East Asia and the Pacific

Macro Poverty Outlook

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

Spring Meetings 2021

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Poverty & Equity

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East Asia and the Pacific

Spring Meetings 2021

Cambodia
Central Pacific Islands
China
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North Pacific Islands
Papua New Guinea
Philippines
Solomon Islands
South Pacific Islands
Thailand
Timor-Leste
Vietnam

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.

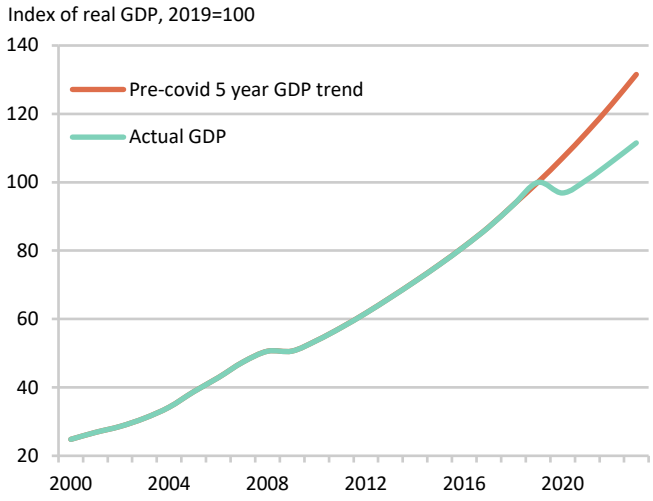
Key conditions and challenges

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

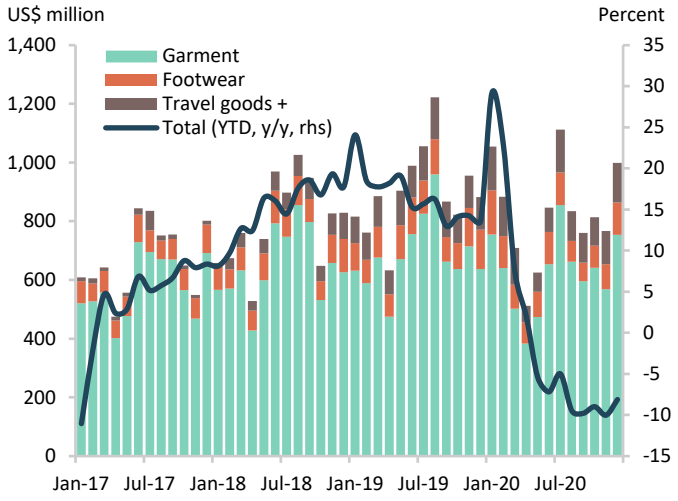
Efforts to contain the impacts of the pandemic continue with emergence of new local outbreak. The COVID-19 vaccination program has also begun. The economy is now adjusting to cope with impacts of the pandemic. The value of approved FDI projects in real sector has been gradually recovering, growing at 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.

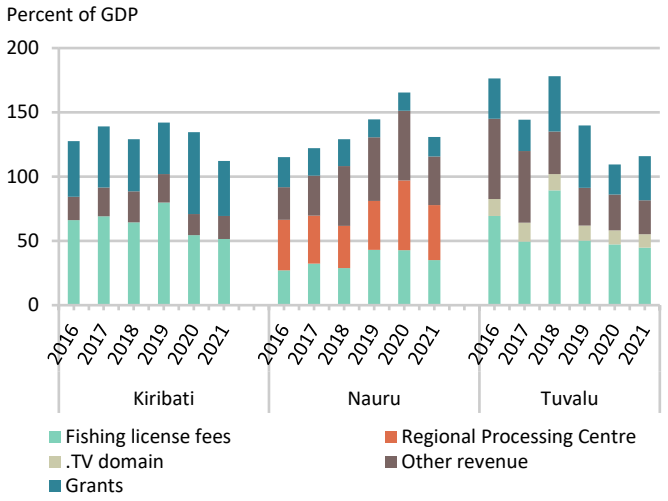
Nauru is also undergoing a significant economic transition. Public revenues and growth have been highly dependent on activity associated with Australia's Regional Processing Centre (RPC) for asylum-seekers, phosphate mining and fishing. However, the country's phosphate resources have now been fully exploited, 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

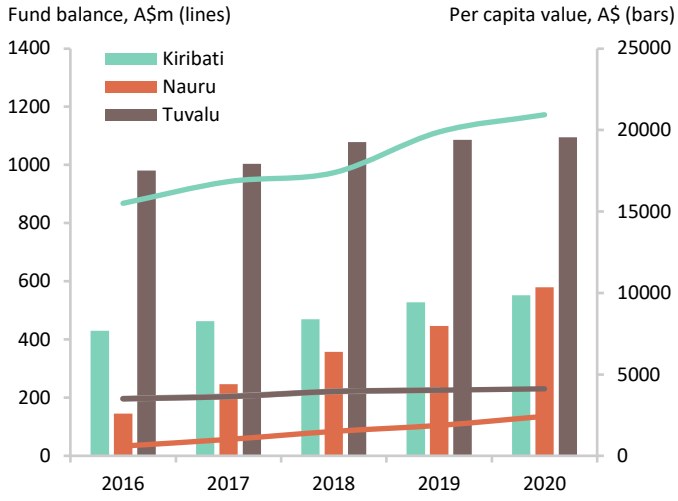
Kiribati's economy is expected to have contracted by about 2 percent in 2020. On

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.

