Europe and Central Asia

Macro Poverty Outlook

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

Annual Meetings 2020

WORLD BANK GROUP
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ALBANIA

Table 1	2019
Population, million	2.9
GDP, current US$ billion	15.3
GDP per capita, current US$	5324.6
School enrollment, primary (% gross)[a]	107.0
Life expectancy at birth, years[a]	78.5

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

Albania's economy was hit hard, first by an earthquake in November 2019 and then the COVID-19 pandemic. Employment and GDP are expected to fall significantly, while external and fiscal balances deteriorate. Authorities reacted to counter the crisis, providing credit guarantee lines and increasing social transfers. Nevertheless, poverty is expected to increase in 2020. The extent of the crisis will become apparent in 2021 as EU economies recover and the pandemic subsides. Some relief will arrive as reconstruction from the earthquake resumes.

Key conditions and challenges

Albania's economic performance in recent years benefited from reform progress and some large investments in renewable energy. However, despite robust average GDP growth of 3.4 percent in 2015-2018, the economy remains highly vulnerable to foreign demand shocks and natural hazards, such as the 2019 earthquake. With SMEs representing more than 90 percent of private firms, the business environment is fragile, with limited access to finance, poor market integration and low product sophistication. Limited fiscal space resulting from weak revenue generation and high government debt, has prevented the country from narrowing infrastructure gaps and investing in human capital.

Despite the COVID-19 impact, the banking sector remains liquid and well-capitalized, supported by the borrower relief and prudential measures taken by the Central Bank. However, the uncertain economic recovery and increasing number of distressed borrowers highlight potential spillover risks to the banking sector.

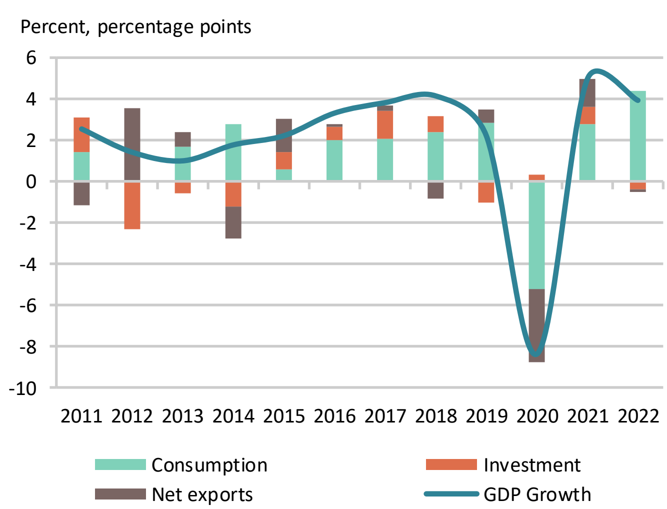
Recession in the EU (Albania's main trading partner and FDI and remittances source), supply chain disruptions, travel limitations and social distancing measures, are taking a heavy toll on key economic sectors, including tourism and manufacturing.

As of September, GDP is projected to fall by 8.4 percent in 2020, but the course and duration of the pandemic and its impacts remain uncertain. The crisis is increasing poverty through increased unemployment. A persisting pandemic and a delayed vaccine could require a longer period of social distancing and prevent a recovery of services and manufacturing, pushing more businesses into bankruptcy and delaying the recovery in employment. As macroeconomic policy is geared towards the protection of firms and the vulnerable, it needs to be balanced against affordability, even in the short run. The normalization of the global economy will have a significant impact on the shape of the recovery.

Recent developments

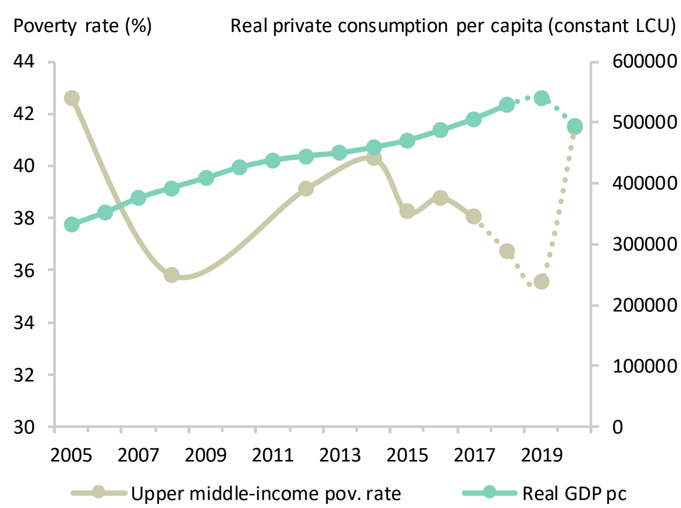
Growth slowed to 2.2 percent in 2019 as a drought slashed hydropower production and a devastating earthquake hit Albania in November 2019. As the country started the reconstruction phase, the COVID-19 pandemic forced it to lock down key economic sectors. Business closures, scaled back operations and disruptions in supply chains hurt manufacturing. The tourism season—a key growth driver—has been dismal. Consumption and investment decisions have been delayed. As a result, Albania's GDP is expected to contract by 8.4 percent in 2020. The slowdown in labor-intensive sectors has increased unemployment to 11.9 percent in Q2 of 2020, up from 11.5 percent in Q2 of 2019. Albanian authorities introduced wage subsidies, increased social spending, enacted a

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



Sources: INSTAT and World Bank.

FIGURE 2 Albania / Poverty rate and GDP per capita, percent



Source: World Bank. Notes: see Table 2.

temporary moratorium on loan installments, and offered credit guarantees to ease salary payments and working capital. Still, many informal workers and entrepreneurs face severe economic stress. Despite these measures, poverty (the percentage of the population living with less than US$5.5 per person per day in 2011 PPP) is expected to increase by around 5 percentage points.

The current account deficit is expected to rise to about 11.9 percent of GDP in 2020. Reduced tourist inflows, declining textile processing orders and lower oil prices are expected to drive a decline of exports by 37 percent.

Albania's fiscal position is expected to deteriorate in 2020 as the overall deficit surges to a projected 8.5 percent of GDP in 2020. The decline in economic activity is expected to reduce the tax revenue-to-GDP ratio from 25.7 percent in 2019 to 24.1 percent in 2020. The higher fiscal deficit will cause Albania's public debt to increase to an expected 81.4 percent of GDP in 2020.

Outlook

Assuming containment of the pandemic by end-2020, GDP is forecast to recover by 5 percent in 2021 as exports, consumption and investment partially rebound. Further reconstruction from the earthquake should also boost growth, in line with experience from similar disasters in developing economies. Under this baseline recovery scenario, the economy would still be 10.7 percent smaller than under the World Bank's pre-COVID-19 projection for 2021. In the years following, private consumption will play an increasingly important role in growth. Private and public investment will also contribute to growth to the extent that the government continues to implement reforms to improve the business environment and invests in infrastructure. At the sectoral level, services, led by tourism, and construction are expected to be key growth drivers.

The current account deficit is expected to reduce to 11 percent of GDP in 2021 and further decline to 8 percent in line with the pre-crisis trends, driven by projected improvements in the trade balance. Service exports, including tourism and fast-expanding business-process operations should narrow the trade deficit over the medium term. Import growth will be high at 12.8 percent in 2021, as infrastructure investment speeds up. FDI inflows including in tourism, energy, and manufacturing are projected to finance most of the current-account deficit over the projection period.

With economic activity picking up, revenues are projected to recover to 27.6 percent of GDP by 2022-2025. Albania's public debt is projected to gradually decline over the medium term, in line with the authorities' commitment to strengthening fiscal sustainability. The employment outlook is largely dependent on the recovery of the services sectors and the amounts invested in reconstruction.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	3.8	4.3	2.2	-8.4	5.0	3.9
Private Consumption	2.3	3.5	3.3	-8.0	4.7	5.2
Government Consumption	2.9	-1.1	3.8	7.1	-5.3	5.1
Gross Fixed Capital Investment	5.5	2.9	-4.1	1.6	3.1	-1.5
Exports, Goods and Services	13.0	2.9	6.1	-37.0	28.0	5.8
Imports, Goods and Services	8.1	3.8	2.7	-19.0	12.4	4.0
Real GDP growth, at constant factor prices	3.9	4.6	1.9	-8.3	5.0	3.9
Agriculture	0.8	0.9	1.1	1.2	1.7	1.5
Industry	1.9	9.1	-0.4	0.0	6.9	5.0
Services	6.1	3.9	3.2	-15.6	5.4	4.4
Inflation (Consumer Price Index)	2.0	2.1	1.4	2.0	2.5	2.8
Current Account Balance (% of GDP)	-7.5	-6.7	-7.6	-11.9	-10.1	-8.7
Net Foreign Direct Investment (% of GDP)	8.6	8.0	7.6	5.9	6.2	6.8
Fiscal Balance (% of GDP)	-2.0	-1.8	-1.9	-8.5	-5.6	-3.4
Debt (% of GDP)	71.9	69.6	68.0	81.3	81.3	79.3
Primary Balance (% of GDP)	0.0	0.4	0.2	-5.9	-2.8	-0.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a]		36.7	35.6	41.5		

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. Data adjusted with original 2011PPP factor. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.

ARMENIA

Table 1	2019
Population, million	2.9
GDP, current US$ billion	13.7
GDP per capita, current US$	4655.3
International poverty rate ($1.9)[a]	1.4
Lower middle-income poverty rate ($3.2)[a]	9.4
Upper middle-income poverty rate ($5.5)[a]	42.5
Gini index[a]	34.4
School enrollment, primary (% gross)[b]	92.7
Life expectancy at birth, years[b]	74.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), calculated by the revised 2011PPP conversion factor.
(b) Most recent WDI value (2018).

Armenia has been hit hard by the COVID-19 pandemic. The country has among the highest infection rates in ECA, its economy is projected to contract by 6.3 percent and the poverty rate (at the upper-middle income poverty line) is projected to increase by 4.8 percentage points in 2020. Recovery will be slow, with output not expected to recover to pre-COVID levels until at least 2022, and subject to severe downside risks, particularly from a further pick-up in COVID-19 infections.

Recent developments

Armenia has been hit hard by the COVID-19 pandemic. The country registered the first infection on March 1, with the disease spreading rapidly thereafter, prompting tightening restrictions and eventually a full lockdown in April. Restrictions began to be eased in May, even as the infection rate remained elevated, which coincided with a subsequent surge in infections. Infection and fatality rates have declined since July, as implementation of control measures was tightened; however, these rates remain among the highest in the ECA region.

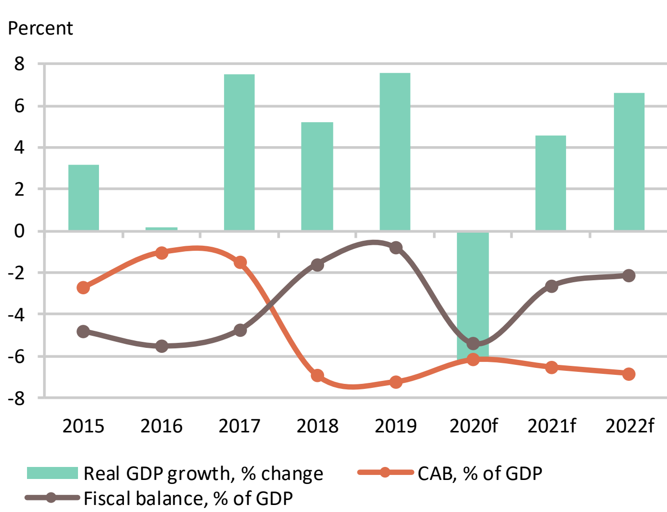
The economic impact of the pandemic has been severe. Following a strong start in the first two months of 2020 when the economy grew by 9.2 percent yoy, growth turned negative in March as businesses were forced to close and remittances and tourist arrivals dried up. A gradual recovery started in May; however, the spike in infections dented the revival. By mid-year, the economy had contracted by 5.7 percent yoy, driven by a sharp contraction of private consumption (8.9 percent yoy) and investment (30.7 percent yoy), only partially offset by higher government spending and import compression. On the supply side, construction and services were most affected, with financial and ICT sectors remaining more resilient due to their greater reliance on digital technologies. Agricultural output grew by 1.8 percent yoy in the first half of 2020 and a low base in 2019 pushed growth in mining to 21.7 percent yoy.

Inflation remains subdued, averaging 0.8 percent in the year to August, reflecting deflation in food and world oil prices and lower aggregate demand. In response, the Board of the Central Bank of Armenia (CBA) cut the policy rate four times in 2020, by a cumulative 125 basis point to 4.25 percent, its lowest level since 2006.

The government launched several economic and social measures to mitigate the pandemic at an estimated cost of around 2.3 percent of GDP and pushing current spending in the first seven months of 2020 up by 19 percent yoy. Capital spending increased by 62 percent, but from a low base in 2019 and it remains below budgeted levels reflecting persistent challenges in public investment management. Revenues fell by 6 percent yoy resulting in a deficit of around 1.7 percent of projected annual GDP in the year-to-July. Stepped up domestic and external borrowing financed the deficit and pushed public debt to approximately 60 percent of GDP, with the government invoking an escape clause in the fiscal rule allowing to increase debt during crises.

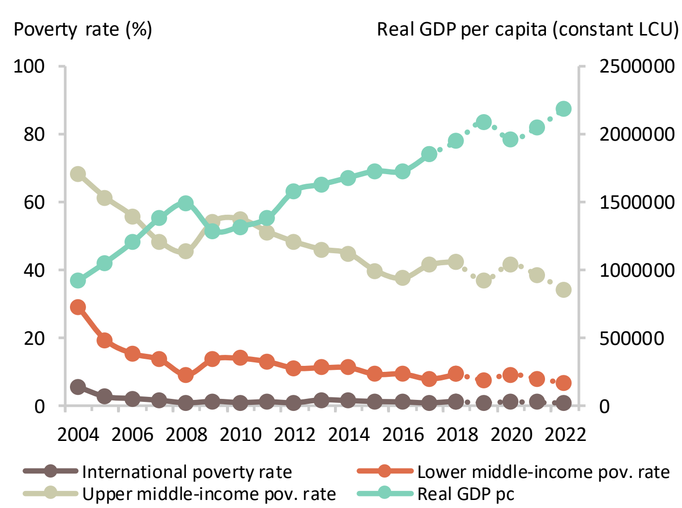
The current account deficit is estimated to have narrowed but remains elevated. The goods trade deficit improved by 21 percent yoy in the year to July, as imports contracted by 13.7 percent yoy offsetting the 6.4 percent yoy decline in exports. The smaller trade deficit offset the decline in the services and income accounts, as tourism arrivals were suspended and money transfers from abroad declined (15 percent yoy). Despite slowing FDI inflows, support from IFIs financed the deficit and kept reserves at about five months of imports as of July 2020.

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



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

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



Source: World Bank. Notes: see table 2.

After depreciating by 5.5 percent in March, following the initial COVID-19 related shock, the Armenian dram recovered in April and has remained largely stable since. The financial sector entered the pandemic with strong capital and liquidity levels. As a result, banks were able to offer moratoria on debt servicing to borrowers while continuing to extend credit. Credit expanded by 17 percent yoy as of end-July. Deposits growth, at 11 percent yoy, also remained healthy. While declining, 50 percent of the loan portfolio and 53 percent of deposits remain in foreign currency.

Outlook

In the baseline scenario, the economy is projected to contract by 6.3 percent in 2020, before rebounding by 4.6 percent in 2021. Output is projected to recover to pre -COVID levels only in 2022. This assumes that Armenia will continue to experience community transmission until mid-2021, but COVID-19 infections will remain largely stable and no further lockdowns are expected. This, in turn, implies that economic activity is not expected to fall to levels observed in the second quarter of 2020, but the recovery will be muted until mid-2021. Post mid-2021, if access to a vaccine is in place and global trade and investment flows get restored, economic activity will normalize for the rest of the year and going into 2022.

The economic contraction in 2020 is expected to cause a sharp increase in unemployment. The upper-middle income poverty rate could increase by 4.8 percentage points.

Inflation will remain muted and converge to CBA's 4 percent target gradually. After narrowing in 2020 due to import compression, the current account balance is projected to widen in 2021 and 2022 as recovering demand translates into faster imports growth.

The rise in the budget deficit to 5.4 percent of GDP, coupled with the decline in GDP is expected to push public debt up by 10 pp to 63 percent of GDP in 2020. The government's 2021-2023 Medium-Term Expenditure Framework, prepared in July 2020, envisages a strong fiscal consolidation bringing the deficit below 2 percent of GDP by 2023. This corresponds to a gradual decline in the debt to GDP ratio, consistent with the fiscal rule.

Risks and challenges

Risks are firmly on the downside, particularly from a potential pick-up in COVID-19 infections in the upcoming winter, from the lack or delay of availability of vaccines in 2021 and flare up of tensions with Azerbaijan. In this downside growth scenario, the economy will contract further in 2020 with a slower rebound in 2021 (around 3 percent), which will postpone the recovery of output to pre-COVID levels to 2023. Also, weaker-than-expected recovery in Armenia's economic partners, including Russia, and prolonged regional tensions could derail the recovery.

Domestically, governance gaps such as justice reform, low productivity, and weak connectivity result in limited integration and undiversified trade patterns. In addition, declining and aging population, low formal employment, spatial disparities and skills mismatches add to the challenges. The government has started to tackle a number of these issues but ensuring continued progress on reforms remains critical.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	7.5	5.2	7.6	-6.3	4.6	6.6
Private Consumption	12.4	7.5	10.3	-9.1	5.9	7.6
Government Consumption	-2.1	-3.0	12.5	5.9	2.9	3.0
Gross Fixed Capital Investment	9.7	4.8	4.4	-16.8	8.1	10.9
Exports, Goods and Services	18.7	2.9	13.2	-12.7	5.3	7.7
Imports, Goods and Services	24.6	12.9	7.8	-15.1	7.8	9.3
Real GDP growth, at constant factor prices	7.3	4.9	7.6	-6.3	4.6	6.6
Agriculture	-5.1	-6.9	-2.6	1.7	2.5	3.5
Industry	9.0	3.7	7.1	-2.4	4.6	5.7
Services	10.6	9.0	10.4	-9.9	5.1	7.8
Inflation (Consumer Price Index)	1.0	2.5	1.4	1.3	2.9	3.5
Current Account Balance (% of GDP)	-1.5	-6.9	-7.2	-6.2	-6.5	-6.8
Net Foreign Direct Investment (% of GDP)	1.9	2.0	2.9	1.0	2.3	2.6
Fiscal Balance (% of GDP)	-4.8	-1.6	-0.8	-5.4	-2.7	-2.1
Debt (% of GDP)	58.9	55.7	53.5	63.8	63.6	61.6
Primary Balance (% of GDP)	-2.6	0.7	1.6	-2.7	-0.6	-0.1
International poverty rate ($1.9 in 2011 PPP)[a]	0.9	1.4	1.1	1.4	1.2	1.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a]	8.1	9.4	7.7	9.3	8.0	6.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a]	41.5	42.5	37.0	41.8	38.7	34.3

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

(a) Calculations based on ECAPOV harmonization, using 2018-ILCS. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022. Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU. The trends in international poverty (revised 2011 PPP) and national poverty diverge because of methodological differences in the aggregates and the position of the poverty line.

AZERBAIJAN

Table 1	2019
Population, million	10.0
GDP, current US$ billion	48.0
GDP per capita, current US$	4813.7
School enrollment, primary (% gross)[a]	99.7
Life expectancy at birth, years[a]	72.9

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

Azerbaijan's economy contracted sharply in the first half of 2020, hit by the COVID-19 pandemic and a fall in oil production under OPEC+ quotas. The economy is forecast to shrink by 4.2 percent in 2020, absent a further surge in infections and restrictions, while the poverty rate is expected to rise. The economy will gradually rebound in 2021-22, returning to pre-COVID-19 levels only by the end of 2022. Downside risks dominate, particularly should a more severe outbreak continue into 2021.

Key conditions and challenges

Azerbaijan is an upper-middle income country, rich in oil and natural gas resources. It faces systemic macroeconomic and governance challenges that have yielded lackluster economic performance and periods of macroeconomic instability in recent years. Exploitation of its hydrocarbon deposits propelled the economy and helped reduce the poverty since 2000s. However, structural challenges, such as a significant state footprint, a small and fragile financial sector, as well as overall governance issues and weak institutions, prevent the emergence of a vibrant private sector. A rural-urban gap persists, informality is large, and a considerable part of the population is socially and economically vulnerable. The country's human capital indicators lag regional and income peers. Recent escalation of tensions with Armenia additionally weigh on the economic outlook.

The COVID-19 pandemic and a fall in oil prices, with subsequent oil production cuts under the OPEC+ quota arrangements, have severely impacted Azerbaijan. Its economy is expected to contract by 4.2 percent in 2020. The services, retail trade and tourism in particular, have been severely impacted by the restrictions. As a result, the poverty rate is expected to increase, driven primarily by households that experienced unemployment and income loss in the affected sectors. A strong fiscal reserve buffer provides some flexibility to mitigate the impact of the crisis.

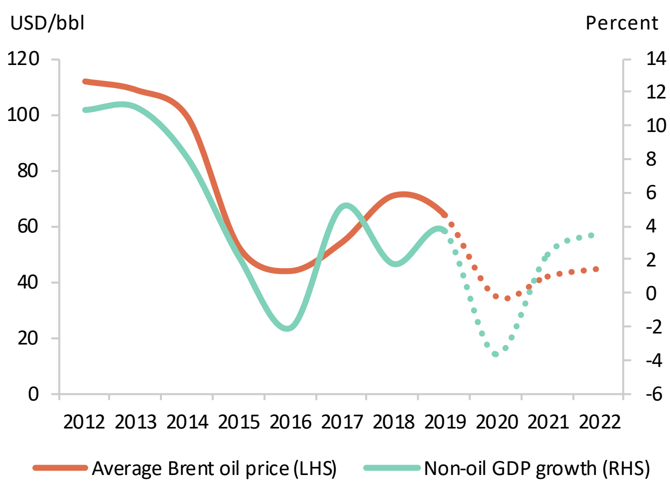
Recent developments

Azerbaijan has been severely impacted by the COVID-19 pandemic, recording its first case on February 28. The country initiated a nationwide lockdown on March 23. The first wave of mitigation measures kept infections under control but subsequent easing of the restrictions in May led to an exponential resurgence of cases. This prompted the second round of restrictions, covering major urban areas, that significantly slowed the infection spread. As a result, the quarantine regime was eased gradually from mid-August.

The two lockdowns, together with a fall in oil production, induced a 2.7 percent contraction in GDP in the first half of 2020. On the supply side, services were impacted the most, particularly retail, hospitality, and construction. A drought slashed agricultural output growth. Oil production fell, as the country adhered to the reduced OPEC+ production quota. On the demand side, as incomes fell and sentiments deteriorated, both consumption and investment plummeted.

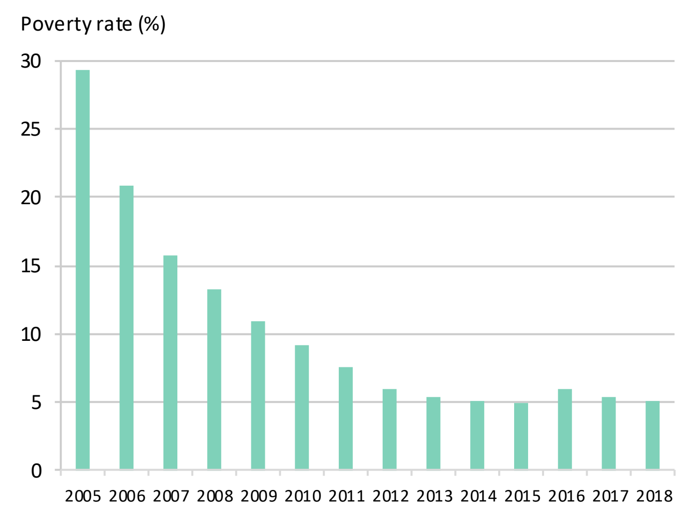
Hydrocarbon exports plunged by 25 percent in the first half of 2020, reducing the trade surplus by 10 percent year-on-year. A sharp fall in oil prices in March also spurred pressures on the exchange rate.

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



Sources: State Statistical Committee and World Bank staff estimates.

FIGURE 2 Azerbaijan / Poverty headcount rate at the national poverty line



Source: State Statistical Committee. Note: World Bank has not reviewed the official national poverty rates for 2013-17.

Increased foreign exchange sales by the State Oil Fund (SOFAZ) helped maintain the manat at 1.7 AZN/USD. The exchange rate pressures have subsided since, with cumulative reserves of the central bank and SOFAZ stabilizing at more than 90 percent of GDP, despite a decline in SOFAZ assets.

Weak domestic demand and a stable exchange rate kept annual CPI inflation low at 3.1 percent in the first half of 2020. This enabled the Central Bank of Azerbaijan (CBA) to reduce the policy rate twice in 2020, to 6.75 percent in July.

The consolidated fiscal deficit increased to 1.5 percent of GDP in the first half of 2020, from a surplus of 9 percent of GDP in the same period of 2019, reflecting a steep contraction of oil revenues and higher spending to accommodate increased healthcare spending and to finance an anti-crisis fiscal stimulus (over 3 percent of GDP). The package included measures to support firms in the formal sector and transfers to households and enterprises in the informal sector. The 2020 budget was subsequently adjusted, using the escape clause under the fiscal rule, enabling additional transfers from SOFAZ.

Credit to economy fell by 5 percent in the first half of 2020, reflecting the closure of four troubled banks and the steep decline in economic activity, while the CBA introduced a number of forbearance measures to reduce stress on the financial sector.

Outlook

Azerbaijan's economy is projected to contract by 4.2 percent in 2020, reflecting a broad-based decline in both energy and non-energy activity. The pace of recovery is forecast to be gradual, with the economy expected to recover to the pre-COVID-19 output levels the earliest by end-2022.

Adherence to a reduced OPEC+ quota is forecast to lead to a 5 percent drop in energy sector output in 2020. The non-energy sector will likely shrink by 3.6 percent, reflecting depressed service sector and slower agriculture growth due to the drought. On the expenditure side, aggregate demand is expected to remain weakened, while real household incomes decline and corporate sector financial constraints stay acute.

Growth is estimated to recover to 1.9 percent in 2021, as the remaining supply disruptions are projected to be phased out, restoring the pre-pandemic oil production and growth in service sectors. Growth would further accelerate to 2.8 percent in 2022, as economic activity gradually returns to normalcy.

