Europe and Central Asia

Macro Poverty Outlook

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

Annual Meetings 2022

WORLD BANK GROUP
Macroeconomics, Trade & Investment
Poverty & Equity

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

Internet: www.worldbank.org

Europe and Central Asia

Annual Meetings 2022

Albania	Kazakhstan	Russian Federation
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Croatia	Poland	
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ALBANIA

Table 1	2021
Population, million	2.8
GDP, current US$ billion	18.3
GDP per capita, current US$	6447.7
International poverty rate ($2.15)[a]	3.9
Lower middle-income poverty rate ($3.65)[a]	11.3
Upper middle-income poverty rate ($6.85)[a]	34.2
Gini index[a]	36.0
School enrollment, primary (% gross)[b]	100.2
Life expectancy at birth, years[b]	78.7
Total GHG emissions (mtCO2e)	7.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2020).

Following a strong growth in Q1 2022, GDP is likely to decelerate, as rising inflation affects disposable income, and a slowdown in the global economy translates into tighter financing conditions and lower exports. Medium-term prospects hinge on the global recovery, structural reforms, and fiscal consolidation. Poverty is expected to decline but persistent inflation could lead to smaller declines in the future or to reversals of past gains.

Key conditions and challenges

Albania's GDP growth rebounded to 8.5 percent in 2021, reflecting the economy's resilience following two exceptionally large shocks: the 2019 earthquake and the COVID-19 pandemic. The post-earthquake reconstruction supported strong investment growth, while consumption benefited from the growth in employment and wages, and credit growth.

Towards year-end 2021, closure of the output gap and rising global prices started affecting domestic inflation. Pressures intensified after the start of the war in Ukraine, with food and energy prices being the most affected. Rising interest rates have also hardened borrowing conditions while global supply chain shortfalls still persist following the pandemic and contribute to inflationary pressures.

The global slowdown and rising inflation brought new trade-offs for macroeconomic policies. While macroeconomic policies were geared towards providing a stimulus during 2021, increased inflation expectations prompted a change in the course of monetary policy with the key rate increasing 3.5 times since March 2022.

Against further erosion of disposable income, social assistance is still needed to continue supporting the most vulnerable, but the budget now faces increased refinancing and interest rate risks on its public debt.

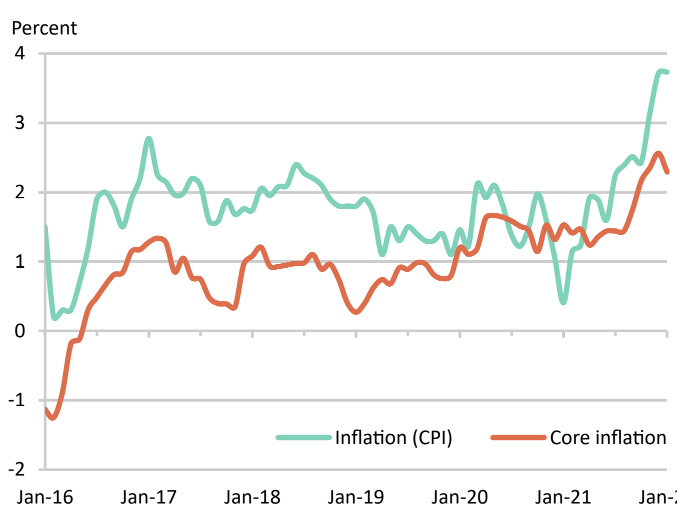
Public debt is expected to decline further in 2022, reaching 67.9 percent of GDP, largely on account of higher nominal GDP. The energy sector SOEs represent a key risk to the government's further consolidation plans, in addition to higher costs of public works. At around 27 percent of GDP, public revenues provide little space to increase investment in public infrastructure and human capital. A Medium-Term Revenue Strategy under preparation has the potential to increase revenues over the medium run.

Growth prospects are uncertain with many downside risks. Higher energy, food, and commodity prices could further shrink households' purchasing power and consumption. Additional risks include new, vaccine-resistant COVID-19 variants, tighter global financial and trade conditions, and renewed travel restrictions.

Recent developments

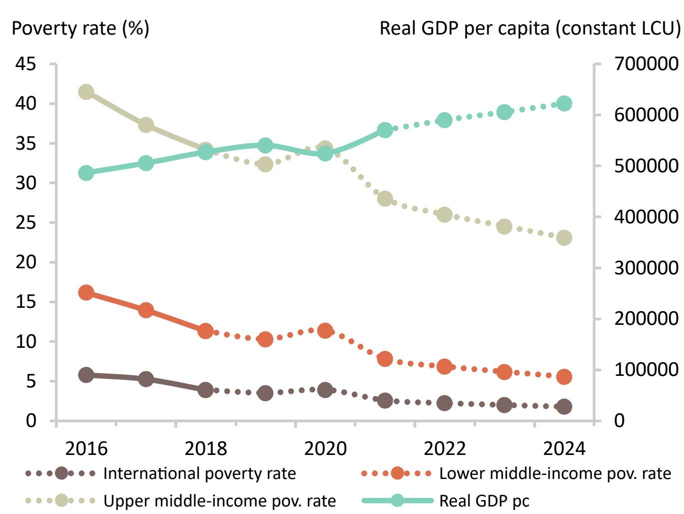
GDP grew by 6 percent in Q1 2022. Private consumption, exports, and investment expanded, as business and consumer confidence remained strong despite increasing prices. Household consumption rose by 8.6 percent yoy. Net foreign demand contributed positively to GDP growth as exports increased by 25.3 percent yoy, while imports rose by 17.6. Gross fixed capital formation slowed (15.5 percent yoy vs 16.9 percent in Q4 2021) while government spending declined significantly with the earthquake

FIGURE 1 Albania / Headline inflation and core inflation



Sources: INSTAT and World Bank.

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



Source: World Bank. Notes: see Table 2.

reconstruction winding down. On the supply side, trade and construction led growth in Q1 2022. Surveys indicate continued growth in the following trimesters on account of tourism.

Labor markets improved during Q1 2022. Employment grew by 3.4 percent, from 2.7 percent in the previous quarter. For the same period, unemployment fell to 11.3 percent from 11.4 percent a quarter earlier, while labor force participation increased. Given the strong growth in GDP per capita in 2021, poverty is estimated to have dropped from 34.4 percent in 2020 to 28.1 percent in 2021.

The annual inflation rate rose to 7.4 percent in June 2022, the highest since March 2020, from 6.7 percent in the previous month. Core inflation was at its peak July 2022 (at 7.3 percent) indicating raising inflation expectations. The Central Bank raised its key policy rate by 50 basis points to 1.75 percent in August, marking the third hike since the start of the war in Ukraine. Credit to the private sector grew at 13.8 percent yoy in H1 2022.

Fiscal revenues increased by 19.2 percent yoy in H1 2022 on account of increased inflation, formalization efforts, and higher profit tax. In response to higher food prices stemming from the war in Ukraine, the government increased support to vulnerable groups and increased the subsidies to the energy SOEs, while keeping the tariffs for households and SMEs unchanged.

Outlook

Economic activity is projected to expand at an average of 2.7 through 2024, below the pre-earthquake historical rate, following global conditions and persistent supply side shocks. Enduring geopolitical tensions could further increase inflation, disrupt supply chains, and disturb financial markets; all of which could further dim Albania's growth prospects. In turn, a sluggish job market combined with diminished purchasing power could dampen progress on poverty reduction.

While the government plans to contain spending in line with fiscal consolidation plans, higher costs of public service provision create additional pressures on growth. Higher spending may be needed to guarantee energy supply through more costly energy imports and support to the fragile energy SOEs.

On the external account, services exports, including tourism and fast-expanding business-process operations should gradually recover. The current account deficit is expected to reach 7.7 percent of GDP in 2024 reflecting high demand for infrastructure-related imports.

Public debt is expected to decline to 68.9 percent of GDP in 2022, and more significantly over the medium term. This is based on the assumption that the primary balance turns positive in 2024 in line with the fiscal rule. However, the fiscal balance could further deteriorate in a worsening international context, which may force the government to cut public spending to prevent a hike in the debt-to-GDP ratio. Given Albania's growing reliance on external financing, interest rate and refinancing-related risks remain elevated. Contingent liabilities in the form of guarantees to cover energy purchases also represent a significant risk.

In the medium term, private consumption is projected to return as a key driver of GDP growth. Private investment could provide further support to growth if business climate reforms are implemented. After the significant reduction in 2021, poverty is expected to continue declining in 2022, but persistent inflationary pressures could hamper further poverty reduction.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.1	-3.5	8.5	3.2	2.3	2.5
Private Consumption	3.2	-3.5	4.2	2.8	2.2	2.4
Government Consumption	2.9	1.5	7.8	-3.3	-0.2	2.0
Gross Fixed Capital Investment	-3.7	-0.9	19.8	3.9	-0.1	0.1
Exports, Goods and Services	2.6	-27.9	46.0	6.5	5.7	5.6
Imports, Goods and Services	2.3	-19.8	31.7	3.5	2.7	2.9
Real GDP growth, at constant factor prices	2.4	-2.9	8.6	3.2	2.3	2.5
Agriculture	0.6	0.3	1.5	1.5	1.2	1.2
Industry	0.9	-3.5	10.8	5.0	5.0	5.0
Services	3.8	-3.8	10.3	2.9	1.3	1.7
Inflation (Consumer Price Index)	1.4	2.2	2.6	6.7	4.0	3.5
Current Account Balance (% of GDP)	-7.9	-8.5	-7.7	-7.9	-8.1	-7.7
Net Foreign Direct Investment Inflow (% of GDP)	7.5	6.7	6.4	6.3	6.4	6.4
Fiscal Balance (% of GDP)	-1.9	-6.7	-4.5	-3.8	-4.7	-3.8
Debt (% of GDP)	67.4	75.9	74.0	68.9	67.4	66.9
Primary Balance (% of GDP)	0.1	-4.6	-2.6	-1.3	-1.1	0.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.5	3.9	2.6	2.2	2.0	1.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	10.3	11.4	7.8	6.9	6.2	5.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	32.4	34.4	28.1	26.0	24.5	23.1
GHG emissions growth (mtCO2e)	-4.8	-8.7	-1.7	-4.2	-4.4	-4.0
Energy related GHG emissions (% of total)	47.7	44.5	44.6	42.9	40.7	38.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on ECAPOV harmonization, using 2016-SILC-C and 2018-SILC-C. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2016-2018) with pass-through = 1 based on GDP per capita in constant LCU.

ARMENIA

Table 1	2021
Population, million	3.0
GDP, current US$ billion	13.9
GDP per capita, current US$	4670.3
International poverty rate ($2.15)[a]	0.4
Lower middle-income poverty rate ($3.65)[a]	6.9
Upper middle-income poverty rate ($6.85)[a]	53.5
Gini index[a]	25.2
School enrollment, primary (% gross)[b]	91.2
Life expectancy at birth, years[b]	75.2
Total GHG emissions (mtCO2e)	9.6

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

Growth has surprised on the upside and is expected to reach 7 percent in 2022, prior to slowing in 2023. The economy has benefited from a surge in money transfers and visitors from Russia that is expected to subside. Risks to this outlook are mostly on the downside, related to the duration and severity of the conflict, inflationary pressures, and the tensions at Armenia's borders.

Key conditions and challenges

Despite the twin shocks of COVID-19 and military confrontation with Azerbaijan in 2020, the Armenian economy has shown resilience thanks to prudent macroeconomic management (flexible exchange rate, active inflation targeting regime; effective fiscal rule), and a sound financial sector.

In early 2022, the country was expected to be negatively impacted by the war and the associated sanctions, given the strong economic linkages with Russia and the increase in global commodity prices. However, the economy has performed better than anticipated, supported by strong domestic demand and large money transfers and visitors from Russia. It is unclear whether these inflows are temporary and could be reversed.

Armenia's long-standing structural bottlenecks include closed borders with two of its four neighbors, low productivity and firm competitiveness, and skills mismatches.

Recent developments

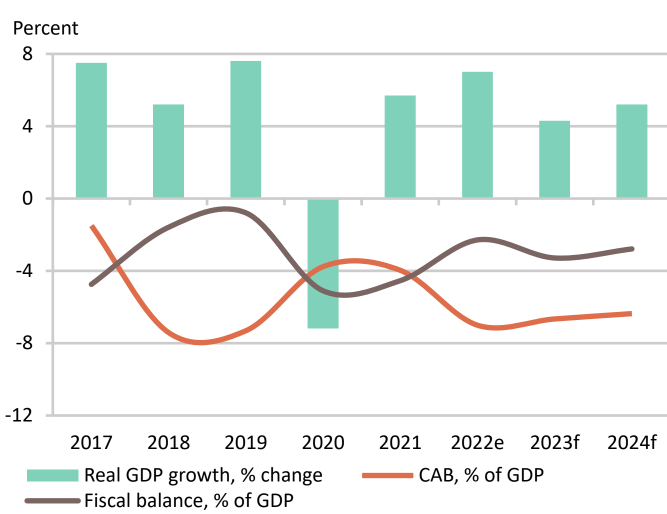
Contrary to expectations, the economic rebound has continued in 2022, with real GDP growing by 11 percent (yoy) during the first half of 2022. This was mostly driven by services (16 percent growth, yoy), in particular tourism, finance, and IT. Manufacturing and construction grew by 11 and 22 percent, respectively, while mining contracted by 11 percent, partly reflecting the closure of the Teghut mine in mid-March 2022 following the Ukraine-Russian war. According to the official statistics, agriculture contracted in real terms by 1.8 percent (yoy), partly reflecting constraints relating to land and irrigation.

After some moderation in late 2021, inflation picked up again in early 2022, and reached 10.3 percent (yoy) in June 2022, prior to easing to 9.3 percent in July. Food and fuel price increases have contributed to about two-thirds of total inflation in the year to date. In response, the Central Bank of Armenia (CBA) has increased the policy rate three times in 2022, to 9.5 percent.

During the first half of 2022, the budget balance has remained in surplus, at 0.9 percent of the annual projected GDP, compared to a planned deficit of 1.5 percent. In this period, total revenues grew by 24 percent (yoy) in nominal terms while expenditures grew by just 5 percent (yoy), a decline in real terms. While capital expenditures have increased by 30 percent, recurrent expenditures just grew by 3 percent, partly due to some savings in the procurement of goods and services. While faster growth in outlays is expected during the second half of the year, the budget is likely to remain under-executed.

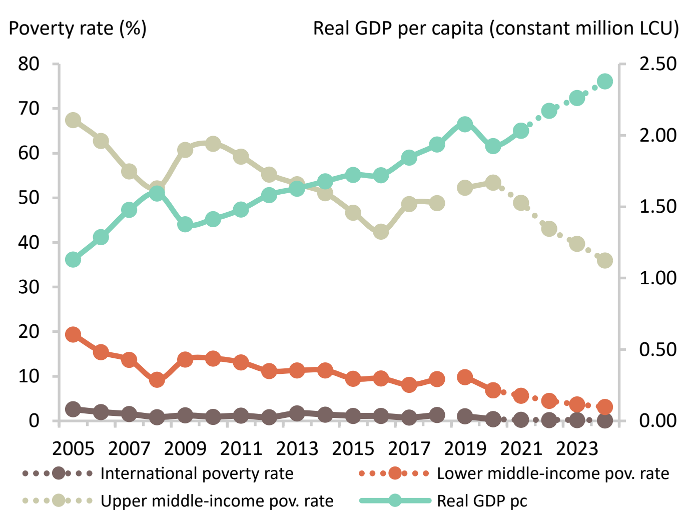
The current account deficit (CAD) has widened in the first half of 2022, as goods import growth has outpaced exports (49 vs. 36 percent, yoy), driven by higher food and fuel import prices and the economic recovery. Remittances declined in nominal terms, but this was compensated by a 2.5-fold increase in total net money

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



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

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



Source: World Bank. Notes: see Table 2.

transfers from abroad (mostly driven by Russia). The net positive arrivals (single entry) of Russian visitors in this period increased by about 21 percent compared to the same period in 2019 (pre-pandemic). FDI increased by 4.5-fold in the first quarter of 2022, mostly driven by investments into the financial sector. As a result of these trends, international reserves increased to USD 3.5 billion by end-July (4.7 months imports). After a short depreciation period at the onset of the Ukraine war, the dram has recovered vis-à-vis the USD and by mid-August it was 18 percent stronger (yoy), while remaining almost flat against the Ruble.
The unemployment rate declined to 14.8 percent by end-March 2022 (compared to 16.7 percent in March 2021).

Outlook

The strong economic performance in recent months has led to an upgrade of the growth forecast for 2022 to 7 percent. Growth is expected to be supported by services, and, to a lesser extent, by industry. The slowdown in trading partners will likely result in slower growth in 2023. Agriculture growth, on the other hand, is expected to remain flat in 2022, while picking up in the medium term, supported by policies in the government's five-year program.
The deficit is expected to be lower than planned in 2022 (at around 2 percent of GDP). As the economy decelerates in 2023, the fiscal stance may loosen, with consolidation expected to continue in 2024 and 2025. Public debt (excluding CBA) is expected to decline by the end of 2022 below the fiscal rule's statutory limit of 60 percent of GDP.
The CAD is projected to widen in 2022 due to weaker external demand and rising import prices and will remain elevated in the medium term, at above 6 percent of GDP.
Inflationary pressures are expected to ease in the remainder of 2022 and in the coming years, as external price pressures subside and inflation targeting helps keep expectations anchored.
Based on the forecasted macroeconomic impact, poverty could reach 43.1 percent of the population in 2022 (measured by the upper middle-income poverty line of $6.85). Poverty is forecasted to continue declining due to strong economic performance. However, the higher food and energy prices may have a negative distributional impact, disproportionately hurting the poor. Moreover, the impacts can have a long-lasting effect, as lower-income households may be forced to reduce food consumption and investments in assets, hampering human capital accumulation.
Downside risks include continued or heightened clashes with Azerbaijan, a protracted Ukraine conflict, a slowdown in main trading partners, and monetary tightening in advanced economies. On the upside, the significant influx of international visitors from Russia, if sustained, could provide a longer-term boost to the economy.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	7.6	-7.2	5.7	7.0	4.3	5.2
Private Consumption	11.5	-13.9	3.7	8.9	4.2	5.4
Government Consumption	12.9	9.2	8.4	-4.1	4.4	7.1
Gross Fixed Capital Investment	4.4	-1.5	6.3	18.3	8.1	7.1
Exports, Goods and Services	16.0	-33.5	16.6	16.3	8.7	9.2
Imports, Goods and Services	11.6	-31.5	12.9	18.6	9.0	9.7
Real GDP growth, at constant factor prices	7.7	-6.8	5.5	7.0	4.3	5.2
Agriculture	-5.8	-3.7	-0.6	0.0	2.0	3.5
Industry	10.5	-2.5	3.4	3.6	4.5	5.1
Services	9.7	-9.6	8.0	10.3	4.6	5.5
Inflation (Consumer Price Index)	1.4	1.2	7.2	8.5	6.7	4.8
Current Account Balance (% of GDP)	-7.3	-3.8	-4.0	-7.0	-6.7	-6.4
Net Foreign Direct Investment Inflow (% of GDP)	1.7	0.7	2.5	2.7	2.9	3.2
Fiscal Balance (% of GDP)	-0.8	-5.1	-4.6	-2.3	-3.3	-2.8
Debt (% of GDP)[a]	53.7	67.4	63.4	61.3	61.0	59.9
Primary Balance (% of GDP)	1.6	-2.4	-2.0	0.3	-0.8	-0.4
International poverty rate ($2.15 in 2017 PPP)[b,c]	1.0	0.4	0.2	0.2	0.2	0.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	9.8	6.9	5.7	4.5	3.7	3.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	52.3	53.5	48.9	43.1	39.7	36.0
GHG emissions growth (mtCO2e)	5.5	-10.8	7.3	7.1	6.8	6.5
Energy related GHG emissions (% of total)	59.9	56.3	60.5	62.1	63.5	64.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Includes Governement and CBA debt.
b/ Calculations based on ECAPOV harmonization, using 2020-ILCS. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
c/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

AZERBAIJAN

Table 1	2021
Population, million	10.2
GDP, current US$ billion	54.6
GDP per capita, current US$	5367.1
School enrollment, primary (% gross)[a]	95.8
Life expectancy at birth, years[a]	73.1
Total GHG emissions (mtCO2e)	56.7

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

The rebound in economic activity in 2021 continued in the first half of 2022, fueled by strong activity in non-energy sectors. Recovering domestic demand supported growth, while high global energy prices boosted external and fiscal accounts. Risks to the outlook have become balanced. However, the war in Ukraine could increase poverty and inequality given the high food inflation and the larger share of household budgets spent on food among the less well-off.

Key conditions and challenges

Azerbaijan is at a critical juncture in its development journey. The current economic model is unlikely to deliver the growth necessary for Azerbaijan to meet its long-run goals. Azerbaijan's integration into the global economy is largely limited to the energy sector, and relatively inefficient state-owned enterprises remain present in several sectors. In addition, structural headwinds – in the form of declining oil reserves, falling population growth, and an aging population – are expected to dampen long-run growth prospects.

While the poverty rate has been stable at about 5-6 percent over the past decade, households remain vulnerable to shocks. Providing greater access to quality services in higher education and health services is essential to enhance inclusive growth in the longer term.

Accelerating growth is possible by focusing on improving productivity in the non-oil/gas sectors and building human capital. The newly approved socio-economic development strategy emphasizes the need to transition to a private-sector-led economic model and aims at attaining greener growth, inclusion, and social justice, and a more competitive human capital base. Private sector growth will require a level playing field and access to skilled labor.

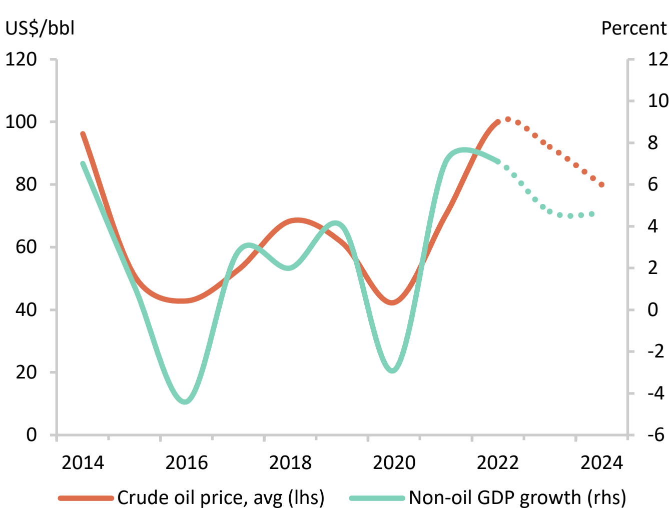
Recent developments

Real GDP expanded by 6.2 percent in the first half of 2022 (yoy). The energy sector edged up, by 0.2 percent (yoy), driven by an expansion in natural gas production, while crude oil production fell. Higher-than-expected growth in the non-energy sector (9.6 percent, yoy) was supported by recovery in traditional services amid removal of COVID-19 restrictions and by increased domestic demand due to the release of pent-up consumption as well as fiscal expansion. The war in Ukraine has had a relatively muted impact on the economy, with some positive effects on the transport sector. Double-digit growth rates were recorded in transport, hospitality, ICT, and non-oil manufacturing.

On the demand side, investments inched up by 0.7 percent during the first half of 2022. Consumption was supported by solid nominal wage growth (13.5 percent, yoy) owing to public sector wage increases, soaring remittance inflows from Russia (2.3 times, yoy), and robust consumer lending.

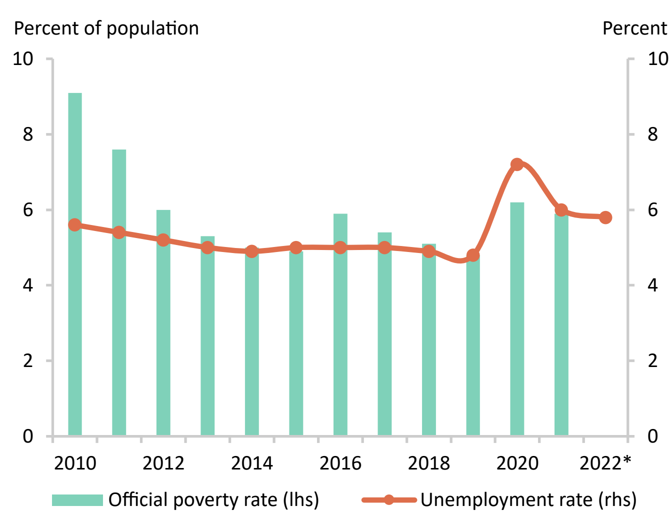
Inflation jumped to 13.7 percent (yoy) by July and has been broad-based, driven by high import prices. Food inflation rose the most, by 20.3 percent (yoy). To counter inflation, the central bank increased the policy rate twice in the first half of 2022, raising it by 50 basis points in total to 7.75 percent, but with muted impact on inflation as the monetary transmission is weak, including due to

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



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

FIGURE 2 Azerbaijan / Official poverty rate and unemployment rate



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

dollarization and an underdeveloped inter-bank money market.
The trade balance recorded a surplus of 32.5 percent of GDP in the first half of 2022, supported by high energy prices. Exports doubled compared to a year ago (with 90 percent of the increase in oil and gas exports due to price effects), while imports rose by 18 percent. CBA reserves increased by 4.2 percent while State Oil Fund (SOFAZ) reserves leveled off as higher revenues were offset by the loss in asset value.
The fiscal balance was in surplus of 6 percent of GDP as higher energy prices boosted the fiscal revenues while fiscal spending saw a rise by 12.5 percent in nominal terms (a slight drop in real terms). Higher energy prices prompted the government to revise the budget in June and increase spending by around 2 percent of GDP, largely on public investment.
The financial sector has demonstrated resilience as the credit portfolio expanded steadily while non-performing loans declined to 3.5 percent as of June. The dollarization rate stabilized at 50 percent.

