Armenia

Highlights

- **A strong post-Covid-19 recovery has continued in 2022.** Broad-based growth of 13.9 per cent year on year in the period from January to August 2022 was driven by a large rise in money transfers and growing demand for services associated with the arrival of many Russians finding temporary refuge in Armenia.
- **Reforms in the energy sector have advanced.** The authorities have announced plans for renewable energy production up to 2030 and for a more competitive domestic electricity market, with free and open electricity trading.
- **The digitalisation of government services has accelerated.** The single window e-system reduces interaction with public authorities and simplifies the process of issuing permits and customs clearance. The new system should be fully implemented by the end of 2022.

Key priorities for 2023

- **Governance standards need to be improved.** Key challenges in the short term include strengthening the quality of public institutions and enabling the independence and competence of the judiciary, along with a renewed focus on improving corporate governance standards and making further progress in implementing the competition framework.
- **Momentum towards an open and competitive electricity market should be stepped up.** As the domestic electricity market becomes more liberalised in 2022, the authorities should take advantage of the ongoing initiative to enhance the competitiveness of the electricity industry and attract further investment in renewable energy.
- **Anti-corruption institutions need to be strengthened.** The establishment of the Anti-Corruption Committee (ACC) in 2021 was welcome, but implementing anti-corruption measures has been limited so far.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	5.2	7.6	-7.4	5.7	8.0
Inflation (average)	2.5	1.4	1.2	7.2	8.5
Government balance/GDP	-1.8	-1.0	-5.4	-4.6	-2.3
Current account balance/GDP	-7.4	-7.3	-3.8	-3.7	-5.5
Net FDI/GDP [neg. sign = inflows]	-2.1	-1.7	-0.7	-2.5	-1.5
External debt/GDP	87.7	90.9	102.1	99.9	n.a.
Gross reserves/GDP	18.1	20.9	20.7	23.3	n.a.
Credit to private sector/GDP	57.1	62.6	73.3	61.5	n.a.

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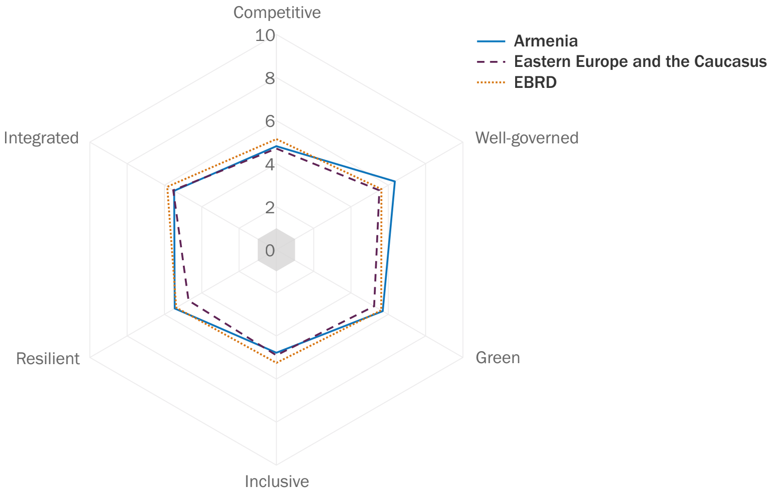
Macroeconomic developments and policy response

A strong economic recovery has continued into 2022. The rapid upturn in the economy experienced in the last quarter of 2021 further accelerated to gross domestic product (GDP) growth of 13.9 per cent year on year in the period from January to August 2022. Manufacturing recorded growth of 9.2 per cent, construction and trade growth was in double digits, and services increased by 27.1 per cent. Armenia has high exposure through trade, remittances and foreign direct investment to the recession-hit Russian, Ukrainian and Belarusian economies, but negative spillovers have been outweighed by the inflow of a significant number of people and businesses from Russia, which has boosted demand in the real estate and services sectors. The net inflow of money transfers between March and July 2022 increased by 109.0 per cent year on year due to a five-fold increase from Russia. This helped to finance the widening trade deficit, as imports rose by 58.2 per cent (and exports by 52.9 per cent) year on year from January to August 2022. As a consequence, foreign reserves increased by almost US$ 600 million since the start of the war on Ukraine, reaching US$ 3.6 billion at the end of August and covering five months of imports.

Inflationary pressures have prompted rises in the central bank's policy rate. The war on Ukraine and the associated disruption to food and energy markets have led to annual inflation rising from 6.5 per cent year on year in February 2022 to 9.1 per cent in August. Initially, inflation pressure came from rising prices of imported food, but the large foreign inflows supported an appreciation of the domestic currency by 18 per cent versus the US dollar between the start of 2022 and the end of August, thus alleviating the pressure from imported prices. More recently inflation has been driven by demand pressures, alongside supply disruptions caused by sanctions on Russia. These developments prompted the Central Bank of Armenia (CBA) to raise the policy rate by 225 basis points at the beginning of the year, to 10.0 per cent as of the middle of September. Meanwhile, the government has announced an increase in the minimum wage of 10.0 per cent from January 2023 and an increment to the minimum pension from 28,600 dram (US$ 71) to 30,500 dram (US$ 76) from September 2022.

Strong growth will continue in the short term, but significant risks remain. We expect GDP growth in 2022 to reach 8.0 per cent, followed by a moderation to 4.0 per cent in 2023. The current level of economic activity is driven by temporary factors that could easily be reversed. Also, the isolation of the Russian economy from western markets, if it persists, could have negative long-term consequences for the Armenian economy.

CHART Assessment of transition qualities (1-10)



NOTE: Belarus is not included in the EBRD region and respective regional averages.

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Structural reform developments

Armenia has started to liberalise the domestic electricity market. In February 2022 an electronic electricity trading platform was introduced to facilitate free and open trading under the auspices of Armenia's Public Services Regulatory Commission. Previously, the domestic electricity market had a single supplier, the Electric Network of Armenia. This shift to a more competitive and open power market enables open access to other suppliers and cooperation among all energy market participants. Full liberalisation, including direct contracts on the wholesale market, is planned for February 2023.

Transition to a green economy has accelerated. In March 2022 the government adopted the Programme on Energy Saving and Renewable Energy for 2022-30. It is based on commitments undertaken by the authorities under various international agreements and treaties on sustainable development, renewable energy, energy saving and climate change, and it defines the country's main goals and targets. It will be implemented in three stages: 2022-24; 2025-27; and 2028-30. The programme sets out the main actions and measures needed to achieve the targets. In April 2022 for example, the authorities granted an exemption on customs duty for 7,000 imported electric vehicles. This reflects a gradual movement towards one of the set targets, which is to increase the share of electric vehicles to 10 per cent of all light vehicles in Armenia by 2030. The programme aligns with the goals of the Energy Strategy of Armenia, adopted in January 2021, which aims for solar photovoltaic capacity reaching 100 MW by 2024 and 1,000 MW by 2030.

The digitalisation of government services has advanced. In October 2021 the State Revenue Committee launched a new electronic government service of a single window, one-stop shop. A total of 17 public administration organisations have been gradually joining this platform, which simplifies the process of issuing permits and customs clearance. Full implementation of the new system should be completed by the end of 2022. The CBA is also cooperating with the public administration and private sector to establish a national electronic identity system to enable safer digital payments.

