Country Notes

Albania

- After a strong rebound in 2022, GDP growth is forecast to moderate but remain above the historical average.
- The labor market has improved, with employment and labor force participation increasing, and real wage growth slowing.
- Inflation continued its downward trend, but pressures from domestic demand remain elevated.
- External balances are expected to improve on account of expanding foreign tourism.
- Albania is expected to show a positive primary balance in 2023.

Recent Economic Developments

Following a strong performance in 2022, economic growth started to moderate early in 2023 due to a slowdown in global demand, which adversely affected Albania's industrial output. In Q1 2023, GDP grew by 2.7 percent. Services, including trade and real estate activity, contributed 2.5 percentage points to quarterly GDP growth, followed by construction and manufacturing, while extractive industries and agriculture contracted.

On the demand side, private consumption remained the main driver, following growth of 6.9 percent in 2022 vis-à-vis a negative contribution from public consumption. Private consumption grew by 3 percent in Q1 2023 (yoy), supported by increasing employment and wages, strong consumer confidence, relatively low interest rates and benign credit conditions, despite of monetary policy normalization. Gross Fixed Capital Formation (GFCF) grew by 7 percent in Q1 2023, reflecting higher public investment compared with Q1 2022, but weaker private sector construction activity. Net exports of goods and services adversely affected GDP growth: consumption growth supported an increase in demand for imports in Q1 2023, which outpaced export growth. Leading economic indicators suggest GDP growth accelerated during Q2 and Q3 2023, with construction accelerating and tourist arrivals hitting a record high in July. Increased income from employment, credit growth, business and consumer sentiment indicators, and strong tax revenues, suggest an increasing contribution to growth from consumption, investment and net exports in Q2 and Q3.

Employment grew by 2.7 percent yoy during Q2 2023. Increasing nominal wages and employment incentivized labor force participation (ages 15+), which continued to increase in line with previous years' trends, reaching 63.9 percent in Q2 2023—the highest level since 2019. Average private sector wage growth reached 9.5 percent in Q1 2023, down from 14.2 percent in Q4 2022, mainly driven by wage increases in trade, transport, accommodation, and public administration. In real terms, wages increased by 3 percent in Q1 compared with 6.3 percent in Q4 2022. Unemployment reached 10.7 percent in Q2 2023, slightly higher than the end-2022 rate.

Inflation significantly reduced compared with its peak in 2022. The annual inflation rate dropped to 4.0 percent in August 2023 from a record high of 8.3 percent in October 2022, as a result of downward pressures from lower import prices, domestic currency appreciation, and monetary policy normalization. Upward pressure on inflation included wage increases and high-capacity utilization that kept production costs high. Unprocessed foods contributed most to the increase in inflation, alongside increases in the price of services. Reflecting demand pressures, core inflation averaged 5.5 percent in Q2 2023, down from 8 percent in Q1 2023. In contrast, non-core inflation reached 2.8 percent in Q2, gradually converging to the pre-war average. In 2023 the appreciation trend, which has been accelerating since 2021, has continued, with the exchange rate appreciating by 12.1 percent in July 2023. The trend reflects the gradual reduction in the current account deficit (CAD) and an improvement of external balances as a result of growing services exports. On account of domestic currency appreciation, monetary policy normalization was slower than expected; the central bank's policy rate stood at 3 percent in August 2023, and has remained at this level since the last policy rate increase in March 2023.

In the financial sector, despite increased policy rates, credit to the private sector continued to support demand expansion. Credit growth to the private sector reached 1.6 percent in June 2023 (yoy), slowing since end-2022 due to several factors, such as higher rates, tightening of credit standards by banks, especially for businesses, and exchange rate appreciation. Similarly, bank deposits continued to expand by 9.5 percent, with household savings accounting for most of increase in total deposits in the system.

The Government's fiscal position improved in H1 2023. The Government recorded a high surplus on account of strong revenue collection and lower spending. Grants accounted for most of the revenue increase (14.5 percent yoy, owed to EU disbursements), alongside social insurance contributions and personal income taxes, reflecting the increase in statutory minimum wages. The increase in expenditures was relatively small at 3.4 percent (yoy), but is expected to pick up during H2 2023 owing to increasing capital spending. With a forecast deficit of 2.5 percent of GDP in 2023, public debt is expected to reach 63.1 percent of GDP in 2023, down from 65.4 percent of GDP in 2022. In line with the Government's Debt Management Strategy and the favorable conditions for Albania, a Eurobond amounting EUR 600 million was issued in July 2023, to allow for the rollover of part of a Eurobond maturing in 2025. The rating for the country was confirmed at B1 by Moody's in 2023.

The CAD continued to narrow following strong growth in the export of services (by 38 percent), of which tourism experienced growth of 52 percent and remittances of 16 percent. The CAD narrowed by 45.9 percent in Q1 2023 in nominal terms, reaching 3.1 percent of GDP. The primary income deficit also narrowed by 6.7 percent during the same period, with labor incomes increasing by more than investment income outflows. Foreign direct investment (FDI) financed 195 percent of the CAD and contributed to a build-up in reserves. The reserve coverage at the end of Q1 2023 stood at 6.8 months of imports of goods and services, and covered 3.3 times the short-term external debt.

Outlook and Risks

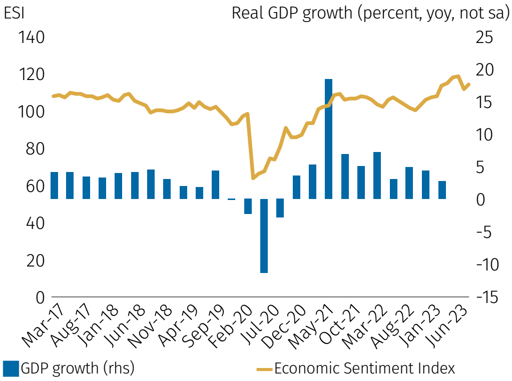
GDP growth is expected to moderate to 3.6 percent in 2023, in the context of tight global financial conditions and limited economic growth in Europe. Nevertheless, increased tourism and construction are expected to drive exports, consumption and investment growth at rates similar to the pre-pandemic period. Overall, the contribution to growth from investment is expected to decelerate, given the very high base effect and the completion of programs for post-earthquake reconstruction. The inflation rate is projected to start converging toward the 3 percent target by 2024.

The primary balance is projected to reach 0.1 percent of GDP in 2023 and stay positive in observance of the fiscal rule. Fiscal consolidation is expected from the spending side. On revenues, the Government plans to introduce further tax policy measures, as envisioned in the Medium-Term Revenue Strategy. Public debt is expected to continue to decline over the medium term, as a result of higher nominal growth and a gradual improvement of the primary balance. Given Albania's growing reliance on external financing, the exchange rate, interest rate, and refinancing related risks remain elevated.

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

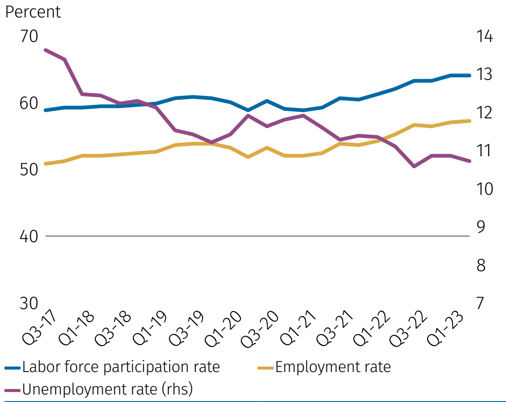
Domestic risks emanate from natural disasters, public-private partnerships, and state-owned enterprises, in addition to fiscal risks stemming from the country's hydropower-based energy sector that are mainly due to variations in hydrology.

GDP grew strongly in 2022 but the speed of recovery moderated.



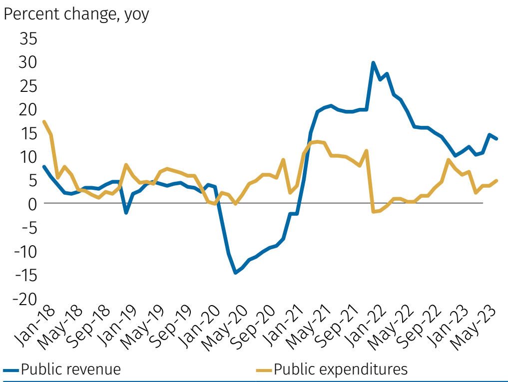
Sources: INSTAT and Bank of Albania.

Labor markets are improving.



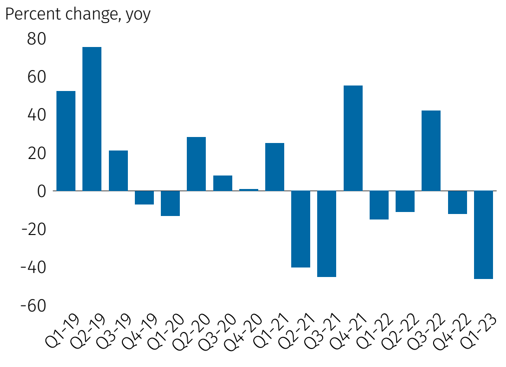
Source: INSTAT.

Public revenue growth outpaced the expenditure growth...



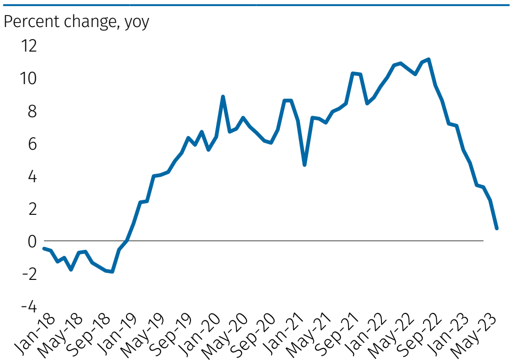
Source: Ministry of Finance.

...and the current account deficit narrowed.



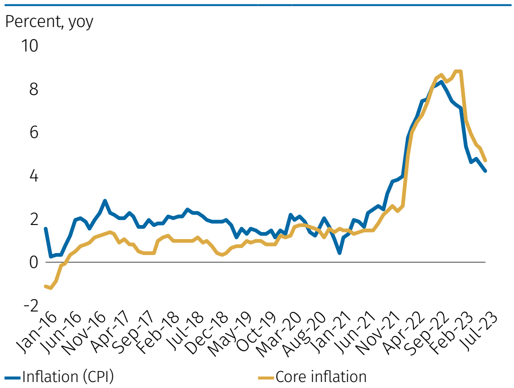
Source: Bank of Albania.

Credit to the private sector continues increasing, but at a slower pace.



Source: Bank of Albania.

Headline and core inflation started to come down.



Source: Bank of Albania.

ALBANIA Selected Economic Indicators	2020	2021	2022	2023e	2024f	2025f
Real GDP growth (percent)	-3.3	8.9	4.8	3.6	3.2	3.2
Composition (percentage points):						
Consumption	-2.5	3.6	6.7	2.1	2.1	2.0
Investment	-0.8	4.6	1.7	-0.3	0.8	0.8
Net exports	0.0	0.7	-3.6	1.8	0.3	0.4
Exports	-9.4	13.0	2.6	2.4	2.0	2.2
Imports (-)	-9.3	12.3	6.2	0.6	1.7	1.8
Consumer price inflation (percent, period average)	2.2	2.6	6.7	5.0	3.5	3.0
Public revenues (percent of GDP)	25.9	27.5	26.8	28.1	27.5	27.7
Public expenditures (percent of GDP)	32.6	32.1	30.5	30.6	29.9	29.6
Of which:						
Wage bill (percent of GDP)	4.7	4.5	4.0	4.5	4.7	4.7
Social benefits (percent of GDP)	13.4	12.3	11.6	11.5	11.1	11.2
Capital expenditures (percent of GDP)	6.2	6.9	6.6	5.3	5.2	5.2
Fiscal balance (percent of GDP)	-6.7	-4.6	-3.7	-2.5	-2.3	-1.9
Primary fiscal balance (percent of GDP)	-4.6	-2.7	-1.8	0.1	0.3	0.5
Public debt (percent of GDP)	73.0	71.5	62.1	60.3	59.4	58.5
Public and publicly guaranteed debt (percent of GDP)	75.8	75.4	65.4	63.1	62.1	60.8
Of which: External (percent of GDP)	35.2	36.8	30.3	29.8	29.3	27.8
Goods exports (percent of GDP)	6.0	8.3	10.8	9.3	9.3	9.3
Goods imports (percent of GDP)	28.4	33.6	34.6	31.1	30.9	30.8
Net services exports (percent of GDP)	8.1	11.7	13.4	12.1	11.8	11.8
Trade balance (percent of GDP)	-14.3	-13.5	-10.4	-9.7	-9.8	-9.7
Net remittance inflows (percent of GDP)	5.1	5.0	5.5	5.4	5.4	5.4
Current account balance (percent of GDP)	-8.5	-7.8	-6.0	-5.6	-5.8	-5.6
Net foreign direct investment inflows (percent of GDP)	6.7	6.5	6.7	6.8	6.8	6.8
External debt (percent of GDP)	60.5	62.7	54.3	51.8	50.0	49.0
Real private credit growth (percent, period average)	4.6	5.5	2.9	–	–	–
Nonperforming loans (percent of gross loans, end of period)	8.1	5.7	5.0	–	–	–
Unemployment rate (percent, period average)	11.7	11.5	11.0	–	–	–
Youth unemployment rate (percent, period average)	20.9	20.9	20.7	–	–	–
Labor force participation rate (percent, period average)	59.5	59.8	62.4	–	–	–
GDP per capita, PPP (current international $)	14,888	16,302	16,782	17,151	17,734	18,515
Poverty rate (percent of population)	34.4	27.5	25.2	23.9	22.0	20.4

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice.
Notes: In annual percent change unless indicated otherwise. Poverty rate calculations based on ECAPOV harmonization using SILC-C data. Nowcasted/projected values start at 2019. Income measures in the SILC and consumption measures in the HBS are not strictly comparable. Poverty is defined as living on less than $6.85/day per person in revised 2017 PPPs.
e = estimate; f = forecast; PPP = purchasing power parity; – = not available.

