Europe and Central Asia

Macro Poverty Outlook

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

Spring 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

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ALBANIA

Table 1	2021
Population, million	2.8
GDP, current US$ billion	17.2
GDP per capita, current US$	6089.5
Upper middle-income poverty rate ($5.5)[a]	32.4
Gini index[a]	36.0
School enrollment, primary (% gross)[b]	100.2
Life expectancy at birth, years[b]	78.6
Total GHG Emissions (mtCO2e)	9.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

A robust recovery took place in 2021 thanks to policy stimulus and resurgence of travel, construction, and extractive activity. Private investment, consumption, and public spending drove growth, while public debt remained high. Poverty is expected to have declined below pre-pandemic levels, despite a sluggish labor market. Growing inflation and the war in Ukraine threaten economic and poverty prospects in 2022.

Key conditions and challenges

Albania's growth was robust in 2021. It averaged 10.4 percent over the first three quarters, fully offsetting the losses caused by the pandemic-induced recession. Growth was driven by continued accommodative monetary and fiscal policies, reconstruction investment, abundant hydroelectric production early in the year, and the tourism recovery, all of which boosted private demand.

For 2022, prospects are uncertain with many downside risks. The war in Ukraine and continuing sanctions could push energy, food, and commodity prices even higher, shrinking households' purchasing power and consumption. Additional risks include new, vaccine- resistant Covid-19 variants, tighter global financial and trade conditions, and renewed travel restrictions.

Public debt increased further in 2021, reaching 78.4 percent of GDP. The government suspended the fiscal rule of a declining debt-to-GDP ratio and issued a Eurobond of EUR650 million, benefitting from the country's stable B+ rating. At its current level, the high government debt is at significant rollover risk. Given the current inflation and expected monetary policy tightening in high-income economies, reducing Albania's public debt and strengthening its fiscal policy credibility are vital.

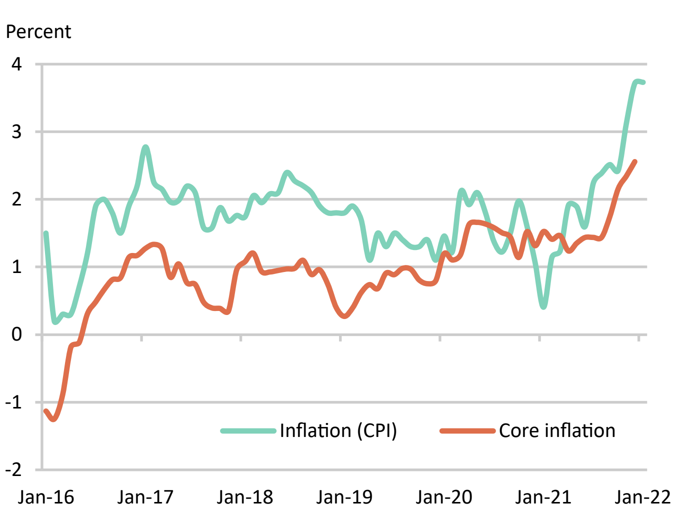
Productivity-enhancing public investment is crucial to boost growth but will require stronger revenue mobilization. At the same time, despite a 3.3 percent average GDP growth rate over 2015-2019, private investment continues to be discouraged by low firm productivity, an unskilled labor force, limited access to finance, burdensome logistics and poor market integration. However, at 28.4 percent of GDP, public revenues provide little space to increase much-needed investment in public infrastructure and human capital. A Medium-Term Revenue Strategy is under preparation, which has the potential to increase revenues over the medium run.

Recent developments

Higher consumer confidence, increased demand for Albanian exports, and fiscal stimulus supported the strong growth recovery in 2021. Growth in trade and construction—the latter connected to reconstruction and new infrastructure projects—contributed the most. Favorable hydrologic conditions have boosted extractives and energy production and tourism exports.

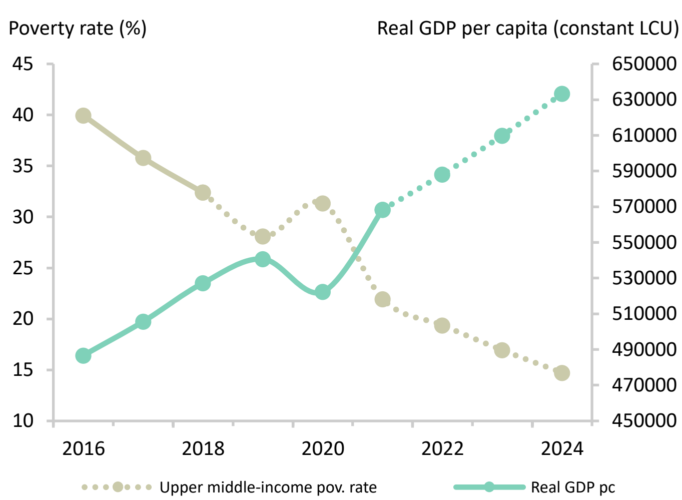
Jobs did not increase in 2020/2021. There were over 16 thousand fewer employed people in 2021 than in 2019. Employment grew only in ICT, construction, transport, retail and wholesale, and utilities. At the same time, labor force participation fell for the second consecutive year among all age groups. As a result, the unemployment rate was stable at 11.5 percent. The formal real wage increased by 3.7 percent in 2021, close to the 2019 increase, while

FIGURE 1 **Albania** / Headline inflation and core inflation



Sources: INSTAT and World Bank.

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



Source: World Bank. Notes: see Table 2.

the minimum wage increased by 13.1 percent in real terms.

Still, given the strong growth in GDP per capita in 2021, poverty is estimated to have dropped significantly from 31.4 percent in 2020 to 22 percent in 2021.

Inflation rose rapidly during the fourth quarter, reaching 3.7 percent in December 2021. Rising food, energy, transport and commodity prices risk undermining domestic demand and increasing vulnerability. Food prices increased by 3.9 percent in 2021, close to double the increase of the overall basket. This will hurt the bottom 40 percent, whose food consumption is over half of total consumption. The Central Bank kept the policy rate unchanged but recently announced an expected tightening through 2022.

Higher tax revenues and new debt allowed the government to increase infrastructure spending. The government also raised subsidies to the energy State-Owned Enterprises (SOEs) to ensure energy supply during the last quarter of 2021. Contingent liabilities from SOEs pose major risks for the budget.

Outlook

As of March 2022, the baseline scenario projects economic activity to expand at its pre-pandemic, pre-earthquake historical rate. However, the war in Ukraine could further increase inflation, disrupt supply chains, disturb financial markets and undermine confidence; all of which could dim Albania's growth prospects. In turn, a sluggish job market combined with diminished purchasing power could dampen poverty reduction.

Government spending is expected to decline gradually, in line with fiscal consolidation plans. However, higher spending may be needed to guarantee energy supply through more costly energy imports and support to the fragile energy SOEs. Service exports, including tourism and fast-expanding business-process operations should return to their pre-pandemic growth trends. The current account deficit is expected to reach 7.9 percent of GDP only in 2024, as terms of trade worsen due to high infrastructure investment and subsequent demand for imports.

In the baseline scenario, public debt is expected to decline slightly to 78.1 percent of GDP in 2022, and more significantly over the medium term. However, the fiscal balance could further deteriorate in a worsening international context, forcing the government to cut capital spending to prevent a hike in the debt-to-GDP ratio. Given Albania's growing reliance on external financing, the exchange rate, interest rate, and refinancing related risks remain elevated.

Consistent with the baseline scenario in the years following, private consumption is projected to return as the primary driver of GDP growth. Private investment could provide further support to growth if business climate reforms are implemented. A key medium-term reform priority is the need to boost revenue collection and achieve fiscal consolidation, while allowing for significant growth-enhancing spending.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.1	-4.0	8.6	3.2	3.4	3.5
Private Consumption	3.2	-2.4	3.7	2.6	2.7	2.9
Government Consumption	2.9	1.6	9.4	6.9	-1.0	2.6
Gross Fixed Capital Investment	-3.7	-2.0	18.5	-0.9	1.7	3.4
Exports, Goods and Services	2.6	-25.6	29.2	4.8	8.0	6.2
Imports, Goods and Services	2.3	-19.9	18.5	1.9	3.3	4.1
Real GDP growth, at constant factor prices	2.4	-3.4	8.6	3.1	3.4	3.5
Agriculture	0.6	0.3	-0.2	0.2	0.3	0.5
Industry	0.9	-3.5	10.8	5.0	5.0	5.0
Services	3.8	-4.7	10.9	3.2	3.6	3.7
Inflation (Consumer Price Index)	1.4	2.2	2.6	5.0	4.0	3.0
Current Account Balance (% of GDP)	-7.9	-8.8	-8.3	-9.6	-8.7	-7.9
Net Foreign Direct Investment (% of GDP)	7.5	6.8	6.4	6.5	6.6	6.6
Fiscal Balance (% of GDP)	-1.9	-6.8	-5.8	-5.2	-2.8	-2.7
Debt (% of GDP)	67.4	77.2	78.4	78.1	76.4	75.1
Primary Balance (% of GDP)	0.1	-4.7	-3.8	-2.5	0.0	0.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	28.1	31.3	22.0	19.4	16.9	14.7
GHG emissions growth (mtCO2e)	-1.5	-6.5	1.6	-1.2	-1.0	-0.8
Energy related GHG emissions (% of total)	47.4	45.4	46.2	45.7	45.2	44.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
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 customized 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$	4670.2
International poverty rate ($1.9)[a]	0.4
Lower middle-income poverty rate ($3.2)[a]	6.9
Upper middle-income poverty rate ($5.5)[a]	44.7
Gini index[a]	25.2
School enrollment, primary (% gross)[b]	91.2
Life expectancy at birth, years[b]	75.1
Total GHG Emissions (mtCO2e)	9.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

The impact of the war in Ukraine and sanctions on Russia is likely to be significant given Armenia's strong economic links with Russia. The economy rebounded by 5.7 percent year on year (yoy) in 2021 but is forecast to grow at only 1.2 percent yoy in 2022, with an uncertain outlook subject to high downside risks. Lower growth and remittances are likely to slow poverty reduction and increase vulnerability.

Key conditions and challenges

Prudent macroeconomic policies, including a more-effective inflation targeting regime, a robust fiscal rule, sound financial sector oversight, and pro-competition reforms helped Armenia weather the twin crises in 2020 with a lower-than expected increase in poverty rates.

While domestic political uncertainty has subsided since snap elections in mid-2021, Armenia still faces significant structural constraints, such as weak connectivity, closed borders and no economic relations with two of its four neighbors and challenges related to high unemployment, skills mismatches and firm competitiveness.

Recent developments

After contracting in 2020 by 7.4 percent yoy, the Armenian economy started to recover in 2021, growing at 5.7 percent yoy. Growth was driven by private and public consumption with smaller contributions from investment and net exports.

On the production side, services rebounded from a sharp slump in 2020, and industry and construction contributed modestly to growth. Agriculture contracted for the sixth straight year, reflecting unreformed land markets, uneven access to irrigation and low resilience to changing weather patterns.

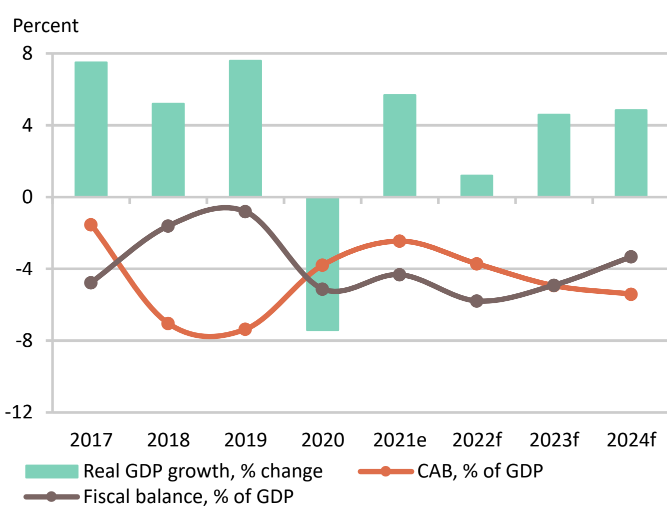
The fifth wave of COVID-19 infections abated in Armenia by end-February. After a slow start, the pace of vaccination picked up in late 2021, after mandatory requirements were introduced for workers to produce proof of vaccination or to submit to weekly testing. Still, only 43 percent of the adult population was fully vaccinated as of March 13, 2022.

After a prolonged period of low inflation, price levels picked up in late 2020 and remained elevated in 2021. Inflation peaked at 9.6 percent yoy in November before moderating to 6.5 percent yoy in February 2022. Food inflation peaked at 17 percent in November 2021, driving two-thirds of overall inflation. In response, the Central Bank of Armenia (CBA) increased the policy rate nine times by a cumulative 500 basis points between December 2020 and March 2022.

The budget deficit declined from 5.1 percent of GDP in 2020 to 4.3 percent in 2021. Revenues were up 8 percent yoy due to higher VAT and state duties, following the introduction of a new export duty for minerals. Expenditure was up 5 percent yoy driven by current expenditures. Public debt to GDP declined to 63.4 percent as at end-2021 from 67.4 percent a year earlier.

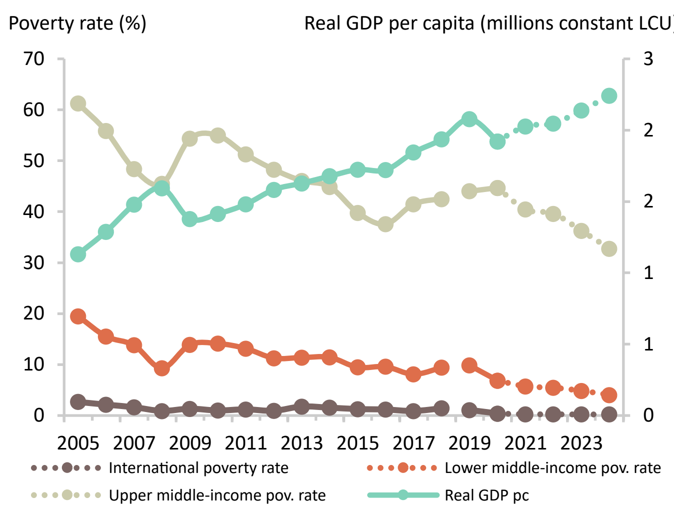
The external balance improved due to a quicker rebound in exports than imports, and a sharp increase in remittances. FDI also rebounded, albeit from a low base. The exchange rate stabilized following the decline in political uncertainty in mid-2021 and reached pre-COVID levels in February 2022. However, the onset of the war in Ukraine brought fresh volatility.

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



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

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



Source: World Bank. Notes: see Table 2.

The national absolute poverty rate rose to 27 percent in 2020 from 26.4 percent in 2019. Existing social protection and social assistance mechanisms (pensions and the Family Benefits Program) provided a critical buffer preventing a further increase in poverty.

Outlook

The impact of Russia's invasion of Ukraine on Armenia's economy is likely to be significantly negative, although the magnitude remains uncertain.

Armenia has strong economic links with Russia, which accounted for 28 percent of Armenia's exports and 30 percent of its imports on average from 2018-2021 and is the source of all of Armenia's wheat and gas imports. In 2021, remittances from Russia amounted to 5 percent of GDP, 41 percent of net FDI stock was associated with Russian entities, and Russian tourists accounted for 40 percent of all tourist arrivals. In addition, Armenia will also be impacted by elevated global food and fuel prices, with fuel imports accounting for 9 percent of imports in 2021.

The growth forecast has been downgraded for 2022 from 5.3 percent pre-war to 1.2 percent, with lower remittances and real wages impacting consumption; heightened uncertainty impacting investment; and exports contracting due to the projected contraction in Russia and slowing global and regional growth. On the production side, agriculture will continue to be weighed down by structural challenges; industry will be impacted severely by uncertainty; and services will slow along with consumption. In the medium-term, growth is expected to pick up in 2023 and 2024, but at a slower pace than projected pre-war.

In line with slower growth, revenue collection is expected to decline, and spending pressures are expected to rise, particularly through increased social assistance, leading to a delay in fiscal consolidation. This will push up the debt to GDP to about 67 percent of GDP at the end of 2022, further away from statutory limits.

The current account deficit is projected to widen due to lower exports and net remittances. Exports may be boosted by an increased tourism revenues associated with an inflow of Russian citizens following the onset of the war.

Higher commodity prices will keep inflationary pressures elevated in 2022, but CBA's inflation targeting is expected to anchor inflation in the medium-term as external price pressures subside.

Based on the forecasted macroeconomic impact, poverty (using the upper middle income poverty line) could reach 39.6 percent of the population in 2022, which represents a 3 percentage points increase relative to a counter-factual scenario in the absence of the war. Vulnerability may increase due to decreased remittances, increased utility bills and increased food prices.

The forecast is uncertain, with possible downgrades, given the evolving global and regional environment. Risks include protracted conflict in Ukraine, a prolonged and more significant slowdown in Russia, further disruption in global commodity markets, and still unresolved geopolitical issues around Armenian borders. On the upside, the inflow of persons from Russia, if sustained, may have a positive impact of the economy.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	7.6	-7.4	5.7	1.2	4.6	4.9
Private Consumption	11.5	-13.8	3.4	-1.3	5.4	5.7
Government Consumption	12.9	15.2	5.0	-1.2	1.7	1.0
Gross Fixed Capital Investment	4.4	-8.6	7.7	-0.9	7.5	9.1
Exports, Goods and Services	16.0	-33.4	16.5	-8.5	6.5	7.7
Imports, Goods and Services	11.6	-31.4	10.9	-12.0	8.0	9.3
Real GDP growth, at constant factor prices	7.7	-7.1	5.4	1.2	4.6	4.9
Agriculture	-5.8	-4.1	-1.4	0.2	0.8	1.0
Industry	10.5	-3.0	3.8	-1.1	2.9	3.1
Services	9.7	-9.8	7.9	2.6	6.3	6.5
Inflation (Consumer Price Index)	1.4	1.2	7.2	9.8	7.5	6.8
Current Account Balance (% of GDP)	-7.4	-3.8	-3.3	-3.7	-4.9	-5.4
Net Foreign Direct Investment (% of GDP)	1.7	0.6	2.6	1.6	1.8	2.3
Fiscal Balance (% of GDP)	-0.8	-5.1	-4.3	-5.8	-4.9	-3.3
Debt (% of GDP)	53.7	67.4	63.4	66.9	67.6	66.6
Primary Balance (% of GDP)	1.6	-2.4	-1.7	-3.0	-2.0	-0.4
International poverty rate ($1.9 in 2011 PPP)[a,b,c]	1.1	0.4	0.3	0.2	0.2	0.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b,c]	9.8	6.9	5.7	5.4	4.8	4.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b,c]	44.0	44.7	40.4	39.6	36.2	32.7
GHG emissions growth (mtCO2e)	6.4	-10.9	9.5	5.2	7.8	7.2
Energy related GHG emissions (% of total)	62.9	61.1	64.8	65.4	66.5	67.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2020-ILCS. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 based on GDP per capita in constant LCU.
c/ The poverty rates for 2019 are not strictly comparable with 2018 due to revisions on the ILCS starting in 2019.

AZERBAIJAN

Table 1	2021
Population, million	10.2
GDP, current US$ billion	54.6
GDP per capita, current US$	5358.1
School enrollment, primary (% gross)[a]	95.8
Life expectancy at birth, years[a]	73.0
Total GHG Emissions (mtCO2e)	79.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2019).

Russia's invasion of Ukraine poses downside risks to Azerbaijan's economic outlook, particularly in the non-energy sector. This follows a strong rebound in 2021, as recovering domestic and external demand supported growth in both energy and non-energy sectors, while rising global energy prices aided external and fiscal balances. Soaring energy prices will provide a short-term windfall, but mounting inflationary pressures and lower remittances are expected to weigh on poverty.

Key conditions and challenges

Azerbaijan faces structural challenges in developing a vibrant non-energy private sector. These include a large state footprint, institutional challenges, an undiversified asset mix with a low and stagnant level of investment in human capital, the lack of a level playing field, and shallow financial markets. This, in turn, has contributed to low private investment in the non-energy sector.

Following military tension with Armenia in 2020, a tripartite statement on armistice was signed between the two countries and Russia in November 2020. The reconstruction effort has progressed in 2021, even as the situation remains fragile, especially along the border.

Recent developments

Azerbaijan experienced a strong economic rebound in 2021, with output recovering to pre-COVID-19 levels by end-year. The energy sector grew by 1.8 percent, with production constrained by OPEC+ quotas for some parts of the year. Non-energy sectors' growth was more robust at 7.2 percent, led by services (especially transport, hospitality, and retail trade) and manufacturing.

On the demand side, consumption rebounded strongly, while investment declined by 7.3 percent in 2021, with a 9.6 percent drop in non-energy sector investment, driven largely by lower private investment.

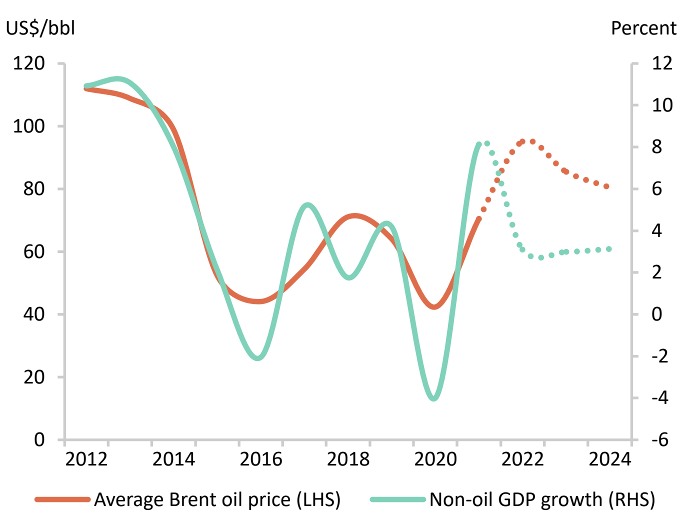
Rebounding domestic demand, rising global commodity prices, and increased administrative prices pushed CPI inflation to 6.7 percent in 2021, overshooting the central bank's target range of 4±2 percent and prompting a 150-basis point policy rate increase since August 2021, pushing it to 7.75 percent in March 2022.

Soaring energy prices boosted external revenues, and the current account recorded a surplus of 15.2 percent of GDP. This was offset by financial outflows (9.2 percent of GDP). Yet the overall balance of payments was in surplus at 5.6 percent of GDP in 2021.

Rapid economic recovery and high State Oil Fund (SOFAZ) revenues supported fiscal revenues, which jumped 38.7 percent, while fiscal spending increased by 2.8 percent in 2021. As a result, the fiscal balance recorded a surplus of 4.2 percent of GDP in 2021.

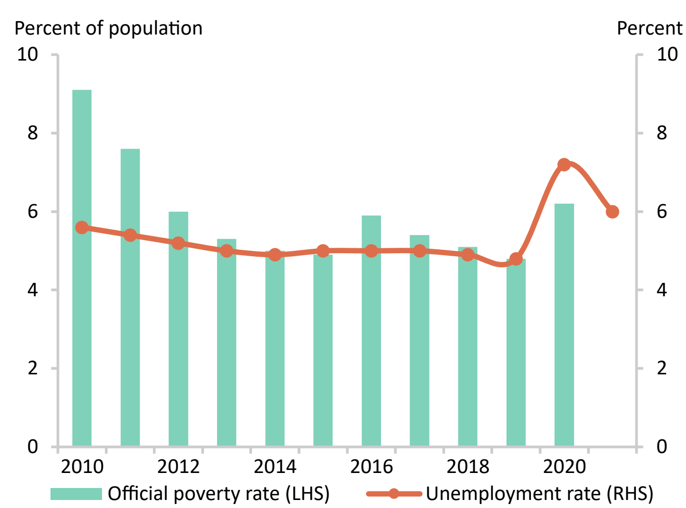
According to official data, the unemployment rate fell to 6 percent in 2021, from 7.2 percent in 2020, but was still above pre-pandemic trends. The official national poverty rate reached 6.2 percent in 2020, on a rise of 1.4 percentage points from 2019. Rural poverty increased disproportionately, as households experienced job and income losses in the COVID-19 induced crisis period. The economic rebound in 2021, and increased public wages and pensions, likely led to improved household income in 2021, although in real terms, this was offset partly by higher inflation.

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



Sources: State Statistical Committee of Azerbaijan, World Bank, 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.

Outlook

Economic growth is currently forecast at 2.7 percent in 2022, which represents a 0.9 percentage point downgrade from the baseline forecast prior to the invasion of Ukraine.

A short-term increase in oil and gas production would propel growth in the energy sector in 2021, but this increase is expected to subside beyond 2023. After a strong rebound in 2021, growth in the non-oil/gas sectors is expected to moderate in 2022. At the same time, spillovers from Russia's invasion of Ukraine and associated sanctions on Russia are expected to adversely affect export-oriented non-energy sectors, especially agriculture and tourism. Other sectors, e.g., manufacturing, are also expected to face difficulties in accessing critical imports such as wood, steel, and fertilizers.

In the medium term, assuming a stabilization of the geopolitical situation, growth is projected to average at 2.4 percent during 2022-24, close to its potential, as oil and gas production stabilizes and the non-energy sectors face headwinds from low investment levels, subdued agriculture yields (due to still stressed water supplies) and remaining spillover effects from regional supply chain disruptions.

On the demand side, consumption will remain the principal driver of growth in 2022, as there is still some pent-up demand accumulated from 2020 and early 2021. Investment is expected to remain subdued with public investment stable and private investment anemic amid persisting structural challenges. External demand is likely to moderate, as growth in major trading partners declines. Non-energy exports, even though relatively small, will be hard hit as Russia was the destination for 32 percent of these exports in 2021 (2.5 percent of GDP).

