Europe and Central Asia

Macro Poverty Outlook

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

Spring Meetings 2024

WORLD BANK GROUP
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ALBANIA

Table 1	2023
Population, million	2.8
GDP, current US$ billion	22.7
GDP per capita, current US$	8219.5
International poverty rate ($2.15)[a]	3.9
Lower middle-income poverty rate ($3.65)[a]	11.3
Upper middle-income poverty rate ($6.85)[a]	34.2
Gini index[a]	36.0
School enrollment, primary (% gross)[b]	95.6
Life expectancy at birth, years[b]	76.5
Total GHG emissions (mtCO2e)	7.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Growth in 2023 is estimated at 3.3 percent, led by private consumption, tourism and construction. Price pressures continued to ease. Growth is projected at the same levels in 2024, led by services. Poverty is expected to continue declining as labor income increases. Medium-term prospects hinge on the recovery of the global economy and on the pace of domestic reforms. The EU accession aspirations provide an anchor to speed up convergence.

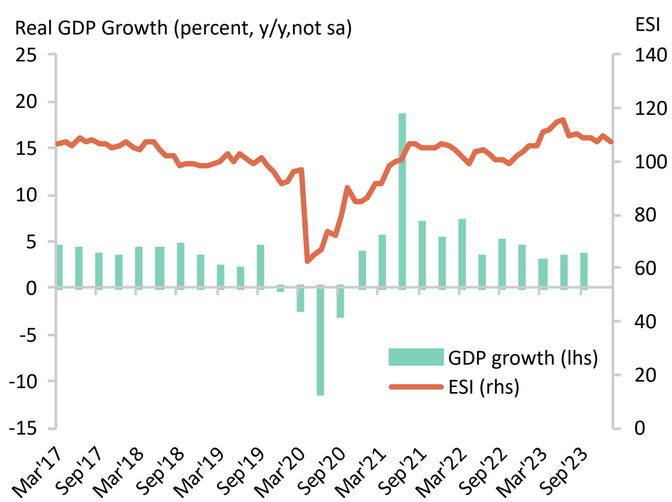
Key conditions and challenges

The Albanian economy has shown considerable resilience in the face of consecutive shocks during 2019-2022, which included the 2019 earthquake, the pandemic and the ensuing economic turmoil, and Russia's invasion of Ukraine. Prudent macroeconomic policies supported a strong economic rebound, with real GDP growth averaging 6.9 percent in 2021 and 2022, and GDP exceeding its pre-pandemic level in 2022. A key factor in Albania's resilience has been the proximity to the EU, which is a source of investment and remittances, and a main market for exports. Tourism has emerged as a key growth driver, helping to improve external imbalances and partially contributing to a steady appreciation of the lek in recent years. The availability of hydropower, which meets 85 percent of domestic energy demand in a year with average precipitation, has provided some insulation from the energy crisis and contributed to containing the country's greenhouse gas emissions. Albania's key development challenges are its declining population, partially due to outmigration; the poor quality of the labor force and the low quality of jobs created; the moderate pace of structural reforms, especially in the areas of private sector environment and governance; and rising fiscal pressures, due to government responses to multiple crises, climate risks, contingent liabilities, and debt refinancing at a time of high interest rates. To address the gap in human capital investment and the need for climate-resilient infrastructure, while maintaining support for the most vulnerable, Albania will need to implement a Medium-Term Revenue Strategy to strengthen domestic revenues. Unlocking further growth is conditional on the swift implementation of the government's program, anchored in the EU accession aspiration, and built on reforms tackling productivity, including improving the business environment, and expanding Albania's integration into foreign markets.

Recent developments

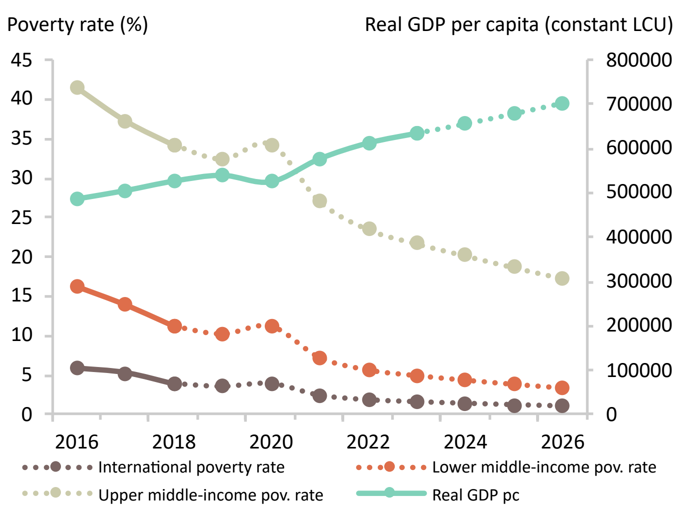
In 2023, GDP growth is estimated at 3.3 percent. Based on the performance of the first three quarters of 2023, trade, tourism and real estate led growth on the supply side, followed by construction and energy production. Private domestic demand and net exports drove growth on the demand side. Leading economic indicators suggest growth accelerated during Q4 with tourist arrivals hitting a record high, and construction activity accelerating. Increased income from employment, economic sentiment indicators and strong tax revenues, suggest a steady growth in Q4. Employment grew by 1.2 percent yoy in Q3 2023 notably in services, while declining in agriculture and manufacturing. Increasing wages and employment incentivized labor force participation (ages 15+), which peaked at 76.1 percent. Average private sector wages grew by 14.5 percent

FIGURE 1 Albania / Economic sentiment index (ESI) and GDP growth



Sources: Instat and Bank of Albania.

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



Source: World Bank. Notes: see Table 2.

in Q3 2023. Unemployment went down to 10.5 percent in Q3 2023 marking a further decline in annual terms. Given strong GDP per capita growth in 2023, poverty is projected to have declined by 1.8 percentage points to 21.7 percent.
The annual inflation rate dropped to 3.9 percent in December 2023 from a record high of 8.3 percent in October 2022, as a result of downward pressures from lower food and energy import prices, domestic currency appreciation and monetary policy normalization. The banking system remains resilient, despite increasing interest rates.
The government recorded an improved fiscal position in 2023, on account of both stronger revenue collection and lower spending. Revenues from profits, personal income taxes and social security contributions increased, reflecting higher statutory minimum wages and private sector wage growth. A five-year Eurobond of EUR 600 million was issued with a 5.9 percent coupon, higher than the 3.5 percent in 2021, to prefinance spending in 2024 and buy back an existing Eurobond maturing in 2025.

Outlook

Growth is expected to remain robust at 3.3 percent in 2024, in the context of tight global financial conditions and limited economic growth in Europe. Nevertheless, increased tourism and construction are expected to drive exports, consumption, and investment growth at rates similar to the pre-pandemic period. The inflation rate is projected to start converging toward the 3 percent target by early 2025. Economic sentiment remains positive (Figure 1), though showing signs of moderation.
Albania's primary balance is projected to reach 0.2 percent of GDP in 2024 and stay at similar levels in observance of the fiscal rule. Fiscal consolidation is expected both revenue and spending side. On revenues, Government plans to continue improvement of tax administration, envisioned in the Medium-Term Revenue Strategy. Public debt is expected to decline further to 58.2 percent of GDP in 2024, and also in the medium term, as a result of higher nominal growth and the achievement of a positive primary balance. Given Albania's growing reliance on external financing, risks related to the exchange rate, interest rate, and refinancing remain elevated.
Further increases in food and energy prices are a key risk to growth, as they could affect real disposable income, slow poverty reduction and potentially constrain the fiscal space. As a small, open economy, Albania is highly exposed to external shocks, such as a recession in the EU or further tightening of financing conditions in international capital markets beyond the current year.
Risks to growth emanate from natural disasters, and unfavorable global conditions. Fiscal risks emanate from public-private partnerships and SOEs, in addition to the country's hydropower-based energy sector, mainly due to variation in hydrology.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	8.9	4.9	3.3	3.3	3.4	3.5
Private consumption	4.3	7.4	2.5	2.6	2.7	2.8
Government consumption	7.8	-4.8	2.8	3.8	6.6	3.2
Gross fixed capital investment	19.2	6.5	1.3	3.2	1.4	2.6
Exports, goods and services	52.0	7.5	6.5	5.1	5.8	5.7
Imports, goods and services	31.5	13.1	3.4	3.6	3.9	3.7
Real GDP growth, at constant factor prices	8.2	5.3	3.2	3.3	3.4	3.5
Agriculture	1.8	0.1	-0.2	1.6	1.6	1.6
Industry	13.6	7.7	1.2	1.0	1.1	1.1
Services	8.1	5.9	5.4	4.9	5.0	5.1
Inflation (consumer price index)	2.6	6.7	4.8	3.0	3.0	3.0
Current account balance (% of GDP)	-7.8	-6.0	-3.8	-4.5	-4.5	-4.4
Net foreign direct investment inflow (% of GDP)	6.5	6.7	6.8	6.7	6.7	6.7
Fiscal balance (% of GDP)	-4.6	-3.7	-1.4	-2.3	-2.7	-2.9
Revenues (% of GDP)	27.5	26.8	27.9	27.8	27.8	27.9
Debt (% of GDP)	75.4	65.3	59.8	58.2	57.3	56.7
Primary balance (% of GDP)	-2.7	-1.8	0.7	0.2	0.2	0.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.4	1.8	1.6	1.4	1.2	1.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	7.3	5.7	4.9	4.3	3.8	3.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	27.1	23.5	21.7	20.2	18.7	17.4
GHG emissions growth (mtCO2e)	1.1	-4.0	-3.4	-2.9	-2.7	-2.3
Energy related GHG emissions (% of total)	45.5	44.5	44.2	43.8	43.5	43.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2014- and 2019-SILC-C. Actual data: 2018. Nowcast: 2019-2023. Forecasts are from 2024 to 2026.
b/ Projection using point-to-point elasticity (2013-2018) with pass-through = 1 based on GDP per capita in constant LCU.

ARMENIA

Table 1	2023
Population, million	2.8
GDP, current US$ billion	24.2
GDP per capita, current US$	8715.8
International poverty rate ($2.15)[a]	0.8
Lower middle-income poverty rate ($3.65)[a]	10.0
Upper middle-income poverty rate ($6.85)[a]	51.3
Gini index[a]	27.9
School enrollment, primary (% gross)[b]	92.9
Life expectancy at birth, years[b]	72.0
Total GHG emissions (mtCO2e)	13.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ Most recent WDI value (2021).

Growth exceeded expectations by reaching 8.7 percent in 2023, fueled by consumption and investment. Average inflation dropped from 8.6 percent in 2022 to 2 percent in 2023. Poverty and unemployment continued to decline. The economic outlook is subject to significant uncertainty due to ongoing border tensions with Azerbaijan, geopolitical turmoil, integration of refugees, and a possible slowdown in trading partner economies.

Key conditions and challenges

Armenia has weathered multiple crises since 2020. Thanks to sound macroeconomic management (inflation targeting, adherence to a fiscal rule, and sound financial sector oversight) and government mitigation measures, Armenia was able to recover from the significant contraction in 2020 resulting from the Covid-19 pandemic and the military conflict with Azerbaijan, while maintaining macroeconomic stability. Meanwhile, large money transfers from Russia contributed to high average annual growth of 10.7 percent in 2022-2023.

In recent years, the authorities aimed at reducing corruption and improving the business environment, in particular through improvement in tax and customs administration; however, important structural challenges persist, resulting in an undiversified economic structure, a narrow export base, insufficient private investment, low productivity, challenges to attracting FDI, and limited human capital. Armenia also faces significant geopolitical tensions and is highly vulnerable to climate related hazards.

Recent developments

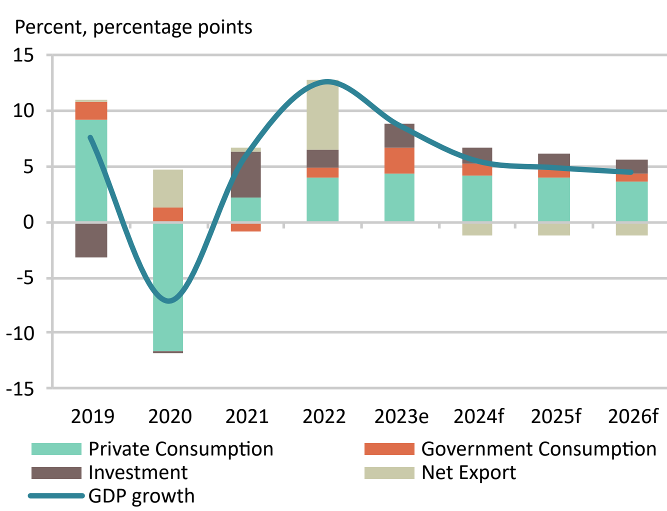
Growth reached 8.7 percent in 2023, exceeding expectations. On the demand side, private consumption grew by 6.3 percent (yoy), contributing to half of total growth. Public consumption and investment (up by 18 and 10 percent, respectively) had a similar combined contribution. Private consumption was fueled by a 12.5 percent increase in real average wages, improvements in employment, and cash transfers provided by the government to refugees in Q4 2023. On the supply side, growth was driven by an 11 percent (yoy) increase in services, primarily due to growth in trade and ICT services. Growth in industry slowed to 5.5 percent (yoy) due to a 6.6 percent contraction in the mining sector and a slowdown in manufacturing growth. Construction grew by 16 percent, (yoy), while agricultural growth remained flat.

The unemployment rate decreased from 13.7 percent in 2022 to an average of 12.5 percent in the first three quarters of 2023, benefitting from strong economic activity. The poverty rate, measured by Upper-Middle-Income poverty line (UMIC), decreased by 0.4 percentage points, to 51.3 percent in 2022.

Average inflation dropped from 8.6 percent in 2022 to 2 percent in 2023, largely driven by declines in food and transport prices. The Central Bank of Armenia has gradually cut the policy rate by 200 basis points since January 2023, to 8.75 percent by the end of January 2024.

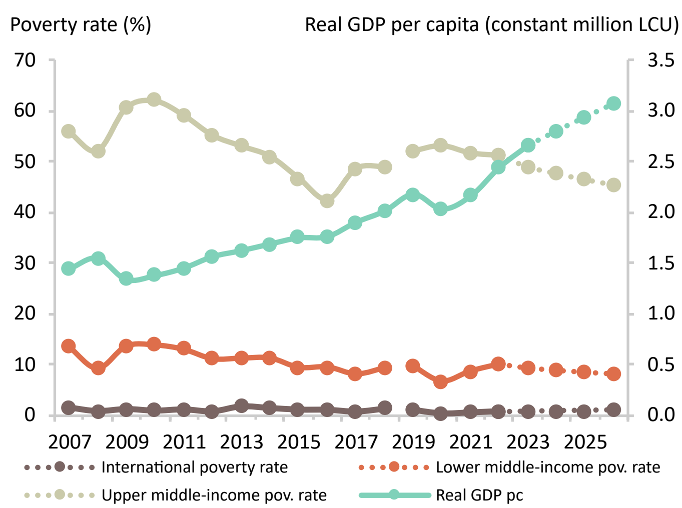
Credit to the economy in 2023 increased by 22 percent in nominal terms (yoy), driven mostly by an increase in dram-denominated loans. This lowered loan dollarization to 36 percent as of end-2023. Financial stability indicators remain sound, with the

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



Sources: Statistical Committee 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.

Capital Adequacy Ratio at 20 percent and the Non-Performing Loans ratio below 2.5 percent. However, the profitability of the banking system declined in 2023.

The budget registered a 4.1 percent of GDP deficit in 2023, all financed by domestic sources on a net basis. Total revenues over-performed by 3 percent compared to the original plan, supported by a 17 percent (yoy) nominal increase in tax collection, fueled by strong economic growth. Current expenditures (including social transfers to refugees) and capital expenditures increased by 22 and 27 percent (yoy) in nominal terms, respectively. The government debt increased from 46.7 percent at end-2022 to 48.1 percent end-2023.

In the first nine months of 2023, the export and import of goods remained robust, increasing by 34 and 43 percent (yoy in nominal USD), respectively, largely driven by re-exports. However, in this period the trade deficit increased to 8.8 percent of annual GDP, from 6.3 percent in the same period of 2022. Remittances dropped to 4.6 percent of annual GDP, from 7.7 percent in the same period of 2022 (affected by a 44 percent rise in the net outflow of non-commercial money transfers). Tourism-related service inflows increased by 47 percent (yoy) in the nine months of 2023 and partly mitigated the deterioration of the current account deficit, estimated at 2.8 percent of GDP in this period. The Armenian dram started to gradually depreciate in late 2023 and by end-2023 was 2.9 percent weaker against the USD (yoy). Gross international reserves decreased by USD 510 million in 2023 and reached USD 3.6 billion, covering 3 months of import.

Outlook

Growth is expected to ease to 5.5 percent in 2024 as the surge in investment moderates and net exports remain negative. Growth in the medium-term is projected to gradually converge towards the 4.5 percent potential growth rate. Average inflation is forecasted to gradually rise toward the inflation target of 4 percent in the medium term.

The budget deficit is projected to deteriorate to 4.7 percent in 2024 (owing to support to refugees amounting about 2 percent of GDP), followed by fiscal consolidation in the medium term. Capital expenditures are expected to increase over the medium term as a percent of GDP to address the infrastructure gap. The current account deficit is projected to deteriorate to 3.2 percent of GDP in 2024 but to remain manageable at around 3.5 percent in the medium term.

Due to robust economic performance and low inflation, the UMIC poverty rate is projected to decline gradually to 47.7 percent in 2024.

Downside risks are related to ongoing tensions with Azerbaijan, geopolitical turmoil, integration of refugees, and a possible slowdown in trading partner economies.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	5.8	12.6	8.7	5.5	4.9	4.5
Private consumption	2.8	5.5	6.3	6.0	5.8	5.1
Government consumption	-6.2	6.3	17.9	9.2	5.8	5.5
Gross fixed capital investment	23.6	9.0	14.4	6.2	6.0	5.9
Exports, goods and services	18.6	59.3	28.7	5.2	5.6	6.6
Imports, goods and services	12.9	34.5	28.3	6.7	7.0	7.8
Real GDP growth, at constant factor prices	5.6	13.2	8.4	5.5	4.9	4.5
Agriculture	-0.8	-0.7	0.2	0.9	1.2	1.4
Industry	2.6	9.2	5.5	5.3	4.7	5.0
Services	8.7	18.2	11.1	6.3	5.5	4.7
Inflation (consumer price index)	7.2	8.6	2.0	3.0	3.5	4.0
Current account balance (% of GDP)	-3.5	0.8	-2.3	-3.2	-3.4	-3.5
Net foreign direct investment inflow (% of GDP)	2.5	4.9	2.0	2.0	2.1	2.2
Fiscal balance (% of GDP)	-4.5	-2.2	-4.1	-4.7	-3.5	-3.1
Revenues (% of GDP)	24.9	25.1	25.8	26.0	26.2	26.6
Debt (% of GDP)[a]	60.2	46.7	48.1	49.0	48.6	48.2
Primary balance (% of GDP)	-2.0	0.1	-1.2	-1.4	-0.3	-0.2
International poverty rate ($2.15 in 2017 PPP)[b,c]	0.5	0.8	0.8	0.9	0.9	0.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	8.7	10.0	9.3	8.9	8.6	8.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	51.7	51.3	49.1	47.7	46.6	45.6
GHG emissions growth (mtCO2e)	2.4	6.4	14.7	14.5	12.8	11.2
Energy related GHG emissions (% of total)	63.2	65.7	70.0	73.5	76.1	78.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Excludes CBA debt.
b/ Calculations based on ECAPOV harmonization, using 2010-ILCS, 2018-ILCS, and 2022-ILCS. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.
c/ Projection using annualized elasticity (2010-2018) with pass-through = 0.8 based on GDP per capita in constant LCU.

AZERBAIJAN

Table 1	2023
Population, million	10.2
GDP, current US$ billion	72.7
GDP per capita, current US$	7111.1
School enrollment, primary (% gross)[a]	99.8
Life expectancy at birth, years[a]	69.4
Total GHG emissions (mtCO2e)	53.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2021).

Economic growth slowed to 1.1 percent in 2023, as a result of declining crude oil production and lackluster growth in the non-energy sector. Annual inflation fell sharply to 2.1 percent as both external and domestic pressures eased. Buoyant energy prices sustained sizable external and fiscal surpluses. In the medium-term, growth is projected to converge to about 2.5 percent as the fall in crude oil production eases and non-energy sector growth picks up.

Key conditions and challenges

Azerbaijan's continued reliance on hydrocarbons as a major source of export and fiscal revenues remains its main vulnerability. This challenges long-term growth prospects because of declining oil production, oil price volatility, and the global transition away from fossil fuels.

Constraints to private sector development include a large state footprint in the economy, lack of a level playing field for companies, shallow financial markets, and a weak human capital base.

Mitigation efforts around the world can substantially reduce Azerbaijan's resource rents through declining global fossil fuel demand and prices. Carbon border adjustment measures could further adversely impact the economy. Azerbaijan's hosting of COP29 in November 2024 may be an opportunity to boost climate mitigation and adaptation efforts. Elimination of distorting fossil fuel subsidies could substantially reduce emissions and boost the green transition.

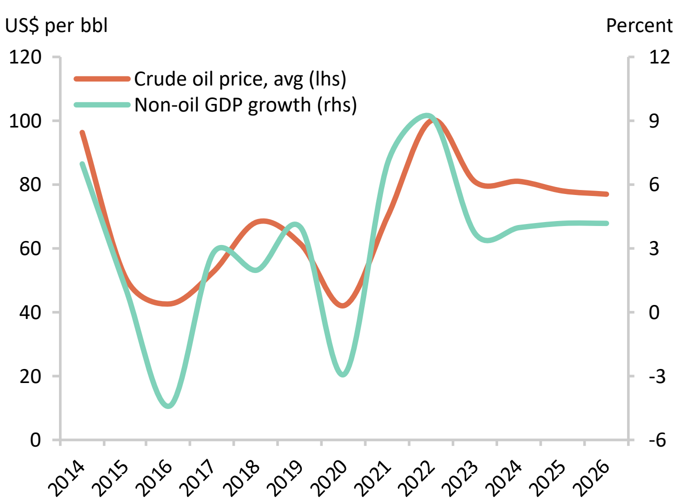
Recent developments

Economic growth decelerated to 1.1 percent in 2023, down from 4.6 percent in 2022. This slowdown was attributed to a contraction in crude oil production, while growth in the non-energy sector remained subdued (3.7 percent, yoy). The decline in transport sector output, which had exhibited robust growth in 2022 due to booming air cargo transportation, weighed down non-energy sector expansion. However, the construction sector experienced notable growth, fueled by increased public investment in reconstruction. On the demand side, strong public investment helped compensate for anemic growth in private investment, while consumption growth eased compared to 2022. The unemployment rate edged down to 5.5 percent in 2023.

Inflation fell sharply in the second half of 2023, driven by a decline in global food prices and subdued domestic demand. End of period inflation for 2023 reached 2.1 percent, approaching the lower limit of the CBAR's inflation target interval of 4 +/-2 percent. Since October 2023, the CBAR cut the policy rate three times by a total of 125 basis points, bringing it to 7.75 percent as of end January 2024.

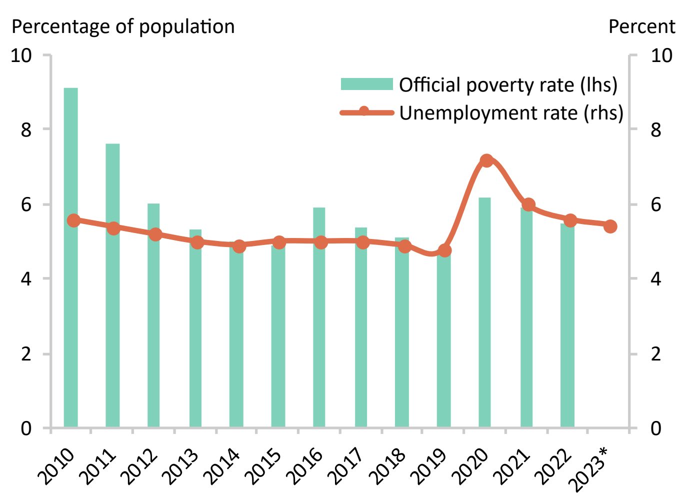
Buoyant oil and gas prices contributed to maintaining a robust external position. Hydrocarbon exports declined by 13 percent while non-hydrocarbon exports grew by 10 percent in 2023 compared to 2022. Over nine months, the current account balance (CAB) surplus reached 12.5 percent of GDP, as a substantial trade surplus offset the widening deficit in the primary income balance (driven by profit repatriation from energy companies). Remittance flows, primarily from Russia, declined in nine months of 2023 by 64 percent from the record-high levels seen in 2022, while remaining larger than in 2021. Financial outflows decreased significantly

FIGURE 1 Azerbaijan / Non-oil GDP growth and oil price



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

FIGURE 2 Azerbaijan / Official poverty rate and unemployment rate



Source: State Statistical Committee.
Notes: The World Bank has not yet reviewed the official national poverty rates for 2013–2022.*Preliminary.

as capital repatriation from natural gas production companies eased.

The strong external position allowed the CBAR to accumulate reserves, which increased by 29 percent in 2023, to USD 11 billion, covering six months of imports.

The fiscal surplus expanded to 8 percent of GDP in 2023, buoyed by favorable oil and gas prices and despite a notable increase in spending, which grew by 5.5 percent in real terms. This spending surge was primarily driven by a 13 percent real increase in capital spending, with the majority directed towards reconstruction needs. The non-energy primary balance is estimated at 21 percent of non-energy GDP, in line with the targets set for the fiscal rule. Due to the substantial fiscal surplus, SOFAZ assets grew by 14 percent in 2023, reaching USD 56 billion, equivalent to 77 percent of GDP.

Credit to the economy experienced a marked increase of 9 percent (yoy) in real terms in 2023, with the NPL ratio easing to 1.8 percent. The deposit portfolio fell by 6.5 percent in real terms.

Outlook

Economic growth is anticipated to reach 2.3 percent in 2024, driven by a less pronounced decline in crude oil output attributed to the commissioning of new oil platforms. Non-energy sector growth is expected to improve to 4 percent in 2024, primarily due to robust expansion in the construction sector fueled by public sector investments in reconstruction. Other sectors are expected to sustain their growth rates. On the demand side, consumption growth is expected to stabilize while investment growth is projected to remain moderate, supported by public investment but held back by anemic private investment growth. In the medium term, growth is forecast to hover around 2.4 percent but could accelerate if backed by a faster pace of implementation of structural reforms.

Inflation is projected to remain low, averaging 2.2 percent in the medium term, owing to moderate domestic demand growth and stabilization in global food prices. The external balance is expected to stay in surplus in the medium term, with CAB averaging 7.5 percent of GDP, supported by favorable energy prices, while growth in imports is expected to stabilize. Money transfers are anticipated to cool further in 2024.