Bosnia and Herzegovina

- With real GDP growth continuing to slow to 1.1 percent in Q1 2023 (yoy), economic activity in Bosnia and Herzegovina (BiH) is set to further decelerate to 2.2 percent in 2023.
- Softer private consumption and a drop in transport prices should result in an inflation rate of 5.8 percent in 2023, a significant slowdown from 14 percent seen in 2022.
- A sharp deceleration in exports is expected to broaden the external deficit somewhat to 4.7 percent of GDP in 2023.
- The labor market is characterized by declining unemployment, particularly among women, although this is because fewer women were looking for jobs.
- Stronger tax revenues supported by high inflation resulted in a fiscal surplus of 0.4 percent of GDP in 2022 but a return to a deficit is expected in 2023 in part due to municipal elections in 2024.
- Real output growth is expected to improve to 2.8 percent in 2024 and 3.4 percent in 2025 as private consumption recovers, together with EU demand for BiH's goods.
- EU candidacy status received in December 2022 could serve as a catalyst for much-needed structural reforms. Quicker formation of entities' governments following the October 2022 elections than in the previous cycle yields some confidence.

Recent Economic Developments

After surging to 7.4 percent in 2021, real GDP grew by 3.9 percent[1] in 2022, as the rebound from the post-pandemic period subsided. Economic activity in 2022 slowed consistently from 5.9 percent in Q1 2022 (yoy) to 1.7 percent in Q4 2022 (yoy), mainly due to an output deceleration in manufacturing on the supply side and a slowdown in final domestic consumption on the demand side. This trend of rapid deceleration persisted into Q1 2023, with real GDP rising a mere 1.1 percent (yoy). The latter is primarily due to the contraction in private consumption of 0.5 percent (yoy) as remittance inflows dropped by 4.8 percent in real terms in Q1 2023. Meanwhile, gross capital formation grew by 12.6 percent (yoy), which partly offset the decline in private consumption. Nonetheless, private consumption is expected to pick up in Q2 and Q3 of 2023, supported by an average after-tax real wage increase of 17 percent during the period January to June 2023. The impetus on the demand side will be moderated, however, by the poor performance of industrial production on the supply side. Specifically, industrial production dropped 3.9 percent during the period January–July 2023, largely driven by a fall in sales on foreign markets totaling 11 percent, whereas turnover in the domestic market declined 2 percent.

Net exports shrank by 0.3 percent of GDP in Q1 2023, a significant decline from 6.7 percent of GDP posted in Q1 2022. The compression in net exports is the result of an almost total standstill in both exports and imports. More precisely, exports slowed by 1.7 percent (real terms) in Q1 2023 from a jump of 38.6 percent the previous year, while growth in imports dropped to 2 percent (real terms) in Q1 2023 from a jump of 31.9 percent

1 BiH Agency for Statistics, Economic Statistics No.2 from 30.06.2023.

one year ago. This net export performance is driven by weaker demand from the EU, but also represents a base effect considering the high growth rates in early 2022. On the import side, lower growth is due to a decline in private consumption and, similar to the case of exports, represents a base effect due to high import growth in Q1 2022.

During the period January–July 2023, inflation amounted to 8.5 percent, a 3.7-percentage-point drop vis-à-vis the same period in 2022. Inflation slowed to 4.0 percent in July (yoy), a considerable slowdown from 14.1 percent (yoy) seen in January 2023. Inflation dynamics represent a confluence of stubbornly high food prices, together with high prices of housing, water, electricity, and gas on the one hand, and sharply declining transport prices on the other hand. Food prices grew by 15.5 percent during January–July 2023 compared with a rate of 19.3 percent during the same period in 2022. Meanwhile, transport prices declined 12.7 and 13.2 percent in June and July of 2023 (yoy), respectively, which translated into a negative rate of 2.9 percent during January–July. As the impact of lower transport prices exerts downward pressure on input costs, and spreads through the economy, the inflation rate is likely to decelerate to 5.8 percent in 2023.

Key labor market indicators remain static. The overall employment rate (ages 15–89) increased marginally to 40.8 percent in Q1 2023 compared with 40.1 percent in Q1 2022, while the unemployment rate (ages 15–74) shrank to 13.3 percent, a 3.4-percentage-point decline vis-à-vis Q1 2022.[2] However, the decline in the unemployment rate was driven by people moving from employment into inactivity, rather than improvements in employment itself. The overall activity rate declined by 1 percentage point during this period. The decline in the unemployment rate has been particularly pronounced among women, amounting to 4.1 percentage points between Q1 2022 and Q1 2023 compared with 2.8 percentage point decline among men, but this was driven by a larger decline in the activity rate among women. Furthermore, the female unemployment rate remains high compared with other Western Balkans countries.

Stronger tax revenues supported by a high inflation rate were not offset by higher nominal public spending, which resulted in a fiscal surplus of 0.4 percent of GDP in 2022.[3] This compares with a deficit of 0.3 percent of GDP in 2021, and 5.2 percent of GDP in 2020. The fiscal surplus is the result of a fiscal surplus in the Federation BiH and a fiscal deficit in RS. Expenditures in 2022 in both entities were driven by social measures softening the inflationary impact on households and pre-election spending, including wage and pension hikes, as well as higher capital expenditures. However, spending in the RS compared with the Federation was much higher on wage increases, pension outlays, and social assistance, in GDP terms. Gross public debt in BiH remains sustainable at just below 30 percent of GDP.[4]

2 The methodology of the Labor Force Survey was changed in 2021, which makes direct comparisons between 2021 and 2020 data difficult.
3 BiH Global Fiscal Framework for 2022–2024 and World Bank staff estimates; estimates for H1 2023 by CBBiH are expected by end-September 2023.
4 Central Bank of BiH 2023 (data available at Panorama web portal), World Bank staff calculations.

The current account deficit (CAD) widened to 4.5 percent in 2022 from 2.4 percent of GDP in 2021, driven by a rise in the merchandise trade deficit. The merchandise trade deficit rose by 3.8 percentage points to 22.1 percent of GDP in 2022, and was driven by high import prices of fuel, food, and other commodities, amid strong domestic demand. Higher goods imports growth (13.1 percent) more than offset higher growth in goods exports (8.8 percent), which was also driven by higher prices, notably of metals and electricity. Exports of goods were helped by stronger services exports due to a recovery in tourism. BiH's 5.8 percent of GDP in travel inflows in 2022 exceeded pre-pandemic-level inflows, which had come to 3.2 percent in 2019. The contribution of net remittances remained the same as in 2021, totaling 7.8 percent of GDP, while the primary income balance improved. After capital account adjustments, the CAD amounted to 3.8 percent of GDP in 2022, two-thirds of which were financed by net FDI inflows, which were equivalent to 2.5 percent of GDP. Portfolio investment outflows of 0.4 percent of GDP were more than offset by other investment inflows of 0.9 percent of GDP. The latter was dominated by trade credits, whereas net disbursements on government loans dropped significantly.

Preliminary data suggest an improvement in the CAD as the merchandise trade deficit in Q1 2023 narrowed and the services surplus widened. This resulted in an external account deficit of 3.6 percent of GDP in Q1 2023 compared with 4 percent in Q1 2022. Nevertheless, as private consumption strengthens, the CAD is expected to widen marginally to 4.7 percent of GDP. This should be largely financed by net FDI inflows, which improved significantly in Q1 2023 amounting to 3.6 percent of GDP, a 1.6-percentage-point increase compared with the same period in 2022.

The banking sector is well-capitalized and profitable. Banks are liquid, and profitable, with non-performing loans (NPLs) at their lowest level in a decade (4.1 percent in Q2 2023). There have been no direct spillovers from financial stress in advanced economies due to the limited reliance on international and wholesale funding, and fixed-income assets of BiH banks.

Outlook and Risks

Real output growth in BiH is estimated to decelerate further to 2.2 percent in 2023 driven by slower private consumption and exports. In the medium term, real GDP growth is projected at 2.8 percent in 2024, and 3.4 percent in 2025, as private consumption regains momentum driven by a strengthening of real disposable income. Inflation is expected to stabilize in 2024–25 at around 2 percent per year on the back of lower transport prices, and in line with inflation rates prior to the pandemic. Stronger exports on the back of a gradual growth recovery in the EU are likely to be offset by higher imports of consumer goods, resulting in a further widening of the CAD from 4.7 percent of GDP in 2023 to 5.1 percent by 2025.

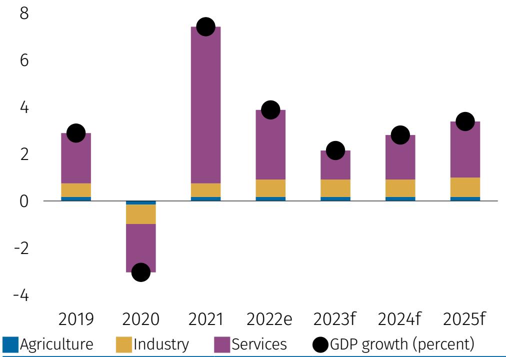
The return to fiscal surplus in 2022 is likely to be short-lived due to the upcoming municipal elections in 2024. An overall higher wage bill, pension outlays, and social benefits are expected in 2023 and 2024, since governments' measures in 2022 were permanent. This spending will further increase as part of the municipal pre-election expenditure cycle. Nevertheless, by 2025 the fiscal stance is expected to be balanced again. Public debt is projected to remain sustainable at below 30 percent of GDP during 2023–2025, although debt levels vary significantly across the two entities.

With general elections completed in October 2022, and entities' governments formed, it would be opportune for policy makers to turn to the structural reform agenda and the fulfillment of legislative priorities for EU accession. In this respect, three of 14 required legislative steps—which are part of the often-referenced European package—have been passed recently by parliaments. These laws define free access to information at the level of BiH, address human rights, and define the role of courts.

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

GDP growth is expected to slow in 2023

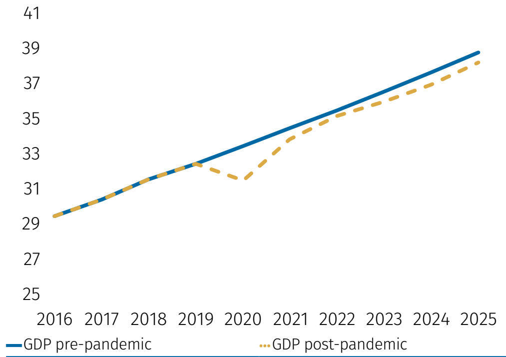
Contributions to growth, percentage points of GDP



Sources: BiH Agency for Statistics; World Bank.
Note: e = estimate; f = forecast.

Post-crisis growth trajectory is unlikely to close the gap with pre-crisis growth path.