In line with the gradual pace of recovery and subdued demand, CPI inflation is forecast to remain below the CBA target of 4±2 percent in the medium-term.

The current account balance is projected to record a small deficit in 2020, driven by lower oil exports. Financial account pressures could subside by end-2020, and overall balance of payments is expected to record a 1.4 percent deficit in 2020. In the medium-term, as oil prices recover, external balance would turn back to surplus.

Plummeting oil revenues and a surge in spending could widen the fiscal deficit to 7.5 percent of GDP in 2020, which will be largely financed by the increased transfers from SOFAZ. In the medium-term, the balance is estimated to return to a surplus, as revenues recover gradually and fiscal measures to counter the COVID-19 are phased out.

Azerbaijan's outlook is subject to significant downside risks. The pandemic evolution around the globe and a pace of recovery in energy markets, regional tensions, as well as economic activity in major trade partners are key risks to watch in the medium-term.

Economic growth could be as low as -4.9 percent in 2020 and recovery to the pre-COVID-19 output levels could be prolonged beyond 2023 if the COVID-19 spread is not contained by early-2021 and the government needs to enact another strict lockdown, and if the recent flare up in regional tensions is prolonged.

The long-term impact on poverty and inequality will depend on the severity and duration of the pandemic. The longer the duration of the pandemic, the deeper and wider the negative impact on households' welfare and poverty.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	0.2	1.5	2.2	-4.2	1.9	2.8
Private Consumption	2.7	3.0	3.8	-5.2	1.3	2.2
Government Consumption	1.2	1.5	7.9	4.5	4.7	4.6
Gross Fixed Capital Investment	-2.4	-0.2	-3.1	-14.9	2.1	4.2
Exports, Goods and Services	-0.9	1.0	1.5	-6.4	1.6	2.1
Imports, Goods and Services	0.2	1.5	2.2	-10.5	1.5	1.7
Real GDP growth, at constant factor prices	0.0	1.5	2.2	-4.2	1.9	2.8
Agriculture	4.2	4.6	7.3	1.5	2.5	3.2
Industry	-3.5	-0.7	0.4	-4.4	1.7	1.7
Services	6.5	5.1	4.3	-5.0	2.2	4.8
Inflation (Consumer Price Index)	12.9	1.9	2.9	3.3	2.9	2.8
Current Account Balance (% of GDP)	4.1	12.8	9.1	-0.7	1.6	4.7
Net Foreign Direct Investment (% of GDP)	0.7	-1.7	-2.9	1.4	1.4	1.2
Fiscal Balance (% of GDP)	-1.6	5.6	9.0	-7.5	-3.4	1.7
Debt (% of GDP)	22.7	18.9	18.9	19.6	20.0	20.6
Primary Balance (% of GDP)	-1.0	6.8	9.8	-6.7	-2.7	2.3

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

BELARUS

Table 1	2019
Population, million	9.4
GDP, current US$ billion	63.5
GDP per capita, current US$	6757.4
Lower middle-income poverty rate ($3.2)[a]	0.0
Upper middle-income poverty rate ($5.5)[a]	0.4
Gini index[a]	25.2
School enrollment, primary (% gross)[b]	100.5
Life expectancy at birth, years[b]	74.2

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

Political turmoil following elections in August has added to economic headwinds from the global COVID-19 shock. Accordingly, the economic recession is expected to deepen in 2021, amidst a sharp contraction in domestic demand. Substantial fiscal needs and external financing pressures will remain in the medium-term, reflecting the withdrawal of implicit energy subsidies from Russia and large debt amortizations. Key risks include continued political instability amidst a dollarized banking system and persistent structural bottlenecks.

Recent developments

The global COVID-19 shock, tensions with Russia on oil supply terms, and lower global energy prices dragged on growth in the first half of 2020 with the economy contracting by 1.7 percent y/y. Overall, merchandise exports suffered a 17.1 percent y/y contraction in H1 amidst a dramatic fall in oil product exports (of 61.8 and 42.6 percent in US$ terms and physical volumes respectively). However, strong pre-election growth in real wages (averaging 8 percent y/y) helped support consumer spending and, coupled with the lack of broad-based lockdown measures, partially offset the negative contribution from net exports and prevented a deeper downturn.

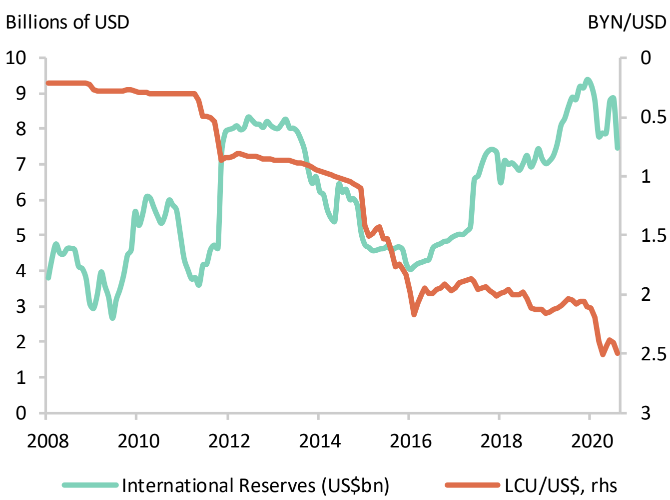
Falling remittances, a weaker Russian ruble, and domestic political tensions led to a 26 percent nominal BYN depreciation vis-à-vis the US$ between January-August (9 percent in the three weeks following elections on August 9). Banking liquidity pressures have increased as deposit withdrawals have accelerated. The volume of FX deposits declined by 6 percent m/m in August, while net demand for FX by households reached US$621mn, a threefold increase relative to July. To avoid additional currency pressures, the National Bank has suspended till October its overnight loans and started to provide liquidity support through regular auctions. FX reserves (including gold) have declined by 20 percent since the beginning of the year, and by 15 percent (US$1.4bn) in August, to US$7.5bn (less than 3 months of imports).

Consolidated budget revenues dropped by 14.1 percent in real terms, driven by a plunge in profit tax revenues (50.1 percent) and customs duties (40 percent). Real expenditures rose 11 percent on higher capex and capital transfers, as well as increased spending on wages. Accordingly, in H1 2020 the general government deficit reached 3.4 percent of GDP (net of quasi-fiscal expenditures) vs. a 3.9 percent surplus a year ago. Public and publicly guaranteed debt amounted to 43.3 percent of GDP in H1 2020, almost all FX-denominated.

Despite lower exports, significant import compression (reflecting lower energy inputs from Russia) contributed to a small trade surplus in Q2. External financing needs during 2020 have been only partially alleviated by the US$1.25bn Eurobond issuance and restructuring of loan terms for the Astravets nuclear power plant that occurred by mid-year. Belarus still has debt obligations to repay of about US$ 1.1 bn of external debt by December, with 45 percent of it due to Russia. Sovereign risk spreads have increased in the post-election period but remain well below levels seen in previous crises.

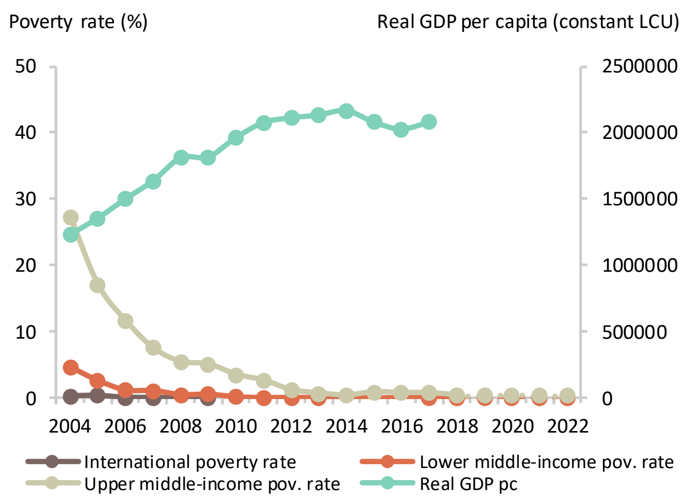
Real household incomes continued to grow in H1 2020 – by 5.4 percent y/y – on account of higher real wages and pensions. The national poverty rate, having risen during 2014-2017, fell by 0.3 percentage points in 2018, and continued its downward trend in 2019, to reach 4.7 percent in Q1 2020. PPP $5.5/day poverty fell to 0.44 percent in 2018 and remained stable in 2019.

FIGURE 1 Belarus / FX Reserves and Currency Trends



Sources: Belstat, National Bank of Belarus, World Bank.

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



Source: World Bank. Notes: see Table 2.

Outlook

The economy is expected to contract by 2.8 percent in 2020, reflecting the drag from COVID-19 and headwinds from increased political tensions. The recession is expected to deepen in 2021, reflecting a significant retrenchment in household spending and investment demand due to heightened uncertainty, and the lack of fiscal and monetary policy space to support the economy. Long-standing structural challenges related to the dominance of low-productivity SOEs, the high degree of dollarization, and external vulnerabilities are expected to weigh on the recovery thereafter.

The outlook assumes fiscal consolidation; this is necessary to prevent twin fiscal and current account deficits – reflecting the impact of the withdrawal of implicit Russian energy subsidies ("tax maneuver" to be completed in 2024) – from widening to unsustainable levels and to contain financing pressures related to large debt repayments coming due. In 2021, total FX debt service and repayment will amount to about US$3.2 bn, including US$2.4 bn of external debt, out of which 70 percent is due to Russia and China.

The recession will negatively affect household welfare, unless targeted cash transfers are expanded, as other support instruments would be constrained by limited fiscal space. Measured at the US$5.5/day threshold, the welfare impact is projected to be small, with poverty rates increasing by 0.1pp in 2020. Impacts will be more significant at higher poverty thresholds: the last recession of 2015-2016 was associated with a 2 percentage points increase in the national poverty rate, and a 15 percentage points increase in the share of population below the minimum consumption budget.

Risks and challenges

Downside risks are high particularly on the domestic front. Political instability, if it persists, poses risks to macroeconomic stability amidst elevated external financing needs, limited fiscal and FX buffers and uncertain market funding conditions, and a highly dollarized banking sector. Additional pressures on sectoral output and the budget could arise if major strikes occur at strategic SOEs such as petrochemical companies and a potash exporter. Nearly half of value-added in the economy is generated by the private sector, and a sustained deterioration in investor sentiment could lead to protracted economic stagnation, especially if more dynamic private companies in the export-oriented IT sector relocate to neighboring countries or transit trade is rerouted. FX-denominated loans on corporate balance sheets account for almost half of the total bank lending stock and a prolonged recession and currency pressures could pose risks to banking asset quality.

More broadly, by delaying productivity-enhancing structural reforms and not diversifying, Belarus has kept its trade and economy tied to energy-intensive, inefficient SOEs, and to Russia, increasing vulnerability to commodity shocks and developments in CIS trading partners. Stimulating longer term growth, ensuring a strong recovery from the COVID-19 shock and adjusting to the "tax maneuver" will require supply-side reforms that lift productivity and competitiveness. Public financial reforms are also critical to anchor fiscal sustainability, including through SOE reforms, rationalization of the large public sector wage bill and tax expenditure reform.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	2.5	3.1	1.2	-2.8	-5.5	0.2
Private Consumption	4.7	7.9	4.6	-2.8	-4.2	2.5
Government Consumption	-0.9	-0.4	0.4	0.8	-2.6	-1.4
Gross Fixed Capital Investment	5.5	4.4	5.6	-8.2	-10.5	-3.5
Exports, Goods and Services	7.5	3.8	0.3	-13.5	-7.5	3.8
Imports, Goods and Services	11.1	7.3	5.2	-15.0	-8.0	4.5
Real GDP growth, at constant factor prices	2.5	3.2	1.3	-2.9	-5.4	0.2
Agriculture	4.4	-3.4	3.0	3.3	2.8	3.1
Industry	3.6	5.2	1.4	-5.0	-6.7	3.8
Services	1.4	2.9	0.9	-2.4	-5.8	-3.0
Inflation (Consumer Price Index)	6.0	4.9	5.6	6.9	6.2	5.1
Current Account Balance (% of GDP)	-1.7	0.0	-1.8	-1.0	-0.7	-1.1
Net Foreign Direct Investment (% of GDP)	2.3	2.4	2.0	0.0	0.0	0.0
Fiscal Balance (% of GDP)	3.0	4.0	2.5	-4.9	-2.0	-1.1
Debt (% of GDP)	47.2	42.5	38.4	45.2	49.9	49.1
Primary Balance (% of GDP)	4.9	5.9	4.2	-3.2	0.1	1.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	0.8	0.4	0.4	0.5	0.4	0.4

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

(a) Calculations based on ECAPOV harmonization, using 2018-HHS. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.

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

BOSNIA AND HERZEGOVINA

Table 1	2019
Population, million	3.5
GDP, current US$ billion	20.1
GDP per capita, current US$	5725.8
Life expectancy at birth, years[a]	77.3

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

Growth is estimated in 2020 at -3.2 percent due to COVID-19. As the world recovers from the unprecedented crisis and with the implementation of the Economic Reform package, growth is expected to return in 2021. The ongoing crisis highlights the need to accelerate implementation of reforms. Translating growth into improvements in labor markets will be important for reducing poverty. A prolonged pandemic and political disagreements continue to remain the main risks for growth.

Recent developments

The COVID-19 pandemic and containment measures shape the most recent developments. In the first quarter of 2020 growth was positive reaching 2.0 percent. As lockdown measures were introduced, the economy faced a sudden stop in the second quarter and started to trend downward entering negative territory. Domestic and external demand dropped, with declines in consumption and investments. The slowdown in consumption affected domestic demand while both exports and imports have declined by 14.8 percent and 17.3 percent respectively year to date (January-July 2020). Unemployment was already high at 15.7 percent in 2019 and the crises has in all likelihood led to an increase in unemployment.

In the second quarter of the year, the BiH economy entered into deflation, with a consumer price index decrease by 0.6 percent year to date (January-June 2020). The biggest driver of the decrease was energy.

In 2020, a fiscal deficit of -4.2 percent of GDP is expected, down from an estimated surplus of 0.8 percent in 2019. In 2019, revenues are estimated to have risen mainly due to stronger collection of indirect taxes, while expenditures rose mainly as a result of higher spending on public wages, goods and services and social benefits. Capital spending increased in 2019 mainly due to investments in roads infrastructure. The current account deficit is estimated to have narrowed slightly in Q1 2020 as imports declined more than exports (driven by a large decline of transport and travel services). FDI increased compared to last two quarters of 2019. Total public debt in 2020 Q2 is estimated at 37 percent of GDP, consisting largely of concessional debt, while the total external debt is estimated at 70.9 percent of GDP.

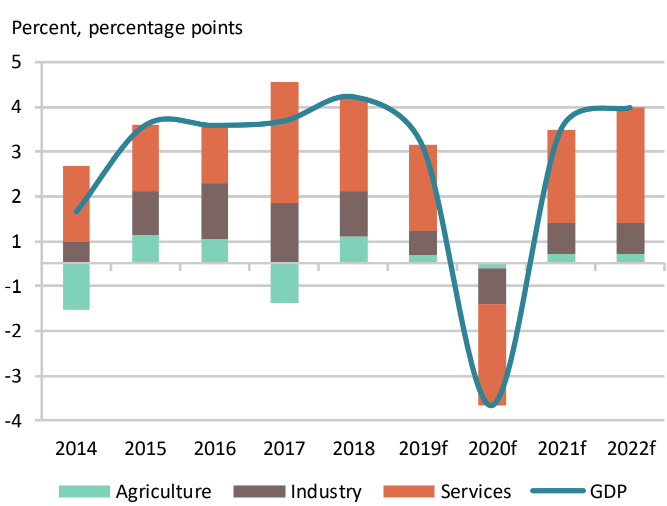
The latest available poverty data using the national poverty line is for 2015 and was estimated at 16 percent, very close to the 15 percent poverty rate estimated for 2011. Higher pensions and social assistance contributed to improve the welfare of the less well-off, while labor incomes had a small poverty-increasing effect.

The financial sector is broadly stable. On average, banks are sufficiently capitalized, liquid, but losing profitability. NPLs reached 6.7 percent in Q2 up by 10bp from Q1, but still appear sufficiently provisioned for by most banks. Profitability declined in Q2 2020 with an average return on equity at 7.3 compared with 10.4 at the end of Q4 2019. Capital to assets reached 12.6 percent down from 12.8 percent at the end of 2019. Capital buffers are within regulatory requirements.

Outlook

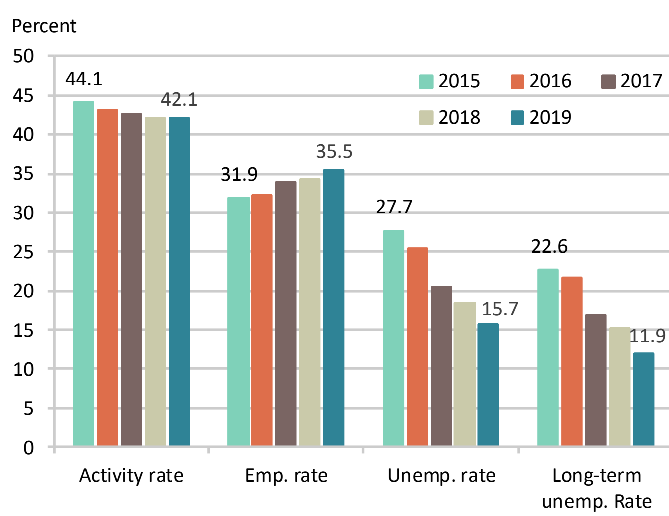
Growth is projected at -3.2 percent in 2020. The authorities are implementing some second-round measures (more testing, COVID drive-in testing centres, COVID-19 hospitals) to contain the outbreak in order to avoid a new lockdown.

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



Sources: BHAS, World Bank staff estimate.

FIGURE 2 Bosnia and Herzegovina / Labor market indicators, 2015-2019



Sources: LFS 2015-2019 report, World Bank staff calculations.

In addition, a guarantee fund for credit lines for small business is in its finalization phase. A comprehensive program of second round measures will be implemented in combination with the previous Socio-Economic Program (SEP). As the situation improves and SEP implementation accelerates, investments are expected to increase and a moderate rise in exports is expected. Consumption will continue to drive growth, resulting in stronger growth in imports. Remittances will decline in 2020 but are likely to increase again and stabilize at 8 percent of GDP in the medium term and, together with progress on reforms, will underpin a gradual pickup in consumption and finance a significant part of the trade deficit.

Monetary policy anchored to the Euro will continue to support local currency stability. In addition, safe-guarding the banking sector will be important. The creation of the guarantee fund as announced intends to ensure necessary liquidity and to underpin a credit line via the development bank to support affected businesses. As BiH does not have access to international markets, support from IFIs will continue to be critical. BiH's fiscal deficit is expected to return to surplus over the medium term as the economy recovers and revenue collection increases from both direct and indirect taxes as presented in entities medium-term budget framework documents. A stronger push on the capital investment program after COVID-19 will be needed and better targeting and higher coverage of social assistance programs will need to remain a high priority for the authorities' SEP.

The COVID-19 crisis has negatively affected employment. According to official estimates based on administrative data, the number of people in paid employment decreased 2.7 percent y-o-y in June. Sectors with a relatively large share of employment (e.g., retail, manufacturing, transportation, and accommodation) were among the most affected. Lower employment and labor income in the most affected sectors will negatively affect household welfare and poverty. The decrease in remittances due to the COVID-19 crisis may also affect household's welfare through lower non-labor incomes. Some social assistance programs were not sufficiently targeted before the pandemic and coverage was low, particularly among the less well-off. Estimations show that many of those who could become impoverished due to COVID-19 were not covered by social protection programs before the crisis. As growth recovers, improvements in labor market participation and employment will remain key for growth to translate into poverty reduction.

Risks and challenges

The immediate challenge for BiH will be to implement a second set of measures to control COVID-19 and to recover from the slowdown that affected the economy in Q2. Addressing persistent unemployment and minimizing layoffs in the private sector will be a key challenge during and after the unfolding crisis.

Forthcoming local elections are adding additional pressures and redirecting the focus away from the pandemic. Slow implementation of structural reforms together with the ongoing crisis will weigh heavily on the economy's ability to accelerate. On the fiscal side the tax burden will remain high, and if not addressed this may delay expected improvement in growth performance. Fiscal risks (pensions, arrears, SOE liabilities) are also mounting.

The economic recovery and long term growth are also negatively affected by both the challenging political environment and rapid loss of human capital to emigration.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	3.2	3.3	2.9	-3.2	3.0	3.5
Private Consumption	0.8	2.4	2.8	-3.2	3.0	3.5
Government Consumption	1.5	0.9	2.6	0.5	4.6	3.0
Gross Fixed Capital Investment	6.9	7.5	2.9	-25.9	3.9	8.5
Exports, Goods and Services	11.8	5.9	-0.3	-7.0	0.7	1.5
Imports, Goods and Services	7.7	3.2	0.2	-12.0	2.0	3.0
Real GDP growth, at constant factor prices	3.2	3.7	2.6	-3.2	3.0	3.5
Agriculture	-11.3	9.1	2.9	-1.5	2.9	2.9
Industry	5.0	3.8	1.9	-3.0	2.6	2.6
Services	4.1	3.2	2.9	-3.4	3.2	3.9
Inflation (Consumer Price Index)	1.2	1.4	1.2	0.4	1.0	1.2
Current Account Balance (% of GDP)	-4.2	-3.7	-3.6	-4.1	-3.8	-2.8
Net Foreign Direct Investment (% of GDP)	2.0	2.2	2.9	2.0	3.4	3.6
Fiscal Balance (% of GDP)	1.8	2.2	0.8	-4.2	-0.4	0.8
Debt (% of GDP)	38.1	36.5	34.6	40.3	39.6	39.0
Primary Balance (% of GDP)	2.6	3.6	1.7	-2.9	1.0	1.7

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

BULGARIA

Table 1	2019
Population, million	7.0
GDP, current US$ billion	67.9
GDP per capita, current US$	9732.1
International poverty rate ($1.9)[a]	1.4
Lower middle-income poverty rate ($3.2)[a]	3.3
Upper middle-income poverty rate ($5.5)[a]	7.9
Gini index[a]	40.4
School enrollment, primary (% gross)[b]	89.3
Life expectancy at birth, years[b]	75.0

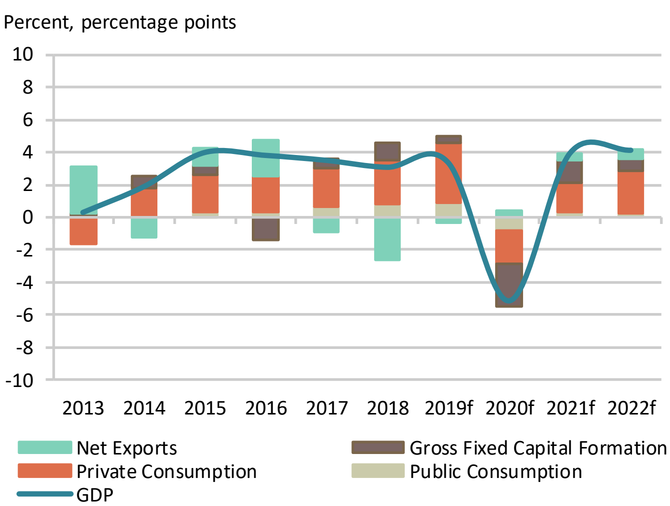
Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) WDI for School enrollment (2017); Life expectancy (2018)

Bulgaria's growth projection for 2020 has been revised upward on better-than-expected outturns of leading indicators and upward revision of eurozone projections. Limited uptake of fiscal response measures may impede the speed of recovery, however. The COVID-19 crisis has exposed the dual need for reform and investment in a number of public domains, yet upcoming elections in the spring of 2021 suggest major reforms are unlikely before mid-2021. Poverty is expected to increase due to the GDP contraction and job losses.

Recent developments

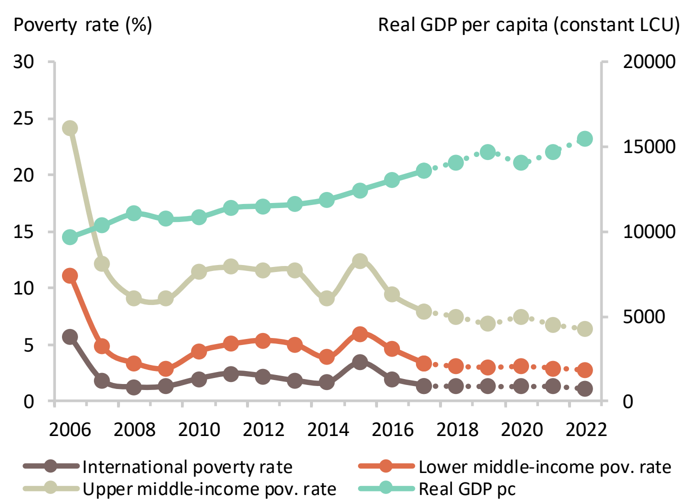
So far, the negative impact of the COVID-19 crisis on the Bulgarian economy has turned out milder than projected. Preliminary data shows that GDP shrank 4.2% y/y in H1 – the sixth smallest contraction in the EU. Whereas industrial production and construction showed signs of recovery in June compared with April-May, y/y declines were still registered. Retail trade continued to decline at double-digit rates y/y in June, likely due to changed consumer behaviour and the marked decline in tourism, as few tourists visited the country. As a result of the COVID-19 shock, both exports and imports declined substantially in April-May but showed visible signs of recovery in June.
The impact on the labour market has been relatively contained to date. The unemployment rate in Q2 grew moderately to 5.9%, up 1.7pp y/y largely due to a smaller-than-expected output contraction and a government's 60% salary subsidy program for distressed businesses. The biggest job losses occurred in manufacturing, tourism and trade.
The country entered the crisis with a strong fiscal position - public debt at 20% of GDP, a budget surplus, and a fiscal reserve of some 9% of GDP. The fiscal surplus was maintained in Jan-Aug 2020, reaching 1.3% of the government-projected GDP, on account of conservative planning of revenues, retention of expenditures, and slow implementation of fiscal response measures, which, however, may hamper the recovery of the economy. In mid-Sep, the country re-entered the international bond market for the first time since 2016 and placed successfully EUR 1.25bn of 10yr bonds and 1.25bn of 30yr bonds at average yields of 0.389% and 1.476%, respectively. The proceeds will be used to finance the projected deficit.
In early July, the country joined the waiting room for the eurozone, the ERM 2, and the European Banking Union (EBU), after fulfilling a list of prior commitments over the last two years. Membership to the EBU will become effective from the beginning of Oct. 2020.
Rapid response household surveys mirror the moderate changes in employment and unemployment with roughly 91% of individuals who were employed prior to the COVID-19 crisis continuing to be employed in June. Of these, 84% worked the same hours or more and 76% earned the same or more. The individuals who reported earning less were more likely to be from middle-income households, higher educated, male, and in the 35-50 age range. Despite limited labor market impacts, more than a third of households reported finding it harder to make ends meet compared with pre-COVID-19. Poorer households, and those with less educated or female household heads were more likely to report issues with making ends meet compounded by inadequate savings and coping mechanisms.
Poverty at the US $5.5 per day line is expected to increase between 2019 and 2020, reversing a previous trend of sustained, albeit slowing, decreases in poverty since 2016 on rapid growth and favorable labor market conditions.