Inflation is projected to stay elevated in 2022, above the central bank's target, due to higher import prices. Food prices are forecast to continue rising, as disruptions to global commodity markets linger. In the medium-term, inflation is projected to moderate, as consumption growth slows, pressure from imported prices eases and global monetary conditions tighten.

The external balance is expected to record a sizable surplus in the medium-term, supported by high energy prices. Imports are projected to grow in 2022, in line with the continued recovery in domestic demand, and moderate in the medium term as growth slows.

The fiscal balance is estimated to be in surplus in the medium term, averaging at 4.7 percent of GDP, supported by higher oil and gas prices even as spending remains elevated.

The negative impact on poverty in 2022 is expected to be amplified by higher inflation and reduced remittances from Russia. Even though these remittances accounted for only about 1 percent of GDP in 2021, they disproportionally benefit the poor, especially those in small towns and rural areas.

This forecast is subject to uncertainty given the evolving global and regional environment, with elevated downside risks around protracted war and disruption to global commodity markets.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.5	-4.3	5.6	2.7	2.2	2.3
Private Consumption	4.2	-5.1	7.0	4.0	4.1	4.2
Government Consumption	7.9	4.8	3.8	3.9	3.2	2.3
Gross Fixed Capital Investment	-2.4	-7.1	-6.0	-3.6	-1.4	-1.0
Exports, Goods and Services	1.5	-8.1	5.6	2.7	1.7	1.8
Imports, Goods and Services	2.2	-10.5	2.5	2.6	2.7	2.7
Real GDP growth, at constant factor prices	2.5	-4.4	5.6	2.7	2.2	2.3
Agriculture	7.3	1.9	3.3	1.1	1.8	3.2
Industry	0.4	-5.2	4.1	2.6	1.1	1.1
Services	5.1	-4.4	8.6	3.2	4.0	4.0
Inflation (Consumer Price Index)	2.7	2.8	6.7	9.0	6.6	6.0
Current Account Balance (% of GDP)	9.1	-0.5	15.2	22.7	16.5	12.3
Net Foreign Direct Investment (% of GDP)	-2.9	-1.5	-4.1	-1.7	-1.2	-1.2
Fiscal Balance (% of GDP)	9.0	-6.5	4.2	6.4	4.2	3.5
Debt (% of GDP)	18.8	18.4	16.2	16.1	16.2	15.8
Primary Balance (% of GDP)	9.7	-5.7	4.8	6.8	4.7	3.9
GHG emissions growth (mtCO2e)	1.6	-2.3	2.7	0.7	0.3	1.0
Energy related GHG emissions (% of total)	42.9	44.1	46.6	48.1	49.3	50.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

BELARUS

Table 1	2021
Population, million	9.4
GDP, current US$ billion	68.4
GDP per capita, current US$	7279.8
Upper middle-income poverty rate ($5.5)[a]	0.1
Gini index[a]	24.4
School enrollment, primary (% gross)[b]	100.5
Life expectancy at birth, years[b]	74.2
Total GHG Emissions (mtCO2e)	60.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2011 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2019).

The Ukraine-Russian war has brought substantial challenges to the Belarusian economy related to new sectoral sanctions, the disruption of trade with Ukraine, and negative spillovers from the Russian economy. While in 2022 debt to the major creditors could be restructured, the ability to meet the 2023 Eurobond repayment looks questionable. Household incomes are expected to fall and poverty to increase as unemployment grows and recession deepens.

Key conditions and challenges

In recent years, Belarus's economy has encountered major headwinds as its growth trajectory remains shaped by external factors. This is due to structural rigidities, an outsized and unreformed public sector, and reliance on deepening economic and financial integration with Russia. The economy has been left vulnerable to regional and global shocks, such as the COVID-19 pandemic.

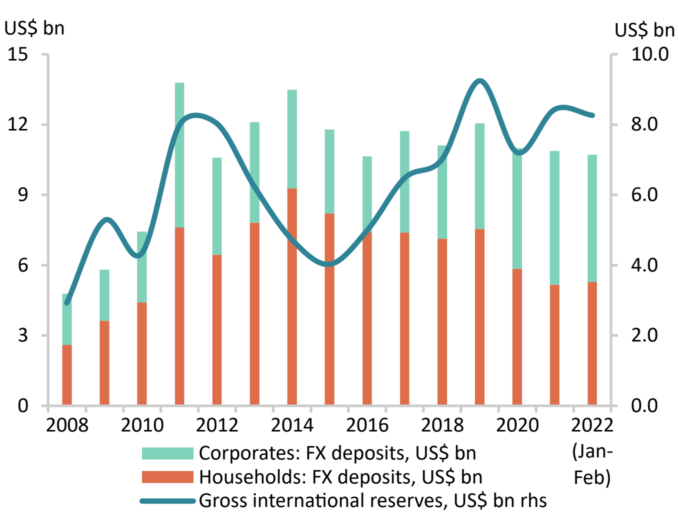
Disputed 2020 elections led to sectoral economic sanctions, which had limited effects. Export earnings increased, helping to maintain a stable exchange rate and achieve a current account surplus in 2021. Public debt pressures were alleviated through a combination of refinancing and spending of foreign reserves, while their level has been boosted by the August 2021 IMF SDR allocation. Nevertheless, banking sector pressures persist, as withdrawal of FX deposits by households has continued throughout 2020-2021. A bank run has been prevented by a high share of term deposits: about two thirds of all household deposits, and more than 60 percent of FX deposits.

Fresh sectoral economic sanctions introduced on March 2, 2022, seek to prevent exports of tobacco, petroleum, fuels, potash fertilizers, metals, iron, and rubber products to the EU. These restrictions cover at least 13 percent of merchandize exports, or more than a half of exports to the EU countries. In case the disruption of trade with Ukraine and restrictions on potash trading are taken into account, up to one-third of merchandize exports is affected. Although the price for natural gas imported from Russia will remain at the 2021 level of US$128.5 per 1,000 cubic meters, this preference will only partially cushion the impact of external shocks. As a result, real GDP could decline by at least 6.5 percent in 2022. The forecasting is subject to uncertainties related to the external circumstances, depending on the course and the outcome of the Ukraine-Russia war.

Recent developments

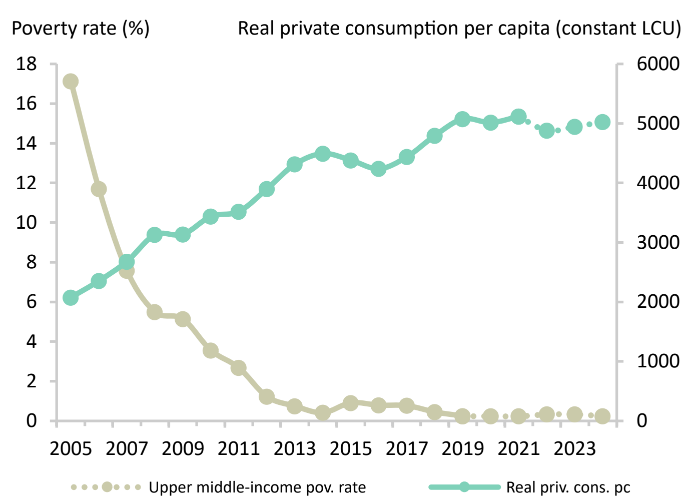
In 2021, real GDP grew 2.3 percent y/y on the back of improved external demand and higher export prices. Sectoral economic sanctions imposed since mid-2021 had limited effects, while the Ukrainian market (a destination for more than 13 percent of merchandize exports) remained accessible. Despite a broadly stable BYN/US$ exchange rate, consumer price inflation accelerated to 9.97 percent y/y. This is due to an increase in administratively regulated prices, imposition of VAT for selected medicines, and imported inflation, as average import prices went up by 21.3 percent. Expenditure cuts of 1.5 pp of GDP amid a tiny increase of revenues by 0.3 pp of GDP allowed balancing the general government budget. Public debt repayment pressures have been alleviated by refinancing from Russia for US$1bn and

FIGURE 1 Belarus / FX deposits and gross international reserves, 2008-2022



Source: NBRB.

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



Source: World Bank. Notes: see table 2.

issuing of FX-denominated government bonds by US$1.2bn, along with spending of foreign reserves in Q1 2021 of US$0.5bn.

The consequences of the Ukraine-Russia war are yet to materialize. By mid-March, these have been limited to a 20-percent nominal exchange rate depreciation of BYN vis-à-vis US$, with commercial banks imposing restrictions on FX operations, while the NBRB increased its policy rate by 2.25 pp to 12 percent p.a. As the stock of FX-denominated loans exceeds 60 percent of the total, depreciation weakens corporate balance sheets. The price of Belarus's 2023 sovereign bonds collapsed to below 20 percent of their nominal value.

Business sentiment has continued to worsen, with IT companies relocating abroad, and selected foreign companies restrict their supplies, affecting manufacturers in Belarus.

By the end of 2021, household disposable income growth decelerated from 3.9 to 2 percent, while real pensions decreased by 3.1 percent –the first decrease in five years. However, the national poverty rate fell from 4.8 percent in Q4 2020 to 3.9 percent in Q4 2021.

Outlook

The growth outlook is clouded by extreme uncertainties as economic sanctions continue to widen, and as Russia – Belarus's major trade and financing partner – is facing a slew of far-reaching economic and financial sector restrictions. Various sectoral sanctions against the Belarusian economy affect up to one-third of its merchandise exports, stemming from blocking sales of a broad range of commodities. Earnings from potash exports – estimated to be equal to 3.7 percent of 2021 GDP – are to fall considerably as major transportation routes are sealed. On the other hand, there will likely be attempts to redirect sales outside the EU market and increase exports to Russia in a bid to fill the void caused by foreign companies discontinuing sales and/or leaving the Russian market.

Even so, Belarus's exports are expected to decline heavily: coupled with tighter monetary and fiscal policy and lower household consumption, this is projected to lead to a real GDP decline of at least 6.5 percent in 2022.

Given that in 2022 more than 40 percent of repayments fall on Russia and the Russia-controlled EFSD, the debt burden will be eased through bilateral debt restructuring. However, this is not an option in case of 2023 Eurobond repayments for US$ 800 m. Falling GDP will increase poverty and household vulnerability. Broadening of price controls could have limited effect, leading instead to shortages of certain consumer goods, also due to the scarcity of FX in the economy and related restrictions on imports.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	1.4	-0.9	2.3	-6.5	1.5	1.6
Private Consumption	5.1	-1.4	2.6	-4.8	1.5	1.8
Government Consumption	0.4	-1.1	-0.5	-0.3	-1.0	1.3
Gross Fixed Capital Investment	6.2	-6.8	-5.6	-18.7	6.2	4.3
Exports, Goods and Services	1.0	-3.2	9.5	-14.2	4.1	3.7
Imports, Goods and Services	5.2	-7.9	5.8	-18.6	5.1	4.8
Real GDP growth, at constant factor prices	1.5	-0.9	2.3	-6.5	1.5	1.6
Agriculture	3.0	4.9	-4.2	-1.8	2.8	3.3
Industry	1.4	-0.7	6.5	-9.4	3.2	5.8
Services	1.3	-2.0	0.2	-4.9	0.0	-2.1
Inflation (Consumer Price Index)	4.7	7.4	10.0	21.1	11.9	7.2
Current Account Balance (% of GDP)	-1.8	-0.2	2.6	-0.8	-1.3	-1.1
Net Foreign Direct Investment (% of GDP)	2.0	2.1	1.7	0.6	0.6	0.5
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	36.4	35.5	34.9
Primary Balance (% of GDP)	4.3	0.0	1.6	0.5	1.2	1.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	0.2	0.2	0.2	0.3	0.3	0.2
GHG emissions growth (mtCO2e)	-3.1	-2.7	-3.5	-6.8	-1.0	-0.5
Energy related GHG emissions (% of total)	86.1	85.9	85.6	85.4	85.7	85.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2019-HHS. 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 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$	6513.1
Life expectancy at birth, years[a]	77.4
Total GHG Emissions (mtCO2e)	28.3

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

Real GDP growth is expected to decelerate to 2.9 percent in 2022 after rebounding to 6.5 percent in 2021. Meanwhile, inflation surged to 7 percent in January 2022 (yoy) compared to the annual rate of 2 percent last year. Delayed structural reforms impede EU accession and potential output growth. The war in Ukraine will likely aggravate price pressures resulting in an inflation rate of 4.8 percent in 2022.

Key conditions and challenges

BiH has been a potential EU candidate since 2016. Yet, little progress has been made in competitiveness-enhancing product market reforms and in improving the business environment. The internal market and the state institutional set-up are still highly fragmented, while country-wide supervisory and regulatory institutions remain weak.

Macroeconomic stability was maintained over the last decade largely facilitated by the currency board peg to the euro, which, together with the EU membership prospects remain a critical economic anchor. Despite real income growing roughly over 3 percent per annum since 2015, per capita GDP continues to hover around one-third of the EU27 average. A more pronounced convergence toward the EU27 average will be difficult to achieve with low investment rates and a growth model that relies on private consumption.

The pandemic has inflicted a significant cost on BiH's economy, yet a full recovery to the 2019 real income level has been achieved in 2021. That said, BiH is unlikely to catch up with the pre-pandemic growth trajectory, unless political bottlenecks are resolved.

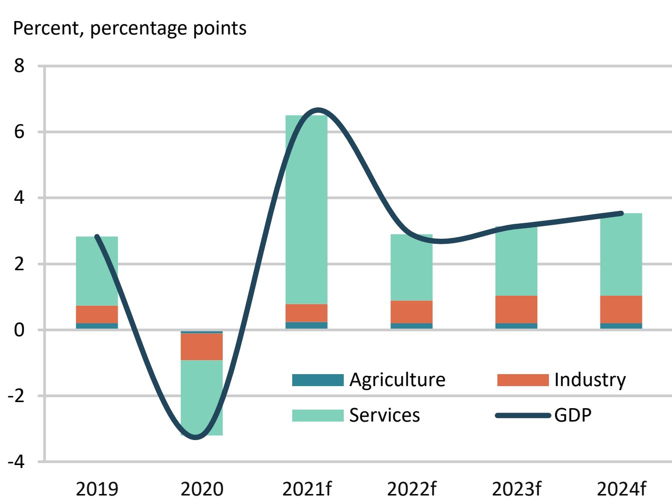
BiH built fiscal buffers prior to the pandemic by running fiscal surpluses between 1 and 3 percent of GDP from 2015 to 2019. These surpluses helped rein in the current account deficits, financed largely by net FDI inflows.

Steady, albeit low, economic growth has not translated into more and better jobs, with a large share of the workforce active in the informal sector and stalled poverty reduction according to the latest official data from 2015. Implementation of much needed 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. As a result of the political impasse and welfare prospects, BiH exhibits the highest stock of emigration across the Balkans.

Recent developments

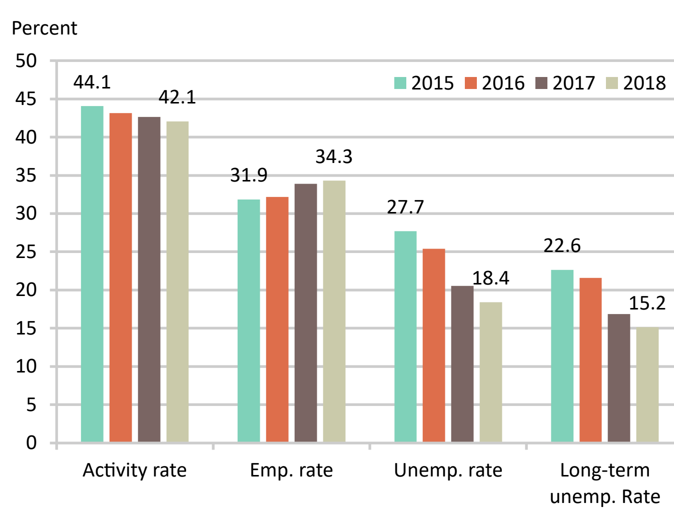
The rebound in economic growth estimated at 6.5 percent in 2021 was an exceptional performance, which helped real GDP exceed the pre-crises level. Real growth was driven by a surge in exports, and robust growth in private consumption. Meanwhile, inflation accelerated to 7 percent in January 2022 (yoy) and totaled 2 percent in 2021 compared to a 1.1 percent deflation in 2020. The sharply rising prices during the last quarter of 2021 and in January 2022 were caused by stronger consumer demand, continuing supply chain problems, and a high passthrough effect given the currency board arrangement. Food and transport prices accelerated to 12 percent and 13.6

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



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

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



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

percent in January 2022 (yoy), likely disproportionally affecting the less well-off.

Despite a renewed acceleration in Covid-19 cases toward the end of 2021 and in January-February 2022, improvements in the labor market participation and employment rate continued through the end of 2021 (Figure 2).

A surge in tax revenues was not fully offset by higher spending, which resulted in a return to fiscal surpluses estimated at 0.5 percent of GDP in 2021 , after a deficit of 1.8 percent of GDP in 2020. Higher public wages, and additional spending on goods and services as well as higher social benefits were aimed at softening the effects of the pandemic.

The sharp rise in exports narrowed the traditionally large merchandise deficit and helped narrow the current account shortfall to 3.2 percent of GDP in 2021 compared to 3.9 percent in 2020. External financing largely entailed net FDI inflows, mainly into the foreign-owned banking sector, which remained stable during the pandemic.

Without access to international markets, the authorities continue relying on support from IFIs. The extent of this financial support will depend on the de-escalation of political tensions, which have risen significantly over the past ten months.

Outlook

Real GDP is projected to decelerate to 2.9 percent in 2022 and stabilize below 3.5 percent over the medium term. Growth is expected to be driven by a further pick up in private consumption fueled by remittances, tightening labor market, and domestic lending in the short term. Investment in energy and infrastructure will add to the growth stimulus over the medium term. Higher exports are likely to be offset by higher imports mainly for infrastructure projects. As the impact of the pandemic subsides, and the political paralysis is overcome, the Socio-Economic Program , fulfilling priorities for EU accession, is expected to gain attention.

The fiscal deficit in 2022 is likely to be driven by pre-election spending activities. A return to surplus may occur in 2023, barring the implementation of changes to the VAT law.

With the global energy market disrupted due to the war in Ukraine, inflationary pressures are assumed to last longer than initially expected, leaving inflation at around 4.8 percent.

Several risks tilt the outlook to the downside. First, protracted effects of the war in Ukraine would have a negative impact on aggregate demand in BiH through lower business and consumer confidence. Second, war-related uncertainties and sanctions will dampen the recovery in the EU, adversely impacting demand for BiH exports. However, price and volume effects for BiH's exports of iron and steel products and aluminium could in part offset the negative effects of a slowdown in EU growth. Third, slower growth in the EU could also limit remittances, on which the country is dependent (close to 8 percent of GDP). Finally, these risks would be further aggravated, if geopolitical tensions shift to BiH and exacerbate already significant political frictions.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.7	-3.1	6.5	2.9	3.1	3.5
Private Consumption	2.8	-4.5	4.0	2.7	3.1	3.5
Government Consumption	2.6	0.5	6.1	2.8	3.0	3.0
Gross Fixed Capital Investment	1.9	-20.2	2.5	-2.3	4.4	3.9
Exports, Goods and Services	-0.3	-8.5	28.0	9.0	7.0	8.0
Imports, Goods and Services	0.2	-13.4	17.0	6.0	6.5	7.0
Real GDP growth, at constant factor prices	2.8	-3.1	6.5	2.9	3.1	3.5
Agriculture	2.9	-1.5	3.4	3.0	2.9	2.9
Industry	1.9	-3.0	2.0	2.6	3.2	3.2
Services	3.2	-3.3	8.7	3.0	3.1	3.7
Inflation (Consumer Price Index)	1.2	2.0	2.0	4.8	0.9	0.2
Current Account Balance (% of GDP)	-2.9	-3.9	-3.2	-2.4	-3.2	-4.0
Net Foreign Direct Investment (% of GDP)	3.5	2.0	3.3	3.5	3.3	3.2
Fiscal Balance (% of GDP)	1.9	-1.8	0.5	-0.8	0.3	1.1
Debt (% of GDP)	34.3	39.9	37.8	37.4	36.9	36.3
Primary Balance (% of GDP)	2.8	-0.5	1.8	0.1	1.2	1.9
GHG emissions growth (mtCO2e)	-2.4	-5.6	4.8	2.3	3.1	3.9
Energy related GHG emissions (% of total)	89.0	88.7	89.1	89.2	89.4	89.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

BULGARIA

Table 1	2021
Population, million	6.9
GDP, current US$ billion	77.5
GDP per capita, current US$	11276.0
International poverty rate ($1.9)[a]	0.9
Lower middle-income poverty rate ($3.2)[a]	2.6
Upper middle-income poverty rate ($5.5)[a]	6.2
Gini index[a]	40.3
School enrollment, primary (% gross)[b]	85.9
Life expectancy at birth, years[b]	74.9
Total GHG Emissions (mtCO2e)	44.6

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

Following a stronger-than-projected recovery in 2021, growth is likely to slow down in 2022 given higher inflationary pressures, the war in Ukraine, and supply chain disruptions. Off the back of a decline in 2021, poverty is expected to increase amidst rising food and energy prices. The draft 2022 budget suggests that consolidation will be postponed to 2023 with a continuation of support measures.

Key conditions and challenges

The long-term structural challenges facing Bulgaria include negative demographic trends, coupled with institutional and governance weaknesses. Institutional gaps have been mirrored by suboptimal public service delivery, hindering private sector expansion and undermining inclusive growth and shared prosperity. High rates of inequality of opportunity limit access to key public services, constraining the ability of individuals to escape poverty and result in persistently high income inequality. Poverty and inequality are reinforced by inadequacies in the targeting, coverage and generosity of the social security system, limiting its role as a redistributive mechanism and fiscal stabilizer.

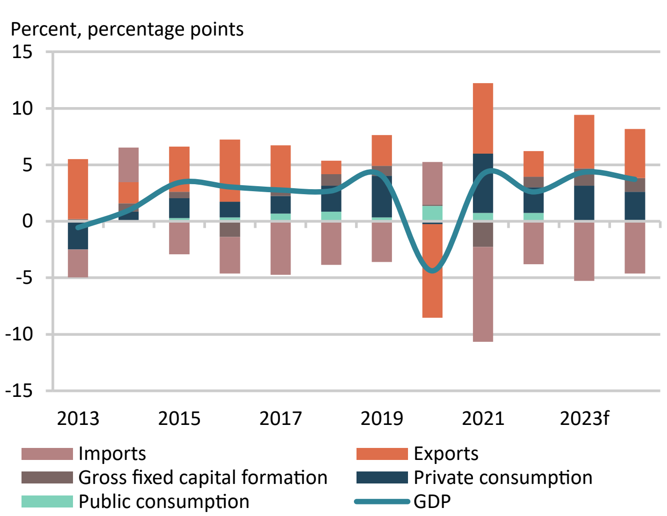
The pace of convergence to average EU income levels has been slower than the one observed in other new EU members, and Bulgaria continues to rank last in terms of GDP per capita in PPP in the EU, at 55 percent of the EU average in 2020. Economic growth and convergence to average EU income levels across the NUTS-3 regions – ranging between 24 percent of the EU average in Silistra to 120 percent in Sofia in 2019 – has been increasingly uneven, widening in-country disparities. As a result, some areas are being depopulated at a rapid pace, with the first results of the 2021 census showing the fastest between-census decline of the population since 1985, by 11.5 percent against 2011 to 6.52mn people. Significant outmigration since the start of the transition period, driven by large income gaps and search for better quality of life, has been the main factor behind Bulgaria's rapid loss of population.

Recent developments

According to preliminary data for 2021, GDP growth accelerated to 4.2% though real output is yet to recover to its pre-pandemic level. Final consumption and robust growth of exports were the main drivers of the recovery. Export expansion was outpaced by import growth, leading to widening trade and current account (CA) deficits. Investment, however, continued to decline throughout 2021. The pandemic, combined with a domestic political crisis in most of 2021, increased investors' risk aversion, while the delayed approval of the national Recovery and Resilience Plan put additional drag on public investment. On the supply side, industry, finance and IT were key sectoral drivers of growth.

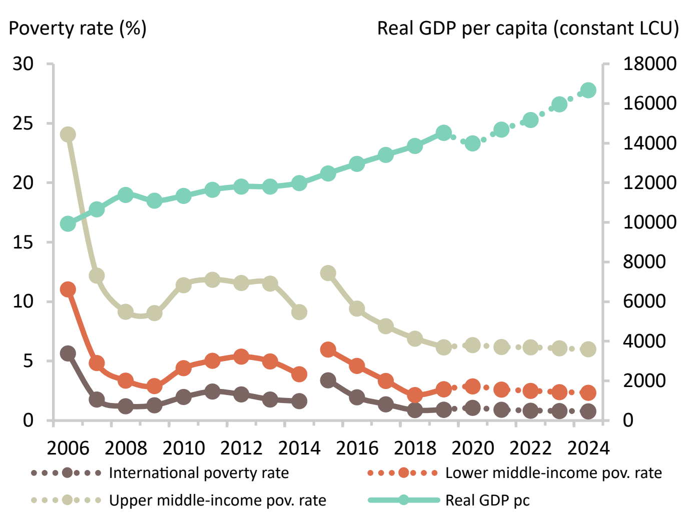
Similar to most European countries, Bulgaria saw a rapid acceleration of inflation since the summer of 2021, reaching 10.0 percent yoy in February 2022. Imported oil price inflation with its second-round effects was the key factor behind the inflationary spike. Effective mid-December, regulated prices of electricity, heating and water were frozen until end-March, 2022, partially cushioning the inflationary shock on households. Businesses, in turn, have been receiving government subsidies for

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



Sources: World Bank, Bulgarian National Statistical Institute.