The social protection scheme has been expanded to support the most vulnerable. Since January 2022 the minimum pension and other social benefits have increased. The minimum pension was raised from 26,500 dram (US$ 65) to 28,600 dram (US$ 70), while disability pensions for the military will rise by 3,000 dram (US$ 7). For those bereaved due to military engagement, the bereavement support payment has also increased from 27,000 dram (US$ 66) to 30,000 dram (US$ 73). Furthermore, the child disability pension and childcare benefits have increased, by 10,500 dram (US$ 26) and 1,100 dram (US$ 2.7), respectively.

An implementation plan for public-sector governance reform has been confirmed. To improve the efficiency of public services the authorities adopted a new public administration reform strategy in May 2022. The authorities aim to tackle the longstanding issue of inefficient governance across all levels of government through comprehensive reforms between 2022 and 2030. Reforms will focus on three areas: allocating human resources, improving the public-service database, and strengthening digital public service delivery.

The institutional capacity to tackle corruption in government has improved. The ACC, established in 2021, was overloaded with administration and investigative proceedings, and implementation was limited. In May 2022 the authorities proposed a legal amendment that enables staff at the ACC to focus fully on corruption crime cases. The adoption of a new code of conduct in July 2022 provided a strong impetus for anti-corruption reform. The code of conduct followed extensive consultation among social actors, including civil society, and requires all public servants to reduce corruption and bribery across the government.

Azerbaijan

Highlights

- **Rising gas demand and increasing output in the non-energy sector are supporting post-pandemic economic growth.** Domestic consumption has risen sharply and exports have recorded strong real growth due to high demand for alternative gas supplies to the European market.
- **The authorities are using fiscal and monetary measures to combat the effect of rising prices.** Inflation reached 14.2 per cent year on year in August 2022. The central bank has raised the policy rate, and the government has introduced a series of fiscal policy measures, including rises in the minimum wage, pensions and social assistance, to limit the impact of higher prices on vulnerable groups.
- **Access to financial services was enhanced.** The national postal service, with its wide network of offices around the country, was enabled to act as an agent offering services on behalf of domestic banks. Remote banking services were also introduced, contributing to the digitalisation of the economy.

Key priorities for 2023

- **The strong post-pandemic momentum of the non-oil sector should be steered towards sustainable diversification of the economy, making it more resilient to shocks.** This includes strengthening the competition regulation framework and reducing the state's footprint in many sectors of the economy. Opening up the financial sector to foreign investment would improve access to finance and support investment activity of small and medium-sized enterprises.
- **Anti-corruption efforts should be stepped up.** The recently adopted National Anti-Corruption Strategy should be implemented with clear goals towards transparent and accountable governance. Introducing digital tools to empower citizens to participate in political decisions would be a good step in the right direction.
- **De-carbonising the economy should be a priority.** As part of the "Azerbaijan 2030" long-term development plan, the gradual detachment from dependence on hydrocarbon exports can contribute to diversifying the economy. High revenues stemming from rising energy prices should be used to support investments in green energy and climate mitigation measures.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	1.5	2.5	-4.2	5.6	4.5
Inflation (average)	2.3	2.6	2.8	6.7	12.2
Government balance[1]/GDP	5.5	8.9	-6.7	4.1	17.1
Current account balance/GDP	12.8	9.1	-0.5	15.2	31.7
Net FDI/GDP [neg. sign = inflows]	1.7	2.9	1.8	3.8	3.5
External debt/GDP	47.1	47.2	55.7	43.7	n.a.
Gross reserves[2]/GDP	11.9	13.0	14.9	13.0	n.a.
Credit to private sector/GDP	16.3	18.7	20.0	18.4	n.a.

NOTE:
1 Includes central government and main extra budgetary funds, including operations of the oil fund and the social protection fund.
2 Excluding assets of the State Oil Fund (SOFAZ).

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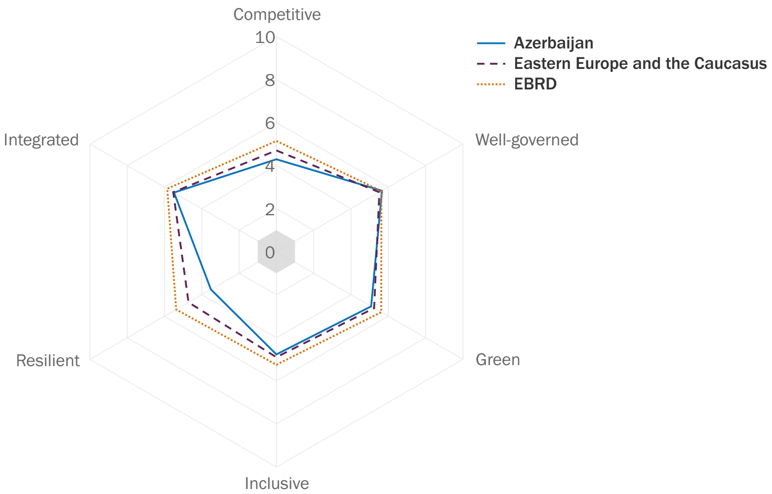
Macroeconomic developments and policy response

Economic growth has been higher than expected on the back of strong performance from the non-energy sectors. After a solid post-Covid-19 recovery of 5.6 per cent growth in gross domestic product (GDP) in 2021, the economy increased by 5.8 per cent year on year in the period January to August 2022, driven by strong growth of the non-oil and gas sector of 10.3 per cent. The oil and gas sectors decreased by 2.0 per cent in the same period, primarily because of oil production declining by 5.2 per cent, although gas production increased by 11.3 per cent. However, exports remain dominated by hydrocarbons, which doubled in nominal terms in the period January to August 2022, generating a large current account surplus driven by high demand for alternative gas supplies on the European market and facilitated by the Trans Adriatic Pipeline, which was completed in 2020.

The authorities have put measures in place to limit the impact of high inflation. Rising global food and energy prices and supply disruptions led to an acceleration of inflation in Azerbaijan from 12.0 per cent at the end of 2021 to 14.2 per cent in August 2022. Food prices saw the largest increases but prices of services also recorded almost double-digit growth. Strong economic activity and an increase of nominal income by almost 20 per cent in the period January to August 2022 added to inflationary pressures. The Central Bank of Azerbaijan has responded by tightening the refinancing rate five times since the beginning of 2021, to 7.75 per cent in September 2022. In parallel, the government supported vulnerable groups through a package of budgetary measures, including increases in the minimum wage, pension and social allowances, subsidies to flour producers, and value added tax (VAT) exemptions for wheat, wheat flour and bread. Despite these measures, tax revenues have been rising much faster than expenditures since the beginning of the year, generating a significant budget surplus.

Rising energy prices will likely support economic growth in the short term. The growth of the non-oil and gas economy will likely moderate due to slowly decreasing demand, as consumers are faced with high prices, but energy prices and demand for Azerbaijani gas are expected to remain high in the short term, which will support overall economic performance in the second half of 2022. Therefore we expect overall strong GDP growth of 4.5 per cent in 2022, but some moderation to 2.5 per cent in 2023. The main risks relate to persistent inflation, a potential drop in energy prices, and structural weaknesses in the economy. In the coming years, however, Azerbaijan may benefit from additional investments in the gas industry as the European Union tries to diversify away from Russian gas.

CHART Assessment of transition qualities (1-10)



NOTE: Belarus is not included in the EBRD region and respective regional averages.