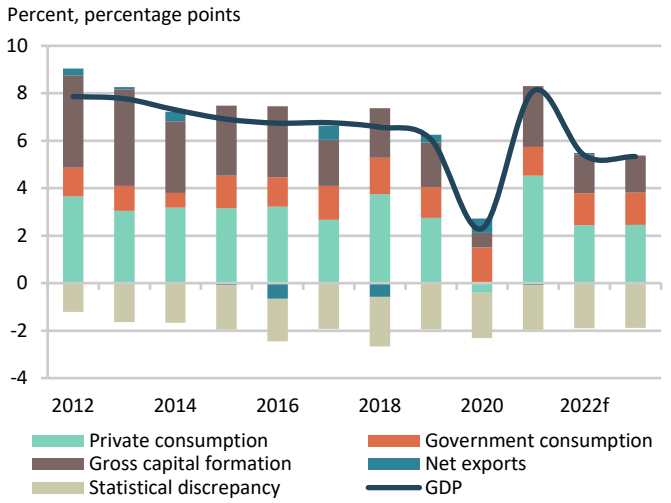
Despite this year's cyclical rebound, China's economy is projected to slow over the medium-term, reflecting longer-term structural trends. Adverse demographics, tepid productivity growth, large regional disparities and the legacies of excessive borrowing and environmental pollution will continue to weigh 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.

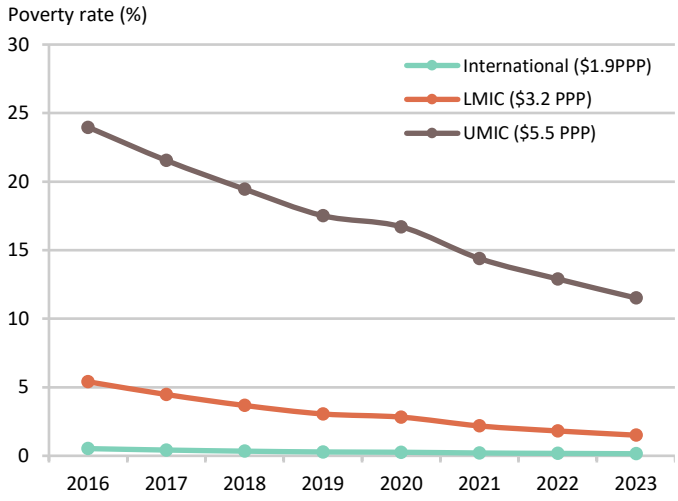
China's recovery has broadened but remains unbalanced. While investment and net exports were running above pre-COVID levels in Q4 2020, consumption continued to lag. This is consistent with supply-side GDP data which suggests industrial production and construction are overshooting while slack remains 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

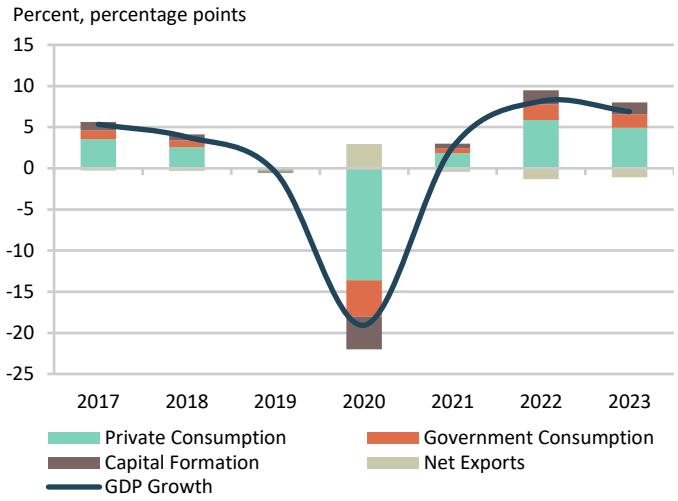
Fiji is a small island nation in the South Pacific Ocean with a population of about 900,000. Remoteness, natural hazards and climate change represent major obstacles to development. Prior to COVID-19, tourism—the main driver of the economy and a major source of foreign exchange—contributed nearly 40 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

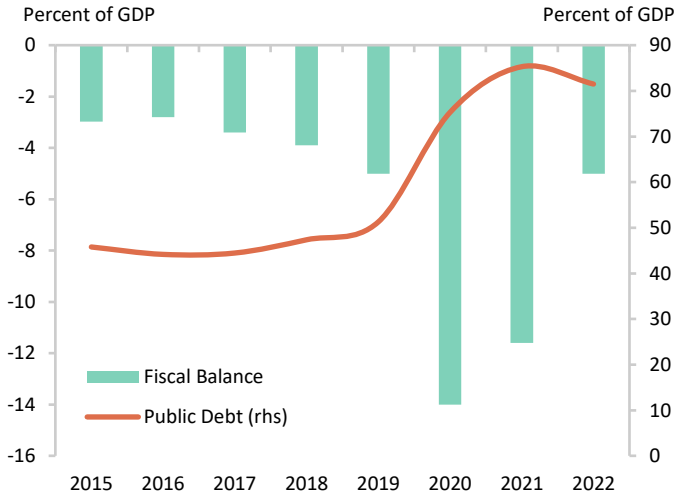
The COVID-19 pandemic presents Fiji with an economic crisis of unprecedented scale with an expected contraction of 19 percent in 2020. International travel restrictions brought tourism to a virtual standstill. This caused a ripple effect on all segments of the economy, had a negative impact on related 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

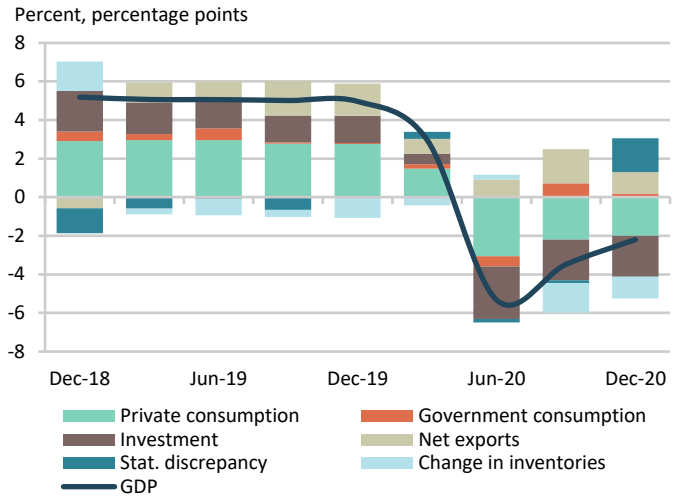
The economy went into recession in 2020 (-2.1 percent growth) for the first time in two decades. This was caused by a sharp drop in domestic demand due to social distancing and high uncertainty. This was only partially offset by increased public spending to support the health sector, households, and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