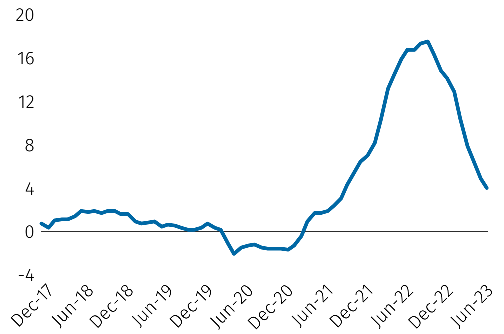
In 2015, thousand KM



Source: World Bank staff estimates.

Consumer price and food inflation continue their downward trend in Q1 2023...

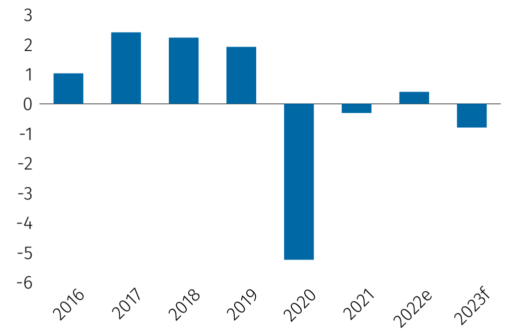
CPI, percent yoy



Sources: BiH Agency for Statistics; World Bank.

...while the fiscal deficit is expected to widen in 2023, despite higher revenues due to inflation.

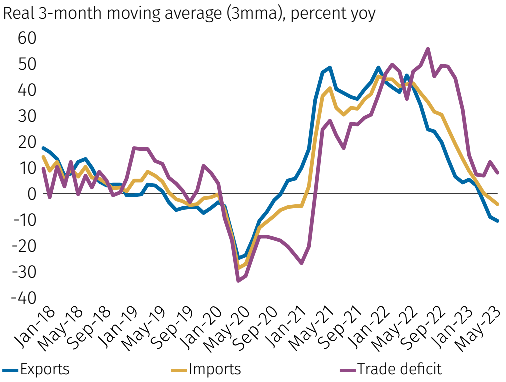
General government fiscal balance, percent of GDP



Sources: BiH fiscal authorities; World Bank staff estimates.

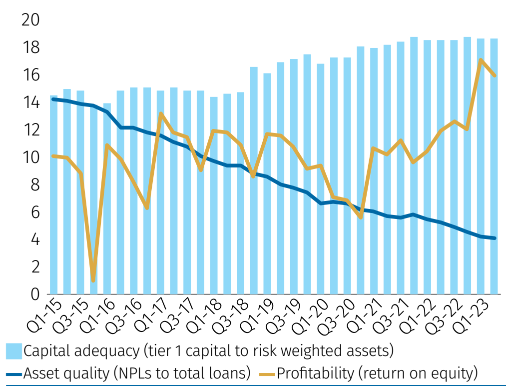
The merchandise trade deficit widened.

Real 3-month moving average (3mma), percent yoy



Sources: BiH Indirect Tax Office; World Bank.

Nonperforming loans in commercial bank portfolios have decline steadily.



Sources: Central Bank of BiH; World Bank calculations.

BOSNIA AND HERZEGOVINA Selected Economic Indicators	2020	2021	2022	2023e	2024f	2025f
Real GDP growth (percent)	-3.0	7.4	3.9	2.2	2.8	3.4
Composition (percentage points):						
Consumption	–	–	2.7	1.9	2.2	2.6
Investment	–	–	3.5	1.9	0.7	0.4
Net exports	–	–	-2.3	-1.6	-0.1	0.5
Exports	–	–	3.5	1.5	2.1	2.3
Imports (-)	–	–	5.8	3.1	2.2	1.9
Consumer price inflation (percent, period average)	-1.1	2.0	14.0	5.8	2.5	0.9
Public revenues (percent of GDP)	41.6	41.1	40.1	40.7	41.0	41.5
Public expenditures (percent of GDP)	46.8	41.3	39.7	41.5	40.9	41.5
Of which:						
Wage bill (percent of GDP)	11.3	10.3	10.3	10.8	10.6	10.3
Social benefits (percent of GDP)	15.9	14.6	17.4	17.7	18.6	19.2
Capital expenditures (percent of GDP)	5.1	3.5	3.5	3.7	3.1	3.4
Fiscal balance (percent of GDP)	-5.2	-0.3	0.4	-0.8	0.0	0.0
Primary fiscal balance (percent of GDP)	-4.5	0.3	1.0	0.1	0.9	0.9
Public debt (percent of GDP)	36.1	34.0	29.3	27.6	27.0	26.3
Public and publicly guaranteed debt (percent of GDP)	38.8	37.6	31.5	29.5	29.2	28.5
Of which: External (percent of GDP)	30.4	29.5	24.9	23.3	22.6	22.0
Goods exports (percent of GDP)	27.1	32.5	35.4	36.9	36.4	35.8
Goods imports (percent of GDP)	45.2	50.8	57.5	59.0	58.0	57.5
Net services exports (percent of GDP)	4.3	6.6	7.9	8.2	7.7	7.3
Trade balance (percent of GDP)	-13.7	-11.8	-14.2	-13.9	-14.0	-14.3
Net remittance inflows (percent of GDP)	7.3	7.8	7.8	7.4	7.2	7.1
Current account balance (percent of GDP)	-3.2	-2.4	-4.5	-4.7	-4.8	-5.1
Net foreign direct investment inflows (percent of GDP)	1.8	2.3	2.5	2.4	2.4	2.3
External debt (percent of GDP)	69.7	62.4	60.5	60.0	59.1	57.4
Real private credit growth (percent, period average)	1.3	-0.3	-8.1	–	–	–
Nonperforming loans (percent of gross loans, end of period)	6.1	5.8	5.4	–	–	–
Unemployment rate (percent, period average)	15.9	17.4	15.4	–	–	–
Youth unemployment rate (percent, period average)	36.6	38.2	35.0	–	–	–
Labor force participation rate (percent, period average)	47.7	48.0	47.6	–	–	–
GDP per capita, PPP (current international $)	15,337	17,377	17,898	18,345	18,896	19,557

Sources: Country authorities, World Bank estimates and projections.
Note: e = estimate; f = forecast; PPP = purchasing power parity; – = not available.

Kosovo

- Amidst challenging external conditions, real GDP growth decelerated but remains positive; economic activity is expected to expand by 3.2 percent during 2023.
- Positive performance of service exports and private consumption were key growth drivers.
- Inflation has been steadily decreasing from its peak of 14.2 percent in July 2022, but price pressures remain heightened; annual consumer inflation averaged close to 6 percent between January and August 2023.
- Although the outlook remains positive, the balance of risks remains tilted to the downside. Continued uncertainties related to the war in Ukraine, a further slowdown of economic activity in Europe, and the complexity of the political environment, represent significant risks.

Recent Economic Developments

Kosovo's macroeconomic conditions remained favorable during H1 2023, despite persistent external volatility and a slowdown in growth in Q2. During Q2 2023, real economic activity reached 2 percent year-on-year (yoy)[5], bringing H1 2023 growth to 2.9 percent. Growth in Q2 was primarily driven by a 5.9 percent real increase in exports thanks to record growth in exports of services (13.6 percent); mostly in diaspora-related travel services, as well as ICT services. Exports of goods, contrary to initial expectations, contracted by 10.7 percent in real terms. Private consumption and gross capital formation witnessed moderate growth of 3.7 and 2 percent, respectively. On the production side, services provided the highest contribution to growth. Monthly indicators, including those on the external sector, firm sales and international travel data, show that the impact from consumption and service exports on growth was strong throughout the first three quarters of the year.

Inflation has been steadily decreasing from its peak of 14.2 percent in July 2022, but price pressures remain elevated. Consumer inflation averaged 6 percent between January and August 2023, and inflation decelerated to 2.4 percent by July 2023, but experienced a slight uptick in August 2023 (3.2 percent). During this period, a significant contribution to inflation resulted from price increases of furnishing, household items and maintenance (7.2 percent), alcoholic beverages and tobacco (6.3 percent), and food and non-alcoholic beverages (5.5 percent). Transport prices—which contributed to inflationary pressures in 2022—subtracted from the inflation rate (-3.8 percent). At 4 percent in August, core inflation also went up, and remains higher than overall inflation. Prices of imports continued to increase, but at a decelerating trend, impacted primarily by a drop in commodity and energy import prices. Meanwhile, both producer and agricultural input prices declined compared with H1 2022.

Employment and employment formalization are on the rise, but the labor market continues to face critical challenges. According to recent

5 All references hereon refer to year on year comparisons, unless otherwise indicated.

administrative data, formal employment increased by 2.8 percent between August 2022 and August 2023.[6] The latest Labor Force Survey (LFS)[7] revealed that the working age population shrank during 2022, possibly due to migration, while the employment-to-population ratio experienced an increase, from 31.1 percent in 2021 to 33.8 percent in 2022. Notably, the unemployment rate has been on a downward trajectory, plummeting to 12.6 percent in 2022; but inactivity rates remain high. The LFS data further highlight prominent gender disparities within the labor market, encompassing significant differences in employment rates (49.4 percent for males and 18.4 percent for females in 2022), inactivity rates (45 percent for males and 78 percent for females), as well as moderate levels of youth unemployment (21.4 percent). Kosovo has no official statistics on open vacancies, but individual surveys from business organizations show increasing challenges for firms in filling vacancies, particularly for qualified employees.

By June 2023, the current account deficit (CAD) showed signs of improvement, driven by lower value imports coupled with a continued positive performance in service exports and secondary income inflows. Nominal merchandise exports and imports dropped by 8.1 and 5.2 percent, respectively. The service trade balance increased further improved by 36 percent as of June 2023. Hence, the trade deficit slightly decreased by 1.8 percent during this period. By August 2023, remittances recorded a cumulative growth rate of 11.7 percent. Foreign direct investment (FDI) continued to experience a positive performance with a cumulative increase of 14.3 percent by June 2023. Nonetheless, FDI remains highly concentrated in the construction and the real estate sector, reflecting the demand of the Kosovar diaspora for real estate assets in Kosovo.

The overall fiscal balance remained within fiscal rule limits. For January–August 2023, and in line with the seasonality of budget expenditures, the Government ran a surplus, slightly above 2022 levels. For the same period, tax revenues grew by 12 percent while overall revenues increased by 15 percent, boosted also by energy-related EU on-budget grants worth EUR 67.5 million. Direct taxes and domestically collected VAT increased by close to 20 percent, while VAT and excises collected at the border (representing more than half of tax revenues) increased by around 6 percent each. Expenditures, on the other hand, increased by 16.2 percent until August 2023. Implementation of the new legislation on public wages has led to a 20 percent increase of the monthly wage bill. Given the discontinuation of energy import subsidies, together with a drop in the number of beneficiaries for several pension schemes and the social assistance program, total spending on subsidies and transfers declined slightly by 1 percent. In July 2023, Parliament amended the state pension legislation which will increase average pension benefits, likely with a significant future fiscal impact. Capital expenditure increased by 77 percent by August 2023, albeit from the relatively low base of 2022. Despite the significant pick up in spending, implementation of externally financed capital projects continues to lag. Implementation of additional energy-related subsidies and seasonally higher payments for

6 Administrative Labor Market Statistics, August 2023, Kosovo Statistics Agency.
7 Kosovo has large delays in publishing Labour Force Survey (LFS) data, and as of today only 2022 data are available.

capital projects are expected to lead to a modest fiscal deficit by year end slightly higher than the previous year's fiscal deficit.

Since January 2023, total public and publicly guaranteed (PPG) debt has been on a downward trend. By end Q2 2023, PPG debt stood at 17.3 percent of GDP, down from 19.9 percent of GDP at end-2022. In 2023, the Government has amortized more than Euro 120 million of domestic debt. On the other hand, external debt continued to increase at a moderate pace, but at less than half the level of the reduction in the stock of domestic debt. During H1 2023, the Government reached a Precautionary Stand-By-Arrangement (around EUR 100 million) and an Arrangement Under the Resilience and Sustainability Facility with the IMF (around EUR 78 million). As of September 2023, no disbursemnts under these programs have taken place. Lastly, the Government decided to commence the repayment of pension savings fund withdrawals authorized in 2020, as part of its pandemic liquidity support measures.

Increases in the cost of borrowing have not reduced credit demand. By August 2023, total bank credit increased by 13.2 percent (8.3 percent for new loans), with total loans to households increasing by 16.9 percent. The microfinance loan portfolio, which represents less than 10 percent of the bank credit portfolio but provides services to a significant number of citizens, increased by close to 24 percent. Concurrently, deposits grew by 12.2 percent. The cost of funding increased by approximately 0.6 of a percentage point on average, in the period January–August 2023 with respect to the same period in 2022. Average interest rates on new loans increasing, for example, increased from 5.9 to 6.5 percent. Capital buffers and asset quality remain positive. The ratio of regulatory capital on risk-weighted assets stood at 15.6 percent in August 2023 and nonperforming loans remained at 2 percent.

