Europe and Central Asia

Macro Poverty Outlook

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

Annual Meetings 2021

WORLD BANK GROUP
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ALBANIA

Table 1	2020
Population, million	2.8
GDP, current US$ billion	14.9
GDP per capita, current US$	5321.4
Upper middle-income poverty rate ($5.5)[a]	33.8
Gini index[a]	33.2
School enrollment, primary (% gross)[b]	104.8
Life expectancy at birth, years[b]	78.6
Total GHG Emissions (mtCO2e)	9.8

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2017), 2011 PPPs.
(b) Most recent WDI value (2019).

The economic recovery in 2021 is stronger than anticipated, as travel, construction, and extractives bounced back following robust international demand. Private investment, consumption, and public spending have led growth. Macroeconomic policies have supported the recovery, although higher public spending has lifted the debt-to-GDP ratio for the second year. Employment and labor force participation have yet to recover, but rising incomes should lead to a modest fall in poverty. Uncertainty remains high as daily Covid-19 cases are increasing again.

Key conditions and challenges

In 2020, the pandemic hit Albania's economy hard. GDP fell by 4 percent, and the government incurred additional public debt to mitigate the economic losses through increased spending.

Activity has rebounded in 2021 and GDP is projected to increase by 7.2 percent, as restrictions are lifted and construction activity resumes, including the reconstruction following the 2019 earthquake.

However, economic prospects remain uncertain as daily cases have started increasing again. Further, by August 2021, the vaccination rate stood at around 20 percent only. If reinstated, new containment measures would delay the recovery of activity and employment, especially in services and manufacturing.

The government successfully met its financing needs by issuing Eurobonds in 2020 and plans to repeat this in 2021. To allow public debt to increase further in 2021, the government temporarily suspended the fiscal rule of a declining debt-to-GDP.[1] Still, the country's buffers remain low in case of a new pandemic wave. In the absence of fiscal consolidation, refinancing risks could arise if external financial market demand reverses and interest rates increase.

The structural conditions for sustained growth are still weak. Although growth averaged a healthy 3.3 percent in 2015-2019, stagnant productivity, a firm landscape dominated by Small and Medium Enterprises that employ low-skilled, low-wage labor, limited access to finance, burdensome logistics, and poor market integration discourage private investment. In addition, low public revenue mobilization at only 26.3 percent of GDP hinders much-needed investment in public infrastructure and human capital.

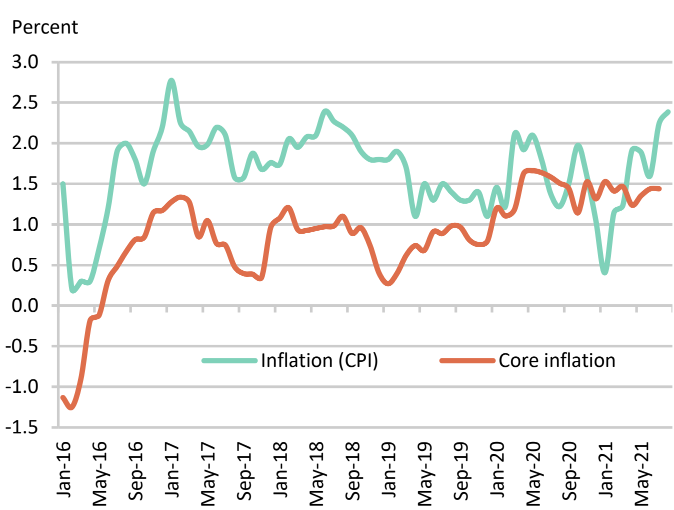
Recent developments

The Albanian economy has shown encouraging signs of recovery in 2021. Higher consumer confidence, external demand, and policy stimulus supported growth. Construction led GDP growth in the first quarter of 2021 and is expected to remain strong, thanks to reconstruction and new infrastructure projects. Strong external demand and favorable hydrologic conditions have boosted extractives and energy production and tourism exports.

Meanwhile, inflationary pressure is building up. Food and oil prices pushed average inflation to 1.8 percent in Q2, from 0.9 percent in Q1. While core inflation remains stable at 1.4, upward pressure could intensify with the expansion of demand and monetary and fiscal stimulus.

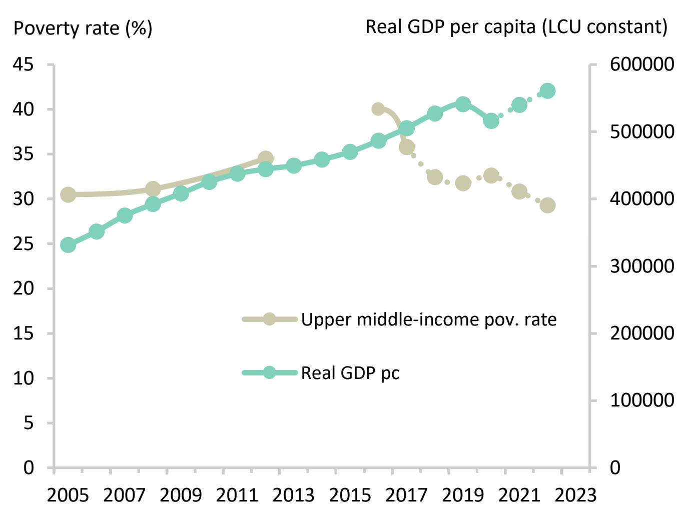
The labor market has not recovered yet. Labor force participation in Q2 2021 continues to be below Q2 2019. There is still a deficit of about 35 thousand jobs relative to Q2 2019. Unemployment started to decline slightly in Q2, especially for workers under 30. Formal real wages rose by 2.9 percent, partially because of an increase in

FIGURE 1 Albania / Headline inflation and core inflation



Sources: INSTAT and World Bank.

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



Source: World Bank. Notes: see Table 2.

the minimum wage. Notwithstanding the labor market underperformance, the poverty rate (at USD 5.5 per day) is projected to fall in 2021 by 1.8 percentage points relative to 2020. Although the extent of the poverty increase in 2020 is not confirmed, projections suggest that by end-2021 the poverty rate could be 0.9 percentage points below its 2019 estimated value. However, this assumes employment recovers to long-term trends and food prices remain stable.

Higher fiscal revenue collection and new debt allowed the government to increase infrastructure spending. Fiscal consolidation and the achievement of a positive primary balance was postponed to 2024.

Outlook

The Albanian economy has shown encouraging The strong projected GDP growth rebound in 2021 is subject to a smooth vaccination rollout, no further lockdowns, and continued recovery in services, led by tourism, and construction. If labor participation and employment pick up again, poverty could continue to decline; in an optimistic scenario it could fall to 30 percent by 2022.

In the years following, private consumption is projected to return as the primary driver of GDP growth. Private investment could provide further support to growth if business climate reforms are implemented. Meanwhile, the current account deficit is expected to expand to 9.4 percent of GDP, as high infrastructure investment demand brings imports' growth to 29 percent in 2021. With exports bouncing back, the current account deficit should gradually shrink to 7.0 percent by 2023. Service exports, including tourism and fast-expanding business-process operations should narrow the trade deficit over the medium term.

Strong GDP growth is expected to help increase public revenues to 27.4 percent of GDP in 2022-2025. However, beyond 2021, spending will likely be constrained by limited fiscal space, as public debt is projected to increase to 78.6 percent of GDP in 2021, before declining gradually over the medium term. Fiscal space could further deteriorate in a downside growth scenario and if the tax base is further eroded. In this case, the government may need to cut capital spending to prevent an increase of the debt-to-GDP ratio. Moreover, with more reliance on external financing, exchange rate, interest rate, and refinancing risks remain elevated. A key medium-term reform priority is the need to boost revenue collection and achieve fiscal consolidation, while allowing for significant growth-enhancing spending.

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

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	4.0	2.1	-4.0	7.2	3.8	3.7
Private Consumption	3.2	3.2	-2.4	3.1	3.2	3.2
Government Consumption	0.7	2.9	1.6	12.9	-3.7	3.2
Gross Fixed Capital Investment	2.3	-3.7	-2.0	13.3	-1.7	2.1
Exports, Goods and Services	4.0	2.6	-25.6	25.4	12.8	6.4
Imports, Goods and Services	2.4	2.3	-19.9	16.3	3.7	3.7
Real GDP growth, at constant factor prices	4.1	2.4	-3.4	7.2	3.8	3.7
Agriculture	1.2	0.6	0.3	1.5	1.5	1.5
Industry	9.9	0.9	-3.5	10.8	5.0	5.0
Services	2.6	3.8	-4.7	7.7	4.0	3.8
Inflation (Consumer Price Index)	2.1	1.4	2.2	2.6	2.9	2.8
Current Account Balance (% of GDP)	-6.8	-7.9	-8.8	-9.4	-8.1	-7.0
Net Foreign Direct Investment (% of GDP)	8.0	7.5	6.8	6.6	7.4	7.0
Fiscal Balance (% of GDP)	-1.7	-1.9	-6.8	-6.7	-2.8	-3.0
Debt (% of GDP)	69.5	67.4	77.2	78.6	76.7	74.9
Primary Balance (% of GDP)	0.5	0.1	-4.7	-4.6	-0.7	-0.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	32.4	31.8	32.6	30.8	29.3	
GHG emissions growth (mtCO2e)	-2.2	1.3	-1.6	3.2	1.0	0.9
Energy related GHG emissions (% of total)	46.8	47.3	46.8	47.6	46.9	45.5

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

(a) Calculations based on SILC 2017-2019.Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021to 2022.

(b) Projection for 2021using sectoral GDP growth with pass-through =1for agriculture and services and 0.7 for industry.

ARMENIA

Table 1	2020
Population, million	2.9
GDP, current US$ billion	12.6
GDP per capita, current US$	4344.8
International poverty rate ($1.9)[a]	1.1
Lower middle-income poverty rate ($3.2)[a]	9.8
Upper middle-income poverty rate ($5.5)[a]	44.0
Gini index[a]	29.9
School enrollment, primary (% gross)[b]	91.8
Life expectancy at birth, years[b]	75.1
Total GHG Emissions (mtCO2e)	9.1

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

Due to the twin shocks of the pandemic and the conflict with Azerbaijan, Armenia's economy contracted sharply in 2020, which inflicted a significant welfare loss. The economic recovery in 2021 has been faster than anticipated, and the economy is likely to return to pre-COVID output levels by mid-2022. The slow pace of vaccinations, rising COVID-19 cases, and geopolitical fragility present important risks to the outlook.

Key conditions and challenges

Armenia's economy expanded rapidly between 2017 and 2019, with an annual GDP growth rate averaging 6.8 percent. An effective fiscal rule, an active inflation-targeting regime, and sound financial-sector oversight helped establish a track record of macroeconomic stability. The business environment gradually improved, with gains in market liberalization and pro-competition reform following the political realignment of 2018.

However, in 2020 the twin shocks of the pandemic and the military confrontation with Azerbaijan derailed the economy. GDP fell by 7.4 percent, one of the sharpest contractions in the region, and poverty rates rose sharply, especially in urban areas.

Emergency spending packages and limited tax breaks provided as part of the fiscal response to the pandemic, coupled with declining revenues, pushed public debt to 67 percent of GDP in 2020. However, the debt composition remains favorable. The current-account deficit narrowed in 2020, while increased borrowing kept reserves adequate. The banking sector is well capitalized, albeit with low profitability, though the impact of the 2020 shocks may yet unfold.

The 2020 conflict was followed by a period of heightened political uncertainty, but snap elections held in June 2021 have helped stabilize the situation. A tense geopolitical context, combined with unaddressed structural issues, continues to prevent the country from reaching its full potential.

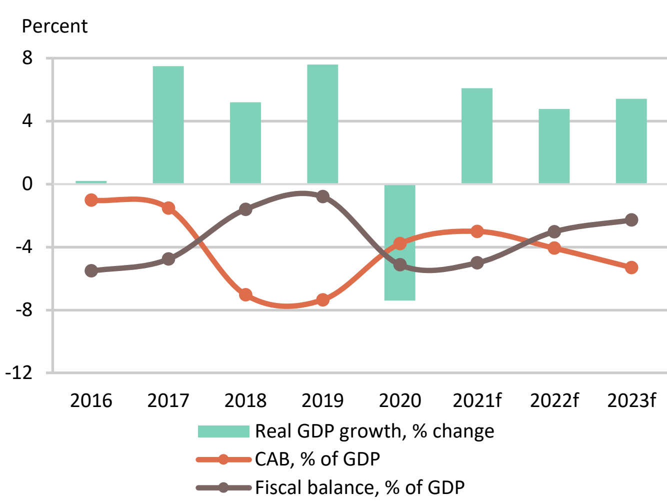
Recent developments

The economy expanded by 4.9 percent, year-on-year (y/y) in the first half (H1) of 2021, faster than anticipated, reflecting also the base effect of a contraction in H1 2020. Services led the recovery, benefiting from limited pandemic-related restrictions in 2021, while agricultural and industrial growth were more modest. Rebounding private consumption supported by greater mobility, recovering employment rates, and increased investment drove growth on the demand side. The unemployment rate fell by 2.7 percentage points y/y in the first quarter of 2021, albeit from a historically high base of around 20 percent.

Inflation has picked up to 8.8 percent y/y in August, its highest level since 2013 and well above the 5.5 percent upper bound of the Central Bank of Armenia's (CBA) inflation target range. High international food and energy prices and the pass-through effect of a more volatile exchange rate intensified inflationary pressures. In response, the CBA increased the policy rate by 300 basis points since end-2020 to 7.25 percent in mid-September 2021.

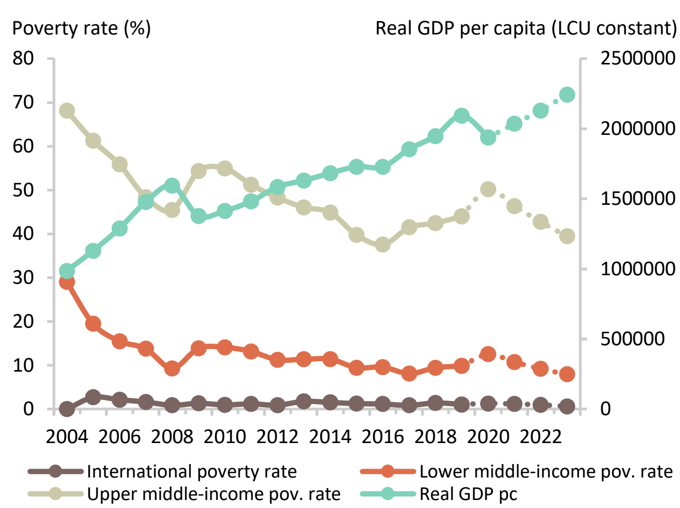
Fiscal revenues exceeded budgeted levels by 13 percent in H1 2021, as growth exceeded expectation, while expenditures were executed almost as planned. The budget deficit narrowed to 1.1 percent of

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



Sources: Statistical Committee of the Republic of Armenia, Central Bank of Armenia and World Bank staff projections.

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



Source: World Bank. Notes: see Table 2.

projected annual GDP in H1 2021, below the 2.6 percent deficit anticipated in the original budget.

The current-account balance continued to improve in H1 2021, y/y. Exports of goods recovered faster than imports in nominal terms (up 23 and 8 percent, respectively), as rising global copper prices added to the slow growth of export volumes. Rising tourist arrivals and the recovery of remittances improved the services and income balances, while FDI inflows expanded from a low base in 2020. An improving current-account balance and the issuance of a US$750 million Eurobond in February 2021 boosted international reserves to seven months of import coverage. Political uncertainty increased pressure on the Armenian dram in early 2021, but the exchange rate has stabilized since July.

After declining from March to July of 2021, daily COVID-19 infections have begun rising again, though as of mid- September reported infections remained below last two peak levels. The pace of vaccinations has been slow, hindered by vaccine hesitancy, and only 6.6 percent of the adult population was fully vaccinated by September 26th.

Outlook

Following a faster-than-expected recovery in H1, the projected GDP growth rate for 2021 has been revised to 6.1 percent, up from 3.4 percent in April 2021. In the absence of renewed lockdowns or serious domestic or regional instability, the economy is expected to return to pre-COVID output levels by mid-2022.

Private consumption will continue to drive the recovery as rising employment rates, wage levels, and remittance inflows bolster household incomes. Private investment growth is expected to accelerate, while fiscal consolidation may slow the growth of public investment. The government's medium-term expenditure framework anticipates a narrowing of the deficit from 5.1 percent of GDP in 2020 to around 2 percent in 2023, contributing to a decline in the public debt-to-GDP ratio from 67.4 percent at end-2020 to 63.4 percent in 2023.

While output is projected to rebound rapidly, the more gradual recovery of the labor market will attenuate the impact of renewed growth on poverty and inequality. Increased generosity of support measures and improved program targeting could help minimize the long-term impact of the economic shocks of 2020 on economic opportunity, household vulnerability, and gender parity.

The average inflation rate is forecast to remain above the CBA's target band in 2021, but it should converge with the 4 percent target in the medium term as monetary policy anchors inflationary expectations. Elevated inflation rates will adversely affect distributional equity and household welfare.

The current-account deficit is projected to narrow in 2021 and then widen over the medium term as imports fully recover. FDI inflows are expected to increase but will remain low.

Risks to the outlook are balanced. The key downside risks are limited progress in COVID-19 vaccinations, rising COVID-19 cases, geopolitical tensions, and a delayed recovery among major trading partners. On the upside, greater political certainty may enable renewed progress on the implementation of structural reforms while accelerating public investment.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	5.2	7.6	-7.4	6.1	4.8	5.4
Private Consumption	4.9	11.5	-13.8	6.0	5.9	6.4
Government Consumption	-3.0	12.9	15.2	4.1	-3.9	2.7
Gross Fixed Capital Investment	4.8	4.4	-8.6	6.2	8.1	8.2
Exports, Goods and Services	5.0	16.0	-32.4	6.5	10.2	12.5
Imports, Goods and Services	13.3	11.6	-31.7	5.6	9.5	12.8
Real GDP growth, at constant factor prices	4.9	7.7	-7.1	6.1	4.8	5.4
Agriculture	-6.9	-5.8	-4.1	6.4	4.0	3.9
Industry	3.7	10.5	-3.0	3.5	4.1	5.1
Services	9.0	9.7	-9.8	7.4	5.3	5.9
Inflation (Consumer Price Index)	2.5	1.4	1.2	6.3	4.2	4.0
Current Account Balance (% of GDP)	-7.0	-7.4	-3.8	-3.0	-4.1	-5.3
Net Foreign Direct Investment (% of GDP)	2.1	1.7	0.6	1.7	2.3	2.6
Fiscal Balance (% of GDP)	-1.6	-0.8	-5.1	-5.0	-3.0	-2.3
Debt (% of GDP)	55.7	53.7	67.4	66.9	65.8	63.4
Primary Balance (% of GDP)	0.7	1.6	-2.4	-2.5	-1.1	-0.3
International poverty rate ($1.9 in 2011 PPP)[a,b,c]	1.4	1.1	1.3	1.2	1.0	0.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b,]	9.4	9.8	12.5	10.7	9.2	7.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b,]	42.5	44.0	50.2	46.4	42.8	39.5
GHG emissions growth (mtCO2e)	0.8	5.1	-7.6	5.3	4.5	4.8
Energy related GHG emissions (% of total)	59.7	61.1	60.2	60.9	61.3	62.0

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

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

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

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

AZERBAIJAN

Table 1	2020
Population, million	10.1
GDP, current US$ billion	42.6
GDP per capita, current US$	4217.8
School enrollment, primary (% gross)[a]	97.9
Life expectancy at birth, years[a]	73.0
Total GHG Emissions (mtCO2e)	73.2

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent WDI value (2019).

After contracting in 2020, Azerbaijan's economy has rebounded strongly in 2021, with recovery in the nonoil/gas sectors combined with rising hydrocarbon production and prices. While the pandemic's evolution remains uncertain, solid progress on vaccinations and significant financial buffers are expected to help the economy reach pre-pandemic levels by end-2021, and support households to recover from the crisis. Structural weaknesses need to be addressed to sustain future growth.

Key conditions and challenges

Azerbaijan is an upper-middle-income country in the South Caucasus. Its over-reliance on hydrocarbon products as a major source of export and fiscal revenues remains its major vulnerability, especially given the declining oil production, the perpetual volatility of commodities markets, and the global transition away from fossil fuels.

Azerbaijan was hit hard by the COVID-19 pandemic, but substantial reserve buffers and low public debt levels have helped the country weather the ensuing economic crisis. Nevertheless, the pandemic has adversely impacted employment, wages, and poverty rates.

Over the medium and longer term, underlying structural weaknesses including an undiversified asset mix, heavy state economic footprint, institutional rigidities, an uneven private sector playing field, stagnating human capital indicators, and weak financial markets threaten Azerbaijan's continued growth. In 2021, the government presented its 2030 national development vision which aspires to address the country's structural challenges.

Regional geopolitical tensions eased following the signing of a ceasefire agreement between Azerbaijan and Armenia in November 2020. Although the security situation remains fragile, reconstruction efforts are underway, and the authorities approved a program to rebuild damaged infrastructure and restart socioeconomic development in the conflict-afflicted areas.

Recent developments

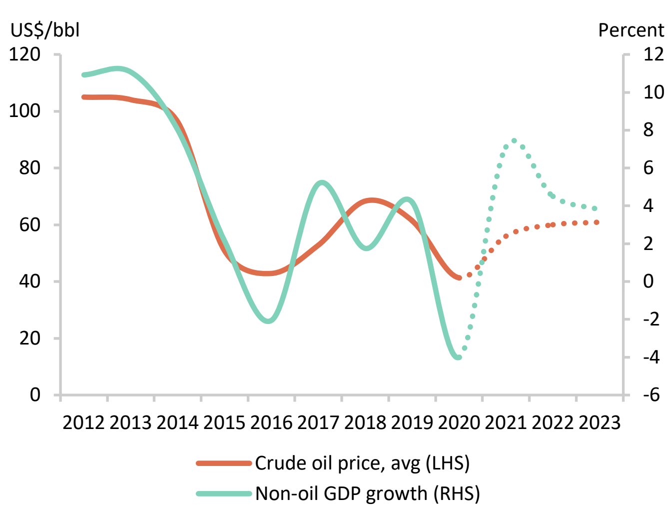
The COVID-19 pandemic continues to affect Azerbaijan. In the spring, the government's mitigation efforts shifted from strict mobility restrictions to vaccinations, and by mid-September about 63 percent of the adult population had received at least one vaccine dose. The authorities also began requiring COVID-19 passports to enter public spaces starting on September 1st.

Economic conditions improved after the lockdown was lifted in May and OPEC+ started gradually relaxing its oil-production quotas, and the overall economic growth rate reached 3.6 percent, year on year (y/y), in the first eight months of 2021. The nonoil/gas sector led the recovery, expanding by 5.7 percent over the period.

On the demand side, public and private investment remained weak, contracting by 10.1 percent y/y during January-August 2021, while the release of pent-up consumer demand coupled with counter-cyclical fiscal spending supported consumption growth. Net exports also increased significantly, as high global energy prices, recovering oil production, and expanding gas production more than offset a rise in imports.

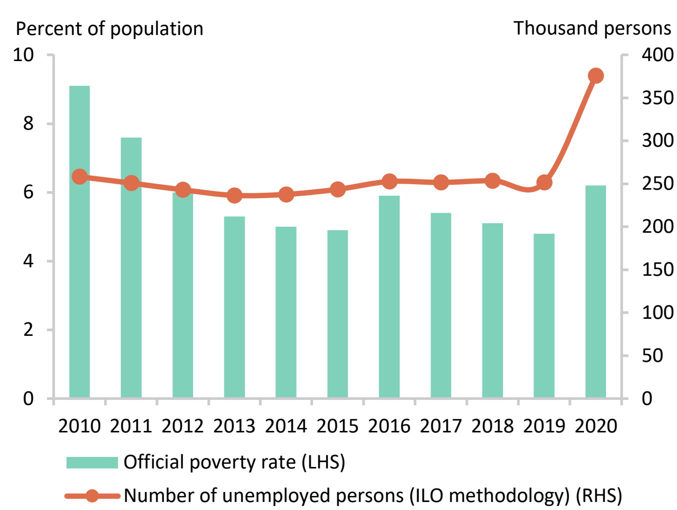
Rebounding domestic demand, rising global commodity prices, and increased administrative prices boosted consumer price inflation to 4.8 percent y/y in the first

FIGURE 1 Azerbaijan / Nonoil GDP growth and oil price



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

FIGURE 2 Azerbaijan / Official poverty rate and unemployment



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

eight months of 2021, prompting an increase in the policy rate.

Favorable terms of trade pushed the current-account balance from a 0.5 percent of GDP deficit at end-2020 to an 8 percent surplus in the first half of 2021. While financial-account outflows continued, CBA reserves were stable at US$6.5 billion, and the assets of the State Oil Fund (SOFAZ) rose by 2 percent y/y to US$44.1 billion (104 percent of GDP) in the first half of 2021. Easing currency pressure since March 2020 helped the CBA maintain the exchange rate at 1.7 Azerbaijani manat per U.S. dollar.

The consolidated budget balance posted a surplus of 7.1 percent of GDP in the first seven months of 2021, as the economic recovery increased fiscal revenue, while some crisis-response measures expired and budget execution slowed.

According to official data, the pandemic contributed to a sharp rise in unemployment, and between March 2020 and March 2021, the number of unemployed workers increased by 115,200. The official poverty rate also increased from 4.8 percent in 2019 to 6.2 percent in 2020, indicating that the government's response effort did not fully counter the pandemic's impact on poverty.

Outlook

The GDP growth rate is projected to rise to 5.0 percent in 2021, reflecting a strong recovery in both the energy and nonenergy sectors. This forecast assumes that the pandemic will remain controlled, and vaccination will continue at its current pace. Nonoil/gas GDP growth is projected to reach 7.1 percent in 2021, due to a low base effect, rebounding service-sector activity and robust growth in agriculture and nonenergy manufacturing. Output is expected to reach pre-pandemic levels by end-2021.

The annual GDP growth rate is projected to moderate to an average of 2.9 percent during 2022-23. The nonenergy sectors are expected to drive growth, supported by rising public investment, including post-conflict reconstruction. Energy-sector growth is projected to stabilize in line with predetermined OPEC+ quotas and anticipated expansion of natural gas production by end-2023, which will also increase energy-related greenhouse gas emissions and slow overall decline in emissions.

