WORLD BANK GROUP

WESTERN BALKANS REGULAR ECONOMIC REPORT
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Steering Through Crises

COUNTRY NOTES

Albania

- Growth in 2021 fully recovered from the recession caused by the pandemic. At preliminary 8.5 percent, growth turned out to be considerably stronger than anticipated due to policy stimulus and resumption of travel, construction, and extractives.
- At the same time, aligned with global developments, inflation has increased above the central bank's target.
- Due to a large nominal growth of GDP and a strong revenue performance, higher public spending was not translated into a higher debt-to-GDP ratio.
- Employment and labor force participation have yet to catch up with their pre-pandemic levels, notwithstanding the strong growth outcome.
- The short-term outlook deteriorated, and downside risks intensified. Uncertainty with regard to the war in Ukraine is affecting price stability and growth, which is expected to decelerate to 3.2 percent in 2022 if the acute phase of the crisis eases in Q2 2022.

Recent Economic Developments

In 2021, the recovery gained speed. Real GDP increased by 8.5 percent, fully recovering from the recession caused by the pandemic. Government spending and strong private demand led growth, stimulated by continued monetary and fiscal policy support. Domestic demand contributed 9.4 percentage points to growth, of which private consumption contributed 4.7 percentage points, as consumer confidence improved, uncertainty regarding the pandemic was reduced, and disposable income increased through higher wages and bank lending. Gross fixed capital formation added 4.8 percentage points to growth, through both higher public and private investments. While exports expanded by 61.8 percent in 2021, the contribution of net exports was negative due to the high import content of growth.

Growth in 2021 was broad-based. However, post-earthquake reconstruction, a strong recovery of tourism and extractives, and favorable hydrological conditions for energy production were key factors determining the sectoral composition of growth. Construction contributed 1.9 percentage points to the growth, supported by reconstruction and government infrastructure spending. Of all sectors, agriculture had the least contribution, due to increases in production costs.

Growth has not brought employment to the precrisis level. There were 16,800 fewer employed people in 2021 than in 2019. All sectors except ICT, construction, transport, retail and wholesale, and utilities have reduced employment since 2019. At the same time, average labor force participation fell for the second consecutive year among all age groups. Wage pressures intensified: the formal real wage increased by 3.7 percent in 2021, close to the 2019 increase, while the minimum wage increased by 13.1 percent in real terms. The average unemployment rate remained stable at 11.5 percent in 2021.

Inflationary pressures have risen since late 2021. Consumer price inflation reached 3.7 percent in January 2022, led by wage pressure from the domestic demand expansion

and the hike in food, energy, transport, and commodity prices in world markets. Food prices increased by 6.8 percent year-on-year in December 2021, close to double the increase of the overall basket. This will hurt most households as food comprises over half of total consumption for the median household.

The central bank has increased the policy rate by 0.5 percentage points in March 2022, and announced further tightening in 2022. The exchange rate remained stable over 2021 with a slight appreciation toward the end of the year. However, with the start of the war in Ukraine and the rapid increase in commodity and energy prices, there were some short-lived depreciation pressures for the domestic currency which, as of now, have faded away completely.

Credit to the private sector grew strongly during 2021 for both enterprises and households. Credit to the private sector increased by 8.5 percent in nominal terms in 2021. Similarly, bank deposits continued to expand by 10.3 percent, with household savings forming around two-thirds of growth of total deposits in the system.

The current account deficit narrowed to 7.7 percent of GDP in 2021 from 8.5 percent of GDP in 2020. The rebound in exports at 61.8 percent y/y was sizable after their decline in 2020, and led to a significant narrowing of the trade deficit by 1.1 percentage points of GDP. The services account (at 11.5 percent of GDP) and remittances (at 4.9 percent of GDP) helped narrow the current account deficit in 2021. Net foreign direct investment increased in 2021 reaching 6.4 percent of GDP on the back of investments into extractives, banking, and telecommunications. This, together with government borrowing, financed most of the current account deficit. The reserve coverage stands at 8.2 months of imports of goods and services.

The fiscal deficit has declined to 4.5 percent of GDP in 2021 due to strong revenues. Fiscal revenues rose to 27 percent of GDP in 2021, in line with stronger economic activity and the abolishment of temporary tax relief measures that were put in place during 2020. The main contribution came through the VAT collected on imported goods. Higher fiscal revenue collection and new debt allowed the government to increase infrastructure spending. In addition, to ensure stable energy supply during the last quarter of the year, the government increased subsidies to the energy state-owned enterprises (SOEs) to cover increased energy import costs. Contingent liabilities from SOEs represent a source of risk for the budget as guarantees for the SOEs in the energy sector are expected to increase further as the international prices increase and there is no planed increase in tariffs for the regulated costumers (households and small businesses).

Public debt declined in 2021 reaching 74 percent of GDP.[1] A Eurobond amounting to EUR 650 million was issued in November 2021 to pre-finance the gross financing needs in 2022. The rating for the country was confirmed at B1/stable by Moody's and and B+/Stable by S&P at the start of 2022.

Outlook and Risks

Economic growth is expected to decelerate to 3.2 percent in 2022 under the baseline

1 Includes the stock of arrears to the private sector reported as per December 2021 in the amount of 15.4 billion lek.

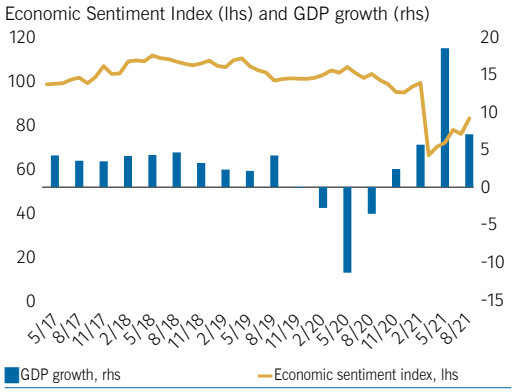
scenario. This rests on the assumption that the acute phase of the crisis eases in Q2 2022 even if effects of sanctions persist through 2022 and even into 2023.

However, the war in Ukraine, if prolonged, could affect the Albanian economy through several channels. Higher commodity prices, in particular oil and grains, are expected to be the main transmission channel. In general, direct trade, remittance, and migration linkages with Russia and Ukraine are small, accounting for less than 3 percent of the total. However, Russia and Ukraine are key producers and exporters of several commodities which are of vital importance for Albanians including grains. Higher energy prices are expected to drive up prices in transport, and lead to second round effects in other goods of the consumption basket. Inflation is expected to increase to 5.5 percent in 2022 from a pre-conflict scenario of 3 percent. With higher import costs, the current account deficit is likely to grow to 7.9 percent of GDP. As higher costs reduce household purchasing power and raise the costs of businesses, growth prospects are also lower. If higher energy prices translate into higher electricity import prices, the shock could also deteriorate the financial situation of Albania's electricity SOEs. This could heighten fiscal risks from the energy SOEs.

The public debt is expected to stabilize at 73.9 percent of GDP in 2022, before declining gradually over the medium term. Fiscal space could further deteriorate in a downside scenario where prolonged war further decelerates EU growth and thereby lower Albanian exports to key EU trading partners that account for 60 percent of its exports. In this case, the government may need to cut capital spending to prevent an increase of the debt-to-GDP ratio. Moreover, with more reliance on external financing, the exchange rate, interest rate, and refinancing risks remain elevated. A key medium-term reform priority is the need to boost revenue collection and achieve fiscal consolidation, while allowing for significant growth-enhancing spending.

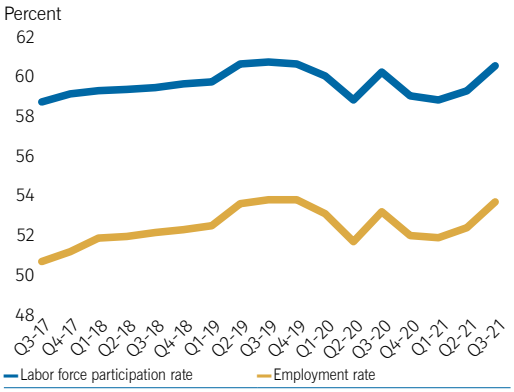
Over the medium term, growth is projected to accelerate to 3.5 percent. Private consumption is projected to return as the primary driver of GDP growth. Private investment could provide further support to growth if business climate reforms are implemented. The current account deficit is expected to narrow over the medium term, as service exports, including tourism and fast-expanding business process operations, are expected to grow in line with pre-pandemic trends.

The GDP recovered well in 2021, but the speed of recovery moderated toward year-end.



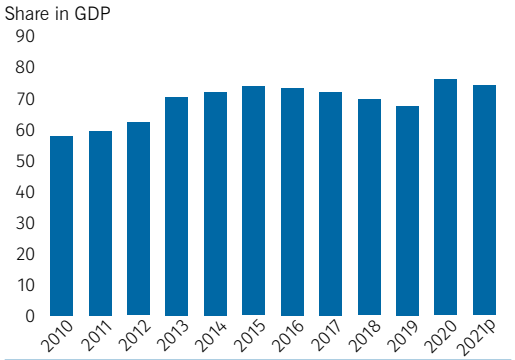
Source: INSTAT and Bank of Albania.

Despite higher growth, labor markets are yet to recover.



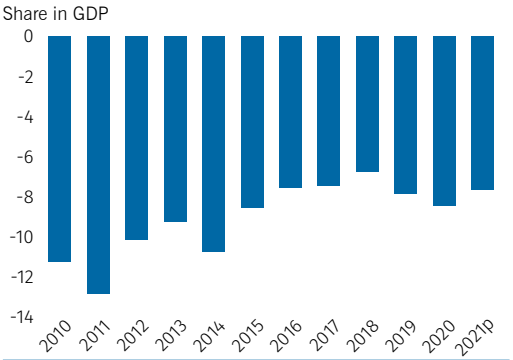
Sources: INSTAT.

The public debt decreased...



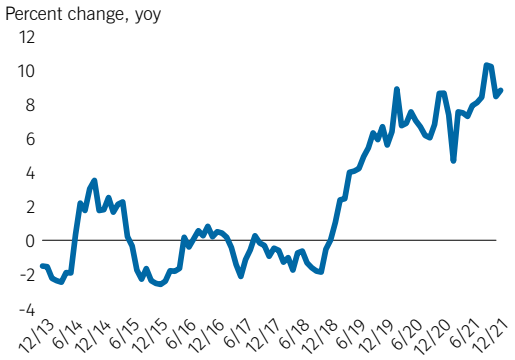
Source: Ministry of Finance.

...while the current account deficit narrowed.



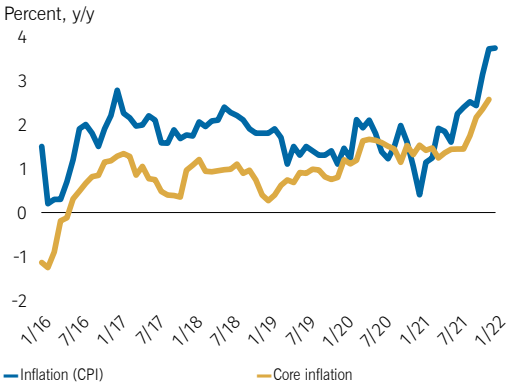
Source: Bank of Albania.

Credit to the economy has supported growth.



Source: Bank of Albania.

Headline and core inflation have accelerated since April.



Source: Bank of Albania.

