Europe and Central Asia

Macro Poverty Outlook

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

Annual Meetings 2024

WORLD BANK GROUP
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ALBANIA

Table 1	2023
Population, million	2.8
GDP, current US$ billion	23.0
GDP per capita, current US$	8300.4
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]	76.8
Total GHG emissions (mtCO2e)	7.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2022).

Growth in 2024 is expected to remain robust at 3.3 percent, on the back of private consumption, tourism, and construction. Price pressures have continued to ease. Poverty is expected to continue to decline as labor income increases. Medium-term prospects hinge on the recovery of the global economy and on the pace of structural reforms. The European Union (EU) accession aspirations provide an anchor to speed up convergence.

Key conditions and challenges

The Albanian economy has shown considerable resilience as prudent macroeconomic policies supported a strong economic rebound, with real GDP growth averaging 4.2 percent in 2022 and 2023. A key factor in Albania's resilience has been the proximity to the EU, a key source of investment and remittances, and a main destination for exports. Tourism remains 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 years with average precipitation, has 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 climate risks, contingent liabilities and debt refinancing at a time of the high cost of external financing.

To create the needed fiscal space and address these challenges, 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.

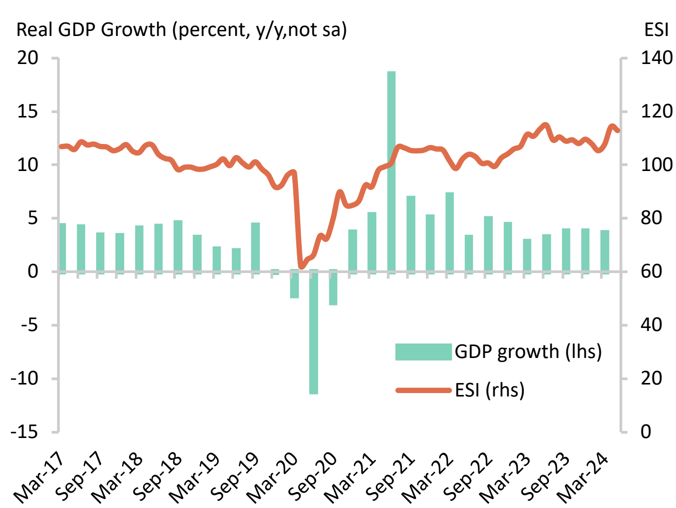
Recent developments

Following a 3.4 percent real growth rate in 2023, Albania's economy grew at a higher pace of 3.6 percent in Q1 of 2024. On the supply side, growth was primarily driven by services and construction. Private consumption and investment were the main drivers on the demand side. In the coming quarters, investment and services exports are expected to strengthen. Economic sentiment remains positive (Figure 1), though showing signs of moderation.

At the end-2023, the employment rate reached 66.7 percent with variation across demographics, with a 0.7 percentage point increase for men and 0.3 percentage point decrease for women. Overall, poverty declined by 1.9 percentage points to reach 21.7 percent. Based on administrative data for Q1 2024, employment grew by 1.1 percent y-o-y, driven by the private sector. The average private sector wage increased by 12.7 percent, reflecting growth across all economic activities.

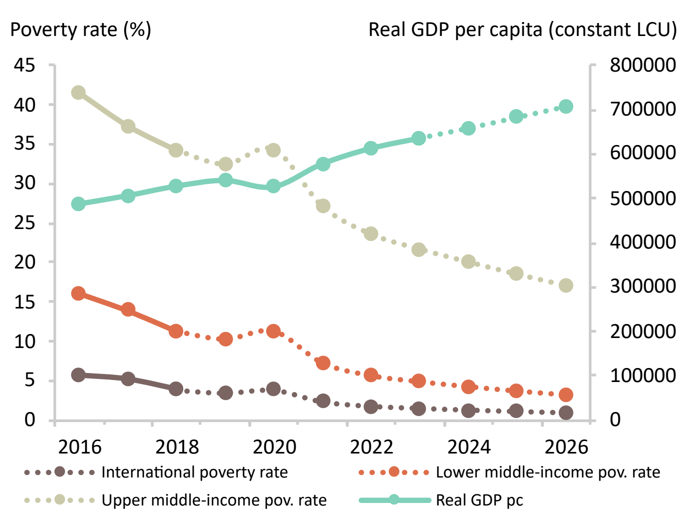
Annual inflation rate continued its declining trend, averaging around 2.7 percent in Q1 of 2024, as a result of downward pressures from lower import prices, domestic currency appreciation, and monetary policy normalization. In the subsequent months up to July 2024, inflation

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.

has remained stable at around 2.1 percent, mainly driven by wage increases in the private sector, while food and non-alcoholic beverages, which constitute close to 35 percent of the consumption basket, had a deflationary trend.

As of July 2024, the government reported a fiscal surplus, on account of robust revenue collection and sluggish execution of capital investment. Budget revenues increased by over 8 percent y-o-y as of July 2024, with growth observed in all categories, except grants and profits, which were mostly affected by the base effect (as they had picked up in the previous year).

Overall credit increased by 13 percent y-o-y through July 2024. Both private businesses and household loans registered double digit growth, at approximately 12.0 percent and 14.5 percent. Gross nonperforming loans reached the level of 4.7 percent in July 2024.

The current account deficit (CAD) widened in H1, primarily driven by the rapid growth of imports and the decrease in exports of goods. Net foreign direct investment (FDI) continued to perform strongly, increasing by 8.5 percent. Foreign currency reserves reached the level of 5.7 billion Euros as of July 2024.

Outlook

Growth is expected to remain robust at 3.3 percent in 2024, with increased tourism and construction expected to drive exports, and consumption and investment growth at rates similar as in the pre-pandemic period. The inflation rate is projected to remain below the 3 percent target in the medium term, despite the increase in wages, which has partially been offset by the appreciation of the LEK. The current account deficit is expected to hover at 3.8 percent of GDP in the medium term. With higher growth expected, poverty is also projected to decrease. A tighter labor market could further boost wages.

Albania's primary balance is projected to improve and reach zero percent of GDP from 2024 onwards. Government plans to continue improving tax administration, as envisioned in the Medium-Term Revenue Strategy. Public debt is expected to decline further in the medium term.

Leading indicators are pointing upwards: there is strong tourism data and increased construction activity, rising credit growth, positive business and consumer sentiment indicators, and strong tax revenues. Given Albania's growing reliance on external financing, risks related to the exchange rate, interest rate, and refinancing remain elevated.

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. Risks to growth emanate from natural disasters and unfavorable global conditions (including geopolitical developments). Fiscal risks emanate from public-private partnerships and state-owned enterprises (SOEs), in addition to the country's hydropower-based energy sector, due to variations in hydrology.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	8.9	4.9	3.4	3.3	3.4	3.4
Private consumption	4.3	7.4	3.1	3.1	3.1	3.0
Government consumption	7.8	-4.7	9.2	10.4	-0.5	0.9
Gross fixed capital investment	19.2	6.5	6.4	9.7	3.4	3.1
Exports, goods and services	52.0	7.5	10.1	0.5	6.5	6.5
Imports, goods and services	31.5	13.1	1.3	5.8	4.3	4.4
Real GDP growth, at constant factor prices	8.2	5.3	3.8	3.0	3.5	3.3
Agriculture	1.8	0.1	-0.7	-0.5	0.2	0.2
Industry[a]	13.6	7.7	4.0	1.0	2.0	2.0
Services	8.1	5.9	5.2	5.2	5.2	4.8
Inflation (consumer price index)	2.0	6.7	4.8	2.2	2.7	2.9
Current account balance (% of GDP)	-7.7	-5.9	-0.9	-3.9	-3.8	-3.7
Net foreign direct investment inflow (% of GDP)	6.5	6.6	5.9	5.3	5.3	5.4
Fiscal balance (% of GDP)	-4.6	-3.7	-1.3	-2.3	-2.3	-1.8
Revenues (% of GDP)	27.5	26.8	27.8	29.2	28.4	28.5
Debt (% of GDP)	75.4	65.3	59.8	58.3	57.6	56.3
Primary balance (% of GDP)	-2.7	-1.8	0.7	0.0	0.0	0.5
International poverty rate ($2.15 in 2017 PPP)[b,c]	2.4	1.8	1.5	1.3	1.1	1.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	7.3	5.7	4.9	4.3	3.7	3.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	27.1	23.6	21.7	20.1	18.5	17.1
GHG emissions growth (mtCO2e)	2.4	-4.2	-4.6	-1.5	-0.7	-0.2
Energy related GHG emissions (% of total)	46.7	46.5	46.0	47.4	49.1	50.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Includes construction.
b/ Calculations based on ECAPOV harmonization, using 2014- and 2019-SILC-C. Actual data: 2018. Nowcast: 2019-2023. Forecasts are from 2024 to 2026.
c/ 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	3.0
GDP, current US$ billion	24.1
GDP per capita, current US$	8053.0
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]	73.4
Total GHG emissions (mtCO2e)	13.2

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

Armenia's economy expanded by 6.5 percent in H1 2024, driven by private consumption and investment. During January-July, an average 0.3 percent deflation was recorded, largely due to falling food and non-alcoholic beverage prices. Meanwhile, unemployment rose in Q1. Growth is expected to moderate at around 4.5 percent in the medium term, with exports and money transfer inflows easing.

Key conditions and challenges

Armenia has weathered multiple shocks since 2020, including the refugee crisis at the end of 2023. This has been possible due to targeted government interventions and effective macroeconomic management. Following Russia's invasion of Ukraine in 2022, the Armenian economy benefited from significant inflows of funds, migrants, and re-routed exports. This led to an impressive 10.5 percent average annual growth rate in 2022–2023. Recently this growth momentum has begun to slow down due to a gradual outflow of funds and migrants, and a reduction in net exports.

Although notable progress has been made in recent years in reducing corruption and improving the business environment—particularly through more effective tax and customs administration—other key structural challenges persist. There continues to be low private sector investment and constraints such as low labor force participation rates and a shortage of skilled workers. To address these challenges, the government is pursuing an ambitious plan to boost human capital through reforms in the education and health sectors.

Positive progress on resolving Armenia's peace negotiations and reopening of borders with neighbors would expand Armenia's economic potential and potentially boost growth.

Recent developments

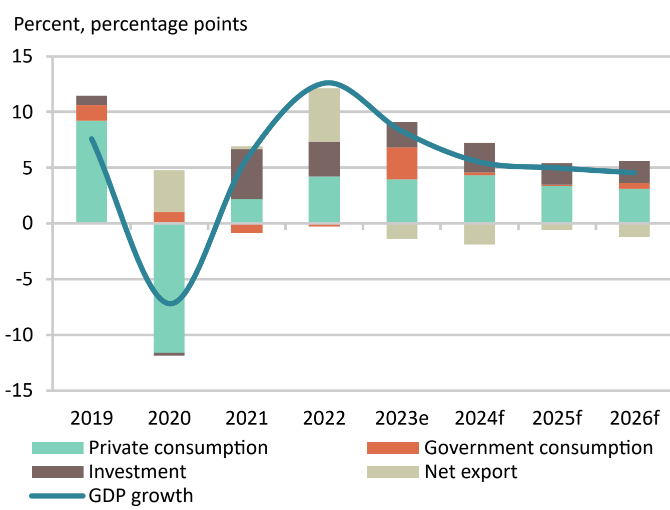
In H1 2024, real GDP growth reached 6.5 percent (yoy), down from 10.4 percent in H1 2023. Private consumption and investment grew 7.6 and 13.1 percent, respectively. On the supply side, trade, financial, and real estate services grew 22 percent (yoy), 15 percent (yoy), and 13 percent (yoy), respectively. In the industrial sector, construction and manufacturing were positive contributors, whereas mining contracted 11 percent (yoy), due to lower ore extraction (following the closure of the Sotk mine at the border with Azerbaijan). Meanwhile, agriculture showed signs of recovery, expanding 5 percent (yoy) in the same period.

Armenia's unemployment rate rose to 15.5 percent in Q1 2024, up from 13.7 percent in Q1 2023. The rise can be partly attributed to the inflow of refugees not yet integrated into the labor market, and to a decline in employment levels, particularly female workers in urban areas.

Average inflation fell from 2 percent in 2023 to 0.3 percent deflation during January-July 2024, largely due to a 3.7 percent fall in food and non-alcoholic beverage prices. This is influenced by a high base effect in 2023, which is expected to weaken in H2 2024. In response, the Central Bank reduced the policy rate cumulatively through September by 175 bsp, to 7.5 percent.

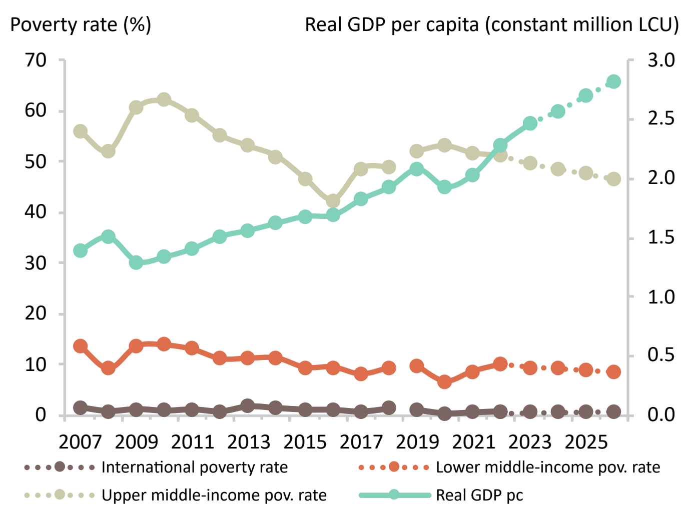
In H1 2024, the budget posted a surplus of 0.1 percent of projected GDP, driven by an 11 percent under-execution of current expenditure. Although tax revenues increased 7.6 percent in nominal terms,

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



Sources: Statistical Committee of Armenia, Central Bank of Armenia (CBA), 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.

they were still 9 percent below the planned budget. Capital expenditure was in line with the budget, and at end-July government debt was at 44.6 percent of the annual GDP forecast.

Armenia's trade turnover doubled in H1 2024, driven by a 134 percent leap in exports and an 87 percent rise in imports (both in nominal terms), primarily due to the re-export of precious stones and metals (70 percent of total exports). The number of tourists declined 6.1 percent, largely due to a 24 percent fall in Russian visitors. Meanwhile, net non-commercial money transfers were 48 percent lower than in H1 2023, mainly due to reduced inflows from Russia. By mid-August, the AMD had appreciated 4 percent against the USD, compared with the end of 2023.

Armenia's financial stability indicators remained robust as of June 2024, with a 20.2 percent Capital Adequacy Ratio and a low Non-Performing Loans ratio at 1.2 percent. Banking sector profitability improved, and credit and deposits by commercial banks increased 8 percent and 4 percent, respectively, through July 2024. This growth was primarily driven by AMD-denominated funds, which helped lower the credit dollarization ratio to 33.2 percent by end-July 2024.

The national absolute poverty rate continued to fall, reaching 23.7 percent in 2023, although the decline was slower than in previous years and less than proportionate to economic growth.

Outlook

Supported by domestic demand, growth in 2024 is expected to slow to 5.5 percent before gradually converging to a potential growth rate of 4.5 percent in the medium term. Average inflation is expected to rise gradually toward 4 percent target in the medium term.

The fiscal deficit is projected to rise to 4.7 percent of GDP in 2024, driven by continued support for refugees, elevated domestic interest payments, and substantial capital expenditure plans. Further deterioration is likely in 2025, to be followed by a period of fiscal consolidation. As a result, the public debt stock is expected to increase over the next two years.

The current account deficit (CAD) is expected to widen to 3.3 percent of GDP in 2024, and potentially deteriorate further in the medium term, mainly due to the positive impact of re-exports phasing out. The CAD is expected to remain below 4.5 percent of GDP in the medium term.

Poverty, as measured by the upper middle-income poverty line of USD 6.85, is expected to remain about 49 percent in 2024. Rising unemployment and slower GDP growth may suppress real wages, affecting the trend in poverty reduction.

Downside risks to this outlook include geopolitical instability, challenges in refugee integration, and potential slowdowns in the economies of key trading partners.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	5.8	12.6	8.3	5.5	5.0	4.6
Private consumption	2.8	5.6	5.6	6.3	4.9	4.5
Government consumption	-6.2	-2.2	28.3	2.1	1.0	4.6
Gross fixed capital investment	23.6	14.0	10.1	11.6	8.0	8.1
Exports, goods and services	18.6	59.9	30.7	29.2	-15.3	1.6
Imports, goods and services	12.9	35.0	30.2	29.3	-13.1	3.2
Real GDP growth, at constant factor prices	5.6	13.1	8.0	5.5	5.0	4.6
Agriculture	-0.8	-2.8	2.9	4.1	3.5	3.0
Industry	2.6	9.8	2.7	6.5	5.8	4.5
Services	8.7	18.1	11.4	5.3	4.9	4.8
Inflation (consumer price index)	7.2	8.6	2.0	0.6	3.2	4.0
Current account balance (% of GDP)	-3.5	0.3	-2.3	-3.3	-3.8	-4.3
Net foreign direct investment inflow (% of GDP)	2.5	4.9	2.2	2.0	2.0	2.1
Fiscal balance (% of GDP)[a]	-4.5	-2.2	-1.9	-4.7	-5.5	-4.6
Revenues (% of GDP)	24.9	25.1	26.0	26.1	26.2	26.5
Debt (% of GDP)[b]	60.2	46.7	48.4	50.3	53.8	55.4
Primary balance (% of GDP)	-2.0	0.1	0.7	-1.5	-2.1	-1.1
International poverty rate ($2.15 in 2017 PPP)[c,d]	0.5	0.8	0.8	0.8	0.9	0.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	8.7	10.0	9.5	9.2	8.9	8.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	51.7	51.3	49.6	48.6	47.6	46.6
GHG emissions growth (mtCO2e)	5.9	6.6	11.5	7.9	6.4	4.8
Energy related GHG emissions (% of total)	63.1	65.3	68.7	67.8	68.7	70.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ The 2023 fiscal balance registered a deficit of -4.1 percent of GDP, including realized liabilities to Karabakh.
b/ Excludes CBA debt.
c/ Calculations based on ECAPOV harmonization, using 2010-ILCS, 2018-ILCS, and 2022-ILCS. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.
d/ Projection using annualized elasticity (2010-2018) with pass-through = 0.69 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$	7134.4
School enrollment, primary (% gross)[a]	99.8
Life expectancy at birth, years[a]	73.5
Total GHG emissions (mtCO2e)	53.1

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

Economic growth rose to 4.3 percent in H1 2024, driven by the non-hydrocarbon sector supported by public investment. Annual inflation fell to 1.1 percent as external pressures subsided. External and fiscal surpluses narrowed due to slowing energy prices. In the medium term, growth is estimated to hover around 2.5 percent as oil production continues to decline. Risks to this outlook are balanced.

Key conditions and challenges

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

Private sector development is constrained by the economy's large state footprint, an uneven playing field for companies, shallow financial markets, and a weak human capital base.

Global mitigation efforts, resulting in declining fossil fuel demand and fuel prices, can lead to substantial reductions in Azerbaijan's resource rents. Carbon border adjustment measures could adversely impact the country's economy further. Azerbaijan's role in hosting COP29 in November 2024 may provide an opportunity to boost climate mitigation and adaptation efforts. Phasing out distortionary fossil fuel subsidies would substantially reduce carbon emissions while fostering private investment in renewable energy, contributing to boosting the economy in the long run.

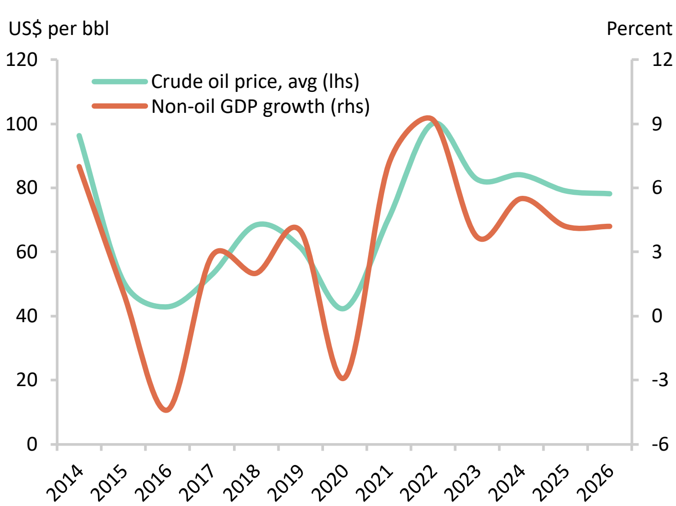
Recent developments

Growth rose to 4.3 percent in real terms in H1 2024, compared with 1.1 percent in 2023. Hydrocarbon sector growth remained lackluster at 0.4 percent in real terms as decline in crude oil production offset expansion in natural gas production. Bolstered by fast real growth in the construction sector (18.4 percent, yoy), which is fueled by public investment in reconstruction, non-hydrocarbon sector activity expanded by 6.9 percent in H1 2024. Other drivers of economic activity included real growth in transportation (15.4 percent, yoy), ICT (12.2 percent, yoy), and hospitality (10.2 percent, yoy). On the demand side, investment growth gained momentum (9.4 percent, yoy in real terms) due to greater public investment, and consumption growth remained robust. The official unemployment rate fell to 5.4 percent by end-June, from 5.6 percent in December 2023.

Annual inflation fell to 1.1 percent in June 2024 as external pressures subsided and Nominal effective exchange rate appreciated, further supporting the disinflation process. Inflation remained below the Central Bank's target range (4+/-2 percent), prompting a cut in the policy rate by 75 basis points to 7.25 percent, in three steps over six months in 2024.

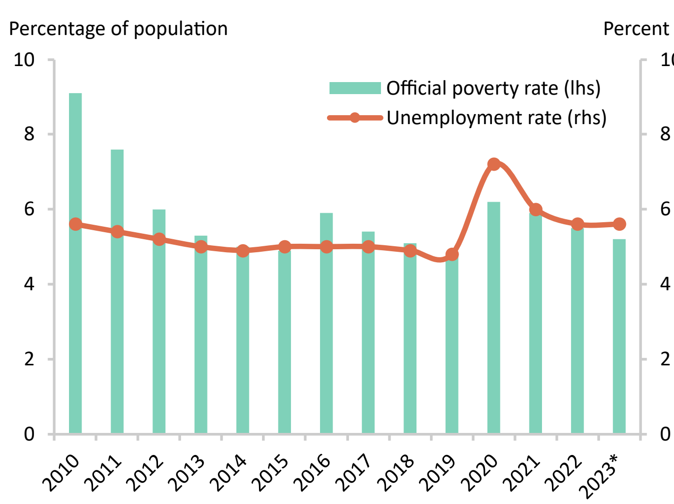
The fiscal balance recorded a surplus of 10.3 percent of GDP in H1 2024, compared with 18.1 percent in H1 2023. This is due to an increase in expenditure and a fall in hydrocarbon revenue. Revenue fell by 11.1 percent (yoy), due to lower hydrocarbon sector receipts caused by lower prices. Tax collection in the non-hydrocarbon sector grew by 8.6 percent in real terms. Expenditure increased by 13.5 percent (yoy) in real terms, propelled

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



Sources: State Statistical Committee and World Bank.

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.

by a 25.7 percent increase in capital expenditure. Current expenditure rose by 8.8 percent (yoy) in real terms. The 2024 budget was amended in June, with both revenue and expenditure revised upwards. For budgeted revenue, the revision was largely due to an increase in the benchmark oil price from US$60 to US$75; additional expenditure was mostly allocated to the reconstruction program. The substantial fiscal surplus allowed State Oil Fund reserves to increase to US$58bn (equivalent to 80 percent of GDP) by end-June 2024.

Compared with H1 2023, the trade surplus narrowed to 11.5 percent of GDP in H1 2024, with exports declining by 28 percent (yoy) on the back of lower oil and gas prices and a decline in crude oil production; whereas, due to increased public investment, imports increased by 9.4 percent (yoy). Central Bank reserves edged up to USD 11.7 billion (16.2 percent of GDP) by end-June 2024, corresponding to 5.6 months of imports.

Credit to the economy expanded by 12 percent in H1 2024 (yoy) in real terms, with both consumer and business loans increasing by 10 percent. The NPL ratio edged down to 1.7 percent. Deposit dollarization fell to 40 percent.

Outlook

Supported by additional public expenditure on non-hydrocarbon sectors, the economy is projected to expand by 3.2 percent in 2024, faster than previously anticipated. The hydrocarbon sector is projected to decline in 2024–2026, due to falling crude oil production because the major oilfield is aging, whereas natural gas production is expected to stabilize. Non-hydrocarbon sector growth is expected to slow in the medium term, due to the impact of public investment in reconstruction abating; consumption growth is expected to cool further. Without structural reforms to boost private investment, growth is projected to hover around 2.5 percent in the medium term.

Inflation is projected to remain within the Central Bank's target in 2024, despite some increase in H2 2024 due to the government raising fuel prices in June 2024. In the medium term, assuming the absence of major external pressures, inflation will hover around 3.2 percent amid slowing domestic demand.

The fiscal balance is projected to remain in surplus in the medium term, although the surplus will narrow due to rising expenditure, largely on public investment. Rising expenditure is a challenge to compliance with the medium-term targets for the non-hydrocarbon primary fiscal balance.

The external balance is expected to remain in surplus in the medium term because of continuing favorable energy prices. However, a projected fall in surplus is in line with declining crude oil production and rising imports.