Following a marked rebound in 2021, consumption growth is expected to slow over the medium term amid declining fiscal spending. Investment is forecast to remain subdued amid lingering COVID-19 related uncertainty and persistent structural weaknesses.

Rapid increase in prices for imported food and nonfood items and recovering domestic demand is projected to boost inflation to 5.5 percent in 2021, close to the upper bound of the CBA target range. External inflationary pressures are expected to remain elevated in 2022 and moderate thereafter.

A significant external-account surplus is projected to persist through 2023, supported by elevated hydrocarbon prices and rising natural gas exports. Imports are estimated to increase gradually as demand recovers.

The fiscal balance is forecast to remain in surplus until end-2021 and to average 4.6 percent of GDP over the medium term, supported by favorable energy prices, increased revenue collection due to resurgent economic activity, and stable spending anchored by a new fiscal rule targeting the nonoil/gas primary balance that is expected to take effect in 2022.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	1.5	2.5	-4.3	5.0	3.1	2.7
Private Consumption	3.0	4.2	-5.1	5.0	4.7	4.3
Government Consumption	1.5	7.9	4.8	4.8	4.4	3.0
Gross Fixed Capital Investment	-0.2	-2.4	-7.1	-5.0	2.5	1.0
Exports, Goods and Services	1.0	1.5	-8.1	5.6	1.8	1.9
Imports, Goods and Services	1.5	2.2	-10.5	2.5	2.7	2.8
Real GDP growth, at constant factor prices	1.5	2.5	-4.4	5.0	3.1	2.7
Agriculture	4.6	7.3	1.9	4.5	3.2	3.2
Industry	-0.7	0.4	-5.2	2.7	1.1	1.1
Services	5.1	5.1	-4.4	9.0	6.2	5.0
Inflation (Consumer Price Index)	2.3	2.7	2.8	5.5	4.5	4.1
Current Account Balance (% of GDP)	12.8	9.1	-0.5	6.9	6.4	4.5
Net Foreign Direct Investment (% of GDP)	-1.7	-2.9	-1.5	-0.5	-0.6	-0.6
Fiscal Balance (% of GDP)	5.6	9.0	-6.5	5.0	4.3	4.4
Debt (% of GDP)	18.9	18.8	18.4	17.6	17.9	17.5
Primary Balance (% of GDP)	6.8	9.7	-5.7	5.7	4.8	4.8
GHG emissions growth (mtCO2e)	-0.3	-1.6	-5.1	0.0	-0.7	-0.8
Energy related GHG emissions (% of total)	39.9	41.1	41.1	42.8	43.9	45.0

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

BELARUS

Table 1	2020
Population, million	9.4
GDP, current US$ billion	61.6
GDP per capita, current US$	6553.2
Lower middle-income poverty rate ($3.2)[a]	0.0
Upper middle-income poverty rate ($5.5)[a]	0.2
Gini index[a]	25.3
School enrollment, primary (% gross)[b]	100.5
Life expectancy at birth, years[b]	74.2
Total GHG Emissions (mtCO2e)	68.8

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

During the first half of 2021, the surge in commodity prices and boost in external demand helped to offset weaknesses in domestic consumption and investment, while rising deficit spending provided additional support to growth. The outlook for 2021-2023 is shaped by the impact of EU sectoral economic sanctions, while the scope for fiscal stimulus is determined by available financing options. Poverty rates have declined as real incomes continued to rise, but further improvements of household welfare depend on medium-term growth.

Key conditions and challenges

External factors continue to shape Belarus's growth trajectory, as the drastic improvement in external demand and commodity price surge of 2021 helped to temporarily overcome the 2020 pandemic-induced recession. Domestically, GDP growth has been supported by the absence of broad-based lockdown measures, coupled with subsidized lending in 2020 (at about 1.6 percent of GDP) and fiscal spending at a cost of a widening deficit in 2021. Going forward, the room for fiscal stimulus will largely depend on refinancing opportunities due to sizeable public debt payments (US$2.4 bn in 2022 and US$3.3 bn in 2023). Issuing bonds in the Russian markets is one of the options, as access to the EU financial markets is restricted by sanctions.

The major challenge is to adjust to sectoral economic sanctions targeting Belarus's commodity exports. Manufacturing production chains could be affected, too, as the foreign producers of components might restrict their supplies, making Belarusian manufacturers search for second-best substitutes.

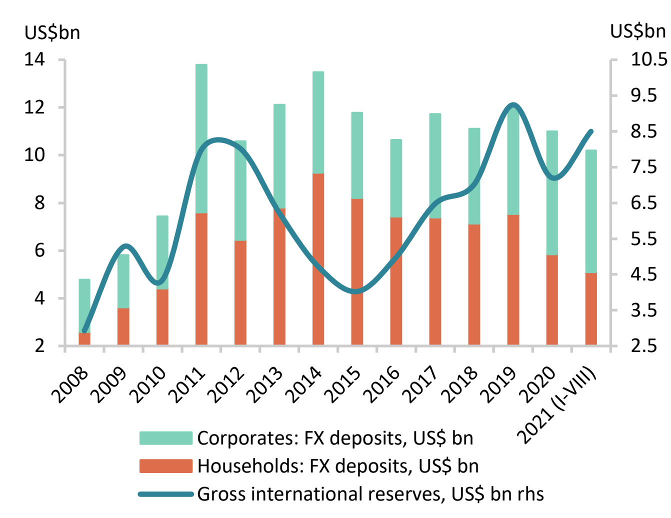
As structural economic deficiencies remain unaddressed, the medium-term recovery becomes dependent on the dynamics of the external environment. While enterprises remain cautiously optimistic, households display higher inflation expectations and continue to withdraw FX holdings from the banking system. In this context, reducing economic uncertainty and sending positive signals to economic agents are critical, along with maintaining prudent monetary and fiscal policies.

Recent developments

In January-June 2021, real GDP grew 3.3 percent y/y (vs. 1.8 percent decline in H1 2020) on the back of an exceptionally strong improvement in external demand and higher export prices. Over January-June 2021, merchandise trade revenues grew by 37.6 percent y/y in nominal US$ terms helping to narrow the goods trade deficit. This was offset by services export growth (by 17.6 percent y/y), especially of transportation and ICT, which contributed to a goods and services surplus and a stable BYN/US$ nominal exchange rate. Stronger exports led the 70.1 percent y/y increase in revenues from foreign trade taxes, while indirect tax revenues, such as VAT and excises, have also held up due to higher intermediate and consumption imports and increased VAT rates for selected goods. However, general government spending (28.1 percent of GDP) exceeded revenues (27.1 percent), resulting in a fiscal deficit of 1.4 percent of GDP.

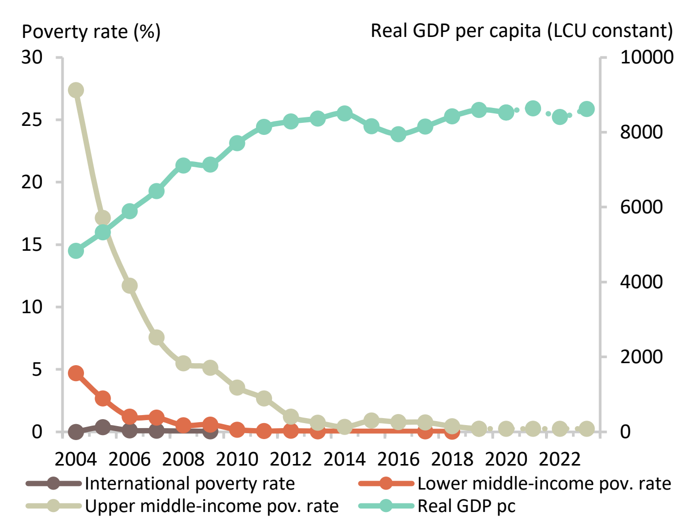
The National Bank kept money supply under control, with annual average broad money volume growth remaining below the annual nominal target of 7-10 percent. Nevertheless, since Q2 2021, consumer price inflation accelerated to

FIGURE 1 Belarus / FX Reserves and FX holdings



Source: National Bank.

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



Source: World Bank. Notes: see Table 2.

9.9 percent y/y in June 2021, double the annual target, due to an increase in administratively regulated prices, imposition of VAT for selected medicines, and imported inflation.

An outflow of household foreign currency deposits, which started in July 2020, continued during the first half of 2021. By July 1, 2021, the total volume of deposits shrank by 10 percent y/y, driven mainly by the reduction of household deposits (27 percent y/y), being partially offset by increased foreign currency holding by corporates (18 percent y/y). External public debt repayment pressures have been alleviated by refinancing from Russia and spending of reserves, which decreased by US$528.5 million over January-March 2021. Gross foreign reserves have since partially recovered by US$469.3 million in April-June and then boosted by the IMF SDR allocation in August, reaching US$8.5 bn, which is equivalent to 2.5 months of goods and services imports.

Outlook

While the surge in commodity prices and boost in external demand helped to offset weaknesses in domestic consumption and investment, the pace of recovery remains weak. A solid 32.7 percent increase in goods and services exports y/y in January-June 2021 follows the 14 percent decline during the same period of 2020. Measured against the first half of 2019, export volumes were just 10 percent higher. Under these circumstances, once the base effects due to the recession in 2020 have passed and sectoral sanctions will gradually take a toll, year on year growth is likely to stall in the second half of 2021, leaving full-year real GDP growth to reach 1.2 percent y/y.

As sectoral sanctions introduced by the EU are expected to hit commodity export revenues harder in 2022, real GDP is projected to decline by 2.8 percent y/y. While the impact on the current account would be cushioned by reduced imports, the restrictions introduced on access to the EU financial markets could negatively affect the financial account. Also, sanctions are likely to increase transaction costs not only for exporters, but also for companies operating in the domestic market.

Continued household welfare growth will depend on the extent to which economic growth can be maintained in a challenging external environment with constrained fiscal space.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	3.1	1.4	-0.9	1.2	-2.8	2.3
Private Consumption	7.9	5.1	-1.4	-1.0	-1.8	2.1
Government Consumption	-0.4	0.4	-1.1	-0.4	-0.8	1.1
Gross Fixed Capital Investment	4.4	6.2	-6.8	-2.8	-9.8	1.6
Exports, Goods and Services	3.8	1.0	-3.2	3.6	-3.7	4.2
Imports, Goods and Services	7.3	5.2	-7.9	7.4	-5.3	3.6
Real GDP growth, at constant factor prices	3.2	1.5	-0.9	1.2	-2.8	2.3
Agriculture	-3.4	3.0	4.9	-4.8	2.3	1.2
Industry	5.2	1.4	-0.7	5.7	-4.2	3.4
Services	2.9	1.3	-2.0	-1.1	-2.5	1.6
Inflation (Consumer Price Index)	4.9	4.7	7.4	10.5	7.1	5.7
Current Account Balance (% of GDP)	0.0	-1.8	-0.4	-0.9	-3.0	-2.6
Net Foreign Direct Investment (% of GDP)	2.4	2.0	1.0	1.0	1.0	1.0
Fiscal Balance (% of GDP)	4.0	2.5	-1.7	-2.9	-1.9	-1.4
Debt (% of GDP)	42.5	37.5	41.1	45.8	48.8	49.9
Primary Balance (% of GDP)	5.9	4.3	0.0	-0.9	0.3	0.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	0.4	0.2	0.2	0.2	0.2	0.2

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

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

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

BOSNIA AND HERZEGOVINA

Table 1	2020
Population, million	3.3
GDP, current US$ billion	19.6
GDP per capita, current US$	5939.4
Life expectancy at birth, years[a]	77.4
Total GHG Emissions (mtCO2e)	23.9

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent WDI value (2019).

Real GDP is expected to expand 4 percent in 2021 after contracting 3.2 percent last year, while headline inflation is set to remain below 1 percent. After the rebound following the COVID-19 crisis, growth should stabilize around 3 percent over the medium-term. Addressing the political deadlock would allow the implementation of delayed structural reforms that are also part of EU accession priorities. The latter would help address persistent high unemployment, which worsened during the pandemic, and is key to reducing poverty.

Key conditions and challenges

BiH has signed the Stabilization and Association Agreement with the EU and is a potential EU candidate country. Macroeconomic stability was maintained over the last decade facilitated by the currency board peg to the euro, which, together with the EU membership prospects, remains a critical economic anchor. Despite real income growing roughly over 3 percent per annum since 2015, per capita GDP continues to hover around one-third of the EU27 average. This income gap is significantly larger compared to other peers in the Western Balkans. With continued low investment rates and an economy driven by private consumption, achieving a more pronounced convergence toward the EU27 average will be challenging. While a full recovery to the 2019 real income level is expected in 2021, BiH is unlikely to catch up with the pre-pandemic growth trajectory, unless political bottlenecks are resolved (Graph 1).

Fiscal surpluses ranged between 2 and 3 percent of GDP over the past six years prior to the pandemic, which in turn helped rein in the current account deficits averaging below 4 percent since 2015. The external shortfall was largely financed by net FDI inflows, mainly into the foreign-owned banking sector, which remained stable during the pandemic.

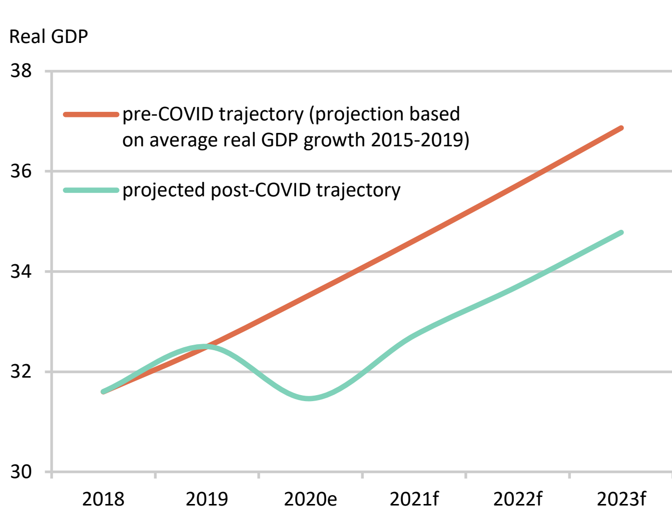
Steady, albeit low, economic growth has not translated into more and better jobs, with a large share of the workforce active in the informal sector. Hence, poverty rates do not seem to have improved, according to the latest official data from 2015.

Implementation of much needed structural reforms is sluggish due to political deadlock, pressures from frequent elections, corruption that pervades all levels of society, and a complex governing structure characterized by fragmentation of responsibilities between the two entities and Cantons. The pandemic has further highlighted shortages in institutional effectiveness resulting in the slow release of fiscal support to households and businesses, which has weighed on economic activity.

Recent developments

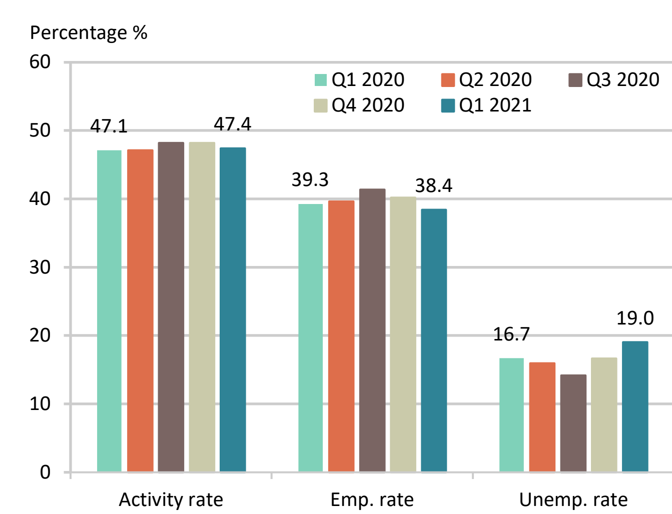
Real GDP contracted 3.2 percent in 2020, much less than previous official estimates of 4.3 percent suggested as manufacturing, wholesale and retail trade declined less than initially estimated. Moreover, driven by a surge in exports and robust private consumption, real GDP growth turned positive in the first quarter of 2021 (year-on-year) at an estimated rate of 1.5 percent. An acceleration in manufacturing translated into a surge in exports to neighboring CEFTA countries, whereas the increase in private consumption resulted from pent-up demand as well as higher lending to households, and the impact of delivery apps connecting consumers to goods. Stronger household and government consumption have driven inflation to 0.4 percent during the period

FIGURE 1 Bosnia and Herzegovina / Real income, in bill KM



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

FIGURE 2 Bosnia and Herzegovina / Labor market indicators, 2020-2021



Sources: LFS 2020 - 2021 report, World Bank staff calculations.

January-July in 2021 compared to the same period last year, which followed about twelve months of deflationary pressures that started in April 2020.

The pandemic caused significant damage to the labor market. As Covid-19 cases remained high and some restrictions continued, the employment rate (15+) decreased to about 38 percent in the first quarter of 2021, while the unemployment rate (15+) increased to 19 percent. (Graph 2). Meanwhile, a slump in tax revenues and higher spending led to an estimated fiscal deficit of 1.8 percent of GDP in 2020, after a surplus of 1.8 percent of GDP in 2019. Higher public wages, and additional spending on goods and services as well as social benefits were aimed at countering the effects of the pandemic.

The sharp rise in exports narrowed significantly the traditionally large merchandise deficit, and as a result the current account deficit declined to 1.2 percent of GDP in the first quarter of 2021 compared to a 3.2 percent deficit during the same period last year. In 2020, the external shortfall improved marginally to 3.3 percent of GDP due to a larger drop in merchandise imports than exports as investments and household consumption fell. The resulting loss of jobs and earnings due to Covid-19, especially in the informal economy, have negatively affected household welfare in 2020.

Outlook

Real GDP is projected to grow 4 percent in 2021 and decelerate to around 3 percent over the medium term. The rebound will in part depend on how successful the authorities are in accelerating the share of the vaccinated adult population, which currently stands at 27.2 percent. As the impact of the pandemic subsides, the Socio-Economic Program, fulfilling priorities for EU accession, is expected to gain needed attention. Announced investments in energy and infrastructure are envisaged to lead the recovery phase together with a further pick up in private consumption fueled by remittances, tightening labor market, and domestic lending. Safeguarding the banking sector remains key as the full impact of loan repayment moratoria is yet to be assessed. Despite stronger private consumption, external balances are set to improve on the back of robust growth in exports. While revenues are set to recover gradually, the fiscal deficit is expected to return to surplus only in 2023. The planned investment push in energy, infrastructure, and tourism should support job creation after the crisis. With limited access to international markets, the authorities will continue relying on support from IFI.

As the economy recovers in 2021, improvements in labor market participation and employment will remain key for growth to translate into poverty reduction. Finally, addressing bottlenecks causing persistent long-term unemployment and EU accession priorities remain important challenges on the country's development path and road to EU membership.

Two main risks dominate the outlook: first, a prolonged adverse impact of the pandemic domestically and abroad could translate into slower growth rates over the medium term and the corresponding deterioration of jobs and household incomes; and second, the political deadlock could adversely affect the implementation of the adopted socio-economic program needed to address the development challenges.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	3.2	3.3	-3.2	4.0	3.0	3.2
Private Consumption	2.4	2.8	-4.5	4.5	3.0	3.2
Government Consumption	0.9	2.6	0.5	6.1	3.0	3.0
Gross Fixed Capital Investment	6.8	5.1	-21.0	-16.4	-4.9	7.2
Exports, Goods and Services	5.9	-0.3	-8.5	28.0	9.0	7.0
Imports, Goods and Services	3.2	0.2	-13.4	17.0	6.0	7.0
Real GDP growth, at constant factor prices	3.7	2.8	-3.2	4.0	3.0	3.2
Agriculture	9.1	2.9	-1.5	3.4	3.0	2.9
Industry	3.8	1.9	-3.0	2.0	2.6	3.2
Services	3.2	3.1	-3.5	4.9	3.2	3.2
Inflation (Consumer Price Index)	1.4	1.2	-0.5	0.7	0.7	0.8
Current Account Balance (% of GDP)	-3.7	-3.1	-3.3	-2.0	-0.6	-1.2
Net Foreign Direct Investment (% of GDP)	2.2	2.9	2.0	3.4	3.6	3.4
Fiscal Balance (% of GDP)	2.5	1.9	-1.8	-3.1	-0.9	0.4
Debt (% of GDP)	36.4	34.4	40.1	38.9	38.4	38.0
Primary Balance (% of GDP)	3.8	2.8	-0.5	-1.8	0.0	1.3
GHG emissions growth (mtCO2e)	-1.0	-1.0	-5.1	4.0	2.8	3.0
Energy related GHG emissions (% of total)	87.6	87.2	87.1	87.0	86.9	86.8

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

BULGARIA

Table 1	2020
Population, million	6.9
GDP, current US$ billion	67.9
GDP per capita, current US$	9840.6
International poverty rate ($1.9)[a]	0.9
Lower middle-income poverty rate ($3.2)[a]	2.2
Upper middle-income poverty rate ($5.5)[a]	6.9
Gini index[a]	41.3
School enrollment, primary (% gross)[b]	87.4
Life expectancy at birth, years[b]	74.9
Total GHG Emissions (mtCO2e)	13.0

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

Bulgaria has embarked on a stronger-than-expected recovery, with growth projected at 3.7 percent in 2021. Yet, despite robust budget revenues, fiscal consolidation is likely to be postponed to 2022 due to continuation of support measures. Going forward, an ongoing political crisis suggests reform slack and slim chances of tapping EU Resilience and Recovery Facility before 2022. Also, slow inoculation rates imply that pandemic-related risks will remain high. In line with labor market improvements, poverty is expected to fall in 2021-2022.

Key conditions and challenges

Bulgaria remains the poorest and the most unequal country in the EU. Yet, as a result of the relatively milder impact of the pandemic on its economy in 2020, real incomes continued to converge to the EU average, reaching 55 percent of the average GDP per capita in PPP terms. Nevertheless, poverty kept edging up, reaching 23.8 percent in 2019 using the at-risk-of-poverty concept, with the trend expected to persist in 2020 due to the impact of COVID-19. This, together with Bulgaria historically registering the highest rates of inequality in the EU (40 percent) point to limited redistribution and ineffective social policies. Amidst rapid aging and population decline, convergence to the EU core can speed up only if the productivity gap shrinks markedly, while governance and institutional weaknesses are addressed decisively. Since late 2020, however, the country has been in a political crisis and has been unable to form a regular government despite two rounds of early elections. Although the caretaker government has taken steps to combat corruption and address some long-standing governance issues, deeper structural reforms will require a regular government with a parliamentary majority.

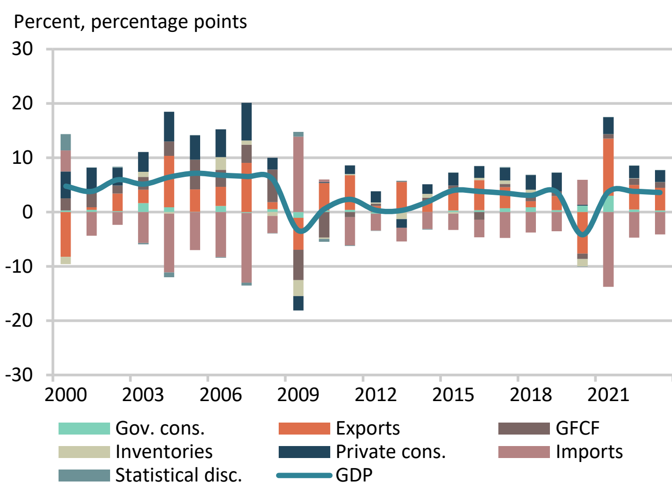
The pandemic has aggravated weaknesses in a number of public domains - with the most pronounced being in health care and education - and resulted in a moderate deterioration in the fiscal stance. Going forward, the authorities would need to engage in fiscal consolidation, including the challenging withdrawal of support measures, as soon as the recovery gains momentum. The planned conversion of some temporary social measures, such as pension supplements, into permanent support indicates the difficulty in unwinding anti-crisis measures. Over the longer run, the country's key development challenges remain its weak productivity, wide inequalities of income and opportunities, state capture by private interests, and a costly transition out of carbon dependency.

Recent developments

Following a contraction of 4.2 percent in 2020, economic recovery gained momentum in Q2/2021 with GDP growth going into positive territory at 9.6% yoy. The key growth drivers included a 20.3 percent rise in exports and a notable increase in domestic demand and investment growth. As imports have been recovering at a faster pace than export, the CA balance moved in the red in H1 and is likely to stay there in the medium run, shrinking to -3.4 percent of GDP in 2023.

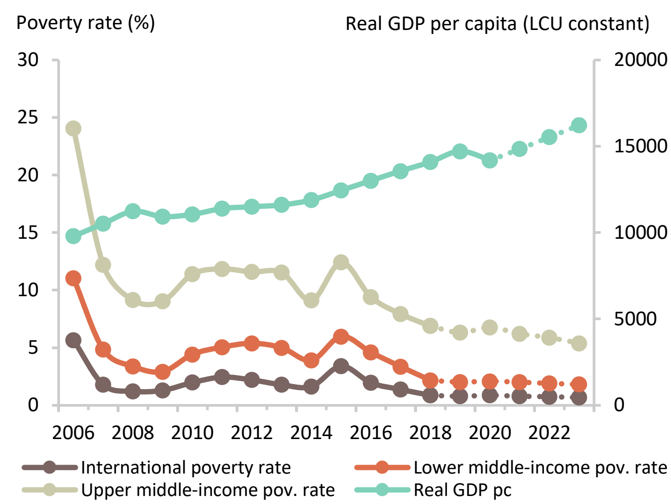
Inflation edged up to 3.0 percent yoy in July, due primarily to the fuel price spike. Yet, household incomes have been growing faster in H1 – by 7.7 percent yoy, due mostly to a significant increase in pension income. This suggests a real increase of incomes this year, which will become more pronounced going forward, because

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



Sources: World Bank, Bulgarian National Statistical Institute.

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



Source: World Bank. Notes: see Table 2.

of base effects. The labor market showed first signs of improvement only in Q2/2021 when unemployment declined to 5.6 percent. The banking sector remains stable with non-performing loans at 6.7 percent as of end-June 2021 against 8.1 percent a year ago.

The fiscal stance loosened notably in 2020 due to the economic downturn and the government's support measures. The deficit reached 3 percent of GDP in 2020 and is projected to widen further in 2021.