Outlook and Risks

Despite continued inflationary pressures, real GDP growth is expected to reach 3.2 percent in 2023, driven by positive export performance and higher private consumption. Higher services exports are expected to offset stalling merchandise exports and increasing imports, leading to a positive real contribution of the external balance to growth. At the same time, strong credit growth and higher net remittances, supported by elevated levels of public transfers, are expected to support private consumption. Higher public wage spending following the implementation of the new Law on Public Wages, coupled with increased public spending on maintenance and services, is expected to support public consumption growth. Likewise, after contracting in 2022, gross fixed investment is expected to add to growth, fueled by construction activity and a more predictable environment for input prices. Public capital expenditure is also expected to boost investment on the heels of recent efforts to lift implementation bottlenecks, including through price adjustments for public contracts. On the production side, services are expected to provide a higher contribution than manufacturing and agriculture combined.

The medium-term outlook remains positive within a context of high uncertainty. The contribution of investment to growth is expected to pick up in 2024–2025, supported by increased investment in public infrastructure, including through the support of external financing, and higher public and private investments in energy supply and efficiency. However, despite expected improvements in capital execution, public investment is expected to remain below budgeted levels. Based on the permitting pipeline, real estate development activity is expected to continue boosting investment and growth in the medium term. Financial deepening and primary and secondary inflows are expected to support consumption, coupled with higher pension transfers in 2024. Reactivation of Kosovo's ferronickel production capacities is expected to boost merchandise exports. With growth expected to accelerate toward 4 percent, the level of economic activity should converge toward Kosovo's potential. Yet, continued uncertainties related to the war in Ukraine and the impact on the energy sector in Kosovo, a further slowdown of economic activity in Europe, and a deterioration of the domestic political context, represent significant risks.

Inflation is expected to decelerate, but price pressures remain high. While decreasing in line with international trends, consumer price inflation is projected to reach 4.8 percent in 2023 and further decelerate over 2024–2025, reflecting expectations on Euro area inflation and international commodity price movements. A tighter labor market could, however, exert an upward pressure on inflation. At the same time, Kosovo's high dependency on imports continues to expose the country to international price fluctuations. Higher fuel and energy prices could lead to an inflation rebound and an energy supply shock, negatively impacting growth.

After a significant deterioration over 2020-2022, the CAD is expected to improve over the medium term. In 2023, the CAD is expected to improve by 4 percentage points of GDP owing to a deceleration in imports and further improvements in the services balance. Over 2024–25, the CAD is expected to further decline on account of improvements in the trade balance, albeit at a much slower pace. Non-debt creating FDI inflows are expected to continue providing the main source of financing for the CAD, but high levels of errors and omissions in the balance of payments remain a source of uncertainty. Over-concentration of FDI on real estate activities is expected to continue over the medium term, but higher energy sector private investment could potentially lead to higher diversification of FDI.

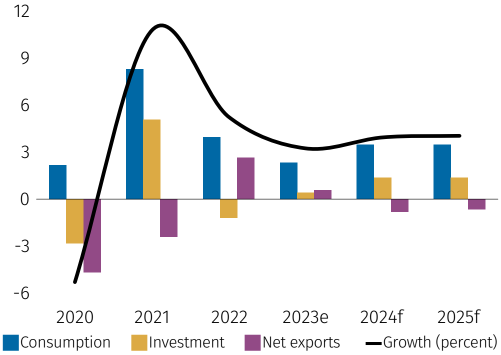
The fiscal deficit is estimated to remain below 1 percent of GDP in 2023, driven by positive tax revenue performance and lower-than-budgeted capital expenditures. Over the medium term, the deficit should on average represent between 1.5 and 2.0 percent of GDP on the back of an increase in capital spending associated to the Energy Strategy, further increases in the public wage coefficients and operationalization of allowances in 2024, and higher spending on pensions. Tax revenues are expected to continue increasing, albeit at a slower rate than 2021–2023 given the fading impact of inflation, particularly on border levied taxes. Implementation of 2023 amendments to personal income tax (PIT) legislation increasing the non-taxable PIT bracket to the level of the minimum wage—currently pending constitutional court review—could further slow down the pace of revenue collection. Until 2025, public debt is projected to remain below 20 percent of GDP, given historic bottlenecks to implementing International Financial Institutions (IFI)-financed capital projects.

Further financial deepening has the potential to support credit growth, private consumption, and investment over the medium term. Envisaged legal changes to payments legislation could further boost digitalization of payments, also enhancing formalization. External private debt, which includes intercompany loans and trade credit, should also be on the rise.

Moving forward, Kosovo needs to enhance resilience to external shocks while advancing structural reforms to unlock higher potential growth and speed up convergence with comparable EU peers. Since the outbreak of the COVID-19 pandemic, prudent macro-fiscal management has allowed Kosovo to respond to the impacts of the crisis. However, closing the gap with EU peers will require maintaining macroeconomic stability while addressing long-standing structural bottlenecks that limit potential output. Timely and effective implementation of the new Energy Strategy while safeguarding fiscal adequacy is imperative in this regard, alongside the need to reduce other infrastructure gaps in water, waste, and connectivity. Improvements of labor market outcomes can no longer be delayed and should focus on supporting greater inclusion of inactive women into the labor market, by reducing barriers to participation, also by scaling up access to childcare services. Furthermore, scaling up human capital investments—as a precondition to unlock higher potential growth—while preserving fiscal adequacy, requires effective and comprehensive reforms, such as: (i) optimizing the school network; (ii) setting up a health financing framework that promotes universal health coverage; and (iii) enhancing targeting of social assistance and the predictability and adequacy of pensions.

Investment bounced back, providing a modest but positive contribution to growth in 2023.

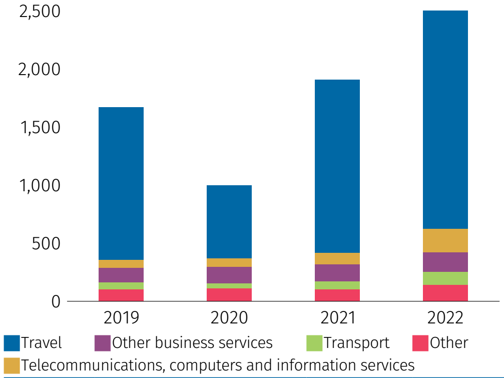
Contributions to growth, percentage points



Sources: Kosovo Statistics Agency; World Bank staff calculations.

Service exports continued to increase, driven by travel, but also ICT and business services.

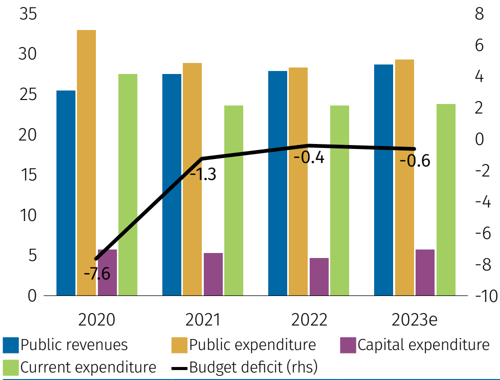
Service exports by category, in EUR million



Source: Central Bank of Kosovo.

The fiscal deficit remains moderate.

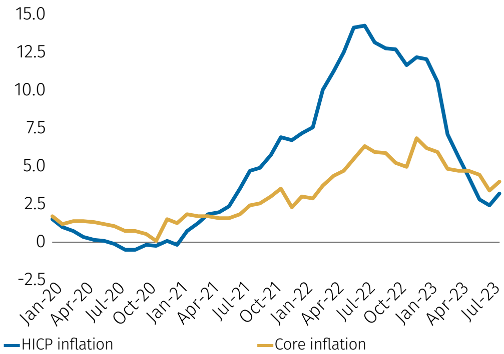
Percent of GDP



Sources: Ministry of Finance; World Bank staff calculations.

Inflationary pressures started to ease in 2023.

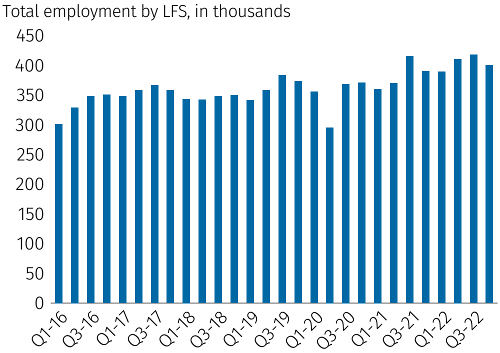
yoy changes, percent



Sources: Kosovo Statistics Agency and Central Bank of Kosovo.

Employment is gradually trending upwards.

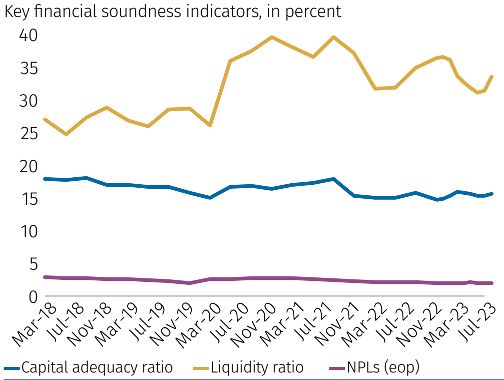
Total employment by LFS, in thousands



Source: Kosovo Statistical Agency.

The financial sector remained stable.

Key financial soundness indicators, in percent



Source: Central Bank of Kosovo.
Note: eop = end-of-period; NPLs = nonperforming loans.

KOSOVO Selected Economic Indicators	2020	2021	2022	2023e	2024f	2025f
Real GDP growth (percent)	-5.3	10.7	5.2	3.2	3.9	4.0
Composition (percentage points):						
Consumption	2.1	8.2	3.9	2.3	3.4	3.4
Investment	-2.8	5.0	-1.2	0.4	1.3	1.3
Net exports	-4.7	-2.4	2.6	0.5	-0.8	-0.7
Exports	-8.3	16.4	6.4	3.8	2.2	2.3
Imports (-)	-3.6	18.8	3.9	3.3	3.1	3.0
Consumer price inflation (percent, period average)	0.2	3.4	11.6	4.8	3.0	2.5
Public revenues (percent of GDP)	25.4	27.4	27.8	28.7	28.2	28.3
Public expenditures (percent of GDP)	33.0	28.8	28.2	29.2	30.1	30.1
Of which:						
Wage bill (percent of GDP)	9.8	8.4	7.3	7.9	7.5	7.5
Social benefits (percent of GDP)	7.7	7.3	7.2	6.4	6.5	6.2
Capital expenditures (percent of GDP)	5.6	5.3	4.7	5.6	6.3	6.8
Fiscal balance (percent of GDP)	-7.6	-1.3	-0.4	-0.6	-1.9	-1.9
Primary fiscal balance (percent of GDP)	-7.2	-0.9	0.0	-0.2	-1.6	-1.3
Public debt (percent of GDP)	22.0	21.2	19.6	18.5	19.3	19.8
Public and publicly guaranteed debt (percent of GDP)	22.4	21.6	19.9	18.6	19.5	20.1
Of which: External (percent of GDP)	7.8	7.3	7.2	7.3	8.2	8.6
Goods exports (percent of GDP)	7.0	9.5	10.4	8.8	9.0	9.2
Goods imports (percent of GDP)	45.0	54.3	58.4	54.5	53.6	53.7
Net services exports (percent of GDP)	5.8	13.0	15.4	16.6	16.3	16.8
Trade balance (percent of GDP)	-32.2	-31.8	-32.6	-29.1	-28.3	-27.7
Net remittance inflows (percent of GDP)	14.0	14.1	13.3	13.7	13.6	13.5
Current account balance (percent of GDP)	-7.0	-8.7	-10.5	-6.5	-6.0	-5.5
Net foreign direct investment inflows (percent of GDP)	4.2	4.0	6.7	6.7	6.7	6.7
External debt (percent of GDP)	36.9	37.6	38.2	38.4	39.0	39.9
Real private credit growth (percent, period average)	7.6	7.5	5.2	–	–	–
Nonperforming loans (percent of gross loans, end of period)	2.5	2.3	2.0	–	–	–
Unemployment rate (percent, period average)	25.9	20.7	12.6	–	–	–
Youth unemployment rate (percent, period average)	49.1	38.0	21.4	–	–	–
Labor force participation rate (percent, period average)	38.3	39.3	38.6	–	–	–
GDP per capita (US$)	4,321	5,270	5,305	5,810	5,804	6,758
Poverty rate (percent of population)	32.4	27.0	25.4	23.6	22.2	20.3

Sources: Country authorities; World Bank staff estimates and projections.
Note: Poverty rate calculations based on ECAPOV harmonization using Household Budget Survey (HBS) data. Nowcasted/projected values start at 2018. Income measures in the SILC and consumption measures in the HBS are not strictly comparable. Poverty is defined as living on less than US$6.85/day per person in revised 2017 PPP. e = estimate; f = forecast; PPP = purchasing power parity; – = not available.

