

German Federal Ministry of Finance
Research Project fe 2/13

„Improving Competitiveness in the Western Balkans - Options and Constraints“

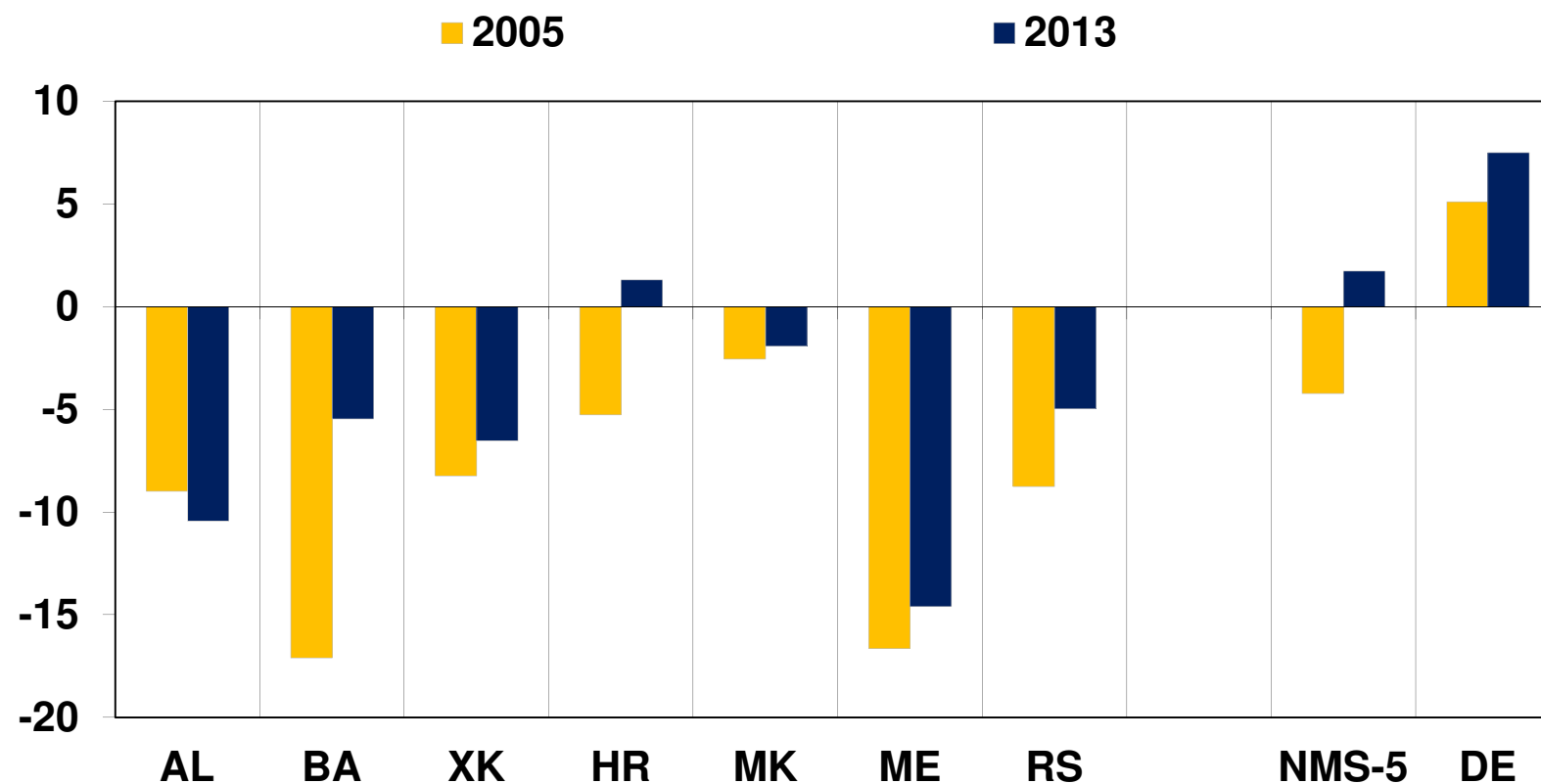
The Vienna Institute for International Economic Studies (wiiw) and
The Halle Institute for Economic Research (IWH)

Structure of 7 country analyses and 1 regional analysis

- Indicators of competitiveness (international markets, institutions, infrastructure, education and R&D, labour market efficiency, financial markets); choice according to coverage, relevance and availability
- Assessment of previous reforms
- Special analyses (international value added chains, services, financing, capital flows and exchange rates, labour markets and migration)
- Cost-benefit-analysis of efficient measures
- 2nd interim report July 2014, final report January 2015

Balkans traditionally lack competitiveness as indicated by large deficits in its net exchange with the world