Poverty is anticipated to decline from 6.8 percent in 2020 to 6.2 percent in 2021 using the upper middle income US$5.50 PPP poverty line. The decline is largely attributable to improvement in household finances stemming from a rebound in the labor market, as evidenced by fewer reports of work stoppages, reduced hours and income, as well as continued government support in the form of wage subsidies and pension supplements. Despite improvements, poorer households continue to report higher levels of economic distress as the longevity of the crisis strains already limited economic resources.

Outlook

Economic growth is expected to rebound to 3.7 percent in 2021 but recovery to pre-crisis levels is likely to happen in 2022. In the short term, the biggest risk to the outlook is the slow pace of COVID vaccination – the slowest in the EU to date. With some 20 percent of the adult population vaccinated with at least one dose (and 18 percent fully vaccinated) as of mid-Aug compared with 75% with at least one dose in the EU, Bulgaria faces high risk of another peak of infections in early autumn, which may end up in new restrictions depending on the capacity of hospitals to handle the new wave.

Potential restrictions would also weigh heavily on an already stretched budget and may lead to further overshooting of the deficit above 4 percent of GDP. Even if budget revenues in 2021 are expected to exceed the plan due to improved economic growth forecasts for the year, some temporary anti-crisis policies are likely to be converted in permanent spending measures, putting off fiscal consolidation. Current government plans foresee that absorption of the Recovery and Resilience Facility (RRF) envelope for Bulgaria will start in 2021, boosting budget revenue by 1.3 percent of GDP. Yet, as the national RRF plan has not yet been approved, this scenario seems increasingly unlikely.

Another key risk in the short term is political instability. The country is heading towards another round of early elections in the autumn following snap elections in April and July 2021, which failed to produce a ruling majority.

Poverty is projected to decline further in 2022 to 5.9% as Bulgaria continues its economic recovery. However, this could be tempered by the slow pace of vaccination, restrained consumer spending in anticipation of worsening finances and the unwinding of government support.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	3.1	3.7	-4.2	3.7	3.8	3.6
Private Consumption	4.4	5.5	0.2	4.7	3.4	3.2
Government Consumption	5.4	2.0	7.5	16.7	2.3	1.5
Gross Fixed Capital Investment	5.4	4.5	-5.1	4.3	6.3	5.5
Exports, Goods and Services	1.7	3.9	-11.3	16.8	6.4	5.8
Imports, Goods and Services	5.7	5.2	-6.6	20.5	6.0	5.1
Real GDP growth, at constant factor prices	3.5	3.3	-4.3	3.7	3.8	3.6
Agriculture	-2.0	4.1	-5.3	3.4	1.0	0.5
Industry	-1.1	-0.5	-4.6	4.5	4.0	3.9
Services	5.8	4.6	-4.1	3.4	3.9	3.7
Inflation (Consumer Price Index)	2.8	3.1	1.7	3.2	3.3	3.4
Current Account Balance (% of GDP)	0.9	1.8	-0.7	-3.9	-3.7	-3.4
Net Foreign Direct Investment (% of GDP)	-1.3	-1.9	-3.2	-1.7	-1.8	-1.9
Fiscal Balance (% of GDP)	0.1	-1.0	-3.0	-3.5	-2.9	-2.2
Debt (% of GDP)	22.3	20.2	25.0	28.2	29.6	30.0
Primary Balance (% of GDP)	0.8	-0.4	-2.5	-3.2	-2.6	-1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.9	0.8	0.9	0.8	0.7	0.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	2.2	2.0	2.1	2.0	1.9	1.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	6.9	6.3	6.8	6.2	5.9	5.4

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

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

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

CROATIA

Table 1	2020
Population, million	4.0
GDP, current US$ billion	56.2
GDP per capita, current US$	14050.0
International poverty rate ($1.9)[a]	0.5
Lower middle-income poverty rate ($3.2)[a]	0.8
Upper middle-income poverty rate ($5.5)[a]	2.4
Gini index[a]	29.8
School enrollment, primary (% gross)[b]	94.6
Life expectancy at birth, years[b]	78.4
Total GHG Emissions (mtCO2e)	16.5

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

In the first half of 2021, Croatia's economy continued to recover from the deepest recession in the country's history. Abundant EU funds and an improved global outlook are expected to provide a strong boost to growth over the medium term, with output expanding by 7.6 percent in 2021. However, risks related to the pandemic remain and public debt is projected to remain elevated. The poverty rate is estimated to fall to 2.2 percent in 2021 and continue its downward trend.

Key conditions and challenges

Croatia has been hit hard by the COVID-19 pandemic in 2020 and has also suffered from two earthquakes. However, stronger than expected recovery is under way, reflecting robust foreign demand for domestic goods and services, particularly hospitality services, dynamic private investment and increased consumption supported by a strong labor market. The country is likely to return to its pre-crisis level of output in 2022. Nevertheless, at 64.1 percent of the EU27 GDP per capita in 2020 (in PPP), Croatia remains one of the least developed countries in the EU. Raising Croatia's economic growth over the medium term will crucially depend on the government's willingness and capacity to undertake structural reforms to boost productivity including the business environment, public administration, education system and judiciary. Against this backdrop, the EU structural and investment funds as well as the new facilities represent a unique opportunity for the country to accelerate income convergence with the rest of the EU. In July this year, European Commission (EC) endorsed Croatia's Recovery and Resilience Plan (NRRP) worth around 12 percent of 2019 GDP. Disbursement of EU grants from this facility is linked to the implementation of important reforms aimed at addressing the country's long-standing structural issues.

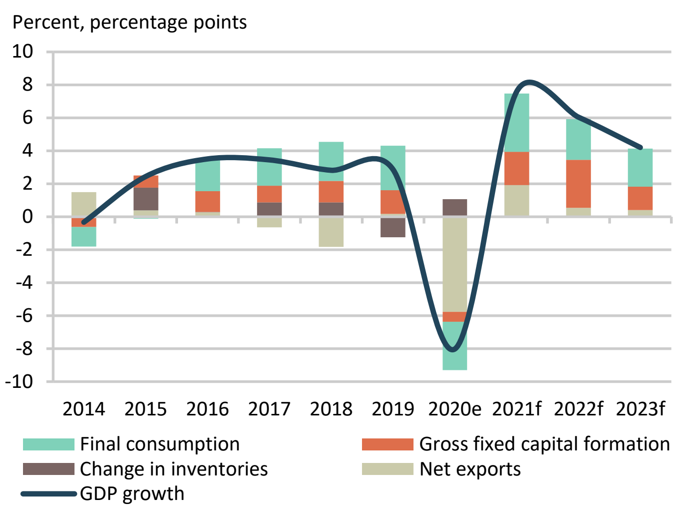
In addition, the economic outlook in the short run continues to depend on the course of the pandemic. While by the summer months the number of new cases had been strongly reduced partly due to social distancing restrictions, the reopening of the economy, inflow of foreign tourists and a still rather low share of fully vaccinated population could result in a surge in new infections by the yearend. This in turn could require further fiscal support, putting additional strain on public finances which are already stretched, if some social distancing measures were to be introduced.

Recent developments

Croatia's economy continued to recover in the first half of 2021, which together with a deep recession last year resulted in strong real annual GDP growth (7.5%) in this period. All components of aggregate demand positively contributed to recovery, reflecting less stringent social distancing restrictions, higher external demand, and improved labor market conditions. On the supply side, the services sector significantly strengthened albeit from a relatively low level, while manufacturing and construction, which already by the end of 2020 reached pre-crisis levels, continued to expand.

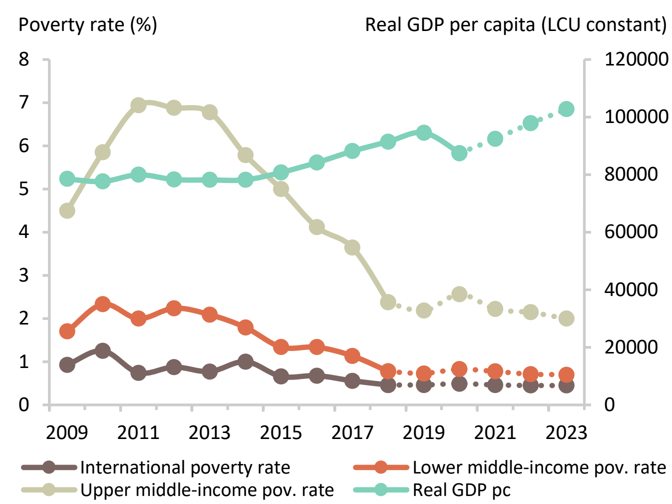
In line with improving economic conditions, employment increased compared to the first half of 2020, while the administrative unemployment rate declined to 7.5 percent in June 2021. At the same time,

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



Sources: CROSTAT, World Bank.

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



Source: World Bank. Notes: see Table 2.

annual growth of nominal net wages accelerated, in part due to reduction of PIT from January 2021. However, rising inflation rate that has reached 2.8 percent in July 2021, has dampened the effects on real disposable income of households. The financial sector remains stable but risks to the real estate market need to be monitored.

The current account deficit remained broadly unchanged in the first quarter of 2021, compared to the same period last year (EUR 1.4bn).

On the fiscal front, in the first half of 2021, the budgetary central government deficit narrowed, following a strong increase in tax revenues, but remained elevated. Public debt at the end of May 2021 stood at 86.4 percent of GDP.

The recent Rapid Assessment Survey shows household income declines were less widespread than they were in the first wave of the pandemic as temporarily inactive workers returned to work and labor income partially recovered. As of June 2021, 19 percent of Croatian households reported a decline in income, marking a slight improvement from 2020. The share of the Croatian population living on less than \$5.5 a day at 2011 revised PPP prices is estimated to have declined from 2.6 percent in 2020 to 2.2 percent in 2021.

Outlook

For the whole of 2021, Croatia is projected to achieve a robust economic rebound and real GDP is set to grow by 7.6 percent, after a fall of 8 percent in 2020. Under the assumption that a broadly favorable epidemiological situation continues in the future and social distancing measures remain relaxed, strong and broad-based growth is expected to continue over the 2022-2023 period with real GDP surpassing its pre-crisis level in 2022. Exports of goods and services are projected to provide the largest positive contribution to growth, following continued recovery of tourism and a favorable external outlook. Investments are also set to markedly increase which, however, depends upon the realization of an ambitious government investment program related to earthquake reconstruction and implementation of the NRRP. In such an environment, employment is projected to further increase while the unemployment rate is expected to fall below 6 percent. As a result, personal consumption will remain robust, increasing at an average rate of around 3.4 percent over the forecast horizon. Pick-up in inflation in 2021 is expected to be transitory as global supply bottlenecks and commodity price increases ease. The current account balance is projected to return to surplus (estimated at 2.4 percent of GDP in 2023), following improvements in the trade balance. The increase in tax revenues, following an increase in economic activity and discontinuation of the COVID-19 fiscal support measures, is projected to reduce the general deficit below 2 percent of GDP and bring public debt to below 77 percent of GDP by 2023.

Strong economic growth in 2021 is expected to reduce poverty to the pre-crisis level of 2.2 percent and decline further to 1.9 percent by 2023. However, the pandemic still disproportionately affects low-wage workers and women. Work stoppage compounded by a low rate of savings suggest a longer recovery process for these vulnerable population groups compared to others.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	2.8	2.9	-8.0	7.6	6.0	4.2
Private Consumption	3.3	3.5	-6.2	5.0	3.5	3.3
Government Consumption	2.3	3.4	3.4	2.5	2.3	2.3
Gross Fixed Capital Investment	6.5	7.1	-2.9	9.1	13.0	6.0
Exports, Goods and Services	3.7	6.8	-25.0	28.6	12.1	6.4
Imports, Goods and Services	7.5	6.3	-13.8	20.4	10.0	5.2
Real GDP growth, at constant factor prices	2.6	2.5	-6.3	7.6	6.0	4.2
Agriculture	6.2	1.2	3.7	4.5	3.5	3.5
Industry	1.4	2.3	-1.3	6.8	5.1	2.9
Services	2.8	2.7	-8.6	8.0	6.5	4.7
Inflation (Consumer Price Index)	1.5	0.8	0.2	2.3	1.5	1.7
Current Account Balance (% of GDP)	1.8	3.0	-0.4	1.6	2.0	2.4
Net Foreign Direct Investment (% of GDP)	1.6	6.3	1.6	1.6	1.6	1.6
Fiscal Balance (% of GDP)	0.2	0.3	-7.4	-3.4	-2.0	-1.6
Debt (% of GDP)	74.3	72.8	88.7	83.6	79.5	76.6
Primary Balance (% of GDP)	2.5	2.5	-5.4	-1.7	-0.5	-0.3
International poverty rate (\$1.9 in 2011 PPP)[a,b]	0.5	0.5	0.5	0.5	0.4	0.4
Lower middle-income poverty rate (\$3.2 in 2011 PPP)[a,b]	0.8	0.7	0.8	0.7	0.7	0.7
Upper middle-income poverty rate (\$5.5 in 2011 PPP)[a,b]	2.4	2.2	2.6	2.2	2.0	1.9
GHG emissions growth (mtCO2e)	-4.4	-0.8	-8.6	7.3	5.8	4.3
Energy related GHG emissions (% of total)	87.2	86.9	86.1	87.0	87.1	87.0

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

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

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

GEORGIA

Table 1	2020
Population, million	3.7
GDP, current US$ billion	15.9
GDP per capita, current US$	4297.3
International poverty rate ($1.9)[a]	4.2
Lower middle-income poverty rate ($3.2)[a]	17.0
Upper middle-income poverty rate ($5.5)[a]	46.6
Gini index[a]	34.5
School enrollment, primary (% gross)[b]	99.3
Life expectancy at birth, years[b]	73.8
Total GHG Emissions (mtCO2e)	15.9

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2020), 2011 PPPs.
(b) Most recent WDI value (2019).

The COVID-19 pandemic hit Georgia hard in 2020. While a robust recovery is underway, rising inflation and the persistence of the pandemic could exacerbate weak labor market outcomes. Supported by adequate macroeconomic policies and recovery among major trading partners, continued economic expansion should return poverty rates to pre-crisis levels by 2022. Key downside risks include slow progress on vaccinations, potential reintroduction of pandemic-related mobility restriction and renewed political tensions.

Key conditions and challenges

Georgia's economy expanded rapidly during the pre-COVID period, growing at a robust annual average rate of 5 percent from 2005 to 2019. Rapid growth contributed to halving of the national poverty rate between 2007 and 2019. Responsible macro policies, intensifying global integration, sound public investments, an attractive business environment, improving governance, and rising public spending underpinned the progress.

However, years of sustained growth had only a limited impact on quality job creation, and many Georgians continue to rely on low-productivity employment, especially in agriculture and the informal sector. Export volumes have increased, but exports remain unsophisticated, and firms face low growth and survival rates. These outcomes indicate an incomplete structural transformation and an economic divide between regions. Education outcomes remain poor, and workers are generally not equipped with the skills demanded by employers. Domestic political tensions are also a concern for the private sector.

The COVID-19 pandemic reversed some of Georgia's gains. After the country achieved early success in containing the spread of the disease, infections surged in late 2020, and by the summer of 2021 Georgia had one of the world's highest infection rates per capita. Economic output fell, contracting by 6.2 percent in 2020 as mobility restrictions were implemented and tourist arrivals collapsed.

This meant that, despite a robust fiscal response estimated at 7.5 percent of GDP, close to the ECA regional average, the poverty rate at the international upper-middle-income poverty line (US$5.50 per capita per day, 2011 PPP) increased from 42 percent in 2019 to an estimated 46.6 percent in 2020.

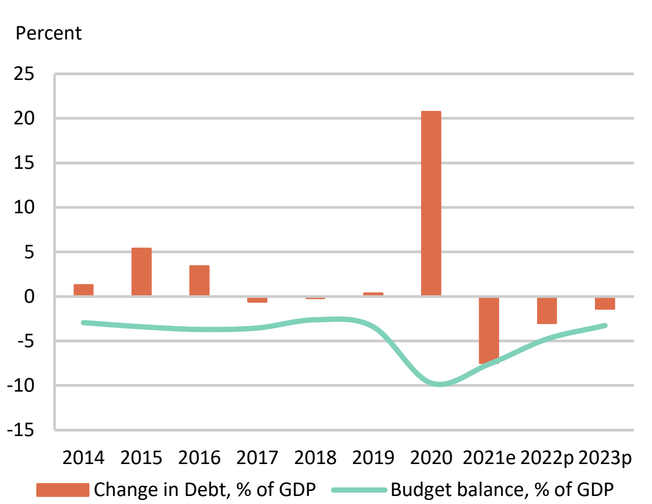
Recent developments

The Georgian economy grew faster than expected in H1 2021, with output expanding by 12.7 percent year-on-year (y/y) as pandemic-related restrictions were gradually eased. Economic acceleration—evident from rising mobility, trade volumes, tax collection, credit growth, and tourism revenues—returned GDP to pre-COVID levels. However, the labor market has been slow to recover. The unemployment rate remained high at 22.0 percent in H1 2021 as compared to 18.3 percent in H1 2020 and 17.3 percent in 2019.

Repeated waves of new COVID-19 infections threaten Georgia's recovery. The number of reported cases per capita was once again among the highest in the world with recovered cases reaching 15.5 percent of the population. Vaccination coverage rose but only 26 percent of the adult population was fully vaccinated as of mid-September.

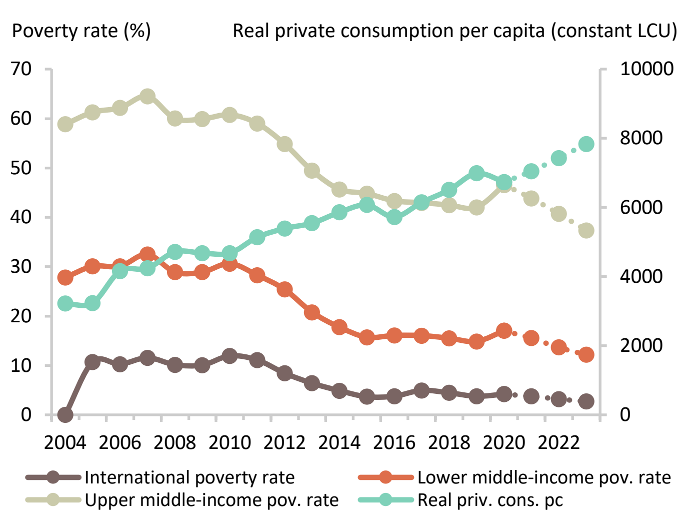
Driven by rising global food and oil prices and pass-through from the earlier depreciation of the lari, the inflation rate spiked

FIGURE 1 Georgia / Budget balance and change in debt



Sources: Ministry of Finance of Georgia and staff calculations.

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



Source: World Bank. Notes: see Table 2.

to 12.8 percent y/y in August, its highest level in over ten years. In response, the central bank increased its policy rate by a cumulative 200 basis points since March 2021 to 10 percent.

The current account deficit remained high at 11 percent of GDP in Q1 2021, as weak services exports, particularly from tourism, were only partially offset by strong remittances and an improved goods trade balance. FDI and portfolio investment covered 23 percent of the current account deficit, while public borrowing covered the rest and enabled accumulation of international reserves. The latter remained adequate at US$4.1 billion as of end-August 2021, covering over four months of goods and services imports.

The banking sector remained profitable, and the share of nonperforming loans (more than 90 days overdue) was low at 2.4 percent.

The fiscal deficit widened by 27 percent y/y in the first seven months of 2021, as rising public expenditures—including additional COVID-19 response measures—offset a 15 percent y/y increase in revenues. By end-July, the fiscal deficit had reached about 4 percent of annual GDP out of planned 7.6 percent, while public debt fell to 53 percent of GDP from 62 percent as of end-2020.

Outlook

Georgia's GDP growth rate for 2021 is now projected at 8 percent, up from 6 percent in April. In the baseline scenario, output surpasses its 2019 level in 2021. This estimate assumes that some COVID-19-related restrictions will remain in effect for the rest of the year.

Over the medium term, GDP growth is expected to return to its potential rate of about 5.0-5.5 percent as the fiscal stimulus winds down, monetary policy normalizes, and tourism recovers. The baseline projection assumes no major new COVID-19-related restrictions in a context of rising vaccination rates. As growth recovers, and real wages and transfers increase, the poverty rate is expected to decline and reach pre-crisis levels by 2022.

The fiscal deficit is expected to remain elevated at around 7.6 percent of GDP in 2021 before gradually declining as revenues recover and emergency spending subsides. The deficit is projected to narrow to about 3 percent of GDP by 2023 in line with the fiscal rule.

Inflation is forecast to remain above the central bank's 3 percent target in 2021 and 2022 but should converge with the target over the medium term by end-2023 as transitory pressures subside, and monetary policy actions anchor inflationary expectations.

As service exports recover and rebounding economic activity causes imports to rise, the current-account deficit is expected to narrow to 10 percent of GDP in 2021 and continue shrinking over the medium term. Recovering FDI and sustained support from international financial institutions are expected to cover Georgia's external financing needs and help maintain a comfortable reserve cushion.

Delayed vaccinations, new mobility restrictions, and prolonged political tensions are the key downside risks to Georgia's outlook. These risks could slow the recovery and inhibit progress on poverty reduction and job creation.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	4.8	5.0	-6.2	8.0	5.5	5.0
Private Consumption	5.8	7.2	-4.0	4.5	5.0	5.2
Government Consumption	1.6	5.7	11.8	2.3	-2.4	-1.3
Gross Fixed Capital Investment	1.9	-0.1	-6.2	0.5	8.7	4.4
Exports, Goods and Services	10.1	9.8	-31.1	38.5	10.0	9.7
Imports, Goods and Services	10.3	6.6	-19.2	18.0	7.3	7.1
Real GDP growth, at constant factor prices	5.2	5.1	-5.9	7.6	5.6	5.0
Agriculture	13.8	-0.6	3.6	4.0	2.0	2.6
Industry	0.2	2.7	-2.8	12.0	6.0	4.0
Services	5.8	6.4	-7.7	6.8	5.9	5.6
Inflation (Consumer Price Index)	2.6	5.0	5.3	9.0	6.0	3.8
Current Account Balance (% of GDP)	-6.8	-5.5	-12.5	-10.2	-8.8	-8.7
Net Foreign Direct Investment (% of GDP)	5.3	5.9	4.3	3.3	6.0	5.5
Fiscal Balance (% of GDP)	-2.6	-3.4	-9.7	-7.6	-4.8	-3.3
Debt (% of GDP)	41.4	41.8	62.5	55.0	52.0	50.6
Primary Balance (% of GDP)	-1.4	-2.2	-8.2	-5.6	-3.3	-1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	4.5	3.8	4.2	3.8	3.2	2.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	15.5	14.9	17.0	15.5	13.7	12.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	42.5	42.0	46.6	43.8	40.7	37.4
GHG emissions growth (mtCO2e)	-1.7	-2.5	-3.4	7.4	3.3	2.6
Energy related GHG emissions (% of total)	52.4	50.8	50.6	51.7	52.5	52.8

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

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

(b) Projection using neutral distribution (2020) with pass-through = 0.87 based on private consumption per capita in constant LCU.

KAZAKHSTAN

Table 1	2020
Population, million	18.8
GDP, current US$ billion	171.2
GDP per capita, current US$	9106.4
Upper middle-income poverty rate ($5.5)[a]	4.6
Gini index[a]	27.8
School enrollment, primary (% gross)[b]	104.4
Life expectancy at birth, years[b]	73.2
Total GHG Emissions (mtCO2e)	272.1

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

GDP grew by 2.3 percent in 1H2021 supported by household consumption, reduced COVID-19 restrictions, and supportive fiscal measures. Higher food prices and release of pent-up demand raised inflation. The poverty rate is expected to fall in 2021 but remains above the pre-pandemic level. The economy is projected to recover further as restrictions ease and aggregate demand improves. The recovery pace remains vulnerable to the pandemic and external demand for hydrocarbons.

Key conditions and challenges

Since independence in 1991, Kazakhstan has experienced rapid growth, fueled by reforms and FDI into extractive industries, which reduced poverty and transformed the country into an upper middle-income economy. Real GDP per capita increased by more than 80 percent, as the country currently accounts for nearly two-thirds of Central Asia's GDP with a quarter of the population.

However, weak productivity growth is slowing down GDP growth and gains in living standards. Over-dependence on hydrocarbons and limited diversification pose significant development challenges.

Containing the pandemic, including by accelerating vaccination, is the key short-term priority. The second priority is improving competitiveness and attracting investment in the non-extractive sectors. The third priority is launching a transition to a low-carbon economy, supported by energy pricing, regulatory reforms, and public investments that facilitate the mitigation and adaption to climate change.

Recent developments

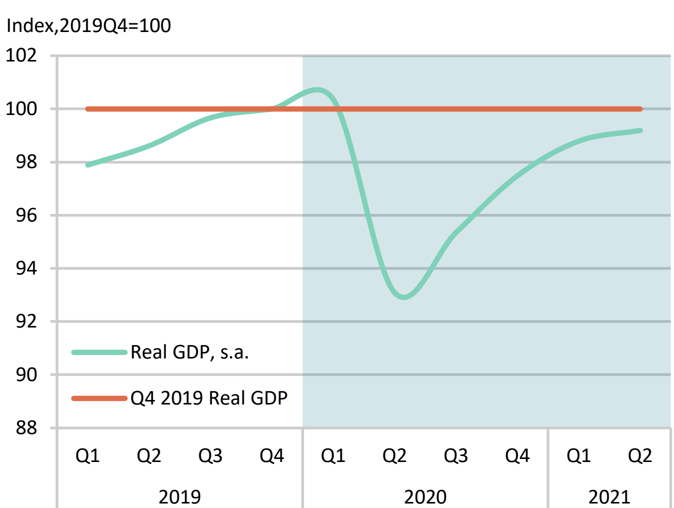
The economy is bouncing back from its pandemic-driven decline in 2020. GDP expanded by a 0.4 percent q-o-q (seasonally adjusted) in 2021 Q2, following a 1.3 percent growth in Q1. Real GDP in Q2 of 2021 was still 0.8 percent below the pre-crisis level.

Consumer demand supported by reduced COVID-19 restrictions and continued fiscal and credit support to households and enterprises have been the key drivers of GDP dynamics. Solid growth in retail trade by 7.6 percent suggests a strong rebound in household consumption in January–June. But investment has remained weak and contracted by 1.8 percent in 1H2021, mainly due to weak FDI inflow. Reopening the economy increases activity in service sectors while growth in housing and infrastructure projects is supporting construction and manufacturing.