Outlook

Real GDP growth is projected to reach 4.2 percent in 2022, and to slow to an average of 2.7 percent during 2023-24. A moderate decline in crude oil production is expected to be offset by expansion in natural-gas production, with growth in the energy sector stabilizing at 0.1 percent. In non-energy sectors growth is projected to average 4.6 percent during 2023-24 as service sectors' growth will converge to the pre-COVID levels. On the demand side, consumption is expected to moderate as households' real incomes are negatively affected by high inflation, and investments are projected to moderate.
Inflation is projected to ease in 2023 and 2024, while remaining significantly above the CBA's target range of 4+/-2 percent, and is expected to have negative distributional impacts, as the less well-off are disproportionately affected.
High energy prices in the medium term are expected to bolster the external sector, with the current account surplus remaining in double digits. Export growth will remain strong, propelled by high prices, while import growth is expected to ease beyond 2022, in line with the moderation in domestic demand.
The fiscal surplus is projected to moderate gradually over 2022-2024, reflecting the projected path in oil and gas revenues. The new fiscal rule should help to avoid pro-cyclicality during the current commodity boon while reducing non-oil fiscal balance in the medium term.
Implementation of the new socio-economic development strategy is likely to require additional public spending in certain areas, which will need to be reconciled with the fiscal rule.
There are upside risks to the outlook such as the possibility to ramp up natural gas production, enabled by the MoU signed with the EU, and the possible adoption of reforms to foster non-oil sector growth in line with the new socio-economic development strategy. Downside risks include continued or heightened clashes with Armenia, a protracted Ukraine conflict, the slowdown in main trading partners, and monetary tightening in advanced economies.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.5	-4.3	5.6	4.2	2.8	2.6
Private Consumption	4.2	-5.1	7.0	4.5	4.0	3.6
Government Consumption	7.9	4.8	3.8	7.4	4.2	3.1
Gross Fixed Capital Investment	-2.4	-7.1	-6.0	3.0	3.2	3.3
Exports, Goods and Services	1.5	-8.1	5.6	3.2	1.7	1.8
Imports, Goods and Services	2.2	-10.5	2.5	3.2	2.7	2.7
Real GDP growth, at constant factor prices	2.5	-4.4	5.6	4.2	2.8	2.6
Agriculture	7.3	1.9	3.3	1.1	2.0	2.2
Industry	0.4	-5.2	4.1	2.7	1.5	1.3
Services	5.1	-4.4	8.6	7.3	5.0	4.6
Inflation (Consumer Price Index)	2.7	2.8	6.7	12.5	9.5	8.0
Current Account Balance (% of GDP)	9.1	-0.5	15.2	24.5	16.7	13.4
Net Foreign Direct Investment Inflow (% of GDP)	-2.9	-1.5	-4.1	-1.6	-1.1	-1.1
Fiscal Balance (% of GDP)	9.0	-6.5	4.2	9.3	4.3	2.3
Debt (% of GDP)	18.8	18.4	16.2	11.8	10.7	11.0
Primary Balance (% of GDP)	9.7	-5.7	4.8	9.7	4.6	2.6
GHG emissions growth (mtCO2e)	6.2	2.0	5.1	5.2	3.9	4.0
Energy related GHG emissions (% of total)	64.9	63.8	65.2	65.2	65.1	65.3

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

BELARUS

Table 1	2021
Population, million	9.4
GDP, current US$ billion	68.4
GDP per capita, current US$	7294.5
Upper middle-income poverty rate ($6.85)[a]	1.3
Gini index[a]	24.4
School enrollment, primary (% gross)[b]	95.3
Life expectancy at birth, years[b]	74.2
Total GHG emissions (mtCO2e)	61.7

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

Recession deepens as exports are hampered by sectoral sanctions and disruptions of trade with Ukraine. As inflation picked up, real interest rates fell, helping to alleviate credit constraints for enterprises, but stretching household budgets. A contraction of economic activity and higher poverty are projected in 2023 as businesses continue to face supply-side bottlenecks, while the effects of policies to support the economy and promote import substitution are yet to materialize.

Key conditions and challenges

In recent years, Belarus's economy has faced a series of external and domestic shocks related to the COVID-19 pandemic and packages of economic sanctions adopted in the aftermath of the disputed 2020 elections and in response to Belarus's involvement in Russia's military invasion of Ukraine. While 2020-21 restrictive measures had a limited negative impact on the economy, the expanded sanction packages of 2022 affect commodities exports, generating a loss of up to one-third of merchandise export revenues, which is equal to about 18 percent of 2021 GDP. Increased trade with Russia (by 23 percent y/y in US$ nominal terms in H1 2022) – driven by higher prices rather than volumes – curb these losses only partially. Yet, preferential gas and oil prices cushion the impact of these external shocks by containing cost pressures generated by sanctions and related supply-side bottlenecks as well as lowering energy bills for industrial consumers.

While businesses seek adaptation to a sanctions-shaped environment, the authorities count on the effects of the 2022 support package for the economy, which includes some business liberalization measures. At the same time, import-substitution policies are expected to alleviate supply-side constraints and boost domestic manufacturing. As the effects of these measures are yet to materialize, GDP is projected to decrease in both 2022 and 2023. However, this scenario is subject to uncertainties related to the ongoing Ukraine-Russia war and its economic repercussions for the country and the region. Also, forecasting is affected by an increasing lack of access to important data, including on the production and trade of sanctioned commodities, the structure of foreign reserves, and fiscal accounts.

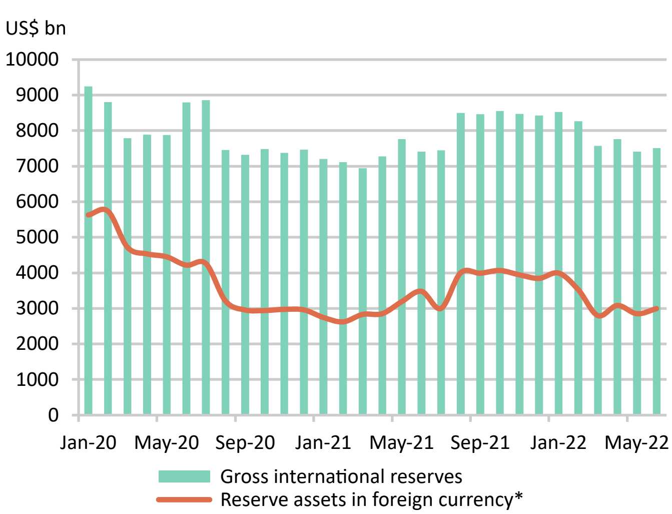
Recent developments

In the first half of 2022, real GDP declined by 4.2 percent y/y as exports continued to fall and domestic demand weakened. Logistics and supply chain constraints led imports to fall faster than exports (7.3 vs 4.4 percent y/y in H1 2022 in nominal US$), improving trade balance and containing exchange rate pressures. After a short-lived depreciation in March, the BYN/US$ rate bounced back, falling below its pre-war level. Sales of FX by non-residents – close to US$900 million on a net basis over January-July 2022 – helped to maintain the exchange rate stable.

CPI inflation picked up in March and remains elevated at 18.1 percent y/y as of July 2022. Higher inflation has lowered real interest rates, but the subsequent increase in corporate borrowing has not translated into higher investment, as companies seek to fund ongoing activities.

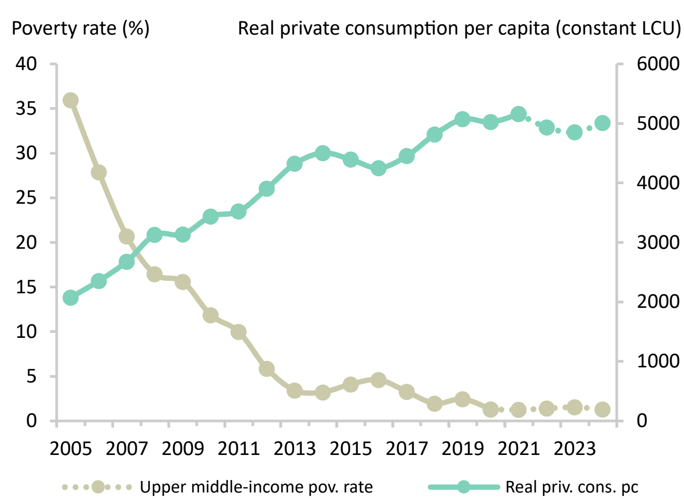
The assessment of fiscal situation is prevented by the lack of publicly available data on budget execution through 2022. The GFS data for Q1 2022 show a considerable

FIGURE 1 **Belarus** / Foreign reserves



Source: NBRB.
Note: *gross reserves net of monetary gold and SDR.

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



Source: World Bank. Notes: see Table 2.

decline in tax revenues from foreign trade, while reduction of other tax revenue occurred on a smaller scale.

In mid-July international rating agencies reported about the sovereign default as interest payments on 2027 Eurobonds were made in the national currency instead of FX and in September Fitch has downgraded four Belarussian sovereign Eurobonds to 'D' and affirmed Belarus's Default Rating at 'RD'. The Ministry of Finance claimed this was due to sanctions preventing bondholders from collecting payments rather than inability to service. Although from the beginning of 2022 gross foreign currency reserves declined by US$962 mln, reaching US$7.56 bn by August 1, they remain equivalent to two months of goods and services imports. However, restricted access to international financial markets makes meeting a US$800 mln principal payment on Eurobonds due 28 February 2023 much more challenging.

Declining real household incomes in 2022 have not yet translated into poverty increase. The number of households below the national poverty line fell in 2021 and remained at 4 percent in Q1 2022, very close to 2021 levels.

Outlook

The outlook is driven by the effects of external restrictions imposed on Belarus's economy and adjustment strategies by businesses and the government. The use of suboptimal transportation routes and financing mechanisms increases transaction costs and weakens the price competitiveness of exports. Sanctions against the financial sector deprive banks of possibilities to borrow from abroad. In this situation, external financing needs could only be met via bilateral borrowing – from Russia and/or affiliated financial institutions. The lack of certain inputs creates constraints for producers, only partially alleviated by 'parallel' imports occurring without the consent of the trademark or copyright holder. Announced import substitution policies – initially focusing on making auto components – are unlikely to address these immediate supply-side bottlenecks.

To finance these policies, authorities seek to attract US$1.5 bn from Russia. Earlier this year, it has been announced that Belarus seeks to place government bonds in Russia at the amount of RUB100 bn, which is equivalent to US$1.5 bn.

In this environment, accommodating monetary policy to support credit expansion, coupled with increased lending through the Development Bank could limit the magnitude of economic downturn, but elevate risks for financial and macroeconomic stability going forward.

Recession will put the growth of real wages on hold, while higher inflation will further bite real household incomes, decreasing purchasing capacity of the population and weakening household consumption. Poverty and household vulnerability are expected to increase in 2022 and 2023.

The medium-term prospects will be shaped by the patterns of adjustment to the sanctions regime and spillovers from the Russian economy, also being affected by various restrictions. To enter new, 'unsanctioned' markets, Belarusian producers have to address numerous challenges related to costs, logistics, and supply chains. Given structural weaknesses accumulated in the past, all these factors make the timing and sustainability of the recovery uncertain.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	1.4	-0.9	2.3	-6.2	-2.3	2.5
Private Consumption	5.1	-1.4	2.6	-4.5	-1.8	3.1
Government Consumption	0.4	-1.1	-0.5	-1.8	-1.5	1.3
Gross Fixed Capital Investment	6.2	-6.8	-5.6	-12.1	-2.7	4.9
Exports, Goods and Services	1.0	-3.2	9.5	-11.8	2.1	6.2
Imports, Goods and Services	5.2	-7.9	5.8	-13.7	3.5	8.0
Real GDP growth, at constant factor prices	1.5	-0.9	2.3	-6.2	-2.3	2.5
Agriculture	3.0	4.9	-4.2	-2.4	3.5	1.9
Industry	1.4	-0.7	6.5	-7.9	1.5	4.5
Services	1.3	-2.0	0.2	-5.5	-6.3	0.9
Inflation (Consumer Price Index)	4.7	7.4	10.0	18.7	11.9	7.2
Current Account Balance (% of GDP)	-1.8	-0.2	2.6	1.4	0.1	-1.2
Net Foreign Direct Investment Inflow (% of GDP)	2.0	2.1	1.7	3.3	2.2	2.3
Fiscal Balance (% of GDP)	2.5	-1.7	0.0	-1.1	-0.3	0.0
Debt (% of GDP)	37.5	41.1	36.0	50.5	54.6	51.2
Primary Balance (% of GDP)	4.3	0.0	1.6	0.4	1.1	1.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	2.4	1.3	1.2	1.4	1.5	1.3
GHG emissions growth (mtCO2e)	-2.1	-2.3	-3.4	-7.1	-3.6	1.7
Energy related GHG emissions (% of total)	85.9	85.6	85.2	85.3	85.6	86.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on ECAPOV harmonization, using 2020-HHS. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on private consumption per capita in constant LCU.

BOSNIA AND HERZEGOVINA

Table 1	2021
Population, million	3.3
GDP, current US$ billion	21.3
GDP per capita, current US$	6517.2
Life expectancy at birth, years[a]	77.5
Total GHG emissions (mtCO2e)	22.9

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

After accelerating to 7.5 percent in 2021, real GDP growth is expected to slow to 4.0 percent in 2022. Inflation, meanwhile, surged to 16.7 percent in July 2022 (yoy) driven by food and energy prices, creating risks for poverty reduction. Annual inflation is expected to reach 11 percent in 2022 compared to 2 percent in 2021. Delayed structural reforms could take off following the general election in October 2022.

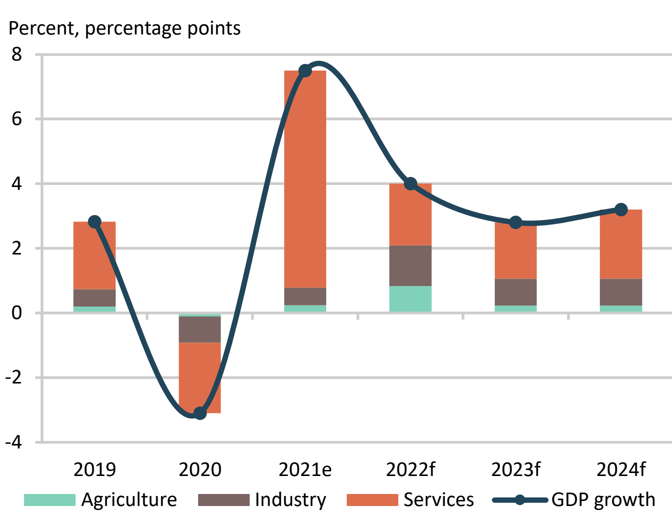
Key conditions and challenges

BiH has been a potential EU candidate country since 2016. To become a candidate country, 14 reform priorities need to be addressed as endorsed by the EU Council in December 2019. These priorities reflect reforms in the areas of democracy, the rule of law and fundamental rights, and public administration. In parallel, economic criteria for accession require more progress on the fragmentation of the internal market and of the state institutional set-up, on the oversized public sector, and on weak state supervisory and regulatory institutions.
The authorities built fiscal buffers prior to the pandemic by running fiscal surpluses between 1 and 3 percent of GDP from 2015 to 2019. These surpluses helped rein in the current account deficits, financed by FDI inflows, and contributed to macroeconomic stability.
Macroeconomic stability has been maintained over the past decade largely facilitated by three economic anchors: the currency board linked to the euro, the state-wide collection of indirect taxes through ITA, and EU membership prospects. Despite real income growing around 3 percent annually since 2015, per capita GDP has remained at one-third of the EU27 average. Faster convergence toward the EU27 average will be difficult to achieve with the country's low investment rates and growth model that relies on private consumption.
The pandemic, the Russia-Ukraine war, and persistent internal political tensions have inflicted a significant cost on BiH's economy. As a result, BiH is unlikely to catch up with the pre-pandemic forecasted growth levels.
Implementation of structural reforms remains sluggish due to political frictions, pressures from frequent elections, corruption that pervades all levels of society, and fragmentation of responsibilities between the two entities and cantons. Because of the resulting poor welfare prospects, BiH exhibits one of the highest emigration rates in the Western Balkans.

Recent developments

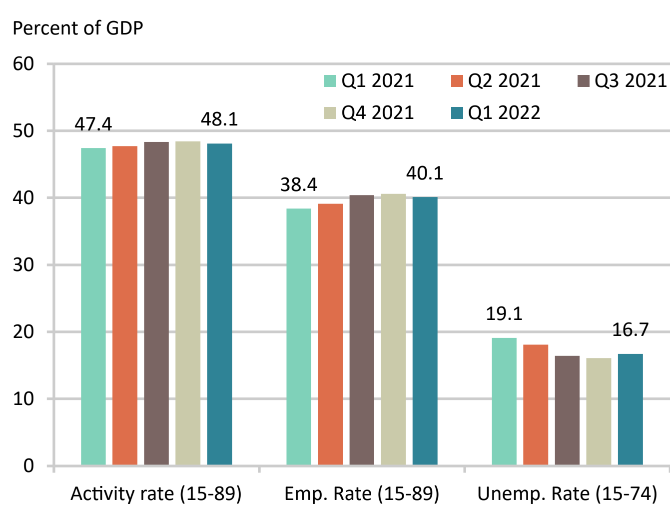
Real GDP rebounded 7.5 percent in 2021, and strong economic activity continued in H1 of 2022 with real output growing 5.9 percent (yoy), with investments surging 24 percent, while private consumption stayed robust, supported by remittances and credit growth.
Inflation jumped to 12.3 percent during January-July of 2022 compared to 0.4 percent during the same period last year, weakening real disposable income. Sharply rising inflation was mainly driven by higher food and transport prices, which surged to 25 percent and 34 percent respectively in July 2022 (yoy), putting disproportionate stress on lower

FIGURE 1 Bosnia and Herzegovina / Real GDP growth and contributions to real GDP growth, 2019-2024



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

FIGURE 2 Bosnia and Herzegovina / Labor market indicators, 2021-2022



Sources: LFS 2021 - 2022 report and World Bank staff calculations.

income groups, and generating risks of poverty reduction in 2022.

Nevertheless, improvements in labor market participation and the employment rate continued throughout the first half of 2022, although high unemployment persists at about 17 percent.

Stronger tax revenues supported by high inflation was more than offset by higher spending, which is expected to result in a fiscal deficit of 1.2 percent of GDP in 2022.[1] This compares to a deficit of 0.3 percent of GDP last year, and 5.3 percent of GDP in 2020. Expenditures in 2022 are driven by social measures softening the inflationary impact on households and pre-election spending, including wage hikes and robust growth in capital expenditures. Public debt hovers around 35 percent of GDP.

Adverse terms of trade helped widen the merchandise deficit by 46 percent in the first half of 2022. The current account deficit is therefore expected to broaden to 3.4 percent of GDP in 2022 compared to 2.3 percent in 2021. External financing largely entails net FDI inflows, mainly into the foreign-owned banking sector, which remained stable during the first half of 2022 as authorities in both entities acted swiftly to address concerns surrounding one Russian bank affected by sanctions.

1/ BiH draft Global Fiscal Framework for 2022-2024 and World Bank staff estimates.

Outlook

Real GDP is set to decelerate to 4.0 percent in 2022 as private consumption growth halves due to weakening real disposable income. Over the medium term, real output growth is projected to reach 3.2 percent by 2024 driven largely by private consumption supported by remittances and a tightening labor market. Investment in energy and infrastructure (windmills, Corridor Vc, etc.) will add to the growth stimulus over the medium term, although not to the same extent as in 2021 and 2022. Strong exports are likely to be offset by higher imports in part for infrastructure projects. As general elections are completed, and results implemented, the attention of policy makers could turn to the structural reform agenda for EU accession.

Phased-out pre-election spending and one-off expenditures in response to the price shock will be in part offset by higher interest payments. However, a return to fiscal surplus is expected by 2024.

Considering energy market disruptions by the war in Ukraine, inflationary pressures are now assumed to last longer than initially expected. Hence, inflation is projected at close to 11 percent in 2022, stabilizing in 2023-24 at rates seen prior to the pandemic, at around 2 percent and lower.

Downside risks dominate the outlook. Protracted effects of the war in Ukraine could have a negative impact on aggregate demand through depressed consumer and business confidence. Furthermore, war-related uncertainties and sanctions can dampen the recovery in the EU, adversely impacting demand for BiH exports, except for energy. Adverse labor market developments across the EU could also limit remittances inflows (about 8 percent of GDP), which support private consumption. Finally, geopolitical risks could further aggravate domestic political frictions with adverse consequences for the much-needed structural reform push.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.8	-3.1	7.5	4.0	2.8	3.2
Private Consumption	2.8	-4.5	4.0	2.0	2.5	2.3
Government Consumption	2.6	0.5	6.1	0.5	0.7	0.5
Gross Fixed Capital Investment	2.4	-20.9	35.5	25.1	3.9	2.7
Exports, Goods and Services	-0.3	-8.5	5.0	10.0	7.0	7.2
Imports, Goods and Services	0.2	-13.4	8.0	12.0	5.0	3.5
Real GDP growth, at constant factor prices	2.8	-3.1	7.5	4.0	2.8	3.2
Agriculture	2.9	-1.5	3.4	3.5	3.1	3.1
Industry	1.9	-3.0	2.0	2.6	3.2	3.2
Services	3.2	-3.3	10.2	4.6	2.6	3.2
Inflation (Consumer Price Index)	0.6	-1.1	2.0	11.0	2.0	0.5
Current Account Balance (% of GDP)	-2.9	-3.9	-2.3	-3.4	-5.7	-5.4
Net Foreign Direct Investment Inflow (% of GDP)	3.5	2.0	3.3	3.0	3.2	3.4
Fiscal Balance (% of GDP)	1.9	-5.3	-0.3	-1.2	-0.3	0.3
Debt (% of GDP)	34.5	40.2	37.8	35.6	35.2	34.9
Primary Balance (% of GDP)	2.8	-4.0	1.0	-0.4	0.5	1.1
GHG emissions growth (mtCO2e)	-5.7	-8.1	2.4	3.6	1.4	1.3
Energy related GHG emissions (% of total)	86.8	85.8	85.7	86.1	86.1	86.0

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

BULGARIA

Table 1	2021
Population, million	6.9
GDP, current US$ billion	80.2
GDP per capita, current US$	11664.6
International poverty rate ($2.15)[a]	0.9
Lower middle-income poverty rate ($3.65)[a]	2.8
Upper middle-income poverty rate ($6.85)[a]	7.2
Gini index[a]	40.3
School enrollment, primary (% gross)[b]	85.9
Life expectancy at birth, years[b]	73.6
Total GHG emissions (mtCO2e)	48.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2020).

Following robust growth in the first half of 2022, the Bulgarian economy is set to slow down in line with global and regional trends. The spike of inflation on energy and food prices is already outpacing wage growth and may increase poverty. The fiscal position remains strong but is likely to worsen in the remainder of 2022, as new anti-inflationary measures take effect. Political instability may weaken the reform agenda and reduce the country's ability to fully absorb EU funds.

Key conditions and challenges

The long-term challenges facing Bulgaria include negative demographic trends, institutional and governance weaknesses and suboptimal public services, with large variation in quality and access across the regions. Institutional gaps have also hindered private sector expansion as they lead to resource misallocation away from the most productive firms. Progress on inclusive growth and shared prosperity has been limited given high rates of poverty and inequality of incomes and opportunities. The latter are reinforced by the lowest level of relative intergenerational mobility of education in the EU-27, meaning that the education of children is highly correlated with that of their parents and the education system does little to give children from disadvantaged backgrounds a better start in life. In addition, inadequacies in the targeting, coverage and generosity of the social security system limit its role as a redistributive mechanism. Tackling these challenges will require enforcement of the rule of law and good governance, investment in human capital, and removal of hindrances to competition and private investment while improving public investment management. Prompt eurozone accession – officially targeted for 2024 - can also contribute to faster convergence to EU living standards.

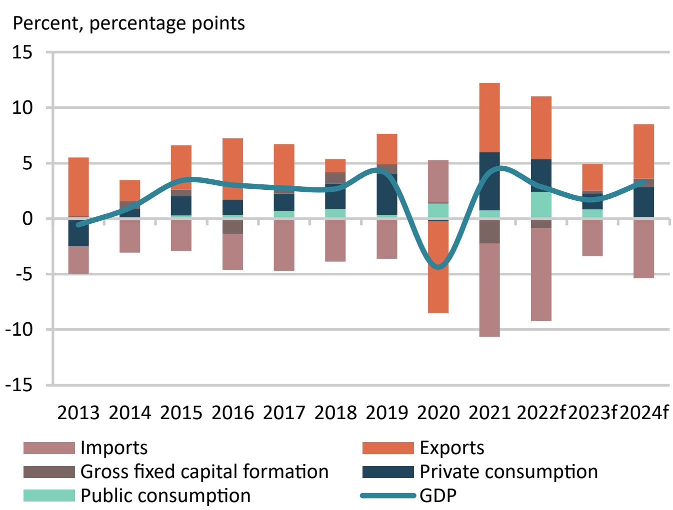
More recently, the shock of the war in Ukraine has had an adverse impact on Bulgaria, with the key channels of influence being imported price inflation and security of natural gas supply. After Russia's Gazprom – previously the dominant gas provider to Bulgaria – unilaterally cut supplies in April 2022, the government has been trying to secure alternative supplies. Uncertainty on the sufficiency of gas for the coming heating season remains, however. Even if a potential shortage will not have a significantly disruptive impact on the economy, it may inflict high costs on several industrial consumers, as well as household consumers of gas and heating, and force emergency switching to alternative energy sources.

Recent developments

GDP growth exceeded expectations in the first half of 2022, with the economy expanding by 4.5 percent y/y. The main growth driver on the expenditure side remains final consumption on the back of labor market recovery, coupled with increased government spending. The labor market continued to trend back towards its pre-Covid readings, with the employment rate up by 0.3pp y/y to 53.7 percent in Q2 of 2022, and unemployment down by 0.9pp to 4.7 percent. Yet, investment continues to disappoint with negative growth rates. The export expansion was outpaced by import growth, leading to widening trade and current account deficits.

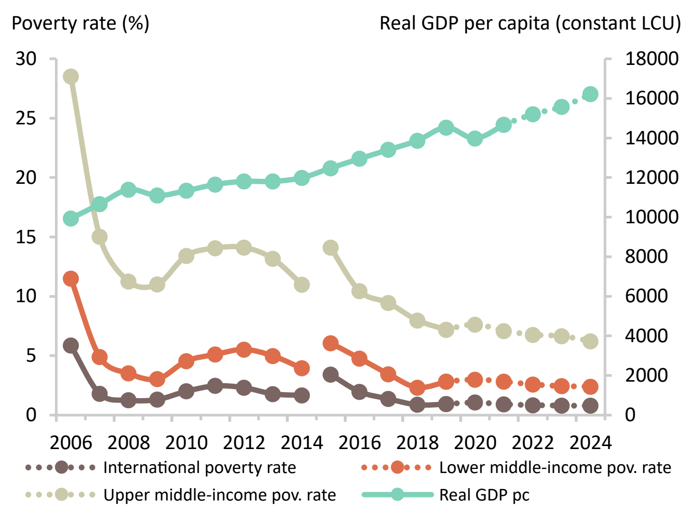
Bulgaria had one of the highest inflation rates among EU countries with the CPI

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



Sources: World Bank and Bulgarian National Statistical Institute.