Current accounts balance, in % of GDP

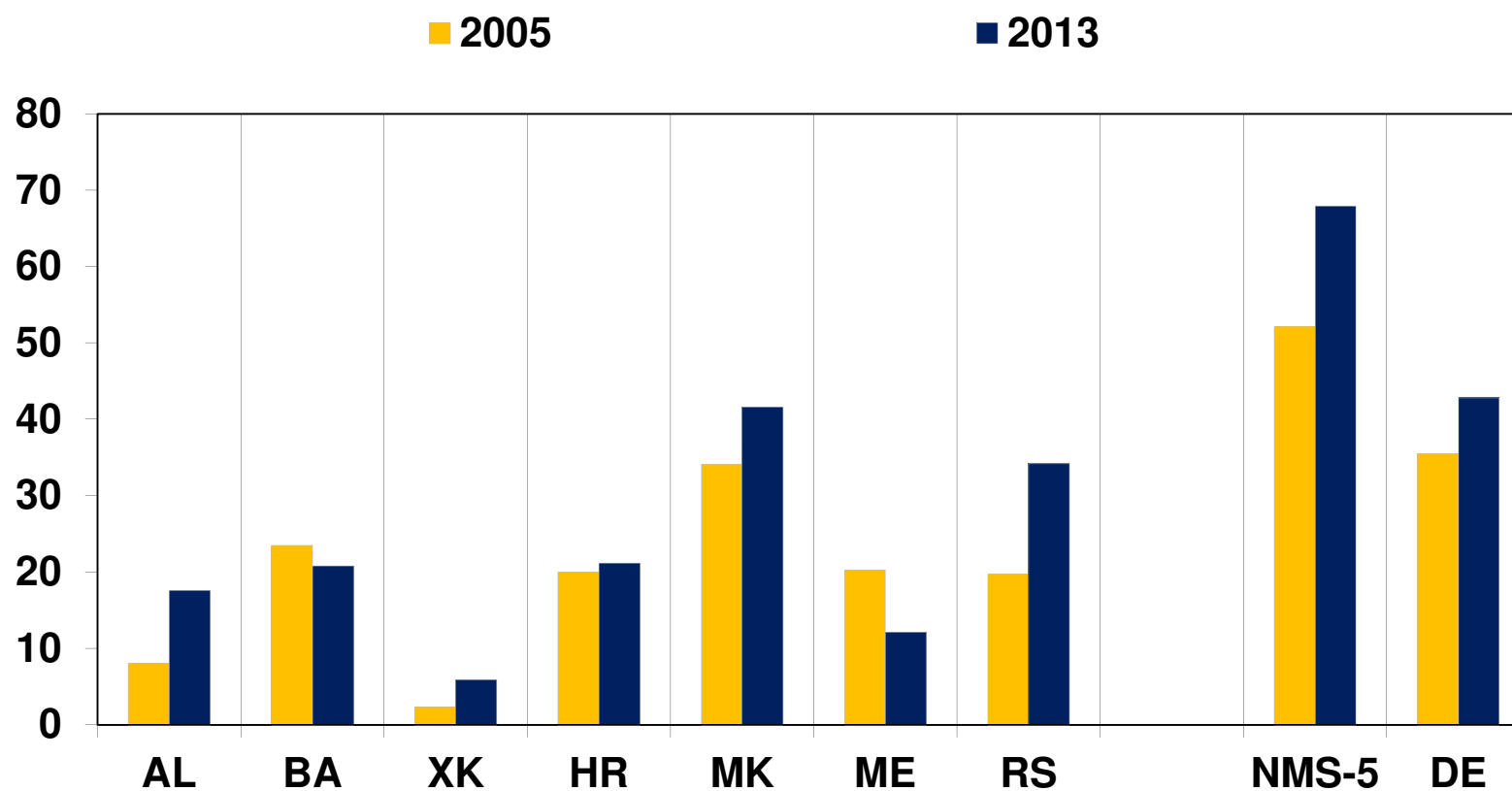


Remark: BOP 5ed., BA 2013 refers to BOP 6ed.

Source: wiiw-database, Eurostat.

**The region offers only few goods to international markets,
however, the situation is improving**

Exports of goods, in % of GDP

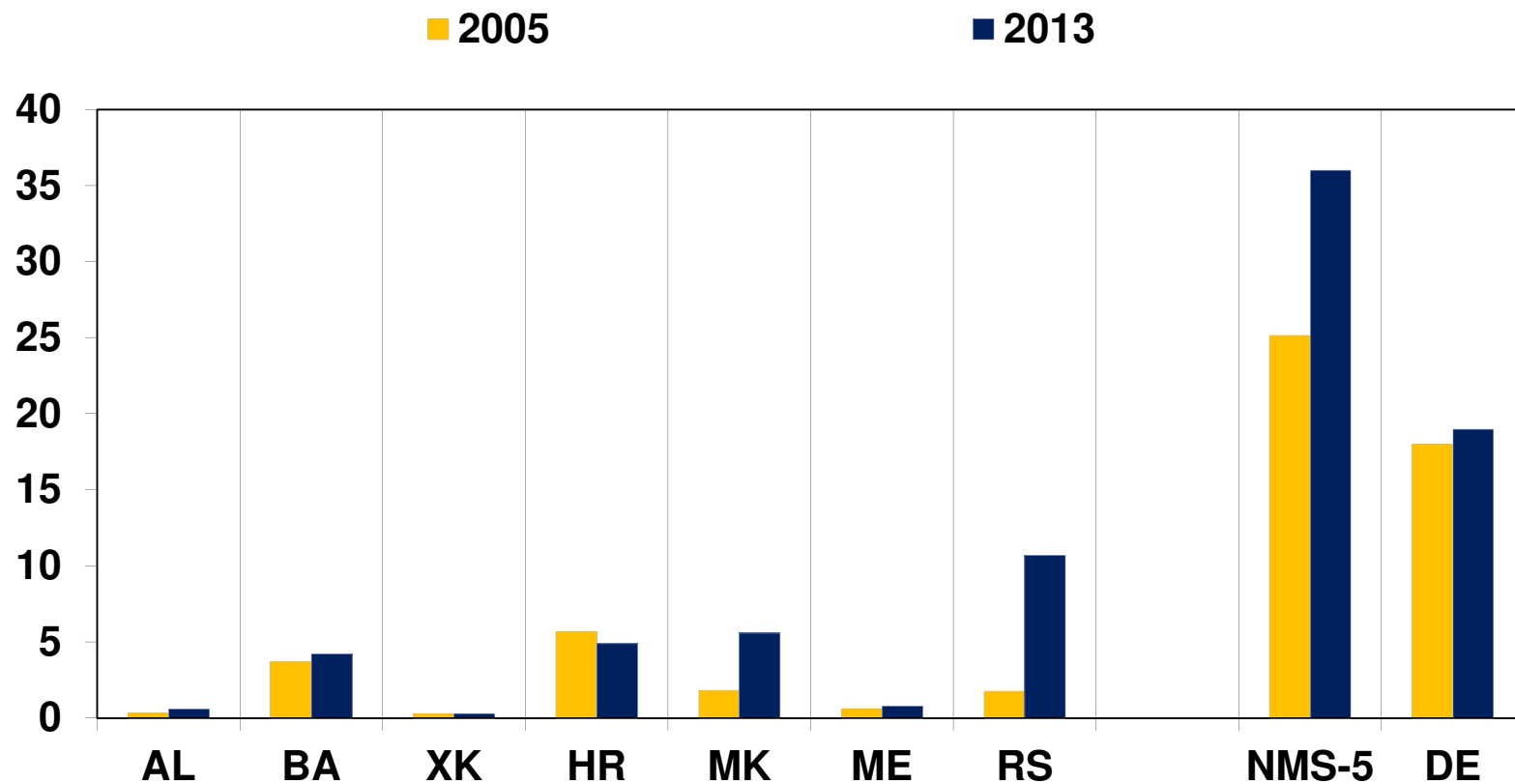


Remark: BOP 5ed., BA 2013 refers to BOP 6ed.

Source: wiiw-database, Eurostat.