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



Source: World Bank. Notes: see table 2.

electricity costs since October 2021, which has kept many firms afloat despite the energy price spike. Electricity price subsidies are expected to be fiscally neutral, as they will be financed out of profits of the state-owned nuclear power plant.

Despite the boost in fiscal revenues in 2021 (+18.1% yoy) on robust economic growth and inflation, expenditure grew at a similar rate (+17.6%), due primarily to the continued support to businesses and individuals. As a result, the fiscal deficit stood at 2.9% of GDP. The banking sector remained solid, with after-tax profits rising by 74% to BGN 1.42bn in 2021, and non-performing loans inching up modestly, by 1.4pp y/y to 6% as of end-2021.

Amidst the recovery of the economy and continued, albeit more targeted, government support, poverty is projected to have slightly declined from 6.3 percent in 2020 to 6.2 percent in 2021 using the upper middle income poverty line of US$5.50 per day.

Outlook

The ongoing war in Ukraine has provoked a revision of growth forecasts globally, with Bulgaria's GDP growth in 2022 revised by 1.2pp against our earlier forecast, to 2.6%. Risks remain titled to the downside and further downward revisions are likely to follow in case of a prolonged military conflict, or new disruptive Covid waves amidst low vaccination rates. Moreover, the delay in the approval of the national Recovery and Resilience Plan and the operational programmes for EU funds (2021-2027) jeopardizes the government's plan to increase substantially public investment in 2022, further undermining the growth prospects. Over the medium run, growth is expected to be fueled by EU-funded public investment and improved private investor sentiment on the near-term prospect of eurozone entry.

The acceleration of domestic inflation since late 2021 is likely to remain in place at least in H1/ 2022, as energy and food price inflation is exacerbated by the ongoing war in Ukraine. This will result in a further erosion of purchasing power, a likely increase in poverty and a higher fiscal cost, if current measures in support of businesses and individuals are extended beyond Q1.

Overall, the draft 2022 budget suggests that fiscal policy will depart from the conservative stance adhered to in the past two decades. The fiscal deficit is likely to exceed the government's plan for 4.1% of GDP as the latter rests on a fairly optimistic official growth projection of 4.8%. A government-sponsored accommodation programme for displaced Ukrainian nationals will also weigh on the expenditure side. More than 58 000 Ukrainian nationals have remained in Bulgaria as of March 29, with some 40 000 of them being sheltered at government-subsidised hotel accommodation. In addition, a budget revision - that is likely to boost expenditure further - is already planned for the summer. The CA balance is expected to return to positive territory, albeit remain below 1% of GDP, in 2022-2024.

On a positive note, the political crisis that dominated the national landscape since early 2021 has been overcome, after a four-party coalition took office after the Nov 14, 2021 elections. There are high expectations from the new government to undertake structural reforms in a number of areas, including the judiciary and the control of corruption.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.0	-4.4	4.2	2.6	4.3	3.7
Private Consumption	6.0	-0.4	8.0	3.3	4.5	3.6
Government Consumption	2.0	8.3	4.0	4.1	0.3	0.7
Gross Fixed Capital Investment	4.5	0.6	-11.0	5.4	8.5	6.6
Exports, Goods and Services	4.0	-12.1	9.9	3.4	7.1	6.3
Imports, Goods and Services	5.2	-5.4	12.2	5.1	6.9	5.9
Real GDP growth, at constant factor prices	3.7	-4.5	4.2	2.6	4.3	3.7
Agriculture	4.1	-3.3	6.1	1.2	1.8	1.1
Industry	-0.1	-8.2	6.6	2.5	5.2	4.3
Services	5.2	-3.2	3.2	2.7	4.2	3.6
Inflation (Consumer Price Index)	3.1	1.7	3.3	9.3	3.4	2.0
Current Account Balance (% of GDP)	1.9	-0.3	-2.3	0.1	0.9	0.4
Net Foreign Direct Investment (% of GDP)	-2.0	-3.5	-1.3	-1.7	-1.7	-1.7
Fiscal Balance (% of GDP)	-1.0	-2.9	-2.9	-4.4	-3.0	-2.3
Debt (% of GDP)	20.1	24.8	25.1	28.5	28.8	27.2
Primary Balance (% of GDP)	-0.4	-2.4	-2.5	-4.1	-2.6	-2.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.9	1.1	0.9	0.8	0.8	0.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	2.6	2.9	2.6	2.5	2.4	2.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	6.2	6.3	6.2	6.2	6.1	6.0
GHG emissions growth (mtCO2e)	-2.7	-3.1	-0.9	-0.9	-0.9	-0.9
Energy related GHG emissions (% of total)	82.7	86.1	85.8	85.5	85.1	84.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
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 = 0.7 based on GDP per capita in constant LCU.

CROATIA

Table 1	2021
Population, million	3.9
GDP, current US$ billion	64.6
GDP per capita, current US$	16619.4
International poverty rate ($1.9)[a]	0.3
Lower middle-income poverty rate ($3.2)[a]	0.6
Upper middle-income poverty rate ($5.5)[a]	1.8
Gini index[a]	29.0
School enrollment, primary (% gross)[b]	93.2
Life expectancy at birth, years[b]	78.4
Total GHG Emissions (mtCO2e)	16.4

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

After a pronounced economic contraction in 2020, the Croatian economy strongly rebounded in 2021, posting a double-digit growth rate. In addition to domestic demand, economic activity was underpinned by a sharp revival of tourism and sizable exports of goods. Poverty is estimated to have declined to 1.6 percent in 2021. Over the medium term, growth is expected to moderate but remain relatively strong. However, downside risks to growth remain significant.

Key conditions and challenges

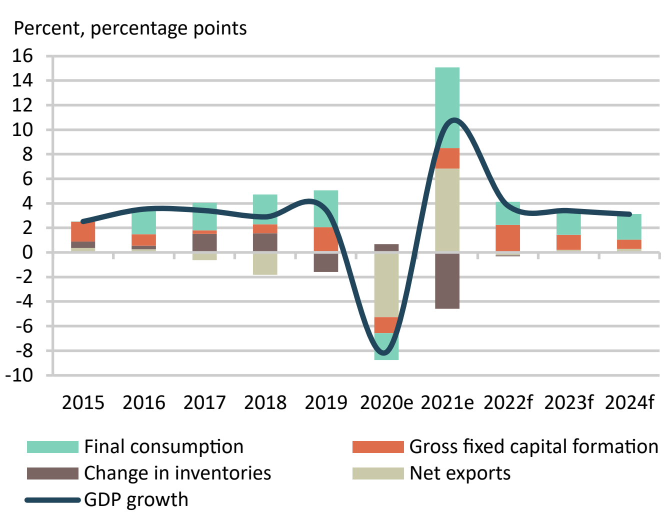
Croatia's economic recovery in 2021 was unexpectedly strong and output reached its pre-crisis levels by mid-2021, largely due to the reopening of the economy and fiscal and monetary support schemes. Furthermore, the relatively favorable epidemiological situation during summer months and the country's proximity to its main tourism originating markets resulted in a significant increase in tourist arrivals. Also, Croatia was relatively less affected by global supply chain bottlenecks given its export structure. Together with the strong global recovery, this led to a marked rise in exports of goods. However, underlying long-term growth remains relatively low. Results from the recent census suggest a decline in the total population. This means stronger potential long-term growth will hinge upon increase in productivity requiring improvements in business environment, public administration, education system and judiciary.

While growth is set to remain relatively strong over the medium term, uncertainties related to inflation developments and the Russian invasion of Ukraine represent a significant risk for economic activity and public finances in the near- term. In early 2022, the government adopted a mitigation package worth around 1 percent of GDP for easing rising prices but the war in Ukraine might put additional pressure on inflation with associated risks of depleting the real purchasing power of households, especially the poor and vulnerable. Furthermore, although the country's direct trade and financial linkages with Russia are limited, there could be significant indirect trade and investment effects via other EU countries. In addition, while the number of new COVID-19 cases has recently started to decline, relatively low vaccination rate and the potential emergence of new virus variants might impede recovery. Over the medium term, EU structural and investment funds as well as the new EU initiatives represent an opportunity for Croatia to accelerate the income convergence with the rest of the EU.

Recent developments

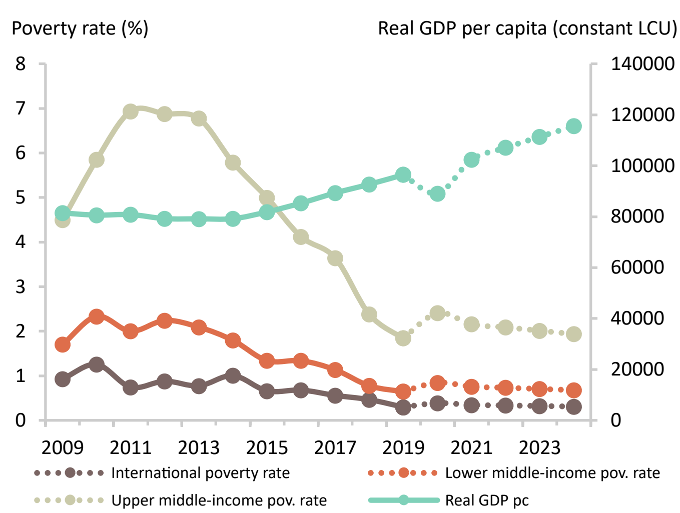
Following a contraction of 8.1 percent in 2020, real GDP in Croatia increased by 10.4 percent in 2021. Private consumption and investment activity provided strong support to overall growth, underpinned by an increase in consumer and business confidence, favorable financing conditions and inflow of EU funds. However, domestic demand lost some steam in the last quarter, which can be partly linked to the worsening of the epidemiological situation and buildup of inflation pressures. Contribution of net exports in 2021 was positive due to a sharp, albeit still partial, recovery of tourism and increase in exports of goods by one fifth compared to 2020. On the supply side, growth was also broad based with the services sector contributing the most to the rise in real gross value added.

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



Sources: CROSTAT, World Bank.

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



Source: World Bank. Notes: see Table 2.

Favorable economic trends were followed by an increase in employment and wages, and in some sectors, notably construction, worker shortages became more pronounced and were mitigated by foreign labor. Inflation gradually intensified towards the end of the year, fueled by food and energy prices, and it continued to increase in 2022, reaching 6.3 percent in February. The general government deficit is estimated to have more than halved, to around 3.5 percent of GDP and public debt at the end of November 2021 stood at 80 percent of GDP, declining by 7.3 percentage points compared to the end of 2020.

The strong economic and employment rebound raised labor income. However, spikes in food prices in recent months put a burden on the most poor and vulnerable as they spend nearly 50 percent of their budget on necessities. Poverty, measured as the share of Croatian population living on less than $5.5 a day at 2011 revised PPP prices, is estimated to have declined to 1.6 percent in 2021.

Outlook

Growth is set to moderate over the medium-term but will remain above the pre-pandemic trend. While global uncertainty related to the war in Ukraine is high, the Croatian economy could grow on average, by 3.5 percent, a year, over 2022-2024. However, there are significant downside risks related to the pandemic and the war in Ukraine. Investment activity underpinned by the inflow of EU funds is expected to pick-up strongly in 2022 and moderate thereafter. However, this primarily depends upon the implementation of government investment plans. Exports of goods and services are projected to support growth, but the pace of growth is expected to ease as tourism returns to pre-crisis levels and foreign demand moderates. Personal consumption growth might remain around 2.5 percent amid rising employment and wages. However, positive effects of the increase in wages on personal consumption will be partly offset by higher inflation. Overall, inflation in 2023 and 2024 is projected to slow down due to the easing of global supply bottlenecks and tightened financial conditions. However, commodity price levels will remain elevated. General government deficit is likely to fall below 3 percent of GDP as of 2023. Also, public debt to GDP ratio is expected to continue declining, reaching 73.9 percent of GDP at the end of 2024.

Intensifying conflicts in the region is putting additional pressure on food and energy prices which were already on the rise. While the government has promptly introduced mitigation measures to cap gas price increases, it is still expected to rise on average by 20 percent. Moreover, regional political uncertainty and global supply disruptions can have implications for the economies of host countries of Croatian migrants. This can potentially have adverse impacts on remittances and income of Croatians at home. Nevertheless, poverty is expected to fall to 1.3 percent by 2024.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.5	-8.1	10.4	3.8	3.4	3.1
Private Consumption	4.1	-5.3	10.0	2.2	2.5	2.7
Government Consumption	3.3	4.1	3.0	2.6	2.5	2.4
Gross Fixed Capital Investment	9.8	-6.1	7.6	10.5	5.3	3.2
Exports, Goods and Services	6.8	-22.7	33.3	6.6	5.3	5.1
Imports, Goods and Services	6.5	-12.3	14.7	6.9	4.7	4.4
Real GDP growth, at constant factor prices	3.6	-6.3	8.9	3.8	3.4	3.1
Agriculture	1.8	3.6	5.5	3.6	3.6	3.6
Industry	4.8	-1.6	6.7	4.0	3.0	3.0
Services	3.3	-8.4	9.9	3.7	3.5	3.1
Inflation (Consumer Price Index)	0.8	0.2	2.6	6.1	2.2	1.9
Current Account Balance (% of GDP)	3.0	-0.1	3.7	2.0	2.4	2.6
Net Foreign Direct Investment (% of GDP)	6.1	1.3	2.5	2.5	2.4	2.4
Fiscal Balance (% of GDP)	0.3	-7.4	-3.6	-3.2	-2.9	-2.6
Debt (% of GDP)	71.1	87.3	80.7	78.3	76.0	74.0
Primary Balance (% of GDP)	2.5	-5.4	-2.0	-1.7	-1.5	-1.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.3	0.4	0.3	0.3	0.3	0.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.6	0.7	0.6	0.6	0.5	0.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	1.8	2.4	1.6	1.5	1.5	1.3
GHG emissions growth (mtCO2e)	-1.1	-12.8	4.3	1.7	0.6	1.3
Energy related GHG emissions (% of total)	86.8	85.1	84.7	84.2	83.5	82.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
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.

GEORGIA

Table 1	2021
Population, million	3.7
GDP, current US$ billion	18.7
GDP per capita, current US$	5030.3
International poverty rate ($1.9)[a]	4.2
Lower middle-income poverty rate ($3.2)[a]	17.0
Upper middle-income poverty rate ($5.5)[a]	46.6
Gini index[a]	34.5
School enrollment, primary (% gross)[b]	99.4
Life expectancy at birth, years[b]	73.8
Total GHG Emissions (mtCO2e)	16.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

The Russian invasion of Ukraine will adversely impact Georgia's economy. The impact is felt through trade, remittances, FDI, commodity prices, and logistics. This follows a robust recovery from the pandemic in 2021, with the economy growing at 10.4 percent and surpassing its pre-COVID output. The poverty impact is expected to be significant and fiscal pressures from rising social assistance are expected to increase.

Key conditions and challenges

Georgia has had a successful development record, underpinned by prudent economic management, over the past decade. Growth averaged 4 percent per annum between 2011 and 2021. The poverty rate measured by the international upper-middle-income line ($5.50 per capita per day, 2011 PPP) declined from 59 percent in 2011 to 42 percent in 2021.

Nevertheless, critical structural challenges remain, particularly weak productivity and the creation of high-quality jobs. Many Georgians remain in rural areas engaged in low productivity agriculture. Human capital outcomes remain weak, with poor learning outcomes and a lack of linkages of education to private sector needs.

In addition, Georgia's trade openness, and reliance on income from tourism, make it vulnerable to external and global shocks. High dollarization and persistent reliance on external savings further amplify risks. Still, the swift post-pandemic rebound has demonstrated the growing maturity and resilience of Georgia's economic institutions.

Recent developments

GDP increased by 10.4 percent in 2021 following the 6.8 percent contraction of 2020, with output surpassing pre-COVID-19 levels by late-2021. Economic recovery also supported a reduction in poverty, with projections suggesting a decline to pre-pandemic levels in 2021. However, the recovery was uneven, with output in certain sectors, such as hospitality, remaining considerably below pre-pandemic levels. The fifth wave of the COVID-19 pandemic abated in late February, with new cases falling to 6 percent of peak levels on March 10th.

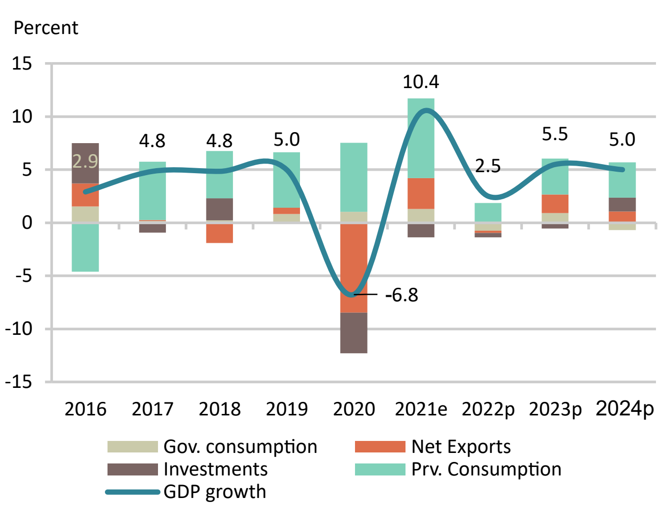
Inflation remained elevated in 2021, averaging 9.6 percent and reflecting higher commodity prices and pass-through from earlier depreciation. Food and fuel prices contributed over five percentage points to overall inflation. In response, the National Bank of Georgia (NBG) tightened monetary policy by 250 basis points in 2021.

Foreign trade increased with the deficit widening in 2021. Exports grew by 27 percent yoy and imports by 25 percent yoy as the trade deficit widened by 26 percent yoy. Still, a gradual recovery in tourism and substantial transfers from abroad helped narrow the current account deficit.

The banking sector remained healthy. The sector's return on assets (ROA) and return on equity (ROE) had improved by end-January 2022 to 4.2 percent and 32.6 percent, respectively. Non-performing loans remained low at 2.3 percent.

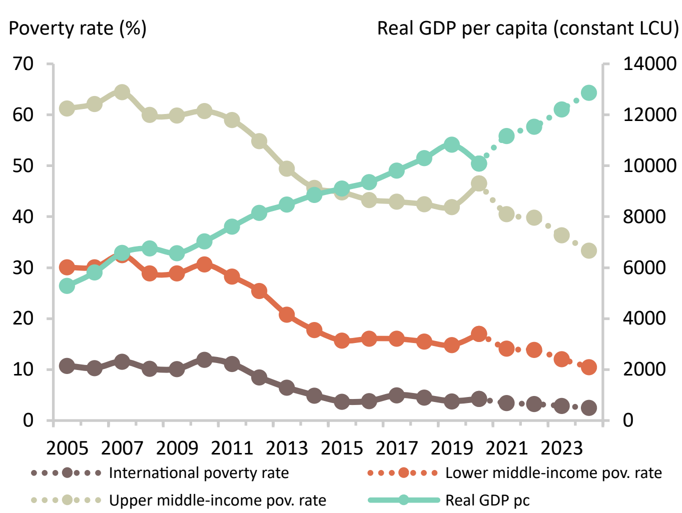
The fiscal deficit narrowed in 2021 to 7.1 percent of GDP (excluding sales of non-financial assets), from 9.8 percent in 2020, and in line with the plan to return to deficit levels prescribed by the fiscal rule (around 3 percent of GDP) by 2023. Public debt to GDP declined to 52 percent of GDP as of

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



Sources: Geostat and World Bank staff estimates.

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



Source: World Bank. Notes: see table 2.

end-2021, considerably below the 62 percent registered in 2020, reflecting the strong GDP recovery and the strengthening of the lari.

Outlook

The war in Ukraine is likely to impact the Georgian economy adversely through several channels.

The first channel is goods trade. Both Russia and Ukraine are among Georgia's top 10 trading partners and a key destination for exports, including wine and beverages. There is limited potential to divert some of the affected exports to alternative markets in the short term. In addition, Georgia is reliant on Ukraine and Russia for key imports such as cereals.

The second key channel is tourism. The expected dramatic drop in the arrival of Russian and Ukrainian tourists, who together accounted for 21 percent of visitors in 2021, will put further strain on a sector that is still reeling from the COVID-19 pandemic.

The third channel is remittances, with Russia and Ukraine accounting for over 20 percent of total remittances. Those are at risk of declining sharply because of economic contraction in the host countries, depreciation of the ruble, and challenges in conducting payment transfers from Russia.

Lastly, elevated commodity prices will also affect Georgia. Oil and food prices have increased sharply since the beginning of the war due to uncertainty and disrupted commodity supplies from Russia and Ukraine.

These impacts will cause a slowdown in growth, higher inflation, and widening external balances. Georgia's growth forecast for 2022 has been downgraded to 2.5 percent from 5.5 percent projected pre-war, with considerable scope for further downgrades if the war continues for much longer. The baseline outlook envisions growth recovery from 2023 onward, as easing monetary policy, recovery of tourism, and the restoration of economic links are partly offset by the gradual withdrawal of the fiscal stimulus.

On the external side, due to weaker exports and higher import prices, the current account deficit is expected to widen. Lari volatility has also increased following the onset of the war. Due to higher commodity prices and regional supply disruptions, inflationary pressures are likely to increase. This may be mitigated partly by long-term fixed-price contracts for gas supply and a shared border with Russia that will maintain basic supply flows. On the upside, recent developments provide an opportunity for Georgia to strengthen the transit potential of the Caucasus Transport Corridor.

The conflict in Ukraine will also likely have significant impact on poverty and vulnerability through the tourism, remittances, and higher energy and food prices (especially wheat) channels.

Georgia is well placed to manage the economic fallout of the war. Buffers remain reasonable; the macro-financial framework is credible; and the banking sector is entering the crisis in relatively strong shape, albeit with the vulnerability of high dollarization. Fiscal discipline has been maintained over the past decade, although planned post-COVID consolidation may decelerate due to the economic slowdown. Still, government deposits are sizeable, and debt is likely to remain below the 60 percent statutory level under the fiscal rule.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.0	-6.8	10.4	2.5	5.5	5.0
Private Consumption	7.2	8.8	8.7	3.0	3.8	4.8
Government Consumption	5.7	7.1	7.7	-4.7	6.0	2.2
Gross Fixed Capital Investment	-0.1	-16.5	-7.6	-4.6	-0.5	2.2
Exports, Goods and Services	9.8	-37.6	30.5	-4.0	11.0	13.0
Imports, Goods and Services	6.6	-16.6	12.8	-5.0	5.0	9.0
Real GDP growth, at constant factor prices	5.1	-6.6	10.3	2.5	5.5	5.0
Agriculture	0.7	8.1	0.1	3.0	5.0	4.0
Industry	2.7	-6.8	5.9	2.0	5.0	4.0
Services	6.3	-8.1	12.9	2.6	5.7	5.4
Inflation (Consumer Price Index)	5.0	5.2	9.6	11.0	6.6	3.8
Current Account Balance (% of GDP)	-5.5	-12.4	-10.5	-13.0	-9.6	-8.2
Net Foreign Direct Investment (% of GDP)	6.0	3.5	5.9	3.9	5.8	6.8
Fiscal Balance (% of GDP)	-3.4	-9.8	-7.1	-4.7	-3.6	-3.0
Debt (% of GDP)	41.8	60.1	49.4	48.8	46.4	46.2
Primary Balance (% of GDP)	-2.2	-8.2	-5.8	-3.3	-2.3	-1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.8	4.2	3.4	3.2	2.9	2.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	14.8	17.0	14.1	13.9	12.1	10.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	41.9	46.6	40.6	39.8	36.4	33.3
GHG emissions growth (mtCO2e)	1.6	-7.5	2.4	9.0	0.8	-2.9
Energy related GHG emissions (% of total)	52.9	49.2	49.8	53.5	53.6	51.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
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 based on GDP per capita in constant LCU.

KAZAKHSTAN

Table 1	2021
Population, million	19.0
GDP, current US$ billion	202.9
GDP per capita, current US$	10693.5
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.2
Upper middle-income poverty rate ($5.5)[a]	4.6
Gini index[a]	27.8
School enrollment, primary (% gross)[b]	100.3
Life expectancy at birth, years[b]	73.2
Total GHG Emissions (mtCO2e)	301.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

Russia's invasion of Ukraine is likely to reduce growth to 1.5 percent in 2022. This figure follows 4 percent growth in 2021, driven by a rebounding economy, consumption growth, and supportive fiscal policy. Higher food and energy prices have accelerated inflation. The poverty rate is expected to fall in 2022 but remain above pre-pandemic levels. Inflation will also remain elevated due to supply disruptions arising from the war in Ukraine.

Key conditions and challenges

Since independence in 1991, Kazakhstan has experienced rapid growth, fueled by investments in extractive industries. Growth, in turn, has reduced poverty and transformed the country into an upper-middle-income economy.

However, the achievement masks underlying vulnerabilities and the unevenness of the country's progress. Key challenges include slow productivity growth, wealth inequality, rising living costs, limited job opportunities, and weak institutions. These challenges were amplified by the COVID-19 pandemic and prompted the largest protests in the country's history earlier in the year.

Reforms are needed to raise living standards and human capital, reduce corruption, reverse productivity stagnation, improve competition and private sector growth, and accelerate the low-carbon economic transition. Following the protests in January, which were marred by violence and attempts at destabilization, the government has announced its intentions to tackle these constraints through wide-reaching reforms.

