WORLD BANK GROUP

War in the Region

Europe and Central Asia Economic Update

Office of the Chief Economist

Spring 2022

WORLD BANK **ECA ECONOMIC UPDATE** SPRING 2022

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1 2 3 4 25 24 23 22

ISBN (electronic): 978-1-4648-1866-0
DOI: 10.1596/978-1-4648-1866-0

Cover design: Lauren Kaley Johnson

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Acknowledgments

This Europe and Central Asia (ECA) Economic Update is a product of ECA's Office of the Chief Economist led by Asli Demirgüç-Kunt, in collaboration with the Macroeconomics, Trade and Investment and the Poverty and Equity Global Practices.

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Part II was prepared by teams from the Macroeconomics, Trade and Investment Global Practice (led by Andrew Burns, Lalita M. Moorty, Sandeep Mahajan, and Jasmin Chakeri) and the Poverty and Equity Global Practice (led by Salman Zaidi). These teams included the following staff: Azamat Agaidarov, Reena Badiani-Magnusson, Javier Eduardo Baez Ramirez, Hans Anand Beck, Olena Bogdan, Tom Bundervoet, Marie-Anne Chambonnier, Marcel Chistruga, Stefano Curto, Mariam Dolidze, Andrei Silviu Dospinescu, Bakyt Dubashov, Olga Emelyanova, Samuel Freije-Rodriguez, Alan Fuchs, Josip Funda, Anastasia Golovach, Gohar Gyulumyan, Alexander Haider, Kiryl Haiduk, Sandra Hlivnjak, Saida Ismailakhunova, Fang Liu, Tehmina Shaukat Khan, David Stephen Knight, Milan Lakicevic, Leonardo Ramiro Lucchetti, Sanja Madzarevic-Sujster, Armineh Manookian Salmasi, Monika Anna Matyja, Kristina Cathrine Tan Mercado, Besart Myderrizi, Vinayakraj Nagaraj, Evgenij Najdov, Arvind Nair, Metin Nebiler, Trang Van Nguyen, Nga Thi Viet Nguyen, Desislava Enikova Nikolova, Kristina

Noelle Vaughan, Natsuko Kiso Nozaki, Ana Maria Oviedo, Catalin Pauna, Mona Prasad, Alisher Rajabov, Sjamsu Rahardja, Nadir Ramazanov, Richard James Lowden Record, Natasha Rovo, Ilyas Sarsenov, Cristina Savescu, Marc Tobias Schiffbauer, William Hutchins Seitz, Lazar Sestovic, Hilda Shijaku, Maryna Sidarenka, Karlis Smits, Tihomir Stucka, Thi Thanh Thanh Bui, Eskender Trushin, Christoph Ungerer, Pinar Yasar, and Bakhrom Ziyaev.

Sandra Gain provided the editorial support and Michael Alwan typeset the report. Indira Chand, Paul Anthony Clare, Carl Patrick Hanlon, Artem Kolesnikov, Aaron Wesley Korenewsky, Sona V. Panajyan, and Amy Stilwell provided communications and outreach support. Ekaterina Ushakova oversaw the layout and production of the report.

Abbreviations

bbl	barrel
BGN	Bulgarian lev
BHAS	Agency for Statistics of Bosnia and Herzegovina
BiH	Bosnia and Herzegovina
bn	billion
BYN	Belarusian Ruble
CA	Central Asia
CAB	Current Account Balance
CAD	Current Account Deficit
CAIT	Climate Analysis Indicators Tool
CBA	Central Bank of Azerbaijan
CBA	Central Bank of Armenia
CBR	Central Bank of the Russian Federation
CE	Central Europe
CIS	Commonwealth of Independent States
COVAX	COVID-19 Vaccines Global Access
CPI	Consumer Price Index
CROSTAT	Croatian Bureau of Statistics
EAEU	Eurasian Economic Union
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
ECAPOV	ECAPOV (ECA Poverty) database of standardized household surveys
ECB	European Central Bank
ECDC	European Centre for Disease Prevention and Control
EE	Eastern Europe
EMDEs	emerging markets and developing economies
EU	European Union
EU-SILK	European Union Statistics on Income and Living Conditions
FAO	Food and Agriculture Organization
FDI	foreign direct investment
FLFP	female labor force participation
FX	foreign exchange
GAP	Growth Acceleration Plan
GDP	gross domestic product
GEM	Global Economic Model
Geostat	National Statistics Office of Georgia
GHG	greenhouse gas emissions
GNI	gross national income
GUS	Central Statistical Office of Poland
GVCs	global value chains
GWh	gigawatt hours
ICT	Information and communication technologies
IEA	International Energy Agency
IFI	International Financial Institution
ILCS	Integrated Living Conditions Survey

ILO	International Labour Organization
IMF	International Monetary Fund
INSTAT	Institute of Statistics (Albania)
KIHS	Kyrgyz Integrated Household Survey
LCU	local currency unit
LFS	Labour Force Survey
lhs	left-hand side
MONSTAT	Statistical Office of Montenegro
mtCO2e	million tons carbon dioxide equvialent
NBG	National Bank of Georgia
NBR	National Bank of Romania
NBRB	National Bank of the Republic of Belarus
NBT	National Bank of Tajikistan
NGEU	Next Generation EU
NPL	non-performing loan
NRRP	National Recovery and Resilience Plan
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
pp	percentage point
PPI	producer price index
PPP	purchasing power parity
q/q	quarter over quarter
rhs	right-hand side
ROA	return on assets
ROE	return on equity
RVC	regional value chains
SCC	South Caucasus
SDR	Special Drawing Rights
SILC	Statistics on Income and Living Conditions
SOE	state-owned enterprise
SOFAZ	State Oil Fund of the Republic of Azerbaijan
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TajStat	Agency on Statistics of Tajikistan
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
UNWTO	United Nations World Tourism Organization
USD	US dollars
VAT	value added tax
WBK	Western Balkans
WDI	World Development Indicators
WFP	World Food Programme
WHO	World Health Organization
y/y	year-over-year
CAIT	Climate Analysis Indicators Tool

Country Codes

Albania	ALB	Latvia	LVA
Armenia	ARM	Lithuania	LTU
Austria	AUT	Luxembourg	LUX
Azerbaijan	AZE	Malta	MLT
Belarus	BLR	Moldova	MDA
Belgium	BEL	Montenegro	MNE
Bosnia and Herzegovina	BIH	Netherlands	NLD
Bulgaria	BGR	Norway	NOR
Croatia	HRV	Poland	POL
Cyprus	CYP	Portugal	PRT
Czech Republic	CZE	Republic of North Macedonia	MKD
Denmark	DNK	Romania	ROU
Estonia	EST	Russian Federation	RUS
Finland	FIN	Serbia	SRB
France	FRA	Slovak Republic	SVK
Georgia	GEO	Slovenia	SVN
Germany	DEU	Spain	ESP
Greece	GRC	Sweden	SWE
Hungary	HUN	Switzerland	CHE
Iceland	ISL	Tajikistan	TJK
Ireland	IRL	Turkey	TUR
Italy	ITA	Turkmenistan	TKM
Kazakhstan	KAZ	Ukraine	UKR
Kosovo	XKX	United Kingdom	GBR
Kyrgyz Republic	KGZ	Uzbekistan	UZB

Regional Classification Used in this Report

This report covers 50 countries referred to as Europe and Central Asia (ECA) countries. These are divided into 10 groups: Central Asia, Central Europe and the Baltic Countries, Eastern Europe, Northern Europe, South Caucasus, Southern Europe, Western Balkans, Western Europe, Russia, and Turkey.

TABLE E.1 Regional classification used in this report

Central Asia	Central Europe and Baltic Countries	Eastern Europe	Northern Europe
Kazakhstan	Bulgaria	Belarus	Denmark
Kyrgyz Republic	Croatia	Moldova	Finland
Tajikistan	Czech Republic	Ukraine	Iceland
Turkmenistan	Estonia		Norway
Uzbekistan	Hungary		Sweden
	Latvia		
	Lithuania		
	Poland		
	Romania		
	Slovak Republic		
	Slovenia		

South Caucasus	Southern Europe	Western Balkans	Western Europe
Armenia	Cyprus	Albania	Austria
Azerbaijan	Greece	Bosnia and Herzegovina	Belgium
Georgia	Italy	Kosovo	France
	Malta	Republic of North Macedonia	Germany
	Portugal	Montenegro	Ireland
	Spain	Serbia	Luxembourg
			Netherlands
			Switzerland
			United Kingdom

	Russian Federation	Turkey	

Executive Summary

In February 2022, the world was shocked by the Russian Federation's invasion of Ukraine. The war is having a devastating impact on human life and causing economic destruction in both countries, and will lead to significant economic losses in the Europe and Central Asia (ECA) region and the rest of the world. It is the second major shock in two years to trigger an economic contraction in the region, with output in 2022 forecast to contract 4.1 percent—twice as steep as the recession in 2020 from the COVID-19 pandemic.

Countries in the region were already bracing for a slowdown in the COVID-19 recovery that began in 2021, due to reduced growth and trade, inflationary pressures, debt sustainability concerns, and rising interest rates. Continued COVID-19 disruptions and escalating geopolitical tensions were also among the concerns. The war has added to the deterioration in the outlook, and the economic impact of the conflict is felt through multiple channels, including commodity and financial markets, trade and migration links, and investor confidence.

Neighboring ECA countries are likely to suffer considerable economic damage because of their strong trade, financial, and migration links with Russia and Ukraine. Russia is a major exporter of energy and industrial metals, and Russia and Ukraine together supply over 25 percent of world exports of wheat. Europe is particularly dependent on Russian energy, with 47 percent of natural gas and 25 percent of oil imported from Russia. Armenia, Georgia, Kazakhstan, and Turkey import over 75 percent of their wheat from Russia and Ukraine, and many countries in the Middle East and Africa rely on imports of wheat and other commodities from Russia and Ukraine, which could lead to food insecurity.

Supply shortages and higher prices of energy and food will fuel inflation, affecting countries in the region, as well as the rest of the world. Moreover, although Russia and Ukraine account for less than 3 percent of global exports, the war and the sanctions have frayed connectivity by disrupting trade routes and increasing shipping and insurance costs. This magnifies existing strains on global value chains, impacting a wide range of industries, including food, automobiles, construction, petrochemicals, and transport. Together with higher commodity prices, additional strains on global value chains are further fueling inflationary pressures.

Russia is a critical export destination for many countries in Eastern Europe, the South Caucasus, Central Asia, and the Baltics, accounting for over 10 percent of their exports and around 25 percent for Armenia and over 40 percent for Belarus. Remittances from Russia account for close to 30 percent of gross domestic product in some Central Asian countries, such as the Kyrgyz Republic and Tajikistan. Russian and Ukrainian tourists account for more than 10 percent of arrivals in about half of ECA's economies, including those reliant on tourism, such as Georgia, Montenegro, and Turkey.

The war and the financial sanctions on Russia have severely hampered the country's financial system and restricted its ability to meet its financial obligations, impacting financial systems in the region and beyond. Continued conflict is likely to cause further weakening of investor confidence and renewed portfolio outflows and currency depreciation in the region. The countries particularly at risk are those with high current account deficits or large shares of foreign exchange-denominated, nonresident-held, or short-term debt, and they could struggle to roll over debt or face significantly higher debt service obligations.

The war is also causing a destabilizing wave of refugees. More than 4 million people have fled Ukraine, with over half crossing into Poland and many entering Hungary, Moldova, and Romania. With the number of refugees estimated to grow in the coming months, the host countries will need to rise to the challenge of accommodating them. Additional financial resources and humanitarian aid will need to be swiftly mobilized to scale up capacity and ensure delivery of basic services. The war will increase poverty in the region due to the recession and food price inflation. In Ukraine, 6.5 million people are already estimated to be internally displaced and about one-third of the population requires emergency humanitarian assistance.

The impact of the war on the region's economic outlook hinges on how the ongoing conflict will evolve. If there is a resolution in the coming months, the losses can be contained and the recovery can begin. A more protracted conflict could increase human and economic costs, heighten policy uncertainty, fragment regional integration, and disrupt critical trade and investment links.

During these difficult times, policy makers must fortify macroeconomic policy buffers and institutions to strengthen stability; promote an inclusive and more equal recovery by strengthening social protection systems to protect the most vulnerable, including refugees; and maintain focus on improving energy efficiency and the green transition to secure a sustainable future. Addressing the negative consequences of climate change is one of the most urgent issues of our time. The war and the spike in conventional energy prices further demonstrate the attractiveness of renewables and the importance of transitioning energy systems to cheaper, cleaner, and more reliable power. Improving energy efficiency, reducing waste in energy consumption, and using technological innovations could allow the economies in the region to mitigate the impact of the war on economic growth.

PART

War in the Region

Global Context

The Russian Federation's invasion of Ukraine has triggered a catastrophic humanitarian crisis and threatened the stability of geopolitical relations. The war is the second major shock in two years to trigger an economic contraction in Europe and Central Asia (ECA), with regional output forecast to shrink over 4 percent in 2022. Moreover, the war has added to mounting concerns of a sharp global growth slowdown, surging inflation and debt, and a spike in poverty levels. The economic impact of the conflict has reverberated through multiple global channels, including commodity and financial markets, trade and migration links, and confidence. Neighboring ECA countries are likely to suffer considerable economic damage because of their strong trade, financial, and migration links with Russia and Ukraine. The war has also led to a destabilizing wave of refugees and increased the risk of widespread financial stresses among some emerging markets and developing economies (EMDEs), a de-anchoring of inflation expectations, and rising poverty and food insecurity. A protracted conflict is likely to heighten policy uncertainty further, magnify existing strains on global supply chains, and fragment global trade and investment networks. Policy makers need to ensure that they are better prepared to handle future crises as part of a commitment to a comprehensive approach to bolster resilient, inclusive, and green development. They should fortify their macroeconomic policy buffers and institutions to strengthen stability; promote an inclusive and more equal recovery by strengthening their social protection systems to protect the most vulnerable, including the refugees; and keep their focus on improving energy efficiency and the green transition to secure a sustainable future.

The War's Impact on the Global Economy

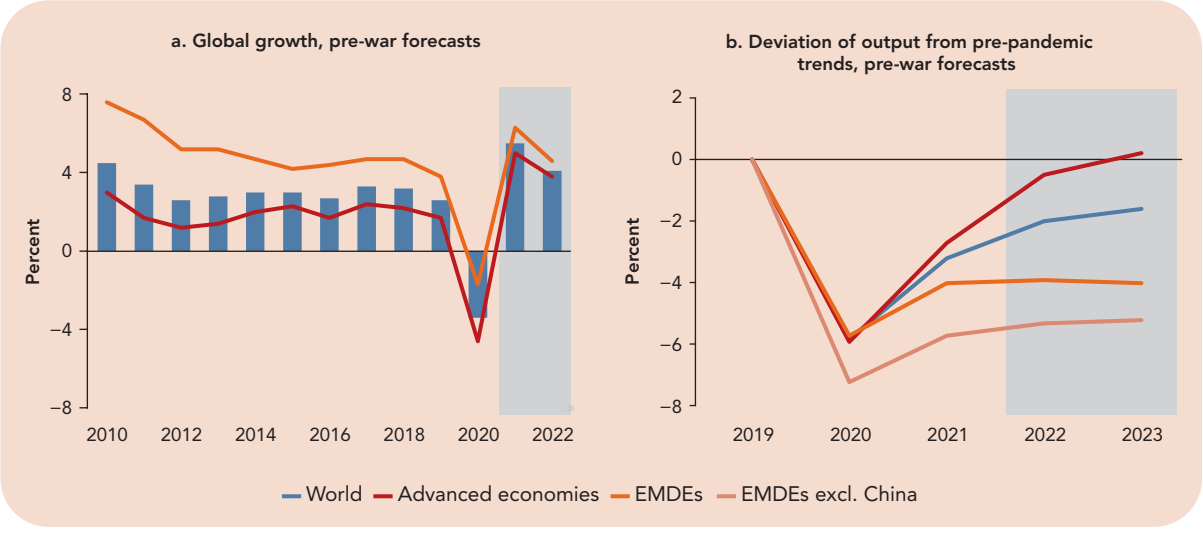
The Russian Federation's war with Ukraine has delivered a second major shock to the global economy in two years and caused a humanitarian catastrophe. Even prior to the war, the global recovery had already been decelerating alongside intensifying geopolitical tensions, continued COVID-19 flare-ups, diminishing macroeconomic support, and lingering supply bottlenecks (figure 1.1, panel a) (World Bank 2022a). The exceptional slowdown in growth that had been expected before the war left the global economy vulnerable to adverse shocks, especially in EMDEs, where recoveries were already notably weaker and more fragile compared to those in advanced economies (figure 1.1, panel b).[1] Since

1. The period of recovery that follows a global recession tends to be vulnerable to adverse shocks as the growth rebound cools (Kose, Sugawara, and Terrones 2021). In the four global recessions that preceded the pandemic (1975, 1982, 1991, and 2009), a second shock followed the initial crisis and exacerbated the slowdown in growth.

February, private sector forecasts for global growth in 2022 have already been revised down more than 0.5 percentage point and are likely to continue to fall as forecasters fully incorporate the war. Model-based estimates from the Organisation for Economic Co-operation and Development suggest that global growth could be around 1 percentage point lower this year, placing it at 3 percent (OECD 2022).

The deep humanitarian crisis sparked by the war has been the most pronounced of the initial global shockwaves and will likely be among the most enduring legacies of the conflict. The war has triggered one of the fastest growing refugee crises since World War II, with more than 4 million refugees—about half of whom are children—fleeing from Ukraine within about one month of the invasion (figure 1.2, panels a and b) (UNHCR 2022). An additional 6.5 million people are estimated to be internally displaced within Ukraine, with about one-third of the total population requiring emergency humanitarian assistance (UNOCHA 2022). By end-March, the war had displaced 4.5 million children—more than half of Ukraine's estimated 7.5 million child population—likely disrupting education, setting back development goals, and eroding long-term potential growth prospects (UNICEF 2022a, 2022b). Scaling up programs that identify unaccompanied and separated children is critical to ensure continuation of basic protection and services, as well as to reduce the risk of trafficking and exploitation. The war in Ukraine adds to mounting global humanitarian needs from other crisis situations—including in the Republic of Yemen, Afghanistan, Somalia, South Sudan, and Myanmar—which are carving into the budget for critical investment in long-term development (Modéer and Lemma 2022; UNHCR 2021).

FIGURE 1.1 Global economic activity

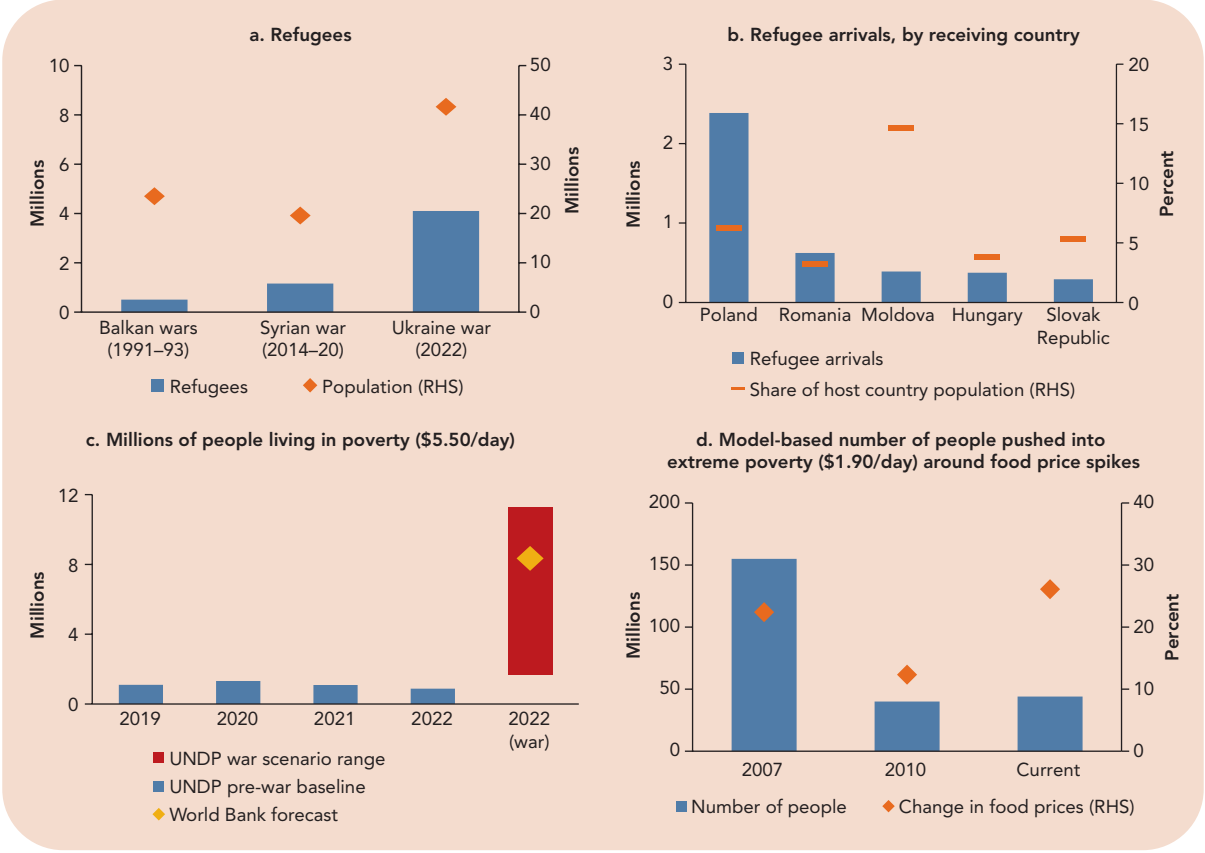


Sources: Haver Analytics; Our World in Data 2020, based on multiple sources; World Bank.
Note: EMDEs = emerging markets and developing economies.
a. Shaded area indicates forecasts. Data for 2022 are estimates.
b. Shaded area indicates forecasts. The figure shows the percent deviation between the latest projections and forecasts released in the January 2020 edition of the *Global Economic Prospects* report (World Bank 2020b). For 2023, the January 2020 baseline is extended using projected growth for 2022.

Although assessing the war's impact on poverty at this juncture is difficult, the baseline projection assumes Ukraine's poverty rate based on the $5.50 per day threshold will increase from 1.8 percent in 2021 to 19.8 percent in 2022. Modeled scenarios from the United Nations suggest that a more severe and protracted war could see poverty rates rise to nearly 30 percent of the population (figure 1.2, panel c) (UNDP 2022). The shockwaves of the war extend beyond Ukraine. Global poverty could also be impacted through second-order effects, as the war has exacerbated the increase in global food prices.[2] Previous episodes of global food price spikes have pushed a significant number of people into extreme poverty, with

2. Food price developments are discussed later in this section.

FIGURE 1.2 Humanitarian impact of the war



Sources: Center for Global Development; Food and Agriculture Organization of the United Nations; United Nations Development Programme; United Nations Human Rights Council; World Bank.
Note: a. and b. Current estimate of Ukrainian refugees is 4,102,876 as of March 31, 2022, based on UN data.
b. The accumulated data in this figure is higher than the total number of refugees fleeing Ukraine since it also accounts for people crossing the border between Romania and Moldova. Population data are for 2019.
c. The range shows estimates based on four scenarios using previous armed conflict as benchmarks, as presented in UNDP (2022). The four scenarios simulated are economic contractions of 7, 15, 20, and 60 percent. The orange diamond is the World Bank Ukraine poverty estimate as presented in the country page in Part II.
d. Poverty impact from the food price spikes of 2007 and 2010 are as estimated by De Hoyos and Medvedev (2011) and Ivanic, Martin, and Zaman World Bank (2011). Current impact is estimated by the Center for Global Development, as presented in Mitchell, Hughes, and Huckstep (2022).

estimates suggesting that the current surge in food prices could see an additional 40 million people fall under the $1.90 per day poverty line (figure 1.2, panel d) (Mitchell, Hughes, and Huckstep 2022). These humanitarian and poverty challenges will likely require sustained global support for years to come, even after the conflict stabilizes and its economic effects fade.

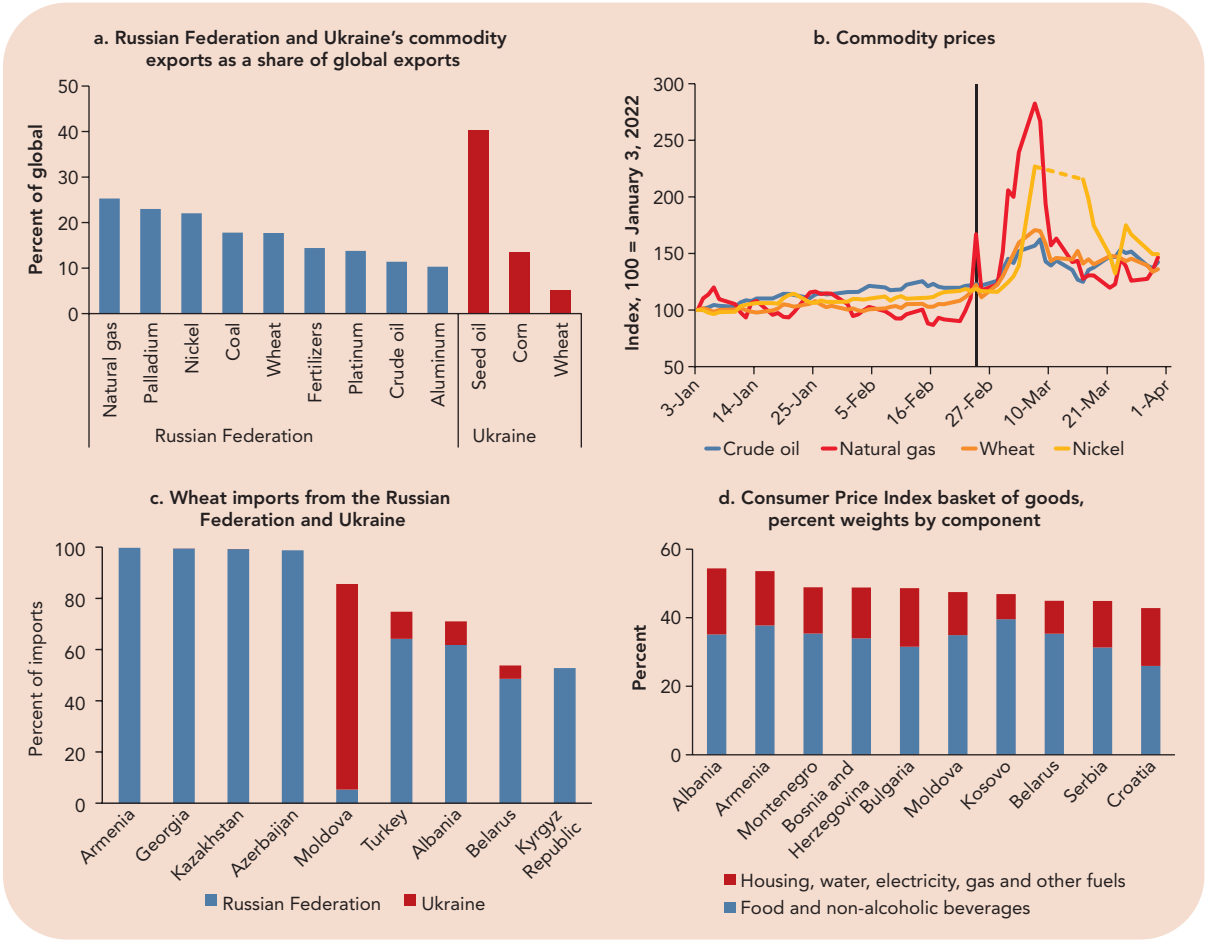
In addition to the humanitarian crisis, the war is also delivering a sizable blow to the global economy through multiple channels, including commodity and financial markets, trade linkages, and investor and consumer confidence. The spillovers to commodity and financial markets have been immediate, through higher commodity prices and pronounced market volatility. Second-round impacts are also likely to be damaging to the global economy, especially in the context of heightened geopolitical and policy uncertainty. Weakening external demand and tighter global financing conditions will weigh on EMDEs, including those in ECA. Increasing expenditure shares and high import dependence have left households exposed to commodity price shocks, with higher commodity prices eroding household incomes (FAO 2021a). War-related trade disruptions and commodity/input shortages—combined with already high commodity prices—are likely to cascade through global value chains and weigh on global trade growth. These bottlenecks are adversely affecting a wide range of industries, including food, automobile, construction, petrochemical, and transport. Together, higher commodity prices and additional strains on global value chains are further fueling inflationary pressures.

The impact of the war on the global economy has immediately propagated through higher commodity prices, reflecting Russia's and Ukraine's outsized roles in global commodity markets.[3] Price increases have been especially large this year for commodities in which Russia and Ukraine are key exporters, including natural gas, coal, crude oil, wheat, aluminum, iron ore, and palladium (figure 1.3, panels a and b).[4] Since the beginning of the war, prices have risen sharply, at one point increasing by 70 percent for European natural gas, 65 percent for coal, 40 percent for wheat, and 30 percent for Brent crude oil. The increase in European natural gas prices has been particularly sharp because of limited spare capacity, including that of import and export terminals, and the constraint that natural gas must be transported as liquified natural gas.