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



Source: World Bank. Notes: see Table 2.

reaching 17.3 percent y/y in July. Imported inflation of tradable energy and food prices was the key factor behind the recent inflationary spike. The WB-estimated core inflation (i.e., energy and food prices excluded) has also picked up as a result of second-round effects, reaching 9.1 percent y/y in July. Given that the nominal wage growth (11.6 percent), on average, has already been falling behind y/y inflation (13.1 percent) in the first half of 2022, purchasing power is likely to be eroded.

The fiscal position remained strong in the first seven months, but a worsening of the general government balance is expected going forward. Following a BGN 1.65bn surplus in the year to August (1.1 percent of the government's GDP projection), recently passed anti-inflationary measures – including indirect tax reductions for energy consumers, pension increases and energy price subsidies - will impact negatively both on the revenue and the expenditure sides of the budget in the coming months. The projected slowdown of the economy in H2 is also to tone down revenue growth.

Outlook

Bulgaria's growth projection for 2022 has increased to 2.9 percent on better-than-expected performance in the year to date. Growth deceleration is forecasted to start in H2 of 2022 and continue in 2023, in line with global and EU trends. Going forward, reforms and investment under the National Recovery and Resilience Plan and the EU Multiannual Financial Framework will help sustain growth. Yet, risks remain titled to the downside and further downward revisions are likely in case of prolonged supply and price shocks in international markets.

Inflation is projected to remain elevated and end 2022 in double digits, with a gradual reduction in 2023. The fiscal deficit is likely to expand to 4.2 percent of GDP due to the expected slowdown of the economy and recently approved anti-inflationary measures. The current account deficit is also expected to widen in 2022, to 2.7 percent of GDP, as import prices soar.

Amidst better-than-expected growth for 2022, poverty as measured by the US$6.85 2017PPP poverty line is projected to decline from 7.1 percent in 2021 to 6.8 percent in 2022. Despite that, the potential for downside risks remains high, particularly in the context of the war in Ukraine. Rising food and energy prices continue to put pressure on poorer Bulgarians who spend a disproportionately high share of their income on these items. Social assistance and wages not keeping pace with inflation will further undermine the purchasing power of households. Poverty is projected to remain relatively unchanged at 6.7 percent in 2023, though downside risks are likely to persist.

Separately, Bulgaria's outlook is marred by the latest bout of political instability that started with a no-confidence vote against the government in June. Early elections are scheduled on October 2, which will reveal whether the country will attain some degree of political stability.If not, the political crisis will linger as it did in 2021, which may well negatively impact the pace of absorption of EU funds and structural reforms, slowing Bulgaria's convergence towards average EU incomes.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.0	-4.4	4.2	2.9	1.7	3.3
Private Consumption	6.0	-0.4	8.0	4.3	2.1	3.9
Government Consumption	2.0	8.3	4.0	13.2	4.1	0.7
Gross Fixed Capital Investment	4.5	0.6	-11.0	-4.8	1.5	4.6
Exports, Goods and Services	4.0	-12.1	9.9	8.5	3.4	6.9
Imports, Goods and Services	5.2	-5.4	12.2	11.3	4.2	6.5
Real GDP growth, at constant factor prices	3.7	-4.5	3.6	2.9	1.7	3.3
Agriculture	4.1	-3.3	6.1	5.4	1.8	4.0
Industry	-0.1	-8.2	6.6	7.4	5.2	7.9
Services	5.2	-3.2	2.4	1.1	0.4	1.4
Inflation (Consumer Price Index)	3.1	1.7	3.3	14.4	6.8	3.6
Current Account Balance (% of GDP)	1.9	-0.1	-0.4	-2.7	0.1	1.4
Net Foreign Direct Investment Inflow (% of GDP)	2.0	4.5	1.7	4.4	2.1	3.6
Fiscal Balance (% of GDP)	-1.0	-2.9	-2.9	-4.2	-3.3	-2.5
Debt (% of GDP)	20.1	24.8	25.1	28.6	29.5	28.0
Primary Balance (% of GDP)	-0.4	-2.4	-2.4	-3.9	-3.0	-2.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.9	1.1	0.9	0.8	0.8	0.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	2.8	3.0	2.8	2.6	2.4	2.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	7.2	7.6	7.1	6.8	6.6	6.2
GHG emissions growth (mtCO2e)	-2.7	-3.4	7.3	3.7	3.6	4.1
Energy related GHG emissions (% of total)	82.7	80.5	78.0	76.7	74.7	73.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on ECAPOV harmonization, using 2019-EU-SILC. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2019) with pass-through = 0.87 based on GDP per capita in constant LCU.

CROATIA

Table 1	2021
Population, million	3.9
GDP, current US$ billion	67.7
GDP per capita, current US$	17402.4
International poverty rate ($2.15)[a]	0.3
Lower middle-income poverty rate ($3.65)[a]	0.6
Upper middle-income poverty rate ($6.85)[a]	2.4
Gini index[a]	29.0
School enrollment, primary (% gross)[b]	93.2
Life expectancy at birth, years[b]	77.7
Total GHG emissions (mtCO2e)	16.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2020).

GDP in Croatia continued to strongly expand in the first half of 2022 despite high and rising inflation and geopolitical tensions. Exports of goods and services maintained double-digit growth, and domestic demand remained robust. Looking ahead, economic activity is likely to slow down towards the end of the year and in 2023 with rising uncertainties in external environment and inflation weighing on real incomes and external demand. Poverty is expected to have declined to 1.6 percent in 2022.

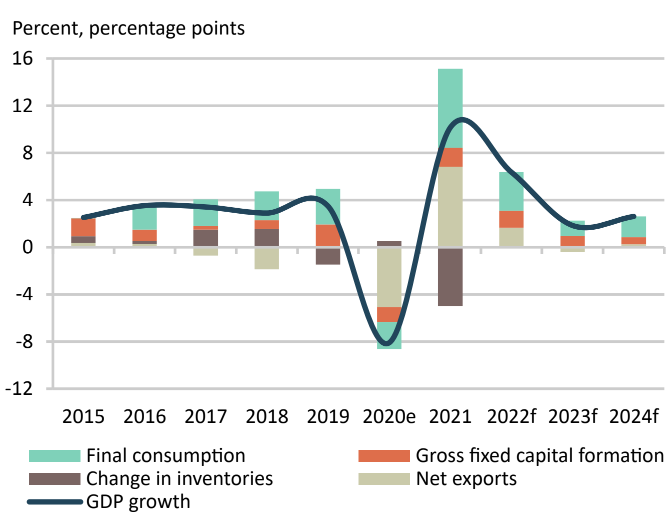
Key conditions and challenges

Croatia is set to join the eurozone and the Schengen area in 2023. While these achievements are expected to strengthen the country's resilience and bring long-term economic benefits, raising potential growth will still primarily depend on prudent national policies. Croatia's relatively low productivity growth remains a key obstacle for faster convergence towards the average EU income levels. Data suggests that the sectoral composition of Croatia's economy and relatively large role of low-skilled services such as tourism explain only a small part of the lagging productivity. The main challenges lie within sectors and are related to market frictions and barriers to competition between firms as well as low investment in R&D and low technology adoption rates. This highlights the need to increase the dynamism of the Croatian business environment, reduce market inefficiencies, level the playing field, and promote investment. In addition, demographic forecasts suggest that strengthening long-term growth will also require policies to mitigate the negative economic impact of a declining and aging population. Some of these challenges will be tackled through reforms included in the National Recovery and Resilience Plan and investments finance from different EU funds. While the economy is expected to continue growing over the medium-term, albeit at a subdued pace, risks to the outlook are tilted to the downside. The main challenges pertain to the implications of the war in Ukraine, particularly, gas imports from Russia, decline in real incomes as a result of rising inflation, monetary policy tightening, rising financing costs, and uncertainty. In addition, a slowdown in key trading partners like Germany could also have a negative impact on exports. Furthermore, monetary tightening by the ECB might be stronger than currently expected. Lower growth and higher inflation would require additional fiscal support, with negative consequences for the elevated debt level.

Recent developments

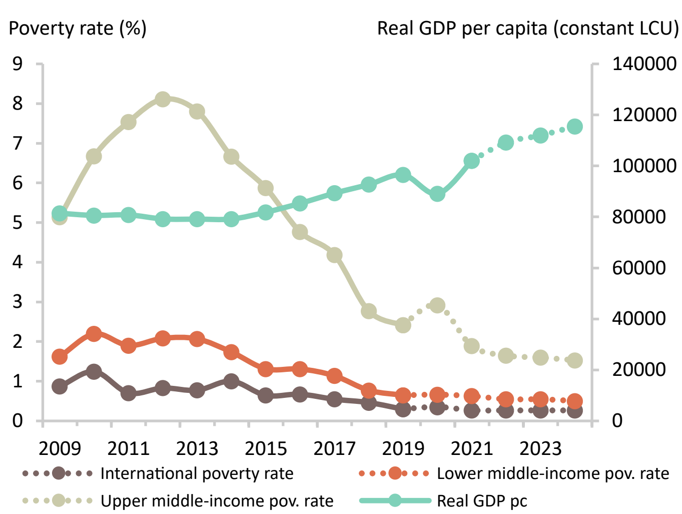
After a marked rebound in 2021, real GDP in Croatia continued to expand strongly in the first half of 2022. The country benefited from the reopening of economies after the COVID-19 lockdowns, with pent-up demand and consumer savings built up during the pandemic boosted tourism, the most important sector in the economy. Exports of goods and domestic demand also remained strong despite rising global uncertainties and increasing prices. Employment continued to increase with the largest job gains in tourism and ICT. The growth in nominal wages accelerated but not enough to offset the negative impact of inflation on real incomes. The annual increase in CPI reached 12.3 percent in July, showing that underlying

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



Sources: CROSTAT and World Bank.

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



Source: World Bank. Notes: see Table 2.

price pressures remain strong and broad-based. The largest contribution came from food and energy which surged by around 20 percent. Despite real exports growing strongly, the current account deficit widened in the first half of the year, following a deterioration in the terms of trade, which can largely be linked to the increase in food and energy prices. The fiscal deficit, on the other hand, narrowed in the first half of 2022 due to robust revenue growth and a reduction in pandemic-related support to firms and households. The government has, however, introduced fiscal support schemes to ease the negative economic and social impact of soaring energy prices from April this year, which will add up to 1.0 percent of GDP. Additional support package worth 4.2 percent of GDP was announced in September, but its fiscal implications are expected to be contained. Improved fiscal performance and the increase in nominal GDP led to a reduction in the debt-to-GDP ratio to 74.3 percent in May 2022 compared to 79.6 percent at the end of 2021.

Soaring food and energy prices hurt consumers, especially the poorest and most vulnerable who spend above 60 percent of their budget on these essentials. Worries about the economy, food prices, and energy prices are almost universal. Results from the World Bank's Rapid Assessment Survey in April 2022 show that more than 90 percent of Croatians expressed these concerns. Nearly 80 percent of Croatians stated they would cut back spending. The fiscal support packages introduced earlier this year could help. Although economic growth is strong, poverty will decline only modestly from 1.9 percent in 2021 to 1.6 percent in 2022.

Outlook

In the backdrop of a strong first-half economic performance and indications that tourism could exceed pre-pandemic levels, real GDP growth in 2022 is expected at 6.4 percent. However, economic activity is likely to moderate by the end of the year and the weak growth is projected to carry over to 2023, before returning to the pre-pandemic trend in 2024. The strong growth in the export of goods and services witnessed in 2021 and 2022 is also expected to moderate with weaker growth prospects in the EU and globally. Personal consumption is likely to continue to increase next year but at a decelerated pace given the erosion of real incomes. Meanwhile, investments will be supported by the EU funds. However, risks are tilted to the downside due to high uncertainty, a slowing global economy, and potentially costlier financing. Inflation is expected to decline gradually with improvements in the supply chain and base effects, but CPI growth might remain relatively elevated and reach 2 percent only after 2024. The current account balance is projected to remain in surplus owing to continued growth in exports and an eventual improvement in the terms of trade. At the same time, the fiscal deficit is projected to stay below 2 percent of GDP, as additional increases of public sector wages, social benefits, and the health care budget are expected. Nonetheless, the public debt-to-GDP ratio is expected to remain firmly on a declining trend, given still favorable interest-growth rate differential.

Positive economic growth projection translates in poverty reduction in the next couple of years. However, after a fall to 1.6 percent in 2022 due to strong growth and government support measures, poverty is expected to decrease only marginally over the following two years, reaching 1.5 percent by 2024. The poorest Croatians remain vulnerable to the high level of food and energy prices.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	3.5	-8.1	10.2	6.4	1.8	2.6
Private Consumption	4.1	-5.3	10.0	4.4	1.1	2.5
Government Consumption	3.3	4.1	3.1	3.0	3.2	1.5
Gross Fixed Capital Investment	9.8	-6.1	7.6	7.1	4.6	2.8
Exports, Goods and Services	6.8	-22.7	33.3	25.0	3.4	5.1
Imports, Goods and Services	6.5	-12.3	14.7	21.5	4.1	4.7
Real GDP growth, at constant factor prices	3.6	-6.3	8.8	6.6	1.8	2.6
Agriculture	1.8	3.6	5.5	3.5	3.0	3.3
Industry	4.8	-1.6	6.7	3.5	1.2	3.0
Services	3.3	-8.4	9.8	7.8	1.9	2.4
Inflation (Consumer Price Index)	0.8	0.2	2.6	10.1	3.9	2.3
Current Account Balance (% of GDP)	3.0	-0.1	3.3	2.2	1.8	1.7
Net Foreign Direct Investment Inflow (% of GDP)	6.1	1.4	4.8	5.2	2.5	3.2
Fiscal Balance (% of GDP)	0.2	-7.3	-2.9	-1.8	-1.4	-1.8
Debt (% of GDP)	71.1	87.3	79.6	70.9	67.7	66.1
Primary Balance (% of GDP)	2.4	-5.3	-1.3	-0.5	-0.2	-0.8
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.3	0.3	0.3	0.3	0.3	0.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.6	0.7	0.6	0.5	0.5	0.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	2.4	2.9	1.9	1.6	1.6	1.5
GHG emissions growth (mtCO2e)	-1.1	-12.8	4.6	3.0	1.0	0.9
Energy related GHG emissions (% of total)	86.8	85.1	84.7	84.4	83.8	83.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on ECAPOV harmonization, using 2019-EU-SILC. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

GEORGIA

Table 1	2021
Population, million	3.7
GDP, current US$ billion	18.7
GDP per capita, current US$	5039.4
International poverty rate ($2.15)[a]	5.8
Lower middle-income poverty rate ($3.65)[a]	21.4
Upper middle-income poverty rate ($6.85)[a]	58.3
Gini index[a]	34.5
School enrollment, primary (% gross)[b]	99.4
Life expectancy at birth, years[b]	73.9
Total GHG emissions (mtCO2e)	17.4

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

Growth averaged double digits during the first half of 2022, and employment is recovering. In addition to robust domestic demand, Georgia has benefited from a strong influx of money transfers from Russia, as well as from the recovery of tourism. The growth forecasts for 2022 have been upgraded, while the current account deficit is expected to narrow. Significant risks persist, although they have become more balanced.

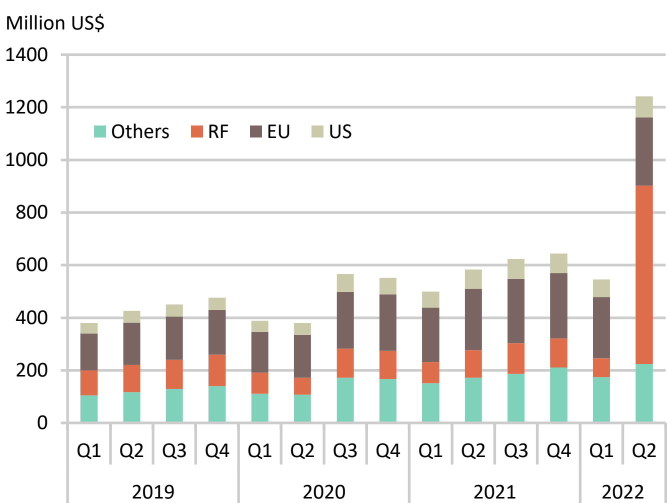
Key conditions and challenges

Over the past decade, Georgia has had a successful development record, underpinned by prudent economic management. Growth averaged 4 percent per annum between 2011 and 2021. The poverty rate declined from 69 percent in 2011 to 53 percent in 2021 (using the international upper-middle-income line at $6.85 per capita per day 2017 PPP).
Nevertheless, structural challenges persist notably weak productivity and difficulties to create high-quality jobs. Many Georgians in rural areas remain engaged in low-productivity agriculture. Human capital formation remains weak, and poor learning outcomes and skills are a problem for doing business and firm growth.
Due to trade openness and reliance on income from tourism, Georgia is vulnerable to external and global shocks, as shown by recent events. High dollarization and dependency on external savings increase the risks associated with currency depreciation. Still, the swift post-pandemic rebound and the recovery from the initial impact of the Ukraine war and associated sanctions have demonstrated the growing resilience of Georgia's economy.

Recent developments

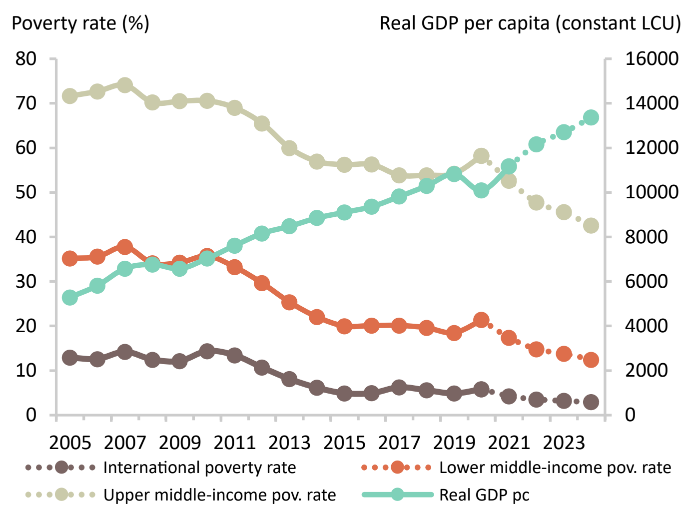
Economic activity has been stronger than expected, with real GDP growth estimated at 10.5 percent (yoy) in the first half of 2022. Growth has been broad-based, driven by transport, energy, hotels and restaurants, and industry. Construction permits increased by 15.6 percent during the first half of 2022 (yoy), suggesting a recovery in domestic investment.
After unemployment increased to 20.6 percent in 2021, labor markets have started to recover, with unemployment decreasing to 18.1 percent in Q2 2022.
After peaking in June, inflation has eased slightly, reaching 10.9 percent (yoy) in August. Higher food and energy prices (as well as utility tariffs) account for most of the inflation this year. According to high-frequency surveys from May 2022, about three-quarters of the respondents from low-income households reported having reduced food consumption in response to rising prices. The National Bank of Georgia (NBG) has kept the monetary policy rate unchanged since March, at 11 percent, after gradually increasing the rate since March 2021 by a total of 300 bps.
During January-July 2022, exports grew by 36 percent (yoy) in nominal terms. Merchandise exports growth was driven by both increased demand for key commodities (copper ore, ferroalloys, nitrogen fertilizers) and higher prices. Imports expanded by 34 percent (yoy), leading to the widening of the trade deficit by 33 percent (yoy). This has been partly compensated by the recovery in tourism arrivals and a surge in net volume of money transfers (69 percent, yoy) driven by inflows from Russia. These comprise both remittances and transfers (Figure 1) from non-nationals.

FIGURE 1 Georgia / Money inflow by country of origin



Source: National Bank of Georgia.

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



Source: World Bank. Notes: see Table 2.

Banking sector indicators remain healthy. Return on assets (ROA) and return on equity (ROE) reached 3.1 percent and 24.9 percent by end-July, respectively. NPLs declined to 1.9 percent in July, from 2.3 percent in December 2021.

Tax collection by the general government increased by 33.6 percent (yoy) during the first half of 2022, supported by the recovery in consumption. Meanwhile, public expenditures grew by 9.3 percent (yoy) in nominal terms during the first half of 2022, (a reduction in real terms). The fiscal deficit during January-June was about 0.6 percent of GDP, overperforming the fiscal consolidation path planned for the year. The public debt stock has continued to decline, benefiting from the contained deficit and the appreciation of the lari.

Outlook

Projections have been upgraded on account of the strong performance recorded during 2022 so far, with growth projected to reach 8.8 percent by the end of the year. In the medium term, growth is expected to stabilize around potential.

Inflation will remain in double digits in 2022, although price pressures are expected to diminish towards the end of the year. Inflation would decline in 2023 and beyond, as international oil prices and supply-side bottlenecks ease. The long-term fixed-price contracts for gas supply and a shared border with Russia are expected to help offset any commodity price spikes. Monetary policy is expected to remain tight until inflationary pressures subside. Inflation is likely to have regressive impacts, disproportionately affecting lower-income households and those reliant on incomes from social assistance. These may have longer-term welfare impacts through losses in human capital and other assets.

On the external side, despite the widening trade deficit, the current account balance is expected to improve in 2022, supported by tourism and by the large net money inflows. This unanticipated windfall from the conflict is nonetheless expected to subside by the end of the year.

Following its temporary suspension in the aftermath of the COVID-19 outbreak, the government of Georgia is expected to comply with the fiscal rule by 2023. The authorities intend to reduce government debt to around 40 percent over the medium term while also increasing the share of domestic debt to close to 30 percent, which would reduce FX vulnerabilities and support capital market development. The authorities are also pursuing further tax administration improvements and a reduction in tax expenditures.

Risks to this outlook are broadly balanced. On the downside, persistent inflation coupled with the tightening of global financial conditions could impact the lari, potentially affecting macro-financial stability due to the high levels of dollarization. The Russian economy could also suffer a more pronounced slump next year, affected by protracted conflict and sanctions, which would negatively affect tourism and remittances in Georgia. Domestic political uncertainty could increase volatility and affect business confidence, as well as the pace of planned reforms. On the upside, money inflows could last longer than initially expected, and Georgia could benefit from some trade diversion as transport corridors are reconfigured.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.0	-6.8	10.4	8.8	4.2	5.0
Private Consumption	7.2	8.8	8.7	6.6	2.2	3.8
Government Consumption	5.7	7.1	7.7	-4.8	4.8	5.2
Gross Fixed Capital Investment	-0.1	-16.5	-7.6	8.4	0.1	3.1
Exports, Goods and Services	9.8	-37.6	30.5	20.0	12.0	13.0
Imports, Goods and Services	6.6	-16.6	12.8	13.0	6.0	9.0
Real GDP growth, at constant factor prices	5.1	-6.6	10.3	8.8	4.2	5.0
Agriculture	0.7	8.1	0.1	3.0	5.0	4.0
Industry	2.7	-6.8	5.9	6.0	5.0	4.0
Services	6.3	-8.1	12.9	10.2	3.9	5.4
Inflation (Consumer Price Index)	5.0	5.2	9.6	10.6	7.0	4.0
Current Account Balance (% of GDP)	-5.5	-12.4	-10.5	-7.5	-6.6	-6.4
Net Foreign Direct Investment Inflow (% of GDP)	6.0	3.5	5.9	6.1	4.8	5.0
Fiscal Balance (% of GDP)	-3.4	-9.8	-7.1	-3.2	-2.8	-2.6
Debt (% of GDP)	41.8	60.1	49.4	42.3	40.4	40.1
Primary Balance (% of GDP)	-2.2	-8.2	-5.8	-1.9	-1.6	-1.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	4.8	5.8	4.2	3.5	3.2	2.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	18.5	21.4	17.4	14.8	13.8	12.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	54.2	58.3	52.7	47.7	45.6	42.6
GHG emissions growth (mtCO2e)	2.9	-3.4	2.0	3.4	3.7	1.4
Energy related GHG emissions (% of total)	54.0	53.8	55.0	57.3	59.3	60.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on ECAPOV harmonization, using 2020-HIS. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

KAZAKHSTAN

Table 1	2021
Population, million	19.0
GDP, current US$ billion	197.1
GDP per capita, current US$	10387.9
Upper middle-income poverty rate ($6.85)[a]	14.3
Gini index[a]	27.8
School enrollment, primary (% gross)[b]	100.3
Life expectancy at birth, years[b]	71.4
Total GHG emissions (mtCO2e)	270.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2020).

GDP growth is projected to decelerate to 3 percent in 2022 as real incomes are squeezed by high inflation and disruptions caused by the war in Ukraine. Rising inflation negatively impacts low-income households, putting at risk the prospects of poverty reduction. In 2023, the growth momentum is expected to strengthen and inflation to moderate. Stronger slowdown in major trading partners economies and disruptions in oil transportation pose downside risks to the outlook.

Key conditions and challenges

Since the 2000s Kazakhstan has seen impressive economic growth driven by the first generation of market-oriented reforms, abundant mineral resources extraction, and strong FDI. Sustained economic growth has transformed the country into an upper middle-income economy, commensurately raising living standards and reducing poverty. This progress, however, masks vulnerabilities and unevenness in the country's development model. Slowing economic growth, growing inequality and elite capture, and weak institutions reflect the flaws of the resource-based and state-led growth model and raise the risk that Kazakhstan could become stuck in the "middle-income trap".

The January protests have strengthened the authorities' resolve to push for reforms. Disruptions arising from war in Ukraine have strengthened efforts to diversify trade and logistics routes. Kazakhstan needs to strengthen competition and human capital, and improve public sector and SOEs performances. The country should also initiate reforms in carbon and energy pricing, strengthen social protection, and invest in climate adaptation.

Recent developments

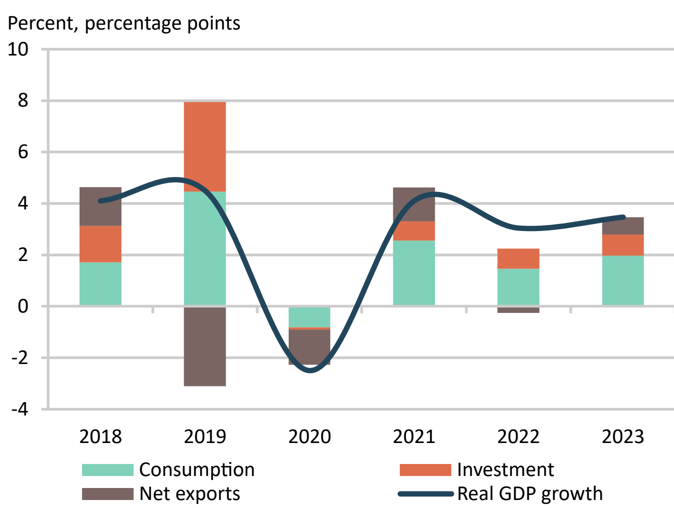
Growth slowed in 2022, mainly due to the negative spillovers from the war in Ukraine. It reached 3.4 percent yoy in H1, from 4.1 percent in 2021. Household spending is expected to have weakened in H1 as inflation accelerated and real incomes contracted by 2.5 percent yoy over May to July. Retail sales growth slowed to 1.2 percent yoy in the same period. Investment grew by 3.6 percent yoy in H1 as FDI rebounded in the oil and gas sector after two years of decline. On the supply side, manufacturing and services both contributed to growth.