ALBANIA	2019	2020	2021p	2022f	2023f	2024f
Real GDP growth (percent)	2.2	-3.5	8.5	3.2	3.5	3.5
Composition (percentage points):						
Consumption	2.5	-2.6	4.5	2.0	2.4	2.0
Investment	-0.9	-0.9	4.8	0.3	0.1	1.1
Net exports	0.6	0.0	-0.9	0.9	1.0	0.4
Exports	2.0	-9.4	11.5	1.5	2.4	2.1
Imports (-)	1.4	-9.3	12.4	0.6	1.4	1.7
Consumer price inflation (percent, period average)	1.4	1.6	2.6	5.5	4.0	3.0
Public revenues (percent of GDP)	27.2	25.9	27.0	27.1	27.2	27.3
Public expenditures (percent of GDP)	29.2	32.6	31.5	32.1	29.9	29.6
Of which:						
Wage bill (percent of GDP)	4.6	4.7	4.4	4.4	4.4	4.2
Social benefits (percent of GDP)	11.9	12.9	12.6	11.8	11.7	11.4
Capital expenditures (percent of GDP)	4.5	6.2	6.8	5.4	4.6	4.6
Fiscal balance (percent of GDP)	-1.9	-6.7	-4.5	-5.0	-2.6	-2.4
Primary fiscal balance (percent of GDP)	0.1	-4.6	-2.6	-2.5	-0.1	0.1
Public debt (percent of GDP)	63.7	74.0	72.1	72.0	70.2	69.0
Public and publicly guaranteed debt (percent of GDP)	67.4	75.9	74.0	73.9	72.1	70.9
Of which: External (percent of GDP)	29.1	35.9	37.8	37.0	37.0	37.0
Goods exports (percent of GDP)	6.6	6.0	8.2	6.8	6.7	6.7
Goods imports (percent of GDP)	29.7	28.4	33.0	30.2	29.8	29.5
Net services exports (percent of GDP)	9.3	8.1	11.5	11.3	12.6	13.3
Trade balance (percent of GDP)	-13.8	-14.4	-13.3	-12.1	-10.5	-9.5
Net remittance inflows (percent of GDP)	5.2	5.1	4.9	4.8	4.8	4.8
Current account balance (percent of GDP)	-8.0	-8.5	-7.7	-7.9	-6.4	-5.3
Net foreign direct investment inflows (percent of GDP)	7.6	6.7	6.4	6.4	6.3	6.3
External debt (percent of GDP)	60.0	65.6	58.1	56.7	57.0	56.9
Real private credit growth (percent, period average)	1.5	5.2	5.5	-	-	-
Nonperforming loans (percent of gross loans, end of period)	8.4	8.1	5.7	-	-	-
Unemployment rate (percent, period average)	11.5	11.7	11.5	-	-	-
Youth unemployment rate (percent, period average)	21.5	20.9	20.9	-	-	-
Labor force participation rate (percent, period average)	60.4	59.5	59.8	-	-	-
GDP per capita, PPP (current international $)	15,393	14,888	17,245	18,369	19,487	20,576
Poverty rate (percent of population)	28.1	31.3	22.0	19.4	16.9	-

Sources: Country authorities, World Bank estimates and projections.

Note: Youth unemployment rate is for labor force aged 15–29. Statistical discrepancy contribution is divided at the ratio of 80 percent and 20 percent between Consumption and Investment respectively. Change in inventories is included in Investments. Poverty rate calculations based on ECAPOV harmonization using SILC-C data. Nowcasted/projected values start in 2020. Income measures in the SILC and consumption measures in the HBS are not strictly comparable. Poverty is defined as living on less than $5.5/day per person in revised 2011 PPPs.

Bosnia and Herzegovina

- While political tensions stalled reforms, economic growth in 2021 reached 7.1 percent, outperforming expectations, after a short-lived recession the year before.
- Headline inflation, meanwhile, accelerated fueled by food and transport prices.
- Despite the surge in real growth, employment improved only marginally; unemployment remains elevated and is especially high among youths.
- Fiscal revenues benefited from the strong rebound in growth, but the fiscal stance recorded a deficit of roughly 2.5 percent of GDP.
- Under the baseline, real output growth is preliminary assessed at 2.7 percent in 2022 and is expected to increase over the medium term as the implementation of structural reforms slowly takes off; in the downside scenario of extended crisis, growth would decline further due to a dampening effect of lower business and consumer confidence, a slowdown in EU export demand, and more persistent inflation reducing disposable income.

Recent Economic Developments

Following a contraction in 2020 of 3.1 percent, the rebound in real GDP growth surprised on the upside in 2021. Economic growth accelerated to 7.1 percent (preliminary) largely driven by the low base from the previous year marked by the pandemic crisis. Nonetheless, this is an exceptional growth performance, which helped real GDP exceed the precrisis level. Real growth was driven by a surge in exports, and robust growth in private consumption. On the production side, wholesale and retail trade rebounded strongly from the large decline in activity seen in the second and third quarters of 2020, while real growth in manufacturing accelerated in response to higher export demand.

In tandem with growth, inflation accelerated. In 2021, headline inflation in Bosnia and Herzegovina rose to 2 percent compared to a deflation rate of 1.1 percent the year before and an inflation rate of 0.6 percent in 2019. The consumer price index (CPI) soared to 6.3 percent in December (y/y), continuing upward inflationary pressures that started around mid-2021 due to strong consumer demand, global supply bottlenecks, and a high passthrough effect given the currency board arrangement. Food price inflation, meanwhile, skyrocketed to 10.8 percent in December (y/y) resulting in an annual food inflation rate of 3.7 percent in 2021, by far the highest rate since 2016. Vegetable prices rose over 40 percent and edible oils rose close to 30 percent (y/y) in December 2021. In parallel, transport prices accelerated to over 14 percent toward the end of 2021 as prices of diesel and super petrol grew just over 30 percent (y/y) in the fourth quarter of 2021, with spillover effects to other products bolstering inflationary pressures in early 2022.

The labor market improved, but the unemployment rate remains elevated. The unemployment rate fell from a 19.1 percent in Q1 2021 to 16.4 percent in Q3 2021, driven by a rise in demand for labor.[2] Job gains in agriculture and construction drove up

2 The methodology of the Labor Force Survey was changed in 2021, which somewhat distorts direct comparisons between 2021 and 2020 data.

the employment rate to 40.4 percent in Q3 2021, which nevertheless remains at low levels compared to other Western Balkan countries. In parallel to the tightening of the labor market, net nominal salaries rose about 4.3 percent in 2021, yet the swift rise in consumer prices in the fourth quarter of 2021 has eaten into households' real incomes.

Buoyant indirect revenues and sluggish capital spending were insufficient to return the fiscal balance to a surplus in 2021, after the pandemic-induced deficit. The latest preliminary consolidated data indicate a 2.5 percent of GDP fiscal deficit in 2021, compared to a deficit of 1.8 percent in 2020.[3] In 2021, revenues rose on the back of stronger collection of the VAT. Meanwhile, higher expanses on goods and wages, as well as social transfers, such as pensions and veteran benefitsraised expenditures, while capital spending remained low. Implementation delays in public investments were triggered by difficulties in forming the government in the Federation (FBiH) and country-level BiH Institutions (IBiH). Specifically, both the BiH Fiscal Council and FBiH Parliament adopted with a significant delay the Global Fiscal Framework for 2022–24 and the FBiH budget, respectively. The budget for IBiH for 2022 has not yet been adopted, which means that IBiH is operating based on the temporary financing schedule, which limits the scope of spending. FBiH was operating under a temporary financing schedule in the first quarter of 2022. Total public debt remains moderate at around 34.4 percent of GDP at end-2021, and predominantly consists of loans from international financial institutions.

3 See global fiscal framework for 2022–24, BiH Ministry of Finance and Treasury.

The sharp rise in exports narrowed the traditionally large, structural merchandise deficit, and helped narrow the current account deficit (CAD). The CAD narrowed from 3.9 percent in 2020 to a preliminary 2.3 percent in 2021 as the merchandise trade deficit narrowed, while the services surplus widened compared to the year before. The sharp rise in exports benefited from strong demand and a rise in terms of trade for base metals (steel, iron, and aluminum), mineral and wood products, machinery, and furniture. Meanwhile, stronger tourism receipts and remittances helped finance the trade deficit. Close to 80 percent of the CAD is expected to be financed by net direct investments, while the total external debt-to-GDP ratio is projected to remain below 66 percent in 2021.

Except for one bank, the banking sector is liquid and well-capitalized. The market share of the Russian-owned Sberbank in BiH, that came under pressure following the introduction of sanctions against Russia, is 6.8 percent (in FBiH 6.3 percent and in the Republika Srpska 11.7 percent). Recently imposed sanctions entail, among others, the removal of selected Russian banks, from the SWIFT messaging system, disconnecting them from the international financial system and limiting their ability to operate globally. In light of resulting liquidity difficulties, on March 1, ASA Finance Group (ASA Bank) bought Sberbank in FBiH, and a day later Nova Banka bought Sberbank in Republika Srpska. Thus, potential risks for the financial sector stemming from difficulties with Sberbank have been rapidly contained. The banking system is well equipped to cope with the shock as the systemwide nonperforming loan ratio has declined to 5.5 percent of total loans in 2021Q3, and profitability improved with a return on equity of 11.5 percent, up from

6 percent at the end of 2020. The capital-to-asset ratio remained unchanged, while capital buffers are within regulatory requirements.

Outlook and Risks

Real GDP is projected to decelerate to 2.7 percent in 2022, and average below 3.5 percent over the medium term. According to the baseline scenario, which considers a contained war in Ukraine, BiH will not catch up with the pre-pandemic growth trajectory over the medium term. Output growth is expected to be driven by investment and a more moderate rise in exports, which in turn are likely to be more than offset by imports as infrastructure projects ensue. Announced investments in energy and infrastructure are envisaged to lead the recovery phase together with a further pickup in private consumption fueled by remittances, a tightening labor market, and domestic lending. As the impact of the pandemic and hostilities in Ukraine subside, the political paralysis in BiH is expected to be overcome in the post-election period. Thus, the Socio-Economic Program,[4] fulfilling priorities for EU accession, is assumed to gain needed attention by end of 2022, accompanied by much-needed structural reforms.

With the global energy market disrupted over the short term under a scenario of contained war in Ukraine, inflationary pressures are assumed to subside in the second half of 2022, leaving inflation around 6.5 percent. Energy and food prices may destabilize over the next few months due to the war in Ukraine, and therefore inflationary pressures may persist longer than previously anticipated.

4 The country's medium-term development plan adopted in January 2020 to tackle key structural reforms and respond to EU accession priorities

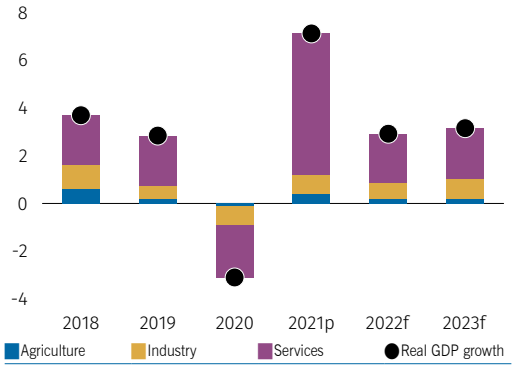
The fiscal deficit in 2022 is expected to be driven by capital and pre-election spending, and a return to surplus is envisaged in 2023. Without access to international markets, the authorities will continue relying on support from international financial institutions. The extent of this financial support will depend on internal political developments and the de-escalation of tensions, which have risen significantly over the past 10 months.

A downside scenario entails a more extended war in Ukraine, which could reduce real output growth in 2022 by 0.2 percentage points to 0.4 percentage points. An extended crisis would have a negative impact on aggregate demand through lower business and consumer confidence in BiH and slower growth in the EU. The latter would have adverse spill-over effects for BiH's export demand. At the same time, however, price and volume effects for BiH's exports of iron and steel products and aluminium, which accounted for almost 15 percent of total exports in 2021, could help meet the shortages in the world market created by the hostilities in Ukraine, and in part offset the negative effects of a slowdown in EU growth. Slower growth in the EU would likely also slow remittances, with negative consequences for household incomes, thus dampening consumption in BiH over the medium term. In addition, the rise in main commodity prices traded internationally, such as wheat, oil, and natural gas, could prolong inflationary pressures in the EU, thus impacting inflation in BiH due to the currency board arrangement. As a result, inflation could remain elevated throughout the year, totalling 10 percent compared to the baseline of 6.5 percent, further slowing private consumption as real disposable income declines.

Beside the risks associated with the war in Ukraine, two other risk factors continue to dominate the BiH outlook. First, a prolonged impact of the pandemic as the virus continues mutating could adversely affect economic activity, and second, the existing political frictions could aggravate post-election difficulties in forming governments. Political frictions could even further intensify if geopolitical tensions shift to the Western Balkans. This would result in a more sustained detrimental impact on the implementation of structural reforms needed for EU accession.

GDP growth expanded in 2021.

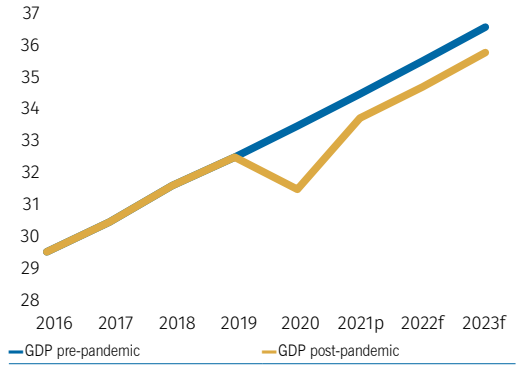
Contributions to growth, percentage points of GDP



Sources: BiH Agency for Statistics; World Bank.

Post-crisis growth trajectory unlikely to close gap with respect to precrisis growth path.

