WORLD BANK GROUP

Fighting COVID-19

Europe and Central Asia Economic Update

Office of the Chief Economist

Spring 2020

WORLD BANK **ECA ECONOMIC UPDATE** SPRING 2020

Fighting COVID-19

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Abbreviations

bbl	barrels
BHAS	Agency for Statistics of Bosnia and Herzegovina
BiH	Bosnia and Herzegovina
CA	Central Asia
CAB	current account balance
CAD	current account deficit
CBA	Central Bank of Azerbaijan
CBR	Central Bank of Russia
CE	Central Europe
CIT	corporate income tax
CNB	Croatian National Bank
CPI	Consumer Price Index
CROSTAT	Croatian Bureau of Statistics
EAP	East Asia and Pacific
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Europe and Central Asia
ECAPOV	ECAPOV (ECA Poverty) database of standardized household surveys
ECB	European Central Bank
EE	Eastern Europe
EIA	Energy Information Administration
EMDEs	emerging markets and developing economies
ERM II	European Exchange Rate Mechanism
EU	European Union
EU-SILC	European Union Statistics on Income and Living Conditions
FBiH	Federation of Bosnia and Herzegovina
FDI	foreign direct investment
FTSE	Financial Times Stock Exchange
FX	foreign exchange
GDP	gross domestic product
GMI	Guaranteed Minimum Income
GVCs	global value chains
HBS	Household Budget Survey
HCI	Human Capital Index
HHS	household survey
HICES	Household Income, Consumption, and Expenditure Survey
HIS	Household Income Survey
HLCS	Household Living Conditions Survey
HPP	Rogun Hydropower Plant (Tajikistan)

ICT	information and communications technology
IEA	International Energy Agency
IFI	international financial institution
ILCS	Integrated Living Conditions Survey
IMF	International Monetary Fund
IT	information technology
KIHS	Kyrgyz Integrated Household Survey
LAC	Latin America and the Caribbean
LCU	local currency unit
LFS	Labor Force Survey
LMIC	lower-middle-income country
MFMod	Macro-Fiscal Model (World Bank)
mmbtu	one million British thermal units
MNA	Middle East and North Africa
MONSTAT	Statistical Office of Montenegro
MPO	Macro Poverty Outlook
NATO	North Atlantic Treaty Organization
NBK	National Bank of Kazakhstan
NBR	National Bank of Romania
NBS	National Bank of Serbia
NBT	National Bank of Tajikistan
NBU	National Bank of Ukraine
NEET	Not in Education, Employment, or Training
NPL	nonperforming loan
NWF	National Welfare Fund (Russian Federation)
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
pc	per capita
PIT	personal income tax
pp	percentage point
PPP	purchasing power parity
Rosstat	Russian Federal State Statistics Service
SAR	South Asia
SC	South Caucasus
SOE	state-owned enterprise
SOFAZ	State Oil Fund of the Republic of Azerbaijan
SSA	Sub-Saharan Africa
Taj Stat	Agency on Statistics of Tajikistan
TSA	Targeted Social Assistance (Tajikistan)
TSA	United Nation's Tourism Satellite Account
UKRSTAT	State Statistics Service of Ukraine
UMIC	upper-middle-income country
UNDP	United Nations Development Programme
VAT	value-added tax
WDI	World Development Indicators
yoy	year-over-year

Regional Classification Used in this Report

This report covers 47 countries referred to as Europe and Central Asia (ECA) countries. These are divided into 10 groups: Western Europe, Southern Europe, Central Europe and the Baltic Countries, Northern Europe, Western Balkans, South Caucasus, Central Asia, Russia, Turkey, and Eastern Europe.

TABLE E.1 Regional classification used in this report

		European Union				Western Balkans
		Western Europe	**Southern Europe**	**Central Europe and the Baltic Countries**	**Northern Europe**	
Europe and Central Asia	**European Union and Western Balkans**	Austria	Cyprus	Bulgaria	Denmark	Albania
		Belgium	Greece	Croatia	Finland	Bosnia and Herzegovina
		France	Italy	Czech Republic	Sweden	Kosovo
		Germany	Malta	Estonia		Montenegro
		Ireland	Portugal	Hungary		Republic of North Macedonia
		Luxemburg	Spain	Latvia		Serbia
		The Netherlands		Lithuania		
		United Kingdom*		Poland		
				Romania		
				Slovak Republic		
				Slovenia		
	Eastern Europe and Central Asia	**South Caucasus**	**Central Asia**	**Russian Federation**	**Turkey**	**Eastern Europe**
		Armenia	Kazakhstan			Belarus
		Azerbaijan	Kyrgyz Republic			Moldova
		Georgia	Tajikistan			Ukraine
			Turkmenistan			
			Uzbekistan			

* The United Kingdom is no longer a part of the European Union as of January 31, 2020.

Executive Summary

Growth in the emerging market and developing economies of Europe and Central Asia decelerated to 2.2 percent in 2019, reflecting weakness in the region's two largest economies, Turkey and the Russian Federation. Earlier financial market stress resulted in a sharp growth slowdown in Turkey; activity in Russia was tepid amid weak demand and cuts in oil production.

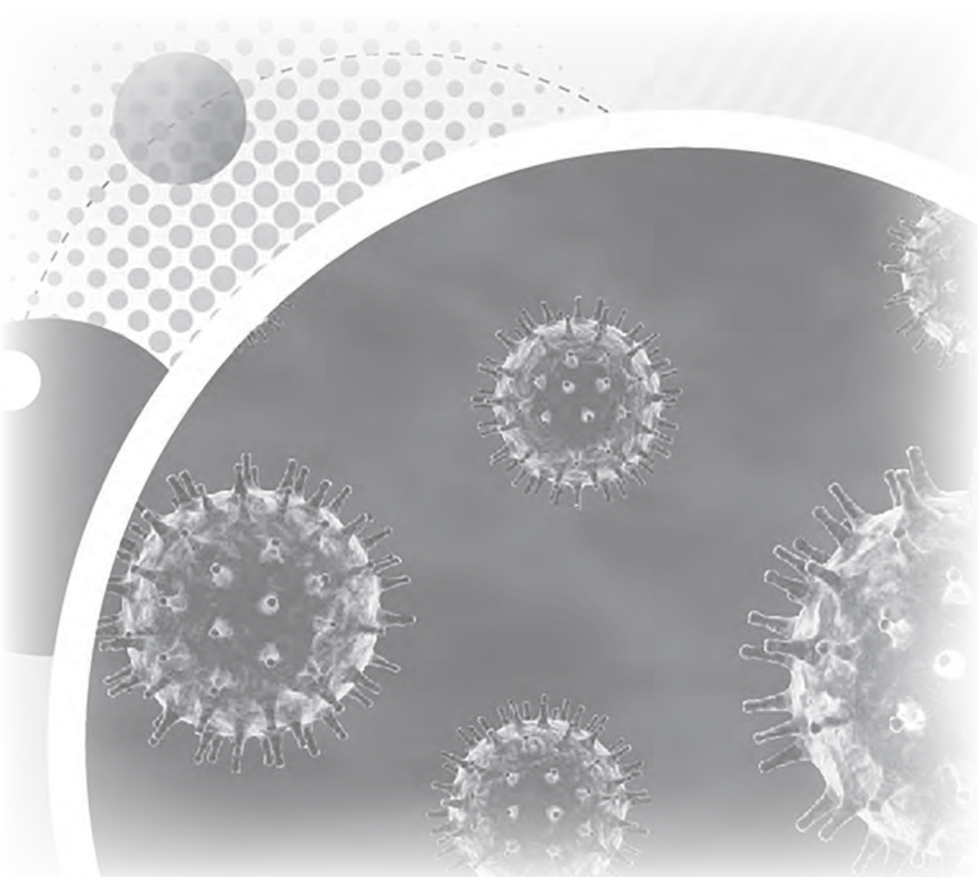
In February, the coronavirus outbreak interrupted the incipient recovery that was underway earlier in the year. Given the rapidly evolving situation, this update summarizes the recent developments and growth outlook for the region under different scenarios regarding the outbreak. It discusses the potential channels of transmission, provides estimates of spillovers, and emphasizes necessary policy responses.

The impact of the coronavirus pandemic on growth in the region will depend on how the outbreak evolves. If the outbreak is largely contained by the second half of the year and measures to stop the spread of the virus—including quarantines, travel restrictions, and international border closures—are lifted, economic activity could resume, supply chains could recover, and financial markets and commodity prices could stabilize. However, if the virus spreads to most countries and efforts to contain the outbreak spill into the third quarter of 2020, financial market pressures continue, commodity prices remain weak, and domestic health-care systems are strained, the growth impacts will be more severe. Either way, the region is bracing for a recession.

Although the magnitudes are uncertain, the pandemic is likely to derail the near-term outlook by interrupting daily activity, putting further downward pressure on commodity prices, disrupting tightly linked global and regional supply chains, reducing travel and tourist arrivals, and decreasing demand for exports from economies in the region. There are trade-offs between the health benefits of policies to slow down the spread of the disease and the economic costs of these actions. During these difficult times, it is important for policy makers to act decisively to save lives and invest in their public health systems; but also minimize the economic cost by strengthening the safety net for the most vulnerable; supporting the private sector through short-term credit, tax breaks, or subsidies; and being prepared to lower interest rates and inject liquidity to restore financial stability and boost confidence.

PART

Coronavirus Pandemic and the Economic Outlook



Global Context

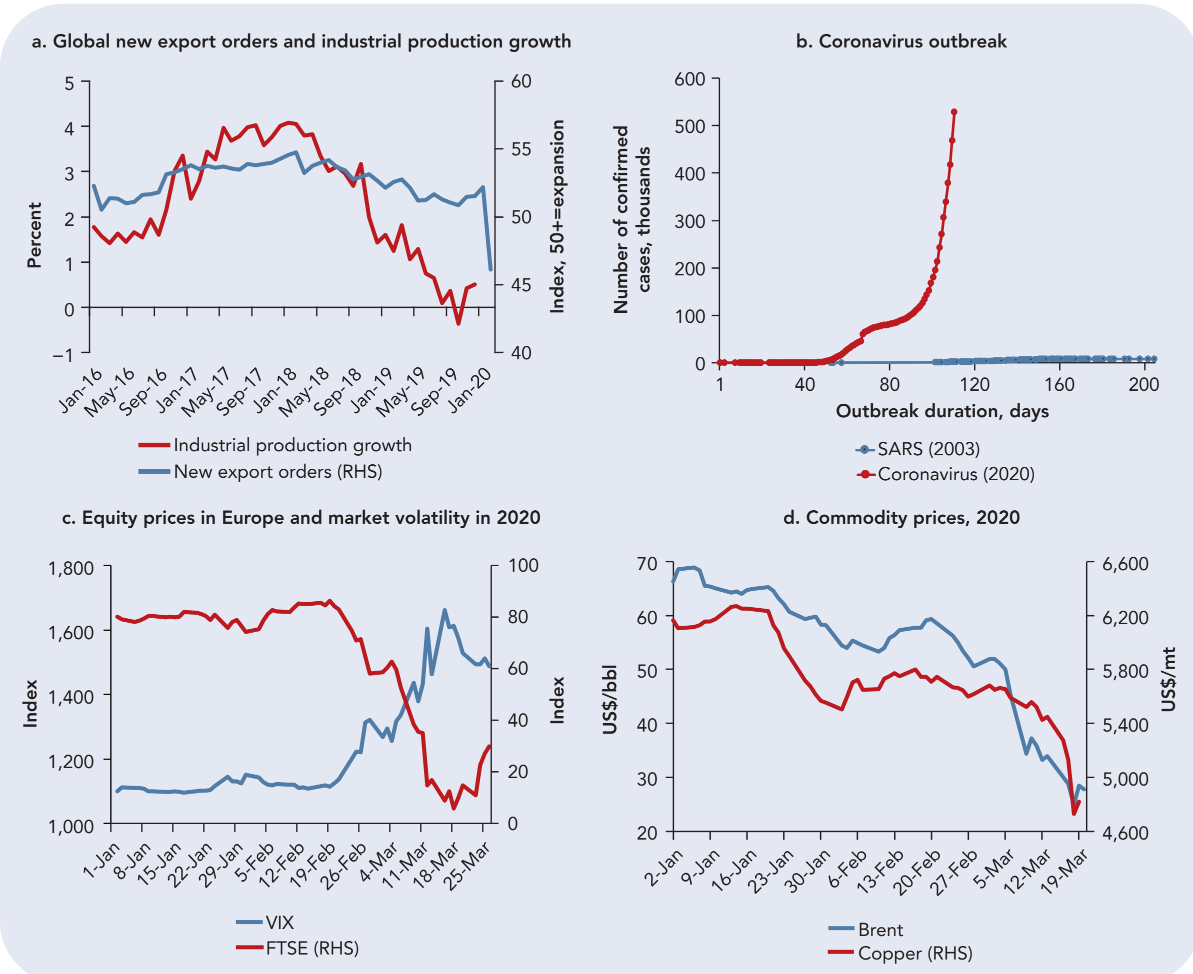
Global growth slowed to an estimated 2.4 percent last year—a post-crisis low—amid weak trade and manufacturing activity, and it was envisaged to firm in 2020 in January forecasts. Since then, the coronavirus outbreak has dealt a massive blow to global activity, and the associated costs and spillovers will significantly erode the global outlook. The pandemic also compounds other downside risks, such as further disruptions to trade relations, spillovers from sharp downturns in major economies, and disorderly commodity and financial market developments. Against this backdrop, many economies are not adequately prepared to confront the negative shocks related to the materialization of these risks.

COVID-19 Pandemic and Overall Trends

According to January projections, global growth fell to an estimated 2.4 percent in 2019—its slowest pace since the global financial crisis—with key indicators, such as industrial production and trade, declining in parallel. This weakness was broad-based across countries, with nearly 90 percent of advanced economies and 60 percent of emerging market and developing economies (EMDEs) experiencing decelerating growth in 2019. Manufacturing activity slowed sharply over the course of last year, and, to a lesser extent, services activity also moderated. A prolonged period of rising trade disputes between the United States and China weighed on international trade, confidence, and investment for most of 2019. Trade tensions eased in some instances, however, following the signing of a

Phase One agreement earlier in January, under which the United States and China halved tariffs on nearly $190 billion worth of goods in mid-February. In response, financial market sentiment improved in late 2019. January projections saw global growth edging up to 2.5 percent in 2020 and firming thereafter, reaching to 2.6 percent by 2021, as investment and trade gradually recover (figure 1.1, panel a) (World Bank 2020a). Similarly, EMDE growth was expected to pick up to 4.1 percent this year and stabilize at 4.3 percent in 2021, with the pace of the recovery restrained by soft global demand and structural constraints. However, this recovery will be interrupted by the coronavirus outbreak (figure 1.1, panel b).

FIGURE 1.1 Global economic outlook



Source: Bloomberg; Energy Information Administration (EIA); Haver Analytics; Institute of International Finance; International Energy Agency (IEA); Johns Hopkins University; J.P. Morgan; OPEC; World Bank.
Note: In panel a, the last observation for new export orders is February 2020, and for industrial production it is December 2019. In panel b, the last observation is March 27, 2020. In panel c, the last observation is March 26, 2020. In panel d, the last observation is March 19, 2020.
FTSE = Financial Times Stock Exchange.

The coronavirus pandemic is the most significant negative shock since the global financial crisis and is causing severe damage to global activity. At first, the outbreak led to a sharp slowdown in China—the original epicenter of the outbreak—as well as disruption to global value chains (GVCs), particularly in Europe. The immediate impact propagated through commodity channels and financial markets, with global energy and metals prices falling to multi-year lows and many large EMDEs facing financial market pressures. The outbreak's subsequent worldwide propagation, including to major advanced economies, has led to a massive worsening of the global outlook. Global trade flows have been disrupted by international border closures and weakened demand from China, while tourism is suffering significantly. In response, market-based forecasts for global growth have sharply deteriorated since the start of the year. The coronavirus outbreak will weigh on EMDE growth prospects and delay the near-term recovery, particularly for EMDE commodity exporters, given China's large role in global commodity markets. EMDEs with tight trade and financial linkages to the euro area and China and their manufacturing sectors will also face negative spillovers.

The coronavirus pandemic has also triggered substantial stock market losses, with one-tenth of European equity values wiped away and the S&P 500 down by as much as one-quarter since its early February high. The impact has been broad-based, with markets initially agitated in East Asia but their focus quickly shifting to Europe following news that Italy had suffered the largest coronavirus outbreak outside Asia in early March. The VIX volatility index jumped to its highest level since the global financial crisis, with officials pausing intraday trading several times due to volatility (figure 1.1, panel c). EMDEs, particularly those with low sovereign credit ratings, have faced unprecedented capital outflows and exchange rate pressures amid heightened risk aversion. Corporate debt for riskier categories, such as lending to highly leveraged firms in the United States, also suffered a sharp selloff, with the spread on U.S. junk bonds rising over 600 basis points since the start of 2020.

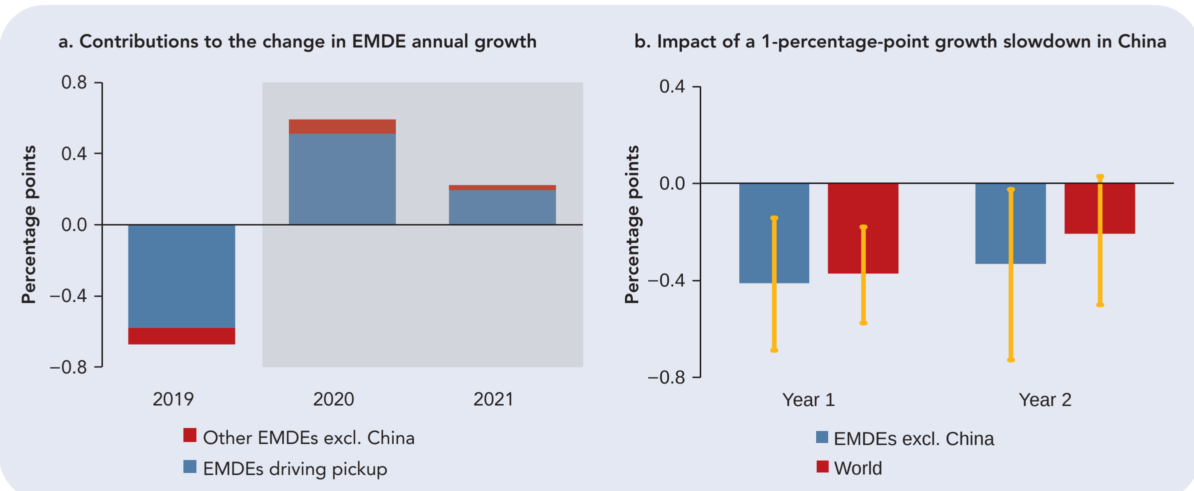
Subdued inflation in the six months leading up to February had allowed monetary authorities in several economies, including EMDEs, to begin or extend policy rate cuts to buoy growth in light of the earlier trade tensions. However, inflationary pressures are building in some EMDEs, which may limit the space for further monetary policy accommodation going forward. Sizable currency depreciation could also pass through to inflation and amplify these pressures, while decreased activity from worsening economic conditions could offset increases in inflation. Policy makers in some EMDEs, notably China, have provided fiscal support measures to stabilize growth in the wake of the coronavirus outbreak.

Commodity market developments, particularly oil, have been disorderly in 2020, as the coronavirus outbreak has triggered a sudden collapse in demand. Oil prices plunged further in March, reflecting the abandonment of OPEC+ production cuts amid rising disagreement with its partner countries, most notably the Russian Federation. The ongoing coronavirus outbreak has put additional downward pressure on commodity prices, particularly for energy, which will be further amplified by a glut of oil supply as OPEC+ members resume full capacity of oil production. Brent crude oil prices fell sharply in March, to a 17-year low of roughly $25 per barrel, after experiencing one of its largest losses on record in a single trading day (figure 1.1, panel d). The recent fall also reflects expectations that demand will be weaker than previously envisioned, as the coronavirus outbreak has already reduced air travel and shipping, a major source of oil demand. Other industrial commodity prices have weakened in response to the coronavirus outbreak, with copper prices down by over 20 percent since early January. Overall, metals prices are expected to decline in 2020, reflecting subdued industrial commodity demand, particularly from China. Agricultural prices are envisioned to stabilize in 2020, after declining in the second half of 2019 due to improved supply conditions.

Global Risks

The recovery in the global outlook envisioned in January projections hinged on a growth pickup in a few large EMDEs, some of which were tentatively emerging from deep recessions or severe slowdowns (figure 1.2, panel a). However, the coronavirus outbreak has derailed the projected recovery in EMDEs. A longer-lasting and more widespread outbreak of the coronavirus could lead to even weaker growth, especially as efforts to contain the virus—including international border, business, and school closures; within-country restrictions on movement; and quarantine measures—hamper activity. Manufacturing weakness could further deteriorate if substantial disruptions to supply chains are extended, particularly in Europe. A severe growth deceleration in China stands to have a

FIGURE 1.2 Global risks



Sources: Bloomberg; Haver Analytics; J.P. Morgan; World Bank; World Health Organization.
Note: In panel a, data for 2019 are estimates. Aggregate growth rates are calculated using GDP weights at 2010 prices and market exchange rates. The shaded area indicates forecasts. "EMDEs driving pickup" includes the eight largest EMDEs that account for 90 percent of the acceleration in EMDE growth between 2019 and 2020 (Argentina, Brazil, India, the Islamic Republic of Iran, Mexico, the Russian Federation, Saudi Arabia, and Turkey). In panel b, the bars are the impulse response to a 1-percentage-point decline in China. The yellow error lines are the 16-84 percent confidence intervals, based on the vector autoregression model presented in World Bank (2016a). The sample includes 22 advanced economies and 19 EMDEs. The figure shows the last observation, which is January 2020. EMDEs = emerging markets and developing economies; GDP = gross domestic product.

pronounced impact on EMDEs with substantial trade linkages to China and EMDE commodity exporters, reflecting China's role as a major commodity importer (figure 1.2, panel b).

More generally, a deterioration in investor sentiment—whether, for instance, from a reassessment of risk related to the severity of the coronavirus outbreak, re-escalation of trade tensions, or a rise in geopolitical uncertainty—could further trigger disorderly financial market movements, including additional capital outflows from EMDEs and exchange rate pressures, and generate tighter global financing conditions. An even deeper global downturn could result from prolonged financial stress in large EMDEs, heightened geopolitical tensions, or a higher incidence of extreme weather events. A disruption to progress on the trade negotiations between the United Kingdom and the European Union could also weigh on Europe's outlook.

Europe and Central Asia: Recent Developments and Outlook

Growth in EMDEs in Europe and Central Asia decelerated to an estimated 2.2 percent in 2019, reflecting weakness in the region's two largest economies, Turkey and Russia. Earlier financial market stress resulted in a sharp growth slowdown in Turkey, while activity in Russia was tepid amid weak demand and cuts in oil production. Scenarios suggest regional growth will fall into a recession in 2020, contracting between −4.4 to −2.8 percent, held back by the coronavirus pandemic, and rebound subsequently to roughly 5.6 to 6.1 percent in 2021 as policy measures are introduced, global commodity prices gradually recover and trade strengthens. The outlook faces unprecedented downside risks related to the coronavirus, with these scenario ranges reflecting large unknowns on the ultimate severity and duration of the pandemic. Although the magnitudes are uncertain, the pandemic is certain to derail the near-term outlook by weighing on domestic demand, putting further downward pressure on commodity prices, disrupting tightly-linked global and regional supply chains, reducing travel and tourist arrivals, and decreasing demand for exports from the region. Policy makers across the region face a difficult trade-off between the health benefits of social distancing and quarantine measures and the economic costs of these actions. They need to act quickly and decisively to save lives, while also introducing policies to cushion the economic downturn and ensure a V-shape recovery.

Recent Developments: The Coronavirus Outbreak, Transmission Channels, and Policy Responses

Growth in the EMDEs in Europe and Central Asia is estimated to have decelerated markedly in 2019, to 2.2 percent. The lackluster regional performance predominantly reflected slowdowns in the region's two largest economies, Russia and Turkey. Sustained weakness in export growth was accompanied by slowing manufacturing activity and investment. Sluggish new export orders prior to the coronavirus outbreak suggest that export growth will fall sharply in the near term, especially in economies with deep trade and financial linkages to the euro area, such as those in Central Europe.

Table 1.1 reports results from two simulation exercises that measure the range of growth outcomes in response to the coronavirus pandemic. In the baseline COVID-19 scenario, regional growth is projected to contract in 2020, to −2.8 percent; in the downside scenario, the recession is deeper, with growth shrinking −4.4 percent (table 1.1). The range reflects the uncertainty surrounding the impacts of the coronavirus pandemic, notably concerns about the duration of the pandemic and the extent of economic disruption it will generate (see box 1.1).[1] Although initially the outbreak dampened prospects in Europe and Central Asia vis-à-vis trade, financial, and commodity channels, the spike in cases in the region has amplified the negative impact through the domestic economy, particularly as containment measures to tackle the outbreak weigh heavily on private consumption and investment. The overall outlook remains highly uncertain and will ultimately depend on which epidemiological scenario develops. If the outbreak is contained in the first half of the year, the economic damage from

1. Projections of the economic implications of COVID-19 are subject to significant uncertainty. Table 1.1 reports a range of estimates using assumptions of growth in major economies and key commodity prices as of March 20, 2020. In the baseline growth scenario, policy makers lift containment measures during the second quarter, but earlier financial market volatility continues to weigh on investment and commodity prices remain low. In the downside scenario, policy makers lift containment measures in the second half of the year, which will continue to severely dampen activity and suppress commodity prices amid weak demand. Country-specific projections may deviate from the baseline scenario, in so far as country-specific knowledge may lead country experts to be more or less optimistic.

TABLE 1.1 Europe and Central Asia growth scenarios

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

	Baseline growth scenario					Downside growth scenario				
				Revisions from January 2020 projections (pp)					Revisions from January 2020 projections (pp)	
Category	2019[e]	2020[f]	2021[f]	2020[f]	2021[f]	2019[e]	2020[f]	2021[f]	2020[f]	2021[f]
EMDE ECA, GDP[a]	2.2	−2.8	5.6	−5.4	2.7	2.2	−4.4	6.1	−7.0	3.2
Central Europe and Baltic States[b]	4.0	−1.0	5.5	−4.3	2.5	4.0	−2.5	5.9	−5.8	2.9
Western Balkans[c]	3.6	−1.1	4.4	−4.7	0.6	3.6	−3.8	4.5	−7.4	0.7
Eastern Europe[d]	2.6	−3.6	3.0	−6.5	−0.1	2.7	−7.1	2.8	−10.0	−0.3
South Caucasus[e]	3.6	0.1	3.4	−3.0	0.3	3.6	−0.9	2.2	−4.0	−0.9
Central Asia[f]	5.0	0.1	4.8	−4.3	0.2	5.0	−1.3	5.6	−5.7	1.0

Source: World Bank.
Note: Scenarios for 2020-21 were generated using the World Bank's Global Spillover model and its MacroFiscal Model MFMod. The numbers in this table were generated on the basis of specific assumptions about the inherently uncertain progress of COVID-19 and the policy responses to it. As such, they should be interpreted as illustrative rather than predictive. World Bank numbers are frequently updated based on new information and changing (global) circumstances. Consequently, the numbers presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given moment.
e = estimate; ECA = Europe and Central Asia; EMDE = emerging market and developing economy; f = forecast; GDP = gross domestic product.
a. GDP and expenditure components are measured in 2010 prices and market exchange rates.
b. Includes Bulgaria, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, and Romania.
c. Includes Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia.
d. Includes Belarus, Moldova, and Ukraine.
e. Includes Armenia, Azerbaijan, and Georgia.
f. Includes Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.

BOX 1.1 The Coronavirus Outbreak: Regional Growth Effects, Transmission Channels, and Policy Responses

Background

Coronavirus (also known as COVID-19) has infected more than 700,000 people globally across at least 180 countries.[a] Although initially a majority of the confirmed cases were concentrated in Hubei province in China—the original epicenter of the outbreak—the number of cases sharply spiked in northern Italy toward the end of February, with the number of deaths there surpassing those in China by mid-March. Europe accounts for three-fourths of the new daily coronavirus cases worldwide, with several countries experiencing large outbreaks—in particular, France, Germany, and Spain, while cases in the United States had risen dramatically by the end of March. In March, the World Health Organization declared COVID-19 a global pandemic. Although the number of confirmed cases has been more limited for emerging market and developing economies (EMDEs) in Europe and Central Asia, the situation continues to evolve and will likely have worsened by the time of publishing (figure B1.1.1, panel a). Regardless of the number of cases in the region, domestic measures to contain the virus have already been implemented and will hinder activity this year.

The COVID-19 pandemic is unfolding at a fragile time for the global economy, particularly Europe. In the last quarter of 2019, growth in the euro area fell to its slowest pace since 2013, reflecting an unexpected contraction in France and Italy. Meanwhile, activity in the region diverged toward the end of 2019, as deeply integrated Central Europe weakened in tandem with the euro area, while the Russian Federation and Turkey—the region's largest EMDEs—experienced an incipient recovery. The near-term recovery that had been envisioned for the region at the start of the year will be delayed by international spillovers and domestic disruptions related to the pandemic. Growth slowdowns in the euro area and China in response to the outbreak will weigh on external demand, while domestic activity, including private consumption and investment, will be dampened by containment measures, such as international border closures, travel restrictions, and mandatory quarantines.

Europe and Central Asia is one of the most exposed EMDE regions to spillovers from global shocks, given its openness to trade and financial flows, but the magnitudes and sources of spillovers vary across countries within the region. Likely to be hardest hit are economies that are tightly connected to the euro area or China through trade linkages, including global value chains (GVCs); those heavily dependent on tourism; or those that export industrial commodities, such as energy and metals. That said, recent containment measures put in place in Europe—in some cases a full countrywide lockdown, while in others a ban on public events, the closure of public buildings, and limitations to public transport—will have a first-order effect on activity, especially if sustained throughout the year.

This box examines the impact of the coronavirus on growth in countries in Europe and Central Asia, with the help of baseline and adverse scenarios. It discusses the potential channels of transmission, provides estimates of spillovers, and concludes with a discussion of necessary policy responses.

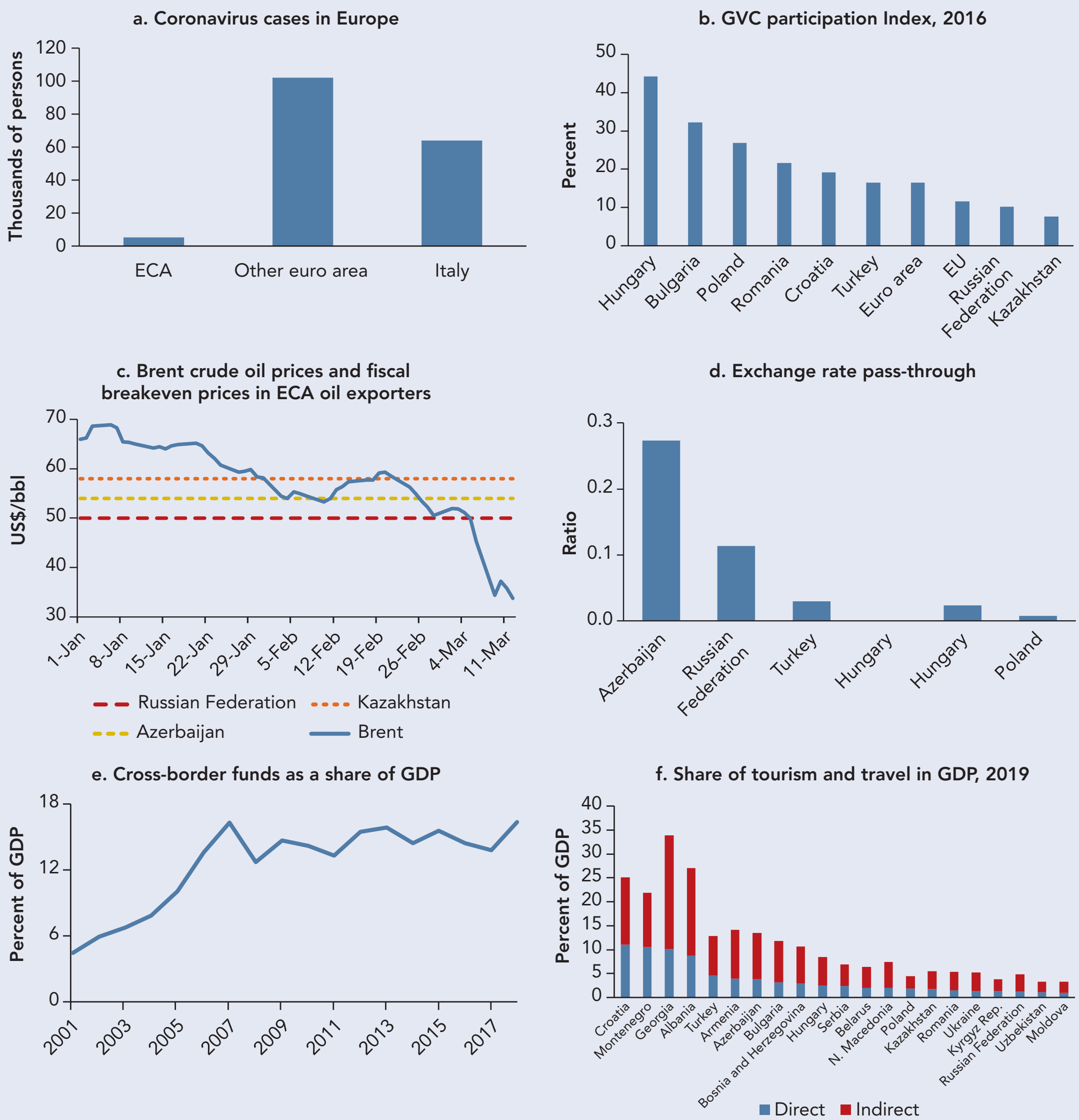
Channels of Transmission

In the EMDEs in the region, domestic outbreaks of the coronavirus were initially limited, but have since grown alongside measures to contain the virus. The domestic impact of the virus will vary by country, depending on the severity of the outbreak, the capacity of the health care system, and the policy responses to contain the virus and limit its economic effect. Growth prospects are likely to deteriorate further as domestic outbreaks become more widespread and trigger a decline in domestic demand and supply disruptions. Additional impacts will stem from adverse spillovers from the euro area and China, as well as the effects on global asset and commodity prices. The main global channels in the transmission of the eco-

(Continued next page)

BOX 1.1 (continued)

FIGURE B1.1.1 Number of confirmed cases and potential channels of transmission



Sources: Bloomberg; European Centre for Disease Prevention and Control; Organisation for Economic Co-operation and Development; World Travel and Tourism Council; World Bank.
Note: In panel a, the last observation is March 24. In panel 6, 2020.c, the last observation is March 12. In panel d, values are the 2020 elasticity of prices of international goods to changes in exchange rates, as in Ha, Stocker, and Yilmazkuday (2019). In panel f, GDP is generated by industries that deal directly with tourists, including hotels, travel agents, airlines, and other passenger transport services, as well as the activities of restaurant and leisure industries that deal directly with tourists. It is equivalent to total internal travel and tourism spending within a country less the purchases made by those industries (including imports). In terms of the United Nation's Tourism Satellite Account (TSA) methodology, it is consistent with total GDP, as calculated in table 6 of the TSA RMF 2008. BiH = Bosnia and Herzegovina; ECA = Europe and Central Asia; EU = European Union; GDP = gross domestic product; GVC = global value chain.

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BOX 1.1 (continued)

nomic fallout from the coronavirus outbreak are trade links, including through disruptions to GVCs and external demand; commodity and financial markets; and transport and tourism.

Trade linkages. Europe and Central Asia is deeply embedded in global and regional value chains, which exposes the region's economy to international developments and spillovers. For many economies in the region, including Russia, the two most important external trading partners are the euro area and China. As a destination, the euro area accounts for over 40 percent of the region's exports, while China represents about 5 percent—but for the economies in Central Asia, this rises to 20 percent. Mandatory quarantines and idle workers are expected to dampen euro area and Chinese demand, which could negatively impact exports from Europe and Central Asia.

The coronavirus outbreak has stalled production and triggered factory shutdowns in China and Europe, with estimates placing as few as 35 percent of Chinese workers on the job in mid-February, while the countrywide quarantine in Italy in early March will have a deep impact on northern Italy's large manufacturing hub.[b] Given the presence of large, open economies, widespread disruptions to GVCs are expected to affect the region, particularly as they relate to sourcing of capital and intermediate goods. Further aggravating the situation are low inventories going into the coronavirus, as measured by subcomponents of manufacturing Purchasing Managers' Index. Compared with other subregions, the impact will be noticeably larger for Central Europe, where manufacturing accounts for nearly a fifth of the gross value added to gross domestic product (GDP), while 20 to 40 percent of the value added of exports is derived from foreign content (figure B1.1.1, panel b).[c] Exposure to China also flows through these indirect GVC channels—the amount of value added that is dependent on final demand in China is significant in Europe.[d]

Commodity markets. Europe and Central Asia is home to several energy exporters, including Russia, Kazakhstan, and Azerbaijan, which together account for over 40 percent of the region's GDP. Since the coronavirus outbreak, Brent crude oil prices have plunged by nearly 60 percent since January's peak, partly reflecting concerns that the virus will dampen energy demand through reduced air travel and shipping, as well as quarantine measures. The magnitude also reflects China's large role in global commodity markets as the world's largest energy importer. The fall in prices in early March also reflects a positive supply shock from the abandonment of the OPEC+ oil production cuts, which will likely generate an oil glut.[e] The potential positive impact of abandoned production caps for growth is likely to be more than offset by the steep fall in prices, however, which will strain fiscal positions, with oil prices now far below fiscal breakeven prices for energy exporters in the region (figure B1.1.1, panel c).

