Europe and Central Asia

Macro Poverty Outlook

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

Spring Meetings 2023

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Uzbekistan

ALBANIA

Table 1	2022
Population, million	2.8
GDP, current US$ billion	20.0
GDP per capita, current US$	7069.2
International poverty rate ($2.15)[a]	3.9
Lower middle-income poverty rate ($3.65)[a]	11.3
Upper middle-income poverty rate ($6.85)[a]	34.2
Gini index[a]	36.0
School enrollment, primary (% gross)[b]	95.9
Life expectancy at birth, years[b]	77.0
Total GHG emissions (mtCO2e)	7.5

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

Growth in 2022 is estimated at 3.5 percent, as private consumption, exports, and investment expanded, despite increasing energy and food prices. Growth is expected to remain subdued for 2023. Poverty is expected to continue its downward trend. Medium-term prospects hinge on global recovery, structural reforms, and fiscal consolidation.

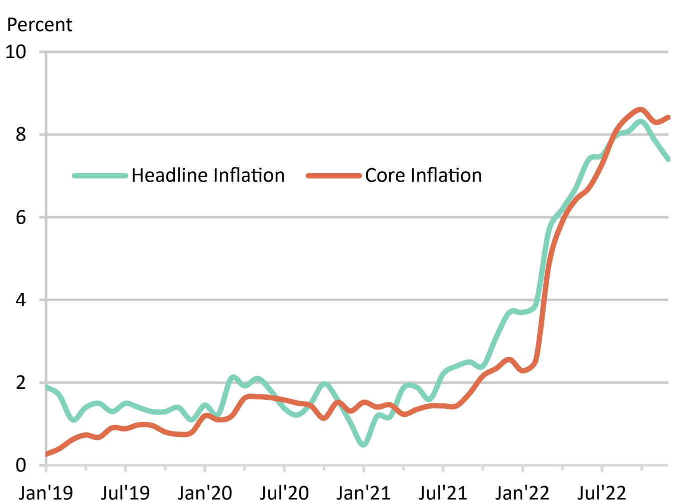
Key conditions and challenges

The Albanian economy has shown considerable resilience in the face of consecutive shocks since 2019-2020. During 2021-2022, the economy experienced a strong rebound, with GDP fully recovering to pre-pandemic levels. Real GDP expanded by 8.5 percent in 2021, surpassing its level in 2019 by 4.7 percent and fully closing the output gap. Poverty levels continued their downward trend in 2022.
Key drivers of Albania's resilience have been the proximity to the European Union (EU), as well as strong remittances and exports. The availability of hydropower, which meets 85 percent of domestic energy demand in a year with average precipitation, has contributed to contain the country's greenhouse gas emissions and has provided some insulation from the ongoing energy crisis; more diversification through other renewable energy (RE) sources, and the development of the RE market, is needed to strengthen energy security at affordable prices. Key challenges are a declining population, also due to large migration; the poor quality of the labor force and of the jobs created; the moderate pace of reforms; and rising fiscal pressures, due also to rising debt and contingent liabilities.
The government has to carefully balance the need to mitigate the impact of multiple shocks on the households against the necessity of gradual fiscal consolidation. A sound Medium-Term Revenue Strategy (MTRS) could make a more ambitious, revenue-based consolidation possible.
Unlocking further growth is conditional on the swift implementation of the Government's program, anchored on the EU accession aspiration and built on reforms tackling productivity, including improving the business environment, streamlining government interactions with the private sector, and expanding Albania's integration into foreign markets.

Recent developments

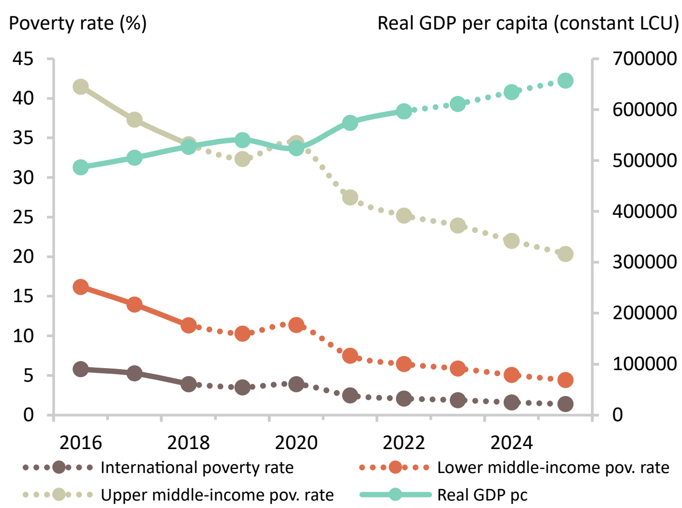
Albania's economy is estimated to grow at 3.5 percent in 2022. Despite increasing energy and food prices, in line with the 2021 trend, household consumption and exports rose by 8.4 and 11.3 percent respectively for the first three quarters. After driving growth in 2021, gross fixed capital formation slowed in 2022, as government capital expenditures declined. On the supply side, trade and construction led growth. Lower energy production from hydropower subtracted from growth, given an exceptionally dry year.
Annual employment growth accelerated to an average of 3.9 percent in the first three quarters of 2022. Job creation was broad-based, while the number of vacancies increased, putting upward pressure on wages. Unemployment fell to a record low of 10.6 percent in Q3 2022, while labor force participation increased.
Given the strong growth in GDP per capita in 2022, poverty is estimated to

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.

have declined from 27.5 percent in 2021 to 25.2 percent in 2022.

The annual inflation rate rose to 8.3 percent in October 2022, the highest since March 2020, driven by food and transport prices, adversely impacting the poorest citizens. The central bank raised its policy rate to 2.75 percent in November.

Credit growth supported the recovery in 2022. While capital adequacy is above regulatory requirements, the banking system remains susceptible to credit, exchange, and interest rate risks.

In 2022, the fiscal position improved on account of stronger-than-expected revenue collection and spending restraint. To provide temporary and targeted support to the most vulnerable, the Government revised the budget four times in 2022, bringing overall support to 0.6 percent of GDP. Additional subsidies were provided to the electricity state-owned enterprises (SOEs) amounting to 1 percent of GDP.

In 2022, strong exports' growth helped mitigate the impact of rising imports. Yet, the current account deficit remains elevated.

Outlook

Growth is expected to remain subdued in 2023, in the context of tighter global financial conditions, expected economic slowdown in Europe, and the withdrawal of policy support for the post-earthquake reconstruction. Real exports, consumption, and investment are expected to grow at rates below those in the pre-pandemic period.

The inflation rate is projected to start converging toward the 3 percent target by 2025. The central bank is expected to further increase the policy rate by an additional 2–2.5 percentage points in 2023.

The primary balance is projected to reach 0.7 percent of GDP only after 2023, in observance of the fiscal rule. Fiscal consolidation will largely come from the spending side. On the revenue side, the Government plans to introduce a number of tax policy measures, envisioned in the MTRS. The revenue gains of these measures in the short term are expected to be netted off by slower growth and partially by the increase in the minimum taxable wage introduced at the end of 2022.

Public debt is expected to decline slightly to 67.9 percent of GDP in 2023, and more significantly over the medium term, as a result of higher nominal growth and a gradual reduction of the fiscal deficit. Given Albania's growing reliance on external financing, the exchange rate, interest rate, and refinancing related risks remain elevated.

Further increases in food and energy prices are a key risk to growth, as they could affect real disposable income, slow poverty reduction, and constrain fiscal space. As a small, open economy, Albania is highly exposed to external shocks, such as recession in Europe or further tightening of financing conditions in international capital markets beyond the current year. Domestic risks emanate from natural disasters, public-private partnerships, and SOEs, in addition to fiscal risks stemming from the energy sector.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-3.5	8.5	3.5	2.2	3.4	3.4
Private Consumption	-3.5	4.2	2.5	2.6	2.5	2.7
Government Consumption	1.5	7.8	0.7	-0.3	1.6	1.3
Gross Fixed Capital Investment	-0.9	19.8	1.8	0.5	3.1	3.3
Exports, Goods and Services	-27.9	46.0	8.3	5.1	6.3	6.2
Imports, Goods and Services	-19.8	31.7	3.5	3.4	3.3	3.7
Real GDP growth, at constant factor prices	-2.9	8.6	3.5	2.2	3.4	3.4
Agriculture	0.3	1.5	1.4	1.3	1.5	1.5
Industry	-3.5	10.8	2.6	1.3	3.7	3.5
Services	-3.8	10.3	4.6	2.9	4.0	3.9
Inflation (Consumer Price Index)	2.2	2.6	6.7	4.0	3.5	3.0
Current Account Balance (% of GDP)	-8.5	-7.7	-7.7	-7.8	-7.7	-7.6
Net Foreign Direct Investment Inflow (% of GDP)	6.7	6.4	6.5	6.5	6.5	6.6
Fiscal Balance (% of GDP)	-6.7	-4.5	-3.3	-2.7	-2.4	-2.4
Revenues (% of GDP)	25.9	27.0	27.9	28.6	28.3	28.3
Debt (% of GDP)	75.9	74.0	68.5	67.8	66.6	65.5
Primary Balance (% of GDP)	-4.6	-2.6	-1.3	0.0	0.7	0.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.9	2.5	2.1	1.9	1.6	1.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	11.4	7.5	6.4	5.9	5.1	4.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	34.4	27.5	25.2	23.9	22.0	20.4
GHG emissions growth (mtCO2e)	-8.7	-1.7	-4.0	-4.4	-3.7	-10.2
Energy related GHG emissions (% of total)	44.5	44.6	43.0	40.7	38.7	31.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2017-SILC-C and 2019-SILC-C. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection using point-to-point elasticity (2016-2018) with pass-through = 1 based on GDP per capita in constant LCU.

ARMENIA

Table 1	2022
Population, million	2.8
GDP, current US$ billion	19.5
GDP per capita, current US$	7014.2
International poverty rate ($2.15)[a]	0.5
Lower middle-income poverty rate ($3.65)[a]	8.7
Upper middle-income poverty rate ($6.85)[a]	51.7
Gini index[a]	27.9
School enrollment, primary (% gross)[b]	91.1
Life expectancy at birth, years[b]	72.2
Total GHG emissions (mtCO2e)	13.5

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

Economic growth was 12.6 percent in 2022, much higher than initially expected, mainly due to significant increases in services and private consumption, fueled by strong inflows of migrants and capital from Russia. The outlook is subject to significant uncertainty, due to the risk of reversal of inflows, continued geopolitical tensions, and unresolved issues at the Armenian border.

Key conditions and challenges

In 2022, Armenia absorbed a significant inflow of migrants, businesses, and capital following Russia's invasion of Ukraine. The country also benefited from the re-routing of some trade and financial flows through Armenia. These developments fueled domestic demand and supported the appreciation of the currency; they increased reserve levels and reduced credit dollarization.

Armenia's sound macroeconomic policies (active inflation targeting, adherence to prudent fiscal policy, and sound financial sector oversight) have supported generally positive economic performance in the last few years despite several significant shocks. Armenia has also pursued significant reforms, particularly aimed at reducing corruption and increasing transparency. However, significant structural challenges persist, which result in weak productivity, low investment and inability to attract FDI, limited human capital, an undiversified economic structure, and a narrow export base and export destinations.

Recent developments

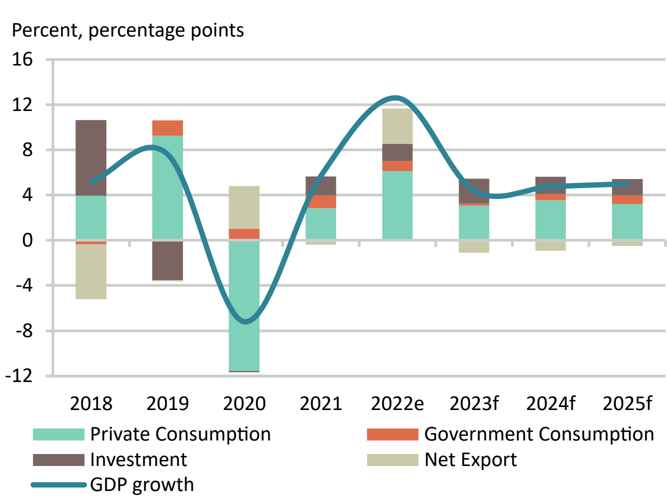
Economic performance in 2022 was unexpectedly strong, with real GDP growth reaching 12.6 percent. Robust growth in services (up 17.7 percent, yoy) contributed to approximately three-quarters of total growth. This was mainly driven by the finance, IT, transport, accommodation, and public catering sub-sectors. Industry and construction grew by 6 percent and 19 percent (yoy), respectively. While mining contracted by 3.2 percent in real term (yoy), manufactured base metal products show 16 percent growth (yoy). Agriculture contracted by 0.7 percent (yoy), reflecting challenges in the sector and possible limitations in actual data collection. On the demand side, growth was driven largely by private consumption (up 8.1 percent, yoy) fueled by exceptionally high inflows of people and funds from Russia, and by a 10 percent increase in real wages, driven by strong growth in wages in IT and finance.

The unemployment rate fell to 11.6 percent in Q3 2022, down from 15.5 percent at end-2021, and this is expected to drive substantial poverty reduction in 2022.

Inflation averaged 8.6 percent in 2022 compared to 7.2 percent in 2021. Inflation eased from a peak of 10.3 percent (yoy) in mid-2022 to 8.1 percent (yoy) in January 2023, as the Central Bank of Armenia (CBA) increased the policy rate by 300 bps in 2022, and international food and energy prices eased in recent months. The unprecedented appreciation of the AMD has also helped contain inflationary pressures.

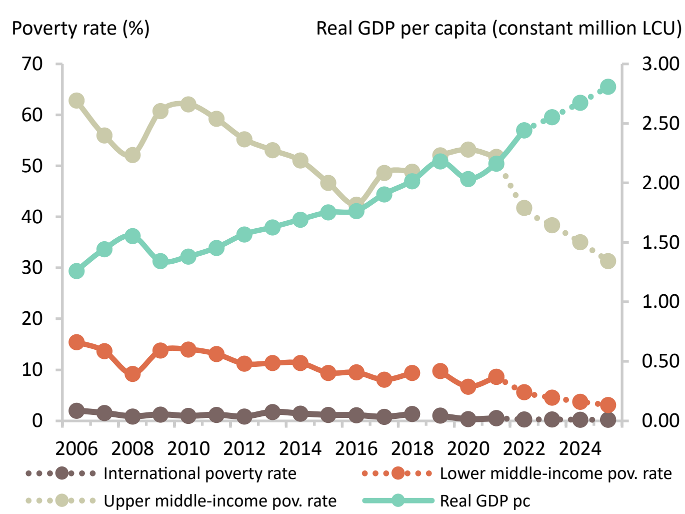
Fiscal performance was robust in 2022, with the budget deficit narrowing from 4.6 percent of GDP in 2021 to 2.2 percent in 2022 due to strong revenue collection. Tax revenues rose by 21 percent (yoy) in nominal terms, mostly driven by VAT and by increases in income and profit tax

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



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

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



Source: World Bank. Notes: see Table 2.

collection. While current spending grew only by 4 percent, capital expenditures increased by 193 percent (yoy), accounting for 4.6 percent of GDP, the highest level in the last decade. This was partly due to higher defense spending.

Driven by robust economic and fiscal performance and the appreciation of the AMD, government debt to GDP declined sharply, down 13.6 percentage points in 2022, bringing the debt to GDP ratio to 46.7 percent by end-2022.

The external balance improved significantly in 2022 with an unprecedented increase in exports of goods and services. Merchandise exports increased by 77.7 percent in 2022 in nominal terms, as the exports of machines and instruments, transport vehicles, and precious stones, surged, partly driven by re-exports to Russia. In turn, merchandise imports increased by 63.5 percent in 2022. Receipts both from tourism-related services and money transfers tripled (yoy) in 2022, mostly due to a significant increase in inflows from Russia. FDI more than doubled, mostly driven by investment in the financial sector and Russian investment in the real sector (particularly in mining, energy, and real estate). International reserves were boosted to the historically high level of USD 3.7 billion, or 4.4 months of import cover, at end-January 2023. As a result of high financial inflows and the switch to the RUB for gas import payments, the AMD strengthened significantly, with the average exchange rate against the USD appreciating by 14 percent in nominal terms and by 34 percent in real effective terms (yoy) in 2022.

Outlook

Growth is expected to ease to about 4.5 percent in 2023, due to the high base of 2022 and a slowdown among trading partners. Some pick-up in growth in the medium-term will be supported by consumption and higher private investment. On the production side, services are expected to remain the main driver of growth, followed by industry. Inflation is forecast to decline gradually to its target level of 4 percent by 2025. In line with the Government's medium-term expenditure framework, the fiscal deficit is expected to decrease from a planned 3.1 percent in 2023 to 2.5 percent in 2025. The current account deficit is forecast to deteriorate in 2023, after the sharp improvement in 2022, and to stabilize at around 3 percent of GDP over the medium-term.

Macroeconomic projections suggest that the population below the UMIC poverty line (USD 6.85/day, 2017 PPP) will have decreased from 51.7 percent in 2021 to 41.8 percent in 2022, and to a projected 38.4 percent in 2023. However, high inflation, particularly affecting food and real estate, may have a negative impact on the poorest households.

A reversal in inflows coupled with persistent inflation and further monetary tightening in advanced economies would put pressure on the currency, potentially resulting in balance sheet pressures and refinancing challenges. A possible extension of sanctions to Russia's main trade partners as well as geopolitical developments are another source of downside risks. On the upside, stronger inflows from Russia could lift growth above the forecast.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-7.2	5.7	12.6	4.4	4.8	5.0
Private Consumption	-13.9	3.7	8.1	4.2	4.9	4.4
Government Consumption	9.2	8.4	6.5	1.3	4.3	6.2
Gross Fixed Capital Investment	-1.5	6.3	9.5	11.4	7.3	6.7
Exports, Goods and Services	-33.5	16.6	54.4	9.8	9.2	8.5
Imports, Goods and Services	-31.5	12.9	33.8	10.5	9.5	8.1
Real GDP growth, at constant factor prices	-6.8	5.5	13.2	4.4	4.8	5.0
Agriculture	-3.7	-0.6	-0.7	1.2	2.0	2.7
Industry	-2.5	3.4	9.4	4.9	4.2	3.9
Services	-9.6	8.0	18.1	4.7	5.5	5.9
Inflation (Consumer Price Index)	1.2	7.2	8.6	6.5	4.5	4.0
Current Account Balance (% of GDP)	-3.8	-3.7	-0.4	-2.2	-2.7	-3.0
Net Foreign Direct Investment Inflow (% of GDP)	0.7	2.5	4.1	2.1	2.2	2.5
Fiscal Balance (% of GDP)	-5.1	-4.6	-2.2	-3.1	-2.8	-2.5
Revenues (% of GDP)	26.0	25.0	25.1	25.0	25.2	25.6
Debt (% of GDP)[a]	63.5	60.3	46.7	49.2	48.6	48.0
Primary Balance (% of GDP)	-2.4	-2.0	0.2	-0.2	0.2	0.4
International poverty rate ($2.15 in 2017 PPP)[b,c]	0.4	0.5	0.3	0.3	0.2	0.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	6.7	8.7	5.6	4.5	3.8	3.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	53.2	51.7	41.8	38.4	35.0	31.4
GHG emissions growth (mtCO2e)	-1.8	15.4	19.5	7.1	8.3	9.7
Energy related GHG emissions (% of total)	60.3	66.5	72.4	74.5	76.6	78.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Includes Governement and CBA debt.
b/ Calculations based on ECAPOV harmonization, using 2021-ILCS. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.
c/ Projection using neutral distribution (2021) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

AZERBAIJAN

Table 1	2022
Population, million	10.2
GDP, current US$ billion	76.8
GDP per capita, current US$	7533.4
School enrollment, primary (% gross)[a]	94.3
Life expectancy at birth, years[a]	66.9
Total GHG emissions (mtCO2e)	53.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2021); Life expectancy (2020).

Economic growth was 4.6 percent in 2022, driven by non-energy sectors supported by recovering demand and fiscal expansion. Inflation accelerated sharply to 13.8 percent, driven by import prices. In the medium-term, growth is expected to moderate as non-energy sector growth returns to pre-COVID levels while the energy sector shrinks further. Risks to this outlook are balanced.

Key conditions and challenges

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

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

Another key development challenge for Azerbaijan is post-conflict reconstruction in liberated territories, which will require substantial public resources and adequate planning and implementation of investments, to ensure efficiency and fiscal sustainability.

Azerbaijan's 2022–2026 Socio-Economic Development Strategy lays out a reform plan to move to a private-sector-led growth model and the development of human capital, with a target of sustained 5 percent growth in non-energy sectors during 2022–2026.

Recent developments

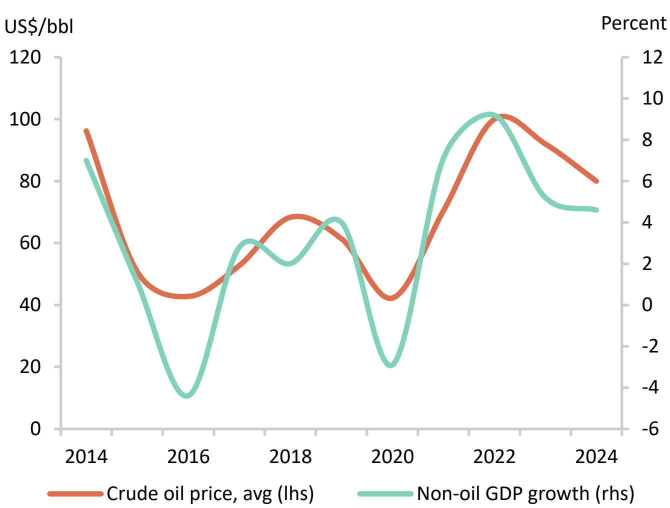
The economy expanded by 4.6 percent (yoy) in 2022, supported by strong growth in non-energy sectors. The energy sector shrank by 2.6 percent (yoy) as continued fall in oil production was only partially offset by an increase in natural gas production. The non-energy sector grew by 9.1 percent (yoy) in 2022 compared to 7.2 percent (yoy) in 2021, driven by services, including transport (largely due to trade rerouting following Russia's invasion of Ukraine), hospitality, and ICT. The construction sector also performed well, expanding by 13.4 percent (yoy) due to a sharp increase in public investment.

On the demand side, consumption grew at a healthy pace in 2022, supported by growth in real wages and a surge in money transfers from Russia (up 5.5-fold, yoy). Investment rebounded strongly, supported by public investment largely directed toward reconstruction in liberated territories.

Inflation rose from 6.7 percent in 2021 to 13.8 percent by end-2022, driven by high import prices, particularly for food. To counter inflationary pressures, the Central Bank of Azerbaijan (CBA) raised the policy rate by 100 bps during 2022 to 8.25 percent. However, the policy rate remains negative in real terms.

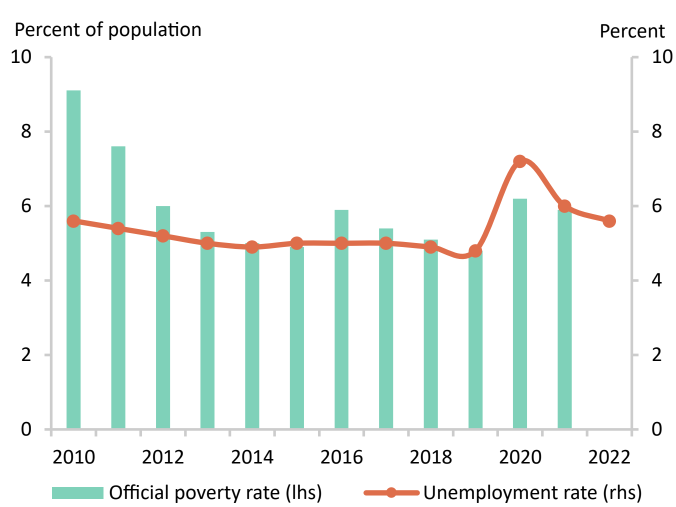
Soaring energy prices boosted exports in the first nine months of 2022 with exports doubling in nominal terms (yoy) while imports increasing by 28 percent (yoy). Strong exports coupled with the sharp increase in money transfers from Russia pushed the current account to a surplus of 30.7 percent of GDP over this period. This was offset partly by net financial outflows, which picked up to 16.6 percent of GDP, largely driven by investment repatriation by energy companies.

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



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

FIGURE 2 Azerbaijan / Official poverty rate and unemployment rate



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

Foreign currency reserves increased by 27 percent in 2022, to USD 9 billion, covering 5.3 months of imports.

The fiscal balance recorded a surplus of 5.4 percent of GDP in 2022. This was driven by a 24.7 percent (yoy) nominal increase in fiscal revenues. Fiscal spending increased by 17 percent (yoy) due to a 31 percent (yoy) increase in public investment. Higher fiscal revenues allowed the Government to cut transfers from the State Oil Fund of the Republic of Azerbaijan (SOFAZ) to the budget in 2022, which increased SOFAZ reserves by 9 percent to USD 49 billion (62 percent of GDP). Public debt declined to 11.7 percent of GDP.

Credit to the economy rose by 18 percent (yoy) in 2022, driven by a 27.3 percent (yoy) increase in consumer lending. The bank NPL ratio fell from 4.2 to 2.9 percent and bank profits increased substantially.

Outlook

Economic growth in 2023 is expected to moderate to 2.2 percent. On the energy side, the slowdown is driven by a projected fall in oil and gas production, due to the main oil field's declining production profile and the main natural gas field's near full capacity.

Growth in non-energy sectors is expected to ease to 5.2 percent, after two years of rapid growth, as it converges to the pre-COVID growth path. Growth will be supported largely by services and construction, which is expected to remain robust due to strong public investment focused on reconstruction. In the medium-term, growth is expected to average 2.5 percent in the absence of structural reforms.

On the demand side, consumption is estimated to ease in 2023, converging to pre-COVID levels. Increase in minimum wages, pensions, and social transfers are expected to prevent a steeper fall in consumption. Investment is expected to ease in the medium-term, as the private investment outlook remains cloudy due to continuing challenges in the business environment. External demand is likely to moderate in the medium-term as well, with slowing global growth and weaker prospects for global energy demand.

Inflation is projected to slow to 8.5 percent in 2023 as international prices ease, while remaining above the CBA's upper range. Over the medium-term, inflation is expected to moderate and return to the CBA's target interval of 4+/–2 percent by 2025.