Recent developments

Economic activity returned to pre-pandemic levels in 2021. Despite an increase in COVID-19 containment measures during the first half of 2021, robust activity in the second half supported real GDP growth of 4 percent for the year.

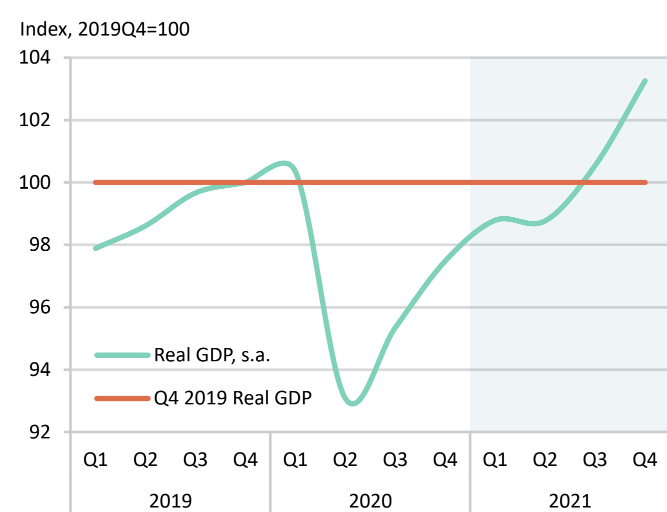
Growth was driven by continued fiscal expansion, strong consumer credit growth, and reduced COVID-19 restrictions. Due to a strong recovery in household consumption, retail trade rose by 6.5 percent and retail loans, including mortgages, by 40 percent in 2021. After contracting by 3.4 percent in 2020, total capital investment rose modestly by 2.6 percent, driven by solid growth in housing construction. Reopening the economy has increased activity in face-to-face services and manufacturing industries mainly aimed at the domestic market.

A sharp increase in global oil prices substantially improved Kazakhstan's trade balance and reduced the current account deficit to 3 percent of GDP in 2021 (from 3.8 percent in 2020). FDI inflows and higher foreign borrowing by state enterprises financed this deficit.

With heightened uncertainty during the January events and the recent plunge in the Ruble, the tenge has depreciated by about 17 percent against the US Dollar. To reduce tenge volatility, the central bank scaled up FX interventions and increased its policy rate by 2.25 p.p. to 13.5 percent in March 2022. FX reserves, however, remain comfortable at US$33.5 billion.

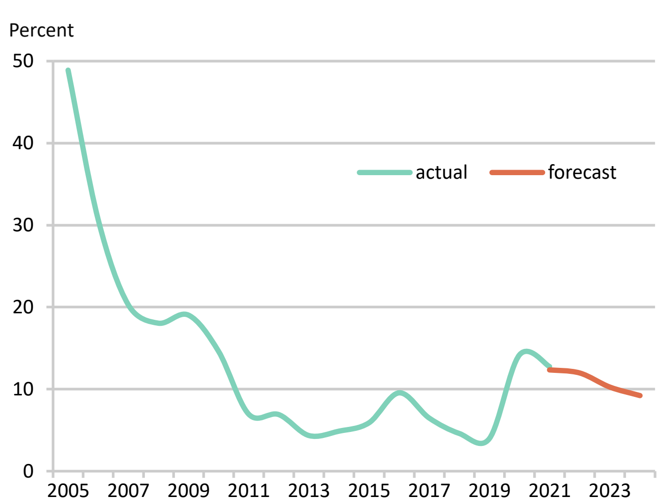
Fiscal policy in 2021 remained accommodative to the impact of COVID-19 on the economy. Budgetary support measures continued for households and businesses facing hardship while public investment priorities shifted from pandemic response

FIGURE 1 Kazakhstan / Movement in real GDP (Q4 2019=100)



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

FIGURE 2 Kazakhstan / Poverty rate $5.5 a day PPP



Source: World Bank estimates, calculations based on ECAPOV harmonization, using 2018-HBS.

to recovery. Higher oil revenues helped reduce the budget deficit to 3 percent of GDP from 4 percent in 2020. The public debt-to-GDP ratio remained broadly unchanged at 24.5 percent of GDP.

At 8.7 percent year-on-year in February 2022, inflation remained above the central bank target of 4-6 percent. Food and energy prices were the main drivers. The government established price caps on certain food and fuel products and utility tariffs in response to January's mass protests.

As loan guarantees and forbearance measures continued to support households and businesses affected by the pandemic, the share of NPLs in the banking system decreased to 3.3 percent in 2021 from 6.9 percent in 2020. Sanctions on banks and transaction restrictions thus far have not stressed the local branches of Russian banks (15 percent of banking sector assets). However, vulnerabilities could emerge from large financial outflows, sustained supply chain disruptions, and risks of secondary sanctions effects given Kazakhstan's significant trade, investment, and people linkages to Russia.

The employment rate has reverted to pre-pandemic levels, and real wages increased by 5.7 percent annually in Q3 2021. In January 2022, the minimum wage was increased by 41 percent as part of a government package of social reforms. The poverty rate is estimated to have decreased to 12.4 percent in 2021 due to broader economic recovery.

Outlook

Spillovers from Russia's economic collapse will disrupt Kazakhstan's supply chains and dent its growth prospects. Real GDP growth is expected to slow to 1.5-2.0 percent in 2022. Kazakhstan also relies on Russia for 40 percent of its imports. Trade disruptions, lower business confidence, and increased currency volatility will also lower growth.

Growth will also be lower due to the closure (due to storm damage) in March of Kazakhstan's main oil pipeline (to Russia's Black Sea), through which about 80 percent of Kazakhstan's oil is exported. Based on current repair timeframes (up to a month), oil export volumes could fall by about 5-6 percent in 2022.

Further exchange rate depreciation, rising food prices, and wage increases will keep inflation high in 2022. Monetary policy is expected to remain tight in response.

Fiscal policy will continue accommodating public spending to improve household welfare and sustaining the business environment. Measures include increased social assistance, rental subsidies, and compensation for businesses affected by the January protests.

A small current account balance is projected in 2022, supported by higher oil prices and lower demand for imports.

The national poverty rate is projected to fall to 12.0 percent by end-2022, though this may change if inflation is higher and growth slips further.

These projections bear significant downside risks: spillovers from sanctions that further weaken trade flows and investor confidence; more prolonged suspensions of Black Sea oil exports; risks of wage-price spirals linked to economywide wage increases, and potential capital flight amidst heightened uncertainty and tighter global financial markets.

Events since January clearly urge faster progress on reforms to achieve sustainable growth and shared national prosperity. In that regard, the authorities plan to take a stronger stand against corruption and improve the rule of law, having announced steps to increase competition and the quality of human capital, and address government inefficiency.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.5	-2.5	4.0	1.8	4.0	3.5
Private Consumption	6.1	-3.8	7.0	2.7	4.2	3.7
Government Consumption	15.5	12.8	0.5	1.2	0.8	0.8
Gross Fixed Capital Investment	13.8	-0.3	1.2	0.8	4.0	3.0
Exports, Goods and Services	2.0	-12.1	-0.2	-0.4	6.2	4.5
Imports, Goods and Services	14.9	-10.7	5.9	1.2	4.9	3.4
Real GDP growth, at constant factor prices	4.5	-2.5	4.1	1.8	4.1	3.6
Agriculture	-0.1	5.6	-2.4	2.5	2.8	2.9
Industry	4.1	-0.4	4.3	1.2	5.4	4.8
Services	5.2	-4.5	4.6	2.1	3.4	2.8
Inflation (Consumer Price Index)	5.3	6.8	8.0	10.5	7.2	5.5
Current Account Balance (% of GDP)	-4.0	-3.7	-3.0	0.6	-0.1	-0.3
Net Foreign Direct Investment (% of GDP)	3.1	3.4	2.1	1.7	3.0	2.7
Fiscal Balance (% of GDP)	-1.3	-3.3	-3.0	-2.7	-1.9	-0.8
Debt (% of GDP)	19.6	24.8	24.6	28.3	29.0	29.0
Primary Balance (% of GDP)	-0.3	-2.2	-1.7	-1.6	-0.7	0.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.2	0.2	0.2	0.2	0.1	0.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	4.0	14.2	12.4	12.0	10.3	9.2
GHG emissions growth (mtCO2e)	2.2	7.0	1.5	0.8	1.5	1.8
Energy related GHG emissions (% of total)	80.2	81.1	81.0	80.8	80.8	80.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
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 based on GDP per capita in constant LCU.

KOSOVO

Table 1	2021
Population, million	1.8
GDP, current US$ billion	9.0
GDP per capita, current US$	5057.7
Upper middle-income poverty rate ($5.5)[a]	24.4
Gini index[a]	29.0
Life expectancy at birth, years[b]	72.5

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

Kosovo's economy experienced a strong recovery in 2021, supported by a rebound in domestic demand and record export growth. Inflation also intensified, driven by increases in import prices. Growth is expected to decelerate to 3.9 percent in 2022. The medium-term outlook remains positive, but prone to elevated risks; with the war in Ukraine significantly increasing inflationary pressures. Further reforms to enhance competitiveness would help sustain Kosovo's export momentum.

Key conditions and challenges

Kosovo's GDP grew by 9.1 percent in 2021, following a contraction of 5.3 percent in 2020. From Q2 of 2021, vaccination accelerated, and travel resumed, bolstering economic activity. Consumption and diaspora-driven service exports remain key growth drivers.

Private investment contributes increasingly but consists mostly of construction, with limited productivity spillovers. Positively, merchandise exports increased significantly from pre-pandemic levels and, though still low, are an encouraging sign of private sector growth. The trade deficit, however, remains high.

Low labor force participation, especially for women, remains a pressing constraint to growth. Overall, 1 in 3 working-age adults was employed before the recovery accelerated; women's employment increased by 14 percent, but still only 16 percent adult women were employed by Q1 2021. Positively, formal employment increased throughout 2021.

Kosovo, a Euroized economy, has a good track record of headline fiscal management. However, without access to international financial markets, concessional financing remains a significant source to close the infrastructure gap.

GDP growth is expected to reach 3.9 percent in 2022, but there are significant risks. While the pandemic appears to recede, risks of new vaccine-resistant variants could disrupt international travel. Meanwhile, the Russian invasion of Ukraine and associated sanctions could generate further inflationary pressure, especially for energy and food, undermining consumption. Rising energy costs pressuring public finances since late 2021, given the vulnerability of aged power-generation infrastructure.

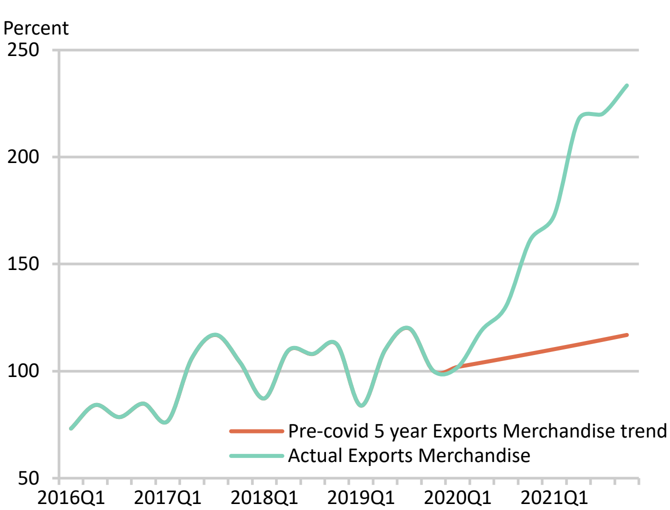
Under the changing external conditions, maintaining fiscal space to support the economy is crucial. Furthermore, Kosovo needs to build on the recent export growth momentum by further improving the regulatory environment and by investing on productivity-enhancing human capital and infrastructure.

Recent developments

Strong credit growth, remittances, and foreign direct investment (FDI), combined with a direct 3.2 percent-of-GDP fiscal stimulus and the spillover from quasi-monetary measures in 2020, restored confidence and boosted domestic demand, driving an exceptional 9.1 percent real output growth in 2021. Meanwhile, trade increased substantially. On the production side, services and industry contributed the most, while agriculture contributed negatively to growth.

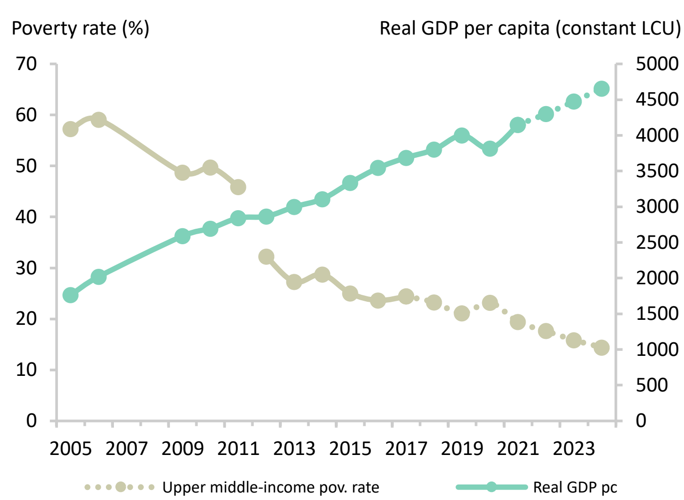
Until Q1 2021, labor force participation and employment increased only for women (under 25 especially) and slightly fell for men. However, tax-registered employment rose by nearly 10 percent throughout 2021. Poverty is estimated to have decreased by

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



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

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



Source: World Bank. Note: see Table 2.

about 4 percentage points in 2021 to under 20 percent.

Consumer price inflation jumped from 0.2 percent in 2020 to 3.4 percent in 2021, reaching 7.5 percent in February 2022. Import prices of energy, food and commodities fueled inflation.

Manufacturing exports rose by almost 70 percent year-on-year. Services' exports more than doubled as diaspora travel bounced back in 2021. Remittances also increased by 26 percent y-o-y. However, the recovery also increased import demand by almost 50 percent, resulting in a deterioration of the current account deficit (CAD).

The fiscal deficit fell from 7.6 percent of GDP in 2020 to 1.4 percent in 2021, thanks to a record 29 percent increase in tax revenues. Tax revenues were boosted by the economic recovery, higher inflation, and formalization. Nominal current expenditure grew by 7 percent, mostly due to the fiscal stimulus program. Nominal public capital expenditure increased but remains below its pre-pandemic share of GDP. Public and publicly guaranteed (PPG) debt remained stable at 22.5 percent of GDP. The financial sector strengthened, supporting the recovery through double-digit credit growth.

Outlook

As of March 2022, growth is projected to reach 3.9 percent by year end, but there are significant downside risks. While the post-COVID recovery furthers economic activity, the consequences of the Russian invasion of Ukraine are still unfolding and could dampen economic prospects.

Private investment growth, from higher construction and export-related investment, is expected to support growth in 2022. Improved execution in public investment should accelerate its recovery. However, a positive contribution from investment hinges on the strength of diaspora demand for real estate, a moderation in construction input prices, and the ability of the Government to maintain current capital budgeting against higher pressures for energy and social transfers. The current account deficit is projected to exceed 9 percent of GDP, as imports continue to rise due to higher domestic demand.

Headline inflation is expected to rise to 5.4 percent in 2022 but the negative impact of the war in Ukraine on global trade and prices could increase inflation further. As a net importer of food, agricultural inputs, and energy, Kosovo is directly affected by global price surges of these goods, despite minor direct trade links with Russia and Ukraine. Food and energy inflation could affect the most vulnerable households disproportionately, as they devote large budget shares to these items. Rising electricity costs might increase fiscal pressures. On the other hand, base metals' export revenues could increase from higher global demand.

Tax revenue collection is expected to remain strong in 2022, however, expenditure should outpace revenues due to a rebound in capital expenditure and higher current expenditures from energy subsidies and social transfers. As a result, the fiscal deficit is expected to widen to 2.2 percent of GDP and remain within the fiscal rule over the medium term. PPG debt is expected to reach 24.3 percent of GDP in 2022.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.8	-5.3	9.1	3.9	4.3	4.2
Private Consumption	5.6	2.5	7.0	1.7	1.8	1.8
Government Consumption	10.1	2.1	0.7	2.3	6.8	3.1
Gross Fixed Capital Investment	2.9	-7.6	10.5	9.0	7.5	7.7
Exports, Goods and Services	7.6	-29.1	69.1	5.0	5.5	6.0
Imports, Goods and Services	4.5	-6.0	27.9	3.4	3.6	3.5
Inflation (Consumer Price Index)	2.7	0.2	3.4	5.4	1.6	2.2
Current Account Balance (% of GDP)	-5.6	-7.0	-9.1	-9.7	-9.0	-8.0
Net Foreign Direct Investment (% of GDP)	-2.7	-4.2	4.2	4.2	4.0	4.0
Fiscal Balance (% of GDP)	-2.9	-7.6	-1.4	-2.2	-2.6	-2.5
Debt (% of GDP)	17.0	22.0	22.1	24.0	25.3	26.9
Primary Balance (% of GDP)	-2.6	-7.1	-1.0	-1.7	-2.2	-2.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	21.1	23.2	19.4	17.6	15.8	14.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
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 based on GDP per capita in constant LCU.

KYRGYZ REPUBLIC

Table 1	2021
Population, million	6.7
GDP, current US$ billion	8.5
GDP per capita, current US$	1275.9
International poverty rate ($1.9)[a]	1.1
Lower middle-income poverty rate ($3.2)[a]	16.2
Upper middle-income poverty rate ($5.5)[a]	58.1
Gini index[a]	29.0
School enrollment, primary (% gross)[b]	102.6
Life expectancy at birth, years[b]	71.6
Total GHG Emissions (mtCO2e)	10.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

Spillovers from Russia's invasion of Ukraine are expected to reverse the progress made by the Kyrgyz economy in recovering from the COVID pandemic in 2021 when annual GDP growth was 3.6 percent. The economy is now projected to contract by 5 percent in 2022, and inflation is likely to exceed 15 percent, creating significant further pressure on fiscal and debt management as well as pushing more people into poverty.

Key conditions and challenges

The economy remains heavily dependent on gold production (about 10 percent of GDP and 35 percent of exports), remittances (30 percent of GDP), and foreign aid. The country has witnessed significant political and governance changes over the past two years, accompanied by policy uncertainty. Overall, the economic situation was further complicated by security concerns arising from border conflicts.

Strong and sustainable growth needs a larger private sector, more international trade, and a conducive macroeconomic environment. However, large infrastructure gaps, the weak rule of law and governance, a poor business environment, onerous regulations, and financially unsustainable energy sector policies are constraining growth. The poor condition of the energy sector - the result of below-cost recovery tariffs that have endured for years - and noncompliance with WTO and Eurasian Economic Union regulatory standards are especially binding constraints.

Recent developments

The Kyrgyz economy was hit hard by the pandemic in 2020 but began recovering in 2021 as GDP grew by 3.6 percent. Strong industry and services growth helped offset subdued agriculture and construction activity. The gold sector grew by 1 percent, and fewer pandemic restrictions spurred economic activity and remittance inflows. However, in the first two months of 2022, annual growth slowed to 2 percent on lower gold production and weaker services growth.

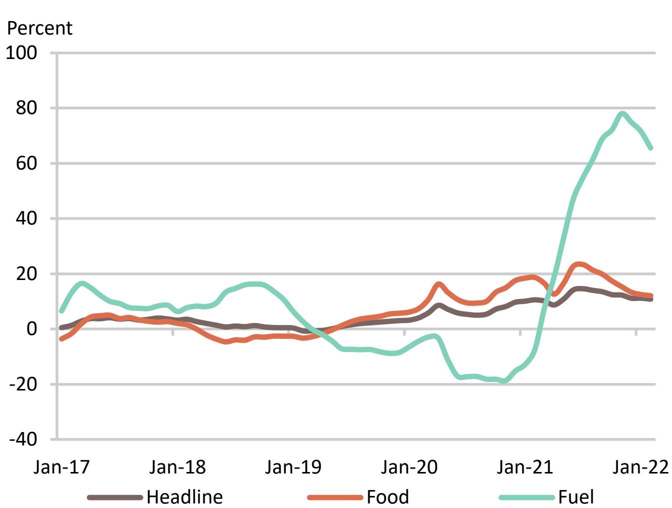
The 2021 current account deficit was about 3.3 percent of GDP against a 4.8 percent surplus in 2020. The main driver was a sharper trade deficit of 24.8 percent of GDP, compared to 18.5 percent in 2020. Exports (in US dollars) rose 40 percent while imports climbed 49 percent, reflecting higher imports of machinery, chemicals, and textiles; and increased food and fuel prices.

Inflation increased to 11.2 percent in December 2021 from 9.7 percent a year ago but has since fallen to 10.8 percent in February 2022. This was due to higher food and fuel prices which grew by 13.3 and 74.8 percent, respectively in 2021.

In response to higher inflation, the central bank raised its policy rate four times, by a cumulative 350 basis points, in 2021 and early 2022, to 8.5 percent. To mitigate inflation risks and smooth exchange rate volatility, the central bank sold $689 million in foreign reserves in 2021.

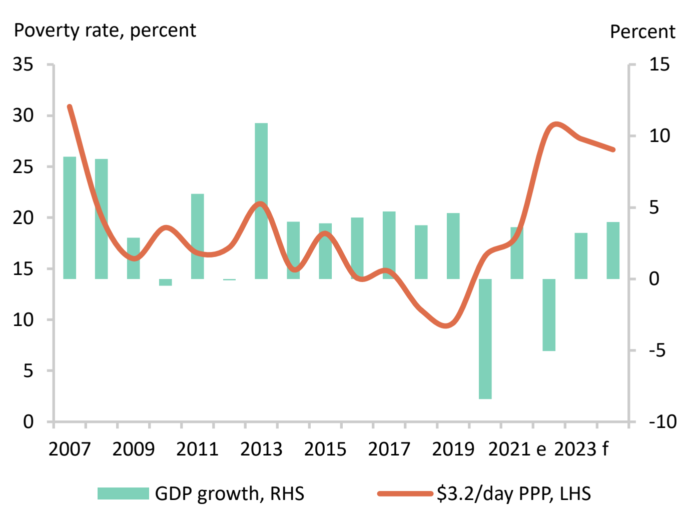
Following Russia's invasion of Ukraine, the som depreciated by 23 percent against the US Dollar but has since regained about half of its lost value. In March, the central bank raised its policy rate twice more by a total of 550 basis points to 14 percent. Credit growth in the economy remained robust at 10 percent in December 2021, although slightly slower than in 2020.

FIGURE 1 Kyrgyz Republic / Headline, food and fuel inflation



Source: Kyrgyz authorities.

FIGURE 2 Kyrgyz Republic / GDP growth and poverty rate



Sources: Kyrgyz authorities and World Bank staff.

The government's fiscal position improved significantly in 2021. The deficit fell to 0.3 percent of GDP from 4.2 percent in 2020 on improved revenue collection and restrained public spending growth. Total revenues increased to 31.3 percent of GDP from 27.7 percent in 2020 on a surge in import tax receipts, rebounding domestic activity, and improved tax administration. Public spending increased marginally to 34.3 percent of GDP from 33.7 percent in 2020, with an increase in capital spending offsetting sharply lower recurrent spending. The fiscal improvement reduced public debt to 60.3 percent of GDP, from 67.7 percent at end-2020.

The COVID-19 pandemic increased the poverty rate (US$3.2 a day, 2011 PPP) from 9.7 percent in 2019 to 16.2 percent in 2020. It is estimated to have slightly deteriorated further in 2021 due to higher food prices and fewer job opportunities.

Outlook

The spillovers of Russia's invasion of Ukraine have significantly worsened the outlook for the Kyrgyz economy, which is projected to contract by 5 percent in 2022. This is mainly due to a fall in private consumption and investment spending from an anticipated 33 percent decline in remittance inflows. The fiscal deficit is expected to again widen to 5 percent of GDP in 2022, and external trade is expected to shrink. Forecasts of weak agricultural output in 2022 and continued uncertainties around gold production will further constrain growth. Growth is expected to recover to 3.2 percent in 2023 and 4.0 percent in 2024, assuming a stabilization in the conflict and continued public investment growth. These projections also assume domestic political stability and further easing of pandemic conditions. However, risks remain high of the outlook further worsening.

Inflation will increase to about 18 percent by end-2022, from further food and fuel price increases, before moderating to 8 percent by end-2023. The current account deficit in 2022 is projected to widen to 11 percent of GDP, reflecting drops in remittances and gold exports. The deficit is expected to narrow over the medium-term alongside a recovering economy and a revival in exports.

The fiscal deficit is expected to widen to 5.3 percent of GDP in 2022 as the government increases spending to offset domestic spillovers from the war in Ukraine. Expansions of social spending and public wages are expected to help offset the impact of the remittance shock and weaker economic activity. The deficit is expected to narrow to 3 percent of GDP over 2023-24 as conditions improve.

