

# The Western Balkans: Economic Update and Broad Policy Agenda

REBALANCING FOR STRONGER GROWTH

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BOSNIA & HERZEGOVINA  
SERBIA  
MONTENEGRO  
KOSOVO  
FYR MACEDONIA  
ALBANIA

# Economic Update: Main Messages

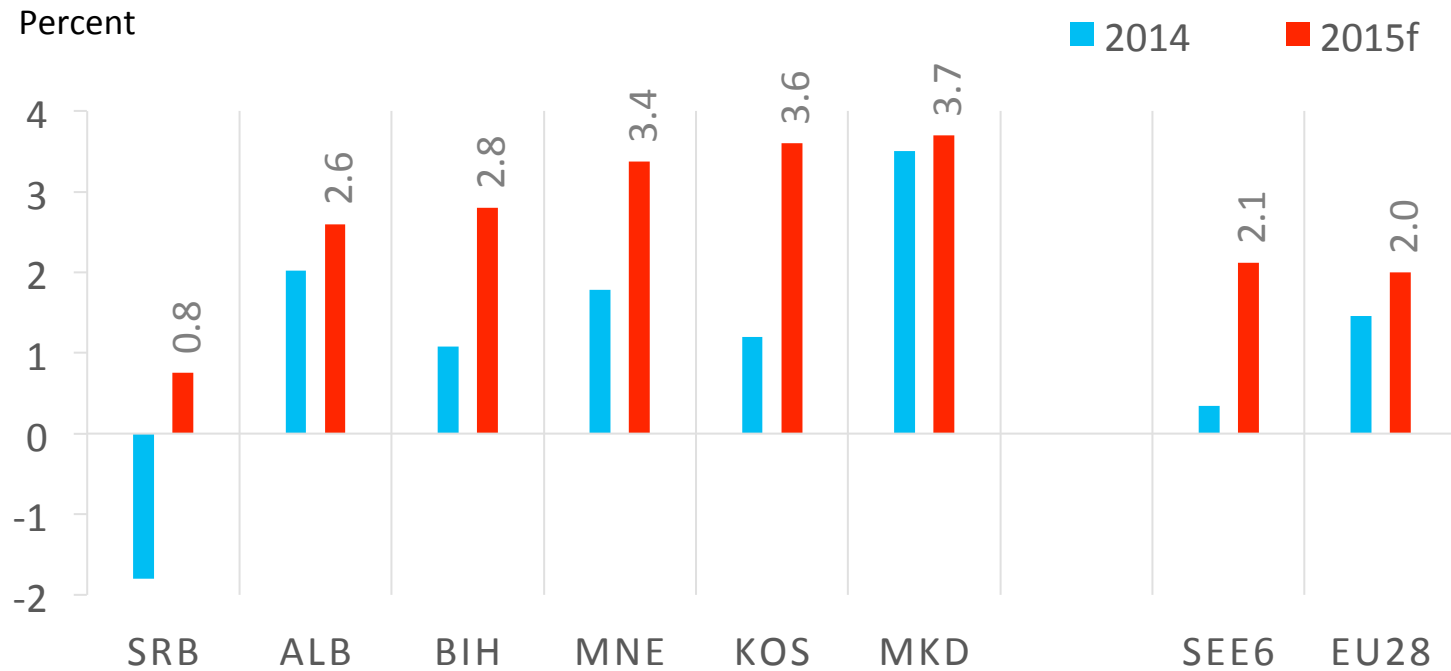
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- Economic growth rebound, with increases in employment and reduction of poverty
- Early signs of rebalancing from unsustainable consumption-fueled growth to more sustainable investment and export-led growth
- Sustaining these positive trends require continued commitment to tackle macro-fiscal imbalances and implement structural and institutional reforms along five pronged agenda



# Growth rebounded

## Real GDP Growth, 2014 and 2015



Sources: National statistics agencies, World Bank forecasts.

# Growth to pick up in the medium term, but with downside risks to the recovery

## Real GDP Growth, percent, 2014-17

	2014	2015f	2016f	2017f
<b>Albania</b>	2.0	2.6	3.2	3.5
<b>Bosnia and Herzegovina</b>	1.1	2.8	2.6	3.1
<b>Kosovo</b>	1.2	3.6	3.6	4.0
<b>FYR Macedonia</b>	3.5	3.7	3.7	4.0
<b>Montenegro</b>	1.8	3.2	3.7	3.1
<b>Serbia</b>	-1.8	0.8	1.8	2.3
<b>SEE6*</b>	0.3	2.1	2.6	3.0

Source: World Bank estimates and projections.