The external balance is projected to remain in surplus in 2023 supported by high energy prices. Imports are expected to remain robust in 2023 supported by domestic demand, while moderating in the medium-term as growth slows. The fiscal balance is estimated to remain in surplus in the medium-term, averaging 3.9 percent of GDP. High energy revenues are expected to offset higher spending arising from the implementation of the recently approved 2022–2026 Socio-Economic Development Strategy.

The main downside risks to the outlook include the risk of reversals of money transfers from Russia and trade rerouting, which has benefited the Azerbaijani transport sector following the war in Ukraine. Upside risks in the medium-term include higher-than-forecasted energy prices and a potential ramp up of natural gas exports to the EU.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-4.3	5.6	4.6	2.2	2.5	2.6
Private Consumption	-5.1	7.0	4.9	4.0	3.6	3.6
Government Consumption	4.8	3.8	7.4	4.2	3.1	3.1
Gross Fixed Capital Investment	-7.1	-6.0	4.5	3.2	3.3	3.3
Exports, Goods and Services	-8.1	5.6	3.3	0.8	1.6	1.8
Imports, Goods and Services	-10.5	2.5	3.2	2.7	2.7	2.7
Real GDP growth, at constant factor prices	-4.4	5.6	4.6	2.2	2.5	2.6
Agriculture	1.9	3.3	3.4	3.2	3.0	3.0
Industry	-5.2	4.1	2.4	0.5	1.0	1.2
Services	-4.4	8.6	8.5	4.7	4.5	4.6
Inflation (Consumer Price Index)	2.8	6.7	13.8	8.5	6.2	5.4
Current Account Balance (% of GDP)	-0.5	15.2	26.5	19.2	14.8	13.0
Net Foreign Direct Investment Inflow (% of GDP)	-1.5	-4.1	-1.5	-1.0	-1.0	-0.9
Fiscal Balance (% of GDP)	-6.5	4.2	5.5	4.8	4.0	3.0
Revenues (% of GDP)	33.7	36.5	32.4	33.1	33.1	31.6
Debt (% of GDP)	18.4	16.2	11.7	10.9	10.8	11.0
Primary Balance (% of GDP)	-5.7	4.8	5.9	5.1	4.3	3.3
GHG emissions growth (mtCO2e)	-1.4	0.9	1.3	0.3	1.0	1.7
Energy related GHG emissions (% of total)	62.6	64.0	64.4	64.3	64.5	64.8

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

BELARUS

Table 1	2022
Population, million	9.3
GDP, current US$ billion	72.0
GDP per capita, current US$	7732.1
Upper middle-income poverty rate ($6.85)[a]	1.3
Gini index[a]	24.4
School enrollment, primary (% gross)[b]	94.2
Life expectancy at birth, years[b]	74.2
Total GHG emissions (mtCO2e)	57.2

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

Real output dropped by 4.7 percent in 2022 after 2.4 percent growth the year before, largely due to an adverse impact of sanctions. Households' real income declined. As the economy was adjusting to the new environment, trade and financial dependence on Russia increased. Inflation picked up significantly and the government resorted to administrative price controls to bring it down to 15.2 percent.

Key conditions and challenges

Belarus' economy completed 2022 in a recession with the steepest GDP decline recorded in the last twenty years. The economy was adjusting to economic sanctions introduced after the disputed 2020 elections and in response to Belarus' involvement in Russia's invasion of Ukraine. As businesses were exploring new export transportation routes, supply chains and markets, foreign trade dynamics and patterns changed accordingly. The share of Russia and other CIS countries in total merchandise export destinations increased from 60 to 68 percent over one year, while the non-CIS share dropped to 32 from 40 percent. The share of merchandise imports did not change substantially. To offset the repercussions of sectoral economic sanctions and other restrictions, the Belarusian authorities increasingly relied on economic support from Russia. The agreements included: (i) securing preferential gas prices, which are close to domestic prices in Russia, to contain production costs in industry and heating tariffs for households; (ii) obtaining compensation from Russia for the 'tax maneuver' to lower the price of imported crude oil and increasing sales of refinery products to the Russian market; and (iii) using Russian ports and other facilities to reroute export flows.

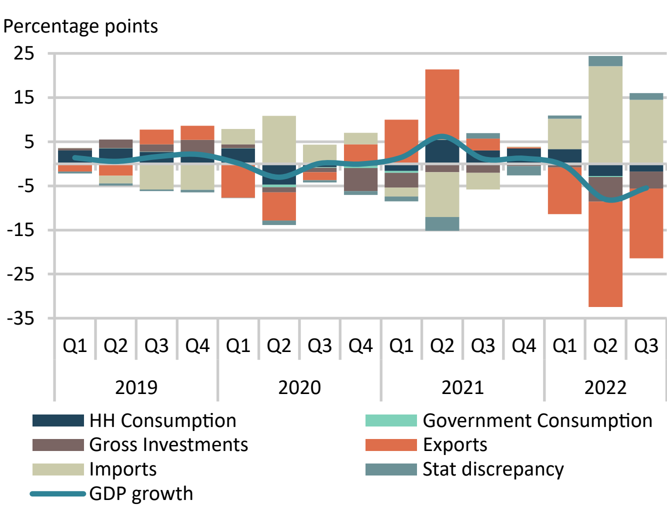
Sanctions against the financial sector limited the possibility to borrow from abroad. The government's decision to service Eurobonds in local currency instead of US$ (including a US$800 million Eurobond repayment in end-February 2023) resulted in a sovereign ratings downgrade to 'RD'. Belarus reached an agreement with Russia to defer repayments totaling US$ 1.4 billion on bilateral loans from 2022-23 to 2028-33 and on the Nuclear Power Plant loan from 2023 to 2024.

The authorities seek to reinvigorate growth by boosting investments into import-substitution projects implemented jointly with Russia.However, downside risks remain significant as the likelihood of additional economic sanctions is high subject to Belarus' role in the war in Ukraine.

Recent developments

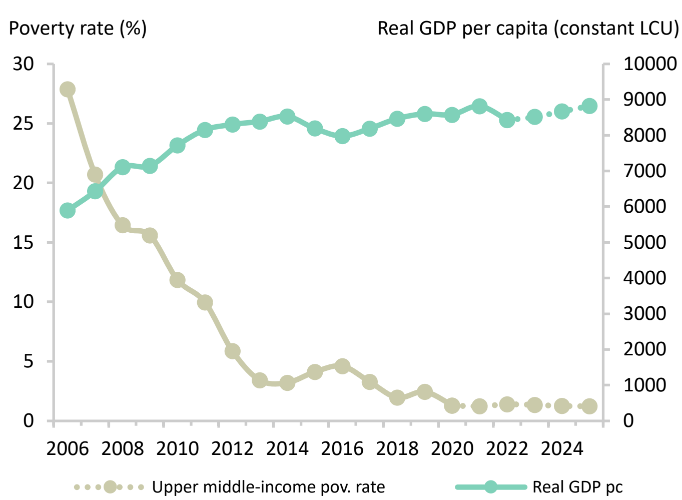
GDP declined by 4.7 percent, vs. 2.4 percent growth in 2021, reflecting a broad-based output contraction in manufacturing, construction, transportation, wholesale, and retail trade due to logistics and supply chain constraints because of sectoral sanctions. ICT, the most rapidly developing sector, recorded for the first time an annual output decline of 2.2 percent (including 10 percent in H2'22) reflecting business relocation and labor outflow. On the expenditure side, domestic demand remained suppressed as final consumption declined and fixed investments contracted by 14.4 percent by Q3 despite falling real interest rates reflecting a highly uncertain business environment.

FIGURE 1 **Belarus** / Contributions to quarterly GDP growth



Source: World Bank calculations based on Belstat data.

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



Source: World Bank. Notes: see Table 2.

Total exports dropped by 5.4 percent y/y while imports declined by 6.6 percent in nominal US$ terms. As companies reoriented export destinations towards the East, merchandise exports to non-CIS countries plunged by 24 percent y/y while CIS increased by 9.1 percent. Merchandise imports from both destinations dropped, however, imports from non-CIS countries remained more resilient and even increased from selected EU countries. As imports declined faster than exports, foreign trade remained in surplus at 7.5 percent of GDP and supported CA surplus of 4.1 percent of GDP in January to September 2022.

Headline inflation picked up to 18.1 percent in July. To curb inflation, the authorities introduced price regulations for 330 goods and administratively limited mark-ups for importers and retail trade which helped to reduce the CPI to 12.8 percent y/y in December but reduced the availability of a range of selected goods. Average annual inflation reached 15.2 percent in 2022.

Households' real disposable incomes declined by 3.6 percent y/y vs. 2.1 percent growth in 2021. Based on the upper middle-income line of US$6.85 a day (2017 PPP), poverty is low and estimated to have increased slightly in 2022.

Outlook

A weak economic growth is projected for 2023 as the economy will be further adjusting to an environment shaped by sanctions. A small uptick in economic activity will be supported by a projected recovery in the petrochemical sector, machinery and food processing industries which are oriented towards the Russian market or have established export routes through Russia. Accommodating monetary policy to support credit expansion and import-substitution projects that are planned to be jointly implemented with and financed by Russian loans would also support some recovery in manufacturing. Supply-side and logistical constraints will still remain and will be partially alleviated by 'parallel' imports. This will still have an adverse impact on producers.

Private sector growth will be affected by tightening business conditions due to changes in the tax code, which imply a 100 percent increase in tax rate paid by self-employed physical persons and individual entrepreneurs, while the simplified tax regime for individual entrepreneurs will be eliminated.

Resuming household income growth will depend on the extent to which economic growth can be maintained in a challenging external environment with constrained fiscal space. Poverty is projected to decrease only marginally in 2023 on the back of weak growth.

The medium-term prospects remain bleak as the downside risks remain significant including the possible introduction of additional sectoral sanctions, possible negative spillovers from the Russian economy, failures to adjust to the sanctions regime, and expansionary domestic policies in a bid to spur growth at the expense of maintaining macroeconomic and financial stability. Also, forecasting is affected by an increasing lack of access to important data, including on fiscal accounts, production and trade of sanctioned commodities, and the structure of foreign reserves.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-0.7	2.4	-4.7	0.6	1.4	1.3
Private Consumption	-1.1	4.9	-1.2	0.2	3.1	3.1
Government Consumption	-2.0	-0.8	-0.1	0.1	0.6	-0.3
Gross Fixed Capital Investment	-3.9	-5.5	-13.3	3.5	2.2	2.5
Exports, Goods and Services	-3.7	10.1	-12.3	3.5	4.0	3.0
Imports, Goods and Services	-7.4	5.7	-11.4	4.5	6.3	5.2
Real GDP growth, at constant factor prices	-0.7	2.4	-4.7	0.6	1.4	1.3
Agriculture	4.8	-4.1	4.4	3.2	2.0	2.6
Industry	-0.4	3.1	-6.2	2.1	2.5	2.3
Services	-1.8	3.0	-5.1	-1.0	0.4	0.3
Inflation (Consumer Price Index)	5.5	9.5	15.2	11.0	10.0	8.0
Current Account Balance (% of GDP)	-0.3	3.1	3.7	-0.1	-0.4	-0.6
Net Foreign Direct Investment Inflow (% of GDP)	2.1	1.9	1.8	1.9	2.0	1.9
Fiscal Balance (% of GDP)	-1.7	0.0	-1.3	-1.1	-0.3	0.0
Revenues (% of GDP)	37.9	37.4	34.7	35.2	35.3	35.1
Debt (% of GDP)	41.1	35.8	38.9	42.1	42.0	41.1
Primary Balance (% of GDP)	0.0	1.7	0.2	0.0	0.7	1.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	1.3	1.2	1.4	1.3	1.2	1.2
GHG emissions growth (mtCO2e)	-2.0	-3.5	-7.6	1.0	-1.5	-1.2
Energy related GHG emissions (% of total)	85.7	85.3	85.2	86.3	86.6	86.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2020-HHS. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

BOSNIA AND HERZEGOVINA

Table 1	2022
Population, million	3.2
GDP, current US$ billion	23.0
GDP per capita, current US$	7118.9
Life expectancy at birth, years[a]	76.2
Total GHG emissions (mtCO2e)	24.9

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

Real output growth decelerated to 4 percent in 2022 from 7.4 percent the year before largely due to an adverse term of trade shock. The shock accelerated inflation to 14 percent from 2 percent in 2021 and negatively affected welfare, especially for the less well-off. EU candidacy status received in December 2022 could be a catalyst for delayed structural reforms, raising medium-term growth. In 2023, low growth in the EU is expected to dampen economic activity in BiH.

Key conditions and challenges

In December 2022, BiH received EU candidate status. To start the EU accession negotiations, the authorities need to address 14 largely political measures covering democracy, rule of law and fundamental rights, and public administration. In parallel, BiH needs to meet economic criteria that require progress on internal market and state institutional integration, strengthening of state supervisory and regulatory institutions, and reduction of an oversized public sector.

Macroeconomic stability has been maintained over the past decade with the help of three anchors: the currency board linked to the Euro, the state-wide collection of indirect taxes, and EU accession prospects. Macro stability is also enhanced because of fiscal prudence: prior to the pandemic the authorities ran fiscal surpluses between 1 and 3 percent of GDP from 2015 to 2019. The pandemic and post-pandemic period has seen the re-emergence of fiscal deficits, yet public debt levels remain among the lowest in the region, around 35 percent of GDP.

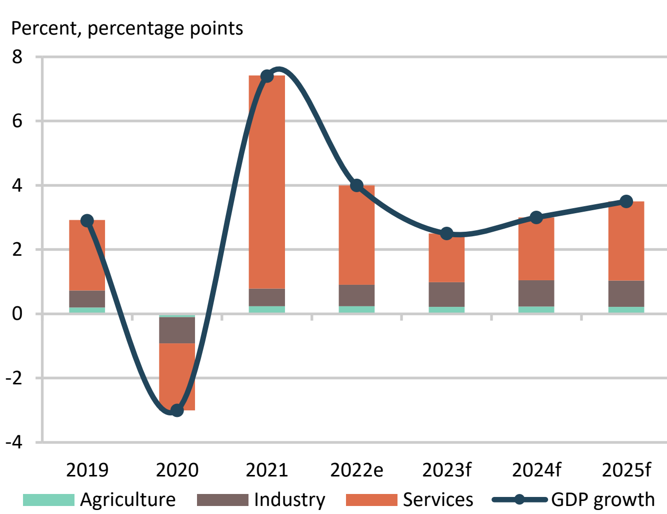
Nevertheless, despite real income growth of 3 percent annually since 2015, per capita GDP has remained at one-third of the EU27 average. Faster economic convergence toward the EU27 average will be difficult to achieve with the country's low investment rates and a growth model that relies heavily on private consumption. Thus, the structural reform agenda needs to gain momentum. Priority reforms include enhancing oversight and management of SOEs, improving the business environment, concluding WTO accession, enhancing employment policies for the youth, reducing the cost of labor, and transitioning to green energy from coal.

Recent developments

Real output growth decelerated to 4 percent in 2022, from 7.4 percent the year before, as a result of two countervailing forces. First, a robust increase in domestic demand of an estimated 6.3 percent driven by private consumption in addition to a surge in investment; and second, adverse terms of trade shock compounded by investment-driven imports, which caused a widening of negative net exports by 26 percent. Private consumption decelerated starting in Q3 of 2022 due to high inflation eroding real disposable income, while on the supply side industrial production growth sharply slowed to 1 percent in 2022.

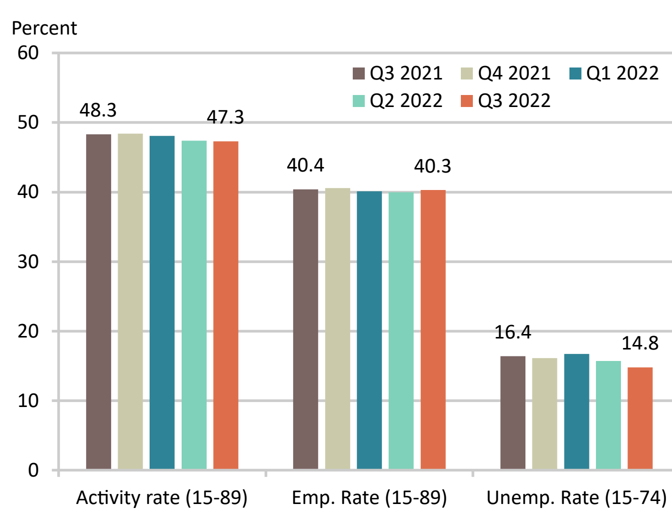
Inflation jumped to 14 percent in 2022 compared to 2 percent in 2021. This sharp rise was driven by surging food and transport prices that grew 22 percent and 26 percent respectively compared to the previous year, and which created challenges for poverty reduction by negatively affecting welfare especially among the poor and vulnerable households. This jump in prices reflected in part the adverse terms of trade shock of a sharp increase in

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



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

FIGURE 2 Bosnia and Herzegovina / Labor market indicators



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

import prices of processed food and oil products, with the latter feeding into higher prices of other products.

Labor market participation and the employment rate remained unchanged during the first three quarters of 2022, although high unemployment persists at about 14.8 percent, according to LFS Q3.

During 2022, stronger tax revenues supported by high inflation were more than offset by higher spending, which is expected to result in a fiscal deficit of 0.9 percent of GDP in 2022. This compares to a deficit of 0.3 percent of GDP last year, and 5.3 percent of GDP in 2020. Expenditures in 2022 are driven by social measures softening the inflationary impact on households and pre-election spending, including wage hikes, and higher capital expenditures. Nevertheless, public debt remains sustainable at around 35 percent of GDP. Adverse terms of trade and investment-driven imports widened the merchandise trade deficit to 24.4 percent of GDP or by 4.8 percentage points in 2022 compared to the year before. The current account deficit as a result broadened to an estimated 3.1 percent of GDP in 2022 compared to 2.3 percent in 2021. External financing largely entails net FDI inflows and government borrowing.

Outlook

Real GDP is expected to decelerate to 2.5 percent in 2023 as private consumption growth halves due to weakening real disposable income, and negative net exports further deteriorate due to weak output growth in BiH's main export markets. Real output growth is set to reach 3.5 percent by 2025 driven largely by private consumption supported by remittances. Investments in energy and infrastructure are expected to add to the growth stimulus, although not to the same extent as in 2021 and 2022. With general elections completed (October 2022), the attention of policy makers could turn to the structural reform agenda needed for EU accession.

Regarding fiscal policy, phased-out pre-election spending and one-off expenditures in response to the price shock will be in part offset by higher interest payments and the pension hike. That said, a return to fiscal surpluses is expected by 2024.

Inflationary pressures started dissipating toward the end of 2022, and a continuation of this trend is expected in 2023. Nevertheless, inflation is projected to remain around 5 percent in 2023, significantly above pre-pandemic levels. Barring further external shocks, inflation is expected to stabilize in 2024-25 at rates seen prior to the pandemic, at around 2 percent and lower.

Downside risks dominate the outlook. Protracted effects of Russia's invasion of Ukraine could have a negative impact on aggregate demand through depressed consumer and business confidence. Furthermore, war-related uncertainties can dampen the recovery in the EU, adversely impacting demand for BiH exports, except for energy. Adverse labour market developments across the EU could also limit remittances inflows (about 8 percent of GDP), which support private consumption. Inflation, possible lower aggregate demand, and limited remittances inflows create additional challenges for poverty reduction going forward. Finally, geopolitical spillovers could further aggravate domestic political frictions with adverse consequences for the much-needed structural reform push.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-3.3	7.1	4.0	2.5	3.0	3.5
Private Consumption	-4.5	4.0	3.0	2.3	2.5	2.8
Government Consumption	0.5	6.1	2.7	0.5	0.3	0.5
Gross Fixed Capital Investment	-22.0	33.3	19.7	3.5	3.4	2.7
Exports, Goods and Services	-8.5	5.0	9.9	7.0	6.8	6.9
Imports, Goods and Services	-13.4	8.0	12.0	5.0	4.0	3.7
Real GDP growth, at constant factor prices	-3.0	7.4	4.0	2.5	3.0	3.5
Agriculture	-1.5	3.4	3.5	3.3	3.3	3.2
Industry	-3.0	2.0	2.6	3.0	3.2	3.2
Services	-3.2	10.1	4.6	2.2	2.9	3.6
Inflation (Consumer Price Index)	-1.1	2.0	14.0	5.0	2.1	1.9
Current Account Balance (% of GDP)	-4.0	-2.3	-3.1	-5.1	-5.2	-4.9
Net Foreign Direct Investment Inflow (% of GDP)	2.0	3.3	3.0	3.2	3.5	3.4
Fiscal Balance (% of GDP)	-5.3	-0.3	-0.9	0.1	0.8	1.0
Revenues (% of GDP)	41.6	43.5	39.8	39.6	39.6	39.3
Debt (% of GDP)	40.3	38.0	35.9	35.8	35.5	35.1
Primary Balance (% of GDP)	-4.0	1.0	-0.1	0.9	1.6	1.8
GHG emissions growth (mtCO2e)	-4.6	4.5	2.2	1.3	1.6	1.6
Energy related GHG emissions (% of total)	86.3	86.5	86.6	86.6	86.7	86.7

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

BULGARIA

Table 1	2022
Population, million	6.8
GDP, current US$ billion	89.0
GDP per capita, current US$	13135.3
International poverty rate ($2.15)[a]	0.2
Lower middle-income poverty rate ($3.65)[a]	1.4
Upper middle-income poverty rate ($6.85)[a]	4.5
Gini index[a]	40.5
School enrollment, primary (% gross)[b]	85.2
Life expectancy at birth, years[b]	73.6
Total GHG emissions (mtCO2e)	50.1

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

Following robust growth in 2022, the Bulgarian economy is set to slow down in line with EU trends. Inflation is expected to decelerate in 2023 but remain elevated. The fiscal position will likely worsen given the growth deceleration and rollover of government support measures. Political instability is already taking its toll on the prospects of absorption of EU funds and eurozone accession plans. Poverty reduction is expected to slow down as Bulgaria faces slower growth and prolonged elevated inflation.

Key conditions and challenges

Bulgaria's economic growth had slowed markedly in the decade before the Covid-19 pandemic. The country's growth potential is constrained by adverse demographic trends that result in a rapid decline in its working-age population. This, coupled with a relatively low number of years in schooling and declining quality of education as measured by international assessments, has been undermining Bulgaria's growth prospects. In addition, private sector expansion has been hindered by institutional weaknesses and insufficient enforcement of fair competition, which leads to resource misallocation away from the most productive firms. Public investment management is also suboptimal, particularly in ensuring investment efficiency and open and fair competition in public procurement. If Bulgaria succeeds in overcoming these challenges with an ambitious reform agenda, it could accelerate its economic growth to above 4 percent in the period up to 2050. Under a no-reform scenario, however, growth may slow down to 1.2 percent by the middle of the century.

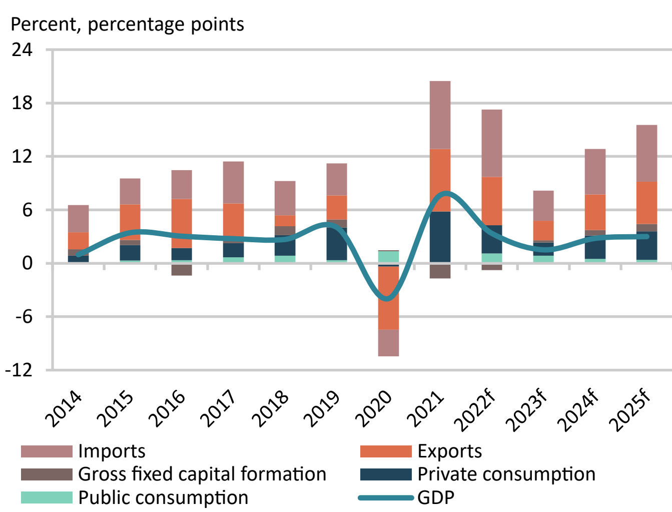
Bulgaria's development path has not been inclusive enough. Despite significant poverty reduction, poverty rates continue to be high by EU standards. Poverty incidence (US$6.85 2017 PPP) declined by 9.6 percentage points in 2015-2020, reaching 4.5 percent in 2020. Inequality has been increasing, and the country has the highest income inequality in the EU, with a Gini Index (of equivalized disposable income) of 39.7 in 2020. The at-risk-of-poverty rate (AROP) has shown an upward trend, with 22.1 percent of the population falling below the national poverty line in 2020 (income year), one of the highest in the EU. Regional disparities, and sizable differences across groups, such as Roma and women, are still highly prevalent. High inequality is linked to persistent disparities in labor market outcomes, inadequate coverage of the social protection system, and a fiscal system characterized by limited progressivity.

Recent developments

GDP growth exceeded expectations in 2022, as the economy expanded by 3.4 percent. Even if the deceleration of growth continued in Q4, the economy proved to be more resilient in 2022 than earlier forecasted. Throughout the year, the main growth driver remained final consumption on the back of labor market buoyancy and increased government spending. In 2022, the labor market recovered to its pre-Covid level, with employment reaching 54.9 percent in Q4/2022, and unemployment down to 3.9 percent against the backdrop of labor scarcity.

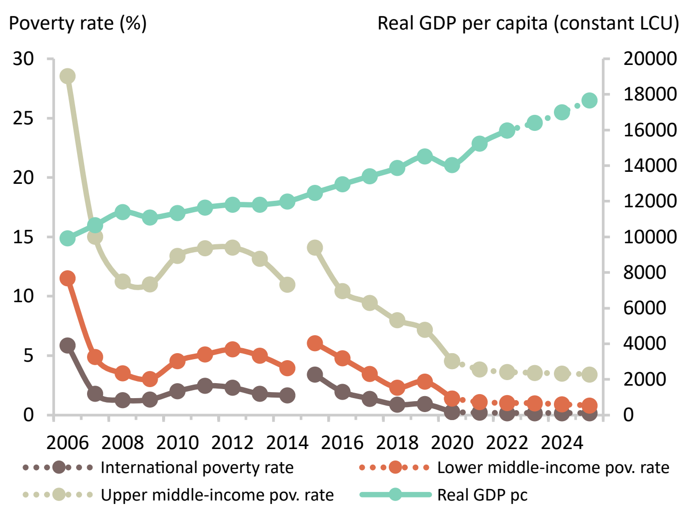
Bulgaria recorded one of the highest inflation rates among EU countries in 2022, with annual average CPI inflation reaching 15.3 percent. Imported inflation through higher energy and food prices

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



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

after Russia's invasion of Ukraine was the key factor. While headline CPI inflation (in y/y terms) started decelerating in October 2022, core inflation (food and energy excluded) went down only in January, 2023, to 12.2 percent y/y. Although y/y CPI inflation surpassed nominal wage growth in most months of 2022, the gap was less than 2 percentage points on average for the year, which helped contain the impact on the real purchasing power of workers. Moreover, the significant boost to pensions in response to the Covid-19 crisis and inflation – by between 56 percent and 136 percent in 2022 depending on the pension type - supported real incomes of pensioners. Nevertheless, food price inflation – 22 percent on average in 2022 - disproportionately impacted poorer households as they spend significantly higher shares of their income on food items.