Lower remittances, high food prices, fewer job opportunities domestically and abroad, and economic contraction will likely increase and deepen poverty in 2022. The impact of sanctions on Russia may sever a vital lifeline for Kyrgyz households reliant on remittances from Russia. The government's anti-crisis measures, such as increased pensions and wages for government officials and social assistance, will partly soften the negative impact on the poor.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.6	-8.4	3.6	-5.0	3.2	4.0
Private Consumption	0.8	-8.3	2.4	-5.2	2.7	3.2
Government Consumption	0.5	0.9	1.9	1.7	0.3	0.3
Gross Fixed Capital Investment	7.1	-16.2	17.9	4.1	10.8	11.5
Exports, Goods and Services	16.2	-27.3	-1.4	1.1	8.0	7.2
Imports, Goods and Services	6.1	-28.0	11.1	9.0	11.3	10.5
Real GDP growth, at constant factor prices	3.6	-8.4	3.6	-5.0	3.2	4.0
Agriculture	2.5	1.1	0.0	-2.2	3.5	2.6
Industry	6.6	-7.5	-2.8	0.4	1.7	8.0
Services	3.2	-16.4	10.2	-9.9	3.6	3.5
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	-3.3	-11.4	-10.1	-10.0
Net Foreign Direct Investment (% of GDP)	3.8	-7.5	0.7	1.3	2.5	2.2
Fiscal Balance (% of GDP)	-0.5	-4.2	-0.3	-5.3	-4.4	-3.0
Debt (% of GDP)	51.6	67.7	60.3	65.2	61.3	57.9
Primary Balance (% of GDP)	0.5	-2.9	1.3	-3.6	-2.9	-1.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.6	1.1	1.1	1.1	1.1	1.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	9.7	16.2	18.3	28.7	27.7	26.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	52.6	58.1	58.7	56.7	57.2	58.0
GHG emissions growth (mtCO2e)	-6.7	-20.1	-7.2	-4.8	-1.2	-0.6
Energy related GHG emissions (% of total)	71.7	64.4	61.3	58.1	56.3	54.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2017-KIHS and 2020-KIHS. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2017-2020) 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$	5199.9
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.5
Upper middle-income poverty rate ($5.5)[a]	13.3
Gini index[a]	26.0
School enrollment, primary (% gross)[b]	106.3
Life expectancy at birth, years[b]	71.9
Total GHG Emissions (mtCO2e)	12.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

Growth is expected to be curtailed by the unfolding crisis in Ukraine despite its swift recovery from COVID-19. Medium term growth hinges on the containment of the war and of the COVID-19 pandemic, as well as a successful management of the refugee crisis and sustained fiscal support. Authorities face policy trade-offs between the need for mitigating shocks and the implementation of a broad-based reforms program to support long term growth.

Key conditions and challenges

Despite a solid economic performance in the past two decades, the economic model remains reliant on remittances-induced consumption, with an associated low productivity growth resulting from persistent structural and governance weaknesses, significant state enterprises footprint, low competition, uneven playing field, and tax distortions. The 2014 bank fraud uncovered deep weaknesses in the financial sector. Extreme weather events and the propagation of economic and financial crises from the main trading partners have been a traditional risk for a small open economy like Moldova. The COVID-19 pandemic has recently also raised concerns about the health system's stability.

Recent developments in Ukraine pose major threats to the economic prospects of Moldova through trade (32 percent of imports and 14 percent of exports are with Russia and Ukraine) and remittances channels (70 percent of migrants and 25-30 percent of remittances are related to Russia and Ukraine). Key infrastructure networks are primarily connected to Ukraine despite recent efforts to better connect the country to the EU. The potential disruption in the supply of food, energy and commodity imports is expected to further increase prices. The fiscal position is expected to be further weakened by inflows of refugees, the impact on revenues and on social spending to mitigate rising inflation, squeezing fiscal space.

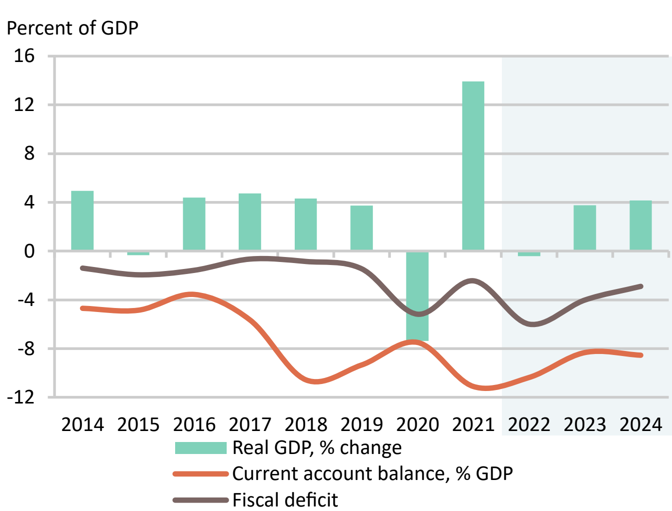
Persistent inequality of opportunity limits the ability of low-income households to access public services, reducing their resilience and cementing low intergenerational mobility. Due to the 2020 contraction, poverty increased from 25.2 percent in 2019 to 26.8 percent in 2020 (based on the national poverty line), marking the second consecutive year in which poverty increased.

The government faces the challenge of striking the balance between cyclical and structural problems, sustaining economic recovery with a stronger fiscal impulse while ensuring fiscal sustainability, and implementing an ambitious structural reforms program to improve competitiveness and long-term growth.

Recent developments

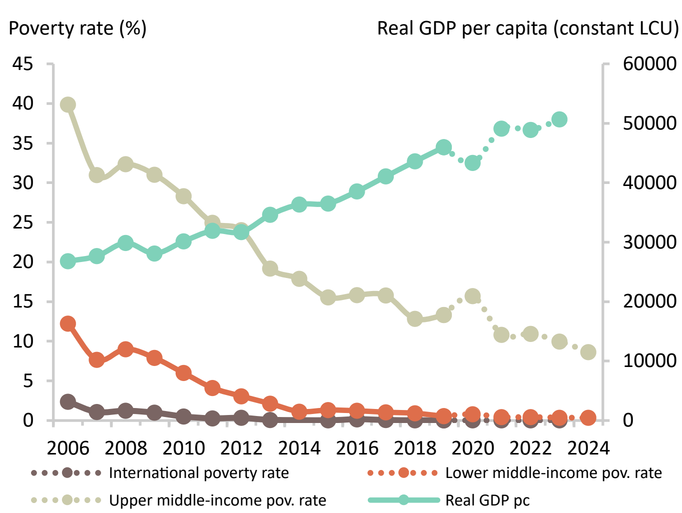
Economic activity bounced back by 13.9 percent in 2021. A strong increase in wages, remittances and social transfers contributed to private consumption growth. Investments increased by 7 percent on the back of favorable monetary conditions. Strong domestic demand and restocking after the lockdown led to significant drag on growth from net exports, albeit a strong increase of exports due to high yields. All economic sectors recovered after a sharp contraction in 2020, with the agricultural sector leading (14.3 percent) after the 2020 drought.

FIGURE 1 Moldova / Projected macroeconomic indicators



Source: Author's calculations based on national statistics.

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



Source: World Bank. Notes: see table 2.

The accommodative monetary conditions throughout 2021 were reversed as inflationary pressures began to pick up due to increasing global energy and food prices and strong domestic demand. Policy interest rate tightened to 10.5 percent from 2.5 percent in 2021. In the first three quarters of 2021, the current account deficit almost doubled reaching 13 percent of GDP as imports expanded quicker than exports and remittances, financed primarily by cash and deposits in foreign currency. On the back of higher GDP, external debt decreased by 4.5 percentage points to 66.1 percent of GDP.

In 2021, health and social protection (35.4 percent and 13 percent, y/y) were the main drivers of spending increase (+ 11.9 percent, y/y). Spending on non-financial assets increased by 17.6 percent despite lower execution of capital investments. Revenue collection rebounded strongly (+23.5 percent, y/y). The fiscal deficit, mainly financed through foreign debt, reached 2 percent of GDP. Public and publicly guaranteed debt decreased to around 33 percent of GDP.

Employment recovered to its pre-pandemic levels by Q4 of 2021 and wages grew by 13 percent in the first three quarters of 2021, y/y. The Government almost doubled the minimum pension in 2021, increasing disposable incomes for pension-receiving households. However, rising energy and food prices started affecting purchasing power of vulnerable households in the last quarter of 2021.

Outlook

The unfolding war in Ukraine is expected to affect the economy through the trade and remittances channels as well as prices and financial uncertainties. Even under an optimistic scenario of the resolution of the conflict in Ukraine and reestablishment of the trade routes, subsiding pandemic risks, a continuation of a broad-based government reform program, and sustained fiscal impulse, growth is expected to substantially decelerate to -0.4 percent in 2022. In an optimistic scenario of de-escalation of the situation in Ukraine, growth is expected rebound to 3.8 percent in 2023 and around 4.4 percent in 2024. As the economy gains steam and the trade routes are reestablished and higher global energy and food prices subside, the current account deficit is expected to improve. High inflationary pressures will persist throughout 2022 with the inflation rate remaining well above the upper bound of the central Bank target corridor of 5 percent (+/-1.5 percent). The fiscal deficit in the medium term is expected to remain higher than in pre-Covid-19 years, as the economy will need to protect the disposable income of the population from increasing prices (particularly energy and food), support the refugees and increase investments as the ambitious reform program gains steam. As a result, public debt is expected to increase, while remaining relatively low by international standards.

Given the recovery in the labor market and strong remittance receipts, poverty is expected to have decreased from 15.7 percent in 2020 to 10.8 percent in 2021, according to US$5.50 PPP poverty line. Impacts of the war in, including higher food and fuel inflation, the potential for return migration and lower remittances, as well as a weaker labor market due to lower demand for exports, are forecasted to lead to a stagnation in poverty of 10.9 percent in 2022.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.7	-7.4	13.9	-0.4	2.7	4.2
Private Consumption	3.2	-8.3	15.5	0.8	3.8	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	-1.0	3.7	4.3
Exports, Goods and Services	8.2	-9.6	17.5	0.8	4.1	4.3
Imports, Goods and Services	6.2	-5.0	19.2	2.0	4.6	3.9
Real GDP growth, at constant factor prices	4.0	-7.6	15.6	-0.8	2.5	4.2
Agriculture	-2.3	-26.4	18.7	5.0	2.0	7.0
Industry	7.1	-4.3	5.6	3.5	4.3	5.4
Services	4.3	-4.8	19.3	-3.4	1.9	3.2
Inflation (Consumer Price Index)	4.7	4.1	5.1	18.1	6.2	4.6
Current Account Balance (% of GDP)	-9.3	-7.7	-11.1	-10.4	-9.0	-8.8
Net Foreign Direct Investment (% of GDP)	4.2	1.3	1.6	0.8	1.5	2.7
Fiscal Balance (% of GDP)	-1.4	-5.3	-1.9	-6.1	-4.1	-3.1
Debt (% of GDP)	27.4	36.4	32.4	36.6	36.0	35.2
Primary Balance (% of GDP)	-0.7	-4.5	-1.1	-4.9	-2.9	-2.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.5	0.8	0.4	0.4	0.4	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	13.3	15.7	10.8	10.9	10.0	8.6
GHG emissions growth (mtCO2e)	-1.3	-9.6	6.0	-2.7	-0.7	-0.1
Energy related GHG emissions (% of total)	61.9	62.1	62.0	60.5	59.8	59.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
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 = 0.7 based on GDP per capita in constant LCU.

MONTENEGRO

Table 1	2021
Population, million	0.6
GDP, current US$ billion	5.6
GDP per capita, current US$	9011.0
Upper middle-income poverty rate ($5.5)[a]	16.9
Gini index[a]	36.9
School enrollment, primary (% gross)[b]	101.7
Life expectancy at birth, years[b]	76.9
Total GHG Emissions (mtCO2e)	3.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

Montenegro's economic recovery in 2021 was robust, supported by tourism revival. The labor market also responded to economic recovery and the fiscal position significantly improved. Montenegro adopted a landmark reform program "Europe Now" which carries many opportunities, but also significant fiscal risks. The outbreak of war in Ukraine is worsening the otherwise positive outlook. This together with rising inflation risks will impact living standards and poverty.

Key conditions and challenges

Montenegro's small, open, and tourism-dependent economy suffered the largest contraction in Europe of -15.3 percent in 2020, reversing several years of poverty reduction and exposing Montenegro's acute vulnerabilities to external shocks.

From 2015-19, growth averaged 4 percent, driven by large public investments and strong growth in consumption. Over two-thirds of Montenegro's jobs are in services, which account for over 70 percent of value added. The current account balance shows a large structural deficit and averaged 15 percent of GDP over 2015-19, financed by net FDI and external debt. Montenegro's net international investment position at negative 170 percent of GDP in 2019 is amongst the largest in the world. Due to weaker adherence to fiscal plans and debt-financed highway construction, public debt peaked at 105 percent of GDP in 2020. Montenegro aspires to join the EU, but significant rule of law challenges have slowed progress towards this goal and reflect a key development constraint.

The economic rebound in 2021 was robust, supported by invigorating tourism. The fiscal macro-fiscal stability has been preserved as both the fiscal deficit and public debt were significantly reduced. Montenegro adopted a reform program "Europe Now", which abolishes 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 has the potential to reduce inequalities and increase formal employment and growth over the medium-term, especially if complemented by additional structural reforms, but also poses fiscal risks. The Parliament rejected several revenue measures, which will likely result in a wider-than-planned fiscal deficit in 2022 and the following years.

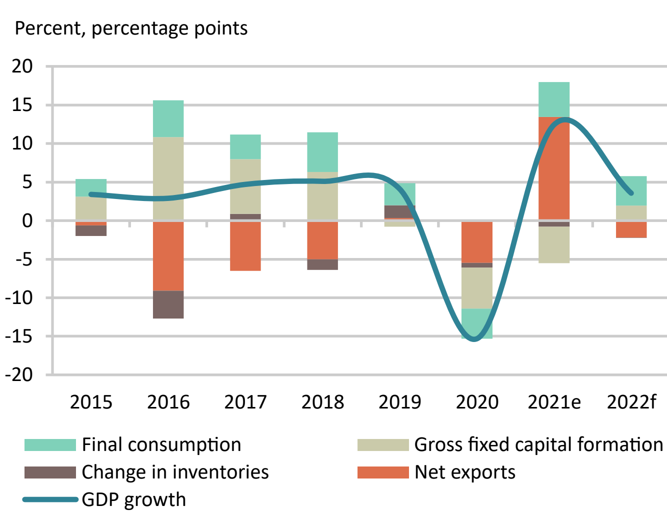
In February 2022, there was a vote of no confidence in the government. A turbulent political environment is adding to already high uncertainty. Accelerating structural reforms and fiscal prudence are needed to mitigate increasing risks.

Recent developments

Montenegro's economy posted a strong recovery in 2021, estimated at 12.4 percent, driven primarily by a rebound in international tourism receipts recovering to 70 percent of their 2019 level from just 13 percent in 2020. Tourism, employment growth, and household lending supported the strong private consumption rebound. Investments lingered driven by a slowdown in public investments.

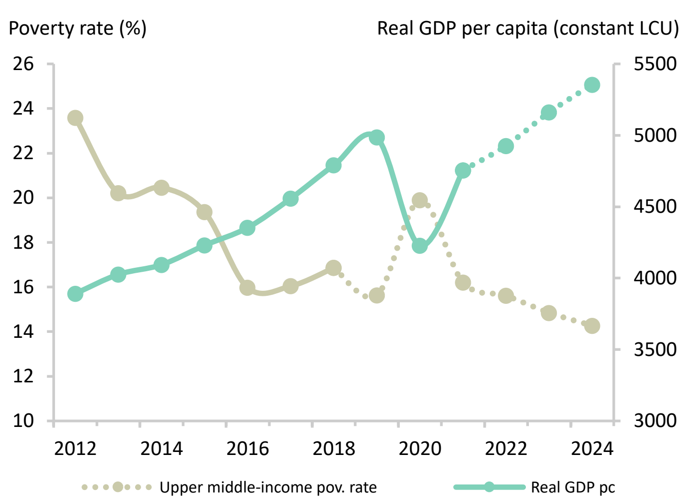
The labor market recovered as economic activity picked up. LFS data show an increase in employment in the fourth quarter by 20 percent compared to the first quarter. Poverty (income below $5.5/day in 2011PPP) is projected to decline from around 19.9 percent in 2020 to 16.2 percent in 2021.

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



Sources: MONSTAT, World Bank.

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



Source: World Bank. Notes: see table 2.

In 2021, inflation averaged 2.4 percent, and peaked at 6.7 percent in February 2022, led by food and oil prices, which constrains purchasing power particularly for the poor. The financial sector has remained robust with outstanding loans and deposits reaching highs in 2021. The capital adequacy was at 18.5 percent, while non-performing loans increased to 6.8 percent of total loans from 5.9 percent in 2020.

In 2021, the current account deficit narrowed to 9.2 percent of GDP, the lowest since 2004. Growing by 95 percent, exports of goods and services outpaced import growth, narrowing the trade deficit to 19.5 percent of GDP. Strong net exports were supported by the tourism recovery, metals and electricity exports, and lower imports growth. Net remittances increased by 35 percent further reducing the current account deficit which was entirely financed by net FDI accounting for 11.2 percent of GDP. In January 2022, international reserves covered 8 months of merchandise imports.

The fiscal deficit fell to 2 percent of GDP in 2021 from 11 percent of GDP in 2020, driven by a rebound in revenues, capital budget underspending, and lower current spending. Public debt declined to 86 percent of GDP.

Outlook

The outlook is fragile in an environment of increasing uncertainties. The outbreak of the war in Ukraine and the associated developments have significantly worsened the outlook for Montenegro, reducing the GDP growth rate to 3.6 percent in 2022. The main direct transmission channel of the war to Montenegro's economy is tourism. The expected decline in tourism due to the war slows down exports and private consumption, which is expected to remain strong, however, due to the positive effects of higher disposable incomes and the employment recovery. The war decelerates household income growth particularly for those working in the tourism and hospitality sector. Rising energy and food prices will disproportionately hurt the poor. Poverty in 2022 is projected at 15.6 percent, though the outlook is uncertain depending on the economic impacts of the conflict.

Investments are expected to pick up as the highway is being completed and other capital spending increases, while private investments in tourism and energy sectors continue, but at a slower pace. As investments resume, so will imports, which are expected to remain at similar levels during 2022-24. The current account deficit is thus expected to widen and remain at around 12 percent of GDP over the medium term. The global inflationary pressures and, to a lesser extent, domestic pressures from an increase in wages will push inflation to an estimated 5 percent in 2022. Utmost fiscal prudence is needed to return public debt towards Montenegro's fiscal rule of 60 percent of GDP.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.1	-15.3	12.4	3.6	4.7	3.7
Private Consumption	3.1	-4.6	4.3	3.9	3.6	2.8
Government Consumption	1.0	0.8	1.5	1.4	0.3	0.6
Gross Fixed Capital Investment	-1.7	-12.0	-10.3	5.3	6.8	7.5
Exports, Goods and Services	5.8	-47.6	81.1	2.2	7.4	5.8
Imports, Goods and Services	2.7	-20.1	13.7	3.8	5.5	5.2
Real GDP growth, at constant factor prices	4.2	-14.4	12.4	3.6	4.7	3.7
Agriculture	-2.2	1.1	-5.0	0.1	0.5	0.5
Industry	5.6	-12.0	1.0	4.0	6.0	4.0
Services	4.5	-16.9	19.0	3.8	4.7	4.0
Inflation (Consumer Price Index)	0.4	-0.3	2.4	5.0	2.3	1.6
Current Account Balance (% of GDP)	-14.3	-26.1	-9.2	-12.6	-12.1	-12.0
Net Foreign Direct Investment (% of GDP)	6.2	11.2	11.2	8.1	8.7	8.7
Fiscal Balance (% of GDP)	-2.7	-11.0	-2.0	-5.2	-3.0	-1.7
Debt (% of GDP)	76.5	105.3	84.9	77.4	75.2	73.1
Primary Balance (% of GDP)	-0.5	-8.3	0.4	-3.4	-1.4	-0.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	15.6	19.9	16.2	15.6	14.8	14.3
GHG emissions growth (mtCO2e)	5.3	-22.0	15.2	2.1	0.0	1.3
Energy related GHG emissions (% of total)	70.7	65.9	69.8	70.6	70.8	71.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2012-SILC-C, 2015-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 (2012-2015) with pass-through = 0.87 and, for 2022 onward, 0.5 based on GDP per capita in constant LCU, reflecting impacts of rising prices.

NORTH MACEDONIA

Table 1	2021
Population, million	2.1
GDP, current US$ billion	13.9
GDP per capita, current US$	6696.8
Upper middle-income poverty rate ($5.5)[a]	17.9
Gini index[a]	33.0
School enrollment, primary (% gross)[b]	98.2
Life expectancy at birth, years[b]	75.8
Total GHG Emissions (mtCO2e)	10.4

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

As the economy rebounded, the energy crisis and the war in Ukraine brought new challenges. With rising public debt, the authorities need to replace Covid-19 support with targeted fiscal support to the most energy vulnerable households and firms. Monetary policy needs to strike a balance between supporting a fragile recovery amidst rising inflation. The medium-term outlook remains positive, but short-term risks are all tilted downside and intensified.

Key conditions and challenges

Following a decade-long relative macroeconomic stability, in 2020 the economy plunged into a recession with the outbreak of the global pandemic. As the recovery took hold, on the back of buoyant domestic and external demand, the energy crisis as well as the war in Ukraine in early 2022, bring new challenges and seek continued fiscal support despite elevated debt levels.

Support measures introduced by the government (i.e., subsidies and social security contributions to private firms and cash benefits and vouchers for vulnerable people) helped alleviate the impact of the pandemic on poverty in 2020. After an estimated increase in 2020, poverty likely resumed decline in 2021 (using the upper middle income class poverty line).

The medium-term outlook remains positive, but downside risks are elevated. The war in Ukraine, sanctions to Russia and Belarus, prolonged supply chain disruptions, rising inflationary and minimum wage pressures, weak political stability and the energy crisis continue to weigh on the outlook. Heightened political uncertainty, and delayed EU accession negotiations, may lead to weaker reform effort needed to boost potential growth and consolidate public finances. Further, tightening financial conditions globally may affect options and costs to meet financing needs. On the positive side, the Growth Acceleration Plan (GAP) may boost human capital development, accelerate the green transition and digitalization, helping to boost potential growth.

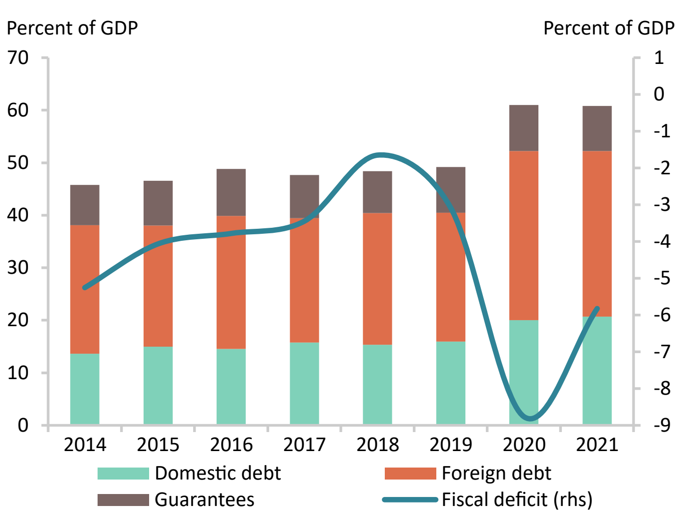
With eroded fiscal space and rising public debt, the reform agenda in the near to medium term needs to focus on improved targeting of crisis-related support, boosting tax compliance, restructuring and reprioritizing spending towards the GAP, addressing long-term structural bottlenecks and improving the efficiency of public investment management. The generous fiscal transfers, untargeted subsidies, and broad tax exemptions, including frequent changes of pension policy with sizeable fiscal implications are not sustainable and could derail the macroeconomic stability in the given context.

Recent developments

The real growth rebounded by 4 percent in 2021, following a deep contraction in 2020. The recovery was broad-based, driven by a boost in personal consumption, and a growing investment contribution. Exports and imports bounced back, but the trade balance worsened. On the production side, growth was driven by services, as the industry struggled with supply-chain blockages and reduced external orders.

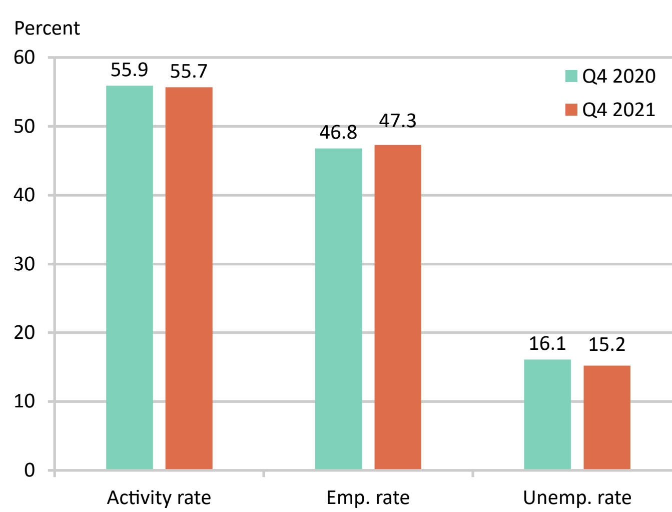
The labor market witnessed a slow improvement despite government support. The unemployment rate decreased to 15.2 percent at end-2021, in part due to a small increase in the employment rate (at 47.3

FIGURE 1 North Macedonia / Fiscal performance



Sources: North Macedonia State Statistics Office, Ministry of Finance and World Bank staff calculations.

FIGURE 2 North Macedonia / Labor market indicators, 2020-21



Source: World Bank calculations based on LFS 2020 and 2021.

percent), but also due to a lower activity rate (at 55.7 percent in Q4 2021).