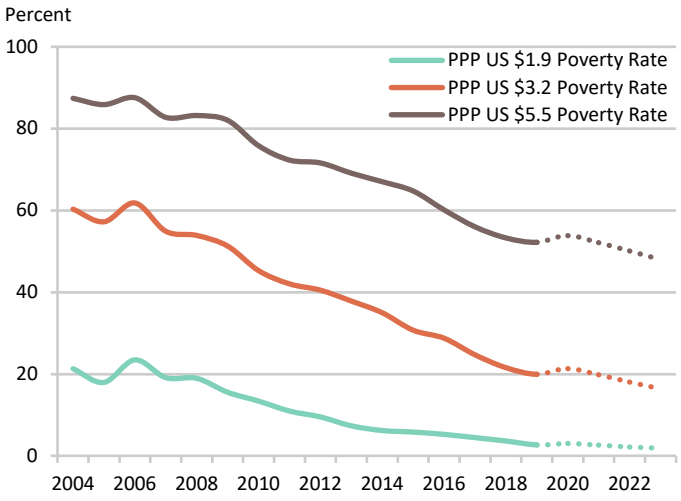
Fiscal and monetary authorities responded boldly to cushion the impact of the COVID-19 shock. Bank Indonesia (BI) cut its policy rate by 150 basis points to 3.5 percent between February 2020 and March 2021. It also eased monetary conditions through liquidity injections and relaxed monetary regulations, 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 = 1based 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.

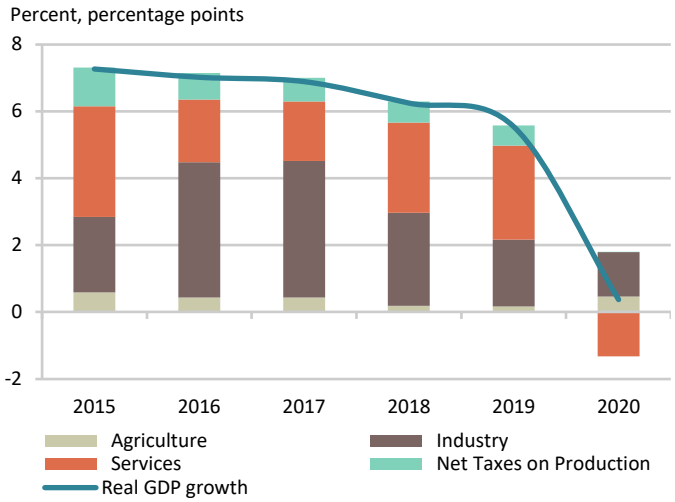
The COVID-19 outbreak has slowed progress against poverty. While steps taken to contain the pandemic, such as travel restrictions and social distancing measures, have been highly successful, these have also resulted in job losses and income reduction. Declining economic activity has pushed the unemployment 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.

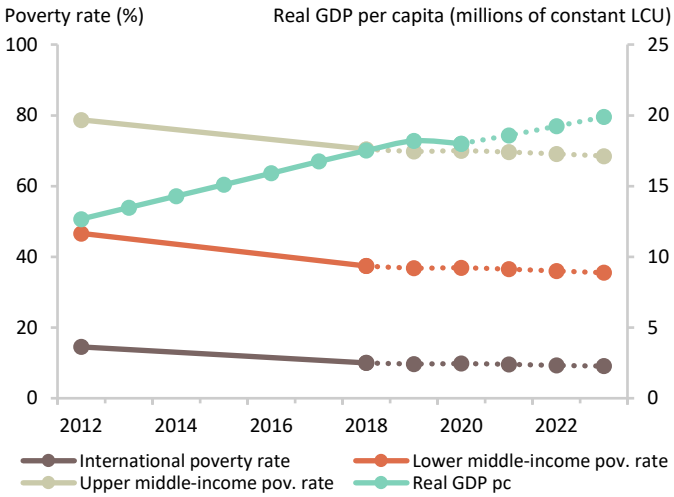
Despite a tightening of expenditure, significant revenue shortfalls have heightened fiscal stress and the public debt burden. In February 2021 the government estimated that domestic revenues were 20 percent below target . With expenditure almost 13 percent below the planned figure, the budget deficit 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.

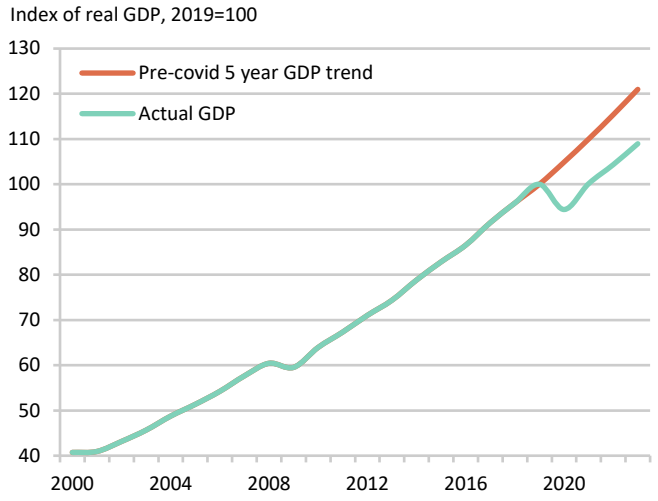
In addition to the impact of the COVID-19 pandemic, domestic political uncertainty also poses a near-term challenge to the economy. Since January 14, 2021 the country has been placed under a state of emergency, which is likely to dampen investors' confidence.

