Exports, Goods and Services	14.4	8.7	-14.6	10.1	10.4	10.2
Imports, Goods and Services	-8.5	14.1	-3.0	5.0	5.1	5.3
Real GDP growth, at constant factor prices	3.4	4.5	-2.4	3.0	4.0	5.0
Agriculture	3.4	5.8	-0.8	4.1	4.3	5.1
Industry	5.7	4.2	-0.7	2.9	4.8	6.1
Services	2.7	3.5	-4.3	2.1	3.5	4.6
Inflation (Consumer Price Index)	0.4	0.3	1.5	2.0	2.0	2.0
Current Account Balance (% of GDP)	-3.6	-8.6	-10.1	-6.4	-5.4	-4.4
Fiscal Balance (% of GDP)	-4.9	-3.9	-9.0	-5.1	-3.6	-3.4
Debt (% of GDP)	59.2	66.9	78.4	78.4	76.7	74.3
Primary Balance (% of GDP)	-4.3	-2.6	-7.5	-2.7	-1.1	-1.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	64.9	63.8	66.2	65.8	65.2	63.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	83.1	82.9	83.9	83.7	83.4	82.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	92.7	92.5	93.1	93.0	92.8	92.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2010-ILAP-II. Actual data: 2010. Nowcast: 2011-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2010) with pass-through = 0,87 based on GDP per capita in constant LCU.

KENYA

Table 1	2020
Population, million	53.8
GDP, current US$ billion	102.7
GDP per capita, current US$	1910.4
International poverty rate ($1.9)[a]	37.1
Lower middle-income poverty rate ($3.2)[a]	66.5
Upper middle-income poverty rate ($5.5)[a]	86.6
Gini index[a]	40.8
School enrollment, primary (% gross)[b]	103.2
Life expectancy at birth, years[b]	66.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011PPPs.
(b) WDI for school enrollment (2016); life expectancy (2018).

Kenya's real GDP is estimated to have contracted by 0.3 percent in 2020 as the COVID-19 pandemic took a heavy toll on the economy. Nonetheless, ongoing policy responses to the crisis and reopening of the economy are leading to a moderate recovery. Recent gains in poverty reduction were reversed but are expected to recover, supported by more inclusive policy responses. Delayed vaccination, more severe global recession, and fiscal slippages could challenge the projected recovery in the medium term.

Key conditions and challenges

Buoyed by increased public spending, the Kenyan economy experienced robust GDP growth over the past decade, averaging 5.8 percent, elevating Kenya to a middle-income country and catalyzing a significant reduction in the poverty level. Government consumption and investment accounted for almost a quarter of this strong growth performance, reflecting an ambitious development agenda that included plugging the large infrastructure gap and implementing devolution. However, this has resulted in increasing fiscal deficits (from 3.5 percent of GDP in 2010/11 to 7.8 percent of GDP in 2019/20) and public debt accumulation (from 43.1 percent of GDP in 2010/11 to 65.8 percent of GDP in 2019/20), as expenditure growth outpaced revenue mobilization.

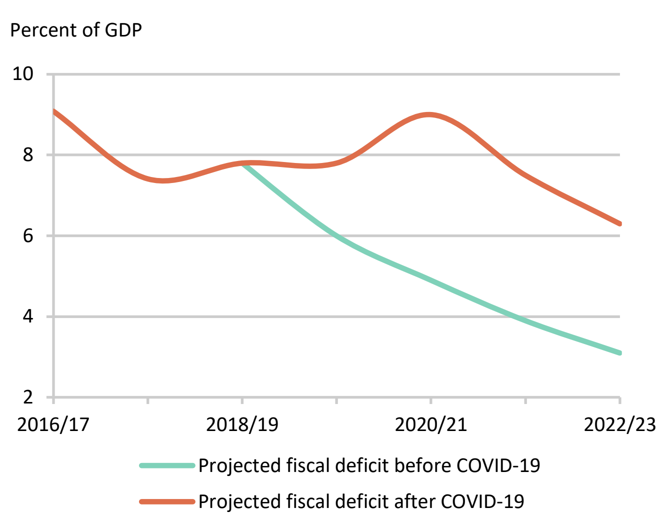
The COVID-19 pandemic reversed some of the earlier gains in poverty reduction through a decline in job opportunities, lower earnings and closure of household-run businesses. The unemployment rate increased to a four-year high of 10.4 percent in June 2020. Many wage workers, especially women, faced reduced working hours and wages. With schools closed, the pandemic caused a decline in access to education and exacerbated pre-existing education disparities for poor children. COVID-19 also constrained access to health services due to the unavailability of consulting doctors and long waiting times.

The pandemic-induced economic contraction has intensified fiscal pressures as the government refocused its attention on mitigating the economic and social toll of the pandemic. The planned fiscal consolidation was paused. Even as the crisis weakened revenues, the government increased spending and cut taxes to cushion the impact of COVID-19 on households and businesses. Although it is evident that the pandemic has increased unemployment and poverty, policymakers face high uncertainty in navigating the economy out of the pandemic as the future course of the virus, both globally and in Kenya, and its full economic and social impact remains unclear.

Recent developments

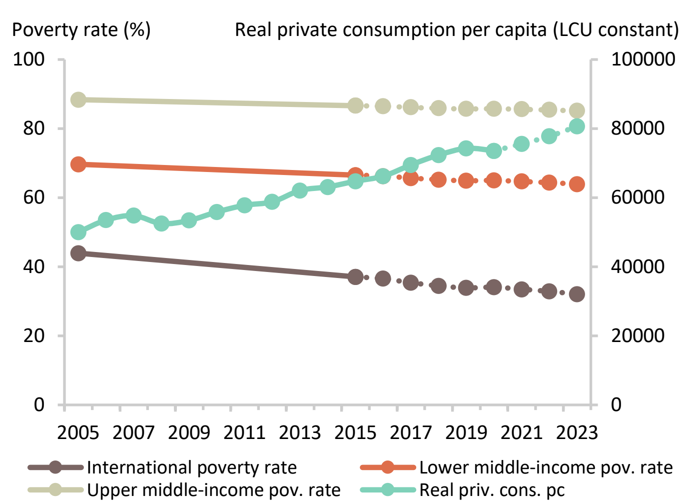
Kenya's real GDP contracted by an estimated 0.3 percent in 2020. The pandemic disrupted international trade and travel, sharply cutting exports of cut flowers and tourism. Meanwhile, domestic containment measures curtailed services activities—notably education (most institutions were closed between March and December), but also transport, trade, and hospitality services—and businesses slashed investment spending. Strong growth in agriculture cushioned the economic impact of the pandemic. High-frequency indicators suggest the economy began to recover in the fourth quarter of 2020, with the Purchasing Manager Index showing steady business activity expansion through early 2021, consistent with the

FIGURE 1 Kenya / Projected fiscal deficit before and after COVID-19



Sources: The National Treasury, 2021 Budget Policy Statement.

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



Source: World Bank. Notes: see Table 2.

recovery in working hours and wages from the rapid response phone surveys.

In response to the crisis, the government implemented supportive fiscal and monetary policies. The Central Bank of Kenya reduced the policy rate by 125bps and the cash reserve ratio by 100bps; introduced flexibility in loan repayments, loan provisioning, and classification as well as suspending negative credit listing; and enhanced digital finance to reduce cash transactions and facilitate online transactions. Meanwhile, the government increased expenditures—to support the healthcare system, protect the most vulnerable households, and support firms—and provided tax relief (including lowering VAT and corporate tax rates). As a result, the fiscal deficit edged up to 7.8 percent of GDP in 2019/20, compared with 6.0 projected before COVID-19, and government debt rose to 65.8 percent of GDP.

The international poverty rate has risen to 34.1 percent in 2020 from 33.9 percent in 2019 due to the impact of COVID-19, based on simulations using the relationship between real GDP growth and poverty. However, estimates based on rapid response phone surveys indicate poverty rose substantially higher, particularly amongst urban households. This led to a new group of poor, which are more often involved in services and—on average—are younger and better educated.

Outlook

The economy is expected to rebound in 2021, although uncertainty remains elevated. Aided by a projected recovery in private consumption and the reopening of education institutions, growth will recover to 4.5 percent in 2021 and remain at 5.3 percent on average over 2022–23. Merchandise exports are expected to accelerate in 2021, supported by global economic upturn, but a full recovery in services exports (mainly tourism) is unlikely until 2022. The current account deficit is projected to widen over the medium-term as imports strengthen on the back of domestic economic recovery.

The baseline assumes that policymakers continue gradually normalizing the extraordinary measures adopted in the wake of COVID-19 as economic conditions improve. Since January 2021, the Credit Reference Bureau resumed listing loan defaulters, measures to encourage mobile money usage expired, and pre-pandemic tax rates (income tax and VAT) were restored. Subsequently, increased domestic revenue mobilization and contained expenditure are expected to reduce public debt accumulation in the medium term.

This baseline outlook also assumes timely mass availability of COVID-19 vaccines (expected in 1H2021) and the absence of a new wave of rising infections that would necessitate widespread containment measures. Delayed vaccination, fiscal slippages, adverse weather conditions, and more severe global recession could challenge the projected recovery in the medium term. Realization of these downside risks could result in lower average growth of 3.7 percent in 2021-22.

With the recovery from COVID-19, poverty is expected to continue its pre-COVID-19 downward trend with a likely decline of slightly under one percentage point per year. However, this will require implementation of recovery programs to ensure Kenya resumes the pace of poverty reduction prior to COVID-19. Besides, investments into inclusive policy interventions like raising agricultural productivity, creating private sector jobs, and maintaining and enhancing safety net programs is needed to sustainably reduce poverty in the future.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	6.3	5.4	-0.3	4.5	4.7	5.8
Private Consumption	6.5	5.0	1.3	5.1	5.2	6.1
Government Consumption	5.6	4.9	5.2	4.8	4.0	3.1
Gross Fixed Capital Investment	1.3	2.4	-3.3	4.2	4.3	7.4
Exports, Goods and Services	3.9	-0.2	-0.1	3.2	6.0	6.3
Imports, Goods and Services	2.5	-2.0	-0.6	5.6	6.2	6.5
Real GDP growth, at constant factor prices	6.3	5.5	-0.3	4.5	4.7	5.8
Agriculture	6.0	3.6	6.4	4.8	4.9	5.2
Industry	5.5	4.6	3.6	3.9	4.5	5.4
Services	6.7	6.7	-4.4	4.6	4.7	6.2
Inflation (Consumer Price Index)	4.7	5.2	5.3	5.4	5.6	5.6
Current Account Balance (% of GDP)	-5.7	-5.8	-4.8	-5.2	-5.3	-5.5
Net Foreign Direct Investment (% of GDP)	1.7	1.1	0.3	0.5	1.1	1.3
Fiscal Balance (% of GDP)	-7.5	-7.7	-8.3	-8.1	-6.6	-4.9
Debt (% of GDP)	60.8	62.7	67.2	69.0	68.7	66.6
Primary Balance (% of GDP)	-2.8	-3.3	-4.1	-3.9	-2.4	-1.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	34.5	33.9	34.1	33.5	32.9	32.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	65.2	64.9	65.0	64.7	64.4	63.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	85.9	85.7	85.8	85.6	85.4	85.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2005-IHBS and 2015-IHBS. Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021 to 2023.

(b) Projection using annualized elasticity (2005-2015) with pass-through = 1based on private consumption per capita in constant LCU.

LESOTHO

Table 1	2020
Population, million	2.1
GDP, current US$ billion	2.1
GDP per capita, current US$	958.1
International poverty rate ($1.9)[a]	27.2
Lower middle-income poverty rate ($3.2)[a]	49.9
Upper middle-income poverty rate ($5.5)[a]	73.2
Gini index[a]	44.9
School enrollment, primary (% gross)[b]	120.9
Life expectancy at birth, years[b]	53.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) WDI for school enrollment (2017); life expectancy (2018).

Economic growth continues to remain subdued driven by the negative effects of the COVID-19 pandemic and floods in early 2021. The economy is expected to rebound and grow by 2.9 percent in 2021 mainly due to the recovery in construction, mining and manufacturing. Poverty is estimated to have increased to 31.2 percent in 2020, up from 28.5 percent in 2019, using the international poverty line. Rural population with food insecurity increased from 18 percent to 30 percent.

Key conditions and challenges

Lesotho has been experiencing slow growth and persistent inequality which have been exacerbated overtime by environmental-related shocks, political instability and decelerated economic growth. Inevitable spillovers from the South African economy, especially due to high prevalence of COVID-19 and unsolved structural impediments to growth in South Africa such as electricity shortages, continue to pose challenges to Lesotho. The pandemic has worsened the already dire economic performance in South Africa, and this is expected to spillover to Lesotho through the lower SACU receipts and remittances. The public debt levels have also been on an increase largely due to higher borrowing associated with the policy responses due to COVID-19.

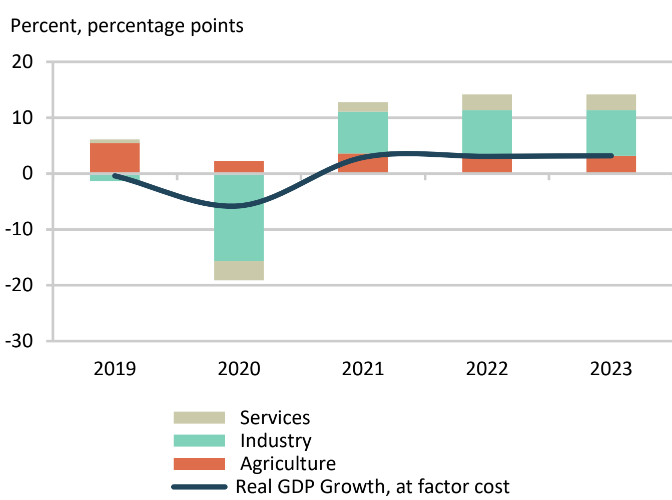
The pandemic is unfolding in a context of high poverty and unemployment. About a third of the population still lives on less than US$1.90/person/day (in 2011 PPP terms). Poverty is concentrated in rural regions which tend to have poorer access to basic infrastructure and services. Further, rural communities are more vulnerable to climatic shocks which contribute to erratic and generally low productivity in agriculture, a sector that is a source of livelihoods for most of the rural population. The pandemic has worsened economic vulnerability and food insecurity in the country. Unemployment rate has been high even before COVID-19 at 22.5 percent in 2019 (strict definition), rising to 38.3 percent (when the expanded definition is used).

Recent developments

The economy was already in recession even before the advent of COVID-19. Real GDP contracted by 1.2 percent and 0.4 percent in 2018 and 2019, respectively. It further contracted by 1.8 percent in the first quarter of 2020 before any COVID-19 case was reported in the country. The first positive COVID-19 case was reported in May 2020 and economic growth contracted by 15.7 percent in the second quarter of 2020, consequent to nationwide lockdown implemented in late March that brought the economy to a halt. All economic sectors, except for agriculture, information and communication, real estate, education and health contracted in the second quarter of 2020. Mining contracted by 44 percent and manufacturing by 29 percent mainly due to weak global demand. While hospitality sector and, wholesale and retail contracted by 51 percent and 38 percent, respectively, in the second quarter of 2020.

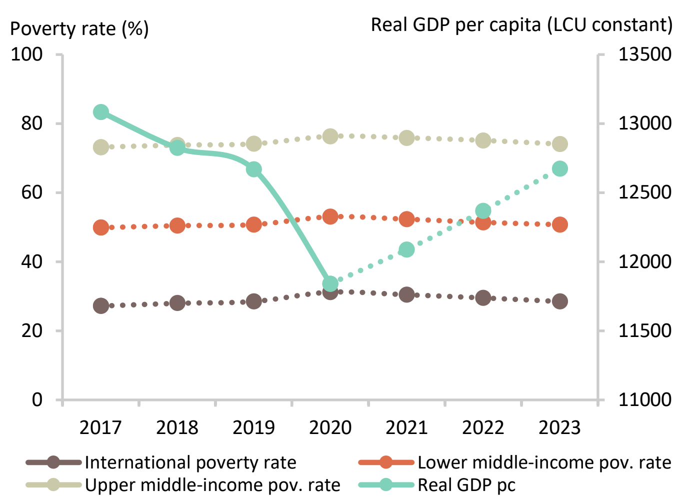
On average, annual inflation rate registered 5.0 percent in 2020 compared with 5.2 percent in 2019 largely due to higher food and energy prices, amidst supply-demand challenges imposed by closure of borders and domestic lockdown measures during 2020. The year-on-year inflation rate has accelerated to 5.4

FIGURE 1 Lesotho / Growth of real GDP at factor cost and contributions to real GDP growth



Sources: WDI and staff estimates.

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



Source: World Bank. Notes: see Table 2.

percent in January 2021. The current account deficit narrowed from 4.1 percent of GDP in 2019 to 3.6 percent in 2020 as exports of goods and services declined faster than imports of goods and services, as well as higher SACU revenue inflows since April 2020 and it is expected to widen further in the medium-term. The Central Bank of Lesotho (CBL) eased the monetary policy stance by reducing the policy rate by a cumulative 275 basis points from March to July 2020 to react to the COVID-19 shock. The fiscal deficit is expected to narrow to 3.7 percent of GDP in 2020 largely due to higher SACU inflows and widen in the medium-term. Health and social-related expenditure are expected to rise in line with COVID-19 mitigation measures, while capital expenditure is expected to decline due to reallocation.

The poverty rate is estimated to have increased from 28.5 percent in 2019 to 31.2 percent in 2020, using the US$1.90/person/day (in 2011 PPP terms) international poverty line. COVID-19-related lockdown measures have had a negative shock to the labor market, resulting in job and income losses with the effects concentrated in urban areas. Rural population with food insecurity increased from 18 percent in 2018 to 30 percent in 2020, while urban population with food insecurity increased from 9.2 percent to 13.3 percent. Remittances have also fallen due to the global economic slowdown, especially in South Africa. Food insecurity is high: the findings from the COVID-19 Socio-Economic Impact on Household Survey conducted by the Bureau of Statistics (BOS) estimate 21.1 percent of the population to have been affected by severe food insecurity in June 2020, and this stagnated at 20.9 percent in September 2020.

Outlook

Economic growth is expected to rebound to 2.9 percent in 2021 and gradually recover to 3.1 percent in 2022. Agriculture is expected to grow moderately in the medium term as agricultural subsidies and good rains are expected to contribute to crop production. Furthermore, medicinal cannabis farming as well as horticulture farming projects are also expected to provide impetus to grow. The projected recovery in the medium-term is set to be led by a rebound in the manufacturing, construction and mining activities. The construction activities associated with the second phase of Lesotho Highlands Water Project (LHWP-II) have already started in the first half of 2021, and these are expected to have a positive impact on growth. Services are also expected to add impetus to the growth momentum over the medium-term.

Inflation is expected to follow developments in the regional food and energy prices due to supply-demand challenges imposed by restricted movements and closure of borders and will accelerate steadily to 5.5 percent by 2023. Uncertainties surrounding the efficacy, affordability and timeliness of COVID-19 vaccines continue to pose a huge risk to macroeconomic outlook. The recovery of exports and overall economic growth largely depends on external demand conditions as well as the re-opening of the global economy. The recession in the neighboring South African economy is expected to dampen Lesotho's growth outlook through various channels, such as reduced SACU receipts and lower remittances.

Economic recovery will be accompanied by declining poverty rate but will remain higher than in 2019. The US$1.90/person/day (in 2011 PPP terms) poverty rate is project to fall slightly to 30.5 percent in 2021 and further to 29.6 percent in 2022. The scaling up of government social assistance programs is expected to cushion the adverse impacts of COVID-19 pandemic.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	-1.2	-0.4	-5.8	2.9	3.1	3.2
Private Consumption	-18.4	-2.5	1.1	1.3	1.2	1.8
Government Consumption	-1.9	7.8	-10.3	7.5	0.7	4.0
Gross Fixed Capital Investment	-24.1	0.4	-4.1	-2.4	25.8	17.2
Exports, Goods and Services	-2.3	-10.8	-9.2	6.3	3.6	3.2
Imports, Goods and Services	-13.1	-1.4	-2.8	3.3	5.4	5.8
Real GDP growth, at constant factor prices	-1.2	-0.4	-5.8	2.9	3.1	3.2
Agriculture	-12.0	5.5	2.3	3.6	3.2	3.2
Industry	3.7	-1.3	-15.7	7.5	8.2	8.2
Services	-1.2	-0.4	-5.8	2.9	3.1	3.2
Inflation (Consumer Price Index)	4.0	5.2	5.0	5.2	5.4	5.5
Current Account Balance (% of GDP)	-2.3	-4.1	-3.6	-8.1	-10.5	-11.7
Net Foreign Direct Investment (% of GDP)	1.4	1.3	1.3	1.4	1.3	1.3
Fiscal Balance (% of GDP)	-0.1	-6.7	-3.7	-10.8	-9.6	-9.7
Debt (% of GDP)	44.5	47.9	65.4	69.1	74.3	72.9
Primary Balance (% of GDP)	0.9	-6.0	-3.5	-10.4	-9.4	-9.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	28.0	28.5	31.2	30.5	29.6	28.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	50.5	50.8	53.1	52.4	51.4	50.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	73.8	74.1	76.3	75.9	75.1	74.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2017-CMSHBS. Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2017) with pass-through = 0.87 based on GDP per capita in constant LCU.

LIBERIA

Table 1	2020
Population, million	5.1
GDP, current US$ billion	2.9
GDP per capita, current US$	583.1
International poverty rate ($1.9)[a]	44.4
Gini index[a]	35.3
School enrollment, primary (% gross)[b]	85.1
Life expectancy at birth, years[b]	63.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011PPPs.
(b) WDI for school enrollment (2017); life expectancy (2018).

Liberia's economy is expected to recover in 2021 as economic activity picks up following the lifting of lockdown measures in the second half of 2020. Real GDP is projected to expand by 3.3 percent in 2021 and rise to an average of 4.4 percent during 2022-23. Headline inflation is expected to moderate to single digits on the back of a tight monetary policy stance. The outlook assumes high uncertainty and downside risks around COVID-19 and the likely resurgence of Ebola.

Key conditions and challenges

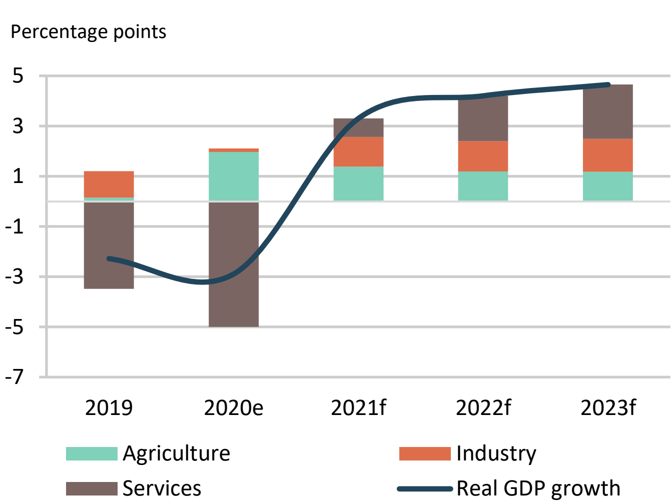
Liberia's economy is undiversified and highly reliant on primary commodity exports and therefore vulnerable to shocks, which continue to pose macroeconomic challenges. The economy contracted for the second year in a row in 2020 due to the adverse impact of the COVID-19 pandemic. Limited fiscal space from low domestic resources mobilization and a relatively high wage bill continue to constrain public investments in key sectors, including agriculture, infrastructure, education, and health thus keeping GDP growth below the population growth. Extreme poverty incidence increased to pre-2012 levels during the two consecutive years (2019-20) of economic contraction and is projected to peak at 52.1 percent in 2021. Poverty reduction is expected to resume from 2022 onwards, but the recent shocks have set progress back by 5 years.

The COVID-19 pandemic has adversely impacted economic and social outcomes. Two-thirds of households reported income loss and dire food situation according to the High Frequency Phone Monitoring Survey Report (HFPMS) launched in August 2020. In the wake of the COVID-19 pandemic, the deadly Ebola Virus Disease (EVD) that severely affected lives and livelihood in Liberia (2014-2015) has resurfaced in neighboring Guinea. With the relatively porous borders, there is a high risk of spread into Liberia with the accompanying fiscal pressures as government activates it preparedness and response plan. Meanwhile, the financial sector has faced consistent shortage of Liberian dollars, partly due to high inflation rates since 2018.

Recent developments

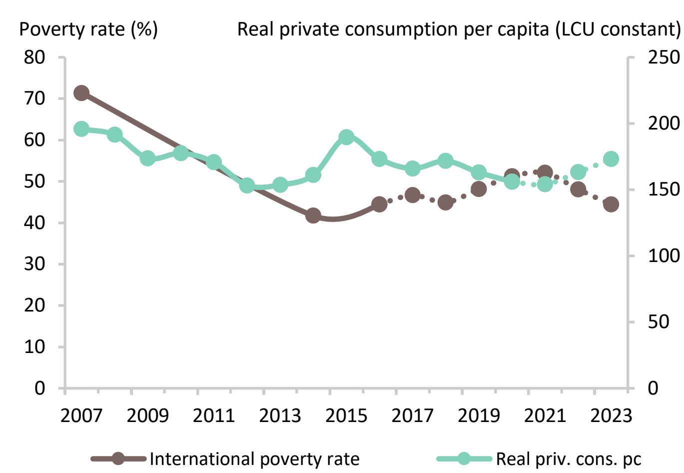
The COVID-19 pandemic and related containment measures adversely impacted economic activity during most of 2020. Following the lifting of lockdown measures in the second half of 2020, economic activity has picked up in most of the productive sectors of the economy. With the notable exception of the mining sector, which experienced an 8.1 percent (y/y) reduction in iron ore production, output in other productive sectors of the economy increased significantly during the second half of 2020, reflecting an increase in domestic and external demand. Rubber output increased by 6.9 percent (y/y) in the second half of 2020, as operations resumed in the sector amid favorable international prices. Gold output increased by 19.5 percent (y/y) despite the recent decline in international prices. Production of cement and beverages rose by 55.8 percent (y/y) and 29.0 percent, respectively, indicating increased activities in the construction and other services sector as lockdown measures were lifted. Business sentiment also improved with about 70.6 percent of firms having positive expectations for sales and 6.1 percent anticipating an

FIGURE 1 Liberia / Real GDP growth and sectoral contribution to real GDP growth



Sources: World Bank staff calculations based on IMF and CBL data.

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



Source: World Bank. Notes: see table 2.

increase in workforce according to the HFPMS concluded in December 2020.

Headline inflation declined significantly reaching 17.4 percent in 2020, down from 27.0 percent in 2019. Food and non-food inflation fell to 15.7 percent and 11.5 percent, respectively in December 2020, from 23.0 percent and 18.6 percent a year ago. The moderation in inflation was due to the Central Bank of Liberia (CBL) tight monetary policy stance in 2020, weak economic activity, and lower international oil prices. Despite sharply lower international oil prices, fuel prices in Liberia fell only slightly due to the introduction of an excise tax to boost revenue collection.

The fiscal deficit narrowed to 3.7 percent of GDP in FY2020, from 6.1 percent in FY2019. The FY2021 budget of US$570 million was approved in October 2020 and a mid-year review of fiscal operations showed public expenditure within the limits of the revenue collected. Revenue collection amounted to 9.8 percent of GDP, while cash expenditure amounted to 8.5 percent of GDP, reflecting a fiscal surplus on a cash basis. Liberia's current account deficit narrowed to 20.5 percent of GDP in 2020 due mainly to an improvement in the trade balance as a result of increased iron ore and gold exports. The improvement in the trade balance and rise in net remittances inflows helped support the relative stability in the L$/US$ exchange rate in 2020. Gross official reserves rose to US$326 million, equivalent to 2.5 months of imports in 2020, up from US$292 million, equivalent to 2.3 months of imports in 2019 due to increased donor support.

Outlook

Liberia's economy is expected to recover and return to a relatively strong growth path over the medium term. Output is set to expand by 3.3 percent in 2021 and rise to an average of 4.4 percent during 2022-23 as economic activity picks up in the productive sectors, especially mining, agriculture and construction. The headline inflation rate is expected to moderate further to single digit in 2021 as the CBL maintains its tight monetary policy stance to contain inflation. Annual average inflation rate is expected to decline to 9.8 percent in 2021 and further to 5.5 percent by 2023.

The fiscal deficit is projected to narrow to 2.9 percent of GDP in FY2021, and further to 2.0 percent of GDP by FY2023 as revenues improve and the Government maintains its tight expenditure controls. However, Liberia's external position is expected to deteriorate in 2021 as import demand rises faster than export growth. The current account deficit is projected to widen to 22.3 percent of GDP in 2021, and further to 22.8 percent of GDP in 2023.

The outlook assumes high levels of uncertainty around the evolution of the COVID-19 crisis and the evolving Ebola situation, with risks tilted to the downside. The resurgence of the COVID-19 pandemic and its likely impact on external demand and global and domestic supply chains; delayed access to vaccines, as well as low confidence and unaddressed vulnerabilities in the financial sector could undermine economic recovery, increase poverty, and weaken Liberia's fiscal and external balances. An outbreak of Ebola in Liberia will only heighten these risks and uncertainties.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.2	-2.3	-2.9	3.3	4.2	4.7
Private Consumption	6.0	-2.8	-1.9	1.1	8.6	8.6
Government Consumption	-4.3	4.0	-11.6	1.0	-8.5	-16.6
Gross Fixed Capital Investment	-13.6	-4.3	0.2	7.6	2.9	6.0
Exports, Goods and Services	-0.3	1.6	-10.2	1.0	1.6	1.6
Imports, Goods and Services	-13.8	0.4	-7.4	1.3	3.1	3.1
Real GDP growth, at constant factor prices	1.2	-2.3	-2.9	3.3	4.2	4.7
Agriculture	-0.2	0.4	5.3	3.5	3.0	3.0
Industry	20.0	5.2	0.6	5.2	5.3	5.7
Services	-4.6	-7.9	-12.1	2.0	4.9	5.8
Inflation (Consumer Price Index)	20.4	27.0	17.4	9.8	7.0	5.5
Current Account Balance (% of GDP)	-23.5	-22.1	-21.1	-22.3	-22.5	-22.8
Fiscal Balance (% of GDP)	-4.8	-6.1	-3.7	-2.9	-2.9	-2.0
Debt (% of GDP)	40.3	52.5	56.6	62.0	64.5	64.0
Primary Balance (% of GDP)	-4.2	-5.4	-2.3	-1.8	-0.7	0.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	44.9	48.2	51.2	52.1	48.1	44.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2016-HIES. Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2016) with pass-through = 1 based on private consumption per capita in constant LCU.

MADAGASCAR

Table 1	2020
Population, million	27.1
GDP, current US$ billion	13.7
GDP per capita, current US$	505.4
International poverty rate ($1.9)[a]	78.8
Lower middle-income poverty rate ($3.2)[a]	91.5
Upper middle-income poverty rate ($5.5)[a]	97.5
Gini index[a]	42.6
School enrollment, primary (% gross)[b]	134.1
Life expectancy at birth, years[b]	66.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2012), 2011 PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

The Covid-19 crisis has plunged the Malagasy economy into its deepest recession in over a decade. A rebound in external demand and the resumption of domestic investments are expected to support a gradual recovery starting in the second half of 2021. The evolution of the pandemic and how the government responds to it will define the pace of this recovery. A return onto its pre-crisis poverty reduction trend is conditional on the country staging a growth spurt from 2022onward.

