Europe and Central Asia

Macro Poverty Outlook

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

Spring Meetings 2021

WORLD BANK GROUP
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Europe and Central Asia

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ALBANIA

Table 1	2020
Population, million	2.8
GDP, current US$ billion	15.1
GDP per capita, current US$	5290.1
Upper middle-income poverty rate ($5.5)[a]	33.8
Gini index[a]	33.2
School enrollment, primary (% gross)[b]	104.8
Life expectancy at birth, years[b]	78.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

Albania was hit hard, first by an earthquake in November 2019 and then the COVID-19 pandemic. As tourism and services contracted sharply, GDP and employment slumped. Reconstruction and COVID19 related stimulus alleviated the shocks, but at the cost of fiscal space erosion in a context of high economic uncertainty for the years ahead. Reconstruction is likely to be the main driver of the recovery in 2021, followed by a milder growth in private demand due to ongoing travel restrictions.

Key conditions and challenges

Albania's economy grew by 3.3 percent in 2015-2019, achieving significant reform progress while aspiring to EU membership. A few large renewable energy projects and expansion in tourism[1] and garments' manufacturing exports drove GDP and employment growth. However, productivity has stagnated below that of peer countries, and wage pressures could reduce competitiveness. Small and Medium Enterprises (SMEs) represent more than 90% of private firms and rely on low-skilled, low-wage labor. Limited access to finance, burdensome logistics and poor market integration discourage private investment, while scarce public revenues limit public infrastructure and human capital investment.

Growth halted in 2019, as the earthquake further exposed the country's low buffers. Fiscal consolidation was put on hold and external vulnerabilities reemerged.

The pandemic hit Albania's key sectors of tourism and manufacturing through the recession in the EU, supply chain disruptions, travel limitations and social distancing measures.

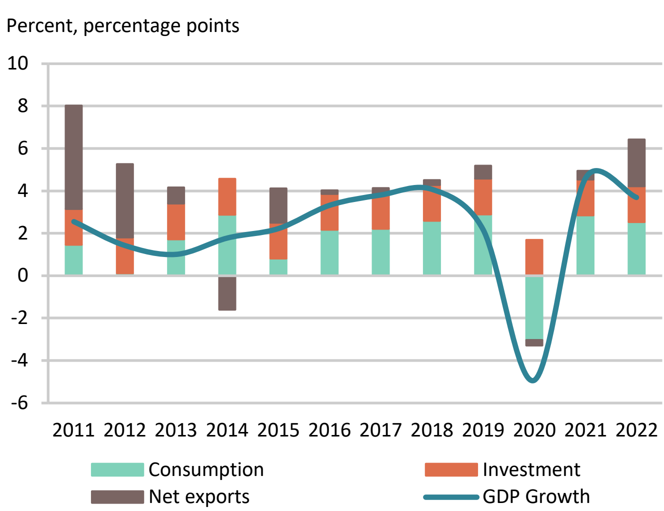
GDP is projected to have declined by 4.7 percent in 2020 due largely to a slowdown in tourism, though smaller than initially projected as domestic tourism demand partially compensated for the drop in foreign visits. Public support packages for reconstruction and to mitigate the crisis had a small estimated success in preventing an increase in poverty and had a significant fiscal cost. Recently introduced tax incentives further stress already declining revenues. Delayed global vaccine rollout could cause long-lasting travel restrictions and prevent a recovery of the country's services and manufacturing, worsening the performance of businesses and delaying the full recovery in employment. The normalization of the global economy will have a significant impact on the shape of the recovery.

Recent developments

As key economic sectors were put in lockdown, the economy experienced a sharp contraction of 10.2 percent in Q2. Travel and tourism services were among the first sectors hit and a combination of official restrictions and post-COVID behavior change reduced both supply and demand. Sales, profits and employment losses affected SMEs disproportionately. Unemployment rose to 11.9 percent in Q2. Social distancing measures were lifted in the summer and employment bounced back, with tourism and reconstruction partially absorbing job losses in manufacturing. While total job losses have been relatively

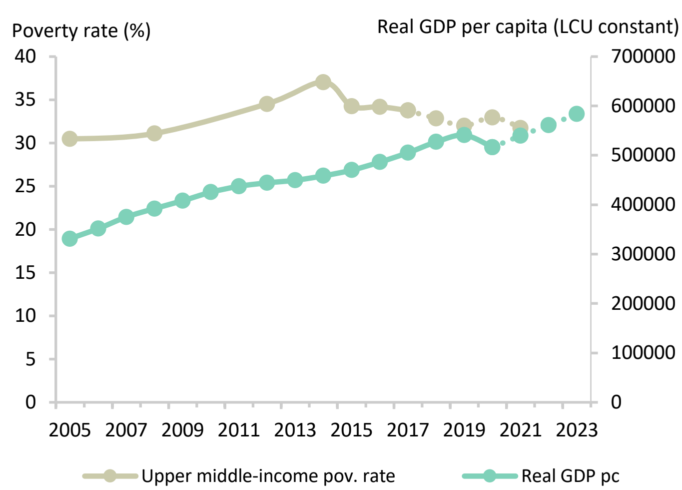
[1] n = up to 2016 poverty is measured using consumption data from the Household Budget Survey; starting in 2017 income data from the Survey of Income and Living Conditions are used to measure and forecast poverty.

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



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.

small, the quality of jobs has likely decreased, as Albania employs a large share of labor in the informal economy. Despite the employment recovery, economic activity continued to contract by 3.4 percent in Q3. Private consumption and investment declined sharply, as the number of infections consistently rose during the year. Declining garment processing orders led a sharp decline of 6.7 percent of goods exports, while tourist visits decreased by 60 percent.

Poverty (at USD 5.5 per day) is estimated to have increased in 2020 by 1 percentage point, equivalent to 28 thousand new poor. Response measures included increased social assistance benefits, wage subsidies, credit guarantees to ease salary payments and working capital, which are estimated to have prevented a further poverty increase of about 1.7 percentage points. Tax deferrals and further VAT exemptions were introduced to help SMEs, while public spending rose to 33.7 percent of GDP and public revenues slumped to 26.7 percent of GDP, despite large grants financing reconstruction. The fiscal stimulus package increased public debt to 80 percent of GDP, a first-time increase since 2017, as the fiscal rule mandates that debt-to-GDP ratio should decline annually[2].

Outlook

Tourism and travel are likely to remain limited until global vaccination rollout is completed. In this scenario, GDP is forecasted to grow by 4.4 percent in 2021 as exports, consumption and investment partially rebound. The services sector, led by tourism, and construction are expected to be key drivers of the recovery, in part thanks to reconstruction investment, following evidence from similar disasters in developing economies. Poverty is expected to decline in line with the recovery by about 2 percentage points. In the years following, private consumption will play an increasingly important role in growth, supported by reconstruction efforts. Private investment will contribute to growth, provided that the government continues to implement business climate reforms. Beyond 2021, government spending will likely be constrained by limited fiscal space. The fiscal situation could deteriorate in a downside growth scenario and in the absence of expanded revenue collection. In this case, the government may need to further reduce capital spending to keep the debt to GDP ratio from rising.

The current account deficit is expected to narrow to 8.8 percent of GDP in 2021 and further decline to 6.5 percent in line with the pre-crisis trends, driven by projected improvements in the trade balance. Service exports, including tourism and fast-expanding business-process operations should narrow the trade deficit over the medium term. Import growth will be high at 13 percent in 2021, as infrastructure investment speeds up.

With economic activity picking up, revenues are projected to recover to 27.6 percent of GDP by 2022-2025. Albania's public debt is projected to only marginally decrease to 79.5 percent of GDP in 2021. The employment outlook is largely dependent on the recovery of the services sectors and reconstruction, where jobs are mostly low pay and vulnerable to economic uncertainty.

2/ The fiscal rule includes an escape clause in the case of an emergency, which applied in 2020.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.1	2.2	-4.7	4.4	3.7	3.7
Private Consumption	3.3	3.3	-4.1	2.6	3.2	3.2
Government Consumption	0.7	3.8	2.3	6.4	0.9	3.3
Gross Fixed Capital Investment	2.4	-3.3	-7.1	5.4	-4.6	2.3
Exports, Goods and Services	4.1	6.0	-30.6	20.5	13.7	6.9
Imports, Goods and Services	2.4	3.0	-21.8	12.3	4.3	4.3
Real GDP growth, at constant factor prices	4.1	2.2	-4.6	4.3	3.6	3.6
Agriculture	1.2	0.4	1.7	1.7	1.5	1.5
Industry	9.3	1.8	-2.1	6.9	5.0	5.0
Services	2.9	3.1	-8.1	4.1	3.8	3.7
Inflation (Consumer Price Index)	2.1	1.4	2.2	2.6	2.9	2.8
Current Account Balance (% of GDP)	-6.8	-8.0	-9.3	-8.8	-7.4	-6.5
Net Foreign Direct Investment (% of GDP)	8.0	7.6	5.7	6.2	7.7	7.3
Fiscal Balance (% of GDP)	-1.7	-2.0	-6.9	-5.5	-4.1	-3.9
Debt (% of GDP)	69.5	67.9	80.0	79.5	78.8	77.8
Primary Balance (% of GDP)	0.5	0.1	-4.8	-2.9	-1.4	-1.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	32.8	32.0	33.0	31.7		

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

(a) Calculations based on ECAPOV harmonization, using HBS until 2016 and SILC from 2017.Actual data: 2017. Nowcast: 2018-2019. Forecast: 2020-2021.

(b) Nowcast 2018-2019 using neutral distribution (2017) with pass-through = 1 based on GDP in constant LCU. Projections 2020-2021use sector GDP projections with pass-through = 1.

ARMENIA

Table 1	2020
Population, million	2.9
GDP, current US$ billion	12.6
GDP per capita, current US$	4297.0
International poverty rate ($1.9)[a]	1.1
Lower middle-income poverty rate ($3.2)[a]	9.8
Upper middle-income poverty rate ($5.5)[a]	44.0
Gini index[a]	29.9
School enrollment, primary (% gross)[b]	91.8
Life expectancy at birth, years[b]	74.9

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

In 2020, Armenia experienced one of the region's sharpest GDP contractions—7.6 percent—as a severe COVID-19 outbreak and a military conflict with Azerbaijan late in the year impacted performance. Poverty is estimated to have increased by 7 percentage points in 2020. The economic recovery will be gradual, with output reaching pre-COVID levels by 2023, assuming that the pandemic is contained, and regional stability maintained. Risks to the recovery include a slow pace of immunization and elevated political uncertainty.

Key conditions and challenges

Before the coronavirus pandemic, Armenia was making gradual improvements to its business environment and establishing a track record of prudent economic management, underpinned by a robust fiscal rule, an inflation-targeting monetary policy framework, and improving financial sector oversight. The authorities launched an ambitious reform program aimed at strengthening governance in 2018. Economic growth was strong, averaging 6.4 percent in 2018 and 2019.

Despite Armenia's reform progress, structural challenges have prevented the country from reaching its full potential. These include governance gaps such as incomplete judicial reform, weak connectivity (resulting in limited trade integration and undiversified trade patterns), an aging population, and a labor market characterized by high unemployment, pervasive informality, and skills mismatches. A tense geopolitical situation exacerbates these challenges.

Armenia's progress was derailed in 2020 by twin shocks: the worst military confrontation with Azerbaijan since 1994 and the coronavirus pandemic. Armenia suffered a severe COVID-19 outbreak, ranking 27th globally in recorded cases per million population. Meanwhile, the country's conflict with Azerbaijan escalated dramatically in September 2020. Although the November 10th ceasefire halted hostilities, Armenia has since entered a period of heightened domestic political instability.

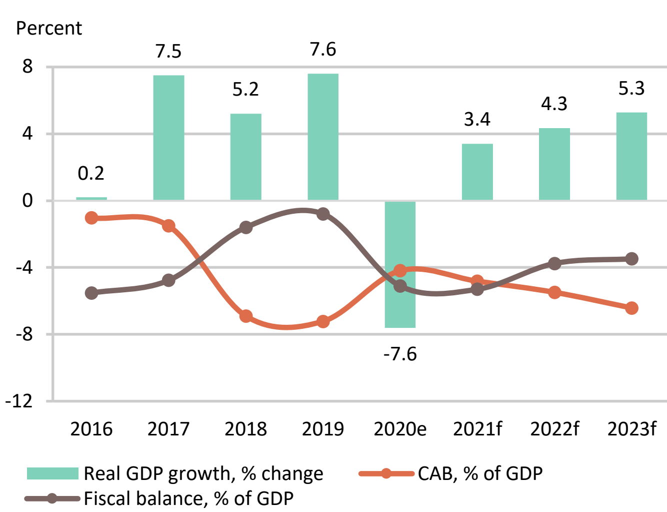
These twin shocks led to a sharp economic contraction, increased poverty, and a fiscal deterioration. Nevertheless, Armenia maintained overall macroeconomic stability and healthy external buffers through the crisis.

Recent developments

Real GDP contracted by 7.6 percent in 2020. Services—trade and the hospitality sector, in particular—were most affected, contracting by 10 percent. Reflecting structural challenges, for the fifth consecutive year agricultural output fell (by 4 percent). On the demand side, private consumption and investment slumped, while the drag from net exports eased as the decline in imports outpaced that of exports.

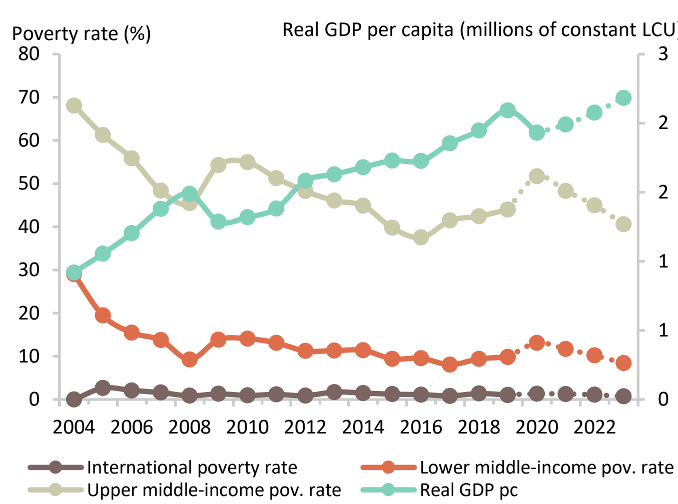
The pandemic's impact on vulnerable households, which has been severe, was only partially mitigated by the government's COVID-19 response (estimated at 3.5 percent of GDP, including support through the banking sector to businesses). The poverty rate (measured at the upper-middle-income economy poverty line) is estimated to have jumped to over 51 percent in 2020, a 7 percentage point rise. The unemployment rate rose by 1 percentage point year on year, reaching 18.1 percent at end-September 2020. Somewhat effective mitigation measures implemented by the government and the relatively short duration of pandemic-related restrictions

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



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

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



Source: World Bank. Note: see Table 2.

prevented an even greater increase in unemployment.

The budget deficit widened sharply to 5.1 percent of GDP in 2020 (from 0.8 percent of GDP in 2019), driven by increased spending associated with the government's pandemic response, higher military spending, and depressed tax revenues. The deficit was financed by a deposits drawdown and increased public borrowing, prompting Armenia to invoke its fiscal rule's escape clause as public debt rose above the statutory level of 60 percent of GDP.

Inflation remained subdued through most of 2020, reflecting weak aggregate demand. However, price pressures accelerated in December and reached 5.3 percent in February 2021, prompting the Central Bank of Armenia (CBA) to raise its policy rate. The recent uptick in inflation was driven by an increase in international food prices and exchange rate depreciation pass-through.

The current account deficit narrowed in 2020 as import compression and higher official grants offset a sharp decline in export earnings and weaker remittances. FDI contracted further from a low base, but higher public sector external borrowing boosted foreign exchange reserves (which provided 4.7 months of import cover at end-2020). The issuance of a $750 million Eurobond in early 2021 further increased external buffers. The CBA intervened to smooth dram volatility, which came under pressure in late 2020 owing to political instability after remaining relatively stable for most of the year.

Outlook

GDP growth is projected to recover partially in 2021 (to 3.4 percent) and more strongly in 2022 (4.3 percent). The recovery will be slow; the economy is unlikely to return to pre-COVID output levels until 2023.

The baseline scenario assumes that the authorities will not enact additional lockdowns and restrictions in 2021. Although the pace of vaccinations will gradually ramp up, the authorities do not expect to vaccinate a significant share of the population until 2022. The baseline scenario also assumes improved political stability.

Private consumption and the services sector are expected to recover gradually. Private investment will likely remain subdued, reflecting weak investor confidence. High post-conflict spending and ambitious public investment plans— although tempered by execution challenges—will keep the fiscal deficit elevated and drive the debt-to-GDP ratio above 70 percent in the medium term.

Average inflation is forecast to remain close to the CBA's 4-percent target in 2021 but could surge higher if global food and fuel prices continue to rise unexpectedly.

The current account deficit is projected to remain near 5–6 percent of GDP in 2021–23, as recovering demand spurs import growth, and the global recovery boosts exports and remittances. FDI inflows are expected to remain subdued, but public borrowing will keep reserves at a comfortable level over the medium term.

The COVID-19 outbreak is estimated to have had a devastating impact on vulnerable households. Forecasts suggest that 48 percent of the population will remain below the $5.5 2011 PPP poverty line in 2021, driven by income losses, down only slightly from 51 percent in 2020.

The risks to the outlook are weighted heavily to the downside. They include uncertainty over progress in containing the pandemic and the pace of vaccination, weak economic recovery in key trading partners like the Russian Federation, geopolitical fragility, and heightened political uncertainty.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	5.2	7.6	-7.6	3.4	4.3	5.3
Private Consumption	4.9	11.7	-14.0	4.9	4.1	5.0
Government Consumption	-3.0	12.5	15.6	-0.6	1.1	2.4
Gross Fixed Capital Investment	4.8	4.4	-8.6	2.3	5.2	5.4
Exports, Goods and Services	5.0	16.0	-31.4	8.7	12.2	12.6
Imports, Goods and Services	13.3	12.0	-32.1	8.3	9.2	9.7
Real GDP growth, at constant factor prices	4.9	7.6	-7.3	3.4	4.3	5.3
Agriculture	-6.9	-2.6	-4.0	1.3	2.2	3.5
Industry	3.7	7.1	-2.8	1.2	2.4	3.8
Services	9.0	10.4	-10.2	5.1	5.8	6.4
Inflation (Consumer Price Index)	2.5	1.4	1.2	3.5	3.8	4.0
Current Account Balance (% of GDP)	-6.9	-7.2	-4.2	-4.8	-5.5	-6.4
Net Foreign Direct Investment (% of GDP)	2.0	2.9	1.2	1.8	2.3	2.6
Fiscal Balance (% of GDP)	-1.6	-0.8	-5.1	-5.3	-3.8	-3.5
Debt (% of GDP)	55.7	53.5	67.3	70.8	70.6	70.0
Primary Balance (% of GDP)	0.7	1.6	-2.4	-2.6	-1.7	-1.4
International poverty rate ($1.9 in 2011 PPP)[a,b,c]	1.4	1.1	1.3	1.3	1.1	0.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b,]	9.4	9.8	13.2	11.7	10.2	8.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b,]	42.5	44.0	51.7	48.3	45.0	40.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2019-ILCS.Actual data: 2019. Nowcast: 2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2019) with pass-through = 1 based on GDP per capita in constant LCU.
(c) The poverty rates for 2019 are not strictly comparable with 2018 due to revisions on the ILCS starting in 2019.

AZERBAIJAN

Table 1	2020
Population, million	10.1
GDP, current US$ billion	42.5
GDP per capita, current US$	4205.4
School enrollment, primary (% gross)[a]	97.9
Life expectancy at birth, years[a]	72.9

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

The COVID-19 pandemic and plunging oil prices and production drove Azerbaijan's economy into recession in 2020. Poverty is estimated to have risen as households experienced job losses and financial hardship. Azerbaijan's economy is projected to recover gradually over the medium term, aided by the vaccination effort and increased public spending. However, downside risks remain acute and stem from the possibility of a slower-than-expected vaccine rollout, sluggish recovery in oil output, and persistent structural rigidities.

Key conditions and challenges

Azerbaijan is an upper-middle-income economy rich in hydrocarbon resources. Since the 2000s, inflows of FDI to the oil and natural gas sectors have driven a surge in exports, propelling economic growth and reducing poverty. However, economic performance has stalled in recent years as hydrocarbon production plateaued and prices fell, revealing systemic macroeconomic and structural challenges. A large state footprint, a small and fragile financial sector, and weak institutions impede economic diversification and the development of a vibrant private sector. Additionally, regional inequality persists, informality is widespread, and a considerable part of the population remains socially and economically vulnerable. Azerbaijan's human capital indicators lag its regional and income group peers. The country's human capital constraints, which translate into a shortage of skilled labor, could worsen with more automation in the future.

Simmering tensions with Armenia escalated into a military conflict in late 2020. In addition to a significant human toll, the conflict also inflicted high socio-economic and environmental costs. Numerous facilities, infrastructure and residential areas were destroyed or damaged, and natural habitats devastated.

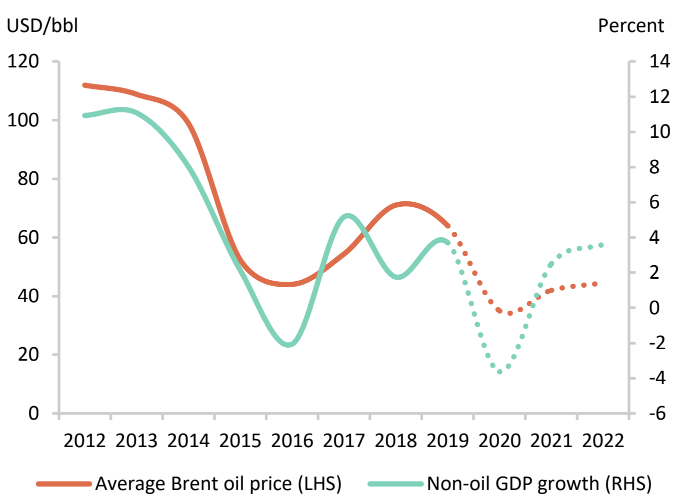
Recent developments

In 2020, Azerbaijan was hit by the triple shocks of the COVID-19 pandemic, reduced oil prices, and the armed conflict. The economy experienced its second recession since 2015, contracting by an estimated 4.3 percent. Three waves of COVID-19 induced lockdowns halted activity in nonhydrocarbon sectors, particularly travel, hospitality, and domestic trade. The energy sector contracted by 7 percent, as adherence to OPEC+ oil production quotas slashed oil output. On the demand side, investment fell by 8.3 percent as business confidence plummeted. Private consumption was also affected, but wage hikes in late-2019 prevented a deeper slump.

The lockdowns were successful in containing new coronavirus infections and easing pressures on the health care system. However, a spike in new cases followed the eventual relaxation of containment measures, prompting the authorities to alternate between loosening and tightening restrictions throughout the year. Azerbaijan launched a COVID-19 vaccination campaign using China's Sinovac vaccine in late January 2021.

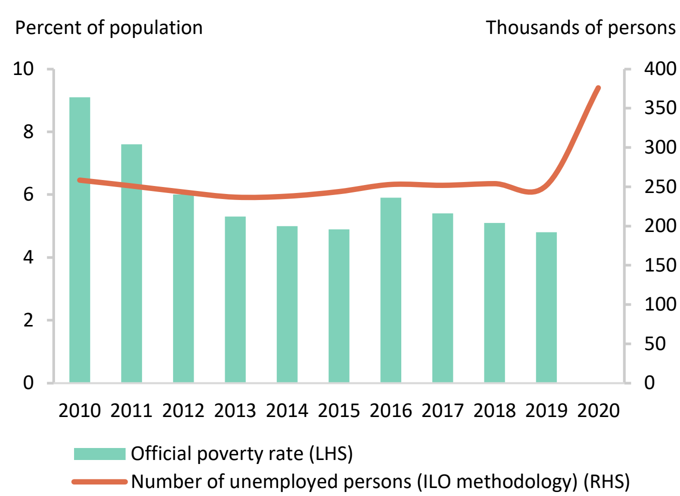
Azerbaijan's consolidated budget recorded a large deficit of 6.5 percent of GDP in 2020, as revenues collapsed and spending rose, including to finance the pandemic policy response (estimated at 2.7 percent of GDP). The deficit was financed by State Oil Fund (SOFAZ) assets.

FIGURE 1 Azerbaijan / Nonoil GDP growth and Oil Price



Sources: State Statistical Committee, World Bank data, and World Bank staff estimates.

FIGURE 2 Azerbaijan / Official Poverty Rate and Unemployment



Source: State Statistical Committee. Note: The World Bank has not reviewed the official national poverty rates for 2013–19.

A narrowing merchandise trade surplus, together with falling services receipts and rising capital outflows, resulted in a balance of payments deficit of 5.9 percent of GDP in the first nine months of 2020. The deficit was financed by increased sales of foreign exchange by SOFAZ.

Depressed domestic demand and a stable exchange rate contained 12-month inflation to 2.7 percent in 2020. The Central Bank of Azerbaijan (CBA) cut the policy rate five times during the year, lowering it from 7.5 percent to 6.25 percent.

Bank performance was uneven in 2020, suggesting that financial sector conditions remain fragile. Bank credit declined by 5 percent year on year owing to plummeting economic activity and the revocation of four banks' operating licenses. Deposits fell by 4.4 percent year on year as households and firms tapped their savings to weather the downturn.

Household welfare deteriorated markedly in 2020. Poverty is estimated to have risen due to a rise in unemployment associated with the recession. The number of unemployed increased by an estimated 124,300 persons in 2020. Fiscal measures only partially mitigated the pandemic's negative impact on households.

Outlook

Azerbaijan's economic recovery is expected to be gradual, with output returning to pre-COVID-19 levels only by end-2022. The early launch of Azerbaijan's vaccination initiative and significantly higher public post-conflict reconstruction spending suggest that the recovery may materialize faster than previously anticipated.

In 2021, an acceleration of domestic demand will support economic growth, but this will be conditional on an improved health situation and increased public spending. Higher oil prices are forecast to narrow fiscal deficit and help current account return to surplus. Beyond 2021, without major structural reforms, the pace of the economic revival is likely to be moderate owing to a protracted recovery in oil output and anticipated fiscal tightening (amid rising fiscal pressures).