Banking sector performance remained solid in 2021, with the liquidity ratio at 22 percent, and an increase of capital adequacy ratio to 17.3 percent. Credit growth continued, led by FX-denominated mortgage lending, while non-performing loans ratio stood at 3.5 percent. The inflation accelerated in the second half of 2021, to reach 7.6 percent in February 2022. The surge is fueled by energy and food price hikes, but spillovers to core inflation widened. While wage growth was service sector-led in 2021, in February 2022, government increased the minimum wage by 18.5 percent and subsequently provided a temporary compensation to firms through the contribution subsidy.

The fiscal deficit declined to 5.4 percent in 2021. Yet, payment arrears increased by 0.6 pp of GDP. Tax revenues increased along with capital spending, which saw improvements in the execution rate. Current spending declined as crisis-related support decelerated. In November 2021, the government declared an energy crisis and transferred sizeable budget funds to cover the loses of energy companies and took over the private heating company. Public and publicly guaranteed debt stood at 60.8 percent of GDP, while arrears increased to 3.3 percent of GDP by yearend.

Outlook

Growth is projected to decelerate to 2.7 percent in 2022 affected by the economic consequences of the Russian invasion, war in Ukraine, and associated sanctions. The inflationary pressures (particularly food and energy prices) will increase the cost of living and hurt the poor despite sizeable government support adopted in March 2022 to alleviate the energy crisis through indirect tax cuts, supplemental social benefits to pensioners and low-income groups, and concessional credit lines to firms. The fiscal deficit will remain elevated in 2022 with further rise in public debt projected to above 62 percent of GDP. However, the Ukraine war, if prolonged, would further reduce external demand, increase key commodity and energy prices, hamper mobility, and result in investment delays. This scenario would result in even lower growth and fiscal revenues, as well as rising requests for fiscal support and a surge in financing costs.

In the medium term, the country needs to set public finances back on a sustainable path and shift its focus to resolving structural challenges, including low and declining human capital, weak regulatory frameworks, poor competition policy and judicial independence declining productivity, and out-migration.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.9	-6.1	4.0	2.7	3.1	3.2
Private Consumption	3.7	-4.5	5.9	2.8	2.5	3.3
Government Consumption	2.5	6.4	4.1	1.0	0.3	0.2
Gross Fixed Capital Investment	8.7	-14.8	6.8	6.0	8.0	8.0
Exports, Goods and Services	8.9	-10.9	12.3	7.2	7.0	6.0
Imports, Goods and Services	9.5	-10.0	12.9	6.5	6.2	6.0
Real GDP growth, at constant factor prices	3.8	-5.2	2.5	2.7	3.1	3.2
Agriculture	0.1	-3.2	-1.2	2.5	2.0	1.5
Industry	3.4	-9.1	-2.4	3.4	4.9	5.3
Services	4.4	-3.9	4.7	2.5	2.6	2.6
Inflation (Consumer Price Index)	0.8	1.2	3.2	5.5	2.0	1.8
Current Account Balance (% of GDP)	-3.3	-3.4	-3.5	-4.0	-3.9	-3.4
Net Foreign Direct Investment (% of GDP)	3.2	1.5	3.7	3.8	3.8	3.9
Fiscal Balance (% of GDP)	-2.1	-8.3	-5.4	-5.3	-4.7	-3.7
Debt (% of GDP)	49.2	61.0	60.8	62.7	64.3	64.1
Primary Balance (% of GDP)	-1.0	-7.1	-4.1	-4.0	-3.5	-2.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	16.5	18.3	17.2	16.4	15.9	15.1
GHG emissions growth (mtCO2e)	4.7	-6.0	0.9	0.3	0.4	0.5
Energy related GHG emissions (% of total)	69.4	67.5	67.9	67.9	67.7	67.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2018-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 based on GDP per capita in constant LCU.

POLAND

Table 1	2021
Population, million	37.9
GDP, current US$ billion	658.1
GDP per capita, current US$	17365.9
International poverty rate ($1.9)[a]	0.4
Lower middle-income poverty rate ($3.2)[a]	0.5
Upper middle-income poverty rate ($5.5)[a]	1.2
Gini index[a]	30.3
School enrollment, primary (% gross)[b]	97.2
Life expectancy at birth, years[b]	77.9
Total GHG Emissions (mtCO2e)	321.7

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

The Polish economy rebounded from the COVID-19 recession, expanding at its fastest pace since 2007. Easing of COVID-related restrictions, robust investment, and favorable labor market conditions supported the recovery. Inflation has accelerated markedly, fueled by sharp increases in commodity prices and supply chain disruptions, feeding into rising poverty. The war in Ukraine is impacting the economy, through commodity prices and trade channels, confidence effects, and the large influx of displaced Ukrainians.

Key conditions and challenges

The well-diversified Polish economy has proven to be one of the most resilient in the EU, with employment growth in 2020 despite a relatively small contraction in GDP of 2.5 percent, the first output contraction since 1991.

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 and social impact of COVID-19 remains uncertain as new variants emerge amidst a vaccination rate of 66 percent of the adult population.

The unprecedented policy response to mitigate the impacts of the COVID crisis and inflationary pressures has narrowed available fiscal space.

Increased spending and tax expenditure efficiency is needed to rebuild fiscal buffers, accommodate higher spending on health, 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 recent 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

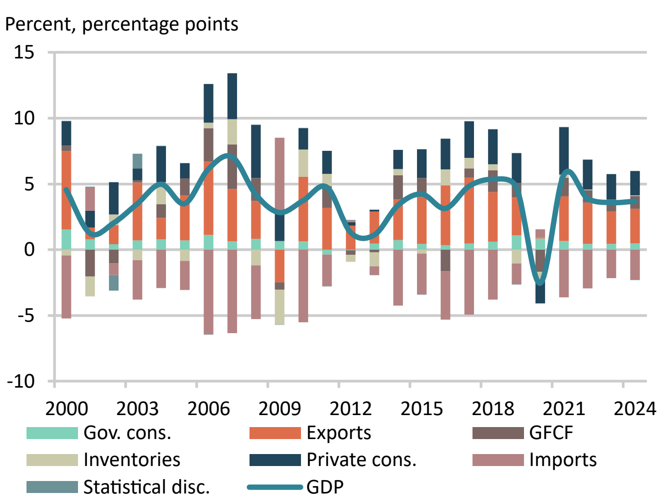
The economy rebounded strongly from the COVID-19-related recession, with output expanding by 5.7 percent in 2021. Poorer workers, who saw sharper income impacts during the early stages of the pandemic that fed into rising inequality, saw a rebound in incomes. Even as the ample fiscal stimulus provided in the wake of the crisis tapered off in 2021, domestic demand expanded by 8.2 percent, on account of robust household consumption, a recovery in investment, and rebuilding of inventories.

A strong labor market supported wage growth, while high-capacity utilization and strong corporate balance sheets supported investments.

Pent-up demand and continued income growth fueled a 6.2 percent expansion in household consumption, translating into double-digit import growth. Robust export demand from the EU supported the recovery in the industrial sector and exports, however the contribution of net exports to growth was negative.

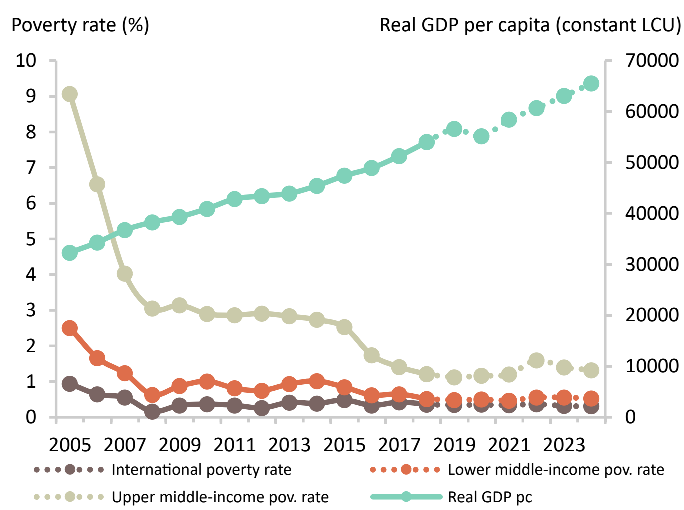
Inflation has accelerated markedly since mid-2021, to 8.5 percent in February 2022,

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



Sources: GUS, World Bank staff calculations.

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



Source: World Bank. Note: see Table 2.

well above the upper bound of the targeted range. Strong increases in energy and agricultural commodities, as well as continued disruptions in supply chains fueled inflation. A fiscal package aimed at limiting inflation (Anti-inflation Shield) and consisting of temporary cuts to VAT rates on electricity, heat energy, natural gas and basic food products, abolition of excise tax on electricity sold to households, lowering of excise tax on motor fuels, and compensation for natural gas distributors, is expected to shave off 2.1 percentage points from CPI in 2022 compared to a business-as-usual scenario.

High inflation triggered a faster than expected normalization in the monetary policy stance, with the central bank raising its reference rate by 300 basis points since October 2021.

Since the start of the war in Ukraine, more than 2.3 million displaced Ukrainians arrived in Poland. The government has reacted rapidly, granting displaced populations the right of temporary residence and access to key public services (health, education), social assistance, and housing.

The current account recorded a 0.4 percent deficit in 2021, as exports of passenger vehicles were affected while high global intermediate goods prices fueled imports.

The unwinding of the large 2020 fiscal stimulus and the strong increase in tax revenues resulted in an improvement in the general government deficit to 3.5 percent of GDP in 2021 from 7.1 percent of GDP in 2020.

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

Outlook

Economic growth is expected to decelerate to 3.9 percent in 2022, as high inflation, monetary policy tightening, negative confidence effects related to the war in Ukraine, and slowing demand in key trading partners weigh on growth.

The spillover from the war in Ukraine is expected to be significant, with key transmission channels including forced displacement, commodity prices, trade, and confidence effects. While direct economic linkages outside the energy sector are limited, higher energy and food prices, increased uncertainty, and disruptions to supplies to the auto industry will weigh on growth.

A large infrastructure and local public investment program, including through the National Recovery and Resilience Plan (NRRP), higher spending on health, and a boost to consumption related to the large influx of displaced people are expected to support growth. To fund its NRRP Poland requested €23.9 billion in grants and €12.1 billion of preferential loans under the "Next Generation EU", which is expected to be approved in March.

Rising food and electricity prices are expected to weigh heavily on poorer segments, who devote 50 percent of their monthly spending on food and energy. Minimum wage growth of 7.5 percent in 2022 is expected to be outstripped by inflationary pressures, leading to a decline in the real minimum wage in 2022. While measures under the Anti-inflation Shield will soften the household impacts, the share of the population at risk of poverty is expected to remain elevated through 2022 and 2023.

Higher import prices, and higher primary income outflows are expected to result in a deterioration in the current account deficit to 2.5 percent of GDP in 2022, with a moderate improvement over 2023-2024 as terms of trade improve.

The fiscal deficit is expected to remain above the medium-term budgetary objective, as a result of the structural tax reform (Polish Deal) and the temporary impact of the Anti-inflation Shield. The fiscal cost of these packages is estimated at 0.7 percent and 1.1 percent of GDP, respectively in 2022. Furthermore, there will be additional public spending to manage the large influx of displaced people from Ukraine.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.7	-2.5	5.7	3.9	3.6	3.7
Private Consumption	3.9	-2.9	6.2	3.9	3.3	3.2
Government Consumption	6.5	4.9	3.6	2.4	2.5	2.7
Gross Fixed Capital Investment	6.1	-9.0	8.0	5.3	5.1	5.4
Exports, Goods and Services	5.2	0.1	6.0	5.5	4.2	4.5
Imports, Goods and Services	3.0	-1.2	7.0	5.6	4.0	4.3
Real GDP growth, at constant factor prices	4.6	-2.6	5.7	3.9	3.6	3.7
Agriculture	-0.8	13.8	1.3	2.0	1.0	1.0
Industry	2.2	-5.2	7.0	4.6	3.3	3.3
Services	6.0	-1.8	5.3	3.6	3.8	3.9
Inflation (Consumer Price Index)	2.3	3.4	5.1	9.6	7.5	4.0
Current Account Balance (% of GDP)	0.5	2.9	-0.4	-2.5	-1.6	-1.3
Net Foreign Direct Investment (% of GDP)	-2.0	-2.1	-1.2	-1.1	-0.9	-0.9
Fiscal Balance (% of GDP)	-0.7	-7.1	-3.5	-3.5	-3.6	-2.9
Debt (% of GDP)	45.6	57.4	57.0	54.5	51.9	49.5
Primary Balance (% of GDP)	0.6	-5.8	-2.5	-2.0	-2.3	-1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.3	0.4	0.3	0.4	0.3	0.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.5	0.5	0.5	0.6	0.6	0.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	1.1	1.2	1.2	1.6	1.4	1.3
GHG emissions growth (mtCO2e)	-5.4	-6.0	1.4	-0.2	-0.5	-0.6
Energy related GHG emissions (% of total)	87.4	87.7	87.3	87.0	86.9	86.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

a/ Calculations based on ECAPOV harmonization, using 2007-EU-SILC and 2018-EU-SILC. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.

b/ Projection from 2019 to 2021 using point-to-point elasticity (2007-2018) with pass-through = 1 based on GDP per capita in constant LCU. Projection from 2022 based on estimates incorporating differential income growth among poorer households.

ROMANIA

Table 1	2021
Population, million	19.2
GDP, current US$ billion	266.7
GDP per capita, current US$	13902.1
International poverty rate ($1.9)[a]	2.4
Lower middle-income poverty rate ($3.2)[a]	4.4
Upper middle-income poverty rate ($5.5)[a]	9.5
Gini index[a]	35.1
School enrollment, primary (% gross)[b]	87.5
Life expectancy at birth, years[b]	75.5
Total GHG Emissions (mtCO2e)	80.5

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

Romania's economy rebounded at 5.9 percent in 2021, despite supply disruptions, a significant pick-up in inflation and the effects of the pandemic. The economy is projected to modestly expand in 2022, although recession risks resulting from the Ukraine crisis are high. Despite some consolidation measures, the fiscal deficit will remain elevated in 2022, at around 6.6 percent of GDP. Poverty is anticipated to slightly decline to 10.1 percent in 2022.

Key conditions and challenges

Prior to the COVID-19 pandemic, Romania enjoyed strong economic growth. However, the pandemic exposed the 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.

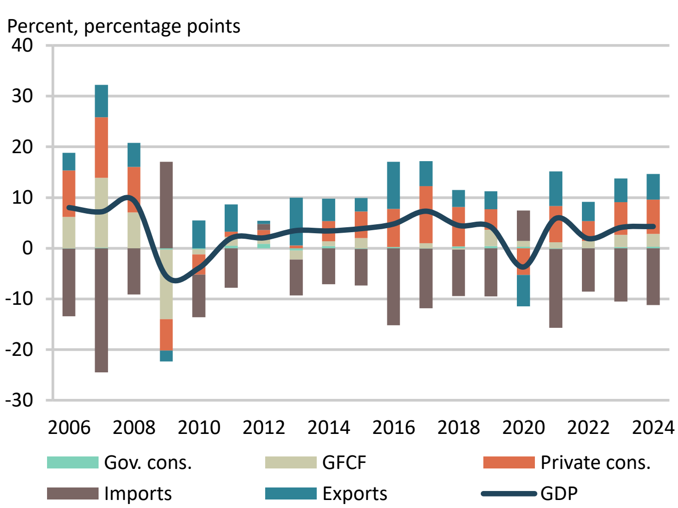
Disruptions in the global supply chain from the pandemic coupled with the impact of the war in Ukraine have resulted in rising food and energy prices. The depleted real purchasing power and declining remittances impose a heavy burden on the poor and marginalized population groups in Romania already disproportionality affected by the prolonged pandemic. Despite the economic rebound, the share of the Romanian population living on less than $5.5 a day at 2011 revised PPP prices is estimated to have declined modestly to 10.1 percent in 2022 from 10.3 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 crisis. Significant inflationary pressures triggered a more hawkish stance from the National Bank of Romania (NBR). Once recovery is firmly established, fiscal consolidation will be critical to limit increases in debt levels. Moreover, maximal and effective absorption of the EU Multiannual Financial Framework and Next Generation EU (NGEU) funds will be crucial for a sustainable recovery.

Recent developments

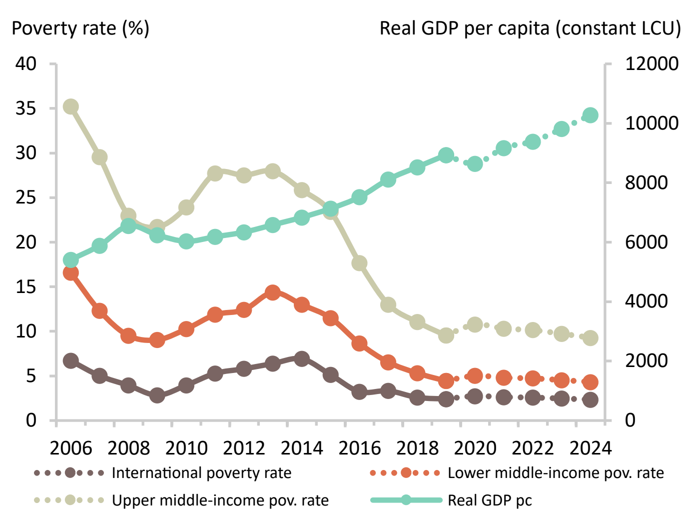
The Romanian economy grew by 5.9 percent in 2021, but growth decelerated in Q4 (2.4 percent yoy) amid supply disruptions, significant pick-up in inflation and a new COVID-19 wave. Private consumption recovered strongly in 2021 (7 percent yoy) led by robust demand for durable and household goods. Higher prices of raw materials, however, tempered investment growth (4 percent yoy). Trade volumes were affected by global value chain disruptions and cost-push inflation, while the deterioration of the secondary income balance added to the current account pressures. On the supply side, growth was led by the ICT sector (13.4 percent yoy in 2021) which benefited from increased remote work needs. Industry growth decelerated (5 percent yoy in 2021), as new industrial orders declined in Q4. The economic recovery and labor supply constraints reduced unemployment to 5.4 percent in December from 6 percent in January 2021. Labor shortages coupled with higher inflation led to wage increases, with nominal net wages up by 7.2 percent yoy in December 2021. Annual inflation accelerated to 8.4 percent in January 2022 reflecting strong supply-side inflationary pressures, including recent spikes in energy prices.

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.

This prompted the NBR to further increase the policy rate in mid-January and mid-February 2022 by 0.25 pp and 0.5 pp, respectively, to 2.5 percent. Private credit sector growth remained high, up 15.1 percent yoy in January 2022.

An economic and employment rebound meant that household income, in particular labor income, also recovered. The Rapid Household Survey in December 2021 showed that most workers including low-wage workers have returned to work, helping to bring household labor income close to the pre-crisis level. However, rising food and energy prices have depleted households' real purchasing power, especially among the poor and vulnerable, as they spend nearly 65 percent of their budget on these necessities. Moreover, the war in Ukraine and further disruption of the global supply chain will continue to affect the economies of host countries for Romanian migrants, which will inevitably hamper income for Romanians at home. Thus, despite economic and employment recovery, poverty is expected to have declined modestly to 10.1 percent in 2022 yet remains above the pre-crisis level.

The fiscal deficit surged to 9.4 percent of GDP at the end of 2020 and remained high in 2021 at an estimated 7 percent on the back of the COVID-19 related fiscal stimulus. Higher revenues, up 17.7 percent yoy in 2021, supported by the economic recovery, offset the 8.8 percent yoy increase in expenditure, but fiscal pressures remain significant.

Outlook

Romania's economy is projected to grow at 1.9 percent in 2022, with risks strongly tilted to the downside. The strength of the recovery will depend on the evolution of new COVID-19 variants and the severity of the hostilities in the region. Romania's capacity to absorb the EU funds will be critical to a sustainable, green, and inclusive recovery process. According to Government estimations, in a scenario of 100 percent absorption, the Resilience and Recovery funds will, on average, add around one percentage point to Romania's real GDP growth per year between 2022 and 2026. However, low historical absorption rates reflect substantial headwinds to a high absorption scenario. Significant inflationary pressures from the energy and food markets challenge the nascent recovery requiring a careful balancing act from the NBR.

A substantial reduction of the fiscal deficit in 2022 is improbable, as the government will have to support the economic recovery process while also supporting macroeconomic stabilization. Over the medium term, the deficit will follow a downward trajectory but is likely to remain above 3 percent of GDP. Renewed attention should be given to fiscal consolidation to avoid an unsustainable increase in public debt over the medium term.

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 compared to others in the coming years. A protracted war in Ukraine may however push growth into negative territory 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	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.2	-3.7	5.9	1.9	4.1	4.3
Private Consumption	3.9	-5.1	7.0	3.8	6.1	6.3
Government Consumption	7.9	5.9	-2.8	1.2	4.6	5.2
Gross Fixed Capital Investment	12.9	4.1	4.0	4.7	8.1	8.2
Exports, Goods and Services	5.4	-9.4	11.1	5.9	7.0	7.3
Imports, Goods and Services	8.6	-5.2	13.7	7.0	8.2	8.4
Real GDP growth, at constant factor prices	4.0	-3.5	5.9	1.9	4.1	4.3
Agriculture	-5.0	-14.9	13.5	2.8	3.9	3.9
Industry	-1.3	-4.5	5.0	1.6	4.7	4.4
Services	7.9	-1.9	5.7	2.0	3.8	4.3
Inflation (Consumer Price Index)	3.8	2.6	5.1	9.8	5.3	3.2
Current Account Balance (% of GDP)	-4.7	-5.0	-7.1	-7.2	-6.3	-5.7
Net Foreign Direct Investment (% of GDP)	2.2	0.9	2.3	1.8	2.3	2.3
Fiscal Balance (% of GDP)	-4.4	-9.4	-7.0	-6.6	-5.3	-4.7
Debt (% of GDP)	35.3	47.4	49.4	52.0	53.9	54.1
Primary Balance (% of GDP)	-3.2	-8.0	-5.4	-4.9	-3.7	-3.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.4	2.7	2.6	2.6	2.5	2.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	4.4	5.0	4.8	4.7	4.5	4.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	9.5	10.8	10.3	10.1	9.7	9.2
GHG emissions growth (mtCO2e)	-0.9	-8.7	3.2	-1.0	0.5	1.4
Energy related GHG emissions (% of total)	85.4	85.9	86.5	87.0	87.7	88.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2007-EU-SILC and 2019-EU-SILC. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection based off elasticities calibrated on 2007-2019 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[a]	144.1
GDP, current US$ billion	1775.9
GNI per capita, Atlas method, current US$[a]	10690.0
Lower middle-income poverty rate ($3.2)[b]	0.3
Upper middle-income poverty rate ($5.5)[b]	2.9
Gini index[b]	36.0
School enrollment, primary (% gross)[c]	104.2
Life expectancy at birth, years[c]	73.1

Sources: WDI, MPO, Rosstat.
a/ Most recent WDI value (2020).
b/ Most recent value (2020), 2011 PPs.
c/ Most recent WDI value (2019).

Due to its invasion of Ukraine Russia faces the largest coordinated economic sanctions ever imposed on a country. Russia's economy will be hit very hard, with a deep recession looming in 2022. GDP is expected to contract by 11.2 percent, with little recovery in the ensuing two years. Households will be deeply impacted by the crisis, with a projected additional 2.6 million people falling below the national poverty line.

Key conditions and challenges

Russia's economic outlook has been rapidly overtaken by the fallout from its invasion of Ukraine. The strongest set of coordinated economic sanctions, swiftly imposed, will severely impact Russia across multiple dimensions. The sanctions amount to coordinated shocks to trade, external financing, financial intermediation, and confidence. The withdrawal of many foreign enterprises from the Russian market and a sharply deteriorated outlook will leave Russia bereft of investment, while pressure on households from fast-rising prices and declining incomes will push consumption lower. A deleterious effect on households will, at best, only be partly offset by domestic policy responses.

Looking further ahead, Russia's pre-existing challenge of raising medium-term growth sufficiently to support improved living standards for its population is now far more daunting. Yet, given the adverse shock it now faces, this challenge is all the more important.

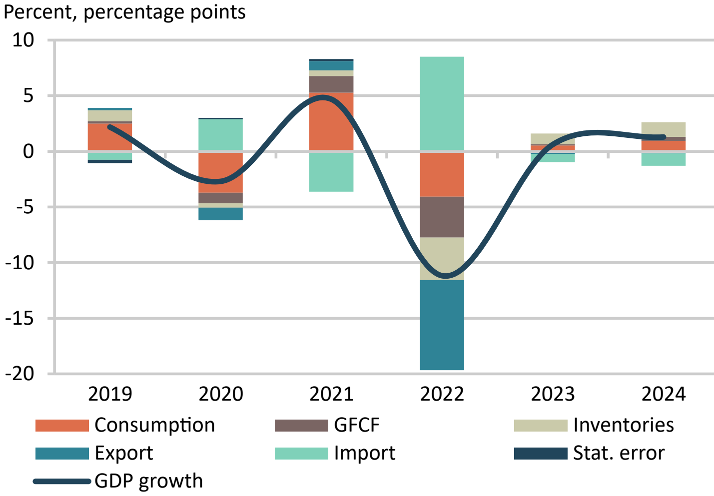
Recent developments

Before the invasion of Ukraine and the ensuing sanctions, Russia's economy was recovering well. Growth in 2021 reached 4.7 per cent, following a 2.7 percent decline in 2020. The general government budget returned to a surplus of 0.8 percent of GDP. The current account surplus expanded to US$120 billion – exceeding its 2019 level – as commodity prices increased and outbound tourism remained muted. By the end of 2021, consumer price inflation had become a central concern, reaching 8.4 percent year-on-year in December. The rise in inflation was broad-based, reflecting a combination of robust demand for goods, increases in energy and food prices, and global supply bottlenecks. The banking sector proved resilient during the COVID-19 pandemic, with economic recovery and credit growth helping to improve balance sheets in 2021. Labor markets strengthened, too, in 2021; the unemployment rate fell to 4.8 percent, close to its pre-pandemic low. The official poverty rate of 11.0 percent by end-2021 was below year-end rates in 2020 and 2019.

