WORLD BANK GROUP

WESTERN BALKANS REGULAR ECONOMIC REPORT

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Greening the Recovery

COUNTRY NOTES

Albania

- Albania's economic recovery in 2021 is stronger than anticipated, as travel, construction, and extractives bounced back and private investment, consumption, and public spending surged.
- Macroeconomic policies have supported the recovery, although higher public spending has led to a further rise in the debt-to-GDP ratio.
- Employment and labor force participation recovery was slower and real wages are increasing.
- Economic uncertainty remains high as COVID-19 cases are increasing again amidst low vaccination rates.

Recent Economic Developments

Growth has rebounded in 2021, after the pandemic hit the Albanian economy hard. GDP in 2020 fell by 4 percent, and the government incurred additional public debt to mitigate the economic losses through increased spending. Growth rebounded by 5.5 percent in the first quarter (Q1) of 2021. Although most sectors experienced economic recovery, energy and construction contributed the most, by 1.7 and 1.1 percentage points, respectively, the latter partly related to reconstruction efforts following the 2019 earthquake. Among services, only trade remained subdued. Business sentiment indicators, an increase in construction permits issued, and growth in foreign trade and fiscal revenues suggest the rising growth trajectory is likely to continue in Q2. Tourist arrivals for the first seven months of 2021 were only slightly lower than those during the same period in 2019, suggesting a strong rebound of tourism in the summer months.

Increased vaccination rollout, remittances, credit growth, and recovery in the economic activity in trading partners boosted consumer and business sentiment and domestic demand, which expanded by 4.8 percent year-on-year (YOY) in Q1 2021. Investments contributed the most, expanding by 21.1 percent, and public consumption grew by 5.2 percent YOY. Private consumption, while recovering, is still below its pre-pandemic level and in line with the slower recovery in the labor markets. For 2021, GDP is projected to increase by 7.2 percent.

The labor market started its recovery in Q2. As of Q1 2021, the labor market, continued to shrink in terms of employment and labor force participation, largely due to employment in agriculture. Employment increased marginally by 1.1 percent in Q2 due to employment in construction and manufacturing, while agriculture continued to shrink. Labor force participation also increased, by 1 percent; around 34,000 workers left the labor force in Q2 2021 compared to a pre-pandemic Q2 2019. The unemployment rate declined to 11.6 percent from 11.9 percent in the same quarter of 2020. Formal real wages rose by 2.9 percent in Q2 2021, partially because of an increase in the minimum wage.

Inflationary pressures have started to build up. Supply-side shocks, increased inflation in trading partners, and demand expansion drove an increase of average inflation of 1.8 percent in Q2 from 0.9 percent in Q1. Food and oil prices contributed the most. With employment yet to recover, domestic pressures remain subdued[1] but are expected to intensify with the expansion of demand and continuing monetary and fiscal stimuli. While inflation is picking up, inflation expectations are still anchored, hence, monetary policy continued to support demand through keeping the policy rate at its historical minimum. Low liquidity risk premia in the domestic financial market ensured a smooth transition of the monetary stimulus into lower interest in the money market, government securities, and credit to the private sector. Consumer mortgages and investment loans for businesses led an expansion of credit to the private sector by 7.7 percent YOY by June 2021.

Despite higher revenues, the fiscal deficit remains elevated. Budget revenues in H1 2021 were 20.1 percent higher YOY and 3.6 percent above the same period in 2019. To a large extent, this increase reflects a statistical base effect, as the second quarter of 2020 marked the peak of restrictions on movement and economic activity. The increase in excise goods imports and, to a lesser extent, the increase of commodity prices, has also affected value-added tax (VAT) revenues, which contributed 5.2 percentage points to total revenue growth. The deficit for the first half of the year was 25 percent lower than the same period in 2020. The government also reduced VAT reimbursement arrears of 10 billion lek.[2] An increase in revenue collection and new debt allowed the government to increase spending. Through a normative act, in July 2021, the government temporary suspended the fiscal rule of a declining debt to GDP specified in the Organic Budget Law, and postponed the target of reaching a positive primary balance to 2024.[3]

Public debt is set to rise again. The government successfully met its financing needs by issuing Eurobonds in 2020, which increased debt[4] to a new high of 78.6 percent of GDP. At the same time, the country's buffers remain low in case of a new pandemic wave. In the absence of fiscal consolidation, refinancing risks could arise if external financial market demand tightens and interest rates increase.

External imbalances narrowed in the first half of 2021. Inflows from remittances and a surplus in trade of services compensated the higher demand for imported goods, a reflection of increasing investment and consumption. The current account narrowed by 9.6 percent in the first half of the year. Remittances grew by 24.4 percent YOY. Foreign direct investment (FDI) declined slightly, by 1.7 percent, but the tendency was upward in Q2, particularly in hydrocarbons. The stock of reserves, estimated to cover 8.4 months of imports, further increased in August as the International Monetary Fund released EUR160.7 million in Special Drawing Rights to the country's reserves.

Outlook and Risks

The strong projected growth rebound to 7.2 percent in 2021 is subject to a smooth vaccination rollout, no further lockdowns, and continued recovery in services, led by tourism, and construction. Over the medium

1 Core inflation stood at a stable 1.4 percent.
2 VAT arrears reimbursement net out gross revenues and are not recorded as a separate item in the government accounts.
3 The fiscal rule includes an escape clause in the case of an emergency, which applied in 2020.
4 Includes arrears to the private sector.

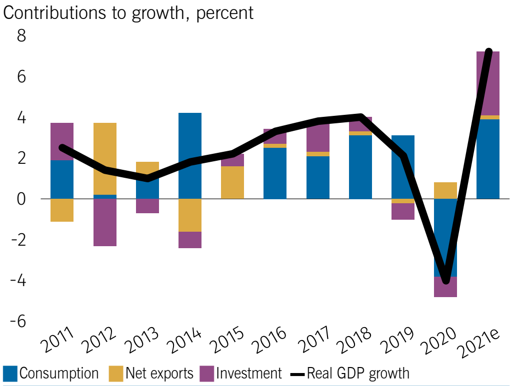
term, private consumption is projected to become again the primary driver of GDP growth. Private investment could provide further support to growth if business climate reforms are implemented. Meanwhile, the current account deficit is expected to expand to 9.4 percent of GDP, as high infrastructure investment demand brings imports growth to 29 percent in 2021. With exports bouncing back, the current account deficit should gradually shrink to 7.0 percent by 2023. Service exports, including tourism and fast-expanding business process operations, should narrow the current acount deficit over the medium term.

Strong growth is expected to help boost public revenues to 27.4 percent of GDP during 2022–25. Beyond 2021, spending will likely be constrained by limited fiscal space, as public debt is projected to increase to 78.6 percent of GDP in 2021, before declining gradually over the medium term.

However, economic prospects remain uncertain as daily cases have started increasing again. Further, by August 2021, the vaccination rate stood at only around 20 percent. If reinstated, new containment measures would delay the recovery of activity and employment, especially in services and manufacturing.

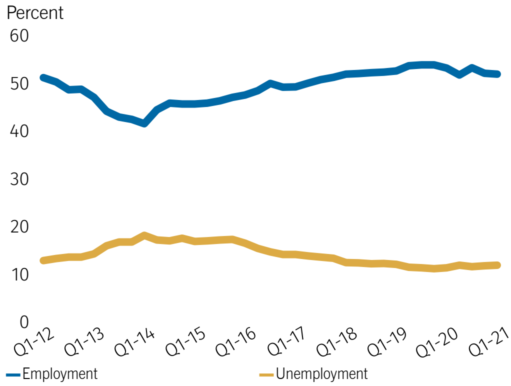
Fiscal space could further deteriorate in such a downside growth scenario and in the absence of strengthened revenue collection. In this scenario, the government may need to cut capital spending to prevent an increase of the debt-to-GDP ratio. Moreover, with more reliance on external financing, exchange rate, interest rate, and refinancing risks remain elevated. A key medium-term reform priority is to boost revenue collection and achieve fiscal consolidation while creating space for growth-enhancing spending.

Economic activity is expected to rebound in 2021.



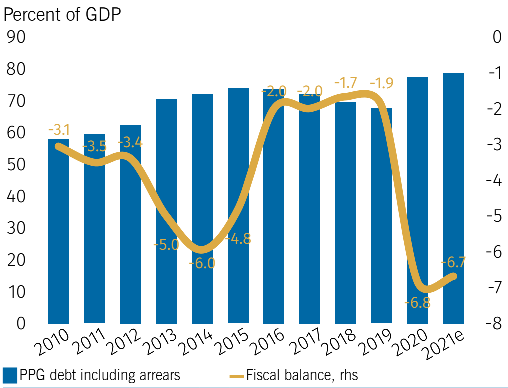
Source: INSTAT and World Bank staff calculations.

The labor market is yet to recover.



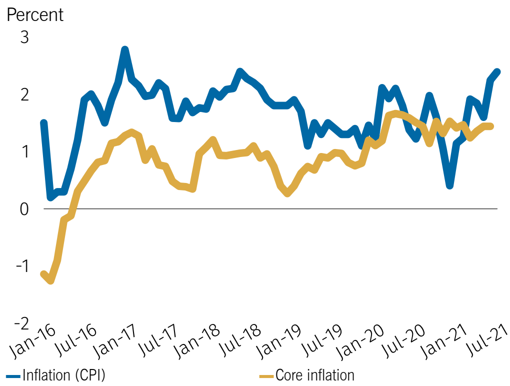
Source: INSTAT.

Strong fiscal stimulus was used to support the economy, but at the cost of increasing public debt.



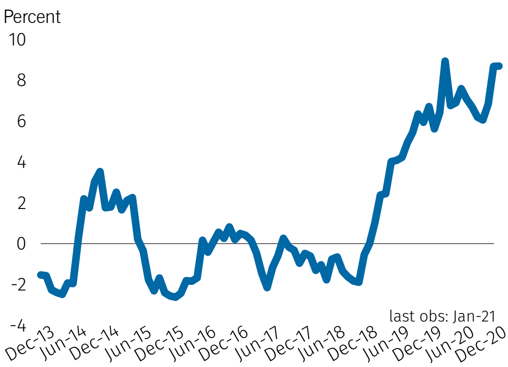
Source: INSTAT, MoFE and World Bank staff calculations.

Inflationary pressures are building up.



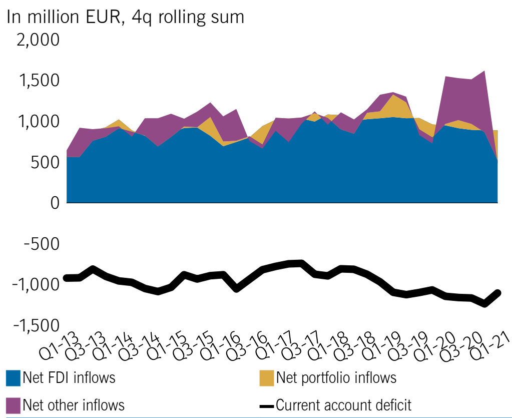
Source: Bank of Albania; World Bank staff calculations.

Credit growth supported demand expansion.



Source: Bank of Albania; World Bank staff calculations.

The current account deficit narrowed and was partially financed by FDI and government borrowing.



Source: Bank of Albania; World Bank staff calculations.

