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Subdued Recovery

THE COUNTRY NOTES

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Acknowledgements

This Regular Economic Report (RER) covers economic developments, prospects, and economic policies in the Western Balkans' region: Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia.

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This Western Balkans RER and previous issues may be found at: www.worldbank.org/eca/wbrer/.

Albania

- Albania was hit hard, first by an earthquake in November 2019 and then by COVID-19.
- As tourism and services shrank abruptly, GDP contracted by an estimated 3.3 percent.
- Reconstruction and COVID-19-related stimulus alleviated the shocks, but fiscal space was diminished.
- Reconstruction is likely to be the main driver of the recovery in 2021, supplemented by mild growth in private demand due to continuing restrictions on travel.

Recent Economic Developments

Growth contracted by 3.3 percent in 2020. The COVID-19 pandemic took a heavy toll on an economy already devastated by the earthquake in 2019. However, the shock to economic fundamentals and economic growth was considerably more contained than was initially feared. Key sectors were put in lockdown in the second quarter (Q2) as the economy suffered a severe contraction of -10.6 percent. The pandemic hit the travel and tourism sectors first, and official restrictions and post-COVID behavior change together affected both supply and demand. Given the structure of the economy, the loss in sales, and profits, had a disproportionate effect on small and medium enterprises. In the summer, economic activity returned as social distancing measures were lifted, and domestic tourists partly compensated for the drastic decline in foreign visitors. While in Q3 growth declined by 2.8 percent, post-earthquake reconstruction reduced the effects of the pandemic; in Q4 increased construction led to a growth of 3 percent (y-o-y).

Private consumption and investment decisions were delayed by uncertainty about the end of the crisis as the number of infections rose gradually during the year. Investment contracted by 1.8 percent in 2020, and private consumption declined by 2.4 percent[1]. Fewer garment processing orders led a 6.7 percent drop in goods exports, and tourist visits plunged by 60 percent. Net exports added to growth by 0.5 percentage point (pp), as imports contracted more than exports in response to a slackening of private demand.

Despite structural problems, labor market indicators were corrected relatively quickly after the initial lockdown and the economy started to open up. In the summer, employment bounced back, with tourism and reconstruction partly absorbing losses in manufacturing jobs.

Increased social spending and earthquake reconstruction alleviated the impact of the pandemic on poverty. Albanian authorities introduced wage subsidies, increased social spending, and launched two credit guarantee windows through commercial banks to ease salary payments and release financing for working capital and investment needs. Public spending rose to 33.2 percent of GDP. To help small and medium enterprises, tax deferrals and further VAT exemptions were introduced. Total public revenues slumped to 26.5 percent of GDP, despite grants financing reconstruction. The larger fiscal deficit and the extension of

1 Does not include statistical discrepancy.

post-COVID guarantees for the private sector caused public debt to soar to 77.4 percent of GDP. Because the fiscal rule mandates that the debt-to-GDP ratio decline every year until it reaches 45 percent of GDP, Albania's debt ratio had been declining since 2017, but increased again in 2020 as a result of the pandemic. The fiscal rule includes an emergency escape clause that applied in 2020.

Inflation has stayed below the target band, although following the lockdown it started to reflect higher transport and production costs. Average inflation reached 1.6 percent in 2020, mainly because of supply chain disruptions during the lockdown. Food price increases contributed the most to inflation. These effects began to ease, however, as some containment measures were lifted by May.

With inflation low, monetary policy was accommodative: the Bank of Albania (BoA) lowered the monetary policy rate and injected liquidity into the banking system. In response to the COVID-19 shock to the economy, the BoA again lowered the base policy rate by 50 basis points, to a new historic low of 0.5 percent. In addition, to support banking system liquidity buffers, it abolished the ceiling on short-term central bank loans. It also introduced such macroprudential tools as lowering the capital requirement for government securities in foreign exchange to help banks finance government borrowing in foreign currency; there is ample foreign currency liquidity in the domestic market.

The exchange rate remains flexible, which helps Albania absorb external shocks. By the end of 2020 the domestic currency had appreciated by 1.3 percent against the euro. The banking sector is well-capitalized and liquid and has helped to buffer the crisis. Credit to the economy rose by 6.7 percent by the end of 2020, supported by the COVID-related credit guarantee schemes and low funding costs. In response to the pandemic, the BoA implemented such relief measures as moratoriums, loan restructuring, and favorable loan classifications, some of which will continue into spring 2021. The effects of the crisis on loan portfolio quality are expected to become clearer toward the second half of 2021, with a possible increase in nonperforming loans.

The current account deficit increased to 8.9 percent of GDP in 2020 as the trade deficit in nominal terms expanded. Remittances continued to flow in the country despite the crisis in EU countries where migrants reside. Reduced tourist inflows, declining textile processing orders, and lower oil prices drove a 28.6 percent decline in exports y-o-y. Foreign direct investment (FDI) and substantial government borrowing, including commercial and IFI funding, financed the current account as FDI dropped to 6.9 percent of GDP.

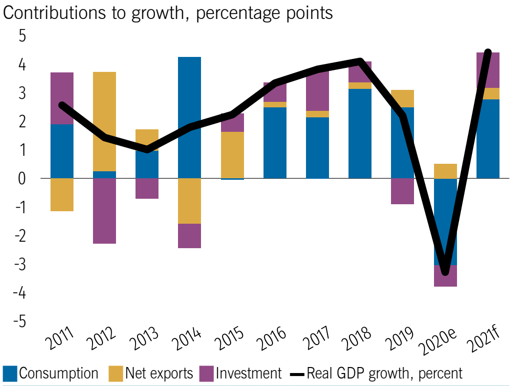
Outlook and Risks

Given that the global vaccination rollout will take several years, growth in tourism and travel are likely to remain limited. In that case, in 2021 GDP would grow by an estimated 4.4 percent as exports, consumption, and investment begin to rebound. The services sector, led by tourism, and construction are expected to drive the recovery, in part thanks to investment in reconstruction, as has occurred after similar natural disasters in developing economies. In the next few years, private consumption will become increasingly important for growth, supporting reconstruction efforts. Private investment will contribute to growth as long as the government continues to reform the business climate and business access to finance opens up. Beyond 2021, limited fiscal space is likely to restrict government spending. The fiscal situation could deteriorate if revenue collection does not expand. In that case, the government might need to reduce capital spending to contain the debt-to-GDP ratio and comply with the fiscal rule.

The current account deficit is expected to narrow to 7.7 percent of GDP in 2021 on its way down to 6.4 percent, in line with pre-crisis trends and driven by projected improvements in the trade balance. Service exports, especially tourism and fast-expanding business-process operations, should narrow the trade deficit over the medium term. Import growth in 2021 will be high at 15.8 percent as infrastructure investment speeds up.

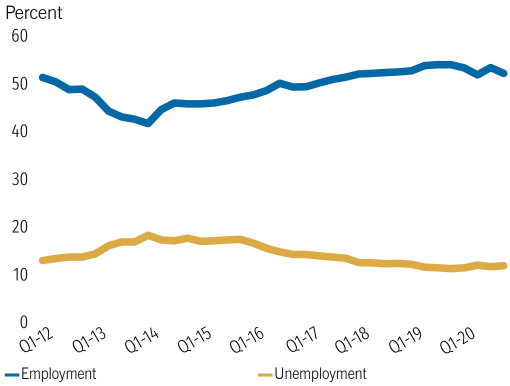
With economic activity picking up, revenues are projected to recover to 27.6 percent of GDP in 2021–22. In 2021 Albania's public debt is projected to decrease only marginally, to 77.3 percent of GDP. The employment outlook is heavily dependent on recovery of the services sectors and on reconstruction, where jobs are mostly low pay and vulnerable to economic uncertainty.

The COVID-19 pandemic and the earthquake hit the economy hard.



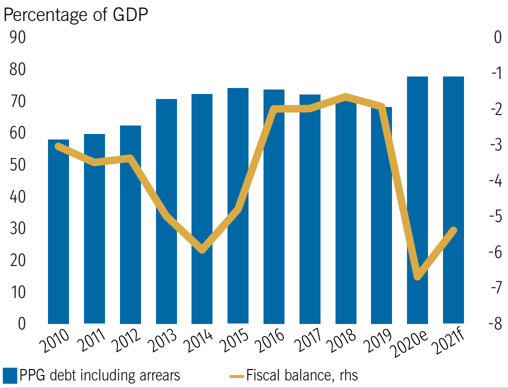
Source: INSTAT and World Bank staff calculations.

But the effect on the labor market was less severe.



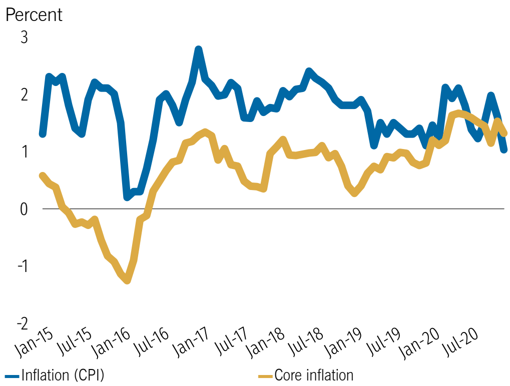
Source: INSTAT.

Strong fiscal stimulus supported the vulnerable—but at the cost of increasing public debt.



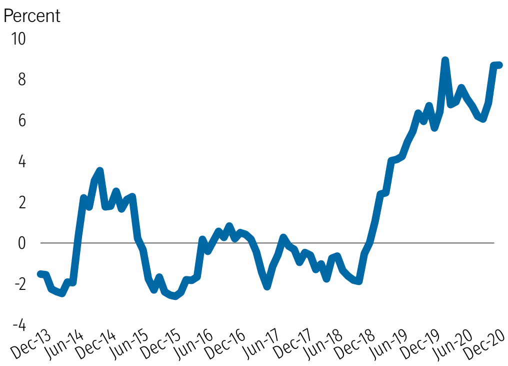
Source: INSTAT, MoFE and World Bank staff calculations.

Inflation fell below the target band of 2–4 percent.



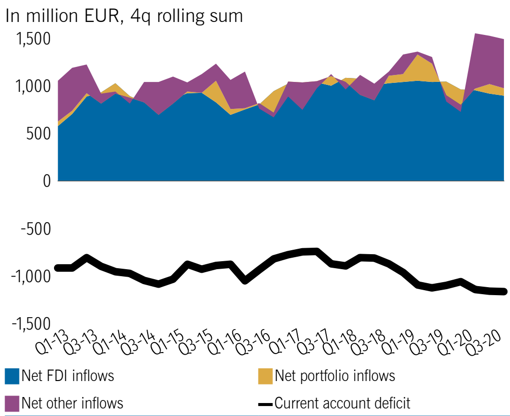
Source: BoA and World Bank staff calculations.

Guarantee instruments were used to stimulate credit growth.



Source: BoA and World Bank staff calculations.

The expanded current account deficit was financed through government borrowing.



Source: BoA and World Bank staff calculations.