Inflation is projected to rise in the medium term as a recent administrative price hike passes through to prices more generally, and demand begins to recover. Once the government phases out measures to support the financial sector, some banks are likely to experience a deterioration of capital and profitability ratios.

Downside risks to this forecast will remain substantial in the medium term. The existing oil market equilibrium is fragile and largely depends on the OPEC+ agreements. In addition, the evolution of the pandemic is still uncertain and will depend on the speed of the vaccine rollout. Finally, regional geopolitical risks will remain elevated in the foreseeable future. Significant SOFAZ reserves—over 100 percent of GDP at end-2020—will help shield the economy from these risks.

The long-term poverty and inequality trajectory will depend on the severity and duration of the crisis. The longer the pandemic's duration, the deeper and broader the impact, particularly on employment and wages in the services sector, which would lead to more severe effects on household welfare and poverty.

Azerbaijan's recently announced 2030 national development vision outlines a renewed, long-run commitment to addressing systemic macroeconomic, structural, and governance challenges. Addressing these challenges could unlock new nonhydrocarbon sources of economic growth and achieve sustainable, resilient, and inclusive development.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.5	2.2	-4.3	2.8	3.9	3.4
Private Consumption	3.0	3.8	-5.1	3.7	3.6	3.5
Government Consumption	1.5	7.9	4.0	4.7	3.6	3.6
Gross Fixed Capital Investment	-0.2	-3.1	-6.5	4.2	1.2	3.2
Exports, Goods and Services	1.0	1.5	-8.1	2.1	4.1	2.3
Imports, Goods and Services	1.5	2.2	-10.5	3.5	3.0	1.7
Real GDP growth, at constant factor prices	1.5	2.2	-4.4	2.8	3.9	3.4
Agriculture	4.6	7.3	1.9	2.5	3.2	3.2
Industry	-0.7	0.4	-5.2	2.8	3.3	2.0
Services	5.1	4.3	-4.4	2.9	5.1	5.7
Inflation (Consumer Price Index)	1.6	2.4	2.7	3.9	3.2	3.0
Current Account Balance (% of GDP)	12.8	9.1	-1.0	2.8	3.9	3.1
Net Foreign Direct Investment (% of GDP)	-1.7	-2.9	-1.5	1.3	1.2	1.1
Fiscal Balance (% of GDP)	5.6	9.0	-6.5	-2.5	2.8	4.0
Debt (% of GDP)	18.9	18.9	18.2	17.1	16.7	16.5
Primary Balance (% of GDP)	6.8	9.8	-5.7	-1.9	3.3	4.5

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

BELARUS

Table 1	2020
Population, million	9.4
GDP, current US$ billion	60.2
GDP per capita, current US$	6371.4
Upper middle-income poverty rate ($5.5)[a]	0.2
Lower middle-income poverty rate ($3.2)	25.3
School enrollment, primary (% gross)[b]	100.5
Life expectancy at birth, years[b]	74.2

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

In 2020, the absence of mobility restrictions and credit relief for state-owned enterprises prevented a deeper recession, while external financing needs and domestic foreign exchange pressures were met through a drawdown of reserves and debt financing. Amidst the ongoing political crisis and limited space for fiscal or monetary expansion, the outlook, in the absence of reforms, is for a deepening of the recession in 2021, and a slow recovery thereafter. Poverty rates are expected to stagnate at a low level.

Key conditions and challenges

Even before COVID-19, a lack of progress on reforms had already contributed to a sharp slowdown, with annual GDP growth averaging 0.5 percent since 2011. The COVID-19 outbreak and political turbulence following elections in August 2020 have further depressed household and investor sentiment and contributed to household deposit outflows and an 18-percent currency depreciation against the US$ during 2020. At the same time, policy support may lead to further erosion of already depleted fiscal and FX buffers, undermining macro-financial stability. The possible gradual relocation of the export-oriented ICT sector could affect services exports. Economic sanctions, if further imposed, are likely to increase the costs of doing business for selected exporters. Restoring economic confidence promptly is crucial, given the limited policy buffers and large downside risks.

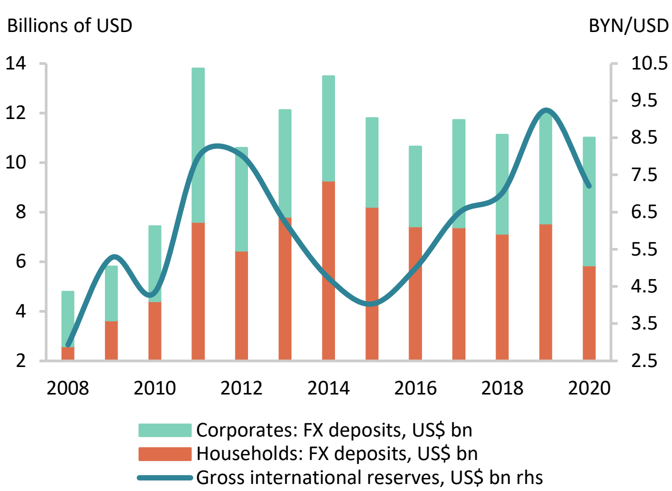
Belarus's incomplete transition to a market economy has saddled it with a low-productivity and highly-leveraged SOE sector, a weak and dollarized banking sector, and heavy dependence on commodity exports. Per National Bank estimates, loans taken by large SOEs, sometimes with questionable ability to be serviced on time, averaged 14 percent of GDP over the past several years. Given the share of FX debt on SOE balance sheets, currency depreciation and economic weakness have further weakened bank asset quality over the past year.

Over the medium-term, the challenge is to move towards an economy less dependent on oil processing that can be competitive as the implicit oil import price subsidies are withdrawn with the implementation of Russia's "tax maneuver". Anchoring fiscal sustainability in the medium term will require SOE restructuring, and rationalization of the public sector wage bill and tax expenditures. A robust social safety net and expanded unemployment support will be critical for maintaining basic incomes of vulnerable households and facilitating reallocation of workers.

Recent developments

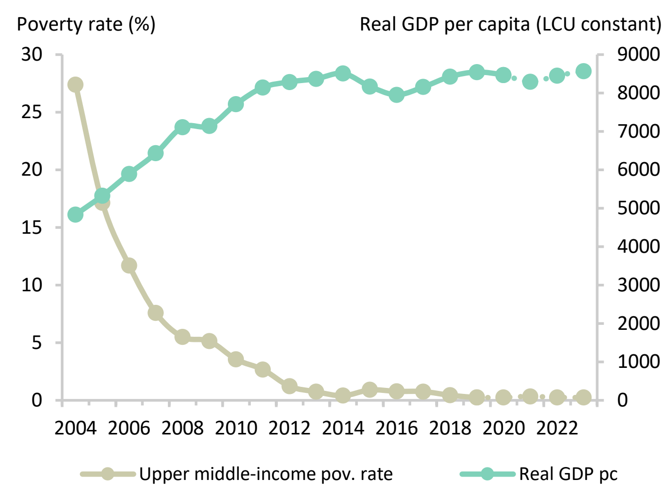
In 2020, the economy contracted by 0.9 percent y/y, dragged back by external headwinds, which were only partially offset by demand-side policy measures. Disagreements with Russia on oil supply terms contributed to a 1.9 percent decline in real merchandize exports y/y during Q1-Q3 2020. The lack of mobility restrictions, coupled with subsidized lending to SOEs (about 1.6 percent of GDP) prevented a deeper contraction of industrial output, while sustained real wage growth supported consumption. The current account deficit remained nearly balanced, as the trade surplus reached 3.2 percent of GDP. During the second half of 2020, forex deposit withdrawals and forex demand by households put strong pressure on the currency and banking sector liquidity,

FIGURE 1 Belarus / FX Reserves and Currency Trends



Sources: Belstat, World Bank.

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



Source: World Bank. Notes: see Table 2.

accommodated by the spending of gross reserves (down 20.5 percent in 2020), and increasing banks' liabilities to non-residents. The weakening currency contributed to an acceleration in headline inflation to 7.4 percent at end-2020 from 4.7 percent in 2019. To prevent additional currency pressures, the National Bank switched from the provision of overnight loans to weekly auctions. In February 2021, the government introduced broad-based price controls by capping monthly price increases on basic food items and drugs.

For the first time since 2009, the general government budget shifted into a deficit: 1.2 percent of GDP. Tax revenues dropped by 2.6 percentage points (pp) of GDP, on lower revenues from profit tax and foreign trade. Spending grew by 1.9pp of GDP as capital expenditures and public sector wages increased by 2pp and 0.6pp of GDP, respectively. External public debt repayment pressures were alleviated by issuances of Eurobonds (US$1.25bn), RUR-denominated bonds (US$135mln), and loans from Russia and the EFSD (totaling US$1 bn).

Real household incomes grew by 4.6 percent in 2020 on account of higher real wages (8 percent y/y), though the pace of disposable income growth decreased in the latter half of 2020. While the national poverty rate remained unchanged in 2020 at 4.8 percent, this outcome was due to favorable dynamics in the Minsk City, Minsk, and Grodno regions. In other areas, rates went above 6 percent. PPP US$5.5/day poverty remained stable at a low level (less than 1 percent).

Outlook

The outlook is for deepening recession during 2021 and weak recovery thereafter, assuming ongoing political tensions, continued headwinds from the Russian "tax maneuver", and lack of structural reforms. Recently announced tax increases – to contain the fiscal deficit and that of the pension system – will hurt an already struggling private sector, hit by the absence of support during the COVID-19 shock. Elevated market interest rates and falling investor confidence will dampen domestic and foreign investment. Recently introduced price controls are unlikely to contain inflation but in certain circumstances might cause shortages of some goods.

A GDP contraction of 2.2 percent is projected in 2021. With weak domestic demand expected to persist, the recovery is expected to be modest in the medium term; however, slow growth will also help to compress imports and the current account deficit.

The outlook is contingent on the availability of external financing. In 2021, external financing needs will be closed by a combination of agreed debt refinancing from Russia and drawdown of reserves, and thus appears manageable. However, 2022-23 are more challenging, on account of repayments coming due of bilateral loans to Russia in 2022, and the principal repayments on Eurobonds and the nuclear power plant loan in 2023.

The government's ability to support vulnerable households is expected to weaken as a result of limited fiscal space. Probably a decline in real wages and incomes will negatively affect household welfare. Yet, measured at the World Bank's US$5.5/day threshold, the welfare impact is projected to be small, with poverty rates increasing by 0.1pp in 2021.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.1	1.4	-0.9	-2.2	1.9	1.2
Private Consumption	7.9	5.1	-3.8	-4.1	3.8	2.6
Government Consumption	-0.4	0.4	1.0	-1.2	0.6	0.3
Gross Fixed Capital Investment	4.4	3.3	-3.9	-6.5	4.3	6.7
Exports, Goods and Services	3.8	1.0	-2.0	2.1	3.0	3.8
Imports, Goods and Services	7.3	5.2	-1.0	-1.1	5.5	7.2
Real GDP growth, at constant factor prices	3.2	1.5	-1.1	-2.1	1.9	1.2
Agriculture	-3.4	3.0	3.3	2.8	3.1	3.1
Industry	5.2	1.4	-4.5	-6.7	3.5	3.3
Services	2.9	1.3	0.8	0.3	0.6	-0.6
Inflation (Consumer Price Index)	4.9	4.7	7.4	8.2	6.1	5.7
Current Account Balance (% of GDP)	0.0	-1.8	-0.3	-0.2	-1.4	-2.4
Net Foreign Direct Investment (% of GDP)	2.4	2.0	0.0	0.0	0.0	0.0
Fiscal Balance (% of GDP)	4.0	2.4	-1.2	-2.6	-1.1	-0.5
Debt (% of GDP)	42.5	37.9	41.9	44.1	44.0	45.4
Primary Balance (% of GDP)	5.9	4.2	0.8	-0.4	1.0	1.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	0.4	0.2	0.2	0.3	0.2	0.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2019-HHS. Actual data: 2019. Nowcast: 2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2019) with pass-through = 0.7 based on GDP per capita in constant LCU.

BOSNIA AND HERZEGOVINA

Table 1	2020
Population, million	3.3
GDP, current US$ billion	19.3
GDP per capita, current US$	5892.7
School enrollment, primary (% gross)[a]	
Life expectancy at birth, years[a]	77.3

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

Following a sharp contraction of 4 percent in 2020, economic activity is expected to expand by 2.8 percent in 2021. As the world recovers from the COVID-19 crisis and with the implementation of the Economic Reform program, growth is expected to gradually recover. The ongoing crisis highlights the need to implement long-delayed structural reforms to achieve faster recovery. Addressing persistent unemployment and countering the increase in layoffs that occurred during the pandemic is critical to reducing poverty.

Key conditions and challenges

BiH has enjoyed macroeconomic stability over the last decade. However, pre-pandemic the pace of growth has been below that of peer countries in Europe and below what is needed to converge to EU living standards. BiH has not developed the foundations for sustainable economic growth as its economic model remains out of balance.

The economy is driven by consumption, rather than production. Investment is low, and the economy is inward-looking.

Poverty rates have not improved according to the latest data available from 2015 and many people do not have a formal job –or, indeed, any job at all– which could cause many people to grow old in poverty.

The pandemic has highlighted the challenges of BiH's complex institutional setup. Disbursing fiscal support to households and businesses has been slow, which has weighed heavily on economic activity and could delay the recovery in 2021. Pressures from frequent elections in combination with slow implementation of structural reforms continue to hold back the country's ability to return to growth. The immediate priority for BiH is to control the pandemic and to minimize its economic and social impact. Addressing persistent unemployment and minimizing layoffs remain an important challenge and will be key to curbing emigration.

Recent developments

Real GDP growth is projected at -4.0 percent in 2020 due to a slowdown in most productive sectors, a weaker external environment and high political uncertainty.

In 2020 growth was positive in Q1 but after the introduction of a lockdown and containment measures in Q2 the economy faced a sudden stop as domestic and external demand dropped.

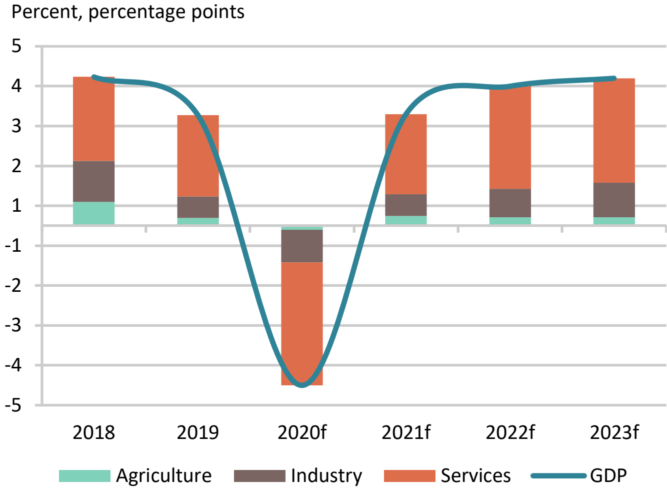
By Q4 2020, economic activity had somewhat improved, but growth remained in negative territory.

Unemployment has recently worsened. According to official estimates, the number of people in paid employment decreased approximately 1 percent y-o-y in November 2020, while the number of unemployed increased by about 3 percent in the same period. Deeper labour market effects have been prevented by wage subsidy programs in both entities and other policy measures targeting affected economic sectors aimed to safeguard potential job losses.

As the economy has fallen into recession and with low oil prices deflation has returned. In December the consumer price index was down 1.6 percent year-on-year (y-o-y).

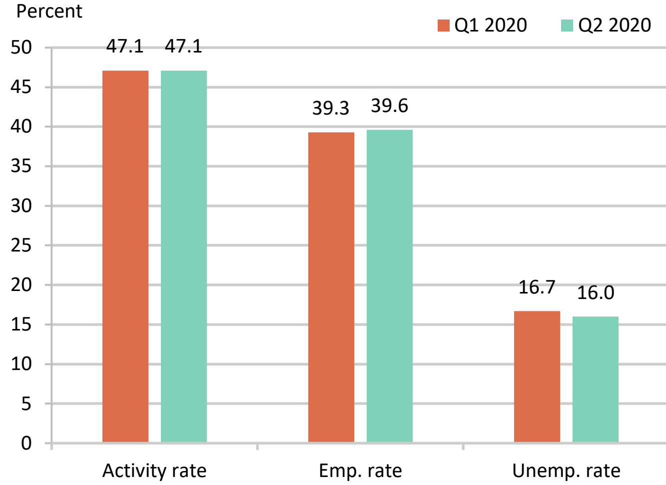
In 2020, a fiscal deficit of 5.5 percent of GDP is expected, down from a surplus of 1.9 percent in 2019. In 2020, revenues fell mainly due to the slump in tax revenue collection, while expenditures rose mainly as a result of higher spending on public wages, goods and services and social benefits.

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



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

FIGURE 2 Bosnia and Herzegovina / Labor market indicators, 2020



Sources: : LFS Q1 and Q2 2020 report, World Bank staff calculations.

The current account deficit is estimated to have worsened slightly in 2020 due to a drop in the services balance and remittances. Total public debt, consisting largely of concessional debt, has increased and is estimated at 40.6 percent of GDP, while the total external debt is estimated at 72 percent of GDP.

Even during the pandemic, the financial sector has been broadly stable. On average, banks are sufficiently capitalized and liquid, but their profitability is eroding.

The latest available poverty data using the national poverty line is for 2015 and the poverty rate was estimated at 16 percent, very close to the 15 percent estimated for 2011.

The slowdown in the economy and the consequent loss of people's employment and earnings have negatively affected household welfare in 2020. Estimates show that many of those who may have been affected were not covered by social protection programs before the crisis.

Outlook

The outlook is marked by the implementation of measures to combat the pandemic. Authorities are currently focused on securing vaccines. As the pandemic subsides the Socio-Economic Program is expected to gain needed attention, mainly through the return of announced investments in energy and infrastructure. Consumption will continue to drive growth, resulting in strong growth of imports. Remittances will recover in the medium term, and, together with progress on reforms, will underpin a gradual pickup in consumption and finance a significant part of the trade deficit. Monetary policy anchored to the Euro will continue to support local currency stability. Safeguarding the banking sector will continue to be important in particular as the full impact of moratoria is yet to be assessed. Authorities have adopted budgets and secured funds to ensure necessary liquidity through credit lines via entity development banks to support affected businesses. As BiH does not have access to international markets, support from IFIs will be critical. As revenues recover BiH's fiscal deficit will return to surplus over the medium term. A stronger push on the capital investment program will need to remain a high priority for the authorities' economic programs. Planned investments in energy, infrastructure, and tourism will also support job creation in those sectors after the crisis.

As the pandemic loses force and the economy gradually recovers in 2021, improvements in labor market participation and employment will remain key for growth to translate into poverty reduction.

There are several risks to the outlook but the main risk is a prolonged pandemic which could lead to lower growth rates in 2021 than projected. In addition, the challenging political environment will affect the implementation of the adopted socio-economic program. The main external risk for BiH remains slow growth in the EU and political tensions in the region.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.1	2.9	-4.0	2.8	3.5	3.7
Private Consumption	2.4	2.8	-4.5	2.8	3.7	3.8
Government Consumption	0.9	2.6	0.5	4.6	3.0	3.0
Gross Fixed Capital Investment	6.3	2.9	-25.8	3.4	4.5	6.3
Exports, Goods and Services	5.9	-0.3	-8.5	2.0	3.5	4.2
Imports, Goods and Services	3.2	0.2	-13.4	3.0	3.7	4.5
Real GDP growth, at constant factor prices	3.7	2.8	-4.0	2.8	3.5	3.7
Agriculture	9.1	2.9	-1.5	3.4	3.0	2.9
Industry	3.8	1.9	-3.0	2.0	2.6	3.2
Services	3.2	3.1	-4.7	3.1	3.9	4.0
Inflation (Consumer Price Index)	1.4	1.2	-0.5	0.7	0.7	0.8
Current Account Balance (% of GDP)	-3.7	-3.2	-3.7	-4.0	-4.7	-5.4
Net Foreign Direct Investment (% of GDP)	2.2	2.9	2.1	3.5	3.6	3.5
Fiscal Balance (% of GDP)	2.5	1.9	-5.5	-2.3	-0.9	0.9
Debt (% of GDP)	36.4	34.6	40.6	39.9	39.3	39.4
Primary Balance (% of GDP)	3.8	2.8	-4.2	-0.9	0.0	1.8

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

BULGARIA

Table 1	2020
Population, million	6.9
GDP, current US$ billion	67.9
GDP per capita, current US$	9801.8
International poverty rate ($1.9)[a]	0.9
Lower middle-income poverty rate ($3.2)[a]	2.2
Upper middle-income poverty rate ($5.5)[a]	6.9
Gini index[a]	41.3
School enrollment, primary (% gross)[b]	87.4
Life expectancy at birth, years[b]	75.0

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

Bulgaria's economy was hit relatively mildly by the pandemic-induced crisis in 2020, as GDP is forecast to have shrunk by 4.2 percent. Consumption remained relatively unabated as government salary subsidies and pension supplements prevented a more severe loss of income. Yet, slow inoculation rates suggest that pandemic-related risks will remain high until at least Q3, 2021. Going forward, policymakers would need to ensure only gradual withdrawal of fiscal support measures and judicious use of unprecedented amount of EU funds.

Key conditions and challenges

Despite robust growth of 3.6 percent on average in the five pre-pandemic years, Bulgaria's real convergence to the average European Union (EU) levels remains slow. The country remains the poorest and the most inequal member of the Union. GDP per capita in PPP terms was just 53 percent of the EU average, poverty was the third highest in the EU, and the Gini coefficient reached 40.8 percent in 2019, illustrating limited redistribution and ineffective social policies. Against rapid aging and population decline, convergence can speed up only if the productivity gap with the rest of the EU shrinks markedly. Bulgaria's growth potential is also undermined by governance and institutional weaknesses, as evidenced by low public confidence in institutions, poor quality of public services and reduced FDI inflows.

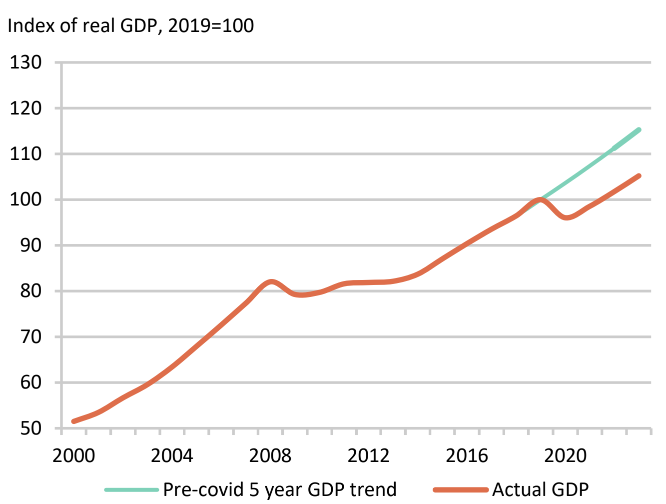
The pandemic has exposed deficiencies in a number of public domains, including health care, education, social protection and administrative services. Insufficiency of medical staff, growing divide in education by socioeconomic status, inadequate and poorly targeted social assistance programmes, and slow digitalization of administrative services are among the challenges that the government is yet to address. Expectedly, the pandemic has also resulted in a deterioration of the fiscal stance, as response measures on the national budget reached 2.4 percent of GDP. Unwinding some of the measures such as a preferential 9 percent VAT rate for certain goods and services may be challenging. In the recovery phase, the biggest task before policymakers would be to ensure only gradual withdrawal of support measures and optimal use of an unprecedented amount of EU funds, estimated at EUR 29 bn for 2021-2027. Going forward, the country's key development challenge would be its transition onto a faster, more inclusive and greener growth path, including costly decarbonisation of a coal-dependent and highly energy intensive economy.

Recent developments

Economic performance in 2020 was largely driven by the waves of domestic containment measures - the first lockdown between early March and mid-May and the second, less stringent restrictions imposed in late November. Yet, with Bulgaria recording the slowest pace of vaccination in the EU - just 4.4 percent of the population vaccinated until Mar 11 – economic activity is not likely to return to normal before the autumn of 2021.

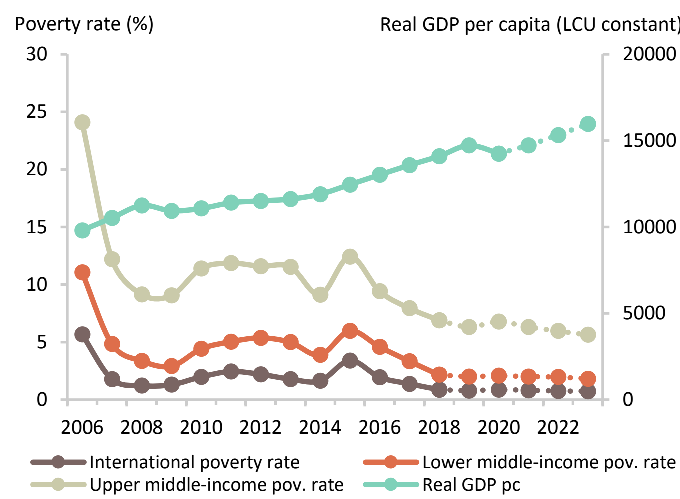
GDP growth in 2020 is estimated at –4.2 percent, as private consumption, which contracted in Q2, bounced back strongly in Q3. Investment shrank notably on escalated uncertainties and savings on public capital spending, used to partly offset the government's response package and automatic fiscal stabilizers. Despite

FIGURE 1 Bulgaria / Poverty rate percentage change and per capita growth



Sources: National Statistical Institute and World Bank.

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



Source: World Bank. Notes: see Table 2.

the pandemic-induced crisis, tax and social security revenues increased 1.6 percent nominally, possibly thanks to public sector salary increases and the growth of consumption in most of the year. Notwithstanding reduced capital spending, total expenditure grew by 5.8 percent y/y, due largely to the fiscal support measures. The budget deficit thus reached 3.0 percent of GDP (against 1 percent in 2019), while public debt picked up to estimated 25 percent against 20 percent at end-2019.

The hardest hit sectors remain tourism and related activities. Overnight stays declined by some 56 percent y/y as foreign tourist arrivals fell markedly. This also showed its impact on external balances, as export of services declined by 32 percent y/y. As a result, the current account surplus shrank to 0.1 percent of GDP in 2020.