Oil prices have been extremely volatile, with large intraday moves. After trading at around $80/barrel (bbl) at the start of the year, the price of Brent crude oil surpassed $100/bbl in late February, rising to nearly $130/bbl in March—its highest level since 2008. Oil prices were already rising prior to the war alongside a rebound in demand that accompanied the global economic recovery and after

3. Russia accounts for more than 10 percent of global crude oil exports, 25 percent of global natural gas exports, and nearly 20 percent of global coal exports. Russia is also a critical global producer of palladium and nickel, accounting for 20 percent or more of global exports. Palladium is used in catalytic converters in car production, and nickel is used in steel production and construction. Together, Russia and Ukraine account for about a quarter of global wheat exports, and Ukraine is the largest exporter of seed oil, at about 40 percent of global exports. Ukraine is also an important source of global iron exports.
4. The sharp rise in commodity prices comes on the heels of earlier increases, which have been driven by rebounding demand and by weaker-than-expected energy production.

FIGURE 1.3 Commodities



Sources: Bloomberg; International Monetary Fund; UN Comtrade; World Bank.
Note: a. Data are for 2020. Export shares for energy commodities are in volume terms, and in value terms for non-energy commodities.
b. Natural gas prices are for Europe. Dashed yellow line indicates when nickel trading was halted from March 8-15, 2022. The vertical line indicates the day of Russia's invasion in Ukraine, February 24, 2022. The last observation is March 30, 2022.
c. Data are as of 2020.
d. Data are as of January 2022.

supply concerns reemerged when OPEC+ production fell short of expectations amid limited spare capacity (IEA 2022). Oil prices jumped further because of the war, especially after the United States and the United Kingdom announced bans on Russian oil, prompting some large oil companies, including BP and Shell, to exit from Russian operations. Reluctance to buy Russian oil caused the price of Urals to trade at a discount of more than $20/bbl relative to Brent. By late March, the price of Brent crude oil eased somewhat, to above $100/bbl, with the price falling after the United States announced plans to release from its reserves about 1 million barrels of oil per day over a period of six months.

Agricultural prices have increased this year amid concerns that global grain supplies could be further squeezed by the war since Russia and Ukraine are both

key agricultural exporters. Together, Russia and Ukraine account for a quarter of global wheat exports, with several countries—including those in ECA, the Middle East and North Africa, and Sub-Saharan Africa—importing 75 percent or more of their wheat from Russia and Ukraine (figure 1.3, panel c).[5] The war has pushed wheat prices higher as it disrupts Ukraine's planting and harvest seasons, including for other crops such as corn, barley, and sunflowers; destroys critical fields, stores, infrastructure, and production, especially in eastern Ukraine; and halts shipping from the Black Sea, from which about 90 percent of Ukraine's grains are exported. Although Russian ports are operating, insurance costs have soared due to the conflict and inhibited cargoes from leaving Russia.

Critical inputs to agricultural production are also experiencing shortages and rising prices because of the war. Together, Russia and Belarus—both of which are under heavy international sanctions—supply nearly 38 percent of the world market in value terms for potassic fertilizers, 15 percent of nitrogenous fertilizers, and about 17 percent of compound fertilizers. Russia is the world's largest exporter of fertilizer, accounting for 13 percent of global exports. In addition to direct exports of manufactured fertilizers, Russia is also a major supplier of natural gas, a key input to the production of nitrogenous fertilizers—higher natural gas prices have already doubled the price of fertilizer. Russia has recommended that fertilizer manufacturers halt exports of fertilizer, which will hinder food production elsewhere. The combined impact of higher prices and input shortages is already being felt, with the world's second largest fertilizer firm announcing a 50 percent production cut in Europe due to these constraints.

Higher commodity prices from the war are anticipated to have second-order effects, passing through to inflation and worsening food insecurity (figure 1.3, panel d). Global food prices were already approaching record high levels leading up to the war, with prices exceeding the levels observed during the last two food price spikes in 2007 and 2010—both episodes pushed millions into extreme poverty (CGD 2022; FAO 2022).[6] Trade restrictions on agricultural products, including tighter licensing quotas introduced by Russia prior to the war and export bans, announced in March, are expected to put further pressure on food prices. Additional export restrictions could slow trade in food and fertilizers, worsening food crises and further fueling inflation.

Headwinds to global trade growth are intensifying because of the war. Although Russia and Ukraine account for less than 3 percent of global exports and less than 2 percent of global imports, the war and subsequent sanctions have frayed trade connectivity by disrupting transit routes, particularly for maritime container shipping and air freight traffic, while higher fuel prices and insurance premiums have pushed up shipping costs (figure 1.4, panel a). Physical and logistical disruptions associated with the invasion, sanctions, and higher

5. Similarly, for corn and seed oils, Ukraine accounts for a significant share of imports of some countries.

6. The World Bank estimates that the 2007 spike may have pushed up to an additional 155 million people into extreme poverty, with separate work suggesting that the 2010 surge had the same effect on 44 million people (De Hoyos and Medvedev 2011; Ivanic, Martin, and Zaman 2011).

commodity prices are likely to cascade through global value chains, exacerbating the ongoing strains and adding to prolonged delivery times and high production costs for manufacturers across the world. These disruptions come at a time when global value chains are already under pressure from the pandemic and shortages of semiconductors and other industrial parts. Interruptions to trade corridors between Europe and Asia could disrupt complex supply chains, particularly for high-value goods and critical components, including for the automotive and electronics industries.[7] Already the war has cut off European carmakers from the supply of key parts, including wiring systems manufactured in Ukraine, which has halted some assembly lines.

The war's implications for maritime trade in Europe could be sizable, as Russia accounts for about a tenth of total annual container throughput at the Port of Rotterdam—Europe's largest port. Shipping lines that account for nearly half of global container shipping capacity have suspended bookings with Russia, making it more difficult for Russian businesses to export. Trade through the Black Sea has already been severely disrupted, with dry bulk vessels at Ukrainian ports down 82 percent in early March relative to the month prior. Maritime calls to Russian ports have declined nearly 45 percent since the start of February (figure 1.4, panel b).

Air cargo capacity, which was already tight, has been further hampered by the reciprocal ban on Russian and European air space—two Russian air carriers together comprise around one-fifth of global air cargo volume and are affected by these restrictions.[8] The restrictions are pushing up global transport costs as rerouting occurs through longer and more expensive routes, especially between Europe and East Asia. Rail freight and trucking between the European Union and China have also been affected by the conflict, with companies suspending travel due to concerns about border disruptions or sanction compliance.

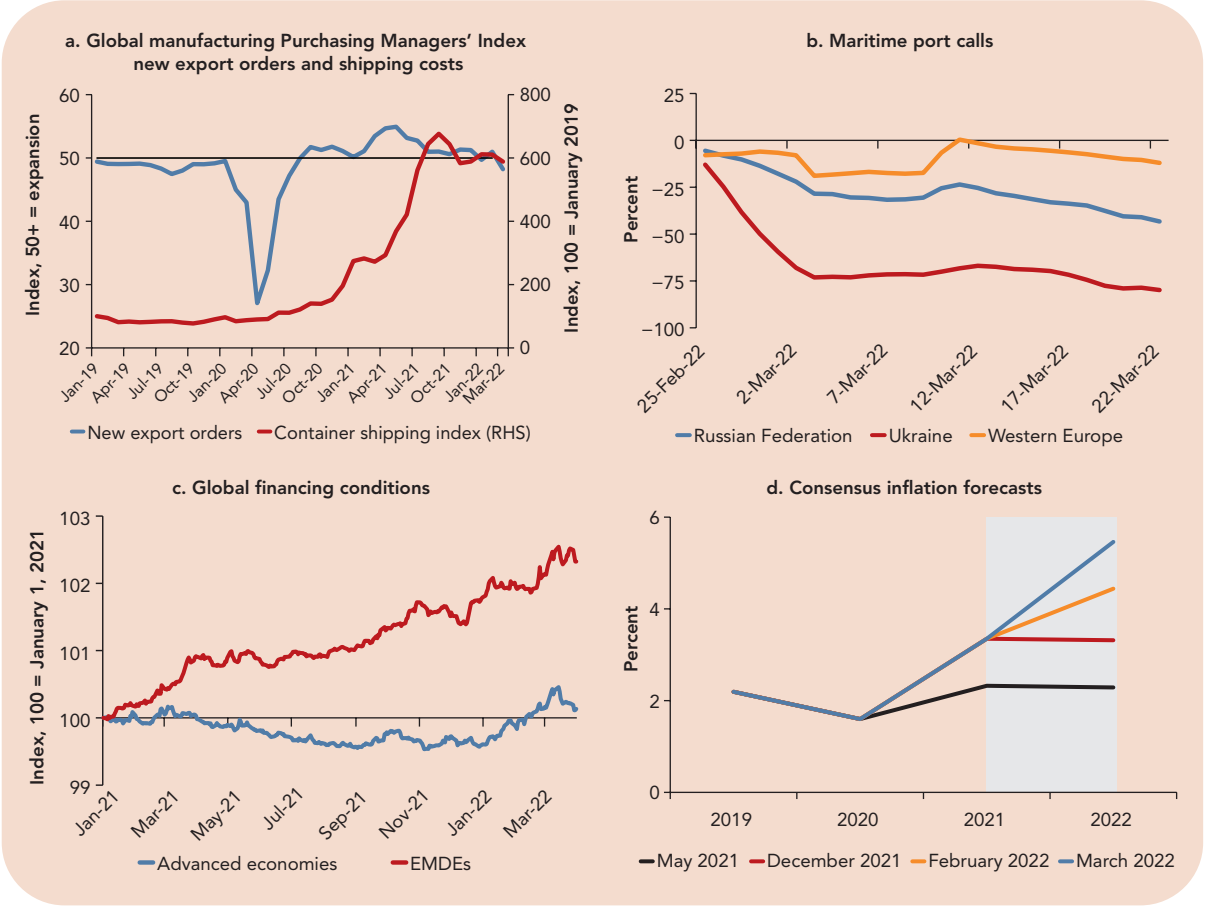
Global services trade is likely to be affected by the war, as outbound travel from Russia and Ukraine is impacted by airspace closures, travel restrictions, sanctions, and increased fuel prices. Russia and Ukraine are among the top 10 countries for total global departures and are a key source of revenue for some tourism-reliant economies in ECA, East Asia and the Pacific, the Middle East and North Africa, and South Asia. In 2021, travelers from Russia and Ukraine accounted for 5 percent of international air passenger arrivals in 30 countries and more than 10 percent in 18 countries. The war is likely to stall the post-pandemic recovery in international tourism, which was already anemic from ongoing COVID-19 disruptions. A further intensification of geopolitical tensions could trigger a renewed decline in international tourism, which would likely be akin to the sharp fall and subsequent weak recovery from 9/11.

7. Minerals and commodities produced in Russia and Ukraine are key inputs for a wide number of sectors and countries. For example, palladium and neon are important inputs in the production of catalytic converters in the automotive industry and microchip lithography in the semiconductor industry, where inventories are already tight. Nickel and copper are widely used in manufacturing and buildings.
8. Although only 3 percent of global cargo is transported by airplanes, air cargo accounts for over a third of global trade by value (Alderman and Gross 2022).

Even prior to the invasion in 2022, global financial conditions had been tightening, especially in EMDEs amid rising borrowing costs (figure 1.4, panel c). The war has eroded confidence and renewed EMDE portfolio outflows, but with most indicators suggesting limited financial contagion at this point.[9] Still, global equity prices have been roiled by the war, while volatility, as measured by the

9. Direct financial exposures to Russia have steadily declined following sanctions related to the annexation of Crimea, limiting the possibility of financial contagion from Russia. If financial contagion does spread, it will likely be because losses are concentrated in a systemically important institution.

FIGURE 1.4 Recent global economic trends



Sources: Bloomberg; Citigroup; Consensus Economics; Goldman Sachs; Haver Analytics; World Bank.
Note: EMDEs = emerging markets and developing economies.
a. The figure shows the Purchasing Managers' Index manufacturing new export orders index and the Freightos global container shipping index. The last observation is March 22, 2022.
b. Percent change in seven-day moving average of port calls compared to February 24, 2022. The last observation is March 22, 2022.
c. The index is the Goldman Sachs financial conditions index, constructed as a weighted average of short-term interest rates, long-term interest rates, trade-weighted exchange rates, an index of credit spreads, and the ratio of equity prices to the 10-year average of earnings per share. The sample includes 10 advanced economies (including the euro area) and 11 EMDEs (excluding China and the Russian Federation). Aggregates are calculated using 2021 gross domestic product weights at average 2010–19 prices and market exchange rates. The last observation is March 31, 2022.
d. The figure shows the Consensus Economics forecasts for median headline Consumer Price Index inflation for 2021–22 using surveys for the months indicated. The sample includes 32 advanced economies and 50 EMDEs for the December 2021 and May 2021 surveys, and 21 advanced economies and 38 EMDEs for the February and March 2022 survey.

VIX index, spiked to its highest level in about a year. Although global financial market developments prior to the war reflected prospects for faster monetary policy tightening, especially in advanced economies where inflation has surprised to the upside, expectations have since diverged somewhat between the United States and Europe.[10] Market expectations implied by the overnight index swap curves suggest that the pace of policy rate hikes by the Federal Reserve remains broadly unchanged from February. Although the size of the initial rate hike was smaller, at 25 basis points, than had been expected before the war, higher inflation expectations may warrant a hastier removal of monetary policy accommodation. In contrast, market participants now expect the European Central Bank (ECB) to delay rate hikes and proceed at a more gradual pace.[11] The war has further complicated policy choices, as policy makers must carefully balance the need to ensure stable inflation expectations with that of preserving the economic recovery—all while indicators point to rising global consumer price inflation amid decelerating global growth (figure 1.4, panel d).

Prior to the war, activity in the euro area, ECA's largest economic partner, was expected to moderate in 2022, reflecting a persistent drag from supply bottlenecks and stubbornly high oil and gas prices (ECB 2022). Incoming data suggest that rising COVID-19 cases and hospitalizations since mid-March have yet to disrupt activity. The war poses a material downside risk to euro area activity—which has already prompted the ECB to lower its growth forecast by 0.5 percentage point this year and raise its inflation projection nearly 2 percentage points. Direct financial spillovers are limited but will be felt mostly in advanced economies with exposure to Russian financial assets, including some Italian, French, and Austrian banks. Still, several international banks have exposure to the Russian economy through business ties and local presence. As a result, European bank stocks lost more than a fifth of their value since the onset of the war, but high capital adequacy and liquidity ratios have cushioned the impact. Although economic exposures of the euro area to Russia are small, the region is particularly dependent on energy and metal imports from Russia.[12] Should Russian exports of crude oil or natural gas to Europe be curtailed, regional prices would spike further and push inflation higher, dampening activity.[13,14]

10. Although inflation has risen alongside recoveries in domestic demand and labor markets, price pressures have also reflected prolonged strains in global supply chains and higher commodity prices.
11. However, the ECB announced it was scaling back its bond-buying stimulus program.
12. Russian exports account for more than 35 percent of the euro area's imports of natural gas, as well as more than 20 percent of oil and 40 percent of coal, with some countries more vulnerable than others.
13. Russia is similarly dependent on the euro area, as Russia exports around 40 percent of its crude oil and natural gas to the euro area. Although Russia may be able to redirect some of its exports of natural gas and crude oil to other countries, such as China, this will be constrained by the existing pipeline infrastructure.
14. The International Energy Agency released a 10-point plan for Europe to reduce its dependency on Russian natural gas (IEA 2022). The European Commission released a communique discussing policy options to mitigate the price impact on consumers and businesses, proposing the creation of a Task Force on common gas purchases to aggregate EU bargaining power, and advocating for a jointly coordinated European gas storage policy (European Commission 2022).

Europe and Central Asia: Implications of the War for the Regional Outlook

The Russian invasion of Ukraine has triggered one of the fastest growing refugee crises in Europe since World War II, and is likely to have devastating impacts on regional poverty and food insecurity. The war is the second major shock in two years to hit ECA's economy, with output in 2022 forecast to contract more than 4 percent in the region. The war's impacts are cascading through the region's strong trade, financial, and migration linkages, resulting in considerable economic damage to neighboring countries. In addition to Russia and Ukraine, four other regional economies are expected to shrink this year, while the rest will grow at an anemic pace. Targeted fiscal support may be warranted to limit economic damage and provide relief to the most vulnerable, including refugees and poorer households grappling with surging prices. Downside risks to the regional economy loom large from the twin shocks of the war and the pandemic. Key risks include an intensification of the conflict, financial stress, protracted policy uncertainty, and trade and investment fragmentation. The scarring effects of the pandemic and war on physical and human capital will weigh on long-term growth prospects for the region.

The War's Immediate Effects on Regional Activity

Russia's invasion of Ukraine is the second major shock in two years to hit ECA's economy. The war came at a time when the region's recovery from the pandemic was incomplete, uneven, and quickly losing momentum amid sharp increases in policy and geopolitical uncertainty. The deceleration of economic activity before the war also reflected waning external demand and global trade growth, tightening macroeconomic policy, and pandemic disruptions as regional vaccination progress continued to face roadblocks (box 1.1).

The war has devastated Ukraine, and hit economic and financial activity hard in Russia, with direct spillovers to other regional economies propagating through financial market volatility, fractures in critical trade and travel routes, and the influx of refugees and migrants. The impact is likely to be large, especially in the regional economies where Russia remains a key investment partner, despite financing sources becoming more diversified in recent years (figure 1.5, panel a). Similarly, remittance flows from Russia are an important source of income for many economies in the region. Job losses and working hour reductions in Russia will reduce remittances to other ECA economies, with the most affected countries being those in Central Asia and the South Caucasus (figure 1.5, panel b). The conflict is also exerting sizable indirect spillovers, including through weaker external demand from the euro area and disruptions to value chains, especially given Russia's importance as an exporter of commodities and intermediate goods. The war has driven up commodity prices further, which is fueling inflationary pressures, dampening domestic demand, and forcing central banks to tighten monetary policy quickly. Tighter financing conditions combined with record high debt levels will pose formidable challenges to policy makers in the region.

BOX 1.1 Promoting COVID-19 vaccine acceptance in Europe and Central Asia

Almost a tenth of Europe and Central Asia's (ECA's) regional population has been diagnosed with COVID-19 as of early 2022, making it the hardest hit emerging market and developing economy (EMDE) region in per capita terms. Cases surged particularly following an outbreak of the new COVID-19 Omicron variant in late 2021, precipitating overloaded health care systems and higher mortality rates, particularly in countries with vaccination rates below the EMDE median (figure B1.1.1, panel a).

Most recently, the onset of the Deltacron variant in the euro area in 2022 has raised concerns about vaccination progress in ECA amid an anticipated surge in new cases. Prior to the invasion of Ukraine, output losses in 2022 relative to pre-pandemic trend were projected to be greater in countries with lower vaccination rates as countries with higher vaccination rates benefit from a relaxation of pandemic-related lockdowns, lifting domestic demand and spurring improvements in services and tourism (figure B1.1.1, panel b).

Pronounced challenges to increasing vaccine uptake have caused vaccination rates in ECA to remain uneven—nearly half of all countries in the region may not reach 70 percent vaccination coverage with at least one dose by June 2022. With the rapid emergence of new variants, it is critical that local authorities implement appropriate policy initiatives to achieve higher levels of immunization coverage.

Against this backdrop, this box examines vaccine coverage trends by asking the following questions:

- How has COVID-19 vaccination progressed in ECA?
- What are the drivers of gaps in vaccination in ECA?
- What are the policy recommendations for local authorities to address vaccination gaps?

Recent COVID-19 trends in ECA

In 2020, the world moved at an unprecedented pace to develop and test vaccines against COVID-19, with the World Health Organization announcing its first emergency use validation for the Pfizer/BioNTech vaccine in December 2020. Several vaccine authorizations followed as data from Phase 3 trials were reported, including for Moderna, AstraZeneca, Johnson & Johnson, Gamaleya (Sputnik V), Sinovac Biotech, Sinopharm, Novavax, and Bharat Biotech.

Vaccine rollout commenced during the first quarter of 2021 for almost all ECA countries, with the pace of vaccination accelerating sharply in mid-2021 amid the spread of the Delta variant (figure B1.1.1, panel c). Throughout most of 2021, ECA had the highest vaccination rate among the six EMDE regions. Progress has since stalled, however, with vaccination in ECA trailing East Asia and the Pacific, Latin America and the Caribbean, and South Asia in early 2022. Moreover, these trends are broad-based across ECA, with fully vaccinated rates in almost 40 percent of the region's economies below the EMDE median of 41.9 percent. Within-country variation is also quite significant, with younger, socially vulnerable, and rural dwellers comprising large pockets of populations with relatively low coverage.

Following a surge in early 2022 in response to the Omicron variant, new cases in the region have declined across all subregions (figure B1.1.1, panel d). However, the emergence of the Deltacron variant in the neighboring euro area has created pressure to renew vaccine campaign efforts, particularly for vulnerable populations—including refugees—that could be hard hit by the spread of new COVID-19 variants.

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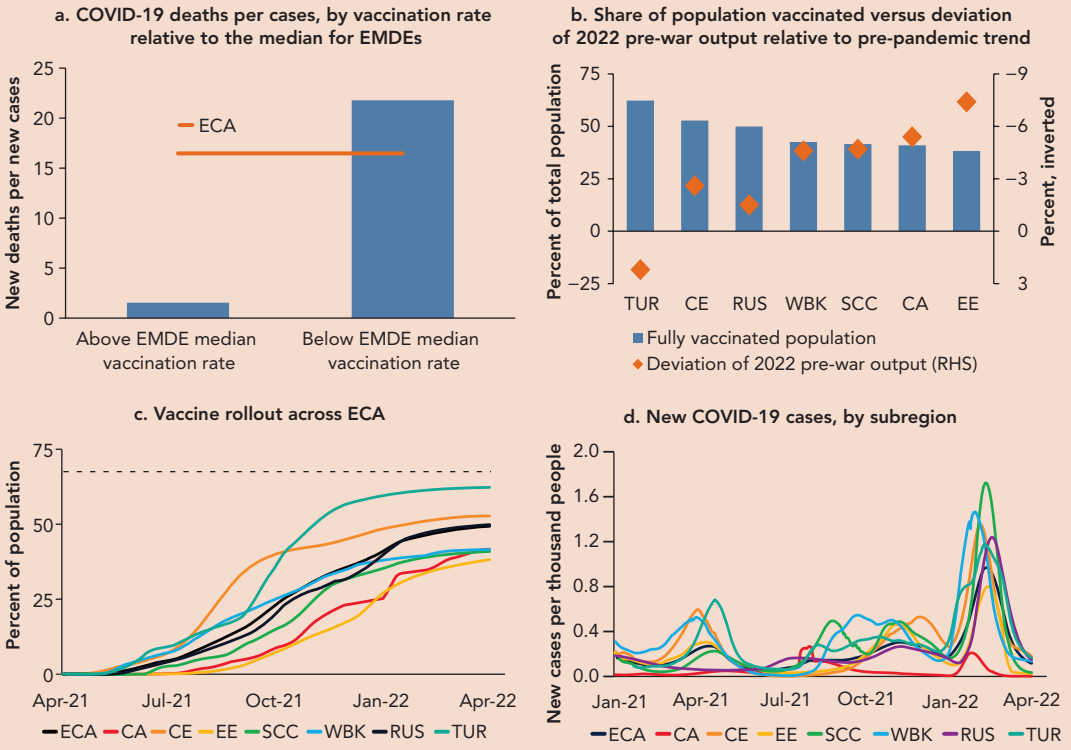
BOX 1.1 (continued)

FIGURE B1.1.1 Current COVID-19 landscape in ECA



Sources: Our World in Data (2020), based on multiple sources; World Bank.
Note: CA = Central Asia; CE = Central Europe; ECA = Europe and Central Asia; EE = Eastern Europe; EMDEs = emerging markets and developing economies; RUS = Russian Federation; SCC = South Caucasus; TUR = Turkey; WBK = Western Balkans.
a.-d. The last observation is April 3, 2022.
a. The figure shows the average of daily data. Above (below) median vaccination groups are relative to the EMDE median of the fully vaccinated rate, 41.9 percent. The sample includes 24 ECA countries and 150 EMDEs.
b. "Deviation of 2022 output" shows the percent deviation in 2022 between output projections released in the January 2022 edition of the *Global Economic Prospects* report (World Bank 2022a) prior to the Russian invasion of Ukraine versus forecasts released in the January 2020 edition (World Bank 2020b) prior to the onset of the COVID-19 pandemic.
c. The figure shows 14-day moving averages of fully vaccinated population. The dashed black line indicates the threshold for the World Health Organization's global vaccination target of 70 percent.
d. The figure shows 14-day moving averages.

Drivers of gaps in vaccination in ECA

In seeking to facilitate an improvement in vaccination rates across ECA, it is important to diagnose the drivers behind the gaps in vaccination in the region. One of the main constraints to vaccination progress is access to vaccines given global supply chain bottlenecks, as well as ensuring efficient deployment given weaknesses in health systems.

The global supply of COVID-19 vaccines reached 12 billion doses at the end of 2021, which was insufficient to cover a global population of 7.9 billion. As a result, a fifth of the countries in ECA are not expected to secure enough vaccines to inoculate 70 percent of their populations by mid-2022 (figure B1.1.2, panel a). These production challenges reflect ongoing delivery delays and

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BOX 1.1 (continued)

financial constraints, as well as in-country logistical challenges, such as insufficient vaccine storage and vaccination sites and difficulties distributing vaccines to rural populations. While the significant bottlenecks in supply chains at the start of the pandemic have reduced, recent geopolitical turmoil in ECA may spill over into additional supply constraints, exacerbating access concerns.

In addition to supply bottlenecks, there exist considerable demand-side gaps in vaccine acceptance, with key population groups being left behind. In the countries that are able to gain enough vaccine supply, suboptimal vaccine acceptance has yielded a plateau in vaccination rates. Vaccine acceptance refers to an individual's willingness to be vaccinated based on the various barriers to being vaccinated they confront as a result of location, socioeconomic status, health status, and so forth. These barriers can be considered through the "5Cs" framework, which describes five antecedents that can affect an individual's vaccination behavior (table B1.1.1)

Many underlying issues can cascade into lower vaccination uptake than expected or desired among certain populations. These issues include diminished trust in governance and institutions, uncertainty about the safety and effectiveness of vaccines, disease risk perception, and convenience of vaccination (ECDC 2021). Reduced vaccine acceptance can also be amplified by the current digital landscape, such as the circulation of inaccurate information, perceived lack of transparency, and difficulty in providing timely and accurate information due to the evolving nature of the pandemic. The use of new technologies in the development of COVID-19 vaccines has also precipitated additional concern among certain populations.

Countries that are effectively addressing these challenges systematically monitor trends in vaccine acceptance, including in different subgroups, to identify which of the 5Cs is driving poor uptake and thereby target these barriers directly. Using a survey on people's willingness to be vaccinated, it is clear that concerns about side effects and safety are the most pressing drivers of gaps in vaccination acceptance in ECA (figure B1.1.2, panel b). Absent safety concerns, non-vaccination in ECA has been driven by the belief that the COVID-19 vaccine is unnecessary (figure B1.1.2, panel c). Although populations in ECA rely heavily on health officials and workers for trusted information, many also rely on a variety of communication channels, including television and social media, which should be utilized as local authorities seek to convey timely and accurate information to help address vaccination concerns (figure B1.1.2, panel d).

Policy recommendations

Increasing the production and equitable supply of vaccines remains a priority both regionally and globally. Policies to support production through

TABLE B1.1.1 5Cs framework

Confidence	Trust in vaccines, health systems, and policy makers
Complacency	Perception of the potential risks of contracting COVID-19
Constraints	Physical and financial access to vaccinations
Calculation	Ways people search for information to inform personal risk-benefit analysis
Collective responsibility	Motivation or need to protect others

Sources: ECDC 2021; World Bank.

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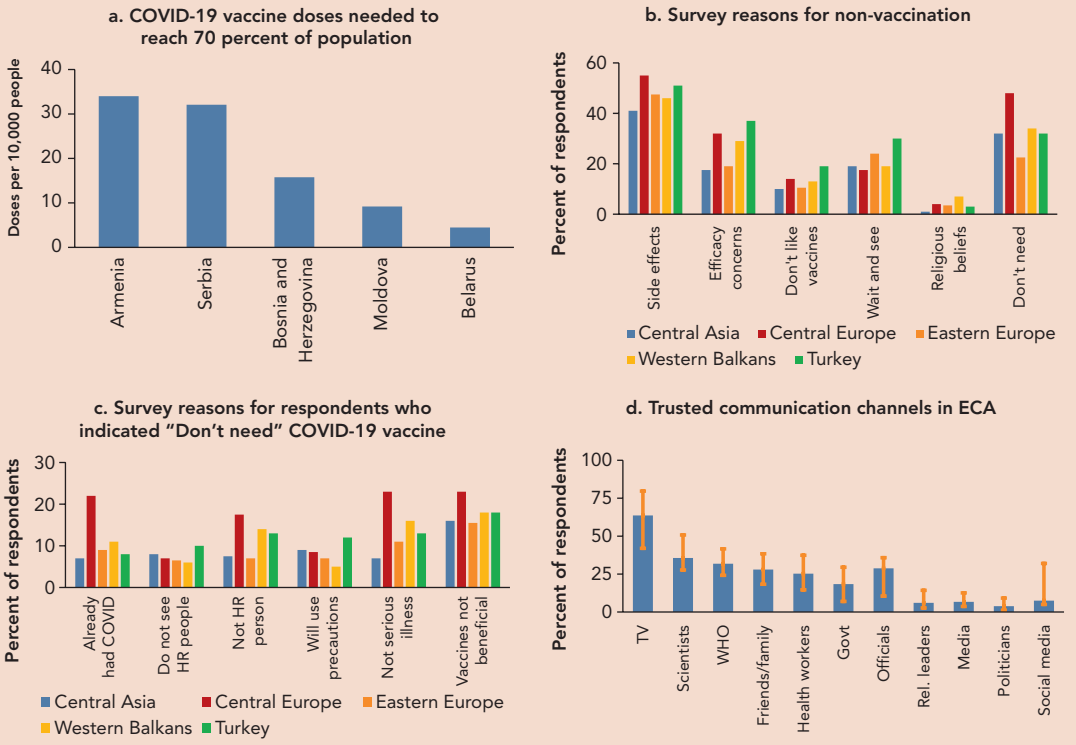
BOX 1.1 (continued)

FIGURE B1.1.2 Drivers of gaps in vaccine acceptance in ECA



Sources: Collective Service 2021; COVID Behaviors Dashboard; IMF-WHO COVID-19 Vaccine Tracker; World Bank.
Note: ECA = Europe and Central Asia.
a. Data are through March 29, 2022.
b. and c. The figures report results of a survey in which participants provided reasons for why they would probably, probably not, or definitely not get vaccinated. The sample includes 12 ECA economies. Data are for the survey period March 1-15, 2022, except for Poland, for which data are for February 2022.
c. The figure reports reasons for why respondents answered that they "Don't need" the COVID-19 vaccine in the survey reported in panel b. HR = high risk.
d. The figure shows the percent of respondents who receive information through a communication channel they trust. Orange bars indicate minimum-maximum range. The sample includes 20 ECA economies. Data are through March 23, 2022.
WHO = World Health Organization.

the establishment of clearinghouses—platforms that bring together the private and public sectors—would create more partnership opportunities and help to expand capacity, for instance by allowing COVID-19 vaccine creators to utilize firms with spare production capacity (Gill and Ruta 2022a). Additionally, use of the COVID-19 Vaccines Global Access (COVAX) alongside a "dual-track" approach should be prioritized to promote vaccine equity, in which high-coverage countries consider both domestic and international goals. High-income countries can also facilitate the sharing of information related to manufacturing capacity and supply schedules with COVAX, as well as vaccine access plans (WHO 2020).