ALBANIA	2017	2018	2019	2020e	2021f	2022f
Real GDP growth (percent)	3.8	4.1	2.2	-3.3	4.4	3.7
Composition (percentage points):						
Consumption	2.1	3.1	2.5	-3.0	2.8	2.5
Investment	1.5	0.7	-0.9	-0.7	1.2	-1.1
Net exports	0.2	0.2	0.6	0.5	0.4	2.2
Exports	4.1	1.4	2.0	-8.9	5.2	4.0
Imports (-)	3.8	1.1	1.4	-9.4	4.8	1.8
Consumer price inflation (percent, period average)	2.0	2.1	1.4	1.6	2.4	2.8
Public revenues (percent of GDP)	27.8	27.5	27.4	26.5	27.8	27.4
Public expenditures (percent of GDP)	29.8	29.2	29.4	33.2	33.3	31.4
Of which:						
Wage bill (percent of GDP)	4.7	4.5	4.6	4.8	4.9	4.7
Social benefits (percent of GDP)	12.0	11.6	11.9	13.7	13.0	12.3
Capital expenditures (percent of GDP)	4.4	4.8	4.5	6.3	6.6	4.6
Fiscal balance (percent of GDP)	-2.0	-1.7	-2.0	-6.7	-5.4	-4.0
Primary fiscal balance (percent of GDP)	0.0	0.5	0.1	-4.7	-2.9	-1.4
Public debt (percent of GDP)	66.9	64.9	63.7	75.1	75.4	74.9
Public and publicly guaranteed debt (percent of GDP)	71.9	69.5	67.9	77.4	77.3	76.6
Of which: External (percent of GDP)	31.6	30.4	29.1	34.1	32.7	30.3
Goods exports (percent of GDP)	6.9	7.7	6.6	6.1	6.2	6.2
Goods imports (percent of GDP)	31.3	30.1	29.7	29.1	29.2	29.1
Net services exports (percent of GDP)	9.4	8.7	9.3	8.1	8.9	11.2
Trade balance (percent of GDP)	-15.1	-13.7	-13.8	-14.8	-14.1	-11.7
Net remittance inflows (percent of GDP)	5.5	5.2	5.2	5.2	4.8	4.8
Current account balance (percent of GDP)	-7.5	-6.8	-8.0	-8.9	-7.7	-6.4
Net foreign direct investment inflows (percent of GDP)	8.6	8.0	7.6	6.9	6.2	7.7
External debt (percent of GDP)	68.8	65.2	60.5	65.0	60.9	55.4
Real private credit growth (percent, period average)	-2.3	-3.0	1.5	5.2	n.a.	n.a.
Nonperforming loans (percent of gross loans, end of period)	13.2	11.1	8.4	8.1	n.a.	n.a.
Unemployment rate (percent, period average)	13.7	12.3	11.5	11.7	n.a.	n.a.
Youth unemployment rate (percent, period average)	25.9	23.1	21.5	20.9	n.a.	n.a.
Labor force participation rate (percent, period average)	58.3	59.4	60.4	59.5	n.a.	n.a.
GDP per capita, PPP (current international $)	11,693	15,101	15,433	n.a.	n.a.	n.a.

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.

Bosnia and Herzegovina

- It is estimated that the economy of Bosnia and Herzegovina (BiH) contracted by 4.3 percent in 2020. As the world recovers from the COVID-19 crisis and with progress on the BiH Economic Reform Program, growth is expected to gradually recover.
- The crisis highlights the country's need for long-delayed structural reforms to speed recovery.
- Addressing persistent unemployment and countering the layoffs during the pandemic is critical to reducing poverty.
- The economic outlook is positive, but with downside risks, both domestic and external. The external risks are related to how slower-than-expected recovery in the EU could affect BiH accession prospects, and to tighter financial conditions in international markets; at home, general elections in 2022 are likely to generate political turmoil. Accelerating structural reforms is necessary to mitigate those risks.

Recent Economic Developments

The pandemic generated a substantial output contraction of 4.3 percent in 2020 due to a slowdown in domestic demand, a weak external environment, and acute political uncertainty. In 2020 growth was positive in the first quarter (Q1) but after lockdown and containment measures were introduced in Q2 the economy braked to a sudden stop as domestic and external demand dropped. By Q4, domestic demand, and economic activity, had gained strength, but annual growth remained negative with overall consumption falling 3.4 percentage points (pp) and investment 4.7 pp. Difficulties in movement of goods and capital affected trade volumes, but the trade balance improved; exports were hard hit by the EU recession but were offset by a severe contraction in merchandise imports, so that ultimately net exports added 4 pp to growth. On the production side, activity declined in most sectors. The main contributors to the contraction were services (-3.1 pp), followed by industry (-0.8 pp) and agriculture (-0.1 pp).

Unemployment has worsened. According to official estimates, in November 2020 the number of people in paid employment was down by about 1 percent year-on-year (y-o-y), and the number of unemployed had risen by about 3 percent. Deeper labor market effects were prevented by wage subsidy programs in both BiH entities and other policy measures targeted to affected economic sectors to prevent more job losses. These labor market changes underscore the need to address structural rigidities to generate private sector jobs and reduce disincentives to participation in the labor market.

With demand depressed and oil prices lower, in 2020 deflation returned. In December the consumer price index was down 1.6 percent y-o-y. The strongest deflationary trends came from two categories that together constitute 30 percent of the CPI basket: transport prices, down by 8.6 percent y-o-y, and prices for clothing and footwear, down 10 percent).

To mitigate the impact of the pandemic, the BiH fiscal stance turned expansionary. A fiscal deficit of 5.4 percent[2] of GDP is expected for 2020, down from a surplus of 1.9 percent

2 BiH Global Fiscal Framework for 2020–22.

in 2019. In 2020 the fall in revenues was driven mainly by the slump in collecting tax revenue, especially for indirect taxes. Spending was up because of higher current spending on crisis-related measures, for both the health sector and support for business. Despite an estimated increase, capital spending is still insufficient, primarily because of long-standing project delays. The deficit has been financed primarily through borrowing domestically and from multilateral lenders. Total public and publicly guaranteed debt in 2020 is estimated to have been 39.6 percent of GDP,[3] up by 5.1 pp from a year earlier, of which 31.1 percent of GDP is external public debt, which is largely concessional and owed to international financial institutions.

Despite the pandemic, the financial sector has been generally stable, but its profitability has been slipping. On average, banks are sufficiently capitalized and liquid. The nonperforming loan (NPL) ratio continued to decline, reaching 6.1 percent by the end of 2020 Q4. Profitability, however, has also been trending downward, with return on equity at 6.0 percent in 2020 (Q4), having gone down from 10.2 percent in 2019 Q4 and 7.0 percent in 2020 Q3. The capital adequacy ratio increased from 18 at the end of 2019 Q4 to 19.2 at the end of 2020 Q4. Capital buffers are within requirements. Safeguarding the banking sector will continue to be especially important because the full impact of the moratoriums has yet to be assessed.

It is estimated that the current account deficit (CAD) widened slightly due to falls in the services balance and in remittances. The CAD is estimated to have grown from 3.2 percent of GDP in 2019 to 3.4 percent in 2020, mainly because both imports and (to a much lesser extent) exports both fell. The fall in exports was caused by lower inflows from transport and travel. At an estimated 7.4 percent of GDP for 2020, remittances are still a significant source of CAB financing, and they are supported by FDI and other investment. Reserve coverage for 2020 continued to be adequate.

Outlook and Risks

The outlook is marked by the continuation of measures to combat the pandemic. Authorities are currently focused on securing vaccines. As the pandemic subsides, attention is expected to return to the Socio-Economic Program,[4] mainly announcement of investments in energy and infrastructure. Consumption will continue to drive growth, especially growth of imports. Remittances will recover in the medium term, and, together with progress on reforms, will underpin a gradual pickup in consumption and finance a major portion of the trade deficit. A strong capital investment push must continue to be a high priority for the government. Once the crisis ends, planned investments in energy, infrastructure, and tourism will also support job creation.

As the pandemic subsides in 2021, economic growth is projected to reach 2.8 percent. The expected gradual economy recovery should improve labor market participation and employment, which are both vital if growth is to reduce poverty.

There are several risks to the outlook. The main one is prolongation of the pandemic,

3 For the latest debt data, see the CBBiH web portal.

4 The BiH medium-term development plan adopted in January 2020 to tackle necessary structural reforms.

which could lower growth in 2021 below projections. In addition, the challenging political environment, lack of agreement on the new Elections Law, and domestic political tensions will affect progress on socioeconomic programs. The main external risks for BiH are again slow growth in the EU and political tensions in the region.

In the medium term it will continue to be important for BiH to keep on a reform path that addresses long-standing issues. If the country is to be more competitive, the reforms must address entrenched structural and institutional problems. To unleash the potential of the private sector, BiH must reduce the very large footprint of the public sector. It also needs to shift its economy from an internal focus on local consumption and imports to making international integration a priority through investments and exports. BiH's unfavorable demographics and difficult politics could also exacerbate lingering effects of the pandemic and cause an even larger decline in GDP than is currently expected.

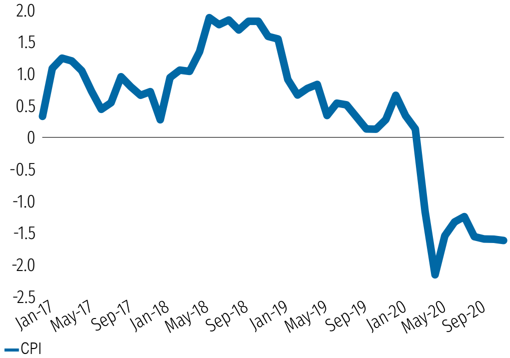
The COVID crisis caused GDP to contract in 2020.

Contributions to growth, percentage points

Source: BiH Agency for Statistics and World Bank staff forecast.
Note: Agri, Ind. Serv. - BHAS production approach; 2021 World Bank staff forecast.

Consumer price inflation turned to deflation in 2020.

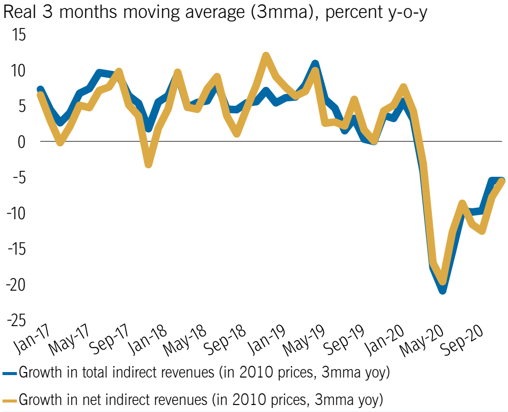
Percent y-o-y



Source: BiH Agency for Statistics and World Bank staff calculations.

The crisis reduced collection of indirect gross tax revenues, but by yearend collections began to improve.

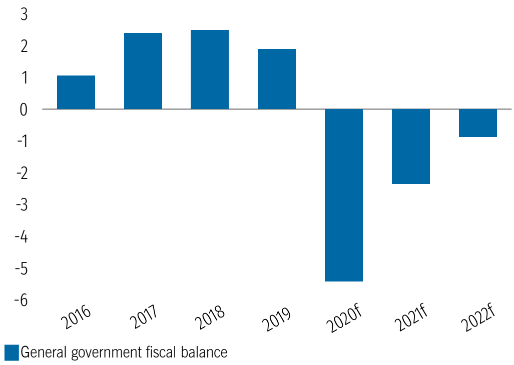
Real 3 months moving average (3mma), percent y-o-y



Source: BiH Indirect Tax Office and World Bank staff calculations.

To mitigate crisis impacts BiH chose an expansionary fiscal stance for 2020.

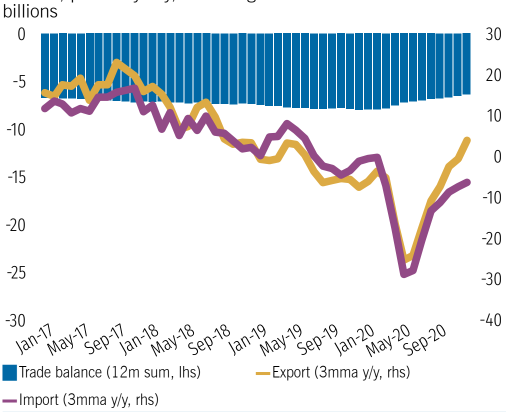
Percent of GDP



Source: Fiscal authoritie and World Bank staff estimates.

The deficit in the goods trade improved due to a fall in overall trade volume.

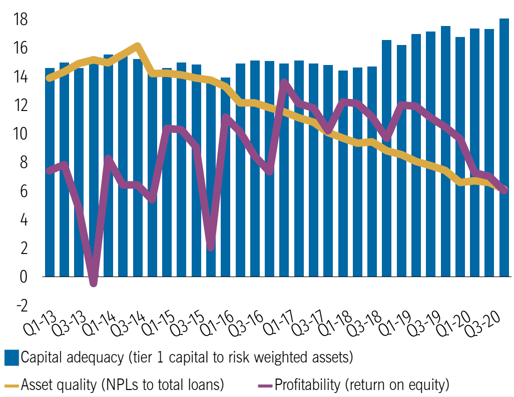
3 mma, percent y-o-y, and the goods trade balance in KM billions



Source: BiH Agency for Statistics and World Bank staff calculations.