The fiscal position is expected to maintain a surplus in 2024-2026, averaging 3.2 percent of GDP, bolstered by a steady revenue flow from the energy sector. However, the fiscal surplus is estimated to ease in the medium term as the government has delayed reaching the fiscal target (set at non-energy primary balance as a percent of non-energy GDP at 17.5 percent) to 2027, allowing for increased spending.

The main downside risks relate to a fall in energy prices, which would impact economic activity. Upside risks include the potential increase in natural gas production due to a new field becoming operational.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	5.6	4.6	1.1	2.3	2.4	2.4
Private consumption	7.0	4.9	4.0	3.8	3.7	3.6
Government consumption	3.8	6.3	8.1	5.1	6.9	6.8
Gross fixed capital investment	-6.0	5.7	9.6	5.4	3.9	3.5
Exports, goods and services	5.6	3.3	-2.9	0.4	0.5	0.6
Imports, goods and services	2.5	3.2	1.9	2.7	2.7	2.7
Real GDP growth, at constant factor prices	5.6	4.6	1.1	2.3	2.4	2.4
Agriculture	3.3	3.4	3.2	3.0	3.0	3.0
Industry	4.1	2.4	-0.9	0.2	0.2	0.2
Services	8.6	8.5	3.8	5.3	5.3	5.2
Inflation (consumer price index)	6.7	13.8	2.1	2.2	2.3	2.3
Current account balance (% of GDP)	15.2	29.7	9.5	7.9	6.5	5.4
Net foreign direct investment inflow (% of GDP)	-4.1	-1.4	-1.1	-1.0	-1.0	-0.9
Fiscal balance (% of GDP)	4.2	5.8	8.1	5.2	2.0	0.6
Revenues (% of GDP)	36.5	31.6	40.7	38.1	34.5	32.0
Debt (% of GDP)	16.2	11.0	8.5	7.7	10.5	12.4
Primary balance (% of GDP)	4.8	6.1	8.4	5.4	2.2	0.8
GHG emissions growth (mtCO2e)	4.4	-3.0	-0.6	0.5	1.1	1.3
Energy related GHG emissions (% of total)	64.1	62.9	62.7	63.0	63.3	63.5

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	2023
Population, million	9.2
GDP, current US$ billion	74.8
GDP per capita, current US$	8156.6
International poverty rate ($2.15)[a]	0.0
Lower middle-income poverty rate ($3.65)[a]	0.1
Upper middle-income poverty rate ($6.85)[a]	1.3
Gini index[a]	24.4
School enrollment, primary (% gross)[b]	94.7
Life expectancy at birth, years[b]	72.4
Total GHG emissions (mtCO2e)	88.9

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

On the back of a strong recovery in 2023, the economy has now reached its capacity limits and is navigating the challenges stemming from economic sanctions targeting key currency-earning sectors, impeding exports and altering trade routes. The growth trajectory faces further hurdles due to constraints and efficacy concerns surrounding price controls, monetary policies, and external demand from Eastern markets. With monetary and fiscal policies nearing their limits, there is a growing risk stemming from the country's decreasing potential growth.

Key conditions and challenges

Strong economic growth in 2023 exceeded expectations, but it stretched the country's production capacities and the limits of economic policies. Extensive administrative measures, combined with expansionary monetary and fiscal policies, were crucial to bolster domestic demand. However, potential GDP declined following the prolonged effects of sanctions and subpar investment activity.

To adapt to sanctions, the economy established new trade routes and redirected exports, particularly of potash fertilizers and refined oil products, through Russia, albeit at higher logistical costs. In the medium term, the authorities' focus is on addressing supply issues and enhancing local production by substituting imports. However, heightened reliance on the Russian market, amidst escalating competition facing Belarusian products, poses a notable risk and exposes Belarus to vulnerability stemming from weakened external demand, particularly in the event of a deteriorating economic outlook in Russia. Addressing labor market rigidities will become increasingly imperative, alongside necessary investments aimed at stimulating potential growth.

Heightened security concerns and geopolitical tensions add further strain to the economic outlook, especially with the potential introduction of additional sanctions, such as the closure of the western border for passenger and cargo transportation. Prolonged adherence to accommodative policies presents challenges, necessitating a delicate balance between preserving social benefits, wages, economic support, and overall stability. This, coupled with a deteriorating current account, exchange rate and price controls, and labor force constraints, heightens the risk of significant inflationary pressures.

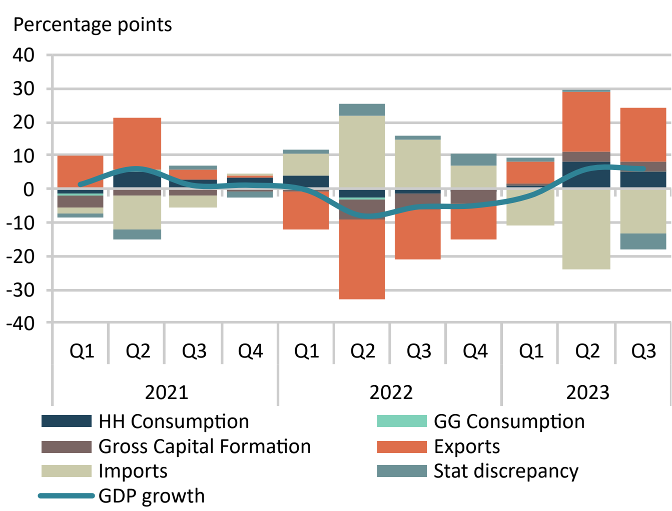
Finally, Belarus's economy grapples with its Soviet-era structure and a focus on quantitative growth, with diminishing prospects for economic diversification.

Recent developments

In 2023, Belarus's economy expanded by 3.9 percent. Key drivers were the manufacturing industry, particularly machinery and equipment, (9.2 percent), trade (12.7 percent) and the construction sector (11 percent). Conversely, the IT and transport sectors decreased by 14.2 percent and 2.8 percent, due to sanctions and labor migration, while the agricultural sector marginally declined. On the demand side, private consumption, boosted by subdued inflation and increased demand from consumer lending and wages (11 percent real increase), was the main contributor. A modest investment recovery, primarily from budgetary and quasi-budgetary sources, also contributed to growth.

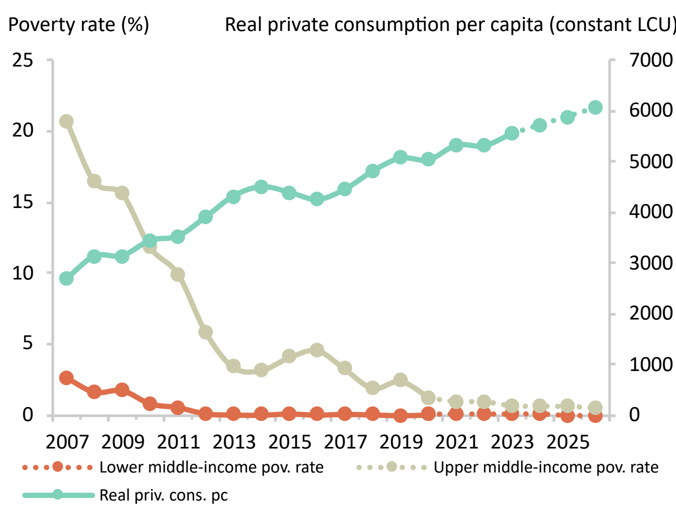
Inflation slowed to 5.8 percent due to base effects and price controls, prompting a base interest rate reduction from 12 percent in January to 9.5 percent in June 2023.

FIGURE 1 Belarus / Quarterly real GDP growth and contributions to real quarterly GDP growth



Source: World Bank calculations based on Belstat data.

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



Source: World Bank. Notes: see Table 2.

The exchange rate fluctuations are largely in tandem with the fluctuating value of the Russian ruble against major currencies. Belarusian ruble depreciated against major hard currencies while conversely modestly appreciating against the Russian ruble, as Russia being Belarus' largest export destination country.

The financial sector exhibited resilience, marked by a notable 30 percent surge in banking sector profits, predominantly driven by state-owned banks. The primary source of this growth stemmed from investments in state bonds. Concurrently, the proportion of non-performing assets remained stable.

Growing domestic demand and sanctions weakened the external position, leading to a current account deficit of 2 percent of GDP in Q1-Q3 2023. The trade surplus declined by 90 percent, driven by imports (17.7 percent), surpassing export growth (4.8 percent). Furthermore, a double-digit decline in remittances exacerbated the current account, leading to a shift from a USD2.2 billion surplus the previous year to a USD1 billion deficit, primarily funded by foreign direct investments. Despite this, there was no significant impact on external debt (-8 percent) or on foreign reserves (USD8.2 billion as of March 2024).

In 2023, households' real disposable income rose by 6.3 percent, from a 3.6 percent decline in 2022. Although employment fell by 1.5 percent, this was balanced by increases in real wages and pensions. Poverty, measured by the national poverty line, decreased from 3.9 percent in 2022 to 3.6 percent in 2023.

Outlook

With production capacities maxed out and inventories rising due to slower export growth, economic prospects look grim. Mounting inflationary pressures and trade flow concentration pose significant risks. In 2024, growth is expected to hinge on expansionary policies, support for state-owned enterprises, targeted lending, domestic borrowing, and sustained growth in disposable income. GDP growth is forecasted at 1.2 percent as the economy fully recovers from recession. Consumption will remain the primary driver of demand, albeit at a reduced intensity, with more modest public wage increases and social spending indexation compared to 2023. Similarly, investments, still below pre-2022 levels, are anticipated to contribute positively. Despite strong domestic demand and restricted foreign trade, imports are expected to surpass export growth, resulting in a negative net export contribution.

In the medium term, as economic stimuli effectiveness wanes, growth is expected to lag potential. While macroeconomic stability is upheld administratively, inflation and exchange rate volatility pose challenges. Inflationary pressures and market distortions resulting from price controls is likely to dampen consumer confidence. Investments, except in sectors aligned with Russian exports such as oil, fertilizers, and defense, are projected to slow down as the economy remains isolated. Consequently, the economy may face a trajectory of close to zero growth. Inflation is forecast to rise to 7.4 percent in 2024 and remain above historical averages in the medium term if administrative measures persist.

Lower external demand and commodity prices are expected to weigh on the current account balance, leading to currency pressures. The fiscal outlook is anticipated to deteriorate, with fiscal deficits expected as the government pursues economic stimulus and job preservation measures. Despite higher inflationary pressures, poverty levels are forecast to remain relatively unchanged in 2024 and 2025.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	2.4	-4.7	3.9	1.2	0.7	0.5
Private consumption	4.9	-1.2	4.1	2.5	2.0	1.9
Government consumption	-0.8	-0.1	1.4	0.2	0.0	0.0
Gross fixed capital investment	-5.5	-13.3	12.1	1.8	1.4	1.3
Exports, goods and services	10.1	-12.3	23.1	3.2	2.6	2.5
Imports, goods and services	5.7	-11.4	29.1	4.7	4.1	4.0
Real GDP growth, at constant factor prices	2.4	-4.7	3.7	1.4	0.7	0.5
Agriculture	-4.1	4.4	-0.4	2.0	2.3	2.3
Industry	3.1	-6.2	8.0	1.9	1.2	1.2
Services	3.0	-5.1	1.1	0.8	0.0	-0.4
Inflation (consumer price index)	9.5	15.2	5.1	7.4	6.1	5.8
Current account balance (% of GDP)	3.1	-0.6	-3.4	-4.8	-5.2	-6.0
Net foreign direct investment inflow (% of GDP)	1.9	1.8	2.7	1.9	1.9	1.8
Fiscal balance (% of GDP)	0.0	-2.1	1.7	0.4	-0.6	1.1
Revenues (% of GDP)	37.5	33.9	35.8	36.7	36.2	36.0
Debt (% of GDP)	35.8	38.7	37.7	37.1	38.2	33.6
Primary balance (% of GDP)	1.7	-0.5	2.8	1.3	0.3	1.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.1	0.1	0.1	0.1	0.0	0.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	1.0	1.0	0.7	0.7	0.6	0.5
GHG emissions growth (mtCO2e)	7.0	-4.3	0.6	-0.3	-0.2	-0.3
Energy related GHG emissions (% of total)	63.9	62.9	63.0	62.7	62.5	62.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2020-HHS. Actual data: 2020. Nowcast: 2021-2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on private consumption per capita in constant LCU.

BOSNIA AND HERZEGOVINA

Table 1	2023
Population, million	3.2
GDP, current US$ billion	24.2
GDP per capita, current US$	7563.4
School enrollment, primary (% gross)[a]	87.8
Life expectancy at birth, years[a]	75.3
Total GHG emissions (mtCO2e)	24.5

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

Driven by the drop in exports, real output growth halved to 1.9 percent in 2023 compared to the previous year. Slower private consumption helped rein in inflation, which stood at 6.1 percent in 2023 as food prices remained high. Upcoming municipal elections may double the fiscal deficit in 2024, yet public debt remains moderate. EU leaders have announced the commencement of accession negotiations upon the fulfillment of membership criteria.

Key conditions and challenges

To initiate EU accession negotiations, Bosnia and Herzegovina needs to address four key reforms within the identified 14 priorities. Specifically, legislation concerning the prevention of money laundering, conflict of interest, and the law on courts requires immediate attention. In parallel, meeting the economic criteria for EU accession necessitates addressing internal market fragmentation. This involves strengthening country-wide regulatory and supervisory institutions, enhancing transparency and efficiency of the oversized public sector, and reducing the footprint of state-owned enterprises.

Bosnia and Herzegovina has shown macroeconomic stability and resilience over the past decades, including during the COVID-19 pandemic. This resilience is attributed to three economic anchors: the currency board (which ties the Bosnia and Herzegovina mark to the euro), the state-wide collection of indirect taxes through ITA, and the prospects of EU membership which guide the reform agenda.

Despite these achievements, real income growth has averaged around 2 percent from 2009 to 2023, resulting in stagnant living standards, with real per capita consumption around 40 percent of the EU27 average. Faster convergence with the EU27 had proved challenging due to low investment rates, and a growth model heavily reliant on private consumption.

The necessity for structural reforms has become even more apparent considering the challenges posed by a declining population and deceleration in total factor productivity in the longer run. Adding to these challenges is the gradual introduction of the EU CBAM (2026) which is expected to adversely impact Bosnia and Herzegovina's export competitiveness from 2030 onwards.

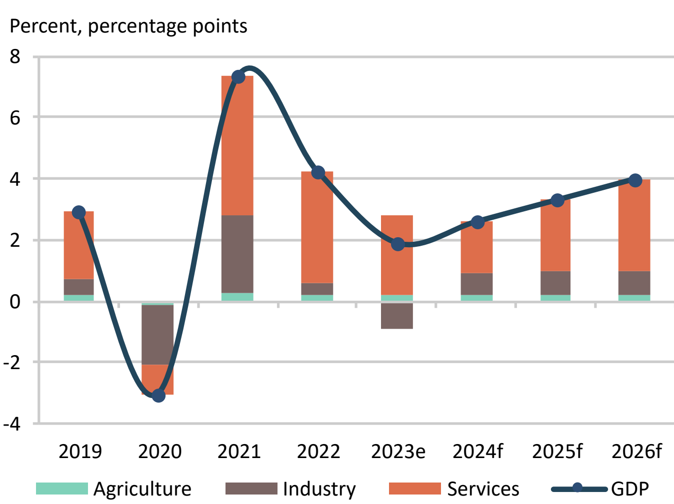
To ensure sustained longer-term trend growth between 3 and 4 percent, the implementation of economic and energy structural reforms is paramount. However, the pace of reform implementation remains sluggish due to political frictions, the disruptive influence of frequent elections, and fragmented responsibilities between entities and cantons. Addressing these impediments is essential for Bosnia and Herzegovina to chart a trajectory towards a more prosperous and resilient economic future.

Recent developments

In 2023, real GDP growth slowed in line with the timid growth in the EU. Real output growth halved to 1.9 percent compared to 2022, driven by a 6 percent decline in exports and nearly stagnant investments, which rose a mere 1.6 percent after growing 18 percent in 2022. The lower exports and stagnant investment were offset in part by stronger government consumption.

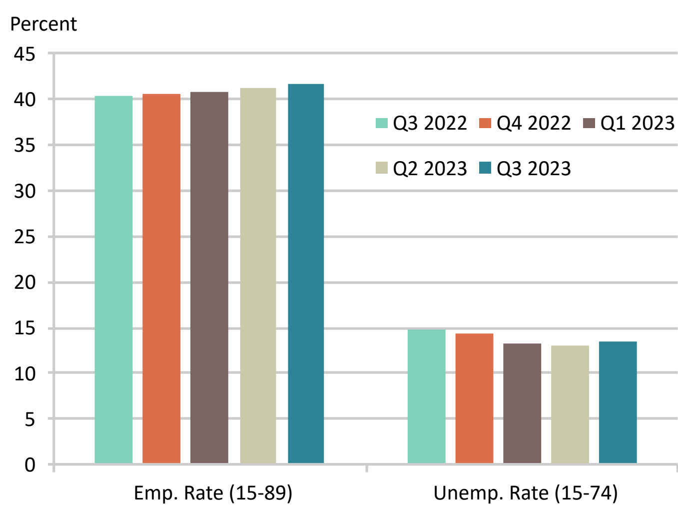
Inflation slowed to 6.1 percent in 2023, from 14 percent the year before. This

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



Sources: BiH Agency for Statistics (BHAS) and World Bank staff calculations.

FIGURE 2 Bosnia and Herzegovina / Labor market indicators



Sources: LFS 2022 – 2023 report and World Bank staff calculations.

deceleration resulted from a drop in transport prices and a deceleration in prices of housing, water, electricity, and gas, offsetting high food prices which grew at 10.7 percent in 2023 compared to 22.3 percent in 2022.

Despite the considerable growth slowdown, labor market indicators showed an improvement. The overall employment rate increased to 41.8 percent in Q3 2023 compared to 40.3 percent in Q3 2022, while the unemployment rate shrunk to 13.6 percent, a 1.2 percentage points decline from Q3 2022. This reduction in unemployment, observed for individuals with both low and high levels of education, occurred alongside a higher economic activity rate, which rose 1.5 percentage points to 48.3 percent.

Higher government spending contributed to a fiscal deficit of 0.9 percent of GDP in 2023, almost twice as large as the year before. The deficit was driven by an estimated 16 percent increase in subsidies, social benefits and transfers in the Federation of Bosnia and Herzegovina, and an 11 percent increase in the same spending items in Republika Srpska. Nevertheless, public debt in Bosnia and Herzegovina remains relatively low at around 35 percent of GDP.

Meanwhile, the current account deficit widened to 4.7 percent in 2023, or 3.9 percent of GDP after adjusting for net capital account inflows. The external deficit was 80 percent financed by FDI inflows, mainly into the foreign-owned banking sector.

Outlook

Against the backdrop of an expected improvement in the EU economic landscape, real GDP growth in Bosnia and Herzegovina is set to increase to 2.6 percent in 2024, and 3.3 percent in 2025. This growth is underpinned by higher exports facilitated by strengthened foreign demand and an uptick in private consumption supported by stronger real incomes as inflation further decelerates to low single digits. By 2026, real output growth is projected to accelerate to 4 percent fueled by exports and private consumption stemming from improved economic conditions in the EU, and tightening labor markets in Bosnia and Herzegovina. Despite the upswing in exports of goods and services from 2024 to 2026, the CAB is expected to deteriorate to over 5 percent of GDP due to higher imports of consumer goods in line with robust growth in private consumption.

The attention of policy makers is currently on the municipal elections in 2024 and meeting the legislative requirements for initiating EU accession negotiations. Hence, there appears little space for economic structural reforms in 2024.

The upcoming elections will likely further widen the fiscal deficit to 1.7 percent of GDP in 2024. Nonetheless, the fiscal stance should be firmly on track toward an overall balanced outcome, and primary surpluses, by 2025-26 leaving the consolidated general government debt hovering around 36 percent of GDP.

The outlook is clouded by downside risks. These risks entail a possible escalation of market disruptions and uncertainty stemming from the war in Ukraine as well as the volatility in the Middle East and Red Sea, an important trade route. These factors could reignite inflationary pressures and adversely impact the fragile recovery in the EU, affecting the demand for Bosnia and Herzegovina exports. Finally, geopolitical conditions pose a risk of exacerbating domestic political frictions, undermining the much needed push for economic structural reforms.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	7.3	3.8	1.9	2.6	3.3	4.0
Private consumption	4.0	3.0	2.0	2.3	2.8	3.2
Government consumption	6.1	2.7	4.1	4.6	1.5	3.7
Gross fixed capital investment	33.9	18.1	1.6	7.6	5.8	1.7
Exports, goods and services	5.0	9.9	-6.0	4.0	5.0	6.0
Imports, goods and services	8.0	12.0	-3.0	6.0	4.0	3.0
Real GDP growth, at constant factor prices	7.4	4.2	1.9	2.6	3.3	4.0
Agriculture	3.4	3.5	3.1	3.0	3.2	3.2
Industry	10.0	1.4	-3.4	2.8	3.2	3.2
Services	6.8	5.5	3.8	2.5	3.3	4.4
Inflation (consumer price index)	2.0	14.0	6.1	2.7	1.0	0.5
Current account balance (% of GDP)	-2.4	-4.5	-4.7	-4.8	-5.4	-5.2
Net foreign direct investment inflow (% of GDP)	3.3	3.0	3.2	3.4	3.9	3.9
Fiscal balance (% of GDP)	-0.3	0.4	-0.9	-1.7	-0.2	-0.4
Revenues (% of GDP)	43.2	39.9	39.4	39.3	39.7	38.6
Debt (% of GDP)	37.8	35.8	36.2	36.2	35.9	35.3
Primary balance (% of GDP)	1.0	1.2	-0.1	-0.9	0.5	0.4
GHG emissions growth (mtCO2e)	4.3	-2.3	-1.7	0.4	1.9	2.6
Energy related GHG emissions (% of total)	87.0	86.7	86.4	86.2	86.0	85.9

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	2023
Population, million	6.4
GDP, current US$ billion	102.2
GDP per capita, current US$	15997.1
International poverty rate ($2.15)[a]	0.7
Lower middle-income poverty rate ($3.65)[a]	2.0
Upper middle-income poverty rate ($6.85)[a]	5.8
Gini index[a]	39.0
School enrollment, primary (% gross)[b]	87.3
Life expectancy at birth, years[b]	71.5
Total GHG emissions (mtCO2e)	50.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ Most recent WDI value (2021).

Bulgaria's economy slowed down in 2023 in tune with trends in key trading partners. Inflation kept decelerating, but the pace is slow and puts at risk the country's eurozone accession bid for 2025. Real wage increases outpaced productivity growth in 2023, fueling concerns about competitiveness. A reescalation of political uncertainty threatens the government's reform agenda.

Key conditions and challenges

Even if Bulgaria has gradually converged to average EU incomes since the turn of the century, its development path has remained uneven. By 2022, its GDP per capita reached 62.1 percent of the EU average GDP per capita in purchasing power parity but Bulgaria remained the poorest member state. Moreover, institutional and governance weaknesses continue to hinder the country's faster productivity growth and development.

Bulgaria succeeded to weather the recent crises relatively well, not least due to timely fiscal support for households and businesses. Economic growth declined only moderately in 2020, followed by a robust recovery in 2021-2022. The fiscal position remained strong despite increased discretionary spending in response to the shocks. The bottom-line deficit did not surpass the 3 percent limit in any of the crisis years and public debt – at projected 23.8 percent of GDP in 2023 – remains among the lowest in the EU.

In 2015-2020, Bulgaria's economic growth improved living standards for the average and poorest 40 percent of households. These improvements led to a notable 9.6 percentage points reduction in poverty (using the US$6.85 poverty line) over the period. However, in 2021, this positive trend was reversed due to inflationary pressures and reduced employment rates among the unskilled.

In comparative terms, poverty levels remain relatively high by EU standards. Similarly, Bulgaria's inequality has been the highest in the EU for years in a row, with the Gini coefficient at 40.8 in 2021.

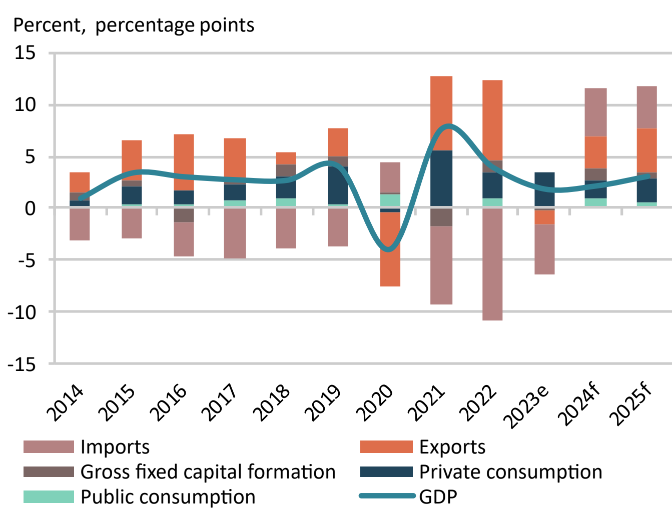
Since early 2021, the country has been marred by political instability and lost momentum for the reform agenda. This was briefly interrupted by two short-lived regular governments that tried to step up efforts and deliver on major policy goals, including milestones under the National Recovery and Resilience Plan. Yet, renewed political turmoil threatens to send the country back into an early elections spiral, with reduced appetite for reform.

Recent developments

Despite the stagnation of some of its key export markets, Bulgaria's economy managed to stay afloat thanks to robust private consumption. Nevertheless, the economy's expansion slowed down to 1.8 percent in 2023, as strong household consumption (+5.4 percent) and reduced contribution from negative net exports were offset by stagnating government consumption and a slump of gross capital formation. The latter fell by 18.1 percent due to a drawdown on inventories built up in 2021-2022, and likely cautiousness by businesses to reinvest in inventories during a slowdown.

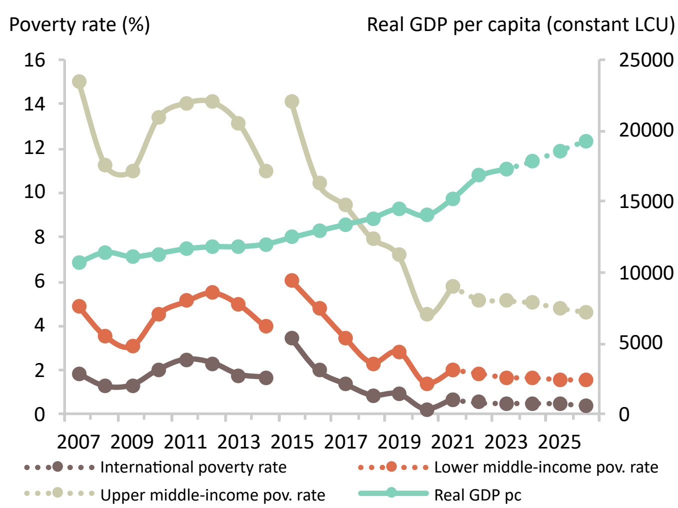
The deceleration of economic activity resulted in a moderate decline of employment in the second half of the year. Yet, nominal wages kept rising at double-digit rates y/y throughout 2023. Real average

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



Sources: World Bank and Bulgarian National Statistical Institute.