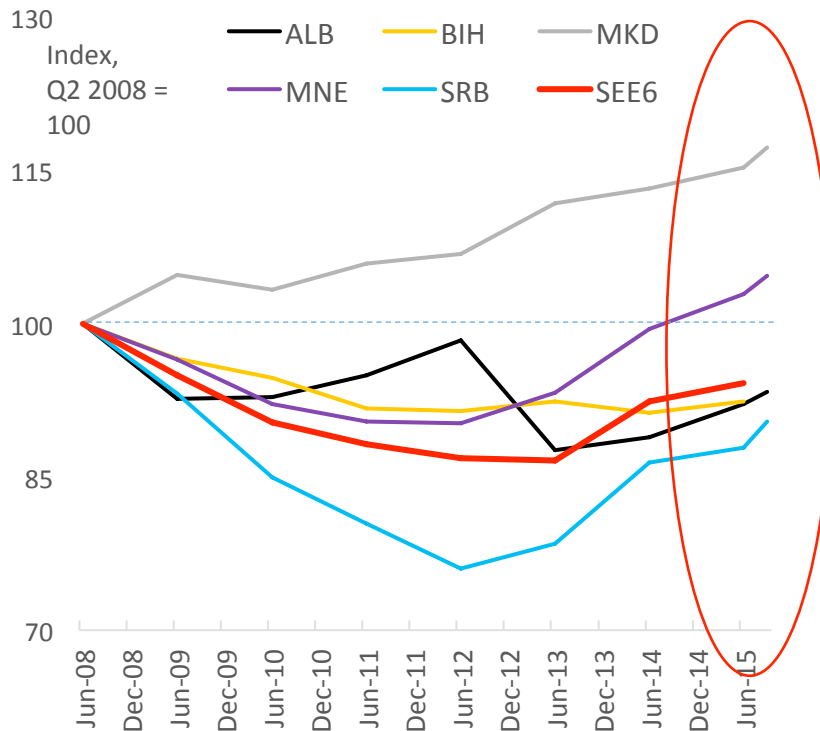
Note: \*SEE6 is a weighted average.

## DOWNSIDE RISKS

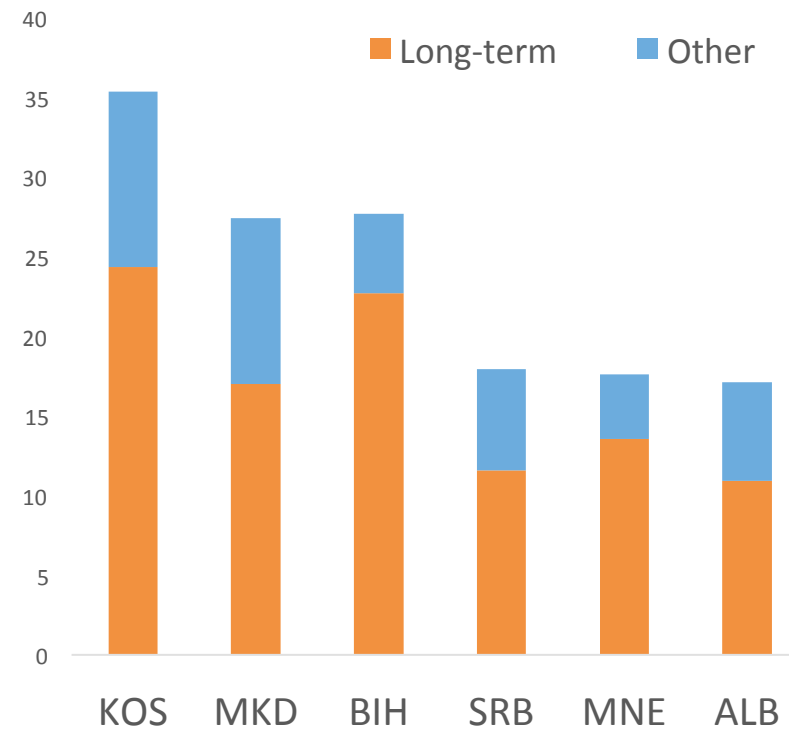
- Domestic
  - Elections
  - Pace of structural and fiscal reforms (upside potential)
- External
  - Volatile international financial markets
  - Slower-than-projected growth in major export markets (upside potential)
  - Movement of global oil prices (upside potential)