Though still high, commercial bank nonperforming loans in commercial bank portfolios are trending down.

Percent



Source: Central Bank of BiH and World Bank staff calculations.

BOSNIA AND HERZEGOVINA	2017	2018	2019	2020e	2021f	2022f
Real GDP growth (percent)	3.2	3.7	2.8	-4.3	2.8	3.5
Composition (percentage points):						
Consumption	n.a.	n.a.	n.a.	-3.4	3.0	3.4
Investment	n.a.	n.a.	n.a.	-4.7	0.5	0.7
Net exports	n.a.	n.a.	n.a.	4.0	-0.7	-0.5
Exports	n.a.	n.a.	n.a.	-3.2	0.7	1.3
Imports (-)	n.a.	n.a.	n.a.	-7.2	1.5	1.8
Consumer price inflation (percent, period average)	0.8	1.4	0.6	-1.1	0.5	0.5
Public revenues (percent of GDP)	43.8	42.7	43.0	42.3	42.3	41.8
Public expenditures (percent of GDP)	41.4	40.2	41.1	47.8	44.6	42.6
Of which:						
Wage bill (percent of GDP)	11.0	10.2	10.9	11.4	11.3	10.9
Social benefits (percent of GDP)	17.8	17.8	18.1	21.6	19.3	18.6
Capital expenditures (percent of GDP)	2.3	2.8	3.1	5.0	4.4	3.8
Fiscal balance (percent of GDP)	2.4	2.5	1.9	-5.4	-2.3	-0.9
Primary fiscal balance (percent of GDP)	3.2	3.2	2.6	-4.6	-1.4	0.1
Public debt (percent of GDP)	36.1	34.2	32.8	37.4	38.2	38.0
Public and publicly guaranteed debt (percent of GDP)	37.7	35.6	34.5	39.6	40.4	40.2
Of which: External (percent of GDP)	30.7	29.9	28.4	31.1	31.5	31.0
Goods exports (percent of GDP)	29.8	31.2	28.8	27.7	26.8	26.5
Goods imports (percent of GDP)	53.4	53.6	51.4	46.3	47.0	47.8
Net services exports (percent of GDP)	7.4	7.8	7.8	4.0	5.1	5.7
Trade balance (percent of GDP)	-16.2	-14.7	-14.7	-14.6	-15.0	-15.6
Net remittance inflows (percent of GDP)	8.4	8.5	8.4	7.4	7.9	7.8
Current account balance (percent of GDP)	-4.8	-3.5	-3.2	-3.4	-4.0	-4.7
Foreign direct investment inflows (percent of GDP)	2.3	3.0	2.0	1.9	2.0	2.1
External debt (percent of GDP)	70.6	66.8	64.1	73.0	76.3	75.9
Real private credit growth (percent, period average)	5.3	5.1	5.2	1.3	n.a.	n.a.
Nonperforming loans (percent of gross loans, end of period)	10.0	8.8	7.4	6.1	n.a.	n.a.
Unemployment rate (percent, period average)	20.5	18.4	15.7	n.a.	n.a.	n.a.
Youth unemployment rate (percent, period average)	45.8	38.8	33.8	n.a.	n.a.	n.a.
Labor force participation rate (percent, period average)	42.6	42.1	42.1	n.a.	n.a.	n.a.
GDP per capita, PPP (current international $)	12,875	13,200	13,775	13,424	14,100	14,700

Sources: Country authorities, World Bank estimates and projections.

Kosovo

- In 2020, economic activity contracted by an estimated 6.9 percent driven by declines in diaspora-related service exports, total investment, and private consumption. Policy support and a surge in remittances and goods exports cushioned the economic impact of the pandemic.
- Economic activity is expected to pick up in 2021, but global and domestic risks are significant, among them delays in vaccine procurement and distribution, international travel restrictions, and reinstatement of strict containment measures.
- Better targeting of policy measures is crucial to increase their impact and preserve fiscal sustainability. Addressing long-standing structural impediments to growth and investing in human capital are vital to foster a resilient recovery and sustainable growth.

Recent Economic Developments

In 2020 Kosovo's economy recorded its first contraction since independence. From 2009 to 2019 growth averaged 3.6 percent. In 2020, economic activity contracted by an estimated 6.9 percent, mainly because of a 51 percent drop in diaspora-related exports of travel services and investment. The rise in government consumption provided a modest positive contribution, but despite the support from higher government transfers and diaspora remittances, private consumption subtracted an estimated 0.2 percentage points (pp) from growth. According to the Kosovo Statistics Agency[5], by the third quarter of 2020 the economy had contracted by 5.6[6] percent. Declared turnover dropped by 9.5 percent for the year, reflecting how heavily the crisis affected the private sector.

Policy support measures, coupled with increases in remittances and goods exports, mitigated the contraction. Goods exports cushioned the downturn; they were up by 21 percent—driven by higher international demand for nickel and improved foreign market access for non-commodity exporters. Service exports also rebounded during the fourth quarter of 2020, halting the already considerable losses. A surge of 15.1 percent in remittances boosted disposable incomes. Meanwhile, public transfers—mainly policy measures to counter the impact of the pandemic—recorded a 38.3 percent increase, supporting disposable incomes by over €240 million.

The labor market reacted primarily by reducing working hours and compensation, according to the results of the World Bank Business Pulse Survey (BPS) conducted in 2020 Q2. Consistent with the BPS findings, tax records show that formal employment weathered the impact of the downturn. Wage-subsidy and other policy measures not only appear to have helped preserve formal jobs, but also encouraged formalization of employment. However, a 4.2 percent drop in personal income tax revenue indicates that the contraction reduced formal employment compensation and working hours. Meanwhile, according to administrative data from employment centers,

5 This publication does not incorporate the provisional estimates of GDP for the fourth quarter of 2020 published on April 02, 2021, given the technical inconsistencies with the annual publication and BoP statistics for the year 2019, as well as the anticipated revision of the national accounts' statistics.

6 All comparisons are year-on-year unless otherwise indicated.

unemployment jumped, probably from job losses in the informal sector. However, the magnitude of this increase is uncertain, given that registered unemployment status was a prerequisite for benefiting from government social protection measures.

The budget deficit more than doubled in 2020, reaching 7.6 percent of GDP in 2020, up from 2.9 percent in 2019 and despite a 28.4 percent drop in public investment. The economic contraction caused public revenue to fall by almost 9 percent, mostly from a shortfall in tax revenue. Current public spending increased by a record 18.6 percent, driven by pandemic-related spending. The government spent an estimated 4.4 percent of GDP in response to the pandemic, with an estimated 0.9 percent for the additional cost of managing the pandemic (wage allowances and goods and services) and 3.5 percent for direct transfers for social protection, employment, and firm and farm support.[7] Kosovo financed the deficit by issuing new domestic debt valued at 2.5 percent of GDP, mobilizing 3.3 percent of GDP in external concessional debt, and drawing on liquidation receipts (1.1 percent of GDP) and government deposits. Public and publicly guaranteed debt increased by 5.2 pp of GDP, reaching 22.8 percent of GDP. The Government also assumed the obligation to compensate from 2023 KPST withdrawals worth 1.5 percent of GDP, a half of the total withdrawals of 3 percent of GDP that occurred between end-December 2020 and January 2021.

Consumer price inflation (CPI) in 2020 was subdued, decelerating significantly from 2019. CPI inflation in 2020 averaged 0.2 percent, down considerably from 2.7 percent in 2019. Inflation pressures were subdued due to slack domestic demand and declining import prices. Inflationary pressures picked up in June 2020 after strict pandemic containment measures eased, but then reversed in July and remained in negative territory until December 2020. Import prices followed a deflationary trend throughout the year; prices dropped most in Q2, but inflation approached positive territory by yearend.

The drop in imports and a rise in secondary income almost compensated for the plunge in exports. As a result, the current account deficit (CAD) deteriorated only marginally, from 5.5 percent of GDP in 2019 to 5.7 percent. The CAD was primarily financed by net foreign direct investment (FDI) and other investment inflows. Despite a 10.7 percent drop in gross FDI inflows, reduction in outward FDI and dividend repatriation led to an increase of 42 percent in FDI. Other investment also increased by 52 percent, reflecting mainly external public loans.

In 2020 Kosovo's financial sector weathered the pandemic well, but the full impact on loan portfolio quality is yet to be assessed. Bank deposits increased by 11.5 percent, with household deposits up by almost 13 percent. Bank credit went up by 7.1 percent, but new loans increased by only 1.8 percent, reflecting significant restructuring throughout the year. Loans from microfinance institutions (MFIs), which accounted for about 6 percent of total loans in December 2020, were down by 6.8 percent for the year. The CBK issued a decision in March to postpone loan payments, which resulted in a 3-month loan payment moratorium that reached more than 50 percent of total bank loans. As this window closed,

7 This estimate excludes the impact of tax deferrals and exemptions, which were discontinued during the second half of 2020.

the CBK in June allowed applications for loan extensions of up to one year and case-by-case restructuring. That is partly why the full impact of the pandemic on loan portfolio quality has yet to be assessed. By end-2020, capital adequacy was above regulatory requirements, and the non-performing loan rate had increased by 0.7 pp by compared to a year earlier.

Outlook and Risks

Growth is expected to rebound in 2021, but risks are significant. Economic recovery will be gradual: in line with the global trend, real activity will reach pre-pandemic levels only in 2022. Recovery will be spearheaded by a rise in exports and consumption. Growth in goods exports should continue to be strong in the medium term because base metal prices are expected to rise. Services exports should also recover, driven by a recovery in diaspora-related tourism, as international travel restrictions and vaccine deployment and administration accelerate in Europe. Private consumption is expected to add to growth, driven by continued fiscal policy support, the impact of the withdrawals from the KPST pension accounts, and a recovery in disposable incomes in 2021. Further capitalization of the Kosovo Credit Guarantee Fund and the increase in the guarantee coverage ceiling should also support recovery.[8] The projected outlook is based on assumptions of relaxed mobility between Europe and Kosovo, no further strict local containment measures, a recovery in Euro Area growth, and an increase in base metal and mineral prices. Economic growth is projected to remain over 4 percent in the medium term, but risks to the outlook are high. In 2021 and beyond, a worsening of the pandemic mandating the reinstitution of strict containment measures, imposition of new international travel restrictions, and lower than projected growth in the EU, could all weigh on growth and the speed of recovery. There is also potential for higher growth, through faster implementation of IFI-financed public investment.

In 2021 the fiscal deficit will continue to be high, driven by recovery support measures and the disruption in the growth trajectory induced by the pandemic. Revenues are expected to recover as economic activity picks up but are likely to remain below the 2019 level. The mitigation and recovery package in support of businesses and individual livelihoods should be fully executed in 2021, at about 3.2 percent of GDP. The overall fiscal deficit is expected to reach 5.1 percent of GDP. Assuming that by 2022 the deficit is aligned with the fiscal rules, public and publicly guaranteed debt would reach 28.2 percent of GDP in 2023, almost doubling from the 2016 level. Considering the uncertainty regarding the pandemic and narrowing fiscal space; it will be important to better target support measures to increase the impact of the fiscal stimulus while maintaining fiscal sustainability.

As in 2020, the current account deficit (CAD) should hover at about 5.7 percent of GDP. Exports are expected to increase because of rising base metal prices, a recovery in diaspora-related tourism, and a rise in external demand. However, the rebound in exports will be partially offset by an increase in import demand as consumption and investment picks up during 2021. While significant inflows of remittances

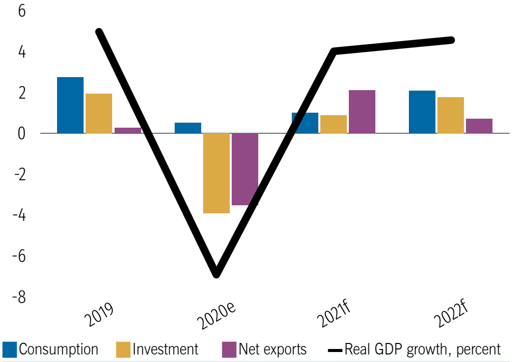
8 The Economic Recovery Law measure to increase loan guarantee coverage to 80 percent and subsidize guarantee fees—implemented by the Kosovo Credit Guarantee Fund and financed by the World Bank—is expected to increase demand for new loans in 2021.

should continue to reduce the CAD, the level of remittance inflows is projected to be lower than the 2020 peak; hence further offsetting the rebound in exports, leading to a CAD of 5.7 percent of GDP, similar to last year.