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BOX 1.1 (continued)

Outside equitable supply of vaccines, improving demand-side gaps in vaccine uptake is a pressing policy issue for ECA. Survey monitoring programs have helped to increase visibility on local populations' beliefs about COVID-19 and vaccination intentions, such as through the World Bank's chatbot program (Bidani et al. 2022) and the World Health Organization's Regional Office of Europe's survey tool (ECDC 2021). Such survey programs produce valuable insights into public knowledge, risk perceptions, behaviors, and trust related to COVID-19 vaccines.

Armed with these insights, local authorities can accurately diagnose which of the 5Cs is inhibiting vaccine acceptance, and consequently craft policy interventions based on the different issues encountered by each country and population group. Examples of interventions using the 5Cs framework are provided in table B1.1.2.

At the beginning of the pandemic, universal nudges through mass communication strategies were used to promote social distancing efforts to help stop the spread of the COVID-19 pandemic (Sasaki, Saito, and Ohtake 2021b). However, such generic approaches are not enough to increase vaccine acceptance among certain populations (Chang et al. 2021). It is imperative that different messaging should be tailored to specific purposes and targets (Sasaki, Saito, and Ohtake 2021a), with personalized messages addressing individual specific vaccine concerns shown to improve vaccination intent by up to 80 percent (Bidani et al. 2022). Additionally, given that vaccine acceptance continuously shifts with the development of new variants and availability of new data, it is important that strategy generation should be ongoing and flexible to incorporate new findings.

TABLE B1.1.2 Examples of 5C interventions

Antecedent	Country	Action
Confidence	Croatia, North Macedonia, Serbia	Increased public trust by having leading government officials (including the president, prime minister, and ministers) receive their COVID-19 vaccines publicly.
	Ukraine	Implemented hotlines for misinformation, resulting in almost 4 million calls, including some for vaccination.
Constraints	Croatia, Moldova	Improved physical availability of vaccinations by increasing the number of locations, such as pharmacies and universities, that offered the vaccine, as well as giving vaccines through home visits.
Calculation	Georgia	Changed the risk-benefit calculation, particularly among the elderly, by offering pension bonuses as incentives, leading to a fourfold jump in vaccination uptake.
	Ukraine	Reminded young people that they are vulnerable to health risks from COVID-19, through graphic videos with sensational imagery, including coffins and oxygen support.

Sources: ECDC (2021); World Bank.

(Continued next page)

BOX 1.1 (continued)

Outside targeted messaging to address concerns and improve vaccine uptake, countries may also need to utilize stronger policy levers to reach the global goal of vaccinating 70 percent of the population by mid-2022. The success of using financial incentives to increase vaccine acceptance has been mixed, resulting in improvements among certain populations (Campos-Mercade et al. 2021), as well as exacerbating concerns for other groups (Chang et al. 2021), suggesting that governments should exercise caution when implementing them.

Stronger levers, such as incentives, certificates, and government mandates, should be used when other types of interventions have failed to achieve high vaccine coverage, as they can only shape behavior and do not change how people feel about vaccination acceptance. As such, these levers risk improving short-term uptake of vaccines while reducing long-term cooperative behaviors (Damgaard and Gravert 2018; Nafziger 2020), thereby jeopardizing future pandemic responses to different mutant strains or viruses.

Countries that are effectively addressing vaccine acceptance challenges systematically monitor trends in vaccine acceptance, including in different subgroups; identify which of the 5Cs is driving poor uptake; and target these barriers directly. Paired with intervention strategies and policy levers, local authorities should also seek to capitalize on the opportunity to rebuild legitimacy. The COVID-19 pandemic presents a unique opportunity to build the public's trust by ensuring the availability of reliable information (Khemani 2020). Ongoing efforts to convey credible information are important to strengthen confidence globally, especially amid the spread of misinformation.

Russia's invasion of Ukraine has prompted several countries to impose a wide array of sanctions, with Russia now estimated to be the most sanctioned country in the world (Bown 2022; Wadhams 2022).[15] As of late March, financial sanctions have encompassed about three-quarters of Russia's banking sector by assets. Sanctions have constrained Russia's access to global financial markets, including through the removal of seven Russian banks from the Society for Worldwide Interbank Financial Telecommunication (SWIFT) network. Restrictions on the Central Bank of the Russian Federation (CBR) have been among the most damaging sanctions, with the freezing of Russia's gross international reserves held overseas inhibiting Russia's ability to meet its financing obligations. Russian external debtors, both private and public, face severe challenges to servicing external debt given capital controls and sanctions on international transactions. Russia has averted a sovereign default on bonds as of late March, but the risk of future sovereign and corporate defaults remains high. Russia has also announced restrictions, including requirements for European energy imports to be invoiced in rubles; while this has helped to support the ruble, such a move could accelerate Europe's plans to reduce dependence on Russia's energy and limit Russia's ability to finance exports in the longer run.

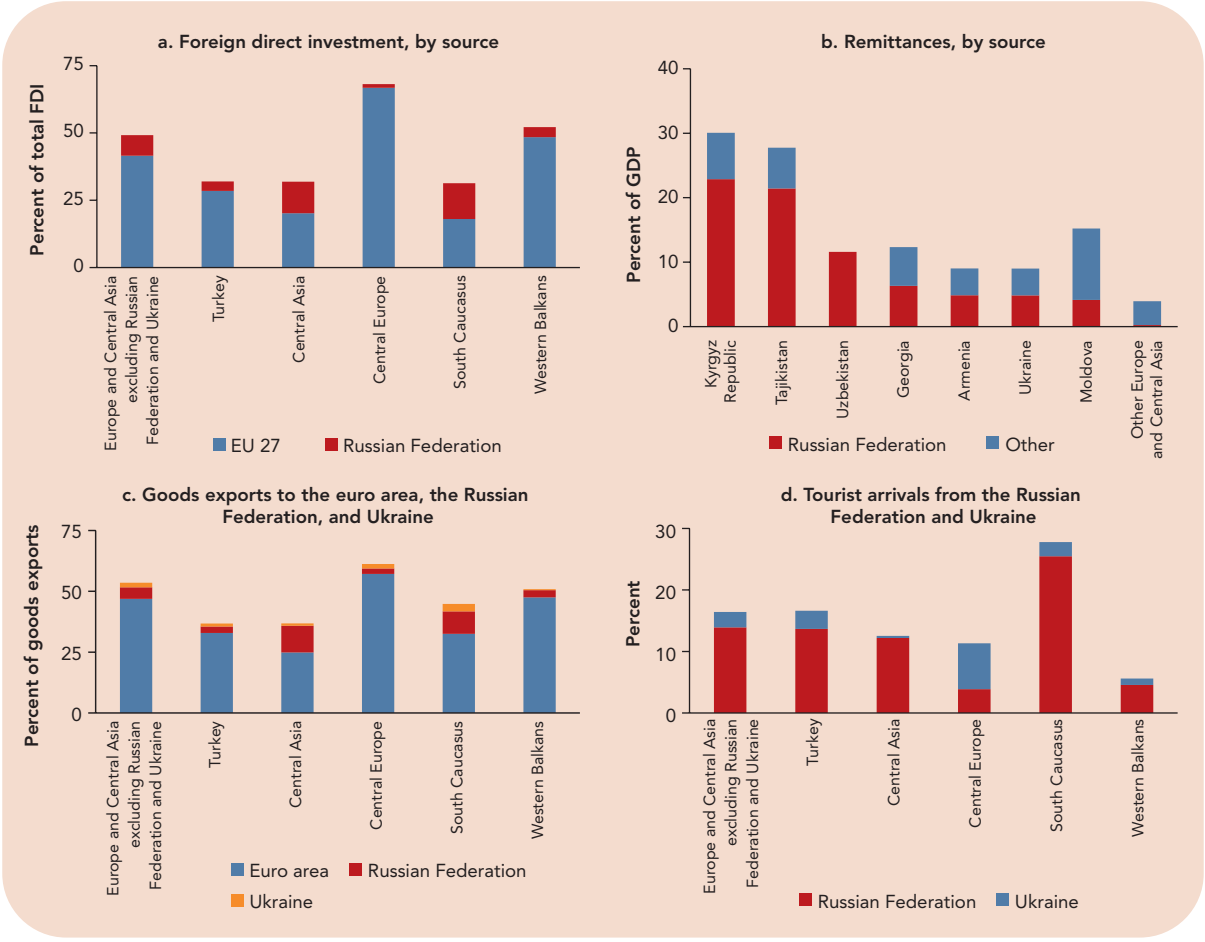
Sanctions triggered an initial sharp depreciation of the ruble against the dollar, forcing the CBR to more than double the policy interest rate, impose capital controls, and provide bank liquidity and broad forbearance measures. Going into the second quarter of 2022, the banking system largely stabilized, outflows

15. Castellum. AI. https://www.castellum.ai/russia-sanctions-dashboard.

somewhat stemmed, and the ruble nearly returned to its pre-war level against the U.S. dollar. The Russian stock market reopened in late March after being closed for about a month. Since reopening, authorities have intervened in the market to curb volatility by restricting investor activity, including through measures that limit trading to certain securities and bans on short-selling and non-resident trading. For other EMDE ECA economies, losses appear contained so far as direct exposure to Russian and Ukrainian banks is low, with the exception of parts of Hungary's banking sector. Belarus and Kazakhstan are also exceptions, as Russian bank subsidiaries account for an important share of the domestic banking sector.

Financial market volatility in ECA was already pronounced prior to the war, owing to sharp increases in policy uncertainty and geopolitical tensions. Investor sentiment weakened and risk aversion increased following the invasion,

FIGURE 1.5 Regional economic linkages with the Russian Federation, Ukraine, and the euro area



Sources: Haver Analytics; UN Comtrade; United Nations World Tourism Organization; World Bank.
a. The values are simple averages for the percent of the total 2019–20 average.
b. The figure shows remittances in U.S. dollars as a share of nominal U.S. dollar GDP. Data are for 2018.
c. Data are for 2020.
d. Data come from UNWTO (2021). Data for Armenia come from the Ministry of Economy of the Republic of Armenia. Data are for 17 countries for non-resident tourists at national borders by nationality. For countries where this data series is not available, estimates use the number of non-resident visitors at national borders by nationality.

renewing portfolio outflows and currency depreciation. Financing conditions also sharply tightened following the invasion, reflecting widening sovereign bond spreads, especially in Russia and Ukraine. Some of these pressures, however, have eased in recent weeks but remain well above pre-war levels in many instances. In Russia, stabilizing conditions largely reflect tight capital controls and expectations of strong energy export revenues. However, as recent commodity market volatility has shown, sentiment could shift abruptly, especially given the highly uncertain environment.

Although the euro area is by far ECA's largest trading partner, accounting for about half of ECA's goods export market, Russia and Ukraine play critical roles in regional value chains (figure 1.5, panel c). Since Russia and Ukraine are large exporters of commodity inputs that are upstream in many global value chains, shortages of their commodity exports may severely affect a wide range of industries, including food, construction, petrochemicals, and transport (box 1.2). For sectors that are dependent on key commodity inputs from Russia and Ukraine, the war has already caused logistical disruptions—including from security concerns and lack of insurance coverage due to the surge in risk premiums—which are likely adding to existing supply chain strains. Russia is a major supplier of agricultural inputs, accounting for over 90 percent of cereal product imports in Kazakhstan, Armenia, and Georgia, as well as automotive products, stainless steel, and batteries.

About half of ECA's economies receive sizable tourist flows from Russia and Ukraine, and tourism receipts are a critical source of income (figure 1.5, panel d).[16] Regional tourism has been impacted by the war through prohibitively higher fuel prices and reciprocal airspace closures, with flight routes over Russian, Ukrainian, Moldovan, and/or Belarusian airspace disrupted.[17] The need to reroute flights has resulted in higher fuel costs, crew block hours, and travel times, in turn causing some flights to be canceled as these routes are rendered infeasible or economically unviable. Capacity on routes between Europe and East Asia—which often must fly over Russian and/or Ukrainian airspace—has been reduced, with airlines cutting 2 to 9 percent of flights scheduled between March and June.

Even prior to the war, many of the region's central banks had already engaged in monetary policy tightening, prompted in part by a surge in commodity prices that pushed inflation above targets in nearly all the inflation-targeting economies in the region (box 1.3). Inflationary pressures have continued to rise in 2022, especially in countries where commodities represent a large share of the Consumer Price Index basket. Since February, Albania, Belarus, Hungary, the Kyrgyz Republic, Moldova, Poland, and Romania have hiked rates, with some central banks citing upside risks from mounting geopolitical tensions and market uncertainty. With little opportunity to substitute imported energy with domestically

16. More than half of the commercial air passengers visiting Armenia, the Kyrgyz Republic, Tajikistan, and Uzbekistan originated from Russia or Ukraine; travelers from Russia and Ukraine also accounted for at least 15 percent of commercial air passengers to Azerbaijan, Belarus, Georgia, Moldova, Montenegro, Kazakhstan, and Turkey.
17. Starting on February 28, Russia closed its airspace to airlines from 36 countries, including those within the European Union.

BOX 1.2 Russian Federation's global value chain participation and its impact on Europe and Central Asia

The war in Ukraine and the resulting sanctions imposed on the Russian Federation are causing trade and logistics disruptions that will propagate through global value chains (GVCs). These disruptions will feed into GVCs that are reliant on commodity inputs (energy, metals, chemicals) from Russia via major global production hubs for trade and will especially affect regional economies that are highly dependent on exports from Russia.

Russia's role as a seller in GVCs

Russia's role as a major supplier of commodities places it at the foundation of a wide array of global production. Russia is one of the largest suppliers of energy, metal, and chemical products (figure B1.1.1, panel a)—products used early on in GVCs, i.e. upstream. Russia stands out in global GVCs largely through its high forward GVC participation, or "upstreamness" (figure B1.2.1, panel b). The GVC production hubs of China, Germany, and the United States are among Russia's largest trade partners, both as importers of Russian commodity inputs and as exporters of GVC goods. GVCs that are especially reliant on commodity inputs from Russia for their export production include transport equipment, machinery, electronics (metals), agribusiness (chemicals), transport, and business services. The risk of disruption of Russian energy supply goes beyond GVCs and could impact virtually every aspect of economies, both those dependent on Russian supply and worldwide through elevated prices.

ECA countries constitute six of the top 10 most dependent markets on imports from Russia, with Belarus reliant on Russia for more than half of its imports (figure B1.2.1, panel c). While these countries are predominantly reliant on intermediate goods, such as metals and chemicals, Russia's exports of vehicles, electronics, and apparel play an important role in the ECA region and especially in the Eurasian Economic Union (EAEU).

Russia serves a critical exporter of metals, with ECA countries comprising the top 10 most dependent markets. Over half of Russia's metal exports over the period 2018–20 were iron and steel, representing over 5 percent of world exports and, notably, over 30 percent of global exports of specific semi-finished products. While copper and aluminum collectively comprise 6 percent of global exports, they represent 30 percent of Russia's metal exports and upwards of 99 percent of unwrought aluminum imports (90 percent dependence in all Commonwealth of Independent States (CIS) countries) and unwrought copper imports (99 percent dependence in Belarus).

Russia's exports of fertilizers are also important in both global and regional markets. Kazakhstan is the third largest buyer of Russia's chemical exports. Eight of the top 10 most dependent markets on Russian chemical imports are ECA countries. More than 40 percent of Russia's chemical exports consist of fertilizers, with almost all CIS countries importing at least 30 percent of fertilizer from Russia. Belarus, Mongolia, and Moldova import over two-thirds of fertilizers from Russia, Honduras and the Central African Republic over half.

Russia's role as a buyer in GVCs

Russia is far less important as a "buyer" in GVCs, relying less on imported inputs to produce its exports and showing low backward GVC participation, but more relevant as an importer of semi-final and final capital goods for domestic use. Nonetheless, exports to Russia reflect an essential source of external demand for neighboring countries. Export sanctions and logistics bottlenecks will make it difficult overall for Russia to import goods, while depreciation of the ruble and declining domestic demand in Russia will reduce import demand even if they are available. Sanctions will especially impact final or semi-final goods imports further downstream on which Russia relies in sectors such as motor vehicles, airplanes, consumer electronics, and machinery. This will have an effect on the exporters of these goods to Russia, as well as transport and business services providers who depend on these activities.

The top 10 exporting countries most dependent on Russia include all EAEU countries, Georgia, Moldova, Uzbekistan, and Tajikistan (figure B1.2.1, panel d). Dependence of these countries on exports to Russia, however, is relatively low, in particular in electronics and transport equipment. Their largest export shares to Russia include apparel, food and beverage goods, which are exports that are likely to fall in line with lower consumer demand in Russia, affecting in particular neighboring and EAEU countries' exports.

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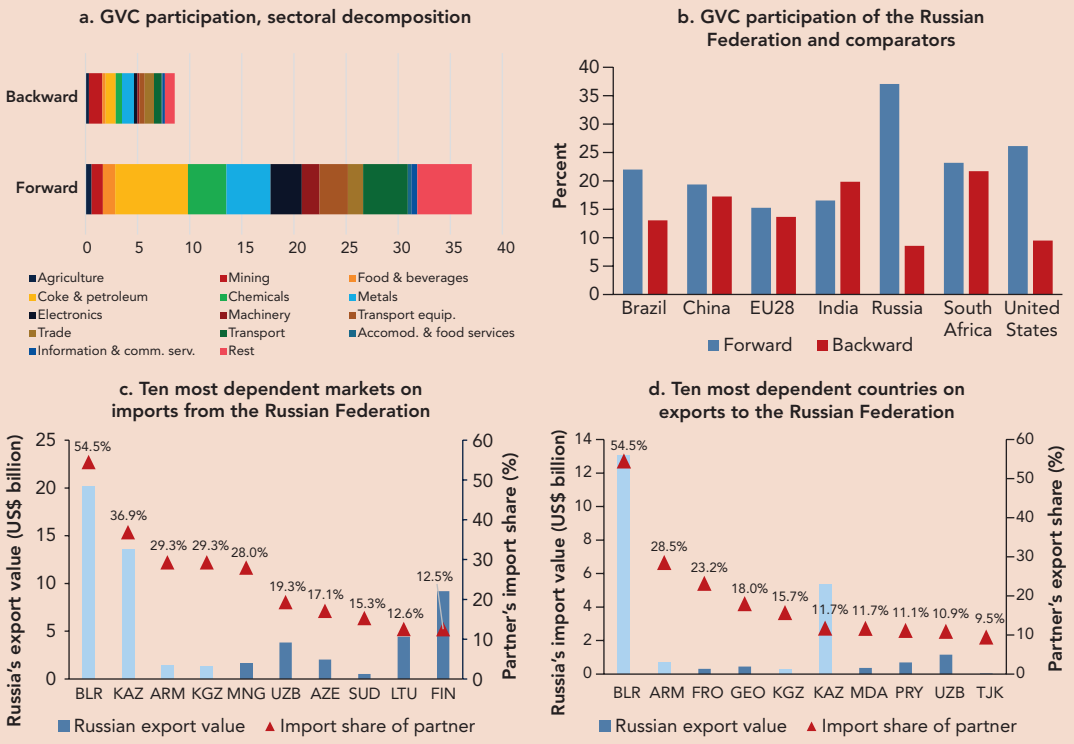
BOX 1.2 (continued)

FIGURE B1.2.1 Russian Federation's imports and GVC participation



Sources: OECD; UN Comtrade; Winkler, Wuester, and Knight (2022a); World Bank.
Note: ARM = Armenia; AZE = Azerbaijan; BLR = Belarus; FIN = Finland; FRO = Faroe Islands; GEO = Georgia; KAZ = Kazakhstan; KGZ = Kyrgyz Republic; GVC = global value chain; LTU = Lithuania; MDA = Moldova; MNG = Mongolia; PRY = Paraguay; SDN = Sudan; SUD = Sudan; TJK = Tajikistan; UZB = Uzbekistan.
a.-d. Data are for 2018.
a.-b. The figure includes data from OECD-WTO TiVA 2021 release.
b. Forward GVC participation = domestic value added embodied in third-country exports (percent of exports). Backward GVC participation = imported inputs in exports (percent of exports).
c.-d. The figures reflect averages over 2018–20, drawing on data from UN Comtrade. Light blue bars indicate Eurasian Economic Union (EAEU) countries.

Sources: Winkler, Wuester, and Knight (2022a) and Winkler, Wuester, and Knight (2022b).

produced energy sources in the near term, higher energy prices will translate directly into a larger import bill and wider current account deficits. Sharp increases in energy prices have generated sizable fiscal costs in several countries, particularly those in Central Europe and Eastern Europe, as a result of energy subsidies—in some cases, these have been expanded alongside gas tax cuts.

Rising food prices could lead to increased food insecurity in the region, particularly for vulnerable households. Prior to the twin shocks of the pandemic and war, the prevalence of food insecurity in ECA was on par with broader Europe. The pandemic nearly doubled the prevalence rate of severe food insecurity in ECA, while rates only edged up slightly in western Europe (FAO 2021b). If high grain

prices persist, model-based estimates for seven ECA countries suggest they could raise poverty rates by an average of 3.3 percentage points, or an increase of nearly 1.2 million people in this sample based on national poverty lines (Artuc et al. 2022).

A spike in food prices is also likely to amplify income inequality concerns as sharp increases in inflation hit poor households the hardest because of high expenditure shares on food and fuel (Laborde, Lakatos, and Martin. 2019). The war also comes in the midst of the COVID-19 pandemic, which has already precipitated widening inequality both within and between countries, particularly among lower-income groups in EMDEs due to severe job and income losses (box 1.4; World Bank 2022b). While welfare losses associated with the pandemic were more pronounced in wealthier countries in ECA, disruptions to education could set back income prospects and worsen inequality in the region over the long term, particularly for low-income groups.

Regional Outlook

Russia's invasion of Ukraine is anticipated to result in considerable damage to the regional economy, with output in ECA forecast to shrink 4.1 percent in 2022—more than 7 percentage points below previous forecasts (figure 1.6, panel a; table 1.1). In addition to Russia and Ukraine, four other regional economies are expected to shrink this year – Belarus, Kyrgyz Republic, Moldova and Tajikistan – while the rest will grow at an anemic pace. Growth projections have been downgraded across the board due to spillovers from the recession in Russia and Ukraine, weaker-than-expected growth in the euro area, trade disruptions, and commodity and financial market shocks (figure 1.6, panels b and c).

By 2023, ECA's gross domestic product (GDP) is expected to expand by a tepid 2.5 percent, as the regional recovery is held back by lingering weakness in war-torn Ukraine and heavily sanctioned Russia. As a result of the war, GDP is expected to be around 6.5 percent below pre-war trends in 2022 and 2023 (figure 1.6, panel d). Average growth of per capita income over the next few years will be insufficient to allow progress in catching up with advanced economies. In conflict- and sanction-affected ECA countries, progress is anticipated to reverse.

The baseline forecast over 2022–23 is predicated on conflict continuing in the near term and sanctions remaining in place over the outlook period. Geopolitical and policy uncertainty is expected to remain elevated in the region, assuming the intensity of the war remains largely unchanged. The near-term outlook also assumes high but moderating commodity prices and a less favorable global environment owing to tighter financing conditions, softening external demand, and lingering supply chain bottlenecks.

The regional outlook is subject to considerable uncertainty due to the war and its impacts on the regional economy and the euro area—ECA's closest economic partner. Although Russia accounts for nearly 40 percent of regional GDP, regional linkages through trade and financial channels are much stronger with the euro area. A downside scenario is thus constructed, where GDP growth in the euro area is 3 percentage points lower in 2022, reflecting the impact of commodity price shocks from escalation of the war. In turn, this triggers additional sanctions and reduces Russian exports to the euro area. The downside scenario also

TABLE 1.1 Europe and Central Asia growth forecast summary

(real GDP growth at market prices in percent, unless indicated otherwise)

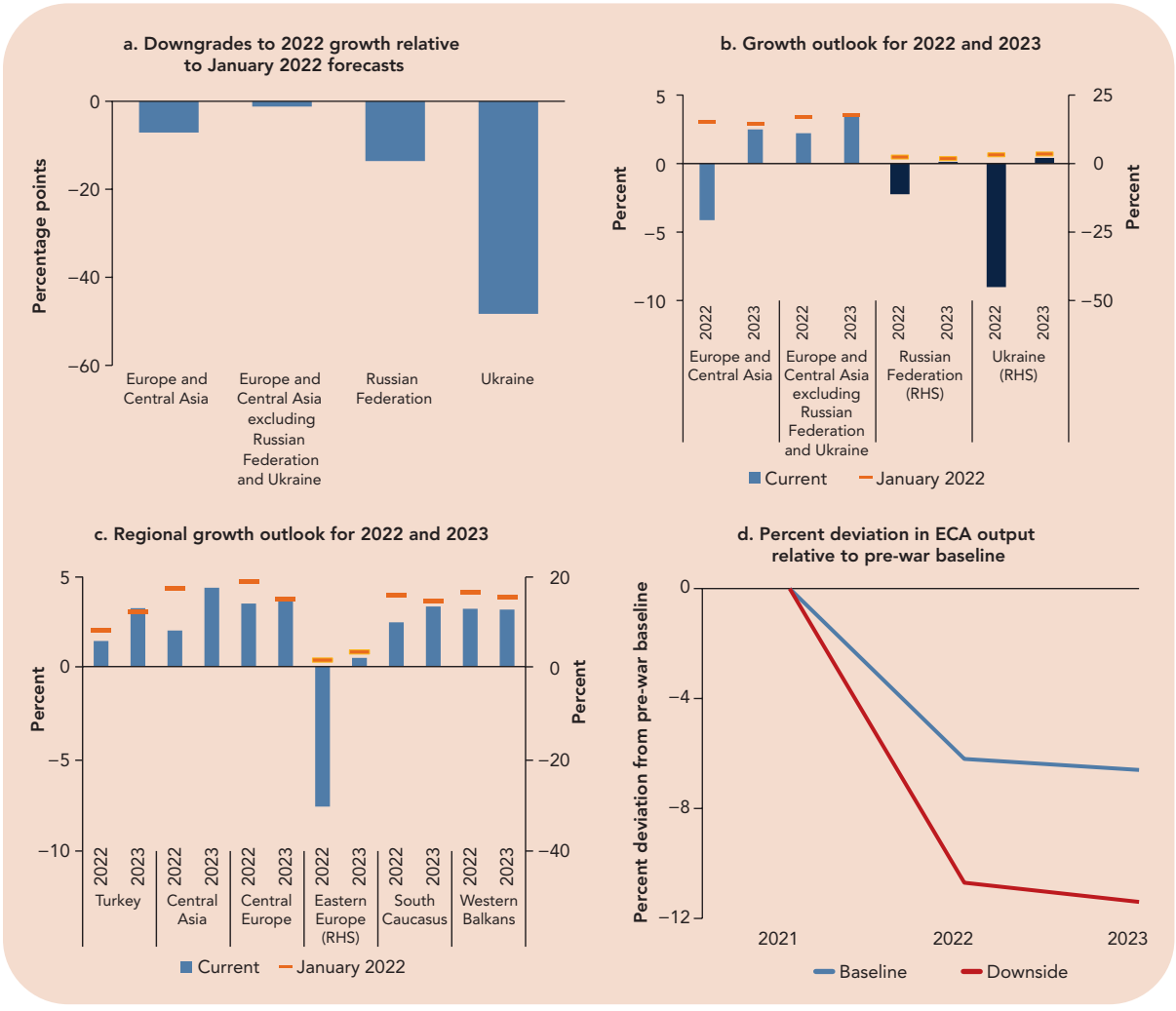
	2020	2021e	2022f	2023f	Percentage point differences from January 2022 projections 2022f	2023f
EMDE ECA, GDP[a]	**–1.9**	**6.5**	**–4.1**	**2.5**	**–7.1**	**–0.4**
EMDE ECA, GDP excl. Turkey	–2.9	5.2	–5.7	2.3	–9.0	–0.6
EMDE ECA, GDP excl. the Russian Federation and Ukraine	–1.4	7.8	2.2	3.5	–1.2	–0.1
Central Europe[b]	–3.5	6.1	3.5	3.8	–1.2	0.1
Western Balkans[c]	–3.3	7.4	3.2	3.1	–0.9	–0.7
Eastern Europe[d]	–3.1	3.6	–30.7	1.9	–32.1	–1.3
South Caucasus[e]	–5.3	6.6	2.4	3.3	–1.5	–0.3
Central Asia[f]	–1.3	5.1	2.0	4.3	–2.3	–0.8
Russian Federation	–2.7	4.7	–11.2	0.6	–13.6	–1.2
Turkey	1.8	11.0	1.4	3.2	–0.6	0.2
Poland	–2.5	5.7	3.9	3.6	–0.8	0.2

Source: World Bank.
Note: World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time. Due to lack of reliable data of adequate quality, the World Bank is currently not publishing economic output, income, or growth data for Turkmenistan, and Turkmenistan is excluded from cross-country macroeconomic aggregates.
e = estimate; ECA = Europe and Central Asia; EMDE = emerging market and developing economy; f = forecast; GDP = gross domestic product.
a. GDP and expenditure components are measured in average 2010-19 prices and market exchange rates.
b. Includes Bulgaria, Croatia, Hungary, Poland, and Romania.
c. Includes Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia.
d. Includes Belarus, Moldova, and Ukraine.
e. Includes Armenia, Azerbaijan, and Georgia.
f. Includes Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan.

assumes a shock to financial confidence, a 20 percent contraction in Russia's GDP, and a 75 percent contraction in Ukraine's GDP. The Oxford Economics' Global Economic Model (GEM)—a large-scale, global, semi-structural projection model—is used to conduct the simulations described here (Oxford Economics 2020). In this downside scenario, ECA output would contract nearly 9 percent in 2022—nearly 5 percentage points sharper than the baseline forecast and almost 12 percentage points lower than pre-war projections (table 1.2). An output contraction of almost 9 percent would be far steeper than the 5 percent contraction experienced during the global financial crisis in 2009 and the 2 percent recession that was induced by the pandemic in 2020.