The fiscal deficit in 2022 surprised on the positive side, reaching 0.8 percent of GDP on cash basis. The accrual-basis deficit was estimated by the Ministry of Finance at 0.1pp below the 3 percent EU ceiling. While current expenditure grew substantially on Covid-19 and inflation-mitigation measures, the deficit was contained due to the revenue-boosting impact of inflation and underperformance on capital spending. The receipt of the first tranche under the National Recovery and Resilience Plan (NRRP) also raised revenues, while not resulting in corresponding expenses due to its late-year arrival. Separately, the current account deficit remained marginal thanks to strong surplus on services trade.

Outlook

Bulgaria's economy is expected to slow down substantially in 2023 – to 1.5 percent - in tune with the downward trend in the eurozone. Growth may be further suppressed if Bulgaria fails to deliver on the reforms embedded in the milestones under the NRRP, resulting in a freeze or reduction of upcoming tranches, depriving the country of substantial resources.

Inflation will continue to subside but remain elevated in 2023. The fiscal deficit is projected to expand to 3.6 percent of GDP due to the economic slowdown and the rollover of fiscal discretionary measures to 2023. The current account is projected to move to a slight surplus in 2024-2025 due to expected downward adjustment of import prices of key raw materials.

Bulgaria's outlook continues to be marred by prolonged political instability. In addition to creating an unpredictable business environment, the political impasse is already impeding the implementation of reforms, the NRRP and eurozone accession plans. The lack of a working parliament has prevented the passage of key pieces of legislation, set as milestones under the NRRP and as commitments under the country's roadmap for euro adoption. Should this situation linger on, the country may lose EU funds and may delay its eurozone entry beyond the likely 2025, which would take a toll on its growth prospects and slow down convergence to average EU income levels.

The economic slowdown and prolonged inflationary pressures are expected to decelerate poverty reduction, with poverty ($6.85/day PPP) declining slowly, from 4.5 percent in 2020 to 3.6 and 3.5 percent in 2022 and 2023, respectively.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-4.0	7.6	3.4	1.5	2.8	3.0
Private Consumption	-0.6	8.8	4.8	2.2	3.9	4.7
Government Consumption	8.3	0.4	6.5	4.8	2.7	2.1
Gross Fixed Capital Investment	0.6	-8.3	-4.3	1.6	3.8	5.1
Exports, Goods and Services	-10.4	11.0	8.3	3.2	5.7	6.6
Imports, Goods and Services	-4.3	10.9	10.5	4.4	6.5	7.8
Real GDP growth, at constant factor prices	-4.0	8.0	3.4	1.5	2.8	3.0
Agriculture	-3.3	28.8	-0.8	0.2	1.5	1.2
Industry	-8.2	1.7	12.5	3.9	6.5	5.2
Services	-2.5	8.7	0.8	0.8	1.6	2.3
Inflation (Consumer Price Index)	1.7	3.3	15.3	8.7	4.8	3.7
Current Account Balance (% of GDP)	0.0	-0.5	-0.4	-0.3	0.6	0.9
Net Foreign Direct Investment Inflow (% of GDP)	4.5	1.4	2.2	1.9	2.7	3.0
Fiscal Balance (% of GDP)	-2.9	-2.7	-0.8	-3.6	-2.5	-1.4
Revenues (% of GDP)	36.8	37.7	39.2	37.6	38.6	39.4
Debt (% of GDP)	24.6	23.9	19.3	21.5	20.4	19.6
Primary Balance (% of GDP)	-2.4	-2.3	-0.4	-3.4	-2.2	-1.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.2	0.2	0.2	0.2	0.2	0.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	1.4	1.1	1.0	1.0	0.9	0.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	4.5	3.8	3.6	3.6	3.5	3.4
GHG emissions growth (mtCO2e)	-4.2	6.5	6.0	2.3	4.1	3.7
Energy related GHG emissions (% of total)	80.4	77.7	75.7	74.0	72.1	70.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2021-EU-SILC. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

CROATIA

Table 1	2022
Population, million	3.9
GDP, current US$ billion	71.0
GDP per capita, current US$	18368.9
International poverty rate ($2.15)[a]	0.3
Lower middle-income poverty rate ($3.65)[a]	0.8
Upper middle-income poverty rate ($6.85)[a]	2.1
Gini index[a]	29.6
School enrollment, primary (% gross)[b]	92.9
Life expectancy at birth, years[b]	77.7
Total GHG emissions (mtCO2e)	19.5

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

Real GDP growth in Croatia remained strong in 2022, with favorable developments concentrated in the first half of the year. The country is expected to avoid contraction in 2023 but growth is set to be subdued before strengthening in 2024. Fiscal deficit is projected to remain relatively contained ensuring further decline in public debt. Progress in poverty reduction has slowed with the poverty rate expected to have declined modestly to 1.4 percent in 2022.

Key conditions and challenges

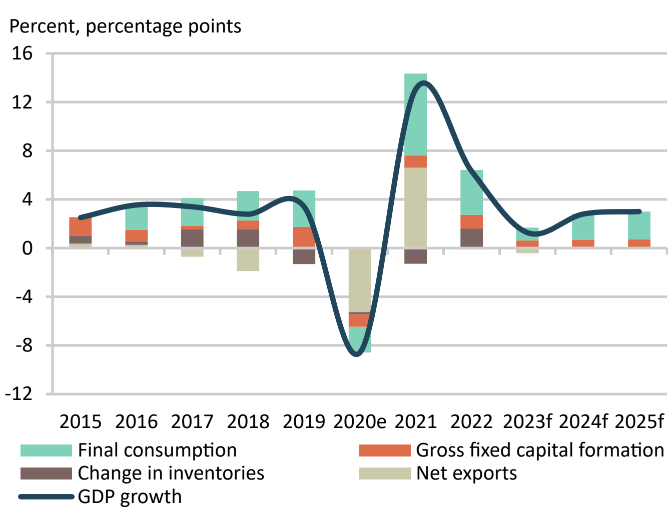
By entering the euro area and Schengen zone in 2023 Croatia has achieved its key strategic objectives but economic convergence is far from complete. GDP per capita (in Purchasing Power Parity nominal terms) reached 70 percent of the average EU27 level in 2021 and further improvements in living standards will critically depend on productivity improvements. Croatia's productivity is lagging its regional peers and is far from the EU frontier. This reflects low levels of Research & Development (R&D) investments, innovation and technology adoption, weaknesses in managerial and organizational practices, and constraints on competition. In addition, while institutions have improved, some lingering structural constraints remain, especially regarding administrative capacity, red tape, and judicial quality and efficiency. Closing the productivity gap with the top performing EU economies would markedly speed up income convergence but this will require an ambitious and comprehensive set of reforms aimed at strengthening institutions, reducing market inefficiencies, and upgrading firms' capabilities.

Over the short and medium term, the main risks include the elevated uncertainty due to Russia's invasion of Ukraine and related developments in wholesale energy and food prices and their pass-through to retail prices. Risks of energy supply disruptions in Croatia and its main trading partners also remain elevated and could lead to lover economic growth if they would materialize. In general, intensification of geopolitical tensions would further amplify commodity disruptions and supply bottlenecks leading to adverse real income and confidence effects. Inflation could also remain higher and more persistent than currently expected requiring stronger than projected monetary tightening with negative effects on the eurozone and the domestic economy. Furthermore, investment projection growth for 2023 largely relies on strong utilization of EU funds by the government, which will depend on improving the absorption capacity of all stakeholders. On the upside, greater resilience of private sector and stronger than expected demand for tourism could strengthen the growth outlook.

Recent developments

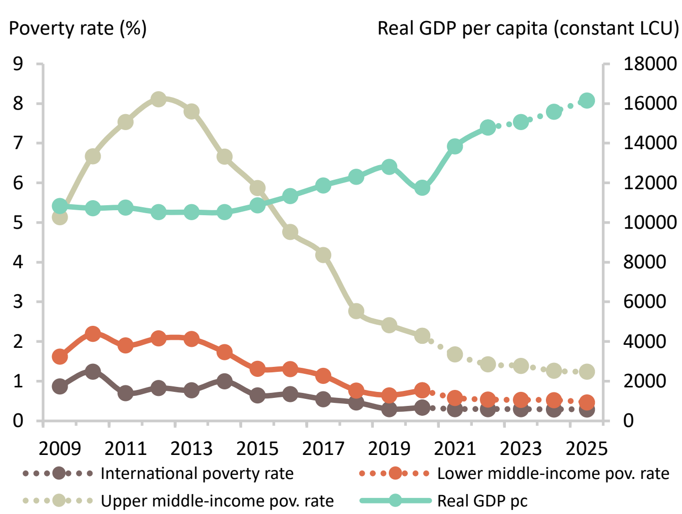
Croatia's real GDP growth in 2022 was strong, at 6.3 percent, supported by robust personal consumption and investments. Favorable developments were, however, concentrated in the first half of the year. Rising inflation, decline in real disposable incomes, and elevated uncertainty surrounding Russia's invasion of Ukraine led to a sharp decline in personal consumption at the end of the year. Exports of goods and services also moderated following negative external developments. However, investment activity held up relatively well, despite rising financing costs. Weakening

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



Sources: CROSTAT and World Bank.

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



Source: World Bank. Notes: see Table 2.

of aggregate demand was reflected in manufacturing, which showed negative quarterly growth rates at the end of the year, while construction activity continued to expand. In 2022, employment growth continued, and the labor market remained relatively tight, but wages failed to keep up with rising inflation. Consumer prices in Croatia accelerated throughout 2022, with year average inflation of 10.7 percent. Price pressures somewhat eased at the beginning of 2023 with moderation in energy and food prices. Croatian authorities prevented stronger spillovers from high wholesale energy prices on CPI by adopting relatively generous stimulus packages at the beginning of the fourth quarter last year. Nonetheless, the budget is estimated to have been broadly balanced in 2022, a significant improvement from 2021. This mainly reflects strong growth in revenues and discontinuation of COVID-19 support schemes. Economic growth and fiscal adjustment led to a marked decline in public debt, which is estimated to have declined to around 68 percent of GDP at the end of 2022.

The rebound of the labor market combined with the government's assistance, supported household income. Poverty is estimated to have declined modestly from 1.7 percent in 2021 to 1.4 percent in 2022. However, rising inflation dampened households' purchasing power, especially for the poorest. Namely, those at the bottom quintile of the income distribution faced estimated inflation that was 2 percentage points higher than those at the top quintile due to the composition of their consumption basket.

Outlook

Growth in Croatia is projected to decelerate to 1.3 percent in 2023 before strengthening to 2.8 percent in 2024. Personal consumption growth in 2023 is expected to slow down but is projected to remain positive as real incomes improve, supported by a catch-up in real wage growth, resilience of labor markets, and continued fiscal support. At the same time, investment growth is expected to be underpinned by a pick-up in government investments, largely financed from EU funds, while, on the other hand, rising financing costs are projected to dampen private sector investments. Despite worsening of the external outlook, exports are also expected to grow further as demand for travel remains strong. Beyond the near term, Croatia's economic growth is set to gradually recover from a weak 2023 as uncertainty declines, the energy market price pressures fade, remaining supply bottlenecks are resolved, and the external outlook improves. Further strengthening of economic activity is expected to have positive effects on labor market developments, with employment growth picking up, and unemployment rate declining to below 6.5 percent in 2025. This also means that the labor market is expected to remain tight, especially in construction and services sectors. Notwithstanding labor supply shortages, inflation is projected to gradually decline over the forecast horizon towards ECB's target level of close to 2 percent, following tightening of monetary policy and unwinding of supply-side constraints. The fiscal balance might slightly worsen compared to 2022, averaging -1.3 percent of GDP over the forecast horizon, but will continue to support a decline in public debt that will fall below 60 percent of GDP in 2025.

Progress in poverty reduction is projected to stall with the poverty rate expected to stay stagnant in 2023 before declining marginally over the next two years, to 1.2 percent in 2025.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-8.6	13.1	6.3	1.3	2.8	3.0
Private Consumption	-5.1	9.9	5.2	1.1	2.8	3.0
Government Consumption	4.3	3.0	3.0	2.0	2.4	2.7
Gross Fixed Capital Investment	-5.0	4.7	5.8	3.2	2.9	3.2
Exports, Goods and Services	-23.3	36.4	25.4	3.6	4.9	4.2
Imports, Goods and Services	-12.4	17.6	25.0	4.2	4.6	4.0
Real GDP growth, at constant factor prices	-7.5	12.6	6.5	1.3	2.8	3.0
Agriculture	-0.2	8.2	6.0	2.5	2.5	2.5
Industry	-4.1	9.0	2.3	1.0	3.0	3.0
Services	-9.1	14.2	8.0	1.3	2.8	3.1
Inflation (Consumer Price Index)	0.2	2.6	10.7	7.2	3.2	2.3
Current Account Balance (% of GDP)	-0.5	1.8	-1.8	-1.4	-0.8	0.3
Net Foreign Direct Investment Inflow (% of GDP)	1.4	4.8	5.2	4.5	4.1	4.0
Fiscal Balance (% of GDP)	-7.3	-2.6	0.2	-1.5	-1.3	-1.1
Revenues (% of GDP)	46.7	45.9	44.8	44.0	43.0	42.2
Debt (% of GDP)	87.0	78.4	67.5	63.3	60.7	58.5
Primary Balance (% of GDP)	-5.3	-1.1	1.4	-0.3	0.0	0.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.3	0.3	0.3	0.3	0.3	0.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.8	0.6	0.5	0.5	0.5	0.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	2.1	1.7	1.4	1.4	1.3	1.2
GHG emissions growth (mtCO2e)	-5.9	9.8	5.4	0.7	0.3	0.1
Energy related GHG emissions (% of total)	88.4	88.6	88.5	88.1	87.6	87.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2021-EU-SILC. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

GEORGIA

Table 1	2022
Population, million	3.7
GDP, current US$ billion	24.6
GDP per capita, current US$	6657.6
International poverty rate ($2.15)[a]	5.5
Lower middle-income poverty rate ($3.65)[a]	19.1
Upper middle-income poverty rate ($6.85)[a]	55.4
Gini index[a]	34.2
School enrollment, primary (% gross)[b]	100.8
Life expectancy at birth, years[b]	72.8
Total GHG emissions (mtCO2e)	18.1

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

Growth is estimated at 10.1 percent in 2022 due to strong money inflows from Russia and recovery in tourism and investment. As a result, employment recovered and poverty continued to fall. Strong revenue collection contributed to the halving of the fiscal deficit. Growth is expected to slow down in 2023 while uncertainty remains high.

Key conditions and challenges

Georgia has made much progress over the past decade. As a result of sound economic management, GNI per capita converged toward EU levels, increasing from USD 3,048 in 2010 to USD 4,608 in 2021 (constant 2015 USD). The poverty rate (measured by the national poverty line) was more than halved over the same period.

Nevertheless, structural challenges persist, notably weak productivity and limited high-quality job creation. More than a third of all workers are engaged in low-productivity agriculture. Poor learning outcomes and lack of skills also constitute a barrier to private sector growth. Because of its trade openness and reliance on tourism, Georgia is vulnerable to external shocks. High dollarization and persistent dependence on external savings increase the risks associated with foreign exchange depreciation. Nevertheless, the swift post-pandemic rebound and the recovery from the initial impact of Russia's invasion of Ukraine and related sanctions have demonstrated growing economic resilience, supported by sound macroeconomic management. The application for EU candidacy initiated in 2022 provides opportunities for further income convergence while requiring significant and sustained reforms, which if not undertaken, could lead to further tensions.

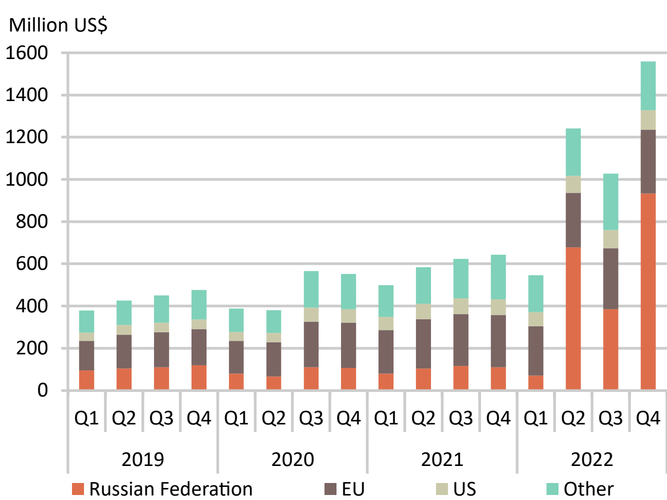
Recent developments

Growth in 2022 is estimated at 10.1 percent, buoyed by a surge in money transfer inflows (up 86 percent, yoy), largely from Russia, and by the recovery of tourism. Investment, on a downward trend since 2019, recovered in 2022. However, in the face of high inflation, private consumption fell slightly in real terms.

Inflation eased in Q4 2022 as global food and energy prices declined. Some demand-side pressures persisted. High rental rates (up 37.4 percent, yoy) and food prices (up 16 percent, yoy) accounted for almost 70 percent of the 9.8 percent headline inflation (eop), stimulated by the large inflows of money and people following the war in Ukraine. Since March 2022, the National Bank of Georgia has kept the monetary policy rate unchanged at 11 percent.

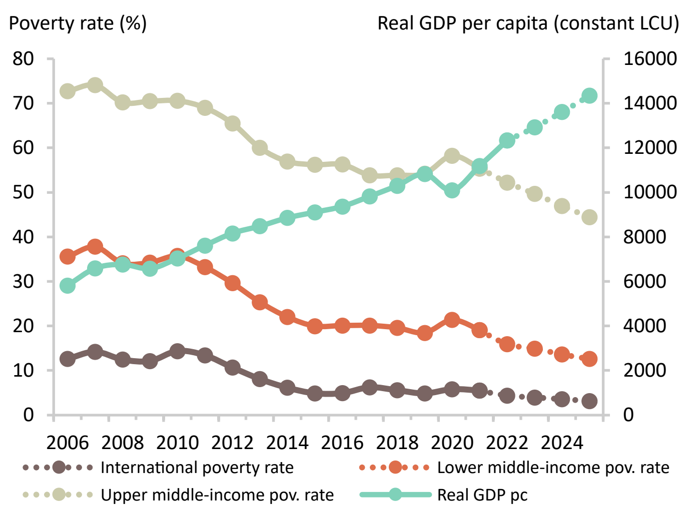
The current account deficit is estimated to have narrowed sharply in 2022 in response to robust growth in remittances, tourism proceeds, and exports of goods. Exports grew by 31.8 percent (yoy) in nominal terms (USD), driven by re-exports of used cars, and favorable market prices for Georgia-produced raw materials (copper and nitrogen fertilizers). Imports also expanded strongly with a 33.8 percent increase (yoy), driven by strong growth in food and fuel imports and capital goods. International reserves benefited from strong foreign exchange inflows, increasing to USD 4.9 billion, providing around 4.3 months of import cover.

FIGURE 1 **Georgia** / Money inflow by country of origin



Source: National Bank of Georgia.

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



Source: World Bank. Notes: see Table 2.

Strong growth supported fiscal revenues in 2022, which increased by 28 percent in nominal terms. Meanwhile, current spending grew by 9.1 percent (yoy). A key driver of fiscal consolidation in 2022 was the unwinding of COVID-19-related measures, including temporary social programs. Capital expenditure went up by 27.7 percent in 2022 in nominal terms. As a result, the fiscal deficit narrowed to 3.5 percent of GDP in 2022. Public debt stock continued to fall, largely benefiting from the contained fiscal deficit and the appreciation of the GEL.

Against this backdrop, the poverty rate (at USD 6.85 a day, 2017 PPP terms) is estimated to fall to 52.2 percent in 2022. While food inflation adversely impacted poorer households (including the elderly and Targeted Social Assistance recipients), social protection measures helped to soften the negative impact for households in extreme poverty.

Outlook

Growth is expected to ease to 4.4 percent in 2023, reflecting a projected slowdown among trading partners and tightened financial conditions. Growth is expected to stabilize at around 5 percent of GDP for 2024–25 as Georgia benefits from the recovery of trading partners.

Despite continued pressures likely on the demand side, inflation is expected to fall gradually. In the medium-term, as global commodity prices ease, positive real interest rates and the Government's fiscal consolidation efforts are all likely to support a more sustainable return to the inflation target of 3 percent by 2025. Monetary policy is expected to remain tight until inflationary pressures subside.

The economic recovery suggests that prospects for poverty reduction are promising. The overall poverty rate is expected to decline, driven by higher wages and improvements in the labor market.

Despite the widening trade deficit, the current account deficit is expected to remain contained in 2023. Windfalls from the war in Ukraine are expected to stabilize in 2023 and subside in 2024, but the current account deficit should remain well below pre-war levels because of the continued recovery in tourism, a flexible exchange rate policy, and continued efforts to improve Georgia's export competitiveness.

The 2023 state budget law reflects the Government's commitment to fiscal consolidation and improved fiscal discipline by reducing the deficit and public debt to 2.9 percent and 38.7 percent of GDP, respectively. To boost revenue collection, the authorities are committed to the rationalization of tax expenditures, which, together with a reduction in recurrent spending, will contribute to fiscal consolidation.

There are substantial risks to the outlook, reflecting the war in Ukraine and broader uncertainties. Monetary tightening in advanced economies, or a reversal in money inflows, could hinder growth, put pressure on the currency, and increase debt levels and financing needs. Currency mismatches due to dollarization and a high exchange-rate pass-through would also exacerbate vulnerability to currency depreciation. On the upside, tighter monetary and fiscal policy, with adequate buffers, is expected to help cushion a potential shock, while exchange rate flexibility would help shield reserve levels by supporting an adjustment in imports.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-6.8	10.5	10.1	4.4	5.0	5.0
Private Consumption	8.8	8.7	-1.8	2.0	2.5	3.0
Government Consumption	7.1	7.7	0.7	9.8	4.9	4.8
Gross Fixed Capital Investment	-16.5	-12.6	44.6	9.6	4.5	9.0
Exports, Goods and Services	-37.6	24.3	25.6	2.5	11.0	10.0
Imports, Goods and Services	-16.6	11.2	10.0	3.0	5.9	7.8
Real GDP growth, at constant factor prices	-6.6	10.4	10.1	4.4	5.0	5.0
Agriculture	8.1	0.1	2.0	4.0	4.0	2.0
Industry	-6.8	5.9	8.0	4.0	5.0	5.0
Services	-8.1	13.0	11.6	4.5	5.1	5.3
Inflation (Consumer Price Index)	5.2	9.6	11.9	6.6	3.5	3.0
Current Account Balance (% of GDP)	-12.5	-10.4	-3.0	-4.6	-5.1	-5.0
Net Foreign Direct Investment Inflow (% of GDP)	3.6	4.9	7.5	4.0	4.7	5.5
Fiscal Balance (% of GDP)	-9.8	-7.1	-3.5	-2.9	-2.3	-2.1
Revenues (% of GDP)	25.2	25.2	27.0	25.8	25.9	25.8
Debt (% of GDP)	60.1	49.6	41.3	38.7	38.0	37.3
Primary Balance (% of GDP)	-8.2	-5.7	-2.4	-1.6	-1.2	-1.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	5.8	5.5	4.4	4.0	3.5	3.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	21.4	19.1	15.9	14.9	13.6	12.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	58.3	55.4	52.2	49.7	47.0	44.4
GHG emissions growth (mtCO2e)	-3.4	2.1	4.1	3.9	1.4	0.8
Energy related GHG emissions (% of total)	53.8	55.0	57.5	59.5	60.5	61.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2021-HIS. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2021) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

KAZAKHSTAN

Table 1	2022
Population, million	19.2
GDP, current US$ billion	220.1
GDP per capita, current US$	11476.5
Upper middle-income poverty rate ($6.85)[a]	14.3
Gini index[a]	27.8
School enrollment, primary (% gross)[b]	100.3
Life expectancy at birth, years[b]	71.4
Total GHG emissions (mtCO2e)	228.1

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

The economy grew by 3.2 percent in 2022. However, a surge in inflation has squeezed the real incomes of low-income households and could undermine efforts to reduce poverty. Inflation is expected to moderate and growth momentum to build in 2023. Russia's invasion of Ukraine and geopolitical tensions, with their attendant risks for disruption in oil transportation, pose downside risks for Kazakhstan.

Key conditions and challenges

Since the 2000s, Kazakhstan has seen remarkable economic growth, resulting in a higher living standard and reduced poverty. The country removed trade barriers, privatized a substantial portion of state assets, and opened its energy sector to FDI. Despite this progress, the country still faces profound challenges. Since 2008, average real GDP growth fell to less than 4 percent as productivity gains stalled. This slowing dynamic, coupled with rising living costs, has intensified public discontent over inequality and elite capture, culminating in the violent protests of January 2022.

To renew strong growth, the authorities should prioritize structural reforms that increase competition, reform SOEs, and strengthen the efficiency of public institutions. Since Kazakhstan's economy relies heavily on oil-related revenues, and given the global shift toward decarbonization, the Government should focus on diversifying the economy. The transition to renewable energy needs to be accelerated to ensure a sustainable and resilient economic future. Investing in renewables, implementing carbon taxes, and energy tariff reforms are key areas to achieving this.

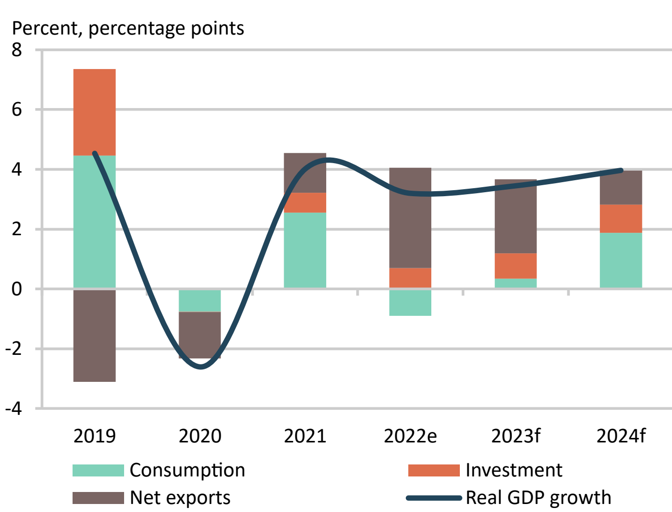
Recent developments

Despite challenges from decreased oil production and supply-chain issues stemming from the country's economic ties with Russia, Kazakhstan recorded 3.2 percent GDP growth in 2022. Growth was driven by non-oil exports to neighboring countries and investment growth of 7.9 percent, primarily in resource sectors, while consumer demand weakened as real incomes shrank under the weight of high inflation. Growth was also supported by an inflow of Russian tourists/immigrants and financial inflows, notably following the announcement of mass conscription in Russia in September. Additionally, following the war in Ukraine, some companies relocated to Kazakhstan, contributing to increased trade with Russia. On the supply side, agriculture, manufacturing, construction, and services sectors all contributed to growth.