# Jobs created, poverty down, yet unemployment remains entrenched

Employment Index, Q2 2008=100



Unemployment, percent of labor force

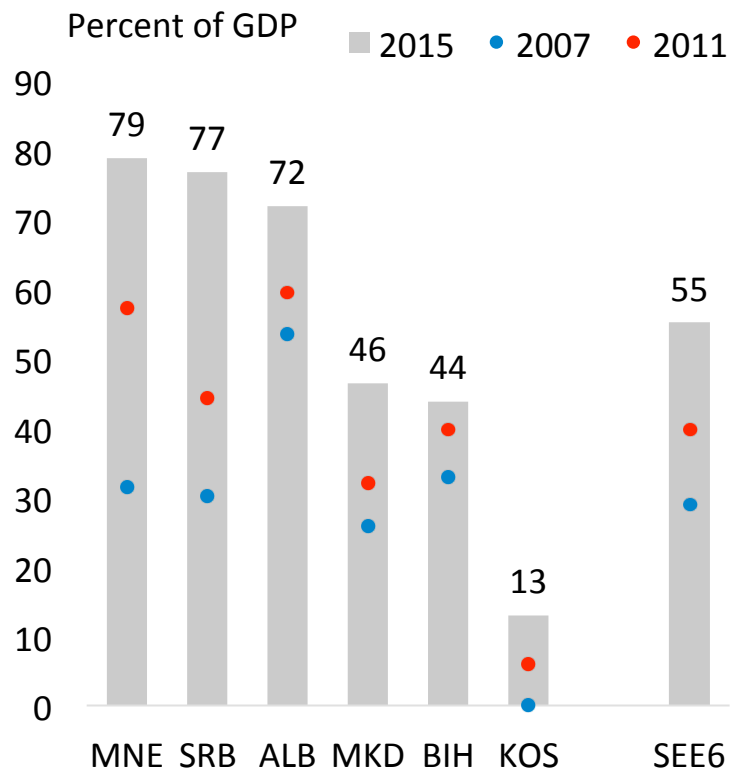


Sources: Data from national statistical offices.  
Note: The regional total excludes Kosovo.

Sources: Data from national statistical offices.

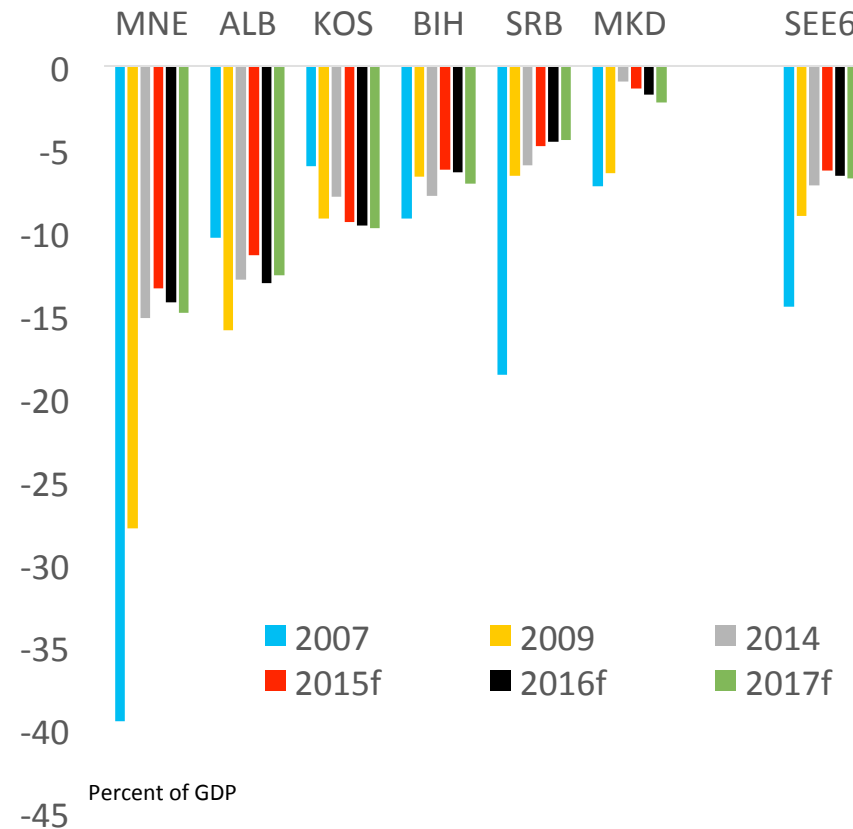
# Continued need to address fiscal and external deficits, combat NPLs

PPG debt to GDP 2007 to 2015



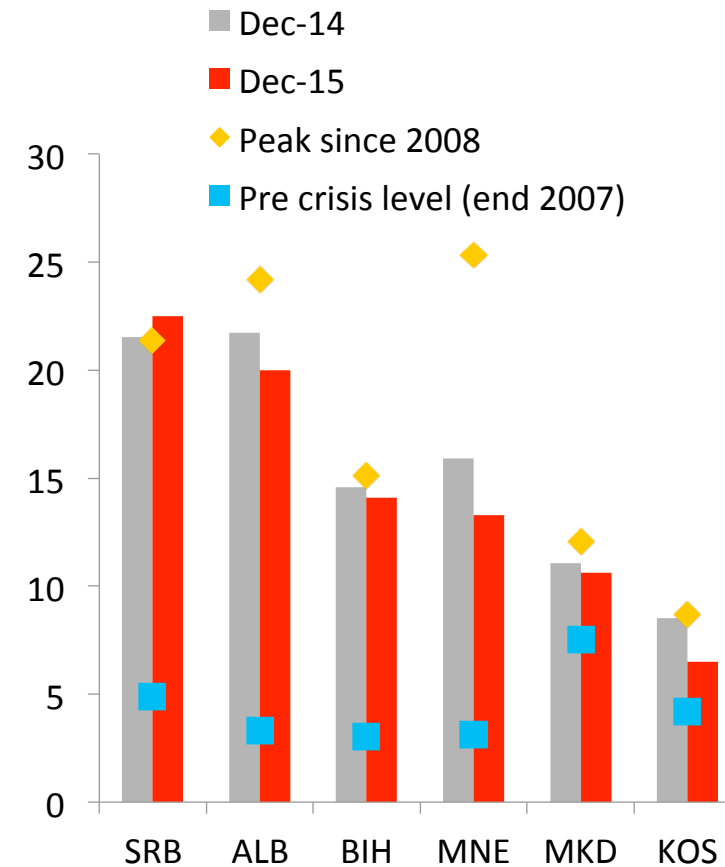
Sources: Ministries of Finance and World Bank.