Key conditions and challenges

Broad-based development in Madagascar remains hindered by a combination of inadequate infrastructure, weak human capital, poor governance, and a high degree of exposure to political unrests and weather-related shocks. However, when political stability prevails, a segment of the private sector has been able to prosper and support growth.

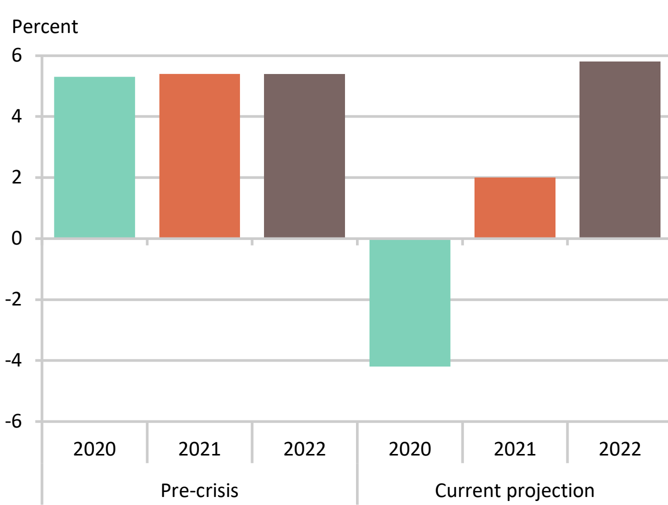
Following the 2009-13 political crisis, the economy has been recovering with GDP growth reaching a decade-high of 4.4 percent in 2019. The resumption of external aid, reopening of access to international preferential market, and incremental reforms in public financial management and business environment have supported the recovery. The competitiveness of labor cost and availability of vast arable land are among factors that attracted private investment in export-oriented activities such as agribusinesses, IT outsourcing, and apparel. Investments have been accompanied by formal job creation in industry and services but at a pace insufficient to absorb much of the 75 percent of total workforce that are employed in agriculture and mostly located in rural areas.

The Covid-19 crisis has halted the recovery momentum, plunging the country into its deepest recession since 2009. As a result, the recent trend of poverty reduction was halted, and the prevalence of poverty rose by 3.5 percentage points to 80 percent from 2019 to 2021. The evolution of the pandemic and the response of the government as well as the trend of recovery among main export destinations will shape the near-term outlook and create an unusually high degree of uncertainty around projections. In the short term, the key challenges lie in the preservation of lives and livelihoods by reinforcing the health sector response and expanding social protection and private sector support programs. Alongside, more transparent management of public resources and continued reliance on concessional financing for public debt are needed to preserve fiscal sustainability. Over the medium-term, sustained growth will require the mobilization of domestic resources, reforms to stimulate private investment and job creation, leapfrog the digitalization of the economy, and boost agricultural productivity

Recent developments

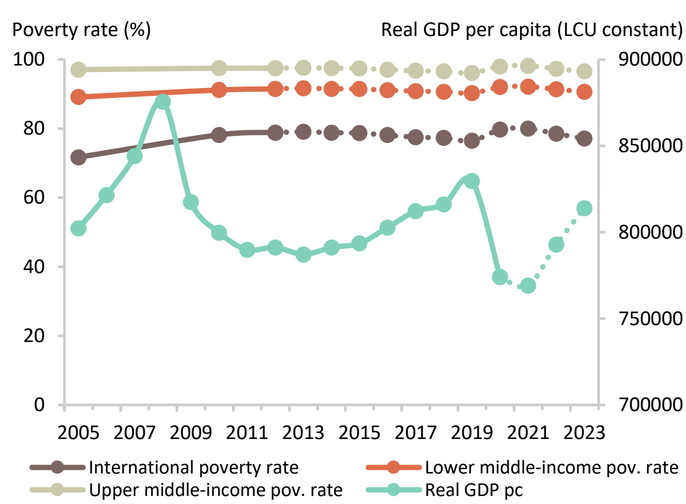
The impact of the Covid-19 crisis on the Malagasy economy is more severe than previously projected. The continued closure of international borders, the recession in main export markets, and a collapse in private investment have resulted in a recession estimated at –4.2 percent in 2020, which is 3 percentage points lower than the October 2020 projection. The Covid-19 outbreak has primarily affected export-oriented activities. Revenues from export of goods contracted by 20 percent in 2020 compared to 2019 and tourist arrivals

FIGURE 1 Madagascar / Real GDP growth scenarios



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

declined by more than 80 percent, resulting in a widening of the current account deficit to 4 percent of GDP. In addition, domestic demand has been dampened by income losses caused by lockdown and a sharp drop in private investment. In June 2020, an estimated 64.4 percent of household surveyed reported a decline in their income due to social distancing measures and 7.7 percent contraction in employment has been recorded. A small recovery in employment has been observed towards the end of the year. Against this background, the poverty rate is estimated to have risen to 79.7 percent in 2020, up from 76.5 percent in 2019, sending approximately another 1.4 million people under the international poverty line of $1.90/capita/day (in 2011 PPP). Urban populations were more immediately affected by the COVID shock, but rural households were impacted as well by contracting demand, particularly for off-farm activities. In November 2020, decreasing food consumption has remained among the top coping strategies when dealing with income-reducing shocks, further risking long-term health implications for household members.

Lower economic activity and temporary tax relief measures have reduced fiscal revenues to 9 percent of GDP and widened the overall fiscal deficit from 1.3 percent of GDP in 2019 to 5.2 percent of GDP in 2020. As a result, public debt surged from 37 percent in 2019 to 45 percent in 2020. However, the risk of debt distress remains moderate as external financing has been mostly on concessional terms, with emergency support from donors mostly covering the unexpected increase in external and fiscal financing needs. Supported by the inflow of external financing, the year-on-year depreciation of the local currency against the US$ has been moderate at 5 percent, contributing to contain inflation at 4.5 percent in 2020. The financial sector has been overall resilient, supported by a banking sector that remained sufficiently capitalized. In contrast, the microfinance sector has been fragilized by temporary cash flow difficulties due to delays in loan repayment and deposit withdrawals at the beginning of the containment period.

Outlook

Growth is projected to progressively pick up, but Covid-19 will have protracted effects on the economy and poverty. GDP growth is expected to reach 2 percent supported by a recovery in global demand, the resumption of nickel exports, and public investments and accelerate further in the medium term by a return of private investors. As a result, poverty is projected to decline to 77.2 percent by 2023 (based on an international poverty line of $1.90/capita/day, in 2011 PPP). However, the impact of the pandemic is expected to cast a long shadow on economic and social prospects and could be compounded by other shocks, including droughts and other climatic events affecting already vulnerable populations. Under baseline conditions, GDP per capita would only reach its pre-crisis level by 2024, with risks being mostly titled to the downside.

A modest economic recovery should lower the budget deficits, reaching 3.8 percent in 2023. The main driver of this decline will be a gradual pickup in government revenues, offsetting accelerating public investments. In this context, public debt is projected to stabilize around 52 percent of GDP in 2023. The current debt risk profile for Madagascar still makes plans to scale up priority investments appropriate but calls for prudent borrowing policies and fast-track reforms to boost revenue mobilization and public spending efficiency.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.2	4.4	-4.2	2.0	5.8	5.4
Private Consumption	1.6	1.2	-1.0	1.7	3.4	4.0
Government Consumption	-7.9	1.9	2.1	2.1	4.3	4.0
Gross Fixed Capital Investment	11.0	12.9	-2.9	5.6	12.7	9.4
Exports, Goods and Services	2.4	10.9	-15.3	3.8	7.1	7.0
Imports, Goods and Services	11.1	4.6	-7.3	4.8	6.9	6.6
Real GDP growth, at constant factor prices	2.3	4.3	-4.2	2.0	5.8	5.4
Agriculture	0.4	5.5	2.3	2.4	3.0	3.2
Industry	2.0	6.6	-14.3	2.7	6.9	6.3
Services	3.3	3.1	-4.1	1.6	6.9	6.2
Inflation (Consumer Price Index)	7.3	5.6	4.3	5.9	6.1	6.1
Current Account Balance (% of GDP)	0.7	-2.3	-4.0	-4.4	-4.3	-4.3
Net Foreign Direct Investment (% of GDP)	2.6	2.5	2.7	2.6	2.4	
Fiscal Balance (% of GDP)	-1.3	-1.4	-5.2	-5.4	-4.6	-3.8
Debt (% of GDP)	39.5	37.4	45.1	49.7	51.2	51.9
Primary Balance (% of GDP)	-0.5	-0.7	-4.4	-4.5	-3.6	-2.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	77.3	76.5	79.7	80.0	78.5	77.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	90.7	90.3	92.0	92.2	91.4	90.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	96.6	96.1	98.0	98.2	97.3	96.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2005-EPM and 2012-ENSOMD. Actual data: 2012. Nowcast: 2013-2020. Forecast are from 2021 to 2023.
(b) Projection using point to point elasticity at regional level with pass-through = 0.87 based on GDP per capita in constant LCU.

MALAWI

Table 1	2020
Population, million	19.1
GDP, current US$ billion	8.1
GDP per capita, current US$	425.3
International poverty rate ($1.9)[a]	69.2
Gini index[a]	44.7
School enrollment, primary (% gross)[b]	144.8
Life expectancy at birth, years[b]	63.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

Malawi's economic growth fell to 0.8 percent in 2020 and is expected to pick up to 2.8 percent in 2021. The country's services and industry sectors have been heavily affected by the COVID-19 pandemic. Malawi will benefit from a one-time boost to maize production in 2021 due to favorable weather and extensive input subsidies. However, it will need to strengthen fiscal sustainability and invest in diversification in order to sustainably increase growth and reduce persistently high poverty levels.

Key conditions and challenges

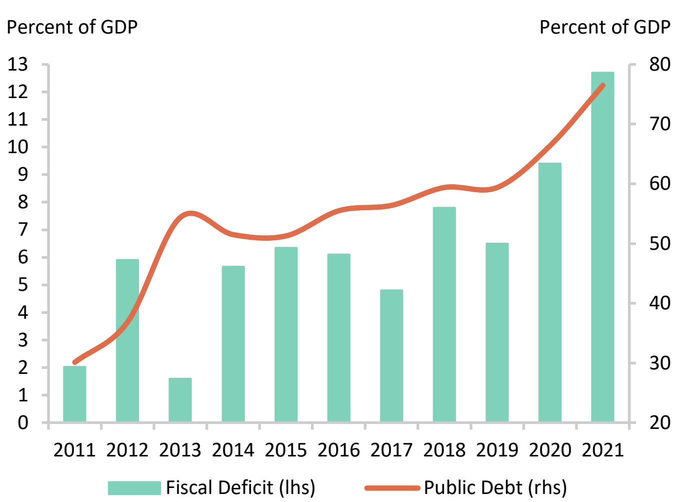
Malawi's continued reliance on subsistence, rainfed agriculture has limited its growth potential, increases its susceptibility to weather shocks, and creates food insecurity. This has been compounded by trade restrictions, which impede investment and commercialization, and erratic electricity supply that limits value addition and slows economic diversification. Public investment has been low, offset by large and increasing subsidies to maize production. These factors have contributed to persistently high poverty levels and limited structural transformation. The share of the population below the international poverty line of $1.90 per day has decreased only marginally from 72 percent in 2010 to 68 percent in 2019. Weak budget management and economic policies have contributed to recurring and increasing fiscal deficits, which have been largely funded by high-cost domestic borrowing. This has led to a high level of domestic debt, which increasingly reduces fiscal space for development spending and also risks crowding out private sector investment. While Malawi has benefitted from exchange rate stability and lower inflation in recent years, this has also contributed to real appreciation, which reduces competitiveness.

The COVID-19 pandemic has heavily impacted Malawi's economy, with a second wave affecting the country since mid-December 2020. Trade disruptions, lower tourism and remittances, and social distancing policies and behavior have slowed activity in the service and industry sectors but has been partially offset by a strong agriculture harvest due to favorable weather conditions. The urban poor have been particularly affected, and an estimated 12 percent of the total economically active population have experienced job losses. The COVID-19 pandemic is reducing revenues and increasing expenditure for COVID-response, which together with expansionary policies by the new administration, further worsen the fiscal position and reduce fiscal space. In particular, the new administration is implementing a costly universal agricultural input subsidy that will boost maize production in the short term, but will need to be reformed to make it fiscally sustainable and support diversification. The nature of the recovery will depend on the evolution of the pandemic in Malawi. A strong recovery and higher growth will be needed in the medium term for the country to reduce its debt burden and to sustainably reduce poverty.

Recent developments

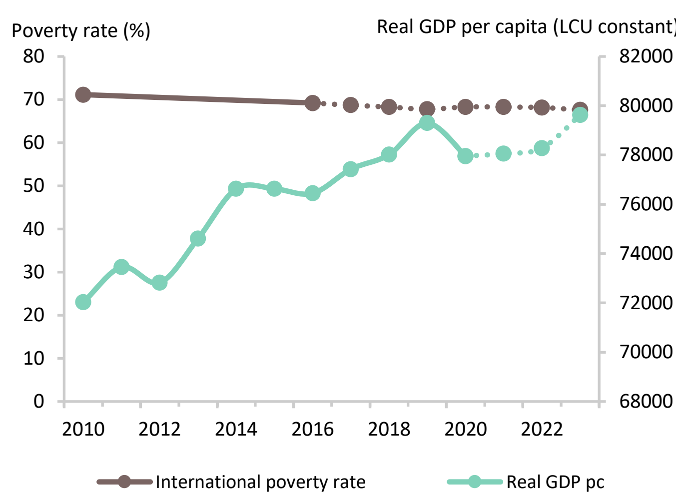
Growth in 2020 is estimated at 0.8 percent, down from the pre-COVID projection of 4.8 percent. With population growth around 3.0 percent, this represents a contraction in per capita GDP of greater than 2 percent. Political stability returned following the June 2020 Presidential elections; however, global and domestic factors emanating from the pandemic are

FIGURE 1 Malawi / Fiscal deficit and public debt



Sources: Ministry of Finance and World Bank.

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



Source: World Bank. Notes: see Table 2.

affecting Malawi's economy, including: 1) disruption in global value chains, trade and logistics; 2) decrease in tourism; and 3) decrease in remittances. This has combined with social distancing policies and behavior contributing to reduction in domestic demand. Lower international oil prices, on the other hand, helped reduce the import bill and alleviated fuel and transportation price pressures. A reduction in international remittances and tourism also contributed to a worsening external sector balance, with the current account deficit estimated to widen to 18.3 percent of GDP in 2020, which is largely financed by development assistance. Headline inflation decelerated to 7.6 percent in December 2020, down from a recent peak of 11.5 percent in December 2019, supported by lower food and global oil prices.

The FY2020 fiscal deficit expanded to 9.4 percent of GDP, far wider than the revised target of 5.4 percent of GDP. This was due to optimistic revenue assumptions combined with weaker growth due to the pandemic, as well as recurrent expenditure overruns due to election-related pressures, COVID-19 response, higher domestic interest payments, and repayment of unbudgeted arrears. Financing of the fiscal deficit, largely using domestic resources has pushed domestic debt beyond external debt levels. Public debt increased to 66.4 percent of GDP in 2020.

Outlook

The second wave of the pandemic which started in late 2020 has been more intense than the first and is further disrupting economic activity. Extensive input subsidies and favorable weather are expected to contribute to a one-time jump in maize production, which, combined with a pickup in tobacco production after 2020's weak harvest, should lead to a strong agriculture performance in 2021. However, the vaccine is not expected to reach a significant portion of the population until at least mid-2022. As such, social distancing policies and behavior are expected to weigh on economic activity and suppress domestic demand and only a weak rebound is expected in the services and industry sectors in 2021. International tourism, in particular, is unlikely to return to previous levels in the short term. These factors are expected to lead to growth of 2.8 percent in 2021. With GDP per capita growth remaining low, the share of the population below the international $1.90 poverty line is projected to continue to stagnate around 68 percent in 2021 and remain near this level through 2023.

The FY2021 budget is expansionary and the projected fiscal deficit of 12.7 percent of GDP could widen further. Revenue and grants are already weaker than budgeted, which may further underperform due to PAYE tax reform measures implemented since November. Expenditure has increased substantially due to the Affordable Inputs Program (AIP) for the agriculture sector and increasing interest payments. The wage and pension bill is also increasing moderately. In addition, more resources are needed for pandemic response, and expenditure arrears are resurfacing. The deficit will be largely financed by domestic borrowing. The Government needs to contain spending in order to limit rapidly increasing interest costs and reduce domestic debt.

The current account deficit is projected to remain near 18 percent of GDP over the medium term. A good agricultural performance will induce a one-time increase in agriculture exports. However, steadily declining global demand for tobacco and limited agricultural diversification will hamper export growth. Health response materials will also boost imports.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.5	4.4	0.8	2.8	3.0	4.5
Private Consumption	7.3	3.9	1.8	2.4	2.5	2.9
Government Consumption	-14.3	3.5	12.7	-6.5	6.5	6.9
Gross Fixed Capital Investment	-2.9	6.0	5.9	0.1	9.0	8.2
Exports, Goods and Services	6.9	3.8	-5.0	4.8	-0.3	2.5
Imports, Goods and Services	6.4	3.6	-1.8	2.9	1.1	2.4
Real GDP growth, at constant factor prices	2.9	4.4	0.8	2.8	3.0	4.5
Agriculture	2.4	4.3	3.4	5.2	1.7	3.2
Industry	2.2	3.8	1.2	1.6	2.4	4.3
Services	3.4	4.5	-0.7	1.9	3.8	5.2
Inflation (Consumer Price Index)	9.2	9.4	8.6	8.8	7.6	7.0
Current Account Balance (% of GDP)	-20.5	-17.2	-18.3	-17.4	-18.1	-17.9
Net Foreign Direct Investment (% of GDP)	1.5	1.4	1.1	1.0	1.8	2.2
Fiscal Balance (% of GDP)	-7.8	-6.5	-9.4	-12.7	-9.5	-8.9
Debt (% of GDP)	59.4	59.4	66.4	76.5	80.6	83.6
Primary Balance (% of GDP)	-3.9	-2.6	-5.0	-7.0	-3.0	-1.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	68.3	67.8	68.3	68.3	68.2	67.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2016-IHS-IV. Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2016) with pass-through = 0.7 based on GDP per capita in constant LCU.

MALI

Table 1	2020
Population, million	20.3
GDP, current US$ billion	17.2
GDP per capita, current US$	848.3
International poverty rate ($1.9)[a]	50.3
Lower middle-income poverty rate ($3.2)[a]	79.8
Upper middle-income poverty rate ($5.5)[a]	95.0
Gini index[a]	33.0
School enrollment, primary (% gross)[b]	75.6
Life expectancy at birth, years[b]	58.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2009), 2011 PPPs.
(b) Most recent WDI value (2018).

After robust growth in 2019, the ongoing COVID pandemic and August military coup in 2020 triggered an economic contraction rolling back poverty reduction by half a decade. The fiscal balance widened, and debt pressures increased, although the external balance strengthened due to improved terms of trade. Growth and poverty reduction are expected to gradually recover over the medium term. The outlook is tilted to the downside with risks from the political transition, rising insecurity, persisting COVID-19 impacts, and climatic hazards.

Key conditions and challenges

The undiversified economy has experienced little structural change in recent years. The manufacturing sector remains small (14 percent of GDP) and concentrated in agro-industries and textiles, reflecting low levels of human capital with jobs concentrated in the informal sector. Exports are dominated by gold and cotton, subject to volatile prices and climatic shocks. Farmers' productive capacity remains low with limited access to finance. Scaling access to agricultural technologies and promoting selected value chains to increase poor farmers' income, should remain strategic goals if Mali is to accelerate its economic transformation.

Governance challenges were brought to the forefront by the military coup of August 18, 2020. Beforehand, the country had made limited progress towards restoring trust in the state, while greater decentralization, a key tenet of the Algiers Peace Agreement in 2015 has not fully materialized. The poor management of SOEs (notably EDM and CMDT) increased fiscal pressure. Tax administration reforms progressed slowly while spending efficiency remains low. In the coming years, restoring peace and democratic rule, while consolidating the fiscal position constitute the country's most pressing challenges.

The recent surge of COVID-19 cases in Mali and globally also constitutes downside risks. Despite the terms of trade improvement, due to the counter-cyclical nature of the gold prices, the under-diversified economy is vulnerable to continuing depressed external demand. A prolonged outbreak would also stall the domestic recovery, increasing the cyclical deficit on top of additional outlays including the rollout of the vaccination program and the costs of the political transition.

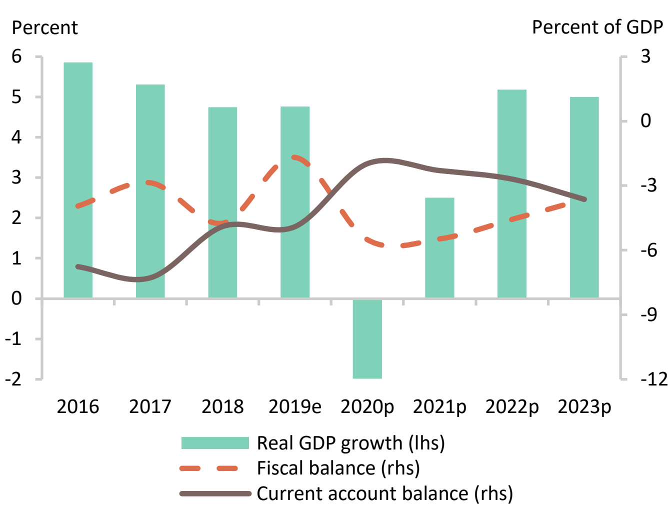
Recent developments

Real growth contracted by 2 percent (-4.9 percent in per capita terms) in 2020 due to the COVID-19 shock and August 2020 coup. The retail, construction and hospitality sectors declined. Agriculture was dampened by the poor performance of cotton and cereal production. In contrast, telecommunications, mining and industry were resilient. On the demand side, private consumption and investment declined. Inflation turned positive since July mainly due to increased food costs.

The current account deficit narrowed to 2.3 percent of GDP in 2020, due to improved terms of trade and despite regional economic sanctions (August to October) following the military coup. The deficit was mainly financed by foreign direct investment (FDI) and project grants in 2019, but external inflows declined in 2020, due to the pandemic and the post-coup donor disengagement.

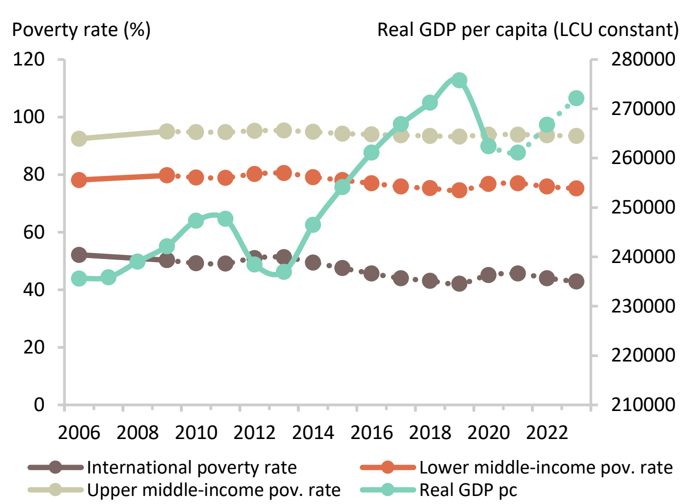
The fiscal deficit rose to 5.5 percent of GDP in 2020. Revenues dropped at the beginning of the pandemic (-17.2 percent y/y in 2020Q1) but recovered since May,

FIGURE 1 Mali / Real GDP growth, current and fiscal account balances



Sources: Malian government and the World Bank.

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



Source: World Bank. Notes: see Table 2.

responding to the relaxation of containment measures and the end of tax reduction measures. Expenditures increased (for wages and transfers) with cuts in non-essential investment. Public debt rose to 44.1 percent of GDP in 2020, though Mali remains at a moderate risk of debt distress. Mali participated in the Debt Service Suspension Initiative (DSSI) and requested an extension till June 2021, benefiting from lower debt servicing costs of 0.04 percent of GDP in 2020 and 0.23 percent of GDP in 2021.

Mali's monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO), which maintains a fixed peg between the CFA Franc and the Euro. Its reserves reached an estimated 5.5 months of imports in 2020 due to large donor support and reduced imports during the pandemic. Between March and October 2020, the REER appreciated by 6.4 percent y/y, reflecting the nominal appreciation of the Euro against the USD. To support regional economy and COVID-19 related extra spending, the BCEAO announced a set of monetary and macroprudential measures since March 2020, including policy rate cut and extended refinancing operations of the 3-month COVID-19 bonds to help governments and businesses.

The COVID-19 crisis has rolled back poverty reduction of the last five years. The poverty rate (US$ 1.9/day in 2011 PPP) decreased from 45.6 percent in 2015 to 42.1 percent in 2019. However, in 2020, a combined loss of income and remittances and rising prices drove up the poverty rate by three percentage points to 45 percent (representing almost a million additional people living below the extreme poverty line).

Outlook

Growth will gradually rebound, reaching 2.5% in 2021 and 5.2% in 2022. As the pandemic wanes, private consumption will continue to recover as evidenced by high frequency indicators during the second half of 2020. With new elections promised within 18 months of the political transition (since September 2020), lower political uncertainty should boost private investments, while public investments are expected to rebound in 2021-2022. Preliminary simulations suggest poverty may remain stable at 45 percent in 2021, before decreasing to 44 percent in 2022 and 43 percent in 2023.

The favorable terms of trade in recent years would narrow in 2021-2023 with projected higher oil prices and a return of gold prices to historical levels. Import demand will rise following the recovery in private consumption. The current account deficit should gradually increase and settle around 3.0 percent of GDP in the medium term, financed by FDI and increased external flows.

Tax collections will accelerate with continued reforms. Non-tax revenues and grants should increase with the expected sale of a third telecommunication license and the gradual reengagement of donors. Expenditures will remain high in 2021 with the postponement of pandemic related spending. The fiscal deficit is projected to stay at 5.5 percent of GDP in 2021 and gradually return to the WAEMU criterion of 3 percent by 2024. Public debt will reach 47.1 percent in 2023 before declining.

Downside risks to the outlook are significant, including new confinement measures, rising insecurity in the central regions, weather shocks, and a tumultuous transition.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.7	4.8	-2.0	2.5	5.2	5.0
Private Consumption	3.0	3.8	-10.3	18.4	8.3	8.3
Government Consumption	2.0	4.0	21.5	5.7	3.3	3.3
Gross Fixed Capital Investment	-0.9	6.3	-16.0	12.0	-4.4	-4.4
Exports, Goods and Services	-0.1	2.3	-19.0	4.2	4.0	4.0
Imports, Goods and Services	-12.1	5.9	-4.0	3.4	5.2	5.2
Real GDP growth, at constant factor prices	5.3	4.5	-2.2	3.5	5.2	5.2
Agriculture	5.9	4.1	-7.6	8.6	4.6	4.6
Industry	5.5	3.7	1.4	-1.2	4.9	4.9
Services	4.8	5.2	0.6	1.8	5.8	5.8
Inflation (Consumer Price Index)	1.9	-3.0	0.7	1.4	2.1	2.0
Current Account Balance (% of GDP)	-4.9	-4.9	-2.0	-2.3	-2.7	-3.6
Net Foreign Direct Investment (% of GDP)	2.7	1.8	1.4	1.1	1.1	1.1
Fiscal Balance (% of GDP)	-4.7	-1.7	-5.5	-5.5	-4.6	-3.6
Debt (% of GDP)	36.1	40.5	44.1	46.2	46.9	47.1
Primary Balance (% of GDP)	-3.9	-0.7	-4.3	-4.0	-2.8	-2.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	43.2	42.1	45.1	45.6	44.0	42.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	75.3	74.6	76.7	77.0	75.9	75.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	93.5	93.2	93.9	93.9	93.7	93.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2009-ELIM. Actual data: 2009. Nowcast: 2010-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2009) with pass-through = 0.87 based on GDP per capita in constant LCU.

MAURITANIA

Table 1 **2020**

Population, million	4.7
GDP, current US$ billion	7.6
GDP per capita, current US$	1645.0
International poverty rate ($1.9)[a]	6.0
Lower middle-income poverty rate ($3.2)[a]	24.1
Upper middle-income poverty rate ($5.5)[a]	58.8
Gini index[a]	32.6
School enrollment, primary (% gross)[b]	100.4
Life expectancy at birth, years[b]	64.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014), 2011 PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

The COVID-19 pandemic severely impacted the economy, leading to the first ever contraction since 2008 and reversing years of poverty reduction. Despite the crisis, the external and fiscal balances remained resilient in 2020, supported by increased donor financing and improved terms of trade. Growth and poverty reduction are expected to gradually recover. Risks are tilted to the downside stemming from a sustained COVID-19 outbreak, climatic hazards, delayed structural reforms, and regional insecurity.

Key conditions and challenges

Despite improved macroeconomic stability over the past five years, with prudent fiscal and debt policy after the end of the commodity super cycle in 2014-2015, Mauritania did not manage to build a diversified and inclusive economy nor make significant progress on its development agenda. As a result, the country's per capita GDP growth averaged only 0.4 percent between 2016 and 2019. This low growth per capita reflects a weak business environment impaired by limited competition and underdeveloped financial markets, poor human and physical capital, and over-reliance on extractive resources.

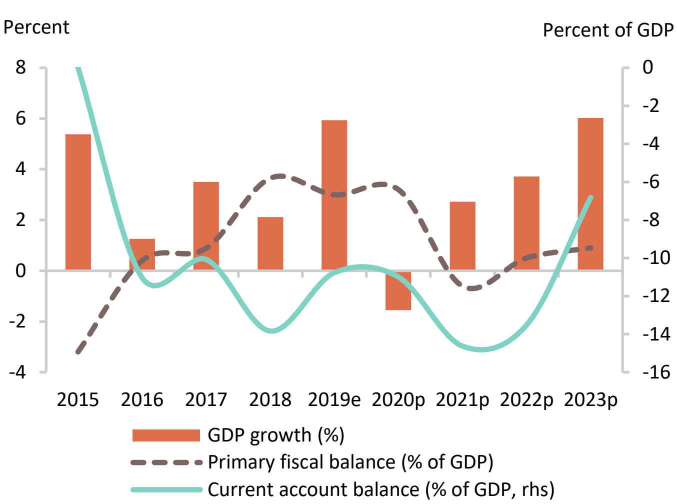
COVID-19 has exacerbated existing economic and social challenges, reversing some gains made in poverty reduction over the past few years. It has also underscored the urgent need to enact deeper structural reforms to build back a stronger, faster, and more inclusive growth model. The new priority program (PROPEP) launched in September 2020 to support the recovery and boost long-term inclusive growth in 2021–22 will require large financing and significant commitment on the political and administrative levels to materialize. Given the high risk of debt distress, the Government should maintain its prudent borrowing plans based on concessional financing. At the same time, it should utilize its fiscal space generated over the past years to ramp-up efficient social and capital spending. There is also a need to develop a simple and clear rule-based fiscal framework to effectively manage the significant gas inflows expected starting 2023. Finally, Mauritania is exposed to climate shocks (floods and droughts), which could reduce agricultural productivity.