The current account recorded a surplus of US$6.2 billion in 2022, supported by high oil export values, a significant reversal from the US$7.9 billion deficit in 2021. The acceleration in FDI was likely due to the high oil prices that drove investment into mining. Gross international reserves grew slightly and stood at 7 months of import cover by end-2022.

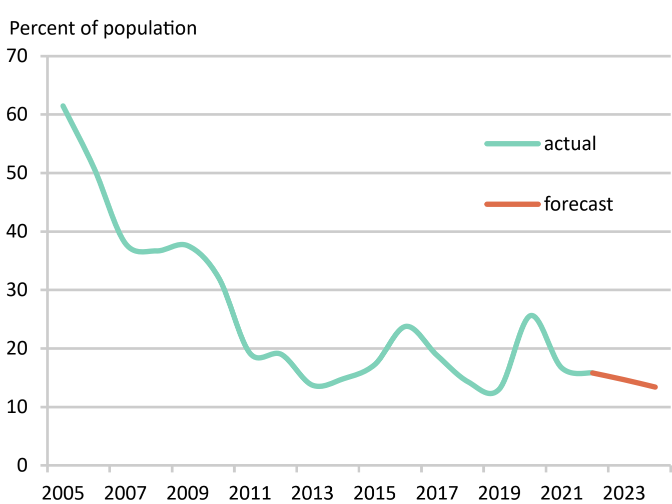
Inflation reached 21.3 percent (yoy) by February 2023, the highest in over 20 years, as a result of rising import prices, the large minimum wage and pay increases following the riots, and the depreciation of the tenge. Food prices have risen especially sharply. The Central Bank (NBK) tightened its policy rate to 16.75 percent in February 2023 from 10.25 percent a year ago. Following a depreciation of 8 percent against the US

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



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

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



Source: World Bank staff estimates.

dollar in 2022, the tenge has remained stable in 2023.

The Government increased spending in 2022, on measures to alleviate the negative impacts of the war in Ukraine and the rising cost of living. Notably, it increased its welfare-enhancing programs and transfers to local governments by a total of 3 percent of GDP. Despite the higher spending, improved tax collection from both oil and non-oil resulted in higher revenues and delivered a fiscal surplus of 0.4 percent

The banking sector has remained resilient with robust capital and liquidity levels. Prior to the war in Ukraine, Russian subsidiaries held about 15 percent of assets, but, following sanctions, this fell to 0.4 percent. Real corporate loans contracted in December (yoy), while reduced consumer demand moderated lending growth to households. NPL rates reached 3.6 percent in December 2022, slightly up from 3.3 percent a year earlier.

The unemployment rate held steady at 4.9 percent throughout 2022. Labor strikes and a 41 percent increase in the minimum wage drove up real wages by 2.8 percent in Q4 (yoy).

Outlook

The economy is expected to see a moderate increase in growth to 3.5 percent in 2023 and to 4 percent in 2024, led by the hydrocarbons sector as oil production rises thanks to several new projects. Continued FDI in mining and the Government's affordable housing program will sustain investment. However, growth in household consumption is likely to be dampened by high inflation, rising borrowing costs, and increased indebtedness.

Inflation is expected to decrease but will remain elevated in 2023 due to the prolonged impact of high food prices. Tight monetary policy will contribute to a reduction toward the upper limit of its target range by 2025.

The poverty rate is expected to slightly decline to 14.7 percent (at US$6.85/day poverty line) in 2023 as growth picks up and inflation subsides. The rising cost of food and housing will remain as a key factor impacting the well-being of the population, especially the poorest households.

The 2023 budget plans for moderate real spending growth, particularly social welfare and wage increases. The budget is expected to remain balanced, albeit with continued quasi-fiscal activity. The Government plans to reduce withdrawals from the Oil Fund (NFRK) and raise non-oil tax revenue over time.

Oil prices are projected to soften, moderating export earnings and reducing the current account surplus in 2023, but a deficit may follow in subsequent years as oil prices continue to fall.

The outlook faces several downside risks. Any further disruptions to the Caspian Pipeline Consortium, transporting the majority of oil exports, could significantly impact growth. Persistently high inflation also poses a risk, particularly for low-income households. Access to effective coping mechanisms will be important to protect the poverty reduction gains of the last decade. This may call for continued monetary tightening and tighter control over fiscal spending, to make space for higher spending on social protection programs. Additional tightening of global financial conditions and potential capital flow volatility pose risks to the exchange rate. On the upside, global demand and oil prices exceeding expectations would boost growth.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-2.5	4.3	3.2	3.5	4.0	3.6
Private Consumption	-3.8	5.1	-0.9	2.0	4.2	4.0
Government Consumption	12.8	-1.1	-3.8	0.1	0.7	2.0
Gross Fixed Capital Investment	-0.3	2.6	3.0	3.3	4.1	3.7
Exports, Goods and Services	-12.1	2.0	18.0	8.1	5.1	2.2
Imports, Goods and Services	-10.7	-2.7	11.2	3.5	4.1	4.0
Real GDP growth, at constant factor prices	-2.5	4.1	2.9	3.5	4.0	3.6
Agriculture	5.6	-2.2	9.1	3.2	3.5	3.0
Industry	-0.4	3.6	1.0	6.3	5.1	3.1
Services	-4.5	5.0	3.6	1.8	3.2	3.9
Inflation (Consumer Price Index)	6.8	8.0	15.0	9.2	6.1	5.6
Current Account Balance (% of GDP)	-4.4	-4.0	2.7	0.1	-1.4	-1.6
Net Foreign Direct Investment Inflow (% of GDP)	-3.4	-1.0	-3.8	-2.7	-2.7	-2.9
Fiscal Balance (% of GDP)	-6.5	-4.3	0.4	0.2	-0.3	-0.3
Revenues (% of GDP)	18.0	17.6	22.5	21.4	20.3	19.9
Debt (% of GDP)	24.9	23.7	23.0	23.6	25.3	26.8
Primary Balance (% of GDP)	-5.4	-3.1	1.8	1.5	1.1	1.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	25.6	16.7	15.8	14.7	13.4	12.1
GHG emissions growth (mtCO2e)	-5.8	-13.0	2.5	2.9	3.8	3.2
Energy related GHG emissions (% of total)	76.0	73.5	74.8	76.1	77.5	78.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2018-HBS. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2018) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

KOSOVO

Table 1	2022
Population, million	1.8
GDP, current US$ billion	10.3
GDP per capita, current US$	5759.8
Upper middle-income poverty rate ($6.85)[a]	34.2
Gini index[a]	29.0
Life expectancy at birth, years[b]	76.6

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

The terms of trade shock driven by Russia's invasion of Ukraine and the associated energy crisis continued to impact economic activity in 2022, but the economy showed resilience. Real GDP growth moderated to 3.5 percent in 2022, supported by private consumption and export growth. Inflation reached record highs, constraining disposable incomes. The inflationary crisis came with a heavy fiscal cost; yet the fiscal balance improved supported by positive revenue performance

Key conditions and challenges

In 2022, GDP growth moderated after an exceptional performance of almost 11 percent in 2021. The negative terms of trade shock driven by the war in Ukraine are weighing on private investment and consumption. Kosovo's growth model relies heavily on remittances that fuel domestic consumption, as well as diaspora-driven service exports and FDI, which proved resilient throughout 2022. More recently, a positive trend in merchandise export growth and diversification was recorded and could be further leveraged to catalyze growth and reduce poverty. Investment is predominantly construction focused and makes a limited contribution to productivity and growth. Kosovo's education and health outcomes still lag peer countries, limiting the contribution of human capital to inclusive growth. The increase in employment over 2021 and formalization gains in 2022 are encouraging; yet, the labor market continues to reflect weaknesses and gender disparities, with just one in three Kosovars employed and approximately 60 percent classified as inactive. Kosovo's power generation options are highly constrained by the limited availability of renewable resources, and heavy reliance on outdated and unreliable lignite-fired powerplants. The duration of the war in Ukraine, and hence the magnitude of its economic and social consequences remains highly uncertain. To cushion the impact of the terms of trade shock, in 2022 the Government provided support through increased transfers and subsidies, including electricity subsidies, equivalent to approximately 4 percent of GDP. Moving forward, the Government needs to ensure that crisis mitigation measures remain targeted and temporary. It also needs to ensure that public spending is balanced between transfers that support consumption today and support for economic transformation that will drive future growth.

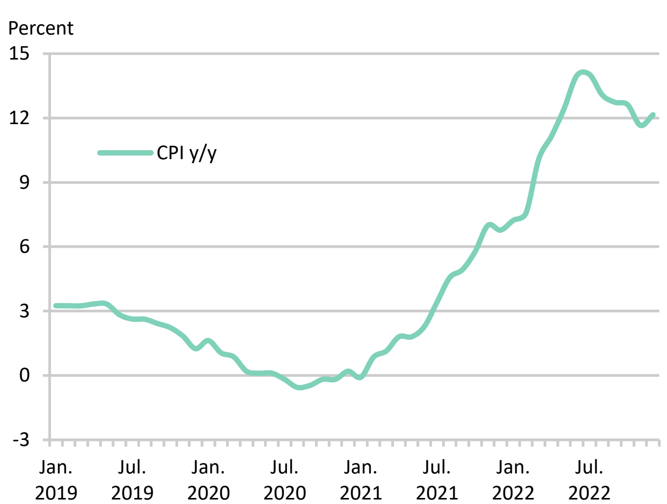
Recent developments

Growth reached 3.5 percent in 2022, driven by exports and private consumption. Consumption was supported by an increase in remittances (6 percent), government transfers (26.3 percent), and lending. On the production side, the construction sector contracted in real terms, contributing to softer growth.

Based on Kosovo's Statistical Agency data, consumer inflation peaked at 14.2 percent (y-o-y) in July, and remained above 11 percent until December, bringing annual average inflation to 11.6 percent. Key inflation drivers in 2022 remained transport (16.9 percent), food (16.3 percent), and energy (12.7 percent).

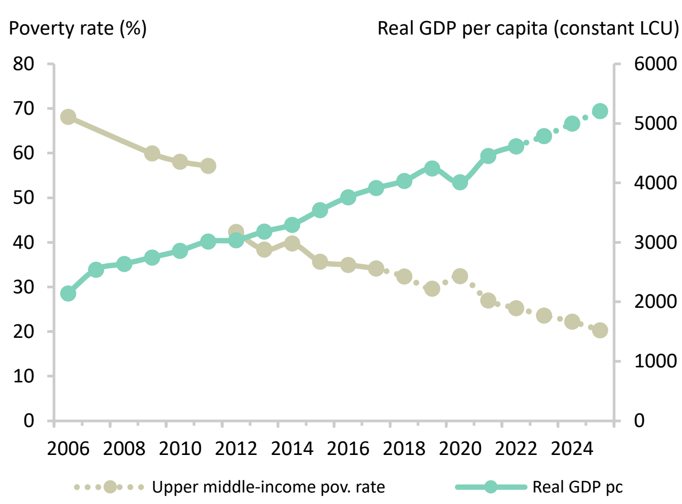
Labor market formalization continued. Pension contribution data show that formal employment increased by 4.9 percent compared to 2021. At the same time, 80.7 thousand jobseekers were registered by

FIGURE 1 Kosovo / Consumer price inflation



Source: Kosovo Statistics Agency.

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



Source: World Bank. Notes: see Table 2.

December 2022, a reduction of 1.5 percent from December 2021.

The current account deficit (CAD) deteriorated to 10.1 percent of GDP (from 8.1 percent in 2021), driven by higher import prices, against a large trade deficit of 32.1 percent of GDP. Nominal export growth reached 29.7 percent (y-o-y), supported by services exports associated to the resilient diaspora-driven demand for travel services, but also a 23.6 percent increase in merchandise exports. In parallel, the value of imports grew by 22 percent, on the back of higher prices for mineral products and food and beverages.

By the end of 2022, the fiscal deficit reached 0.5 percent of GDP, reflecting continued positive revenue growth (13.7 percent) supported by inflation effects as well as formalization gains. The combination of positive tax revenue growth and capital underspending outpaced increases in current transfers (26.3 percent y-o-y), associated to the implementation of crisis mitigation measures (4 percent of GDP).

The financial sector remains robust. In December 2022, the annual change in loans reached 16.1 percent. Bank capital buffers and asset quality remain adequate, with non-performing loans remaining stable at 1.8 percent.

Outlook

GDP growth is expected to pick up modestly, reaching 3.7 percent in 2023. The sizable impulse on private consumption and service exports from diaspora flows over 2021 and 2022 is expected to fade against an expected slowdown in EU growth. The contribution of government transfers to private consumption will also be more limited. However, a hike in public wage spending following the implementation of the new Law on Public Wages will add to consumption growth. After recording a real contraction in 2022, investment is expected to provide a positive contribution to growth in 2023. A gradual stabilization in international prices is expected to boost investment confidence.

The medium-term outlook remains positive, with growth expected to accelerate towards potential. However, continued uncertainties related to the war in Ukraine entail significant downside risks.

Poverty is projected to continue its decline, reaching 24.3 percent in 2023, measured using the upper-middle-income poverty line (US$6.85/person/day in 2017 PPP) but the materialization of downside risks could lead to a stagnation of poverty rates.

Inflation is expected to decelerate in line with international price dynamics; yet price levels could remain elevated throughout 2023. Despite an expected slowdown in service exports and remittances growth, easing import price pressures are expected to lead to minor a CAD improvement in 2023.

The fiscal deficit is expected to increase to 1.1 percent of GDP in 2023, fueled by increases in public compensation and capital investment. Further spending needs for energy subsidies could, however, increase the deficit. Over the medium-term, public debt is projected to remain below 25 percent of GDP.

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

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-5.3	10.7	3.5	3.7	4.4	4.2
Private Consumption	2.5	7.3	4.0	2.1	3.4	2.7
Government Consumption	2.1	9.0	-0.8	7.0	5.2	4.8
Gross Fixed Capital Investment	-7.6	13.0	-6.9	6.1	5.8	6.2
Exports, Goods and Services	-29.1	76.7	17.2	3.1	3.5	3.7
Imports, Goods and Services	-6.0	31.4	4.9	2.9	3.2	2.9
Real GDP growth, at constant factor prices	-3.6	7.7	3.5	3.7	4.4	4.2
Agriculture	-5.8	-2.5	2.3	2.0	2.2	1.9
Industry	-1.0	7.8	2.0	3.2	4.6	3.9
Services	-4.8	9.4	4.6	4.2	4.6	4.7
Inflation (Consumer Price Index)	0.2	3.4	11.6	6.0	3.3	2.5
Current Account Balance (% of GDP)	-6.6	-8.2	-10.1	-9.7	-9.6	-9.2
Net Foreign Direct Investment Inflow (% of GDP)	4.0	3.8	6.6	5.7	5.5	5.5
Fiscal Balance (% of GDP)	-7.6	-1.3	-0.5	-1.1	-2.3	-2.9
Revenues (% of GDP)	25.4	27.4	27.6	27.9	26.7	26.9
Debt (% of GDP)	22.0	21.2	19.5	19.7	20.5	22.0
Primary Balance (% of GDP)	-7.1	-0.9	-0.1	-0.7	-1.9	-2.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	32.4	27.0	25.3	23.6	22.2	20.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2017-HBS. Actual data: 2017. Nowcast: 2018-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2017) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

KYRGYZ REPUBLIC

Table 1	2022
Population, million	6.8
GDP, current US$ billion	10.9
GDP per capita, current US$	1607.3
International poverty rate ($2.15)[a]	1.3
Lower middle-income poverty rate ($3.65)[a]	18.7
Upper middle-income poverty rate ($6.85)[a]	67.6
Gini index[a]	29.0
School enrollment, primary (% gross)[b]	99.2
Life expectancy at birth, years[b]	71.8
Total GHG emissions (mtCO2e)	14.9

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

Growth in 2022 was stronger than initially expected, driven by consumption, supported by remittance inflows, largely from Russia, and public investment. Inflation increased sharply, and the external position weakened significantly. Fiscal outcomes were favorable thanks to improved revenue performance. Growth is expected to moderate in 2023 and inflation to remain elevated. Driven by higher spending, the fiscal deficit will widen.

Key conditions and challenges

The Kyrgyz Republic has experienced volatile growth in the past decade because of heavy dependency on gold production and remittances and political instability. On average, gold production accounts for 10 percent of GDP and remittances 25 percent of GDP, while development assistance amounts to about 5 percent of GDP.

High global food and fuel prices have increased domestic inflation, adversely affecting poor households. The last two years have also seen significant political and governance upheavals, with snap parliamentary and presidential elections, and political instability continues to hamper the Government's ability to implement reforms. The nationalization of the largest gold producer, Kumtor Gold Company, put a dent in investor confidence although the dispute with the investor was resolved through a peace agreement.

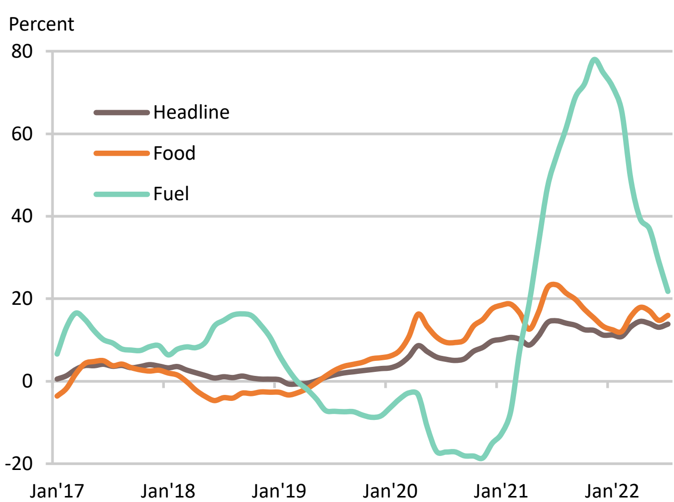
While there has been progress toward fiscal consolidation in recent years, broadening the tax base and improving the efficiency of public spending remain key challenges. The private sector is hindered by excessive bureaucracy. Accelerating economic growth will require stronger institutions and policies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

Recent developments

Economic growth reached 7 percent in 2022, which was much stronger than expected prior to Russia's invasion of Ukraine. Robust growth was driven by gold production, agriculture, and the services sector. The latter was supported by trade-related services and additional demand boosted by the relocation of Russian citizens to the Kyrgyz Republic. Nongold output growth was 5.9 percent. On the demand side, growth was supported by private consumption, with gross remittance inflows increasing by 6.2 percent (in US dollars), and public investment, while net exports contributed negatively.

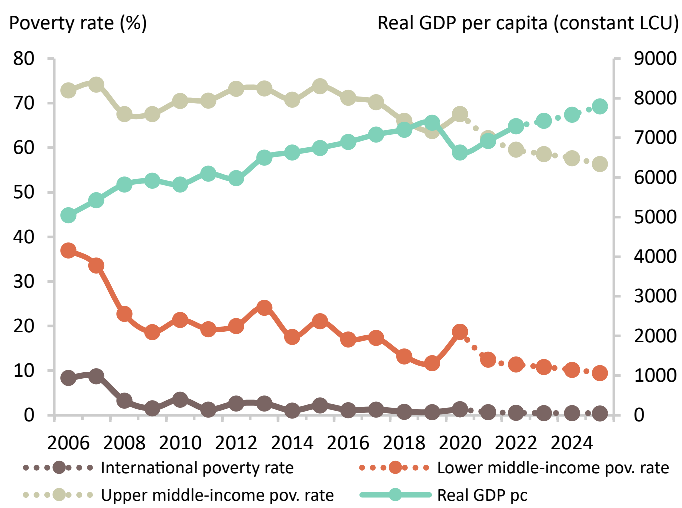
While gold production was strong, gold exports fell by 99 percent as domestic gold was sold to the Central Bank. As a result, the current account deficit is estimated to have widened to 27 percent of GDP from 8.6 percent a year earlier. Total exports are estimated to have shrunk by 31 percent, whereas imports grew by 51 percent, mainly due to increased shipment of goods from China. FDI has been a financing source of the current account deficit. However, a large share of the BOP financing has not been identified, leaving errors and omissions at 30 percent of GDP. The FX market was broadly stable although the Central Bank had to intervene more intensively to avoid sharp fluctuations. Over the year, the nominal Som/USD exchange rate depreciated by only 1.1 percent. In real terms, the effective exchange rate appreciated

FIGURE 1 Kyrgyz Republic / Headline, food and fuel inflation



Source: Kyrgyz authorities.

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



Source: World Bank. Notes: see Table 2.

by an average of 1.2 percent in 2022. International reserves remained unchanged at 4 months of import cover at end-2022. Inflation reached 14.7 percent in 2022. Rising inflation was driven by rises in global food and fuel prices and by higher domestic demand stemming from increased public wages and inflows of Russian citizens. The Central Bank raised its policy rate to 14 percent in March 2022 from 8 percent in December 2021 and reduced it to 13 percent in November, even though inflation remains in double digits.

The fiscal deficit increased to 1.4 percent of GDP in 2022 from 0.3 percent a year earlier. The fiscal expansion was less than projected due to strong revenue performance. Tax revenues increased from 24.5 percent to 29.2 percent of GDP due to increased imports and improved tax compliance helped by the installation of cash registers in the retail sector. Expenditures increased from 32.8 percent to 38.4 percent of GDP following significant wage increases for public servants, doctors, teachers, and social workers, and higher capital spending. As a share of GDP, public debt declined to 52 percent in 2022 from 59 percent in 2021.

The poverty rate is estimated to have declined to pre-COVID-19 levels. Public sector salary increases and enhancements to social assistance programs targeting the poor absorbed the negative impact of high food prices on the vulnerable population.

Outlook

GDP growth for 2023 is expected to moderate to 3.5 percent as gold production contracts and agriculture and the services sector experience a slowdown. On the demand side, growth is expected to be supported by consumption and investment while net exports are expected to be negative contributors. GDP is expected to converge to a potential growth rate of 4 percent in the medium-term.

Inflation is expected to remain elevated at about 10 percent in 2023, driven by rising tariffs for electricity and other utilities. Assuming the Central Bank maintains its monetary policy, inflation is projected to moderate gradually to 7 percent by end-2025.

The current account deficit is projected to reach about 14 percent of GDP in 2023 and narrow slightly in 2024–25 as external demand for non-gold goods improves and export of services increases. The deficit is expected to be financed by FDI and external borrowing.

The fiscal deficit is projected to widen in 2023 due to the full year effect of increases in public sector wages and social benefits. However, the fiscal position is expected to be consolidated in 2024–25 due to higher revenues from the mining sector and the containment of expenses on goods and services, and lower capital spending.

High food prices and job insecurity will continue to be the most significant concern for the welfare of the population in 2023. The poverty rate is projected to reduce slightly to 10.8 percent (at the international poverty line of USD 3.65 a day, 2017 PPP) in 2023. Government measures increasing pensions and the scaling up and extension of coverage of social protection programs targeting the poor will help to mitigate adverse effects on the poor.

Risks and uncertainties remain high. The slowdown of the global economy may reduce demand for Kyrgyz export and a further deterioration of the Russian economy may lead to a decline in remittances. The domestic political situation remains sensitive to the upcoming increase in electricity and other utility tariffs.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-8.4	6.2	7.0	3.5	4.0	4.0
Private Consumption	-8.3	20.9	11.6	8.0	5.4	4.3
Government Consumption	0.9	0.4	9.6	0.8	0.0	-0.1
Gross Fixed Capital Investment	-16.2	8.2	22.2	2.2	7.9	13.2
Exports, Goods and Services	-27.3	16.4	-15.9	12.0	12.5	16.7
Imports, Goods and Services	-28.0	39.3	24.0	16.1	12.1	14.3
Real GDP growth, at constant factor prices	-7.4	6.2	7.0	3.5	4.0	4.0
Agriculture	0.9	-5.0	4.4	2.0	2.5	2.5
Industry	-7.0	7.2	10.0	8.7	8.0	8.0
Services	-14.3	16.4	7.7	2.3	3.3	3.1
Inflation (Consumer Price Index)	6.3	11.9	15.2	8.0	6.0	5.8
Current Account Balance (% of GDP)	4.8	-8.6	-27.2	-13.7	-11.4	-10.0
Net Foreign Direct Investment Inflow (% of GDP)	-7.5	6.6	3.8	4.3	4.5	4.5
Fiscal Balance (% of GDP)	-4.2	-0.3	-1.4	-2.7	-2.6	-2.0
Revenues (% of GDP)	30.9	33.6	38.4	35.9	34.3	31.4
Debt (% of GDP)	67.7	59.0	52.0	49.8	49.1	48.1
Primary Balance (% of GDP)	-2.9	1.3	0.0	-1.4	-1.5	-1.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.3	0.7	0.5	0.5	0.5	0.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	18.7	12.5	11.4	10.8	10.2	9.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	67.6	62.2	59.6	58.6	57.7	56.3
GHG emissions growth (mtCO2e)	-2.9	5.1	7.2	7.7	5.7	4.8
Energy related GHG emissions (% of total)	70.4	72.0	73.3	74.3	74.7	74.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2020-KIHS. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2020) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

MOLDOVA

Table 1	2022
Population, million	2.6
GDP, current US$ billion	14.4
GDP per capita, current US$	5533.7
International poverty rate ($2.15)[a]	0.0
Lower middle-income poverty rate ($3.65)[a]	0.3
Upper middle-income poverty rate ($6.85)[a]	14.4
Gini index[a]	25.7
School enrollment, primary (% gross)[b]	107.8
Life expectancy at birth, years[b]	70.2
Total GHG emissions (mtCO2e)	13.3

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

The Moldovan economy has been severely affected by Russia's invasion of Ukraine and a surge in inflation. GDP have contracted by 5.9 percent and inflation to have reached an average of 28.7 percent in 2022. The short-term outlook hinges on the evolution of the war in Ukraine and its ramifications on global commodity markets, particularly energy and weather conditions, while longer-term prospects depend on the unfinished structural reform agenda.