Montenegro

- Montenegro's growth remains strong and is estimated at 4.8 percent for 2023, driven by private consumption and service exports.
- The fiscal performance has been better than planned, largely owing to one-off revenues and capital budget under-execution.
- As Montenegro approaches large debt repayments during 2024–27, it requires very careful fiscal and debt management with well-designed policies affecting the fiscal position.

Recent Economic Developments

The economy made a very strong start in 2023. GDP expanded by 6.6[8] percent in H1, driven by personal consumption, underpinned by an increase in public sector wages, employment gains, and household borrowing. In the first seven months of 2023, total international tourism overnight stays increased by 50 percent, outpacing by nearly a third the levels observed in the same period of 2019. Surging tourism, along with rising employment and an increase in wages, supported retail trade, which expanded by 10.4 percent in real terms over the same period. Despite declining manufacturing due to a halt in aluminium production, industrial production increased by 5.4 percent in the first seven months of 2023, due to favourable hydrometeorological conditions earlier in the year that affected electricity generation. While construction declined by 3.4 percent in H1 2023,[9] an increase in the number of building permits issued points to a likely resumption of construction activity in the near term.

Strong employment gains of 2022 continued into 2023, reflecting the year's strong start. The Labour Force Survey shows that average employment increased by 10.7 percent in H1 2023. The employment rate thus rose to a record high of 55.9 percent in Q2 2023 from 50.7 percent a year ago. The activity rate rose to a record high of 64.2 percent from 59.3 percent a year ago, while the unemployment rate declined to a historical low of 12.9 percent from 14.6 percent. The youth unemployment rate also declined to its lowest ever at 17 percent in Q2 2022 from 26.7 percent.

Administrative data suggest employment also increased in early Q3 2023. In July, total registered employment increased by 9.6 percent to reach a record high of 258,024 employed. In the first seven months, all sectors registered average employment growth, with the ICT sector surging by 43.6 percent, also affected by migrant workers registering businesses in Montenegro. The registered unemployment rate in July 2023 declined by 3 percentage points to a historic low of 13.1 percent.

Inflation has eased but remains elevated. While annual inflation moderated to 10.1 percent over the first eight months of 2023, monthly inflation remains elevated, led by food prices. Montenegro's food prices have not followed the trend of softening of global food prices and most inflation remains explained by increases in the prices of food and non-alcoholic beverages (14.7 percent) and solid fuels (23.5 percent). Over the

8 All comparisons are year-on-year, unless otherwise indicated.
9 Measured as the number of effective hours worked on construction sites.

same period, net average wages increased by 11 percent in nominal terms, leading to an increase of 0.5 percent in real terms. However, this increase was almost entirely driven by public sector wages, while real wages declined in all other sectors, with the exceptions of ICT, construction, and mining.

The financial sector maintains strong capital and liquidity buffers. In August 2023, outstanding loans were up by 8.9 percent, driven by lending to households and non-residents. At the same time, overall deposits were up by 13.6 percent, led by the corporate and household sectors. In the first eight months, amid increasing interest rates, new loans declined by 6.4 percent but outpaced by 17.6 percent new lending in the same period of 2019. The average capital adequacy ratio was a healthy 20.1 percent in June 2023, well above the regulatory minimum, while nonperforming loans declined to 6.1 percent of total loans from 6.9 percent in June 2022. Liquidity is ample, with liquid assets over total assets stood standing at 25.7 percent in June 2023. While the financial sector is stable, at a time of rising global interest rates and rapid credit growth, it is important to closely monitor the risks.

The external imbalances have narrowed slightly in H1 2023. The current account deficit (CAD) narrowed slightly, as export growth of 26.7 percent outpaced import growth of 15.1 percent. Export growth was primarily led by tourism revenues which surged by 90 percent, while merchandise exports slowed down in Q2 2023, as the aluminium plant KAP stopped production. Still strong demand and higher food prices accounted for import growth, but this moderated in Q2 2023. Net primary and secondary income accounts strengthened only marginally, despite a decline in net remittances of 5.7 percent. Net FDI fell by 26.4 percent, financing just half of the CAD, the remainder being financed from reserves. In July 2023, international reserves stood at EUR 1.6 billion, covering five months of merchandise imports.

During 2023, the fiscal performance has been much better than expected. By July, the central government achieved a fiscal surplus of 2.3 percent of GDP, due to strong revenues and capital budget under-execution. The surge in revenues of 24.5 percent was greatly supported by one-off payments (for the economic citizenship program, a hedging fee, and grants) equivalent to 1.8 percent of GDP, but also solid corporate income tax (CIT) and contributions collection. The VAT and excise collection was also strong. Expenditure growth at 12.9 percent was more moderate than that of revenues, as capital spending declined by 54.6 percent, despite an increase in public sector wages and social spending. While there are political pressures to increase spending, Montenegro's fiscal space is limited, and new spending commitments should be consistent with the need to reduce the deficit and debt.

Despite public debt falling as a share of GDP, it still presents a vulnerability. Montenegro's public debt declined from 69.3 percent of GDP in 2022 to an estimated 61.3 percent of GDP in June 2023, owing to a larger nominal GDP (that is, a denominator effect), negative net borrowing, and a much better than planned fiscal performance. Subsequently, the stock of central government deposits increased from 1.9 percent of GDP in 2022 to 3.9 percent of GDP in June 2023. However, the tighter global credit conditions imply a far higher cost of financing for Montenegro, as evidenced in March 2023, when Montenegro borrowed EUR 100 million from Deutsche Bank, at a variable interest rate composed of the six-month Euribor reference rate and an interest margin of 5.9 percent per year.

Montenegro's political setting remains fragile. Since a major political change in 2020, Montenegro's political and institutional landscape has been complex and fragile, resulting in a vote of no-confidence in two governments in one year. The new political party, Europe Now, won the most seats in the snap elections that took place in June 2023 and is tasked with forming a government. The political consensus focused on structural reforms, the rule of law, and fiscal prudence will be critical to safeguard and improve development prospects of Montenegro in a very uncertain environment.

Outlook and Risks

Montenegro's growth is expected to remain strong at 4.8 percent in 2023, underpinned by private consumption and service exports, while investments remain subdued. However, the slowing of the global economy is weighing down on Montenegro's outlook. Over 2024–25, declining private consumption growth is expected to result in a slower average growth of 3.2 percent. Tourism is likely to surpass its 2019 level in 2023, and continue growing, although deteriorating growth prospects in the EU and the region may adversely affect tourism. Due to an expected stabilization of exports growth and moderation of imports, due to slowing domestic consumption, the CAD is expected to moderate to 10.9 percent of GDP by 2025.

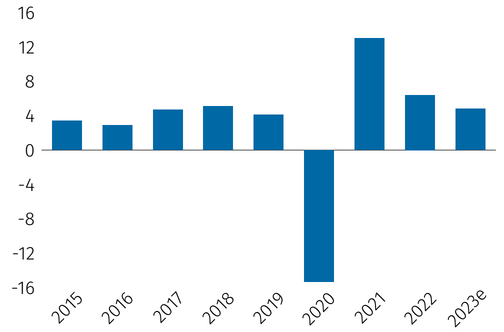
In the medium term, the fiscal deficit is expected to remain elevated. While one-off revenues will result in the lower-than-planned fiscal deficit of 2 percent of GDP in 2023, the fiscal deficit is expected at 3.9 and 3.6 percent of GDP in 2024 and 2025, respectively. This is due to a recovery in capital spending and high levels of the wage bill and social spending. Fiscal consolidation measures would, however, result in a better fiscal performance. Given the tightening of global financial conditions and Montenegro's sizable financing needs over 2024–25, cautious fiscal management is needed, particularly with respect to expenditures, including implementing the pension and public administration reforms.

Significant debt repayments are due in 2024-25. Montenegro's debt amortization in 2024 and 2025 is at an estimated 7.1 and 11.7 percent of GDP, respectively. Owing to stock-flow adjustments, public debt is expected to increase from 62.1 percent of GDP in 2023 to 66.1 percent of GDP in 2024, before declining to 62.3 percent of GDP in 2025, when a large Eurobond is redeemed. Maintaining commitment to important reforms will be crucial as Montenegro will need to tap the market for funding over this period.

The outlook is characterized by downside risks. High geopolitical uncertainties may weaken growth prospects in Montenegro's major trading partners. Monetary tightening is rapidly increasing the cost of external financing. These conditions may lead to greater difficulty in mobilizing large amounts of capital at favorable terms, particularly if fiscal targets are not solidified through fiscal prudence. Political challenges are major domestic risks. The severity of challenges ahead, however, requires strong political and economic stewardship through carefully designed and well-costed policies.

GDP growth is forecasted at strong 4.8 percent...

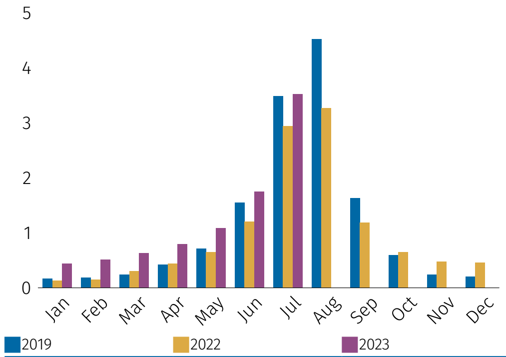
Real GDP growth, percent



Sources: MONSTAT data; World Bank staff calculations.

...supported by continuous tourism recovery.

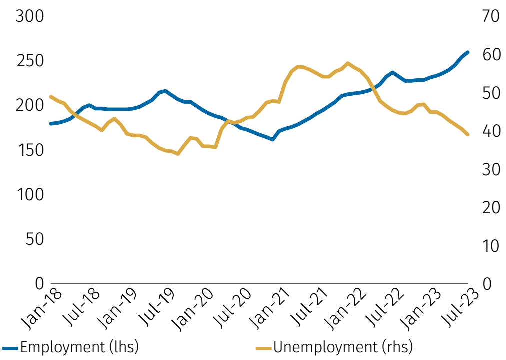
International tourist overnight stays, in million



Sources: MONSTAT; World Bank staff calculations.

Employment gains have been strong...

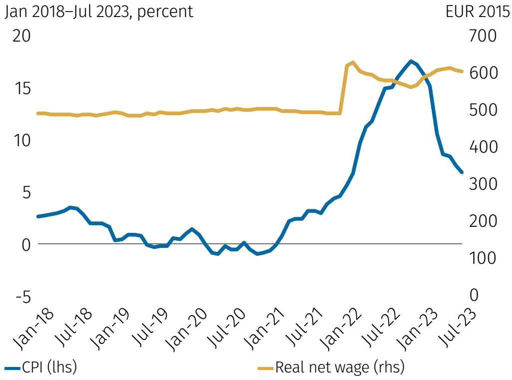
Administrative data, in thousands, Jan 2018–Jul 2023



Source: MONSTAT data.
Note: tc = trend cycle.

...while inflation has eased.

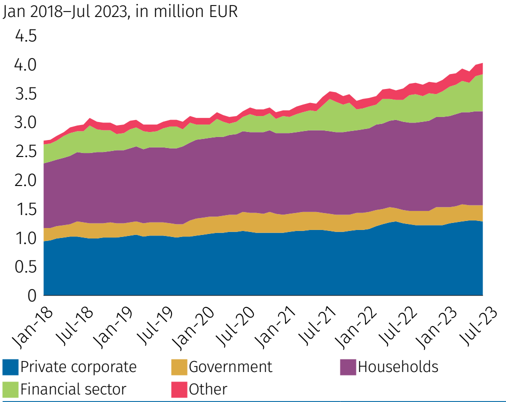
Jan 2018–Jul 2023, percent



Sources: MONSTAT data; World Bank staff calculations.

Outstanding loans increased strongly.