Risks to the outlook are balanced. On the downside, geopolitical tensions add to uncertainty, although they could also lead to higher commodity prices. With public investment as the main driver of non-hydrocarbon sector growth, there is a risk that the economy will be increasingly vulnerable to fluctuations in energy prices. This could also divert the focus away from structural reforms needed to support private sector-led growth. In July, Fitch upgraded Azerbaijan's credit rating to BBB- investment grade.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	5.6	4.6	1.1	3.2	2.7	2.4
Private consumption	7.0	4.9	4.0	4.1	3.7	3.6
Government consumption	3.8	6.3	8.1	5.1	5.0	4.8
Gross fixed capital investment	-6.0	5.7	9.6	11.4	8.2	6.0
Exports, goods and services	5.6	3.3	-2.9	0.4	0.4	0.4
Imports, goods and services	2.5	3.2	1.9	2.7	2.8	2.8
Real GDP growth, at constant factor prices	5.6	4.6	1.1	3.2	2.7	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	7.7	6.0	5.1
Inflation (consumer price index)	6.7	13.8	2.1	4.2	3.4	3.0
Current account balance (% of GDP)	15.2	29.7	11.5	8.5	7.4	6.1
Net foreign direct investment inflow (% of GDP)	-4.1	-1.4	-1.1	-1.0	-1.0	-0.9
Fiscal balance (% of GDP)	4.1	5.7	8.1	5.5	3.7	3.0
Revenues (% of GDP)	36.5	31.6	40.7	38.4	35.9	33.9
Debt (% of GDP)	18.2	11.6	21.8	21.9	22.2	23.0
Primary balance (% of GDP)	4.8	6.1	8.4	6.1	4.3	3.5
GHG emissions growth (mtCO2e)	5.2	-2.0	-0.7	1.1	1.1	1.2
Energy related GHG emissions (% of total)	62.7	60.8	60.4	61.2	61.8	62.2

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	71.8
GDP per capita, current US$	7817.0
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]	73.1
Total GHG emissions (mtCO2e)	83.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2017 PPPs.
b/ Most recent WDI value (2022).

In 2024, Belarus's economy is projected to register strong growth, driven by Russia's recovery and reduced sanctions impact. However, the long-term growth faces obstacles from the limitations of accommodative policies and ongoing macroeconomic challenges. Tightening monetary conditions, inflation, and currency challenges are expected, while ongoing stimulus measures strain the fiscal stance. The economy's insulation from global trends limits growth and worsens competitiveness and productivity.

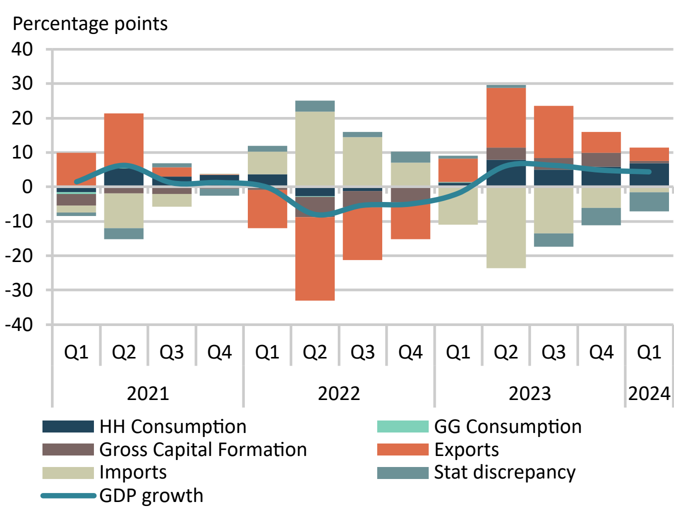
Key conditions and challenges

In 2024, Belarus experienced stronger-than-anticipated economic growth, though this success strains the limits of its economic policy effectiveness. To support domestic demand, the government has employed a range of extensive administrative measures alongside expansionary monetary and fiscal policies. Nevertheless, the country's potential GDP is constrained by the imposition of sanctions and restricted access to advanced technologies, despite efforts to stimulate investment activity. In response to sanctions, Belarus is seeking to establish new trade routes and redirect external trade through Russia, though this shift has resulted in increased logistical costs and payment delays. In the medium term, the government's focus will be on mitigating supply chain disruptions and enhancing local production through import substitution, supported by substantial investments and subsidies from Russia. These administrative adjustments are intended to bolster economic resilience, but increased dependence on the Russian market—amidst growing competition for Belarusian products—exposes the economy to significant risks. The vulnerability to weakened external demand is pronounced, particularly if Russia's economic outlook deteriorates. Addressing labor market rigidities will be crucial, as will investments aimed at stimulating potential growth. Additionally, heightened security concerns and geopolitical tensions exacerbate the economic outlook, with the potential for further sanctions or more stringent enforcement of existing ones. Maintaining accommodative policies presents challenges in balancing social benefits, wages, economic support, and overall stability. This, combined with a deteriorating current account, exchange rate volatility, price controls, and labor force constraints, increases the risk of substantial inflationary pressures. Belarus's economy, with its outdated Soviet-era framework and inefficiencies, combined with limited opportunities for diversification, requires continuous budgetary support and reforms to address its deep-seated economic challenges.

Recent developments

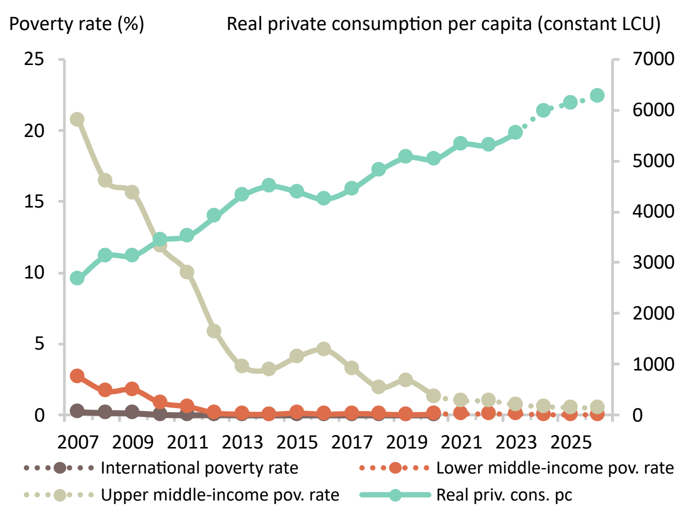
From January to August 2024, Belarus's GDP grew by 4.9 percent year-on-year, with second-quarter performance notably exceeding potential GDP due to robust consumer spending, rising investment activity, and heightened demand from Russia, particularly in the defense sector. The unemployment rate is at a record low of 3 percent amid persistent labor shortages. Domestic trade drove growth, with high industrial sector performance from reduced inventories and increased exports boosting the transport sector. Agriculture benefited from accelerated harvests and favorable weather, while construction activity surged due to investments in the Russian market and import substitution.

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 IT sector showed signs of stabilization. On the demand side, buoyant household spending, supported by increased lending, moderate interest rates, rising wages, and high consumer confidence.

Inflation reached 5.7 percent in January-August, year on year, driven by non-regulated prices, while regulated prices remained stable. In response, the Central Bank raised the overnight lending rate by 0.5 percentage points to 11 percent and increased the reserve requirement for foreign currency liabilities by 2 percentage points to 20 percent. The national currency depreciated slightly due to sanctions and reduced trade inflows, tracking the Russian ruble's fluctuations. With regional budgets offsetting central spending, the general government recorded a surplus of 1.2 percent of GDP.

The financial sector reported strong profits, mainly from state-owned banks investing in state bonds, with non-performing assets stable. On the back of a mild trade surplus, the current account registered a 3.9 percent GDP deficit for Q1-Q2 2024, despite a 13 percent drop in remittances. The deficit was largely financed by foreign direct investments, with external debt slightly decreasing and foreign reserves rising to USD 8.5 billion by August 2024.

In 2023, real disposable income rose by 6.3 percent, reversing the previous year's decline. Employment fell by 1.5 percent, but real wages and pensions increased. Poverty, based on the UMIC poverty line ($6.85/day 2017PPP), is low and is expected to decrease from 0.69 percent in 2023 to 0.57 percent in 2024.

Outlook

Belarus's economy is projected to grow by 4 percent in 2024, exceeding previous forecasts, though growth is expected to slow in the latter half of the year. This expansion is driven by significant wage increases and improvements in the Russian economy. Manufacturing remains the main growth driver, bolstered by a recovery in external trade, largely fueled by Russian demand. Future growth will depend on effective expansionary policies, support for state-owned enterprises, targeted lending, domestic borrowing, and rising disposable income.

However, the economy faces challenges from mounting inflationary pressures and overall macroeconomic challenges. With a projected slowdown in the Russian economy and tighter monetary policy, the already overheated economy is expected to slow to 1.2 percent in 2025. Consumption will continue to drive growth, though at a slower pace due to a tight labor market, while investments will contribute positively but face constraints from tighter monetary conditions. Net exports may negatively impact growth due to reliance on a single market and a challenging external environment.

In the medium term, inflation, a tight labor market, and financial losses in enterprises, coupled with a shift of resources to less productive sectors, will diminish the effectiveness of economic stimulus measures. With a projected slowdown in Russia, Belarusian growth is likely to fall short of its potential, even with administrative efforts to sustain macroeconomic stability. Elevated inflationary pressures are expected, with prices predicted to rise by 6.5 percent in 2024 and remain above historical averages. Trade logistics and lower commodity prices may strain the current account, leading to currency pressures and a worsening fiscal outlook due to stimulus measures and job preservation efforts. The fiscal outlook is expected to remain challenging due to government stimulus measures, indexation, and job preservation efforts. Despite higher inflation, poverty levels are expected to remain stable through 2024 and 2025.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	2.4	-4.7	3.9	4.0	1.2	0.8
Private consumption	4.9	-1.2	4.1	7.3	2.0	1.9
Government consumption	-0.8	-0.1	1.4	0.9	0.1	0.5
Gross fixed capital investment	-5.5	-13.3	12.1	2.4	1.5	1.3
Exports, goods and services	10.1	-12.3	23.1	3.0	2.8	2.6
Imports, goods and services	5.7	-11.4	29.1	4.7	3.8	4.0
Real GDP growth, at constant factor prices	2.4	-4.7	3.7	3.9	1.3	0.8
Agriculture	-4.1	4.4	-0.4	3.8	1.9	1.1
Industry	3.1	-6.2	8.0	5.7	1.8	0.8
Services	3.0	-5.1	1.1	2.5	0.8	0.8
Inflation (consumer price index)	9.5	15.2	5.1	6.5	6.9	6.2
Current account balance (% of GDP)	3.1	3.6	-1.5	-5.1	-4.9	-5.6
Net foreign direct investment inflow (% of GDP)	1.9	1.9	2.7	1.9	1.9	1.9
Fiscal balance (% of GDP)	0.2	-1.5	1.2	-0.9	-1.1	-1.1
Revenues (% of GDP)	35.7	36.0	41.1	34.8	34.4	34.3
Debt (% of GDP)	35.8	38.7	37.7	37.5	37.8	37.9
Primary balance (% of GDP)	1.8	0.1	2.8	0.7	0.5	0.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.1	0.1	0.1	0.0	0.0	0.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	1.0	1.0	0.7	0.6	0.5	0.5
GHG emissions growth (mtCO2e)	0.1	-3.7	0.9	1.7	-0.1	-0.1
Energy related GHG emissions (% of total)	62.4	61.7	61.9	62.5	62.5	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 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	24.1
GDP per capita, current US$	7514.9
School enrollment, primary (% gross)[a]	87.9
Life expectancy at birth, years[a]	75.3
Total GHG emissions (mtCO2e)	22.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2023); Life expectancy (2022).

Real GDP growth rose 2.7 percent in Q1 2024, from 1.6 percent in 2023 due to the modest economic expansion in the European Union (EU) and a deceleration in investment growth. Upcoming municipal elections are expected to lead to a widening fiscal deficit to 1.7 percent of GDP in 2024, yet public debt remains around 36 percent of GDP. Living standards are stagnant, in part due to an anemic labor market.

Key conditions and challenges

Bosnia and Herzegovina (BiH) has been granted permission by the European Council to begin accession talks in March 2024, pending the implementation of necessary reforms. To meet the economic criteria for EU membership, BiH must tackle internal market fragmentation by bolstering nationwide regulatory and supervisory bodies, improving the transparency and efficiency of the large public sector, and reducing the footprint of state-owned enterprises.

BiH's economy has shown macroeconomic stability and resilience over the past, including during the COVID-19 pandemic. This resilience is attributed to three economic anchors: the currency board (which ties the BiH mark to the euro), the statewide collection of indirect taxes through ITA, and the prospects of EU membership. Despite macro stability and resilience, real income growth has averaged only 2 percent per annum from 2009 to 2023, leading to stagnant living standards, with real per capita consumption remaining at just 40 percent of the EU27 average. Achieving faster convergence with the EU27 remains difficult due to low investment rates and a growth model that depends on private consumption. The need for structural reforms is even more critical given the challenges of a declining population and the likely slowdown in total factor productivity over the long term. In addition, the introduction of the EU Carbon Border Adjustment Mechanism in 2026 is expected to further challenge BiH's export competitiveness by 2030.

To achieve sustained long-term growth of 3-4 percent, reforming the economy and the energy system is crucial. However, the pace of reform remains slow due to lack of consensus on country level policies that would bring BiH closer to EU membership; furthermore, frequent elections, widespread corruption, and the fragmented division of responsibilities between the two entities and cantons also contribute to the slow pace of reforms. Overcoming these obstacles is vital for BiH to move towards a more prosperous future.

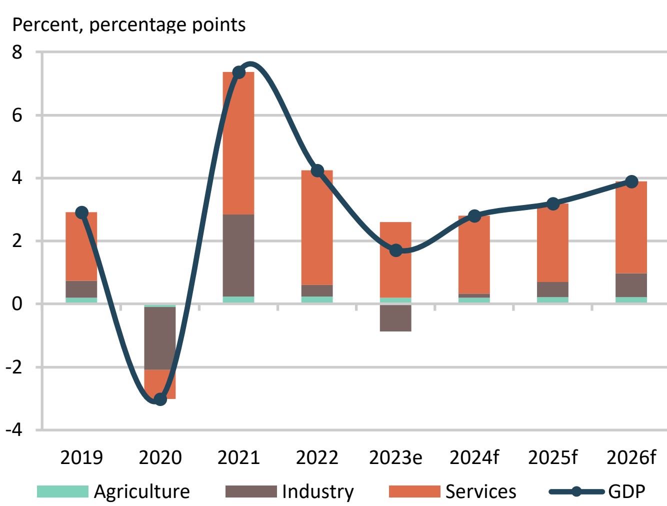
Recent developments

In Q1 2024, real GDP growth rose 2.7 percent, discontinuing the sharp slowdown in 2023. The pick-up in output growth is largely due to a recovery in private consumption fueled by an increase in minimum wages and a tightening labor market. Stronger retail sales volumes in the first half of 2024 suggest robust private consumption outcomes during this period.

Inflation reached 1.8 percent in July 2024 y/y, compared to 4.0 percent the year before, marking a drop in transport prices and a slowdown in utility prices. As a result, inflation from January to July 2024 decelerated to 1.9 percent from 12.2 percent during the same period the year before.

The labor market showed mixed signals. The employment rate rose to 41.9 percent in Q1 2024, up from 41.5 percent in 2023,

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



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

FIGURE 2 Bosnia and Herzegovina / Labor market indicators

Sources: LFS 2023 - 2024 report, and World Bank staff calculations.

whereas the unemployment rate increased to 13.5 percent, a 0.3 percentage point increase compared to the previous year. Economic vulnerability to shocks in BiH remains high—according to the 2023 Life in Transition Survey, 40 percent of the population report being unable to save, running into debt, or not being able to cover basic household expenses for longer than 1 month in case of loss of their main income source.

Higher government spending and smaller revenues (in GDP terms) contributed to a consolidated fiscal deficit of 0.9 percent of GDP in 2023, which followed a surplus of 0.5 percent of GDP the year before. The deficit in 2023 was driven by an estimated 16 percent increase in subsidies, social benefits and transfers in FBiH, and an 11 percent increase in RS. Nevertheless, public debt remains relatively low at around 36 percent of GDP.

Meanwhile, the current account deficit improved to 2.8 percent in 2023. It was almost fully financed by net foreign direct investment inflows, and other investments, mainly foreign loans.

Outlook

An improvement in the EU economic landscape, coupled with higher private consumption and investment driven by construction activities, is set to raise real GDP growth in BiH to 2.8 percent in 2024, and 3.2 percent in 2025. Inflation is expected to decelerate to half a percent by 2026 barring any further external shocks. By 2026, real output growth is projected to rise to 3.9 percent fueled by strengthened exports and private consumption stemming from improved economic conditions in the EU and tightening labor markets in BiH. The current account deficit is expected to widen to around 3.6 percent of GDP due to higher imports of consumer goods.

In the last quarter of 2024, policymakers are focused on the municipal elections leaving little space for economic reforms.

Several structural challenges hinder stronger output growth. Productivity is affected by the large footprint of state-owned enterprises, which employ a sizable portion of the educated labor force. Population aging, driven by outmigration, also dampens productivity and burdens public service delivery, particularly in health. The economic activity rate remains low at around 48 percent compared to the EU average of 75 percent, with women's participation at roughly 37 percent. Gender discrepancies in employment remain particularly stark at the lower levels of education. Thus, creating conditions to activate the female labor force would benefit economic growth. Furthermore, the sharp rise in minimum wages, in January of 2023 and 2024, may impact external competitiveness, which could also be affected by the EU's Carbon Border Adjustment Mechanism, considering that two-thirds of BiH's electricity production comes from coal-fired thermal power plants. In addition, a lack of digitalization and unified databases and registries hampers regulatory compliance and business operations. Finally, geopolitical risks pose a threat of exacerbating domestic political frictions, undermining the much-needed push for structural reforms.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	7.3	3.8	1.6	2.8	3.2	3.9
Private consumption	4.0	3.0	2.0	2.5	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	0.2	5.8	8.3	2.2
Exports, goods and services	5.0	9.9	-6.0	1.0	3.0	4.0
Imports, goods and services	8.0	12.0	-3.0	3.0	3.9	2.0
Real GDP growth, at constant factor prices	7.4	4.2	1.7	2.8	3.2	3.9
Agriculture	3.4	3.5	3.1	3.0	3.2	3.2
Industry	10.0	1.4	-3.4	0.5	2.0	3.2
Services	6.8	5.5	3.6	3.6	3.6	4.2
Inflation (consumer price index)	2.0	14.0	6.1	2.0	0.9	0.4
Current account balance (% of GDP)	-1.8	-4.3	-2.8	-3.2	-3.8	-3.6
Net foreign direct investment inflow (% of GDP)	3.3	3.0	3.2	3.2	3.1	3.1
Fiscal balance (% of GDP)	-0.3	0.5	-0.9	-1.7	-0.2	-0.4
Revenues (% of GDP)	43.2	46.0	44.8	43.9	45.4	45.2
Debt (% of GDP)	37.8	35.8	36.3	35.8	35.2	34.3
Primary balance (% of GDP)	0.3	1.2	-0.2	-1.0	0.4	0.2
GHG emissions growth (mtCO2e)	-1.4	-2.7	-2.2	0.4	1.8	2.5
Energy related GHG emissions (% of total)	88.7	88.9	88.8	88.7	88.5	88.3

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$	15855.4
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]	74.4
Total GHG emissions (mtCO2e)	50.1

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

The Bulgarian economy has embarked on a recovery path in early 2024 aligned with the moderate pick-up of activity in the eurozone. The widening gap between real wage and productivity growth and the potential build-up of a construction-credit bubble warrant close monitoring. The country struggles with a continued political crisis that jeopardizes the reform agenda.

Key conditions and challenges

Since the start of the century, Bulgaria's authorities have adhered to macroeconomic stability, underpinned by a currency board arrangement and fiscal prudence. This has helped the country weather the recent crises relatively well while remaining on a stable income convergence path. Bulgaria's GDP per capita reached 64 percent of the European Union (EU) average (in purchasing power parity terms) in 2023, while the country joined the ranks of high-income countries effective July 1, 2024.

Despite that, the country continues to face multiple development challenges. A key horizontal constraint is deep-rooted institutional and governance weaknesses, which enable state capture by vested interests and discourage investment. This suppresses productivity and private sector growth, while also resulting in suboptimal public services. A rapid decline in the population—one of the worst globally—also limits the country's economic potential while exerting increasing pressure on public systems.

Despite some recent progress, Bulgaria continues to experience one of the highest levels of income poverty and inequality within the EU. From 2016 to 2020, economic growth led to improved living standards and significant poverty reduction. However, this trend reversed in 2021 due to the lingering effects of the pandemic, inflation, and rising unemployment among the less educated. Income inequality remains high, making the country the most unequal EU member.

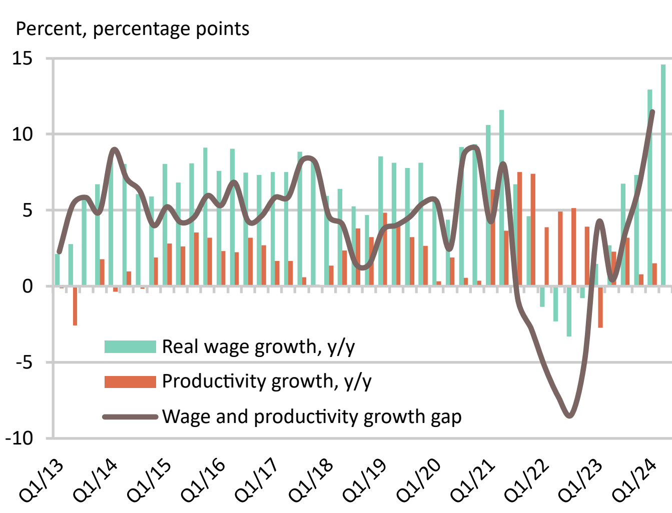
Since early 2021, Bulgaria has been marred by political instability and lost reform momentum. Thus, the country has failed to deliver on major policy goals, including some of the milestones under the National Recovery and Resilience Plan.

Despite the political turmoil, near-term eurozone entry has remained a key government priority. Should inflation meet the Maastricht criterion before end-2024, as expected, the country could join the eurozone from mid-2025 or January 2026. Full-fledged Schengen Area membership and OECD accession have been consistently pursued, too. Yet, continued political turmoil and early elections in October 2024 jeopardize the reform agenda.

Recent developments

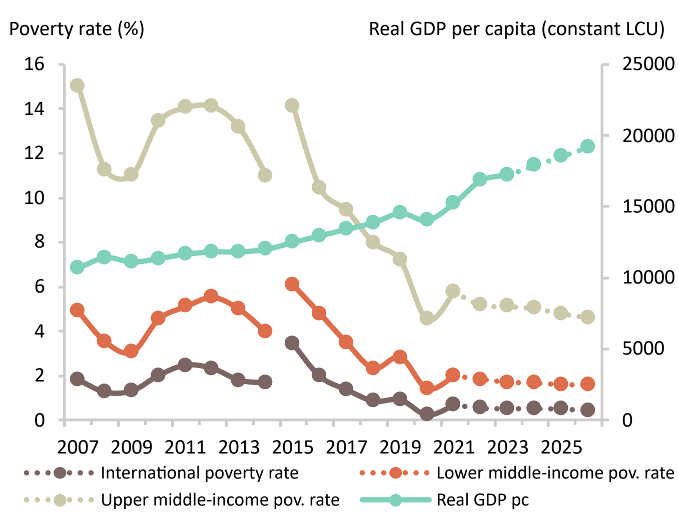
The first two quarters of 2024 saw a recovery of GDP growth to 1.9 and 2 percent y/y, respectively, in line with the firming of growth in the wider EU. Noteworthy, while growth in Q1 was driven by final consumption, Q2 saw exports embarking on a recovery path, too. Consumption was fed by unabating wage growth, which accelerated to 13 and 15 percent y/y in real terms in Q1 and Q2 2024, respectively, due to a hike of the minimum wage by 19 percent from start-2024 and long-standing labor shortages. While the gap between real wage and productivity growth has been consistently positive since 2013 (the only exception to this trend

FIGURE 1 Bulgaria / Real wage and productivity growth gap



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

was 2022, when inflation shot up markedly), it reached a 15-year high of above 10pp in Q1 2024, fueling concerns about the economy's competitiveness.

The pick-up of growth and the minimum wage increase—which affected positively the bottom of the income distribution - are expected to have supported further poverty reduction in early 2024. Despite this positive development, the employment rate among the working-age population with low education (ISCED 0-2) dropped from 39.2 percent in Q3 2023 to 33.2 percent in Q1 2024, highlighting a worrying trend amidst the broader recovery.

Consumer price inflation kept decelerating in the year to date, further improving the purchasing power of households. Annual average HICP inflation slowed to 4.3 percent in July, which narrowed the gap with the line criterion for eurozone entry to just 1.3 percentage points. Should this disinflationary trend continue, Bulgaria could meet the criterion—which is the only remaining hurdle to euro adoption—before year-end.

The fiscal position remains stable. The general government deficit on a cash basis reached 0.5 percent of the World Bank's GDP projection in the year to July 2024. The deficit for the full year, on an accrual basis, is expected to be kept below the 3 percent Maastricht ceiling, given the government's aspiration for prompt eurozone accession. As in previous years, however, this may require cutting down on planned capital spending. In late August 2024, the government successfully placed a record-high volume of EUR 4.34bn of EUR and USD-denominated bonds on international markets, which testified to continued market access at attractive terms.

Outlook

The economy's growth is projected to pick up in 2024-2025 with the expected recovery in the eurozone. This is expected to have a benign impact on domestic poverty reduction, while also keeping Bulgaria on its convergence path towards average EU incomes. Bulgaria's target to join the eurozone from mid-2025 or January 2026 is also within reach, should the disinflation trend continue in the coming months, as expected.