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Structural reform developments

Efforts to fight corruption have increased. In April 2022 the president approved the National Anti-Corruption Strategy for 2022 to 2026. It consolidates and coordinates the anti-corruption efforts of various agencies with different areas of activity. The aim is to increase transparency of government agencies, prevent corruption from flourishing, and strengthen the public accountability of state bodies. Furthermore, the strategy outlines how to improve and digitalise public services, as well as ensure sustainability of anti-corruption measures. In parallel, the authorities launched new portals to encourage citizens' e-participation in decision-making processes and give them a platform to voice their concerns.

Financial inclusion has been strengthened with the launch of the first agent banking model in the country. In March 2022 the Central Bank of Azerbaijan enabled banking products and services to be sold by third parties to offer better access to financial services for the population in areas with little coverage by bank branches. Initially, the services of Access Bank will be delivered through the national postal service, Azerpost, with more banks expected to follow. The offer currently includes micro and agri-loans, as well as consumer loans and debit cards to customers.

The Central Bank of Azerbaijan is promoting digital banking and payments. In November 2021 the central bank developed methodological guidelines for the use of QR code payments. The guidelines will ensure that QR payments provided by banks and non-bank payment organisations are standardised and that contactless payments are accepted more widely, thus providing more affordable payment solutions. In April 2022 the central bank revised and approved the regulation which expands access to remote banking and provides for bank accounts to be opened remotely through digital identification.

The authorities are using tax changes to encourage capital market development. In June 2022 amendments to the tax code to form a favourable tax regime in the capital markets came into force. Dividends and interest income from publicly traded shares and bonds will be exempt from income tax for five years, starting in February 2023. This measure aims to stimulate the issuance of securities on the stock exchange and increase interest in securities traded on a regulated market.

The authorities have boosted the use of renewable energy. Following COP26 in November 2021 the authorities set a target of reducing greenhouse gas emissions by 40 per cent and increasing the share of renewable energy by up to 30 per cent of national energy generation by 2030. The start of construction at the beginning of 2022 on a 240 MW wind power plant and a 230 MW solar power plant was an important step in that direction.

A controversial new media law was introduced. The new law became effective in February 2022. According to the government, the law intends to bring this area into line with international standards, modernise the country's media legislation and improve the professionalism of journalists. However, according to the Council of Europe's Venice Commission, the new law constrains the range of media coverage and activities, thereby limiting freedom of expression. Parts of the law contradict the principles of free, independent, uncensored media and pluralism as the law provides for increased state control and regulation of the media through tighter licensing/registration procedures.

Belarus*

Highlights

- **Sanctions against Belarus have been expanded in response to the country's support of Russia's military invasion of Ukraine.** The European Union (EU) and many other developed economies have imposed new economic and individual sanctions targeting Belarus, including further trade restrictions, and bans on access to financial services and markets and the use of logistical services.
- **Political and geopolitical developments have damaged the economy.** Gross domestic product (GDP) fell by 4.9 per cent year on year in the period January to August 2022, while double-digit inflation has depleted real incomes.
- **Belarus's credit rating has been downgraded.** Both Fitch and Moody's adjusted Belarus's credit rating to "restricted default" in July 2022, as the authorities unilaterally decided to pay a US$ 23 million Eurobond debt in domestic currency.

Key priorities for 2023

- **Any economic recovery will likely require the improvement of Belarus's international standing and lifting of sanctions.** Access to the international financial system and to the EU market is an important prerequisite for sustainable economic growth. However, it is clear that it depends on the domestic political situation and on Belarus's ability to distance itself from Russia's invasion of Ukraine.
- **A regulatory level playing field is needed to unleash the full potential of private companies.** Private companies still face regulatory discrimination in many sectors of the economy. Both liberalising economic governance and introducing appropriate market regulations are critical for restarting the stalled economy.
- **Improving corporate governance and commercialising the state-owned sector are of the utmost priority.** Inefficiencies and a lack of corporate governance in state-owned enterprises (SOEs) are seriously undermining the growth potential of the economy. Further delays to corporate governance reforms will have long-term negative consequences for SOE valuations and growth prospects.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	3.1	1.4	-0.7	2.3	-5.5
Inflation (average)	4.9	5.6	5.5	9.5	16.5
Government balance[1]/GDP	1.8	0.9	-2.9	-1.7	-4.3
Current account balance/GDP	0.0	-1.9	-0.4	2.7	-1.5
Net FDI/GDP [neg. sign = inflows]	-2.3	-2.0	-2.2	-1.9	-0.7
External debt/GDP	65.5	63.1	70.0	61.5	n.a.
Gross reserves/GDP	11.9	14.6	12.4	12.4	n.a.
Credit to private sector/GDP	21.3	21.9	23.7	23.0	n.a.

NOTE:
[1] Includes central government, local government and social security funds.

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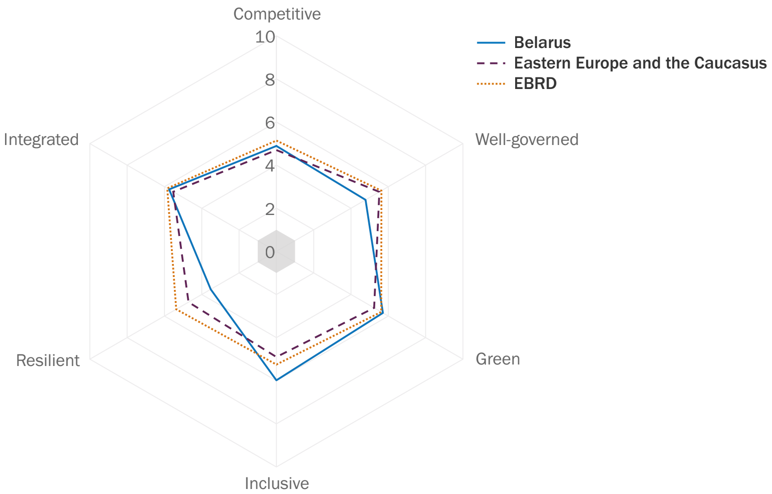
Macroeconomic developments and policy response

Geopolitical developments heavily affected the economy in the first half of 2022. The Belarusian economy contracted by 4.9 per cent year on year between January and August 2022 due to toughened sanctions on its economy and recession in Russia, the main trading partner. The new sanctions on industrial goods such as minerals, fertilisers, oil-based refinery commodities and machinery have hurt the economy. The output decline was broad based, with the transport sector down by 16.6 per cent, construction by 12.6 per cent, trade by 9.7 per cent and manufacturing by 7.9 per cent (all year on year). Information and communication technology and agriculture were among the rare sectors that increased output, by 3.8 per cent and 1.8 per cent, respectively. In addition, the country's interrupted access to the Baltic port in Lithuania has constrained exports to countries that have not joined the sanctions. Exports fell by 3.2 per cent year on year from January to August 2022, but a big drop in imports (by 9.3 per cent) resulted in a trade surplus. At the same time there was a geographical shift of trade in the past year, with exports to the Commonwealth of Independent States increasing by 8.8 per cent, while exports to the rest of the world declined by 20 per cent.

Inflation accelerated and the foreign exchange market came under pressure. The inflation rate reached 17.9 per cent in August 2022 on the back of logistical disruptions, exchange rate depreciation and rising food prices. The Belarusian ruble depreciated by 23 per cent to the US dollar in the first few weeks following Russia's invasion of Ukraine and gave an additional boost to inflation dynamics. The central bank of Belarus reacted swiftly at the end of February 2022 by lifting the policy rate from 9.25 per cent to 12.0 per cent, and the government introduced an export ban on wheat flour and buckwheat to mitigate the impact of currency depreciation on food prices. The recession-induced trade surplus and the authorities' decision to repay maturing foreign debt in domestic currency have prevented capital outflows and helped the ruble to recover to its pre-war level. After an initial sharp fall, foreign reserves have stabilised at US$ 7.6 billion in August 2022, which is still a significant reduction compared with US$ 8.4 billion at the beginning of 2022.