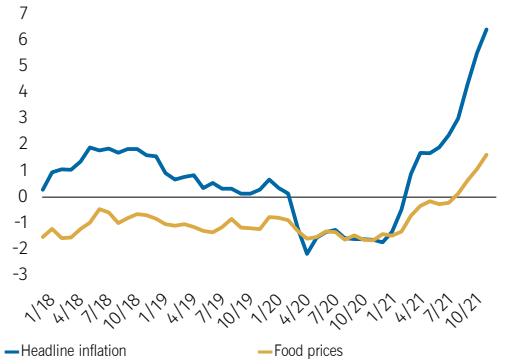
In 2015 KM, real GDP level (billions)



Source: World Bank staff estimates.

Consumer price and food inflation accelerated in 2021.

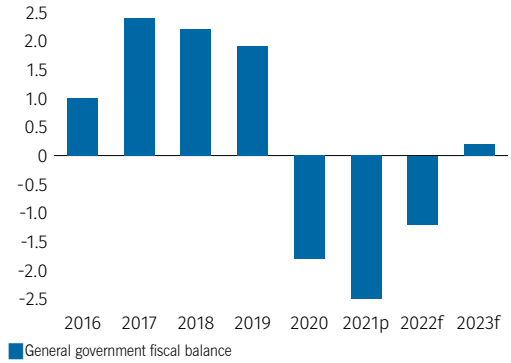
Percent y/y



Sources: BiH Agency for Statistics; World Bank.

The fiscal balance remained in deficit in 2021.

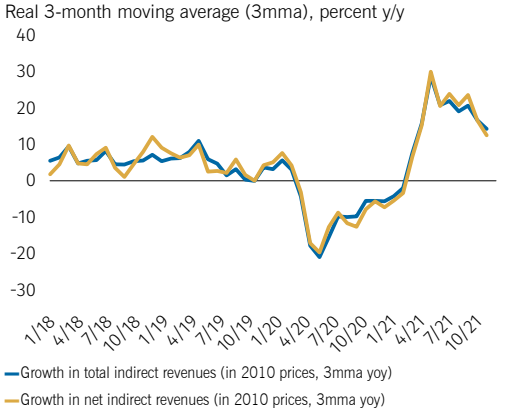
Percent of GDP



Sources: BiH fiscal authorities; World Bank staff estimates.

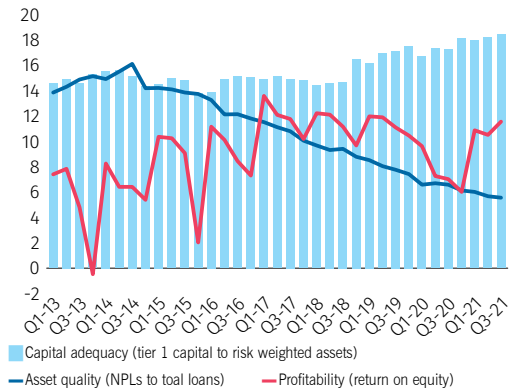
Indirect tax revenues continue to increase with slight slowdown toward end-2021.

Real 3-month moving average (3mma), percent y/y



Sources: BiH Indirect Tax Office; World Bank.

Nonperforming loans in commercial bank portfolios remain high.



Sources: Central Bank of BiH; World Bank calculations.

BOSNIA AND HERZEGOVINA	**2019**	**2020**	**2021p**	**2022f**	**2023f**	**2024f**
Real GDP growth (percent)	2.8	-3.1	7.1	2.7	3.1	3.5
Composition (percentage points):						
Consumption	-	-	4.9	2.4	2.8	3.1
Investment	-	-	1.0	-0.3	0.7	0.5
Net exports	-	-	1.2	0.6	-0.3	-0.1
Exports	-	-	14.2	3.8	3.2	3.8
Imports (-)	-	-	13.0	3.1	3.5	3.9
Consumer price inflation (percent, period average)	0.6	-1.1	2.0	6.5	2.3	0.5
Public revenues (percent of GDP)	42.6	42.2	42.3	40.5	40.4	40.5
Public expenditures (percent of GDP)	40.6	44.0	44.8	41.7	40.2	39.4
Of which:						
Wage bill (percent of GDP)	10.6	11.5	11.2	10.7	10.3	10.2
Social benefits (percent of GDP)	14.8	20.0	19.8	18.2	17.9	17.7
Capital expenditures (percent of GDP)	2.9	3.2	3.7	3.5	3.0	2.7
Fiscal balance (percent of GDP)	1.9	-1.8	-2.5	-1.2	0.2	1.1
Primary fiscal balance (percent of GDP)	2.6	-1.1	-1.7	-0.4	1.1	2.1
Public debt (percent of GDP)	32.8	36.6	34.4	33.2	34.0	35.3
Public and publicly guaranteed debt (percent of GDP)	34.5	38.8	36.6	35.1	36.0	37.5
Of which: External (percent of GDP)	28.4	30.8	28.8	27.4	27.8	28.4
Goods exports (percent of GDP)	28.8	27.5	34.1	34.1	34.5	36.2
Goods imports (percent of GDP)	51.4	45.9	53.3	54.6	54.9	57.2
Net services exports (percent of GDP)	7.9	4.4	6.9	7.6	7.8	8.4
Trade balance (percent of GDP)	-14.7	-14.0	-12.3	-12.8	-12.5	-12.6
Net remittance inflows (percent of GDP)	8.5	7.4	8.2	7.7	7.4	7.6
Current account balance (percent of GDP)	-2.9	-3.9	-2.3	-3.2	-3.0	-2.6
Net foreign direct investment inflows (percent of GDP)	1.5	1.7	2.1	2.0	1.9	2.0
External debt (percent of GDP)	65.6	70.7	65.4	60.3	58.1	58.7
Real private credit growth (percent, period average)	5.2	1.3	-0.3	-	-	-
Nonperforming loans (percent of gross loans, end of period)	7.4	6.1	5.8	-	-	-
Unemployment rate (percent, period average)	15.7	15.9	17.4	-	-	-
Youth unemployment rate (percent, period average)	33.8	36.6	38.2	-	-	-
Labor force participation rate (percent, period average)	42.1	47.7	48.0	-	-	-
GDP per capita, PPP (current international $)	13,775	13,424	14,110	14,710	15,260	15,800

Sources: Country authorities, World Bank estimates and projections.

Kosovo

- Kosovo's economy experienced a full recovery in 2021, supported by private consumption and record export growth.
- Inflation intensified by the second half of 2021, driven by record increases in import prices.
- Against a strong rebound in revenue, the fiscal balance improved and public debt growth decelerated.
- Recent external challenges have significanlty increased inflationary risks to the short-term outlook, with growth expected to decelerate in 2022 due to the spillover effects from the war in Ukraine.

Recent Economic Developments

Kosovo's economy experienced a stronger-than-expected recovery in 2021. Real output grew[5] by a record 12.1 percent for the first three quarters of 2021, driven by strong domestic and external demand. Economic growth for the year stood at preliminary 9.1 percent. From the second quarter of 2021, an accelerated vaccination rollout has taken place, which helped remove mobility restrictions and bolstered economic activity. The ongoing energy crisis reached Kosovo in late 2021, however, bringing nickel exports to a halt and highlighting the country's vulnerability from outdated energy production capacity and high import prices.

Consumption and export growth led the recovery. Private consumption grew robustly, supported by restored consumer confidence and relaxed mobility restrictions, double-digit credit expansion, higher remittances, and significant fiscal stimuli. Private investment also added to growth, spurred in part by credit expansion but also higher real estate FDI inflows. A very high contribution from a strong rebound in diaspora-related exports of travel services and a record increase in goods exports was offset by an equally substantial increase in imports. On the production side, services provided the highest contribution, reflecting the increase in consumption and service exports. Industrial activity also added to growth driven, in part, by higher investment in response to stronger export demand. Agriculture, in contrast, subtracted from growth on account of higher input prices and worse weather conditions.

Labor formalization advanced, but information on labor market outcomes in 2021 remains limited. Official employment in the private and public sectors rose close to 10 percent, on average, in 2021, compared to the year before, according to the Kosovo Tax Administration. At the same time, registered jobseekers dropped by almost a third in 2021 compared to the year before, but their level still remains 10 percent higher than in 2019. The latest available Labor Force Survey data of Q1 2021 show that less than a third of working-age (15–65) Kosovars were working. This was, however, before the recovery was in full swing.

Heightened inflationary pressures accompanied the recovery. Consumer price inflation, driven primarily by higher import prices, surged to 3.4 percent in 2021, from 0.2 percent a year ago. Consumer prices started increasing by more than 2 percent from July

5 All comparisons are year on year unless otherwise inidicated.

2021, peaking at above 6 percent in December and rising to 7.5 percent in February 2022. Food and transport prices in February increased by 10.5 and 22.6 percent, respectively. Averaging 11.1 percent, import price inflation intensified from the second quarter of the year onward, reaching 14.7 percent and 19.7 percent during the third and fourth quarter of the year, respectively. The increase in the fourth quarter was driven by higher international prices for commodities and manufactured goods. In response, production, construction, and agricultural input prices recorded increases throughout the year.

Export growth experienced record highs, yet the current account deficit (CAD) deteriorated because of a corresponding growth in imports. Merchandise exports soared by almost 70 percent driven by exports of manufactured goods rather than the traditional, lower-value-added base metal exports. Meanwhile, imports also grew by almost 50 percent from the year before, reflecting the high import content of domestic demand and exports. Driven by a stronger-than-expected increase in diaspora visits to Kosovo, exports of services more than doubled in 2021, exceeding 2019 levels by 22 percent. Factor incomes also rose significantly, primarily reflecting a 26 percent increase in net remittance inflows. Nevertheless, the CAD deteriorated from 7 percent in 2020 to 9.1 percent of GDP in 2021. Almost half of the CAD was financed by net non-debt-creating FDI, primarily through equity, while revinvested earnings dropped sharply against higher dividend payouts. Loans and trade credit to the private sector financed the rest of the CAD, while public debt increases financed less than one-tenth of the CAD in 2021.

The fiscal balance improved significantly in 2021. The fiscal deficit dropped from 7.6 percent in 2020 to 1.4 percent of GDP in 2021, supported by higher tax revenues and sluggish public investment. Tax revenues jumped by 29 percent, driven by a rebound in economic activity and imports, higher inflation, and a tighter labor market. Current spending, in the meantime, grew 7 percent in nominal terms. The government implemented a sizable fiscal stimulus program of 3.2 percent of GDP, which included targeted private sector and social transfers, but also universal child allowances and additional maternity benefits. Public capital expenditures increased in nominal terms but remained subdued relative to output, at 5.5 percent of GDP, and just above three-fourths of the capital budget. As a result of the drop in the fiscal deficit, public and publicly guaranteed debt, according to the preliminary data, has remained broadly unchanged at 22.5 percent of GDP at end-2021, compared to the previous year.

The financial market remains stable. Credit increased by 15.5 percent during 2021, with household loans increasing by 18.6 percent and corporate loans by 13.6 percent by year end. The credit interest rate marginally decreased from 6 percent in December 2020 to 5.8 percent in December 2021. Deposits experienced double-digit growth, increasing by 12.4 percent in 2021. Capital adequacy and liquidity remained above regulatory requirements, while nonperforming loans amounted to 2.3 percent of total loans in December 2021. The Kosovo Credit Guarantee Fund continued to expand its coverage, including through government-subsidized guarantee fees, and bolstered credit growth.

Outlook and Risks

Growth in 2022 is projected to decelerate to 3.9 percent, affected by the economic consequences of the Russian invasion and the war in Ukraine and associated sanctions. Inflationary pressures will reduce real disposable income and impact consumer confidence. Nevertheless, business investment is expected to drive growth in 2022 due to the continuation of ongoing construction projects and higher manufacturing investment linked to the recent surge in manufacturing exports. Public investment is expected to be solid, financed through concessional financing from international financial institutions and improved execution against more efficient procurement. Net exports will remain negative, as imports rise to meet the increase in domestic demand and to respond to higher private investment. As a result, the CAD is projected to exceed 9 percent of GDP in 2022.

Over the medium term, the outlook remains positive, but downside risks are elevated. Growth is projected to average above 4 percent, but the persistence of scarring from the ongoing energy crisis and global inflationary pressures may deteriorate the outlook. The ongoing domestic energy crisis is a pressing concern. While the increase in energy consumption is significant, outdated domestic electricity production capacity can result in supply disruptions and a large demand for electricity imports. Such exposure to unplanned imports of electricity at spiraling import prices remains high, and could impact both consumer and producer prices alike as well as government expenditure. At the same time, a prolonged impact of the war in Ukraine could more significantly impact real disposable income and incomes of the diaspora mainly living in the European Union, affecting remittances, travel exports, and real estate FDI.