However, developments in Russia took a sharp turn for the worse beginning with Russia's invasion of Ukraine. Sanctions imposed on Russia severely restrict access to international capital markets, the capacity to conduct international transactions, the imports of certain goods, and access to international and fiscal reserves. Several large Russian financial organizations were sanctioned. Sanctions have materially increased risks to banks' asset quality, solvency, funding and liquidity profiles, while limiting the CBR's capacity to absorb shocks.

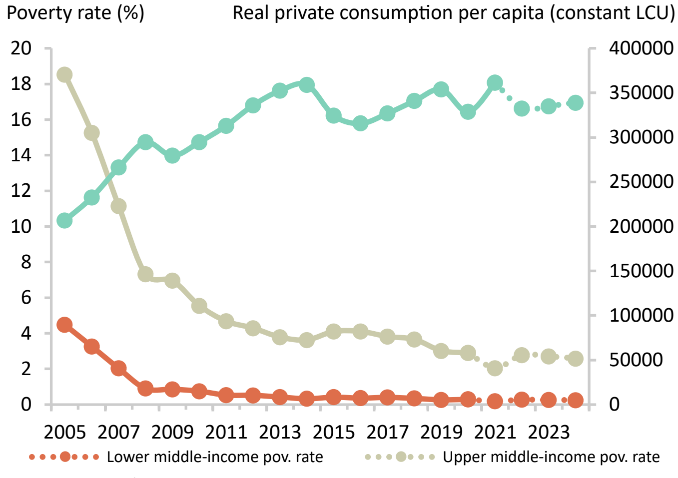
The imposition of sanctions has led to a precipitous drop in Russian asset prices and the ruble, with the latter depreciating by 30 percent against major currencies. In

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



Sources: Rosstat, World Bank.

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



Source: World Bank. Notes: see Table 2.

response, the Russian authorities doubled interest rates, announced a Rub 1 trillion fiscal package, imposed capital controls, and introduced forbearance measures and special regulations for financial markets aimed at stemming the capital flight and easing pressure on the financial system.

Outlook

Uncertainty over the forecasts is unprecedentedly high, conditional on Russia's military actions in Ukraine and the global response. The severe impacts of sanctions already in place are expected to drive Russia's GDP down by 11.2 percent in 2022, largely due to a contraction in domestic demand. High uncertainty, depreciation, disruptions to trade and business closures are expected to result in a 17 percent slump in investment. A decline in employment and real wages, elevated outmigration and rising costs of living will weigh on private consumption, which is expected to fall by 8.5 percent. SWIFT and FX restrictions will impede cross-border transactions, leading to delays and cancellations.

Announced bans and reductions in purchases of Russian oil and gas are expected to lead to a substantial fall in shipments this year, while larger slump in non-energy export volumes is expected. However, the current account balance is expected to strengthen as the fall in exports will be more than offset by a contraction in imports. High levels of capital outflows are expected from Russia this year. In 2023 and 2024, GDP growth is expected to rebound only gradually, at 0.6 and 1.3 percent respectively.

Overall, consumer price inflation is expected to rise from 9 percent in 2021 to 22 percent in 2022, and to stay well above the central bank target in the projection period. A decline in economic activity and higher expenditure needs are expected to turn the general government surplus into a substantial deficit in 2022. The adverse impact of the shock on the financial sector makes a major credit crunch likely, while continued pressure on the corporates and banks, combined with eroded buffers, spells a heightened risk of bank failures and systemic crisis in the sector.

Households are expected to be impacted by the crisis via four channels – limited access to goods and services (either because of inflation, shortages or even rationing), falling labor incomes, asset price falls, and migrant workers likely to be especially affected via falling remittances. The percentage of the population with incomes below the official poverty line (approximately US$ 14/day) is projected to increase to 12.8 percent in 2022 from 11.0 percent in 2021 (an increase of 2.6 million people). The poverty rate using the World Bank poverty line (US$ 5.5/day) is expected to increase from 2.0 in 2021 to 2.8 percent in 2022 (an increase of above one million people) and practically remain there through 2024.

Risks are skewed to the downside, as additional rounds of sanctions could further impact Russia's outlook. A disruption in oil or gas receipts, or more severe dysfunction in domestic financial markets, could push growth lower and poverty rates up. Still-low COVID-19 vaccination rates and the prospect of new variants remains another source of risk.

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	4.7	-11.2	0.6	1.3
Private Consumption	3.8	-7.3	9.5	-8.5	0.5	1.3
Government Consumption	2.4	1.9	1.1	3.6	1.2	1.0
Gross Fixed Capital Investment	1.0	-4.4	7.0	-16.9	0.6	1.7
Exports, Goods and Services	0.7	-4.1	3.2	-30.9	-1.2	-0.9
Imports, Goods and Services	3.1	-12.1	16.7	-35.2	4.1	6.2
Real GDP growth, at constant factor prices	2.2	-2.5	4.6	-11.2	0.6	1.3
Agriculture	3.5	0.2	-1.3	1.0	1.0	1.0
Industry	1.5	-2.4	4.9	-8.8	0.5	0.9
Services	2.4	-2.7	4.8	-13.2	0.7	1.5
Inflation (Consumer Price Index)	4.5	3.4	6.7	22.0	13.0	8.0
Current Account Balance (% of GDP)	3.9	2.4	6.8	9.8	6.4	2.8
Net Foreign Direct Investment (% of GDP)	0.6	-0.2	-1.3	-7.5	-3.5	-2.8
Fiscal Balance (% of GDP)[a]	1.9	-4.0	0.8	-1.9	-1.8	-1.2
Debt (% of GDP)	14.3	20.0	17.9	19.8	20.3	20.6
Primary Balance (% of GDP)[a]	2.7	-3.2	1.7	-0.3	-0.1	0.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	0.3	0.3	0.2	0.3	0.3	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	3.0	2.9	2.0	2.8	2.8	2.6
GHG emissions growth (mtCO2e)	2.4	-3.6	1.1	-11.5	0.3	0.7
Energy related GHG emissions (% of total)	91.6	91.3	90.1	89.8	89.6	89.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
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 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$	9168.9
Upper middle-income poverty rate ($5.5)[a]	10.1
Gini index[a]	34.5
School enrollment, primary (% gross)[b]	97.7
Life expectancy at birth, years[b]	75.7
Total GHG Emissions (mtCO2e)	62.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

The Serbian economy is recovering well from the impact of COVID-19 pandemic by growing 7.4 percent in 2021 and poverty incidence declined to an estimated 9.8 percent. Growth is expected to decelerate in 2022 and the risks to the growth outlook are clearly tilted to the downside. Poverty reduction is expected to stagnate in 2022 as income gains are weakened by rising inflation risks.

Key conditions and challenges

The focus of the Government of Serbia in 2020 and 2021 was on supporting the economy to recover from the impact of the COVID-19 pandemic. The Serbian government approved a robust fiscal stimulus program in both years and as a result the economy experienced only a mild recession (of -0.9 percent) in 2020 and rebounded by 7.4 percent in 2021. The impact of the program, however, came at considerable fiscal cost. The fiscal deficit reached 8.1 percent of GDP in 2020 and public debt increased to around 58 percent of GDP.

Over the medium term the Serbian economy is expected to return to the pre-pandemic growth levels. However, Serbia still faces challenges that limit its potential growth both in the short and medium to long terms. Most importantly, Serbia needs to further remove bottlenecks for private sector investment. These include a deteriorating governance environment, lack of infrastructure and an unreformed education sector, which creates skills mismatches in the labor market. With limited space for future stimulus packages, structural reforms are needed to bring the economy back to sustained growth, boost jobs and incomes and strengthen resilience to shocks. The second big challenge is a large and still not entirely reformed SOE sector.

Recent developments

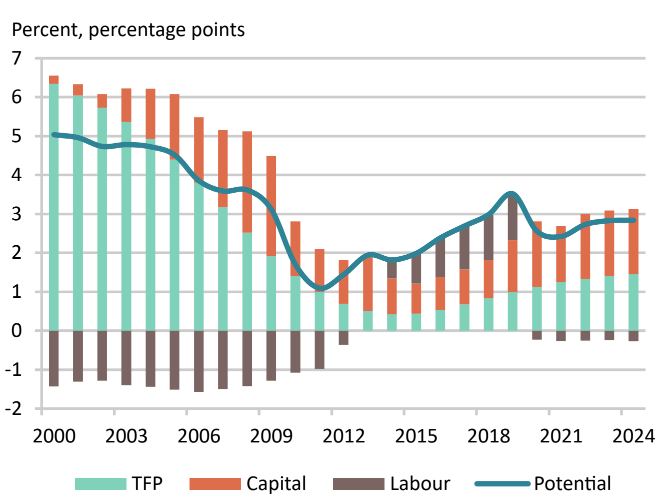
The economy grew by 7.4 percent in 2021 pushed by the consumption, pushed by a large increase in private consumption (up 7.6 percent in real terms y/y), thanks to a strong increase of salaries and consumption loans. The economic recovery in 2021 was broad based, with the exception of the agriculture sector, where output declined by 5.4 percent in real terms.

Poverty (defined as income under $5.5/day in revised 2011 PPP) is estimated to have declined slightly from 10.2 percent in 2020 to 9.8 percent in 2021. The wage subsidy and cash transfers to citizens in 2020 helped to avert a spike in poverty. In 2021, poverty reduction slowly resumed due to strong economic growth and improving labor market conditions, though partly countered by an output decline in agriculture, rising inflation at the end of the year, and the phasing out of government support programs.

The labor market started improving throughout 2021. In Q4 of 2021, the unemployment rate dropped to 9.8 percent. Wages continued to go up, increasing by 9.6 percent in nominal terms in 2021.

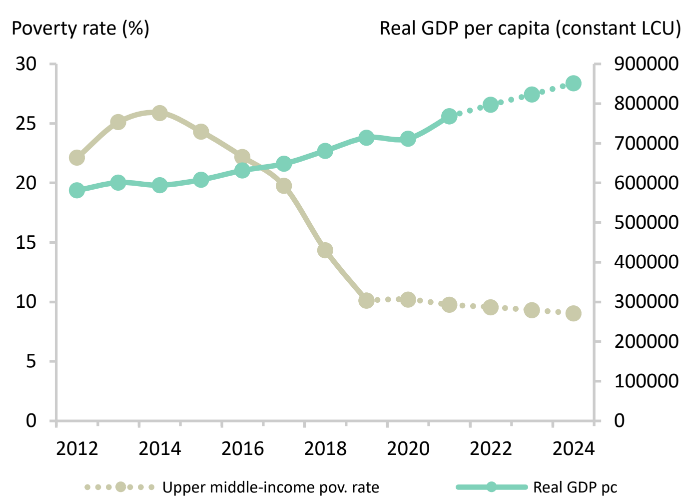
The consolidated fiscal deficit decreased significantly in 2021 to reach an estimated 4.1 percent of GDP. Despite the fact that government expenditures increased by 10.1 percent (in nominal terms). Public debt at end-December 2021 stood at 57.1 percent of GDP, thus only marginally decreasing since end-2020.

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



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.

Starting in the summer, there was a gradual increase in inflation and the consumer price index (CPI) reached 8.8 percent (y/y) in February. Food inflation, higher than in all EU countries in January 2022, hurt the poor. Household energy tariffs in Serbia are regulated and have been kept unchanged so far despite rising energy costs. The current account deficit (CAD) increased to an estimated 4.4 percent of GDP for 2021, up from 4.1 percent in 2020.

Outlook

The Serbian economy was expected to continue to grow at around 4-4.5 percent annually. However, the war in Ukraine and sanctions on Russia will certainly have an impact on Serbia's exports, FDI, remittances and tourism revenues. Having in mind the significance of these flows, growth for 2022 could be revised downwards to 3.2 percent. Further revisions are possible depending on the length of the war and the scope of sanctions toward Russia. Over the medium term, the economy is expected to grow steadily at around 3 percent annually.

The outlook also crucially depends on the domestic reform agenda and its implementation. The ongoing crisis in the domestic energy sector emphasized once again the importance of improved management of SOEs. In addition, contingent liabilities could affect public finances, particularly those related to the deterioration in the performance of SOEs, as demonstrated recently by Telekom Srbija and Air Serbia. As a remedy, the government should embark on a comprehensive and thorough reform of SOEs to make them financially sound and viable. In addition, the government should use the opening of new chapters of the EU acquis to accelerate reforms and align Serbian legal and institutional system to that of the EU.

Poverty reduction is expected to stagnate in 2022. The unfolding war in Ukraine poses 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, if they are passed onto household energy tariffs, would disproportionately hit the poor. Poverty in 2022 is projected at 9.6 percent, close to its 2021 level, though 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.

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

	2019	2020	2021e	2022f	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	6.1	4.2	3.7
Government Consumption	2.0	2.9	2.6	1.1	0.5	-0.6
Gross Fixed Capital Investment	17.2	-1.9	12.5	-1.0	0.3	2.1
Exports, Goods and Services	7.7	-4.2	19.4	5.4	5.2	5.4
Imports, Goods and Services	10.7	-3.6	19.3	5.7	4.8	4.7
Real GDP growth, at constant factor prices	4.4	-0.8	7.3	3.0	2.6	2.9
Agriculture	-1.7	2.2	-5.4	5.7	4.5	3.4
Industry	5.9	-0.6	7.8	2.4	4.5	4.5
Services	4.4	-1.2	8.7	3.0	1.5	2.0
Inflation (Consumer Price Index)	1.9	1.6	4.0	7.0	4.0	3.7
Current Account Balance (% of GDP)	-6.9	-4.1	-4.4	-6.4	-5.8	-5.1
Net Foreign Direct Investment (% of GDP)	7.7	6.3	6.8	5.8	5.9	5.9
Fiscal Balance (% of GDP)	-0.2	-8.0	-4.1	-4.1	-3.0	-2.2
Debt (% of GDP)	52.8	57.8	57.2	58.2	58.9	56.8
Primary Balance (% of GDP)	1.8	-6.0	-2.4	-2.3	-1.0	-0.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	10.1	10.2	9.8	9.6	9.3	9.0
GHG emissions growth (mtCO2e)	-2.1	0.5	1.6	-0.4	-0.6	-0.8
Energy related GHG emissions (% of total)	75.4	75.7	76.1	76.0	75.8	75.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2013-EU-SILC, 2017-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 (2013-2017) with pass-through = 0.2 and 0.3 based on GDP per capita in constant LCU, reflecting impacts of rising prices.

TAJIKISTAN

Table 1	2021
Population, million	9.8
GDP, current US$ billion	8.7
GDP per capita, current US$	896.9
International poverty rate ($1.9)[a]	4.1
Lower middle-income poverty rate ($3.2)[a]	17.8
Upper middle-income poverty rate ($5.5)[a]	50.5
Gini index[a]	34.0
School enrollment, primary (% gross)[b]	100.9
Life expectancy at birth, years[b]	71.1
Total GHG Emissions (mtCO2e)	16.9

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

The fallout from Russia's invasion of Ukraine will lead to an economic contraction of about 2 percent in 2022. A projected 40 percent fall in remittances, higher food and energy prices, and financial services and trade disruptions will lower household incomes and increase poverty. Fiscal space, already constrained by structural impediments to private sector growth, is further limited by rising debt distress risks from a weakening exchange rate.

Key conditions and challenges

Tajikistan remains the poorest economy in Central Asia, with a narrow export base, structural bottlenecks for job creation, and high dependence on external financial aid. Per capita income (GNI, Atlas method) was about US$1,100 in 2021–slightly above the lower-middle-income threshold. The poverty rate fell from 17.8 percent in 2015 to about 13.9 percent in 2021.

Tajikistan's economy relies heavily on primary commodity production and exports, with limited economic diversification. Domestic investment and consumption depend heavily on migrant remittances, which are about a third of GDP, thus leaving the economy highly vulnerable to external shocks. Sanctions on the Russian economy have exposed this vulnerability since Russia is the largest employer of Tajik migrant workers and is among the largest trading partners.

Reforms aimed at private sector growth, public sector efficiency, and greater inclusion are vital to further economic development.

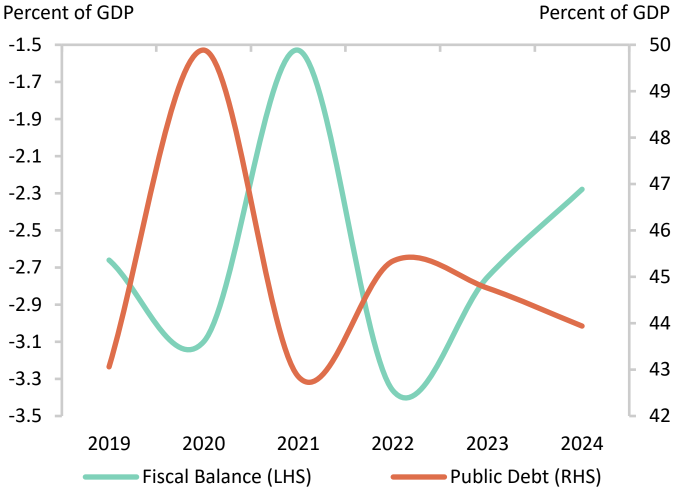
Recent developments

Real GDP growth rebounded to about 9.2 percent in 2021, after slowing to 4.5 percent in 2020 due to COVID-19. A sharp increase in precious metal exports, recovery in remittance inflows, and a pickup in private investment and consumption supported this rebound.

Tajikistan's external position improved considerably from higher export prices for metals and mineral products and remittance inflows. The current account was in surplus of about 1 percent of GDP in 2021, compared to a surplus of 4.1 percent in 2020. Precious metal exports reached $897 million and were about 40 percent of total merchandise exports. Increased remittances and foreign direct investment (FDI) inflows stimulated consumer and capital goods imports. Higher Chinese mining sector investments doubled FDI to $62.3 million (0.7 percent of GDP) during the first nine months of 2021. Strong foreign exchange inflows, including from the issuance of new Special Drawing Rights (SDR) by the IMF, supported a stable exchange rate and allowed international reserves to grow to about 8 months of import cover by end-2021.

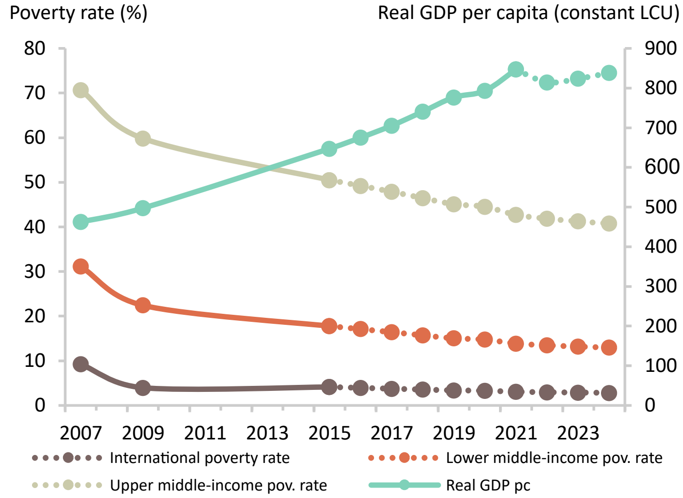
After a fiscal expansion in 2020, the government began to consolidate spending in 2021. The fiscal deficit narrowed to 1.5 percent of GDP from 3.1 percent in 2020. The expiration of anti-pandemic tax reliefs, a rebound in economic activity, and high export prices increased fiscal revenues. Development partner loans for infrastructure projects helped bridge the fiscal gap. Although a stable exchange rate and a rebounding economy helped reduce public and publicly guaranteed debt to 42.9 percent of GDP in 2021 (from about 50 percent in 2020), Tajikistan remains at high risk of debt distress given its high vulnerability to external shocks.

FIGURE 1 Tajikistan / Fiscal balance and public debt



Sources: TajStat, World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

In response to rising food and fuel price inflation, the central bank increased its policy rate four times from 10.75 at end-2020 to 13.25 percent by the end-2021. Nevertheless, average annual inflation rose from 8.6 percent in 2020 to 9 percent in 2021. Amidst lower remittances and a weakening ruble following Russia's invasion of Ukraine, the authorities allowed the somoni to depreciate by 13 percent against the US dollar in March 2022.

Financial sector performance improved in 2021 - primarily due to liquidation being initiated for four insolvent banks (including two state-owned banks). The share of non-performing loans in the total lending portfolio declined by 10 percentage points to 13.7 percent in 2021.

In the Fall 2021 round of the World Bank's Listening to Tajikistan survey, the share of households with at least one labor migrant abroad went up from 29 percent to 44 percent, remittance income from 10 percent to 18 percent, and wage income from 11 percent to 21 percent compared with 2020. As a result, the poverty rate fell to 13.9 percent, and fewer households reported cutting their food consumption in 2021.

To support the most vulnerable groups, the government provided social assistance to 238,000 families and provided extra one-off emergency nutrition-sensitive transfers to over 164,000 families with children.

Outlook

Russia's invasion of Ukraine will lead to a contraction of Tajikistan's economy by about 2 percent in 2022. The main driver of this contraction is a projected 40 percent fall in remittances, which is expected to lead to sharply lower private consumption and investment. Other factors, including high prices, disruptions to trade, and the financial system, are also expected to contribute to the contraction. High global food and fuel prices are projected to lead to double-digit inflation in 2022.

The poverty rate is expected to increase to 14.3 percent in 2022 from 13.9 percent in 2021, with the potential for significant further increases in poverty should more risks materialize.

The contraction of economic activity due to the war in Ukraine and a new tax code introduced at the beginning of the year are expected to lower tax revenues in 2022. This, along with an anticipated anti-crisis spending increase, is projected to increase the fiscal deficit to about 3.4 percent in 2022.

These projections are subject to substantial domestic and external downside risks. Enduring sanctions on Russia could create significant challenges for migrant workers and further reduce demand for Tajik exports. Other risks include the re-emergence of new pandemic waves, new border conflicts with the Kyrgyz Republic, and the spillover of security risks from Afghanistan. In addition, institutional challenges to private sector development and job creation weigh heavily on the country's growth prospects.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	7.4	4.5	9.2	-1.8	3.2	3.8
Private Consumption	7.1	-4.4	4.6	-10.0	3.0	5.0
Government Consumption	3.5	0.4	7.8	-0.4	1.3	2.9
Gross Fixed Capital Investment	-6.4	-6.6	4.0	-9.7	6.7	5.5
Exports, Goods and Services	3.5	9.6	18.3	0.0	3.5	3.7
Imports, Goods and Services	2.2	-2.8	11.5	-5.0	0.2	0.5
Real GDP growth, at constant factor prices	8.7	4.3	9.0	-1.3	3.4	3.9
Agriculture	7.1	8.8	6.6	4.5	3.0	3.4
Industry	13.6	9.7	22.0	5.5	3.6	4.1
Services	4.9	-4.0	-5.2	-16.0	3.5	4.0
Inflation (Consumer Price Index)	8.0	8.6	9.0	12.6	10.0	8.5
Current Account Balance (% of GDP)	-2.2	4.1	1.0	-7.7	-4.4	-2.6
Net Foreign Direct Investment (% of GDP)	2.3	0.4	0.2	0.9	1.8	2.5
Fiscal Balance (% of GDP)	-2.7	-3.1	-1.5	-3.4	-2.8	-2.3
Debt (% of GDP)	43.1	49.9	42.9	45.3	44.8	43.9
Primary Balance (% of GDP)	-1.7	-2.2	-0.5	-2.1	-1.4	-1.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.4	3.3	3.0	3.2	3.1	3.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	15.0	14.8	13.9	14.4	14.2	14.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	45.1	44.5	42.7	43.7	43.4	42.9
GHG emissions growth (mtCO2e)	9.9	7.8	9.6	5.2	7.1	7.5
Energy related GHG emissions (% of total)	40.9	43.1	46.3	46.7	48.2	49.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2007-TLSS, 2019-, and 2015-HSITAFIEN. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2007-2019) with pass-through = 1 based on GDP per capita in constant LCU.

TURKEY

Table 1	2021
Population, million	84.1
GDP, current US$ billion	810.0
GDP per capita, current US$	9626.1
Upper middle-income poverty rate ($5.5)[a]	10.2
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	97.1
Life expectancy at birth, years[b]	77.7
Total GHG Emissions (mtCO2e)	518.0

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

Turkey's economy grew 11 percent in 2021, the fastest among G-20 countries, as COVID-19 related measures were gradually relaxed in Turkey and abroad. While Turkey's interest rate cuts from September supported demand, they also amplified macro-financial instability, which, combined with spillovers from the Ukraine-Russia war, will lower 2022 growth to 1.4 percent. Rising energy and food price inflation will hurt the poor the most, compromising a gradual employment-driven, post-pandemic poverty recovery.

Key conditions and challenges

Turkey enjoyed high growth rates between 2002-17, which propelled the country to the higher reaches of upper-middle-income status. But productivity growth slowed as reform momentum waned over the past decade and efforts turned to supporting growth with credit booms and demand stimulus, exacerbating internal and external vulnerabilities. High private sector debt, persistent current account deficits financed by short-term portfolio flows, high inflation, and high unemployment have been exacerbated by macro-financial instability since August 2018. Moreover, the economy's high energy and carbon intensity make it vulnerable to global energy supply and price volatility and pose a challenge for Turkey's exporters in the context of global and regional decarbonization policies.