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



Sources: World Bank, Bulgarian National Statistical Institute.

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



Source: World Bank. Notes: see Table 2.

Outlook

High-frequency indicators suggest that while the Q2 contraction of the economy may have turned out milder than expected, the Q3 recovery appears to have started more slowly. Limited uptake of fiscal response measures may also contribute to a bumpier recovery this year. Our baseline GDP growth forecast has been revised up to -5.1% in 2020, but risks remain tilted the downside.

Both private and public investment are likely to decline substantially in 2020 as private investors remain wary of the recovery prospects, while public investment projects are postponed in an attempt to contain the fiscal deficit. Meanwhile, EU funds for public investment under the anti-crisis Recovery and Resilience Facility are to start being absorbed no earlier than 2021.

Thanks to a good starting position, the fiscal deficit in 2020 will remain relatively contained at 4.1% of GDP, which will increase public debt up to 27.7% of GDP. The COVID-19 crisis has exposed the dual need for reform and investment in key public spheres such as health care and education. Unless reform efforts are urgently directed towards these and other public sectors, the latter will be increasingly unable to provide services up to expected standards.

Poverty is projected to decline in 2021 as the Bulgarian economy and the economies of main trading partners recover. The recovery in the labor market is likely to be uneven, with a lengthier recovery for individuals in less secure job types. The slow uptake of the government's proposed fiscal package to retain and hire employees and provide support for individuals in non-standard work contracts is likely to further prolong the recovery. Similarly, individuals in vulnerable households may not readily see incomes returned to pre-COVID-19 levels, compounded by concerns surrounding the coverage and adequacy of existing social security systems and the limited uptake of new social measure.

Risks and challenges

Risks to the outlook continue to stem primarily from the uncertainties around the COVID-19 pandemic and its development both domestically and globally. Although the government has declared it would make every effort to avoid a second large-scale lockdown in the country due to its detrimental effect on business activity, certain branches of the economy (such as sports, culture, hotels and restaurants, entertainment, retail trade, etc.) may experience steeper declines in the autumn-winter period if COVID-19 cases resume their growth. In that case, less stringent measures such as the temporary closure of certain in-door facilities are likely to be imposed, while people voluntarily refrain from consumption of such services on fears of contagion.

The ongoing social unrest in the country also adds to the uncertainties. Daily street protests in major cities requesting the resignation of the government and the Chief Prosecutor on the grounds of corruption and state capture have been ongoing for more than two months. The government has responded with the resignation of several ministers and a proposal for summoning a Grand National Assembly for amendments to the Constitution, but protest rallies have continued. The unrest is likely to escalate with the approach of next general elections in the spring of 2021.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	3.5	3.1	3.4	-5.1	3.9	4.1
Private Consumption	3.8	4.4	5.8	-3.2	2.8	4.0
Government Consumption	4.3	5.3	5.5	-5.1	1.9	1.6
Gross Fixed Capital Investment	3.2	5.4	2.2	-13.8	7.8	4.3
Exports, Goods and Services	5.8	1.7	1.9	-12.9	8.6	4.8
Imports, Goods and Services	7.4	5.7	2.4	-13.4	7.8	4.0
Real GDP growth, at constant factor prices	3.5	3.1	3.4	-5.1	3.9	4.1
Agriculture	9.0	-2.0	3.6	-0.5	0.5	1.0
Industry	3.5	-1.1	2.7	-4.9	4.2	4.1
Services	3.2	4.8	3.6	-5.4	4.1	4.3
Inflation (Consumer Price Index)	2.1	2.8	3.1	2.0	2.3	2.0
Current Account Balance (% of GDP)	3.5	1.4	4.0	3.3	3.7	3.9
Net Foreign Direct Investment (% of GDP)	3.1	1.8	1.8	0.4	1.7	2.1
Fiscal Balance (% of GDP)	0.8	0.1	-1.0	-4.1	-3.0	-2.2
Debt (% of GDP)	25.3	22.3	20.4	27.7	30.7	32.2
Primary Balance (% of GDP)	1.6	0.8	-0.4	-3.5	-2.0	-1.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.4	1.4	1.3	1.3	1.3	1.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	3.3	3.1	3.0	3.1	2.9	2.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	7.9	7.5	6.9	7.4	6.8	6.4

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

(a) Calculations based on ECAPOV harmonization, using 2017-EU-SILC. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2017) with pass-through = 0.87 based on GDP per capita in constant LCU.

CROATIA

Table 1	2019
Population, million	4.1
GDP, current US$ billion	60.4
GDP per capita, current US$	14861.6
International poverty rate ($1.9)[a]	0.6
Lower middle-income poverty rate ($3.2)[a]	1.1
Upper middle-income poverty rate ($5.5)[a]	3.6
Gini index[a]	30.4
School enrollment, primary (% gross)[b]	96.5
Life expectancy at birth, years[b]	78.1

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

Economic activity in Croatia is expected to contract strongly in 2020 as a result of the COVID-19 crisis. Together with the large government stimulus this will have significant fiscal consequences, with public debt surging to about 87 percent of GDP by the end of the year. Forecasted output contraction and job losses are expected to lead to an increase in poverty in 2020. A gradual recovery is under way and should gain momentum in 2021.

Key conditions and challenges

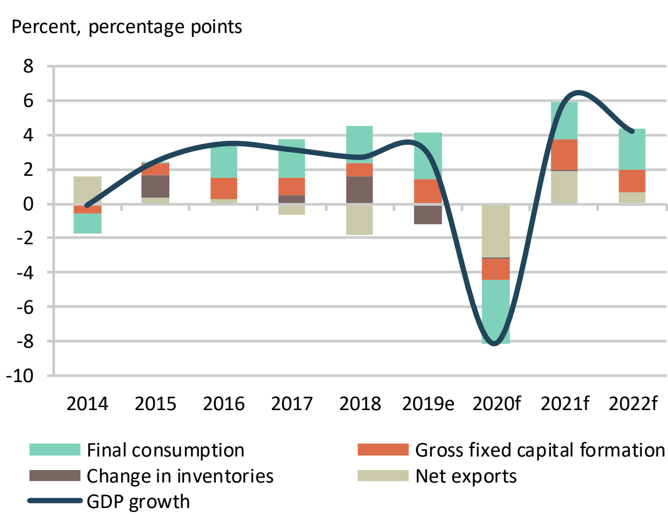
Prior to the COVID-19 crisis, Croatia recorded a steady but relatively slow economic growth of close to 3 percent. Convergence to EU income average remained elusive. Attaining higher growth rates was constrained by structural rigidities and strong reliance on less innovative activities, with lower value added and limited backward and forward linkages. As a result, only in 2019 did the economy reach its pre-global financial crisis level of output. To unlock productivity growth and foster human and capital accumulation, Croatia will need to step up its efforts to address long standing issues, including public sector governance, business environment, education outcomes, and unfavorable demographic trends, and support the diversification of the economy towards more knowledge-based sectors.

A severe economic recession triggered by the COVID-19 pandemic is reversing the income gains, poverty reduction and fiscal sustainability that Croatia achieved during the last five years. In addition, the March earthquake in Zagreb and its surroundings has put strain on functioning of public institutions. It has also caused large damages that will take years to recover. While it is expected for the crisis to be short-lived and recovery to gain momentum in 2021, there remains a high level of uncertainty and risks are tilted to the downside. Further global worsening of the pandemic cannot be excluded, which might require the re-imposition of stringent social distancing measures. While in 2020 Croatia has provided a large fiscal stimulus, the resulting debt level of close to 87 percent of GDP (up from 73.2 percent of GDP at the end of 2019) provides important challenges for the government to support growth without compromising fiscal sustainability. On the positive side, the crisis can provide an opportunity to revisit Croatia's growth model and focus on policies to increase resilience to exogenous shocks and raise growth potential. Furthermore, Next Generation EU, the new EU temporary recovery instrument, if used adequately and efficiently, could support the country's investments and policy reforms enabling it to emerge stronger from the crisis.

Recent developments

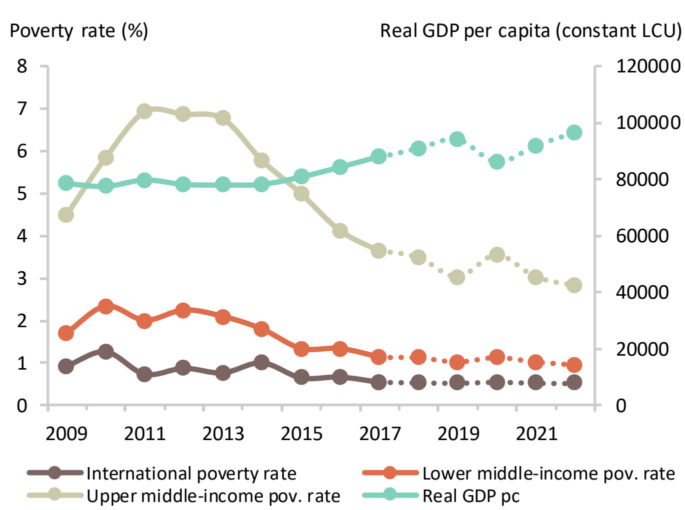
In the first half of 2020, Croatia's real GDP decreased by 7.8 percent, reflecting primarily a record decline in the second quarter (-15.1%). The largest negative contribution to growth came from external demand, amid wide-spread travel bans that affected Croatia's large tourism sector and ancillary activities. Domestic demand also contracted significantly, with government consumption being the only demand side component to grow. On the supply side, activities linked to tourism and transport were hit the most. The government introduced significant support measures to help mitigate the economic

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



Sources: CROSTAT, World Bank.

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



Source: World Bank. Notes: see Table 2.

and social impacts of the crisis. Registered unemployment rate increased to around 9 percent in the second quarter of 2020 (2 percentage points up compared to the second quarter 2019). Some support to real disposable incomes also came from lower inflation, which in the second quarter of 2020 moved into negative territory (-0.3 percent), primarily reflecting falling oil prices. The Central Bank managed to keep the exchange rate stable despite strong depreciation pressures and provided the necessary liquidity to financial markets. In July 2020, Croatia joined the Exchange Rate Mechanism (ERM II), one of the key steps in the process for the adoption of the euro. Fiscal stimulus measures, together with falling economic activity have taken a heavy toll on government finances. Central government deficit in the first six months of 2020 reached the highest level on record.

A Rapid Household Assessment of COVID-19 impacts indicated that low-wage earners are more likely to be affected by the crisis than those in the top income brackets. In addition, 26 percent of households experienced more difficulties in earning enough income to meet basic needs in June than in the pre-COVID-19 period. The same proportion of households reported a decline in income. Poverty is estimated to rise from 3.0 percent in 2019 to 3.6 percent in 2020 – amounting to approximately 20,000 additional Croatian living on less than $5.5 a day at 2011 PPP prices.

Outlook

Real GDP in Croatia is expected to decline by 8.1 percent this year, largely due to the country's strong reliance on tourism, the sector most affected by the crisis. Although easing of border restrictions since June has significantly helped the tourism sector, it is still going to bear the brunt of the impact with more than 40 percent decline in export revenues compared to 2019. In addition, adverse economic developments in Croatia's main trading partners are expected to weigh heavily on exports of goods. Personal consumption and investment are also expected to record a severe decline. Given fiscal expansion and falling economic activity, in 2020 Croatia is expected to register a fiscal deficit of close to 7 percent of GDP. This will temporarily reverse the downward trajectory of government debt which could by the end of the year reach almost 87 percent of GDP. Under the assumption of the pandemic being gradually brought under control, real GDP's upward trend could resume in 2021 with a strong rebound in tourism revenues. This will also result in recovery of the current account balance, that is expected to record a surplus after a temporary deficit in 2020. Furthermore, a recovery of investments will be supported by inflow of EU funds as well as by acceleration of the reconstruction after earthquake. Economic recovery and the discontinuation of fiscal stimulus measures is expected to put the public debt back on a downward path.

The crisis will affect working poor households, who have been disproportionately affected by unemployment. Low savings rate among these households limit their ability to mitigate the impacts of income loss on consumption. Even among those with savings, more than two-thirds would run out of savings within the next six months. In addition, a decline in international remittances is expected to negatively affect income of recipients at home. The current safety net programs may not be sufficient to offset households' total welfare losses given their limited financial space.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	3.1	2.7	2.9	-8.1	5.9	4.2
Private Consumption	3.1	3.2	3.5	-7.6	2.8	3.3
Government Consumption	2.2	1.3	3.3	2.7	2.3	2.5
Gross Fixed Capital Investment	5.1	4.1	7.1	-5.9	8.4	6.0
Exports, Goods and Services	6.8	3.7	4.6	-28.0	26.0	13.4
Imports, Goods and Services	8.4	7.5	4.8	-21.6	19.1	11.4
Real GDP growth, at constant factor prices	2.6	2.2	2.7	-8.1	5.9	4.2
Agriculture	-2.5	2.2	1.2	2.0	2.0	2.0
Industry	1.8	0.4	2.3	-6.6	4.1	4.6
Services	3.1	2.8	2.9	-9.2	6.8	4.2
Inflation (Consumer Price Index)	1.1	1.5	0.8	0.0	0.9	1.7
Current Account Balance (% of GDP)	3.5	1.8	2.8	-1.8	0.4	1.1
Net Foreign Direct Investment (% of GDP)	2.3	1.6	1.9	1.0	1.1	1.2
Fiscal Balance (% of GDP)	0.8	0.2	0.4	-6.5	-3.1	-2.0
Debt (% of GDP)	77.8	74.7	73.2	86.4	83.2	80.2
Primary Balance (% of GDP)	3.5	2.5	2.6	-4.1	-0.7	0.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.6	0.5	0.5	0.6	0.5	0.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	1.1	1.1	1.0	1.1	1.0	0.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	3.6	3.5	3.0	3.6	3.0	2.8

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

(a) Calculations based on ECAPOV harmonization, using 2017-EU-SILC. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.

(b) Projection using neutral distribution (2017) with pass-through = 0.87 based on GDP per capita in constant LCU.

GEORGIA

Table 1	2019
Population, million	3.7
GDP, current US$ billion	17.7
GDP per capita, current US$	4786.4
International poverty rate ($1.9)[a]	4.5
Lower middle-income poverty rate ($3.2)[a]	15.5
Upper middle-income poverty rate ($5.5)[a]	42.5
Gini index[a]	36.4
School enrollment, primary (% gross)[b]	98.6
Life expectancy at birth, years[b]	73.6

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

Georgia has thus far been successful in containing the spread of COVID-19 infections, but the economy has been hit hard by restrictions on mobility and collapse in external demand. The economy is projected to contract in 2020 by 6 percent, before an uncertain and gradual recovery in 2021 and 2022. A dollarized economy adds to the challenges of managing the shock. The shock is projected to increase poverty by as much as 2.8 percentage points in 2020.

Recent developments

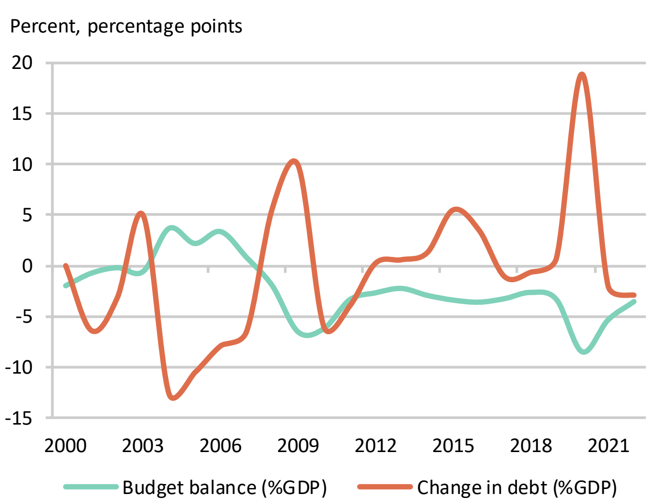
Georgian authorities successfully contained the spread of the COVID19, reacting swiftly and introducing stringent measures including border closures and lockdowns in March. The initial economic shock was severe, with the economy contracting 16.6 percent year-on-year (yoy) in April. With the infections being brought under control, restrictions were gradually loosened, and the economy started to recover, with real GDP contraction improving to 5.5 percent yoy by July 2020. Acceleration of government social spending, robust credit growth and resilient remittance inflows also added to the recovery. Nevertheless, most sectors remain in contractionary territory, except mining, and sewage and water supply. The impact on jobs has been severe. More than one-third of the employed were unable to work at the height of the restrictions. By early June, half of the people who stopped going to work had returned to their jobs. Still, more than 8 percent of jobs were lost in the second quarter while wages fell 11 percent yoy in real terms.

Inflation increased to 7 percent by end-2019, well above the central bank's target of 3 percent, on account of higher excises on tobacco in 2019 and a weaker lari. In response to the higher policy rate, inflation retreated in early 2020; however, the exchange rate overshot in March 2020 as the pandemic spread, and together with supply chain disruptions pushed inflation back to 6.9 percent in April. The recovery of the lari as well as year-on-year decline in global oil prices helped to bring inflation down to 4.8 percent in August. Given the severity of the demand shock created by COVID-19 and the downward pressure on inflation, the National Bank of Georgia (NBG) has gradually lowered its policy rate by 100 basis points since April 2020 to 8 percent.

The current account deficit deteriorated to 11 percent of GDP in the first quarter of 2020, almost doubling over the previous year, in response to a sharp drop in tourism proceeds and remittances. The current account is likely to have improved in the second quarter with more resilient-than-expected remittances, and a sharper contraction in imports compared to exports. On the financing side, net FDI and portfolio inflows underperformed compared to 2019. However, substantial public borrowing fully financed the deficit and allowed for strong reserve accumulation, despite more frequent interventions by NBG to stabilize the lari.

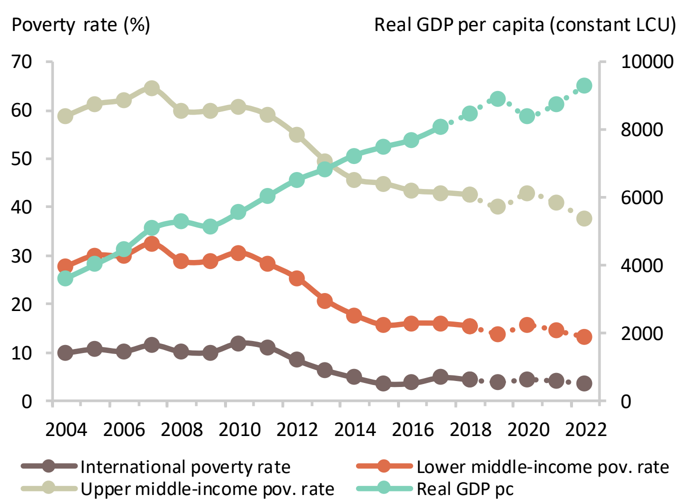
The fiscal deficit expanded with rising social spending and a decline in revenue collections. Tax revenues declined by 3.2 percent yoy in January-July. The government's fiscal stimulus package, estimated at 5.5 percent of GDP, pushed government consumption up by 18.4 percent yoy. Capital spending continues to recover following the COVID-19 related restrictions. The deficit in the year-to July reached 3.9 percent of GDP. Public debt, as of end-July, was up 29 percent yoy (to around US$8.2 billion or 50 percent of GDP). COVID19-related support from IFIs fully covered the fiscal needs.

FIGURE 1 Georgia / Budget Balance and Change in Debt (% of GDP)



Sources: Ministry of Finance of Georgia and WB staff estimates.

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



Source: World Bank. Notes: see table 2.

Outlook

The economy is projected to contract by 6 percent in 2020, with severe welfare impacts; poverty could go up by 2.8 percentage points (pp) (using the USD 3.20 PPP 2011 international poverty line) or by 4.6 pp using the national poverty line in 2020. This translates to as many as 160,000 Georgians becoming impoverished. In addition, over 400,000 could suffer downward mobility.

The fiscal stimulus, containing acceleration of capital spending, tax deferrals, accelerated VAT refunds and sector support for most affected businesses, as well as higher social spending, will continue to support the recovery in the rest of 2020. This is expected to push the fiscal deficit to around 8.5 percent of GDP in 2020 and public debt to 60 percent of GDP.

The external deficit is also expected to remain wide as suspended tourist arrivals and lower exports and remittances are only partially offset by shrinking imports. Robust support from IFIs is expected to ensure that the deficit is fully financed, and foreign exchange reserves remain at comfortable levels.

The pace of recovery beyond 2020 is contingent on the duration of the pandemic, the availability and distribution of a vaccine, and restoration of international trade and investment flows. A baseline scenario in which a second wave of infections does not materialize would see gradual economic recovery, with growth recovering to 4 percent in 2021 and 6 percent in 2022. Even so, real GDP under this scenario would be around 10 percent lower in 2022 than projected pre-COVID. The fiscal deficit in the baseline is expected to gradually decline to levels prescribed by the fiscal rule (3 percent of GDP). The current account deficit as a share of GDP is projected to similarly fall by almost half by 2022.

Risks and challenges

The key risk to the outlook is a more prolonged and severe COVID-19 outbreak that could lead to further restrictions. The rate of spread of infections has accelerated, albeit from a low base, in early September with certain restrictions reintroduced such as on large gatherings. If extended, this could lead to a contraction of about 7 percent in 2020 and a slower recovery, with output returning to pre-COVID levels only in 2023. In addition, a prolonged outbreak could adversely impact external balances, through impact on tourism (over 7 percent of GDP), exports and commodity prices. This, in turn, poses risks to macro-financial stability given high dollarization, unhedged balance sheets and a gross external debt in excess of 100 percent of GDP. The repayment of the Eurobond in 2021 creates some refinancing risk in case financial market conditions tighten further. Access to concessional financing from international finance institutions partly mitigates the risks.

Beyond the COVID-19 pandemic, substantial quasi-fiscal risks emanate from Georgia's state-owned enterprises and power purchasing agreements which provide state guarantees for the purchase of excess electricity from power generators. However, the institutional (through a stronger fiscal risk unit and Fiscal Risk Statement accompanying the Budget) and regulatory capacity (including the ongoing SOE governance reform agenda) to deal with these fiscal risks is increasing.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.8	4.8	5.1	-6.0	4.0	6.0
Private Consumption	7.4	5.8	3.8	-7.0	2.5	4.3
Government Consumption	1.1	1.6	9.3	-8.4	10.0	-4.6
Gross Fixed Capital Investment	3.4	1.9	2.3	-12.4	13.8	7.6
Exports, Goods and Services	11.7	10.1	10.7	-37.9	34.2	20.5
Imports, Goods and Services	8.1	10.3	6.8	-33.5	28.8	12.2
Real GDP growth, at constant factor prices	4.7	5.2	5.0	-5.9	4.1	5.9
Agriculture	-7.7	13.8	0.0	1.0	3.0	3.0
Industry	4.4	0.2	3.0	0.0	3.0	3.0
Services	6.3	5.8	6.1	-8.3	4.6	7.1
Inflation (Consumer Price Index)	6.0	2.6	5.0	5.3	4.0	3.0
Current Account Balance (% of GDP)	-8.1	-6.8	-5.0	-10.7	-8.0	-6.9
Net Foreign Direct Investment (% of GDP)	10.4	5.3	5.7	2.5	5.4	6.0
Fiscal Balance (% of GDP)	-3.2	-2.6	-3.3	-8.5	-5.3	-3.5
Debt (% of GDP)	41.6	41.4	42.6	59.8	57.3	55.1
Primary Balance (% of GDP)	-2.1	-1.5	-2.1	-7.2	-3.1	-1.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	5.0	4.5	3.9	4.5	4.2	3.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	16.1	15.5	13.9	15.7	14.5	13.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	43.0	42.5	40.0	42.8	40.9	37.6

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

(a) Calculations based on ECAPOV harmonization, using 2018-HIS. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Calculations based on ECAPOV harmonization, using 2018-HIS. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.

KAZAKHSTAN

Table 1	2019
Population, million	18.5
GDP, current US$ billion	180.2
GDP per capita, current US$	9731.2
School enrollment, primary (% gross)[a]	104.4
Life expectancy at birth, years[a]	73.2

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

The economy contracted by 3.0 percent in January-August of 2020 due to declining domestic demand brought by COVID-19. Supply disruptions and the currency depreciation pushed up inflation. In the best-case scenario for 2020, the poverty rate is likely to rise to 8.5 percent; in the worst case, it may increase to as much as 12.7 percent. Growth is likely to recover moderately in 2021 as disruptions associated with the pandemic dissipate and external demand picks up. The economy remains vulnerable to the course of the pandemic that could affect businesses and restrain employment.

Key conditions and challenges

Kazakhstan has made impressive progress since independence in reducing poverty and building a middle class. Rapid growth resulted from the harnessing of abundant hydrocarbon resources, strong global demand for commodities, and expansion of domestic demand. In less than two decades, GDP per capita increased eightfold, with the country currently accounting for nearly two-thirds of Central Asia's GDP with a quarter of the population.

The global economic slowdown and internal structural weakness have challenged the sustainability of Kazakhstan's growth model. Sluggish productivity growth, excessive state involvement in the economy, and increased dependence on commodities have been the main contributors to the weak economic performance. The COVID-19 pandemic further reinforced the urgent need for reforms to reverse the declining growth capacity.