A sizable outflow of profits from FDI-linked projects and a pickup in imports led to a 2.2 percent of GDP deficit of the current account in 1H2021. The National Bank of Kazakhstan (NBK) reserves in August reached $36.8 billion due to the $1.6 billion new SDR allocation. The tenge depreciated slightly through April but subsequently recovered some of its losses as oil prices rose.

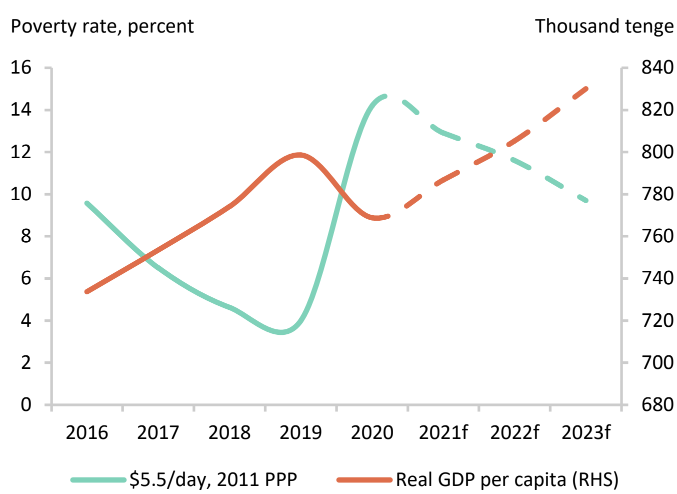
The fiscal policy remained supportive in 1H2021. In April, the government adopted a supplementary budget with an additional US$3.0 billion (1.7 percent of GDP) support package for COVID-19 measures and economic recovery. The authorities included an additional transfer from the Oil Fund in the package and financed the deficit by increased borrowing. As a result of higher spending, the deficit increased to 3.5 percent of GDP in 1H2021 compared with 2.8 percent in

FIGURE 1 Kazakhstan / Movement in real GDP



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

FIGURE 2 Kazakhstan / Poverty rates and real GDP per capita



Source: World Bank staff estimates.

1H2020. The government debt rose to 25.2 percent of GDP.

The yearly inflation rose to 8.7 percent in August 2021, up from a 7.5 percent in December. A surge in global food prices, logistical disruptions, and pent-up demand contributed to the rising prices across the board. The government set price caps on some staple food products and introduced export quotas on grain. The NBK tightened monetary policy and increased a policy rate by 0.25 p.p. to 9.5 percent in September.

The banking sector is weathering the COVID-19 crisis. In June 2021, banks recorded return to assets of 3.5 percent and maintained minimum capital adequacy requirements. The authorities continue the reform and revoked licenses of two small banks. Nevertheless, pre-existing vulnerabilities and risks coming from higher NPLs because of the COVID-19 crisis call for vigilance.

Employment level recovered, and real wages increased in Q2 2021. Although the rate of temporary leave among low-wage workers is still high compared to other income groups, it showed a declining trend. As a result, the poverty rate is expected to fall to 13 per-cent in 2021.

Outlook

Economic activity is projected to recover to its pre-pandemic level by end-2021, with growth of 3.2–3.7 percent in 2021 and 3.7 percent in 2022. Growth will be supported by the resumption of domestic activity, a supportive fiscal stance, and the rollout of vaccines. Improving growth prospects in foreign markets will buoy external demand for commodities.

Household consumption growth will continue, aided by an income rebound. Recovery in exports and improved prospects for FDI in the mining sector, which along with planned housing and infrastructure projects, is expected to restore investment growth.

Fiscal policy will remain supportive over the medium term. The budget will continue to prioritize spending on social assistance, education, human capital, infrastructure, and support to SMEs. Government debt is projected to increase further through 2023 as the authorities withdraw the fiscal support to the economy only gradually.

Inflation will remain above the target range of 4–6 percent in 2021 and is expected to decline gradually in following years, as the effect of the pandemic-linked temporary factors wanes. However, the rising cost of intermediate goods, real wage growth, and an expansionary fiscal stance with significant direct lending provisions can keep inflation high.

With only a third of the population fully vaccinated by end-August, the vaccine rollout remains a prime concern. Without higher coverage, COVID-19 will continue to threaten the recovery. Increasing prices and elevated levels of absence from work could delay the reduction in poverty. Volatile oil prices and uncertainty over the scale of global demand for hydrocarbons are other risks that could weaken export and pressure exchange rate. The recent increase in housing prices also makes homeownership less affordable and a steady rise in mortgage lending along with lifting of forbearance measures could expose the banking sector to higher NPLs in the event of future shocks. Moreover, with the heavily reliant on hydrocarbons, the country faces challenges arising from the emissions reduction and low-carbon transition.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	4.1	4.5	-2.5	3.5	3.7	4.8
Private Consumption	6.1	6.1	-3.8	7.0	6.0	5.0
Government Consumption	-14.1	15.5	12.8	0.5	0.7	0.8
Gross Fixed Capital Investment	5.4	13.8	-0.3	0.0	3.6	3.7
Exports, Goods and Services	9.6	2.0	-12.1	-0.2	1.9	8.0
Imports, Goods and Services	6.6	14.9	-10.7	5.9	5.6	4.9
Real GDP growth, at constant factor prices	4.1	4.5	-2.5	3.6	3.8	5.0
Agriculture	3.8	-0.1	5.6	3.2	3.3	3.2
Industry	4.4	4.1	-0.4	3.3	3.6	6.5
Services	3.9	5.2	-4.5	3.8	4.0	4.2
Inflation (Consumer Price Index)	6.2	5.3	6.8	8.0	6.2	5.2
Current Account Balance (% of GDP)	-0.1	-4.0	-3.7	-2.7	-1.4	-0.4
Net Foreign Direct Investment (% of GDP)	2.7	3.1	3.4	3.4	3.3	3.3
Fiscal Balance (% of GDP)	-1.0	-1.3	-3.3	-3.0	-2.6	-2.3
Debt (% of GDP)	19.9	19.6	24.8	26.9	28.8	29.9
Primary Balance (% of GDP)	-0.1	-0.3	-2.2	-1.6	-1.3	-1.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	4.6	4.0	14.2	13.0	11.6	9.8
GHG emissions growth (mtCO2e)	-3.3	5.3	-4.7	5.4	1.1	2.8
Energy related GHG emissions (% of total)	79.8	81.3	81.4	80.5	80.4	79.8

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

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

KOSOVO

Table 1	2020
Population, million	1.8
GDP, current US$ billion	7.7
GDP per capita, current US$	4277.8
Upper middle-income poverty rate ($5.5)[a]	24.4
Gini index[a]	29.0
Life expectancy at birth, years[b]	72.5

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2017), 2011 PPPs.
(b) Most recent WDI value (2019).

Kosovo's economy is recovering rapidly, but risks to the outlook remain high as the country continues to grapple with the pandemic. Economic activity in 2021 is expected to expand by 7.1 percent against a rebound in diaspora visits, fiscal support measures, and higher consumer lending. Growth is projected to remain above 4 percent over the medium term. Maintaining the accelerated rate of vaccinations is a priority in the near term. In the medium term, Kosovo needs to transition to a more productivity-oriented growth model.

Key conditions and challenges

Kosovo grew at an average of 4.6 percent between 2014 and 2019. The economy contracted by 5.3 percent in 2020, but high informality likely conceals the full economic and social impact of the pandemic. Formal employment weathered the impact of the pandemic, but low labor force participation, especially for women, continues to be among Kosovo's key constraints. Poverty is expected to decrease in 2021 (about 2 percentage points) to 21 percent, reverting back to its 2019 level.[1]

Growth returned to positive territory during the fourth quarter of 2020 and gained momentum during the first half of 2021. Kosovo faced a new wave of infections in late August 2021. However, vaccinations picked up in April 2021, exceeding 1.2 million doses administered by September 2021.

Kosovo's growth model is largely consumption-based, with a significant reliance on diaspora financing. The trade deficit remains high, although merchandise exports started to pick up during the pandemic. Private investment added to growth in recent years, but was mostly concentrated in trade and construction industries, with limited productivity spillovers. Poor education and health outcomes limit the contribution of human capital to inclusive growth.

Given the rise of new virus variants and vaccination trends, both in Kosovo and globally, the pandemic risks remain elevated. Accelerated vaccination is the key priority in the near term. In the medium term, there is a pressing need to focus policies on tackling constraints to higher productivity growth and investing in human capital.

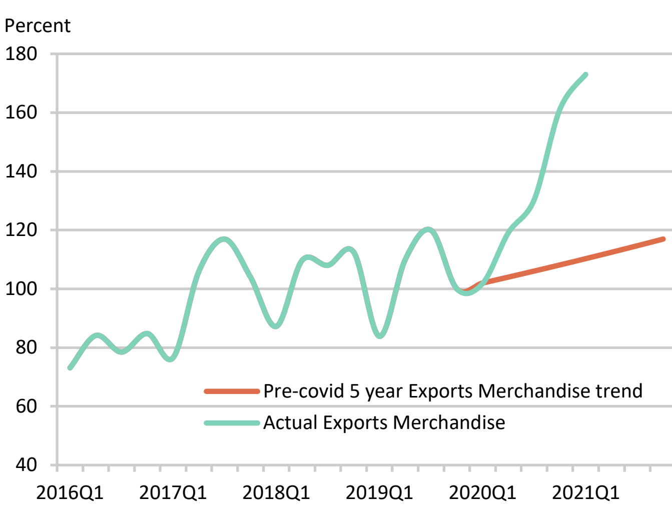
Recent developments

Growth gained momentum during the first quarter of 2021, reaching 5.6 percent. Economic activity is estimated to expand by 7.1 percent in 2021, with exports and private consumption expected to provide the highest contribution to growth.

Services exports exceeded 2019 levels by June 2021, and by year-end are estimated to exceed 2019 levels by 9.5 percent. The rebound in diaspora visits continues to fuel Kosovo's service exports and informal remittances. Merchandise exports have also been on the rise. Limited containment and fiscal support measures, and strong credit growth have bolstered private consumption.

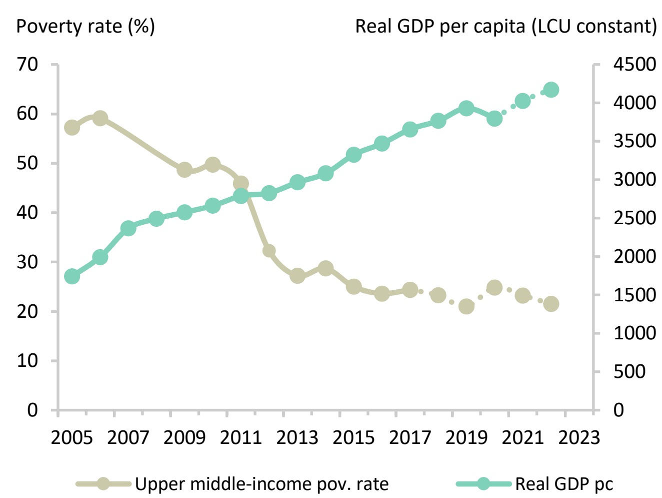
Although the information on the overall labor market is not complete due to a large share of informal jobs, there are significant gains in formal employment. The average number of active pension contributors increased by 13.6 percent during the second quarter of the year; representing about 40 thousand new formal jobs compared to the same period of both 2020 and 2019. During the second quarter of 2021, the number of registered jobseekers also dropped by more

FIGURE 1 Kosovo / Index of merchandise exports in USD, 2019Q4=100



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

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



Source: World Bank. Notes: see Table 2.

than 30 percent compared to the same period of 2020.

Consumer price inflation, driven primarily by higher import prices, is expected to reach an annual average of 3.5 percent in 2021. Import prices are expected to accelerate, with the most pronounced increase on commodity imports. Should food prices increase above overall consumer prices, their impact on the poor and vulnerable could be significant.

Growth in exports is expected to outpace the rebound in imports. however, as imports grow from a higher base current account deficit is projected to reach 8.5 percent of GDP in 2021, up from 7 percent in 2020.

Public revenues will increase by almost 24 percent y-o-y in 2021, thanks to an increase in firm turnover and the rebound in imports, but also higher inflation and tax debt collection. Public expenditure is expected to decrease by 3 percent compared to 2020, driven mainly by public investment underspending. As a result, the fiscal deficit by year-end will be below 1 percent of GDP. PPG debt is expected to increase from 22.2 percent of GDP in 2020 to 23.8 percent in 2021, mainly driven by higher domestic debt.

The financial sector is experiencing strong credit and deposit growth. Capital adequacy remained above regulatory requirements while non-performing loans hovered between 2.5 and 2.7 percent from January to July 2021.

Outlook

Growth is expected to ease in 2022, but will remain above 4 percent in the medium term, contingent on the global course of the pandemic and its successful management. Thus, poverty is also projected to decline. Exports are expected to increase at a slower pace. Investment is expected to pick up, driven by accelerated public investment, restored business confidence and a deceleration of inflation, hence providing a higher contribution to growth alongside consumption. However, investment is expected to continue being focused mainly on construction activities. The current account balance is projected to marginally deteriorate, driven by higher import demand.

Public expenditure growth is projected to accelerate in the medium term, leading to higher fiscal deficits, fueled by an acceleration in public investment spending, but also increased current expenditure driven by the implementation of the Economic Revival Plan. As a result, fiscal deficit levels are expected to increase from 2021 reaching an average of 2 percent of GDP for the medium term, with PPG debt as a share of GDP rising from 23.2 percent in 2021 to 27.8 percent by end-2023.

Given that projections hinge on the assumption of limited economic activity restrictions in the medium term, the pandemic risks to the outlook continue to remain high for Kosovo. Prevalence of international travel restrictions from diaspora hosting countries during 2022 could weigh on growth and the fiscal position. In the medium-term, credible fiscal reforms should be implemented through rationalizing current expenditures and tax exemptions to provide fiscal space for developmental needs and to avoid faster accumulation of debt.

1/ Poverty is measured as the percentage of the population living with under $5.5 per capita per day (2011 PPP USD).

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	3.4	4.8	-5.3	7.1	4.1	4.4
Private Consumption	4.4	5.6	2.5	6.6	2.3	2.4
Government Consumption	7.0	10.1	2.1	-3.2	6.6	5.5
Gross Fixed Capital Investment	5.4	2.9	-7.6	6.4	7.7	7.6
Exports, Goods and Services	9.1	7.6	-29.1	63.0	7.5	6.5
Imports, Goods and Services	10.9	4.5	-6.0	25.2	5.5	4.5
Inflation (Consumer Price Index)	1.0	2.7	0.2	3.5	1.8	1.6
Current Account Balance (% of GDP)	-7.6	-5.6	-7.0	-8.5	-9.6	-9.2
Net Foreign Direct Investment (% of GDP)	3.4	-2.7	-4.1	3.8	4.1	4.5
Fiscal Balance (% of GDP)	-2.9	-2.9	-7.6	-0.9	-2.0	-2.1
Debt (% of GDP)	16.4	17.0	22.0	22.7	25.9	27.6
Primary Balance (% of GDP)	-2.6	-2.6	-7.1	-0.4	-1.5	-1.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	23.2	20.9	23.4	20.9	18.9	17.0

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

(a) Calculations based on ECAPOV harmonization, using 2017-HBS.Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021to 2023.

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

KYRGYZ REPUBLIC

Table 1	2020
Population, million	6.6
GDP, current US$ billion	7.7
GDP per capita, current US$	1166.7
International poverty rate ($1.9)[a]	0.6
Lower middle-income poverty rate ($3.2)[a]	9.7
Upper middle-income poverty rate ($5.5)[a]	52.6
Gini index[a]	29.7
School enrollment, primary (% gross)[b]	106.0
Life expectancy at birth, years[b]	71.6
Total GHG Emissions (mtCO2e)	15.4

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

Real GDP contracted by 0.7 percent in January–August 2021 due to a fall in gold production. 2021 GDP should expand by 2.3 percent, driven continued growth of the non-gold economy in the remainder of the year. Inflation has increased sharply and should remain elevated in 2021–22. Strong revenue performance led to fiscal surplus in January–July 2021, but the budget should fall back into a deficit by year-end.

Key conditions and challenges

The economy remains heavily dependent on gold production (about 10 percent of GDP and 40 percent of exports), remittances (25 percent of GDP), and foreign aid. Economic and structural reforms lost momentum, and businesses are facing significant uncertainty because of the continuing COVID-19 pandemic and political uncertainty triggered by the protests after the parliamentary elections in October 2020. The ongoing revision of legislation after the adoption of the new Constitution in April 2021 and afresh parliamentary elections in November 2021 are adding uncertainty. Security threats arising from potential border conflicts and a regional tension due to developments in Afghanistan are also causing concerns.

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

Recent developments

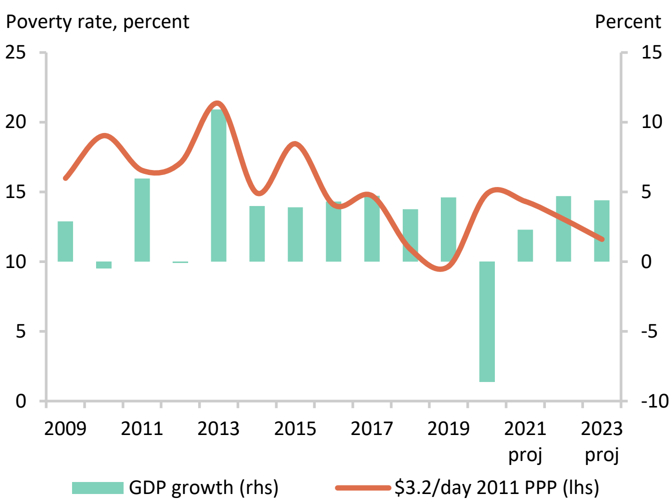
Real GDP contracted by 0.7 percent in January–August 2021, year-on-year, following a significant decline by 8.6 percent in 2020, as a result of a fall in gold production (-29 percent) while the non-gold economy is recovering (3.6 percent). The non-gold economy has been supported by increased remittance inflows and trade revival.

Twelve-month inflation rose to 14 percent in July, up from 9.7 percent in December 2020, driven by larger increases in prices for imported food and fuel, as well as a rising demand for goods and services owing to higher remittances. The trade deficit is estimated to have significantly widened to 41 percent of GDP in January–June 2021 from 18 percent a year ago. This reflects a decline in exports (9 percent in US dollars) mainly due to a fall in gold exports and strong growth in imports (41 percent in US dollars). Gross official reserves remained adequate at 6.2 months of imports at end-June.

In response to rising inflation, the central bank increased its policy rate three times by a cumulative increase of 250 basis points to 7.5 percent since the start of the year. Credit to the economy growth was strong (12.2 percent). The foreign exchange market has stabilized after central bank interventions in the first quarter.

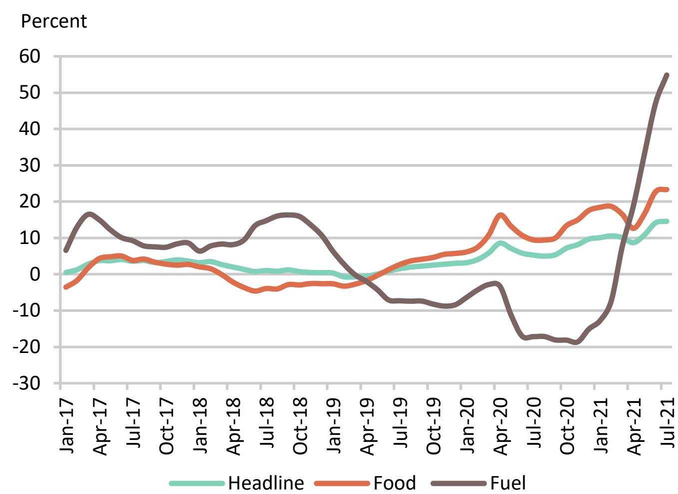
The budget surplus amounted to 1.4 percent of GDP in January–July 2021, owing to higher revenues and lower expenditures as a share of GDP. Revenues increased to 37.7 percent of GDP from 32.3 percent a year ago, thanks to tax and non-tax revenues.

FIGURE 1 Kyrgyz Republic / GDP growth and poverty rate



Sources: Kyrgyz authorities and World Bank staff estimates.

FIGURE 2 Kyrgyz Republic / Headline, food and fuel inflation



Source: Kyrgyz authorities.

Improved tax performance reflects increased tax revenues from imported goods—VAT on imports, customs duties and excises on imports—as well as taxes from mining companies owing to higher gold prices. Non-tax revenues increased thanks to the central bank profit transfers and a higher amount of receipts from public paid services. Expenditures declined to 36.3 percent of GDP from 38.8 percent a year ago, as wage bill, transfers and subsidies, and pensions fell as a share of GDP. Public debt declined to 66.4 percent of GDP from 68.1 percent at the end of December 2020.

The combined health and economic shocks of 2020 drove up poverty and diminished social welfare. A significant share of the population became poor or vulnerable due to lower incomes, higher food prices, or job losses. The poverty rate is estimated to have increased to 14.3 percent in 2020 from 9.7 percent in 2019 (US$3.2 a day, 2011 PPP).

Outlook

The economy is expected to grow by 2.3 percent in 2021, assuming a continued expansion in the non-gold economy in the remainder of the year. Growth is forecast to increase to 4.7 percent in 2022 and slow to 4.4 in 2023, reflecting gold production growth while non-gold economy stabilizes at its potential level. This scenario assumes a reduction of new COVID-19 cases as vaccines are deployed and political stability is maintained.

Inflation is projected to rise to 10.6 percent in December 2021 from 9.7 percent a year ago, driven by food and fuel prices. It is projected to moderate to the central bank's target range of 5–7 percent by 2023.

The current account deficit is projected at 6.1 percent in 2021, reflecting a recovery of imports and a decline in gold exports. As the latter picks up, the deficit is expected to narrow slightly in 2022–23.

While the budget ran a surplus in January–July, a deficit of 1.8 percent of GDP is projected in 2021 as a whole, reflecting planned increases in social assistance and pensions in October 2021. The deficit is expected to widen to 3.1 percent of GDP in 2022 because of the full year affect of these increases. Assuming expansion of the tax base, rolling back pandemic-related expenditures, streamlining nonpriority purchases, and reducing the wage bill as a share of GDP, the deficit is expected to narrow to 2.7 percent of GDP in 2023.

The poverty rate should remain little changed in 2021–22 as households continue to face price increases, health issues, and other pandemic impacts. In spite of planned spending increases for the social sector, they remain insufficient to support poor and vulnerable groups.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	3.8	4.6	-8.6	2.3	4.7	4.3
Private Consumption	5.0	0.8	-11.4	4.4	5.0	3.5
Government Consumption	1.3	0.5	1.3	1.9	1.7	0.3
Gross Fixed Capital Investment	6.9	7.1	-23.3	11.2	9.3	11.9
Exports, Goods and Services	-2.7	16.2	-18.5	-5.8	7.1	8.0
Imports, Goods and Services	7.4	6.1	-24.0	11.1	9.5	9.3
Real GDP growth, at constant factor prices	3.1	3.6	-8.6	2.2	4.7	4.3
Agriculture	2.6	2.5	1.1	0.0	2.2	2.5
Industry	5.1	6.6	-7.5	-2.8	8.4	8.7
Services	2.8	3.2	-17.0	6.8	5.5	4.0
Inflation (Consumer Price Index)	1.5	1.1	6.3	12.0	7.3	5.3
Current Account Balance (% of GDP)	-12.1	-12.1	4.5	-6.1	-5.8	-5.6
Net Foreign Direct Investment (% of GDP)	0.5	3.8	-7.5	0.7	1.0	2.0
Fiscal Balance (% of GDP)	-1.6	-0.5	-4.2	-1.8	-3.1	-2.7
Debt (% of GDP)	54.7	51.6	68.1	66.2	64.8	63.2
Primary Balance (% of GDP)	-0.5	0.5	-3.0	-0.2	-1.4	-1.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.6	0.6	1.1	0.9	0.8	0.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	10.9	9.7	14.3	13.8	12.6	11.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	54.8	52.6	60.7	60.0	57.6	55.5
GHG emissions growth (mtCO2e)	14.5	8.8	-4.7	2.4	5.2	5.8
Energy related GHG emissions (% of total)	74.3	75.4	74.7	73.6	74.0	74.4

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

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

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

MOLDOVA

Table 1	2020
Population, million	2.7
GDP, current US$ billion	11.9
GDP per capita, current US$	4407.4
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.9
Upper middle-income poverty rate ($5.5)[a]	12.8
Gini index[a]	25.7
School enrollment, primary (% gross)[b]	89.5
Life expectancy at birth, years[b]	71.9
Total GHG Emissions (mtCO2e)	12.8

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

Moldova is recovering swiftly, growth is expected to be above potential in the medium term. Short- and medium-term forecast is under the assumptions of the containment of the COVID-19 pandemic, implementation of a broad-based reforms program, and sustained fiscal support. In case of a resumption of the pandemic, the authorities should first and foremost focus on the health sector to manage the pandemic while striking a balance between long term reforms and mitigation measures.

Key conditions and challenges

Despite a solid economic performance in the past two decades, Moldova has fallen short of its aspiration to achieve faster convergence towards EU income levels. The economic model continues to be reliant on remittances-induced consumption, with an associated low productivity growth resulted from the persistence of deep structural and governance weaknesses, a significant state enterprises footprint, low competition, uneven playing field, and taxes distortions. The bank fraud of 2014 uncovered deep weaknesses in the financial sector. In addition, the economy is highly vulnerable to external shocks. While extreme weather events and the propagation of economic and financial crisis from the main trading partners have been a traditional risk for a small open economy like Moldova, the COVID-19 pandemic has recently raised concerns also about the health system.

Persistent inequality of opportunity continues to limit the ability of low-income households to access public services, reducing their resilience to shocks and cementing low intergenerational mobility. The contraction in 2020 resulted in an increase in poverty from 25.2% in 2019 to 26.8% in 2020 (based on the national poverty line), marking the second consecutive year in which poverty increased. Though poverty rates increased more in urban than in rural areas, rural areas remain much poorer with a poverty rate of 35.3% in 2020 (vs 14% in urban areas).