Given that China accounts for half of the global demand for metals, the region's metals exporters will also be impacted. Initially, the effects were more nuanced, as gold tends to be a safe haven asset—prices have fluctuated considerably, however, so the overall impact may be negligible. For exporters of gold, such as the Kyrgyz Republic and Uzbekistan, an increase in gold prices would help offset the fall in the prices of other metals exported by the country. For other economies in the region, however, the exposure can be twofold, as is the case for Russia, given its large share of energy and iron ore exports.

Financial markets. The broad deterioration in global investor sentiment triggered by COVID-19 could have material implications for Europe and Central Asia's financial markets and banking system, even with limited domestic outbreaks. Volatility shocks can lead to adverse short-term effects on activity, investment, and industrial production—this is especially the case in countries with large exposure to international financial markets, such as countries in Central Europe, Turkey, and Russia, all of which tend to be bellwethers for other EMDEs.[f]

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BOX 1.1 (continued)

Several economies in the region have suffered sharp currency depreciations, which could pass through to inflation and constrain future monetary space (figure B1.1.1, panel d).[g] Furthermore, economies in the region face tightening external financing conditions, as flight to safety attracts flows into U.S. Treasuries. In economies with higher external imbalances, this could generate pressure on corporate balance sheets and increase rollover risks.

The region is also vulnerable to spillovers from other parts of the region, particularly Russia, due to historical trade and financial linkages, as well as from the euro area. Financial linkages within the European Union, which includes Central European economies, have gained significance as a result of integration of financial markets and cross-border exposure among financial institutions (figure B1.1.1, panel e).

Finally, a prolonged downturn would affect the financial sectors in the region by adversely affecting nonperforming loans and weakening earnings and profitability, particularly for banks that are already undercapitalized. Some banks may also experience mark-to-market losses due to sharp declines in financial markets. This would constrain banks' ability to lend and support real activity during this difficult time. In the extreme, it could lead to erosion of bank buffers and further undermine their resilience.

Transport and tourism. Europe is a popular international tourist destination, with a large share of overnight stays from tourists within the region—over 80 percent of international arrivals are from other European Union countries (European Commission). The negative impact of the coronavirus on Europe is expected to be large, as containment measures to address domestic outbreaks dent tourist arrivals and hamper air travel, especially as a growing list of countries are imposing mandatory quarantines, travel restrictions, and international border closures. In the past month alone, reportedly more than 300,000 flights have been canceled globally.[h]

Transport and tourism represent a substantial share of GDP in several of the region's economies, including Croatia, Georgia, Montenegro, and Turkey, and the direct and indirect effects are in some cases in excess of 20 percent of GDP (figure B1.1.1, panel f). The share is also high in Albania, but tourist activity was already expected to fall sharply this year due to the devastating impact of last year's earthquakes—likewise, the recent earthquake in Croatia could have similar consequences. For the economies in the region that are part of the European Union, mainly those in Central Europe, 85 percent of EU tourists are from other member countries. Sweeping quarantine efforts in Italy and other euro area economies could thus disproportionately affect Central Europe. Overall, the decline in tourism in the first half of 2020 will likely be steep, but the impact on annual GDP will depend on the duration of the pandemic. The impact of the pandemic on tourism could be much larger if the outbreak extends into the summer holiday season.[i]

Estimated Impact on Europe and Central Asia under Baseline and Adverse Scenarios

Assumptions and impact under the baseline scenario. In the baseline scenario, containment measures, including quarantines, travel restrictions, and international border closures, are lifted by the end of the second quarter of the year, allowing for the resumption of economic activity. Financial market and GVC disruptions are assumed to ease, while commodity prices are expected to improve, albeit to low levels, from earlier volatility and weakness. The results of a global spillovers model find that global growth will be much weaker than previously envisioned.[j] Simulations suggest that the estimated impact under these baseline assumptions could reduce GDP growth in Europe and Central Asia by -5.4 percentage points in 2020. This would bring growth to -2.8 percent, as large economies such as Russia, Turkey, and Poland are affected through

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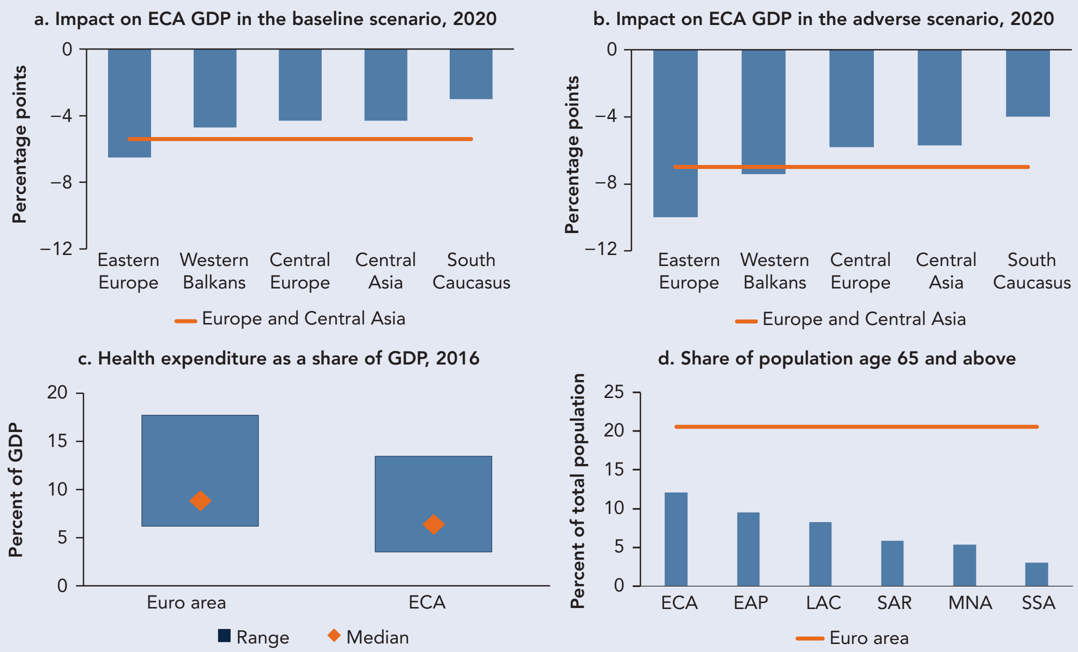
BOX 1.1 (continued)

commodity and GVC channels (figure B1.1.2, panel a). In this scenario, growth would accelerate to 5.6 percent in 2021, as a robust cyclical recovery would underpin growth in Russia and Turkey.

Assumptions and impact under the adverse scenario. In the adverse scenario, efforts to contain the outbreak spill into the third quarter of 2020, with growth constrained by the continuation of quarantines, travel restrictions, and international border closures. Financial market pressures continue in EMDEs, while commodity prices remain weak. Government resources are diverted from key development priorities to fight the outbreak and potentially support strained domestic health care systems. The negative impact on global growth would be substantially greater in 2020, and the rebound in 2021 would be weaker as commodity exporters continue to adjust to terms of trade shocks. In Europe and Central Asia, the adverse scenario assumes a deep recession, with the overall estimated impact reducing growth by -7.0 percentage points in 2020, to -4.4 percent. The recession reflects sizable negative spillovers to Russia due to low energy prices, Turkey from weak external demand, and substantial domestic outbreaks in several economies (figure B1.1.2, panel b). The recovery would be stronger than previously expected in 2021, at 6.1 percent, as large commodity importers rebound.

As this report goes to press, the baseline scenario is becoming less likely and the downside scenario is looking more optimistic. Although the magnitudes are uncertain, what is clear is that the pandemic is likely to derail the near-term outlook significantly, as past pandemics have done (Barro, Ursua, and Weng 2020).

FIGURE B1.1.2 Impact on GDP growth, demographics, and health system vulnerabilities



Sources: World Travel and Tourism Council; United Nations; World Bank.
Note: In panel b, aggregate growth rates are calculated using GDP weights at 2010 prices and market exchange rates. In panel c, the sample includes 20 ECA economies. EAP= East Asia and Pacific; ECA = Europe and Central Asia; GDP = gross domestic product; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia; SSA = Sub-Saharan Africa.

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BOX 1.1 (continued)

Policy Trade-offs and Priorities

Policy makers face a difficult trade-off in dealing with the pandemic. The health benefits of social distancing, closing businesses, and imposing quarantines are clear, as the spread of the disease is slowed down, which saves lives by preventing health systems from being overwhelmed. However, the more successful these measures are, the greater the resulting economic costs become (figure B1.1.3).[k] Furthermore, there is the downside risk that these containment measures will be extended for longer than currently envisioned, which would subsequently cloud the outlook (Atkeson 2020). The challenge facing policy makers is to employ policies that minimize the economic downturn while prioritizing health benefits, so that lives are saved and the recovery is V-shaped rather than prolonged once the pandemic is over.

Policy response and options. The availability of macroeconomic policy space varies across Europe and Central Asia, but overall, the region is ill-prepared to cope with widespread domestic outbreaks of the coronavirus, given the vulnerabilities in health care systems, including in available hospital beds and health care spending (figure B1.1.2, panel c). Additionally, parts of the region are characterized by a large share of individuals age 65 and above, which could result in a heavier strain on the health care system than observed in regions with younger populations (figure B1.1.2, panel d). Dissemination campaigns on prevention and emergency response plans have been employed in the region to raise awareness and slow the spread of the viral outbreak. Many countries have closed international borders, restricted travel from heavily hit areas, and imposed quarantine on travelers returning from affected countries. Despite limited fiscal space after years of lackluster growth, policy makers should use existing buffers or reprioritize spending to bolster health care systems effectively, strengthen safety nets, support the private sector, and counter financial market disruptions to save lives and limit the economic downturn.

Bolstering health care systems remains a critical challenge in Europe and Central Asia, particularly in the face of a public health pandemic. Although the region boasts the highest rate of hospital beds among the EMDE regions, at 6.4 beds per 1,000 people, health systems in some economies are far less equipped to respond to the rapid spread of the pandemic. Albania, Georgia, and Turkey, for instance, have a hospital bed rate of less than 3 beds per 1,000 people—less than half the regional average. Despite notable improvement in recent years, Turkey's health expenditures trail the regional average of 5.2 percent of GDP by nearly 1 percentage point. According to WHO's Capacity Rating of preventing, detecting, and responding to a public health emergency, Bosnia and Herzegovina, the Kyrgyz Republic, Tajikistan, and Uzbekistan have the lowest capacities in the region.

In other economies, health care capacity is limited by a lack of quality primary health care (Kosovo) or ability to respond due to ongoing reforms (Ukraine). Resources have been designated to establish crisis plans and public health campaigns across the region, and most economies have adopted preventative measures, such as bans on large public gatherings, travel restrictions, and border closures. Temporary school closures have also been implemented. Although prevention is important for reducing the spread of the virus and limiting the burden on health care systems, targeted funding can help strengthen response preparedness and the ability to treat and contain the virus effectively. In economies with fiscal space (Bulgaria, Bosnia and Herzegovina, Hungary, Poland, Serbia, Russia), expenditures could be prioritized to boost health investment, which could strengthen the capacity of health systems by increasing personnel training, expanding clinical facilities, and meeting medical supply needs.

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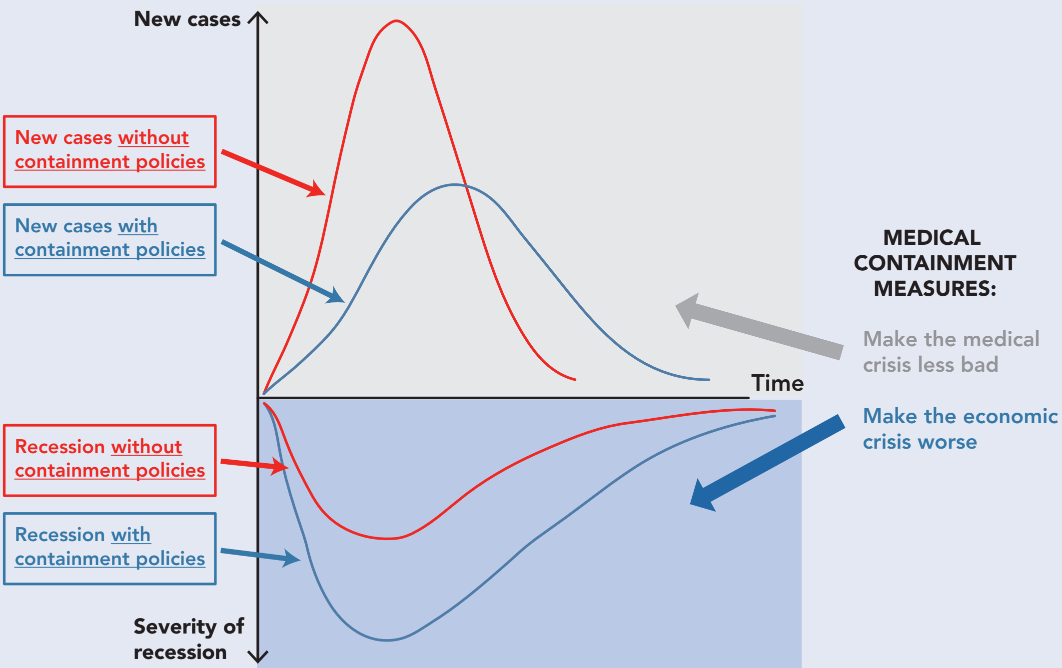
BOX 1.1 (continued)

FIGURE B1.1.3 Trade-off between health benefits and economic costs of containment policies



Source: Based on the figure illustrated by Baldwin and Weder di Mauro (2020), inspired by Gournichas (2020).

Strengthening safety nets by tapping into emergency funds or reprioritizing public expenditures could help offset the coronavirus's negative impact on the most vulnerable. Disruptions to supply chains, domestic outbreaks, and preventative measures to contain the virus may leave many of the region's workers idle or without jobs. This could have ramifications across the region due to the heavy reliance on remittances for personal consumption in some economies in the Western Balkans, Eastern Europe, and Central Asia. Supportive measures that provide relief to households—such as cash transfers or health care subsidies, particularly to low-income households—would help ease the associated difficulties with loss of work, cushion private consumption, and increase access to much-needed medical care. Where paid sick leave and family leave are not among standard benefits, governments should consider providing funding to allow unwell workers or their caregivers to stay home without fear of losing their jobs during the pandemic. To ensure that the region's most vulnerable population is not left behind, existing safety net programs can be expanded to new beneficiaries to include those most affected by the coronavirus, geographically and in particular economic sectors. Programs can also focus on expanding coverage for informal workers, families with young or elderly members, or individuals with preexisting medical conditions. Ensuring access to food, especially in underserved areas, is also critical and can be facilitated through public procurement and distribution of food. Finally, digitalization and mobile finance can be leveraged to distribute cash and transfers to people, directly and quickly.

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BOX 1.1 (continued)

In some economies—Russia, Turkey, Bulgaria, and Poland—low levels of government debt provide room to employ countercyclical fiscal support if needed. Broad-based fiscal stimulus can help lift aggregate demand, but it will probably be more effective after the immediate crisis has passed and business operations begin to normalize. In Central Europe, adherence to EU budget rules has been relaxed to allow for targeted relief measures for firms and workers to help offset the negative impact on activity. In a handful of commodity exporters (Russia, Kazakhstan, Azerbaijan, Uzbekistan), sizable sovereign wealth funds could be drawn upon to provide targeted social spending.

However, fiscal space remains limited in much of the region due to efforts to align budgets to fiscal rules amid low commodity prices; low domestic resource mobilization (Albania, Kyrgyz Republic, Moldova, North Macedonia, Tajikistan), large debt repayments and delays on key reforms (Ukraine), high government debt (Montenegro), significant financing needs (Belarus), post-disaster reconstruction efforts (Albania), and delayed budgets on the back of late government formation (Kosovo). Instead, policy makers in these economies could employ measures on the revenue side to provide relief, such as temporary income and value-added tax cuts.

Supporting the private sector is also important in countering the impact of the coronavirus pandemic by saving jobs. Such measures could include temporary business credits, tax cuts, tax payment deferrals, or subsidies to help sustain activity. Small and medium-size enterprises could face cashflow challenges and, in turn, potentially render the banking sector vulnerable, especially in economies with rising levels of nonperforming loans. In the immediate term, ensuring liquidity could help banks provide relief to sound borrowers via loan restructuring, debt service deferment, or bridge financing.

Policy makers could target the firms or sectors that are most impacted, including those in manufacturing hubs (Central Europe), tourist sectors (Hungary, Turkey, Russia, the South Caucasus, the Western Balkans), or natural resource extraction (Russia, Kazakhstan). In Croatia, for instance, which has a substantial tourism sector, the government has announced plans to subsidize domestic tourism in the absence of international arrivals. The government has also implemented tax payment deferrals for all businesses.

Overall, support will need to be carefully calibrated to ensure that limited resources are used efficiently and effectively, with the focus primarily on the firms and sectors that are most impacted by the ongoing pandemic rather than a blanket bailout. Policy makers should also ensure that frameworks are in place to bolster resilience in the financial system, such as having measures to identify stressed assets and support a smooth insolvency process.

Countering financial market disruptions will also be critical for policy makers in Europe and Central Asia, given the region's openness to trade and financial flows, which, in turn, exposes it to global confidence shocks. Policy makers should carefully monitor exchange rate volatility and be prepared to respond to disorderly financial market movements. The availability of external buffers varies considerably, however, with some economies suffering from shrinking international reserves amid earlier financial pressures, and others maintaining sizable reserves coverage (Russia, Uzbekistan).

Importantly, central banks should also ensure that the banking sector remains adequately liquid to help avoid a credit crunch. Although several economies have lowered policy interest rates to support growth this year (Poland, Russia, Turkey, Ukraine, Serbia), additional cuts may be warranted, particularly in the economies most affected by the coronavirus pandemic and where inflation expectations are well-anchored and below target. Policy makers should also monitor insurance markets, which may come under strain, particularly in economies with large domestic outbreaks and where payments of premia are suspended.

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BOX 1.1 (continued)

However, monetary space has been mostly exhausted in the region's largest economies after months of policy easing (Russia, Turkey) or as a result of building price pressures after years of growing capacity constraints. Policy makers were forced to hike interest rates this year to counter rising inflation expectations in light of the steep decline in oil prices and currency depreciation (Kazakhstan, Kyrgyz Republic). The room for policy rate cuts could become further eroded from renewed financial market pressures and currency depreciation pass-through to inflation (Russia, Turkey, Poland, Georgia, Kazakhstan, Serbia). For energy importers, however, lower global oil prices could help counter some inflationary pressures. High dollarization (Belarus) or euroization (Kosovo, Montenegro), as well as currency boards (Bulgaria, Bosnia and Herzegovina) or managed currency arrangements (Croatia, North Macedonia), prevent a handful of economies from having active monetary policy.

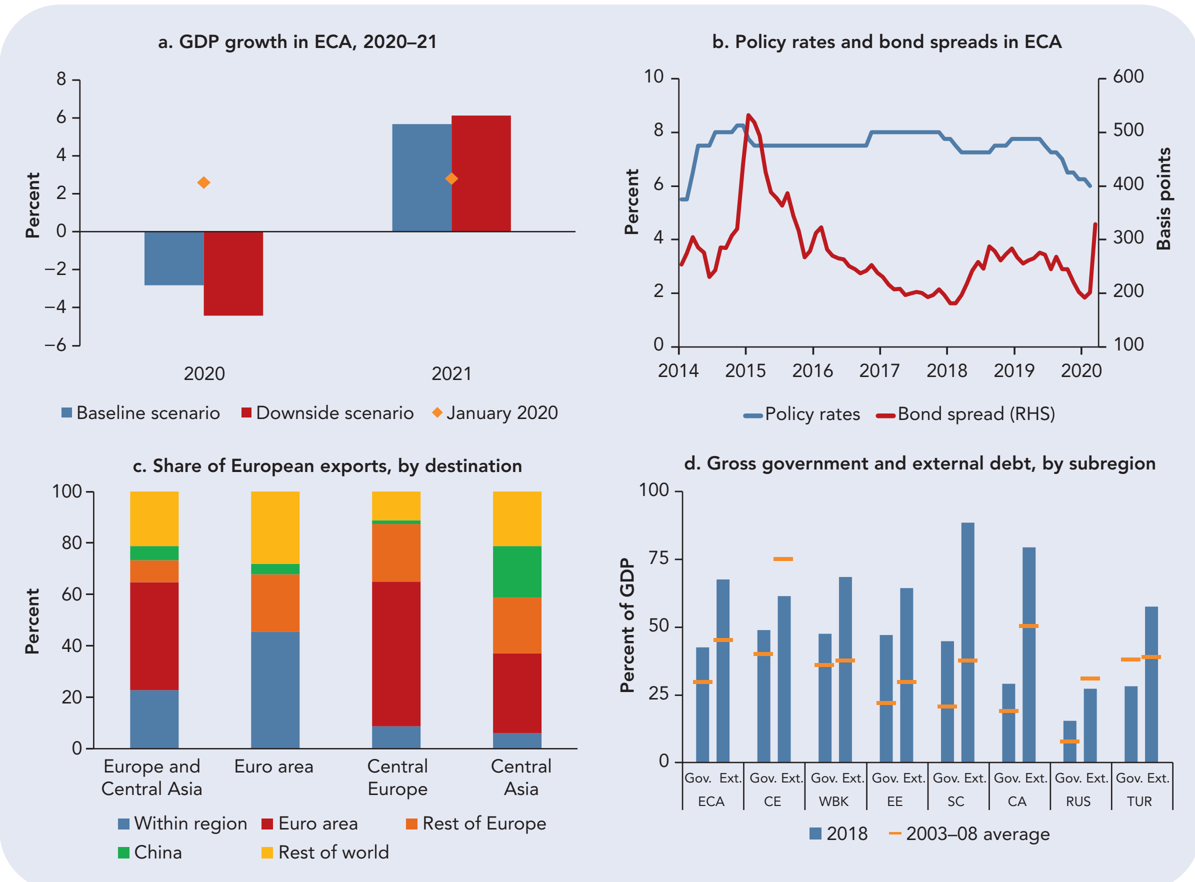
Notes:
a. The data and scenarios presented in this box are as of March 20, 2020.
b. https://www.ft.com/content/0e916322-5a12-11ea-abe5-8e03987b7b20.
c. OECD Trade in Value Added statistics.
d. Dieppe et al. (2018).
e. For a technical discussion of these market dynamics, please refer to the forthcoming April edition of the *Commodity Markets Outlook*.
f. For details, please refer to the January 2016 *Global Economic Prospects* report; Adrian, Stackman, and Vogt (2016); Levchenko and Pandalai-Nayar (2015).
g. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3360138.
h. https://www.flightstats.com/v2/global-cancellations-and-delays
i. Jonung and Roeger (2006).
j. The spillovers are based on cumulative impulse responses after one year from a Bayesian VAR model using (in this order) U.S. growth, euro area growth, the 10-year U.S. government bond yield, VIX, China's growth, oil price, and growth in EMDEs (excluding China), with four lags and data from 2000Q1 to 2019Q2. Aggregates are weighted using GDP at 2010 prices and market exchange rates. For details, please refer to the January 2016 *Global Economic Prospects*.
k. Baldwin and Weder di Mauro (2020); Gournichas (2020); Eichenbaum, Rebelo, and Trabandt (2020).

containment measures and international spillovers will be more limited than if, for instance, the outbreak is sustained or reemerges in a second wave later this year and thus requires longer containment measures.

Regardless of the path of the pandemic, the outbreak has already weighed on commodity prices, disrupted deeply-integrated global and regional supply chains, and generated financial market volatility. Growth is projected to rebound sharply to roughly 5.6 to 6.1 percent in 2021 (figure 1.3, panel a). However, the forecast path will largely depend on the timing of when containment measures are lifted, the pace of improvement in commodity prices, and the speed of the economic recovery in the euro area. The projections for regional growth are also predicated on several assumptions, namely that Turkey's recovery resumes, growth in Russia firms on the back of policy support, trade tensions between the United States and China do not re-escalate, and the United Kingdom's exit from the European Union is orderly.

Aggregate headline inflation in the region eased in the second half of last year, mainly reflecting the fading impact of the value-added tax (VAT) hike in Russia and base effects from high inflation the previous year in Turkey. This, combined with weakening growth momentum, allowed Russia and Turkey, as well as other large economies, such as Romania and Ukraine, to pause or reverse previous monetary policy tightening last year (figure 1.3, panel b). Since the start of this year, central banks have responded to deteriorating growth prospects by providing further monetary support (Turkey, Poland, Ukraine, Serbia, Moldova). However, recent currency depreciation could put further upward pressure on inflation and limit the scope for further policy rate cuts, especially for countries with inflation near or above target ranges (Belarus, Georgia, Hungary, Kazakhstan, Moldova, Romania, Turkey). In some cases, inflationary pressures have already led to policy tightening (Kazakhstan, Georgia). Core inflation is also rising in some economies, especially those with increasing wages as a result of labor shortages and other capacity constraints (Hungary, Poland, Romania).

FIGURE 1.3 Recent developments, outlook, and risks in Europe and Central Asia



Sources: Consensus Economics; Haver Analytics; J.P. Morgan; OECD; UNCTAD; World Bank.
Note: In panel a, aggregate growth rates are calculated using GDP weights at 2010 prices and market exchange rates. Shaded areas indicate forecasts. Yellow diamonds correspond to forecasts from the January 2020 *Global Economic Prospects* report. In panel b, bond spreads are from the J.P. Morgan Emerging Market Bond Index. The sample includes Hungary, Poland, the Russian Federation, Turkey, and Ukraine, due to data availability. The last observation is February 2020 for policy rates and March 2020 for bond spreads. In panel c, shares are calculated from exports in millions of dollars. CA = Central Asia; CE = Central Europe; ECA = Europe and Central Asia; EE = Eastern Europe; GDP = gross domestic product; RUS = Russian Federation; SC = South Caucasus; TUR = Turkey; WBK = Western Balkans.

Trends in Europe and Central Asia: Major Economies and Subregions

The Russian Federation

Growth in Russia is estimated to have slowed to 1.3 percent in 2019, reflecting softer-than-expected investment and trade, together with a continuation of international economic sanctions. Industrial activity also softened, as oil production cuts that were agreed earlier with OPEC took effect and pipeline-related disruptions occurred (World Bank 2019a). Retail sales volumes weakened substantially following a VAT hike, while consumer confidence remained low. The central bank reversed a previous tightening stance, cutting the key policy rate six times since June amid decelerating inflation trends and weak growth dynamics. In light of the sharp depreciation of the ruble and short-term inflationary concerns, the central bank left its policy rate unchanged in its last policy meeting, thereby pausing its monetary easing cycle.

Based on the scenario results of the global spillovers model, growth in 2020 is expected to contract, reflecting substantial growth headwinds due to the sharp fall in oil prices, triggered initially by the coronavirus outbreak and exacerbated in March by the abandonment of the OPEC+ oil production cuts. The previously projected improvement later this year may prove unachievable if oil prices remain below the level assumed by the fiscal rule ($42.40 per barrel in current Urals prices). The proposed increase in social spending, assuming the budget is executed, could partially offset the downward pressures on growth. The shortfall in government revenues from low oil prices is expected to be compensated by the National Wealth Fund, which is roughly 9 percent of gross domestic product (GDP). Still, a contracting economy in 2020 is inevitable, and the outcome could be far worse if containment measures are increased to confront a domestic outbreak.

In the baseline scenario, growth is projected to firm moderately in 2021. National Projects, which are partly funded by the 2019 VAT hike and include a series of investments in infrastructure and human capital, are expected to buoy growth over the forecast horizon. Nevertheless, private investment remains tepid in the baseline outlook, due to policy uncertainty and slowing potential growth over the long term as demographic pressures increase and structural problems, such as the lack of competition, accumulate.

Turkey

Following the lingering disruptions from earlier financial market pressures, growth in Turkey accelerated to about 6 percent (year over year) in the last quarter of 2019, as private consumption was boosted by a rebound in credit. Still, growth slowed sharply in 2019, to a 10-year low of 0.9 percent. Elevated inflation and associated pressures on real incomes, as well as rising unemployment, dampened consumption for most of the year. Investment contracted deeply, to rates comparable to those during the global financial crisis, partly reflecting economic policy uncertainty. Although the contribution of net exports to growth was positive, this was due in large part to import compression. The central bank sharply reversed its policy stance in mid-2019, cutting the policy rate from 24 percent to 9.75 percent, most recently to support growth.

The incipient recovery that had been underway in Turkey has been halted by the coronavirus pandemic. The baseline COVID-19 scenario suggests that growth could contract in 2020, reflecting a continued fall in investment, shrinking exports amid weak external demand, and disruption to activity due to social distancing efforts to contain the coronavirus outbreak. In response, Turkey announced a $15 billion economic package in March, which includes support to low-income households and pensioners, as well as tax breaks and financial support for firms. Gradual improvement in domestic demand is expected to support growth over the forecast horizon. This outlook assumes that fiscal and monetary policies remain steady and do not revive earlier external imbalances, the currency does not come under sustained pressure, and corporate debt restructurings proceed smoothly.

Central Europe and the Baltics

Growth in Central Europe and the Baltics slowed to an estimated 4 percent in 2019, despite a robust start to the year. In Central Europe, rising real wages and government transfers helped boost private consumption. This impact dissipated by the end of the year, however, despite an investment-led construction sector pickup in some economies (Hungary, Romania). The slowdown in the euro area weighed on activity in Poland and exports in some cases (Bulgaria, Romania).

Near-term activity is expected to decline as the coronavirus pandemic spreads in Europe, reducing travel and associated tourist activity in the subregion; domestic containment measures will also contribute to this decline, as disruption to activity weighs on private consumption and investment. The outbreak has already disrupted deeply embedded value chains in Central Europe, with the production delays in China affecting the closely linked manufacturing sector in Germany. Supply chains in Central Europe have also been interrupted by the spread of the virus, leading to shipment delays of intermediate goods amid border closures and restrictions.

Given the challenging growth environment, Poland's central bank cut the policy interest rate to 1 percent in March—the first rate cut since 2015. However, the acceleration in inflation may limit additional cuts and will weigh on real wages. Poland has announced a large fiscal support package amounting to about 9 percent of GDP; although full details are sparse at the time of publication, the package will provide support to help counter domestic and international headwinds from the coronavirus outbreak by extending credit to firms and partial wage compensation for workers. In Croatia, which is likely to be one of the economies in the region most affected by the coronavirus pandemic, due to its heavy reliance on tourism, the economy will also be negatively impacted by the earthquake in late March—the largest to hit its capital in 140 years.

As a result of the coronavirus pandemic, the model scenarios suggest that subregional growth could shrink in 2020, to −2.5 to −1.0 percent, before improving in 2021, to 5.5 to 5.9 percent. Fiscal support and the subsequent boost from private consumption will fade in some of the largest economies, with limited fiscal space available for fully offsetting potential adverse spillovers from the euro area. Shrinking working-age populations, reflecting aging and emigration to Western Europe in recent years, limit growth prospects. Progress on structural reforms is key to support private investment growth over the medium term. Growth in the subregion is highly dependent on the continued absorption of EU structural funds, with the current cycle expected to end in 2020.

The Western Balkans

In the Western Balkans, a deceleration of public investment (Kosovo, Montenegro), manufacturing (Serbia, Montenegro), and export growth (Albania) contributed to a moderation of growth to an estimated 3.6 percent in 2019. Temporary factors related to weather and energy production dampened activity in Albania, while strong import demand for public investment projects led to a negative contribution of net exports in North Macedonia.

The impact of the containment measures to address the coronavirus is affecting the Western Balkans' outlook through dampened domestic demand, as well as disruptions in regional value chains (Serbia, North Macedonia) and lower tourism activity (Montenegro, Albania). Overall, model scenarios suggest that growth could fall to −3.8 to −1.1 percent in 2020—the first contraction since the euro area debt crisis in 2012. Growth in 2021 is projected to rebound to 4.4 to 4.5 percent in the Western Balkans, assuming political instability, policy uncertainty, and the coronavirus outbreak all remain contained. Rising fiscal liabilities in the subregion in the past few years, in some cases due to large public sector wage increases, social transfers, or higher-than-expected costs for infrastructure projects, have reduced space for countercyclical fiscal stimulus and weakened the business climate (Kosovo, Montenegro, North Macedonia). Additionally, the recent earthquake in Albania took a heavy toll on human life and physical infrastructure; the budget will be further stretched to counter the damaging economic effects of the coronavirus outbreak, with a recently announced support package that includes an increase in unemployment benefits and transfers. The outlook for the subregion remains challenging, as falling business confidence and heightened uncertainty coincide with a worsening external environment and the coronavirus pandemic.

The South Caucasus

Firming growth in the South Caucasus, to an estimated 3.6 percent in 2019, was supported by private consumption, and on the supply side by strong manufacturing growth and a recovery in mining production in Armenia. Expanding natural gas production and steady growth in non-energy sectors supported Azerbaijan's economy in 2019. In Georgia, growth strengthened despite the imposition of travel restrictions by Russia, as labor markets improved, credit growth remained robust, and the number of tourists from other countries increased.

The model scenarios suggest that growth in the South Caucasus could fall to −0.9 to 0.1 percent this year, as the subregion faces growth headwinds from the coronavirus outbreak and, subsequently, low commodity prices. Activity is projected to pick up to 2.2 to 3.4 percent in 2021, as the impacts of the shocks dissipate and tourism recovers alongside improving consumer and business confidence in Armenia and Georgia. Activity is expected to recover in Azerbaijan as oil prices modestly improve but at low levels; dampened commodity prices, along with lingering structural rigidities, will mute the overall recovery. Longer-term growth depends on continuation of domestic reforms to enhance private sector development and address fragilities emanating from the financial sector, as well as investment in human capital to boost the quality of education and reduce skills mismatches.

Eastern Europe and Central Asia

In Eastern Europe, industrial production growth softened, reflecting marked weakness in manufacturing amid slowing export growth, particularly in Belarus. In Ukraine, economic growth stabilized at 3.2 percent in 2019, driven by strong consumption growth, wages, and remittances, but investment growth and the manufacturing sector showed weakness. In Moldova, growth lost momentum toward the end of the year, falling to 3.6 percent overall in 2019, despite support from private investment and consumption. In Central Asia, the cyclical expansion strengthened, with robust growth at 5.0 percent in 2019. In Kazakhstan, the largest sub-regional economy, slowing exports from lower oil prices were offset by fiscal support.

Over the forecast horizon, the scenarios suggest that growth in 2020 could decline sharply to between −7.1 and −3.6 percent in Eastern Europe and −1.3 to 0.1 percent in Central Asia, and improve in 2021 as the impact of the coronavirus fades. However, growth in both subregions is subject to considerable policy uncertainty, as well as uncertainty relating to domestic outbreaks of the coronavirus. These subregions face a challenging external environment, as growth remains weak in key trading partners and critical sources for remittance flows, including the euro area and Russia (for Eastern Europe) and China (for Central Asia).

The growth outlook for Ukraine in 2020 remains highly uncertain and will depend on the duration of the health crisis, progress on major pending reforms, and the ability to mobilize adequate financing to meet major repayment needs. In Moldova, growth is expected to contract in 2020, assuming sharp disruptions to activity as recently announced containment measures take effect—quick improvements in consumer and business confidence are assumed to follow in the second half of the year. In Central Asia, growth will likely face negative spillovers from the euro area and China through trade, commodity, and remittance channels amid the coronavirus pandemic. Activity in Kazakhstan will likely be dampened by the waning effect of earlier fiscal stimulus, slowing growth in key trading partners (Russia, China), and low productivity.

Risks to the Regional Outlook

The regional outlook remains subject to significant downside risks. Intensification of the spread of the coronavirus across the economies in Europe and Central Asia would worsen the outlook, while containment measures could weigh on private consumption and investment more than expected. The coronavirus pandemic also poses risks to growth in the region through international spillovers, as the outbreak is accompanied by a sharp growth slowdown in the euro area and China, which could further propagate to Europe and Central Asia through trade and commodity price channels, as well as through disruptions to supply chains and tourist activity. Energy and metals exporters in the region are increasingly reliant on China as an export destination. An unexpected tightening of global financing conditions could generate financial market pressures in the region, renewing capital outflows and currency volatility, particularly in economies with large external financing needs. Other risks include slowing growth in other major trading partners, geopolitical turbulence, and heightened policy uncertainty. Renewed involvement in conflicts in the Syrian Arab Republic, Libya, or Ukraine could trigger additional sanctions against large economies in the region. The region's energy exporters—Azerbaijan, Kazakhstan, and Russia—remain vulnerable to large swings in global commodity prices, particularly when accompanied by heightened volatility (van Eyden et al. 2019).

An even sharper-than-expected slowdown in the euro area, Europe and Central Asia's most important external trading partner, could generate negative spillovers in economies with tightly linked trade, financial, and remittance ties (figure 1.3, panel c). Although policy uncertainty surrounding the United Kingdom's exit from the European Union has dissipated somewhat, the process remains vulnerable to disruption until the end of the transition period, currently scheduled for the end of the year (Bank of England 2018; H.M. Government 2018). For Central European economies, the potential redirection of EU structural funds to Southern European member states after 2020 could hinder growth. In several countries, structural fund payments represented 5 percent or more of GDP over the last program period, 2014–20. Historically, when the remaining EU funds left to absorb were low, activity also decelerated substantially, as was the case in Poland in 2016. In Central Asia and Eastern Europe, slowing activity in the European Union and Russia could impact remittance inflows, which account for a nonnegligible proportion of income (Kyrgyz Republic, Moldova, Tajikistan, Ukraine); the slowdown in the euro area will similarly impact the Western Balkans.