To support a resilient and sustainable economic recovery, Kazakhstan needs to promote important reforms. First diversifying economic base through improving competitiveness of its non-extractive sectors and continuing reforms in the financial sector. Second, limiting the dominance of large SOEs in the economy, strengthening competition, and reducing the government role in deciding the allocation of resources that distorts the environment for the private sector. Third, strengthening public sector institutions and reinforcing the rule of law to attract much-needed investment

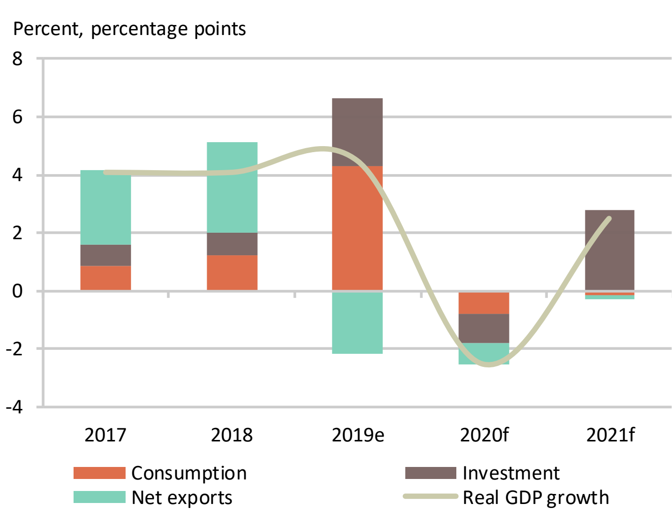
Recent developments

The nationwide lockdown over COVID-19 and the precipitous fall in oil prices have been the double hits to the economy. GDP fell by 3.0 percent in January-August of the year, reflecting the stringency of the restrictions that depressed economic activity. Consumer demand is likely to have shrank notably as retail trade fell by 11.7 percent. Investment dropped by 5.2 percent, while exports have fallen amid weak global context. On the supply side, the contraction has been concentrated in the sectors most affected by the lockdown – hospitality, retail, travel and leisure.

Despite weakened exports, lower imports and repatriation of profits helped shift the current account into a surplus of 0.3 percent of GDP in the first half of the year. The surplus of the current account helped increase central bank FX reserves to $35.4 billion in August from $29 billion in December 2019. Falling oil prices led the tenge to lose about 15 percent of its value against the US dollar in mid-March. However, following the pickup in oil prices and interventions by the NBK, the tenge regained a third of its earlier losses.

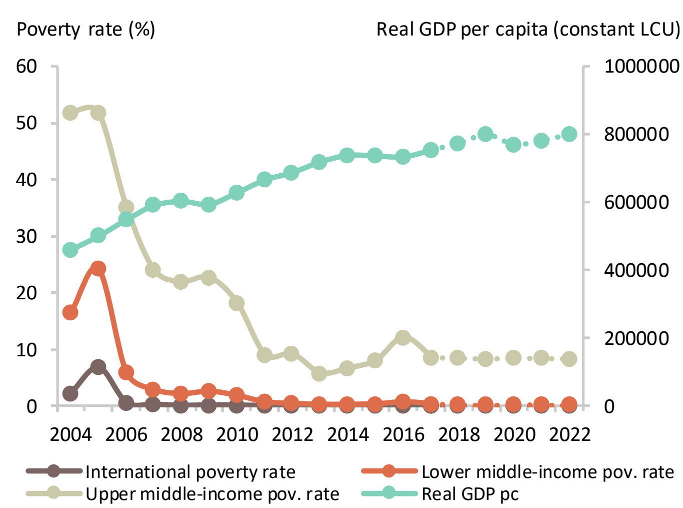
The authorities swiftly responded to the pandemic with a fiscal stimulus, scaling up spending on social assistance and support to SMEs. The budget spending increased by an estimated 5.3 percent of GDP to 26.7 percent in January-June. To make up for the non-oil

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



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

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



Source: World Bank staff estimates. Notes: see table 2.

revenue shortfall, the Oil Fund reserves were deployed, which helped to limit the deficit increase. The deficit rose to 2.9 percent of GDP from a near balance a year earlier, whereas the non-oil deficit surged to 15.1 percent, reflecting the increasing reliance on oil revenues. Public debt moved slightly up to 22.1 percent of GDP.

Inflation rose to 7.0 percent y-o-y in August from a 5.4 percent in December of 2019, above the National Bank (NBK) 4–6 percent target range. Higher food prices, which grew by 10.9 percent in August y-o-y, contributed the most to the increase in inflation. Despite higher inflation, concerns over declining economic activity led the NBK to cut its policy rate by 50 bps. to a 9.0 percent in July.

So far, the banking system is weathering the crisis relatively well, thanks to improved balance sheets after a series of bailouts before. Despite falling economic activity, banks sustained profits due, in part, to active lending. While growth in retail credit remained robust, corporate lending has begun to recover. The ratio of nonperforming loans (NPLs) rose to 9 percent in July from 8.1 percent in December 2019. However, higher insolvency risks, notably of micro and small businesses, after a slow resumption of activity, could stress further the banks' loan portfolios and lead to higher NPLs. The pressure on the financial sector may further increase if firms' leverage increases further while business prospects remain sluggish after the tax deferral measures expire and liquidity support is reduced.

The official unemployment rate edged up to 5.0 percent in July from a pre-pandemic 4.8 percent, however, actual joblessness rate is likely be much sharper for self-employed and part time workers. The crisis is likely hurt disproportionally the poor and the vulnerable as employment contraction amplifies the burden of falling incomes. The share of people living on less than $5.5 a day is expected to increase to at least 8.5 percent in 2020 in the most optimistic scenario. However, if the impact on the population follows a similar pattern to previous downturns, poverty may rise to as much as 12.7 percent due to concentrated

Outlook

This year Kazakhstan is facing a sharp decline in economic activity and an increase in unemployment and poverty, despite the substantial fiscal response.

Conditional on the course of the COVID-19, we project real GDP to contract by 2.5 percent in 2020. The prospect of economic recovery in 2021 is, nonetheless, confronted by uncertainty over the pandemic, global demand for oil, and structural challenges. Growth could recover to a point within 2.0-3.0 percent range and could return to its pre-pandemic level only by 2022, translating into a gradual reduction in poverty rate.

Inflationary pressure is expected to persist this year and abate gradually through 2021, remaining above the NBK's target range.

The current account is likely to move into a deficit in 2020, as the OPEC+ agreement on oil exports remains in force and imports begin to recover. The pressure on the external balance will diminish as exports and the price for oil gradually improves and the fiscal stimulus wanes.

The authorities target a narrower fiscal deficit in 2021, reflecting the recovery of the economy and the lapse of pandemic-related spending. The nonoil deficit is projected to decline to nearly 9.0 percent of GDP in 2021 but remain above the mid-term target of 6 percent. Government debt is likely to rise to a still moderate 30 percent of GDP over the medium term but remain sustainable.

The risk of additional COVID-19 outbreaks and subsequent restrictions cannot be ruled out. Further mobility restrictions could increase business defaults and stress to the banking sector. The pressure on the financial sector may increase if firms' leverage grows further layoffs as firms might not be able to offset the costs of retaining jobs. This could squeeze incomes of a large portion of low-skilled workers, contributing to a higher poverty rate.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.1	4.1	4.5	-2.5	2.5	3.4
Private Consumption	1.5	5.3	5.8	-4.7	3.4	4.1
Government Consumption	1.9	-14.0	15.5	18.6	-16.7	0.7
Gross Fixed Capital Investment	4.0	4.6	11.9	-2.5	2.4	3.3
Exports, Goods and Services	6.4	11.5	2.2	-5.4	2.7	2.9
Imports, Goods and Services	-1.4	3.2	11.6	-2.4	3.4	3.1
Real GDP growth, at constant factor prices	3.9	4.1	4.5	-2.4	2.6	3.4
Agriculture	3.2	3.2	0.9	2.6	2.4	2.6
Industry	6.3	4.1	3.8	-1.5	2.9	3.3
Services	2.5	4.2	5.3	-3.5	2.5	3.5
Inflation (Consumer Price Index)	7.4	6.2	5.3	7.7	6.2	5.4
Current Account Balance (% of GDP)	-3.1	0.0	-3.6	-3.1	-1.9	-1.5
Net Foreign Direct Investment (% of GDP)	2.3	2.8	3.2	2.3	2.8	5.4
Fiscal Balance (% of GDP)	-2.5	-1.1	-1.5	-4.1	-3.8	-2.0
Debt (% of GDP)	20.1	20.7	19.8	26.6	29.2	29.5
Primary Balance (% of GDP)	-1.6	-0.2	-0.5	-3.0	-2.9	-0.9
International poverty rate ($1.9 in 2011 PPP)[a,b]		0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]		0.4	0.3	0.4	0.4	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]		8.5	8.4	8.5	8.4	8.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2011-HBS and 2017-HBS. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.
(b) Projection using annualized elasticity (2011-2017) with pass-through = 0.87 based on GDP per capita in constant LCU.

KOSOVO

Table 1	2019
Population, million	1.80
GDP, current US$ billion	8.4
GDP per capita, current US$	4649.2
Life expectancy at birth, years[a]	72.2

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

Kosovo's economy is expected to contract by 8.8 percent in 2020. The COVID-19 pandemic caused a decline in service exports, and reduced investment and consumption. The government responded quickly by providing support to firms and workers; nevertheless, employment is expected to fall and poverty to increase. Increasing remittances should mitigate the impact of the contraction. The recovery is expected to be slower than projected earlier, as the pandemic is lasting longer than expected, hindering growth in 2021.

Key conditions and challenges

Kosovo grew at an average of 4.1 percent over the last 5 years. Despite this strong performance, only 30 percent of the working age population had a job and 18 percent of the population was living with less than US$5.5 per person per day (in 2011 PPP) in 2019. Kosovo's growth model is largely consumption-based, with a significant reliance on diaspora financing. Private investment added to growth in recent years, but was mostly concentrated in trade and construction industries, with limited productivity spillovers. Poor education and health outcomes limit the contribution of human capital to inclusive growth. As a largely service-based economy, Kosovo was particularly vulnerable to the COVID-19 shock.

The duration of the pandemic, and hence the magnitude of the economic and social consequences, remains highly uncertain. Growth will be significantly hindered by the COVID-19 pandemic. To cushion the impact of the recession, the government should continue investing in effective health management of the pandemic, accelerate implementation of public projects with IFI financing, improve effectiveness of social protection and prioritize limited fiscal space to support private sector jobs.

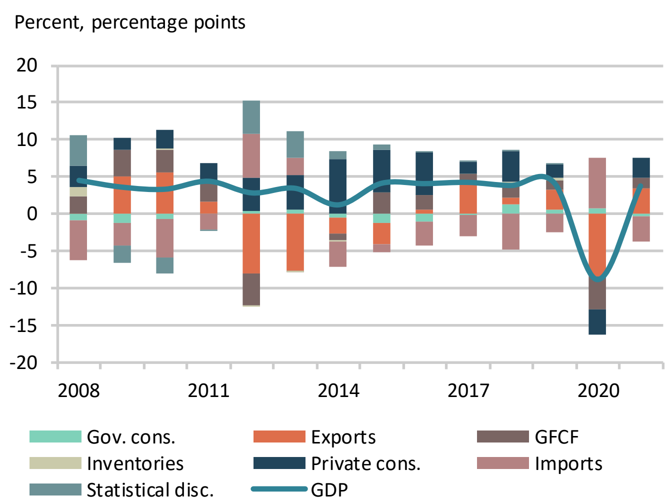
To support a resilient recovery in the medium-term, Kosovo should invest in human capital, increase public spending effectiveness and address regulatory gaps to support private sector development.

Recent developments

In 2019, growth reached 4.2 percent, driven by higher consumption, strong service exports, and higher investment. However, key indicators available at end-August 2020 suggest a strong decline in economic activity. The economy is projected to contract by 8.8 percent in 2020. The contraction is primarily driven by declining service exports due to limited diaspora visits, lower private consumption against lower disposable income, and constrained private investment due to heightened uncertainty. This is also reflected in an unprecedented drop in goods imports. Higher base metal exports and remittances cushioned the impact of the pandemic. With some delay, the government implemented emergency support measures for households and firms. The financial sector has managed to withstand the impact of the contraction, with the stock of deposits and loans increasing y-o-y by 12.7 percent and 6.7 percent, respectively, until July 2020. NPLs remain low at 2.5 percent for the same period, reflecting also the impact of CBK measures (debt moratorium and restructuring guide).

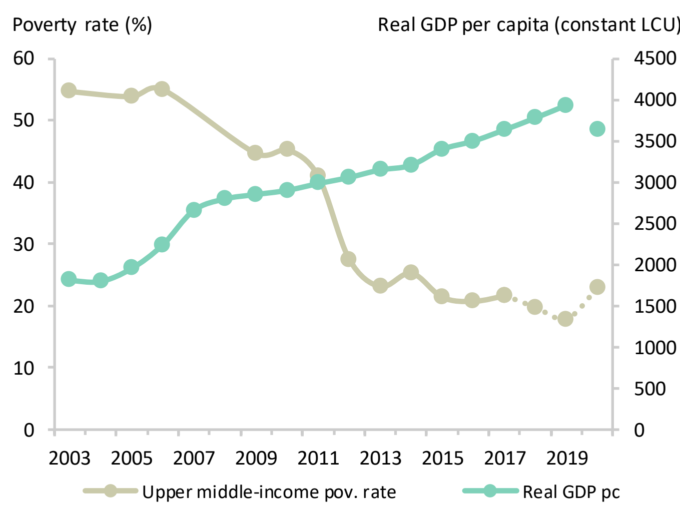
Consumer price inflation reached 2.6 percent in 2019 but decelerated to an average of 0.6 percent y-o-y by August 2020, reflecting a deceleration in food price inflation, lower transport costs due to lower oil prices, and lower domestic

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



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

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



Source: World Bank.

demand. Inflationary pressures picked up after the easing of containment measures in June 2020 but entered a deflationary path in July and August. CPI inflation is projected to average 0.5 percent y-o-y in 2020.

The current account deficit will deteriorate to 7.2 percent of GDP in 2020. Goods exports are projected to increase by almost 10 percent in 2020 on account of increasing nickel exports. However, against a relatively small share of goods exports, total exports are projected to drop by over 30 percent in 2020 driven by a contraction in service exports as a result of lower diaspora visits at their peak season (June-August). Imports of goods have declined by 9 percent until July 2020 and are expected to close the year at -12 percent. FDI inflows increased by 3.4 percent y-o-y by June 2020 thanks to investment in energy and mining in the first two months of the year, but real estate FDI inflows declined by 18.2 percent for the same period. Net FDI increased by 64 percent by June 2020 due to lower dividend repatriation. Remittance inflows increased by 9.8 percent y-o-y at end-July 2020.

The overall budget deficit is expected to reach 9.5 percent of GDP driven by a decline in public revenues (13.4 percent), higher current expenditure in response to the crisis, and the contraction in GDP. Public and publicly guaranteed debt is expected to stand at 22.6 percent of GDP by end-2020. The government had to relax the application of fiscal rules to respond to the crisis.

Labor force participation stood at 38.8 percent of the working age population (WAP) in Q1 2020 (before COVID containment measures were implemented), similar to Q1 2019. The employment rate has been largely constant since 2017, at 28-29 percent of the WAP, suggesting that growth was not accompanied by significant job creation. The COVID-19 crisis is expected to reduce employment and, despite the measures adopted by the government to protect jobs and incomes, poverty is expected to increase by around 5 pp. A Business Pulse Survey (BPS) conducted in Kosovo by the World Bank showed that most businesses reported reduced working hours, unpaid leave, and 12 percent of firms surveyed had laid off at least one worker in April.

Outlook

The outlook remains uncertain, both globally and regionally. Following a marked contraction in 2020, a modest recovery of 3.7 percent is expected in 2021. A recovery in 2021 and 2022 will depend on a rebound in EU growth and the successful containment of the pandemic until vaccines are available and accessible. The level of international travel restrictions – especially with Germany and Switzerland – and the financial sector response to a prolonged pandemic are additional determinants of the recovery path. The outlook is also associated with upside risks, including an effective delivery of the Government-announced economic recovery plan, and an increase in investment contingent on the implementation schedule of the recent economic normalization agreement between Kosovo and Serbia. Economic growth is projected to reach 4.9 percent in 2022.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.2	3.8	4.2	-8.8	3.7	4.9
Private Consumption	1.8	4.8	2.1	-3.9	3.0	5.0
Government Consumption	-0.6	8.9	3.6	5.0	-2.1	-0.3
Gross Fixed Capital Investment	5.7	6.1	4.6	-16.3	5.0	3.8
Exports, Goods and Services	16.8	3.8	10.5	-30.0	16.5	17.1
Imports, Goods and Services	5.4	9.0	4.6	-12.1	6.3	8.3
Inflation (Consumer Price Index)	1.5	1.1	2.7	0.5	0.6	1.2
Current Account Balance (% of GDP)	-5.4	-7.6	-5.5	-7.2	-5.8	-5.3
Net Foreign Direct Investment (% of GDP)	3.3	3.4	2.8	3.7	4.6	4.6
Fiscal Balance (% of GDP)	-1.2	-2.8	-2.9	-9.5	-6.7	-4.6
Debt (% of GDP)	15.5	16.3	17.0	22.6	27.3	29.6
Primary Balance (% of GDP)	-0.9	-2.5	-2.5	-9.0	-6.1	-3.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a]		19.7	17.9	22.9		

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. Data adjusted with original 2011PPP factor. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.

KYRGYZ REPUBLIC

Table 1	2019
Population, million	6.4
GDP, current US$ billion	8.5
GDP per capita, current US$	1328.2
School enrollment, primary (% gross)[a]	107.6
Life expectancy at birth, years[a]	71.4

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

Real GDP contracted by 5.9 percent in January-August 2020 on account of the COVID-19 outbreak. External trade shrank significantly and the fiscal position worsened. With the impact of the coronavirus likely to remain sizable in the second half, GDP is projected to decline by 5.5 percent. Health and economic shocks are driving poverty up. Growth is expected to rebound in 2021-22, assuming the pandemic is brought under control and external demand improves. Risks to the outlook include a second wave of the coronavirus and a delay in access to vaccine.

Recent developments

The Kyrgyz Republic is among the countries hard-hit by the global COVID-19 outbreak. The government undertook immediate measures to contain the spread of the coronavirus to save lives, including temporary shut-down of businesses, closure of borders and mobility restrictions, leading to a deep economic crisis. To address health, social, poverty and economic impacts of the pandemic, the government adopted two anti-crisis plans supported by international partners.

Real GDP contracted by 5.9 percent in January-August 2020, year-on-year. All sectors of the economy registered negative growth except for gold production and agriculture. Major disruptions were in wholesale and retail trade, public catering, consumer services, transportation and construction. With border closures, including with China, external trade fell by 22 percent in January-June 2020, year-on-year. Hit by lower remittances (down 13 percent year-on-year) and domestic demand, imports fell by more than 30 percent. Exports rose by 2 percent, thanks to higher gold exports. As a result, trade deficit declined to 22.2 percent of GDP from 32.7 percent a year ago.

Lower revenues and higher expenditures to ameliorate the pandemic led to a deteriorating fiscal position. Revenues fell compounded by the lockdown. To alleviate the impact, businesses were granted tax payments postpone. On the other hand, expenditures increased owing to additional health and social assistance spending. As a result, the deficit soared to 7.4 percent of GDP in the first half of 2020 from 0.3 percent a year ago and public debt increased to 62 percent of GDP as of end-June from 54 percent in December 2019. The fiscal deficit is expected to remain high at 7.1 percent of GDP in 2020.

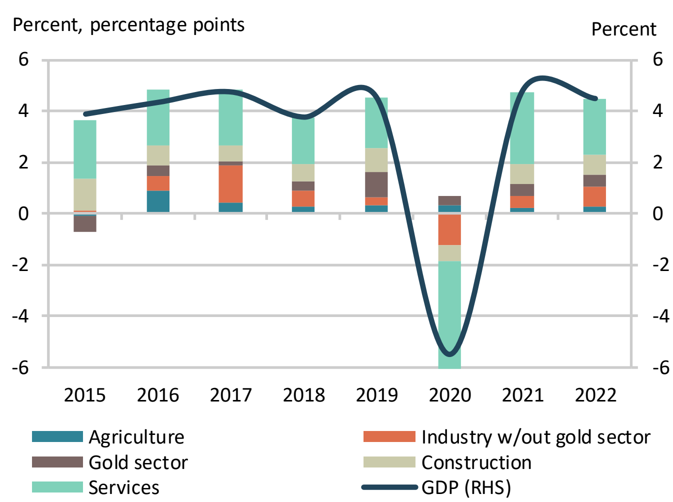
The pass-through from the exchange rate depreciation led to a jump in inflation. The 12-month rate of inflation peaked at 8.6 percent in April 2020, up from 3.1 percent in December 2019. A sharp depreciation of the som in March was a contributing factor. With the som regaining some of its value since then, inflation moderated to 5 percent by August 2020. To maintain exchange rate stability, the central bank sold $210 million in forex reserves in the first half of the year. However, gross official reserves remain at an adequate level of 3.9 months of imports, with the central bank purchasing locally produced gold.

The economic, health and social shocks are driving poverty up. With lower labor earnings, reduced remittances, job losses, and higher food prices, poverty rate may increase by 5.8 percentage points in 2020 compared to 2019. Majority of the population remain vulnerable to poverty. With clustering just above the poverty line, the number of poor people is expected to increase and will require social assistance.

Outlook

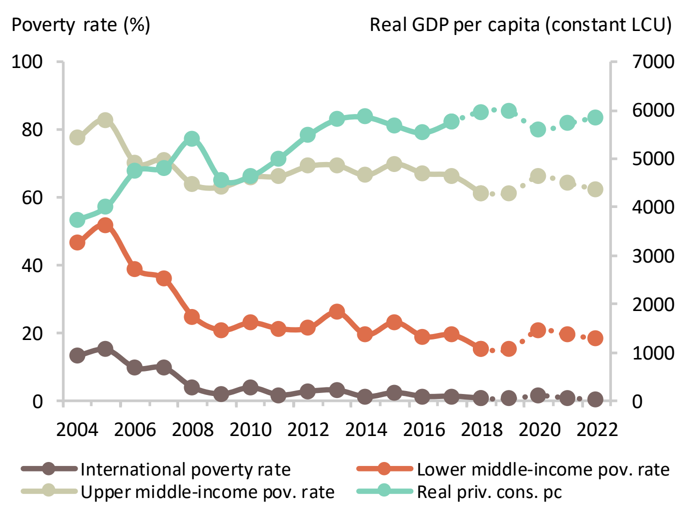
The coronavirus has weakened the macroeconomic outlook. With the pandemic

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



Sources: Kyrgyz authorities; WB staff calculations.

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



Source: World Bank. Notes: see table 2.

likely to continue to impact businesses in the remainder of the year, our baseline scenario projects a decline in real GDP of 5.5 percent in 2020. Growth is forecast to rebound to 4.8 percent in 2021 as domestic activity recovers with likely vaccine availability and as external demand and trading conditions improve. Growth is projected to slow to its long-term average of 4.5 percent in 2022. With the stabilization of the exchange rate, inflation is expected to be within the range of 5-6 percent. The current account deficit is projected to widen to about 12 percent of GDP in 2020 reflecting lower non-gold exports and reduced remittance inflows. However, with export growth recovering, it is expected to narrow to around 9 percent of GDP in 2021-22.

Over the medium term, the authorities target the fiscal deficit to decline to 3 percent of GDP. Fiscal consolidation would require measures to expand the tax base, roll back the pandemic-related expenditures, streamline non-priority purchases, and reduce the wage bill as a share of GDP.

The level of uncertainty underlying our baseline scenario is substantial. Under a downside scenario, which assumes a second wave of the coronavirus in November as some health experts predict, real GDP is expected to contract by 8 percent in 2020, with the current account and fiscal deficits deteriorating to around 14 percent and 8 percent of GDP, respectively.

The poverty rate is projected to remain high in 2021-2022, since households will continue to face the impact of coronavirus. An increase in number of the poor families will create pressure on the social assistance system. Social transfers will continue to play a critical role in supporting the poor and vulnerable population. Provision of temporary financial support for the unemployed and poor families with children as well as the expansion of the coverage of social protection measures will be crucial to help the population in managing the shock.

Risks and challenges

Key risks for 2020-2021 include a second wave of the COVID-19 and delays in access to a vaccine. If these materialize, the government will have to reintroduce restrictions on economic activities and physical movements. Given the already weakened state of economy, this will likely lead to an even harder adverse impact on welfare than the first wave. Political instability could be triggered by the parliamentary elections outcomes in October 2020.

Over the medium term, economic performance will continue to be vulnerable to developments in its major trading partners. A slowdown in Russia or Kazakhstan could negatively impact the economy through remittances and trade.

The failure to meet quality and phytosanitary standards and technical regulations remains a hindrance to trade, especially within the Eurasian Economic Union. Stricter sanitary and phytosanitary standards need to be met, and laboratories should be internationally accredited and better linked to exporters. Enhancing trade facilitation is critical as only 12.2 percent of its commitments to the WTO's Trade Facilitation Agreement (TFA) was implemented. Improving regional connectivity is important for stronger growth in output, exports, and jobs.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.7	3.8	4.5	-5.5	4.8	4.5
Private Consumption	6.3	5.0	1.6	-5.2	3.5	3.4
Government Consumption	1.3	1.3	0.5	2.4	0.6	0.4
Gross Fixed Capital Investment	9.2	6.9	2.3	-16.8	12.5	10.9
Exports, Goods and Services	6.1	-2.7	19.8	-5.0	5.3	7.3
Imports, Goods and Services	7.4	7.4	2.9	-11.5	7.4	8.5
Real GDP growth, at constant factor prices	3.8	3.4	5.1	-5.5	4.8	4.5
Agriculture	2.2	2.6	2.6	2.0	2.2	2.2
Industry	8.6	6.6	15.8	-9.3	8.9	8.4
Services	3.3	2.7	2.7	-9.9	5.2	4.6
Inflation (Consumer Price Index)	3.2	1.5	1.1	5.7	5.4	5.0
Current Account Balance (% of GDP)	-6.3	-12.1	-9.9	-11.7	-9.5	-9.2
Net Foreign Direct Investment (% of GDP)	2.9	1.7	2.5	3.0	6.1	5.7
Fiscal Balance (% of GDP)	-4.7	-1.6	-0.6	-7.1	-4.1	-3.0
Debt (% of GDP)	58.8	54.7	54.1	64.2	64.6	63.6
Primary Balance (% of GDP)	-3.6	-0.5	0.6	-5.8	-2.4	-1.3
International poverty rate ($1.9 in 2011 PPP)[a,b]			0.8	1.7	1.1	0.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]			15.3	21.1	19.6	18.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]			61.1	66.2	64.2	62.3

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

(a) Calculations based on ECAPOV harmonization, using 2013-KIHS and 2018-KIHS. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.