The results presented in table 1.2 are constructed using the Oxford GEM, which includes data on 120 countries, many of which are available at quarterly frequency, with behavioral equations governing domestic economic activity, monetary and fiscal policy, global trade, and commodity prices. The Oxford GEM includes complex modeling of the money and financial markets, allowing for economic shocks to transmit across countries not only through the typical real channels, but also through changes in financial volatility, credit ratings, different bond yields, and related variables.

FIGURE 1.6 ECA outlook



Source: World Bank.
a. The figure shows the percentage point difference between the latest projections and forecasts released in the January 2022 edition of the *Global Economic Prospects* report (World Bank 2022a).
b. and c. Aggregates are calculated using real U.S. dollar gross domestic product weights. The values indicate forecasts.
d. The figure shows the percent deviation from the pre-war baseline in Europe and Central Asia (ECA) output as a result of the Russian invasion of Ukraine. Pre-war is defined as projections published in the January 2022 edition of the *Global Economic Prospects* report. "Baseline" entails current projections as reflected in tables 1.1 and 1.4. "Downside" entails a scenario in which the conflict's impact is much more severe, as outlined in table 1.2.

Spillovers from the War to the Regional Economy

Russia's invasion of Ukraine has propagated through multiple channels to the ECA economy, including direct exposures from commodity markets, trade linkages, tourist inflows, and remittances (table 1.3).[18] Key spillovers emanate from the region's reliance on energy imports and sensitivity to global food prices, which are likely to weaken external accounts and trigger higher inflation. The

18. The heatmap highlights a country's exposure to Russia or Ukraine via trade, commodity, financial, tourism, and remittance flows.

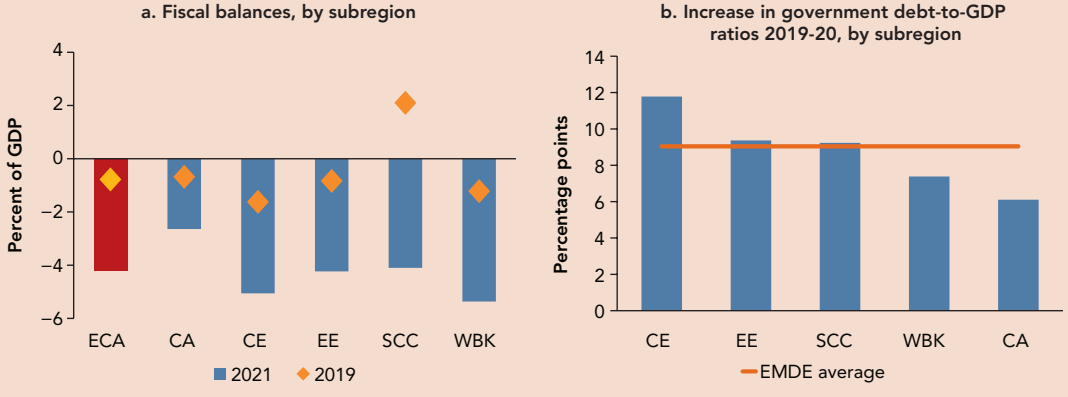
BOX 1.3 Implications of rising inflation for debt in Europe and Central Asia

In response to the pandemic-induced global recession of 2020, global debt levels surged in the wake of unprecedented emergency support measures. Even prior to the Russian invasion of Ukraine, the pandemic-related rise in debt levels—combined with a sharp deceleration in growth—amplified existing debt vulnerabilities. Above-target inflation in major economies is setting the stage for an abrupt tightening in global financing conditions, which would increase the risks related to public debt rollovers and currency mismatches in Europe and Central Asia (ECA), especially given record-high debt in some countries. The war has dented the ability of several economies in ECA to meet external debt obligations by cutting growth, renewing currency depreciation pressures, increasing borrowing costs, and eroding confidence. Moreover, the underlying balance sheet risks could be larger than expected: the proliferating use of debt-like instruments and commodity-based lending, together with the opaque financials of some state-owned enterprises, has likely obscured total public debt levels.

Current debt landscape in ECA

Even prior to the war, financial markets and institutions had become increasingly vulnerable to financial stress amid high and rising debt. The pandemic depleted macroeconomic buffers and eroded fiscal space in ECA, with fiscal deficits widening across the region and overall debt increasing (figure B1.3.1, panel a). From the onset of the pandemic to late 2021, ECA governments, households, and corporations cumulatively have significantly increased their borrowing. Total debt in ECA rose almost 16 percentage points in 2020, to 119 percent of gross domestic product (GDP), and remains elevated. The increase was particularly pronounced for private debt, with domestic credit to the private sector soaring to 81 percent of GDP and private external debt climbing to almost 30 percent of GDP. Similarly, median government debt in ECA hovered around 50 percent of GDP by end-2020—close to 10 percentage points higher than 2019—as a result of elevated expenditures and sustained weakness in revenues (figure B1.3.1, panel b; table B1.3.1).

FIGURE B1.3.1 Fiscal deficits and government debt



Sources: Eurostat; Kose et al. 2017; World Bank.
Note: Aggregates are calculated using nominal U.S. dollar GDP weights. The sample includes 152 EMDEs and 24 ECA economies. CA = Central Asia; CE = Central Europe; ECA = Europe and Central Asia; EE = Eastern Europe; EMDEs = emerging markets and developing economies; GDP = gross domestic product; SCC = South Caucasus; WBK = Western Balkans.

(Continued next page)

BOX 1.3 (continued)

TABLE B1.3.1 Debt to GDP in 2020

Country	Government	Private	Total
Albania	77.6	28.9	106.5
Armenia	63.5	41.4	104.8
Azerbaijan	21.4	2.7	24.0
Bulgaria	24.7	27.0	51.7
Bosnia and Herzegovina	36.7	39.3	76.0
Belarus	48.0	19.1	67.2
Georgia	60.0	56.7	116.7
Croatia	87.3	55.1	142.4
Hungary	80.1	125.3	205.4
Kazakhstan	26.3	74.2	100.5
Kyrgyz Republic	68.0	49.2	117.2
Moldova	34.8	31.9	66.7
North Macedonia	51.9	30.1	82.0
Montenegro	107.2	92.6	199.7
Poland	57.4	40.6	98.0
Romania	47.4	25.9	73.3
Russian Federation	19.3	13.4	32.6
Serbia	58.4	43.3	101.7
Tajikistan	51.3	27.8	79.1
Turkmenistan	32.2	0.1	32.4
Turkey	39.8	22.7	62.5
Ukraine	60.8	33.1	93.9
Uzbekistan	36.4	19.9	56.4
Kosovo	24.1	18.2	42.3

Sources: Eurostat; Koseetal 2017; World Bank.
Note: GDP = gross domestic product. Government debt is defined as general government gross debt. Private debt is defined as private external debt. Data in the table are based on estimates produced by the IMF for cross-country comparison and thus may differ from numbers reported in Part II, "Selected Country Pages."

The composition of debt in ECA has changed over the past decade, increasing vulnerabilities to financial market stress. External debt has risen 10 percentage points since 2010, reaching 58 percent of GDP in 2020. Although foreign exchange–denominated debt has declined in ECA in recent years, the overall regional decline masks divergences at the country level, with the share of government debt denominated in foreign currency being particularly high in the Kyrgyz Republic (87 percent) and Georgia (78 percent).

Vulnerabilities to high debt levels amid rising inflation

The possibility of financial stress looms ever large from the war, especially as the conflict and its spillovers fuel an acceleration in prices (figure B1.3.2, panel a). As a result of its deep global financial

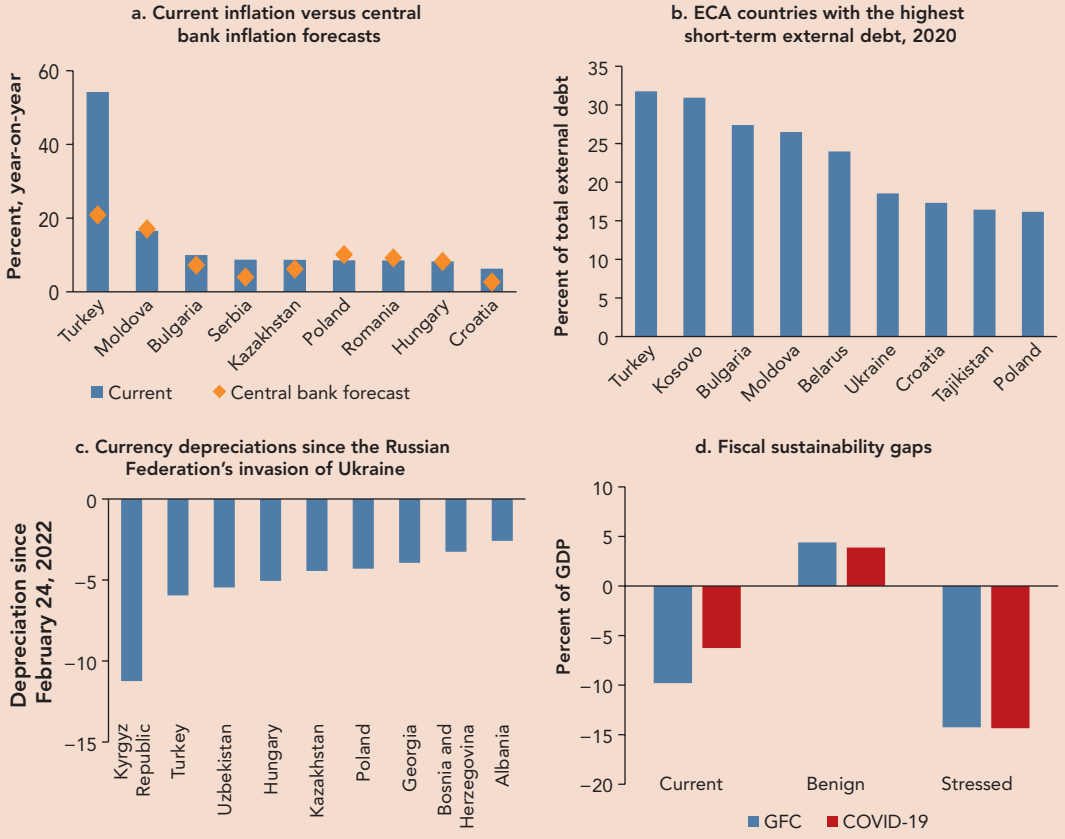
(Continued next page)

BOX 1.3 (continued)

linkages, particularly with the euro area, ECA is vulnerable to sudden stops of capital inflows and abrupt tightening of external financing conditions. In many of the region's economies, external financing pressures, which were already elevated, have increased sharply because of the war and the subsequent rise in policy uncertainty.

Inflationary pressures and sustained currency depreciation, combined with increasing term premiums and widening sovereign bond spreads, have put upward pressure on ECA government financing costs, increasing rollover risks in economies with high short-term external debt (figure B1.3.2, panel b). Any further tightening in financing conditions that makes servicing public debt costlier could pose fiscal sustainability challenges, especially given that debt is anticipated to remain elevated throughout the forecast horizon.

FIGURE B1.3.2 Inflation, debt, currency depreciation, and the fiscal sustainability gap



Sources: Haver Analytics; Kose et al. 2017; World Bank.
Note: ECA = Europe and Central Asia; GDP = gross domestic product; GFC = global financial crisis.
a. "Current" indicates the most recently available monthly year-on-year inflation data. "Central bank forecast" indicates the inflation forecast for 2022 released by each country's respective central bank. Data are through March 28, 2022.
b. Short-term external debt data are defined as in Kose et al. (2017) and are on an original maturity basis.
c. The last observation is March 30, 2022.
d. "COVID-19" indicates 2020 data; "GFC" indicates 2009 data. Aggregates are calculated using nominal U.S. dollar GDP weights.

(Continued next page)

BOX 1.3 (continued)

The war has already triggered financial turmoil and reverberated across ECA's financial markets, with several economies experiencing sudden stops of capital inflows and at risk of currency crises, especially countries that are dependent on short-term inflows to finance elevated current account deficits (figure B1.3.2, panel c). In conflict-affected countries, the war has damaged business and consumer confidence, dampened corporate profits, and strained the ability of many companies to stay solvent, resulting in bankruptcies that could spill over to bank balance sheets. These types of financial dislocations could cause major, persistent output losses if they were to evolve into full-fledged financial crises (Laeven and Valencia 2018; World Bank 2020c).

As monetary policy tightens and inflation rises, debt sustainability in ECA could be at risk. The fiscal sustainability gap measures the sustainability of medium-term debt projections using underlying assumptions on growth and interest rates, as well as government debt and the primary balance—it is estimated as the difference between the primary balance and the debt-stabilizing primary balance (Kose et al. 2017).[a] A negative (positive) statistic indicates that government debt is on a rising (falling) trajectory.

Fiscal sustainability gap estimates are sensitive to sharp reassessments of growth or sudden shifts in financial market conditions. Worse-than-expected growth or tighter-than-anticipated financing conditions—triggered perhaps by an intensification of the pandemic or the war, or a sudden shift in investor sentiment—could result in far higher fiscal adjustment needs than projected in the baseline scenario. For instance, one standard deviation below median growth and above the median nominal interest rate could trigger a substantial rise in interest payments, which would require a primary balance adjustment of 14.3 percentage points of GDP to stabilize debt in ECA (figure B1.3.2, panel d).

Policy recommendations

In ECA, it will be critical for policy makers to shore up public finance vulnerabilities and support resilience, especially given the war. Measures could include strengthening fiscal and public debt management frameworks, supporting debt resolution, and facilitating access to long-term finance. Effective frameworks to manage debt and broader fiscal risks, and to support spending and debt transparency, can help prevent the emergence of unsustainable debt over the medium to long term and facilitate dealing with elevated debt (Kose et al. 2021; World Bank 2021c). Efficient debt resolution for private as well as government debt can help remove the debt overhangs that can weigh on investment and growth; such resolution requires appropriate domestic and international policies. Deep and liquid domestic financial markets, as well as greater access to long-term debt markets, can help governments and corporates contract debt on more appropriate terms to match risk profiles.

a. The debt-stabilizing primary balance that puts debt on a sustainable path toward a target debt ratio. The target debt ratio is defined as being equal to the historical median value in an economy's peer group, which would be emerging markets and developing economies for ECA.

projected fall in the number of tourists will further weigh on the regional economy—tourists from Russia and Ukraine account for more than 10 percent of arrivals in about half of ECA's economies, including those reliant on tourism, such as Georgia, Montenegro, and Turkey. Still, an inflow of migrants from countries affected by the war and sanctions could help partially offset subdued tourism.

Food prices are likely to continue to climb in the region and put further pressure on inflation. ECA imports about 40 percent of its wheat from Russia and Ukraine—this figure rises to 75 percent or more in Central Asia and the South

TABLE 1.2 Downside scenario

Annual GDP impact including commodity prices shocks where Russia's GDP contracts by 20 percent, Ukraine's GDP contracts by 75 percent, and the euro area's GDP growth is revised down 3 percentage points in 2022

			Percentage point differences from baseline forecasts		Percentage point differences from January 2022 projections	
	2022f	2023f	2022f	2023f	2022f	2023f
EMDE ECA	**-8.7**	**2.1**	**-4.6**	**-0.4**	**-11.7**	**-0.8**
EMDE ECA excl. Turkey	-11.3	2.0	-5.6	-0.3	-14.6	-0.9
EMDE ECA excl. the Russian Federation and Ukraine	1.5	2.9	-0.7	-0.6	-1.9	-0.7

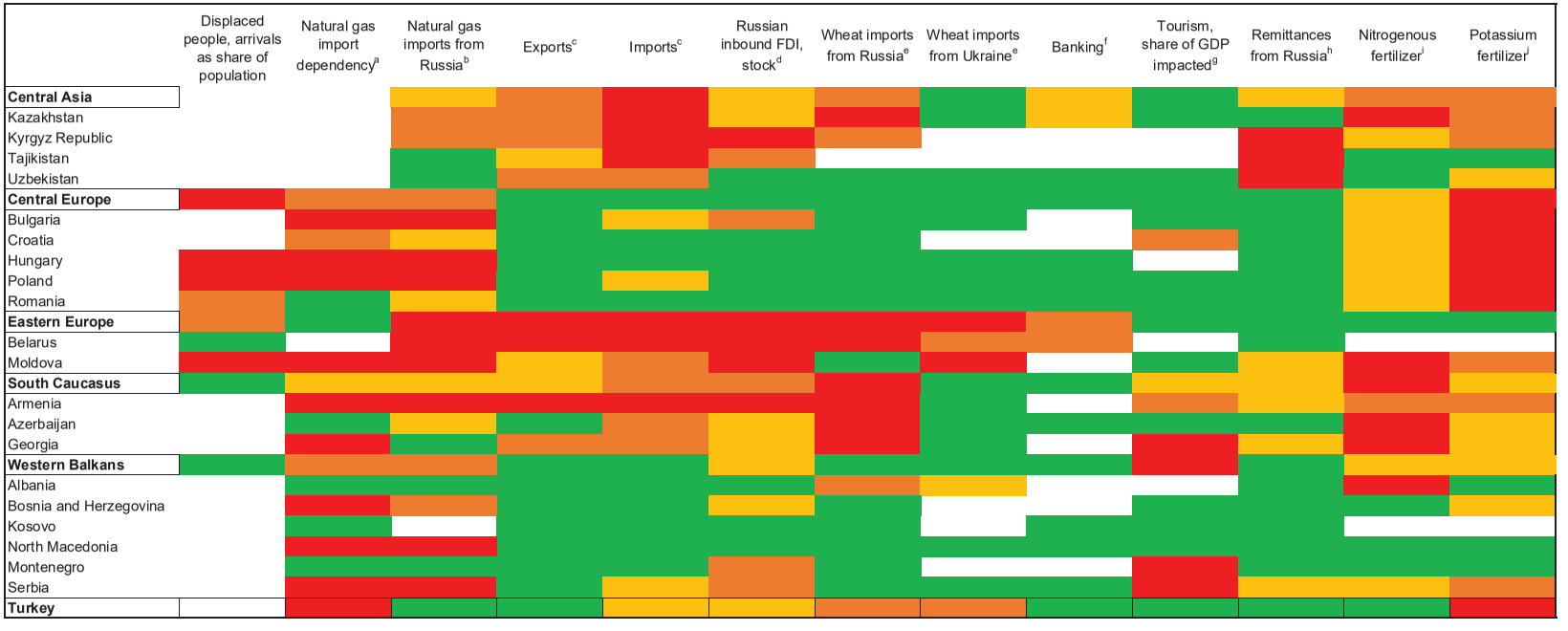
Sources: Oxford Economics 2020; World Bank.
Note: ECA = Europe and Central Asia; EMDE = emerging market and developing economy; f = forecast; GDP = gross domestic product.

Caucasus—leaving the region vulnerable to war-related disruptions to trade, especially the Black Sea countries. Five ECA economies are among the top ten most dependent countries in the world on wheat imports from Russia and Ukraine, and four are among those for fertilizer imports from Russia (FAO 2022). Russia's announced restrictions on exports of wheat and other food exports to the Eurasian Economic Union (Armenia, Belarus, Kazakhstan, and the Kyrgyz Republic) are likely to push regional food prices higher. In turn, these price pressures might leave vulnerable households exposed to food insecurity and poverty. Moreover, inflationary pressures could and force central banks to accelerate the pace of monetary policy tightening.

Outside global commodity markets and tourism, the direct impact of the war varies, with trade and financing exposures to Russia being high in the South Caucasus and Central Asia but somewhat limited in other ECA economies. In many of these countries, Russia is a major export destination, accounting for about 10 percent of total exports in Central Asia and the South Caucasus. Remittances from Russia are nearly 30 percent of GDP in some Central Asian economies (the Kyrgyz Republic and Tajikistan), and Russia is an important source of foreign direct investment (FDI) for many countries in Central Asia and the South Caucasus. Still, for most ECA economies—including Russia's immediate neighbors—spillovers from the euro area are larger than those from Russia. ECA goods exports to Russia are about one-tenth of those to the euro area. Similarly, 40 percent of FDI stock is sourced from the European Union versus only 7 percent from Russia.

Russia's invasion of Ukraine has destabilized the region geopolitically and triggered a refugee crisis, especially in the European Union, including ECA's Central European economies. Within the span of three weeks, about 3 million refugees fled Ukraine, with more than 2 million arriving in Poland. The number of refugees continues to swell, with more than 4 million refugees having fled Ukraine by late March. The overall economic impact of the refugees is likely to be positive beyond the very short term, boosting domestic demand, especially private consumption, while also increasing the potential labor force owing to

TABLE 1.3 Heatmap: Direct country exposures to the Russian Federation and Ukraine



	Displaced people, arrivals as share of population	Natural gas import dependency[a]	Natural gas imports from Russia[b]	Exports[c]	Imports[c]	Russian inbound FDI, stock[d]	Wheat imports from Russia[e]	Wheat imports from Ukraine[e]	Banking[f]	Tourism, share of GDP impacted[g]	Remittances from Russia[h]	Nitrogenous fertilizer[i]	Potassium fertilizer[i]
Central Asia													
Kazakhstan													
Kyrgyz Republic													
Tajikistan													
Uzbekistan													
Central Europe													
Bulgaria													
Croatia													
Hungary													
Poland													
Romania													
Eastern Europe													
Belarus													
Moldova													
South Caucasus													
Armenia													
Azerbaijan													
Georgia													
Western Balkans													
Albania													
Bosnia and Herzegovina													
Kosovo													
North Macedonia													
Montenegro													
Serbia													
Turkey													

	3+	75+	75+	20+	20+	15+	75+	10+	3+	3+	10+	60+	60+
	2 - 3	50 - 75	50 - 75	10 - 20	10 - 20	5 - 15	50 - 75	5 - 10	2 - 3	2 - 3	5 - 10	40 - 60	41 - 60
	1 - 2	25 - 50	25 - 50	5 - 10	5 - 10	2 - 5	25 - 50	2 - 5	1 - 2	1 - 2	2 - 5	20 - 40	21 - 40
	0 - 1	0- 25	0- 25	0 - 5	0 - 5	0 - 2	0- 25	0 - 2	0 - 1	0 - 1	0 - 2	0- 20	0- 21
	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

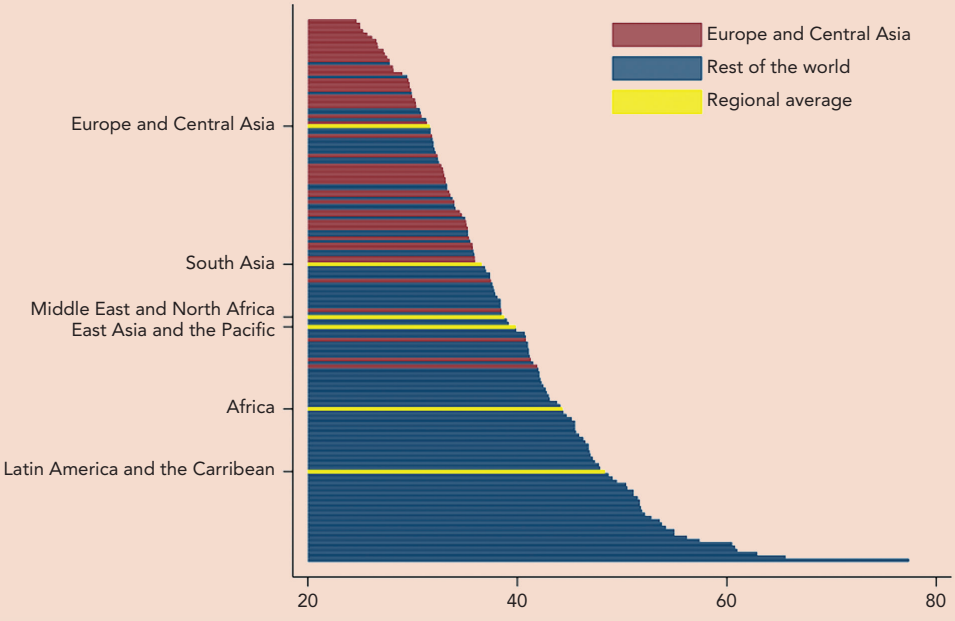
Sources: Bank for International Settlements; Central Bank of Russia; Eurostat; Haver Analytics; International Food Policy Research Institute; International Monetary Fund; United Nations Comtrade; United Nations World Tourism Organization; World Bank.
Note: FDI = foreign direct investment; GDP = gross domestic product.
a. Energy import dependency is the share of energy needs met by imports, calculated from energy balances as net imports divided by the gross available energy.
b. The share of natural gas imports from the Russian Federation in total natural gas imports.
c. Exports to and imports from the Russian Federation as a percent of trading partners' GDP.
d. FDI stock from the Russian Federation as a percent of the recipient country's total FDI.
e. Wheat imports from the Russian Federation (Ukraine) as a percent of total wheat imports.
f. Bank claims to the Russian Federation are a percent of consolidated positions, including risk transfers and commitments, of the creditor country's GDP.
g, The share of international tourism receipts adjusted for the share of Russian and Ukrainian tourist arrivals in total foreign tourist arrivals, as a share of GDP.
h. Remittances from the Russian Federation as a percent of GDP.
i. The fertilizers dependency refers to countries' dependency on imports of nitrogenous and potassium fertilizers originating from Belarus and the Russian Federation over the period 2018-20. It is based on COMTRADE data, as reported by IFPRI.

BOX 1.4 Actual and perceived inequality in Europe and Central Asia

In the run-up to the COVID-19 pandemic, income inequality in Europe and Central Asia (ECA) was relatively low, given the region's income levels. There is considerable heterogeneity within ECA in the levels of income inequality, with the Gini index ranging from the mid-20s in countries such as the Slovak Republic, Slovenia, the Czech Republic, and Belarus, to 40 and above in Bulgaria and Turkey. At the same time, there is generally an inverse relationship between the national level of inequality and gross domestic product (GDP) per capita, and countries in ECA have lower levels of income inequality than would be predicted, given their GDP per capita. Overall, the region has the lowest values of the Gini index across the world (figure B1.4.1).

The welfare losses associated with COVID-19 were more pronounced in the lower part of the ECA income distribution, although less than in the rest of the world. Considering the global income distribution, and abstracting for the moment from any inequalities in the welfare impact of COVID-19 within countries (within-country impacts are addressed below), those in the lower half of the global income distribution, and notably those between the international $1.90/day and the upper-middle-income country $5.50/day thresholds, were affected the most by the initial shock in 2020. Those countries also exhibited the slowest recovery in 2021, in such a way that the global impact of the COVID-19 pandemic is inequality increasing (World Bank 2022b; Narayan et al. 2022). A similar exercise but restricted to the regional ECA distribution of income reveals a similar but less pronounced pattern in both emerging

FIGURE B1.4.1 Gini index, by countries and regions, latest available data



Source: Adapted from Bussolo et al. 2018, updated with the latest data from Povcalnet.
Note: The Gini index was calculated on income whenever possible; alternatively, consumption was used. Rest of the world = all countries, including high-income countries. Europe and Central Asia includes Western Europe. Regional averages are unweighted averages of individual countries.

(Continued next page)

BOX 1.4 (continued)

market and developing economy (EMDE) ECA and non-EMDE ECA, with this last group of relatively richer ECA countries suffering more severe economic contractions. The recovery in 2021 in the ECA region appears to have been quite uniform across the income distribution, unlike the global patterns for the same period, which saw the richer percentiles of the population recover their income faster than the poorer ones.