Turkey's growth accelerated to the highest rate among G20 countries in 2021 as COVID-19 related measures were gradually relaxed in Turkey and abroad and authorities loosened monetary policy. However, monetary stimulus also caused deteriorating macro-finance conditions. The Lira depreciated to record lows and inflation rose to record highs. External and fiscal buffers deteriorated as the central bank supported the Lira, and the government deployed tax rate reductions and fuel subsidies to dampen headline inflation.

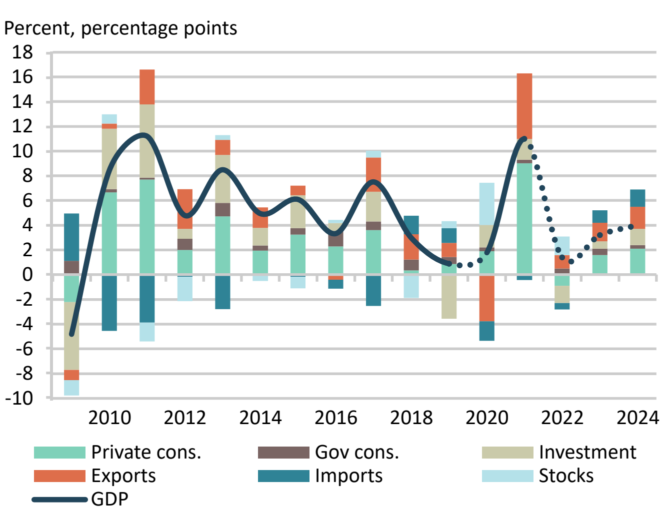
The Russian invasion of Ukraine is amplifying the headwinds facing the Turkish economy. Given Turkey's close economic ties to both Russia and Ukraine, the war is expected to disrupt Turkey's energy and agricultural trade, tourist arrivals, and overseas construction activities. Price spikes of essential commodity imports will directly affect households and industry and adversely impact the current account balance and inflation. Low-income households in Turkey are especially affected as they spend nearly twice as much of their budgets as the wealthiest on necessities such as food and housing.

Recent developments

Turkey's economy grew by 11 percent in 2021, supported by exports and accelerated domestic private consumption as COVID-19 measures were relaxed and people brought forward some consumption expenditures in fear of continued price rises. Turkey's goods and services exports were supported by buoyant external demand, sharp nominal depreciation of the Lira, and global supply chain disruptions that diverted global demand to Turkey.

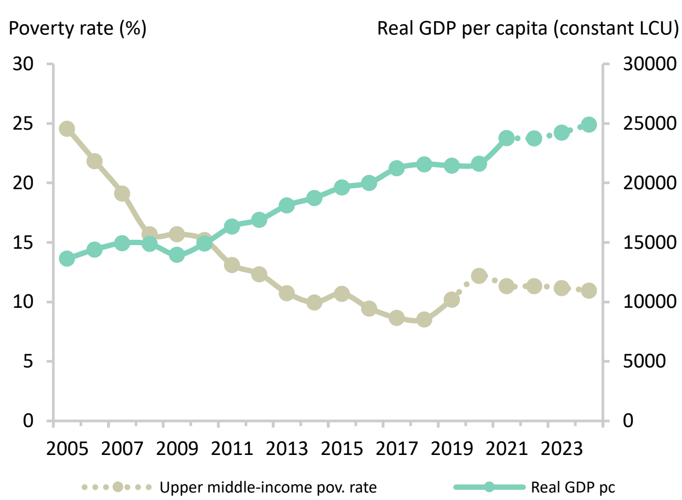
Total employment and labor force participation surpassed pre-pandemic levels in 2021. However, the recovery has been uneven, with those with informal work arrangements still lagging. On the other hand, the recovery was faster for women than men. Between December 2020 and December 2021, female labor

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



Sources: Turkstat and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

force participation (FLFP) increased by 14 percent, compared to 6 percent for males– although this leaves Turkey's FLFP still as the lowest among OECD countries. Youth employment also recovered, but 20.1 percent of youth are still unemployed. Poverty is expected to retreat due to the employment recovery, but will be partially offset owing to high inflation, keeping the poverty rate at 11.3 percent in 2021.

Despite rising domestic inflation and tightening global monetary conditions, Turkey's Central Bank lowered interest rates five times, by a total of 500 basis points, between September 2021 and the year-end. The move rapidly worsened macro-financial conditions and dented investor confidence. The Lira depreciated by roughly 120 percent in 2021 – the worst performance among emerging markets. This, coupled with rising global commodity prices, pushed year-on-year CPI and PPI inflation to 54.4 percent and 123.8 percent, respectively, in February 2022 – a two-decade high for both indices. Real interest rates moved deep into negative territory and dollarization accelerated. In response, the authorities launched several fiscal measures to stabilize the currency and dampen the impact of inflation, including a FX-protected deposit scheme that offers an exchange rate guarantee from the state budget.

The fiscal balance deteriorated in 2021 despite rising revenues, as the Lira depreciation raised FX-denominated debt service costs and PPP outlays, and as government provided capital injections to shore up SOE balance sheets. The FX-protected deposit scheme also created a sizable contingent fiscal liability. General government debt stock is estimated to have risen to 42.4 percent of GDP by end-2021. However, due to strong export growth, the current account deficit narrowed to 1.8 percent of GDP in 2021, from 5 percent in 2020. Gross FX reserves declined from $120bn to $111bn in 2021 amid FX interventions.

Outlook

Economic growth is expected to moderate to 1.4 percent in 2022 as macro-financial volatility intensifies and the impacts of Russia-Ukraine materialize, before returning to 3.2 percent and 4.0 percent in 2023 and 2024, respectively. Net exports are expected to drive growth in 2022, offsetting the drag from contractions in investment and private consumption. Inflation is projected to accelerate further to 61 percent in 2022, assuming no change in the monetary policy stance and high global commodity prices. In 2022 lower export growth and rising import prices are expected to widen the current account deficit to 6.4 percent of GDP. The general government deficit is projected to widen to 5.2 percent and 5.1 percent in 2022 and 2023, respectively, driven by rising public consumption, interest expenses, and current transfers.

Both external and domestic risks are tilted significantly to the downside. The Russia-Ukraine war has raised considerable uncertainty around the outlook. The war could: continue to increase commodity prices and exacerbate inflation, disproportionately impacting the poorest households; undermine Turkey's nascent tourism recovery; and spill over into Turkey's financial sector by raising NPLs in affected corporate sectors. Turkey is also vulnerable to tightening global liquidity conditions, given its high external financing requirements. The banking sector remains highly capitalized and with adequate FX buffers. However, removing forbearance measures is likely to pressure banks' balance sheets. The slowdown in the economy and job creation in 2022, and persistently high inflation mean that the poverty rate is projected to reach 11 percent by 2024.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	0.9	1.8	11.0	1.4	3.2	4.0
Private Consumption	1.5	3.2	15.1	-1.5	2.6	3.5
Government Consumption	4.1	2.2	2.1	3.6	3.9	2.0
Gross Fixed Capital Investment	-12.4	7.2	6.4	-5.6	2.4	5.8
Exports, Goods and Services	4.6	-14.8	24.9	4.7	6.0	7.0
Imports, Goods and Services	-5.4	7.6	2.0	-2.5	5.0	7.3
Real GDP growth, at constant factor prices	1.0	1.1	11.5	1.4	3.2	4.0
Agriculture	3.3	5.9	-2.2	1.0	2.0	2.0
Industry	-2.9	1.0	12.5	2.0	3.5	4.8
Services	2.7	0.6	12.7	1.1	3.2	3.8
Inflation (Consumer Price Index)	15.2	12.3	19.6	61.0	27.0	20.0
Current Account Balance (% of GDP)	0.7	-4.9	-1.8	-6.4	-5.0	-3.4
Net Foreign Direct Investment (% of GDP)	0.9	0.6	1.0	1.0	1.0	1.2
Fiscal Balance (% of GDP)	-3.0	-3.9	-3.1	-5.2	-5.1	-3.7
Debt (% of GDP)	32.7	39.8	42.4	44.5	43.0	40.3
Primary Balance (% of GDP)	-0.5	-1.1	-0.1	-1.4	-1.2	-0.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	10.2	12.2	11.3	11.3	11.2	11.0
GHG emissions growth (mtCO2e)	1.8	0.3	7.1	0.4	1.9	2.5
Energy related GHG emissions (% of total)	80.3	79.6	78.8	78.6	78.7	78.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
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
Population, million	42.2
GDP, current US$ billion	200.1
GDP per capita, current US$	4741,7
School enrollment, primary (% gross)[a]	99.0
Life expectancy at birth, years[a]	71.8
Total GHG Emissions (mtCO2e)	237.2

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

The Russian invasion is taking a severe economic and humanitarian toll, reflected in fiscal financing pressures, disruptions to trade, the displacement of millions, and heavy infrastructure damage with potentially long-lasting macroeconomic and social repercussions. A 45 percent GDP contraction is anticipated in 2022 and a weak recovery thereafter. Depending on the war's duration, the share of the population living below the actual Subsistence Minimum may reach 70 percent in 2022.

Key conditions and challenges

Ukraine's economy had weathered the COVID-19 pandemic better than anticipated thanks to earlier reforms that strengthened macro-fiscal and financial fundamentals. Fiscal financing needs were managed through anchoring to the IFIs' financing programs and access to external markets. Although some reforms, including banking and SOEs, were incomplete and potential growth remained low due to demographic headwinds, low productivity and investment rates, the historic opening of agricultural land markets in mid-2021 held the promise of unleashing stronger growth in the agricultural sector that already contributed 40 percent of export earnings and one-fifth of GDP.

Following the Russian invasion on February 24, 2022, Ukraine has suffered a massive economic and humanitarian crisis. As of March 31, 4mn people had become refugees, and 6.5mn displaced internally. With food insecurity increasing, the Government banned the export of grains and other staples. To support the economy and ease pressures on FX reserves and banks, it imposed an emergency (including capital controls and banking sector restrictions) and announced tax deferrals, while fully meeting domestic and external debt obligations. These measures have helped to prevent a macro-fiscal and financial collapse during wartime.

Critical priorities in the near-term remain macroeconomic stability, provision of essential public services and humanitarian relief. Over the medium-term, the damage to productive and export capacity and loss of human capital are expected to have lasting economic and social repercussions. A major reconstruction effort will be necessary, complemented by institutional, structural and financial sector reforms to support private sector-led growth, but is contingent on substantial external financing on concessional terms (which will also aid fiscal sustainability). Absent this, the recovery would be even more protracted and likely to be characterized by continued hardship and migrant outflows.

Recent developments

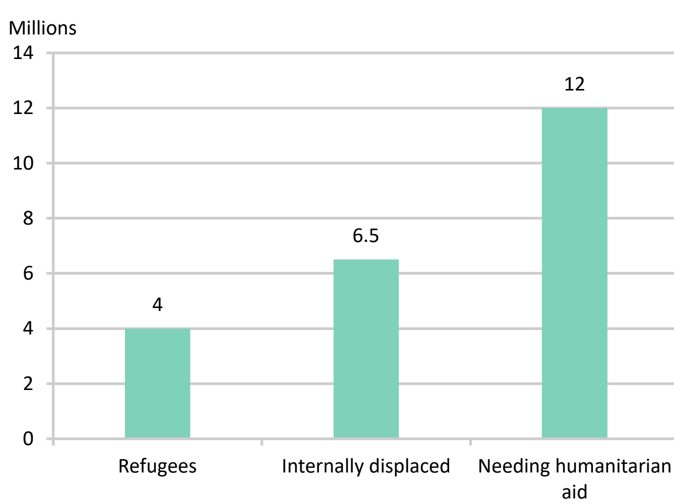
The economy expanded by 3.4 percent in 2021 as easing COVID restrictions supported domestic demand, and a bumper harvest offset d rags from higher global energy prices and a faster fiscal consolidation. The external position was relatively robust, with gross reserves at US$30.9 bn, and a small current account deficit of 1.1 percent of GDP. This recovery was upended by the onset of war in February 2022, which has fully disrupted maritime trade (this amounted to half of the total trade and 90 percent of grain trade), heavily damaged critical infrastructure and triggered a massive displacement of people.

Access to external capital markets remains closed, with Eurobond spreads peaking at

FIGURE 1 Ukraine / EMBI bond spreads

Source: Bloomberg. Latest data point from March 30, 2022.

FIGURE 2 Ukraine / Number of persons displaced and in need of humanitarian assistance



Source: UNOCHA and UNHCR. Latest data point from March 30, 2022.

over 50 percent in early March. A large fiscal financing gap has opened amid a rapidly widening fiscal deficit (due to growing spending needs and declining revenues) and large debt repayments. Tax revenues are expected to drop sharply due to the economic impacts of the war, as well as tax deferrals announced for key business, land and municipal taxes and the shift to a 2 percent turnover tax. In response, international partners have provided substantial funding through grants, loan guarantees, and currency swap lines alongside major financing packages by the IMF, EU, World Bank and some bilaterals. Bond spreads have since dropped 15 percentage points to just above 30 percent.

Compared to the 2014-15 crisis, the banking system is more resilient but faces heightened operational, liquidity and solvency risks. In addition to capital and exchange controls, the central bank has established a new liquidity facility and introduced regulatory forbearance measures to support financial stability. FX reserves stood at US$27.5 bn (3.8 months of current imports as of March 1). Inflation was stable at an average of 10 percent in the 8 months leading up to the war; regulated utilities prices and the introduction of price caps on essential consumer goods may restrain inflationary pressures in the short term.

Outlook

Projections, given the ongoing conflict, are subject to great uncertainty and large downside risks. In the baseline, assuming that war continues for several more months (albeit remains contained to the geographical areas where it is currently occurring), a 45 percent GDP contraction is anticipated in 2022. This is predicated on massive declines in imports and exports given trade disruptions, a collapse in public and private investments and a large drop in household spending reflecting the large displacements of people, loss of incomes and livelihoods. In coming years, a major reconstruction effort is expected to push growth to over 7 percent by 2025 amid a slow restoration of productive and export capacity and gradual return of refugees. Still, by 2025, GDP will be a third less than its pre-war level in 2021.

After a significant widening, the non-primary fiscal deficit is expected to narrow over the medium term as gradual fiscal consolidation and cuts to non-essential spending offset increased public investment. The CA should remain constrained by sizable domestic import compression in the near term but will widen in 2023 and 2024 due to reconstruction-related investment imports (amid domestic supply constraints).

The poverty and social impacts of the war will be massive. Simulations using the most recent macroeconomic projection show that the share of the population with incomes below the actual Subsistence Minimum (the national poverty line) may reach 70 percent in 2022, up from 18 percent in 2021. In the absence of a massive post-war support package, this indicator would still be higher than 60 percent by 2025. Based on the international upper middle-income poverty line (US$5.5 a day), poverty is projected to increase to 19.8 percent in 2022, up from 1.8 percent in 2021, with an additional 59 percent of people being vulnerable to falling into poverty.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.2	-3.8	3.4	-45.1	2.1	5.8
Private Consumption	10.9	1.7	7.7	-50.0	2.5	2.9
Government Consumption	-13.6	-0.7	1.8	-10.0	3.0	2.0
Gross Fixed Capital Investment	11.7	-21.3	7.6	-57.5	68.5	34.3
Exports, Goods and Services	7.3	-5.8	-10.4	-80.0	30.0	35.0
Imports, Goods and Services	5.7	-6.4	12.7	-70.0	42.0	24.0
Inflation (Consumer Price Index)	4.1	5.0	10.0	15.0	19.0	8.4
Current Account Balance (% of GDP)	-2.7	3.4	-1.1	-6.8	-16.8	-15.3
Fiscal Balance (% of GDP)[a]	-2.1	-5.6	-4.0	-17.5	-21.6	-14.6
Debt (% of GDP)	50.2	60.4	50.7	90.7	..	..
Primary Balance (% of GDP)[a]	1.0	-2.7	-0.5	-13.8	-16.6	-12.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	2.5	2.5	1.8	19.8	18.5	17.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Note: Projections are as of March 28, 2022.
a/ Fiscal Balance and Primary Balance are non-military balances from 2022 to 2024.
b/ Calculations based on ECAPOV harmonization, using 2020-HLCS.
c/ Projection using neutral distribution (2020) with pass-through = 0.87 based on private consumption per capita in constant LCU. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.

UZBEKISTAN

Table 1	2021
Population, million	34.9
GDP, current US$ billion	69.2
GDP per capita, current US$	1983.2
School enrollment, primary (% gross)[a]	100.1
Life expectancy at birth, years[a]	71.7
Total GHG Emissions (mtCO2e)	259.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2019).

Russia's invasion of Ukraine will slow Uzbekistan's growth to 3.6 percent in 2022, due to a halving of remittances, record global oil and food prices, trade, investment, and banking disruptions, and the return of migrant workers. More social protection and labor market programs are needed to prevent increases in poverty. Higher commodity revenues and lower public investment spending will create fiscal space and, with tighter monetary policy, support macroeconomic stability.

Key conditions and challenges

After a wave of trade and price liberalization reforms, the focus of reforms is shifting to deeper structural constraints such as weak factor markets and dominant public enterprises. These reforms are needed to create a larger and more competitive private sector, which is key to addressing the economy's legacy of state-led growth with weak job creation.

The government recognizes the need for a more inclusive transition. About 7.5 percent of citizens lived below the World Bank's lower-middle-income poverty line in 2021. Many more live close to this line and are at high risk of poverty. One in six households has a member working abroad, mostly in Russia. Reforms to expand social assistance started during the COVID-19 pandemic will serve as an effective platform to expand safety nets and labor market support programs to prevent a sharp rise in poverty—and enable structural reforms to continue.

Recent developments

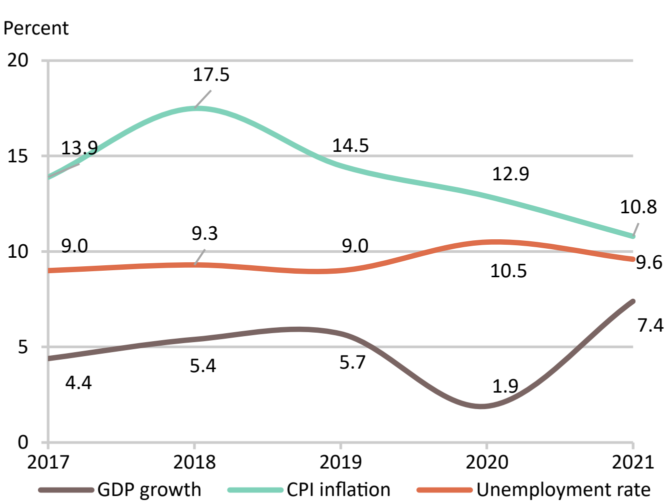
Uzbekistan's economy grew by 7.4 percent in 2021. Strong industrial and services growth helped temper still weak agricultural growth. Robust household income and investment growth and continued anti-crisis fiscal support also supported growth.

Imports grew by 20 percent in 2021 from higher consumer demand and a resumption of capital imports after a pandemic-induced slowdown. Exports grew by 10 percent but were still below pre-pandemic levels, as demand remained weak in major trading partners (Russia, Kazakhstan). Remittance inflows recovered, but only partially offset a large fall in gold sales (by 29 percent), leading to a wider current account deficit of 6.6 percent of GDP in 2021, against 5 percent in 2020.

The fiscal deficit increased to 6.2 percent of GDP in 2021 from 4.5 percent in 2020, as expanded social assistance coverage and higher health and education spending offset lower policy lending and higher tax revenues from a rebounding economy. The fiscal deficit was financed almost entirely through new external debt, though the government remained within its annual ceiling on new debt of $5.5 billion. Despite the drop in gold sales, international reserves increased by $0.2 billion in 2021 to about 51 percent of GDP.

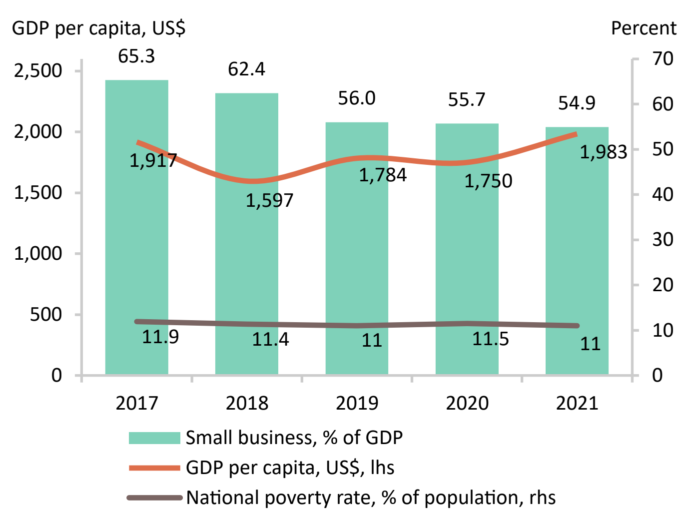
Inflation continued falling, averaging at 10.8 percent in 2021 (against 12.9 percent in 2020). Average annual inflation reached 9.8 percent at end-February 2022, the first reversion to single-digits since 2017. Higher domestic and global food prices and shipping costs continued to drive inflation. In the three weeks following Russia's invasion of Ukraine, and amidst lower remittance inflows and heightened uncertainties, the som depreciated by about 6 percent against the US dollar. In mid-March 2022, in response to exchange rate pressures and an uncertain inflation outlook, the central bank

FIGURE 1 Uzbekistan / GDP growth, inflation, unemployment



Source: Uzbekistan official statistics.

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



Source: Uzbekistan official statistics.

(CBU) increased its policy rate by 300 basis points to 17 percent.

A reduction in subsidized lending and high real interest rates slowed credit growth to 18 percent in 2021 from 31 percent in 2020. Portfolio growth and stronger risk regulations reduced the banking sector's total capital adequacy ratio to 17.5 percent at end-2021 from 18.4 percent at end-2020.

The banking system remains resilient, but non-performing loans rose from about 1-3 percent of total loans between 2018 and 2020 to 5.2 percent at end 2021—a result of the pandemic. Capital and liquidity buffers remain above regulatory minimums but could be tested as further effects of the pandemic, the war in Ukraine, and strong credit growth in recent years emerge. To reduce banking dollarization, the CBU increased minimum reserves for foreign currency deposits from 14 to 18 percent in August 2021.

The unemployment rate declined to 9.6 percent in 2021 from 10.5 percent in 2020. Employment has not yet returned to pre-pandemic levels and unemployment remains high for women and youth.

Outlook

Russia's invasion of Ukraine will slow growth to 3.6 percent in 2022, compared to pre-crisis estimates of about 6 percent. An anticipated 50 percent fall in remittances (from a weaker ruble and the collapse of Russia's economy) and higher oil, wheat, and cooking oil prices will sharply lower private consumption. Investment growth is also expected to slow given the heavy reliance on Russian capital imports and bank financing for public and private investment projects. Although Uzbekistan will benefit from high global commodity prices (gold, copper, and natural gas), an estimated 6 percent of GDP fall in remittances will widen the current account deficit to 10 percent of GDP in 2022. With foreign investments from Russia expected to fall, FDI inflows will be subdued in 2022 and take time to recover. As a result, the higher current account deficit is expected to be financed by new public debt and the use of reserves.

Higher revenues from commodity exports and privatization receipts and slower public investment spending are likely to offset higher social spending to support remittance-dependent households and prevent an anticipated sharp rise in poverty levels from falling remittances and the return of potentially large numbers of displaced migrant workers. As a result, the overall fiscal deficit is expected to fall to 4 percent of GDP in 2022. An anticipated fiscal consolidation by 2023 is now likely to be delayed. The government is expected to continue adhering to its overall debt limits, and public debt is expected to peak at 42 percent of GDP in 2022-23 and stabilize at about 40 percent of GDP by end-2024.

These projections remain subject to significant further downside revisions depending on the duration of sanctions on Russia, potential global financial spillovers from US interest rate changes, further COVID-19 waves, and the impact of trade and logistics disruptions to Uzbekistan's supply chains.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.7	1.9	7.4	3.6	5.3	5.5
Private Consumption	5.3	0.1	7.1	0.6	2.9	3.2
Government Consumption	5.7	1.4	1.1	15.8	2.5	4.5
Gross Fixed Capital Investment	38.1	-4.4	5.2	-0.4	7.1	7.2
Exports, Goods and Services	16.2	-20.0	4.8	13.1	13.8	15.1
Imports, Goods and Services	13.3	-15.0	5.8	1.0	8.9	11.1
Real GDP growth, at constant factor prices	5.7	1.9	7.4	3.6	5.3	5.5
Agriculture	3.1	2.9	4.0	3.7	3.6	3.9
Industry	8.3	2.5	8.3	3.9	6.4	6.7
Services	5.6	0.9	9.0	3.3	5.6	5.7
Inflation (Consumer Price Index)	14.5	12.9	10.8	11.9	10.6	9.0
Current Account Balance (% of GDP)	-5.8	-5.0	-6.6	-10.2	-7.1	-5.7
Fiscal Balance (% of GDP)	-3.9	-4.5	-6.2	-4.0	-2.9	-2.5
Debt (% of GDP)	29.7	39.0	38.1	42.0	42.1	40.3
Primary Balance (% of GDP)	-3.4	-3.4	-5.0	-2.8	-1.7	-1.3
GHG emissions growth (mtCO2e)	0.4	-3.3	3.6	2.0	2.8	3.0
Energy related GHG emissions (% of total)	51.1	48.6	49.8	50.2	50.9	51.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Macro Poverty Outlook

04/
2022

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