Progress in structural reforms is vital to reverse the adverse economic and social impact of the pandemic and build resilience to future negative shocks. The epidemic has proved the importance of well-functioning social protection mechanisms that can identify and support groups that are more vulnerable to adverse economic shocks while preserving fiscal buffers. Better targeting of social protection spending to the poorest is crucial both for faster poverty reduction and as an automatic stabilizer to prevent steep declines in consumption. To sustain high and inclusive growth, it is also necessary for Kosovo to boost productivity by improving the business environment. The goal is to reduce the administrative burden on firms, e.g., by better coordinating business inspections, adopting targeted innovation and green competitiveness policies for micro and small enterprises, investing in human capital, and improving the rule of law so that all firms and citizens are treated fairly. Leveraging its investments in digital connectivity in the medium term will give Kosovo an opportunity to broaden access to markets, promote inclusion, and improve public service delivery.

Kosovo's economy contracted for the first time in 2020, but is expected to recover gradually.

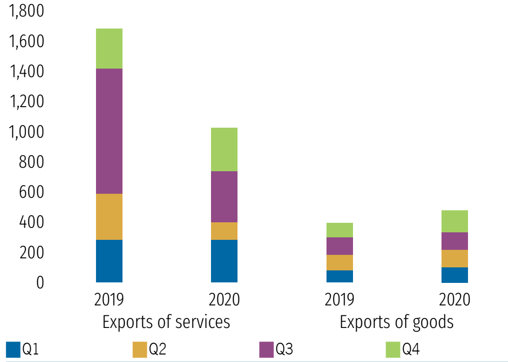
Contributions to growth, percentage points



Source: Kosovo Statistics Agency and World Bank staff calculations and projections.

Exports of services plunged, but merchandise exports rose, though from a lower base.

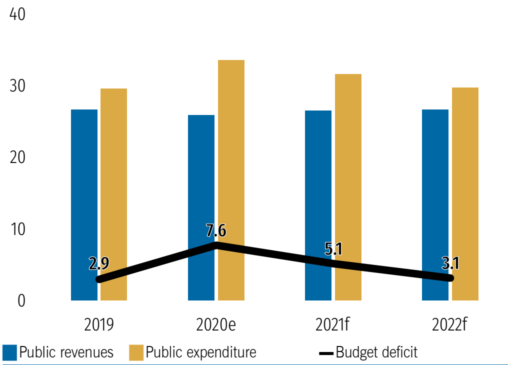
Exports of goods and services, in EUR millions



Source: World Bank staff calculations and projections.

The fiscal deficit surged in 2020, but is projected to narrow in the medium term.

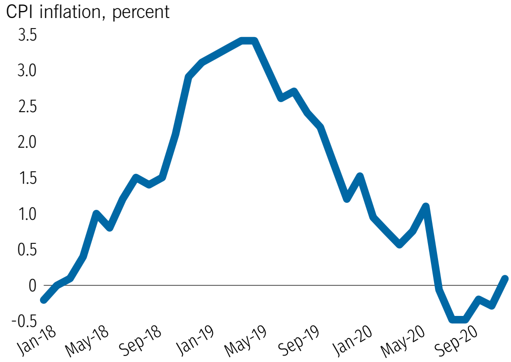
Percent of GDP



Source: Ministry of Finance and World Bank staff calculations and projections.

Consumer price inflation was subdued in 2020.

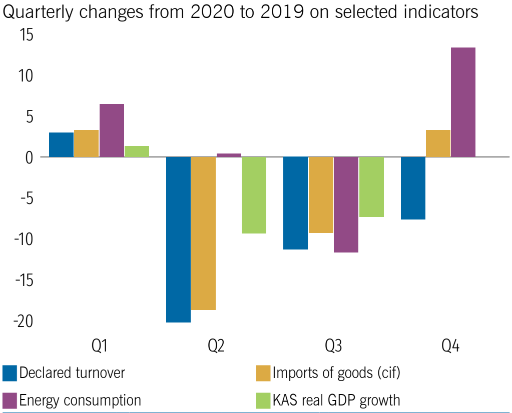
CPI inflation, percent



Source: Kosovo Statistics Agency.

Economic activity was picking up in the fourth quarter of 2020.

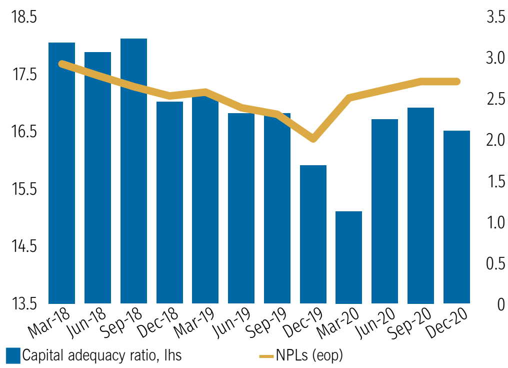
Quarterly changes from 2020 to 2019 on selected indicators



Source: Kosovo Statistics Agency and World Bank staff calculations.

NPLs have worsened slightly, but capital adequacy is above regulatory requirements.

Percent



Source: Central Bank of Kosovo.

KOSOVO	**2017**	**2018**	**2019**	**2020e**	**2021f**	**2022f**
Real GDP growth (percent)	4.2	3.8	4.9	-6.9	4.0	4.5
Composition (percentage points):						
Consumption	1.5	5.4	2.7	0.5	1.0	2.1
Investment	1.5	2.1	1.9	-3.9	0.9	1.8
Net exports	1.2	-3.8	0.2	-3.5	2.1	0.7
Exports	4.0	1.0	2.1	-7.9	5.8	3.7
Imports (-)	2.8	4.8	1.9	-4.4	3.7	3.0
Consumer price inflation (percent, period average)	1.5	1.1	2.7	0.2	0.7	1.0
Public revenues (percent of GDP)	26.4	26.1	26.6	25.8	26.4	26.5
Public expenditures (percent of GDP)	27.6	29.0	29.5	33.4	31.5	29.6
Of which:						
Wage bill (percent of GDP)	8.6	8.8	8.7	9.9	9.3	8.7
Social benefits (percent of GDP)	6.1	6.1	6.2	7.8	6.9	6.3
Capital expenditures (percent of GDP)	7.3	7.9	7.5	5.7	5.8	6.3
Fiscal balance (percent of GDP)	-1.2	-2.9	-2.9	-7.6	-5.1	-3.1
Primary fiscal balance (percent of GDP)	-0.9	-2.7	-2.6	-7.2	-4.6	-2.4
Public debt (percent of GDP)	15.6	16.3	16.9	22.3	24.9	26.5
Public and publicly guaranteed debt (percent of GDP)	16.3	16.9	17.5	22.8	25.2	26.7
Of which: External (percent of GDP)	6.6	6.2	5.8	7.9	8.7	9.1
Goods exports (percent of GDP)	5.9	5.6	5.5	7.1	7.2	6.9
Goods imports (percent of GDP)	44.3	46.3	45.5	45.6	45.9	44.2
Net services exports (percent of GDP)	12.9	12.7	13.1	7.0	10.5	11.1
Trade balance (percent of GDP)	-25.5	-28.0	-26.9	-31.5	-28.2	-26.2
Net remittance inflows (percent of GDP)	11.1	11.3	11.6	14.2	12.8	12.5
Current account balance (percent of GDP)	-5.4	-7.6	-5.5	-5.7	-5.7	-4.9
Net foreign direct investment inflows (percent of GDP)	3.3	3.4	2.7	4.0	3.2	3.2
External debt (percent of GDP)	32.6	30.3	30.3	37.8	39.6	38.5
Real private credit growth (percent, period average)	8.8	10.1	7.8	7.6	n.a.	n.a.
Nonperforming loans (percent of gross loans, end of period)	3.1	2.5	2.0	2.7	n.a.	n.a.
Unemployment rate (percent, period average)	30.5	29.5	25.7	n.a.	n.a.	n.a.
Youth unemployment rate (percent, period average)	52.7	55.4	49.4	n.a.	n.a.	n.a.
Labor force participation rate (percent, period average)	42.8	40.9	40.5	n.a.	n.a.	n.a.
GDP per capita (US$)	3,956	4,424	4,424	4,145	4,317	4,527

Sources: Country authorities, World Bank estimates and projections.

Montenegro

- In 2020, Montenegro's 15 percent recession was one of the deepest in Europe.
- Despite government support measures, employment fell to a 9-year low.
- The debt-to-GDP ratio reached 105 percent at end-2020; this requires credible and sound fiscal policy through the medium term.
- The economy is forecast to rebound in 2021, but the magnitude of the recovery will depend on the evolution of the pandemic.
- The crisis offers the administration an opportunity to strengthen public institutions and put in place structural reforms for sustainable and inclusive post-crisis growth.

Recent Economic Developments

Loss of Montenegro's tourism season in 2020 led to one of the deepest recessions in Europe. The economy contracted by an estimated 15.2 percent in 2020 as foreign tourist overnight stays and receipts sank down by almost 90 percent. As a result, exports of goods and services plunged, reducing growth by 25 percentage points (pp), and outpacing the positive contribution of the decline of imports by 18 pp. As a result, net exports took almost 7 pp from growth—almost half the drop in growth. The collapse in tourism and pandemic social distancing restrictions together slashed private consumption, taking 4.7 pp from growth. Despite increased fiscal support to households and businesses, government consumption took away another 0.1 pp. Final consumption has thus subtracted a total of 4.8 pp from growth. Despite recovering in Q3, investment also reduced growth, by 3.7 pp.

High frequency indicators suggest a slight recovery, but it is not clear whether this is temporary or the first sign of a permanent turnaround. The halt in tourism caused transport services to contract by 40 percent and had repercussions on retail trade, which fell by almost 17 percent. Industrial production was more resilient, recovering from a dip in Q2, as mining and quarrying strengthened; energy production remained below its 2019 level. Although construction fell by 5.6 percent in 2020, it grew strongly in Q4, indicating a near-term recovery of investment.

Previous employment and poverty gains have largely been wiped out. Almost eight in ten jobs in Montenegro are in services, which were heavily impacted by the crisis. Administrative data show that employment fell to a 9-year low, with tourism, construction, and trade hit hardest. Registered unemployed rose from 37,616 in December 2019 to 47,509 in December 2020. The government wage subsidies and one-off cash transfers helped to prevent even larger layoffs and increases in poverty, although vulnerable workers in the informal sector may not have received enough support.[9]

Because of the demand shock and falling oil prices, deflation prevailed for most of 2020. Inflation averaged -0.3 percent as prices fell for transport, garments, and utilities, thosugh prices were up for food, beverages, and health

9 See World Bank (2020), "The impact of COVID-19 on Formal Firms: Evidence from Montenegro", MTI practice note, and World Bank (2021) SCD Update, forthcoming.

care. With deflation and a slight increase in nominal wages (which suggests that mainly low-wage workers lost jobs), real wages were up 0.5 percent, though still below 2010 levels.

The financial sector has so far been resilient. Among other support measures, the Central Bank introduced moratoria on loan repayments; reduced reserve requirements; and allowed restructuring of loans for borrowers who had lost at least 10 percent of their income. Despite a decline in new lending by 26 percent, the stock of loans including those in moratoria increased by 3 percent as repayments of loans were delayed. As a result, the lending-to-deposit ratio increased to 94 percent, its highest point since 2015, and bank profits declined by more than 50 percent. Nonperforming loans had increased only slightly, to 6 percent of total loans by December 2020 and the capital adequacy ratio was a healthy 18.5 percent. The full impact of the crisis on bank asset quality will only be clear once the loan moratorium expires and if corporate bankruptcies rise after government crisis response programs are phased out. International reserves of €1.7 billion covered a healthy 10 months of goods imports.