Recent developments

The COVID-19 pandemic severely impacted the economy, leading to a contraction of 1.5 percent in 2020 (-4.2 in per capita terms). While extractive industries held up well, domestic non-extractive activity was severely affected by the pandemic. Retail and transportation services were hit by the lockdown and the fishing sector contracted due to a drop in global demand. Inflation remained low at 2.4 percent in 2020, consistent with a large negative output gap and contained food prices.

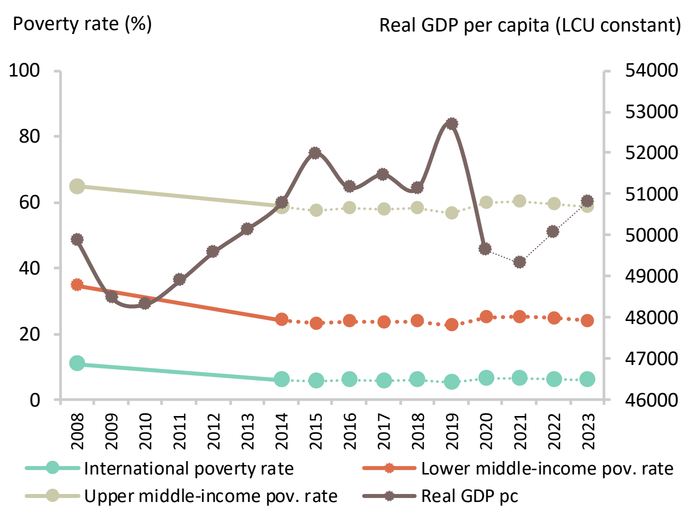
The current account deficit (CAD) remained almost unchanged at 11 percent of GDP as lower fishing exports were offset by resilient mining production and improved terms of trade (higher gold/iron export prices and lower oil import prices). The CAD was financed by strong extractive-related FDI, increased donor financing and a suspension of debt service through the Debt Service Suspension Initiative (DSSI). As a result, international reserves increased to 4.9 months of imports in 2020 and the exchange rate remained stable.

FIGURE 1 **Mauritania** / Evolution of main macroeconomic indicators



Sources: Mauritanian authorities and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

Despite the pandemic and the resulting large drop in tax revenues, the fiscal balance (excluding grants) registered a surplus of 0.3 percent of GDP in 2020. This was driven by two factors. First, non-tax revenues surged thanks to higher SOE dividends (reflecting last year's profits) and increased gasoline excise revenues due to the price differential between the lower international oil prices and the fixed domestic retail prices. Second, the increase in current transfers was offset by a combination of reduced public investments due to under-execution partly reflecting the COVID-induced lockdown. The robust fiscal position and high nominal growth reflecting improved terms of trade helped maintain the debt-to-GDP ratio around 73.5 percent of GDP in 2020.

To mitigate the impact of the crisis, the central bank eased its monetary policy by reducing its reserve requirement and policy rate. This has, however, not translated in lower lending rates nor increased lending to the private sector, thus reflecting the limited effectiveness of the monetary policy. While banking regulations were tightened with the implementation of Basel III standards, NPLs remain high at 21.5 percent in 2020.

The pandemic-induced crisis has impacted the labor market, particularly in urban areas where social distancing measures reduced economic activity in services and affected widespread-informal jobs. As a result, urban workers experienced job losses and a drop in their income. This has reversed years of poverty reduction and pushed the poverty rate (US$ 1.9/day in 2011 PPP) from 5.4 percent in 2019 to 6.3 percent in 2020.

Outlook

Assuming the vaccine roll-out starts in the second quarter of 2021, growth would recover to 2.7 percent in 2021. This u-shaped recovery will be driven by a rebound in services, particularly, as households and businesses adapt to operating in the pandemic. Growth is expected to accelerate in 2022-2023, assuming a continued recovery in private consumption, a rebound in key export markets and the onset of gas production in 2023. Despite this acceleration, real GDP per capita will not return to its 2019 level before 2024 due to the high population growth.

The CAD is expected to increase and remain elevated at 14 percent of GDP in 2021-2022 fueled by high capital investment imports and worsened terms of trade. It is then expected to shrink to 6.8 percent as hydrocarbon exports come on stream in 2023. External financing would be met by extractive related FDI and concessional financing. As a result, international reserves would remain above 4 months of imports.

Fiscal pressures will slightly increase in 2021 as the Government ramps up its social spending and public investments in line with its recovery plan. Higher spending, coupled with lower non-tax revenues, will offset the pick-up in tax revenues as the economy recovers, leading to a primary deficit (excluding grants) of 1.1 percent of GDP in 2021. As the Government unwinds COVID-19 spending measures, the primary balance will return to a surplus, putting the debt-to-GDP ratio back on a downward trend starting 2022.

Monetary policy is expected to remain prudent to ensure price stability in the short run. In the longer-term, the authorities are aiming to implement reforms for more effective liquidity management and deepen the interbank forex market.

The slow economic recovery that will be driven by the low-labor intensity extractive sector coupled with household uncertainty about the future will undermine poverty reduction. Consequently, the poverty rate would continue to increase to 6.4 percent in 2021 before taking a downward trend to reach 6 percent in 2023.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.1	5.9	-1.5	2.7	3.7	6.0
Private Consumption	2.7	2.4	-5.7	1.6	3.0	2.8
Government Consumption	4.5	5.0	6.5	8.5	2.3	5.5
Gross Fixed Capital Investment	4.1	5.5	2.4	3.5	5.4	3.9
Exports, Goods and Services	-4.0	6.0	0.7	2.0	4.5	10.4
Imports, Goods and Services	0.5	0.7	0.3	3.4	4.3	3.4
Real GDP growth, at constant factor prices	1.7	5.9	-1.5	2.7	3.7	6.0
Agriculture	2.1	1.4	-0.8	0.7	1.2	2.3
Industry	-8.4	7.2	0.4	4.9	5.7	10.6
Services	7.7	7.1	-2.9	2.3	3.6	4.8
Inflation (Consumer Price Index)	3.0	2.2	2.4	2.6	3.0	3.5
Current Account Balance (% of GDP)	-13.8	-10.8	-11.0	-14.6	-13.5	-6.8
Net Foreign Direct Investment (% of GDP)	11.0	11.6	11.5	13.3	12.7	9.2
Fiscal Balance (% of GDP)	2.5	2.1	2.4	-1.4	-0.4	0.0
Debt (% of GDP)	76.9	73.4	73.5	73.1	71.7	68.1
Primary Balance (% of GDP)	3.7	3.0	3.8	-0.4	0.6	0.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	5.9	5.4	6.1	6.1	5.9	5.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	23.8	22.5	24.3	24.3	23.8	22.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	58.3	56.6	59.1	59.1	58.5	56.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2014-EPCV. Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2014) with pass-through = 0,87 based on GDP per capita in constant LCU.

MAURITIUS

Table 1	2020
Population, million	1.3
GDP, current US$ billion	11.2
GDP per capita, current US$	8807.6
Lower middle-income poverty rate ($3.2)[a]	2.2
Upper middle-income poverty rate ($5.5)[a]	12.7
Gini index[a]	36.8
School enrollment, primary (% gross)[b]	99.5
Life expectancy at birth, years[b]	74.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

Covid-19 has led to a steep recession in 2020 despite heavy government intervention. Gradual recovery in 2021 is hampered by a new lockdown in March, and remains subject to significant downside risks, including a prolonged pandemic or failure to address longstanding structural constraints to investment, competitiveness, and skills development. The fiscal outlook depends heavily on a timely unwinding of Covid-support measures and a reform of the public pension system. The effects of Covid-19 have reversed recent gains in poverty reduction and female labor force participation.

Key conditions and challenges

On July 1 2020, Mauritius became a High Income Country. It reached this milestone in one of the worst years in its history due to the global Covid-19 pandemic. Even pre-Covid, a number of structural constraints had arisen in the Mauritian economy that put sustainable inclusive growth at risk. These include stagnating private investment, declining external competitiveness, and a rising debt to GDP ratio. These trends reflect shortcomings in policy coherence and implementation capacity to deploy public resources towards innovation and skills development as Mauritius transitions to a knowledge-based economy.

Mauritius responded to the Covid-19 shock with one of the largest support packages in the world as a share of GDP. The country relied heavily on its Central Bank, including through a non-refundable transfer to government of 13 percent of GDP and the creation of the Mauritius Investment Corporation (MIC) with a budget of up to 17 percent of GDP to finance strategic companies in distress and invest in new priority industries. As public sector activity in the economy reached unprecedented heights, a challenge will be to retract measures in a way that restores fiscal and monetary policy sustainability while resisting the temptation of open-ended support to firms that were unviable before the pandemic.

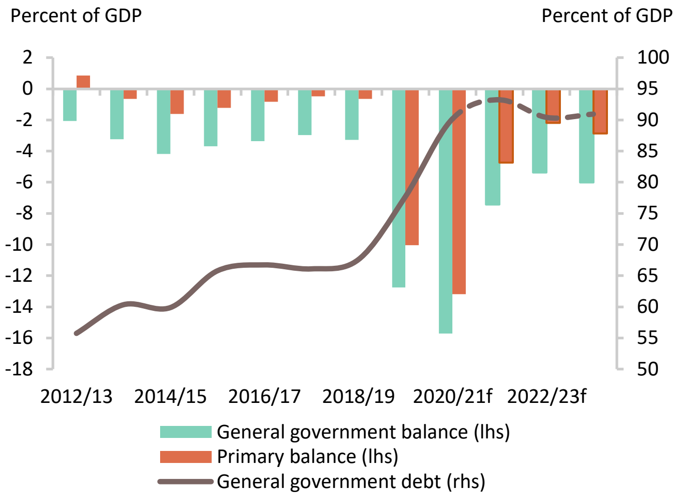
Achieving inclusive growth in the future is also linked to the challenge of overcoming constraints to a more inclusive labor market. This includes increasing the participation of youth and women with low educational attainments. Over 50,000 youth aged 16 to 29 are neither in education nor in employment, and about 1 out of 3 has obtained at most a certificate of primary education. Similarly, only 1 in 2 women participates in the labor market, and only 1 in 3 among women with low education. The impact of Covid-19 reversed recent gains in labor force participation of women.

Recent developments

After an outbreak in March that claimed 10 lives, Mauritius curbed the transmission of Covid-19 through a hard lockdown and had been Covid-free since April 2020 when a new outbreak occurred in March 2021 and the country went back on lockdown. Tourism arrivals have been near zero since the onset of the pandemic. As a result, service exports dropped 45 percent over the first three quarters of 2020. Merchandise exports contracted sharply during the second quarter but recovered in the third for an overall 15 percent drop in the first three quarters. Air cargo remains a critical constraint given limited passenger traffic.

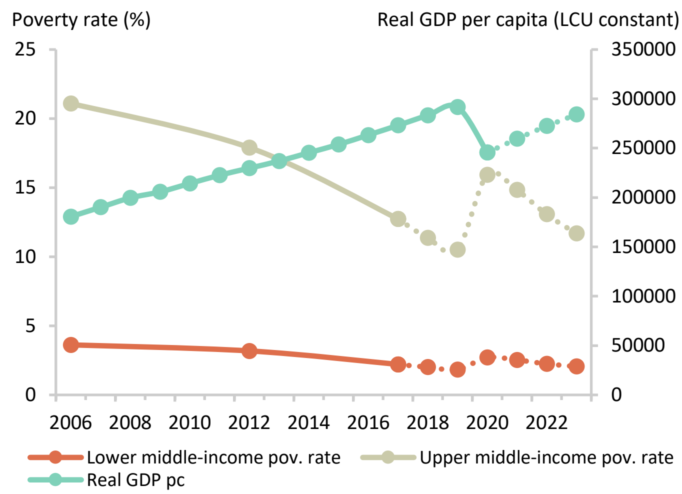
GDP contracted 15.6 percent in 2020. While government supported consumption and firm survival, the fiscal deficit rose to 13 percent of GDP in fiscal year

FIGURE 1 Mauritius / General government balance and debt



Sources: Statistics Mauritius, World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

2019/20 and public debt reached 78 percent of GDP (up from 68 percent the previous year). Merchandise exports contracted sharply during the second quarter but recovered in the third for an overall 15 percent drop in the first three quarters. Air cargo remains a critical constraint given limited passenger traffic.

The current account deficit widened to 11.7 percent of GDP, financed by a combination of surpluses in the financial account that are linked to the offshore sector and new external financing from bi- and multilateral partners. The CB intervened for close to USD 1 bln to stabilize the Mauritian Rupee after permitting an initial 10 percent depreciation at the onset of the pandemic. Reserves remain ample at 14 months of imports, and concerns over potential financial flow reversals in the offshore sector after the country's addition to the EU's AML watchlist in October have not materialized so far. Inflation was 2.5 percent in 2020.

Poverty (Upper-MIC threshold of $5.5 a day 2011 PPP) fell from 18 to 10 percent between 2012 and 2019. However, given the dramatic contraction of GDP in 2020, poverty is estimated to have increased by almost 6 percentage points as results from phone surveys (carried out in May, June and July 2020) show a significant drop in informal employment during the lockdown. Levels of informal employment in July remained 21 percent below those at the beginning of the year, with a large proportion of women exiting the labor market.

Outlook

GDP is expected to grow 3.6 percent in 2021 under a baseline that assumes a brief lockdown in response to the new outbreak, a successful rollout of vaccines, and reopening of borders in time for the main tourist season in November / December. Initial recovery is led by industry, while the services sector resumes its role as driver of growth from 2022 onwards. The main downside risk remains a prolongation of the Covid-pandemic and border closures that further delay recovery in tourism. In light of pre-Covid trends, strong and coherent policy actions to revive competitiveness, stimulate private investment, and address skills shortages will also be critical to medium term recovery.

Fiscal pressures and debt levels were already on the rise pre-Covid, and a 15.7 percent deficit is expected under the 2020/21 budget. Debt would reach 90 percent of GDP, even though most of the deficit is financed by a non-refundable transfer from the Central Bank and stabilize at that level under the baseline. This assumes withdrawal of most Covid related measures combined with gradual increases in revenue starting in fiscal year 2021/22. Downside risks are related to the timely withdrawal of Covid-measures, resisting the temptation for additional Central Bank financing and limiting the role of the MIC. A key factor for fiscal sustainability in the medium term are the outcomes of an ongoing reform of the public pension system.

Projections indicate that poverty will only fall back below 12 percent, just above the pre-COVID-19 level, well into 2023.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices[a]	3.8	3.0	-15.6	3.6	5.9	4.3
Private Consumption	3.2	3.2	-11.8	6.9	6.2	4.1
Government Consumption	4.2	2.0	-7.3	4.1	5.6	4.9
Gross Fixed Capital Investment	10.9	6.2	-22.4	-8.3	3.7	5.0
Exports, Goods and Services	2.7	-4.1	-29.4	9.6	8.3	8.0
Imports, Goods and Services	-0.2	2.5	-22.8	9.4	7.1	7.1
Real GDP growth, at constant factor prices	3.6	3.2	-15.7	3.1	6.0	4.3
Agriculture	-1.3	4.1	3.5	5.1	1.1	1.0
Industry	2.6	2.4	-7.8	11.7	1.7	1.5
Services	4.1	3.3	-18.8	0.5	7.8	5.4
Inflation (Consumer Price Index)	3.2	0.5	2.5	2.8	3.3	3.3
Current Account Balance (% of GDP)	-3.9	-5.4	-11.7	-10.7	-8.8	-6.1
Net Foreign Direct Investment (% of GDP)	10.3	14.3	8.9	15.3	15.4	14.2
Fiscal Balance (% of GDP)[b]	-3.3	-12.8	-15.7	-7.4	-5.4	-6.0
Debt (% of GDP)[b]	67.6	77.7	90.2	93.2	90.4	90.9
Primary Balance (% of GDP)[b]	-0.6	-10.0	-13.2	-4.7	-2.2	-2.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	2.0	1.8	2.7	2.5	2.3	2.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	11.4	10.5	15.9	14.8	13.1	11.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Historical demand-side data is being revised due to a consistency problem.
(b) Fiscal balances are reported in fiscal years (July 1st - June30th).
(c) Calculations based on 2017-HBS. Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021 to 2023.
(d) Projection using neutral distribution (2017) with pass-through = 1 based on GDP per capita in constant LCU.

MOZAMBIQUE

Table 1	2020
Population, million	31.3
GDP, current US$ billion	13.8
GDP per capita, current US$	441.9
International poverty rate ($1.9)[a]	63.7
Lower middle-income poverty rate ($3.2)[a]	82.4
Gini index[a]	54.0
School enrollment, primary (% gross)[b]	116.4
Life expectancy at birth, years[b]	60.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014), 2011PPPs.
(b) Most recent WDI value (2018).

The economy contracted by 1.3 percent in 2020, as the global pandemic reduced domestic activity and external demand. The poverty rate is estimated to have increased from 61.9 percent in 2019 to 63.3 percent in 2020 owing to loss of income and employment, pushing an estimated one million people into poverty. Economic recovery is expected to start in 2021, but this is subject to risks including rising COVID-19 cases, spots of military instability and delayed rollout of the COVID-19 vaccine.

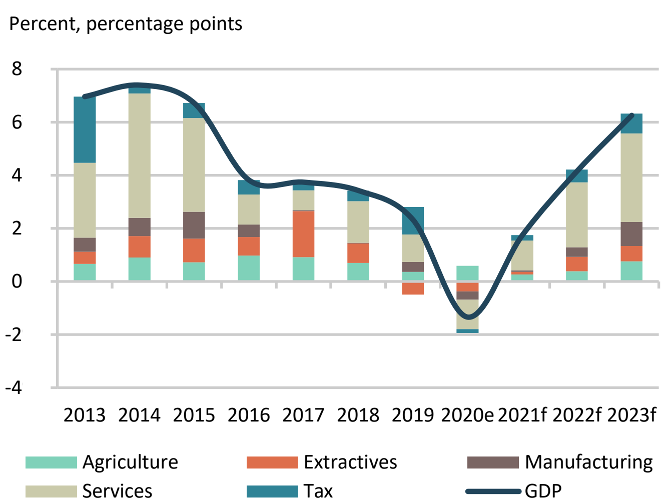
Key conditions and challenges

The impact of COVID-19 has been exacerbated by Mozambique's fragile economic structure. Despite the relatively low number of infections in 2020, the economy saw its first contraction in almost 30 years. The existing growth model, characterized by high dependence on large investments in the extractive industry and exports of commodities, with weak domestic linkages, amplified the effects of the crisis. The services and extractives sectors, main growth drivers, lost steam as disruptions in global markets reduced demand for commodities and Foreign Direct Investment (FDI) flows.
Prior to 2020, Mozambique experienced a prolonged slowdown. Between 2016-2019, growth averaged 3 percent, with GDP per capita contracting by an average of 5 percent. While the slowdown was triggered by the hidden debt crisis and climatic shocks, low labor productivity and high infrastructure deficit remain persistent constraints to growth. This, together with a private sector dominated by capital intensive megaprojects and informal enterprises, have undermined the economy's ability to generate jobs and support poverty reduction. As a result, economic disparities have increased, which, combined with pre-existing political tensions, fueled the fragility that has led to sporadic military insurgencies. While government strategic plans recognize the need to promote productivity and diversification, fiscal capacity is limited. Adding to the challenge is Mozambique's vulnerability to climatic shocks, which has recurrently reversed gains in poverty reduction.
Growth prospects rely mainly on developments in the Liquefied Natural Gas (LNG) sector, which are expected to push average annual growth to above 8 percent from 2024. However, rising uncertainty associated with COVID-19 and military insurgency pose considerable risks to future growth. Poverty incidence is expected to decrease slightly, from 63.3 to 62.2 percent between 2020 and 2023, but the number of poor is projected to increase by 1.3 million, due to population growth.
The pandemic highlighted the urgency of structural transformation to reduce vulnerability to global shocks. In the shorter-term, focus should be on recovery to avoid scarring and the loss of productive capacity. This includes measures such as employment subsidies to firms to encourage worker retention, and expansion of social protection programs to support informal entrepreneurs. In the medium and long-term, Mozambique needs to diversify away from the current megaproject-driven growth toward a more interconnected and competitive economy.

Recent developments

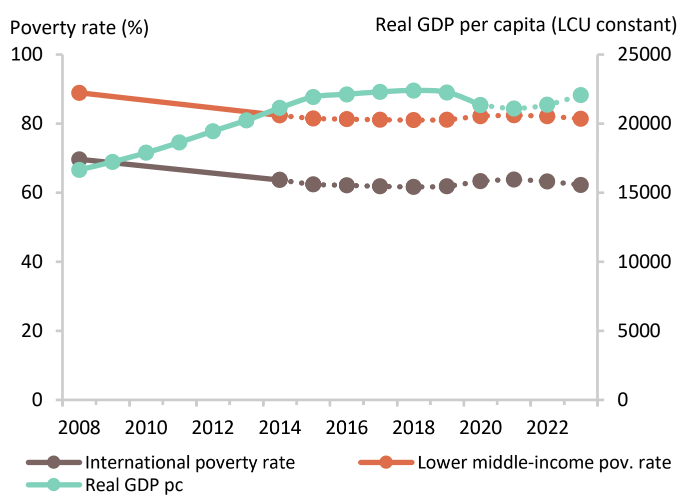
The global pandemic has substantially disrupted economic activity. Real GDP contracted by 1.3 percent in 2020, from 2.3 percent growth in 2019. While favorable weather conditions supported agricultural

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



Source: World Bank Staff Estimates.

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



Source: World Bank. Notes: see Table 2.

production, which grew by 3 percent, all other sectors recorded weak performance. Extractives sector production dropped by 17 percent due to low commodity prices and demand. The decline in domestic demand with the introduction of lockdown measures constrained manufacturing and services output. The hotel and restaurants subsectors were particularly hit, contracting by 23 percent. To support the economy, the policy rate was cut from 12.8 to 10.3 percent, but demand remained subdued. Annual average inflation stood at 3.1 percent, below the government projection of 4 percent. However, average food inflation, which affects the poor most, reached almost 9 percent. As a result, poverty is expected to increase from 61.9 in 2019 to 63.3 percent in 2020.

The external position remained largely stable in 2020. The current account deficit (CAD), excluding one-off capital gains, reached 27.3 percent of GDP in 2020, compared to 25.5 percent in 2019. Despite the drop in exports, given low global demand, the CAD improved as imports declined, largely reflecting low domestic demand, currency depreciation and delayed implementation of LNG projects. The CAD was financed by FDI, private debt and donor support. The external reserves reached US$ 3.9 billion, equivalent to 7 months of imports (excluding megaprojects).

Public finances remain under significant pressures. COVID-19 response measures and increased military spending pushed total government expenditure from 29.8 percent in 2019 to 32.5 percent of GDP in 2020. Despite weak economic activity, tax revenue collection, excluding capital gains, slightly rose from 19.4 to 20.9 percent of GDP between 2019 and 2020. This, combined with higher donor support, put estimated primary deficit at 1.3 percent of GDP in 2020 from 2.1 percent in 2019 (excluding capital gains). Total public debt increased from 108 percent of GDP in 2019 to 122 percent in 2020, due to rising financing needs and currency depreciation.

Outlook

Recovery is anticipated to be slower than expected. Growth is projected at 1.7 percent in 2021, down from the pre-COVID estimate of 5 percent, given the slow rollout of the COVID-19 vaccine, rising virus cases and deaths, and tighter containment measures. Despite the expected increase in commodity prices, muted global demand will likely keep exports low. The service sector is set to recover, but slowly, considering the still limited mobility. Agriculture will also contribute to growth recovery, as ongoing investments in irrigation, improved seeds, and distribution systems yield returns. However, unfavorable weather conditions, pose considerable risks. In the medium-term, growth is anticipated to gradually pick up, reaching 6 percent by 2023, as the LNG sector develops. However, high population growth will continue to drag per capita growth. Poverty would increase to 63.8 percent in 2021, but decline to pre-crisis level by 2023.

The CAD is projected to reach around 60 percent in the medium-term as LNG investments advance. FDI and private debt would remain the main financing sources with the external reserves position expected to remain at comfortable levels.

The fiscal outlook will likely remain challenging. Fiscal consolidation is set to resume in the medium-term. However, COVID-19, military insurgencies, and natural disasters may impede fiscal adjustment. Additionally, slower than anticipated implementation of LNG projects could delay the expected revenue. This reinforces the need for an adequate fiscal framework anchored in appropriated fiscal targets, complemented by sustainable medium-term debt objectives, and improved investment management in line with the regulatory framework.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.4	2.3	-1.3	1.7	4.2	6.3
Private Consumption	3.7	4.1	-9.9	12.2	9.3	2.3
Government Consumption	-5.7	6.1	42.2	-35.8	-1.1	-71.4
Gross Fixed Capital Investment	12.4	-8.1	106.1	-10.7	31.7	23.7
Exports, Goods and Services	36.5	-5.5	-41.1	80.7	14.5	27.0
Imports, Goods and Services	43.7	-2.5	28.5	0.1	23.4	1.4
Real GDP growth, at constant factor prices	3.4	1.4	-1.3	1.7	4.2	6.3
Agriculture	3.0	1.6	2.6	1.1	1.6	3.3
Industry	3.9	-0.6	-3.6	0.8	4.9	8.0
Services	3.4	2.2	-2.4	2.4	5.3	7.1
Inflation (Consumer Price Index)	3.9	2.8	3.1	4.0	4.4	4.8
Current Account Balance (% of GDP)	-30.3	-19.7	-27.3	-44.5	-60.6	-62.4
Net Foreign Direct Investment (% of GDP)	18.1	14.5	16.9	18.9	25.9	22.4
Fiscal Balance (% of GDP)[a]	-4.1	0.3	-4.7	-5.8	-4.8	-3.6
Debt (% of GDP)[b]	110.1	108.2	121.7	126.9	120.4	119.8
Primary Balance (% of GDP)[a]	0.3	3.6	-1.2	-2.6	-1.8	-0.7
International poverty rate ($1.9 in 2011 PPP)[c,d]	61.6	61.9	63.3	63.8	63.3	62.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	81.0	81.1	82.2	82.4	82.1	81.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Figures include once-off capital gains revenues in 2019, estimated at 5.8 percent of GDP.

(b) Calculations based on 2014-IOF.Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021 to 2023.

(c) Projection using neutral distribution (2014) with pass-through = 0.87 based on GDP per capita in constant LCU.

(d) Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021 to 2023.

NAMIBIA

Table 1	2020
Population, million	2.5
GDP, current US$ billion	10.8
GDP per capita, current US$	4265.5
International poverty rate ($1.9)[a]	13.8
Lower middle-income poverty rate ($3.2)[a]	30.3
Upper middle-income poverty rate ($5.5)[a]	51.0
Gini index[a]	59.1
School enrollment, primary (% gross)[b]	124.2
Life expectancy at birth, years[b]	63.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2018).

Namibia's economy has been hard hit by the pandemic which has triggered the sharpest contraction in recorded history. After an estimated 7.3 percent decline in 2020, GDP growth is projected to rebound to 1.8 percent this year. The adverse welfare effects of the pandemic are likely to linger, especially as the growth recovery remains hampered by pre-pandemic structural constraints, and poverty is at risk of increasing further. Growth-friendly fiscal consolidation will be essential to preserve debt sustainability.

Key conditions and challenges

Namibia's growth challenge predates the COVID-19 crisis and structural constraints are likely to limit the post-COVID recovery. The economy has been in recession in three of the last four years, indicating deep-rooted economic difficulties even before the COVID-19 shock. Per capita growth has been negative for several years. Namibia is largely dependent on investments in mineral extraction and government spending, and has suffered from falling commodity prices, weak growth in key trade partners (Angola, South Africa) and tight fiscal policy on the back of government's effort to rebalance public finances. Weak demand and skills mismatches have constrained job creation with the unemployment rate hovering at around 20 percent over the last 5 years.

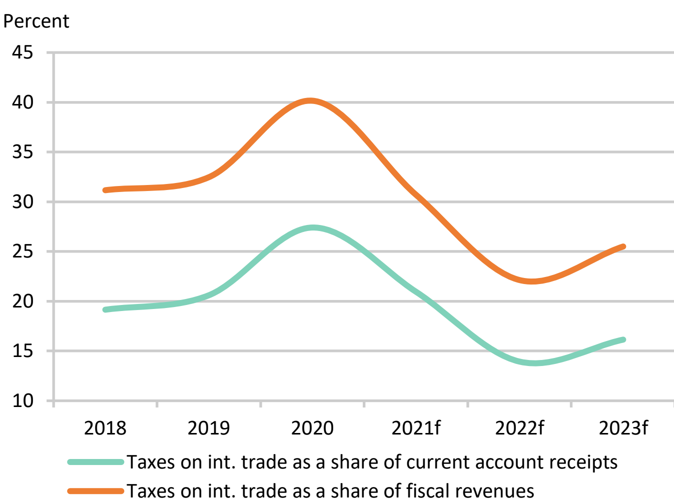
The ongoing COVID-19 pandemic and structural rigidities have resulted in elevated macroeconomic vulnerabilities. The room for additional fiscal stimulus is significantly reduced. Global and regional developments will remain an important driver of Namibia's fiscal and external positions as the country is highly reliant on commodity exports and SACU transfers. Volatility in prices of Namibia's export commodities, particularly diamonds and uranium, presents risks as do growth prospects in key trade partners (e.g. South Africa).

Uncertainty regarding the outlook this year combined with an uncompetitive business environment will continue to constrain private investment, leading to weak growth and job creation. While COVID-19 vaccinations are set to begin, the possibility of recurrent restrictive measures domestically will remain a downside risk to the recovery until the spread of the virus is sufficiently lowered. The pandemic has further exacerbated Namibia's disparities in economic opportunities and access to services. Globally, Namibia remains one of the most unequal countries and about 64 percent of the population live with less than US$5.5 daily (real PPP).

Recent developments

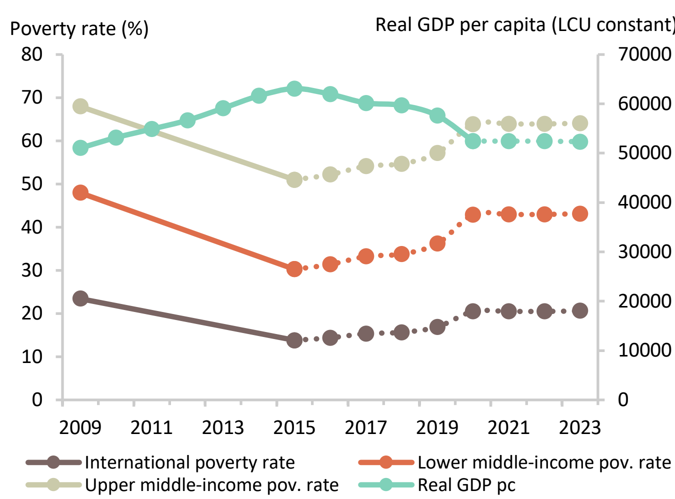
The pandemic has exacerbated preexisting challenges. Real GDP is projected to have contracted by 7.3 percent in 2020. The mining sector, an important earner of foreign exchange, contracted by 12.2 percent y-o-y over Q1-Q3 affected by domestic factors (insufficient supply of water for uranium production, depleting zinc deposits), and falling global demand (especially diamonds). The hospitality industry recorded a large contraction of 46.5 percent y-o-y following local and foreign restrictions. 200,000 more people fell into poverty bringing the number of poor to a record-high 1.6 million. On the back of depressed domestic demand, inflation averaged 2.2 percent in 2020.

FIGURE 1 Namibia / Importance of SACU transfers



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

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



Source: World Bank. Notes: see table 2.

