

Europe and Central Asia

Macro Poverty Outlook

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



WORLD BANK GROUP
Macroeconomics, Trade & Investment
Poverty & Equity

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ALBANIA

Table 1 **2022**

Population, million	2.8
GDP, current US\$ billion	18.9
GDP per capita, current US\$	6743.1
Upper middle-income poverty rate (\$6.85) ^a	34.2
Gini index ^a	36.0
School enrollment, primary (% gross) ^b	95.9
Life expectancy at birth, years ^b	76.5
Total GHG emissions (mtCO ₂ e)	8.5

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2018), 2017 PPPs.

b/ Most recent WDI value (2021).

Growth in 2022 reached 4.8 percent as private consumption, exports, and investment expanded despite increasing energy and food prices. Growth is expected to moderate in 2023, despite another year of exceptional increase in tourism. Poverty is expected to continue its downward trend as employment and wages increase. Medium-term prospects hinge on the global recovery, structural reforms, and fiscal consolidation.

Key conditions and challenges

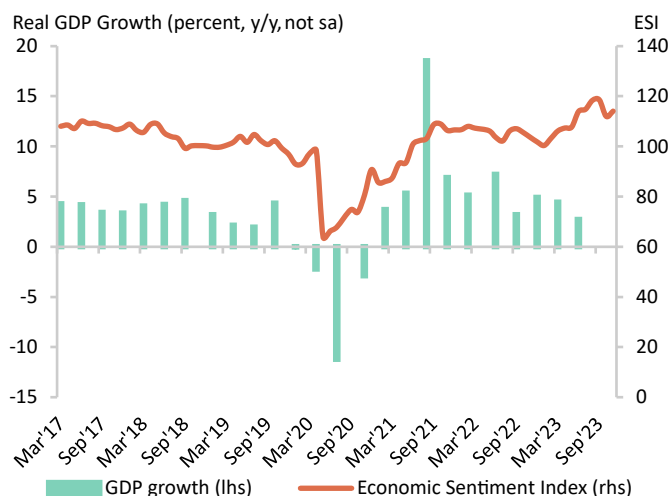
The Albanian economy has shown considerable resilience in the face of consecutive shocks during 2019-2022, including the 2019 earthquake, the pandemic and the ensuing economic turmoil, and Russia's invasion of Ukraine. The economy experienced a strong rebound, with real GDP expanding by 8.9 percent in 2021 and by 4.8 percent in 2022, and GDP exceeding its pre-pandemic level that year. Poverty rates continued their downward trend in 2022. A key factor in Albania's resilience has been the proximity to the European Union, which facilitates investment, remittances, and exports. As a consequence, construction and tourism are key growth drivers. The availability of hydropower, which meets 85 percent of domestic energy demand in a year with average precipitation, has provided some insulation from the ongoing energy crisis and contributed to containing the country's greenhouse gas emissions. Albania's key development challenges are its declining population, which is partially owed to large migration; the poor quality of the labor force and the low quality of jobs created; the moderate pace of structural reforms, especially in the areas of private sector environment and governance; and rising fiscal pressures, due to government responses to multiple crises, climate risks, contingent liabilities, and debt refinancing at a time

of high interest rates. To address the gap in human capital investment and the need for climate-resilient infrastructure, while maintaining support for the most vulnerable, Albania will need to implement a Medium-Term Revenue Strategy to strengthen domestic revenues. Unlocking further growth is conditional on the swift implementation of the Government's program, anchored on the EU accession aspiration, and built on reforms tackling productivity, including improving the business environment, streamlining government interactions with the private sector, and expanding Albania's integration into foreign markets.

Recent developments

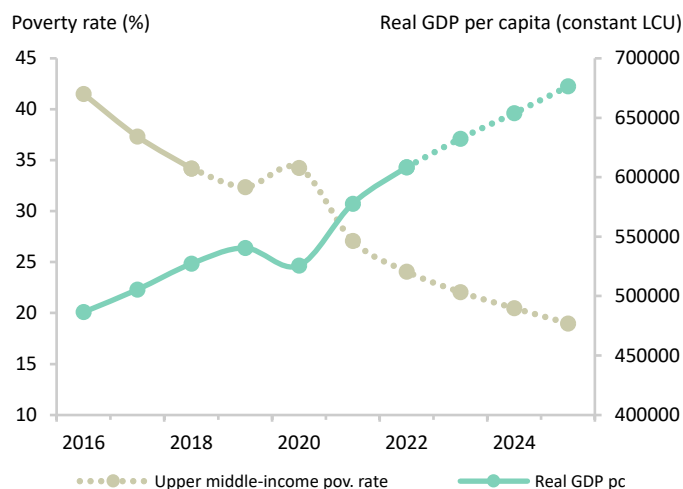
In the first quarter of 2023, GDP grew by 2.7 percent. Services, including trade and real estate, led growth on the supply side, followed by construction and manufacturing. Consumption and investment remained the main growth drivers on the demand side. Net exports reduced growth, due to smaller foreign demand. Leading economic indicators suggest growth accelerated during the second and third quarters with tourist arrivals hitting a record high through July 2023, and construction activity accelerating. Increased income from employment, credit growth, business and consumers sentiment indicators, and strong tax revenues all suggest an increasing contribution to growth from consumption, investment and net exports in the second and third quarters.

FIGURE 1 Albania / Economic sentiment index (ESI) and GDP growth



Sources: Instat and Bank of Albania.

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



Source: World Bank. Notes: see Table 2.

Employment grew by 4.4 percent yoy during Q1 2023. Increasing wages and employment incentivized labor force participation (ages 15+), which reached 64 percent in Q1 2023, the highest level since 2019. Average private sector wage growth reached 9.5 percent, down from 14.2 percent in the previous quarter, mainly driven by wage increases in trade, transport, accommodation industry and public administration. Unemployment reached 10.9 percent in Q1 2023, slightly higher than the end-2022 rate. Given strong GDP per capita growth in 2023, poverty is projected to decline by 1.9 percentage points to reach 22.2 percent.

The annual inflation rate dropped to 4.2 percent in July 2023 from a record high of 8.3 percent in October 2022, as a result of downward pressures from lower import prices, domestic currency appreciation and monetary policy normalization; upward pressures on inflation included wage increases and high-capacity utilization. For the first half of 2023, the government recorded a high surplus, on account of strong revenue collection and lower spending. Grants accounted for most of the revenue increase (14.5 percent yoy),

alongside social insurance contributions and personal income taxes, reflecting the increase in statutory minimum wages. The increase in expenditures was relatively small at 3.4 percent yoy but is expected to pick up during the second part of the year owing to increasing capital spending.

Outlook

Growth is expected to moderate to 3.6 percent in 2023, in the context of tight global financial conditions, limited economic growth in Europe, and the completion of programs for the post-earthquake reconstruction. Nevertheless, increased tourism and construction are expected to drive exports, consumption and investment growth at rates similar to the pre-pandemic period. The inflation rate is projected to start converging toward the 3 percent target by 2024. Economic sentiment remains positive (Figure 1), though it has recently outpaced economic performance.

Albania's primary balance is projected to reach 0.1 percent of GDP in 2023 and stay positive in observance of the fiscal rule.

Fiscal consolidation is expected on the spending side. On revenues, Government plans to introduce further tax policy measures, envisioned in the Medium-Term Revenue Strategy. Public debt is expected to decline slightly to 63.1 percent of GDP in 2023, and more significantly over the medium term, as a result of higher nominal growth and a gradual reduction of the fiscal deficit. Given Albania's growing reliance on external financing, exchange rate, interest rate, and refinancing related risks remain elevated.

Further increases in food and energy prices are a key risk to growth, as they could affect real disposable income, slow poverty reduction and potentially constrain the fiscal space. As a small, open economy, Albania is highly exposed to external shocks, such as a recession in Europe or further tightening of financing conditions in international capital markets beyond the current year.

Domestic risks emanate from natural disasters, public-private partnerships, and SOEs, in addition to fiscal risks stemming from the country's hydropower-based energy sector that are mainly due to variations in hydrology.

TABLE 2 Albania / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-3.3	8.9	4.8	3.6	3.2	3.2
Private consumption	-3.4	4.3	6.9	2.3	2.6	2.7
Government consumption	1.5	7.8	-4.8	4.6	1.5	1.0
Gross fixed capital investment	-1.4	19.2	6.5	-1.2	3.4	3.3
Exports, goods and services	-27.9	52.0	7.5	6.7	5.4	5.9
Imports, goods and services	-19.8	31.5	13.1	1.2	3.4	3.6
Real GDP growth, at constant factor prices	-2.9	8.2	5.2	3.6	3.2	3.2
Agriculture	1.3	1.8	0.1	0.3	0.3	0.3
Industry	-4.3	13.6	7.7	1.2	3.7	3.5
Services	-3.8	8.1	5.9	6.0	3.9	4.0
Inflation (consumer price index)	2.2	2.6	6.7	5.0	3.5	3.0
Current account balance (% of GDP)	-8.5	-7.8	-6.0	-5.6	-5.8	-5.6
Net foreign direct investment inflow (% of GDP)	6.7	6.5	6.7	6.8	6.8	6.8
Fiscal balance (% of GDP)	-6.7	-4.6	-3.7	-2.5	-2.3	-1.9
Revenues (% of GDP)	25.9	27.5	26.8	28.1	27.5	27.7
Debt (% of GDP)	75.8	75.4	65.4	63.1	62.1	60.8
Primary balance (% of GDP)	-4.6	-2.7	-1.8	0.1	0.3	0.5
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	34.3	27.1	24.1	22.0	20.5	19.0
GHG emissions growth (mtCO₂e)	-5.7	4.8	-1.5	-4.0	-2.2	-1.9
Energy related GHG emissions (% of total)	46.3	49.6	49.4	48.1	47.8	47.5

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

Notes: e = estimate, f = forecast.

a/ Calculations based on ECAPOV harmonization, using 2014- and 2019-SILC-C. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.

b/ Projection using point-to-point elasticity (2013-2018) with pass-through = 1 based on GDP per capita in constant LCU.

ARMENIA

Table 1 **2022**

Population, million	3.0
GDP, current US\$ billion	19.5
GDP per capita, current US\$	6572.2
International poverty rate (\$2.15) ^a	0.5
Lower middle-income poverty rate (\$3.65) ^a	8.7
Upper middle-income poverty rate (\$6.85) ^a	51.7
Gini index ^a	27.9
School enrollment, primary (% gross) ^b	91.1
Life expectancy at birth, years ^b	72.0
Total GHG emissions (mtCO2e)	13.5

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2021), 2017 PPPs.

b/ Most recent WDI value (2021).

Economic growth reached 10.5 percent (yoy) in H1 2023, driven by services and continued inflows of citizens and money transfers from Russia, and is projected at 6.6 percent in 2023 as a whole. This was accompanied by a sharp reduction in inflation to 3.6 percent (yoy) on average through July 2023. Unresolved issues at the Armenian border, a reversal of recent inflows, potential sanctions, and a slowdown in trade partner economies are the main risks to the outlook.

Key conditions and challenges

Following Russia's invasion of Ukraine, Armenia absorbed a significant inflow of migrants, businesses, and capital. Armenia also benefited from rerouted trade and money flows. These developments fueled domestic demand and supported the appreciation of the currency. While there are signs these flows are easing somewhat, Armenia continues to benefit from them, and the risk of reversal has so far not materialized. Overall, the economic environment enjoys sound macroeconomic policies, including active inflation targeting, adherence to a fiscal rule, and sound financial sector oversight. In recent years, the authorities have aimed at reducing corruption and increasing transparency, particularly in the tax and customs administrations. However, important structural challenges persist, resulting in an undiversified economic structure with limited manufacturing and a narrow export basis, subdued growth in the agriculture sector, insufficient investment, and challenges to attract FDI, limited human capital and skills mismatch.

Recent developments

Armenia maintained double-digit GDP growth in H1 2023, at 10.5 percent (yoy) in real terms. As in 2022, growth was driven by a 14 percent (yoy) increase in services,

particularly in IT, trade, and transport sectors. Growth in industry slowed to 1 percent (yoy) in H1 2023 due to contraction in the mining sector. However, construction continued to grow at the exceptional rate of 19 percent (yoy). Agricultural growth was flat, reflecting longstanding challenges in this sector (both statistical and structural).

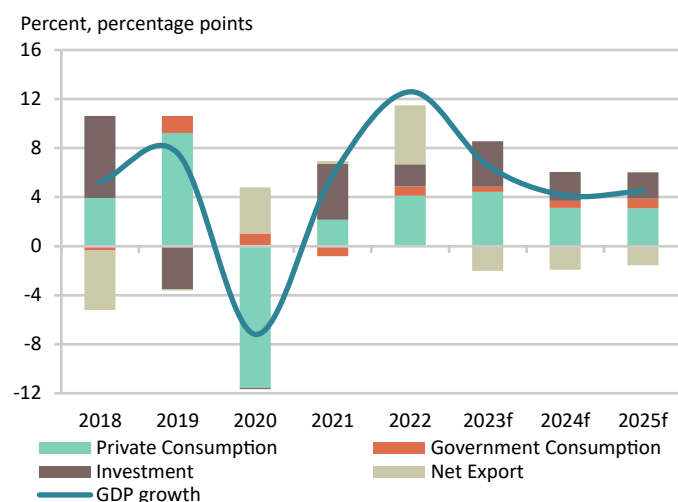
The unemployment rate fell from 14.8 percent in Q1 2022 to 13.7 percent in Q1 2023, reflecting the strong economic activity.

Average inflation dropped sharply, from 8.6 percent in 2022 to 3.6 percent during January-July 2023, largely driven by a slowdown in food and transport inflation. In response to this trend, the Central Bank of Armenia reduced the policy rate by 50 bps, to 10.25 percent in August.