External imbalances widened because declines in imports were not sufficient to compensate for plummeting exports. The chronically high trade deficit[10] further widened to 35 percent of GDP, the highest since 2008. With net tourism receipts down by 90 percent, the net service account was at only 17 percent of its 2019 level. Part of the deficit was covered by the primary income surplus, which almost quadrupled due to lower dividend payments. A further contribution came from net remittances, up by 13 percent. Yet it is estimated that the current account deficit (CAD) swelled to 26 percent of GDP. Almost 45 percent of the CAD was financed by net foreign direct investment (FDI). Net FDI increased by 50 percent despite a 15 percent drop in FDI inflows because outflows fell more sharply by 58 percent from a high base in 2019 when the buyback of EPCG shares from the Italian company was completed. The remainder of the CAD was financed by drawing down reserves and issuing new debt.

Struck by a strong revenue shortfall and crisis response expenditures, the fiscal deficit widened to 11 percent of GDP. In 2020, general government revenues declined by 13 percent, driven by declines in VAT (-24 percent) and non-tax revenues (-35 percent), though corporate income tax revenues were up 8 percent. General government spending went up by 4.6 percent, partly for support to the private sector and households, while delays in highway construction reduced capital spending by 25 percent. In January 2021, the government adopted a fourth package of support, worth 3.5 percent of GDP, which softened eligibility criteria for wage subsidies, provided additional one-off support for the most vulnerable, and extended support for the tourism and agriculture sectors.

Gross public debt peaked at 105 percent of GDP in 2020. When the crisis began, Montenegro already had one of the highest levels of public debt in the region—it had reached 76.5 percent of GDP in 2019. As the fiscal deficit worsened with the crisis, the government drew down deposits and increased borrowing. In December, Montenegro placed a 7-year €750 million Eurobond with a favorable interest rate of 2.875 percent which is estimated to fully cover the 2021 financing

10 Averaging 22 percent of GDP 2010–19.

needs. In March, part of the receipts were used to repay the remaining €228 million of a more expensive Eurobond that had a 5.75 percent interest rate and a 5-year maturity, and accounted for a large part of the debt obligations in 2021. This reduced gross public debt to 99 percent of 2020 GDP by end-March 2021. The remaining funds should be used to refinance debt and finance priority programs and growth-enhancing investments..

Outlook and Risks

The uncertainty about pandemic developments and vaccine rollouts and thus the pace of economic recovery is high. Montenegro ranks third in the world in the number of COVID-19 infections per million inhabitants. Rollout of the vaccine has been slowly picking up since immunizations began in late February. The government has been expanding restrictions in order to curb the pandemic. The tourism season will largely depend not only on when the pandemic is contained but also on the pace of immunization. It is, however, encouraging that some of Montenegro's major sources of tourists, like Serbia, are progressing rapidly with immunization.

GDP is expected to rebound in 2021. Subject to tourism recovering to 55 percent of its 2019 levels, and due to its low base, Montenegro's GDP is expected to rebound to 7.1 percent in 2021. It is projected, however, that the total output loss will not be fully recovered until 2023, when the economy is expected to grow 3.5 percent. The pace of recovery might be stronger if the immunization accelerates. The employment outlook is also highly uncertain and depends on the recovery of labor-intensive sectors, which also depends on the scope and duration of government support. The extent to which the recovery will lead to the creation of new low-skilled jobs will determine how fast poor and vulnerable households can return to pre-crisis income levels. Addressing long-standing job challenges is thus critical for robust improvements in welfare.

Sound and credible fiscal policies are imperative to keep debt sustainable. If further government support to the private sector becomes necessary, it must be targeted, fiscally prudent, and designed to be grasdually scaled back as recovery takes hold. It is estimated that the fiscal deficit will gradually decline from 5 percent of GDP in 2021 to 1.3 percent in 2022 which implies a primary fiscal surplus of 1.1 percent. After peaking in 2020, gross public debt is projected to decline to 90 percent of GDP in 2021. It is forecast to return to pre-crisis levels by 2023. However, the actual medium-term trajectory of the fiscal deficit and debt reduction may be steeper or flatter, depending on the government's budgetary plans.[11] The crisis impact and high public debt levels mandate prudent fiscal policy, targeting a primary fiscal surplus once the economy has fully recovered.

External imbalances are expected to narrow but stay high. Finalization of the import-dependent motorway section and stronger exports led by tourism recovery are projected to reduce the CAD to 13 percent of GDP in 2022 and 10 percent in 2023.

A new government took office in December 2020, which delayed adoption of the 2021 budget. It is currently issuing temporary

11 This report was finalized before the 2021 budget details were released.

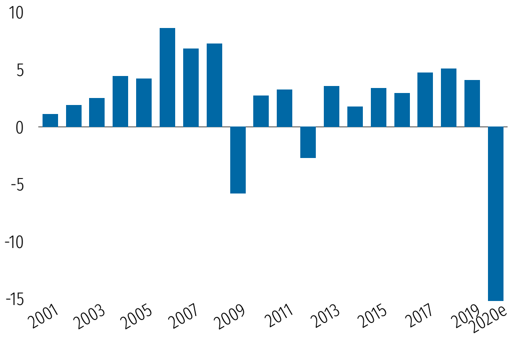
decisions on financing until the new budget is adopted. The new government committed to accelerating reforms, strengthening the rule of law, and fighting corruption, all of which is fundamental for stronger, more sustainable, and inclusive growth.

The outlook is surrounded by downside and but also significant upside risks. External risks may arise from a protracted pandemic, the slow pace of immunization, and a possibility that travel restrictions will be extended into the summer. Proceeding with the second section of the highway could threaten the sustainability of public debt unless back up by the findings of the ongoing technical feasibility study and adequate and transparent financing modalities. Given the country's dependence on tourism, a weaker than expected recovery in Europe is another downside risk. However, there are significant upside risks, such as an accelerated pace of immunization in Montenegro and in the region and speedier containment of the pandemic, which would reflect in a stronger recovery. More robust recoveries than expected in regional and EU economies would also support growth in Montenegro. Domestic risks, including political polarization remain elevated.

The crisis should be used to implement key structural reforms. This would lead to more resilient post-crisis growth for all and avoid reversals of previous reforms. To accelerate recovery and sustain growth and poverty reduction, Montenegro must maintain macroeconomic stability, boost human capital, reduce barriers to private sector productivity, ensure inclusive and efficient provision of public services, and carefully manage its natural resources. The successful implementation of these reforms requires strong and independent public institutions, including a public administration based on merit.

Montenegro's economy suffered a deep recession…

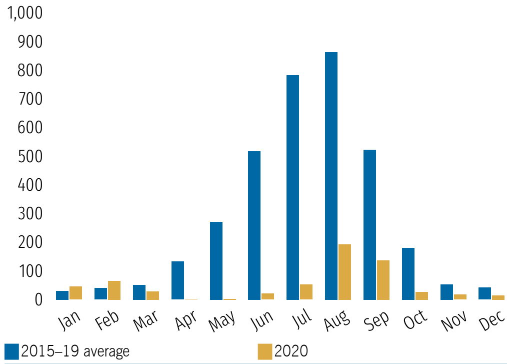
Real GDP growth, percent



Source: MONSTAT and World Bank staff calculations.

…as tourism halted.

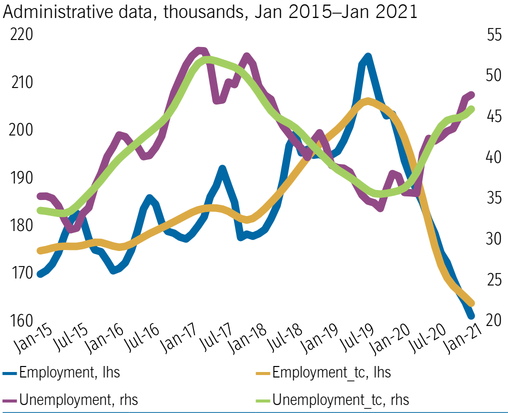
International tourists overnight stays, in thousands



Source: MONSTAT and World Bank staff calculations.

Employment fell to a 9-year low…

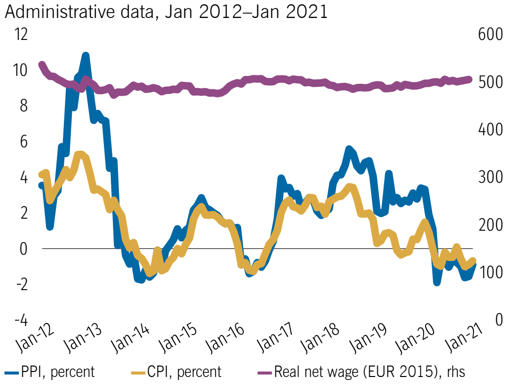
Administrative data, thousands, Jan 2015–Jan 2021



Source: MONSTAT and World Bank staff calculations. tc=trend cycle.

…while inflation stayed in negative.

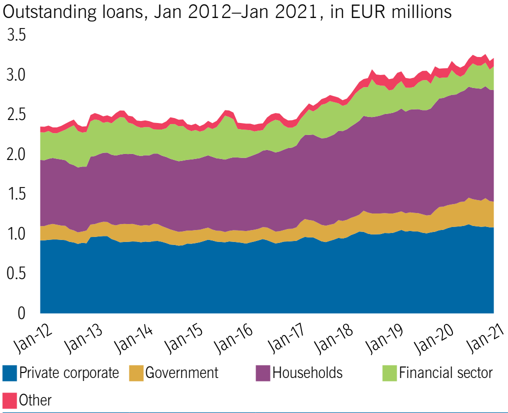
Administrative data, Jan 2012–Jan 2021



Source: MONSTAT data and World Bank staff calculations.

Outstanding loans have remained stable…

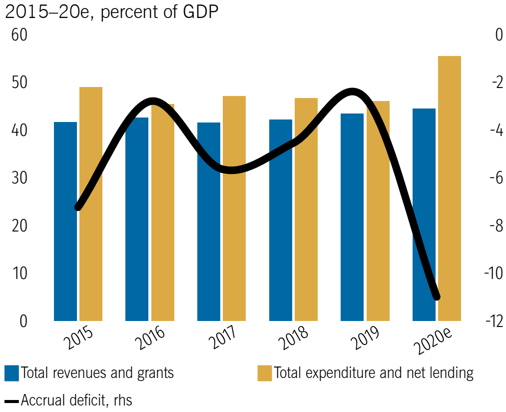
Outstanding loans, Jan 2012–Jan 2021, in EUR millions



Source: Central Bank and World Bank staff calculations.

…but the fiscal position has deteriorated.

2015–20e, percent of GDP



Source: MoF and World Bank staff calculations.

MONTENEGRO	2017	2018	2019	2020e	2021f	2022f
Real GDP growth (percent)	4.7	5.1	4.1	-15.2	7.1	4.5
Composition (percentage points):						
Consumption	3.2	5.2	2.9	-4.8	2.1	2.0
Investment	8.0	4.9	0.8	-3.7	1.7	-2.2
Net exports	-6.5	-5.0	0.4	-6.7	3.4	4.7
Exports	0.9	3.4	2.7	-24.8	13.8	9.0
Imports (-)	7.4	8.4	2.3	-18.1	10.4	4.3
Consumer price inflation (percent, period average)	2.4	2.6	0.4	-0.3	1.5	1.5
Public revenues (percent of GDP)	41.4	42.0	43.3	44.4	43.2	42.0
Public expenditures (percent of GDP)	47.0	46.6	46.0	55.4	48.2	43.3
Of which:						
Wage bill (percent of GDP)	11.8	11.2	11.0	13.5	12.1	11.5
Social benefits (percent of GDP)	12.5	11.7	11.2	13.4	12.8	12.2
Capital expenditures (percent of GDP)	7.8	8.5	8.7	7.4	6.4	4.3
Fiscal balance (percent of GDP)	-5.7	-4.6	-2.7	-11.0	-5.1	-1.3
Primary fiscal balance (percent of GDP)	-3.3	-2.4	-0.5	-8.3	-2.3	1.1
Public debt (percent of GDP)	64.2	70.1	76.5	105.1	90.1	82.3
Public and publicly guaranteed debt (percent of GDP)	69.1	74.1	80.0	109.2	93.8	85.8
Of which: External (percent of GDP)	57.9	64.6	68.1	96.9	83.8	77.0
Goods exports (percent of GDP)	8.9	9.4	9.4	9.7	9.3	9.2
Goods imports (percent of GDP)	52.2	53.3	51.1	48.9	48.7	47.7
Net services exports (percent of GDP)	19.8	20.1	20.6	4.3	12.0	17.7
Trade and services balance (percent of GDP)	-23.5	-23.9	-21.1	-34.8	-27.5	-20.8
Net remittance inflows (percent of GDP)	3.9	4.0	4.0	5.3	4.5	4.2
Current account balance (percent of GDP)	-16.1	-17.0	-15.0	-26.0	-19.4	-13.1
Net foreign direct investment inflows (percent of GDP)	11.3	6.9	7.0	11.2	8.2	7.9
External debt (percent of GDP)	159.9	162.6	167.2	n.a.	n.a.	n.a.
Real private credit growth (percent, period average)	4.4	6.8	5.5	6.5	n.a.	n.a.
Nonperforming loans (percent of gross loans, end of period)	8.4	7.4	5.1	5.9	n.a.	n.a.
Unemployment rate (percent, period average)	16.1	15.2	15.1	17.9	n.a.	n.a.
Youth unemployment rate (percent, period average)	31.7	29.4	25.2	36.0	n.a.	n.a.
Labor force participation rate (percent, period average)	54.7	56.0	57.4	53.3	n.a.	n.a.
GDP per capita, PPP (current international $)	19,745	22,227	24,036	19,555	21,306	22,690

Sources: Country authorities, World Bank estimates and projections.