A sharp increase in international oil, gas and metal prices were a boon to exports, driving a trade balance improvement and flipping the current account into surplus in H1 2022 (of US$6.6 bn, compared to a deficit of US$2.8 bn in H1 2021).

Consumer price inflation reached 16.1 percent yoy in August, almost double the rate a year earlier, driven by rising costs of food. The authorities tightened monetary policy and imposed price caps on staple products and limited fuel and utility price increases. Since January, the tenge exchange rate against U.S. dollar depreciated 10 percent. The central bank raised the policy rate in July to 14.5 percent, its fourth hike this year, and scaled up interventions in the FX market. FX reserves, as a result, fell by 4.8 percent y-o-y in August but remain comfortable.

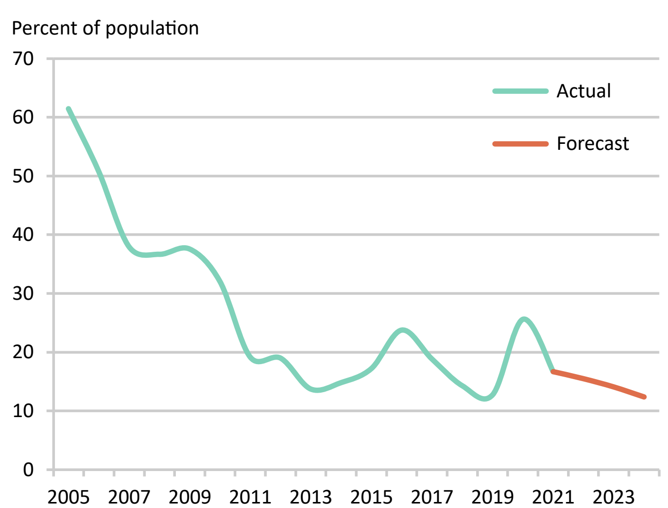
After the social unrest in January, the government introduced fiscal support measures estimated at 3 percent of GDP, to be financed partly by additional withdrawals from National Oil Fund. These measures include increased spending on social programs, transfers to local governments, infrastructure and food security oriented projects. As a result, the fiscal deficit in 2022 is projected to remain little changed at 2.6 percent of GDP.

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



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

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



Source: World Bank staff estimates.

The banking system has proved resilient so far. With sanctions on Russia from March, subsidiaries of Russian banks experienced difficulties with FX transactions and ultimately sold their subsidiaries to Kazakh banks and institutions. In July, bank loan growth to households slowed (especially for mortgages), while lending to firms have contracted in real terms. Weakening economy has started affecting banks' asset quality, with NPLs increasing to 3.8 percent in July.

Official unemployment rate remained unchanged at 4.9 percent and real wages rose by 8.9 percent in Q2, despite high inflation. The poverty rate is expected to decline further to 15.5 percent in 2022 from a high of 25.6 observed in the midst of the pandemic. The poverty line for Kazakhstan was updated from the previous $5.5 in 2011 PPP to a new $6.85 level based on 2017 PPP.

Outlook

There are several downside risks to the growth outlook. The Ukraine war could result in the shutdown of the Caspian Pipeline Consortium (which carries about 80 percent of Kazakhstan's oil exports) leading to large economic and fiscal revenue losses. Inflationary pressure may further erode incomes and exacerbate social tensions. Tightening global financial conditions could increase risk aversion, reduce inflows of FDI, and put pressure on the tenge exchange rate.

Economic growth is expected to decelerate to 3 percent in 2022, as economic activity has been affected by lower-than-expected production of oil, high inflation and monetary policy tightening that is constraining consumer spending and private sector borrowing.

Inflation is expected to moderate through 2023 but remain above the target range, which may warrant tighter monetary policy.

In 2023-24, GDP growth is expected to accelerate to 3.5 and 4.0 percent (below expectations prior to the war in Ukraine), aided by additional oil coming on stream from the Tengiz expansion project. The outlook is conditional on the assumption that crude oil shipment through the CPC pipeline will not be disrupted. Consumer spending is expected to gather steam as inflation subsides, whereas exports are projected to remain subdued, due to weakening demand from China and the eurozone. The current account is expected to return to balance over 2023 and 2024 as commodity prices stabilize and demand for imported capital and consumer goods strengthen. The poverty rate is expected to continue to decline in 2023-24, as growth picks up and inflation subsides.

The government plans to reduce budget expenditures and embark on a long-delayed consolidation plan. While expenditure is projected to fall to pre-pandemic levels, efforts to raise in tax collection and a crack-down on graft in the customs system are expected to increase tax revenues. Thus, the fiscal deficit is expected to decrease to 2.2 percent of GDP in 2023 from 2.6 percent this year.

The authorities are seeking to accelerate reforms to combat corruption and money-laundering, strengthen competition and reduce the influence of vested interests and monopolies, and increasing human capital.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.5	-2.5	4.1	3.0	3.5	4.0
Private Consumption	6.1	-3.8	5.1	3.2	3.7	3.8
Government Consumption	15.5	12.8	-1.1	1.7	0.8	0.9
Gross Fixed Capital Investment	13.8	-0.3	2.6	3.3	3.4	4.0
Exports, Goods and Services	2.0	-12.1	2.0	1.4	3.8	5.0
Imports, Goods and Services	14.9	-10.7	-2.7	3.0	3.3	3.6
Real GDP growth, at constant factor prices	4.5	-2.5	3.9	3.1	3.5	4.0
Agriculture	-0.1	5.6	-2.2	2.3	2.6	2.6
Industry	4.1	-0.4	3.6	2.1	3.6	5.1
Services	5.2	-4.5	4.6	3.9	3.6	3.4
Inflation (Consumer Price Index)	5.3	6.8	8.0	14.0	8.2	6.3
Current Account Balance (% of GDP)	-4.0	-3.8	-2.9	2.1	0.4	0.8
Net Foreign Direct Investment Inflow (% of GDP)	3.1	-3.4	-0.9	-2.2	-2.6	-2.5
Fiscal Balance (% of GDP)	-1.3	-3.3	-2.7	-2.6	-2.2	-1.9
Debt (% of GDP)	19.6	24.9	23.7	23.9	24.1	23.9
Primary Balance (% of GDP)	-0.3	-2.2	-1.5	-1.1	-0.8	-0.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	12.7	25.6	16.7	15.5	14.1	12.4
GHG emissions growth (mtCO2e)	-1.4	4.3	-4.7	1.3	1.5	2.2
Energy related GHG emissions (% of total)	76.4	76.6	75.5	76.1	76.3	76.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on ECAPOV harmonization, using 2018-HBS. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

KOSOVO

Table 1	2021
Population, million	1.8
GDP, current US$ billion	9.2
GDP per capita, current US$	5209.0
Upper middle-income poverty rate ($6.85)[a]	34.2
Gini index[a]	29.0
Life expectancy at birth, years[b]	71.1

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

Global inflationary pressures interrupted Kosovo's boisterous recovery path. Real GDP growth is expected to decelerate to 3.1 percent in 2022 following a slowdown in investment and private consumption. Exports continued to boost growth. In the current context, support to mitigate the impact of surging energy and food prices should be targeted towards the most vulnerable. Over the medium-term, accelerated implementation of structural reforms in energy, education, social protection, and healthcare is critical to enhance inclusive and sustainable growth.

Key conditions and challenges

With a history of strong growth compared to peers, Kosovo exits the COVID-19 crisis facing a renewed imperative: addressing key structural bottlenecks to enhance competitiveness and support sustainable and inclusive growth. During the past years, Kosovo experienced economic growth with limited firm-level productivity growth and higher-quality job creation, in a context of persistent structural informality and high trade deficit. Given the initial low base, new post-pandemic momentum in exports could be leveraged to break the circle of consumption-driven growth that relies on diaspora inflows.

Low labor force participation and employment, especially among women, continue to remain a strong binding constraint to growth and poverty reduction. The labor market continues to be also characterized by informality and skills mismatches: firms increasingly report difficulties in filling vacancies.

Outdated power generation capacity remains a key source of vulnerability. Rising energy import costs represent a key challenge for 2022 and could adversely impact the fiscal position given the higher need to subsidize electricity imports. Kosovo has a good track record of prudent fiscal management. However, without access to international financial markets, resources to cover growing development needs are limited. Continued public investment under-spending is a lost opportunity to close faster the looming infrastructure gap.

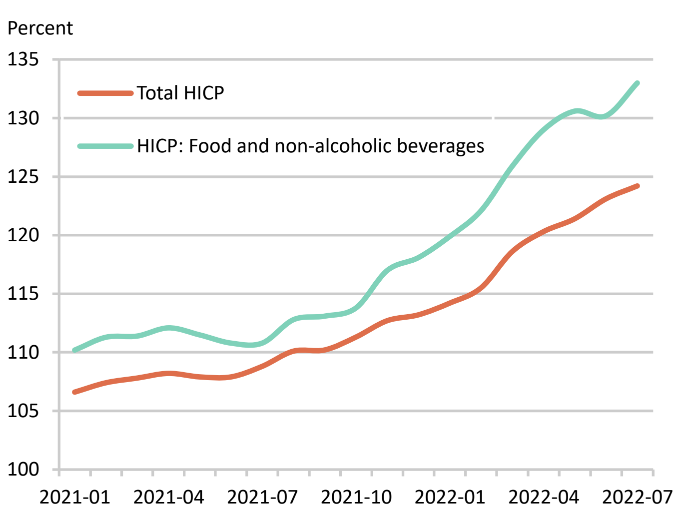
As a unilaterally Euroized economy, Kosovo has limited room to mitigate the impact of rising inflation, exacerbated by the war in Ukraine. Despite high levels of spending on social protection, the social assistance scheme is inflexible and can provide only limited protection for the most vulnerable. Rising inflation is also exerting upward wage pressures. Persistence of energy and food price pressures could further erode disposable incomes and hurt more the less well-off who spend a larger share of their budget on these essential items.

Recent developments

After reaching a record of 10.5 percent in 2021, GDP growth moderated to 3.2 percent in H1 of 2022, driven by domestic demand and exports. On the production side, the service sector – driven by remittances, credit growth, and higher public transfers – was the main contributor to economic growth. Inflation soared reaching 13 percent (y-o-y) in August 2022, triggered by an increase in import prices. Food and transport price increases surpassed 20 percent by August 2022, disproportionally impacting the most vulnerable.

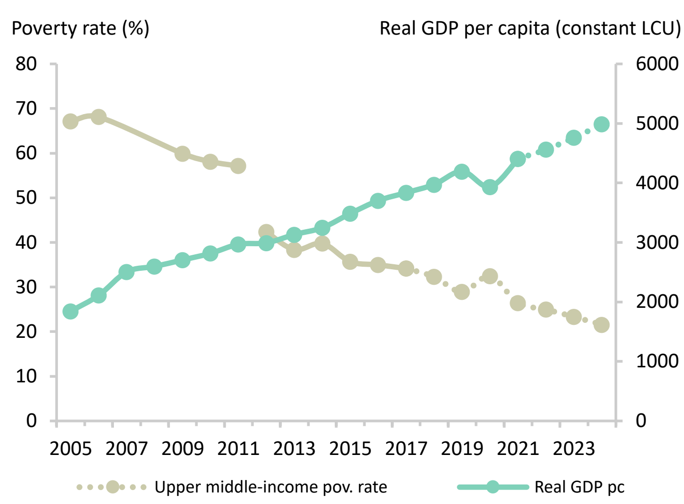
The average number of pension contributors for the first half of 2022 suggests an increase of 8 percent (y-o-y) in formal employment. For the same period, the number of

FIGURE 1 Kosovo / Consumer price inflation



Source: Kosovo Statistics Agency.

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



Source: World Bank. Notes: see Table 2.

registered job-seekers at employment centers dropped by 32 percent (y-o-y).

Exports – particularly for manufactured goods – increased by 29.4 percent (y-o-y) in July. Diaspora-driven service exports also increased by 46 percent by May; and travel data suggest a positive momentum continued during the summer season. Against a significant increase in prices, merchandise imports – which represented 53.4 percent of GDP in 2021 –increased nominally by 26 percent until July 2022, further exacerbating Kosovo's structurally high trade deficit. After declining by 0.3 percent (y-o-y) between January and June, remittance inflows have plateaued.

Supported by inflation and formalization, total tax revenues increased by 15.4 (y-o-y) percent until end-August, 2022. Current spending increased by 17.6 percent for the same period and is expected to continue increasing as the government implements over 4.5 percent of GDP in inflation-mitigation and energy subsidy measures. Capital spending remained exceptionally low with an execution rate of 17 percent by end-August, and almost 30 percent lower than a year before.

The banking sector remained stable, with the annual change in loans at 18 percent in July. Bank capital buffers and asset quality remain adequate, with non-performing loans remaining stable at 2.1 percent.

Outlook

GDP growth in 2022 is expected to slow down below potential to 3.1 percent. Inflationary pressures are expected to subdue purchasing power, slowing private consumption growth. Net exports are expected to drive growth. On the other hand, investment - driven by a plunge in public capital spending and a slowdown in construction - should subtract from growth. On the production side, services – supported by higher diaspora demand, credit growth, and public transfers - are expected to be the main driver of growth. After a significant reduction in 2021, poverty is expected to marginally decline in 2022, but the continuation of inflationary pressures could lead to a stagnation of poverty rates.

The medium-term outlook remains positive. However, it is also mired by downside risks related to food and energy price increases and upward pressures on interest rates.

Consumer inflation is expected to average 12.1 percent in 2022, before moderating gradually over the medium-term. With high import inflation leading to a nominal increase in the level of trade imbalances, and with slowing remittances, the current account is expected to deteriorate until 2023. In the medium-term, non-debt creating FDIs and external lending will be the key source of financing for the current account.

The fiscal deficit is expected to reach 0.8 percent of GDP in 2022. Further spending on energy subsidies could, however, increase the deficit. Over the medium-term, compensation of employees, transfers, and a gradual improvement in capital investment execution, are expected to drive spending and push the fiscal deficit above 2 percent of GDP.

Over the medium-term, there is a pressing need to preserve fiscal buffers by containing spending on untargeted transfers to respond to the changing macroeconomic environment, and accelerate implementation of structural reforms in energy, education, social protection, and healthcare to enhance inclusive and sustainable growth.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.8	-5.3	10.5	3.1	3.7	4.2
Private Consumption	5.6	2.5	7.6	0.5	1.9	3.4
Government Consumption	10.1	2.1	9.1	3.0	5.1	2.0
Gross Fixed Capital Investment	2.9	-7.6	10.7	-2.3	8.5	5.9
Exports, Goods and Services	7.6	-29.1	78.7	11.5	6.0	8.0
Imports, Goods and Services	4.5	-6.0	32.8	1.4	5.2	5.5
Inflation (Consumer Price Index)	2.7	0.2	3.4	12.1	4.0	3.0
Current Account Balance (% of GDP)	-5.7	-7.0	-8.3	-11.3	-13.1	-12.3
Net Foreign Direct Investment Inflow (% of GDP)	2.7	4.2	3.9	3.7	4.9	5.0
Fiscal Balance (% of GDP)	-2.9	-7.6	-1.3	-0.8	-1.6	-2.1
Debt (% of GDP)	17.0	22.0	21.5	20.9	21.9	23.2
Primary Balance (% of GDP)	-2.6	-7.1	-0.9	-0.4	-1.1	-1.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	28.9	32.4	26.4	25.0	23.3	21.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on ECAPOV harmonization, using 2017-HBS. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2017) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

KYRGYZ REPUBLIC

Table 1	2021
Population, million	6.7
GDP, current US$ billion	8.3
GDP per capita, current US$	1235.8
International poverty rate ($2.15)[a]	1.3
Lower middle-income poverty rate ($3.65)[a]	18.7
Upper middle-income poverty rate ($6.85)[a]	67.6
Gini index[a]	29.0
School enrollment, primary (% gross)[b]	102.6
Life expectancy at birth, years[b]	71.8
Total GHG emissions (mtCO2e)	10.1

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

The economy has so far proved more resilient than expected to spillovers from Russia's war in Ukraine. Growth accelerated to 7.7 percent in January-July 2022 and is projected to be 4 percent in 2022. Inflation has increased and is expected to reach 15 percent in 2022 and moderate thereafter. The fiscal deficit is projected to widen this year but decline to under 3 percent of GDP in the medium term.

Key conditions and challenges

The Kyrgyz Republic has experienced volatile growth in the past decade. The economy remains heavily dependent on gold production (10 percent of GDP and 35 percent of exports), remittances (25 percent of GDP), and foreign aid.

The Kyrgyz economy was heavily impacted by the COVID-19 pandemic in 2020 as GDP contracted by 8.4 percent and the poverty profile deteriorated. The last two years have also seen significant political and governance upheavals, with a new Constitution shifting back to a presidential form of governance, and snap parliamentary and presidential elections. Political uncertainties continue to hamper the government's ability to implement reforms. The nationalization of the largest gold producer, Kumtor Gold Company, dented investor confidence. New risks have emerged following Russia's war in Ukraine and subsequent sanctions on Russia.

While there has been some progress towards fiscal consolidation in recent years, broadening the tax base and improving the public spending efficiency remain key challenges. The private sector is hindered by an excessive bureaucratic burden. Accelerating economic growth will require stronger institutions and policies to foster private sector growth, spur international trade, and improving the commercial soundness of the energy sector.

Recent developments

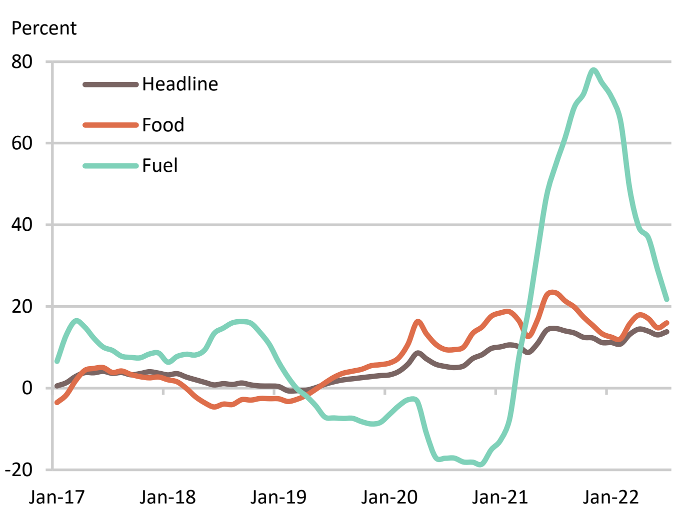
The Kyrgyz economy has so far proved more resilient than expected to the spillovers of the war in Ukraine. Real GDP grew 7.7 percent during January-July, yoy, driven by gold production (43.1 percent growth, yoy), agriculture (8.4 percent), construction (3.6 percent), and services (3.5 percent). Domestic demand was supported by remittance inflows (7.5 percent growth in US$ terms) from Russia, aided by a strong Russian ruble.

Gold was mainly purchased by the Central Bank, reducing gold exports in the first half of the year. As a result, total exports declined by 40.5 percent, yoy, while imports grew by 68.7 percent, yoy, mainly driven by fuel and consumer goods. This led to an increase in the current account deficit to an estimated 15 percent of GDP. The Central Bank also sold US$217 million of forex reserves in Q1 to avoid sharp fluctuations of the Som and purchased US$46 million in Q2. As of end-June 2022, gross reserves are about 5 months of imports.

Inflation increased to 13.8 percent in July from 11.2 percent in December 2021, driven by global food and fuel prices. To combat inflation, the Central Bank gradually raised the policy rate from 8 to 14 percent between December and March. Credit growth slowed to 9.6 percent in June 2022 from 11.8 percent in December 2021, mainly due to a decline in FX loans.

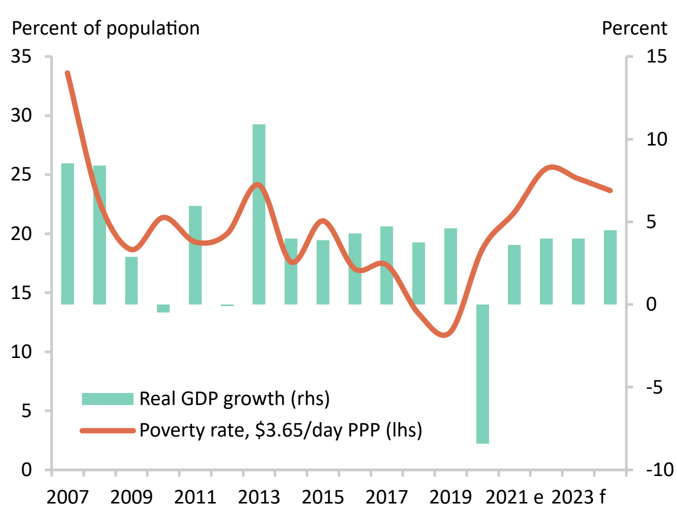
The fiscal position was solid in the first 7 months of 2022. The budget ran a surplus of 1.4 percent of GDP, slightly better than

FIGURE 1 Kyrgyz Republic / Headline, food and fuel inflation



Source: Kyrgyz authorities.

FIGURE 2 Kyrgyz Republic / Actual and projected poverty rate and real GDP growth



Source: Kyrgyz authorities and World Bank staff.

the previous year. Total revenues increased to 45.9 percent of GDP from 38.6 percent a year ago, driven by higher tax receipts. At the same time, spending increased to 44.5 percent of GDP from 37.2 percent a year ago driven mainly by capital outlays. The surplus, along with the appreciation of the Som, helped reduce public debt to below 50 percent of GDP in July 2022.

The COVID-19 pandemic increased the poverty rate from 11.7 percent in 2019 to 18.7 percent in 2020 (at the US$3.65 a day, 2017 PPP). Poverty is estimated to have deteriorated further in 2021, mainly due to increased food prices, lower real incomes, and limited job opportunities. High inflation is the most significant immediate concern for the welfare of the population. The public sector salary increases in April and August 2022 and enhancement to the social assistance program (targeted to the poor), have softened the negative impact of the food price increase on the population.

Outlook

GDP growth for 2022 is expected to be 4 percent, because of moderate growth of the gold sector in the second half of the year. On the demand side, consumption will be supported by remittances and investments spurred by high public outlays, while net exports are expected to contribute negatively to growth. GDP growth is expected to remain at 4 percent in 2023 and 4.5 percent in 2024, assuming that the economy adjusts to the spillovers from the Russian sanctions.

Inflation is expected to remain elevated at about 15 percent by end-2022, driven by further food and energy price increases. With the Central Bank expected to keep its policy rate at the current level to bring inflation down to its target range of 5-7 percent, inflation is projected to gradually moderate to 7 percent by end-2024.

The current account deficit is projected to be 12.7 percent of GDP in 2022, reflecting the fall in gold exports, with a decline in 2023-24 reflecting an export revival.

The fiscal deficit is expected to widen in 2022 due to the increases in social transfers and public sector salaries in H2 2022. The deficit is expected to narrow to under 3 percent of GDP over 2023-24 mainly thanks to higher revenues from the mining sector and containment of expenses.

High food prices and job insecurity will continue to be the most significant challenge that impact and deepen poverty in 2022. The poverty rate will likely increase up to 25.5 percent (3.65$ a day, 2017PPP). The government's measures, such as increases in pensions and scaling up and extension of the coverage of the social protection program targeted to the poor will help to mitigate the adverse effects produced by the loss of labor incomes and higher inflation.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.6	-8.4	3.6	4.0	4.0	4.5
Private Consumption	0.8	-8.3	13.5	3.6	4.0	4.3
Government Consumption	0.5	0.9	0.3	0.7	0.8	0.6
Gross Fixed Capital Investment	7.1	-16.2	-3.6	14.7	14.0	11.3
Exports, Goods and Services	16.2	-27.3	24.5	12.1	12.0	12.5
Imports, Goods and Services	6.1	-28.0	39.1	14.0	14.3	12.1
Real GDP growth, at constant factor prices	3.6	-8.4	3.6	3.9	4.1	4.5
Agriculture	2.5	0.9	-5.0	4.4	2.0	2.5
Industry	6.6	-7.0	7.2	10.0	8.7	8.0
Services	3.2	-16.5	10.4	0.7	3.5	4.4
Inflation (Consumer Price Index)	1.1	6.3	11.9	15.2	8.0	6.0
Current Account Balance (% of GDP)	-12.1	4.8	-8.7	-12.7	-11.8	-10.2
Net Foreign Direct Investment Inflow (% of GDP)	3.8	-7.5	7.0	1.9	2.7	2.6
Fiscal Balance (% of GDP)	-0.5	-4.2	-0.3	-3.2	-3.0	-2.8
Debt (% of GDP)	51.6	67.7	60.3	55.2	52.3	50.9
Primary Balance (% of GDP)	0.5	-2.9	1.4	-1.7	-1.6	-1.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.7	1.3	1.3	1.2	1.2	1.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	11.7	18.7	21.8	25.5	24.7	23.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	63.7	67.6	67.3	67.0	66.6	66.2
GHG emissions growth (mtCO2e)	-7.8	-20.9	-6.7	-5.3	1.1	-0.1
Energy related GHG emissions (% of total)	69.5	64.0	62.0	61.4	61.8	60.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on ECAPOV harmonization, using 2009-KIHS, 2019-KIHS, and 2020-KIHS. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2009-2019) with pass-through = 0.87 based on GDP per capita in constant LCU.

MOLDOVA

Table 1	2021
Population, million	2.6
GDP, current US$ billion	13.7
GDP per capita, current US$	5233.5
International poverty rate ($2.15)[a]	0.0
Lower middle-income poverty rate ($3.65)[a]	0.4
Upper middle-income poverty rate ($6.85)[a]	14.7
Gini index[a]	26.0
School enrollment, primary (% gross)[b]	106.3
Life expectancy at birth, years[b]	72.0
Total GHG emissions (mtCO2e)	13.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2020).

The war in Ukraine and the recent drought have brought significant challenges to the Moldovan economy. Trade disruptions, lower foreign inflows, and high inflation have a significant toll on private consumption and investment. GDP will contract by 0.7 percent in 2022, with a slow recovery in the subsequent years provided that the war does not escalate further. Over eleven thousand people are projected to fall below the poverty line.