Credit to the economy increased by 14.6 percent in nominal terms (yoy) as of the end of June 2023, mostly driven by an increase in dram-denominated loans. This lowered loan dollarization to 35 percent as of the end of June 2023. Financial stability indicators remained sound, with the Capital Adequacy Ratio (CAR) above 20 percent and the Non-Performing Loans (NPLs) ratio below 3 percent.

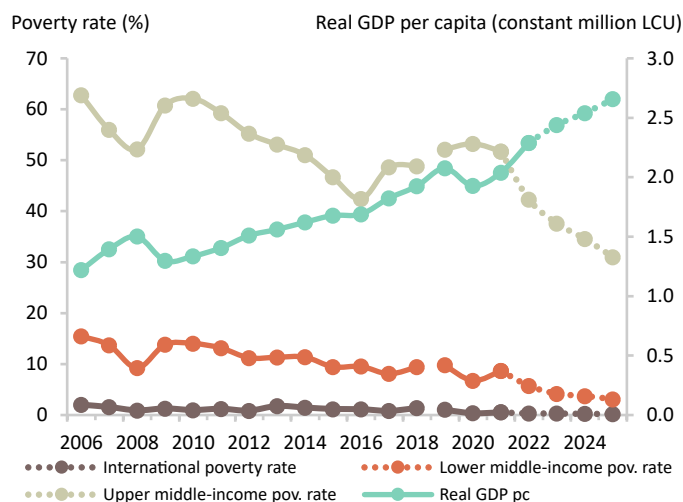
The fiscal budget recorded a surplus of 1.4 percent of projected GDP in H1 2023, compared to the planned deficit of 1 percent of GDP. This was primarily due to a 6 percent overperformance in tax revenue collection, which rose by 19 percent (yoy) in nominal terms. This was mostly driven by increased profits tax and VAT tax collection of 45 percent and 20 percent (yoy, in nominal terms), respectively, explained by strong economic performance and higher

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



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

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



Source: World Bank. Notes: see Table 2.

consumption, and 20 percent greater income tax collection in nominal terms due to increased employment and salary levels. Current and capital expenditures were also higher by 12 percent and 16 percent (yoy, in nominal terms), respectively; however, capital expenditures fell short by 46 percent in nominal terms compared to the ambitious public investment plan approved in the budget. Driven by robust economic and fiscal performance, government debt to GDP continued to decline to about 44 percent of projected annual GDP at the end of July 2023.

Growth of exports and imports of goods continued to be strong in H1 2023, both at 73 percent (yoy, in USD value), due to re-routing of exports to Russia. The trade balance in nominal terms deteriorated by 73 percent (yoy), due to a 1.5 times larger import base compared to exports. This was partly compensated by higher service exports, including a 70 percent (yoy) increase in the number of tourist arrivals in H1 2023. While gross money transfers from Russia increased by 88 percent (yoy) in H1

2023, large outflows to third countries resulted in a 10 percent decline (yoy) in net terms. This contributed as well to the deterioration of the current account balance. Nevertheless, appreciation pressures on the AMD continued in 2023, resulting in a 2 percent stronger AMD against USD at the end of July 2023 compared to the end of 2022. International reserves declined in Q1 but rebounded to a record USD 4.1 billion at the end of July 2023.

Outlook

Growth is expected to moderate in H2 2023 as consumption slows due to the high base effect in H2 2022 and as import growth outpaces export growth. However, moderation will be milder than initially projected at the beginning of 2023, with growth revised up to 6.6 percent (yoy) in 2023. Growth in the medium-term will moderate further to an average of 4.3 percent in 2024-2025.

Average inflation is forecast to reach 3.7 percent in 2023 and to remain close to the target of 4 percent in the medium term. The deficit is expected to reach 2.4 percent of GDP in 2023, which is lower than budgeted due to tax revenue overperformance. The CAD is projected to widen in 2023, impacted by a pick-up in goods imports, a slowdown in exports from a very high base in 2022, and a deterioration in income accounts, while still being mostly financed by FDI inflows.

Due to continued and strong economic growth in 2022-2023, poverty is projected to fall from 51.7 percent in 2021 to 37.6 percent in 2023, as measured by the UMIC poverty line of USD 6.85/day (2017 PPP). This will be supported by the reduction in inflation, especially in food prices.

The outlook is subject to significant uncertainty, due to the risk of reversal of inflows; potential sanctions related to the re-exports of double-use goods; a possible slowdown in trading partner economies; and unresolved issues at the Armenian border.

TABLE 2 Armenia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-7.2	5.8	12.6	6.6	4.1	4.5
Private consumption	-13.9	2.8	5.5	6.3	4.5	4.4
Government consumption	9.2	-6.2	6.3	3.7	5.3	7.1
Gross fixed capital investment	-1.5	23.6	9.0	16.7	9.6	8.3
Exports, goods and services	-33.5	18.6	59.3	21.6	9.9	8.7
Imports, goods and services	-31.5	12.9	34.5	23.2	11.8	9.9
Real GDP growth, at constant factor prices	-6.8	5.6	13.2	6.6	4.1	4.5
Agriculture	-3.7	-0.8	-0.7	0.6	0.9	1.2
Industry	-2.5	2.6	9.2	6.0	5.3	4.7
Services	-9.6	8.7	18.2	7.9	4.1	4.9
Inflation (consumer price index)	1.2	7.2	8.6	3.7	4.0	4.0
Current account balance (% of GDP)	-4.0	-3.5	0.8	-2.1	-3.0	-3.4
Net foreign direct investment inflow (% of GDP)	0.7	2.5	4.9	2.5	2.7	2.9
Fiscal balance (% of GDP)	-5.1	-4.5	-2.2	-2.4	-2.8	-2.6
Revenues (% of GDP)	26.0	24.9	25.1	25.6	25.4	25.9
Debt (% of GDP)^a	63.5	60.2	46.7	48.6	49.2	49.5
Primary balance (% of GDP)	-2.4	-2.0	0.1	0.4	0.4	0.5
International poverty rate (\$2.15 in 2017 PPP)^{b,c}	0.4	0.5	0.3	0.3	0.2	0.2
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{b,c}	6.7	8.7	5.7	4.2	3.7	3.1
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{b,c}	53.2	51.7	42.3	37.6	34.5	31.0
GHG emissions growth (mtCO₂e)	-1.8	15.4	18.7	9.1	8.2	9.4
Energy related GHG emissions (% of total)	60.3	66.5	72.2	74.8	76.8	78.8

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

Notes: e = estimate, f = forecast.

a/ Excludes CBA debt.

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

c/ Projection using neutral distribution (2021) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

AZERBAIJAN

Table 1 **2022**

Population, million	10.2
GDP, current US\$ billion	76.8
GDP per capita, current US\$	7533.4
School enrollment, primary (% gross) ^a	94.3
Life expectancy at birth, years ^a	69.4
Total GHG emissions (mtCO ₂ e)	53.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2021).

Economic growth slowed sharply to 0.5 percent in H1 2023, dragged down by contracting oil production and moderate non-energy sector activity. Growth is projected at 1.5 percent in 2023 as a whole. Inflation eased, although it remains in double digits as of June 2023, and is expected to continue to decline. The current account surplus is expected to reduce in 2023 due to a reduction in exports and money transfers.

Key conditions and challenges

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

Constraints to private sector development include a large state footprint in the economy, lack of a level playing field for companies, shallow financial markets, and a weak human capital base. Azerbaijan's 2022–2026 Socio-Economic Development Strategy lays out a reform plan to move to a private sector-led growth model and the development of human capital, with a sustained 5-percent growth target in non-energy sectors in 2022–2026.

Recent developments

In H1 2023, real growth slowed to 0.5 percent, compared to 4.6 percent in 2022. The energy sector contracted due to a fall in oil production because of aging oil fields, while natural gas grew at a slower pace, with gas production nearing full capacity. The non-energy sector expanded by 3.1 percent, with service sectors (transport, hospitality, retail trade) cooling after strong growth in 2022.

On the demand side, consumption growth eased due to a decline in real wages and moderation in money transfers from Russia. Investment growth remained robust, supported by public investment largely directed toward reconstruction in liberated territories and the energy sector.

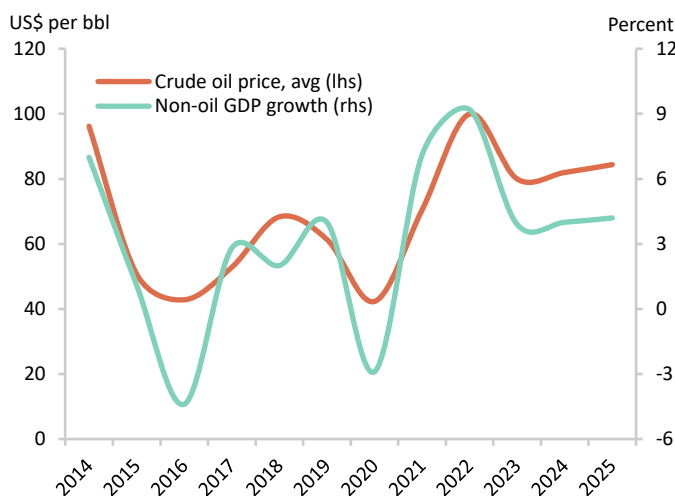
The latest official figures show that the national poverty rate decreased from 5.9 in 2021 to 5.5 in 2022. In the first months of 2023, the unemployment rate remained stable at 5.6 percent.

Inflation moderated to 10.7 percent (yoy) in H1 2023, from 14.3 percent at the end of 2022, driven by a slowdown in food inflation. With inflation still in double digits, the Central Bank of Azerbaijan (CBA) raised the policy interest rate by 75 bps in H1 2023, to 9 percent (which remains negative in real terms).

Falling energy prices and falling oil production in H1 2023 negatively impacted exports, with a decline of 2.9 percent (yoy) in USD terms, while imports increased by 29 percent (yoy), largely driven by public sector investment. Despite faster growth in imports, the trade surplus reached 27.5 percent of GDP in H1 2023. Money transfers dropped by 48 percent in H1 2023 (yoy). Foreign currency reserves increased by 2.7 percent compared to year-end 2022, reaching USD 9.2 billion or 5.4 months of import cover.

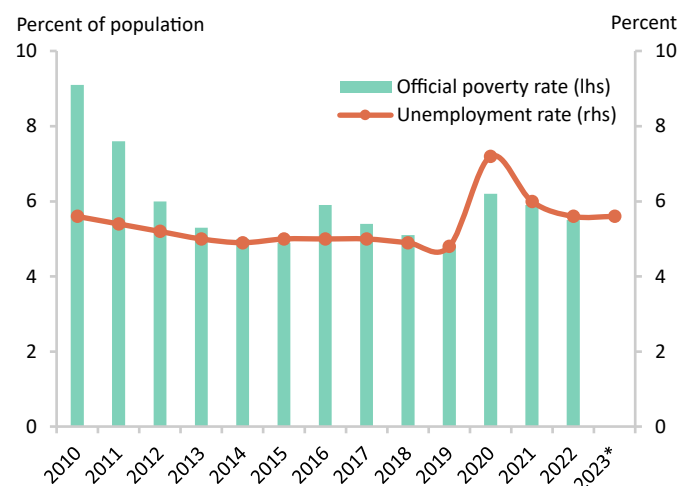
The fiscal balance recorded a large surplus in H1 2023, at 18.4 percent of GDP. This is due to surge in revenue to 44 percent of GDP, supported by higher tax receipts from sales of natural gas.

FIGURE 1 Azerbaijan / Non-oil 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 rate



Source: State Statistical Committee.

Notes: The World Bank has not reviewed the official national poverty rates for 2013–2022. * Preliminary data.

Spending expanded to 26.5 percent of GDP, with public investment increasing to 6.5 percent of GDP, while current spending lagged. Due to a high revenue outturn, the Government increased the 2023 planned budget spending by 10 percent in nominal terms (from the original budgeted amount). Sixty percent of the increase will be allocated to reconstruction needs. Fiscal buffers remain strong, with reserves of the State Oil Fund of the Republic of Azerbaijan (SOFAZ) increasing by 12 percent, to USD 55 billion (70 percent of 2022 GDP). Public debt edged up to an estimated 14.5 percent of GDP.

Credit to the economy rose by 9 percent in H1 2023, driven by a 10 percent increase in consumer lending. The NPL ratio fell to 2.3 percent by the end of June, from 3.5 percent recorded a year ago, while bank profits increased substantially.

Outlook

GDP growth is projected at 1.5 percent in 2023 due to the expected reduction in oil production and slow growth in non-energy sector activity as growth converges to pre-COVID levels.

On the demand side, consumption will ease in 2023 while increased social transfers enabled by the revision of the budget are expected to limit the slowdown. Capital formation will largely be driven by public investment. In the medium term, in the absence of structural reforms, growth is expected to average 2.4 percent.

Inflation is projected to slow to 9 percent in 2023, as food prices continue to fall and external pressures ease while remaining above the CBA's upper range. Inflation is expected to return to CBA's target interval of 4+/-2 percent by the end of 2024.

The impact on poverty and inequality will depend on the extent of the reduction in food prices and the impact of slower economic activity on employment.

In 2023, the external balance is estimated to remain in surplus, supported by stable energy prices. Imports are expected to grow in 2023, largely driven by public investment. The fiscal balance is projected to remain in surplus in the medium term, averaging 3.4 percent of GDP, as energy revenue continues to offset higher spending in reconstruction and implementation of the development strategy.

The main downside risks are related to the uncertainty around the economic implications of Russia's invasion of Ukraine, including the risk of reversals of money transfers from Russia. In addition, a fall in energy prices could impact economic activity, as occurred in 2016. Upside risks include the potential increase in natural gas production due to a new gas field becoming operational.