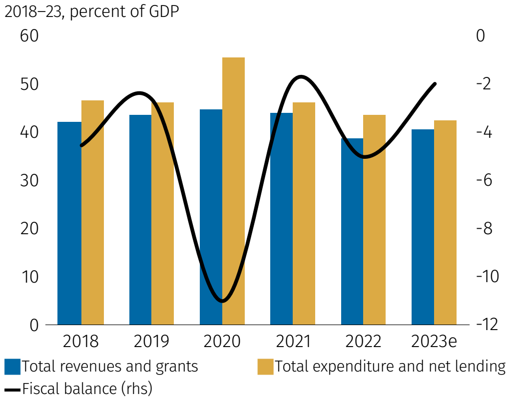
Jan 2018–Jul 2023, in million EUR



Sources: Central Bank; World Bank staff calculations.

The fiscal deficit narrowed.

2018–23, percent of GDP



Sources: Ministry of Finance; World Bank staff calculations.

MONTENEGRO Selected Economic Indicators	2020	2021	2022	2023e	2024f	2025f
Real GDP growth (percent)	-15.3	13.0	6.4	4.8	3.2	3.1
Composition (percentage points):						
Consumption	-3.9	4.1	9.0	6.3	3.2	3.4
Investment	-5.9	-4.7	4.9	-2.2	0.8	0.9
Net exports	-5.5	13.7	-7.4	0.5	-0.9	-1.2
Exports	-24.2	25.7	11.5	6.4	3.0	2.7
Imports (-)	-18.7	12.0	18.9	5.9	3.9	3.9
Consumer price inflation (percent, period average)	-0.3	2.4	13.0	8.4	4.0	2.8
Public revenues (percent of GDP)	44.4	44.0	38.6	40.5	39.0	39.1
Public expenditures (percent of GDP)	55.5	45.9	43.6	42.5	42.9	42.7
Of which:						
Wage bill (percent of GDP)	13.5	12.2	10.5	10.4	10.2	10.0
Social benefits (percent of GDP)	13.4	11.5	11.3	11.8	11.9	11.8
Capital expenditures (percent of GDP)	7.5	5.7	6.0	4.6	5.4	5.4
Fiscal balance (percent of GDP)	-11.0	-1.9	-5.1	-2.0	-3.9	-3.6
Primary fiscal balance (percent of GDP)	-8.3	0.5	-3.4	-0.3	-1.8	-1.0
Public debt (percent of GDP)	105.3	84.0	69.3	62.1	66.1	62.3
Public and publicly guaranteed debt (percent of GDP)	106.8	86.8	71.7	64.2	68.1	64.2
Of which: External (percent of GDP)	91.6	78.3	62.6	57.0	62.0	57.2
Goods exports (percent of GDP)	9.8	10.6	12.9	12.0	12.2	12.4
Goods imports (percent of GDP)	49.0	49.3	58.0	56.8	55.9	55.0
Net services exports (percent of GDP)	4.2	19.3	22.2	25.6	25.5	24.8
Trade and services balance (percent of GDP)	-35.0	-19.4	-22.8	-19.2	-18.2	-17.8
Net remittance inflows (percent of GDP)	5.3	6.1	6.5	6.4	6.2	6.1
Current account balance (percent of GDP)	-26.1	-9.2	-12.9	-11.5	-11.3	-10.9
Net foreign direct investment inflows (percent of GDP)	11.2	11.7	13.2	8.0	8.1	7.9
External debt (percent of GDP)	221.6	190.0	158.6	144.0	137.5	132.6
Real private credit growth (percent, period average)	6.4	-0.2	-4.9	–	–	–
Nonperforming loans (percent of gross loans, end of period)	5.9	6.8	6.3	–	–	–
Unemployment rate (percent, period average)	17.9	16.6	14.7	–	–	–
Youth unemployment rate (percent, period average)	36.0	37.1	29.4	–	–	–
Labor force participation rate (percent, period average)	53.3	50.9	58.9	–	–	–
GDP per capita, PPP (current international $)	20,511	23,440	26,984	30,918	33,076	35,050
Poverty rate (percent of population)	21.1	18.3	17.2	16.4	15.7	15.2

Sources: Country authorities; World Bank estimates and projections.
Note: e = estimate; f = forecast; PPP = purchasing power parity; – = not available. Poverty rate calculations based on ECAPOV harmonization using SILC-C data. Nowcasted/projected values start at 2019. Income measures in the SILC and consumption measures in the HBS are not strictly comparable. Poverty is defined as living on less than $6.85/day per person in revised 2017 PPPs.

North Macedonia

- While the economy showed some resilience to crises, consumption is decelerating driven by the increased cost of living, while manufacturing struggles as external demand slows.
- Public finances are overstretched amidst a rise in borrowing costs. Fiscal consolidation needs to be prioritized to help accommodate new spending commitments on wages and public investments.
- Headline inflation is decelerating but is projected to remain high in 2023 and fall towards the long-term average by 2025. Yet, wage pressures may lead to protracted inflationary pressures.
- The medium-term outlook is positive, but downside risks prevail. Boosting growth and accelerating income convergence calls for much-needed reforms that are on halt due to a lasting parliamentary impasse.

Recent Economic Developments

Economic growth started decelerating in the second quarter of 2023. After growing by 2.1 percent in Q1 2023, output increased by only 1.1 percent on an annual basis in Q2 2023, led by private consumption while exports and gross capital investments fell as external demand slowed and stocks declined. Further, consumption eased to 1.6 percent (down by 1.1 pp from the quarter before) as continued high inflation and credit slowdown put a dent on household purchasing power. Overall, H1 growth turned at 1.6 percent compared to 3.1 in H1 2022. On the production side, output growth in H1 2023 was driven by services and industry, while construction and agriculture sectors continued to struggle. After a sharp increase in Q1, the construction output dropped by close to 22 percent in Q2.

High-frequency data point to a slowdown of growth in the third quarter of 2023. Industrial production declined by 1.8 percent[10] in July as mining and manufacturing lost ground while energy production intensified. A reduction in the number and value of building permits issued by June can slow construction activity over the coming months, while real retail trade declined by 3.9 percent in July 2023. Tourism observed steady improvement over the summer season.

External sector imbalances eased. The current account deficit declined to 1.1 percent of GDP by Q2 2023[11], largely due to an improvement in the merchandise trade balance. With energy import pressures abating, the trade deficit shrunk by more than 6 percentage points (pp) to 20.5 percent of GDP. At the same time, the services surplus softened to 4.8 percent of GDP owing to outlays for public infrastructure works. The primary income deficit remained broadly unchanged despite a rise in interest payments, while the secondary account surplus stood high supported by solid remittances. FDI inflows decelerated to 4.7 percent of GDP but financed the CAD and increased gross foreign exchange reserves. Gross external debt declined to an estimated 76.9 percent of GDP by March 2023.

10 On annual basis.
11 On a four-quarter rolling basis.

Despite sizeable government support, structural labor market challenges persist. In Q2 2023,[12] the participation rate slightly increased to 52.4 percent compared to a quarter earlier. However, the female participation rate, at 42.5 percent, remains 20 pp lower than that for men. Care for children and the elderly is cited as one of the primary reasons for inactivity of women but firms in North Macedonia are least prepared in the region to offer child-care benefits or flexible working arrangements.[13] The employment rate increased by 0.4 pp to 45.5 percent, while the unemployment rate declined to 13.1 percent, on account of more jobs for the younger cohort and the exit to inactivity of the older cohorts. The youth unemployment rate declined to 25.6 percent, still significantly higher than the EU average.

Sustained wage growth has outpaced inflation since April 2023. Wage growth was registered in all economic sectors in the first half of the year, led by a mandatory rise of the minimum wage. For construction, administrative and education workers wage growth was above average. Wages are set to rise even further as the Government signed a new collective agreement for the public sector that includes: a 10 percent wage increase as of September 2023; a revision to the wage-setting methodology in 2024 linking the base wage to the national gross wage; an annual leave bonus at 30 percent of the average net wage; and loyalty bonuses.

Headline inflation decelerated to single digits in June 2023 after reaching 19.8 percent in October 2022. Global pressures abating, monetary policy tightening, and the government support measures to control the prices of basic food products helped to contain the rise in prices responsible for half of the inflation increase in the first half of 2023. As food prices and energy prices eased, the inflation rate slowed to 8.3 percent in August 2023. However, second-round and spillover effects have kept core inflation high at around 8 percent. Inflation expectations measured in Q2 2023 stand at 9.3 percent for 2023, despite a mild improvement relative to the previous survey round from Q1 2023.

Monetary policy tightening continued as inflationary pressures persist. By August 2023, the central bank had raised the key policy rate to 6.15 percent up from a historical low of 1.25 percent before the beginning of the tightening cycle in spring 2022. The NBRM also aimed to bolster the denarization process in banks' balance sheets through raising the rate of mandatory reserves for foreign exchange liabilities from 19 to 20 percent. The pegged exchange rate has remained stable and FX reserves have recovered from losses incurred largely at the outbreak of the war in Ukraine, standing at more than 4 months of imports in June 2023. The stability of the banking sector was preserved with an increase in the capital adequacy ratio to 18 percent in Q1 2023 despite a drop in the liquidity rate to 19.1 percent that remains adequate. At the same time, the non-performing loans ratio declined to 2.8 percent. Credit growth slowed to 5.8 percent in July 2023 largely due to reduced borrowing by firms as financial conditions worsened.

12 The Q1-Q2 2023 data are not fully comparable to previous labor data due to methodological changes and the revision of the sample based on the 2021 census. All figures are on a quarter by quarter comparison.

13 Eurostat, Balkan Barometer Business Survey 2023.

Fiscal pressures continued. The public deficit in 2023 is likely to remain as high as in 2022. The general government deficit (with the Public Enterprise for State Roads finances included) is projected at 4.8 percent of GDP in 2023 after the budget technical reallocation that is needed to accommodate new wage spending commitments. The fiscal implications of the public sector collective agreement are estimated in the order of 0.7–0.8 percent of GDP on average per year and add to the earlier minimum wage adjustment and an upward correction of public officials' wages. By June 2023, the general government deficit reached an estimated 2.6 percent of GDP as VAT revenues declined while investment and social spending went up. At the same time, the collection of profit tax revenues increased as some of the TIDZ firms graduated from the tax exemption scheme. The recent adoption of the solidarity tax as well as CIT and VAT reforms will slightly ease the pressure for Q4 2023.

Public and publicly guaranteed and non-guaranteed debt stood well above the pre-crisis level. At 59.1 percent of GDP in June 2023, public debt is 10 pp above the level in 2019. Inflation helped reduce somewhat the debt-to-GDP ratio, but nominal public debt continues to rise. Expenditure arrears remain consistently above 3 percent of GDP, largely due to state-owned enterprise, health sector, and local government nonpayment. As part of the PLL arrangement with the IMF, the Government has committed to reduce payment arrears to the private sector.

Outlook and Risks

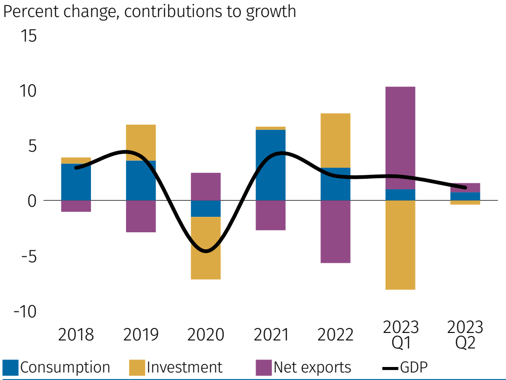
The medium-term outlook is positive, but downside risks prevail. Growth in 2023 is expected to increase modestly by 1.8 percent, reflecting a slowdown in the country's main trading partners as second-round effects from the war in Ukraine took force. Growth is expected to moderately accelerate in the medium term led by the rise in public investments and recovered consumption before slowing towards the potential growth trend thereafter. Public debt is expected to increase over the medium term owing to the Corridor VIII and Xd highway sections and wage spending commitments. Fiscal deficit is projected to drop below 3 percent of GDP only from 2027.

As commodity prices ease, the inflation rate is projected to decelerate to the long-term average by 2025. Assuming that the impact of crises subsides over the forecast horizon, inflation is estimated to decline to 9.1 percent in 2023 and to fall to the long-term average of 2 percent by 2025. Tightening monetary policy is expected to continue over the near term but to gradually ease as underlying price pressures subside.