Kosovo is a net importer of food and energy, and the war in Ukraine is amplifying inflationary pressures. Under the baseline scenario, headline inflation is expected to accelerate to 5.4 percent in 2022. Price levels are projected to remain elevated but to gradually normalize under the assumption of subsiding global inflationary pressures from the second part of the year. While direct trade links with Russia and Ukraine are limited and concentrated on base metals and mineral products, the indirect impact from international commoditiy prices, including food commodities, is already affecting inflation. Kosovo imports an average of 40 percent of its wheat needs and has an even higher import dependence on select agricultural products. Bans on exports of agricultural products including from Serbia could significantly aggravate inflationary pressures. Kosovo also imports fuel and electricity, especially during the winter season, and the persistency of high electricity prices could exacerbate the ongoing energy crisis. At the same time, exports of base metals could benefit from the global shortages triggered by the war in Ukraine and accelerate export volumes and prices.

The fiscal deficit in expected to widen in 2022. Revenues are expected to decelerate but remain strong in 2022, with tax revenues increasing by close to 10 percent compared to 2021. Robust revenue performance is based on the contribution from inflation and a full-year effect of formalization gains. Expenditure growth is expected to outpace revenues due to a strong rebound in capital expenditure, increasing by almost a third, as well as higher current spending, with full-year effects of new

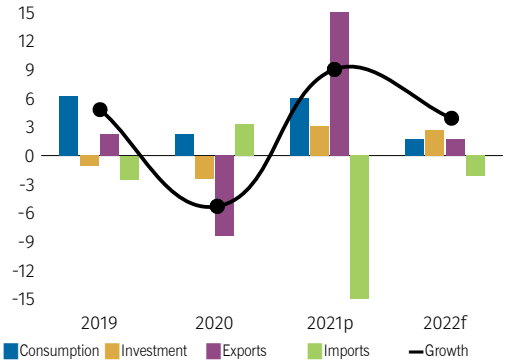
social benefits programs. Furthermore, in response to the energy crisis and the revision of energy tariffs, the government has already committed close to 1.2 percent of GDP in electricity subsidies for households. As a result, the fiscal deficit is expected to increase from 1.4 percent to 2.2 percent of GDP. Over the medium term, the deficit is expected to remain below 3 percent of GDP, and in line with the fiscal rule, which the authorities are committed to formally reimpose from 2023. Total public and publicly guaranteed debt is expected to reach 24.3 percent of GDP in 2022, with an increase in concessional external debt and slower accumulation of domestic debt.

Financial sector performance is expected to support growth. Exposure to Ukraine and Russia is limited, but costs of financing are set to grow. Further capitalization of the Kosovo Credit Guarantee Fund is expected to enhance access to credit in 2022. Credit growth is expected to remain strong given the significant scope for credit deepening. However, global finance tightening and inflationary pressures are likely to exert upward pressures on interest rates.

Maintaining fiscal space to respond to the changing macroeconomic environment remains crucial. This calls for particular caution toward policies that may have high long-term fiscal costs, such as public sector compensation reform. Over the medium term, there is a pressing need to use the momentum for higher exports and focus policies on enhancing competitiveness, including by tackling constraints to higher productivity growth and human capital investment.

Economic activity fully recovered.

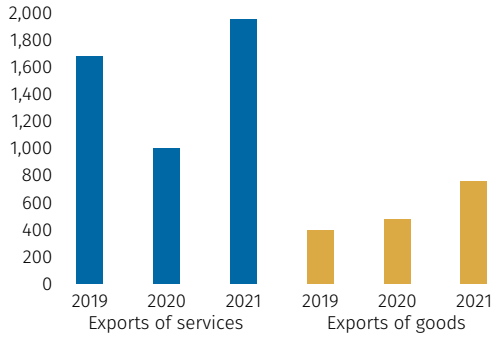
Contributions to growth, percentage points



Sources: Kosovo Statistics Agency; World Bank staff calculations.

Exports experienced record growth.

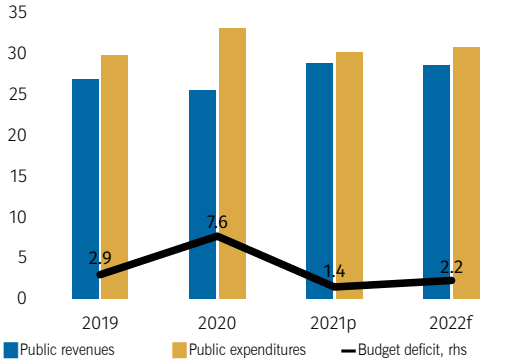
Exports of goods and services, million euros



Source: Central Bank of Kosovo; World Bank staff calculations.

Strong revenue performance narrowed the deficit.

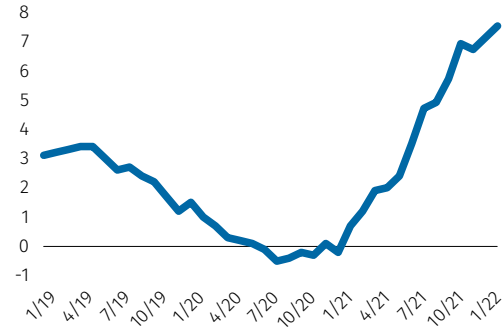
Percent of GDP



Sources: Ministry of Finance; World Bank staff calculations.

Inflation increased in 2021 and early 2022.

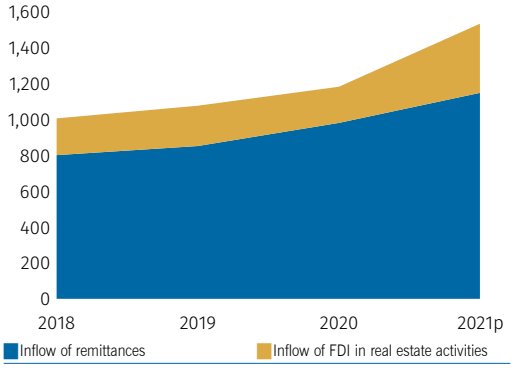
CPI inflation, percent



Source: Kosovo Statistics Agency.

Remittances and real estate FDI spurred the recovery.

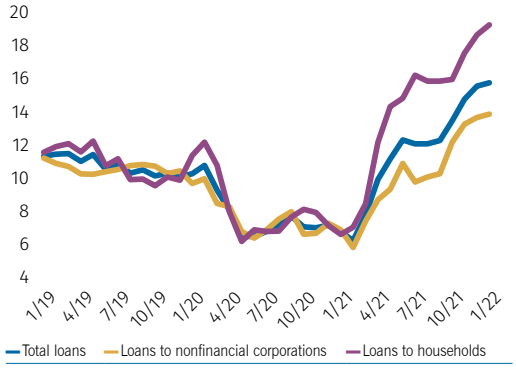
Remittances and real estate FDI inflows, million euros



Source: Central Bank of Kosovo.

Credit experienced double-digit growth.

Credit growth, percent



Source: Central Bank of Kosovo.

KOSOVO	2019	2020	2021p	2022f	2023f	2024f
Real GDP growth (percent)	4.8	-5.3	9.1	3.9	4.3	4.2
Composition (percentage points):						
Consumption	6.2	2.2	6.0	1.7	2.3	1.8
Investment	-1.1	-2.4	3.1	2.7	2.4	2.5
Net exports	-0.3	-5.1	0.0	-0.5	-0.4	-0.1
Exports	2.2	-8.4	15.0	1.7	1.9	2.1
Imports (-)	2.5	-3.3	15.0	2.1	2.3	2.2
Consumer price inflation (percent, period average)	2.7	0.2	3.4	5.4	1.6	2.2
Public revenues (percent of GDP)	26.8	25.4	28.7	28.4	28.2	28.2
Public expenditures (percent of GDP)	29.7	33.0	30.1	30.6	30.9	30.7
Of which:						
Wage bill (percent of GDP)	8.7	9.8	8.8	8.5	8.9	8.8
Social benefits (percent of GDP)	6.3	7.7	7.4	7.2	7.0	6.6
Capital expenditures (percent of GDP)	7.5	5.6	5.5	6.5	6.8	7.0
Fiscal balance (percent of GDP)	-2.9	-7.6	-1.4	-2.2	-2.6	-2.5
Primary fiscal balance (percent of GDP)	-2.6	-7.2	-1.0	-1.7	-2.2	-2.2
Public debt (percent of GDP)	17.0	22.0	22.1	24.0	25.3	26.9
Public and publicly guaranteed debt (percent of GDP)	17.6	22.4	22.5	24.3	25.4	27.0
Of which: External (percent of GDP)	5.8	7.8	7.6	9.2	9.9	10.6
Goods exports (percent of GDP)	5.6	6.9	9.9	9.8	9.8	9.9
Goods imports (percent of GDP)	45.8	44.2	56.7	55.2	55.0	54.7
Net services exports (percent of GDP)	13.1	5.7	14.2	12.6	13.5	14.4
Trade balance (percent of GDP)	-27.1	-31.6	-32.7	-32.9	-31.7	-30.4
Net remittance inflows (percent of GDP)	11.6	13.8	15.7	14.7	14.1	13.9
Current account balance (percent of GDP)	-5.6	-7.0	-9.1	-9.7	-9.0	-8.0
Net foreign direct investment inflows (percent of GDP)	2.7	4.2	4.2	4.2	4.0	4.0
External debt (percent of GDP)	31.2	37.2	37.3	-	-	-
Real private credit growth (percent, period average)	7.8	7.6	7.5	-	-	-
Nonperforming loans (percent of gross loans, end of period)	1.9	2.5	2.3	-	-	-
Unemployment rate (percent, period average)	25.7	24.5	-	-	-	-
Youth unemployment rate (percent, period average)	49.4	49.4	-	-	-	-
Labor force participation rate (percent, period average)	40.5	37.8	-	-	-	-
GDP per capita (US$)	4,416	4,350	5,058	5,281	5,657	5,967
Poverty rate (percent of population)	21.1	23.2	19.4	17.6	15.8	14.4

Source: Country authorities, World Bank estimates and projections.

Note: Poverty rate calculations based on ECAPOV harmonization using 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$5.5/day per person in revised 2011 purchasing power parity. e = estimate; ECAPOV = ECA Poverty, a harmonization effort for Eastern Europe and Central Asia countries based on available household budget surveys and Living Standards Measurement Surveys; f = forecast; HBS = household budget surveys; SILC = Survey on Income and Living Conditions.; - = not available.

Montenegro

- Montenegro's economic recovery in 2021 was stronger than expected, supported by a rebound in tourism; in parallel, inflation surged to 6.7 percent in February 2022, a 10-year high.
- The labor market responded to economic recovery and returned to pre-pandemic trends, with unemployment dropping to close to 15 percent.
- The fiscal deficit fell from 11 percent of GDP in 2020 to 2 percent in 2021.
- Montenegro adopted a landmark reform program, Europe Now, which carries many opportunities but also significant fiscal risks.
- The outbreak of war in Ukraine has worsened the otherwise positive outlook for Montenegro, with risks tilted to the downside.

Recent Economic Developments

The rebound in tourism paved the way for a robust economic recovery in 2021. The economy bounced back strongly, recording a preliminary growth rate of 12.4 percent, but real GDP still remained below the 2019 level. Reviving tourism, exports, and private consumption have led growth, with tourism revenues reaching 70 percent of their 2019 level from just 13 percent in 2020. Exports added 25.5 percentage points (pp) to growth. Tourism, together with the recovery in employment and an increase in household lending, supported the strong private consumption rebound, which added 4.2 pp to growth. Government consumption added another 0.3 pp. Delays in public investments, higher costs of materials, and continued supply-chain disruptions slowed gross fixed capital investments, which dragged growth by 4.8 pp, also adversely impacting the pace of imports.

In contrast to the robust rebound in services, agriculture and construction contracted. In 2021, the number of overnight stays of international tourists more than tripled compared to a year earlier, supporting retail and wholesale trade, which expanded by 17 percent and 24 percent, respectively. Industrial production strengthened by 4.9 percent, driven by increases in both manufacturing and energy production, and despite a decline in the mining sector. Meanwhile, construction declined by 5 percent, as did the number of issued construction permits, which could be a signal of a continued decline in the construction sector.