Current account deficit, percent of GDP



Source: Data from central banks and national statistical offices, World Bank staff projections.

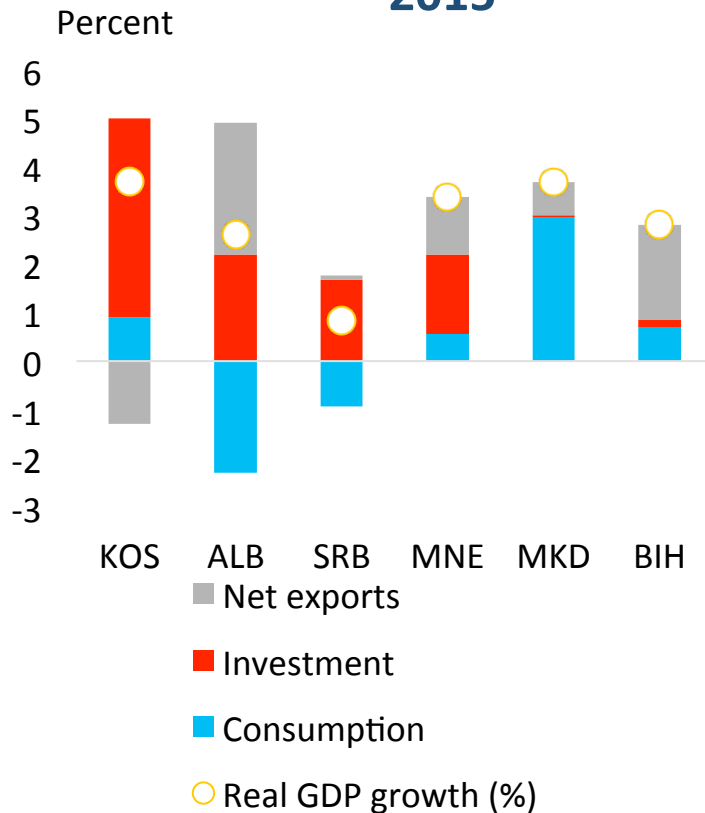
Nonperforming loans, percent of total loans



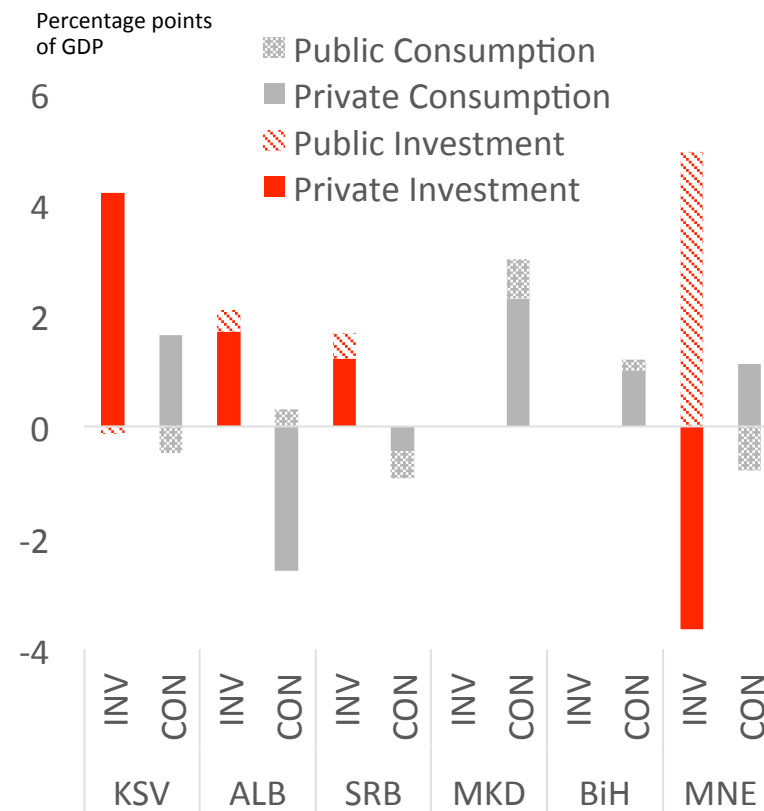
Source: National authorities.

# Rebalancing: consumption → investment; public → private

Decomposition of real GDP growth, 2015



From Public to Private demand: contributions to growth, 2015



Source: Data from national statistical offices.