(b) Projection using average elasticity (2013-2018) with pass-through = 0.87 based on private consumption per capita in constant LCU.

MOLDOVA

Table 1	2019
Population, million	3.5
GDP, current US$ billion	12.0
GDP per capita, current US$	3395.4
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.9
Upper middle-income poverty rate ($5.5)[a]	12.8
Gini index[a]	25.7
School enrollment, primary (% gross)[b]	90.6
Life expectancy at birth, years[b]	71.8

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

COVID-19 has drastically deteriorated the outlook for Moldovan economy with a significant recession expected in 2020. The combination of declining taxes and increased discretionary spending (including for 2020 Presidential elections) would help mitigate the impact of the crisis. Beyond 2020, the high uncertainty on the duration of the pandemic and on its economic and social ramifications could further constrain firms, workers and households, hampering the recovery. If downside risks materialize, reduced fiscal space may limit the capacity for further countercyclical measures.

Key conditions and challenges

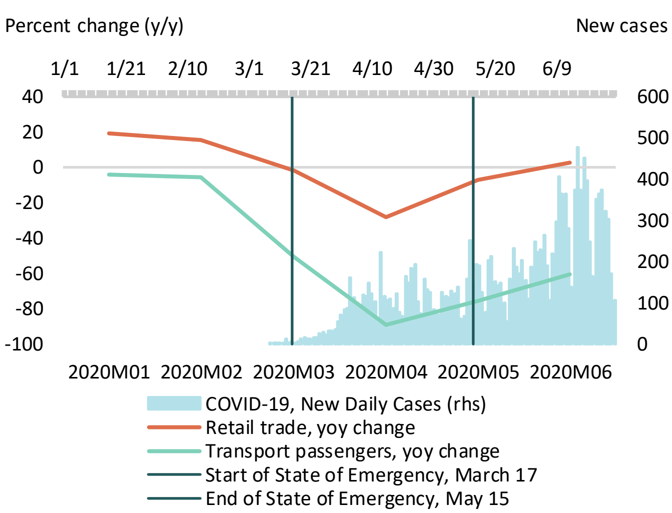
Despite a solid economic growth and poverty reduction over the last decade, Moldova has fallen short of its aspiration to achieve faster convergence towards EU income levels. Moreover, the economic model continues to be reliant on remittances-financed consumption growth. Declining productivity growth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

COVID-19 has brought to the fore the limits of an economic model reliant on remittances and consumption growth, exacerbating the impact of the crisis. The combination of the global recession, disruptions in global and domestic supply chains, measures to flatten the contagion curve, financial and investment risk aversion, among other, are taking a heavy toll on the key components of aggregate demand. While the medium-term growth prospects remain positive, a sustained recovery hinges on the containment of the pandemic and on a more favorable external environment. A new wave of restrictions imposed in the country and in the main trading partners may further reduce consumer and business confidence leading to even lower remittances and exports. On the fiscal side, with headwinds before elections, the 2020 budget envisages an ambitious fiscal stimulus in response to COVID-19. This stimulus however might not be sufficient to stabilize the economy if downside risk materializes. Domestic risk lies on political instability in the runup to the 2020 Presidential elections, institutional weaknesses, and political constraints to implement reforms of the judiciary and the regulatory environment. Fragile economic conditions and low productivity levels are exacerbated by high footprint of the state in the economy, shrinking fiscal space, low financial intermediation and governance challenges. Additionally, as shown by the ongoing drought episode, the economy is highly vulnerable to extreme weather.

Recent developments

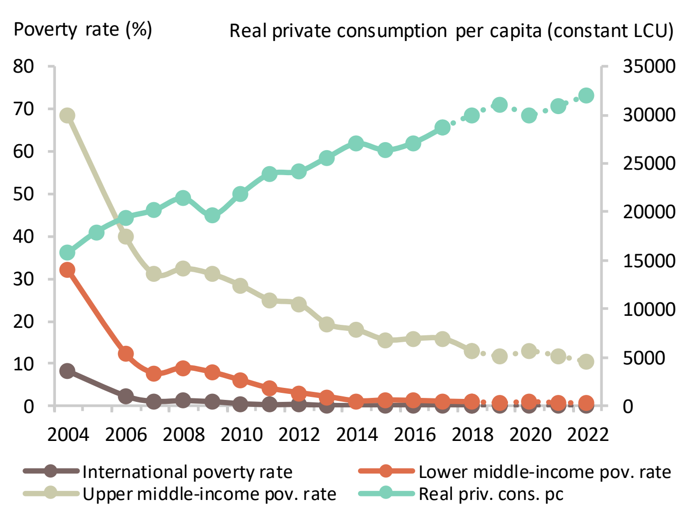
Following subdued growth at end year 2019 and exacerbated by the outbreak of the COVID-19, country's GDP dropped in Q2 2020 by 14 percent, y-o-y. This was driven primarily by a contraction in households' consumption and investments on the demand side. Current account deficit stood at 7.6 percent of GDP in 2020 Q1, mostly financed by debt instruments, reserve assets by National Bank, private deposits and FDIs. On the supply side, the lockdown measures have halted industrial production and trade activities while a severe drought has impacted agriculture.

FIGURE 1 Moldova / High-Frequency Data



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

Annual inflation rate remains within the National Bank's policy range of 5.0 percent ± 1.5. The policy rate was further cut by 0.25 percentage points to 2.75 percent in September 2020, and reserve requirements were reduced to increase credit to private sector. In July, credits increased by 13.8% yoy, while the NPL ratio increased marginally to 8.8%. The banking system is well capitalized and liquid.

The fiscal stance has deteriorated due to a decline in revenues by almost 3 percent and increase in spending by 3.4 percent, mostly wages and transfers, while public investment was cut by almost 13 percent. Health sector and social protection amounted to about 50 percent of total spending as of July 2020. With mounting financing needs, the public and publicly guaranteed debt increased from 27.4 percent of GDP in 2019 to 33.2 percent in 2020.

The labor market conditions have been heavily affected by COVID-19 with a decline in most sectors resulting in a 9 percent drop in employment in the first half of 2020 compared to the same period of 2019. The COVID-19 have also had an impact on household income, in the first half of 2020, compared to the same period of 2019, as twice as many individuals reported to be with a job but not working (either unpaid leave or technical unemployment).

Outlook

Weaker economic growth in the EU combined with the effects of the lockdown is expected to lead to significant economic contraction in 2020. While uncertainty remains, key components of aggregate demand are expected to suffer significant declines. Assuming no additional restrictive measures domestically and more favorable external conditions in the region, a slow upturn of the economy is envisaged starting in late 2020/early 2021.

In the medium term, growth is expected to stabilize below potential as uncertainty weighs in on economic activity. The current account deficit is projected to remain higher than historical averages as external demand and remittances remain subdued. Falling disposable income, large output gap, low energy prices along with moderate appreciation, will outweigh the bad agricultural yield and accommodative fiscal and monetary inflationary pressures. Fiscal deficits are also expected to remain higher than historical averages in the 2020-21. Poverty is expected to increase as households grapple with the effects of the COVID-19 including loss of employment and earnings, a reduction in remittances receipts and the return of the most vulnerable migrants due to worsening economic situation abroad. The scaling up and modification of social interventions, including through increased support to vulnerable groups and extension of unemployment benefit coverage to returning migrant workers and former informal sector workers, is likely to temper the effects of the crisis on poverty. Social protection might need to be enhanced over the medium term to minimize the residual effects of the COVID-19.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.7	4.3	3.6	-5.2	3.5	3.7
Private Consumption	5.4	4.5	3.2	-3.8	2.8	3.1
Government Consumption	1.1	-0.2	-0.5	1.5	0.0	0.0
Gross Fixed Capital Investment	8.0	14.5	12.9	-12.3	7.5	8.4
Exports, Goods and Services	10.9	7.2	7.3	-8.4	6.3	7.1
Imports, Goods and Services	11.0	9.7	6.7	-7.0	5.0	6.0
Real GDP growth, at constant factor prices	4.2	4.4	3.9	-5.2	3.4	3.6
Agriculture	8.6	2.6	-2.3	-14.0	1.5	1.8
Industry	3.8	8.3	7.1	-6.1	5.3	5.4
Services	3.4	3.3	4.1	-2.9	3.0	3.2
Inflation (Consumer Price Index)	6.6	3.1	4.7	4.1	4.4	5.0
Current Account Balance (% of GDP)	-5.7	-10.6	-9.7	-10.0	-9.8	-9.0
Net Foreign Direct Investment (% of GDP)	1.5	2.4	4.5	1.3	3.3	3.5
Fiscal Balance (% of GDP)	-0.6	-0.8	-1.4	-5.4	-2.4	-2.0
Debt (% of GDP)	32.7	30.1	27.4	33.2	35.1	36.2
Primary Balance (% of GDP)	0.5	0.0	-0.7	-4.6	-1.6	-1.2
International poverty rate ($1.9 in 2011 PPP)[a,b,c]	0.1	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b,c]	1.0	0.9	0.8	0.9	0.8	0.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b,c]	15.8	12.8	11.8	12.8	11.8	10.6

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

(a) Calculations based on ECAPOV harmonization, using 2018-HBS. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.

(b) Projection using neutral distribution (2018) with pass-through = 0.7 based on private consumption per capita in constant LCU.

(c) Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.

MONTENEGRO

Table 1	2019
Population, million	0.6
GDP, current US$ billion	5.5
GDP per capita, current US$	8833.4
School enrollment, primary (% gross)[a]	100.0
Life expectancy at birth, years[a]	76.8

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

The COVID-19 crisis has again exposed Montenegro's vulnerability to external shocks, including its limited fiscal buffers. The economy is projected to contract by about 12 percent in 2020, the deepest recession in decades. The crisis has reversed the employment gains and poverty reduction in recent years though crisis mitigation measures have prevented even worse impacts. Public debt is expected to surge to new highs. The economy is projected to rebound in 2021, but GDP will not fully recover before 2022.

Key conditions and challenges

Benefiting from economic transformation after independence and the EU accession process, economic activity in Montenegro has been solid, yet with significant boom and bust periods over the last two decades. With unilateral euroization, Montenegro relies on fiscal policy and structural reforms to respond to the economic fluctuations.

Montenegro opened all the EU negotiation chapters, but shortcomings in the rule of law are impeding further progress. The latter reflect a key development constraint: the lack of a private sector level playing field due to, among other, weak institutions to safeguard competition and anti-corruption.

Montenegro entered 2020 with record high employment and average GDP growth of 4 percent in the last five years. Yet, much of growth was driven by import-dependent consumption and investment (including debt-financed public motorway construction), which increased external imbalances, largely financed by net FDI. Despite fiscal consolidation in recent years, public debt reached 77 percent of GDP in 2019.

The COVID-crisis is exposing and exacerbating Montenegro's vulnerabilities: growth is estimated to contract by 12.4 percent in 2020, driven by a slump in tourism exports which will also widen the current account deficit (CAD). The fiscal deficit is projected to increase to 11.7 percent of GDP, requiring post-crisis fiscal adjustments. The widening deficit is assumed to be financed by drawing-down deposits and public debt, estimated to soar to 93 percent of GDP. These macro vulnerabilities translate into significant micro vulnerabilities with fewer jobs, declining income, rising poverty, and social impacts on children and families.

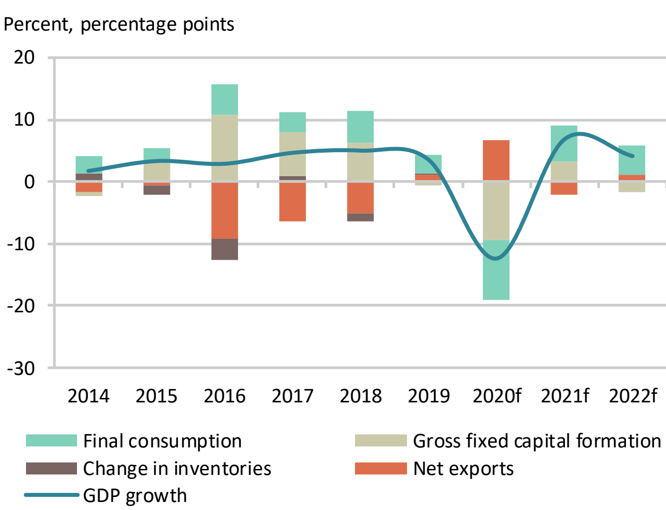
Strong fiscal management, independent and accountable state institutions, an independent and efficient judiciary, and a merit-based public sector administration are fundamental to increase Montenegro's resilience to shocks. They would enable more inclusive, private-sector led growth and efficient service delivery to citizens.

Recent developments

Montenegro is facing the deepest recession in decades, driven primarily by a sharp decline in tourism which accounts for almost a quarter of GDP. Tourism receipts in 2020 are estimated at 25 percent of the 2019 level. Available high-frequency indicators suggest only a sluggish recovery in June, as both retail trade and industrial production contracted by 22 percent y-o-y, while foreign tourist overnight stays were at only 3 percent of last year.

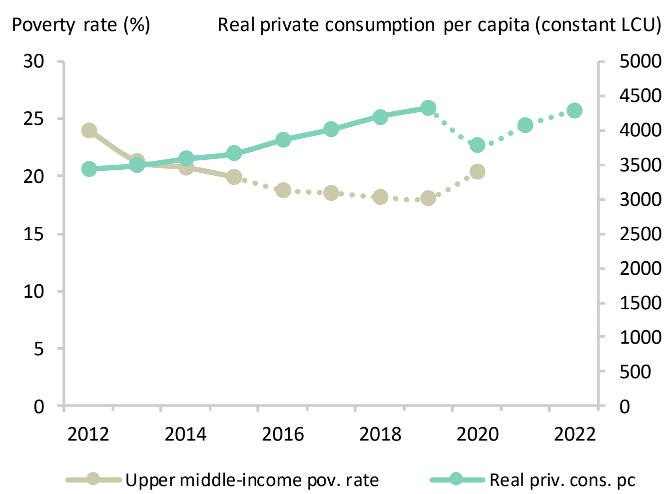
The crisis has wiped out the employment gains in recent years. Administrative data show a decline of 8 percent y-o-y by June. All sectors registered declining employment. Wage subsidy and one-off cash

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



Sources: MONSTAT, World Bank.

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



Source: World Bank. Notes: see Table 2.

transfers helped to avoid larger layoffs and increases in poverty for now, though these measures are likely to miss informal workers. Poverty is estimated to increase to 20.4 percent in 2020.

The financial sector has been resilient so far. In response to the crisis, the Central Bank introduced loan repayment moratoria, loans restructuring, and lowered reserve requirements. By July, lending grew by 6 percent, while deposits fell by 3.5 percent. In June, non-performing loans (NPLs) remained at 5.6 percent of total loans, and the capital adequacy ratio was at a healthy 19.6 percent. By July, banks' net profits declined by almost 50 percent, reflecting a decline in economic activity and corporate profitability which may also lead to rising NPLs in the future.

Imports are falling fast, but the loss of tourism revenue is widening the CAD. By June, exports and imports of goods and services contracted by 32 and 19 percent, respectively. In the same period, net FDI declined by 9 percent, with debt and deposit draw-down financing the rest of the CAD. International reserves covered 6 months of merchandise imports.

By July, central government revenues declined by 12 percent y-o-y, while central government expenditures increased by 11 percent y-o-y. Before the elections, the Parliament adopted amendments to the Pension law, resulting in additional fiscal costs over the medium term. Given the large fiscal imbalances and worsening financial market conditions amid the global recession, Montenegro may need to adjust public spending.

Outlook

The uncertainty is high, and Montenegro faces both fiscal and external risks. The outlook depends heavily on the COVID-19 pandemic developments. Assuming new waves of COVID-19 outbreaks will be restricted to the upcoming winter and spring, Montenegro's economy is expected to rebound strongly in 2021 with an estimated GDP growth of 6.9 percent, driven by a recovery of tourism receipts from the very low 2020 base. The total output loss due to the crisis is projected to be fully recovered only in 2022 when the economy is projected to grow 4.2 percent. The anticipated tourism recovery will support export and consumption growth. The expected completion of the construction of the priority section of the motorway in 2021 is projected to push investment in that year but attenuate total investment in 2022. External imbalances are expected to remain elevated in 2021, but the finalization of the import-dependent motorway section and stronger exports led by the tourism recovery are projected to reduce the current account deficit to 11 percent of GDP in 2022. The crisis has derailed Montenegro from its debt reduction path. The large fiscal deficit is projected to push public debt to peak at 94 percent of GDP in 2021 and decline to 90 percent of GDP in 2022. Sound macroeconomic policy is needed to place Montenegro on a firm debt reduction trajectory.

The outlook on employment is also highly uncertain and depends on the recovery of labor-intensive sectors. The speed of recovery of low-skill jobs will partly determine how fast poor and vulnerable households can regain their income. Addressing long-standing job challenges is critical for robust welfare improvements.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.7	5.1	3.6	-12.4	6.9	4.2
Private Consumption	3.9	4.6	2.9	-12.5	7.5	5.5
Government Consumption	-1.4	6.3	2.1	6.6	-3.2	-0.6
Gross Fixed Capital Investment	18.7	14.7	-1.5	-21.0	8.0	-3.9
Exports, Goods and Services	1.8	6.9	6.4	-45.0	55.0	9.5
Imports, Goods and Services	8.4	9.2	2.2	-32.0	27.5	3.9
Real GDP growth, at constant factor prices	4.7	5.1	3.6	-12.4	6.9	4.2
Agriculture	-3.1	3.3	2.3	-1.0	1.3	1.3
Industry	9.7	15.3	0.2	-9.0	5.0	1.0
Services	4.3	2.2	4.9	-14.8	8.4	5.6
Inflation (Consumer Price Index)	2.4	2.6	0.4	-0.2	1.5	1.4
Current Account Balance (% of GDP)	-16.1	-17.1	-15.2	-16.8	-13.8	-11.0
Net Foreign Direct Investment (% of GDP)	11.3	6.9	7.0	4.5	6.5	6.5
Fiscal Balance (% of GDP)	-5.7	-4.6	-3.0	-11.7	-5.2	-1.6
Debt (% of GDP)	64.2	70.1	77.2	92.9	94.3	89.7
Primary Balance (% of GDP)	-3.3	-2.4	-0.8	-9.2	-2.4	0.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	18.5	18.2	18.1	20.4		

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

(a) Calculations based on ECAPOV harmonization, using 2012-SILC-C and 2015-SILC-C. Actual data: 2015. Nowcast: 2016-2019. Forecast are from 2020 to 2022.
(b) Projection for 2017-2018 using point-to-point elasticity (2012-2015) with pass-through = 0.4 based on private consumption per capita in constant LCU and estimated impacts of fiscal consolidation in 2017, for 2019-2020 based on nowcasting and simulation of poverty impacts and policy responses.

NORTH MACEDONIA

Table 1	2019
Population, million	2.1
GDP, current US$ billion	12.7
GDP per capita, current US$	6082.5
School enrollment, primary (% gross)[a]	97.1
Life expectancy at birth, years[a]	75.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2017); Life expectancy (2018).

The pandemic hit the economy hard: a lockdown, disrupted supply chains, and a prolonged adverse epidemiological situation further downgraded an already dim outlook. Government support programs alleviated somewhat the impact on workers and firms, but fiscal space narrowed amid debt levels approaching 60 percent of GDP. The near-term outlook is positive with increasing downside risks. While economic and social measures to remedy the crisis will take priority, fiscal, competition, environmental and governance reforms are needed for recovery and EU accession.

Key conditions and challenges

Despite rising foreign trade and investment, improved business environment and sustained macroeconomic stability since the global crisis, North Macedonia's economic growth has been lower than in peer countries, and 17 percent of Macedonians (using the US$5.5/day at 2011 PPP line) were projected to still live in poverty in 2019 despite the decreasing trend since 2009. Moreover, a large share of the non-poor population remained at risk of falling into poverty if hit by a shock, such as the current COVID-19 crisis. Weak education and workforce skills persistently undermined human capital which, together with total factor productivity, has been the lowest in the Western Balkans. Only 50 percent of working-age Macedonians is employed, while low birth rates and emigration are shrinking the workforce. In terms of governance, the country trails peers in categories such as political stability, voice and accountability, rule of law, and control of corruption. Finally, the current economic model, generous in public support for growth through subsidies and broad tax exemptions, is not sustainable. Though countercyclical fiscal policies helped growth and employment, the COVID-19 crisis depleted fiscal buffers. Meanwhile, environmental threats like air pollution and natural hazards are jeopardizing the well-being of the population.

While after the 2020 recession, growth is projected for 2021, there is still a lot of uncertainty on the duration of the pandemic and its impacts. The containment phase has not finished, and a longer period of social distancing policies will have an impact on households' income and health expenditures. On the economic front, disrupted supply chains and lower domestic and external demand would lead to further layoffs and increase in poverty, stretching further tight public finances. Tightening risk premia is expected as public debt increases above 60 percent of GDP. On the upside, the launch of EU accession negotiations and the political stability after the July elections may provide an impetus for structural reforms that would boost productivity and strengthen investors' confidence.

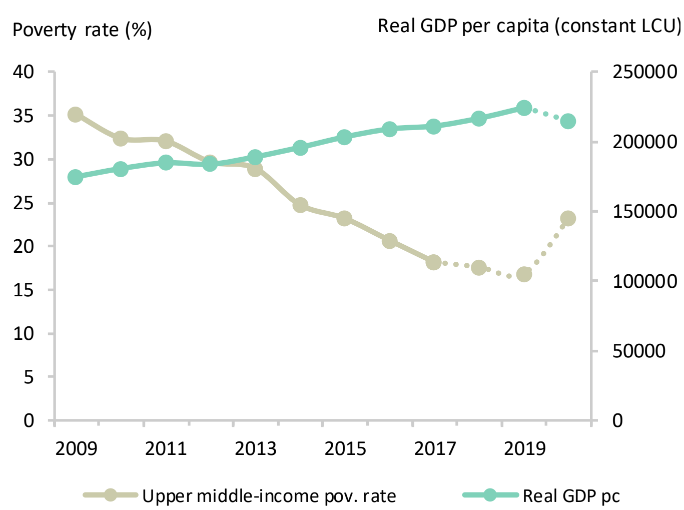
Recent developments

The robust growth of 2019 was swiftly reversed by mid-2020 as the pandemic unfolded. The growth declined by 6.4 percent by June: manufacturing dropped by 16.1 percent y-o-y, with only a handful of sectors observing growth. Trade, tourism and transport, the main drivers of growth over the past several years, dropped by 12.3 percent y-o-y. Private construction decline was offset by public investment in roads. Agriculture and ICT observed a robust growth. On the demand side, gross investments and private consumption fell sharply, while exports declined by one-third, almost entirely explained by FDI-related

FIGURE 1 **North Macedonia** / Fiscal performance

Source: World Bank based on MOF.

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



Source: World Bank. Notes: see Table 2.

exports. The accompanying decline in imports alleviated the pressure on the current account deficit which remained largely unchanged compared to 2019. Despite government support to cushion the crisis impact on the labor market, by June 17,690 people lost their jobs. The unemployment rate, at 16.7 percent, increased for the first time since end-2011.

The banking sector liquidity ratio in Q2 increased due to the central bank measures. Credit continued growing at 6.6 percent y-o-y by June, on account of both household and firm credits supported by strong deposit growth and crisis-support programs. Non-performing loans remained unchanged at 4.6 percent given the reclassification moratorium until December. The banking sector remained well capitalized (capital adequacy ratio at 16.5 percent) despite bankruptcy of one bank in August 2020. Inflation remained low at 0.5 percent y-o-y by mid-2020, reflecting the subdued output.

The fiscal deficit tripled to 4.7 percent of GDP by July. The drop in VAT and excise revenues of over 14 percent y-o-y was cushioned somewhat by social contributions increase as Government subsidized employment. Spending increased by more than 10 percent y-o-y, as health expenditures and subsidy schemes, aimed at employment retention, surged. Spending on wages and pensions also increased, while capital spending declined by one-third. The Government was able to secure financing for mitigating COVID-19 crisis and refinance due payments. The PPG debt increased to 59.5 percent of GDP in June 2020.