The uncertain geopolitical outlook and possible additional rounds of sanctions are creating high uncertainty. The expansion of sanctions by the EU and other developed economies since February 2022 prompted the authorities to look for alternative ports and trade routes as well as to implement import substitution programmes. A new insolvency management regulation prevents many domestic enterprises from becoming bankrupt and introduces mechanisms for rehabilitation. At the same time the authorities have increased the volume of trade with China. However, all these policies are having little effect so far in stemming the economic decline. As a result, GDP is forecast to decline by 5.5 per cent in 2022 and by a further 1.0 per cent in 2023.

CHART Assessment of transition qualities (1-10)



NOTE: Belarus is not included in the EBRD region and respective regional averages.

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Structural reform developments

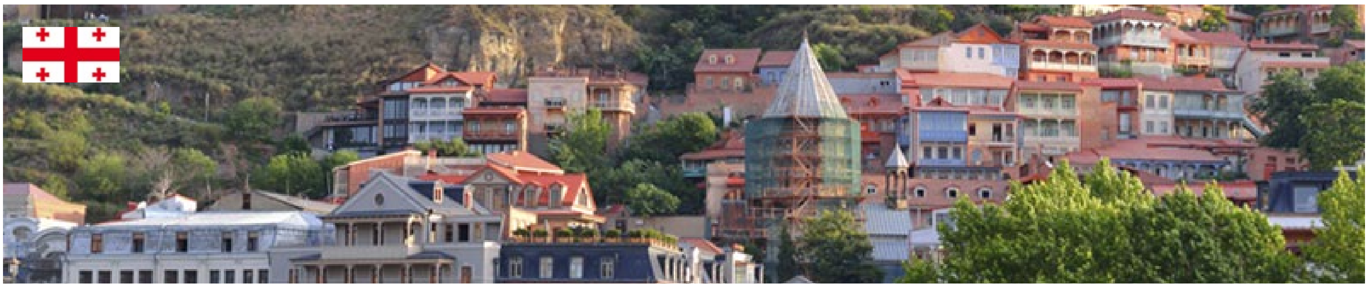
The EU and other developed economies have strengthened sanctions against Belarus. In response to Belarus's role in Russia's military invasion of Ukraine, the EU and other international actors have imposed new economic and individual sanctions targeting Belarus, including trade restrictions, a SWIFT ban for five Belarusian banks, a prohibition on transactions with the central bank of Belarus, limits on financial inflows from Belarus, and a prohibition on the provision of banknotes to Belarus. They have also expanded sanctions already imposed after the contested presidential elections in August 2020, which were introduced because of continued internal repression and human rights abuses in Belarus. While the Belarusian economy was coping relatively well with the previous waves of sanctions, the new rounds introduced since March 2022 have severely hit the economy.

The situation with human rights and fundamental freedoms has continued to deteriorate. The authorities have continued to use systematic repression and intimidation, including against independent media and civil society organisations. Amendments to the Criminal Code have widened the scope for the use of capital punishment. The EU and relevant international organisations have been calling on the Belarusian authorities to immediately and unconditionally release all political prisoners and cease repression as well as to engage in a genuine and inclusive dialogue with all elements of society, leading to free and fair elections under international observation.

Economic sanctions and restricted access to the international financial system have damaged Belarus's ability to service external debt. The central bank announced in June 2022 that it would cover payment of a Eurobond in Belarusian rubles rather than US dollars due to economic sanctions. Consequently, both Fitch and Moody's adjusted the country's credit rating to "restricted default" in July 2022 after the authorities unilaterally decided to pay the US$ 23 million Eurobond debt in domestic currency.

The authorities implemented export support measures. In April 2022 the authorities adopted emergency support measures to boost exports through additional financing and lower customs fees for export-oriented enterprises. The authorities have also accelerated import substitution programmes by easing trade regulations with Russia to compensate for the loss of intra-regional trading partners. The export support measures include reductions in customs duties of imported commodities and a rearrangement of the logistics networks for exports. Also, the authorities have subsidised enterprises providing social benefits for their employees, in parallel with national initiatives to boost incomes through the social protection fund.

* The EBRD announced on 4 April 2022 that, following the invasion of Ukraine, its Board of Governors had formally suspended Belarus's access to EBRD funding for projects or technical cooperation.



Georgia

Highlights

- **Rising tourism and money transfers are contributing to broad-based double-digit economic growth.** The economy has experienced a revival of the hospitality sector due to increasing inflows of Russian citizens and tourists from other regions, with tourist revenues from January to August 2022 reaching 95 per cent of the corresponding period in 2019.
- **The European Union (EU) Council recognised the European perspective of Georgia.** The EU is ready to grant candidate status once the progress on 12 priorities set by the European Commission has been addressed. The authorities are encouraged to prioritise judicial reform, strengthen the anti-corruption framework, lower the level of political polarisation, and enable more inclusive decision-making processes at all levels.
- **Labour market reform has been initiated, accompanied by a complementary social welfare policy.** The authorities took steps to increase labour market participation through inclusive policies. At the same time they increased social assistance to vulnerable groups to help them at a time of high inflation.

Key priorities for 2023

- **The authorities should continue educational reform and efforts to reduce skills mismatches.** Improving the quality of education and putting more focus on vocational training could better match the demand for and supply of labour skills and enable the economy to move towards sectors that are more productive.
- **Energy resilience should be strengthened by investing in additional renewable energy production capacity.** The seasonality of the country's hydro-dominated production and the increase in consumption, driven by economic growth, have made the country a net importer of energy. However, significant potential in additional hydro-energy and the largely untapped solar and wind energy, could be an opportunity to benefit from the increased demand for green energy.
- **Continuous strengthening of governance standards needs to remain a priority.** An impartial and independent judiciary, and transparent, efficient and accountable public institutions, would be strong enablers of a stable business environment.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	4.8	5.0	-6.8	10.4	8.0
Inflation (average)	2.6	4.9	5.2	9.6	11.6
Government balance/GDP	-0.7	-2.7	-9.3	-6.3	-3.0
Current account balance/GDP	-6.8	-5.9	-12.5	-10.4	-7.2
Net FDI/GDP [neg. sign = inflows]	-5.7	-6.1	-3.6	-4.9	-4.4
External debt/GDP	101.5	107.8	131.4	117.7	n.a.
Gross reserves/GDP	18.7	20.1	24.7	22.8	n.a.
Credit to private sector/GDP	56.8	61.7	74.6	69.0	n.a.