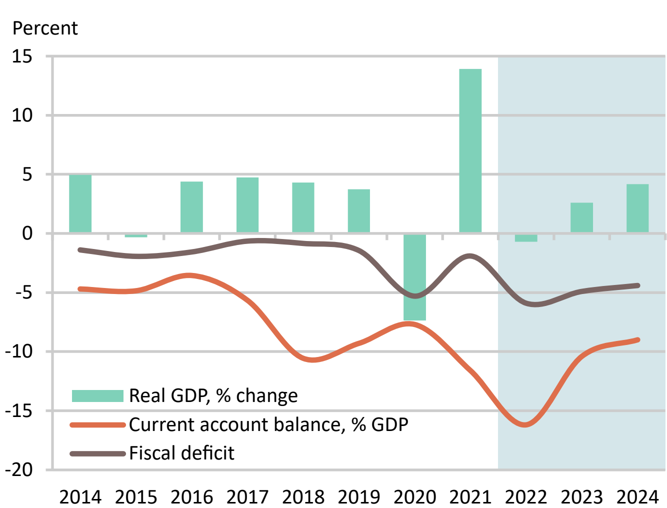
Key conditions and challenges

Moldova's economic outlook after the Covid-19 pandemic and robust recovery in 2021 has been overtaken by the war in Ukraine and a rapid surge in inflation. Russia's invasion of Ukraine poses major threats to the economic prospects of Moldova through the overall stability of the macro-fiscal framework, trade and remittances channels, and increasing geopolitical risks undermining domestic and foreign investment appetite. Key infrastructure networks are primarily connected to Ukraine despite recent efforts to better connect the country to the EU. The surge in inflation represents the biggest challenge for authorities. Monetary policy faces a trade-off between controlling inflation and supporting economic activity, as well as potential pressure on the domestic currency while maintaining sufficient levels of international reserves. Moldova's fiscal position is confronted with the need to mitigate the eroding purchasing power of the households due to inflation with the need to support the ambitious medium-term reform program to address low productivity growth, persistent structural and governance weaknesses, significant state-owned enterprises footprint, low competition, uneven playing field, and tax distortions. Extreme weather events and the propagation of economic and energy shocks have been a traditional risk for a small open economy like Moldova. Persistent inequality of opportunity limits the ability of low-income households to access public services, reducing their resilience and cementing low intergenerational mobility. Moldova remains one of the poorest countries in Europe.

Recent developments

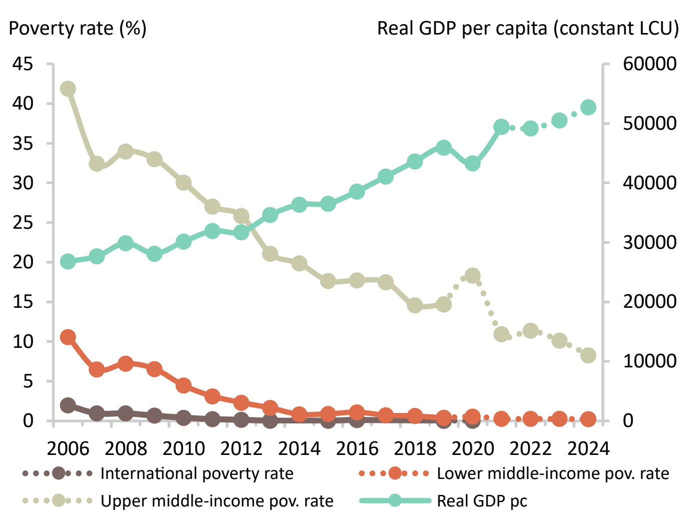
GDP expanded by 1.1 percent in the first quarter of 2022 due to a strong export performance (36.9 percent). Investment declined by 6.1 percent due to a deterioration of confidence as the war escalated and the monetary policy tightened. On the production side, trade, financial activities, and health were the most buoyant sectors, while spillovers from the war have started affecting the manufacturing sector.
The monetary stance has tightened significantly since 2021 when the policy rate was just 2.5 percent and now it has reached 21.5 percent. The scope was to counteract high food and energy prices, culminating with an inflation rate of 33.6 percent in July 2022, and stabilize the exchange rate, which has lost 8 percent of its value against USD since the beginning of the war. The current account deficit doubled in the first quarter of 2022, reaching 17.1 percent of GDP as the cost of energy imports expanded quickly, while remittances

FIGURE 1 Moldova / Actual and projected macroeconomic indicators



Source: Author's calculations based on national statistics.

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



Source: World Bank. Notes: see Table 2.

decreased by 9.4 percent. The CAB deficit was financed primarily by reserve assets and FDI. The external debt marginally decreased and reached 64 percent of GDP.

The fiscal position proved to be resilient with a deficit was smaller than expected in the first half of 2022 (1.2 percent of GDP) thanks to an increase in revenues by 19.4 percent. Spending has increased by 18 percent, driven by social spending (30 percent) and subsidies (39 percent). As a result, public and publicly guaranteed debt decreased to 30 percent of GDP, with the authorities refinancing only the existing debt.

Amidst a more favorable labor market conditions, poverty using the US$6.85 2017PPP poverty line is projected to have fallen from 18.3 percent to 10.9 percent in 2021. Recovery in the labor market continued into the first quarter of 2022 with the number of employed up by 3.8 percent and the number of unemployed down by around 30 percent.

Outlook

GDP growth is expected to contract in 2022. The negative impact on private consumption and investments is partly compensated by a positive contribution from net exports and a large fiscal impulse. Growth is expected to slowly rebound to 2.6 percent in 2023 and reaching potential only in 2024. High inflationary pressures will persist throughout 2022 and 2023 with the inflation rate remaining above the NBM target of 5 percent +/-1.5 percent. Current account is expected to be higher than in the pre-Covid period reflecting high import prices and will rely on financing from foreign debt instruments.

The fiscal deficit is estimated to reach 5.9 percent of GDP in 2022 and remains higher than pre-Covid-19, as the authorities will need to protect the population from increasing prices, support the refugees and bolster investments and the reform program. As a result, public debt is expected to increase but stabilize just above 40 percent of GDP in the medium term.

Poverty as measured by the US$6.85 2017PPP poverty line is expected to increase from 10.9 percent in 2021 to 11.4 percent in 2022. With growth anticipated to accelerate in 2023, poverty is projected to fall to 10.1 percent in 2023.

Downside risks remain high due to Moldova's proximity to the war in Ukraine and the uncertainties related to energy or natural gas prices and supplies. With the cold season approaching, inflationary pressures could further erode consumer confidence and deteriorate the twin deficits. High input costs and dry weather conditions may reduce agricultural yields, resulting in additional inflationary pressures and dumped economic activity. Despite a 40 percent increase in deposits, escalation of the conflict may put under stress the banking system, which still has to fully recover from the 2014 banking fraud. Finally, higher interest rates may pose roll-over risks on the domestic market.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	3.7	-7.4	13.9	-0.7	2.6	4.2
Private Consumption	3.2	-8.3	15.5	0.6	3.7	4.4
Government Consumption	1.3	3.1	3.8	2.6	1.3	2.1
Gross Fixed Capital Investment	11.9	0.4	1.7	-1.2	3.3	4.3
Exports, Goods and Services	8.2	-9.6	17.5	15.9	4.1	4.3
Imports, Goods and Services	6.2	-5.0	19.2	10.2	4.6	3.9
Real GDP growth, at constant factor prices	4.0	-7.6	15.6	-0.8	2.6	4.2
Agriculture	-2.3	-26.4	45.0	-5.4	6.0	6.3
Industry	7.1	-4.3	8.3	0.3	2.2	4.9
Services	4.3	-4.8	13.6	-0.2	2.0	3.4
Inflation (Consumer Price Index)	4.7	4.1	5.1	30.1	12.5	6.2
Current Account Balance (% of GDP)	-9.3	-7.7	-11.6	-16.2	-10.4	-9.0
Net Foreign Direct Investment Inflow (% of GDP)	4.2	1.3	1.6	0.4	1.4	2.5
Fiscal Balance (% of GDP)	-1.4	-5.3	-1.9	-5.9	-4.9	-4.4
Debt (% of GDP)	27.5	36.4	33.8	38.2	39.7	41.7
Primary Balance (% of GDP)	-0.7	-4.5	-1.1	-4.6	-3.7	-3.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.0	0.0				
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.4	0.5	0.3	0.3	0.3	0.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	14.7	18.3	10.9	11.4	10.1	8.3
GHG emissions growth (mtCO2e)	0.8	-5.6	8.9	-1.1	1.8	2.7
Energy related GHG emissions (% of total)	63.6	63.5	65.4	64.8	65.1	65.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on ECAPOV harmonization, using 2019-HBS. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

MONTENEGRO

Table 1	2021
Population, million	0.6
GDP, current US$ billion	5.9
GDP per capita, current US$	9438.7
Upper middle-income poverty rate ($6.85)[a]	18.5
Gini index[a]	36.9
School enrollment, primary (% gross)[b]	101.7
Life expectancy at birth, years[b]	75.9
Total GHG emissions (mtCO2e)	3.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2020).

While still recovering from the pandemic, Montenegro is facing renewed headwinds. Growth is estimated at a strong 6.9 percent in 2022, led by private consumption. Inflation surged to new highs but its adverse impact on the cost of living was largely mitigated by an increase in real disposable incomes. Due to the tax reform and increased social spending, the fiscal deficit is expected to widen to 5 percent of GDP in 2022. High public debt and a deteriorating global environment require near-term fiscal consolidation.

Key conditions and challenges

The pandemic has exposed Montenegro's vulnerabilities to external shocks. These stem from the open and service-based nature of the economy and its small size, but also from the country's choice of strategies and policies. While the economy had a strong recovery in 2021, growing by 13 percent, it remains below its 2019 level and is now facing new challenges from global geopolitical and economic uncertainties.

Given unilateral euroization, Montenegro relies on fiscal policy and structural reforms to maintain macroeconomic stability. However, the debt-financed highway construction, the pandemic, and a lack of commitment to fiscal targets have increased fiscal vulnerabilities and increased public debt, which peaked at 105 percent of GDP in 2020. Despite a significant decline to 84 percent of GDP in 2021, public debt remains high.

In January 2022, Montenegro started implementing a tax reform program that aims to reduce inequalities and increase growth in the medium term. It removes healthcare contributions, introduces personal income tax allowance, progressive personal and corporate income taxation, and increases the net monthly minimum wage from €250 to €450. The program also poses significant fiscal risks, further amplified by the Parliament's rejection of several revenues compensating measures and additional increases of social spending resulting in a wider-than-planned fiscal deficit in 2022 and beyond. An adopted increase of the minimum monthly pension from €150 to over €250 (effective September 2022), without compensating reform measures, is further weakening pension system sustainability and equity.

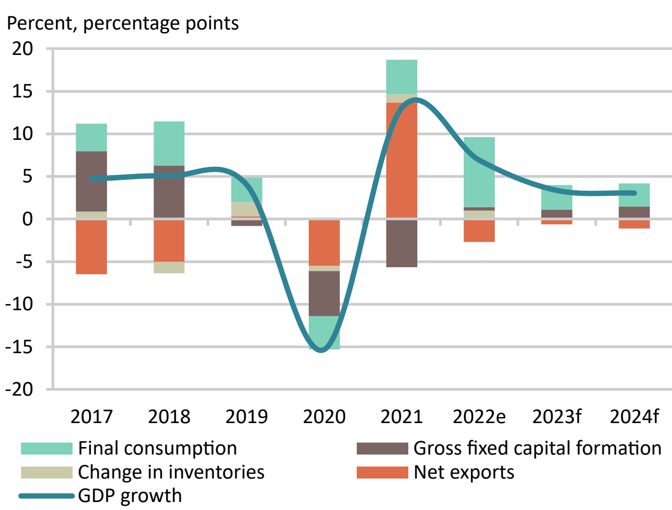
In August, there was a vote of no confidence in the government - the second government to collapse in 2022. The complexity and fragility of the political landscape exacerbates already high uncertainties, slows the reform process, and diverts focus from imminent economic challenges. Prudent fiscal policy based on continuous public debt reduction and policies to support growth is of critical importance in such environment.

Recent developments

In 2022, economic activity was driven by an increase in real disposable incomes owing to further recovery in tourism, employment growth, and household lending. As a result, by June, retail trade grew by 20 percent y/y, while the number of tourist overnights increased by 150 percent y/y, reaching 91 percent of the 2019 level. However, industrial production declined by 2.3 percent as unfavorable hydrological conditions affected electricity generation.

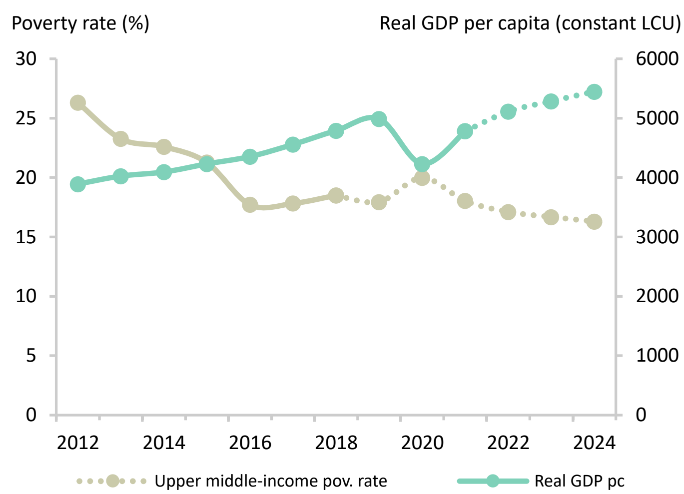
Administrative data show employment reached a record high in July. The registered unemployment rate declined from 22 percent in July 2021 to 16 percent in

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



Sources: MONSTAT and World Bank.

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



Sources: World Bank. Notes: see Table 2.

July 2022. Poverty (income below $6.85/day in 2017PPP) is projected to decline to 17.1 percent in 2022.

Inflation peaked at 15 percent y/y in August, led by a surge in food (26.2 percent y/y) prices. The inflationary impact on households has been largely mitigated by a wage increase through the tax reform program.

The financial sector is performing well. By July, lending and deposits increased by 4.4 and 20.4 percent y/y, respectively. The average capital adequacy ratio was at 18.9 percent, while non-performing loans increased to 6.9 percent of total loans from 6.3 percent a year earlier.

By June, the growth of exports outpaced that of imports, supported by further tourism recovery and higher metal and electricity prices. Net income accounts further reduced the current account deficit, which was largely financed by net FDI and reserves.

Shortfall in social security contributions and personal income tax, new spending commitments (child and mothers' benefits, pensions), clearance of health insurance arrears, and high capital spending are expected to drive an increase in the fiscal deficit from 1.9 percent of GDP in 2021 to an estimated 4.9 percent of GDP in 2022. Public debt is estimated to remain high at 73.4 percent of GDP in 2022.

Outlook

The unfavorable global economic outlook and high uncertainty are weighing on Montenegro's recovery prospects. Growth is expected to moderate to 3.4 percent in 2023 and further to 3.1 percent in 2024, as private consumption growth slows. The projections do not assume that the remaining sections of the highway will start by 2025, as fiscal space is limited. Tourism is expected to continue recovering in 2023, although deteriorating growth prospects in the EU and the region can slow its recovery.

Inflation is expected to decelerate to 5.9 percent in 2023 and further to 2.6 percent in 2024. While higher energy prices are disproportionally affecting the poor, they are also supporting a reduction in the trade deficit as Montenegro's growing electricity capacities are used for energy exports. These factors, together with exports of tourism and transport services are projected to support a reduction in the current account deficit to 9.7 percent of GDP in 2024.

The fiscal balance is expected to moderate over the medium term but will remain elevated at 4 percent of GDP in 2023 and 2.7 percent of GDP in 2024, due to higher social and capital spending. As a result, public debt will stay high at around 72 percent of GDP in 2023 and 2024. Given the tightening of global financial conditions and Montenegro's sizable financing needs of around 9 percent of GDP in 2023, Montenegro will require very careful debt management and stronger control over its expenditures.

The outlook is surrounded with multiple downside risks. High geopolitical uncertainties and swelling global inflation weaken growth prospects in Montenegro and its trading partners. Inflationary pressures are accelerating monetary tightening which translates into more expensive external financing. Political instability and delays in government formation are major domestic risks. The severity of challenges ahead requires strong political commitment and actions to mitigate these risks.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.1	-15.3	13.0	6.9	3.4	3.1
Private Consumption	3.1	-4.6	4.0	9.1	3.1	2.9
Government Consumption	1.0	0.8	0.5	0.2	0.0	0.5
Gross Fixed Capital Investment	-1.7	-12.0	-12.3	1.2	3.3	4.4
Exports, Goods and Services	5.8	-47.6	81.9	27.1	5.1	4.1
Imports, Goods and Services	2.7	-20.1	13.7	18.6	3.8	3.6
Real GDP growth, at constant factor prices	4.2	-14.4	13.2	6.9	3.4	3.1
Agriculture	-2.2	1.1	-0.5	-2.0	0.1	0.1
Industry	5.6	-12.0	0.3	2.0	4.0	4.5
Services	4.5	-16.9	19.9	9.4	3.6	2.9
Inflation (Consumer Price Index)	0.4	-0.3	2.4	12.3	5.9	2.6
Current Account Balance (% of GDP)	-14.3	-26.1	-9.2	-10.2	-10.3	-9.7
Net Foreign Direct Investment Inflow (% of GDP)	6.2	11.2	11.7	10.3	9.0	7.9
Fiscal Balance (% of GDP)	-2.7	-11.0	-1.9	-4.9	-4.0	-2.7
Debt (% of GDP)	76.5	105.3	84.0	73.4	72.7	71.9
Primary Balance (% of GDP)	-0.5	-8.3	0.5	-3.3	-2.2	-0.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	17.9	20.0	18.0	17.1	16.7	16.3
GHG emissions growth (mtCO2e)	2.5	-17.4	3.9	2.6	0.4	0.6
Energy related GHG emissions (% of total)	69.3	65.8	67.8	69.3	69.7	69.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on ECAPOV harmonization, using 2015-SILC-C and 2019-SILC-C. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2014-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

NORTH MACEDONIA

Table 1	2021
Population, million	1.8
GDP, current US$ billion	13.9
GDP per capita, current US$	7556.6
International poverty rate ($2.15)[a]	3.4
Lower middle-income poverty rate ($3.65)[a]	7.1
Upper middle-income poverty rate ($6.85)[a]	20.8
Gini index[a]	33.0
School enrollment, primary (% gross)[b]	98.2
Life expectancy at birth, years[b]	75.7
Total GHG emissions (mtCO2e)	11.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2020).

As the war in Ukraine and the energy crisis dim growth prospects, inflation is heading towards all-time highs, disproportionately eroding real incomes of the poor. With limited fiscal space, elevated public debt, and increased cost of financing, fiscal support needs to target the most vulnerable. Monetary policy tightened to tame inflationary pressures. Medium-term growth is expected to moderate, but risks are significantly tilted to the downside.

Key conditions and challenges

Just as the economy started to recover from a pandemic-induced recession, the energy crisis and the war in Ukraine cut the recovery short and amplified inflationary pressures in early 2022. Energy and food prices have soared, while the minimum wage increase of 18.5 percent in March 2022 further fueled inflationary expectations. Double-digit inflation is weighing on economic growth prospects and is exacerbating balance sheet vulnerabilities for both sovereign and corporate borrowers. Poverty reduction (using the upper middle income class poverty line of US$6.85/day at 2017 PPP) is likely to stall in 2022 given rising food and energy prices that hurt the poor relatively more, as they spend a larger share of their income on these items.

Although non-performing loans do not yet point to increased insolvency, worsening firm performance is affecting the outlook for the banking sector. Sequential crises have markedly reduced fiscal space for additional emergency support. The recent shocks have worsened fiscal sustainability and reduced fiscal space for supporting growth in North Macedonia. General government spending with the roads company reached 40 percent of GDP; yet, low spending efficiency and high mandatory spending (80 percent of spending) undermine the contribution of spending to growth. At the same time, revenues at 32 percent of GDP are still below the EU peers' average. Public debt remained elevated at 61 percent of GDP at the end of 2021, amidst sharply increasing financing costs.

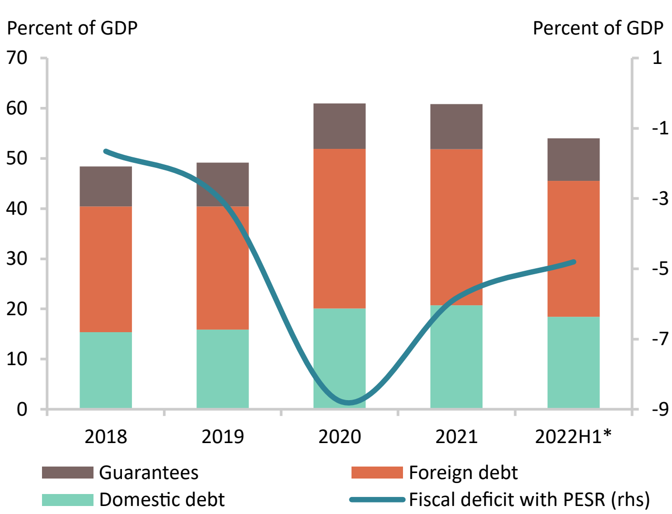
The focus of the reform agenda needs to be geared towards boosting tax compliance, restructuring spending while launching the green transition, improving the efficiency of public investment management, and ensuring the resilience of the financial sector. Given limited fiscal resources, widespread state aid through direct budget transfers, temporary subsidies, and broad tax exemptions that are not cost-effective or sustainable, should be revised and redirected toward long-term growth-supporting spending.

Recent developments

After a 4-percent growth in 2021, output increased by 2.6 percent in H1 2022, helped by a continued recovery in investments and a moderate consumption stimulus. Imports surged, leading net exports into negative territory. Growth was driven by services, as industry struggled, and construction saw a further decline in activity.

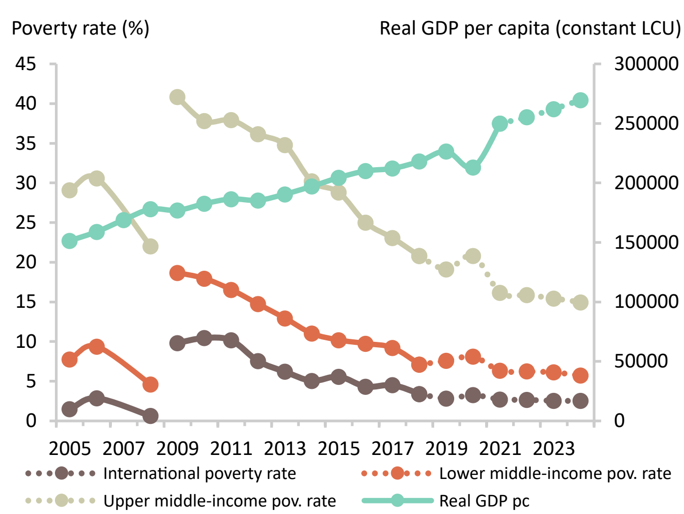
The census-adjusted activity rate declined to 55.3 percent in Q2 2022, led by a drop in female participation. The employment rate stood at 47.3 percent in Q2 2022 and remained below the pre-pandemic peak. The unemployment rate decreased to 14.5 percent, but the youth unemployment rate remained high at 30.9 percent.

FIGURE 1 North Macedonia / Fiscal performance



Sources: North Macedonia State Statistics Office, Ministry of Finance, and World Bank staff calculations. Note: * Central government on a 12-month rolling basis.

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



Source: World Bank. Notes: see Table 2.

The banking sector remained stable, but the liquidity and the capital adequacy ratios decreased to 20.5 and 17 percent in Q1 2022, respectively. Credit growth continued at 9.7 percent in July 2022, led by accelerated corporate and mortgage lending. Consumer price inflation surged to 16.8 percent in August 2022, with food and energy prices rising by more than 20 percent. To tame inflation expectations, the Central Bank increased the main policy rate four times within a year to 2.5 percent until August 2022. The pegged exchange rate remained stable with FX interventions to contain sustained pressures, leading to a more than 20 percent loss of reserves since mid-2021.

With the supplemental budget in May, the government's projected fiscal deficit for 2022 increased by 1 p.p. to 5.3 percent of GDP, marked by a rise in current expenditures along with cuts in capital expenditures. Total revenues surged by close to 14 percent y-o-y helped by inflation which led to a decline in public and publicly guaranteed debt towards 55.4 percent of GDP in June 2022. However, expenditure arrears remained high at 3 percent of GDP in Q2 2022 owing to health sector, state enterprises, and local governments.

Outlook

Output growth over the medium term is expected to moderate and downside risks remain elevated. The 2022 growth forecast is downgraded further to 2.1 percent as the energy and Ukraine crisis continue to take a toll on the domestic economy. Disruptions related to the war in Ukraine, overstretched supply chains, mounting inflationary and wage pressures and the intensifying energy supply crisis continue to weigh on the outlook. The baseline scenario is built on the assumption that the impact of the energy crisis and the war in Ukraine on the domestic economy will gradually subside while inflationary pressures tail off over the forecast horizon. However, the underlying assumptions are significantly tilted to the downside, dampening growth, and lifting inflation at the same time. With looming stagflation risks, the country will need to start delivering on reform promises that can reinvigorate the potential growth momentum over the medium term. Policy efforts need to be geared towards restoring fiscal and financial sustainability whilst building social and climate resilience that will reduce the country's vulnerability to shocks and revamp the country's long term growth prospects. At the current juncture, heightened political uncertainty and a parliamentary impasse, following the results of the local elections and a removal of obstacles for opening the EU accession negotiations, amidst a food and energy crisis, may lead to delays in reforms implementation needed to boost potential growth and consolidate public finances. Moreover, lower domestic and external demand, high input costs and liquidity shortages could lead to further layoffs and increase poverty, stretching already tight public finances. Finally, tightening financial conditions may affect financing options and costs going forward.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	3.9	-6.1	4.0	2.1	2.7	2.9
Private Consumption	3.7	-4.5	5.9	6.2	2.9	2.8
Government Consumption	2.5	6.4	4.1	1.0	0.3	0.2
Gross Fixed Capital Investment	8.7	-14.8	6.8	20.0	8.0	8.0
Exports, Goods and Services	8.9	-10.9	12.3	11.0	7.2	6.1
Imports, Goods and Services	9.5	-10.0	12.9	16.5	7.0	6.0
Real GDP growth, at constant factor prices	3.8	-5.2	2.5	2.1	2.7	2.9
Agriculture	0.1	-3.2	-1.2	1.8	2.0	1.5
Industry	3.4	-9.1	-2.4	1.6	4.8	5.3
Services	4.4	-3.9	4.7	2.3	2.1	2.2
Inflation (Consumer Price Index)	0.8	1.2	3.2	12.1	6.1	3.0
Current Account Balance (% of GDP)	-3.3	-3.4	-3.5	-9.8	-5.0	-3.0
Net Foreign Direct Investment Inflow (% of GDP)	3.2	1.5	3.7	3.3	3.4	3.4
Fiscal Balance (% of GDP)	-2.1	-8.3	-5.4	-5.2	-4.1	-3.6
Debt (% of GDP)	49.2	61.0	60.8	59.4	59.9	61.4
Primary Balance (% of GDP)	-1.0	-7.1	-4.1	-3.9	-2.6	-2.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.8	3.2	2.7	2.7	2.5	2.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	7.6	8.1	6.3	6.2	6.1	5.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	19.1	20.8	16.1	15.9	15.4	14.9
GHG emissions growth (mtCO2e)	8.6	-2.4	2.7	1.1	0.7	-0.2
Energy related GHG emissions (% of total)	71.9	71.5	72.6	72.9	72.9	72.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on ECAPOV harmonization, using 2019-SILC-C. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

POLAND

Table 1	2021
Population, million	37.8
GDP, current US$ billion	661.7
GDP per capita, current US$	17487.0
International poverty rate ($2.15)[a]	0.4
Lower middle-income poverty rate ($3.65)[a]	0.5
Upper middle-income poverty rate ($6.85)[a]	1.6
Gini index[a]	30.3
School enrollment, primary (% gross)[b]	97.2
Life expectancy at birth, years[b]	76.6
Total GHG emissions (mtCO2e)	308.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2020).