Western Balkans are not part of the German - Central European mechanical engineering/automotive cluster

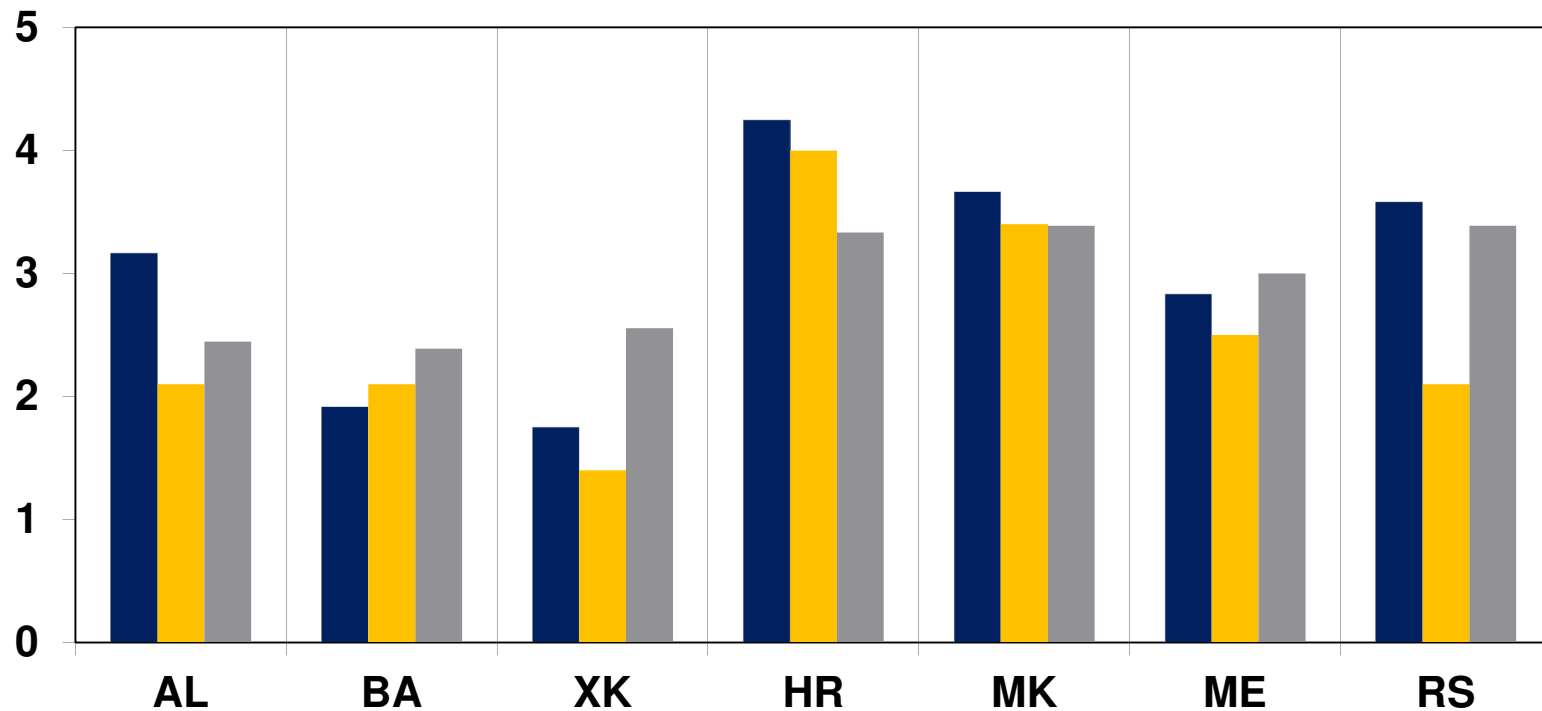
Exports of machinery and vehicles in % of GDP (SITC 7)



Non-tariff barriers to trade high; impact of EU accession (EU anchor also reflected in other institutional indicators)

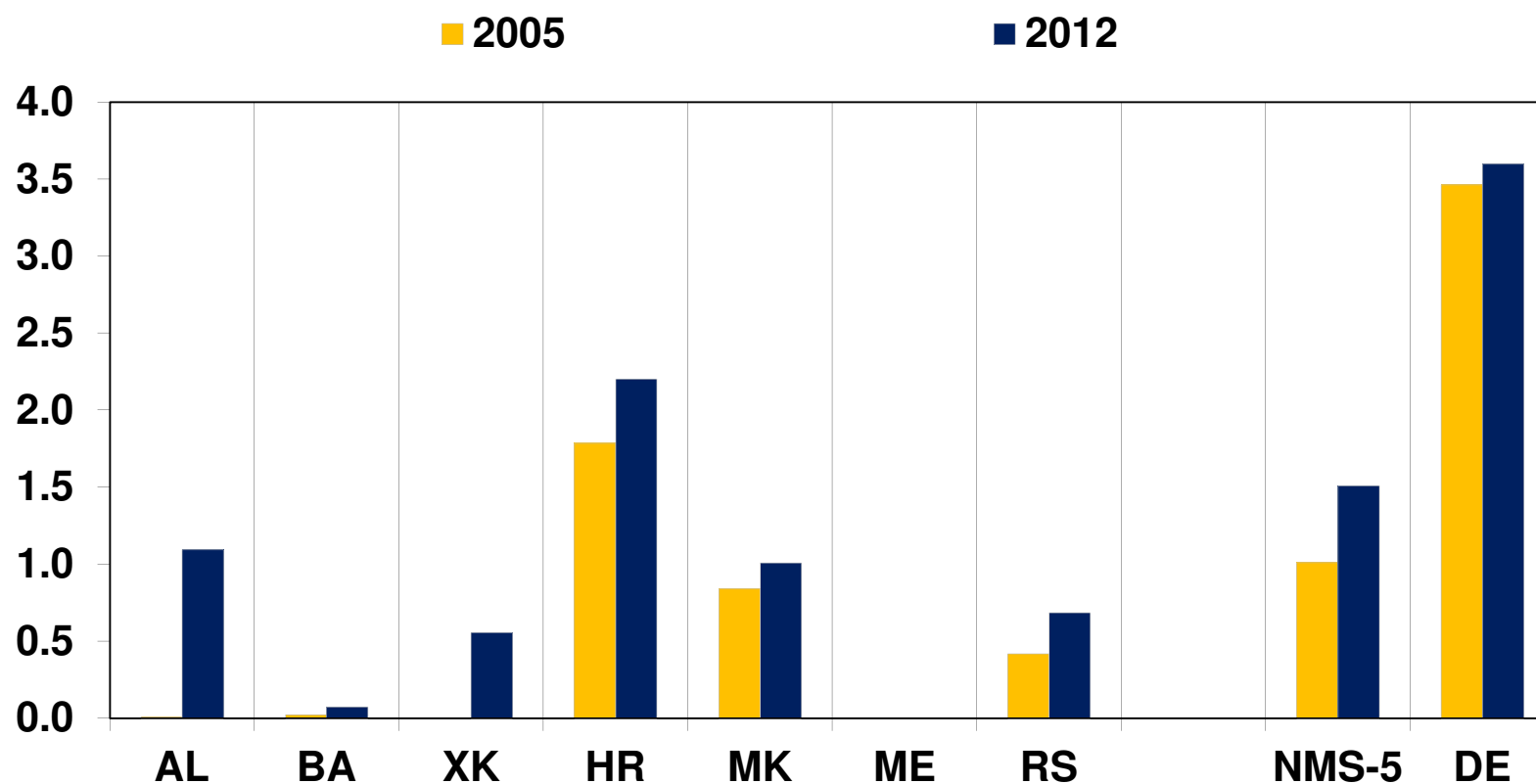
Technical barriers, sanitary & phytosanitary measures and administrative barriers to trade, 2011, ,5' = best practice