Job creation gained momentum in the third quarter of 2021. Labor force survey (LFS)[6] data show an increase in employment in the third quarter by 21 percent compared to the first quarter (Q1), which remained at similar level in the fourth quarter (Q4). Such job creation equally benefited male and female employees. The activity rate rose to 54.4 percent in Q4 from 47.6 percent in Q1, while at the same time the unemployment rate fell to 15.4 percent from 19.4 percent. The revised administrative data show steady employment gains in the last quarter of 2021 across all sectors, with employment starting to rise above its pre-pandemic level in October 2021. The government phased out wage subsidies in July 2021. The Parliament adopted an increase in

6 The change in the 2021 LFS methodology does not allow for comparisons with previous years' LFS data.

the net monthly minimum wage from €250 to €450, as part of the Europe Now reform program, effective January 1, 2022.

Global inflationary pressures are accelerating domestic inflation, given the unilateral euroization. In 2021, inflation averaged 2.4 percent, with year-end inflation totaling 4.6 percent and rising further to 6.7 percent (y/y) in February 2022, a 10-year high. The increase in inflation was led by rising food, beverage, and transportation prices. Real disposable income was nevertheless largely preserved through the increase in disposable incomes due to the Europe Now reform, which resulted in the average net monthly wage increasing from €537 in December 2021 to €686 in January 2022, an increase of 22.7 percent y/y in real terms.

The financial sector has remained robust so far. In February 2022, outstanding loans were up by 6.9 percent, driven by lending to the private sector and non-resident lending. At the same time, deposits were up by 25.6 percent, reaching record levels, led by increases in private sector and household deposits. The lending-to-deposits ratio declined to 79 percent, its lowest level ever. In 2021, new loans surged by 23 percent, though that remained below the 2019 level. The December average capital adequacy ratio was a healthy 18.5 percent, well above the regulatory minimum, while nonperforming loans increased to 6.8 percent of total loans from 5.9 percent in December last year. The Central Bank has commissioned an Asset Quality Review to identify stressed assets and make necessary provisions in banks' balance sheets. After delays due to the pandemic, the Asset Quality Review was published in September 2021 and indicated that the banking sector was in a good position prior to the crisis, although there may have been a deterioration in asset quality that will be visible after all support measures are withdrawn.

Strong net service exports and remittances significantly narrowed the current account deficit. In 2021, the current account deficit narrowed to 9.2 percent of GDP, the lowest since 2004. With a growth rate of 95 percent, exports of goods and services outpaced imports, which increased 21 percent, narrowing the trade and services deficit to 19.6 percent of GDP. Strong net exports were supported by a strong recovery of tourism and transport services, metals, and electricity exports, but also slower imports growth due to declining investments. Net primary and secondary incomes have further reduced the current account deficit, primarily due to strong net remittances, which increased by 35 percent. The current account deficit was entirely financed by net foreign direct investment, which amounted to 11.2 percent of GDP. In January 2022, international reserves stood at €1.7 billion, covering eight months of merchandise imports.

The fiscal deficit fell from 11 percent of GDP in 2020 to 2 percent in 2021. The fiscal consolidation was supported by a rebound in revenues, under-execution of capital expenditures, and a reduction in current spending. The latter occurred despite Covid-related support provided in the first half of the year. Central government revenues increased by 16.5 percent, driven by the VAT and excises, and surpassed the revenues collected in 2019 by 1.3 percent. At the same time, central government expenditures declined by 2.3 percent, primarily due to lower capital spending by 9 percent, but also lower spending on goods and services, which declined by 16 percent. The Parliament adopted the 2022

budget with the fiscal deficit at 5 percent of GDP, as the government plans to ramp up capital spending and has widened social transfers. The Parliament introduced benefits for all children until age 18, reintroduced mothers' benefits for former beneficiaries, and increased minimum pensions to €200, further worsening pension system sustainability and equity.

Public debt declined to 85 percent of GDP in 2021 from 105 percent in 2020. The 2021 gross financing needs were largely covered by the €750 million Eurobond placed in 2020. Net debt in 2021 was reduced by over €330 million, including a repayment of €227 in Eurobonds in March 2021. The central government fiscal balance was positive in four months over the last year, which further supported the buildup of government deposits, amounting to 9.5 percent of GDP in 2021, which will be financing a significant share of financing needs in 2022.

Montenegro adopted a landmark reform program, Europe Now, which carries many opportunities, but also risks. The key elements of the reform program are the abolition of healthcare contributions, introduction of a personal income allowance for wages up to €700, progressive personal and corporate income taxation, and an increase in the net monthly minimum wage. 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 measures of the program to offset the loss in revenues from the abolished health contributions. These include increases in excises on tobacco, alcohol, and sugary beverages; and introduction of excises on sugary products and single-use plastic. The Parliament also maintained the reduced VAT rate of 7 percent for the hospitality industry, introduced as a crisis mitigation measure. Failure to adopt compensating revenue measures is likely to result in a wider-than-planned fiscal deficit in 2022, with possible adverse consequences for the following years. In addition, due to the pension indexation formula, spending on pensions is expected to increase strongly in 2023, further widening the fiscal deficit. Finally, administrative capacity challenges are a risk to the successful implementation of the reform.

In February 2022, there was a vote of no confidence in the government, and a new government is yet to be formed. A turbulent political environment is adding to already high uncertainty, putting at risk, or slowing the implementation of structural reforms (such as public administration reform and tax, pension, and healthcare reforms).

Outlook and Risks

The outlook is fragile in an environment of increasing uncertainty. The outbreak of the war in Ukraine and the associated developments have significantly worsened the outlook for Montenegro, the economy of which is now expected to grow by 3.6 percent in 2022, down from an estimated 5.9 percent before the start of the war. The main direct transmission channel of the war to Montenegro's economy is tourism. In 2021, tourists from Russia, Ukraine, and Belarus accounted for 22 percent of total overnight stays. Assuming a continuation of the strong recovery of tourism receipts from other countries (to 90 percent

of their 2019 level) and a decline of overnight stays from Russia, Ukraine, and Belarus by 75 percent, total tourism receipts remain at levels similar to those in 2021. The expected decline in tourism due to the war slows exports and private consumption. Consumption is expected to remain strong, however, due to the positive effects of higher disposable incomes, the employment recovery, and higher-than-expected inflation. Investments are expected to pick up as the works on the highway completion are resumed and other capital spending increases, while in parallel, private investments in the tourism and energy sectors continue, but at a slower pace.

Inflation is expected to remain elevated. Global inflationary pressures and, to a lesser extent, domestic pressures stemming from an increase in wages after implementation of the Europe Now program, will push inflation to an estimated 5 percent in 2022. Price spikes of key commodities and food will directly impact households, though the impact will be offset by the increase in wages for formally employed through the Europe Now program. However, more adverse impacts on the tourism sector pose a risk to household budgets.

Utmost fiscal prudence is needed to return public debt to Montenegro's fiscal rule of 60 percent of GDP. Contrary to previous plans, the fiscal balance is now not expected to turn into a surplus until 2025, and a primary surplus is likely only in 2024. Public debt is expected to decline from 77 percent of GDP in 2022 to 73 percent of GDP in 2024. With the expected monetary tightening in the United States and global geopolitical uncertainties weighing on the risk appetite of investors, Montenegro must be fiscally vigilant as the 2018 Eurobond of €500 million comes due in 2025. Given the incomplete implementation of the Europe Now revenue measures, further fiscal adjustments are needed to avoid a significant increase in the fiscal deficit in 2022 and enable the return to primary fiscal surpluses over the medium term, which is critical for debt reduction.

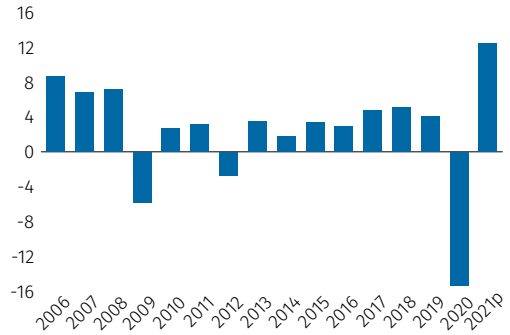
The current account deficit is expected to widen and remain at around 12 percent of GDP over the medium term. A pause in the tourism recovery in 2022 and an increase in commodity prices will results in a wider current account deficit. At the same time, merchandise exports, particularly exports of aluminum and electricity, will partly offset the negative effects. In January 2022 alone, Montenegro exported 25 percent and 40 percent of the total value of aluminum and electricity exported in 2021, respectively. Assuming a resumption in the tourism recovery in 2023 and a further increase in energy exports, exports are expected to recover. At the same time, the announced investments in these two sectors will keep import levels elevated at around 64 percent of GDP in 2023–24. Net primary and secondary incomes are estimated to partially offset the trade deficit, assuming net remittances remain at 90 percent of their levels observed in 2020–21. Net foreign direct investment is expected to decline to 8 percent of GDP in 2022 but rebound to 8.7 percent in 2023 and continue financing the current account deficit.

The deteriorating environment poses further significant risks to the outlook. Risks stem from both the external and domestic environments. A prolonged war in Ukraine and related sanctions on Russia directly weigh on Montenegro's recovery through reduced tourism and investments, which could further reduce growth. In addition, the impact of the conflict on Montenegro's key trading partners

(namely, the Western Balkans and the EU) would have negative spillovers on growth, but also remittances. Risks also come from monetary tightening, which would translate into more expensive external financing. Political instability is the main domestic risk. Other risks stem from the administrative capacity challenges to implement the Europe Now program and the impact the program will have on the fiscal deficit in the medium term, which may risk derailing medium-term debt reduction plans. Acceleration of structural reforms (including pension reforms) and fiscal prudence are needed to mitigate increasing risks and uncertainties.

The 2021 recovery was robust…

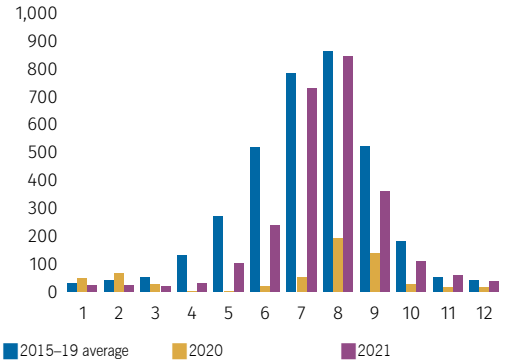
Real GDP growth, percent



Sources: MONSTAT data; World Bank staff calculations.

…largely driven by reviving tourism.

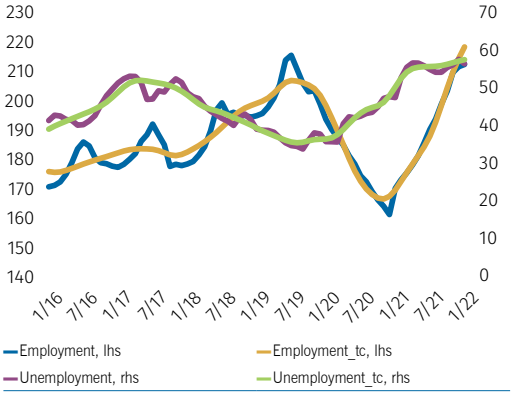
International tourists' overnight stays, in thousands



Sources: MONSTAT; World Bank staff calculations.

The labor market rebounded strongly…

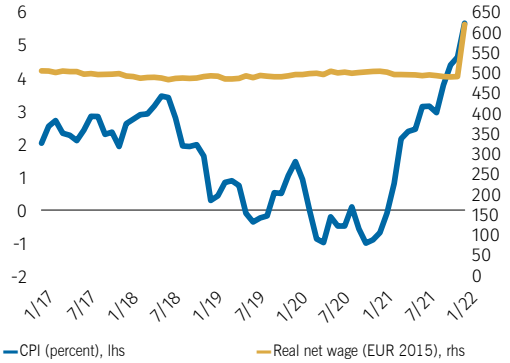
Administrative data, thousands, Jan 2016–Jan 2022



Source: MONSTAT data. tc=trend cycle.

… and inflation continued surging.

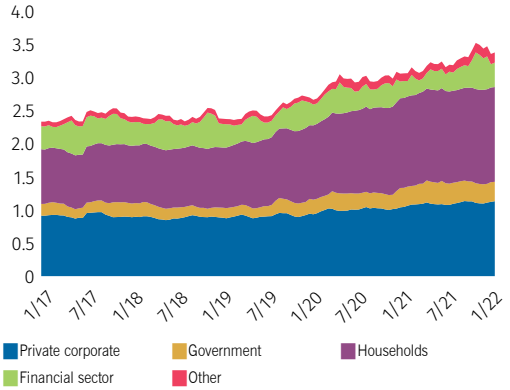
Administrative data, Jan 2017–Feb 2022



Source: MONSTAT data; World Bank staff calculations.