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



Source: World Bank. Notes: see Table 2.

wage growth thus came close to 5 percent for 2023, exceeding labor productivity growth and fueling concerns about the country's competitiveness.

Consumer price growth kept decelerating throughout 2023 to reach 3.8 percent y/y by January 2024. Yet, disinflation has been slow and annual average inflation reached a 15-year high of 9.5 percent in 2023.

Following the rapid deterioration of the fiscal position in early 2023, the balance improved later in the year as measures for strengthening revenue collection bore fruit. WB estimates suggest that on accrual basis the fiscal deficit reached 2.4 percent of GDP in 2023, or below the 3 percent Maastricht ceiling. The EC's Convergence Report on Bulgaria's readiness for eurozone accession is expected in June 2024. For the moment, inflation remains the only challenging Maastricht criterion for accession, but the gap between actual inflation rates and the line benchmark is shrinking rapidly.

Poverty reduction (using the 6.85$ poverty line) is expected to have slowed down in 2023 and reached 5.12 percent, mostly due to decelerated economic growth and still-high food and energy prices that affected adversely those whose nominal wages have not kept apace with inflation. The energy cost burden varies across households due to different consumption patterns and energy needs, with single-elderly households particularly affected.

Outlook

The economy's growth is expected to pick up in 2024-2025 with the expected recovery in the eurozone. Bulgaria's target to join the eurozone in 2025 may be difficult but not impossible to reach, should there be a stable government and the disinflation trend continues in the coming months, as expected.

Even if the banking sector remains stable and highly profitable (with net profit up 64 percent in 2023), the ongoing credit expansion – mirrored by a construction boom – fuels concerns about the build-up of a construction-credit bubble. The latter may lead to a painful correction and increase of non-performing loans – at 3.63 percent at end-2023 - going forward. Credit growth remained almost unabated at 12.4 percent y/y at end-2023 (against 12.7 percent at end-2022), with credit to households even accelerating to 15.9 percent, against 14.6 percent at end-2022. Similarly, construction permits for residential buildings kept growing at double-digit rates in Q4/2023.

Political risks have re-escalated after a failed PM rotation between the two ruling coalition partners that toppled the most recent regular government in March 2024. The country is now heading towards a new round of early elections – the 6th in about three years – which threaten to slow reform momentum and jeopardize the achievement of key policy goals such as near-term eurozone membership.

The government's budget sets a (cash-basis) 3 percent fiscal deficit target for 2024 on the back of an ambitious capital spending program. Thus, consolidation seems to have been put off beyond 2024. The current account is projected to keep its slight surplus in 2024-2026 due to the expected downward adjustment of import prices of key raw materials and the increase of net services export.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	7.7	3.9	1.8	2.1	3.1	2.7
Private consumption	8.5	3.9	5.4	2.6	3.4	3.6
Government consumption	0.4	5.5	-0.4	5.9	3.4	3.0
Gross fixed capital investment	-8.3	6.5	3.3	4.0	1.3	2.6
Exports, goods and services	11.2	11.6	-1.9	4.8	5.8	6.0
Imports, goods and services	10.7	15.0	-6.3	6.3	5.5	6.6
Real GDP growth, at constant factor prices	8.0	5.3	1.8	2.1	3.1	2.7
Agriculture	28.8	-4.4	-3.9	4.3	1.2	1.0
Industry	1.7	12.1	0.9	4.7	5.2	5.3
Services	8.8	3.9	2.6	1.1	2.5	1.9
Inflation (consumer price index)	3.3	15.3	9.5	5.9	4.2	2.0
Current account balance (% of GDP)	-1.7	-1.4	1.6	1.6	2.0	2.2
Net foreign direct investment inflow (% of GDP)	1.8	2.4	3.1	2.5	2.7	2.6
Fiscal balance (% of GDP)	-2.7	-0.8	-3.1	-2.9	-2.7	-2.6
Revenues (% of GDP)	37.7	38.6	36.5	38.1	38.7	38.9
Debt (% of GDP)	23.9	22.6	23.7	23.2	23.2	22.8
Primary balance (% of GDP)	-2.3	-0.4	-2.6	-2.5	-2.3	-2.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.7	0.5	0.5	0.5	0.5	0.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	2.0	1.8	1.7	1.7	1.6	1.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	5.8	5.2	5.1	5.0	4.8	4.6
GHG emissions growth (mtCO2e)	7.1	6.3	-0.4	0.6	0.6	0.1
Energy related GHG emissions (% of total)	78.7	75.9	75.0	73.8	72.6	71.4

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 2022-EU-SILC. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2021) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

CROATIA

Table 1	2023
Population, million	3.8
GDP, current US$ billion	82.0
GDP per capita, current US$	21401.9
International poverty rate ($2.15)[a]	0.3
Lower middle-income poverty rate ($3.65)[a]	0.4
Upper middle-income poverty rate ($6.85)[a]	1.8
Gini index[a]	28.9
School enrollment, primary (% gross)[b]	95.9
Life expectancy at birth, years[b]	76.4
Total GHG emissions (mtCO2e)	17.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ Most recent WDI value (2021).

Croatia's economic growth at 2.8 percent remained well above EU average in 2023, supporting income convergence. Poverty has likely stayed stagnant at 1.4 percent in 2023. The medium-term outlook is relatively favorable due to robust domestic demand, underpinned by a tight labor market, a strong inflow of EU funds, and slowly improving external demand. Fiscal policy is set to be expansionary with significant increase in spending in 2024, but public debt will remain on a declining path.

Key conditions and challenges

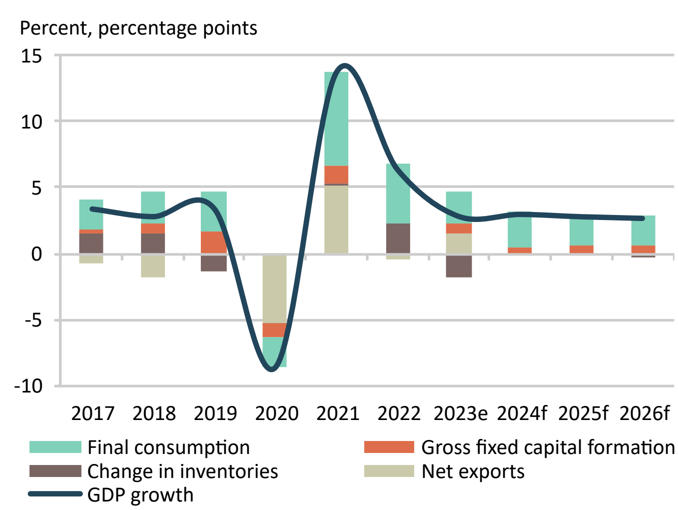
Croatia's economic activity continues to show resilience, which is reflected in an accelerated convergence with average EU incomes over the last three years. The country's GDP per capita is set to exceed 75 percent of the EU average in 2023, up by 9 p.p. compared to 2019. The recent GDP growth acceleration is largely due to the booming tourism sector and the strong inflow of EU funds. Economic activity was also underpinned by supportive fiscal policy, strong labor market, and large inflows of workers' remittances, which fostered robust personal consumption growth. Over the last year, Croatia was, however, not spared from the adverse effects of inflationary pressures and tighter monetary policy that weighed on business investments and external demand. The medium-term outlook remains relatively favorable on the back of robust domestic demand, an improved external environment, and substantial EU funding.

Notwithstanding the significant economic progress, there remains ample room to improve the quality of the institutional framework and to address shortcomings in the business environment, two of Croatia's long-standing issues. Lifting potential growth through structural reforms that augment productivity over the next couple of years will be especially important in the context of possible reduction in EU funds available to Croatia in the post-2030 period and still relatively low labor market participation and adverse demographic trends. The uncertain external outlook and geopolitical tensions still pose downside risks to growth but are partially mitigated by Croatia's improved economic resilience. Risks to fiscal sustainability are moderate: despite the short-term deterioration of the fiscal balance in 2024, the downward trajectory of the debt-to-GDP ratio is expected to continue over the medium term. Moreover, the banking sector remains resilient, with private sector debt and NPLs staying relatively low, while external vulnerabilities appear manageable, given the high positive current and capital account balance.

Recent developments

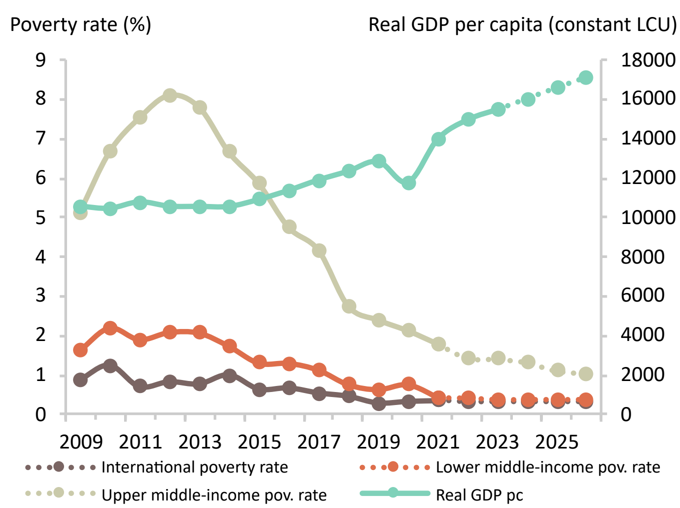
Croatia ended 2023 on a strong note. After a modest expansion in the third quarter (in q-o-q terms), real GDP growth accelerated in the last quarter with an annual growth rate surpassing 4 percent, primarily reflecting strong domestic demand. Overall, real GDP growth in 2023 stood at 2.8 percent and was one of the highest in the EU. The largest contribution came from private consumption, which was supported by favorable labor market developments and falling inflation, leading to an improvement in real disposable incomes. Investment activity, primarily supported by public sector investments financed by EU funds, also contributed positively. On the other hand, business investments remain stubbornly low compared to EU peers.

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



Sources: CROSTAT and World Bank.

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



Source: World Bank. Notes: see Table 2.

Services exports continued to provide strong support to growth, whereas goods exports declined. The trade balance improved following the decline in imports which in part seems to have been linked to a relatively strong fall in inventories. On the supply side, growth was primarily supported by the services sector and construction, while manufacturing activity was suppressed, consistent with sluggish growth in Croatia's main trading partners. Net inflow of FDI remained significant but a large share of investments in real estate makes it less relevant for raising the country's growth potential. The labor market remained strong throughout 2023, with the strongest employment growth observed in sectors linked to tourism and construction. At the same time, nominal wage growth picked up, which, amid falling inflation, resulted in a strong rise in real wages. Despite robust growth and high inflation having a favorable impact on revenue performance, the significant rise in the government wage bill led to deterioration of the general government budget balance. Inflation steadily declined throughout 2023, and in January 2024 reached 4.8 percent. The slowdown has been consistent across major components, except for services price inflation, which remains elevated. Despite falling inflation, the World Bank 2023 Rapid Assessment Survey reports that most Croatians (78 percent) expected the increase in their total household income would not catch up with inflation. Poverty is expected to remain at 1.4 percent in 2023.

Outlook

Over the medium term, the country's growth rate, at around 2.8 percent, is expected to exceed the average for the EU. In 2024, growth is projected to accelerate to 3.0 percent reflecting positive carry-over effects from 2023, strengthening external demand, as well as expansionary fiscal policy. In addition, a strong labor market, which is reflected in a relatively high share of companies reporting shortages of labor and a strong rise in public sector wages, will further support increase in real incomes. Against this backdrop, personal consumption growth is expected to accelerate in 2024 and be the main driver of growth. The dynamics of goods exports could also strengthen in response to the improved external environment, while growth in services exports is expected to slow down given the strong performance in recent years and the reduced price-competitiveness of the Croatian tourism sector. Investment growth is expected to decelerate but remain relatively strong, supported by EU funds and improved private sector investments. While personal consumption growth is expected to decelerate following less expansionary fiscal policy in 2025, improvements in the external environment, less restrictive monetary policy, as well as an ample amount of EU funds will continue to support economic activity. Inflation is set to continue its declining trend and gradually narrow towards the ECB target of close to 2 percent by the beginning of 2025, but risks remain given upward wage pressures. At the same time, fiscal balance is expected to worsen significantly in 2024, largely reflecting rise in wage bill and social benefits, but it is set to remain relatively contained over the forecast horizon. Together with continued nominal economic growth, this will allow for a further decline in the public debt-to-GDP ratio that is forecast to reach 56 percent at the end of 2026. Poverty is expected to gradually fall to 1.0 percent by 2026.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	13.8	6.3	2.8	3.0	2.8	2.7
Private consumption	10.6	6.7	3.0	3.7	2.8	2.7
Government consumption	3.0	2.7	2.8	2.9	2.9	2.8
Gross fixed capital investment	6.6	0.1	4.2	2.1	3.3	3.4
Exports, goods and services	32.7	27.0	-2.9	2.8	3.2	3.3
Imports, goods and services	17.3	26.5	-5.3	3.1	3.3	3.5
Real GDP growth, at constant factor prices	12.2	7.9	2.3	3.0	2.8	2.7
Agriculture	9.6	-4.3	0.4	0.9	1.0	1.0
Industry	12.4	2.7	-0.5	1.7	2.2	2.2
Services	12.3	10.5	3.4	3.6	3.1	2.9
Inflation (consumer price index)	2.7	10.7	8.4	3.9	2.3	2.2
Current account balance (% of GDP)	1.0	-2.8	1.0	1.6	1.6	2.4
Net foreign direct investment inflow (% of GDP)	5.2	5.4	3.5	3.4	3.4	3.2
Fiscal balance (% of GDP)	-2.5	0.1	-0.3	-2.3	-1.8	-1.6
Revenues (% of GDP)	46.1	45.0	46.6	45.4	45.5	45.8
Debt (% of GDP)	78.1	68.2	60.7	58.2	56.9	56.0
Primary balance (% of GDP)	-1.0	1.5	0.9	-1.2	-0.6	-0.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.3	0.3	0.3	0.3	0.3	0.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.4	0.4	0.4	0.4	0.4	0.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	1.8	1.4	1.4	1.3	1.1	1.0
GHG emissions growth (mtCO2e)	4.2	-1.1	-0.1	0.7	0.4	0.3
Energy related GHG emissions (% of total)	87.5	86.8	86.6	86.2	85.8	85.4

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 2022-EU-SILC. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2021) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

GEORGIA

Table 1	2023
Population, million	3.7
GDP, current US$ billion	30.5
GDP per capita, current US$	8212.4
International poverty rate ($2.15)[a]	5.5
Lower middle-income poverty rate ($3.65)[a]	19.1
Upper middle-income poverty rate ($6.85)[a]	55.4
Gini index[a]	34.2
School enrollment, primary (% gross)[b]	104.5
Life expectancy at birth, years[b]	71.7
Total GHG emissions (mtCO2e)	18.3

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

After two years of double-digit growth, the economy expanded by 7.5 percent in 2023, driven by strong investment. Poverty and unemployment continued to decline. Growth is expected to decelerate in 2024, given tight monetary policy, a slowdown in trading partners, and heightened geopolitical risks.

Key conditions and challenges

Georgia has made notable gains in income growth and poverty reduction over the past decade. As a result of sound macroeconomic management, GNI per capita (constant 2017 USD) increased from USD 9,580 in 2010 to USD 15,880 in 2022. Poverty (measured by the USD 6.85 poverty line in 2017 PPP) declined from 70.6 percent in 2010 to an estimated 47.7 percent in 2022.

Nevertheless, structural challenges persist, notably weak productivity and limited high-quality job creation. About a third of workers remain engaged in low-productivity agriculture, and Georgia also has a large share of self-employed in other sectors. Access to finance remains a major obstacle for SMEs, while skills mismatches are reported to be an impediment for most firms. Due to its high degree of trade openness and dependence on tourism, Georgia is vulnerable to external shocks.

In December 2023, Georgia was granted candidate status by the European Union (EU). The EU accession process offers unique opportunities to boost reforms to achieve prosperity and converge with other member states.

Recent developments

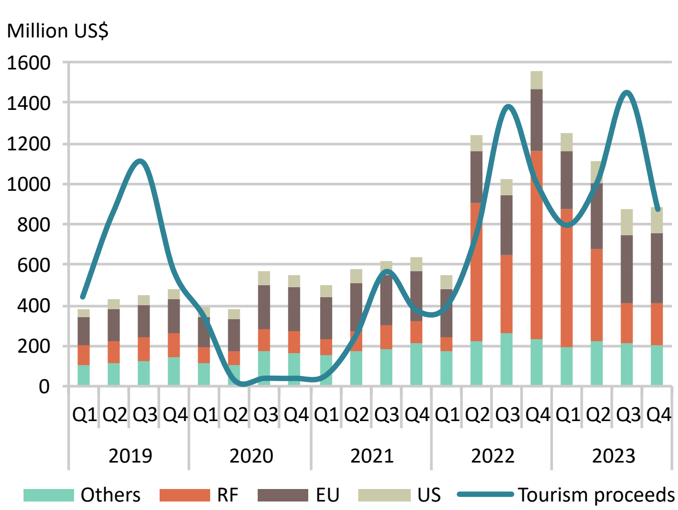
Growth in 2023 is estimated at 7.5 percent, driven by robust investment performance, notably fueled by a surge in construction activities (+17 percent in real terms). Strong growth in tourism revenues (+17 percent in USD terms) also supported growth.

Annual inflation slowed sharply to 0 percent at end-2023 from 9.8 percent in December 2022, reflecting falling global food and energy prices, and lari appreciation. Rental prices grew by 4 percent in 2023 (compared to 37.4 percent in 2022), while the introduction of reference prices for medicines exerted downward pressure on inflation. Core inflation stood at 2.0 percent in December (yoy). In response, the National Bank of Georgia cut the monetary policy rate 6 times, from 11 to 8.25 percent between May 2023 and March 2024.

Credit nominally grew by 18 percent (yoy) as of end-December, while deposits increased by 14 percent (yoy) (both adjusted for foreign exchange effects, in nominal terms), driven by strong growth in domestic currency deposits (28 percent, yoy). As a result, deposit dollarization fell by 5.4 percentage points (ppt) over the last year, to 50.8 percent as of end-2023.

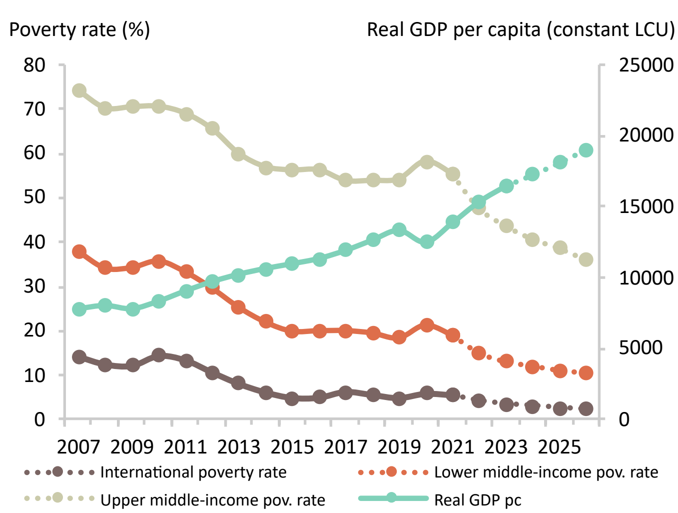
According to preliminary estimates, the current account deficit narrowed slightly in 2023, to 4.3 percent of GDP. The trade deficit of goods widened by 19 percent in nominal terms (USD). Exports grew by 8 percent (yoy) in nominal terms (USD), driven by the re-exports of used cars, while import growth reached 12 percent. Service exports remained supported by the continued post-COVID-19 recovery in tourism. International reserves increased

FIGURE 1 Georgia / Gross money transfers from abroad and tourism proceeds



Sources: Geostat, NBG, and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

to USD 5.0 billion, equivalent to around 4.2 months of imports of goods in the same year. The Georgian lari appreciated by around 10 percent vis-à-vis the US dollar in 2023.

The fiscal deficit narrowed in 2023, reaching 3.0 percent of GDP (including privatization proceeds). General government revenues increased by 14.2 percent, while tax collection rose by 13.5 percent in 2023 in nominal terms. Current spending grew by 14.6 percent, reflecting increases across the board. Capital spending rose by 4.6 percent in nominal terms. At end-2023, public debt was estimated at 38.1 percent of GDP, slightly down from end-2022, driven by lower financing needs and rapid economic growth.

Poverty has been declining, supported by an increase in real wages (by around 17 percent in 2023), social protection measures, and declining food prices. The job market experienced a strong recovery, with unemployment falling from 20.6 percent in 2021 to a record low of 16.4 percent in 2023.

Outlook

Growth is expected to ease to 5.2 percent in 2024 as a result of tight monetary policy, a slowdown among trading partners, and heightened geopolitical risks. Growth is projected to stabilize at around 5 percent of GDP for 2025-26 as Georgia benefits from the gradual recovery among its trading partners. The poverty rate is expected to keep declining gradually.

Inflation is expected to converge to its 3 percent target by end-2024. Monetary policy is expected to continue easing gradually in 2024.

Despite dwindling money transfers, the current account deficit should remain well below pre-COVID-19 levels in the medium term.

The 2024 state budget law reflects the government's commitment to pursuing gradual consolidation by reducing the fiscal deficit to 2.5 percent (including privatization revenues) and maintaining public debt below 38 percent of GDP. Revenue and tax collection are projected to continue their solid performance in 2024, with additional profit tax revenues in the financial sector (0.5 ppt of GDP) and higher taxation of gambling (rendering 0.5 ppt of GDP increase). Current expenses are set to increase by 0.8 percentage points, to 23.0 percent of GDP, to be offset by a slight decline in public investment (to 8 percent of GDP).

There are substantial risks to the outlook, reflecting uncertainties. A more rapid reversal in money inflows, weaker tourism revenues, and an increase in global commodity prices could hinder growth and increase debt levels and financing needs. Other risks include tighter global financial conditions and climate change-related risks. An adequate monetary and fiscal policy stance with adequate buffers is expected to help cushion potential shocks while exchange rate flexibility should help shield reserve levels by supporting an adjustment in imports.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	10.6	11.0	7.5	5.2	5.0	5.0
Private consumption	12.3	-2.8	3.2	3.1	3.3	3.7
Government consumption	7.1	-0.8	6.2	8.2	2.6	2.4
Gross fixed capital investment	-4.8	9.9	32.2	6.9	5.9	9.8
Exports, goods and services	23.5	37.4	8.2	8.2	8.6	8.3
Imports, goods and services	8.8	16.9	8.6	6.3	5.7	7.6
Real GDP growth, at constant factor prices	12.2	9.8	7.9	5.2	5.0	5.0
Agriculture	2.3	-1.8	-2.8	2.5	2.5	3.0
Industry	1.0	15.1	5.1	5.0	5.0	5.0
Services	17.4	9.6	10.0	5.5	5.2	5.1
Inflation (consumer price index)	9.6	11.9	2.5	2.3	3.0	3.0
Current account balance (% of GDP)	-10.3	-4.5	-4.3	-5.9	-5.4	-5.2
Net foreign direct investment inflow (% of GDP)	4.9	7.1	4.3	4.6	4.8	4.6
Fiscal balance (% of GDP)	-7.0	-3.5	-3.0	-2.9	-2.6	-2.5
Revenues (% of GDP)	24.9	26.6	27.6	28.0	27.7	27.2
Debt (% of GDP)	49.0	39.1	38.1	37.0	36.1	35.5
Primary balance (% of GDP)	-5.7	-2.4	-1.5	-1.1	-0.8	-0.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	5.5	4.3	3.5	3.1	2.6	2.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	19.1	15.0	13.0	12.0	11.0	10.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	55.4	47.7	43.7	40.8	38.7	36.2
GHG emissions growth (mtCO2e)	3.6	0.9	-0.8	0.2	0.2	0.6
Energy related GHG emissions (% of total)	56.4	57.6	57.5	57.5	57.4	57.2

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 2021-HIS. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2021) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

KAZAKHSTAN

Table 1	2023
Population, million	19.8
GDP, current US$ billion	259.7
GDP per capita, current US$	13088.5
International poverty rate ($2.15)[a]	0.0
Lower middle-income poverty rate ($3.65)[a]	0.3
Upper middle-income poverty rate ($6.85)[a]	10.6
Gini index[a]	29.2
School enrollment, primary (% gross)[b]	100.9
Life expectancy at birth, years[b]	70.2
Total GHG emissions (mtCO2e)	294.3

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

Economic growth is projected to slow to 3.4 percent in 2024 before regaining momentum in subsequent years, driven by new oil production coming online. Inflation is expected to decrease but remain above the central bank target. Downside risks include weakening global demand and prices for oil, and potential disruptions to exports. Global decarbonization efforts pose a long-term challenge, necessitating a transition towards a new, sustainable growth model.

Key conditions and challenges

Kazakhstan's growth has slowed from 10 percent over 2000-2007 to below 4 percent over the last 10 years, highlighting the vulnerabilities of an economy still dependent on hydrocarbons and with stagnant productivity growth. Looking ahead, adjusting to the global green transition presents significant challenges for Kazakhstan.

Revitalizing economic growth and productivity will require bolder steps to enable the private sector to thrive and drive economic diversification by reducing the state's footprint and boosting competition across the economy, complemented with strengthening human capital and policies to support decarbonization.

Recent developments

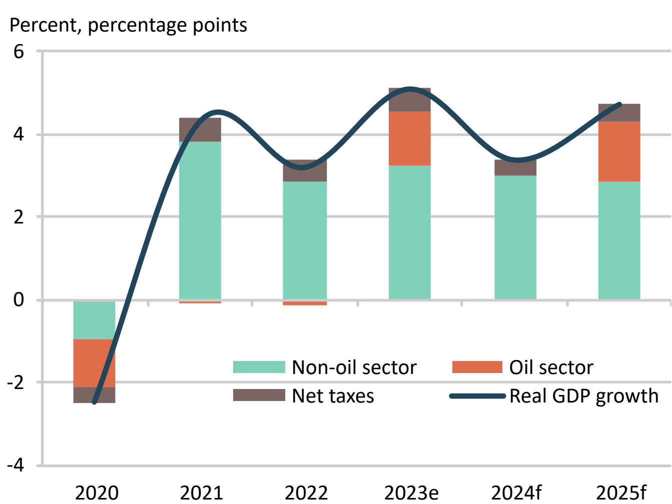
Real GDP grew by 5.1 percent in 2023 thanks to increased oil production, fiscal stimulus, and robust consumption. Oil production jumped by 6 percent yoy, accounting for one-third of growth. Despite stagnant real incomes and tight monetary policy, strong consumer and business sentiment was evident in retail trade growth (7 percent, real terms), car sales (8 percent), and new business registrations (10 percent). Capital investment picked up 14 percent yoy in 2023 (9 percent in 2022), with almost 80 percent from non-resource sectors.