The imposition of containment measures led to substantial disruptions to work in the form of work stoppages and reduced hours, though this was not reflected in headline unemployment that increased only moderately. Though the government's salary subsidies and pension supplements helped stabilize incomes for some individuals, work disruptions and higher food prices is projected to have led to a moderate increase in the poverty rate from 6.3 percent in 2019 to 6.8 percent in 2020 using the upper middle income poverty line of US$5.50 PPP per day.

Outlook

The biggest risks to the outlook stem from the epidemiology of the virus and the government's vaccination program. The latter hinges not only on the availability of vaccines and the organization of a well-paced vaccination process, but also on the population's perceptions towards vaccination. Skepticism against vaccines remains high and may decrease only with a stronger pro-vaccination campaign.

Bulgaria is projected to grow by 2.6 percent in 2021 and reach its pre-crisis (2019) level of real output in 2022. The baseline scenario assumes that vaccination in Bulgaria will gain momentum in Q2 and Q3, which will gradually help restore consumer and business confidence. With expectations of reduced infection rates in the summer and increased inoculation in Bulgaria's main market, the EU, external sales of goods are likely to recover but tourism is expected to remain below pre-crisis levels. Drawdowns on the EU Recovery and Resilience Facility are not expected before Q4/2021, with limited impact on this year's investment and growth. Even if non-performing loans have risen moderately until December, 2020 (from 6.5 percent a year ago to 7.4 percent) and the banking sector remains well capitalized, NPL levels may pick up more steeply after the current moratorium on bank loan service is lifted.

In addition to the pandemic-related challenges, upcoming general elections in early April also add to the uncertainties. Swift formation of a new government would be a prerequisite for the smooth continuity of fiscal response measures and the restoration of investor confidence as vaccination gains momentum. Delivery on the fiscal consolidation plans also hinges on the outcome of election.

Barring any unforeseen developments with the COVID-19 virus and under the assumption of high vaccination rates, poverty is projected to decline in 2021 to 6.3 percent as a result of an improved economy facilitating favorable labor market conditions and normalized food inflation.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.1	3.7	-4.2	2.6	3.3	3.4
Private Consumption	4.4	5.5	0.2	2.6	2.8	3.1
Government Consumption	5.4	2.0	7.0	0.8	1.1	0.5
Gross Fixed Capital Investment	5.4	4.5	-5.1	3.2	6.3	5.6
Exports, Goods and Services	1.7	3.9	-11.3	7.1	6.4	5.8
Imports, Goods and Services	5.7	5.2	-6.6	6.5	6.0	5.1
Real GDP growth, at constant factor prices	3.5	3.3	-4.3	2.6	3.3	3.4
Agriculture	-2.0	4.1	-5.3	3.4	1.0	0.5
Industry	-1.1	-0.5	-4.6	3.7	4.0	3.9
Services	5.8	4.6	-4.2	2.1	3.2	3.5
Inflation (Consumer Price Index)	2.8	3.1	1.7	3.2	3.3	3.4
Current Account Balance (% of GDP)	1.0	3.0	0.1	1.8	2.5	2.4
Net Foreign Direct Investment (% of GDP)	-1.4	-1.3	-0.7	-1.7	2.1	1.9
Fiscal Balance (% of GDP)	0.1	-1.0	-3.0	-1.9	-1.5	-0.9
Debt (% of GDP)	22.3	20.2	25.3	26.6	26.7	26.0
Primary Balance (% of GDP)	0.8	-0.4	-2.6	-1.7	-1.2	-0.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.9	0.8	0.9	0.8	0.7	0.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	2.2	2.0	2.1	2.0	2.0	1.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	6.9	6.3	6.8	6.3	6.0	5.6

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

(a) Calculations based on ECAPOV harmonization, using 2018-EU-SILC.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

CROATIA

Table 1	**2020**
Population, million	4.0
GDP, current US$ billion	56.8
GDP per capita, current US$	14101.4
International poverty rate ($1.9)[a]	0.5
Lower middle-income poverty rate ($3.2)[a]	0.8
Upper middle-income poverty rate ($5.5)[a]	2.4
Gini index[a]	29.8
School enrollment, primary (% gross)[b]	94.6
Life expectancy at birth, years[b]	78.1

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

As for most countries in Europe, the end of 2020 saw a surge of COVID-19 infections and the reintroduction of social distancing restrictions in Croatia. The country also suffered from a second devastating earthquake in December last year. Progress on vaccination should allow for reopening policies, resulting in a gradual recovery of the Croatian economy led by the tourism sector. GDP is projected to increase by 4.7 percent in 2021, enabling poverty to return to a downward trend.

Key conditions and challenges

The large reliance on tourism has made Croatia highly vulnerable to adverse external shocks such as the current pandemic. GDP contraction in Croatia in 2020, at -8.4 percent, was one of the largest in the EU. The country also suffered from two devastating earthquakes, in March and December 2020. Going forward, generous EU funding through various initiatives should play a key role in supporting the country's economic recovery. However, Croatia will need to use such funds appropriately for both reforms and investment, to maximize the benefits of such financing. While the vaccination program has started, the situation remains highly uncertain because of vaccine supply bottlenecks, its effectiveness on new virus variants, and uptake levels among the population.

At 65.2 percent of the EU27 GDP per capita in 2019 (PPP), Croatia still lags behind EU peers. Strengthening long-term growth is critical to accelerate the income convergence. This will require a diversification of the economy towards more knowledge-based sectors and addressing the economy's structural issues, including public sector governance, education outcomes and the efficiency of the judiciary. On the fiscal front, the surge in public debt in 2020, reflecting the economic downturn and a large fiscal stimulus package, calls for fiscal prudence and efforts to increase the effectiveness and efficiency of public spending over the coming years.

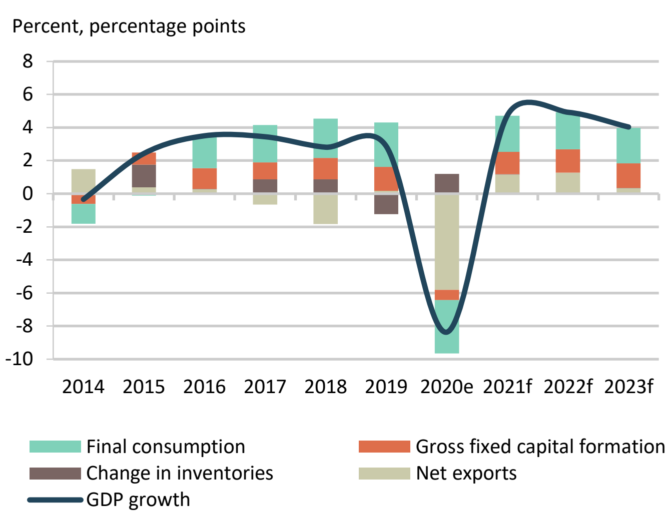
Recent developments

Economic activity continued to recover at the end of the last year from a drop experienced during the first half of 2020. However, the pace of recovery was much slower compared to the summer months due to the reintroduction of social distancing measures. Overall, Croatia's real GDP is estimated to have contracted by 8.4 percent in 2020. The tourism sector bore the brunt of the impact, which was reflected in a sharp drop in export of services. Decline in exports of goods was, on the other hand, relatively moderate following recovery towards the end of the year. Private consumption and investment also strengthened in the second half of 2020, which further helped in cushioning the annual decline in the manufacturing sector, while construction activity continued to increase in 2020.

Due to a sharp deterioration in the trade deficit, the current account balance is estimated to have fallen to -1.3 percent of GDP in 2020, after six years of surpluses.

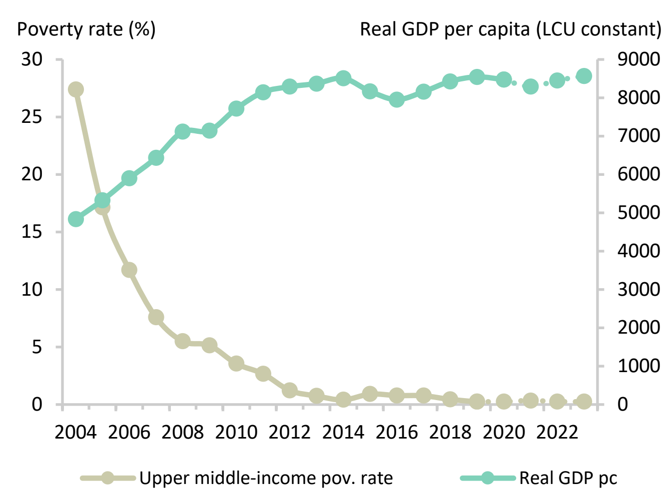
As a result of the fiscal stimulus, the decline in employment was relatively modest, and administrative unemployment averaged 9 percent, 1.3 percentage points higher than in 2019. Fiscal support measures together with decline in economic activity led to a surge in public debt, estimated at 87.2 percent of GDP in 2020.

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



Sources: CROSTAT, World Bank.

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



Source: World Bank. Notes: see notes to Table 2.

The degree of expansionary monetary policy increased, and the liquidity of the banking sector reached historical highs. Also, the NPLs ratio remained stable. This, however, can be partly explained by regulatory relief and agreed moratorium on credit obligations and should therefore be monitored closely.

Results from the second round of the Rapid Household Assessment conducted in December indicate low-wage earners continue to be more affected by the crisis than those in the top income brackets. Also, nearly 30 percent of Croatian households reported an annual reduction in overall income in 2020 and approximately 80 percent of households indicate inadequate savings to weather the shock from the prolonged pandemic. The situation is more challenging for poor and rural households. Poverty is estimated to have increased to 2.6 percent in 2020 – or approximately 14,000 additional Croatian living on less than $5.5 a day at 2011 PPP prices.

Outlook

Economic activity in Croatia is projected to gradually recover from the downturn experienced in 2020 growing at the average annual rate of 4.5 percent in the 2021-2023 period. Implementation of the vaccination strategy and epidemiological measures in Croatia and Europe are expected to put the pandemic under control by the summer of 2021 allowing countries to partially lift travel restrictions. For Croatia this would result in an increase in tourist arrivals, and together with the recovery of its trading partners, would lead to strong growth of exports of goods and services. Investments are projected to be supported by EU funds, including for earthquake reconstruction. Although a pick-up in inflation that could reach 1.8 percent by 2023 will weigh in on real incomes, improved household sentiment and gradual labor market recovery could result in strengthening of personal consumption. The economic situation in Croatia is likely to continue improving till the end of the forecast horizon as the pandemic abates, and with increased uptake of EU funds. The current account balance is projected to return to surplus (estimated at 2.2 percent of GDP in 2023), following trade deficit improvements. Continued increase in economic activity and phasing-out of the fiscal support measures should reduce the fiscal deficit and bring public debt below 80 percent of GDP by 2023.

The gradual rebound of the economy is expected to reduce poverty. However, the compounded impacts of the crisis and the low savings rate among working poor households could mean a longer recovery process for this vulnerable group compared to others. Poverty is estimated to return to the pre-crisis level of 2.2 percent by 2021 and fall further to 2.0 percent by 2023.

The risks for the forecast are tilted to the downside reflecting possible prolongation of the pandemic and related travel restrictions as well as phasing out the fiscal support measures that could lead to a rise in unemployment. This would weaken the recovery and slow down the fall in the poverty.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.8	2.9	-8.4	4.7	4.9	4.0
Private Consumption	3.3	3.5	-6.2	2.8	3.0	3.0
Government Consumption	2.3	3.4	2.0	2.4	2.2	2.2
Gross Fixed Capital Investment	6.5	7.1	-2.9	6.0	6.3	6.5
Exports, Goods and Services	3.7	6.8	-25.0	14.2	15.4	6.3
Imports, Goods and Services	7.5	6.3	-13.8	9.7	11.2	5.2
Real GDP growth, at constant factor prices	2.6	2.5	-6.3	4.7	4.9	4.0
Agriculture	6.2	1.2	3.7	2.4	2.4	2.4
Industry	1.4	2.3	-1.3	3.9	4.6	4.1
Services	2.8	2.7	-8.6	5.2	5.2	4.1
Inflation (Consumer Price Index)	1.5	0.8	0.2	0.9	1.7	1.8
Current Account Balance (% of GDP)	1.8	2.8	-1.3	0.3	0.9	2.2
Net Foreign Direct Investment (% of GDP)	1.6	2.0	2.2	2.1	1.9	1.8
Fiscal Balance (% of GDP)	0.2	0.4	-7.2	-3.7	-2.3	-1.1
Debt (% of GDP)	74.3	72.8	87.2	85.8	82.7	79.2
Primary Balance (% of GDP)	2.5	2.6	-5.1	-1.6	-0.3	0.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.5	0.5	0.5	0.5	0.4	0.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.8	0.7	0.8	0.8	0.7	0.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	2.4	2.2	2.6	2.2	2.1	2.0

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

(a) Calculations based on ECAPOV harmonization, using 2018-EU-SILC.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

GEORGIA

Table 1	2020
Population, million	3.7
GDP, current US$ billion	15.9
GDP per capita, current US$	4271.7
International poverty rate ($1.9)[a]	3.8
Lower middle-income poverty rate ($3.2)[a]	14.9
Upper middle-income poverty rate ($5.5)[a]	42.0
Gini index[a]	35.9
School enrollment, primary (% gross)[b]	99.3
Life expectancy at birth, years[b]	73.6

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

The COVID-19 pandemic hit Georgia hard. Mobility restrictions, a sudden halt to tourist arrivals, and weak external demand drove an estimated economic contraction of 6.2 percent in 2020. The poverty rate increased by an estimated 5.4 percentage points. Job and income losses were severe. The fiscal deficit and public debt rose above statutory levels as the crisis put pressure on fiscal and external balances. The recovery will be gradual. The current forecast—with output recovering to pre-COVID levels in 2022—remains subject to considerable downside risks.

Key conditions and challenges

Georgia has a strong record of implementing economic reforms and raising the living standards of its citizens. Economic growth has been strong—averaging 5 percent per annum between 2005 and 2019—and poverty (national measure) declined rapidly to 19.5 percent in 2019, almost half its 2007 rate, spurred by sound macroeconomic policies and improving governance. However, the economy has not created sufficient employment, and many Georgians remain engaged in low-productivity agricultural activities. Georgia's export basket, which is relatively small and undiversified, underscores the economy's incomplete structural transformation. Georgia's human capital outcomes are also weak—learning outcomes and linkages to private sector needs are weak.

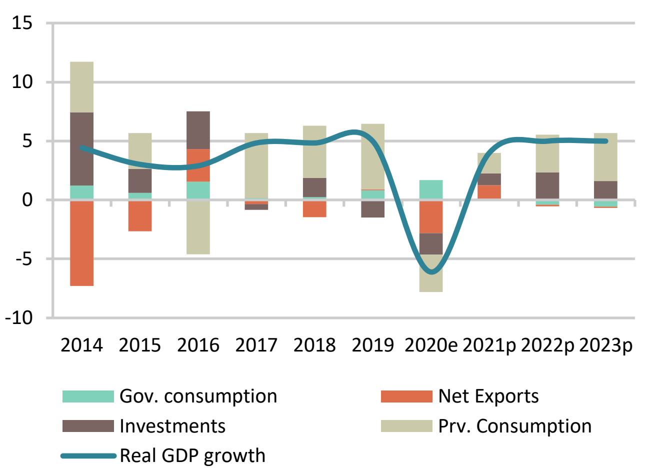
The COVID-19 outbreak threatens to reverse Georgia's past economic gains. Stringent measures, including curfews, a ban on public transport, lockdowns, and border closures, allowed the country to contain the pandemic's spread in early 2020. However, the easing of measures in the summer contributed to a significant second surge in late 2020—Georgia became one of the 20 most affected countries in the world in terms of reported cases per million population. The authorities enacted a second strict lockdown from end-November to early February, leading to a reduction of COVID cases and permitting a gradual reopening of the economy starting March 2021.

Recent developments

The economy fell into recession in 2020, contracting by 6.2 percent. Following a strong start to the year, economic activity collapsed after March as the authorities introduced pandemic-related lockdown measures. The shock has been broad-based, but the transport, tourism, and construction sectors suffered the largest impacts. Job and income losses were severe. The unemployment rate reached 20.4 percent in the fourth quarter of 2020. More than one-third of the employed were unable to work at the peak of the restrictions. Poverty is estimated to have risen by 5.4 percentage points in 2020 (using the national poverty line); even as government's sizeable support package likely prevented an even greater increase in poverty.

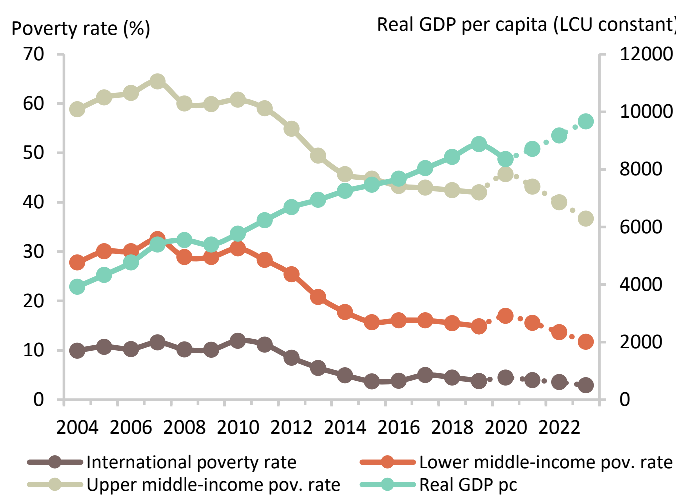
The economic shock also put pressure on the external accounts. The current account deficit reached 12 percent of GDP in the first nine months of 2020, driven by weak services exports as border closings halted tourist arrivals. The deficit was only partially offset by an improving net income balance and transfers from abroad—remittances remained resilient (this could, however, reflect the rising formalization of transfers)—and a narrowing trade deficit driven by import compression as domestic demand weakened. On the financing side, substantial public borrowing fully financed the gap and allowed for

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



Sources: Geostat and WB staff calculations.

FIGURE 2 Georgia / Poverty rate and GDP per capita



Source: World Bank Note: see Table 2.

reserves accumulation. Official reserves rose to $3.9 billion by the end of 2020 (representing nearly 5 months of goods and services imports). However, the external debt-to-GDP ratio jumped to 124 percent of GDP by end-September, up from 102 percent of GDP a year earlier.

The government's fiscal response to the pandemic—estimated at over 7 percent of GDP—drove a widening of the fiscal deficit in 2020, with government spending up by 19 percent year on year. Simultaneously, revenue collection fell by round about 4 percent compared to 2019. As a result, the fiscal deficit widened to 9.7 percent of GDP and public debt to over 60 percent of GDP, above the limits prescribed by the fiscal rule, triggering the rule's escape clause. Support from development partners and stepped-up domestic debt issuance fully met the government's financing needs.

Annual inflation moderated in the second half of 2020 after reaching 7 percent in April 2020. A modest recovery of the lari and lower oil prices helped bring inflation down to 2.4 percent by end-2020 (this includes 2 percentage point downward adjustment owing to a government utility subsidy). The National Bank of Georgia (NBG) responded by lowering its policy rate by 100 basis points between April and August to 8 percent, keeping it steady through February.

The banking sector remained profitable in 2020 despite the frontloading of potential losses in March, as mandated by the NBG. The share of nonperforming loans rose to 2.6 percent in 2020 from 1.9 percent in 2019. Annual credit growth moderated but remained robust at 13 percent in December 2020.

Outlook

Georgia's economy is projected to recover in 2021, growing by 4 percent, with the key baseline assumption that there are no further severe waves of COVID-19 infections that necessitate additional lockdowns and ongoing political impasse is resolved. The recovery will be supported by fiscal stimulus in the form of accelerated capital spending, tax deferrals, accelerated VAT refunds, and targeted support for the most affected businesses, as well as higher social spending. The fiscal deficit is expected to remain elevated at around 7 percent of GDP in 2021.

The external deficit is expected to narrow in 2021 compared to 2020. Still, it will remain high at about 11 percent of GDP as the services sector recovers gradually, and import flows pick up in line with firming economic activity. Recovering FDI and sustained support from international financial institutions are expected to cover Georgia's external financing needs and help maintain a comfortable reserves cushion.

The pace of recovery beyond 2021 will be contingent on vaccine rollout and the restoration of international trade and investment. Under a baseline scenario in which no third wave of infections materializes and a significant share of the population is vaccinated by 2022, economic growth could recover to 5.0 percent in 2022 and 2023. The baseline scenario projects that the fiscal deficit will narrow to reach the levels prescribed by the fiscal rule (3 percent of GDP) by 2023. The pandemic's impact on poverty and inequality will depend on the severity and duration of the crisis and the policy response. Under the baseline scenario, the poverty rate is expected to decline gradually, returning to pre-crisis levels by 2023.

Delayed vaccinations, further restrictions and prolonged political tensions represent the key downside risks to this outlook. Either scenario could lead to a slower recovery in 2021 and a more modest recovery in the medium term, with output not returning to pre-COVID levels until 2024. A delayed recovery could also pose risks to macro-financial stability, given Georgia's high rate of dollarization, unhedged balance sheets, and high gross external debt.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.8	5.0	-6.2	4.0	5.0	5.0
Private Consumption	5.8	7.2	-4.0	2.2	4.0	5.2
Government Consumption	1.6	5.7	11.8	0.7	-2.4	-3.7
Gross Fixed Capital Investment	1.9	-0.1	-8.3	4.4	10.5	6.8
Exports, Goods and Services	10.1	9.8	-30.2	20.9	10.0	9.7
Imports, Goods and Services	10.3	6.6	-19.2	11.5	7.3	7.1
Real GDP growth, at constant factor prices	5.2	5.1	-5.9	3.7	5.1	5.0
Agriculture	13.8	-0.6	3.6	0.7	2.1	2.6
Industry	0.2	2.7	-2.8	3.6	3.8	3.6
Services	5.8	6.4	-7.7	4.0	5.8	5.6
Inflation (Consumer Price Index)	2.6	5.0	5.3	4.0	3.0	3.0
Current Account Balance (% of GDP)	-6.8	-5.5	-12.0	-11.0	-9.4	-7.9
Net Foreign Direct Investment (% of GDP)	5.3	5.9	4.3	5.5	6.8	6.4
Fiscal Balance (% of GDP)	-2.6	-3.4	-9.7	-7.5	-4.4	-3.0
Debt (% of GDP)	41.4	41.8	62.5	62.5	61.1	59.8
Primary Balance (% of GDP)	-1.4	-2.2	-8.2	-5.7	-2.9	-1.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	4.5	3.8	4.5	4.0	3.6	2.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	15.5	14.9	17.0	15.5	13.7	11.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	42.5	42.0	45.7	43.2	40.0	36.7

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

(a) Calculations based on ECAPOV harmonization, using 2019-HIS. Actual data: 2019. Nowcast: 2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2019) with pass-through = 1 based on GDP per capita in constant LCU.

KAZAKHSTAN

Table 1	2020
Population, million	18.7
GDP, current US$ billion	159.8
GDP per capita, current US$	8528.4
Upper middle-income poverty rate ($5.5)[a]	4.6
Gini index[a]	27.8
School enrollment, primary (% gross)[b]	104.4
Life expectancy at birth, years[b]	73.2

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

GDP fell by 2.6 percent in 2020 due to reduced domestic demand and mobility and health safety restrictions brought about by the COVID-19 crisis and the collapse in exports. Inflation moved up driven by higher food prices and tenge depreciation. With employment and incomes negatively affected, the poverty rate increased to 14 percent in 2020. Growth is likely to bounce back in 2021 as disruptions associated with the pandemic dissipate and external demand picks up. The pace of recovery remains vulnerable to the course of the pandemic.

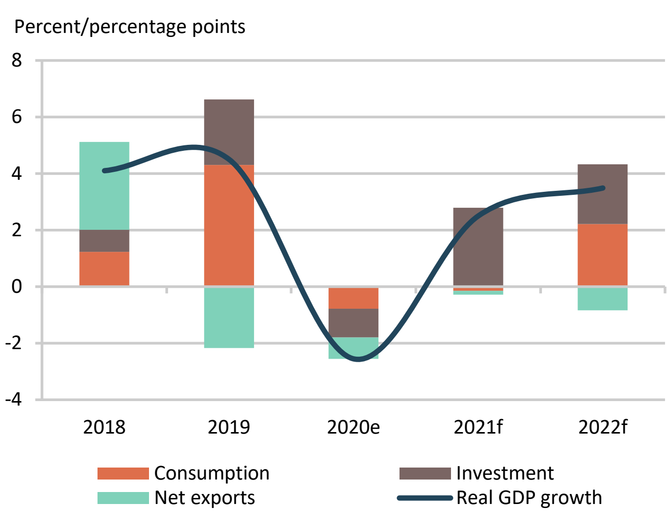
Key conditions and challenges

Since independence in 1991, Kazakhstan has experienced remarkable economic performance. Rapid growth, fueled by structural reforms, tapping of abundant hydrocarbon resources, strong domestic demand, and FDI has helped reduce poverty and transform the country into an upper middle-income economy.
However, productivity growth has weakened, averaging close to zero percent over the past decade, slowing down the pace of economic growth. Over-dependence on hydrocarbons makes the economy vulnerable to external shocks, as nearly 70 percent of country's export earnings comes from crude oil. Half of country's population lives in rural, sparsely populated, and economically isolated areas with poor access to public services and vulnerability to poverty. The COVID-19 pandemic is likely to exacerbate the economic and social vulnerabilities.
To support strong, sustainable, and inclusive economic recovery, the authorities need to advance structural reforms while dealing effectively with the pandemic. The policy imperatives are multifold. The first policy priority is to diversify the economic base by improving competitiveness of the non-oil and gas sectors, including through reforms in the financial sector and investment policies. The second priority is to limit the outsized role of SOEs, enhance competition and create a level playing field for the private sector. The third priority is to improve the quality and progressivity of public spending to address inequality. Finally, it would be essential to strengthen public sector institutions and reinforce the rule of law to attract much-needed investment in the non-extractive sector.