Outstanding loans have been increasing.

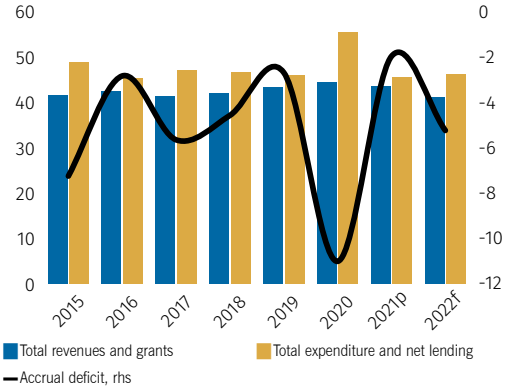
Outstanding loans, Jan 2012–Jan 2022, in millions



Sources: Central Bank; World Bank staff calculations.

The fiscal deficit is widening again.

2015–22, percent of GDP



Sources: Ministry of Finance; World Bank staff calculations.

MONTENEGRO	2019	2020	2021p	2022f	2023f	2024f
Real GDP growth (percent)	4.1	-15.3	12.4	3.6	4.7	3.7
Composition (percentage points):						
Consumption	2.9	-3.9	4.5	3.8	3.3	2.6
Investment	0.9	-5.9	-5.5	1.9	2.5	2.8
Net exports	0.3	-5.5	13.4	-2.2	-1.1	-1.7
Exports	2.9	-24.2	25.5	1.1	3.7	3.0
Imports (-)	2.6	-18.7	12.0	3.3	4.9	4.7
Consumer price inflation (percent, period average)	0.4	-0.3	2.4	5.0	2.3	1.6
Public revenues (percent of GDP)	43.3	44.4	43.6	41.1	40.9	40.7
Public expenditures (percent of GDP)	46.0	55.5	45.6	46.3	43.9	42.4
Of which:						
Wage bill (percent of GDP)	11.0	13.5	12.2	11.6	11.0	10.6
Social benefits (percent of GDP)	11.2	13.4	11.6	12.5	13.2	12.6
Capital expenditures (percent of GDP)	8.7	7.5	5.2	6.6	5.8	6.2
Fiscal balance (percent of GDP)	-2.7	-11.0	-2.0	-5.2	-3.0	-1.7
Primary fiscal balance (percent of GDP)	-0.5	-8.3	0.4	-3.4	-1.4	-0.2
Public debt (percent of GDP)	76.5	105.3	84.9	77.4	75.2	73.1
Public and publicly guaranteed debt (percent of GDP)	80.0	108.7	87.7	80.1	77.6	75.4
Of which: External (percent of GDP)	68.1	97.3	80.0	73.6	69.1	67.1
Goods exports (percent of GDP)	9.4	9.8	10.7	11.5	11.1	11.1
Goods imports (percent of GDP)	51.1	49.0	49.7	50.5	50.7	51.2
Net services exports (percent of GDP)	20.6	4.2	19.4	18.3	19.9	20.7
Trade and services balance (percent of GDP)	-21.1	-35.0	-19.6	-20.7	-19.7	-19.4
Net remittance inflows (percent of GDP)	4.0	5.3	6.1	5.0	4.6	4.4
Current account balance (percent of GDP)	-14.3	-26.1	-9.2	-12.6	-12.1	-12.0
Net foreign direct investment inflows (percent of GDP)	6.2	11.2	11.2	8.1	8.7	8.7
External debt (percent of GDP)	169.0	224.1	199.0	194.8	190.9	188.4
Real private credit growth (percent, period average)	5.5	6.4	-0.2	-	-	-
Nonperforming loans (percent of gross loans, end of period)	5.1	5.9	6.8	-	-	-
Unemployment rate (percent, period average)	15.1	17.9	16.6	-	-	-
Youth unemployment rate (percent, period average)	25.2	36.0	37.1	-	-	-
Labor force participation rate (percent, period average)	57.4	53.3	50.9	-	-	-
GDP per capita, PPP (current international $)	23,097	20,030	22,128	23,760	25,276	26,668
Poverty rate (percent of population)	15.6	19.9	16.2	15.6	14.8	-

Sources: Country authorities, World Bank estimates and projections.

Note: 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 $5.5/day per person in revised 2011 PPPs.

North Macedonia

- As the economy gradually rebounded from the pandemic-induced recession, the energy crisis and the war in Ukraine brought new challenges. The Covid-19 support needs to be replaced with targeted fiscal support to the most energy vulnerable households and firms as public debt increases further.
- Consumer price increase accelerated from late 2021, fueled by energy and food prices, while a double-digit minimum wage increase would add to inflationary pressures from March 2022.
- The labor market is slowly improving, but high youth unemployment calls for policy intervention.
- The short-term outlook deteriorated: the 2022 growth projection was reduced to 2.7 percent, while downside risks intensified. Over the medium term, the outlook remains positive, subject to setting public finances back on a sustainable path, accelerating human capital development, a green transition, and competitiveness reforms.

Recent Economic Developments

Economic growth rebounded to 4 percent in 2021, following a deep contraction in 2020. After falling by 6.1 percent in 2020, growth in 2021 was driven by a surge in pent-up private consumption, amidst still strong government 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 (trade, ICT, transport, and tourism), as industrial production struggled with supply-chain interruptions and reduced export orders. Construction saw a further decline.

The end of 2021 saw a slowdown in growth, with a modest recovery at the beginning of 2022. Real growth declined to 2.3 percent in Q4 2021. Manufacturing recorded a 5.2 percent drop y/y in Q4 2021, with energy production and mining slightly cushioning the blow, but it bounced back to 4 percent in February 2022. Agricultural production dropped by 3.6 percent in Q4 2021. Meanwhile, real retail trade growth decelerated to only 1.2 percent y/y in December 2021 from 15.7 percent in August. It recovered slightly with 3.8 percent growth on average in the first two months of 2022. Tourism improved as movement restrictions waned, but the pace slowed by January 2022 and tourism arrivals have not yet reached the pre-pandemic level.

The labor market witnessed a very slow improvement despite government support. The unemployment rate decreased to 15.2 percent in Q4 2021, but not due to a rise in the employment rate, which stagnated at 47.3 percent, but on account of a lower activity rate (down by 0.1 pp y/y to 55.7 percent in Q4 2021). The activity rate is still hovering below the pre-pandemic level. Although the employment rate rose 0.7 pp from the low in Q3 2020, at 47.3 percent it remains below the pre-crisis peak of 48.1 percent, due to a fall in private sector employment. At the same time, unemployment decreased to a historically low rate, driven by a drop in female and youth unemployment. The youth unemployment rate, however, at 34.9 percent remains high. Per Employment Agency data, the number of new employment contracts in 2021 increased by nearly 15 percent, suggesting a recovery

of labor demand. However, there has been a greater use of fixed-term contracts (58 percent of all new employment) as uncertainty about the growth recovery still looms.

With increased labor demand, wages continued to steadily grow in 2021. Real net wage increased by 2.3 percent, led by food and accommodation services, trade, transport, professional services, and ICT. In February 2022, the government increased the minimum wage by 18.5 percent (to be applied for March wage onwards) and introduced the mandatory annual indexation of the minimum wage with consumer prices and average national wage growth. The rise in labor costs prompted the government to subsequently provide temporary compensation to firms through the contribution subsidy support program.

As the merchandise trade deficit deteriorated, the external imbalance worsened, too. The current account deficit slightly worsened to 3.5 percent of GDP in 2021, owing to a deterioration in the trade balance. This is despite a rise in remittances and service exports. The merchandise trade deficit widened to 20.2 percent of GDP (from 17 percent a year ago), as energy balance worsened and firms in the car supply chain struggled with declining orders, while the services balance improved to 4.3 percent of GDP, boosted by a recovery in tourism. At the end of Q3 2021, gross external debt stood at 84.1 percent of GDP, up from 80.3 percent at end-2020. The public sector contributed most to the rise.

Global supply shortages and surging demand resulted in rising energy and food prices that reached a decade high, and spilled over to North Macedonia, a net food and energy importer. The inflation rate averaged 3.2 percent in 2021, with prices accelerating in the second half of the year. The producer price index increased by 16.4 percent in January 2022 and spilled over to inflation that stood at 8.8 percent in March 2022. Inflation is also becoming more broad-based, with core inflation rising to 5.2 percent. Energy prices rose 14.4 percent y/y, while food prices increased by 11.7 percent y/y in March 2022 despite the government decision to freeze basic foodstuff prices, and agricultural inputs, including fertilizers. In March 2022, the government adopted several additional measures to alleviate the inflationary pressures: it reduced the VAT on petrol and gas to 10 percent, reduced excises on oil derivates if prices hit a threshold, and exempted the basic foodstuff and imported energy from VAT.

Monetary policy remained accommodative throughout 2021 and in early 2022 before started tightening in April. The policy rate was increased to 1.50 percent, while liquidity in the domestic market remains high. Specifically, the banking sector liquidity ratio stood at 23 percent in Q4 2021, while the capital adequacy ratio increased to 17.3 percent. Credit growth to the private sector continued at an accelerated pace of 8 percent, led by foreign exchange (FX)-denominated mortgage lending, and accompanied by a surge in real estate prices. The non-performing loans ratio dropped to 3.1 percent in Q4 2021, but banks' expectations remain subdued, according to the Autumn 2021 EIB CESEE [7] Bank Lending Survey. On April 1, 2022 the National Bank reduced the reserve requirement ratio for deposits in domestic currency from 8 to 6.5 percent and increased the reserve requirement ratio for deposits in foreign

7 European Investment Bank Central, Eastern and South-Eastern Europe Bank Lending Survey.

currency from 15 to 16.5 percent in order to stimulate domestic currency savings.

The fiscal deficit declined in 2021 led by buoyant revenue performance that continued in early 2022. The fiscal deficit narrowed to 5.4 percent (or 5.8 percent including the State Enterprise for Roads) in 2021, below the latest budget rebalance target. Tax revenues increased by 1.8 pp of GDP, driven by VAT collection as consumption surged. Capital spending increased by 1 pp of GDP and its execution rate reached 80 percent compared to the 2021 plan, indicating improved performance. As crisis-related support decelerated, current spending declined. Yet, expenditure arrears increased by 0.6 pp to 3.3 percent of GDP on account of overdue payments in the health sector, state enterprises, and local governments, raising the deficit on an accrual basis to 6 percent of GDP. In November 2021, the government declared an energy crisis, temporarily taking over the private heating company to avoid outages,[8] and transferred around 0.7 percent of GDP to cover the loses of energy companies. A new support package was announced in early 2022 that includes reduction in VAT and excises for electricity, gas, and oil derivatives, liquidity credit lines for firms through the Development Bank, social benefits to pensioners and vulnerable households, an exemption from VAT for basic foodstuff and importers of electricity, heat, cooling energy and gas, energy efficiency measures. The overall package for 2022 amounts to 3.2 percent of GDP which will require the 2022 budget revision.

Public and publicly guaranteed debt stabilized in 2021. Reaching 60.8 percent of GDP, public and publicly guaranteed debt declined by 0.2 percent of GDP in a year but remained elevated at 11.6 percentage points of GDP above the pre-crisis 2019 level. Payment arrears increased significantly to 3.3 percent of GDP by year-end calling for strengthening fiscal discipline and clearing the arrears in the short term. This may limit the fiscal space for crisis response going forward.

Outlook and Risks

Economic growth is expected to decelerate to 2.7 percent in 2022, with real GDP reaching the pre-pandemic level by mid-year. The baseline scenario rests on the assumption that the acute phase of the crisis eases in Q2 2022 even if effects of sanctions persist through 2022 and even into 2023. Energy, agriculture, and car-supply manufacturing sectors will be more affected than the others. 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.

The fiscal deficit is expected to remain high in 2022, due to the continued support to firms and households to alleviate the impact of the energy and war-related crises. It will very gradually subside only by 2024, leaving the public debt at above 64 percent of GDP. A delivery of the ambitious Growth Acceleration Plan rests on strengthening the implementation capacity, and securing affordable financing, which is getting tighter. In the context of eroded fiscal space and rising public debt, the continuous and generous fiscal support, through subsidies, broad and widening tax exemptions, and

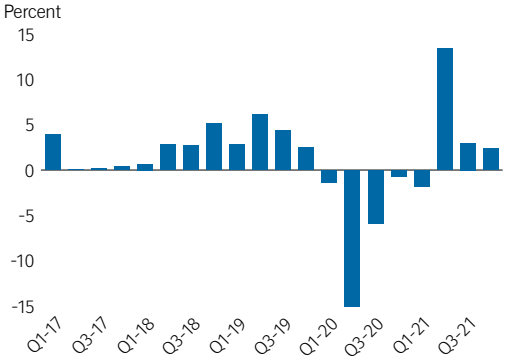
8 The Balkan Energy Group company (BEG).

frequent changes of pension policy with sizeable budget implications, is not sustainable and could derail macroeconomic stability going forward.