While unemployment decreased slightly from 4.9 percent in 2022 to 4.7 percent in 2023, real incomes contracted 0.3 percent yoy due to high inflation. To ease the burden on living standards, the authorities once again raised the minimum wage, by 21.4 percent in nominal terms in 2023. This effectively doubled its level from 2021 (70 percent, real terms), exceeding inflation over the same period, and it helped to reduce the poverty rate to 8.8 percent (at USD 6.85/day) in 2023.

Slowing food prices and tight monetary policy helped ease price pressure. In February 2024, inflation decelerated to 9.3 percent yoy from a peak of 21.3 percent a year ago, but inflation expectations remain elevated. In line with the recent reversal in price dynamics, in February 2024, the central bank cut the policy rate by 0.5 percent to 14.75 percent.

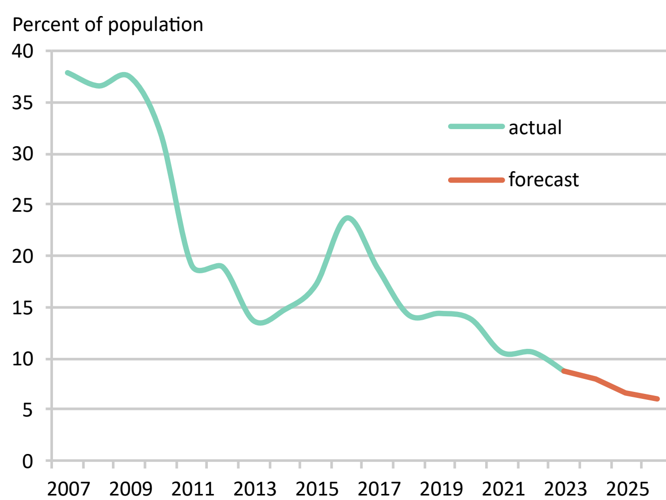
The current account has swung from a surplus of 3.5 percent in 2022 to a deficit of 3.8 percent of GDP in 2023. This deterioration was driven by a 6.6 percent fall in exports due to lower oil prices and import growth of 20.1 percent. FDI inflows continued, reaching an estimated 1.9 percent of GDP, and this helped to finance the deficit. However, momentum has weakened as major investment projects in the oil sector, financed through FDI, near completion. Gross international reserves remained stable in 2023, providing approximately seven months of import cover. The tenge has been relatively stable against the US dollar. The consolidated budget moved into a deficit of 1.6 percent in 2023, down from a

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



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

FIGURE 2 Kazakhstan / Poverty rate, percent of population living on less than $6.85 (PPP) per day



Source: World Bank staff estimates.

surplus of 1.2 percent of GDP in 2022. This deterioration was due to increased spending on social welfare programs, housing, and utility infrastructure, along with rising interest payments, which collectively drove expenditures up by 1.6 percent of GDP. Revenues declined by 1.2 percent of GDP due to lower oil-related tax income.

The banking sector remains resilient, supported by robust capital and liquidity positions that exceed regulatory requirements. Profitability was boosted in 2023 by high interest rates. Non-performing loans amounted to only 3 percent of the loan portfolio in 2023, but this warrants close monitoring given rising household indebtedness and elevated interest rates.

Outlook

Economic growth is projected to moderate to 3.4 percent in 2024 before increased oil production temporarily raises it to 4.7 percent in 2025. Lower growth expectations for 2024 reflect reduced oil production expectations due to maintenance at major fields and Kazakhstan's adherence to OPEC+ production cuts.

Inflation is expected to gradually decline but remain above the 5 percent target in 2024. The planned utility tariff increases and the potential for a sustained budget deficit could hinder the projected downward trend.

The current account deficit is expected to decrease in 2024 and beyond, driven by an increase in oil exports.

The fiscal deficit is projected to increase to 2.7 percent of GDP in 2024, primarily due to lower oil-related revenues, before gradually decreasing to 1.2 percent by 2026. Sustained growth in non-oil sectors and improved tax collection efforts will contribute to growth in non-oil revenues. Following a series of fiscal stimulus measures, the government aims to comply with the fiscal rule by bringing budget spending down to pre-crisis levels.

Poverty is expected to fall to 7.9 percent (at USD 6.85/day) in 2024 as growth continues and inflation subsides, though elevated food prices remain a key challenge for the poorest households.

The outlook faces downside risks. Lower growth in major trading partners like China and the EU, could substantially worsen Kazakhstan's outlook, as would a weakening of oil prices. Stubborn inflation and the increased likelihood of climate-related shocks risk setting back poverty reduction progress. Disruptions to oil exports, such as unexpected maintenance in existing fields or delays in oil production coming online from the new Tengiz oilfield, could hinder oil output and economic growth. Lastly, there are risks to growth arising from the geopolitical situation and trade flows with Russia.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	4.3	3.2	5.1	3.4	4.7	3.6
Private consumption	6.3	2.0	4.3	5.0	5.2	5.2
Government consumption	-2.4	9.1	3.1	1.5	0.9	0.5
Gross fixed capital investment	2.6	3.6	5.2	4.0	4.5	3.7
Exports, goods and services	2.3	10.2	5.5	0.0	6.4	1.6
Imports, goods and services	-0.3	11.6	4.1	3.8	5.0	4.1
Real GDP growth, at constant factor prices	4.1	2.9	5.0	3.3	4.7	3.4
Agriculture	-2.2	9.1	-7.7	3.0	3.0	2.0
Industry	4.5	2.7	5.7	3.4	6.0	3.8
Services	4.4	2.5	5.8	3.3	3.9	3.3
Inflation (consumer price index)	8.5	20.3	9.8	8.0	6.7	5.6
Current account balance (% of GDP)	-1.3	3.5	-3.8	-3.1	-2.3	-1.2
Net foreign direct investment inflow (% of GDP)	1.0	3.5	1.9	2.1	2.1	2.1
Fiscal balance (% of GDP)	-4.3	1.2	-1.6	-2.7	-2.1	-1.2
Revenues (% of GDP)	17.6	22.8	21.8	19.5	19.5	19.5
Debt (% of GDP)	23.7	22.5	22.3	23.9	26.3	27.5
Primary balance (% of GDP)	-3.1	2.6	0.0	-0.9	-0.3	0.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.3	0.3	0.2	0.2	0.1	0.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	10.6	10.7	8.8	7.9	6.7	6.0
GHG emissions growth (mtCO2e)	3.2	-4.4	2.2	0.8	2.3	1.2
Energy related GHG emissions (% of total)	71.9	71.3	72.8	73.8	75.2	76.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2021-HBS. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2021) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

KOSOVO

Table 1	2023
Population, million	1.8
GDP, current US$ billion	10.5
GDP per capita, current US$	5926.7
Upper middle-income poverty rate ($6.85)[a]	34.2
Gini index[a]	29.0
Life expectancy at birth, years[b]	76.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2017 PPPs.
b/ Most recent WDI value (2021).

Amid a challenging external environment, GDP growth rose by an estimated 3.1 percent in 2023, on the back of lower international commodity prices, robust diaspora flows and strong credit growth. Over the medium term, growth is projected to stabilize at around 4 percent, supported by increasing real incomes and higher investment. However, higher commodity prices or tighter labor markets could lead to renewed inflation and lower private demand.

Key conditions and challenges

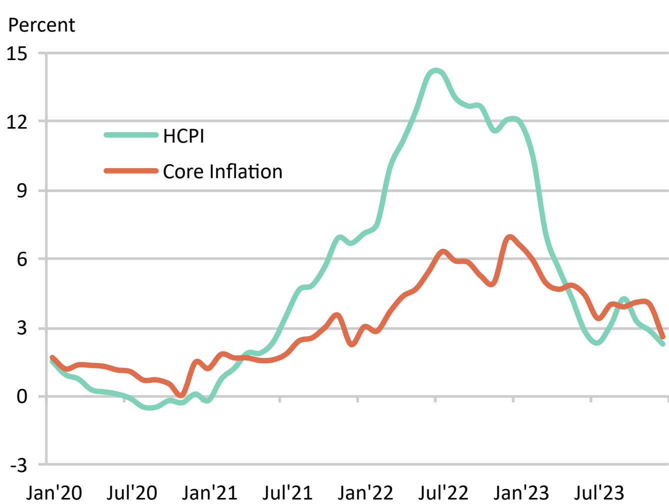
Kosovo is a unilaterally Euroized economy and a net importer of food and energy, reliant on outdated lignite power generation, which is insufficient to cover winter heating demand. Against this backdrop, stabilization in international food and energy prices positively impacted inflationary trends, the current account, and fiscal risks. Weaker growth in the EU and trading partners dampened demand for Kosovo's goods exports. In 2023, real GDP growth moderated to an estimated 3.1 percent, mainly on account of a lower contribution of exports. Despite recent gains in employment, only 39 percent of the working-age population was active in the labor market (22 percent for women) during 2022. Although the growth model has traditionally relied on consumption financed by remittances and diaspora spending, there has been a recent shift towards a more export-driven growth model. ICT services and manufactured goods exports have seen encouraging growth, in turn supporting job creation. More than half of foreign direct investments in 2023 remained focused on construction, but implementation of the new energy strategy could diversify investment.

Kosovo's human capital outcomes fall behind peers. In addition, the working-age population shrank in 2022, likely due to outward migration. In the medium term, growth is expected to reach around 4 percent, but risks remain elevated. Heightened geopolitical tensions may reignite inflation and scar investment confidence. A further increase in outward migration could negatively impact the supply and cost of labor. To accelerate poverty reduction, Kosovo needs to strengthen the drivers of job creation and enhance private sector productivity. To facilitate this transition and spur growth, it is critical to enhance the regulatory environment, reduce infrastructure gaps, and strengthen human capital.

Recent developments

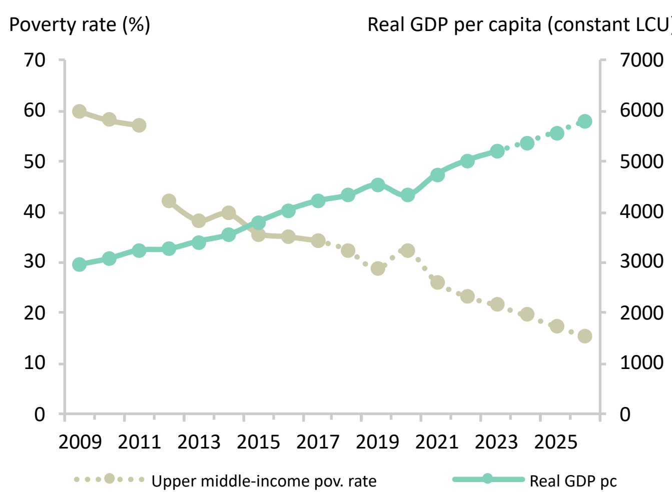
GDP growth reached 3 percent for the first three quarters of 2023. Compared to the same period of the previous year, growth was driven by resilient consumption (2.7 percent y/y), service exports (8.5 percent y/y), and investment activity (3.5 percent y/y); merchandise exports contracted by 6.7 percent y/y. On the supply-side, services continue to be a key contributor to growth. Agriculture recorded a positive performance (3.3 percent y/y), favored by decreasing input prices. In 2023, consumer inflation continued its downward path, averaging 5 percent. Food and beverage prices grew faster (8.6 percent y/y). In contrast, transport costs decreased (-1.9 percent y/y). Labor market formalization continued, as reflected in a 2.9 percent y/y increase in formal employment by November 2023. In 2023, the

FIGURE 1 Kosovo / Consumer price inflation



Source: Kosovo Statistics Agency.

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



Source: World Bank. Notes: see Table 2.

current account deficit narrowed, reaching 7.7 percent of GDP, from 10.3 percent in 2022, largely due to a reduction of import costs and strong service export performance. Remittance inflows remained strong in 2023, growing 10 percent y/y. Net FDI inflows increased by 12 percent y/y, on account of quadrupling reinvested earnings; equity and debt investments dropped by 8 percent y/y. By year-end, the fiscal deficit reached 0.2 percent of GDP, driven by continued positive revenue growth. Nominal tax revenues grew by 13 percent, reflecting compliance and formalization gains. Meanwhile, budget expenditures increased by 13.2 percent, driven by increases in capital expenditures (32.4 percent). In 2023, public and publicly guaranteed debt (PPG) fell to 17.2 percent of GDP, down from 20 percent in 2022, driven by an improvement in the budget balance. The financial sector remains robust. By December 2023, credit increased by 13 percent y/y, while capital buffers and asset quality remained adequate, with non-performing loans remaining stable at 2 percent. Poverty is estimated to have decreased in 2023 to 21.7 percent, driven by growth and higher employment.

Outlook

GDP growth is expected to accelerate to 3.7 percent in 2024, supported by continued stabilization of international prices. Tailwinds from the post-pandemic recovery are fading while the drag from external market uncertainty remains high. GDP growth is expected to pick up towards Kosovo's potential of around 4 percent, driven by resilient diaspora inflows and a gradual pickup in investment. Continued stabilization of international prices helped by the unwinding of the energy shock, is expected to boost consumer and investor confidence. Together with resilient labor markets, these factors are expected to support private consumption. Higher public and private investments in energy generation associated with the implementation of the energy strategy, as well as energy reforms, are expected to boost investment. Exports are expected to remain resilient on the back of strong diaspora-driven service exports, and a pickup in goods exports, driven by a recovery in foreign demand, continued diversification into non-commodity goods and regulatory reforms. Growth acceleration and further labor market outcome improvements (on top of a 5-percentage point increase in employment from 2020 to 2022) are expected to contribute to further poverty reduction. Nevertheless, an increase in commodity prices could lead to renewed inflation. The CAD is expected to narrow, driven by strong service exports and a continued decline in commodity prices, although at a slower than expected pace due to the drag in goods exports. Driven by increases in capital spending, the fiscal deficit is expected to widen to around 1 percent, remaining within the fiscal rule limit. Persisting uncertainties associated to both geopolitical tensions and domestic politics, and a further slowdown in the EU entail significant risks. Accelerating the economic convergence with the EU requires prioritizing reforms in the fiscal, governance, education, and energy sectors.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	10.7	4.3	3.1	3.7	3.9	3.9
Private consumption	7.3	3.4	2.9	3.1	3.8	4.0
Government consumption	9.0	0.2	6.7	1.4	3.8	3.2
Gross fixed capital investment	13.0	-3.2	3.6	7.5	4.4	4.1
Exports, goods and services	76.8	18.9	6.9	3.0	4.0	5.0
Imports, goods and services	31.4	5.4	5.7	3.8	3.9	4.4
Real GDP growth, at constant factor prices	7.8	5.2	3.1	3.7	3.9	3.9
Agriculture	-2.5	4.5	3.4	2.3	2.5	1.8
Industry	7.8	4.0	3.7	3.5	4.0	4.2
Services	9.7	6.1	2.6	4.0	4.1	4.1
Inflation (consumer price index)	3.4	11.6	5.0	2.9	2.5	2.2
Current account balance (% of GDP)	-8.7	-10.3	-7.7	-7.5	-6.6	-5.8
Net foreign direct investment inflow (% of GDP)	4.0	6.3	6.4	5.2	5.3	5.7
Fiscal balance (% of GDP)	-1.3	-0.5	-0.2	-1.1	-1.1	-1.1
Revenues (% of GDP)	27.4	27.9	29.3	28.5	28.4	28.6
Debt (% of GDP)	21.1	19.7	17.2	17.9	18.1	19.1
Primary balance (% of GDP)	-0.9	-0.1	0.2	-0.6	-0.7	-0.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	26.2	23.4	21.7	19.7	17.6	15.6

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 2017-HBS. Actual data: 2017. Nowcast: 2018-2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2017) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

KYRGYZ REPUBLIC

Table 1	2023
Population, million	6.9
GDP, current US$ billion	14.0
GDP per capita, current US$	2023.9
International poverty rate ($2.15)[a]	0.7
Lower middle-income poverty rate ($3.65)[a]	12.5
Upper middle-income poverty rate ($6.85)[a]	62.2
Gini index[a]	28.8
School enrollment, primary (% gross)[b]	94.2
Life expectancy at birth, years[b]	71.9
Total GHG emissions (mtCO2e)	13.4

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

Economic growth was 6.2 percent and inflation was 10.8 percent in 2023. The fiscal balance was positive (1.2 percent of GDP) owing to strong revenue performance. GDP growth is projected to decline to 4.5 percent in 2024, reflecting a slowdown in the services sector, and inflation is expected to moderate to 5 percent. The fiscal deficit as a share of GDP is projected to widen due to lower tax revenues and higher capital spending.

Key conditions and challenges

The Kyrgyz Republic remains one of the poorest countries in the region with poverty stubbornly high at above 11 percent and an estimated additional 31 percent of the population vulnerable to poverty if the economy suffers any shocks.

The Kyrgyz Republic is subject to significant economic risks. Domestic prices are sensitive to rising global food and fuel prices and international earnings depend on gold exports and remittances. There is also a risk that remittances may decline with economic and financial implications. The economy has limited gross international reserves (GIR) to absorb shocks, while non-discretionary fiscal expenditure is high and the country is at a moderate risk of debt distress.

Economic opportunities and job creation are limited due to a stagnant private sector, constrained by a weak competitive environment, undue advantage enjoyed by poorly performing SOEs, high levels of informality, and a restrictive business environment. Private sector-led growth will require ambitious reforms to reduce the cost of regulatory compliance, ensure a level playing field, remove barriers for cross-border trade, and maximize spillovers from FDI.

Recent developments

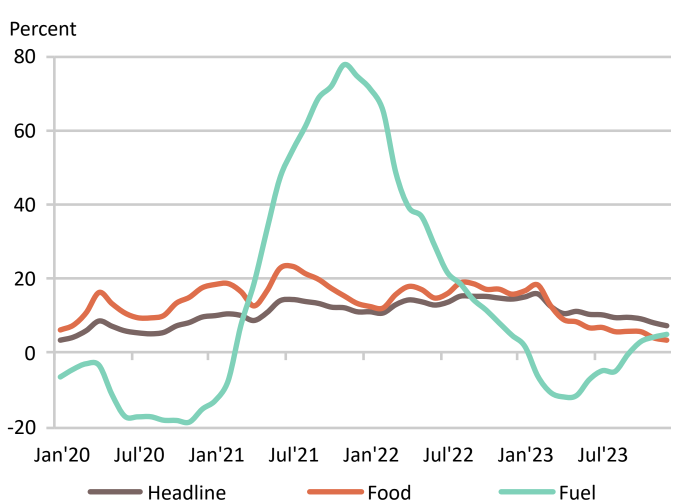
After growing at 9.0 percent in 2022, real GDP is estimated to have expanded by 6.2 percent in 2023. The services sector has driven growth, particularly services associated with transit trade since Russia's invasion of Ukraine. On the demand side, growth has been supported by higher consumption and exports.

Consumer price inflation decreased from 13.8 percent in 2022 to 10.8 percent in 2023, as global food and fuel price pressure abated and domestic monetary policy remained tight.

According to official statistics, the current account deficit amounted to 66.2 percent of GDP (US$3.4 billion) in H1 2023, the largest deficit to date, with 'errors and omissions' of 57 percent of GDP which is likely driven by under-reporting of exports. Imports increased by 38 percent in H1 2023, while exports soared by 52 percent (both in US$ terms) due to the resumption of gold exports, growth in tourism, and services related to transit trade. Income inflows declined due to a drop in inward remittances from 30.8 percent of GDP in H1 2022 to 25.6 percent a year later.

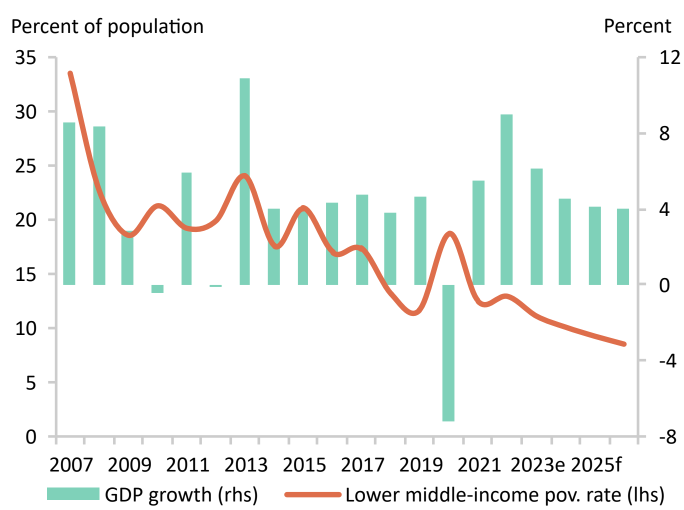
The deterioration in the external balance put pressure on the exchange rate, weakening the Kyrgyz Som against the US dollar by 4.4 percent in 2023. The central bank sold US$650 million of GIR to limit excess fluctuations in the exchange rate. GIR recovered slightly to 3.1 months of import

FIGURE 1 Kyrgyz Republic / Headline, food and fuel inflation



Source: Kyrgyz authorities.

FIGURE 2 Kyrgyz Republic / Real GDP growth and poverty rate



Sources: Kyrgyz authorities and World Bank staff.

cover by the end of 2023, but this remains below comfortable levels.

The government's fiscal position remained strong in 2023. The budget is estimated to have run a surplus of 1.2 percent of GDP in 2023, supported by increases in tax and non-tax revenues. Alongside strong revenues, expenditures increased, specifically wages and salaries, social benefits, and pensions. The fiscal surplus and economic growth have led to a lower public debt level of 45.5 percent of GDP as of end-December 2023, down from 46.9 percent a year earlier.

After a remarkable decline by 6.2 percentage points to 12.5 percent in 2021, the poverty rate (measured at US$ 3.65/day) increased slightly to 13 percent in 2022 on the back of high consumer price inflation. However, it is estimated to have declined to 11.2 percent in 2023 as inflation softened amid economic growth. Progress in poverty reduction is also supported by social assistance improvements such as pension increases, expansion of cash grants under "Social Contract" program, and the increase in transfers under the "Ui-Bulogo Komok" program.

Outlook

GDP growth is expected to decline to 4.5 percent in 2024 as growth in the services sector slows. On the demand side, consumption growth would moderate despite a slight increase in remittance inflows, while investment and net exports are expected to support growth. Annual GDP growth is expected to slow down to 4 percent over the medium term in the absence of structural reforms to raise potential growth.

Assuming the central bank maintains a prudent monetary stance and global food and fuel prices remain stable, inflation is projected to decline to within the target range of 5 to 7 percent by the end of 2024 and remain stable in the medium term.

The current account deficit is projected at 10.5 percent of GDP in 2024 and narrowing to 7.7 percent by 2026 as external demand for non-gold goods improves, exports of services continue to grow, and remittance inflows gradually increase. The deficit is expected to be financed by inward FDI and external borrowing.

The fiscal surplus is projected to turn into a deficit of 1.6 percent of GDP in 2024 owing to lower tax revenues. The deficit is expected to widen further to 2.4 percent of GDP by 2026, mainly due to higher capital spending.

High consumer prices and job insecurity will continue to be the most significant concerns for the welfare of the population. In 2024, the poverty level is expected to decrease slightly, with the continued effect of stabilizing inflation, social protection initiatives, and growth.

Risks to this outlook remain significant. There are external risks to growth, mainly arising from the geo-political situation and trade flows with Russia. Marked deterioration of the Russian economy may flow on through lower remittances and export demand. Possible upward spikes in global food and fuel prices might reverse the downward trend and push inflation into double digits.

Increasing the potential growth will require bold reforms to improve governance and reduce corruption, remove administrative barriers to private sector development, improve the electricity sector by adjusting tariffs to achieve cost recovery, and reduce the footprint of SOEs in the economy.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	5.5	9.0	6.2	4.5	4.2	4.0
Private consumption	18.8	17.0	5.8	4.9	4.0	4.0
Government consumption	0.5	4.4	2.3	0.6	0.5	0.3
Gross fixed capital investment	8.0	6.9	9.4	15.0	15.5	16.0
Exports, goods and services	16.4	-1.6	49.7	21.5	20.4	17.5
Imports, goods and services	38.8	66.7	29.5	13.5	13.1	13.0
Real GDP growth, at constant factor prices	5.5	9.4	6.2	4.5	4.2	4.0
Agriculture	-4.5	7.3	0.6	2.5	2.2	2.3
Industry	6.5	11.9	2.7	5.3	6.0	6.0
Services	14.5	10.1	11.9	5.6	4.7	4.4
Inflation (consumer price index)	11.9	13.9	10.8	8.4	7.0	5.5
Current account balance (% of GDP)	-8.0	-42.7	-25.2	-10.5	-8.3	-7.7
Net foreign direct investment inflow (% of GDP)	6.1	4.2	3.7	3.9	3.9	3.5
Fiscal balance (% of GDP)	-0.3	-1.3	1.2	-1.6	-1.9	-2.4
Revenues (% of GDP)	31.8	34.6	37.2	31.9	29.6	27.9
Debt (% of GDP)	55.8	46.9	45.5	44.8	44.5	44.1
Primary balance (% of GDP)	1.2	0.0	2.3	-0.5	-1.0	-1.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.7	0.7	0.6	0.5	0.4	0.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	12.5	13.0	11.2	10.2	9.3	8.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	62.2	61.3	58.4	56.6	55.1	53.6
GHG emissions growth (mtCO2e)	4.6	-1.0	0.6	0.4	0.7	0.8
Energy related GHG emissions (% of total)	65.9	64.6	64.3	63.7	63.0	62.4

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 2016-KIHS, 2019-KIHS, and 2022-. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.
b/ Projection using point-to-point elasticity (2016-2019) with pass-through = 0.7 based on GDP per capita in constant LCU.

MOLDOVA

Table 1	2023
Population, million	2.5
GDP, current US$ billion	16.5
GDP per capita, current US$	6583.5
Lower middle-income poverty rate ($3.65)[a]	0.3
Upper middle-income poverty rate ($6.85)[a]	14.4
Gini index[a]	25.7
School enrollment, primary (% gross)[b]	106.5
Life expectancy at birth, years[b]	68.8
Total GHG emissions (mtCO2e)	18.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ Most recent WDI value (2021).

Despite avoiding another energy crisis, Moldova has grappled with the fallout from Russia's invasion of Ukraine, facing reduced incomes and a strained economy, resulting in sluggish growth in 2023. Structural reforms and EU integration are crucial amid persistent poverty and economic challenges, including low productivity and climate vulnerabilities. Despite the expected 2024 recovery, significant risks remain, including the ongoing war, potential energy shocks, and headwinds from the upcoming elections.

Key conditions and challenges

Moldova is facing unprecedented challenges due to the spillover effects of Russia's invasion of Ukraine, which resulted in an energy and refugee crisis, straining households, the economy, and public finances. Despite significant efforts to mitigate these crises through fiscal measures and monetary policies, dwindling household incomes and persistent high risks continue to stifle private consumption and investment confidence, resulting in sluggish growth in 2023 after the recession in 2022. While a moderate economic recovery and improved household incomes are expected for 2024, there are significant macroeconomic risks, including the potential intensification of the war in Ukraine, additional energy disruptions, and headwinds from the upcoming elections in 2024 and 2025.