Recent developments

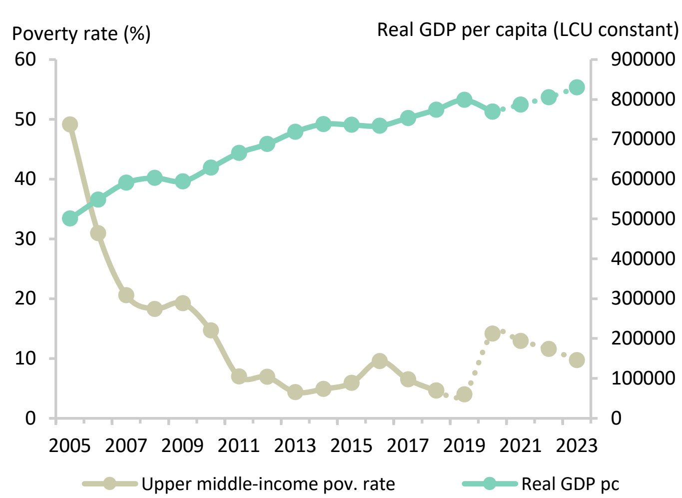
The coronavirus pandemic and the collapse in exports have taken a severe toll on the Kazakh economy. GDP fell for the first time in two decades, down by 2.6 percent in 2020. The nationwide mobility restrictions over COVID-19 led to a contraction in consumer demand and investment. Consumer demand fell 5.0 percent along with a drop in retail trade, while investment dropped by 3.4 percent, largely because of a sharp fall in FDI. Economic activity experienced a severe contraction in April-June of 2020, at the peak of restrictions, followed by a growth rebound in manufacturing, trade and transportation services in the second half of the year. A sharp fall in exports and commensurate reduction in imports left the current account balance broadly unchanged at 3.4 percent of GDP in 2020. NBK reserves rose by almost $6.7 bln. in December to reach $35.6 bln. because of higher gold prices, despite heavy FX market interventions. The tenge fell by 15 percent against the dollar by April 2020 because of the collapse in oil prices but has since regained a third of its losses following the

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



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

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



Source: World Bank. Note: see Table 2.

pickup in oil prices and FX interventions by NBK.

The government responded early to the COVID-19 crisis and introduced a fiscal stimulus package in the size of about 6 percent of GDP directed to SMEs and households. As a result, budget spending surged to an estimated 23.2 percent of GDP from a pre-crisis 19.5 percent. To fund the anti-crisis package, the government reallocated existing budgetary funds, tapped into Oil Fund reserves and scaled up domestic borrowing. The budget deficit rose to 4.0 percent of GDP from a 1.8 percent a year earlier, and public debt moved up to 24.4 percent of GDP.

In February 2021, inflation rose to 7.4 percent y-o-y, up from 6.0 percent a year earlier, largely because of 11.6 percent increase in food prices in January. Higher inflation also reflects the impact of the tenge depreciation. Despite higher inflation, the National Bank (NBK) kept its policy rate at 9.0 percent in January 2021.

Despite the crisis, the banking sector recorded a positive return to assets of 2.3 percent, thanks to strong growth in consumer loans, while corporate lending remained subdued. Nonperforming loans (NPLs) remained little changed at 6.8 percent of the loan portfolio in December. Government support measures, such as loan guarantees, moratoria, and subsidized loans helped halt mass corporate insolvencies during the lockdown. However, the true size of NPLs might emerge higher than officially reported after the pandemic, when support measures taper off.

In 2020, the official unemployment rate changed little from a pre-pandemic level. However, the rate of temporary leave, especially among low-income workers, rose sharply during the national lockdowns. As a result, poverty rate is estimated to have increased to 14 percent in 2020.

Outlook

Economic growth is expected to rebound in 2021, driven by resumption of domestic activity, recovery in global demand for oil, continued fiscal support measures, and a successful national inoculation against the COVID-19 virus.

With the continued pace of recovery, the economy is expected to grow within 3.0-4.0 percent range in 2021.

Private consumption spending is likely to pick up in 2021, driven by the release of pent-up demand as incomes rebound and retail lending continue apace. Higher demand for housing is expected to support residential investment, as government program would allow pensioners to use some their savings to purchase a house or pay down mortgages.

The government is likely to continue an expansionary fiscal stance in 2021 due to rising spending on social assistance, education, and infrastructure. The nonoil deficit is projected to decline to nearly 9.0 percent of GDP in 2021 but remain above the mid-term target of 6 percent. Government debt is likely to increase to 27 percent of GDP due to higher domestic borrowing and disbursement of external loans to finance the deficit.

Inflation is expected to moderate in 2021, as supply disruptions and the crisis precautionary food buying wane. However, an expansionary fiscal stance with significant direct lending provisions can sustain pressure on inflation.

The current account deficit is projected to improve modestly, supported by stronger exports thanks to higher oil prices and rebound in global demand for oil and a gradual pick up in imports.

Despite growth recovery, poverty rate is expected to decrease gradually before reaching to a pre-crisis level of welfare.

However, economic recovery could lose momentum if the progress on vaccination slows, mobility restrictions last longer, public investments delayed, and external demand is weaker than expected. Business insolvencies and layoffs could hit incomes, increase poverty, and expose the banking sector to higher NPLs.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.1	4.5	-2.6	3.2	3.5	4.3
Private Consumption	5.3	5.8	-5.0	4.2	3.4	3.7
Government Consumption	-14.0	15.5	14.2	-0.3	1.4	1.4
Gross Fixed Capital Investment	4.6	11.9	-3.4	3.5	3.5	4.0
Exports, Goods and Services	11.5	2.2	-2.6	2.5	3.1	4.0
Imports, Goods and Services	3.2	11.6	-2.3	4.7	3.1	3.5
Real GDP growth, at constant factor prices	4.1	4.5	-2.5	3.4	3.4	4.3
Agriculture	3.2	0.9	2.6	2.4	2.6	2.6
Industry	4.1	3.8	-1.5	2.9	3.3	5.0
Services	4.2	5.3	-3.7	3.8	3.6	4.1
Inflation (Consumer Price Index)	6.2	5.3	6.8	6.2	5.4	5.0
Current Account Balance (% of GDP)	0.0	-3.6	-3.4	-2.4	-1.1	1.1
Net Foreign Direct Investment (% of GDP)	2.8	3.2	2.2	2.5	4.9	4.5
Fiscal Balance (% of GDP)	-1.1	-1.5	-4.0	-3.8	-1.8	-1.6
Debt (% of GDP)	20.7	19.8	24.4	26.8	27.1	27.1
Primary Balance (% of GDP)	-0.2	-0.5	-3.0	-3.0	-0.8	-0.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	4.6	4.0	14.2	12.9	11.6	9.7

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

(a) Calculations based on ECAPOV harmonization, using 2018-HBS.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

KOSOVO

Table 1	2020
Population, million	1.8
GDP, current US$ billion	7.5
GDP per capita, current US$	4145
Upper middle-income poverty rate ($5.5)[a]	24.4
Gini index[a]	29.0
Life expectancy at birth, years[b]	72.2

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

Economic activity contracted by 6.9 percent in 2020, driven by plunging diaspora tourism and lower investment. Government and Central Bank policy support measures coupled with higher remittances and goods exports mitigated the contraction. The recovery should start in 2021 with growth hovering above 4 percent in the medium term. However, real economic activity should recover losses only in 2022. Addressing long-standing structural impediments and prioritizing limited fiscal space for high-return human capital investments is vital to supporting a resilient recovery.

Key conditions and challenges

Kosovo entered 2021 under continued pressure from the COVID-19 pandemic and in expectation of a government change following the organization of early elections in February 2021. Given healthcare capacity constraints, stringent containment measures were imposed in Q2 2020 but were relaxed in Q3. Vaccination has not commenced as of March 2021. Because diaspora-related tourism exports accounted for almost one-quarter of GDP prior to the pandemic, recovery will also depend on international travel restrictions and vaccination progress in diaspora host countries.

Growth averaged 3.6 percent over 2009-2019 and, before the pandemic, was expected to exceed 4 percent in the medium term. Private investment added to growth in recent years, but was mostly concentrated in trade and construction industries, with limited productivity spillovers.

Likewise, robust growth did not translate into more jobs as the employment rate remained almost constant between 2017 and 2019. In 2019, 21 percent of the population still lived with under US$5.5 per person per day (in 2011 PPP), and this share is expected to have increased in 2020 by 4-5 percentage points. Poor education and health outcomes limit the contribution of human capital to inclusive growth and the pandemic likely widened this gap. As a largely service and consumption-based economy, Kosovo was particularly vulnerable to the COVID-19 shock.

To support the recovery in 2021, the Government should strengthen compliance with pandemic preventive measures, increase treatment capacity and effectiveness while reducing citizens' out-of-pocket costs, and boost vaccination. Targeting of social protection and private sector support measures should be improved and implementation of public projects with secured financing accelerated. To support a resilient recovery in the medium term, public spending effectiveness and the regulatory environment should be enhanced. Investment in human capital should be prioritized.

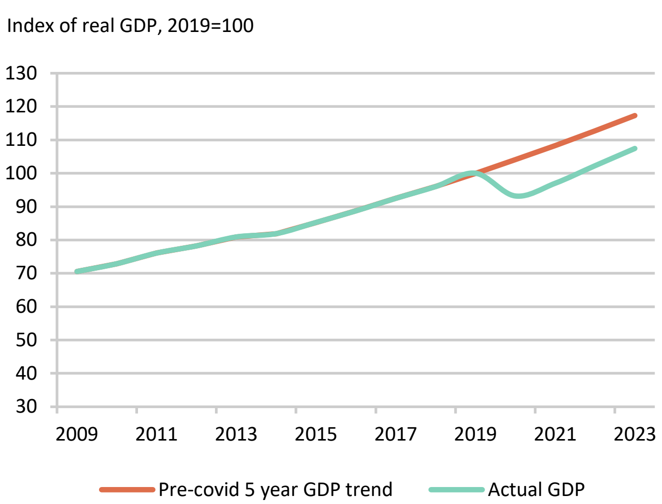
Recent developments

In 2020, economic activity is estimated to have contracted by 6.9 percent, driven by a plunge in exports—principally because of a 51 percent drop of diaspora travel services—and investment. Consumption contributed modestly, with higher government offsetting lower private consumption. Fiscal stimulus combined with increased remittances and goods exports cushioned the contraction.

Consumer price inflation decelerated in 2020 to 0.2 percent because of weak domestic demand and declining import prices.

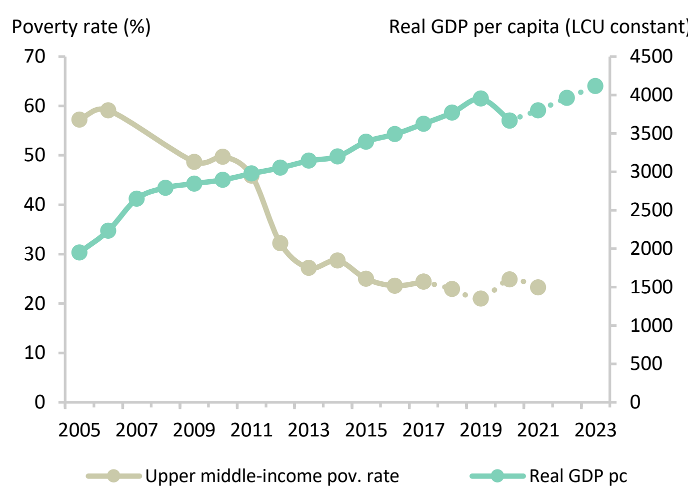
Formal employment weathered the impact of the downturn, but compensation

FIGURE 1 Kosovo / Actual and forecast GDP vs Pre-COVID-19 5-year GDP trend



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

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



Source: World Bank.

and working hours were reduced. Registered unemployment increased, most likely from informal job losses. Overall, unemployment remains high at 25 percent of the labor force (46.9 percent of youth) in Q3 2020. Projections suggest a poverty increase of 4-5 p.p. in 2020 (70-90 thousand new poor). The expected return to growth in 2021 should modestly reduce poverty as the services sector recovers.

Despite a 28.4 percent reduction in public investment, the budget deficit closed 2020 at 7.6 percent of GDP, due to lower public revenues against the contraction. Current spending increased by 18.6 percent, driven by pandemic-related spending of an estimated 4.4 percent of GDP. The deficit was financed primarily through domestic and external debt and liquidation receipts.

The drop in imports and a rise in secondary income almost compensated the plunge in exports during 2020. As a result, the current account deficit (CAD) deteriorated marginally from 5.5 to 5.7 percent of GDP. CAD was primarily financed by net FDI inflows and other international debt-driven investment flows.

Bank deposits and bank credit increased by 11.5 and 7.1 percent, respectively. New loans increased only by 1.8 percent, reflecting restructuring activity throughout the year. Capital adequacy is above regulatory requirements, while NPLs increased by 0.7 p.p. Forbearance measures by the Central Bank cushioned the impact of the pandemic on the financial sector.

Outlook

Growth is projected to reach 4 percent in 2021. The recovery is expected to be gradual. Economic activity will reach pre-pandemic levels only in 2022, mainly driven by a rise in exports and consumption. Growth in goods exports should continue to be strong in the medium term, as base metal prices are expected to rise. Service exports should also recover driven by a recovery in diaspora-related tourism exports, as international travel restrictions are relaxed, and vaccination accelerates in Europe.

Economic growth is projected to remain over 4 percent in the medium term, but downside risks to the outlook are high. The projected outlook rests on the assumption of relaxed international mobility between Europe and Kosovo, no further strict local containment measures and a recovery in Euro Area growth. There is also potential for higher growth, including through faster implementation of IFI-financed public investment.

Fiscal deficit will remain elevated in 2021 projected at 5.1 percent of GDP, driven by fiscal stimulus measures and the disruption in the growth trajectory induced by the pandemic. Revenues are expected to recover as growth picks up. Fiscal stimulus aimed at supporting businesses and livelihoods should be fully executed in 2021, at about 3.2 percent of GDP.

The CAD should remain at 5.7 percent of GDP in 2021 and gradually improve over the medium-term. Goods exports should increase gradually, while imports also increase on the back of higher aggregate demand. The size CAD will be determined by the pace of remittance growth and recovery of diaspora-related tourism exports.

The pandemic has intensified the developmental gaps, hence progress on structural reforms, including improvements in the design and targeting of social protection spending and regulatory environment for businesses is vital in reversing the adverse economic and social impact of the pandemic and building resilience against future negative shocks.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.8	4.9	-6.9	4.0	4.5	4.1
Private Consumption	5.3	1.6	-0.2	0.8	2.5	3.2
Government Consumption	8.9	9.6	4.8	2.1	-0.3	-1.0
Gross Fixed Capital Investment	6.1	6.8	-13.5	3.3	6.6	8.0
Exports, Goods and Services	2.2	7.5	-27.2	25.5	13.6	7.2
Imports, Goods and Services	8.9	3.3	-7.9	6.7	5.3	4.9
Inflation (Consumer Price Index)	1.1	2.7	0.2	0.7	1.0	1.3
Current Account Balance (% of GDP)	-7.6	-5.5	-5.7	-5.7	-4.9	-4.7
Net Foreign Direct Investment (% of GDP)	3.4	2.7	4.0	3.2	3.2	3.2
Fiscal Balance (% of GDP)	-2.9	-2.9	-7.6	-5.1	-3.1	-3.0
Debt (% of GDP)	16.3	16.9	22.3	24.9	26.5	28.2
Primary Balance (% of GDP)	-2.6	-2.6	-7.2	-4.6	-2.4	-2.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	23.0	21.0	24.9	23.2		

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

(a) Calculations based on ECAPOV harmonization, using 2017-HBS.Actual data: 2017. Nowcast: 2018-2019. Forecast:2020-2021.

(b) Nowcast using neutral distribution (2017) with pass-through = 0.7 based on GDP per capita in constant LCU. Projection using sector-level GPD forecast for 2020 and 2021with pass-through =1

KYRGYZ REPUBLIC

Table 1	2020
Population, million	6.6
GDP, current US$ billion	7.7
GDP per capita, current US$	1178.4
International poverty rate ($1.9)[a]	0.6
Lower middle-income poverty rate ($3.2)[a]	9.7
Upper middle-income poverty rate ($5.5)[a]	52.6
Gini index[a]	29.7
School enrollment, primary (% gross)[b]	106.0
Life expectancy at birth, years[b]	71.4

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

Real GDP contracted by 8.6 percent in 2020 because of the COVID-19 outbreak, the policies to limit its impact, and the domestic political turmoil. External trade declined sharply, and the fiscal position deteriorated. The poverty rate is estimated to have more than doubled compared to the precrisis period. GDP growth is forecast to recover in 2021, assuming that domestic economic activity picks up and external trade resumes as the pandemic wanes, political stability is maintained, and external demand recovers.

Key conditions and challenges

The Kyrgyz Republic was making strides toward macroeconomic stability before the COVID-19 pandemic. Real GDP growth averaged 4 percent over the last decade, average inflation was low at 1.1 percent and the fiscal deficit was reduced to 0.5 percent of GDP in 2019. As a result of debt forgiveness from the Russian Federation and prudent debt management policy, government debt fell to 52 percent of GDP at end-2019 from 67 percent in 2015.

The Kyrgyz som was broadly stable against the U.S. dollar, and the country's foreign exchange reserves were equivalent to 6 months of import cover in December 2019.

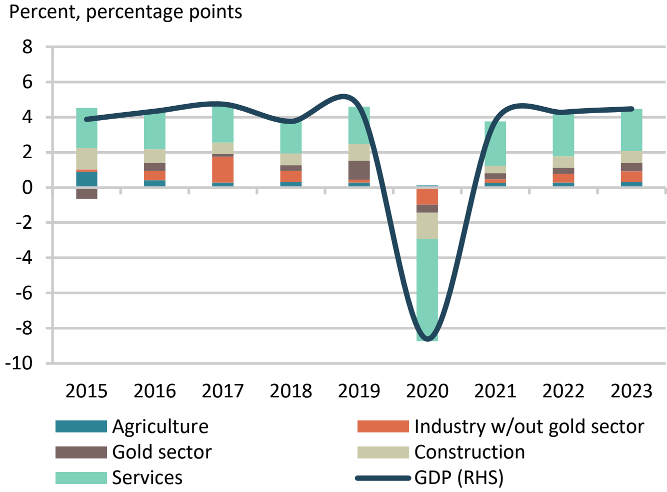
However, the Kyrgyz economy has remained vulnerable to external shocks owing to its heavy dependence on remittances (27 percent of GDP) and gold exports (9 percent of GDP). Together with political instability, these vulnerabilities have resulted in volatile economic growth. Consequently, it has been insufficient to raise living standards or reduce poverty. Substantial import spending for investment kept the current account deficit high (12 percent of GDP).

Strong and sustainable economic growth requires institutional strengthening and policies to develop the private sector, spur international trade, and encourage fiscally sustainable energy production. Constraints to private investment and growth include the large infrastructure gap, weak rule of law and governance, poor business environment, and onerous regulations. The energy sector's financial weaknesses—stemming from below-cost recovery tariffs and a failure to meet WTO and Eurasian Economic Union standards and technical regulations—further limit the Kyrgyz Republic's growth potential.

Recent developments

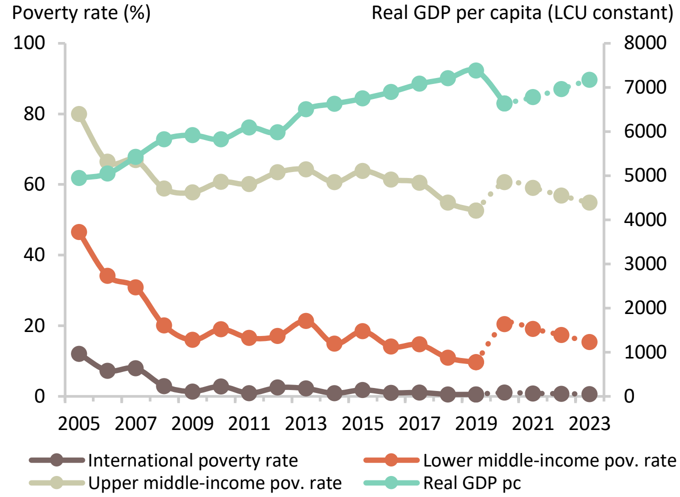
The March–May 2020 lockdown, which included border closures to contain the spread of COVID-19, was a major shock to the Kyrgyz economy, significantly reducing household incomes and business revenues. In October 2020, political turmoil worsened the country's investment climate. As a result—and despite the easing of lockdown restrictions later in the year—real GDP contracted by 8.6 percent in 2020. Twelve-month inflation rose to 9.7 percent in December (from 3.1 percent a year earlier), primarily driven by exchange rate depreciation (19 percent). The current account is estimated to have run a surplus of 4 percent of GDP in 2020, reflecting a 30 percent contraction in imports and resilient export earnings that—supported by gold exports—declined only by about 2 percent. Remittances remained at 2019 levels. Gross official reserves remained adequate at 5.9 months of imports as the central bank purchased domestically-produced gold to offset sales of foreign exchange ($518 million, three times as much as in 2019) to limit som volatility.

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



Sources: Kyrgyz authorities; World Bank staff calculations.

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



Source: Source: World Bank. Note: see Table 2.

The central bank raised the policy interest rate by 75 basis points to 5 percent in February 2020 in response to higher inflation. The rate has remained unchanged since even with inflation trending higher in the fourth quarter. Reflecting heightened uncertainty, the central bank allowed greater exchange rate flexibility, eased regulatory requirements for commercial banks, and provided additional liquidity. This stance was appropriate to absorb the COVID-19 shock and support economic activity.

Surging expenditures and weaker revenues drove a widening of the general government deficit in 2020, to 4.2 percent of GDP (from 0.5 percent in 2019). The fiscal easing was appropriately aimed at supporting private enterprises and addressing health and social needs. Tax payment deferments and temporary tax exemptions for crisis-affected businesses resulted in a decline of 1.4 percent of GDP in tax revenues. An increase in grant receipts partially offset the tax shortfall. Spending increased by 2.2 percent of GDP, driven by increased compensation to medical workers, and spending on medicines, personal protective equipment, and other medical materials. The higher deficit—together with the GDP contraction and som depreciation—drove an increase in public debt to 68 percent of GDP in December 2020.

The combined health and economic shocks of 2020 drove up poverty and diminished social welfare. A significant share of the population is vulnerable and at risk of falling into poverty due to lower incomes, higher food prices, or job losses. The poverty rate is estimated to have more than doubled in 2020 from 9.7 percent in 2019 (US$ 3.2/day, 2011 PPP).

Outlook

The coronavirus pandemic and the political turmoil have weakened the Kyrgyz Republic's macroeconomic outlook, with medium-term growth projections below prepandemic forecasts. Real GDP is projected to recover to its pre-pandemic level only by 2023; the recovery is expected to take even longer in real GDP per capita terms. Our baseline scenario projects real GDP growth of 3.8 percent in 2021 as economic activity recovers, driven by services and construction. Growth is forecast to increase to an average of 4.4 percent in 2022–23. This scenario assumes a reduction of new COVID-19 cases as vaccines are deployed, that political stability is maintained, and external demand and trading conditions improve. With the stabilization of the exchange rate, average inflation is expected to moderate to 5.4 percent. The current account deficit is projected to widen to about 7 percent of GDP in 2021, reflecting a faster pace of import recovery relative to export growth.

The fiscal deficit is projected to narrow to 3.9 percent of GDP in 2021, driven by higher tax revenues thanks to economic recovery and the expiration of tax deferments and exemptions. Over the medium term, the authorities are targeting a fiscal deficit of 3 percent of GDP. Fiscal consolidation requires measures to expand the tax base, roll back pandemic-related expenditures, streamline nonpriority purchases, and reduce the wage bill as a share of GDP.

Under a downside scenario, which assumes a continued impact of COVID-19 owing to a delay in vaccine availability and the reemergence of political instability, real GDP is expected to grow by only 1.5 percent in 2021, with the current account and fiscal deficits deteriorating to around 10 percent and 4.5 percent of GDP, respectively.

The poverty rate is projected to remain elevated in 2021–22 as households continue to face the pandemic's impacts. The social assistance system will remain under pressure as social transfers support poor and vulnerable groups. Existing social protection programs will require scaling up to help the population cope with the shock.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.8	4.6	-8.6	3.8	4.3	4.5
Private Consumption	5.0	0.8	-6.8	3.0	3.4	3.6
Government Consumption	1.3	0.5	-1.2	2.0	-3.7	-1.9
Gross Fixed Capital Investment	6.9	7.1	-21.2	10.2	12.9	12.0
Exports, Goods and Services	-2.7	16.2	-14.3	5.3	7.3	8.0
Imports, Goods and Services	7.4	6.1	-16.5	7.4	8.5	9.3
Real GDP growth, at constant factor prices	3.1	3.6	-8.6	3.8	4.3	4.5
Agriculture	2.6	2.5	1.1	2.0	2.2	2.5
Industry	5.1	6.6	-7.5	5.8	8.4	8.7
Services	2.8	3.2	-17.0	4.6	4.4	4.2
Inflation (Consumer Price Index)	1.5	1.1	6.3	5.4	5.0	5.0
Current Account Balance (% of GDP)	-12.1	-12.1	4.0	-7.0	-7.6	-7.4
Net Foreign Direct Investment (% of GDP)	0.5	3.8	-1.8	0.8	1.2	2.3
Fiscal Balance (% of GDP)	-1.6	-0.5	-4.2	-3.9	-3.4	-2.9
Debt (% of GDP)	54.7	51.6	68.1	68.4	67.7	66.4
Primary Balance (% of GDP)	-0.5	0.5	-3.0	-2.0	-1.6	-1.2
International poverty rate ($1.9 in 2011 PPP)[a,b]		0.6	1.1	0.8	0.7	0.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]		9.7	20.5	19.1	17.3	15.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]		52.6	60.7	59.1	56.9	54.8

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

(a) Calculations based on ECAPOV harmonization, using 2019-KIHS.Actual data: 2019. Nowcast: 2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2019) with pass-through = 0.87 based on GDP per capita in constant LCU.

MOLDOVA

Table 1	2020
Population, million	2.7
GDP, current US$ billion	11.9
GDP per capita, current US$	4499.4
Lower middle-income poverty rate ($3.2)[a]	0.9
Upper middle-income poverty rate ($5.5)[a]	12.8
Gini index[a]	25.7
School enrollment, primary (% gross)[b]	89.5
Life expectancy at birth, years[b]	71.8

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

Moldova has one of the highest COVID-19 infection- and death rates per population in Europe. COVID-19 and the recent drought have drastically worsened the outlook for Moldova with a significant recession in 2020. Beyond 2020, high uncertainty on the duration of the pandemic and its economic and social ramifications could further constrain firms, workers and households, hampering the recovery. If downside risks materialize, reduced fiscal space may limit the capacity for further countercyclical measures.

Key conditions and challenges

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

Moldova has one of the highest COVID-19 infection and death rates per population in Europe. Despite the restrictive measures, the number of cases has been rising progressively on the back of low enforcement and compliance.