TABLE 2 Azerbaijan / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-4.3	5.6	4.6	1.5	2.4	2.5
Private consumption	-5.1	7.0	4.9	4.0	3.6	3.6
Government consumption	4.8	3.8	7.4	7.1	3.1	3.1
Gross fixed capital investment	-7.1	-6.0	4.5	3.5	2.3	2.0
Exports, goods and services	-8.1	5.6	3.3	-1.0	1.7	1.8
Imports, goods and services	-10.5	2.5	3.2	2.2	2.7	2.7
Real GDP growth, at constant factor prices	-4.4	5.6	4.6	1.5	2.4	2.5
Agriculture	1.9	3.3	3.4	3.2	3.0	3.0
Industry	-5.2	4.1	2.4	-0.9	1.1	1.2
Services	-4.4	8.6	8.5	4.9	4.2	4.2
Inflation (consumer price index)	2.8	6.7	13.8	9.0	5.8	5.2
Current account balance (% of GDP)	-0.5	15.2	26.5	14.6	13.5	13.0
Net foreign direct investment inflow (% of GDP)	-1.5	-4.1	-1.5	-1.0	-1.0	-0.9
Fiscal balance (% of GDP)	-6.5	4.2	5.5	3.1	3.0	2.9
Revenues (% of GDP)	33.7	36.5	32.4	34.6	34.1	32.7
Debt (% of GDP)	18.4	16.2	11.7	13.3	14.0	15.0
Primary balance (% of GDP)	-5.7	4.8	5.9	3.4	3.3	3.2
GHG emissions growth (mtCO2e)	-1.6	0.7	1.4	0.0	0.7	1.3
Energy related GHG emissions (% of total)	62.5	63.9	64.3	64.0	64.2	64.5

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

Notes: e = estimate, f = forecast.

BELARUS

Table 1 **2022**

Population, million	9.3
GDP, current US\$ billion	72.0
GDP per capita, current US\$	7732.1
International poverty rate (\$2.15) ^a	0.0
Lower middle-income poverty rate (\$3.65) ^a	0.1
Upper middle-income poverty rate (\$6.85) ^a	1.3
Gini index ^a	24.4
School enrollment, primary (% gross) ^b	94.2
Life expectancy at birth, years ^b	72.4
Total GHG emissions (mtCO2e)	59.4

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2020), 2017 PPPs.

b/ Most recent WDI value (2021).

Despite robust growth, the economy faces challenges from supply bottlenecks due to sanctions that target major currency-earning sectors, hindering exports and redirecting trade routes. Growth is bolstered by rebounding domestic demand, driven by accommodative monetary and fiscal policies, redirection of trade routes, and rising external demand from the eastern markets. As monetary and fiscal policies approach their limits, the increasing dependence on Russia and the looming threat of sanctions in the transportation sector pose significant risks.

Key conditions and challenges

Belarus's economy is experiencing a robust rebound following its sharpest GDP decline in two decades in 2022. Strong administrative measures have curbed inflation to single digits and stabilized the exchange rate. Soft monetary and fiscal policies are providing essential support to domestic demand, as reflected in strong real growth of disposable incomes. However, potential GDP decreased after the introduction of sanctions and while investment activity is showing signs of improvement, it has not yet reached historical levels.

The economy is actively adapting to sanctions, forging new trade routes, and redirecting exports, particularly in potash fertilizers and refined oil products, through Russia, albeit with increased logistics costs. The current focus lies on import substitution strategies to address supply issues and boost local production. However, even if proven to be efficient, these efforts will take time to yield results, leaving Belarus vulnerable to weak external demand, particularly if Russia's economic outlook deteriorates.

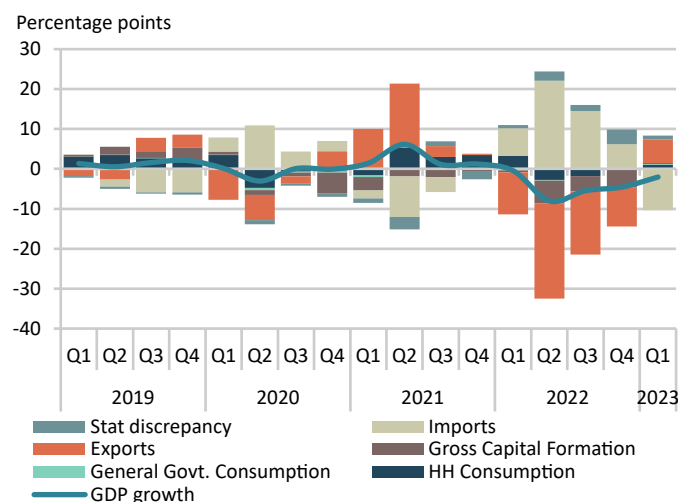
Elevated security concerns and geopolitical tensions exert additional pressure on the economic outlook, especially if more sanctions are introduced, such as the closure of the western border for passenger and cargo transportation. Prolonged adherence to accommodative policies

presents challenges, requiring Belarus to delicately balance the preservation of social benefits, wages, economic support, and overall economic stability. This, coupled with a declining current account and exchange rate, price controls, and labor force constraints, pose risks of high inflationary pressures. Lastly, Belarus's economy continues to grapple with its Soviet-era structure and a focus on quantitative growth with diminishing prospects of economic diversification.

Recent developments

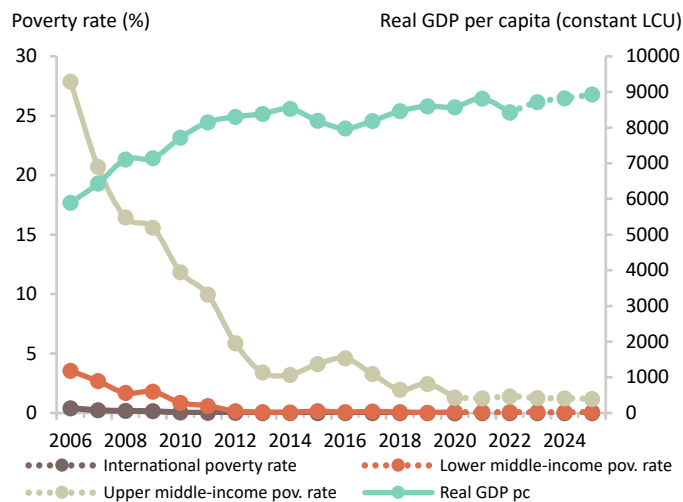
Benefiting from resilient demand from Russia, accommodative monetary policy, and a low statistical base, GDP grew by 3.1 percent in the first eight months of 2023. Growth was driven by manufacturing (9.6 percent), construction (8.7 percent), and retail and wholesale trade sectors (8.6 percent), recovering from the 2022 dip. The agricultural sector decreased (1.7 percent) due to lower grain harvest compared to last year. Conversely, the IT and transport sectors contracted, due to sanctions and labor migration. On the demand side, monetary and fiscal conditions fueled fixed investments (8.6 percent), while robust wage growth, decelerating inflation, and attractive interest rates on housing and consumer loans drove household consumption. Net exports made a negative contribution, as exports trailed behind imports due to sanctions and the collapse of IT services exports.

FIGURE 1 Belarus / Quarterly real GDP growth and contributions to real quarterly GDP growth



Source: World Bank calculations based on Belstat data.

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



Source: World Bank. Notes: see Table 2.

Inflation slowed to 2.3 percent in August (YoY), driven by the base effect and price controls, resulting in 5.6 percent inflation during January-August 2023. This led to a reduction in the base interest rate in June to 9.5 percent from 12 percent in January 2023.

Sanctions have left the external position vulnerable, relying heavily on Russian credits. Exports grew by 8.6 percent in H1 2023, driven by Russian demand and commodity prices. However, with rising real household incomes, imports grew significantly (23 percent), reducing the trade balance surplus. Remittances remained strong (27 percent), but the current account deficit expanded by 30 percent y/y in the first quarter. This deterioration in the current account did not significantly impact external debt (-5 percent) or foreign reserves. However, foreign reserves in hard currency experienced an 8 percent reduction, reflecting Belarusian ruble volatility, which mirrors the Russian ruble.

Households' real disposable income declined by 3.6 percent in 2022 but grew by 3.9 percent in H1 2023 due to higher real wages and pensions. As a result, poverty, as measured by the national poverty line, remained stable at 3.9 percent in Q1 2023.

Outlook

While the economy redirects toward the East following the imposition of sanctions and the recession of 2022, the economic prospects appear dim. Recent macroeconomic stability masks deep-rooted inefficiencies and growing reliance on one partner. In 2023, growth is anticipated to be stimulated by expansionary policies, support to SOEs, and recovering disposable income. Nevertheless, GDP growth will stabilize at around 3 percent as the stimulative economic policies reach their limits, and a full recovery from the 2022 downturn is projected by 2024/25. Consumption, the main driver of aggregate demand, which slumped in 2022, will be underpinned by real wage increases (8.4 percent in seven months) and announced pensions and wage increases in the public sector in September. Likewise, investments are projected to have a positive contribution, particularly propelled by the construction sector, but less machinery. Amidst robust domestic demand and curbed foreign trade, imports are expected to outpace export growth, resulting in a negative net export contribution.

In the medium term, growth is anticipated to remain below potential, with domestic demand substantially curtailed due to diminished foreign exchange earnings and projected tighter monetary and fiscal policies. Excepting sectors aligned with Russian exports (oil, fertilizers, and machinery), investments are projected to decelerate as the economy remains insulated. Against this background, with limited potential for growth, the economy may follow a close to zero growth trajectory. Inflation is forecasted to stabilize at 8.2 percent, with a gradual decline to 7.2 percent expected by 2025 if administrative measures are effectively maintained. Lower external demand and commodity prices are projected to erode the current account balance, leading to currency pressures. The fiscal outlook is anticipated to worsen, with fiscal deficits expected due to the government's pursuit of economic stimulus and job preservation measures. With real disposable income up 3.9 percent over January-June 2023 compared with the corresponding period of 2022, poverty is projected to fall in 2023 to a level comparable to 2021, though the fall is likely to be tempered by the decline in the number of employed experienced so far during all months in 2023.

TABLE 2 Belarus / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-0.7	2.4	-4.7	3.0	0.8	0.7
Private consumption	-1.1	4.9	-1.2	4.1	2.5	2.4
Government consumption	-2.0	-0.8	-0.1	1.5	0.2	0.0
Gross fixed capital investment	-3.9	-5.5	-13.3	7.6	0.8	1.1
Exports, goods and services	-3.7	10.1	-12.3	10.5	2.8	2.5
Imports, goods and services	-7.4	5.7	-11.4	14.8	4.7	4.4
Real GDP growth, at constant factor prices	-0.7	2.4	-4.7	2.8	0.7	0.7
Agriculture	4.8	-4.1	4.4	4.1	2.0	2.3
Industry	-0.4	3.1	-6.2	8.9	1.9	1.2
Services	-1.8	3.0	-5.1	-1.9	-0.5	0.1
Inflation (consumer price index)	5.5	9.5	15.2	8.2	8.9	7.2
Current account balance (% of GDP)	-0.3	3.1	3.7	0.8	-1.1	-1.4
Net foreign direct investment inflow (% of GDP)	2.1	1.9	1.8	1.8	1.9	1.8
Fiscal balance (% of GDP)	-1.7	0.0	-2.1	-1.0	-1.5	-1.2
Revenues (% of GDP)	37.9	37.4	34.7	35.7	36.0	36.2
Debt (% of GDP)	41.1	35.8	39.6	40.3	41.3	42.6
Primary balance (% of GDP)	0.0	1.7	-0.6	0.0	-0.5	-0.3
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	0.1	0.1	0.1	0.1	0.1	0.1
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	1.3	1.2	1.4	1.2	1.2	1.2
GHG emissions growth (mtCO₂e)	-1.6	-1.9	-5.7	-0.5	-1.1	-0.5
Energy related GHG emissions (% of total)	85.7	85.7	85.6	85.9	85.9	85.9

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

Notes: e = estimate, f = forecast.

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

b/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

BOSNIA AND HERZEGOVINA

Table 1 **2022**

Population, million	3.2
GDP, current US\$ billion	23.0
GDP per capita, current US\$	7118.9
Life expectancy at birth, years ^a	75.3
Total GHG emissions (mtCO ₂ e)	27.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2021).

After decelerating to 3.9 percent in 2022, real GDP growth is expected to further slow to 2.2 percent in 2023 as private consumption weakens. Annual inflation will remain elevated at 6 percent in 2023 driven by food, housing, and energy prices, weakening disposable income, and creating risks for poverty reduction. Upcoming municipal elections will likely make the 2022 fiscal surplus short-lived. Public debt is expected at about 36 percent of GDP. Structural reforms remain delayed mainly due to ongoing political frictions.

Key conditions and challenges

To become an EU candidate, BiH needs to address 14 reform priorities in the areas of democracy, the rule of law, human rights, and public administration. In parallel, economic criteria for EU accession require BiH to reduce internal market fragmentation by strengthening country-wide regulatory and supervisory institutions, enhancing transparency and efficiency of the oversized public sector, and reducing political involvement in the management of the public sector, including state-owned enterprises. EU accession will also require an improved business environment in part based on (i) simplified business registration and licensing procedures and (ii) harmonized and mutually recognized licenses and certificates between the entities.

BiH has shown macroeconomic stability and resilience over the past decade, including during the COVID-19 and post-COVID periods. These have been largely facilitated by three economic anchors: the currency board (which ties the BiH mark to the euro), the state-wide collection of indirect taxes through ITA, and EU membership prospects.