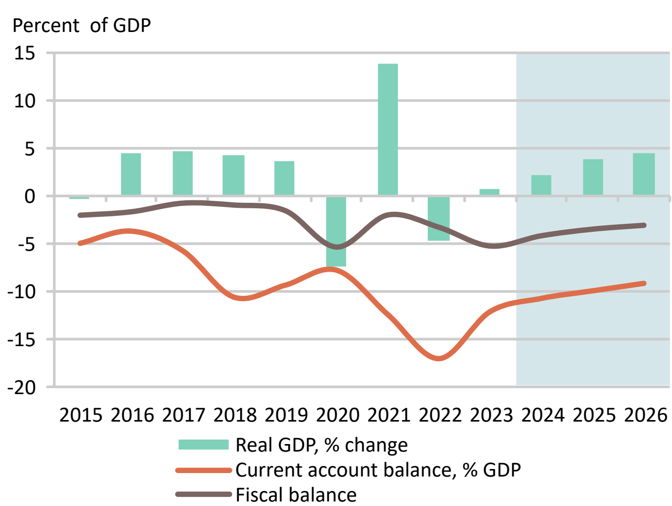
Moldova's medium-term prospects hinge on structural reforms and progress toward EU accession. Despite sustained economic growth over two decades, poverty remains pervasive, particularly in rural regions, with limited access to services and viable economic opportunities. Traditional means of poverty alleviation, such as remittances and social assistance, are slowing, while low labor force participation and employment rates impede a shift to employment-focused poverty reduction, underscoring the urgency for structural reforms.

Moldova faces structural challenges including low productivity growth, governance deficiencies, a large state footprint, limited competition, an imbalanced business environment, and tax distortions. The country remains vulnerable to adverse weather events and energy shocks due to its heavy dependence on energy imports and limited diversification in energy sources. Climate change worsens these vulnerabilities, increasing the frequency and severity of droughts and other natural hazards, thereby posing substantial risks to Moldova's agricultural sector and livelihoods. With EU candidate status, strong reform momentum and growth-enhancing, climate-resilient investments are needed to foster long-term, sustainable development and convergence toward EU income levels.

Recent developments

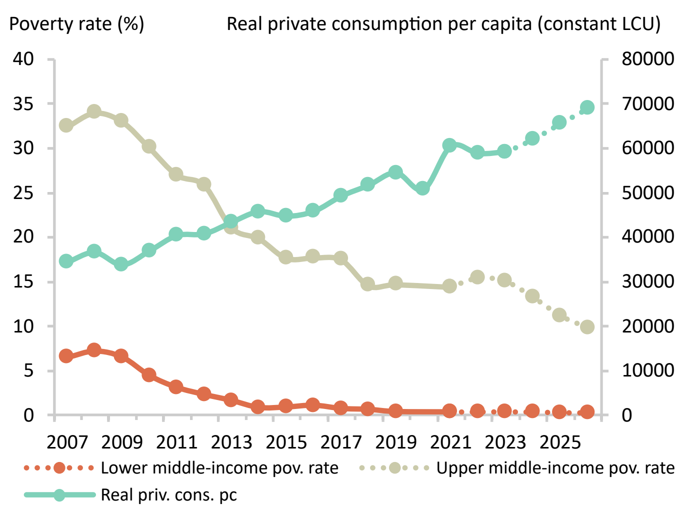
Spillovers from the war continue to weigh on the economy. The economy has grown by 0.7 percent in 2023, driven by a strong rebound in the agriculture sector, which grew by 31.9 percent after the 2022 drought. The industry and services sectors contracted, despite notable growth in IT, health, and accommodation and food services sectors, amid high input costs, lower demand from trading partners, and heightened risk. On the demand side, net exports contributed positively to growth, supported by services exports and reduced imports amid weak domestic demand. Private consumption and investments contracted due

FIGURE 1 Moldova / Actual and projected macroeconomic indicators



Source: World Bank, based on national statistics.

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



Source: World Bank. Notes: see Table 2.

to reduced disposable income, elevated interest rates, and uncertainties stemming from the war in Ukraine.

Albeit a 5.8 percent decline in remittances, the current account deficit improved to 11.9 percent of GDP in 2023, driven by lower trade balance alongside improvements in primary and secondary accounts. Following a decline in direct investments, the CAD was primarily funded through cash, deposits, and trade loans. External debt decreased by 2.8 percentage points compared to end-2022, reaching 63.3 percent of GDP.

Inflation decelerated rapidly in 2023 due to timely monetary responses in 2022 and declining food and fuel prices, reaching 4.6 percent in January 2024. With the easing of inflation, the Central Bank reduced the base interest rate from 17 percent in early 2023 to 4.25 by November 2024.

Total revenues increased by 11.8 percent, driven by income taxes, social contributions, and excise duties on imported goods. Elevated expenditures on social programs, wages, and interest payments offset the revenue increase, reflecting inflationary pressures and higher financing needs. As a result, the fiscal deficit widened to 5.2 percent of GDP. Public and publicly guaranteed debt is forecasted to reach 36 percent of GDP by 2023, fueled by new loan disbursements.

High food and fuel prices reduced purchasing power, with government energy subsidies providing some relief. Poverty rates, as measured by the US$6.85 2017 PPP poverty line, are expected to have stayed broadly constant, marginally dropping from 15.4 percent in 2022 to 15.0 percent in 2023.

Outlook

The economy is expected to grow by 2.2 percent in 2024, underpinned by rising real wages, a positive fiscal impulse, and subdued inflation. Private consumption and investments are expected to underpin growth, backed by an accommodative monetary stance. Net exports are expected to hinder growth, reflecting increased demand-driven imports. On the production side, the service sector, particularly IT, transport and public services, is expected to underpin growth. The contribution of the industrial sector will trailing pre-war levels, largely due to weak external demand. Agriculture sees modest gains amid higher input costs and good yields in 2023.

Reforms for economic diversification and competitiveness, aligned with the EU accession agenda, along with positive fiscal measures and favorable interest rates, will drive medium-term growth.

Average inflation is projected to decline further in 2024 as commodity prices ease and to remain within the target corridor in the medium term. However, inflation remains highly susceptible to geopolitical tensions due to the war in Ukraine.

While the CAD is expected to narrow in 2024, supported by service exports and a gradual recovery in remittances, it is expected to remain above pre-pandemic levels because of elevated import prices and transport costs.

The fiscal deficit is anticipated to remain high at 4.1 percent of GDP in 2024 due to spending pressures, including support for households, jobs, refugees, and infrastructure. The deficit is projected to decrease in the medium term, reaching 3 percent of GDP in 2026 as fiscal support is phase out.

As inflationary pressures ease, the poverty rate, as measured by the US$6.85 2017 PPP poverty line, is expected to decrease to 13.3 percent in 2024. With the anticipated economic recovery and normalization of inflation, poverty is projected to decline further to 11.2 percent in 2025.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	13.9	-4.6	0.7	2.2	3.9	4.5
Private consumption	17.3	-4.8	-0.5	1.8	3.3	3.8
Government consumption	4.4	4.8	-2.2	0.8	0.7	0.2
Gross fixed capital investment	1.9	-10.5	-1.3	3.3	4.1	5.6
Exports, goods and services	17.5	29.7	5.1	3.5	5.7	5.9
Imports, goods and services	21.2	18.2	-5.1	2.9	3.9	4.3
Real GDP growth, at constant factor prices	13.4	-4.2	1.5	2.2	3.9	4.5
Agriculture	50.3	-23.5	31.9	2.3	3.8	3.8
Industry	0.5	-10.3	-10.0	4.6	4.8	5.2
Services	12.4	3.0	-0.1	1.5	3.6	4.4
Inflation (consumer price index)	5.1	28.7	13.4	4.9	5.2	5.0
Current account balance (% of GDP)	-12.4	-17.1	-11.9	-10.7	-9.9	-9.1
Net foreign direct investment inflow (% of GDP)	1.6	0.8	2.5	2.6	2.5	2.3
Fiscal balance (% of GDP)	-1.9	-3.2	-5.2	-4.1	-3.4	-3.0
Revenues (% of GDP)	32.0	33.3	34.1	33.0	32.6	32.4
Debt (% of GDP)	33.8	35.9	36.0	39.5	39.3	38.9
Primary balance (% of GDP)	-1.1	-2.0	-3.6	-2.8	-2.1	-1.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.3	0.4	0.4	0.3	0.3	0.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	14.4	15.4	15.0	13.3	11.2	9.8
GHG emissions growth (mtCO2e)	10.8	-3.0	29.9	2.1	2.5	3.2
Energy related GHG emissions (% of total)	66.9	67.4	72.5	71.9	72.1	73.0

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

MONTENEGRO

Table 1	2023
Population, million	0.6
GDP, current US$ billion	7.4
GDP per capita, current US$	11996.9
International poverty rate ($2.15)[a]	2.1
Lower middle-income poverty rate ($3.65)[a]	3.8
Upper middle-income poverty rate ($6.85)[a]	12.3
Gini index[a]	34.4
School enrollment, primary (% gross)[b]	100.7
Life expectancy at birth, years[b]	73.8
Total GHG emissions (mtCO2e)	3.5

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

Montenegro's economy performed strongly in 2023, with an estimated GDP growth of 6 percent. However, economic growth is expected to moderate in 2024, and the fiscal deficit is projected to widen during 2024-27 owing to higher social and capital spending. The country is also facing high financing needs due to significant debt repayments in an environment of high financing costs. Prudent fiscal and debt management policies are required, alongside structural reforms aimed at safeguarding and enhancing development prospects.

Key conditions and challenges

Montenegro's small, open, and service-based economy is vulnerable to external shocks, while the country's strategies and policies have not always been conducive to enhancing resilience. After a 15.3 percent contraction in 2020, the economy rebounded swiftly in 2021-22, averaging 9.7 percent growth per annum. Growth remained robust in 2023 at an estimated 6 percent, driven by booming tourism and private consumption, also supported by an influx of foreigners, primarily Russian and Ukrainian citizens.

Montenegro successfully reduced its public debt from 103.5 percent of GDP in 2020 to 60.7 percent in 2023, aided greatly by high nominal GDP growth. However, growth is expected to moderate in the medium term, while financing needs are high due to large debt repayments in an environment of uncertain global conditions. While one-off revenues resulted in a fiscal surplus in 2023, a return to fiscal deficits is expected in the medium term. The Parliament adopted the 2024 budget with a fiscal deficit of 3.2 percent of GDP; it includes an increase in the minimum monthly pensions from €300 to €450. In March, Montenegro issued a 7-year $750 million Eurobond at a coupon rate of 7.25 percent. Yet, financing needs in the medium term remain high and leave little or no fiscal room for other policy changes either on the revenue or expenditure side of the budget without adversely affecting the debt trajectory.

A new government, appointed in October 2023, placed EU accession at the top of its agenda. In the first three months of the new government, the country made key judiciary and prosecution appointments, unblocking the reform processes in the area of the rule of law, a cornerstone of Montenegro's EU accession process. Delivering on committed reforms is important for advancing Montenegro's long-term development prospects.

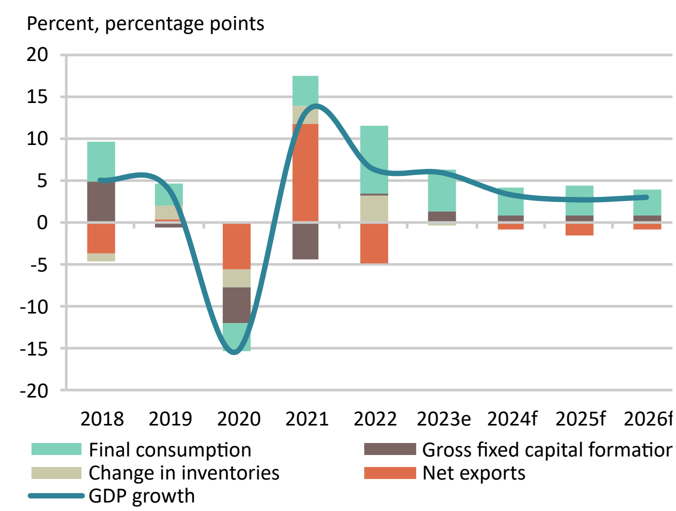
Recent developments

In 2023, real GDP growth reached 6 percent, driven by a strong tourism season and solid private consumption, underpinned by higher public sector wages, employment gains, and household borrowing, though it slowed down in the second half of the year. In 2023, real retail trade grew by 7.7 percent, while tourist overnight stays grew by 32.1 percent. Industrial production increased by 6.4 percent, but the value of construction works contracted by 7.9 percent.

In 2023 employment reached a historic high, with gains across all sectors. In Q3, the LFS data showed record employment and activity rates of 58.7 percent and 66.5 percent, respectively, while the unemployment rate dropped to 11.8 percent, the lowest on record. Administrative data show similar trends continued into Q4.

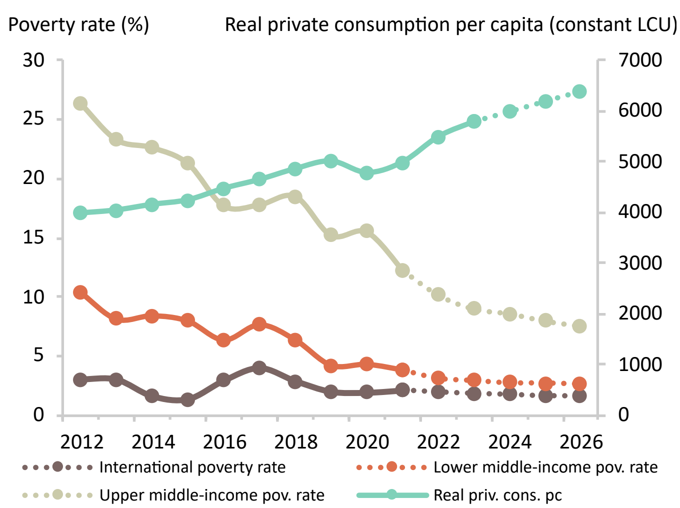
In 2023, inflation moderated to 8.6 percent, while real net average wages increased by

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



Sources: MONSTAT and World Bank.

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



Source: World Bank. Notes: see Table 2.

2.3 percent. Hence, poverty (income below $6.85/day in 2017 PPP) is projected to have declined to 9 percent in 2023.

Montenegro's financial soundness indicators improved in 2023. In September, the average capital adequacy ratio was at 20.7 percent, while non-performing loans declined to 5.9 percent from 6.7 percent of total loans a year earlier. By January 2024, banking sector lending and deposits increased by 12.1 and 3.6 percent y/y respectively.

The current account deficit (CAD) narrowed to 11.4 percent of GDP in 2023, owing to strong exports, despite a decline in net income accounts because of higher dividend and interest payments. Net FDI fell by 45 percent, financing just half of the CAD, the remainder being financed from reserves.

One-off revenues and strong economic activity resulted in a 0.5 percent of GDP fiscal surplus in 2023. Revenues increased by 28 percent, supported primarily by one-off revenues worth 2.3 percent of GDP. Expenditure growth was more moderate, at 12.8 percent, despite an 18.7 percent increase in public wages and higher social transfers. Public debt declined to an estimated 60.7 percent of GDP.

Outlook

The growth outlook is positive albeit challenged by an unfavorable global environment. Coming from a very high base, growth is expected to moderate to 3.4 percent in 2024, still led by private consumption and service exports, with investment in the tourism and energy sectors making a slight positive impact. Public investment is also expected to provide positive contribution to growth. The possibility of some announced, but not budgeted, large public investments and airport concessions could further boost growth, but the fiscal space is limited. Considering a closure of the thermal power plant in 2025 for reconstruction, which will necessitate greater energy imports, growth is expected to slow down to around 2.8 percent, and then bounce back in 2026 to 3 percent. While the CAD is expected to narrow to 11.0 percent of GDP in 2024, energy imports in 2025 would increase it again to an estimated 11.6 percent of GDP but are expected to remain largely financed by net FDI. Inflation is expected to soften to 3.9 percent in 2024 and further to 2.5 percent in 2025.

Poverty is projected to decline by 1.5 percentage points from 2023 to 7.5 percent in 2026.

The 2024 budget increased the minimum pensions and capital spending, which are expected to contribute to a fiscal deficit of 3.6 percent of GDP in 2024. The deficit is expected to decline gradually to 3.5 percent of GDP in 2025 and 3.4 percent of GDP in 2026. Additional fiscal consolidation measures would, however, result in a better fiscal performance. Public debt is expected to stabilize at around 62.5 percent of GDP through 2024–26. Maintaining debt sustainability requires strong fiscal discipline, particularly given challenging global financial conditions and Montenegro's sizable financing needs over 2024-26. The announced policies of reducing labor taxes and/or contributions without compensatory measures represent a risk to public finances.

The outlook is clouded by potential downside risks. Elevated geopolitical uncertainties could dampen growth prospects for Montenegro's trading partners, while the high cost of external financing poses a risk given the country's substantial financing needs.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	13.0	6.4	6.0	3.4	2.8	3.0
Private consumption	4.0	9.7	5.4	3.4	3.4	3.3
Government consumption	0.5	1.5	3.1	2.8	2.7	1.8
Gross fixed capital investment	-12.3	0.1	4.8	3.4	3.5	3.3
Exports, goods and services	81.9	22.7	8.6	4.4	3.9	3.8
Imports, goods and services	13.7	21.3	5.2	3.9	4.5	3.5
Real GDP growth, at constant factor prices	13.2	6.3	5.4	3.0	2.8	3.1
Agriculture	-0.5	-2.9	-1.0	-0.5	0.0	0.0
Industry	1.4	-5.2	3.4	2.2	-5.0	6.0
Services	19.1	10.6	6.6	3.6	4.9	2.7
Inflation (consumer price index)	2.4	13.0	8.6	3.9	2.5	2.0
Current account balance (% of GDP)	-9.2	-12.9	-11.4	-11.0	-11.6	-11.3
Net foreign direct investment inflow (% of GDP)	11.7	13.2	6.3	7.1	7.0	7.0
Fiscal balance (% of GDP)	-2.1	-4.9	0.5	-3.6	-3.5	-3.4
Revenues (% of GDP)	44.0	38.6	42.8	41.5	41.7	41.8
Debt (% of GDP)	84.0	69.2	60.7	63.5	62.6	61.3
Primary balance (% of GDP)	0.2	-3.3	2.3	-1.6	-1.2	-0.9
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.1	2.0	1.8	1.8	1.7	1.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	3.8	3.1	2.9	2.7	2.7	2.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	12.3	10.2	9.0	8.6	8.0	7.5
GHG emissions growth (mtCO2e)	3.9	2.6	2.6	0.8	-2.2	-0.4
Energy related GHG emissions (% of total)	67.8	69.2	70.3	70.6	71.0	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 2022-SILC-C. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2021) with pass-through = 0.87 (Med (0.87)) based on private consumption per capita in constant LCU.

NORTH MACEDONIA

Table 1	2023
Population, million	1.8
GDP, current US$ billion	14.3
GDP per capita, current US$	7831.4
Upper middle-income poverty rate ($6.85)[a]	19.1
Gini index[a]	33.6
School enrollment, primary (% gross)[b]	92.1
Life expectancy at birth, years[b]	74.5
Total GHG emissions (mtCO2e)	9.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2021).
b/ Most recent value (2019), 2017 PPPs.

Real growth decelerated for the third consecutive year since the post-pandemic rebound amidst lingering inflationary pressures, stretched public finances, and higher borrowing costs. Poverty reduction continued as a result of crisis-support measures still in place and rising wages. Fiscal consolidation remains a priority in a context of higher mandatory spending commitments and a build-up of fiscal risks. The outlook over the forecast horizon remains positive, but downside risks prevail.

Key conditions and challenges

Real growth continued to slow down for the third year in a row after the brisk post-pandemic recovery in 2021. Inflation eased from double-digit growth in 2022 to a rate of 9.4 percent in 2023. However, rising wages risk keeping inflation higher for longer and a slower return to the long-term average. Poverty reduction is estimated to have continued in 2023, albeit at a slower pace vis-à-vis pre-pandemic trends, with the poverty rate projected to fall marginally by 0.3 percentage points in 2023, given the rise in real incomes as employment stagnates.

Fiscal consolidation continues to be challenging as the deficit remains sticky at above 5 percent and recent spending commitments related to the construction of a major highway to Albania and public sector wage increases have put additional spending pressure on medium-term fiscal plans. New strategic investments in the energy sector that have come with new tax expenditures also add to rising fiscal risks, including through guaranteed purchase liabilities for the energy sector SOE. Public debt increased back to 62 percent of GDP at end-2023, breaching the newly introduced fiscal rule (effective from 2025), while expenditure arrears remain continuously high at around 3 percent of GDP.

Monetary tightening has helped contain still-high inflation expectations amid lowered imported price pressures from food and energy. The main policy rate has been stabilized at 6.3 percent since September 2023, but increased interest rates have slowed the pace of private sector corporate borrowing to 3.3 percent y/y in December 2023.

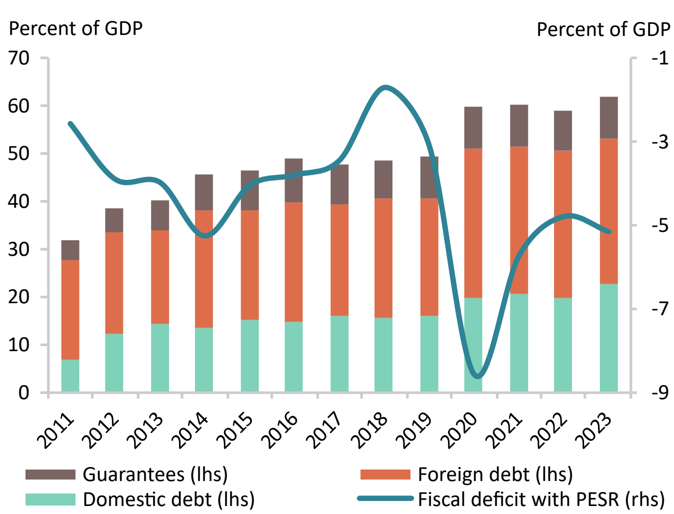
Navigating overlapping crises has left lasting scars in North Macedonia, slowing the pace of growth and income convergence with the EU. The growth recovery post-pandemic has been slower than in regional peers. Bolstering sustainability, boosting productivity, and bridging structural reform gaps will be critical to enable long-term growth in the context of heightened uncertainty and vulnerability.

Recent developments

Output growth subsided to 1 percent y/y in 2023 as consumption slowed while imports and inventories declined after a surge in the previous year. Growth was driven by services, in particular retail trade, finance, real estate, and ICT, while agriculture, manufacturing, and construction fell into negative territory.

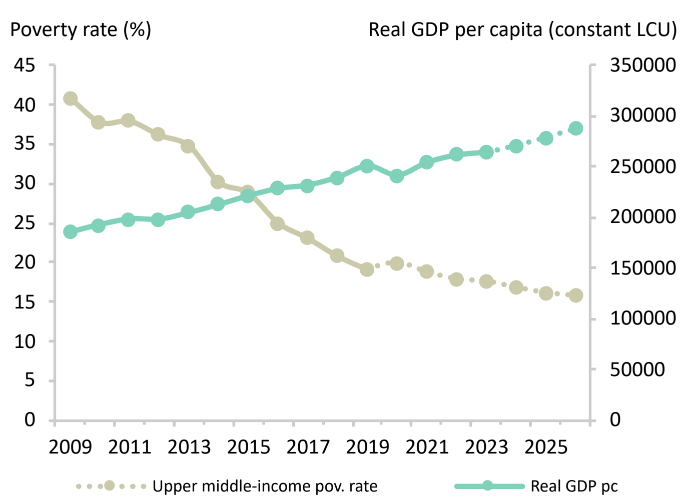
Compared to the previous quarter, labor market indicators in Q4 2023 showed rising unemployment to 13 percent, while the youth unemployment rate stood 2 pp higher at 32.5 percent. The labor force participation rate (ages 15+) lingers at a low 52.2 percent, while the employment rate fell marginally to 45.4 percent. Nominal wage growth continued to be brisk and reached 16.4 percent in December 2023, outpacing inflation by close to 13 pp.

FIGURE 1 North Macedonia / Fiscal performance



Sources: North Macedonia State Statistics Office, Ministry of Finance, and World Bank staff calculations.
Note: Fiscal deficit with PESR included.

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



Source: World Bank. Notes: see Table 2.

Headline inflation fell to 3.6 percent in December 2023, but core inflation is still hovering above 5 percent. Inflationary pressures resulting from rising wages are set to continue as the minimum wage increases in April 2024.

The fiscal deficit (with the state roads finances included) is estimated at 5.2 percent of GDP for 2023 after two technical budget reallocations to accommodate additional spending for wages and transfers. The deficit grew despite a revenue boost from PIT, CIT, and social contributions as VAT collections disappointed and excises turned out lower, while transfers ended higher than initially planned.

Banking sector stability has been maintained in line with an increase in the capital adequacy ratio to 18.4 percent in Q3 2023, and a gradual return of the liquidity rate above 20 percent. At the same time, the NPL ratio remained constant at 2.8 percent.

The stability of the pegged exchange rate was maintained throughout 2023, and FX reserves stood above 4 months of imports by year-end. The current account ended 2023 in surplus, as the trade deficit narrowed to 18.9 percent of GDP and remittances and incomes from abroad remained strong. Net FDI inflows remained robust at 3.8 percent of GDP.

Outlook

The medium-term outlook remains positive, but risks are tilted to the downside. While real GDP growth ended 2023 at 1 percent, reflecting delays in the take-off of highway construction works, weaker external demand, and lingering price pressures, it is expected to step up in the medium term. GDP growth is forecasted to be 2.5 percent in 2024, rising towards 3.0 percent over the medium term. This projection assumes strong growth in public investments and a gradual recovery of consumption and exports.

Inflation is projected to remain above the long-term average at 3 percent in 2024, but to slow thereafter to 2 percent. The baseline scenario is built on the assumption that the impact of geopolitical tensions subsides over the forecast horizon and that the focus on the EU accession agenda remains in place after the general elections in May 2024. Poverty rates are projected to maintain a slow decline, falling by a further 1.8 percentage points over the forecast period.