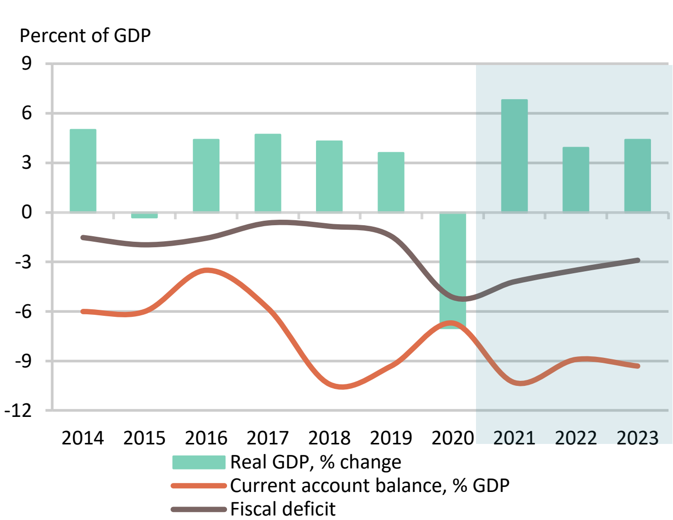
Against this background, the newly elected government is expected to implement an ambitious structural reforms program to improve competitiveness (justice reforms and strengthening the rule of law corruption together with actions towards rent seeking schemes, the regulatory environment, and the state footprint), while sustaining economic recovery with a stronger fiscal impulse. Striking the balance between cyclical and structural problems and ensuring fiscal sustainability will be an essential aspect be considered when designing short - and medium-term policy response.

Recent developments

The economic activity is expected to bounce back by 6.8 percent in 2021. A strong increase in wages, remittances and social transfers contributed to a robust increase in private consumption. Investments registered a 20 percentage increase on the back of favorable monetary conditions. Strong domestic demand and restocking after the lockdown led to significant drag on growth from net exports. All sectors of the economy signaled positive developments after a sharp contraction last year. However, agricultural sector was still is with a negative territory in the first half of the year due to heavy rains.

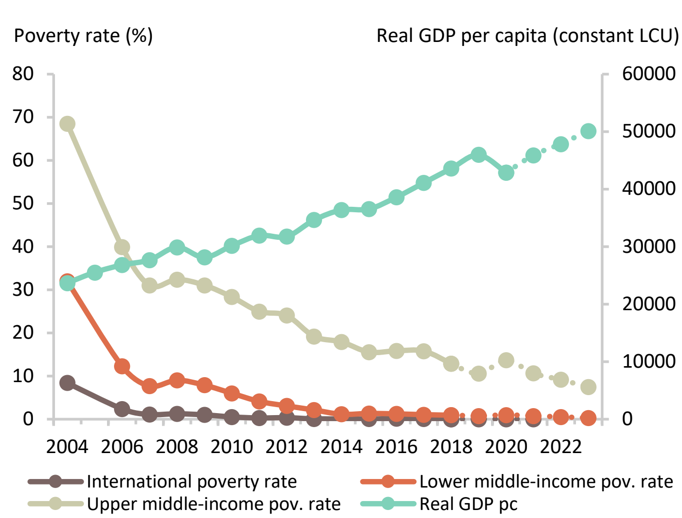
Higher prices on food products due to bad harvest, and increase in global energy prices, along with a strong domestic demand has increase inflationary pressure, forcing

FIGURE 1 Moldova / Projected macroeconomic indicators



Source: Author's calculations based on national statistics.

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



Source: World Bank. Notes: see Table 2.

the central bank to tighten the monetary stance by 100 basis points to 3.75 percent in July after almost 10 months of a record low rate. External position deteriorated as imports expanded quickly while exports remained latent despite terms of trade improvements. As a result, the current account deficit reached almost 13 percent of GDP as compared to 8.2 percent to the first quarter of 2020, financed primarily by cash and deposits in foreign currency. External debt moderated decreasing by 2.1 percentage points to 68 percent of GDP.

In the first seven months of 2021, health (+51 percent, y/y) and social protection (+14.5 percent, y/y) were the main drivers of spending increase (+ 16.4 percent, y/y). Spending on non-financial assets increased by 25 percent despite lower execution of capital investments. Revenue collection rebounded strongly (+20.5 percent, y/y) after the relaxation of restrictive measures. The fiscal deficit reached 2.8 percent of forecasted GDP and was mainly financed through domestic market. Public and publicly guaranteed debt increased by 8 percentage points of GDP to 35.2 percent of GDP.

In line with the economic rebound, Q2 of 2021 saw recovery in the labor market, with an increase in both employed population (1.9 percent in Q2 y/y) and in real wages (+11.8 percent), which aided household finances. Despite the general improvement in employment, certain vulnerable groups continued to experience the impacts of the crisis in the form of reduced work hours, involuntary part-time and remote work, and work stoppages, with disproportionate impacts on women. Recovery in the main trading partners led to strong remittance inflows which helped stabilize household consumption. However, rising food inflation is cause for concern among poorer households.

Outlook

Under the assumptions of a successful containment of the pandemic, a broad-based reforms program by the new government, and sustained fiscal impulse to the economy supported by development partners, growth is expected to continue in the medium term above potential. Consumer and investment confidence and all sectors are expected to register a strong growth, but their 2019 level will only be reached after 2022. Strong domestic demand and higher global energy prices are expected to propel current account deficit. Inflation is expected to fluctuate in the upper bound of the corridor in the second half of 2021, breach the corridor in 2022, and stabilize to 5 percent in 2023.

Fiscal deficit in the medium term is expected to remain higher than in pre-Covid-19 period with the 2022 Budget to reflect the promised increase in minimum pensions and new external resources from IMF, the EU and other development partners. As a result, public debt is expected to increase further, while remaining relatively low by international standards. Vulnerability from natural disasters is expected to remain high with the risk of derailing the fragile recovery and shifting government attention from long term reform to mitigation efforts.

In line with the recovery in the labor market and strong remittance receipts, poverty is expected to decrease from 13.7 percent in 2020 to 10.6 percent in 2021 as measured by the upper middle income US$5.50 PPP poverty line. Looking further forward, under the assumption of continued improvement in the labor market and strong remittance inflows, poverty is anticipated to continue to fall further to 9.2 percent in 2022. Downside risks to an inclusive recovery include the slow pace of vaccination, the possibility of the reintroduction of containment measures, the possibility of adverse climate events, and rising food inflation.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	4.3	3.7	-7.0	6.8	3.9	4.4
Private Consumption	4.5	3.2	-5.9	9.6	3.7	4.5
Government Consumption	-0.2	-0.5	-0.2	9.1	1.0	2.5
Gross Fixed Capital Investment	14.5	12.9	-1.7	13.7	7.3	8.9
Exports, Goods and Services	7.2	7.3	-15.5	6.3	7.6	7.5
Imports, Goods and Services	9.7	6.7	-8.9	16.1	6.3	7.6
Real GDP growth, at constant factor prices	4.4	4.0	-7.2	7.3	4.0	4.5
Agriculture	2.6	-2.3	-26.4	18.7	5.0	7.0
Industry	8.3	7.1	-4.3	5.6	4.8	5.4
Services	3.3	4.2	-4.1	6.0	3.4	3.6
Inflation (Consumer Price Index)	3.1	4.7	4.1	4.4	5.0	5.0
Current Account Balance (% of GDP)	-10.4	-9.4	-6.7	-10.3	-8.9	-9.3
Net Foreign Direct Investment (% of GDP)	2.4	4.5	1.3	3.4	3.6	3.4
Fiscal Balance (% of GDP)	-0.8	-1.4	-5.1	-4.2	-3.5	-2.9
Debt (% of GDP)	30.1	27.4	33.5	35.2	36.0	39.7
Primary Balance (% of GDP)	0.0	-0.7	-4.3	-3.4	-2.7	-2.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.0	0.0	0.0	0.0		
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.9	0.7	1.0	0.7	0.5	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	12.8	10.6	13.7	10.6	9.2	7.5
GHG emissions growth (mtCO2e)	3.7	3.6	-6.9	6.8	3.8	4.2
Energy related GHG emissions (% of total)	61.5	62.6	64.6	67.4	68.6	69.2

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

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

MONTENEGRO

Table 1	2020
Population, million	0.6
GDP, current US$ billion	4.8
GDP per capita, current US$	8000.0
Upper middle-income poverty rate ($5.5)[a]	16.0
Gini index[a]	38.8
School enrollment, primary (% gross)[b]	100.6
Life expectancy at birth, years[b]	76.9
Total GHG Emissions (mtCO2e)	3.4

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2016), 2011 PPPs.
(b) Most recent WDI value (2019).

After the deep 2020 recession, Montenegro's economy is recovering faster than anticipated with a projected double-digit growth rate in 2021. Vaccination, health protocols, and open borders have helped revive tourism. However, unemployment remains high as the recovery has not ignited the labor market yet, which limits the pace of resumed poverty reduction. The large Eurobond issuance in December 2020 has relieved financing pressures in 2021, along with a reduced fiscal deficit. Still, careful fiscal management remains critical as uncertainties loom.

Key conditions and challenges

Montenegro's small, open, and tourism-dependent economy was hit very hard by the pandemic and it suffered the largest contraction in Europe of -15.3 percent in 2020, reversing several years of poverty reduction. The crisis has revealed and further exacerbated Montenegro's structural weaknesses.

Over the five years prior to the crisis, growth averaged 4 percent, driven by large public investments and strong growth in consumption. Over two-thirds of Montenegro's jobs are in services, which account for over 70 percent of value added. The current account balance shows a large structural deficit and averaged 15 percent of GDP over 2015-19, largely financed by net FDI and external debt. Montenegro's net international investment position at negative 170 percent of GDP is amongst the largest in the world. Due to weaker adherence to fiscal plans and debt-financed highway construction, public debt has doubled since independence and peaked at 105 percent of GDP in 2020. Montenegro aspires to join the EU, but significant rule of law challenges have slowed progress towards this goal and reflect a key development constraint.

With progress in vaccination and the lifting of restrictions, GDP is estimated to bounce back by 10.8 percent in 2021. Growth is stronger than previously estimated due to a swifter tourism recovery—tourism revenues are projected to rebound to 75 percent of their 2019 levels. Tourism will continue to drive the recovery but ta gradual transition towards greener tourism will be critical for sustainable and inclusive development.

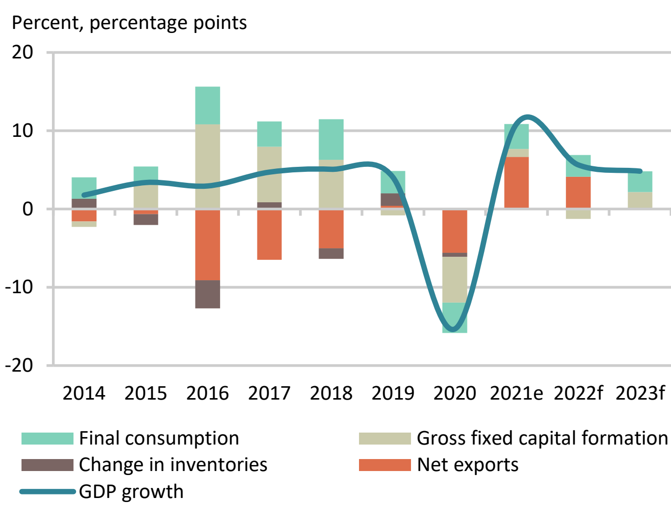
The political landscape is complex, reflected in high political polarization, which slows the reform process. The government has committed to accelerating reforms, strengthening the rule of law, and fighting corruption. These, coupled with strong fiscal and debt management and independent and accountable state institutions, would enable more inclusive, private sector-led growth and efficient service delivery to citizens.

Recent developments

The peak tourism season has been stronger than anticipated, with July tourist overnight stays reaching 90 percent of their 2019 level. Tourism has in turn supported retail trade, which, by June, strengthened by 6 percent, while electricity generation boosted industrial production by 10 percent.

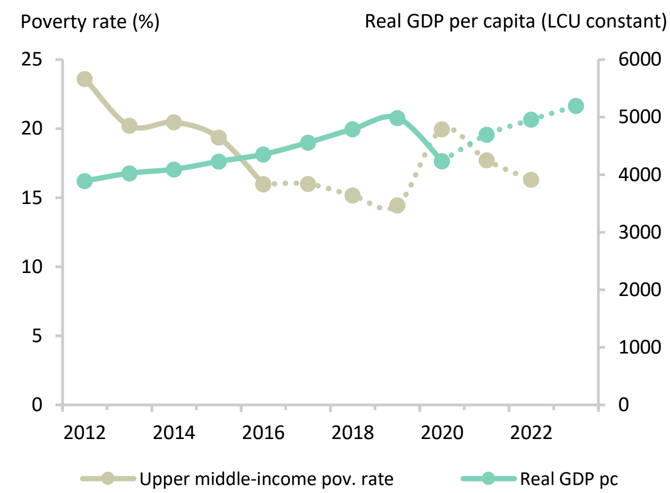
Nevertheless, administrative data show a persistent decline in employment that reached a record low in June. Registered unemployed rose from 41,890 in June 2020 to 55,703 in June 2021, with over 60 percent of newly registered being women. Poverty (income below $5.5/day in 2011PPP) is projected to decline slowly to 17.7 percent in 2021 but remain higher than its 2019 level.

FIGURE 1 Montenegro / Contributions to annual GDP growth



Sources: MONSTAT, World Bank.

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



Source: World Bank. Notes: see Table 2.

Stronger demand and higher oil prices have pushed up inflation, which by August averaged 1.7 percent y-o-y.

The financial sector has remained resilient thus far, with both outstanding loans and deposits reaching record highs in July. The June average capital adequacy ratio was at 19.2 percent, while non-performing loans increased to 6.3 percent of total loans from 5.6 percent in June last year. However, the full impact of the pandemic will be clearer once the loan moratoria expire.

By June, growth of exports outpaced that of imports, as tourism strengthened, while investment stalled. Net income accounts further reduced the current account deficit, which was largely financed by reserves and net FDI, although the latter declined. In July, international reserves covered 7.7 months of merchandise imports.

Higher revenues and fiscal discipline have helped reduce the fiscal deficit which is projected to decline from 11 percent in 2020 to 4 percent in 2021. By July, central government revenues increased by 11 percent, supported by robust VAT collection, while expenditures declined by 4.5 percent, driven by under-execution of capital spending and lower spending on goods and services. After the Eurobond repayment in March, public debt is expected to decline to 90 percent of GDP in 2021.

Outlook

Assuming a full recovery in tourism in 2022 and 2023, growth is projected to remain strong at 5.6 and 4.8 percent, respectively. Investments are expected to level off in 2022 as the highway construction is finalized by end-2021. The government has announced stronger public capital spending starting in 2022, which would further boost medium-term growth. However, public investment management challenges should be addressed in order to ensure stronger economic effects. The projections do not assume that the remaining sections of the highway will start by 2023, as fiscal space is limited. The fiscal balance is expected to turn into surplus in 2023, on account of contained expenditures and stronger revenues due to the economic recovery. Running a sustained primary fiscal surplus in the medium term will be critical for debt reduction. Public debt is expected to decline to 77 percent of GDP in 2022 and further to 70 percent in 2023, as about €500 million of debt is due for repayment in 2022-2023.

Given the expected full recovery of tourism, the poverty outlook depends on how fast job creation will pick up, especially for low-skill workers. The poverty rate is projected to continue its decline in 2022.

The outlook is surrounded with multiple risks. A new wave of infections in Europe could slow down Montenegro's economic recovery. Moreover, inflationary pressures in the US and the EU may accelerate monetary tightening which could translate into more expensive external financing. Domestic risks stem from vaccination hesitancy, whilst possible new restriction measures could delay the recovery. Political polarization remains high. In contrast, acceleration of structural reforms and a firm commitment to careful fiscal and debt management would reduce investment uncertainty and improve the growth outlook.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	5.1	4.1	-15.3	10.8	5.6	4.8
Private Consumption	4.6	3.1	-4.6	3.5	3.2	2.9
Government Consumption	6.3	1.0	0.8	-0.9	-0.6	0.5
Gross Fixed Capital Investment	14.7	-1.7	-12.0	2.2	-2.9	5.5
Exports, Goods and Services	6.9	5.4	-47.5	66.8	14.5	6.8
Imports, Goods and Services	9.2	2.4	-19.8	16.3	2.9	3.8
Real GDP growth, at constant factor prices	6.0	4.2	-14.4	10.8	5.6	4.8
Agriculture	3.3	-2.2	1.1	0.5	1.0	1.0
Industry	15.3	5.6	-12.0	8.0	3.0	5.0
Services	3.5	4.5	-16.9	13.3	7.1	5.2
Inflation (Consumer Price Index)	2.6	0.4	-0.3	1.9	1.6	1.2
Current Account Balance (% of GDP)	-17.0	-14.3	-26.1	-15.2	-11.2	-9.5
Net Foreign Direct Investment (% of GDP)	6.9	6.2	11.2	7.8	7.4	7.4
Fiscal Balance (% of GDP)	-4.6	-3.0	-11.0	-4.0	-0.9	1.1
Debt (% of GDP)	70.1	76.5	105.3	87.7	77.0	69.9
Primary Balance (% of GDP)	-2.4	-0.8	-8.3	-1.6	1.4	3.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	15.2	14.5	20.0	17.7	16.3	
GHG emissions growth (mtCO2e)	7.5	2.9	-12.8	8.6	0.7	0.7
Energy related GHG emissions (% of total)	68.8	70.6	70.1	75.8	77.5	78.7

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

(a) Calculations based on ECAPOV harmonization, using 2012-SILC-C, 2015-SILC-C, and 2016-SILC-C.Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021 to 2023.
(b) Projection using point-to-point elasticity (2012-2015) with pass-through = 0.7 based on GDP per capita in constant LCU and simulations of Covid-19 impacts, with lower passthrough in 2021 reflecting the lag in labor market improvements.

NORTH MACEDONIA

Table 1	2020
Population, million	2.1
GDP, current US$ billion	12.3
GDP per capita, current US$	5857.1
Upper middle-income poverty rate ($5.5)[a]	17.9
Gini index[a]	33.0
School enrollment, primary (% gross)[b]	98.2
Life expectancy at birth, years[b]	75.8
Total GHG Emissions (mtCO2e)	9.6

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

A robust recovery is underway despite a prolonged adverse pandemic impact. Continued government support measures helped mitigate the impact on households and firms but are further increasing public debt—now above 62 percent of GDP. As the recovery takes hold, carefully balancing the withdrawal of fiscal support to restore public finance sustainability with structural and institutional reforms is key. The central bank will also need to find the right balance between supporting domestic demand and responding to rising inflationary pressures.

Key conditions and challenges

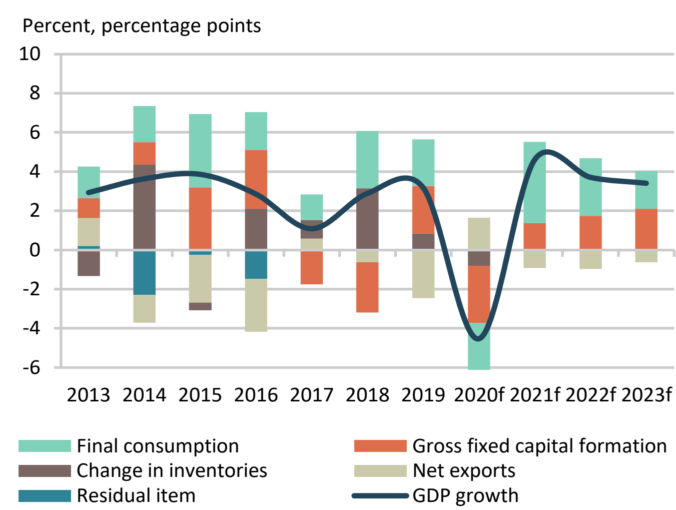
After a decade of a relative macroeconomic stability, accompanied by rising trade integration, especially in GVCs, an improved business environment and inflows of foreign direct investment, North Macedonia was hit hard by the COVID-19 pandemic. Output contracted by 4.5 percent in 2020, and the excess death rate remains one of the highest in Europe.

Poverty rate declined steadily from 35.8 percent in 2009 to a projected 16.9 percent in 2019, (based on the upper middle income class poverty line of $5.5/day in 2011 PPP). However, the COVID-19 crisis reversed recent progress in poverty reduction; it is estimated that poverty increased between 1 and 4 percentage points in 2020. Support measures introduced by the government (including subsidies and social security contributions to private firms and cash benefits and vouchers for vulnerable people) helped alleviate the impact of the pandemic on poverty. The economy resumed growth in 2021 helped by robust external demand and unlocked private consumption. Yet, while outlook for the near term remains positive, continued containment measures, a slow vaccine rollout, and unresolved structural bottlenecks pose challenges. Weak human capital development, and a low labor participation rate, have led to underutilized labor resources amidst demographic decline. Further, state involvement in the market through direct ownership, tax exemptions, and subsidies remains high. While this helps protect employment in the near term, it also derails fiscal sustainability. Countercyclical fiscal policies put in place to mitigate the impact of COVID-19, will need to be gradually withdrawn to address these sustainability concerns. Improving public investment management to help implement the government's Growth Acceleration Plan that eyes energy, environment, and transport investments, will be critical to avoid further fiscal sustainability concerns. Finally, further delays in the EU accession negotiations may lead to delays in efforts to improve governance, as well as anti-corruption reforms that are critical to unlocking the country's long-term growth potential.

Recent developments

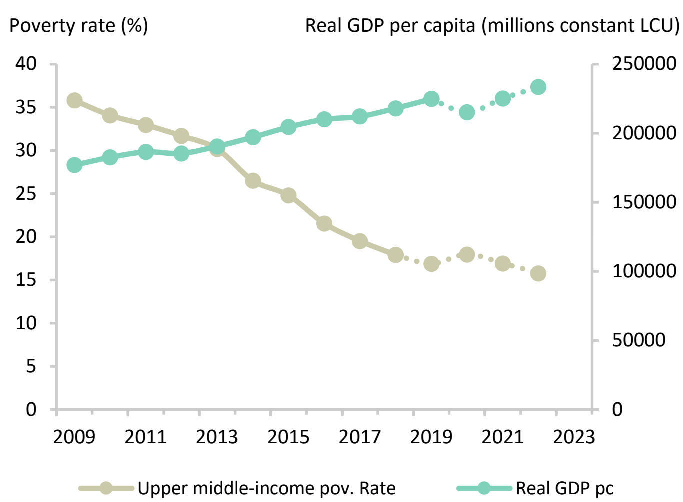
After declining in the first quarter by 1.9 percent, domestic output surged double-digit in Q2. As a result, growth in the first half of the year turned positive at 5.2 percent. Private consumption picked up, investment surged, while government consumption after dropping early in the year, resumed growth in Q2. Exports and imports increased as well, with the latter growing faster thereby worsening the trade balance. On the production side, growth was observed in nearly all sectors, given the low base effect, with the fastest recovery occurring in trade, transport and tourism, manufacturing,

FIGURE 1 North Macedonia / Contributions to annual GDP growth



Sources: North Macedonia State Statistics Office and World Bank staff calculations.

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



Source: World Bank. Note: see Table 2.

and ICT. Construction surprisingly declined in Q2.

The activity rate slowly picked up from its low in summer 2020, driven by an increase in male participation. The unemployment rate decreased to 15.9 percent by 0.2 pp since Q4 2020, while the employment rate increased by 0.5 pp, with women contributing to the rise as they moved from unemployment to service sector jobs. In June 2021 the government tightened labor restrictions by adopting changes to trade and labor laws that increase the hourly pay for Sundays and holiday work and reduce the number of working Sundays in the trade sector. In addition to these regulatory changes, wage pressures continued to rise, with the largest increases being in sectors that were most affected by the pandemic-related restrictions, such as transportation, food and accommodation, and other services, and which observed a resumed labor flight abroad.

The inflation rate reached 3.6 percent in August 2021—the highest growth rate since July 2013. The increase was primarily driven by energy and food prices. Cumulatively, inflation grew by 2.7 percent by August 2021 broadly within the central bank targets. Credit growth remains solid, providing support to both households and firms. The non-performing loans ratio, currently at 3.4 percent, might see an upward correction, as loan moratoriums are being phased out. However, the capital adequacy ratio remained high at 16.8 percent, as is the banking sector liquidity ratio that stood at 23 percent in Q1, with minimal adjustments since the start of the pandemic. Fiscal deficit almost halved in the first half of the year but is set to rise by yearend. Revenue growth was robust on the back of VAT collections. Expenditures have increased at a slower pace given more targeted COVID-support, and despite an uplift in capital spending. Public and publicly guaranteed debt increased to 64.4 percent of GDP in H1 given the new Eurobond issuance amid a retained sovereign issuer default rating of BB- with a stable outlook.

Outlook

Economic growth is expected to rebound to 4.6 percent in 2021 returning to the pre-pandemic output level by year-end. The baseline scenario is built on the assumptions that the pace of immunization continues, there are no further lockdowns in 2021, consumer and investor confidence remain high, and external demand continues to be supportive. Growth is expected to continue in 2022 as the economy gradually starts to stabilize. Poverty is projected to resume its decline modestly as expected economic growth rebounds in 2021.

Fiscal deficit is expected to very gradually decline, following the latest plans of the government to ramp up capital spending. Over the medium term, public and publicly guaranteed debt will remain on the rising path reaching 65 percent of GDP by 2023. As the recovery takes hold, the authorities will need to boost tax compliance, restructure and reprioritize spending, address long-term bottlenecks and enhance efficiency of the management of public finances. To boost potential growth, the country needs to redirect its attention to structural and institutional reforms, that can unlock growth by addressing legacies in state-owned companies and network infrastructure, investing in the human capital of the population, strengthening the accountability and independence of public institutions, as well as commitment to the rule of law, and promoting private sector innovation and competitiveness. Efforts to boost potential output through structural reforms will need to take place in the context of region-wide efforts to accelerate the low-carbon transition and reduce greenhouse gas emissions.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	2.9	3.2	-4.5	4.6	3.7	3.4
Private Consumption	3.7	3.4	-5.1	5.0	3.8	2.6
Government Consumption	1.5	-0.8	10.1	3.6	1.2	0.3
Gross Fixed Capital Investment	-8.9	9.5	-10.8	5.4	6.8	8.0
Exports, Goods and Services	12.8	7.2	-10.9	8.0	7.2	7.3
Imports, Goods and Services	10.2	8.3	-9.9	7.0	6.5	6.2
Real GDP growth, at constant factor prices	3.9	3.2	-3.7	4.6	3.7	3.4
Agriculture	8.6	0.6	1.7	2.7	2.5	2.0
Industry	0.2	4.6	-6.8	5.7	5.0	4.5
Services	4.9	2.9	-3.2	4.4	3.4	3.1
Inflation (Consumer Price Index)	1.4	0.8	1.2	2.4	2.0	1.8
Current Account Balance (% of GDP)	-0.1	-3.3	-3.5	-3.6	-3.0	-2.0
Net Foreign Direct Investment (% of GDP)	5.6	3.2	1.9	2.5	2.6	2.7
Fiscal Balance (% of GDP)	-1.1	-2.2	-8.3	-5.8	-4.9	-4.0
Debt (% of GDP)	48.4	49.4	60.2	62.7	64.7	65.5
Primary Balance (% of GDP)	0.1	-1.0	-7.0	-4.3	-3.5	-2.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	17.9	16.9	18.0	16.9	15.8	
GHG emissions growth (mtCO2e)	-4.6	-0.5	-8.4	5.0	0.5	-0.2
Energy related GHG emissions (% of total)	67.9	67.9	66.0	67.3	67.3	67.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate. f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2018-SILC-C. Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021.
(b) Projections based on sectoral GDP growth at constant LCU.