In some Central European economies, particularly Romania, the policy space to confront negative shocks is limited by persistent budget deficits driven by increasing public sector wages, rising government transfers, and low tax capacity. Across Europe and Central Asia, public sector debt relative to GDP is higher than it was prior to the global financial crisis, with the largest increases observed in Eastern Europe and the South Caucasus (figure 1.3, panel d). This makes it particularly challenging to address the economic costs associated with the pandemic.

Long-Term Challenges and Policies

While confronting the near-term impact of the coronavirus pandemic is the primary focus of policy efforts, the economies in Europe and Central Asia will eventually need to return to targeted structural reforms that are essential to improve long-term productivity and generate long-term growth. Specifically, reforms are needed to strengthen governance, reassess the role of the state in the economy, improve the business climate, and promote the appropriate diversification of commodity-dependent economies. Weak external demand highlights the importance of policies that expand domestic sources of productivity and long-term output growth, such as investment in human and physical capital. Mitigating the risks associated with climate change and other disasters, such as pandemics, highlights the need for emergency preparedness.

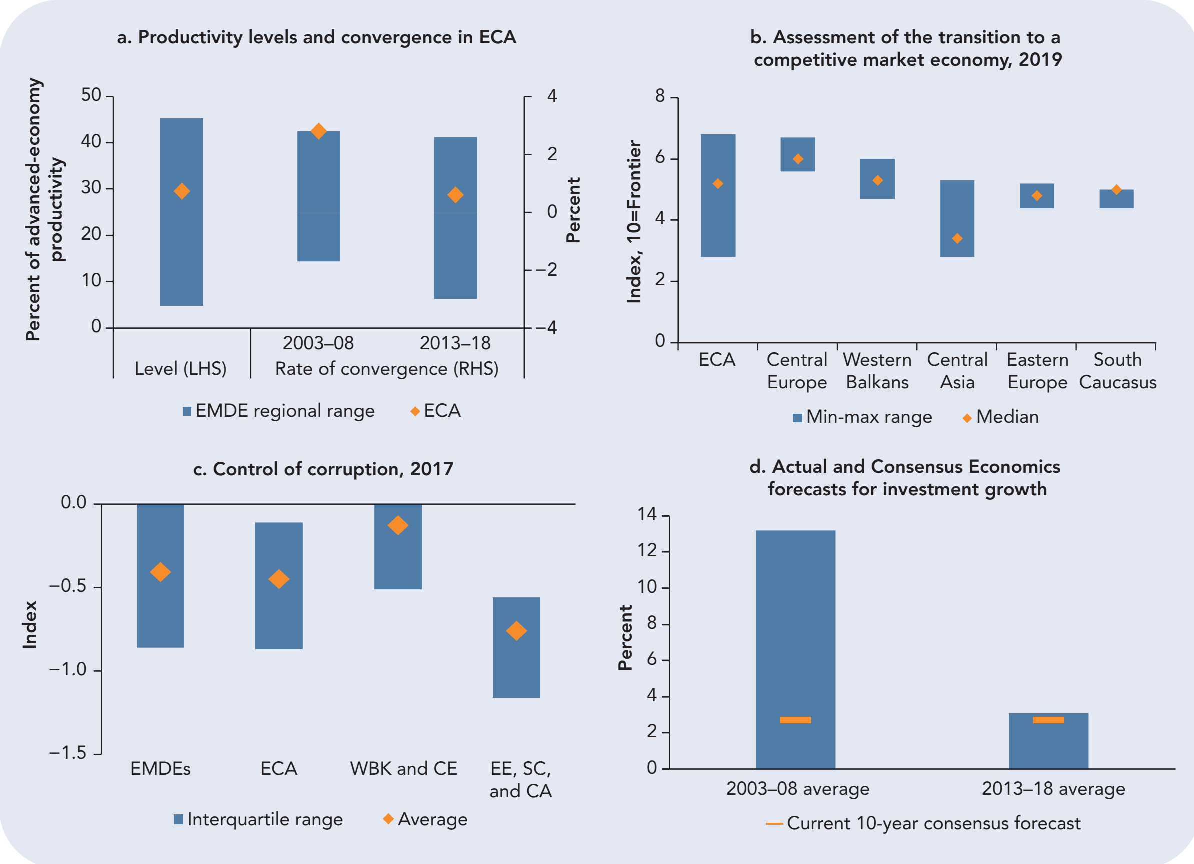
Enhancing the Environment for Growth: Strengthening Governance and Fostering Competitive Markets

Strengthening governance. Across EMDEs, institutional quality is one of the most important determinants of lasting output growth. Many economies in Europe and Central Asia have severe institutional weaknesses that continue to erode incentives for innovation and investment. Addressing these weaknesses requires reforms to improve governance and the business climate. Two waves of structural reforms spurred pre-crisis productivity growth in the region and accelerated convergence with the euro area (World Bank 2020a; Rovo 2019). In the first wave, in the 1990s, the region transitioned toward a market system from centrally planned economies (Georgiev, Nagy-Mohacsi, and Plekhanov 2017). The second wave of reforms, in the early 2000s, was associated with the EU accession process by countries in Central Europe and the Western Balkans (figure 1.4, panel a) (Rovo 2019; Bruszt and Campos 2016; Rodríguez-Pose and Ketterer 2019). After shifting toward a market system, growth was stronger in the region's economies with higher levels of government accountability (Djankov and Jolevski 2020).

Overall, however, the region has faced limited progress in tackling governance challenges, particularly with respect to state capture or more broadly the control of corruption (World Bank 2019a,b; Kaufmann, Kraay, and Mastruzzi 2010). The detrimental effects of corruption on firm productivity can also be exacerbated by excess or complex regulations (Amin and Ulku 2019). Anti-corruption campaigns, as well as reductions in the number of regulations and tax complexity, have helped some economies tackle corruption (IMF 2019b).

Fostering competitive markets. Lack of exposure to international competition—including from non-tariff barriers and complex trade rules—as well as restrictive product market and services regulation, remain structural bottlenecks in the region, hindering the ability to attract foreign direct investment and private investment in economies such as Kazakhstan, Russia, and Ukraine (figure 1.4, panel b) (World Bank 2016b; Shepotylo and Vakhitov 2015; World Bank 2019c). In particular, business climates in Eastern Europe and Central Asia lag the average for the region, with Central Asia trailing the EMDE average in access to electricity and ease of trading across borders (World Bank 2019a,b). Low innovation rates—which partly stem from weak competitiveness, inadequate control of corruption,

FIGURE 1.4 Long-term economic challenges facing Europe and Central Asia



Sources: Consensus Economics; Penn World Table; The Conference Board; World Development Indicators, World Bank.
Note: In panel a, aggregate regional growth rates are calculated using GDP weights at 2010 prices and market exchange rates. Unless otherwise specified, productivity refers to labor productivity, defined as output per worker. The sample includes 127 EMDEs, of which 21 are ECA economies. The sample of advanced economies includes 35 advanced economies. Blue bars denote the range across six (GDP-weighted) averages for EMDE regions. The rate of convergence is calculated as the difference in productivity growth rates with the average advanced economy divided by the log difference in productivity levels with the average advanced economy. The regional rate of convergence is the GDP-weighted average of EMDE economies in each region. The "level" of productivity refers to the GDP-weighted average of regional productivity as a share of the average advanced economy during 2013–18. In panel b, the learning gap is the difference between expected years of schooling and learning-adjusted years of schooling, as in Kraay (2018). In panel c, the indicator reflects perceptions of the extent to which public power is exercised for private gain, including petty and grand forms of corruption, as well as "capture" of the state by elites and private interests, as measured by the World Governance Indicators. The sample includes 22 ECA economies and 149 EMDEs. In panel d, actual aggregate growth is calculated using GDP weights at 2010 prices and market exchange rates. The Consensus Economics aggregate forecasts are calculated as a simple average of surveys for the periods indicated based on data availability. CA = Central Asia; CE = Consensus Economics; ECA = Europe and Central Asia; EE = Eastern Europe; EMDEs = emerging markets and developing economies; GDP = gross domestic product; SC = South Caucasus; WBK = World Bank.

and a high presence of state-owned enterprises—also continue to dampen the business environment and hinder investment in the region, particularly in the absence of progress with other reforms (figure 1.4, panel c) (EBRD 2018, 2019).

In Eastern Europe, Central Asia, the Western Balkans, and to some extent Russia, the state's presence in the economy remains large, with state ownership accounting for more than 10 percent of the firms surveyed in some cases, which makes Europe and Central Asia rank second overall among EMDE regions, after Sub-Saharan Africa (World Bank 2019b,d). In Ukraine, firms with at least partial state presence or ownership account for roughly 20 percent of total turnover by firms and over 25 percent of firms' assets (Balabushko et al. 2018). State-owned enterprises also have a large presence in Moldova, accounting for one-third of GDP (World Bank 2019c,e; World Bank 2019f.) In economies with a large state presence, ensuring the competitive neutrality of state-owned enterprises can help minimize market distortions (World Bank 2020b). Restructuring or privatizing state-owned enterprises therefore still presents an opportunity to raise economywide productivity in several countries across the region, especially if it is accompanied by effective regulation and improvements in management, corporate governance, and the business environment (Brown, Earle, and Telegdy 2006; EBRD 2019; Funke, Isakova, and Ivanyna 2017). Additionally, there are several economies, including in Eastern Europe, where price controls remain in place for some goods, constraining competition and lowering productivity.

Laying the Foundation for Longer-Term Productivity Gains: Investing in Human and Physical Capital

Investing in human capital. Human capital is fundamental for economic development, since individuals are more productive if they are healthy and well-educated. In 2018, the World Bank launched the Human Capital Index (HCI), which measures the amount of human capital that a child born today can expect to have by age 18, in view of the risks of poor education and poor health that prevail in the country. Countries in the region provide their people with relatively good services in basic education and health; the region's citizens begin their life in a much better position than their peers in other regions of the world. Given globalization trends and technological change, however, job markets now demand higher levels of human capital than in the past. Basic education will not be enough: as higher cognitive skills become more sought after, higher education institutions must prepare students for the current and future job market challenges. The coronavirus pandemic has also had a significant impact on schooling at all levels, with much of the region having closed or partly closed their education systems to help contain the spread of the virus. Although a short time away from school is relatively easy to recover, longer absences stand to have deeper negative impacts on learning and could dampen long-term economic gains and human capital development.

On the health front, the pandemic has laid bare the need to detect rapidly and respond to public health emergencies. Aging populations in the region and the greater vulnerability of the elderly to many infectious diseases make this an even greater priority. Addressing and minimizing the health risks of high rates of obesity, smoking, and heavy drinking in the region are also important, not only for limiting the impact of noncommunicable diseases, but also for minimizing the loss of lives associated with major outbreaks of infectious diseases. Moreover, just surviving is not enough. People need to remain healthy and active, to continue learning and skill acquisition throughout their lives, not just in the initial years. Ongoing research extends the HCI in the education and health dimensions to make it more relevant for countries in the region.

Investing in physical capital. Investment growth has fallen sharply in the region in the post-crisis period, reflecting a commodity price plunge as well as weakening external growth and deteriorating investor sentiment amid conflict, international sanctions, and financial pressures (figure 1.4, panel d). Across the region, reforms to boost private sector development, transition to competitive and inclusive markets, and support regional integration are needed to attract private investment and capital flows, particularly to economies outside the European Union that lack access to financing sources such as EU structural funds (EBRD 2018; World Bank 2019b).

Unreliable electricity supply hinders activity in parts of the region: while the percentage of firms experiencing power outages is lower in Europe and Central Asia than in any other EMDE region, the related losses for affected firms in Central Asia may exceed 9 percent of annual sales (Blimpo and Cosgrove-Davies 2019; IMF 2019a). In manufacturing firms in Uzbekistan, for instance, smaller firms report more interruptions of electricity, gas, and water supply than larger firms, as well as a lack of land or high lease rates on land as impediments to expanding output production (Trushin 2018).

Mitigating Climate Change Risks and Other Disasters: Hoping for the Best, but Being Prepared for the Worst

Coping with climate change. Mitigating the risks posed by climate change—including higher frequency of severe storms, rising sea levels, and lower crop yields—is critical to foster sustainable and equitable growth in Europe and Central Asia, especially given the region's large presence of agricultural exporters and numerous coastal populations (World Bank 2019b). The region is also increasingly exposed to intensifying weather patterns, with some areas geographically prone to severe flooding (Western Balkans) or droughts (Central Asia).

Several countries in the region have introduced measures aimed at tempering the risks associated with climate change, including improved capacity for weather monitoring and investment in agricultural technology. Early flood warning systems have saved lives and protected infrastructure across the region (Armenia, Bosnia and Herzegovina, Georgia, Moldova, and Uzbekistan), but sizable gaps in meteorological and technical capacity remain, particularly in areas at higher altitudes. Strengthening early warning services by improving regional coordination and monitoring could also increase emergency preparedness and reduce the impact of severe weather (Kull and Staudinger 2018). In arid Central Asia, technologies that improve the efficiency of water and land usage in agricultural production have helped improve crop yields and ensure food security.

Bracing for disasters—improving policy response and preparedness. In Europe and Central Asia, roughly 500 significant floods and earthquakes are estimated to have occurred over the past 30 years, resulting in 50,000 fatalities and affecting 25 million people (World Bank 2017). Nearly one-third of the capital cities in the region have been devastated by an earthquake or flood at some point in time. More recently, the earthquakes in Albania in late 2019 are a somber reminder of the toll natural disasters take on human life, with roughly 3,000 injured and more than 50 causalities reported. Meanwhile, the coronavirus outbreak that began earlier this year will test the region's emergency preparedness and put further strain on government finances and health care systems.

In many of the region's EMDEs, years of weak growth and persistent fiscal deficits have limited the fiscal space available to confront hazardous events. Natural disasters can weigh on public balance sheets and generate substantial fiscal costs, particularly in economies where private insurance markets are less developed (OECD and World Bank 2019; Bova et al. 2016). In fiscally constrained economies, domestic resources can be mobilized to ensure adequate funding for emergency management, which may include public investment to enhance health care capacity or address aging physical and technological infrastructure. The latter is especially crucial for improving severe weather monitoring and forecasting, as well as the dissemination of information during an emergency such as the latest health pandemic (UNDP 2018).

Conclusions

In February 2020, the coronavirus outbreak began wreaking havoc on the world economy and interrupted the incipient recovery that was underway in the Europe and Central Asia region earlier in the year. The impact of the coronavirus pandemic on growth in the region will depend on how the outbreak evolves. Although the magnitude of the impact is uncertain, the pandemic has already derailed the near-term outlook by interrupting daily activity, putting further downward pressure on commodity prices, disrupting tightly linked global and regional supply chains, reducing travel and tourism, and decreasing export demand.

Lessons from previous infectious disease outbreaks, as well as the experiences of the countries that were hit early by COVID-19, clearly show that severe containment measures, such as social distancing requirements, shutdowns of nonessential businesses and entertainment, and school closures, are important measures in saving lives by "flattening the curve" of infections and preventing health care systems from being overwhelmed. Policy makers face difficult trade-offs between the health benefits of these policies and their economic costs, however, since the more successful the containment policies are, and the flatter the infection curve is, the deeper the economic recession becomes.

During these difficult times, first, it is important for policy makers to act decisively in favor of saving lives, since the most fundamental function of a government is to keep its population safe. The challenge is to minimize the economic cost of this pandemic and ensure that the most vulnerable are protected and the recovery, once it begins, is quick rather than prolonged. Under these circumstances, the case for fiscal stimulus is overwhelming. Unfortunately, many countries in Europe and Central Asia already have rising debt levels and are ill-prepared to address this crisis. Buffers will have to be used, and spending will need to be carefully reprioritized to the most urgent needs.

The immediate policy priorities are bolstering health care systems to save lives, strengthening safety nets to provide relief to households, and providing support to the private sector to cushion the downturn and preserve jobs. To the extent fiscal space is available, broad-based fiscal stimulus can also help lift aggregate demand, but it will probably be more effective after the immediate crisis has passed and business operations begin to normalize.

Monetary policy can also play an important role. Central banks should be ready to provide ample liquidity to banks and nonbank financial institutions, particularly to small and medium-size enterprises, which are prone to suffer more from the sharp disruption. Broader monetary stimulus, such as policy rate cuts or asset purchases, can lift confidence and support financial markets to offset the risk of a sizable tightening in financial conditions, given the volatility in markets. International coordination in monetary easing could further alleviate the volatility. As in the case of fiscal support, the availability of buffers and monetary space varies across countries in the region.

On a more positive note, there may even be long-term benefits from the lifestyle changes brought on by the coronavirus pandemic. As firms require their workers to telecommute relying on computing and video technology, educators at nearly every level scramble to replace classroom instruction with online alternatives, and consumer shopping and banking turn to digital platforms, these are bound to generate innovation and productivity increases that remain long after the crisis has passed.

For now, though, these are challenging times for policy makers in the region. Fighting the pandemic will require fast and decisive policy action to save lives now, as well as preserve jobs and livelihoods over the next years.

Data Annex and Forecast Conventions

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

Data

The data used to prepare the country forecasts come from a variety of sources. National income accounts, balance of payments, and fiscal data are from Haver Analytics; the World Bank's World Development Indicators; and the International Monetary Fund's (IMF's) World Economic Outlook, Balance of Payments Statistics, and International Financial Statistics. Population data and forecasts are from the United Nations' World Population Prospects. Country and lending group classifications are from the World Bank. In-house databases include commodity prices, data on previous forecast vintages, and country classifications. Other internal databases include high-frequency indicators—such as industrial production, consumer price indexes, housing prices, exchange rates, exports, imports, and stock market indexes—based on data from Bloomberg, Haver Analytics, the Organisation for Economic Co-operation and Development's analytical housing price indicators, the IMF's Balance of Payments Statistics, and the IMF's International Financial Statistics.

Aggregations

Aggregate growth for the world and all subgroups of countries (such as regions and income groups) is calculated as the GDP-weighted average (at 2010 prices) of country-specific growth rates. Income groups are defined as in the World Bank's classification of country groups.

Forecast Process

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

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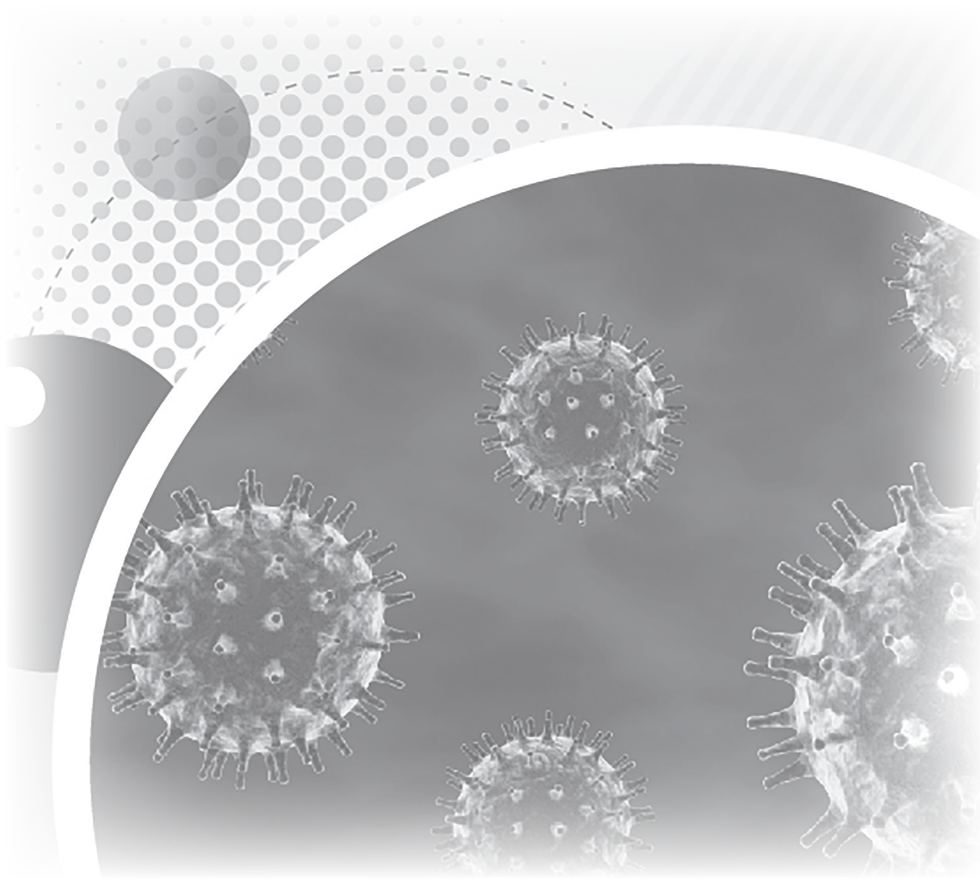
PART II

Selected Country Pages



The global outlook is very uncertain. This outlook reflects information available at the time of its preparation. The data and analysis presented are as of March 23, 2020. As more information becomes available, these projections will be revised. They are presented now to assist policymakers to design alternative policy responses.

ALBANIA

Table 1	2019
Population, million	2.9
GDP, current US$ billion	15.3
GDP per capita, current US$	5325
International poverty rate ($1.9)[a]	1.7
Lower middle-income poverty rate ($3.2)[a]	10.4
Upper middle-income poverty rate ($5.5)[a]	38.0
Gini index[a]	33.2
School enrollment, primary (% gross)[b]	107.0
Life expectancy at birth, years[b]	78.3

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

Growth is estimated to have slowed to 2.2 percent in 2019, as lower rainfall slashed energy production and an earthquake hit Albania in November. Poverty is expected to have increased in the affected areas but slightly fallen nationwide. Contained spending helped debt reduction. In 2020, the COVID-19 pandemic is expected to reduce growth, though reconstruction would partially compensate. Uncertainty is high due to the unknown duration of the pandemic, financial market risk aversion and global oil and commodity prices.

Recent developments

Albania was hit by a devastating earthquake on November 26th. The earthquake of a 6.3 magnitude on the Richter scale, directly affected about 7 percent of the population, causing damages to physical assets and losses equivalent to an estimated 7.5 percent of GDP. Damages amount to 26.4 percent of gross fixed capital formation, making it unlikely to achieve full reconstruction in a short to medium timeframe. Tourism and housing were hit the hardest, although damages were also inflicted on education, health, public infrastructure, manufacturing and trade. Operations by the Albanian government and international partners helped mitigate the adverse human and economic impact of this natural disaster.

Growth decelerated to an estimated 2.2 percent in 2019, from 4.1 percent in 2018. A severe drought during the first half of 2019 slashed energy production, reducing growth by over 0.5 percentage points (pp). Summer time, tourism boosted growth of services; as tourism supporting activities also rose.

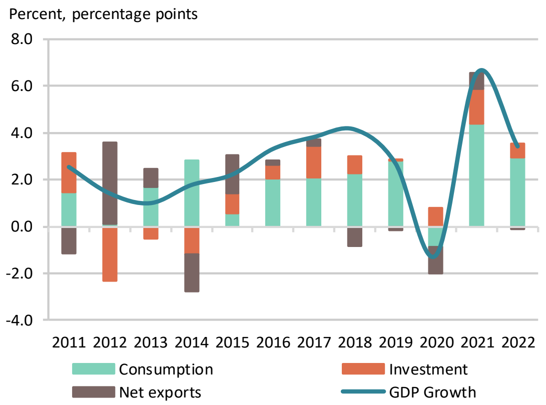
Consumption growth supported by higher employment and wages contributed an estimated 2.8 pp to growth. Conversely, net exports subtracted 0.1 pp and investment added only 0.1 pp to growth, since lower-than-expected revenues curtailed public investment and two large, FDI-financed energy projects are winding down.

Despite lower growth, labor market outcomes slightly improved. Employment increased by 3.3 percent y-o-y in Q3 of 2019, driven by services and industry, while unemployment fell to a record low of 11.4 percent. Real wages increased on average by 2.3 percent, mostly in services (trade and transport, and tourism). However, poverty remains high, with an estimated 35.6 percent of Albanians living under $5.5 per capita per day (2011 PPP) in 2019. Monetary poverty and material deprivation increased following the earthquake in the 7 most affected municipalities.

Low foreign inflation and currency appreciation kept inflation down. Average inflation declined in 2019 to 1.4 percent, from 2 percent in 2018. A slow rise in wages and domestic production costs, low inflation in Albania's trading partners, and exchange rate appreciation of 1.6 percent contributed to low inflation. The Central Bank kept its policy rate unchanged at 1 percent. Continued monetary policy stimulus, and NPL reduction (8.4 percent in December) fostered faster credit growth.

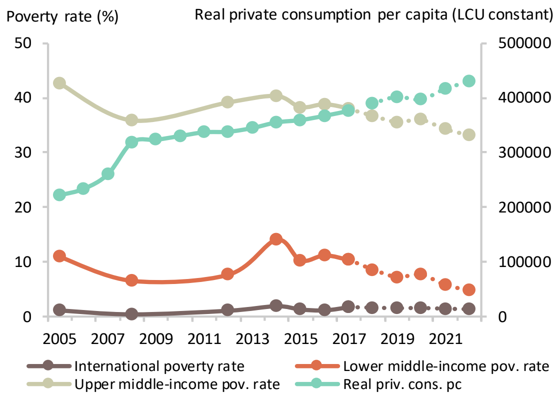
While public debt is reducing, contingent liabilities are preventing fiscal consolidation as adverse effects materialize. Public debt including guarantees and arrears to private sector declined to 67.1 percent in 2019, however the need to subsidize the energy SoEs and the emergency operations related to the earthquake required a significant downward adjustment on government capital spending. Revenues declined from 27.6 percent of GDP in 2018 to 27.1 percent in 2019, due to higher refunds on VAT arrears and several fiscal incentives applied to agriculture, tourism

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



Sources: Instat and World Bank.

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



Sources: World Bank.
Notes: see Table 2.

and pharmaceuticals. On the other hand, PIT increased and balanced some of the decline in other revenues, in line with wage increases and measures to reduce informality. S&P confirmed its rating of B+ in February 2020.

Lower energy production and weak external demand triggered a widening of the current account. The current account deficit (CAD) is expected to have widened from 6.7 percent of GDP in 2018 to 7.5 percent in 2019. Despite the record high tourism inflows in 2019, low commodity and energy exports – as well as high energy imports - drove the widening of the current account in 2019. Foreign direct investment (FDI) inflows into Albania is expected to remain unchanged (at around 8 percent of GDP) as the investment phase for large projects in energy and gas transmission ends. Since 2016 foreign exchange reserves have held steady at over six months of goods and services import coverage.

Outlook

Albania is expected to lose 1.4 percent of GDP in 2020, as the effects of travel restrictions and temporary measures to contain COVID-19 propagation severely hit manufacturing, trade, tourism and other non-tradable services. Reconstruction and a return of electricity production to normal levels should partially compensate the decline in other activities. Tourism and travel are likely to face both a demand shock from the pandemic across the EU as well as a supply shock, as labor supply declines due to social distancing and government-imposed measures. Should the pandemic be controlled by end of Q2, reconstruction, a rebound of activity in the EU, and tourism are likely to boost growth starting from Q4 2020 through the medium-term. Public debt is expected to increase in 2020 as the deficit increases to 3.9 percent of GDP to counteract the loss in income due to the pandemic and support post-earthquake reconstruction. In this scenario, poverty is projected to increase slightly by about 0.4 pp and decrease in 2021, but the outcome depends on the duration of the economic measures and the repercussions on employment and earnings.

Risks and challenges

Should COVID-19 last through Q2 2020 or return in 2021, negative effects on demand are expected to be much larger and persist. A downside scenario assuming sharper but still single year COVID-19 effects, and sharper and more durable decline in oil prices would subtract an additional 0.5 pp in GDP growth in 2020, while further increasing public debt to GDP, and/or forcing the government to delay reconstruction spending. Albania is vulnerable to spiking risk premia in response to investors flight to quality behavior and might find it difficult to get external financing. While ample liquidity in the domestic banking system might mitigate immediate financing risks, larger domestic financing crowds out private sector investments.

Weaker global demand reflected in lower commodity prices and a continuous decline in oil prices would also hit the country's extractive industry, with important fiscal and economic repercussions.

Albania is highly vulnerable to a slowdown in Europe. A prolonged EU recession in the event the pandemic persists until 2021 would affect Albanian exports, remittances, and FDI negatively. The domestic demand would remain suppressed if the pandemic persists. A larger and persistent drop in tourism in the aftermath of the earthquake could also affect growth negatively. A slower-than-expected pace of reforms would also affect economic and social prospects. Implementation delays in the reconstruction program could fuel domestic uncertainty and further contract consumption.

TABLE 2 Albania / Macro poverty outlook baseline scenario (annual percent change unless indicated otherwise)

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	3.8	4.3	2.2	-1.4	6.6	3.5
Private Consumption	2.3	3.5	3.3	-1.4	5.0	3.3
Government Consumption	2.9	-1.1	3.8	-0.1	6.4	5.0
Gross Fixed Capital Investment	5.5	2.9	-4.1	3.9	5.7	2.3
Exports, Goods and Services	13.0	2.9	6.1	-17.0	9.2	5.5
Imports, Goods and Services	8.1	3.8	2.7	-9.5	4.3	4.0
Real GDP growth, at constant factor prices	3.9	4.6	1.9	-1.3	6.5	3.5
Agriculture	0.8	0.9	1.1	1.2	1.5	1.5
Industry	1.9	9.1	-0.4	0.0	6.9	5.0
Services	6.1	3.9	3.2	-2.8	8.1	3.5
Inflation (Consumer Price Index)	2.0	2.1	1.4	2.0	2.5	2.8
Current Account Balance (% of GDP)	-7.5	-6.7	-7.6	-8.2	-7.1	-6.5
Net Foreign Direct Investment (% of GDP)	8.6	8.0	7.6	7.8	7.4	7.3
Fiscal Balance (% of GDP)	-2.0	-1.8	-1.9	-3.9	-2.4	-2.2
Debt (% of GDP)	71.9	69.6	68.0	71.5	67.8	66.0
Primary Balance (% of GDP)	0.0	0.4	0.2	-1.8	-0.1	0.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.7	1.6	1.5	1.6	1.4	1.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	10.4	8.6	7.2	7.6	5.7	4.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	38.0	36.7	35.6	36.0	34.2	33.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2014-HBS and 2017-HBS. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.
(b) Projection using annualized elasticity (2014-2017) with pass-through = 1based on private consumption per capita in constant LCU.

MPO / Apr 20

The global outlook is very uncertain. This outlook reflects information available at the time of its preparation. The data and analysis presented are as of March 23, 2020. As more information becomes available, these projections will be revised. They are presented now to assist policymakers to design alternative policy responses.

ARMENIA

Table 1	2019
Population, million	2.9
GDP, current US$ billion	13.6
GDP per capita, current US$	4643
International poverty rate ($1.9)[a]	2.1
Lower middle-income poverty rate ($3.2)[a]	13.0
Upper middle-income poverty rate ($5.5)[a]	50.4
Gini index[a]	34.4
School enrollment, primary (% gross)[b]	94.1
Life expectancy at birth, years[b]	74.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) Most recent WDI value (2017).

Armenia's economy performed strongly in 2019. However, the COVID-19 pandemic and declining commodity prices lowered the 2020 GDP growth projection sharply (to 1.7 percent), provided a recovery starts in mid-summer. A prolonged outbreak scenario, which is increasingly likely, would result in stagnant growth or contraction. A dollarized economy and narrow export base add to the challenges of managing the shock. A recovery is expected beyond 2020 as the shock dissipates. Weak growth could slow or reverse gains in poverty reduction.

Recent developments

Armenia's economy expanded strongly in 2019, with real GDP growth reaching 7.6 percent, the third consecutive year of robust expansion. Growth was driven by private consumption, with investment making a modest contribution. Exports grew by 10 percent year on year but were offset by an acceleration in import spending to meet growing domestic demand. On the supply side, services accounted for about 70 percent of total growth, while manufacturing generated about 18 percent of growth. The construction sector expanded at 4.2 percent in 2019, its fastest pace in the last decade. The agriculture sector continued to contract, though at a slower pace.

Average annual inflation was 1.4 percent in 2019 (down from 2.5 percent in 2018), mostly due to higher food and beverage prices. The low inflation environment continued in early 2020, with prices declining by 0.5 percent year on year in February. In response, the central bank lowered its key policy rate twice in 2019 and again in March 2020 by a cumulative 75 basis points to 5.25 percent.

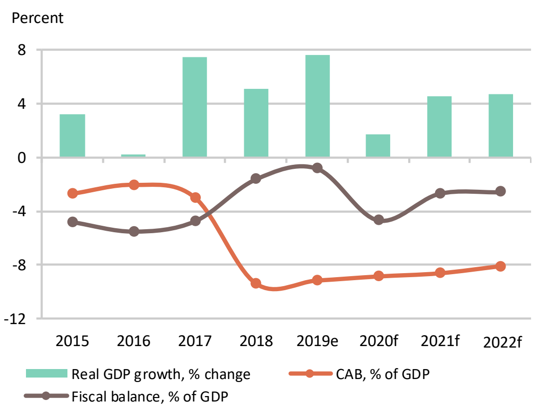
The fiscal accounts registered a deficit of 0.8 percent of GDP in 2019, significantly lower than the deficit target of 2.3 percent of GDP. Significant overperformance on tax collection pushed the tax-to-GDP ratio to 23 percent, 1.5 percentage points higher than in 2018. In addition, overdue liabilities to businesses totaling 0.7 percent of GDP were refunded. On the expenditure side, current spending was executed as planned, while around 85 percent of budgeted capital spending was implemented, an improvement from earlier years. Government debt fell to 50 percent of GDP at end-2019, one year earlier than envisaged in the government's medium-term plan. Public debt (including central bank debt) fell to 53.6 percent of GDP.

The current account deficit narrowed marginally in 2019. Growing exports were offset by strong imports of vehicles and flat growth in remittance inflows. Tourism receipts improved as the number of international tourist arrivals increased by 14.7 percent year on year. On the financing side, foreign direct investment inflows remain low, but portfolio inflows and loans were robust. This kept the dram stable and allowed for significant reserve accumulation with reserves reaching $2.7 billion at end-February 2020.

Commercial bank credit and deposits grew by 17 and 21 percent year on year, respectively. With a faster-growing dram-denominated loan portfolio, dollarization declined, but, at 51 percent at end-2019, it remains high. The banking sector is well-capitalized, with manageable nonperforming loans (5.8 percent of gross loans) and low, but rising, profitability.

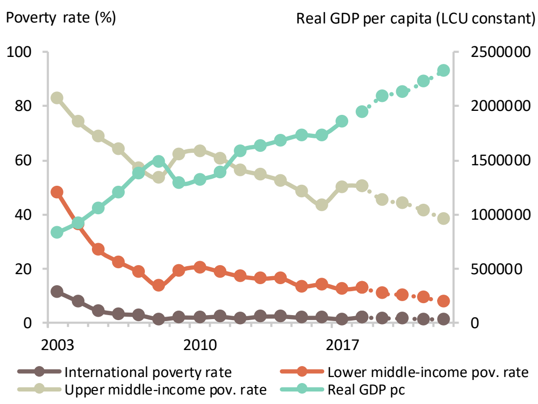
Poverty declined in response to strong economic growth. The national poverty rate declined by 2.2 percentage points in 2018 (to 23.5 percent). With the unemployment rate falling to 18 percent in the third quarter of 2019, poverty is estimated to have declined in 2019. However, challenges remain as some regions lag the rest of the country, and the bottom 40 percent have not shared equally in overall economic growth.

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



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

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



Source: World Bank.
Notes: see table 2

This could also reflect measurement issues, given the growing exports of agricultural goods and limited pressures on agricultural product prices.
Exceptionally high errors and omissions suggest that the current account deficit may be lower than the headline number.

Outlook

The 2020 outlook has been strongly affected by the COVID-19 pandemic and the slump in commodity prices. Under the baseline scenario, which envisaging the start of a gradual recovery in the third quarter of 2020, GDP growth in 2020 is expected to moderate to 1.7 percent, one-quarter of the average growth rate recorded over the past three years due to lower exports private domestic demand. This deceleration is expected to be cushioned by fiscal expansion, both by increased current spending—in health and social spending, in particular—as well as support to businesses and higher public investment. With the slowdown affecting labor-intensive sectors, poverty reduction will be modest, at best. At the same time, a prolonged outbreak scenario would result in stagnant GDP or even an economic contraction. The probability weight on that happening is rising due to worsening health, economic, and financial outcomes across the world. Poverty would increase under this scenario.
Inflation pressures are expected to remain low, reflecting low global commodity prices and moderating demand. However, pressures on the exchange rate could easily push inflation up.
The external deficit will remain wide as external demand scales back and remittance inflows drop sharply due a weaker Russian economy and a depreciated ruble. This could put pressure on the exchange rate. In the first half of March 2020, the dram lost more than 2 percent of its value against the U.S. dollar. Central bank reserves and a precautionary arrangement with the IMF provide some buffers, but policies may need adjustment in case of stronger depreciation pressures.
The budget will provide some fiscal stimulus, with the fiscal deficit forecast to widen to about 4.7 percent of GDP, including a 2.2 percent of GDP fiscal stimulus package as a response to the COVID-19 pandemic. With government debt at near 50 percent of GDP, the escape clause of the fiscal rule may need to be invoked.
GDP growth is forecast to recover over the medium term, to around 4.5 percent in 2021–22, supported by stabilizing external conditions and catch-up of delayed activities. Given historical growth elasticity, the poverty rate is expected to return to a declining path.

Risks and challenges

Armenia's most immediate challenge is to deal with the COVID-19 pandemic. The country will be impacted by the temporary collapse in external demand, both for goods and services. Tourism, a sector that has been expanding robustly in recent years, is especially vulnerable. The decline in prices for copper—one of Armenia's key exports—will further negatively affect the external balance. Remittances, (around 12 percent of GDP in 2018 and mostly from the Russian Federation) are an additional transmission channel. Efforts to contain the spread ("physical distancing" and other preventive measures, including the imposition of a State of Emergency), will dampen demand further. A dollarized economy and undiversified exports add to the challenges of managing the shock. However, a relatively healthy banking sector, a precautionary arrangement with the IMF, as well as some fiscal buffers partly mitigate the risks.
Beyond the COVID-19 pandemic, Armenia needs to advance reforms to improve competitiveness and strengthen resilience to move to a path of sustainable export-led growth.