Against several downside risks over the medium term, further progress with EU accession negotiations can provide an impetus for growth and accelerate income convergence with EU peers. Following up on pending structural reforms and ensuring fiscal sustainability is critical for boosting potential growth, which has declined to below 2 percent in the post-pandemic period. Importantly, scaling up decarbonization efforts accompanied by putting a price on carbon can strengthen domestic public revenues and maintain international competitiveness ahead of the implementation of the EU Carbon Border Adjustment Mechanism.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	4.5	2.2	1.0	2.5	2.9	3.0
Private consumption	8.7	3.8	2.4	1.4	2.5	2.5
Government consumption	0.9	-5.0	-0.6	15.0	3.3	2.7
Gross fixed capital investment	-5.5	3.4	-16.7	2.7	3.1	2.8
Exports, goods and services	14.3	11.4	-0.1	5.1	5.6	5.6
Imports, goods and services	14.8	12.4	-5.8	5.1	4.5	4.3
Real GDP growth, at constant factor prices	4.0	2.4	1.0	2.5	2.9	3.0
Agriculture	-8.7	-5.0	-3.8	1.2	1.1	1.1
Industry	-5.1	-1.9	7.6	1.6	1.4	1.4
Services	8.9	4.6	-0.6	2.9	3.6	3.7
Inflation (consumer price index)	3.2	14.2	9.4	3.0	2.0	2.0
Current account balance (% of GDP)	-2.8	-6.1	0.7	-1.8	-2.1	-2.1
Net foreign direct investment inflow (% of GDP)	3.3	5.0	3.8	4.6	4.4	4.3
Fiscal balance (% of GDP)	-5.3	-4.5	-4.9	-4.5	-4.0	-3.8
Fiscal balance with the state roads (% of GDP)	-5.7	-4.8	-5.2	-4.8	-4.2	-4.1
Revenues (% of GDP)	32.1	32.1	34.9	35.4	35.9	36.5
Debt (% of GDP)	60.3	59.0	62.0	62.5	62.7	62.2
Primary balance (% of GDP)	-4.1	-3.4	-3.4	-2.7	-1.9	-1.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	18.8	17.8	17.6	16.8	16.1	15.7
GHG emissions growth (mtCO2e)	1.2	-0.8	-2.7	-2.9	-3.0	-2.9
Energy related GHG emissions (% of total)	71.5	71.1	70.0	68.8	67.6	66.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2020-SILC-C. Actual data: 2019. Nowcast: 2020-2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

POLAND

Table 1	2023
Population, million	39.1
GDP, current US$ billion	808.6
GDP per capita, current US$	20681.2
Upper middle-income poverty rate ($6.85)[a]	1.0
Gini index[a]	28.6
School enrollment, primary (% gross)[b]	95.8
Life expectancy at birth, years[b]	75.6
Total GHG emissions (mtCO2e)	318.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ Most recent WDI value (2021).

Poland's GDP growth decelerated sharply in 2023 as high inflation, tighter financing conditions, and an unwinding inventory cycle weighed on growth. The outlook is positive with a newly elected pro-EU government that has unlocked EU funds, should boost investors' confidence, and address structural challenges, notably Poland's needed green transition.

Key conditions and challenges

The Polish economy has weathered global and regional external shocks thanks to a well-diversified economic structure, integration into regional value chains, a commitment to macroeconomic stability, a sound financial sector, and domestic labor markets that have supported significant wage growth and private consumption, feeding into long-term poverty reduction and median income growth. The crises have yet weakened the fiscal stance, and the energy crisis resulting from the invasion of Ukraine has led to a sharp increase in inflation which reduced purchasing power of households and has started to weigh down on growth.

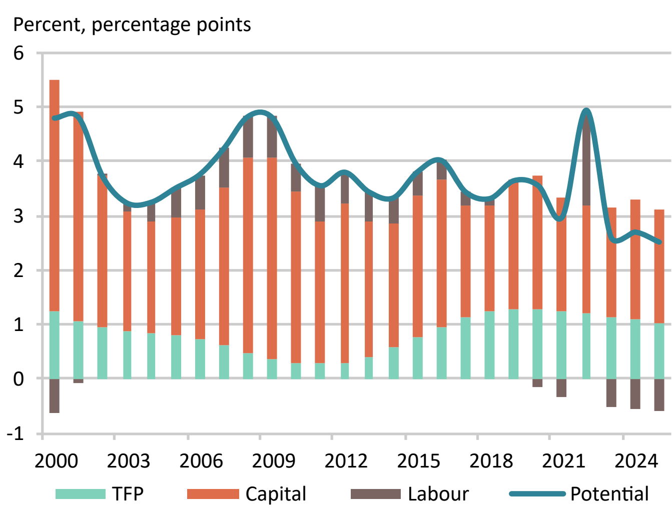
A pro-EU administration took office in December 2023 marking the first political transition in 8 years. It faces steep challenges, notably that of improving the quality of institutions, particularly the rule of law. The Polish economic model is also at a crossroads: it requires boosting productivity through stimulating innovation, decarbonizing the energy sector, tackling rising inequality, and reskilling and upgrading of the labor force in a context of a rapidly aging population. Greater efficiency in public spending and tax expenditures is needed to rebuild fiscal buffers and accommodate spending on health, defense, and renewable energy.

Medium-term economic prospects hinge on achieving the technological and green transitions, advancing inclusion, and addressing labor shortages despite nearly 1 million refugees from Ukraine easing some pressure. The technological transformation and ambitious EU decarbonization objectives, where Poland is lagging other EU Member States (MS), require investment and planning, including ensuring a just transition that contains growing regional disparities, with political uncertainty potentially affecting investments until the end of the electoral cycle in May 2025.

Recent developments

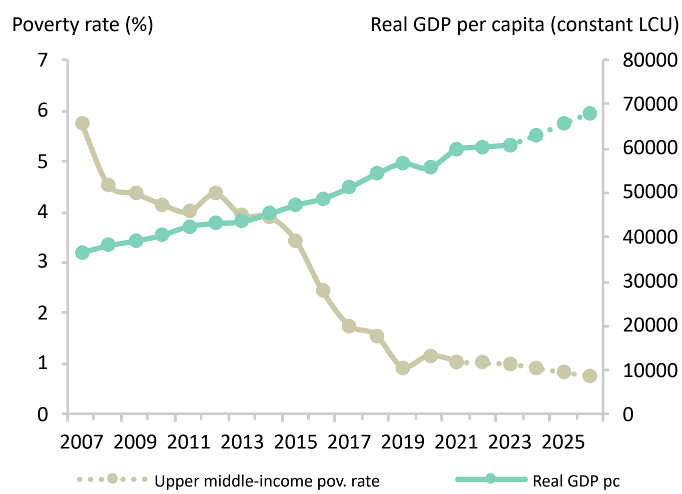
After a robust 5.3 percent real GDP growth in 2022, economic expansion decelerated markedly in 2023, to 0.2 percent. Private consumption was the main drag contracting due to high inflation, tighter financing conditions, and the unwinding of household support measures. This is despite a robust labor market and double-digit increases in average and minimum wages. External demand contracted as major trade partners' economic situations worsened. Exports significantly slowed in H2 2023. To the upside, firms' strong financial performance and the electoral cycle bolstered private and public investments. Inflation peaked at 18.4 percent year-on-year (y/y) in February 2023, then slowed down, reaching 3.9 percent y/y in January 2024, due to falling global commodity prices, a stronger zloty, and fewer supply disruptions. Measures like the extension of the zero VAT on essentials and

FIGURE 1 Poland / Potential output growth, and contributions to potential output growth



Sources: GUS and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

fuel price caps until H1 2024 kept prices lower. The National Bank of Poland started its monetary easing cycle with a 75 basis points (bps) cut in September 2023, ending an early monetary tightening cycle started in October 2021 (665 bps). The zloty 10 percent's real appreciation in 2023 mirrored positive government-related risk perceptions.

The banking sector remains well capitalized and higher interest rates allowed for further improvement in capital adequacy. Continuous strengthening will be granted to finance growing investment needs, in the context of an accelerated green transition. The terms of trade shock that led to a current account deficit in 2022 reversed, returning the CAB to surplus in 2023. Untargeted measures to protect households and firms from the energy and food price shocks contributed to the widening of the fiscal deficit to 5.6 percent of GDP, as did higher debt service costs and the time-lagged impact of the PIT reform.

Mid-2023 saw a resumption of real wage growth due to slowing inflation and increases in nominal and real wages, ending a prolonged period of real wage declines. Extreme poverty rates (national concept) remained slightly above those in 2017, due to lingering impacts of pandemic labor disruptions among vulnerable workers, reductions in the coverage of targeted minimum-income programs and in the real value of the Family 500 program, and declining purchasing power amid inflation. The Gini coefficient of inequality continued the upward trajectory visible since 2017.

Outlook

Economic growth is set to accelerate to 3 percent in 2024 and 3.4 percent in 2025, fueled by increased private consumption, as declining inflation and ongoing wage growth persist due to a tight labor market and a staged increase of the minimum wage in 2024. Boosts in the universal family transfers from 500 to 800 PLN per month, the expansion of the 14th month pension, along with investment driven by structural reforms and unlocked EU funds, will support growth, especially in 2025. Net exports' contribution to growth should turn negative in 2024 as domestic demand fuels imports while EU exports remain weak.

Inflationary pressures are expected during H2 2024 primarily due to the reinstatement of VAT on basic foodstuffs and the phasing out of energy price caps. On an annual average, it should stabilize at around 5 percent and move closer to the NBP target of 2.5 percent (+/- 1 percent band) in the medium term.

Revenue shortfalls (from the tax reforms and exemptions), increased defense and election-related spending, are expected to keep the general government deficit at 5 percent of GDP in 2024. Expenditure pressures will remain high, suggesting a slow pace of fiscal consolidation. Public debt is sustainable and should remain below 60 percent of GDP in the forecast period, but the off-budget debt contracted in recent years increases fiscal risks. Poland issued its largest Eurobond to date in January 2024 at favorable terms (115 bps above mid-swaps for the 10-year and at 160 bps for the 20-year).

In 2024, poverty reduction is expected to resume due to expanded untargeted social programs, a strong labor market, and higher minimum wages, feeding into higher living standards for families, retirees, and working poor households. However, socially vulnerable households remain at risk due to long-term reductions in the coverage and adequacy of minimum income programs.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	6.9	5.3	0.2	3.0	3.4	3.2
Private consumption	6.1	5.3	-1.0	3.6	3.5	3.2
Government consumption	5.0	0.3	2.9	2.6	3.0	2.1
Gross fixed capital investment	1.2	4.9	8.4	1.4	6.3	5.5
Exports, goods and services	12.3	6.7	-1.9	0.5	4.0	3.5
Imports, goods and services	16.1	6.8	-8.3	1.7	5.1	4.0
Real GDP growth, at constant factor prices	6.6	5.5	1.1	3.0	3.4	3.2
Agriculture	-11.5	1.1	2.2	0.2	0.1	0.1
Industry	1.9	7.0	-1.0	3.0	3.1	3.1
Services	9.7	5.0	2.1	3.1	3.7	3.3
Inflation (consumer price index)	5.1	14.4	11.4	5.4	4.3	3.6
Current account balance (% of GDP)	-1.2	-2.4	1.6	0.1	-0.4	-0.8
Net foreign direct investment inflow (% of GDP)	3.8	3.7	2.3	2.5	2.5	2.5
Fiscal balance (% of GDP)	-1.8	-3.8	-5.6	-5.0	-4.4	-3.8
Revenues (% of GDP)	42.3	39.9	40.1	40.2	40.3	40.5
Debt (% of GDP)	53.6	49.3	51.4	53.0	53.9	55.6
Primary balance (% of GDP)	-0.7	-2.2	-3.3	-2.6	-2.6	-2.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	1.0	1.0	1.0	0.9	0.8	0.8
GHG emissions growth (mtCO2e)	3.6	-3.9	-0.2	0.8	1.2	1.2
Energy related GHG emissions (% of total)	86.8	85.9	86.0	86.1	86.3	86.4

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-EU-SILC and 2022-EU-SILC. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.
b/ Projection using point-to-point elasticity (2018-2021) with pass-through = 0.7 based on GDP per capita in constant LCU.

ROMANIA

Table 1	2023
Population, million	18.6
GDP, current US$ billion	343.8
GDP per capita, current US$	18460.5
International poverty rate ($2.15)[a]	2.1
Lower middle-income poverty rate ($3.65)[a]	3.3
Upper middle-income poverty rate ($6.85)[a]	7.4
Gini index[a]	34.1
School enrollment, primary (% gross)[b]	90.8
Life expectancy at birth, years[b]	73.0
Total GHG emissions (mtCO2e)	65.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ Most recent WDI value (2021).

The Romanian economy grew by 2.1 percent in 2023, supported by EU-financed investment and resilient consumption. Successful issuance of the first public green bond in February 2024 will support the green transition. Growth will accelerate in 2024, converging towards potential in the medium term. Fiscal and current account deficits will marginally decline. Poverty reduction is estimated to have decelerated in 2022 and 2023 due to slower growth and inflationary pressures.

Key conditions and challenges

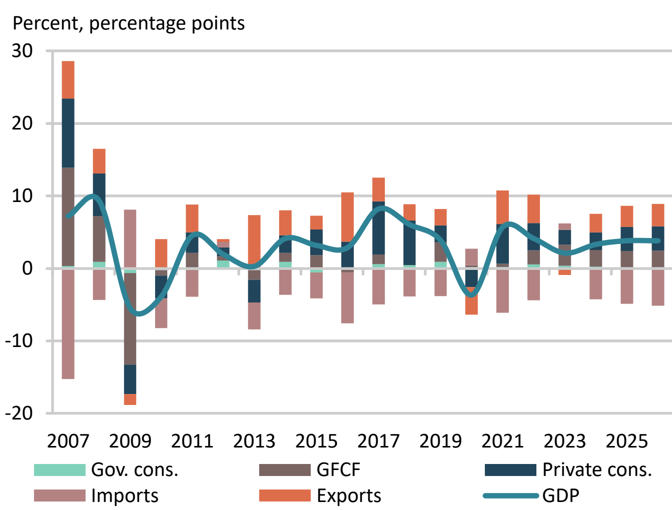
Romania has made considerable progress in economic performance and convergence with the European Union but faces challenges in fostering growth that is more inclusive and sustainable, both economically and environmentally. Challenges include regional disparities, weak institutions, skilled labor shortages, poor connectivity, and vulnerabilities to natural hazards and climate change. Procyclical fiscal policies have stimulated consumption, resulting in persistently high twin deficits.

Romania has made notable achievements in diminishing poverty and inequality despite facing unprecedented challenges, including the COVID-19 pandemic and Russia's invasion of Ukraine. Nevertheless, Romania's poverty and inequality remain among the highest in the EU, and there are still significant disparities among the country's regions. The key challenges in the short term are to curb inflation and address fiscal pressures, which are particularly significant in the 2024 election year, while simultaneously tackling the persistently high poverty rate. To achieve a sustainable recovery and support fiscal consolidation efforts, it is vital to implement the reforms under the National Recovery and Resilience Plan (NRRP) and thereby maximize and efficiently absorb sizeable EU funds.

Recent developments

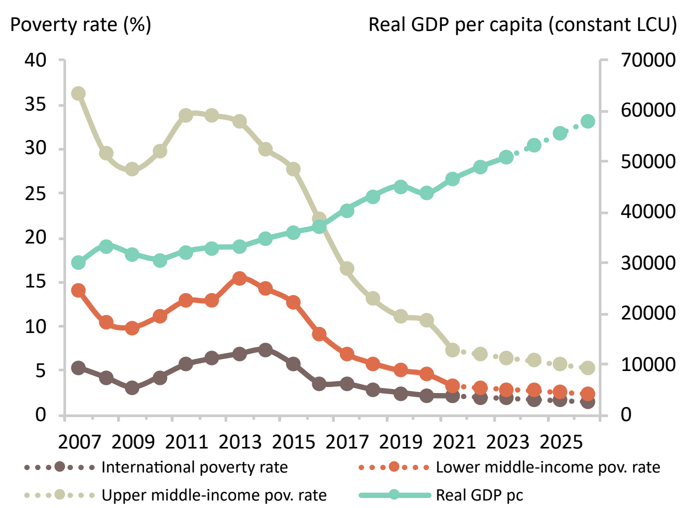
Growth decelerated to 2.1 percent y-o-y in 2023, impacted by higher inflation and weaker external demand. Investment (up 12 percent y-o-y), boosted by EU funds was the main driver. The contribution of private consumption remained significant (up 2.9 percent y-o-y), supported by low unemployment (close to pre-pandemic levels) and minimum wage and pension increases, which partially offset the impact of high energy and food prices on disposable incomes. Trade and current account deficits narrowed due to higher services surplus and reduced goods deficit amid import compression driven by slower consumption growth. Construction remained the main growth driver (up 11 percent y-o-y) but faced reduced momentum due to a deceleration in residential construction. Industry shrank for the second consecutive year due to elevated production costs, especially in energy-intensive sectors. Nominal net wages grew by 15.5 percent y-o-y in December 2023, above headline inflation, driven by wage increases in the private sector as the minimum wage increase fueled companies' labor costs. Headline inflation eased to 10.4 percent in 2023, supported by reduced energy and food market pressures and improved inflation expectations. The National Bank of Romania has maintained a tight monetary policy stance, keeping the policy rate at 7 percent since January 2023. Private sector credit growth decelerated to 6.4 percent y-o-y in December

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.

2023 from 12.1 percent y-o-y in December 2022, reflecting the slowdown in loans to households (up 1.4 percent y-o-y).

The fiscal deficit declined to an estimated 5.7 percent of GDP in 2023 from a pandemic-related high of 9.3 percent in 2020, thanks to an expenditure-based consolidation. Additional tax measures implemented in January 2024 are expected to bring around one percent of GDP in extra revenue this year, supporting fiscal consolidation. However, more is required to accommodate higher recurrent spending in the short to medium term, stemming from the schedule of the recently adopted pension reform. The Ministry of Finance launched in mid-February 2024 two euro-denominated bond tranches with 7-year and 12-year maturities. The 12-year tranche, Romania's inaugural green bond issue, valued at EUR2 billion, was oversubscribed more than 4 times, underscoring the potential for sovereign green bonds to facilitate the shift towards a greener economy.

Poverty reduction ($6.85/day PPP) is projected to decelerate, with a modest decline of 0.5 percentage points (from 7.4 percent in 2021 to 6.9 percent in 2022) due to slower growth and inflation. In 2021, around 25 percent of the population faced energy poverty, spending about 8.7 percent of their budget on energy, with 17.8 percent struggling to pay utility bills, one of the highest rates in the EU. By 2022, 15.2 percent of households struggled to heat their homes, one of the highest rates in the EU, exacerbated by rising energy costs. Despite price caps, the burden on household budgets remains significant, especially at the lower end of the welfare distribution, indicating that the most economically disadvantaged segments of the population bear the brunt of these price increases. In 2023, poverty ($6.85/day PPP) is projected to have declined slowly, reaching 6.6 percent.

Outlook

Economic growth is expected to accelerate in 2024 to an estimated 3.3 percent, supported by private consumption (benefiting from rising disposable incomes) and EU-financed investment. Romania's short-term growth prospects are dampened by external shocks mainly stemming from the ramifications of Russia's invasion of Ukraine, persistent structural fiscal challenges, and political and social pressures in the context of the 2024 multilevel national and EU elections.

As fiscal consolidation is expected to accelerate with the resumption of the Excessive Deficit Procedures and the new economic governance framework, efficient EU fund absorption is key for a sustainable, green, and inclusive recovery. The Government has already received EUR6.3 billion (out of 28.5 billion by 2026) through the performance-based NRRP, reflecting the achievement of reform milestones in areas of decarbonization, database interoperability to reduce red tape, and fiscal and pension reforms. The NRRP funds and associated structural reforms are essential for a sustainable reduction of the fiscal deficit over the medium term, alongside strengthened lifelong skills formation and private capital mobilization, boosting potential growth.

With the growth acceleration, a slightly faster poverty reduction is expected in 2024. Maintaining or strengthening social safety nets during fiscal consolidation can help protect vulnerable populations from falling deeper into poverty, as some of the fiscal measures (i.e., higher VAT) can disproportionately affect low-income households. Adequate support for those facing economic hardships can be a crucial aspect of poverty reduction.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	5.7	4.1	2.1	3.3	3.8	3.8
Private consumption	7.2	5.8	2.9	3.5	4.7	4.8
Government consumption	1.8	-3.3	2.9	2.1	1.4	1.2
Gross fixed capital investment	2.9	5.9	12.0	8.4	7.9	7.8
Exports, goods and services	12.6	9.7	-2.1	5.4	6.0	6.2
Imports, goods and services	14.8	9.5	-1.8	7.5	8.2	8.3
Real GDP growth, at constant factor prices	5.3	3.6	2.1	3.3	3.8	3.8
Agriculture	13.7	-23.4	10.2	1.8	2.1	2.1
Industry	0.9	-4.6	-2.3	0.7	1.6	1.9
Services	6.8	9.4	3.4	4.4	4.7	4.6
Inflation (consumer price index)	5.1	13.8	10.4	6.3	3.9	3.2
Current account balance (% of GDP)	-7.2	-9.1	-7.0	-6.3	-6.1	-5.9
Net foreign direct investment inflow (% of GDP)	3.7	3.5	2.1	2.9	3.1	3.2
Fiscal balance (% of GDP)	-7.1	-6.3	-5.7	-5.5	-4.8	-4.3
Revenues (% of GDP)	32.9	33.7	34.0	34.7	36.4	36.7
Debt (% of GDP)	48.6	47.2	48.9	50.4	51.7	52.6
Primary balance (% of GDP)	-5.6	-4.7	-4.3	-4.1	-3.4	-3.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.1	2.0	1.9	1.8	1.7	1.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	3.3	3.1	2.9	2.8	2.6	2.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	7.4	6.9	6.6	6.2	5.7	5.4
GHG emissions growth (mtCO2e)	2.2	-7.9	-4.2	-0.9	-0.3	-0.6
Energy related GHG emissions (% of total)	92.0	91.9	91.9	92.0	92.2	92.4

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 2014-EU-SILC and 2022-EU-SILC. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.
b/ Projection using point-to-point elasticity (2013-2021) with pass-through = 0.7 based on GDP per capita in constant LCU.

RUSSIAN FEDERATION

Table 1	2023
Population, million[a]	143.8
GDP, current US$ billion	2020.3
GNI per capita, Atlas method, current US$[a]	11610.0
Upper middle-income poverty rate ($6.85)[b]	4.1
Gini index[c]	36.0
School enrollment, primary (% gross)[d]	104.1
Life expectancy at birth, years[d]	69.4
Total GHG emissions (mtCO2e)	1565.8

Sources: WDI, MPO, Rosstat.
a/ Most recent value (2021).
b/ Most recent value (2020), 2017 PPPs.
c/ Most recent value (2020).
d/ Most recent WDI value (2019).

Economic growth is expected to decrease to 2.2 in 2024, and 1.1 percent in 2025. Stronger momentum from 2023 and continuation of loose fiscal policy underpin the growth projections. Export volumes are expected to increase in 2024 after two years of contraction. Poverty is projected to experience a modest decline between 2024 and 2026.

Key conditions and challenges

After the initial recessionary impact of sanctions in 2022, the economy has returned to growth in 2023, supported by fiscal stimulus including military spending and credit expansion, and by successfully mitigating the impact of the sanctions. Restrictions on trade and financing from the G7 countries and EU resulted in trade diversion to China, India, Türkiye, Central Asia and the South Caucasus, and investment in new infrastructure and logistics. Matching this process, the share of Russia's external trade transactions in currency of countries which introduced sanctions dropped from about 80 percent in 2021 to below 30 percent in 2023. The medium to long-term economic prospects remains dull, however. Russian businesses and households continue to be affected by great uncertainty, restrictions on export of a wide range of goods, persisting gaps in supply of some technological equipment, and higher trade costs. Restrictions on Russia's exports have put pressure on the external balance, exchange rate, and fiscal receipts. The fiscal position has deteriorated, with energy receipts compressed by the sanctions, and a sharp increase in general government spending on defense and national security, and social transfers. Moreover, there is a scarcity of labor for activities not related to the military, and the labor market has further significantly tightened due to accelerated outmigration, which has contributed to inflationary pressure. Overall, loss of skilled workers, restrictions on imports of technological goods, and loss of productive FDI is expected to depress medium- to long-term growth prospects.

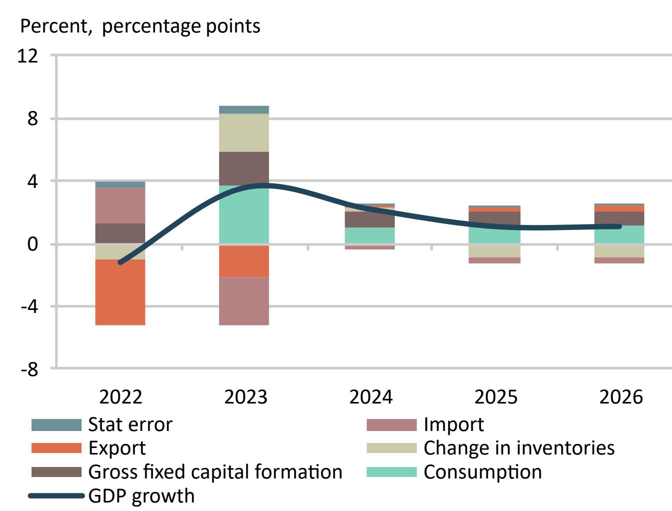
Recent developments

Russia's economy rebounded in 2023 with GDP growth of 3.6 percent. Growth was driven by manufacturing (+ 7 percent), reflecting a large increase in military related activity and import substitution, as well as a rebound in trade related services (+7.3 percent), the financial sector (+8.6 percent) and construction (+7 percent). Despite the sanctions on oil-related exports, extractives output declined by only 2 percent. Household consumption grew by 6.1 percent, and investment rose by 10.5 percent, supported by subsidized mortgages and military spending.

The economic rebound was partly fueled by expansionary fiscal policy, with general government expenditures rising by 1.3 percent of GDP, and investment from the sovereign wealth fund reaching 0.6 percent of GDP. Total revenues increased by 0.4 percent of GDP, as the drop in oil and gas revenues was compensated by an increase in non-oil/gas revenues. As a result, the general government deficit widened from 1.4 percent in 2022 to 2.3 percent of GDP in 2023.

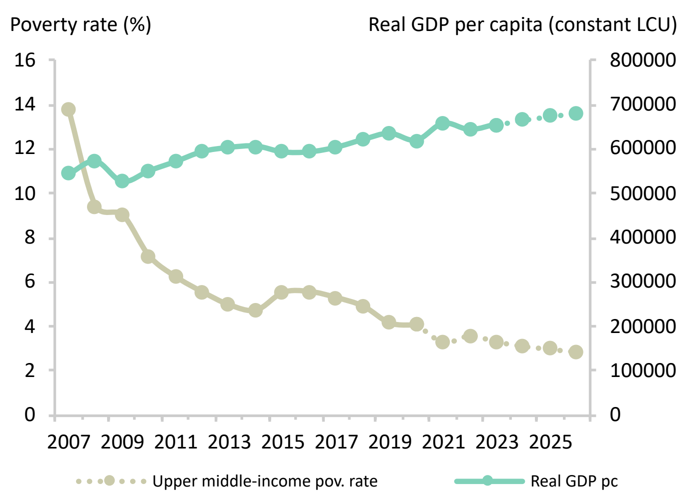
The current account remained in surplus in 2023, but shrank five-fold compared to 2022, as export receipts slumped, and

FIGURE 1 Russian Federation / Real GDP growth and contributions to real GDP growth



Sources: Rosstat and World Bank.