Outlook

The economy is facing a recession of 4.1 percent in 2020; the biggest drop since 2001. The demand contraction and supply chains disruptions caused by the prolonged pandemic and containment measures have been worse than anticipated. Unemployment is set to grow despite government support schemes, while private investment has been severely affected as investors struggle with demand losses and liquidity shortages.. Services continued to be affected by travel bans. In the absence of a government response, the combined effect of lower labor incomes and remittances would increase poverty to pre-2015 levels to approximately 23 percent in 2020 and many of those falling into poverty were not benefiting from any social protection programs before the pandemic. Support programs introduced by the government will likely alleviate the poverty impact of the crisis. Over the medium term, growth is expected to return as the outbreak loses force. Political stability after the general elections and the launch of the EU accession negotiations should boost reforms and investor confidence so that once the crisis is over, growth rebounds faster. In this scenario of a gradual recovery, growth in 2021 is expected to reach 3.6 percent, as restored consumer and investor confidence pushes up personal consumption, private investment, and exports. Setting public finances back on a sustainable path will be needed over the medium term, reprioritizing spending for longer-term recovery, and boosting revenues through cutting back on exemptions. On the structural side, while mitigating the near-term crisis impact, addressing low and declining human capital, weak competition policy and judiciary, declining productivity and rising migration will be critical.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	1.1	2.7	3.6	-4.1	3.6	3.5
Private Consumption	1.8	2.2	6.0	-3.1	3.7	3.2
Government Consumption	-2.6	4.1	2.3	5.0	3.6	1.2
Gross Fixed Capital Investment	-8.0	-9.9	-5.1	-4.4	8.0	8.2
Exports, Goods and Services	8.3	22.1	2.5	-6.0	6.2	7.2
Imports, Goods and Services	5.2	17.4	1.2	-3.0	6.4	6.5
Real GDP growth, at constant factor prices	-0.7	3.5	3.3	-4.1	3.6	3.5
Agriculture	-13.5	8.6	3.8	0.5	2.7	2.5
Industry	-1.0	-0.6	4.3	-1.5	5.7	4.9
Services	1.1	4.5	2.8	-5.6	2.9	3.0
Inflation (Consumer Price Index)	1.4	1.5	0.8	0.5	1.7	2.0
Current Account Balance (% of GDP)	-0.8	-0.1	-2.8	-2.9	-3.0	-2.3
Net Foreign Direct Investment (% of GDP)	1.8	5.6	2.6	1.2	4.2	4.4
Fiscal Balance (% of GDP)	-2.8	-1.1	-2.1	-6.1	-3.5	-2.4
Fiscal Balance with Pub. Ent. for State Road (% of GDP)	-3.5	-1.7	-2.4	-6.4	-3.9	-2.5
Debt (% of GDP)	47.6	48.6	48.8	59.1	59.8	59.2
Primary Balance (% of GDP)	-2.1	-0.5	-1.2	-5.1	-2.6	-1.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]		17.6	16.9	23.3		

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2017-SILC-C. Actual data: 2017. 2018-2019 nowcast uses real GDP growth.
(b) 2020 estimation uses scenario analysis for 2 quarters of income shocks, differentiated by sector of activity. Simulations do not incorporate government response measures. Data adjusted with original 2011PPP factor

POLAND

Table 1	2019
Population, million	38.0
GDP, current US$ billion	591.7
GDP per capita, current US$	15581.7
International poverty rate ($1.9)[a]	0.4
Lower middle-income poverty rate ($3.2)[a]	0.6
Upper middle-income poverty rate ($5.5)[a]	1.4
Gini index[a]	29.7
School enrollment, primary (% gross)[b]	100.0
Life expectancy at birth, years[b]	77.6

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

The COVID-19 pandemic and containment measures have pushed the Polish economy in recession; however, it remained one of the most resilient economies. Higher public spending only partially offset falling consumption and investment. To mitigate the impact on firms and employment a sizeable economic package was implemented, significantly narrowing fiscal space. Despite this, the impact on households is expected to be considerable feeding through to higher poverty rates. The key challenge over the short-term is ensuring a robust economic recovery.

Key conditions and challenges

The Polish economy has entered the COVID-19 crisis from a position of strength, having proved to be one of the more resilient economies in the region in previous crises. The economy grew uninterruptedly for the past 28 years, moving to high-income status in less than 15 years. Prudent macroeconomic policies, EU investment funds, a sound financial sector, and better access to long-term credit supported growth and poverty reduction. Rising wages and social programs ("Family 500+", "13th pension") supported consumption-led growth until early 2020. With an improving business environment Poland has integrated well into global value chains (GVC). Higher private investment, an improved innovation ecosystem, and further GVC upgrading can support higher productivity and growth.

Mitigating the impact of the COVID-19 pandemic and setting the basis for a sustained, inclusive and green recovery, while ensuring public debt sustainability are the key challenges in the short-term. The response to the COVID crisis has significantly narrowed fiscal space. Increased spending efficiency is needed to rebuild fiscal buffers and to prepare for fiscal pressures arising from the demographic change. Over the medium-term a key challenge is a tight labor market worsened by the aging population. Strengthening institutions at national and subnational levels and higher efficiency of public administration are needed for sustained, inclusive growth, and for narrowing of regional disparities.

A second wave of the COVID-19 pandemic would threaten the recovery, affect supply chains, depress investor sentiment and consumer demand. In such a downside scenario the economic, social and fiscal impacts would be more severe.

Recent developments

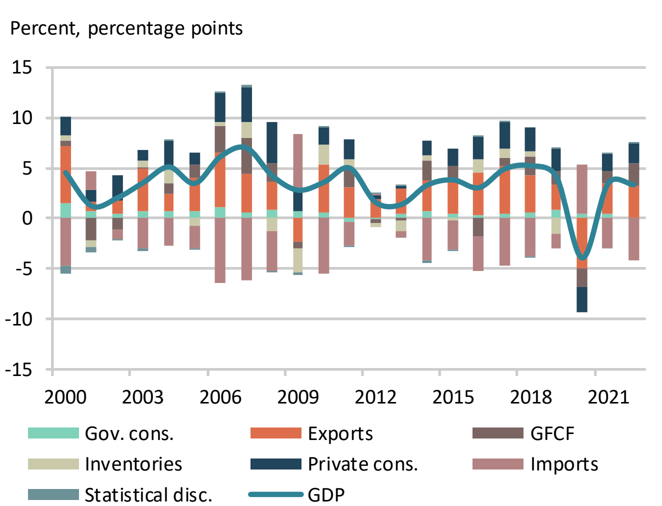
The economy recorded its first recession since 1991, as COVID-19-related supply and demand shocks dragged GDP down by 0.4 and 8.9 percent quarter-on-quarter in Q1 and Q2 of 2020, respectively. Poland performed better however than most EU countries, with output contracting 3.2 percent in the first half of the year, compared with a 6.7 percent average decline in the EU27.

Household expenditure and investment plummeted 10.8 percent and 11.4 percent, while countercyclical government spending contributed less than 1 percent to the quarterly growth in the second quarter.

Disruption to international trade and transport caused by the crisis, containment measures, and lower external demand in key EU exports markets caused both exports and imports to decline.

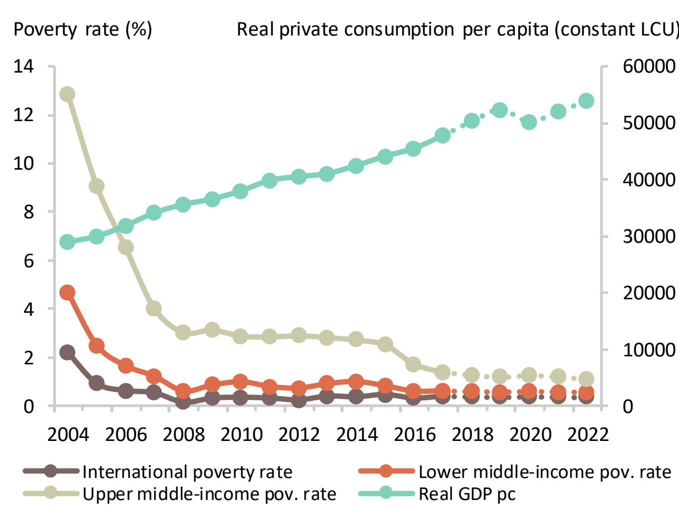
Industrial output was affected by disruptions to GVCs, declining 13.1 percent in the second quarter. Lockdown measures and restrictions to mobility contributed to a collapse of in transportation and storage

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



Source: MFMod, World Bank.

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



Source: World Bank. Notes: see Table 2.

(-18.2 percent) and in trade and repairs (-12.2 percent).

The government announced a stimulus package to mitigate the impact of lower global and domestic demand, prevent a sharper increase in unemployment by subsidizing salaries and support domestic enterprises via loans, tax reliefs and deferrals among others. The support measures helped to protect jobs; however, on account of the lockdown and restrictions to economic activity an estimated 30 percent of workers saw declines in salaries and hours worked in May, while by July the registered unemployment rate increased by 0.9 pp. year-on-year to 6.1 percent.

Furthermore, the large economic package resulted in a widening of the government deficit, which is expected to reach nearly 7 percent of GDP in 2020. Tax deferrals and falling economic activity have undermined tax revenues, which have declined more than 6.5 percent year-on-year in the first half of 2020.

Inflation declined to 2.9 percent year-on-year in August, from a peak of 4.7 percent in February 2020, primarily on account of lower international fuel prices and lower food price inflation. Meanwhile higher electricity tariffs and a record low reference interest rate prevented a sharper decline in inflation.

Outlook

Easing in restrictions to economic activity and mobility together with the economic package being implemented by the government and an incipient recovery in key trade and economic partners are expected to help contain GDP contraction to 3.9 percent in 2020 and set the stage for a moderate recovery over the next couple of years (average 3.5 percent).

Nevertheless, output is not expected to recover to pre-crisis level before 2022. A key assumption for this baseline is that the pandemic is contained, and a vaccine is rolled-out over the course of 2021.

While household incomes were supported by additional support measures during the outbreak, rapid assessments show that lower-wage workers are more likely to report reductions in hours worked and incomes early in the crisis and were also less likely to be covered by protective leave policies. Income declines in July relative to February 2020 were reported by 30% of households, feeding through to more limited purchasing power and slower recovery. Although social assistance will continue to protect the poorest households, poor working households are financially vulnerable to a reduction in hours worked and job loss due to COVID-19 and the deteriorating economic climate. Therefore, the share of the population at risk of poverty is expected to increase and to remain elevated into 2021.

A moderate recovery in economic activity and import demand from Poland's main trading partners, is expected to engender a recovery in exports and support a rebound in the industrial sector.

The sizeable economic package designed by the Polish government to support both the supply and demand side of the economy by providing liquidity to affected companies, granting tax reliefs and deferrals among other measures is expected to support private investment. Poland could receive nearly 1.4 percent of the 2018 GDP annually in national allocations from the Next Generation EU, and an additional 0.3 percent of GDP annually in Just transition funds, which could help support a recovery in investments, both public and private, as more than 80 percent of the Next Generation EU will be used to support public investment and key structural reforms. Gradual improvements in business and consumer sentiment, pent-up demand and the moderate recovery in key EU economic partners are expected to support a recovery in private investment and FDI.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.9	5.3	4.1	-3.9	3.5	3.4
Private Consumption	4.5	4.2	3.9	-4.3	3.1	3.6
Government Consumption	2.9	3.7	4.9	2.7	2.2	0.3
Gross Fixed Capital Investment	4.0	9.4	7.2	-9.1	6.2	10.9
Exports, Goods and Services	9.5	7.0	4.7	-9.3	6.1	6.2
Imports, Goods and Services	9.8	7.6	2.7	-9.7	6.3	8.5
Real GDP growth, at constant factor prices	4.8	5.3	4.1	-3.9	3.5	3.3
Agriculture	2.5	-9.0	-0.4	-4.0	1.5	1.0
Industry	2.5	5.2	4.2	-4.1	3.0	3.2
Services	6.1	5.8	4.1	-3.8	3.8	3.5
Inflation (Consumer Price Index)	2.0	1.6	2.3	3.3	2.4	3.0
Current Account Balance (% of GDP)	0.1	-1.0	0.4	1.0	1.1	-0.7
Net Foreign Direct Investment (% of GDP)	-1.4	-2.5	-2.2	-0.5	-1.1	-1.1
Fiscal Balance (% of GDP)	-1.5	-0.2	-0.7	-6.9	-5.2	-4.0
Debt (% of GDP)	50.6	48.8	46.0	54.4	56.0	55.8
Primary Balance (% of GDP)	0.1	1.2	0.7	-5.9	-3.9	-2.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.4	0.4	0.4	0.4	0.4	0.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.6	0.6	0.6	0.6	0.6	0.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	1.4	1.3	1.2	1.3	1.2	1.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2007-EU-SILC and 2017-EU-SILC. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.
(b) Projection using point-to-point elasticity (2007-2017) with pass-through = 1based on GDP per capita in constant LCU.

ROMANIA

Table 1	2019
Population, million	19.3
GDP, current US$ billion	249.6
GDP per capita, current US$	12902.7
International poverty rate ($1.9)[a]	3.3
Lower middle-income poverty rate ($3.2)[a]	6.5
Upper middle-income poverty rate ($5.5)[a]	13.0
Gini index[a]	36.2
School enrollment, primary (% gross)[b]	85.2
Life expectancy at birth, years[b]	75.4

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

The protracted COVID-19 pandemic has seriously affected Romania's economic activity and household incomes in the short-run. A proactive but constrained fiscal response supported firms to retain employees and fed into household incomes. The economy is expected to shrink by 5.7 percent in 2020, on the back of a slow recovery of manufacturing and a poor agricultural year. Poverty is anticipated to increase, as the impacts of COVID-19 affect domestic income sources, and lead to contractions in remittances, while drought affects farmers.

Recent developments

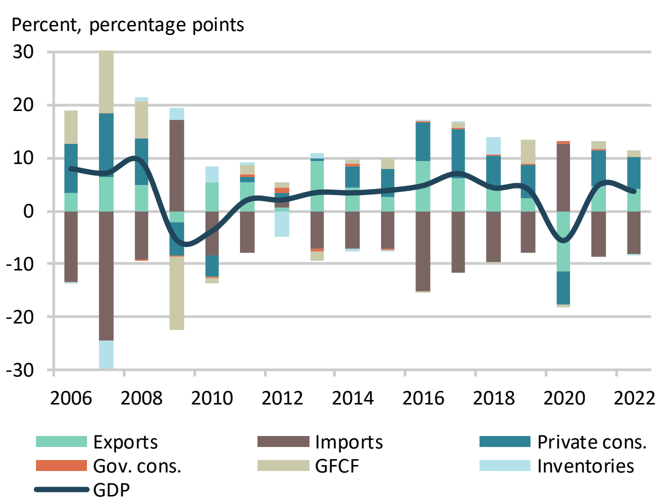
The economy contracted by 4.7 percent in H1 of 2020, driven by a decline of 10.5 percent in Q2. On the demand side, exports of goods and services fell by 15.1 percent in H1 of 2020, as European trading partners were significantly affected by the crisis. Imports contracted less than exports (down 9.4 percent), leading to a 21 percent increase in the trade deficit in H1. The weakening of external demand from Europe alongside pandemic related restrictions caused industry to contract by 14.1 percent in H1. Turnover in trade and services decreased by 17 percent in H1, but high-frequency indicators point to a relatively quick rebound.

The sharp decline in output led to deteriorating labor market conditions, with deeper effects noted for younger workers and women: job vacancies fell between Q1 and Q2 2020 while the unemployment rate increased to 5.4 percent in July from 4.1 percent in February. Job and household income losses were stemmed by the technical unemployment relief program, which covered 1.3 million beneficiaries during the state of emergency at a cost of approximately Euro 370 million (0.2 percent of GDP).

Rapid household assessments of COVID-19 impacts show a substantial rise in the share of the population at risk of poverty in April 2020, as income generating opportunities for the working poor and near-poor declined and nearly a third of households reported income drops. As temporarily inactive workers returned to employment between April and July, the share of households reporting lower incomes relative to the pre-COVID-19 period has declined to just under 20 percent, with income impacts being felt across better and worse-off households.

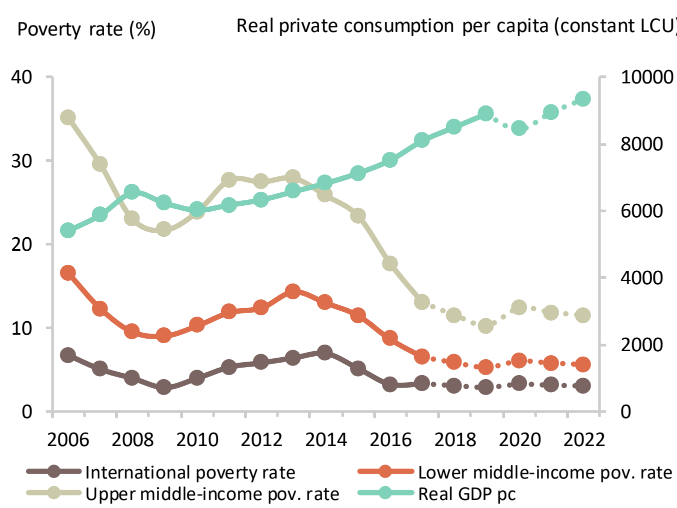
The fiscal deficit widened to 4.2 percent of GDP in H1 of 2020 reflecting lower revenues and higher expenditures due to COVID-19. Pro-cyclical fiscal policies since 2016 limited the fiscal space available to counter the crisis; as a result, Romania's COVID-19 related expenditures of Euro 5 billion (2.4 percent of GDP) were among the lowest in the EU. The recession reduced H1 revenues from VAT (down 15.8 percent) and CIT (down 7.5 percent). Higher PIT revenues and EU funds, up 10.4 percent and 18.1 respectively, have limited the total budget revenue decline to -1.6 percent compared to the same period in 2019. Budget expenditures were 13.6 percent higher, reflecting the COVID-19 response through expansions in social assistance and health-related spending, up by 23.7 percent and 16 percent respectively. The widening fiscal deficit has increased the estimated financing needs to around 13 percent of GDP in 2020, or around Euro 26-27 billion. The economic conditions and a relatively stable inflation environment, with the annual inflation rate running at 2.8 percent in July, allowed the NBR to lower the monetary policy rate by 0.25 pp twice, in May and August, to 1.5 percent in an attempt to bolster financial sector liquidity and support the economic recovery. Key risk indicators of credit institutions remain at

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.

adequate levels. The banking sector remains well capitalized, as the total capital ratio stood at 22.8 percent in June above the NBR's minimum requirements, and highly liquid with the liquidity coverage ratio at 269 percent in June compared to 245 percent in March.

Outlook

The economy is expected to contract by 5.7 percent in 2020. The severity of the recession and the magnitude of the 2021 economic recovery will depend on the evolution of the health crisis and its policy response, on the impact of the national economic stimulus, and on the spillovers from the stimulus pursued at EU level. Romania is expected to receive 79.9 billion euros from the EU by 2027. This amount would be received under the multiannual budget funds 2021-2027 (49.5 billion euros) and the economic recovery plan (30.4 billion euros, of which 13.7 billion euros in grants as reported by Romania's Ministry of European Funds). The EU grant funds are budget neutral and will be critical for Romania's growth recovery and for keeping the fiscal deficit in check.

To address the consequences of COVID-19, the fiscal deficit is expected to widen to around 9 percent of GDP in 2020, up from a planned deficit of 3.6 percent before the crisis. A substantial reduction of the deficit in 2021 is improbable as the government will have to support the economic recovery process. A widening fiscal deficit would push public debt to an estimated 45.1 percent of GDP in 2020 and 47.7 percent in 2021 from 37.6 percent in 2019. The bulk of the increase stems from the fiscal deficit. However, public debt remains one of the lowest in the EU.

Poverty is projected to increase on the back of the triple-hit in incomes facing poorer segments of the population, in the form of the domestic COVID-19 pandemic, the poor agricultural year, and declining remittance incomes. These households are anticipated to have been less supported by the fiscal response measures, which extended more directly to those in formal employment structures. Responsive social protection and active labor market policies would be needed to support these households, and the broader segment of workers who have been affected by labor market slowdowns.

Risks and challenges

In the short run, the key challenge is to contain the COVID-19 crisis and limit its health and economic consequences. A prolonged crisis with extensive additional mitigating measures to reduce transmission would affect growth prospects and push back the nascent resumption of activity seen in high frequency data of companies and jobs while raising unemployment and poverty. The pro-cyclical fiscal trajectory before the COVID-19 crisis added to the fiscal space constraints, feeding into lower investor confidence and increasing financing costs. Slower recovery of the European economy, and in particular of Germany and Italy, Romania's main trading partners, would put additional pressure on the domestic economy. In addition, the 40 percent increase in public pensions (resulting in fiscal costs close to 2.7 percent of GDP) passed recently by the Parliament, if not reversed, would seriously impact macroeconomic stability while, in the short run, could lead to a downgrade in Romania's sovereign ratings. Additional risk stems from Romania's historical low EU funds absorption rates raising questions on the country's capacity to take advantage of the EU recovery funds, which is one of its main economic recovery engines.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	7.1	4.4	4.1	-5.7	4.9	3.7
Private Consumption	9.6	6.5	6.2	-5.9	6.7	5.7
Government Consumption	4.6	4.5	7.6	9.8	3.5	3.0
Gross Fixed Capital Investment	3.3	-1.2	17.8	-1.9	5.1	4.1
Exports, Goods and Services	9.7	6.2	3.5	-17.3	7.8	6.8
Imports, Goods and Services	11.3	9.1	7.2	-11.0	8.1	7.3
Real GDP growth, at constant factor prices	7.6	3.9	3.5	-5.7	4.9	3.7
Agriculture	14.5	10.8	-3.2	-9.8	8.2	1.0
Industry	4.7	4.4	-1.5	-10.6	6.7	3.1
Services	8.4	2.9	6.9	-2.9	3.8	4.2
Inflation (Consumer Price Index)	1.3	4.6	3.8	2.8	3.4	3.1
Current Account Balance (% of GDP)	-3.2	-4.4	-4.7	-5.3	-4.9	-4.8
Net Foreign Direct Investment (% of GDP)	2.6	2.2	2.3	0.4	2.1	2.3
Fiscal Balance (% of GDP)	-2.8	-2.9	-4.4	-9.1	-6.3	-4.0
Debt (% of GDP)	36.8	36.3	37.6	45.1	47.7	50.5
Primary Balance (% of GDP)	-1.6	-1.6	-3.1	-7.7	-4.8	-2.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.3	3.1	2.8	3.2	3.1	3.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	6.5	5.8	5.2	6.0	5.8	5.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	13.0	11.5	10.2	12.3	11.8	11.4

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

(a) Calculations based on ECAPOV harmonization, using 2006-EU-SILC and 2017-EU-SILC. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.

(b) Projection based off elasticities calibrated on 2006-2015 growth periods and rapid assessment data, allowing for elasticities to vary between periods of contraction, recovery and expansion. annualized elasticity (2006-2015) with pass-through = 0.7 based on GDP per capita in constant LCU.

RUSSIAN FEDERATION

Table 1	2019
Population, million	144.4
GDP, current US$ billion	1689.3
GNI per capita, US$ (Atlas method)	11260.0
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.4
Upper middle-income poverty rate ($5.5)[a]	3.7
Gini index[b]	37.5
School enrollment, primary (% gross)[c]	102.6
Life expectancy at birth, years[b]	72.7

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

A less than expected GDP contraction in the second quarter of 2020 and an upward revision of the oil price forecast led to an upgrade in Russia's economic outlook for 2020 to minus 5 percent (from minus 6 percent in July). A projected rebound in 2021 and 2022, of 2.8 percent and 2.4 percent, is based on the pandemic's effects fading, and domestic demand growth resuming. After an uptick in 2020, poverty rates are expected to decline in 2022 to below 2019 levels.

Recent developments

With the introduction of lockdown measures at the end of March, Russia was hit by domestic supply and demand shocks against a backdrop of already weak external demand and slipped into recession. In the second quarter of 2020, Russia's GDP shrank by 8 percent, y/y, though performing better than expected with real estate and financial sector supporting such dynamics. Unemployment rose to 6.4 percent in August from 4.5 percent in the beginning of the year. In May - June, the economy began to gradually rebound, supported mainly by domestic demand (Figure 1).

A decline in Russia's energy export receipts halved the current account surplus to US$23.3 billion in the first eight months of 2020. Increased capital outflow amidst financial volatility and geopolitical risks put pressure on the exchange rate, with the REER depreciating by 3.5 percent.

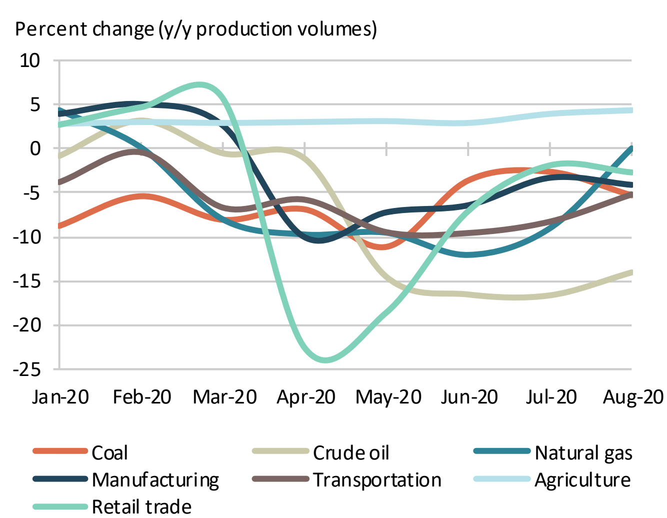
On the back of the ruble depreciation and rebounding domestic demand, annual headline inflation accelerated to 3.6 percent in August, yet it remains below the CBR target of 4 percent with the economy below its potential. In September, the CBR paused its accommodative policy actions, leaving the key policy rate at a record low of 4.25 percent. In addition to rate cuts and regulatory forbearance measures, the CBR introduced a range of support measures for banks, companies and households, including payment holidays for retail and SME borrowers. Consequently, key credit risk and performance indicators of banks remained stable. However, there has been a slowdown in lending, deterioration in asset quality and massive loan restructuring, which is estimated at about 13.3% of total banking sector loans in the period from March to beginning-September 2020.

In line with the fiscal rule, the decline in oil and gas fiscal revenues below the value corresponding to the threshold price of US$42.4/bbl was compensated from National Wealth Fund (NWF). Sizable additional domestic borrowing, carryover of unspent funds from 2019, and revenue generated from the Sberbank sale by the CBR, enabled the government to mobilize a fiscal response package of about 4 percent of GDP. While relatively small compared to advanced economies, it is at par with countries with similar GDP per capita. Fiscal support policies are likely to contain the poverty impact of the crisis, but their effectiveness will depend on take -up rates by beneficiaries and implementation capacity.

Outlook

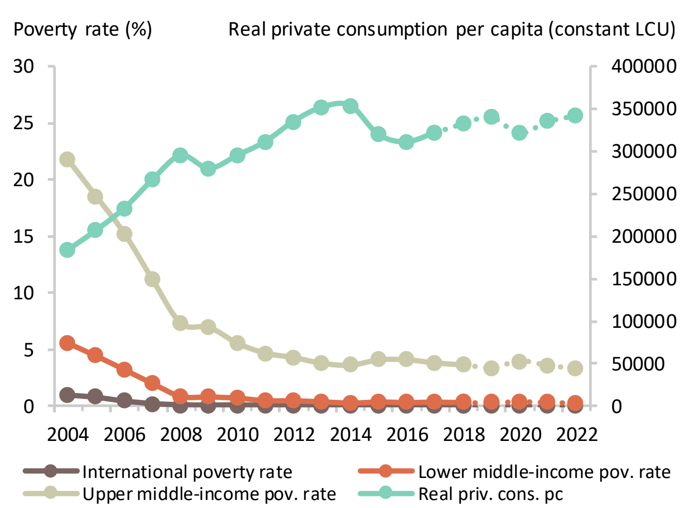
Russia's 2020 GDP is projected to contract by 5 percent, an eleven-year low. Assuming broad access to vaccines in mid-2021, GDP is expected to expand by 2.8 and 2.4 percent in 2021 and 2022, respectively. Recovery in consumer demand is expected to lead the rebound, supported by accommodative monetary stance. High levels of

FIGURE 1 Russian Federation / High frequency economic indicators



Source: Russian Statistical Authorities.