TABLE 2 Armenia / Macro poverty outlook baseline scenario (annual percent change unless indicated otherwise)

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	7.5	5.2	7.6	1.7	4.5	4.7
Private Consumption	12.4	4.8	12.8	-0.3	4.3	4.6
Government Consumption	-2.1	7.4	1.5	7.4	4.9	3.5
Gross Fixed Capital Investment	9.7	4.5	4.7	1.5	7.3	6.0
Exports, Goods and Services	18.7	2.9	10.3	-1.5	5.1	6.8
Imports, Goods and Services	24.6	12.8	9.1	-2.6	5.4	6.0
Real GDP growth, at constant factor prices	7.3	4.9	7.7	1.7	4.5	4.7
Agriculture	-5.1	-8.5	-4.0	2.5	3.0	3.5
Industry	9.0	4.4	8.6	3.7	4.9	5.3
Services	11.6	9.9	10.7	0.6	4.7	4.7
Inflation (Consumer Price Index)	1.0	2.5	1.4	3.0	3.5	4.0
Current Account Balance (% of GDP)	-3.0	-9.4	-9.2	-8.9	-8.6	-8.1
Net Foreign Direct Investment (% of GDP)	1.9	2.0	2.2	1.8	2.0	2.4
Fiscal Balance (% of GDP)	-4.8	-1.6	-0.8	-4.7	-2.7	-2.6
Debt (% of GDP)	58.9	55.8	53.6	57.2	56.5	55.8
Primary Balance (% of GDP)	-2.6	0.7	1.6	-2.8	-0.8	0.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.4	2.1	1.7	1.6	1.3	1.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	12.3	13.0	10.8	10.3	9.2	7.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	50.0	50.4	45.2	44.1	41.3	38.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2018-ILCS. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

The global outlook is very uncertain. This outlook reflects information available at the time of its preparation. The data and analysis presented are as of March 23, 2020. As more information becomes available, these projections will be revised. They are presented now to assist policymakers to design alternative policy responses.

AZERBAIJAN

Table 1	2019
Population, million	10.0
GDP, current US$ billion	48.0
GDP per capita, current US$	4814
School enrollment, primary (% gross)[a]	99.7
Life expectancy at birth, years[b]	72.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).
(b) Most recent WDI value (2017).

The COVID-19 pandemic and oil price slump have clouded Azerbaijan's economic outlook. With oil prices hovering at around $30/barrel, GDP growth is projected to contract in 2020 and rebound in 2021–22, as the shocks dissipate. However, if oil prices decline further likely and the COVID-19 situation persists, this could result in a more severe economic contraction in 2020 and a slower recovery could result. Policy priorities should include addressing macroeconomic management challenges and financial sector fragilities while protecting the poor.

Recent developments

Azerbaijan's economy grew by 2.2 percent in 2019, its best performance since 2014. On the supply side, the hydrocarbon sector stagnated, as surging natural gas output, up by 27.7 percent year on year (yoy), was offset by a 3.3 percent yoy decline in oil production. At the same time, non-energy GDP grew at a solid 3.5 percent yoy, with agriculture and services driving the expansion. On the demand side, investment remained anemic while rising real incomes, as a result of higher government spending, supported consumption.

Inflation remained low in 2019 and early 2020, with consumer prices edging up 2.8 percent yoy in February 2020. With inflation within the Central Bank of Azerbaijan's (CBA) target range of 4±2 percent, the CBA continued to lower the policy rate throughout 2019 and early 2020, cutting it to 7.25 percentage points.

The surpluses on Azerbaijan's external accounts narrowed in 2019. Flat exports and an acceleration in imports reduced the goods trade surplus to 12 percent of GDP in 2019 (from 17 percent in 2018). Similarly, the current account surplus eased to 12 percent of GDP in the first three quarters of 2019 (latest data available) from 15 percent of GDP a year earlier, while net foreign direct investment remained negative. Nevertheless, by end-2019, CBA reserves reached $6.3 billion, up 11.3 percent yoy, while the assets of the State Oil Fund, SOFAZ, rose by 12.5 percent yoy to $43.3 billion (90 percent of GDP). The CBA maintained the exchange rate at 1.7 AZN/USD.

The fiscal position remained robust in 2019. Improved tax collection— particularly of value added tax, excises, and customs duties—boosted budget revenues. Current spending rose by 17.3 percent yoy, as wages, pensions, and social benefit payments were raised; meanwhile, capital spending rose by 4.7 percent yoy. The state budget deficit was 0.3 percent of GDP. Higher SOFAZ revenues pushed the consolidated budget surplus to almost 9 percent of GDP, from 6 percent in 2018.

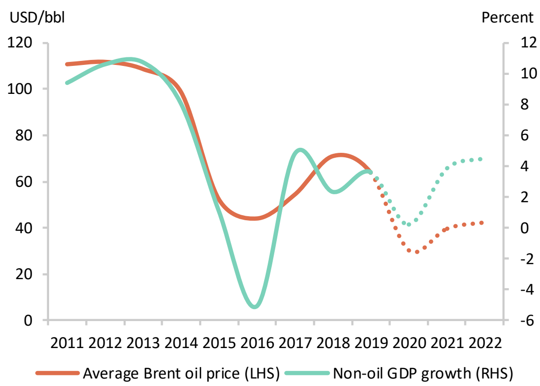
The recovery of credit to the economy picked up by early 2020, particularly retail lending. At the same time, overdue loans fell to 8.4 percent of outstanding loans, mainly due to the household debt restructuring enacted by a Presidential Decree in February 2019. Although local currency deposits increased, dollarization stayed high at 61 percent in early 2020. Despite an improvement in banking sector profitability in 2019, some banks remain vulnerable.

Azerbaijan's official national poverty rate is low, standing at 5.1 percent in 2018. Given the recent increase in private consumption, the poverty rate is estimated to have fallen further in 2019.

Outlook

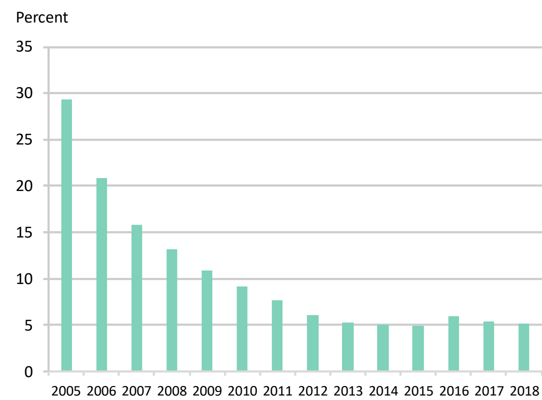
The growth outlook is subdued due to the dual shocks of the COVID-19 pandemic and the oil price slump, and associated uncertainty. Assuming the negative effects are contained in the first half of 2020 and

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



Sources: State Statistical Committee and World Bank staff estimates.

FIGURE 2 Azerbaijan / Official poverty rate



Sources: State Statistical Committee.
Note: The World Bank has not reviewed the official national poverty rates for 2013–18.

followed by stabilization of oil prices, GDP growth is forecast to turn slightly negative in 2020. Non-energy growth will be affected by deteriorating consumer confidence and plummeting receipts from tourism, trade, and hospitality, but partially cushioned by recent government support policies. GDP growth is expected to rebound in 2021–22, as the impact of the shocks dissipates. Under this scenario, poverty reduction is expected to stagnate or possibly rescind, as many households can fall back to poverty in case of deteriorating health of bread-winners, unemployment, food inflation, or lower remittances.

On the demand side, consumption will drive growth, as government spending is increased in 2020, and private consumption starts to recover in 2021–22. Investment will likely fall further in 2020 and remain suppressed in the medium term.

Inflation is forecast to accelerate slightly in 2020, reflecting the lingering effects of the pick-up in demand. Over the medium term, inflation will stabilize at around 3 percent, within the CBA's target range.

The external balance is estimated to turn to a significant deficit in 2020. Assuming the pandemic can be contained in the first half of 2020 and oil prices recover in 2021–22, the external balance will improve. However, it will remain negative in the medium term.

The consolidated government budget is projected to record a deficit in 2020, as oil prices are below the budget break-even price of about $48/barrel. SOFAZ assets will finance the deficit. In the medium term, assuming the fiscal rule holds, the fiscal deficit would narrow gradually.

At the same time, the likelihood of a scenario in which oil prices fall further and remain low over the medium term and in which the pandemic deepens across the world, is increasing. If such a scenario materializes, GDP will contract more sharply in 2020, accompanied by larger imbalances in the external and fiscal accounts. Poverty reduction gains would be reversed under this scenario.

Risks and challenges

The COVID-19 pandemic and a sharp decline in oil prices are the immediate challenges to Azerbaijan's economy. In addition to adverse health effects, these shocks would harm the economy through depressed oil revenues, reduced trade and financial flows, plummeting receipts from the tourism and hospitality sectors, and deteriorating consumer confidence from efforts to contain the spread, such as "social distancing" and other restrictions.

Azerbaijan's existing challenges in macroeconomic management—including a strong dependence on oil revenues, limited exchange rate flexibility, and financial system vulnerability—would need to be addressed as part of a consistent macroeconomic response. Substantial reserve buffers (around 100 percent of GDP) and low public debt provide some room for maneuver. However, these could rapidly erode in the case of intensifying exchange rate pressures or a slow mending of macroeconomic policies. On the fiscal side, low oil prices would require spending adjustments. Nonetheless, maintaining allocations for containing the pandemic as well as supporting affected firms and households, particularly the bottom 40 percent, will be critical. Additionally, concerted steps should be taken to remove existing fragilities in the financial sector. Azerbaijan's policy response should be consistent, coordinated, and well-communicated to the public. After mitigation of the adverse short-term shocks, the focus of policy should shift to a bold, private sector-led diversification strategy.

TABLE 2 Azerbaijan / Macro poverty outlook baseline scenario (annual percent change unless indicated otherwise)

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	0.1	1.5	2.2	-0.2	2.2	2.4
Private Consumption	2.7	3.0	3.8	0.5	3.2	3.3
Government Consumption	1.2	1.5	7.9	6.0	2.1	2.9
Gross Fixed Capital Investment	-2.4	-0.2	-3.1	-8.2	3.6	7.5
Exports, Goods and Services	-0.9	1.0	1.5	0.4	1.2	0.8
Imports, Goods and Services	0.2	1.5	2.2	0.7	1.8	2.1
Real GDP growth, at constant factor prices	-0.1	1.5	2.2	-0.2	2.2	2.4
Agriculture	4.2	4.6	7.3	5.5	5.4	5.4
Industry	-4.0	-0.5	0.8	-1.0	0.7	0.1
Services	7.2	4.6	3.6	0.1	4.1	5.6
Inflation (Consumer Price Index)	12.9	1.9	2.9	3.3	2.9	2.8
Current Account Balance (% of GDP)	7.1	12.9	8.8	-7.0	-4.3	-3.4
Net Foreign Direct Investment (% of GDP)	0.7	-2.0	-1.1	1.4	1.4	1.2
Fiscal Balance (% of GDP)	-1.3	5.9	8.9	-5.7	-3.2	-2.8
Primary Balance (% of GDP)	-0.8	7.1	9.7	-4.8	-1.8	-1.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

The global outlook is very uncertain. This outlook reflects information available at the time of its preparation. The data and analysis presented are as of March 23, 2020. As more information becomes available, these projections will be revised. They are presented now to assist policymakers to design alternative policy responses.

BELARUS

Table 1	2019
Population, million	9.4
GDP, current US$ billion	59.3
GDP per capita, current US$	6310
Lower middle-income poverty rate ($3.2)[a]	0.0
Upper middle-income poverty rate ($5.5)[a]	0.4
Gini index[a]	25.2
School enrollment, primary (% gross)[b]	102.0
Life expectancy at birth, years[b]	74.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011PPPs.
(b) Most recent WDI value (2017).

Weaker exports dragged economic growth lower in 2019, while fiscal stimulus measures prevented a deeper slowdown. The economy is expected to contract in 2020, as a result of the COVID-19 global economic shock and Russia's "tax maneuver", which are compounding long-standing economic vulnerabilities. Belarus needs to ensure an orderly adjustment from fiscal and current account pressures amid depleting policy buffers, growing debt-servicing needs and a volatile global financing environment. Robust safety nets will be essential to preventing poverty from rising.

Recent developments

GDP growth slowed to 1.2 percent in 2019, from 3 percent in 2018, reflecting a broad-based slowdown in manufacturing due to weak Russian demand, and an oil contamination incident in mid-2019 that contributed to a contraction in petrochemicals output and exports. Fiscal stimulus shored up household consumption which rose 4 percent during first three quarters of 2019 (yoy), albeit softer than the 7.4 percent increase in 2018. A dynamic ICT sector contributed 0.5pp to overall growth, about the same as agriculture, industry, construction, and transport sectors combined.

In 2019, in a so-called "tax maneuver" Russia continued to phase out implicit subsidies on its oil exports to Belarus (a key input for Belarussian oil refineries). Furthermore, disagreements with Russia on oil supply terms contributed to a halt in oil deliveries in Q1 2020. With oil imports falling to just 0.5mn tons–1.5 mn tons less than typical monthly imports, industrial output and estimated monthly GDP contracted by 3.3 percent and 0.6 percent yoy, respectively, in January-February 2020.

Real general government expenditures rose 3 percent in the first three quarters of 2019, led by higher public sector wages, subsidies and transfers, and capital expenditures. Revenues fell 0.2 percent in real terms due to slower GDP growth and reduced foreign trade revenue from the shift in Russia's energy tax regime.

The current account moved into a deficit of 1.8 percent of GDP in 2019 from zero in 2018, as the decline in merchandise exports was only partially offset by higher service exports and secondary incomes.

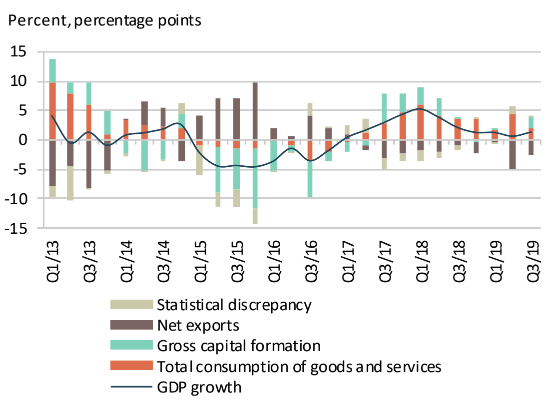
With annualized inflation slowing to 4.7 percent in January 2020 from 4.4 percent in December 2019 and 5.8 percent in January 2019, and broad money growth remaining within the ceiling of 12 percent, the central bank has been reducing its policy rate to reach a historic low of 8.75 percent in February 2020, from 9 percent in November 2019 as compared to 10 percent in mid-2018.

Despite weaker growth, household incomes continued to grow in 2019 on account of higher real wages and pensions, particularly at the bottom of the wage distribution. Real disposable incomes increased 6.3 percent in January-November 2019 yoy. The national poverty rate, having risen during 2014-2017, fell by 0.3 percentage points in 2018, and continued its downward trend in 2019 to reach 4.8 percent in Q4. PPP $5.5/day poverty fell to 0.44 percent in 2018 and remained stable in 2019.

Outlook

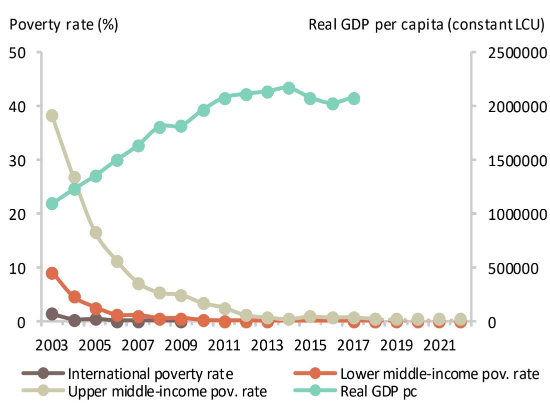
The economy is expected to contract by 4 percent in 2020 as the COVID-19 global economic slowdown reduces demand for Belarus's exports of commodities and investment goods to the European Union, Russia, and other countries. Even if oil supplies from Russia resume, lower oil prices will sharply reduce revenues from foreign trade, with customs duties on oil

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



Sources: Belstat, World Bank.

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



Source: World Bank.
Notes: see table 2

trade expected to be negligible this year (down from 1.1 percent of GDP in 2019), while Belarus to lose around 1.2 percent of GDP in "re-clearance" receipts. Export and tax revenues could fall even further if there are delays in signing long-term potash fertilizers contracts. A heavy debt redemption profile – related to loans from Russia for the construction of a nuclear power plant – will further pressure public finances.

The medium-term growth outlook is expected to remain subdued, even with a turnaround in global growth, recovery in oil prices and resumption of Russian oil supplies. The "tax maneuver" constitutes a permanent deterioration in Belarus's terms-of-trade, and an erosion of the competitiveness of petrochemical exports. The baseline assumes sustained fiscal consolidation amid continued revenue pressures, which should also help prevent further widening of the CA deficit. Retaining exchange rate flexibility is necessary to accommodate BOP pressures, but this poses risks related to high levels of FX-denominated debt on SOE and public-sector balance sheets. Heightened risk aversion in already volatile global financial markets could also raise funding costs or exert currency pressures against a backdrop of growing external debt repayments.

The economic contraction is likely to have a negative effect on household welfare, as the government's ability to support vulnerable households will be constrained by the limited fiscal space. The magnitude of the welfare impact remains uncertain, and the poverty rate at US$5.5/day threshold is low. However, the last recession of 2014-2015 was associated with a 2 percentage points increase in the national poverty rate, and a 15 percentage points increase in the share of population below the minimum consumption budget.

Risks and challenges

In the near term, the main challenge is to ensure an orderly adjustment to the deterioration in Belarus's external environment. Given limited fiscal space and increasing financing needs, more efficient spending will be critical in delivering savings that can be used to protect growth-enhancing investment, health and education expenditures, to ensure the delivery of public services, and to cushion the impact of the downturn on the employment and incomes of low-income households through strengthened social protection spending. With profitability of energy-intensive firms impacted by the external shock, SOEs and private firms may require liquidity or fiscal support in the short term, if a protracted stagnation or knock-on effects on a banking sector are to be avoided. However, such measures need to be carefully designed to ensure that they benefit mainly solvent firms. As a first step, in late March, the National Bank of Belarus adopted a counter-cyclical measures allowing banks to revise terms of credit provision.

Belarus can also seek financing from international development partners. This will require combining the near-term policy measures with medium term structural reform. Productivity across the economy is low due to the dominance of under-performing and highly leveraged SOEs which require substantial fiscal and quasi-fiscal support. Banks remain weighed down by NPLs and by inefficient legal and insolvency frameworks that limit their ability to dispose of bad loans. Accordingly, reforms in both areas are critical for reducing external vulnerabilities and raising the growth potential of the economy over the long term. Otherwise, the economy faces the prospects of longer-term stagnation amidst growing external refinancing and fiscal risks.

TABLE 2 Belarus / Macro poverty outlook baseline scenario (annual percent change unless indicated otherwise)

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	2.5	3.0	1.2	-4.0	1.0	1.2
Private Consumption	4.7	8.3	3.0	-5.0	3.7	2.0
Government Consumption	-1.4	-1.0	1.2	-2.8	1.0	-0.8
Gross Fixed Capital Investment	3.7	2.0	5.0	-5.5	-9.7	-1.4
Exports, Goods and Services	7.5	3.9	3.6	-13.6	10.6	3.3
Imports, Goods and Services	11.1	7.9	6.0	-11.7	6.1	2.5
Real GDP growth, at constant factor prices	3.7	3.3	1.2	-4.0	1.0	1.2
Agriculture	4.4	-3.9	1.5	2.0	1.8	1.7
Industry	3.6	5.1	1.1	-6.0	2.1	1.5
Services	3.7	3.3	1.2	-3.4	0.0	0.9
Inflation (Consumer Price Index)	6.0	5.6	4.7	11.3	7.0	6.3
Current Account Balance (% of GDP)	-1.7	0.0	-1.3	-5.7	-3.9	-3.8
Net Foreign Direct Investment (% of GDP)	2.4	2.5	2.6	2.2	2.7	2.6
Fiscal Balance (% of GDP)	3.1	4.3	2.1	-3.0	-2.5	-2.4
Debt (% of GDP)	53.5	48.7	51.2	59.2	61.6	62.7
Primary Balance (% of GDP)	5.6	6.8	3.6	-0.6	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	0.8	0.4	0.4	0.4	0.4	0.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2018-HHS. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

The global outlook is very uncertain. This outlook reflects information available at the time of its preparation. The data and analysis presented are as of March 23, 2020. As more information becomes available, these projections will be revised. They are presented now to assist policymakers to design alternative policy responses.

BOSNIA AND HERZEGOVINA

Table 1	2019
Population, million	3.5
GDP, current US$ billion	20.1
GDP per capita, current US$	5732
School enrollment, primary (% gross)[a]	n.a.
Life expectancy at birth, years[a]	77.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2017).

Growth is estimated at 2.8 percent in 2019 and expected to slow down in 2020 to -1.9 percent due to Covid-19. As the world recovers from the unfolding crisis and with the implementation of the Economic Reforms package growth is expected to rebound. The ongoing crisis highlights the need to accelerate the implementation of reforms. Translating growth into improvements in labor markets will be important for reducing poverty. A prolonged pandemic and political disagreements are the main risks for growth.

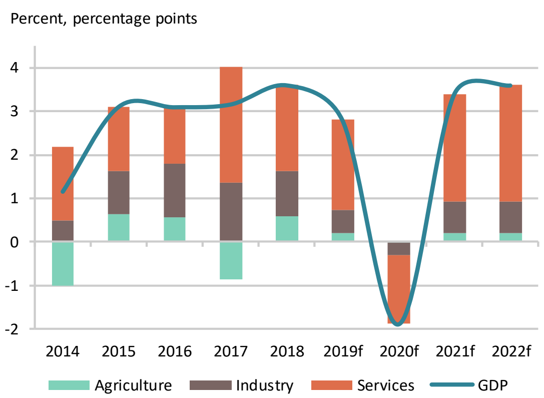
Recent developments

The COVID-19 pandemic and containment measures shape the most recent developments. This section focuses on the economic developments prior to the crisis.
In 2019 growth slowed down and is estimated at 2.8 percent. Domestic demand through consumption remains the dominant driver of growth. The slowdown in external demand has affected both exports and imports growth, resulting in a decline in exports and small increase in imports in 2019. Unemployment remains high, at 15.7 and driven by a slight rise in the employment rate (1.2 percent) while activity rate stayed unchanged.
Inflation remained low in 2019 with a consumer price index increase of 0.3 percent year-on-year (y-o-y) in December 2019. The biggest driver of the increase were transport, tobacco and food.
In 2019, a fiscal deficit of 0.5 percent of GDP is expected, down from a surplus of 2.2 percent in 2018. In 2019, revenues rose mainly due to stronger collection of indirect taxes, while expenditures rose mainly as a result of higher spending on public wages, goods and services and social benefits. Capital spending increased by 3.6 pp in 2019 mainly due to investments in roads infrastructure. The current account deficit (CAD) is estimated to have narrowed slightly in 2019 due to services exports and remittances increases. FDI increased as well but remained low at 2.5 percent of GDP. Total public debt in 2019 is estimated at 34.6 percent of GDP, consisting largely of concessional debt, while the total external debt is estimated at 70.5 percent of GDP.
The latest available poverty data using the national poverty line is for 2015 and was estimated at 16 percent, very close to the 15 percent poverty rate estimated for 2011. Rural poverty (19 percent) was higher than urban poverty (12 percent). Across entities, poverty increased slightly in FBiH from 15 to 17 percent, while it remained stable in RS at about 14 percent. Higher pensions and social assistance contributed to improve the welfare of the less well-off, while labor incomes had a small poverty-increasing effect. This effect may have shifted in 2015-2019, given the recent improvements in the labor market. Inequality remained constant at approximately 33 Gini points between 2011 and 2015.
The financial sector is broadly stable. On average, banks are sufficiently capitalized, liquid, and profitable. NPLs remain high at 7.7 percent but are declining and appear sufficiently provisioned for most banks. Profitability is stable with return on average equity at 11.1 at the end of Q3 2019. Capital to assets reached 13.1 percent down from 13.2 percent at the end of 2018. Capital buffers are within regulatory requirements.

Outlook

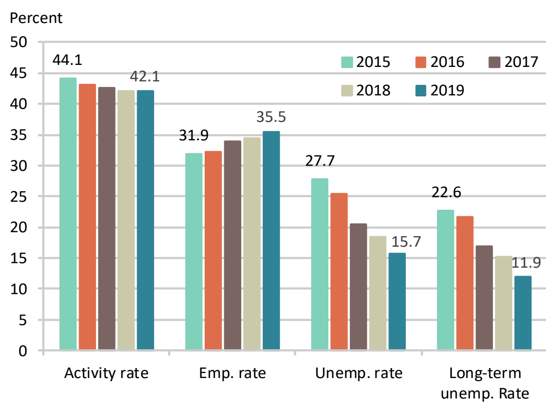
The outlook is marked by COVID-19 and implemented measures to combat the pandemic. Growth is projected at -1.9 percent in 2020, a significant revision from the pre -COVID-19 projection of 3.4 percent for

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



Sources: BHAS, World Bank staff estimate.

FIGURE 2 Bosnia and Herzegovina / Labor market indicators, 2015-2019



Sources: LFS 2015-2019 report, World Bank staff calculations the year. Authorities are responding with measures to address challenges coming from the slowdown in trade, services, transport, manufacturing and tourism. As the situation improves and Socio-Economic program implementation accelerates, investments are expected to increase and a moderate rise in exports is expected. Consumption will continue to drive growth, resulting in strong growth imports. Remittances will decline in 2020 but are likely to increase again and stabilize at 8 percent of GDP in the medium term., and, together with progress on reforms, will underpin a gradual pickup in consumption and finance a significant part of trade deficit.

Monetary policy anchored to the Euro will continue to support local currency stability and safe-guarding the banking sector will be important. Authorities have announced the creation of two funds: solidarity and guarantee to ensure necessary liquidity and will introduce a credit line via the development bank to support affected businesses. As BiH does not have access to international markets, support from IFIs will be critical. BiH's fiscal deficit is expected to return to surplus over the medium term, owing to expected strong revenue collection. A stronger push on the capital investment program after COVID-19 will be needed and better targeting and higher coverage of social assistance programs, will need to remain a high priority for the authorities' economic programs. Planned investments in energy, infrastructure, and tourism will also support job creation in those sectors after crisis.

Since poverty is strongly associated with unemployment and inactivity, the expected slowdown in all sectors of the economy due to the global COVID-19 outbreak, and the associated potential loss of people's employment and earnings, will likely have a short-term effect on poverty rates. As growth recovers, improvements in labor market participation and employment will remain key for growth to translate into poverty reduction. Increasing agricultural productivity will also be critical, as the majority of the poor are employed in this sector in rural areas and the sector has one of the lowest productivities in the Western Balkans.

Risks and challenges

The immediate challenge for BiH will be to control COVID-19 and to minimize the economic impact of the containment measures. Addressing persistent unemployment and minimizing layoffs in the private sector will be a key challenge during and after the unfolding crisis, hence the solidarity fund will be an important component of the government's response to the crisis.

Pressures from frequent elections and slow implementation of structural reforms together with the ongoing crisis will weigh heavily on government's ability to accelerate growth. Although external deficits are expected to be moderate after 2020, on the fiscal side the tax burden will remain high, and if not addressed this may delay expected improvement in growth performance. Fiscal risks (pensions, arrears, SOE liabilities) are also mounting.

There are notable risks, both domestic and external. The main risk is a prolonged pandemic and period of containment measures, which could lead to economic decline of -3.2 percent in 2020. The unfolding economic crisis, together with the challenging political environment will make it difficult to implement the adopted socio-economic program, especially in areas such as infrastructure, energy, and transport. The main external risk for BiH remains slow growth in the EU and political tensions in the region.

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

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	3.1	3.6	2.8	-1.9	3.4	3.6
Private Consumption	0.8	2.4	2.8	-1.4	3.4	3.6
Government Consumption	1.5	0.9	2.6	0.7	4.7	4.7
Gross Fixed Capital Investment	6.3	9.3	2.4	-4.7	-0.2	5.7
Exports, Goods and Services	11.8	5.9	-0.3	-0.6	0.7	1.5
Imports, Goods and Services	7.7	3.2	0.2	-0.2	0.6	3.0
Real GDP growth, at constant factor prices	3.2	3.6	2.8	-1.9	3.4	3.6
Agriculture	-11.3	9.1	2.9	-0.3	2.9	2.9
Industry	5.0	3.8	1.9	-1.0	2.6	2.6
Services	4.1	3.0	3.2	-2.4	3.8	4.1
Inflation (Consumer Price Index)	1.2	1.4	1.2	1.2	1.2	1.6
Current Account Balance (% of GDP)	-4.2	-3.7	-3.6	-5.7	-4.9	-4.0
Net Foreign Direct Investment (% of GDP)	2.0	2.2	2.9	1.0	3.3	3.4
Fiscal Balance (% of GDP)	1.8	2.2	-0.5	-0.4	1.4	1.8
Debt (% of GDP)	38.2	36.4	34.6	38.3	38.3	38.4
Primary Balance (% of GDP)	2.6	3.6	0.4	1.0	2.7	2.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

The global outlook is very uncertain. This outlook reflects information available at the time of its preparation. The data and analysis presented are as of March 23, 2020. As more information becomes available, these projections will be revised. They are presented now to assist policymakers to design alternative policy responses.

BULGARIA

Table 1	2019
Population, million	7.0
GDP, current US$ billion	70.4
GDP per capita, current US$	10100
International poverty rate ($1.9)[a]	1.3
Lower middle-income poverty rate ($3.2)[a]	3.1
Upper middle-income poverty rate ($5.5)[a]	7.5
Gini index[a]	40.4
Life expectancy at birth, years[b]	74.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) Most recent WDI value (2016).

The economy showed strong performance in 2019 with GDP growth reaching 3.4 percent, employment climbing to record highs and average salaries rising at double-digit rates. Despite slowing export growth in the second half of 2019, the current account ended the year with a hefty surplus of 4 percent of GDP. Yet, the ongoing pandemic is most likely to drag the economy into a recession in 2020. Limited measures in support of local businesses may prolong the recovery of the economy.

Recent developments

Despite headwinds from major export markets, Bulgaria retained a robust pace of growth in 2019. Real GDP growth accelerated to 3.4 percent in 2019 from 3.1 percent in 2018. Given worse-than-expected export growth, it was domestic consumption – on the part of households and government alike – that drove the expansion above expectations. Similarly to the pre-2009 growth pattern, the increase in consumption was mirrored by rapid growth of the real estate and financial sectors, propped up by credit expansion.

Following three consecutive years of surpluses, the general government balance turned negative in 2019 driven by the unplanned purchase of F-16 military aircraft for BGN 2.1bn. The purchase was justified with the country's NATO commitments for military spending. For the full year, the fiscal deficit reached 1.0 percent of GDP, while public debt declined to 20 percent of GDP. Annual average inflation accelerated to 3.1 percent. Food products acted as the main proinflationary factor due to unfavorable weather, a swine fever epidemic and an increase of regulated gas and heating prices. The current account surplus more than tripled in y/y terms to 4 percent of GDP, due to a lower deficit in trade in goods, an increase of the services surplus and improvements of the primary and secondary income balances.

The labor market posted a new record-high employment rate (54.2 percent for those aged 15+ years), as well as a mirror record-low unemployment rate (4.2 percent), including long-term unemployment (2.4 percent). Labor market buoyancy pushed salary growth up to 12 percent y/y.

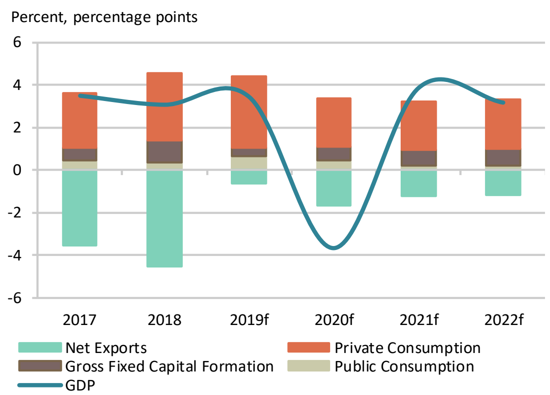
Rapid growth and labor market improvements are expected to have reduced poverty. However, the rise in food prices and inflationary pressure may counteract this positive effect, aggravating poverty and worsening the income distribution. Higher food prices can hurt the wellbeing of poor people, particularly in urban areas, but may benefit producers, reducing poverty among some in rural areas. Overall, national poverty is projected to have declined from 7.5 percent in 2017 to 6.7 percent in 2019 (at the US $ 5.5 per day line).

Outlook

After better-than-expected GDP growth in 2019, the economy is set to plunge into a recession in 2020 due to the toll the COVID-19 pandemic takes on export and domestic activity. GDP is expected to decline by 3.7 percent in 2020.

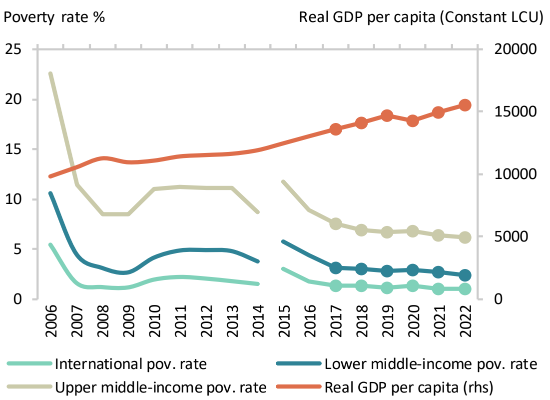
Social distancing and quarantine measures taken in the country effective March 13, as well as disrupted global supply chains are already showing their impact on the real economy. According to the latest weekly report of the Employment Agency, the sectors which released most workers in the third week of March are manufacturing (16.6 percent of the newly registered unemployed), trade and repair works (14.3 percent), hotels and

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



Sources: World Bank Group, Bulgarian National Statistical Institute

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



Source: World Bank.
Notes: see table 2

restaurants (8 percent). Limited measures in support of local business — the most prominent ones being 60% salary subsidy for workers in affected businesses and liquidity support via a state bank — may prolong the recovery of the real sector.

The fiscal position is most likely to worsen substantially in 2020 due to the impact of lower revenues, automatic fiscal stabilizers and unplanned expenditure in response to the pandemic. Even if the original budget for 2020 is balanced and the country avails of substantial fiscal space to accommodate the shock, the fiscal deficit is expected to exceed slightly the 3 percent ceiling under the EU Stability and Growth Pact. A hefty fiscal reserve of 9 percent of GDP as of Jan 31, 2020 can be tapped to limit new borrowing for deficit financing.

Following relatively low FDI inflows in the past few years, private investment is likely to decline further in response to the pandemic's shock. Going forward, EU Cohesion Policy payments are to pick up in the run-up to the deadline of 2022, by which funds from the current program period can be drawn.

The current account surplus seen since 2013 is likely to flatten in 2020 due to the shock on export of goods and services. Labor market indicators are also expected to mark a turning point in 2020. Average wages, however, are to keep their upward trend due to a minimum wage increase in 2020, salary rises in several public sectors and BGN 1 000 (EUR 511) monthly bonuses for medics on the front line of the COVID-19 pandemic.

Poverty is projected to increase in 2020, given the job losses and rising vulnerabilities associated with the pandemic and the possible negative impact of rising minimum wages on employment among the unskilled. The poor are more vulnerable to health shocks due to lower access to healthcare and lower savings to protect against financial catastrophe. Additionally, despite the wage increases, they are more likely to suffer from income losses as a result of quarantines and disruption of economic activity.

Risks and challenges

Risks to the outlook stem primarily from the COVID-19 pandemic and the uncertainties around its persistence and severity. Bulgaria is heavily exposed to EU economic activity (the EU accounts for 66 percent of Bulgaria's export and 63 percent of import) and the depth of the recession in Bulgaria depends primarily on the scale of the EU downturn. Given that China is the country's second largest non-EU market outside the EU, its sharp contraction in early 2020 will have direct and indirect effects on Bulgaria, too. The toll on Bulgarian tourism (estimated to contribute some 12% of GDP) depends largely on whether the pandemic is contained before the peak summer season.

Risks related to the domestic credit market have recently changed in nature. Concerns about rapidly accelerating credit growth in early 2019 have been replaced by the looming risk of piling non-performing loans due to temporary suspension of activity or outright bankruptcies. Even if the share of banks' non-performing loans shrank by 1.1pp y/y to 6.5 percent in December 2019, the projected recession in 2020 can rapidly reverse this trend.

In early February Parliament passed amendments to the central bank law which paved the way for Bulgaria's participation in ERM II. The updated target for accession is July 2020 but the rapidly developing situation in the eurozone due to the pandemic may force its postponement. Two local banks, where the recent asset quality review and stress tests by ECB found capital shortfalls, should also raise their capital before accession.