Key conditions and challenges

Moldova has been overtaken by the spillovers of the war in Ukraine, including the energy and refugee crises. Despite the efforts to mitigate the impact of the crises with a forceful fiscal impulse and swift monetary stance, private consumption was restrained by the erosion of households' disposable income and private investments by the uncertainty and challenging financial conditions, causing the economy to plunge into a recession in 2022. The medium-term outlook will be influenced by the ability of the Government to mitigate the households' eroding purchasing power while keeping the momentum on the reform program to address low productivity growth, persistent structural and governance weaknesses, the significant state-owned enterprises footprint, stifled competition, an uneven playing field, and tax distortions. The risks of extreme weather events and energy shocks remain high. Persistent inequality of opportunity limits the ability to access public services and reduces resilience and intergenerational mobility. Significant uncertainty also remains around the impact of the war in Ukraine on the Moldovan economy, and the supply and price of energy in 2023. A further increase in energy costs in the second half of 2023 may require spending reallocation and/or additional financing to mitigate the impact on households. High input costs and dry weather conditions may further reduce agricultural yields, resulting in additional inflationary pressures and dampened economic activity. On this background, the reduction in poverty observed during 2022, is likely to have been short-lived as Moldova felt the impacts of the war in Ukraine, with disproportionate impacts on poorer Moldovans primarily through the impacts of high food and fuel inflation.

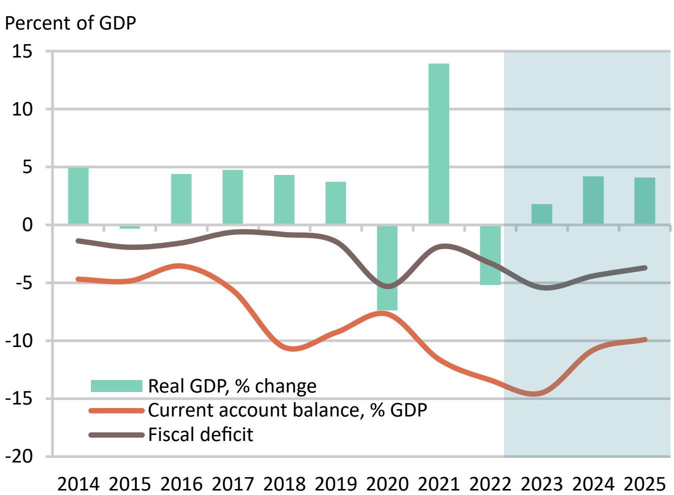
Recent developments

Moldova's GDP dropped by 10.6 percent in the fourth quarter, totaling a 5.9 percent decrease in 2022. High interest rates and proximity to the war in Ukraine had a negative impact on investments while high inflation eroded the disposable income of the population, resulting in a decrease in private consumption. Strong growth in exports (25 percent) on the back of good yields from last year and re-exports to Ukraine, were not however sufficient to compensate for the increase in imports (15.8 percent), mostly driven by high energy costs. As a result, the contribution to growth from net exports was negative. Public consumption increased by around 5 percent, modestly supporting growth.

Moldova's external position has deteriorated due to the impact of the energy crisis and lower remittances. As share of GDP, external debt decreased to 62.1 percent.

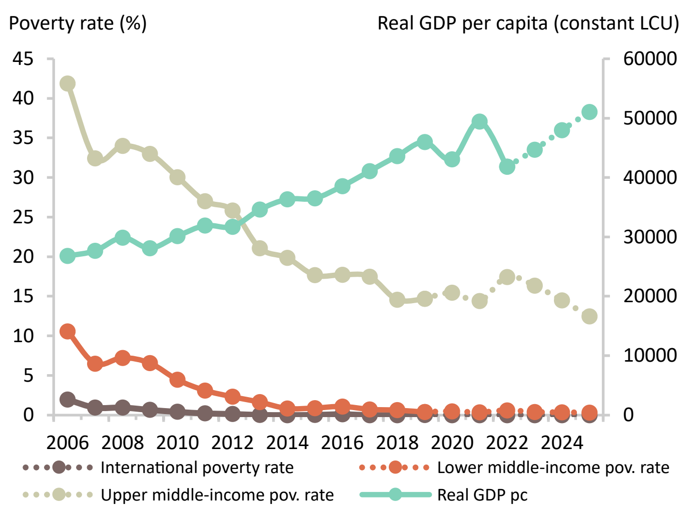
The monetary stance has been relaxed after inflation reached its peak in October 2022. In 2022, inflation surged to 28.7 percent triggered by adjustments in regulated prices. In 2023, the monetary authorities to

FIGURE 1 Moldova / Actual and projected macroeconomic indicators



Source: Author's calculations based on national statistics.

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



Source: World Bank. Notes: see Table 2.

decrease the policy rate twice to 17 percent from 21.5 percent.

The fiscal position proved to be resilient in 2022, registering a deficit of 3.3 percent, thanks to a strong revenue performance. Public spending increased by 22.4 percent led by social spending and subsidies. Cash buffers were used toward the end of the year to secure the supply of energy. Public and publicly guaranteed debt decreased to around 33 percent of GDP in the first 9 months of 2022.

Amidst tight labor market conditions, poverty, as measured by the international US$6.85 2017 PPP per day poverty line, increased from 14.4 percent in 2021 to 17.5 percent in 2022.

Outlook

GDP growth is expected to slowly rebound to 1.8 percent in 2023, reaching its potential only in 2024, due to inflation dynamics, energy security concerns, and the ongoing war in Ukraine. The measures taken by the government in 2021 and 2022 (e.g., an increase in minimum pensions and indexation, social protection measures, and a higher minimum wage) are expected to partially mitigate the impact on households. Nevertheless, the main sources of disposable income are registering negative growth, while consumer credit is low. The proximity to the war in Ukraine poses headwinds to domestic and foreign investment, as well as to net exports.

Double-digit inflation will persist in 2023, only receding slowly toward the NBM's inflation target of 5 percent +/- 1.5 percent in 2024, under the assumption of a moderation in import prices and contained second-round effects. Moldova's external position is expected to weaken, reflecting overall elevated import prices coupled with subdued capital inflows due to heightened uncertainty. In the medium term, the inflow of remittances will stabilize as Moldovan migrants move to other destinations and help reduce the structural deficit of the current account. Overall, the CAD is expected to be higher than in the pre-COVID-19 period and remain reliant on external financing. Revenues are expected to decline in real terms as economic activity subsides, resulting in a fiscal deficit of 5.4 percent in 2023. Public debt remains sustainable despite the deterioration of the short-term outlook.

Poverty as measured by the US$6.85 2017 PPP poverty line is expected to decrease from 17.5 percent in 2022 to 16.3 percent in 2023. With growth anticipated to recover, poverty is projected to fall further to 14.5 percent in 2025. However, the growth outlook, and therefore projected poverty, is subject to substantial downside risks.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-7.4	13.9	-5.9	1.8	4.2	4.1
Private Consumption	-8.3	15.5	-4.0	3.0	4.1	4.2
Government Consumption	3.1	3.8	5.1	1.3	2.1	0.0
Gross Fixed Capital Investment	0.4	1.7	-6.8	1.9	5.0	5.3
Exports, Goods and Services	-9.6	17.5	24.9	3.3	4.5	5.1
Imports, Goods and Services	-5.0	19.2	15.8	3.7	4.0	4.1
Real GDP growth, at constant factor prices	-7.6	15.6	-5.9	1.8	4.2	4.1
Agriculture	-26.4	18.7	-25.8	2.6	3.3	3.5
Industry	-4.3	5.6	-17.9	2.4	4.6	5.1
Services	-4.8	19.3	2.0	1.5	4.2	3.9
Inflation (Consumer Price Index)	4.1	5.1	28.7	14.1	6.2	4.9
Current Account Balance (% of GDP)	-7.7	-11.1	-13.4	-14.5	-10.8	-9.9
Net Foreign Direct Investment Inflow (% of GDP)	1.3	1.6	0.8	1.5	2.8	2.8
Fiscal Balance (% of GDP)	-5.3	-1.9	-3.3	-5.6	-4.6	-3.9
Revenues (% of GDP)	31.4	32.0	33.6	32.1	31.8	32.1
Debt (% of GDP)	36.4	32.4	33.7	36.3	38.2	38.0
Primary Balance (% of GDP)	-4.5	-1.1	-2.0	-4.5	-3.7	-3.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.5	0.3	0.6	0.4	0.3	0.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	15.4	14.4	17.4	16.3	14.5	12.5
GHG emissions growth (mtCO2e)	-5.6	8.9	-4.5	1.2	2.7	2.7
Energy related GHG emissions (% of total)	63.5	65.4	63.5	63.7	64.4	65.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2021-HBSActual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.
b/ Projections using neutral distribution (2021) with pass-through = 1 (High-2022), pass-through = 0.7 (Low-2023), pass-through = 0.87 (Medium-2024), pass-through = 0.87 (Medium-2025) based on GDP per capita in constant LCU.

MONTENEGRO

Table 1	2022
Population, million	0.6
GDP, current US$ billion	6.9
GDP per capita, current US$	11089.9
International poverty rate ($2.15)[a]	2.9
Lower middle-income poverty rate ($3.65)[a]	6.4
Upper middle-income poverty rate ($6.85)[a]	18.5
Gini index[a]	36.9
School enrollment, primary (% gross)[b]	102.3
Life expectancy at birth, years[b]	75.9
Total GHG emissions (mtCO2e)	3.7

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

While growth in 2022 was strong at an estimated 6.1 percent, it decelerated in the second half of the year. Private consumption propelled growth, but its contribution weakened by year-end as inflation surged to an average of 13 percent for the year. At 5.2 percent of GDP, the fiscal deficit was lower than planned, but still high due to forgone revenues and additional spending. The rise in the cost of financing and forthcoming debt repayments require utmost fiscal vigilance.

Key conditions and challenges

Montenegro's small, open, and service-based economy is highly vulnerable to external shocks, while the country's choice of strategies and policies has not always been conducive to enhancing its resilience. After a historic recession of -15.3 percent in 2020, the economy recovered strongly in 2021 and 2022, averaging 13 and 6.1 percent growth, respectively. However, it is facing renewed challenges from the Russian invasion of Ukraine, associated global geopolitical and economic uncertainties, but also domestic instability. Given unilateral euroization, Montenegro relies on fiscal policy and structural reforms to maintain macroeconomic stability. However, the debt-financed highway construction, the pandemic, and a lack of commitment to fiscal targets have increased fiscal vulnerabilities and increased public debt. Despite a significant decline to an estimated 70.8 percent of GDP in 2022, public debt remains high, particularly in the environment of increasing financing costs. In 2022, the government implemented a major tax reform, which reduced labor taxes from a flat 39 percent of total labor cost to an average of 22 percent by removing healthcare contributions and introducing progressive income taxation, while increasing the minimum wage from €250 to €450. The program has the potential to reduce inequalities and increase growth in the medium term, but also poses fiscal risks. These have been further amplified by additional spending, particularly on the social and wage bill. Considering large Eurobond repayments in 2025 and 2027 and higher borrowing costs, Montenegro must show fiscal prudence by consolidating its public finance, by narrowing the fiscal deficit and by further reducing public debt by 2025.

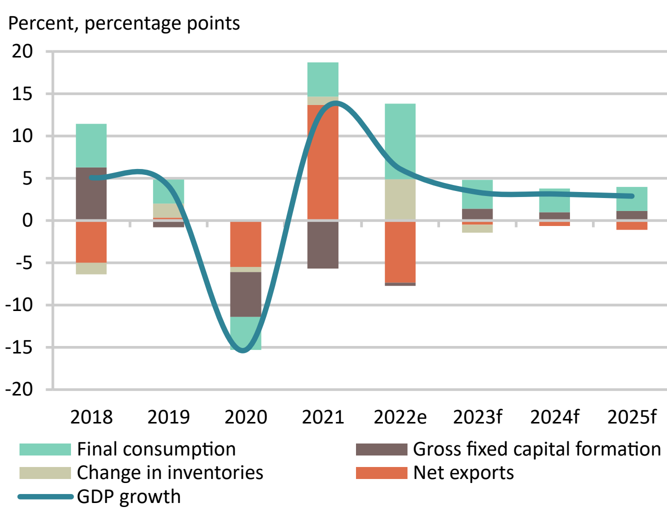
Montenegro has been in a political and institutional standstill since August 2022, when the government received a vote of no-confidence, and the Constitutional Court lost a quorum. The complexity and fragility of the political landscape exacerbates uncertainties, slows the reform process, and not only diverts the focus from imminent economic challenges, but amplifies them. Montenegro's immediate priority should thus be to resolve the institutional and political crisis.

Recent developments

In 2022, economic activity was driven by an increase in real disposable incomes, further recovery in tourism, employment growth, and household lending. Real retail trade grew by 13.4 percent y/y, while the number of tourist overnights reached 92 percent of the 2019 level. However, the value of construction works contracted by 4.4 percent in nominal terms, while industrial production declined by 3.2 percent as unfavorable hydrological conditions affected electricity generation.

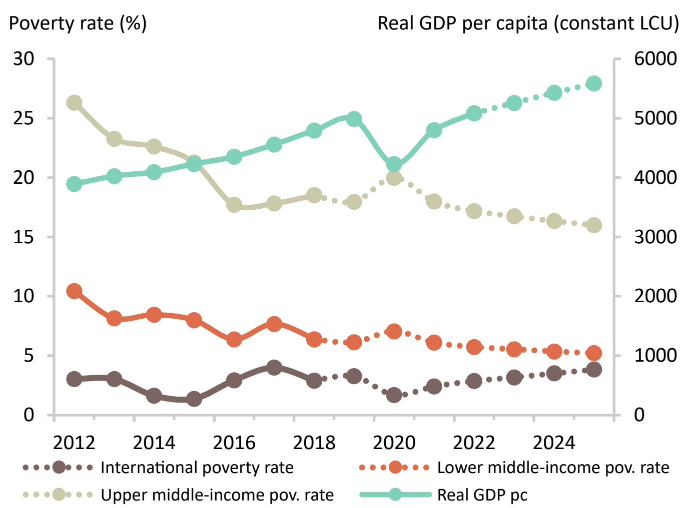
Employment gains were strong in 2022, contributing to a record high activity rate and a record low unemployment rate of

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



Sources: MONSTAT and World Bank.

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



Source: World Bank. Notes: see Table 2.

58.9 and 14.7 percent, respectively. In 2022, real net monthly wages increased by 18.7 percent. Consequently, poverty (income below $6.85/day in 2017PPP) is projected to have declined to 17 percent in 2022.

Inflation averaged 13 percent, led by a surge in food and energy prices. The inflationary impact on households has been largely mitigated by a wage increase through the tax reform program.

By December, lending and deposits increased by 9 and 24.3 percent y/y, respectively. In December, the average capital adequacy ratio was at healthy 19.3 percent, while non-performing loans declined to 6.3 percent from 6.8 percent of total loans a year earlier.

The current account deficit widened to 13.3 percent of GDP but was fully financed by net FDI. The trade deficit expanded by 40 percent, as strong export growth could not compensate for an even stronger increase in imports. Net income accounts further reduced the current account deficit, due to strong net remittances.

A shortfall in social security contributions and personal income tax collections, new spending and ad-hoc spending commitments, the clearance of health insurance arrears, and higher capital spending increased the fiscal deficit from 1.9 percent of GDP in 2021 to an estimated 5.2 percent of GDP in 2022. Public debt declined from 84 percent of GDP in 2021 to an estimated 70.8 percent of GDP in 2022, supported by regular repayment of debt and limited new borrowing.

Outlook

The unfavorable global economic outlook and high domestic uncertainty are weighing on Montenegro's otherwise positive outlook. Over 2023-25, growth is projected to average 3.1 percent, as private consumption growth slows, whereas investment is expected to provide marginally positive contributions to growth. Tourism is likely to continue recovering in 2023 to reach its 2019 level, although deteriorating growth prospects in the EU and the region may have an adverse effect on both tourism and wider growth prospects. Poverty is projected to decline to 16.6 percent in 2023.

Inflation is projected to decelerate to 7.9 percent in 2023 and further to 4 percent in 2024. While higher energy prices are disproportionally affecting the poor, they are also supporting Montenegro's electricity exports, helped by increasing generation capacities. These factors, together with exports of tourism and transport services are projected to support a reduction in the current account deficit to 11.1 percent of GDP in 2025.

The fiscal balance is expected to moderate over the medium term but will remain elevated at 4.9 percent of GDP in 2023 and 4.5 percent of GDP in 2024, due to higher wages, social, and capital spending. As a result, public debt will stay high at around 70 percent of GDP in 2023-25. Additional fiscal consolidation measures (both revenue measures and tighter expenditure control) would, however, result in a better fiscal performance.

Given the tightening of global financial conditions and Montenegro's sizable financing needs of around 10 percent of GDP in 2023, the country will require very careful fiscal management and stronger control over its expenditures.

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

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-15.3	13.0	6.1	3.4	3.1	2.9
Private Consumption	-4.6	4.0	9.7	3.3	2.9	3.1
Government Consumption	0.8	0.5	1.2	1.6	0.4	0.1
Gross Fixed Capital Investment	-12.0	-12.3	-1.1	4.3	3.0	3.4
Exports, Goods and Services	-47.6	81.9	22.7	4.9	4.4	4.1
Imports, Goods and Services	-20.1	13.7	21.3	3.4	3.3	3.5
Real GDP growth, at constant factor prices	-14.4	13.2	4.8	3.3	3.1	2.9
Agriculture	1.1	-0.5	-0.4	0.1	0.1	0.1
Industry	-12.0	0.3	-5.0	2.0	2.0	2.0
Services	-16.9	19.9	8.4	4.1	3.8	3.4
Inflation (Consumer Price Index)	-0.3	2.4	13.0	7.9	4.0	2.8
Current Account Balance (% of GDP)	-26.1	-9.2	-13.3	-12.4	-11.9	-11.1
Net Foreign Direct Investment Inflow (% of GDP)	11.2	11.7	13.5	8.7	7.6	7.4
Fiscal Balance (% of GDP)	-11.0	-1.9	-5.2	-4.9	-4.5	-4.2
Revenues (% of GDP)	44.4	44.0	39.4	39.3	39.1	38.8
Debt (% of GDP)	105.3	84.0	70.8	69.0	70.3	69.6
Primary Balance (% of GDP)	-8.3	0.5	-3.5	-3.1	-2.2	-1.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.7	2.4	2.9	3.2	3.5	3.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	7.1	6.1	5.7	5.5	5.4	5.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	20.0	18.0	17.2	16.7	16.3	16.0
GHG emissions growth (mtCO2e)	-9.2	5.2	-0.9	1.5	1.3	1.3
Energy related GHG emissions (% of total)	68.8	71.1	71.4	72.1	72.5	72.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2015-SILC-C and 2019-SILC-C. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection using point-to-point elasticity (2014-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

NORTH MACEDONIA

Table 1	2022
Population, million[a]	2.1
GDP, current US$ billion	13.6
GDP per capita, current US$[a]	6567.8
International poverty rate ($2.15)[b]	2.8
Lower middle-income poverty rate ($3.65)[b]	7.6
Upper middle-income poverty rate ($6.85)[b]	19.1
Gini index[b]	33.6
School enrollment, primary (% gross)[c]	95.5
Life expectancy at birth, years[c]	75.7
Total GHG emissions (mtCO2e)	11.1

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

Despite brisk post-pandemic recovery, the energy crisis depressed growth and pushed inflation to a two-decade high, stretching public finances amidst a rise in borrowing costs. Government support for the energy crisis needs to be targeted and temporary to incentivize energy efficiency and the green transition. Structural reforms to boost medium-term growth should be prioritized ahead of the general elections in 2024. Downside risks to the outlook have subsided but prevail.

Key conditions and challenges

Despite a brisk recovery from the pandemic-induced recession, North Macedonia's growth momentum started losing steam as the energy crisis and the war in Ukraine took a toll on the domestic economy. After a decade of muted price increases, inflation accelerated to a peak of close to 20 percent in late 2022 driven by double-digit increases in food and energy prices.

Just as poverty was resuming a downward pathway in 2021, high inflation created additional challenges. Poverty is estimated to have declined moderately in 2022, as higher food and energy prices negatively affected household welfare, particularly among the less well-off who spend a higher proportion of income on these items and have fewer mechanisms to cope with higher prices. Government support measures, including electricity subsidies and an 18-percent rise in minimum wages, have cushioned the shock to some extent.

Corporate credit growth remained robust by December 2022, although worsening financial conditions in times of rising input and borrowing costs could weigh on firm performance and dent an already fragile recovery.

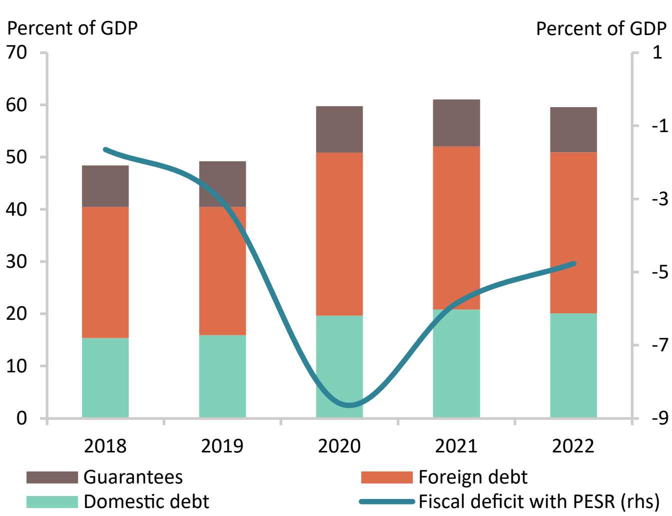
The overlapping crises also had an adverse effect on fiscal accounts and markedly reduced fiscal space for supporting growth over the medium term. Despite a rise in revenues due to inflation and positive growth since 2021, spending pressures to mitigate the impact of multiple crises have delayed fiscal consolidation beyond 2022. Public debt declined to 59.6 percent of GDP in 2022, but arrears increased to 3.2 percent, while the primary deficit remained high and subsidies to the state-owned electricity company to cover the losses hit 2.4 percent of GDP. Ambitious public investment plans are projected to keep the fiscal deficit elevated leaving the debt-to-GDP ratio high over the medium term.

Restoring the country's long-term growth prospects requires following up on pending reforms. Policy actions need to focus on rebuilding sustainability and resilience to shocks to prevent future setbacks to growth. Improving tax compliance and widening the tax base should be a priority as much as targeting social spending and building energy resilience. Reducing business regulatory costs, deepening the trade agreements, increasing market competition, supporting labor market participation, strengthening the independence of public institutions as well as launching the green transition would all be supportive of sustainable, inclusive, and resilient growth in an environment of pronounced uncertainty.

Recent developments

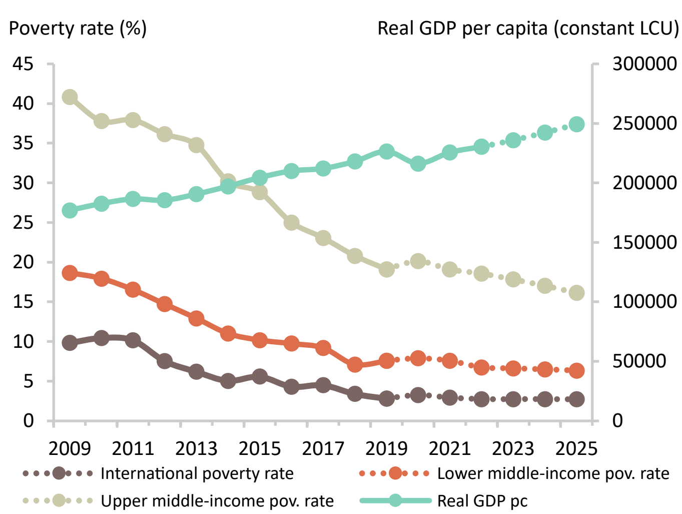
After growing by 3.9 percent in 2021, domestic output increased by 2.1 percent on an annual basis in 2022, as gross investments surged largely due to import-intensive stockpiling. Despite a double-digit

FIGURE 1 North Macedonia / Fiscal performance



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

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



Source: World Bank. Notes: see Table 2.

rate of growth, exports lagged imports while personal consumption decelerated. On the production side, growth was driven by services, as the industry struggled, and construction dove further into negative territory.

The census-adjusted employment rate settled at 47.2 percent in Q4 2022, led by an increase in the female employment rate. The activity rate is still hovering around 55 percent, which is below the pre-pandemic peak. The unemployment rate decreased to 14 percent, but the youth unemployment rate remained high at 31.8 percent in Q4 2022.

Banking sector stability was preserved with an increase in the capital adequacy ratio to 17.7 percent in Q3 2022 despite a drop in the liquidity rate to 19.7 percent. Credit growth remained robust at 9.4 percent y-o-y in December 2022, led by accelerated FX-denominated corporate lending (20 percent of total lending). Headline inflation hit 14.2 percent in 2022, and despite deceleration, core inflation of 10.9 percent at end-2022 remains sticky. Since April 2022, the Central Bank increased the main policy rate to 5.25 percent to curb inflationary expectations. The pegged exchange rate remained stable and FX reserves recovered from losses incurred at the start of the war in Ukraine, as government borrowing and FDI inflows surged in H2 2022. In 2022, the general government deficit at 4.5 percent of GDP ended below the last budget revision as revenues led by personal and corporate income taxes outpaced expenditures, and as capital expenditure fell short of the planned amount. Public debt to GDP slightly declined but is expected to increase again as the highway construction project starts in 2023.

Outlook

The medium-term outlook is positive, and downside risks subsided as financing conditions eased and as the country secured financing for 2023. Growth in 2023 is expected to increase to 2.4 percent, 0.3 p.p. below the autumn round forecast, reflecting continued disruptions from the war in Ukraine, and a protracted energy crisis. Growth is projected to remain below potential, but to moderately accelerate as the large public investment starts and nearshoring of FDIs continues. With commodity prices expected to decline over the next two years, the inflation rate is projected to decelerate to 9.1 percent in 2023 and further to 3 percent in 2024. The baseline scenario is built on the assumption that the energy crisis subsides over the forecast horizon.