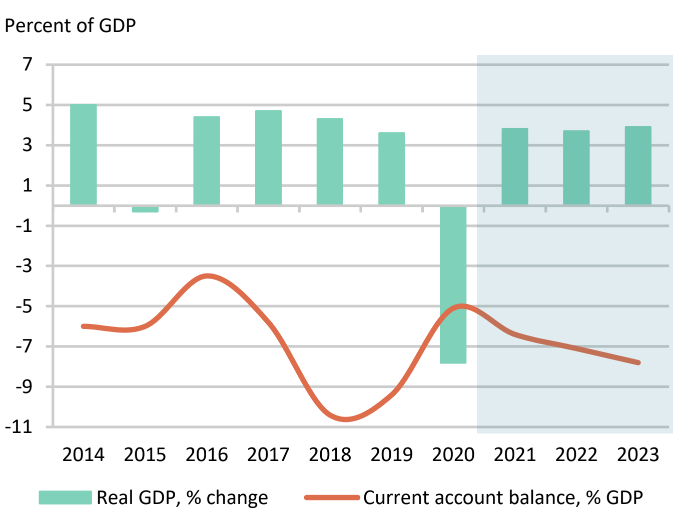
The global recession, disruptions in supply chains, measures to flatten the contagion curve, financial risk aversion, among others, are taking a heavy toll on the key components of aggregate demand. While the medium-term growth prospects remain positive, a sustained recovery hinges on the containment of the pandemic and favorable external environment. A new wave of restrictions in the country and in the main trading partners may further reduce consumer and business confidence leading to even lower remittances and exports. On the fiscal side, though the 2021 budget envisages an ambitious fiscal stimulus, it might not be enough in case of slow roll-out of vaccines and limited foreign financing. Domestic risks relate to political instability, institutional weaknesses, and political constraints to implement reforms of the judiciary and structural reforms. Fragile economic conditions and low productivity levels are exacerbated by the large footprint of the state in the economy, shrinking fiscal space, low financial intermediation and governance challenges. Additionally, as shown by the severe drought episode in 2020, the economy is highly vulnerable to extreme weather episodes.

Recent developments

The combination of the pandemic and the severe drought is expected to affect most sectors of the economy. The economic activity plummeted in 2020, with GDP declining by 7.0 percent. Primary drivers of this deceleration are households' consumption, which declined by 7 percent in 2020, and investments together with de-stocking.

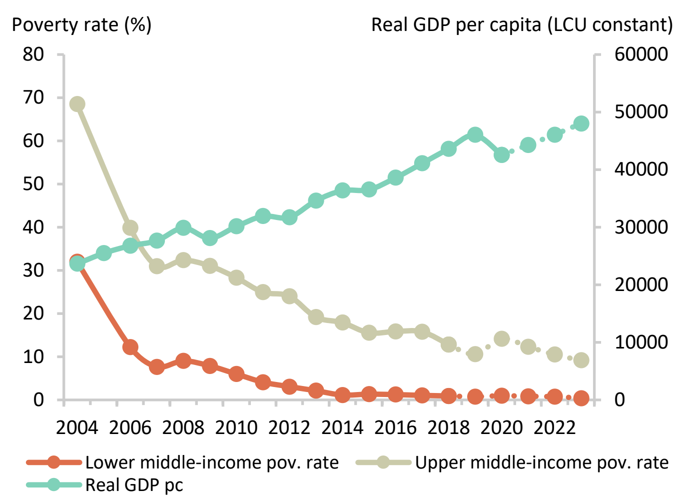
The lockdown measures have halted trade and industrial production while a severe drought has resulted in a decline in agriculture production by over 26 percent. Since the end of the lockdown, the economy has started to rebound gradually, but most of the short-term indicators remain in the negative territory.

FIGURE 1 Moldova / Actual and projected GDP growth and current account balance



Source: World Bank, based on national statistics.

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



Source: World Bank. Notes: see Table 2.

On the back of falling import prices and domestic demand, inflation has decelerated markedly in 2020, fluctuating below the lower band of the corridor of 5 percent (+/- 1.5 percent) since August. In response, the National Bank cut the prime rate 5 times to a new record low of 2.65 percent. The large import compression has led to an improvement in the current account deficit, which was mainly financed by debt instruments, predominantly public.

On this background, fiscal stance deteriorated substantially. From pre-COVID-19 level, tax revenue increased by about 0.3 pp of GDP while spending increased by 4.1 pp of GDP. As a result, the fiscal deficit reached 5.1 percent of GDP in 2020.

Employment dropped by 0.5 percent in the last quarter of 2020, with the most affected sectors being trade and hospitality, followed by agriculture and industry. Job losses, together with declining earnings, the return of the most vulnerable economic migrants, and rising food prices have led to increased strain on households' finances. As a result, poverty, as measured by the US$5.50 PPP a day, is projected to increase from an estimated 10.6 percent in 2019 to an estimated 14.2 percent in 2020.

Outlook

Uncertainties around the evolution of the pandemic will keep the economy below potential. Economic growth is expected to rebound to 3.8 percent in 2021, assuming favorable conditions thanks to the rollout of vaccines. Consumer and investment confidence are expected to improve on the back of favorable external conditions, increase in social transfers, and accommodative monetary stance. Most sectors are expected to bounce back, though the 2019 levels are estimated to be reached only in 2022. The agricultural sector is expected to rebound strongly after a bad yield in 2020. While the current account deficit is expected to have narrowed in 2020, it will gradually widen as the economy accelerates. Inflation is expected to remain lower than the target corridor of 5 percent +/- 1.5 pp in 2021-22 but to pick up as the recovery strengthens.

The authorities plan the fiscal deficit to reach 6.3 percent of GDP in 2021 and will remain higher than historical averages in the medium term due to a decline in revenues as businesses struggle and households suffer from weak job creation. Public debt is expected to increase (by 9.1 pp of GDP from pre-COVID-19 level) to 36.5 percent of GDP in 2021, while still remaining relatively low by international standards. The government faces considerable financing needs which might be difficult to meet domestically despite aggressive monetary loosening. The capacity to mitigate the impact of the crisis and support economic recovery will critically depend on external financing, particularly a successful renegotiation on an IMF program.

Under the assumption of an economic rebound in Moldova and its main migrant destination countries, poverty, as measured by the US$5.50 PPP/day poverty line, is projected to decline from 14.2 percent in 2020 to 12.3 percent in 2021. Going forward, Moldova will need to address the inequality of opportunities and accelerate private sector-driven job creation.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.3	3.7	-7.0	3.8	3.7	3.8
Private Consumption	4.5	3.2	-5.9	2.8	3.0	3.1
Government Consumption	-0.2	-0.5	-0.2	0.2	0.0	-0.1
Gross Fixed Capital Investment	14.5	12.9	-1.7	7.8	8.7	8.9
Exports, Goods and Services	7.2	7.3	-15.5	6.6	7.1	7.5
Imports, Goods and Services	9.7	6.7	-8.9	5.1	6.3	6.5
Real GDP growth, at constant factor prices	4.4	4.0	-7.2	3.8	3.7	3.8
Agriculture	2.6	-2.3	-26.4	10.0	5.0	7.0
Industry	8.3	7.1	-4.3	4.3	4.8	5.4
Services	3.3	4.2	-4.1	2.5	3.0	2.6
Inflation (Consumer Price Index)	3.1	4.7	4.1	4.4	5.0	5.0
Current Account Balance (% of GDP)	-10.4	-9.4	-5.5	-6.8	-7.5	-8.2
Net Foreign Direct Investment (% of GDP)	2.4	4.5	1.3	3.5	3.7	3.5
Fiscal Balance (% of GDP)	-0.8	-1.4	-5.1	-4.0	-2.8	-2.5
Debt (% of GDP)	30.1	27.4	33.5	36.0	37.3	41.4
Primary Balance (% of GDP)	0.0	-0.7	-4.3	-3.2	-2.0	-1.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.9	0.7	1.0	0.8	0.7	0.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	12.8	10.6	14.2	12.3	10.5	9.2

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

(a) Calculations based on ECAPOV harmonization, using 2018-HBS. Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

MONTENEGRO

Table 1	2020
Population, million	0.6
GDP, current US$ billion	4.7
GDP per capita, current US$	7567.0
Upper middle-income poverty rate ($5.5)[a]	16.0
Gini index[a]	38.8
School enrollment, primary (% gross)[b]	100.6
Life expectancy at birth, years[b]	76.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

Montenegro suffered a very deep recession in 2020, estimated at 15 percent. The crisis exposed Montenegro's structural challenges and vulnerabilities, reversing economic and social gains of recent years. Despite government support, employment fell across all sectors, and poverty is estimated to have increased to 20 percent. Public debt soared to over 100 percent of GDP, requiring vigilant fiscal management in the years ahead. The economy is projected to rebound in 2021, but GDP will not fully recover before 2023.

Key conditions and challenges

As a small, open, and heavily tourism-dependent economy, Montenegro was hit hard by COVID19, affirming its vulnerabilities to strong boom-bust cycles.

Over the five years prior to the crisis, growth averaged 4 percent, driven by large public investments and consumption. Over two-thirds of Montenegro's jobs are in services, which account for over 70 percent of value added. The external imbalances are structurally high and averaged 15 percent of GDP over 2015-19, largely financed by net FDI and external debt. Montenegro's net international position at negative 170 percent of GDP is amongst the largest in the world. Due to weaker adherence to fiscal plans and debt-financed highway construction, public debt has doubled since independence. Montenegro aspires to join the EU, but significant rule of law challenges slow down progress and reflect a key development constraint.

The crisis has wiped out recent economic and social gains from the period of strong growth and exacerbated Montenegro's vulnerabilities. These include: the lack of fiscal space, small production base and low diversification of the economy, business environment weaknesses, and income and social inequalities. These vulnerabilities translate into significant reversals of progress in creating jobs, raising income, and reducing poverty.

Montenegro ranks third in the number of infections per million inhabitants and records among the highest death rates per capita from COVID-19 in the world. The pace of recovery will depend on when the pandemic is contained and the pace of immunization, which is currently slow.

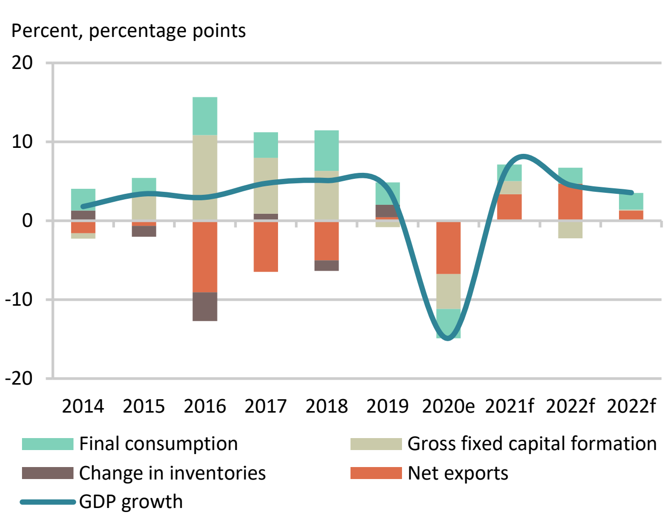
In 2020, the country saw the first democratic change of power. The new government committed to accelerating reforms, strengthening the rule of law, and fighting corruption. These, coupled with strong fiscal and debt management and independent and accountable state institutions, would enable more inclusive, private sector-led growth and efficient service delivery to citizens.

Recent developments

In 2020, tourism plummeted due to COVID19: foreign tourist overnight stays and receipts collapsed by 90 percent. Consequently, retail trade fell by almost 17 percent, while industrial production was at 2019 levels.

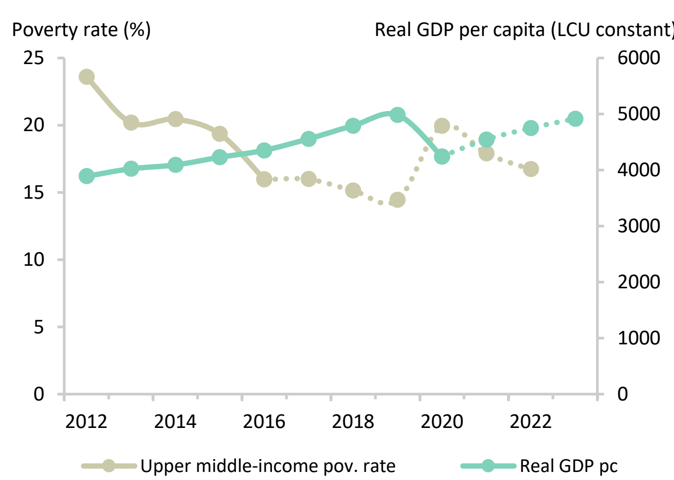
Administrative data show employment was down to a 9-year low, with the tourism, construction, and trade sectors hit hardest. Unemployment went up by 13 percent. Wage subsidies and one-off cash transfers helped to avoid even larger layoffs and increases in poverty, though vulnerable workers in the informal sector might not have received much support. Poverty (income below $5.5/day in 2011PPP) is estimated to increase from 14.5 percent in 2019 to 20 percent in 2020.

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



Sources: MONSTAT, World Bank projections.

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



Source: World Bank. Note: see Table 2.

In 2020, general government revenues declined by 13 percent, strongly driven by declines in VAT (-24 percent). General government spending went up by 4.6 percent, partly due to support measures, while capital spending fell by 25 percent. In December, Montenegro placed a 7-year EUR750 million Eurobond, with an interest rate of 2.875 percent to pre-finance maturing debt and 2021 fiscal deficit.

The financial sector was resilient in 2020: outstanding loans (including those in moratoria) were up by 3 percent, while deposits fell by 3 percent, driven by declining household deposits. Yet, new lending was down by 26 percent and bank profits declined by over 50 percent. In December, non-performing loans edged to 6 percent of total loans and the capital adequacy ratio was at 18.59.3 percent.

As exports plunged and imports showed more resilience, the current account deficit widened to 26 percent of GDP. Net FDI increased by 50 percent (due to smaller outflows, as buying-back of EPCG shares finalized in 2019), covering almost 40 percent of the CAD, with debt and deposit draw-down financing the rest of it. In December, international reserves (stronger due to the Eurobond) covered 10 months of merchandise imports.

Outlook

The blurred outlook due to the pandemic developments and vaccine rollouts is further dimmed by unclarity on the government's medium-term plans. Due to a low base and assuming tourism recovers to 55 percent of 2019 levels, Montenegro's economy is expected to rebound in 2021 with an estimated GDP growth of 7.1 percent.

The total output loss is, however, projected to be fully recovered only in 2023 when the economy is expected to grow 3.5 percent.

External imbalances will remain elevated in 2021, but the finalization of the import-dependent motorway section and stronger exports led by the tourism recovery are projected to reduce the current account deficit to 13 and 10 percent of GDP in 2022 and 2023, respectively. After peaking at 105 percent of GDP in 2020, public debt is estimated to return to pre-crisis levels by 2023. However, the actual debt reduction trajectory might be steeper or flatter, depending on the government's medium-term budgetary plans which are still unknown, as it delayed the 2021 budget adoption. However, implementation of sound and credible fiscal policies is an imperative for debt sustainability.

The outlook on employment is also highly uncertain and depends on the recovery of labor-intensive sectors. The speed of recovery of low-skill jobs will partly determine how fast poor and vulnerable households can return to pre-crisis income levels. The poverty rate is projected to decline to 17.9 percent in 2021.

The current crisis has made the longstanding policy priority of improving economic resilience more urgent than ever.

In order to accelerate recovery and sustain inclusive growth and poverty reduction, Montenegro must keep macroeconomic stability, ensure inclusive and efficient provision of public services, carefully manage its natural resources and strengthen the independence and capacities of its institutions. The government decisions to tackle the SOE governance issues are important steps in the right direction.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	5.1	4.1	-14.9	7.1	4.5	3.5
Private Consumption	4.6	3.1	-4.4	2.2	2.3	2.3
Government Consumption	6.3	1.0	0.5	-0.4	-0.3	-0.1
Gross Fixed Capital Investment	14.7	-1.7	-9.9	3.5	-4.9	0.4
Exports, Goods and Services	6.9	5.4	-51.0	47.3	22.4	8.5
Imports, Goods and Services	9.2	2.4	-20.5	12.0	4.7	3.0
Real GDP growth, at constant factor prices	5.1	4.4	-14.9	7.1	4.5	3.5
Agriculture	3.3	-2.2	-1.5	1.0	1.2	1.5
Industry	15.3	5.6	-9.5	4.0	0.0	3.0
Services	2.2	4.9	-18.3	9.1	6.6	4.0
Inflation (Consumer Price Index)	2.6	0.4	-0.3	1.5	1.5	1.7
Current Account Balance (% of GDP)	-17.1	-15.0	-25.8	-19.4	-13.1	-9.9
Net Foreign Direct Investment (% of GDP)	6.9	7.0	11.1	8.2	7.9	7.9
Fiscal Balance (% of GDP)	-4.6	-3.0	-11.0	-5.1	-1.3	-0.4
Debt (% of GDP)	70.1	76.5	104.8	90.1	82.3	77.7
Primary Balance (% of GDP)	-2.4	-0.8	-8.3	-2.3	1.1	1.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	15.2	14.5	20.0	17.9	16.7	

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

(a) Calculations based on ECAPOV harmonization, using 2012-SILC-C, 2015-SILC-C, and 2016-SILC-C.Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021to 2023.

(b) Projection using point-to-point elasticity (2012-2015) with pass-through = 0.7 based on GDP per capita in constant LCU and simulations of Covid-19 impacts.

NORTH MACEDONIA

Table 1	2020
Population, million	2.1
GDP, current US$ billion	12.1
GDP per capita, current US$	5825.2
Upper middle-income poverty rate ($5.5)[a]	17.9
Gini index[a]	33.0
School enrollment, primary (% gross)[b]	98.2
Life expectancy at birth, years[b]	75.7

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

The pandemic led to a growth contraction of 4.5 percent in 2020—the largest since independence. Government response measures partially mitigated the crisis impact on households and firms, but the fiscal deficit tripled to 8.9 percent of GDP, and debt reached 60 percent of GDP. The near-term outlook is positive, but downside risks are high. While economic and social measures to remedy the crisis will take priority in early 2021, fiscal, competition, environmental and governance reforms are needed for recovery and EU accession.

Key conditions and challenges

North Macedonia has enjoyed a period of relative macroeconomic stability over the last decade, accompanied by rising trade integration, especially in GVCs, an improved business environment and inflow of foreign direct investment. While this has resulted in an average GDP growth of 2.6 percent in the period 2010-2019, it was still lower than in peer countries.

Poverty declined in recent years, but about 16.8 percent of Macedonians (using the US$5.5/day at 2011 PPP line) were still projected to live in poverty in 2019. Hit by the pandemic and the related recession, it is estimated that poverty increased between 1 and 4 percentage points in 2020. Support measures introduced by the government (i.e., subsidies and social security contributions to private firms and cash benefits and vouchers for vulnerable people) helped alleviate the impact of the pandemic on poverty.

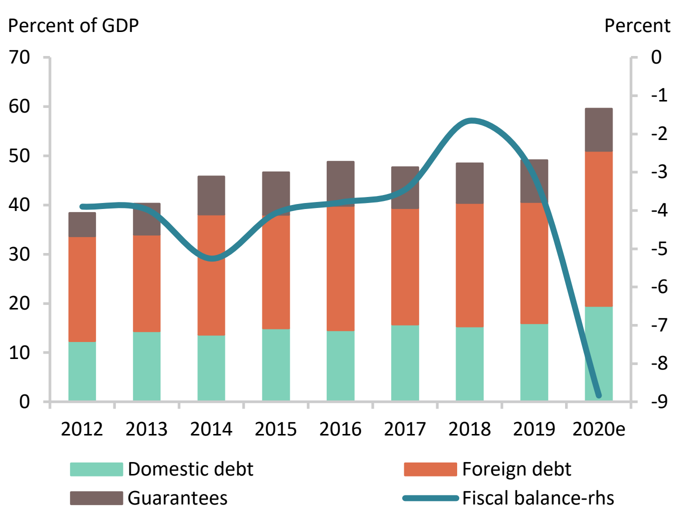
Outlook for the near term, although positive, remains challenging as a result of continued containment measures in place, slow vaccine rollout, and unresolved structural bottlenecks. Human capital development is limited as a result of weak education and workforce skills acquisition which, together with low and declining productivity, has been constraining growth. This has only been further exacerbated by the learning loss caused by COVID-19. In addition, labor resources are underutilized as only 48 percent of working-age Macedonians are employed, while low birth rates and emigration are shrinking the workforce.

The transition to a more dynamic economic model and, with it, the creation of job opportunities for the youth is linked to the implementation of key social sector, economic, and governance reforms in a context of political stability, increased transparency, accountability, voice and participation. The current economic model, based on generous public support through subsidies and broad and growing tax exemptions, is not sustainable and has led to an ever-increasing state involvement in the market. Countercyclical fiscal policies put in place to mitigate the impact of COVID-19 depleted the fiscal buffers and increased sustainability concerns. As the economic recovery firms up, a gradual withdrawal of the state support will be necessary. Finally, further delays in the opening of the EU accession negotiations may reduce willingness to undertake structural reforms.

Recent developments

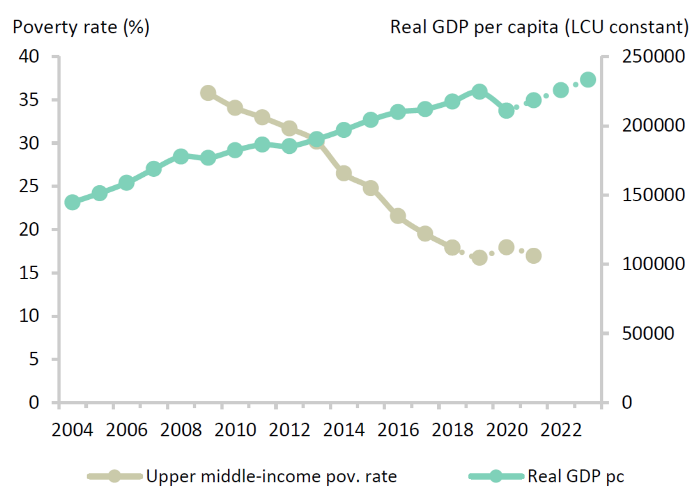
Growth declined by 4.5 percent in 2020; less than earlier projected as the recession sharply eased in Q4. Private consumption, the main driver of growth in the past, experienced a sharp decline of 5.6 percent y-o-y as a result of containment measures. Investment also declined by more than 10 percent, even though it shortly rebounded in Q3. Government consumption that

FIGURE 1 North Macedonia / Fiscal deficit, debt and guarantees



Sources: North Macedonia State Statistics Office and World Bank.

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



Sources: : World Bank. Notes: see Table 2 increased by over 10 percent partly alleviated declining domestic demand. External demand also plummeted, reflected in a 10.9 percent y-o-y decline of exports. The accompanying decline in imports alleviated the pressure on the current account deficit which is expected to remain largely unchanged compared to 2019. On the production side, agriculture, ICT and real estate activities were only sectors growing in 2020.

Government support helped cushion the crisis impact on the labor market by supporting over 130,000 jobs through wage subsidies in April, declining to 60,000 towards the year-end as the economy slowly recovered. The unemployment rate remained largely unchanged, but this was partly a result of people dropping out of the labor market. The activity rate dropped by 0.8 pp to 56.4 percent, the lowest level since 2008.

The banking sector liquidity ratio of over 23 percent in Q3 remained adequate, helped by the central bank measures. Credit continued growing at 4.7 percent y-o-y by end-2020, on account of both household and firm credits supported by strong deposit growth and crisis-support programs. Non-performing loans declined to 3.3 percent given the allowed suspension on credit reclassification requirements until December. However, an upward correction is expected in 2021 as this measure ended. The capital adequacy ratio stood at 16.9 percent in Q3 2020, double the mandatory level. Inflation remained low at 1.2 percent y-o-y in 2020, reflecting subdued output and despite rising food prices in the second half of 2020.

The fiscal deficit tripled to 8.9 percent of GDP in 2020. The drop in VAT and excise revenues amounted to 0.9 percent of GDP and was cushioned somewhat by an increase in social contributions. Spending increased by 4.4 percent of GDP, as health expenditures and subsidy schemes, aimed at employment retention, surged. Spending on wages and pensions also increased as a result of previous policy changes, while capital spending declined. Public and publicly guaranteed debt increased to 60.2 percent of GDP as the government ramped up borrowing to finance the soaring deficit and repay maturing obligations.

Outlook

The economic growth is expected to rebound to 3.6 percent in 2021. This scenario assumes accelerated vaccinations by mid-2021, no further lockdowns, and increased external demand. In this scenario of a gradual recovery, after a protracted recession in Q1 2021, a rebound is expected thereafter, as restored consumer and investor confidence pushes up personal consumption, private investment, and exports. The fiscal deficit is planned at 4.9 percent but given the extended government support to firms and households in early 2021 of an additional 1.4 percent of GDP, the actual deficit will likely be higher. Setting public finances back on a sustainable path will be needed over the medium term, as public and publicly guaranteed debt surpasses 64 percent of GDP in 2021. Targeting a primary balance over the medium term would be needed to stem further public debt growth and not crowd out productive spending. This is even more important in the eventuality that international financing costs rise. Boosting revenues through cutting back on exemptions and strengthening compliance are priorities along with a gradual state withdrawal from the corporate sector. Bringing people back to the labor market, as well as education and governance reforms could help boost potential growth. Poverty is projected to resume its decline as growth gradually recovers in 2021.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.9	3.2	-4.5	3.6	3.5	3.4
Private Consumption	4.5	5.6	-7.4	4.5	3.9	3.7
Government Consumption	2.0	-1.3	10.1	3.6	1.2	0.3
Gross Fixed Capital Investment	-19.8	20.2	-7.7	5.1	5.9	5.1
Exports, Goods and Services	15.6	4.6	-10.9	6.2	7.2	7.3
Imports, Goods and Services	9.1	10.5	-10.5	6.4	6.5	6.2
Real GDP growth, at constant factor prices	3.9	3.2	-3.7	3.6	3.5	3.4
Agriculture	8.6	0.6	1.7	2.7	2.5	2.0
Industry	0.2	4.6	-6.8	5.7	5.0	4.5
Services	4.9	2.9	-3.2	2.9	3.1	3.1
Inflation (Consumer Price Index)	1.5	0.9	1.2	1.6	2.0	2.0
Current Account Balance (% of GDP)	-0.1	-3.3	-3.5	-3.4	-2.6	-1.5
Financial and Capital Account excl. reserves (% of GDP)	5.2	6.6	5.2	3.9	3.1	1.9
Net Foreign Direct Investment (% of GDP)	5.6	3.2	1.9	2.6	2.7	2.7
Fiscal Balance (% of GDP)	-1.1	-2.2	-8.2	-5.4	-4.0	-3.3
Fiscal Balance with Pub. Ent. for State Roads (% of GDP)	-1.7	-3.1	-8.9	-6.0	-4.2	-3.4
Debt (% of GDP)	48.4	49.4	60.2	64.9	65.9	67.2
Primary Balance (% of GDP)	-0.5	-1.9	-7.7	-4.7	-2.8	-2.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	17.9	16.8	18.0	17.0		

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

(a) Calculations based on ECAPOV harmonization, using 2018-SILC-C. Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021.