The medium-term outlook remains positive, but risks are largely tilted to the downside and accentuated. Disruptions related to the protracted pandemic shock, the war in Ukraine, prolonged supply chain disruptions, rising minimum wage pressures adding to other inflationary pressures, weak domestic political stability, including the de-facto paralysis in the parliament, and the looming energy crisis continue to weigh on the outlook. Heightened political uncertainty, and delayed EU accession negotiations, amidst an energy and health crisis, may lead to a weaker reform appetite needed to boost potential growth and consolidate public finances. Furthermore, the tightening of global financial conditions may affect financing options and costs for North Macedonia in the near future. On the positive side, delivery of the Growth Acceleration Plan that targets human capital development, the green transition, and digitalization may boost potential growth.

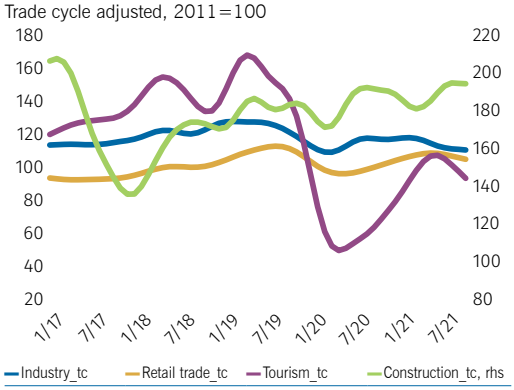
In the medium term, the country will need to strengthen the sustainability of public finances and shift its focus to resolving structural challenges, including low and declining human capital, weak regulatory frameworks, poor competition policy, judiciary, declining productivity, and rising migration. In addition, the government will need to rethink and rationalize state aid to address fiscal sustainability concerns and provide more targeted support to the domestic economy. Structural reform efforts need to be aligned with the green agenda and enable the low-carbon transition and reduced greenhouse gas emissions.

The economy is slowly recovering from the pandemic-induced recession…



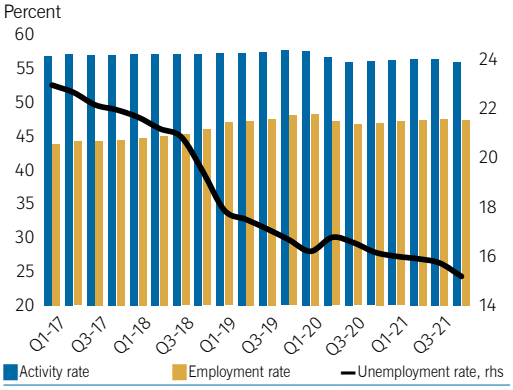
Source: State Statistics Office.

…as evidenced by high-frequency indicators.



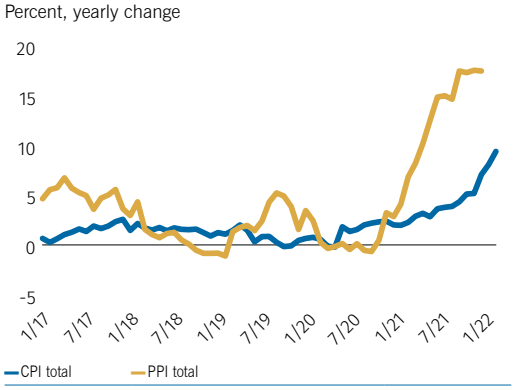
Source: State Statistics Office and World Bank staff calculations.

The labor market is gradually recovering.



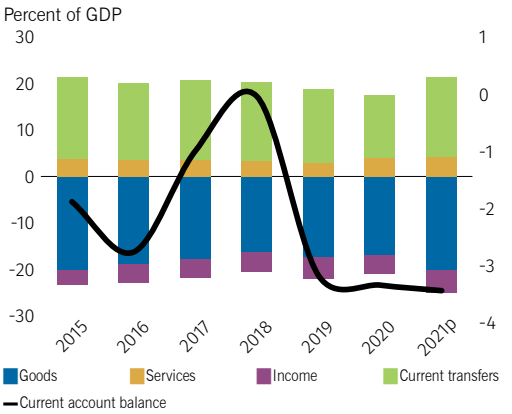
Source: State Statistics Office.

Inflationary pressures continue to accumulate.



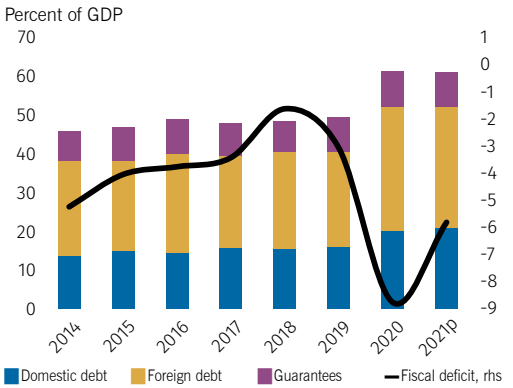
Source: State Statistics Office.

External imbalances widened.



Source: Central Bank.

Public debt growth stabilized in 2021.



Source: Ministry of Finance and World Bank staff estimates.

NORTH MACEDONIA	2019	2020	2021p	2022f	2023f	2024f
Real GDP growth (percent)	3.9	-6.1	4.0	2.7	3.1	3.2
Composition (percentage points):						
Consumption	3.1	-2.4	5.0	2.3	2.0	2.5
Investment	3.3	-5.3	2.2	1.5	2.1	2.2
Net exports	-2.4	1.7	-3.3	-1.1	-1.0	-1.5
Exports	5.8	-7.4	7.9	5.0	5.1	4.5
Imports (-)	8.2	-9.1	11.2	6.1	6.1	6.0
Consumer price inflation (percent, period average)	0.8	1.2	3.2	5.5	2.0	1.8
Public revenues (percent of GDP)	31.4	30.5	32.3	33.1	33.2	33.5
Public expenditures (percent of GDP)	33.5	38.9	37.7	38.4	38.0	37.2
Of which:						
Wage bill (percent of GDP)	6.3	7.3	6.9	6.7	6.6	6.2
Social benefits (percent of GDP)	15.6	18.0	16.9	16.1	16.1	16.1
Capital expenditures (percent of GDP)	3.4	3.2	4.2	5.4	5.7	5.8
Fiscal balance (percent of GDP)	-2.1	-8.3	-5.4	-5.3	-4.7	-3.7
Overall fiscal balance with the Public Enterprise for State Roads included (percent of GDP)	-3.1	-8.8	-5.8	-5.7	-5.1	-4.0
Primary fiscal balance (percent of GDP)	-1.0	-7.1	-4.1	-4.0	-3.5	-2.5
Public debt (percent of GDP)	40.4	51.9	51.8	53.7	55.3	55.1
Public and publicly guaranteed debt (percent of GDP)	49.2	61.0	60.8	62.7	64.3	64.1
Of which: External (percent of GDP)	32.7	40.7	39.8	41.1	41.2	39.6
Goods exports (percent of GDP)	47.5	45.3	51.1	52.0	53.0	53.9
Goods imports (percent of GDP)	64.8	62.3	71.3	72.9	73.6	74.2
Net services exports (percent of GDP)	3.0	4.0	4.3	4.3	4.5	4.8
Trade balance (percent of GDP)	-14.3	-13.0	-15.9	-16.6	-16.1	-15.5
Net remittance inflows (percent of GDP)	1.7	2.7	2.9	3.1	3.1	3.1
Current account balance (percent of GDP)	-3.3	-3.4	-3.5	-4.0	-3.3	-2.9
Net foreign direct investment inflows (percent of GDP)	3.2	1.5	3.7	3.8	3.8	3.9
External debt (percent of GDP)	72.4	80.3	81.4	82.8	82.0	81.4
Real private credit growth (percent, period average)	6.5	5.7	2.8	-	-	-
Nonperforming loans (percent of gross loans, end of period)	4.6	3.3	3.1	-	-	-
Unemployment rate (percent, period average)	17.3	16.4	15.7	14.7	13.9	13.5
Youth unemployment rate (percent, period average)	35.6	35.7	36.3	-	-	-
Labor force participation rate (percent, period average)	57.2	56.4	56.0	-	-	-
GDP per capita, PPP (current international $)	14,230	13,360	13,890	14,265	14,707	15,177
Poverty rate (percent of population)	16.5	18.3	17.2	16.4	15.9	15.1

Source: Country authorities, World Bank estimates and projections.

Note: Youth unemployment rate is for labor force aged 15–24. 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 $5.5/day per person in revised 2011 PPPs.

Serbia

- Growth in 2021 turned out stronger than expected, despite the weather-related underperformance in agriculture.
- Inflation accelerated more rapidly than projected, with the policy response encompassing central bank repo operations and selective price controls introduced by the government.
- The fiscal deficit turned lower than anticipated, while public debt plateaued at around 57 percent of GDP.
- Growth is projected to decelerate significantly in 2022 due to external developments, with risks to the outlook clearly tilted to the downside.
- Despite fiscal risks stemming from economic slowdown and the ongoing energy crisis, the fiscal deficit in 2022 is expected to remain unchanged compared to 2021.

Recent Economic Developments

After the pandemic-induced recession in 2020, real output grew by 7.4 percent in 2021. Economic growth was driven primarily by a surge in private consumption, but also an acceleration in total investment. A strong increase in salaries and in lending to households as well as transfers from the budget helped private consumption growth of 7.6 percent (y/y, in real terms). Meanwhile, investment soared by close to 15 percent in real terms. The main reason for the overall growth of investment is much higher government investment (up 49.8 percent in real terms). Government consumption rose 2.7 percent (in real terms). Although the export performance was strong (up 19.4 percent in real terms), the increase in imports was similar (up 19.3 percent in real terms in 2021, but from a higher level); thus, the net balance in goods and services made a negative contribution to growth of 2.1 percentage points. The economic recovery in 2021 was broad based seen from the production side, with the exception of the agriculture sector, where output declined by 5.4 percent in real terms. Agriculture output suffered from weather-related shocks, which had an impact across different agricultural subsectors and a significant increase in the cost of food used in livestock breeding and of fertilizers. Moreover, repeated breakdowns of EPS' electricity production and supply in Q4 and emergency imports of natural gas put a break on the otherwise strong rebound in real GDP growth in 2021.

While countercyclical fiscal measures helped mitigate the impact of the pandemic on the labor market in 2020, the situation deteriorated slightly in 2021 as some of the government support programs have been unwound and since there was an increase in labor force participation. According to the Labor Force Survey (LFS) data, the unemployment rate deteriorated slightly in 2021 climbing to 11 percent compared to 9.7 percent in 2020.[9] The increase in the unemployment rate is in part explained by the closure of some large, foreign-owned manufacturers, resulting in significant layoffs, including in the footwear and garments

9 The labor market improvement in 2020 (when the unemployment rate went down to 9.7 percent from 11.2 percent in 2019) was primarily the result of the fiscal stimulus program, since one of the requirements for firms to receive government support was to ensure that total employment remained unchanged or decreased by a maximum of 10 percent.

industries. Wages kept rising by 9.6 percent in nominal terms in 2021, although the increase in real terms is less pronounced (5.4 percent, y/y) as inflation started to pick up in the second half of the year. Unlike in previous years, private sector wages increased faster than public sector wages (up by 11.2 percent in nominal terms, compared to a 7.0 percent increase in public sector wages). Despite such developments, on average, in 2021 wages in the public sector were still about 15.4 percent higher than in the private sector.

The consolidated fiscal deficit narrowed significantly to 4.1 percent of GDP in 2021, according to the preliminary data. General government revenues rose by 20.3 percent in nominal terms (y/y). While all sources of fiscal revenue increased, social insurance contributions and VAT have the largest contribution to the overall good performance of revenues. At the same time, government expenditures grew by 10.1 percent (in nominal terms), led by a significant increase in capital expenditures. Thanks to the smaller than expected fiscal deficit, gross financing needs decreased, leaving public debt at 57.1 percent of GDP at end-December 2021, roughly unchanged from end-2020.