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Macroeconomic developments and policy response

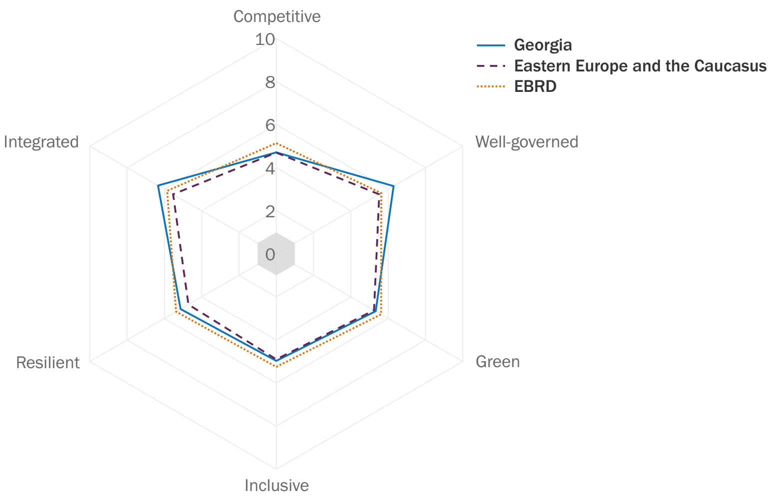
The economy is growing robustly. The economic recovery achieved in 2021 further accelerated in January to August 2022, when gross domestic product (GDP) grew by 10.3 per cent year on year. Growth was broad based but especially buoyant in the tourism, energy supply, transport and information technology (IT) sectors. Tourism benefited from the threefold increase in income generated by foreign travellers in the first eight months of 2022 compared with the same period in 2021, and revenues from tourism almost reached pre-pandemic levels. In the same period, the net inflow of money transfers increased by 70 per cent year on year, boosted by the arrival of Russian citizens and entrepreneurs who found temporary refuge in Georgia. Huge foreign inflows helped to cover the widening trade deficit, as exports and imports both rose by more than 30 per cent year on year between January and July 2022. By the end of September, the Georgian lari had appreciated by 20.0 per cent since the low point in March 2022, and by 9.0 per cent since the beginning of the year.

The authorities are using fiscal and monetary policies to combat high inflation. Inflationary pressures have risen as a result of rising fuel and energy prices, due to the war on Ukraine and associated spillovers, with the annual inflation rate reaching 10.9 per cent year on year in August 2022. Higher prices for food and non-alcoholic beverages and transport are the two biggest causes of high inflation. After several policy rate increases during 2021, the National Bank of Georgia further raised the rate to 11.0 per cent in March 2022, but has refrained from further increases as currency appreciation is helping to keep import prices under control. In parallel, the government implemented several measures to further alleviate the pressure on households and ensure the availability of food. These measures include low-interest-rate loans for the agribusiness sector to support crop production, wheat and barley export bans effective from July 2022, and subsidies to the socially vulnerable throughout 2022 to offset increasing food and energy prices.

A new International Monetary Fund (IMF) programme is in place. In June 2022 the authorities concluded a US$ 280 million precautionary stand-by arrangement with the IMF. This arrangement will reduce uncertainty and help to create a more predictable business environment, especially after international sanctions imposed on Russian-owned banks already caused significant deposit withdrawals from VTB Georgia, the fourth-largest bank in the country. The authorities managed the issue effectively by facilitating transfers of assets and liabilities to other banks, thereby preventing more severe damage to the financial system.

Strong growth will continue, but risks of spillovers from the war on Ukraine remain high. Therefore GDP growth is likely to be 8.0 per cent in 2022 and then moderate slightly to 5.0 per cent in 2023. The forecast for next year is highly sensitive to geopolitical uncertainty and risks are mostly on the negative side. However, progress on the EU membership agenda could be a strong anchor for growth-conducive reforms.

CHART Assessment of transition qualities (1-10)



NOTE: Belarus is not included in the EBRD region and respective regional averages.

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Structural reform developments

IT infrastructure development has expanded in rural areas. The authorities constructed additional fibre optics, with the help of €34 million in financing from the European Investment Bank in December 2021. By improving the digital connectivity of the rural population, around 500,000 Georgians residing in rural areas can now access fast-internet services. In June 2022 the authorities bolstered the diffusion of internet access by authorising the launch of SpaceX's satellite internet service to reach a larger share of the rural population. With SpaceX entering the Georgian telecommunications market, the authorities are planning to develop a more competitive and open market to foster innovation and enhance social inclusion.

The authorities have taken steps to advance state-owned enterprise (SOE) reform. As part of the SOE reform strategy 2021-24, a series of pilot projects to enhance the transparency of corporate governance have been implemented by introducing independent supervisory board members. The ultimate goal of these pilots is to reduce fiscal risks by adjusting the management rules of Georgian SOEs to be in line with international corporate practice. In April 2022 the Ministry of Finance, with technical assistance from the Asian Development Bank, began to reform the railway sector to reduce the debt of the Georgian railway company.

Investment in technical vocational education and training (VET) is being stepped up. The Ministry of Education and Science has led the reform of VET through public and private partnerships. Consequently, the Skills Agency, which is a newly established skills development agency, has been actively involved in providing training modules aligned with the needs of employers in the labour market from 2022. Through close consultation with the private sector, the Skills Agency aims to ensure that the VET system can supply and foster human capital most in demand from businesses.

The government has initiated the active labour market policy (ALMP) to increase labour market participation. Since March 2022 the ALMP has been implemented in a bid to encourage into work almost 200,000 socially vulnerable citizens aged over 18 who receive social welfare but are deemed to be employable. According to the programme they can choose between public works and vacancies offered on the labour market and receive additional income on top of their social assistance. The beneficiaries are assigned to jobs matching their skills, educational qualification and work experience.

The authorities took concrete steps to protect green areas and contribute to climate change mitigation. In June 2022 parliament unanimously approved a law that imposes stricter sanctions on illegal logging of timber to prevent deforestation in Tbilisi. In July 2022 the Ministry of Environmental Protection and Agriculture announced the establishment of a new national park in the west of Georgia. It will serve as a reservoir to safeguard biodiversity and ecosystems of local forests, create employment opportunities for local residents, and contribute to the development of tourism. In November 2021 a National Plastic Prevention Programme for 2022-26 was adopted, aiming to reduce single-use plastic. The programme is based on the principles of a circular economy. Furthermore, in December 2021 technical regulations setting ambient-air monitoring criteria were adopted, providing the framework for the installation of new air-quality monitoring stations by the end of 2022.

The EU has granted Georgia a European perspective, but not yet official candidate status. In March 2022 Georgia formally applied for EU membership. In June 2022 the European Council granted Georgia a European perspective, but official candidate status is subject to prior fulfilment of conditions such as commitment to democratic consolidation, judicial reforms, reducing the influence of vested interests, and action to reduce political polarisation and strengthen the rule of law.

Public administration reform and consumer protection have been advanced. In April 2022 a public services development strategy for 2022-25 was adopted. Its goal is to make the provision of public services easier and more accessible for citizens. It sets guidelines for standards on design, delivery and quality control for public services. In the private sphere, a new law on the protection of consumer rights, approved by parliament in March 2022, will enhance alignment with EU legislation in line with the Association Agreement. The law entered into force on 1 June 2022, but enforcement and processing of applications or complaints on alleged infringements will start from November 2022. The law establishes rules for consumer protection and prohibits unfair commercial practices that jeopardise the values of trust and good faith.

Moldova

Highlights

- **Rising gas prices and the war on Ukraine have disrupted the economy and fuelled inflation.** After a strong recovery in 2021, gross domestic product (GDP) stalled in the first half of 2022, while inflation reached 34.3 per cent in August 2022.
- **Financing from official creditors was pivotal in covering the twin deficits.** After significant losses of foreign reserves at the beginning of 2022, the augmentation of the International Monetary Fund (IMF) programme helped to mobilise additional financial support from the European Union (EU) and the World Bank, thereby stabilising external finances.
- **The European Council granted Moldova the status of EU candidate country.** The European Commission acknowledged that the authorities had demonstrated a commitment to anti-corruption and judicial and public administration reform, and set out the further steps that need to be taken.