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



Source: World Bank. Notes: see Table 2.

uncertainty will weigh on investment, expected to grow by a modest 2 percent in 2021 and 4.1 percent in 2022. The fiscal rule relaxation would provide for more gradual consolidation in 2021-2022. With rebound of economic activity in the EU and China, Russia's main trading partners, export volume is expected to grow by 4 and 4.8 percent in 2021 and 2022. The general budget is expected to register deficits in 2021-2022, largely financed through domestic debt borrowing and proposed increases in taxes for the mining sector and income taxes. General government debt is expected to remain at comfortable levels and not exceed 24 percent of GDP by 2022. Poverty rates under international thresholds remain low. The poverty rate is expected to decline in 2022 to below 2019 levels as the economy rebounds. An uptick in poverty in 2020 is possible, if social policies have incomplete up-take or face implementation hurdles.

Risks and challenges

Risks to the economic outlook are heavily tilted to the downside. Geopolitical risks and the threat of potential new sanctions grew since August. An intensification of the spread of infections could worsen global growth, which could further dampen oil prices. Banks could face a significant deterioration in asset quality, profitability and capitalization. The CBR has recently prolonged the forbearance on impairment recognition until end June 2021. While these measures should ease regulatory pressure and allow banks to accumulate more profits to cover increases in problem loans, they will also delay recognition of losses. A protracted pandemic; broad vaccinations starting only in 2022; further declines in energy prices; and growing macro-financial vulnerabilities could lower GDP growth to 1 percent in 2021 and 1.2 percent in 2022.

The pandemic is estimated to result in school learning losses of more than one-third of a Russian school year, reducing marginal future earnings by about 2.5 per-cent per year over a student's working life. It has also underscored the urgency of reforms in social protection. Mitigating the impact of the COVID-19 crisis on the poor and vulnerable is attainable using the current welfare system but it needs strengthening along two dimensions: (i) its coverage of the poor must be expanded, and (ii) its generosity needs to be increased. Early projections for year 2020 end with a 12.2 percent national poverty rate (0.2 percentage points above a pre-pandemic scenario for the same year). The pre-pandemic goal of halving poverty to 6.6 percent by 2024 is unlikely to be attained. A new decree in July moves the goal of halving the poverty rate to 2030 (from a baseline official poverty rate in 2017 of 12.9 percent).

The state's presence in Russia's economy was broad and deep before the pandemic and could grow after the pandemic. Product market regulation in Russia is restrictive to competition mainly through direct state control in the economy. The government can foster competition and eliminate distortions associated with the presence of the state in the economy by: removing barriers for firms to contest markets where state-owned enterprises (SOEs) are present; limiting the procedural discretion with which companies—SOEs in particular—procure goods and services; and considering divestiture and privatization in a transparent and competitive process for SOEs in commercial sectors.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	1.8	2.5	1.3	-5.0	2.8	2.4
Private Consumption	3.7	3.3	2.5	-5.7	4.2	2.0
Government Consumption	2.5	1.3	2.2	3.5	-3.0	0.0
Gross Fixed Capital Investment	4.7	0.2	1.5	-6.5	2.0	4.1
Exports, Goods and Services	5.0	5.5	-2.3	-12.9	3.9	4.6
Imports, Goods and Services	17.3	2.6	3.4	-15.2	6.4	5.4
Real GDP growth, at constant factor prices	1.8	2.5	1.4	-5.0	2.9	2.5
Agriculture	1.5	0.9	0.6	2.0	2.0	2.0
Industry	1.8	2.2	1.0	-4.5	1.9	2.7
Services	1.9	2.7	1.7	-5.7	3.5	2.4
Inflation (Consumer Price Index)	3.7	2.9	3.0	3.3	3.7	4.0
Current Account Balance (% of GDP)	2.0	6.9	3.8	0.3	0.6	0.7
Net Foreign Direct Investment (% of GDP)	-0.5	-1.4	0.5	0.0	0.2	0.3
Fiscal Balance (% of GDP)[a]	-1.5	2.9	1.9	-4.9	-2.9	-1.6
Debt (% of GDP)	15.2	13.6	13.9	20.5	22.9	23.7
Primary Balance (% of GDP)[a]	-0.6	3.8	2.7	-4.0	-1.8	-0.4
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	0.4	0.4	0.3	0.4	0.3	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	3.8	3.7	3.4	4.0	3.6	3.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Fiscal and Primary Balance refer to general government balances.
(b) Calculations based on ECAPOV harmonization, using 2018-HBS. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(c) Projection using neutral distribution (2018) with pass-through = 0.7 based on private consumption per capita in constant LCU.

SERBIA

Table 1	2019
Population, million	7.0
GDP, current US$ billion	51.4
GDP per capita, current US$	7378.7
School enrollment, primary (% gross)[a]	100.3
Life expectancy at birth, years[a]	75.9

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

After a couple of years of solid growth, the Serbian economy entered recession in 2020 caused by the COVID-19 pandemic. The immediate negative impact on the population and the economy was buffered by the large fiscal package of around 13 percent of GDP. As a result, there was not a substantial increase in unemployment and the GDP contraction in Q2 at 6.4 percent (y/y) was less pronounced than in neighboring countries. Poverty is estimated to be slightly higher than in 2019 but may worsen if the crisis is prolonged.

Key conditions and challenges

Serbia used most of the available fiscal space early on, when the COVID-19 pandemic started. The impact was favorable but came at a considerable fiscal cost. With the economy in recession, and public debt on a sharp rise, the space for future stimulus packages is limited. Therefore, further reforms are needed to bring the economy back to sustained growth and to secure jobs and incomes while strengthening resilience to shocks. Focus on improved business environment and governance in order to increase private investment, as well as efforts to improve the quality of infrastructure should be priorities.

Over the medium term the Serbian economy is expected to return to the pre-COVID-19 growth pattern. However, some challenges will become more urgent. First, an aging and shrinking population will leave Serbia with a smaller available labor force. Labor shortages combined with skills mismatches could significantly hurt competitiveness of the Serbian economy. Second, the impact of climate change – more frequent and severe droughts and floods - will hit agriculture and food production hard and will make the cost of infrastructure maintenance much higher. Progress on these challenges crucially depends on the pace of the EU accession process. A faster process could enable the timely adoption of structural reforms and faster and inclusive economic growth.

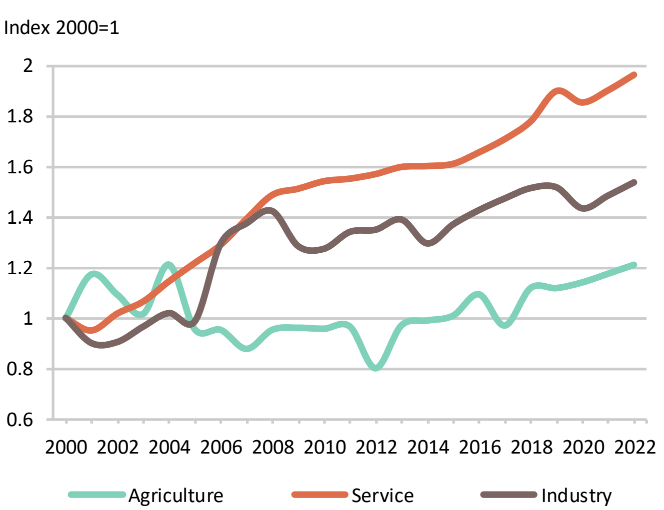
Recent developments

After robust growth of 4.2 percent in 2019, the COVID-19 pandemic caused a sudden stop in economic activity. It is estimated that GDP decreased 6.4 percent (y/y) in Q2. Sectors that were hit most are services (down 6.6 percent, y/y) and industry (down 6.2 percent, y/y).

On the expenditure side of GDP, both consumption and investment will have a large negative contribution to growth in 2020 (-2.1 and -1.4pp, respectively) while net exports will have a small positive contribution to growth (0.1pp). Both in the case of consumption and investment, the main reason for the decline is the private sector since the government sector's contribution to growth will remain broadly unchanged.

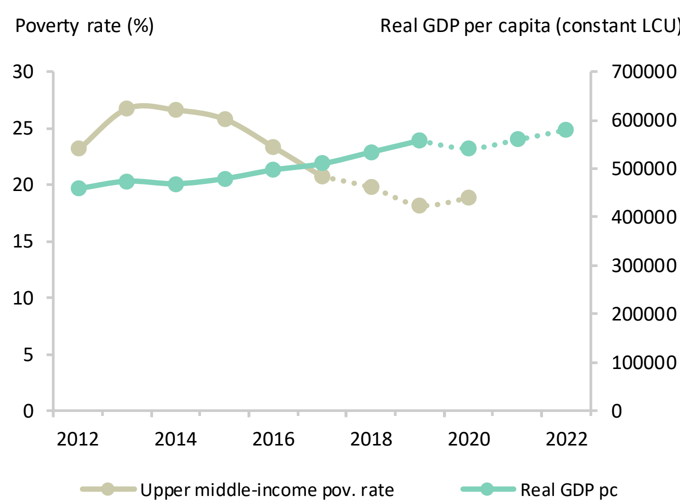
The large fiscal stimulus program, particularly the wage subsidy for all sectors, helped to temporarily protect formal jobs. However, informal employment was hurt. The Q2 employment rate among the population aged 15+ in 2020 was 48.2 percent, down from 49.2 percent in 2019 and back to 2017 levels. Given strict lockdown and containment measures in Q2 2020, inactivity increased compared to the same quarter last year, mainly because of the limited opportunities for informal workers to find jobs. The wage subsidy and cash support (including Euro 100 to all adults) helped to avert a spike in poverty for now. But better targeting of these measures could achieve similar results in terms of poverty alleviation at lower costs and allow for a longer duration of support.

FIGURE 1 **Serbia** / Index of real value-added by sector



Sources: WB staff calculations based on Statistics Office data.

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



Source: World Bank. Notes: see Table 2.

After the consolidated general government budget showed a small deficit of 0.2 percent of GDP in 2019, the deficit is expected to deteriorate in 2020 as a result of the large fiscal stimulus program of close to 13 percent of GDP. In addition, revenues will decline as the economy slows down and numerous tax breaks are offered to businesses. Public debt is projected to increase to close to 60 percent of GDP by end-2020.

Inflation is low and stable as consumption is decreasing and despite the central bank significantly increasing the money supply. In addition, the NBS lowered its policy rate to 1.25 percent, a record low level. In 2020, the dinar was broadly stable against the euro, thanks to significant interventions by the NBS on the foreign exchange market. The banking sector's performance remains robust and NPLs have not increased. On the external side, the trade deficit increased further in the first half of the year as exports fell more than imports, although the CAD remained broadly the same compared to the same period in 2019.

Outlook

The COVID-19 pandemic and the related containment measures are taking a heavy toll on the Serbian economy. It is expected to enter recession in 2020 with a projected decrease in real GDP of 3 percent. Recovery will start in 2021, but at a modest pace. Investment will only slowly return to previous levels, and consumption will be subdued as the real impact on labor markets (both employment and wages) will be felt only later in the year or in early 2021. Over the medium term (2022-2023), growth will return to its previous trajectory. This medium-term outlook crucially depends on international developments (including the impact of COVID-19), the pace of structural reforms and political developments. Most importantly, Serbia needs to work further on removing bottlenecks to private sector growth stemming from the poor governance environment and red tape.

The adverse impacts of the pandemic are expected to lead to a small uptick in poverty in 2020, with significant downside risks. After several years of continuous decline, poverty (at the US$5.5/day middle-income-country poverty line) is estimated to increase slightly from 18.2 percent in 2019 to 18.9 percent in 2020.

Risks are associated primarily with the length and depth of the crisis caused by the COVID-19 pandemic and implementation of containment measures. If the crisis continues as the temporary effect of the policy package wanes, workers and families may suffer later in 2020 and early 2021. Poor and vulnerable households, who tend to depend more on self-employment and less secure jobs, may take longer to regain their income during the subsequent economic recovery.

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

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	2.0	4.4	4.2	-3.0	2.9	3.3
Private Consumption	1.9	3.1	3.1	-3.1	3.1	3.7
Government Consumption	3.3	3.7	8.7	11.3	-4.5	3.5
Gross Fixed Capital Investment	7.3	17.8	11.2	-12.3	10.4	4.1
Exports, Goods and Services	8.2	8.3	8.5	-10.2	7.8	8.5
Imports, Goods and Services	11.1	11.6	9.5	-8.7	6.9	8.0
Real GDP growth, at constant factor prices	2.0	4.5	4.2	-3.0	2.9	3.3
Agriculture	-11.2	15.2	0.0	2.0	3.0	3.0
Industry	3.3	2.8	0.2	-5.5	3.5	3.5
Services	3.2	4.1	6.8	-2.4	2.6	3.2
Inflation (Consumer Price Index)	3.1	2.0	2.2	1.9	2.5	2.8
Current Account Balance (% of GDP)	-5.3	-5.2	-6.9	-6.4	-6.5	-6.7
Net Foreign Direct Investment (% of GDP)	4.4	3.8	6.3	4.7	5.1	5.8
Fiscal Balance (% of GDP)	1.4	0.6	-0.2	-7.6	-2.1	-0.5
Debt (% of GDP)	58.7	55.6	52.9	59.6	58.5	56.0
Primary Balance (% of GDP)	3.9	2.7	1.4	-6.6	-0.8	1.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]		19.8	18.2	18.9		

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

(a) Calculations based on ECAPOV harmonization and original 201 1 PPP, using 201 3-EU-SILC, 201 6-EU-SILC, and 201 7-EU-SILC. Actual data: 201 7. Nowcast: 201 8-201 9. Forecast are from 2020 to 2022.

(b) Projection for 2018 using point-to-point elasticity (201 3-201 6) with pass-through = 0.4 based on GDP per capita in constant LCU, for 201 9-2020 based on nowcasting and simulation of poverty impacts and policy responses.

TAJIKISTAN

Table 1	**2019**
Population, million	9.3
GDP, current US$ billion	8.1
GDP per capita, current US$	873.5
School enrollment, primary (% gross)[a]	100.8
Life expectancy at birth, years[a]	70.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2017); Life expectancy (2018).

Tajikistan is experiencing its slowest economic growth in two decades. As the outbreak of COVID-19 slashed external and domestic demand, the authorities responded with fiscal and monetary stimuli to support the economy. Amendments to the 2020 state budget doubled expenditures on healthcare and expanded social transfers. We project growth to slow to 1.6 percent in 2020 as a whole and the pace of poverty alleviation to weaken.

Recent developments

In the first half of 2020, real GDP growth fell to 3.5 percent from 7.5 percent in 2019 as a whole. The substantial hit to the economy came in the second quarter of the year on the backdrop of expanding national lockdown measures and associated disruptions in trade and transport activities. A sharp drop in migrant remittances curtailed domestic demand, as did cuts to government investment outlays. Across sectors, hospitality and tourism experienced the deepest hit from the pandemic.

According to official estimates, the national poverty rate fell to 26.3 percent in 2019, with an extreme poverty rate of 10.7 percent. However, the slowdown in the economy in 2020 likely adversely impacted both poor and non-poor households. At the peak of the COVID-19 pandemic, two out of five households reported reducing their consumption of food, which is far above the 2019 level. Moreover, 20 percent of families were not able to obtain medical care, and only 5 percent received any official aid through August 2020, according to L2T Survey.

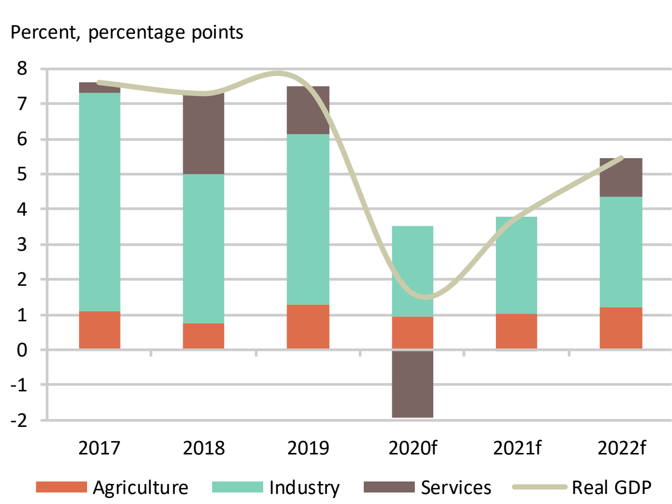
Although net exports grew, lower remittances – down almost 15 percent from a year earlier in the first half of 2020 - led to the deterioration of the overall external position in 2020 H1. The trade balance benefited from surging gold price and import contraction, primarily showing up in consumer goods.

Consumer price inflation eased to 8.4 percent (y/y) from 8.7 percent in June 2019. Despite weaker household demand and lower prices for imported fuel, the pass-through effect from the 9 percent (y/y) currency depreciation through mid-2020 limited the slowdown in inflation. To support economic activity, the central bank cut policy rates and instructed commercial banks to restructure loans and waive penalties for overdue payments.

The banking system has capital cushion at the rate of 19.7 percent, which is above the 12 percent required minimum threshold. However, the ongoing pandemic has magnified the risk of possible borrower defaults, and the current level of capitalization might not be adequate to absorb potential losses from non-performing loans, which reached 31 percent by mid-2020.

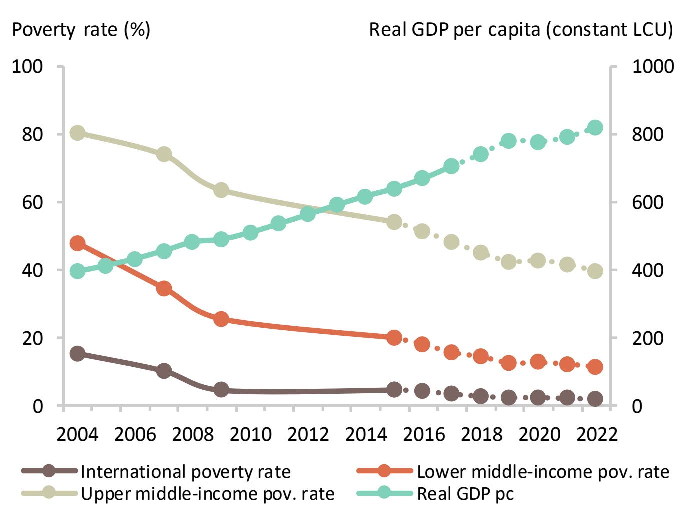
The fiscal deficit amounted to 2.3 percent of GDP in the first half of 2020, according to preliminary estimates. Tax collections fell below the targeted plans, resulting in cuts and scrutiny to non-priority current and capital expenditures. To ensure financing of the protected budget outlays, the authorities sold gold reserves. The government also amended the state budget for 2020 and introduced different fiscal benefits to support the economy and to safeguard the socially vulnerable population. These include tax and customs duty reliefs to the private sector and expansion of the social assistance programs such as one-off emergency COVID-19 transfers with the support from the donor community. The targeted social assistance (TSA) program was expanded nationwide since July 1, 2020, and annual amounts are expected to increase from the current TJS 440 to TJS 464 (roughly US$ 45) in the Fall

FIGURE 1 **Tajikistan** / Real GDP growth and sector contributions to growth



Sources: TajStat, World Bank staff estimates.

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



World Bank. Notes: see table 2.

of 2020. Planned utility tariff increases were postponed. Despite difficulties in tax collections, the government honored its commitment to increase public sector wages and pensions by 10-15 percent since September 1, 2020.

Outlook

Real GDP growth is likely to slow to 1.6 percent in 2020 as consumption and investment remain anemic, and services continue suffering from the containment measures. We project growth prospects to improve in 2021-22 on the assumption that a vaccine will be found, and the hold of the pandemic will be loosened. The external current account deficit will likely widen sharply in 2020 and then gradually narrow over the medium term. The challenging business environment will continue hampering foreign investment.

The amended state budget envisages a fiscal deficit of 5.8 percent of GDP in 2020. The higher deficit is planned to be financed through external borrowing and grants provided by the IFIs to contain the impact of the pandemic and shore up healthcare and social systems. Budgetary allocations to healthcare are expected to double to about 4 percent of GDP, though coming at the cost of some other sectors. Tajikistan's participation in the debt service suspension initiative is expected to release some immediate pressures on the state budget. The fiscal position is forecast to improve starting in 2021 to ensure the sustainability of government debt over the medium term.

Risks and challenges

Risks to the outlook are primarily shaped by the progress made in finding a vaccine or a cure for COVID-19 and the restoration of remittances and external trade.

The economic recovery will be stifled if the outbreak resurges, and movement restrictions will be reinforced. Heavy reliance on remittances inflows and a small basket of export commodities continue to impose a high external risk to the Tajik economy. Domestically, the country faces the challenge of addressing inefficient SOEs and carrying out much-needed structural reforms to revive the private sector. Without a sufficiently broad tax base, the authorities will continue struggling to mobilize enough revenues to finance social outlays and strategic infrastructure projects. The fiscal space has been largely exhausted, and a high risk of debt distress suggests avoidance of non-concessional borrowing.

The establishment of a new state-owned bank aimed at becoming the vehicle for subsidized SME lending may ultimately distort sound market practices and result in inefficient allocation of scarce budgetary and financial resources. The burden on the banks from the pandemic induced weakening of activity may also undermine the health of the financial sector.

On the other hand, the macroeconomic environment is likely to benefit from the envisaged reforms in the tax system and rehabilitation plans in the energy and financial sectors.

To support vulnerable households, the government needs to increase the TSA amounts and index them so that inflation does not wash away the purchasing power of provided assistance.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	7.1	7.3	7.5	1.6	3.7	5.5
Private Consumption	0.0	7.2	7.1	-2.4	1.8	5.8
Government Consumption	2.5	3.8	3.5	2.3	2.8	3.0
Gross Fixed Capital Investment	20.3	7.9	-6.4	-6.2	8.6	12.5
Exports, Goods and Services	0.0	2.2	3.5	-2.0	1.2	1.5
Imports, Goods and Services	0.0	3.3	2.2	-1.0	1.4	1.8
Real GDP growth, at constant factor prices	9.8	7.8	8.7	1.6	3.7	5.5
Agriculture	6.8	4.0	7.1	4.1	4.5	5.3
Industry	20.5	11.8	13.6	6.1	6.4	7.2
Services	2.9	6.3	4.9	-4.6	0.1	3.4
Inflation (Consumer Price Index)	7.3	3.9	8.0	10.0	8.0	8.0
Current Account Balance (% of GDP)	2.1	-5.0	-2.3	-6.1	-4.3	-3.6
Net Foreign Direct Investment (% of GDP)	-0.2	3.3	2.3	1.2	1.8	2.3
Fiscal Balance (% of GDP)	-6.0	-2.8	-2.7	-5.8	-3.3	-2.8
Debt (% of GDP)	50.4	47.9	45.2	51.0	49.2	47.0
Primary Balance (% of GDP)	-5.5	-1.6	-1.3	-4.4	-2.0	-1.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.6	3.0	2.6	2.6	2.4	2.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	15.8	14.6	12.7	12.9	12.4	11.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	48.3	45.1	42.6	42.8	41.8	39.6

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

(a) Calculations based on ECAPOV harmonization, using 2015-HSITAFIEN. Actual data: 2015. Nowcast: 2016-2019. Forecast are from 2020 to 2022.

(b) Projection using neutral distribution (2015) with pass-through = 0.87 based on GDP per capita in constant LCU.

TURKEY

Table 1	2019
Population (mid-year), million	82.6
GDP, current US$ billion	761.8
GDP per capita, current US$	9225.4
Upper middle-income poverty rate ($5.5)[a]	8.5
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	93.2
Life expectancy at birth, years[b]	77.4

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

Turkey, like the rest of the world, has been enveloped by COVID-19. Timely, targeted measures succeeded in controlling the pandemic in the early stages, but a return to business as usual has led to rising cases. GDP is expected to decline by 3.8 percent this year. Aggressive monetary loosening has generated a large credit boom and added to depreciation and inflationary pressures. Though there are signs of an economic rebound in Q3, Turkey has less policy space now than before COVID-19 to respond to another shock. Poverty is projected to increase, especially amongst informal workers and households outside the social security net.

Key conditions and challenges

In addition to dealing with the fallout of COVID-19, Turkey is also facing its perennial challenge of pronounced economic volatility, a product of external shocks and destabilizing economic policies. Inflation, historically high compared to selected emerging market and developing economies, rose further over the last year, as have inflationary expectations, while policies have prioritized growth over stability. Economic volatility and low economic policy predictability are increasingly the biggest constraints to unlocking medium-term growth, as they undermine firms' ability to plan and undertake productive long-term investments.

The financial sector has long been a growth enabler for Turkey. But the operating environment for banks has deteriorated since 2018, and banking sector vulnerabilities have given rise to financial stability risks, heightened by COVID-19.

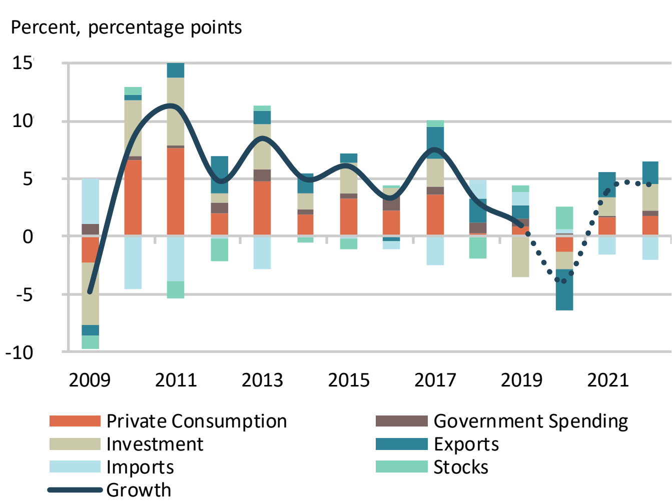
The financial system suffers from a chronic shortage of long-term finance, especially in local currency. Overreliance on external borrowing for longer-term finance along with currency volatility and high corporate leverage has exposed the banking system to imbalances, including open FX positions and rising distressed assets, despite high capital adequacy.