North Macedonia

- The economy is recovering from the deepest recession since independence, which affected almost all sectors of the economy.
- Government support partially mitigated the impact of the crisis on workers and firms, but fiscal space narrowed rapidly as public debt reached 60 percent of GDP.
- The near-term outlook for 2021 is positive but downside risks have intensified; the containment phase has not yet finished, and vaccine rollout is proving to be challenging.
- Government attention should be gradually shifted to policies for a sustainable, inclusive, and green recovery; these would also complement EU accession ambitions.

Recent Economic Developments

GDP declined by 4.5 percent in 2020—the deepest recession since independence. The recession was milder than earlier projected as the recession sharply eased in the fourth quarter (Q4). Private consumption, previously the main driver of growth, declined markedly, by 5.6 percent y-o-y because of containment measures and low consumer confidence. Investments also declined by more than 10 percent, even though they rebounded in Q3 based on public investments in infrastructure. The increase in government consumption of more than 10 percent partly alleviated the decline as the fiscal stimulus ramped up to protect jobs and firms. Meanwhile, external demand plummeted, as evidenced by a 10.9 percent y-o-y decline of exports. The accompanying decline in imports alleviated the pressure on the current account balance. On the production side, two sectors that had previously been drivers of growth were the sectors with the steepest declines, 10.6 percent for manufacturing, and 7.9 percent for trade, transportation, and tourism. Construction also went down but began to turn around in Q3. In 2020 the only sectors that grew were agriculture, information and communication, and real estate.

High-frequency data at end-2020 and early 2021 suggest the recession continued, though with signs of bottoming out. Industrial production turned positive in December as manufacturing and mining activities improved but in January 2021 dropped again, by double digits. Construction surged in September, due to public investments in transport infrastructure, but in December it too dropped by double digits. In Q4 wholesale and retail trade were deeply subdued but in January 2021 sales rebounded. Tourism numbers are half down from early 2020. Agricultural production also slackened in Q4.

External imbalances widened as exports and transfers tumbled. In 2020, a steep fall in exports was followed by a similar fall in imports, and the trade deficit narrowed to 16.8 percent of GDP. Further, due to travel restrictions there were fewer exports of services and fewer remittances received in diaspora visits to the country. This shortfall was partly compensated by increased private transfers through formal banking and cash transfer channels. In sum, in 2020 private transfers declined by 24 percent. The current account deficit widened slightly, to 3.5 percent of GDP for 2020, and net FDI was almost halved by delays as previously announced foreign investments got delayed.

As a result of the sizable public borrowing to finance emergency support for the economy and refinance maturing debt, external debt had risen to 79.9 percent of GDP, a 7.2 pp increase over 2019.

Government financial support helped cushion the impact of the crisis on the labor market but both employment and participation gains from 2019 were wiped out. At the peak of the crisis in Q2 unemployment rate had initially increased to 16.7 percent, but government job retention subsidies and support for employment benefits managed to contain the fallout so that unemployment rate declined to 16.4 percent in 2020 (0.9 pp below 2019). However, the improvement was not due to a rise in employment rate which was in fact 0.2 pp lower in 2020, but by a rise in inactivity as people retired, returned abroad as seasonal workers, or simply became discouraged. By yearend there were 13,000 fewer people in the labor force (a drop of 1.4 percent y-o-y), all of whom had moved into inactivity, resulting in the highest number of inactive people since 2005. As a result, the activity rate dropped by 0.8 pp to 56.4 percent, the lowest level since 2008, with women being more affected. The largest employment losses were in transport and storage, agriculture, energy, real estate, tourism, and construction. In ICT, health, education, trade, professional services, mining, and manufacturing, employment in fact rose.

Consumer prices increased in the second half of the year. Consumer prices increased by 1.2 percent in 2020, with food and electricity prices contributing the most to the rise. In August regulated electricity prices were raised 7.4 percent y-o-y. On the other hand, prices for fuels, utilities, and transport dropped further. Despite the severe recession, by yearend real wages had increased by 3.1 percent y-o-y, with the largest rises in the ICT, health, mining, and financial sectors. Transport, tourism, and professional services were the only sectors to see a real drop as a result of persisting effects of the COVID-19 crisis. The rise in public sector wages and in the minimum wage from 2019 helped to raise wages in 2020 across most sectors.

So far the banking sector has withstood the crisis well. The liquidity ratio, over 23 percent in Q4, remained adequate, also helped by central bank anti-crisis measures. Lending continued to grow, though slowing to 4.7 percent by yearend, with credit available to both households and firms, supported by strong deposit growth and crisis-support programs. Given the moratoriums on loan reclassification, effective through December 2020, and repayment, effective through June 2021, nonperforming loans declined to 3.3 percent. However, an upward correction is expected in 2021 as the moratoriums end. In Q4 2020 the capital adequacy ratio was 16.7 percent, doubling the mandatory level, which provides a solid buffer if the recession is prolonged. To support a recovery, in March 2021, the central bank reduced the key monetary policy rate by 25 bps to a new historic low of 1.25 percent. It also introduced a preventive measure to temporary limit the distribution and payment of dividends to banks and savings houses' shareholders with an aim to further strengthen the resilience of the banking system in the context of the prolonged crisis.

The general government deficit tripled in 2020, reaching 8.2 percent of GDP (8.9 percent if accounting for the Public Enterprise for State Roads (PESR) deficit as well). Revenues were affected by lower private consumption as a result of restrictive measures and imports, leading to a drop of 1.3 pp (to 31.3 percent of GDP with revenues from PESR), the lowest level since 2014. The drop in VAT and excise revenues amounting to 1.1 percent of GDP was cushioned somewhat by an increase in social contributions, largely supported by the government wage and social contributions subsidies. In addition, non-tax revenues declined by 1 percent of GDP. However, spending increased by 4.6 percent of GDP as health and social assistance expenditures and subsidies to retain jobs surged. Spending on wages and pensions also increased as a result of pre-crisis policy changes. Capital spending jumped in Q4 but was still largely under-executed, resulting in a decline from 2019.

Public and publicly guaranteed (PPG) debt increased to 60 percent of GDP. The government ramped up borrowing to finance the soaring deficit and repay maturing obligations. The government was able to refinance payments due and secure financing to mitigate the rising deficit. Net borrowing amounted to more than 11 percent of GDP.

Outlook and Risks

Growth is expected to rebound to 3.6 percent in 2021, but downside risks are high. The scenario assumes accelerated vaccination by mid-2021, no further lockdowns in 2021, and a recovery in external demand. In this scenario, after continued recession in Q1 2021, growth is then expected to resume as restored consumer and investor confidence push up personal consumption, private investment, and exports.

The extension of government support to firms and households in the first half of 2021 should cushion the recession. However, the countercyclical fiscal policies adopted to mitigate the impact of COVID-19 depleted fiscal buffers and raised sustainability concerns. As the recovery firms up, a gradual withdrawal of state support will be necessary.

The 2021 budget foresees a reduction in the deficit led by revenue recovery as growth returns. A targeted deficit of 4.9 percent of GDP is envisaged under the optimistic scenario of 4.1 percent growth. Yet, the 4th and 5th packages of support measures further increased tax expenditures. Low tax compliance and tax administration inefficiency often add to a weak revenue performance. On the other hand, the 5th support package increased the spending for businesses and households by 1.4 percent of GDP, a large part of which was not planned in the original budget. Even though the government foresees tight control on goods and services spending, a budget revision is likely to be required in 2021. As announced by the government, some budget savings should come from the limits to the highest wages in the public sector, digitalization of some services, introduction of criteria for use of public sector business premises, and limits on vehicle and furniture purchase. A new model proposed for allocating capital spending to better-performing projects and thus improving chronic under-execution of the capital budget, should help boost recovery.

The fiscal deficit will likely rise above the planned deficit target unless further savings are found to compensate for the 5th package of support, pushing public debt toward 65 percent of GDP. With financing needs in 2021 amounting to about 12 percent of GDP, proactive debt management and tapping into the Eurobond market is necessary. In February

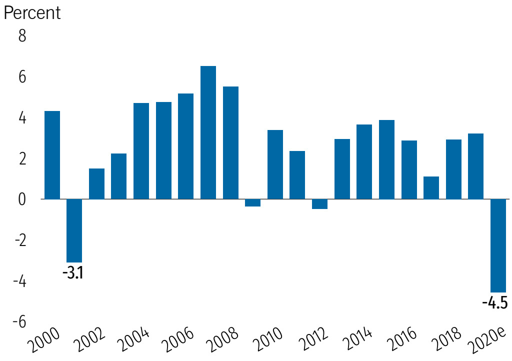
2021, Standard and Poor's confirmed North Macedonia's BB- credit rating with a stable outlook. In early March, a €700 million Eurobond was issued with a maturity period of seven years and an interest rate of just 1.625 percent. The Eurobond will be used to finance the budget deficit and repay debt obligations falling due in 2021, of which the largest is a 2014 issue worth €500 million.

In the medium term, setting public finances back on a sustainable path will be necessary to avoid further accumulation of public debt. Fiscal prudence and achievement of the primary balance would be needed to stem further growth in public debt and to avoid crowding out productive spending, especially if international financing costs rise. Boosting revenues by cutting back on exemptions and strengthening compliance are priorities, as is gradual withdrawal of the state from the corporate sector. The new peak for public debt will require North Macedonia to reprioritize spending, including streamlining state aid, addressing long-term liabilities in the pension system that erode its sustainability, improving management of state-owned companies, and enhancing management of public investment to maximize its efficiency and its impact on growth.

Bringing people back to the labor market and reforming education and governance could help boost potential growth. Strengthening human capital should remain a high priority if future growth is to be sustainable and long-lasting. Opportunities for Macedonians to build human capital are limited as a result of the weak education system and minimal workforce skills acquisition, which, together with low and declining productivity, has been constraining growth. That has only been exacerbated by the learnings loss caused by COVID-19. Moreover, labor resources are underutilized: less than 48 percent of working-age Macedonians are employed, and low birth rates and emigration are shrinking the workforce further. Finally, there is a need to align the curriculum with the evolving needs of the labor market.

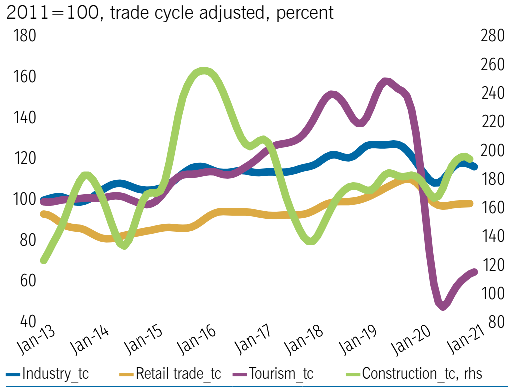
Further delay in opening EU accession negotiations may jeopardize political stability and reduce structural reform efforts. The transition to a more dynamic economic model and, with it, the creation of job opportunities for youth is linked to the carrying out of the most needed social, economic, and governance reforms in a context of political stability, increased transparency, accountability, voice, and participation. The current economic model, based on generous public support through subsidies and broad tax exemptions, might need to be shifted toward less state involvement in the economy in favor of stronger regulatory role.