Nevertheless, with real income growth averaging around 1.6 percent from 2009 to 2019, living standards are stagnant as real per capita consumption is around 40 percent of the EU27 average. Faster convergence toward the EU27 average will be difficult to

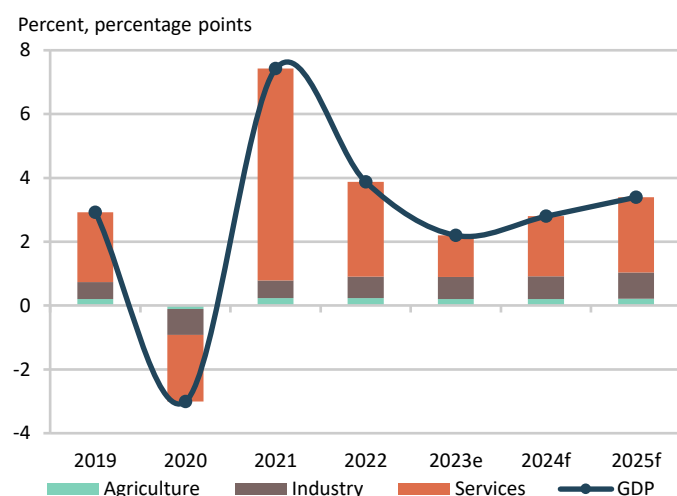
achieve due to low investment rates, a growth model that relies on private consumption, and absent structural reforms. The implementation of structural reforms remains sluggish due to political frictions, pressures from frequent elections, widespread corruption, and fragmentation of responsibilities between the two entities and cantons. Because of the resulting poor welfare prospects, BiH exhibits one of the highest labor out-emigration rates in the Western Balkans.

Recent developments

In 2022, real GDP grew 3.9 percent compared to 7.4 percent the year before as the rebound from the post-pandemic period subsided. Economic activity slowed from 5.9 percent in Q1 2022 (yoy) to 1.7 percent in Q4 2022 (yoy) mainly due to output deceleration in manufacturing. This trend persisted into Q1 2023, with real output rising a mere 1.1 percent (yoy). The latter is primarily owed to the fall in private consumption, which contracted 0.4 percent (yoy) due to the weakening of real disposable income caused by high inflation.

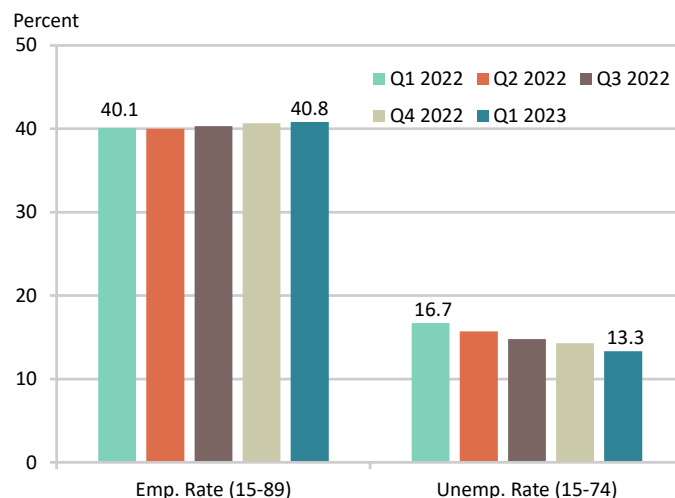
Inflation slowed to 4.9 percent in June (yoy), which translates into an inflation rate of 9.3 percent during January-June of 2023, a 2.2 percentage point contraction vis-à-vis the same period last year. Inflation dynamics were driven by higher food, housing, and transport prices, putting disproportionate stress on lower income groups, and generating risks for poverty reduction.

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



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

FIGURE 2 Bosnia and Herzegovina / Labor market indicators



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

Meanwhile, key labor market indicators remain static. The overall employment rate increased marginally to 40.8 percent in Q1 of 2023 compared to 40.1 percent in Q1 of 2022, while the unemployment rate shrunk to 13.3 percent, a 3.4 percentage points decline vis-à-vis Q1 2022. However, the decline in the unemployment rate was driven by people moving from employment to inactivity, and, thus, the overall activity rate declined by 1 percentage point during this period. Stronger nominal tax revenues supported by high inflation generated a fiscal surplus of 0.4 percent of GDP in 2022. This compares to a deficit of 0.3 percent the year before, and 5.3 percent of GDP in 2020. Higher nominal expenditures in 2022 were driven by social measures aimed at softening the inflationary impact on households, and pre-election spending, including wage hikes and a hike in capital expenditures. Nevertheless, public debt remains low at 36 percent of GDP.

Adverse terms of trade caused a widening of the merchandise trade deficit during 2022 and the first half of 2023. The current account deficit therefore broadened to 4.5 percent in 2022 and is set to further widen to 4.7 percent of GDP in 2023.

External financing largely entails net FDI inflows, mainly into the foreign-owned banking sector, which remained stable during the first half of 2023.

Outlook

Real GDP growth is set to decelerate to 2.2 percent in 2023, and 2.8 percent in 2024 as private consumption weakens due to the softening of real disposable income, and as exports adjust to much lower growth in the EU. By 2025, real output growth is expected to rebound to 3.4 percent as both exports and private consumption strengthen based on improving conditions in the EU and tightening labor markets. Stronger exports in 2024 and 2025 are likely to be offset by higher imports of consumer goods, resulting in a further widening of the current account deficit from 4.7 percent of GDP in 2023 to 5.1 percent by 2025. With general elections completed, and governments formed, the attention of policy makers could turn to the structural reform agenda and the fulfillment of legislative priorities for EU accession.

The return to fiscal surplus in 2022 is likely to be short-lived due to the upcoming municipal elections in 2024. Nevertheless, by 2024-25 the fiscal stance should be balanced again.

Given the ongoing supply shocks causing market disruptions and higher input costs for firms, inflationary pressures are projected to remain for some time. Hence, the inflation rate is expected to remain elevated at around 6 percent in 2023 and stabilize in 2024-25 at around 2 percent, in line with rates prior to the pandemic.

Downside risks dominate the outlook. Protracted market disruptions and uncertainty fanned by the war in Ukraine could have a negative impact on aggregate demand through depressed consumer and business confidence. Furthermore, the gradual recovery in the EU remains fragile, adversely impacting demand for BiH exports, except for energy. Adverse labor market developments across the EU could also limit remittance inflows, which support private consumption. Finally, geopolitical risks could further aggravate domestic political frictions with adverse consequences for the much-needed structural reform push.

TABLE 2 Bosnia and Herzegovina / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-3.3	7.1	4.0	2.2	2.8	3.4
Private consumption	-4.5	4.0	3.0	2.2	2.5	3.2
Government consumption	0.5	6.1	2.7	4.1	2.3	3.7
Gross fixed capital investment	-22.0	33.3	19.7	6.9	2.9	-0.4
Exports, goods and services	-8.5	5.0	9.9	4.0	5.5	6.0
Imports, goods and services	-13.4	8.0	12.0	6.0	4.0	3.4
Real GDP growth, at constant factor prices	-3.0	7.4	3.9	2.2	2.8	3.4
Agriculture	-1.5	3.4	3.5	3.1	3.0	3.2
Industry	-3.0	2.0	2.6	2.7	2.8	3.2
Services	-3.2	10.1	4.4	1.9	2.8	3.5
Inflation (consumer price index)	-1.1	2.0	14.0	6.0	2.5	1.0
Current account balance (% of GDP)	-4.0	-2.3	-4.5	-4.7	-4.8	-5.1
Net foreign direct investment inflow (% of GDP)	2.0	3.3	3.0	3.3	3.5	4.0
Fiscal balance (% of GDP)	-5.3	-0.3	0.4	-0.8	0.1	0.1
Revenues (% of GDP)	41.6	43.5	40.0	39.6	40.0	40.0
Debt (% of GDP)	40.3	38.0	35.9	36.2	36.1	35.8
Primary balance (% of GDP)	-4.0	1.0	1.2	0.0	0.9	0.9
GHG emissions growth (mtCO₂e)	-2.5	7.7	5.5	3.7	3.6	4.1
Energy related GHG emissions (% of total)	86.6	87.2	87.7	87.7	87.6	87.4

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

Notes: e = estimate, f = forecast.

BULGARIA

Table 1 2022

Population, million	6.5
GDP, current US\$ billion	89.0
GDP per capita, current US\$	13772.6
International poverty rate (\$2.15) ^a	0.2
Lower middle-income poverty rate (\$3.65) ^a	1.4
Upper middle-income poverty rate (\$6.85) ^a	4.5
Gini index ^a	40.5
School enrollment, primary (% gross) ^b	85.2
Life expectancy at birth, years ^b	71.5
Total GHG emissions (mtCO2e)	51.5

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2020), 2017 PPPs.

b/ WDI for School enrollment (2020); Life expectancy (2021).

Following robust growth in 2022, the Bulgarian economy is set to slow down in line with EU trends. Inflation remains elevated, threatening plans for euro adoption in 2025. The fiscal deficit is expected to remain below the 3 percent Maastricht ceiling, possibly at the expense of reduced public investment. A new regular government is hoped to step up reform momentum. Poverty reduction is expected to slow down as Bulgaria faces slower growth and elevated inflation. Energy affordability remains a pressing concern.

Key conditions and challenges

Bulgaria's development path over the past two decades has been characterized by gradual convergence to average real incomes in the EU. By 2022, it reached 59 percent of the average GDP per capita in the EU in purchasing power parity terms but remained the poorest member state. Yet, income convergence was much slower in the last decade, as reforms lost momentum while adverse demographic trends resulted in a rapid decline in the working-age population. Moreover, investment ran into diminishing returns, and factor accumulation leveled off as the country became richer.

Despite substantial progress in reducing poverty, Bulgaria's poverty rates remain among the highest in the EU, while income inequality was the largest in 2021. Child poverty remains a particularly serious issue, with 26 percent of children at risk of poverty in 2021. Energy affordability is also a challenge, with about 22.5 percent of households unable to keep their homes warm in 2021, the highest in the EU. This share rises to 42.7 percent among poor households.

The country needs a new set of policies and ambitious reforms to spur economic growth, so that it can reach average EU income levels in the next 15 years. Bulgaria needs to address its institutional and governance weaknesses and ensure fair competition to boost firms' efficiency

and private sector expansion. Investment in people's skills will also help move the economy closer to the productivity frontier. If Bulgaria succeeds in overcoming these challenges with an ambitious reform agenda, it could accelerate its economic growth to above 4 percent in the period up to 2050. Under a no-reform scenario, however, growth may slow down to 1.2 percent by the middle of the century.

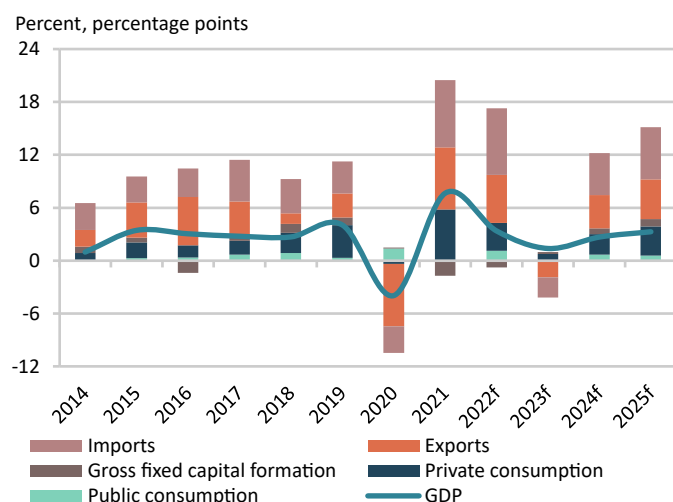
In parallel, the country needs to address persistent inequalities, including income inequality but also inequalities of opportunities, which limit human capital formation and growth, and further undermine growth prospects. Fiscal policy currently has a very limited impact on reducing child poverty. Yet, significant improvements can be achieved by fine-tuning certain measures, such as improved targeting and adequacy of means-tested child benefits.

Recent developments

GDP growth continued to decelerate in early 2023, in tune with trends in Western Europe. The economy's expansion slowed down to 1.8 percent y/y in Q2 as final consumption growth cooled off, while export growth adjusted downward, mirroring the soft landing in key export markets in the EU.

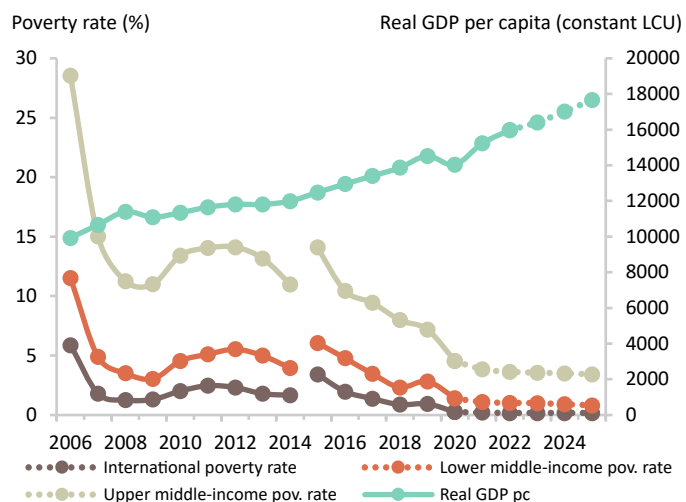
A declining working-age population has led to labor shortages across most sectors and skill sets, and a decrease in overall employment, accompanied by real wage increases since the start of 2023. Yet, the

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



Sources: World Bank and Bulgarian National Statistical Institute.

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



Source: World Bank. Notes: see Table 2.

working-age population is diminishing more rapidly than the overall decrease in employment, resulting in a still-rising employment rate.