The fiscal situation deteriorated as the pandemic delayed fiscal consolidation efforts and the COVID-19 crisis added to expenditure pressures. The government implemented a stimulus package of NAD8.3 billion (4.5 percent of GDP) that included spending on health, an emergency income grant, wage subsidies in affected sectors and loan guarantees for SMEs. As a result, expenditures are expected to reach 41.2 percent of GDP this fiscal year (ending in March 2021). At the same time, revenues declined due to fiscal relief measures and the economic contraction. The fiscal deficit is projected to widen to 10.2 percent of GDP in 2020/21 and the debt-to-GDP ratio to go up to 74.4 percent. Most of the deficit is financed through domestic market issuances and use of cash reserves. The government also approached the AfDB and IMF for budget support.

On the external side, the current account balance swung to a surplus of NAD3.6 billion over the first nine months of 2020 on the back of a smaller trade deficit – driven by lower imports – and higher SACU inflows. It is expected to have reached a small surplus of 0.6 percent of GDP in 2020, the first since 2007. Reserves rose to about US$2.1 billion at the end of 2020 and cover more than 5 months of imports.

Outlook

Namibia's potential for recovery depends on the evolution of the pandemic globally and domestically and the government's ability to address long-lasting challenges to higher economic growth. Improvement in global demand for commodities should support a rebound in exports but other sectors like tourism will remain hampered by global restrictions. Overall, GDP is expected to grow by 1.8 percent in 2021.

The authorities are committed to restoring fiscal sustainability, but public finances will remain under pressure. In a context of deteriorated social outlook and the persistence of the pandemic, additional spending pressures are likely to materialize, including vaccine expenditures. The government has secured some vaccines through the COVAX facility to cover about 20 percent of the population and is looking to scale up the program to cover 60 percent of Namibians. However, lower SACU transfers expected for the upcoming fiscal year will limit room for maneuver in the budget and translate into persistently high financing requirements. The fiscal deficit is projected to hover around 9 percent of GDP in 2021/22 and debt will continue to rise. Financing needs will be filled primarily in the domestic market. Namibia is also planning to roll-over its upcoming maturing Eurobond. Reduced SACU transfers and a larger trade deficit from next year will keep international reserves under pressure over the medium term. Monetary policy will remain driven by the peg to the Rand.

Reversing the social impact of the pandemic and putting Namibia on a higher and more sustainable growth trajectory that allows for higher job creation and poverty-reduction will require unlocking structural constraints that predate the crisis. Needed reforms include improving the business environment to foster private investment and boost productivity and diversifying the economy. Preserving social spending will also be important to limit the risks of further worsening of poverty and inequality.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.1	-1.6	-7.3	1.8	1.8	1.5
Private Consumption	-0.9	3.6	-4.7	4.1	4.2	3.5
Government Consumption	-0.1	0.4	5.2	-2.4	-2.2	-1.7
Gross Fixed Capital Investment	-5.2	-4.2	-26.6	3.0	2.7	2.9
Exports, Goods and Services	16.5	-2.0	-27.0	8.0	5.6	4.5
Imports, Goods and Services	0.9	2.4	-18.0	7.0	5.8	5.0
Real GDP growth, at constant factor prices	1.2	-1.5	-7.3	1.8	1.8	1.5
Agriculture	3.3	-5.7	7.4	1.3	1.3	1.4
Industry	6.3	-3.2	-14.2	2.7	2.5	2.7
Services	-1.2	-0.1	-5.8	1.5	1.6	1.1
Inflation (Consumer Price Index)	4.3	3.7	2.2	3.8	4.5	4.5
Current Account Balance (% of GDP)	-3.4	-1.8	0.6	-5.4	-4.5	-4.5
Net Foreign Direct Investment (% of GDP)	0.8	-1.5	-1.8	0.9	1.5	1.6
Fiscal Balance (% of GDP)[a]	-5.2	-5.5	-10.2	-9.0	-8.7	-7.4
Debt (% of GDP)[b]	54.4	62.2	74.4	80.4	85.8	89.7
Primary Balance (% of GDP)[a]	-1.3	-1.2	-5.7	-4.4	-3.9	-2.0
International poverty rate ($1.9 in 2011 PPP)[c,d]	15.6	16.9	20.5	20.5	20.5	20.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	33.8	36.2	42.9	42.9	42.9	43.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	54.7	57.2	63.9	63.9	63.9	64.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

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

(b) Refers to Public and Publicly Guaranteed debt.

(c) Calculations based on 2009-NHIES and 2015-NHIES. Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021 to 2023.

(d) Projection using annualized elasticity (2009-2015) with pass-through = 1based on GDP per capita in constant LCU.

NIGER

Table 1	2020
Population, million	24.2
GDP, current US$ billion	13.3
GDP per capita, current US$	549.4
International poverty rate ($1.9)[a]	45.4
Lower middle-income poverty rate ($3.2)[a]	77.2
Upper middle-income poverty rate ($5.5)[a]	93.6
Gini index[a]	34.3
School enrollment, primary (% gross)[b]	66.4
Life expectancy at birth, years[b]	62.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014), 2011 PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

Despite Niger's relative isolation from the global economy, the impact of the COVID -19 pandemic pushed the economy to a standstill in 2020, which translated into a 3 percent reduction in per capita income and 1.3 percentage points increase in poverty. While the outlook is fraught with downside risks related to the sanitary, security, and climatic conditions, economic growth is projected to recover in 2021 and the main macroeconomic and poverty indicators to slowly improve over the medium term.

Key conditions and challenges

The new government that will take office in April is confronting enormous challenges of creating the conditions for a self-sustaining process of rapid per capita income growth. This requires addressing the challenges and implementing structural reforms that have eluded the country for so long. The challenges include unfavorable geographic and weather conditions, extremely high fertility rates, low human capital (health and education), a large informal sector, underdeveloped private and financial sectors, large infrastructure gaps, poor governance, insecurity and other drivers of fragility, all exacerbated by weak institutions. Over the last decade Niger has consistently ranked at the bottom of the UNDP Human Development Index.

These structural challenges have been compounded by the global effects of the COVID-19 crisis. While the rates of confirmed cases and fatalities due to COVID-19 have been low by international standards and the lowest in the region, the pandemic has derailed the timid economic and social progress registered in recent years, despite Niger being prevalently a rural economy where the role of trade and remittances flows is lower than in the WAEMU average and the touristic sector underdeveloped.

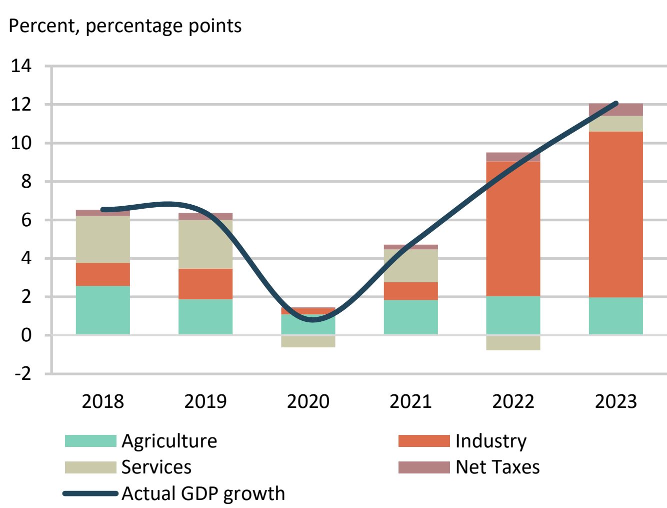
Furthermore, floods across the country in summer2020 exacerbated the humanitarian crisis with some 600,000 people adversely affected. Vaccine rollout is expected to begin in May 2021, and to reach a critical mass of the population by end-2021, clearing the way for a gradual recovery in economic and social indicators.

With US$558 per capita GDP (2010 constant prices, PPP), 42 percent of the population lives on less than US$1.9 a day. Progress in the fight against poverty, food insecurity, unemployment, and the lack of public service delivery is undermined by a fast-growing population, which is expected to increase by 25 percent by 2025.

Recent developments

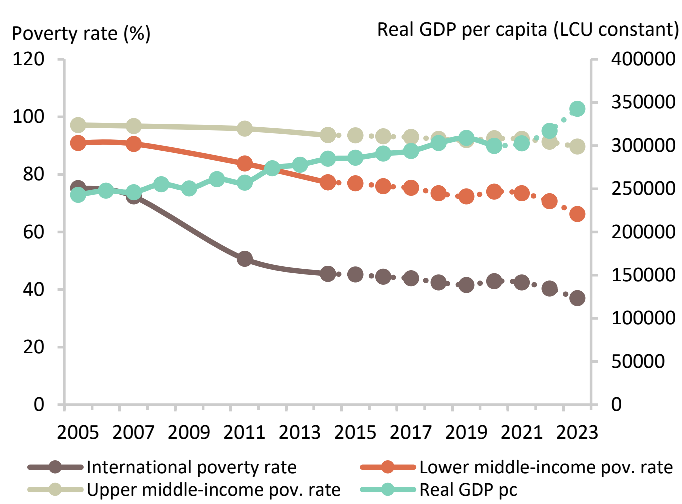
Real growth fell to 0.8 percent in 2020 (-3 percent in per capita terms). Restrictions on movement and business hours, the closure of the border with Nigeria and the halting of some investment projects undermined economic activity. External and internal shocks put pressure on inflation and strained public finances. Food shortages and speculative behaviors have pushed CPI inflation from -2.5 percent in 2019, to 3.4 percent in 2020. The fiscal deficit widened to 5.4 percent of GDP, due to a drop of 1 percent of GDP in tax revenues and the rise on 1.3 point of GDP in current spending to mitigate the effects of the pandemic, mainly through cash transfers. The current account deficit hit 16.7 percent of GDP in 2020, with a sharp drop in exports and higher imports of health products.

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



Sources: INSN and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

WAEMU pooled external reserves reached an estimated 5.5 months of imports in 2020 due to large donor support and reduced imports. Between March and October, the REER appreciated by 6.4 percent y/y, reflecting the nominal appreciation of the Euro vis-à-vis the USD. The BCEAO has implemented a set of monetary and macroprudential measures since March 2020, including a policy rate cut and extended refinancing operations of the 3-month COVID-19 bonds.

The share of the population living below the international poverty line was on a declining trend and reached an estimated 41.6 percent in 2019. The COVID-19 and related economic and social distancing measures have reversed some of these recent gains. Simulations suggest that poverty has increased by 1.3 percentage point to 42.9 percent in 2020, drawing an additional 685,000 people into extreme poverty. The COVID-19 pandemic is negatively impacting households through income losses due to job layoffs, and a deterioration of human capital endowments; for example, due to school closures that are expected to increase drop-out rates, especially for girls and the most vulnerable.

Outlook

In 2021, economic growth is expected to rebound to 4.7 percent with the reopening of the border with Nigeria and the resumption of large investment projects. The large import content of these projects will cause the current account deficit to further widen. The completion of the oil pipeline by 2023 should boost growth and exports over the medium term. GDP per capita will surpass its 2019 level in 2022 In 2021, the number of extreme poor is expected to increase by an additional 300,000 people, due mainly to population growth. In 2022, thanks to a projected strong economic performance, the poverty headcount will renew with its downward trend. It is important to note that the COVID-19 crisis will have long-lasting effects on the non-monetary dimensions of wellbeing, such as education (particularly of girls), health, and food security.

Higher economic growth will lead to an increase in fiscal revenue while the 2021 budget has kept spending constant in nominal terms. As a result, the fiscal deficit should decline to 4.5 percent of GDP with public debt peaking at 42.9 percent of GDP. The risk of external and overall debt distress is projected to remain moderate, although the space to accommodate further shocks has narrowed considerably.

The successful transfer of power in the recent general elections could increase the country's attractiveness to investors. Yet, overall risks to growth remain tilted on the downside. The duration and depth of the COVID-19 outbreak and availability of vaccines represent key short-term risks. Medium-term risks stem from adverse weather conditions and a further worsening of the security situation while high population growth will continue to pose a key challenge for the medium term. The surge in oil production calls for an adequate governance and fiscal framework to manage these flows in a stable, transparent and accountable manner.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	7.2	5.9	0.8	4.7	8.9	12.1
Private Consumption	7.3	6.7	2.8	6.0	7.0	7.9
Government Consumption	7.2	0.5	8.2	6.5	8.3	10.0
Gross Fixed Capital Investment	11.4	11.4	6.3	7.6	-3.9	-7.2
Exports, Goods and Services	-3.9	5.6	-21.5	15.0	24.0	51.0
Imports, Goods and Services	7.1	10.3	7.1	15.0	-4.2	-4.2
Real GDP growth, at constant factor prices	6.5	6.4	0.8	4.7	8.9	12.1
Agriculture	7.1	5.1	3.0	5.0	5.5	5.5
Industry	6.0	8.0	1.6	4.5	34.0	34.0
Services	6.4	6.7	-1.7	4.6	-1.7	2.6
Inflation (Consumer Price Index)	2.8	-2.5	3.4	1.7	2.0	2.0
Current Account Balance (% of GDP)	-12.6	-12.7	-16.7	-18.5	-13.7	-7.9
Net Foreign Direct Investment (% of GDP)	3.3	3.7	4.8	7.5	3.1	2.7
Fiscal Balance (% of GDP)	-3.0	-3.6	-5.4	-4.5	-3.1	-1.8
Debt (% of GDP)	37.0	39.9	41.8	42.9	42.4	41.7
Primary Balance (% of GDP)	-2.1	-2.6	-4.3	-3.4	-1.9	-0.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	42.5	41.6	42.9	42.5	40.3	37.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	73.4	72.3	74.0	73.5	70.7	66.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	92.3	91.9	92.5	92.3	91.3	89.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2011-ECVMA and 2014-ECVMA. Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021 to 2023.

(b) Projection using annualized elasticity (2011-2014) with pass-through = 1 based on GDP per capita in constant LCU.

NIGERIA

Table 1	**2020**
Population, million	206.1
GDP, current US$ billion	440.9
GDP per capita, current US$	2139.1
International poverty rate ($1.9)[a]	39.1
Lower middle-income poverty rate ($3.2)[a]	71.0
Upper middle-income poverty rate ($5.5)[a]	92.0
Gini index[a]	35.1
School enrollment, primary (% gross)[b]	84.7
Life expectancy at birth, years[b]	54.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) WDI for school enrollment (2016); life expectancy (2018).

In 2020, Nigeria plunged into a recession due to the combined COVID-19 and oil price shocks. The number of people below the international poverty line is projected to rise by 12 million between 2020 and 2023. The economy is expected to recover modestly in 2021. Reforms to enhance exchange rate management, fiscal management and the business climate would position the economy on a stronger and sustainable recovery path.

Key conditions and challenges

In 2020, Nigeria's economy entered into a recession due to COVID-19-related disruptions, notably lower oil prices and remittances, enhanced risk aversion in global capital markets, and mobility restrictions. The crisis is far from being over and a "second wave" has started in Nigeria, with the number of daily cases averaging 407 in the first week of March, although below the 642 daily peak cases recorded in June 2020.

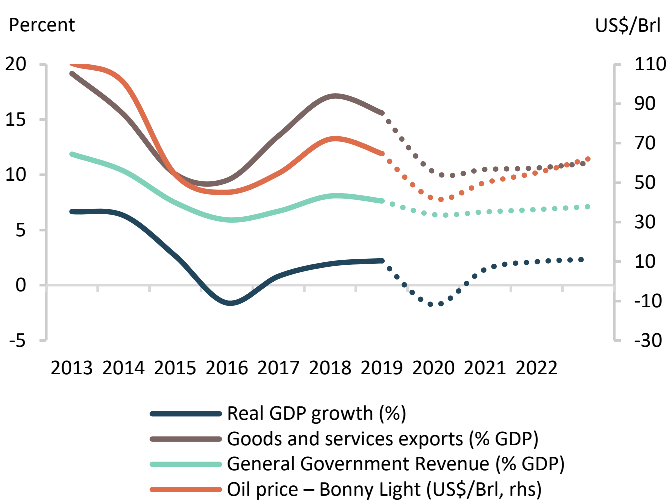
Still recovering from the 2015- 2016 recession, COVID-19 struck the Nigerian economy while the business environment remained inadequate due to double-digit inflation, multiple foreign exchange rates practices, trade restrictions. Nigeria's economy remains highly dependent on sales of crude oil. In 2019, while it only represented about 10 percent of total GDP, oil accounted for more than 80 percent of exports and more than 50 percent of consolidated fiscal revenues. Its performance has a direct effect on job creation and revenues in related manufacturing and services sectors. It also impacts unrelated sectors, mainly through an income effect. Given these macroeconomic vulnerabilities, 4 in 10 Nigerians lived below the poverty line before the COVID-19 crisis struck.

Following the COVID-19 shock, the federal government took important steps to set the foundations for fiscal sustainability: reducing fuel and electricity subsidies, increasing oil sector and debt transparency, and proceeding with implementation of VAT, business environment, and administrative reforms. Revenue-driven fiscal consolidation remains an urgent priority, as with the mounting debt service costs (including from higher central bank deficit financing) and low and shocked revenues, the interest-to-revenue ratio at the federal government level exceeded 90 percent.

Recent developments

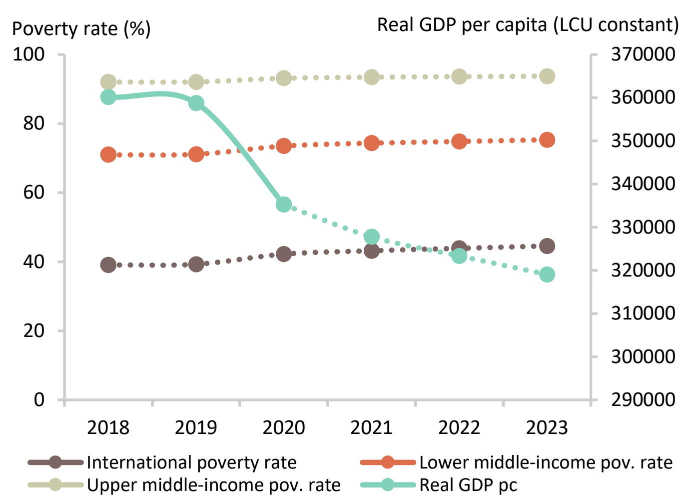
GDP contracted by 1.8 percent in 2020 driven by a decline in oil industry (due to lower oil prices and production disruptions), non-oil industry (as a result of lockdown measures and the contraction of domestic demand), and services (due to a decline in trade, accommodation and food services, and transportation). The contraction of economic activity has stopped in 2020Q4, as recovery in services and agriculture counterbalanced sustained contraction in industrial production. Annual inflation increased from 11.4 percent in 2019 to 13.2 percent in 2020 driven by higher food prices due to pre-COVID border closures and rising FX restrictions, and rapidly increasing broad money growth (32 percent by the end of 2020), partly to finance the fiscal deficit. In the December 2020 round of phone survey data, 83 percent of households reported experiencing an increase in the price of major food items between July 2020 and

FIGURE 1 Nigeria / Oil price shock transmission channels



Sources: Nigeria Authorities and World Bank.

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



Source: World Bank Notes: Table 2.

December 2020, up from 18 percent of households between January 2017 and January 2019.

The pandemic severely disrupted the labor market. While many workers have subsequently returned to work, income loss vulnerabilities remain and are contributing to food insecurity. During the second half of 2020, 58 percent of households that experienced a shock reported they reduced their food consumption.

The fiscal deficit widened to 5.8 percent of GDP following a sharp revenue fall, but timely passage of the amended budgets at both federal and state government levels helped limit the recourse to central bank financing (which, nevertheless, remained significant at 2.8 percent of GDP).

In the first three quarters of 2020 exports declined by 44 percent due to lower oil prices, while imports declined by 16 percent due to trade disruptions, FX scarcity and lower domestic demand. Resilient during the previous shocks, remittances (5 percent of GDP) have declined by 33 percent in the same period as the Nigerian diaspora experienced income shocks. While the central bank devalued the key FX rate twice during the year in the face of oil and capital inflow shocks (capital inflows declined by 59.6 percent in 2020), the movement was not sufficient to equilibrate the market. The intensified capital control measures led to FX scarcity, evidenced by the increasing parallel exchange rate premium (22 percent on average in the H2).

Outlook

Nigeria's growth is expected to recover modestly in 2021, averaging 1.4 percent, led by telecommunication services, trade due the gradual opening of borders, agriculture thanks to an additional influx of labor, and construction, in a context of higher oil prices and fewer mobility restrictions. Yet, growth will remain constrained by low public and private investment.

This baseline scenario assumes that the authorities maintain and strengthen current macroeconomic reform efforts that are essential to managing the shock-induced fiscal and external financing needs. Particular priorities include revenue-based fiscal consolidation, the reprioritization of spending and the strengthening of expenditure and debt management, reforms for financial sector stability, and the adoption of a more flexible and transparent foreign exchange management regime.

Given the combined effects of the COVID-19 crisis and population growth, the number of Nigerians living in poverty could rise by 12 million between 2020 and 2023, and by 2023 the absolute number of poor Nigerians will be close to 100 million with millions more vulnerable to falling below the poverty line if further shocks occur.

Nigeria's economic outlook remains highly uncertain. Uncertainty around the pace of vaccination and duration of the COVID-19 pandemic persists and will continue to impact household consumption and private investment. Moreover, oil sector volatility, including an unexpected shock to oil prices, and weaknesses in the soundness and growth of the financial sector, despite recent forbearance measures by the central bank, could threaten this modest projected recovery. Adequate exchange management reforms could bring portfolio flows back and foster private investment and employment creation. Even in the most favorable global context, the policy response of Nigeria's authorities will be crucial to set the foundations of a robust recovery path.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.9	2.2	-1.8	1.4	2.1	2.3
Private Consumption	5.2	-2.4	1.3	2.7	1.7	0.5
Government Consumption	33.2	15.0	13.6	1.5	0.7	3.4
Gross Fixed Capital Investment	9.7	11.8	19.0	0.2	5.4	5.4
Exports, Goods and Services	-1.4	15.0	-32.2	-0.2	2.1	8.4
Imports, Goods and Services	49.2	27.3	-23.5	3.5	5.0	10.7
Real GDP growth, at constant factor prices	1.9	2.3	-1.9	1.4	2.1	2.3
Agriculture	2.1	2.4	2.2	1.4	2.1	2.3
Industry	1.9	2.3	-5.9	1.0	3.4	3.6
Services	1.8	2.2	-2.2	1.5	1.6	1.8
Inflation (Consumer Price Index)	12.1	11.4	13.2	15.5	13.0	11.0
Current Account Balance (% of GDP)	1.0	-3.8	-2.4	0.4	1.0	0.7
Net Foreign Direct Investment (% of GDP)	0.2	0.4	0.2	0.2	0.2	0.2
Fiscal Balance (% of GDP)	-4.1	-4.6	-5.8	-4.5	-3.7	-4.3
Debt (% of GDP)	19.3	21.7	25.2	25.8	26.2	34.0
Primary Balance (% of GDP)	-2.2	-2.6	-4.1	-2.6	-1.6	-2.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	39.1	39.3	42.2	43.2	43.9	44.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	71.0	71.1	73.5	74.3	74.8	75.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	92.0	92.1	93.1	93.4	93.6	93.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2018-LSS. Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

RWANDA

Table 1	2020
Population, million	13.0
GDP, current US$ billion	10.1
GDP per capita, current US$	780.8
International poverty rate ($1.9)[a]	56.5
Lower middle-income poverty rate ($3.2)[a]	80.2
Upper middle-income poverty rate ($5.5)[a]	91.9
Gini index[a]	43.7
School enrollment, primary (% gross)[b]	131.3
Life expectancy at birth, years[b]	68.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

Rwanda's economy fell into recession in 2020 as the COVID-19-induced crisis severely hit tourism, education, and mining sectors. The twin deficits deteriorated—requiring more external financing—and are expected to remain at above their pre-crisis levels in 2021. The adverse effect of the crisis on output and employment means that poverty is expected to increase between 2019 and 2021. Real per capita GDP is expected to return to its pre-crisis level in 2022.

Key conditions and challenges

The global pandemic has exposed limitations in Rwanda's growth model. Its heavy emphasis on public investment spending (which increased by 14 percent annually between 2010 and 2020) helped Rwanda become one of the world's fastest -growing economies. But public debt grew rapidly as well—more than tripling relative to GDP since 2010—raising concerns about its long-term sustainability. In June 2020, Rwanda's risk rating of debt distress shifted from "low" to "moderate" as the pandemic severely hit growth, exports, and tax revenues. This underscores the need to adopt a credible fiscal consolidation path, strengthen debt management capacity, and shift from large public investments to growth that is led by the private sector and increased productivity.

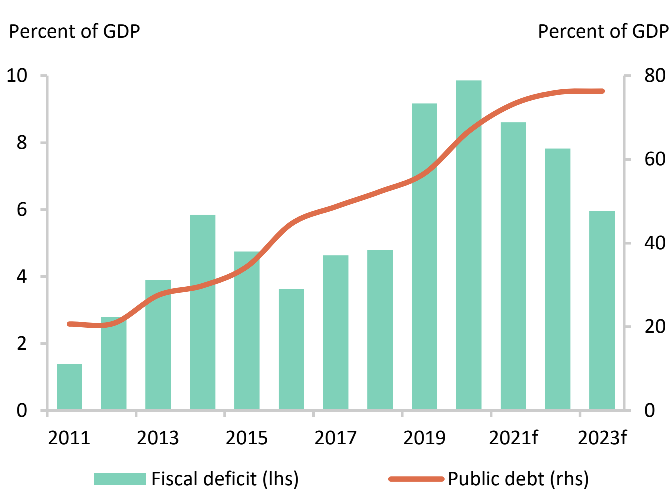
Inclusive growth remains a challenge, as the responsiveness of poverty reduction to growth has declined since 2010/11. In terms of the international poverty line of US$1.90 (2011 PPP), poverty rate declined from 69 percent to 55.4 percent over 2005–2019, but due to COVID, poverty is projected to increase in 2021 by almost 4 percentage points with respect to its 2019 value, adding close to 900,000 new poor in 2 years. This uptick in poverty increases the urgency to design a medium-term public investment strategy to achieve a more efficient allocation of resources geared toward projects critical for broad-based and inclusive economic recovery following the pandemic (e.g., supporting agriculture economy and rural livelihood, etc.).

Recent developments

The COVID-19 pandemic has driven Rwanda into its first recession since 1994. Countrywide mobility restrictions and closure of businesses caused almost all sectors to contract in Q2 and Q3 of 2020. GDP is estimated to have declined by about 3.3 percent over the full year. Heightened uncertainty weakened business sentiment, resulting in a large investment decline. Private consumption remained constant due to lower household income. The external position has deteriorated due to collapsed services exports, partially cushioned by the exports from the new gold refinery. Nevertheless, the CAD widened in 2020 and was mainly financed through external borrowing.

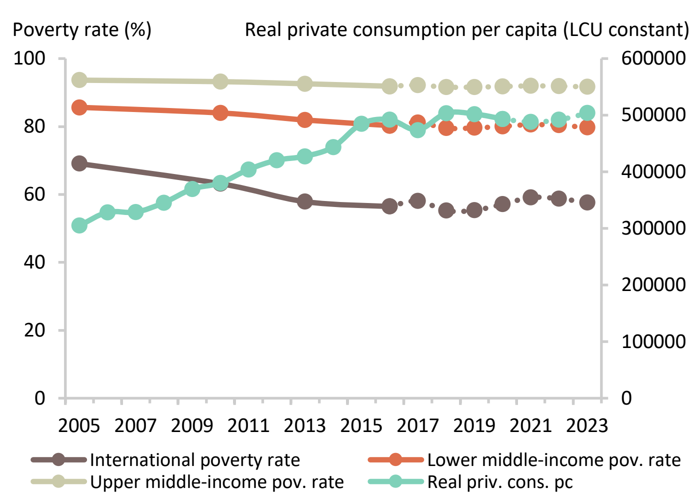
Containment measures also led to job losses, with the unemployment rate reaching 22 percent in May (from 13 percent before COVID-19). The job market showed some improvements in August, with the unemployment rate declining to 16 percent as economic activities started gaining some momentum. These job losses are expected to result in poverty increases (using the international poverty line of US$1.90) of 1.8 percentage points in 2020, or more than 400,000 Rwandans falling into poverty. Rwanda reinstated containment policies in early 2021 following renewed

FIGURE 1 Rwanda / Fiscal balance and public debt



Source: World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

waves of infections. The government continues to implement its US$900 million Economic Recovery Plan (ERP), reflected in the FY21 budget, with policies focusing on increased spending to contain the epidemic and to strengthen the health system, social protection, education, as well as support for the private sector through the recovery fund. The government is relying mainly on support from development partners to finance the ERP. BNR continues to maintain an accommodative monetary policy by keeping the policy rate at 5 percent since April 2020. Credit growth reached 21.8 percent in 2020, mainly driven by loans restructuring granted to borrowers whose activities were negatively affected by the pandemic. The banking sector remained well-capitalized and well-positioned to withstand the pandemic.

Outlook

Rwanda's medium-term outlook is clouded by COVID-19. With the pandemic likely to continue dampening business activity in 2021, GDP is projected to grow by 4.9 percent—below the pre-crisis trajectory of around 8.0 percent per year—with a gradual recovery by 2023. Real per capital GDP is expected to remain below its 2019 level until 2022. This outlook reflects the heightened uncertainty surrounding the second wave of the coronavirus at global and African levels—mainly fueled by new COVID-19 variants—that weighs on investment decisions and external demand. In addition, the elevated unemployment rate and other weaknesses in the labor market will continue to slow growth in private consumption. The recovery in private consumption will contribute to reducing poverty slightly in 2022 compared to 2021, but still at a higher level than in 2020.

Rwanda's outlook also hinges on how efficiently the government executes its economic recovery plans, as well as on the support of development partners. Government spending is projected to remain relatively high over the next few years. The fiscal deficit is expected to narrow in 2021 and 2022 as domestic revenue recovers but remain above the pre-crisis level. Besides higher financing requirements, the government will reallocate fiscal resources to priorities as defined in the ERP. The CAD is expected to remain elevated in 2021 due to lower trade and tourism activities, as global demand remains subdued. Inflation is expected to remain within the central bank's target range of 5±3 percent.

Even though Rwanda managed the second wave of COVID-19 relatively well and recent vaccine approvals have raised hopes of a turnaround, delays in obtaining a vaccine would imply longer border closures and a slower economic recovery in 2021.A downside scenario could see a 2.5 to 3 percent growth in 2021.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	8.6	9.4	-3.3	4.9	6.4	7.5
Private Consumption	9.1	2.4	0.9	1.7	3.5	5.2
Government Consumption	5.1	17.5	2.2	15.7	9.7	1.9
Gross Fixed Capital Investment	6.0	32.1	-11.8	7.3	7.8	10.5
Exports, Goods and Services	10.6	19.9	-6.5	11.0	14.7	16.7
Imports, Goods and Services	8.1	18.0	-1.2	8.5	8.5	8.5
Real GDP growth, at constant factor prices	8.5	8.9	-3.3	5.0	6.5	7.5
Agriculture	6.1	5.0	0.9	3.6	5.5	5.5
Industry	8.7	16.6	-4.0	7.4	10.7	10.7
Services	9.7	8.2	-5.2	4.9	5.3	7.3
Inflation (Consumer Price Index)	1.4	2.4	7.4	2.5	4.1	5.0
Current Account Balance (% of GDP)	-10.2	-11.0	-12.2	-12.5	-11.4	-9.3
Net Foreign Direct Investment (% of GDP)	3.6	3.7	2.4	3.6	3.6	3.8
Fiscal Balance (% of GDP)	-4.8	-9.2	-10.0	-8.6	-7.7	-5.8
Debt (% of GDP)	52.4	56.7	67.5	73.2	75.7	75.6
Primary Balance (% of GDP)	-3.6	-7.7	-8.2	-6.8	-6.0	-4.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	55.3	55.4	57.2	59.1	58.8	57.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	79.6	79.6	80.1	80.6	80.4	79.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	91.6	91.6	91.8	92.0	91.9	91.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2010-EICV-III and 2016-EICV-V. Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021 to 2023.

