Croatia

Highlights

- **Economic growth remained strong in the first half of 2022, but is showing signs of a slowdown.** Gross domestic product (GDP) maintained its momentum from 2021 and expanded by 7.4 per cent year on year in the first two quarters of 2022, while a successful tourist season alleviated the growth slowdown in the third quarter.
- **Implementation of the country's Recovery and Resilience Plan (RRP) is well under way.** Croatia was among the first countries in the European Union (EU) to receive a disbursement – a grant of €700 million in July 2022 – as the authorities met all 34 milestones and targets by the end of 2021.
- **Croatia will adopt the euro from 2023.** In July 2022 the country received the final positive assessment it needed to join the eurozone in January 2023. The government and the Croatian National Bank are implementing the requisite operational changes to ensure a smooth transition. Croatia is also preparing to join the Schengen area, pending final approval by the European Council.

Key priorities for 2023

- **Political commitment and effective implementation of more complex reforms included in the RRP will be needed to address structural issues.** RRP implementation has been adequate so far, but the next disbursements will be conditional on more challenging reforms, such as changes to recruitment and pay in the public sector, state-owned enterprise (SOE) governance and privatisations.
- **Support for households in the current inflation and energy crisis should shift towards more market-based measures.** Some announced measures, such as price caps, including for basic foods and fuels, provide short-term relief, but they can restrict markets, disincentivise consumption cuts and carry additional fiscal costs. Moreover, the cap on energy prices will put a financial strain on state-owned utility HEP and its ability to invest in new capacity.
- **The government needs to prioritise the green transition.** The focus should be on more medium-term solutions, such as investment in renewables, boosting energy efficiency and limiting subsidies only to those in need. While investor interest in Croatia's renewable potential is high, further administrative improvements and investments in the grid are needed to speed up the integration of new capacity.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	2.9	3.5	-8.1	10.2	6.5
Inflation (average)	1.5	0.8	0.1	2.6	9.8
Government balance/GDP	-0.1	0.2	-7.3	-2.6	-1.5
Current account balance/GDP	1.8	2.8	-0.5	3.2	2.2
Net FDI/GDP [neg. sign = inflows]	-1.6	-6.2	-1.4	-4.9	-2.0
External debt/GDP	80.8	72.5	79.8	77.4	n.a.
Gross reserves/GDP	33.1	33.4	37.7	43.7	n.a.
Credit to private sector/GDP	53.0	52.2	58.8	52.8	n.a.

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Macroeconomic developments and policy response

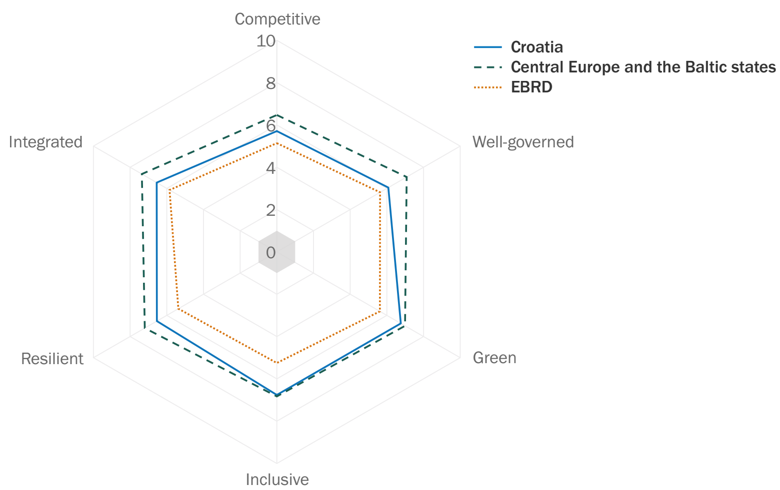
Robust domestic demand and strong exports have supported high growth rates since early 2021. The Croatian economy expanded by 10.2 per cent in 2021 in a broad-based recovery, bringing GDP above pre-pandemic levels. The strong growth continued in the first half of 2022, as GDP grew 7.4 per cent year on year. Despite rising inflation, private consumption and investment both increased in the second quarter of 2022 in yearly terms, while stock building slowed. A highlight since early 2021 has been the performance of goods exports, which in the first half of 2022 grew 28 per cent year on year in real terms, or 55 per cent relative to 2019. On top of this, service exports expanded 66 per cent on the year in the second quarter of 2022 and exceeded the levels recorded in the corresponding period of 2019. Despite strong import growth, net exports contributed positively to growth in the second quarter of 2022, highlighting Croatia's deeper integration into the EU economy.

Inflation has reached double-digit levels. Consumer prices grew 12.8 per cent annually in September 2022, with food prices up 14.9 per cent and catering and accommodation prices up 17.3 per cent. Labour-market conditions remained tight in the first half of the year, with unemployment below pre-pandemic levels, while real wages dropped by an average 1.9 per cent in the period, contributing to a slowdown in consumption and demand-side inflation.

Fiscal consolidation is continuing, despite crisis support measures. The government has set a target deficit for 2022 of 1.5 from 2.8 per cent of GDP after a budget revision in October 2022, as budget execution data for the first half of 2022 show a deficit of just 1.3 per cent of GDP, lower than the 2.6 per cent recorded in 2021. The main measures that the government adopted in April 2022 to compensate for rising inflation were: i) increases in household electricity prices were capped at 9.6 per cent and at 20 per cent for gas; ii) the value added tax (VAT) rate on heating was reduced for a year from 25 per cent to 5 per cent, then permanently to 13 per cent (including for heating, wood and pellets), while VAT on food products was cut to 5 per cent; iii) vouchers were given to vulnerable persons and pensioners; iv) de minimis support was provided to firms for gas consumption; and v) temporary fuel price caps were announced in some months.

Growth will moderate towards the end of 2022 and in 2023. We expect GDP growth to reach 6.5 per cent in 2022, supported by robust domestic demand and a strong tourist season, as overnight stays were 96 per cent of 2019 levels as of the middle of August. In the last quarter of 2022, a slowdown is likely amid the intensification of the energy crisis in Europe more broadly. Downside risks include a further acceleration in inflation, uncertain global growth prospects and persistent supply-chain issues. In 2023 high base effects related to tourism, in particular, weakening consumer confidence and slow or negative eurozone growth are likely to limit Croatian growth to 2 per cent. In terms of a potential gas shutdown, Croatia is among the most resilient countries in the region thanks to the Krk liquefied natural gas (LNG) terminal and robust domestic energy production.

CHART Assessment of transition qualities (1-10)



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Structural reform developments

Croatia will adopt the euro in January 2023. Prior to eurozone entry, the authorities are focused on ensuring a smooth technical transition. In August 2022 the government announced that it had sent to parliament 65 amendments to relevant bills, while another 20 changes will be adopted by the end of the year. The government has prioritised a smooth transition to the euro to avoid potential price increases, although opinion polls among the population suggest a risk that businesses will convert prices at an unfair rate. Planned euro adoption has also led to credit-rating upgrades of two notches by Moody's and S&P and one notch by Fitch Ratings.

Earthquake reconstruction efforts have started after delays. The EU Solidarity Fund allocated slightly over €1 billion to tackle the consequences of the 2020 earthquakes, and the deadline for accessing it was prolonged by one year to June 2023 as the government got off to a slow start in implementing the mechanism. To quicken reconstruction, the authorities have implemented faster procurement, undertaken a reorganisation of the Reconstruction Fund, centralised reconstruction oversight and introduced more flexible price-setting. Moreover, procurement is to be adapted for small and medium-sized enterprises in order to activate the entire construction industry. The authorities also put in place a one-stop shop for reconstruction efforts, a milestone in the RRP. By the end of August 2022 the authorities reported that all houses covered by the programme of non-structural reconstruction in the earthquake-affected areas of Petrinja and Glina will be renovated before the heating season, while the construction of new homes is under way. However, only a small share of the funds have been disbursed so far.

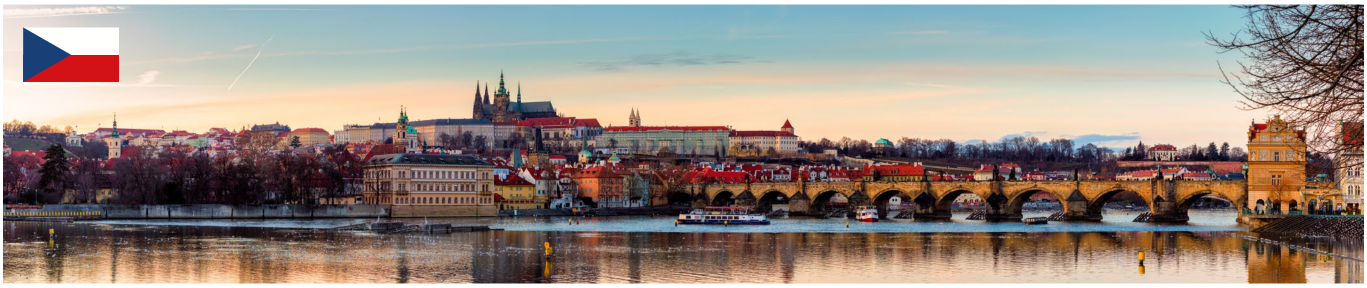
Croatia is becoming a regional energy hub, thanks to the expansion of the Krk LNG terminal's capacity. The LNG terminal's annual capacity of natural gas will be raised to 6.1 billion cubic metres from the current 2.6 billion thanks to a €25 million investment. Another €180 million has been allocated to the expansion of the pipeline network. The significant expansion of the terminal should make Croatia a hub for the supply of gas to countries in central and south-eastern Europe.

Energy-efficiency programmes have been launched, but interest in renewable auctions is low. In December 2021 the government adopted the Energy Efficiency Programme for decarbonising the energy sector. Similarly, it launched the energy renovation programmes for multi-apartment and public buildings, with planned investments of €133 million, mostly in the latter category. Two additional programmes were also adopted at the end of 2021, namely, for the energy renovation of buildings with cultural value and a programme to reduce energy poverty by 2025. Renewable auctions were unlocked in 2021, but investor interest has been far lower than auctioned capacity. This is down to higher electricity wholesale prices and investors agreeing to power purchase contracts with prices set above the offered market premiums.

A reform of the waste management sector has commenced. Water and wastewater infrastructure was earmarked at €863 million in the initial plan, the largest amount out of all RRP components. In line with this priority, at the end of 2021 the government adopted several acts and strategic documents to frame future activity. These include the amendment of the Waste Management Act, a revision of the Waste Management Plan of the Republic of Croatia for the period 2017-22, and the adoption of the Multiannual Water and Wastewater Construction Programme. In the coming years, the government will need to modernise a number of waste and wastewater facilities across the country, funded from the RPP.

Improvements in public governance are being targeted. Measures introduced so far have focused on budgeting, anti-corruption and EU funds management. Given the significant amount of EU funds allocated to Croatia up to 2027, a priority is improving the governance framework to allow efficient implementation. This started with the strengthening of capacity for EU project management, including an assessment of administrative capacity, an audit and control system for the RRP, and the adoption of an act on the institutional framework for EU funds. On top of this, the government adopted a new anti-corruption strategy for 2021-30 and an act amending the Law on Prevention of Conflict of Interest. Fiscal planning was strengthened by improvements to the functionality of the Fiscal Policy Commission and by amending the Budget Act.