TABLE 2 Bulgaria / Macro poverty outlook baseline scenario (annual percent change unless indicated otherwise)

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	3.5	3.1	3.4	-3.7	3.9	3.2
Private Consumption	3.7	4.6	5.7	-3.4	3.8	3.1
Government Consumption	5.6	4.5	8.6	-0.4	2.3	1.5
Gross Fixed Capital Investment	3.2	5.4	2.2	-5.0	4.5	4.2
Exports, Goods and Services	5.8	1.7	1.9	-4.2	3.8	3.5
Imports, Goods and Services	7.4	5.7	2.4	-3.8	3.6	3.4
Real GDP growth, at constant factor prices	4.3	3.2	3.4	-3.7	3.9	3.2
Agriculture	8.9	-1.1	3.6	1.0	0.5	1.0
Industry	4.1	1.4	2.7	-4.4	4.1	3.0
Services	3.9	4.5	3.6	-3.8	4.1	3.4
Inflation (Consumer Price Index)	2.1	2.8	3.1	1.4	2.1	2.0
Current Account Balance (% of GDP)	2.8	3.9	4.0	0.2	1.7	1.6
Net Foreign Direct Investment (% of GDP)	2.7	2.6	1.4	0.4	1.6	1.9
Fiscal Balance (% of GDP)	0.8	0.2	-1.0	-3.3	-1.4	-0.5
Debt (% of GDP)	23.0	23.4	19.2	21.4	19.2	17.8
Primary Balance (% of GDP)	1.6	0.9	-0.2	-2.7	-0.4	1.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.3	1.3	1.1	1.3	1.0	1.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	3.1	3.0	2.8	2.9	2.7	2.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	7.5	6.9	6.7	6.8	6.4	6.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2017-EU-SILC. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (201 7) with pass-through = 0.87 based on GDP per capita in constant LCU.

The global outlook is very uncertain. This outlook reflects information available at the time of its preparation. The data and analysis presented are as of March 23, 2020. As more information becomes available, these projections will be revised. They are presented now to assist policymakers to design alternative policy responses.

CROATIA

Table 1	2019
Population, million	4.1
GDP, current US$ billion	60.4
GDP per capita, current US$	14914
International poverty rate ($1.9)[a]	0.6
Lower middle-income poverty rate ($3.2)[a]	1.2
Upper middle-income poverty rate ($5.5)[a]	3.9
Gini index[a]	30.4
Life expectancy at birth, years[b]	77.8

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

Following positive developments in 2019, the COVID-19 crisis is expected to cause a recession in Croatia in 2020, exacerbated by Croatia's heavy reliance on tourism. In an effort to counteract the economic slowdown, the successful fiscal consolidation of recent years might be temporarily reversed. It is expected that disruptions will be short-lived and economic activity will rebound in 2021. Poverty reduction is expected to slow down significantly given the output contraction and expected job losses.

Recent developments

At the beginning of 2020, the escalation of the COVID-19 crisis in Europe and the measures introduced by public health authorities to limit the spread of the contagion have led to a decline in economic activity, pressures on the EUR/HRK exchange rate and a significant drop in the stock market. In an effort to contain depreciation pressures, the Croatian National Bank (CNB) intervened on the foreign exchange market selling, for the first time in four years, EUR 1.2bn to commercial banks. Furthermore, to stabilize the government bond market and limit the increase in yield, the CNB purchased government bonds worth over HRK 4bn, mainly from investment funds.

These events follow positive developments in 2019, when GDP growth is estimated to have accelerated to 2.9 percent from 2.7 percent a year earlier. Personal consumption continued to increase, supported by favorable labor market developments, increase in consumer optimism and slightly looser fiscal policy compared to 2018. Households' real disposable incomes also benefited from subdued inflation, which fell to 0.8 percent (from 1.5 percent in 2018). Both public and private investment activity significantly strengthened. The surge in general government investment estimated at 14 percent largely reflected the rising uptake of EU funds. Exports continued to rise at a similar pace as in 2018, while import growth moderated resulting in a narrowing of the negative contribution of net exports to growth.

The CNB continued to pursue accommodative monetary policy, supporting credit activity, while maintaining a stable exchange rate against the euro. Risks to the banking sector further declined. Non-performing loans at the end of Q3 2019 declined to 6.0 percent of total loans, with a comfortable coverage ratio.

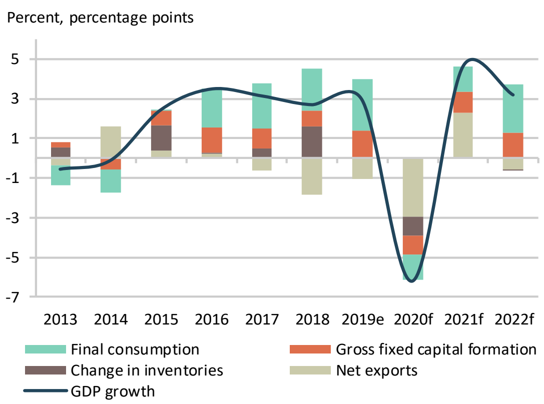
Fiscal developments also continued being favorable. The 2019 general government balance (ESA 2010) is estimated to have remained in a small surplus, despite tax cuts worth 0.7 percent of GDP, and strong growth of expenditures.

The current account remained in a significant surplus, driven by positive net services exports and net private transfers. External debt is estimated to have declined by over 6 percent to 76.4 percent of GDP in the course of 2019.

On the back of positive economic growth, labor market outcomes also improved further in 2019. The employment rate (for the 20-64 age bracket) is estimated to have increased to almost 69 percent while the unemployment rate dropped below 7 percent.

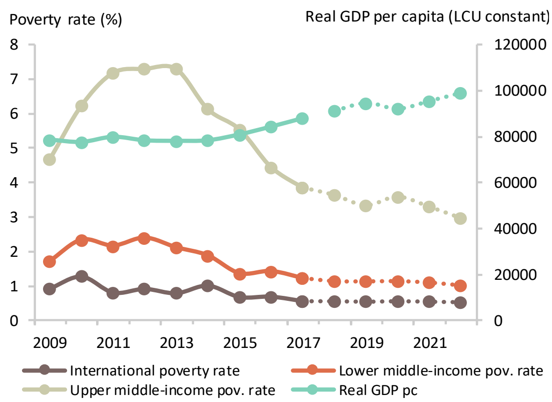
Once the current crisis abates, in the medium term, continued growth acceleration, positive labor market developments and a decline in inflation, are expected to contribute positively to poverty reduction. Better employment opportunities in services and construction are also expected to have a positive impact on poverty, given the increasing share of the poor working in services in recent years and the large share of the poor employed in construction. Poverty

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



Sources: CROSTAT, World Bank.

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



Source: World Bank.
Notes: see table 2

is projected to have declined from 3.9 percent in 2017 to 3.3 percent in 2019 (at the U5.5 per day line).

Outlook

The adverse developments at the beginning of the year have significantly changed the outlook for 2020. After finally reaching, in 2019, the pre-2008 level of output, Croatia is set for a deep recession. The global COVID-19 pandemic has resulted in a lockdown in many countries around the globe and might reduce Croatia's GDP by -6.2 percent this year. Croatia's tourism and exports of goods are expected to be severely affected given widespread travel bans and slowing activity in major trading partners, most notably Italy, but also the rest of the eurozone. Repercussions for the labor market could be severe. Furthermore, workers who temporarily worked abroad have started to return to Croatia, putting pressure on the unemployment rate, which could rise to above 9 percent in 2020. The government has prepared a package of temporary measures potentially reaching almost 8 percent of GDP intended to mitigate the negative effects of the COVID-19 crisis on the economy. The package includes, inter alia, deferred tax payments, support for the preservation of jobs, and a moratorium on payment of loans to development and commercial banks. The annual fiscal impact of support measures is estimated at 5 percent of GDP but will be partly financed from EU funds. It is expected that in 2020 Croatia might record a fiscal deficit of close to 8 percent of GDP. The downward trajectory of government debt will be temporarily reversed, and by the end of the year debt could reach almost 84 percent of GDP. The pandemic crisis is assumed to gradually fade by the end of the first half of 2020, which could lead to an economic rebound in 2021 and 2022. The fiscal deficit is expected to narrow in 2021 and 2022 as expansionary measures unwind and growth picks up, but without additional consolidation it would remain high.

Poor households are expected to be disproportionately affected by the pandemic. Significant labor market losses in unskilled labor-intensive sectors could lead to major labor income losses. Also, the incidence of temporary employment, that can be strongly affected, is high in Croatia, particularly among the bottom quintile. A decline in international remittances may have an impact on nonlabor income among households across the welfare distribution. Current safety nets may not be enough to cover households from the welfare losses, given relatively poor targeting of social assistance and social insurance programs.

Risks and challenges

Uncertainties surrounding the global - and Croatia's - outlook are substantial, and risks seem to be tilted to the downside. A possible escalation of the COVID-19 crisis beyond baseline assumptions might have a major adverse effect on world trade and on Croatia's GDP. Prolonged disruptions in global supply chains and falling demand, especially for travel and tourism, which is the single most important sector in the Croatian economy, could lead to an even stronger economic recession. This would also result in further widening of the fiscal deficit, requiring substantial borrowing and leading to strong increase in public debt. The crisis can provide an opportunity to revisit Croatia's growth model and focus on policies to increase resilience to exogenous shocks and raise the economy's growth potential.

TABLE 2 Croatia / Macro poverty outlook baseline scenario (annual percent change unless indicated otherwise)

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	3.1	2.7	2.9	-6.2	4.6	3.2
Private Consumption	3.1	3.2	3.5	-3.3	1.2	3.1
Government Consumption	2.2	1.3	3.3	3.1	2.3	2.4
Gross Fixed Capital Investment	5.1	4.1	7.1	-4.6	5.1	6.0
Exports, Goods and Services	6.8	3.7	4.6	-19.6	19.4	5.2
Imports, Goods and Services	8.4	7.5	4.8	-13.4	12.7	5.8
Real GDP growth, at constant factor prices	2.6	2.2	2.6	-6.2	4.6	3.2
Agriculture	-2.5	2.2	1.2	4.0	2.0	2.0
Industry	1.8	0.4	2.3	-3.5	2.1	2.3
Services	3.1	2.8	2.7	-7.6	5.7	3.6
Inflation (Consumer Price Index)	1.1	1.5	0.8	0.2	1.4	1.5
Current Account Balance (% of GDP)	3.4	1.9	2.0	-1.2	1.9	2.2
Net Foreign Direct Investment (% of GDP)	2.3	1.4	1.3	1.4	1.3	1.3
Fiscal Balance (% of GDP)	0.8	0.3	0.1	-7.9	-6.4	-5.2
Debt (% of GDP)	78.0	74.7	71.4	83.6	85.1	86.3
Primary Balance (% of GDP)	3.5	2.6	2.1	-5.8	-4.4	-3.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.6	0.6	0.5	0.6	0.5	0.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	1.2	1.1	1.1	1.1	1.1	1.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	3.9	3.6	3.3	3.6	3.3	3.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2017-EU-SILC. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2017) with pass-through = 0.87 based on GDP per capita in constant LCU.

The global outlook is very uncertain. This outlook reflects information available at the time of its preparation. The data and analysis presented are as of March 23, 2020. As more information becomes available, these projections will be revised. They are presented now to assist policymakers to design alternative policy responses.

GEORGIA

Table 1	2019
Population, million	3.7
GDP, current US$ billion	17.7
GDP per capita, current US$	4785
International poverty rate ($1.9)[a]	4.5
Lower middle-income poverty rate ($3.2)[a]	15.7
Upper middle-income poverty rate ($5.5)[a]	42.9
Gini index[a]	36.4
School enrollment, primary (% gross)[b]	100.4
Life expectancy at birth, years[b]	73.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) Most recent WDI value (2017).

Growth accelerated to 5.1 percent in 2019 driven by consumption and exports. However, the COVID-19 pandemic clouded the outlook with economic activity projected to stagnate in 2020, while a prolonged outbreak, in which GDP could contract by around 2 percent, could easily unfold. A dollarized economy adds to the challenges of managing the shock. The poverty rate declined in 2018 and 2019 but gains could be reversed as the outlook dims.

Recent developments

GDP expanded by 5.1 percent in 2019 despite deteriorating sentiments during the second half of the year due to the suspension of flights from Russia and the subsequent political tensions. Declining unemployment and growing wages, robust external transfers and higher public spending supported consumption. Investment, on a downward trend in early 2019, recovered in the second half of the year as public investment execution improved, FDI recovered and credit increased. On the supply side, telecommunication, IT, scientific research and technical activities, administrative services and entertainment grew strongly, compensating for the more moderate performance in agriculture and contraction in manufacturing. Construction, contracting at the start of the year, recovered later in the year.

The poverty rate responded to stronger growth with the national poverty rate falling to 20.1 percent in 2018, after stagnating at 21.9 percent in 2017. The poverty rate was estimated at 14.8 percent at the international lower-middle income poverty line ($3.2/day, 2011 PPP) and 4.5 percent using the $1.9/day, 2011 PPP international poverty line. Rural and urban poverty declined by 3.5 and 0.6 percentage points, respectively. With labor markets improving in 2019 (the unemployment rate decreased from 12.7 percent in 2018 and to 11.6 percent in 2019), the poverty rate is estimated to have declined in 2019 also.

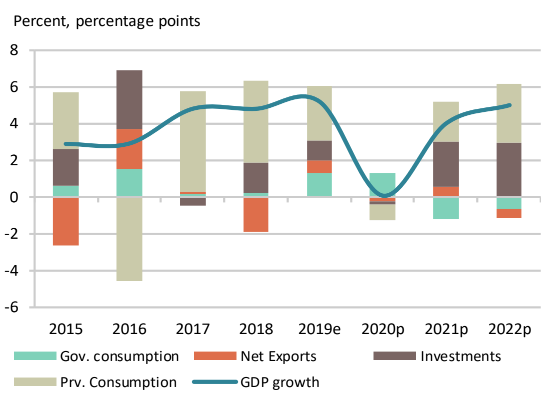
Inflation increased to 7 percent by end-2019, well above the central bank's target of 3 percent, driven by the depreciation of the lari in the second half of 2019 as the weakened sentiments affected the confidence in the currency. In response, the central bank increased the policy rate by a cumulative 250 basis points to 9 percent between September and end-2019 with inflation showing signs of retreating by early 2020.

The current account deficit is estimated at 5 percent of GDP in 2019, narrowing in response to robust growth in exports, tourism services, and remittances. On the financing side, net FDI inflows amounted to about 5.6 percent of GDP. Portfolio inflows were also strong, as Georgian banks and corporates issued bonds.

Credit growth reached 15 percent yoy by end-2019, up from 13 percent yoy in September. Borrowing by businesses drove the acceleration, especially after June 2019. Financial soundness indicators remain solid, with profitability improving, low non-performing loans (1.9 percent of gross loans) and sound capital buffers.

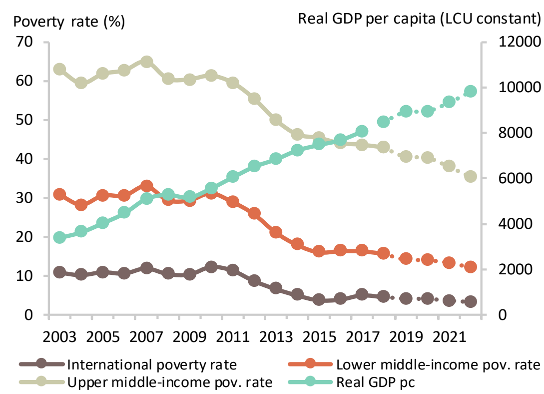
Fiscal policy remained prudent. An estimated deficit of 3.3 percent of GDP in 2019 supported domestic demand. Revenues grew by around 10 percent, while spending increased by around 20 percent yoy. Higher social spending reflected the full-year impact of pension increases in late 2018 as well as expansion of health spending. Capital spending accelerated by 17 percent reflecting higher spending by municipalities. Public debt is estimated to have increased marginally to 41.8 percent of GDP.

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



Sources: Geostat and World Bank staff estimates.

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



Source: World Bank.
Notes: see table 2

Outlook

Real GDP growth is projected to sharply slow to close to zero in 2020 as the impact of COVID-19 (projected to be contained from Q3.2020) adds to an already challenging external environment. This will be partly cushioned by a fiscal stimulus of around 2 percent of GDP containing acceleration of capital spending, tax deferrals, accelerated VAT refunds and sector support for most affected businesses, as well as higher social spending. This is expected to push the fiscal deficit to around 5.2 percent of GDP in 2020; sizeable government deposits will cushion the impact on public debt. The external balance is also expected to widen sharply as reduced tourism proceeds and remittances are only partially offset by shrinking imports as demand moderates. At the same time, a scenario of a prolonged outbreak, in which the GDP could contract is increasingly likely.

With growth moderating sharply in 2020, the poverty reduction trend from the last couple of years is projected to stop as households grapple with the adverse direct and indirect effects of COVID-19. Potential health shocks to earners in the household, lower remittances as a result of reduced economic activity in sender countries, higher domestic prices due to shortages in supply chains, and lower employment and or earnings stemming from lower aggregate demand are all likely to adversely affect poverty reduction. The effects are likely to be disproportionately felt by households with inadequate insurance mechanisms. In the short term, the government will need to ensure adequate access to healthcare, while higher social security spending (including pensions) could partially mitigate impact for reduced and lost income. The recovery of growth over the medium -term should increase employment and income-generating opportunities at the bottom of the distribution.

Risks and challenges

The immediate challenge facing Georgia is the impact of the COVID-19 pandemic. The pandemic and the associated travel disruptions will adversely impact tourism, a sector that contributes over 7 percent to GDP. Additional transmission channels include remittances as well as commodity prices. This will reduce external inflows and pose risks to stability given high dollarization and unhedged balance sheets. Access to concessional financing from international finance institutions partly mitigates the risks. Efforts to contain the spread (i.e. "social distancing") has further dampened consumer confidence and demand.

Beyond the COVID-19 pandemic, substantial quasi-fiscal risks emanate from Georgia's state-owned enterprises and power purchasing agreements which provide state guarantees for the purchase of excess electricity from power generators, however, the institutional and regulatory capacity to deal with fiscal risks is increasing. In addition, the repayment of the Eurobond in 2021 creates some refinancing risk in case markets tighten, partially mitigated by the availability of concessional finance from international financial institutions.

TABLE 2 Georgia / Macro poverty outlook baseline scenario (annual percent change unless indicated otherwise)

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	4.8	4.8	5.1	0.1	4.0	5.0
Private Consumption	7.4	5.8	3.8	-1.1	2.9	4.3
Government Consumption	1.1	1.6	9.3	9.0	-7.5	-4.6
Gross Fixed Capital Investment	3.4	1.9	2.3	7.8	12.4	12.1
Exports, Goods and Services	11.7	10.1	10.7	1.0	9.0	7.0
Imports, Goods and Services	8.1	10.3	6.8	1.1	6.0	6.2
Real GDP growth, at constant factor prices	4.7	5.2	5.0	0.1	4.1	5.3
Agriculture	-7.7	13.8	0.0	1.0	3.0	3.0
Industry	4.4	0.2	3.0	0.0	3.0	3.0
Services	6.3	5.8	6.1	0.0	4.5	6.2
Inflation (Consumer Price Index)	6.0	2.6	5.0	5.0	4.0	3.0
Current Account Balance (% of GDP)	-8.1	-6.8	-5.0	-8.2	-5.8	-5.3
Net Foreign Direct Investment (% of GDP)	10.4	5.3	5.7	5.4	6.2	5.7
Fiscal Balance (% of GDP)	-3.5	-2.6	-3.3	-5.2	-3.7	-3.2
Debt (% of GDP)	41.0	40.4	41.2	43.1	44.0	44.7
Primary Balance (% of GDP)	-2.3	-1.4	-2.1	-4.0	-2.4	-1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	5.0	4.5	4.1	4.0	3.6	3.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	16.3	15.7	14.2	14.1	13.3	12.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	43.6	42.9	40.5	40.3	38.0	35.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2018-HIS. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

The global outlook is very uncertain. This outlook reflects information available at the time of its preparation. The data and analysis presented are as of March 23, 2020. As more information becomes available, these projections will be revised. They are presented now to assist policymakers to design alternative policy responses.

KAZAKHSTAN

Table 1	2019
Population, million	18.5
GDP, current US$ billion	170.9
GDP per capita, current US$	9244
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.4
Upper middle-income poverty rate ($5.5)[a]	8.6
Gini index[a]	27.5
School enrollment, primary (% gross)[b]	108.7
Life expectancy at birth, years[b]	73.0

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

The economy grew at a higher-than-expected rate of 4.5 percent in 2019, driven by a solid growth in domestic demand. Inflation rose gradually due to higher increases in food prices. The poverty rate fell to 8.4 percent. However, GDP is likely to contract in 2020 because of lower oil output, a weaker external environment, and disruptions associated with measures to contain the COVID-19 outbreak.

Recent developments

Preliminary estimates suggest that real GDP grew by 4.5 percent in 2019, driven by buoyant consumer spending and mining-related investment. Higher wages, social transfers to low-income households, and rising retail credit supported a 6-percent expansion in consumer demand. Meanwhile, investment rose by 12.9 percent, driven by foreign direct investment (FDI) in the oil and gas industry and investment in residential construction. On the supply side, non-tradable services remained the main driver of growth; the contributions of mining and manufacturing were moderate due to sluggish oil production and weak demand for processed metals.

Lower exports, higher remittance outflows, and rising imports widened the current account deficit to an estimated 3.3 percent of GDP in 2019 from near balance in 2018. Higher household demand and capital investment in an ongoing mining project boosted import spending. Net inflows of FDI fell to 3.5 percent of GDP from 4.3 percent in 2018. wider current account deficit and higher outflows of portfolio investment, foreign exchange reserves fell to $29 billion at the end of 2019 from $30.9 billion a year earlier. The tenge lost 11 percent of its value against the U.S. dollar in 2019.

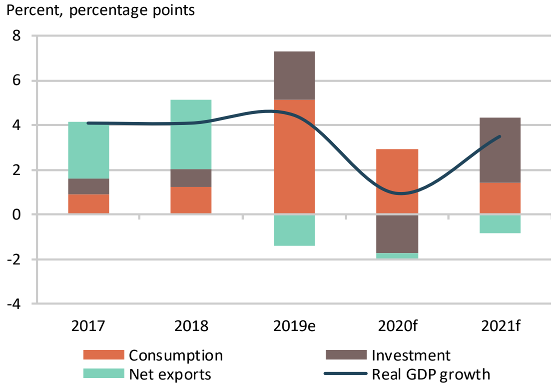
The fiscal stance was expansionary in 2019, with a government budget of 1.9 percent of GDP, higher than that in 2018 even as GDP growth increased. The non-oil fiscal deficit increased to 8.1 percent of GDP from 7.3 percent a year earlier, as higher expenditures outpaced revenues despite improved tax collection and additional transfers from the Oil Fund. Spending reflected sizeable increases in welfare support programs to socially-vulnerable households. Public debt remained unchanged at about 20 percent of GDP.

The active role of subsidized credit support programs in Kazakhstan distorts credit markets. They also reduce the effectiveness of monetary policy. The National Bank of Kazakhstan (NBK) has continued removing excess liquidity by issuing short-term notes.

In February 2020, 12-month inflation hit the upper bound of the NBK's 4–6 percent target range. Higher increases in food prices and utility prices, exchange rate pass-through from the depreciated tenge, were key factors pushing up inflation. After abrupt declines in oil prices, which put stains on exchange rate, the NBK raised its policy rate by 275 bps to 12 percent in March 2020.

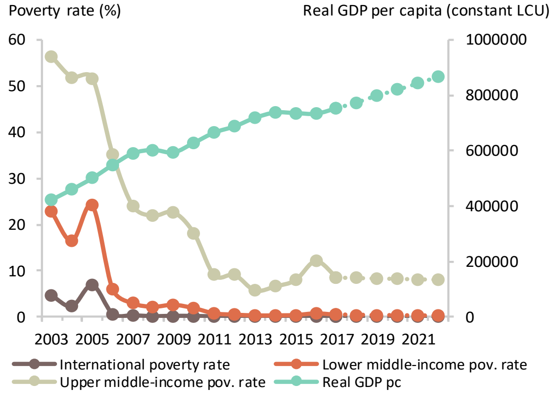
The asset quality review by NBK of bank assets showed capital shortfall of $1.2 billion for the 14 banks participating in the assessment. Banks raised additional capital equivalent to half of the shortfall and the remaining part is expected to be covered by shareholders in the coming months. The NBK indicated not to use budget resources to offset the capital shortfall. Lending to the corporate sector has continued to fall, largely on account of bad loan write-off, risk aversion due to the high stock of nonperforming loans (NPLs)

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



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

FIGURE 2 Kazakhstan / Poverty rates and real GDP per capita



Sources: World Bank staff estimates.

held by the banks, and weak lending demand from small- and medium-sized enterprises (SMEs). The officially-reported NPL ratio was 8.1 percent in January 2020. The ongoing economic expansion and a minimum wage increase in early 2019 boosted real wages by 8.9 percent and helped sustain labor demand. The official unemployment rate remained under 5 percent. In the context of rising wages and increased social assistance, the poverty rate is estimated to have fallen to 8.5 percent in 2019, marking the third consecutive year of poverty reduction.

Outlook

We project GDP to contract by 0.8 percent in 2020, as external demand for crude and manufactured goods fall notably and COVID-19 mitigation measures sap consumer demand and investment. Measures to contain the virus outbreak are likely to moderate business activities in Almaty and Nur-Sultan. To contain the rapidly expanding coronavirus the authorities implemented extreme measures by locking down of country's two key cities.

Prior to COVID-19 outbreak the draft budget for 2020 assumed a slight increase in the deficit, but now considering plummeted oil prices and standstill in economic activity the deficit is likely to be significantly higher. In response to an economic crisis the authorities have announced a fiscal stimulus package in the amount of KZT 4.4 trillion or an equivalent to a 5 percent of GDP.

Although a large part of an announced fiscal stimulus is expected to come from central bank resources and SOEs (and thus not part of the central budget), the authorities intend to reallocate budget resources to the sectors most in need in the current situation, including additional spending on health, social assistance, infrastructure, subsidies for SMEs.

Current account deficit is expected to widen to 6 percent of GDP in 2020, in large part, owing to collapse in oil prices and deteriorated terms of trade.

Inflation is likely to move up above the central bank target on the back of tenge depreciation, which has lost almost 15 percent of its value against U.S. dollar since the beginning of 2020.

A prolonged strict lockdown measures implemented in Nur-Sultan and Almaty, representing more than one-third of the country's GDP, could paralyze economic activity. If the pandemic continues to spread across the regions and should the external economic environment deteriorate further, in this downside scenario, GDP could contract by as much as 3 percent in 2020, which can significantly increase the poverty rate.

Risks and challenges

While the authorities have taken active and bold steps to contain the spread of COVID-19, the possibility for protracted containment measures should not be ruled out. This scenario compounded by a deep global economic recession can have far-reaching repercussions on the already-fragile economic growth.

A further drop in business activities will significantly deteriorate the balance-sheet of firms, undermine the ability for households to repay loans, which in turn increases the risk of higher NPLs.

While the authorities have not disclosed plans to tap into its Oil Fund reserves so far, the deeper shortfall in tax revenues from economic fallout might require additional resources to be deployed. The country has the fiscal ability to raise revenue either through external borrowing or additional transfers from rainy-day fund.

Progressing with structural reforms and continuing to strengthen the performance of the financial sector will be important once the authorities have managed the COVID-19 outbreak.

TABLE 2 Kazakhstan / Macro poverty outlook baseline scenario (annual percent change unless indicated otherwise)

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	4.1	4.1	4.5	-0.8	3.0	3.7
Private Consumption	1.5	5.3	5.8	-0.3	3.4	4.8
Government Consumption	1.9	-14.0	18.7	1.2	1.4	3.1
Gross Fixed Capital Investment	4.0	4.6	8.0	1.3	4.6	4.7
Exports, Goods and Services	6.4	11.5	1.1	-2.3	2.1	1.7
Imports, Goods and Services	-1.4	3.2	10.1	1.7	4.5	5.2
Real GDP growth, at constant factor prices	3.9	4.1	4.5	-1.1	3.0	3.7
Agriculture	3.2	3.2	0.9	2.3	3.1	3.3
Industry	6.3	4.1	2.3	0.8	2.1	2.5
Services	2.5	4.2	6.2	-2.5	3.5	4.4
Inflation (Consumer Price Index)	7.4	6.2	5.4	7.8	6.4	5.6
Current Account Balance (% of GDP)	-3.1	0.0	-3.3	-6.0	-4.5	-3.5
Net Foreign Direct Investment (% of GDP)	2.3	2.8	2.6	3.0	2.6	4.6
Fiscal Balance (% of GDP)	-2.5	-1.1	-2.6	-5.0	-2.0	-0.8
Debt (% of GDP)	20.1	20.7	21.6	26.0	26.3	25.2
Primary Balance (% of GDP)	-1.6	-0.2	-1.6	-4.0	-0.6	0.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.4	0.4	0.3	0.3	0.3	0.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	8.6	8.5	8.4	8.3	8.2	8.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2011-HBS and 2017-HBS. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.
(b) Projection using annualized elasticity (2011-2017) with pass-through = 0.87 based on GDP per capita in constant LCU.

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KOSOVO

Table 1	2019
Population, million	1.8
GDP, current US$ billion	8.0
GDP per capita, current US$	4458
School enrollment, primary (% gross)[a]	n.a.
Life expectancy at birth, years[a]	71.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2017).

The economy is expected to contract by 1.6 percent in 2020 due to the COVID-19 outbreak, following a similar trend in the region and globally. The slowdown is expected to be propagated from a weaker external environment -a decline in service exports and FDI- and a slowdown in domestic demand - lower investment and consumption growth. Risks are on the downside as a prolonged impact of the pandemic can lead to lower growth in 2020 and beyond.

Recent developments

Average growth in the first three quarters of 2019 registered at 4.2 percent. Annual growth is estimated at 4 percent, driven by consumption, both public and private, and service exports. Private consumption added 1.2 pp to growth supported by double-digit credit expansion, higher remittances and employment, while government consumption added another 1.2 pp. Net exports subtracted 0.9 pp from real GDP growth, despite the strong growth in services exports and the activation of the Feronickeli plant. Investment overall contributed 0.4 pp to growth, mostly driven by continued increases in private investment thanks to higher lending. The increase is mostly driven by construction, as public investment remained nominally the same as last year. On the production side, services were the main engine of growth, mostly due to strong performance of the wholesale and retail trade, financial sector, and, industry. Agriculture subtracted from growth, for a second year in a row.

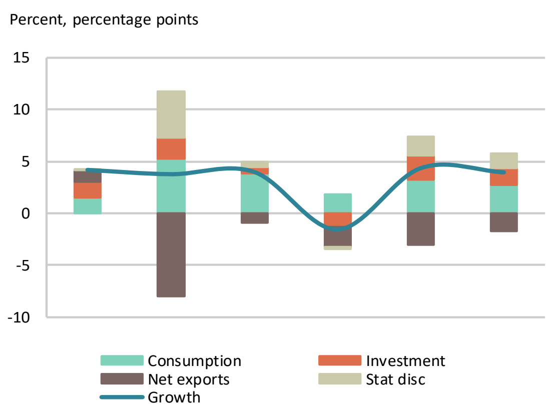
Consumer price inflation stabilized in the second half of 2019 averaging 2.7 percent, driven by increases in food, tobacco, and fuel prices. The increase in import prices contributed to the higher consumer price inflation in the first half, while import prices declined in the second half.

The overall fiscal deficit reached 2.8 percent of GDP in 2019 but was well below the legal ceiling at 0.3 percent of GDP as it excludes capital spending financed by privatization receipts and concessional IFI loans. Revenues increased by 7.5 percent driven by strong growth and higher tax debt collections. PIT and CIT grew by 2.3 and 9 percent, respectively. VAT revenues increased by 5.8 percent, while customs and excise revenues grew by 5.3 and 3.4 percent. Spending went up 7.4 percent, mostly driven by an increase in current expenditures at 9.9 percent, against higher spending on social transfers, wages, and goods and services. Capital spending increased by a mere 0.2 percent, with notable underspending on capital projects to be financed concessional financing for the third consecutive year. Government cash holdings at end-2019 increased to about 5 percent of GDP, and public and publicly guaranteed debt is estimated to have increased by 0.6 percentage points, reaching 17.5 percent of GDP.

The CAD dropped from 7.6 percent of GDP in 2018 to 5.5 percent in 2019 as import growth slowed down. Imports of consumption goods increased by 5.6 percent y-o-y while imports of capital and intermediate goods increased by only 2 percent. Against the slowdown in imports, merchandise exports grew by 4.4 percent y-o-y, while service exports grew by 7.3 percent reaching 23.4 percent of GDP. Net FDI decreased by 11 percent y-o-y while net remittance inflows increased by 7.9 percent.

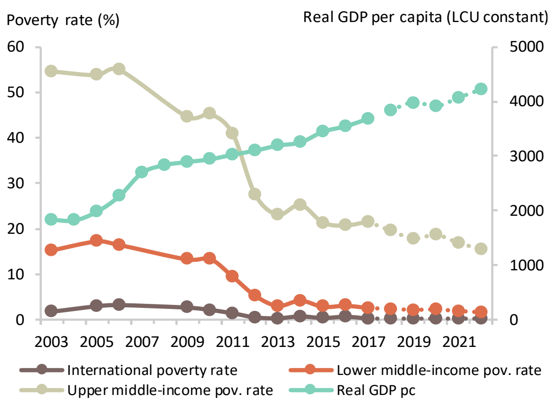
Labor force participation continues to be chronically low averaging 40.5 percent of the working age population in 2019. Employment rate increased by 1.3 pp as 18,000 people found jobs. Unemployment rate decreased by 3.9 pp reaching 25.7, as labor force participation declined

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



Sources: Kosovo Agency of Statistics and World Bank staff projections.

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



Sources: World Bank.
Notes: see Table 2.

by 0.4 pp and more people found jobs. Youth unemployment dropped by 5.9 pp from 2018 but is still high at 49.4 percent. Nevertheless, given the number of young entrants in the labor market, the NEET share of youth population increased by 2.7 pp, to 32.8 percent.

The poverty rate (measured at US$ 5.5/ day, 2011 PPP) is projected to have decreased from an estimated 19.6 percent in 2018 to 17.9 percent in 2019. Analysis of poverty drivers between 2012-2017 suggests that higher earnings contributed the most to poverty reduction, since labor is the primary source of income for the poor. Despite weak employment gains, net job creation has favored low-skilled sectors benefitting relatively more workers at the bottom of the income distribution

Outlook

Kosovo's economy is expected to contract by 1.6 percent amidst the COVID-19 epidemic and an across the board contraction in aggregate demand similar to other countries in the region and globally, as the government seeks to mitigate the economic impact of the outbreak using available fiscal space. Lower regional and global growth is expected to place downward pressure on economic growth. In addition, the containment measures taken will lead to lower investment (both public and private). This outlook assumes that the economic impact of the epidemic is limited to the second quarter and the economy starts to recover in the third quarter.

The government is taking measures to provide economic stimulus, including delays to tax payments and loan repayments to April 30, advance payments of the social assistance and agricultural subsidies. Greater flexibility for budget revisions and allowing fast-track procurement procedures can better address the crisis response needs as the Kosovo legislation limits reallocations between budget organizations.

A more prolonged epidemic and potential political uncertainty can place further pressure on growth through lowering domestic demand further and a supply response.

Poverty is expected to increase as a result of the supply and demand shock, which can reduce earnings.

Risks and challenges

The outbreak of COVID-19 and the implementation of containment measures represents an immediate challenge to the authorities, similar to other countries in the Western Balkans but also globally. It will affect many businesses and citizens but has also the potential to affect macroeconomic stability. To respond to the pandemic outbreak, the government is taking measures that increase financing for the health sector and alleviate financing constraints faced by the private sector.

Given the impact on revenue from the measures to contain the outbreak, meeting the government financing needs and to some extent will condition the government's ability to respond to the unfolding economic crisis. Mobilizing external financing sources quickly can support fiscal policy response.

The financial sector is liquid and well-capitalized, and stress tests show that even a liquidity shock-of up to 22.2% of deposits can be sustained (Financial Stability Report 2019). However, an prolongation of the containment measures beyond the second quarter requires careful macro-prudential management.

The slower pace of poverty reduction, high incidence and long duration of unemployment continue to be major challenges. The level of unemployment is particularly concerning among the young and low-skilled workers, that tend to be over overrepresented among the poor. In the face of the outbreak, policy responses are required to contain the adverse impact on poverty.

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

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	4.2	3.8	4.0	-1.6	4.4	4.0
Private Consumption	1.8	4.8	3.7	0.6	3.2	2.3
Government Consumption	-0.6	8.9	5.0	9.1	3.1	5.3
Gross Fixed Capital Investment	5.7	6.1	1.3	-4.8	9.0	5.7
Exports, Goods and Services	16.8	3.8	3.1	-8.5	4.0	5.5
Imports, Goods and Services	5.4	9.0	1.7	-0.3	4.0	3.1
Inflation (Consumer Price Index)	1.5	1.1	2.7	1.8	2.1	1.2
Current Account Balance (% of GDP)	-5.4	-7.6	-5.5	-9.4	-8.6	-8.0
Net Foreign Direct Investment (% of GDP)	3.3	3.4	2.8	2.8	3.3	4.0
Fiscal Balance (% of GDP)	-1.2	-2.8	-2.8	-3.5	-3.7	-3.8
Debt (% of GDP)	15.5	16.3	16.8	18.3	19.1	20.9
Primary Balance (% of GDP)	-0.9	-2.5	-2.5	-3.0	-3.3	-3.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

The global outlook is very uncertain. This outlook reflects information available at the time of its preparation. The data and analysis presented are as of March 23, 2020. As more information becomes available, these projections will be revised. They are presented now to assist policymakers to design alternative policy responses.

KYRGYZ REPUBLIC

Table 1	2019
Population, million	6.4
GDP, current US$ billion	8.5
GDP per capita, current US$	1328
International poverty rate ($1.9)[a]	0.9
Lower middle-income poverty rate ($3.2)[a]	15.5
Upper middle-income poverty rate ($5.5)[a]	61.3
Gini index[a]	27.7
School enrollment, primary (% gross)[b]	107.0
Life expectancy at birth, years[b]	71.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) Most recent WDI value (2017).