At the country level, there is evidence of COVID-19 having inequality-increasing impacts in the short term, which risk being amplified in the longer term. While detailed evidence on the within-country distributional impacts of COVID-19 remains only partial, data from the High-Frequency Phone Surveys collected by the World Bank show that in the majority of countries in the sample, inclusive of the ECA region, those in the bottom 40 percent of the income distribution with lower levels of education and more precarious attachment to the labor market have been more likely to suffer from work stoppages and income losses as a result of the pandemic. As such, the overall short-term impact is estimated to be inequality increasing, with the within-country Gini coefficient being about 1 point higher on average due to the pandemic's effects. While these short-term inequality impacts may be muted, the unequal patterns of recovery, as well as human capital losses due to school closures, are likely to amplify the inequality impacts in the medium to long term (Azevedo et al. 2020; Narayan et al. 2022; Neidhofer, Lustig, and Tommasi 2021).

The effects of COVID-19 notwithstanding, income inequality in ECA is relatively low. Yet, perceptions of inequality in the region are radically different. Across the ECA region, more than two-thirds of adults believe that inequality is too high, in the sense of desiring the gap between the rich and the poor to be smaller than it is, according to the latest round of the Life in Transition survey data. Perceptions of higher inequality correlate, albeit weakly, with actual inequality levels, such that the share of adults who want the gap between the rich and the poor to be made smaller tends to be higher in countries with higher observed income inequality (figure B1.4.2).

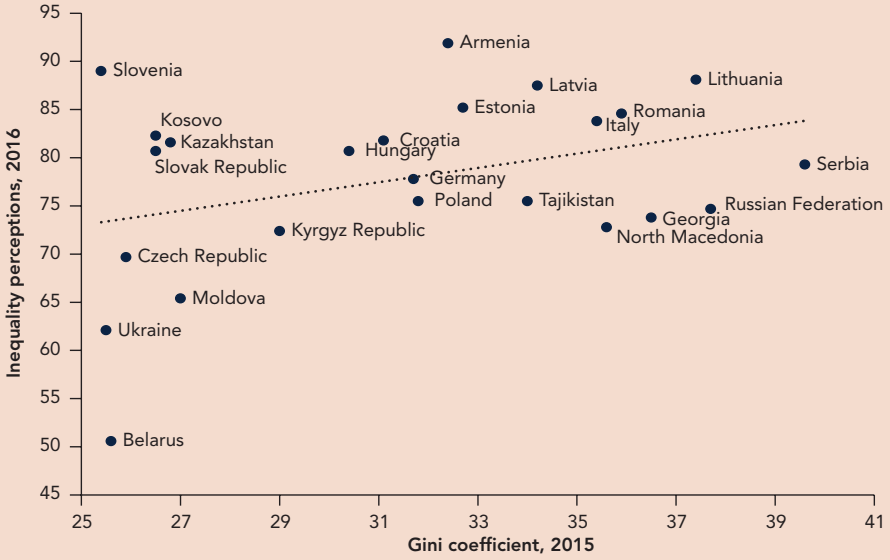
What causes the discrepancy between relatively low inequality in outcomes in ECA and perceptions of high inequality? Setting aside non-trivial issues related to the degree of awareness of actual observed inequality levels,[a] there is a broad perception in the region that the distribution of fortunes in society is not entirely fair and is getting worse. In countries like Georgia, Kazakhstan, Kosovo, and Moldova, inequality of opportunity[b] accounts for 40 percent of overall income inequality, compared to 25 percent in Uzbekistan and less than 10 percent in Germany. Some 45 percent of adults in ECA believe that informal connections are very important or essential to obtain a good government job, and 40 percent similarly think that connections are vital to get a good private sector job. Bussolo et al. (2018), focusing on the ECA region as a whole, present evidence of increasing concentration of wealth, increasing labor market polarization characterized by a hollowing out of the jobs in the middle of the income distribution, and an increasing generational divide, with younger age cohorts facing higher income inequality at every point of the life cycle relative to older generations.

These inequalities of opportunity generate discontent. Cojocaru (2014a) finds that inequality aversion in ECA is not intrinsic, but rather tied to concerns about the fairness of the institutions underlying the distribution of fortunes in society. Beliefs as to whether inequality is perceived to be too high have been found to be linked with whether those who are poor today expect to be upwardly mobile in the future (Cojocaru 2014b) and to the degree of inequality of opportunity that may constrain such upward mobility (Cojocaru 2019). These beliefs also reflect the deteriorating social mobility in the region since the transition: estimates from the Global Database of Intergenerational Mobility show that the youngest cohorts in ECA, who grew up and reached adulthood in the aftermath of the

(Continued next page)

BOX 1.4 (continued)

FIGURE B1.4.2 Share of the population who agree that the gap between the rich and the poor should be reduced and the actual level of inequality (Gini)



Sources: Cojocaru 2021; World Bank.

collapse of the Soviet Union, observe levels of intergenerational mobility that are lower compared with older cohorts and more similar to the levels recorded in lower-middle-income countries.

Perceptions of the shrinking level of equity in ECA are causing fissures in the existing social contract. Bussolo et al. (2018) find that (i) trust in institutions is low—only 11 percent of respondents in the latest round of the Life in Transition Survey expressed complete trust in their national government; and (ii) workers with skills that are waning in demand are voting more regularly for extremist parties, while younger generations are opting out of voting altogether. Winkler (2019), using data from 25 European countries, including a number of transition economies, for the period 2002–14, also finds that a 5-point increase in the Gini index of local inequality increases the likelihood of a voter supporting a far left or far right party by 4 percentage points.

a. Gimpelson and Treisman (2018) find, across a number of data sets and countries, that respondents predict poorly (slightly better than by chance) the level of inequality in their country, as well as the trends in inequality, or other distributional statistics such as the top 1 percent's share of wealth, average salaries nationwide or for specific jobs, or the country's current poverty rate.
b. Defined here in the space of incomes predicted by individual circumstances at birth: gender, rural or urban place of birth, ethnicity, mother's and father's level of education, and parents' membership in the communist party (for details, see EBRD 2016).

legislation that allows migrants to work. Countries have bolstered capacity, expanding access to social services and social benefits, as well as health care and education, but more will likely be needed and will come at the cost of rising fiscal pressures related to the provision of these services and housing. Targeted investment could also support host communities to prevent social tensions and backlash against those arriving.

Trends in Europe and Central Asia: Major economies and subregions

Russian Federation

Following Russia's invasion of Ukraine, the Russian economy has plunged into a deep recession, with output projected to contract 11.2 percent in 2022 amid a collapse in domestic demand (table 1.4). Sanctions have impaired Russia's sizable macroeconomic buffers and triggered trade, financing, and confidence shocks. Domestic demand is expected to be depressed as job and income losses, increased poverty, inflation, and supply disruptions reduce consumption while investment continues to fall amid the loss of foreign investment, supply shortages and trade disruptions, weakened economic prospects, reduced domestic lending capacity, and high interest rates. Foreign firms continue to pull out of the Russian market, with more than 400 U.S. companies withdrawing from Russia.[19] Import compression due to the collapse in demand and export bans to Russia will ameliorate external financing pressures and elevated export prices. Still, the disruption of imports has already interrupted some domestic sectors, including automobile production and aerospace.

Financial stability risks have markedly increased, despite years of strengthening macroeconomic frameworks, accumulating policy buffers, and hedging CBR reserve exposure to the U.S. dollar.[20] Sanctions have severed Russia's international financial linkages, prompting the imposition of capital controls to mitigate the outflow of capital.[21,22] Although it is difficult to measure the precise dollar amount, estimates using the currency decomposition of assets suggest that about half of the CBR's assets are frozen. Ruble depreciation has increased the burden of external debt servicing costs, while shortages in foreign exchange liquidity and capital controls have further hindered Russia's ability to meet external debt obligations.[23] Although the CBR has injected ruble liquidity into the banking system, introduced forbearance measures, and relaxed prudential borrowing regulations, the banking sector remains vulnerable to a deeper credit crunch.

Announced bans and reductions in purchases of Russian oil and gas are expected to lead to a moderate fall in shipments this year. Exports of key high-tech goods to Russia are banned—including software, semiconductors, and avionics—which will starve Russia of critical inputs and exacerbate supply chain disruptions in Russia and spill over to its trading partners. The current package of sanctions will have a lasting negative effect on Russia by curtailing oil production

19. Yale, 2022, https://som.yale.edu/story/2022/over-400-companies-have-withdrawn-russia-some-remain.
20. By January 2022, Russia had accumulated $630 billion in reserves (about 40 percent of GDP), of which $500 billion was foreign exchange reserves.
21. Financial sanctions include (i) restricting access to foreign exchange assets of the CBR and other sovereign entities, (ii) freezing assets of and blocking transactions with Russian banks, (iii) excluding selected Russian banks from the SWIFT payments messaging system, (iv) debt and equity restrictions on major Russian enterprises, and (v) financial sanctions against selected natural persons.
22. Stocks of non-resident assets in Russia are large, at about 70 percent of GDP.
23. The price of bonds with upcoming coupons due have traded at around 20 cents on the dollar, and Russia's sovereign bond rating has been rapidly downgraded to junk status in what was the largest downgrade since the Republic of Korea in 1997.

TABLE 1.4 Europe and Central Asia country growth forecasts[a]

(real GDP growth at market prices in percent, unless indicated otherwise)

	2020	2021e	2022f	2023f	Percentage point differences from January 2022 projections 2022f	2023f
Albania	−4.0	8.6	3.2	3.4	−0.6	−0.3
Armenia	−7.4	5.7	1.2	4.6	−3.6	−0.8
Azerbaijan	−4.3	5.6	2.7	2.2	−0.4	−0.5
Belarus	−0.9	2.3	−6.5	1.5	−3.7	−0.8
Bosnia and Herzegovina[b]	−3.1	6.5	2.9	3.1	−0.1	−0.1
Bulgaria	−4.4	4.2	2.6	4.3	−1.2	0.7
Croatia	−8.1	10.4	3.8	3.4	−1.6	−1.0
Georgia	−6.8	10.4	2.5	5.5	−3.0	0.5
Hungary	−4.7	6.8	4.2	4.1	−0.8	−0.2
Kazakhstan	−2.5	4.0	1.8	4.0	−1.9	−0.8
Kosovo	−5.3	9.1	3.9	4.3	−0.2	−0.1
Kyrgyz Republic	−8.4	3.6	−5.0	3.2	−9.7	−1.1
Moldova	−7.4	13.9	−0.4	2.7	−4.3	−1.7
Montenegro	−15.3	12.4	3.6	4.7	−2.0	−0.1
North Macedonia	−6.1	4.0	2.7	3.1	−1.0	−0.3
Poland	−2.5	5.7	3.9	3.6	−0.8	0.2
Romania	−3.7	5.9	1.9	4.1	−2.4	0.3
Russian Federation	−2.7	4.7	−11.2	0.6	−13.6	−1.2
Serbia	−0.9	7.4	3.2	2.7	−1.3	−1.3
Tajikistan	4.5	9.2	−1.8	3.2	−7.3	−1.3
Turkey	1.8	11.0	1.4	3.2	−0.6	0.2
Ukraine	−3.8	3.4	−45.1	2.1	−48.3	−1.4
Uzbekistan	1.9	7.4	3.6	5.3	−2.0	−0.5

Source: World Bank.
Note: World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time. Due to lack of reliable data of adequate quality, the World Bank is currently not publishing economic output, income, or growth data for Turkmenistan, and Turkmenistan is excluded from cross-country macroeconomic aggregates.
e = estimate; f = forecast; GDP = gross domestic product.
a. Data are based on GDP measured in average 2010-19 prices and market exchange rates, unless indicated otherwise.
b. Production-approach based numbers.

due to the exit of foreign oil and oil servicing companies, fall in investment, and reduced access to foreign technology.

Ukraine

Russia's invasion of Ukraine has triggered a catastrophic humanitarian toll and severe economic contraction. From a population of around 44 million in Ukraine, more than 4 million have fled as refugees as of March 31, predominantly into neighboring countries, with around 6.5 million displaced internally—these numbers are likely to swell as the war continues (UNDP 2022). Access to water, food,

heating, electricity, and gas has been curtailed in Ukraine due to heavy infrastructure damage and security issues, leaving about a third of the population in possible need of life-saving humanitarian assistance (UNOCHA 2022; UNDP 2022). The impact on poverty is also likely to be devastating, although it is hard to quantify at this stage. Based on the international poverty line of $5.50 per day, poverty is projected to increase to 19.8 percent in 2022, up from 1.8 percent in 2021, with an additional 59 percent of people being vulnerable to falling into poverty.

The war has destroyed a critical amount of productive infrastructure—including rail, bridges, ports, and roads—rendering economic activity impossible in large swathes of areas. Preliminary estimates from early March suggested that the damage to infrastructure is $100 billion—or about two-thirds of 2019 GDP—but since then, the war has raged on and caused further destruction (UNDP 2022). Goods trade has come to a grinding halt, as damaged transit routes prevent goods by land while the loss of access to the Black Sea cuts off half of Ukraine's exports and 90 percent of its grain trade. The planting and harvest seasons have been disrupted. Electricity consumption, which is often used as a high-frequency proxy for economic activity, decreased by more than 25 percent within two weeks of the invasion (box 1.5). Electricity data were suspended, and the war has continued—indicating that these figures are likely much higher now. The war is estimated to have caused half of Ukrainian businesses to shut down completely, while the other half has been forced to operate well below capacity (UNDP 2022).

Even absent the destruction of physical infrastructure, output in Ukraine is projected to shrink by 45.1 percent in 2022. The magnitude of the contraction, however, is subject to a high degree of uncertainty related to the duration and intensity of the war. Still, the repercussions are anticipated to reverberate beyond the short-term collapse in domestic demand and exports, as output is scarred by the destruction of productive capacity, damage to arable land, and smaller labor supply—especially if refugees are slow to return or choose to remain permanently outside Ukraine. Learning losses from the pandemic are expected to be amplified by the war given the destruction of schools and disruption to schooling, which are likely to have a disproportionate effect on vulnerable households. With physical capital and vital assets destroyed and degraded, combined with scarring from the war and pandemic, the recovery will be more difficult without significant reconstruction efforts and capital flows.

Eastern Europe

Eastern Europe is projected to contract 30.7 percent in 2022 as the subregion suffers from the catastrophic shock of Russia's full-scale invasion of Ukraine. In addition to the economic fallout from the conflict, the subregion will also be impacted by additional sanctions that were placed on Belarus for its role in the war. Moldova is likely to be one of the most affected countries by the conflict not only because of its physical proximity, but also its inherent vulnerabilities as a small, landlocked economy, with close linkages to both Ukraine and Russia.

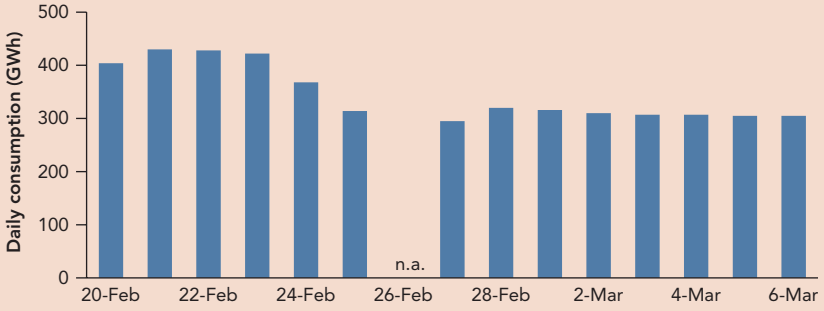
BOX 1.5 Assessing the economic consequences of the war in Ukraine

The recent war in Ukraine has undoubtedly affected the lives and livelihoods of millions of citizens in the country. Having an assessment of the economic consequences of the war is key to be able to support the country during the course of the conflict and the recovery once the hostilities cease. Typical estimates of economic activity may become unreliable as, in a conflict setting, they may only be available with a delay and, even if available, may be a poor measure of real output given dramatic changes in relative prices.

A way to assess the economic impact of the war when traditional output estimates are not available is by using high-frequency proxies of economic activity. These are typically non-monetary measures that track very closely the variations in output. A widely used proxy is electricity consumption, which has been shown to have a very high correlation with economic activity and a short-run elasticity close to one (Ferguson, Wilkinson, and Hill 2000; Chen, Kuo, and Chen 2007; Arora and Lieskovsky 2014). During the COVID-19 pandemic, several researchers used the variation in the daily rates of electricity consumption as a proxy indicator for the economic impact of lockdowns (Demirguc-Kunt, Lokshin, and Torre 2021a, 2021b; Beyer, Franco-Bedoya, and Galdo 2021; Vagliasindi 2021). In other contexts, measures such as nighttime light intensity (Chen and Nordhaus 2011; Henderson, Storeygard, and Weil 2012) and nitrogen dioxide emissions (Morris and Zhang 2019) have been used to measure economic output.

Within two weeks of the invasion, daily electricity consumption dropped by more than 25 percent in the country—from an average of 421 gigawatt hours (GWh) during February 20 to 23, 2022, to an average of 310 GWh during February 27 to March 6, 2022 (figure B1.5.1). After March 6, 2022, these data were suspended, but these values have likely worsened since the conflict has continued to inflict destruction. In the short run, Ukraine's output may have decreased by at least the same fraction if the elasticity between electricity consumption and gross domestic product is about one. However, this widely used elasticity was estimated by most academic work in peacetime economic settings. Thus, it is not clear what would be a reasonable estimate of this elasticity in a conflict setting, as patterns of consumption may have changed, but it is likely that these estimates have substantially deteriorated since March 6, 2022. There are confounding factors from the conflict because electricity consumption during night hours is reduced as households and businesses turn off their lights to prevent shelling and attacks. Further, electricity consumption may not track well economic activity when accounting for infrastructural and territorial losses. These facts suggest that, if anything, a reduction of 26 percent in Ukraine's economic output as result of the war over these initial few weeks can be seen as a lower bound estimate, with upper bound estimates implying an even larger decrease in output, especially given the duration of the conflict.

FIGURE B1.5.1 Daily electricity consumption in Ukraine, February/March 2022



Sources: Ukrenergo; Ministry of Energy of Ukraine.
Note: GWh = gigawatt hours.

Outside Ukraine, it is anticipated that the subregion will experience direct trade consequences from the war.[24] Heavy reliance on imports to meet food and energy needs has left Moldova vulnerable to disruptions in the supply of food, energy, and commodity imports from Ukraine and Russia, with Ukraine accounting for more than 40 percent of the country's total wheat imports. Additionally, Eastern Europe is critically reliant on natural gas for powering its energy needs—in Belarus and Moldova, natural gas comprises more than 50 percent of the total energy supply, with 100 percent of natural gas imported from Russia. While Belarus will be shielded due to bilateral agreements with Russia, import disruptions are expected to increase price pressures elsewhere, in turn eroding the competitiveness of firms and household incomes, especially for the poor.

The shock to confidence, heightened policy uncertainty, and the deteriorating outlook for the Russian economy are expected to have detrimental impacts on domestic demand in Eastern Europe. Russia is a significant source of finance for Eastern Europe, accounting for 31 and 20 percent of FDI in Belarus and Moldova, respectively, and 12 percent of portfolio flows to Belarus. Consumption will also be hard hit—nearly 50 percent of the subregion's remittances come from Russia, with Moldova also vulnerable to disruptions in remittances from Ukraine, which accounts for 15 percent of total remittances.

The influx of refugees to Moldova has been large. About 390,000 refugees, the equivalent of about 15 percent of Moldova's population, have crossed the border since the onset of the war. Although more than three-quarters have transited to the European Union, the remaining influx of refugees will likely have additional fiscal costs, squeezing resources for long-term development priorities. The large wave of refugees could create a challenging socioeconomic environment in the medium term, especially if many migrants remain but fail to find employment opportunities.

Turkey

In Turkey—the region's second largest economy after Russia—growth is expected to slow sharply in 2022, to 1.4 percent—well below its pace for potential growth (World Bank 2019d). The war in Ukraine is exacerbating domestic headwinds that predated the conflict, including shrinking investment and a sharp rise in policy uncertainty after multiple policy rate cuts fueled a nearly 20-year-high inflation rate of 54.4 percent and triggered the lira to fall to new record lows against the U.S. dollar (World Bank 2022c). The war has driven commodity prices up further and is expected to generate additional inflationary pressures in Turkey, which will further erode real incomes and dampen consumption. The Russia-Ukraine war is likely to have a detrimental impact on Turkish tourism, given that visitors from these countries account for about a quarter of total tourists. The invasion, through its impact on policy uncertainty, could further dampen confidence and investment, accelerate portfolio outflows, and put additional pressure on the lira. Important value chain linkages in Turkey could come under further

24. Russia accounts for 20 percent of Eastern Europe's goods exports, a number that increases to 43 percent for Belarus; Russia is also the source for 25 percent of Eastern Europe's imports, with Belarus relying on Russia for 52 percent of its imports.

strain as the war severs transit routes, disrupts trade, and increases shipping prices.

The war's immediate impact on Turkey has largely been through spillovers from higher commodity prices to inflation, which has deepened Turkey's macroeconomic imbalances. Turkey is dependent on energy imports, with about 40 percent of its total natural gas and petroleum imports sourced from Russia. With little opportunity to substitute imported energy with domestically produced energy sources in the near term, higher energy prices will translate directly into a larger import bill.[25] This will widen the current account deficit and weigh on the value of the lira—exacerbating price pressures in an already highly inflationary environment.[26] Turkey also relies heavily on Russia and Ukraine for agricultural imports—nearly 25 percent is from Russia and 10 percent is from Ukraine. Together, Russia and Ukraine account for more than three-quarters of Turkey's wheat imports and sunflower seed oil imports, leaving Turkey's economy exposed to supply and trade disruptions from the war and thus higher prices. Moreover, sharp increases in energy and fertilizer prices will likely add further pressure on the cost of domestic agricultural production. Additional increases in the price of food—which has a high share in Turkey's Consumer Price Index basket and is already experiencing inflation above 50 percent—will hit poorer households particularly hard.[27]

Central Asia

Growth in Central Asia—the weakest among the ECA subregions outside Eastern Europe—is forecast to more than halve from 5.1 percent in 2021 to 2 percent in 2022 due to tight economic linkages with the Russian economy. The severe recession in Russia is expected to dent remittances and trade flows with Central Asia, while sanctions on Russia pose challenges to financial intermediation. Although higher global commodity prices should help to buoy activity and fiscal balances in some Central Asian economies (Kazakhstan and Uzbekistan), weakness in Russia—a key trading partner—will be a drag on growth.[28] The war is magnifying other vulnerabilities, including high debt distress risks in the Kyrgyz Republic and Tajikistan. Both countries are expected to experience a contraction in output this year, wider deficits, and sharp exchange rate devaluation.

Remittances from Russia serve as a major source of income—accounting for over 10 percent of GDP in most countries in the subregion, and approaching 30 percent of GDP in the Kyrgyz Republic and Tajikistan. Following the annexation of Crimea in 2014, remittance outflows from Russia to Central Asia fell by more

25. Assuming a constant volume of energy imports, a $10/bbl increase in the price of Brent crude oil raises Turkey's energy import bill by between $6.5 billion and $7.0 billion. Brent crude oil has risen about $20/bbl since January, to $100/bbl, but prices remain highly volatile.
26. The pass-through of oil prices to fuel price inflation and transportation inflation is around 25 and 9 percent, respectively (World Bank 2022c).
27. Households in the bottom decile allocate nearly 70 percent of their budget to food and housing—twice as much as the share for the highest decile and well above the 54 percent share for the median household.
28. Russia serves as a major trading partner for countries in Central Asia, comprising more than 30 percent of imports, while Central Asian exports to Russia contribute around 20 percent of GDP.

than 40 percent, weighing on economic activity and household incomes. Because the war dwarfs the earlier conflict in 2014–15, it is likely to trigger a significantly sharper and more enduring decline in remittances, derailing the post-pandemic recovery in Central Asia that had emerged in 2021. Indirect effects from sanctions could be significantly damaging where Russian banks play an important role, or where Russia is a critical partner in processing foreign transactions (Tajikistan and the Kyrgyz Republic). Consequently, Russia's blockage from SWIFT, and the subsequent self-sanctioning measures adopted by the financial sector, could cascade into disruptions in trade, investment, and finance flows for those countries that rely on Russia to complete cross-border transactions.

South Caucasus

In the South Caucasus, growth is projected to weaken to 2.4 percent in 2022—almost a third of the subregion's growth in 2021—as the war in Ukraine disrupts trade and remittance channels.[29] The spillovers will vary across the subregion, however, with Armenia facing adverse effects due to its especially tight linkages with Russia through goods trade, remittances, FDI, financial transactions, and tourism. In contrast, Azerbaijan should benefit from windfalls due to higher global energy prices. This boost may be limited, however, as Azerbaijan's oil sector is already operating close to its capacity constraints for oil production.

Consumption is anticipated to be dented by the loss of remittances and inflationary pressures amid sharply higher agricultural prices. Goods exports will be hard hit as weak external demand from Russia is further compounded by trade disruptions from the war.[30] Likewise, services exports are expected to be dampened by the war and subsequent travel restrictions—Russian tourists comprise over 10 percent of tourist arrivals in Georgia and 33 percent in Armenia (2018–21 average). The war has also cut off access to key imports and poses near-term supply-side risks given the South Caucasus's reliance on Russian imports, particularly wheat. Russia's announced restrictions on grains (among other agricultural products) to several countries, including Armenia, could exacerbate broader price pressures. Overall, however, some of these drags could be offset by the influx of Russian migrants, particularly of educated and skilled workers, which could have positive effects in the near term on private consumption and in the medium to long term by expanding the labor supply.

Central Europe

The spillovers from Russia's invasion of Ukraine are expected to be significant in Central Europe, with key transmission channels including an influx of refugees, higher commodity prices, lower external demand from the euro area, and a deterioration in confidence. Growth in Central Europe is forecast to decelerate alongside the euro area, slipping to 3.5 percent in 2022, as inflationary pressures, tighter monetary policy, and greater policy uncertainty dampen domestic demand. The

29. Russia and Ukraine together comprise just over two-thirds of remittances sent to the South Caucuses, or 60 and 7 percent, respectively.
30. Russia is a key export destination for countries in the South Caucasus, accounting for around 25 percent of Armenia's total exports and over 10 percent of Georgia's total exports.

large inflow of displaced people from Ukraine—particularly to Poland, where close to 60 percent of the refugees have arrived—is causing a significant increase in demand for public services and housing, with consequences for public finances. Refugees could provide a boost to the Central European economy by boosting domestic demand and partly offsetting the ongoing decline in working-age populations. The economy is also expected to benefit from funding from the EU Recovery and Resilience Facility—the largest component of the Next Generation EU funds.[31]

Indirect spillovers from the war—emanating from a slowdown in the euro area—have a more pronounced impact on Central Europe's economy than direct shocks from Russia and Ukraine. The euro area constitutes a much larger share of Central Europe's trade than Russia and Ukraine, which account for only 1.9 and 1.4 percent, respectively, of the subregion's total goods exports. Slowing growth across the region's largest trading partners in the euro area—primarily Germany, which receives an average 27 percent of the subregion's goods exports—would amount to a significant impact on growth in Central Europe. Any potential disruption in energy supplies to the euro area region could intensify price pressures, thereby eroding real incomes and business profitability.[32] Additionally, a slowdown in the euro area could weaken investment in Central Europe, which relies on the euro area for 63 percent of its FDI, 63 percent of portfolio flows, and 87 percent of total bank claims.

Direct economic linkages outside the energy sector are limited,[33] but nonetheless growth in Central Europe will be held back by higher commodity prices, including for energy; increased uncertainty; and disruptions to supplies of precious metals used in the auto industry. Surging energy prices are weighing on production and household purchasing power. The increase in commodity prices—energy in particular—is expected to widen the current account deficit by more than previously expected.[34] Higher commodity prices have complicated monetary policy as inflation in the subregion was already at multi-year highs and exceeding targets. These inflationary pressures have prompted central banks to accelerate the pace of monetary policy tightening (Hungary, Poland, and Romania).

Western Balkans

In the Western Balkans, growth is forecast to decline to 3.2 percent in 2022, as spillovers from the war impact the subregion primarily through commodity channels. Over the medium term, the subregion is expected to benefit from the European Union's recently adopted Economic and Investment Plan for the

31. If fully implemented as planned by end-2026, these reforms and investments could help lift productivity by narrowing the digital divide and accelerating technological adoption (Hallward-Driemeier et al. 2020).
32. A hypothetical 10 percent gas rationing shock on the corporate sector could reduce euro area output by about 0.7 percent (ECB 2022).
33. Central Europe receives three-quarters of its natural gas imports from Russia—but this figure is as high as 100 percent in Hungary.
34. The deterioration in the current account deficit, however, may be partly offset by a lower deficit on the primary income balance as a result of lower profitability of foreign companies operating in Central Europe.

Western Balkans, which will mobilize funding to support competitiveness and inclusive growth, as well as the green and digital transitions.

Although the share of economic output directly tied to Russia and Ukraine is relatively small for the Western Balkans as a whole, a few countries remain vulnerable to shocks from Russia, including Montenegro, for 11 percent of its FDI, and Serbia, for 5 percent of its exports and 5.4 percent of its imports in 2021. However, the more acute risks for the Western Balkans stem from possible disruptions in the supply of natural gas and oil. The subregion receives 67 percent of its natural gas imports from Russia, with Bosnia and Herzegovina, North Macedonia (via Bulgarian pipeline), and Serbia completely reliant on Russia for their natural gas supply. Available stock, however, varies, with limited storage capacity in smaller countries, such as Bosnia and Herzegovina, a constraining factor for supply, while in Serbia storage capacity helps mitigate the supply shock in the near term. A sustained decline in Russia's supply of gas would prompt both a spike in prices and industrial constraints. Concerns about natural gas disruptions have already spurred increases in wholesale electricity prices, which have increased significantly alongside broader European electricity prices.