(b) Projection using microsimulation for 2020 and 2021, and average elasticity (2010-2016)
with pass-through = 0.7 based on private consumption per capita in constant LCU for 2022 and 2023.

SÃO TOMÉ AND PRÍNCIPE

Table 1	2020
Population, million	0.2
GDP, current US$ billion	0.5
GDP per capita, current US$	2159.4
International poverty rate ($1.9)[a]	35.6
Lower middle-income poverty rate ($3.2)[a]	65.4
Upper middle-income poverty rate ($5.5)[a]	86.4
Gini index[a]	56.3
School enrollment, primary (% gross)[b]	106.8
Life expectancy at birth, years[b]	70.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011PPPs.
(b) WDI for school enrollment (2017); life expectancy (2018).

São Tomé and Príncipe (STP)´s economy has offset recessionary effects of the COVID -19 pandemic through exceptional international support. Public expenditures boosted growth to 3.1 percent but poverty is estimated to have hardly changed in 2020. Maintaining such levels of public spending will be a challenge in 2021 and growth will need to come from the expansion of commercial agriculture and tourism. STP needs to implement structural reforms to address macro-fiscal vulnerabilities and promote greater private sector development.

Key conditions and challenges

STP is a small island country constrained by remoteness, weak private sector, and low human capital. Growth in STP has long been driven by public expenditures, especially grant- and debt-financed public investment. Such public expenditure-driven growth is no longer sustainable due to the structural decline of grants and concessional external financing in recent years, combined with historically-low domestic revenue mobilization. Persistent fiscal and current account deficits have led to debt accumulation that put the country in debt distress and present an ongoing challenge to the fixed exchange rate. Key reforms, especially on energy and taxation, are critical to maintain stability and create conditions for private sector growth. Most Sao Tomeans work in low-productivity and subsistence self-employment and extreme poverty remains high, with about one-third of the population living on less than $1.90 per day (in 2011 PPP terms). Malnutrition and deprivations in essential goods and services are prevalent and reduce human capital and productivity growth.

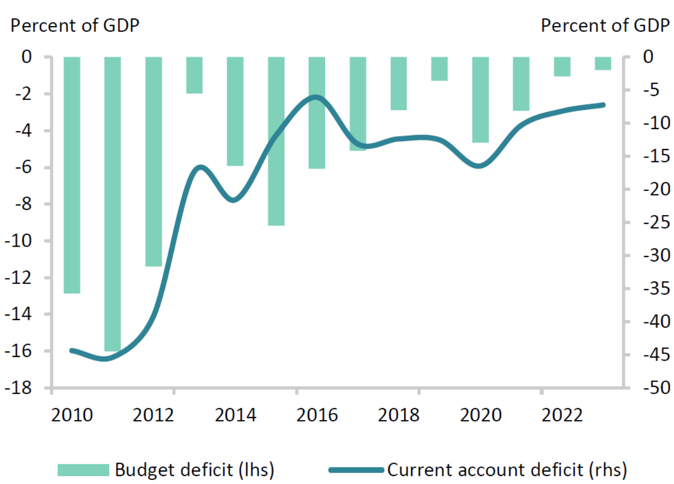
The near-halt in international tourism, a growing industry accounting directly for 2.4 percent of GDP and about 5 percent of employment, and public health measures implemented to curb the spread of disease were the main channels through which the pandemic affected STP's economy. In July 2020, most workers reported lower earnings due to business closures, reduced demand, and reduced business hours. The ongoing economic and health crisis along with presidential elections expected in 2021, could cause delays to reforms. Additional risks stem from the fragile energy sector that needs urgent investment and governance reforms. Risks to the reform agenda are partially mitigated by the support of the multilateral development partners.

Recent developments

Despite the pandemic-related freeze in tourism and the curfew, the government estimates real GDP growth at 3.1 percent in 2020, driven by the expansion of the industrial and services sectors underpinned by a 36.5 percent increase in government primary spending, much of which on salaries, goods and services, and public investment. This included a four-fold increase in support to vulnerable households. Industrial activity expanded by 4.4 percent boosted by construction, which benefited from an increase of externally-financed public investments. A palm oil mill began production in end-2019, contributing to industrial growth. The services sector grew 2.2 percent sustained by public administration. Consequently, poverty is expected to have remained stable.

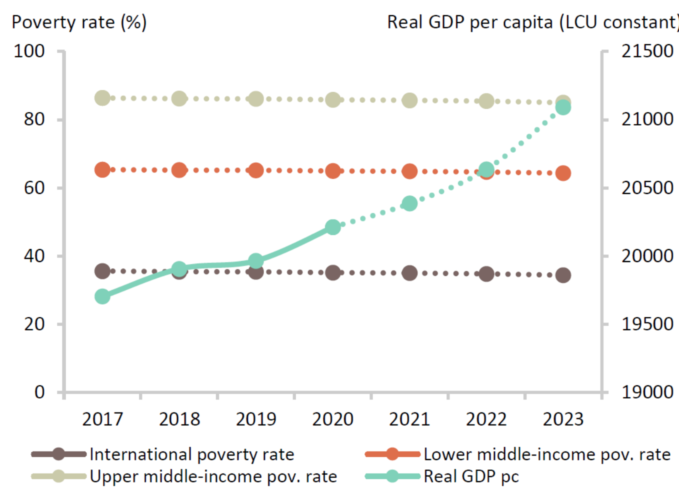
The current account deficit widened from an estimated 12.5 percent of GDP in 2019 to 16.5 percent of GDP in 2020. The trade

FIGURE 1 São Tomé and Príncipe / Twin current account and primary fiscal deficits



Sources: Government authorities, IMF and World Bank staff estimates and projections.

FIGURE 2 São Tomé and Príncipe / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

deficit has improved from 26.5 to 21.7 percent of GDP, explained by increased goods exports (e.g. palm-oil), while imports declined mostly due to lower costs of oil products. Net international reserves increased to US$37 million in end-2020 from US$32 million at end-2019, bolstered by emergency lending.

Reflecting the public spending increase and supply constraints, inflation stood at 9.4 percent in 2020. Also, the tight monetary policy stance was relaxed to provide emergency liquidity support to the banking sector, which increased money supply (M2) by 9.4 percent YoY in November 2020.

The pandemic response has widened the budget deficit. Despite the higher domestic revenues, the additional public expenditures to address the pandemic contributed to an estimated primary deficit of 5.5 percent of GDP in 2020, which was financed mostly by grants. Public debt decreased to 90.7 percent of GDP, and STP remains in debt distress due to unsettled long-standing external arrears although debt is deemed sustainable under programmed policies.

Outlook

Growth is expected to moderate to 2.7 percent in 2021 as the public spending impulse wanes. Agricultural activity is expected to expand due to higher palm oil and cocoa production, while increased public investment and implementation of externally financed projects are expected to support industrial activity. The services sector will benefit from fewer mobility restrictions, which will contribute to increased trade and tourism activity. However, this is conditional on the COVID-19 outbreak being controlled and progress in vaccination.

With a recovery of the tourism sector and gains in palm oil exports, the current account deficit (excluding grants) should decline to below 15.0 percent of GDP in 2021–22. The trade balance is projected to improve, despite higher oil prices. FDI, oil-related and other, is expected to increase as global oil prices recover and the government implements structural reforms to attract private investors.

Inflation is projected to moderate to 9.0 percent in 2021 as the lifting of the pandemic-related disruptions relieves inflationary pressures. Additionally, fiscal consolidation and tighter monetary policy are expected to reduce inflation in the medium-term, although the planned introduction of VAT in 2021 may create additional inflationary pressures. To mitigate the impact on poverty, coverage of the transfer program will increase to 15,000 households.

The fiscal balance is expected to improve in the medium-term as the government resumes fiscal consolidation, improves tax collection, and adopts measures to reduce losses in the electricity sector. These should contribute to a gradual decline in public debt. Additionally, the authorities have committed to borrow externally only on concessional terms under the IMF program.

The reintroduction of travel restrictions, and slow progress in vaccination could delay the recovery of tourism in STP. In addition, a weak global recovery could undermine the agricultural sector due to lower exports, while delays in externally-financed projects can subdue industrial activity. Under such a downside scenario, real GDP could contract by around 4.8 percent.

TABLE 2 São Tomé and Príncipe / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.9	2.2	3.1	2.7	3.5	4.0
Real GDP growth, at constant factor prices	2.1	2.5	2.3	2.7	3.5	4.0
Agriculture	-3.3	1.0	-1.1	1.7	2.0	2.8
Industry	0.8	0.7	4.4	3.0	3.3	3.5
Services	3.1	3.2	2.2	2.7	3.7	4.2
Inflation (Consumer Price Index)	7.9	7.8	9.9	9.3	7.8	6.1
Current Account Balance (% of GDP)	-12.4	-12.5	-16.5	-10.3	-8.2	-7.3
Fiscal Balance (% of GDP)	-2.9	-1.3	-4.7	-2.9	-1.1	-0.7
Debt (% of GDP)	96.2	97.7	90.7	89.4	86.3	81.9
Primary Balance (% of GDP)	-2.5	-0.6	-4.3	-2.5	-0.7	-0.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	35.5	35.4	35.2	35.0	34.8	34.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	65.2	65.2	65.0	64.8	64.7	64.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	86.2	86.1	85.8	85.7	85.4	85.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2017-IOF. Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021 to 2023.

(b) Projection using point to point elasticity at regional level with pass-through = 0.7 based on GDP per capita in constant LCU.

SENEGAL

Table 1	2020
Population, million	16.7
GDP, current US$ billion	24.2
GDP per capita, current US$	1447.1
International poverty rate ($1.9)[a]	38.5
Lower middle-income poverty rate ($3.2)[a]	68.4
Upper middle-income poverty rate ($5.5)[a]	88.4
Gini index[a]	40.3
School enrollment, primary (% gross)[b]	82.1
Life expectancy at birth, years[b]	67.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2011), 2011 PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

Senegal experienced its first contraction since 1990 as COVID-19 induced global and local demand shocks hit the service sector. Growth fell from 4.4 percent in 2019 to -0.7 percent in 2020, resulting in the incidence of extreme poverty increasing from 35.9 to 36.6 percent along with a widening of the twin fiscal and current account deficits. Recovery is expected to be gradual, with downside risks stemming from a sustained pandemic, climatic hazards, terms of trade shocks, and delayed structural reforms.

Key conditions and challenges

Over the past decade, Senegal benefited from enhanced international competitiveness, a demographic transition and structural transformation. Average annual growth of 5 percent between 2011-2019 reduced the poverty rate by 5 percentage points (using the national poverty line). However, Senegal's track record falls short of top performing Sub-Saharan African countries, which reduced poverty rates between 1 and 3.4 ppts per year. Worryingly, inequality has stagnated over the same period, with a Gini coefficient stable at 0.35 and persistent spatial and socio-demographic disparities, including gender gaps.

The combination of a COVID-19 induced global recession, disruptions in supply chains and containment measures have taken a heavy toll on the economy. The pandemic also highlighted structural vulnerabilities hampering Senegal's potential for resilient and equitable growth. On the one hand, insufficient and unevenly distributed human capital and structural inequalities constrain labor supply. On the other hand, the private sector has been unable to generate enough productive jobs to keep up with high population growth, stifled by insufficient competition and inadequate financing. The crisis also aggravated emerging fiscal vulnerabilities, underlining the importance of transparent, effective fiscal and debt management as a foundation of inclusive growth. Finally, Senegal is exposed to coastal erosion and climate shocks (floods, droughts, and associated health hazards), which could affect recovery in key sectors such as tourism and reduce agricultural productivity.

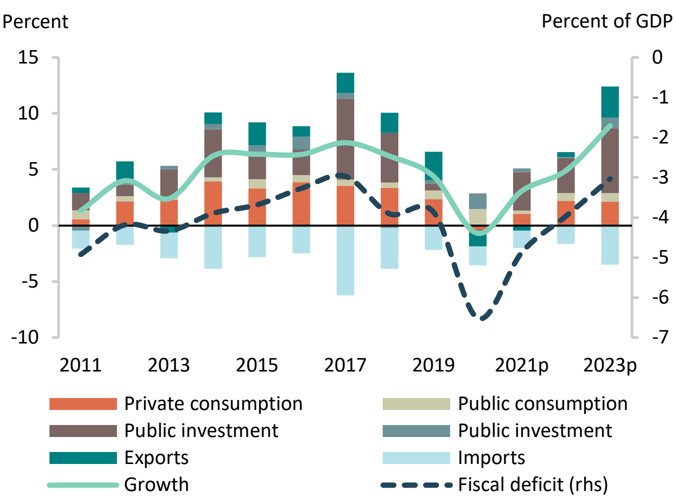
Recent developments

The COVID-19 outbreak halted years of strong economic performance. The economy is estimated to have contracted by 0.7 percent in 2020, from growth of 4.4 percent in 2019. This first recession since 1990 was driven by weak activity in real estate, the hospitality and tourism industry, and ICT. Despite a negative output gap, inflation increased from 1 percent in 2019 to 2 percent in 2020 due to higher transport and food prices stemming from confinement measures and supply chain disruptions.

The Current Account Deficit (CAD) widened from 7.8 percent of GDP in 2019, to 10.7 percent in 2020, as weak demand in key export markets affected export performance, particularly tourism services. The CAD was financed by strong hydrocarbon related FDI and increased development assistance.

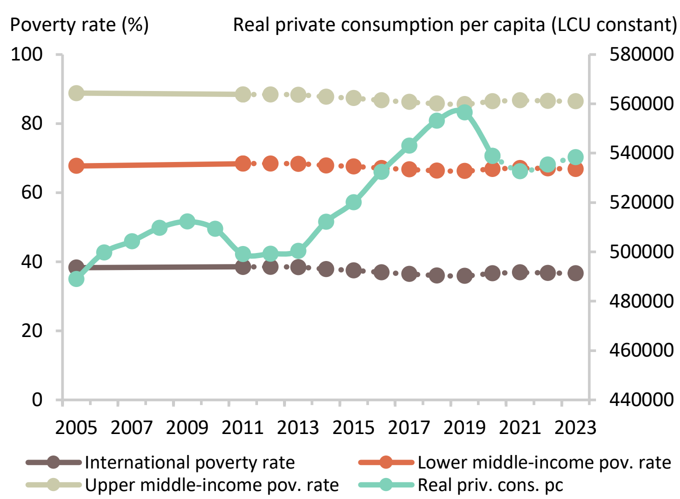
While public debt remains sustainable, the crisis aggravated pre-existing fiscal imbalances. After widening to 3.8 percent of GDP in 2019, the fiscal deficit deteriorated further to 6.5 percent of GDP in 2020. This reflects a combination of lower tax revenues resulting from the slowdown in economic activity and increased spending to mitigate the

FIGURE 1 Senegal / Real GDP growth and contributions to real GDP growth and fiscal balance



Sources: Senegalese authorities and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

impact of the crisis. As a result, the debt to GDP ratio maintained its pre-crisis upward trend and increased from 64.5 percent of GDP in 2019, to 67.6 percent in 2020.

Senegal's monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO), which maintains a fixed peg between the CFA Franc and the Euro. Its reserves reached an estimated 5.5 months of imports in 2020 due to large donor support and reduced imports during the pandemic. Between March and October 2020, the REER appreciated by 6.4 percent y/y, reflecting the nominal appreciation of the Euro against the USD. To support the regional economy and COVID-19 related extra spending, the BCEAO announced a set of monetary and macroprudential measures since March 2020, including a policy rate cut and extended refinancing operations of the 3-month COVID-19 bonds to help governments and businesses.

As a result of COVID-19, and the related household income loss, the poverty rate (US$ 1.9/day in 2011 PPP) increased from 35.9 percent in 2019, to 36.6 percent in 2020. This increase was more pronounced in urban areas where social distancing measures reduce economic activities in service sectors and informality is widespread.

Outlook

Assuming the pandemic gradually recedes (helped by the roll-out of vaccines in 2021Q2), real GDP growth should recover to 3.1 percent in 2021. This u-shaped recovery would be driven by a rebound in services as households and businesses adapt to operate in the pandemic. Growth is expected to accelerate in 2022-2023 to an average of 6.9 percent, building on stronger exports, a pick-up in private investment and the resumption of major extractive projects with first gas coming onstream by end 2023. Given the high population growth, the current projections indicate that per capita GDP will not return to its 2019 level before 2023. Prudent monetary policy and exchange rate stability should keep inflation around 2 percent.

The CAD is expected to remain elevated at about 10.5 percent of GDP in 2021-2022 fueled by high capital investment imports and worsened terms of trade (for oil and gold). It is then expected to sharply shrink to about 4.5 percent as hydrocarbon exports come on stream in 2023. Financing needs would be met by access to regional and international capital markets increased external (concessional) borrowing and hydro-carbon related FDI. WAEMU reserves would reach about 5 months of imports by 2021 as member countries digest the COVID-19 crisis, helped by a normalization of fiscal spending and capital inflows.

Fiscal pressures will gradually ease as continued tax revenue mobilization efforts – supported by a medium-term revenue strategy– help to rebuild fiscal space. This will be coupled by the unwinding of COVID-19 spending to pre-crisis levels. As a result, the fiscal deficit will converge to the WAEMU criterion of 3 percent of GDP by 2023, putting the debt-to-GDP ratio on a downward trend starting 2022.

With the expected recovery over 2021-2023, the international extreme poverty rate will start declining slowly to reach 36.7 percent by 2023, however, staying above 2019 levels. At the same time, per capita GDP is set to return to pre-crisis levels by 2023, suggesting deeper scarring among the poor.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	6.2	4.4	-0.7	3.1	4.9	8.9
Private Consumption	4.7	3.4	-0.5	1.5	3.2	3.2
Government Consumption	3.5	5.5	10.7	1.9	4.8	5.0
Gross Fixed Capital Investment	13.7	8.4	3.6	11.4	8.7	17.8
Exports, Goods and Services	8.2	11.2	-5.0	-2.0	2.0	13.1
Imports, Goods and Services	9.0	5.3	4.0	3.5	3.7	8.0
Real GDP growth, at constant factor prices	6.1	4.3	-0.7	3.1	4.9	8.9
Agriculture	8.1	4.5	6.3	3.2	2.6	2.0
Industry	6.5	3.7	2.9	3.8	5.2	20.5
Services	5.4	4.6	-4.2	2.8	5.5	5.4
Inflation (Consumer Price Index)	0.5	1.0	2.0	1.7	2.0	2.0
Current Account Balance (% of GDP)	-9.1	-7.8	-10.7	-10.3	-10.1	-6.6
Fiscal Balance (% of GDP)	-3.9	-3.9	-6.5	-4.9	-4.0	-3.0
Debt (% of GDP)	62.4	64.5	67.6	68.9	68.2	67.4
Primary Balance (% of GDP)	-1.9	-1.9	-4.3	-2.9	-1.9	-0.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	36.1	35.9	36.6	36.9	36.8	36.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	66.4	66.3	66.9	67.1	67.0	66.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	85.8	85.6	86.4	86.7	86.6	86.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2005-ESPS-I and 2011-ESPS-II. Actual data: 2011. Nowcast: 2012-2020. Forecast are from 2021 to 2023.

(b) Projection using point to point elasticity at regional level with pass-through = 0.87 based on private consumption per capita in constant LCU.

SEYCHELLES

Table 1	2020
Population, million	0.1
GDP, current US$ billion	1.2
GDP per capita, current US$	12313.9
International poverty rate ($1.9)[a]	0.5
Lower middle-income poverty rate ($3.2)[a]	1.1
Upper middle-income poverty rate ($5.5)[a]	5.2
Gini index[a]	32.1
School enrollment, primary (% gross)[b]	100.4
Life expectancy at birth, years[b]	72.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

Real GDP declined by 13.3 percent in 2020 and is projected to increase to 1.8 percent in 2021 as the tourism industry recovers in the second half of the year. In the medium-term, economic growth is expected to rebound, but the fiscal burden attached to the government's response package is expected to linger and substantially delay the country's ability to reach its debt target. Poverty increased in 2020 due to the impact of COVID-19.

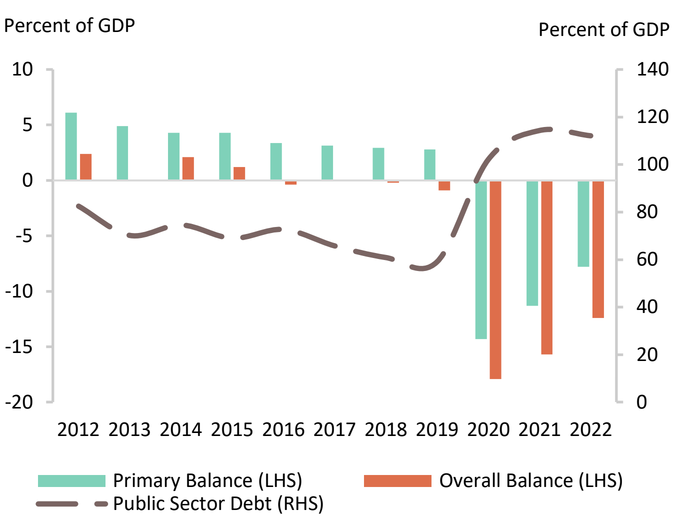
Key conditions and challenges

A lack of economic diversification and the high dependence on the tourism and fishing sectors as well as imports, exposes Seychelles to external shocks. These shocks are transmitted through disruptions in international travel and tourism demand; fluctuations in fishing stocks and instabilities in the price of essential commodities such as food and fuel prices. Seychelles is also exposed to fiscal risks emanating from the share of short-term domestic debt in total government debt and fiscal risks from State -owned enterprises (SOEs), particularly Air Seychelles, whose financial difficulties has been exacerbated by the decline in the global travel industry.
As the pandemic continues to unfold, the Seychelle's economy will continue to feel the effects of the decline in the global travel industry. Also, unemployment may increase as the government winds down the financial assistance for job retention program to the private sector. While the country's attempts to increase the benefits of various social protection programs in the last few years have partly contributed to a decline in poverty between 2013-18, the impact of COVID-19 have tempered the gains made. Majority of low-income workers are employed in accommodation and food service activities, health services, and business support activities. As a result, they have been significantly impacted by COVID-19.

Recent developments

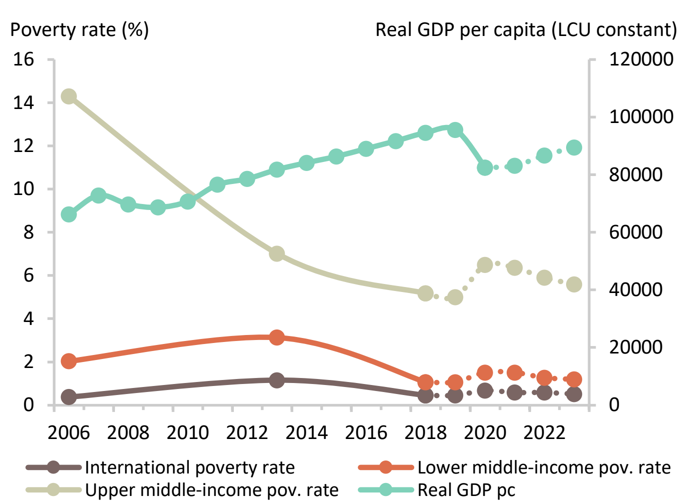
Seychelles economy is still grappling with the negative effects of COVID-19 since its onset in early 2020. The spread of the virus led to a 60 percent decline in the tourism industry and a decline of 13.4 percent in economic activity. In addition to the contraction in economic activity, the year was characterised by financial difficulties in the private sector and frictions in the labour market. Given the significant decline in the performance of the tourism industry, the fisheries and manufacturing sectors are currently the leading drivers of the economy. However, income generated from these two sectors was insufficient to offset the loss in income from the tourism industry.
The Government of Seychelles responded to COVID-19 with measures to mitigate the economic fallout on businesses and households. As a result, expenditures increased drastically to 52 percent of GDP in 2020 from 37.7 percent of GDP in 2019. At the same time, revenue declined to 34 percent of GDP from 37.6 percent of GDP in 2019 due to lower aggregate demand as tourism activities declined. Consequently, the fiscal deficit increased to 17.8 percent of GDP in 2020 from 1 percent in 2019. The financing gap that arose was financed with increased borrowing from both the domestic and external markets. This resulted in an increase in the debt to GDP ratio to 102.3 percent of GDP from 58.7 percent in 2019. The shock to GDP and the deprecation in the

FIGURE 1 Seychelles / Fiscal balance and public sector debt



Sources: WDI and staff estimates.

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



Source: World Bank. Notes: see Table 2.

exchange rate also contributed to increasing debt levels.

Vulnerable households linked to economic sectors affected by COVID-19 face a substantially elevated risk of falling into poverty, at least in the short-run. While the full impact of COVID-19 on poverty in 2020 is not yet known, poverty is projected to rise to 6.5 percent in 2020. The unemployment rate jumped to 4 percent in the third quarter of 2020, from 2.3 percent in the last quarter of 2019. This was primarily driven by a decline of 1.7 percent in employment in tourism related industries due to the drastic drop in visitor arrivals. However, the unemployment rate peaked at 4.8 percent in the fourth quarter of 2020 and started to decline since then due to the mitigating impact of the financial assistance for job retention program implemented by the government of Seychelles.

Outlook

Economic growth is projected to recover to 1.8 percent in 2021 contingent on the recovery of the tourism sector which is heavily reliant on external developments such as the revival of the global economy and the rate of vaccination, particularly in key tourism markets. The performance of the economy in 2021 is also dependent on the government reaching its target of vaccinating 70 percent of the population. In the medium-term, economic growth is expected to recover as global travel resumes. Inflationary pressures are anticipated to be higher in the short to medium term on account of the depreciation of the domestic currency, a trend that is expected to persist if foreign exchange demand continues to exceed supply.

The fiscal deficit is expected to contract over the medium-term, as the increase in spending associated with COVID-19 subsides. Revenue collection will increase in the medium-term driven by a resumption of economic activities although generous loss-carry forward provisions and gradual recovery in tourism will likely continue to suppress VAT and business tax collection below pre-crisis levels for several years to come. Meanwhile, expenditure is projected to remain higher than pre-crisis levels in 2021 as the spending associated with COVID-19 continues until the end of the first half of the year. The debt to GDP ratio will remain above the debt target <50 percent of GDP in the medium-term (that was to be reached by 2021), by several years. The fiscal position faces risks from interlinked domestic factors such as fiscal and debt sustainability.

Poverty is projected to slowly continue to decline to 5.9 percent by 2022 ($5.5 a day per capita line), following an increase to 6.5 percent in 2020 due to COVID-19. Nevertheless, this depends on the ability of the tourism and services sectors to bounce back over the next few years. Finally, the high level of social spending undertaken by the GoS is expected to become unsustainable in the wake of a rapidly aging population and in the context of COVID-19 which has led to an increase in fiscal pressures. Thus, a cut in social spending is likely to lead to an increase in both poverty and inequality in the post-COVID stage.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.1	2.0	-13.3	1.8	4.3	4.2
Private Consumption	3.3	4.8	-10.8	6.7	5.8	5.3
Government Consumption	8.8	-0.2	4.3	4.1	2.3	-1.5
Gross Fixed Capital Investment	3.8	-2.7	-37.7	22.1	3.1	8.3
Exports, Goods and Services	2.9	2.0	-39.6	30.9	7.5	7.4
Imports, Goods and Services	4.0	0.9	-38.2	38.2	6.5	6.5
Real GDP growth, at constant factor prices	4.1	1.8	-13.4	1.8	4.3	4.2
Agriculture	0.9	1.1	-0.2	1.0	1.1	1.1
Industry	2.4	2.1	0.7	2.0	2.4	2.0
Services	4.4	1.7	-15.4	1.8	4.7	4.6
Inflation (Consumer Price Index)	3.7	2.0	1.2	3.7	2.5	3.0
Current Account Balance (% of GDP)	-19.6	-18.8	-29.7	-36.9	-34.9	-29.2
Net Foreign Direct Investment (% of GDP)	17.2	17.7	10.1	16.3	18.7	22.6
Fiscal Balance (% of GDP)	-0.2	1.0	-17.8	-15.7	-12.4	-9.0
Debt (% of GDP)	59.7	58.7	102.3	114.3	112.1	106.4
Primary Balance (% of GDP)	2.9	3.6	-14.3	-11.3	-7.8	-4.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.5	0.5	0.7	0.6	0.6	0.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	1.1	1.1	1.5	1.5	1.3	1.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	5.2	5.0	6.5	6.4	5.9	5.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2018-HBS. Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

SIERRA LEONE

Table 1	2020
Population, million	8.0
GDP, current US$ billion	3.8
GDP per capita, current US$	471.8
International poverty rate ($1.9)[a]	43.0
Lower middle-income poverty rate ($3.2)[a]	76.0
Upper middle-income poverty rate ($5.5)[a]	92.7
Gini index[a]	35.7
School enrollment, primary (% gross)[b]	143.7
Life expectancy at birth, years[b]	54.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) Most recent WDI value (2018).

Sierra Leone's economy contracted by 2.2 percent in 2020, reversing recent poverty reduction gains. Despite monetary accommodation, inflationary pressures eased as nonfood prices fell. The current account deficit narrowed with increased official transfers to support government's response to the COVID-19 pandemic. But the fiscal deficit widened on revenue shortfalls and health-related spending pressures. Spurred by investments in mining and agriculture, the economy is expected to recover over the medium-term with growth averaging 3.6 percent supporting a gradual decline in poverty.