(b) Projections based on sectoral GDP growth at constant LCU.

POLAND

Table 1	2020
Population, million	38.0
GDP, current US$ billion	594.2
GDP per capita, current US$	15654.9
Upper middle-income poverty rate ($5.5)[a]	1.2
Gini index[a]	30.3
School enrollment, primary (% gross)[b]	96.9
Life expectancy at birth, years[b]	77.6

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

The two COVID-19 waves and containment measures have pushed the Polish economy into recession; however, Poland remained among the most resilient economies in the region. To mitigate the impact on firms and employment, economic measures were introduced that have narrowed the fiscal space. While unemployment impacts have been stymied, work stoppages have resulted in considerable household income impacts. The key challenges over the short term are swiftly rolling out vaccinations and ensuring a robust economic recovery.

Key conditions and challenges

The well-diversified Polish economy is one of Europe's least affected economies by the COVID-19 pandemic. GDP declined however by 2.7 percent in 2020, the first output contraction in over 20 years.

Prudent macroeconomic policies, effective absorption of EU investment funds, a sound financial sector, and better access to long-term credit fed into inclusive growth and poverty reduction. Real wage growth and a range of demographically targeted social programs ("Family 500+", "13th pension") fed into robust consumption growth until early 2020. With an improving business environment, Poland integrated well into regional value chains (RVCs). Higher levels of private investment, an improved innovation ecosystem, and further upgrading of RVCs are needed to boost productivity and growth.

A key challenge over the short term is to continue supporting the sectors most affected by the pandemic, while ensuring public debt sustainability. The unprecedented policy response to the COVID crisis has narrowed available fiscal space.

Increased spending efficiency is needed to rebuild fiscal buffers for future countercyclical policies and to prepare for the growing fiscal burden arising from aging.

The full economic and social impact of COVID-19 hinges on the success of containment efforts, the vaccination rollout and of the policy measures. The second wave of the pandemic weakened the recovery, forcing a lockdown in multiple sectors, in particular retail, accommodations and services, and further straining the healthcare system. The risk of delays in the vaccination rollout and subsequent pandemic waves could undermine the recovery, with implications for jobs and inclusion.

Over the medium term, a key challenge to sustained growth is a tightening labor supply made more acute by the aging population. Achieving decarbonization commitments is another challenge. Strengthening institutions at both the national and subnational level are necessary ingredients for sustained and inclusive growth and for the narrowing of regional disparities.

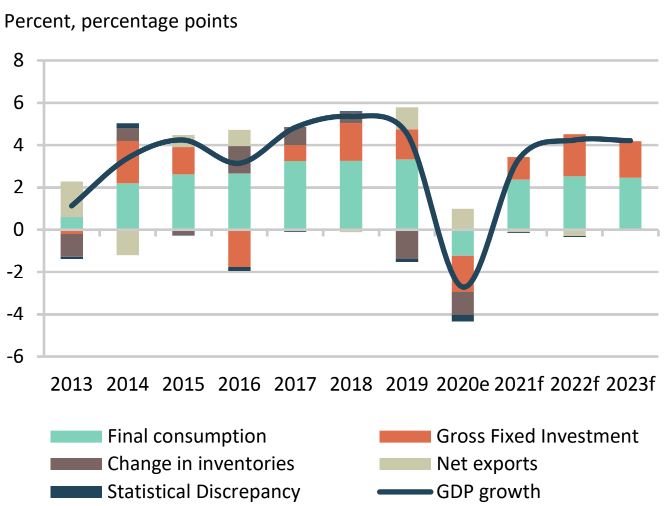
Recent developments

The economy recorded its first contraction since 1991 amid the pandemic, with output contracting 2.7 percent in 2020. The government swiftly implemented exceptional stimulus and accommodative monetary policy to mitigate the health, social impact and prevent economic scarring.

The pandemic, heightened uncertainty, and negative confidence effects dampened private consumption (-3.1 percent) and total investment, (-8.4 percent). Government spending to cushion pandemic impacts and a higher public wage bill contributed to the 3.2 percent increase in public consumption, while public investment remained stable.

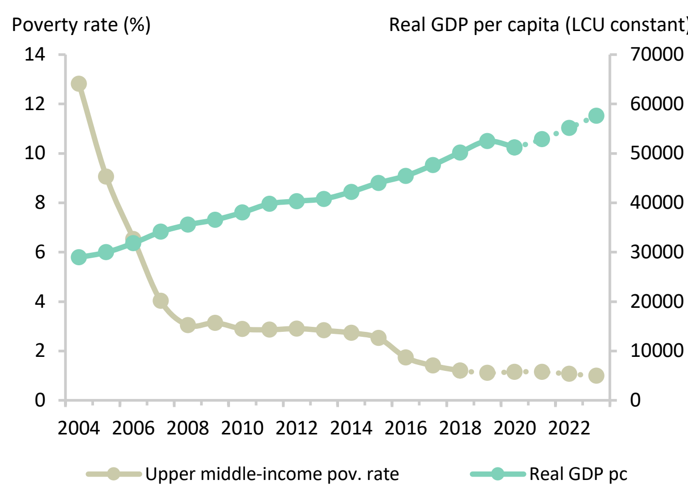
Disruptions to international trade and transport and lower demand from key EU partners caused a 0.5 percent decline in

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



Source: World Bank.

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



Source: World Bank. Notes: see table 2.

exports. Lower domestic expenditure caused imports to decline 2.6 percent, with net exports contributing 1 percentage point to growth in 2020.

Although disruptions to RVCs and lockdown measures affected industrial activity (-9.4 percent in Q2), the Q3 rebound in domestic activity and exports limited the decline to 1.0 percent in 2020. Accommodation and catering collapsed by 45.5 percent, raising the risk of economic scarring. Most sectors contracted at a moderate pace, while real estate activities and ICT expanded.

Household income and employment impacts of the pandemic were mitigated through multiple additional support measures as well as by demographically targeted transfers that acted as an income base for population segments. Rapid assessments show that household income declines were more widespread and pronounced in the first pandemic wave. Work stoppages have however had a more pronounced impact on lower-wage workers and those in non-standard contract types, who are also less likely to be covered by protective leave policies.

The current account surplus rose to 3.5 percent of GDP, as imports dropped by USD 11.6 billion, while primary income outflows declined by USD 6.6 billion.

The stimulus packages appear to have been effective in preventing a sharper increase in unemployment and earnings losses by subsidizing salaries and supporting domestic enterprises via non-returnable transfers, loans, tax reliefs and deferrals among others. The unemployment rate increase was contained to 1 pp. year-on-year by January 2021, rising to 6.5 percent.

The large fiscal stimulus and the decline in economic activity caused the fiscal deficit to widen to an estimated 8.5 percent of GDP in 2020.

Inflation reached 3.4 percent in 2020, primarily on account of lower international fuel prices and food prices. Meanwhile, higher electricity tariffs and a record low reference interest rate prevented a sharper decline in inflation.

The financial sector's asset quality and capital adequacy remain at satisfactory levels.

Outlook

Trade recovery in the euro area, combined with improved confidence and a rebound in private consumption and investment is expected to support a moderate recovery of around 3.3 percent in 2021, bringing output above pre-crisis levels. The outlook incorporates the uncertainty arising from the new strains of the COVID-19 virus and the current pace of vaccination campaigns throughout Europe. Exceptional policy accommodation in Poland and in the EU more broadly is expected to continue throughout 2021, including near-zero policy interest rates. This baseline assumes that the pandemic is contained, with a vaccine effectively rolled out in 2021.

The persistence of the crisis is expected to put a continued financial strain on poor working households that are more vulnerable to reductions in hours worked and job loss. Therefore, the share of the population at risk of poverty is expected to remain elevated through 2021 before gradually recovering in 2022.

Pent-up domestic demand, especially for capital and durable goods, and stronger demand for Poland's exports from key EU trading partners will support a recovery in the industrial sector and exports. Recovery in imports and increased primary income outflows are expected to contribute to a narrowing in the current account surplus. Poland could receive nearly Euro 28 billion in grants and guarantees under the "Next Generation EU" recovery package to fund its national recovery program, providing support for a green and digital transition.

The fiscal deficit is expected to narrow starting in 2021, as the economy recovers and as support measures are targeted to the most affected sectors and vulnerable groups.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	5.4	4.5	-2.7	3.3	4.2	4.2
Private Consumption	4.5	3.9	-3.1	3.1	3.4	3.3
Government Consumption	3.5	6.2	3.2	3.2	3.3	3.3
Gross Fixed Capital Investment	9.4	7.2	-8.4	5.6	10.2	8.4
Exports, Goods and Services	6.9	5.1	-0.5	2.0	5.1	5.5
Imports, Goods and Services	7.4	3.3	-2.6	2.4	6.1	5.8
Real GDP growth, at constant factor prices	5.3	4.5	-2.8	3.5	4.2	4.2
Agriculture	-9.1	0.1	-3.0	5.5	1.0	1.0
Industry	7.0	2.2	-1.0	2.0	2.8	2.9
Services	5.0	5.8	-3.7	4.2	5.0	4.9
Inflation (Consumer Price Index)	1.6	2.3	3.4	2.6	2.5	2.4
Current Account Balance (% of GDP)	-1.3	0.5	3.5	1.4	0.3	-0.6
Net Foreign Direct Investment (% of GDP)	-2.6	-1.6	-0.9	-1.2	-1.1	-1.0
Fiscal Balance (% of GDP)	-0.2	-0.7	-8.5	-5.1	-3.2	-2.9
Debt (% of GDP)	48.8	45.7	58.2	59.5	59.0	58.1
Primary Balance (% of GDP)	1.2	0.7	-7.2	-3.8	-1.6	-1.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	1.2	1.1	1.2	1.2	1.1	1.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2007-EU-SILC, 2017-EU-SILC, and 2018-EU-SILC.
Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.
(b) Projection based off elasticities calibrated on 2007-2017 growth periods and rapid assessment data, allowing for elasticities to vary between periods of contraction, recovery and expansion.

ROMANIA

Table 1	2020
Population, million	19.2
GDP, current US$ billion	245.4
GDP per capita, current US$	12757.5
International poverty rate ($1.9)[a]	2.6
Lower middle-income poverty rate ($3.2)[a]	5.3
Upper middle-income poverty rate ($5.5)[a]	11.0
Gini index[a]	35.9
School enrollment, primary (% gross)[b]	87.3
Life expectancy at birth, years[b]	75.4

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

The Romanian economy performed better than anticipated, contracting by 3.9 percent in 2020. A proactive but constrained fiscal response, at 4.4 percent of GDP, supported firms to retain employees and fed into household incomes. Economic growth is expected to rebound to 4.3 percent in 2021, supported by a pick-up in economic activity in the second half of the year. Poverty is anticipated to increase in the short term as the protracted impacts of COVID-19 affect domestic income sources and remittances.

Key conditions and challenges

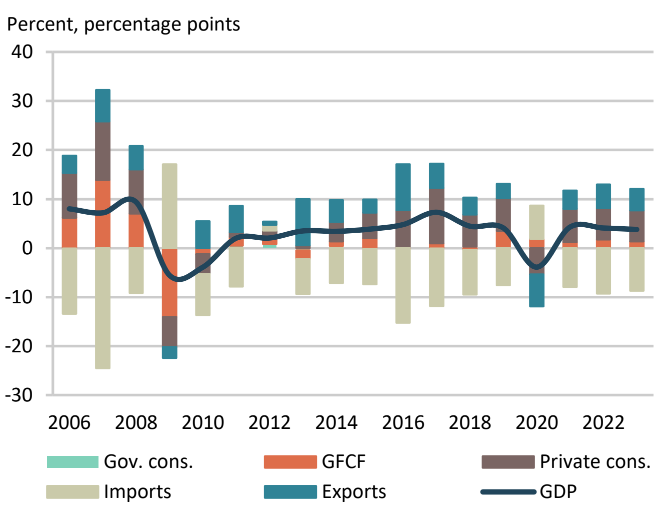
Prior to the COVID-19 pandemic, Romania enjoyed a decade of economic growth; however, the COVID-19 crisis has affected economic activity and household incomes, exposing Romania's structural issues. Fiscal policy has historically been procyclical. The budget deficit averaged -2.8 percent of GDP between 2011-2019 as GDP growth averaged 3.9 percent over the same period. Economic growth was strong despite weak fundamentals. Elevated private consumption, driven in part by unsustainable wage growth, has triggered inflationary pressures and placed the current account deficit on a widening path. The quality and quantity of labor and capital, as well as slower productivity dynamics, have limited potential growth. Private investment has remained at fairly high levels, but a shallow financial sector limits the availability of long-term finance. The Government responded rapidly to the COVID-19 crisis by providing a fiscal stimulus of 4.4 percent of GDP in 2020. This is one of the lowest stimuli in the EU, reflecting the limited fiscal space. In the first COVID wave, poor and vulnerable households were less supported by the fiscal response measures, which extended more directly to those in formal employment structures; subsequent programs for daily wage and seasonal workers extended protections to typically more vulnerable segments.

The key challenge in the short term is to contain the COVID-19 crisis and limit its health, economic and social consequences. The Government's policy response alongside the European Union (EU) support, as well as a successful rollout of the COVID-19 vaccine, will be critical in ensuring recovery. Bringing down the fiscal deficit alongside structural reforms to reduce inefficient expenditures and strengthen revenue mobilization will be paramount for the consolidation of public finance and for averting a sharp increase in public debt over the medium term. Additional challenges stem from Romania's historically low EU fund absorption rates, raising questions on the country's capacity to take advantage of the new recovery funds.

Recent developments

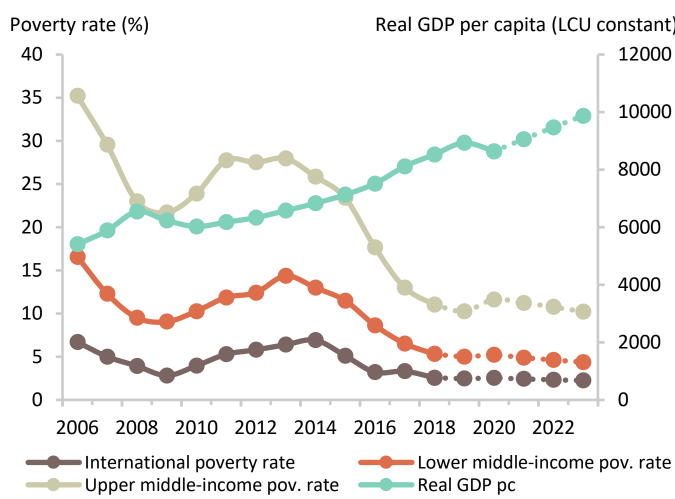
The Romanian economy contracted by 3.9 percent in 2020 on the back of better than expected fourth-quarter performance at -1.4 percent yoy. This reflects in part a smaller disruption of employment and production in the second wave of the pandemic in Q4 2020 compared to the first. Trade and services decreased by 4.7 percent in 2020, and high-frequency indicators point to a quicker recovery contributing to the fourth quarter GDP rebound, although certain sectors – such as tourism and hospitality – remained heavily affected. Industry contracted by 9.3 percent, over the same period, reflecting the weakening of external demand from Europe alongside pandemic-related restrictions

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.

and supply chain disruptions. The biggest contraction was seen in agriculture, linked to persistent droughts affecting crops. The output contractions led to deteriorating labor market conditions and increased unemployment affecting household income. The unemployment rate reached as high as 5.5 percent in July 2020 before edging down to 5.3 percent in December 2020.

Rapid household assessments of COVID-19 impacts showed a substantial rise in the share of the population at risk of poverty in April 2020, which gradually declined between July 2020 and January 2021 as temporarily inactive workers returned to work. Poverty levels at the start of 2021, however, remain elevated – linked to the combination of the sharp agricultural contraction and the persistence of the pandemic. Lower-earning workers and those on non-standard contracts continue to be more affected by employment stoppages during the second pandemic wave and approximately 20 percent of households reported lower incomes in January 2021 than prior to the pandemic, with impacts felt across income groups.

The fiscal deficit surged to 9.8 percent of projected GDP at the end of 2020 on the back of COVID-19 related expenditures and lower revenues due to the economic downturn and tax relief. Tax facilities, investments, and exceptional expenditures allocated to combat the effects of the COVID-19 pandemic totaled 46.3 billion Ron (4.4 percent of GDP). This included 4.2 billion Ron for benefits granted during the period of temporary suspension of individual employment contracts, 2.7 billion Ron in VAT refunds supporting firm liquidity, and 0.9 billion Ron in bonuses granted for the payment at maturity of the tax on the income of micro-enterprises and the corporate income tax.

To reduce the effects of the COVID-19 crisis, the National Bank of Romania (NBR) has pursued a quantitative easing policy which included the purchase of government bonds from the secondary market, repo operations to provide liquidity to credit institutions and monetary policy rate cuts amounting to 1.25 percentage points from 2.5 percent in February 2020 to 1.25 percent in January 2021.

Outlook

The economy is projected to grow at around 4.3 percent in 2021 on the back of strengthened economic activity in the second half of 2021. The strength of the recovery will depend on the success of the vaccine rollout and the policy response to the health crisis, as well as on developments in the EU. The impact of the stimulus pursued at the EU level will play a critical role in the recovery given limited fiscal space. The NBR will continue its quantitative easing policy, further supporting the recovery. However, as growth recovers, inflationary and current account deficit pressures are expected to reemerge, requiring an appropriate policy response.

A substantial reduction of the fiscal deficit in 2021 is improbable, as the government will have to support the economic recovery process. Over the medium term, the deficit will follow a downward trajectory but is likely to remain above 3 percent throughout the projection period. The widening fiscal deficit would push public debt to 62.2 percent in 2023, from 37.3 percent in 2019. However, public debt remains one of the lowest in the EU.

Poverty is projected to remain elevated due to the triple-hit in incomes facing poorer segments of the population, in the form of the persistent pandemic, the poor agricultural year, and declining remittance incomes.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.5	4.1	-3.9	4.3	4.1	3.8
Private Consumption	6.5	6.4	-5.1	6.5	6.0	5.9
Government Consumption	6.8	5.0	6.5	1.2	3.5	3.0
Gross Fixed Capital Investment	-1.1	13.0	5.6	3.9	5.1	3.9
Exports, Goods and Services	5.3	4.6	-10.0	6.2	7.8	6.8
Imports, Goods and Services	8.6	6.8	-6.0	7.1	8.1	7.3
Real GDP growth, at constant factor prices	3.9	4.0	-3.3	4.3	4.1	3.8
Agriculture	9.4	-5.0	-16.2	14.2	6.1	2.9
Industry	4.3	-0.6	-9.3	5.2	4.3	4.1
Services	3.2	7.6	0.9	3.1	3.8	3.7
Inflation (Consumer Price Index)	4.6	3.8	2.6	3.0	3.2	2.9
Current Account Balance (% of GDP)	-5.3	-4.7	-5.0	-5.4	-5.7	-6.3
Net Foreign Direct Investment (% of GDP)	2.3	2.3	0.9	2.1	2.3	2.4
Fiscal Balance (% of GDP)	-2.9	-4.4	-9.8	-7.2	-6.0	-4.7
Debt (% of GDP)	36.4	37.3	47.7	53.6	58.1	62.2
Primary Balance (% of GDP)	-1.6	-3.1	-8.4	-5.5	-4.0	-2.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.6	2.5	2.5	2.4	2.3	2.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	5.3	5.0	5.2	4.9	4.6	4.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	11.0	10.3	11.6	11.2	10.8	10.2

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

(a) Calculations based on ECAPOV harmonization, using 2007-EU-SILC, 2017-EU-SILC, and 2018-EU-SILC.Actual data: 2018. Nowcast: 2019-2020. Forecasts: 2021to 2023.
(b) Projection based off elasticities calibrated on 2007-2018 growth periods and rapid assessment data, allowing for elasticities to vary between periods of contraction, recovery and expansion.

RUSSIAN FEDERATION

Table 1	2020
Population, million[a]	144.5
GDP, current US$ billion	1481.9
GNI per capita, US$ (Atlas method)[a]	11260
International poverty rate ($1.9)[b]	0.0
Lower middle-income poverty rate ($3.2)[b]	0.4
Upper middle-income poverty rate ($5.5)[b]	3.7
Gini index[c]	37.5
School enrollment, primary (% gross)[c]	104.7
Life expectancy at birth, years[c]	72.7

Sources: WDI, MPO, Rosstat.
Notes:
(a) Most recent value (2019).
(b) Most recent value (2018), 2011 PPPs.
(c) Most recent value (2018).

A lower-than-expected GDP contraction in 2020 and a rapid easing of COVID-19–related restrictions have improved growth momentum, spurring an upgrade in the Russian Federation's economic growth forecast to 2.9 percent in 2021 and 3.2 percent in 2022 (from a December forecast of 2.6 percent and 3.0 percent, respectively). However, this outlook remains subject to substantial uncertainty and downside risks. Following an uptick in 2020, the poverty rate is expected to decline in 2021 but remain above pre-pandemic levels until 2022.

Key conditions and challenges

In recent years, Russia undertook significant macro-fiscal stabilization efforts, resulting in an improved fiscal position—including a sizeable accumulation of fiscal and reserve buffers—reduced exposure to oil price volatility and a lower public debt burden. A massive banking sector clean-up, together with enhanced regulation and supervision, fortified capital and liquidity buffers. These efforts strengthened Russia's ability to respond to the pandemic's adverse economic shocks. They allowed the government to provide a substantial countercyclical fiscal stimulus (about 4.5 percent of GDP) and an accommodative monetary policy (the key rate was lowered by 200 basis points between February–July 2020).

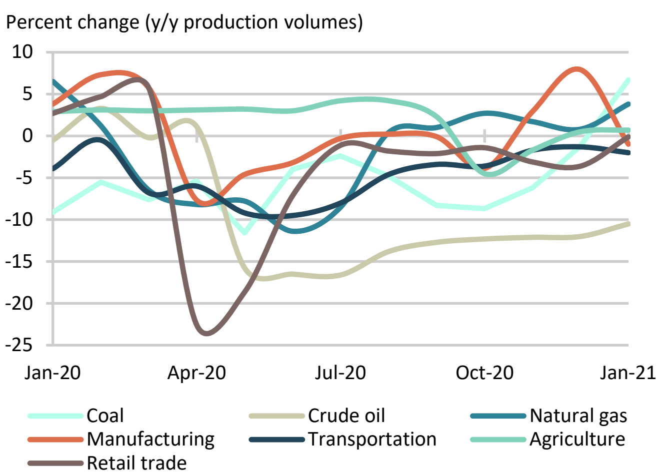
Russia's potential growth has been trending downward since the global financial crisis. While near-term recovery will be contingent on the stemming of the pandemic, longer-term economic prospects will depend on boosting potential growth through promoting economic diversification, reducing the state's economic footprint, leveling the playing field for the private sector, improving governance—particularly of state-owned enterprises—and taking advantage of shifting global value chains. A green transition could pose significant challenges for the Russian economy unless the government undertakes preemptive steps toward decarbonization.

The downward trajectory in poverty rates since 2010 was interrupted by the shocks of 2014–15. Since then, poverty has again declined, reaching 12.3 percent in 2019 (using the national measure). The official poverty rate jumped to 13.3 percent in the third quarter of 2020, reflecting the coronavirus pandemic's impact. Emergency social protection measures prevented an even greater increase in the poverty rate.

Recent developments

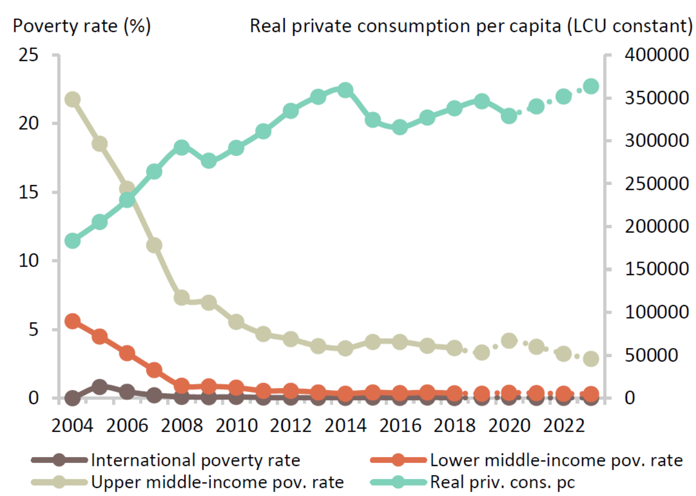
GDP contracted sharply in the second quarter of 2020, declining by 10.9 percent quarter on quarter, saar. Economic activity only partly recovered in the third quarter (rising by 2.8 percent quarter on quarter, saar) as mobility restrictions eased following a decline in COVID-19 cases and households and companies benefited from government support, including countercyclical fiscal, monetary, macroprudential, and regulatory measures. Momentum slowed again in the fourth quarter as the pandemic's second wave swept across Russia and the globe. Pandemic mitigation measures heavily impacted the services sectors, with the transportation and hotels and catering sectors registering double-digit contractions. The 2020 extension of the OPEC+ agreement weighed on mineral resource extraction, which contributed -1 percentage point to GDP growth. Lower energy export receipts, financial market volatility, and increased geopolitical risks fueled a sharp increase in capital outflows in 2020 ($47.8 billion,

FIGURE 1 Russian Federation / High frequency economic indicators



Sources: Russian Statistical Authorities.

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



Source: World Bank. Notes: see Table 2.

up from $22.1 billion in 2019), driving a real effective exchange rate depreciation. The sharp contraction in imports due to the depreciation, a decline in real income, and impediments to outward tourism failed to fully offset the drop in energy exports.