Following 2022, when Bulgaria recorded one of the highest inflation rates in the EU, consumer price growth has slowed down in the early part of 2023, reaching 8.5 percent y/y in July. Even if energy and food price inflation gradually subsided in H1, food prices retained above-average growth and even resumed their rise in July, which impacts disproportionately the poorest segments of society. Moreover, core inflation also picked up in July, which may be attributed to still-strong demand pressures. Food and energy inflation can increase poverty by 1 percentage point (\$6.85 line), slowing down overall poverty reduction in 2022. Energy price ripples, influencing core inflation, could amplify impacts up to 1.8 percentage points. Energy affordability remains a major concern: the World Bank's rapid survey in July reveals that 15 percent of households struggled to heat homes last winter, 30 percent faced summer cooling challenges, and 73 percent deemed existing energy price caps insufficient.

Following the rapid deterioration of the fiscal position in early 2023, the balance

improved in June-July and returned to positive territory (+0.2 percent) for January-July. This became possible after the new government took steps to increase tax and non-tax revenue collection. For the full year, the government foresees a deficit of 3 percent on an accrual basis, with the aim of meeting the line Maastricht criterion of up-to-3 percent deficit and joining the euro area in 2025. The EC's Convergence Report on Bulgaria's readiness for accession is expected in spring 2024. While the fiscal balance target appears within reach, eurozone accession plans may stumble upon the Maastricht criterion for inflation. As of June 2023, Bulgaria's annual average HICP inflation is 5.3pp above the corresponding benchmark. Faster disinflation will be needed if the country is to align with the criterion by early 2024.

Outlook

Bulgaria's economy is expected to slow down substantially in 2023 – to 1.4 percent – in tune with the ongoing cooling off in the eurozone. Growth may be further suppressed if Bulgaria fails to deliver on the reform milestones under the National

Recovery and Resilience Plan, resulting in further delays of upcoming tranches.

Inflation will continue to subside but remain elevated in 2023, putting at risk the official eurozone accession target for 2025. The government's 3 percent fiscal deficit target in 2023 is achievable but may come at the expense of lower-than-planned capital spending, which could hurt growth prospects going forward. The current account is projected to move to a slight surplus in 2023-2025 due to the expected downward adjustment of import prices of key raw materials and the increase of net services export.

Political risks have declined markedly following the formation of a regular coalition government in June 2023. The new government's priorities include speeding up the implementation of the NRRP, as well as preparing the country for near-term Schengen Area and eurozone accession. Yet, the upcoming local elections in October may increase pressure on the ruling coalition, and political uncertainty may re-escalate.

Given the growth deacceleration and potentially persistent inflation, poverty (using the 6.85\$ UMIC poverty line) is expected to continue declining slowly, reaching 3.5 percent in 2023.

TABLE 2 Bulgaria / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-4.0	7.6	3.4	1.4	2.7	3.3
Private consumption	-0.6	8.8	4.8	1.1	3.5	4.9
Government consumption	8.3	0.4	6.5	0.4	3.9	3.2
Gross fixed capital investment	0.6	-8.3	-4.3	1.3	4.0	5.1
Exports, goods and services	-10.4	11.0	8.3	-2.7	5.7	6.6
Imports, goods and services	-4.3	10.9	10.5	-3.0	6.5	7.8
Real GDP growth, at constant factor prices	-4.0	8.0	3.4	1.4	2.7	3.3
Agriculture	-3.3	28.8	-0.8	0.5	1.5	1.2
Industry	-8.2	1.7	11.9	-3.5	6.7	5.2
Services	-2.5	8.7	1.0	3.3	1.4	2.7
Inflation (consumer price index)	1.7	3.3	15.3	9.8	5.6	4.2
Current account balance (% of GDP)	0.0	-1.9	-0.7	1.6	1.9	0.9
Net foreign direct investment inflow (% of GDP)	4.5	1.8	2.4	1.8	2.6	2.9
Fiscal balance (% of GDP)	-2.9	-2.7	-0.8	-2.9	-2.9	-2.3
Revenues (% of GDP)	36.8	37.7	39.2	39.5	40.6	41.3
Debt (% of GDP)	24.5	23.9	22.9	22.5	22.7	22.1
Primary balance (% of GDP)	-2.4	-2.3	-0.4	-2.5	-2.5	-1.9
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	0.2	0.2	0.2	0.2	0.2	0.2
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	1.4	1.1	1.0	1.0	0.9	0.8
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	4.5	3.8	3.6	3.5	3.5	3.4
GHG emissions growth (mtCO₂e)	-3.7	7.0	7.7	1.5	3.5	3.0
Energy related GHG emissions (% of total)	80.2	78.5	75.2	74.0	72.3	71.2

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

Notes: e = estimate, f = forecast.

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

b/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

CROATIA

Table 1 **2022**

Population, million	3.9
GDP, current US\$ billion	70.5
GDP per capita, current US\$	18282.6
International poverty rate (\$2.15) ^a	0.3
Lower middle-income poverty rate (\$3.65) ^a	0.8
Upper middle-income poverty rate (\$6.85) ^a	2.1
Gini index ^a	29.6
School enrollment, primary (% gross) ^b	92.9
Life expectancy at birth, years ^b	76.4
Total GHG emissions (mtCO2e)	20.2

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2020), 2017 PPPs.

b/ WDI for School enrollment (2020); Life expectancy (2021).

Croatia's economy remained on an expansion path in the first half of 2023 supported by robust private consumption and buoyant demand for travel services. Over the forecast horizon, economic growth is expected to stay close to 3 percent as inflation moderates, and the external outlook improves. Steady growth and a declining need for fiscal support are expected to keep the fiscal deficit contained and public debt on a declining path. Poverty in 2023 is expected to decline to 1.3 percent.

Key conditions and challenges

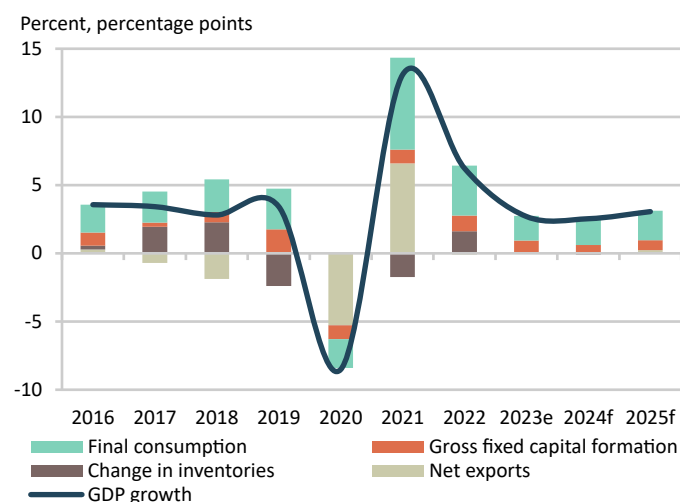
Despite significant headwinds coming from high inflation, monetary tightening, and faltering external demand for goods, Croatia's process of economic convergence continues, with GDP per capita (in PPP terms) in 2022 reaching 73 percent of the average EU27 level. The country has recorded the highest post-pandemic recovery of all EU member states (with notable exception of Ireland). The country's solid performance largely reflects post-Covid revival of global demand for travel, but also robust goods exports and personal consumption. However, as pent-up demand for services in tourism is unlikely to be sustained in the medium to long run, it will be crucial to address key structural issues that will support productivity and long-term growth acceleration. These are linked to low levels of Research and Development (R&D) investments, innovation and technology adoption, weaknesses in managerial and organizational practices, administrative capacity and judicial quality and efficiency. In addition, given unfavorable demographic trends and a tight labor market, improvements in education and labor market policies will be necessary to increase labor supply and improve the quality of human capital. Over the medium term, the elevated uncertainty linked to Russia's invasion of Ukraine and developments in energy and food commodity prices remain the key risk

to the outlook as additional price shocks would dampen both domestic and external demand. Furthermore, the full effect of higher interest rates and monetary tightening is yet to feed through the economy increasing the vulnerabilities in non-financial sector and potential risks for financial stability. At the same time, price pressures might prove to be more persistent, leading to adverse real income and confidence effects. On the upside, economic stimulus coming from fiscal policy might be stronger than anticipated in light of the upcoming parliamentary elections next year.

Recent developments

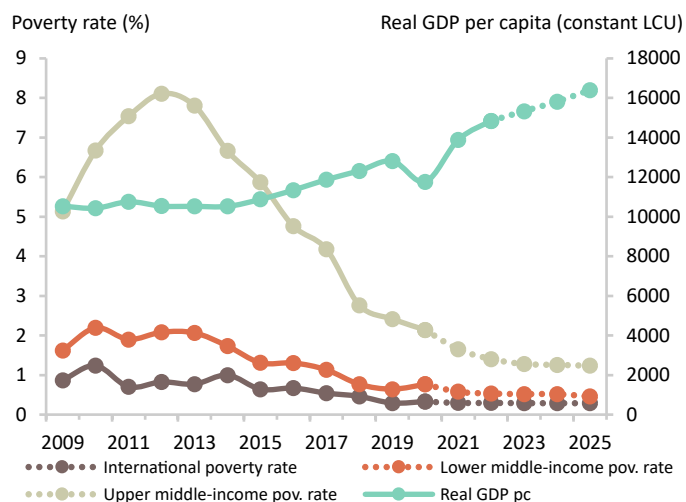
Croatia's economy further expanded in the first half of 2023, mainly owing to recovery of personal consumption and strong growth of tourism. In this period annual real GDP growth rate averaged 2.7 percent, well above EU average of 0.6 percent. Personal consumption recovered after a marked decline at the end of the last year following favorable labor market developments and recovery in consumer optimism. Furthermore, performance of export of services was also strong with foreign tourists' arrivals and overnight stays increasing on average on an annual basis by more than 10 percent. Investment growth was relatively suppressed but business optimism in the construction sector remains high and it improved further at the beginning of Q3. On the other hand, export of goods declined, partly due to the weakening of economic activity in some

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



Sources: CROSTAT and World Bank.

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



Source: World Bank. Notes: see Table 2.

of Croatia's main trading partners. Fiscal policy continued to play an important role in supporting economic activity by extending measures aimed at easing inflationary pressures. Inflation, albeit declining, remains high and, at 8.5 percent in August was the second highest in the eurozone. The ECB continued to increase key interest rates which also had an impact on financing conditions in Croatia. However, this impact was less pronounced compared to other euro area countries reflecting declining country risk premia, high bank liquidity, strong deposit base, and relatively low share of credits with variable interest rates.

The combination of strong economic growth and the rebound of the labor market improved household total income. However, high inflation eroded household real purchasing power. Poverty is estimated to have declined modestly from 1.4 percent in 2022 to 1.3 percent in 2023. Preliminary findings from the World Bank rapid assessment survey in June 2023 showed that one in every two Croatian households (and 75 percent among the bottom

40 percent of the income distribution) reported having some difficulty to make ends meet with their current income.

Outlook

Economic activity growth is expected to moderate in the second half of 2023, as demand for tourism services slows down and goods exports remain suppressed. Nonetheless, thanks to the relatively strong performance during the first six months, real GDP is set to grow by 2.7 percent in 2023, and growth is expected to take a slight uptick by the end of the forecast horizon. Personal consumption is projected to remain robust, as recovery in real incomes continues due to falling inflation and strong labor demand. Furthermore, EU funds are expected to continue supporting investment activity, especially government investments, while private sector investment growth might slow in the near term before strengthening towards the end of the forecast horizon as

monetary policy normalizes. Exports of goods, after a sluggish performance in 2023, are expected to pick up in 2024 and 2025 as external demand strengthens, while, on the other hand, growth of exports of services might become more moderate after strong results in the 2021-2023 period. Inflation is expected to remain elevated over the near term but could decline towards the ECB target of close to 2 percent by the end of the forecast horizon, following monetary measures implemented since end-2021, unwinding of global supply bottlenecks, and easing of commodity price growth. The fiscal deficit is set to remain contained, as growth continues and the need for fiscal support declines. This will allow for further reduction in public debt which is expected to fall below 60 percent of GDP by the end of 2025.

Looking ahead, about 20 percent of Croatian households, and more than 30 percent of those in the bottom 40 expressed a pessimistic view of their financial prospect, according to the World Bank survey in June. Poverty is projected to decline marginally to 1.2 percent by 2025.

TABLE 2 Croatia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-8.5	13.1	6.2	2.7	2.5	3.0
Private consumption	-5.1	9.9	5.1	2.2	2.5	2.8
Government consumption	4.3	3.0	3.2	2.6	2.8	2.7
Gross fixed capital investment	-5.0	4.7	5.8	4.7	3.1	3.5
Exports, goods and services	-23.3	36.4	25.4	-1.0	4.2	5.0
Imports, goods and services	-12.4	17.6	25.0	-0.9	4.2	4.5
Real GDP growth, at constant factor prices	-7.5	12.6	6.4	2.7	2.5	3.0
Agriculture	-0.2	8.2	6.0	-0.2	3.5	3.5
Industry	-4.1	9.0	2.3	1.2	3.0	3.0
Services	-9.1	14.2	7.9	3.3	2.3	3.0
Inflation (consumer price index)	0.0	2.7	10.7	8.4	3.9	2.3
Current account balance (% of GDP)	-0.5	1.8	-1.6	-0.6	-0.8	-0.7
Net foreign direct investment inflow (% of GDP)	1.4	4.8	5.6	3.7	3.7	3.7
Fiscal balance (% of GDP)	-7.3	-2.5	0.4	-1.1	-1.3	-1.1
Revenues (% of GDP)	46.8	46.2	45.5	44.3	43.7	43.6
Debt (% of GDP)	86.9	78.3	68.8	62.8	60.2	58.3
Primary balance (% of GDP)	-5.3	-0.9	1.8	0.2	-0.1	0.2
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	0.3	0.3	0.3	0.3	0.3	0.3
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	0.8	0.6	0.5	0.5	0.5	0.5
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	2.1	1.7	1.4	1.3	1.3	1.2
GHG emissions growth (mtCO₂e)	-5.6	13.2	5.7	0.2	0.4	0.7
Energy related GHG emissions (% of total)	88.3	88.8	88.6	88.1	87.6	87.2

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

Notes: e = estimate, f = forecast.