Soaring merchandise exports and favorable terms of trade helped limit the deterioration in the current account deficit (CAD) stemming from the surge in private consumption and investment, on a demand side. The CAD stood at preliminary 4.4 percent of GDP for 2021, up from 4.1 percent in 2020. The trade deficit widened by about 14 percent as large merchandise exporters resumed operations after the pandemic, but this was more than offset by imports driven by pent-up private consumption and investment (which in turn led to a fast increase in intermediate and capital goods). In euro terms, export of goods increased by 26.8 percent, y/y, while, imports increased by 24.6 percent, y/y, but from a higher base. Exports were also helped by an improvement in the terms of trade—export prices increased by 12.7 percent, whereas import prices grew 10 percent. Net foreign direct investment (FDI) inflows stood at 6.8 percent of GDP, thus fully financing the external shortfall, after growing 23.4 percent in 2021 (in euro terms). Most of the FDI went to manufacturing (37.9 percent of the total); followed by construction (20.1 percent) and transport (12.3 percent). Fitch Ratings affirmed Serbia's sovereign issuer rating at BB+, with a stable outlook.[10]

Inflation increased sharply, in line with developments in other CEE countries. Inflation in in the first half of 2021 was low and stable, with prices growing by just 2.3 percent (y/y). However, during the summer a gradual increase in inflation took place as food and energy prices started to rise and the consumer price index (CPI) peaked at 7.9 percent (y/y) in December. This was the highest level of inflation since July 2013. In February 2022, prices continued to increase to 8.8 percent notwithstanding the selective Government price controls (of some of the core food items, electricity and fuel for motor vehicles). In response to mounting inflation pressures, the National Bank of Serbia (NBS) increased the volume and percentage of sterilized excess liquidity from the banking sector through repo operations increased the average repo rate, while the key policy rate has been left unchanged till April 2022, when it was increased by 50bps to 1.5 percent. The money supply increase was also notable: by end-2021,

10 As of February 25th statement.

M1 was 14.8 percent higher than a year before. As in 2020, the nominal dinar exchange rate was stable throughout 2021, with only a minor depreciation in late February 2022. In January 2022, the NBS held official foreign currency reserves in the amount of EUR 16.1 billion, which covers six months of imports.

Banking sector performance continued to be robust. Based on Q4 data, banks remained profitable in 2021 with both return on assets (ROA) and return on equity (ROE) increasing compared to 2020. In 2021, ROE increased to reach 7.8 percent in Q4 2021. Nonperforming loans (NPLs) continued to gradually decline and stood at 3.6 percent in December 2021. In 2022, a new challenge emerged, as the Russia/Ukraine crisis pushed the NBS to conclude, in line with domestic regulation and international resolution standards the process of Sberbank's takeover by the local AIK bank. There are two other banks with Russian owners (API and Expo bank) as well as one insurance company (Sogaz), which have not been affected by the sanctions introduced in late February.

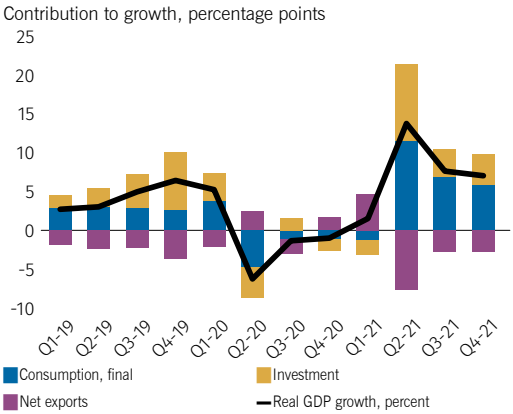
Outlook and Risks

Following the outbreak of war in Ukraine, growth projections have been reduced to 3.2 percent in 2022 from the originally expected 4.4 percent. After better-than-expected growth in 2021, on the back of a significant yet declining fiscal stimulus, the Serbian economy was expected to continue to grow at around 4 to 4.5 percent annually. However, the Russia/Ukraine crisis will certainly have an impact on Serbia's exports, FDI, remittances, and tourism revenues. Exports to Russia and Ukraine combined are about Euro 1 billion annually, FDI about Euro 220 million annually, remittances about Euro 80 million and tourism revenues about Euro 140 million annually. Further downward revisions are possible depending on the length of the conflict and the scope of sanctions toward Russia, as well as the implications on energy prices and availability. Finally, economic slowdown is expected among main Serbia's trade partners which will in turn lead to a slowdown in Sebian exports. Over the medium term, the economy is expected to grow steadily at around 3 percent annually, similarly to levels before the pandemic, as the economies of the main trading and investment partners rebound from the pandemic and the Ukraine war. The main driver of GDP growth over the medium term will be consumption (and to smaller extent investment), while net exports will make a negative contribution to growth. It is expected that the services sector will remain the main driver of economic growth going forward.

Macroeconomic stability will be maintained over the medium term despite several risks that could materialize in 2022. First, inflation is likely to increase further depending on international food and energy prices, which in turn depend on developments related to the Russia/Ukraine crisis. In addition, the 2022 fiscal deficit could be higher than the one projected under the base case scenario (4.1 percent of GDP). In addition to the crisis slowing down real GDP growth, and thus fiscal revenues, the government announced new spending not originally included in the budget. Furthermore, the crisis in the EPS and Srbijagas will most likely require significant additional subsidies and guarantees for liquidity and investment purposes. Consequently, public debt could start rising again as a share of GDP.

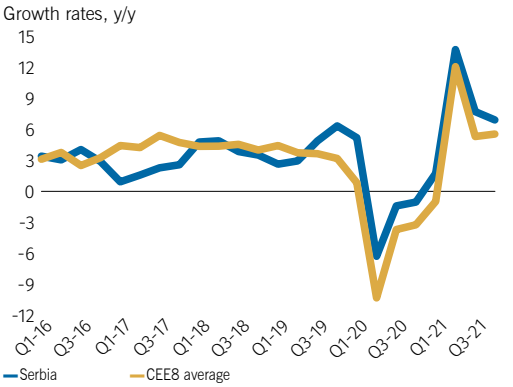
The outlook also crucially depends on the domestic reform agenda and its implementation. The ongoing crisis in the domestic energy sector emphasized once again the importance of improved management of SOEs. Reforms of Srbijagas and EPS have made only slow progress and the two companies have not had a permanent management for many years. In addition, contingent liabilities could affect public finances, particularly those related to the deterioration in the performance of SOEs. The government, therefore, needs to embark on a comprehensive and thorough reform of SOEs to make them financially sound and viable. In addition, the government could use the opening of new chapters of the EU accession to accelerate governance and green transition reforms and align the Serbian legal and institutional system to that of the EU.

The GDP recovered well in 2021...



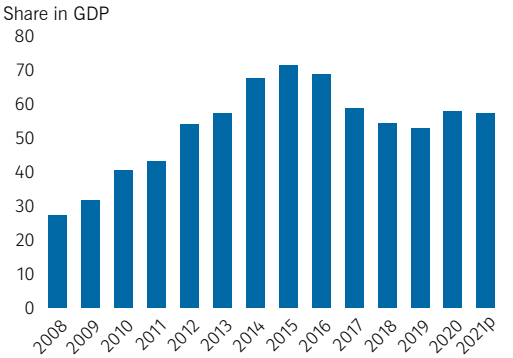
Source: Statistics Office of the Republic of Serbia.

...in line with developments among CEE countries.



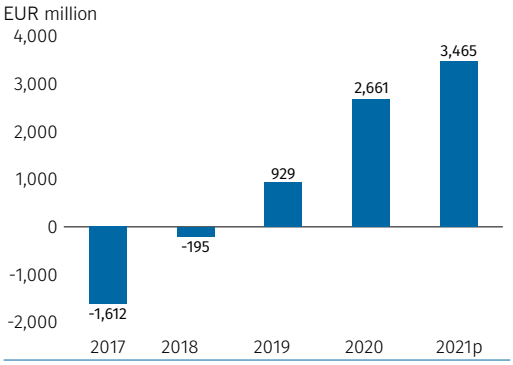
Source: Statistics Office of the Republic of Serbia and Eurostat.

The public debt stabilized...



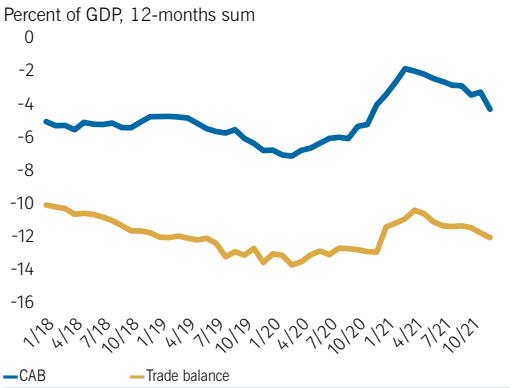
Source: Ministry of Finance.

...despite a significant increase of debt in euro terms



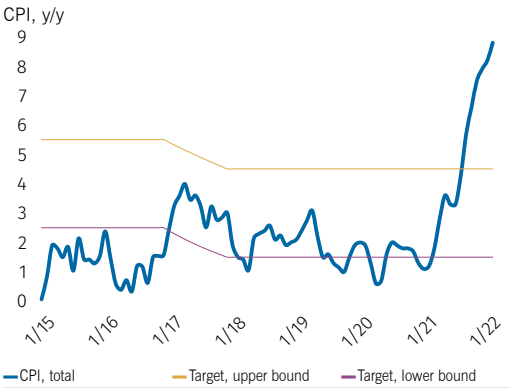
Source: Ministry of Finance.

The CAD and trade deficit recently started to increase.



Source: National Bank of Serbia.

Inflation has been increasing since April.



Source: National Bank of Serbia.

SERBIA	2019	2020	2021p	2022f	2023f	2024f
Real GDP growth (percent)	4.3	-0.9	7.4	3.2	2.7	2.8
Composition (percentage points):						
Consumption	2.9	-0.9	5.7	4.0	3.4	3.1
Investment	4.0	-0.1	3.8	1.1	0.9	1.0
Net exports	-2.6	0.1	-2.1	-1.8	-1.6	-1.4
Exports	4.1	-2.3	10.3	3.3	3.0	3.1
Imports (-)	6.7	-2.4	12.4	5.1	4.6	4.5
Consumer price inflation (percent, period average)	1.9	1.6	4.0	7.0	5.3	4.1
Public revenues (percent of GDP)	42.0	41.0	43.3	42.3	43.0	43.1
Public expenditures (percent of GDP)	42.2	49.0	47.4	46.3	46.0	45.3
Of which:						
Wage bill (percent of GDP)	9.5	10.5	10.0	10.1	10.2	10.3
Social benefits (percent of GDP)	14.4	14.7	13.6	14.0	14.0	14.2
Capital expenditures (percent of GDP)	4.9	5.3	7.4	7.4	7.0	7.2
Fiscal balance (percent of GDP)	-0.2	-8.0	-4.1	-4.1	-3.0	-2.2
Primary fiscal balance (percent of GDP)	1.8	-6.0	-2.4	-2.3	-1.0	-0.3
Public debt (percent of GDP)	48.8	53.9	53.9	52.8	53.2	51.8
Public and publicly guaranteed debt (percent of GDP)	52.8	57.8	57.1	58.2	58.9	56.8
Of which: External (percent of GDP)	30.3	33.4	37.0	38.0	40.0	40.0
Goods exports (percent of GDP)	35.7	34.4	38.9	38.0	38.6	39.9
Goods imports (percent of GDP)	47.9	45.5	50.1	49.9	49.8	50.1
Net services exports (percent of GDP)	2.3	2.4	2.7	2.4	2.1	2.6
Trade balance (percent of GDP)	-9.9	-8.8	-8.5	-9.5	-9.1	-7.6
Net remittance inflows (percent of GDP)	5.6	4.5	4.7	4.5	4.4	4.2
Current account balance (percent of GDP)	-6.9	-4.1	-4.4	-6.4	-5.8	-5.1
Net foreign direct investment inflows (percent of GDP)	7.7	6.3	6.8	5.8	6.3	6.2
External debt (percent of GDP)	61.8	65.8	68.6	65.3	63.1	61.0
Real private credit growth (percent, period average)	6.9	9.2	3.7	-	-	-
Nonperforming loans (percent of gross loans, end of period)	4.1	3.7	3.6	-	-	-
Unemployment rate (percent, period average)	11.2	9.7	11.0	10.0	9.5	9.5
Youth unemployment rate (percent, period average)	28.6	27.3	26.5	-	-	-
Labor force participation rate (percent, period average)	52.9	52.2	54.7	-	-	-
GDP per capita, PPP (current international $)	19,025	19,168	21,243	22,901	24,599	26,271
Poverty rate (percent of population)	10.1	10.2	9.8	9.6	9.3	9.1

Source: Country authorities, World Bank estimates and projections.
Note: 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 $5.5/day per person in revised 2011 PPPs.

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Country Notes

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