■ TBT ■ SPM ■ ABT



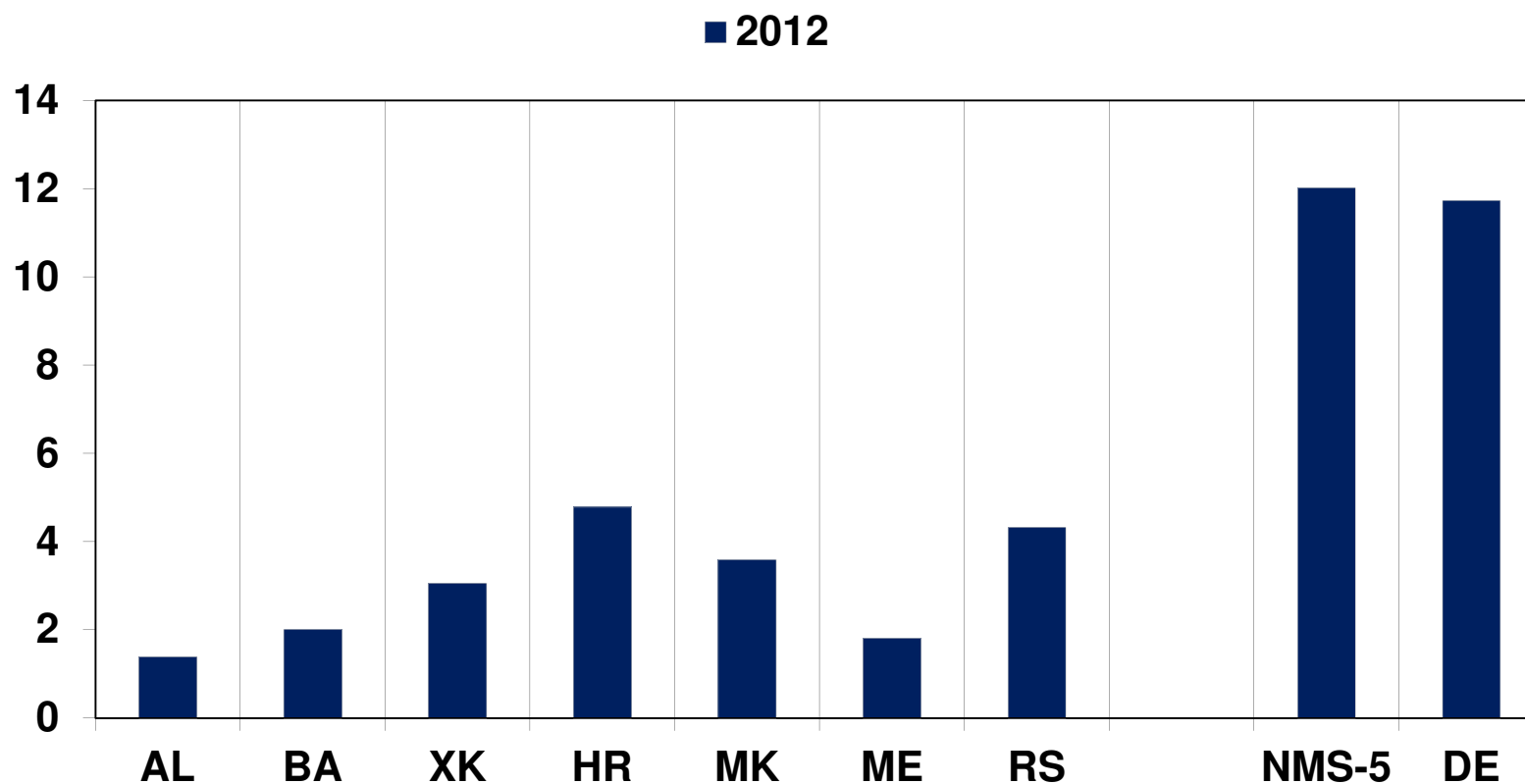
Road transport infrastructure weak but improving