The general government fiscal deficit widened to 4.0 percent of GDP in 2020 (compared to a surplus of 1.9 percent of GDP in 2019), driven by pandemic response spending and the need for economic support measures amid lower energy revenues. Unemployment rose in all regions, but job losses were concentrated in manufacturing, real estate, and hotels and catering. The unemployment rate stood at 5.8 percent in January 2021, down from its peak of 6.4 percent in August but still above the 4.6 percent rate recorded in December 2019.

Weakening asset quality across the corporate, small and medium enterprise, and retail segments put pressure on bank profitability and amplified macro-financial risks. The extent of problem loans on bank balance sheets will only become clearer in mid-2021 when the authorities lift the remaining regulatory forbearance measures.

Since the end of 2020, 12-month consumer price inflation has exceeded the central bank's target of 4 percent, owing mainly to higher global food prices and ruble deprecation. In February 2021, inflation reached 5.7 percent. Elevated inflationary pressure coupled with domestic demand rebound prompted the Central Bank of Russia (CBR) to raise its key interest rate by 25 bp to 4.5 percent in March.

Outlook

Assuming that no third wave of coronavirus infections occurs in Russia, consumer and business confidence are expected to improve, paving the way for a gradual economic rebound. GDP growth is forecast at 2.9 percent in 2021 and 3.2 percent in 2022. The general government deficit is expected to improve, narrowing to about 2.0 percent of GDP in 2021 and turning into 0.5 percent of GDP surplus in 2022. Deficit financing, mainly through domestic debt issuance, will increase general government debt to a still-manageable 20 percent of GDP in 2023 (from 14 percent in 2019). Following 2020's stronger fiscal impulse, the 2021–22 fiscal consolidation in Russia will be deeper than in other emerging markets and will become a drag on growth. Given its relatively low public debt, sizeable macro-fiscal buffers, and expected persisting negative output gap, Russia has the fiscal space for a more gradual consolidation, allowing further increases in social spending and support to regions. In line with the OPEC+ agreement, oil production restrictions will fall away in 2021-–22, supporting growth of oil output and export volumes. Twelve-month consumer price inflation is projected to average 4.3 percent in 2021 before stabilizing around the central bank's target of 4 percent in 2022–23.

In 2021, the poverty rate (using the upper-middle-income poverty line of US$5.5 per day) is expected to decline to below 2020 levels as the economy rebounds. However, it will remain above pre-pandemic levels until 2022.

The outlook faces substantial downside risks. Lower-than-expected vaccine effectiveness or vaccine hesitancy could delay the economic recovery, as could new sanctions. Banks could face deteriorating asset quality, profitability, and capitalization, including from the country's overheated mortgage market. The CBR extended the forbearance on impairment recognition until mid-2021. Although these measures should allow banks to accumulate profits to increase loan loss provisioning, they will also delay the realization of unavoidable and costly losses.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.8	2.0	-3.1	2.9	3.2	2.5
Private Consumption	4.2	3.1	-8.6	4.7	4.9	3.8
Government Consumption	1.3	2.4	4.0	-1.0	-1.0	1.0
Gross Fixed Capital Investment	0.6	1.5	-6.2	2.8	3.4	3.0
Exports, Goods and Services	5.6	0.9	-5.1	1.9	3.6	3.2
Imports, Goods and Services	2.7	3.5	-13.7	5.9	9.3	4.9
Real GDP growth, at constant factor prices	2.8	2.0	-2.8	2.7	3.2	2.4
Agriculture	1.7	2.7	0.0	1.8	1.8	1.8
Industry	2.9	1.5	-3.5	1.9	2.7	2.5
Services	2.8	2.2	-2.6	3.2	3.6	2.4
Inflation (Consumer Price Index)	2.9	4.5	3.4	4.3	4.0	4.0
Current Account Balance (% of GDP)	7.0	3.8	2.2	3.1	2.7	2.0
Net Foreign Direct Investment (% of GDP)	-1.4	0.6	-0.3	0.2	0.2	0.2
Fiscal Balance (% of GDP)[a]	2.9	1.9	-4.0	-1.8	0.5	0.6
Debt (% of GDP)	13.7	14.0	17.8	19.1	19.6	20.0
Primary Balance (% of GDP)[a]	3.8	2.7	-3.1	-0.8	1.6	1.7
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	0.4	0.3	0.4	0.4	0.3	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	3.7	3.3	4.2	3.7	3.2	2.9

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

(a) Fiscal and Primary Balance refer to general government balances.
(b) Calculations based on ECAPOV harmonization, using 2018-HBS.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.
(c) Projection using neutral distribution (2018) with pass-through = 0.7 based on private consumption per capita in constant LCU.

SERBIA

Table 1	2020
Population, million	6.9
GDP, current US$ billion	53.0
GDP per capita, current US$	7673.3
Upper middle-income poverty rate ($5.5)[a]	19.8
Gini index[a]	37.2
School enrollment, primary (% gross)[b]	99.6
Life expectancy at birth, years[b]	75.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

The Serbian economy entered only a mild recession of -1 percent in 2020 thanks to the significant fiscal stimulus program of around 13 percent of GDP. As a result, there was not a substantial increase in poverty, which is estimated to be close to its 2019 level. Downside risks remain, primarily because of uncertainties related to the external environment. To promote economic growth this year the government announced a new fiscal stimulus program worth around 5 percent of GDP.

Key conditions and challenges

The focus of the Government of Serbia in recent years has been on macroeconomic stability, in light of deficits of over 6 percent of GDP (2012-14) and high and increasing public debt. A substantial fiscal consolidation effort started in 2014 to lower total expenditures from 45.2 percent of GDP in 2014 to 42.3 percent in 2019, and to increase revenues from around 38 percent of GDP to 42.1 in 2019. As a result, the large deficits were turned into a surplus in 2017 and a balanced budget thereafter. Tighter fiscal policy together with natural disasters, including a drought in 2012 and major floods in 2014, resulted in lower growth, which averaged 1.9 percent over 2010-19 period. The rate of economic growth started to improve just before the COVID-19 pandemic, averaging 4.4 percent in 2018 and 2019. Growth was primarily led by consumption, and investment remained low as a share of GDP at around 19 percent over 2010-19 period.

The Serbian economy went through the first year of the pandemic with a minimal recession since the government used most of the available fiscal space and buffers at the start of the pandemic. The impact of the program on the economy and living standards was favorable but came at a considerable fiscal cost. With limited space for future stimulus packages, further reforms are needed to bring the economy back to sustained growth and to secure jobs and incomes while strengthening resilience to shocks.

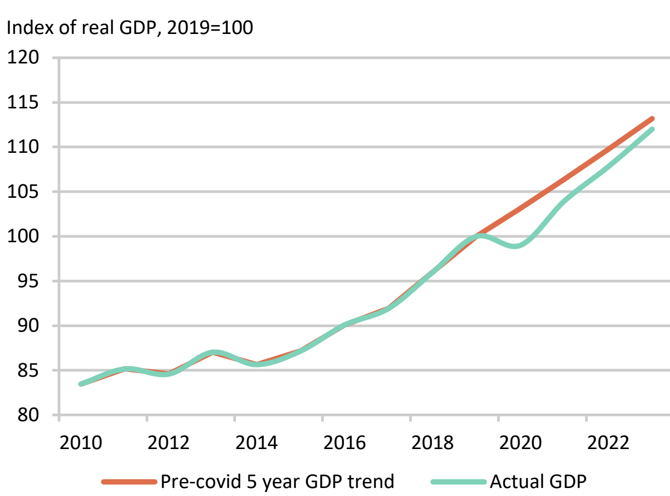
Over the medium term the Serbian economy is expected to return to the pre-COVID-19 growth pattern. However, some challenges that limit growth both over the short and over the medium to long term will remain. Most importantly, Serbia needs to continue efforts to remove bottlenecks for private sector growth stemming from the deteriorating governance environment, insufficiently developed infrastructure and unreformed education sector which creates increasing concern about skills mismatch.

Recent developments

After a robust growth of 4.2 percent in 2019, the COVID-19 pandemic caused a recession of -1 percent in 2020. This is a significantly better result than what was previously projected (a drop of 3 percent). Services sectors were hit most by the pandemic-related events (down 1.5 percent, y/y) while value added in industry remained flat in real terms, and the agriculture sector grew by 4.9 percent. On the expenditure side, both investment and consumption had a negative contribution to growth in 2020 (-1.1 and -0.7pp, respectively) while net exports had a positive contribution to growth (0.8pp).

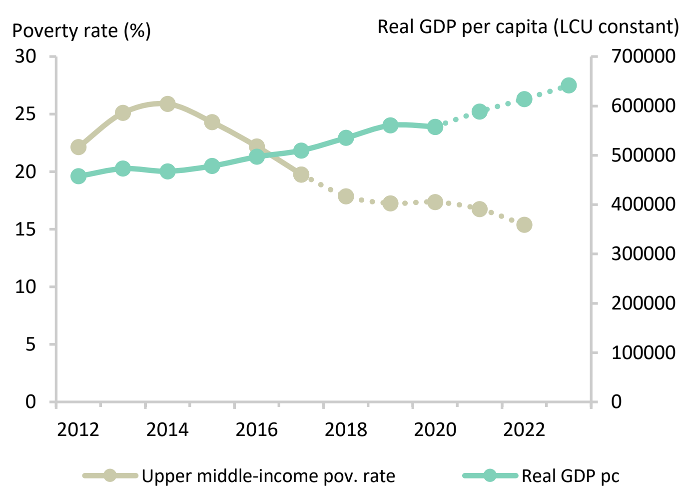
The large fiscal stimulus program, of close to 13 percent of GDP, helped to keep the recession mild. It comprised tax deferrals and increased expenditures of around 8 percent of GDP and guarantees

FIGURE 1 Serbia / Actual and forecast GDP vs 5-year pre-covid trend



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

in the amount of 4.8 percent of GDP. As the largest part of the package (7.4 percent of GDP) went to businesses, it helped to avoid a major reduction in employment. In fact, registered employment increased by 1.9 percent compared to 2019. The Q3 unemployment rate, as measured by the Labor Force Survey, stood at 9 percent in 2020, slightly lower than 2019. The wage subsidy and cash support to citizens also helped to avert a spike in poverty, although at a significant fiscal cost. Due to the support package, limited labor market impacts, and growth in agriculture, poverty (income under $5.5/day in revised 2011 PPP) is estimated to have remained stagnant from 17.3 percent in 2019 to 17.4 percent in 2020.

The fiscal deficit increased significantly in 2020 and reached an estimated 8.1 percent of GDP. This increase is primarily the result of the large fiscal stimulus program. Public debt is estimated at 58.2 percent of GDP by end-2020.

Inflation by year-end reached 1.3 percent y/y, however food prices increased by 2.1 percent. The dinar has remained broadly stable against the euro, supported by significant interventions by the NBS on the foreign exchange market (NBS sold reserves worth 1.5 billion euros in 2020). The banking sector's performance remains robust despite two rounds of debt moratoria introduced in 2020 as part of the COVID-19 response measures. NPLs stood at 3.5 percent as of November. On the external side, CAD decreased significantly – from 6.9 percent of GDP in 2019 to 4.3 percent in 2020.

Outlook

Recovery from the COVID-19 related recession is expected to start in 2021. Growth will be supported by a recently announced new package of measures to support citizens and the economy worth 5.1 percent of GDP. As a result, the economy is expected to rebound by 5 percent in 2021. Over the medium term, growth is expected to be around 4 percent. Growth will be driven by consumption and investment will recover only slowly, which may slow down the impact of growth on labor markets (both employment and wages). This medium-term outlook crucially depends on international developments (including the control of COVID-19), the pace of structural reforms and political developments.

Immediate focus is needed on measures to improve the business environment and governance in order to lower the cost of doing business and ensure security and safety, as well as efforts to improve the quality of infrastructure. Regarding the medium- to long-term challenges the focus should be on demography and climate change. First, an aging and shrinking population will leave Serbia with a smaller available labor force. Labor shortages combined with skills mismatches could significantly hurt the competitiveness of the Serbian economy. Second, the impact of climate change – including more frequent and severe droughts and floods – will hit agriculture and food production hard and will make the cost of infrastructure maintenance much higher.

The pace of labor market recovery will be critical for resumed poverty reduction. The new package is expected to support citizens and economic recovery, though poor and vulnerable households, who tend to depend more on self-employment and less secure jobs, may take longer to regain their income level. Poverty is projected to slowly decline to 16.8 percent in 2021.

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

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.4	4.2	-1.0	5.0	3.7	3.9
Private Consumption	3.1	3.1	-2.5	5.7	4.2	4.0
Government Consumption	3.7	8.7	11.8	-6.4	1.9	4.0
Gross Fixed Capital Investment	17.8	11.2	-8.2	15.1	5.6	5.2
Exports, Goods and Services	8.3	8.5	-5.9	7.8	8.6	9.5
Imports, Goods and Services	11.6	9.5	-3.5	7.3	8.0	8.7
Real GDP growth, at constant factor prices	4.5	4.2	-1.0	5.0	3.7	3.9
Agriculture	15.2	0.0	4.2	-4.0	1.0	0.0
Industry	2.8	0.2	0.0	4.0	4.5	5.0
Services	4.1	6.8	-2.1	6.6	3.6	3.8
Inflation (Consumer Price Index)	2.0	2.2	1.6	2.5	2.8	2.6
Current Account Balance (% of GDP)	-5.2	-6.9	-4.4	-5.2	-5.9	-6.2
Net Foreign Direct Investment (% of GDP)	3.8	6.3	4.8	5.0	5.6	5.3
Fiscal Balance (% of GDP)	0.6	-0.2	-8.1	-5.0	-2.5	-1.4
Debt (% of GDP)	55.6	52.9	58.2	58.0	56.2	54.9
Primary Balance (% of GDP)	2.7	1.4	-7.1	-3.8	-0.5	0.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	17.9	17.3	17.4	16.8	15.4	

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

(a) Calculations based on ECAPOV harmonization, using 2013-EU-SILC and 2017-EU-SILC.Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021 to 2023.

(b) Projection using point-to-point elasticity (2013-2017) with pass-through = 0.7 based on GDP per capita in constant LCU and simulations of Covid-19 impacts.

TAJIKISTAN

Table 1	2020
Population, million	9.5
GDP, current US$ billion	8.0
GDP per capita, current US$	838.6
International poverty rate ($1.9)[a]	4.1
Lower middle-income poverty rate ($3.2)[a]	17.8
Upper middle-income poverty rate ($5.5)[a]	50.5
Gini index[a]	34.0
School enrollment, primary (% gross)[b]	100.9
Life expectancy at birth, years[b]	70.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011PPPs.
(b) Most recent WDI value (2018).

COVID-19 suppressed aggregate supply and demand in 2020, slowing real GDP growth to 4.5 percent. Precious metal exports drove growth while remittance declined, unemployment rose, and households reduced food consumption. Poverty reduction paused for the first time in two decades, underscoring the pandemic's severity. The economy is projected to rebound in 2021–22, subject to a sustained vaccine rollout, improved global trade conditions, and opportunities for migrant workers to travel abroad. Poverty reduction is expected to resume in 2021. However, downside risks prevail.

Key conditions and challenges

Since the 1997 Peace Accord, the Tajik economy has grown steadily, averaging 7.6 percent annually between 1998–20. GNI per capita rose six-fold, to $1,030 by 2019, and poverty fell to 26.3 percent from over 80 percent in the early 2000s. Tajikistan's strong performance reflects a favorable external environment (which drove migrant remittances), generous official donor assistance, and the launch of structural reforms. However, despite high annual growth rates, job creation rates have fallen short. Tajikistan remains highly dependent on migrant remittances and commodity exports to generate foreign exchange. As external financing declines, Tajikistan's other main driver of growth—public investment—also faces greater challenges.

The 2016 taxpayer bailout of domestic banks and commercial borrowing in 2017 for a large infrastructure project squeezed the fiscal space and pushed up the public debt to a level that presents a high risk of debt distress. In the context of large tax expenditures and inefficient state-owned enterprises ambiguous tax revenue mobilization efforts led to a deterioration of the competition required for robust private sector development.

With the credit to GDP ratio at 15.8 percent, Tajikistan's financial sector remains shallow, lacks effective intermediation, and faces difficulties gaining the public's trust.

Tajikistan is making progress in improving its business climate. The country was among the top 10 reformers in Doing Business 2020 while still ranking 106 out of 190 economies worldwide. The protection of property rights, the rule of law, and corruption remain significant challenges to businesses operating in Tajikistan.

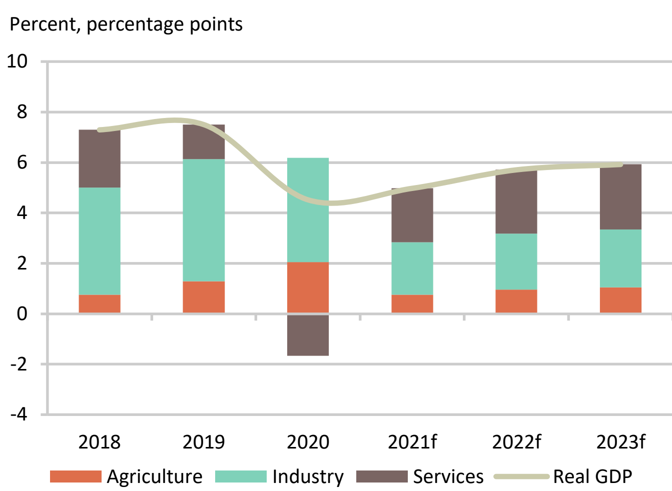
Poverty is largely a rural phenomenon in Tajikistan. Roughly 30 percent of the rural population lives in poverty compared to just 18 percent of the urban population. Labor earnings and remittances from abroad have been the two critical factors for poverty reduction in Tajikistan. In 2020, the loss of employment and reduced incomes, especially from remittances, exerted additional stress on poor households.

Recent developments

The impact of COVID-19 slowed real GDP growth to 4.5 percent in 2020 (from 7.5 percent in 2019). Precious metals exports supported growth in 2020. In contrast, domestic demand suffered from declining private consumption and investment as remittance inflows fell by 6.3 percent year on year. On the supply side, the pandemic mainly affected activities in the hospitality and construction sectors.

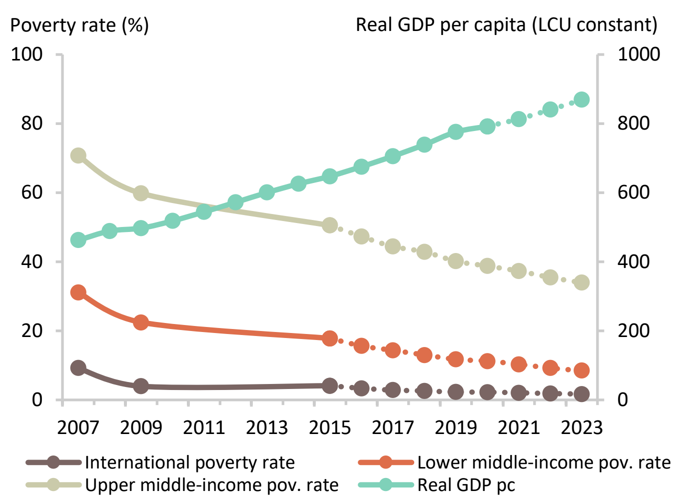
The current account recorded a surplus of 7.6 percent of GDP in the first nine months of 2020 as Tajikistan benefited from surging gold prices. Exports of precious metals rose threefold to $690 million. In contrast,

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



Sources: TajStat; World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

lower disposable incomes amid job and earning losses and a 7.7 percent currency depreciation dampened consumer goods imports. Preliminary data show a significant drop in precious metals exports in the fourth quarter of 2020, which likely rebalanced the current account for the full year. Foreign exchange reserves rose to 8.5 months of import cover at end-2020.

The authorities swiftly responded to the pandemic by allowing tax deferrals for companies. They also ramped up healthcare spending by 44 percent and social expenditures by 10 percent. As a result, the 2020 fiscal deficit widened to 3.3 percent of GDP. The outcome was lower than earlier projections, allowing the authorities to save some of the financial support from international financial institutions. Tajikistan also benefited from the Debt Service Suspension Initiative (DSSI), which suspended 2020 debt servicing equivalent to $43.5 million, creating fiscal space to respond to the pandemic.

The central bank supported domestic demand by cutting the policy rate by 200 bps in 2020, to 10.75 percent. Supply chain disruptions, higher food prices, and currency depreciation pass-through hiked yearly inflation to 9.4 percent. The financial sector was resilient amidst the pandemic. The nonperforming loan ratio fell to 23.8 percent in 2020 (from 27 percent in 2019).

The crisis increased food insecurity in Tajikistan. In May 2020, 42 percent of households reported reducing their food consumption. Estimates suggest that poverty has remained little changed from 26.3 percent in 2019, marking the first time that poverty reduction paused in two decades.

In July 2020, the government expanded the Targeted Social Assistance program from 40 districts to all 68 of the country's districts, increasing the number of beneficiaries from 1.3 million to 1.8 million people.

Outlook

Tajikistan's economy is forecast to rebound in 2021–22, assuming a vaccination rollout to 20 percent in 2021 and 50 percent by the end of 2022 for low- and middle-income countries. Real GDP growth is projected at 5 percent in 2021, subject to improved global trade and opportunities for migrants to return to the Russian Federation. Remittances and foreign investment are projected to rise, reflecting a better growth outlook in Russia and China. Rising fuel and food prices could stoke inflation.

The country's external deficit is expected to deteriorate as higher remittances spur imports and export growth moderates, especially for precious metals.

The approved state budget for 2021 reflects the authorities' ambitious plans for fiscal consolidation. Our projections indicate a fiscal deficit of 2.6 percent of GDP supported by a moderate rebound in economic activity and a corresponding tax collection increase. The government is expected to use concessional external borrowing to close the financing gap.

The authorities are reforming the power utility company, Barqi Tojik, by unbundling it into three independent companies responsible for power generation, transmission, and distribution. Ongoing tax system reforms and the adoption of a new tax code are expected to improve the business climate over the medium term.

A resumption of the downward trend in the poverty rate is expected in 2021. However, downside risks prevail. A delayed vaccination rollout or renewed failure to contain the spread of COVID-19 could impede economic recovery. Meanwhile, a continuation of travel restrictions could suppress international trade and a recovery of remittances. Reduced household income may further exacerbate food insecurity and household well-being.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	7.3	7.5	4.5	5.0	5.7	5.9
Private Consumption	7.2	7.1	-4.4	5.2	4.7	4.3
Government Consumption	3.8	3.5	0.4	2.1	3.0	3.1
Gross Fixed Capital Investment	7.9	-6.4	-6.6	8.6	8.4	8.8
Exports, Goods and Services	2.2	3.5	9.6	1.5	3.2	3.4
Imports, Goods and Services	3.3	2.2	-2.8	2.1	1.7	1.5
Real GDP growth, at constant factor prices	7.8	8.7	4.3	4.8	5.7	5.9
Agriculture	4.0	7.1	8.8	3.3	4.4	4.8
Industry	11.8	13.6	9.7	4.8	5.3	5.5
Services	6.3	4.9	-4.0	5.9	7.1	7.1
Inflation (Consumer Price Index)	3.9	8.0	8.6	7.8	7.0	6.5
Current Account Balance (% of GDP)	-5.0	-2.3	0.5	-1.3	-1.6	-2.4
Net Foreign Direct Investment (% of GDP)	3.3	2.3	1.4	1.9	2.5	2.9
Fiscal Balance (% of GDP)	-2.8	-2.7	-3.3	-2.6	-2.2	-1.9
Debt (% of GDP)	47.9	45.2	53.5	52.6	51.6	47.6
Primary Balance (% of GDP)	-1.6	-1.3	-2.3	-1.2	-0.6	-0.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.6	2.3	2.3	2.1	1.8	1.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	13.0	11.7	11.2	10.3	9.2	8.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	42.9	40.2	38.8	37.3	35.5	34.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2015-HSITAFIEN. Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2015) with pass-through = 1 based on GDP per capita in constant LCU.

TURKEY

Table 1	2020
Population, million	83.4
GDP, current US$ billion	720.1
GDP per capita, current US$	8635.9
Upper middle-income poverty rate ($5.5)[a]	10.2
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	94.9
Life expectancy at birth, years[b]	77.4

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

Turkey was the only G20 country aside from China to record an economic expansion in 2020. Real GDP growth of 1.8 percent was driven by an extensive stimulus and effective control of the COVID-19 pandemic. Turkey's economy is expected to grow by 5 percent in 2021 but reducing inflation and rebuilding external buffers—both of which suffered setbacks in 2020—will prove challenging. Poverty is projected to increase further following increases in 2019 and 2020, with informal workers and households outside the social security system being hit hardest.

Key conditions and challenges

Turkey's economy has rebounded strongly from the pandemic-related slowdown of 2020. However, this rapid recovery has raised macroeconomic and financial stability risks. Unless addressed, these vulnerabilities will expose Turkey to heightened risk and continue to limit productivity, which has stagnated in recent years. Recent market turmoil following the replacement of the Central Bank Governor illustrates the importance of a sustained and credible focus on bringing inflation down to the target rate of 5 percent and bolstering the country's international reserves. Structural reforms in labor, product, and financial markets, and to innovation systems can support productivity growth. Corporate sector vulnerabilities—further elevated by the pandemic and higher debt burden— present risks to banks. Developing local- currency, long-term finance sources would alleviate existing imbalances in the financial system and contribute to economic growth.

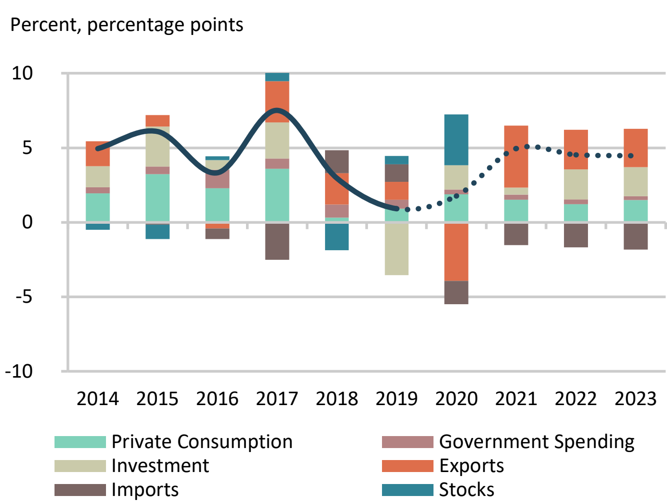
The economic recovery in the second half of 2020 helped recover most of the jobs lost during the pandemic's first wave. However, jobs for informal, lower-skilled, female, and young workers remain well below their pre-pandemic levels. Furthermore, 2.6 million more individuals were out of the labor force in 2020. The poverty rate is projected to increase to 12.2 percent in 2020, which would mark the second successive year that poverty has increased in Turkey, from 8.5 percent in 2018.