Real GDP grew by 4.5 percent in 2019, driven by gold production and exports. Because of the impacts of COVID-19 and slower growth in Russia, we project economic growth to slow to 0.4 percent in 2020. Growth is projected to rebound in 2021–22, assuming that the economy recovers from COVID-19-related turmoil and that gold output increases. The poverty rate is likely to stagnate. Risks to the outlook include an extended period of COVID-19 impact and a sharper slowdown in regional growth.

Recent developments

Strong gold production boosted economic growth in 2019, as output from the Kyrgyz Republic's largest gold mine, Kumtor, rose by almost 15 percent year on year. As a result, real GDP grew by 4.5 percent, up from 3.8 percent in 2018. Growth was driven by consumption and exports supported by gold.

Higher gold export earnings—as well as reduced import spending—resulted in the narrowing of the current account deficit to an estimated 9.3 percent of GDP in 2019 (from 12.1 percent in 2018). Remittance inflows fell by 13.6 percent in 2019 after Russia introduced limits on money transfers.

The government tightened the fiscal stance further in 2019. The deficit narrowed to 0.6 percent of GDP from 1.6 percent in 2018 as higher taxes, non-tax revenues, and grants more than offset an increase in spending. Higher spending was mostly the result of increases in wages, pensions, and capital outlays. Public debt fell to 54.1 percent of GDP from 54.8 percent at the end of 2018.

The twelve-month inflation rate rose to 4.1 percent in February 2020, up from deflation of 0.7 percent in February 2019, driven by higher food prices. With inflation expected to increase further, the central bank raised its policy rate by 75 basis points to 5 percent in late February 2020. The authorities allowed a 20-percent depreciation of the som in March 2020. Foreign exchange reserves declined by $43 million since the beginning of the year to $2.1 billion (equivalent to 4.3 months of imports of goods and services).

The banking sector remained solid with key prudential indicators well above their regulatory thresholds. The nonperforming loan ratio has been stable at 8 percent since 2016.

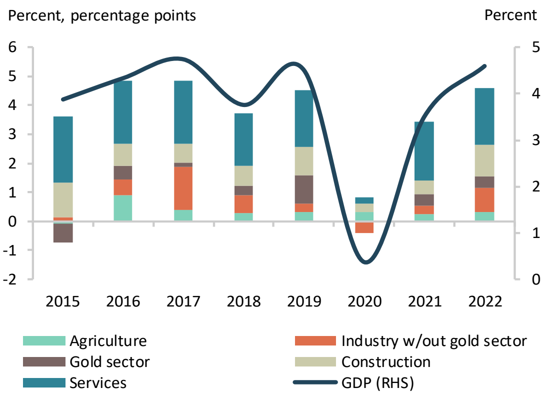
The poverty rate (measured at $3.2 per day, 2011 PPP terms) is estimated to stagnate at 15.3 percent in 2019. Higher food prices have had a negative impact on consumption, and have reduced the purchasing power of households at the bottom of the income distribution.

Outlook

In our baseline scenario, real GDP growth is projected to decline to 0.4 percent in 2020 due to the impact of the COVID-19 outbreak and weakening growth in Russia following the oil price fall in March. The COVID-19 outbreak is reducing trade, transport, and tourism as well as domestic activities that are dependent on inputs from China. Gold production is expected to remain at the same level as in 2019 with the reduction at the Kumtor gold mine to be offset by a new gold project Djerooi. Assuming the containment of the outbreak in the second half of 2020, GDP growth is forecast to rebound to 3.5 percent in 2021 and 4.6 percent in 2022.

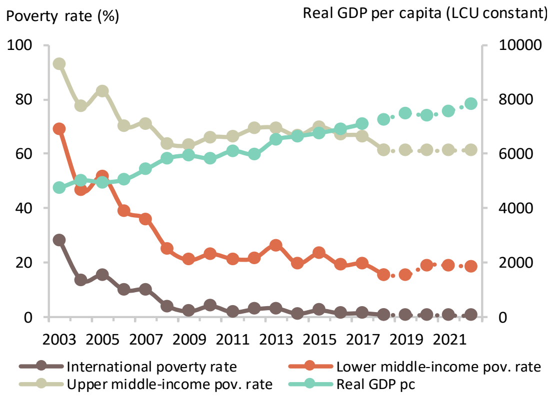
The current account deficit is expected to widen to 14.4 percent of GDP in 2020, reflecting slower export growth and

FIGURE 1 Kyrgyz Republic / Real GDP growth and contributions to real GDP growth



Sources: Kyrgyz authorities; World Bank staff calculations.

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



Sources: Kyrgyz authorities; World Bank staff calculations.

reduced remittances. However, the current account deficit is expected to narrow to about 10 percent of GDP in 2022.

The fiscal deficit is expected to widen to 7.7 percent of GDP in 2020 owing to a fall in revenues as a result of the COVID-19 and oil price shocks. At the same time, spending is likely to increase, reflecting a higher wage bill and COVID-19 mitigation measures. Over the medium term, the deficit is projected to decline to 3 percent of GDP. Fiscal consolidation would require measures to expand the tax base, streamline non-priority purchases, and reduce the wage bill as a share of GDP.

Twelve-month inflation is projected to accelerate to over 10 percent in 2020, reflecting COVID-19-related supply disruptions, depreciation of the som and an expansionary fiscal stance.

The poverty rate is projected to increase to 19.1 percent in 2020, since households face both external and domestic shocks due to the COVID-19 outbreak. Higher inflation, lower labor earnings due to slowdown of economic activities and lower employment, reduced remittances as a result of weakening growth in Russia as well as lower incomes from selling agricultural products stemming from shortage of imported agricultural inputs and risks of disruption of spring field works are likely to contribute to increased poverty. Higher food prices, especially on wheat and wheat flour, will disproportionally hurt the poor. Social transfers will continue to play an important role in supporting the most vulnerable population.

The level of uncertainty underlying our baseline scenario is substantial. To illustrate that uncertainty, we have prepared the downside scenario, which assumes a longer duration of the COVID-19 outbreak and a sharper slowdown in Russia. Under this scenario, real output is projected to contract by 2 percent in 2020. Both the external current account and fiscal deficits are likely to deteriorate to about 16 percent and 8 percent of GDP, respectively.

Risks and challenges

In the short term, the closure of the border with China in late January 2020 is likely to have a severe negative impact on small- and medium-sized businesses in trade, construction, and textiles if the disease lasts longer. COVID-19 poses a considerable risk to fiscal revenue. According to the authorities, the revenue losses might be as high as 6.5 percent of GDP for the full year.

Over the medium term, the Kyrgyz Republic's economic performance will continue to be vulnerable to developments in its major trading partners. A slowdown in Russia or Kazakhstan could negatively impact the baseline scenario through remittances and trade. Fluctuations in commodity prices could have a mixed impact on export receipts and the import bill.

The failure to meet standards and technical regulations remains a significant hindrance to trade, especially within the Eurasian Economic Union. Requirements for stricter sanitary and phytosanitary standards need to be met, and more laboratories need to be internationally accredited and better linked to exporters. Trade facilitation should be improved rapidly, including the implementation of all remaining measures under the World Trade Organization’s Trade Facilitation Agreement. Improving the Kyrgyz Republic’s connectedness with regional economies will provide the foundation for stronger output, exports, and job growth.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	4.7	3.8	4.5	0.4	3.5	4.6
Private Consumption	6.5	5.0	3.6	0.3	3.1	3.8
Government Consumption	1.3	1.3	1.9	5.1	3.2	-0.6
Gross Fixed Capital Investment	9.2	7.0	4.5	-0.6	6.5	8.9
Exports, Goods and Services	6.1	-2.7	7.0	1.8	5.7	7.8
Imports, Goods and Services	7.4	7.4	3.2	1.3	6.0	6.4
Real GDP growth, at constant factor prices	3.8	3.4	5.2	0.4	3.1	4.6
Agriculture	2.2	2.6	2.6	2.0	2.5	2.5
Industry	8.6	6.6	15.8	-2.3	3.9	12.3
Services	3.3	2.8	2.9	0.4	3.3	2.8
Inflation (Consumer Price Index)	3.2	1.5	1.1	10.6	7.2	5.3
Current Account Balance (% of GDP)	-6.3	-12.1	-9.3	-14.4	-11.5	-10.3
Net Foreign Direct Investment (% of GDP)	2.9	1.7	2.5	2.6	5.4	5.2
Fiscal Balance (% of GDP)	-4.6	-1.6	-0.6	-7.7	-4.8	-3.0
Debt (% of GDP)	58.8	54.7	54.1	65.6	64.8	64.0
Primary Balance (% of GDP)	-3.5	-0.5	0.5	-6.5	-3.0	-1.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.5	0.9	0.8	0.8	0.8	0.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	19.6	15.5	15.3	19.1	18.9	18.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	66.4	61.3	61.3	61.3	61.3	61.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2011-KIHS, 2017-KIHS, and 2018-KIHS. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using annualized elasticity (2011-2017) with pass-through = 0.8 based on GDP per capita in constant LCU.

The global outlook is very uncertain. This outlook reflects information available at the time of its preparation. The data and analysis presented are as of March 23, 2020. As more information becomes available, these projections will be revised. They are presented now to assist policymakers to design alternative policy responses.

MOLDOVA

Table 1	2019
Population, million	3.5
GDP, current US$ billion	11.9
GDP per capita, current US$	3395
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.9
Upper middle-income poverty rate ($5.5)[a]	13.3
Gini index[a]	25.7
School enrollment, primary (% gross)[b]	91.3
Life expectancy at birth, years[b]	71.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011PPPs.
(b) Most recent WDI value (2017).

After solid growth in early 2019, the COVID-19 crisis is resulting in a sudden slowdown to economic activity and straining public finances. The response will need to mitigate the impact on households and businesses, while advancing key reforms—including strengthening the rule of law and fight against corruption, boosting competition and human capital—to support jobs and growth when the crisis subsides. The economy is projected to slip to a recession in 2020 requiring urgent budget revision.

Recent developments

The 2019 economic growth slowed down sharply in the last quarter and ended at 3.6 percent. Despite two changes in the government, by September 2019, the economy grew by 4.8 percent. In the last quarter, however, the growth subsided sharply to just 0.2 percent. In 2019, growth was driven mostly by gross fixed capital formation and private consumption, each contributing 3.2 pp to GDP growth y/y. Consumption was supported by robust remittances, higher wages and social benefits during the election cycle. Net exports subtracted 1.5 pp from growth, as exports growth underpinned by strong foreign demand was not enough to offset increasing imports. Construction (+1.3 pp), trade (+1.2 pp), and ICT (+0.4 pp) exhibited the strongest growth, while agricultural contribution was negative at -0.2 pp.

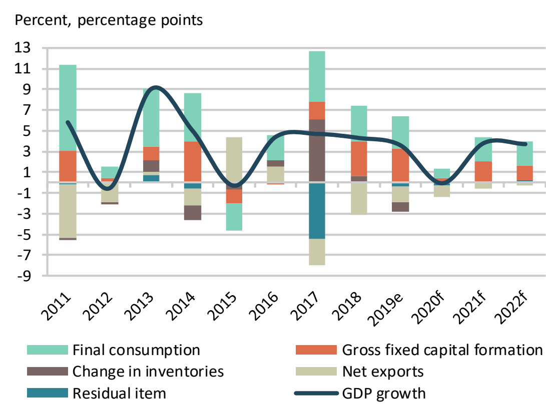
Increased employment and disposable income growth for the bottom two quintiles, and earnings in the agricultural sector have generally been trending upwards contributing to recent reductions in poverty. However, 2019 saw an increase in the unemployment rate (+2.2 pp) compared to 2018. The differences were largely driven by increases in unemployment in rural areas and informal jobs.

Against the background of lower base, expansionary fiscal stance and leu's depreciation, consumer inflation has been on the rise and averaged 4.8 percent in 2019. However, in anticipation of upcoming disinflationary pressures, the central bank cut the policy rate by 2 percentage points to 5.5 percent in December 2019 and twice in 2020 to 3.25 percent (historically lowest). To counteract the anticipated contraction and encourage further financial intermediation in national currency, it also reduced the reserve requirement rate for national and foreign currencies. Overall credit to private sector has increased by 11.5 percent y/y in 2019, mostly led by lending to households.

The general government deficit stood at 1.5 percent of GDP in 2019. After a double-digit growth in 2018, the pace of revenue collections has slowed down to 9.7 percent y/y, supported by VAT (+8.5 percent, y/y) and excises (+9.5 percent, y/y). Overall expenditures increased by 11.3 percent y/y, led by social spending (+17.8 percent y/y) and a recovery of capital spending. Yet, budgeted capital spending remained under-executed leading to a lower than budgeted fiscal deficit. Unlocking foreign financing, from the EU and IMF in particular, helped closing the financing gap.

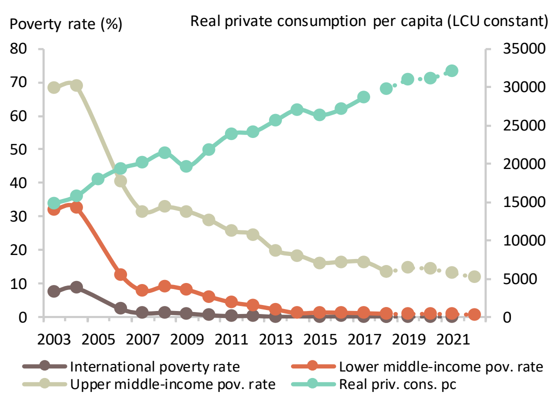
The current account deficit widened further in the first three quarters of 2019 reaching 10.7 percent of GDP (on a four-quarter basis). This was due to widening trade deficit and despite robust inflow of remittances. Exports growth of 7.3 percent was not enough to offset the rise in imports by 6.7 percent. By September 2019, foreign direct investment increased by 3.6 percentage points to 5.9 percent of GDP. The main source of current account deficit financing remained currency and deposits, while external debt declined by 4 pp of GDP to 61.2 percent of GDP.

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



Sources: World Bank.

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



Source: World Bank.
Notes: see table 2

Outlook

The economy is facing a recession in 2020 due to a COVID-19 crisis. On March 17, the Parliament declared the state of emergency and announced measures to contain the crisis impact: rescheduling payments for mortgage loans, delaying payments of personal income tax by one quarter and for communal services, relaxing lending policy, temporary financial support to agri-food firms, a VAT cut for tourism and catering industry, increasing subsidies for first-home mortgage loans. The contraction is projected at -0.1 percent provided the crisis ends in H1-2020 and improvements in consumer and business confidence resume fast after the crisis. The current account deficit is projected to stay high as exports decline faster than imports. Inflationary pressures are expected to strengthen despite lower growth trajectory, and lower international prices. The lockdown will also constrain competition and may lead to potential commodity shortages. Monetary policy is expected to remain expansive throughout 2020 and support banking sector liquidity to avoid the credit crunch. The 2020 budget envisages a deficit of 3 percent of GDP (compared to 1.5 percent of GDP in 2019), mostly financed through external loans which might be difficult to realize. Mitigating the crisis impact will require prioritizing spending from roads and public sector wages to supporting health-related interventions, unemployed and firms.

Poverty is projected to increase as households grapple with the adverse effects of the COVID-19. Potential health shocks to earners in the household, lower remittances due to reduced economic activity in sender countries, higher domestic prices due to shortages and interruptions in supply chains, and lower employment and or earnings stemming from lower aggregate demand are all likely to contribute to increased poverty. The effects are likely to be disproportionately felt by households with inadequate coping strategies or insurance mechanisms. In the short term, the government will need to enact appropriate mitigating strategies such as ensuring adequate access to health care, particularly for at-risk groups, alleviating food shortages and compensating for reduced and lost income through appropriate social security transfers.

Risks and challenges

While the medium-term growth prospects are positive, such an outlook is subject to considerable downside risks. Reduced trade and business activity at regional and global level, and the impact of potentially prolonged crisis could deepen the recession to above 2 percent. The slowdown of transmitting economies may lead to a further reduction of remittances, which have shown a declining trend already in 2019.

The 2020 Presidential elections represent a source of yet another round of political uncertainty. Additionally, the planned fiscal stimulus ahead of elections through a scale up of road investments and social benefits might prove unrealistic given the projected slowdown in public revenues, uncertain financing sources, and lack of projects readiness.

The economy struggles with low productivity, unfavorable demographics, and serious governance challenges. The Government has taken some steps to reduce the large footprint in the economy and to reduce risks from the financial sector. Yet, the share of the state in economy remains large and, coupled with weak institutions and governance challenges also in the financial sector, pose additional threats to macroeconomic stability. The extension of the COVID-19 outbreak among health and security concerns, would strain public finances. Finally, the economy is highly vulnerable to extreme weather and external environment.

TABLE 2 Moldova / Macro poverty outlook baseline scenario (annual percent change unless indicated otherwise)

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	4.7	4.3	3.6	-0.1	3.8	3.7
Private Consumption	5.4	3.9	3.6	0.4	2.6	2.7
Government Consumption	1.1	-0.2	0.4	5.0	0.6	0.5
Gross Fixed Capital Investment	8.0	14.5	12.6	1.6	7.2	5.4
Exports, Goods and Services	10.9	7.2	7.3	-0.1	7.9	7.9
Imports, Goods and Services	11.0	9.7	6.7	2.0	5.4	5.0
Real GDP growth, at constant factor prices	4.2	4.4	3.9	-0.1	3.8	3.7
Agriculture	8.6	2.6	-2.3	1.5	1.5	1.3
Industry	3.8	8.3	7.1	3.1	6.1	5.9
Services	3.4	3.3	4.1	-1.8	3.3	3.2
Inflation (Consumer Price Index)	6.6	3.1	4.7	6.5	4.0	3.8
Current Account Balance (% of GDP)	-5.7	-10.6	-9.6	-9.9	-9.6	-8.7
Net Foreign Direct Investment (% of GDP)	1.5	2.4	4.5	1.3	3.3	3.4
Fiscal Balance (% of GDP)	-0.6	-0.8	-1.5	-3.0	-2.8	-2.5
Debt (% of GDP)	32.7	30.2	29.2	30.8	31.0	30.9
Primary Balance (% of GDP)	0.5	0.0	-0.8	-2.3	-2.1	-1.9
International poverty rate ($1.9 in 2011 PPP)[a,b,c]	0.1	0.0	0.0	0.0	0.0	..
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b,c]	1.1	0.9	1.1	1.0	1.0	0.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b,c]	16.3	13.3	14.7	14.4	13.0	11.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2018-HBS. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2018) with pass-through = 0.7 based on private consumption per capita in constant LCU.
(c) Estimate for 2019 based on a simulated 10% decline in remittances per capita using 2018 HBS.

The global outlook is very uncertain. This outlook reflects information available at the time of its preparation. The data and analysis presented are as of March 23, 2020. As more information becomes available, these projections will be revised. They are presented now to assist policymakers to design alternative policy responses.

MONTENEGRO

Table 1	2019
Population, million	0.6
GDP, current US$ billion	5.5
GDP per capita, current US$	8828
Upper middle-income poverty rate ($5.5)[a]	19.9
Gini index[a]	39.0
School enrollment, primary (% gross)[b]	98.1
Life expectancy at birth, years[b]	76.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2017).

The COVID-19 pandemic will have a significant impact on the economy and livelihoods and will likely create a recession in 2020. The full extent of the impact is difficult to quantify given the evolving nature of the pandemic, but job losses and increase in poverty are expected. Efforts towards fiscal consolidation have strengthened country's ability to deal with this crisis, but significant risks remain.

Recent developments

Following the COVID-19 pandemic and measures to contain it shape the most recent developments, but this section focuses on the economic developments prior to the crisis. Following robust expansion of 5.1 percent in 2018, growth softened to 3.6 percent in 2019, reflecting lower domestic demand. Private consumption was the backbone of growth dynamics in 2019, while investment decelerated partly due to an under-execution in highway spending. The lower investments translated into lower imports of construction material and machinery equipment, which combined with strong growth of exports resulted in a positive contribution of net exports to growth. After 19 quarters of consecutive growth, the construction sector fell by 7 percent y-o-y in the last quarter of 2019. In 2019, industrial production contracted by 6.3 percent as growth in the mining sector did not offset steep declines in manufacturing and energy production. Tourist arrivals and overnight-stays on the other hand grew by 10.3 and 7.2 percent, respectively, while retail trade increased by 5.2 percent in 2019.

In 2019, employment increased by 2.3 percent, mostly in construction, tourism, and retail sectors. The participation and employment rates reached record highs of 57.4 and 48.7 percent, respectively, while the unemployment rate was 15.1 percent. However, the employment rate remains lower for women, youth, and the Northern region.

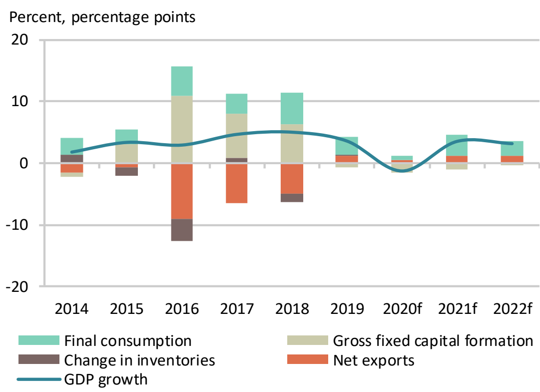
Average annual inflation fell from 2.6 percent in 2018 to 0.4 percent in 2019, while real wages grew by 0.5 percent. Economic growth, rising employment, and low inflation reduced poverty (measured as income below the standardized middle-income-country poverty line of $5.5/day in 2011PPP) from 20 percent in 2015 to an estimated 17.6 percent in 2019, though shocks may push vulnerable populations back into poverty.

Overall bank lending remained robust in 2019, growing by 4.5 percent, mainly driven by lending to households. After the liquidation of two banks earlier in the year, deposits slightly recovered and grew by 0.5 percent in 2019. In December, the non-performing loans fell to 5.1 percent of total loans, while capital adequacy ratio was at a healthy 17.7 percent.

The current account deficit (CAD) narrowed to 15.2 percent of GDP in 2019 from 17 percent in 2018, owing to the shrinking trade balance. The strong tourism and transport season boosted exports, while imports grew much slower due to the machinery imports contraction. The primary account shrunk over large interest payments, while remittances inflows remained stable at 5 percent of GDP. Almost half of the CAD was covered by net FDI, the rest by external debt. In December, foreign reserves covered 6.3 months of merchandise imports.

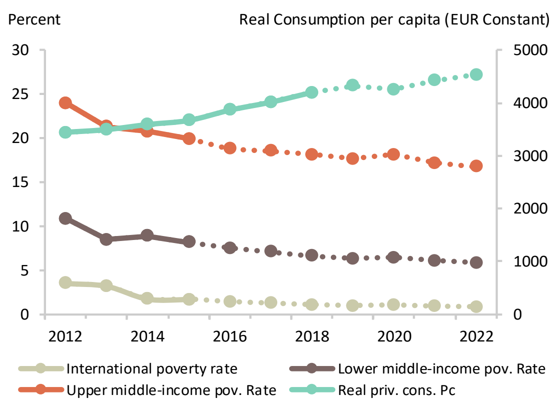
The fiscal deficit fell to 3 percent of GDP. While capital spending was under-executed, current spending increased partly due to a one-off guarantee payment of 0.6 percent of GDP. Moreover, Montenegro passed a law on taking over Montenegro Airlines' debt and capital expenditures with an estimated overall fiscal impact of around 1.5 percent of GDP over the next 5 years.

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



Sources: MONSTAT, World Bank

FIGURE 2 Montenegro / Actual and projected poverty rates and consumption per capita



Source: World Bank.
Notes: see table 2

Supported by favorable global financial conditions, Montenegro issued a EUR500 million Eurobond in September 2019. Although this pushed public and publicly guaranteed (PPG) debt to 81 percent of GDP in 2019, the proceedings will be used to repay debt due in 2020.

Outlook

High uncertainty over the evolution of the COVID-19 pandemic blurs the outlook. Montenegro's growth was set to moderate in 2020-22 amid finalization of the highway construction, but the COVID-19 outbreak and associated uncertainties are projected to drive Montenegro into recession exposing its vulnerability to external shocks. Under the baseline where tourism activity contracts in April-May and continued but less pronounced declines in June-July, growth will contract to an estimated -1.3 percent. The lower economic activity and higher uncertainty is further estimated to reduce private consumption and investments, although government consumption will be strong due to the previously budgeted increase in health and education salaries. Inflation will remain low given falling demand and the lower international commodity prices. External imbalances remain elevated while net FDI is expected to decline to from 7 to 5 percent of GDP as the higher global uncertainty disservices emerging markets. The recession will increase the fiscal deficit as revenues decline, and more spending is anticipated for unemployment and social protection benefits. Should the pandemic be contained in 2020, growth is estimated to rebound to 3.6 percent in 2021, driven by exports and consumption. The COVID-19 pandemic will likely move Montenegro from its previously anticipated path of debt reduction, raising concerns over public debt sustainability amid higher borrowing costs in international markets. Poverty is expected to increase in 2020 due to the adverse impacts of the outbreak on economic activity in Montenegro, in addition to its impact on health outcomes. The anticipated decline in tourism and related services (and depressed demand for exports, mobility restrictions) will hinder employment and earnings, including for poorer and low-skill populations who are more likely to depend on seasonal, contractual, and self- employment income.

Risks and challenges

Materialization of either domestic or external risks could magnify the negative effects of the crisis. If the COVID-19 pandemic is not contained by August, Montenegro could see a recession of a magnitude similar to the 2009 one. Short-term policy responses, such as compensating income losses through unemployment and social protection benefits, will be needed in that case to mitigate impacts on the poor and vulnerable, who are often disproportionately affected. However, the lack of monetary policy and fiscal buffers together with high public debt amplify Montenegro's vulnerabilities to these external risks, including higher volatility in global financial markets. Domestic risks are also elevated considering the general elections taking place in 2020 in a highly polarized political environment. The USD appreciation against the euro could further increase debt service costs as Montenegro starts repaying the USD-denominated Chinese loan in 2021. To reduce vulnerabilities and support growth, Montenegro must address its internal and external imbalances, as well as its low productivity by improving the quality and mobility of human capital and intensifying the efforts to strengthen the rule of law, level the playing field for businesses, and streamline and enhance the efficiency of the public sector.

TABLE 2 Montenegro / Macro poverty outlook baseline scenario (annual percent change unless indicated otherwise)

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	4.7	5.1	3.6	-1.3	3.6	3.2
Private Consumption	3.9	4.6	2.9	-1.5	4.0	2.5
Government Consumption	-1.4	6.3	2.1	6.6	-0.2	0.8
Gross Fixed Capital Investment	18.7	14.7	-1.5	-3.6	-2.5	-0.8
Exports, Goods and Services	1.8	6.9	6.4	-6.0	5.9	3.5
Imports, Goods and Services	8.4	9.2	2.2	-3.8	1.8	0.6
Real GDP growth, at constant factor prices	4.7	5.1	3.6	-1.5	3.6	3.2
Agriculture	-3.1	3.3	2.3	1.0	1.3	1.3
Industry	9.7	15.3	0.2	-2.0	-3.0	1.0
Services	4.3	2.2	4.9	-1.6	6.0	4.1
Inflation (Consumer Price Index)	2.4	2.6	0.4	0.2	1.5	1.2
Current Account Balance (% of GDP)	-16.1	-17.0	-15.2	-15.3	-12.1	-10.2
Net Foreign Direct Investment (% of GDP)	11.3	6.9	7.0	5.1	7.7	7.9
Fiscal Balance (% of GDP)	-5.7	-4.6	-3.0	-5.0	0.7	0.7
Debt (% of GDP)	64.2	70.1	77.3	75.8	67.7	65.1
Primary Balance (% of GDP)	-3.3	-2.4	-0.8	-2.7	2.7	2.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	18.5	18.2	17.6	18.1	17.2	16.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2012-SILC-C and 2015-SILC-C. Actual data: 2015. Nowcast: 2016-2019. Forecast are from 2020 to 2022.
(b) Projection using point-to-point elasticity (2012-2015) with pass-through = 0.4 based on private consumption per capita in constant LCU, with estimated impacts of fiscal consolidation in 2017 and higher passthrough of the recession in 2020.

The global outlook is very uncertain. This outlook reflects information available at the time of its preparation. The data and analysis presented are as of March 23, 2020. As more information becomes available, these projections will be revised. They are presented now to assist policymakers to design alternative policy responses.

NORTH MACEDONIA

Table 1	2019
Population, million	2.1
GDP, current US$ billion	12.7
GDP per capita, current US$	6102
Poverty rate ($3.2/day PPP terms)[a]	8.6
Poverty rate ($5.5/day PPP terms)[a]	18.2
Gini index[a]	34.2
School enrollment, primary (% gross)[a]	98.9
Life expectancy at birth, years[b]	75.6

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

Growth in 2019 at 3.6 percent surprised on the upside and unemployment declined to another historical low as employment increased. Personal consumption and recovered investments are behind the robust growth. Yet, the near-term outlook is dim due to the COVID-19 crisis with a recession likely erasing labor market improvements and deepening fiscal vulnerability. Economic and social measures to remedy the crisis will take priority, but fiscal, competition, and governance reforms will be needed to accelerate the EU accession negotiations.

Recent developments

The economy expanded in 2019 reaching 3.6 percent, compared to 2.7 percent in 2018. The main contributors to growth were wholesale and retail trade (propelled by rising employment and wages), followed by construction activities (both private and public investments) and real-estate services, together accounting for 1.7 pp of overall growth. Agriculture and public services contributed 0.3 pp each, while manufacturing had a neutral contribution to growth. On the demand side, the main contribution to growth came from private consumption 2.6 pp, spurred by rising wages, pensions, and household borrowing. Investments added another 2.1 pp, while net exports subtracted from growth.

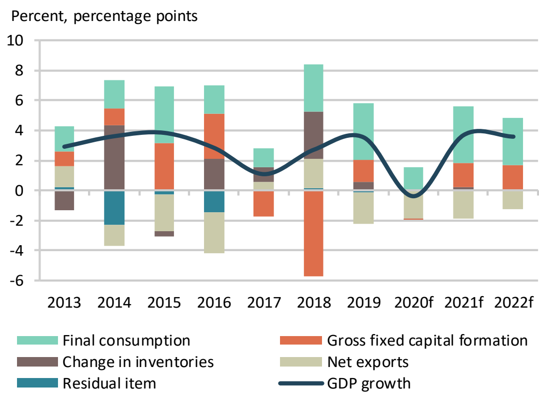
The labor market continued improving. Employment went up by 5.1 percent y-o-y in 2019, more than doubling the 2018 growth. The employment rate increased to 49.9 percent—up by 4 pp, while unemployment fell to 16.6 percent in Q4 2019 (annual average of 17.3), another historic low. Labor shortages were pressing in most dynamic regions around technological zones, which contributed to wage pressures. The average gross wage increased by 4 percent y-o-y in real terms due to minimum wage and public sector wages increases. The highest increase was in public services, transport, construction, and agriculture.

Using the US$5.5/day (2011 PPP) line, poverty is projected to have fallen to 16.9 percent in 2019, continuing a decreasing trend since 2009. Higher employment and labor earnings, together with higher incomes from pensions and social transfers have been critical in reducing poverty. A solid increase in incomes for the less well-off is behind this recent poverty reduction; annualized income growth for the bottom 40 percent was about seven percent between 2012 and 2017. This has also contributed to a significant reduction of inequality, from about 42 to 34.2 Gini points between 2009 and 2017. Yet, despite this reduction in poverty, a large share of the non-poor population remains vulnerable and at risk of falling into poverty if hit by a shock.

Consumer prices increased by 1 percent y-o-y in 2019, largely due to higher food prices. Credit continued its robust growth in 2019 at 6.0 percent y-o-y, somewhat lower than in 2018 (7.3 percent). Household credits grew by 10.5 percent y-o-y, accounting for 80 percent of total credit growth. Corporate credit growth was robust in early 2019, but subsided in Q4 ending the year at 1.9 percent growth. Nevertheless, it was entirely supported by long term investment lending, which grew by 6.9 percent y-o-y. Nonperforming loans further declined to 4.6 percent.

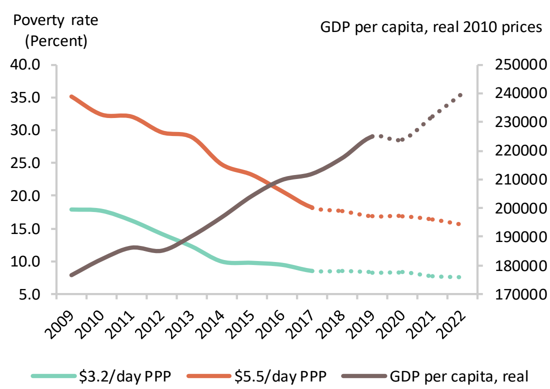
Despite rise in revenues, fiscal deficit widened in 2019. Revenues increased by 8.2 percent y-o-y in 2019 due to social contributions (+10 percent y-o-y as pension and health rates increased in January 2019), personal income tax (higher rate was introduced in January and abolished in September), VAT, and one-off nontax revenues.

FIGURE 1 North Macedonia / Real GDP growth and contributions to real GDP growth



Sources: World Bank.

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



Source: World Bank.

However, public spending went up by 8.7 percent y-o-y due to rising pensions, wages, operations and maintenance, and employment subsidies. Capital spending, even though again significantly under-executed, increased by 50 percent compared to the historic low from 2018. The general government deficit with the state road enterprise stood at 2.1 percent of GDP, up from 1.1 percent in 2018. Public and publicly guaranteed debt increased slightly to 48.9 percent of GDP, from 48.6 percent in 2018.

The external imbalance widened in 2019 to 2.8 percent of GDP despite solid export performance. FDI-related exports continued growing at double digit rates. These were supplemented by a solid export of furniture and iron and steel, while traditional apparel exports declined. Yet, the goods and services trade deficit widened to 14.4 percent of GDP, +1.6 pp) as a result of rising imports. External debt has likely reached 74 percent of GDP.

Outlook

On March 18, the President declared the state of emergency and announced measures to contain the COVID-19 crisis impact. Due to the crisis snap elections originally expected in April, have now been postponed. The economy is facing a recession with negative growth for 2020 projected at -0.4 percent under the optimistic assumption that the crisis will end by end-June and the economy will be returning back to normal. Personal consumption is expected to slow down significantly compared to 2019, while exports and investments will decline. On the other hand government consumption would ramp-up in an attempt to boost the economy and to counter the adverse crisis impact. Increased government spending will result in higher deficit and debt levels at a time when financing conditions (both domestic and external) may tighten. A budget revision needs to reprioritize spending. Poverty reduction gains will likely be lost as firms defer to labor shedding in the most affected sectors (tourism, and manufacturing that contributed the most to poverty reduction in the past). Once the immediate crises is over, the NATO accession and the launch of the accession negotiations with the EU should help accelerate recovery in 2021. Under this scenario, growth is expected to recover in 2021 to 3.7 percent, as consumer and investor confidence is restored resulting in rising personal consumption and recovering of private investments. Poverty may resume its decline reaching 15.6 percent by 2022 given the expected real wage growth and the improvement in the labor market.

Risks and challenges

If the crisis gets prolonged beyond mid-2020, the economy might end up in a deeper recession (of above -2 percent) accompanied by faster rise in unemployment and poverty which will require mobilizing stronger fiscal and monetary response beyond 2020. While mitigating the near-term crisis impact, avoiding losing focus on long-term policy priorities to address low and declining human capital, weak competition policy and judiciary, declining productivity and rising migration will be critical.

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

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	1.1	2.7	3.6	-0.4	3.7	3.6
Private Consumption	1.8	2.2	6.0	0.9	4.3	3.9
Government Consumption	-2.6	4.1	2.3	6.0	3.8	1.2
Gross Fixed Capital Investment	-8.0	-9.9	-5.1	-0.2	6.8	7.0
Exports, Goods and Services	8.3	22.1	2.5	-0.2	5.8	6.2
Imports, Goods and Services	5.2	17.4	1.2	1.9	6.5	6.0
Real GDP growth, at constant factor prices	-0.7	3.5	3.3	-0.4	3.7	3.6
Agriculture	-13.5	8.6	3.8	3.0	2.0	2.0
Industry	-1.0	-0.6	4.3	2.4	4.8	3.8
Services	1.1	4.5	2.8	-1.9	3.5	3.7
Inflation (Consumer Price Index)	1.4	1.5	1.0	2.8	1.8	2.0
Current Account Balance (% of GDP)	-0.8	-0.1	-2.8	-3.6	-2.3	-1.7
Net Foreign Direct Investment (% of GDP)	1.8	5.6	2.6	2.2	4.0	4.1
Fiscal Balance (% of GDP)	-2.8	-1.1	-2.1	-3.5	-3.2	-2.4
Fiscal Balance with Pub. Ent. for State Road (% of GDP)	-3.5	-1.7	-2.4	-3.8	-3.7	-2.5
Debt (% of GDP)	47.6	48.6	48.8	52.5	53.9	53.5
Primary Balance (% of GDP)	-2.1	-0.5	-1.2	-2.6	-2.4	-0.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	8.6	8.5	8.3	8.3	7.8	7.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	18.2	17.6	16.9	16.9	16.4	15.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2017-SILC-C. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2017) with pass-through = 0.87 based on GDP per capita in constant LCU.

MPO / Apr 20

The global outlook is very uncertain. This outlook reflects information available at the time of its preparation. The data and analysis presented are as of March 23, 2020. As more information becomes available, these projections will be revised. They are presented now to assist policymakers to design alternative policy responses.

POLAND

Table 1	2019
Population, million	38.0
GDP, current US$ billion	628.2
GDP per capita, current US$	16543
International poverty rate ($1.9)[a]	0.4
Lower middle-income poverty rate ($3.2)[a]	0.7
Upper middle-income poverty rate ($5.5)[a]	1.4
Gini index[a]	29.7
School enrollment, primary (% gross)[b]	100.0
Life expectancy at birth, years[b]	77.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) Most recent WDI value (2016).