Motorways in km per 100 km² land area



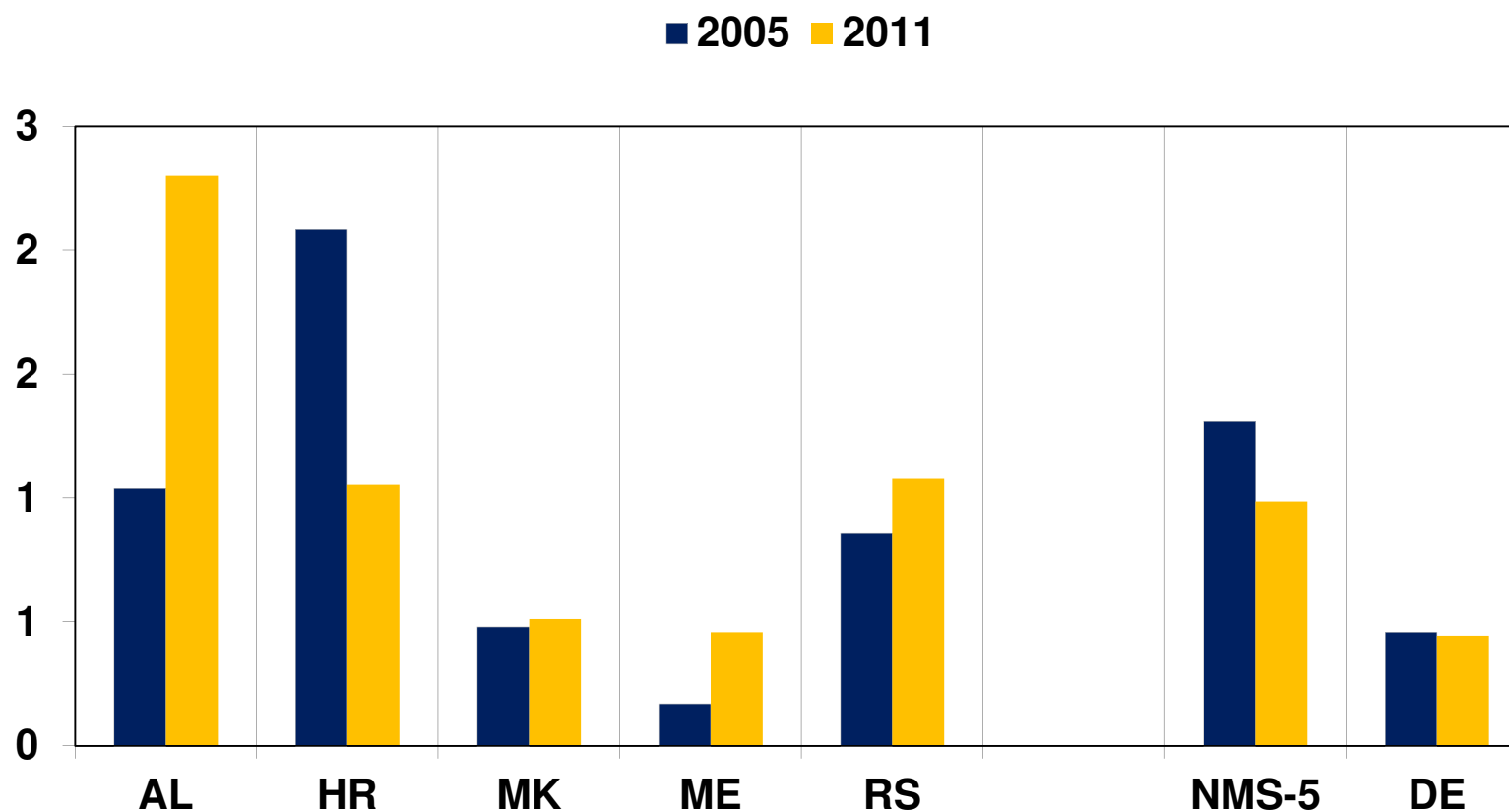
Rail transport infrastructure neglected

Railway tracks in km per 100 km² land area



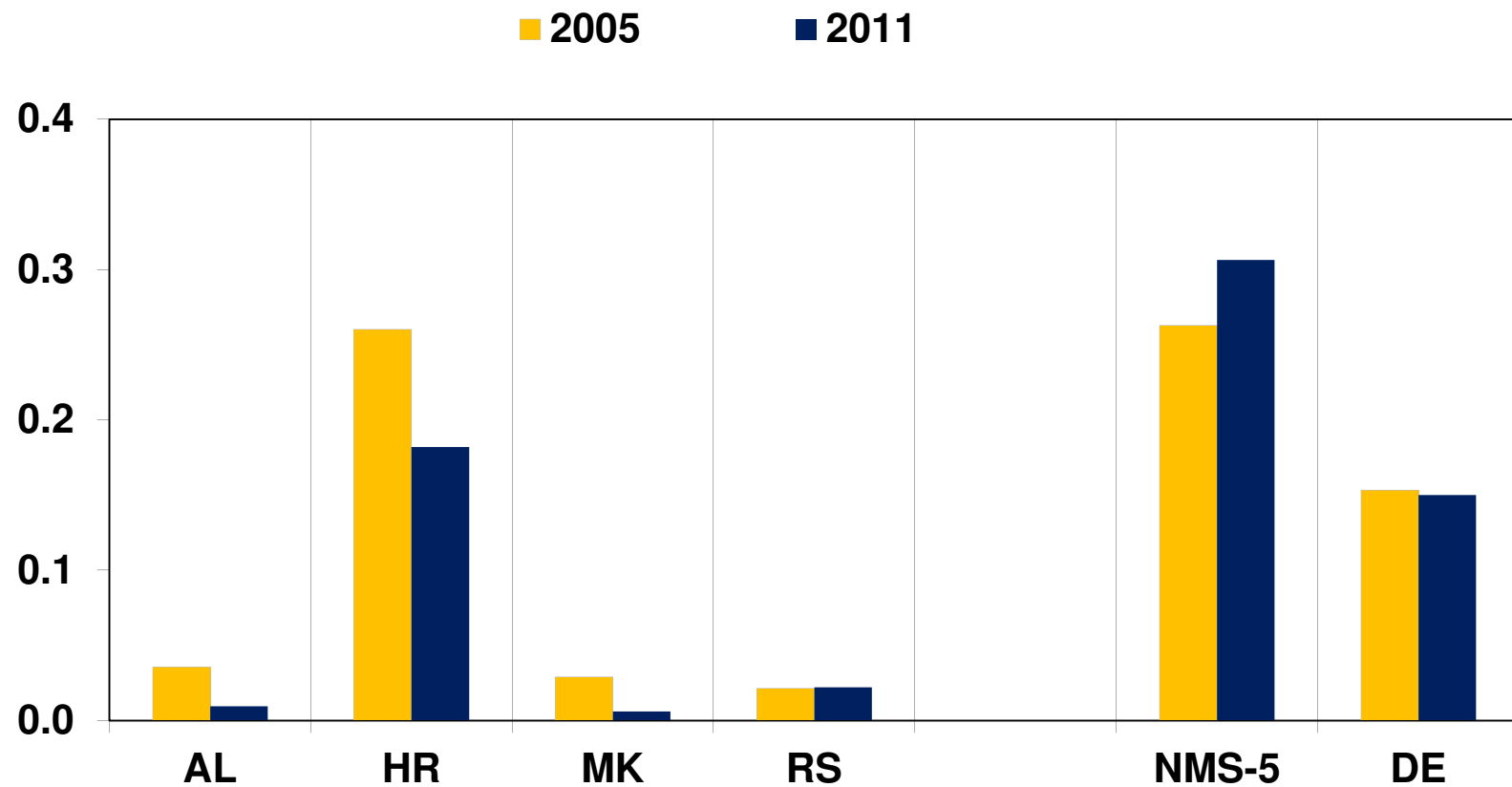
Strong investment in road infrastructure