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

b/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

GEORGIA

Table 1 **2022**

Population, million	3.7
GDP, current US\$ billion	24.6
GDP per capita, current US\$	6667.4
International poverty rate (\$2.15) ^a	5.5
Lower middle-income poverty rate (\$3.65) ^a	19.1
Upper middle-income poverty rate (\$6.85) ^a	55.4
Gini index ^a	34.2
School enrollment, primary (% gross) ^b	100.8
Life expectancy at birth, years ^b	71.7
Total GHG emissions (mtCO2e)	19.6

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2021), 2017 PPPs.

b/ Most recent WDI value (2021).

The economy performed strongly in H1 2023, with growth at 7.6 percent (yoy), and projected at 5.9 percent for 2023 as a whole. Buoyed by strong domestic consumption, employment recovered, and poverty continued to fall. Growth is expected to slow in H2 due to monetary tightening in advanced economies and to easing in money inflows from Russia putting pressure on the currency and increasing financing needs.

Key conditions and challenges

Georgia has made notable gains in income growth and poverty reduction over the past decade. A robust economic management framework saw the GNI per capita (constant 2015 USD) increase from USD 3,048 in 2010 to USD 5,424 in 2022. Poverty (measured by the USD6.85 poverty line in 2017 PPP) is also down from 70 percent at the start of the decade to 55.4 percent in 2021.

Nevertheless, structural challenges persist; notably, weak productivity and limited high-quality job creation. More than a third of all workers are engaged in low-productivity agriculture. Poor learning outcomes and lack of skills restrict private sector growth. Georgia also remains vulnerable to external shocks, largely due to its heavy reliance on tourism and trade openness. Foreign exchange depreciation remains a risk because of high dollarization and persistent dependence on external savings.

The application for EU candidacy, initiated in 2022, provides opportunities for further income growth while requiring significant reforms.

Recent developments

Growth remained robust in H1 2023, although it eased to an estimated 7.6 percent,

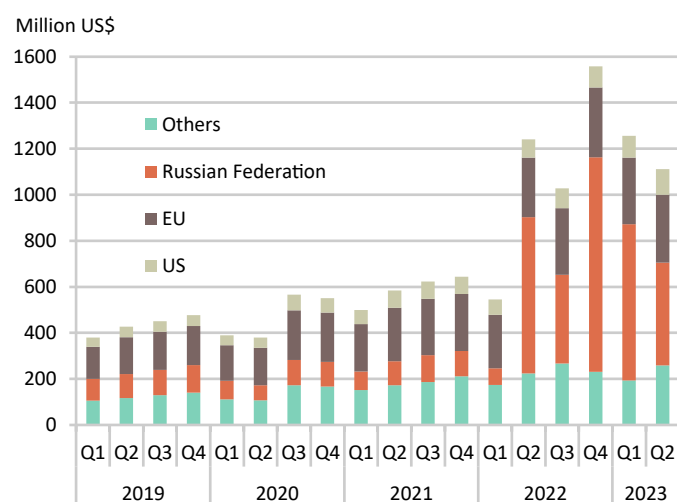
compared to 10.1 percent in H1 2022, driven by a rebound in private consumption. Service exports remained supported by continued recovery in tourism. Unemployment continued to fall, reaching 16.7 percent in June 2023, below pre-pandemic levels.

Inflation has declined sharply. Headline inflation fell to 0.3 percent (yoy) in July 2023, from 9.4 percent in January. The decline was driven by lower commodity prices, particularly for food and fuel, along with a strong Georgian lari (GEL). On the other hand, the price of financial services, personal care, and utilities have continued to put pressure on inflation. Core inflation, which excludes food and energy components, dropped from 7.1 percent (yoy) in January to 3.2 percent (yoy) in July. In response, in August, the National Bank of Georgia (NBG) reduced the monetary policy rate by 25 bps, to 10.25 percent.

The banking sector has remained healthy. Returns on assets and equity reached 3.7 percent and 26.7 percent in June 2023, respectively. The share of non-performing loans (NPLs) stood at 1.5 percent by the end of June, down from 2 percent in June 2022.

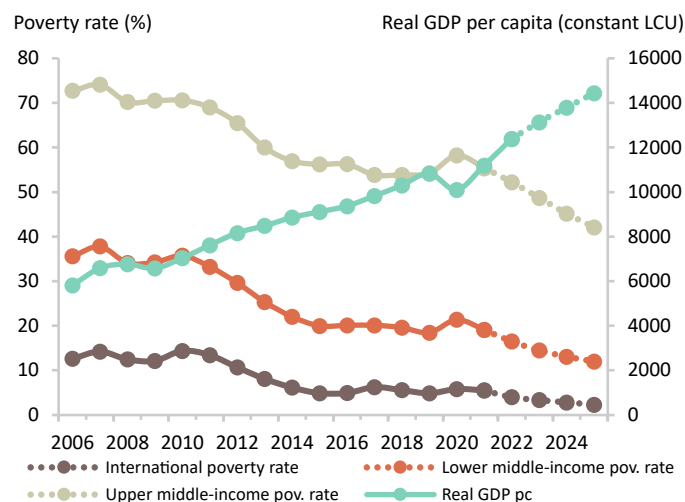
The current account deficit declined to 3.2 percent of GDP in Q1 2023, from 4 percent in 2022. During H1 2023, exports grew by 19.3 percent (yoy) in USD value, mostly driven by re-exports of used cars. Conversely, exports of raw materials (copper, ferroalloys, and nitrogen fertilizers) produced in Georgia declined, as international prices fell considerably, and domestic production declined. Meanwhile, imports expanded by 19.6 percent (yoy), driven by growth in used car imports, whose share of total imports almost

FIGURE 1 Georgia / Gross money inflows by country of origin



Source: National Bank of Georgia.

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



Source: World Bank. Notes: see Table 2.

doubled to 18 percent. FDI inflows recorded an improvement in H1 2023 with an 11 percent increase compared to the same period in 2022, driven by the financial, energy, and manufacturing sectors. Money transfers, primarily from Russia, continued to support Georgia's external position and increased by 32.5 percent in H1 2023 compared to H1 2022. International reserves increased to USD 5.4 billion, or approximately 4.4 months of import cover.

Total revenue increased by 13.3 percent (yoy) in real terms in H1 2023, supported by higher collection across the board, except for profits tax. Current expenditures grew by 6.7 percent (yoy), reflecting increases in the wage bill, higher spending on goods and services, and increased (yoy) subsidies to SOEs and social assistance for the most vulnerable. Capital expenditure surged by 20.3 percent yoy in real terms as the pace of project implementation accelerated. Outturns for H1 2023 showed a small overall surplus and a primary surplus at 0.7 percent of GDP, due to the strong revenue performance. The public debt-to-GDP ratio has continued to fall due to rapid economic growth and appreciation of the GEL.

Strong economic growth and improved employment rates resulted in higher real

wages, contributing to increased household consumption. Steady remittance inflows and lower food inflation have also bolstered the population's purchasing power. The poverty rate (below USD 6.85 a day, 2017 PPP terms) is estimated to decrease to 48.7 percent in 2023.

Outlook

Growth is expected to slow in H2 2023 due to a slowdown in trading partners and an easing of money transfer inflows, reaching 5.9 percent this year. Looking ahead, growth is expected to stabilize at around 5 percent of GDP in 2024–2025, supported by robust investments and tourism.

Inflation is expected to end the year below the 3-percent target rate. Monetary policy is expected to be eased to support economic growth while remaining prudent.

Prospects for poverty reduction are positive. The overall poverty rate (measured below USD 6.85 per day, in 2017 PPP terms) is expected to continue declining and reach 45.2 percent in 2024 and 42.1 percent in 2025, driven by higher wages and improvements in the labor market.

On the external side, given the widening trade deficit, the current account is

projected to deteriorate to 6 percent by the end of 2023. The inflow in money transfers in the aftermath of Russia's invasion of Ukraine is expected to ease in the second half of 2023 and subside further in 2024. The current account deficit is expected to remain below pre-war levels in the medium term, due to continued recovery in tourism and continued strong export performance.

The deficit is projected to reach 2.9 percent of GDP in 2023. The government is expected to comply with the GDP fiscal rule deficit ceiling in 2023 and in the medium term. To boost revenue collection, the authorities are committed to the rationalization of tax expenditures.

Substantial risks remain, reflecting Russia's invasion of Ukraine and broader uncertainties. A faster reduction in money inflows, a decline in tourism inflows, further monetary tightening in advanced economies, or an increase in global commodity prices, could hinder growth, put pressure on the currency, and increase debt levels and financing needs. Currency mismatches due to dollarization and a high exchange rate pass-through would also exacerbate vulnerability to currency depreciation. On the upside, money transfer inflows could remain stronger than expected, lifting economic growth.

TABLE 2 Georgia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-6.8	10.5	10.1	5.9	4.8	4.5
Private consumption	8.8	14.5	-1.8	5.6	4.2	4.4
Government consumption	7.1	7.7	0.7	4.8	5.2	5.9
Gross fixed capital investment	-16.5	-7.2	19.6	2.6	4.8	7.5
Exports, goods and services	-37.6	24.4	38.2	10.0	11.0	10.0
Imports, goods and services	-16.6	11.0	14.4	11.0	9.0	10.0
Real GDP growth, at constant factor prices	-6.6	10.4	10.1	5.9	4.8	4.5
Agriculture	8.1	0.1	2.0	2.5	2.5	2.5
Industry	-6.8	5.9	8.0	4.0	5.0	5.0
Services	-8.1	13.0	11.6	6.7	5.0	4.6
Inflation (consumer price index)	5.2	9.6	11.9	2.3	2.5	3.0
Current account balance (% of GDP)	-12.5	-10.4	-4.0	-6.0	-5.6	-4.7
Net foreign direct investment inflow (% of GDP)	3.6	4.9	7.5	3.9	4.7	4.9
Fiscal balance (% of GDP)	-9.8	-7.1	-3.5	-2.9	-2.7	-2.5
Revenues (% of GDP)	25.2	25.2	27.0	27.0	26.7	26.8
Debt (% of GDP)	60.1	49.6	41.3	39.4	38.9	38.3
Primary balance (% of GDP)	-8.2	-5.7	-2.4	-1.6	-1.5	-1.5
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	5.8	5.5	4.0	3.3	2.8	2.3
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	21.4	19.1	16.5	14.5	13.1	12.0
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	58.3	55.4	52.2	48.7	45.2	42.1
GHG emissions growth (mtCO₂e)	-0.6	3.5	7.8	5.7	1.4	1.6
Energy related GHG emissions (% of total)	55.0	56.8	60.2	62.7	63.6	64.5

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

Notes: e = estimate, f = forecast.

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

b/ Projection using neutral distribution (2021) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

KAZAKHSTAN

Table 1 **2022**

Population, million	19.6
GDP, current US\$ billion	225.3
GDP per capita, current US\$	11476.6
Upper middle-income poverty rate (\$6.85) ^a	14.3
Gini index ^a	27.8
School enrollment, primary (% gross) ^b	100.3
Life expectancy at birth, years ^b	70.2
Total GHG emissions (mtCO ₂ e)	194.9

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2018), 2017 PPPs.

b/ WDI for School enrollment (2020); Life expectancy (2021).

GDP is projected to grow by 4.5 percent in 2023 and subsequent years, aided by new oil production coming on-stream. Inflation is expected to return to target. Geopolitical tensions, with attendant risks of oil market disruption and secondary sanctions, present downside risks.

Key conditions and challenges

Since 2008 average growth has slowed to less than 4 percent a year as productivity gains have stalled. In recent years, coupled with rising living costs, this lackluster economic performance has fostered public discontent over inequality and elite capture, culminating in violent protests in January 2022. Russia's invasion of Ukraine has increased uncertainty and introduced new risks, given Kazakhstan's close economic ties to Russia.

Revitalizing economic growth and productivity requires implementing structural reforms to transition from a state-dominated development model to a more resilient private sector-led model. This entails fostering competition and limiting the market dominance of SOEs, reinforcing the rule of law, and resolute anti-corruption action. Enabling private investment and competition in non-oil growth sectors would need to be a key part of this effort. Public investment in human capital and public goods should support growth prospects and more balanced development across the country.

Recent developments

The economy grew by 5.1 percent in H1 2023, driven by exports and fiscal stimulus. The influx of an estimated 150,000 Russian

migrants bolstered domestic demand and brought a significant increase in registration of new businesses, which has grown by over 20 percent (yoy) to June 2023. Robust growth of retail trade (8.8 percent in real terms, yoy), and car sales (11.1 percent, yoy) in H1 indicate strong consumer spending, while investment, driven by rising FDI, has also strengthened. Growth in production was broad-based, including mining and machinery manufacture, basic metals, and chemical products.

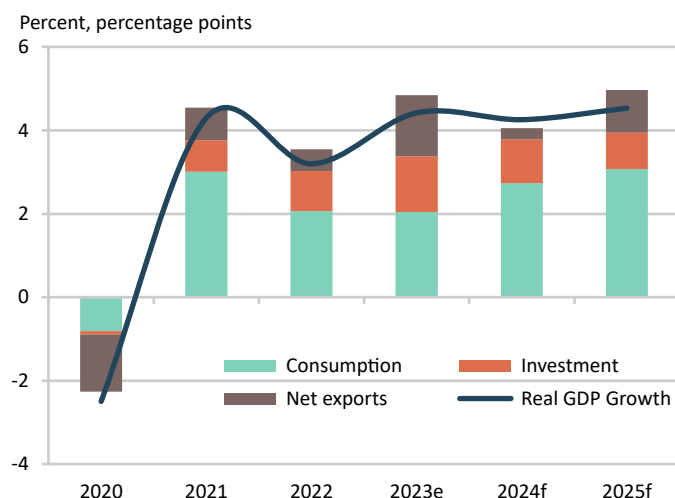
The unemployment rate declined slightly to 4.7 percent in Q2 2023, from 4.9 percent in 2022. Economic growth and an above-inflation increase in minimum wages drove up real wages by 1.2 percent in Q2 (yoy).