ALBANIA	2018	2019	2020	2021e	2022f	2023f
Real GDP growth (percent)	4.1	2.2	-4.0	7.2	3.8	3.7
Composition (percentage points):						
Consumption	3.1	2.5	-3.8	3.9	1.9	2.7
Investment	0.7	-0.9	-1.0	3.1	-0.4	0.5
Net exports	0.2	0.6	0.8	0.2	2.3	0.5
Exports	1.4	2.0	-8.6	6.6	3.9	2.1
Imports (-)	1.1	1.4	-9.4	6.4	1.6	1.6
Consumer price inflation (percent, period average)	2.1	1.4	1.6	2.4	2.8	3.0
Public revenues (percent of GDP)	27.5	27.2	26.3	27.8	27.4	27.4
Public expenditures (percent of GDP)	29.2	29.2	33.2	34.4	30.2	30.4
Of which:						
Wage bill (percent of GDP)	4.5	4.6	4.8	5.0	4.5	4.4
Social benefits (percent of GDP)	11.6	11.9	12.9	12.6	12.0	11.8
Capital expenditures (percent of GDP)	4.8	4.5	6.3	7.5	5.6	5.1
Fiscal balance (percent of GDP)	-1.7	-1.9	-6.8	-6.7	-2.8	-3.0
Primary fiscal balance (percent of GDP)	0.5	0.1	-4.7	-4.6	-0.7	-0.6
Public debt (percent of GDP)	64.9	63.7	75.1	75.4	74.9	73.1
Public and publicly guaranteed debt (percent of GDP)	69.5	67.4	77.2	78.6	76.7	74.9
Of which: External (percent of GDP)	30.4	29.1	35.9	38.6	35.3	32.4
Goods exports (percent of GDP)	7.7	6.6	6.1	7.6	7.5	7.5
Goods imports (percent of GDP)	30.1	29.7	28.9	33.9	33.5	33.1
Net services exports (percent of GDP)	8.7	9.3	8.1	10.6	13.0	13.6
Trade balance (percent of GDP)	-13.7	-13.8	-14.7	-15.7	-13.0	-12.0
Net remittance inflows (percent of GDP)	5.2	5.2	5.1	4.7	4.7	4.7
Current account balance (percent of GDP)	-6.8	-8.0	-8.8	-9.4	-8.1	-7.0
Net foreign direct investment inflows (percent of GDP)	8.0	7.6	6.8	6.6	7.4	7.0
External debt (percent of GDP)	65.2	60.5	64.7	59.3	53.9	52.9
Real private credit growth (percent, period average)	-3.0	1.5	5.2	—	—	—
Nonperforming loans (percent of gross loans, end of period)	11.1	8.4	8.1	—	—	—
Unemployment rate (percent, period average)	12.3	11.5	11.7	—	—	—
Youth unemployment rate (percent, period average)	23.1	21.5	20.9	—	—	—
Labor force participation rate (percent, period average)	59.4	60.4	59.5	—	—	—
GDP per capita, PPP (current international $)	15,101	15,433	14,816	—	—	—
Poverty rate (percent of population)	32.4	31.8	32.6	30.8	29.3	—

Sources: Country authorities, World Bank estimates and projections.

Note: Youth unemployment rate is for labor force aged 15–29. Statistical discrepancy contribution is divided at the ratio of 80 percent and 20 percent between Consumption and Investment respectively. Change in inventories is included in Investments. Poverty rate calculations based on ECAPOV harmonization using SILC-C data. Nowcasted/projected values start at 2019. Income measures in the SILC and consumption measures in the HBS are not strictly comparable. Poverty is defined as living on less than $5.5/day per person in revised 2011 PPPs.

Bosnia and Herzegovina

- Real GDP contracted 3.2 percent in Bosnia and Herzegovina in 2020 and rebounded by 1.5 percent in the first quarter (Q1) of 2021 driven by a surge in exports and robust growth in final consumption.
- While a full recovery to the 2019 real income level is expected in 2021, the economy is unlikely to catch up with the pre-pandemic growth trajectory unless political bottlenecks are resolved.
- After several years of budgetary consolidation and running surpluses, fiscal deficits are expected until 2023. Public debt is on an upward trajectory.
- Medium-term prospects are mixed. External risks include a slower-than-expected recovery in the European Union (EU), while domestic risks include a prolonged paralysis in governing and, together with upcoming general elections in 2022, is likely to prevent the implementation of much-needed structural reforms.

Recent Economic Developments

The economy rebounded in 2021 on the back of higher consumption and external demand recovery. According to the latest official estimates, real GDP growth contracted 3.2 percent in 2020 compared to the previously published 4.3 percent as manufacturing, wholesale, and retail trade declined less than initially estimated. On the demand side, a larger compression of imports than exports in 2020 helped soften the sharp decline in household consumption and plummeting investments that resulted from the lockdown during the pandemic, but also from political deadlock. Nevertheless, real GDP grew an estimated 1.5 percent in Q1 of 2021 (year-on-year [YOY]) driven by a pickup in private and public consumption and a surge in exports of goods. The surge in exports of goods was caused by higher external demand triggered by a rebound in industrial production in Croatia, Italy, and Serbia, which in turn accelerated growth in manufacturing and production of consumer durables. The increase in private consumption, meanwhile, could be attributed to a combination of pent-up demand including e-commerce, and higher lending to households.

Stronger household consumption and higher international oil prices lifted headline inflation to 1.9 percent in July (YOY). Last year, deflation of 1.1 percent was mainly driven by a drop in the prices of clothes and transportation as oil prices collapsed during the pandemic. However, the strong rebound in transportation prices since April 2021 reflects spillovers from the recovery in international oil prices as the price of Brent oil rose from a low of US$18 in April 2020 to US$75 in July 2021. Together with robust household consumption, the change in food prices also picked up pace since January, resulting in higher headline inflation of 0.4 percent during January–July 2021 compared to -0.7 percent during the same period last year. However, adjusting for food, energy, and administratively regulated prices, as well a tobacco prices, core inflation totaled -0.8 percent YOY during January–July 2021.

The fiscal imbalance continues in 2021. A slump in revenues and higher current spending led to a fiscal deficit of an estimated of 1.8 percent of GDP in 2020, after a surplus of close to 2 percent of GDP the year before.[5] This fiscal shortfall stands in sharp contrast to the authorities' planned deficit of 5.4 percent of GDP in 2020, envisaged to result from measures counteracting the economic impact of the pandemic, in the form of paying minimum wages and contributions to workers in companies severely affected by the pandemic, and from spending through special fiscal funds to stabilize the economy. Instead, current spending declined by 2 percent nominally in 2020 compared to the growth of almost 11 percent in 2019. Thus, the fiscal response to the crisis in 2020 was more pronounced on the revenue side than spending. The fragmented institutions led to inefficiencies and delays in implementation, resulting in the slow release of funds. In 2020, tax revenues fell 7.5 percent in nominal terms, the result not only of a sharp decline in indirect taxes, but also due to deferred tax payments. In 2021, the rebound in economic activity led to an estimated rise in revenues of 3.8 percent (YOY), while delayed spending implementation from 2020 led to total spending increasing 4.5 percent, largely on account of higher public wages and higher social benefits.

The pandemic interrupted the ongoing fiscal consolidation that placed the public debt trajectory on a declining trend. Public debt declined from 42.4 percent of GDP in 2016 to 32.8 percent of GDP at the end of 2019, yet it increased to 37 percent of GDP at the end of 2020, of which roughly four-fifths represents external public debt.

Despite increased economic activity and rising oil prices, the current account deficit narrowed to 1.2 percent of GDP in the first quarter of 2021 compared to 3.2 percent of GDP during the same period last year. In 2020, despite the collapse in investment and decline in household consumption due to COVID-19 that reduced imports more than exports, the current account deficit slightly increased to an estimated 3.3 percent of GDP from 3.2 percent in 2019. The acceleration in exports totaling almost 17 percent during January–March 2021 reflects higher external demand for base metals, machinery, and furniture. In the meantime, imports grew just below 3 percent, which reduced the merchandise trade deficit to 16 percent of GDP in the first quarter of 2021 compared to 20 percent during the same period last year. This reduction in the merchandise deficit accounts for the narrowing of the external shortfall as the services and income surpluses remained robust, at 3.4 percent and 9.7 percent of GDP, respectively. Adjusted for capital transfers, the external shortfall amounted to 0.6 percent of GDP, which was financed by non-debt-creating foreign direct investment inflows (that is, equity and reinvested earnings).

Outlook and Risks

Medium-term prospects are mixed. In the short term, the outlook is positive with real GDP set to expand by 4 percent in 2021. Over the medium term, however, these prospects are dampened by an expectation of growth deceleration to around 3 percent in 2022 and 2023. The shape of the growth trajectory will in part depend on the authorities' success in accelerating the share of the vaccinated adult population, which currently stands at around 27 percent, while the number of infections is on the rise again. If the health situation does not deteriorate significantly over the next

5 BiH Global Fiscal Framework for 2022–2024.

few months, the policy focus could shift to addressing priorities for EU accession and, thus, implementation of the Socio-Economic Program[6], which in turn would allow for more prominent growth over the next few years. In this context, announced investments in energy and infrastructure could solidify a sharper increase in economic activity, supported by a further pickup in private consumption fueled by remittances, a tightening labor market, and domestic lending. Intensified trade with neighbors could keep merchandise export growth rates elevated and, together with a full recovery of travel income and remittances, allow for a current account deficit in the range of 0.5 to 2 percent of GDP over the medium term, which is significantly below the pre-pandemic level of above 3 percent of GDP.

Low investment rates in Bosnia and Herzegovina resulted in per capita GDP hovering around one-third of the EU27 average, a gap significantly larger than other peers in the Western Balkans, such as Montenegro, North Macedonia, and Serbia. Reducing this income gap will be challenging given the overall health situation and, more importantly, the political deadlock, which is fueled by the current policy paralysis of the presidency and council of ministers, and the upcoming parliamentary elections expected to take place in the second half of 2022. As a consequence of the political stalemate, the country may not join the World Trade Organization in November 2021, as initially planned, the central bank board has not been approved, and some other economic measures, such as reducing social contributions, are on hold. While a full recovery to the 2019 real income level is expected in 2021, the country is unlikely to catch up with the pre-pandemic growth trajectory unless political bottlenecks are addressed soon. A full and timely implementation of the Socio-Economic Program would allow for a more rapid convergence to the EU27 average.

The implementation lag of spending measures approved in 2020 will spill over into 2021 and lift the fiscal deficit to around 3 percent of GDP. The combination of a partial recovery in tax revenues, which are projected to grow by around 2.5 percent in 2021 after dropping by 7.5 percent in 2020, and higher spending on goods and services, the wage bill, and capital expenditures, will broaden the overall fiscal deficit in 2021. Financing from international financial *institutions*, especially the allocation of US$300 million in Special Drawing Rights from the International Monetary Fund, will help meet the larger gross financing need.

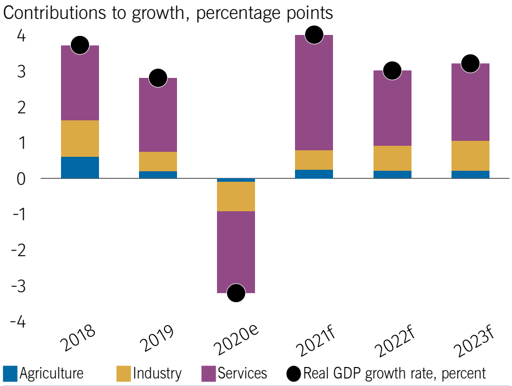
As the economy rebounds in 2021, improvements in labor market participation and employment will remain key for growth to translate into poverty reduction. Addressing bottlenecks causing persistent long-term unemployment, such as enhancing formal labor market participation, especially for women, and reducing skills mismatches for youth, will be key. Institutional and governance reforms remain important challenges on the country's development path and road to EU membership.

Several risks dominate the outlook. First, a prolonged adverse impact of the pandemic domestically could adversely affect growth in consumption and investment; and second, a prolonged adverse impact of the pandemic in the region or the reintroduction of movement

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

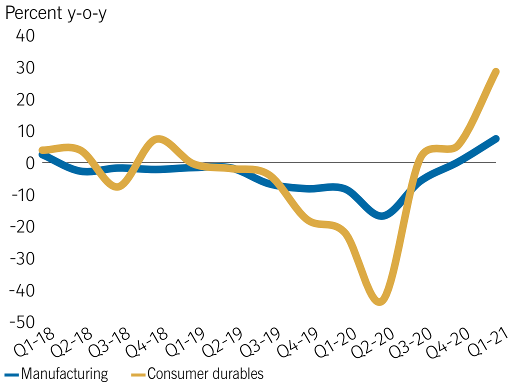
controls if vaccination slows or the vaccine proves ineffective against new variants could dampen external demand for the country's exports. In both cases, this could place Bosnia and Herzegovina on a lower growth trajectory over the medium term. Finally, the current political deadlock could be further amplified in the pre-election period, adversely affecting implementation of the adopted socioeconomic program needed to address the country's development challenges and pave the way for EU accession.