Key priorities for 2023

- **The authorities should continue to strengthen institutional capacity and improve governance.** Key priorities in the short term include enabling an independent and professional judiciary, strengthening public institutions and continuing the fight against corruption.
- **Efforts to enhance energy resilience need to continue through the development of renewables and energy efficiency.** Moldova should build on the initial steps taken in 2022 to diversify energy sources. In addition, long-awaited renewables auctions need to be implemented, and energy efficiency investments are all the more necessary at a time of high energy prices.
- **The authorities should continue the digitalisation of public services.** Digitalisation could play an important role in steering the economy towards higher value-added sectors, and the digitalisation of public services could be a catalyst to a thorough transformation of public institutions and governance.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	4.1	3.6	-8.3	13.9	-1.0
Inflation (average)	3.1	4.8	3.8	5.1	28.5
Government balance/GDP	-0.9	-1.5	-5.3	-2.6	-6.2
Current account balance/GDP	-10.8	-9.4	-7.7	-12.4	-12.8
Net FDI/GDP [neg. sign = inflows]	-2.3	-4.0	-1.3	-2.8	-0.4
External debt/GDP	63.9	61.6	70.5	64.1	n.a.
Gross reserves/GDP	26.6	26.1	32.8	28.5	n.a.
Credit to private sector/GDP	18.8	19.6	22.9	23.3	n.a.

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Macroeconomic developments and policy response

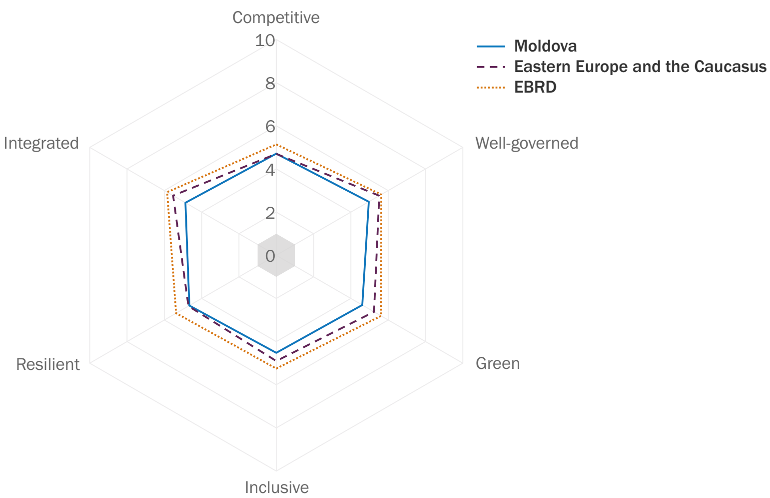
Rising gas prices and the war on Ukraine have brought growth to a virtual halt. After exceptionally strong GDP growth of 13.9 per cent in 2021, GDP stalled at zero per cent growth (year on year) in the first quarter of 2022. Government consumption and net exports showed solid growth, but were insufficient to compensate for the stagnation of private consumption and a decline in investment. The war on Ukraine has affected Moldova mainly through a major inflow of refugees and a sharp rise in inflation. Around 600,000 refugees entered the country, with an estimated 90,000 remaining in Moldova and the others transiting further. This influx of refugees has severely stretched the fragile economy and the country's institutional capacity.

Inflation had exceeded 30 per cent by the middle of 2022, prompting significant fiscal measures to help households and businesses. Expenses on utilities were one-quarter of household incomes on average, even before the threefold increase in gas prices over a period of several months. Real earnings have already dropped by 11.3 per cent in the second quarter (year on year) of 2022, not being able to keep pace with rising inflation. The government stepped in with gas subsidies for households and businesses, estimated at around 1.9 per cent of GDP in 2022. In addition, export bans on staple crops such as wheat and maize entered into force in February 2022 to prevent further food price increases. The authorities also expanded social spending by increasing subsidies for farmers in April 2022 to cover household income losses due to energy price rises, and by providing energy price compensation between January and March 2022. On top of that, adding expenses for dealing with refugees would result in a budget deficit projected by the IMF at 7.2 per cent of GDP in 2022. Public debt, which already increased by 5 percentage points during the Covid-19 pandemic, is forecast to increase by an additional 6 percentage points in 2022 to 38.4 per cent of GDP, but still remains at moderate levels.

International creditors are helping to fund external gaps. After an initial depletion of foreign reserves in early 2022, international financial support has stemmed the outflows and partially reversed the trend since April 2022. In December 2021 the IMF approved a new 40-month US$ 558 million Extended Credit Facility/Extended Fund Facility programme, which will focus on strengthening Moldova's governance and institutional frameworks. In light of the adverse shock to the Moldovan economy from the war on Ukraine, in May 2022 the IMF Board approved the augmentation of this programme by increasing the total to US$ 796 million. In addition, Moldova will benefit from €150 million in macrofinancial assistance from the EU between 2022 and 2024 and US$ 160 million budget support from the World Bank.

Short-term economic stagnation is likely and major uncertainties remain. Our current GDP forecast for 2022 is a decline of 1.0 per cent, followed by a stagnation of 0 per cent in 2023. Amid the high uncertainty, the risks to growth remain broadly balanced between further geopolitical deterioration and a positive boost from the country's recently granted EU candidate status.

CHART Assessment of transition qualities (1-10)



NOTE: Belarus is not included in the EBRD region and respective regional averages.

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Structural reform developments

Moldova gained EU candidate status amid escalated geopolitical tensions. In June 2022 the European Council agreed to grant candidate status to Moldova (and Ukraine). The country's commitment to, and important steps taken on, judicial reform and combating corruption helped to pave the path to EU candidacy. The European Commission indicated priority areas for further policy reform related to the rule of law, protection of property rights, governance and administrative capacity in the public sector, creation of a level playing field in the economy and creating a more inclusive society.

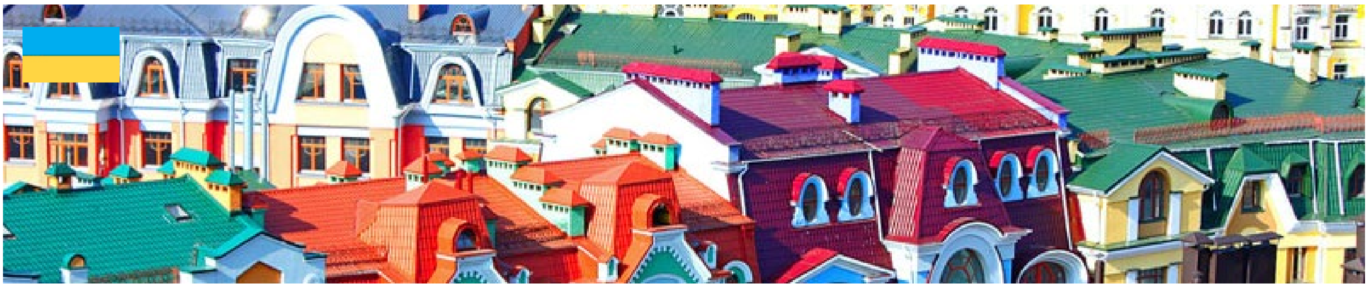
Digitalisation of the economy and the development of e-commerce have progressed. The Economic Council of Moldova has boosted the digitalisation of government services by implementing its Digitalisation Roadmap in 2021. The government has supported the digitalisation of the economy and the Legislative Package for Digitization 1.0 – a new initiative developed by the Ministry of Economy and the Economic Council – was approved in parliament in November 2021. All government institutions are obliged to use digital tools for business operations and offer e-government services. The new Legislative Package also aims to expedite e-commerce practices and simplify customs procedures through electronic means. Further legislative amendments and initiatives (Legislative Packages for Digitalisation 2.0 and 3.0) are under development, both of which are expected to boost e-commerce, thereby generating a more favourable investment climate. As part of the e-commerce boom, parliament approved in April 2022 the delivery of training programmes to promote the growth of small and medium-sized enterprises, local information technology industries and tech start-ups.