The authorities are addressing inclusion issues. As part of the RRP milestones, at the end of December 2021 the government adopted the National Plan for the Equalisation of Opportunities for Persons with Disabilities 2021-27 and the National Plan for the Fight against Poverty and Social Exclusion 2021-27, together with their respective action plans to 2024. In a similar vein, the authorities also adopted the National Plan for the Development of Social Services 2021-27.



Czech Republic

Highlights

- **The economy was slow to recover to pre-pandemic levels.** After 3.5 per cent growth in 2021, gross domestic product (GDP) expanded 4.2 per cent year on year in the first half of 2022, but the short-term outlook is gloomy in light of global developments.
- **The government has introduced energy price caps to the end of 2023.** The authorities announced at the end of September 2022 their decision to cap energy prices for households and small businesses, to be offset by windfall taxes and dividends.
- **A series of green investments have started as part of the country's Recovery and Resilience Plan (RRP).** The strong green focus of the RRP has led to a series of tenders to finance private-sector energy and resource efficiency, as well as renewable energy production.

Key priorities for 2023

- **Energy security risks need to be mitigated, in particular, by accelerating efforts towards a green transition.** The Czech Republic is one of the countries in the region most dependent on Russian energy imports, and a shutdown of supply would inflict significant damage. While the country has ensured one-third of annual gas consumption through liquefied natural gas (LNG) deliveries, a structural shift towards renewables and energy efficiency needs to be accelerated.
- **Solutions to protect the most vulnerable are needed in light of a significant deterioration in real incomes.** The Czech Republic is projected to see one of the deepest real wage declines in 2022, which will affect real GDP growth and household wealth in 2023. The government needs to ensure that the most vulnerable segments are protected through targeted measures.
- **Support for Ukrainian refugees should continue and shift towards long-term integration.** As of the middle of September 2022, more than 430,000 refugees from Ukraine had entered the Czech Republic, one of the highest numbers in the region. The authorities need to step up solutions to ensure labour and social integration, including addressing skills mismatches and offering access to social services.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	3.2	3.0	-5.5	3.5	2.5
Inflation (average)	2.0	2.6	3.3	3.3	16.3
Government balance/GDP	0.9	0.3	-5.8	-5.1	-4.0
Current account balance/GDP	0.5	0.3	2.0	-1.8	-4.3
Net FDI/GDP [neg. sign = inflows]	-0.9	-2.4	-2.6	-0.2	-1.0
External debt/GDP	81.6	75.7	75.7	73.2	n.a.
Gross reserves/GDP	59.2	58.5	62.2	62.4	n.a.
Credit to private sector/GDP	20.3	19.6	19.9	19.6	n.a.

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Macroeconomic developments and policy response

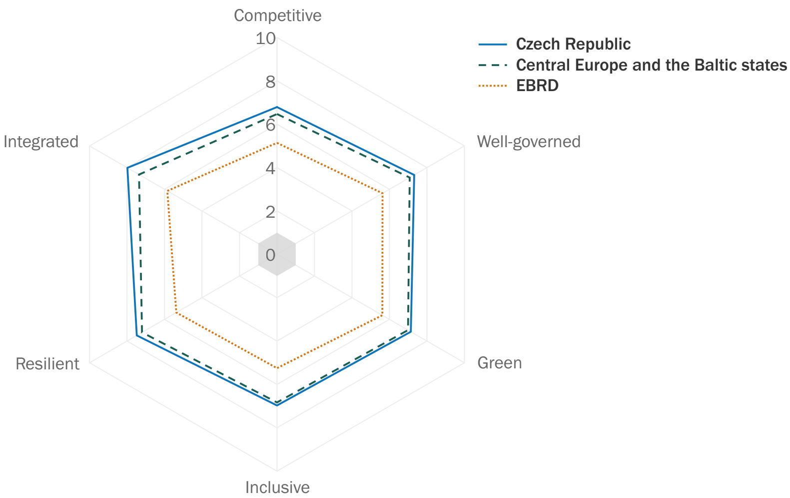
GDP growth showed signs of weakness in the first half of 2022, despite robust growth. In the first quarter of 2022, GDP expanded 4.9 per cent year on year (0.6 per cent quarter on quarter), supported by a rebound in investment and foreign trade. However, in quarterly terms, final consumption declined for the second quarter in a row, reflecting the negative effects of rising inflation. Net exports' negative contribution to growth in the second half of 2021 was partly reversed in the first quarter of 2022, as exports performed well. In the second quarter of 2022, GDP expanded 3.6 per cent year on year (0.5 per cent quarter on quarter), as the economy proved more resilient than expected, although retail turnover and industrial output declined on a yearly basis, heralding weaknesses ahead. This is confirmed by the preliminary 0.4 per cent quarter-on-quarter GDP decline.

Inflation remains broad based. In September 2022, inflation accelerated to 18.0 per cent, with core inflation at 14.7 per cent – among the highest in the European Union (EU) – implying strong broad-based inflationary pressures. The Czech National Bank has hiked the policy rate by a cumulative 200 basis points so far this year, to 7.0 per cent as of September 2022. The energy price cap will alleviate some of the inflationary pressures that were expected through further tariff adjustments. Real wages are likely to fall by about 6-7 per cent this year, moderating fears of a wage-price spiral, despite a very tight labour market.

Inflation-boosted budget revenues will only partly offset announced government support. Fiscal policy was expansionary in 2021 and, according to the government's October 2022 forecast, the fiscal deficit will reach 4.4 per cent of GDP in 2022. Measures to address the effects of high inflation and the energy crisis include additional pension indexation in July and October 2022, a one-off CZK 5,000 (about €200) transfer to low-income households and an array of energy subsidies. On top of this, the government has capped electricity and gas prices for households and small firms from October 2022 to December 2023, at an estimated cost of CZK 130 billion (€5.27 billion). This will be offset by a windfall tax on energy, banks and fuel producers, which will neutralise the fiscal impact of the support measures, according to the government. State expenditure on refugees was CZK 13.9 billion (€570 million) as of the end of September 2022.

Strong headwinds and downside risks complicate the growth outlook. We forecast economic growth of 2.5 per cent in 2022 and 0.5 per cent in 2023, with the risk of a recession in the second half of 2022 driven by negative real wage growth, weak business confidence and high-interest rates. Moreover, the external demand outlook remains uncertain. Weak momentum going into 2023 and the high risk of energy supply disruptions significantly affect next year's outlook, but funding under the EU's Recovery and Resilience Facility may provide an upside.

CHART Assessment of transition qualities (1-10)



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Structural reform developments

The Czech RRP has been approved and implementation has commenced. The European Commission approved the Czech RRP in July 2021, disbursed the pre-financing tranche of €915 million in September 2021, and signed the operational agreements that detail all the targets and reform milestones in July 2022. In addition to meeting the EU's policy goals of green transition, digital transformation and enhancing economic and social resilience, the €7 billion plan includes provisions to ensure effective implementation and monitoring. The first request for disbursement is scheduled for September 2022, but delays are possible, as two targets, one on flood protection and another on RRP implementation control, have been delayed.

The government has issued a number of public calls for private investment in green projects. As part of the RRP, the government has launched several programmes to support private entities in the green transition. These include reducing the energy intensity of apartment buildings, photovoltaic panel installation, investments in the circular economy, subsidies for electric vehicles and water-saving investments. The private sector showed high interest in the photovoltaic scheme, as the total estimated investment for submitted projects was more than €600 million as of the end of August 2022, resulting in a subsidy of about €225 million (above the €203 million budget). On top of this, in December 2021 the government adopted the Circular Czechia Strategy 2040, covering waste management, water reuse and recycling, product design, bio economy and the prevention of food waste.

Investment in the railway network is being frontloaded. In the first quarter of 2022 the government launched a public call for the electrification of, safety improvements in and digitalisation of the country's railway system. The plan also includes the construction of seven tunnels and bridges for railway use and the modernisation of 35 railway stations and about 120 km of track, the latter to be completed by the end of 2022. The allocation to the sustainable transport component of the RRP amounts to CZK 24 billion (€970 million).

The Czech-Moravian Guarantee and Development Bank (ČMZRB) has been reorganised into the National Development Bank and will channel RRP funds. The ČMZRB has acted as the country's main promotional bank, offering largely preferential loans and guarantees. As of September 2021 the institution became a national development bank and its goals have been expanded in line with the "do no significant harm" principle of the EU. The institution will also now manage two new funds: the National Development Fund, channelling private funds into public infrastructure, and the National Development Investments, a vehicle for quasi-equity investments, as part of the RRP.

Judicial reform has advanced with a new Courts and Judges Act. The RRP includes anti-corruption reforms, including strengthening the legislative framework of the judiciary. As a reform milestone, the government adopted the Courts and Judges Act at the end of 2021, which changed procedures for the selection of judges and court officials, introduced mandatory training for candidates, limited the role of the Ministry of Justice in selecting judges and limited court chair mandates. It also requires the judgements of the lower courts to be published on an electronic platform. The act was based on the recommendations of the Group of States against Corruption (GRECO).

Digital transformation is a priority in the RRP, and initiatives cover both the public and private sectors. The RRP includes multiple measures to enhance digitalisation. Among the milestones already implemented are the creation of a platform for the digitalisation of the economy, gathering relevant stakeholders to promote relevant reforms, and a public tender for support for the digital transformation of small and medium-sized enterprises worth €85 million started in June 2022. Cybersecurity is a recurring topic in the RRP. Notably, related to digitalisation, in 2021 there was a change in notary regulation to allow the online creation of companies.

There is strong state buy-in to enhance skills and digitalise the educational system. In the first quarter of 2022 the government established the Reskilling and Upskilling Committee to upgrade qualifications. The Ministry for Education has initiated changes in university programmes to increase the focus on digital skills and careers and to create new study programmes, including cybersecurity, artificial intelligence and e-governance. In schools, information technology-related teaching hours will be increased alongside courses in data modelling and programming, among other things. Moreover, the ministry will provide schools with funds to digitalise study materials and purchase new digital devices. The government is also expected to launch regional training centres to promote Industry 4.0 standards.

Estonia

Highlights

- **Growth has lost momentum while inflation has jumped sharply.** By mid-2022 the annual inflation rate exceeded 20 per cent, reaching the highest level since 1995, mostly driven by rising household expenditure on utilities.
- **The government introduced a number of measures in response to rising energy prices and inflation.** Assistance so far has included energy subsidies and partial compensation to eligible households for energy price increases, and a supplementary budget of €878 million has been set to cover unforeseen security-related expenses, support for Ukrainian refugees and further support to households to cope with surging energy prices.
- **The regulation of Virtual Asset Providers (VASPs) is being reinforced.** Important changes under a new draft law include tighter licensing rules, increased capital requirements and stricter information requirements in transaction originations.