Investment in road construction in % of GDP



Hardly any investment in rail infrastructure

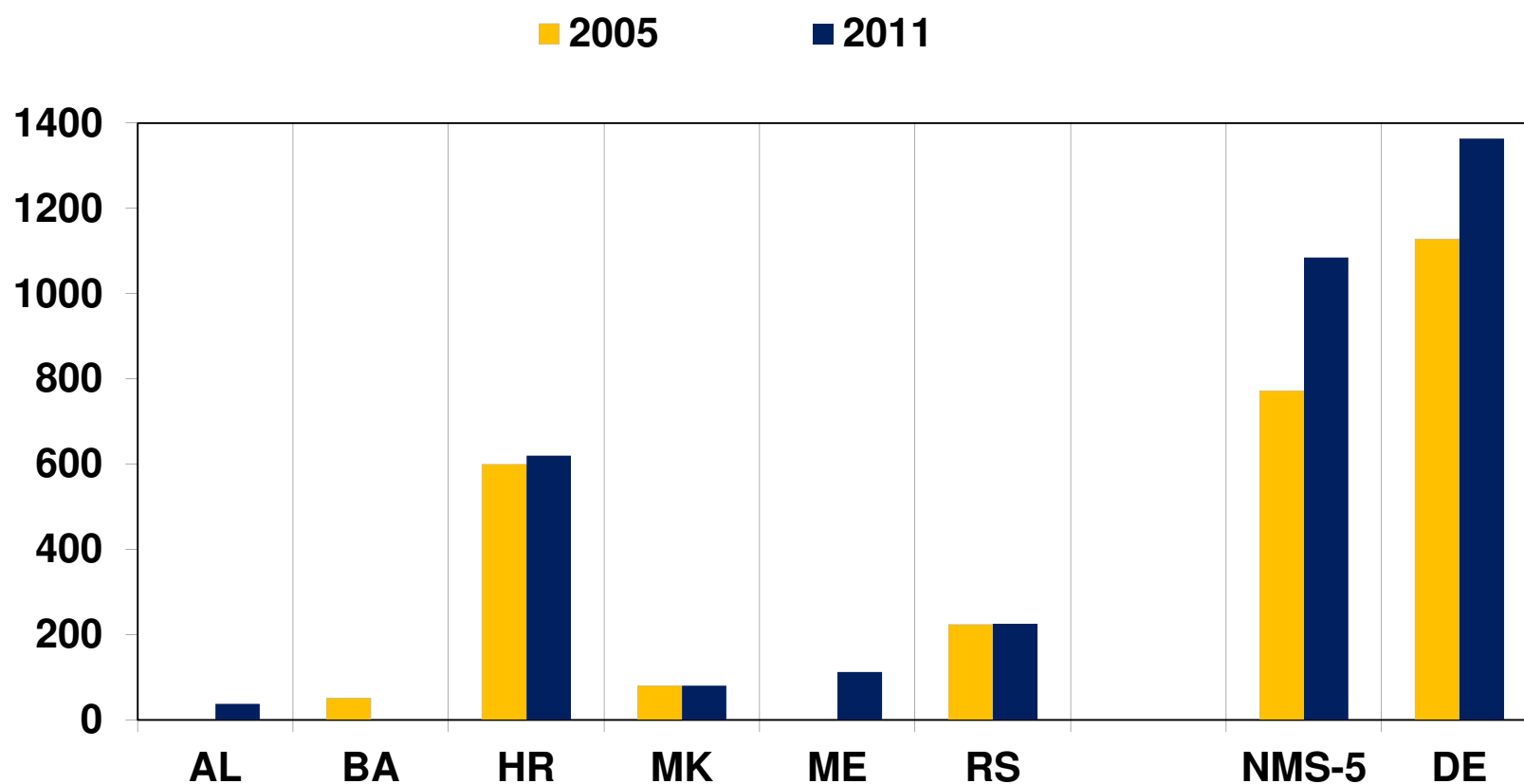
Investment in rail construction in % of GDP



Source: OECD.

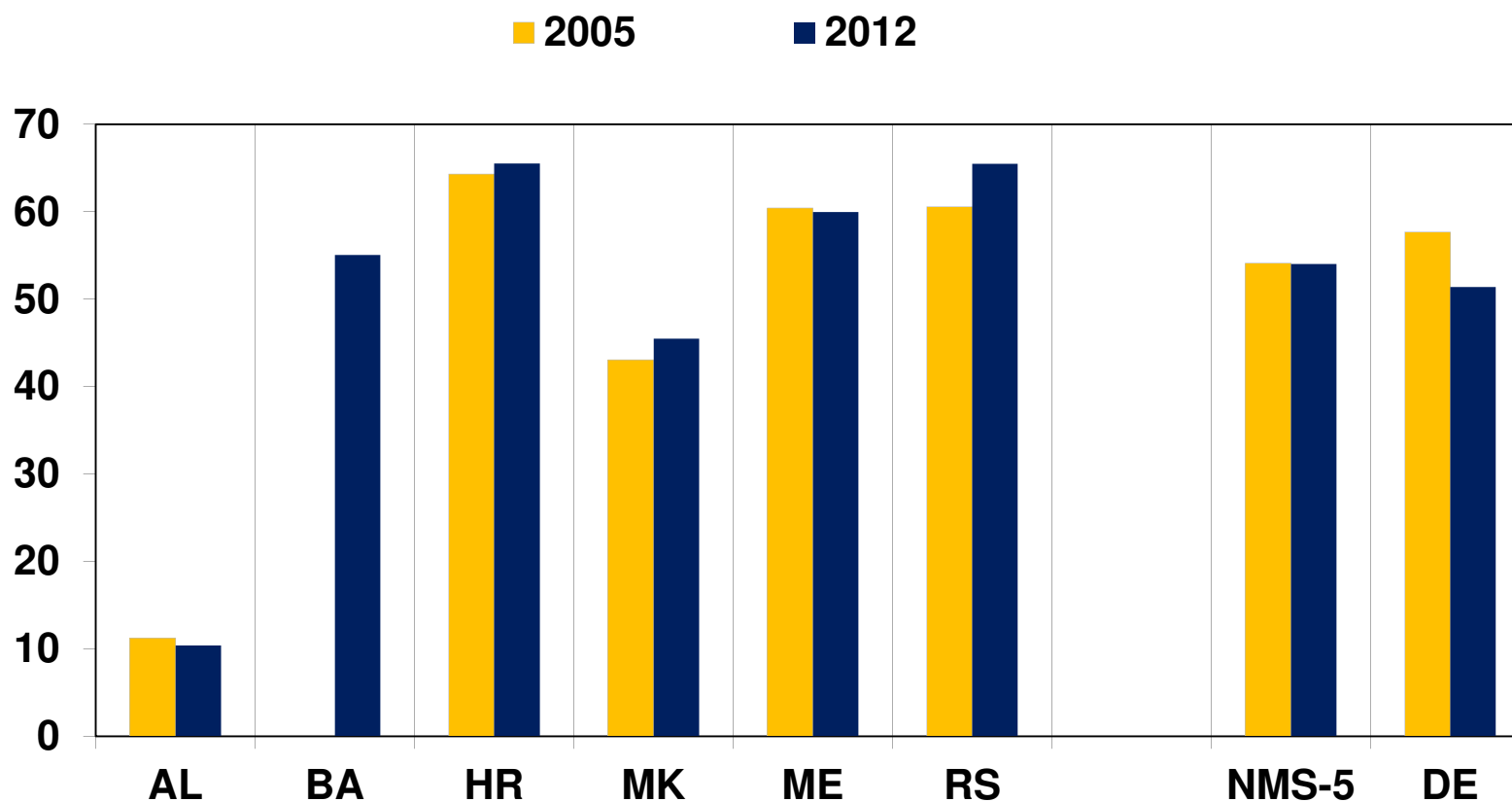
Low levels of technically educated human capital might rather be a result of low demand than missing supply