Credit to households remains on the radar due to its accelerating growth that reached 19 percent y/y in June 2024. The increase was propelled by long-term household mortgage loans and consumer loans (with above 5-year maturity) which grew by 25 and 15 percent y/y, respectively, in June. This trend is mirrored by an ongoing construction boom and fuels concerns about the build-up of a construction-credit bubble, which may be followed by a painful correction and increase in non-performing loans. For the time being, however, non-performing loans remain low at 3.64 percent as of June 2024, down from 3.80 percent a year ago. In an attempt to mitigate those risks, effective October 1, the central bank introduced several requirements for new mortgage loans to households including a 50 percent ceiling for the loan service-to-income ratio, an 85 percent ceiling for loan-to-mortgage value, and a maximum 30-year loan maturity.

Political risks have re-escalated in recent months following a failed attempt at formation of a regular government after the latest round of early elections in June 2024. The country is now heading towards new snap elections in October—the 7th in a row in about three years—which jeopardizes the reform agenda and provides fertile ground for populist policies. The latter could result in further expansion of current expenditure at the expense of capital spending, as evidenced in the past. Even if the headline fiscal deficit is likely to stay below the 3 percent Maastricht ceiling, public investment would remain below peers, capping the country's growth potential.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	7.7	3.9	1.8	2.2	2.8	2.7
Private consumption	8.5	3.9	5.4	2.6	3.1	3.6
Government consumption	0.4	5.5	-0.4	11.3	3.6	2.8
Gross fixed capital investment	-8.3	6.5	3.3	-2.6	1.3	2.6
Exports, goods and services	11.2	11.6	-1.9	2.3	5.6	6.0
Imports, goods and services	10.7	15.0	-6.3	3.5	5.5	6.6
Real GDP growth, at constant factor prices	8.0	5.3	1.8	2.2	2.8	2.7
Agriculture	28.8	-4.4	-3.9	1.5	1.2	1.0
Industry	1.7	12.1	0.9	1.3	5.2	5.3
Services	8.8	3.9	2.6	2.5	2.1	1.9
Inflation (consumer price index)	3.3	15.3	9.5	2.6	2.2	2.0
Current account balance (% of GDP)	-1.7	-1.4	-0.3	-0.7	-0.5	-1.0
Net foreign direct investment inflow (% of GDP)	1.8	2.4	3.2	2.5	2.8	2.7
Fiscal balance (% of GDP)	-2.7	-0.8	-3.0	-3.1	-3.0	-2.9
Revenues (% of GDP)	37.7	38.6	36.3	39.0	39.5	39.8
Debt (% of GDP)	23.9	22.6	22.9	23.4	23.7	23.6
Primary balance (% of GDP)	-2.3	-0.4	-2.6	-2.7	-2.6	-2.5
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)	6.8	6.0	-0.7	-0.6	-0.1	-0.1
Energy related GHG emissions (% of total)	78.9	76.3	74.8	74.0	73.1	72.1

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 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	3.9
GDP, current US$ billion	82.7
GDP per capita, current US$	21423.7
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]	77.6
Total GHG emissions (mtCO2e)	17.4

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

Croatia's economic activity continued to expand in the first half of 2024, mainly driven by strong domestic demand. The medium-term outlook is relatively favorable, as the external environment is expected to gradually improve and domestic demand to remain robust, in part supported by the inflow of European Union (EU) funds. However, rising labor costs amid subdued productivity growth pose a risk for the country's external competitiveness and export performance. Poverty in 2024 is expected to decline to 1.3 percent.

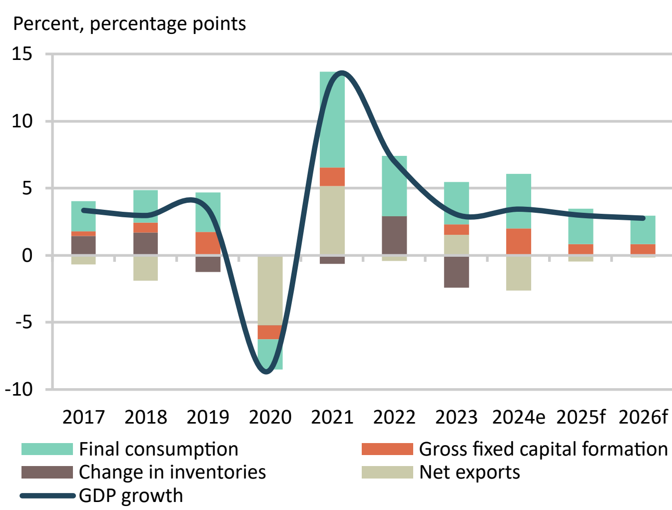
Key conditions and challenges

Croatia's growth remains robust, but despite the positive momentum several challenges loom. The country's economic activity has been consistently outpacing average growth in the EU over the last three years, and in 2023 Croatia's GDP per capita (in PPS) reached 76 percent of the EU average, up from 67 percent in 2019. The positive trends continued in the first half of 2024, but growth has become increasingly dependent on consumption and public investment, largely driven by rising wages, expansionary fiscal policy, and the inflow of EU funds. At the same time, productivity growth has been relatively subdued which, when taken together with strongly rising labor costs, may weigh on Croatia's external competitiveness and export performance, with manufacturing production already weak due to relatively subdued external demand. Moreover, the tourism sector, one of the key drivers of economic growth over the past three years, is showing signs of reaching peak capacity. Dependence on the tourism sector makes the economy vulnerable to shocks. The sector also exerts strong pressure on local infrastructure, which raises sustainability concerns, further highlighting the need for economic diversification. Against the backdrop of a tight labor market and rising unit labor costs, accelerating productivity growth will be essential for sustaining income convergence in the medium to long term. Downside risks to growth coming from the external environment remain significant. Geopolitical tensions continue to be elevated, making global economic developments as well as energy price dynamics highly uncertain. At the same time, inflation in the euro area could remain elevated given increases in labor costs, which may result in tighter than expected monetary policy. However, Croatia's overall macroeconomic imbalances remain contained, given a robust banking sector, a positive current and capital account and public debt that has fallen to close to 60 percent of GDP.

Recent developments

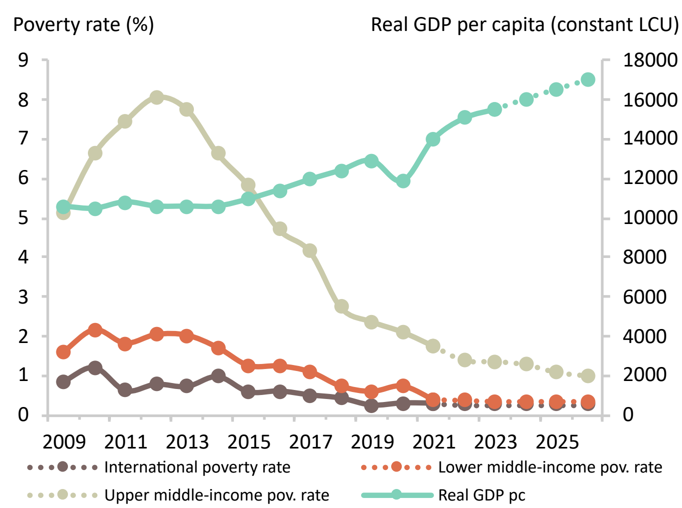
Economic activity in Croatia continued to expand in the first half of 2024, with annual real GDP growth averaging 3.6 percent, primarily driven by robust domestic demand. Personal consumption remained strong, bolstered by ongoing increases in real disposable income. Investment activity also gained momentum, with its average annual growth rate reaching double digits. This reflects the continuation of a strong rise in public investment, but after several years of sluggish developments private investments are also gaining momentum. Moreover, after a sharp decline in 2023, exports of goods began to recover, while exports of services fell, partly due to a strong rise in the same period of 2023 and relatively subdued tourism activity in Q2 2024. Employment growth was broad-based across sectors in the first half of 2024,

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.

with construction, the public sector and tourism making the strongest contributions to employment growth. The tight labor market continued to exert upward pressure on private sector wages. Overall, wage growth further accelerated after a strong rise in 2023, reflecting a substantial increase in public sector wages following the reform of the public sector wage system in April 2024. This has also resulted in worsening of the general government budget balance, despite relatively strong revenue collection. At the same time, inflation is moderating and in August 2024 it stood at 3 percent, down from 5.4 percent at the end of last year. This deceleration was driven by lower inflation for industrial products and food, while there was a slight uptick in energy inflation. Meanwhile, services inflation, though easing somewhat, remained high at over 7 percent. Poverty, as measured by the share of population living below the upper-middle income poverty line at 6.85 USD in PPP terms, is estimated to have declined modestly from 1.4 percent in 2023 to 1.3 percent in 2024. However, while Croatia's income inequality is below the EU average, pockets of poverty persist, and inequality of opportunity remains high. Marginalized communities, those with low education, the elderly living alone, and the unemployed are most at risk.

Outlook

Following relatively favorable economic developments in the first half of the year, Croatia's economic growth in 2024 is expected to strengthen compared to 2023 before moderating somewhat over the subsequent two years. Real GDP growth in 2024 is projected to reach 3.5 percent, driven primarily by robust domestic demand. This is underpinned by a tight labor market, expansionary fiscal policy—partially fueled by the inflow of EU funds—and a robust growth of public and private investment in the first half of the year. A gradual recovery in external demand is expected to support goods exports, following their decline in 2023, while exports of services may be constrained by an adverse base effect early in the year and a moderation in tourist arrivals. Growth over the next two years is expected to average 2.9 percent. Inflation, after averaging 4.2 percent in 2024, is expected to gradually decline over the forecast horizon toward the European Central Bank's target of 2 percent. However, a tight labor market and still elevated wage growth could keep inflation slightly above that level. Strong wage growth in the public sector in 2024, coupled with an increase in the number of public sector employees, is expected to significantly widen the fiscal deficit to nearly 3 percent of GDP. Nevertheless, expenditures are projected to remain restrained over the next two years, which, along with continued economic expansion, should allow for gradual fiscal adjustment and a steady decline in public debt. Poverty is projected to decline marginally to 1.1 percent by 2025 and then to 1 percent in 2026.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	13.0	7.0	3.1	3.5	3.0	2.8
Private consumption	10.6	6.7	3.0	5.6	3.5	2.7
Government consumption	3.1	2.7	6.6	3.4	2.5	2.1
Gross fixed capital investment	6.6	0.1	4.2	10.8	4.0	4.2
Exports, goods and services	32.7	27.0	-2.9	0.1	2.2	2.4
Imports, goods and services	17.3	26.5	-5.3	4.8	2.9	2.5
Real GDP growth, at constant factor prices	12.2	7.9	2.3	3.5	3.0	2.8
Agriculture	9.6	-4.3	0.4	0.0	0.9	1.0
Industry	12.4	2.7	-0.5	2.0	2.2	2.3
Services	12.3	10.5	3.4	4.2	3.3	3.0
Inflation (consumer price index)	2.7	10.7	8.4	4.2	2.8	2.2
Current account balance (% of GDP)	1.0	-2.8	1.1	0.1	0.0	0.3
Net foreign direct investment inflow (% of GDP)	5.1	5.3	1.9	2.1	2.2	2.2
Fiscal balance (% of GDP)	-2.5	0.1	-0.7	-2.9	-2.4	-1.7
Revenues (% of GDP)	45.2	44.5	46.7	45.3	45.5	46.1
Debt (% of GDP)	77.5	67.8	63.0	60.0	59.1	58.1
Primary balance (% of GDP)	-1.0	1.5	1.0	-1.3	-0.7	-0.1
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	0.3	0.3	0.3	0.3
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)	4.0	-1.8	-0.1	0.9	0.2	-0.1
Energy related GHG emissions (% of total)	88.5	88.6	88.1	87.8	87.6	87.3

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 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$	8218.4
International poverty rate ($2.15)[a]	4.3
Lower middle-income poverty rate ($3.65)[a]	15.0
Upper middle-income poverty rate ($6.85)[a]	47.7
Gini index[a]	33.5
School enrollment, primary (% gross)[b]	103.4
Life expectancy at birth, years[b]	71.6
Total GHG emissions (mtCO2e)	18.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ WDI for School enrollment (2023); Life expectancy (2022).

Growth reached 9.1 percent in H1 2024, driven by strong private consumption due to rising real wages. Unemployment decreased and poverty continued to decline. Growth is projected at 7.5 percent for 2024. Weakening exports and remittances suggest a widening of the current account deficit in 2024. The fiscal deficit is expected to reach 3 percent. Risks to the outlook remain, notably related to the October Parliamentary elections.

Key conditions and challenges

Over the past decade, Georgia has achieved considerable progress in income growth and poverty alleviation following earlier market reforms and strengthened macroeconomic management.

Nevertheless, structural challenges persist, notably weak firm-level productivity growth and limited high-quality job creation. About a third of workers remain engaged in low-productivity agriculture; Georgia also has a large share of self-employed in other sectors. Access to finance, particularly for SMEs, and skills mismatches, are among the critical obstacles, firms face.

Georgia's economic openness and reliance on tourism further increase its vulnerability to external shocks, such as geopolitical tensions, global market volatility, and pandemics. Nonetheless, the recent granting in December 2023 of EU candidate status presents Georgia with a strategic opportunity to accelerate reforms. The EU accession process could provide a platform for enhancing governance, aligning regulations, and boosting economic resilience, thereby enabling Georgia to converge with more prosperous EU member states.

Recent developments

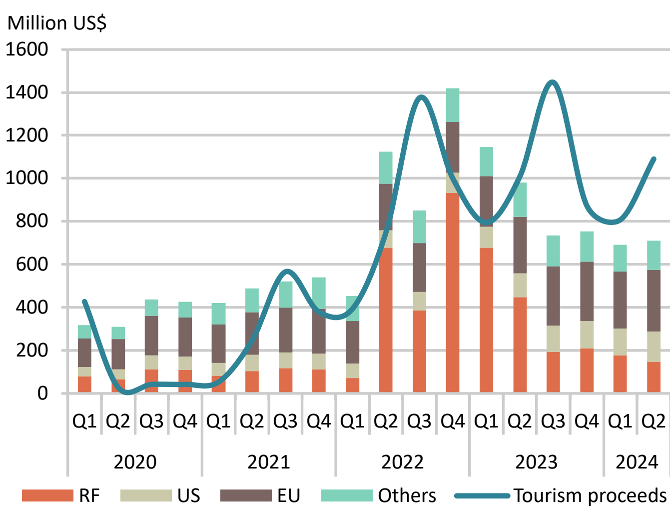
Georgia's economy expanded by 9.1 percent in H1 2024, driven by public and private consumption. Domestic demand has been bolstered by rising real wages (up 10.9 percent in H1, yoy) along with strong credit growth (up 20.4 percent in real terms in H1, yoy). On the supply side, growth was led by services, including education and transportation followed by public administration and trade.

Annual inflation moderated to 1 percent (yoy) in August, despite a 7-percent (yoy) rise in the transport and hospitality sector. Core inflation was 0.9 percent (yoy), down from 2.7 percent a year ago. The Central Bank has lowered its policy rate by a cumulative 150 basis points since the beginning of the year, reflecting easing inflationary pressures.

The banking sector remains profitable, with return on assets reaching 4.2 percent in June 2024 and return on equity reaching 24.4 percent. NPLs are low at 1.6 percent in June 2024.

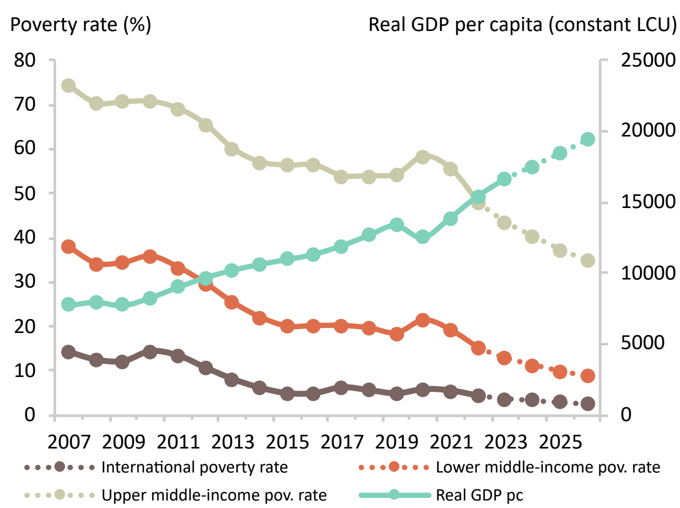
The current account deficit narrowed by 1.5 percentage points (yoy) in H1 2024, to 6.0 percent of GDP, despite a deficit rise of 16.9 percent in the trade of goods. This was offset by positive contributions from the services sector and current transfers. Exports of goods fell 7.8 percent (yoy) in H1 2024, driven by weaker domestic exports (down 11.5 percent, yoy) as commodity exports slowed, whereas imports grew 2.4 percent (yoy). Gross money transfers fell 30.3 percent (yoy) in H1, with inflows from Russia decreasing 71.4 percent (yoy). However, this decline was partly offset by increased inflows from the EU, US, and UAE. Proceeds from international visitors increased 5 percent (yoy) in H1 2024. On the financing side, lower net FDI

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.

inflows, which accounted for about 3.6 percent of GDP in H1, highlighted weak external investor confidence.
The GEL depreciated by 4.1 percent against the USD in the first eight months of 2024. The GEL remains 11.8 percent stronger than its end-2021 level. Official reserves fell 14 percent (yoy) in July to USD 4.7 billion, equivalent to 3.3 months of imports.
Georgia's fiscal performance remained solid and a deficit of 0.1 percent of projected GDP was recorded in H1 2024. General government revenues increased 18.5 percent (yoy) in nominal terms, mainly due to a 21.4 percent rise in tax receipts. Current expenditures rose 16 percent (yoy), while capital expenditure surged 27 percent. Public debt stood at 40.4 percent of GDP at end-June 2024.
Georgia's economic expansion has translated into tangible benefits for its population, with the poverty headcount (USD 6.85, PPP 2017) continuing to decline, from 47.7 percent in 2022 to 43.6 percent in 2023. During H1 2024, unemployment fell 3 percentage points, to 13.7 percent as of end-June, which was accompanied by a higher labor force participation rate.

Outlook

Growth is expected to reach 7.5 percent in 2024, buoyed by private consumption driven by robust real wages and employment figures. In the medium term, growth is expected to moderate to 5 percent, returning to its potential rate. Supported by robust growth, poverty is expected to keep falling in the medium term.
Inflation is forecast to stay below the 3-percent target in 2024 and return to the target level by end-2025. Monetary policy is expected to be eased to support economic growth, while remaining prudent.
The current account deficit is forecast to widen to around 5.5 percent of GDP in 2024 and 2025, due to the slowing of exports and remittances from Russia. Nonetheless, the deficit is projected to remain below the level of 10.3 percent recorded in 2021.
On the fiscal side, tax revenues are expected to remain strong, contributing 25 percent of GDP in 2024, boosted by the tax hikes on gambling, effective from July 2024. Total expenditure is anticipated to rise to 31 percent of GDP due to election-related expenditure; the deficit is expected to remain at 3 percent of GDP, as per the fiscal rule.
Key downside risks include uncertainties surrounding the post-election landscape and Georgia's commitment to making decisive progress on EU accession. Other risks include geopolitical tensions in the region, a faster reduction in remittances, lower tourism revenues, and rising global commodity prices, all of which could impede growth and increase debt levels. Ensuring the independence of the central bank, maintaining sound monetary and fiscal policy with sufficient buffers, and ensuring exchange rate flexibility will be essential to mitigating potential shocks and safeguarding macroeconomic stability.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	10.6	11.0	7.5	7.5	5.2	5.0
Private consumption	12.3	-2.8	3.6	4.3	2.9	2.2
Government consumption	7.1	-0.8	6.2	15.9	10.1	9.6
Gross fixed capital investment	-4.8	9.9	30.8	14.3	5.2	6.5
Exports, goods and services	23.5	37.4	8.2	2.5	6.0	7.0
Imports, goods and services	8.8	16.9	8.6	3.5	4.0	5.0
Real GDP growth, at constant factor prices	12.2	9.8	7.9	7.5	5.2	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	8.7	5.5	5.2
Inflation (consumer price index)	9.6	11.9	2.5	2.2	3.0	3.0
Current account balance (% of GDP)	-10.3	-4.5	-4.4	-5.5	-5.4	-4.9
Net foreign direct investment inflow (% of GDP)	4.9	7.1	4.3	3.4	4.0	4.4
Fiscal balance (% of GDP)	-7.0	-3.5	-2.9	-3.0	-2.8	-2.6
Revenues (% of GDP)	24.9	26.6	27.6	28.2	27.1	26.9
Debt (% of GDP)	49.0	39.1	38.1	37.7	37.2	37.2
Primary balance (% of GDP)	-5.7	-2.4	-1.4	-1.2	-0.9	-0.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	5.5	4.3	3.7	3.1	2.8	2.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	19.1	15.0	12.9	10.9	9.5	8.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	55.4	47.7	43.6	39.2	36.4	33.8
GHG emissions growth (mtCO2e)	2.7	0.7	-1.2	0.3	-0.1	0.5
Energy related GHG emissions (% of total)	55.6	56.0	55.9	56.4	56.6	56.8

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-HIS. 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.

KAZAKHSTAN

Table 1	**2023**
Population, million	19.8
GDP, current US$ billion	262.6
GDP per capita, current US$	13232.8
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]	100.5
Life expectancy at birth, years[b]	74.4
Total GHG emissions (mtCO2e)	314.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ WDI for School enrollment (2023); Life expectancy (2022).

Growth is projected to accelerate to 4.7 percent in 2025, driven by new oil production flows, before subsiding towards its long-term potential rate, thereafter. Inflation is expected to decrease but will remain above the central bank target. Poverty rate is projected to decrease marginally to 6.1 percent by 2026. Downside risks include weakening global demand and lower prices for oil. Global decarbonization efforts pose a long-term challenge, warranting transition toward a new, sustainable growth model.

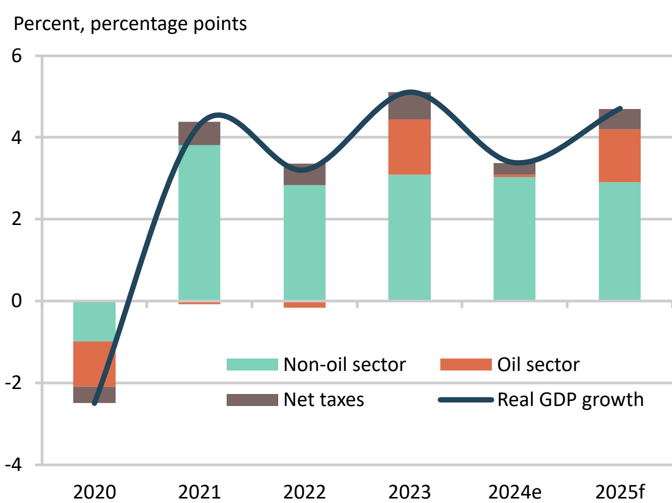
Key conditions and challenges

Kazakhstan's progress toward high income has slowed in recent years; to regain momentum, the government should focus on the effective implementation of key reforms to support growth diversification and enhance inclusion. The government's goal of achieving 6 percent growth in the medium term and doubling the size of its economy by 2030 (compared to the 2023 level) cannot be attained in the absence of significant reforms, given the moderate potential growth that is hampered by stagnant productivity and dominance of extractive industries.
To stimulate foreign and domestic investment and facilitate technology transfer, Kazakhstan must enhance competition by removing market distortions and other barriers to dynamic private sector growth. Improving state-owned enterprise efficiency and establishing a robust governance framework would further support competition. Addressing infrastructure gaps, complemented with strengthening human capital and policies to support decarbonization, also can enhance the competitiveness of firms and the quality of services.

Recent developments

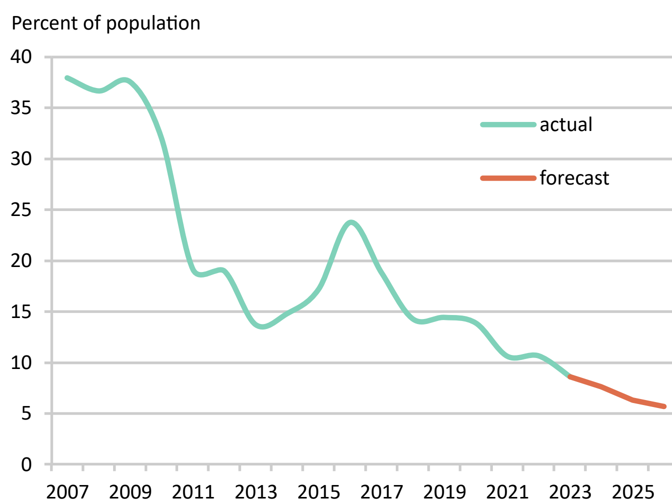
Kazakhstan's economy slowed to 3.2 percent year-on-year (y-o-y) in the first half (H1) of 2024, down from 5.3 percent a year ago. Slowing growth momentum is evident across all demand components, with investment and government spending notably weak. Investment declined by 3.5 percent y-o-y in real terms (+13.3 percent in H1 2023) and government spending was 4.5 percent lower in real terms y-o-y (+17 percent). Total sales growth, a proxy for consumer spending, slowed to 3.9 percent y-o-y in real terms (+10.4 percent in H1 2023), reflecting waning consumer demand. On the supply side, industrial production showed tepid growth of 2.7 percent y-o-y in H1 (+3.8 percent in H1 2023) due to lower oil production (-1.6 percent); construction edged to 8.6 percent (+7.7 percent); and services slowed to 3.3 percent y-o-y (+5.5 percent).
The official unemployment rate held constant at 4.7 percent in Q2. To bolster living standards, the government implemented a 21.4 percent nominal increase in minimum wage, effectively doubling the amount since 2021 (+70 percent rise in real term).
Consumer price inflation decreased from 9.7 percent in December 2023 to 8.5 percent y-o-y in August and September, which is above the target rate of 5 percent. Food and nonfood prices moderated, while service prices remain elevated due to robust sectoral wage growth. The central bank trimmed its policy rate by 25 basis points to 14.5 percent in June, maintaining a tight policy stance.
A reduction in goods imports and an increase in service exports improved the trade balance, raising it to US$11.3bn in H2 2023 (from US$9.6bn in H1 2023). This, coupled with a significant

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.