Key priorities for 2023

- **Labour market reforms should be stepped up to help cope with immigration and demographic changes.** The large inflows of refugees fleeing the war on Ukraine and ongoing demographic challenges have highlighted the need to address labour shortages and skills mismatches by supporting active labour market policies, and bringing more refugees into the labour market.
- **Building on the timely implementation of the Recovery and Resilience Plan, Estonia will need to further progress its green transition.** The authorities should prioritise support for renewable energy production to achieve the target of 100 per cent of electricity consumption coming from renewables by 2030.
- **Further support to cope with the energy crisis should be targeted carefully.** While government spending should remain flexible to cope with extraordinary crisis expenses, support should be more targeted, focusing on the most vulnerable segments of society in order to avoid further inflationary pressures.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	3.8	3.7	-0.6	8.0	1.5
Inflation (average)	3.4	2.3	-0.6	4.5	21.0
Government balance/GDP	-0.6	0.1	-5.5	-2.4	-2.9
Current account balance/GDP	0.9	2.4	-1.0	-1.8	-0.2
Net FDI/GDP [neg. sign = inflows]	-4.8	-3.9	-10.4	-1.9	-2.9
External debt/GDP	77.9	76.1	88.8	84.7	n.a.
Gross reserves/GDP	n.a.	n.a.	n.a.	n.a.	n.a.
Credit to private sector/GDP	62.3	60.2	63.8	59.8	n.a.

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Macroeconomic developments and policy response

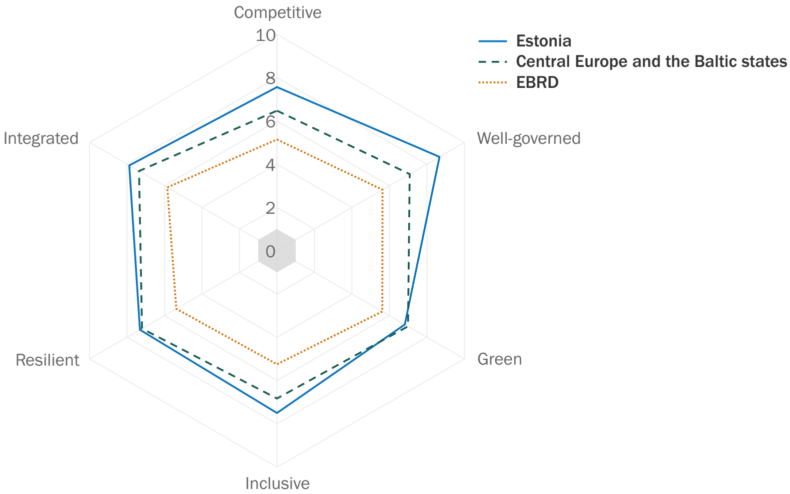
The economy has lost momentum in 2022. Following growth of 8.0 per cent in 2021, gross domestic product (GDP) growth slowed to 2.4 per cent year on year in the first half of 2022. Household consumption supported this growth, especially via higher spending on services that had suffered the most during the pandemic lockdowns. High levels of accumulated savings, money taken from the funded pension scheme as well as the government's energy price compensation measures were able to partially offset the negative impact on GDP of the historically high inflation (see below). Pre-sanctions trade with Russia was already low, so the slowdown in exports can be largely attributed to weaker demand from the European Union (EU). Despite the drop in growth, average employment grew to 81.9 per cent of the total labour force in the second quarter of 2022, while unemployment fell to 5.7 per cent in September 2022.

Inflation has jumped sharply. In September 2022 the annual inflation rate reached 24.1 per cent, down from 25.2 per cent in August 2022, and driven mostly by high household expenditure on energy, heating, gas and solid fuels, and food price growth. The average annual inflation is expected to exceed 20 per cent throughout 2022, and will likely not reach single digits until the second half of 2023.

The government has introduced measures to combat rising energy prices and inflation. In December 2021 energy subsidies worth €79 million, covered by revenues from the sale of CO_2 emission credits, were launched for households with incomes below €1,126 per month, and included full cover for gas network fees as well as compensation for 80 per cent of the increase in electricity costs, gas and district heating. In January 2022 the government discussed additional measures worth €90 million to target non-eligible recipients, and agreed to reduce network fees for businesses and introduce a cap on gas prices (€65 per MWh) and electricity prices (€0.12 per kWh). In May 2022 parliament approved a supplementary state budget of €878 million. It also passed amendments cutting excise duties on special purpose diesel, and lowered value added tax (VAT) rates applicable to press publications in an attempt to support free and independent quality media in Estonia. As a result of these measures, plus additional expenditure on defence and refugees, the general government deficit is expected to widen from 2.4 per cent of GDP in 2021 to almost 3.0 per cent in 2022.

GDP growth will slow further. The rapid rise in prices, especially energy prices, will weigh on household consumption and business performance in the short term. Weakening external demand in the EU will constrain Estonian exports, while expensive energy imports will weaken the terms of trade. Subdued corporate investments in 2022 are likely to rebound in 2023, when inflation eases and fresh EU funds will be more vigorously used by companies as the outlook improves. We therefore forecast GDP growth to remain subdued this year and the next, at 1.5 per cent and 1.0 per cent, respectively.

CHART Assessment of transition qualities (1-10)



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Structural reform developments

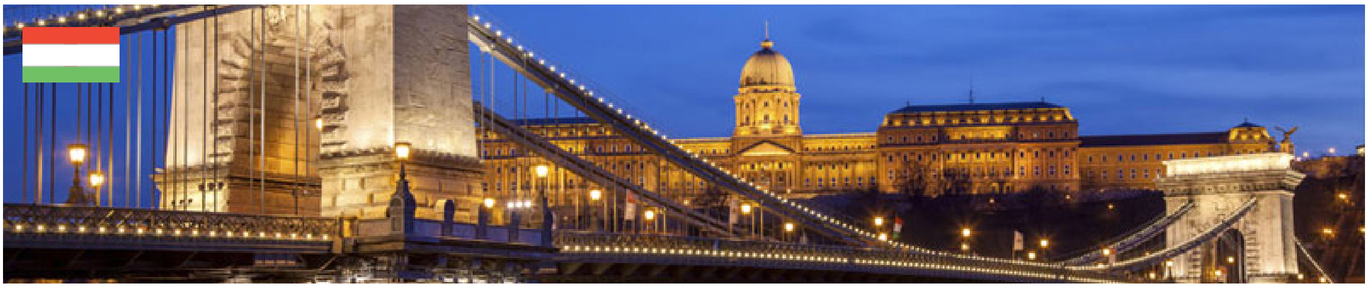
Efforts to strengthen energy security have been stepped up. In response to Russia's invasion of Ukraine, in May 2022 the supplementary budget included an additional €257 million for energy security-related measures. To become fully independent from Russian gas, the government is helping to develop the Paldiski Terminal so that it can receive liquefied natural gas (LNG), to be completed by the end of November 2022, and is supporting the leasing of a floating LNG terminal in partnership with Finland. A total of €242 million from the supplementary state budget was set aside to help Ukrainian refugees.

The government is supporting Ukrainian refugees' inclusion in the labour market. In the second quarter of 2022 there were about 3,300 Ukrainian refugees employed in Estonia, mostly in manufacturing, administrative and support services, trade, and accommodation and food services. At the same time, nearly 4,000 Ukrainian refugees were seeking employment through the Unemployment Insurance Fund. Additional funding will be provided to cover expenses for temporary protection of refugees, including healthcare, social benefits and employment support, as well as one-off grants for rental housing costs. Aid will also be given to the education system to accommodate Ukrainian children.

The government has adopted a new work plan for 2022-23. Approved in August 2022, it highlights eight areas of intervention, of which the three key priorities are: (i) enhancing the country's security, including cybersecurity of government digital services; (ii) in education, moving towards teaching purely in the Estonian language; and (iii) further supporting the population in coping with higher energy prices and inflation.

The government is reinforcing the regulation of VASPs. Estonia is a frontrunner among EU countries in cryptocurrency legislation. In December 2021 it introduced a draft law that will lead to tighter licensing rules – VASPs will need to meet additional requirements in order to obtain a licence, licensing fees will rise and capital requirements increased. In addition, the draft legislation introduced stricter transparency rules, ultimately aligning information requirements with those of banks and more traditional payment service providers. The purpose of the law is to regulate a significant portion of the fintech sector, thus reducing the risk of financial crime occurring and improving protection mechanisms. In June 2022 the Ministry of Finance announced the development of its first fintech strategy, aimed at supporting Estonian companies to exploit the full potential of fintech.

Implementation of the Recovery and Resilience Facility (RRF) is under way. Following the approval of Estonia's RRF in October 2021, the European Commission disbursed the first tranche of €126 million in pre-financing in December 2021. The funds are key in kick-starting the investments and reforms needed to meet a total of 71 milestones and 53 targets, mostly in green and digital transition, by 2026. Initial support for green transition included funding for energy efficiency projects for 2,600 housing units and the launch of a plan to strengthen the electricity grid and improve production capacity of renewable energy. Future green investments will mostly target businesses, supporting the development and use of new resource-efficient technologies and sustainable mobility, with sizeable investments in rail and tram infrastructure. Support for digital transition has already started with initial funding directed to digitalisation and automation of business processes, which will be followed by further enhancement of digital public services.



Hungary

Highlights

- **Economic growth has been strong but it is starting to slow.** Gross domestic product (GDP) continued to rise rapidly during the first half of 2022, but high commodity and energy bills, weakening external demand and higher interest rates are dragging growth down in the second half of 2022.
- **The government has launched a seven-point plan to address the energy crisis.** The plan comprises placing an export ban on energy sources, increasing domestic gas and coal production, re-starting the coal-fuelled Matra power plant, extending the working hours of the Paks nuclear power plant, purchasing additional gas for storage, and increasing regulated utility prices to better reflect market conditions.
- **The state is planning to boost its stake in "strategically important sectors".** According to an announcement in August 2022, the government is planning to participate in the buyout of telecoms company Vodafone Hungary by the end of 2022.

Key priorities for 2023

- **The European Union (EU)'s rule of law concerns need to be addressed to unlock EU funds.** Even though the conditionality mechanism procedure, a tool that suspends EU funds to EU member states that breach the rule of law, is separate from the approval of the country's Recovery and Resilience Facility (RRF) plan, a solution to rule of law concerns will be important for unfreezing EU recovery funds.
- **Greater investments in the green economy are needed.** Concrete progress in areas such as energy efficiency in buildings and developing capacity in renewable energy production would enhance energy security and the economy's resilience.
- **More investment in sustainable water management and waste management is needed.** The intensifying droughts have already prompted substantial losses in the agriculture sector, which in 2022 had an almost 40 per cent lower yield than in the previous year.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	5.4	4.9	-4.5	7.1	5.0
Inflation (average)	2.9	3.4	3.4	5.2	14.0
Government balance/GDP	-2.1	-2.0	-7.5	-7.1	-4.9
Current account balance/GDP	0.2	-0.8	-1.1	-4.2	-6.7
Net FDI/GDP [neg. sign = inflows]	-1.9	-0.8	-1.7	-1.8	-1.1
External debt/GDP	79.8	74.2	84.1	87.1	n.a.
Gross reserves/GDP	19.6	19.4	26.3	23.9	n.a.
Credit to private sector/GDP	31.2	31.9	34.9	34.7	n.a.