While underlying risks remain skewed to the downside and are closely tied to the outlook for the country's main trading partners, moving ahead with EU accession negotiations may provide a much-needed boost to reform appetite and unlock higher growth prospects. At the same time, heightened political uncertainty and a parliamentary impasse prior to elections may delay the implementation of critical reforms. Finally, higher-than-expected inflation may trigger more significant monetary policy tightening that can additionally restrict financing options and suppress economic activity.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-4.7	3.9	2.1	2.4	2.7	2.9
Private Consumption	-3.4	7.8	5.5	3.3	2.1	3.7
Government Consumption	9.7	-0.4	1.0	0.3	0.2	0.2
Gross Fixed Capital Investment	-15.7	0.9	20.0	10.0	5.5	3.0
Exports, Goods and Services	-10.9	11.7	11.0	6.0	5.5	5.0
Imports, Goods and Services	-10.9	11.9	16.5	5.8	4.5	4.5
Real GDP growth, at constant factor prices	-4.3	4.1	2.1	2.4	2.7	2.9
Agriculture	2.5	-5.2	1.8	2.0	2.5	1.8
Industry	-6.9	-1.8	0.4	3.1	3.4	3.0
Services	-4.1	7.5	2.7	2.2	2.5	3.0
Inflation (Consumer Price Index)	1.2	3.2	14.2	9.2	3.0	2.0
Current Account Balance (% of GDP)	-2.9	-3.1	-6.0	-4.2	-3.7	-3.2
Net Foreign Direct Investment Inflow (% of GDP)	1.4	3.3	5.2	5.2	5.9	6.2
Fiscal Balance (% of GDP)	-8.2	-5.4	-4.6	-4.8	-4.2	-3.3
Revenues (% of GDP)	29.9	32.5	32.4	33.5	33.5	34.1
Debt (% of GDP)	59.8	61.0	59.6	61.6	63.8	63.6
Primary Balance (% of GDP)	-7.0	-4.1	-3.4	-3.3	-2.5	-1.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.2	2.9	2.7	2.7	2.7	2.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	7.9	7.6	6.7	6.6	6.5	6.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	20.1	19.1	18.6	17.8	17.1	16.1
GHG emissions growth (mtCO2e)	-3.4	2.0	0.2	0.3	-0.3	-1.1
Energy related GHG emissions (% of total)	71.3	72.2	72.3	72.2	71.9	71.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2020-SILC-C. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

POLAND

Table 1	2022
Population, million	39.3
GDP, current US$ billion	697.2
GDP per capita, current US$	17740.7
Upper middle-income poverty rate ($6.85)[a]	0.9
Gini index[a]	28.9
School enrollment, primary (% gross)[b]	84.1
Life expectancy at birth, years[b]	76.6
Total GHG emissions (mtCO2e)	328.3

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

Poland's GDP grew by 4.9 percent in 2022 but high inflation, policy uncertainties, tighter financing conditions, and an unwinding of the inventory cycle will weigh on growth in 2023. The Russian invasion of Ukraine affects the economy, while the large number of Ukrainians joining the labor market relieved some of the pressures in the tight labor market. The share of the population at risk of poverty is expected to remain elevated through 2024.

Key conditions and challenges

The well-diversified Polish economy has proven to be one of the most resilient in the EU, recovering robustly after a relatively small contraction in GDP of 2 percent in 2020.

A sound macroeconomic framework, effective absorption of EU investment funds, a sound financial sector, better access to long-term credit, and access to European labor markets have supported long-term inclusive growth and poverty reduction. Strong domestic labor markets and higher 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 could boost productivity and growth.

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

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

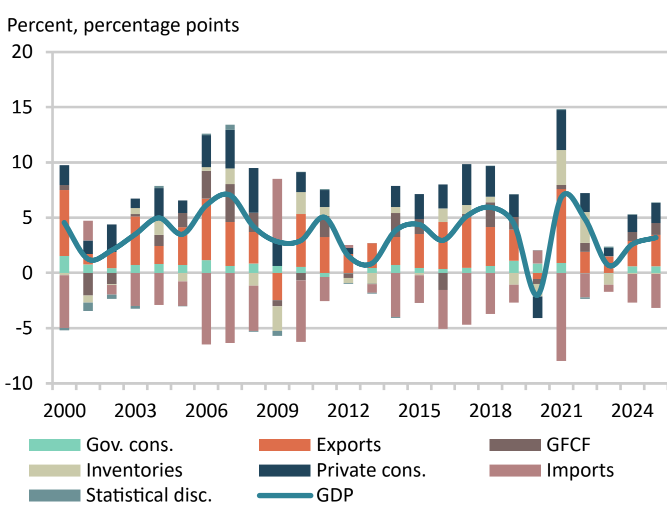
Recent developments

Economic growth decelerated to 4.9 percent in 2022 but remains well above potential GDP growth. Household consumption expanded by 3 percent in 2022, despite a decline in average monthly real gross wages and salaries of 2.1 percent in 2022, as households dissaved. Investment growth accelerated to 4.5 percent, while higher inventories contributed nearly 3 percentage points to growth, as firms moved from a "just-in-time" to a "just-in-case" approach to inventories.

Higher employment, record-low unemployment, increased labor force participation, strong nominal wage growth, and government transfers supported private consumption. Pent-up demand and demand from the nearly 1.3 million displaced Ukrainians in Poland also supported domestic demand in 2022. High-capacity utilization and strong corporate balance sheets supported investments. Supply side disruptions and lower external demand from Russia, Ukraine, and Belarus weighed on exports.

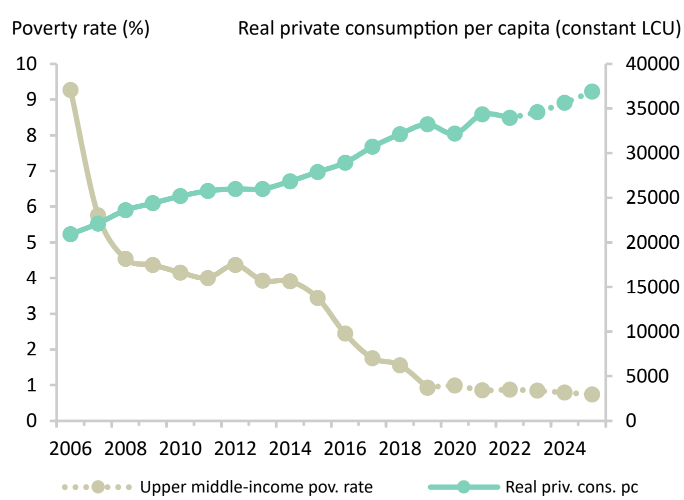
Inflation reached 18.4 percent in February 2023, sharply higher than the targeted range, as reduced VAT rates on electricity, gas and fuel reverted to the standard rate.

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



Sources: GUS and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

Caps on electricity and gas prices, and interventions on heating fuels, have limited a full passthrough to consumers and firms. Monetary policy tightening to respond to high inflation saw the reference rate increase by 665 basis points since October 2021. Meanwhile, the zloty appreciated by nearly 5 percent so far this year compared with Q4 2022 against the USD. The banking sector remains well-capitalized and has limited direct exposure to Russia, Ukraine, or Belarus, although profitability of the banking sector has declined in recent months.

The number of refugees registered in Poland has decreased to 1 million by early March 2023, from 1.3 million Ukrainian refugees in mid-2022. Refugees have temporary residence and access to the labor market and key public services (health, education), social assistance, and housing.

The current account deficit widened to 3.2 percent of GDP in 2022 as import prices for energy and intermediate goods rose sharply.

The unwinding of the 2020 fiscal stimulus and the strong increase in tax revenues brought the general government deficit to 1.8 percent of GDP in 2021. Measures to protect households and firms from the large energy price shock and high food prices caused the fiscal deficit to increase to an estimated 3.2 percent despite buoyant revenues in 2022.

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

Outlook

Economic growth is projected to decelerate to 0.7 percent in 2023, on account of high inflation, monetary policy tightening, negative confidence effects related to the war in Ukraine, a lower number of foreign workers compared with the previous year and slowing demand in key trading partners. Quarterly GDP is expected to register negative growth early in the year, following a larger than expected contraction in the fourth quarter of 2022, before recovering in subsequent quarters, primarily on account of a recovery in private consumption and stronger public spending.

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

Elevated energy and food prices will weigh on household demand and will affect heavily poorer segments, who devote 50 percent of their monthly spending on food and energy. The share of the population at risk of anchored poverty is expected to remain elevated at 1-2 percent above 2019 levels.

Lower energy import prices and weaker import demand are expected to result in a slight improvement in the current account deficit to 2.2 percent of GDP in 2023, with further improvements over 2024-2025 as terms of trade and external demand strengthen.

The fiscal deficit is expected to exceed 4.5 percent of GDP in 2023, on account of the impact of the structural tax reform (Polish Deal), the freeze on electricity and gas prices, and the zero-VAT on food, and the public assistance provided to displaced Ukrainian. The fiscal cost of these packages is estimated at 1.1 percent, 2 percent, and 0.2 percent of GDP respectively in 2023. With increased geopolitical risks, defense spending is also increasing, with the government committing to increase defense spending by 0.8 percent of GDP this year.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-2.0	6.8	4.9	0.7	2.6	3.2
Private Consumption	-3.3	6.3	3.0	1.3	2.8	3.3
Government Consumption	4.9	5.0	-0.3	-0.2	3.5	3.5
Gross Fixed Capital Investment	-2.3	2.1	4.5	0.2	4.4	5.7
Exports, Goods and Services	-1.1	12.5	3.4	2.7	4.0	5.0
Imports, Goods and Services	-2.4	16.1	4.0	1.2	4.8	5.6
Real GDP growth, at constant factor prices	-2.0	6.6	4.8	0.8	2.6	3.2
Agriculture	15.3	-11.1	1.9	1.0	0.2	0.1
Industry	-4.5	3.4	7.0	1.2	3.0	3.1
Services	-1.4	8.9	3.9	0.5	2.5	3.3
Inflation (Consumer Price Index)	3.4	5.1	14.4	12.2	5.9	3.5
Current Account Balance (% of GDP)	2.5	-1.4	-3.1	-2.3	-2.2	-2.0
Net Foreign Direct Investment Inflow (% of GDP)	2.4	4.2	4.0	2.0	2.1	2.0
Fiscal Balance (% of GDP)	-6.9	-1.8	-3.2	-4.6	-3.7	-3.1
Revenues (% of GDP)	41.3	42.4	37.9	38.0	38.9	38.8
Debt (% of GDP)	57.2	53.8	48.4	50.6	52.0	53.3
Primary Balance (% of GDP)	-5.6	-0.7	-2.0	-2.4	-1.9	-1.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	1.0	0.9	0.9	0.8	0.8	0.7
GHG emissions growth (mtCO2e)	-3.5	2.5	3.7	1.7	2.0	2.2
Energy related GHG emissions (% of total)	91.9	91.8	91.8	91.9	92.0	92.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2013-EU-SILC and 2020-EU-SILC. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Projection using point-to-point elasticity (2012-2019) with pass-through = 0.7 based on private consumption per capita in constant LCU.

ROMANIA

Table 1	2022
Population, million	19.9
GDP, current US$ billion	291.7
GDP per capita, current US$	14643.2
International poverty rate ($2.15)[a]	2.2
Lower middle-income poverty rate ($3.65)[a]	4.7
Upper middle-income poverty rate ($6.85)[a]	10.7
Gini index[a]	35.2
School enrollment, primary (% gross)[b]	87.8
Life expectancy at birth, years[b]	74.4
Total GHG emissions (mtCO2e)	84.0

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

Romania's economic growth was robust in 2022 at 4.8 percent, driven by strong private consumption and a pick-up in investment. Economic prospects are moderated by the spillovers from Russia's invasion of Ukraine, and risks are tilted to the downside. Fiscal and current account deficits will remain elevated. Poverty reduction is expected to slow down as a result of inflationary pressures, mainly from food and energy, though some of the impacts are mitigated by government support measures.

Key conditions and challenges

Romania has made impressive strides in raising its economic performance and prosperity over the past two decades. However, the COVID-19 pandemic and the war in Ukraine have tested the resilience of the Romanian economy and exacerbated its structural vulnerabilities, especially in terms of poverty and disparities in economic opportunity, persistently large gender gaps in labor force participation and employment, widening fiscal and current account deficits, and significant institutional constraints hindering the efficient use of resources.

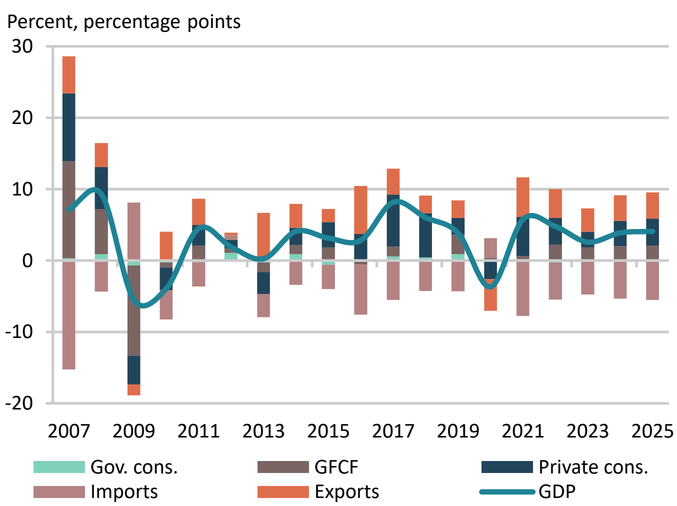
Despite measures to cap energy (gas and electricity) prices, rising costs of food and energy have disproportionally affected poor and vulnerable households as they spend a larger share of their budget on these items. Energy poverty is expected to increase. Romania's at-risk-of-poverty rate remains among the highest in the EU, exceeding that of countries with similar or lower per capita incomes, and the current inflationary environment could push additional people into poverty.

The key challenges in the short term are to contain the socio-economic effects of the war in Ukraine, including the rising cost of living and the significant twin deficits. Soaring inflation led to monetary policy tightening, and high core inflation points to persistent inflationary pressures. In the medium term, fiscal consolidation increased absorption and efficient use of EU funds, and enhanced private sector and investment growth will be critical for a sustainable, green, and inclusive recovery.

Recent developments

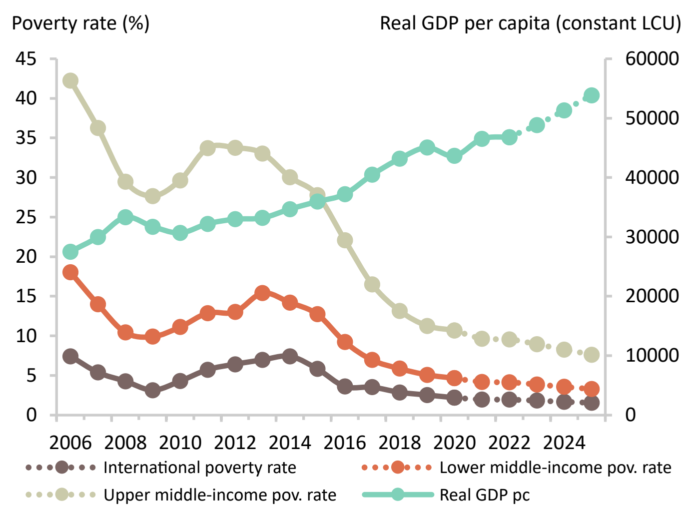
Romania's economy performed better than expected in 2022, expanding by 4.8 percent. Growth was driven by strong private consumption (up 5.5 percent y-o-y) benefiting from the phasing-out of the pandemic restrictions, higher wages, and muted unemployment. However, consumer spending gradually weakened in the second half of the year as higher prices squeezed disposable income. Investment, up 9.2 percent y-o-y, was boosted by new construction works and, to a smaller extent, by machinery and equipment. Strong private consumption coupled with global value chain disruptions and the terms of trade shock led to a significant widening of the goods trade deficit, and the current account deficit widened to 9.4 percent of GDP in 2022. On the supply side, growth was led by Information and Communications Technology (up 20.1 percent y-o-y), which benefited from businesses adopting digital technologies. Construction activity (up 11.2 percent y-o-y) was supported by the revival of the non-residential buildings segment and capital repairs. Unemployment remains contained at 5.6 percent in December 2022 on the back of the economic recovery and labor supply constraints. Elevated inflation, labor shortages, and improvements

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.

in labor productivity contributed to wage increases, with nominal net wages growing by 13.4 percent y-o-y in December 2022. Annual inflation accelerated to 16.4 percent in December 2022, led by soaring electricity, gas, and central heating prices (up 39.7 percent), while food prices were up by 22.1 percent. Inflationary pressures prompted the National Bank of Romania to gradually increase the policy rate to 7 percent in early January 2023. Private sector credit growth decelerated to 12.1 percent y-o-y in December 2022, from 14.8 percent y-o-y in December 2021, reflecting the slowdown in loans to households.

The fiscal deficit narrowed to an estimated 5.7 percent in 2022 from 7.1 percent in 2021, reflecting higher nominal revenues (up 21.2 percent y-o-y). However, fiscal risks remain significant as financing conditions have tightened, and Romania faces higher spreads than regional peers on government bonds denominated in Euro.

The Rapid Household Survey in June 2022 showed that poorer households suffered most from work stoppage during the crisis, but they succeeded in catching up and finding back a job. However, labor force participation for those aged 15-64 remains below pre-pandemic levels, and gender gaps among uneducated groups- already large- continue to expand. Moreover, rising food and energy prices have affected energy poverty, food insecurity, and strained family budgets, especially among the poor and vulnerable, who often have little financial cushion to help absorb rising prices. The war in Ukraine and further disruptions to the global supply chains will continue to affect the economies of host countries for Romanian migrants, reducing remittances. Thus, despite economic and employment recovery, poverty ($6.85/day PPP) is expected to have declined only modestly, from 10.7 percent in 2020 to 9.6 percent in 2022.

Outlook

Growth is projected to decelerate to 2.6 percent in 2023. The outlook hinges on several factors, including the spillovers from the war in Ukraine impacting the European economy in which Romania is highly integrated, persistent core inflation, and additional volatility in energy and food prices. De-anchoring of inflation expectations could prolong the monetary tightening cycle leading to increased financing costs weighing down investment. Romania's capacity to efficiently absorb the EU funds will be critical for a sustainable, green, and inclusive recovery. The sizable funds, and associated structural reforms, should also partially mitigate the impact of higher interest rates and uncertainty on private investment and alleviate some of the fiscal pressures resulting from the heightened energy and food prices. Strengthened lifelong skills formation and private capital mobilization will be pivotal in boosting potential growth. Over the medium term, fiscal deficits will remain elevated. Renewed attention to fiscal consolidation is needed, particularly aimed at reducing inefficient expenditures and strengthening revenue mobilization.

Poverty is expected to continue declining slowly in 2024, depending on whether food and energy prices remain elevated for longer and the effectiveness of the mitigation measures helping families with low incomes to absorb rising food and gas prices. Declining remittance incomes could also mean a longer recovery process for vulnerable population segments in the coming years. A protracted war in Ukraine may weaken growth prospects in the medium term.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-3.7	5.8	4.8	2.6	3.9	4.1
Private Consumption	-3.9	8.1	5.5	3.2	5.1	5.4
Government Consumption	1.1	1.3	-2.0	1.1	1.2	1.2
Gross Fixed Capital Investment	1.1	1.9	9.2	6.9	7.2	7.4
Exports, Goods and Services	-9.5	12.6	8.6	6.7	7.1	7.0
Imports, Goods and Services	-5.2	14.9	9.2	8.1	8.6	8.5
Real GDP growth, at constant factor prices	-3.4	5.4	4.8	2.6	3.9	4.1
Agriculture	-15.3	5.9	-11.6	6.0	2.1	2.1
Industry	-6.5	6.6	-2.3	1.3	3.4	3.5
Services	-0.8	4.8	9.5	3.0	4.2	4.5
Inflation (Consumer Price Index)	2.6	5.1	13.8	10.1	5.4	4.2
Current Account Balance (% of GDP)	-4.9	-7.2	-9.4	-7.9	-6.8	-6.5
Net Foreign Direct Investment Inflow (% of GDP)	1.4	3.7	3.8	3.9	4.0	4.0
Fiscal Balance (% of GDP)	-9.2	-7.1	-5.7	-4.9	-4.6	-4.1
Revenues (% of GDP)	32.7	32.8	33.2	33.4	33.7	34.1
Debt (% of GDP)	46.8	48.9	48.7	49.4	49.9	50.2
Primary Balance (% of GDP)	-7.8	-5.6	-4.0	-3.4	-3.2	-2.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.2	2.0	2.0	1.8	1.7	1.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	4.7	4.2	4.1	3.9	3.6	3.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	10.7	9.6	9.6	8.9	8.3	7.6
GHG emissions growth (mtCO2e)	-5.0	6.5	5.9	2.1	3.9	4.6
Energy related GHG emissions (% of total)	92.5	93.0	93.8	94.2	94.6	95.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2014-EU-SILC and 2021-EU-SILC. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projection using point-to-point elasticity (2013-2020) with pass-through = 0.7 based on GDP per capita in constant LCU.

RUSSIAN FEDERATION

Table 1	**2022**
Population, million[a]	143.4
GDP, current US$ billion	2245.2
GNI per capita, Atlas method, current US$[a]	11610.0
Upper middle-income poverty rate ($6.85)[b]	4.1
Gini index[c]	36.0
School enrollment, primary (% gross)[d]	104.2
Life expectancy at birth, years[d]	71.3
Total GHG emissions (mtCO2e)	1415.8

Sources: WDI, MPO, Rosstat.
a/ Most recent value (2021).
b/ Most recent value (2020), 2017 PPPs.
c/ Most recent value (2020).
d/ WDI for School enrollment (2019); Life expectancy (2020).

Russia's economy contracted by only 2.1 percent in 2022, in the face of severe sanctions, and is expected to contract by a further 0.2 percent in 2023. Sanctions will lower oil production, reducing the current account surplus. Lower revenues, together with larger spending for the war in Ukraine and the need for countercyclical support, will increase the budget deficit. Medium-term growth prospects are muted as Russia's access to inputs and productivity-enhancing technologies is limited.

Key conditions and challenges

The sanctions imposed on Russia following its invasion of Ukraine continue to have significant adverse economic impacts on Russian enterprises due to high uncertainty, restricted access to international markets, restrictions on the export of several commodities, the import of technological goods, higher trade costs, and subdued domestic demand. New sanctions on the export of oil and derivatives are expected to reduce oil production by 7 percent in 2023 and raise transport costs for oil exporters. The fiscal position deteriorated in early 2023 with larger discounts on Russia's oil coupled with higher spending, in part on military needs and related social benefits. While the budget deficit remains manageable in the medium-term given relatively low public debt and accumulated fiscal buffers, higher public borrowing amidst restricted access to international markets will likely increase the cost of borrowing and crowd out the private sector. Longer-term challenges in the banking sector persist, with lending risks elevated. Greater uncertainty and restricted access to technology are likely to dampen private investment and make it less productive. These factors combined with a loss of skilled workers from the country will depress medium to long-term growth prospects.

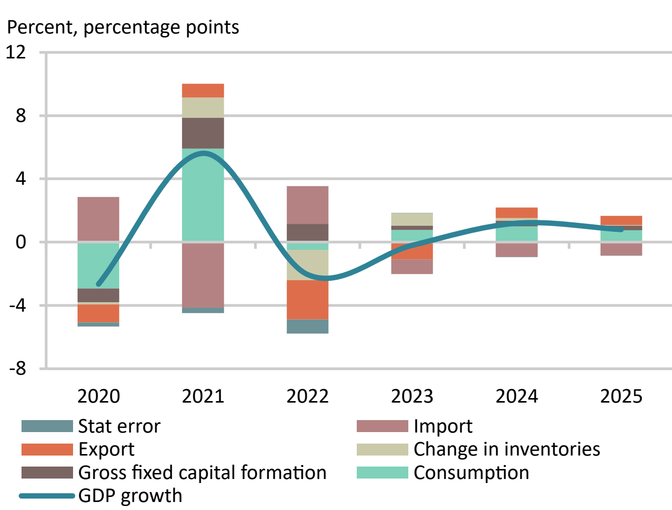
Recent developments

After a steep contraction in Q2 2022 (down 5.9 percent qoq, sa), driven by the imposition of sanctions, economic activity stabilized in H2 (1.9 percent growth hoh, sa) for a 2.1 percent contraction over 2022, considerably better than expected. The contraction was driven by a decline in exports (down 9.6 percent), in household consumption (down 1.8 percent) amidst falling real incomes, outward migration, and restricted imports, and gross capital formation (-0.8 percent) due to a substantial reduction in firms' inventories. Investment growth (5.2 percent) was bolstered by the resource sector, military demand, and investment into logistics.

On the supply side, growth was supported by agriculture (6.6 percent, yoy) with a record-high grain harvest; construction (5 percent); the financial sector (2.8 percent); and oil production (2.1 percent). While some manufacturing sub-sectors suffered from supply chain disruption (e.g., motor vehicles down 43 percent), military needs and import substitution drove growth of other sub-sectors (e.g. fabricated metals up 10 percent, computers and electronics up 4.1 percent, and medical products up 12 percent), resulting in a decline in manufacturing of 2.4 percent.

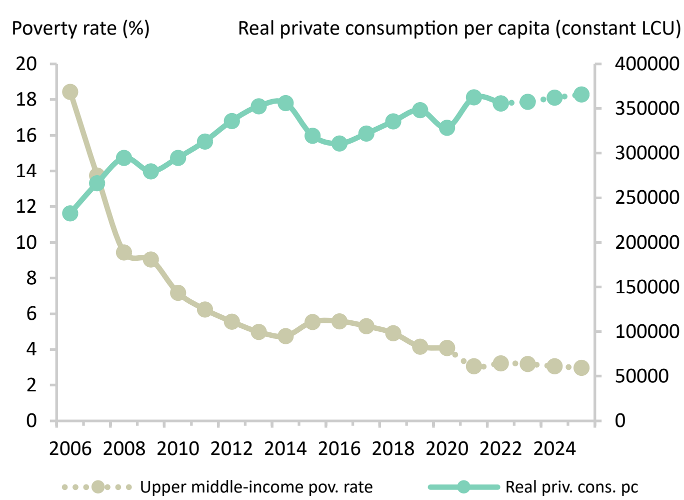
In 2022, the government delivered fiscal stimulus amounting to 4.2 percent of GDP, boosting social benefits, and providing subsidized loans and tax breaks to firms. The budget recorded a deficit of 2.2 percent of GDP, compared to a small surplus in 2021.

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



Sources: Rosstat and World Bank.

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



Sources: World Bank. Notes: see Table 2.

After a surge in March and then a deflationary spell, CPI inflation ended the year around 12 percent and averaged 14 percent in 2022. The Central Bank (CBR) normalized its monetary policy, keeping the policy rate unchanged at 7.5 percent since September.