After a solid expansion in 2019, Poland's economic growth is expected to decelerate sharply to 0.4 percent, as the global COVID-19 pandemic is affecting consumer and investors behavior and, together with containment and prevention measures, is likely to cause a negative shock to both demand and supply. Sharp declines in consumption and private investment will be only partially offset by higher government spending. The key challenge over the short-term is containing the COVID-19 outbreak while minimizing its economic impact.

Recent developments

Poland's GDP grew by 4.1 percent in 2019, driven primarily by domestic consumption (3.9 percent growth) and robust investment (6.9 percent increase). Rising employment, higher wages, generous social transfers through "Family 500+" and "13th pension" programs, and favorable financing conditions have supported private consumption. Investment continued to expand, albeit its ratio to GDP at 18.6 percent remained below the 25 percent targeted by the government by 2020.

Notwithstanding the freezing of energy prices for households and micro and small enterprises at mid-2018 levels, inflation accelerated to 4.7 percent y/y in February 2020.

Above potential GDP growth since 2017 helped to narrow the general government deficit, despite higher social transfers. Due to a pre-election fiscal stimulus, the general government deficit in 2019 is expected to increase to 0.7 percent of GDP, even as tax revenues exceeded expectations. The primary balance surplus together with fast economic growth helped to reduce public debt to an estimated 46 percent of GDP in 2019.

Lower demand in some key export markets, especially in Germany, weighed on real exports growth, which decelerated to 4.2 percent in 2019. Slowing domestic demand affected the pace of real import growth (3.0 percent in 2019), resulting in a contribution of net trade to GDP growth and led to a current account surplus of 0.44 percent of GDP.

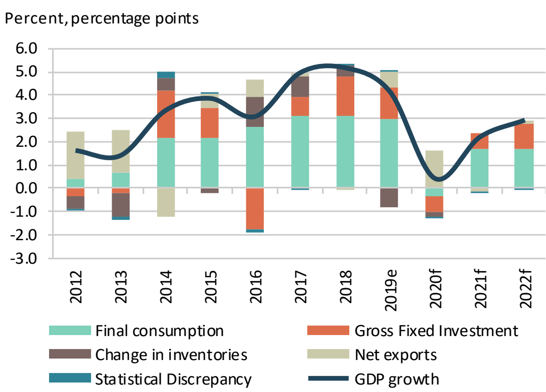
The labor market remains tight with the unemployment rate down to 2.9 percent, despite increased immigration and strong activity rates, as a result of growing labor demand and moderating supply, due to demographic shifts and a lower retirement age. The 7 percent rise in the minimum wage between 2018 and 2019, which affected more than 10 percent of all employees under the labor code, further contributed to labor market tightness.

Average household incomes rose by 4.3 percent in 2018, although the scale of the change was more limited than in 2017. While income gains were registered for most households, the bottom 10 percent of income distribution saw their incomes fall. A decline in incomes was also seen among farmers, whose harvests were affected by a severe drought in 2018. This fed in to higher national poverty rates, captured in the latest Household Budget Survey, in 2018 than in 2017 (using both subsistence and relative poverty measures).

Outlook

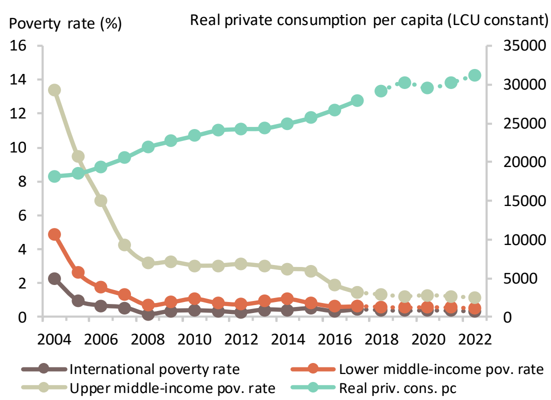
With the global outbreak of a novel coronavirus (COVID-19), growth is expected to decelerate sharply to 0.4 percent in 2020, amid lower external and domestic demand, and far-reaching containment measures, including closing of many non-essential businesses, educational institutions and cultural centers and a temporary border lockdown. Localized outbreaks are expected to be contained by June, with

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



Sources: MFMod, World Bank.

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



Source: World Bank.
Notes: see table 2

growth recovering 2.2 and 2.9 percent in 2021 and 2022, respectively.

The government has announced measures to contain the spread of COVID-19 and proposed an economic package including fiscal spending (around 3 percent of GDP) and liquidity component (circa 6.2 percent), backed by Euro 7.4 billion funding from the EC and monetary easing started by the Central Bank, aimed at supporting both the supply and demand sides of the economy by aiding affected companies' liquidity, introducing tax reliefs and deferrals as well as partial coverage of salaries in heavily impacted firms to sustain employment.

While household incomes are expected to be supported by social transfers and additional benefits paid out during the outbreak, there are likely to be groups disproportionately affected, for example poorer workers not covered by protective leave policies. An additional increase in the minimum wage of 15.6 percent in 2020 could further support low earners but could affect employment demand.

Sharp deterioration in business and consumer sentiment is likely to weigh on private investment, and FDI inflows are also forecast to decrease in 2020 as many EU economies face falling economic activity due to COVID-19. Heightened global uncertainty is also affecting portfolio flows.

The external environment has deteriorated markedly, with a sharp reduction in economic activity and import demand from Poland's main trading partners, including Germany, Italy and Czechia. Exports are expected to contract, due to border traffic slowdown and lower economic activity in the EU, even as the zloty depreciates.

Disruptions to regional and global value chains, especially in the automotive and machinery sectors, are expected to impact industrial production in Poland.

The general government deficit is expected to widen in 2020 to 3.4 percent of GDP, exceeding the EU threshold of 3 percent, as the government is implementing a sizeable fiscal package to mitigate the shock. Spending commitments made in the run-up to the 2019 election will also contribute to the widening of the fiscal deficit– before the economic recovery supports its narrowing to 1.6 percent in 2022.

Poverty is projected to increase. Although social assistance would continue to protect the poorest households, poor working households will be financially vulnerable to a reduction in hours worked and job loss due to COVID-19 and to the potentially deteriorating economic climate.

Risks and challenge

The downside risks are significant, both on the external and domestic side, with the main challenge over the short-term being to mitigate the social and economic impact of the COVID-19 pandemic. The main medium-term challenge to sustained growth is a tightening labor supply exacerbated by aging population.

The full economic and social impact of COVID-19 remains uncertain, and hinges on the success of containment efforts and of the policy measures to limit the economic fallout. A prolonged outbreak would further curb economic activity, strain the healthcare system, affect supply chains, depress investor sentiment and consumer demand, ultimately impacting the supply side and leading to a deeper recession. Under such a downside scenario the economic and fiscal impact in 2020 would be more severe, with implications for jobs and poverty. On the positive side, Poland has fiscal and monetary space to mitigate the adverse effects of lower global and domestic demand and shield its financially vulnerable populations, potentially leading to a quicker rebound in 2021 and 2022.

TABLE 2 Poland / Macro poverty outlook baseline scenario (annual percent change unless indicated otherwise)

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	4.9	5.1	4.1	0.4	2.2	2.9
Private Consumption	4.5	4.3	3.9	-3.2	2.3	3.0
Government Consumption	2.9	3.6	4.2	9.1	2.3	0.1
Gross Fixed Capital Investment	4.0	8.9	6.9	-3.3	3.2	5.6
Exports, Goods and Services	9.5	7.0	4.2	-4.0	3.3	4.0
Imports, Goods and Services	9.8	7.6	3.0	-7.4	3.9	4.1
Real GDP growth, at constant factor prices	4.8	5.1	4.0	0.4	2.2	2.9
Agriculture	2.5	-12.7	-1.6	0.8	1.0	0.8
Industry	2.5	4.6	4.2	-1.2	2.4	3.2
Services	6.1	6.0	4.0	1.3	2.2	2.9
Inflation (Consumer Price Index)	2.0	1.6	2.3	3.1	3.2	3.3
Current Account Balance (% of GDP)	0.1	-1.0	0.4	1.6	1.0	0.9
Net Foreign Direct Investment (% of GDP)	-1.5	-2.5	-1.8	-0.5	-0.8	-1.2
Fiscal Balance (% of GDP)	-1.5	-0.2	-0.7	-3.4	-2.3	-1.5
Debt (% of GDP)	50.6	48.8	46.0	51.0	52.8	52.3
Primary Balance (% of GDP)	0.1	1.2	0.7	-2.2	-1.0	-0.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.4	0.4	0.4	0.4	0.4	0.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.7	0.6	0.6	0.6	0.6	0.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	1.4	1.3	1.2	1.3	1.2	1.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2004-EU-SILC, 2015-EU-SILC and 2017-EU-SILC. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.
(b) Projection using point-to-point elasticity (2004-2015) with pass-through = 1based on private consumption per capita in constant LCU.

The global outlook is very uncertain. This outlook reflects information available at the time of its preparation. The data and analysis presented are as of March 23, 2020. As more information becomes available, these projections will be revised. They are presented now to assist policymakers to design alternative policy responses.

ROMANIA

Table 1	2019
Population, million	19.3
GDP, current US$ billion	249.2
GDP per capita, current US$	12881
International poverty rate ($1.9)[a]	3.8
Lower middle-income poverty rate ($3.2)[a]	7.2
Upper middle-income poverty rate ($5.5)[a]	15.8
Gini index[a]	36.2
Life expectancy at birth, years[b]	75.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) Most recent WDI value (2016).

Romania's GDP growth was strong in 2019, at 4.1 percent, driven by private consumption and an investment rebound. The labor market tightened and unemployment reached historic lows. The situation abruptly shifted in early 2020 due to the impact of the COVID-19 pandemic on the health sector, businesses, the labor market and households. Swift mitigation measures, including through a coordinated EU-wide fiscal stimulus, would reduce its economic and social impacts.

Recent developments

Romania's growth was strong in 2019, at 4.1 percent, in a context of subdued activity in the EU. Private consumption, up 5.9 percent, was the main driver of growth supported by wage and pensions increases. Investment rose strongly, growing at 17.8 percent yoy, owing to strong performance in construction. Exports grew by 3.5 percent reflecting weaker demand in major export markets, while imports remained buoyant (up 7.2 percent). Construction (up 16.8 percent) and ICT (up 8.1 percent) were the main drivers of production. The labor market benefited from the economic growth, with unemployment falling to a 27 -year low in December 2019 and real average wages increasing by 8.6 percent yoy.

The budget deficit widened to 4.6 percent of GDP at end-2019, due to scheduled expenditure increases on public wages (up 18.8 percent) and social spending (up 13.2 percent), led by a 15 percent increase in pensions. Budget revenues grew by 8.8 percent reflecting better CIT collection and social security contributions. Expansionary fiscal policy and depreciation pressures on the currency pushed inflation to 3.8 percent in 2019. The NBR lowered the monetary policy rate by 0.5 pp (to 2 percent) in an emergency meeting on March 20th to bolster financial sector liquidity.

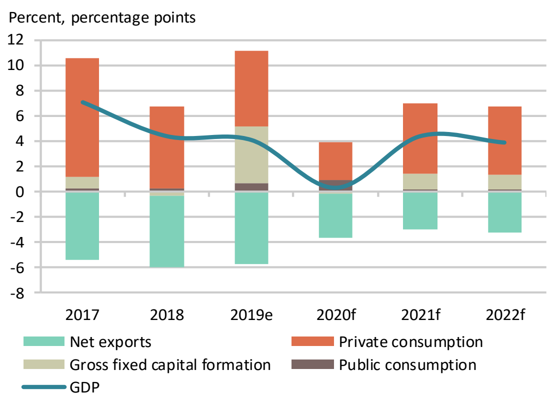
Real median household incomes increased by 20 percent yoy in 2017, linked to strong labor markets, rising average and minimum wages. Growth was strongest for better-off households, raising inequality to among the highest in the EU. The upper middle-income country poverty rate (at $5.50 2011 PPP) declined significantly between 2015 and 2019, from 26 to a forecasted 14 percent. The fiscal system's impact on inequality and poverty is limited by the design of labor taxes, among the least progressive in the EU, and because direct cash transfers to poor households are insufficient to compensate for tax payments.

Outlook

The negative impact of the COVID-19 pandemic on the economy is anticipated to be substantial, at least in the first half of 2020. The authorities acted promptly by declaring a state of emergency in mid-March. Measures restricted internal and external mobility to limit the spread of the virus, including closing schools, suspending events and limiting activity of public institutions. As a result, economic growth is projected to slow significantly to 0.3 percent in 2020, from an estimated 3.8 percent before the crisis. The projection is done under the assumption that growth would gradually bounce back in the second half of 2020 and further accelerate in 2021 to 4.4 percent. However, the risk of a recession in 2020 is substantial and growing as COVID-19 brings to a halt large segments of the European economy and disruptions to global supply chains and trade patterns.

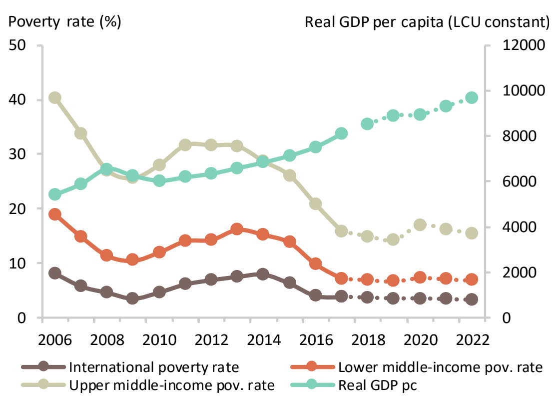
Growth will need to be substantially aided by coordinated fiscal stimulus at the national and EU levels. Support is expected

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



Sources: World Bank, Romanian National Statistical Institute

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



Source: World Bank.
Notes: see table 2

to focus on targeted fiscal spending to contain the disease, deferred tax payments, liquidity support for companies, SMEs and firms in severely affected sectors, such as transport and tourism, and support for affected and self-employed workers. Enhanced liquidity to the financial sector will be provided. Countries are expected to allow automatic stabilizers to function. In addition, the EU has launched a 37 billion euro COVID-19 Response Initiative directed at healthcare systems, SMEs, labor markets and other vulnerable parts of the European economy. In all, the stimulus is expected to amount to one percent of EU GDP in 2020. Growth will benefit from the spillover effects of the global fiscal relaxation in the context of low oil prices.

To address the consequences of COVID-19, the fiscal deficit is expected to widen to around 5.5 percent of GDP in 2020, up from a planned deficit of 3.6 percent. Additional deficit pressure comes from the new pension law which stipulates a 40 percent increase in pensions from September 2020. Once the impacts of COVID-19 dissipate, we would expect the deficit to follow a downward adjustment of at least 0.5 percent of GDP per year, in compliance with the Excessive Deficit Procedure of the EU. A widening fiscal deficit would push public debt to 41 percent of GDP at end-2022, from 36.3 percent in 2018. Despite this, public debt remains one of the lowest in the EU.

Poverty is projected to increase. While the incomes of the poorest would continue to be supported by existing social assistance programs, 15 percent of working adults are at risk of poverty and would be financially vulnerable to stepping away from economic activity, further exposing them to health consequences. Responsive social protection would be needed to support these and the broader segment of workers not covered by protective leave policies or affected by labor market slowdowns.

Risks and challenges

In the short run, the key challenge is to contain the COVID-19 crisis and limit its health and economic consequences. A longer and deeper than anticipated crisis would affect growth prospects and cause significant damage to companies and jobs, while raising unemployment and poverty. A rapid spike in people affected from COVID-19 would put a serious strain on the health system. A protracted slowdown of the European economy, and in particular of Germany and Italy, the main trading partners of Romania, would put additional pressure on the domestic economy. On the other hand, a swift and targeted fiscal stimulus, coordinated at national and EU levels, would limit the effects of the crisis and fuel the recovery.

The EU-wide economic and labor market impacts of COVID-19 will affect the 18 percent of Romanian citizens aged 20-64 living in the EU and their families in Romania. The partial decoupling of real wages and productivity could also contribute to weakening exports, putting supplementary upward pressures on the current account deficit.

In the medium term, the focus of fiscal policy should gradually be rebalanced towards mobilizing investment, primarily from EU funds to support a sustainable EU convergence path and social inclusion. Reforms should aim to improve the effectiveness of public administration, the accountability and efficiency of SOEs, and regulatory predictability, as well as to increase human capital in order to increase the economy's growth potential and help address persistent large social and spatial divides.

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

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	7.1	4.4	4.1	0.3	4.4	3.9
Private Consumption	9.6	6.5	5.9	2.9	5.2	5.1
Government Consumption	4.6	4.5	12.8	15.4	3.1	3.0
Gross Fixed Capital Investment	3.3	-1.2	17.8	-0.4	4.2	4.1
Exports, Goods and Services	9.7	6.2	3.5	2.1	3.7	3.7
Imports, Goods and Services	11.3	9.1	7.2	4.3	4.6	4.8
Real GDP growth, at constant factor prices	7.6	3.9	3.5	0.3	4.4	3.9
Agriculture	14.5	10.8	-3.2	8.9	1.0	1.0
Industry	4.7	4.4	-1.5	-1.3	3.1	3.1
Services	8.4	2.9	6.9	0.2	5.4	4.6
Inflation (Consumer Price Index)	1.3	4.6	3.8	3.5	3.4	3.1
Current Account Balance (% of GDP)	-3.2	-4.4	-4.7	-5.2	-4.7	-4.8
Net Foreign Direct Investment (% of GDP)	2.6	2.2	2.3	1.3	2.2	2.2
Fiscal Balance (% of GDP)	-2.8	-2.9	-4.6	-5.5	-3.9	-3.3
Debt (% of GDP)	36.8	36.3	37.6	39.3	39.6	41.0
Primary Balance (% of GDP)	-1.6	-1.6	-3.4	-4.2	-2.5	-1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.8	3.7	3.6	3.6	3.5	3.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	7.2	6.9	6.7	7.3	7.1	6.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	15.8	14.9	14.2	17.0	16.2	15.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2006-EU-SILC, 2015-EU-SILC, and 2017-EU-SILC. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.
(b) Projection using annualized elasticity (2006-2015), pass-through = 0.7 based on GDP per capita in constant LCU.

The global outlook is very uncertain. This outlook reflects information available at the time of its preparation. The data and analysis presented are as of March 23, 2020. As more information becomes available, these projections will be revised. They are presented now to assist policymakers to design alternative policy responses.

RUSSIAN FEDERATION

Table 1	2019
Population, million[a]	144.5
GDP, current US$ billion	1689.5
GNI per capita, US$ (Atlas method)[a]	10230
International poverty rate ($1.9)[b]	0.0
Lower middle-income poverty rate ($3.2)[b]	0.2
Upper middle-income poverty rate ($5.5)[b]	2.3
Gini index[a]	37.5
School enrollment, primary (% gross)[c]	102.6
Life expectancy at birth, years[c]	72.1

WDI, MPO, Rosstat, and Bank of Russia.
Notes:
(a) Most recent value (2018).
(b) Most recent value (2018), 2011 PPPs.
(c) Most recent WDI value (2017).

The baseline scenario GDP is revised downward to contract by 1.0 percent in 2020 due to the COVID-19 pandemic and falling oil prices. A rebound in 2021 and 2022 would be based on recovering oil prices and the pandemic's effects fading, but risks are firmly skewed to the downside. An adverse scenario could see 2020 GDP fall as much as 2.2 percent, further increasing poverty. Conversely, a modest growth in disposable incomes would contribute to a gradual recovery in the poverty rate in 2021 - 2022.

Recent developments

In 2019, economic growth decelerated to 1.3 percent year-on-year from 2.5 percent in 2018. Supported by continued retail credit expansion and increased government spending, consumer demand became the main engine of growth. With national projects getting off to a slow start, investments were sluggish. The 12-month consumer price inflation has been decelerating since April 2019, reaching 2.3 percent in February 2020.

Since June 2019, the Central Bank of Russia (CBR) continued loosening monetary conditions, cutting the key policy rate six times, to 6 percent in annual terms. The policy rate was unchanged on March 20, 2020, however, as short-term inflationary risks rose due to the COVID-19 pandemic and falling oil prices, thereby pausing the easing cycle. Corporate sector lending slowed, reflecting soft demand for credit in a low-growth environment. Unsecured consumer loan growth moderated slightly as CBR's regulatory measures started taking effect. On March 19, the CBR established a mechanism for additional FX sales on the domestic market. In case the price for Urals oil falls below USD25/bbl, the CBR will conduct FX sales to compensate for oil, gas and oil products exporters' revenue fallout. The CBR will use FX from the government's purchase of Sberbank shares.

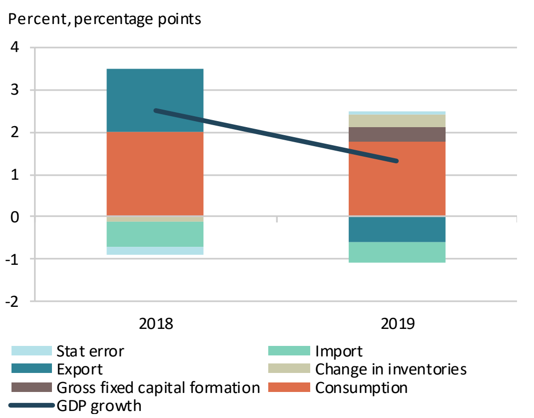
On March 20, CBR announced a comprehensive package of measures designed to support business, consumers and the financial sector in the face of the COVID-19 outbreak. The measures include special refinancing rates, favorable conditions for specific types of loans, and a decision to postpone the introduction of tighter rules for banks. For consumers affected by COVID-19 CBR allowed banks and microfinance organizations to restructure their loans, forgo penalties and avoid foreclosures on collateral.

The unemployment rate declined in 2019 to 4.6 percent, from 4.8 percent in 2018, as the average real disposable income rose by 0.8 percent. Under the national definition (a share of population with income per capita below the subsistence minimum level, 10,287 rubles per month in 2018), the poverty rate edged up slightly by 0.2 percentage points in the first half of 2019, on the back of lower real disposable incomes and an increase in the official poverty line by 2 percent in real terms. The poverty rate, using the upper-middle income country line (a share of population with per capita consumption below USD5.5/day in 2011 PPP, that is 4,476 rubles per month in 2018), declined from 2.5 percent in 2017 to an estimated 2.3 percent in 2018. Using the international poverty line of USD1.9/day, the poverty rate remained negligible, well below 1 percent.

Outlook

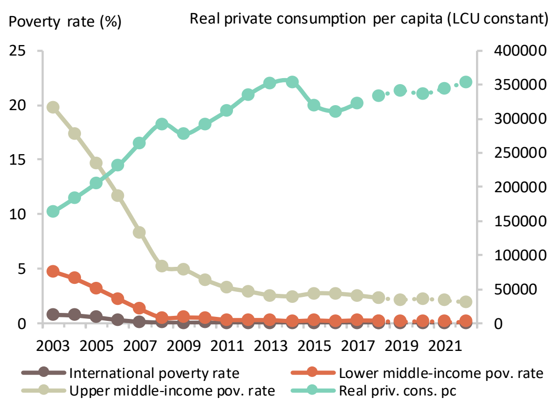
GDP is expected to contract by 1.0 percent in 2020, a five-year low. Most of the negative impact stems from the plunge in commodity prices amid the pandemic-driven lower external demand and the unwinding

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



Sources: Russia statistical authorities and World Bank staff calculations.

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



Source: World Bank.
Notes: see table 2

of the OPEC+ arrangement. Elevated uncertainty and volatility has driven down the ruble 26 percent against the USD since January 1, 2020. With oil prices below their break-even level, the fiscal budget will show a deficit. The baseline forecast is predicated on several things: the pandemic being contained within 2020; on muted containment measures, fiscal support; and a rebound in commodity prices and economic activity in 2021. However, a more adverse scenario could further weigh on energy prices and economic activity. In such a case, the GDP in 2020 could decline by 2.2 percent, with consumers and investment demand affected more deeply. Despite this, Russia has sizable macro-fiscal buffers. Oil/gas fiscal revenue shortages arising from oil prices plunging below the fiscal rule threshold of USD42.4 are expected to be compensated by the NWF (USD150 billion or 9 percent of GDP as of March 1).

Additional social support aimed at families with children (higher benefits, higher maternal capital) will support the incomes of the bottom 20 percent of the population. GDP growth is projected to firm at between 1.6 and 1.8 percent in 2021-2022, as external conditions stabilize, and terms of trade improve for Russia. A contraction of GDP and incomes will lead to an increase in moderate poverty in 2020 by about 0.1 percentage point. However, modest growth rates of GDP and inflation-indexed pensions will support disposable incomes and contribute to a gradual recovery in the poverty rate in 2021-2022. But, as many individuals lack formal employment or have low-productivity jobs and many households remain close to the poverty line, this points to a level of social vulnerability that will continue to require close monitoring.

Risks and challenges

Risks are firmly skewed to the downside, especially in 2020, to reflect the current volatility and uncertainty over the ultimate path of the COVID-19 pandemic, including its domestic impact, notably through trade, commodities, and financial linkages. Public sector risks are elevated, given the negative pressure on budget revenues from lower oil prices, negative growth, and deferred dividends from state-owned companies. Additionally, the ability to carry out further policy rate cuts in 2020 could be eroded by renewed financial market pressures and a currency depreciation pass-through to inflation.

Despite these challenges, Russia maintains sizable macroeconomic buffers to confront strong economic headwinds. The banking sector's funding and liquidity profiles are largely stable. Important macro-fiscal buffers include high international reserves (USD570.4 billion); a positive net external creditor position; a low public sector debt (15 percent of GDP); and low levels of FX corporate debt (about 19 percent of GDP). As of March 23, the government and the CBR have announced measures to ensure economic stability that include but are not limited to (i) continuously providing support for the ruble and FX liquidity; (ii) deferring tax payments for vulnerable sectors, notably air transport and tourism; (iii) allowing banks to restructure loans, for certain SMEs and individuals affected by COVID-19, and softening requirements for lending to the pharmaceutical and medical industries (iv) expanding subsidized lending program to SMEs, including individual entrepreneurs; (v) making online payments more accessible for households and support on-line retailers. However, more fiscal stimulus may be required, depending on how the pandemic unfolds in Russia, notably if it leads to stricter containment measures that would further reduce economic activity.

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

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	1.8	2.5	1.3	-1.0	1.6	1.8
Private Consumption	3.7	3.3	2.3	-1.5	2.3	2.3
Government Consumption	2.5	1.3	2.8	0.0	0.5	0.5
Gross Fixed Capital Investment	4.7	0.1	1.4	-6.4	3.0	3.7
Exports, Goods and Services	5.0	5.5	-2.1	-3.0	2.0	2.2
Imports, Goods and Services	17.3	2.6	2.2	-8.0	3.8	4.2
Real GDP growth, at constant factor prices	1.9	2.5	1.4	-1.0	1.6	1.8
Agriculture	1.5	0.8	0.6	0.5	1.7	1.7
Industry	1.8	1.9	1.5	-0.8	1.4	1.9
Services	1.9	2.9	1.4	-1.2	1.7	1.8
Inflation (Consumer Price Index)	3.7	2.9	3.0	5.5	3.4	4.0
Current Account Balance (% of GDP)	2.1	6.8	4.2	1.1	2.6	2.3
Net Foreign Direct Investment (% of GDP)	-0.5	-1.4	-0.1	-0.1	-0.1	-0.1
Fiscal Balance (% of GDP)[a]	-1.5	2.9	1.9	-2.2	-1.1	-0.5
Debt (% of GDP)	15.5	14.2	14.4	17.1	18.2	18.9
Primary Balance (% of GDP)[a]	-0.6	3.8	2.7	-1.2	0.1	0.5
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	0.3	0.2	0.2	0.2	0.2	0.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	2.5	2.3	2.1	2.2	2.1	1.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Fiscal and Primary Balance refer to general government balances.
(b) Calculations based on ECAPOV harmonization, using 2018 -HBS. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(c) Projection using neutral distribution (2018) with pass-through = 0.7 based on private consumption per capita in constant LCU.

The global outlook is very uncertain. This outlook reflects information available at the time of its preparation. The data and analysis presented are as of March 23, 2020. As more information becomes available, these projections will be revised. They are presented now to assist policymakers to design alternative policy responses.

SERBIA

Table 1	2019
Population, million	7.0
GDP, current US$ billion	51.4
GDP per capita, current US$	7379
Upper middle-income poverty rate ($5.5)[a]	20.8
Gini index[a]	37.2
School enrollment, primary (% gross)[b]	100.3
Life expectancy at birth, years[b]	76.1

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

Growth in 2019 turned out to be slightly lower than in 2018 but still strong at 4.2 percent, which had a positive impact on labor market and living standards. Poverty is projected to have declined from 25.8 percent in 2015 to an estimated 19.0 percent in 2019. New developments related to the COVID-19 pandemic will likely result in a recession in 2020. Over the medium-term, growth is expected to return to 3-4 percent, although risks remain.

Recent developments

Growth in 2019 is estimated to have declined slightly compared to 2018 but remained robust at 4.2 percent. Government completed a major international gas pipeline which significantly contributed to the increase in investment in the last quarter. This increase in public investment along with a strong performance of FDI, made investment the lead contributing factor to growth in 2019. Consumption continued to be strong – households' consumption in particular. As in the past, contribution of net-exports to growth was negative, as exports didn't grow as fast as in the past.

Looking at sectoral composition, the performance of industry disappointed, increasing by a mere 0.3 percent in 2019. Similarly, agriculture output remained broadly the same as in 2018. On the other hand services contributed significantly to GDP growth along with the construction sector by estimated 2.5 and 1.4 percentage points, respectively.

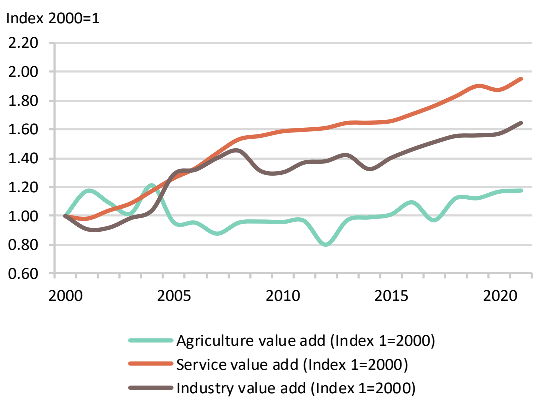
Growth has contributed to labor market improvements. The Q4 activity rate and employment rate among population aged 15 and above continued to increase in 2019, reaching 55.0 and 49.7 percent respectively. The employment rate remains lower among female workers and youth. The unemployment rate declined to an estimated 9.7 percent in the fourth quarter of 2019. But unemployment remains higher in the Southern and Eastern region (12.8 percent) compared to Belgrade region (7.6 percent). In 2019, average net wages increased by 10.6 percent in nominal terms (in real terms 8.6 percent). Thanks to these trends, poverty (living on income under $5.5/day in 2011 PPP terms, the standardized middle-income-country poverty line) is estimated to have declined from 25.8 percent in 2015 to an estimated 18.9 percent in 2019.

The consolidated general government budget showed a deficit of 0.2 percent of GDP in 2019. This was somewhat lower than expected, due to a better than expected revenue performance, which compensated for the in-year increase in wages in the public sector. The increase in revenues was led by VAT revenues (up by 10.2 percent in 2019) as consumption recovered, and social security contributions, up by 9.1 percent. Budgetary spending rose by 10.4 percent in nominal terms, driven by significantly higher capital expenditures (up by 33.6 percent) and the wage bill (up by 10.1 percent). Public debt declined to 52.9 percent of GDP by end 2019.

Inflation was low and stable. Increasing food prices was the main driver of inflation in the first half of the year. The food prices index reached a peak of 6.1 percent (y/y) in April, constraining households' purchasing power. In 2019, the dinar continued to appreciate against the euro, by 0.5 percent in nominal terms by year end and remained stable in early 2020. With inflationary pressures low, the NBS lowered its policy rate to 1.75 percent in March 2020.

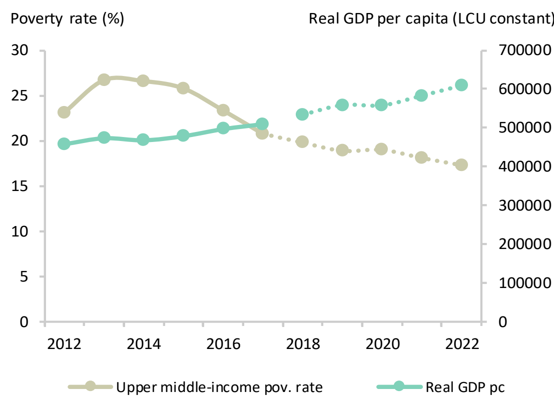
External imbalances widened as evidenced by an increase in the CAD by more than 50 percent in 2019, and now estimated at 6.9 percent of GDP for 2019.

FIGURE 1 Serbia / Value Added by Sector



Sources: WB staff calculations based on Statistics Office data.

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



Source: World Bank.
Notes: see table 2

FDI inflows remain strong, exceeding 3 billion euros in 2019, which was more than sufficient to cover the CAD.

Overall credit grew by 8.5 percent (y/y) through December, primarily because of the increase of loans to households (up 9.2 percent, y/y). Loans to private businesses and SOEs were up by 7.5 percent and 19.2 percent respectively. A high proportion of household loans continue to be short-term "cash" loans to individuals. Gross nonperforming loans (NPLs) declined to 4.1 percent in December 2019.

Outlook

The COVID-19 pandemic and the related containment measures are having a heavy toll on the global economy and will certainly affect the Serbian economy leading to a much lower growth than previously projected. The economy is expected to enter into recession in 2020 with a projected decrease in real GDP of 0.5 percent. The Serbian economy is affected through several channels including the lower tourism and transport revenues; lower remittances; decelerating exports growth and lower FDI and investment overall. To be able to avoid a more significant decline of the economy and living standards the Serbian authorities need to provide a substantive and comprehensive response to the crisis. Initial steps by the government and the NBS were already taken in March.

Over the medium term (2021-2023) growth will return to its previous trajectory. This medium-term outlook crucially depends on international developments (including the impact of corona virus), the pace of structural reforms and political developments. Most importantly, Serbia needs to work further on removing bottlenecks to private sector growth. Acceleration of the EU accession process is important not only from the point of view of strengthening institutions but also as a signaling device to attract investment.

The current outlook due to adverse impacts of the virus outbreak is expected to lead to a small uptick in poverty in 2020, with significant downside risks. Aside from the direct impacts on health outcomes, the anticipated declines in services, lower investments, depressed demand for Serbian exports, and mobility restrictions will hurt jobs and labor income. Poor and vulnerable households may be disproportionately affected since they depend more on self employment and less secure jobs, while having less savings and fewer coping mechanisms.

Risks and challenges

Risks are associated primarily with the length and depth of the crisis caused by the COVID-19 pandemic and implementation of containment measures. The current outlook assumes that containment measures can be gradually lifted toward the end of the second quarter of 2020. A more prolonged crisis or the return of the COVID-19 toward the end of the year would worsen the economic outlook and deepen impacts on poverty. Aggregate macroeconomic policy responses will need to be complemented with short-term measures to mitigate impacts on the poor and vulnerable, such as compensating income losses through unemployment and social protection benefits.

In the medium term, regional disputes, and relatively slow progress with the EU accession process affect investment sentiment and therefore delays realization of investment projects in infrastructure and other sectors. Despite recent labor market improvements, participation rates remain low and limit the scope for robust welfare improvements. Labor market challenges could be further complicated by a significant brain-drain.

TABLE 2 Serbia / Macro poverty outlook baseline scenario (annual percent change unless indicated otherwise)

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	2.0	4.4	4.2	-0.5	4.0	4.0
Private Consumption	1.9	3.1	3.1	-0.4	3.9	3.8
Government Consumption	3.3	3.7	8.7	1.1	0.3	3.0
Gross Fixed Capital Investment	7.3	17.8	11.2	-2.3	7.1	4.3
Exports, Goods and Services	8.2	8.3	8.5	-0.5	8.3	8.7
Imports, Goods and Services	11.1	11.6	9.5	-0.8	7.3	7.3
Real GDP growth, at constant factor prices	2.0	4.5	4.2	-0.5	4.0	4.0
Agriculture	-11.2	15.2	0.0	2.0	3.0	3.0
Industry	3.3	2.8	0.2	0.0	3.5	3.5
Services	3.2	4.1	6.8	-1.1	4.3	4.3
Inflation (Consumer Price Index)	3.1	2.0	2.2	1.9	2.5	2.8
Current Account Balance (% of GDP)	-5.3	-5.2	-6.9	-7.9	-7.3	-6.2
Net Foreign Direct Investment (% of GDP)	4.4	3.8	6.3	4.7	5.0	5.6
Fiscal Balance (% of GDP)	1.4	0.6	-0.2	-2.8	-1.8	-0.8
Debt (% of GDP)	58.7	55.6	52.9	56.3	57.2	56.1
Primary Balance (% of GDP)	3.9	2.7	1.4	-1.2	0.0	1.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	20.8	19.8	18.9	19.0	18.1	17.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2013-EU-SILC, 2016-EU-SILC and 2017-EU-SILC. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.
(b) Projection using point-to-point elasticity (2013-2016) with pass-through = 0.4 based on GDP per capita in constant LCU, with higher passthrough of the recession in 2020.

The global outlook is very uncertain. This outlook reflects information available at the time of its preparation. The data and analysis presented are as of March 23, 2020. As more information becomes available, these projections will be revised. They are presented now to assist policymakers to design alternative policy responses.