Poland's GDP grew 7 percent in the first half of 2022 as investment surprised to the upside and the boom in private consumption continued. The risk of a technical recession is looming, however, due to strong inflationary pressures and policy uncertainties. The war in Ukraine continues to affect the economy, through commodity prices, trade, and confidence effects channels. The large influx of displaced Ukrainians. The share of the population at risk of poverty is expected to remain elevated through 2024.

Key conditions and challenges

The well-diversified Polish economy has proven to be one of the most resilient in the EU, recovering strongly in 2021 after a relatively small contraction in GDP of 2.2 percent in 2020.

A sound macroeconomic framework, effective absorption of EU investment funds, a sound financial sector, better access to long-term credit, and access to European labor markets have supported long-term inclusive growth and poverty reduction. Strong domestic labor markets and increases in median and bottom 40 real incomes have supported private consumption. With an improving business environment, Poland integrated well into regional value chains (RVCs). Higher private investment, an improved innovation ecosystem, and further upgrading of RVCs are needed to boost productivity and growth.

The full economic impact of the ongoing COVID-19 remains uncertain as new variants emerge amidst a vaccination rate of 67 percent of the adult population.

The unprecedented policy response to mitigate the impacts of the COVID crisis and high inflation have narrowed the available policy space.

Increased spending and tax expenditure efficiency is needed to rebuild fiscal buffers, accommodate higher spending on health, defense, the green transition, and to prepare for the growing fiscal burden arising from aging. Over the medium term, a key challenge is a tightening labor supply made more acute by the aging population. The large influx of displaced people from Ukraine could help address the labor market tightness. Achieving decarbonization commitments is another challenge. Institutional strengthening is needed for sustained and inclusive growth and for narrowing regional disparities.

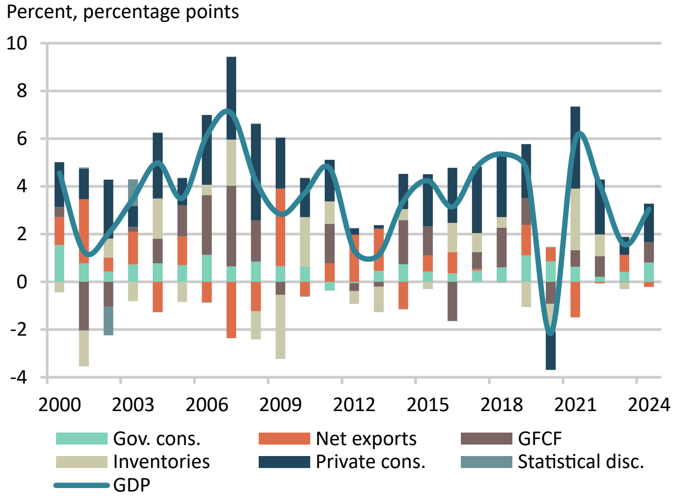
Recent developments

Economic growth remained strong in the first half of 2022, well above potential GDP growth, expanding nearly 7 percent year-on-year. This follows a 5.9 percent GDP recovery in 2021 from the COVID-related 2020 recession. Household consumption expanded by 6.4 percent year-on-year in the first half of 2022, investment rose 6.2 percent, and there was a significant contribution to growth from rebuilding of inventories..

Private consumption benefitted from the tight labor market with continued employment growth, record low unemployment, increased labor force participation and strong wage growth. It was also supported by pent-up demand and demand from the nearly 1.4 million displaced Ukrainians in Poland. High capacity utilization and strong corporate balance sheets supported investments so far.

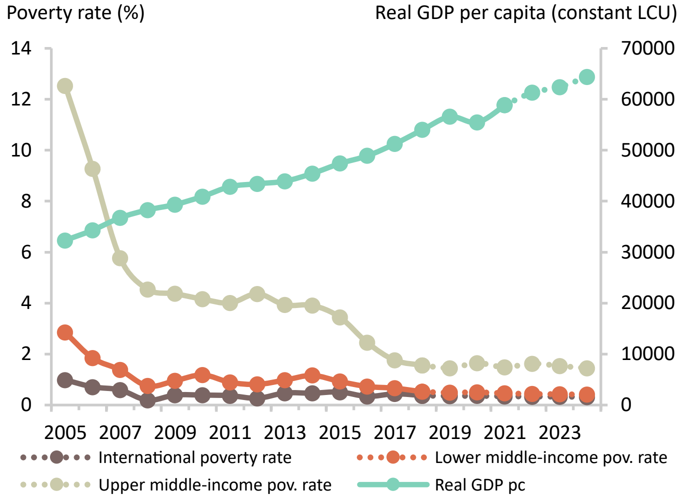
Robust domestic demand growth fueled import growth while supply side disruptions and lower external demand from Russia, Ukraine, and Belarus weighed on

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



Sources: GUS and World Bank staff calculations.

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



Source: World Bank. Note: see Table 2.

export growth, jointly contributing to a negative contribution from net exports.

Inflation has continued to accelerate markedly since mid-2021, reaching more than 16 percent in August, sharply higher than the targeted range. Hikes in energy and agricultural commodities as well as continued disruptions in supply chains fueled inflation. Price increases continued to accelerate notwithstanding the fiscal package aimed at limiting inflation.

High inflation triggered a faster than expected monetary policy tightening, with the central bank raising its reference rate by 665 basis points since October 2021. Meanwhile, the zloty depreciated 15.4 percent so far this year.

Temporary protection was given to 1.4 million Ukrainian refugees, granting them temporary residence and access to the labor market and key public services (health, education), social assistance, and housing.

The current account widened sharply to 3.9 percent of GDP in the year-to-June 2022, on account of sharply higher import prices in particular for energy and intermediate goods. The trade account recorded a 2.7 percent of GDP deficit over this period, compared with a 2.4 percent surplus during the year-to-June 2021. Meanwhile, the primary income account deficit increased slightly to 5 percent of GDP over this period, on account of strong foreign investors' income from capital investments in Polish enterprises.

The unwinding of the large 2020 fiscal stimulus and the strong increase in tax revenues brought the general government deficit to 1.9 percent of GDP in 2021, down from 6.9 percent of GDP in 2020.

Poverty rates declined in 2021, reversing the rise linked to the COVID-19 pandemic in 2020; the Gini coefficient of inequality however continued the upward trajectory visible since 2017.

The financial sector remains well capitalized and has limited direct exposure to Russia, Ukraine, or Belarus.

Outlook

Economic growth is expected to decelerate to 4 percent in 2022 and to 1.6 percent in 2023, on account of high inflation, monetary policy tightening, negative confidence effects related to the war in Ukraine, and slowing demand in key trading partners.

Supply-side disruptions, high input costs, and uncertainty related to the war in Ukraine will affect private investments. The National Recovery and Resilience Plan is expected to support public investment, but any delays in disbursements represent a downside risk.

Higher energy and food prices will weigh on household demand and will affect heavily poorer segments, who devote 50 percent of their monthly spending on food and energy. Minimum wage growth is expected to be outstripped by inflationary pressures, leading to a decline in the real minimum wage in 2022, which will be moderated by the phased adjustment of the minimum wage in 2023. While measures under the Anti-inflation Shield, 14th-month pension, and energy subsidies will soften household impacts, the share of the population at risk of anchored relative poverty is expected to remain elevated at 1-2 percentage points above 2021 levels.

Sharply higher import prices and larger primary income outflows are expected to result in a deterioration in the current account deficit to 4.2 percent of GDP in 2022, with a moderate improvement over 2023-2024 as terms of trade improve.

The fiscal deficit is expected exceed 3.5 percent of GDP, as a result of the structural tax reform (Polish Deal), the temporary impact of the anti-inflation measures, and the public assistance provided to Ukrainian refugees. The fiscal cost of these packages is estimated at 1 percent, 1.7 percent, and 0.4 percent of GDP respectively in 2022. With increased geopolitical risks, defense spending is also expected to increase over the coming years.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.7	-2.2	5.9	4.0	1.6	3.0
Private Consumption	3.9	-2.8	6.0	4.0	1.3	2.8
Government Consumption	6.5	4.9	3.4	1.2	2.4	4.5
Gross Fixed Capital Investment	6.1	-4.9	3.8	4.9	-0.1	4.9
Exports, Goods and Services	5.2	0.0	11.8	3.4	4.0	4.8
Imports, Goods and Services	3.0	-1.1	15.9	3.7	3.0	5.5
Real GDP growth, at constant factor prices	4.6	-2.2	5.6	4.0	1.6	3.0
Agriculture	-0.8	13.9	1.9	1.9	1.1	1.2
Industry	2.2	-4.3	11.4	5.1	3.0	3.3
Services	6.0	-1.7	2.9	3.6	0.8	3.0
Inflation (Consumer Price Index)	2.3	3.4	5.1	13.2	10.1	4.9
Current Account Balance (% of GDP)	0.5	2.9	-0.7	-4.2	-3.6	-2.3
Net Foreign Direct Investment Inflow (% of GDP)	2.0	2.1	3.8	3.6	2.2	2.4
Fiscal Balance (% of GDP)	-0.7	-6.9	-1.9	-3.6	-3.5	-2.6
Debt (% of GDP)	45.6	57.1	53.8	51.7	49.3	47.5
Primary Balance (% of GDP)	0.6	-5.6	-0.8	-2.2	-1.9	-1.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.4	0.4	0.3	0.3	0.3	0.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.5	0.5	0.5	0.4	0.4	0.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	1.4	1.6	1.5	1.6	1.5	1.4
GHG emissions growth (mtCO2e)	-5.2	-6.2	2.6	-0.5	-2.5	-1.7
Energy related GHG emissions (% of total)	91.6	91.7	91.3	91.0	90.7	90.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on ECAPOV harmonization, using 2008-EU-SILC and 2019-EU-SILC. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2007-2018) with pass-through = 1 based on GDP per capita in constant LCU.

ROMANIA

Table 1	2021
Population, million	19.2
GDP, current US$ billion	284.9
GDP per capita, current US$	14872.7
International poverty rate ($2.15)[a]	2.5
Lower middle-income poverty rate ($3.65)[a]	5.1
Upper middle-income poverty rate ($6.85)[a]	11.3
Gini index[a]	35.1
School enrollment, primary (% gross)[b]	87.5
Life expectancy at birth, years[b]	74.4
Total GHG emissions (mtCO2e)	71.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2020).

The Romanian economy performed better than expected, growing at 5.8 percent in the first half of 2022 on the back of robust private consumption performance and early signs of investment recovery. Prospects depend on the evolution of the war in Ukraine and its impact on the European economy. The fiscal deficit is on a downwards trend, but it remains elevated. Poverty is expected to decline to 11.7 percent in 2022.

Key conditions and challenges

Romania has achieved impressive success in growth and prosperity over the past two decades. However, the shocks induced by the COVID-19 pandemic and the war in Ukraine exposed the structural vulnerabilities of the economy, including persistent poverty and disparities in economic opportunity across regions and between urban and rural areas, structural rigidities in the product and labor markets, weaknesses in fiscal policy and significant institutional constraints hindering the efficient use of resources.

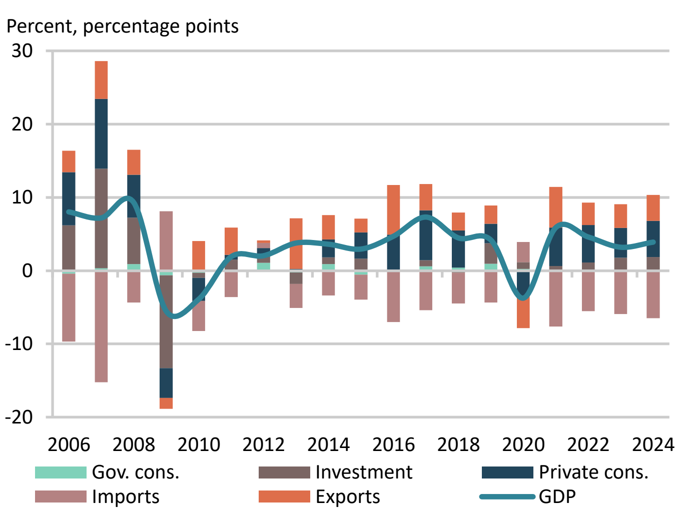
Poor and vulnerable households have been disproportionally affected by rising food and energy prices, despite the capping of gas and electricity prices to reduced levels, until March 2023, for households with lower average monthly consumption. The strong economic rebound helped reduce the share of the Romanian population living on less than $6.85 a day at 2017 PPP prices to 11.7 percent in 2022 from 12.1 percent in 2021.

The key challenges in the short term are to contain the socio-economic effects of the conflict in the region and the COVID-19 flare-ups. Significant inflationary pressures led to monetary policy tightening, following an accommodative stance. Elevated external imbalances add to the currency pressures and markets' risk aversion. Maximal and effective absorption of the EU Multiannual Financial Framework and Next Generation EU funds alongside reforms supported by these programs will be crucial to a sustainable recovery while aiding fiscal consolidation efforts.

Recent developments

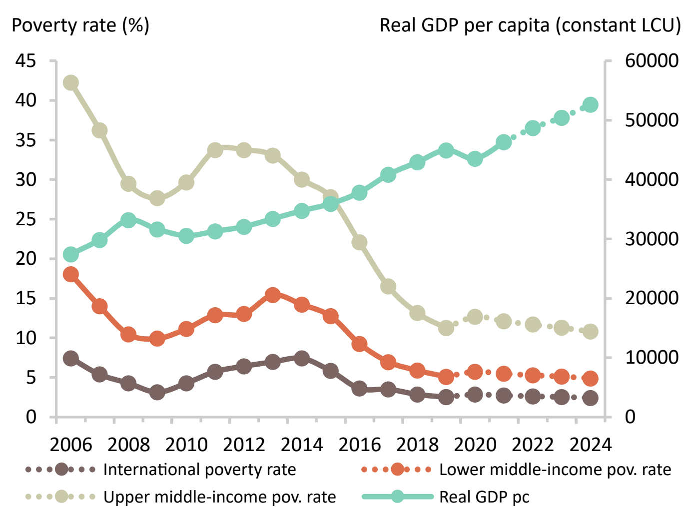
The Romanian economy grew by 5.8 percent in H1, 2022, supported by strong private consumption (up 7.5 percent y-o-y) in response to the phasing-out of COVID-19 restrictions, higher wages, and lower unemployment. Investment showed signs of recovery (up 2.2 percent y-o-y) boosted by new construction works. Robust private consumption coupled with global value chain disruptions and the terms of trade shock led to a widening goods trade deficit. The primary income balance also deteriorated, adding to the already sizable current account deficit. On the supply side, growth was led by the ICT sector (up 23.9 percent y-o-y), which benefited from businesses adopting digital technologies. Construction bounced back (up 2.8 percent y-o-y), supported by the revival of the non-residential buildings segment. The economic recovery and labor supply constraints reduced unemployment to 5.3 percent in June 2022 from the height of the COVID-19 pandemic of 6.7 percent in June 2020. Labor shortages coupled with higher inflation led to wage increases, with nominal net wages up by 12.3 percent y-o-y in June 2022. Meanwhile, annual inflation accelerated to 15 percent in July 2022, led by soaring electricity, gas, and central

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.

heating prices (up 35.6 percent). Inflationary pressures prompted the National Bank of Romania to gradually increase the monetary policy rate to 5.5 percent in early August 2022. Nevertheless, private sector credit growth remained strong, up by 17.5 percent y-o-y in June 2022, led by loans to non-financial corporations.

The fiscal deficit decreased to 1.7 percent of GDP in H1, 2022, 1.2 percentage points lower than in the same period of last year. Higher revenues (up 22.9 percent y-o-y), especially from VAT (up 26.6 percent y-o-y), off-set the 14.3 percent y-o-y increase in expenditure, but fiscal pressures remain significant as recurrent expenditure and energy subsidies could swell the deficit this year.

An economic and employment rebound meant that most workers have returned to work, helping to bring household labor income close to the pre-crisis level. However, the Rapid Household Survey in June 2022 showed that 75 percent of Romanians were still worried about the economy. Moreover, rising food and energy prices have depleted households' real purchasing power, especially among the poor and vulnerable. Nearly 90 percent of households in the bottom 40 percent indicated they would have to sacrifice other expenses to cope with food and energy inflation. The war in Ukraine and further disruptions to the global supply chains will continue to affect the economies of host countries for Romanian migrants, reducing remittances. Thus, despite economic and employment recovery, poverty is expected to have declined only modestly to 11.7 percent in 2022 and remains above the pre-crisis level.

Outlook

The economy is projected to expand by 4.6 percent in 2022, with projections subject to a high degree of uncertainty. A global slowdown and a possible recession in the main trading partners could impact Romania's growth in 2023. Growth prospects hinge on several factors, including the new COVID-19 flare-ups, the dynamics of inflation, especially related to energy and food prices, and the severity of the conflict in the region and its impact on the European economy in which Romania is strongly integrated. Romania's capacity to absorb the EU funds will be critical to a sustainable, green, and inclusive recovery process. The sizable investment and reforms under the Resilience and Recovery Facility, the multiannual financial framework 2021-2027, and other EU-funded programs should partially mitigate the impact of higher interest rates and uncertainty on private investment. The sizable funds should also alleviate some of the fiscal pressures resulting from the war and heightened energy and food prices. Over the medium term, fiscal deficits will remain elevated. The fiscal consolidation efforts remain critical and should address the large structural deficit, which requires reforms to strengthen revenue mobilization and increase spending efficiency.

Poverty is projected to decline to the pre-crisis level by 2024. However, rising food and energy prices and declining remittance incomes could mean a longer recovery process for vulnerable population segments in the coming years. A protracted war in Ukraine may significantly weaken growth and lead to an increase in poverty in the short run.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.2	-3.7	5.9	4.6	3.2	3.9
Private Consumption	3.9	-5.1	7.9	7.6	5.8	6.9
Government Consumption	7.3	1.8	0.4	1.1	0.9	0.8
Gross Fixed Capital Investment	12.9	4.1	2.3	3.9	6.9	7.0
Exports, Goods and Services	5.4	-9.4	12.5	6.5	6.7	7.1
Imports, Goods and Services	8.6	-5.2	14.6	9.8	10.0	10.3
Real GDP growth, at constant factor prices	4.0	-3.5	5.6	4.6	3.2	3.9
Agriculture	-5.0	-14.9	13.5	-7.5	6.0	2.1
Industry	-0.1	-2.2	3.7	0.8	1.3	3.4
Services	7.1	-3.2	6.1	7.4	3.9	4.2
Inflation (Consumer Price Index)	3.8	2.6	5.1	13.3	9.7	4.8
Current Account Balance (% of GDP)	-4.9	-5.0	-7.0	-9.2	-7.9	-6.8
Net Foreign Direct Investment Inflow (% of GDP)	2.3	1.4	3.0	3.6	3.7	3.7
Fiscal Balance (% of GDP)	-4.3	-9.3	-7.1	-6.6	-5.6	-4.7
Debt (% of GDP)	35.3	47.2	48.8	51.2	52.5	53.3
Primary Balance (% of GDP)	-3.2	-7.9	-5.6	-4.9	-4.0	-3.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.5	2.9	2.7	2.6	2.5	2.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	5.1	5.7	5.5	5.3	5.1	4.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	11.3	12.7	12.1	11.7	11.3	10.8
GHG emissions growth (mtCO2e)	-1.9	-10.4	2.2	2.6	2.4	2.3
Energy related GHG emissions (% of total)	91.9	92.1	92.2	92.6	92.9	93.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on ECAPOV harmonization, using 2009-EU-SILC and 2019-EU-SILC. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection based on elasticities calibrated on 2009-2019 growth periods and rapid assessment data, allowing for elasticities to vary between periods of contraction, recovery and expansion.

RUSSIAN FEDERATION

Table 1	2021
Population, million	144.1
Upper middle-income poverty rate ($6.85)[a]	4.1
Gini index[b]	36.0
School enrollment, primary (% gross)[c]	104.2
Life expectancy at birth, years[c]	71.3

Sources: WDI, MPO, Rosstat.
a/ Most recent value (2020), 2017 PPPs.
b/ Most recent value (2020).
c/ WDI for School enrollment (2019); Life expectancy (2020).

Russia's economy will contract by 4.5 percent in 2022, less than initially expected thanks to the strong fiscal response and the surge in energy prices which helped increase fiscal revenues. The economy has experienced a sharp drop in imports, and a fall in real incomes. The recession will continue in 2023 due to the sanctions and reduced fiscal expansion. Thereafter the economy is expected to stabilize. However, medium to long-term growth is expected to be very low as Russia has lost access to key sources of productivity.

Key conditions and challenges

The sanctions imposed on Russia following its war in Ukraine are having significant adverse economic impacts, albeit less severe in the short term than first expected. The initial shock was mitigated by the authorities' strong fiscal response (3 percent of GDP), capital controls, monetary tightening, swift action to stem financial sector risks, as well as high FX inflows driven by the surge in global commodity prices. The combination of smaller accessible international reserves (as half of Russia's US$630bn international reserves were frozen because of sanctions), the suspension of its fiscal rule, and the reduction in domestic non-oil/gas revenues, all imply that Russia is now more exposed if fossil fuel prices and/or volumes fall as the global economy cools down. Moreover, the sanctions have led to a dramatic drop in total imports, restricting access to new technologies and equipment, and external financing, and thereby dampening medium- to long-term growth prospects.

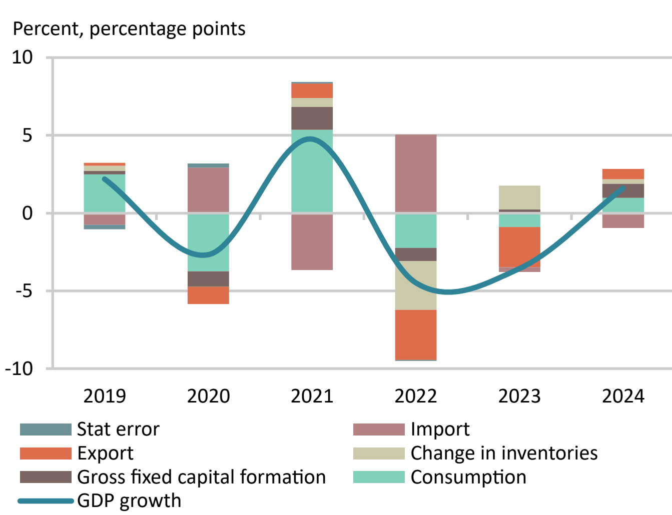
Recent developments

Following the Russian invasion of Ukraine, GDP dropped by 4.1 percent (yoy) in Q2, as the shocks to confidence, transaction systems, and supply chains led to a collapse in domestic demand and export volumes. As the ruble depreciated sharply and inflation spiked, lower real wages contributed to a deep, sustained decline in retail sales volumes—a proxy for private consumption—which remains 9 percent lower by July (yoy). Investment is also estimated to have fallen, exacerbated by the departure of many foreign investors.

The drop in domestic demand would have been even greater had the government not mitigated the impact with a fiscal support package amounting to 3 percent of GDP, including boosting social benefits, providing subsidized loans and tax breaks, and raising minimum wages. The increase in expenditures was financed by oil/gas revenues (25.1 percent up in real terms January–August, yoy), and a reduction in the federal budget surplus to US$1.9 billion from US$14.5 billion over the same period. This has exacerbated the vulnerability of Russia's public finances to a drop in global energy prices and/or volumes—as non-oil/gas revenues dropped by 14.7 percent in real terms yoy and the federal non-oil deficit grew to US$106.9 billion from US$59.2 billion last year.

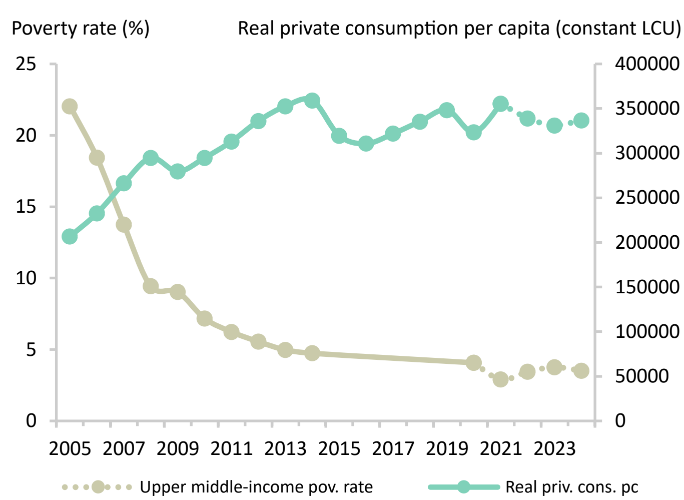
After an initial spike to 17.8 percent yoy in May, the rebound in the ruble and falling domestic demand led to a gradual but steady consumer price deflation to 14.3 percent yoy by August. With price pressure easing, the central bank more than unwound the monetary tightening (to 20 percent) it introduced in February, cutting the policy rate to 7.5 percent by mid-September.

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



Sources: Rosstat and World Bank.

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



Source: World Bank. Notes: see Table 2.