The authorities initiated a concrete step to enhance energy security. For decades Moldova has benefited from an affordable price of Russian gas, which is mainly used for generating electricity and thermal energy. However, the large increase in the imported gas price and rising geopolitical tensions have prompted the Moldovan government to diversify energy import sources. As a first concrete step, in May 2022 the Moldovan authorities signed a contract with the Ukrainian state hydropower supplier, Ukrhydroenergo, to secure 30 per cent of its electricity demand. Meanwhile, in April 2022 parliament passed a bill to oblige the country's gas supplier, Moldovagaz, to store gas reserves in adjacent countries sufficient for two months of winter consumption. Also, the country secured a €300 million loan from the European Bank for Reconstruction and Development (EBRD) to Moldova's state-owned energy supplier, JSC Energocom, to procure gas from EU hubs.

Institutional arrangements to tackle corruption have improved. The anti-corruption reform agenda focuses on enhancing the independence and accountability of anti-corruption and judicial bodies as well as curtailing political influence on legal processes. These priorities were included in a new strategy regarding judicial independence and integrity, which was adopted by parliament in December 2021. Further legislation was adopted in April 2022 around the selection of legal officials for specialised prosecution bodies, including the Anti-Corruption Prosecutor (ACP). This new selection process includes a special pre-selection committee comprising international legal experts to prevent undue political influence. Accordingly, the ACP was elected in June 2022 through a newly strengthened selection process for spearheading operations of the Anti-Corruption Prosecution Office.

Fiscal risk monitoring and public corporate management have improved. In accordance with an IMF structural benchmark, the authorities obliged state-owned enterprises (SOEs) across all layers of government to submit their quarterly financial statements beginning from March 2022. This SOE reform aims to improve the management of state assets and should contribute to lower fiscal costs. The authorities are drafting a new SOE management strategy, in close consultation with the IMF, to diagnose persistent SOE governance issues and assess ongoing reform progress.

Parliament has paved the way for enhancing gender equality and children's rights. In October 2021 parliament ratified the Istanbul Convention, seen as one of the most effective international treaties to tackle violence against women and domestic violence. The Convention entered into force in March 2022 with a newly launched implementation roadmap. The Ministry of Labour and Social Protection launched a new five-year national programme in June 2022 to strengthen the social protection system of children. New guidelines followed in July to outline the authorities responsible for the implementation and independent monitoring of progress to enhance children's rights.



Ukraine

Highlights

- **The war has put Ukraine's economy under enormous stress.** Gross domestic product (GDP) declined by 15.1 per cent year on year in the first quarter of 2022, and by 37.2 per cent in the second quarter when the most severe and widespread fighting took place. Inflation rose to 23.8 per cent year on year in August 2022 because of production and logistical disruptions.
- **Extraordinary financial support from official creditors/donors did not fully close the budget and external financing gaps.** Foreign reserves fell by almost 20 per cent between January and August 2022 and the Ukrainian hryvnia (UAH) devalued by 20 per cent. The main creditors agreed that foreign debt repayments would be postponed for two years, but financing gaps remain substantial and further support from bilateral creditors is needed.
- **The European Council granted Ukraine the status of European Union (EU) candidate country.** After Ukraine submitted an official request for EU membership in February 2022, the European Council granted it candidate status in June 2022. This is the beginning of an important journey that requires more intense reform efforts in several areas, including completing the institutional restructuring of the judicial system, finalising the anti-corruption system set-up and putting in place effective mechanisms to tackle the influence of vested interests.

Key priorities for 2023

- **Emergency support for the economy is vital, but governance standards should be maintained and enhanced.** Access to fundamental services that will facilitate people's return to economic activity should be restored. Repairs to infrastructure damaged by the war and reconstruction after the war will require accelerated procurement processes, but this should not be at the cost of transparency, inclusion and sustainability assessments.
- **The authorities should strengthen energy resilience.** Technical synchronisation of the electricity transmission network with continental Europe, completed in the middle of March 2022, should be followed by synchronisation with the EU electricity market. Ukrenergo and Naftogaz should be supported to maintain energy supplies and prepare for the winter.
- **Efforts are needed to preserve financial sector stability.** Achieving equivalence of supervision status and professional secrecy compatible with EU law would enable more investments by EU-owned banks and allow the National Bank of Ukraine (NBU) to take part in joint supervisory and resolution colleges with authorities in the home countries of banks active in Ukraine. It would also be beneficial to prepare a detailed plan for post-war reconstruction that would include recapitalising local banks and taking the necessary preceding steps (diagnostics, asset quality reviews and stress tests).

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	3.4	3.2	-3.8	3.4	-30.0
Inflation (average)	10.9	7.9	2.7	9.4	20.6
Government balance/GDP	-2.0	-2.2	-5.8	-3.6	n.a.
Current account balance/GDP	-4.9	-2.7	3.4	-1.6	n.a.
Net FDI/GDP [neg. sign = inflows]	-3.7	-3.4	0.0	-3.4	n.a.
External debt/GDP	87.6	79.1	80.2	64.8	n.a.
Gross reserves/GDP	15.9	16.4	18.6	15.5	n.a.
Credit to private sector/GDP	30.1	24.3	22.2	18.6	n.a.

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Macroeconomic developments and policy response

The war has brought economic recovery to an abrupt halt. Russia's invasion of Ukraine has put the economy under enormous stress, with heavy devastation of infrastructure and production capacities and the unprecedented loss of human capital. After GDP growth of 3.4 per cent in 2021, the economy shrank by 15.1 per cent year on year in the first quarter of 2022 and by 37.2 per cent in the second quarter when the most severe and widespread fighting took place. Initially, combat operations were widespread in regions that generated 60 per cent of GDP in 2021, but in more recent months the fighting has become more concentrated, in areas generating around 20 per cent of GDP. Approximately 15 per cent of the pre-war population were registered as refugees abroad as of the middle of August 2022 and an additional 15 per cent were displaced within the country. All this is severely weakening companies' finances and exposing the banking sector to a drastic deterioration in asset quality, once the moratoria on changing the risk classification of banks' credit exposures is withdrawn.