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Macroeconomic developments and policy response

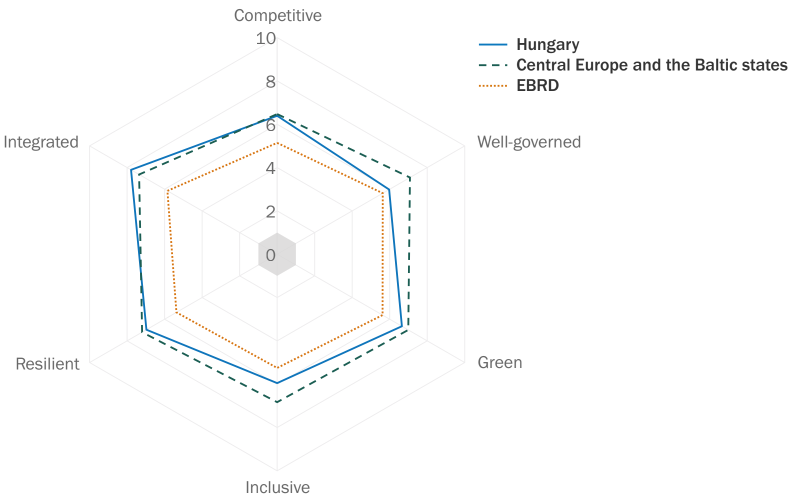
Economic growth has been strong post-pandemic but it is slowing. Following GDP growth of 7.1 per cent in 2021, the Hungarian economy continued to grow rapidly during the first half of 2022, at 7.3 per cent year on year. The weakening forint supported exports, while the tourism sector rebounded somewhat from the low base registered during the Covid-19 pandemic. Overall, domestic demand continued to be strong, fuelled by high corporate investment, especially in the automotive sector. The agriculture sector performed much worse, however, adversely affected by a severe drought which resulted in wheat output falling by 25 per cent relative to the average of the previous five years. The unemployment rate fell to 3.1 per cent in June 2022, one of the lowest levels in the EU, but employment growth in both the private and public sectors has slowed during 2022, and the government has planned redundancies in the public sector, with estimated savings of HUF 30 billion (€73.5 million) in 2023.

Inflation has risen sharply, prompting a monetary and fiscal response. Forint depreciation, elevated commodity and energy prices, increasing wages and strong domestic demand have all fuelled high inflation rates during 2022, with the rate reaching 20.1 per cent in September 2022. In response, the National Bank of Hungary (NBH) has been gradually raising its policy rate since June 2021, to 13.0 per cent in September 2022. Meanwhile, the government has extended to the end of 2023 the price caps on fuel (at HUF 480/€1.2 per litre) and food, which were initially introduced in November 2021 and February 2022, respectively. Small fuel stations are receiving financial support as they experience difficulties in operating under regulated fuel prices. At the same time the cap on mortgage interest rates, introduced in January 2021, was extended until the end of June 2023. In July 2022 however, the European Commission launched an infringement procedure against Hungary for the fuel price cap which only applies to domestic vehicles.

Substantial fiscal consolidation is expected to be carried out mainly by expenditure cuts. The government intends to consolidate the public finances by 3.0 per cent of GDP in 2022 in order to reduce the general government deficit from 6.8 per cent in 2021 to 6.1 per cent of GDP in 2022, as stated in the latest Excessive Deficit Procedure report. Larger savings are expected on the expenditures side, amounting to 1.7 per cent of GDP, mostly through cuts in ministries' budgets and postponed investments. The revenue-side measures, worth 1.3 per cent of GDP, include new windfall taxes, such as for the oil and gas group MOL, as well as increases in company car and public health taxes. Public debt is expected to gradually fall from about 76.8 per cent of GDP in 2021 to 73.8 per cent of GDP in 2023, according to the government's 2023 draft budget.

Slower growth is expected in the short term. We anticipate GDP growth in 2022 to remain high, at 5.0 per cent, before it drops to 1.5 per cent in 2023. High commodity and energy bills, weakening external demand and high interest rates are all contributing to a notable slowdown in economic growth during the latter part of 2022 and this is expected to continue into 2023. Private-sector investments, especially those by automotive manufacturers, will add to GDP growth and employment in the coming years, but the deteriorating global outlook, including potential new energy supply disruptions, will weigh on confidence and economic activities.

CHART Assessment of transition qualities (1-10)



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Structural reform developments

The first road shipment of liquefied natural gas (LNG) has reached Hungary. In August 2022 the first LNG rail tanker delivered LNG to Hungary, directly from a vessel at the LNG terminal in Krk, Croatia, which started operations in January 2021. This new way of transporting natural gas complements the traditional method of pipes, and will be used for industrial purposes. At the same time, Gazprom increased its gas deliveries to Hungary via the Balkan Stream pipeline, as the government requested to buy an additional 700 million cubic metres of gas to cover the anticipated shortages during the upcoming winter. A long break in gas supply could result in output losses in more than 40 per cent of companies, and a complete shutdown in a third of them, according to a survey by the German-Hungarian Chamber of Industry and Commerce.

The government has launched a seven-point plan to address the energy emergency. The plan, which came into force in August 2022, envisages an export ban on energy sources and firewood, with the exception of gas stored in Hungary by foreign entities. The plan also envisages upping domestic gas production from 1.5 to 2 billion cubic metres a year, including through more expensive technologies, as well as substantially increasing coal mining, re-starting the coal-fuelled Matra power plant, extending the working hours of the Paks nuclear power plant, purchasing additional gas for storage and increasing regulated utility prices to better reflect market conditions. Eligible amounts of gas with reduced prices should be available only up to the level of the average household consumption, with an expected 75 per cent of households remaining under regulated prices. In addition, nearly 100,000 small and medium-sized enterprises remain under the scheme.

The government is supporting the agriculture sector in the face of drought. The agriculture sector is expected to experience a 25 per cent loss in wheat crops and see damage to corn crops in 2022 because of severe drought. In response, the government in September 2022 placed a moratorium on loan repayments for working capital and investment loans for agricultural companies, which will last until the end of 2023. Farmers will also be awarded subsidies to purchase animal feed and offset higher energy costs for irrigation. The support package also covers extraordinary water usage approvals and requires insurers to assess drought damage and pay any compensation promptly. In July 2022 the government extended indefinitely restrictions on grain exports that impose some notification requirements for exporters, and it has a pre-emptive right to buy grain intended for export.

Expansion of the nuclear power plant has started. Construction licences for two new nuclear reactors at the Paks nuclear power plant were issued by the Hungarian Atomic Energy Authority in August 2022. The plant's expansion will increase its installed capacity from 2,000 to 4,400 megawatts by 2030. The Paks nuclear power plant is based on Russian fuel and its expansion is excluded from the EU sanctions on Russia.

The biggest investment in Hungary is taking place in 2022. The Chinese company CATL, the world's largest electric battery producer, is expected to invest €7.34 billion in a new battery plant in Debrecen in eastern Hungary, close to the new German BMW plant. This will be the fifth electric battery plant in Hungary following the three facilities owned by Korean SK Innovation and Samsung SDI's plant. About 9,000 jobs are expected to be created. In addition, German car producers Mercedes and Audi are planning major new investments in electric car production.

The state is to boost its stakes in selected "strategically important sectors". The government announced in August 2022 that it was planning to take part in the buyout of telecoms company Vodafone Hungary by the end of 2022. The transaction is set at HUF 715 billion (€1.74 billion) and should be divided between the government-owned 4iG and state foundation Corvinus, with 51 and 49 per cent stakes, respectively. This transaction is in line with the government's strategy to increase the state's presence in strategically important sectors, which started in 2010. Also, energy companies, important for national energy security, will be placed under government supervision in case of emergency, according to a government decree issued under the current state of emergency due to the war on Ukraine.

Latvia

Highlights

- **Gross domestic product (GDP) growth is falling and inflation is surging.** Despite better-than-expected growth in the first quarter of 2022, increased vulnerabilities driven by the repercussions of Russia's war on Ukraine are weighing on Latvia's economic activity and employment, and will keep inflation high for some time.
- **The government deployed comprehensive support measures to compensate households and businesses for increased energy prices.** With Covid-related aid being phased out, new measures included housing benefits, partial cover for heating bills and targeted support for companies.
- **Latvia has issued its first sustainability bond.** The first among Nordic and Baltic countries, Latvia established a sustainability bond framework and raised €600 million in support of its long-term agenda to promote climate mitigation measures as well as environmental and social policies.

Key priorities for 2023

- **Support measures to ease the effect of higher energy prices should remain well targeted and flexible.** This would ensure that the most vulnerable groups are receiving the most support, and households and businesses have the right incentives to support the transition to low-carbon energy sources.
- **The authorities should focus on designing and putting in place comprehensive inclusion measures.** The country's National Recovery and Resilience Plan (NRRP) contains measures designed to reduce labour shortages, skills mismatches and income inequality, and bridge the digital divide.
- **More capacity is needed to ensure that Recovery and Resilience Facility (RRF) targets are met.** The intention is to unlock almost one-third of the RRF grants in 2023. These funds will be key in accelerating the green transition, including through large investments in energy efficiency, sustainable mobility and climate change adaptation.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	4.0	2.6	-2.2	4.1	2.5
Inflation (average)	2.6	2.7	0.1	2.4	17.0
Government balance/GDP	-0.8	-0.6	-4.3	-7.0	-6.0
Current account balance/GDP	-0.3	-0.6	2.6	-4.2	-3.3
Net FDI/GDP [neg. sign = inflows]	-2.2	-2.8	-2.1	-2.5	-1.7
External debt/GDP	123.7	116.8	124.8	112.1	n.a.
Gross reserves/GDP	n.a.	n.a.	n.a.	n.a.	n.a.
Credit to private sector/GDP	38.0	36.6	34.7	32.0	n.a.

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Macroeconomic developments and policy response

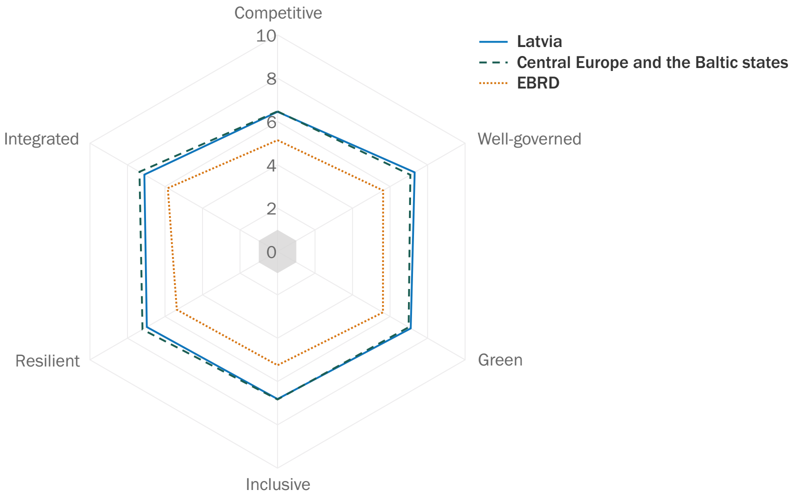
Growth has slowed in 2022. The economy performed relatively well in the first quarter of 2022, sustained by the easing of Covid-19 restrictions, private consumption and exports, but GDP growth slowed to 4.7 per cent year on year in the first half of 2022. Russia's war on Ukraine and trade disruptions, coupled with the energy crisis and surging inflation, adversely affected economic activity and households' disposable income. However, the unemployment rate stood at 6.6 per cent in September 2022, up from 6.4 per cent in June but below pre-pandemic levels. Increased employment and persistent labour shortages contributed to further wage growth, but these are expected to ease towards the end of 2022.