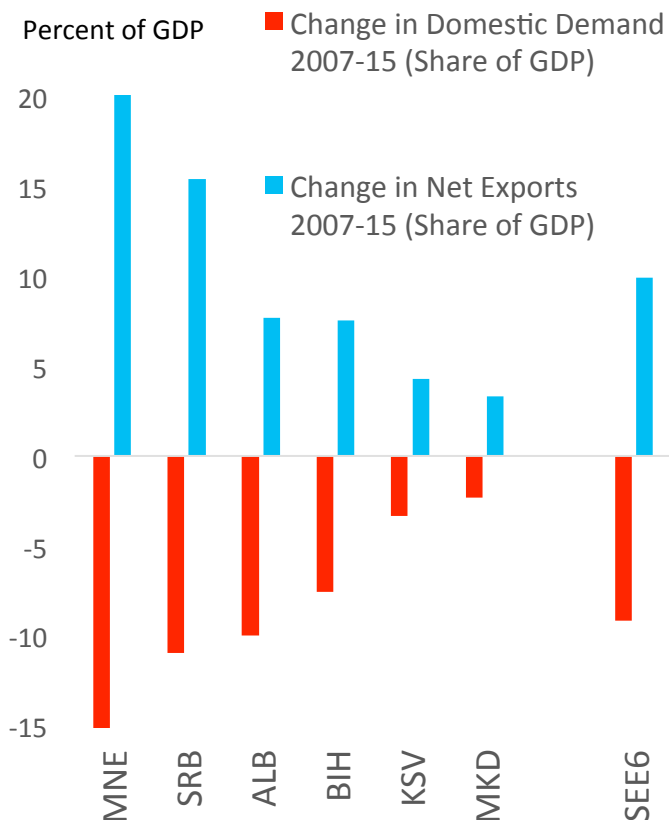


Note: investment split is estimation for most countries; MKD investment is zero; BiH is n/a.

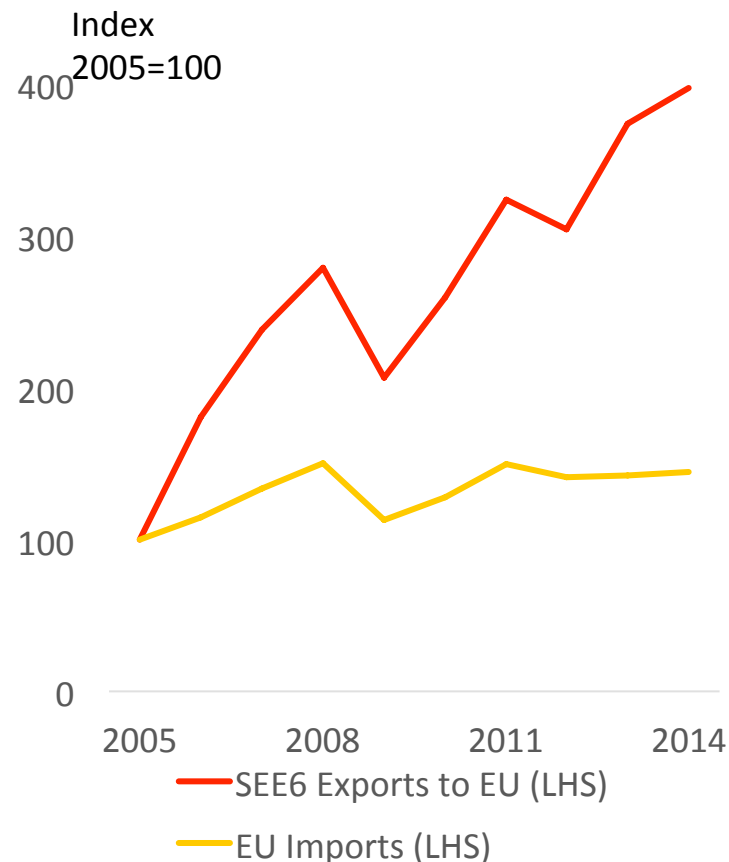
Source: World Bank calculations based on data from national statistical offices.