The current account surplus reached US$183 billion over January to August 2022, triple its level the year before, as surging commodity prices and lower imports more than compensated for a fall in export volumes and discounts on Russian oil. Imports from some countries including Turkiye and India grew but did not offset the sharp drop in imports from sanctioning countries, resulting in an overall contraction of 22 percent in Q2, yoy. Oil export volumes fell slightly (by 0.4 mb/d in August - IEA) as exports to China, India, and Turkiye largely offset reductions to sanctioning countries. Gas export volumes to the EU, China, and Turkey fell 37 percent amidst Russia's unilateral changes in contract terms and pipeline shutdowns. The surplus was matched by substantial capital outflows by non-residents (US$62bn) and residents (US$68bn, which may include sales of official reserves), which have been registered as large financial inflows in several countries in the neighboring region.

Since a brief crash in February, the ruble more than recovered because of capital controls and current account strength and has been stable since. Russia's international reserves have fallen about 10 percent (US$65bn) since the start of the war.

Official unemployment is near record lows at 3.9 percent (sa) and employment increased by 0.4 percent (yoy) but real wages have weakened by 3.2 percent to June (yoy), possibly reflecting increasing labor demand to substitute for lost capital and technology. The official poverty rate was 13.0 percent in H1 2022, similar to its level in the same period in previous years.

Outlook

The outlook is developed under assumptions that the war and sanctions will continue as in recent months. GDP is expected to decrease by 4.5 percent in 2022 and by a further 3.6 percent in 2023, as the economy continues to contract due to the impact of sanctions, including those coming into force at the end of this year (notably the EU partial oil ban and to a lesser extent the oil price cap). A declining economic base and higher expenditure are expected to turn the general government surplus into a 1.8 percent deficit in 2022. Consumption recovery will be weak this year as real wages remain subdued and further fiscal stimulus is limited as the authorities strive to limit the size of the deficit, including by increasing taxes. Looser monetary policy will have limited positive effect on credit growth as the banking sector faces large losses and uncertainty. The EU's ban on Russian oil will reduce exports in H2 2022 and 2023. Agriculture is expected to expand 1.8 percent in 2022, industrial production to contract by 2.2 percent, and services to contract the most deeply.

Moderate growth is expected in 2024 as the economy stabilizes from the sanctions shock and sees a gradual recovery in domestic demand and exports. Potential growth is expected to be very low—if not negative—as Russia has lost access to key sources of productivity, which will increasingly hamper economic growth and poverty reduction.

Consumer price inflation will rise to 13.9 percent over 2022 and remain above the Central Bank's target of 4 percent until 2024. Russia's banking system experienced a significant loss of 1.5 trillion rubles during H1 2022, 13 percent of its aggregate capital, which, while not jeopardizing banking sector solvency, may hamper its ability to support the economy.

Poverty is expected to increase to nearly 4 percent (UMIC poverty rate) in 2023, while meager growth in 2024 will preclude poverty reduction.

Russia is vulnerable to lower demand for, and prices of, energy and extractives commodities, which may manifest through weaker global growth. Additional risks arise from the partial mobilization announced in September, which could dampen domestic demand, and increase labor market and financial sector pressures.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.2	-2.7	4.8	-4.5	-3.6	1.6
Private Consumption	3.8	-7.3	9.5	-4.7	-2.4	1.6
Government Consumption	2.4	1.9	1.5	2.1	1.6	1.0
Gross Fixed Capital Investment	1.0	-4.6	6.9	-3.9	-5.6	3.2
Exports, Goods and Services	0.7	-4.1	3.5	-12.3	-9.1	1.6
Imports, Goods and Services	3.1	-11.9	16.9	-20.8	3.3	5.0
Real GDP growth, at constant factor prices	2.2	-2.4	4.6	-4.4	-3.6	1.6
Agriculture	3.5	0.2	-1.3	1.8	1.4	1.4
Industry	1.6	-2.3	4.9	-2.2	-3.1	1.3
Services	2.4	-2.7	4.9	-5.9	-4.2	1.7
Inflation (Consumer Price Index)	4.5	3.4	6.7	13.9	5.9	4.5
Fiscal Balance (% of GDP)[a]	1.9	-4.0	0.8	-1.8	-2.1	-3.1
Debt (% of GDP)	14.3	20.0	17.9	15.0	15.7	17.0
Primary Balance (% of GDP)[a]	2.7	-3.2	1.7	-0.8	-1.0	-2.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	0.0	4.1	2.9	3.5	3.8	3.5
GHG emissions growth (mtCO2e)	2.4	-4.1	0.8	-7.9	-3.2	0.6
Energy related GHG emissions (% of total)	91.6	91.5	90.6	91.2	90.2	89.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Fiscal and Primary Balance refer to general government balances.
b/ Calculations based on ECAPOV harmonization, using 2020-HBS. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
c/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on private consumption per capita in constant LCU.

SERBIA

Table 1	2021
Population, million	6.9
GDP, current US$ billion	63.0
GDP per capita, current US$	9180.9
Upper middle-income poverty rate ($6.85)[a]	12.1
Gini index[a]	34.5
School enrollment, primary (% gross)[b]	97.7
Life expectancy at birth, years[b]	74.2
Total GHG emissions (mtCO2e)	59.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2020).

The Serbian economy continued to grow in 2022 despite major challenges, domestic and from abroad. Poverty incidence declined to an estimated 10.5 percent. Growth is expected to decelerate in 2023 and the risks to the growth outlook are clearly tilted to the downside. Poverty reduction is expected to stagnate as well, as income gains are eroded by high inflation and rising food prices in particular.

Key conditions and challenges

After a strong recovery in 2021 several domestic and international factors caused an economic slowdown. Growth in 2022 is forecasted at 3.2 percent with risks tilted to the downside. The key challenge is the performance of the Serbian energy sector and availability of electricity and gas in the winter of 2022/23. Another challenge will be the availability of financing the fiscal deficit since interest rates increased significantly over recent months and subscription rates to auctions of T-bills remain low. Inflation is on the rise, eroding the incomes of the poor in particular.

Over the medium term, the Serbian economy is expected to slow down and return to the pre-pandemic growth levels only after 2024. However, Serbia still faces challenges that limit its potential growth both in the short and medium to long term. Most importantly, Serbia needs to further remove bottlenecks for private sector investment including toward greener growth. These include a deteriorating governance environment, a lack of infrastructure, and an unreformed education sector, which creates skills mismatches in the labor market. With limited space for future stimulus packages, structural reforms are needed to bring the economy back to sustained growth, boost jobs and incomes and strengthen resilience to shocks.

Recent developments

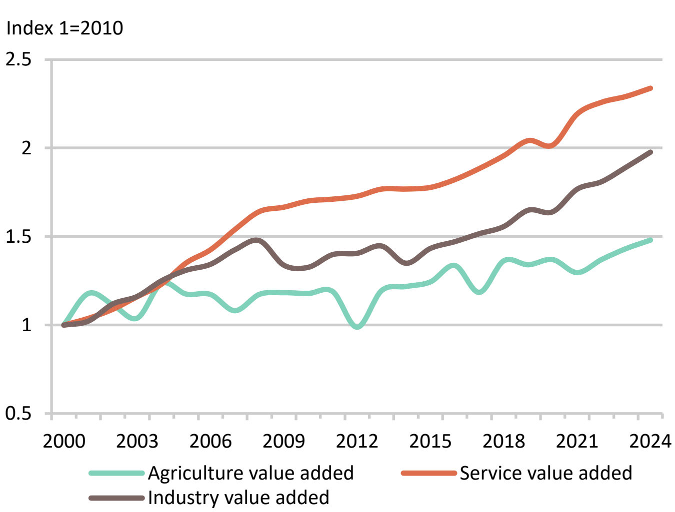
Solid GDP growth in Q1 and Q2 (4.3 and 3.9 percent, y/y) was driven by consumption and better-than-expected export performance. As a result, the employment rate increased and reached a record level of 50.9 percent, and unemployment declined, to 9.2 percent in Q2 2022. Wages increased by 13.5 percent in nominal terms in the first half of the year compared to the same period of 2021.

Poverty (defined as income under $6.85/day in 2017 PPP) is estimated to have declined slightly from 12.2 percent in 2020 to 10.5 percent in 2021. Wage subsidies and cash transfers to citizens helped to avert a spike in poverty in 2020. In 2021, poverty reduction resumed due to strong economic growth and improving labor market conditions, though it was partly countered by an output decline in agriculture, rising inflation at the end of the year, and the phasing out of government support programs.

Inflation has increased despite the introduction of price controls related to food and energy. It reached 12.8 percent in July 2022. In the same month, food prices were 20.3 percent higher than a year earlier. Rents for housing increased at a similar level (20.5 percent). Over the summer months, the government decided to increase the prices of electricity and gas which will push inflation even higher and increase the costs of living.

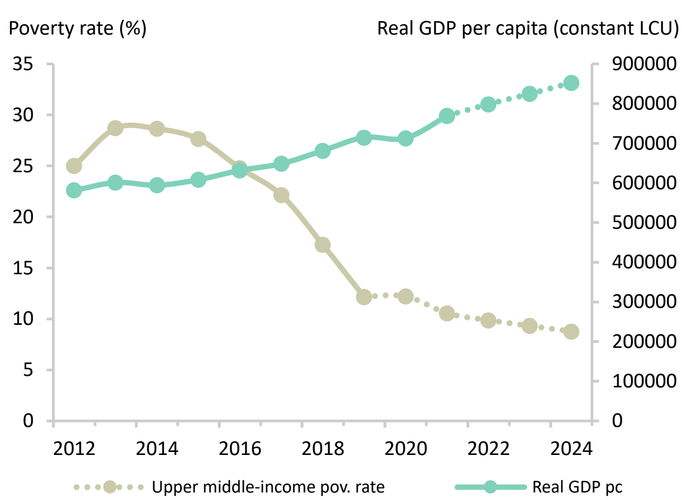
Budgetary revenues overperformed in 2022 thanks to higher than planned

FIGURE 1 Serbia / Value added by sector



Source: World Bank staff calculations.

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



Source: World Bank. Note: see Table 2.

collection of VAT and CIT. In the first half of the year, total revenues were higher by 15.2 compared to the same period of 2021. Over the same period, expenditures increased by 13 percent. As a result, the consolidated fiscal deficit decreased significantly in 2022 reaching an estimated 0.2 percent of GDP in the first half of the year. Public debt remained broadly stable throughout 2022 and stood at around 57 percent of GDP.

The current account deficit (CAD) is widening in 2022 (increase by 370 percent in the first half of 2022 compared to the same period of 2021). The CAD reached EUR 2.7 billion in the first half of 2022 compared to EUR 0.6 billion in the same period of 2021 (or 4.4 percent of GDP in H1 2022 compared to 1.1 percent of GDP in H1 2021).This deterioration, by and large, was driven by a major increase in energy imports (of EUR 2.2 billion).

Outlook

The Serbian economy was expected to continue to grow at around 4-4.5 percent annually before the war in Ukraine and increases in international prices started. The growth was expected to be underpinned by broad-based growth in consumption, investment, and trade. However, the war in Ukraine, increase in international commodity prices, drought, and breakdowns in operations of EPS thermal power plants in 2021/2022 have brought projected growth downwards. Growth for 2022 is now expected to reach 3.2 percent, still driven primarily by consumption. Further downward revisions are possible depending on the performance of the energy sector and the impact of the poor agriculture season.

Over the medium term, the economy is expected to grow steadily at around 3 percent annually, supported by consumption and investment. Foreign direct investment is expected to continue playing a key financing role as Serbia continues to integrate into EU-centric manufacturing value chains. Inflation is expected to decline gradually as commodity prices normalize. The banking sector is expected to remain resilient, although NPLs (at 3.3 percent in June 2022) may face upward pressure if downside risks materialize.

Poverty reduction is expected to gradually decline or stagnate in 2022. The war in Ukraine continues to pose a significant downside risk for household welfare in Serbia. While Serbia's economy is expected to continue to grow, contributing to income growth for households, rising inflation will limit purchasing power. Particularly, rising energy prices would disproportionately affect the poor. Poverty in 2022 is projected at 9.9 percent, slightly lower than its 2021 level, though it could be revised upward depending on the length and severity of the war's economic impacts. The pace of labor market recovery remains critical for resumed poverty reduction.

The outlook also crucially depends on the domestic reform agenda and its implementation. In particular, the ongoing crisis in the domestic energy sector serves to highlight the importance of effective oversight and management of state-owned enterprises, as well as the risks to public finances associated with contingent liabilities.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.3	-0.9	7.4	3.2	2.7	2.8
Private Consumption	3.7	-1.9	7.6	4.6	4.1	3.7
Government Consumption	2.0	2.9	2.6	3.8	4.5	2.7
Gross Fixed Capital Investment	17.2	-1.9	12.5	5.0	2.8	4.4
Exports, Goods and Services	7.7	-4.2	19.4	8.0	5.0	5.0
Imports, Goods and Services	10.7	-3.6	19.3	9.0	6.2	5.8
Real GDP growth, at constant factor prices	4.4	-0.8	7.3	3.2	2.7	2.8
Agriculture	-1.7	2.2	-5.4	-5.5	4.5	3.4
Industry	5.9	-0.6	7.8	1.0	4.5	4.5
Services	4.4	-1.2	8.7	5.3	1.6	1.9
Inflation (Consumer Price Index)	1.9	1.6	4.0	11.5	9.2	3.7
Current Account Balance (% of GDP)	-6.9	-4.1	-4.4	-10.2	-9.4	-8.0
Net Foreign Direct Investment Inflow (% of GDP)	7.7	6.3	6.8	6.0	5.8	5.7
Fiscal Balance (% of GDP)	-0.2	-8.0	-4.1	-4.0	-2.7	-1.7
Debt (% of GDP)	52.8	57.8	57.2	58.1	58.2	56.5
Primary Balance (% of GDP)	1.8	-6.0	-2.4	-2.3	-0.7	0.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	12.1	12.2	10.5	9.9	9.3	8.8
GHG emissions growth (mtCO2e)	0.6	-3.3	0.0	-0.5	3.1	2.7
Energy related GHG emissions (% of total)	74.1	73.5	73.4	73.4	74.1	74.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on ECAPOV harmonization, using 2014-EU-SILC and 2019-EU-SILC. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2014-2019) with pass-through = 0.6 based on GDP per capita in constant LCU.

TAJIKISTAN

Table 1	2021
Population, million	9.8
GDP, current US$ billion	8.7
GDP per capita, current US$	897.1
International poverty rate ($2.15)[a]	6.1
Lower middle-income poverty rate ($3.65)[a]	25.7
Upper middle-income poverty rate ($6.85)[a]	66.4
Gini index[a]	34.0
School enrollment, primary (% gross)[b]	100.9
Life expectancy at birth, years[b]	71.3
Total GHG emissions (mtCO2e)	19.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2017 PPPs.
b/ Most recent WDI value (2020).

Contrary to earlier expectations, the economy grew by 7.4 percent year-on-year (y/y) in the first half of 2022, despite the war in Ukraine. Full-year GDP growth is expected at 4.2 percent. This is expected to result in a reduction in poverty. Medium-term growth prospects will remain muted unless the government adopts substantive structural reforms.

Key conditions and challenges

Over the last decade (2011–21), Tajikistan experienced strong economic performance, with a growth rate averaging above 7 percent. Growth has translated into improved living standards, with the poverty rate falling from 32 percent in 2009 to an estimated 14.6 percent in 2021 (at the international poverty line of $3.65 a day; 2017 PPP). Yet, Tajikistan remains the poorest economy in the ECA region, with a GNI per capita of US$1,150 (Atlas method) in 2021.

With its young and fast-growing population, Tajikistan has enormous economic potential. To unlock key constraints, the government needs to expedite structural reforms to strengthen the rule of law, increase public sector efficiency and transparency, and promote private sector development through a better investment climate, trade connectivity, access to finance, and competition framework, especially in the telecom, aviation, and energy sectors. It will also be critical to enhance environmental resilience and ensure sufficient investment into human capital and better protection for poor households.

Recent developments

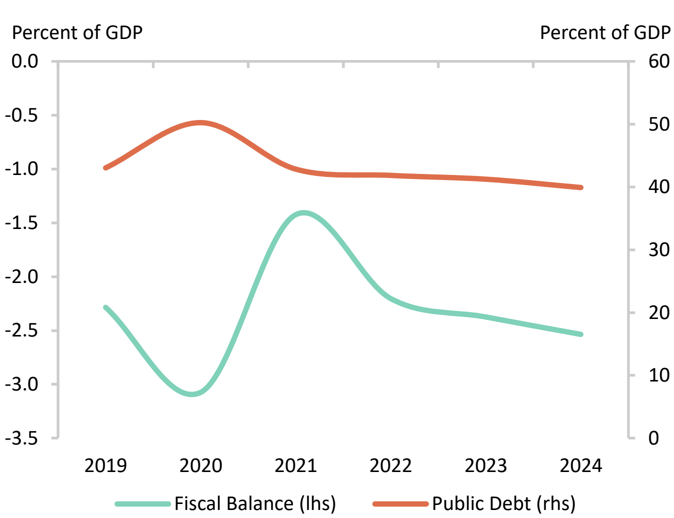
Tajikistan's economy grew 7.4 percent year-on-year (y/y) in the first half (H1) of 2022, led by strong household consumption and private investment, whereas exports remained flat. Strong remittance inflows proved to be the main driver of robust domestic demand as a result of the increase in the number of labor migrants and a favorable exchange rate (as the appreciation of the Russian Ruble increased the value of remittances). Led by services and industry, the economy reported a broad-based expansion of output across sectors.

The trade deficit widened to 26.7 percent of GDP in H1 this year compared with 17.6 percent a year earlier. Strong demand for consumption and investment goods drove imports. In contrast, global price surges for minerals and strengthening Russian demand for agricultural products offset the 40 percent decline in export of precious metals (following substantial inventory sales over the past two years). Foreign private investment was about 25 percent higher y/y, albeit from a low base in 2021. External buffers remain adequate at about 8 months of import cover as of June 2022.

The sale of food reserves, the postponement of increases in utility tariffs, and the limited depreciation of the somoni contained headline inflation at 8.3 percent y/y ending in June. The somoni broadly followed the path of the ruble – i.e., initially depreciating at the onset of the war in Ukraine and later re-gaining value against major currencies.

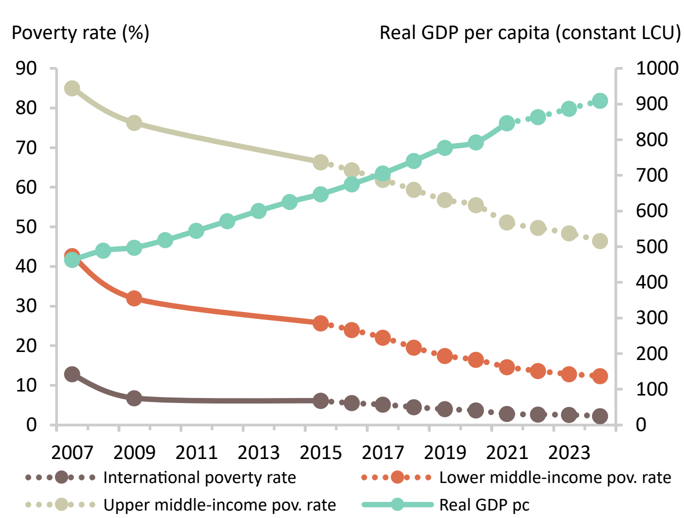
The authorities balanced the government budget in the first half of the year. Vigorous domestic activity and import expansion led tax and non-tax receipts to exceed targets. The share of social sectors

FIGURE 1 Tajikistan / Fiscal balance and public debt



Source: World Bank staff estimates and projections.

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



Source: World Bank staff estimates.

(education, healthcare, and social protection) in total budgetary spending remained at 40 percent. Aided by development partners, the authorities plan to increase social allocations sustainably to assist vulnerable households. In line with the long-term development strategy, public investment was focused on energy and transport. At about 40 percent of GDP, and in light of its low export earnings, Tajikistan's risk of external and overall public debt distress remains high.

The liquidation of problem banks, Tajiksodirotbank and Agroinvestbank, has improved the banking sector indicators. By June 2022, the share of non-performing loans in total loans declined from 13.4 percent to 11.4 percent a year ago, and the ratio of capital to risk-weighted assets, at 25.1 percent, was more than double the minimum requirement of 12 percent. During the first 7 months of 2022, household wages and self-employment income declined, with the share of households receiving income declining from about 14 to 10 percent and those receiving self-employment and agricultural income declining from 12 to 7 percent, respectively. However, this decline in income was mitigated by resilient remittances. After a slight decline in March, the share of households receiving remittance income rebounded sharply and stood at 16 percent by July. In July, the share of respondents to the "Listening-to-Tajikistan" (L2T) survey who self-classified themselves as "poor" stood at around 42 percent (up from 39 percent in June), and the share of respondents assessing local economic conditions as "good" stood at 82 percent (nearly unchanged over the same period in 2021). Although L2T reported an overall improvement in food security in H1 2022, most food insecurity (going a whole day without eating; being hungry but not eating; running out of food; and eating less) remained concentrated among low-income respondents.

Outlook

Economic performance is expected to be stronger than initially anticipated in 2022. Full-year GDP growth is expected to be 4.2 percent. Inflation is expected to remain in single digit for the year as a whole.

The 2022 fiscal deficit is expected at 2.2 percent of GDP, subject to lower remittances, weaker growth, and a ramp-up in countercyclical expenditures in the year's second half. To ensure the sustainability of public finances, the authorities plan to keep the medium-term fiscal deficit at around 2.5 percent of GDP.

External and domestic risks weigh on the economic growth prospects. Geopolitical risks are elevated due to the ongoing war in Ukraine, the unresolved border dispute with the Kyrgyz Republic, and the uncertain political situation in neighboring Afghanistan. While intensifying sanctions on Russia could hamper inward remittances, on the positive side Tajikistan may be able to further increase the export of agricultural products to Russia, and textiles, precious metals, and minerals to other countries.

Domestic risks primarily relate to political challenges in advancing private sector reforms, promoting public sector transparency and accountability, and addressing vulnerabilities in the social and environmental sectors.

Poverty is expected to fall from an estimated 14.6 percent in 2021 to 13.6 percent in 2022.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	7.4	4.4	9.2	4.2	4.8	4.5
Private Consumption	5.0	3.4	8.0	3.6	6.1	5.6
Government Consumption	0.7	2.3	7.1	2.0	3.3	4.4
Gross Fixed Capital Investment	8.9	-4.6	15.0	9.6	5.7	8.3
Exports, Goods and Services	21.5	21.8	35.0	-17.5	4.8	3.5
Imports, Goods and Services	6.4	-0.4	25.0	-9.0	6.0	4.5
Real GDP growth, at constant factor prices	8.7	4.3	9.0	4.2	4.8	4.5
Agriculture	7.1	8.8	6.6	3.5	3.0	3.0
Industry	13.6	9.7	22.0	4.5	4.0	4.0
Services	4.9	-4.0	-5.2	4.2	7.4	6.3
Inflation (Consumer Price Index)	8.0	8.6	9.0	8.5	8.2	7.8
Current Account Balance (% of GDP)	-2.2	4.3	8.4	4.2	3.9	3.2
Net Foreign Direct Investment Inflow (% of GDP)	-2.3	-0.4	-0.4	-1.0	-1.7	-2.3
Fiscal Balance (% of GDP)	-2.3	-3.1	-1.4	-2.2	-2.3	-2.4
Debt (% of GDP)	43.1	50.3	42.9	41.9	41.3	39.9
Primary Balance (% of GDP)	-1.4	-2.3	-0.5	-1.0	-1.1	-1.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	4.0	3.7	2.8	2.7	2.5	2.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	17.5	16.4	14.6	13.6	12.8	12.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	56.8	55.5	51.1	49.8	48.4	46.5
GHG emissions growth (mtCO2e)	5.3	2.4	10.8	6.6	6.8	6.9
Energy related GHG emissions (% of total)	44.2	44.9	47.0	48.3	49.8	51.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on ECAPOV harmonization, using 2015-HSITAFIEN. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2015) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

TÜRKIYE

Table 1	2021
Population, million	84.1
GDP, current US$ billion	814.5
GDP per capita, current US$	9679.1
International poverty rate ($2.15)[a]	0.4
Lower middle-income poverty rate ($3.65)[a]	2.2
Upper middle-income poverty rate ($6.85)[a]	12.6
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	97.1
Life expectancy at birth, years[b]	77.9
Total GHG emissions (mtCO2e)	499.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2020).

Robust economic activity in the first half of 2022 was driven by strong private-sector and export performance and loose monetary policy despite soaring inflation, a weakening currency, and a widening current account deficit. GDP growth is expected to moderate to 4.7 percent in 2022, with a risk investor confidence may falter, intensifying pressure on the Lira and corporate and bank balance sheets. Despite a strong jobs recovery, post-Covid poverty rates are receding slowly as lower-income households' budgets are hit by rising energy and food prices.

Key conditions and challenges

The authorities continue to loosen monetary policy to stimulate the economy, cutting interest rates six times since September 2021, while intervening in currency markets and introducing regulatory measures to tackle macroeconomic instability. While the economy grew 7.5 percent yoy in real terms in 2022H1, inflation climbed to a 24-year high, the lira depreciated further, the current account deficit widened, banks' capital buffers declined, and realized and contingent fiscal liabilities are mounting from policy measures seeking to dampen the impact of macroeconomic developments on firms and households. The impact of the Russia-Ukraine war has been modest and largely felt through higher food and energy import costs that added inflationary pressure and widened the current account deficit, while financial inflows from Russia have reportedly increased.

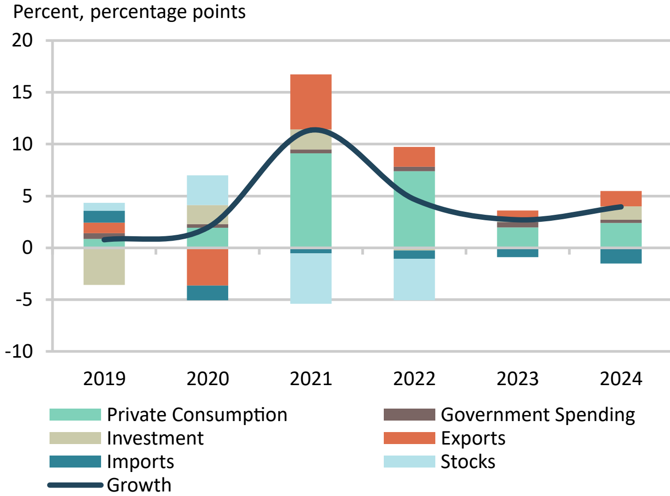
Recent developments

Stronger than anticipated private consumption drove rapid growth in the first half of the year as rising inflation expectations fueled purchases of durables despite inflation eroding real incomes. Merchandise export growth and tourism revenues remained robust, supported by a weaker currency and resilient external demand. The services sector led production side contributions to GDP growth. Although real interest rates remain deeply negative, private investment growth slowed due to price and exchange rate uncertainty and a deteriorating outlook. The manufacturing PMI has remained below the 50.0 threshold since March, and economic confidence has deteriorated in the manufacturing, service, and retail sectors. Despite annual CPI inflation rising for the 15th consecutive month to 80.2 percent in August, with food and non-alcoholic beverage prices rising even faster at 90.3 percent, the central bank lowered the benchmark interest rate to 13 percent in August and 12 percent in September after keeping it at 14 percent since December. According to the September Survey of Market Participants, expected CPI in 12 and 24 months' time remains high at 36.7 and 21.2 percent, respectively.