Prices are rising sharply. The harmonised index of consumer prices (HIPC) inflation rate hit 22.0 per cent year on year in September 2022, the highest rate since the 1990s. Housing and utility-sector prices saw the strongest growth (51.6 per cent year on year), followed by the food sector, with a significant increase of 27.5 per cent year on year. In response, the government introduced several support mechanisms to help mitigate the effects on households and businesses. In January 2022 parliament approved a €250 million support package to compensate firms and households for energy price increases. Children and young adults up to the age of 24 and pensioners received monthly allowances of €50 and €20, respectively, until April 2022. Longer-term measures to the end of the year include €7 million in compensation to help households withstand hikes in heating and gas prices. In addition, parliament allocated €64 million and €21 million, respectively, to indemnify 100 per cent of the power distribution fee and the mandatory procurement component of electricity bills. In August 2022 parliament approved amendments to the law on support measures for reducing the effects of increased energy prices, setting aside an additional €422.25 million to partially cover increases in heating bills and to expand the range of housing benefit recipients.

The general government budget tightened. The fiscal deficit, which stood at 7.0 per cent of GDP in 2021, is expected to decrease to 6.0 per cent in 2022, with a smaller gap in the first six months of the year compared with the same period 12 months prior. Government support for the Covid-19 crisis has been phased out slowly, but aid for Ukrainian refugees and compensation for the rise in energy prices has been substantial; the latter required a sizeable budgetary spending increase, with total planned support worth 6.0 per cent of GDP. Furthermore, spending on defence is set to rise from 2.2 per cent of GDP to 2.5 per cent over the next three years.

The economic outlook is complicated by the consequences of Russia's war on Ukraine. Subdued economic activity in the European Union, accompanied by supply-chain disruptions and rampant inflation, are likely to negatively affect Latvia's exports and consumption, but this will be partially offset by sustained demand for some of Latvia's main export products, including wood and food products. Our latest forecasts see GDP growth decrease to 2.5 per cent and 0.8 per cent in 2022 and 2023, respectively. Additional funds under the RRF will become available in 2023 (see below) and should support economic growth medium term.

CHART Assessment of transition qualities (1-10)



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Structural reform developments

The government is supporting businesses through financial aid and structural assistance. The government approved an additional €100 million financial aid package in May 2022 to help companies and entrepreneurs navigate the repercussions of the war on Ukraine. Subject to parliamentary approval, unused funds from the Covid-19 crisis will be used to provide working capital and liquidity to those businesses affected by the war, related sanctions on Russia and countersanctions. Part of the package will also be spent on facilitating access to finance, as well as providing more structural assistance to companies, including support in adapting their business models, improving their export capacity and expanding to new markets. Further anti-inflationary measures, agreed by the government in August 2022, will include targeted assistance for energy-intensive businesses (companies with spending on energy resources higher than 10 per cent of total expenses) in the form of grants.

Efforts to strengthen energy resilience are being stepped up. The government's decision to ban Russian gas imports by 2023 has prompted the reorientation of gas supply. Latvia will be able to consume gas supplied by the Klaipeda terminal in Lithuania, as well as the Paldiski terminal in Estonia, which is currently under construction and should become operational in November 2022. To limit gas consumption, the government will introduce a plan for the public administration, setting common targets for energy saving in the upcoming winter season.

The authorities are targeting digital, inclusion and rule-of-law reforms in the early implementation stages of the RRF. In June 2022, following the completion of nine reform targets, Latvia requested that the European Commission disburse the first tranche of the country's €1.8 billion RRF allocation. The Commission provided a positive preliminary assessment of the milestones, which were achieved in the key areas of digital transition, inclusion and rule of law. Inclusion measures comprise the development of a minimum income support strategic framework, as well as amendments to existing rental legislation to improve affordable housing in the country. In the area of digital transformation, the country adopted two important frameworks on the organisation of remote learning in educational institutions and the development of last-mile broadband connection infrastructure, helping to narrow the digital divide. Improvements in public procurement were achieved, with the establishment of a regulatory framework to reduce corruption risks and improve the competition environment. Lastly, an amendment to the existing law on money-laundering prevention helped to shore up anti-money laundering/countering the financing of terrorism legislation.

Green transition is being targeted in the next round of the RRF. Latvia will need to achieve an additional 49 targets by the second quarter of 2023 to unlock the next payment under the RFF, which amounts to €503 million. Work has already started in the field of green transition, including financing for energy-efficiency projects in public and private buildings and the greening of the Riga Metropolitan Transport System.

Latvia has issued its first sustainability bond. The bond, issued in December 2021 with an eight-year maturity, raised €600 million. The first among the Baltic and Nordic countries to issue a sovereign sustainability bond, Latvia established a sustainability bond framework in order to attract investments to support the country's green agenda, in line with its financial development plan 2022-23. The issuance attracted strong interest from more than 120 investors, with an order book exceeding €2.5 billion.

Lithuania

Highlights

- **Gross domestic product (GDP) growth has slowed sharply.** The slowdown is largely the result of weakening domestic demand, especially household consumption, which has been hit by falling real disposable incomes amid soaring inflation.
- **Lithuania is set to turn from an electricity importer into an electricity exporter by 2030.** In June 2022 the government announced a massive €1 billion investment plan for green energy development and energy efficiency by 2030, with €604 million to be invested over the next 18 months.
- **Gas transmission security has been strengthened.** The improved capacity of interconnectors allows for gas transmission between the liquefied natural gas (LNG) terminal in Klaipeda, Lithuania and Poland and Latvia, including to the Latvian underground gas storage facility.

Key priorities for 2023

- **The shift away from fossil fuels should accelerate.** Plans are now in place for an ambitious green energy and energy efficiency programme over the coming years, but implementation will be key, not least private-sector investment.
- **The digital skills of citizens need further development.** Lithuania has dedicated nearly a third of its Recovery and Resilience Facility (RRF) funds to the digital transition. Its key short-term priority is to develop and improve new and existing digital services for businesses and citizens, as well as to centralise public information technology (IT) resources.
- **Steps are needed to mitigate the risks of poverty and social exclusion for vulnerable groups.** The share of people at risk of poverty or social exclusion has fallen since 2016, but remains well above the European Union (EU) average. The situation is being exacerbated by currently elevated food and energy prices. Short term, the government should focus on the provision of means-tested support measures for the most vulnerable groups.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	4.0	4.6	0.0	6.0	2.0
Inflation (average)	2.5	2.2	1.1	3.0	19.0
Government balance/GDP	0.5	0.5	-7.0	-1.0	-2.0
Current account balance/GDP	0.3	3.5	7.3	1.1	-1.6
Net FDI/GDP [neg. sign = inflows]	-0.5	-2.3	-1.1	-2.2	-2.3
External debt/GDP	78.3	70.1	75.3	77.0	n.a.
Gross reserves/GDP	n.a.	n.a.	n.a.	n.a.	n.a.
Credit to private sector/GDP	40.5	39.6	37.6	37.5	n.a.

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Macroeconomic developments and policy response

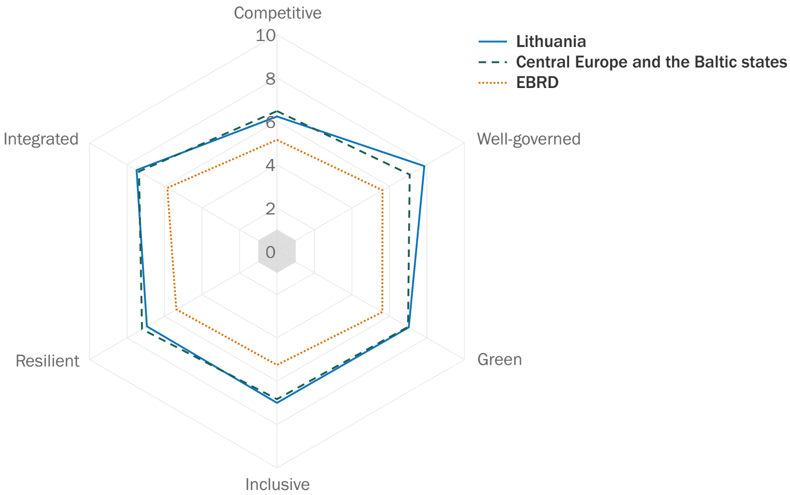
GDP growth has slowed sharply, but unemployment remains low. Following a strong rebound in economic activity in 2021, with GDP growth of 6.0 per cent, growth decelerated to 3.2 per cent in the first half of 2022. The slowdown was largely the result of weakening domestic demand, especially household consumption, which was hit by falling real disposable incomes amid soaring inflation. However, unemployment dropped to just 5.2 per cent in the second quarter of 2022, below pre-pandemic levels in the same quarter of 2019. To help Ukrainian refugees to start a business in Lithuania and to create new jobs, the government launched a cheaper loans programme for start-ups or working capital. These loans are available to Ukrainian-owned small and medium-sized enterprises established after 24 February 2022, when Russia invaded Ukraine.

Inflation is high and rising, prompting a government support package. In September 2022 the annual inflation rate jumped to 22.5 per cent year on year. The acceleration was largely triggered by rises in housing, food, energy and transport prices. To mitigate the effects of the price hikes on households, especially heating, in April 2022 the government approved a €2.26 billion package, which includes increases in non-taxable incomes, pensions and social benefits. Electricity and gas prices should not increase by more than 40 per cent in 2022 and the difference between end-user and market prices should be covered by the package.

The general government deficit has widened. After registering a general government deficit of just 1 per cent of GDP in 2021, the fiscal gap is expected to increase this year to 2 per cent, driven by government's measures to support households and businesses amid high inflation, assistance for Ukrainian refugees and greater spending on defence. However, general government gross debt remains moderate, falling from 43 per cent of GDP in 2021 to below 40 per cent of GDP in 2022, according to the finance ministry.

Reduced trade with Lithuania's non-EU neighbours will weigh on economic activity. Amid reduced exports to Belarus, Russia and Ukraine and weakening demand in the EU, GDP growth in Lithuania is expected to slow to 2.0 per cent in 2022 and 1.5 per cent in 2023. The inflation-driven reduction in households' real disposable income will continue to hamper consumption. Trade tensions with China could also negatively affect Lithuania's economic activity, but the bilateral trade volumes are rather small. Last year, Lithuania's exports to China constituted around one per cent of Lithuania's total exports. On the positive side, investments under the RRF will positively stimulate GDP growth.