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.

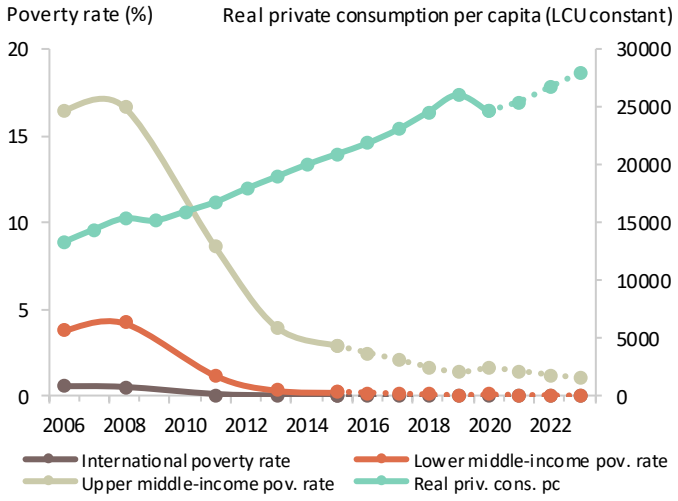
Domestic demand was weaker in Q4 2020. Private consumption registered its third consecutive contraction in the fourth quarter as household spending declined due to movement restrictions and a decline in incomes. Gross fixed capital formation fell, affected by the uncertainty surrounding the pandemic 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 2021to 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.

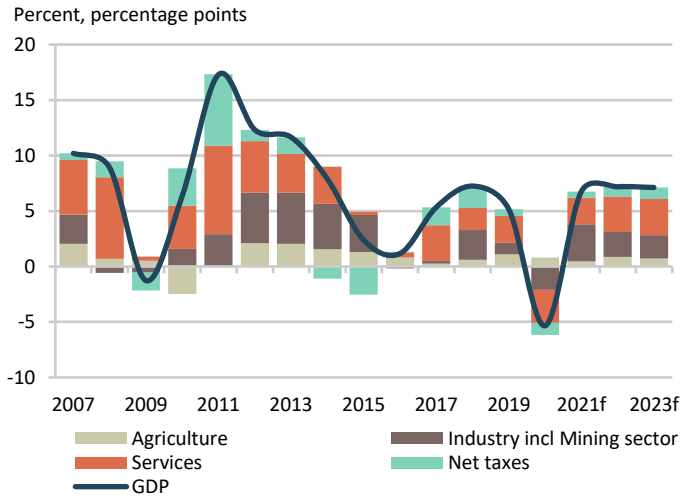
Striving to prevent the risk of COVID-19 contagion, the authorities have been implementing strict travel and social distance restrictions. These measures have helped contain the worst health effects of the pandemic. To mitigate the economic impact the government rolled out a generous relief package focused 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

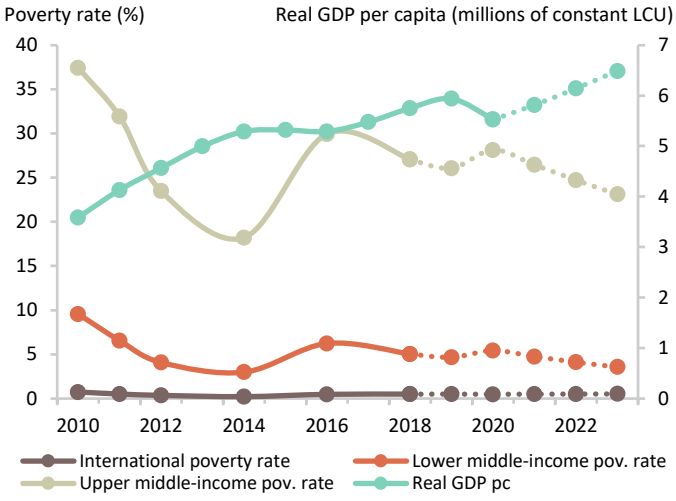
The economic impact of the COVID-19 pandemic has been severe and widespread. In 2020, the Mongolian economy contracted by 5.3 percent. The mining sector was affected significantly by a sharp decline in demand for key commodities and border closures with China. The services sector was also hit hard by 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.

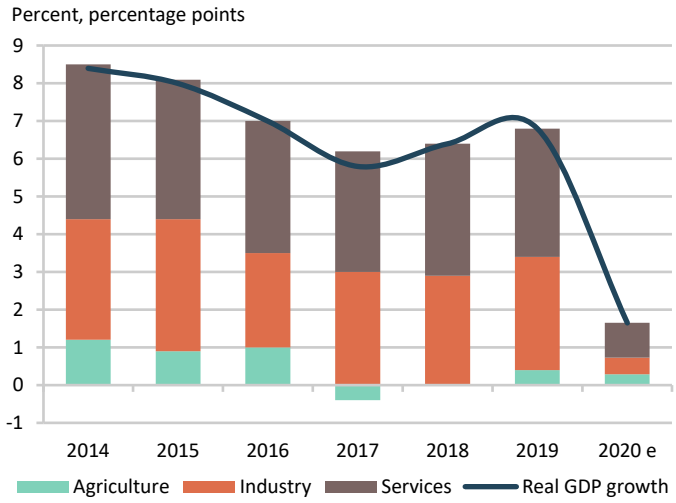
Beginning in late 2020, the surge in COVID-19 cases and second wave of strict containment measures had already struck Myanmar's economy hard. But events since February are likely to have a much larger economic impact in FY2021 (year ended September). Taken together, these shocks have weakened domestic 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