After a record high current account surplus (CAS) in Q2 and Q3, by Q4 it had shrunk to its lowest level in 18 months as exports fell by 15 percent (qoq) and imports began recovering.

Banks managed to recover from H1 2022 losses of billion RUB 1.5 trillion (US$20.1 billion) to record a modest profit of RUB 0.2 trillion (US$3 billion) by year-end. Regulatory forbearance introduced by CBR limited the impact of volatility on financial markets and, alongside government support measures and capital buffers, allowed banks to continue lending. Over the year, credit to the private sector grew by 10.1 percent in nominal terms, putting real credit growth in negative territory.

The labor market has remained tight due to outward migration, and direct and induced military demand. The unemployment rate fell to an unprecedented low of 3.7 percent by end-2022. Nominal wages grew 12.6 percent in 2022, and nominal pensions by 12.8 percent, slightly below average CPI inflation. Food inflation was higher (14.9 percent). Social support helped reduce the official poverty rate to 10.5 percent in 2022, from 11.0 percent in 2021. Yet over 2022, the decline in private consumption is estimated to have led to a slight increase in poverty (under the UMIC poverty line) to 3.2 percent in 2022.

Outlook

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

The outlook assumes that Russia's invasion of Ukraine will continue, as will existing and planned new sanctions. Higher than expected momentum from 2022 and a more moderate than expected contraction in crude oil and oil products in 2023 mean the economy is expected to contract by only 0.2 percent this year. Continued fiscal stimulus is expected to support economic activity and lower revenues from oil and gas, will result in a substantial increase in the fiscal deficit. Household consumption is expected to rebound slightly in view of expanding social benefits and recovering availability of imported products. Growth in investment is expected to wane as capital inflows decline, some large international investment projects are halted, and uncertainty persists. Lower oil revenue receipts and higher expenditures are expected to widen the general government deficit to 3.7 percent. Average annual CPI inflation is expected to drop to 6.0 percent in 2023, as the post-sanction price shock moves into the baseline, and then gradually fall to the CBR target of 4 percent in 2025. Discounts for Russia's oil and oil products, lower export volumes, and rebounding imports are all expected to reduce the CAS to 4.4 percent this year. With continuing economic stagnation, poverty (under the UMIC poverty line) is expected at 3.2 percent.

Moderate growth of 1.2 and 0.8 percent is expected in 2024 and 2025 respectively as the economy stabilizes from the sanctions shock and sees a partial recovery in investment and exports. Growth is expected to remain muted as Russia's access to inputs and productivity-enhancing technologies is limited.

Poverty is expected to decline slowly between 2023 and 2025 if at all, but worsening conditions might easily reverse this trend.

Russia's economic outlook is vulnerable to further rounds of mobilization and sanctions, lower export volumes of crude oil and oil products, and weaker global demand for other commodities. Positive risk comes from higher exports of oil/oil products.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-2.7	5.6	-2.1	-0.2	1.2	0.8
Private Consumption	-5.9	9.9	-1.8	0.4	1.1	0.8
Government Consumption	1.9	2.9	2.8	2.8	1.8	1.5
Gross Fixed Capital Investment	-4.0	9.1	5.2	1.1	1.5	1.2
Exports, Goods and Services	-4.2	3.3	-9.6	-4.6	2.9	2.6
Imports, Goods and Services	-11.9	19.1	-9.7	4.1	4.0	3.5
Real GDP growth, at constant factor prices	-2.2	6.2	-1.4	-0.2	1.2	0.7
Agriculture	0.2	-0.8	6.6	0.4	1.2	1.2
Industry	-2.7	5.4	-0.2	-0.7	1.4	1.2
Services	-2.2	7.0	-2.5	0.0	1.2	0.5
Inflation (Consumer Price Index)	3.4	6.7	13.7	6.0	4.5	4.0
Current Account Balance (% of GDP)	2.4	6.7	10.1	4.4	2.3	2.2
Net Foreign Direct Investment Inflow (% of GDP)	0.2	-1.4	-0.7	-0.6	-0.6	-0.6
Fiscal Balance (% of GDP)	-4.0	0.8	-1.4	-3.7	-2.5	-2.0
Revenues (% of GDP)	35.5	35.6	35.0	32.6	32.9	33.4
Debt (% of GDP)	19.9	17.3	17.2	20.6	22.3	23.8
Primary Balance (% of GDP)	-3.2	1.6	-0.3	-2.5	-1.4	-0.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	4.1	3.1	3.2	3.2	3.1	3.0
GHG emissions growth (mtCO2e)	-4.5	0.3	-6.7	-4.9	-0.1	-1.4
Energy related GHG emissions (% of total)	91.5	90.6	90.2	89.9	89.3	88.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data: CAIT and OECD. Historical data prior to 2023 has been sourced from ROSSTAT, CBR and MOF. Starting in 2022, Russia limited publication of economic data, notably related to external trade, financial and monetary sectors, and this limits our ability to assess the quality of the published data. Notes: e = estimate, f = forecast.

a/ Calculations based on ECAPOV harmonization, using 2020-HBS. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.

b/ Projection using neutral distribution (2020) with pass-through = 0.7 (Low (0.7)) based on private consumption per capita in constant LCU.

SERBIA

Table 1	2022
Population, million	6.8
GDP, current US$ billion	63.6
GDP per capita, current US$	9401.5
International poverty rate ($2.15)[a]	1.6
Lower middle-income poverty rate ($3.65)[a]	2.9
Upper middle-income poverty rate ($6.85)[a]	10.1
Gini index[a]	35.0
School enrollment, primary (% gross)[b]	96.8
Life expectancy at birth, years[b]	74.2
Total GHG emissions (mtCO2e)	64.8

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

Growth decelerated in the second half of the year to an average of 2.3 percent in 2022, largely driven by private consumption. However, real disposable incomes are shrinking with still rising inflation, led by surging food and energy prices. Consequently, the 2022 current account deficit almost doubled but was still fully financed by net FDI. Strong revenue performance and controlled spending have reduced the fiscal deficit to 3.1 percent of GDP. However, multiple risks weigh on the still positive outlook.

Key conditions and challenges

Before the pandemic, Serbia enjoyed several years of solid growth, rising employment, and low inflation. Its strong track record of fiscal consolidation over 2014-19 had helped build the fiscal buffers which allowed the country to weather the pandemic and energy crises. Serbia's economy contracted by 0.9 percent in 2020, lower than in most countries, and rebounded strongly in 2021 averaging 7.5 percent growth. Despite the unfavorable external environment and the energy crisis, 2022 GDP growth was still solid at 2.3 percent. The government's large fiscal support was critical to preserving economic activity in the crisis, while it's timely phasing out allowed for a reduction of the fiscal deficit from 8 percent of GDP in 2020 to 3.1 percent of GDP in 2022. The government is committed to reducing the fiscal deficit and public debt over the medium term. To ensure that these fiscal targets are met, in December 2022, the government changed the deficit ceiling fiscal rule and introduced two new rules for the wage bill and spending on pensions. Commitment to the fiscal rules, together with improving corporate governance of SOEs through a comprehensive reform program will be critical to enhance Serbia's fiscal sustainability over the medium term.

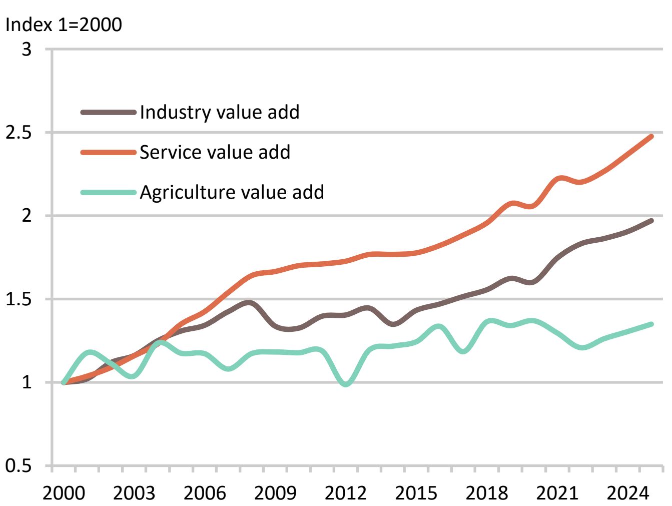
While the impact of the energy crisis in 2022 proved to be milder than initially expected, it has highlighted the importance of the need for Serbia to shift towards greener and more resilient drivers of economic growth. Despite improvements since 2000, Serbia's economy is still almost twice as energy intensive as the EU and relies heavily on fossil fuels for its electricity generation and industrial output. To accelerate the transition toward a more sustainable and greener economy, Serbia's strong commitments to the green growth agenda would require equally strong action.

Recent developments

After a resilient performance in H1 of 4.0 percent, growth slowed to an estimated 0.7 percent in H2, as the contribution of private consumption to growth gradually faded with inflation biting into real disposable incomes. On the production side, the service sectors led growth, while the agriculture and construction sectors contracted strongly. Improvements in the labor market have led to record high employment and activity rates of 51.1 and 56.1 percent, respectively, while the unemployment rate declined to 8.9 percent. Real wage growth was only marginal, as inflation averaged 11.9 percent for the year, driven by food and energy prices. In response, the Central Bank has increased the policy rate several times reaching 5.5 percent in February 2023.

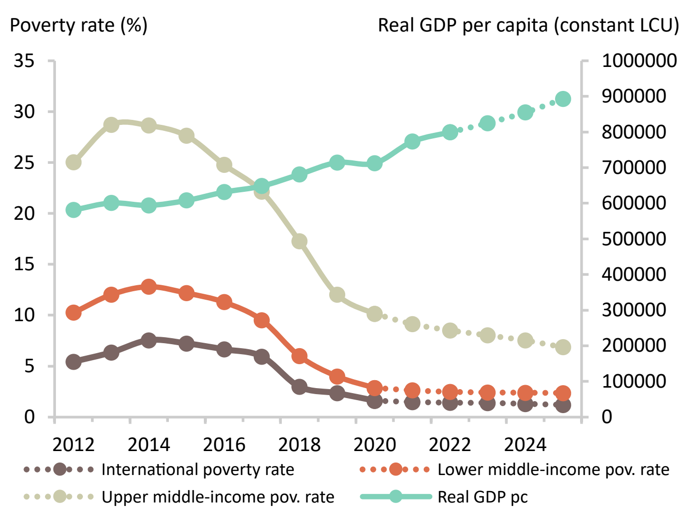
Despite high inflation and a poor agricultural season, poverty (defined as income under $6.85/day in 2017 PPP) is estimated to have declined slightly from 9.1 percent in 2021 to 8.5 percent in 2022, supported by

FIGURE 1 Serbia / Indexes of the level of sectoral GDP



Source: World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

solid economic growth and an improving labor market conditions.

The current account deficit (CAD) widened to 6.9 percent of GDP, due to higher energy imports in the first half of the year, when prices of energy, metals, and other raw materials surged. The widening CAD was still fully financed by net foreign direct investments, which increased by 17.7 percent. NBS official foreign currency reserves increased to a historic high of EUR19.4 billion in December 2022, covering close to 5.5 months of imports. Strong revenue performance and controlled spending led to a better-than-planned fiscal deficit of 3.1 percent of GDP. Total revenues increased by 13.4 percent in nominal terms; more than half of this growth was explained by stronger VAT and social security contribution collections. Total government expenditure growth was more moderate, mainly driven by capital budget transfer loans to the state gas and electricity utilities (up by 300 percent), capital spending (up by 9 percent), and social transfers (up by 9.3 percent). Public debt declined to 55.2 percent of GDP from 56.5 percent of GDP in 2021. In December 2022, the IMF approved a Stand-by Arrangement of EUR 2.4 billion, while in January the country issued a dual-tranche Eurobond of USD 1.75 billion. The proceeds will be used to service debt and build extra buffers.

Outlook

Over the medium term, the economy is expected to grow steadily at around 3 percent annually. The main driver of GDP growth over the medium term will be consumption and to a lesser extent investment, while net exports will have a negative contribution as imports are projected to increase faster than exports. Inflation will remain moderate and is expected to return to the target band only in 2024. Poverty in 2023 is projected at 8.0 percent, lower than its 2022 level.

The fiscal deficit and public debt are expected to remain on their downward path. Based on the Fiscal Strategy 2023-25 approved along with the budget for 2023, the government plans to reduce the fiscal deficit gradually over the medium term and to reach a primary fiscal surplus by 2025. This would lead to a reduction of public debt to an estimated 51.5 percent of GDP in 2024.

However, multiple risks, both external and domestic, weigh on the positive outlook. First, prolonged inflationary pressures would further reduce household disposable income and dampen growth through lower consumption, but also lead to higher cost of financing. Another major risk is associated with the EU economic outlook and the performance of Serbia's other main trading partners. Finally, domestic risks are associated with national and regional political developments and SOE governance. To defy all these risks and achieve faster growth, Serbia should implement structural reforms to boost potential output, through increased human capital (improving the quality of education and increasing the level of labor-force participation), higher productivity (particularly by attracting higher quality FDI) and an improved business environment (including regulatory predictability and increases to market competition).

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-0.9	7.5	2.3	2.3	3.0	3.8
Private Consumption	-1.9	7.6	3.7	2.3	2.4	3.4
Government Consumption	2.9	2.6	0.2	2.4	1.4	3.0
Gross Fixed Capital Investment	-1.9	12.9	-0.6	2.4	3.3	6.8
Exports, Goods and Services	-4.2	19.4	17.6	3.1	4.2	6.0
Imports, Goods and Services	-3.6	19.3	17.8	2.9	3.0	5.8
Real GDP growth, at constant factor prices	-0.8	7.4	2.3	2.3	3.0	3.8
Agriculture	2.2	-5.4	-6.8	4.5	3.4	3.4
Industry	-0.6	7.8	-0.9	3.0	4.5	4.5
Services	-1.2	8.9	4.9	1.7	2.2	3.4
Inflation (Consumer Price Index)	1.6	4.0	11.9	12.2	5.3	3.5
Current Account Balance (% of GDP)	-4.1	-4.4	-6.9	-6.4	-5.4	-5.2
Net Foreign Direct Investment Inflow (% of GDP)	6.3	6.8	7.1	5.6	5.5	5.7
Fiscal Balance (% of GDP)	-8.0	-4.1	-3.1	-3.1	-2.2	-1.4
Revenues (% of GDP)	41.0	43.2	43.4	41.8	41.3	41.6
Debt (% of GDP)	57.8	57.1	55.7	55.5	53.1	51.5
Primary Balance (% of GDP)	-6.0	-2.4	-1.6	-1.3	-0.4	0.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.6	1.5	1.4	1.4	1.3	1.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	2.9	2.6	2.5	2.4	2.4	2.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	10.1	9.1	8.5	8.0	7.5	6.9
GHG emissions growth (mtCO2e)	2.5	5.0	-2.6	3.3	3.6	4.0
Energy related GHG emissions (% of total)	74.7	75.7	75.3	75.8	76.4	77.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2021-EU-SILC. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

TAJIKISTAN

Table 1	2022
Population, million	10.0
GDP, current US$ billion	10.5
GDP per capita, current US$	1054.7
International poverty rate ($2.15)[a]	6.1
Lower middle-income poverty rate ($3.65)[a]	25.7
Upper middle-income poverty rate ($6.85)[a]	66.4
Gini index[a]	34.0
School enrollment, primary (% gross)[b]	100.9
Life expectancy at birth, years[b]	68.0
Total GHG emissions (mtCO2e)	21.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2017 PPPs.
b/ WDI for School enrollment (2017); Life expectancy (2020).

Tajikistan's economy grew by 8 percent in 2022, supported by strong remittance inflows amounting to over a third of GDP, largely from Russia. The short-term growth outlook is subject to significant downward risks associated with a possible reduction in remittances. Growth is expected to slow over the medium term, in the absence of structural reforms to open up the economy to competition, and greater investment in human capital.

Key conditions and challenges

Tajikistan's economy performed strongly over the last decade, with GDP growth averaging above 7 percent. This helped to halve the poverty rate from 25.7 percent in 2015 to a projected 13.4 percent in 2022 (at the international poverty line of USD 3.65 a day, 2017 PPP). Despite this performance, Tajikistan remains the poorest economy in Europe and Central Asia, with a GNI per capita of USD 1,150 (Atlas method) in 2021.

The growth model is based on natural resources extraction and exports, and substantial remittances from migrants working mainly in Russia. This model presents inherent vulnerabilities associated with the high dependency on income from labor migrants from one country, the limited domestic production base, and the undiversified export basket. The private sector has not been able to invest and grow in an environment with significant barriers to competition, obstacles to business operations, unpredictable tax regimes, and shallow financial markets. Moreover, underinvestment in human capital (in favor of physical infrastructure, mainly for large hydroelectric plants), high trade and connectivity costs, and predominance of inefficient loss-making SOEs, undermine the economy's competitiveness.

Tajikistan needs to accelerate structural reforms, primarily by strengthening the independence of the judicial system; opening up key sectors to competition and leveling the playing field for businesses, notably in backbone sectors such as telecommunications and aviation; refocusing public resources on human capital development; and enhancing management of public finance and the governance of public enterprises.

Recent developments

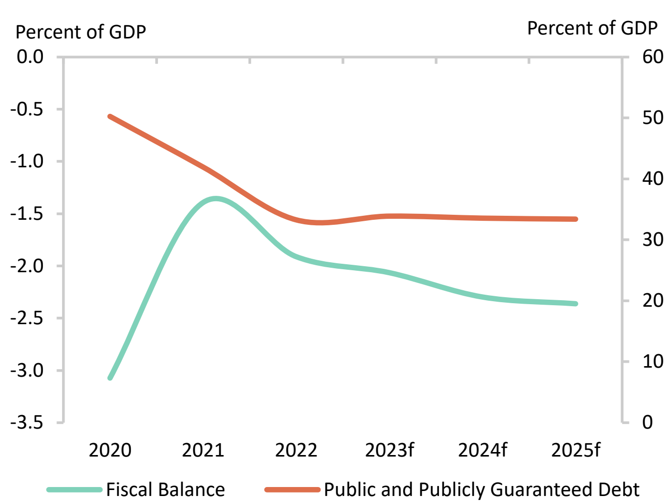
The Tajik economy expanded by 8 percent in 2022, driven by Russia's strong labor demand, which combined with the appreciation of the Russian ruble resulted in substantial remittance inflows. This positive shock fueled household consumption. Private investment was buoyant, led by the mining industry.

The trade deficit widened due to lower exports of precious metals and buoyant imports. However, the substantial remittances offset this and led to a current account surplus of 6.1 percent of GDP. Combined with net FDI inflows of 4.1 percent of GDP to the mining sector, international reserves rose to USD 3.8 billion, providing around 7.5 months of import cover.

Migration increased significantly in 2022 before reversing after Russia announced mobilization in September. The share of households with a migrant increased from 42 percent to 50 percent during H1 2022 but steadily declined afterward.

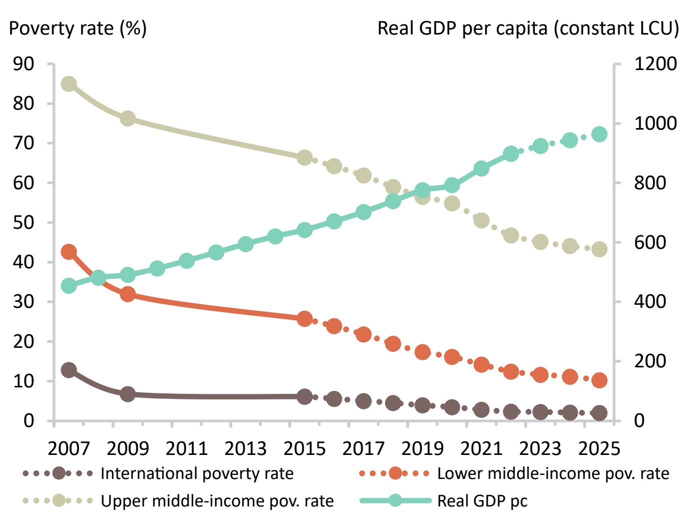
The average CPI inflation declined to 6.6 percent in 2022 from 9 percent a year

FIGURE 1 Tajikistan / Fiscal balance and public debt



Source: World Bank staff estimates and projections.

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



Source: World Bank. Notes: see Table 2.

earlier. The Somoni appreciated by 2.6 percent against the USD in 2022, which helped curb external price pressure, while solid agricultural output and the sale of strategic food reserves contained domestic food inflation. The Central Bank (NBT) raised the policy rate slightly from 13 percent at end-2021 to 13.5 percent in October 2022. Economic growth and FX inflows supported good financial sector performance. Return on assets rose to 5.9 percent (from 1.1 percent in 2021), and the share of the nonperforming loans to total loans declined to 12.2 percent (from 13.7 percent in 2021).

The overall fiscal deficit widened to 1.9 percent of GDP, from 1.4 percent in 2021. Tax collections declined by approximately 2 percent of GDP with the enactment of the new tax code in 2022, which streamlined the number of taxes and reduced rates. The shortfall was partly offset by development partner grants and higher non-tax revenues. The budget deficit was financed primarily through external financing. Tajikistan is at high risk of debt distress (largely due to Eurobond and IMF Rapid Credit Facility principal repayments in 2025-2027) but on a sustainable debt path in the medium term. Poverty measured at the international poverty line of USD 3.65 is projected to have declined to 13.4 percent in 2022, from 14.3 percent in 2021. The share of households reducing food consumption in H1 2022 was less pronounced than in previous years.

Outlook

Tajikistan's economic growth is expected to decelerate to 5 percent this year as the 2022 positive shock subsides and remittance inflows diminish, which is expected to result in a contraction in private consumption. Inflation is expected to decrease gradually and remain within the NBT's 4–8 percent target range, supported by tight monetary policy.

The external position is expected to normalize after a peak in 2022. Moreover, reduced global demand is expected to weaken Tajikistan's export of precious metals and minerals.

Over the medium term, the fiscal deficit is expected to remain in line with the Government's target of 2.5 percent of GDP. Spending on the Rogun hydropower plant (HPP) and other large infrastructure projects is expected to be financed by improving revenues over time, following the introduction of the new tax code and gradually phasing out tax exemptions.

Tajikistan's outlook faces substantial downside risks. Holders of dual Tajik and Russian citizenship remain at elevated risk of military mobilization in Russia, which could trigger a return of migrants and a greater need for social assistance. Extensive pressure on the state budget due to mounting SOE contingent liabilities, including from the national power company, and pressure on spending to complete the Rogun HPP, could divert resources from spending needed for human capital development. Tajikistan is highly sensitive to climate change risks and needs to adopt better mitigation and adaptation measures.

Poverty, at the USD 3.65 line, is projected to further decline from 13.4 percent in 2022 to 12.6 percent in 2023.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	4.4	9.4	8.0	5.0	4.0	4.0
Private Consumption	3.4	4.7	14.5	-4.0	4.4	4.2
Government Consumption	2.3	4.6	8.1	5.2	4.8	4.8
Gross Fixed Capital Investment	-4.6	12.0	10.3	8.9	7.7	7.7
Exports, Goods and Services	21.8	55.4	-19.1	-1.1	1.1	0.8
Imports, Goods and Services	-0.4	20.0	4.2	-0.3	9.6	5.0
Real GDP growth, at constant factor prices	7.6	9.2	9.2	5.0	4.0	4.0
Agriculture	7.9	-0.3	8.0	4.3	3.0	3.0
Industry	17.3	13.2	12.9	7.2	6.0	6.0
Services	-1.9	10.6	5.4	2.5	1.9	2.0
Inflation (Consumer Price Index)	8.6	9.0	6.6	5.6	6.5	6.5
Current Account Balance (% of GDP)	4.3	8.2	6.1	-1.5	-1.8	-2.3
Net Foreign Direct Investment Inflow (% of GDP)	0.4	0.4	4.0	2.4	3.4	3.8
Fiscal Balance (% of GDP)	-3.1	-1.4	-1.9	-2.1	-2.3	-2.4
Revenues (% of GDP)	26.2	26.6	27.2	26.2	26.6	27.0
Debt (% of GDP)	50.3	41.9	33.3	33.9	33.5	33.3
Primary Balance (% of GDP)	-2.3	-0.5	-1.2	-0.9	-1.3	-1.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.5	2.8	2.3	2.3	2.1	2.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	16.2	14.2	12.4	11.6	11.1	10.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	54.8	50.6	46.8	45.2	44.1	43.3
GHG emissions growth (mtCO2e)	2.2	10.6	8.2	6.5	6.5	6.2
Energy related GHG emissions (% of total)	44.8	46.8	48.9	50.1	50.9	51.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2015-HSITAFIEN. Actual data: 2015. Nowcast: 2016-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2015) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

TÜRKIYE

Table 1	2022
Population, million	85.0
GDP, current US$ billion	906.0
GDP per capita, current US$	10661.2
Upper middle-income poverty rate ($6.85)[a]	12.6
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	96.5
Life expectancy at birth, years[b]	75.8
Total GHG emissions (mtCO2e)	467.7

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

Türkiye's economy grew by 5.6 percent in 2022 but has been losing momentum amidst a deteriorating external environment and heterodox monetary policies. Two devastating earthquakes struck on February 6, 2023, with enormous loss of life and physical damage. Pre-election spending and reconstruction efforts are expected to support growth, forecast at 3.2 percent in 2023 and 4.3 percent in 2024. Türkiye's progress in poverty reduction through the pandemic is at risk of being eroded by high inflation and the earthquakes' impact.

Key conditions and challenges

Two devastating earthquakes struck Türkiye and Syria on February 6, 2023, killing over 57,000 people. Beyond the human tragedy, the earthquakes caused significant physical damage to buildings and infrastructure in 11 provinces accounting for 16.4 percent of Türkiye's population and 9.4 percent of its economy. Direct losses are estimated at US$34.2 billion, but the reconstruction needs could be double.