CHART Assessment of transition qualities (1-10)



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Structural reform developments

Further investments have been made to promote the green transition. In June 2022 the government announced a massive €1 billion investment plan for green energy development and energy efficiency by 2030, with €604 million to be invested over the next 18 months. The objective of the plan is to turn Lithuania from an electricity importer into an electricity exporter by 2030. Currently, imports account for 65 per cent of the country's electricity, while the rest is produced from wind and solar. By 2025 about 50 per cent of electricity consumed should be produced domestically. The government plans to allocate €118 million to households to partially compensate for the purchase of heat pumps, car charging stations and solar energy storage units. The estimated cost of Lithuania's green economic transition over the next decade is €14 billion, with €4 billion to be invested by the private sector. Furthermore, in August 2022 Orlen Lietuva, an oil refining and import company, embarked on €641 million of modernisation investments, which envisages the construction of a residue conversion unit. This project is expected to last until 2024 and to improve refining efficiency by 20 per cent.

Gas transmission security is being strengthened. Since November 2022 gas transmission capacity from Lithuania to the Latvian gas system has increased by one-third to 90 GWh per day, under the Enhancement of Lithuania-Latvia Interconnection (ELLI) project launched in 2017. The interconnectors also allow for gas transmission between Latvia and the LNG terminal in Klaipeda, Lithuania and from Poland to Latvia, including to the Latvian underground gas storage facility. Completion of the project, expected by the end of 2023, will lead to a doubling of the transmission of natural gas capacity between Lithuania and Latvia.

Electricity market liberalisation for the smallest consumers has been postponed. The first and second stages of liberalising retail electricity supply for households consuming more than 5,000 kWh and 1,000-5,000 kWh of electricity per year were completed at the end of 2020 and in July 2022, respectively. The government has postponed the final stage, for households consuming less than 1,000 kWh of electricity per year, until the end of 2025. Its intention is to reduce electricity costs for consumers through market liberalisation, but the current electricity price spike on the global markets, linked to Russia's invasion of Ukraine, has prompted the government to postpone this objective.

Energy resilience and efficiency are advancing. The project to synchronise the Baltic power grid with the continental European network received €170 million in EU funding in June 2022, to be used for network upgrades, frequency management and information system equipment worth a total of €227 million, adding to the already allocated more than €1 billion of EU funding in the previous years. The project was planned to be completed by 2025 but the synchronisation with the continental European network could be launched earlier if the Baltic States are disconnected from the electricity grid with Belarus and Russia (BRELL). Other sources of electricity include a power interconnection with Sweden (NordBalt) and a power interconnection between Finland and Estonia (Estlink) through Latvia to Lithuania. Meanwhile the government has earmarked more than €1 billion for investments in the renovation of buildings, the development of charging stations, the installation of solar panels, the replacement of fossil-fuel boilers with more advanced technology and the promotion of green energy solutions, including hydrogen and biofuel technologies.

Funds under the RRF are targeting the green and digital agendas. Two-thirds of investments envisaged under the RRF are expected to start this year. The first payment of RRF funds, €565 million out of the total €2.25 billion, is expected to be transferred to Lithuania in autumn 2022, following the €289 million of pre-financing paid out in September 2021. Key projects being funded under the RRF support climate objectives and the digital transition.

Trade with China has been disrupted, prompting the European Commission to support Lithuania. In April 2022 the European Commission approved a €130 million state aid scheme for companies affected by China's trade restrictions on Lithuania, which were imposed in reaction to the opening of a Taipei China representative office in Vilnius in late 2021. The scheme envisages loans of up to €5 million for affected companies, excluding the finance, agriculture and forestry, and fisheries and aquaculture sectors. Lithuania is preparing for an opening of a trade representative office in Taipei China, with a trade representative being nominated in September 2022. According to the European Commission, Lithuania is a victim of Chinese trade coercion, and has taken a trade discrimination case to the World Trade Organisation.

Poland

Highlights

- **The post-pandemic recovery has decelerated in 2022.** The slowdown is due in part to increased commodity and energy prices and uncertainty associated with the country's proximity to the war in Ukraine, accompanied by market pressure and more difficult financing conditions.
- **Crisis support measures include loan holidays for mortgage borrowers and heating subsidies.** Between 85 per cent and 95 per cent of those eligible are expected to apply for eight months' worth of credit holidays on zloty mortgages in 2022 and 2023, while one-off heating subsidies will cover up to 40 per cent of energy price hikes between October 2022 and April 2023.
- **Consolidation of the fuel and energy sectors has gained momentum.** In July 2022 the government approved the final merger of state-controlled fuel giants PKN Orlen and Lotos, as part of the consolidation of the fuel and energy sector with state-owned gas giant Polskie Górnictwo Naftowe i Gazownictwo (PGNiG).

Key priorities for 2023

- **Unlocking Recovery and Resilience Facility (RRF) fund disbursements would speed up critical investment, while keeping fiscal stresses in check.** An added benefit would be a stronger currency, which would help to fight inflation. Efforts must, therefore, be intensified to resolve current disagreements between the government and the European Commission on judicial reform.
- **The replacement of the benchmark WIBOR rate needs to be done in a consistent and careful way and communication with market participants needs to be ensured.** A working group, consisting of key stakeholders, started to work in July 2022. According to the roadmap prepared by the working group, the plan is to replace the main benchmark WIBOR rate with a new O/N risk-free rate – WIRON from January 2025. The roadmap indicates that the market should be ready for a cessation of the WIBOR reference rates at the beginning of 2025.
- **Energy crisis-shielding measures and grid and capacity investment should be consistent not only with short-term price stability, but also with long-term energy security and climate mitigation.** Means-tested support measures for the most vulnerable groups, especially households at risk of energy poverty, will require greater administrative capacity. They could prevent excessive energy use and encourage green investments.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	5.4	4.7	-2.2	5.9	4.0
Inflation (average)	1.2	2.1	3.6	5.2	14.0
Government balance/GDP	-0.2	-0.7	-6.9	-1.8	-4.1
Current account balance/GDP	-1.9	-0.2	2.4	1.4	-4.0
Net FDI/GDP [neg. sign = inflows]	-2.8	-2.0	-2.4	-4.1	-4.7
External debt/GDP	64.3	58.8	60.7	56.6	n.a.
Gross reserves/GDP	19.9	21.5	25.6	24.5	n.a.
Credit to private sector/GDP	50.9	50.2	47.7	45.4	n.a.

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Macroeconomic developments and policy response

The post-pandemic recovery is decelerating in the second half of 2022. Following strong gross domestic product (GDP) growth of 6.8 per cent in 2021, the Polish economy grew 6.9 per cent year on year in the first half of 2022, mostly boosted by a large increase in inventories and still very strong household consumption. While direct exposure to trade with Russia and Ukraine is modest, the war is affecting the Polish economy, mainly through higher commodity and energy prices and by uncertainty associated with the country's proximity to the war, with the accompanying market pressure and more difficult financing conditions. The pessimistic outlook is confirmed in the central bank's corporate survey of July 2022, which points to a sharp slowdown in the next 12 months. At the same time, Ukrainian refugees are filling some of the vacancies in the labour market. As of mid-2022 about 210,000 refugees had taken up work in Poland – more than a third of all working-age (18-65) refugees who applied for Polish identity cards since 24 February 2022. Overall, there are an estimated 2.5-2.8 million Ukrainians in Poland, including those who migrated to Poland before the war, according to estimates by the central bank. Refugees find employment mostly in retail trade and home-care facilities, whereas pre-war, the immigrants were mostly men working in heavy industry or construction.

External developments and domestic factors are fuelling high inflation. In September 2022 the consumer inflation rate reached 17.2 per cent, its highest level for 25 years. Rising commodity and energy prices and disrupted supply chains were already significant drivers of inflation prior to Russia's invasion of Ukraine, but the war has magnified these effects. In response, the central bank has been gradually increasing interest rates, to 6.75 per cent as of September 2022, which, together with tighter liquidity conditions and banking sector regulatory measures, led to a drop in lending in most market segments. In parallel, the government approved two anti-inflation shield bills in November 2021 and January 2022, including indirect tax cuts on fuel, food, heating energy, gas and electricity. A further extension into 2023 is likely. As of the end of June 2022, the two shields had cost the state some PLN 30 billion (€6.4 billion).

The stabilising expenditure rule has been modified again. In June 2022 the government adopted a bill that ties the future expenditure ceiling to the substantially higher actual inflation rate, rather than to the previous benchmark tied to the central bank's target of 2.5 per cent. The bill also introduced an investment clause that allows for the special treatment of public investment in green measures, digital transformation and energy security, effectively allowing for higher investments in those areas. Poland committed to increasing its military spending to 3 per cent of GDP in 2023, above the North Atlantic Treaty Organization (NATO) requirement of 2 per cent. The general government deficit is expected to widen from 1.9 per cent of GDP in 2021 to 4.7 per cent in 2022, according to the draft 2023 budget law, driven by higher public spending related to the anti-inflation shields and the extension of Polish Deal tax cuts (see below), as well as increased defence spending and cost of hosting refugees from Ukraine, estimated to cost 0.5 per cent of GDP in 2022. So far, public debt remains moderate, at an estimated 52 per cent of GDP in 2022.

The short-term outlook is highly uncertain. Although the economy grew strongly in the first half of 2022, it has lost momentum in the second half of the year, as historically high inflation has negatively affected households' disposable income, weighing on consumption and confidence. We, therefore, forecast economic growth to reach 4.0 per cent in 2022, dropping to 1.5 per cent in 2023, on the assumption of continued war in Ukraine, further monetary tightening and a deteriorating external environment. On the positive side, the inflow of Ukrainian refugees and loose fiscal policy will continue to stimulate private consumption.

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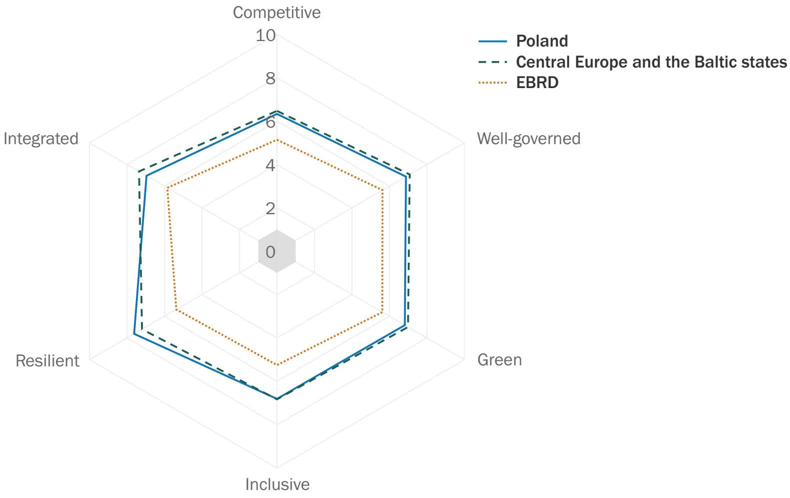
CHART Assessment of transition qualities (1-10)



Structural reform developments

Mortgage borrowers can seek loan holidays amid increased interest rates. In response to the sharp rise in inflation, in July 2022 the Polish president signed into law a borrower support package that allows for eight months' worth of credit holidays (four months in 2022 and four in 2023) for all zloty mortgage borrowers using a property for their own purposes. The Polish Bank Association (ZBP) expects between 85 and 95 per cent of those eligible, out of 2.1 million outstanding loans, to apply for the package, which is designed to have no impact on the evaluation of a borrower's creditworthiness. According to the central bank, the aggregate cost to banks will be some PLN 20 billion (€4.2 billion) in 2022-23, assuming a 100 per cent participation rate. Up to October 2022 the actual participation rate was 65 per cent.