# Rebalancing: domestic → external

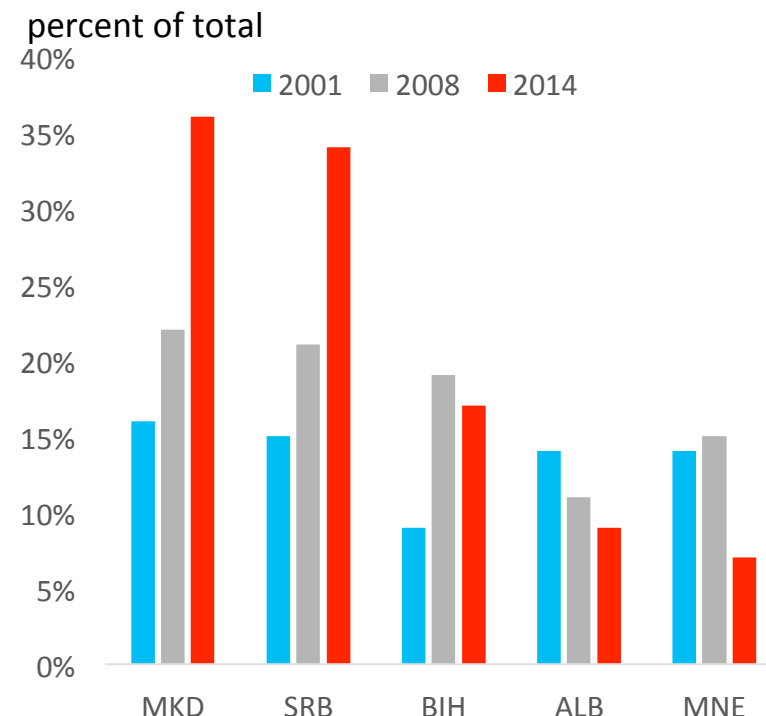
## From domestic to external demand



## SEE6's share in EU imports



## Share of high- and medium-tech goods exports



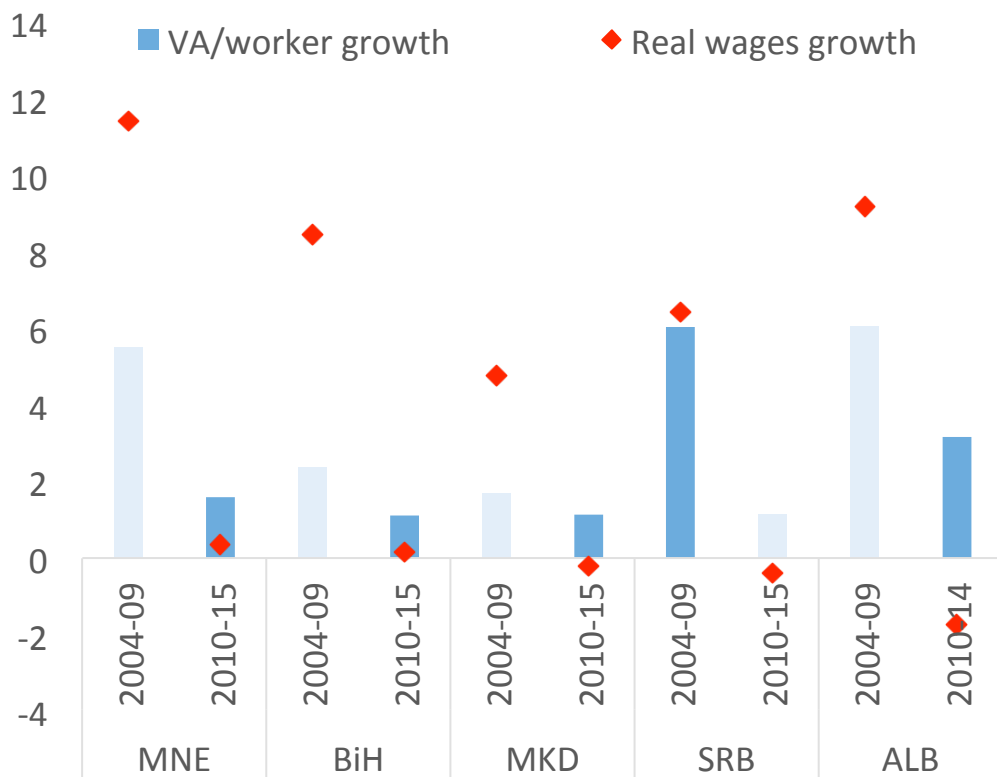
Note: The classification is based on technological ranking of manufactured products as in Lall et al., .2006. The 'Sophistication' Of Exports A New Measure Of Product Characteristics.

Source: World Bank staff calculations based on WDI, WITS, PWT8.0 and National Statistical Agencies data.