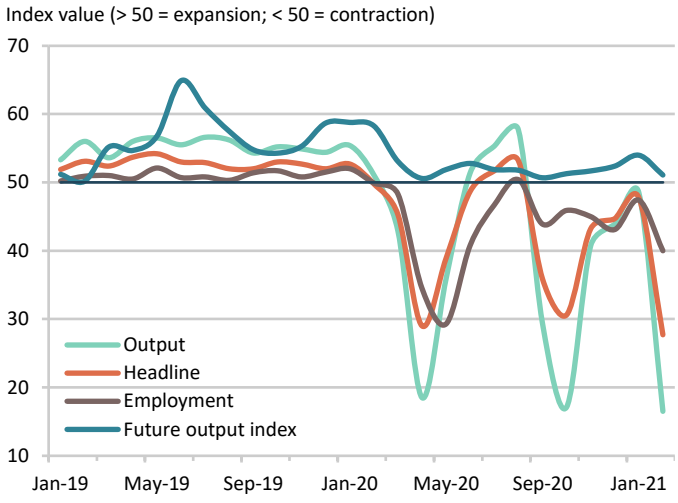
Myanmar's economy is estimated to have grown by 1.7 percent in FY2020, a sharp slowing from 6.8 percent the previous year. In FY2021, the second wave of COVID-19 appears to have had a larger and longer-lasting economic impact than the first. Mobility indicators declined sharply in September and recovered 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

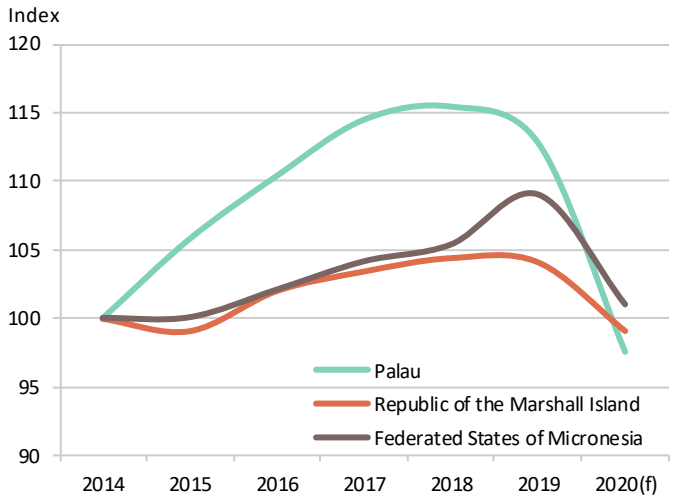
The region's remoteness has helped the North Pacific countries avoid a COVID-19 outbreak, but the prevention strategies have had severe economic consequences. Formal sector employment is estimated to have contracted by 5 to 14 percent across the three economies, and poverty is expected to have increased. 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

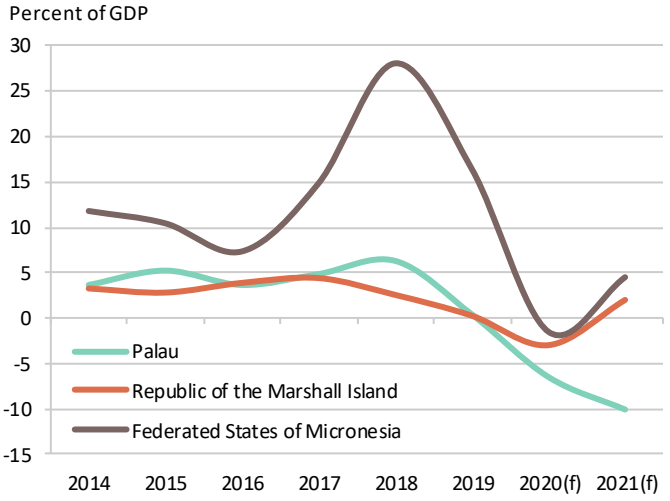
Prior to the pandemic, **FSM** and **RMI** had each registered five consecutive years of positive growth, and the longest period of sustained economic expansion since 2003. However, the economic impact of the pandemic is expected to have driven both economies into recession in FY20 with output contracting 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.

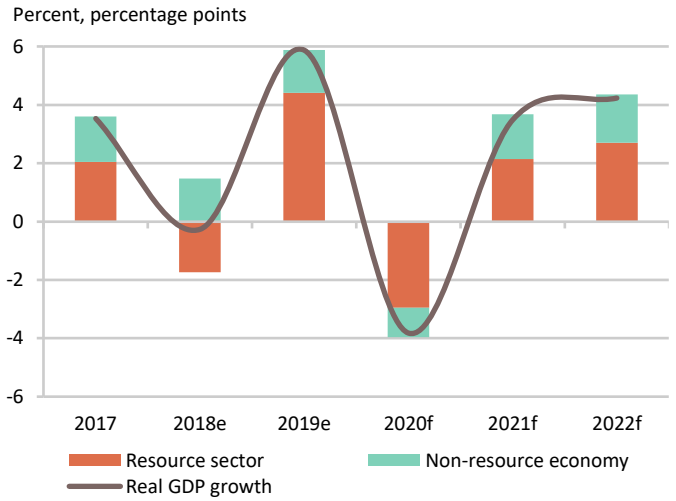
From global as well as regional perspectives, prevalence of extreme poverty in PNG is high. About 38 percent of the population in 2010 (the latest household budget survey available) lived under the international extreme poverty line of US$1.90 per day (2011 PPP terms). The national poverty rate was estimated 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.