Households can seek one-off heating subsidies, including for coal, and the tariff liberalisation of natural gas has been postponed. The president signed into law two heating subsidy bills in August 2022 amid energy price hikes. The first subsidy package is a one-off payment of PLN 3,000 (€635) for those who use coal for heating, while the other package ranges between PLN 500 (€105) and PLN 3,000 (€635) for sources of heating other than coal. It is hoped that the subsidies will cover about 40 per cent of expected energy price hikes. The PLN 11.5 billion (€2.4 billion) coal subsidy will be financed off budget from the Covid-19 countermeasure fund, which will be supplemented by some PLN 9.6 billion (€2 billion) of NBP profit in 2021. The non-coal subsidy is expected to cost PLN 9.5 billion (€2 billion) from October 2022 to April 2023. Also, the government currently envisages introducing special electricity price measures for households as well as small and medium-sized enterprises, which will freeze energy prices for a given consumption level and put a cap on them once this level is surpassed. Since Russia cut off the natural gas supply to Poland in April 2022, the country has been diversifying its energy sources. In August 2022 all gas storage facilities were filled to almost 100 per cent (about 3.2 billion cubic meter (bcm)). Poland consumes 20-21 bcm of natural gas annually, with domestic production at some 4 bcm, while 16 bcm can be imported through the newly opened Baltic Pipe (from Norway) and the liquefied natural gas (LNG) terminal in Swinoujscie. Natural gas tariff liberalisation has been postponed from 2024 to no earlier than 2027.

Consolidation of the fuel and energy sectors has gained momentum. In July 2022 the government approved the final merger of state-controlled fuel giants PKN Orlen and Lotos, as part of the consolidation of the fuel and energy sector with state-owned gas giant PGNiG. According to the government, the mergers are expected to improve energy security and improve operational efficiency in areas such as drilling and refining. Furthermore, according to the authorities, such a national champion would be in a better position to compete on the market, as the new concern would become one of the biggest integrated petrochemical producers in Europe by 2030.

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The ongoing disagreements between the government and the European Commission over judicial reform in Poland have caused the withholding of fund disbursements under the RRF. In September 2022 the government signed a financing agreement for the RRF funds with the European Commission. However, the unlocking of funds is conditional on Poland's prior and satisfactory fulfilment of the established milestones and targets, notably, those related to judicial reform. In the Commission's view, the legislative actions implementing the established milestones and targets into the Polish legal order by Poland have not gone far enough to enable the disbursement of funds. The national plan is based on €23.9 billion in grants and €11.5 billion in loans and, in addition to the green and digital transition, foresees strengthening health-sector capacity and supporting businesses in their post-Covid-19 pandemic recovery.

The Polish Deal tax reform was further revised. In June 2022 the president signed into law a modified and extended version of the Polish Deal tax bill. The altered law sees the personal income tax rate being cut from 17 per cent to 12 per cent, effective July 2022, and makes further modifications to tax thresholds, so that no group loses out (as was the case with the bill's first iteration, which entered into force in January 2022). Other solutions have also been introduced, including a division of the tax-reducing amount between up to three payers. Some 13 million taxpayers are expected to benefit from the programme, which is estimated to cost PLN 15 billion (€3.2 billion) over two years.

Slovak Republic

Highlights

- **The war on Ukraine has held back the economic recovery from Covid-19.** While its direct exposure to trade with Russia and Ukraine is modest, the Slovak Republic is heavily exposed to disruptions in Russian energy imports and mounting import costs, which have already hit the supply side of the economy.
- **Energy supplies have been enhanced by various policy measures.** A government memorandum has sheltered households from heavy electricity price increases until the end of 2024. Industry will be excluded from the mandatory European Union (EU)-wide gas consumption cuts and is exempt from the Russian oil embargo until a fully-fledged alternative can be found.
- **The first EU Recovery and Resilience Facility (RRF) payments have been disbursed.** The payments span 14 partial milestones, including reforms of the judiciary, higher education, energy and transport sectors, digitalisation of the public sector and the fight against corruption.

Key priorities for 2023

- **Administrative capacity needs to improve, especially at local level, to increase EU funds absorption.** The planned investments from the RRF amount to 6.5 per cent of gross domestic product (GDP), but the low absorption rate of the 2014-20 European Structural and Investment Funds highlights the current lack of capacity.
- **Energy security should be enhanced.** The immediate priorities are to bring about greater energy savings in the industry and residential heating sectors and to reduce the country's reliance on fossil-fuel imports.
- **Availability of affordable and quality childcare should be increased.** The gender employment gap is close to the EU average, but is significantly higher for women of childbearing age, in part because of the limited use and availability of formal childcare for children under the age of three.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	4.0	2.5	-3.4	3.0	2.0
Inflation (average)	2.5	2.8	2.0	2.8	12.0
Government balance/GDP	-1.0	-1.2	-5.4	-5.5	-4.0
Current account balance/GDP	-2.2	-3.3	0.4	-1.9	-3.7
Net FDI/GDP [neg. sign = inflows]	-1.3	-2.3	2.0	0.3	0.0
External debt/GDP	114.8	112.2	120.5	137.0	n.a.
Gross reserves/GDP	n.a.	n.a.	n.a.	n.a.	n.a.
Credit to private sector/GDP	62.4	63.2	67.1	68.2	n.a.

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Macroeconomic developments and policy response

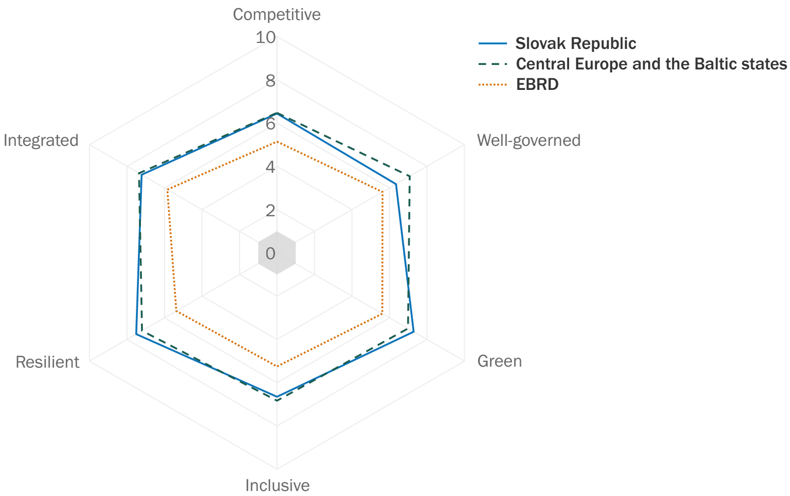
The war on Ukraine has damaged the economy, preventing a full recovery from the Covid-19 pandemic. GDP grew 3.0 per cent in 2021, mostly driven by strong household consumption and government spending. While its direct exposure to trade with Russia and Ukraine is modest, the Slovak Republic is heavily exposed to disruptions in Russian energy imports and the mounting import costs that have adversely affected the supply side of the economy. As a result, GDP growth slowed to 2.1 per cent year on year in the first half of 2022, propped up largely by high household consumption. Despite the slowdown, however, the labour market remains tight, with several sectors facing labour shortages. The unemployment rate dropped to 5.9 per cent in September 2022. But the jobless rate among the low-skilled, at 41.7 per cent in the second quarter of 2022, is the highest in the EU, while the share of long-term unemployed also remains high, at 64.4 per cent in the second quarter of 2022 of all unemployed persons.

High energy and food prices are fuelling inflationary pressures. In the middle of 2022 the harmonised index of consumer prices (HIPC) inflation rate exceeded 12 per cent year on year, not just because of rising food and energy prices, but exacerbated by supply-chain disruptions. Nominal wages are failing to keep up with prices and the resulting decline in households' real incomes is depressing consumption. In June 2022 parliament passed a €1.2 billion anti-inflation package of support, including child benefits and one-off payments to selected vulnerable groups. However, part of this decision overrode a veto by the president who, in July 2022, sent the bill to the Constitutional Court to examine its constitutionality.

Pandemic and war-related spending have led to pressure on public finances. The general government deficit widened from just 1.3 per cent of GDP in 2019 to 6.2 per cent in 2021. At the same time, general government gross debt jumped to 63.1 per cent of GDP. Fiscal buffers are expected to be rebuilt once the economy is on a solid growth path. The anticipated impact of fiscal consolidation on investment is likely to be offset by a higher EU funds inflow, including from the RRF, to be disbursed by the end of 2026.

Disruptions to Russian energy imports, mounting import costs and persistent supply-chain problems will weigh on GDP growth in the short term. On the upside, accelerated investments that engage RRF funding, as well as new capacity investments in the automotive sector, are likely to outweigh the negative factors associated with the war. On balance, therefore, we forecast GDP growth to slow to 2.0 per cent in 2022 and just 1.0 per cent in 2023.

CHART Assessment of transition qualities (1-10)



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Structural reform developments

Households are sheltered from large electricity price increases until the end of 2024. The government signed a memorandum with the dominant power utility, Slovenske Elektrarne, in February 2022 to maintain the electricity price for households at €61.21 per megawatt hour, excluding distributional fees, the level when the memorandum was signed. According to the network industries regulator, without such a memorandum, the regulated electricity price for households could increase, on average, by more than 200 per cent in 2023. At the same time, two nuclear reactors in Mochovce are expected to start operating in 2022 and 2024 (on top of two plants already in place). Currently, the share of electricity produced by nuclear power plants is 55 per cent.

Oil supplies from Russia will continue to flow until a fully-fledged alternative is found. While the Slovak Republic supports the EU's June 2022 embargo on imports of crude oil and refined oil products from Russia, it is allowed to use Russian oil until it can be replaced. However, all countries benefiting from this exemption – Hungary, the Czech Republic and the Slovak Republic – will not be able to resell crude oil and petroleum products to other EU Member States or third countries. The Slovak Republic is fully dependent on Russian oil suppliers, and a change to the processing of lighter oil could take three years, according to the government.

Industry will be excluded from mandatory EU-wide gas consumption cuts when activated. The government negotiated several exemptions from the mandatory 15 per cent gas consumption cut regulation passed by the EU Energy Council in July 2022. The mechanism will be triggered when at least five EU countries have declared a state of emergency driven by disruptions to gas supplies from Russia. Industry will be excluded from the reduction in natural gas demand and the country has been granted a more favourable reference period for savings, namely, just the last year rather than the average of the last five years. The EU will also take into account the level of storage facilities, which exceeds the requisite 80 per cent total capacity threshold. In August 2022, 65 per cent of the total natural gas demand of the state-owned gas utility, SPP, was covered by non-Russian sources.