In August 2023, inflation slowed to 14 percent (yoy) from a peak of 21.3 percent in February, still well above the National Bank of Kazakhstan (NBK) 4-6 percent target range. Food price inflation decelerated to 13.5 percent yoy, while services inflation was 13.9 percent yoy.

The Central Bank (NBK) cut its policy rate by 250 basis points to 16.50 percent in August for the first time since February 2022.

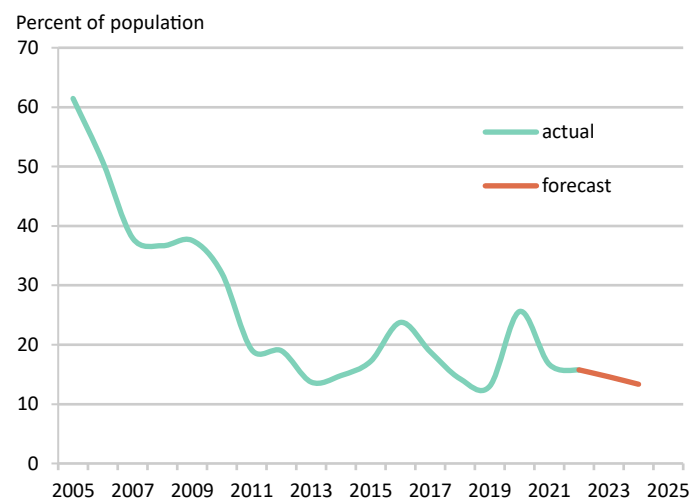
The current account deficit reached USD 3.6 billion in H1, reversing the surplus of USD 6.6 billion in H1 2022, as oil prices subsided, leading to a fall in nominal USD export values of 10.6 percent (yoy). FDI increased by 18.6 percent (yoy) in nominal USD value, with investments primarily flowing into the mining sector. Gross international reserves decreased slightly to 7 months of import cover at the end of June 2023. The KZT depreciated slightly against the USD in H1 2023, as the RUB depreciated sharply.

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



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

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



Source: World Bank staff estimates.

The consolidated budget deficit reached an estimated 3.0 percent of GDP in H1 2023, compared to a 1.1 percent surplus in H1 2022. This deterioration is primarily due to increased spending on education, social assistance, housing, and utility infrastructure, driving expenditures up 2.9 percent to 25.8 percent of GDP. Elevated interest rates pushed up debt service costs to 2.3 percent of GDP in H1 2023 (compared to 1.9 percent in H1 2022).

The banking sector has sufficient capitalization levels and the reported asset quality is relatively good. As of March 2023, the ratio of capital to risk-weighted assets stood at 18.8 percent – compared to the minimum requirement of 12 percent. The share of non-performing loans has remained stable at 3.4 percent (although the share of overdue loans with less than 90 days has been increasing slightly).

Outlook

Economic activity is expected to weaken slightly in H2 owing to a lessening of

inventory restocking and the impact of rising real interest rates. As a result, economic growth is projected at 4.5 percent in 2023 as a whole. Household spending will strengthen gradually as inflation and financial conditions ease. Investment, notably in mining and manufacturing, is expected to be strong. Growth is expected to remain at around the same levels in 2024 and 2025.

Inflation is projected to gradually decline to the target range by the end of 2025 due to monetary policy effects and easing external pressures.

The current account is expected to post a moderate deficit in 2023 and in future years. With FDI concentrated in the oil and gas sectors, foreign companies will continue to repatriate profits, leading to a primary income deficit.

Government expenditure as a share of GDP is expected to be 2 percent higher in 2023, but the government plans to wind back this increase over the next two years. However, the fiscal deficit is projected to increase further as revenues are projected to decrease rapidly driven by a reduction in lower oil-related taxes.

Poverty is expected to fall slightly to 14.6 percent (at USD 6.85/day) in 2023, as growth picks up and inflation subsides. High prices of basic items will remain a key factor impacting the population, especially the poorest households.

This outlook is subject to significant risks. Stubborn inflation may lead the authorities to sustain higher volumes of targeted support, increasing fiscal costs. Russia's invasion of Ukraine, escalating tensions in and near the Black Sea related to the invasion, and western sanctions against Russia, leave Kazakhstan vulnerable to disruptions in oil exports via the Russian-controlled Caspian pipeline, which could have serious economic and fiscal implications for Kazakhstan. In addition, the risk of secondary sanctions on Kazakh companies and banks continues to be a concern, given the wide and deep economic ties to neighboring Russia. Kazakhstan has become a transit point for the import of dual-use goods to Russia. If imposed, sanctions could bring sizable economic costs, erode confidence and hamper FDI, and threaten the development agenda and growth.

TABLE 2 Kazakhstan / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-2.5	4.3	3.2	4.5	4.3	4.5
Private consumption	-3.8	6.3	2.0	4.0	5.0	5.0
Government consumption	12.8	-2.4	9.1	4.1	1.0	0.5
Gross fixed capital investment	-0.3	2.6	3.6	5.2	4.8	5.0
Exports, goods and services	-12.1	2.3	10.2	6.1	3.9	6.7
Imports, goods and services	-10.7	-0.3	11.6	4.1	4.1	5.0
Real GDP growth, at constant factor prices	-2.5	4.1	2.9	4.6	4.4	4.5
Agriculture	5.6	-2.2	9.1	4.0	3.5	3.5
Industry	-0.4	3.6	1.2	5.2	4.1	5.7
Services	-4.5	5.0	3.5	4.2	4.6	3.8
Inflation (consumer price index)	7.5	8.5	20.3	11.6	10.2	6.8
Current account balance (% of GDP)	-6.4	-1.3	3.5	-1.1	-0.6	-0.2
Net foreign direct investment inflow (% of GDP)	-3.4	-1.0	-3.5	-3.2	-3.3	-3.7
Fiscal balance (% of GDP)	-6.5	-4.3	0.4	-1.0	-1.3	-1.0
Revenues (% of GDP)	18.0	17.6	22.0	21.7	20.8	19.8
Debt (% of GDP)	24.9	23.7	22.5	22.9	23.2	24.9
Primary balance (% of GDP)	-5.4	-3.1	1.8	0.2	0.6	0.7
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	25.6	16.7	15.7	14.6	13.3	12.2
GHG emissions growth (mtCO₂e)	-5.8	-13.0	-12.4	-9.2	-8.4	-8.9
Energy related GHG emissions (% of total)	76.0	73.5	71.2	69.4	67.4	64.9

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

Notes: e = estimate, f = forecast.

a/ Calculations based on ECAPOV harmonization, using 2018-HBS. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.

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

KOSOVO

Table 1 **2022**

Population, million	1.8
GDP, current US\$ billion	9.4
GDP per capita, current US\$	5315.7
Upper middle-income poverty rate (\$6.85) ^a	34.2
Gini index ^a	29.0
Life expectancy at birth, years ^b	76.8

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2017), 2017 PPPs.

b/ Most recent WDI value (2021).

Amid a challenging global context, growth decelerated but remains positive. GDP growth reached 2.9 percent in H1 2023, supported by export performance and consumption. Inflation decelerated, but core inflation remains heightened. Over the medium term, growth is expected to reach around 4 percent, close to Kosovo's potential, but risks associated to Russia's invasion of Ukraine and to a growth slowdown in Europe remain elevated.

Key conditions and challenges

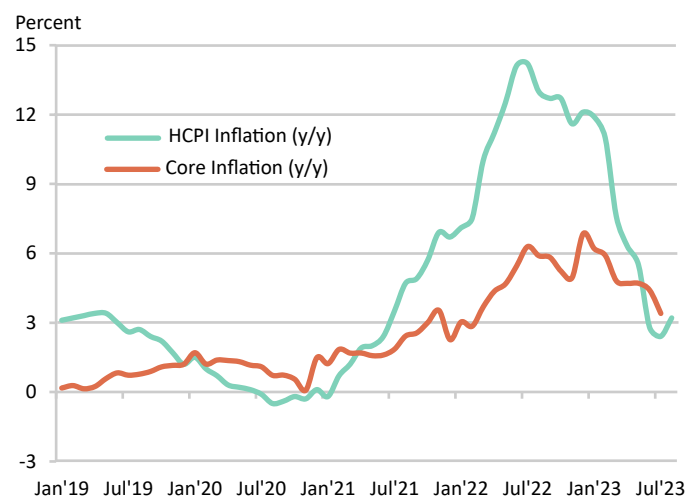
Following a robust post-pandemic recovery growth moderated in 2022 amid high inflation driven by increased international commodity prices brought on by the war in Ukraine. In 2023, amid a challenging global context, macroeconomic conditions remained favorable although growth decelerated. Despite steady economic progress since independence, there remains a large income gap between Kosovo and the average European Union member state. Limited firm dynamism and access to finance hamper private sector development and employment creation. The country's growth model relies on remittances to fuel consumption but has recently shifted to more export-driven growth. Investment is predominantly construction focused with limited contributions to growth. Human capital outcomes lag peer countries and the labor market continues to face severe challenges. Only one in three Kosovars is employed, 61.4 percent are classified as inactive, and gender gaps persist. In 2022, the working age population shrank, likely due to migration. Power generation capacity is limited and relies on outdated and unreliable lignite-fired generation plants, posing significant challenges to growth. Over the medium term, growth is expected to reach around 4 percent, close to Kosovo's potential, but risks remain elevated. An escalation of the war in Ukraine and weaker activity

in Europe could negatively affect growth. Increased tensions in Kosovo's northern municipalities remain a risk. Migration, if not offset by higher labor force participation, could constrain potential growth. To accelerate poverty reduction, Kosovo needs to transition to a more competitive growth model that creates more and higher quality jobs, supports firm growth, and is driven by increases in productivity. To make this transition and increase potential growth, Kosovo should further prioritize reforms to entrench macroeconomic stability and governance, enhance human capital, and address regulatory gaps to support private sector development.

Recent developments

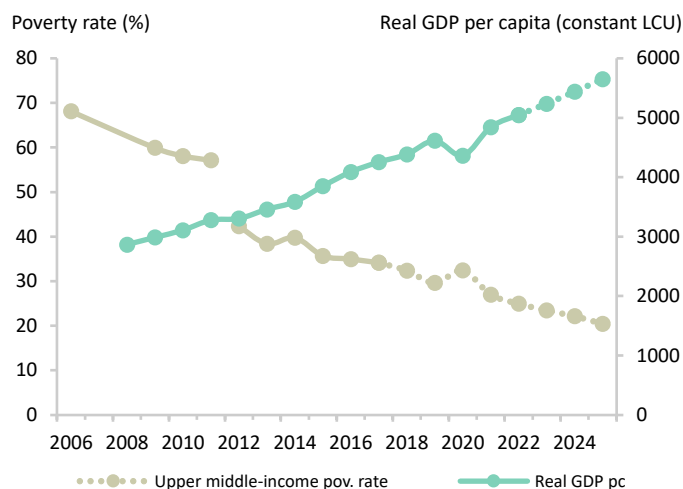
GDP growth reached 2.9 percent in H1 2023, driven primarily by a robust export performance (9.8 percent, y/y). At 2.4 and 1.6 percent (y/y) respectively, private consumption and gross capital formation marked a more moderate contribution to growth. On the production front, services and agriculture were the key contributors to H1 GDP growth. After reaching its 2023 peak in January, consumer inflation was on a downward trend until July 2023 (2.4 percent y/y) and experienced a slight uptick in August 2023 (3.2 percent y/y). During this period, significant contributors to inflation were furnishing, household items and maintenance (7.2 percent y/y), alcoholic beverages and tobacco (6.3 percent y/y), and food and non-alcoholic beverages (5.5 percent y/y), while transport

FIGURE 1 Kosovo / Consumer price inflation



Sources: Kosovo Statistics Agency and Central Bank of Kosovo.

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



Source: World Bank. Notes: see Table 2.

(-3.8 percent y/y) subtracted from the inflation rate. Labor market formalization is steadily growing, evident in the 2.3 percent increase in formal employment between July 2022 and July 2023. Additionally, the number of registered job-seekers decreased by 53 percent between July 2022 and 2023. The current account deficit showed signs of improvement by June 2023 (13.4 percent), driven by the lower value of imports coupled with a positive performance in service exports and balance of secondary income. By June 2023, the trade deficit decreased slightly (-4.6 percent, y/y), with nominal merchandise exports and imports dropping by 8.1 percent and 5.2 percent (y/y), respectively. During January-August 2023, tax revenues grew by 12 percent while overall revenues increased by 15 percent. Public and publicly guaranteed debt (PPG) decreased to 17.3 percent in June 2023, from close to 20 percent in 2022. The financial sector remains robust. In July 2023, the annual change in loans reached 14 percent. Bank capital buffers and asset quality also remain adequate, with non-performing loans remaining stable at 2 percent.