Growth rebounded in 2021 as services and industrial production recovered.



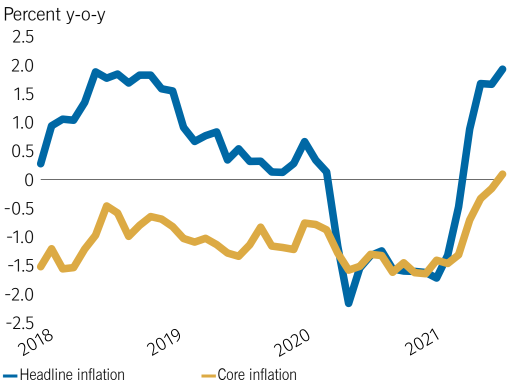
Source: BiH Agency for Statistics and World Bank staff estimates.

The rebound in industrial production was led by manufacturing and consumer durables.



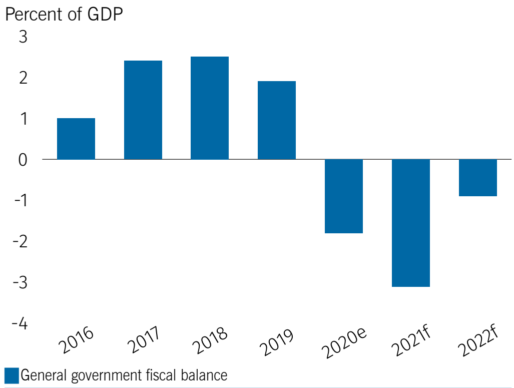
Source: BiH Agency for Statistics.

Inflationary pressures increased.



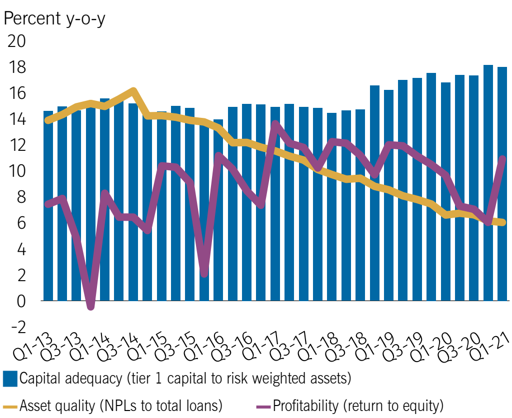
Source: BiH Agency for Statistics.

Fiscal imbalances will likely persist until 2022.



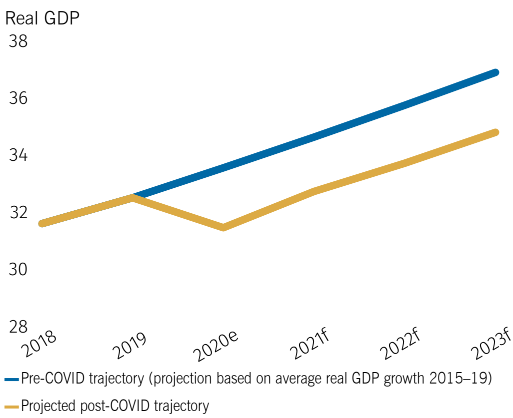
Source: Fiscal authoritie and World Bank staff estimates.

Nonperforming loans in commercial bank portfolios remain high but are on a downward trend.



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

Unless the political deadlock is resolved, the country will remain on a permanently lower growth trajectory.



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

BOSNIA AND HERZEGOVINA	**2018**	**2019**	**2020**	**2021e**	**2022f**	**2023f**
Real GDP growth (percent)	3.7	2.8	-3.2	4.0	3.0	3.2
Composition (percentage points):						
Consumption	—	—	—	4.5	2.8	3.0
Investment	—	—	—	-2.5	-0.6	0.8
Net exports	—	—	—	1.9	0.7	-0.6
Exports	—	—	—	10.1	4.0	3.3
Imports (-)	—	—	—	8.1	3.2	3.9
Consumer price inflation (percent, period average)	1.4	0.6	-1.1	-0.2	0.5	0.7
Public revenues (percent of GDP)	42.7	43.0	42.2	41.2	41.8	42.0
Public expenditures (percent of GDP)	40.2	41.1	44.0	44.3	42.7	41.6
Of which:						
Wage bill (percent of GDP)	10.2	10.9	11.5	11.5	11.4	11.1
Social benefits (percent of GDP)	17.8	18.1	20.0	19.4	18.9	18.8
Capital expenditures (percent of GDP)	2.8	3.1	3.2	3.7	3.1	2.7
Fiscal balance (percent of GDP)	2.5	1.9	-1.8	-3.1	-0.9	0.4
Primary fiscal balance (percent of GDP)	3.2	2.6	-1.1	-2.3	0.0	1.2
Public debt (percent of GDP)	34.2	32.8	36.6	35.8	35.9	37.2
Public and publicly guaranteed debt (percent of GDP)	35.6	34.5	38.8	38.0	38.1	39.1
Of which: External (percent of GDP)	29.9	28.4	30.8	30.0	29.8	30.6
Goods exports (percent of GDP)	31.2	28.8	27.5	33.6	35.4	36.5
Goods imports (percent of GDP)	53.6	51.4	45.9	52.3	53.6	55.9
Net services exports (percent of GDP)	7.8	7.8	4.0	5.9	6.9	7.6
Trade balance (percent of GDP)	-14.7	-14.7	-14.5	-12.7	-11.3	-11.7
Net remittance inflows (percent of GDP)	8.5	8.4	7.4	7.7	7.6	7.5
Current account balance (percent of GDP)	-3.5	-3.2	-3.3	-2.0	-0.6	-1.1
Foreign direct investment inflows (percent of GDP)	3.0	2.0	1.9	2.0	2.1	2.2
External debt (percent of GDP)	66.8	64.1	71.6	70.0	70.3	70.5
Real private credit growth (percent, period average)	5.1	5.2	1.3	—	—	—
Nonperforming loans (percent of gross loans, end of period)	8.8	7.4	6.1	—	—	—
Unemployment rate (percent, period average)	18.4	15.7	15.9	—	—	—
Youth unemployment rate (percent, period average)	38.8	33.8	36.6	—	—	—
Labor force participation rate (percent, period average)	42.1	42.1	47.7	—	—	—
GDP per capita, PPP (current international $)	13,200	13,775	13,424	14,100	14,700	15,250

Sources: Country authorities, World Bank estimates and projections.

Kosovo

- Kosovo's economy is recovering rapidly from the COVID-19 pandemic, with output in 2021 expected to exceed 2019 levels by year-end, but risks to the outlook remain high as the country continues to grapple with the pandemic.
- Economic activity in 2021 is expected to expand by 7.1 percent on the back of a stronger-than-expected rebound in diaspora visits, restored consumer confidence, and higher consumer lending. Exports of merchandise continued their expansion and gradual diversification from 2020.
- However, significant inflationary pressures, primarily from higher import prices, may undermine a stronger recovery in private investment.
- Public revenue is experiencing an unprecedented rebound due to higher economic activity, but also due to higher inflation and tax compliance measures. As a result, and against sluggish public investment execution, the fiscal deficit is expected to decrease in 2021.
- Management of the fourth wave of the pandemic, including through accelerating vaccinations, remains a priority in the near term. In the medium term, Kosovo needs to transition to a more productivity-oriented growth model.

Recent Economic Developments

Kosovo is experiencing a much faster recovery than previously expected. After merely returning to positive territory during the last quarter of 2020, growth gained momentum during the first quarter (Q1) of 2021, reaching 5.6 percent.[7] Firm sales and trade flows until July 2021 exceeded 2019 levels, suggesting a further acceleration in growth for the remainder of the year. As vaccinations hasten in Europe and Kosovo, economic activity is now projected to expand by 7.1 percent in 2021, up by 3.1 percentage points from the spring forecast. Exports and private consumption are expected to provide the highest contribution to growth. Private investment is also expected to add to growth. On the production side, services continue to be the main driver of growth, while the contribution of agriculture remains limited.

The key driver behind a faster recovery is the rebound in diaspora visits that fuel Kosovo's service exports and informal remittances. Exports of services exceeded 2019 levels by June 2021, and by year-end are estimated to exceed 2019 levels by 9.5 percent. Exports of merchandise goods have also maintained a strong pace of growth, but their share of total output remains relatively low at 8.4 percent.

Limited restrictions on economic activity, fiscal support measures, and strong credit growth have bolstered private consumption. Limited containment measures until end-August 2021 enabled the uninterrupted resumption of economic activity and, despite significant delays, improved access to vaccines have enhanced firm and consumer confidence. In addition to social transfers and targeted wage subsidies, the allowed withdrawal of a fraction of pension savings from end-2020, amounting to almost 3 percent of GDP, is likely to have boosted private consumption, especially during the Q1 of 2021. Significant growth in household credit, which reached 16.2 percent by July 2021, also bolstered private consumption.

7 All comparisons are year-on-year unless otherwise stated.

The recovery has been accompanied by gains in formal employment. According to the Kosovo Pensions Savings Trust, the average quarterly number of active pension contributors increased by 13.6 percent during Q2, indicating an increase of about 40,000 in the number of formal jobs compared to the same period in both 2020 and 2019. At the same time, the average quarterly number of registered jobseekers also dropped significantly—by more than 30 percent compared to the same period in 2020. However, it is still higher than in the same period of 2019.

Inflationary pressures heightened significantly during 2021, in line with global trends, creating challenges for private investment. Consumer price inflation, driven primarily by higher import prices, is expected to reach an annual average of close to 3.5 percent in 2021. Import prices increased by 2.5 percent in Q1 and 7.7 percent in Q2 and are expected to accelerate during the rest of the year, mostly driven by commodity imports. Production prices also increased, followed with a marked increase in the construction price index (17 percent during the Q2 of 2021), driven by higher commodity prices and wages. Construction comprises almost 60 percent of private investment activity[8] in Kosovo.

Exports are recovering rapidly in 2021. Imports are expected to increase by over 30 percent in 2021 to meet the rebound in consumption, exports, and investment, with exports of merchandise increasing by 35 percent. Though growth in exports is expected to outpace the rebound in imports, as imports grow from a higher base, current account deficit is projected to reach 8.5 percent of GDP, up from 7 percent in 2020. At the same time, foreign direct investment, driven by higher dividend repatriation, is expected to drop from 4.1 to 3.8 percent of GDP.

The fiscal deficit is expected to narrow significantly in the context of a strong public revenue performance and sluggish public investment. Public revenues are expected to increase by almost 24 percent in 2021, thanks to a considerable increase in firm turnover and the strong rebound in imports. By end-August 2021, public revenue collection increased by more than 30 percent, with the highest contribution from the value-added and excise taxes and is likely to exceed current budget projections. In addition to the expansion in economic activity, heightened inflation, intensified tax debt collection, and some formalization incentivized by fiscal stimulus measures have also added to revenue growth. The government has announced an ambitious Economic Revival Package amounting to 5.7 percent of GDP, mostly consisting of current expenditures, which is expected to be implemented during 2021 and 2022. Public expenditure is expected to decrease by 1.8 percent compared to 2020, driven mainly by public investment underspending. The fiscal deficit is estimated at 0.9 percent of GDP; a significant drop from last year, and lower than the level planned with the 2021 budget. Public and publicly guaranteed debt is expected to increase from 22.4 percent of GDP in 2020 to 23.2 percent in 2021. Thanks to good revenue performance, domestic debt accumulation will slowdown and fiscal buffers are expected to accumulate.

The financial sector is experiencing strong credit and deposit growth. Credit growth until July 2021 reached 12 percent, with credit

8 According to Firm Investment Statistics, Kosovo Statistics Agency.

to households increasing by 16.2 percent. Deposits increased by 14.5 percent for the same period, with deposits of other nonfinancial corporations increasing by 31.7 percent. Capital adequacy remained above regulatory requirements until July, while nonperforming loans hovered between 2.5 and 2.7 percent from January to July 2021, according to the Central Bank. The Kosovo Credit Guarantee Fund continued to expand its coverage, including through government-subsidized guarantee fees. Its capital is expected to be further bolstered by government grants.