The first RRF payments have been disbursed. The European Commission had disbursed about €460 million to the Slovak Republic as of July 2022, including the pre-financing tranche of October 2021. The payment covers 14 partial milestones, including reforms of the judiciary, higher education, energy and transport sectors, digitalisation of the public sector and the fight against corruption. The overall plan includes 18 thematic milestones and is worth €6.3 billion in grants. In contrast, the absorption of the 2014-20 EU funds is slow, at almost 60 per cent as of the end of June 2022, holding back short-term growth potential.

The poor availability of affordable rental housing is being addressed. In July 2022 the government established a state agency to support rental housing. Four financial groups are considering allocating €6 billion into the construction of about 40,000 rental flats. Rents are expected to be 30 to 40 per cent lower than commercial rents, depending on the region. According to the European Commission, the low availability of affordable rental housing remains a challenge in addressing social exclusion. EU Statistics on Income and Living Conditions data show that the share of households living in rental flats owned by the public sector in the Slovak Republic, at 1.6 per cent, is substantially lower than the EU average of about 11 per cent. However, the overall lack of housing supply still persists and is connected to structural issues, especially institutional drawbacks and red tape.

A new factory is set to be built for the production of electric cars. Swedish car maker Volvo Cars will build a new €1.2 billion plant for the production of electric cars near Kosice. The construction of the plant is scheduled to kick off in 2023, with car production to be launched in 2026. The facility is expected to be in line with the highest global standards of energy and environmental efficiency. It will produce up to 250,000 cars annually and create more than 3,000 jobs in the region. This will be the fifth carmaker in the country, joining Volkswagen Slovakia in Bratislava, Stellantis in Trnava, Kia Motors near Zilina and Jaguar Land Rover in Nitra. The latter plans to expand its production of a new car this year, which is expected to create 700 new jobs. In 2021 there were 184 personal vehicles produced per 1,000 inhabitants in the Slovak Republic, the highest number per capita globally.

Slovenia

Highlights

- **The economy maintained its growth momentum in the first half of 2022, despite rising headwinds.** After an 8.2 per cent recovery in 2021, gross domestic product (GDP) expanded 8.8 per cent year on year in the first half of 2022 as domestic demand remained buoyant.
- **A cap on electricity prices is in place.** The cap was introduced in September 2022 and will last for one year. It comes alongside a reduction in value added tax (VAT) on energy products for the 2022-23 heating season.
- **The government adopted a package of measures to advance digital transformation.** Following the prioritisation of digital use at government level, a set of 65 measures was devised in collaboration with relevant stakeholders in 2021 and 2022.

Key priorities for 2023

- **Long-term care act implementation has been delayed, but needs prioritisation.** Some stakeholders considered the act, approved last year, to be flawed and the new government has decided to amend it and delay its implementation by one year to January 2024. However, the reform is included in the Recovery and Resilience Plan (RRP) and should be pursued without further delay.
- **Green transition should accelerate amid the energy crisis.** The government has taken its first steps on green reforms included in the RRP. However, these reforms remain behind schedule, especially the act on promoting renewables, which prompted the European Commission to send a reasoned opinion on infringement in July 2022.
- **Capital market development needs an impetus.** The European Commission has supported a diagnostic study on capital market development bottlenecks, as banks remain the dominant source of firm financing. This should result in solutions to develop capital markets. The Alternative Investment Funds Forms Act, adopted in July 2022, and a capital market development strategy, are part of the RRP.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	4.5	3.5	-4.3	8.2	6.0
Inflation (average)	1.9	1.7	-0.3	2.0	8.9
Government balance/GDP	0.7	0.6	-7.7	-4.7	-3.7
Current account balance/GDP	6.0	5.9	7.6	3.8	-0.1
Net FDI/GDP [neg. sign = inflows]	-2.0	-1.6	0.3	-1.0	-1.5
External debt/GDP	91.8	90.2	101.6	97.3	n.a.
Gross reserves/GDP	n.a.	n.a.	n.a.	n.a.	n.a.
Credit to private sector/GDP	43.0	42.2	43.4	41.4	n.a.

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Macroeconomic developments and policy response

Growth momentum has extended into the first half of 2022, despite rising headwinds. The strong carry-over effect from 2021 contributed to GDP expansion of 0.7 per cent quarter on quarter in the first quarter of 2022, which translated into 9.6 per cent year-on-year growth. GDP further surprised to the upside in the second quarter of 2022, expanding 0.8 per cent quarter on quarter and 8.2 per cent year on year, showing that the war on Ukraine had only limited immediate effect on the Slovenian economy. Domestic demand drove growth, although household consumption growth eased from 19.3 per cent year on year in the first quarter to 12.2 per cent in the second quarter of 2022. Goods exports showed signs of weakness, meanwhile, but services exports compensated, particularly in the second quarter as tourism stepped up. Import growth moderated significantly in the second quarter, most likely due to a normalisation of inventory build-up, leading to a positive contribution by net exports.

Inflation has accelerated notably since April 2022, prompting government measures to alleviate the impact. In August 2022 consumer prices increased 11 per cent year on year, driven by rising food and fuel prices, but eased in September 2022 to 10 per cent. Nevertheless, price pressures seem to be quite broad-based, although services have seen a more moderate increase. After a package of measures, adopted in February 2022, focused on subsidies to vulnerable households and tax cuts on energy products, a one-year cap on electricity prices was introduced in September 2022. This will mitigate potential inflationary pressures from energy prices this winter, but risks leading to higher inflation when it expires in September 2023. Other anti-inflationary measures include a cut in VAT on energy products for the 2022-23 heating season, from 22.0 per cent to 9.5 per cent. Three support mechanisms based on state-aid rules for firms, worth €40 million, were also confirmed and will remain in force until March 2023. Wage growth will have a disinflationary effect, as nominal wages declined 0.9 per cent in the first five months of 2022, driven by the removal of pandemic support for the public sector.

Phase out of pandemic support and strong economic activity improved the fiscal stance, but medium-term gaps remain. In addition to Covid-19 support measures of €4.9 billion (around 10 per cent of GPD) in 2020 and 2021, the government also adopted permanent fiscal loosening measures, including personal income tax cuts and public and minimum wage increases. Nevertheless, the cash-based deficit improved significantly from €1.9 billion in the first half of 2021 to just €128 million in the first half of 2022 as spending on pandemic support was significantly wound down, though investment spending increased 29 per cent year on year. The government aims to increase income tax relief only once, by €500, in 2023, rather than annually, as previously planned.

Growth will moderate as headwinds and downside risks intensify. Given its strong performance in the first half of 2022, GDP growth should reach a robust 6 per cent in 2022, albeit with significant downside risks. This assumes a slowdown in the second half of the year, as higher inflation, the normalisation of fiscal policy and negative real wage growth affect consumer confidence. Other downside risks are possible further energy and commodity price increases, while a potential halt to Russian gas imports would inflict additional damage. Nevertheless, Slovenia is in a better position than some of its peers thanks to its access to liquefied natural gas (LNG) through Croatia and its energy connection to Italy. GDP growth is likely to moderate to 1.8 per cent in 2023 due to this weaker momentum, deterioration in consumer confidence and shallow (or possibly negative) eurozone growth.

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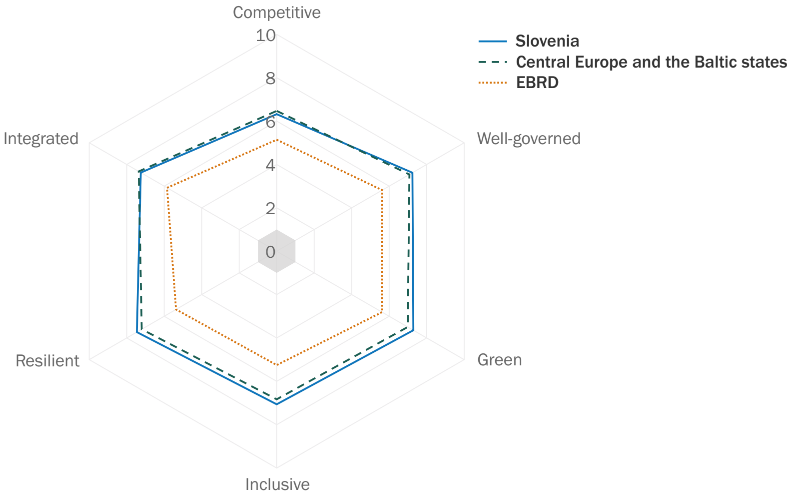
CHART Assessment of transition qualities (1-10)



Structural reform developments

Digital transformation efforts have intensified. Following the prioritisation of digitalisation at government level, a series of measures have been adopted in the past year as part of the RRP. The Strategic Council for Digitalisation recommended the adoption of 40 measures in 2021 (the first package of measures) and another 25 measures (the second package of measures) in March 2022 for the digital transformation of Slovenia. Among the measures already implemented are mandatory e-signature in state administration, an eHealth mobile app and a public tender for e-care for the elderly. The Digital Transformation Strategy for Enterprises was also adopted, a reform milestone in the RRP. In February 2022 the government also adopted a comprehensive bill to improve digital literacy, while a training programme to increase civil servants' digital skills should also commence as part of the RRP.

Reform of the national research, development and innovation (RDI) ecosystem has begun. The RRP foresees the establishment of a programme board in 2022 as part of a new governance model for the RDI system, merging the strategic and implementation levels into one unit. Related to this, the government adopted the Act on Scientific Research and Innovation Activity in November 2021. The main goals of the reform are to raise public spending for scientific research to 1 per cent of GDP, increase the quality of research and scientific output, attract international talent and offer more autonomy to research institutions.

The easing of the administrative burden has continued. Following the initiatives of the previous government in making Slovenia a more business-friendly environment in early 2021, the Act on Debureaucratisation was adopted in December 2021 as part of the RRP. The act repealed around 200 laws that were deemed obsolete. In addition, through the Stop Bureaucracy project, which enables the public to report perceived administrative obstacles, 312 out of 408 reported measures had been implemented by March 2022.

Investment promotion procedures were modified to better cover green and capital-intensive investments. Two amendments to the Investment Promotion Act were adopted in December 2021 and April 2022. The modifications expanded the categories of investment that can be covered by state aid, shifting the emphasis from job creation to capital-intensive and green investments. Related to this, the government adopted an amendment to the Public Procurement Act in 2021, which entered into force in January 2022, aimed at clarifying bidder selection and eliminating abnormally low offers that restrict competition. Another bill strengthens innovative public procurement.

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Lifelong learning and adult education will be strengthened. At the end of 2021 the government adopted a resolution on the National Adult Education Programme for 2022–30, which aims to raise the share of adults in lifelong learning, improve the level of basic and general skills of adults, and strengthen research and development in the field of adult education.

The Environmental Protection Act introduces new and comprehensive regulation in the area of waste management. The new act, adopted in March 2022, sets out basic rules for waste management, as well as the conditions and criteria for the end-of-waste status and the regulation of the extended producer responsibility system. Moreover, the act introduces provisions for reducing the impact of resource use and for improving overall resource efficiency, in line with the transition to a circular economy. Significant waste and wastewater investments are planned as part of the RRP.