Much like in Central Europe, indirect spillovers from the Russia-Ukraine conflict pose substantial risk for the Western Balkans, particularly if the conflict triggers a slowdown in the euro area. The Western Balkans is heavily reliant on the euro area as a destination for 63 percent of its exports, while more than half of the subregion's FDI and nearly two-thirds of its remittances are sourced from the euro area.

Risks to the Regional and Global Outlook from Russia's Invasion of Ukraine

The war could set the stage for a much sharper global growth slowdown. Risks remain heavily skewed to the downside, which are being magnified by rising inflationary pressures, tightening macroeconomic policy, and slowing trade growth. If negative risks materialize—perhaps from prolonged or intensifying conflict—the outlook could be markedly weaker than envisioned, the economic scarring more significant, and the potential for trade and investment fragmentation higher. Energy embargos could materially deteriorate the outlook, especially for the euro area—ECA's largest trading partner—and Russia, which would further damage ECA's economy. Surging commodity prices are likely to push millions into poverty and worsen food insecurity and could trigger social unrest. The outlook remains vulnerable to financial stress, which could be triggered by confidence shocks, further geopolitical turmoil, and protracted policy uncertainty. The pandemic also continues to pose considerable downside risks to the regional outlook given trailing vaccination rates relative to advanced economy peers in Europe. It is thus critical to renew vaccine campaign efforts, particularly for vulnerable populations—including refugees—that could be hard hit by the spread of new COVID-19 variants.

The war, which has already exerted a large confidence shock, could generate a prolonged period of heightened policy uncertainty. Sustained conflict could dampen business confidence and investment—a key driver of potential

growth—as firms seek to hedge against adverse outcomes.[35] The conflict could destabilize the wider region and trigger uncertainty about a potential escalation, spillovers of economic and political stresses to other countries, as well as sanctions or other responses. Cyberattacks could damage public infrastructure or financial systems. Ruptured supply chains and trading corridors could remain frayed if geopolitical tensions do not dissipate. The war could leave a lasting mark on the economic landscape by causing a shift from the current rules-based international economic system, fragmenting trade, investment, and financial networks.

A key risk to the regional economy is the materialization of financial stress, which would worsen the fall in output and dampen the subsequent recovery. Further intensification of the conflict could trigger financial stress amid elevated inflationary pressures and high debt levels. It could also lead to additional rounds of sanctions on the Russian economy, which could cause further dysfunction in domestic financial markets or greater macroeconomic destabilization. Moreover, there are unknown risks that could materialize in the financial system, potentially arising from under-appreciated exposures to Russia, such as leveraged over-the-counter products that depend on underlying Russian assets. Continued pressure on corporates and banks, alongside eroded buffers, could increase the risk of bank failures and systemic crisis. In turn, this could generate losses in ECA economies, especially in those with greater exposures to Russia's financial system, and through a rise in investor risk aversion. This could renew capital outflows, currency depreciation pressures, and equity market losses, and increase risk premia in bond markets.

Sustained disruptions from the conflict to commodity and financial markets and trade—coupled with existing supply chain bottlenecks—could put further pressure on inflation and de-anchor inflation expectations. Monetary policy authorities could have no choice but to respond to rising inflation expectations by tightening monetary policy at a faster-than-expected pace, exacerbating the repricing of risk by financial markets amid already heightened macroeconomic vulnerabilities. A further tightening in global financing conditions would put pressure on ECA economies with elevated foreign currency–denominated and external debt, especially in those economies needing to rollover debt in the near term.

Record-high food prices could lead to a significantly higher number of people being pushed into extreme poverty and worsening food insecurity. For ECA, poverty increases from the pandemic will be worsened by the conflict due to the refugee crisis, severe economic contraction for the most-affected economies, and associated job losses. For context, the pandemic-induced contraction in output of about 2 percent in 2020 pushed more than 4 million people in ECA into poverty ($5.50 a day threshold); the current crisis is twice as bad in terms of the decline in output and, unlike in 2020, inflationary pressures continue to build; thus, the poverty impact could be worse as well. The war could also worsen food

35. For example, a one standard deviation increase in global policy uncertainty is associated with a 0.4 percentage point decline in global industrial production (World Bank 2017).

insecurity, by disrupting commodities trade, increasing shipping costs and insurance premiums, and pushing up input costs for agricultural production. The most exposed countries are those that rely heavily on imported grains, especially from Russia and Ukraine. Combined, Russia and Ukraine have more than 20 percent of their wheat exports and 40 percent of their maize exports in 2021/22 frozen because of the conflict, reflecting port closures, sanctions, and the suspension of operations among shipping lines (WFP 2022). The spike in commodity prices and subsequently higher inflation could also contribute to social unrest in some countries, including those in ECA (Kammer et al. 2015). Vulnerable countries typically have weaker governance and social safety nets, fewer job opportunities, less fiscal space, and elevated domestic political tensions.

Long-Term Challenges and Policies

Adverse events have shown yet again that crises can set back years of per capita income gains and have large negative effects on productivity through dislocating labor, tightening credit, disrupting value chains, and decreasing innovation. The war in Ukraine has displaced more than half of Ukraine's children, compounding the educational losses experienced during the pandemic. The war comes at a particularly vulnerable time for ECA as its economic recovery was expected to be held back by scarring from the pandemic and lingering structural weakness. Prior to the war, the regional recovery in investment was already anticipated to trail other EMDE regions amid heightened policy uncertainty and elevated geopolitical tensions. Policies to counter the negative consequences of adverse shocks include those that strengthen stability, promote inclusion, and secure a resilient and sustainable recovery.

Strengthening Stability to Bolster Economic Resilience

Fortifying macroeconomic policy buffers and frameworks over the medium term will be critical to confront the geopolitical risks that have materialized and counter their adverse effects on investment and trade. Although ECA countries are well integrated into global and regional economies, policies to support further linkages could help offset some of the fragmentation that could occur from a protracted war. Strengthening policies to moderate business and financial cycles remains one of the key components of a growth-enhancing policy agenda to help support a regional recovery. To be effective, such policies need to be rooted in robust and credible frameworks.

Supporting continued global and regional integration. Planned infrastructure investment in regional road and rail corridors, combined with continued trade liberalization and improved business environments, could help diversify the region's trade partners and sources of finance. Barriers to open markets remain particularly pronounced in Central Asia. Reducing these barriers would spur productivity and increase resilience to external shocks. Tariffs remain higher than the EU average in about two-thirds of ECA's EMDEs; non-tariff barriers require streamlining; and trade facilitation can be further improved across the region.

The pandemic may have provided momentum for automation and digitalization that can further promote the shift to higher-productivity activities in global value chains, especially if supported by investment in transport and digital connectivity.[36] To reap the gains from global value chain participation, countries can lower non-tariff barriers, liberalize transport and internet and communications services, strengthen customs efficiency, lower barriers to services trade, and facilitate reallocation of resources across sectors (World Bank 2020d; Brenton, Ferrantino, and Maliszewska 2022).

Shoring up macroeconomic stability. Resilient monetary policy frameworks allow policy makers more room for proactive monetary policy. Strengthening legislation for monetary policy and bank supervision will help raise the credibility of macroeconomic frameworks and reduce the cost of policies to reduce inflation and maintain currency stability (Gill and Ruta 2022b). Exchange rate pass-through from depreciation to inflation tends to be smaller in countries with more credible, transparent, and independent central banks; inflation-targeting monetary policy regimes; and better-anchored inflation expectations (Ha, Stocker, and Yilmazkuday 2019; Kose et al. 2019). Establishing and maintaining resilient monetary policy frameworks is especially important against the backdrop of the use of unconventional monetary policy tools—particularly asset purchases—by some ECA central banks.

After a suspension of fiscal rules to confront the pandemic, it will be critical for countries to return to a fiscal rule framework to prevent fiscal slippages. Doing so can also help contain and manage risks from contingent liabilities, which have increased sharply from the pandemic, especially in Turkey and Central Europe. Identifying inefficient government spending could improve fiscal positions and free up resources for more effective spending that yields higher growth dividends—in ECA, infrastructure spending has yet to approach the efficiency frontier (IMF 2021). Strong fiscal frameworks have also been associated with lower inflation and inflation volatility, suggesting that they tend to support the central bank in delivering its mandate (Ha, Kose, and Ohnsorge 2019). Improvements in sovereign debt management would help preserve the ability of governments to support an equitable recovery.

During the pandemic, authorities in several countries eased regulatory requirements and exercised forbearance. To avoid the emergence of zombie firms will require efforts to continue to unwind these measures (World Bank 2021a). Stress testing different scenarios could help policy makers identify where the temporary extension of such measures may be needed to avoid liquidity problems. Robust financial sector regulation and supervision remain critical to ensuring a sound financial system, and stronger banking systems have been associated with stronger growth over the longer term (Reinhart and Reinhart 2015). Carefully implemented domestic financial reforms and capital account liberalization have been associated with stronger growth and faster sectoral labor reallocation

36. Increasing global value chain participation has been a critical driver of growth and job creation over the past several decades. A 1 percent increase in global value chain participation has been estimated to boost per capita income by more than 1 percent—much more than the 0.2 percent income gain from standard trade (World Bank 2020d).

(ElFayoumi et al. 2018; Prati, Onorato, and Papageorgiou 2013). Countercyclical macroprudential policies have helped smooth asset price swings in some countries (Bruno, Shim, and Shin 2017; Claessens 2015). In the near term, it is critical to assess whether domestic banks will be able to withstand a sharp tightening of global financing conditions and manage exposure risks from Russia. To this end, while most ECA countries have limited banking exposure to Russia, countries in Central Asia rely on Russia as a source of financing. Countries that are particularly vulnerable could establish precautionary credit lines and cash and foreign exchange buffers.

Strengthening institutions. Institutional reforms should be prioritized to help build the foundation for a robust and sustained economic recovery from the pandemic-induced global recession and to help confront the adverse shocks from the war (World Bank 2021c). Strong institutions and conducive business climates encourage private sector investment and innovation by establishing secure and enforceable property rights, minimizing expropriation risk, creating a stable and confidence-inspiring policy environment, lowering the costs of doing business, and encouraging participation in the formal sector where productivity tends to be higher (World Bank 2018, 2019a, 2021c). Good governance also ensures competitive and flexible markets with limited market concentration, effective regulation, and efficient and equitable provision of public services, including health care, education, and public infrastructure (Acemoglu and Johnson 2005; Dort, Méon, and Sekkat 2014; Gwartney, Holcombe, and Lawson 2006).

There is considerable scope for ECA governments to stem or reverse a slowdown in productivity and potential growth by strengthening institutions, reducing corruption, dismantling regulatory barriers to doing business and entrepreneurship, and ensuring effective regulation that is conducive for the efficient working of competitive markets (Kilic Celik, Kose, and Ohnsorge 2020). Lack of exposure to international competition—including from non-tariff barriers and complex trade rules—as well as restrictive product market and services regulation, remain structural bottlenecks in the region, hindering the ability to attract domestic and foreign investment. Digitalization and broader use of information technologies in the public sector are among the most effective and practical approaches to improving government efficiency, accountability, control of corruption, and service delivery (World Bank 2021b).

Promoting Inclusive Growth

Robust social safety nets can underpin a productivity-driven recovery from the pandemic if they can encourage workers to move into more productive jobs and take the risks required to seize new economic opportunities. Policy makers can enhance the ability of countries to tackle and cope with crises by implementing well-designed social safety nets and effective countercyclical buffers to support the poorest and most vulnerable in society. To ensure an inclusive recovery, policies are needed that reduce the number of school dropouts, promote universal access to health and education, and provide learning support to those who need it—these measures are even more critical amid the large influx of Ukrainian

refugees from the war (World Bank 2020a). Inclusive financial systems provide individuals greater access to resources to meet their financial needs, such as saving for retirement, investing in education, capitalizing on business opportunities, and confronting shocks. Developed and well-functioning inclusive financial systems can contribute to reduction of income inequality and promote economic growth. Such systems might be crucial for the faster integration of large numbers of Ukrainian refugees into the regional economy (World Bank 2019b).

Investing in social protection. A social protection framework centered on a publicly funded core system, which ensures against catastrophic losses, can allow governments to reduce their reliance on distortionary policies, such as high minimum wages or heavy-handed labor market restrictions (Packard et al. 2019). Active labor market policies that target the re-entry of women and low-skilled workers into the labor market can nurture a more complete and inclusive recovery. Adaptive social protection systems and cash transfer programs have been critical to smooth consumption in the face of adverse shocks (Bowen et al. 2020). Resilience to crises can also be bolstered by stronger health and education systems, particularly in areas that serve vulnerable populations and underprivileged students. Investing in digital infrastructure and technological diffusion is also key, as it enables better access to jobs, finance, and schooling during crises. To this end, policies need to be geared to ensuring that firms can leverage the COVID-19 digital dividend, including through the provision of training for small firms and policies that support e-commerce, fintech, and business-to-business digital technologies. Enhancing regulatory frameworks that favor innovation and competition in the telecommunications market is also important (World Bank 2021b).

Protecting refugees. The wave of refugees from Ukraine to neighboring ECA countries this year is anticipated to dwarf previous crises. As a result, it will be critical for host countries to mobilize resources to ensure public service delivery and effective absorption of migrants. The main difficulty is designing policies that will allow seamless integration of the refugees in the host country economies and enable the ECA region to take advantage of the gains generated by labor mobility and address the costs (World Bank 2019c). The previous wave of Ukrainian migrants to Poland, for example, helped alleviate demographic pressures and bolstered Polish growth by an estimated 0.3 to 0.5 percentage point per year (Kammer et al. 2022; Strzelecki, Growiec, and Wyszyński 2021).

Securing a Sustainable Future

Addressing the negative consequences of climate change is one of the most urgent issues of our time. The shift toward a low-carbon economy, or green transition, entails massive investments in technology, infrastructure, innovation in production models, and corresponding changes in the labor markets where new jobs will emerge, while others will be adjusted or replaced (ILO 2016). The war in Ukraine and the hike in conventional energy prices further demonstrate the attractiveness of renewables and the importance of transitioning the energy systems to cheaper, cleaner, and more reliable power. Improving energy efficiency, reducing waste in energy consumption, and using technological innovations

could allow economies in the region to mitigate the impact of war on economic growth. The efforts to de-escalate the war in Ukraine should be integrated with strategies for the rapid reduction of carbon emissions and policies to promote the green transition.

ECA governments can complement the energy transition with steps to improve energy security, by boosting and diversifying the energy supply, for instance by shifting from coal and gas-fired generation toward a diversified mix that includes renewable energy. Enhancing grid stability and managing energy demand will also be critical. This latter point includes incentivizing demand toward greener sources while steering it away from conventional energy. Although fossil fuel subsidies or gas tax cuts might seem attractive to reduce the burden on consumers, they generate distortions and do little to change demand for conventional energy. Regressivity concerns can be better addressed through targeted social protection policies that provide support to vulnerable households (OECD 2022). Moreover, dismantling fossil fuel subsidies can be a politically challenging task and can trigger social unrest, as most recently observed in Kazakhstan (Guénette 2020; Wheeler et al. 2020).

Data Annex and Forecast Conventions

The macroeconomic forecasts presented in this report are the result of an iterative process involving staff from the World Bank Prospects Group in the Equitable Growth, Finance, and Institutions Vice-Presidency; country teams; regional and country offices; and the Europe and Central Asia Chief Economist's Office. This process incorporates data, macroeconometric models, and judgment.

Data

The data used to prepare the country forecasts come from a variety of sources. National income accounts, balance of payments, and fiscal data are from Haver Analytics; the World Bank's World Development Indicators; and the International Monetary Fund's (IMF's) World Economic Outlook, Balance of Payments Statistics, and International Financial Statistics. Population data and forecasts are from the United Nations' World Population Prospects. Country and lending group classifications are from the World Bank. In-house databases include commodity prices, data on previous forecast vintages, and country classifications. Other internal databases include high-frequency indicators—such as industrial production, Consumer Price Indexes, housing prices, exchange rates, exports, imports, and stock market indexes—based on data from Bloomberg, Haver Analytics, the Organisation for Economic Co-operation and Development's analytical housing price indicators, the IMF's Balance of Payments Statistics, and the IMF's International Financial Statistics. Aggregate growth for the world and all subgroups of countries (such as regions and income groups) is calculated as the gross domestic product–weighted average (in average 2010–19 prices) of country-specific growth rates. Income groups are defined as in the World Bank's classification of country groups.

Forecast Process

The process starts with initial assumptions about advanced economy growth and commodity price forecasts. These assumptions are used as conditions for the first set of growth forecasts for emerging markets and developing economies, which are produced using macroeconometric models, accounting frameworks to ensure national accounts identities and global consistency, estimates of spillovers from major economies, and high-frequency indicators. These forecasts are then evaluated to ensure consistency of treatment across similar economies. This process is followed by extensive discussions with World Bank country teams, which conduct continuous macroeconomic monitoring and dialogue with country authorities. Throughout the forecasting process, staff use macroeconometric models that allow the combination of judgment and consistency with model-based insights.

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PART II

Selected Country Pages

ALBANIA

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

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

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

Key conditions and challenges

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

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

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

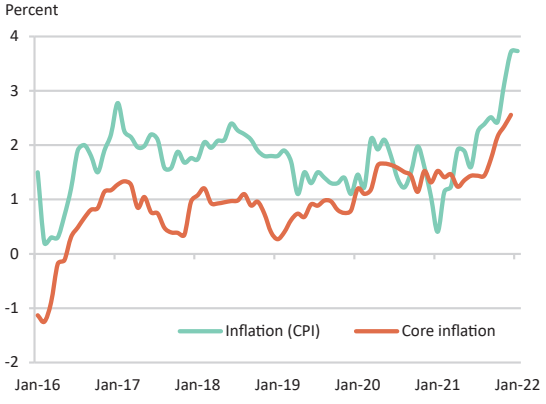
Productivity-enhancing public investment is crucial to boost growth but will require stronger revenue mobilization. At the same time, despite a 3.3 percent average GDP growth rate over 2015-2019, private investment continues to be discouraged by low firm productivity, an unskilled labor force, limited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

Recent developments

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

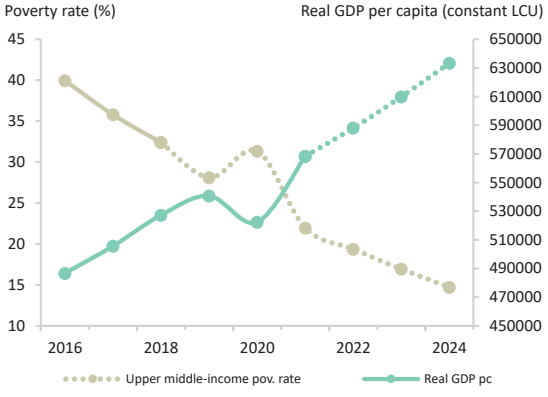
Jobs did not increase in 2020/2021. There were over 16 thousand fewer employed people in 2021 than in 2019. Employment grew only in ICT, construction, transport, retail and wholesale, and utilities. At the same time, labor force participation fell for the second consecutive year among all age groups.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

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



Sources: INSTAT and World Bank.

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



Source: World Bank. Notes: see Table 2.

the minimum wage increased by 13.1 percent in real terms.

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

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

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

Outlook

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

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

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

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

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

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

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2016-SILC-C and 2018-SILC-C.Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using customized elasticity (2016-2018) with pass-through = 1 based on GDP per capita in constant LCU.

ARMENIA

Table 1	2021
Population, million	3.0
GDP, current US$ billion	13.9
GDP per capita, current US$	4670.2
International poverty rate ($1.9)[a]	0.4
Lower middle-income poverty rate ($3.2)[a]	6.9
Upper middle-income poverty rate ($5.5)[a]	44.7
Gini index[a]	25.2
School enrollment, primary (% gross)[b]	91.2
Life expectancy at birth, years[b]	75.1
Total GHG Emissions (mtCO2e)	9.8

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

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

Key conditions and challenges

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

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

Recent developments

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

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

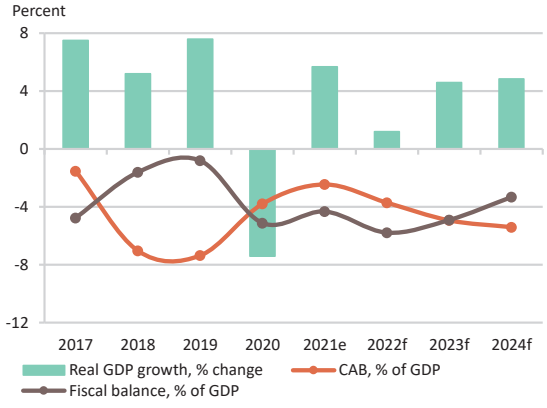
The fifth wave of COVID-19 infections abated in Armenia by end-February. After a slow start, the pace of vaccination picked up in late 2021, after mandatory requirements were introduced for workers to produce proof of vaccination or to submit to weekly testing. Still, only 43 percent of the adult population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

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

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

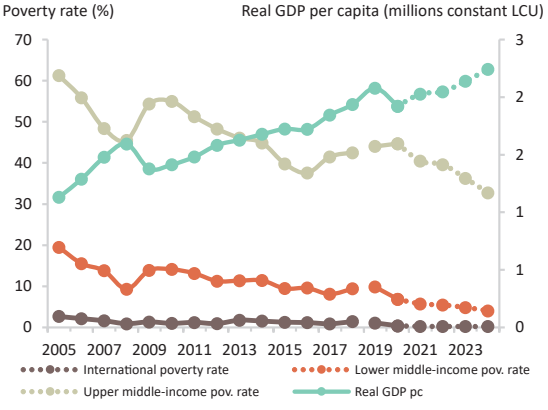
The external balance improved due to a quicker rebound in exports than imports, and a sharp increase in remittances. FDI also rebounded, albeit from a low base. The exchange rate stabilized following the decline in political uncertainty in mid-2021 and reached pre-COVID levels in February 2022. However,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

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



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

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



Source: World Bank. Notes: see Table 2.

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

Outlook

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

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

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

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

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

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

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

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

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

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

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

AZERBAIJAN

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

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

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

Key conditions and challenges

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

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

Recent developments

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

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

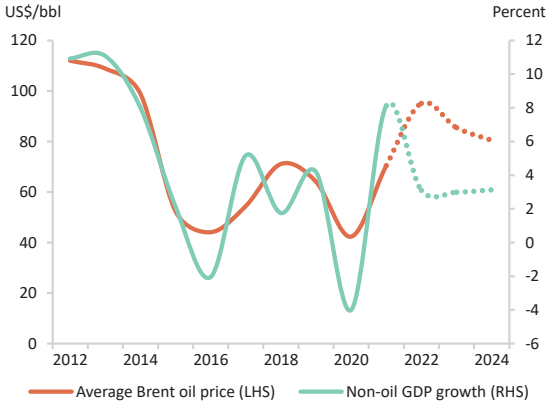
Rebounding domestic demand, rising global commodity prices, and increased administrative prices pushed CPI inflation to 6.7 percent in 2021, overshooting the central bank's target range of 4±2 percent and prompting a 150-basis point policy rate increase since August 2021, pushing it to 7.75 percent in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

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

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

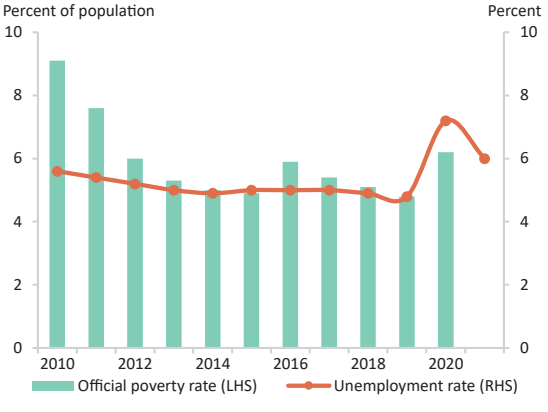
According to official data, the unemployment rate fell to 6 percent in 2021, from 7.2 percent in 2020, but was still above pre-pandemic trends. The official national poverty rate reached 6.2 percent in 2020, on a rise of 1.4 percentage points from 2019. Rural poverty increased disproportionately, as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

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



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

FIGURE 2 **Azerbaijan** / Official poverty rate and unemployment rate



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

Outlook

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

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

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

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

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

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

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

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

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

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

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

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

BELARUS

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

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

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

Key conditions and challenges

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

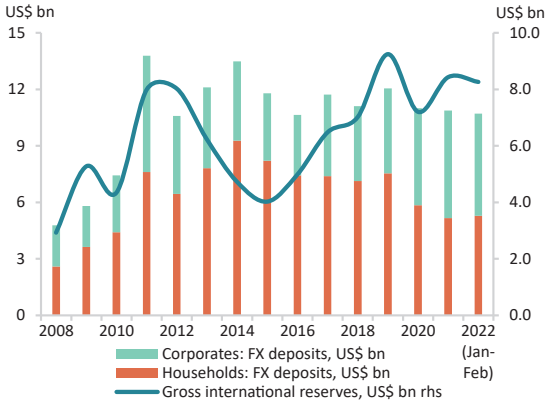
Disputed 2020 elections led to sectoral economic sanctions, which had limited effects. Export earnings increased, helping to maintain a stable exchange rate and achieve a current account surplus in 2021. Public debt pressures were alleviated through a combination of refinancing and spending of foreign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

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

Recent developments

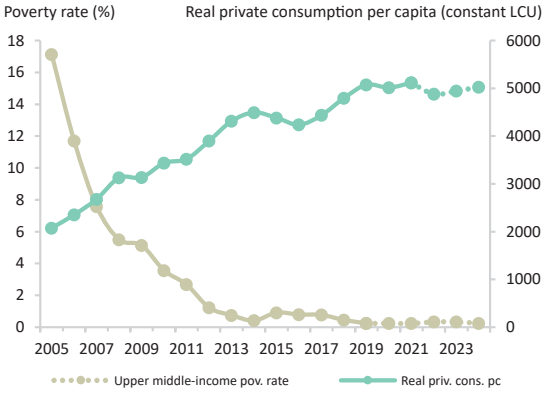
In 2021, real GDP grew 2.3 percent y/y on the back of improved external demand and higher export prices. Sectoral economic sanctions imposed since mid-2021 had limited effects, while the Ukrainian market (a destination for more than 13 percent of merchandize exports) remained accessible. Despite a broadly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

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



Source: NBRB.

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



Source: World Bank. Notes: See Table 2.

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

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

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

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

Outlook

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

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

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

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	1.4	-0.9	2.3	-6.5	1.5	1.6
Private Consumption	5.1	-1.4	2.6	-4.8	1.5	1.8
Government Consumption	0.4	-1.1	-0.5	-0.3	-1.0	1.3
Gross Fixed Capital Investment	6.2	-6.8	-5.6	-18.7	6.2	4.3
Exports, Goods and Services	1.0	-3.2	9.5	-14.2	4.1	3.7
Imports, Goods and Services	5.2	-7.9	5.8	-18.6	5.1	4.8
Real GDP growth, at constant factor prices	1.5	-0.9	2.3	-6.5	1.5	1.6
Agriculture	3.0	4.9	-4.2	-1.8	2.8	3.3
Industry	1.4	-0.7	6.5	-9.4	3.2	5.8
Services	1.3	-2.0	0.2	-4.9	0.0	-2.1
Inflation (Consumer Price Index)	4.7	7.4	10.0	21.1	11.9	7.2
Current Account Balance (% of GDP)	-1.8	-0.2	2.6	-0.8	-1.3	-1.1
Net Foreign Direct Investment (% of GDP)	2.0	2.1	1.7	0.6	0.6	0.5
Fiscal Balance (% of GDP)	2.5	-1.7	0.0	-1.1	-0.3	0.0
Debt (% of GDP)	37.5	41.1	36.0	36.4	35.5	34.9
Primary Balance (% of GDP)	4.3	0.0	1.6	0.5	1.2	1.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	0.2	0.2	0.2	0.3	0.3	0.2
GHG emissions growth (mtCO2e)	-3.1	-2.7	-3.5	-6.8	-1.0	-0.5
Energy related GHG emissions (% of total)	86.1	85.9	85.6	85.4	85.7	85.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2019-HHS.Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2019) with pass-through = 0.87 based on private consumption per capita in constant LCU.

BOSNIA AND HERZEGOVINA

Table 1	2021
Population, million	3.3
GDP, current US$ billion	21.3
GDP per capita, current US$	6513.1
Life expectancy at birth, years[a]	77.4
Total GHG Emissions (mtCO2e)	28.3

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

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

Key conditions and challenges

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

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

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

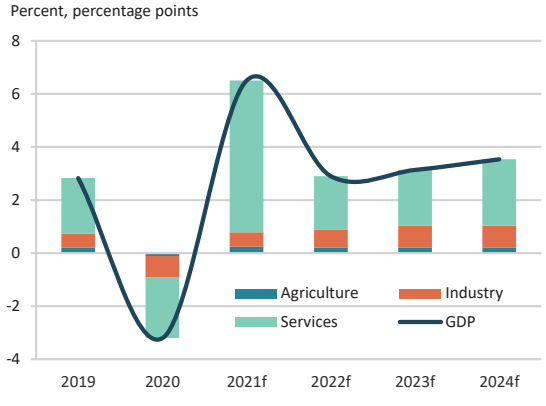
BiH built fiscal buffers prior to the pandemic by running fiscal surpluses between 1 and 3 percent of GDP from 2015 to 2019. These surpluses helped rein in the current account deficits, financed largely by net FDI inflows.

Steady, albeit low, economic growth has not translated into more and better jobs, with a large share of the workforce active in the informal sector and stalled poverty reduction according to the latest official data from 2015. Implementation of much needed structural reforms remains sluggish due to political frictions, pressures from frequent elections, corruption that pervades all levels of society, and fragmentation of responsibilities between the two entities and Cantons. As a result of the political impasse and welfare prospects, BiH exhibits the highest stock of emigration across the Balkans.