Recent developments

GDP contracted 10 percent in Q2 yoy as Turkey faced the full effect of COVID-19. Beginning mid-March, cases rapidly reached 5,000 a day before the prompt introduction of targeted measures brought new cases down to under 1,000 a day by June. But with a return to business-as-usual, cases are rising again. A targeted fiscal expansion supported furloughed workers, firms, households, and health services, with the 12-month central government deficit reaching 3.4 percent of GDP in June. Poverty is nevertheless expected to increase moderately and households who lost jobs or stopped actively seeking work will be the worst affected. In the first half of the year, the economy lost 1.8 million jobs. From a surplus last year, the current account tumbled back into deficit as exports were decimated. The deficit was US$20 billion (3.4% of GDP) in H1 2020 as exports fell 21 percent yoy while imports declined just 4 percent.

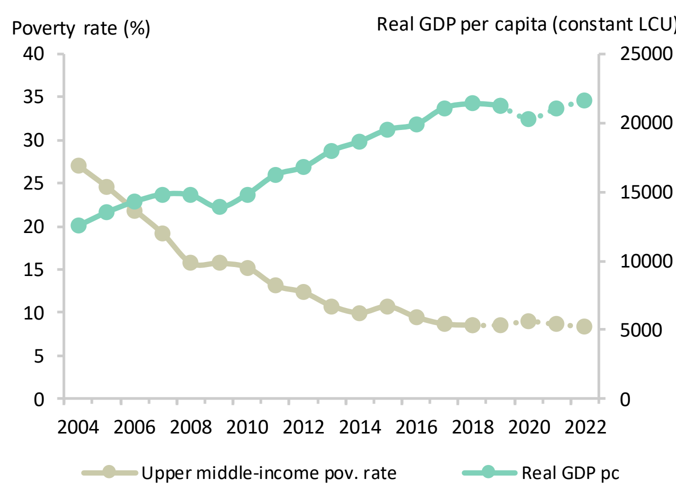
In response to the COVID19 shock, the authorities resorted to aggressive monetary loosening. Policy interest rates, falling since mid-2019, turned negative in real terms. The Central Bank increased currency in circulation by 60percent yoy and used other liquidity measures to boost money supply. Credit, which grew by 29 percent yoy by August, was further supported by loosening of macroprudential regulations and extensions of government credit guarantees. The Banking Regulatory and Supervision Agency (BRSA) introduced forbearance measures that relaxed the definitions of NPLs and

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



Source: Turkstat and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

Stage-2 loans, making an assessment of banks' true asset quality challenging. Despite rapidly expanding credit, private consumption and investment, overcome by declining incomes and rising uncertainty, fell by 8.6 percent and 6.1 percent, respectively, in the second quarter.

Global uncertainty and domestic monetary loosening led to steady capital outflows, amounting to more than US$20bn (net) between March and June. These were offset by an additional US$10bn swap line with the Qatar Central Bank and use of Central Bank reserves. Even so, the Turkish Lira depreciated by 29 percent against the US$ between January and the end of August. The loose monetary stance and depreciation contributed to persistence of high inflation, reaching 11.8 percent yoy in August.

Outlook

While the economy seems to be rebounding from its low point this year, new outbreaks of COVID-19 in Turkey and major markets could easily reverse progress. Over the rest of this year, the economy is expected to slowly rebound, but GDP is still projected to decline by 3.8 percent in 2020, led by the massive deterioration in the current account, lower consumption on the demand side, and declines in both services and manufacturing output. The pace of recovery beyond 2020 will depend on the duration of the pandemic, the availability and distribution of a vaccine, and restoration of international trade and investment flows. In a baseline in which a second wave does not materialize and the pandemic is brought under control in late 2020 or in early 2021, economic growth would recover to 4 percent in 2021 and 4.5 percent in 2022. A downside scenario could see growth of just 1 percent next year.

Monetary policy needs to sharpen its focus on price and financial stability, with a return of real policy rates to positive territory. A 200 basis point rate rise in September marks a move in that direction, while the New Economic Plan focuses on stability and maps out both central and downside scenarios for the coming years. Inflation is expected to average nearly 12 percent over 2020 and remain around 10 percent in 2021 and 2022. The current account is expected to remain in deficit over these years as exports struggle to fully recover while global markets continue to suffer from weaker demand. The general government deficit for 2020 is projected to increase to 5.4 percent of GDP, but as temporary tax reductions and increased government spending on transfers to households are reined in, to fall back to around 3.0 percent in 2021 and 2022.

Most regulatory forbearance measures are aligned with global standards but those related to distressed asset classification, capital adequacy and credit growth call for a careful assessment of banks' financial soundness. The deteriorating economic environment will negatively impact banking sector profitability and capital buffers.

Turkey's external risk profile is heightened as gross international reserves have fallen and are now scant enough to cover one year's national debt service, with much of these reserves borrowed from the banking sector. This leaves the country with little space to manage exchange rate volatility in the event of a new external financing shock. Despite the banking sector's FX buffers they are also vulnerable to central bank FX reserves via swaps and required reserves.

Loss of income and employment, particularly in sectors like retail, hospitality, transport and construction, where many poor and vulnerable households work, are expected to raise the incidence of poverty, reversing a long downward trend. The poverty rate is projected to rise to 9.0 percent by end 2020, despite various income support measures, and hover around 8.5 percent in 2021 and 2022. But challenges of falling employment and a significant drop of 4 percentage points in labor participation (around 1,6 million workers) raise concerns about the pace and inclusiveness of the economic recovery.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	7.5	3.0	0.9	-3.8	4.0	4.5
Private Consumption	5.9	0.5	1.6	-2.4	2.8	3.0
Government Consumption	5.0	6.6	4.4	2.3	0.6	2.8
Gross Fixed Capital Investment	8.3	-0.3	-12.4	-6.0	7.0	9.5
Exports, Goods and Services	12.4	9.0	4.9	-14.0	9.5	8.0
Imports, Goods and Services	10.6	-6.4	-5.3	-1.5	7.5	9.0
Real GDP growth, at constant factor prices	7.9	3.2	1.1	-3.8	4.0	4.5
Agriculture	4.9	2.1	3.7	2.0	2.0	2.0
Industry	9.3	0.5	-3.0	-4.0	4.5	3.5
Services	7.6	4.8	2.8	-4.4	4.0	5.3
Inflation (Consumer Price Index)	11.1	16.3	15.2	11.5	10.0	9.5
Current Account Balance (% of GDP)	-4.7	-2.7	1.2	-3.7	-4.3	-5.0
Net Foreign Direct Investment (% of GDP)	1.0	1.2	0.8	0.7	1.0	1.1
Fiscal Balance (% of GDP)	-1.8	-2.4	-2.9	-5.4	-3.0	-2.9
Debt (% of GDP)	28.0	30.2	32.5	40.3	40.6	39.1
Primary Balance (% of GDP)	0.1	-0.2	-0.4	-2.1	0.5	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	8.7	8.5	8.6	9.0	8.7	8.4

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

(a) Calculations based on ECAPOV harmonization, using 2011-HICES and 2018-HICES. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.

(b) Projection using point-to-point elasticity (2011-2018) with pass-through = 1 based on GDP per capita in constant LCU.

UKRAINE

Table 1	2019
Population, million	44.3
GDP, current US$ billion	139.1
GDP per capita, current US$	3140.8
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.4
Upper middle-income poverty rate ($5.5)[a]	3.4
Gini index[a]	26.1
School enrollment, primary (% gross)[b]	99.0
Life expectancy at birth, years[b]	71.6

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

A significant contraction is expected for 2020 as a result of COVID -19. However, domestic demand is rebounding and Ukraine has entered the crisis in better macroeconomic condition than in previous crises due to prudent macroeconomic management over the past several years. Financing needs remain substantial over the medium term owing to a heavy debt redemption profile. Going forward, it will be critical to maintain reform momentum to anchor investor confidence and support economic recovery.

Recent developments

Ukraine's economy was hit hard by the COVID-19 outbreak during 2020. Overall, GDP declined by 11.4 percent YoY in the second quarter bringing 1H20 GDP decline to 6.5 percent YoY. However, the negative impact appears to be less severe than initially anticipated as the full-scale lockdown lasted only from mid-March to early-May and has been replaced by an adaptive quarantine that has enabled many services (except passenger transport) to return to normal functioning. Domestic demand was also supported by a recovery in real wages (up 4.8 percent YoY in June, versus -0.4 percent in April), and continued remittance inflows. On the supply side, metals and mining, and manufacturing have been significantly impacted by weak external demand.

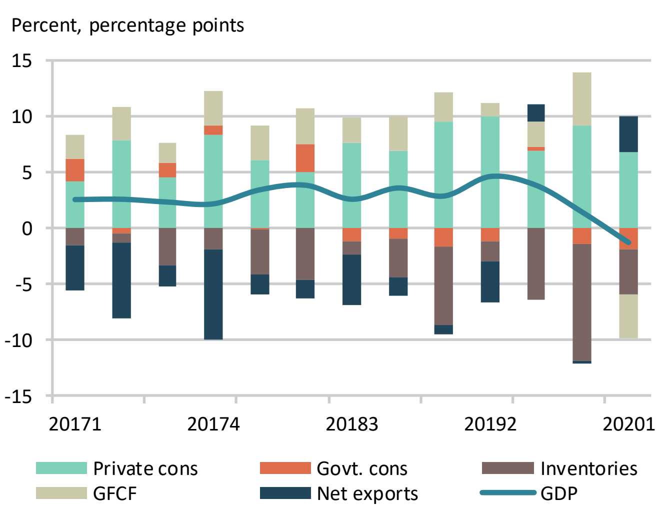
Improving terms of trade (due to lower energy prices and higher iron prices) and import compression (amidst slower investment activity) have contributed to a CA surplus of 4.8 percent of FY GDP in Jan-Jul Remittances have been relatively resilient, down 10 percent YoY in H1, while private capital inflows have also recovered following a brief period of limited outflows in the second quarter This has helped to reduce external financing needs and rebuild international reserves, which at US$28.5bn at end-July, amounted to about 4.6 months of next year's imports.

Since 2019, tight monetary policy, together with controls over public sector wages and current expenditures have helped to reduce inflation from over 9 percent in 2018 to 2.4 percent in July 2020, below the central bank's 5 percent inflation target, enabling it to cut its key policy rate by more than 10 percentage points to 6 percent in June 2020. With inflation expectations averaging 6.7 percent in August, real interest rates are close to zero and further easing may contribute to inflation pressures in light of more accommodative fiscal policy. Credit demand contracted in Q2, reflecting the impact of the COVID-19 shock. Banking liquidity remains supported by robust growth in deposits. At 25 percent, (Tier-2) capital buffers are well above regulatory minimums, while NPL coverage ratios amounted to 96.8 percent in Q2.

Fiscal pressures in 2020 arise from declining revenues, additional spending related to COVID-19 support measures, and large debt repayments coming due. As a result, a supplementary budget was passed in April which targeted a budget deficit of 7.6 percent of GDP (versus 2.5 percent in the original budget). However, H1 fiscal outcomes indicate an almost balanced budget reflecting low expenditure execution and better-than-expected revenue performance, and a deficit outturn of 5 percent of GDP is anticipated in 2020. Significant financing needs during 2020 have been alleviated by official EU and IMF financing of USD2.7bn, plus the issuance of USD1.3bn 12-year Eurobond in July. Domestic financing remains sufficient to cover domestic debt repayment needs.

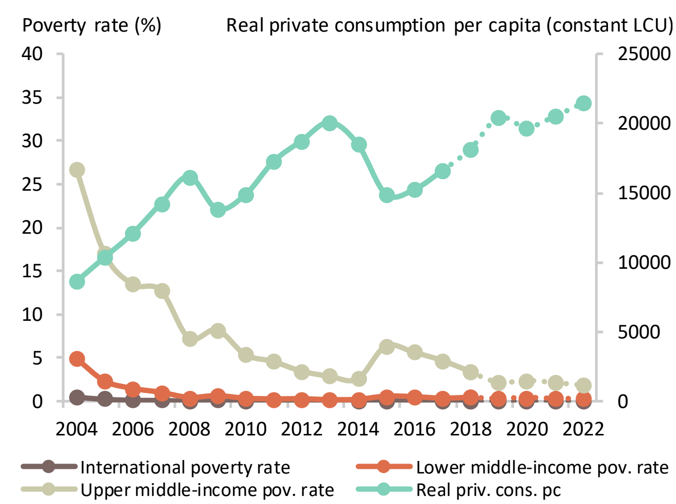
Moderate poverty (World Bank's national methodology for Ukraine) declined from a

FIGURE 1 Ukraine / Real GDP Growth and contributions to real GDP growth



Sources: UKRSTAT, World Bank.

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



Source: World Bank. Notes: see table 2.

peak of 26.9 percent during the crisis of 2015 to an estimated 17.8 percent in 2019 due to reduction of unemployment rate to 8.6 percent and 9.8 percent growth in real wages. Disposable income grew by 6.6 percent in 1Q20, but the COVID-19 outbreak is likely to negatively impact employment and real wages and create conditions for an increase in poverty rates.

Outlook

The economy is expected to contract by 5.5 percent in 2020, as H1 weakness is only partly offset by a recovery in domestic demand in H2 and positive contributions from net exports. The baseline assumes some re-imposition of containment measures in response to a "second wave" (given that daily reported infections are still increasing) and a slower pace of reforms. Ukraine still expects to raise USD2.9bn in additional official financing (from the IMF, WB and EU) in the remainder of the year. If these funds are delayed, the Government will have to contain spending or borrow more domestically.

Going forward, growth is expected to remain modest at 1.5 percent in 2021, rising to about 3.7 percent by 2023. The outlook depends on the duration of the health crisis and reforms to address bottlenecks to investment and safeguard macroeconomic sustainability. With the recent loss of reform momentum, fixed investment is expected to reach its pre-crises level only at the end of 2022 and net exports (as import demand revives but the pace of export diversification remains slow) to continue to drag on growth in 2021.

Poverty based on the international US$5.5 a day poverty line is low in Ukraine and is expected to increase by 0.2pp in 2020. At higher thresholds, the poverty increase will be larger, with poverty based on the World Bank's national poverty line for Ukraine expected to increase by 2pp in 2020. Sustainable economic growth is needed to reduce poverty rates in the medium run.

Risks and challenges

Macro-fiscal risks relate to substantial funding needs over the medium term, with debt repayment needs estimated at above 7 percent of GDP in 2021 and 2022. Increasing global risk aversion could heighten financing pressures and costs of funding. The Government's initiative to increase minimum wages by 37 percent in 2021, if adopted, could push the fiscal deficit to over 6 percent of GDP and increase total financing needs to over 13 percent of GDP in 2021. Financing risks will remain high in the medium term, thus containing current expenditure pressures is needed to keep the fiscal deficit at more sustainable level, and also to anchor inflation expectations.

Increases in wages in the public sector will also need to be consistent with the direction of broader health and education reforms and correspond with growth in labor productivity. Strengthening safety nets is a priority, in particular through scaling up the targeted Guaranteed Minimum Income program.

Strong economic recovery remains constrained by low fixed investment, which has averaged 17.6 percent of GDP over the last five years. Reviving investment depends on progress with reforms that address: structural weaknesses in the financial sector (including limited progress in resolving non-performing loans); market distortions from the lack of an agricultural land market, an anticompetitive environment, and large numbers of SOEs, and macroeconomic vulnerabilities.

Finally, political and governance risks are high and increasing due to the deep-rooted influence of powerful vested interests that could derail or reverse ongoing reforms. Continued adherence to anti-corruption reforms and prudent macroeconomic policies is necessary to anchor investor confidence.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	2.5	3.3	3.2	-5.5	1.5	3.1
Private Consumption	8.4	8.9	11.9	-7.3	3.2	4.1
Government Consumption	3.3	0.1	-5.0	3.0	-1.0	0.0
Gross Fixed Capital Investment	18.4	14.3	14.2	-15.0	8.2	5.2
Exports, Goods and Services	3.6	-1.6	6.7	-4.5	1.7	3.1
Imports, Goods and Services	12.8	3.2	6.3	-9.8	6.6	5.0
Real GDP growth, at constant factor prices	2.6	3.3	3.2	-5.7	1.3	3.0
Agriculture	-2.5	7.8	1.3	1.0	3.5	4.5
Industry	2.1	2.0	-2.0	-4.0	2.0	4.0
Services	3.7	3.0	5.4	-7.5	0.6	2.3
Inflation (Consumer Price Index)	13.7	9.8	4.1	4.8	5.0	5.0
Current Account Balance (% of GDP)	-2.1	-3.2	-0.9	1.5	-1.9	-2.2
Net Foreign Direct Investment (% of GDP)	2.1	1.9	2.1	2.1	2.5	2.7
Fiscal Balance (% of GDP)	-2.3	-2.0	-2.1	-5.0	-3.0	-3.0
Debt (% of GDP)	71.9	60.6	50.4	62.0	58.9	56.8
Primary Balance (% of GDP)	1.5	1.4	1.0	-1.3	1.6	1.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.3	0.4	0.2	0.3	0.2	0.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	4.6	3.4	2.1	2.3	2.1	1.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2018-HLCS. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on private consumption per capita in constant LCU.

UZBEKISTAN

Table 1	2019
Population, million	33.6
GDP, current US$ billion	57.9
GDP per capita, current US$	1724.5
School enrollment, primary (% gross)[a]	104.2
Life expectancy at birth, years[a]	71.6

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

The COVID-19 crisis in Uzbekistan has almost entirely extinguished GDP growth in 2020, and increased poverty levels for the first time in over two decades. Persistent COVID-19 disruptions have also tempered prospects for a quick recovery in 2021. Despite these challenges, Uzbekistan's outlook remains positive as reforms continue to shift the economy towards greater resource efficiency and private sector growth. As COVID-19 conditions ease over the medium-term, a rebound in economic growth and remittance incomes will contribute to further poverty reduction.

Key conditions and challenges

An effective transition—from state-driven to a competitive private sector-led market economy—is the most important challenge for Uzbekistan. Although the old state-led model generated high growth (averaging 6.7 percent between 2000-2019) and supported near-elimination of extreme poverty, these gains did not translate into sufficient job creation, labor productivity, and private sector growth. Uzbekistan's labor share of income is relatively low (about 46 percent in 2019), and 9.5 percent of the population still lives below the World Bank's lower middle-income poverty line ($3.2 a day, PPP 2011 adjusted). To tackle these challenges, ambitious reforms are being implemented.

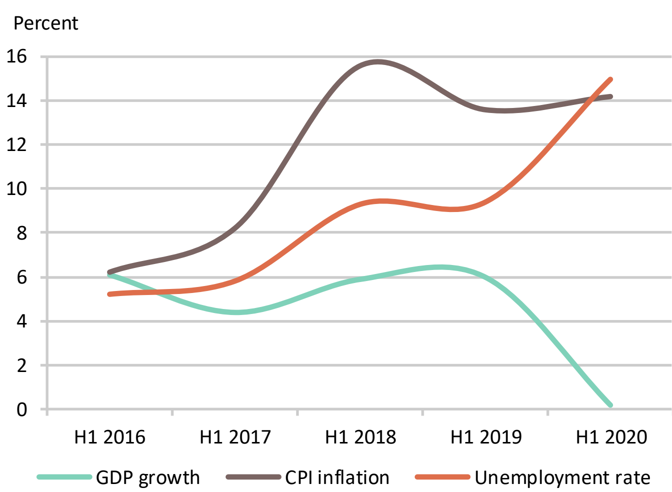
Since 2017, reforms have been enacted to remove controls in the foreign exchange market, liberalize prices, and reduce onerous business environment and export restrictions. The next phase of reforms is now being implemented to liberalize factor markets, agriculture, and banking, and to streamline management of state-owned enterprises. These reforms require increased transparency, a level playing field for the private sector and stronger safety nets to protect vulnerable citizens from adjustment costs. A key measure of reform success will be an increasing level of private sector participation in growth. Addressing human capital constraints—in education and mismatches in workforce skills—will also be important. The human and economic impact of the COVID-19 crisis will create additional challenges for the transition process. The persistence of global trade and financial market disruptions, and domestic virus containment measures, are expected to sharply lower growth and increase poverty levels in 2020. These adverse outcomes are expected to continue into 2021, or until the virus can be effectively contained.

Recent developments

GDP growth in the first half of 2020 was nearly zero, compared with growth of 5.8 percent in the first half of 2019. Higher gold production and favorable agricultural conditions helped offset a sharp fall in industry and services activity. A cumulative increase of about 17 percent in social payments and a 10 percent increase in minimum wages since February have helped preserve private consumption despite a 19 percent decline in remittances. Investment in fixed capital decreased by 12.8 percent in the first half of 2020.

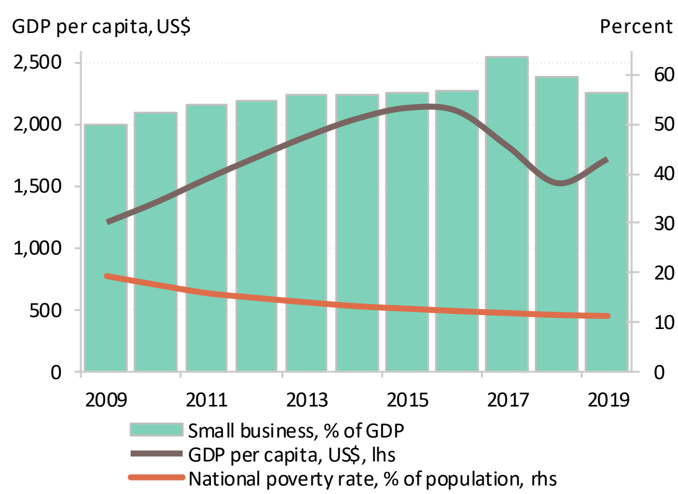
Lower remittances and a wider trade deficit widened the current account deficit to 7.7 percent of GDP in the first half of 2020. Exports fell by 22.6 percent in the same period, due to supply chain disruptions and a fall in key commodity prices (natural gas, metals). Imports fell by 15 percent due to a sharp fall in machinery and capital imports. Increased external borrowing from multilateral and bilateral partners helped finance the higher current account deficit.

FIGURE 1 Uzbekistan / GDP Growth, Inflation, Unemployment



Source: Uzbekistan official statistics for the first half of each year.

FIGURE 2 Uzbekistan / Poverty, GDP per Capita, and Small Business Development



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

Lower revenue collections and large anti-crisis spending contributed to a fiscal deficit of about 5 percent of GDP in the first half of 2020. About 2.5 percent of GDP was directed to additional health spending, increases in low-income allowances, support to enterprises, and an expansion of public works. Despite a large revenue increase from higher gold exports, weaker economic conditions and tax deferrals contributed to a two-percentage point year-on-year decline in revenues as a share of GDP.

Annual inflation was 11.6 percent in August 2020. The effects of administered price increases and a depreciating exchange rate were moderated by lower seasonal food prices and the effects of slower credit expansion. In response to easing inflationary conditions, the central bank twice cut its policy rate in 2020, from 16 to 15 percent in April, and to 14 percent in September.

Banking sector credit and liquidity risks have increased significantly due to the COVID-19 crisis. Anti-crisis credit lines to firms contributed to an increase in credit to the economy by 18 percent during January-August 2020. The capital adequacy ratio fell to 19.4 percent in August from 23.5 percent at end-2019 and reduced the ratio of liquid to total assets to 10.3 percent in August from 11.3 percent at end-2019. Non-performing loans have also increased to 2.4 percent in August from 1.5 percent at end-2019, although the increase was tempered by anti-crisis loan deferments. On balance, the financial system remains well-capitalized to absorb potential credit shocks as temporary anti-crisis measures are eventually lifted.

The unemployment rate increased sharply from 9.4 percent in the first quarter of 2020 to 15 percent in the second quarter. The share of households with at least one working member fell by 40 percentage points in April. Although most of this was recovered in May, new lockdown measures have stalled employment recovery. Newly posted online job advertisements were down 74 percent year-on-year in August.

Outlook

The lifting of lockdowns in the third quarter, robust agricultural production, and a partial recovery of remittances will result in stronger economic activity in the second half of 2020 than in the first. Annual GDP growth is projected to be between 0.4-0.8 percent in 2020, considerably lower than in 2019. The pace of the recovery will depend on the duration of the pandemic, access to vaccines, and the rice of international trade and investment flows. Assuming limited further lockdowns, an easing of the pandemic, and a broader global economic recovery, GDP growth is projected between 4.8-5.0 percent in 2021. Inflation will moderate over the medium-term but remain elevated by further price reforms.

The current account deficit is expected to be around 6 percent of GDP in 2020 due to a recovery in remittances and a lower trade deficit. The current account deficit is projected to remain at this level over the medium-term as imports of machinery and equipment resume post-COVID-19. This deficit is expected to be financed by higher public borrowing and gradually by rising foreign investment. The projected fiscal deficit of 7.5 percent of GDP in 2020 will moderate in 2021-22 as anti-crisis spending is gradually reduced and revenues recover. The deficit is projected to decline over the medium-term. The wider deficit in 2020 and the medium-term will be financed by increased external borrowing, and public external debt will increase to about 35 percent of GDP in 2020, Although debt has increased sharply since 2017, it is expected to stabilize over the medium-term, with most of the increase linked to a scale-up in multilateral support for the reforms.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.5	5.4	5.6	0.6	4.8	5.3
Private Consumption	1.3	3.8	5.4	1.1	5.0	5.4
Government Consumption	6.1	3.7	5.5	12.8	2.1	2.2
Gross Fixed Capital Investment	7.1	18.1	33.9	-5.4	7.0	10.1
Exports, Goods and Services	1.3	10.7	10.9	-4.6	8.6	10.2
Imports, Goods and Services	2.2	26.8	47.3	-7.3	9.8	13.9
Real GDP growth, at constant factor prices	4.5	5.4	5.6	0.6	4.8	5.3
Agriculture	1.2	0.3	2.5	2.8	3.1	3.3
Industry	5.4	11.5	8.9	-1.8	4.0	4.3
Services	6.3	5.2	5.5	0.8	6.4	7.2
Inflation (Consumer Price Index)	12.5	17.5	14.5	12.9	10.6	8.9
Current Account Balance (% of GDP)	2.5	-7.1	-4.2	-6.1	-5.2	-4.3
Fiscal Balance (% of GDP)	-1.9	-2.3	-3.9	-7.5	-6.2	-5.8
Debt (% of GDP)	20.2	20.4	29.3	34.7	38.4	39.8
Primary Balance (% of GDP)	-1.8	-1.9	-3.5	-6.9	-5.8	-5.5

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

Macro Poverty Outlook

10/
2020

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