Technicians in R&D per 1 mn population



Source: UNESCO Institute for Statistics, own extrapolations.

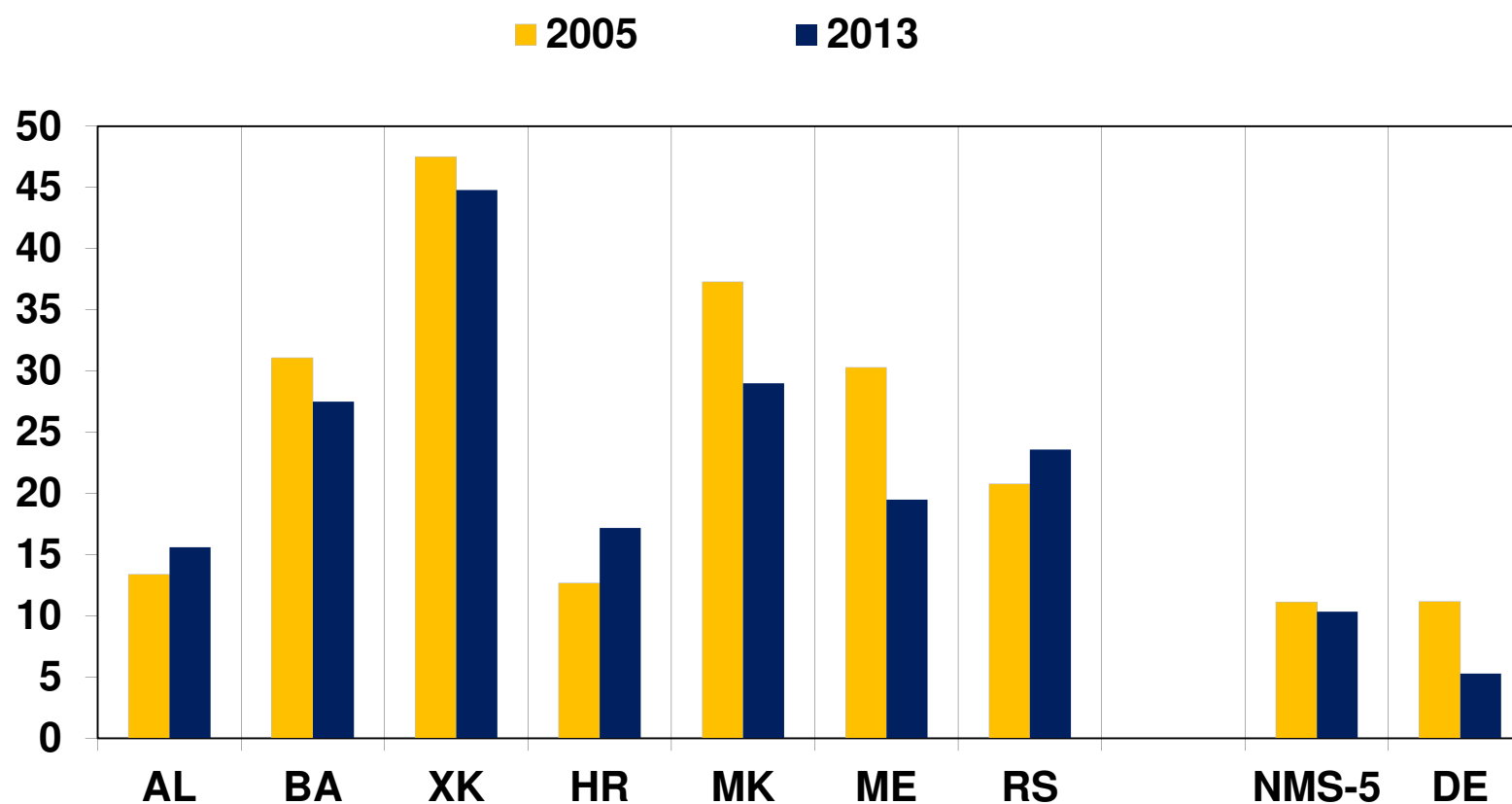
High upper secondary technical and vocational enrolment in % of respective population