Recent developments

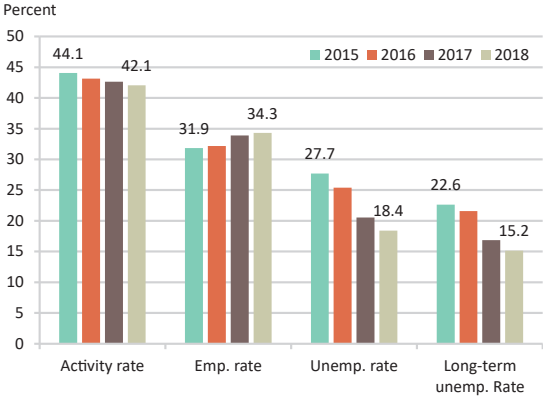
The rebound in economic growth estimated at 6.5 percent in 2021 was an exceptional performance, which helped real GDP exceed the pre-crises level. Real growth was driven by a surge in exports, and robust growth in private consumption. Meanwhile, inflation accelerated to 7 percent in January 2022 (yoy)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

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



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

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



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

percent in January 2022 (yoy), likely disproportionally affecting the less well-off.
Despite a renewed acceleration in Covid-19 cases toward the end of 2021 and in January-February 2022, improvements in the labor market participation and employment rate continued through the end of 2021 (Figure 2).
A surge in tax revenues was not fully offset by higher spending, which resulted in a return to fiscal surpluses estimated at 0.5 percent of GDP in 2021 , after a deficit of 1.8 percent of GDP in 2020. Higher public wages, and additional spending on goods and services as well as higher social benefits were aimed at softening the effects of the pandemic.
The sharp rise in exports narrowed the traditionally large merchandise deficit and helped narrow the current account shortfall to 3.2 percent of GDP in 2021 compared to 3.9 percent in 2020. External financing largely entailed net FDI inflows, mainly into the foreign-owned banking sector, which remained stable during the pandemic.
Without access to international markets, the authorities continue relying on support from IFIs. The extent of this financial support will depend on the de-escalation of political tensions, which have risen significantly over the past ten months.

Outlook

Real GDP is projected to decelerate to 2.9 percent in 2022 and stabilize below 3.5 percent over the medium term. Growth is expected to be driven by a further pick up in private consumption fueled by remittances, tightening labor market, and domestic lending in the short term. Investment in energy and infrastructure will add to the growth stimulus over the medium term. Higher exports are likely to be offset by higher imports mainly for infrastructure projects. As the impact of the pandemic subsides, and the political paralysis is overcome, the Socio-Economic Program , fulfilling priorities for EU accession, is expected to gain attention.
The fiscal deficit in 2022 is likely to be driven by pre-election spending activities. A return to surplus may occur in 2023, barring the implementation of changes to the VAT law.
With the global energy market disrupted due to the war in Ukraine, inflationary pressures are assumed to last longer than initially expected, leaving inflation at around 4.8 percent.
Several risks tilt the outlook to the downside. First, protracted effects of the war in Ukraine would have a negative impact on aggregate demand in BiH through lower business and consumer confidence. Second, war-related uncertainties and sanctions will dampen the recovery in the EU, adversely impacting demand for BiH exports. However, price and volume effects for BiH's exports of iron and steel products and aluminium could in part offset the negative effects of a slowdown in EU growth. Third, slower growth in the EU could also limit remittances, on which the country is dependent (close to 8 percent of GDP). Finally, these risks would be further aggravated, if geopolitical tensions shift to BiH and exacerbate already significant political frictions.

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

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

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

BULGARIA

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

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

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

Key conditions and challenges

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

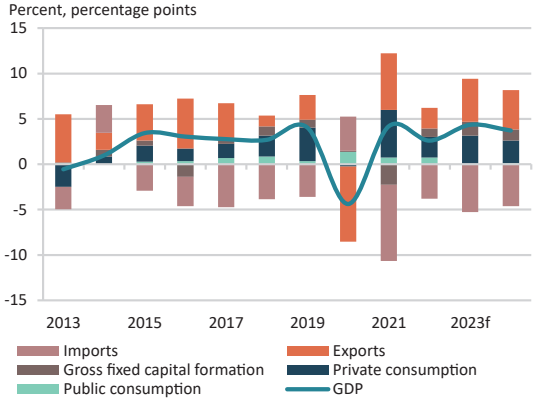
The pace of convergence to average EU income levels has been slower than the one observed in other new EU members, and Bulgaria continues to rank last in terms of GDP per capita in PPP in the EU, at 55 percent of the EU average in 2020. Economic growth and convergence to average EU income levels across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

Recent developments

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

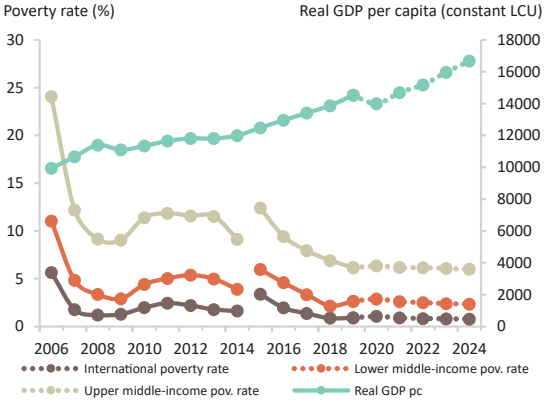
Similar to most European countries, Bulgaria saw a rapid acceleration of inflation since the summer of 2021, reaching 10.0 percent yoy in February 2022. Imported oil price inflation with its second-round effects was the key factor behind the inflationary spike. Effective mid-December, regulated prices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

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



Sources: World Bank, Bulgarian National Statistical Institute

FIGURE 2 Bulgaria / Actual and projected poverty rates, and real GDP per capita in constant LCU



Source: World Bank. Notes: see Table 2.

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

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

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

Outlook

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

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

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

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

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

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

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
a/ Calculations based on ECAPOV harmonization, using 2019-EU-SILC.Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2019) with pass-through = 0.7 based on GDP per capita in constant LCU.

CROATIA

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

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

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

Key conditions and challenges

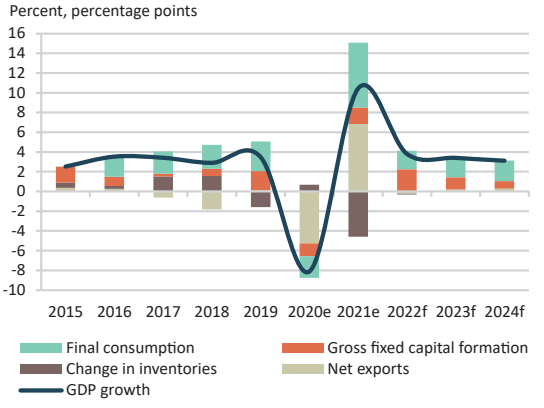
Croatia's economic recovery in 2021 was unexpectedly strong and output reached its pre-crisis levels by mid-2021, largely due to the reopening of the economy and fiscal and monetary support schemes. Furthermore, the relatively favorable epidemiological situation during summer months and the country's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

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

Recent developments

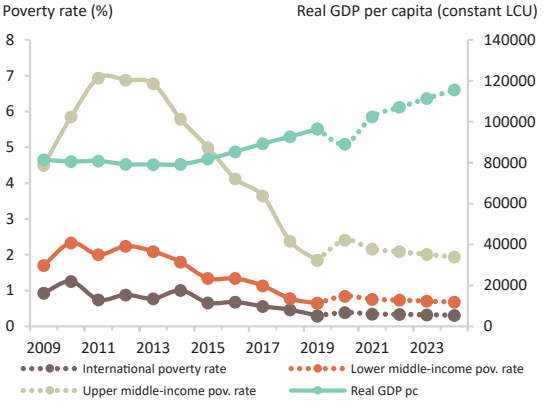
Following a contraction of 8.1 percent in 2020, real GDP in Croatia increased by 10.4 percent in 2021. Private consumption and investment activity provided strong support to overall growth, underpinned by an increase in consumer and business confidence, favorable financing conditions and inflow of EU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

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



Sources: CROSTAT, World Bank.

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



Source: World Bank. Notes: see Table 2.

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

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

Outlook

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

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

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

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

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2019-EU-SILC.Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2019) with pass-through = 0.87 based on GDP per capita in constant LCU.

GEORGIA

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

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

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

Key conditions and challenges

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

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

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

Recent developments

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

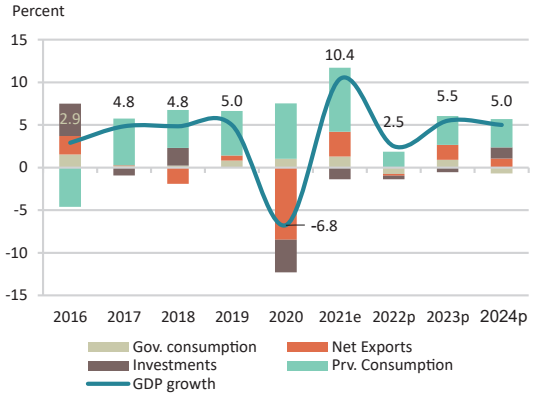
Inflation remained elevated in 2021, averaging 9.6 percent and reflecting higher commodity prices and pass-through from earlier depreciation. Food and fuel prices contributed over five percentage points to overall inflation. In response, the National Bank of Georgia (NBG) tightened monetary policy by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

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

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

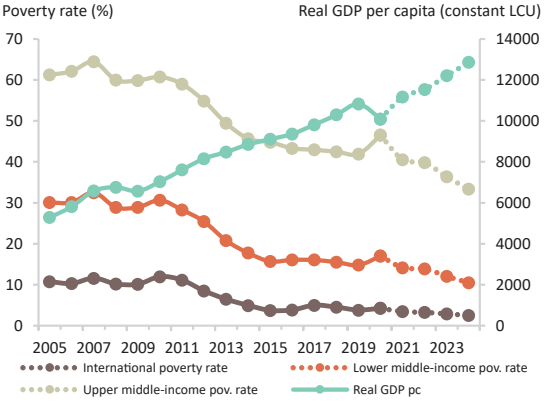
The fiscal deficit narrowed in 2021 to 7.1 percent of GDP (excluding sales of non-financial assets), from 9.8 percent in 2020, and in line with the plan to return to deficit levels prescribed by the fiscal rule (around 3 percent of GDP) by 2023. Public debt to GDP declined to 52 percent of GDP as of

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



Sources: Geostat and staff estimates.

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



Source: World Bank. Notes: see Table 2.

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

Outlook

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

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

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

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

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

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

On the external side, due to weaker exports and higher import prices, the current account deficit is expected to widen. Lari volatility has also increased following the onset of the war.

Due to higher commodity prices and regional supply disruptions, inflationary pressures are likely to increase. This may be mitigated partly by long-term fixed-price contracts for gas supply and a shared border with Russia that will maintain basic supply flows. On the upside, recent developments provide an opportunity for Georgia to strengthen the transit potential of the Caucasus Transport Corridor.

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

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

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

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

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2020-HIS.Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 based on GDP per capita in constant LCU.

KAZAKHSTAN

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

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

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

Key conditions and challenges

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

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

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

Recent developments

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

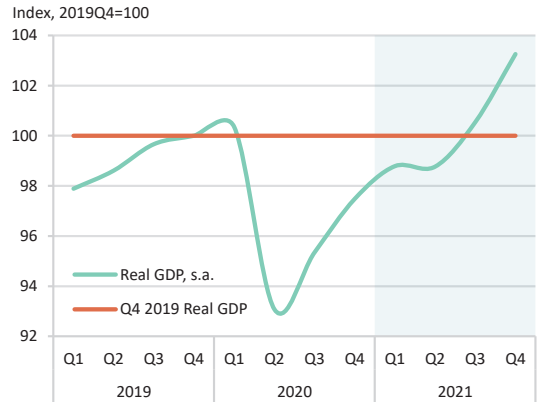
Growth was driven by continued fiscal expansion, strong consumer credit growth, and reduced COVID-19 restrictions. Due to a strong recovery in household consumption, retail trade rose by 6.5 percent and retail loans, including mortgages, by 40 percent in 2021. After contracting by 3.4 percent in 2020,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

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

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

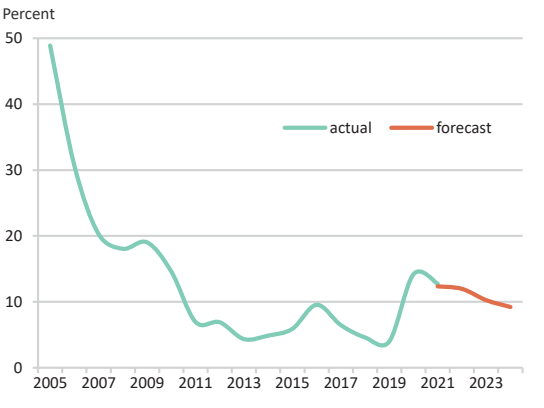
Fiscal policy in 2021 remained accommodative to the impact of COVID-19 on the economy. Budgetary support measures continued for households and businesses facing hardship while public investment priorities shifted from pandemic response

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



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

FIGURE 2 Kazakhstan / Poverty rate $5.5/day PPP



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

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

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

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

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

Outlook

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

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

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

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

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

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

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

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

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

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

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2018-HBS.Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

KOSOVO

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

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

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

Key conditions and challenges

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

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

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

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

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

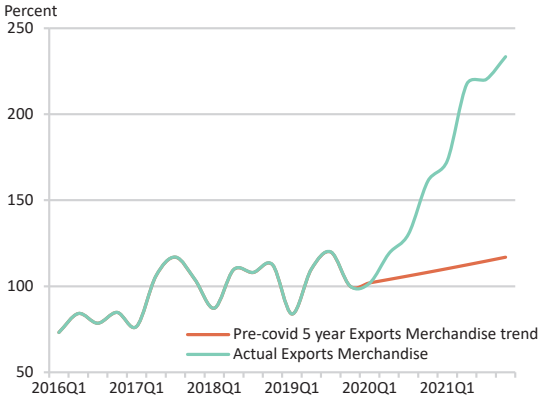
Under the changing external conditions, maintaining fiscal space to support the economy is crucial. Furthermore, Kosovo needs to build on the recent export growth momentum by further improving the regulatory environment and by investing on productivity-enhancing human capital and infrastructure.

Recent developments

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

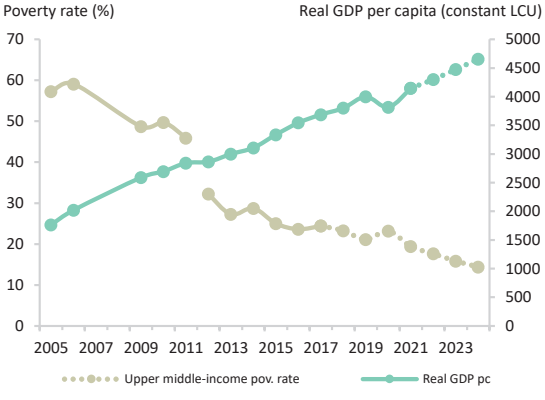
Until Q1 2021, labor force participation and employment increased only for women (under 25 especially) and slightly fell for men. However, tax-registered employment rose by nearly 10 percent throughout 2021. Poverty is estimated to have decreased by

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



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

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



Source: World Bank. Note: see Table 2.

about 4 percentage points in 2021 to under 20 percent.

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

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

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

Outlook

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

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

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

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

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

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

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2017-HBS.Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2017) with pass-through = 0.7 based on GDP per capita in constant LCU.

KYRGYZ REPUBLIC

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

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

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

Key conditions and challenges

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

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

Recent developments

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

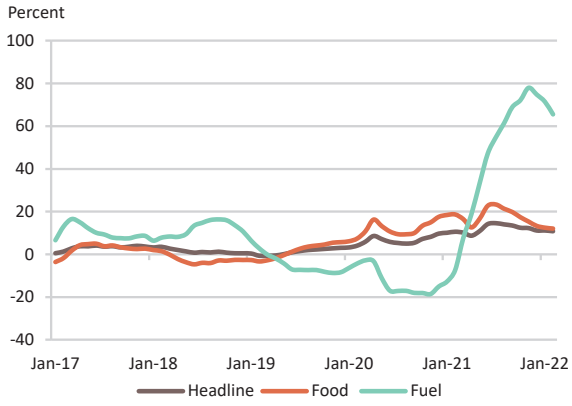
The 2021 current account deficit was about 3.3 percent of GDP against a 4.8 percent surplus in 2020. The main driver was a sharper trade deficit of 24.8 percent of GDP, compared to 18.5 percent in 2020. Exports (in US dollars) rose 40 percent while imports climbed 49 percent, reflecting higher imports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

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

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

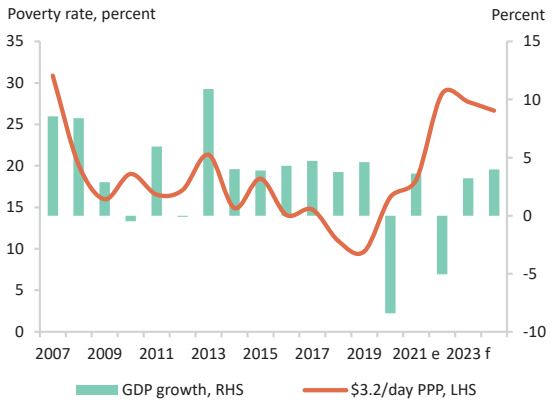
Following Russia's invasion of Ukraine, the som depreciated by 23 percent against the US Dollar but has since regained about half of its lost value. In March, the central bank raised its policy rate twice more by a total of 550 basis points to 14 percent. Credit growth in the economy remained robust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

FIGURE 1 **Kyrgyz Republic** / Headline, food and fuel inflation



Source: Kyrgyz authorities.

FIGURE 2 **Kyrgyz Republic** / GDP growth and poverty rate



Sources: Kyrgyz authorities and World Bank staff.

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

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

Outlook

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

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

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

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

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.6	-8.4	3.6	-5.0	3.2	4.0
Private Consumption	0.8	-8.3	2.4	-5.2	2.7	3.2
Government Consumption	0.5	0.9	1.9	1.7	0.3	0.3
Gross Fixed Capital Investment	7.1	-16.2	17.9	4.1	10.8	11.5
Exports, Goods and Services	16.2	-27.3	-1.4	1.1	8.0	7.2
Imports, Goods and Services	6.1	-28.0	11.1	9.0	11.3	10.5
Real GDP growth, at constant factor prices	3.6	-8.4	3.6	-5.0	3.2	4.0
Agriculture	2.5	1.1	0.0	-2.2	3.5	2.6
Industry	6.6	-7.5	-2.8	0.4	1.7	8.0
Services	3.2	-16.4	10.2	-9.9	3.6	3.5
Inflation (Consumer Price Index)	1.1	6.3	11.9	15.2	8.0	6.0
Current Account Balance (% of GDP)	-12.1	4.8	-3.3	-11.4	-10.1	-10.0
Net Foreign Direct Investment (% of GDP)	3.8	-7.5	0.7	1.3	2.5	2.2
Fiscal Balance (% of GDP)	-0.5	-4.2	-0.3	-5.3	-4.4	-3.0
Debt (% of GDP)	51.6	67.7	60.3	65.2	61.3	57.9
Primary Balance (% of GDP)	0.5	-2.9	1.3	-3.6	-2.9	-1.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.6	1.1	1.1	1.1	1.1	1.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	9.7	16.2	18.3	28.7	27.7	26.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	52.6	58.1	58.7	56.7	57.2	58.0
GHG emissions growth (mtCO2e)	-6.7	-20.1	-7.2	-4.8	-1.2	-0.6
Energy related GHG emissions (% of total)	71.7	64.4	61.3	58.1	56.3	54.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2017-KIHS and 2020-KIHS.Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2017-2020) with pass-through = 0.87 based on GDP per capita in constant LCU.

MOLDOVA

Table 1	2021
Population, million	2.6
GDP, current US$ billion	13.7
GDP per capita, current US$	5199.9
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.5
Upper middle-income poverty rate ($5.5)[a]	13.3
Gini index[a]	26.0
School enrollment, primary (% gross)[b]	106.3
Life expectancy at birth, years[b]	71.9
Total GHG Emissions (mtCO2e)	12.6

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

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

Key conditions and challenges

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

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

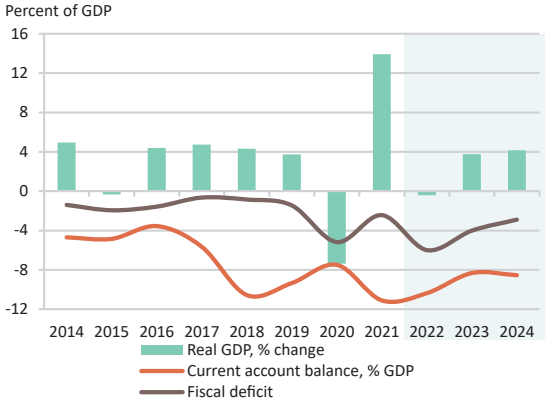
Persistent inequality of opportunity limits the ability of low-income households to access public services, reducing their resilience and cementing low intergenerational mobility. Due to the 2020 contraction, poverty increased from 25.2 percent in 2019 to 26.8 percent in 2020 (based on the national poverty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

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

Recent developments

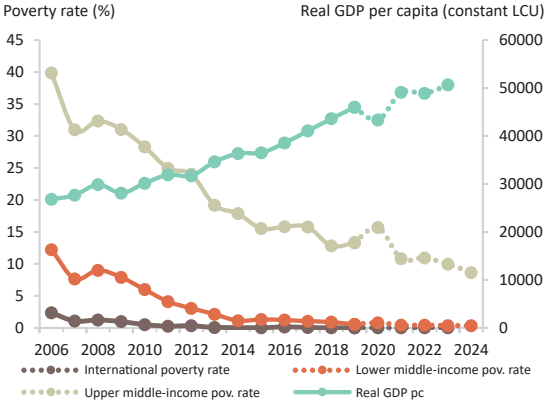
Economic activity bounced back by 13.9 percent in 2021. A strong increase in wages, remittances and social transfers contributed to private consumption growth. Investments increased by 7 percent on the back of favorable monetary conditions. Strong domestic demand and restocking after the lockdown led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

FIGURE 1 **Moldova** / Projected macroeconomic indicators



Source: Author's calculations based on national statistics

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



Source: World Bank. Notes: see Table 2.

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

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

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

Outlook

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

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

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.7	-7.4	13.9	-0.4	2.7	4.2
Private Consumption	3.2	-8.3	15.5	0.8	3.8	4.4
Government Consumption	1.3	3.1	3.8	2.6	1.3	2.1
Gross Fixed Capital Investment	11.9	0.4	1.7	-1.0	3.7	4.3
Exports, Goods and Services	8.2	-9.6	17.5	0.8	4.1	4.3
Imports, Goods and Services	6.2	-5.0	19.2	2.0	4.6	3.9
Real GDP growth, at constant factor prices	4.0	-7.6	15.6	-0.8	2.5	4.2
Agriculture	-2.3	-26.4	18.7	5.0	2.0	7.0
Industry	7.1	-4.3	5.6	3.5	4.3	5.4
Services	4.3	-4.8	19.3	-3.4	1.9	3.2
Inflation (Consumer Price Index)	4.7	4.1	5.1	18.1	6.2	4.6
Current Account Balance (% of GDP)	-9.3	-7.7	-11.1	-10.4	-9.0	-8.8
Net Foreign Direct Investment (% of GDP)	4.2	1.3	1.6	0.8	1.5	2.7
Fiscal Balance (% of GDP)	-1.4	-5.3	-1.9	-6.1	-4.1	-3.1
Debt (% of GDP)	27.4	36.4	32.4	36.6	36.0	35.2
Primary Balance (% of GDP)	-0.7	-4.5	-1.1	-4.9	-2.9	-2.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.5	0.8	0.4	0.4	0.4	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	13.3	15.7	10.8	10.9	10.0	8.6
GHG emissions growth (mtCO2e)	-1.3	-9.6	6.0	-2.7	-0.7	-0.1
Energy related GHG emissions (% of total)	61.9	62.1	62.0	60.5	59.8	59.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2019-HBS.Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2019) with pass-through = 0.7 based on GDP per capita in constant LCU.

MONTENEGRO

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

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

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

Key conditions and challenges

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

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

The economic rebound in 2021 was robust, supported by invigorating tourism. The fiscal macro-fiscal stability has been preserved as both the fiscal deficit and public debt were significantly reduced. Montenegro adopted a reform program "Europe Now", which abolishes healthcare contributions, introduces personal income tax allowance, progressive personal and corporate income taxation, and increases the net monthly minimum wage from €250 to €450. The program has the potential to reduce inequalities and increase formal employment and growth over the medium-term, especially if complemented by additional structural reforms, but also poses fiscal risks. The Parliament rejected several revenue measures, which will likely result in a wider-than-planned fiscal deficit in 2022 and the following years.

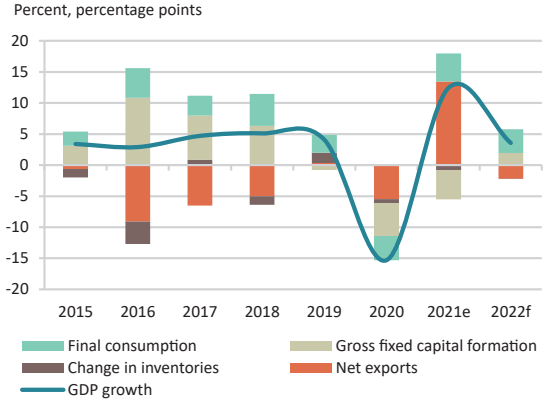
In February 2022, there was a vote of no confidence in the government. A turbulent political environment is adding to already high uncertainty. Accelerating structural reforms and fiscal prudence are needed to mitigate increasing risks.

Recent developments

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

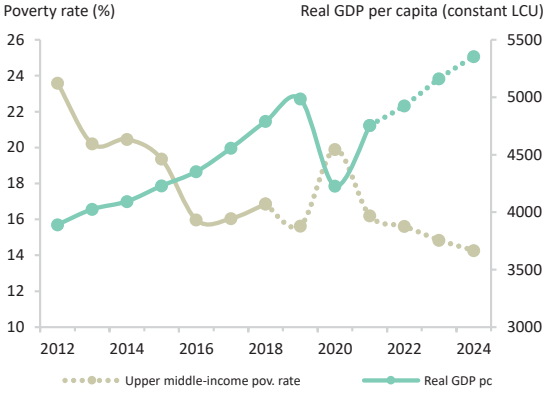
The labor market recovered as economic activity picked up. LFS data show an increase in employment in the fourth quarter by 20 percent compared to the first quarter. Poverty (income below $5.5/day in 2011PPP) is projected to decline from around 19.9 percent in 2020 to 16.2 percent in 2021.

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



Sources: MONSTAT, World Bank.

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



Source: World Bank. Notes: see Table 2.

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

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

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

Outlook

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

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

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

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

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2012-SILC-C, 2015-SILC-C, and 2018-SILC-C.Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2012-2015) with pass-through = 0.87 and, for 2022 onward, 0.5 based on GDP per capita in constant LCU, reflecting impacts of rising prices.

NORTH MACEDONIA

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

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

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

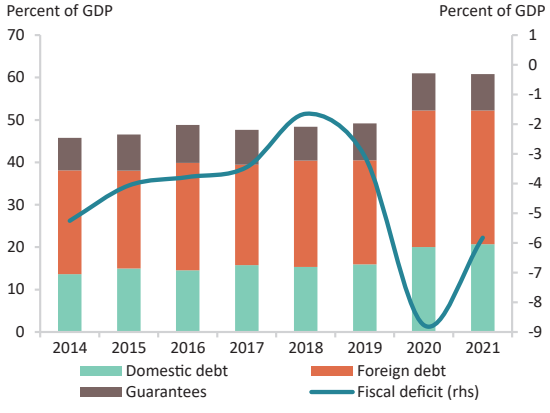
Key conditions and challenges

Following a decade-long relative macroeconomic stability, in 2020 the economy plunged into a recession with the outbreak of the global pandemic. As the recovery took hold, on the back of buoyant domestic and external demand, the energy crisis as well as the war in Ukraine in early 2022, bring new challenges and seek continued fiscal support despite elevated debt levels.
Support measures introduced by the government (i.e., subsidies and social security contributions to private firms and cash benefits and vouchers for vulnerable people) helped alleviate the impact of the pandemic on poverty in 2020. After an estimated increase in 2020, poverty likely resumed decline in 2021 (using the upper middle income class poverty line).
The medium-term outlook remains positive, but downside risks are elevated. The war in Ukraine, sanctions to Russia and Belarus, prolonged supply chain disruptions, rising inflationary and minimum wage pressures, weak political stability and the energy crisis continue to weigh on the outlook. Heightened political uncertainty, and delayed EU accession negotiations, may lead to weaker reform effort needed to boost potential growth and consolidate public finances. Further, tightening financial conditions globally may affect options and costs to meet financing needs. On the positive side, the Growth Acceleration Plan (GAP) may boost human capital development, accelerate the green transition and digitalization, helping to boost potential growth.
With eroded fiscal space and rising public debt, the reform agenda in the near to medium term needs to focus on improved targeting of crisis-related support, boosting tax compliance, restructuring and reprioritizing spending towards the GAP, addressing long-term structural bottlenecks and improving the efficiency of public investment management. The generous fiscal transfers, untargeted subsidies, and broad tax exemptions, including frequent changes of pension policy with sizeable fiscal implications are not sustainable and could derail the macroeconomic stability in the given context.