The economy in 2020 saw its worst recession since independence...



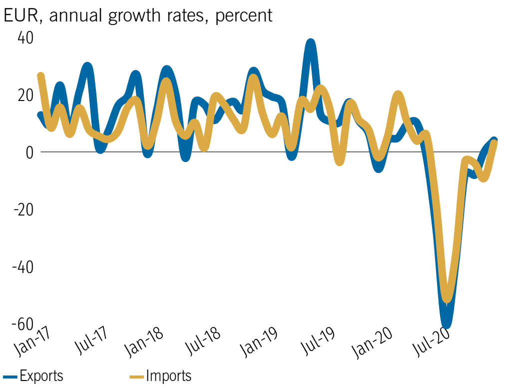
Source: State Statistics Office.

...although a bottoming out has started.



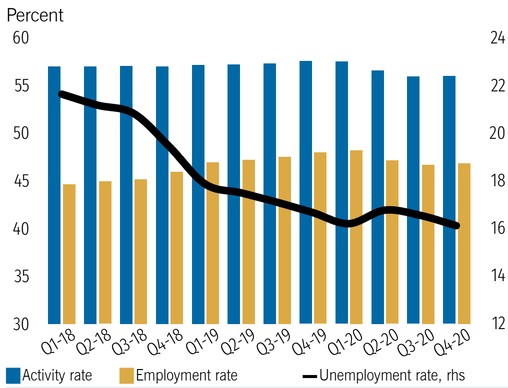
Source: State Statistics Office and World Bank staff calculations.

Exports are still 10 percent below the pre-crisis level.



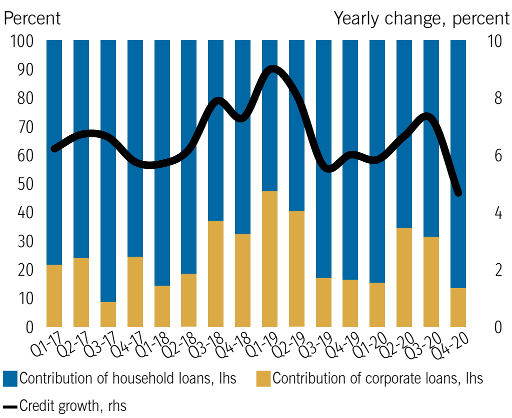
Source: State Statistics Office and World Bank staff calculations.

Unemployment rate declined again, but due to a rise in inactivity.



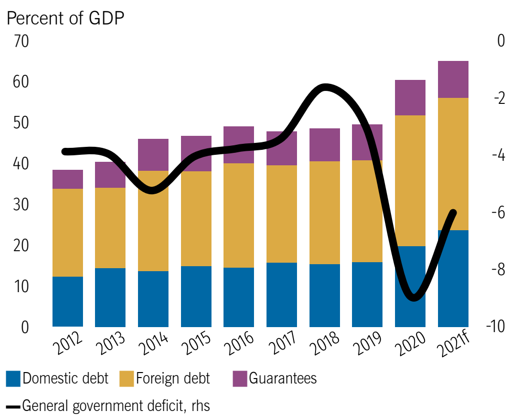
Source: State Statistics Office.

Corporate lending slowed in late 2020, despite accommodative monetary policy.



Source: National Bank and World Bank staff calculations.

Public debt is expected to grow further as support measures continue.



Source: Ministry of Finance and World Bank staff estimates.

NORTH MACEDONIA	**2017**	**2018**	**2019**	**2020e**	**2021f**	**2022f**
Real GDP growth (percent)	1.1	2.9	3.2	-4.5	3.6	3.5
Composition (percentage points):						
Consumption	1.3	3.5	4.0	-4.3	3.9	3.0
Investment	-0.8	-2.6	5.1	-2.4	1.3	1.5
Net exports	0.6	2.0	-5.9	2.2	-1.6	-1.1
Exports	4.6	9.2	3.1	-7.3	3.9	4.7
Imports (-)	4.0	7.3	9.0	-9.6	5.5	5.7
Consumer price inflation (percent, period average)	1.4	1.5	0.8	1.2	1.6	2.0
Public revenues (percent of GDP)	32.0	31.4	32.6	31.3	31.8	32.5
Public expenditures (percent of GDP)	35.4	33.1	35.7	40.3	37.8	36.7
Of which:						
Wage bill (percent of GDP)	6.7	6.3	6.4	7.4	6.9	6.5
Social benefits (percent of GDP)	15.9	15.8	16.3	18.5	17.6	17.2
Capital expenditures (percent of GDP)	5.4	3.8	5.1	4.6	4.6	4.6
Fiscal balance (percent of GDP)	-2.8	-1.1	-2.2	-8.2	-5.3	-3.9
Overall Fiscal Balance with the Public Enterprise for State Roads*	-3.4	-1.7	-3.1	-8.9	-6.0	-4.2
Primary fiscal balance (percent of GDP)	-1.5	0.1	-1.0	-6.9	-3.9	-2.5
Public debt (percent of GDP)	39.4	40.4	40.7	51.4	56.5	57.5
Public and publicly guaranteed debt (percent of GDP)	47.7	48.4	49.4	60.0	64.7	65.7
Of which: External (percent of GDP)	31.7	32.9	32.7	40.2	41.4	40.4
Goods exports (percent of GDP)	40.6	45.4	47.5	44.7	45.6	46.9
Goods imports (percent of GDP)	58.4	61.6	65.1	61.5	62.6	63.1
Net services exports (percent of GDP)	3.7	3.5	3.1	4.0	4.2	4.4
Trade balance (percent of GDP)	-14.1	-12.7	-14.5	-12.8	-12.8	-11.8
Net remittance inflows (percent of GDP)	1.9	1.9	1.7	2.6	2.5	2.4
Current account balance (percent of GDP)	-0.9	-0.1	-3.3	-3.5	-3.4	-2.6
Net foreign direct investment inflows (percent of GDP)	1.8	5.6	3.2	1.9	2.6	2.7
External debt (percent of GDP)	73.4	73.0	72.7	79.9	82.6	81.2
Real private credit growth (percent, period average)	1.1	5.0	6.5	5.7	n.a.	n.a.
Nonperforming loans (percent of gross loans, end of period)	6.1	5.0	4.6	3.3	n.a.	n.a.
Unemployment rate (percent, period average)	22.4	20.7	17.3	16.4	n.a.	n.a.
Youth unemployment rate (percent, period average)	46.7	45.4	35.6	35.7	n.a.	n.a.
Labor force participation rate (percent, period average)	56.8	56.9	57.2	56.4	n.a.	n.a.
GDP per capita, PPP (current international $)	15,529	16,518	17,815	17,007	17,620	18,236

Sources: Country authorities, World Bank estimates and projections.
Note: Youth unemployment rate is for labor force aged 15–29.

Serbia

- In 2020 Serbia went through a relatively modest COVID-19-related recession of 1 percent.
- Despite the economic slowdown, employment was not affected, mainly because of the government fiscal stimulus program.
- However, keeping the economy afloat during the pandemic had a high cost: the stimulus measures accounted for nearly 13 percent of GDP, of which fiscal revenue and spending measures cost 8 percent of GDP; the estimated 2020 fiscal deficit is therefore a record-high 8.1 percent.
- The current account deficit lessened in 2020, to about 4.3 percent of GDP, primarily thanks to lower outflows of foreign company net income and to some extent a lower trade deficit.
- Full recovery is expected to start in 2021 with projected growth of 5 percent and a return to the previous growth path over the medium term.

Recent Economic Developments

After two years of above 4 percent growth, the Serbian economy in 2020 entered a pandemic-caused recession. The year began well—GDP in the first quarter (Q1) was up by 5.2 percent, year-on-year (y/y)—but growth turned negative in the remainder of the year as lockdowns introduced to control the spread of the COVID-19 pandemic took a toll on the economy. Preliminary estimates suggest that in 2020 GDP fell by 1 percent in real terms. The recession could have been deeper if not for the timely and sizeable government stimulus package of nearly 13 percent of GDP (of which 4.8 percent of GDP were in the form of loan guarantees and 8 percent of GDP were different revenue and expenditure measures).

Looking at the expenditure side of GDP, consumption and net exports had a negative contribution to growth while investment had a positive contribution. Consumption is estimated to have declined by an estimated 1 percent in real terms in 2020 because of the significant reduction of private consumption (down by 2.5 percent in real terms); meanwhile, government consumption increased by 5.6 percent. Although the net balance in goods and services decreased, it made a negative contribution to growth in 2020 of 1 percentage point (pp). Total investment is estimated to have increased by 3.3 percent in real terms, thanks to an 8 percent increase in public investment and inventories that were higher in real terms by 47.7 percent. Private investment decreased in real terms by 5.7 percent compared to 2019, thus negatively contributing to growth by 1 pp.

The labor market was resilient to the shock caused by the pandemic. According to Labor Force Survey (LFS) data, in 2019 unemployment fell to an estimated 10.4 percent and employment hit a record high of 49 percent. This improvement continued throughout 2020, despite the impact of the pandemic, mainly because jobs in formal sectors remained unchanged due to the fiscal stimulus program (since one of the requirements for receiving the government support was to ensure that total employment remains unchanged or decreased by a maximum 10 percent). In 2020 the unemployment rate averaged 9 percent (based on the LFS), and the employment rate was 49.1 percent. Pandemic-related shocks to the economy mainly affected informal employees;

the number of informally employed people declined by 55,500. Youth unemployment continued to rise throughout 2020, reaching 32.4 percent in Q4—the highest level since 2018 Q1. Wages continued to go up (9.4 percent in nominal terms), with public sector wages increasing faster than in the private sector (up by 10.6 percent in nominal terms) while wages in the private sector increased by 9.1 percent. On average, in 2020 wages in the public sector were about 20 percent higher than in the private sector.

Serbia's fiscal consolidation efforts in recent years meant that it entered the COVID-19 crisis in a strong fiscal position that allowed it to implement a large support program. The large stimulus package introduced early on helped to limit the negative impact of the crisis on growth. However, it led to a record high 2020 fiscal deficit of 8.1 percent of GDP. Fiscal revenues fell by 1 percent in nominal terms, and spending in 2020 was higher than in 2019 by 17.8 percent. On the revenue side, non-tax revenues, VAT from import, excises on petroleum products, and corporate income tax fell most compared to 2019. At the same time revenue from the VAT on domestic consumption increased significantly in 2020 (up by 30.4 percent in nominal terms). Budgetary expenditures increased across the board with one noticeable exception: spending on social assistance was down by 5.6 percent in nominal terms.[12] Higher spending on subsidies accounted for one-third of the total increase in budget spending, equivalent to 4.6 percent of GDP in 2020. The wage bill went up by 12.1 percent and accounted for 10.6 percent of GDP. On the positive side, capital expenditures increased by 10.1 percent and reached 5.4 percent of GDP. The widening deficit led to a rise in the gross financing requirement which was met through issuance of Eurobonds and solid activity in the domestic debt market, as well as a number of international loans. Public debt, which had fallen since 2015 to an eight-year low of 52.9 percent in 2019, at yearend 2020 stood at 58.2 percent of GDP.