Outlook

Despite continued inflationary pressures, GDP growth is expected to reach 3.2 percent in 2023, driven by positive exports performance and private consumption. Diaspora-driven service exports are expected to remain positive throughout the year. Positive credit growth, stable remittances inflows, higher public wage spending following the implementation of the new Law on Public Wages, and elevated levels of public transfers, will support consumption growth. The medium-term outlook remains positive, with growth expected to accelerate towards 4 percent, bringing the level of economic activity closer to Kosovo's potential. The contribution of investment to growth is expected to pick up in 2024-2025, supported by the implementation of the Energy Strategy. Continued uncertainties related to the war in Ukraine, the slowdown in Europe, and the domestic political context entail significant risks. Poverty is projected to continue its decline,

falling to 23.5 percent in 2023, measured using the upper-middle-income poverty line (US\$6.85/person/day in 2017 PPP). Still, the materialization of downside risks could lead to a stagnation of poverty reduction. Inflation is expected to decelerate, yet price levels will remain elevated throughout 2023. The current account deficit is projected to narrow, with the expected decline in commodity prices and continued positive service exports. The fiscal deficit is expected to remain below 1 percent of GDP in 2023, driven by positive tax revenue performance and lower-than-budgeted capital expenditures. Over the medium term, public debt is projected to remain below 20 percent of GDP. Closing the income gap with the European Union requires an acceleration in the implementation of structural reforms in energy, education, social protection, and healthcare sectors. In addition, elevated global volatility requires authorities to continue preserving fiscal buffers while ensuring spending is balanced between promoting economic growth and current expenditures, including transfers.

TABLE 2 Kosovo / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-5.3	10.7	3.5	3.2	3.9	4.0
Private consumption	2.5	7.3	4.0	2.0	3.6	4.2
Government consumption	2.1	9.0	-1.5	4.9	2.7	-1.3
Gross fixed capital investment	-7.6	13.0	-6.1	1.2	4.2	4.3
Exports, goods and services	-29.1	76.7	17.2	9.8	5.5	5.5
Imports, goods and services	-6.0	31.4	4.9	4.6	4.2	4.2
Real GDP growth, at constant factor prices	-3.6	7.6	3.3	3.0	3.9	4.0
Agriculture	-5.8	-2.5	2.3	1.8	2.3	2.5
Industry	-1.0	7.8	1.9	2.0	3.5	4.0
Services	-4.8	9.4	4.4	3.9	4.4	4.3
Inflation (consumer price index)	0.2	3.4	11.6	4.8	3.0	2.5
Current account balance (% of GDP)	-7.0	-8.7	-10.5	-6.6	-6.0	-5.5
Net foreign direct investment inflow (% of GDP)	4.2	4.0	6.7	6.7	6.7	6.8
Fiscal balance (% of GDP)	-7.6	-1.3	-0.5	-0.6	-2.0	-1.5
Revenues (% of GDP)	25.4	27.4	27.7	28.8	28.3	28.4
Debt (% of GDP)	22.0	21.2	19.6	18.5	19.3	19.9
Primary balance (% of GDP)	-7.2	-0.9	-0.1	-0.3	-1.7	-1.1
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	32.4	27.0	25.0	23.5	22.2	20.4

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

Notes: e = estimate, f = forecast.

a/ Calculations based on ECAPOV harmonization, using 2017-HBS. Actual data: 2017. Nowcast: 2018-2022. Forecasts are from 2023 to 2025.

b/ Projection using neutral distribution (2017) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

KYRGYZ REPUBLIC

Table 1 **2022**

Population, million	6.8
GDP, current US\$ billion	11.5
GDP per capita, current US\$	1697.5
International poverty rate (\$2.15) ^a	1.3
Lower middle-income poverty rate (\$3.65) ^a	18.7
Upper middle-income poverty rate (\$6.85) ^a	67.6
Gini index ^a	29.0
School enrollment, primary (% gross) ^b	99.2
Life expectancy at birth, years ^b	71.9
Total GHG emissions (mtCO2e)	15.5

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2020), 2017 PPPs.

b/ Most recent WDI value (2021).

Growth is projected at 3.5 percent in 2023 due to a slowdown in agriculture and a contraction in manufacturing. Inflation remains high and the external position is weak. Fiscal outcomes were favorable in H1 2023 due to improved revenue performance, but driven by higher spending, the fiscal deficit is expected to increase slightly.

Key conditions and challenges

Economic growth has been volatile in the past decade due to overdependency on gold production and remittances, and because of political instability. On average, over the last decade, gold production and remittances accounted for 10 percent and 25 percent of GDP, respectively, while development assistance amounted to approximately 5 percent of GDP. High prices for imported food and fuel, and utility tariff adjustments kept domestic inflation in double digits for the last four years, adversely affecting poor households.

Although political stability was restored after the upheavals of 2020, public trust in government remains weak and frequent personnel changes within government continue to hinder decision-making. Russia's invasion of Ukraine and subsequent international sanctions triggered a decline in net remittances and increased uncertainty and risks to economic activity.

Growth is constrained by the lack of a competitive private sector. Fostering private sector development will require boosting competition and facilitating investment, notably by reducing the bureaucratic burden (particularly related to licensing, inspection, and taxation regimes), strengthening the rule of law and protecting investor rights, improving digitalization, attracting FDI, and facilitating cross-border trade.

Recent developments

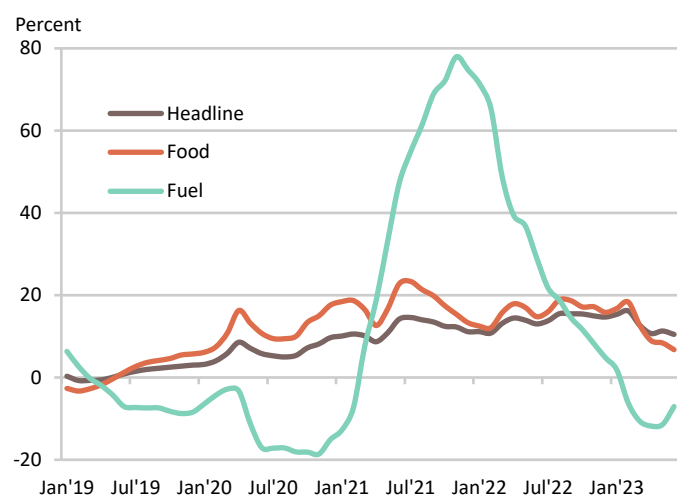
Economic growth moderated from 6.3 percent in 2022 to 3.9 percent in H1 2023 (yoy), as agricultural growth halved and gold production fell, following a build-up of gold stocks in 2022. Net remittance inflows in USD fell by 24 percent (yoy), contributing to an estimated 0.3 percent contraction in consumption.

CAD is estimated to have remained abnormally high in Q1 2023, with official statistics recording a 45.4 percent of GDP deficit. Such a large deficit, as in 2022, is associated with elevated errors and omissions (about 40 percent of GDP) indicating these figures are unconfirmed. Unrecorded (re-)exports and/or capital inflows may explain these numbers. Exports in USD are estimated to have increased by 15.6 percent (yoy) due to the resumption of gold exports, while imports grew by 27.4 percent (yoy), reflecting increased imports of food, fuel, machinery, equipment, textile and consumer goods.

The deterioration in the trade balance and the decline in remittance inflows have put pressure on the exchange rate, weakening the KGS against the USD by 1.8 percent in H1 2023. The National Bank of the Kyrgyz Republic (NBKR) sold more than USD 450 million in foreign reserves in a bid to avoid sharp fluctuations in the exchange rate. As a result, reserves fell by USD 359 million to 3.6 months of import cover by June 2023, down from 4 months at the end of 2022.

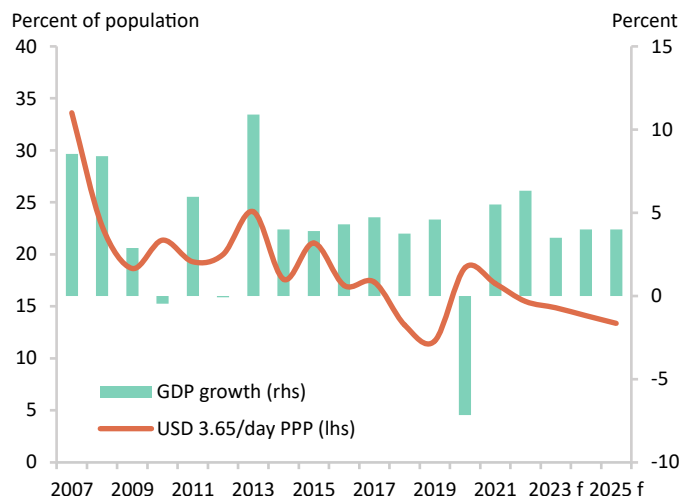
Inflation remained high, easing slightly to 10.5 percent by June 2023 as fuel and food

FIGURE 1 Kyrgyz Republic / Headline, food and fuel inflation



Source: Kyrgyz authorities.

FIGURE 2 Kyrgyz Republic / GDP growth and poverty rate



Sources: Kyrgyz authorities and World Bank staff.

prices moderated. Recent tariff increases for utilities, including electricity and water, were the largest contributors to inflation.

The NBKR kept its policy rate unchanged at 13 percent during H1 2023 after a 500 basis point increase in 2022.

The budget surplus strengthened in H1 2023 to 2.2 percent of GDP from 1.2 percent in H1 2022 thanks to strong tax performance, particularly VAT on imported goods, which more than compensated for the increase in public wages, social transfers and pensions from 2022, and higher spending on public infrastructure. Strong fiscal outcomes contributed to a reduction in public debt to an estimated 48.1 percent of GDP as of mid-2023, down from 49.2 percent in December 2022.

Banks remained well capitalized with a capital adequacy ratio of 23.5 percent as of the end of June 2023, nearly double the minimum regulatory requirement of 12 percent. The liquidity level was 83.9 percent, well above the 45 percent minimum requirement. The quality of loans improved slightly, with the non-performing loan ratio declining to 10.9 percent from 12.8 percent at the end of 2022.

The poverty rate (at USD 3.65/day) is expected to decline from 17.2 percent in 2021 to 15.5 percent in 2022. Increase in public and private wages, and social assistance

under the “Social Contract” program drive poverty reduction, despite a lower volume of remittances and decelerating growth.

Outlook

GDP growth is expected to moderate to 3.5 percent in 2023 as gold production contracts and the agriculture sector experiences a slowdown. On the demand side, consumption and investment are expected to support growth, while net exports are projected to make a negative contribution. GDP is expected to converge to a potential growth rate of only 4 percent over the medium term in the absence of structural reforms.

Inflation is expected to remain elevated at 12 percent in 2023, driven by rising tariffs for electricity and other utilities. Assuming the NBKR maintains its monetary policy, inflation is projected to moderate gradually to 7 percent by the end of 2025.

The current account deficit is projected to be about 29 percent of GDP in 2023 and to narrow in 2024–2025 as external demand for non-gold goods improves and export of services increases. The deficit is expected to be financed by inward FDI and external borrowing.

The fiscal deficit is projected to increase slightly to 1.6 percent of GDP in 2023 as the full year effect of increases in public sector wages and social benefits will limit the decline in overall spending relative to the expected decline in non-tax revenues and grants as a share of GDP. The deficit is expected to widen to 2.6 percent of GDP in 2024, reflecting higher capital spending, and to narrow to 2.1 percent in 2025 as the authorities plan to consolidate current and capital spending.

In 2023, high food prices, job insecurity, and declining remittances will continue to be the most significant concerns for the welfare of the population. Poverty levels are expected to decline by 0.6 percent to 14.9 percent, reflecting the positive effect of increased social protection programs and wage increases exceeding the negative impact of falling remittances and slower growth.

Risks to this outlook remain significant. A deterioration of the Russian economy may lead to added decline in remittances. Stricter application of the existing international sanctions on Russia, or imposition of secondary sanctions against Kyrgyz-based companies might significantly impact trade and domestic economic activity. The domestic political situation remains sensitive to the upcoming increase in electricity and other utility tariffs.

TABLE 2 Kyrgyz Republic / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-7.1	5.5	6.3	3.5	4.0	4.0
Private consumption	-8.3	20.9	6.4	1.3	3.4	3.9
Government consumption	0.9	0.4	1.6	1.4	0.4	0.4
Gross fixed capital investment	-16.2	8.2	22.2	17.8	17.4	15.8
Exports, goods and services	-27.3	16.4	-7.3	27.0	15.5	16.4
Imports, goods and services	-28.0	39.3	62.1	13.3	13.5	14.0
Real GDP growth, at constant factor prices	-7.1	5.5	6.3	3.5	4.0	4.0
Agriculture	0.9	-4.5	7.3	2.0	2.5	2.5
Industry	-6.5	6.5	12.2	3.8	5.3	6.0
Services	-13.7	14.4	3.0	4.7	4.5	4.2
Inflation (consumer price index)	6.3	11.9	13.9	12.0	10.0	7.0
Current account balance (% of GDP)	4.5	-8.0	-47.0	-29.1	-10.4	-10.6
Net foreign direct investment inflow (% of GDP)	-7.0	6.1	6.5	3.9	4.0	3.9
Fiscal balance (% of GDP)	-4.0	-0.3	-1.4	-1.6	-2.6	-2.1
Revenues (% of GDP)	29.0	31.8	36.2	34.5	34.1	33.4
Debt (% of GDP)	63.7	55.7	49.2	48.9	48.2	47.2
Primary balance (% of GDP)	-2.8	1.2	-0.1	-0.4	-1.6	-1.2
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	1.3	1.4	1.6	1.6	1.7	1.8
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	18.7	17.2	15.5	14.9	14.1	13.4
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	67.6	66.0	64.0	63.3	62.3	61.3
GHG emissions growth (mtCO₂e)	-1.9	6.8	8.4	6.6	4.5	4.2
Energy related GHG emissions (% of total)	70.7	72.4	73.7	74.5	74.7	74.6

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

Notes: e = estimate, f = forecast.

a/ Calculations based on ECAPOV harmonization, using 2014-KIHS, 2019-KIHS, and 2020-KIHS. Actual data: 2020. Nowcast: 2021–2022. Forecasts are from 2023 to 2025.

b/ Projection using average elasticity (2014–2019) with pass-through = 0.7 based on GDP per capita in constant LCU.

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