27.7 percent y-o-y decline in the primary income balance, shifted the current account to a surplus of US$0.8bn in H1 2024, compared to a deficit of US$5.0bn in H1 2023. foreign direct investment inflows, declined by 56.3 percent compared to a year earlier, reaching US$2.2bn, as a major oil production expansion project nears completion. Gross international reserves grew to US$41bn, covering approximately eight months of imports. Between January and August, the tenge depreciated by 4.5 percent against the U.S. dollar.

The fiscal deficit expanded in H1 2024 as slower economic growth hit revenues, widening the consolidated budget deficit to 1 percent of GDP from 0.4 percent in 2023. Spending dropped by 1.3 ppts of GDP to 24.2 percent due to cuts in defense and healthcare, although social welfare, housing, utility infrastructure, and interest payments rose. Revenues declined by 1.8 ppts to 23.3 percent of GDP, with oil-related and non-oil revenues falling.

The banking sector remains resilient, supported by robust capital and liquidity positions exceeding regulatory requirements. Real bank loans increased by 13.8 percent y-o-y in June, driven primarily by consumer borrowing (2/3 of total growth), helping to sustain consumer spending. Non-performing loans amounted to only 3 percent of the loan portfolio in June 2024, but this warrants close monitoring given rising household indebtedness and elevated interest rates.

Outlook

Economic growth is projected to pick up temporarily to 4.7 percent in 2025, supported by increased oil production, before gradually slowing down to its long-term potential rate of 3.0–3.5 percent in the ensuing years.

Private consumption and net exports, boosted by higher oil exports, will be the primary growth drivers. Investment activity should remain subdued, contributing modestly in 2025–2026.

Inflation will gradually decline in 2025 as energy and food prices stabilize, but persistent service sector inflation will keep it above the 5 percent target until late 2026. Ongoing tariff adjustments and potential fiscal imbalances may hinder the disinflationary trend.

The current account deficit is projected to narrow in 2025 and beyond, underpinned by higher oil exports. The fiscal deficit is projected to decrease gradually from 2.1 percent of GDP in 2024 to 1 percent in 2026, through increased revenue mobilization—primarily via tax code reforms—and more targeted and tempered budget spending. The revised tax code is likely to include higher income taxes for businesses and households, along with increased levies on luxury items. However, uncertainty around revenue gains and growing pressures for social and infrastructure spending may pose risks to meeting these fiscal goals.

Poverty is expected to fall to 7.9 percent (at US$6.85/day) in 2024, 6.7 percent in 2025, and 6.1 in 2026 as growth continues and inflation subsides.

Economic growth faces significant downside risks. A decline in global oil demand/prices would harm exports, fiscal revenues, and growth. Increased budget spending and reversal of fiscal consolidation could worsen the fiscal balance, sustain inflationary pressure, and keep borrowing costs elevated. Furthermore, the growing frequency of extreme weather events (e.g., droughts, wildfires, floods) threatens agricultural output, infrastructure, and economic stability, potentially stoking inflation and requiring further fiscal intervention.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	4.3	3.2	5.1	3.4	4.7	3.5
Private consumption	6.3	3.9	4.6	3.8	5.2	4.1
Government consumption	-2.4	4.3	10.3	-2.7	3.2	0.5
Gross fixed capital investment	2.6	3.8	20.7	2.6	4.0	3.6
Exports, goods and services	2.3	9.6	1.9	1.9	6.3	2.1
Imports, goods and services	-0.3	13.1	14.7	1.7	5.1	3.5
Real GDP growth, at constant factor prices	4.1	2.9	4.7	3.4	4.6	3.4
Agriculture	-2.2	9.1	-7.4	3.0	3.0	2.0
Industry	4.5	2.7	5.7	3.4	6.0	3.8
Services	4.4	2.5	5.2	3.4	3.8	3.2
Inflation (consumer price index)	8.5	20.3	9.8	8.4	7.1	6.0
Current account balance (% of GDP)	-1.4	3.1	-3.3	-2.7	-2.0	-1.6
Net foreign direct investment inflow (% of GDP)	-1.0	-3.6	-0.9	-0.4	-2.3	-1.7
Fiscal balance (% of GDP)	-5.1	-0.2	-1.6	-2.1	-1.6	-1.0
Revenues (% of GDP)	16.8	21.5	21.5	20.3	20.1	20.2
Debt (% of GDP)	23.7	22.5	22.0	23.6	23.9	25.1
Primary balance (% of GDP)	-3.9	1.2	0.0	-0.4	-0.1	0.5
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	6.1
GHG emissions growth (mtCO2e)	6.1	-1.5	0.4	0.9	1.3	1.2
Energy related GHG emissions (% of total)	71.3	71.6	72.1	72.8	73.6	74.3

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	1.7
GDP, current US$ billion	10.4
GDP per capita, current US$	6142.0
Upper middle-income poverty rate ($6.85)[a]	21.4
Gini index[a]	29.0
Life expectancy at birth, years[b]	79.5

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

Economic activity picked up during the first quarter of 2024, on the back of robust consumption growth as prices stabilized. Over the medium term, growth is projected to strengthen further, fueled by consumption, rising real incomes, credit expansion, and increased public wages and transfers. A strengthened European Union (EU) accession process, backed by the EU growth plan, has the potential to improve trade integration, attract more FDI, and bolster economic growth.

Key conditions and challenges

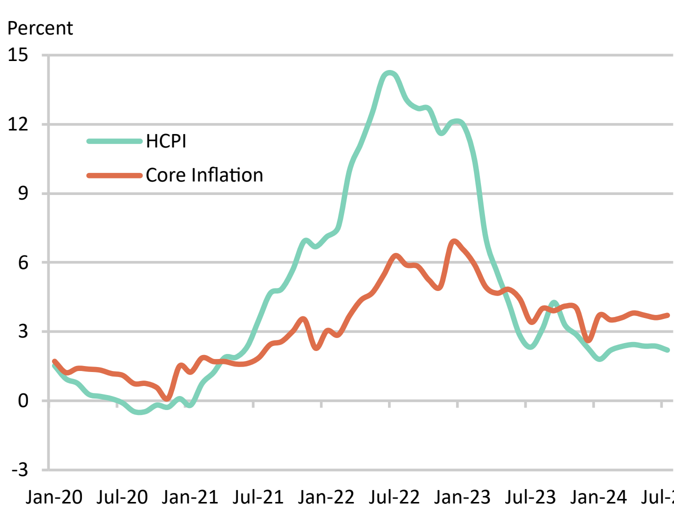
After a slowdown in 2023, Kosovo's growth accelerated in the first part of 2024, yet within the bounds of its structural constraints. The fiscal performance remained robust, with revenue growth continuing to be strong. However, the country is confronted with the need to undertake reforms that demand substantial fiscal resources. Key among these is the implementation of a new energy strategy, improvement of water security, and the acceleration of reforms aimed at bolstering human capital and connectivity. Kosovo's growth model relies mainly on consumption and construction investment, financed significantly by the country's diaspora. Recent growth trends in exports of ICT and other business services are encouraging. Foreign direct investments (FDI) in 2024 continue to increase but remain primarily focused on real estate. In 2023, labor force participation inched up to 40.7 percent. However, the working-age population has shrunk, partly due to ongoing outmigration. Visa liberalization with the EU has reduced costs and spurred an increase in international travel and higher service imports.

The country lags peers in human capital development. To transition to a growth model that favors more and better-quality jobs, Kosovo should continue to maintain macroeconomic stability and accelerate reforms that target the closing of regulatory, human capital, and vital infrastructure gaps. The positive trend in the national average for poverty reduction may obscure regional disparities. Poverty is more prevalent among people with lower education and children, so it is essential to emphasize human capital accumulation. A significant portion of Kosovo's workforce comprises the working poor, who face low wages and limited human capital. This situation is exacerbated by low labor force participation, especially among women, influenced by high reservation wages and attractive outside options, including migration.

Recent developments

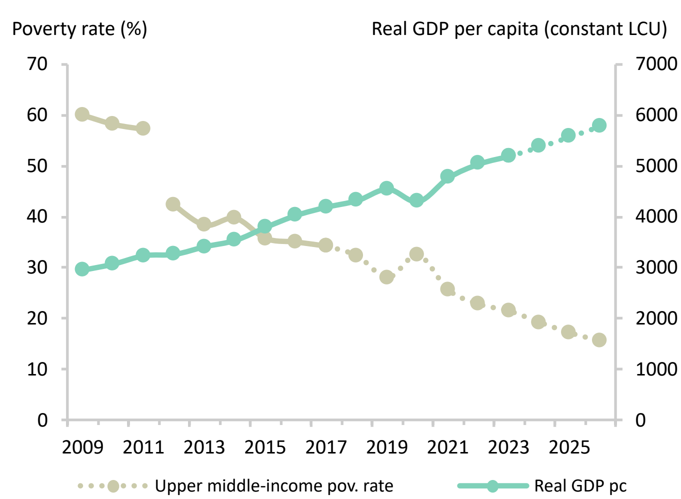
GDP growth accelerated in the first quarter of 2024, with provisional estimates indicating a 5.6 percent increase. Private consumption growth (9.7 percent y/y) provided the highest contribution. On the supply side, net taxes on products contributed most to the growth. Consumer inflation decelerated, averaging 2.1 percent between January and August 2024. Core inflation, however, remains elevated (3.6 percent by August). Labor market formalization continued in 2023, reflected in a 4.5 percent increase in formal employment. The current account deficit (CAD) for the first half of the year increased by ¼ from the same period of last year, driven by a higher deficit in the goods balance. Cumulative remittances' growth by July slowed down to 0.5 percent, compared to 11.3 percent during the same period of last year. By August 2024,

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.

the government ran a fiscal surplus and tax revenues grew by 11 percent, reflecting increased compliance and formalization gains. Meanwhile, expenditures increased by 14 percent, driven by increases in wage spending. In the first quarter of 2024, public and publicly guaranteed debt (PPG) fell to 15.8 percent of GDP, down from 17.5 percent in 2023. The financial sector remains robust. By July 2024, credit increased by 13.6 percent (y/y) and nonperforming loans remained stable at 2 percent. Poverty reduction is projected to continue, with a decline of 2.2 percentage points in 2024 (from 21.4 percent in 2023) due to slightly higher growth. However, growth has been skewed towards urban centers, leading to increased inequality. Another important dimension is susceptibility to shocks and its welfare consequences. In 2022, price increases reached levels not seen in decades, and energy price shocks posed concerns for the most vulnerable groups. Similarly, geopolitical tensions and subsequent supply-chain disruptions have heightened worries about their effects on those at the lower end of the economic distribution.

Outlook

GDP growth is projected to accelerate to 3.8 percent in 2024 and gradually converge towards 4 percent over the medium term. Growth is likely to be spurred by consumption, underpinned by rising incomes, credit, and public spending. Public infrastructure and private real estate investments, along with post-2025 renewable energy investments, are also expected to contribute to growth. On the production side, services and construction will provide the highest contribution. Merchandise exports will remain subdued in 2024, gradually recovering by 2026. International price stabilization is expected to slow domestic consumer price inflation to 2 percent in 2024. However, upward pressure on wages could keep core inflation higher. Outmigration and increased travel spending abroad, associated with visa liberalization, represent a drag on growth. The CAD is expected to deteriorate in 2024 but improve starting in 2025. Real estate FDI is projected to increase, but more greenfield and productive FDI is needed. Driven by higher current and capital expenditures, the fiscal deficit is expected to edge up to 1.1 percent of GDP in 2024 and remain in line with fiscal rules over the medium term. An increase in spending pressures associated with the upcoming electoral cycle represents a risk. Continued geopolitical uncertainty, including that associated with the domestic political context, also entails risk. A reinforced EU accession process could enhance growth prospects. With growth expected to accelerate, poverty is also projected to decrease. A tighter labor market is anticipated to boost wages. While outmigration has sparked concerns about human capital losses, migration can also incentivize the optimal use of domestic human capital. The declining population could be offset by increasing female labor force participation, constrained by lack of childcare services. Expanding childcare services would not only improve labor market opportunities for women but also enhance children's school readiness through better early childhood education (ECE).

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	10.7	4.3	3.3	3.8	3.9	4.0
Private consumption	7.3	3.4	3.9	4.8	3.7	3.9
Government consumption	9.0	0.2	2.3	6.7	5.3	5.9
Gross fixed capital investment	13.0	-3.2	3.0	5.7	5.2	4.5
Exports, goods and services	76.8	18.9	6.3	6.0	4.1	4.8
Imports, goods and services	31.4	5.4	5.9	6.9	4.4	4.7
Real GDP growth, at constant factor prices	7.8	5.2	2.3	3.8	3.9	4.0
Agriculture	-2.5	4.5	3.0	3.0	2.5	1.8
Industry	7.8	4.0	1.6	1.8	4.0	4.2
Services	9.8	6.1	2.5	5.1	4.1	4.3
Inflation (consumer price index)	3.3	11.6	4.9	2.0	1.9	1.8
Current account balance (% of GDP)	-8.7	-10.3	-7.6	-8.1	-7.6	-7.5
Net foreign direct investment inflow (% of GDP)	4.0	6.3	6.8	7.1	7.0	6.9
Fiscal balance (% of GDP)	-1.3	-0.5	-0.3	-1.1	-1.7	-1.9
Revenues (% of GDP)	27.4	27.9	29.4	29.2	29.4	29.6
Debt (% of GDP)	21.1	19.7	17.2	17.2	18.1	18.9
Primary balance (% of GDP)	-0.9	-0.1	0.2	-0.7	-1.3	-1.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	25.5	22.8	21.4	19.2	17.1	15.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2017-HBS. Actual data: 2017. Nowcast: 2018-2023. 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	7.1
GDP, current US$ billion	14.0
GDP per capita, current US$	1974.0
International poverty rate ($2.15)[a]	0.3
Lower middle-income poverty rate ($3.65)[a]	11.3
Gini index[a]	26.4
School enrollment, primary (% gross)[b]	96.2
Life expectancy at birth, years[b]	72.0
Total GHG emissions (mtCO2e)	14.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ WDI for School enrollment (2023); Life expectancy (2022).

Economic growth remained strong and inflation declined sharply in the first half of 2024. The fiscal balance was positive owing to strong revenue performance. GDP growth is projected at 5.8 percent in 2024, mainly driven by consumption and investment. Inflation is projected to remain at around 4 percent. The fiscal balance is projected to improve in 2024 due to lower capital spending.

Key conditions and challenges

The Kyrgyz Republic remains one of the poorest countries in the region, with poverty levels remaining stubbornly high. As a small, relatively undiversified economy, 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. The economy has limited gross international reserves to absorb shocks, while nondiscretionary fiscal expenditure is high, and the country is at a moderate risk of debt distress. The country has a young and growing population, abundant natural resources, and is near large markets. However, economic opportunities and job creation are limited due to a stagnant private sector, constrained by a weak competitive environment, undue advantage of poorly performing SOEs, a high level of informality, and an onerous business environment. Private sector-led growth will require ambitious reforms to ensure a level playing field, reduce the cost of regulatory compliance, remove barriers for cross-border trade, and maximize spillovers from FDI.

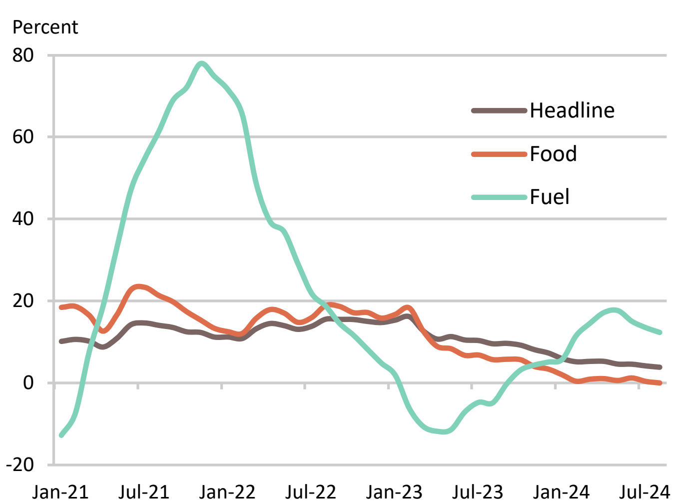
Recent developments

The Kyrgyz economy continued to perform strongly in the first half (H1) of 2024, supported by the transit trade of goods mainly from China to Russia and rising inflows of remittances. Real GDP expanded by 8.1 percent in H1 2024, driven by consumption, exports, and investment. On the production side, growth has been supported by construction and services which grew by 48 percent and 7.7 percent in real terms, respectively.

Consumer price inflation fell gradually over H1 2024, to 5.0 percent in July 2024, the lower end of the central bank's target range of 5–7 percent, enabling the central bank to cut the policy interest rate by 400 basis points to 9 percent by May 2024. The drop in inflation was driven by declining food price inflation, while fuel price inflation accelerated, and inflation of nonfood and service prices remained elevated. Credit to the economy continued to grow, year-on-year (y-o-y), at 15 percent in real terms as of June 2024. While the nonperforming loans ratio increased to 11.9 percent as of end-June 2024, from 9.2 percent at end-December 2023, the banking sector remained well capitalized, with capital adequacy and liquidity ratios at 22.3 percent and 78.8 percent, respectively, well above requirements.

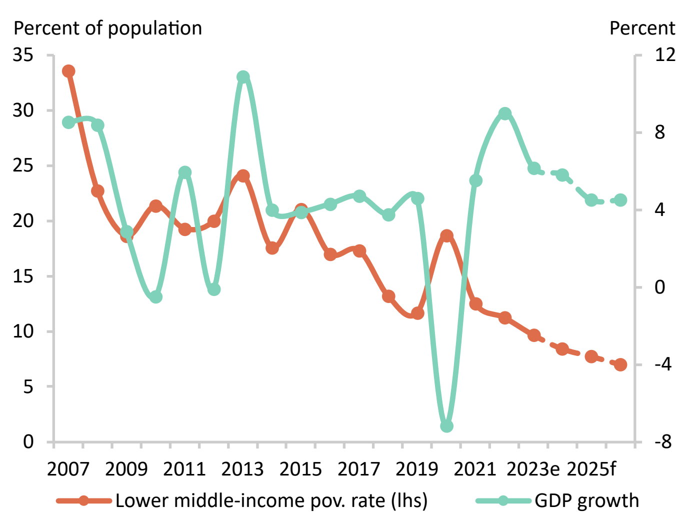
The current account deficit reached 80.4 percent of GDP (US$2.2bn) in the first quarter (Q1) of 2024, the largest deficit to date. This anomaly is likely driven by the under-reporting of re-exports of imported goods to Russia, mainly from China--it was almost entirely matched in the Balance of Payments by an increase in "errors and omissions" to 77 percent of GDP (US$2.1 billion). Exports of goods and services grew by 22 percent (in US$ terms) in Q1 2024, owing to increases in gold, tourism,

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.

and trade logistics service exports. Imports of goods and services increased by 38 percent (in US$ terms), including imports destined for re-export. However, early released data for Q2 2024 suggest that exports and imports both declined. Remittances (in US$ terms) grew by 6.4 percent in H1 2024, y-o-y, although as a share of GDP, they were lower than a year ago (22.4 percent vs 25.6 percent).

The som strengthened by 3 percent against the U.S. dollar over H1 2024, although the real effective exchange rate depreciated by 0.3 percent. Gross international reserves increased to 3.3 months of imports (US$3.8bn) from 3.1 months (US$3.2bn) at end-December 2023.

The government's fiscal position remained strong in H1 2024, with an estimated surplus of 5.6 percent of GDP, supported by increases in tax and non-tax revenues compared to a year ago (by 1.3 and 2 percentage points of GDP, respectively), as well as repayments of on-lent loans to the budget by SOEs (7.9 percent of GDP). Current and capital expenditures declined by 1.2 and 3.2 percentage points of GDP compared to a year ago, respectively. Public debt decreased from 45.5 percent of GDP in December to 41.2 percent by end-June. In 2023, the poverty rate (US$3.65/day poverty line), dropped to 9.7 percent, from 11.3 percent in 2022. This decline was supported by lower inflation and robust growth. Poverty reduction is expected to continue into 2024, driven by the implementation of social protection programs, higher pensions, and increased lending to vulnerable households.

Outlook

GDP growth is projected to slow to 5.8 percent in 2024, as exports continue to be weak in H2 2024 due to an expected reduction in re-exports. Aggregate demand is expected to be supported by public and private consumption and investment. On the production side, construction and services are expected to contribute the most to growth. GDP is expected to stabilize at 4.5 percent over the medium term in the absence of structural reforms to raise productivity and potential growth.

Assuming the central bank maintains a prudent monetary stance, inflation is projected to remain below 5 percent by end-2024 and thereafter in the medium term.

The current account deficit is projected at 10.8 percent of GDP in 2024 and to narrow to 8.2 percent by 2026 as an external demand for goods and services grows and remittance inflows increase.

The fiscal balance is projected at a surplus of 2.6 percent of GDP in 2024 mainly as a result of repayments of on-lent loans by SOEs and lower capital spending. In the medium-term, the fiscal balance is expected to remain positive despite a rise in current spending while revenues remain broadly unchanged as a share of GDP.

In the medium term, the poverty level is expected to continue declining to around 8 percent, driven by the positive effects of lower inflation and expanding social protection programs.

Risks to this outlook arise mainly from the geopolitical situation and the uncertain outlook for transit trade and remittances.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	5.5	9.0	6.2	5.8	4.5	4.5
Private consumption	18.8	17.0	10.4	6.2	4.3	4.4
Government consumption	0.5	4.4	0.9	0.6	0.5	0.3
Gross fixed capital investment	8.0	6.9	11.0	12.9	13.2	13.4
Exports, goods and services	16.4	59.2	-4.9	28.7	10.2	9.7
Imports, goods and services	38.8	66.7	34.1	15.0	8.7	9.0
Real GDP growth, at constant factor prices	5.5	12.1	4.7	5.8	4.5	4.5
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	16.0	8.4	8.3	5.4	5.3
Inflation (consumer price index)	11.9	13.9	10.8	4.6	4.5	4.3
Current account balance (% of GDP)	-8.0	-42.4	-48.2	-10.8	-8.6	-8.2
Net foreign direct investment inflow (% of GDP)	6.1	4.2	1.1	3.8	3.6	3.2
Fiscal balance (% of GDP)	-0.3	-1.3	1.2	2.6	2.5	1.4
Revenues (% of GDP)	31.8	34.6	37.2	36.6	37.1	37.2
Debt (% of GDP)	55.8	46.9	45.5	40.9	40.4	39.9
Primary balance (% of GDP)	1.2	0.0	2.3	3.6	3.3	2.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.7	0.3	0.3	0.2	0.2	0.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	12.5	11.3	9.7	8.4	7.7	7.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	62.2	60.1	57.2	54.7	53.2	51.5
GHG emissions growth (mtCO2e)	9.9	-0.6	-0.4	0.0	0.3	1.0
Energy related GHG emissions (% of total)	66.2	64.5	64.0	63.2	62.2	61.4

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-KIHS. 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	2.4
GDP, current US$ billion	16.5
GDP per capita, current US$	6861.1
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]	14.4
Gini index[a]	25.7
School enrollment, primary (% gross)[b]	106.5
Life expectancy at birth, years[b]	68.6
Total GHG emissions (mtCO2e)	15.1

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

Moldova's economy is recovering despite ongoing spillovers from Russia's invasion of Ukraine. Essential structural reforms and further integration with the European Union (EU) is needed to address persistent socio-economic challenges, including poverty, low productivity, and climate vulnerabilities. While a gradual recovery is anticipated in 2024, significant risks persist, including the threat of continued conflict, potential energy disruptions, and uncertainties surrounding upcoming elections.

Key conditions and challenges

Moldova's economy is showing signs of recovery, while unprecedented challenges due to the spillover effects of Russia's invasion of Ukraine are still unfolding. A moderate economic recovery in the first half of 2024 improved household incomes and investments. Nevertheless, there are significant macroeconomic risks, including the potential intensification of the war in Ukraine, additional energy disruptions, particularly the potential discontinuation of gas transit through Ukraine, 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-based poverty reduction, underscoring the urgency for structural reforms. Nearly a quarter of young people aged 15-34 were neither employed nor in education and training (NEET).