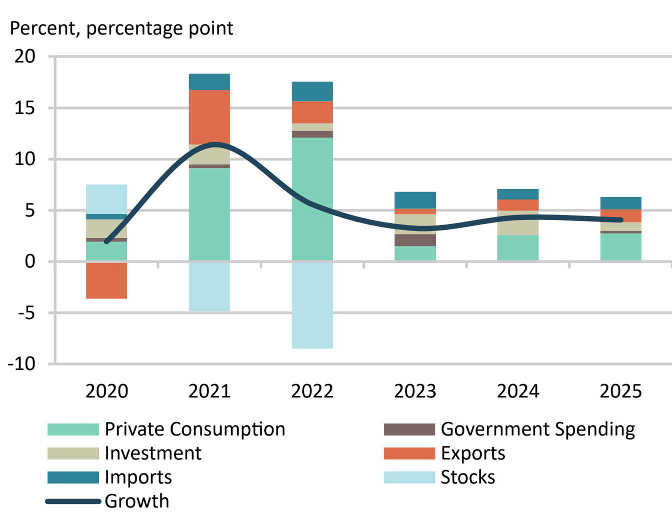
The earthquakes added pressures to an increasingly fragile macro-financial situation amidst a deteriorating external environment and particular domestic policy mix. Russia's invasion of Ukraine slowed Türkiye's exports to the EU and raised energy import prices. However, exports to Russia jumped, and Türkiye benefited from increased financial inflows from unknown origins. Meanwhile, despite rapidly rising inflation, the Central Bank of Türkiye (CBRT) continued to cut interest rates by 550 bps from August 2022 to March 2023, while relying on an increasingly complex mix of heterodox macro-prudential regulatory measures to support the TRY, reduce inflation, and control and direct credit growth.

Recent developments

Türkiye's economy expanded by 5.6 percent in 2022, though growth decelerated to 4.0 percent (yoy) in Q3 and 3.5 percent (yoy) in Q4, as exports, investment, and manufacturing activity lost momentum; investment growth fell from 4.9 percent (yoy) in H1 to 0.9 percent (yoy) in H2, and exports from 15.4 percent (yoy) in H1 to 4.0 percent (yoy) in H2 despite exports to Russia rising 177 percent in TRY in 2022. Private consumption however remained robust, expanding 19.6 percent in 2022. Value-added growth was led by the services sector (up 9.7 percent) and industry (up 3.3 percent) despite manufacturing growth falling from 9.0 percent (yoy) in H1 to 0.1 percent (yoy) in H2. In 2022, the labor market, supported by strong economic growth, rebounded fully from the pandemic. TURKSTAT's Economic Confidence Index remained broadly stable in 2022 but below the 100 thresholds reflecting a pessimistic outlook for consumers and constructors. Similarly, the manufacturing PMI averaged 48.2 points in 2022.

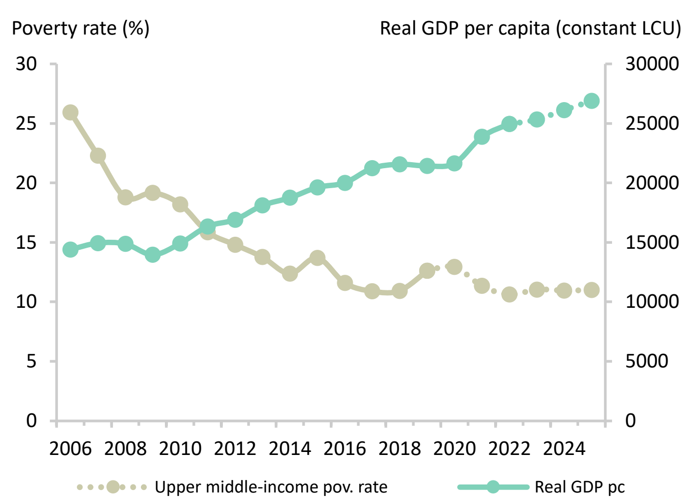
High aggregate demand growth and energy prices drove a nearly 7-fold rise in the current account deficit to US$48.7 billion in 2022, mainly financed through US$27.4 billion of capital inflows with unknown origin recorded as net errors and omissions. The TRY lost 30 percent of its value in 2022 despite some analysts' estimates of US$108 billion in indirect FX interventions by the CBRT. Despite these interventions, CBRT's gross international reserves improved to US$121 billion by end-February 2023 but remain deeply negative after accounting for banks' FX reserve requirements held at the CBRT and swaps with commercial banks and other central banks.

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



Sources: Turkstat and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

Macro-financial conditions have become increasingly challenging amidst a proliferation of heterodox macro-prudential policy measures. CPI inflation reached a 24-year high of 85.5 percent in October before easing to 55.2 percent in February largely due to base effects. The heterodox regulatory policy restraints have started to slow credit growth and align lending rates with the reductions in the policy rate. Banking sector profitability increased with the average return on assets at 4.5 percent (yoy) in Q3 2022. The banking sector continues to have adequate FX liquidity buffers to cover short-term liabilities, with the net FX position in surplus at 2.4 percent in December 2022. However, there are concerns about the accessibility of those buffers in times of stress as at least 70 percent of FX liquidity on the balance sheet of Turkish banks is at the CBRT in the form of currency swaps, required reserves, and free deposits. Rising exposure of banks through incentivized holdings of government bonds also increases contagion risks.

Strong revenue collections (up 77.1 percent in nominal terms and above average 2022 CPI inflation of 72.3 percent) despite tax breaks, helped keep the primary fiscal deficit at 0.6 percent of GDP, offsetting a substantial increase in spending (up 81 percent). Fiscal support includes increasing civil servants' salaries and pensions; energy subsidies; personal income tax allowances; eliminating a retirement age requirement; and financing support for businesses. Rapid growth helped reduce debt-to-GDP levels, yet the Government's cost of borrowing remains high despite declining domestic bond yields, due to risk premia on government securities; January 2023's Eurobond issuance was at 9.8 percent interest rate with 10-year maturity.

Outlook

Assuming a normalization in macroeconomic policies, economic growth is projected at 3.2 percent in 2023 and 4.3 percent in 2024. Despite a drag on growth in 2023 due to earthquake-related production, export, and consumption disruptions, economic activity is expected to remain solid in H1 2023, supported by a 55 percent net minimum wage increase in January 2023 and expansionary fiscal policies ahead of the 2023 elections set for May 14, which will counteract weakening global demand. Massive reconstruction efforts in the earthquake zone – with large multiplier effects – will boost growth in late-2023 and beyond. Pre-election spending and earthquake recovery will weaken fiscal balances.

Türkiye's progress in poverty reduction through the COVID-19 pandemic risks being eroded by high inflation and the earthquakes' impact. The 8 most-affected provinces contained 30 percent of Türkiye's poor in 2020 with poverty rates much higher than the national average, which could exacerbate inequality. Initial forecasts indicate a worsening of consumption-based poverty rate in 2023 by 0.4 percentage points to 11 percent through 2025.

The outlook faces considerable uncertainty and risk under the current macroeconomic policy mix. Post-election economic performance will depend on policy decisions to gradually phase out the heterodox regulatory web that distorts financial markets, and the adoption of macroeconomic policies to rebuild buffers and support investor confidence. Inflationary pressures could arise from fiscal expansion and earthquake-induced agricultural and logistics disruptions. External risks remain elevated given the high current account deficit and low net FX reserves; high external share of public debt (reaching 46 percent by Q3 2022); slower than expected recovery in the EU; and tightening global liquidity. There is also a risk that investor confidence will falter, intensifying pressure on the TRY, external balances, and corporate and bank balance sheets with the possibility that policy responses cause a real sector contraction.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	1.9	11.4	5.6	3.2	4.3	4.1
Private Consumption	3.3	15.3	19.6	2.2	3.7	4.0
Government Consumption	2.5	2.6	5.2	8.9	-0.7	1.9
Gross Fixed Capital Investment	7.4	7.4	2.8	7.9	9.3	3.1
Exports, Goods and Services	-14.4	24.9	9.1	2.1	4.5	5.0
Imports, Goods and Services	6.7	2.4	7.9	9.2	7.7	4.5
Real GDP growth, at constant factor prices	1.2	11.9	6.5	3.2	4.3	4.1
Agriculture	5.7	-2.9	0.6	-1.0	1.0	1.0
Industry	1.1	13.0	0.9	7.6	6.8	3.6
Services	0.8	13.1	9.7	1.8	3.5	4.5
Inflation (Consumer Price Index)	12.3	19.6	72.3	41.0	20.0	15.0
Current Account Balance (% of GDP)	-4.4	-0.9	-5.4	-6.0	-5.0	-4.9
Net Foreign Direct Investment Inflow (% of GDP)	0.6	0.8	0.9	1.1	1.2	1.2
Fiscal Balance (% of GDP)	-3.9	-2.6	-2.9	-5.9	-5.2	-3.3
Revenues (% of GDP)	32.4	30.9	26.4	27.4	28.1	29.9
Debt (% of GDP)	39.7	41.8	31.2	34.2	35.1	35.4
Primary Balance (% of GDP)	-1.1	0.0	-0.6	-3.0	-0.9	1.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	12.9	11.3	10.6	11.0	11.0	11.0
GHG emissions growth (mtCO2e)	10.1	0.1	0.1	2.9	3.7	3.2
Energy related GHG emissions (% of total)	76.9	76.6	76.5	76.0	75.4	74.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2011-HICES and 2019-HICES. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Projection using inequality adjusted methodology based on Lakner, Mahler, Negre, & Espen (2020).

UKRAINE

Table 1	2022
Population, million	43.5
GDP, current US$ billion	150.3
GDP per capita, current US$	3451.6
Upper middle-income poverty rate ($6.85)[a]	7.1
Gini index[a]	25.6
School enrollment, primary (% gross)[b]	99.0
Life expectancy at birth, years[b]	71.2
Total GHG emissions (mtCO2e)	144.5

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

While economic activity had stabilized in mid-2022, attacks on Ukraine's energy infrastructure starting in October have caused disruptions and undermined the recovery. GDP declined by 29.2 percent in 2022 and is expected to grow by only 0.5 percent in 2023. Thanks to international support Ukraine has been able to ensure the delivery of key social services. Continued donor support will be fundamental to maintain these gains.

Key conditions and challenges

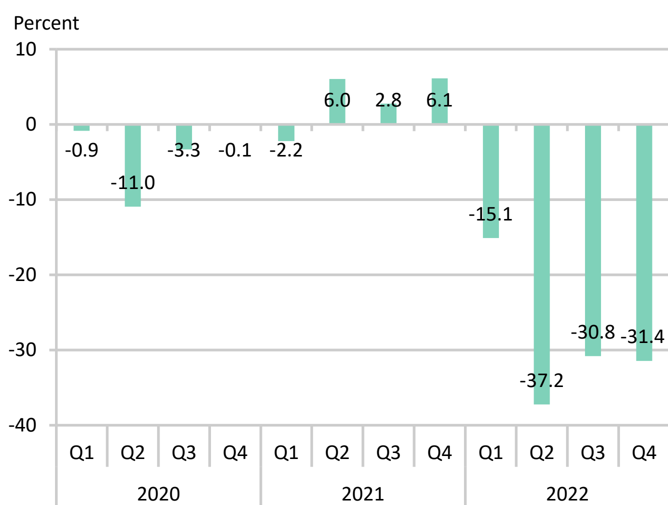
While Ukraine's economy has gradually adjusted to the wartime needs, attacks on the electricity network starting in October 2022 damaged over 40 percent of the country's power grid, thereby exacerbating production constraints for select sectors that drove Ukraine's GDP prior to the war. The attacks also imposed additional external pressure by limiting exports and increasing demand for energy-related imports. Ukraine's economic outlook will depend on the evolution of the war and the country's ability to adjust to continued aggression. With a prolonged war increasingly likely, Ukraine faces significant economic challenges. In the near term, maintaining the stable functioning of the war economy is critical. This will involve identifying opportunities to finance the elevated fiscal deficit - driven by the need to ensure defense and social expenditure while tax collection is limited - and domestic debt service. Annual debt service payments (interest and amortization) are estimated at US$17.6bn equivalent in 2023, of which US$15bn stem from the amortization of short-term domestic debt. Total fiscal needs are estimated to exceed US$41bn in 2023. Maintaining macroeconomic stability will also hinge on controlling inflation. In 2022, Ukraine relied on the monetization of residual financing needs. While the central bank has been able to effectively neutralize the inflationary impacts of such operations, a central challenge will be to encourage higher rollover rates for domestic banks to eliminate the need for monetization. In the medium term, Ukraine will need to set the conditions for economic recovery by funding capital expenditure and by continuing critical institutional reforms.

Considering these challenges, any stop or delay in external funding may lead to broad negative economic and social consequences. Continued foreign aid inflows are an essential lifeline as they help meet financing needs, balance the current account, and provide a lever for Ukraine to control inflation.

Recent developments

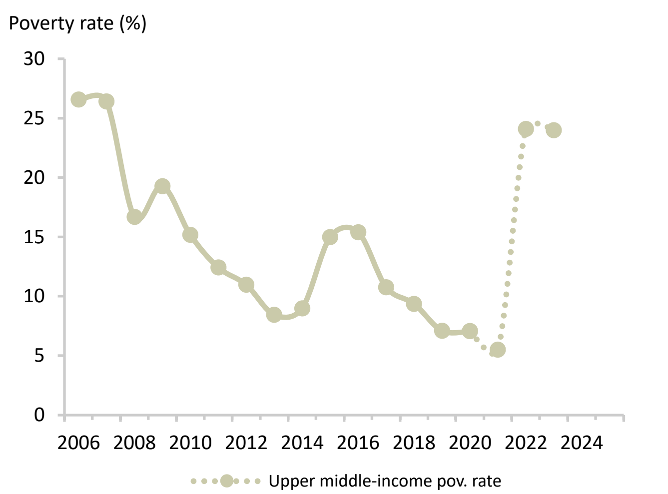
GDP declined by 29.2 percent in 2022. The contraction was less than expected as the UN-brokered grain deal and the return of nearly 4 million migrants boosted economic activity in Q3. The opening of new logistic routes and re-orientation of supply to wartime needs by the private sector added to growth. However, attacks on the electricity infrastructure caused disruptions and a 31.4 YoY contraction in Q4. Inflation stood at 26.6 percent at end-2022. NBU intervened in the currency market to establish an exchange rate peg and mopped up domestic liquidity to control demand, preventing further inflation growth. While the invasion has affected asset

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



Source: Ukraine's Statistics Office.

FIGURE 2 Ukraine / Actual and projected poverty rate



Source: World Bank. Notes: see Table 2.

quality in the financial sector, banks have remained profitable and stable.

Ukraine's current account surplus was 5.7 percent of GDP in 2022, with grant inflows compensating for a growing trade deficit that reached 16 percent of GDP. Annual exports declined by 30 percent, while imports contracted by only 4 percent. The capital account was under pressure due to the withdrawal of foreign exchange by refugees and outflows of trade financing. This was compensated through loan inflows, that helped restore international reserves to US$29.9bn, close to the pre-war level.

Public finances remain under pressure. The consolidated budget deficit excluding grants amounted to 26.5 percent of GDP in 2022. Tax revenue declined by a nominal 8 percent in nominal terms (30 percent in real terms) as indirect taxes suffered contractions. Direct revenue showed resilience, supported by wage increases in the defense sector. Expenditure grew by 65 percent, with war-related spending and essential public and social services prioritized. By contrast, capital expenditure declined by 37 percent. The deficit was financed through international assistance and monetization by NBU.

Poverty is estimated to have increased from 5.5 percent in 2021 to 24.1 percent in 2022, pushing 7.1 million more people into poverty and retracting 15 years of progress.

Outlook

Despite a localization of active combat, Ukraine's economic outlook remains highly uncertain and is dependent on the duration of the war. The projections assume a continuation of economic activity at the level of 4Q22 into the medium term, adjusting for seasonal effects and accounting for recent improvements in the energy supply. GDP is expected to grow by only 0.5 percent in 2023.Domestic trade and light industries, focused on supplying the domestic market and meeting wartime needs, are projected to recover gradually. However, agricultural output is expected to decline by about 15 percent due to problems with sowing and a reduction in arable land. Heavy industry output is also expected to remain subdued. Inflation is expected to decline slightly to 18 percent by the end of 2023 as monetary policy continues to contain domestic demand. This scenario is subject to significant downside risks related to a deterioration of the security situation.

The current account is expected to register a 4.5 percent of GDP deficit in 2023 as a widening trade deficit offsets expected secondary income from international grants of around US$10bn. Exports are estimated to remain low, due to lower agricultural output and persistent logistics bottlenecks. By contrast, imports are expected to increase by a nominal 20 percent YoY, driven by strengthening domestic demand and continued needs for the import of energy-related goods.

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

	2020	2021	2022e	2023f
Real GDP growth, at constant market prices	-3.8	3.4	-29.2	0.5
Private Consumption	1.7	6.9	-15.5	7.7
Government Consumption	-0.7	0.8	16.7	0.0
Gross Fixed Capital Investment	-21.3	9.3	-80.0	5.5
Exports, Goods and Services	-5.8	-8.6	-60.0	15.0
Imports, Goods and Services	-6.4	14.2	-30.0	20.0
Real GDP growth, at constant factor prices	-3.9	3.4	-29.1	0.5
Agriculture	-11.5	14.4	-25.0	-15.0
Industry	-4.5	1.1	-60.0	1.5
Services	-2.3	2.4	-20.3	2.9
Inflation (Consumer Price Index)	5.0	10.0	26.6	18.0
Current Account Balance (% of GDP)	3.4	-1.6	5.7	-4.5
Net Foreign Direct Investment Inflow (% of GDP)	0.0	-2.4	0.0	0.0
Fiscal Balance (% of GDP)[a]	-5.0	-4.0	-26.5	-28.2
Revenues (% of GDP)	39.9	36.3	43.4	39.5
Debt (% of GDP)	60.4	43.3	78.0	97.0
Primary Balance (% of GDP)[a]	-2.1	-0.5	-23.8	-24.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	7.1	5.5	24.1	24.0
GHG emissions growth (mtCO2e)	-3.8	1.7	-33.2	-3.3
Energy related GHG emissions (% of total)	77.8	78.1	73.4	74.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal Balance and Primary Balance are excluding grants in 2022-2023.
b/ Calculations based on ECAPOV harmonization, using 2020-HLCS.
c/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU. 2022 estimate based on simulation reflecting economic contraction and poverty impacts of inflation. Actual data: 2020. Nowcast: 2021-2022.

UZBEKISTAN

Table 1	2022
Population, million	35.6
GDP, current US$ billion	80.4
GDP per capita, current US$	2254.9
School enrollment, primary (% gross)[a]	98.1
Life expectancy at birth, years[a]	70.3
Total GHG emissions (mtCO2e)	174.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2021); Life expectancy (2020).

Uzbekistan's economy grew by 5.7 percent in 2022, which is better than expected, largely supported by strong remittances and exports. Fiscal consolidation is continuing, albeit on a more gradual trajectory given the need to cushion the impact of external shocks this year as well. The medium-term outlook remains positive as ambitious ongoing economic reforms are expected to continue to invigorate private sector-led growth.

Key conditions and challenges

Uzbekistan has developed an ambitious set of reforms in recent years, but more are needed to continue to spur private sector-led growth and job creation. Notably, reducing the dominance of SOEs and opening up key sectors of the economy to competition, with priority on factor markets and backbone services, strengthening the regulatory environment, and reducing the high trade and transit costs, would strengthen market incentives and sustainability.

The Government recognizes that the transition must be inclusive. In that regard, recent reforms expanding coverage and the targeting of social assistance have been significant.

Natural gas and power outages were experienced in December 2022 in many parts of the country, including in the capital. This highlights the systemic crisis and needs for reforms in Uzbekistan's energy sector.

Recent developments

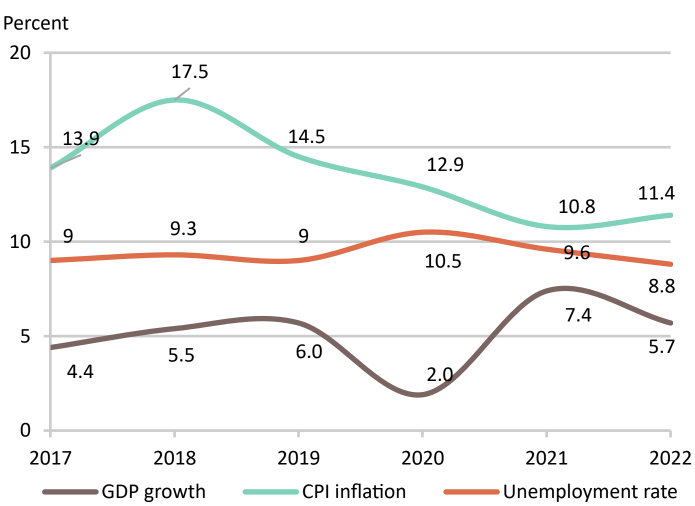
GDP grew by 5.7 percent in 2022, led by strong remittances, consumption, and exports. Non-gold exports grew by 21 percent in 2022 (in USD value), led by textiles, non-ferrous metals, fertilizers, and food, largely driven by high export growth to Russia (52 percent). This constituted around 17 percent of total goods exports in 2022. Services exports, mainly in transport and tourism, increased by 53 percent. This reflects a three-fold increase of tourists or immigrants inflow from Russia, as well as a pick-up in tourism from Kazakhstan, Kyrgyzstan, and Tajikistan. Imports expanded by 20.4 percent as imported food and energy prices rose with rising domestic demand. Remittance inflows doubled as a share of GDP to 18.9 percent in 2022 due to RUB appreciation and increased migrant inflows.A part of these financial inflows reflects the increased private money transfers of Russian citizens fleeing Russia and companies relocating to Uzbekistan following Russia's invasion of Ukraine. This narrowed the current account deficit from 7 percent in 2021 to just 0.6 percent of GDP in 2022.

The fiscal deficit declined from 6.1 percent of GDP in 2021 to 4.2 percent in 2022, supported by higher revenues. By end-2022, international reserves increased slightly to reach USD 35.8 billion, or 14 months of import cover.

Higher costs of food, fuel, and logistics drove CPI inflation up to 12.3 percent (yoy) in December. The UZS depreciated by 3.8 percent against the USD in 2022, and the real effective exchange rate appreciated slightly by 0.4 percent. After initially raising the policy rate by 300 bps to 17 percent, the Central Bank (CBU) cut the rate back to 15 percent in July 2022 and to 14 percent in March 2023.

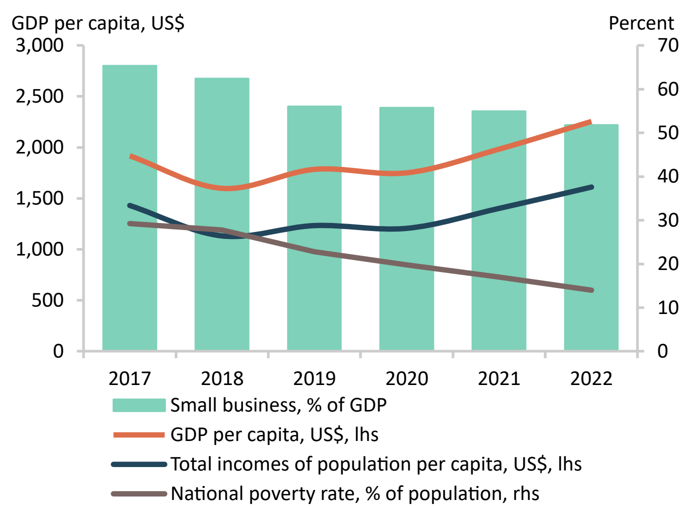
Credit growth in nominal terms stepped up to 21.5 percent in 2022 from 18.5 percent the prior year. The banking sector remains adequately capitalized with a

FIGURE 1 Uzbekistan / GDP growth, inflation, and unemployment



Source: Uzbekistan official statistics.

FIGURE 2 Uzbekistan / Poverty, GDP per capita, SME development



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

capital adequacy ratio of 17.8 percent at end-2022 relative to a required CAR of 13 percent. NPLs reduced from 5.1 percent at the end-2021 to 3.5 percent at end-2022.

The unemployment rate fell to the pre-COVID-19 level of 8.8 percent, down from 9.6 percent in 2021, although it remains higher for youth and women and in lagging regions. The poverty rate is projected to have declined from 17 percent in 2021 to 14 percent in 2022 (using the national poverty line) supported by higher remittances.

Outlook

Growth is expected to moderate to 5.1 percent in 2023 and accelerate gradually in the medium term. Russia's protracted war in Ukraine, and increased logistical challenges linked to the sanctions on Russia, are expected to prolong high food and energy prices and reduce private consumption growth. Private investment and trade are expected to grow, and the current account deficit to widen, with remittances to Uzbekistan expected to moderate from their peak in 2022. The projected recovery in China may increase demand for Uzbekistan's textile and food exports.

Higher revenues from gold and copper exports and slower public investment spending will see the fiscal deficit decline to 3.3 percent of GDP in 2023, close to the Government's target of 3 percent. Budget consolidation is expected to continue in future years, supported by both revenue mobilization and spending efficiency. The Government is expected to adhere to its overall debt limits, with public debt and total external debt gradually falling to 32 percent and 55 percent of GDP, respectively, by 2025.

Continued growth and expanded social protection programs are expected to sustain poverty reduction, and the national poverty rate is projected to fall to 12 percent in 2023.

Risks to the outlook are tilted downside, including a possible deeper contraction of Russia's economy and tighter-than-expected global financial conditions. Positive surprises may potentially include higher global gold, natural gas, and copper prices; and stronger productivity growth from ongoing structural reforms.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	2.0	7.4	5.7	5.1	5.4	5.8
Private Consumption	0.2	11.6	10.5	5.0	5.8	6.0
Government Consumption	1.4	3.4	1.4	3.1	3.5	4.4
Gross Fixed Capital Investment	-4.4	2.9	5.0	4.2	5.3	5.6
Exports, Goods and Services	-20.0	13.3	25.3	20.5	17.9	18.4
Imports, Goods and Services	-15.0	19.9	11.5	20.6	20.3	19.6
Real GDP growth, at constant factor prices	2.0	7.4	5.7	5.1	5.4	5.8
Agriculture	2.9	4.0	3.6	3.7	3.9	3.9
Industry	2.5	7.9	5.5	5.0	5.6	5.6
Services	1.2	9.1	7.0	5.9	6.1	6.9
Inflation (Consumer Price Index)	12.9	10.8	11.4	11.8	10.0	6.6
Current Account Balance (% of GDP)	-5.0	-7.0	-0.6	-3.7	-3.8	-4.1
Net Foreign Direct Investment Inflow (% of GDP)	2.9	3.3	2.4	2.8	3.1	3.2
Fiscal Balance (% of GDP)	-4.4	-6.1	-4.2	-3.3	-3.0	-3.0
Revenues (% of GDP)	26.0	26.1	29.5	27.1	27.6	28.2
Debt (% of GDP)	37.4	35.5	34.5	34.2	32.9	31.9
Primary Balance (% of GDP)	-3.4	-5.0	-3.2	-2.4	-2.1	-2.2
GHG emissions growth (mtCO2e)	-1.8	-1.1	-3.2	-2.7	-2.1	-2.6
Energy related GHG emissions (% of total)	60.1	59.4	58.1	56.8	55.7	54.4

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

Macro Poverty Outlook

04/
2023

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