Recent developments

Real GDP grew by 5.9 percent year on year in the fourth quarter of 2020, completing a remarkable rebound in the second half and resulting in full-year growth of 1.8 percent despite the economic fallout from the coronavirus pandemic. The recovery was driven by surging domestic demand, buoyed by credit in the second and third quarter. The authorities loosened monetary policy and delivered a stimulus program totaling 13 percent of GDP, most of which was support via the banking sector in the form of partial credit guarantees and loan deferrals. Other fiscal support included social support payments to households, support for furloughed workers, tax deferrals, and other support for firms.

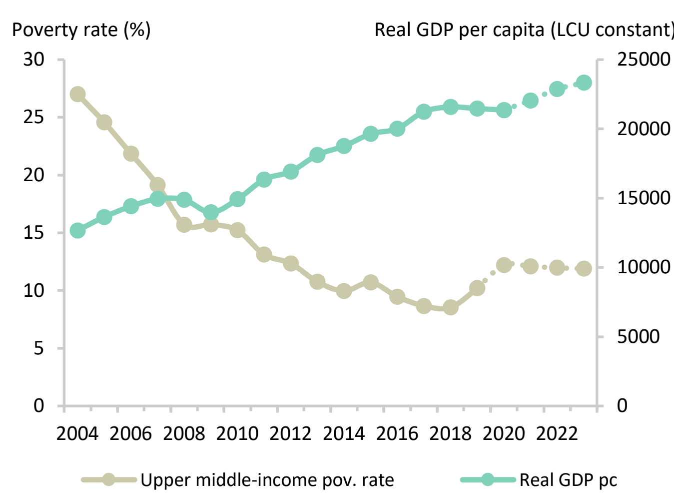
Growth from these policies came at the cost of rising prices and macro-financial vulnerabilities. Inflation trended upward, reaching 15.6 percent in February—the highest level in 18 months. The Turkish lira depreciated by 20 percent against the U.S. dollar in 2020. From a surplus in 2019, the current account moved back into deficit ($36.7 billion or 5.1 percent of GDP) as tourism income evaporated, merchandise exports fell, and gold imports increased. After the central bank stepped in to finance as much as 80 percent of the current account deficit, foreign exchange reserves fell sharply, reaching unprecedented lows on a net

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



Sources: Turkstat and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

basis. Deposit dollarization rose to 55 percent. Buoyant tax revenues resulted in a central government deficit of 3.4 percent of GDP in 2020, better than the planned deficit of 4.9 percent of GDP.

Toward the end of 2020, a second wave of COVID-19 peaked, with cases reaching 30,000 a day in November. Following the reimposition of containment measures (including masking, weekend curfews, and restaurant closures), new cases declined to around 10,000 a day by February 2021, following which, the government began easing restrictions again, based on a province-level risk assessment.

By late 2020, the authorities had also moved to address economic vulnerabilities, more than doubling interest rates between August and December, repealing exceptional regulations aimed at stimulating credit growth, and increasing transparency. This policy shift helped spur portfolio inflows, stabilize the lira, and strengthen market confidence. Credit growth decelerated sharply to near zero (13-week average) by February, and the banking sector reduced its net open foreign exchange position.

Outlook

The economy is expected to grow by 5.0 percent in 2021 and 4.5 percent in 2022 and 2023. Despite slow quarterly growth expected in 2021—as monetary policy remains tight and external demand weak—GDP in the second quarter will be higher than the year-earlier period when COVID-19 brought Turkey's economy to a near-standstill. These projections assume that cautious reopening continues and that there is no uncontrolled outbreak in Turkey or its major export markets, which could undermine growth.

Recent sharp depreciation of the Lira in response to the replacement of the Central Bank Governor will impact inflation. Average inflation is projected to increase in 2021 to 15.5 percent. The current account deficit is expected to narrow to 3.7 percent of GDP in 2021. The 2021 general government deficit is projected at 3.5 percent of GDP as the need for additional support to cushion the economic and social impact of the pandemic continues, before narrowing to 3.1 percent in 2022 and 2.6 percent in 2023 as temporary tax reductions and other government support is withdrawn.

Regulatory forbearance (especially on nonperforming loan definitions and capital adequacy ratio calculations) is expected to be phased out in mid-2021, after which there may be an increase in nonperforming and distressed loans. Strengthening bad loan resolution, insolvency, and out-of-court corporate debt restructuring frameworks with an effective corporate viability assessment will be critical to shield corporates and the banks from spillovers.

Turkey's external risk profile is high due to its still-low level of international reserves and sizeable external financing needs. The country has limited space to manage exchange rate volatility in the event of new external shocks. The banking sector has adequate foreign exchange buffers, most of which form part of central bank international reserves.

Simulation analysis suggests that poverty may have increased by as much as 2.1 percentage points in 2020—equivalent to 1.6 million new poor. The crisis pushed a similar number of people into poverty as the 2018/19 recession. Had the government not acted swiftly to stem the social effects of COVID-19 the increase in poverty would have been three times greater. Turkey is projected to enter 2021 with the highest poverty rate since 2012. Successful poverty reduction will require ensuring that the recovery benefits informal and unskilled workers and other vulnerable groups through a policy mix of social transfers, inclusive job creation, and labor activation strategies.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.0	0.9	1.8	5.0	4.5	4.5
Private Consumption	0.5	1.6	3.2	2.5	2.6	2.9
Government Consumption	6.6	4.4	2.3	2.3	2.2	1.8
Gross Fixed Capital Investment	-0.3	-12.4	6.5	1.8	8.0	7.2
Exports, Goods and Services	9.0	4.9	-15.4	19.5	9.0	8.5
Imports, Goods and Services	-6.4	-5.3	7.4	7.0	6.5	6.0
Real GDP growth, at constant factor prices	3.2	1.1	1.2	5.0	4.5	4.5
Agriculture	2.1	3.7	4.8	1.5	2.0	2.0
Industry	0.5	-3.0	0.6	5.7	5.0	4.2
Services	4.8	2.8	1.1	5.0	4.6	4.9
Inflation (Consumer Price Index)	16.3	15.2	12.3	15.5	12.0	10.0
Current Account Balance (% of GDP)	-2.8	0.9	-5.1	-3.7	-4.0	-4.0
Net Foreign Direct Investment (% of GDP)	1.2	0.8	0.6	0.9	1.0	1.0
Fiscal Balance (% of GDP)	-2.4	-3.0	-3.9	-3.5	-3.1	-2.6
Debt (% of GDP)	30.2	32.5	39.6	40.6	39.6	38.4
Primary Balance (% of GDP)	-0.2	-0.5	-1.0	-0.4	0.0	0.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	8.5	10.2	12.2	12.1	12.0	11.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2013-HICES and 2019-HICES. Actual data: 2019. Nowcast: 2020. Forecast are from 2021 to 2023.
(b) Projection using point-to-point elasticity (2013-2019) with pass-through = 1based on GDP per capita in constant LCU.

UKRAINE

Table 1	2020
Population, million	44.0
GDP, current US$ billion	137.3
GDP per capita, current US$	3118.4
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.2
Upper middle-income poverty rate ($5.5)[a]	2.5
Gini index[a]	26.6
School enrollment, primary (% gross)[b]	99.0
Life expectancy at birth, years[b]	71.6

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

With an estimated contraction of 4.5 percent, the economic impact of COVID-19 has been smaller than in most other countries, nevertheless the pandemic has caused a heavy toll on households and weakened the commitment by the government to undertake critical reforms. Only a partial recovery in GDP growth of 3.8 percent is expected in 2021, given high uncertainty regarding the rollout of the vaccine and the slow pace of structural reforms to address bottlenecks to investment and to safeguard macroeconomic sustainability.

Key conditions and challenges

Even prior to the COVID-19 outbreak, Ukraine faced structurally weak growth due to low levels of domestic savings and fixed investment. Until 2020, savings represented up to 5 percent of GDP and gross capital formation was above 10 percent over the last five years. While the pandemic and associated recession has temporarily reversed this trend, savings estimated at 11.3 percent of GDP in 2020 and investment at around 7 percent are well below comparator countries with similar development and infrastructure needs. Reforms that address structural weaknesses in the financial sector; reduce market distortions, including due to still dominant role of SOEs in select sectors; and address macroeconomic vulnerabilities are paramount to increase investment. In addition, while household incomes have grown rapidly in recent years, this has increasingly been driven by transfers rather than labor incomes, a pattern that is unsustainable for effective poverty reduction.

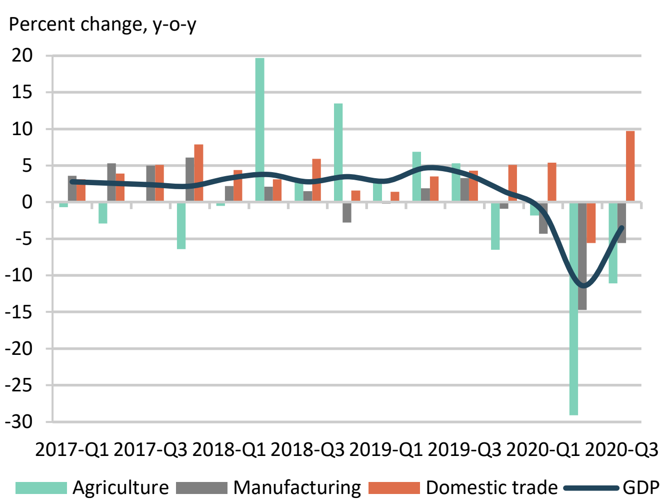
The COVID-19 outbreak redirected government policy from structural reforms towards ad-hoc reactive measures. As a result, macro-fiscal risks have increased. Public sector financial needs are expected to grow due to increases in minimum wages and social transfers, limiting space for public investment, and fueling inflationary pressures in a supply-constrained economy. Additionally, large government domestic borrowings are crowding out much needed private investment. Holdings of government securities already represent close to 30 percent of total assets of the state-owned banks while corporate lending continues to stagnate. Stronger fiscal discipline is needed to reduce risks for medium-term growth prospects.

Recent developments

Although the economic impact from the COVID-19 outbreak appears to be less severe than initially anticipated – GDP declined by estimated 4.5 percent in 2020 (vs 6.5 percent decline 1H2020) – the pandemic has exacted a heavy toll in terms of health and mortality impacts; and undermined the government's commitment to undertake critical reforms. Recent anti-corruption reforms have also suffered setbacks due to adverse court rulings in late 2020.

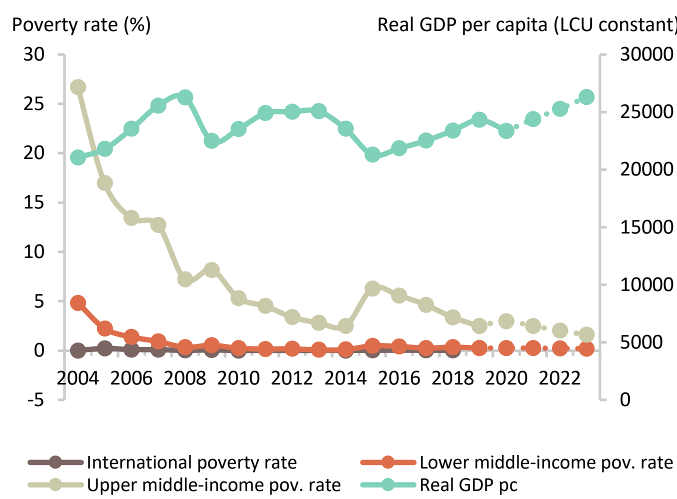
Economic activity recovered in H2 2020 supported by a number of measures to mitigate the impact of COVID-19. Moreover, the full-scale lockdown has been replaced by an adaptive quarantine in June 2020 that enabled many services to return to normal functioning. Domestic demand was boosted by over 10 percent YoY real wage growth due to increase in minimum wages and gradual recovery in economic activity. Thus, on the supply side, retail and wholesale trade grew 7.9 percent YoY in 2020 and made a significant positive contribution to GDP growth. The financial sector has weathered the downturn with its capital adequacy still strong. At the

FIGURE 1 Ukraine / GDP and sectoral growth



Source: State Statistics Service of Ukraine.

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



Source: State Statistics Service of Ukraine.

same time, agriculture output fell almost 12 percent due to drought and a poor harvest.

On the external side, lower energy and higher iron and grain commodity prices resulted in the most favorable terms of trade for Ukraine for the last decade. Combined with import compression, this resulted in a CA surplus of 4.4 percent in 2020. Remittances were relatively resilient, down only 5.3 percent YoY in 2020, while private capital inflows also recovered in 2H2020. Thus, international reserves reached US$29.1bn at end-December, equal to 4.7 months of next year's imports.

Following the smaller-than-expected economic decline, fiscal revenue also performed better than anticipated. On the expenditure side, COVID-19 related outlays were less than budgeted, and a portion of the pandemic special fund was redirected to capital expenditures and to support a public sector wage and pension increase. The fiscal deficit amounted to 6.2 percent of GDP vs. the initial plan of 7.6 percent.

After two years of tight monetary policy, the National Bank of Ukraine gradually cut its key policy rate to 6 percent in June 2020, a level it has since maintained However, a more accommodative fiscal policy stance resulted in an increase in inflation expectations from 6.7 percent in August to 8 percent at year-end. The inflation rate grew from 2.5 percent on average in Q1-Q3 2020 to 6.1 percent in January 2021 that is slightly above the NBU's target of 5+/-1 percent. This triggered the key rate increase to 6.5 percent in March 2021.

While the COVID-19 relief measures were welcome, attention once again needs to turn towards structural reforms that are needed to raise the medium-term growth prospects. Slower reform momentum has undermined investors' confidence and delayed IFI financing; as a result, significant public financing needs in 2020 have been met mostly by domestic borrowing that amounted to 10.5 percent GDP (gross). The composition of external financing was shifted towards more expensive commercial borrowings and Eurobonds comprising 4.3 percent of GDP in total.

The poverty effects of COVID-19 are expected to be relatively muted, with the poverty rate based on US$5.5 a day projected to have increased by 0.5 pp to 3 percent in 2020, as increase of pensions and wages helped to partially offset decline in employment.

Outlook

Ukraine's economic recovery in 2021 is expected to be mild given high uncertainty associated with the vaccine rollout and the direction of economic policies to address bottlenecks to investment and safeguard macroeconomic sustainability. The GDP growth projection of 3.8 percent is underpinned by positive base effects in agriculture and processing industry and takes into account that further temporary lockdowns are possible in the first half of 2021 due to the delays in vaccinations.

The 2021 budget targets a 5.4 percent deficit. Together with 10.5 percent of GDP debt amortization and 1.3 percent of GDP of arrears to private sector, this will increase total fiscal financing needs to 17.2 percent of GDP (vs 15 percent of GDP in 2020). The increase in minimum wages will push the public wage bill to over 11 percent of GDP and create additional pressures on current account imbalances and inflation. Prudent fiscal policy is needed to address inflationary pressures in the medium term.

The poverty rate based on the US$5.5 a day threshold is expected to decrease to 2.5 percent in 2021, similar to the level in 2019. Accelerating the reform momentum is key to achieve faster economic growth and poverty reduction in 2022 and 2023.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.3	3.4	-4.5	3.8	3.0	3.5
Private Consumption	8.9	11.9	-3.0	4.6	3.8	3.5
Government Consumption	0.1	-5.0	1.8	1.5	0.0	0.0
Gross Fixed Capital Investment	14.3	15.0	-27.4	9.7	8.4	7.5
Exports, Goods and Services	-1.6	6.7	-7.4	3.4	2.0	4.4
Imports, Goods and Services	3.2	6.3	-11.5	6.8	5.0	4.8
Real GDP growth, at constant factor prices	3.3	3.4	-4.6	3.9	2.9	3.5
Agriculture	7.8	1.3	-7.0	5.0	4.5	5.0
Industry	2.0	-2.0	-4.0	2.0	3.0	4.5
Services	3.0	5.7	-4.4	4.4	2.6	2.9
Inflation (Consumer Price Index)	9.8	4.1	4.8	5.0	5.0	5.8
Current Account Balance (% of GDP)	-3.2	-0.9	4.4	-1.3	-2.8	-3.3
Net Foreign Direct Investment (% of GDP)	1.9	2.1	2.2	2.4	2.6	6.2
Fiscal Balance (% of GDP)	-2.0	-2.0	-6.1	-5.4	-4.0	-2.5
Debt (% of GDP)	60.6	50.4	63.2	62.4	59.7	57.8
Primary Balance (% of GDP)	1.4	1.1	-2.4	-0.9	0.1	1.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.4	0.2	0.3	0.2	0.2	0.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	3.4	2.5	3.0	2.5	2.0	1.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2019-HLCS. Actual data: 2019. Nowcast: 2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2019) with pass-through = 0.87 based on GDP per capita in constant LCU.

UZBEKISTAN

Table 1	2020
Population, million	34.2
GDP, current US$ billion	57.7
GDP per capita, current US$	1686.7
School enrollment, primary (% gross)[a]	102.2
Life expectancy at birth, years[a]	71.6

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

Following a sharp deceleration in 2020, Uzbekistan's economy is projected to partially recover from the COVID-19 crisis in 2021. Until a full recovery occurs, vulnerable households will require continued support to mitigate the pandemic's impact. The medium-term economic outlook remains favorable, as global conditions improve, and as authorities advance reforms to reduce the role of state-owned enterprises in the economy to strengthen private sector-led growth and production efficiency. Translating this outlook into faster poverty reduction will require a stronger focus on inclusive reforms that increase employment, incomes, and opportunities.

Key conditions and challenges

After an initial phase of market liberalization, Uzbekistan is moving into a more complex phase of reforms to land, labor, capital markets, and state-owned enterprises. The most significant medium-term challenge will be ensuring reform inclusivity and transparency. Reducing the state's role in the economy by accelerating the reform of state-owned enterprises and creating a competitive and inclusive private sector-led growth model will help address the legacy of the state-led model, which produced high growth rates (averaging more than 6 percent between 2000–16), but insufficient jobs and opportunities.

The COVID-19 crisis made the transition to a market economy even more important. About 9 percent of the population still lives below the World Bank's lower-middle-income poverty line ($3.2 a day, PPP 2011 adjusted), and significantly more live close to this line. During the peak of the COVID-19 lockdowns, these vulnerabilities were acute—nearly 1 million additional Uzbeks slipped into poverty.

To reduce these vulnerabilities, the authorities' strong focus on vibrant growth will need to be complemented by reforms to strengthen safety nets, improve labor market conditions, and remove constraints to human capital development through better health and education services. An important sign of reform success will be greater private sector participation and ownership in the economy and better quality jobs. Addressing these challenges with limited administrative capacity will be even more difficult as the pandemic's impact lingers.

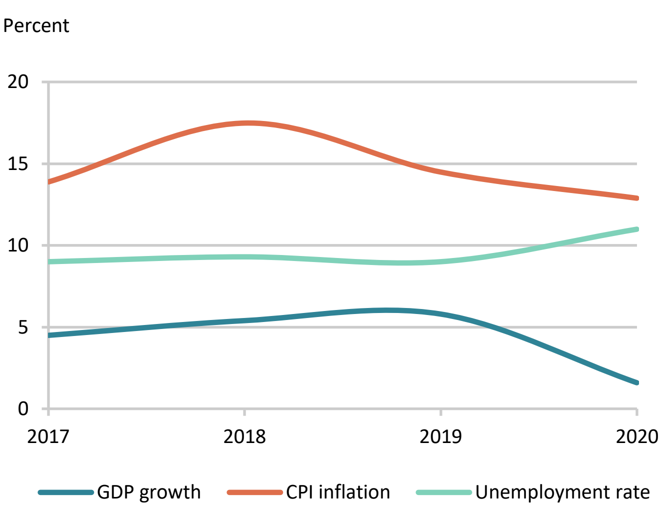
Recent developments

GDP growth slowed sharply in 2020 (to 1.6 percent from 5.8 percent in 2019) due to COVID-19–related lockdowns and trading disruptions. Uzbekistan was one of the few countries in the region to record an economic expansion in 2020. Positive growth was supported by robust agriculture output and substantial anticrisis measures that boosted health spending and supported households and firms. Fiscal stimulus and lower public investment due to the pandemic lifted consumption in 2020, making it the main driver of growth for the first time in over a decade.

The unemployment rate rose sharply, from 9 percent in 2019 to 11.1 percent in September 2020. The poverty rate rose to 9 percent (well above the precrisis projection of 7.4 percent in 2020) as the pandemic led to job losses, income reductions, and declining remittances. A large expansion of social assistance provided some relief to Uzbekistan's affected households.

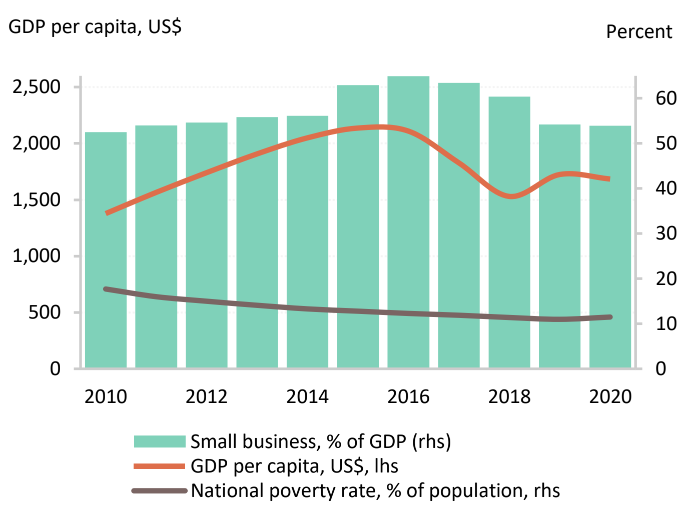
The current account deficit narrowed to 5.2 percent of GDP in 2020 (from 5.7 percent in 2019), reflecting an 18 percent surge in gold exports that helped limit the decline in total exports to 15 percent in 2020. Import spending fell by 17 percent as capital

FIGURE 1 Uzbekistan / GDP growth, inflation, unemployment



Sources: Uzbekistan official statistics.

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



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

imports declined sharply. Higher external borrowing helped finance the deficit.

Lower revenues and higher spending widened the overall fiscal deficit to 4.4 percent of GDP in 2020 (from 3.9 percent in 2019). Slower GDP growth and tax relief measures in the government's fiscal stimulus package (2.5 percent of GDP) reduced revenues, while spending increases in the package drove up expenditures. Higher gold dividends, the reprioritization of some public expenditure, and a sharp fall in policy lending largely offset the impact of the fiscal stimulus and contained the deficit. Higher borrowing to finance the deficit increased public and publicly guaranteed debt to 37.9 percent of GDP in 2020. Foreign exchange reserves equivalent to 60 percent of GDP provide a substantial buffer.

Smaller increases in administered prices because of the pandemic offset higher food prices to slow 12-month inflation to 11 percent in December 2020 (from 15.2 percent a year earlier). With inflationary pressures low, the Central Bank of Uzbekistan reduced its policy rate from 16 percent to 14 percent. Credit growth in 2020 slowed to 34 percent (from 52 percent in 2019), reflecting higher real lending rates, lower government-subsidized lending, and the impact of COVID-19. Firms and households also received significant loan repayment deferrals during the year. The banking sector's capital adequacy ratio fell to 18.4 percent in November 2020 (from 23.5 percent at end-2019). As a result of the pandemic, nonperforming loans tripled to 4.5 percent in November 2020. Nevertheless, Uzbekistan's financial system remains sufficiently capitalized to absorb potential credit shocks.

Outlook

GDP growth is projected to recover to 4.8 percent in 2021. However, this forecast is subject to uncertainty surrounding the global recovery and the potential pace of the country's COVID-19 vaccination campaign. A gradual resumption of trade and investment flows, a bountiful agricultural harvest, a recovery of remittances, and vaccine distribution will support the recovery and spur further reductions in poverty and unemployment. Stronger GDP growth of 5.5 percent is projected in 2022 as vaccination efforts accelerate and global disruptions ease further. The current account deficit is projected to widen to 5.5 percent of GDP in 2021 as capital imports for large investment projects recover. Although foreign direct investment is expected to partially recover from its decline in 2020, public and private borrowing are expected to continue financing most of the deficit. Lower budget revenues, vaccine purchases, expanding social support, and increased policy lending are expected to contribute to a wider overall fiscal deficit of 5.4 percent of GDP in 2021. This deficit will be financed by increased public borrowing. Uzbekistan's public debt is projected to reach 42 percent of GDP in 2021 and stabilize at about 45 percent over the medium term. As conditions for households and firms improve, a gradual withdrawal of anticrisis measures will reduce the deficit over the medium term.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	5.4	5.8	1.6	4.8	5.5	5.8
Private Consumption	3.8	5.4	2.6	4.6	5.2	5.5
Government Consumption	3.7	5.5	17.3	7.0	3.9	3.1
Gross Fixed Capital Investment	18.1	34.2	-8.0	7.3	8.2	9.8
Exports, Goods and Services	10.7	10.9	-14.9	12.0	15.4	16.1
Imports, Goods and Services	26.8	47.3	-17.8	14.1	15.6	17.2
Real GDP growth, at constant factor prices	5.4	5.8	1.6	4.8	5.5	5.8
Agriculture	0.3	3.1	3.0	3.1	3.3	3.5
Industry	11.5	8.9	2.3	4.0	4.3	4.5
Services	5.2	5.5	0.3	6.4	7.7	8.0
Inflation (Consumer Price Index)	17.5	14.5	12.9	10.6	8.9	6.0
Current Account Balance (% of GDP)	-7.1	-5.7	-5.2	-5.5	-5.1	-4.5
Fiscal Balance (% of GDP)	-2.3	-3.9	-4.4	-5.4	-3.8	-2.4
Debt (% of GDP)	20.4	29.4	37.9	42.6	44.3	43.9
Primary Balance (% of GDP)	-1.9	-3.4	-3.8	-5.0	-3.4	-2.1

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

Macro Poverty Outlook

04/
2021

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