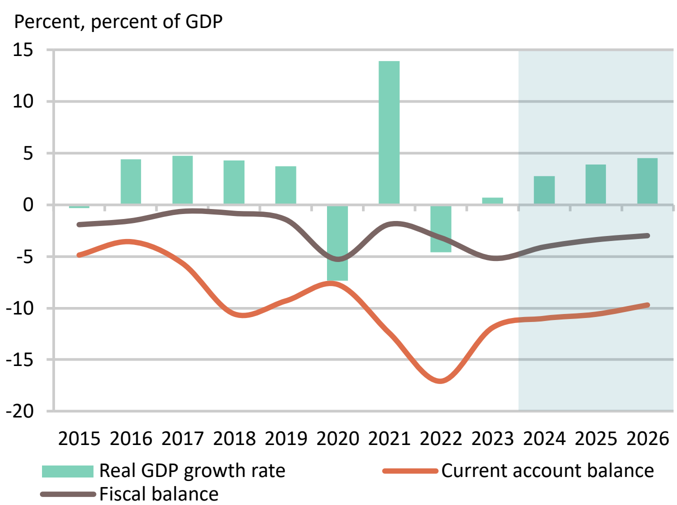
Moldova faces structural challenges including low productivity growth, governance deficiencies, a large state footprint, limited competition, an imbalanced business environment, and tax distortions. The country remains vulnerable to adverse weather events and energy shocks due to its heavy dependence 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

Despite ongoing spillovers from Russia's invasion of Ukraine, the economy is showing promising recovery signs. In the first half of 2024, the economy grew by 2.2 percent, driven by rebounds in domestic trade, manufacturing, and a substantial recovery in the energy sector, which saw double-digit growth following the 2023 energy crisis. The IT sector continued to experience robust growth, while agriculture remained resilient, though summer droughts may affect yields later. On the demand side, growth was fueled by investments and restocking, while net exports had a negative impact due to rising imports. Private consumption improved with increasing disposable incomes and lower interest rates.

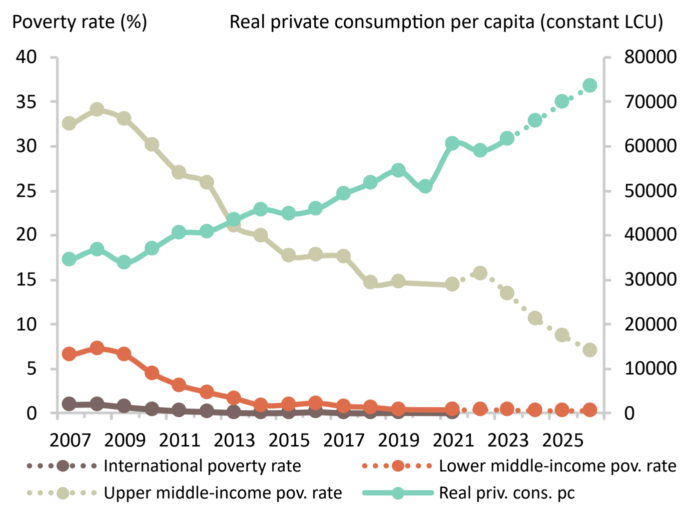
The current account deficit (CAD) improved to 11.8 percent of GDP in the first quarter of 2024, despite a 6.5 percent

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.

decline in remittances. This improvement was driven by a narrower trade deficit and enhancements in the primary income account. The CAD was mainly financed through cash, deposits, and trade loans while direct investments fell. External debt decreased by 2.4 percentage points from the end of 2023, reaching 60.9 percent of GDP.

Inflation continued to decelerate in 2024, averaging 4.2 percent (y-o-y) in the first eight months, driven by weaker domestic demand and lower energy prices. In response, the Central Bank lowered the base interest rate from 4.75 percent in early 2024 to 3.6 percent in August 2024. During the same period, banks maintained high liquidity, and the ratio of non-performing loans dropped to a five-year low of 6.1 percent.

In January-July, total revenues rose by 12.2 percent, y-o-y, driven by social contributions, VAT and excise duties on imported goods, and personal income taxes. Expenditures to support the economy remained elevated, including spending on wages, subsidies, and goods and services. The fiscal deficit registered 3 percent of GDP. Public and publicly guaranteed debt decreased to 33.8 percent of GDP in the first half of 2024.

Poverty rates, as measured by the US$6.85 2017 PPP poverty line, are expected to have remained stable, marginally dropping from 15.7 percent in 2022 to 13.3 percent in 2023.

Outlook

The economy is projected to grow by 2.8 percent in 2024, supported by rising real wages due to lower inflation, favorable interest rates, and a positive fiscal impulse. Despite a decline in real remittances, private consumption is expected to be a major growth driver, supported by gradual improvements in investments. The increase in imports and reduced external demand for exports will result in a negative contribution from net exports. On the supply side, growth will be supported by the IT sector and domestic trade. The industrial sector's contribution is anticipated to increase, although external demand remains below pre-2021 levels. Agricultural growth will be modest due to summer drought, despite strong results early in the year. Medium-term growth will be fueled by reforms focused on economic diversification and competitiveness, in line with the EU accession agenda.

Inflation is projected to stay near the lower end of the 3.5 to 6.5 percent target range in 2024, with a medium-term average of around 5 percent. However, inflation remains sensitive to supply-side factors, such as geopolitical tensions, energy prices, and climate conditions.

While the CAD is expected to narrow further in 2024, aided by improvements in the trade balance and stable remittances from the EU. However, it will likely remain above pre-pandemic levels due to high import prices, transport costs, and low foreign direct investment amid ongoing uncertainties.

The fiscal deficit is projected to remain high at 4.1 percent of GDP in 2024 due to spending on economic support, refugee assistance, and infrastructure. It is expected to decrease to 3 percent of GDP by 2026 as fiscal support declines.

As inflationary pressures ease, the poverty rate, as measured by the US$6.85 2017 PPP poverty line, is expected to decrease to 10.63 percent in 2024. With the anticipated economic recovery and normalization of inflation, poverty is projected to decline further to 8.6 percent in 2025.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	13.9	-4.6	0.7	2.8	3.9	4.5
Private consumption	17.3	-4.8	-0.5	2.4	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	5.1	5.3	5.6
Exports, goods and services	17.5	29.7	5.1	0.2	4.7	5.9
Imports, goods and services	21.2	18.2	-5.1	1.1	3.8	4.3
Real GDP growth, at constant factor prices	13.4	-4.2	1.5	2.8	3.9	4.5
Agriculture	50.3	-23.5	31.9	1.9	3.3	3.8
Industry	0.5	-10.3	-10.0	4.4	4.8	5.2
Services	12.4	3.0	-0.1	2.6	3.8	4.5
Inflation (consumer price index)	5.1	28.7	13.4	4.5	5.1	4.9
Current account balance (% of GDP)	-12.4	-17.1	-11.9	-11.0	-10.5	-9.7
Net foreign direct investment inflow (% of GDP)	2.7	3.7	2.5	1.7	2.2	2.5
Fiscal balance (% of GDP)	-1.9	-3.2	-5.2	-4.1	-3.4	-2.8
Revenues (% of GDP)	32.0	33.3	34.1	33.7	33.8	33.8
Debt (% of GDP)	33.8	35.9	36.0	38.5	38.1	37.5
Primary balance (% of GDP)	-1.1	-2.2	-3.4	-2.4	-1.7	-1.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.0	..	..	..	..	..
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.3	0.4	0.3	0.2	0.2	0.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	14.4	15.7	13.3	10.6	8.6	7.0
GHG emissions growth (mtCO2e)	6.9	0.2	7.2	8.1	8.8	9.6
Energy related GHG emissions (% of total)	64.8	63.5	65.7	69.2	72.7	75.6

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 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 private consumption per capita in constant LCU.

MONTENEGRO

Table 1	2023
Population, million	0.6
GDP, current US$ billion	7.6
GDP per capita, current US$	12252.6
International poverty rate ($2.15)[a]	2.0
Lower middle-income poverty rate ($3.65)[a]	3.7
Upper middle-income poverty rate ($6.85)[a]	12.2
Gini index[a]	34.3
School enrollment, primary (% gross)[b]	100.7
Life expectancy at birth, years[b]	76.2
Total GHG emissions (mtCO2e)	3.5

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

Montenegro's economy is expected to grow by 3.4 percent in 2024. Growth is projected to moderate but remain solid at 3.5 percent in 2025, boosted by wage increases. However, fiscal challenges persist as the government reduces pension contributions, likely increasing the deficit to 4.1 percent of GDP in 2025. Public debt is expected to rise to an estimated 64.5 percent of GDP by 2026. Maintaining fiscal sustainability will require disciplined policies amid high external financing costs and geopolitical uncertainties.

Key conditions and challenges

Montenegro, characterized by its small open economy, rich biodiversity, and EU ambitions, has shown resilience despite vulnerabilities to external and domestic demand shocks. As a euroized economy, it relies heavily on fiscal policy for macroeconomic stability. Given its reliance on tourism and the challenges of environmental degradation and climate change, the country would benefit from more sustainable development strategies. After a 15.3 percent contraction in 2020, the economy rebounded swiftly in 2021-23, averaging 8.6 percent growth per annum. Growth is estimated to remain robust in 2024 at 3.4 percent, driven by private consumption, still supported by foreign residents, primarily Russian and Ukrainian citizens.

Montenegro successfully reduced its public debt from 103.5 percent of GDP in 2020 to 59.3 percent in 2023, but a lumpy debt repayment profile represents a vulnerability. While one-off revenues resulted in a fiscal surplus of 0.6 percent of GDP in 2023, a return to fiscal deficits is expected in the medium term. Tax revenues remain below 2021 levels following the 2022 reform, which removed healthcare contributions and introduced the PIT allowance (Europe Now 1). Under the government's Fiscal Strategy 2024-27 (Europe Now 2), revenues are projected to decline further with the proposed reduction in pension contributions.

After years of political instability following the 2020 elections and the first power shift in 30 years, Montenegro's government, formed in October 2023 and reshuffled in July 2024, has made EU accession its priority. By March 2024, key judiciary and prosecution appointments were made, and in June 2024, a positive Interim Benchmark Assessment Report marked a crucial step, enabling the country to begin closing chapters and move closer to EU membership.

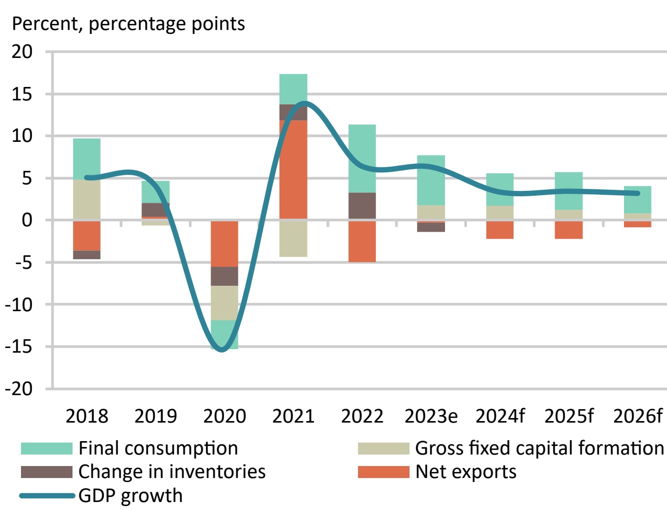
Recent developments

The solid growth from 2023 continued into 2024, although GDP growth moderated from 4.4 percent in Q1 to 2.7 percent in Q2. While increased private consumption and investment supported growth, their high import dependence led to higher imports, weighing on overall growth. By July, real retail trade had grown by 6.4 percent, and the value of construction works by 3.1 percent. However, tourist overnight stays fell by 4 percent, and industrial production by 6.5 percent.

Strong employment gains across all sectors continued into 2024. In Q2, LFS data showed employment and activity rates of 56.7 percent and 64 percent, respectively, while the unemployment rate dropped to 11.4 percent.

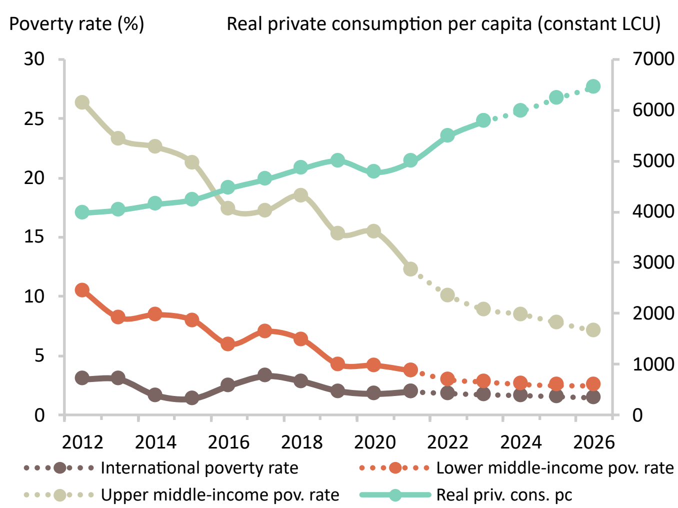
By July, annual inflation averaged 4.6 percent, and real wages increased by 1.2 percent y/y. Poverty (income below $6.85/day in 2017 PPP) is projected to have declined to 8.8 percent in 2023.

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.

The financial sector is well capitalized and liquid, and credit growth remains strong. In June, the average capital adequacy ratio was at 19.5 percent, while non-performing loans declined to 5 percent from 6.1 percent of total loans a year ago. By June 2024, banking sector lending and deposits increased by 12.5 and 2.1 percent y/y respectively.

In H1, the current account deficit (CAD) widened due to lower service exports and a decline in net income accounts, driven by higher dividend and interest payments. Net foreign direct investment (FDI) fell by 5 percent, covering a third of the CAD, with the remainder financed through new debt. External debt stays high at 130 percent.

In the first seven months of 2024, the central government achieved a fiscal surplus of 0.4 percent of GDP. Revenues rose by 8.6 percent, despite one-off revenues in 2023, supported mainly by stronger VAT and CIT collection.

Expenditures grew by 17.9 percent, mainly due to increased social transfers following the minimum pension increase to €450 in January 2024. In June, public debt stood at 60.8 percent of GDP, and in September, S&P upgraded Montenegro's credit rating from 'B' to 'B+'.

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, but also investments. Considering the anticipated increase in the minimum and net wages from October 2024 as reflected in the Fiscal Strategy, personal consumption is expected to drive growth in 2025 to 3.5 percent, despite a closure of the thermal power plant in 2025 for reconstruction that will require greater energy imports. Medium-term growth is expected to be sustained and stimulated by the progress towards EU membership. The CAD is projected to widen to 12.6 percent of GDP in 2024 and further to 13.7 percent in 2025 due to higher energy imports, with just half of it financed by net FDI, which may challenge sustainability. Inflation is expected to soften only slightly to 3.7 percent in 2025 and further to 2.7 percent in 2026. Poverty is projected to decline by 1.8 percentage points from 2023 to 7.0 percent in 2026. Most of the poor are chronically unemployed, students, or out of the labor force, often living in the northern region. Thus, reducing poverty further requires targeted government policies alongside sustained economic growth. The fiscal deficit is expected to increase in 2025 to an estimated 4.1 percent of GDP before gradually declining to 3.7 percent in 2026. The reduction in pension contributions is expected to create a revenue shortfall despite the government's planned compensatory measures. Implementing additional fiscal consolidation measures would improve fiscal performance and help ensure sustainability. Public debt is expected to rise to an estimated 64.5 percent of GDP in 2026. Maintaining debt sustainability will require strong fiscal discipline, especially amid challenging global financial conditions and significant financing needs over 2025-27. The outlook is clouded by potential downside risks. Heightened geopolitical uncertainties may weaken growth prospects for Montenegro's trading partners, while the high cost of external financing poses a risk given the country's substantial financing needs. Domestic political developments also pose a risk.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	13.0	6.4	6.3	3.4	3.5	3.2
Private consumption	4.0	9.7	6.5	4.0	4.8	3.5
Government consumption	0.5	1.5	3.1	2.8	2.7	1.8
Gross fixed capital investment	-12.3	0.1	6.9	6.6	4.6	3.0
Exports, goods and services	81.9	22.7	9.0	0.4	3.8	4.0
Imports, goods and services	13.7	21.3	5.9	3.1	5.3	3.5
Real GDP growth, at constant factor prices	13.2	6.3	5.7	3.4	3.4	3.2
Agriculture	-0.5	-2.9	-0.3	0.5	0.5	0.5
Industry	1.4	-5.2	5.1	-2.5	-6.8	5.0
Services	19.1	10.6	6.5	5.0	6.0	3.1
Inflation (consumer price index)	2.4	13.0	8.6	4.2	3.7	2.7
Current account balance (% of GDP)	-9.2	-12.9	-11.4	-12.6	-13.7	-13.2
Net foreign direct investment inflow (% of GDP)	11.7	13.2	6.2	7.0	7.0	7.0
Fiscal balance (% of GDP)	-2.1	-4.9	0.6	-2.8	-4.1	-3.7
Revenues (% of GDP)	44.0	38.6	42.2	41.5	39.7	39.7
Debt (% of GDP)	84.0	69.2	59.3	62.2	61.6	64.5
Primary balance (% of GDP)	0.2	-3.3	2.4	-0.8	-1.8	-1.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.0	1.8	1.7	1.6	1.5	1.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	3.7	3.0	2.8	2.6	2.5	2.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	12.2	10.1	8.8	8.1	7.5	7.0
GHG emissions growth (mtCO2e)	3.9	2.6	2.6	-2.3	-4.4	0.6
Energy related GHG emissions (% of total)	67.8	69.2	70.3	70.0	69.1	69.9

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	14.8
GDP per capita, current US$	8146.5
Upper middle-income poverty rate ($6.85)[a]	19.0
Gini index[a]	33.5
School enrollment, primary (% gross)[b]	91.4
Life expectancy at birth, years[b]	74.4
Total GHG emissions (mtCO2e)	9.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2022).

Real growth remained constrained in H1 2024 amidst lingering inflationary pressures, weak external demand, and delayed highway construction. Fiscal consolidation targets are likely to be missed for 2024 following election promises. The fiscal deficit and public debt remain elevated over the medium term with higher mandatory spending and build-up of fiscal risks related to arrears, pensions, and spending pressures ahead of local elections. The growth outlook is positive, but downside risks prevail.

Key conditions and challenges

North Macedonia is struggling to recover after crises. Real GDP growth has remained muted in 2024, after mere 1 percent in 2023, reflecting delays in the take-off of highway construction works, weaker external demand, and lingering price pressures. Poverty reduction, having stalled in 2023, is estimated to have resumed in 2024 due to rising wages and employment growth vis-à-vis 2023.

Fiscal challenges remain persistent. While some reforms have been made to boost domestic revenues, spending efficiency remains low, and fiscal discipline weak. The fiscal deficit remains at around 5 percent post-pandemic, pushing the debt-to-GDP ratio close to 62 percent of GDP. Both the fiscal deficit and public debt remain above the newly introduced fiscal rules, further challenged by pre-election spending commitments related to pensions, public sector wages, and transfers to municipalities.

Monetary tightening has helped contain the surge in prices but persistent inflationary pressures risk prolonging the tightening cycle and further dampening economic activity. Rising wages and pensions risk keeping inflation higher for longer and cause a slower return to the long-term average.

Crisis-induced scars to the economy have significantly slowed potential growth and income convergence with the European Union (EU). The country's rebound after the pandemic has not kept pace with that of its peers. Ensuring sustainability, rising productivity, and undertaking necessary labor and regulatory structural reforms are essential for EU accession to progress and to enable sustainable growth.

Recent developments

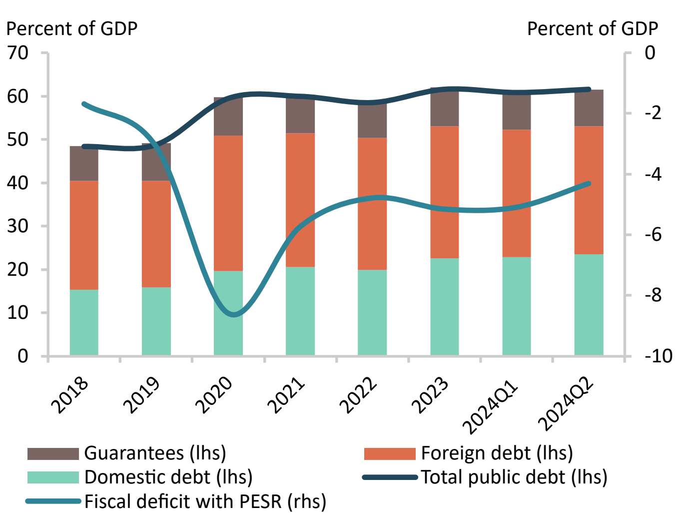
Output growth averaged 1.8 percent in H1 2024 with strong domestic demand while exports and imports dropped. Services led growth, while construction picked up and agriculture had a negative contribution.

Relative to end-2023, labor market indicators in Q2 2024 improved slightly, with the employment rate rising by a notch to 45.6 percent, while the participation rate remained almost unchanged at 52.1 percent. The unemployment rate dropped slightly to 12.5 percent, and the youth unemployment rate (15-24) remained high at 26.9 percent. Nominal net wage growth, driven by public sector and minimum wage increases, spiraled up to 14.8 percent in June 2024, outpacing inflation by close to 12 pp.

While headline inflation eased from double-digit growth in 2022 to 3 percent in July 2024, core inflation remains high—at above 5 percent, led by wage pressures and services. At the same time, the Central Bank initiated the first policy rate cut of 25 basis points to 6.05 percent in September 2024.

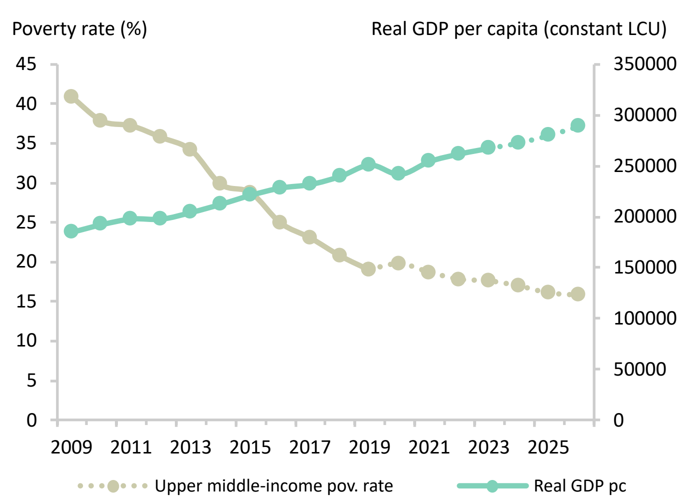
The fiscal deficit (with the state roads finances included) is projected to reach 5.1 percent of GDP in 2024 after a July budget revision that increased spending on wages, pensions and transfers,

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.

and lowered capital spending. Public debt went up to 61.5 percent of GDP in Q2 2024, mostly on account of higher issuance of domestic securities. Expenditure arrears have surged to 4.7 percent of GDP in Q2 2024 on account of poor fiscal discipline of local utility companies, public health institutions, and state-owned enterprises.

Banking sector stability has been maintained in line with an increase in the capital adequacy ratio to 18.9 percent in Q1 2024, while the liquidity rate (without government securities) settled around 20 percent. At the same time, the NPL ratio went above 3 percent for the first time since 2022, but solely as a result of methodological changes.

The CAB returned to negative territory at 1.2 percent of GDP in H1 2024 owing to a worsening of the goods trade balance, while services exports held up and remittances eased. External debt slightly declined to 81.8 percent of GDP in Q1 2024, but roughly half of the total is private and mostly intercompany lending.

Outlook

The medium-term outlook remains positive, but risks are tilted strongly to the downside. Growth is expected to step up in the medium term to an average of 2.7 percent during 2025-2026. This projection assumes a rebound of public investments and a gradual recovery of consumption and exports.

Headline inflation is projected to remain above or close to 3 percent in 2024-25, but to slow thereafter to a long-term average of 2 percent. Poverty rates are projected to maintain a slow declining pathway, helped by real wage and employment growth, falling by a further 1.2 percentage points over the forecast period.

The baseline scenario is built on the assumption that the focus on the EU accession agenda remains a priority for the new administration that won the general elections in May 2024. At the same time, low productivity, inefficient capital deployment, and weak external demand, compounded by limited fiscal space and rising fiscal risks amidst high interest rates, continue to impede growth prospects and further slow the pace of income convergence with EU peers. Additional delays of decarbonization targets, along with carbon pricing, risk a loss in domestic public revenues and international competitiveness given the start of the EU Carbon Border Adjustment Mechanism. In this context, following up on the Growth Plan pledges is critical to carve out a growth-conducive economic environment.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	4.5	2.2	1.0	1.8	2.5	3.0
Private consumption	8.8	3.8	2.4	1.2	1.4	2.6
Government consumption	0.9	-5.0	-0.6	8.4	1.8	0.5
Gross fixed capital investment	-0.7	3.4	-4.5	5.1	5.1	5.2
Exports, goods and services	14.3	11.4	-0.1	3.0	5.2	5.6
Imports, goods and services	14.8	12.4	-5.8	3.2	4.0	4.6
Real GDP growth, at constant factor prices	4.0	2.4	1.0	1.8	2.5	3.0
Agriculture	-8.7	-5.0	-3.8	1.2	1.1	1.1
Industry	-2.0	-1.9	-2.4	1.6	1.4	1.4
Services	7.7	4.6	2.5	2.0	3.0	3.6
Inflation (consumer price index)	3.2	14.2	9.4	3.5	2.8	2.0
Current account balance (% of GDP)	-2.8	-6.1	0.7	-1.8	-2.0	-2.0
Net foreign direct investment inflow (% of GDP)	3.3	5.0	3.8	3.7	3.5	3.4
Fiscal balance (% of GDP)	-5.3	-4.5	-4.7	-4.9	-4.0	-3.7
Fiscal balance with the state roads (% of GDP)	-5.7	-4.8	-4.9	-5.1	-4.3	-3.9
Revenues (% of GDP)	32.1	32.1	34.9	37.3	37.1	37.1
Debt (% of GDP)	60.3	59.0	62.0	63.5	63.1	62.8
Primary balance (% of GDP)	-4.1	-3.4	-3.1	-2.9	-2.0	-1.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	18.7	17.8	17.6	16.9	16.1	15.8
GHG emissions growth (mtCO2e)	-1.1	-2.0	0.5	0.0	0.6	0.9
Energy related GHG emissions (% of total)	71.8	71.7	71.7	71.4	71.3	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 2020-SILC-C. Actual data: 2019. Nowcast: 2020-2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2019) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

POLAND

Table 1	2023
Population, million	37.6
GDP, current US$ billion	806.5
GDP per capita, current US$	21428.0
Upper middle-income poverty rate ($6.85)[a]	0.9
Gini index[a]	28.5
School enrollment, primary (% gross)[b]	100.1
Life expectancy at birth, years[b]	77.3
Total GHG emissions (mtCO2e)	324.1

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

Poland's real 2024 GDP growth is forecasted to exceed expectations due to a stronger rebound in private and public consumption on the back of slowing inflation and high wage growth. The positive medium-term outlook depends on the new government intensifying, in 2025, reforms and investments that address structural challenges, particularly accelerating the green transition in line with the European Green Deal and adapting the labor force to technological advancements. A rise in national extreme poverty rates in 2023, expected to continue in 2024, underlines the need to strengthen the social protection system.