Inflation has risen sharply, reserves have declined, and tax revenues have plummeted. On the day of the invasion (24 February 2022) the NBU fixed the exchange rate, limited cash withdrawals and introduced capital controls by preventing most cross-border transactions. Nevertheless, huge production and logistical disruptions had caused inflation to rise to 23.8 per cent year on year by August 2022, and it is likely that inflationary pressures will persist throughout the rest of the year and into 2023. The government has implemented a range of measures to curb the impact of high inflation, including export bans and regulated prices for a range of essential food items, reduced fuel taxes and utility price freezes. Plummeting tax revenues combined with soaring defence and social spending opened a fiscal gap of at least US$ 4 billion a month (3.3 per cent of estimated 2022 GDP). The fiscal gap is accompanied by a substantial external financing gap. Monetary financing of the fiscal deficit, allowed under martial law, could plug only a small portion of the gap without endangering macroeconomic stability. However, official sector external financing and the current account surplus due to official grants were largely exceeded by spending and cash withdrawals by Ukrainians abroad. As a result, international reserves have declined from US$ 30.9 billion at the end of 2021 to US$ 25.4 billion in August 2022. To ensure exchange rate stability and curb inflation, NBU more than doubled the policy rate from 10 per cent to 25 per cent at the beginning of June 2022. Yet in July NBU had to devalue the hryvnia by 20 per cent and fix it at the new lower level.

External financing remains crucial for preserving macroeconomic stability. The financing burden was partially alleviated by private-sector creditors who accepted the government's request to postpone repayments of, and interest payments on, Eurobonds for two years. This exercise is expected to provide liquidity of around US$ 6 billion until the end of 2023. It is also meant to be net present value (NPV) neutral because of interest capitalisation. At the same time, the Paris Club creditors said they would let Ukraine suspend debt service at least until the end of 2023, while holders of GDP warrants accepted the next payment arising from 2021 GDP growth exceeding the 3 per cent threshold to be postponed from 2023 to 2024. So far Ukraine has been paying its debt as scheduled, despite the war. While the requested postponement of repayments would reduce the external financing gap, it is still substantial, leaving the country dependent on bilateral creditors.

With such unprecedented levels of uncertainty, economic activity will depend on the war dynamics. In 2022 GDP is expected to decline by 30.0 per cent to be followed by an increase of 8.0 per cent in 2023 on the assumption that Ukraine will have acclimatised to a prolonged but static war. The forecast is sensitive not only to the duration and the war dynamics, but also to the level of external financing and availability of ports' export capacities.

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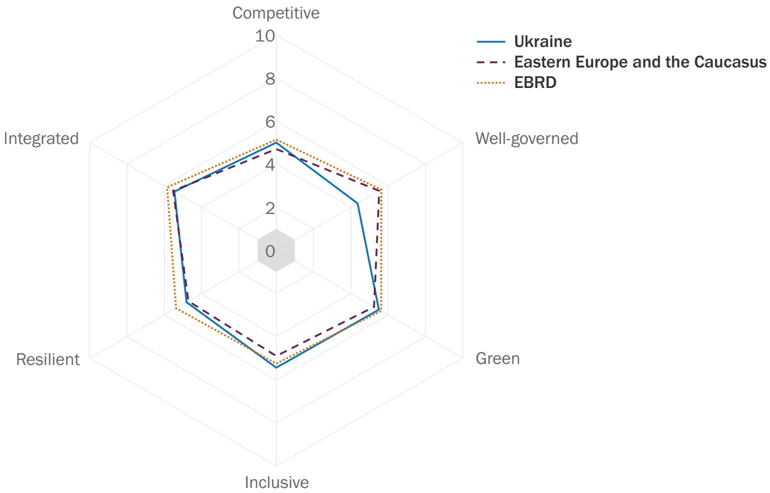
CHART Assessment of transition qualities (1-10)



NOTE: Belarus is not included in the EBRD region and respective regional averages.

Structural reform developments

The European Council granted Ukraine the status of EU candidate country. Soon after the Russian invasion in February 2022 Ukraine officially applied for EU membership as a first step in a long and complex process. In June 2022 the European Council granted it candidate status for EU membership and made further steps conditional on reform progress in seven areas outlined in the European Commission's opinion. By the end of the year, the Commission will assess Ukraine's progress on implementing judicial and anti-corruption reforms, preparation of a plan to reform the entire law-enforcement sector, limiting the excessive influence of oligarchs in the economy and politics and tackling vested interests, as well as reform of the legal framework for national minorities.

Efforts to tackle corruption have continued. In December 2021 the authorities selected the final candidate for head of its Specialised Anti-Corruption Prosecutors Office (SAPO), which had been vacant since August 2020. After a long delay, the appointment of the SAPO chief in July 2022 gave fresh impetus to the investigation of several high-profile corruption cases. Reinvigorating the work of anti-corruption bodies is a key element of the EU approximation process, while the selection of a new director of the National Anti-Corruption Bureau of Ukraine remains a key test outlined as priorities by the European Commission. Nonetheless, the country's EU candidate status and international support prompted parliament to adopt a new anti-corruption strategy to 2025, developed by the National Agency on Corruption Prevention (NACP). The new strategy pursues the EU criterion of accountable government and outlines the implementation of programmes to curtail corruption across the courts and law-enforcement agencies, taxation, construction and the defence sector, among others.

Judicial reform in Ukraine continues to progress. In November 2021 the authorities formed the Ethics Council as a key body for implementing judicial reform. Its main function is to review the integrity of the High Council of Justice, the highest judicial governance body in Ukraine. After a convoluted process, the Ethics Council selected and parliament appointed two reputable members to the High Council of Justice, a decision praised by international supporters of judicial reform. This sets high standards for the additional 15 appointments to follow. Civil society organisations noted that better communication between the Ethics Council and the public would increase the credibility of ongoing judicial reform.

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Digitalisation is enabling government services to function. In August 2022 NABU and SAPO resumed their service through the eCase Management System, which automates pre-trial investigation among detectives, prosecutors and judges. Since the war on Ukraine began, law enforcement agencies have faced difficulties preserving materials of criminal proceedings and investigative cases. The eCase Management System can store these materials electronically using online back-up, enabling critical legal materials to be preserved and transferred safely. Russia's full-scale invasion actually contributed to the expansion of the Diia platform as a one-stop shop for public services. Frequently used as a digital wallet to carry government-issued e-documents, the Diia platform has also been used by the authorities in recent months to detect military engagement, online fundraising and online registration of internally displaced persons.

Gradual progress in energy reforms has supported efforts to diversify energy sources. The war has destroyed many energy plants and led to a loss of energy production capacity. However, the authorities increased energy efficiency by integrating into the EU's single electricity network, the European Network of Transmission System Operators for Electricity (ENTSO-E). Accelerated integration into the EU electricity grid has enhanced energy security, providing Ukraine with greater energy independence from Russia and Belarus. It also has a positive impact on the Ukrainian electricity suppliers who can profit from the direct export of electricity to the European market.

The authorities ratified the Istanbul Convention to increase gender parity and tackle violence against women. In July 2022 Ukraine became the 36th state to ratify the Istanbul Convention. Once the Convention enters into force in November 2022 in Ukraine, the authorities will be more empowered to prevent gender-based violence and to carry out prosecutions related to gender-based abuse. This progress towards gender equality is expected to offer better protection to women and girls, who are disproportionately affected by the ongoing war on Ukraine.

The deposit guarantee system has been strengthened. In April 2022 the authorities passed a new bill to guarantee 100 per cent compensation for losses of bank deposits for the period of martial law and three months after it ends. Afterwards, the maximum compensation of deposits increases to UAH 600,000 (US$ 16,500) from the current UAH 200,000 (US$ 5,500). In addition, the state-owned Oschadbank, which was the only bank with a 100 per cent state deposit guarantee scheme before the war, eventually became a member of the Deposit Guarantee Fund, with the same deposit protection level as other banks in the system.