Outlook and Risks

Kosovo is expected to grow over 4 percent in the medium term, contingent on the global course of the pandemic and its successful management. Although growth is expected to decelerate in 2022 from the peak in 2021 of 7.1 percent, over the medium term, growth rate will stabilize at its potential of 4 percent. Given the level reached in 2021, service exports are expected to increase, but at a slower pace. At the same time, with international prices stabilizing in the medium term, Kosovo's commodity exports will also experience slower growth, but maintain the gains experienced over the past two years. Private investment, and public investment, in particular, are expected to pick up and make a higher contribution to growth alongside consumption. Credit growth is projected to continue supporting private consumption increases. Against this backdrop, imports are projected to rise further; hence, the current account balance is expected to deteriorate. Net exports, in line with pre-pandemic trends, are expected to subtract from growth. Remittances are projected to maintain their increase in nominal value and will continue be the main source of financing for the trade deficit. Inflationary pressures are projected to subside, with consumer inflation stabilizing at an average of 1.8 percent.

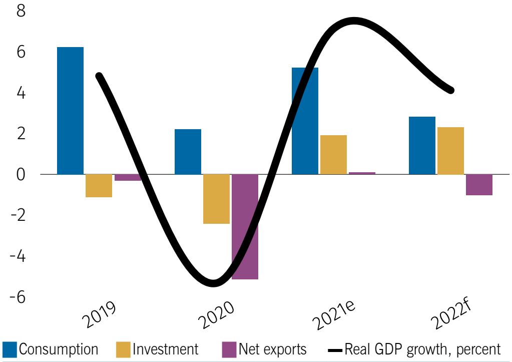
Higher fiscal deficits are likely due to a possible acceleration of public expenditure growth in the medium term. Public revenue and public expenditure are projected to increase by an average of 4 percent and 7.6 percent per year in the medium term, fueling an increase in the level of fiscal deficit compared to 2021. Public revenue growth will decelerate, mainly because of the absence of one-off contributors, such as dividend income, and because of a slowdown in import growth and inflation compared to 2021. Expenditure growth will be fueled by an acceleration in public investment spending, but also increased current expenditure driven by the implementation of the Economic Revival Plan. As a result, fiscal deficit levels are expected to increase from 2021 to an average of 2 percent of GDP over the medium term. With limited availability of privatization proceeds over the medium term, the deficit is projected to be financed primarily through new domestic debt and concessional external debt. Public and publicly guaranteed debt relative to output is projected to rise from 23.2 percent in 2021 to 27.8 percent by end-2023.

However, the outlook is marred by substantial COVID-19 risks. Given the rise of new virus variants and vaccination trends, both in Kosovo and globally, the pandemic risks remain high. Kosovo was hit with a fourth wave of infections in late August 2021, but the pace of vaccinations has accelerated. Given Kosovo's high reliance on diaspora visits, reaching the vaccination coverage target at 60 percent of the eligible population by yearend remains important for mitigating pandemic-related risks and avoiding the imposition of further rounds of strict containment measures that restrict economic activity. Due to the inherent uncertainty of the course of the pandemic, policymakers need to have contingency plans, especially given the high impact of containment measures on public revenue collection, expenditure composition, and financing. Reimposition of international travel restrictions in diaspora-hosting countries could also weigh on growth and the fiscal position.

In the medium term, there is a pressing need to focus policies on tackling constraints to higher productivity growth and investing in human capital. Kosovo needs to grow beyond its current potential to achieve higher living standards and more inclusive development. Thus, reforms should focus on (1) entrenching macroeconomic stability and sound governance; (2) increasing firm productivity; (3) raising farm productivity; (4) enhancing human capital; and (5) boosting exports, competition, and private investment, especially foreign direct investment.

Economic activity is recovering faster than expected in 2021.

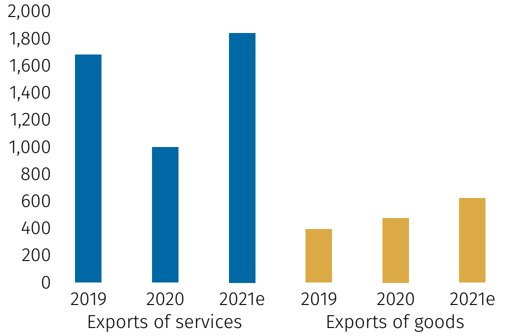
Contributions to growth, percentage points



Source: Kosovo Statistics Agency and World Bank staff calculations.

Exports of services are experiencing a strong rebound.

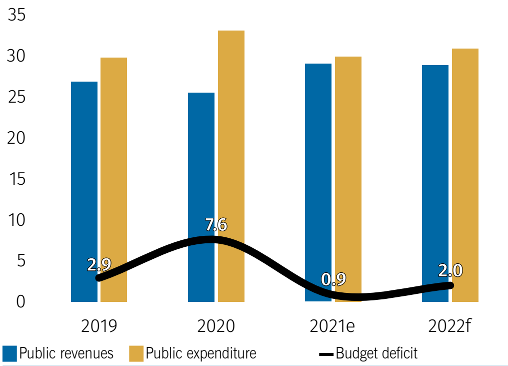
Exports of goods and services, in EUR millions



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

Strong recovery of revenues and under-execution of capital investment are narrowing the deficit in 2021.

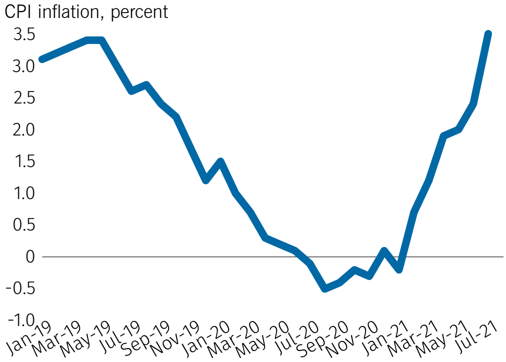
Percent of GDP



Source: Ministry of Finance and World Bank staff calculations.

Inflationary pressures increased in 2021.

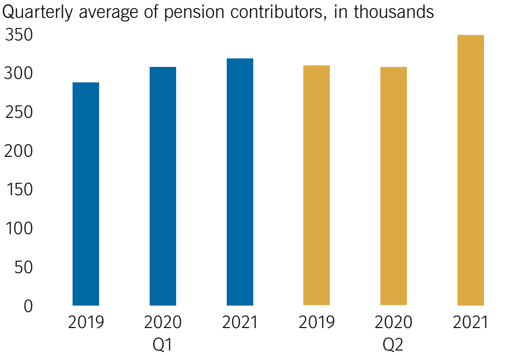
CPI inflation, percent



Source: Kosovo Statistics Agency.

The recovery is accompanied by robust growth in formal employment.

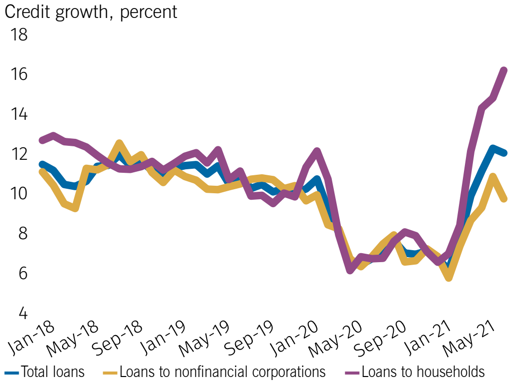
Quarterly average of pension contributors, in thousands



Source: Kosovo Pensions Savings Trust.

Credit growth is supporting the recovery.

Credit growth, percent



Source: Central Bank of Kosovo.

KOSOVO	**2018**	**2019**	**2020**	**2021e**	**2022f**	**2023f**
Real GDP growth (percent)	3.4	4.8	-5.3	7.1	4.1	4.4
Composition (percentage points):						
Consumption	3.9	6.2	2.2	5.2	2.8	2.7
Investment	2.6	-1.1	-2.4	1.9	2.3	2.3
Net exports	-3.1	-0.3	-5.1	0.1	-1.0	-0.7
Exports	2.5	2.2	-8.4	13.7	2.5	2.2
Imports (-)	5.6	2.5	-3.3	13.6	3.5	2.9
Consumer price inflation (percent, period average)	1.1	2.7	0.2	3.5	1.8	1.6
Public revenues (percent of GDP)	26.3	26.8	25.4	28.9	28.8	28.8
Public expenditures (percent of GDP)	29.2	29.7	33.0	29.8	30.8	31.0
Of which:						
Wage bill (percent of GDP)	8.9	8.7	9.8	8.9	8.9	8.9
Social benefits (percent of GDP)	6.2	6.3	7.7	7.5	7.4	7.1
Capital expenditures (percent of GDP)	7.9	7.5	5.6	5.3	6.4	7.0
Fiscal balance (percent of GDP)	-2.9	-2.9	-7.6	-0.9	-2.0	-2.2
Primary fiscal balance (percent of GDP)	-2.6	-2.6	-7.2	-0.4	-1.5	-1.6
Public debt (percent of GDP)	16.4	17.0	22.0	22.7	25.9	27.6
Public and publicly guaranteed debt (percent of GDP)	17.0	17.6	22.4	23.2	26.2	27.8
Of which: External (percent of GDP)	6.2	5.8	7.8	7.8	10.1	11.1
Goods exports (percent of GDP)	5.6	5.6	6.9	8.4	8.6	8.8
Goods imports (percent of GDP)	46.7	45.8	44.2	55.9	56.3	57.2
Net services exports (percent of GDP)	12.8	13.1	5.7	14.8	14.0	14.7
Trade balance (percent of GDP)	-28.2	-27.1	-31.6	-32.7	-33.7	-33.7
Net remittance inflows (percent of GDP)	11.4	11.6	13.8	14.3	14.0	13.6
Current account balance (percent of GDP)	-7.6	-5.6	-7.0	-8.5	-9.6	-9.2
Net foreign direct investment inflows (percent of GDP)	3.4	2.7	4.1	3.8	4.1	4.5
External debt (percent of GDP)	30.5	31.2	37.5	—	—	—
Real private credit growth (percent, period average)	10.1	7.9	7.6	—	—	—
Nonperforming loans (percent of gross loans, end of period)	2.5	2.0	2.7	—	—	—
Unemployment rate (percent, period average)	29.5	25.7	—	—	—	—
Youth unemployment rate (percent, period average)	55.4	49.4	—	—	—	—
Labor force participation rate (percent, period average)	40.9	40.5	—	—	—	—
GDP per capita (US$)	4,388	4,432	4,295	4,560	4,757	5,005
Poverty rate (percent of population)	23.2	20.9	23.4	20.9	18.9	17.0

Source: Country authorities, World Bank estimates and projections.

Note: Poverty rate calculations based on ECAPOV harmonization using HBS data. Nowcasted/projected values start at 2018. Income measures in the SILC and consumption measures in the HBS are not strictly comparable. Poverty is defined as living on less than $5.5/day per person in revised 2011 PPPs.

Montenegro

- After the deep 2020 recession, Montenegro's economy is recovering faster than anticipated.
- Progress with vaccinations, health protocols, and open borders has helped revive tourism.
- Unemployment remains high despite the tourism rebound.
- The large Eurobond issuance in December 2020 has relieved financing pressures in 2021, along with reduced fiscal deficit. Still, careful fiscal and debt management remains critical, as uncertainties loom.

Recent Economic Developments

While tourism was the main culprit for the economic downturn in 2020, it is now driving the economic revival. After a historic recession of 15.3 percent in 2020, the economy has been showing signs of a robust recovery. It is estimated that GDP will bounce back by 10.8 percent in 2021, stronger than previously estimated. This is due to swifter tourism recovery—we now assume that tourism revenues will rebound to 75 percent of their 2019 levels, from 55 percent previously estimated. This rebound will boost exports, which are expected to lead the economic recovery in 2021. Despite lower employment, tourism and household lending are expected to boost private consumption growth. However, government consumption is estimated to decline, while investments are expected to increase only slightly due to delays in public investment projects, supply-chain disruptions, and higher cost of materials.