Key conditions and challenges

The Polish economy has weathered global and regional shocks, underpinned by a diverse economic structure, integration with regional supply chains, a commitment to macroeconomic stability, a robust financial sector, and tight labor markets that have led to notable wage increases and consumer spending. The shocks however have weakened the fiscal stance, while the energy crisis led to a sharp increase in inflation which reduced purchasing power, weighed down on growth, and increased poverty in 2023.

The new administration that took office in December 2023 marked the first political transition in 8 years. It has since unlocked frozen European Union (EU) funds and shifted course on key agendas, such as upholding the rule of law, strengthening fiscal institutions, and steering the green transition towards the EU commitment. Poland's economic strategy is at a critical turning point: it requires boosting productivity through innovation, rapidly decarbonizing the energy sector to retain economic competitiveness, and re- and upskilling the labor force in the backdrop of a rapidly aging population. Restoring fiscal buffers while supporting investments in healthcare, defense, and renewable energy will require balancing efficient spending and tax policy reforms. Promoting the efficiency of spending on social benefits and promoting adaptive social protection remains a priority for advancing inclusion.

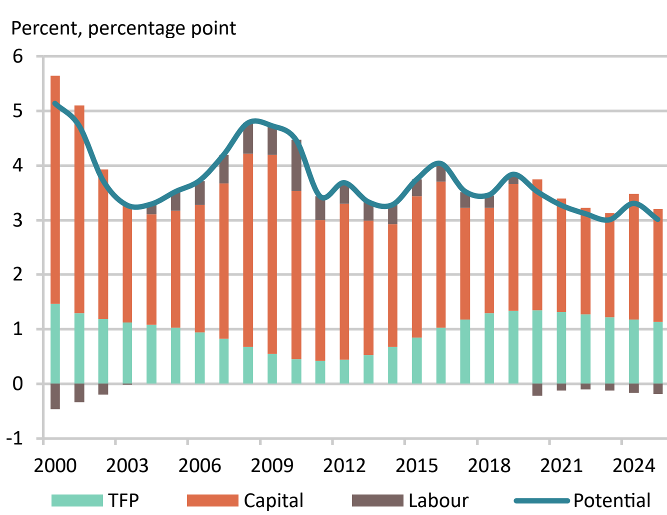
Medium-term economic prospects hinge on reaping the benefits of technological and green transitions, advancing social mobility and inclusion, and addressing labor shortages. Meeting the technological transformation and EU decarbonization objectives requires investment and planning, including ensuring a just transition that supports vulnerable groups while containing regional disparities.

Recent developments

After a sharp deceleration in 2023 (at 0.2 percent) marked by lower private consumption amidst high inflation and the unwinding of household crisis support measures, real GDP growth has accelerated in 2024. Growth surprised on the upside in Q2 (3.2 percent year-on-year (y/y)) thanks to government and private consumption picking up. A tight labor market, staggered increase in the minimum and public wages have resulted in one of the largest increases in average real monthly wage (11.5 percent y/y in Q2).

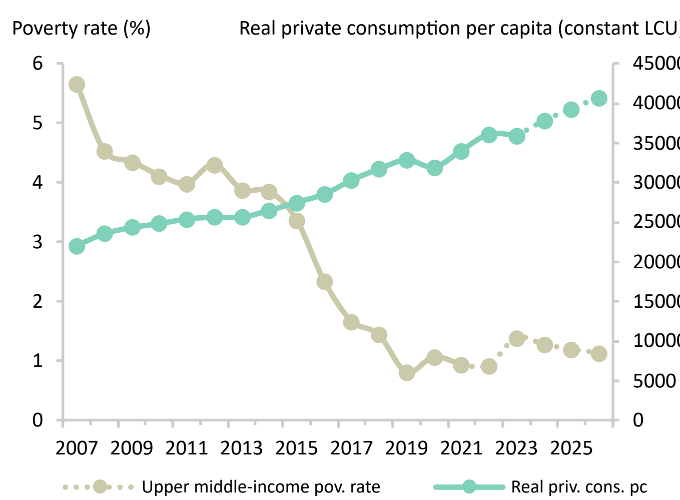
Inflation markedly slowed down reaching 2 percent y/y in March 2024—down from its peak of 18.4 percent y/y in February 2023 -, due to falling global commodity prices, a stronger zloty, and fewer supply disruptions. The zloty remains strong, thanks to improved risk perceptions and an increasing interest rate disparity vis-à-vis the Euro. Inflationary pressures are expected to pick up in H2 2024, however, primarily

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 private consumption per capita



Source: World Bank. Notes: see Table 2.

due to the phasing out of energy price caps. This has prevented the National Bank of Poland from continuing its monetary easing cycle, which started in September 2023 (75 bps cut). Headline inflation rose again in August 2024 (4.3 percent y/y). The banking sector remains well capitalized and higher interest rates allowed for further improvement in capital adequacy. Continuous strengthening is required to finance growing investment needs, in the context of an accelerated green transition.

The fiscal deficit widened in 2023, reaching 5.1 percent of GDP, on the back of high debt service costs (2.1 percent of GDP), increased defense spending (around 4 percent of GDP), untargeted measures to protect households from the energy and food price shocks, and the time-lagged impact of the significant personal income tax reform in 2022. It is expected to remain at the same level in 2024.

Poverty rose in 2023 using Poland's extreme and relative concepts, as nominal wage growth was outpaced by price increases and the real value of several benefits declined due to a lack of indexation in transfers or thresholds and smallholder farmers suffering from lower prices. The rise in relative poverty—from 11.7 to 12.2 percent between 2022-23—was muted by real growth in pensions. These compensatory increases however do not extend to the poorest 6.6 percent of the population in extreme poverty in 2023, who rely heavily on means-tested benefits whose coverage deteriorated during the period. The ability of the Polish tax and benefit system to reduce income inequality, which has risen since 2017, remains comparatively low and is expected to remain at the same level in 2024.

Outlook

Economic growth is set to accelerate to 3.2 percent in 2024 and 3.7 percent in 2025. While private consumption will continue to be a major driver, investment stimulated by structural reforms and unlocked EU funds is also expected to play a significant role, especially in 2025-2026. Net exports' contribution to growth should turn negative in 2024 as domestic demand fuels imports while EU exports remain weak. A gradual improvement in exports is expected from 2025 onwards. Inflation should stabilize at around 3.5-5 percent and move closer to the NBP target of 2.5 percent (+/- 1 percent band) only in the medium term.

The combination of revenue shortfalls (from the tax reforms and exemptions) alongside increased defense and election-related spending, is set to keep the general government deficit at 5 percent of GDP in 2024-2025. Entry into the EU's excessive deficit procedure (EDP) should gradually trigger a fiscal consolidation, but the pace is expected to be slow due to the high levels of defense spending in light of geopolitical tensions. Public debt is sustainable but will rise relatively fast in the forecast period, with the 2025 borrowing needs of the general government sector expected to reach record highs.

Household income is projected to grow significantly in 2024 for families, workers, and retirees due to strong labor markets, an increase in real wages and pensions, and the expansion of Poland's child benefit. Consequently, relative poverty is expected to decrease in 2024 and 2025. However, socially vulnerable households remain at risk due to reduced support from minimum-income programs. National extreme poverty rates should remain stable in 2024 and only decline in 2025 when minimum-income programs are recalibrated for inflation. Agricultural price volatility combined with damages from the 2024 floods could lead to elevated extreme poverty rates among farming households in 2024 and 2025.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	6.9	5.6	0.2	3.2	3.7	3.4
Private consumption	6.1	5.5	-1.0	4.8	3.6	3.1
Government consumption	5.0	0.5	2.8	5.0	4.0	3.5
Gross fixed capital investment	1.2	2.7	13.1	-0.5	7.8	5.9
Exports, goods and services	12.3	7.4	3.4	2.8	4.0	3.7
Imports, goods and services	16.1	6.8	-2.0	3.9	5.5	4.4
Real GDP growth, at constant factor prices	6.6	5.9	1.2	3.0	3.7	3.3
Agriculture	-11.5	1.1	-0.9	1.6	1.1	1.5
Industry	1.9	7.5	0.7	1.8	3.5	3.1
Services	9.7	5.2	1.5	3.7	3.8	3.4
Inflation (consumer price index)	5.1	14.4	12.0	3.6	4.7	2.9
Current account balance (% of GDP)	-1.2	-2.4	1.6	0.9	0.1	-0.5
Net foreign direct investment inflow (% of GDP)	3.8	3.7	2.3	2.3	2.3	2.2
Fiscal balance (% of GDP)	-1.8	-3.4	-5.1	-5.1	-5.2	-4.5
Revenues (% of GDP)	42.3	40.2	41.6	41.2	41.6	42.0
Debt (% of GDP)	53.6	49.2	49.6	51.4	54.5	57.5
Primary balance (% of GDP)	-0.7	-1.9	-3.0	-2.9	-2.9	-2.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	0.9	0.9	1.4	1.3	1.2	1.1
GHG emissions growth (mtCO2e)	8.0	-3.8	-3.1	1.3	1.5	0.6
Energy related GHG emissions (% of total)	88.0	87.5	87.1	87.3	87.5	87.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2012-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 (2011-2021) with pass-through = 0.7 based on private consumption per capita in constant LCU.

ROMANIA

Table 1	2023
Population, million	18.7
GDP, current US$ billion	344.7
GDP per capita, current US$	18417.8
International poverty rate ($2.15)[a]	1.8
Lower middle-income poverty rate ($3.65)[a]	3.0
Upper middle-income poverty rate ($6.85)[a]	7.1
Gini index[a]	33.9
School enrollment, primary (% gross)[b]	90.8
Life expectancy at birth, years[b]	75.3
Total GHG emissions (mtCO2e)	72.6

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

Romania's economy grew by 1.5 percent in the first half of 2024, driven by European Union (EU) funds-led investment and resilient private consumption amid elections. Softer growth in 2024 reflects poor performance in industry and construction and a worsening trade balance. Growth is expected to firm up over the medium term to near potential. Fiscal and current account deficits remain elevated. Poverty is projected to decline slightly to 6 percent in 2024, supported by strong wage and pension growth.

Key conditions and challenges

Romania has significantly advanced its economic development and EU convergence but needs more inclusive and sustainable economic growth, both economically and environmentally. Growth obstacles encompass regional disparities, institutional weaknesses, skilled labor shortages and declining active working-age population, and vulnerabilities to natural hazards and climate change. Pro-cyclical fiscal measures have fueled consumption, leading to consistently high twin deficits.

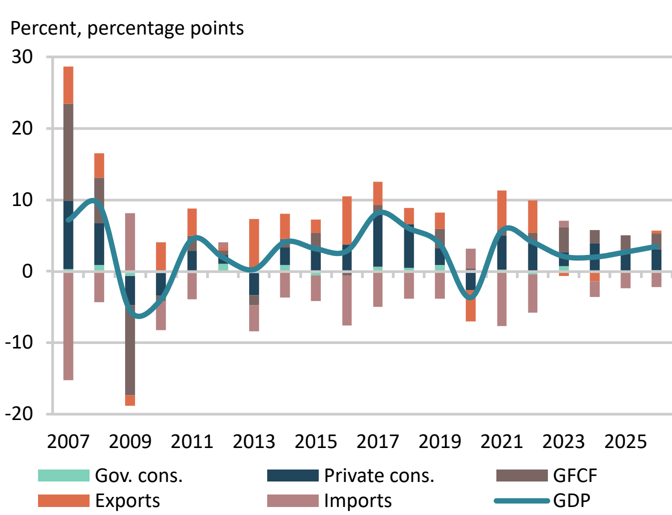
Romania has achieved considerable progress in mitigating poverty and inequality, despite facing unprecedented challenges caused by multiple crises. Despite reaching high-income status, Romania's rates of poverty and inequality are still some of the highest within the EU, with stark regional differences across the country.

A key challenge in the short term is to address fiscal pressures while simultaneously tackling persistent inclusion challenges. To achieve a sustainable recovery and support fiscal consolidation efforts, it is vital to implement the key structural reforms and investment priorities under the National Recovery and Resilience Plan (NRRP).

Recent developments

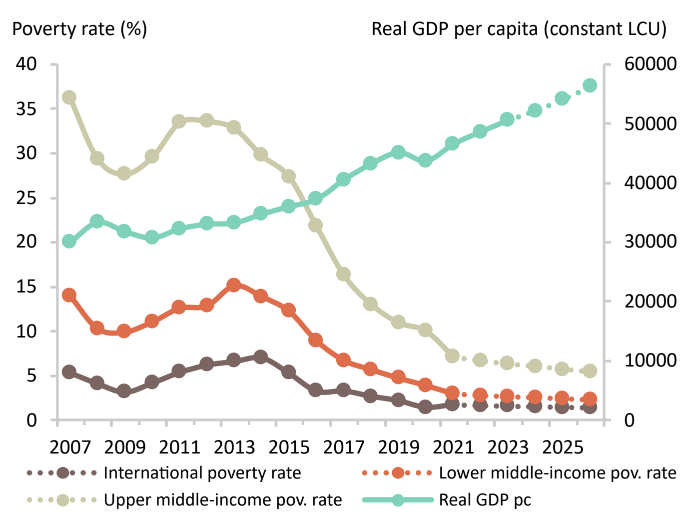
Economic growth decelerated to 1.5 percent y-o-y in the first half of 2024. Private consumption continued to be the primary engine of growth (up 5.3 percent y-o-y), supported by wage and pension increases and a pick-up in credit mainly in the second quarter. Investment momentum decelerated (up 6 percent y-o-y) from the double-digit expansion in H2 2023, largely due to a reduction in the new construction works component. The trade deficit worsened, reflecting an increased differential between export volumes (down 3.3 percent y-o-y) and imports (up 4 percent y-o-y), despite moderating import prices. On the supply side, construction growth slowed to 1 percent y-o-y, from 11 percent in 2023, as residential construction contracted by 22.2 percent, while civil engineering projects grew by 7.6 percent, driven by public investment. Industry is yet to recover (down 0.6 percent y-o-y), with the energy sector down 6.4 percent y-o-y impacted by diminished hydroelectric production and a fall in energy exports. Unemployment remains contained at 5.1 percent in June 2024, below the EU average of 6 percent. However, recent quarterly unemployment rates among low-educated workers continue to be on an upward trend. Nominal net wages grew by 12.5 percent y-o-y in June 2024, above headline inflation, driven by public sector wage increases. Annual inflation decelerated to 4.9 percent in June 2024 as a result

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.

of decreases in core inflation and lower energy prices. With faster than expected disinflation, the National Bank of Romania lowered the monetary policy rate from 7 percent to 6.5 percent through two 25-basis-point cuts in July and August 2024. Private sector credit growth accelerated to 6.7 percent y-o-y in June 2024, reflecting an increase in the domestic currency component (up 8.7 percent y-o-y).

The fiscal deficit increased to 3.6 percent of annual GDP in the first half of 2024, 1.3 percentage points higher than in the same period of last year. Revenues increased by 13.5 percent y-o-y, driven by direct tax revenues (up 18.9 percent y-o-y). Expenditure grew by 21.2 percent y-o-y, with personnel expenses surging 23.1 percent y-o-y following public sector wage increases. Fiscal consolidation remains a much-needed priority. The high fiscal deficit has resulted in a 13.7 percentage points increase in Romania's public debt-to-GDP ratio from 35.1 percent in 2019 to 48.8 percent at end-2023. However, the country maintains robust market access, and its debt-to-GDP ratio remains below the Stability and Growth Pact debt anchor of 60 percent.

Poverty projections for the coming period present a mixed picture, with poverty ($6.85/day PPP) declining slowly, reaching 6 percent in 2024. On the downside, economic growth has slowed, and unemployment is rising among those with lower education levels, potentially hindering poverty reduction. However, there are also positive signs. Strong real wage growth, especially in the construction sector, along with increases in pensions, are expected to improve household incomes. Additionally, the easing of inflation should enhance purchasing power, which could help counterbalance the effects of slower economic growth on poverty. Despite lower energy prices, energy poverty continues to affect most economically disadvantaged segments of the population.

Outlook

Growth is projected to level at around 2 percent in 2024, reflecting continued geopolitical and global market uncertainties affecting external demand. Economic growth is anticipated to accelerate over the medium term, driven by private consumption and EU-financed investment. Fiscal consolidation is expected to accelerate with the resumption of the Excessive Deficit Procedures (EDP) and the new economic governance framework. The European Commission and the Romanian Government are expected to reach an agreement on the medium-term fiscal adjustment path. To achieve a deficit under 3 percent of GDP in the medium term, a net fiscal adjustment exceeding 4 percent of GDP is needed. This translates to an average yearly structural adjustment of around 0.9 percent of GDP, under the assumption of a seven-year adjustment path. Measures to balance the budget are available as several taxes that contribute significantly to the budget have rates below the EU average, while tax collection is still low relative to peers. Curbing major expenditure items and reducing or eliminating inefficient investments could yield additional savings.

Giving the needed fiscal consolidation and the labor market challenges, slow poverty reduction is expected going forward. Despite recent fiscal reforms, including ongoing pension changes that make the system more pro-poor and slightly more redistributive, there is still room to improve pro-poor fiscal policies with a balanced approach to revenue and expenditure measures.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	5.7	4.1	2.1	2.0	2.7	3.5
Private consumption	7.2	5.8	2.8	5.5	4.0	4.1
Government consumption	1.8	-3.3	6.0	0.8	0.9	1.1
Gross fixed capital investment	2.9	5.9	14.4	6.8	7.1	7.3
Exports, goods and services	12.6	9.7	-1.4	-2.9	-0.3	0.9
Imports, goods and services	14.8	9.5	-1.4	3.9	3.8	3.7
Real GDP growth, at constant factor prices	5.3	3.6	2.0	2.0	2.7	3.5
Agriculture	13.7	-23.4	10.2	-5.0	1.1	1.1
Industry	0.9	-4.6	-2.3	0.2	0.9	2.0
Services	6.8	9.4	3.3	3.1	3.4	4.2
Inflation (consumer price index)	5.1	13.8	10.4	5.3	3.9	3.2
Current account balance (% of GDP)	-7.2	-9.2	-7.0	-7.2	-7.0	-6.4
Net foreign direct investment inflow (% of GDP)	3.7	3.5	2.0	2.2	2.5	2.9
Fiscal balance (% of GDP)	-7.2	-6.3	-6.6	-7.3	-6.2	-5.0
Revenues (% of GDP)	32.9	33.7	33.6	34.5	35.3	36.2
Debt (% of GDP)	48.5	47.5	48.8	51.8	54.1	54.7
Primary balance (% of GDP)	-5.7	-4.7	-5.2	-6.0	-4.8	-3.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.8	1.7	1.6	1.5	1.4	1.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	3.0	2.8	2.6	2.5	2.4	2.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	7.1	6.6	6.3	6.0	5.7	5.4
GHG emissions growth (mtCO2e)	7.6	-6.1	-5.9	-2.5	-1.4	-0.6
Energy related GHG emissions (% of total)	87.4	87.1	86.5	86.3	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 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]	143.7
GDP, current US$ billion	2020.3
GNI per capita, Atlas method, current US$[a]	11610.0
Lower middle-income poverty rate ($3.65)[a]	0.4
Upper middle-income poverty rate ($6.85)[a]	2.0
Gini index[b]	35.1
School enrollment, primary (% gross)[c]	101.9
Life expectancy at birth, years[c]	72.5
Total GHG emissions (mtCO2e)	1580.9

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

Economic growth is projected at 3.2 percent in 2024, with robust growth supported by strong consumption from higher wages, fiscal stimulus, and import substitution. Inflation has remained above the central bank target, as domestic production and labor market tightness pushes prices higher. Medium term growth is expected to decelerate to 1.1 percent by 2026 as tight monetary policy tempers domestic demand. Poverty is projected to decline modestly between 2024 and 2026.

Key conditions and challenges

The evolution of Russia's economy continues to be shaped by the country's invasion of Ukraine and sanctions. The policy response to sanctions includes sizable fiscal support, a drive toward significant industrial import substitution, and measures to seek alternative export markets. These responses, as well as expanded military-related economic activity, have effectively raised economic growth, although they also are generating high inflation and labor market shortages.

In the short to medium term, the main policy challenge is to gradually narrow the positive output gap and bring inflation down to the central bank's target while minimizing the slowdown in growth. In the medium to long term, the growth potential is limited due to adverse labor market dynamics, market and technological access restrictions, as well as tightening of the cross-border transactions.

Recent developments

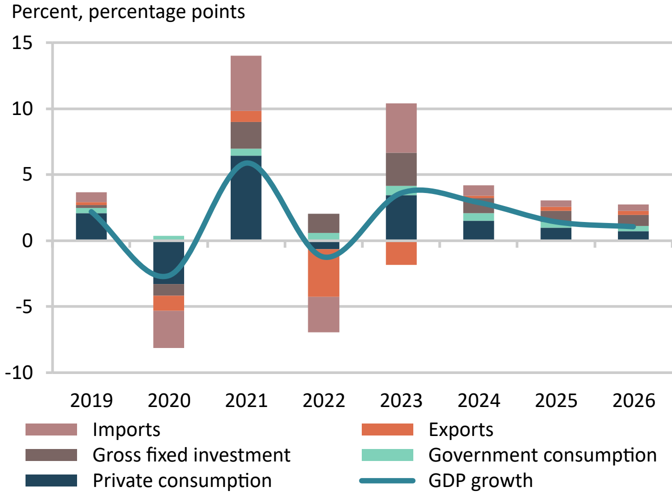
Economic growth of 5 percent in the first half (H1) of 2024 was supported by momentum built up in late 2023; however, the economy has started to show signs of slowing down in mid-2024. Growth in H1 was supported by manufacturing (+6.7 percent) due to import substitution and military-led activity, as well as by trade services (+5.3 percent) supported by strong domestic demand. Nevertheless, retail trade turnover growth continued to soften compared to Q1 2024. Mining sector output fell by 2.4 percent, largely dragged by coal and iron ore extraction, while natural gas and oil production growth rebounded. On the demand side, growth has been driven by private consumption, propelled by high wage growth stemming from tight labor market conditions and continuing fiscal stimulus. Investment growth was supported by the subsidized mortgage program and strong corporate lending.

Labor market conditions remain tight as unemployment reached a historic low of 2.5 percent by end-June, driving up real wages by 7 percent year on year (y-o-y), albeit real wage growth slowed compared to Q1 2024, when it reached 14 percent.

Inflation remained high in H1 2024, with annual inflation (core inflation) reaching 8.6 percent (8.7 percent), well above the central bank's target, prompting it to raise the policy rate to 19 percent in September 2024, from its mid-2023 low of 7.5 percent. The main factor driving inflation is strong growth in domestic demand, outstripping the capacity of the economy to supply sufficient goods and services.

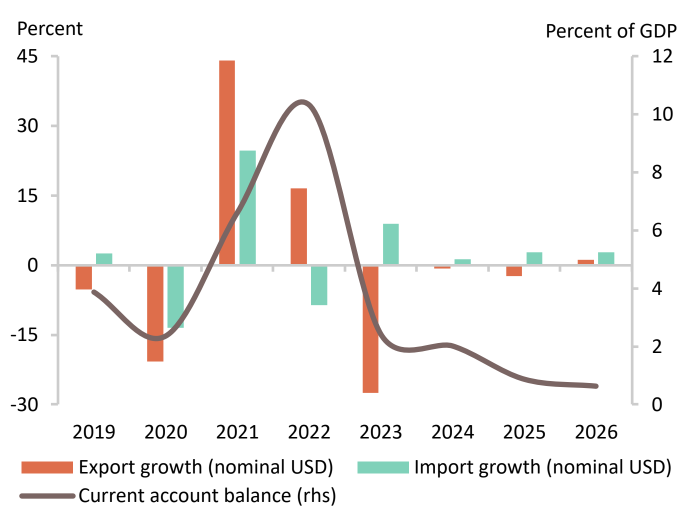
The current account balance remained in surplus in H1 2024. The foreign trade surplus widened due to a marked decline in imports, despite

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



Sources: Russian Federal State Statistics Service and World Bank.

FIGURE 2 Russian Federation / Current account balance and nominal USD growth of exports and imports



Sources: Central Bank of the Russian Federation and World Bank.

strong domestic demand—possibly related to the tightening of sanctions on import payments.

The fiscal balance recorded a small deficit of 0.5 percent of GDP in H1 2024, as the increase in spending slightly outpaced revenues. Revenues stood at 19.5 percent of GDP, bolstered by additional revenues from the mining sector, while spending accelerated to 20 percent of GDP.

Credit to the economy continued to expand at a solid pace, further supporting domestic demand. Consumer and corporate lending exhibited high growth, expanding by 14 percent and 11 percent in real terms, respectively, in H1 2024. High wages were an important factor in sustaining high consumer lending, while robust corporate lending is a result of state-led programs. Mortgage lending has been cooling, given the government's winding down of support programs.