POLAND

Table 1	2020
Population, million	38.0
GDP, current US$ billion	596.0
GDP per capita, current US$	15684.2
International poverty rate ($1.9)[a]	0.4
Lower middle-income poverty rate ($3.2)[a]	0.5
Upper middle-income poverty rate ($5.5)[a]	1.2
Gini index[a]	30.3
School enrollment, primary (% gross)[b]	96.9
Life expectancy at birth, years[b]	77.9
Total GHG Emissions (mtCO2e)	315.8

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

The Polish economy has recovered swiftly from the COVID-19 recession, with output recovering to pre-crisis levels by Q2 2021. The well-diversified economy and large economic and fiscal package facilitated the strong rebound and cushioned household impacts. With output expected to exceed potential GDP in 2021, a gradual withdrawal of the fiscal and monetary stimulus would help rebalance growth and rebuild fiscal space. A fourth COVID-19 wave is emerging, and a short-term challenge is sustaining the robust economic recovery.

Key conditions and challenges

The well-diversified Polish economy has proven to be one of the most resilient in the EU, with a 2.7 percent contraction in GDP in 2020, the first output contraction since 1991.

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

The unprecedented policy response to mitigate the impacts of the COVID crisis has narrowed available fiscal space and the key challenge is rebuilding this buffer once the recovery is on solid footing.

The full economic and social impact of COVID-19 remains uncertain as new variants emerge.

Spending efficiency is needed to rebuild fiscal buffers, accommodate higher spending on health, and the green transition, and to prepare for the growing fiscal burden arising from aging.

Over the medium term, a key challenge is a tightening labor supply made more acute by the aging population. Achieving decarbonization commitments is another challenge. Strengthening institutions is needed for sustained and inclusive growth and for narrowing regional disparities.

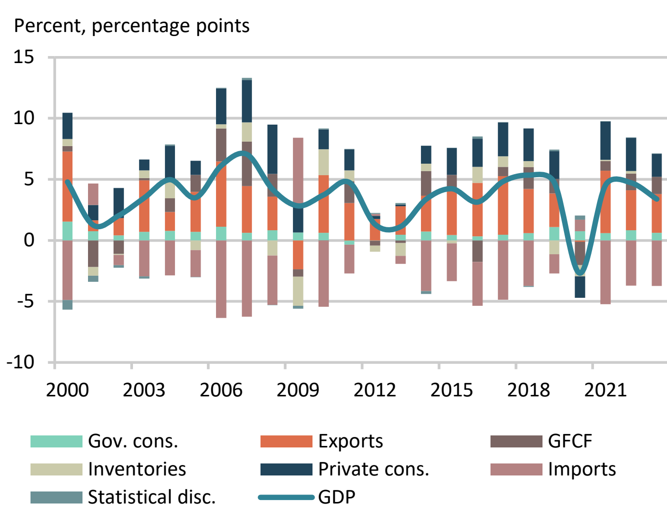
Recent developments

The economic recovery from the COVID-19 crisis was swifter than expected, with output expanding by 5 percent in the first half of 2021. The well diversified economy, exceptional fiscal stimulus and accommodative monetary policy helped contain the impact of the crisis.

Labor market, industrial production, and exports performed well, particularly following the relaxation of restrictions at the end of April 2021. GDP expanded by 2.1 percent in the second quarter, on a seasonally adjusted basis. Industrial output rebounded by nearly 16 percent year-on-year in the first half of the year, with manufacturing up by 18 percent. The transport sector expanded by 12 percent. Yet the recovery in sectors heavily affected by the pandemic (construction, accommodation and catering, and creative) is lagging.

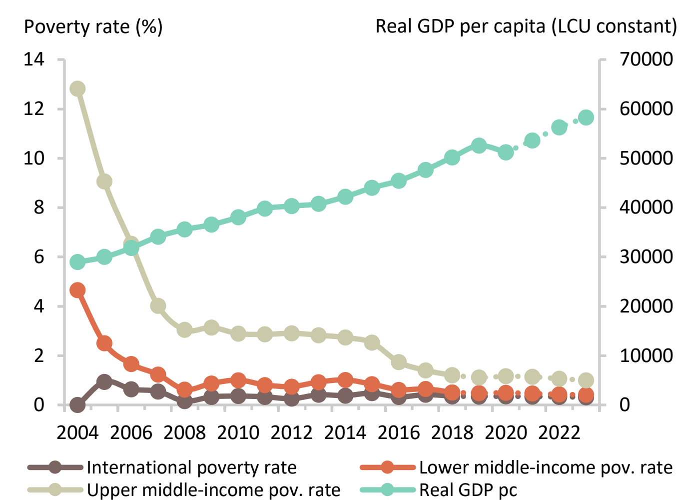
Pent-up demand, strong income growth in the context of the labor market recovery, and family support measures fueled a 6.3 percent growth in household consumption in the first semester, with a strong demand for durable goods. Investment recovery is lagging, however. Stronger export demand from EU supported the

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



Sources: GUS and World Bank.

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



Source: World Bank. Notes: see Table 2.

recovery in the industrial sector and exports. Exports rose 16 percent in the first half of 2021, year-on-year. Imports also rebounded strongly, however, translating into a negative contribution to growth of net exports.

Inflation has surged to 5.5 percent in August, a 20-year record, fueled by a spike in fuel prices, supply chain bottlenecks, pent-up demand and the large stimulus. Higher core inflation, strong domestic demand, and higher producer prices will put pressure on prices.

Household income and employment impacts of the pandemic were mitigated through multiple support measures and demographically targeted transfers. These measures included wage subsidies and support to domestic enterprises in the form of non-returnable transfers, loans, tax reliefs and deferrals. The unemployment rate was contained, and it retreated to 5.8 percent by July 2021, as the economy started to recover. Rapid assessments show that household income declines and work stoppages were more widespread and pronounced in the first pandemic wave but have moderated in subsequent waves. Work stoppages had a more pronounced impact on lower-wage workers and those with non-standard contracts, who were also less covered by protective policies. National extreme poverty increased and there was a notable rise in income inequality, reflecting the unequal labor market impacts.

The current account surplus narrowed to 1.9 percent of GDP in the first half of 2021, from 3.5 percent of GDP in 2020, as primary income outflows increased.

The fiscal stimulus and the recession caused the fiscal deficit to widen to 7 percent of GDP in 2020, from 0.7 percent in 2019.

Financial sector capital adequacy ratios remain adequate.

Outlook

Economic growth is expected to remain above potential in 2022, with output expanding by more than 4.5 percent and a widening of the output gap. A leveling of demand in the euro area will slow export growth, while improved confidence and investment execution, including through the National Recovery and Resilience Plan (NRRP), will support growth. Domestic demand will be supported by the proposed "Polish Deal", a new socio-economic program for 2021-30. The program calls for new PIT relief that will strengthen the progressivity of the PIT, increased spending on health care to 6 percent of GDP by 2023, as well as a large infrastructure and local public investment program, among others. The outlook incorporates the uncertainty arising from the new COVID-19 strains.

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

Strong import demand, higher import prices, and higher primary income outflows are expected to reduce the current account surplus to below 2 percent of GDP in 2021.

To fund its NRRP Poland requested €23.9 billion in grants and €12.1 billion of preferential loans under the "Next Generation EU", which is yet to be approved. The NRRP would be implemented by 2023, with disbursements finalized by 2026.

The fiscal deficit is expected to narrow in 2021 by close to 2 percentage points, due to lower central government deficit. A gradual consolidation is expected over the 2022-2023 period, as economic growth accelerates, and the fiscal stimulus is withdrawn.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	5.4	4.7	-2.7	4.5	4.7	3.4
Private Consumption	4.5	3.9	-3.1	5.5	4.7	3.3
Government Consumption	3.5	6.5	4.4	3.2	4.5	3.5
Gross Fixed Capital Investment	9.4	6.1	-9.6	4.2	7.3	7.4
Exports, Goods and Services	6.9	5.2	-0.2	9.4	5.7	5.5
Imports, Goods and Services	7.4	3.0	-1.9	10.3	6.9	6.8
Real GDP growth, at constant factor prices	5.3	4.6	-2.8	4.5	4.8	3.3
Agriculture	-9.1	-0.8	-3.0	4.0	1.0	1.0
Industry	7.0	2.1	-1.0	6.1	3.7	3.3
Services	5.0	6.1	-3.7	3.7	5.4	3.4
Inflation (Consumer Price Index)	1.6	2.3	3.4	4.2	3.6	3.1
Current Account Balance (% of GDP)	-1.3	0.5	3.5	2.1	1.6	0.9
Net Foreign Direct Investment (% of GDP)	-2.6	-1.6	-1.4	-1.2	-1.0	-1.0
Fiscal Balance (% of GDP)	-0.2	-0.7	-7.0	-5.1	-3.2	-3.0
Debt (% of GDP)	48.8	45.6	57.5	57.6	56.5	56.1
Primary Balance (% of GDP)	1.2	0.7	-5.7	-4.0	-2.0	-1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.4	0.3	0.4	0.3	0.3	0.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.5	0.5	0.5	0.5	0.4	0.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	1.2	1.1	1.2	1.2	1.1	1.0
GHG emissions growth (mtCO2e)	-0.1	-3.5	-8.3	3.0	0.5	-0.4
Energy related GHG emissions (% of total)	87.5	87.2	86.9	87.4	87.6	87.6

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

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

(b) Projection using point-to-point elasticity (2007-2018) with pass-through = 1 based on GDP per capita in constant LCU.

ROMANIA

Table 1	2020
Population, million	19.2
GDP, current US$ billion	249.0
GDP per capita, current US$	12968.8
International poverty rate ($1.9)[a]	2.6
Lower middle-income poverty rate ($3.2)[a]	5.3
Upper middle-income poverty rate ($5.5)[a]	11.0
Gini index[a]	35.9
School enrollment, primary (% gross)[b]	87.3
Life expectancy at birth, years[b]	75.5
Total GHG Emissions (mtCO2e)	75.5

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

Amidst relaxed containment measures and increased business and consumer confidence, economic recovery gathered momentum with real GDP growing by 6.5 percent in H1, 2021. The economy is projected to expand by 7.3 percent this year, amongst the highest in the EU, with output returning to pre-pandemic levels. However, the fiscal deficit will remain elevated in 2021, at around 7.4 percent of GDP. Poverty is expected to have declined to 11 percent in 2021.

Key conditions and challenges

Romania had a short-lived stint as a high-income country in 2020 (WB Atlas classification) following post-GFC growth averaging 5 percent per year. The pandemic-triggered crisis, however, pulled the country back into the upper-middle-income group. In the medium to long term, Romania needs to address its structural constraints, including persistent twin deficits, high inequalities, and weak growth fundamentals stemming from low productivity, labor quality issues, mainly due to shortcomings in the quality and inclusiveness of education and skills shortages, and labor quantity issues. Growth potential is further hindered by the shallow financial sector, limiting the availability of long-term finance.

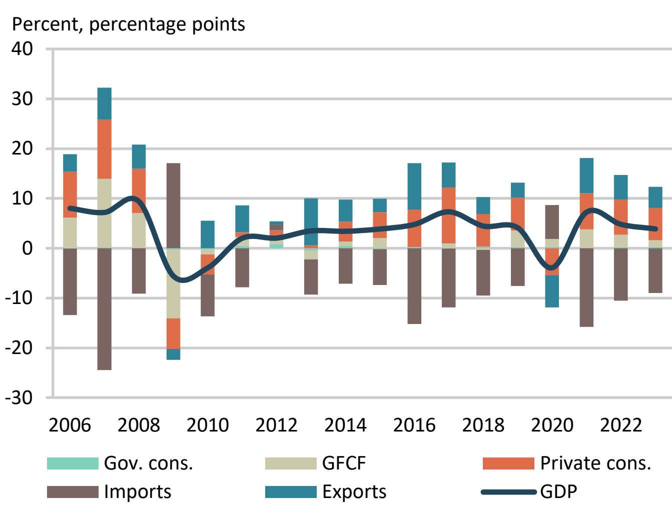
The Government provided one of the lowest fiscal stimuli in the EU to mitigate the impact of COVID-19, reflecting the limited fiscal space. In the first COVID wave, poor and vulnerable households were less supported by the fiscal response measures, which extended more directly to those in formal employment. Subsequent government programs for daily wage and seasonal workers extended protection to typically more vulnerable segments. As a result of these measures together with a robust economic rebound, the share of Romanian population living on less than $5.5 a day at 2011 revised PPP prices is estimated to have declined from 11.6 percent in 2020 to 11 percent in 2021.

The key challenge in the short term is to contain the COVID-19 crisis and limit its health, economic and social impacts. Romania is lagging in vaccination, with about 28 percent of the population having received at least one dose as of early September, which may jeopardize recovery. Increased inflationary pressures will trigger a more hawkish stance from the National Bank of Romania. Once recovery is firmly established, fiscal consolidation will be critical to avoid sharp increases in debt levels. Given Romania's limited fiscal space, maximal absorption of the EU Multiannual Financial Framework and Next Generation EU (NGEU) funds will be crucial for a sustainable recovery.

Recent developments

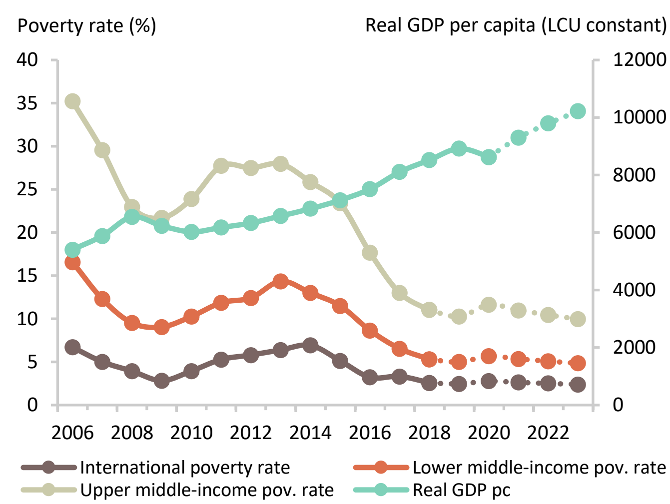
The Romanian economy grew by 6.5 percent in H1, 2021 on the back of better-than-expected Q2 performance at 13.0 percent yoy. Private consumption recovered strongly in H1, 2021 (up 5.2 percent yoy) led by robust demand for durable and household goods. Increased business and consumer confidence also supported higher investment (up 11.9 percent yoy). However, higher prices of raw materials could temper investment growth over the short to medium term. The trade deficit marginally decreased as both exports (up 16.8 percent yoy), and imports (up 20 percent yoy) recovered, benefiting from the gradual reopening of the EU economies and the low base effect. On the supply side, growth was led by industry (up 10.4 percent yoy), as

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



Source: World Bank.

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



Source: World Bank. Notes: see table 2.

new industrial orders recovered strongly, signaling continued output expansion. The ICT sector (up 14.1 percent yoy) benefited from increased remote work needs. Strong economic recovery and labor supply constraints reduced unemployment to 5.2 percent in June from as high as 5.9 percent in January 2021. Labor shortages coupled with higher inflation expectations led to wage increases, with nominal net wages up by 7.4 percent yoy in June 2021. The National Bank of Romania kept the policy interest rate unchanged at 1.25 percent in August, signaling a more hawkish stance. Further cuts are unlikely this year, given recent inflationary pressures as the annual inflation rate accelerated to 5 percent in July 2021.

Results from the recent round of the Rapid Household Assessment show a lessening impact of the crisis on Romanian households as temporarily inactive workers returned to work and household income partially recovered. Poverty is anticipated to have declined to 11 percent in 2021 yet remains above the pre-crisis level. In March, 14 percent of Romanian households reported a reduction in income compared to 31 percent during the first wave of the pandemic. The persistent impacts of the pandemic on household income, despite an overall recovery in employment, mean that some vulnerable population segments, in particular lower-earning workers and those on non-standard contracts, continued to bear the brunt of the crisis.

The fiscal deficit reduced to 3 percent of GDP in H1 of 2021, 1.3 percentage points lower than in the same period of last year. Tax facilities and exceptional expenditures allocated to combat the effects of the COVID-19 pandemic totaled 8.1 billion Ron (1.2 percent of GDP in H1 2021). Higher revenues (up 20.6 percent yoy) on the back of strong economic recovery offset the 9.8 percent yoy increase in expenditure, but fiscal pressures remain significant.

Outlook

The economy is projected to rebound at 7.3 percent in 2021 on the back of the recovery in domestic demand, and growth will settle around potential (4 percent) over the medium term. The strength of the recovery will depend on tackling the low vaccination rate, which reflects high vaccine hesitancy, the evolution of the Delta variant, and the policy response to the health crisis. Romania's capacity to absorb the EU funds will be critical to a sustainable recovery process. In a scenario of 100% absorption of the Resilience and Recovery funds, Romania's real GDP growth will, on average, rise by one percentage point per year between 2021 and 2026. Private and public investment will benefit from the phasing in of projects financed by EU funds. Exports are set to recover, aided by the gradual recovery of global trade. As growth recovers, inflationary and current account deficit pressures are expected to strengthen, requiring an appropriate policy response.

The fiscal deficit will remain high in 2021, at around 7.4 percent of GDP, but risks are tilted to the upside as the recent budget revision increased the planned expenditures by 1.6 percent of projected GDP while being overly optimistic as to revenue increases. Renewed attention should be given to fiscal consolidation to avoid an unsustainable increase in public debt over the medium term.

An economic rebound is expected to gradually reduce poverty. Poverty is projected to decline to 10 percent by 2023. However, the triple hit in income in 2020 – the persistent pandemic, a prolonged drought, and declining remittance incomes – could mean a longer recovery process for vulnerable population segments compared to others in the coming years.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	4.5	4.1	-3.9	7.3	4.8	3.9
Private Consumption	6.5	6.4	-5.1	7.0	6.8	6.1
Government Consumption	6.8	5.0	6.5	1.1	4.2	5.1
Gross Fixed Capital Investment	-1.1	13.0	5.6	12.5	7.8	4.2
Exports, Goods and Services	5.3	4.6	-10.0	11.6	7.8	6.5
Imports, Goods and Services	8.6	6.8	-6.0	14.2	8.9	7.3
Real GDP growth, at constant factor prices	3.9	4.0	-3.3	7.3	4.8	3.9
Agriculture	9.4	-5.0	-16.2	3.2	4.2	2.9
Industry	4.3	-0.6	-9.3	9.7	4.3	4.1
Services	3.2	7.6	0.9	6.5	5.1	3.9
Inflation (Consumer Price Index)	4.6	3.8	2.6	4.5	3.7	3.2
Current Account Balance (% of GDP)	-5.3	-4.7	-5.0	-6.1	-6.2	-6.4
Net Foreign Direct Investment (% of GDP)	2.3	2.3	0.9	2.7	2.6	2.6
Fiscal Balance (% of GDP)	-2.9	-4.4	-9.2	-7.4	-6.2	-4.7
Debt (% of GDP)	34.7	35.2	47.3	51.2	54.7	57.6
Primary Balance (% of GDP)	-1.8	-3.2	-7.8	-5.9	-4.3	-2.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.6	2.5	2.8	2.6	2.5	2.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	5.3	5.0	5.7	5.4	5.1	4.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	11.0	10.3	11.6	11.0	10.5	10.0
GHG emissions growth (mtCO2e)	0.5	2.2	-14.2	4.3	2.6	1.4
Energy related GHG emissions (% of total)	84.7	85.9	87.5	87.4	87.5	87.6

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

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

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

RUSSIAN FEDERATION

Table 1	2020
Population, million	144.1
GDP, current US$ billion	1486.9
GNI per capita, US$ (Atlas method)	10690.0
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.4
Upper middle-income poverty rate ($5.5)[a]	3.7
Gini index[b]	37.5
School enrollment, primary (% gross)[b]	104.7
Life expectancy at birth, years[c]	73.1

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

Russia's economic recovery is set to exceed expectations this year. Rising commodity prices and buoyant external and domestic demand has boosted the projected GDP growth rate to 4.3 percent. However, persistent structural constraints are expected to slow growth in 2022 and 2023. Ably navigating the global low-carbon transition will be key to Russia's outlook in future years and will call for important public policy choices and economic diversification.

Key conditions and challenges

Significant macro-fiscal stabilization efforts undertaken by the government before the COVID-19 pandemic have underpinned Russia's ability to effectively respond to pandemic's adverse social and economic impacts. After providing substantial countercyclical fiscal stimulus and accommodative monetary policy to support the recovery, the authorities are now moving to phase out the stimulus and normalize Russia's policy frameworks. However, the negative effects of the pandemic on growth potential—including those stemming from learning losses, ongoing restrictions on certain service activities, and diminished migrant inflows—will require continued policy attention.

Russia's potential growth rate has been trending downward since the global financial crisis. Faster growth will hinge on the success of efforts to promote economic diversification, reduce the state's economic footprint, level the playing field for the private sector, and improve economic governance— especially as it pertains to state-owned enterprises. Moreover, the carbon intensity of domestic economic activity is about twice the world average, and Russia continues to rely heavily on earnings from fossil-fuel exports. In 2021, Russia announced its interest in stepping up international cooperation on climate change, and in June 2021 a new regulation on greenhouse gases was approved. However, a low-carbon transition will pose significant challenges for the Russian economy unless the government takes preemptive steps to facilitate people centered low-carbon growth.

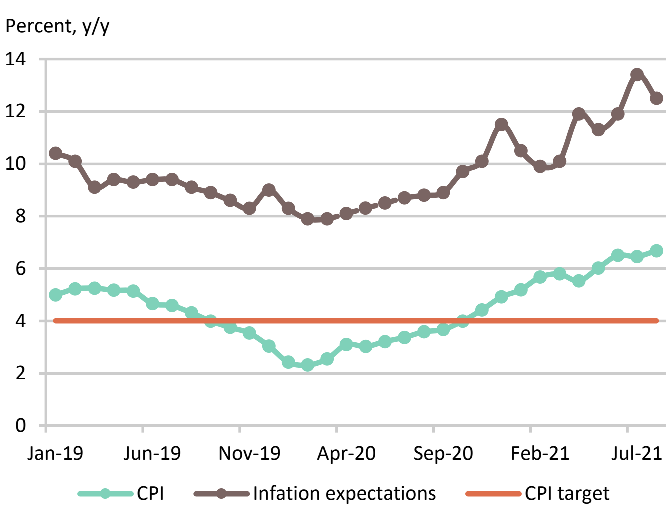
Recent developments

Russia's GDP grew strongly, by 10.5 percent year-on-year, in the second quarter of 2021, with GDP topping its pre-pandemic level. Relatively high commodity prices and external demand combined with a robust recovery in domestic demand as labor markets strengthened, credit growth was robust, and elements of social support were continued, built growth momentum this year.

Russia's third wave of COVID-19 infections peaked in mid-July, but the incidence of new cases remains elevated, and the number of new deaths related to COVID-19 is close to its peak. Vaccination rates are rising, but the share of the population that is fully vaccinated remains below both the world average and the levels of comparator countries.

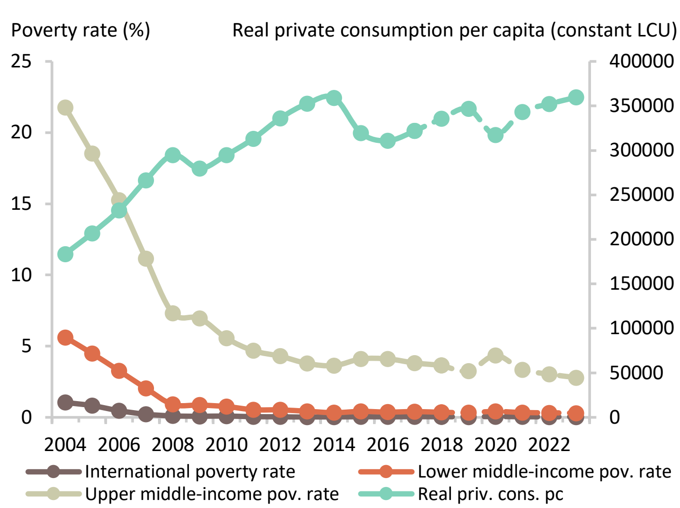
Crude oil extraction continues to be constrained by the OPEC+ production agreement and is not expected to return to pre-pandemic levels before May 2022. Government support programs have buoyed the construction industry, retail trade was supported by the economic recovery and new credit. High-frequency indicators for the third quarter show growth moderating as the output gap narrows. The Russian banking sector has successfully

FIGURE 1 Russian Federation / Consumer price index and inflation expectations



Sources: Rosstat and Bank of Russia.
Note: In April – July 2020, due to the self-isolation measures introduced by the government in connection with the spread of Covid-19 infection regular surveys of the population in the format of personal interviews were suspended.

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



Source: World Bank. Notes: see Table 2.

weathered the COVID-19 crisis. The banking sector's key credit-risk and performance indicators have remained largely stable since the beginning of the pandemic, with an overall capital-adequacy ratio of 12.4 percent (as of August 1, 2021).

In the first half of 2021, the general government registered a surplus of 2.4 percent of GDP compared to a deficit of 1.8 percent deficit in the first half of 2020. With the removal of emergency support measures primary expenditures dropped by 3.8 percentage points of GDP while economic rebound and higher commodities prices boosted receipts from oil/gas-sector taxes and VAT.