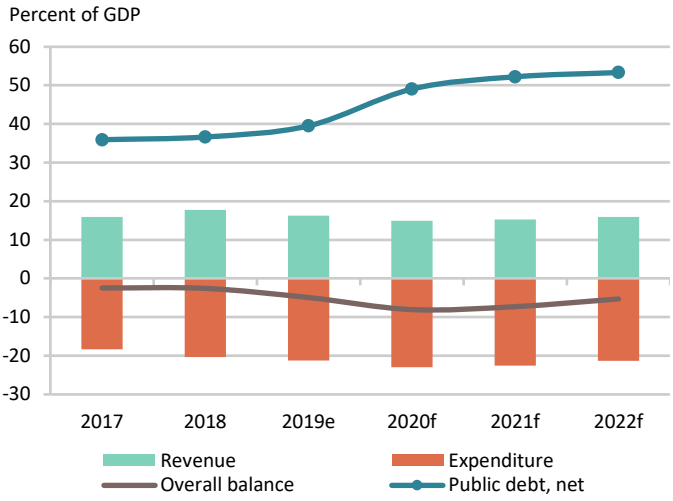
The impact of COVID-19 on livelihoods of the poor and vulnerable households was severe, according to a recent World Bank survey. Two rounds of a mobile phone survey (conducted in June and December 2020) point to considerable impacts of the pandemic at the household level, particularly the poorest segments 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

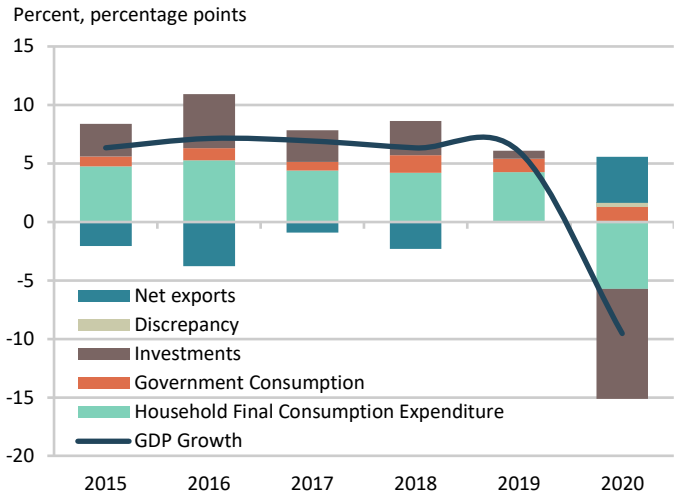
Prior to the pandemic, strong domestic demand and a commitment to structural reforms led to an acceleration of inclusive growth. Growth rose to an annual average of 6.4 percent in 2010-2019 from 4.5 percent in 2000-2009, anchored on sound macroeconomic fundamentals and a supportive policy environment. 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

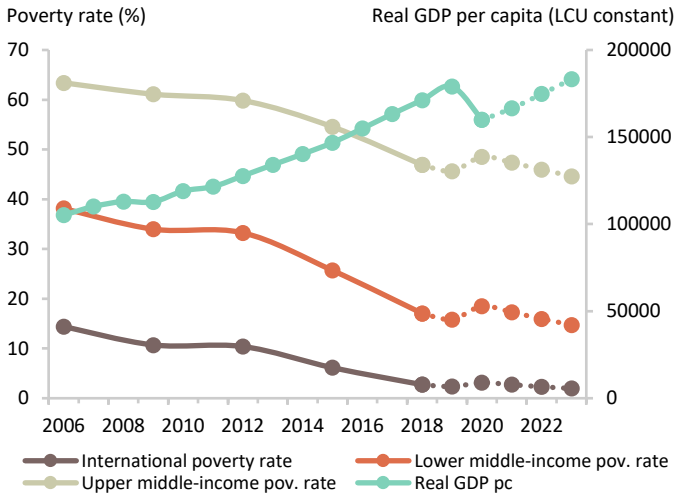
The Philippines recorded its worst recession in post-war history as the economy contracted by 9.5 percent in 2020. The quadruple shock of a health crisis, containment measures, a global recession, and natural disasters resulted in a steep drop in activity. These natural disasters involved a volcanic 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

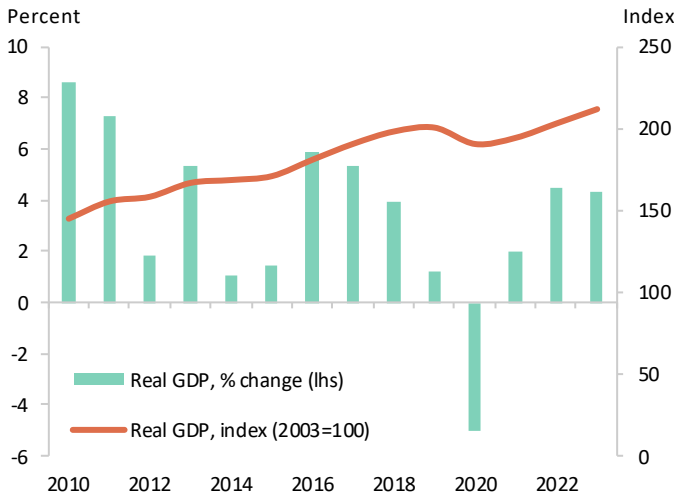
Solomon Islands is a small, remote archipelago that faces a unique set of development challenges, characterized by economic geography and state fragility. A population dispersed across a vast territory complicates access to basic public services. Relatedly, the smallness and dispersion make public service 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

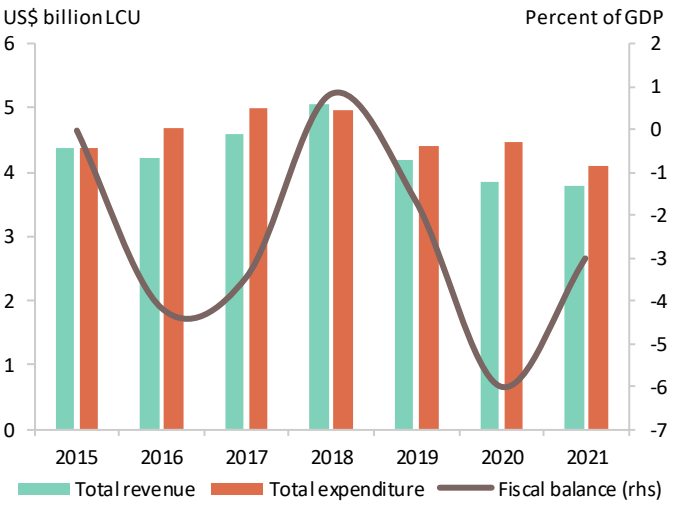
Due to the impacts of COVID-19, the economy is estimated to contract by 5 percent in 2020. Border disruptions, weak external demand and precautionary health measures led to a significant drop in primary sector production, including in fishing and logging. Furthermore, the lack of international visitor 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.