External pressures are mounting and external buffers remain low. The lira lost a third of its value this year after a sharp decline in 2021, and the nominal current account deficit was 13 times higher in July 2022 than in July 2021 on the back of high energy prices, putting further pressure on the currency. Gross foreign exchange reserves remain low at US$113.7 billion (about 4 months of import coverage) in early September and net reserves excluding swaps between the central bank and other banks remain deeply negative. Credit risk premia, reflected in CDS spreads, surged to a 19-year high in July.

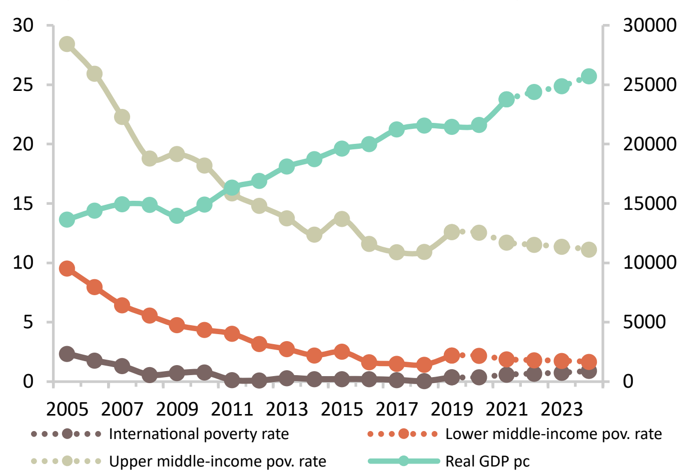
Deteriorating conditions have elevated corporate and financial sector vulnerabilities. While financial regulatory measures helped

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



Sources: Turkstat and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

curb credit growth, and real credit growth is negative, nominal credit growth remains high at 70.2 percent yoy in August. High market risk premia are keeping consumer and commercial lending rates elevated, but measures introduced to penalize banks that lend at high rates brought down commercial lending rates to 21.0 percent (weighted average) by early September. High-interest margins and required holdings of inflation-indexed government securities supported commercial bank profits, which grew over 500 percent yoy in August. However, official numbers show a gradual erosion of banks' capital buffers to 18 percent in July, especially at state banks (16.1 percent in July), despite forbearance measures introduced during the Covid pandemic, due to FX depreciation. Banks increased holdings of government securities to comply with recent regulatory requirements, which, in addition to reserve holdings and currency swaps with the central bank, raise spillover risks between the financial and fiscal sectors. Corporations have deleveraged, but the magnitude of currency depreciation puts pressure on their balance sheets.

Labor market recovery continued into 2022. Employment increased by 1.5 million (or 5.2 percent) between July 2021 and July 2022, with female and youth (ages 15-24) employment expanding faster than average. The labor force participation rate recorded its highest level in nearly three years, reaching 53.1 percent in July. The gross wages/salaries index for formal employees in the industry, construction, trade and service sectors increased in line with CPI inflation in 2022Q2.

Exchange rate depreciation and policies to mitigate the impact of inflation—including public wage increases, VAT cuts on food and energy, and a deposit scheme that compensates holders for lira depreciation—have cost the government significant fiscal resources. However, the central government fiscal deficit narrowed to 1.6 percent of GDP in 2022H1 as high inflation boosted nominal government revenues. Although debt levels remain moderate, the share of FX-denominated central government debt has risen to 68 percent, increasing vulnerability to FX shocks.

Outlook

After expanding 11.4 percent in 2021, the economy is expected to grow 4.7 percent in 2022 and 2.7 percent in 2023. Economic activity is expected to weaken in the second half of 2022 as macroeconomic volatility intensifies, inflation erodes the purchasing power of households that can no longer frontload consumption, and external demand weakens, at the same time as government policies to stimulate the economy ahead of the June 2023 elections continue.

Despite the labor market and economic recovery in 2021, the poverty rate is projected to remain above pre-2019 levels due to persistently high inflation. Inflation affects the lowest income households the most as they spend a higher share of income on items like food that face higher than average inflation. Projections using an updated upper-middle-income country poverty line of $6.85 per person per day (2017 PPP terms) estimate the poverty rate falling from 11.7 percent in 2021 to 11.4 percent in 2022 and 11.1 percent by 2024.

External risks remain elevated given the growing current account deficit, high FX-share of public debt, low FX reserves, high external financing requirements, and continued loosening amid tightening global liquidity. There is a risk investor confidence may falter, intensifying pressure on the Lira, external balances, and corporate and bank balance sheets. Any additional monetary policy loosening could exacerbate external and domestic imbalances and financial stability concerns. Uncertainty around the duration of the Russia-Ukraine war, the Covid pandemic, and the path of rising interest rates in advanced economies further clouds the outlook.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	0.8	1.9	11.4	4.7	2.7	4.0
Private Consumption	1.5	3.3	15.3	12.0	3.0	3.6
Government Consumption	3.8	2.5	2.6	3.2	4.0	2.4
Gross Fixed Capital Investment	-12.5	7.4	7.4	-1.0	1.0	5.5
Exports, Goods and Services	4.2	-14.4	24.9	8.0	3.5	6.0
Imports, Goods and Services	-5.0	6.7	2.4	4.0	4.5	7.5
Real GDP growth, at constant factor prices	0.9	1.2	11.9	4.7	2.7	4.0
Agriculture	3.3	5.7	-2.9	0.5	1.0	1.5
Industry	-3.0	1.1	13.0	3.5	2.5	4.5
Services	2.5	0.8	13.1	5.7	3.0	4.0
Inflation (Consumer Price Index)	15.2	12.3	19.6	75.0	45.0	32.0
Current Account Balance (% of GDP)	0.7	-4.9	-1.7	-6.3	-4.9	-3.7
Net Foreign Direct Investment Inflow (% of GDP)	0.9	0.6	0.9	0.7	0.7	1.0
Fiscal Balance (% of GDP)	-3.0	-3.9	-2.6	-3.8	-4.4	-3.0
Debt (% of GDP)	32.6	39.7	41.8	36.8	36.1	35.2
Primary Balance (% of GDP)	-0.5	-1.1	0.0	-0.9	-0.5	0.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.4	0.4	0.6	0.7	0.8	0.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	2.2	2.2	1.9	1.8	1.7	1.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	12.6	12.5	11.7	11.5	11.4	11.1
GHG emissions growth (mtCO2e)	-2.3	-0.8	9.4	2.6	-0.5	1.5
Energy related GHG emissions (% of total)	80.5	79.4	80.0	79.6	79.1	78.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on ECAPOV harmonization, using 2011-HICES and 2019-HICES. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2011-2019) with pass-through = 1 based on GDP per capita in constant LCU.

UKRAINE

Table 1	2021
GDP, current US$ billion	201.9
Upper middle-income poverty rate ($6.85)[a]	7.1
Gini index[a]	25.6
School enrollment, primary (% gross)[b]	99.0
Life expectancy at birth, years[b]	71.2
Total GHG emissions (mtCO2e)	192.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2017 PPPs.
b/ WDI for School enrollment (2014); Life expectancy (2020).

The ongoing Russian invasion in Ukraine continues to inflict substantial economic and social losses due to extensive damages to productive assets and infrastructure, limited market access, and labor force dislocations. Since April, economic activity has started to gradually improve. Nevertheless, in the baseline scenario, Ukraine's GDP is expected to contract by 35 percent in 2022 if the status quo continues until the end of the year without additional economic shocks.

Key conditions and challenges

After Ukraine regained control of Kyivska oblast in April, the active combat is localized mainly in the southern and eastern parts. The war, however, still affects about 20 percent of Ukraine's territory. As of August, the government lost control over two oblasts (2.5 percent share in GDP), while active fighting continued within three other oblasts (15 percent in GDP). 7mn people have become refugees, and another 7mn displaced internally.

With the war continuing, Ukraine is facing three key macro-critical challenges: high fiscal financing needs amidst the inability to mobilize domestic revenues and increasing reliance on monetary financing; deteriorating asset quality in the financial sector; and a weaker external position.

Despite significant efforts to reduce fiscal needs, their size remains large over the medium term. Expenditures have been trimmed to the level of critical public services. Ukraine reached an agreement with external creditors (commercial and majority of bilateral) for a debt payments deferral for two years. However, fiscal financing needs – consisting of the deficit (excluding grants) and debt repayments - are expected to grow from US$4bn per month in 1H22 to US$4.5bn per month in 2H22 (US$2bn excluding military expenditures). In addition, the government could also face the costs of gas purchases by Naftogaz for the heating season (US$2.2 bn) and the most critical reconstruction needs (US$3.4bn).

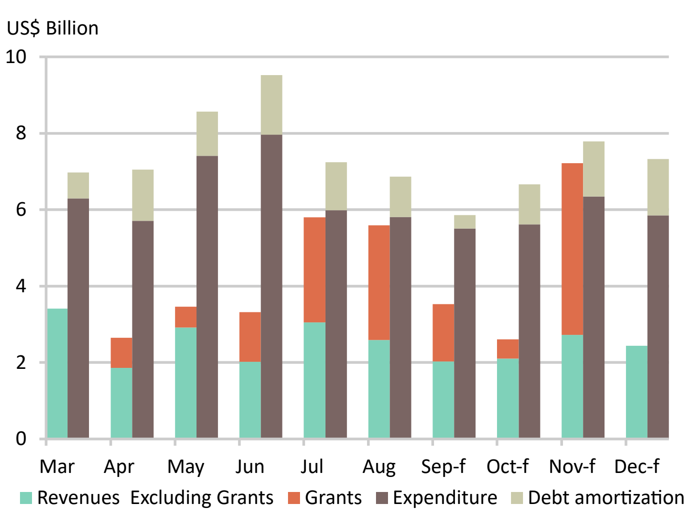
Over the medium run, prospects for attracting additional external funding are uncertain. Donors have committed US$16.7bn of support to Ukraine for 2H2022. These funds, if fully disbursed, are sufficient to cover non-military fiscal needs only, with other expenditures to be covered by monetization, which since the war started reached US$9.7bn in September. In case disbursements are delayed, Ukraine faces a trade-off between continuing monetization or cutting social expenditures further. Both scenarios have negative social impacts.

Recent developments

In Q2 2022, Ukraine's GDP shrank by 37.2 percent YoY, following an estimated 45 percent contraction in March. After the localization of the active combat in April, economic activity has shown signs of improvement, even though it remains much below the prewar level. Consumer price inflation has accelerated rapidly, reaching 23.8 percent YoY in August, with high food price inflation hurting families, particularly the poor.

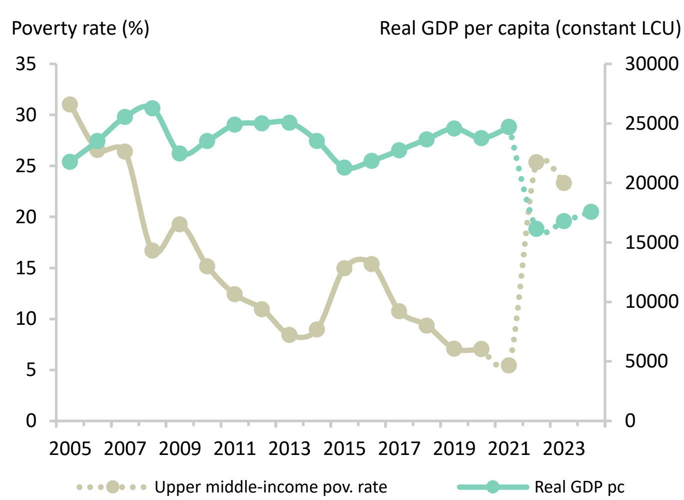
The government has continued providing essential public and social services amidst a significant drop in revenues. Real tax revenues fell by 30 percent YoY during March-June. Although non-essential public spending has been reduced to the minimum, total expenditures have been growing sharply by about 40 percent per month

FIGURE 1 Ukraine / State budget general fund revenue, expenditure, and debt amortization in 2022



Sources: MoF and World Bank estimates. Note: f = forecast

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



Source: World Bank. Notes: see Table 2.

in real terms. The resulting fiscal deficit has been met by a combination of external funding and monetization.

The war generated immediate balance of payments pressures. Exports fell precipitously as the Black Sea ports have been completely closed until July. Despite resumption of agricultural exports via Black Sea ports under the UN-brokered deal, their capacity is rather limited, while imports have recovered fast starting in May. On the capital account, pressures have emerged from the withdrawal of foreign exchange by Ukrainian refugees. Since the beginning of the war, the NBU has spent around US$12bn on currency interventions. This has eroded international reserves, which declined to US$ 22.4bn at the end of July from a prewar level of US$ 29bn. In August reserves improved to US$25.4bn thanks to donor support.

As a result of the war, banks face heightened operational, liquidity, credit, profitability and solvency risks. The recent financial stability report issued by the NBU estimates at least 20 percent losses of the loan portfolio with significant impacts on banks' capital position. The war may also impact the solvency position of nonbanking financial institutions.

Outlook

Even though the active combat is currently localized, the duration of the war is uncertain, and downside risks are high. Our status quo scenario extrapolates estimated economic activity in 3Q22 into the medium term. Thus, assuming the military and economic situation does not change substantially, GDP is expected to contract 35 percent in 2022 with a gradual rebound of 3-4 percent in the medium term. This scenario does not include any potential upside effects of a large reconstruction activity as well as possible downside risks related to a deterioration of the security situation and/or energy shortage during the winter season. Inflation is expected to accelerate to 30 percent by the year-end, and real wages to drop by 10 percent YoY.

The current account is expected to turn negative in 2022 at 0.5 percent of GDP despite large grants accounted as a secondary income. Exports are estimated to decline around 30 percent YoY in 2022 in nominal terms and around 60 percent in real terms with tepid recovery in the medium term. Imports are to recover much faster than exports as restrictions on imports have been lifted since July, while there is a need to purchase gas and other energy resources. In this status quo scenario, the CAD will broaden gradually in the medium term due to an acceleration of imports and only a modest recovery of exports.

The poverty and social impacts of the war will be massive. Under the baseline scenario, the population share with income below the national poverty line may reach nearly 60 percent in 2022, up from 18 percent in 2021. Based on the global line of US$6.85 a day (2017PPP), poverty is projected to increase from 5.5 percent in 2021 to 25 percent in 2022, with high downside risks if the war and energy security situations worsen.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	3.2	-3.8	3.4	-35.0	3.3	4.1
Private Consumption	10.9	1.7	7.7	-28.0	10.0	10.0
Government Consumption	-13.6	-0.7	1.8	16.7	5.0	3.0
Gross Fixed Capital Investment	11.7	-21.3	7.6	-80.0	20.0	30.0
Exports, Goods and Services	7.3	-5.8	-10.4	-60.0	40.0	35.0
Imports, Goods and Services	5.7	-6.4	12.7	-40.0	34.0	28.5
Inflation (Consumer Price Index)	4.1	5.0	10.0	30.0	20.0	15.0
Current Account Balance (% of GDP)	-2.7	3.4	-1.1	-0.5	-4.3	-4.5
Fiscal Balance (% of GDP)[a]	-2.1	-5.6	-4.0	-22.8	-18.6	-11.5
Debt (% of GDP)	50.2	60.4	50.7	66.8		
Primary Balance (% of GDP)[a]	1.0	-2.7	-0.5	-19.9	-15.1	-10.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	7.1	7.1	5.5	25.4	23.3	
GHG emissions growth (mtCO2e)	-4.9	-10.2	-2.9	-35.1	-3.3	-1.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal Balance and Primary Balance are excluding grants in 2022-2024.
b/ Calculations based on ECAPOV harmonization, using 2020-HLCS.
c/ Projection using neutral distribution (2020) with pass-through = 1 (High (1)) for 2022 and 0.7 for 2023 based on GDP per capita in constant LCU. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.

UZBEKISTAN

Table 1	2021
Population, million	35.0
GDP, current US$ billion	69.2
GDP per capita, current US$	1980.2
School enrollment, primary (% gross)[a]	100.1
Life expectancy at birth, years[a]	71.8
Total GHG emissions (mtCO2e)	168.0

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

Despite the fallout from the war in Ukraine, Uzbekistan is expected to grow by 5.3 percent in 2022. Fiscal consolidation is continuing albeit on a more gradual trajectory given the need to cushion the impact of new shocks this year. The medium-term outlook remains positive provided that the ambitious ongoing economic reforms will continue to invigorate private sector-led growth.

Key conditions and challenges

Uzbekistan has pursued an ambitious initial set of trade and price liberalization reforms in recent years. However further reforms are needed to continue to spur productivity, private-sector-led growth, and job creation. The focus should shift to addressing weak factor markets, high trade and transit costs, dominant state-owned enterprises, the weak regulatory environment, and further strengthening market incentives and sustainability in agriculture and across the economy.

The government recognizes the need for a more inclusive transition. According to the new national poverty line, about 17 percent of the population was in poverty in 2021. The recent reform efforts to expand the coverage and strengthen the targeting of social assistance will be key to supporting those that may otherwise fall behind.

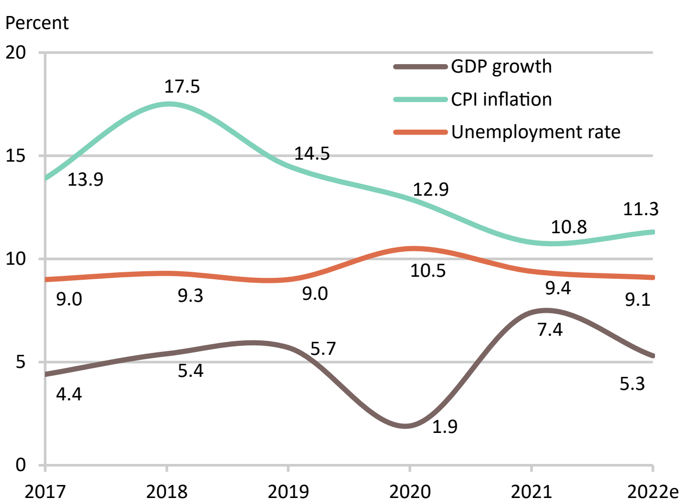
Recent developments

Despite the uncertain regional outlook, GDP grew by 5.4 percent in the first half (H1) of 2022, led by strong remittances, exports, and investments. Real wages increased by more than 6 percent yoy in the second quarter.On the supply side, stronger growth in construction and agriculture partly offset slower growth in industry and services. Investment (mostly in energy production, fertilizers, and infrastructure) grew by 9.4 percent. The value of exports (in US$) grew by 40.5 percent yoy, led by a more than doubling of gold exports. Non-gold exports were 22.5 percent higher, driven by natural gas, textiles, food, machinery, transport, and tourism. Imports expanded by 27.4 percent as prices of imported food and energy rose, as did domestic demand. Food exports were 41 percent higher, machinery and equipment 29 percent, and service imports 65 percent, yoy. Contrary to earlier expectations, remittance inflows doubled as a share of GDP in H1 to 16.7 percent, due to favorable exchange rate movements with the Russian Ruble, and more labor migrants going abroad, mostly to Russia. These drivers narrowed the current account deficit to just 1.4 percent of GDP in H1 2022, compared to 4.8 percent in H1 2021.

The fiscal deficit declined from 5 percent of GDP in H1 2021 to 4.2 percent in H1 2022, supported by higher revenues from gold exports. International reserves increased by $1.5 billion in the year to July to $35.6 billion and remain ample, equivalent to 11 months of imports.

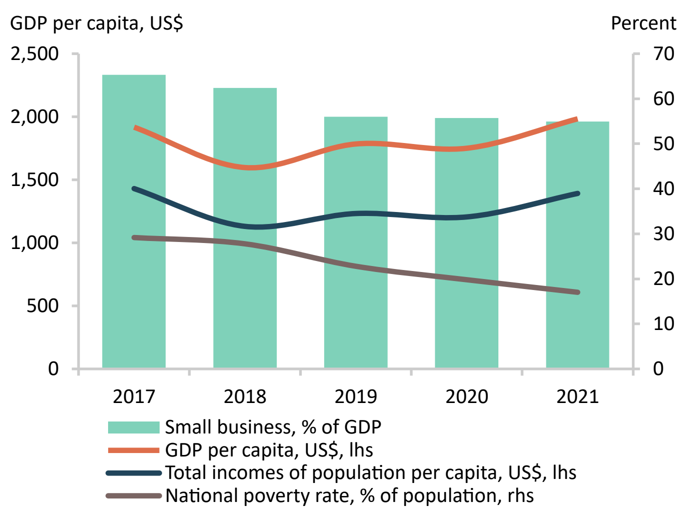
Higher costs of food, fuel, and logistics drove CPI inflation up to 12.3 percent in June 2022 (against 10.9 percent in June 2021). In March-May 2022 the Som depreciated by 7 percent against the US$. In response to exchange rate pressures and an uncertain inflation outlook, the Central Bank (CBU) initially hiked the policy rate by 300 bps to 17 percent. In June and July, the stabilization of the exchange rate, the

FIGURE 1 Uzbekistan / GDP growth, inflation, and unemployment



Source: Uzbekistan official statistics.

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



Source: Uzbekistan official statistics. Note: The national poverty line is more ambitious (67 percent higher) than LMIC poverty line.

recovery of foreign exchange inflows, and the growth of domestic deposits enabled the CBU to cut the policy rate to 15 percent. Decreasing capital buffers and more cautious lending policies of banks following the war in Ukraine slowed credit growth to 14 percent in end-June 2022 yoy from 23 percent the year earlier. Stricter capital adequacy regulations and increased loan loss provisions enacted in 2021, partly mitigated by stronger profits and recapitalization of a few state-owned banks, reduced the banking sector's total capital adequacy ratio (CAR) slightly, from 17.7 percent at the end-H1 2021 to 17.0 percent at the end-H1 2022, relative to a required CAR of 13 percent. While the banking system remains resilient overall, a few banks are in vulnerable positions, and several are in need of additional loan loss provisions for non-performing loans (NPLs). NPLs spiked from 2 percent in end-2020 to 6.2 percent in August 2021, but gradually decreased since then to 4.9 percent in H1 2022.

Higher remittances contributed to an expected decline in the poverty rate of 1.25 percentage points, to 15.7 percent in 2022. The unemployment rate fell to 8.8 percent in H1 2022, though still elevated among youth and women, and in lagging regions.

Outlook

Growth is expected to slow to 5.3 percent in 2022. Increased logistical challenges linked to sanctions on Russia are expected to dent private consumption growth. Private investment and exports are expected to grow strongly, and the current account balance improve, as Uzbekistan benefits from strong global commodity prices (gold, copper, natural gas) and increasing remittances. FDI is not expected to pick up in 2022, with the trade deficit financed largely by official borrowing.

Higher revenues from commodity exports and slower public investment spending will see the fiscal deficit decline from 6.2 percent of GDP in 2021 to 4.4 percent in 2022, nevertheless higher than the 2022 budget target of 3 percent due to higher social protection, health, education, and infrastructure spending. An anticipated fiscal consolidation by 2023 is now expected to be delayed as targeted social protection increases in response to pressure from rising food price priorities and the impacts of the war in Ukraine. Continued growth and expanded social protection programs are expected to sustain poverty reduction, with the national poverty rate projected to fall to 14.5 percent in 2023, and 12.2 percent in 2024.

Nonetheless, expenditure consolidation is expected to resume in future years, supported by both revenue mobilization and spending efficiency. The government is expected to continue adhering to its overall debt limits, with public debt and total external debt gradually falling to 32 and 55 percent of GDP, respectively, by end-2024.

The risks to the outlook are tilted to the downside, including a prolonged war and further sanctions on Russia, and tighter-than-expected global financial conditions. There is a risk from reform inertia in this more complex phase of economic reforms, that is compounded by the difficult international environment. Potential positive surprises include higher global gold, natural gas, and copper prices and stronger productivity growth arising from ongoing structural reforms.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.7	1.9	7.4	5.3	4.9	5.1
Private Consumption	5.3	0.1	11.6	4.8	4.6	5.3
Government Consumption	5.7	1.4	3.4	8.1	1.6	6.6
Gross Fixed Capital Investment	38.1	-4.4	5.2	9.4	9.0	9.2
Exports, Goods and Services	16.2	-20.0	12.7	18.6	16.1	14.8
Imports, Goods and Services	13.3	-15.0	23.1	18.3	15.6	16.2
Real GDP growth, at constant factor prices	5.7	1.9	7.4	5.3	4.9	5.1
Agriculture	3.1	2.9	4.0	3.7	3.6	3.9
Industry	8.3	2.5	7.9	3.8	4.8	5.1
Services	5.6	0.9	9.2	7.3	5.7	5.8
Inflation (Consumer Price Index)	14.5	12.9	10.8	11.3	10.9	9.6
Current Account Balance (% of GDP)	-5.8	-5.0	-7.0	-3.2	-3.9	-4.0
Net Foreign Direct Investment Inflow (% of GDP)	3.9	2.9	3.0	1.4	2.0	3.1
Fiscal Balance (% of GDP)	-3.9	-4.4	-6.2	-4.4	-3.5	-3.0
Debt (% of GDP)	29.7	37.6	35.8	34.4	33.4	32.1
Primary Balance (% of GDP)	-3.4	-3.3	-5.1	-3.4	-2.5	-2.0
National poverty rate[a,b]	22.8		17.0	15.7	14.5	13.4
GHG emissions growth (mtCO2e)	2.7	-6.2	-3.4	-1.1	-0.6	0.4
Energy related GHG emissions (% of total)	60.8	58.8	57.4	56.5	55.8	55.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on the Household Budget Survey of UzbeksitanActual data: 2018, 2019, 2021. Nowcast: 2022. Forecasts are from 2023 to 2024.
b/ Projection using point to point elasticity at regional level with pass-through = 0.87 based on GDP per capita in constant LCU.

Macro Poverty Outlook

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