While underlying risks remain largely skewed to the downside and reflect the outlook for the country's main trading partners, moving ahead with EU accession negotiations may accelerate critical reforms and unlock growth. However, heightened political uncertainty and a prolonged parliamentary impasse due to lack of consensus for constitutional changes and upcoming parliamentary and presidential elections in the first half of 2024 may delay reform implementation. Finally, policy slippages may weaken fiscal sustainability and strengthen inflation persistence in turn requiring additional monetary tightening that can further restrict financing options and decelerate economic activity going forward.

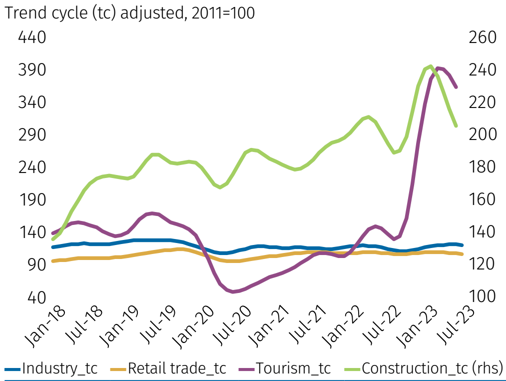
Overlapping crises have scarred the growth potential and further slowed convergence with the EU. Moving from middle- to high-income status requires following up on pending reforms and addressing critical impediments for future growth. Policy actions need to be geared to rebuild buffers and reduce vulnerabilities to future shocks. Boosting productivity, advancing on inclusion, and enhancing fiscal and environmental sustainability are critical for long-term steady growth in the context of pronounced and widespread uncertainty. Decarbonizing the economy and building resilience to climate change shocks is needed to maintain international competitiveness ahead of the EU Cross-Border Adjustment Mechanism implementation. Increasing productive capital expenditures as a share of the medium-term budget while maintaining fiscal sustainability would be crucial for boosting growth.

Growth started decelerating...



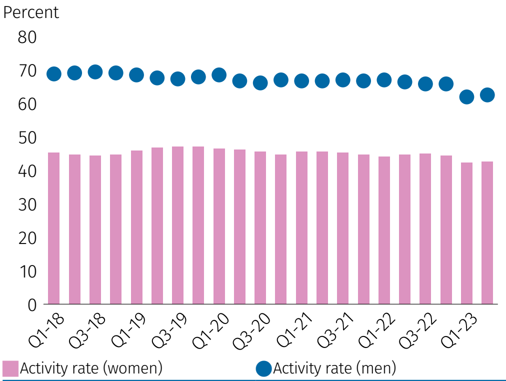
Sources: State Statistics Office; World Bank staff calculations.

...and high-frequency indicators point to a slowdown ahead.



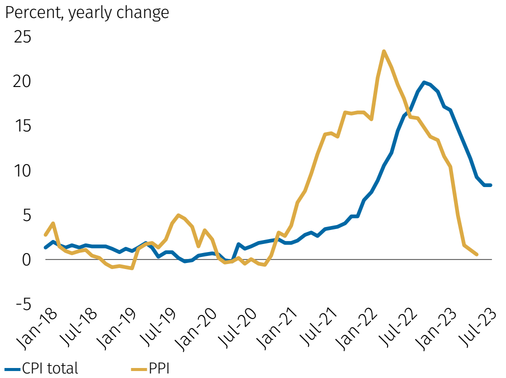
Sources: State Statistics Office; World Bank staff calculations.

Participation rates declined in 2023.



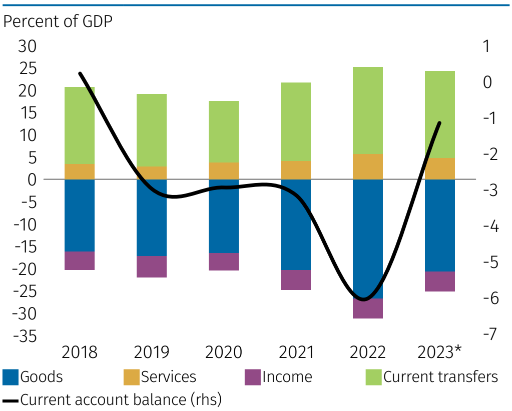
Source: State Statistics Office.
Note: LFS 2021 and 2022 make use of the 2021 census data, Q1 2023 contains a methodological change, thus making a break in the series.

Inflation hit a single digit bound over the summer...



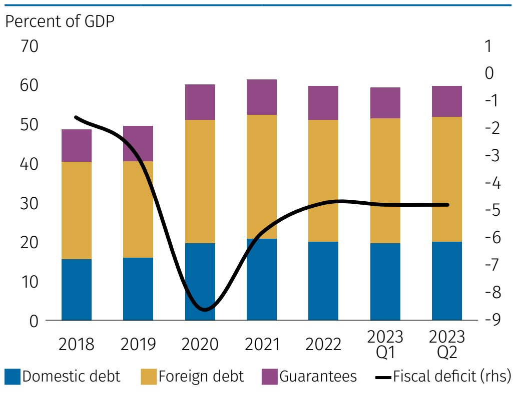
Source: State Statistics Office.

...and external imbalances eased as imports slowed.



Source: Central bank.
Note: 2023 is a rolling average until June 2023.

The public debt decreased with the help of inflation amidst a rise in expenditure arrears.



Sources: Ministry of Finance; World Bank estimates.
Note: Fiscal deficit includes Public Enterprise for State Roads

NORTH MACEDONIA Selected Economic Indicators	2020	2021	2022	2023e	2024f	2025f
Real GDP growth (percent)	-4.7	3.9	2.1	1.8	2.5	2.9
Composition (percentage points):						
Consumption	-1.5	6.4	2.9	1.2	1.2	1.9
Investment	-5.7	0.3	4.9	2.1	1.8	1.9
Net exports	2.5	-2.7	-5.7	-1.5	-0.6	-0.9
Exports	-7.4	7.4	9.2	4.6	4.3	4.1
Imports (-)	-9.9	10.2	14.8	6.1	4.9	5.0
Consumer price inflation (percent, period average)	1.2	3.2	14.2	9.1	3.0	2.0
Public revenues (percent of GDP)	29.9	32.5	32.4	34.9	35.0	35.7
Public expenditures (percent of GDP)	38.1	37.9	36.9	39.4	39.2	39.2
Of which:						
Wage bill (percent of GDP)	7.2	6.9	6.5	6.6	6.9	7.1
Social benefits (percent of GDP)	17.6	16.9	16.6	16.7	16.6	16.5
Capital expenditures (percent of GDP)	3.1	4.2	4.2	6.7	6.3	6.6
Overall fiscal balance (percent of GDP)	-8.2	-5.4	-4.5	-4.5	-4.1	-3.5
Overall fiscal balance with the Public Enterprise for State Roads included (percent of GDP)	-8.6	-5.8	-4.8	-4.8	-4.5	-3.8
Primary fiscal balance (percent of GDP)	-7.0	-4.1	-3.3	-3.2	-2.4	-1.5
Public debt (percent of GDP)	50.8	52.0	50.9	51.7	53.3	54.5
Public and publicly guaranteed debt (percent of GDP)*	59.8	61.0	59.6	60.2	61.5	62.2
Of which: External (percent of GDP)	39.9	39.9	39.1	38.7	38.8	38.3
Goods exports (percent of GDP)	44.4	51.3	57.0	56.8	57.5	58.5
Goods imports (percent of GDP)	61.0	71.6	83.7	82.3	82.5	83.1
Net services exports (percent of GDP)	3.9	4.2	5.7	6.9	7.3	7.6
Goods and services trade balance (percent of GDP)	-12.7	-16.0	-21.0	-18.6	-17.7	-17.0
Remittance inflows (percent of GDP)	3.1	2.9	2.7	2.9	2.8	2.7
Current account balance (percent of GDP)	-2.9	-3.1	-6.0	-3.7	-3.2	-2.8
Net foreign direct investment inflows (percent of GDP)	1.4	3.3	5.2	5.2	4.7	4.2
External debt (percent of GDP)	78.7	81.9	84.2	80.0	82.7	82.8
Real private credit growth (percent, period average)	5.6	2.8	-4.2	–	–	–
Nonperforming loans (percent of gross loans, end of period)	3.3	3.1	2.8	–	–	–
Unemployment rate (percent, average)**	16.4	15.4	14.4	–	–	–
Youth unemployment rate (percent, period average)	35.7	36.3	32.5	–	–	–
Labor force participation rate (percent, period average)	56.4	56.0	55.2	–	–	–
GDP per capita, PPP (current international $)**	13,562	14,096	14,398	14,657	15,024	15,459
Poverty rate (percent of population)	20.1	19.1	18.3	17.9	17.3	16.2

Sources: Country authorities; World Bank staff estimates and projections.
Note: *Includes non-guaranteed debt of SOEs, as well. **Data from 2021 and 2022 are not fully comparable to previous labor data due to the change in the LFS sample based on the 2021 census. Data for 2023 is the latest available. Youth unemployment rate is for labor force aged 15–24. e = estimate; f = forecast; PPP = purchasing power parity; – = not available. Poverty rate calculations based on ECAPOV harmonization using SILC-C data. Nowcasted/projected values start at 2020. Income measures in the SILC and consumption measures in the HBS are not strictly comparable. Poverty is defined as living on less than $6.85/day per person in revised 2017 PPPs.

Serbia

- Even though some acceleration of the economic activity is expected in H2, results from the first half of the year suggest that annual GDP growth in 2023 will be around 2 percent.
- Inflation has started to decline, but it is still among the highest in Europe. It is expected that it will return to the NBS target band in mid-2024.
- Fiscal performance has been better than expected, with a lower-than-anticipated deficit, thanks to a strong performance of revenues, while public debt has plateaued at around 56 percent of GDP.
- The CAD will be lower than expected in 2023, at about 2.5 percent of GDP, and the strong inflow of FDI continues. As a result, foreign currency reserves have increased to a record high.
- While growth projections over the medium term (2024-2026) remain unchanged, those are still below potential growth rates. This underlines the importance of structural reforms to accelerate growth in potential output.
- A possible new source of growth could be FDI in high value-added sectors, but there are risks too, in particular those related to SOEs, both in terms of the impact of SOEs on fiscal balances and on market competition.

Recent Economic Developments

The Serbian economy grew slower than expected in H1 2022. The start of the year was particularly weak with growth in Q1 estimated at 0.9 percent only. In Q2, the situation improved somewhat as the construction sector started to recover, contributing to GDP growth that reached 1.7 percent, yoy. In the first half of the year, economic growth was supported heavily by net exports. While exports of goods saw an encouraging expansion (up by 9.4 percent in euro terms in H1), there was a noticeable decrease in imports (down 5 percent in H1), in particular imports of energy (down 24.5 percent) and raw materials (down 6.4 percent) which led to a significant positive contribution to growth in H1. Both consumption and investment had a negative contribution to growth in H1. Consumption is being hit by the effects of prolonged high inflation, while investment was impacted by a major decrease in inventories (while gross fixed capital formation had a positive contribution to growth). In the first half of the year, total investment decreased by 15.2 percent (yoy) in real terms, primarily as a result of a major decrease in inventories. On the production side, some agriculture products were hit by unfavorable weather conditions (fruits and vegetables in particular), but the wheat and corn harvest was better than expected, thus helping the agriculture sector as whole to grow by 9.9 percent in H1 2023. The construction sector started to recover with strong growth of 17.9 percent, yoy, in Q2 2023, after four consecutive quarters of decline. Industrial production increased by 1.7 percent (yoy) in H1, driven by an improvement in the energy sector (up by 6.4 percent), while manufacturing declined by 1 percent in H1. Value added in services sectors increased by just 0.7 percent (in real terms, yoy) in the first half of the year.

The labor market was, by and large, resilient to the shock caused by the pandemic, and the unemployment rate has remained stable at around 10 percent. In Q2 2023, the unemployment rate decreased to 9.6 percent, compared to 10.1 percent in Q1 (or 9.4 percent on average in 2022). Labor market improvements also resulted in a higher employment rate, which reached 50.4 percent in Q2 2023. Nevertheless, the youth unemployment rate remained structurally high at around 25 percent. Wages continued to rise, increasing by 15.4 percent in nominal terms in H1 2023.

The consolidated budget shifted to a small surplus of 0.6 percent of annual GDP over the first six months of 2023. Revenues posted a strong performance (up 12.5 percent in nominal terms, in H1, yoy), thanks to major increases in corporate income tax (CIT), social contributions and domestic VAT. High inflation, among others, drove VAT revenues, while improved CIT collection reflects the recovered profitability of businesses in 2022. Social contributions increased on the back of both higher formal employment (up 2.7 percent in H1, yoy) and nominal wages (up 15.4 percent in H1, yoy). Meanwhile, expenditures have been kept under control (up by 7.7 percent over the same period). According to the supplementary budget (in preparation) this year's fiscal deficit should be 2.8 percent of GDP, which could go even further down to 2.5 percent of GDP. Public debt remained broadly stable throughout 2023 and stood at around 56 percent of GDP.