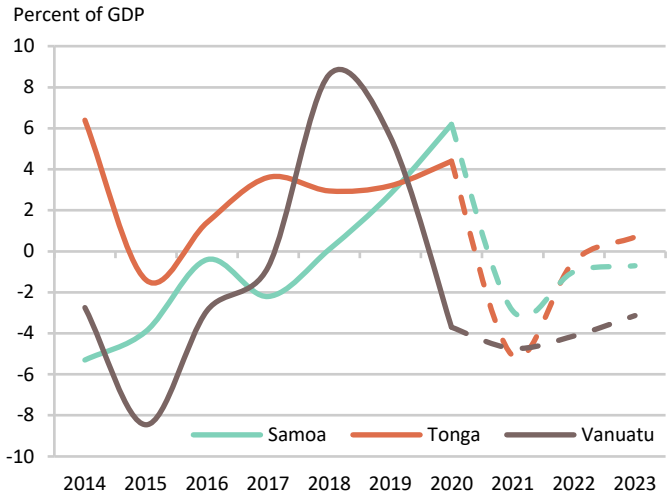
The main immediate challenges are to continue to enhance health sector preparedness and remain free of COVID-19. Over the coming months and years, the key challenge will be to catalyze a sustainable and inclusive economic recovery, and at the same time maintain macroeconomic sustainability in the face 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.

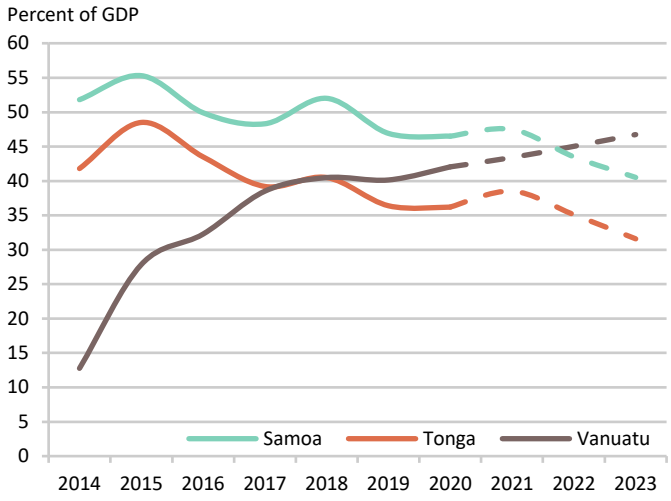
In **Samoa,** travel restrictions imposed in March 2020 resulted in a substantial reduction in tourism activity in late FY20 (July 2019 – June 2020). Economic activity was also adversely affected by declines in construction activity and goods exports, although remittances remained resilient. These impacts 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.

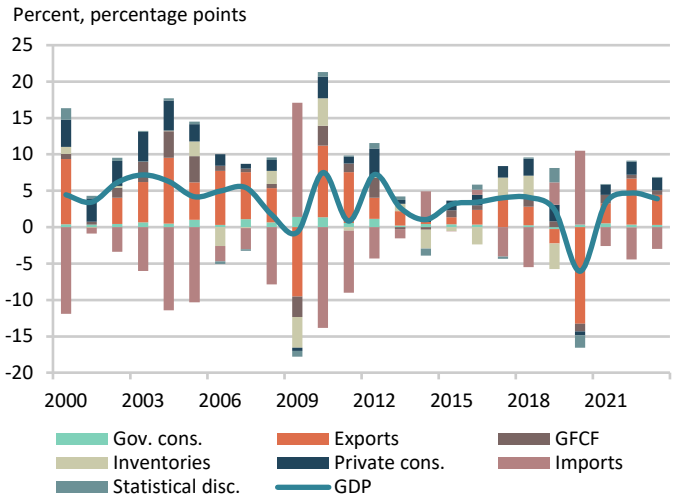
Raising productivity growth and addressing labor market challenges will be necessary to secure economic recovery over the medium and long-term. COVID-19 has exacerbated several of these challenges, including by encouraging workers to move into agriculture from higher-productivity sectors, reversing previous 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.

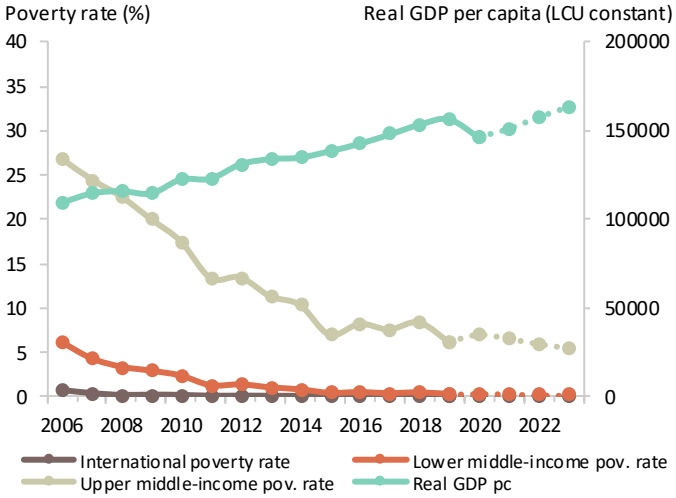
The fiscal deficit widened sharply in FY2020 (year ended September) as government ramped up COVID-19 related spending as

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.