FIGURE 2 Russian Federation / Actual and projected poverty rate and real GDP per capita



Source: World Bank. Notes: see Table 2.

imports rebounded. Capital outflows persisted, adding to the pressure on the exchange rate. The ruble depreciated by 20 percent via-a-vis the US dollar in 2023 but stabilized later in 2024, aided by the central bank foreign exchange sales.

Economic output exceeding its potential and ruble depreciation have fueled inflationary pressures. CPI inflation increased to 7.6 percent by December 2023, with average of 6 percent for the year. The central bank raised interest rates by 8.5 percentage points to 16 percent by December 2023, and tightened macro prudential regulations. The authorities tightened new FX surrender requirements for some exporters.

Unemployment reached the historically low rate of 3 percent in 2023, largely associated with the military effort and the emigration abroad of large numbers of young Russian men. In 2023, there was also a reallocation of labor toward sectors engaged in military production and import substitution.

The banking sector recorded a profit of RUB 3, 3 trillion (US$36 billion) in 2023, compared to RUB 0.2 trillion in 2022. Credit to the private sector grew by 17.4 percent in real terms in 2023 (yoy), in part thanks to government support measures, including a RUB 100 billion recapitalization of VTB.

Outlook

It is presently difficult to produce growth forecasts for Russia due to the significant changes to the economy associated with Russia's invasion of Ukraine, and the decision by Russia to limit publication of economic data, notably related to external trade, financial and monetary sectors. Available data limits our ability to assess the economic performance.

This outlook assumes that Russia's invasion of Ukraine and existing sanctions will continue. Growth of 2.2 percent is expected in 2024 before decreasing to 1.1 percent in 2025 and 2026. Fiscal stimulus is expected to maintain the economy above its potential level, with fiscal policy, monetary and quasi-fiscal policy not fully coordinated in this respect. Expansionary fiscal policy aimed at adjustment to sanctions through trade diversion and import substitution, as well as rapid military production will support domestic demand as the main growth driver. Investment growth is expected to moderate, as macro prudential regulations are tightened and subsidized mortgage programs, narrowed. Elevated expenditures are expected to keep the general government balance in deficit of 2.1 percent of GDP this year, and only gradually to decline thereafter. Average annual CPI inflation is expected to increase to 6.9 percent in 2024 and then gradually approach the target of 4 percent by 2026. The current account surplus is expected to decrease to 2.1 percent of GDP in 2024 from 2.5 percent a year before mostly due to import growth. Poverty is expected decline marginally between 2024 and 2026.

Possible further rounds of mobilization and sanctions are negative risk to the baseline growth projections. Stricter compliance to sanctions, particularly that affect inflows of oil and gas revenues, or disrupt nascent trade patterns for commodities, may have a significant impact.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	5.9	-1.2	3.6	2.2	1.1	1.1
Private consumption	11.9	-1.1	6.0	1.4	1.2	1.2
Government consumption	2.9	3.0	3.7	2.8	2.3	2.1
Gross fixed capital investment	9.3	6.7	10.5	4.5	3.2	3.2
Exports, goods and services	3.3	-13.9	-8.2	1.0	1.5	1.5
Imports, goods and services	19.1	-11.0	16.9	3.2	2.0	2.0
Real GDP growth, at constant factor prices	6.5	-0.3	3.4	2.2	1.1	1.1
Agriculture	1.3	7.0	0.5	1.2	1.2	1.2
Industry	4.3	0.4	1.5	2.0	1.4	1.4
Services	8.0	-1.1	4.5	2.3	1.0	0.9
Inflation (consumer price index)	6.7	13.7	6.0	6.9	4.4	4.2
Current account balance (% of GDP)	6.6	10.3	2.4	2.0	1.1	1.0
Net foreign direct investment inflow (% of GDP)	-1.4	-1.2	-1.3	-1.0	-0.9	-0.8
Fiscal balance (% of GDP)[a]	0.8	-1.4	-2.3	-2.1	-1.7	-1.3
Revenues (% of GDP)	35.4	34.2	34.5	36.1	35.3	34.9
Debt (% of GDP)	17.2	16.7	17.1	17.8	18.6	18.7
Primary balance (% of GDP)[a]	1.6	-0.5	-1.2	-0.7	-0.2	0.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	3.3	3.6	3.3	3.1	3.0	2.9
GHG emissions growth (mtCO2e)	4.4	-2.8	2.9	2.0	1.0	1.0
Energy related GHG emissions (% of total)	91.0	90.6	90.5	90.3	90.1	90.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal and Primary Balance refer to general government balances.
b/ Calculations based on ECAPOV harmonization, using 2020-HBS. Actual data: 2020. Nowcast: 2021-2023. Forecasts are from 2024 to 2026.
c/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

SERBIA

Table 1	2023
Population, million	6.6
GDP, current US$ billion	75.6
GDP per capita, current US$	11397.7
International poverty rate ($2.15)[a]	1.6
Lower middle-income poverty rate ($3.65)[a]	2.9
Upper middle-income poverty rate ($6.85)[a]	7.9
Gini index[a]	33.4
School enrollment, primary (% gross)[b]	96.6
Life expectancy at birth, years[b]	72.7
Total GHG emissions (mtCO2e)	65.1

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

The growth of the Serbian economy accelerated in the second half of 2023 bringing GDP growth for the year as whole to 2.5 percent. The incidence of poverty declined to an estimated 7.5 percent. Growth is expected to accelerate further in 2024, but risks to the outlook are tilted to the downside. Poverty reduction is projected to continue, although at a slower pace, as unemployment will remain significant in some regions and for some age groups.

Key conditions and challenges

Growth in 2023 is estimated at 2.5 percent, y/y, higher than previously projected thanks to a better-than-expected performance of the agriculture and construction sectors, and a strong recovery of the energy sector, after the 2022 crisis. On the expenditure side, net exports and, to a lesser extent, consumption, were the main drivers of growth in 2023 while investment had a negative contribution. Consumption started to recover only in the second half of the year because of persistent inflation, and overall investment decreased primarily due to lower inventories. As wages have started to post growth in real terms and inflation decelerates, it is expected that consumption will start to recover more rapidly. In order to resolve the problem of chronically low investment, Serbia primarily needs to remove bottlenecks for private sector investment including those related to governance, competition and the business environment.

Over the medium term, under the baseline scenario, the Serbian economy is expected to grow at around 3-4 percent. With limited space for future stimulus packages, structural reforms are needed to accelerate growth which in turn will help to accelerate convergence to EU incomes.

Recent developments

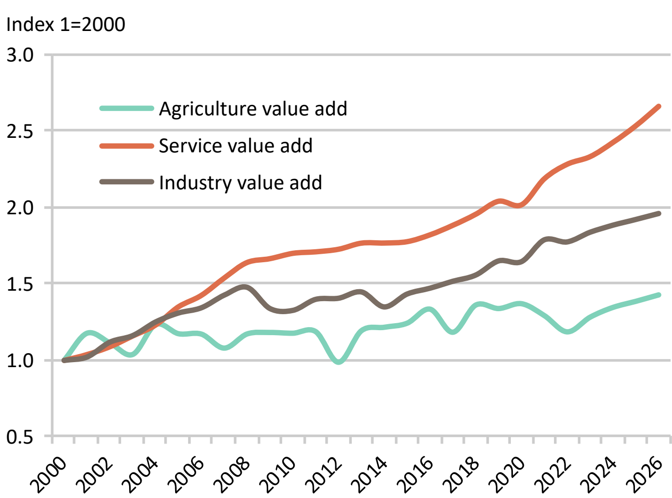
Weak GDP growth in Q1 and Q2 2023 (0.9 and 1.6 percent, y/y) was caused by a decline in investment and consumption. However, in the second half of the year consumption started to increase (compared to the same period of 2022), thus leading to an overall positive contribution to GDP growth in 2023. On the other hand, net exports made a positive contribution to growth in the first half of the year thanks to lower energy imports, which turned into a negative contribution in the second half of the year as external demand weakened.

Labor market indicators remained broadly unchanged in 2023. The unemployment rate reached 9.1 percent in Q4 2023 (a slight increase compared to Q3) thus leading an annual average unemployment rate of 9.5 percent in 2023. Wages increased by 14.8 percent in nominal terms in 2023 compared to 2022.

Poverty (based on the upper-middle income line of $6.85/day in 2017 PPP) is estimated to have slightly declined from 7.9 percent in 2021 to 7.5 percent in 2022. In 2023, poverty reduction continued due to strong economic growth and improving labor market conditions, though it was partly countered by an output decline in agriculture, rising inflation at the end of the year, and the phasing out of government support programs, which had fueled the strong post-COVID-19 recovery of 2021.

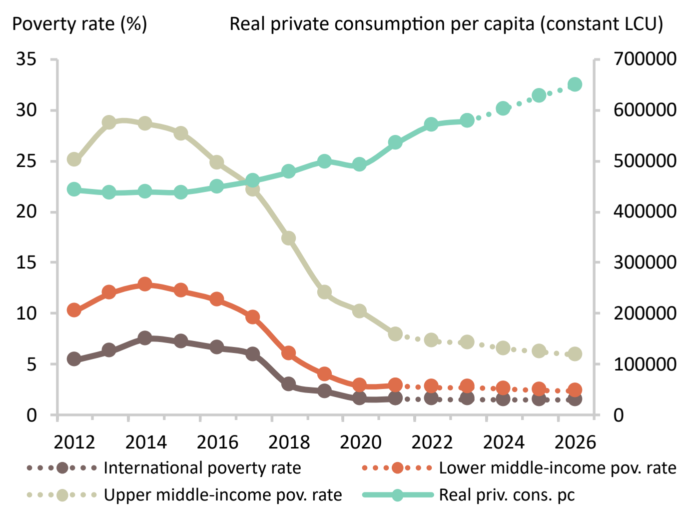
Inflation remained elevated throughout 2023, mainly due to a large increase in food and energy prices. The inflation rate

FIGURE 1 Serbia / Indexes of the level of sectoral GDP



Source: World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

reached a peak in March 2023 (16.2 percent) and moderated to 7.6 percent by year-end. The NBS responded to high inflation by continuously increasing the key policy rate between April 2022 and July 2023. It is kept unchanged at 6.5 percent since July 2023.
Budgetary revenues have overperformed significantly in 2023, primarily thanks to a higher-than-planned collection of contributions for social insurance, VAT, and corporate income tax. In 2023 total revenues were higher by 11.9 percent in nominal terms compared to 2022. Over the same period, expenditures increased by 9.8 percent in nominal terms. As a result, the consolidated fiscal deficit declined by nearly 20 percent in 2023 in nominal terms, reaching an estimated 2.2 percent of GDP. As a result, public debt continued to decline and stood at around 52.9 percent of GDP at the end of December.
The current account deficit narrowed significantly in 2023 to reach 2.6 percent of GDP (down by 56 percent compared to 2022 in euro terms). This improvement, by and large, was driven by a major decrease in the trade deficit (which stood at EUR 6.6 billion in 2023 compared to EUR 9.4 billion in 2022) as imports slowed. The services balance similarly improved, due mainly to a continued increase in the export of IT services. Net FDI performed strongly reaching EUR 4.2 billion (or 6.1 percent of GDP). Foreign currency reserves increased to a record high level of EUR 24.9 billion by year-end. Overall credit decreased by 0.1 percent (y/y) through December. However, loans to private businesses and households were up by 2.4 percent and 1.2 percent respectively. Gross nonperforming loans declined to 3.1 percent in November 2023.

Outlook

The Serbian economy is expected to grow at around 3.5 percent in 2024, driven primarily by consumption. Over the medium term, the economy is projected to grow steadily at around 3-4 percent annually, supported by increases in consumption and investment, and a continued strong performance of exports. Foreign direct investment is expected to continue to play a key financing role. Inflation is expected to decline gradually and to return to the NBS target band by mid-2024. Fiscal deficit will continue to decrease and stabilize at around 1.5 percent of GDP. The banking sector is expected to remain resilient, with NPLs stable at around 3 percent.
The poverty reduction pace is expected to gradually decline in 2023 and beyond. Poverty in 2023 is estimated at 7.1 percent. While Serbia's economy is expected to continue to grow, contributing to income growth for households, rising inflation will limit purchasing power. Particularly, rising energy prices would dis¬prop¬ortionately affect the poor. The pace of labor market recovery remains critical for resumed poverty reduction. As the share of the poor shrinks, lifting out of poverty those that remain becomes more difficult – these are more likely to be families that are excluded from markets (due to disability, education, or other factors) and cannot benefit from positive economic trends. Thus, targeted social assistance or other direct channels will become essential in order to continue poverty reduction.
The outlook also crucially depends on the domestic reform agenda and its implementation. In particular, structural reforms in education, SOEs, along with further improvements in governance would pay off since those should incentivize private investors to invest more and to raise the quality of foreign investments in Serbia.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	7.7	2.5	2.5	3.5	3.8	4.0
Private consumption	7.9	4.0	0.8	3.7	3.6	2.9
Government consumption	4.3	0.4	0.1	2.8	1.6	4.0
Gross fixed capital investment	15.7	1.9	3.9	2.9	7.0	7.0
Exports, goods and services	20.5	16.6	2.4	4.0	6.5	6.1
Imports, goods and services	18.3	16.1	-1.1	4.7	6.3	6.0
Real GDP growth, at constant factor prices	7.7	2.2	2.6	3.5	3.8	4.0
Agriculture	-5.5	-8.3	4.8	3.4	3.4	3.4
Industry	8.9	0.1	-0.8	4.5	4.5	4.5
Services	8.8	4.5	4.1	3.0	3.5	3.8
Inflation (consumer price index)	4.0	11.9	12.1	5.0	3.5	3.2
Current account balance (% of GDP)	-4.3	-6.9	-2.6	-3.6	-3.9	-4.1
Net foreign direct investment inflow (% of GDP)	6.9	7.2	5.5	5.3	5.5	5.1
Fiscal balance (% of GDP)	-4.1	-3.0	-2.2	-2.0	-1.5	-1.5
Revenues (% of GDP)	43.2	43.4	42.9	42.8	42.7	42.4
Debt (% of GDP)	57.1	55.6	52.6	51.7	49.3	46.0
Primary balance (% of GDP)	-2.4	-1.5	0.1	0.2	0.2	0.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.6	1.6	1.6	1.5	1.5	1.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	2.9	2.8	2.7	2.6	2.5	2.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	7.9	7.2	7.1	6.5	6.2	5.9
GHG emissions growth (mtCO2e)	1.9	1.5	0.2	1.6	1.7	1.9
Energy related GHG emissions (% of total)	74.1	74.8	74.8	75.1	75.4	75.8

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 2022-EU-SILC. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2021) with pass-through = 0.87 (Med (0.87)) based on private consumption per capita in constant LCU.

TAJIKISTAN

Table 1	2023
Population, million	10.1
GDP, current US$ billion	12.1
GDP per capita, current US$	1189.0
International poverty rate ($2.15)[a]	6.1
Lower middle-income poverty rate ($3.65)[a]	25.7
Upper middle-income poverty rate ($6.85)[a]	66.4
Gini index[a]	34.0
School enrollment, primary (% gross)[b]	95.9
Life expectancy at birth, years[b]	71.6
Total GHG emissions (mtCO2e)	19.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2017 PPPs.
b/ WDI for School enrollment (2017); Life expectancy (2021).

Tajikistan's economy grew at a blistering pace of 8.3 percent in 2023, fueled by private consumption and exports of precious metals. The outlook remains robust for 2024, supported by private consumption and public investment, while precious metal exports are expected to subside. To maintain rapid growth and convergence to higher income levels, Tajikistan will need to press ahead with ambitious structural reforms that support private sector-led job creation and enhance the efficiency of public service delivery.

Key conditions and challenges

Although Tajikistan has grown at more than 7 percent a year for the last decade, it remains the poorest country in the ECA region, with a GNI per capita of $1,210 (Atlas method) in 2022 and 12.4 percent of households living below the LMIC poverty line.

Tajikistan's potential remains fettered by barriers to market competition, weak institutions, and limited human capital. Productivity is low, and few jobs are created by the private sector. Tajikistan depends on labor migration, primarily to Russia, and on exporting natural resources, particularly metals and minerals, which account for two-thirds of its total exports.

The government's short and medium-term priorities involve removing barriers to the development of a dynamic private sector, improving transparency and accountability of the public sector for better service delivery, including in state-owned enterprises (SOEs), and taking measures to make growth more inclusive and increase resilience to climate shocks.

Recent developments

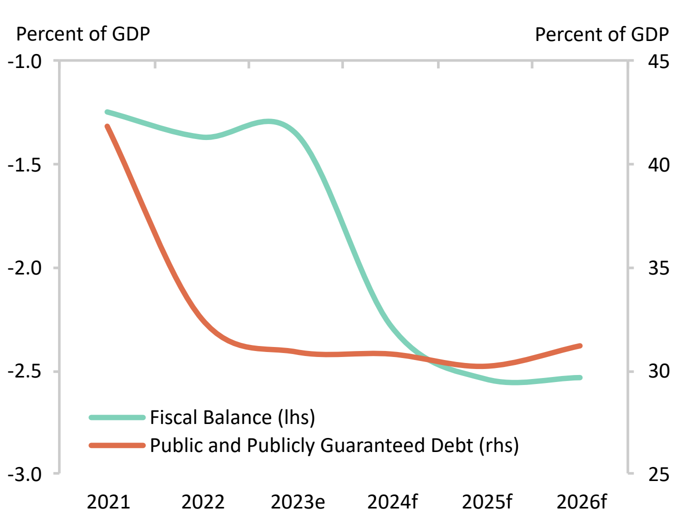
Tajikistan's economy grew by 8.3 percent in 2023, supported by remittance-induced domestic demand and exports of precious metals. The economy experienced a broad-based expansion led by the agriculture sector, followed by industry, construction, and services. Poverty under the LMIC poverty line is estimated to have declined from 12.4 percent in 2022 to 10.7 percent in 2023. According to the Listening to Tajikistan survey, about 42 percent of households had a migrant member and the share of households receiving remittances rose marginally from 17 percent in 2022 to 18 percent in 2023. The reduction in poverty was also supported by growth in domestic real wages of more than 7 percent in 2023.

Tajikistan's current account surplus remained robust at 5.7 percent of GDP. While inward remittances fell after the peak in 2022, this was offset by rising gold exports of 9.5 percent of GDP (from 4.9 percent in 2022). FDI inflows remained muted at below 1 percent of GDP. Gross international reserves stood at US$3.6 billion (7.7 months of import cover) at end-2023, slightly below their level of US$3.8 billion at end-2022.

Consumer price inflation remained contained in 2023, at 3.7 percent on average. Low inflation was supported by limited depreciation of the local currency, administrative price controls, solid agricultural output, and a drop in fuel prices. The central bank gradually loosened monetary policy reducing the policy rate from 13 percent to 10 percent in 2023, and to 9.5 percent in February 2024.

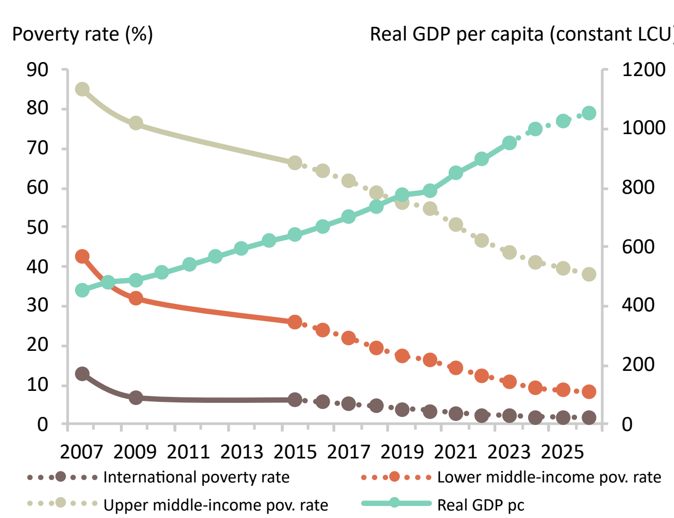
The 2023 budget deficit is estimated at 1.4 percent of GDP, which is similar to 2022. Due to robust economic activity and better tax administration, tax receipts increased from 18.5 percent in 2022 to 19.2 percent

FIGURE 1 Tajikistan / Fiscal balance and public debt



Sources: TajStat, Ministry of Finance, and World Bank staff estimates and projections.

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



Source: World Bank. Notes: see Table 2.

of GDP in 2023. Budget expenditures increased from 28.5 percent of GDP to 30.8 percent, led by spending on energy, education, and communication. From July 2023, the authorities improved targeted social assistance to better identify vulnerable households and increased the amount of payments for households with more children. The budget deficit was financed primarily through external financing. Tajikistan is at high risk of debt distress (largely due to Eurobonds and IMF Rapid Credit Facility principal repayments in 2025-2027) but it is on a sustainable debt path in the medium term.

Although the banking sector has high capitalization levels, asset quality is relatively poor. At the end of 2023, the ratio of capital to risk-weighted assets was 21.3 percent, much above the minimum requirement of 12 percent. The share of nonperforming loans (NPLs) in total loans remains high at 12.7 percent at end 2023, and increased slightly from 12.2 percent at end 2022.

Outlook

Tajikistan's economy is expected to grow at 6.5 percent in 2024, supported by private consumption as Russia's demand for labor migrants remains strong, as well as by continued growth in domestic real wages and higher public spending on infrastructure. The surge in gold exports observed in 2023 is expected to decline due to a high base effect. Poverty, at the $3.65 line (in 2017 PPP), is projected to decline from 10.7 percent in 2023 to 9.2 percent in 2024.

GDP growth potential is estimated at 4.5 to 5 percent in the medium term unless ambitious structural reforms are implemented. Inflation is expected to remain within the target range of 4 to 8 percent.

The fiscal deficit is expected to be capped at 2.5 percent of GDP over the medium term. The updated medium-term revenue program is expected to improve tax collection performance, including by phasing out inefficient tax exemptions. Spending on Rogun Hydro Power Project and other large infrastructure projects is expected to be financed by improving revenues, financing from development partners, and offsetting cuts to non-priority spending. The government plans to continue to raise the share of budget spending on social sectors, including enhancing targeted social assistance to better safeguard vulnerable population groups. The moderate projected fiscal deficit is consistent with debt sustainability considerations.

Several factors pose risks to Tajikistan's economic outlook. These include geopolitical uncertainty, slower-than-expected global growth and tighter financial conditions, the high contingent liabilities of the SOE sector, and the slow pace of structural reforms. Additionally, Tajikistan is highly vulnerable to climate change and natural disasters.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	9.4	8.0	8.3	6.5	4.5	4.5
Private consumption	4.3	15.7	4.7	3.2	2.9	2.8
Government consumption	4.6	12.6	13.0	7.9	3.8	3.8
Gross fixed capital investment	12.0	11.9	22.5	10.0	3.8	3.8
Exports, goods and services	55.4	-24.0	49.4	-20.4	5.7	4.2
Imports, goods and services	20.0	4.0	26.8	-3.0	5.5	2.5
Real GDP growth, at constant factor prices	10.4	9.0	8.3	6.5	4.5	4.5
Agriculture	-0.3	-4.5	9.0	5.0	3.0	3.0
Industry	13.2	9.1	11.3	8.0	5.0	5.0
Services	14.1	16.7	4.5	5.4	4.6	4.6
Inflation (consumer price index)	9.0	6.6	3.7	4.7	6.0	6.0
Current account balance (% of GDP)	8.2	15.3	5.7	3.5	3.0	2.4
Net foreign direct investment inflow (% of GDP)	0.4	1.5	0.8	1.5	1.5	1.5
Fiscal balance (% of GDP)	-1.2	-1.4	-1.4	-2.3	-2.5	-2.5
Revenues (% of GDP)	26.7	27.2	29.5	28.7	28.0	28.0
Debt (% of GDP)	41.9	32.5	30.9	30.8	30.2	31.2
Primary balance (% of GDP)	-0.4	-0.6	-0.7	-1.5	-1.7	-1.8
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.8	2.3	2.1	1.8	1.7	1.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	14.2	12.4	10.7	9.2	8.6	8.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	50.6	46.8	43.8	41.3	39.7	38.0
GHG emissions growth (mtCO2e)	2.7	3.1	4.1	4.4	4.9	5.3
Energy related GHG emissions (% of total)	42.6	43.2	44.0	44.8	46.0	47.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2015-HSITAFIEN. Actual data: 2015. Nowcast: 2016-2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2015) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

TÜRKIYE

Table 1	2023
Population, million	85.8
GDP, current US$ billion	1024.5
GDP per capita, current US$	11938.8
International poverty rate ($2.15)[a]	0.4
Lower middle-income poverty rate ($3.65)[a]	1.4
Upper middle-income poverty rate ($6.85)[a]	7.6
Gini index[a]	44.4
School enrollment, primary (% gross)[b]	102.6
Life expectancy at birth, years[b]	76.0
Total GHG emissions (mtCO2e)	511.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ Most recent WDI value (2021).

Over the past nine months Türkiye has been moving rapidly to normalize macroeconomic policies. Economic growth was strong at 4.5 percent in 2023 but is projected to moderate to 3.0 percent in 2024 before accelerating on a more solid footing in outer years. Poverty continued to decline in 2020 and 2021, though the combination of high inflation and macroeconomic policy adjustment related measures may slow progress in the short term.

Key conditions and challenges

The new economic team that took over after the May 2023 elections has been implementing an ambitious package of measures aimed at correcting previous macroeconomic imbalances. The central bank (CBRT) increased the policy rate by 4,150 bps since May 2023 to 50 percent in March 2024 while also adjusting reserve requirements, rolling back the FX-protected deposit scheme, lessening FX interventions, and providing targeted credit to exporters. Based on the new policy stance, in early March Fitch moved Türkiye's sovereign credit rating from B to B+ with a positive outlook. S&P and Moody's have not changed the credit rating but the outlook is positive.

Despite high GDP growth in recent years, there are longstanding structural challenges that undermine potential growth, including: low productivity growth; low labor force participation and employment levels; and weakening foreign direct investment. In addition, boosting domestic revenues and maximizing the efficiency of public spending will be important to counter the recent deterioration in fiscal balances. Ambitious structural reforms would help accelerate sustainable economic growth.