Recent developments

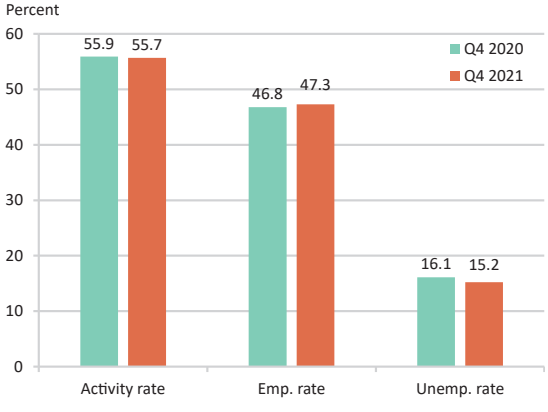
The real growth rebounded by 4 percent in 2021, following a deep contraction in 2020. The recovery was broad-based, driven by a boost in personal consumption, and a growing investment contribution. Exports and imports bounced back, but the trade balance worsened. On the production side, growth was driven by services, as the industry struggled with supply-chain blockages and reduced external orders.
The labor market witnessed a slow improvement despite government support. The unemployment rate decreased to 15.2 percent at end-2021, in part due to a small increase in the employment rate (at 47.3

FIGURE 1 **North Macedonia** / Fiscal performance



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

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



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

percent), but also due to a lower activity rate (at 55.7 percent in Q4 2021).
Banking sector performance remained solid in 2021, with the liquidity ratio at 22 percent, and an increase of capital adequacy ratio to 17.3 percent. Credit growth continued, led by FX-denominated mortgage lending, while non-performing loans ratio stood at 3.5 percent. The inflation accelerated in the second half of 2021, to reach 7.6 percent in February 2022. The surge is fueled by energy and food price hikes, but spillovers to core inflation widened. While wage growth was service sector-led in 2021, in February 2022, government increased the minimum wage by 18.5 percent and subsequently provided a temporary compensation to firms through the contribution subsidy.
The fiscal deficit declined to 5.4 percent in 2021. Yet, payment arrears increased by 0.6 pp of GDP. Tax revenues increased along with capital spending, which saw improvements in the execution rate. Current spending declined as crisis-related support decelerated. In November 2021, the government declared an energy crisis and transferred sizeable budget funds to cover the loses of energy companies and took over the private heating company. Public and publicly guaranteed debt stood at 60.8 percent of GDP, while arrears increased to 3.3 percent of GDP by yearend.

Outlook

Growth is projected to decelerate to 2.7 percent in 2022 affected by the economic consequences of the Russian invasion, war in Ukraine, and associated sanctions. The inflationary pressures (particularly food and energy prices) will increase the cost of living and hurt the poor despite sizeable government support adopted in March 2022 to alleviate the energy crisis through indirect tax cuts, supplemental social benefits to pensioners and low-income groups, and concessional credit lines to firms. The fiscal deficit will remain elevated in 2022 with further rise in public debt projected to above 62 percent of GDP. However, the Ukraine war, if prolonged, would further reduce external demand, increase key commodity and energy prices, hamper mobility, and result in investment delays. This scenario would result in even lower growth and fiscal revenues, as well as rising requests for fiscal support and a surge in financing costs.
In the medium term, the country needs to set public finances back on a sustainable path and shift its focus to resolving structural challenges, including low and declining human capital, weak regulatory frameworks, poor competition policy and judicial independence declining productivity, and out-migration.

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

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

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2018-SILC-C.Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

POLAND

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

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

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

Key conditions and challenges

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

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

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

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

Increased spending and tax expenditure efficiency is needed to rebuild fiscal buffers, accommodate higher spending on health, the green transition, and to prepare for the growing fiscal burden arising from aging.

Over the medium term, a key challenge is a tightening labor supply made more acute by the aging population. The recent large influx of displaced people from Ukraine could help address the labor market tightness. Achieving decarbonization commitments is another challenge. Institutional strengthening is needed for sustained and inclusive growth and for narrowing regional disparities.

Recent developments

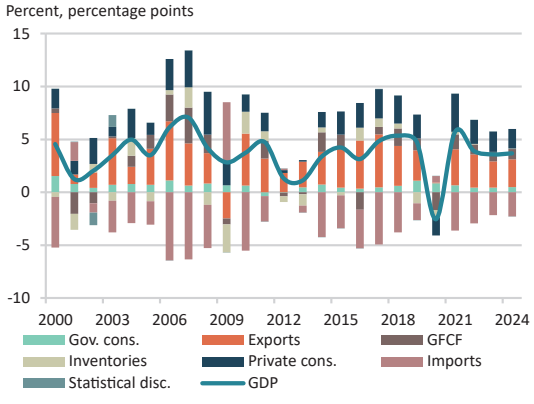
The economy rebounded strongly from the COVID-19-related recession, with output expanding by 5.7 percent in 2021. Poorer workers, who saw sharper income impacts during the early stages of the pandemic that fed into rising inequality, saw a rebound in incomes. Even as the ample fiscal stimulus provided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

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

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

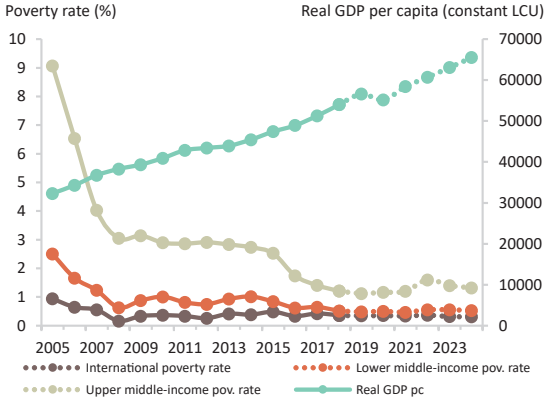
Inflation has accelerated markedly since mid-2021, to 8.5 percent in February 2022,

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



Sources: GUS, World Bank staff calculations.

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



Source: World Bank. Note: see Table 2.

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

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

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

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

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

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

Outlook

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

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

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

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

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

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

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

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

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2007-EU-SILC and 2018-EU-SILC.Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection from 2019 to 2021 using point-to-point elasticity (2007-2018) with pass-through = 1 based on GDP per capita in constant LCU. Projection from 2022 based on estimates incorporating differential income growth among poorer households.

ROMANIA

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

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

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

Key conditions and challenges

Prior to the COVID-19 pandemic, Romania enjoyed strong economic growth. However, the pandemic exposed the vulnerabilities of the economy, including persistent poverty and disparities in economic opportunity across regions and between urban and rural areas, structural rigidities in the product and labor markets, weaknesses in fiscal policy and significant institutional constraints hindering the efficient use of resources.

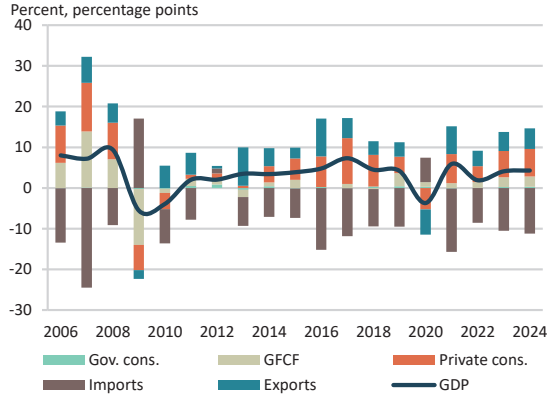
Disruptions in the global supply chain from the pandemic coupled with the impact of the war in Ukraine have resulted in rising food and energy prices. The depleted real purchasing power and declining remittances impose a heavy burden on the poor and marginalized population groups in Romania already disproportionality affected by the prolonged pandemic. Despite the economic rebound, the share of the Romanian population living on less than $5.5 a day at 2011 revised PPP prices is estimated to have declined modestly to 10.1 percent in 2022 from 10.3 percent in 2021.

The key challenges in the short term are to contain the socio-economic effects of the conflict in the region and the COVID-19 crisis. Significant inflationary pressures triggered a more hawkish stance from the National Bank of Romania (NBR). Once recovery is firmly established, fiscal consolidation will be critical to limit increases in debt levels. Moreover, maximal and effective absorption of the EU Multiannual Financial Framework and Next Generation EU (NGEU) funds will be crucial for a sustainable recovery.

Recent developments

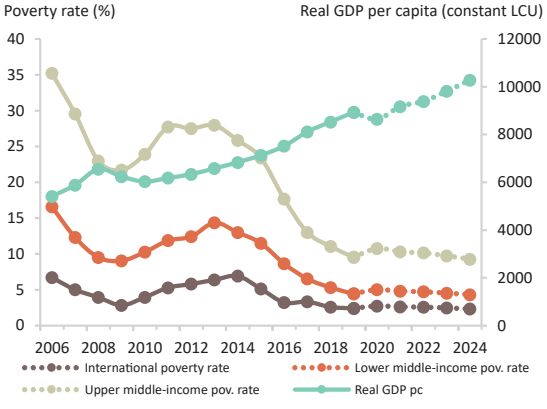
The Romanian economy grew by 5.9 percent in 2021, but growth decelerated in Q4 (2.4 percent yoy) amid supply disruptions, significant pick-up in inflation and a new COVID-19 wave. Private consumption recovered strongly in 2021 (7 percent yoy) led by robust demand for durable and household goods. Higher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

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



Source: World Bank.

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



Source: World Bank. Notes: see table 2.

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

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

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

Outlook

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

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

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

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.2	-3.7	5.9	1.9	4.1	4.3
Private Consumption	3.9	-5.1	7.0	3.8	6.1	6.3
Government Consumption	7.9	5.9	-2.8	1.2	4.6	5.2
Gross Fixed Capital Investment	12.9	4.1	4.0	4.7	8.1	8.2
Exports, Goods and Services	5.4	-9.4	11.1	5.9	7.0	7.3
Imports, Goods and Services	8.6	-5.2	13.7	7.0	8.2	8.4
Real GDP growth, at constant factor prices	4.0	-3.5	5.9	1.9	4.1	4.3
Agriculture	-5.0	-14.9	13.5	2.8	3.9	3.9
Industry	-1.3	-4.5	5.0	1.6	4.7	4.4
Services	7.9	-1.9	5.7	2.0	3.8	4.3
Inflation (Consumer Price Index)	3.8	2.6	5.1	9.8	5.3	3.2
Current Account Balance (% of GDP)	-4.7	-5.0	-7.1	-7.2	-6.3	-5.7
Net Foreign Direct Investment (% of GDP)	2.2	0.9	2.3	1.8	2.3	2.3
Fiscal Balance (% of GDP)	-4.4	-9.4	-7.0	-6.6	-5.3	-4.7
Debt (% of GDP)	35.3	47.4	49.4	52.0	53.9	54.1
Primary Balance (% of GDP)	-3.2	-8.0	-5.4	-4.9	-3.7	-3.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.4	2.7	2.6	2.6	2.5	2.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	4.4	5.0	4.8	4.7	4.5	4.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	9.5	10.8	10.3	10.1	9.7	9.2
GHG emissions growth (mtCO2e)	-0.9	-8.7	3.2	-1.0	0.5	1.4
Energy related GHG emissions (% of total)	85.4	85.9	86.5	87.0	87.7	88.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2007-EU-SILC and 2019-EU-SILC.Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection based off elasticities calibrated on 2007-2019 growth periods and rapid assessment data, allowing for elasticities to vary between periods of contraction, recovery and expansion.

RUSSIAN FEDERATION

Table 1	2021
Population, million[a]	144.1
GDP, current US$ billion	1775.9
GNI per capita, Atlas method, current US$[a]	10690.0
Lower middle-income poverty rate ($3.2)[b]	0.3
Upper middle-income poverty rate ($5.5)[b]	2.9
Gini index[b]	36.0
School enrollment, primary (% gross)[c]	104.2
Life expectancy at birth, years[c]	73.1

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

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

Key conditions and challenges

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

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

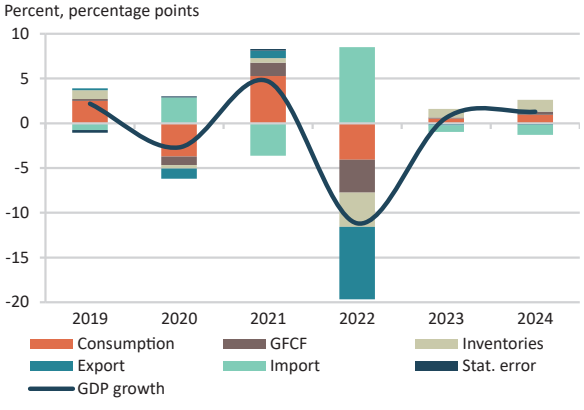
Recent developments

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

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

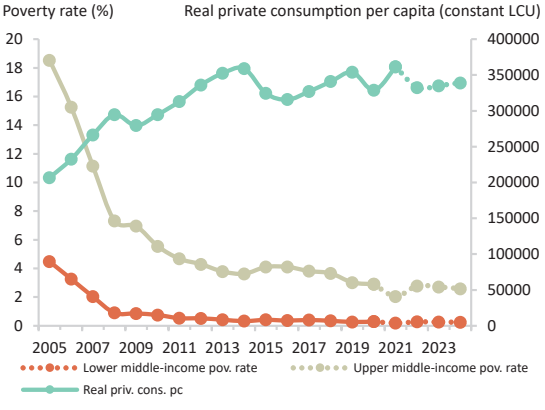
The imposition of sanctions has led to a precipitous drop in Russian asset prices and the ruble, with the latter depreciating by 30 percent against major currencies. In

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



Sources: Rosstat, World Bank.

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



Source: World Bank. Notes: see Table 2.

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

Outlook

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

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

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

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

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

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.2	-2.7	4.7	-11.2	0.6	1.3
Private Consumption	3.8	-7.3	9.5	-8.5	0.5	1.3
Government Consumption	2.4	1.9	1.1	3.6	1.2	1.0
Gross Fixed Capital Investment	1.0	-4.4	7.0	-16.9	0.6	1.7
Exports, Goods and Services	0.7	-4.1	3.2	-30.9	-1.2	-0.9
Imports, Goods and Services	3.1	-12.1	16.7	-35.2	4.1	6.2
Real GDP growth, at constant factor prices	2.2	-2.5	4.6	-11.2	0.6	1.3
Agriculture	3.5	0.2	-1.3	1.0	1.0	1.0
Industry	1.5	-2.4	4.9	-8.8	0.5	0.9
Services	2.4	-2.7	4.8	-13.2	0.7	1.5
Inflation (Consumer Price Index)	4.5	3.4	6.7	22.0	13.0	8.0
Current Account Balance (% of GDP)	3.9	2.4	6.8	9.8	6.4	2.8
Net Foreign Direct Investment (% of GDP)	0.6	-0.2	-1.3	-7.5	-3.5	-2.8
Fiscal Balance (% of GDP)[a]	1.9	-4.0	0.8	-1.9	-1.8	-1.2
Debt (% of GDP)	14.3	20.0	17.9	19.8	20.3	20.6
Primary Balance (% of GDP)[a]	2.7	-3.2	1.7	-0.3	-0.1	0.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	0.3	0.3	0.2	0.3	0.3	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	3.0	2.9	2.0	2.8	2.8	2.6
GHG emissions growth (mtCO2e)	2.4	-3.6	1.1	-11.5	0.3	0.7
Energy related GHG emissions (% of total)	91.6	91.3	90.1	89.8	89.6	89.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
a/ Fiscal and Primary Balance refer to general government balances.
b/ Calculations based on ECAPOV harmonization, using 2020-HBS.Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
c/ Projection using neutral distribution (2020) with pass-through = 0.87 based on private consumption per capita in constant LCU.

SERBIA

Table 1	2021
Population, million	6.9
GDP, current US$ billion	63.0
GDP per capita, current US$	9168.9
Upper middle-income poverty rate ($5.5)[a]	10.1
Gini index[a]	34.5
School enrollment, primary (% gross)[b]	97.7
Life expectancy at birth, years[b]	75.7
Total GHG Emissions (mtCO2e)	62.5

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

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

Key conditions and challenges

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

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

Recent developments

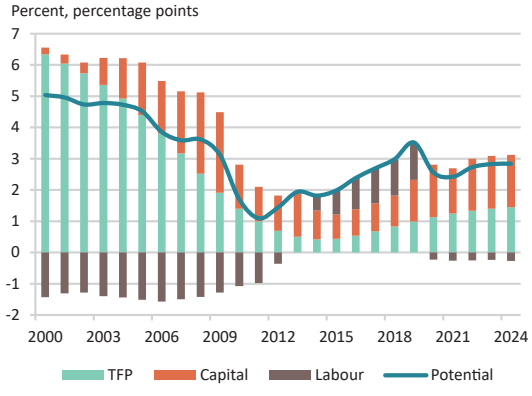
The economy grew by 7.4 percent in 2021 pushed by the consumption, pushed by a large increase in private consumption (up 7.6 percent in real terms y/y), thanks to a strong increase of salaries and consumption loans. The economic recovery in 2021 was broad based, with the exception of the agriculture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

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

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

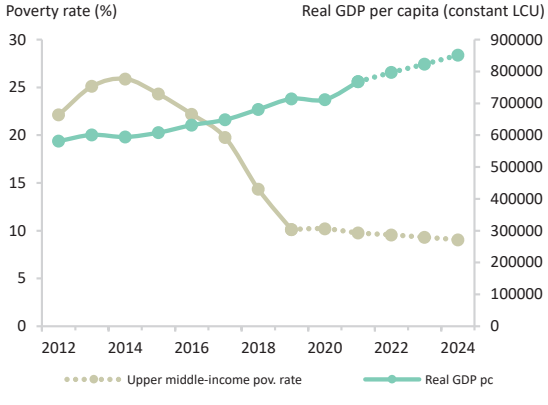
The consolidated fiscal deficit decreased significantly in 2021 to reach an estimated 4.1 percent of GDP. Despite the fact that government expenditures increased by 10.1 percent (in nominal terms). Public debt at end-December 2021 stood at 57.1 percent of GDP, thus only marginally decreasing since end-2020.

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



Source: World Bank staff calculations.

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



Source: World Bank. Note: see Table 2.

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

Outlook

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

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

Poverty reduction is expected to stagnate in 2022. The unfolding war in Ukraine poses significant downside risk for household welfare in Serbia. While Serbia's economy is expected to continue to grow, contributing to income growth for households, rising inflation will limit purchasing power. Particularly rising energy prices, if they are passed onto household energy tariffs, would disproportionately hit the poor. Poverty in 2022 is projected at 9.6 percent, close to its 2021 level, though could be revised upward depending on the length and severity of the war's economic impacts. The pace of labor market recovery remains critical for resumed poverty reduction.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.3	-0.9	7.4	3.2	2.7	2.8
Private Consumption	3.7	-1.9	7.6	6.1	4.2	3.7
Government Consumption	2.0	2.9	2.6	1.1	0.5	-0.6
Gross Fixed Capital Investment	17.2	-1.9	12.5	-1.0	0.3	2.1
Exports, Goods and Services	7.7	-4.2	19.4	5.4	5.2	5.4
Imports, Goods and Services	10.7	-3.6	19.3	5.7	4.8	4.7
Real GDP growth, at constant factor prices	4.4	-0.8	7.3	3.0	2.6	2.9
Agriculture	-1.7	2.2	-5.4	5.7	4.5	3.4
Industry	5.9	-0.6	7.8	2.4	4.5	4.5
Services	4.4	-1.2	8.7	3.0	1.5	2.0
Inflation (Consumer Price Index)	1.9	1.6	4.0	7.0	4.0	3.7
Current Account Balance (% of GDP)	-6.9	-4.1	-4.4	-6.4	-5.8	-5.1
Net Foreign Direct Investment (% of GDP)	7.7	6.3	6.8	5.8	5.9	5.9
Fiscal Balance (% of GDP)	-0.2	-8.0	-4.1	-4.1	-3.0	-2.2
Debt (% of GDP)	52.8	57.8	57.2	58.2	58.9	56.8
Primary Balance (% of GDP)	1.8	-6.0	-2.4	-2.3	-1.0	-0.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	10.1	10.2	9.8	9.6	9.3	9.0
GHG emissions growth (mtCO2e)	-2.1	0.5	1.6	-0.4	-0.6	-0.8
Energy related GHG emissions (% of total)	75.4	75.7	76.1	76.0	75.8	75.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2013-EU-SILC, 2017-EU-SILC, and 2019-EU-SILC.Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2013-2017) with pass-through = 0.2 and 0.3 based on GDP per capita in constant LCU, reflecting impacts of rising prices.

TAJIKISTAN

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

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

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

Key conditions and challenges

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

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

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

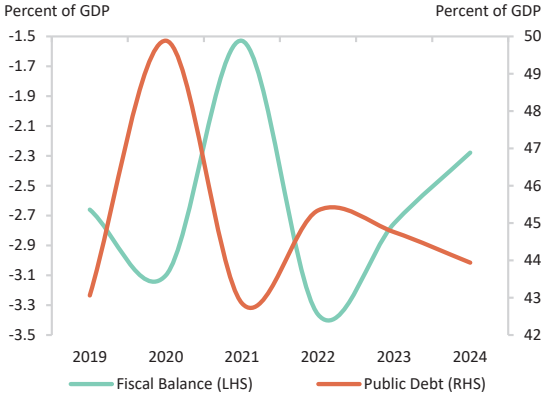
Recent developments

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

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

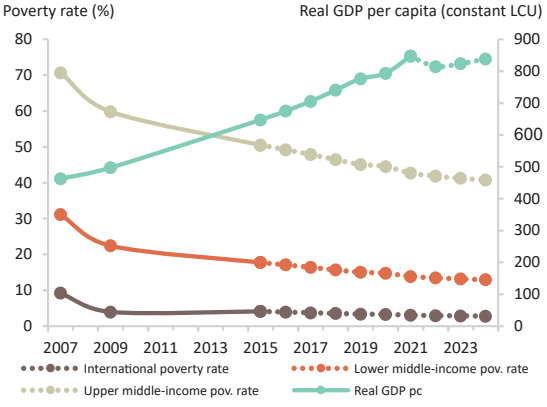
After a fiscal expansion in 2020, the government began to consolidate spending in 2021. The fiscal deficit narrowed to 1.5 percent of GDP from 3.1 percent in 2020. The expiration of anti-pandemic tax reliefs, a rebound in economic activity, and high export prices increased fiscal revenues. Development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

FIGURE 1 Tajikistan / Fiscal balance and public debt



Sources: TajStat, World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

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

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

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

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

Outlook

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

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

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

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

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

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

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

TURKEY

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

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

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

Key conditions and challenges

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

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

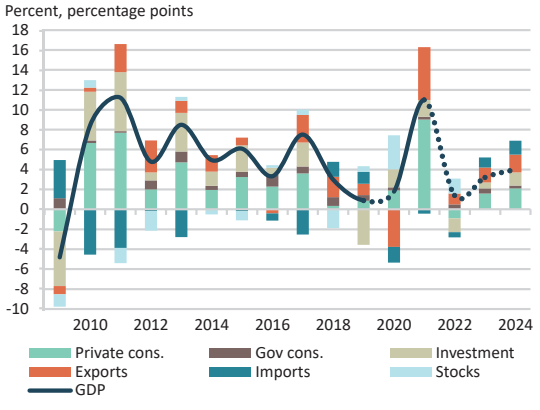
The Russian invasion of Ukraine is amplifying the headwinds facing the Turkish economy. Given Turkey's close economic ties to both Russia and Ukraine, the war is expected to disrupt Turkey's energy and agricultural trade, tourist arrivals, and overseas construction activities. Price spikes of essential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

Recent developments

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

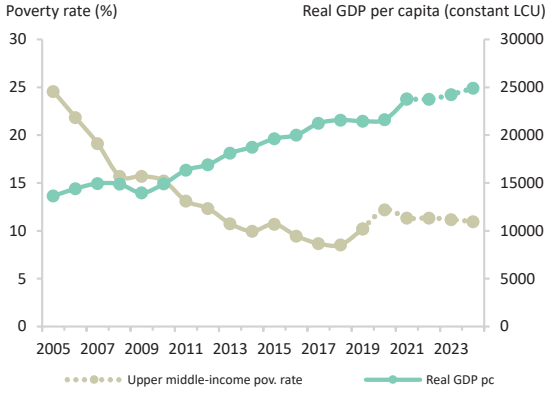
Total employment and labor force participation surpassed pre-pandemic levels in 2021. However, the recovery has been uneven, with those with informal work arrangements still lagging. On the other hand, the recovery was faster for women than men. Between December 2020 and December 2021, female labor

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



Sources: Turkstat and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

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

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

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

Outlook

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

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

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

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

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2011-HICES and 2019-HICES.Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2011-2019) with pass-through = 1 based on GDP per capita in constant LCU.

UKRAINE

Table 1	2021
Population, million	42.2
GDP, current US$ billion	200.1
GDP per capita, current US$	4741,7
School enrollment, primary (% gross)[a]	99.0
Life expectancy at birth, years[a]	71.8
Total GHG Emissions (mtCO2e)	237.2

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

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

Key conditions and challenges

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

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

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

Recent developments

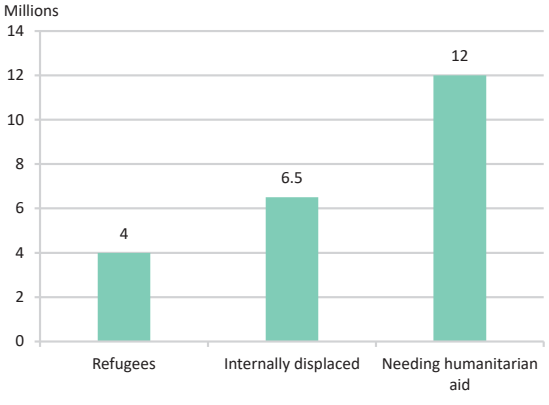
The economy expanded by 3.4 percent in 2021 as easing COVID restrictions supported domestic demand, and a bumper harvest offset d rags from higher global energy prices and a faster fiscal consolidation. The external position was relatively robust, with gross reserves at US$30.9 bn, and a small current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

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

FIGURE 1 **Ukraine** / EMBI bond spreads

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

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



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

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

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

Outlook

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

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

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

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

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

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

UZBEKISTAN

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

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

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

Key conditions and challenges

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

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

Recent developments

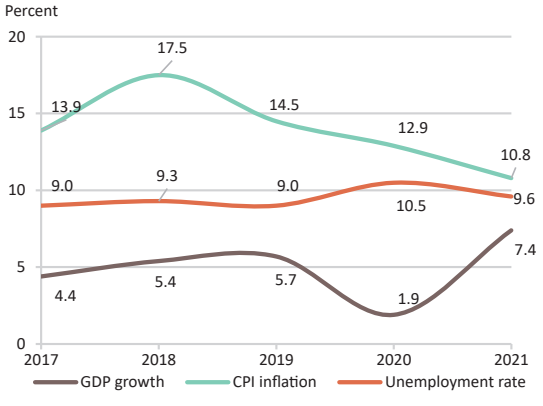
Uzbekistan's economy grew by 7.4 percent in 2021. Strong industrial and services growth helped temper still weak agricultural growth. Robust household income and investment growth and continued anti-crisis fiscal support also supported growth.

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

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

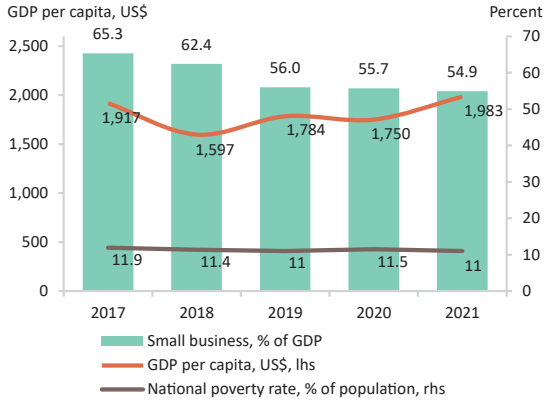
Inflation continued falling, averaging at 10.8 percent in 2021 (against 12.9 percent in 2020). Average annual inflation reached 9.8 percent at end-February 2022, the first reversion to single-digits since 2017. Higher domestic and global food prices and shipping costs continued to drive inflation. In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

FIGURE 1 Uzbekistan / GDP growth, inflation, unemployment



Source: Uzbekistan official statistics.

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



Source: Uzbekistan official statistics.

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

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

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

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

Outlook

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

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

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

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

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

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

WORLD BANK **ECA ECONOMIC UPDATE** Spring 2022

War in the Region

In February 2022, the world was shocked by the Russian Federation's invasion of Ukraine. The war is having a devastating impact on human life and causing economic destruction in both countries, and will lead to significant economic losses in the Europe and Central Asia (ECA) region and the rest of the world. It comes at a particularly vulnerable time for ECA as its economic recovery was expected to be held back by scarring from the pandemic and lingering structural weaknesses. The economic impact of the conflict has reverberated through multiple channels, including commodity and financial markets, trade and migration links, and the damaging impact on confidence. Moreover, the war has added to mounting concerns about a sharp global slowdown, surging inflation and debt, and a spike in poverty levels. Neighboring ECA countries are likely to suffer considerable economic damage because of their strong trade, financial, and migration links with Russia and Ukraine. The war is also causing a destabilizing wave of refugees, financial stresses in vulnerable countries, runaway inflation expectations, and food insecurity. A protracted conflict could further heighten policy uncertainty and fragment critical trade and investment networks.

During these difficult times policy makers must fortify macroeconomic policy buffers and institutions to strengthen stability; promote an inclusive and more equal recovery by strengthening social protection systems to protect the most vulnerable, including refugees; and maintain focus on improving energy efficiency and the green transition to secure a sustainable future.

ISBN (electronic): 978-1-4648-1866-0

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