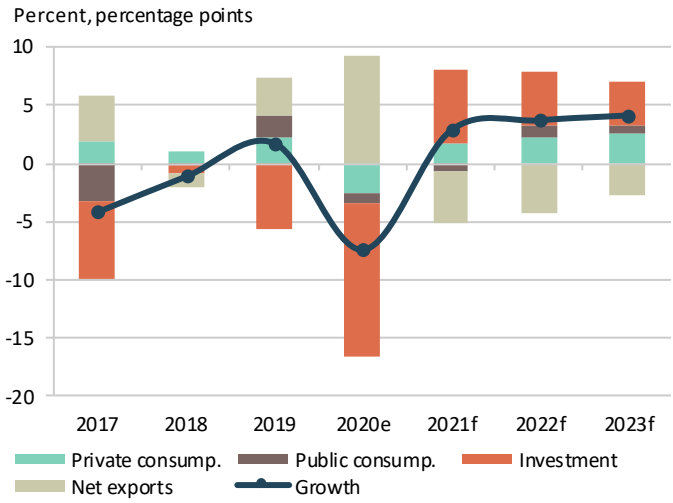
Intermittent political uncertainty in 2017-2020 and the COVID-19 pandemic have undermined recent economic performance – producing three recessions in the past four years. The country has been experiencing a second (and larger) wave of COVID-19 cases since December 2020. The Government has subsequently 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.

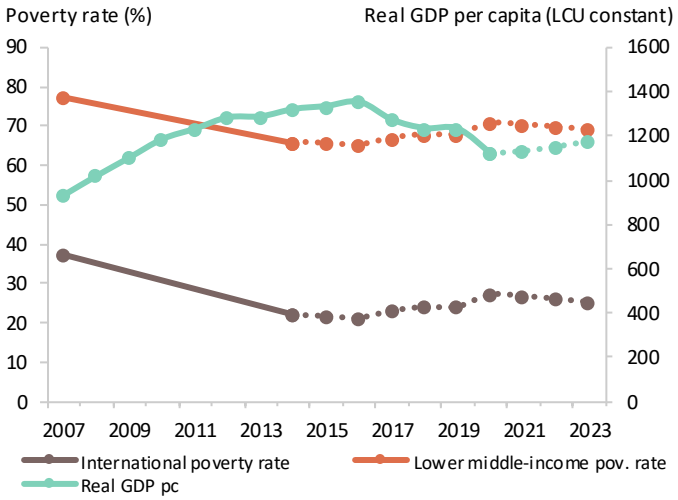
The current account moved from a surplus of 8 percent in 2019 to a deficit of 20 percent of GDP – predominantly due to lower primary income. Lower prices and production reduced petroleum revenues, which are recorded as primary income in the balance of payments. Imports declined by nearly 20 percent, 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.

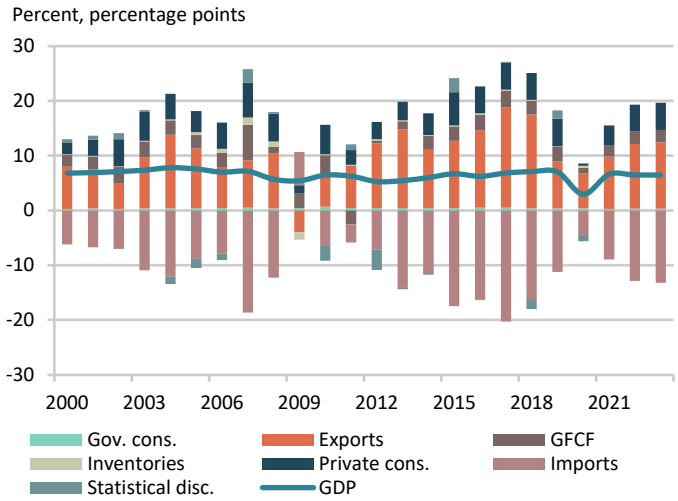
The economy was affected by the April 2020 lockdown to contain the spread of COVID-19 virus and two subsequent outbreaks. But Vietnam was one of the few economies that grew during the pandemic. Exports performed exceptionally well, especially to the US, in part due to trade diversion effect resulting 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

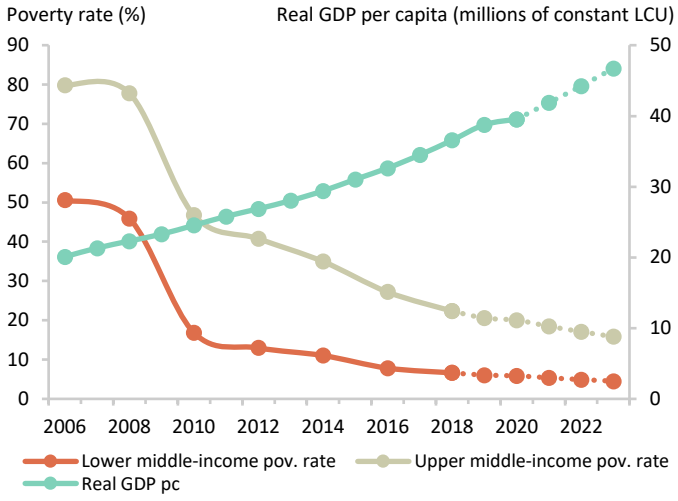
The GDP grew 2.9 percent in 2020, due to exceptional resilience in Vietnam's export and domestic sectors, although this growth performance is significantly lower than the 7 percent growth rate in 2019. At the sectoral level, agriculture turned out to be the most resilient with an estimated growth rate 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.

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