High-frequency indicators point to a recovery but also show the economy's scars from the pandemic. In the first seven months of 2021, the number of overnight stays in tourist collective[9] accommodations were 56 percent of the 2019 levels, but the peak season started in July, with overnight stays reaching 90 percent of the 2019 level. Data from the national tourism organization point to an equally robust tourism demand in August (July and August usually account for almost half of annual overnight stays). Retail trade strengthened by 6 percent[10] in the first half of 2021. In the same period, an increase of 10 percent in industrial production was largely driven by electricity generation, while construction was at the same level as a year ago.

The recovery has yet to ignite the labor market. Since the pandemic began, the administrative data show a persistent decline in employment, which reached a record low of 149,371 registered jobs in June (compared to 178,178 in June 2020 and 213,488 in June 2019). Loss of jobs was recorded in all sectors, but trade, construction, and tourism have taken the biggest hit, though tourism jobs are expected to have partly recovered due to intensifying tourism activity. Registered unemployed rose from 41,890 in June 2020 to 55,703 in June 2021, of which over 60 percent of newly registered unemployed were women. The government has continued paying wage subsidies and one-off transfers, including incentives for formalization of employment. This support has helped to avoid worse labor market outcomes. The Parliament has adopted an increase in the net monthly minimum wage from €222 to €250, effective October 1.

9 This includes hotels, holiday facilities, boarding houses, tourist resorts, hostels, and motels.

10 All comparisons are year-on-year unless otherwise stated.

Stronger demand and higher oil prices have pushed up inflation. As economic activity has picked up, so has inflation, and in the eight months it averaged 1.7 percent, with July and August inflation rates reaching 3.1 percent. The increase in inflation was led by rising food, beverage, and transportation prices. Producer prices grew more moderately, and by June the Producer Price Index had increased by 1.3 percent. In the first seven months, nominal wages increased by 1.3 percent, but real wages fell marginally by 0.2 percent.

The financial sector has so far been resilient. In the first seven months of 2021, outstanding loans were up by 7.3 percent, driven by household and non-resident lending. At the same time, deposits were up by 16 percent, most notably for firms, households, and non-residents. The lending-to-deposits ratio declined to 89 percent, back to its pre-pandemic level. By July, new lending surged by 57 percent, though it remained below its 2019 level. The June average capital adequacy ratio was at a healthy 19.2 percent, well above the regulatory minimum. Nonperforming loans increased to 6.3 percent of total loans from 5.6 percent in June last year. The full impact of the crisis on bank asset quality will only be clear once the generous loan moratoriums expire in December and if corporate bankruptcies rise after government crisis response programs are phased out. The Central Bank has commissioned an Asset Quality Review (AQR) to identify stressed assets and make necessary provisions in banks' balance sheets. After delays due to the pandemic, the AQR shall be published in September and may reveal vulnerabilities that would require decisive action by the Central Bank.

External imbalances are expected to narrow as net exports and net income accounts strengthen. In the first half of 2021, exports of goods and services increased by 40 percent, supported by a recovery in tourism and transport services, but also stronger merchandise exports—primarily of electricity, minerals, and metals. In contrast, import growth was more moderate, edging up by 3 percent, largely driven by imports of food, beverages, and oil. Net primary and secondary incomes have further reduced the current account deficit, primarily due to strong net remittances, which increased by 75 percent compared to the same period last year. The current account deficit was financed by drawing down reserves and net foreign direct investment (FDI), although the latter declined by 20 percent. By July, international reserves increased to €1.4 billion, covering 7.7 months of merchandise imports.

The 2021 budget was adopted only in June and introduced more meaningful program budgeting. The budget defines objectives and key performance indicators, although not for all programs. Until the 2021 budget was adopted, the Ministry of Finance and Social Welfare was issuing monthly temporary decisions on financing. The budget proposed by the government initially planned a fiscal deficit of 3 percent of GDP but was eventually increased to 3.8 percent of GDP due to the allocation of €25 million for reintroducing mothers' benefits transfers. The 2021 budget also introduced child benefits for all children until the age of six and financing of textbooks for all primary school students. There is room to raise the inclusiveness and spending efficiency by reviewing the current social protection system to increase its effectiveness and targeting and minimize potential adverse labor market participation effects.

Stronger revenues are supporting fiscal deficit reduction. In the first seven months of 2021, central government revenues increased by 11.3 percent, primarily supported by stronger value-added tax (VAT) and non-tax revenue collection (including dividends from state-owned enterprises). In June, the Law on E-fiscalisation entered into force and is expected to further support VAT collection. Expenditures declined by 4.5 percent, mainly driven by under-execution of capital spending (due to delays in adopting the budget), but also lower spending on goods and services. The government has continued supporting the private sector and households through wage subsidies and one-off support until July. To further support the recovery, the government has also provided €40 million for subsidized loans for micro and small and medium-sized enterprises, which will be administered through commercial banks.

After peaking at 105 percent of GDP in 2020, public debt is expected to decline to 88 percent in 2021. Securing financing through issuance of €750 million in Eurobonds in December 2020 has significantly relieved financing pressures in 2021. By July, the central government net debt was reduced by over €300 million, including a repayment of €227 in Eurobonds in March. Fiscal surpluses in June and July supported the buildup of government deposits, which are expected to cover the remaining financing needs for 2021. The government has reduced fiscal risk by signing a hedging agreement to protect against exchange rate risk as it started repaying the loan for the construction of the first section of the Bar-Boljare highway.

Outlook and Risks

The pandemic continues to pose challenges, as new virus variants raise doubts about the pace of the global recovery. In the second week of September, Montenegro had the fifth-highest number of cases in seven days in the world and is ranked third in the total number of infected people per million inhabitants. The vaccination process started at a fast pace in May, and by mid-September 43 percent of the adult population has been fully vaccinated. The evolution of the pandemic will largely shape the near-term economic outlook.

Assuming a full recovery in tourism in 2022 and 2023, growth is expected to remain strong at 5.6 and 4.8 percent, respectively. Investments are expected to level off in 2022 as the construction of the first section of the highway is expected to be finalized by end-2021. Investment is projected to grow in 2023 supported by projects in the energy sector. The government announced stronger public capital spending starting in 2022, which would further support medium-term growth. However, public investment management challenges should be addressed to ensure stronger economic effects. Private consumption will continue to support growth as employment gradually starts recovering as a result of improved economic activity. The pace of the recovery of low-skills jobs will determine how quickly poor and vulnerable households can recover their pre-crisis income levels. Addressing long-standing job and low labor participation challenges is critical for robust job growth and welfare improvements in the recovery.

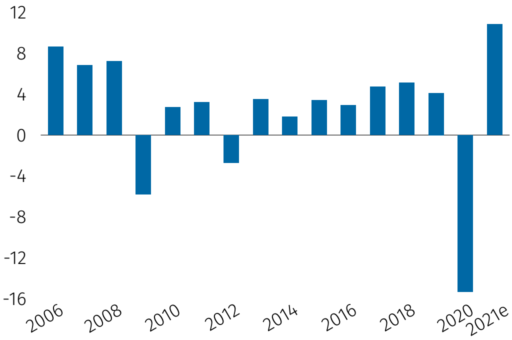
Strong fiscal and debt management are needed to accelerate debt reduction. The fiscal balance is expected to turn into a surplus in 2023, due to lower capital spending and contained expenditures on goods and services and stronger revenues due to the economic recovery. The projections do not assume that the remaining sections of the highway will start by 2023, as fiscal space is projected to remain limited. The government's medium-term plan foresees a primary fiscal surplus of almost 2 percent of GDP in 2022. Running a primary fiscal surplus over the medium term will be critical for debt reduction and will require a sustained consolidation on the spending side. Public debt is expected to decline to 77 percent of GDP in 2022 and further to 70 percent of GDP in 2023, as about €500 million of debt is due for repayment in 2022–23.

External imbalances are expected to narrow and return to pre-highway levels. The finalization of the import-dependent motorway section and stronger exports led by tourism recovery are projected to reduce the current account deficit to 11.2 percent and 9.5 percent of GDP in 2022 and 2023, respectively. Net FDI will continue to largely finance the current account deficit and is expected to remain moderate at around 7.5 percent of GDP.

The outlook is subject to multiple downside risks. Looking at external risks, a new wave of COVID-19 infections in Europe could slow Montenegro's economic recovery. Moreover, inflationary pressures in the United States and European Union may accelerate monetary tightening, which could translate into more expensive external financing. Domestic risks stem from lower vaccination rates and hesitancy, where possible new containment measures could delay the recovery. Political polarization also remains high. Acceleration of structural reforms and a firm commitment to careful fiscal management, however, can reduce investment uncertainty and improve the outlook. Further strengthening the independence of public institutions, especially the judiciary, would not only improve Montenegro's prospects of joining the European Union, but would also support a resilient economic recovery by ensuring a level playing field for all businesses and entrepreneurs.

The economy is recovering faster than anticipated…

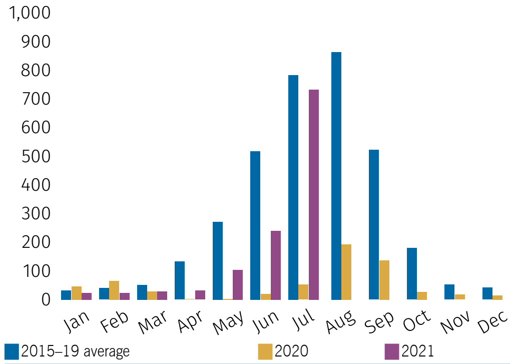
Real GDP growth, percent



Source: MONSTAT and World Bank staff calculations.

…as tourism recovered.

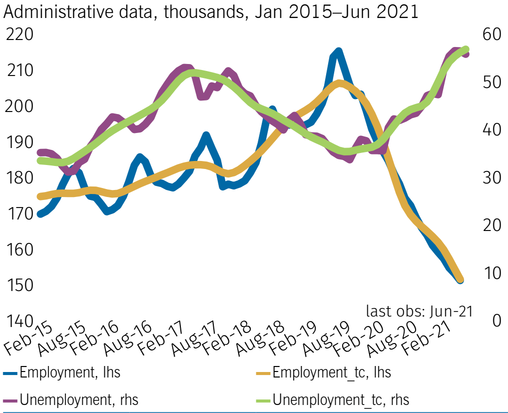
International tourists overnight stays, in thousands



Source: MONSTAT and World Bank staff calculations.

Employment continued falling…

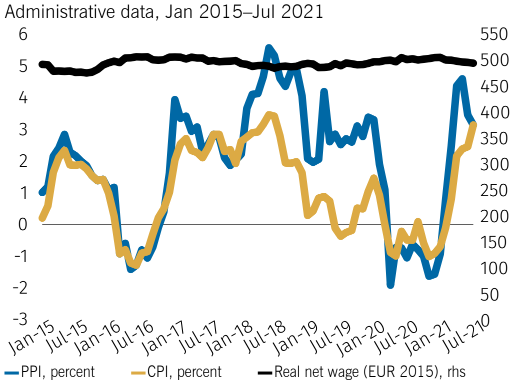
Administrative data, thousands, Jan 2015–Jun 2021



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

…while inflation surged.

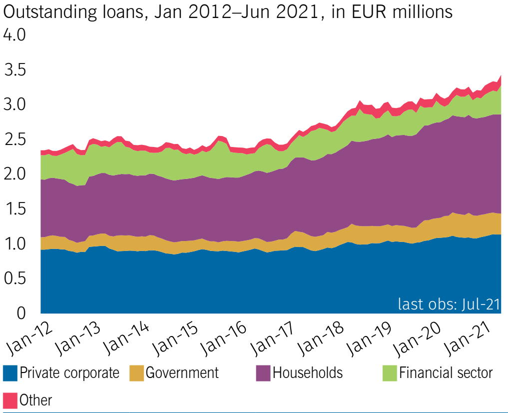
Administrative data, Jan 2015–Jul 2021



Source: MONSTAT data and World Bank staff calculations.

Outstanding loans have been increasing…

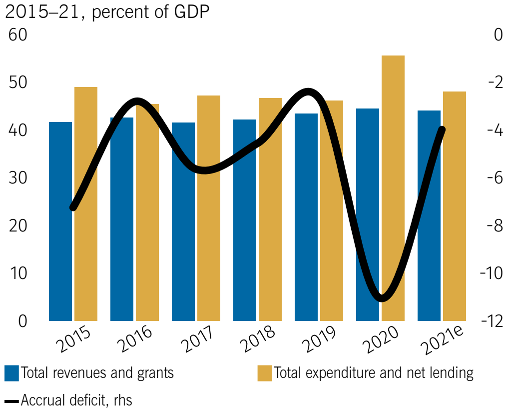
Outstanding loans, Jan 2012–Jun 2021, in EUR millions



Source: Central Bank and World Bank staff calculations.