Rebounding domestic demand in a context of persistent supply bottlenecks and elevated global commodity prices pushed the annual inflation rate to a five-year high of 6.7 percent in August, and inflationary expectations are also elevated. These developments prompted the central bank to increase interest rate by a cumulative 250 basis points to 6.75 percent by September 2021.

The labor market has been steadily improving since August 2020, and the unemployment rate fell to 4.5 percent in July 2021, close to its pre-pandemic level. The official poverty rate reached 14.4 percent in the first quarter of 2021, as the impact of the pandemic endured while emergency safety-net measures were phased out. This rate is not strictly comparable to the previous series because of changes in methodology adopted by ROSSTAT in December 2020. In the second quarter, it fell to 13.1 percent, driven by improvements in the labor market and new support for low-income households with children.

Outlook

The GDP growth rate is expected to reach 4.3 in 2021 before declining to 2.8 percent in 2022. With the output gap closing in 2021, growth is expected to moderate toward its trend level and reach 1.8 percent in 2023. A continued global economic recovery, relatively high oil prices, and an improved COVID situation are expected to help consolidate the incipient recovery of domestic demand. A gradual easing of OPEC+ restrictions by end-September 2022 will boost the oil sector's output, while less-stringent COVID measures will benefit several services subsectors. Meanwhile, improved business confidence and high profits for resource-oriented companies will accelerate investment growth. Moderate pressure on bank capitalization is expected in the medium term, as the share of restructured loans is high at 13 percent of all loans. However, following the withdrawal of forbearance in July, asset-quality problems have now largely materialized and are adequately covered by reserves. Rising interest rates, recent changes to the subsidized mortgage-lending program, and new macro-prudential measures are expected to help slow the rapid growth of retail lending (22 percent, year-on-year), which has been driven by mortgages and unsecured loans.

The poverty rate at the upper-middle-income poverty line of US$5.5 per day is expected to decline in 2021 as the economy rebounds, but it is projected to remain above pre-pandemic levels until 2022.

Downside risks have intensified. With low vaccination rates, the evolution of the pandemic remains the primary source of immediate risk. New sanctions and an abrupt tightening of global financing conditions could also worsen Russia's outlook.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	2.8	2.0	-3.0	4.3	2.8	1.8
Private Consumption	4.3	3.2	-8.6	7.8	2.5	2.0
Government Consumption	1.3	2.4	4.0	-0.9	-1.0	1.0
Gross Fixed Capital Investment	0.6	1.5	-4.3	4.2	3.6	3.2
Exports, Goods and Services	5.0	1.4	-4.3	5.3	4.9	3.0
Imports, Goods and Services	2.7	3.4	-12.0	15.9	4.2	3.7
Real GDP growth, at constant factor prices	2.8	2.0	-2.7	4.3	2.8	1.8
Agriculture	1.7	3.5	0.2	1.1	1.8	1.8
Industry	2.9	1.5	-3.2	4.2	3.6	2.2
Services	2.8	2.2	-2.6	4.6	2.5	1.7
Inflation (Consumer Price Index)	2.9	4.5	3.4	6.2	4.8	4.0
Current Account Balance (% of GDP)	7.0	3.9	2.4	5.5	4.6	2.7
Net Foreign Direct Investment (% of GDP)	-1.4	0.6	-0.2	-1.1	-0.7	-0.5
Fiscal Balance (% of GDP)[a]	2.9	1.9	-4.0	-0.2	1.5	1.1
Debt (% of GDP)	14.6	14.7	20.4	21.1	21.2	21.4
Primary Balance (% of GDP)[a]	3.8	2.7	-3.2	0.6	2.4	2.0
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.0	0.0	0.1	0.0	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	0.4	0.3	0.4	0.3	0.3	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	3.7	3.2	4.3	3.3	3.0	2.8
GHG emissions growth (mtCO2e)	5.4	2.4	-6.5	2.7	3.1	1.3
Energy related GHG emissions (% of total)	95.2	91.6	92.7	91.8	90.4	89.7

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

(a) Fiscal and Primary Balance refer to general government balances.

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

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

SERBIA

Table 1	2020
Population, million	6.9
GDP, current US$ billion	53.0
GDP per capita, current US$	7681.2
Upper middle-income poverty rate ($5.5)[a]	19.8
Gini index[a]	37.2
School enrollment, primary (% gross)[b]	99.6
Life expectancy at birth, years[b]	75.7

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2017), 2011 PPPs.
(b) Most recent WDI value (2019).

The Serbian economy is recovering well from the impact of COVID-19 pandemic that led to a mild recession of -1 percent in 2020 and poverty incidence remains close to its 2019 value at 17.1 percent. Growth will rebound in 2021 to an estimated 6 percent, and to stabilize around 4 percent over the medium term, but this is critically dependent on the recovery of the world economy, the ability to contain COVID-19 and the pace and depth of key structural reforms.

Key conditions and challenges

The focus of the Government of Serbia in 2020 was on supporting the economy to recover from the impact of the COVID-19 pandemic. The Serbian government approved a robust fiscal stimulus program – amounting to nearly 13 percent of GDP – at the outset of the pandemic. The program comprised direct budgetary measures (tax deferrals and higher spending) and guarantees, corresponding to 8 percent of GDP and 4.8 percent of GDP respectively. Thanks to the timely deployment of the program, the economy experienced only a mild recession (of -1 percent) in 2020. The impact of the program, however, came at considerable fiscal cost. The fiscal deficit reached 8.1 percent of GDP in 2020 and public debt increased to 58.2 percent of GDP.

The rate of economic growth averaged 1.9 percent annually in the decade prior to the pandemic and had started to increase just before the onset of COVID-19, with growth averaging 4.4 percent in 2018-19. Consumption was the main driver of growth while investment remained low, hovering around 19 percent of GDP during 2010-19.

Over the medium term the Serbian economy is expected to return to the pre-pandemic growth levels. However, Serbia still faces challenges that limit its potential growth both in the short and medium to long terms. Most importantly, Serbia needs to further remove bottlenecks for private sector investment. These include a deteriorating governance environment, lack of infrastructure and an unreformed education sector, which creates skills mismatches in the labor market. With limited space for future stimulus packages, structural reforms are needed to bring the economy back to sustained growth, boost jobs and incomes and strengthen resilience to shocks.

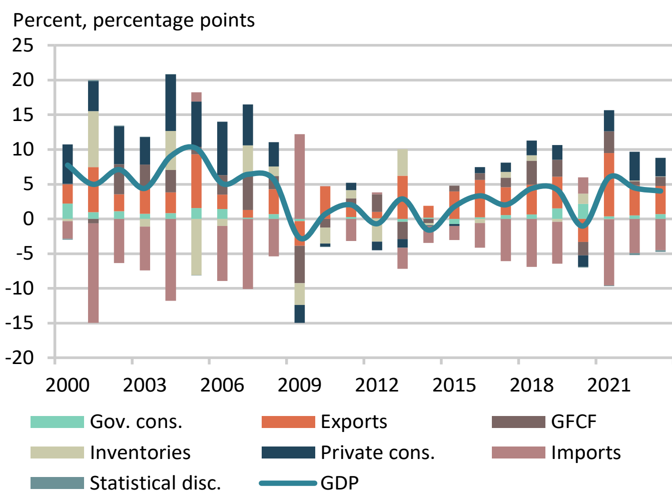
Recent developments

The Serbian economy started to show signs of recovery in the first half of 2021. After three consecutive quarters of decline (Q2-Q4 2020), the economy grew 1.8 percent y/y in Q1. Growth accelerated in Q2 and is estimated at 13.7 percent, well above expectations. As a result, projected growth for 2021 has been revised upwards from 5 to 6 percent.

The fast increase in exports underpinned the recovery in 2021: the contribution to growth of net exports was 5.2 percentage points in Q1. Exports increased across the board, with raw materials having the most significant impact; while consumption and investment contributed negatively to growth (-1.4 and -2.1 percentage points respectively) in Q1. During the second quarter, however, the drivers of growth changed with consumption having the main impact on GDP growth.

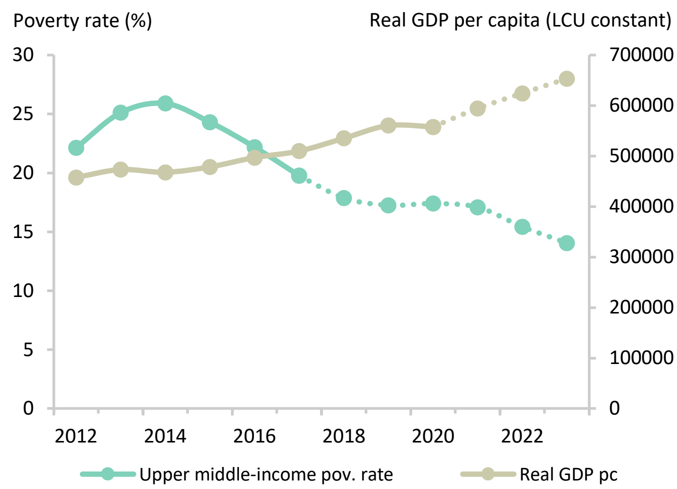
The wage subsidy and cash transfers to citizens in 2020 helped to avert a spike in poverty. Due to the support package,

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



Source: World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

limited labor market impacts, and growth in agriculture, poverty (defined as income under $5.5/day in revised 2011 PPP) is estimated to have only slightly increased from 17.3 percent in 2019 to 17.4 percent in 2020.

Despite an economic rebound, the labor market recovery has been sluggish. The Q1 and Q2 employment rates of 46.3 and 48.3 percent are down from 49.7 percent in Q4 2020 and lower than those in 2019, as measured by the Labor Force Survey. The unemployment rate increased from 9.9 percent in Q4 2020 to 12.8 and 11.1 percent in Q1 and Q2 2021. In the formal sector, average net salaries and wages increased by 6.2 percent in real terms in January - June 2021 compared to 2020.

The fiscal deficit increased significantly in 2020 to 8.1 percent of GDP. It is projected to decline to 6.9 percent of GDP in 2021, despite the continuation of an expansionary fiscal stance in 2021. Public debt is projected to increase to 60.3 percent by end-2021.

Inflation has been on the rise since April 2021 and reached a peak of 4.3 percent in August, with adverse effects on households' purchasing power. It is expected that by year-end inflation will stay at around 3 percent y/y. The dinar has remained broadly stable against the euro at around 117.6 RSD/EUR. The banking sector's performance remains robust even after the phasing out of two rounds of debt moratoria introduced in 2020 as part of the COVID-19 response measures. NPLs stood at 3.6 percent as of June 2021. The current account deficit decreased significantly – from 6.9 percent of GDP in 2019 to 4.3 percent in 2020, primarily due to improved primary income balance – and reached 0.9 percent of GDP in the first half of 2021 which is likely to result in the CAD falling to below the originally projected 5 percent of GDP.

Outlook

The economic recovery is expected to continue in the second half of the year, with growth expected to reach 6 percent for 2021. A package of measures to support citizens and the economy – worth around 4.5 percent of GDP – will support growth. Over the medium term, growth is expected to be around 4 percent, driven mainly by consumption while investment will recover only slowly, with possible adverse repercussions on employment and wages. This medium-term outlook crucially depends on the recovery of the world economy, the ability to contain COVID-19, the pace and depth of structural reforms and political developments.

Among immediate priorities for action, lowering the cost of doing business and improving the quality of infrastructure figure prominently. In the medium to long term, challenges include managing an ageing population and climate change. An aging and shrinking population will leave Serbia with a smaller labor force. Labor shortages, combined with skills mismatches, could significantly hurt the competitiveness of the Serbian economy. In addition, more frequent and severe droughts and floods can adversely impact agriculture and food production and will increase the cost of maintaining infrastructure.

The pace of labor market recovery will be critical for resumed poverty reduction. Poor and vulnerable households, who tend to depend more on self-employment and less secure jobs, may take longer to regain their income levels. Labor market challenges could also exacerbate the ongoing brain-drain. With the lag in labor market improvements in early 2021, poverty is projected to remain close to its 2019 level, at 17.1 percent.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	4.4	4.2	-1.0	6.0	4.5	4.0
Private Consumption	3.1	3.1	-2.5	4.6	6.3	4.0
Government Consumption	3.7	8.7	11.8	1.9	2.5	3.5
Gross Fixed Capital Investment	17.8	11.2	-8.2	14.5	2.6	5.8
Exports, Goods and Services	8.3	8.5	-5.9	17.1	7.4	6.7
Imports, Goods and Services	11.6	9.5	-3.5	14.7	7.0	6.2
Real GDP growth, at constant factor prices	4.5	4.2	-1.0	6.0	4.5	4.0
Agriculture	15.2	0.0	4.2	-0.5	1.0	1.0
Industry	2.8	0.2	0.0	5.2	4.4	4.5
Services	4.1	6.8	-2.1	7.2	4.9	4.2
Inflation (Consumer Price Index)	2.0	2.2	1.6	2.5	2.8	2.6
Current Account Balance (% of GDP)	-5.2	-6.9	-4.4	-5.0	-5.0	-4.9
Net Foreign Direct Investment (% of GDP)	3.8	6.3	4.8	4.9	5.5	5.2
Fiscal Balance (% of GDP)	0.6	-0.2	-8.1	-6.9	-3.0	-1.8
Debt (% of GDP)	55.6	52.9	58.2	60.3	58.9	56.1
Primary Balance (% of GDP)	2.7	1.4	-7.1	-5.7	-0.9	0.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	17.9	17.3	17.4	17.1	15.4	14.1

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

(a) Calculations based on ECAPOV harmonization, using 2013-EU-SILC and 2017-EU-SILC.Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021to 2023.
(b) Projection using point-to-point elasticity (2013-2017) with pass-through = 0.7 based on GDP per capita in constant LCU,
and lower pass through in 2021reflecting the lag in labor market improvements.

TAJIKISTAN

Table 1	2020
Population, million	9.5
GDP, current US$ billion	8.2
GDP per capita, current US$	863.2
International poverty rate ($1.9)[a]	4.1
Lower middle-income poverty rate ($3.2)[a]	17.8
Upper middle-income poverty rate ($5.5)[a]	50.5
Gini index[a]	34.0
School enrollment, primary (% gross)[b]	100.9
Life expectancy at birth, years[b]	71.1
Total GHG Emissions (mtCO2e)	16.9

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2015), 2011 PPPs.
(b) WDI for School enrollment (2017); Life expectancy (2019).

Tajikistan's economy rebounded strongly from the 2020 pandemic, supported by solid exports of gold, strengthening remittances, and investment inflows. While the overall poverty rate has been falling, climbing inflation exacerbated food insecurity among the most vulnerable. Over the medium term, GDP growth at around 5 percent a year is expected to reduce the poverty rate further; however, downside risks prevail.

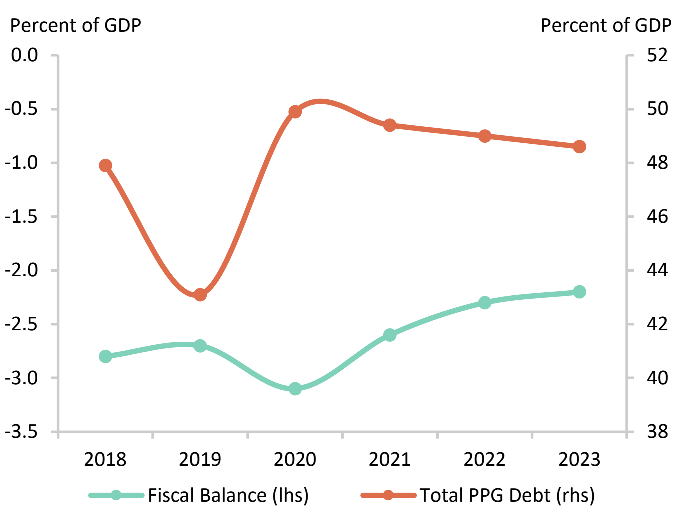
Key conditions and challenges

Tajikistan's robust economic growth in the past 10 years translated into significant poverty alleviation. The officially reported real GDP growth averaged 6.9 percent per year during 2011–20, benefiting from solid remittance inflows and externally financed public investments. During the pandemic, in 2020, the Tajik economy showed resilience by registering a growth rate of 4.5 percent. However, despite the strong economic performance, Tajikistan still struggles to eliminate food insecurity and overcome domestic structural bottlenecks to create jobs. This primarily concerns an environment unconducive to private investment, inefficient governance of the state-owned enterprises (SOE), imprudent management of public finances, and weak institutional capacity. Most SOEs are loss-making, and the government regularly bails them out by clearing their arrears to suppliers and creditors and writing off tax obligations. Unbalanced prioritization of budgetary spending, mainly due to the energy sector crowds out investments for human capital development and creates substantial pressure on the state budget by pushing the public debt level to the verge of sustainability. Generous tax exemptions on one side and onerous revenue mobilization efforts on the other side have washed away the level playing field for healthy competition for the private sector. Moreover, the business environment has been suffering from weak institutional capacity to protect property rights and enforce contracts and the rule of law.

Recent developments

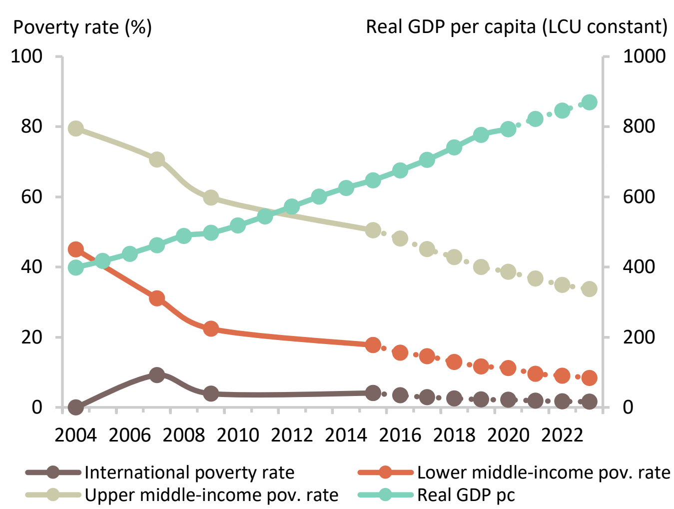
After the economic slowdown in 2020, Tajikistan's GDP grew at an annual rate of 8.7 percent in the first half of 2021. The continued sharp increase in the export of precious metals and a pickup in private investment and consumption supported this solid economic rebound. The resumption of air traffic with Russia allowed migrants to resume traveling abroad and restore the inflow of remittances. The share of households with at least one migrant abroad reached 40 percent in August 2021, compared with 34 percent a year earlier.
Driven by large increases in gold exports, Tajikistan's current account surplus increased to 6.2 percent of GDP in the first quarter of 2021 from 4.1 percent in 2020. The export of precious metals attained a new height, $709 million, followed by the export of minerals and textiles. Higher remittance inflows, a stable exchange rate, and the release of pent-up demand strengthened consumer and capital goods imports. Foreign investments rose by about 35 percent (y/y) in the first eight months of 2021, primarily because of strong Chinese interest in the mining industry. In mid-2021, the central bank's net foreign assets stood at about seven months of import cover.

FIGURE 1 Tajikistan / Fiscal balance and total public and publicly guaranteed (PPG) debt



Sources: Ministry of Finance, World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

Following expansionary fiscal policy in 2020, the government pursued budgetary consolidation during 2021. The fiscal deficit amounted to 1.5 percent of GDP compared with 3.1 percent a year earlier. External donor support in infrastructure projects financed the budgetary gap. At about 50 percent of GDP, Tajikistan's public debt remains at high risk of debt distress. The country did not extend its participation in the 2021 Debt Service Suspension Initiative after suspending $42.8 million of debt service in 2020.

To combat rising inflation, the authorities gradually increased the policy rate from 10.75 percent at the end of last year to 13 percent by August 2021. Due to rising fuel and food prices, the 12-month inflation stood at 9.4 percent in August 2021—above the central bank's medium-term inflation target of 6 percent (+/-2). Solid economic activity improved the financial sector's overall performance, with the share of overdue loans in the total lending portfolio declining to 15.5 percent by mid-2021 from 23.8 percent in 2020. Some improvement in asset quality is also attributed to the liquidation of two insolvent banks with relatively higher shares in bad loans.

Despite a strong economic rebound, the share of households reporting reduced food consumption increased to 33 percent in August 2021 compared with 28 percent a year earlier. A sharp increase in consumer prices coupled with falling household wage incomes increased food insecurity, particularly for vulnerable households without remittance income. The government plans to further enhance its support to the most vulnerable, starting in the fourth quarter of this year, by providing additional emergency transfers to women-headed families with children and those with disabilities.

Outlook

The economic outlook hinges on the pace of the vaccination rollout and the resiliency of the global economy. The government expects new deliveries of vaccines in the remainder of 2021 and next year through donations and self-procurement. Real GDP is projected at 6.0 percent in 2021 and moderate in the medium term. Remittances and foreign investment are projected to rise, reflecting a better growth outlook in Russia and China. Commodity and food prices will exert upward price pressure. Poverty is projected to fall in 2021, thanks to economic recovery and improvements in household income.

The fiscal deficit is projected to narrow to about 2–2.5 percent of GDP in the medium term. The most pressure on the state budget is likely to come from COVID-19-related spending on healthcare, social protection, and development projects in infrastructure, particularly energy and transport.

There are substantial risks to the outlook. Growth prospects are affected by possible new flareups of COVID-19, the precarious situation in neighboring Afghanistan, and the unresolved border dispute with the Kyrgyz Republic. Top domestic challenges include inefficient SOEs, insufficient development of the private sector, and weak institutional capacity. The newly developed tax code is expected to establish a better dialogue between the state and the private sector in the medium term.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	7.6	7.4	4.5	6.0	5.0	5.0
Private Consumption	7.2	7.1	-4.4	2.8	4.0	3.8
Government Consumption	3.8	3.5	0.4	4.2	2.7	3.0
Gross Fixed Capital Investment	7.9	-6.4	-6.6	9.4	6.0	7.6
Exports, Goods and Services	2.2	3.5	9.6	9.3	3.4	3.6
Imports, Goods and Services	3.3	2.2	-2.8	7.5	2.7	2.9
Real GDP growth, at constant factor prices	7.8	8.7	4.3	5.8	5.0	5.0
Agriculture	4.0	7.1	8.8	5.6	5.5	5.0
Industry	11.8	13.6	9.7	9.5	7.0	6.5
Services	6.3	4.9	-4.0	1.4	2.2	3.1
Inflation (Consumer Price Index)	3.9	8.0	8.6	7.8	7.0	6.5
Current Account Balance (% of GDP)	-5.0	-2.2	4.1	1.9	1.1	-0.4
Net Foreign Direct Investment (% of GDP)	3.3	2.3	0.4	1.8	2.1	2.3
Fiscal Balance (% of GDP)	-2.7	-2.7	-3.1	-2.6	-2.3	-2.2
Debt (% of GDP)	46.8	43.1	49.9	49.4	49.0	48.6
Primary Balance (% of GDP)	-1.6	-1.7	-2.2	-1.4	-0.7	-0.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.6	2.3	2.2	2.0	1.8	1.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	13.0	11.7	11.3	9.6	9.1	8.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	42.9	40.1	38.7	36.7	35.0	33.7
GHG emissions growth (mtCO2e)	7.3	7.2	4.4	5.4	5.2	5.2
Energy related GHG emissions (% of total)	45.6	46.0	44.5	45.1	45.3	45.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate. f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2015-HSITAFIEN.Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021to 2023.
(b) Projection using neutral distribution (2015) with pass-through = 0.87 based on GDP per capita in constant LCU.

TURKEY

Table 1	2020
Population, million	83.4
GDP, current US$ billion	720.0
GDP per capita, current US$	8633.1
Upper middle-income poverty rate ($5.5)[a]	10.2
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	94.9
Life expectancy at birth, years[b]	77.7
Total GHG Emissions (mtCO2e)	489.1

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

Turkey's economic growth was the second highest among G-20 countries in 2021Q2, driven by strong domestic and external demand, and effective control of COVID-19. GDP is expected to grow by 8.5 percent in 2021 but regaining monetary policy credibility and containing inflation will be the major challenges. Poverty is projected to decline following sharp increases in 2019-2020, and further poverty reduction hinges on ensuring an inclusive recovery with adequate support for vulnerable groups.

Key conditions and challenges

Turkey enjoyed high growth rates between 2002-17, which propelled the country to the higher reaches of upper-middle-income status. But productivity growth has slowed, as reform momentum waned over the last decade, and efforts have turned to supporting growth with credit booms and demand stimulus, exacerbating internal and external vulnerabilities. High private sector debt, persistent current account deficits, high inflation, and high unemployment, have been exacerbated by macro-financial instability since August 2018. Turkey entered the pandemic with lower buffers than its peers.

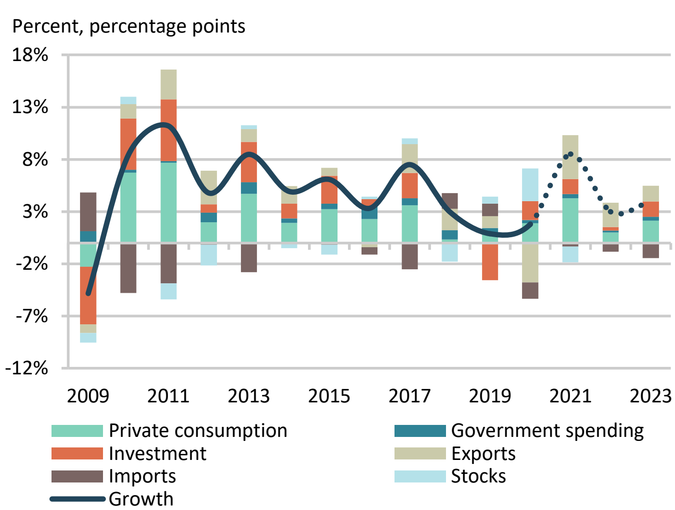
The government's economic policy response to COVID-19 was swift but focused on loose monetary policy and rapid credit expansion. Turkey's economy was one of the few in the G20 and OECD to experience positive growth in 2020. A favorable base effect, an easing of restrictions permitted by accelerated vaccinations, and supportive external demand led to double digit GDP growth in 2021H1, returning the economy and employment to pre-crisis levels. But inflation has risen to nearly 20 percent, while external financing needs have remained elevated and met largely through short-term portfolio flows. Going forward, efforts to rebuild policy credibility and macro stability coupled with reforms focused on labor, product, and financial markets and on strengthening the way institutions work are needed to attract foreign investment and revive productivity growth. Moreover, the high energy and carbon intensity of the economy makes it vulnerable to global and regional decarbonization policies.