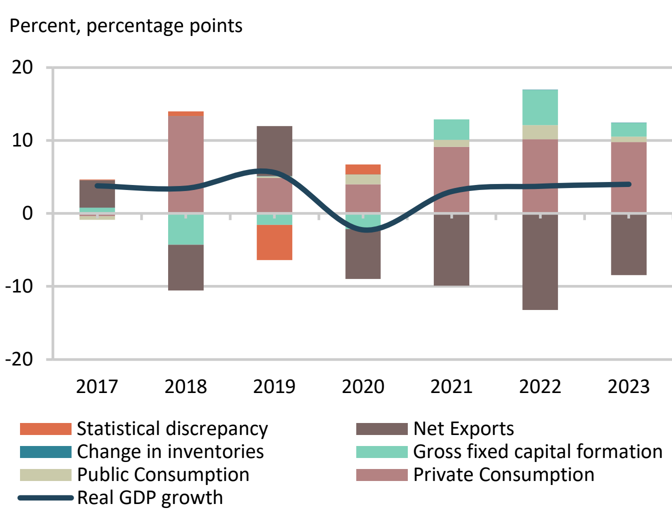
Key conditions and challenges

Sierra Leone's long-term growth performance has oscillated due to its vulnerability to both domestic and external shocks. Growth averaged 4.4 percent over the past decade, despite sharp economic contractions in 2015 and 2020 following the 2014 Ebola and COVID-19 pandemics, respectively. The country's reliance on commodity exports has caused economic growth to be highly volatile. The collapse of commodity prices in 2014/15 due to weak global demand resulted in closure of the two largest iron ore mines and a 74.6 percent reduction in mineral exports. Income per capita grew by just 2.8 percent per annum during the last ten years, reflecting low investments in physical and human capital and faster population growth (at 2.2 percent per annum), indicating that the economy is not growing fast enough to significantly reduce poverty. At the current rate it would take a generation to double income to substantially reduce the rate of poverty. Low human and physical capital accumulation due to low national savings and limited access to long-term capital have resulted in negative total factor productivity (TFP) growth. Over the past decade, Sierra Leone made significant progress in reducing extreme poverty (living on less than $1.9-a-day in 2011 PPP) from over 60 percent in 2009 to 40.5 percent in 2019. However, the global pandemic reversed these gains and in 2020, poverty increased sharply to 43.4 percent. Economic growth and incomes fell in 2020 following disruptions in supply chains, travel restrictions and border closures, and lower demand in advanced economies and emerging markets. In the first three months of the pandemic, the vast majority of households saw decreases in self-employment, wage, and non-labor income. Between July and November 2020, self-employment and wages saw a rebound, while non-labor income continued to decline. The government developed a Quick Action Economic Response Program (QAERP), which combined monetary and fiscal stimulus measures to maintain macroeconomic stability and help mitigate the COVID-19 impact on businesses and households.

Recent developments

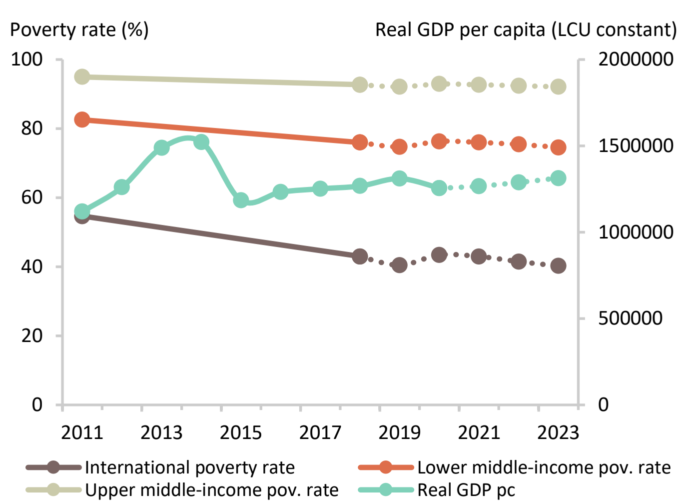
Sierra Leone's economy contracted by 2.2 percent in 2020 – 0.9 percentage point less than the World Bank's October 2020 forecast, reflecting easing of COVID-related restrictions in the second half of the year and the implementation of the QAERP. The contraction was driven mainly by a 10.0 percent decline in services, especially trade, travel and tourism. The pandemic related restrictions and supply chain disruptions also slowed activities in agriculture. Industry also declined by 1.8 percent largely reflecting the deceleration of mining activities due to the pandemic. On the demand side, lower gross fixed investments and net-exports out-weighed the

FIGURE 1 Sierra Leone / Real GDP growth and contributions to real GDP growth



Sources: Sierra Leone authorities and World Bank staff estimates and projections.

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



Source: World Bank. Notes: see table 2.

increase in public consumption attributable to government's COVID-19 response. Average inflation fell to 13.5 percent in 2020 from 14.8 percent in 2019, as nonfood prices declined, reflecting lower demand during the pandemic. Food inflation increased to 13.8 percent from 8.8 percent in 2019, indicative of the prolonged impact of COVID-19 on domestic food supply.

The Bank of Sierra Leone (BSL) lowered its policy rate by 100 basis points to 14.0 percent in December 2020 to support aggregate demand. This followed the 150 basis points cut in March 2020 and the roll out of a US$50 million Special Credit Facility to ease supply chain problems. Interest rate fell as monetary conditions eased with the interbank rate falling below the policy rate for the first time since December 2018. Money supply (M3) grew by 35.8 percent (yoy), reflecting a sharp increase in net foreign asset (NFA) as gross external reserves rose sharply with increased budgetary and balance of payment support from development partners. The current account deficit narrowed to 14.9 percent of GDP in 2020 from 22.3 percent in 2019, driven mainly by increased official transfers, as the trade deficit widened on account of lower exports. The Leone depreciated by 5.9 percent against the US dollar compared to the 15.2 percent depreciation in 2019, reflecting the central bank's intervention to provide forex for the importation of essential commodities (food and fuel). However, forex restrictions imposed by the BSL early in 2020 helped push transactions to the parallel market, widening the premium between the official and parallel exchange rates. On the fiscal front, the budget deficit increased to 5.5 percent of GDP in 2020 from 3.1 percent in 2019, reflecting shortfalls in tax and nontax revenues as the economy contracted and increased spending on health to respond to the crisis and support households and businesses under the QAERP. Public debt increased to 72.0 percent of GDP from 70.0 percent in 2019 reflecting borrowings to finance the larger fiscal deficit. A recent joint World Bank and IMF Debt Sustainability Analysis assessed the risks of external and overall debt distress to be "high" while public debt was deemed sustainable over the medium-term.

Outlook

Sierra Leone's economy is expected to recover over the medium-term with an anticipated uptick in domestic and external demand as the COVID-19 pandemic recedes. Economic growth is projected to reach 4.0 percent by 2023, driven mainly by investments in mining (gold and iron ore) and agriculture. The outlook assumes the resumption of iron ore production in 2021 along with large-scale investments in agriculture following government's policy to promote private sector participation. The COVID-19 pandemic will continue to affect Sierra Leone's growth outlook. New COVID-19 strains have caused a resurgence of the pandemic, which could hinder recovery of external demand and prolong the disruptions in supply chains, increasing domestic food prices. An outbreak of the Ebola Virus Disease (EVD) in Guinea in February, 2021 poses additional risks to the economic outlook. Inflation is expected to decline gradually to single digits by 2023, supported by increased domestic food production. The current account deficit is expected to remain large, declining slightly to 13.0 percent of GDP by 2023, as higher mineral exports are offset by increased demand for imports of capital goods and fuel. Restoring fiscal consolidation in 2021 could prove challenging with depressed revenues, but the fiscal deficit is expected to decline gradually to 2.4 percent of GDP by 2023 as COVID-19 related spending is reduced and revenue mobilization improves as the economic recovery gains momentum. Against this improved backdrop, the poverty rate is expected to gradually decline over the medium term.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.4	5.6	-2.2	3.0	3.7	4.0
Private Consumption	13.5	4.5	4.1	8.0	8.5	7.8
Government Consumption	-1.3	2.7	14.9	9.5	18.3	6.2
Gross Fixed Capital Investment	-22.0	-10.9	-8.5	24.9	34.8	10.8
Exports, Goods and Services	-34.9	64.6	-21.8	19.8	12.1	23.2
Imports, Goods and Services	-11.5	16.5	-3.0	24.6	22.2	19.0
Real GDP growth, at constant factor prices	3.3	5.4	-2.2	3.0	3.7	4.0
Agriculture	3.9	5.6	3.2	3.2	3.4	3.6
Industry	-2.5	10.9	-1.8	4.1	4.5	4.7
Services	4.1	3.8	-10.0	2.4	4.0	4.5
Inflation (Consumer Price Index)	16.0	14.8	13.5	11.8	10.2	9.6
Current Account Balance (% of GDP)	-18.5	-22.3	-14.9	-14.2	-13.6	-13.0
Fiscal Balance (% of GDP)	-5.6	-3.1	-5.5	-4.3	-2.8	-2.4
Debt (% of GDP)	69.0	70.0	72.0	71.6	70.6	69.0
Primary Balance (% of GDP)	-4.7	1.1	-1.5	0.3	1.4	1.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	43.0	40.5	43.4	43.0	41.5	40.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	76.0	74.7	76.3	76.0	75.4	74.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	92.7	92.1	92.9	92.7	92.4	92.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2018-SLIHS. Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

SOMALIA

Table 1	2020
Population, million[a]	15.0
GDP, current US$ billion	4.9
GDP per capita, current US$	327
International poverty rate ($1.9)[b]	69
Gini coefficient[b]	37.0
School enrollment, primary (% gross)[c]	33.0
Life expectancy at birth, years[d]	57.1

Sources: World Development Indicators (WDI), IMF, UNFPA
Notes:
(a) Estimates based on 2013 population estimates by UNFPA and assumes an average annual population growth of 2.9%
(b) Most recent value (2017).
(c) Somali Poverty and Vulnerability Assessment Report (World Bank, 2019).
(d) Life expectancy for 2018 from WDI.

The Somali economy was affected by a triple crisis of COVID-19, locust's infestation and floods, which caused an economic contraction to the tune of 1.5 percent in 2020, pushing more people into poverty. The economy in 2021 is showing signs of a tenuous recovery, with growth projected at around 2.9 percent, supported by the continuous flow of remittances and official development assistance. However, the prolonged preparation of elections may have implications for external grant financing and broader stability.

Key conditions and challenges

Somalia is continuing to rebuild economic governance institutions amidst challenging circumstances. Continuous reform implementation enabled Somalia to reach the Decision Point of the Heavily Indebted Poor Countries (HIPC) Initiative in March 2020, facilitating full reengagement with the international community. The federal structure created under the 2012 Provisional Constitution remains incomplete, with discussions on resource and power sharing ongoing. As Somalia prepares for elections, the strength of institutions and intergovernmental cooperation is being tested in a context of rising security tensions.

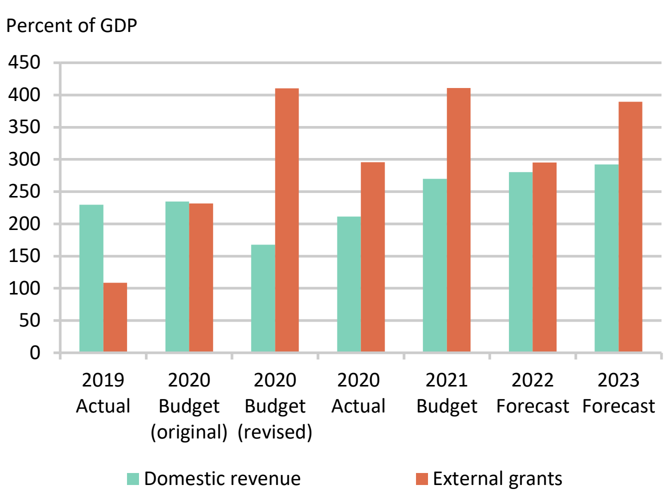
Not with standing progress, economic growth has been persistently low. Between 2012 and 2019, Somalia only reached average growth levels of around 2 percent, insufficient to keep up with population growth. A projected growth rate of 3.2 percent in 2020 was interrupted by a combination of floods, locust's infestation and COVID-19—a 'triple crisis' that caused the economy to contract by an estimated 1.5 percent. The economic downturn has placed further pressure on joblessness and poverty, in a country where healthcare and education systems are weak. In 2020, 21 percent of Somalis had to stop their work activity following the outbreak of COVID-19 and 78 percent of households reported some reduction in their income from wages. The slower pace of growth in 2019 and contraction in 2020 has pushed more people in to poverty. The international poverty estimate (measured using the $1.90/person/day poverty line) was 71 percent in 2020, 2 percentage points higher the latest actual data in 2017.

The latest shocks in an election context expose Somalia's dependence on volatile external financial flows to support the recovery from fragility. With limited exports and only nascent investment plans, Somalia's economy is driven by consumption financed largely by remittances and official grants—which together average more than 75 percent of GDP (Table 2). Limited revenue mobilization constrains the government from financing more than basic security and administration from its own resources. This leaves Somalia dependent on external grants for responding to shocks as well as long-term investments in human capital and public infrastructure.

Recent developments

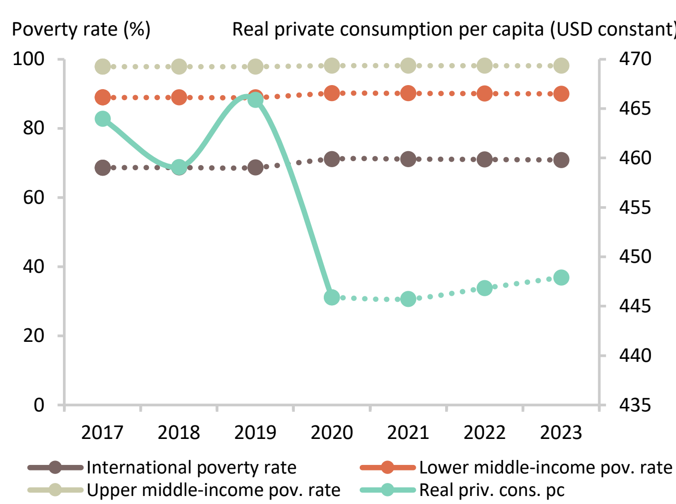
The Somali economy is tenuously rebounding from the crisis, supported by the easing of mobility restrictions in August 2020 and rising credit to the private sector. While official remittance inflows have risen y-o-y by an estimated 18 percent in 2020 largely due to improvements in the recording of official flows, it is likely that informal remittances have declined. With limited domestic production

FIGURE 1 Somalia / Domestic revenue performance



Sources: FGS (2021) and World Bank & IMF (2020).

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



Source: World Bank. Notes: see Table 2.

capabilities, overall import values were estimated to have risen 3.8 percent y-o-y in 2020, although food imports fell by 25 percent, signaling lower household consumption. With the added effects of the floods and locust infestation, approximately 2.7 million people are experiencing rising food insecurity.

While import spending has risen, Somalia's export receipts have declined, as demand fell for Somalia's major export commodity—livestock. The trade balance is estimated to have reached 91 percent of GDP in 2020, which is financed by remittances and grants. However, it may be possible that a reversal of a Saudi import ban of Somali livestock could provide a boost to livestock exports. These data remain subject to change in a context of continuous efforts to improve the quality and reliability of statistics.

The government responded to the crisis through approving a budget which estimated lower tax revenues (partly reflecting tax exemptions introduced on basic staples) and higher grants. Domestic revenue mobilization surpassed expectations, reaching around 90 percent of original 2020 budget targets, as trade-related taxes were boosted by imports. External grants increased to support the crisis, coming close to 60 percent of total revenue, compared to 32 percent in 2019. Higher grants have supported the roll-out of pro-poor programs, including the "Baxnaano" cash transfer scheme and the "Gargara" lending facility to small and medium enterprises. However, the central bank has limited monetary policy instruments to respond to shocks, as widespread dollarization supports price stability.

Outlook

A moderate economic recovery is projected over the medium term with growth anticipated to reach 3.2 percent in 2022 and 3.4 percent in 2023. This outlook is based on the continuous flows of remittances and official development assistance. Planned investments in sectors such as energy, ports, and the financial sector are expected to gradually shift the drivers of growth from consumption to investment, to harness Somalia's potential in sectors such as fisheries, agriculture and renewable power generation, which can help to diversify the export base. The outlook assumes that a vaccine will be rolled-out in mid-2021.

With a modest recovery, per capita private consumption is projected to stagnate in 2021. The international poverty rate is projected to remain at 71 percent; a trend expected to continue in 2022 and 2023. Accelerating the pace of poverty reduction will require policy interventions to raise productivity, create jobs, and expand pro-poor programs.

However, there are risks to the growth outlook, which are largely related to political developments. If agreements on electoral modalities are further protracted there may be waning support from the international community to provide official development assistance at comparable levels, especially in the absence of improvements to the security situation. If the COVID-19 crisis further affects diaspora communities, remittance flows could start to decline, while further delays to the rollout of the vaccine may undermine planned investment activities. In this downside scenario, the economy could be in a low growth scenario of around 0.5 to 1 percent. However, if election-related challenges are overcome, there is an upside scenario of greater stability, which could increase trade and cooperation in the region.

TABLE 2 Somalia / Macro poverty outlook indicators (percent of GDP unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.8	2.9	-1.5	2.9	3.2	3.4
CPI Inflation, annual percentage change	3.2	3.1	3.0	2.5	2.2	2.2
Current account balance	-7.5	-10.5	-12.8	-12.9	-12.9	-13.2
Trade balance	-84.8	-83.0	-91.4	-86.8	-88.2	-85.0
Private remittances	31.4	31.9	31.4	31.0	31.4	30.8
Official grants	46.6	41.3	47.9	43.7	44.6	41.6
Fiscal balance[a]	0.1	0.5	0.2	0.3	-0.2	-0.2
Domestic revenue	3.9	4.6	4.3	5.0	5.0	4.9
External grants	1.8	2.2	6.0	7.7	5.2	6.5
Total expenditure	5.7	6.3	10.1	12.4	10.3	11.6
Compensation of employees	3.0	3.3	4.6	4.7	4.0	3.8
External debt	112.8	108.8	40.7	38.0	36.7	30.5
International poverty rate ($1.9 in 2011 PPP)[b,c]	69.2	68.4	70.8	70.9	70.7	70.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	89.2	88.8	90.0	90.0	90.0	89.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	97.9	97.8	98.1	98.1	98.1	98.1

Source: World Bank and IMF (2020) and FGS (2021).
Notes: e = estimate. f = forecast. (a) Federal Government of Somalia (FGS).
(b) Calculations based on 2017 SHFS-wave 2. Actual data: 2017. Nowcast: 2018-20. Forecast are from 2021-23.
(c) Projection using neutral distribution (2017) with pass-through = 1based on private consumption per capita in constant US$.

SOUTH AFRICA

Table 1	2020
Population, million	59.3
GDP, current US$ billion	301.9
GDP per capita, current US$	5090.7
International poverty rate ($1.9)[a]	18.7
Lower middle-income poverty rate ($3.2)[a]	37.3
Upper middle-income poverty rate ($5.5)[a]	56.9
Gini index[a]	63.0
School enrollment, primary (% gross)[b]	98.5
Life expectancy at birth, years[b]	63.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014), 2011 PPPs.
(b) Most recent WDI value (2018).

South Africa has started to recover but momentum remains fragile as uncertainty about the pace of vaccination and vaccine effectiveness to the local COVID-19 variant persist. Pre-existing structural constraints also weigh on the recovery. GDP contracted by 7 percent in 2020 and is projected to rebound by 3.0 percent this year. Public finances deteriorated significantly, and fiscal consolidation will be critical to preserve macroeconomic stability. An additional 1.9 million people fell into poverty in 2020 and poverty risks increasing further.

Key conditions and challenges

South Africa's economy has started to recover from the crisis, but growth will remain hampered by pre-existing structural constraints. GDP growth averaged 0.8 percent annually over 2015-19. Business confidence has been low for several years, driven by a deteriorating fiscal outlook and a weakening business environment, and recurrent electricity shortages. This and high uncertainty around the evolution of the pandemic are likely to result in persistently weak private investment. Long-term damage from the pandemic could also limit South Africa's growth potential as the future of sectors like tourism remains highly uncertain. Inequalities in terms of access to quality education and health services, jobs and decent living conditions have been further exposed by the pandemic.

The COVID-19 crisis has put additional pressure on public finances which have been on a deteriorating trajectory for several years and has made restoring fiscal sustainability more urgent. Revenue collection – which is relatively high as a share of GDP – has suffered from weak economic growth. At the same time, government's expenditures have increased, leading to growing deficits and debt. Interest payments have been the fastest growing budget expenditure. Political consensus on expenditure consolidation has proved difficult to achieve, especially on public sector compensation and transfers to SOEs.

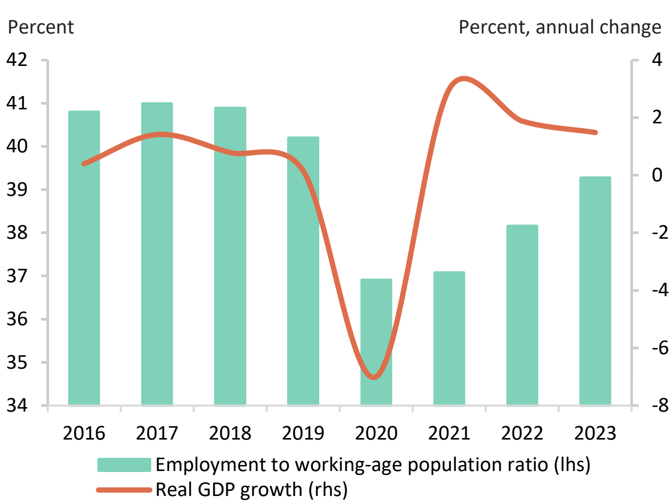
South Africa witnessed a second wave of infections over December-January 2020/21. Daily cases were brought under control rapidly allowing the government to ease restrictions to their lowest level since the start of the pandemic end-February. However, the death toll of the second wave was significant: more than half of total COVID-19-related deaths have happened since early-December.

There is uncertainty around the outlook. Repeated infection waves and longer than expected vaccination timelines globally and domestically will weigh negatively on the global and domestic recovery. The strength and sustainability of the recovery will depend on these evolutions as well as domestic policies and their implementation.

Recent developments

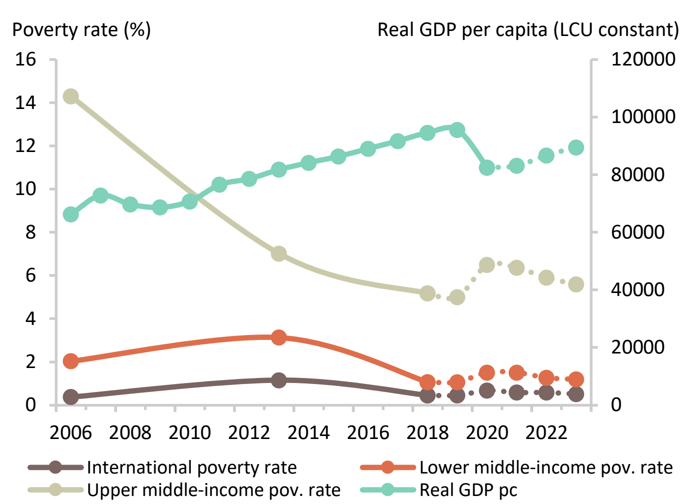
The economy contracted by 7 percent in 2020. All sectors contracted except agriculture and government services. Manufacturing, trade and hospitality, and transportation services sectors had the largest negative contributions to growth (-1.4, -1.3 and -1.3 percent respectively). PMI releases early-2021 have stayed above but close to 50, signaling that the recovery continues but is moderate. Although fiscal outcomes are set to outperform mid-year forecasts on the back of higher revenue, the fiscal situation remains very weak. The deficit is expected to reach 14 percent

FIGURE 1 South Africa / Real GDP growth and employment to working-age population ratio



Sources: Stats SA and World Bank staff.

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



Source: World Bank. Notes: see table 2.

of GDP and public debt 80.5 percent of GDP at the end of 2020/21.

Inflation slowed to 3.3 percent last year allowing the Reserve Bank to adopt an accommodative monetary policy stance, lowering the key repo rate to a historical low of 3.5 percent last July. Amid unprecedented global liquidity and decreasing risk aversion, the rand has been resilient and government bond yields have been hovering close to pre-pandemic levels. However, after having recorded portfolio outflows throughout 2020, South African financial markets have remained volatile and affected by shifts in risk sentiment at the global level. In a context of depressed domestic demand and favorable export prices (gold, platinum), the current account registered a surplus – the first since 2002 – at 2.2 percent of GDP.

The economic and social impacts of the pandemic are high. The unemployment rate reached 32.5 percent in 2020. Real GDP per capita is back to its 2005 level and 60.2 percent of the population is estimated to live in poverty, with less than $5.5 daily (2011 PPP). The number of poor in the past year increased by 1.9 million people. In response to the severe social impact of the crisis and the persistence of the global pandemic, the government extended the Special COVID-19 grant and the Temporary Employer-Employee Relief Scheme benefit until April.

Outlook

The persistence of the pandemic at the global and domestic levels will continue to constrain economic recovery during the first half of 2021. In addition, as economic activity restarts, pre-existing structural constraints, such as electricity shortages, are becoming binding again. GDP growth is expected to rebound to 3.0 percent in 2021 driven by the easing of restrictions on economic activity and favorable base effects. This moderate recovery will be insufficient to counter the social impact of the crisis as job creation is likely to remain muted.

South Africa does not have a lot of room for maneuver to provide additional stimulus to the economy. While monetary policy is likely to remain accommodative as long as inflationary pressures are contained, the overall policy mix will be constrained by the deteriorated fiscal position. The government will continue to face spending pressures related to the persistence of the pandemic, the public service compensation triennial agreement negotiation and financially weak SOEs. With some containment of these pressures, the deficit is expected to reach 9.6 percent of GDP in 2021/22 and public debt is projected to increase to 83.4 percent of GDP. Interest payments are estimated to rise to 5.4 percent of GDP this year.

Accumulated cash balances and favorable global liquidity conditions, if they persist, will reduce the pressure on the government's high financing requirement. However, sound implementation of planned reforms – in particular much-needed reforms to boost growth – will be key to maintain investors' confidence in the government's ability to restore debt sustainability. In addition, given the social toll of the pandemic, preserving social spending and improving its effectiveness in the context of a constrained budget envelope will be necessary to mitigate the risk of additional increases in poverty and inequalities.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	0.8	0.2	-7.0	3.0	1.9	1.5
Private Consumption	1.8	1.0	-5.4	2.5	3.5	3.0
Government Consumption	1.9	1.5	0.5	-0.5	-2.2	-1.8
Gross Fixed Capital Investment	-1.4	-0.9	-17.5	5.5	5.0	4.1
Exports, Goods and Services	2.6	-2.5	-10.3	5.0	1.0	1.0
Imports, Goods and Services	3.3	-0.5	-16.6	13.2	3.5	3.5
Real GDP growth, at constant factor prices	0.7	0.2	-6.8	3.0	1.9	1.5
Agriculture	-4.8	-6.9	13.1	3.3	3.0	3.0
Industry	-0.1	-1.5	-12.0	3.0	1.5	1.0
Services	1.3	1.2	-5.4	2.9	2.0	1.6
Inflation (Consumer Price Index)	4.5	4.1	3.3	4.0	4.5	4.5
Current Account Balance (% of GDP)	-3.5	-3.0	2.2	-1.0	-2.0	-2.5
Net Foreign Direct Investment (% of GDP)	0.4	0.4	0.2	0.2	0.3	0.4
Fiscal Balance (% of GDP)	-4.0	-6.4	-14.0	-9.6	-7.8	-6.8
Debt (% of GDP)	56.7	63.5	80.5	83.4	87.3	90.2
Primary Balance (% of GDP)	-0.1	-2.4	-9.3	-4.2	-2.2	-1.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	19.3	19.7	21.9	21.4	21.3	21.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	38.1	38.5	41.3	40.7	40.5	40.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	57.6	57.8	60.2	59.8	59.6	59.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2014-LCS. Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2014) with pass-through = 0.87 based on GDP per capita in constant LCU.

SOUTH SUDAN

Table 1	**2020**
Population, million	11.2
GDP, current US$ billion	5.1
GDP per capita, current US$	459.8
International poverty rate ($1.9)[a]	76.4
Lower middle-income poverty rate ($3.2)[a]	91.6
Upper middle-income poverty rate ($5.5)[a]	97.8
Gini index[a]	44.2
School enrollment, primary (% gross)[b]	73.0
Life expectancy at birth, years[b]	57.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) WDI for school enrollment (2015); life expectancy (2018).

South Sudan's economy is set to contract by 3.4 percent in FY2020/21 as concurrent shocks including COVID-19, floods, and subnational conflict have constrained economic activity. Low oil prices have led to large fiscal and external imbalances. Living standards have deteriorated. More than 6 million people are facing crisis-level food insecurity, with 1.4 million children under 5 years expected to be acutely malnourished in 2021. Long term economic growth prospects critically depend on sustainability of peace and commitments to reform.

Key conditions and challenges

A decade after independence, South Sudan remains caught in a web of fragility, economic stagnation, and instability. Poverty is ubiquitous and has been reinforced by a history of conflict, displacement, and shocks. The signing of the latest truce in September 2018 and subsequent formation of a unity government in February 2020 had provided hope for recovery and peace building. Conflict events decreased significantly in 2019, allowing some refugees previously dispersed in the region to return. At the same time, a resumption of oil production in oil fields previously shutdown due to conflict had raised hopes for an oil-led recovery. However, the country faces the risk of reversal of these gains, with increasing incidents of subnational violence in 2020 and COVID-19 pandemic exacerbating an already dire situation.

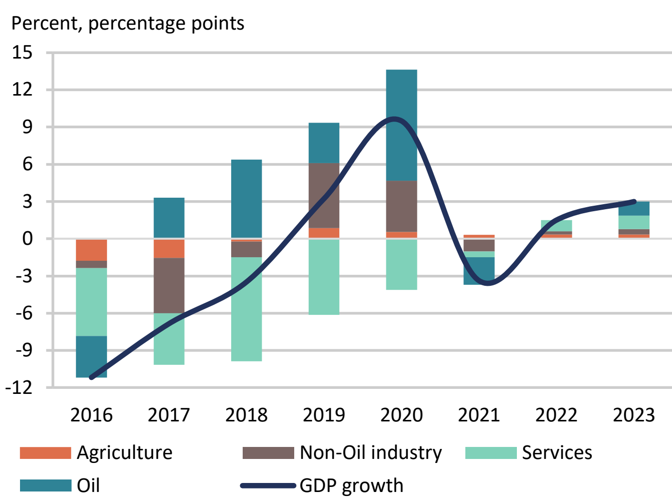
Legacy of economic mismanagement and resistance to reform have resulted in a distorted macroeconomic environment. Monetization of the fiscal deficit led to soaring inflation and widening exchange rate premium. At the same time, recurring cycles of internal conflict and violence have eroded the economic base, with output contracting for consecutive years during 2015 - 2018. Consequently, real household disposable income declined, contributing to an increase in poverty headcount ratio from 44 percent in 2009 to about 76 percent in 2016.

The authorities have accelerated dialogue on key economic and public financial management reforms amidst a double health and economic crisis. Discussions with the IMF have included the possibility of a Staff Monitored Program with a focus on macroeconomic stabilization, exchange rate and monetary policy reform, and public financial management support. Coupled with economic diversification, strengthening service delivery institutions will be critical as the country seeks to build resilience to future shocks, providing building blocks for an inclusive and sustainable growth path.

Recent developments

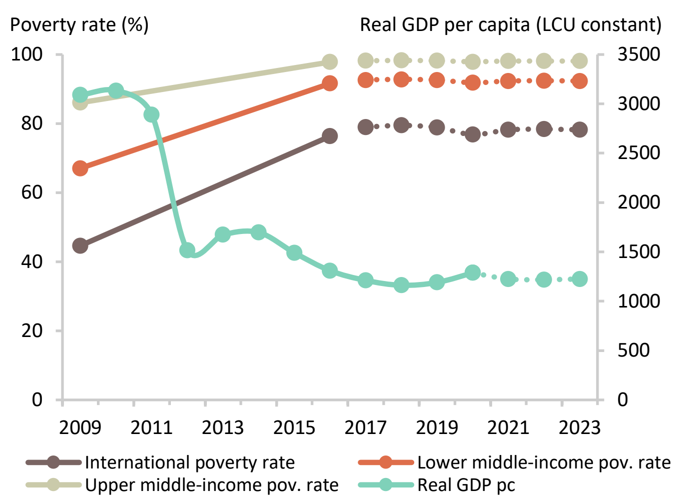
The economy had picked up strongly before the COVID-19 pandemic, with GDP real growth reaching 9.5 percent in FY2019/20. The oil sector has continued to be the primary driver of growth, with estimated oil production of 62.1 million barrels in FY2019/20, representing a 26.5 percent increase on the 49.1 million barrels realized in FY2018/19. In the agricultural sector, cultivated area increased by 6 percent in 2020 compared to the previous year, but it is still far from reaching the pre-conflict levels. However, living standards deteriorated as the pandemic disrupted livelihoods. High-frequency surveys conducted in June 2020 showed that 51.2 percent of respondents reported reduced earnings from their main income source. The situ-

FIGURE 1 South Sudan / Real GDP growth and sectoral contributions to real GDP growth



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

ation has since improved somewhat, with 50.7 percent of the respondents reporting reduced incomes by October 2020.