…while the fiscal position improved.

2015–21, percent of GDP



Source: MoF and World Bank staff calculations.

MONTENEGRO	2018	2019	2020	2021e	2022f	2023f
Real GDP growth (percent)	5.1	4.1	-15.3	10.8	5.6	4.8
Composition (percentage points):						
Consumption	5.2	2.9	-3.9	3.2	2.8	2.7
Investment	4.9	0.8	-5.8	1.0	-1.2	2.1
Net exports	-5.0	0.4	-5.6	6.6	4.1	0.0
Exports	3.4	2.7	-24.0	21.0	6.8	3.5
Imports (-)	8.4	2.3	-18.4	14.3	2.7	3.5
Consumer price inflation (percent, period average)	2.6	0.4	-0.3	1.9	1.6	1.2
Public revenues (percent of GDP)	42.0	43.3	44.4	43.9	42.2	41.7
Public expenditures (percent of GDP)	46.6	46.0	55.4	47.9	43.1	40.7
Of which:						
Wage bill (percent of GDP)	11.2	11.0	13.5	12.1	11.3	10.7
Social benefits (percent of GDP)	11.7	11.2	13.4	12.3	11.6	11.0
Capital expenditures (percent of GDP)	8.5	8.7	7.5	6.3	3.8	3.7
Fiscal balance (percent of GDP)	-4.6	-2.7	-11.0	-4.0	-0.9	1.1
Primary fiscal balance (percent of GDP)	-2.4	-0.5	-8.3	-1.6	1.4	3.2
Public debt (percent of GDP)	70.1	76.5	105.3	87.7	77.0	69.9
Public and publicly guaranteed debt (percent of GDP)	74.1	80.0	108.7	90.7	79.8	72.5
Of which: External (percent of GDP)	64.6	68.1	97.3	82.2	72.8	65.8
Goods exports (percent of GDP)	9.4	9.4	9.8	9.5	9.6	9.8
Goods imports (percent of GDP)	53.3	51.1	49.0	49.7	47.8	47.3
Net services exports (percent of GDP)	20.1	20.6	4.2	16.4	20.0	21.3
Trade and services balance (percent of GDP)	-23.8	-21.1	-35.0	-23.8	-18.2	-16.2
Net remittance inflows (percent of GDP)	4.0	4.0	5.3	6.4	5.1	4.8
Current account balance (percent of GDP)	-17.0	-14.3	-26.1	-15.2	-11.2	-9.5
Net foreign direct investment inflows (percent of GDP)	6.9	6.2	11.2	7.8	7.4	7.4
External debt (percent of GDP)	163.7	169.0	224.1	—	—	—
Real private credit growth (percent, period average)	6.8	5.5	6.5	—	—	—
Nonperforming loans (percent of gross loans, end of period)	7.4	5.1	5.9	—	—	—
Unemployment rate (percent, period average)	15.2	15.1	17.9	—	—	—
Youth unemployment rate (percent, period average)	29.4	25.2	36.0	—	—	—
Labor force participation rate (percent, period average)	56.0	57.4	53.3	—	—	—
GDP per capita, PPP (current international $)	21,547	23,344	20,505	22,363	23,978	25,442
Poverty rate (percent of population)	15.2	14.5	20.0	17.7	16.3	—

Sources: Country authorities, World Bank estimates and projections.

Note: Poverty rate calculations based on ECAPOV harmonization using SILC-C data. Nowcasted/projected values start at 2018. Income measures in the SILC and consumption measures in the HBS are not strictly comparable. Poverty is defined as living on less than $5.5/day per person in revised 2011 PPPs.

North Macedonia

- A robust recovery is underway in North Macedonia despite the continued adverse impact of the pandemic. However, the improved outlook is subject to downside risks: vaccine hesitancy and the pace of immunization, the appearance and intensity of new virus variants, disrupted supply chains, increased inflationary pressures, and tightening financial conditions.
- The labor market is slowly recovering, creating wage pressures in fast-growing sectors.
- Continued government support measures have helped mitigate the impact of the crisis on households and firms but have further increased public debt.
- Policymakers should gradually shift their focus to policies supporting a sustainable, inclusive, and green recovery that complement and further strengthen the EU accession reform agenda.

Recent Economic Developments

After declining in the first quarter (Q1) by 1.9 percent, domestic output surged at a double-digit rate in Q2. As a result, GDP growth in the first half of the year turned positive at 5.2 percent. Private consumption picked up and investment grew, while government consumption resumed growth in Q2 after dropping early in the year. Exports and imports increased, as well, with imports growing faster, thereby worsening the trade balance. On the production side, growth was observed in nearly all sectors, given the low base effect, with the fastest recovery occurring in trade, transport, tourism, manufacturing, and ICT. Construction surprisingly saw a decline in output in Q2.

High-frequency data for the second half of 2021 point to a moderation in growth. Industrial production turned negative in July (0.6 percent year-on-year [YOY]) as energy and capital goods production turned negative despite a 13 percent YOY rise in exports in July. Car supply firms are experiencing reduced orders as supply delivery delays are mounting. Real retail trade remains strong but slowed to 8.9 percent YOY in July. Tourism numbers spiked as travel opened up during the summer season, which might contribute to further growth in retail trade. The most recent data on the number of issued construction permits in June 2021 points to a prolonged upward trend in the construction sector.

The activity rate in the first half of 2021 picked up from its low in summer 2020, driven by an increase in male labor force participation. The activity rate increased to 56.2 percent or 0.4 percentage points (pps) since Q3 2020. The unemployment rate decreased by 0.2 pps to 15.9 percent since Q4 2020, while the employment rate increased by 0.5 pps, with women contributing to the rise as they moved from unemployment to service sector jobs. The youth unemployment rate remains high at 37.8 percent, up 4 pps compared to the same quarter of 2020.

Wage growth continued in the first half of the year, albeit at a relatively more subdued pace compared to the previous year. Wages increased by 6.3 percent YOY, with the largest increases seen in sectors most affected by pandemic-related restrictions such as transportation, food and accommodation, entertainment, and other services. For the first six months, strong wage growth was also observed in manufacturing, trade, and the ICT sector. In addition, in June 2021, the government adopted changes to trade and labor laws that increase the hourly pay for Sunday and holiday work and reduce the number of working Sundays in the trade sector, thereby adding to existing wage pressures.

Consumer prices continued the upward trend that started at the end of 2020. The inflation rate reached 3.6 percent in August 2021—the highest growth rate since July 2013. The cumulative inflation rate reached 2.7 percent YOY for the first eight months of the year which is still largely within central bank forecast. The increase was primarily driven by electricity, fuel, and food (mainly edible oil) prices, the latter reflecting global price hikes. In July 2021, regulated electricity prices were again on the rise, with this year's increase being offset by a temporary reduction of the VAT rate, which is set to gradually expire by July 2023.

The performance of the banking sector remained strong in the first half of 2021. Credit growth remains solid (6.4 percent YOY in August), providing support to both households and firms. Nonperforming loans, currently at 3.5 percent, could see an upward correction, as last loan moratoriums are being phased out and the duration of crisis takes a toll on some firms. However, the capital adequacy ratio remained high at 17.3 percent, as did the banking sector liquidity ratio, which stood at 22 percent in Q2, with minimal adjustments since the start of the pandemic. Considering the recent positive momentum of the economy, in August 2021, the central bank removed the temporary limit on the distribution and payment of dividends to banks and savings houses' shareholders that was introduced in February 2021.

In the first half of 2021, external imbalances narrowed as current transfers grew. The trade deficit in the first half of 2021 stood at 13.2 percent of GDP (on a 4-quarter rolling basis), down from 13.9 percent in the same period of 2020, while the services balance improved to 4.4 percent of GDP mainly thanks to telecommunication and IT services. The current account deficit declined to 2.7 percent of GDP (on a 4-quarter rolling basis) in the first half of the year. It is projected to increase to 3.6 percent by yearend, largely remaining unchanged compared to 2020. With the rising borrowing needs from the government, external debt increased to 84.8 percent of GDP by March 2021, though it is expected to stabilize at 80.8 percent of GDP in light of the repayment of Eurobonds in July. This is a marginal increase compared to the 2020's level.

Fiscal deficit almost halved in the first half of the year but is set to rise by yearend as per the 2021 budget revision. For the first half (H1), the general government deficit stood at 2.1 percent of GDP; at one-third of the planned deficit in the 2021 budget revision. Total revenues surged by 17 percent YOY, mostly on the back of buoyant VAT collection. In the second part of the year, the collection will be under the impact of the reduced VAT rates for electricity in addition to the already lowered rate for catering services early in the year. Expenditures have increased at a slower pace (4 percent YOY) given more targeted COVID-19 support, and despite an uplift in capital spending of 45 percent YOY.

Public and publicly guaranteed debt[11] increased to 64.4 percent of GDP in H1 given the new Eurobond issuance amid a retained sovereign issuer default rating of BB- with a stable outlook. In July the government repaid the seven-year EUR 500 million Eurobond issued in 2014, which reduced debt to 60.5 percent of GDP. In August 2021, the IMF allocated EUR 134.5 million in Special Drawing Rights in an attempt to boost liquidity across the world. The government aims to use this allocation for budgetary financing purposes.

Outlook and Risks

Economic growth is expected to rebound to 4.6 percent in 2021, returning to the pre-pandemic output level by yearend. The baseline scenario is built on the assumptions that the pace of immunization continues, there are no further lockdowns in 2021, consumer and investor confidence remain high, and external demand continues to be supportive. Growth is expected to continue in 2022 as the economy gradually starts to stabilize. Poverty is projected to resume its modest decline as expected economic growth rebounds in 2021.

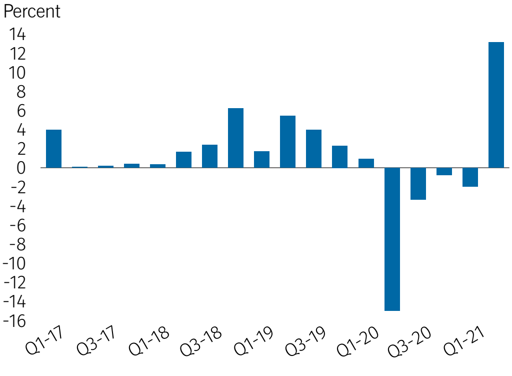
Yet, while the outlook for the near term remains positive, continued containment measures, a slow vaccine rollout, and unresolved structural bottlenecks pose challenges. Weak human capital development and a low labor force participation rate have led to underutilized labor resources amidst a demographic decline. Further, state involvement in the market through direct ownership, tax exemptions, and subsidies remains high. While this helps protect employment in the near term, it also derails fiscal sustainability.

Fiscal deficit is expected to decline but only gradually, following the latest government plans to ramp up capital spending. Over the medium term, public and publicly guaranteed debt will continue its rising path reaching 65.5 percent of GDP by 2023. Countercyclical fiscal policies put in place to mitigate the impact of COVID-19 will need to be gradually withdrawn to address these sustainability concerns. Improving public investment management to help implement the government's Growth Acceleration Plan, which eyes energy, environment, and transport investments, will be critical to support growth as well as avoid fiscal sustainability concerns. As the recovery takes hold, the country will need to boost tax compliance, restructure and reprioritize spending, address long-term bottlenecks, and enhance public finance management efficiency.

To boost potential growth, the authorities need to redirect their attention to structural and institutional reforms, which can unlock growth by addressing the legacies in state-owned companies and network infrastructure; investing in human capital; strengthening the accountability and independence of public institutions, as well as commitment to the rule of law; and promoting private sector innovation and competitiveness. Efforts to boost potential output through structural reforms will need to occur in the context of region-wide efforts to accelerate the low-carbon transition and reduce greenhouse gas emissions.