The poverty rate (at the US$6.85-2017 PPP international line) remained relatively low, at around 2 percent from 2021 to 2023. However, a significant share of the population (around 15 percent) remains at risk of falling into poverty in the event of an economic shock.

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.

The recent deceleration in real wage growth, retail trade turnover, and fiscal spending points to a softening of economic growth and a gradual narrowing of the positive output gap. Growth is projected to slow for the rest of the year, reaching 3.2 percent for 2024. In 2025 and 2026, growth is expected to slow further toward its potential level. Private consumption growth is expected to decrease as the tight monetary stance—including more stringent macroprudential measures—and a lessening of real wage growth temper private demand. Gross fixed capital formation growth is set to ease in the medium term and average 3.4 percent during the 2024–2026 period as rising financing costs weigh on private sector investment.

Inflation is also projected to decline as tight monetary policy is expected to persist, softening domestic demand pressures. Exports are expected to rise in the medium term as major export items (notably crude oil and gas) will gradually recover following a dip in 2023. On the one hand, exports are estimated to grow, on average, by 1.2 percent during the 2024–2025 period; on the other hand, imports are projected to decelerate due to slowing domestic demand and a tightening of sanctions on import payments. The current account surplus is expected to decrease to 2.2 percent of GDP in 2024 and moderate to 0.7 percent by 2026.

Elevated expenditures are expected to keep the general government balance in a deficit of 2.1 percent of GDP in 2024, gradually declining thereafter.

Poverty is expected to continue declining, though marginally, and is expected to reach 1.6 percent in 2026. However, additional conflict-related mobilizations or stricter sanctions pose risks to poverty and vulnerability reduction prospects.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	5.9	-1.2	3.6	3.2	1.6	1.1
Private consumption	11.9	-1.1	6.0	2.8	1.4	1.2
Government consumption	2.9	3.0	3.7	3.4	2.6	2.1
Gross fixed capital investment	9.3	6.7	10.5	4.9	3.0	2.3
Exports, goods and services	3.3	-13.9	-8.2	1.0	1.2	1.5
Imports, goods and services	19.1	-11.0	16.9	2.2	2.0	2.0
Real GDP growth, at constant factor prices	6.5	-0.3	3.4	3.2	1.7	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	3.9	1.8	1.0
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	2.2	1.0	0.7
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	35.9	35.2	34.9
Debt (% of GDP)	17.2	16.7	17.1	17.6	18.4	18.6
Primary balance (% of GDP)[a]	1.6	-0.5	-1.2	-0.7	-0.2	0.3
International poverty rate ($2.15 in 2017 PPP)[b,c]	0.2	0.2	0.2	0.2	0.2	0.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	0.4	0.4	0.4	0.4	0.4	0.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	2.0	2.1	1.9	1.7	1.6	1.6
GHG emissions growth (mtCO2e)	4.8	-2.3	2.9	3.3	1.9	1.5
Energy related GHG emissions (% of total)	90.9	90.5	90.3	90.0	89.7	89.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal and Primary Balance refer to general government balances.
b/ Calculations based on ECAPOV harmonization, using 2022-VNDN. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.
c/ Projection using neutral distribution (2021) 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$	11447.0
International poverty rate ($2.15)[a]	1.2
Lower middle-income poverty rate ($3.65)[a]	2.5
Upper middle-income poverty rate ($6.85)[a]	7.5
Gini index[a]	33.1
School enrollment, primary (% gross)[b]	89.1
Life expectancy at birth, years[b]	75.5
Total GHG emissions (mtCO2e)	61.4

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

The growth of the Serbian economy accelerated in the first half of 2024 leading to an increase in projected GDP growth for the year as a whole to 3.8 percent. The incidence of poverty declined to an estimated 6.9 percent. However, there is a possibility of revising down the projected growth considering the severe drought that hit Serbia in 2024. Poverty reduction is projected to continue at a much slower pace, as the remaining poor are often characterized by chronic unemployment and thus not benefiting from positive market trends.

Key conditions and challenges

Growth in 2024 is projected at 3.8 percent, y/y, higher than the previously projected figure of 3.5 percent thanks to a better-than-expected performance of the construction and services sectors in the first half of the year. However, a severe drought that hit Serbia this summer had a significant negative impact on agriculture, which may still cause a downward revision of 2024 GDP projections. On the expenditure side, consumption and investment were the main drivers of growth in the first half of 2024 while net exports had a negative contribution. Consumption started to recover because of the continued increase in incomes as well as a steady decline in inflation. In order to reduce the high degree of volatility associated with the agriculture (and related food industry) output, Serbia needs to introduce policy and investment measures to mitigate the negative impact of increasing climate shocks and to promote private sector participation in these measures.

Over the medium term, under the baseline scenario, the Serbian economy is expected to grow at around 4 percent. With limited space for future stimulus packages, structural reforms are needed to accelerate private sector led growth.

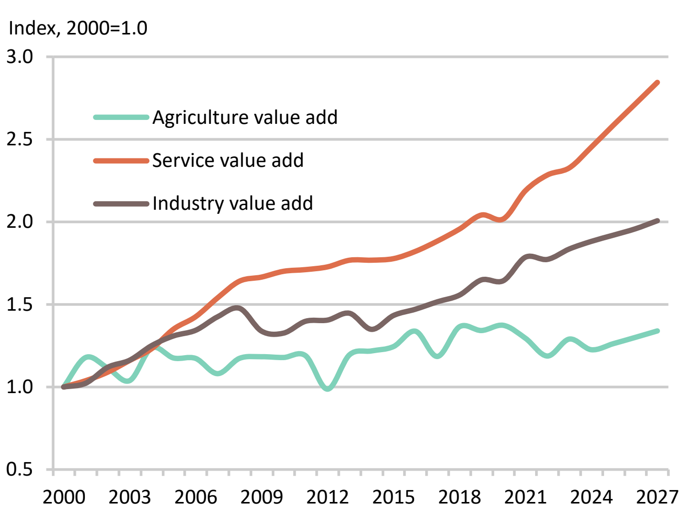
Recent developments

Strong GDP growth in Q1 and Q2 2024 (4.6 and 4 percent, y/y) was driven by a recovery of private sector consumption and investment. On the other hand, net exports made a negative contribution to growth in the first half of the year due to lower-than-expected export growth, as external demand weakened, and imports remained at a high level (in part explained by increased investment). Manufacturing remained resilient to external developments. Its output was 3.6 percent higher over the first seven months (y/y) thanks to the good performance of the food, tobacco, metals, electronics, and automotive sectors.

Labor market indicators improved slightly in the first half of 2024. The unemployment rate reached 8.2 percent in Q2 2024 (a record low since Q2 2020) and the employment rate continued to increase (to reach a record high level of 51.4 percent) even though informal employment declined marginally. Wages increased by 14.7 percent in nominal terms (9.2 percent, in real terms) in H1 2024 compared to the same period of 2023.

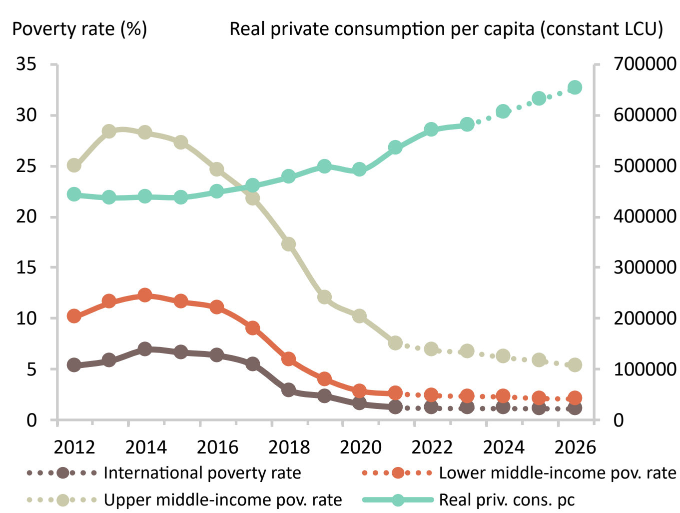
Poverty (based on the upper-middle income line of $6.85/day in 2017 PPP) is estimated to have declined from 7.5 percent in 2021 to 6.9 percent in 2022. In 2023, poverty levels are likely to have stayed the same, as private consumption growth was modest, affected by the high inflation and the phasing out of government support programs, which had fueled the strong post-COVID-19 recovery of 2021.

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.

Inflation continued to gradually decline in the first half of 2024, mainly due to a significant decline in food-related inflation. However, the headline inflation index edged up again in July, due to an increase in food prices, most likely because of the drought. The NBS kept unchanged the key policy rate at 6.5 percent from July 2023 through June 2024 when it was lowered for the first time. Currently, the key policy rate is 6 percent.

Budgetary revenues overperformed significantly in H1 2024 (up 14.1 percent in nominal terms, y/y), primarily thanks to a higher-than-planned collection of contributions for social insurance, VAT, and excises. Over the same period, expenditures increased by 15.2 percent in nominal terms. As a result, the consolidated fiscal surplus was lower than in the same period of 2023, while still reaching 0.4 percent of annual GDP. After a continued decline over 15 months (February 2023-May 2024), public debt increased significantly in June 2024 (by 2.1pp) to reach 52.6 percent of GDP.

The current account deficit is expected to increase to 4.1 percent of GDP in 2024. Over the first half of the year the CAD already more than doubled compared to the same period of 2023. The trade balance keeps widening as well as the primary income deficit. At the same time, net transfers declined marginally, although still reporting a major surplus. Net FDI has continued to perform strongly, remaining broadly unchanged in euro terms (at EUR 2 billion in H1). Foreign currency reserves increased to a record high level of EUR 27.5 billion by June. Overall credit decreased by 1.2 percent (y/y) through June 2024. However, loans to private businesses and households were up by 7.3 percent and 4.8 percent respectively. Gross nonperforming loans declined to 2.9 percent in June 2024.

Outlook

The Serbian economy is expected to grow at around 4 percent over the medium-term, driven primarily by consumption and to some extent by investment. There are both up and downside risks. Downside risks relate to the impact of climate change on agriculture and infrastructure. On a positive side, there could be a more significant impact of exports on growth, including but not limited to the recent private sector investment in the automotive sector. Inflation is expected to decline gradually and to stay within the NBS target band. The fiscal deficit is now projected at a higher level than before since the government decided to de facto suspend fiscal rules until 2029, in the context of large-scale infrastructure public spending plans.

Continued economic growth will keep bringing more Serbians out of poverty. However, the remaining poor are increasingly concentrated among pensioners, the long-term unemployed, or those completely out of the labor force. Thus, targeted social assistance or other direct channels will become essential to continue poverty reduction.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	7.7	2.5	2.5	3.8	4.2	4.0
Private consumption	7.9	4.0	0.8	4.0	4.2	4.0
Government consumption	4.3	0.4	0.1	8.4	4.3	3.1
Gross fixed capital investment	15.7	1.9	3.9	6.1	6.9	5.9
Exports, goods and services	20.5	16.6	2.4	6.2	6.8	5.7
Imports, goods and services	18.3	16.1	-1.1	8.6	7.1	6.0
Real GDP growth, at constant factor prices	7.7	2.2	2.6	3.8	4.2	4.0
Agriculture	-5.5	-8.3	4.8	-3.0	3.4	3.4
Industry	8.9	0.1	-0.8	3.0	4.5	4.5
Services	8.8	4.5	4.1	4.9	4.1	3.8
Inflation (consumer price index)	4.0	11.9	12.1	4.5	3.1	3.0
Current account balance (% of GDP)	-4.3	-6.9	-2.6	-4.1	-4.7	-5.0
Net foreign direct investment inflow (% of GDP)	6.9	7.2	5.5	5.5	5.5	5.5
Fiscal balance (% of GDP)	-4.1	-3.0	-2.2	-2.2	-2.5	-2.3
Revenues (% of GDP)	43.2	43.4	42.6	43.3	43.4	43.2
Debt (% of GDP)	57.1	55.6	52.6	52.0	50.4	48.4
Primary balance (% of GDP)	-2.4	-1.5	-0.4	-0.2	-0.5	-0.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.2	1.2	1.2	1.2	1.2	1.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	2.5	2.4	2.3	2.2	2.1	2.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	7.5	6.9	6.7	6.2	5.8	5.4
GHG emissions growth (mtCO2e)	-3.2	0.8	0.2	2.0	1.7	1.5
Energy related GHG emissions (% of total)	74.2	75.0	74.9	75.2	75.5	75.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 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]	71.3
Total GHG emissions (mtCO2e)	18.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2017 PPPs.
b/ WDI for School enrollment (2017); Life expectancy (2022).

In the first half of 2024, Tajikistan's GDP grew by 8.2 percent due to strong remittance inflows and investments. Growth is projected to exceed 7 percent in 2024 and to slow over the medium term. To sustain robust economic growth, ambitious policy reforms are needed to facilitate the transition to a dynamic private sector-led development model.

Key conditions and challenges

Tajikistan is the poorest country in the ECA region, with a GNI per capita of US$1,440 (Atlas method) and a poverty rate of 10.7 percent (based on the LMIC poverty line) in 2023. The country is struggling to overcome structural bottlenecks, such as poor human capital, insufficient physical infrastructure, and weak institutions, hampering productive job creation and making the economy susceptible to external shocks.

Tajikistan heavily depends on remittances (38 percent of GDP in 2023), particularly from Russia, and has a narrow export base comprised mainly of primary commodities. This lack of diversity makes it vulnerable to external economic shocks, such as fluctuations in the Russian economy, shifts in migration policies, and global commodity market changes.

Two of Tajikistan's most pressing issues are persistent high unemployment rates and weak private sector dynamism. Most of the population has limited access to basic services, such as quality education and healthcare, and clean water. Deterrence in foreign investment and local private sector development is due to an uneven playing field for private enterprises, uncompetitive state-owned enterprise (SOE) practices, and weak governance and rule of law.

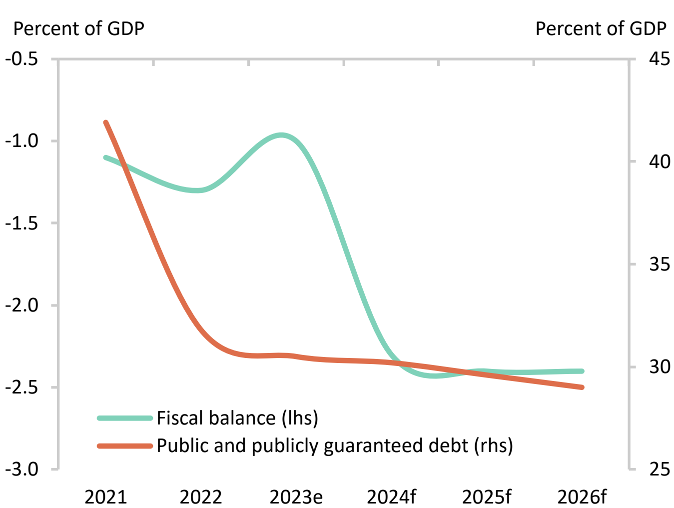
Reform priorities for Tajikistan should focus on opening the economy to fair competition and improving governance in the public sector, including SOEs. Resolving structural issues in the energy system, improving regulation and competition in the telecom and aviation sectors, and removing inefficient tax exemptions are crucial for unlocking the country's economic potential. Strengthening the education, healthcare, and social protection systems is vital for human capital development and equipping the workforce with the necessary skills. Given Tajikistan's high exposure to climate change and natural disaster risks, the country should also expand on measures to build better environmental resilience.

Recent developments

According to official preliminary estimates, Tajikistan's economy grew 8.2 percent year-on-year (yoy) in the first half (H1) of 2024. Growth was driven by strong household consumption and investments, while net exports declined. Increased remittance inflows fueled domestic demand as labor migrants benefited from a tight Russian labor market and robust real wage growth. The economy saw broad-based output expansion across all sectors, with services and agriculture leading the way.

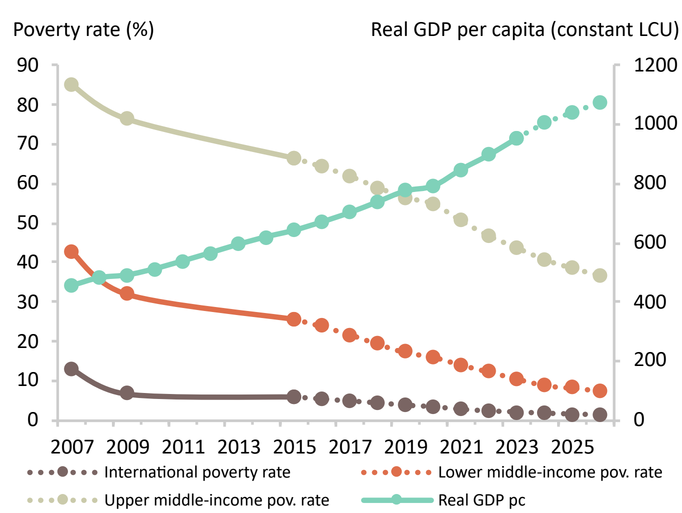
In H1 2024, Tajikistan's current account improved, with a 2.6 percent GDP surplus compared to a 1.9 percent deficit in the same period of 2023. Despite a widening trade deficit, remittance inflows grew by 50 percent yoy to US$3bn, more than offsetting the trade deficit increase. Foreign direct investment (FDI) has remained low

FIGURE 1 Tajikistan / Fiscal balance and public debt



Sources: 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.

at 0.5 percent of GDP due to challenges in the business environment. The central bank accumulated international reserves of US$4.2 billion by June 2024, equivalent to about seven months of imports.

Prudent monetary policy and exchange rate stability reduced headline inflation to 3.5 percent yoy in June 2024. In August, the central bank cut the policy rate to 9 percent (from 10 percent at end-2023), marking a third cut in 2024 as the inflation outlook became more favorable.

The government maintained a conservative fiscal stance, with a budget deficit of 0.7 percent of GDP in H1 2024 (compared to 0.2 percent in H1 2023). Revenue collection declined to 31 percent of GDP in H1 2024 from 33.5 percent the previous year. Despite strong economic growth, tax revenues were adversely affected by a reduction in the VAT rate, from 15 percent to 14 percent. This reduction, coupled with a decrease in grant disbursements following a significant increase last year, resulted in an overall revenue decline. Concurrently, budget expenditures were cut to 31.7 percent of GDP in H1 2024 from 33.7 percent the previous year. The government curtailed spending on goods and services. The budget deficit was primarily financed through external borrowing.

The financial sector's earnings have improved due to strong foreign exchange inflows. Return on Assets (Equity) increased from 3.7 (19.2) percent at end-2023 to 4.7 (25.2) percent. The banking sector has a capital adequacy ratio of 21.4 percent, well above the 12 percent minimum threshold, but it faces risks from poor asset quality. Nonperforming loans accounted for 12.2 percent as of mid-2024.

According to the Listening-to-Tajikistan survey, 3 percent of the population aged 15+ reported to have lost a job or business, and about 2.4 percent reported to be looking for a job during H1 2024. A higher share of households (approximately 25 percent) received remittances during H1 2024 compared to 17 percent in H1 2023.

Outlook

Tajikistan's economy is projected to grow by 7.2 percent in 2024, supported by remittance-induced household consumption and investments. Inflation is projected at 3.5 percent for 2024 and remains below the central bank's inflation target range of 6 percent (+/-2).

Strong remittance inflows and elevated prices for Tajikistan's major export commodities are expected to maintain a surplus in the current account, while FDI inflows are expected to remain subdued due to the weak business environment.

To ensure the stability of public finances, authorities intend to maintain the medium-term fiscal deficit below 2.5 percent of GDP and restrict non-concessional borrowing solely to finance the construction of the Rogun hydro power project (HPP).

External and domestic risks weigh on economic prospects. A potential escalation in Russia's invasion of Ukraine, as well as Russia's stricter migration policies and a new risk of military mobilization, could negatively impact labor outmigration and remittance flows. On the domestic front, slow progress in implementing structural reforms to support private sector-led growth and efficient public services could hamper growth prospects. There is also pressure on public finances due to loss-making SOEs, the upcoming repayment of a US$500 million Eurobond, and the construction of the Rogun HPP. Climate change and natural disasters could further impede economic development and stability.

Poverty, at US$3.65/day, is projected to further decline to 9 percent in 2024.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	9.4	8.0	8.3	7.2	5.5	5.0
Private consumption	4.4	15.1	4.9	14.6	3.2	3.0
Government consumption	4.6	-0.7	13.4	11.0	5.0	5.5
Gross fixed capital investment	12.0	11.9	22.5	13.4	5.1	2.6
Exports, goods and services	55.4	-24.0	24.8	-2.9	2.7	3.2
Imports, goods and services	20.0	4.0	29.3	12.8	5.8	3.1
Real GDP growth, at constant factor prices	9.9	9.0	9.3	7.2	5.5	5.0
Agriculture	-0.3	-4.5	5.0	5.0	4.5	4.5
Industry	13.2	9.1	8.0	7.5	6.6	6.0
Services	12.8	16.9	12.9	7.9	4.7	4.0
Inflation (consumer price index)	9.0	6.6	3.7	3.5	5.2	5.4
Current account balance (% of GDP)	8.2	15.3	4.8	9.8	8.3	6.8
Net foreign direct investment inflow (% of GDP)	0.4	1.5	0.8	1.1	1.3	1.4
Fiscal balance (% of GDP)	-1.1	-1.3	-1.0	-2.3	-2.4	-2.4
Revenues (% of GDP)	26.7	27.2	30.1	28.4	27.8	27.7
Debt (% of GDP)	41.9	31.8	30.5	30.2	29.6	29.0
Primary balance (% of GDP)	-0.3	-0.6	-0.2	-1.6	-1.7	-1.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.8	2.3	2.1	1.7	1.5	1.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	14.2	12.4	10.7	9.0	8.3	7.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	50.6	46.8	43.8	40.8	38.6	36.8
GHG emissions growth (mtCO2e)	0.0	1.9	2.3	2.3	2.0	2.3
Energy related GHG emissions (% of total)	42.4	42.8	43.3	44.1	44.7	45.4

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 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	85.4
GDP, current US$ billion	1119.6
GDP per capita, current US$	13106.3
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]	78.5
Total GHG emissions (mtCO2e)	482.8

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

Macroeconomic normalization is delivering results: disinflation has begun; growth is rebalancing; current account dynamics have improved; FX reserves are rebuilding; financial markets have stabilized; and risk premia have declined. Yet, monetary efforts need to be complemented with appropriate fiscal policies. Economic growth is projected to slow to 3.2 percent in 2024 and 2.6 percent in 2025 as the economy adjusts, calling for social policies that protect the vulnerable and reduce poverty and inequality.

Key conditions and challenges

Türkiye's normalization of macroeconomic policies after the May 2023 elections has started to deliver results. Exchange rate stability supported by capital inflows together with strong monetary policy tightening that brought the policy rate from 8.5 percent in May 2023 to 50 percent in March 2024 helped stabilize domestic markets and increase confidence in TRY assets.

The outlook calls for careful calibration of monetary and fiscal policies to rein in inflation without a hard landing; social policies to protect the vulnerable; and action to tackle structural barriers to faster economic performance, including low productivity growth, low labor force participation and employment, and weakening FDI.

Recent developments

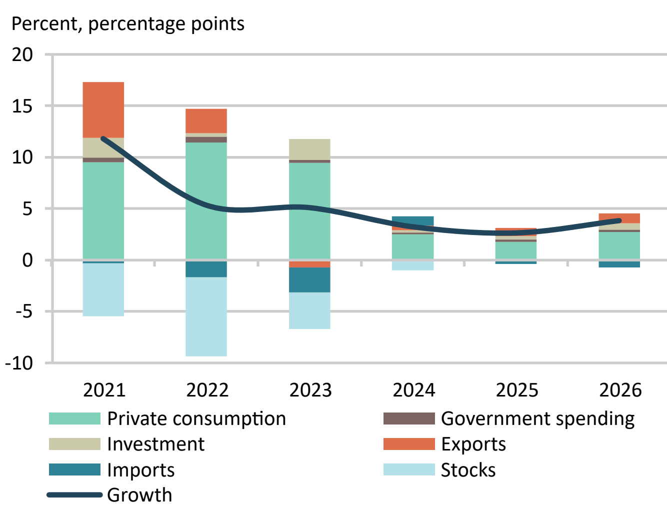
Despite substantial tightening of monetary policy, the economy expanded 5.1 percent in 2023 and 3.8 percent (yoy) in H1 2024. Private consumption continued to be the main driver of growth, and the contribution of net exports turned positive in Q1 for the first time since Q3 2022. However, growth momentum has slowed in both production and demand. The PMI, which had increased to above the 50-threshold indicating expansion in Q1, fell to 47.8 by August 2024. Automobile sales declined by approximately 16 percent (yoy) in July.

The labor market continues to be strong. The seasonally adjusted unemployment rate fell to 8.5 percent in May, before rising to 8.8 percent in July. Labor force participation rates increased, reaching 73 percent for men and 37 percent for women—the highest level for women since January 2005. The gross wages and salaries index was 115.4 percent (44 percent in real terms) higher in Q2 2024 than in 2023, due in part to large minimum wage increases in July 2023 and January 2024.

The current account deficit, down to USD 45.0 billion in 2023, continues to improve, with the 12-month cumulative deficit narrowing to USD 19.1 billion by July 2024. Risk premia continue to fall with the CDS premia at approximately 250 in mid-July compared to 500 in July 2023 and nearly 900 in July 2022. The Government's commitment to the economic program generated a surge in portfolio inflows, and the resulting real appreciation of the TRY incentivized firms and households to switch from FX to TRY assets. This helped the CBRT to significantly improve its reserves. By end-May, net reserves, excluding swaps, turned positive for the first time since early-2020. By mid-September, net reserves had reached USD 48.8 billion (USD 26.5 billion, excluding swaps). However, real TRY appreciation is negatively affecting exports in recent months, especially lower-value products, while imports of final consumption goods remain strong.