As last year's extraordinary imports of energy stopped, there is a significant improvement in the BOP in the first half of the year. The CAD decreased by 82 percent in H1 (from EUR 2.9 billion in H1 2022 to EUR 0.5 billion in H1 2023). The trade balance shrank by 40 percent as imports of energy (both gas and electricity) decreased by 24.5 percent (or EUR 926 million) over the first six months of 2023, compared to the same period of 2022. As a result of a major decrease of the CAD in H1, it is now projected to decrease to around 2.5 percent of GDP for 2023 as a whole. Financing flows remain comfortable as net foreign direct investment inflows increased by almost 35 percent compared to the same period of 2022, to reach EUR 2 billion in the first half of 2023. Most importantly, inflows related to equity and investment fund shares increased by over 50 percent. As a result, there was a significant increase in official foreign currency reserves which stood at EUR 22.6 billion at the end of June, covering 6 months of imports.

Inflation remains stubbornly high, and has only started to fall later than in peer CEE countries. The consumer price index (CPI) peaked at 16.2 percent (yoy) in March, the highest level of inflation since the CPI measurement begun (in January 2007). Inflation has started to fall since then, and reached 11.5 percent in August. Notwithstanding the fact that inflation started and reached its peak at different times across countries, inflation in Serbia is still among the highest in Europe.[14] Food prices, notwithstanding the selective government price controls, drove this trend, increasing by 21.1 percent (yoy) in July 2023. It is expected that inflation will return to the NBS target band in mid-2024. Importantly, producer prices as measured by PPI went down significantly over recent months and in July were only 0.5 percent higher than a year earlier. The NBS decided to keep the key interest rate unchanged in both August and September at 6.5 percent after 16 months of continuous, gradual increases. The nominal exchange rate remains stable but there has been a significant appreciation of the REER over the first seven months of 2023 (by 4.4 percent).

14 Only Hungary has a higher inflation according to Eurostat July data.

The performance of the banking sector has continued to be robust. Based on 2023 Q2 data, banks remained profitable and liquid. The liquidity ratio increased from 2.2 at the end of 2022 to 2.4 in June, while the capital adequacy ratio increased to 22.3 percent at the end of June (compared to 20.2 at the end of 2022). Non-performing loans (NPLs) stood at 3.2 percent in June, a slight increase compared to 3 percent at the end of 2022. Credit growth has slowed down in 2023 due to tightening monetary conditions. The total stock of loans in June was only 2 percent higher than a year earlier. The highest increase in credit growth relates to loans to government (up by 6.7 percent, yoy) while loans to private companies increased by a mere 0.3 percent (yoy) and to households by 2.6 percent (yoy, as of June).

Outlook and Risks

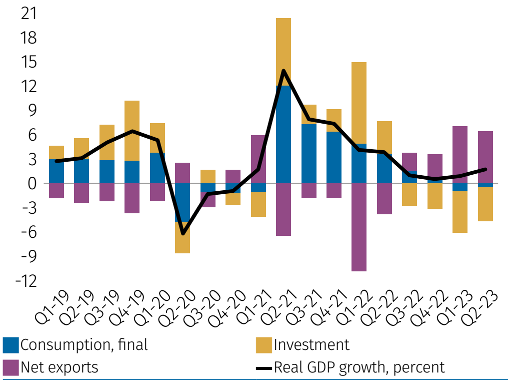
The growth outlook remains positive with risks tilted to the downside. The Serbian economy started to slow down in the second half of 2022, a trend that continued in the first half of 2023. However, in mid-2023 the construction sector started to recover, and some agriculture sectors (wheat and corn production in particular) scored better than expected results. Considering the impact of these factors, it is expected that growth will accelerate in the second half of 2023 thus leading to a growth rate of 2 percent for the year as whole. Going forward and over the medium term, it is expected that growth will be around 3–4 percent. These are rates that are below Serbia's potential and any acceleration in growth will be dependent on structural reforms.

Growth constraints could be removed by a more ambitious domestic reform agenda and its implementation. The recent crisis in the domestic energy sector has once again emphasized the urgency of improving the management of SOEs. Therefore, the government should embark on an even more decisive, comprehensive and thorough reform of SOEs to make them financially and operationally viable. There are other reforms related to governance, education, transport, municipal-level utility services, financial sector etc. that should help Serbia to grow much faster.

The risks to the baseline macroeconomic outlook that could materialize in 2023 and beyond are numerous. First, high inflation could persist for an unexpectedly long period and a more coordinated effort between fiscal and monetary policy would be needed to help to bring it down to the targeted level. High inflation hurts growth and diminishes gains in improved living standards, especially for the poor. Second, it is critical, given Serbia's levels of public debt, that scarce public investment resources are prioritized towards projects with high economic and social returns, and are balanced against fiscal risks over the medium to long run.

Growth started to recover as of Q2…

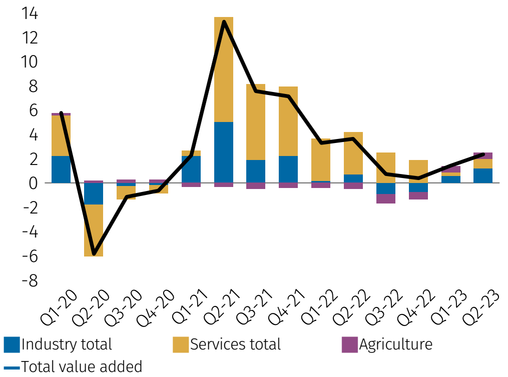
Contribution to growth, percentage points



Source: Statistics Office of the Republic of Serbia.

…with all three broad sectors contributing to growth.

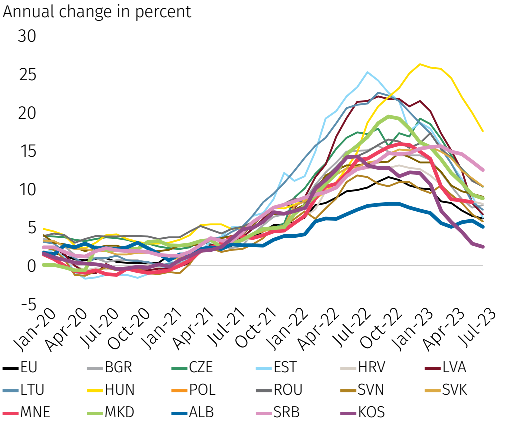
Contribution to growth of value added, yoy



Source: Statistics Office of the Republic of Serbia.

Inflation is currently higher than in peer countries…

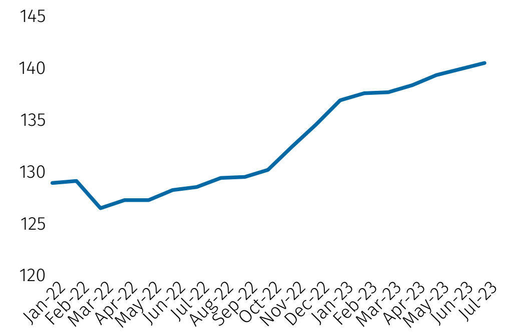
Annual change in percent



Sources: Statistics Office of the Republic of Serbia and Eurostat.

…leading to a strong REER appreciation.

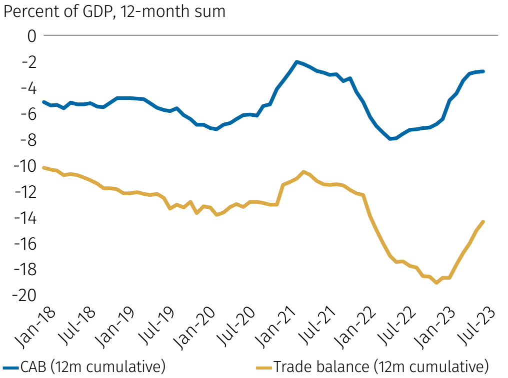
2005=100



Source: National Bank of Serbia.

The CAD and trade deficit decreased…

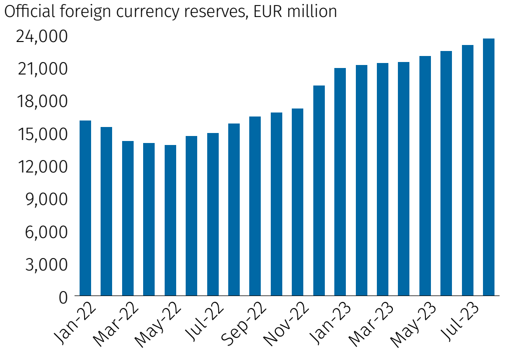
Percent of GDP, 12-month sum



Source: National Bank of Serbia.

…and reserves recovered.

Official foreign currency reserves, EUR million



Source: National Bank of Serbia.

SERBIA Selected Economic Indicators	2020	2021	2022	2023e	2024f	2025f
Real GDP growth (percent)	-0.9	7.5	2.3	2.0	3.0	3.8
Composition (percentage points):						
Consumption	-0.8	6.0	2.5	0.2	1.7	2.8
Investment	-0.2	2.6	1.9	-0.1	0.1	1.5
Net exports	0.1	-1.0	-2.2	1.9	1.2	-0.5
Exports	-2.3	10.4	10.4	2.7	2.8	4.6
Imports (-)	-2.4	11.4	12.6	0.8	1.6	5.0
Consumer price inflation (percent, period average)	1.6	4.0	11.9	12.4	5.3	3.5
Public revenues (percent of GDP)	41.0	43.3	43.4	42.9	42.5	42.0
Public expenditures (percent of GDP)	49.0	47.4	46.4	45.6	44.5	43.5
Of which:						
Wage bill (percent of GDP)	10.5	10.0	9.6	9.7	10.0	9.9
Social benefits (percent of GDP)	14.7	13.6	13.1	13.4	13.9	13.3
Capital expenditures (percent of GDP)	5.3	7.4	7.3	6.9	6.7	6.9
Fiscal balance (percent of GDP)	-8.0	-4.1	-3.0	-2.8	-2.0	-1.6
Primary fiscal balance (percent of GDP)	-6.0	-2.4	-1.5	-1.0	0.0	0.3
Public debt (percent of GDP)	53.9	54.5	52.6	52.3	50.5	49.6
Public and publicly guaranteed debt (percent of GDP)	57.8	57.1	55.6	55.4	53.7	51.7
Of which: External (percent of GDP)	33.4	37.0	36.0	36.0	34.3	33.2
Goods exports (percent of GDP)	34.3	39.4	44.6	43.1	43.6	44.0
Goods imports (percent of GDP)	45.5	50.7	60.1	52.8	53.3	53.6
Net services exports (percent of GDP)	2.4	2.6	3.8	3.4	2.8	2.5
Trade balance (percent of GDP)	-8.8	-8.7	-11.7	-6.2	-6.8	-7.0
Net remittance inflows (percent of GDP)	4.5	4.7	6.1	5.5	5.1	4.9
Current account balance (percent of GDP)	-4.1	-4.2	-6.9	-2.5	-3.4	-4.3
Net foreign direct investment inflows (percent of GDP)	6.3	6.9	7.1	6.1	5.6	5.4
External debt (percent of GDP)	65.8	68.4	67.9	64.3	61.1	59.7
Real private credit growth (percent, period average)	9.2	3.7	-2.7	–	–	–
Nonperforming loans (percent of gross loans, end of period)	3.7	3.6	3.0	–	–	–
Unemployment rate (percent, period average)	9.7	11.0	9.4	–	–	–
Youth unemployment rate (percent, period average)	27.7	26.4	24.4	–	–	–
Labor force participation rate (percent, period average)	52.2	54.7	55.5	–	–	–
GDP per capita, PPP (current international $)	19,556	21,642	22,901	27,330	29,096	31,409
Poverty rate (percent of population)	10.1	9.1	8.5	8.0	7.5	6.9

Sources: Country authorities; World Bank estimates and projections.
Note: e = estimate; f = forecast; PPP = purchasing power parity; – = not available. Poverty rate calculations based on ECAPOV harmonization using SILC-C data. Nowcasted/projected values start at 2021. Income measures in the SILC and consumption measures in the HBS are not strictly comparable. Poverty is defined as living on less than $6.85/day per person in revised 2017 PPPs.