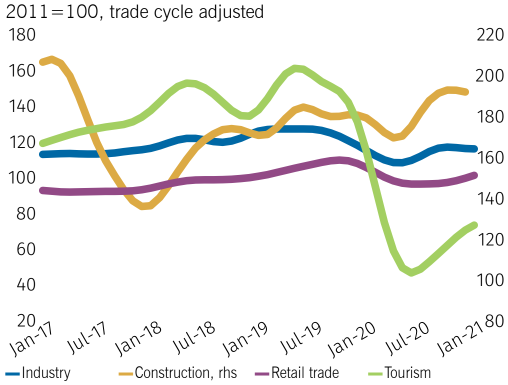
11 It also includes some non-guaranteed debt by SOEs.

The economy is on a recovery path from the 2020 recession…



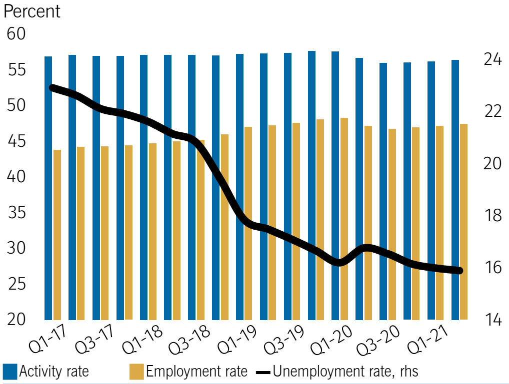
Source: State Statistics Office.

…which is confirmed by high-frequency indicators.



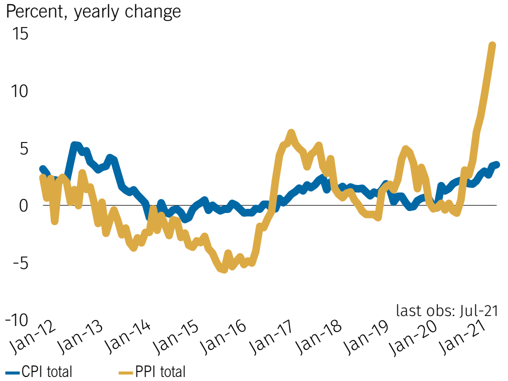
Source: State Statistics Office and World Bank staff calculations.

The labor market resumed positive trends.



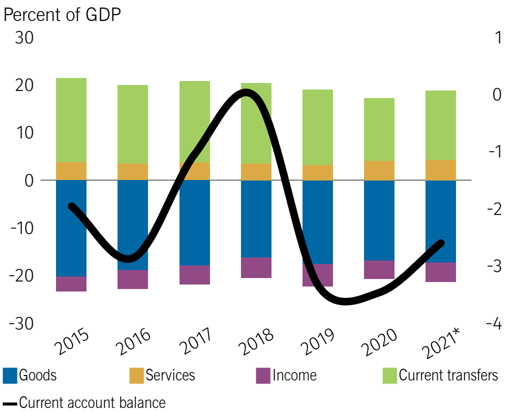
Source: State Statistics Office.

Inflationary pressures are on the rise as demand surges.



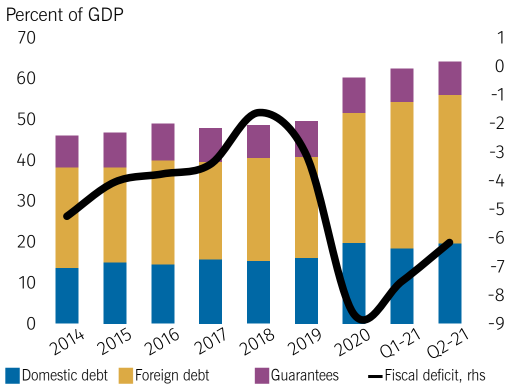
Source: State Statistics Office.

External imbalances narrowed…



Source: National Bank and World Bank staff calculations.
Note: *2021 is a 4-quarter moving average to June 2021.

…while public debt is still on the rise.



Source: Ministry of Finance and World Bank staff estimates.
Note: 2021 deficit is a 4-quarter moving average.

NORTH MACEDONIA	2018	2019	2020	2021e	2022f	2023f
Real GDP growth (percent)	2.9	3.2	-4.5	4.6	3.7	3.4
Composition (percentage points):						
Consumption	2.9	2.4	-2.5	4.1	2.9	1.9
Investment	0.6	3.3	-3.7	1.4	1.7	2.1
Net exports	-0.6	-2.5	1.7	-0.9	-1.0	-0.6
Exports	7.6	4.7	-7.3	5.0	4.7	4.9
Imports (-)	8.2	7.2	-9.0	6.0	5.7	5.5
Consumer price inflation (percent, period average)	1.5	0.8	1.2	2.4	2.0	1.8
Public revenues (percent of GDP)	30.4	31.5	30.2	36.1	36.8	36.5
Public expenditures (percent of GDP)	31.5	33.7	38.4	42.0	41.7	40.6
Of which:						
Wage bill (percent of GDP)	6.3	6.4	7.2	7.3	7.1	6.9
Social benefits (percent of GDP)	15.2	15.7	17.7	17.3	17.0	16.8
Capital expenditures (percent of GDP)	2.5	3.4	3.1	6.1	5.9	5.0
Fiscal balance (percent of GDP)	-1.1	-2.2	-8.2	-5.9	-5.0	-4.0
Overall Fiscal Balance with the Public Enterprise for State Roads	-1.7	-3.1	-8.7	-6.4	-5.2	-4.1
Primary fiscal balance (percent of GDP)	0.1	-1.0	-7.0	-4.3	-3.6	-2.6
Public debt (percent of GDP)	40.4	40.7	51.4	53.9	55.9	56.7
Public and publicly guaranteed debt (percent of GDP)*	48.4	49.4	60.2	62.7	64.7	65.5
Of which: External (percent of GDP)	32.9	32.7	40.2	39.0	38.0	37.0
Goods exports (percent of GDP)	45.4	47.5	44.7	46.0	47.1	48.3
Goods imports (percent of GDP)	61.6	65.1	61.5	63.0	63.5	64.0
Net services exports (percent of GDP)	3.5	3.1	4.0	4.1	4.3	4.6
Trade balance (percent of GDP)	-12.7	-14.5	-12.8	-12.9	-12.1	-11.1
Net remittance inflows (percent of GDP)	1.9	1.7	2.6	2.5	2.3	2.2
Current account balance (percent of GDP)	-0.1	-3.3	-3.5	-3.6	-3.0	-1.8
Net foreign direct investment inflows (percent of GDP)	5.6	3.2	1.9	2.5	2.6	2.7
External debt (percent of GDP)	73.0	72.8	80.2	80.8	78.7	78.9
Real private credit growth (percent, period average)	5.0	6.5	5.7	—	—	—
Nonperforming loans (percent of gross loans, end of period)	5.0	4.6	3.3	—	—	—
Unemployment rate (percent, period average)	20.7	17.3	16.4	15.5	14.3	13.5
Youth unemployment rate (percent, period average)	45.4	35.6	35.7	—	—	—
Labor force participation rate (percent, period average)	56.9	57.2	56.4	—	—	—
GDP per capita, PPP (current international $)	16,518	17,815	17,007	17,790	18,448	19,075
Poverty rate (percent of population)	17.9	16.9	18.0	16.9	15.8	—

Source: Country authorities, World Bank estimates and projections.

Note: Youth unemployment rate is for labor force aged 15-24. Poverty rate calculations based on ECAPOV harmonization using SILC-C data. Nowcasted/projected values start at 2019. Income measures in the SILC and consumption measures in the HBS are not strictly comparable. Poverty is defined as living on less than $5.5/day per person in revised 2011 PPPs.

*Includes also non-guaranteed debt of SOEs.

Serbia

- Serbia's growth recovery in 2021 at 6 percent is projected to be stronger than expected, supported primarily by a strong rebound in private consumption.
- Despite the economic recovery, there was an increase in unemployment rate averaging 11.9 percent in the first half (H1) of 2021.
- The fiscal deficit is gradually decreasing in 2021, despite the continuation of the government's fiscal stimulus program.
- Even though inflation has increased as of late, reaching 4.3 percent in August, the highest level in eight years, it is still within the National Bank of Serbia target band.
- The current account deficit has been lower than projected in 2021, mainly thanks to a strong export performance.
- A return to the previous growth path of around 4 percent is expected to start in 2022 and to continue over the medium term.

Recent Economic Developments

After the pandemic-caused recession in 2020, the economy experienced a recovery in H1 2021. Economic growth resumed in the first quarter (Q1)—with GDP growth up by 1.8 percent, year-on-year (YOY)—but the real recovery was seen in Q2, when output increased by 13.7 percent YOY. Looking at the expenditure side of GDP, consumption and investment pushed the economy, while net exports had a negative contribution to growth. Consumption was pushed by a large increase in private consumption (up 17.6 percent in real terms YOY), while government consumption in fact decreased in Q2 in real terms. Although the export performance was very good recently (up 36.5 percent in Q2, YOY in real terms) the increase in imports was even higher (up 42.9 percent in Q2); thus, the net balance in goods and services made a negative contribution to GDP in Q2 of 7.1 percentage points. Total investment is estimated to have increased by 44.4 percent in real terms in Q2, YOY, thanks to an increase in both public and private investment, thus contributing 9.3 percentage points to GDP growth. The economic recovery in 2021 is broad based, except for the agriculture sector, where output declined by 1.8 percent in real terms in H1. The agriculture sector output suffered from weather-related shocks, which had an impact across different agricultural subsectors and a significant increase in costs of food used in livestock breeding.

Countercyclical measures helped mitigate the impact of the pandemic on the labor market in 2020; however, the situation has somewhat deteriorated in 2021, as some of the government support programs have been unwound. According to the Labor Force Survey (LFS) data, in H1 2021, the unemployment rate increased to 11.9 percent (compared to 9.0 percent, the average unemployment rate in 2020). The labor market improvement in 2020 (when unemployment rate went down to 9.0 percent from 10.4 percent in 2019) was primarily the result of the fiscal stimulus program, since one of the requirements for firms to receive government support was to ensure that total employment remained unchanged or decreased by a maximum of

10 percent. However, despite these measures, the pandemic-related shocks to the economy had an impact on some of the foreign-owned large manufacturers who decided to close their operations in Serbia, resulting in significant layoffs. Wages continued to go up, increasing by 8.6 percent in nominal terms in H1 of the year. Unlike in previous couple of years, private sector wages increased faster than public sector wages (up by 9.4 percent in nominal terms, compared to a 7.5 percent increase in public sector wages). Despite this, on average, in 2021 wages in the public sector were still about 19 percent higher than in the private sector.

The consolidated fiscal deficit decreased significantly over recent months as revenues recovered. General government revenues increased by 25.7 percent in nominal terms over the first seven months of 2021 (compared to the same period of 2020). All sources of fiscal revenue increased with tax revenues going up 26.8 percent YOY over the first seven months and non-tax revenues up by 15.1 percent. At the same time, government expenditures decreased slightly (down 0.6 percent), leading to a much better fiscal result. The consolidated fiscal deficit was just 0.1 percent of GDP by end-July. The central government deficit was 0.7 percent of GDP, while local governments ran a significant surplus over the first seven months. Public debt at end-July 2021 stood at 58.8 percent of GDP, thus only marginally increasing since end-2020.[12] In September 2021, Serbia issued its first green bond (along with the new euro bond). The green bond of EUR1 billion was issued with the seven years maturity and the yield of 1.26 percent, while the euro bond is of EUR750 million, with the maturity of fifteen years and the yield of 2.3 percent.

The current account deficit (CAD) has continued to narrow. The CAD is estimated at 4.1 percent of GDP for 2020, down from 6.9 percent in 2019. Over the first seven months of 2021, the CAD narrowed further and reached 1.5 percent of GDP as a result of improvements in the trade in services and in secondary income. While the surplus in trade in services increased by 48.5 percent over the first seven months of 2021 (in euro terms), the deficit in trade in goods increased by 4.1 percent. Despite an increase in trade deficit, export performance in 2021 was much better than expected as large exporters resumed operations, and exports thereafter. In addition, Serbia saw terms-of-trade improvement in 2021—export prices increased by 6.4 percent, as did import prices, but by a lesser amount at 2.4 percent (over the first eight months of 2021 compared to the same period in 2020). The CAD is again fully financed by foreign direct investment (FDI). Net FDI accounted for 3.9 percent of annual GDP, after growing 25.1 percent in the first seven months of the year. Fitch Ratings affirmed Serbia's sovereign issuer default rating at BB+, with a stable outlook.