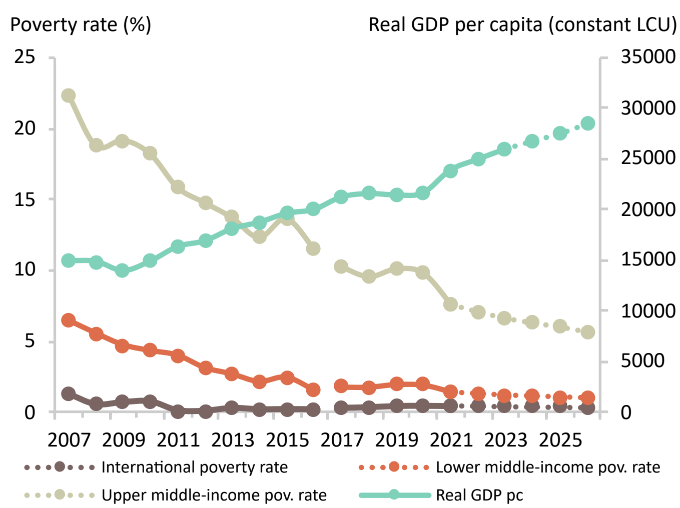
Inflation peaked at 75.5 percent in May before easing to 52.0 percent in August,

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.

thanks to monetary policy tightening, exchange rate dynamics, and base effects. Inflation is particularly high in some of the categories making up a larger consumption share of poor households. For example, rental inflation reached over 120 percent in August. Expectations for inflation continue to improve; in September, market participants' expectations for the next 12 months stood at 27.5 percent.

Monetary policy normalization and gradual unwinding of macroprudential regulations have helped improve bank profitability and capital adequacy. Banks have eased commercial lending, but high policy rates that have driven up deposit and credit interest rates are constraining loan growth. The banking sector's net FX position has improved, and the risk premium for external borrowing has declined, although external debt costs have increased due to global conditions. Regulatory forbearance is being phased out, which may impact the capital ratio of some banks; however, capital buffers remain high. Tighter credit conditions have begun to take a toll on household credit and MSMEs, with increasing credit card defaults and a gradual rise in insolvency and concordat filings, although levels remain moderate.

The annualized budget deficit eased to 4.7 percent of GDP in Q2 2024, after reaching 5.2 percent of GDP in 2023. The Government has issued a new tax package to generate further revenue for the budget, including regulations to combat the informal economy. Meanwhile, general public debt to GDP remains manageable, at 28.5 percent as of Q1 2024.

Outlook

Economic growth is projected to slow in the short term, to 3.2 percent in 2024 and 2.6 percent in 2025, on the back of tighter policy and subdued global growth, before picking up at 3.8 percent in 2026. Disinflation started in June and is forecast to continue gradually, given the tight monetary policy. The current account balance is forecast to improve further in H2 2024 and remain low in 2025, due to the rebalance in growth composition, which will rely less on domestic consumption and have greater contribution from investment and net exports. General government deficit is forecast to remain high in 2024, given the economic slowdown and earthquake recovery needs, and despite fiscal consolidation efforts.

Poverty is projected to decline more slowly in the short term, to 6.3 percent in 2024, despite the economic slowdown. Strong labor market performance and minimum wage hikes exceeding CPI increases are the main drivers of continued poverty reduction. However, minimum wage hikes are less likely to reach informal workers or those out of the labor force, such as the elderly or parents with no access to childcare. Moreover, relying on the minimum wage to protect the poor has other economic consequences, notably the fueling of inflation. Well-implemented and flexible social protection programs can mitigate the economic slowdown's impact on poverty. Revamping the social protection system to improve targeting and coverage is warranted: in 2021, the share of public transfers to the bottom three deciles was lower than to the top three deciles.

Risks to the outlook continue downside. Inadequate growth rebalancing would challenge macroeconomic stabilization. Domestic private consumption is still robust, and there is a risk that the domestic adjustment will create external imbalances whereby recent real TRY appreciation could further hamper exports and boost non-oil imports. Mounting geopolitical tensions would also hinder exports. The lack of significant fiscal consolidation, primarily on the expenditure side, could slow the disinflation process.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	11.4	5.5	5.1	3.2	2.6	3.8
Private consumption	15.4	18.9	13.6	3.3	2.3	3.6
Government consumption	3.0	4.2	2.4	1.6	1.8	1.9
Gross fixed capital investment	7.2	1.3	8.4	0.8	1.5	2.6
Exports, goods and services	25.1	9.9	-2.8	1.9	3.4	4.1
Imports, goods and services	1.7	8.6	11.8	-4.1	1.9	3.5
Real GDP growth, at constant factor prices	12.7	6.2	4.2	3.2	2.6	3.8
Agriculture	-3.0	1.3	0.2	0.6	1.2	1.5
Industry	13.0	-0.6	2.7	2.4	3.1	3.9
Services	13.2	10.1	5.8	2.7	2.6	4.0
Inflation (consumer price index)	19.6	72.3	53.9	57.9	29.2	15.9
Current account balance (% of GDP)	-0.8	-5.0	-4.0	-1.7	-2.1	-2.4
Net foreign direct investment inflow (% of GDP)	0.8	1.0	0.4	0.9	1.1	1.4
Fiscal balance (% of GDP)	-2.6	-0.8	-6.2	-5.0	-3.4	-3.2
Revenues (% of GDP)	30.9	27.8	29.0	32.4	33.8	34.0
Debt (% of GDP)	41.5	30.3	28.4	28.5	29.6	30.8
Primary balance (% of GDP)	0.0	1.4	-3.7	-1.3	0.3	0.6
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	1.1	1.1	1.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	7.6	7.1	6.6	6.3	6.0	5.7
GHG emissions growth (mtCO2e)	7.9	-5.2	-0.8	3.0	3.4	4.3
Energy related GHG emissions (% of total)	78.8	77.1	75.9	75.3	74.7	74.2

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-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 US$ billion	178.8
International poverty rate ($2.15)[a]	0.0
Lower middle-income poverty rate ($3.65)[a]	0.2
Upper middle-income poverty rate ($6.85)[a]	7.1
Gini index[a]	25.6
School enrollment, primary (% gross)[b]	92.8
Life expectancy at birth, years[b]	68.6
Total GHG emissions (mtCO2e)	156.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ 2020 value, 2017 PPPs.
b/ Most recent WDI value (2022).

Ukraine's situation remains challenging, even though the economy continues to prove resilient and has narrowed the output gap. Reforms and close coordination with international partners have mitigated some of the adverse impacts on growth potential and helped meet fiscal needs, but war-related risks and uncertainty about continued external assistance remain significant. While social assistance has helped mitigate some poverty impacts, the extended duration of the war is increasing the toll on households.

Key conditions and challenges

Two and half years after Russia's invasion, Ukraine's economy remains shaped by active hostilities, which impact production factors and critical inputs. Concurrently, the policy framework has shifted from an exclusive focus on stability towards an attempt to close the output gap and enhance growth potential while balancing macro accounts.

Since February 2022, aid inflows have helped Ukraine manage imbalances and provide social support, while a restrictive monetary policy contributed to exchange rate stability and the mitigation of inflationary pressure. More recently, growth has picked up, as the private sector activity benefited from an exceptional harvest, targeted investments to re-open maritime export routes, and the restoration of energy capacity. Increased exchange rate flexibility has also helped competitiveness. These factors, combined with continued high government consumption, resulted in higher-than-expected growth in 2023 that has proven resilient to renewed attacks. They have, however, also augmented price pressure from steep increases in electricity tariffs to result in increased inflation.

The economy's potential is expected to start benefiting from structural reforms. The opening of accession negotiations with the European Union (EU) in June 2024, combined with the implementation of the Ukraine Plan under the EU's financing facility, has provided an important anchor for EU alignment. The IMF's Extended Fund Facility program remains on-track and acts as a stability anchor and catalyzer for budgetary assistance. The authorities' "reform matrix" provides a transparent tool to monitor reform implementation.

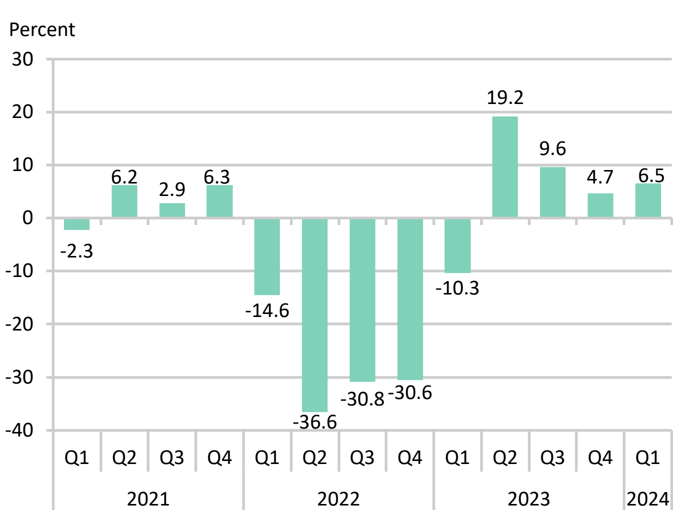
Looking ahead, an extended war that is now expected to last well into 2025 could exacerbate existing challenges: balancing growing military expenditure and decreasing external assistance flows with an increase in domestic revenue mobilization and maintaining the economy's growth momentum, boosting external competitiveness, and controlling inflation. Addressing these challenges requires well-targeted policies, including efficiency-enhancing tax policy reforms and the effective use of foreign exchange reserves to aid reconstruction and recovery.

Recent developments

GDP growth has proven resilient, reaching 6.5 percent in Q1-2024. High frequency indicators point to continued resilience from Q2 onwards, supported by a further recovery in sectors oriented towards domestic demand and strong exports. However, confidence and industrial output is hampered by attacks on Ukraine's electricity infrastructure.

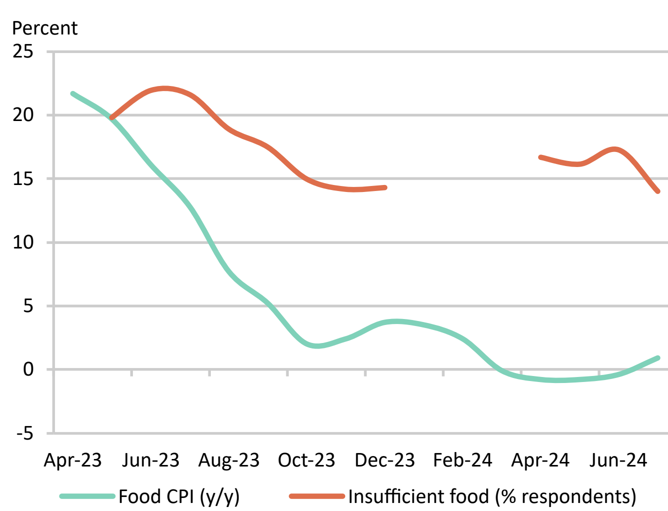
After dropping to a low of 3.2 percent in April, inflation has started to increase and stood at 5.4 percent in July. This was driven by supply-side factors, especially increases in energy tariffs, and augmented

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



Source: Ukraine Statistics Office.

FIGURE 2 Ukraine / Food inflation and food insecurity



Source: State Statistics Service of Ukraine.

by a loser monetary policy and gradual exchange rate devaluation on the demand side. Strong agricultural output kept food inflation in check. Banks continue to be profitable and stable.

The current account deficit increased from US$2.7bn in the period from January to July 2023 to US$10.8bn in the same period in 2024 because of declining grant receipts, whereas a US$1.5 bn trade deficit reduction resulting from increased maritime exports and diminished imports due to land border blockades, provided relief. Reserves stood at USD 37.2 billion on August 1.

Following the approval of external assistance from Ukraine's international partners, the fiscal gap for 2024 has been closed since March. While higher defense expenditures require a budget amendment that is under preparation, the associated fiscal needs are expected to be met from domestic sources. A restructuring of external commercial debt has been completed and will generate fiscal savings of US$11 billion over the next three years.

Poverty (measured by national standards) was estimated to have increased by 1.8 million in 2023 due to reduced employment and incomes. Despite labor market slowdowns, social assistance programs mitigated poverty, as 20 percent of households received conflict-related support. The situation remains challenging: in Q3 2024, only 40 percent of adults were employed, and over half of households reported worse financial well-being compared to February 2023.

Outlook

Ukraine's economic outlook is conditional on the timing and quantity of external assistance receipts and the duration of Russia's invasion. For 2024, growth is projected at 3.2 percent, which balances tailwinds resulting from positive trade, harvest, and industrial output indicators with the adverse impacts of lower energy capacity—and associated power outages—especially during the winter months and the impact of continued attacks.Under an indicative scenario which assumes that active hostilities will continue throughout 2025, growth is expected to decelerate to 2 percent in 2025 as the output gap is closed and input constraints start to bind. Starting from 2026, Ukraine's economic growth will accelerate to 7 percent under the baseline assumption as consumption and reconstruction investment support the demand side. Inflation is expected to pick up in 2024 and remain in the high single digits throughout 2025 on the back of looser monetary policy. Improved GDP and private consumption growth in 2025 may point to more economic stability for households.

The current account deficit is projected at 6.1 percent of GDP in 2024 and expected to widen in 2025 due to higher imports and a reduction in grants. After the war the trade deficit is expected to remain elevated due to reconstruction needs. The fiscal deficit (excluding grants) is expected to remain high until end-2025 at above 20 percent of GDP before declining to around 11.4 percent in 2026.

This scenario is subject to exceptionally high downside risks due to the vulnerability of Ukraine's economic trajectory to external financing shortfalls and the possible prolongation of the active hostilities beyond 2025. Should downside risks materialize, a more stringent macroeconomic adjustment could become necessary, with tradeoffs on household welfare whose loses had so far been mitigated by fiscal measures.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	3.4	-28.8	5.3	3.2	2.0	7.0
Private consumption	6.9	-27.9	6.2	2.7	4.3	6.5
Government consumption	0.8	31.4	9.0	3.0	0.5	-4.3
Gross fixed capital investment	9.1	-33.9	52.9	15.0	11.7	26.7
Exports, goods and services	-8.6	-42.0	-5.4	7.2	4.9	8.6
Imports, goods and services	14.2	-17.4	8.5	9.1	9.8	11.3
Real GDP growth, at constant factor prices	3.5	-28.8	5.3	3.2	2.0	7.0
Agriculture	14.4	-25.2	7.6	-6.0	-3.0	5.0
Industry	7.2	-42.7	4.7	5.0	3.5	10.0
Services	0.5	-24.7	5.0	4.4	2.5	6.5
Inflation (consumer price index)	9.4	20.2	12.9	5.8	8.6	7.5
Current account balance (% of GDP)	-1.9	5.1	-5.4	-6.1	-6.9	-7.9
Net foreign direct investment inflow (% of GDP)	3.8	0.1	2.6	1.9	2.0	4.0
Fiscal balance (% of GDP)[a]	-4.0	-15.6	-19.6	-22.0	-20.2	-11.4
Revenues (% of GDP)	36.5	49.8	54.8	43.0	41.5	39.4
Debt (% of GDP)	49.0	77.8	84.4	90.1	94.1	89.1
Primary balance (% of GDP)[a]	-1.2	-12.5	-15.7	-17.6	-16.4	-8.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	..	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	..	0.5	0.2	0.2	0.1	0.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	..	10.5	8.3	8.4	6.7	5.6
GHG emissions growth (mtCO2e)	-0.4	-28.4	-1.8	-3.7	-1.1	0.4
Energy related GHG emissions (% of total)	72.7	66.5	68.2	68.8	69.0	68.0

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 Balance and Primary Balance are excluding grants in 2022-2026.
b/ Calculations based on ECAPOV harmonization, using 2020-HLCS.
c/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on private consumption per capita in constant LCU. Actual data: 2020. Nowcast: 2021-2023. Forecasts are from 2024 to 2026.

UZBEKISTAN

Table 1	2023
Population, million	36.4
GDP, current US$ billion	101.6
GDP per capita, current US$	2788.9
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]	94.3
Life expectancy at birth, years[b]	71.7
Total GHG emissions (mtCO2e)	201.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ WDI for School enrollment (2023); Life expectancy (2022).

The economy is projected to grow by 6 percent in 2024. Fiscal consolidation is expected to continue in the medium term, based on adjusting energy prices to cost-recovery levels and reductions in tax benefits. The medium-term outlook remains positive since ongoing ambitious reforms are expected to stimulate private sector-led growth and job creation.

Key conditions and challenges

Uzbekistan implemented bold reforms in recent years, liberalizing its economy and improving prospects for private sector development. Uzbekistan's reform program, together with significant fiscal support, placed it on a relatively high growth path, with an average real GDP growth per capita of 3.4 percent over the last five years—above average for lower middle-income countries. Nevertheless, job creation has lagged with just 1.1 percent average growth over the last five years. But it needs to accelerate as population growth averaged 2 percent over the last five years and with a projected yearly net increase of 250,000 in the working-age population. To achieve sustainable, job-rich economic growth Uzbekistan needs to continue its reforms program to reduce state-owned enterprise dominance in the economy, liberalize key economic sectors (e.g., telecoms and raw materials), and minimize the trade barriers caused by regulatory inefficiency and gaps in public infrastructure. Faster job creation and productivity growth also will require increased labor force skills.

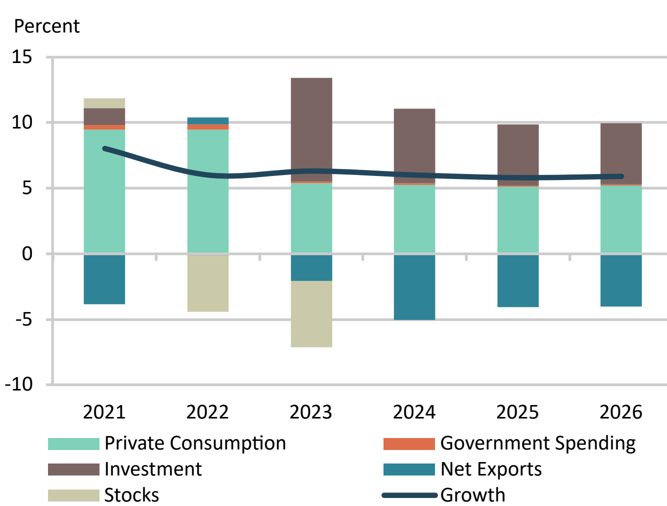
Recent developments

Real GDP grew by 6.4 percent year-on-year (y-o-y) in the first half (H1) of 2024 compared to 6.2 percent in H1 2023, led by investment and private consumption. Real consumption growth accelerated to 6.8 percent in H1, led by wage and remittances growth, while real investment increased by 36.6 percent, with FDI accounting for 29 percent of this investment. Investment growth was driven by spending on machinery, equipment, inventory, and construction, including solar and wind power plants, chemical and metallurgical complexes, rail investments, and construction of Asian Games facilities. Exports (in nominal U.S. dollar value) increased moderately in H1 2024, by 5.5 percent compared to 24.7 percent a year earlier led by services, food, and chemicals exports, while exports of gold, textiles, and machinery decreased moderately. Imports expanded by 11 percent in H1 2024, led by rising natural gas imports, machinery and equipment, and intermediate industrial goods. Overall, in H1 2024, Uzbekistan registered a current account surplus of 1 percent of GDP, as remittance inflows surged to 14 percent of GDP, compared to 13 percent of GDP in 2023, offsetting the H1 trade deficit of 13 percent of GDP.

Between January and August 2024, the sum depreciated by 1.8 percent against the U.S. dollar due to the flow-on impact of ruble depreciation. By August 31, 2024, international reserves reached US$39.2bn, rising by US$6.5bn from August 2023 and representing 9 months of import cover.

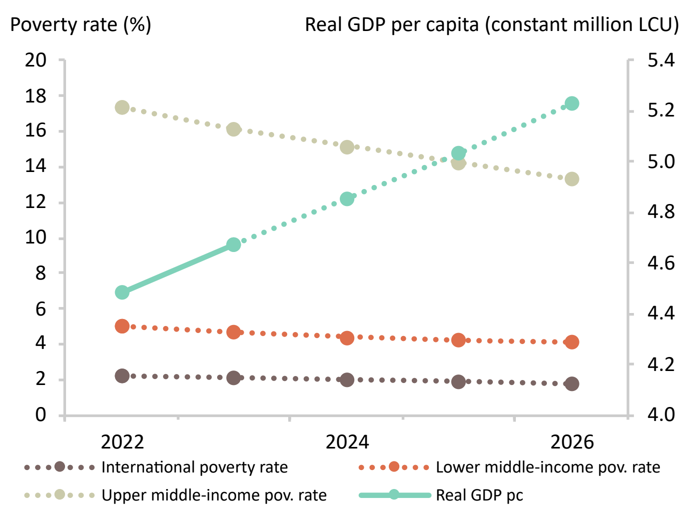
In H1 2024, as a share of GDP, budget revenue was 30 percent, while expenditure was 35.9 percent resulting in a budget deficit of 5.9 percent—higher than 5.7 percent in H1 2023.

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.

Headline inflation peaked in June 2024 at 10.6 percent, largely due to energy tariff increases, but has since slowed to 10.5 percent in July and August, with food inflation decelerating to a record low of 2.9 percent in July, prompting the central bank to cut interest rates by 50bps to 13.5 percent in July. Compensation measures (including a cash transfer of US$21 equivalent to low-income households) are expected to mitigate the negative impacts of tariff increases on the poor.

Real credit growth, y-o-y, was 18 percent in July 2024, down from 26 percent in July 2023, as the central bank's new regulations tightened bank underwriting standards in higher-risk segments (e.g., car loans; subsidized lending to family businesses). The banking sector remains adequately capitalized, with a capital ratio of 17.1 percent in July 2024, higher than 16.4 percent a year earlier, and above the required 13 percent. Non-Performing Loans increased to 4.1 percent in July 2024 from 3.6 percent in July 2023.

Average real wage growth of 7.2 percent in 2023 contributed to a reduction in poverty from 17.3 percent in 2022 to 16.9 percent in 2023 (applying the UMIC poverty line of US$6.85/day). However, poverty reduction was less than it could have been because income growth has been skewed in favor of the wealthier segments of the population, especially in urban areas, resulting in an increase in income inequality in 2023.

Outlook

Growth is projected at 6.0 percent in 2024, moderating slightly to 5.8 percent in 2025. Consumption growth in 2024 is expected to remain strong as average real wages increase and remittance inflows remain high. Import growth should accelerate in 2024 and continue buoyancy in the medium term to support Uzbekistan's economic modernization. Supported by high remittances, the current account deficit is projected to narrow in 2024 compared to 2023.

The overall fiscal deficit is expected to reduce to 3.7 percent of GDP in 2024 due to higher-than-expected nominal GDP in 2024 and fiscal consolidation measures, notably reduced energy subsidies and on lending to SOEs, and higher revenue collection. Fiscal consolidation is expected to continue in the medium term, with the budget deficit decreasing to 3.0 percent of GDP by 2025, as the government reduced tax expenditures and anticipated privatization proceeds support revenues.

Headline inflation is expected to decline to 9 percent in 2025 and gradually approach the inflation target of 5 percent in 2027.

The government is expected to adhere to its debt limits, with public debt decreasing to 35.9 percent of GDP in 2024 and 34.6 percent of GDP in 2025. Higher remittances and real growth in private consumption will lead to further poverty reduction, with the UMIC poverty rate projected to decrease to 15.2 percent in 2024.

Downside risks to this outlook include a deterioration in Russia's economic performance, higher external inflationary pressures, and tighter-than-expected global financial conditions. Upside risks include higher global gold and copper prices, and stronger productivity growth and FDI due to ongoing structural reforms.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	8.0	6.0	6.3	6.0	5.8	5.9
Private consumption	11.9	11.5	6.2	6.1	5.9	6.0
Government consumption	3.1	3.5	1.4	0.9	1.0	1.0
Gross fixed capital investment	3.1	-0.3	21.5	13.5	10.4	9.9
Exports, goods and services	13.4	24.6	7.7	5.5	9.4	11.7
Imports, goods and services	23.4	13.5	11.5	18.2	16.1	16.0
Real GDP growth, at constant factor prices	8.0	6.0	6.3	6.0	5.8	5.9
Agriculture	4.0	3.6	4.1	4.0	3.9	4.0
Industry	8.1	5.6	6.2	6.5	6.5	6.6
Services	10.3	7.5	7.5	6.7	6.3	6.4
Inflation (consumer price index)	10.8	11.4	10.0	10.9	9.1	7.8
Current account balance (% of GDP)	-7.0	-3.5	-7.7	-4.6	-6.3	-6.2
Net foreign direct investment inflow (% of GDP)	3.3	3.2	2.4	3.2	3.5	4.0
Fiscal balance (% of GDP)	-6.0	-4.0	-5.5	-3.7	-3.0	-3.0
Revenues (% of GDP)	25.9	30.8	29.2	29.2	29.2	29.7
Debt (% of GDP)	34.8	32.5	35.3	35.9	34.6	34.2
Primary balance (% of GDP)	-5.6	-3.6	-4.7	-2.6	-1.8	-1.8
International poverty rate ($2.15 in 2017 PPP)[a,b]	..	2.3	2.1	2.0	1.9	1.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	..	5.0	4.7	4.4	4.2	4.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	..	17.3	16.1	15.2	14.2	13.3
GHG emissions growth (mtCO2e)	6.3	3.2	3.6	3.7	3.7	3.8
Energy related GHG emissions (% of total)	61.9	62.1	62.4	62.7	62.9	63.2

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 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

10/
2024

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