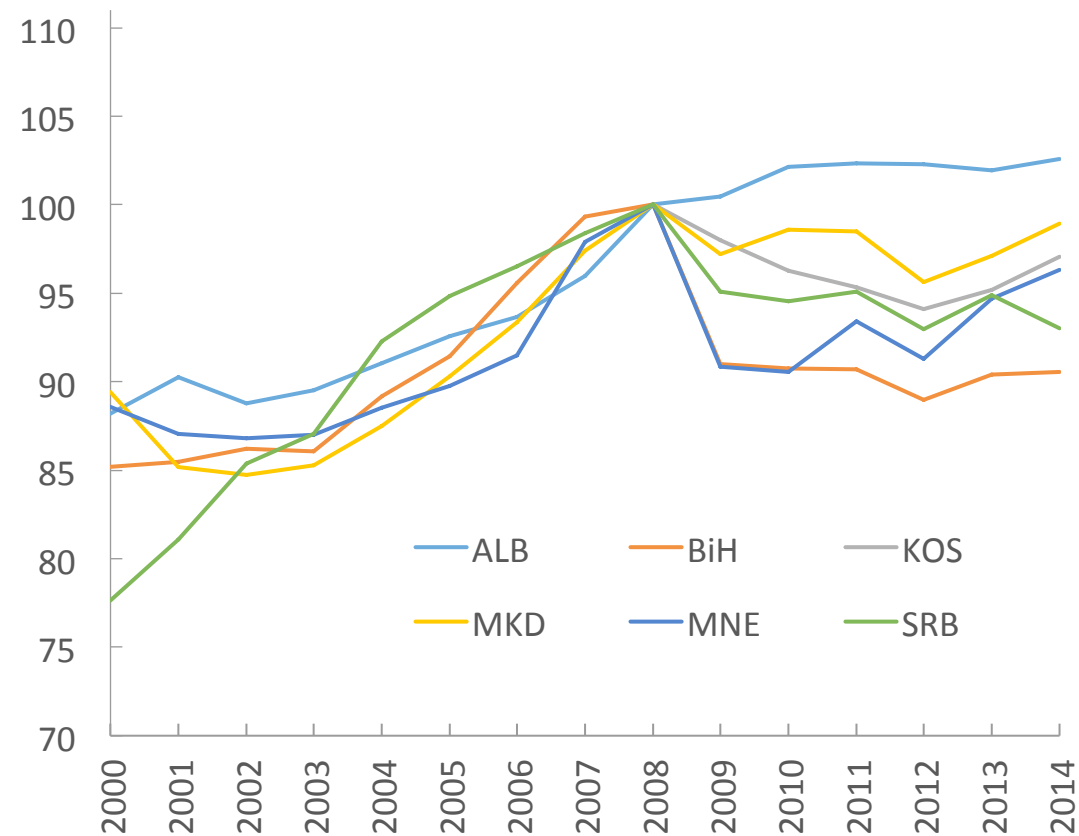
# Rebalancing: from unsustainable to more durable drivers of growth

Labor costs falling more in line with labor productivity ...



... But productivity subtracted from growth post-crisis in most countries

Estimated index of TFP level (2008=100)



Sources: World Bank staff calculations based on data from national statistical offices and central banks