Inflation increased gradually over the recent months, in line with the recovery in consumption and the pressures from global energy and food prices. Inflation in 2020, as in Q1 2021, was low and stable, with prices having increased by just 1.4 percent YOY in Q1. However, since April, there was a gradual increase in consumer prices with the consumer price index (CPI) reaching a peak of 4.3 percent (YOY) in August. This was the highest level of inflation since September 2013. The National Bank of Serbia (NBS) remains committed to

12 This is a share of public debt in a 12-month moving average GDP. The nominal amount of debt is provided by the Ministry of Finance.

inflation targeting (3 percent +/–1.5 percent), and the key policy rate has been left unchanged since December 2020, at 1 percent. The money supply increase was also notable: in July 2021, M1 was 13.5 percent higher than a year before. After a small appreciation in 2019, the dinar held steady in 2020 and throughout 2021. At the end of August, the NBS had official foreign currency reserves of EUR 15.6 billion, up EUR 2.1 billion since the beginning of the year, which covers more than six months of imports.

Banking sector performance continued to be robust. Based on preliminary data, banks remained profitable in 2020 although both return on assets (ROA) and return on equity (ROE) decreased. In 2021, ROE increased to 7.3 percent in H1 2021. Liquidity indicators also improved in the first half of the year. Nonperforming loans (NPLs) hit a historic annual low of 3.7 percent in December 2020 primarily because of the resolution strategy introduced in 2015 and the recent crisis mitigation measures. NPLs stood at 3.5 percent in July 2021.

Outlook and Risks

Growth is expected to reach 6 percent in 2021, and to return to about 4 percent over the medium term. Based on the latest data, GDP is expected to rebound in 2021 (up by 6 percent), which is a revision compared to the previous projection of 5 percent. Growth in 2021 is being pushed up by the stimulus package of about 4.5 percent of GDP announced in February, and all components of GDP are expected to increase. The new fiscal stimulus program is smaller and different in structure compared to last year's program (guarantees dominate in this year's package, and there are no further tax deferrals), thus the impact on the economy and labor market performance could be different. This year, the main drivers of growth are expected to be consumption and investment. Over the medium term, the economy is expected to grow steadily at around 4 percent annually, similar to levels before the pandemic, as the economies of main trading and investment partners recover fully from the pandemic. The main driver of GDP growth over the medium term will be consumption, while net exports will make a negative contribution to growth. It is expected that services sector will remain the main driver of economic growth going forward.

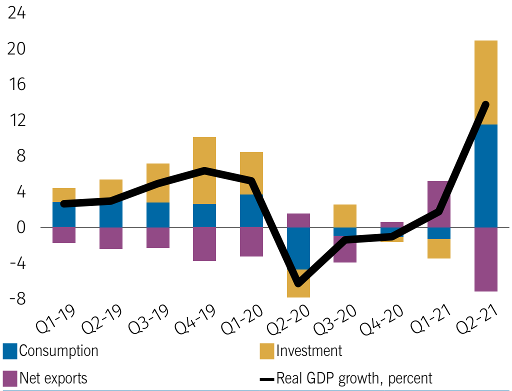
Going forward, the focus of policymakers should be not only on accelerating growth through further structural reforms, but also on greening it. The Serbian economy cannot unleash its growth potential in full unless structural bottlenecks related to governance, labor market, infrastructure, and the tax system are resolved. Green—clean and resilient— growth could be supported by, for example, promoting efficiency gains in use of raw materials and energy, expanding green industries and technologies, emphasizing less polluting and more energy-efficient industries, and proactively building up resilience to climate and disaster risks. Such growth strategy would not only accelerate GDP growth but would create new, high-quality jobs.

Macroeconomic stability will be maintained over the medium term. This year the fiscal deficit could be significantly lower than the one projected under the base-case scenario. Consequently, public debt could start falling as a share of GDP earlier than anticipated. Inflation pressures are mounting as in other countries, but inflation is expected to remain within the NBS target. External debt will be kept sustainable; the CAD is expected to increase only marginally over the medium term and will primarily be covered by FDI inflows.

This relatively positive outlook could be affected by numerous risks. The main risks relate to external developments—that is recovery of the European and global economies—since those will impact the evolution of exports and FDI, which are both critical for the growth of the Serbian economy. They could be amplified by the ongoing disruptions in global value chains. There are, however, also internal risks to the baseline scenario. The new wave of the COVID-19 pandemic could have an impact on the economy as well, although new lockdowns are not foreseen. Contingent liabilities could affect public finances, particularly those related to the deterioration in the performance of state-owned enterprises, as demonstrated recently by Telekom Srbija and Air Serbia, in addition to other state-owned enterprises that have long been financially troubled. Political developments could distract the government from undertaking necessary reforms, the most important from a growth perspective being those related to improving the business environment, education, and environmental management.

The GDP recovered well in 2021…

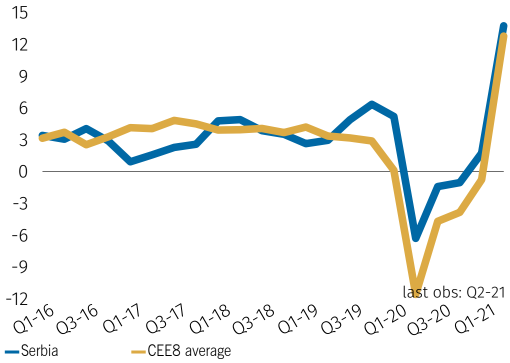
Contribution to growth, percentage points



Source: Statistics Office of Republic of Serbia.

…in line with developments among CEE countries.

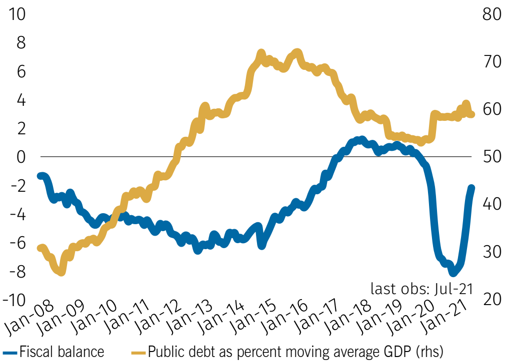
Real GDP change, y/y



Source: Statistics Office of Republic of Serbia and Eurostat.

The fiscal deficit has been reduced and public debt stabilized.

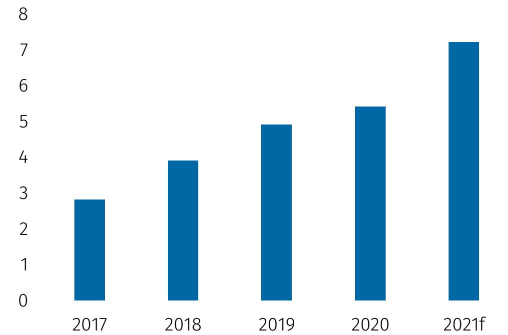
Share in GDP



Source: Ministry of Finance.

Total budgetary expenditures decreased even though capital expenditures increased.

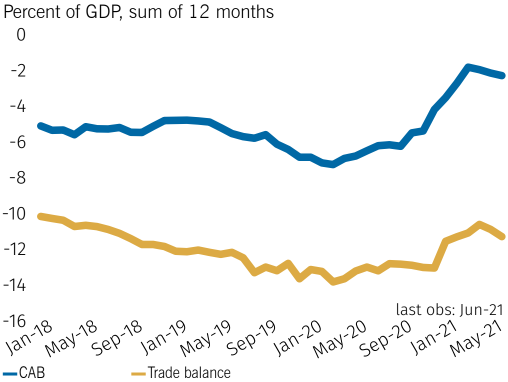
Share in GDP



Source: Ministry of Finance.

The CAD and trade deficit started to increase recently.

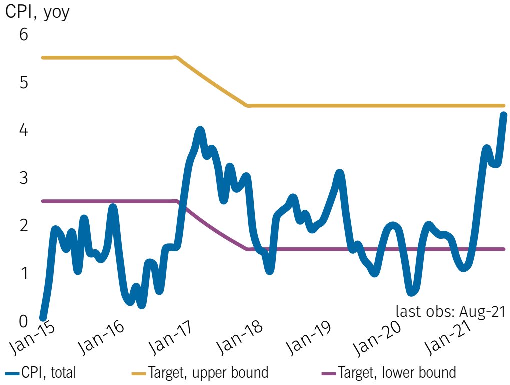
Percent of GDP, sum of 12 months



Source: National Bank of Serbia.

Inflation has been increasing since April.

CPI, yoy



Source: National Bank of Serbia.

SERBIA	2018	2019	2020	2021e	2022f	2023f
Real GDP growth (percent)	4.4	4.3	-0.9	6.0	4.5	4.0
Composition (percentage points):						
Consumption	2.8	2.9	-0.9	3.4	4.2	3.2
Investment	4.2	4.0	-0.1	3.2	0.8	1.3
Net exports	-2.6	-2.6	0.1	-0.5	-0.6	-0.5
Exports	4.3	4.1	-2.3	9.0	4.3	4.0
Imports (-)	6.9	6.7	-2.4	9.5	4.9	4.5
Consumer price inflation (percent, period average)	2.0	1.9	1.6	3.0	2.6	2.6
Public revenues (percent of GDP)	41.5	42.0	41.0	41.7	41.4	41.4
Public expenditures (percent of GDP)	40.9	42.2	49.0	48.7	44.4	43.2
Of which:						
Wage bill (percent of GDP)	9.2	9.5	10.5	10.4	10.0	9.9
Social benefits (percent of GDP)	14.7	14.4	14.7	14.5	14.0	13.9
Capital expenditures (percent of GDP)	3.9	4.9	5.3	7.2	6.3	6.1
Fiscal balance (percent of GDP)	0.6	-0.2	-8.0	-6.9	-3.0	-1.8
Primary fiscal balance (percent of GDP)	2.8	1.8	-6.0	-5.0	-1.1	0.2
Public debt (percent of GDP)	50.8	49.7	53.3	56.3	55.4	52.6
Public and publicly guaranteed debt (percent of GDP)	54.4	52.7	57.8	60.3	58.9	56.1
Of which: External (percent of GDP)	31.4	30.3	33.4	37.0	38.0	40.0
Goods exports (percent of GDP)	35.2	35.7	34.4	39.1	39.7	40.3
Goods imports (percent of GDP)	47.1	47.9	45.5	50.2	50.4	50.7
Net services exports (percent of GDP)	2.3	2.3	2.4	2.3	2.1	2.2
Trade balance (percent of GDP)	-9.5	-9.9	-8.8	-8.9	-8.5	-8.2
Net remittance inflows (percent of GDP)	6.1	5.6	4.5	4.9	4.8	4.7
Current account balance (percent of GDP)	-4.8	-6.9	-4.1	-5.0	-5.0	-4.9
Net foreign direct investment inflows (percent of GDP)	7.4	7.8	6.3	6.1	6.1	6.0
External debt (percent of GDP)	61.3	61.8	65.8	63.7	60.5	58.3
Real private credit growth (percent, period average)	3.7	6.9	9.3	—	—	—
Nonperforming loans (percent of gross loans, end of period)	5.7	4.1	3.7	—	—	—
Unemployment rate (percent, period average)	13.7	11.2	9.7	—	—	—
Youth unemployment rate (percent, period average)	29.7	27.5	26.3	—	—	—
Labor force participation rate (percent, period average)	52.9	52.9	52.2	—	—	—
GDP per capita, PPP (current international $)	17,842	18,972	19,146	20,545	22,044	23,534
Poverty rate (percent of population)	17.9	17.3	17.4	17.1	15.4	—

Source: Country authorities, World Bank estimates and projections.

Note: Poverty rate calculations based on ECAPOV harmonization using SILC-C data. Nowcasted/projected values start at 2018. Income measures in the SILC and consumption measures in the HBS are not strictly comparable. Poverty is defined as living on less than $5.5/day per person in revised 2011 PPPs.

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