The FY2019/20 budget deficit is estimated to have widened to 6.8 percent of GDP compared to 3.2 percent of GDP that was budgeted, driven by large shortfalls for oil revenue. Budget planning and execution challenges have led to persistence of expenditure arrears. The authorities estimate cumulative outstanding obligations at the end of FY2019/20 amounting to SSP 896 billion (108 percent of GDP) and salary arrears estimated at SSP 18.45 billion (2.2 percent of GDP). The current account deficit is estimated to have increased to 6.1 percent in FY2019/20 from 5.0 percent in FY2018/19 as export growth weakened relative to imports.

Monetization of the fiscal deficit resulted in significant pressure on prices and the exchange rate. Inflation rose to an average of 72.2 percent during FY2019/20 from 63.6 during FY2018/19. The parallel exchange rate depreciated by 36 percent from an average of SSP 297 during 2019 to SSP 404 during 2020. By December 2020, the spread between the official and parallel rates had widened to 242 percent from 100 percent in December 2019.

Outlook

South Sudan's economy is set to contract by 3.4 percent in FY2020/21 primarily due to a decline in oil production and slower recovery of the non-oil economy. The Covid-19 pandemic has delayed new investments in the oil sector, with oil production expected to decline by 5.8 percent to 58.4 million barrels in FY2020/21. The non-oil economy is expected to contract by 1.9 percent owing to a combination of conflict and Covid-19, with new lockdown measures imposed in early February 2021.

A gradual recovery is expected in the near term, assuming a rebound in the global economy and domestic containment of the pandemic. In addition, commitment to a credible reform process, sustainability of peace, and resilience to climatic shocks will play a critical role. Inflation is expected to decline in the medium term as economic and public financial management reforms mature and government commits to a credible fiscal consolidation plan. Given the large economic fallout from Covid-19 and other concurrent shocks, poverty at $1.90 per person per day is projected to increase to 78.2 percent in FY2020/21 from 76.8 percent in FY2019/20.

The budget process has been significantly delayed and complete fiscal data are not available. Nevertheless, fiscal revenue is projected to decline to 25.8 percent of GDP in FY2020/21 relative to the pre-pandemic projection of 34.8 percent. However, the fiscal deficit is expected to reduce to about 2.4 percent of GDP in FY2020/21 from 6.8 percent in FY2020 as the authorities commit to fiscal prudence. Fiscal consolidation will benefit from cuts to investment expenditures, which are expected to decline from 3.0 percent of GDP in FY2019/20 to 1.8 percent of GDP in FY2020/21. The current account balance is expected to widen to 6.3 percent of GDP from 6.1 percent in FY2019/20 reflecting lower oil export performance.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	-3.5	3.2	9.5	-3.4	1.5	3.0
Real GDP growth, at constant factor prices	-3.5	3.2	9.5	-3.4	1.5	3.0
Agriculture	-2.5	9.9	6.0	3.5	3.5	3.5
Industry	15.0	20.9	27.5	-5.8	0.5	2.9
Services	-14.6	-12.1	-9.6	-1.3	2.5	3.0
Inflation (Consumer Price Index)	121.6	63.6	72.2	32.2	24.4	18.7
Current Account Balance (% of GDP)	-9.6	-5.0	-6.1	-6.3	-5.8	-3.5
Net Foreign Direct Investment (% of GDP)	-0.5	-1.6	-0.3	1.0	1.0	0.9
Fiscal Balance (% of GDP)	-3.3	-0.9	-6.8	-2.4	-1.1	2.9
Debt (% of GDP)	44.7	29.9	42.9	40.8	33.1	30.0
Primary Balance (% of GDP)	-3.0	-0.4	-4.8	-1.3	0.3	3.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	79.5	78.9	76.8	78.2	78.4	78.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	92.8	92.6	91.8	92.3	92.4	92.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	98.3	98.2	97.9	98.1	98.1	98.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2016-HFS-W3. Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2016) with pass-through = 0.7 based on GDP per capita in constant LCU.

SUDAN

Table 1	2020
Population, million	43.8
GDP, current US$ billion	21.2
GDP per capita, current US$	482.5
International poverty rate ($1.9)[a]	12.2
Lower middle-income poverty rate ($3.2)[a]	44.0
Upper middle-income poverty rate ($5.5)[a]	79.3
Gini index[a]	34.2
School enrollment, primary (% gross)[b]	76.8
Life expectancy at birth, years[b]	65.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014), 2011 PPPs.
(b) WDI for school enrollment (2017); life expectancy (2018).

External shocks, including massive flooding and the COVID-19 pandemic, hindered stabilization efforts by the Government. The economy contracted by 3.6 percent in 2020. The monetization of the large fiscal deficit drove inflation into triple digits. Living conditions continued to deteriorate. A combination of key reforms, stabilization efforts, and external support give hope for 2021.

Key conditions and challenges

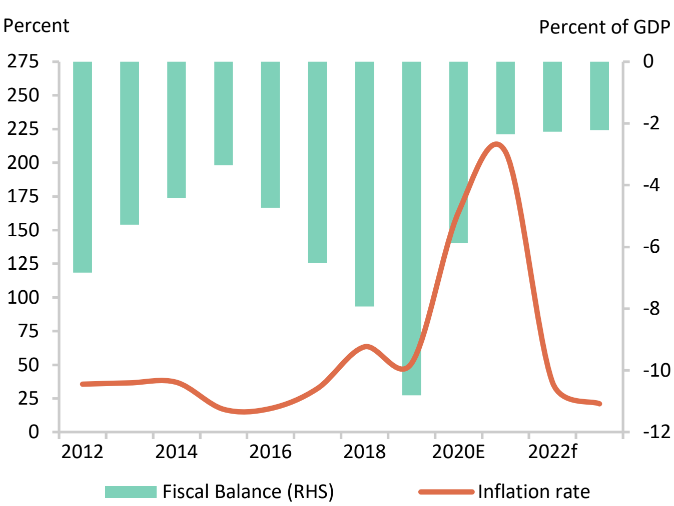
Following the popular revolt in 2019, a new Government has been pursuing stabilization and structural reforms under exceedingly difficult circumstances. Over US$ 50 billion in accumulated external arrears continues to severely limit access to external finance at a time when the country is struggling to correct major macroeconomic imbalances. By 2019, the cost of fuel subsidies alone reached the equivalent of 100 percent of all government revenues. The monetary financing of large public sector deficits has pushed inflation into triple digits. The Government took important measures to reduce fuel subsidies in 2020, and pursued fiscal consolidation to slow the pace of monetary expansion, but these efforts were offset by the impact of the COVID-19 pandemic and massive flooding in parts of the country. The economic recession in Sudan deepened in 2020, government revenues plummeted, and inflationary pressures mounted. While the current government has enjoyed a significant level of political legitimacy in the eyes of the population, the patience of the Sudanese people is being tested, and social protests became widespread in early 2021.

Since July 2020, Sudan's reform program has been supported by an IMF staff-monitored program (SMP) and more recently by a World Bank Development Policy Financing Operation. These programs can support Sudan toward a path to stabilization, resolution of the country's external debt problems and restoration of access to development financing. Economic stabilization, together with measures to mitigate the impact of the current economic crisis on the welfare of the population, remain the highest priorities in 2021. Given the current level of distortions in the Sudanese economy, there is a potential for a strong revival of economic growth provided that initial stabilization efforts will be successful. Major risks to economic outlook include the recent socio-political turmoil, uncertainty around COVID-19, external shocks (bad weather, flooding), and potential instability of money demand in the context of exceptionally high inflation.

Recent developments

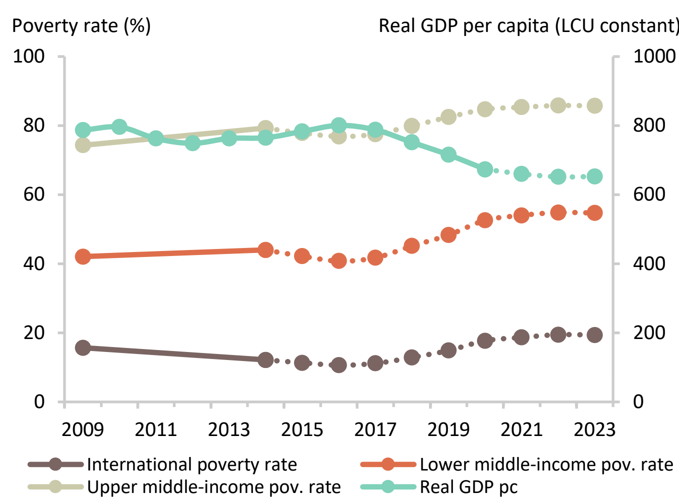
GDP growth declined from -2.5 in 2019 to -3.6 percent in 2020 in the context of the COVID-19 crisis and severe flooding that disrupted economic activity. Despite some efforts to rein in excessive public expenditures, particularly on fuel subsidies, the economic downturn, COVID-19 crisis, and increasingly overvalued exchange rate had a very negative fiscal impact in 2020. Delayed exchange rate adjustment pushed foreign inflows, including grants, to record low levels, while the economic downturn also depressed tax revenues. At the same time, additional emergency spending was needed in health care due to the COVID-19 crisis. Given the current virtual absence of debt markets and con-

FIGURE 1 Sudan / Fiscal Balance and inflation rate



Sources: WDI, IMF and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

strained access to external finances, the fiscal and quasi-fiscal deficit was monetized, adding to inflation pressures that increasingly threatened destabilization. The pace of annual CPI inflation accelerated to 269 percent in December 2020.

The current poverty level is unknown because data from the latest household survey (2014/15) do not reflect the impact of the recent economic decline, high inflation, and the impact of COVID-19 in Sudan. Poverty projections based on GDP growth suggests that poverty rates may have increased consistently in recent years, to reach in 2020 an estimated 17.7 percent at $1.90/day PPP and 52.6 percent at $3.20/day PPP. A new household survey, under preparation, would provide a more accurate estimate of poverty.

Outlook

Sudan has conducted major reforms, including exchange rate adjustment and fuel subsidy reduction, that put the country on a potential path toward recovery and restoration of access to external financing in 2021. In this context, the decline in GDP of the past three years is projected to stabilize in 2021, leading into a period of positive economic growth. The 2021 budget envisions a reduction in the fiscal deficit to around 2 percent of GDP, thus allowing for a significant slowdown in the monetary expansion that has been fueling inflation. Sudan aims to accomplish arrears clearance with IFIs in 2021 and obtain access to over US$ 2 billion in external support from development partners.

The risks to economic outlook in 2021 are high. As the country borders hyperinflation and the patience of the population is being tested, the success of Sudan's bold efforts to achieve stabilization in 2021 is far from guaranteed. The COVID-19 pandemic is still raging in the country and negative external shocks, such as the flooding experienced in 2020, could compound what is already an exceedingly difficult situation. 2021 should be decisive year for the future of the country.

Poverty outlook remains negative. Poverty rates are projected to increase to 19.5 percent by 2022 at $1.90/day PPP, and 54.8 percent at $3.20/day PPP. The continued rise in inflation, shortage of fuel and other basic commodities and COVID-19 are expected to continue adversely affecting living conditions. Results from the Bank's ongoing high frequency survey on COVID-19, suggest that about one-third of respondents had stopped working in September 2020 mainly due to the COVID-19pandemic; and that over 20 percent of households were unable to buy bread and cereals as well as milk and milk products as price increases were felt by most households. The recent economic stabilization reforms are expected to take time to deliver positive results on poverty. The Government has launched a family support program that aims to reach a significant proportion of households with cash transfers to cushion the impact of the reform.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	-2.3	-2.5	-3.6	0.5	1.1	2.6
Private Consumption	-3.2	-2.5	-3.5	0.5	2.0	2.4
Government Consumption	-4.9	-15.3	1.2	8.6	3.2	1.4
Gross Fixed Capital Investment	3.8	11.4	-13.1	8.4	3.3	1.8
Exports, Goods and Services	10.7	11.9	5.2	15.4	29.0	21.8
Imports, Goods and Services	11.9	23.8	-13.8	26.6	21.3	11.0
Real GDP growth, at constant factor prices	-2.3	-2.5	-3.6	0.4	1.1	2.6
Agriculture	-1.5	-1.0	-2.5	0.4	1.2	2.7
Industry	-1.7	-0.7	-5.7	0.7	2.1	3.4
Services	-3.2	-4.8	-2.9	0.2	0.4	2.0
Inflation (Consumer Price Index)	63.3	51.0	163.3	207.9	36.8	21.0
Current Account Balance (% of GDP)	-8.7	-11.5	-13.2	-7.2	-9.8	-7.5
Net Foreign Direct Investment (% of GDP)	1.4	3.0	4.7	6.7	4.2	1.9
Fiscal Balance (% of GDP)	-7.9	-10.8	-5.9	-2.4	-2.3	-2.2
Debt (% of GDP)[a]	186.6	200.3	249.1	205.2	197.9	189.9
Primary Balance (% of GDP)	-7.8	-10.6	-5.9	-2.1	-2.1	-2.1
International poverty rate ($1.9 in 2011 PPP)[b,c]	12.9	14.9	17.7	18.7	19.5	19.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	45.2	48.3	52.6	54.0	54.8	54.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	79.9	82.5	84.7	85.4	85.8	85.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Debt projections do not include any restructuring achieved during the HIPC process.
(b) Calculations based on 2014-NBHS. Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021 to 2023.
(c) Projection using neutral distribution (2014) with pass-through = 1 based on GDP per capita in constant LCU.

TANZANIA

Table 1	2020
Population, million	59.7
GDP, current US$ billion	61.8
GDP per capita, current US$	1035.6
International poverty rate ($1.9)[a]	49.4
Lower middle-income poverty rate ($3.2)[a]	76.8
Upper middle-income poverty rate ($5.5)[a]	91.8
Gini index[a]	40.5
School enrollment, primary (% gross)[b]	98.8
Life expectancy at birth, years[b]	65.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

Shocks from the global pandemic slowed Tanzania's growth to 2.0 percent in 2020. Tanzania's growth outlook is highly uncertain with risks tilted to downside. The major risks are primarily external, though delayed policy response and reform slippages could negatively impact the recovery. The international poverty headcount ratio is estimated to have increased by 1.2 percentage points to 50.5 percent in 2020. The pandemic has underscored the need to accelerate inclusive private investment-driven growth for achieving Tanzania's development vision.

Key conditions and challenges

Tanzania became a lower middle-income country (LMIC) in July 2020 thanks to the solid income growth over two decades, averaging 6.5 percent per year, and macroeconomic stability. Inflation rates have been low, and fiscal and current-account deficits have remained manageable. Investment has been a key driver of growth, consistently contributing two-thirds to it. About three quarters of total investment was from private sources, but lately this ratio has shifted with waning extractives FDI and a more challenging business environment.

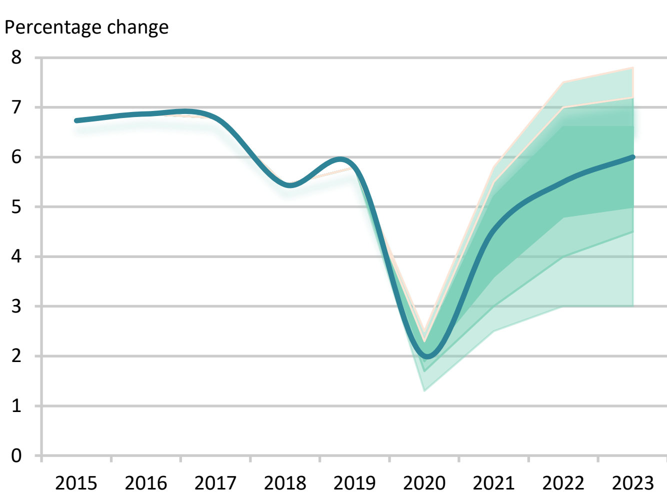
Poverty response to rapid economic growth was moderate and has slowed in recent years, and growth became less inclusive. Half of Tanzanians live below the international extreme poverty line of US$1.90/day in 2011 PPP as compared to 30 percent average for the first-year LMICs. Since 2012, income and consumption growth among the wealthiest households has outpaced growth among the poorest. High population growth, insufficient level of education, low agricultural productivity, and slow and uneven creation of more productive income earning opportunities have hindered the inclusiveness of growth. The COVID-19 pandemic has further exacerbated existing challenges, reversing some of the gains in poverty reduction achieved over the last decade.

National aspirations laid out in the Tanzania Development Vision 2025 are to become a middle-income country with well-developed human capital, an ample supply of high-quality livelihood opportunities, and broad-based gains in living standards. Realizing the vision will require concerted efforts to restore the economy's growth momentum while expanding access to economic opportunities for low-income households. Policy priorities include accelerating productive investments, prioritizing human capital development, enabling agricultural transformation, leveraging digital technologies, and building public sector institutions and capabilities. As the pandemic continues to depress global economic activity, Tanzania will need to endure a slump in external demand regardless of the effectiveness of its domestic health response.

Recent developments

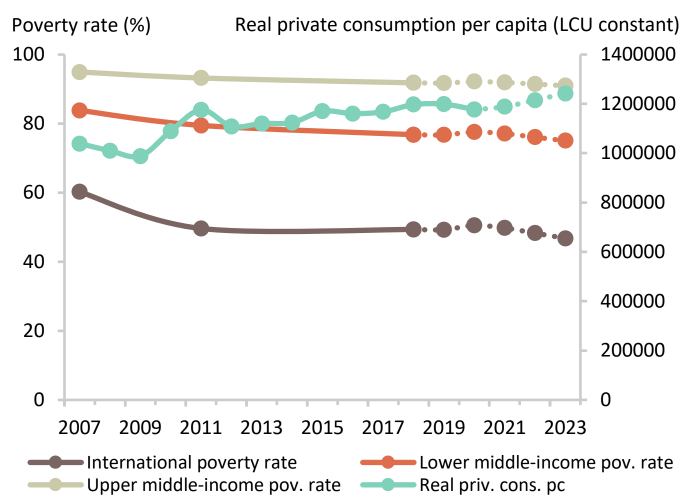
Although Tanzania avoided a recession in 2020, real GDP growth decelerated to an estimated 2.0 percent from 5.8 percent in 2019. Tourism, a major contributor to GDP growth, declined significantly despite the country reopening for tourism in June, and exports of tourism-related services fell by 44.4 percent in 2020. Private sector credit growth plunged to 3 percent in December 2020 from 11.1 percent a year earlier. Imports of capital goods dropped by 14.8 percent in 2020 due to diminished orders for construction materials and machinery. Demand

FIGURE 1 Tanzania / Real GDP growth rate forecasts under alternative scenarios



Source: WB staff estimates based on NBS data.

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



Source: World Bank. Notes: see Table 2.

for durable goods weakened significantly, and imports of services declined on the back of lower demand for travel and transportation. The current-account deficit narrowed to an estimated 1.6 percent of GDP in 2020 due to the offsetting effects of the pandemic-induced shocks on Tanzania's balance of payments. Higher gold prices partially alleviated the decline in other exports and falling oil prices reduced the import bill. Official gross reserves dropped by 20 percent to US$4.8 billion but remained at a relatively healthy level of 5.6 months of projected imports.

Tanzania's policy response to COVID-19 in the first half of 2020 was moderate and relatively short-lived. In the context of low inflation and slowing economic activities, the Bank of Tanzania pursued an accommodative monetary policy to boost liquidity in the financial sector. However, average commercial lending rates declined only marginally. Fiscal policy response included expediting clearance of domestic arrears and expanding the coverage of social security schemes. In the wake of spending pressure and declining revenues, the government has tightened control over expenditures.

Real per capita GDP declined for the first time in over 25 years. The poverty rate based on the international extreme poverty line is estimated to rise from 49.3 percent in 2019 to 50.5 percent in 2020. The most affected households are those relying on self-employment and informal microenterprises in urban areas.

Outlook

Tanzania's real GDP growth rate is projected to rebound to 4.5 percent in 2021 conditional on successful global rollout of a COVID-19 vaccine and improvement in the business environment and prudent fiscal management to foster a swift recovery. The global economic recovery is expected to bolster demand for Tanzanian exports and financing of the infrastructure projects. The current account is expected to improve but remain at about 1.5 percent of GDP, as the growth of capital-goods imports will outpace export growth. The financing of capital projects is expected to widen the fiscal deficit to about 2.9 percent of GDP, while recurrent expenditures are expected to remain controlled.

The current outlook is highly uncertain with risks are tilted to the downside. GDP is projected to grow by between 3.0 and 5.3 percent in 2021, below its long-run potential growth rate of about 6 percent. Even without an uncontrolled domestic outbreak, an ongoing global health crisis would continue to undermine external demand, especially for tourism. A persistently weak global economy would also limit the availability of capital inflows, including to private and financial sectors.

The international poverty rate is projected to fall to 49.8 percent in 2021 but remain above the pre-crisis level. To sustainably reduce poverty, the recovery must create jobs, including for the low-skilled workers, enable growth of small and medium enterprises, and foster productivity of agriculture, on which three-quarters of poor households depend. To bolster household consumption and accelerate poverty reduction, the government must further strengthen the implementation of social assistance programs such as Productive Social Safety Nets Program and ensure adequate coverage in urban areas. The government will need to maintain prudent macroeconomic and fiscal management to ensure that adequate fiscal space is available to finance major investments in physical, human, and institutional capital.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	5.4	5.8	2.0	4.5	5.5	6.0
Private Consumption	5.6	3.1	1.0	3.3	3.8	4.1
Government Consumption	2.0	2.3	7.4	8.1	8.0	7.8
Gross Fixed Capital Investment	7.7	8.0	2.4	4.2	9.5	10.0
Exports, Goods and Services	-1.7	19.0	-8.6	8.2	8.5	8.7
Imports, Goods and Services	16.7	-1.4	-7.6	5.1	14.2	13.3
Real GDP growth, at constant factor prices	5.4	5.8	2.0	4.5	5.5	6.0
Agriculture	3.4	3.5	3.1	3.6	3.5	3.5
Industry	9.7	10.3	2.5	7.4	8.2	9.4
Services	3.8	4.2	0.9	2.9	4.6	4.7
Inflation (Consumer Price Index)	3.5	3.5	3.4	3.5	3.7	4.0
Current Account Balance (% of GDP)	-3.7	-2.3	-1.6	-1.5	-2.4	-3.3
Net Foreign Direct Investment (% of GDP)	1.7	1.6	1.0	1.2	1.4	1.6
Fiscal Balance (% of GDP)	-2.5	-1.4	-2.0	-2.9	-3.2	-3.5
Debt (% of GDP)	39.7	38.1	38.1	37.3	36.9	36.5
Primary Balance (% of GDP)	-0.9	0.4	0.2	-0.8	-1.0	-1.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	49.4	49.3	50.5	49.8	48.3	46.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	76.8	76.7	77.6	77.1	76.1	75.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	91.8	91.8	92.2	92.0	91.5	91.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2007-HBS and 2018-HBS. Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.

(b) Projection using annualized elasticity (2007-2018) with pass-through = 1based on private consumption per capita in constant LCU.

TOGO

Table 1	2020
Population, million	8.3
GDP, current US$ billion	7.4
GDP per capita, current US$	888.2
International poverty rate ($1.9)[a]	51.1
Lower middle-income poverty rate ($3.2)[a]	74.2
Upper middle-income poverty rate ($5.5)[a]	90.8
Gini index[a]	43.1
School enrollment, primary (% gross)[b]	124.3
Life expectancy at birth, years[b]	60.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

Growth decelerated in 2020 as the containment and mitigations measures to curb the spread of COVID-19 negatively affected private consumption, tourism and economic activity at Togo's main port. External and fiscal balances also worsened, while poverty rose. Growth and poverty reduction are expected to gradually recover over the medium term. Downside risks to the outlook include larger-than-expected COVID-19 effects, political uncertainty, heightened insecurity in neighboring countries, and banking sector vulnerability.

Key conditions and challenges

COVID-19 halted Togo's strong growth momentum and exacerbated structural constraints that hinder economic growth and economic transformation. Between 2017 and 2019, growth was robust, averaging 5 percent (2.4 percent in per capita terms), supported by stable macroeconomic conditions and significant improvements in the business climate. However, the country has yet to take full advantage of its potential, as GDP growth was lower than WAEMU peers and did not lead to improvements in living standards. While critical Doing Business reforms have been achieved, efforts to shift the development model towards private sector led growth are constrained by poor infrastructure, notably in energy and telecommunications and weak governance. Burdensome custom procedures and logistics weaknesses also prevent Togo from fully harnessing its potential as a transport and logistics platform. Finally, the potential of digital technology remains untapped and prevents innovation in key economic sectors.

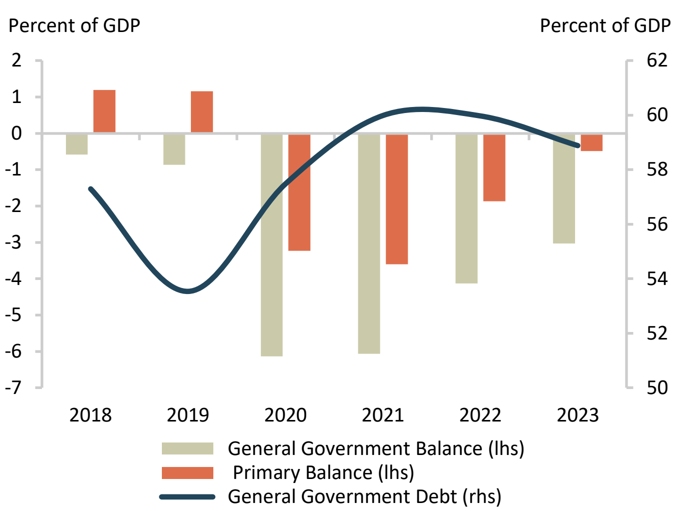
These constraints have been worsened by COVID-19, which brought the economy to a near halt, reversing gains made in poverty reduction. The path to an inclusive and sustained post-COVID recovery remains uncertain and depends on the depth and the duration of the pandemic. While the rollout of vaccines and a recovering global economy could help GDP expand, several downside risks remain (including virus mutation and rising security risks in neighboring countries), which could weigh on investment, trade, and public finances. Also, unfavorable weather conditions and the unavailability of inputs could negatively affect agricultural productivity, while the relative weakness of administrative capacity could limit the implementation of reforms and private investment. Finally, contingent liabilities associated with a delay in restructuring two state-owned banks could pose a risk to financial stability and fiscal sustainability.

Recent developments

Growth decelerated sharply to 0.7 percent in 2020 (-1.7 percent in per capita terms), as private consumption fell from a decline in household incomes and business activity as social-distancing measures were implemented. Also, travel restrictions negatively impacted tourism, while the agriculture sector remained resilient, as the Government provided subsidized agriculture inputs. Inflation rose to 1.8 percent in 2020, driven by higher food prices from supply chain disruptions.

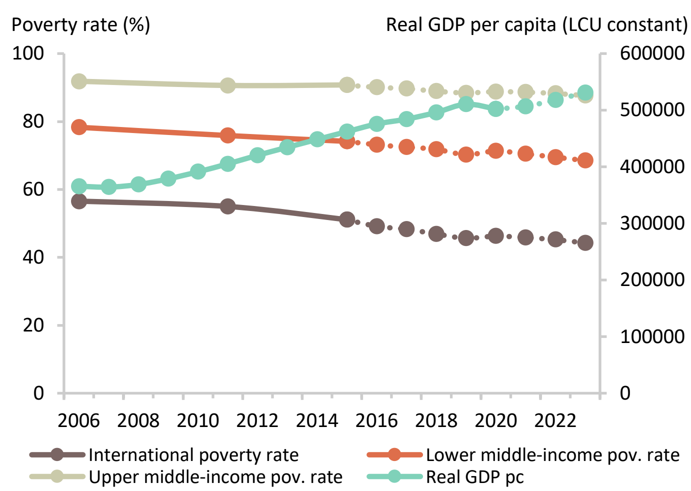
The current account deficit widened to 3.7 percent in 2020 from lower exports and higher imports of health products to combat COVID-19. Lower demand from key trading partners, combined with a significant drop in the prices of Togo's main

FIGURE 1 Togo / Evolution of fiscal indicators



Sources: INSEED and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

commodities (including phosphate and coffee) lowered exports.

The fiscal deficit widened to 6.1 percent of GDP in 2020, reflecting a significant contraction of government revenues, as economic activity declined and due to tax breaks for firms, and a sharp increase in expenditures to address the COVID-19 crisis and promote economic recovery. Public debt as a percent of GDP increased to 57.5 percent in 2020.

External reserves reached an estimated 5.5 months of imports in 2020 due to large donor support and reduced imports during the pandemic. Between March and October 2020, the REER appreciated by 6.4 percent y/y, reflecting the nominal appreciation of the Euro against the USD. To support regional economy and COVID-19 related extra spending, the BCEAO announced a set of monetary and macroprudential measures since March 2020, including a policy rate cut and extended refinancing operations of the 3-month COVID-19 bonds to support governments and businesses.

Poverty remain high and concentrated in rural area. Although poverty has declined in recent years, more than two fifths of the population still live in poverty. The poverty rate (using the national poverty line of 743.2 CFAF per day) was 45.5 percent in 2018-19, suggesting a continued decrease. Because of the COVID-19 pandemic, the extreme poverty rate is estimated to have increased to 46.3 percent in 2020. Poverty worsened mainly in urban areas from job losses and increases in prices of basic consumption goods.

Outlook

Real GDP is projected to grow by 3.4 percent (1 percent in per capita terms) in 2021, rising to 5.0 percent in 2023. Growth will be supported by higher exports, as economic activity gradually resumes in key trading partners and by the continuous improvements in public infrastructure and the business climate. Also, plans to build or rehabilitate rural roads will boost activity in the construction sector, while the re-opening of borders will improve access to agricultural inputs, thereby increasing productivity.

The current account deficit will improve slightly in 2021, from 3.7 percent of GDP in 2020 to 3.6 percent of GDP in 2021, as recovering export growth outstrips rising import demand. In the medium-term, the external deficit is expected to stabilize at around 3.6 percent of GDP, balancing a continual recovery of exports with increases in imports as investments and private consumption rebounds. The current account deficit will be financed by grants, savings from the Debt Suspension Initiative and concessional loans.

The fiscal deficit is projected at 6.1 percent of GDP in 2021, before gradually declining to reach the WAEMU convergence criteria of 3 percent in 2023. Revenues are expected to rise in line with GDP growth and from an end of the tax holidays to support firms in 2020. Total expenditure as a percent of GDP will remain unchanged, as the decrease in current expenditures is fully offset by the rise in capital expenditures. Public debt will increase to 60 percent of GDP in 2021, before declining over the medium-term as the primary fiscal deficit is gradually reduced. The risk of external debt distress is moderate, while the risk of overall debt distress is high due to increases in regional debt.