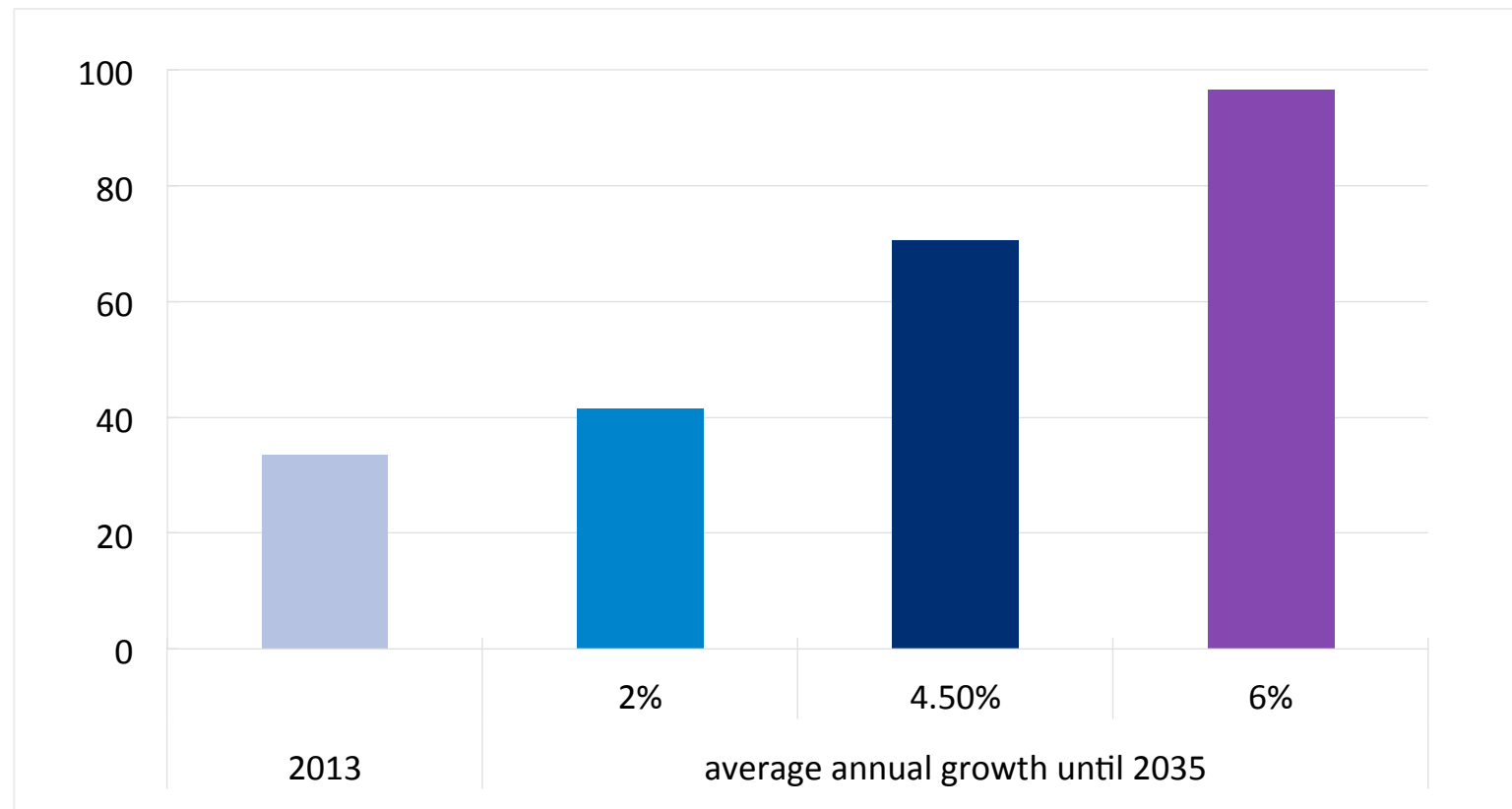


Source: World Bank staff calculations.

# How to sustain the rebalancing and nurture strong and inclusive growth to converge with EU?

## Income convergence

SEE6 GDP per capita, PPP, international dollars, 2011 relative to EU average, percent



Source: World Bank staff calculations

# The Broad Policy Agenda

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ENSURE  
**MACRO  
STABILITY:**  
FISCAL,  
EXTERNAL,  
FINANCIAL

ADDRESS  
OVERSIZED  
AND  
INEFFICIENT  
**STATE**, WHILE  
IMPROVING  
QUALITY AND  
EQUITY OF  
**PUBLIC  
SERVICE  
DELIVERY**

UNLEASH  
PRODUCTIVE  
POTENTIAL OF  
**PRIVATE  
SECTOR** AND  
DEEPEN  
GLOBAL  
**INTEGRATION**

ELIMINATE  
DISINCENTIVES  
AND BARRIERS  
TO FORMAL  
**JOBS**

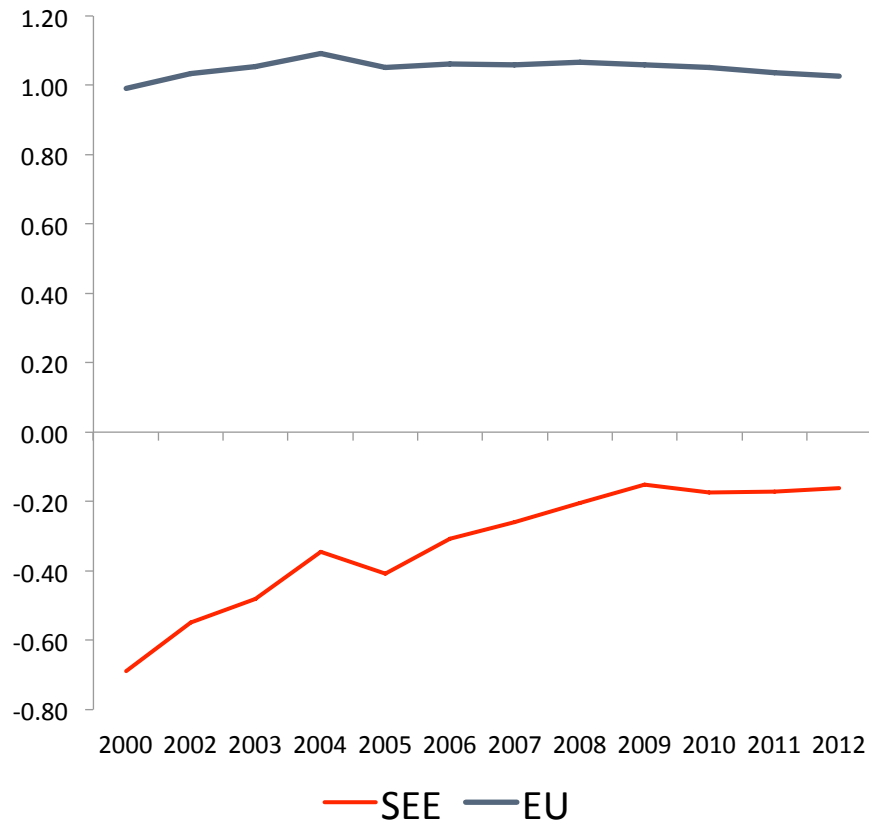
ENHANCE  
RESILIENCE TO  
**NATURAL  
SHOCKS** AND  
SUSTAINABLE  
USE OF  
**NATURAL  
RESOURCES**

**Governance and Institutions**

# Today: Zooming in on Governance and Institutions

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Quality of Institutions: World Governance Indicators, 2000-14



- Improving transparency of public finance
- Establishing dialogue between government and citizens
- Raising accountability of large businesses
- Simplifying regulatory requirements and reporting for SMEs

Source: WGI



# Thank you!