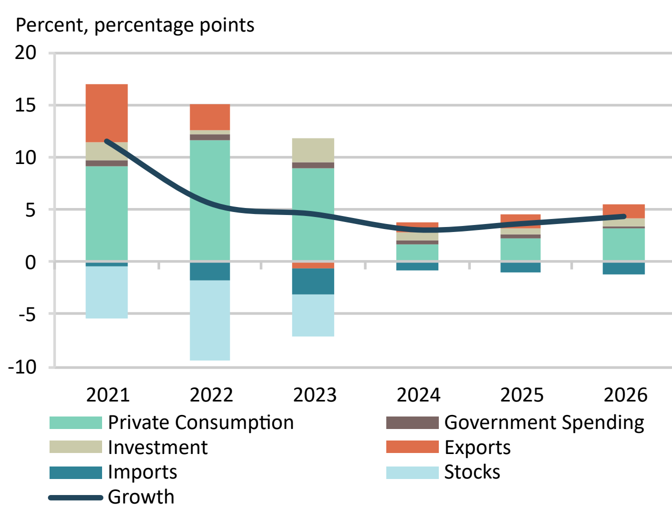
Recent developments

Türkiye's GDP expanded 4.5 percent in 2023, mainly driven by sustained growth in private consumption (12.8 percent in real terms) alongside a strong pickup in investment (8.9 percent) and government consumption (5.2 percent). Exports contracted 2.7 percent in 2023 while imports grew firmly at 11.7 percent, dragging on growth. On a sectoral basis, services growth remained resilient at 4.8 percent and construction expanded 7.8 percent with earthquake recovery. The Turkish labor market continues to be strong; the seasonally adjusted unemployment rate was 9.1 percent in January.

The current account deficit fell to US$45.4 bn in 2023 (4.2 percent of GDP) from US$49.1 bn in 2022 with a sharp improvement in the second half of the year. Fewer FX interventions, steady lira depreciation, returning portfolio inflows, and the significant decline in credit default swap (CDS; a measure of risk premium) on Turkish assets (from above 700 prior to the May 2023 elections to 320 in end-March) have allowed CBRT net reserves to continue recovering, from a negative US$5.7 billion in early June 2023 to a positive US$19.6bn as of March 15.

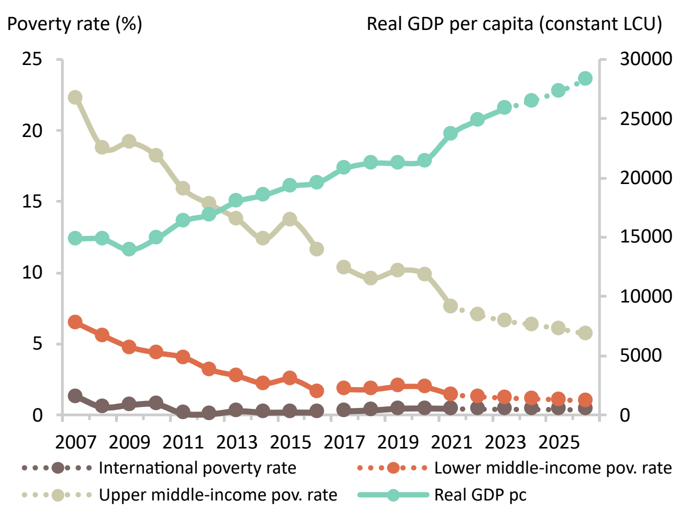
Inflation decreased from 57.7 percent in January 2023 to 38.2 percent in June 2023, but has since increased to 67.1 percent in February 2024 on the back of lira depreciation, sharp minimum wage increases (34 percent in July 2023 and 49.3 percent in January 2024), government tax adjustments, and strong demand. Interest rates are realigning and, along with high inflation and lower capital levels, are containing banks' loan growth despite the relaxation in credit market interventions: as of February 2024, nominal lira loan

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



Sources: Turkstat and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

growth (13-week, FX-adjusted annualized trend) for state and private banks was 13.2 percent and 38.7 percent, respectively. Despite ongoing maturity mismatches, the banking sector's net FX position has improved with capitalization remaining strong. Notably, non-performing loans (NPLs) have declined since 2022 and the NPL ratio shows significant improvement (1.6 percent in January 2024 versus 4.4 percent in 2020). While tight monetary policy may impact some economic segments, particularly SMEs, the overall trend indicates a resilient banking sector.

The overall fiscal balance deteriorated to below -5 percent of GDP in 2023 (from -0.8 in 2022) due to rising expenditures and earthquake-related investment needs, and the primary balance was close to -3 percent of GDP (from +1.4 in 2022). However, the fiscal deficit is relatively low excluding earthquake-related expenditures. Public debt remains moderate at around 30 percent of GDP in 2023.

Poverty continued to decline but inequality widened between 2020 and 2021; the Gini coefficient increased to 46.0 in 2021 as the bottom and top income deciles reaped the largest benefits of growth. The bottom decile experienced the highest real increase in labor income (26 percent), likely driven by the minimum wage increase that in 2021 exceeded CPI inflation; while the top decile reaped the highest benefits from real increases in business incomes (96 percent), likely due to the surge in asset prices. Poverty reduction was largely due to increased labor earnings.

Outlook

Economic growth is projected to moderate to 3.0 percent in 2024 on the back of policy tightening and slow global growth before accelerating to 3.6 percent in 2025 and 4.3 percent in 2026 with a more sustainable growth composition. Inflation is expected to decline gradually after peaking in May 2024 given tight monetary policy, while the current account balance is projected to improve starting from 2024 with a higher contribution of net exports. Given the economic slowdown and earthquake recovery needs, the general government deficit is expected to remain high in 2024 despite fiscal consolidation efforts.

The period ahead provides opportunities for tackling structural issues. It will be important to accelerate pro-growth structural reforms to unleash private sector productivity and investment in the medium-term. Poverty is expected to continue declining in the short run as increases in average nominal wages exceeded CPI changes in 2022 and 2023. However, if the distribution of growth remains the same as between 2020 and 2021, inequality is also likely to increase, impeding potential for long-term poverty reduction.

The outlook is contingent on continuation of the current policy stance. Risks to the outlook are balanced. Downside risks include: low net reserves and high external financing requirements, which imply low buffers against external shocks; heightened geopolitical tensions; vulnerability of the fiscal position to high borrowing costs; and slower growth resulting in political pressures to reverse policy normalization. On the upside, the increasing credibility of the new economic team may result in more investment inflows, which would help stabilize the currency and accelerate the economic adjustment.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	11.4	5.5	4.5	3.0	3.6	4.3
Private consumption	15.4	18.9	12.8	2.3	3.1	4.2
Government consumption	3.0	4.2	5.2	2.5	2.1	1.7
Gross fixed capital investment	7.2	1.3	8.9	2.9	2.9	3.1
Exports, goods and services	25.1	9.9	-2.7	4.5	5.2	5.9
Imports, goods and services	1.7	8.6	11.7	3.7	4.2	5.6
Real GDP growth, at constant factor prices	12.7	6.2	4.5	3.0	3.6	4.3
Agriculture	-3.0	1.3	-0.2	1.4	1.5	1.5
Industry	13.0	-0.6	3.7	4.6	4.8	5.0
Services	13.2	10.1	4.7	2.5	3.3	4.2
Inflation (consumer price index)	19.6	72.3	53.9	57.8	28.9	16.4
Current account balance (% of GDP)	-0.9	-5.4	-4.2	-2.8	-2.4	-2.5
Net foreign direct investment inflow (% of GDP)	0.8	1.0	0.7	0.9	1.1	1.4
Fiscal balance (% of GDP)	-2.6	-0.8	-5.4	-5.4	-3.7	-2.4
Revenues (% of GDP)	30.9	27.8	26.4	26.2	26.2	26.5
Debt (% of GDP)	41.5	30.3	29.7	29.9	30.5	31.2
Primary balance (% of GDP)	0.0	1.4	-2.5	-0.8	0.6	0.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.4	0.4	0.4	0.4	0.4	0.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	1.4	1.3	1.2	1.2	1.1	1.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	7.6	7.0	6.6	6.4	6.1	5.7
GHG emissions growth (mtCO2e)	11.1	-5.2	1.8	2.3	3.0	3.5
Energy related GHG emissions (% of total)	78.6	76.5	75.8	75.2	74.6	74.1

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 2021-SILC-C and 2022-SILC-C. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.
b/ Projection using point-to-point elasticity (2020-2021) with pass-through = 0.7 based on GDP per capita in constant LCU.

UKRAINE

Table 1	**2023**
GDP, current LCU trillion[a]	6.4
GDP, current US$ billion[a]	177.3
GDP growth, annual %[a]	4.8
School enrollment, primary (% gross)[b]	92.8
Life expectancy at birth, years[b]	69.6
Total GHG emissions (mtCO2e)	154.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ GDP numbers are expected (2023).
b/ Most recent WDI value (2021).

Ukraine's economy has resumed modest growth, estimated at 4.8 percent in 2023. Concurrently, macroeconomic risks emanating from the on-going active hostilities and uncertainty about the timing and amount of external assistance continue to rise and could require a policy adjustment if downside risks materialize. Household incomes increased in line with this economic growth, but household sentiments remain gloomy, with most people reporting financially worse conditions compared to their pre-war situation.

Key conditions and challenges

Even though Ukraine's economy has resumed modest growth in 2023 it continues to operate as a war economy that spent almost 50 percent of its 2023 budget on defense. Private demand remains subdued by a restrictive monetary policy, designed to rein in inflationary pressure resulting from continued supply disruptions and high demand from the public sector, whereas the public sector absorbs most scarce domestic resources and external aid to finance its large deficit.

As the war enters its third year, Ukraine's economic management has reached an inflection point. On the one hand, the country has been able to maintain macroeconomic stability since February 2022, controlling inflation, maintaining a stable currency, financing critical expenditure, and accumulating significant foreign exchange reserves. It has also been able to achieve EU candidacy status and has continued structural reform efforts despite the challenging conditions. On the other hand, the receipt of external aid - US$42.5 billion in 2023 – was instrumental to this achievement, and concerns about the timing and amount of future aid disbursements are increasing. Ukraine's 2024 budget plans for the receipt of US$37.3 billion in external financing, the timely receipt of which will be critical to enable the authorities to maintain macroeconomic stability and to finance critical expenditure, including for social assistance.

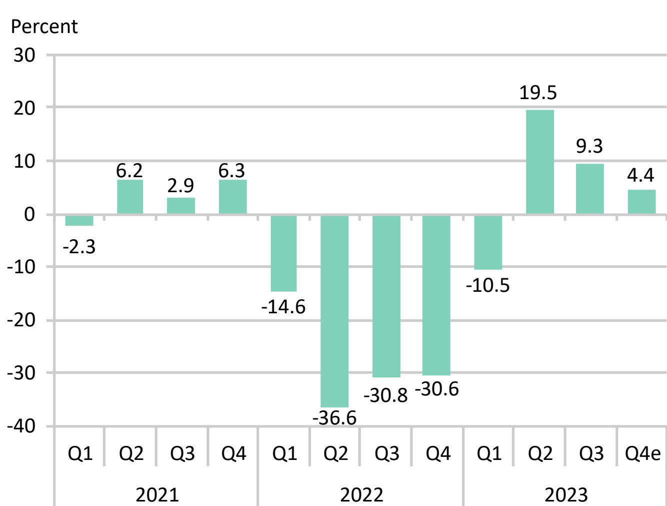
Looking ahead, Ukraine has, with support from its international partners, designed a medium-term structural reform agenda to enhance macro-fiscal sustainability and support growth. Effectively executing this agenda through timely reform approval and implementation, as well as prioritization, will be critical to reduce aid dependence and ensure that Ukraine benefits from the promise of EU membership. Restoring livelihoods through integration of displaced populations and ex-combatants into labor markets, ensuring continued social service delivery, and supporting households to recover from property damages are key priorities.

Recent developments

More reliable electricity, an exceptional harvest and the steadier receipt of external assistance have allowed for the first GDP expansion since February 2022, with year-on-year growth of 19.5 and 9.3 percent in Q2 and Q3 of 2023, respectively. Yearly growth for 2023 is estimated at 4.8 percent, with potential to the upside.

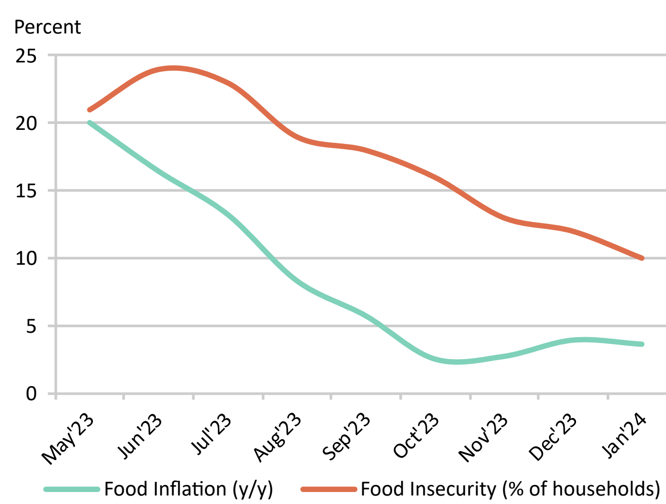
Inflation has declined from 26.6 percent at end-2022 to only 4.7 percent in January 2024. A restrictive monetary policy stance and conducive food supply contributed to this reduction. In October 2023, the NBU transitioned from a pegged to a slightly more flexible exchange rate regime, which has resulted in modest currency depreciation. Banks

FIGURE 1 Ukraine / Quarterly GDP growth, year-over-year



Source: Ukraine Statistics Office.

FIGURE 2 Ukraine / Trends on food inflation and food insecurity trends



Source: World Bank staff estimates.

have remained profitable and stable, but risks are prevalent.

After recording a surplus in 2022, Ukraine's current account turned into USD 9.6 billion deficit in 2023. This was driven by a widening trade deficit and the replacement of grant receipts by loans. Reserves were aided by external assistance and stood at USD 37.1 billion on March 1.

Higher needs for defense expenditure necessitated a significant revision of the 2023 budget and an expansion of the fiscal deficit, which reached an estimated 27 percent of GDP when excluding grants. Ukraine met its financing needs through domestic bank borrowing and external assistance but has not resorted to monetization in 2023.

There are signs of household incomes recovering. Estimates from earnings data suggest that nominal wages in the last quarter of 2023 had more than doubled year-on-year, outstripping inflation. Social transfers also increased in real terms. Nevertheless, 70 percent of households perceive being financially worse off compared to two years ago, reflecting a combination of high uncertainty, high prices after a period of inflation, lack of savings and loss of property, with more than 20 percent of households having experienced damages since the war started.

Outlook

Ukraine's economic outlook is conditional on the timing and quantity of external assistance receipts and the assumed duration of Russia's invasion. Under an indicative scenario which assumes that active hostilities will continue throughout 2024, GDP is expected to expand modestly by 3.2 percent in 2024. Starting from 2025, Ukraine's economic growth would accelerate to 6.5 percent under the baseline assumption as export growth resumes, and reconstruction investment supports the demand side. Private consumption growth is projected to remain modest due to contractionary monetary policy needed to reign in post-war inflation. Inflation is expected to pick up in 2024 as one-off factors subside but is projected to decrease from 2025.

The current account is expected to widen to 7.8 percent of GDP deficit in 2024 and remain elevated under the baseline assumption, as a reduction in grants outweighs a gradually decreasing trade deficit from 2025 onwards. The fiscal deficit (excluding grants) is projected at 20.4 percent of GDP in 2024 before gradually declining to 6.6 percent by 2026, and is projected to be financed by external assistance, with an increasing contribution from domestic sources over time. Public and publicly guaranteed debt is projected to stabilize around 98 percent of GDP in the medium term.

This scenario is subject to significant downside risks due to the vulnerability of Ukraine's economic trajectory to external financing shortfalls and the possible prolongation of the active hostilities beyond 2024. Should downside risks materialize, a more stringent macroeconomic adjustment could become necessary. That adjustment could affect social spending and transfers to households that most of the poor have come to depend on, which could push many of them deeper into poverty.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	3.4	-28.8	4.8	3.2	6.5	5.1
Private consumption	6.9	-27.9	9.9	2.3	10.0	4.9
Government consumption	0.8	31.4	18.9	19.1	12.2	8.5
Gross fixed capital investment	9.1	-33.9	4.0	3.8	12.4	17.5
Exports, goods and services	-8.6	-42.0	-0.2	26.1	35.7	22.8
Imports, goods and services	14.2	-17.4	18.4	18.3	25.6	15.9
Real GDP growth, at constant factor prices	3.5	-28.8	4.8	3.2	6.5	5.1
Agriculture	14.4	-25.2	6.0	-1.0	10.0	6.0
Industry	7.2	-42.8	3.0	2.6	4.5	4.5
Services	0.5	-24.7	5.0	4.1	6.3	5.0
Inflation (consumer price index)	10.0	26.6	5.1	9.5	7.9	7.3
Current account balance (% of GDP)	-1.9	5.1	-5.4	-7.8	-8.6	-7.9
Net foreign direct investment inflow (% of GDP)	3.8	0.1	2.4	0.8	2.4	3.9
Fiscal balance (% of GDP)[a]	-4.0	-24.8	-27.0	-20.4	-11.5	-6.6
Revenues (% of GDP)	36.5	40.6	36.9	37.4	38.4	39.5
Debt (% of GDP)	49.0	77.8	86.8	96.3	98.3	97.7
Primary balance (% of GDP)[a]	-1.2	-21.6	-23.0	-14.9	-6.9	-2.4
GHG emissions growth (mtCO2e)	0.7	-28.2	-4.8	-7.3	-4.8	-3.1
Energy related GHG emissions (% of total)	72.4	67.0	68.3	67.8	67.1	66.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal Balance and Primary Balance are excluding grants in 2022-2026.

UZBEKISTAN

Table 1	2023
Population, million	36.2
GDP, current US$ billion	90.9
GDP per capita, current US$	2510.1
International poverty rate ($2.15)[a]	2.3
Lower middle-income poverty rate ($3.65)[a]	5.0
Upper middle-income poverty rate ($6.85)[a]	17.3
Gini index[a]	31.2
School enrollment, primary (% gross)[b]	94.2
Life expectancy at birth, years[b]	70.9
Total GHG emissions (mtCO2e)	198.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ Most recent WDI value (2021).

The economy grew by 6 percent in 2023 amid broad based expansion and fiscal stimulus. The government is expected to consolidate fiscal spending in 2024 following an increase in the fiscal deficit in 2023. Robust real wage growth has contributed to poverty reduction in 2023. The medium-term outlook is positive as ambitious and ongoing structural reform is expected to improve the business environment in key sectors and stimulate private sector-led investment and growth. Steady economic growth is expected to result in a reduction in poverty.

Key conditions and challenges

Uzbekistan has implemented sweeping reforms in recent years that have liberalized parts of the economy and improved prospects for private sector development. In 2023, the authorities established an independent energy regulator, began energy tariff reform, restructured the state-owned enterprise (SOE) rail operator, privatized a large chemical plant and a bank, and unbundled the leading chemical SOE to promote competition. They also established the National Agency for Social Protection, approved strong new legislation to combat gender-based violence, and expanded access to free legal aid. Uzbekistan also took a green transition path by introducing more ambitious environmental targets, a new pollution control system, and a national green taxonomy.

With high population growth and a large amount of youth entering the workforce each year, economic growth will need to support strong job creation. To do so, Uzbekistan needs to continue its reforms program to open up markets and boost competition, notably by reducing dominance of SOEs in the economy, strengthening land rights, liberalizing the telecommunications sector and raw materials trade, and reducing high trade costs. Faster job creation and productivity growth will also require increasing labor force skills.

Recent developments

Real GDP grew by 6 percent in 2023, led by investment, private consump¬tion, and exports. Faster invest¬ment growth was facilitated by credit growth to SOEs and private sector. Real credit (loans to SOEs and private sector) grew by 11.6 percent between 2022 and 2023, up from 5.1 percent between 2021 and 2022.

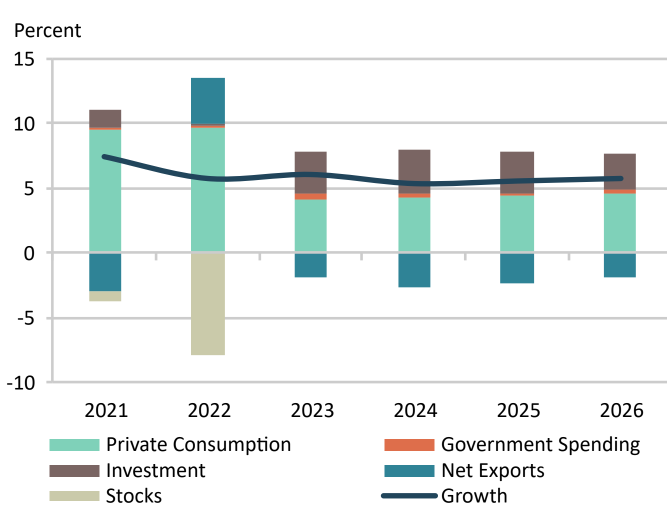
Consumer price inflation fell to its lowest level in seven years, dropping to 8.8 percent yoy in December 2023, compared to 12.3 percent in 2022. This was driven by sustained, tight monetary policy, as well as a VAT tax rate cut and lower international food and energy prices.

In 2023, the Uzbek som depreciated by 9 percent against the US dollar (USD), in part due to a flow on effect of the depreciation of the Russian ruble (a close trading currency) against the USD.

The current account deficit deteriorated as import growth accelerated and remittances declined in 2023 (the latter was related to the ruble's depreciation). Uzbekistan's gas exports dropped by half, and amid rising domestic gas needs, Uzbekistan began importing gas from Russia in 2023 for the first time.

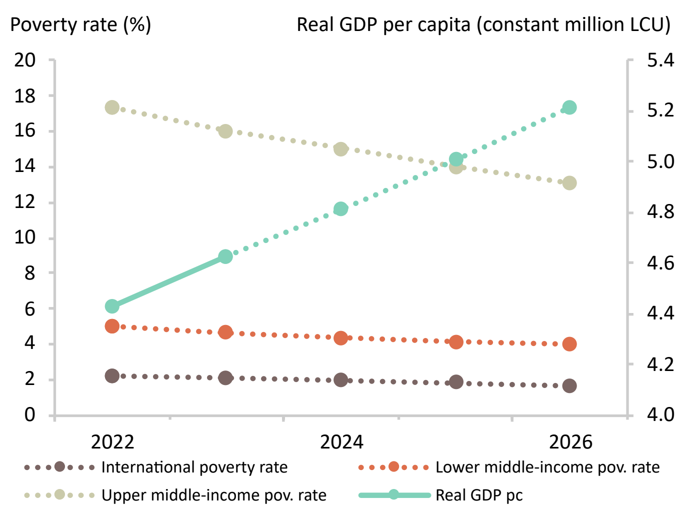
The fiscal deficit expanded from 4.1 percent in 2022 to 5.8 percent of GDP in 2023 due to emergency spending on energy infrastructure and fuel during the cold winter, higher spending on salaries and social benefits, energy subsidies, and subsidized lending to SOEs via state-owned banks. Foreign reserves remained ample

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



Source: World Bank staff calculations based on official data.

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



Source: World Bank. Notes: see Table 2.

at $34.6 billion by December 2023, more than 8 months of prospective imports.

Robust real wage growth contributed to reducing poverty from 5.0 percent in 2022 to 4.5 percent in 2023, measured at the lower-middle income poverty line (USD 3.65/day, 2017 PPP). The unemployment rate has dropped to 8.1 percent in 2023, down from 8.9 percent in 2022. Average real wages in 2023 increased by 7.8 percent not only due to growing demand but also because of skills shortages in the labor market. As a result, wage growth was higher among the more skilled (and wealthier) workers than among the poor, resulting in higher income inequality.

Outlook

GDP growth is projected at 5.3 percent in 2024 given the expected fiscal consolidation and slower export growth prospects to Russia and China, Uzbekistan's key trading partners. Growth will be supported mainly by the continued implementation of structural reforms, notably SOEs' restructuring and privatization, and high energy sector investment.

Inflation is expected to increase in 2024 due to relatively sharp increases in domestic energy prices because of the energy tariff reforms (accompanied by social protection measures). This will be partially offset by a continued tight monetary stance while the central bank completes its transition to full inflation targeting. Inflation is expected to decelerate to 8 percent in the medium term, higher than the CBU target of 5 percent. Import growth is expected to moderate in 2024 but remains buoyant as imports support both economic modernization and growing consumption.

Remittances in 2024 are projected to decline mainly due to an expected reduction in the number of labor migrants to Russia. With decreasing remittances and strong imports, the current account deficit will widen slightly but remain sustainable as Uzbekistan's transformation process brings in foreign savings to finance the deficit. This economic outlook is expected to reduce poverty moderately to 4.3 percent in 2024.

The fiscal deficit is expected to fall to 4.2 percent of GDP in 2024 and towards 3 percent of GDP by 2026 as large, untargeted energy subsidies and ineffective incentives to SOEs are withdrawn, and thanks to growing budget revenues amid privatization proceeds. The government is expected to adhere to its debt limits (60 percent of GDP for total Public and Publicly Guaranteed debt), with public debt slightly increasing to 36.5 percent of GDP in 2024 and then gradually declining to 34.4 percent of GDP by 2026.

Risks to outlook are tilted to the downside. External risks include possible deterioration of growth in key trading partners, notably China and Russia, and further tightening of external financial conditions. Domestic risks stem from the growing contingent liabilities from SOEs, PPPs, and state-owned banks. Upside risks include higher global gold and copper prices and stronger productivity growth due to ongoing structural reforms.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	7.4	5.7	6.0	5.3	5.5	5.7
Private consumption	11.6	11.3	4.6	4.9	5.0	5.2
Government consumption	3.1	3.6	6.2	3.9	1.7	4.2
Gross fixed capital investment	2.9	0.2	7.6	7.8	7.3	6.2
Exports, goods and services	13.3	27.9	23.4	10.1	11.2	12.3
Imports, goods and services	19.9	9.1	24.9	15.1	14.1	13.6
Real GDP growth, at constant factor prices	7.4	5.7	6.0	5.3	5.5	5.7
Agriculture	4.0	3.6	4.1	3.7	3.9	3.8
Industry	7.9	5.5	6.3	5.6	6.5	7.1
Services	9.1	6.9	6.8	6.0	5.7	5.8
Inflation (consumer price index)	10.8	11.4	10.0	11.0	9.9	8.2
Current account balance (% of GDP)	-7.0	-0.8	-4.7	-5.0	-4.5	-4.3
Net foreign direct investment inflow (% of GDP)	3.3	3.1	6.0	3.6	3.8	4.0
Fiscal balance (% of GDP)	-6.0	-4.1	-5.8	-4.2	-3.6	-3.0
Revenues (% of GDP)	25.9	30.5	28.8	28.9	29.2	29.4
Debt (% of GDP)	36.6	34.0	36.1	36.5	35.3	34.4
Primary balance (% of GDP)	-5.7	-3.7	-5.3	-3.6	-3.0	-2.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	..	2.3	2.1	2.0	1.8	1.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	..	5.0	4.6	4.4	4.2	4.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	..	17.3	16.0	15.0	14.0	13.1
GHG emissions growth (mtCO2e)	3.9	1.6	2.0	1.6	1.9	2.0
Energy related GHG emissions (% of total)	60.8	60.7	60.7	60.4	60.1	59.8

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 2022-HBS. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2022) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

Macro Poverty Outlook

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