Extreme poverty will remain high at 45.9 percent in 2021, as food prices remain high, reflecting a rebound in consumption demand and persisting supply chain disruptions. Extreme poverty is projected to return to the pre-COVID trajectory in 2022 and follow a downward trend in the medium-term supported by the scaling-up of Government cash transfer programs to the poorest and most vulnerable.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	5.0	5.5	0.7	3.4	4.6	5.0
Private Consumption	2.8	3.0	-4.9	3.7	3.6	3.6
Government Consumption	23.1	-2.9	21.1	-26.3	19.0	1.1
Gross Fixed Capital Investment	16.8	20.2	8.6	36.2	12.3	20.4
Exports, Goods and Services	2.0	1.0	3.6	5.0	3.6	3.6
Imports, Goods and Services	5.3	1.2	4.1	13.0	13.0	13.0
Real GDP growth, at constant factor prices	5.2	4.4	0.7	3.4	4.6	5.0
Agriculture	3.2	1.9	4.0	6.0	5.9	5.9
Industry	3.9	6.5	0.8	6.5	7.5	8.1
Services	6.6	4.5	-0.7	0.9	2.7	3.1
Inflation (Consumer Price Index)	0.9	0.7	1.8	2.0	2.2	2.0
Current Account Balance (% of GDP)	-1.9	-2.5	-3.7	-3.6	-3.6	-3.8
Net Foreign Direct Investment (% of GDP)	3.5	4.0	2.2	2.7	2.0	1.9
Fiscal Balance (% of GDP)	-0.6	-0.9	-6.1	-6.1	-4.1	-3.0
Debt (% of GDP)	57.3	53.5	57.5	60.0	60.0	58.9
Primary Balance (% of GDP)	1.2	1.2	-3.2	-3.6	-1.9	-0.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	47.0	45.7	46.3	45.9	45.3	44.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	71.9	70.3	71.3	70.5	69.5	68.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	89.0	88.5	88.8	88.7	88.3	87.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2015-QUIBB. Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2015) with pass-through = 0.87 based on GDP per capita in constant LCU.

UGANDA

Table 1	2020
Population, million	45.7
GDP, current US$ billion	30.7
GDP per capita, current US$	671.8
International poverty rate ($1.9)[a]	41.3
Gini index[a]	42.8
School enrollment, primary (% gross)[b]	102.7
Life expectancy at birth, years[b]	63.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011PPPs.
(b) WDI for school enrollment (2017); life expectancy (2018).

The COVID-19 crisis pushed the economy into three consecutive quarters of GDP contraction and revealed weaknesses in Uganda's path towards industrialization. Consequently, revenue shortfalls deepened, while current spending rose compared to last fiscal year, and inflationary pressures abated. Growth is expected to worsen in FY21 before recovering in FY22–23 with the rollout of COVID-19 vaccines. Extreme poverty is also expected to rise, especially in urban areas.

Key conditions and challenges

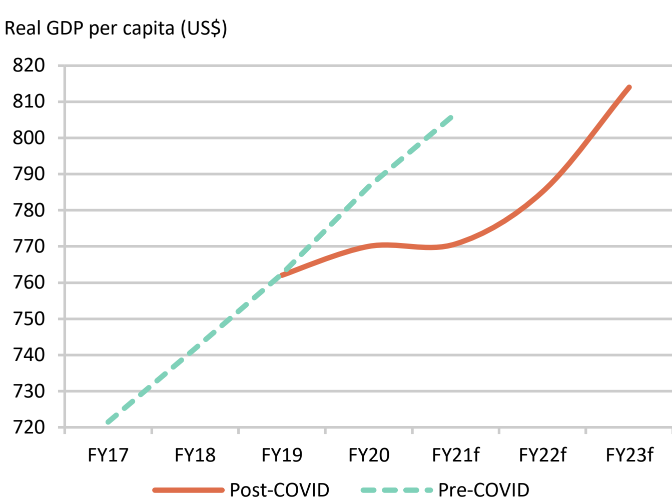
Prior to the COVID-19 outbreak, structural transformation was driving a decline in poverty, despite a slowdown in trend economic growth over the last decade. The transformation was characterized by a sizable reduction in the workforce employed in agriculture to between 60–65 percent from 75 percent a decade ago, and a take-off in industrial production, largely in agro-processing. Notwithstanding shifts to higher productivity jobs, per capita real GDP growth decelerated to 1.3 percent in the five years prior to the COVID-19 crisis, from 2.2 percent between 2010 and 2015, as population growth climbed to 3.7 percent per year. Nevertheless, poverty is projected to have declined from 41.3 to 40.2 percent between 2016 and 2019. However, the poor remain highly vulnerable to shocks, as seen in the temporary rise in poverty following the 2016/17 drought.

COVID-19 may reverse the declining poverty trend from the past decade, with widespread closures of firms, permanent layoffs in industry and services, and a rapid slowdown of economic activity, especially in the urban informal sector. The economic scarring is likely to persist over the long run as real per capita income will struggle to catch up with levels expected before the crisis (Figure 1). The lack of social safety nets has resulted in the displacement of labor from urban employment back to low-productivity farming. Meanwhile, rising debt vulnerabilities curtail fiscal measures to accelerate growth and improve the quality of public investment in human and physical capital that is needed to enhance productivity. The government could use the crisis to replace inefficient spending programs such as, for example, Operation Wealth Creation, with better approaches to boost productivity. Furthermore, the agricultural supply chain would benefit from investments in post-harvest storage facilities that would improve the quality and reliability of supply for the domestic manufacturing sector.

Recent developments

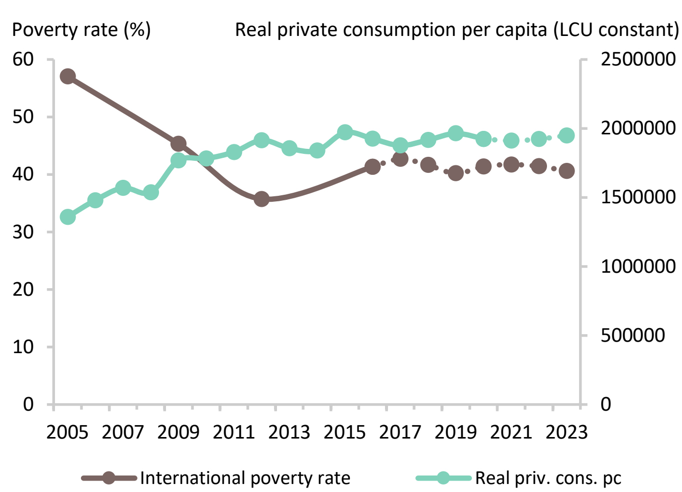
With the full impact of the COVID-19 shock in FY21, real GDP growth is expected to decline to 1–2 percent compared to 2.9 percent in FY20. Growth contracted in the first quarter of FY21 (July–September 2020) by 2.2 percent (yoy)—the third consecutive quarter of negative growth—driven by a sharp decline in services, mostly tourism, and was offset in part by a mild recovery in industrial production. Meanwhile, inflationary pressures have abated, despite expansionary monetary policy and financial policies aimed at easing liquidity for banks and businesses. Lower growth narrowed the current account deficit by 1 percentage point to 5.9 percent of GDP in FY20, as both exports and imports declined by US$3.3 billion and outflows of investment

FIGURE 1 Uganda / Evolution of real GDP per capita (US$) as projected pre- and post-COVID



Sources: UBOS and UN, WB staff calculations through MFMOD.

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



Source: World Bank. Notes: see Table 2.

income and employee compensation decelerated.

Despite a near full recovery of employment after lockdown measures were lifted by August 2020, household incomes have not returned to their pre-pandemic levels. Private consumption per capita is projected to shrink 2.7 percent between 2019 and 2021, resulting in a 1.5 percentage point increase in poverty by end-2021 (Figure 2). The transmission channel for the impact on household incomes is largely employment and income losses in service and industry sectors.

The fiscal deficit is estimated to have widened to 9 percent of GDP in the first half of FY21 from 6.6 percent during the same period of FY20. The decline in direct taxes reflects tax deferments and business closures, while the drop in VAT and excise duties mirrors the slowdown in private consumption and imports. The government's spending response to the crisis has included an acceleration in military expenditures, which rose 45 percent since the start of the crisis (March to November) compared to the same period the year before. Spending on health and education, meanwhile, increased 30 and 15 percent, respectively, which included the hiring of temporary workers to help manage the pandemic.

Outlook

The displacement of labor and an uncertain post-election period will slow the recovery from the ongoing COVID-19 crisis, with real GDP growth expected to pick up in FY22–23. This rebound, averaging 5.6 percent in FY22–23, is predicated on a pick-up in private consumption and investment, supported by higher growth in exports as the global economy recovers. The latter is assumed to benefit from the global rollout of COVID-19 vaccines in 2021. A more prolonged downturn in tourism revenues, further subdued inflows of remittances, and delays in the final investment decision by companies in the oil sector could result in growth dropping to 4.5 percent over FY22–23.

Accompanied by rising debt vulnerabilities over the medium term, the fiscal deficit is projected to remain above 5 percent on average in FY22–23. Despite an expected correction in the primary deficit to 2 percent of GDP by 2023, public debt is likely to exceed 51 percent of GDP by 2023. Debt risks will become more pronounced if there is a bigger than expected reliance on domestic borrowing, where 1-year treasury bill yields have averaged around 13 percent since July 2020. On the upside, oil prices have recovered more than expected, with Brent crude above US$60 in February 2021. This increases the likelihood of oil companies taking the final investment decision, which would unlock large FDI inflows and an investment boom.

The expected slow recovery in private consumption means the poverty rate is unlikely to return to pre-COVID levels before 2023. According to the World Bank's projections, poverty will be 40.6 percent in 2023, still 0.4 percentage points higher than in 2019. The size of the increase in poverty may change given that the full impact of the pandemic is still unknown and will also depend on government's handling of the ongoing crisis.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	6.2	6.8	2.9	2.0	4.7	6.4
Private Consumption	6.0	6.2	1.2	2.3	3.4	4.0
Government Consumption	11.6	6.9	6.0	11.2	-1.6	5.6
Gross Fixed Capital Investment	5.5	9.9	0.7	2.0	8.9	10.1
Exports, Goods and Services	9.3	6.8	0.4	3.2	14.6	14.2
Imports, Goods and Services	8.8	8.1	-6.2	8.3	10.2	9.1
Real GDP growth, at constant factor prices	6.2	6.8	2.9	2.0	4.7	6.4
Agriculture	4.4	5.3	4.8	3.5	4.1	4.2
Industry	6.5	10.1	2.2	2.8	5.3	7.6
Services	7.1	5.7	2.3	0.7	4.6	6.9
Inflation (Consumer Price Index)	3.4	3.1	3.0	4.0	4.5	5.0
Current Account Balance (% of GDP)	-5.3	-6.8	-6.1	-8.3	-7.7	-7.0
Net Foreign Direct Investment (% of GDP)	2.8	3.5	2.6	2.3	2.8	3.1
Fiscal Balance (% of GDP)	-4.1	-4.9	-7.2	-8.3	-5.6	-4.9
Debt (% of GDP)	36.2	37.3	41.1	47.5	50.6	51.4
Primary Balance (% of GDP)	-2.1	-2.8	-4.5	-5.5	-2.8	-2.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	41.6	40.2	41.4	41.7	41.4	40.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2016-UNHS. Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2016) with pass-through = 0.87 based on private consumption per capita in constant LCU.

ZAMBIA

Table 1	2020
Population, million	18.4
GDP, current US$ billion	19.4
GDP per capita, current US$	1055.9
International poverty rate ($1.9)[a]	58.7
Lower middle-income poverty rate ($3.2)[a]	75.4
Upper middle-income poverty rate ($5.5)[a]	88.1
Gini index[a]	57.1
School enrollment, primary (% gross)[b]	98.7
Life expectancy at birth, years[b]	63.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011PPPs.
(b) WDI for school enrollment (2017); life expectancy (2018).

The COVID-19 crisis exacerbated Zambia's fragile macroeconomic situation in 2020. The economy contracted by 1.2 percent, reflecting the impact of lockdown measures and external shocks due to the pandemic. Poverty is estimated to have increased by just over 1 percentage point to 59.7 percent. A weak rebound is expected in 2021, but prospects for a stronger and sustainable recovery hinge on progress on debt restructuring and fiscal consolidation, the COVID-19 pandemic outlook, and reforming the current growth model.

Key conditions and challenges

Zambia's economic challenges in recent years have highlighted the need to diversify away from a mining-led development model. Zambia experienced a period of unprecedented growth averaging at 7.4 percent per annum over 2004-2014. This raised GDP per capita levels by nearly 53 percent, with the country becoming a lower middle-income country in 2011. These successes followed debt relief under HIPC in 2005, increased production in agriculture and mining along with rising global copper prices and investment in the social sectors. However, delays to unwind expansionary fiscal policies over the past decade in the face of copper price fluctuations and weather vagaries led to increasing macroeconomic and debt vulnerabilities. Debt to GDP increased from 23.8 percent in 2014 to 141.3 percent by 2020.

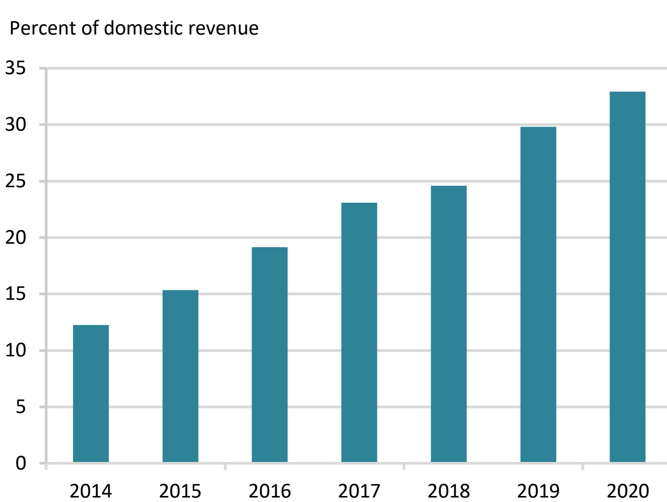
The Zambian economy was already at its weakest point at the onset of the COVID-19 pandemic. Growth in 2019 slumped to the lowest in two decades (1.4 percent), with drought conditions impacting agriculture, electricity and copper production. Expansionary fiscal outturn in 2019– an overall deficit of 11.4 percent of GDP, further constricted the country's fiscal space. Inflation started rising above the authorities' target band of 6-8 percent beginning June 2019 and the Kwacha depreciated by 18.3 for the year, leading to a tightening of monetary policy. By 2019, Zambia's debt was assessed to be at high risk of debt distress and unsustainable. Combined, these macroeconomic pressures led to a liquidity crisis by the end of 2019 and underlined the need for significant fiscal consolidation and diversification beyond mining.

Recent developments

The COVID-19 pandemic pushed into contraction an economy that was already weakened by recent persistent droughts, falling copper prices and unsustainable fiscal policies. Economic activity through Q3 of 2020 contracted by 1.7 percent, as declines in industry and services outweighed growth in agriculture. Mining and services suffered from lower global demand and social distancing measures earlier in the year, respectively. However, relaxation of the lockdown measures in second half and a global pick-up of copper prices helped activity to recover. Overall, the economy is estimated to have contracted by 1.2 percent in 2020 - the first recession for Zambia since 1998. Inflation remained in double digits throughout 2020--averaging 15.7 percent --and reached a high of 21.5 percent in January 2021.

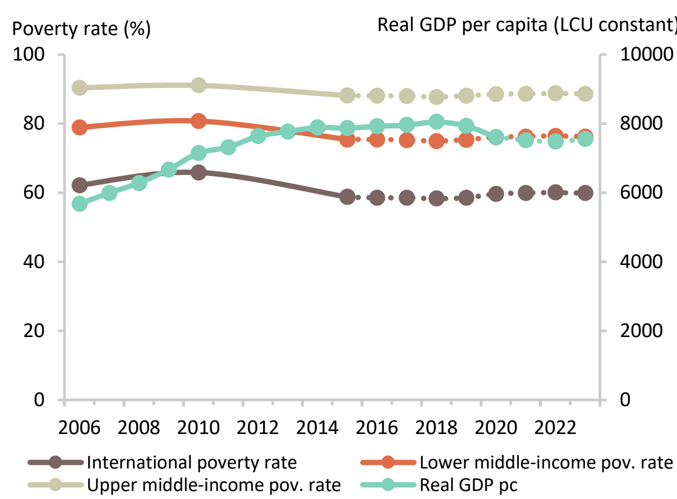
The COVID-19 pandemic has also deepened Zambia's fiscal and debt vulnerabilities. Falling revenues and COVID-related expenditures saw the fiscal deficit increase to 10.3 percent of GDP compared to an approved budget of 6.5 percent. The Kwacha depreciated by over 50 percent while reserves declined to $1.2bn even as the

FIGURE 1 Zambia / Interest payments on debt as a share of domestic revenues



Sources: Zambian authorities and World Bank Staff estimates and projections.

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



Source: World Bank. Notes: see Table 2.

government accumulated over US$840mn in external arrears through December 2020—a clear reflection of increasing debt service pressures (figure 1). By September 2020, the government stopped servicing all external debt except for multilaterals and some priority projects; this was followed by a default on the Eurobond repayments in November. As debt became unsustainable, the authorities embarked on a debt restructuring process in early 2020 and in May hired legal and financial advisors to help them with the negotiations. The country's participation in the Debt Service Suspension Initiative (DSSI) has helped free up resources for the COVID-19 response. The government has also requested debt treatment under the G -20 Common Framework, agreement of which could help frame and support the debt restructuring process with all creditors. Restoring Zambia's external debt to sustainable levels will require significant debt restructuring, including debt reduction to reduce the present value of debt, and fiscal consolidation.

Poverty and vulnerability have increased due to the pandemic. The national poverty headcount rate is expected to increase by around 1.1 percentage points from 58.6 percent in 2019 to 59.9 percent by 2021. This is largely driven by increases in poverty in urban areas, and among those relying on employment income from the informal sector. A World Bank Household Monitoring phone survey found that 4 in 5 households reported a drop-in income from nonfarm business, and that 1 in 3 reported a reduction or disappearance of wages. Core recurrent spending, including social benefits, has suffered in recent years, with only about one third percent of the government's budget on social cash transfers (SCT) disbursed in FY20. While the government has budgeted for a higher amount in SCT in FY21, this could be further affected by the increasing fiscal pressures due to the crisis, with a substantial impact on the most vulnerable households in the population.

Outlook

A gradual recovery is expected, with GDP growth projected at 1.8 percent in 2021 and averaging 2.8 percent over 2021-23. Higher copper prices, the commissioning of a new hydro power station, and a return to normal rainfall patterns are expected to support growth in agriculture and electricity production, key contributors to Zambia's industry and service sectors. However, the impact of COVID-19 will continue to dampen activity, especially in tourism (about 7 percent of GDP) and retail and wholesale trade (20 percent of GDP). While the recent uptick in copper prices could help in ramping up mining activity in the short-term, a stable fiscal regime and clarity on the role of the state will be critical for regaining and increasing investment in the sector for longer-term benefits. Absent decisive policy interventions and in the face of fiscal pressures, poverty is expected to peak in 2022 at 60.0 percent.

The risks to this outlook are balanced. Timely achievement of macroeconomic stability will largely depend on progress on debt restructuring and to fiscal consolidation and the availability of the COVID-19 vaccines. However, a prolonged fallout from COVID-19 could amplify fiscal and domestic liquidity challenges, deepen exchange rate pressures, further weaken the base on which the Zambian economy is expected to recover, and lengthen the time for Zambia to embark on key macroeconomic and structural reforms. Rainfall variability remains a key structural risk to Zambia's sustainable growth, affecting key sectors like agriculture and electricity, and highlights the need to incorporate climate-smart solutions in the country's long-term growth strategy.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.2	1.4	-1.2	1.8	2.9	3.8
Private Consumption	1.2	2.3	3.1	3.6	4.5	4.5
Government Consumption	-14.9	-10.1	10.8	-15.8	-11.4	-4.4
Gross Fixed Capital Investment	9.9	-14.3	-29.9	8.9	6.1	12.6
Exports, Goods and Services	8.7	-7.2	10.8	8.6	9.8	6.9
Imports, Goods and Services	4.9	-13.7	-9.8	16.1	14.3	13.1
Real GDP growth, at constant factor prices	4.0	1.5	-1.2	1.8	2.9	3.8
Agriculture	-21.2	7.7	18.2	4.5	4.0	4.0
Industry	4.6	-3.3	-1.5	1.0	1.8	3.6
Services	7.3	3.5	-3.1	1.8	3.3	3.9
Inflation (Consumer Price Index)	7.5	9.1	15.7	21.0	19.0	10.0
Current Account Balance (% of GDP)	-1.3	1.1	8.4	6.5	5.9	3.5
Net Foreign Direct Investment (% of GDP)	1.4	-1.0	2.0	2.0	3.1	3.0
Fiscal Balance (% of GDP)	-10.1	-9.5	-10.1	-8.1	-5.6	-2.2
Debt (% of GDP)	77.8	88.4	84.2	76.0	73.1	100.3
Primary Balance (% of GDP)	-5.5	-5.6	-7.0	-3.7	-2.2	0.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	58.3	58.6	59.7	59.9	60.0	59.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	74.9	75.3	76.0	76.2	76.4	76.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	87.7	88.0	88.5	88.6	88.8	88.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2015-LCMS-VII. Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2015) with pass-through = 0.7 based on GDP per capita in constant LCU.

ZIMBABWE

Table 1	2020
Population, million	14.9
GDP, current US$ billion	17.0
GDP per capita, current US$	1145.1
International poverty rate ($1.9)[a]	39.5
Lower middle-income poverty rate ($3.2)[a]	63.8
Upper middle-income poverty rate ($5.5)[a]	82.8
Gini index[a]	50.4
School enrollment, primary (% gross)[b]	109.9
Life expectancy at birth, years[b]	61.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011PPPs.
(b) Most recent WDI value (2018).

The economy is projected to rebound in 2021, driven by recovery in agriculture, although output per capita will not reach pre-pandemic levels until after 2023. Inflation though declining is projected to remain high in 2021, responding to rising international oil and food prices. Fiscal deficit is projected to be within sustainable limits, as revenue continues to recover while non-wage expenditure is constrained by implementation challenges. Poverty levels will remain high, amid continued elevated prices, and a slow recovery of jobs and wages.

Key conditions and challenges

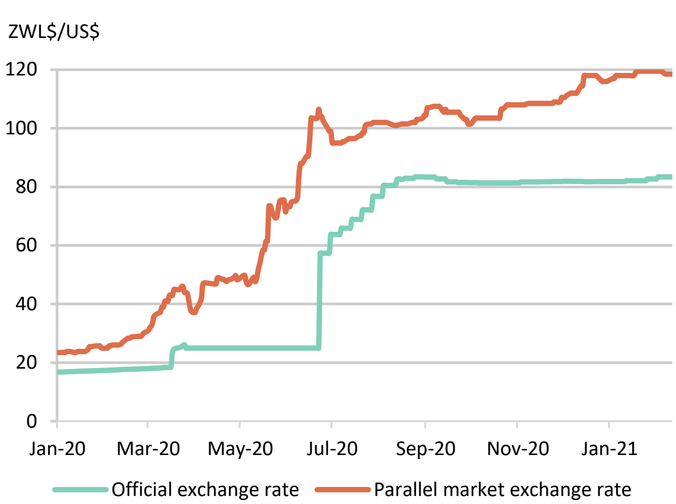
Macroeconomic challenges and natural disasters have kept Zimbabwe's growth volatile. High inflation, unstable exchange rates, and unsustainable debt have constrained macroeconomic stability and productivity growth. Trade integration has declined and foreign direct investment (FDI) remained low, limiting transfer of new technologies and investment in modernizing the economy. Increased frequency of unfavorable weather events, including a drought persisting for almost three years and the devastating Cyclone Idai, downsized rain-fed agriculture, electricity and water production with ripple effects to other economic sectors and social conditions. As a result, after growing at 6.8 percent in 2010–14, Zimbabwe's economy contracted by 1.3 percent in 2015–20.

With no access to concessional external financing, Zimbabwe has relied on mobilizing domestic resources, donor assistance, and expensive external loans to mitigate the impact of natural disasters and the pandemic. To contain inflation, fiscal policy remained tight which has weakened delivery of basic social services. As a result of low or negative economic growth and natural disasters, extreme poverty has steadily increased over the last decade, rising from 21 percent in 2011 to 39.5 percent in 2019 (based on $1.90 poverty line). With the onset of the COVID-19 pandemic, the number of extreme poor is estimated to have reached 42.3 percent in 2020 (based on $1.90 poverty line) of the population in 2020. Bringing the pandemic under control so that economic activity can resume as normal remains the priority in the near term. Zimbabwe's recovery needs to be underpinned by policies promoting productivity growth, such as reducing state intervention in the economy; lessening the regulatory burden; strengthening governance and anti-corruption efforts; lowering barriers to regional trade integration; and removing forex retention requirements. Service delivery needs to be strengthened and household vulnerability reduced through robust social safety net programs.

Recent developments

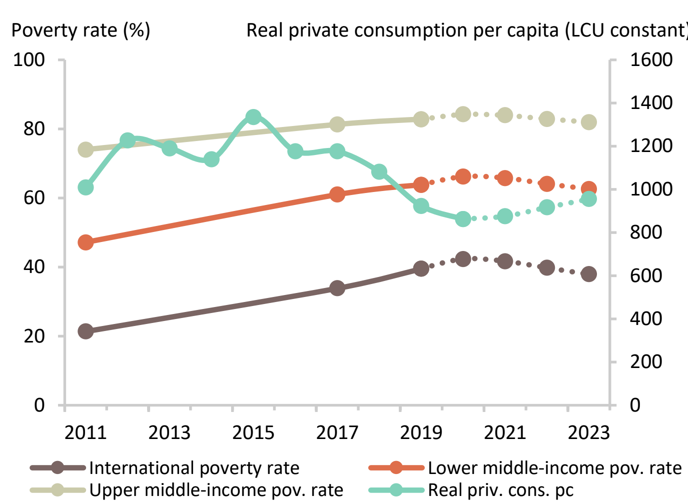
GDP is estimated to have contacted by 8 percent for a second year in a row as the pandemic halted economic recovery. Containment measures depressed manufacturing, non-mineral exports, and the hospitality, trade, and transport sectors. Sales of manufacturing and services firms in July 2020 were about half the level of the previous year. Supply-side shocks subsided after mobility restrictions were eased, but domestic demand was weak in an environment of triple-digit inflation, loss of productive jobs and income losses. Several years of drought necessitated increased imports of maize and electricity, while the pandemic presented new demands for lab equipment and medical

FIGURE 1 Zimbabwe / Official and parallel-market exchange rates



Sources: Reserve Bank of Zimbabwe and World Bank Staff estimates.

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



Source: World Bank. Notes: see Table 2.

supplies. High inflows of remittances and a positive trade balance kept the current account in surplus.

The need to contain inflation limited fiscal and monetary policy responses to the pandemic. Fiscal policy remained tight—with a small deficit of 1.2 percent of GDP—despite wage pressures and additional spending needs to respond to the pandemic and growing number of poor. In June 2020, the Reserve Bank of Zimbabwe operationalized the reserve money targeting framework, floated the exchange rate, and introduced a foreign currency auction. These measures helped to stabilize the parallel market exchange rate and reduce the parallel market premium (see Figure 1), although the auction exchange rate system remained distortionary. As a result, inflation slowed to 322 percent in February 2021 from its peak of 838 percent in July 2020.

The economic disruption continues to undermine household welfare. More than a quarter of households were severely food insecure in July 2020, while the coverage of the social assistance program remains low, and 28 percent of agricultural households are unable to sell their farm products. Nationally, 16 percent of non-farm business owners reported temporary or permanent closure of businesses in July 2020, and 58 percent had no, or lower revenue compared to the previous month.

Outlook

After two difficult years, Zimbabwe's economy is set to return to positive growth in 2021 amid downside risks. GDP is projected to grow by 2.9 percent in 2021, led by a recovery in agriculture, and due to base effects. The impact of a second wave of the pandemic and uncertainty about the roll out of vaccines are expected to weigh on recovery of domestic and external demand. Domestic demand is projected to remain weak on the back of continuing high inflation, limited fiscal space for expansion, and weak labor market due to the pandemic. Economic recovery is expected to strengthen in 2022 with GDP growing at around 5 percent as the deployment of vaccines intensifies and consistent implementation of the recently approved National Development Strategy reforms start bearing fruit. However, a more prolonged pandemic, weaker global demand, and heightened macroeconomic instability could delay economic recovery, increase poverty, and worsen human capital development outcomes. If risks materialize, economic growth could be lower than 2 percent in 2021. Recovery of tourism, trade, and transport is unlikely to occur until 2022.

Despite renewed economic activity, poverty is likely to remain high as the scars from two years of recession, food insecurity, natural events, and the economic dislocations of the pandemic linger. The number of extreme poor is expected to remain at 6.3 million in 2021 amid elevated prices, risk of more surges in coronavirus cases, and a slow recovery of jobs and wages in the formal and informal sectors. Given limited social safety nets for protecting the growing number of poor, household vulnerability will likely remain high with continuing negative coping strategies such as depleting assets, compromising on quantity and quality of food, forgoing precautionary health care, and keeping children out school. Delayed economic recovery will further deepen poverty and social exclusion.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.8	-8.1	-8.0	2.9	5.1	5.0
Private Consumption	-6.7	-13.4	-5.2	3.0	6.4	5.9
Government Consumption	9.2	-19.2	15.9	4.7	22.2	22.6
Gross Fixed Capital Investment	25.8	-4.3	-18.9	3.2	-35.3	-70.4
Exports, Goods and Services	-29.3	-5.1	-1.4	3.0	5.3	5.5
Imports, Goods and Services	-25.3	-21.0	3.0	4.5	6.1	5.8
Real GDP growth, at constant factor prices	5.1	-8.1	-8.0	2.9	5.1	5.0
Agriculture	18.3	-21.1	-5.2	6.8	8.1	9.3
Industry	3.2	-10.2	-2.7	6.7	10.2	11.8
Services	4.0	-5.1	-10.4	0.8	2.4	1.2
Inflation (Consumer Price Index)	10.6	255.1	556.6	150.0	30.0	20.0
Current Account Balance (% of GDP)	-5.7	6.3	6.2	4.2	2.0	0.9
Net Foreign Direct Investment (% of GDP)	-3.0	-1.5	-0.9	-2.1	-2.7	-2.9
Fiscal Balance (% of GDP)	-6.0	0.3	-1.2	-2.2	-2.5	-3.0
Debt (% of GDP)	72.4	88.5	88.6	87.2	85.6	81.7
Primary Balance (% of GDP)	-4.6	1.3	-0.2	-0.6	-0.5	-1.0
International poverty rate ($1.9 in 2011 PPP)[a,b]		39.5	42.3	41.7	39.8	37.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]		63.8	66.2	65.8	64.0	62.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]		82.8	84.2	83.9	82.9	82.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2017-PICES. Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2017) with pass-through = 0.87 based on private consumption per capita in constant LCU.

Macro Poverty Outlook

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