Recent developments

Turkey's economy grew by 21.7 percent in 2021Q2 – the second highest among G-20 countries. Good progress in expanding vaccination coverage allowed pandemic-related restrictions to be relaxed in May, supporting a recovery in domestic demand. Private investment and consumption of durables, and increasingly services, have been major contributors to growth, despite the persistently high cost of borrowing and easing of fiscal support. Exports were buoyed by a strong recovery in external demand, currency depreciation, and an opportunity for Turkey to gain market share in the EU as Asian exporters grappled with rising logistic costs and global supply chain constraints.

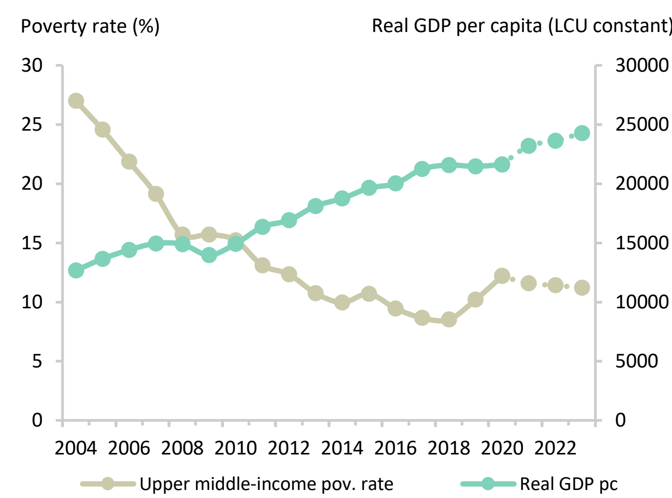
Yet, inflation continued to rise with the weakening of the Lira, rising international commodity prices and demand-side pressures. In August, consumer price inflation reached 19.3 percent and food prices soared by 29 percent whilst producer price inflation rose 45.5 percent. Despite this, the Central Bank reduced the policy rate to 18 percent, resulting in negative real interest rates, and raising policy uncertainty among investors already conscious of frequent

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



Sources: Turkstat and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

changes of central bank governor. Following a credit push in 2020 through public banks, credit growth declined from 30.9 percent at the end of 2020 to 9.3 percent in August in annualized FX-adjusted terms. As forbearance measures are still in place, NPLs are still low at 3.7 percent.

Despite a rising interest burden and elevated Covid-related expenditures, the central government fiscal deficit declined to 1.6 percent of GDP in H1 2021, thanks to strong tax revenue growth driven by buoyant domestic demand. On the other hand, general government debt stock rose from 32.7 percent in 2019 to 39.8 percent in 2020.

The 12-month rolling current account deficit narrowed to 3.9 percent of GDP as exports recovered sharply and gold imports declined. This, combined with new swap deals and the global IMF SDR expansion, supported an increase in gross FX reserves to $122 billion in September. However, reserves net of short-term drains remains negative at -$21.1 billion.

Supported by economic growth, nearly 3 million jobs were generated in January-July 2021, returning employment to pre-crisis levels. Nevertheless, despite new entrants, labor force participation remains low, at 52.1 percent.

Turkey has successfully vaccinated nearly 54 million people (86.5 percent of the eligible population) with their first dose. However, a recent surge in provinces with low vaccination rates has led to daily cases and deaths of close to 20.000 and 250 respectively.

Outlook

While the growth momentum is expected to wane in 2021H2, the economy is still expected to grow by 8.5 percent in 2021 before returning to a path of 3 percent and 4 percent in 2022 and 2023. These baseline projections assume no further COVID-19 restrictions in Turkey or its major export markets or excessive flareups in macro-financial conditions.

Inflation is forecasted to stay high but gradually decline from 17.7 percent in 2021 to 15 percent and 13 percent in 2022 and 2023. As tourism and exports recover, the current account deficit is expected to narrow to 3 percent of GDP in 2021. The general government deficit is projected to decline to 3.4 percent in 2023 as temporary tax reductions and COVID-19 related transfers are reined in.

External risks are balanced, with the upside of a quicker-than-expected recovery in global demand being netted out by potential global financial market disruptions caused by future tightening expectations and supply chain constraints. The continuation of loose monetary policy could further weaken investor confidence, heighten market volatility, and threaten macro-financial stability in the upcoming period. The banking sector remains highly capitalized and with adequate foreign exchange buffers. However, expected removal of forbearance measures are likely to put pressure on banks' balance sheets.

Simulation analysis of the pandemic impacts suggests that Turkey had 1.6 million more poor people in 2020 than 2019, reaching the highest poverty rate since 2012. Swift early government action, including household support measures prevented worse outcomes. However, some job and income protection measures expired as of July 2021 and rising COVID-19 cases may require additional support to protect vulnerable households. The strong rebound in economic growth, the labor market and household incomes are expected to reduce the poverty rate from 12.2 percent in 2020 to 11.6 percent in 2021. Further poverty reduction hinges on ensuring an inclusive recovery with adequate support for vulnerable groups.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	3.0	0.9	1.8	8.5	3.0	4.0
Private Consumption	0.6	1.5	3.2	7.2	1.7	3.7
Government Consumption	6.5	4.1	2.2	2.8	1.4	2.5
Gross Fixed Capital Investment	-0.2	-12.4	7.2	5.5	1.3	6.0
Exports, Goods and Services	8.8	4.6	-14.8	19.7	10.0	6.0
Imports, Goods and Services	-6.2	-5.4	7.6	1.5	4.0	7.0
Real GDP growth, at constant factor prices	3.3	1.0	1.1	8.5	3.0	4.0
Agriculture	2.1	3.3	5.9	2.8	1.4	2.0
Industry	0.5	-2.9	1.0	13.5	3.0	3.7
Services	4.8	2.7	0.6	6.9	3.2	4.4
Inflation (Consumer Price Index)	16.3	15.2	12.3	17.7	15.0	13.0
Current Account Balance (% of GDP)	-2.8	0.9	-5.2	-3.0	-2.4	-3.1
Net Foreign Direct Investment (% of GDP)	1.2	0.8	0.6	0.6	0.8	0.9
Fiscal Balance (% of GDP)	-2.4	-3.0	-3.9	-4.0	-3.8	-3.4
Debt (% of GDP)	30.2	32.7	39.8	38.2	38.0	37.3
Primary Balance (% of GDP)	-0.2	-0.5	-1.1	-0.9	-0.6	-0.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	8.5	10.2	12.2	11.6	11.4	11.2
GHG emissions growth (mtCO2e)	0.0	0.9	2.3	8.7	2.2	3.3
Energy related GHG emissions (% of total)	80.2	79.8	79.4	80.0	79.7	79.7

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

(a) Calculations based on ECAPOV harmonization, using 2011-HICES and 2019-HICES. Actual data: 2019. Nowcast: 2021. Forecast are from 2021 to 2023.
(b) Projection using point-to-point elasticity (2011-2019) with pass-through = 1 based on GDP per capita in constant LCU.

UKRAINE

Table 1	2020
Population, million	44.0
GDP, current US$ billion	140.9
GDP per capita, current US$	3202.3
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.2
Upper middle-income poverty rate ($5.5)[a]	2.5
Gini index[a]	26.6
School enrollment, primary (% gross)[b]	99.0
Life expectancy at birth, years[b]	71.8
Total GHG Emissions (mtCO2e)	232.0

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

A slow recovery from the COVID-19 shock is underway, supported by high commodity prices and rising government spending. Above-target inflation and rising fiscal spending pressures require continued prudent monetary and fiscal policy. The outlook hinges upon global economic and financing conditions, and implementation of critical reforms to reduce the state's economic footprint and ease investment bottlenecks. COVID-related poverty impacts were relatively muted thanks to pensions and wage growth; the poverty rate is expected to decrease to 1.6 percent in 2023.

Key conditions and challenges

Benefiting from reforms implemented following the 2014-16 crisis, Ukraine's economy has shown greater resilience to the COVID-19 outbreak than initially anticipated. COVID-response measures adopted by the Government have also been somewhat effective in cushioning the poor from the shock, while Ukraine's financial sector has entered the COVID-19 crisis stronger and more resilient than any previous crisis.

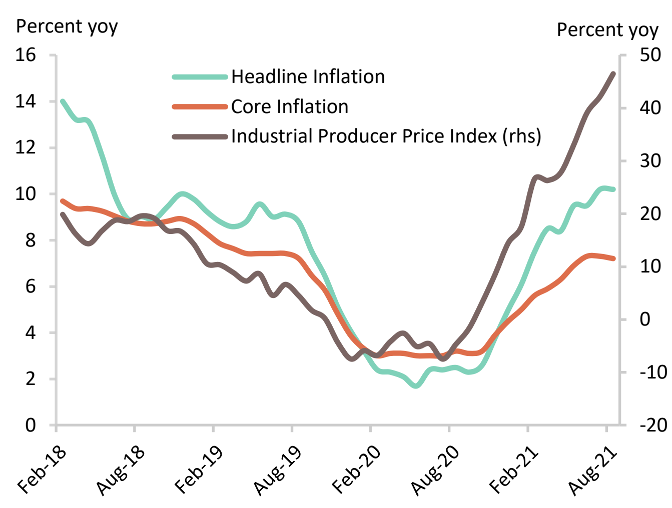
However, COVID-19 has exacerbated existing socio-economic challenges and partially set back some gains made since 2014/15. The growth recovery also remains weak, underpinned by low investment-to-GDP ratios, an export structure heavily dependent on commodities and significant institutional challenges that have dragged on economy-wide productivity and investment. The poverty rate, based on the national poverty line, marginally increased in 2020 following four years of steady decline. The labor market recovery that started in 2017 was upended, with employment declining by over 660,000 in 2020 and the unemployment rate hitting 9.9 percent – higher than during the 2014/15 crisis.

A broad-based recovery requires completing key reforms to stimulate private sector-led growth and inclusive job creation, by addressing structural bottlenecks to investment while safeguarding macroeconomic sustainability. The implementation of reforms in land markets, banking, demonopolization and concession projects should improve the environment for private investment, but major challenges remain with respect to weak rule of law and institutions. The direct participation of the state in the economy (via some 3,500 SOEs many of which are poorly managed) is excessive and restricts the role of market forces, and SOE reforms need to be accelerated. Judicial reform is in the early stages and timely implementation of recent laws adopted will be critical. Finally, rebalancing fiscal spending towards investment, and tax reforms to ease competition distortions that undermine investment, can also support capital deepening and accelerate growth.

Recent developments

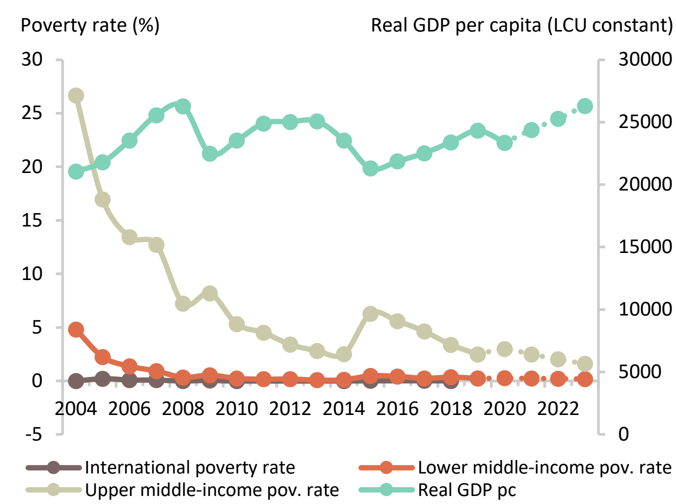
Following a 4 percent contraction in 2020, the recovery during the first half of 2021 has been hampered by supply-side constraints and a second wave of infections. Base effects and a partial recovery in the industrial and services sector lifted GDP growth to 5.4 percent y/y in Q2 2021 (vs -2.2 percent in Q1); however, on a sequential basis, the economy contracted by 0.8 percent (sa qoq) in Q2. The labor market also deteriorated in Q1, with unemployment rising to 10.9 percent. High frequency retail and industrial production indicators, however, point to strengthening domestic demand; a record harvest is also anticipated in the H2 2021.

FIGURE 1 Ukraine / Consumer and producer price indices



Source: State Statistics Service of Ukraine.

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



Source: World Bank. Notes: see Table 2.

After steadily accelerating over the past year, headline inflation remained flat at 10.2 percent y/y in August, double the inflation target of 5 percent. Base effects, food inflation, and gas price adjustments have been major drivers while expansionary wage policies, notably a 27 percent increase in minimum wages, have also played a role. However, inflation momentum has begun to ease owing to weakening base effects, a strengthening currency and a proactive tightening of policy rates (by 250bp since April to 8.5 percent) by the central bank which also terminated anti-crisis monetary tools in September.

Helped by strong external demand, favorable terms of trade and rising wages, fiscal revenues have performed better than anticipated, with consolidated revenues in H12021 rising by almost 16 percent y/y. However, expenditures grew faster, by 17.4 percent y/y, driven by rising goods and services and public wage expenditures, while capital expenditures fell 8.2 percent. On a general government basis, the deficit was twice (1.4 percent of GDP) the size of the consolidated deficit (0.6 percent) in Q1 and has been financed by costly short-term domestic and Eurobond issuances.

The current account surplus reached a record $5.2bn in 2020 and has since remained positive (although narrowing) due to strong services net exports and higher global commodity prices. Already ample at nearly $29 bn (4 months of imports), reserves have been further supplemented by the $2.7bn IMF SDR allocation in August. Ukraine has successfully retained access to market financing despite volatility in global markets.

Outlook

Activity should continue recovering in H2 2021, helped by better harvests, strengthening consumer demand, and a supportive external environment. Growth is projected at 3.8 percent in 2021 underpinned by positive base effects in agriculture, and relative to last year's economic contraction. The forecast takes into account the possibility of further temporary lockdowns and additional tightening by the central bank to anchor inflation expectations.

Inflation is expected to moderate to the target rate in H2 2022 supported by monetary tightening and as base effects and supply shocks fade. The 2021 budget deficit (including arrears to the private sector and recapitalization requirements) is estimated at 5 percent of GDP. Together with 9.1 percent of GDP debt amortization this will increase total fiscal financing needs to 14.1 percent of GDP (vs 15.2 percent of GDP in 2020) that are expected to be met through domestic and international borrowing. Coupled with rising public wage expenditures (expected to reach over 11 percent of GDP in 2021), medium term spending pressures are increasing and continued prudent fiscal policy is needed to safeguard fiscal sustainability. Downside risks stem from an uncertain global economic and financing environment amidst an ongoing pandemic and flagging of domestic reform efforts.

The poverty rate based on the US$5.5 a day threshold is expected to decrease to 2 percent in 2022 and 1.6 percent by 2023, though the outlook is uncertain given rising COVID-19 cases both domestic and abroad and the slow vaccination pace. Accelerating critical reforms will be key to support the recovery and create more and better jobs.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	3.3	3.2	-4.0	3.8	3.5	3.7
Private Consumption	8.9	11.9	1.6	4.6	4.5	3.5
Government Consumption	0.1	-5.0	-3.0	1.5	0.0	0.0
Gross Fixed Capital Investment	14.3	15.0	-24.4	10.4	8.4	7.5
Exports, Goods and Services	-1.6	6.7	-5.6	3.4	2.0	4.4
Imports, Goods and Services	3.2	6.3	-9.6	7.5	5.7	4.8
Real GDP growth, at constant factor prices	3.3	3.4	-4.0	3.9	3.4	3.7
Agriculture	7.8	1.3	-11.5	5.0	4.5	5.0
Industry	2.0	-2.0	-4.0	2.0	3.0	4.5
Services	3.0	5.7	-2.7	4.3	3.4	3.2
Inflation (Consumer Price Index)	9.8	4.1	4.8	9.5	6.0	5.0
Current Account Balance (% of GDP)	-3.2	-0.9	4.1	1.5	-0.2	-0.7
Net Foreign Direct Investment (% of GDP)	1.9	2.1	2.1	2.2	2.2	4.9
Fiscal Balance (% of GDP)	-2.0	-2.0	-6.0	-5.0	-3.5	-2.5
Debt (% of GDP)	60.6	50.4	60.6	59.3	58.1	56.8
Primary Balance (% of GDP)	1.4	1.1	-2.4	-0.9	0.2	1.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.4	0.2	0.3	0.2	0.2	0.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	3.4	2.5	3.0	2.5	2.0	1.6
GHG emissions growth (mtCO2e)	4.2	-2.8	-9.0	2.9	2.7	3.1
Energy related GHG emissions (% of total)	69.9	70.0	69.5	70.1	70.7	71.0

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

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

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

UZBEKISTAN

Table 1	2020
Population, million	34.2
GDP, current US$ billion	59.9
GDP per capita, current US$	1751.5
School enrollment, primary (% gross)[a]	102.2
Life expectancy at birth, years[a]	71.7
Total GHG Emissions (mtCO2e)	237.4

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent WDI value (2019).

Economic growth is expected to rebound in 2021 as Uzbekistan strengthens its pandemic management. Health and social assistance costs have continued elevating the fiscal deficit. These pressures are mitigated by greater fiscal discipline and strong external buffers. The outlook for growth is favorable but contingent on improving global economic conditions and progress with structural reforms to increase private sector growth, reduce state dominance in the economy, and increase economic inclusion.

Key conditions and challenges

Reforms are beginning to address structural constraints such as absent factor markets and the state's economic dominance. These reforms will create more room for competition and business growth and help create more jobs and incomes that help accelerate Uzbekistan's market transition.

Job and income displacement from COVID-19 has amplified the importance of inclusion. About 9 percent of citizens live below the World Bank's lower-middle-income poverty line ($3.2 a day, PPP 2011 adjusted); many more live close to this line. The national poverty level (based on minimum food intake) increased to 11.5 percent in 2020 from 11 percent in 2019. Expanded social assistance has provided some relief to Uzbekistan's affected households, as has the swift recovery in employment following the economy's reopening. Uzbekistan's rebounding economy will support a return to poverty reduction in 2021.

Over the medium-term, in addition to growth, faster poverty reduction will require stronger safety nets, labor market conditions, and health and education services.

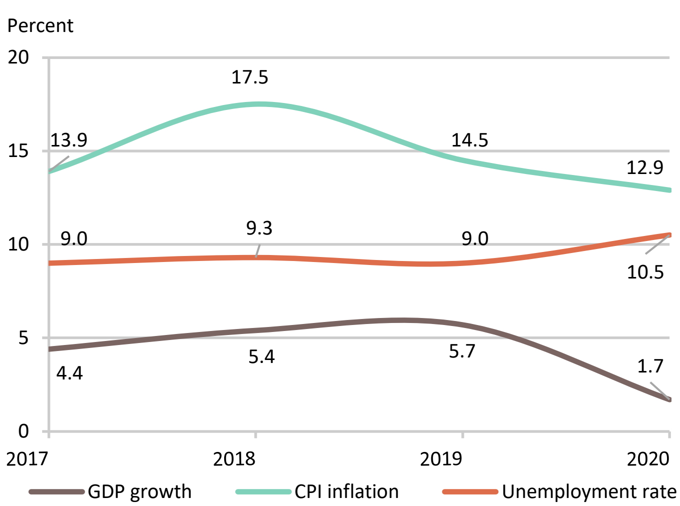
Recent developments

GDP growth increased to 6.2 percent in H1 2021 after slowing to 1.7 percent in 2020. Strong industrial and services growth tempered weaker agricultural production. Robust increases in household incomes and domestic investment, and the continuation of anti-crisis spending and tax relief measures, also contributed to this year's strong growth.

A decision to reduce gold export volumes led to a wider current account deficit of 10 percent of GDP in H1 2021 (from 7.3 percent in H1 2020). Exports of other goods, however, such as copper, textiles, fertilizers, food, and machinery, recovered from weaker trading partner demand in 2020. Total exports increased by 12.3 percent year-on-year. Imports grew by 14.3 percent in H1 2021 due to higher private consumption and a rebound in demand for capital goods. This led to a wider trade balance deficit of 18.8 percent of GDP in H1 2021 from 16.2 percent in H1 2020. Sustained inflows of personal remittances (8.7 percent of GDP in H1 2021) helped offset the negative trade balance.

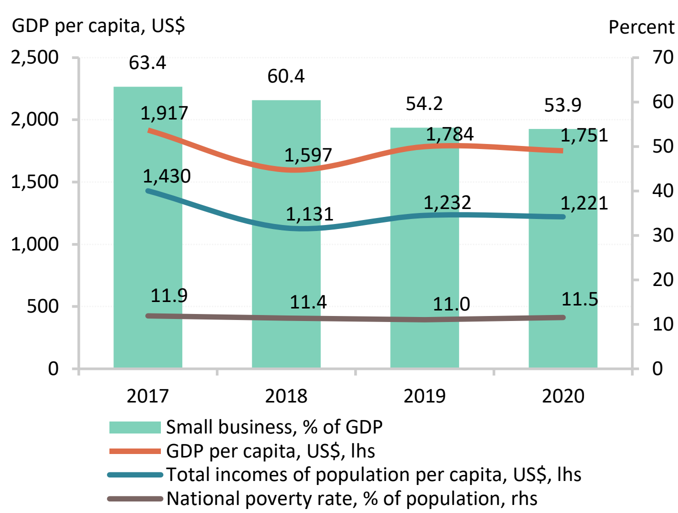
The fiscal deficit was within budget at 5.4 percent of GDP in H1 2021. Lower policy-based lending and higher tax revenues from a rebounding economy offset higher budget spending on social support, health, and public infrastructure. Though the deficit was financed through an increase in public debt, robust nominal GDP growth contributed to a slightly lower ratio of public debt to GDP of 38.5 percent of GDP in 1H 2021, compared with 38.9 percent at end-2020. The Government remains on track with its 2021 debt ceiling of $5.5 billion. Official reserves reached $34.1 billion in July 2021, an increase of $1.8 billion compared with July 2020.

FIGURE 1 Uzbekistan / GDP growth, inflation, unemployment



Source: Uzbekistan official statistics.

FIGURE 2 Uzbekistan / Poverty, GDP per capita, and small business development



Source: Uzbekistan official statistics. Due to the lack of data access, the Bank cannot validate the official figures. Note: The national poverty line is based on a minimum food consumption norm of 2,100 calories per person per day that exclude non-food items.

Inflation has continued to trend lower, reaching 11 percent in June 2021 (compared with 14.7 percent in June 2020), but remained in double digits due to high food prices. Given an uncertain inflationary outlook, the central bank has left its reference interest rate unchanged since September 2020 at 14 percent. Credit growth in June 2021 slowed to 24 percent from 34 percent in June 2020, and 52 percent in 2019. This reflected weaker demand from higher real lending rates and a reduction in government-subsidized lending. The banking sector's capital adequacy ratio fell to 17.4 percent in June 2021 from 18.5 percent in January 2021 and 20.8 percent in June 2020. This was partly due to a rise in nonperforming loans due to COVID-19, which increased to 4.6 percent in June 2021 from 2.2 percent in June 2020. Nevertheless, Uzbekistan's financial system remains sufficiently capitalized to absorb potential credit shocks. From August 1, 2021, to further reduce financial sector risks and dollarization, commercial banks will face increased reserve requirements on foreign currency bank deposits in banks from 14 to 18 percent.

Alongside a recovering economy, the unemployment rate declined to 10.2 percent in H1 2021 from 13.2 percent in H1 2020 and 10.5 percent at end-2020. The unemployment rate has not yet returned to pre-pandemic levels (of about 9 percent) and remains disproportionately high for women and youth.

Outlook

Growth is projected to accelerate to 6.2 percent in 2021. However, this forecast remains subject to uncertainties about the continued impact of further COVID-19 waves on global and domestic economic conditions. A recovery of investment, trade, and remittances will support the economic growth and reduce unemployment and poverty in 2021. Growth is projected to remain strong at 5.6 percent in 2022 as the pace of vaccinations accelerates and global disruptions ease further. The current account deficit is projected to be 5.9 percent of GDP in 2021 as capital imports for investment projects recover and as gold exports fall from record levels in 2020. Foreign direct investment is expected to remain subdued in 2021 and partially recover in 2022. The continued expansion of social assistance and public investments to improve rural infrastructure, and vaccination costs, will continue to elevate public spending in 2021. This will be partially offset by higher tax, mining, and privatization revenues, leading to a projected overall fiscal deficit of 5.5 percent of GDP in 2021. Increased public debt will finance this deficit, and public debt is projected to reach 40.6 percent of GDP by end-2021. COVID-19 uncertainties and a forthcoming VAT rates reduction in 2023, are likely to contribute to a higher medium-term fiscal deficit. A robust economic recovery, the gradual withdrawal of anti-crisis measures, and tax administration reforms to widen the tax base are projected to help consolidate public finances and stabilize debt at about 42 percent of GDP by end-2023.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	5.4	5.7	1.7	6.2	5.6	5.8
Private Consumption	3.8	5.3	-1.2	4.1	5.3	5.5
Government Consumption	3.8	5.7	2.0	9.5	5.7	3.7
Gross Fixed Capital Investment	18.0	7.6	2.8	8.3	8.4	8.8
Exports, Goods and Services	10.7	16.2	-20.0	10.4	17.4	15.5
Imports, Goods and Services	26.8	19.5	-21.0	11.6	20.7	17.9
Real GDP growth, at constant factor prices	5.4	5.7	1.7	6.2	5.6	5.8
Agriculture	0.3	3.1	3.0	1.9	2.9	3.1
Industry	11.5	8.9	2.5	6.8	4.7	5.0
Services	5.2	5.2	0.4	8.6	7.8	7.9
Inflation (Consumer Price Index)	17.5	14.5	12.9	10.9	10.5	8.5
Current Account Balance (% of GDP)	-7.1	-5.6	-5.0	-5.9	-5.3	-5.1
Fiscal Balance (% of GDP)	-2.1	-3.8	-4.3	-5.5	-4.4	-3.7
Debt (% of GDP)	20.3	29.3	36.4	40.6	42.5	42.2
Primary Balance (% of GDP)	-1.7	-3.3	-3.8	-5.1	-4.0	-3.4
GHG emissions growth (mtCO2e)	0.3	1.9	0.4	3.4	3.1	3.2
Energy related GHG emissions (% of total)	46.6	46.4	45.8	46.7	47.6	48.6

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

Macro Poverty Outlook

10/
2021

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