Although the current account deficit (CAD) had narrowed significantly, in 2020 external debt started to gradually rise. The CAD is estimated at 4.3 percent of GDP for 2020, down from 6.9 percent in 2019. The CAD narrowed mainly because of the decrease in transfers of net income by foreign companies from Serbia (down by 44 percent in euro terms in 2020 compared to 2019). Deficit in trade in goods was lower by 7 percent in 2020 (in euro terms) while surplus in trade in services increased by 6 percent. Export performance in 2020 was much better than expected given the start of operations of predominantly export oriented companies and improvements in terms of trade. Small and medium sized exporters increased exports (between 3 and 7.3 percent in euro terms). Only the group of largest exports (with annual exports of over 200 million euros) lowered exports in 2020 (down by 8.8 percent in euro terms). Terms of trade improved in 2020—exports prices went up by 0.8 percent, while import prices went down by 3.7 percent (mainly because of lower raw materials and oil prices). Net transfers reached 7.6 percent of GDP despite a significant drop in remittances (down 16 percent in euro terms). The CAD is again fully financed by FDI. Net FDI accounted for 6.2 percent of GDP, despite being down in 2020 by about 18 percent. Inflow of foreign equity was slashed by 48 percent; as a result,

12 The Serbian government provided a one-off payment of €100 to all adult citizens in direct support of living standards, at a cost to the budget of 1.3 percent of GDP. However, this is classified as "Other current expenditures".

external debt started to increase gradually, reaching an estimated 67.1 percent of GDP at yearend, compared to 61.8 percent a year earlier.

Low inflation and the high official reserves of the National Bank of Serbia (NBS) provided a solid foundation for monetary policy responses to the pandemic. Inflation in 2020, as in 2019, was low and stable, with prices having increased by just 1.3 percent by yearend. In early 2021 inflation was down even further, reaching 1.1 percent in January. The NBS remains committed to inflation targeting (3 percent +/-1.5 percent). To stimulate the economy, the NBS continued to lower the key policy rate—in March 2020 by 50 bps to 1.75 percent, in April to 1.5 percent, in June to 1.25 percent, and in December to 1 percent. The money supply increase was also notable: in December 2020 M1 was 35 percent higher than a year before. After a small appreciation in 2019, the dinar held steady in 2020, primarily because of central bank interventions in the foreign exchange market; through December it had sold foreign currencies equaling €1.5 billion. At that point, NBS had official foreign currency reserves of €13.5 billion, up €113 million over 2019.

Banking sector performance continued to be robust despite two rounds of debt moratoriums introduced in 2020 as part of the COVID-19 response. Based on preliminary data banks remained profitable in 2020 although both return on assets (ROA) and return on equity (ROE) went down (ROA down from 1.7 percent in 2019 to 1.1 percent; and ROE down from 9.8 to 6.5 percent). Nonperforming loans hit a historic annual low of 3.7 percent in December primarily because of the resolution strategy introduced in 2015 and the recent crisis mitigation measures. The total value of new consumer loans in 2020 was down 16 percent from 2019, and new company loans for investment projects were down 22.2 percent. However, new loans to finance companies' current assets went up by 7.7 percent.

Outlook and Risks

Growth is expected to recover from the COVID-19–related recession, reaching about 4 percent over the medium term. Based on the latest data, the GDP is expected to rebound in 2021 (up by 5 percent). Growth in 2021 is being pushed up by the stimulus package of about 5 percent of GDP announced in February and all components of GDP are expected to increase. Over the medium term the economy is expected to grow steadily at 3.5–4 percent annually, similar to levels before the pandemic, as the economies of main trading and investment partners recover fully from the pandemic. The main driver of GDP growth over the medium term will be consumption, while net exports will make a negative contribution to growth.

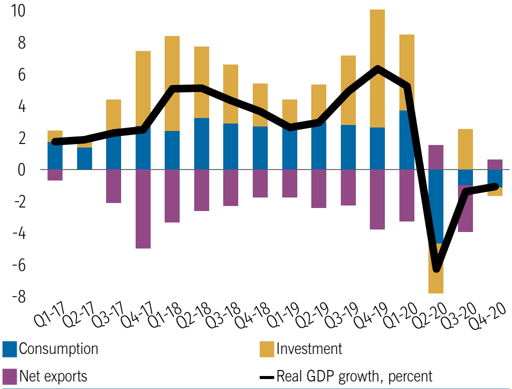
Going forward, the focus of policy makers should be not only on accelerating growth but also on greening it. Green—clean and resilient—growth could be supported by, e.g., promoting efficiency gains; expanding green industries and technologies; emphasizing less polluting and more energy-efficient industries; and proactively building up resilience to climate and disaster risks.

Macroeconomic stability will be maintained over the medium term. This year the new stimulus program will again increase the budget deficit (to 5 percent of GDP, up from the previously projected 3 percent), but since the program is based on one-off measures, over the medium term the deficit is expected to be lowered to about 0.5 percent of GDP over the medium term. Consequently, public debt will start falling as a share of GDP, reaching 54 percent by 2024. Inflation will remain low and within the NBS target. External debt will be kept sustainable; the CAD is expected to increase only marginally over the medium term and will primarily be covered by FDI inflows.

This relatively positive outlook could be affected by numerous risks. The main ones relate to external developments—recovery of the European and global economy—since that will impact the evolution of exports and FDI, which are both critical for the growth of the Serbian economy. There are, however, also internal risks to the baseline scenario. Contingent liabilities could affect public finances, particularly those related to the deterioration in performance of state-owned enterprises, as demonstrated recently by Telekom Srbija and Air Serbia, in addition to other SOEs that have long been financially troubled. Political developments could distract the government from undertaking necessary reforms, most important from the growth perspective being those related to improving the business environment, education, and environmental management.

In 2020 the COVID-19 pandemic caused GDP to contract.

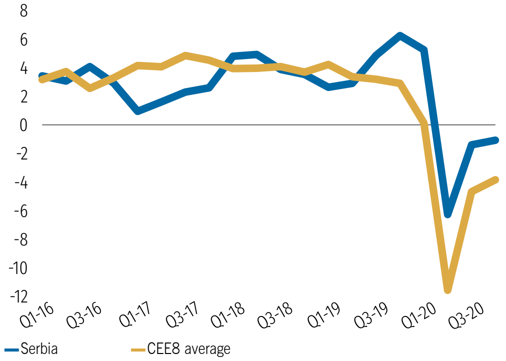
Contribution to growth, percentage points



Source: Statistics Office of Republic of Serbia.

However, it was significantly less than recessions across CEE countries.

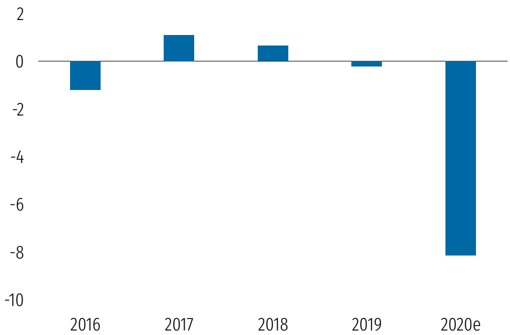
Real GDP change, y/y



Source: Statistics Office of Republic of Serbia and Eurostat.

Support to the economy came at the price of a record-high fiscal deficit.

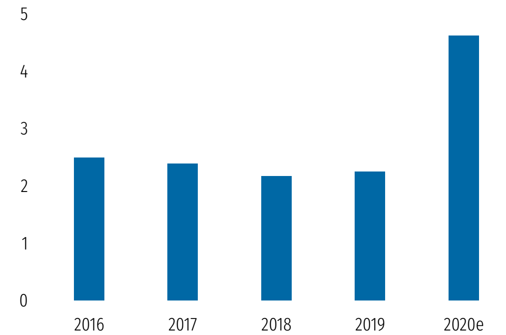
Share in GDP



Source: Ministry of Finance.

Spending on subsidies led the growth in total budgetary spending in 2020.

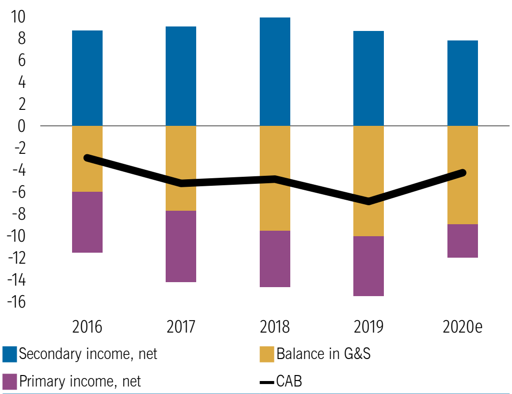
Share in GDP



Source: Ministry of Finance.

A lower primary income deficit and a lower trade deficit narrowed the CAD.

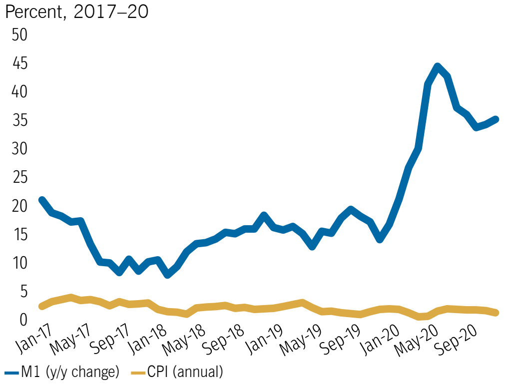
Percent of GDP. 2016–20e



Source: National Bank of Serbia and World Bank staff calculations.

Inflation is low, although the money supply has grown.

Percent, 2017–20



Source: National Bank of Serbia and World Bank staff calculations.

SERBIA	**2017**	**2018**	**2019**	**2020e**	**2021f**	**2022f**
Real GDP growth (percent)	2.0	4.4	4.2	-1.0	5.0	3.7
Composition (percentage points):						
Consumption	1.9	2.8	2.7	-0.9	4.3	3.3
Investment	2.2	4.2	3.0	0.8	1.4	1.1
Net exports	-2.1	-2.6	-1.5	-1.0	-0.6	-0.6
Exports	4.0	4.3	4.6	-3.3	4.1	4.6
Imports (-)	6.1	6.9	6.0	-2.3	4.7	5.3
Consumer price inflation (percent, period average)	3.2	2.0	1.9	1.6	2.5	2.1
Public revenues (percent of GDP)	41.5	41.5	42.1	41.3	41.2	41.7
Public expenditures (percent of GDP)	40.4	40.9	42.3	49.4	46.2	43.9
Of which:						
Wage bill (percent of GDP)	9.0	9.2	9.5	10.6	10.3	10.2
Social benefits (percent of GDP)	15.1	14.7	14.5	14.8	14.5	14.3
Capital expenditures (percent of GDP)	2.8	3.9	4.9	5.4	5.8	5.6
Fiscal balance (percent of GDP)	1.1	0.6	-0.2	-8.1	-5.0	-2.1
Primary fiscal balance (percent of GDP)	3.6	2.8	1.8	-6.1	-3.0	-0.3
Public debt (percent of GDP)	55.6	50.8	49.7	53.7	54.0	52.7
Public and publicly guaranteed debt (percent of GDP)	58.7	54.4	52.9	58.2	58.0	56.2
Of which: External (percent of GDP)	35.5	31.4	30.3	33.7	37.0	38.0
Goods exports (percent of GDP)	35.9	35.2	35.7	34.5	34.6	35.8
Goods imports (percent of GDP)	46.0	47.1	48.0	45.7	46.0	45.5
Net services exports (percent of GDP)	2.4	2.3	2.3	2.3	3.6	1.9
Trade balance (percent of GDP)	-7.8	-9.5	-9.9	-8.9	-7.8	-7.8
Net remittance inflows (percent of GDP)	5.2	6.1	5.6	4.6	5.0	4.9
Current account balance (percent of GDP)	-5.2	-4.8	-6.9	-4.3	-5.2	-5.9
Net foreign direct investment inflows (percent of GDP)	6.2	7.4	7.8	6.2	5.8	5.6
External debt (percent of GDP)	68.9	61.3	61.8	67.1	64.4	61.7
Real private credit growth (percent, period average)	1.9	3.7	6.9	9.2	n.a.	n.a.
Nonperforming loans (percent of gross loans, end of period)	9.8	5.7	4.1	3.7	n.a.	n.a.
Unemployment rate (percent, period average)	13.5	12.7	10.4	9.0	n.a.	n.a.
Youth unemployment rate (percent, period average)	31.9	29.7	27.5	26.3	n.a.	n.a.
Labor force participation rate (percent, period average)	54.0	54.5	54.6	54.0	n.a.	n.a.
GDP per capita, PPP (current international $)	16,599	17,842	18,972	18,840	20,393	n.a.

Sources: Country authorities, World Bank estimates and projections.

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The Country Notes

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