TAJIKISTAN

Table 1	2019
Population, million	9.3
GDP, current US$ billion	8.1
GDP per capita, current US$	874
International poverty rate ($1.9)[a]	4.8
Lower middle-income poverty rate ($3.2)[a]	20.3
Upper middle-income poverty rate ($5.5)[a]	54.2
Gini index[a]	34.0
School enrollment, primary (% gross)[b]	100.9
Life expectancy at birth, years[b]	70.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2017).

The Tajik economy registered strong growth in 2019. However, the impact of the COVID-19 outbreak, including a deteriorated external environment, reduced demand abroad, and lower remittances, imply a much lower growth for 2020. The fiscal deficit will widen in 2020 for the same reasons and be limited by opportunities by the government to finance more spending. The poverty rate may well remain little changed in 2020 after falling from 29.5 percent in 2017 to 27.4 percent in 2018, when it reflected a recovery in remittances and rising wages.

Recent developments

According to official statistics, GDP growth remained strong in 2019 at 7.5 percent, supported by robust year-on-year growth in industry (14 percent), agriculture (7 percent), and retail trade (9 percent). On the demand side, consumption and net exports drove growth, while investment fell by 7 percent.

A jump in exports and a recovery in remittances helped narrow the current account deficit to an estimated 4.3 percent of GDP in 2019. Merchandise imports increased by 6.3 percent in U.S. dollar terms. Export earnings rose by 9.4 percent in 2019, supported by higher shipments abroad of precious metals and electricity.

The fiscal stance remained cautious in 2019. The fiscal deficit of 2.7 percent of GDP was little unchanged from 2018. Cuts in non-energy capital spending accompanied with lower-than-projected revenue collection helped to contain the deficit. Meanwhile, delays in rolling out the Targeted Social Assistance (TSA) program to an additional 28 regions and slow progress in deciding to increase the TSA's budget by 10 percent put this important anti-poverty measure on hold. Spending on the Rogun Hydropower Plant (HPP) comprised the largest share of public investment in 2019, facilitating the launch of the second of six turbines in 2019.

After subsiding to 5.4 percent in 2018, 12-month consumer price inflation surged to 8 percent in 2019, close to the upper range of the NBT's target band of 5–9 percent. The main drivers of consumer price inflation in 2019 were rising food prices, currency-depreciation pass-through effects, and the 15-percent electricity tariff increase.

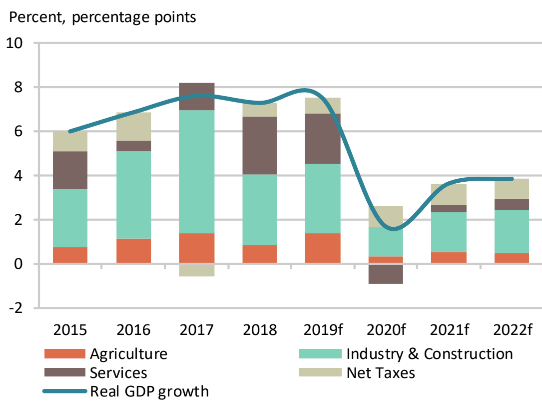
Except for two problem banks, the financial sector continued its recovery from the 2016 banking crisis, showing an improvement in the quality of the credit portfolio. The share of nonperforming loans (NPL) stood at 26 percent at the end of 2019 (down from 48 percent in 2016), and the capital adequacy ratio rose to 21.4 percent (from 17 percent in 2016). Banking sector profitability also continued to improve, and the level of dollarization declined to 53 percent at the end of 2019 (from a peak of 64 percent in 2015).

The poverty rate—using Tajikistan's official poverty line—fell to 27.4 percent in 2018, reflecting a recovery in remittance inflows. The rural poverty rate declined markedly from 36.1 percent in 2014 to 30.2 in 2018, reflecting rising household consumption. The rate of extreme poverty also fell steadily from 18 percent in 2013 to 12 percent in 2018.

Outlook

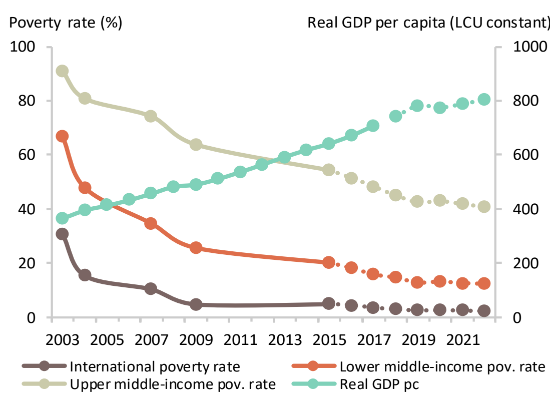
The outbreak of the COVID-19 disease and risks to growth in Russia – the main source of migrant remittances – has resulted in a substantially worse macro-fiscal framework. GDP growth is expected to fall to 1.7 percent in 2020 or lower, reflecting the implications of the COVID-19 outbreak and the slowdown in Russia and

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



Sources: TajStat; World Bank staff estimates.

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



World Bank.
Notes: see table 2.

China. These implications include the sharp decline of trade and lower commodity prices, a likely large drop in remittances, and worsened prospects for transport and tourism industries. Growth will likely remain weak at about 3.5 percent in 2021–22 supported by public investment ahead of Tajikistan's commemoration of 30 years of independence in 2021.

The fiscal deficit is expected to widen to more than 5 percent of GDP in 2020 as a result of lower revenues and increased spending on health, social transfers. The revenue shortfall will mirror the high share of VAT and trade taxes in total tax revenue and Tajikistan's greater reliance on imports originating from China. The expected increase in public spending in 2020 is likely to reflect social support to mitigate the loss of household incomes. After a one-off surge in the fiscal deficit in 2021, the deficit needs to be reduced in the subsequent years to ensure debt sustainability.

The current account balance is forecast to widen above 5 percent of 2020 of GDP due to the contraction in remittances and the larger trade deficit as a result of declining export of metallic minerals, the largest export commodity of Tajikistan. Inflow of foreign direct investment (FDI) is likely to decline. The current account is expected to remain elevated in 2021-22 as global trade conditions are projected to remain depressed throughout the medium-term.

The banking sector is expected to experience a deterioration of the loan portfolio in 2020 and increase in the NPL ratio. The latter is expected to be affected by the balance-sheet mismatches as a result of Somoni depreciation. The NBT will need to enhance it regulatory role to restore the banking sector's stability.

Poverty reduction prospects will be undermined by the increase in food prices and the fall in growth rate and remittances.

Should the COVID-19 outbreak extend beyond the six months now underpinning the baseline scenario outlined above, the outlook will be much more negative. Growth could slow to 0.5 percent in 2020 or even lower and the pressure on the current account and fiscal deficits will increase. Whether large deficits can be run will depend on available financing.

Risks and challenges

The COVID-19 outbreak and the closure of Tajikistan's borders with all neighbors pose significant risks to the Tajik economy. An extended COVID-19 outbreak, an escalation of global trade tensions, or a deeper-than-expected economic slowdown in the region's large economies would negatively impact the Tajik economy through trade, FDI, and remittance channels.

Structural challenges in the Tajik economy also weigh on the country's development prospects. Governance issues in the state-owned enterprises—including in key sectors of the economy—present high quasi-fiscal risks and threaten the sustainability of the public finances. Delays in implementing much-needed structural reforms to improve the business environment will continue to hinder private sector development.

The construction of the Rogun HPP from budget proceeds continues to present a serious risk to macro-fiscal sustainability and further crowd-out social spending.

The tax reform, power utility rehabilitation program, and financial sector reform program—if implemented successfully—could improve the country's fiscal management and business environment over the medium term.

The government could accelerate progress in reducing extreme poverty by expanding the TSA to those regions currently not covered by the program, and by augmenting the TSA to compensate poor households for utility tariff increases.

TABLE 2 Tajikistan / Macro poverty outlook baseline scenario (annual percent change unless indicated otherwise)

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	7.6	7.3	7.5	1.0	3.7	3.9
Private Consumption	0.0	7.2	7.1	-5.9	1.7	1.7
Government Consumption	2.5	3.8	3.5	2.4	3.1	3.0
Gross Fixed Capital Investment	20.3	7.9	-6.4	-4.0	7.5	12.4
Exports, Goods and Services	0.0	2.2	3.5	0.8	1.2	1.5
Imports, Goods and Services	0.0	3.3	2.2	-0.3	1.4	2.0
Real GDP growth, at constant factor prices	9.8	7.8	8.7	1.0	3.7	3.9
Agriculture	6.8	4.0	7.1	3.0	3.0	3.0
Industry	20.5	11.8	13.6	5.0	6.5	6.5
Services	2.9	6.3	4.9	-4.3	0.8	1.2
Inflation (Consumer Price Index)	7.3	3.9	8.0	10.0	8.0	8.0
Current Account Balance (% of GDP)	2.1	-5.0	-4.4	-5.5	-4.9	-4.7
Net Foreign Direct Investment (% of GDP)	-0.2	3.3	2.3	1.2	1.9	2.4
Fiscal Balance (% of GDP)	-6.0	-2.8	-2.7	-5.3	-4.7	-4.2
Debt (% of GDP)	50.4	47.9	45.2	50.6	53.0	54.7
Primary Balance (% of GDP)	-5.5	-1.6	-1.3	-3.9	-3.4	-2.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.6	3.0	2.6	2.7	2.5	2.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	15.8	14.6	12.7	13.1	12.6	12.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	48.3	45.1	42.6	43.0	42.0	40.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2015-HSITAFIEN. Actual data: 2015. Nowcast: 2016-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2015) with pass-through = 1 based on GDP per capita in constant LCU.

The global outlook is very uncertain. This outlook reflects information available at the time of its preparation. The data and analysis presented are as of March 23, 2020. As more information becomes available, these projections will be revised. They are presented now to assist policymakers to design alternative policy responses.

TURKEY

Table 1	2019
Population, million	82.6
GDP, current US$ billion	754.8
GDP per capita, current US$	9140
Upper middle-income poverty rate ($5.5)[a]	9.2
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	93.2
Life expectancy at birth, years[b]	77.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011PPPs.
(b) Most recent WDI value (2017).

Growth in Turkey was positive last year thanks to a strong fourth quarter, driven by private consumption, though investments have remained depressed. External adjustment and deleveraging have reduced Turkey's external vulnerabilities. But COVID-19 imperils stability and growth prospects. The poverty rate has stagnated as a sluggish labor market has curtailed work opportunities. Strong decreases in labor income are expected in the short term across the income distribution, but more so for low-income households. The social protection system will be challenged to cope with the shock.

Recent developments

After three consecutive quarters of year-on-year contraction, real GDP growth resumed in Q3 and strengthened in Q4 last year, bringing 2019 growth to 0.9 percent. The nascent recovery was aided by rapid monetary easing, with the central bank cutting rates from 24 percent in July 2019 to 12 percent in December 2019 and further to 9.75 percent by March 2020.

Lower borrowing rates, together with regulatory measures, boosted private sector credit growth to 10 percent in 2019 and continued expansion in Q1 2020. A 15-percent minimum wage increase and a gradual decline in the unemployment rate accelerated private consumption.

Turkey recorded a current account surplus in Q2 and Q3 2019 – the first in more than 15 years — before returning to a deficit in Q4. Net outflows of portfolio and other investment continued in 2019 for a second year, while inflows of FDI fell to their lowest level in 15 years. Almost all growth in 2019 came from services, mainly public and financial. Construction contracted for the second consecutive year, while agriculture and other industry growth were near zero.

Annual CPI inflation declined from its peak of 25 percent in October 2018 to 8.6 percent in October 2019 but has been accelerating in recent months, rising from 8.6 percent in October 2019 to 12.4 percent in February 2020, as base effects subside.

Aggregate fiscal policy loosened in 2019, with the general government budget deficit widening to 3.0 percent of GDP in 2019 (from 2.4 percent in 2018). Overall revenues rose slightly to 33.5 percent of GDP in 2019, with weaker indirect tax revenues more than offset by higher non-tax revenues. However, expenditures grew at a faster rate, reaching 36.5 percent of GDP over the same period due to household transfers.

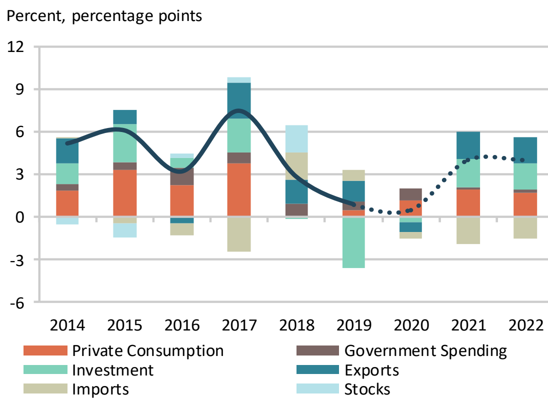
The unemployment rate eased to 13.1 percent in December 2019 from a peak of 14.2 percent in July 2019. The economy has created around 200,000 jobs in the six months to January with the strongest job gains in services and industry. However, the recent economic slowdown has left low- and middle-income households more vulnerable, and the unemployment rate for people without a university degree increased significantly. The number of discouraged workers rose by 240,000 in the last year, a 40 percent increase. These trends put upward pressure on the poverty rate, which has hovered around 9 percent since 2016.

Outlook

The impact of COVID-19 is unfolding rapidly and is projected to put a drag on growth and households' labor income in Turkey. The global disruption to trade, capital flight to safety, and rapidly rising risk premia will impact Turkish exports and tourism, access to finance, currency stability and inflation.

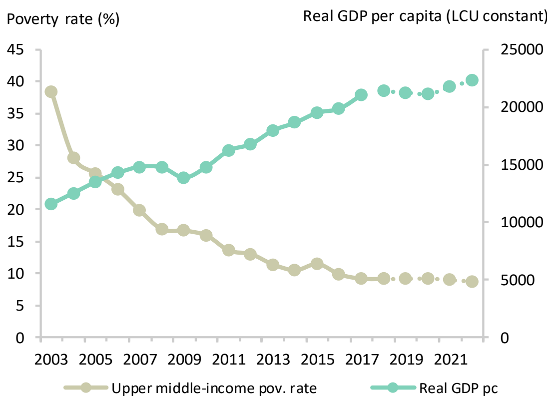
Baseline growth is projected at 0.5 percent in 2020, over 3 percentage points lower

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



Sources: Turkstat and World Bank staff calculations.

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



Sources: World Bank.
Notes: see Table 2.

than the pre-COVID-19 estimate. A more negative outturn is equally probable given uncertainties.

What little growth there is in 2020 is expected to be supported by strong government stimulus. Investment is expected to fall further. Exports – especially tourism – are projected to collapse in 2020, widening the current account deficit. Declining energy prices may moderate inflation, but with exchange rate pressures and monetary easing, inflation is projected at 11 percent in 2020. The general government fiscal deficit is projected to expand sharply to 4.5 percent of GDP in 2020 as the authorities combat the COVID-19 pandemic and its impacts on the economy, and narrow to 2.9 percent of GDP by 2022.

The incidence of poverty is likely to increase in the coming months, driven by negative labor income impacts of COVID-19. About 40 percent of households do not have any member working in the formal sector and are particularly vulnerable to the shock. A package with income-support measures has been announced by the authorities to help households cope with income drops, but a stronger response of the social protection system may be needed. Over the medium term, the poverty rate would be expected to remain at around 9 percent of the population, depending on the length of the COVID-19 shock and speed of economic recovery.

Risks and challenges

A worsening of the COVID-19 pandemic, and ongoing geopolitical tensions, pose great risks to the Turkish economy.

Exports and tourism—significant sources of growth—are vulnerable to shocks and could be further affected should the COVID-19 pandemic have an even more disruptive impact on supply chains and exports than anticipated in the baseline. Lower oil prices could lower Turkey's import bill, but are unlikely to offset shock to exports. Tighter external liquidity conditions will also affect corporates and banks that have high external exposure.

The financial and corporate sectors have deleveraged but remain exposed. The authorities will inject liquidity in the banking system to avoid a private sector collapse. The NPL ratio, which stood at 5.2 percent in February 2020 (up from 3.9 percent at end-2018) was expected to rise further but recent regulatory measures in response to COVID-19 are expected to contain that increase.

To mitigate some of the above risks, the President has outlined a 21-point stimulus package that includes a fiscal and financial sector measures to provide short-term liquidity to private enterprises. The central bank has committed to inject liquidity and lowered reserve requirements to support the private sector. The banking sector regulator has eased NPL criteria and adopted other flexibilities.

A TL 2 billion income-support package will be introduced for vulnerable households, but the response is at risk of being too limited. This would amount to a one-off payment of around 230 TL per person for each household that depends on informal income and social assistance. There are 5.6 million people that rely on informal income and are not included in social assistance or social security systems. If the shock extends beyond a few months, this group would be hard hit and there is a real risk that many households would resort to negative coping strategies with long term consequences for household welfare.

TABLE 2 Turkey / Macro poverty outlook baseline scenario (annual percent change unless indicated otherwise)

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	7.5	2.8	0.9	0.5	4.0	4.0
Private Consumption	6.2	0.0	0.7	2.0	3.1	2.9
Government Consumption	5.0	6.6	4.4	5.3	1.0	1.1
Gross Fixed Capital Investment	8.2	-0.6	-12.4	-1.5	8.0	7.5
Exports, Goods and Services	12.0	7.8	6.4	-3.0	7.9	7.2
Imports, Goods and Services	10.3	-7.8	-3.6	2.0	9.0	7.0
Real GDP growth, at constant factor prices	7.9	3.1	1.1	0.5	4.0	4.0
Agriculture	4.9	1.9	3.3	2.0	2.0	2.0
Industry	9.2	0.4	-2.1	1.8	3.5	3.0
Services	7.6	4.6	2.5	-0.3	4.5	4.8
Inflation (Consumer Price Index)	11.1	16.3	15.2	11.0	9.0	8.5
Current Account Balance (% of GDP)	-5.5	-3.7	0.2	-2.0	-3.2	-3.4
Net Foreign Direct Investment (% of GDP)	1.0	1.2	0.7	0.9	1.0	1.1
Fiscal Balance (% of GDP)	-1.8	-2.4	-3.0	-4.5	-3.3	-2.9
Debt (% of GDP)	28.2	30.4	32.6	35.5	36.5	35.7
Primary Balance (% of GDP)	0.1	-0.3	-0.4	-1.5	-0.1	0.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	9.2	9.2	9.2	9.3	9.0	8.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2011-HICES and 2018 -HICES. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using point-to-point elasticity (2011-2018) with pass-through = 1based on GDP per capita in constant LCU.

The global outlook is very uncertain. This outlook reflects information available at the time of its preparation. The data and analysis presented are as of March 23, 2020. As more information becomes available, these projections will be revised. They are presented now to assist policymakers to design alternative policy responses.

UKRAINE

Table 1	2019
Population, million	44.3
GDP, current US$ billion	139.1
GDP per capita, current US$	3140
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.4
Upper middle-income poverty rate ($5.5)[a]	4.0
Gini index[a]	26.1
Life expectancy at birth, years[b]	71.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011PPPs.
(b) Most recent WDI value (2017).

The COVID-19 pandemic is forcing a sudden slowdown in economic activity. The response in Ukraine will require public health interventions, social assistance for vulnerable households, and reforms to mobilize adequate international financing and support growth once the virus subsides. A contraction of 3.5 percent in 2020 is projected under the scenario where the virus subsides in the second half of the year, but uncertainty is high. Weakening reform appetite and the imprudent use of limited fiscal space are key domestic policy risks.

Recent developments

Economic growth was solid at 3.2 percent in 2019, led by a good agricultural harvest, and sectors dependent on domestic consumption. Household consumption grew by 11.9 percent in 2019, supported by sizable remittance inflows and a resumption of consumer lending, while domestic trade and agriculture grew by 3.4 and 1.3 percent, respectively. However, manufacturing and investment growth remained weak. Manufacturing contracted by 0.3 percent in 2019-Q1-Q3 (vs 0.6 percent growth in 2018), while fixed investment growth slowed to 12.8 percent (vs 14.3 percent in 2018). The economy lost momentum in Q4-2019, with estimated growth of 1.5 percent yoy, and the decline in steel prices contributing to a 5.1 percent (yoy) contraction in industrial production.

Fixed investment, at 18 percent of GDP, has been too low for sustained economic growth. The key barriers have been (i) low foreign direct investment (2.1 percent of GDP); (ii) high interest rates and slow progress in resolving non-performing loans that has weighed on lending to private firms; and (iii) market distortions from the absence of an agricultural land market, and anticompetitive environment, and large numbers of SOEs.

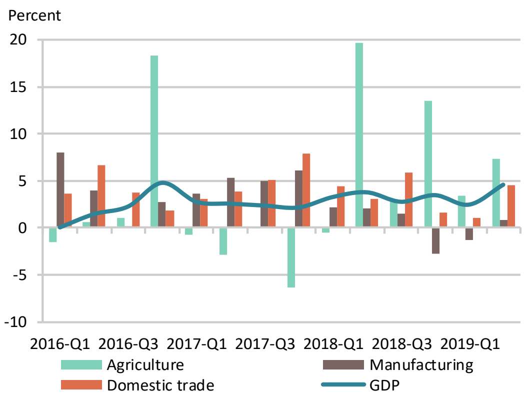
Fiscal restraint helped contain the fiscal deficit at 2.1 percent of GDP in 2019 (the fourth year in a row). This, together with currency appreciation, helped lower public debt to 50 percent of GDP in 2019 from 81 percent in 2018. A more prudent increase in the minimum wage (12 percent in 2019 vs. cumulative 216 percent in 2017-2018) helped ease pressures on the wage bill. Spending on social benefits remained stable, but substantial at 15.3 percent of GDP in 2019. On the revenue side, lower receipts from VAT on imports and other trade taxes were offset by an increase in other revenues owing to solid growth in the broader economy.

Prudent macroeconomic management helped reduce inflation and interest rates in 2019. Inflation eased to 4.1 at end-2019 and 2.4 percent in February 2020. In turn, the NBU was able to reduce its key rate by 800 bps since September 2018 to 10 percent in March 2020, with forward guidance on further reductions in 2020.

Significant capital inflows and strong remittances in 2019 helped build international reserves and cover a merchandise trade deficit of 9 percent of GDP. Remittances grew by 12.2 percent YoY to 9 percent of GDP and together with a services trade surplus helped fully cover the merchandise trade deficit. The current account deficit narrowed to 0.7 percent of GDP due to the $2.3bn one-off Naftogaz proceeds from Stockholm Arbitration. Inflows into local government bonds amounted to $4.5 billion (3.2 percent of GDP) in 2019 and helped international reserves reach $25.3 billion (3.8 months of imports) by end year.

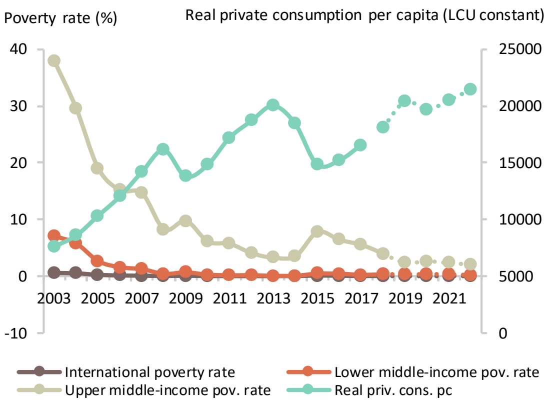
Real wages increased in 2019 by 10 percent. The unemployment rate decreased to 8.6 percent in 2019-Q1-Q3019 from 9.1 percent a year ago. As a result, moderate poverty (World Bank's national methodology for Ukraine) declined from a peak of 26.9 percent during the crisis of 2015 to

FIGURE 1 Ukraine / GDP growth by sectors



Sources: UKRSTAT, World Bank.

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



Source: World Bank.
Notes: see table 2

19.9 percent in 2018 and an estimated 17.8 percent in 2019 but remained above the pre-crisis level of 14.1 percent in 2013.

Outlook

The COVID-19 crisis is expected to impact economic activity in Ukraine through several channels in 2020. First, disposable incomes and consumption will suffer from the sudden necessary restrictions, including the closure of restaurants, cafes, shopping/entertainment centers and the halt to air, rail, bus passenger transport. Second, lower remittances due to weaker economic activity in Poland and other EU countries will also adversely impact household consumption. Third, lower commodity prices will impact Ukraine's exports. The overall impact on economic activity in 2020 will depend on the duration of the public health crisis. A more protracted health crisis would lead to second order effects through more widespread layoffs, business closures, and weaker liquidity and asset quality in banks. A key factor will be the ability of the economy to rebound once the health crisis subsides. This will require swift progress on key pending reforms, as well as prudent macroeconomic policy. This would address key investment bottlenecks and provide an important signal on the new government's reform orientation. Under the scenario where the health crisis subsides by the second half of the year, and progress is made on key pending reforms, the economy is projected to contract by 3.5 percent in 2020.

Prudent macroeconomic policy will need to be an important pillar of the policy response. This will require prioritizing spending within limited fiscal space. Fiscal space for a major stimulus is constrained by sizable debt repayments of about 6 percent of GDP per year due in 2020-2022. Revenues are expected to decline significantly, which means that the authorities will need to prioritize spending to create space for critical health and social assistance needs and identify additional financing. Additional health spending will need to be consistent with the direction of the broader health reform. Additional social assistance can be provided by scaling up the targeted Guaranteed Minimum Income (GMI) program. The authorities have also announced that citizens who receive a pension of less than 5,000 hryvnias will receive a supplement of 1,000 hryvnias. Going forward, it will be important to fix the date for pension indexation each year. Containing current expenditure pressures will also be important in containing inflation and enabling a further reduction of interest rates going forward. The fiscal deficit is projected at 5 percent of GDP in 2020, but prolonged disruption in international capital markets would impact the ability to meet financing needs.

As exports, remittances, and capital inflows decline, safeguarding external sustainability will require a flexible exchange rate and external adjustment.

Risks and challenges

The growth and poverty outlook following the health crisis hinges on sustaining reforms needed to support investment and diversify exports. Specifically, this will require attracting private investment into tradable sectors by developing a market for agricultural land, tackling corruption, and strengthening competition; reviving lending to the private sector by continuing the reform of state-owned banks; and safeguarding macroeconomic stability. Under these conditions, growth is projected to rebound to 4 percent in the medium term and poverty is projected to decline after rising in 2020 as a result of the economic contraction.

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

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	2.5	3.3	3.2	-3.5	3.0	4.0
Private Consumption	8.4	8.9	11.9	-4.0	3.5	4.0
Government Consumption	3.3	0.1	-5.0	6.0	0.0	0.0
Gross Fixed Capital Investment	18.4	14.3	14.2	3.7	12.9	12.8
Exports, Goods and Services	3.6	-1.6	6.7	-2.0	1.8	2.5
Imports, Goods and Services	12.8	3.2	6.3	1.5	6.8	6.5
Real GDP growth, at constant factor prices	2.6	3.3	3.2	-3.5	3.0	4.0
Agriculture	-2.5	7.8	1.3	1.0	3.5	5.0
Industry	2.1	2.0	-2.0	0.0	2.0	4.0
Services	3.7	3.0	5.4	-5.4	3.3	3.8
Inflation (Consumer Price Index)	13.7	9.8	4.1	8.9	5.0	5.0
Current Account Balance (% of GDP)	-2.1	-3.2	-0.7	-2.7	-3.7	-4.0
Net Foreign Direct Investment (% of GDP)	2.1	1.9	2.1	2.1	2.4	2.6
Fiscal Balance (% of GDP)	-2.3	-2.0	-2.1	-4.9	-2.1	-2.0
Debt (% of GDP)	72.3	61.8	51.0	59.0	55.4	50.7
Primary Balance (% of GDP)	1.5	1.4	1.0	-1.3	2.5	2.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.3	0.4	0.3	0.4	0.3	0.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	5.6	4.0	2.4	2.7	2.4	2.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2018-HLCS. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on private consumption per capita in constant LCU.

The global outlook is very uncertain. This outlook reflects information available at the time of its preparation. The data and analysis presented are as of March 23, 2020. As more information becomes available, these projections will be revised. They are presented now to assist policymakers to design alternative policy responses.

UZBEKISTAN

Table 1	2019
Population, million	33.6
GDP, current US$ billion	58.0
GDP per capita, current US$	1726
School enrollment, primary (% gross)[a]	103.7
Life expectancy at birth, years[a]	71.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2017).

Strong investment growth, higher agricultural output, and increased construction activity sustained real GDP growth in Uzbekistan in 2019. The economic outlook has substantially worsened as a result of the COVID-19 crisis, creating challenges to the market transition and creating a high risk that poverty levels will rise. Anti-crisis policy measures and the drawdown of Uzbekistan's strong buffers will be critical to help offset the worst effects of the crisis, especially on the poorest citizens.

Recent developments

Real GDP growth increased marginally to 5.6 percent in 2019 (from 5.4 percent in 2018). Growth was supported by a 34-percent year-on-year increase in investment (mainly lending to state-owned enterprises), more robust agricultural growth, and increased construction activity. Private consumption increased as a result of a 6-percent rise in personal incomes and increased lending to households. Higher crop payouts to farmers, an increase in minimum wages, a large wage tax cut, and higher remittance inflows supported higher income growth.

Annual inflation remained high at 15.2 percent in December 2019 but was lower than a year earlier (17.5 percent). Price liberalization measures—which led to sharp rises in food and energy costs—as well as higher import costs (due to exchange rate depreciation), contributed to inflation.

Strong export growth and increased remittance inflows resulted in a smaller current account deficit of 4.2 percent of GDP in 2019 (from 7.1 percent in 2018). Even though traditional exports like natural gas and chemicals declined in 2019, overall export growth nearly doubled (up 25.2 percent year on year), reflecting substantial increases in exports of gold, food, and textiles. Capital goods—linked to state-led investment projects in infrastructure, industry, and housing—continued to dominate import spending in 2019. Foreign direct investment, which more than doubled (to 2.8 percent of GDP) in 2019, was destined mainly for projects in oil and gas, metallurgy, food processing, and textiles. Foreign exchange reserves increased by $2.1 billion in 2019, or about 14 months of import cover. Total external debt was about 43 percent of GDP.

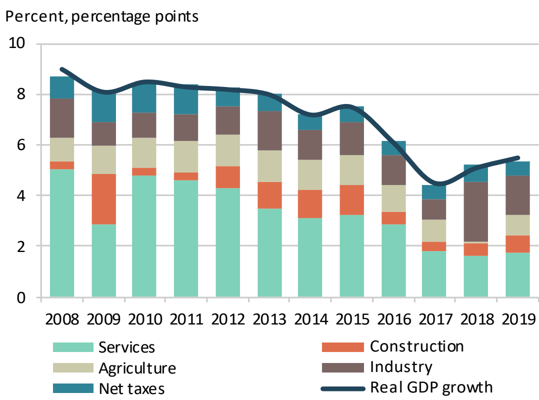
The central bank kept its policy interest rate unchanged at 16 percent since September 2018. However, the rate has a limited impact on monetary policy due to the significant volume of subsidized state-directed lending at below the reference rate. Directed lending contributed to a second consecutive year of high credit growth (47.8 percent in 2019 and 51.5 percent in 2018).

The som depreciated by 14 percent against the U.S. dollar in 2019. Weaker trading partner currencies and further reforms to liberalize the foreign exchange market contributed to the som's depreciation.

Despite significantly higher revenues, the overall fiscal deficit widened to 3.9 percent of GDP in 2019 (from 2.3 percent in 2018), reflecting higher public investment, increased farmer payouts for cotton and wheat, and higher social spending. Despite a large tax cut in 2019, revenue collection was strong as more informal businesses joined the value added tax system. Public debt, while low, increased to 29.2 percent of GDP in 2019.

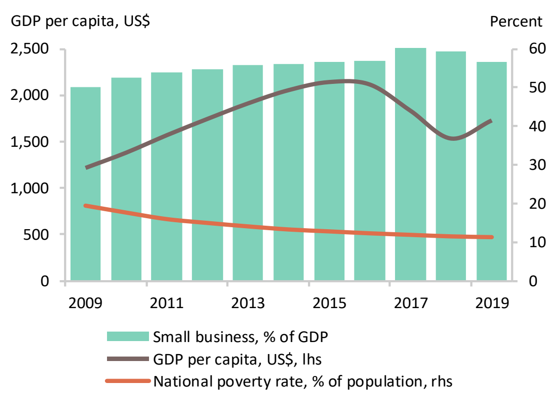
Uzbekistan's banking sector remains state-dominated. The country's 13 state-owned banks (out of 30 banks total) generate 90 percent of total lending. Capital adequacy and liquidity buffers are above regulatory minimums. However, both indicators

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



Source: Uzbekistan official statistics.

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



Source: Uzbekistan official statistics. Due to the lack of data access, the Bank cannot validate the official figures.

have deteriorated over the past two years on account of high bank lending growth, increasing the financial system's vulnerability to asset quality deterioration and liquidity shocks. Nonperforming loans remained steady at 1.3 percent of gross loans in 2019.

Rising incomes and strong GDP growth reduced the official poverty rate to 11.4 percent in 2018, from 11.9 percent in 2017. The World Bank estimates that poverty at the lower-middle-income country poverty line was 9.6 percent in 2018. The official unemployment rate was slightly lower at 9 percent in 2019, from 9.3 percent in 2018. Unemployment was higher among youth (16–30 years old; 15 percent) and women (12.8 percent). Income growth among the bottom 40 percent of the income distribution was driven by wage growth, increased remittances, social protection payments that matched inflation, and government programs to boost employment.

Outlook

The COVID-19 outbreak is a severe disruption to Uzbekistan's economy and its transition to a market economy. Growth is projected to reduce sharply (to around 1.6 percent based on latest estimates) in 2020 as a result of significantly lower external trade and widespread domestic economic disruption. Stay-at-home orders and non-critical business closures are now in place across the country. It is uncertain when these restrictions will be lifted as efforts intensify to reduce local transmission. An increasingly likely downside scenario is that more prolonged disruption could contract the economy in 2020. On the positive side, demand for gold and food exports is projected to remain robust, but it may be subject to significant price volatility. Annual inflation is expected to be 15.8 percent in 2020 as a result of supply chain disruptions and higher food prices. The current account deficit is expected to widen to around 8.5 percent of GDP in 2020 due to a sharp contraction in external trade and remittance inflows. A drawdown on reserves and development partner assistance is expected to finance the deficit. The government recently announced a $1 billion package to increase health and social spending, and ease tax, debt, and cash flow constraints on businesses. This will help temper the negative effects of the crisis on households and firms. Lower tax revenues and additional crisis spending are expected to increase the fiscal deficit to 5.6 percent of GDP in 2020 and 4.7 percent of GDP in 2021. The effect of the COVID-19 outbreak on the drivers of poverty reduction, such as income growth and remittances, is likely to increase poverty levels in 2020.

Risks and challenges

The COVID-19 outbreak is the biggest threat yet to Uzbekistan's ambitious market transition. Promising signs of private sector growth and job creation in tourism, horticulture, and services are now at risk. These sectors are among the worst affected as the crisis has wiped out the tourist and high-value horticulture export seasons. Efforts to attract foreign investment – through PPPs and the imminent launch of an ambitious SOE reform and privatization strategy – will be disrupted by the highly uncertain economic conditions. Remittances, a vital income source for many of the poorest households, are projected to fall by more than 50 percent. Lower remittances, rising unemployment, and inflationary risks from a sustained COVID-19 outbreak pose a significant threat to poverty reduction. Uzbekistan's macroeconomic buffers, safety nets, and community institutions; and anti-crisis policy measures, are expected to help mitigate the worst effects of the crisis on the poor.

TABLE 2 Uzbekistan / Macro poverty outlook baseline scenario (annual percent change unless indicated otherwise)

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	4.5	5.4	5.6	1.6	6.5	5.5
Private Consumption	1.3	3.8	5.4	0.4	6.1	5.4
Government Consumption	6.1	3.7	5.5	6.5	5.2	4.6
Gross Fixed Capital Investment	7.1	18.1	33.8	3.1	10.4	10.0
Exports, Goods and Services	1.3	10.7	10.9	1.2	6.7	10.1
Imports, Goods and Services	2.2	26.8	47.3	3.2	11.2	14.2
Real GDP growth, at constant factor prices	4.5	5.4	5.6	1.6	6.5	5.5
Agriculture	1.2	0.3	2.5	2.6	2.8	3.4
Industry	5.4	11.5	8.9	2.1	5.2	5.8
Services	6.3	5.2	5.5	0.6	9.7	6.6
Inflation (Private Consumption Deflator)	13.9	17.5	15.2	15.8	14.8	12.0
Current Account Balance (% of GDP)	2.5	-7.1	-4.2	-8.5	-5.3	-2.6
Fiscal Balance (% of GDP)	-1.9	-2.1	-3.9	-5.6	-4.7	-2.5
Debt (% of GDP)	20.2	20.6	29.0	32.1	33.1	33.0
Primary Balance (% of GDP)	-1.8	-1.7	-3.5	-5.1	-4.3	-2.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

WORLD BANK **ECA ECONOMIC UPDATE** SPRING 2020

Fighting COVID-19

In February 2020, the coronavirus outbreak interrupted the recovery that was underway in the Europe and Central Asia region earlier in the year. Given the rapidly evolving situation, this update summarizes the recent developments and growth outlook for the region under different scenarios regarding the outbreak. Although the magnitudes are uncertain, the pandemic is likely to derail the near-term outlook by interrupting daily activity, putting further downward pressure on commodity prices, disrupting tightly linked global and regional supply chains, reducing travel and tourist arrivals, and decreasing demand for exports from economies in the region. There are trade-offs between the health benefits of policies to slow down the spread of the disease and the economic costs of these actions. During these difficult times, it is important for policy makers to act decisively to save lives and invest in their public health systems; but also minimize the economic cost by strengthening the safety net for the most vulnerable; supporting the private sector through short-term credit, tax breaks, or subsidies; and being prepared to lower interest rates and inject liquidity to restore financial stability and boost confidence.

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