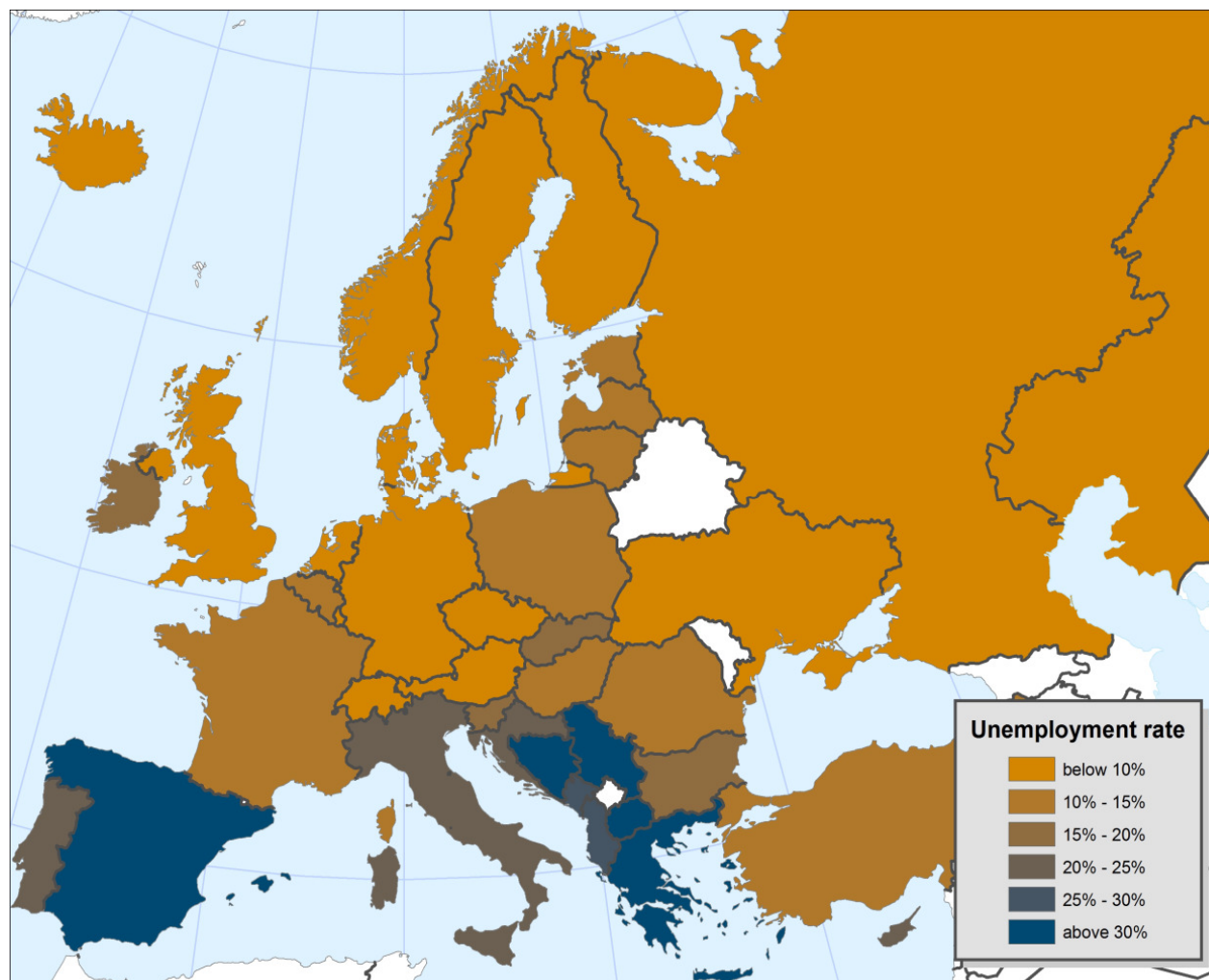
Source: UNESCO Institute for Statistics, own extrapolations.

**Labour is abundant as indicated by high unemployment
(as well as numbers of migrants, farmers, self-employed)**

Unemployment rate, LFS



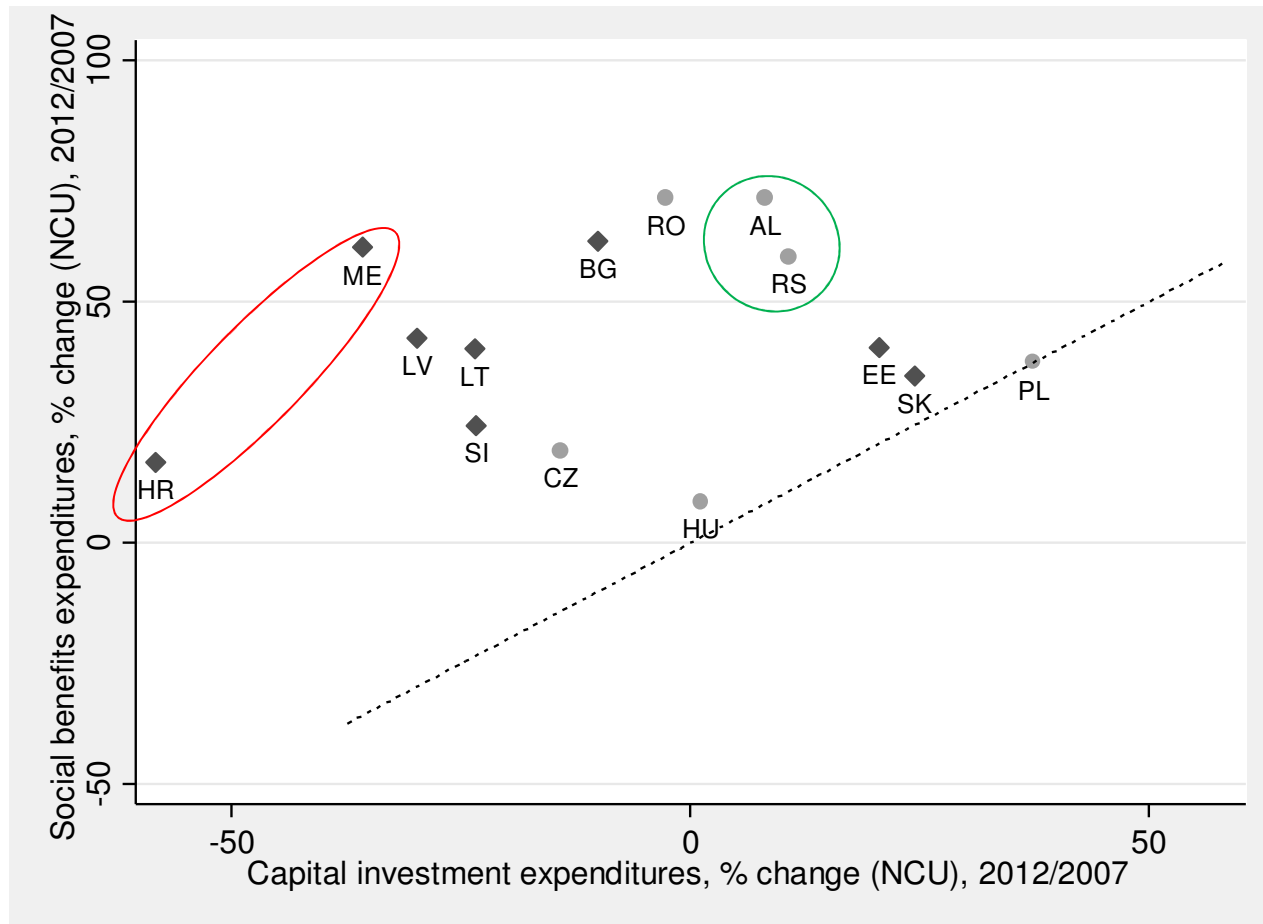
Youth unemployment rate for age group 25-29, %, avg. 1-3q 2013



Source: wiiw calculation incorporating national and Eurostat statistics.

Automatic stabilisers vs. public investment austerity

Nominal change of general government expenditure items

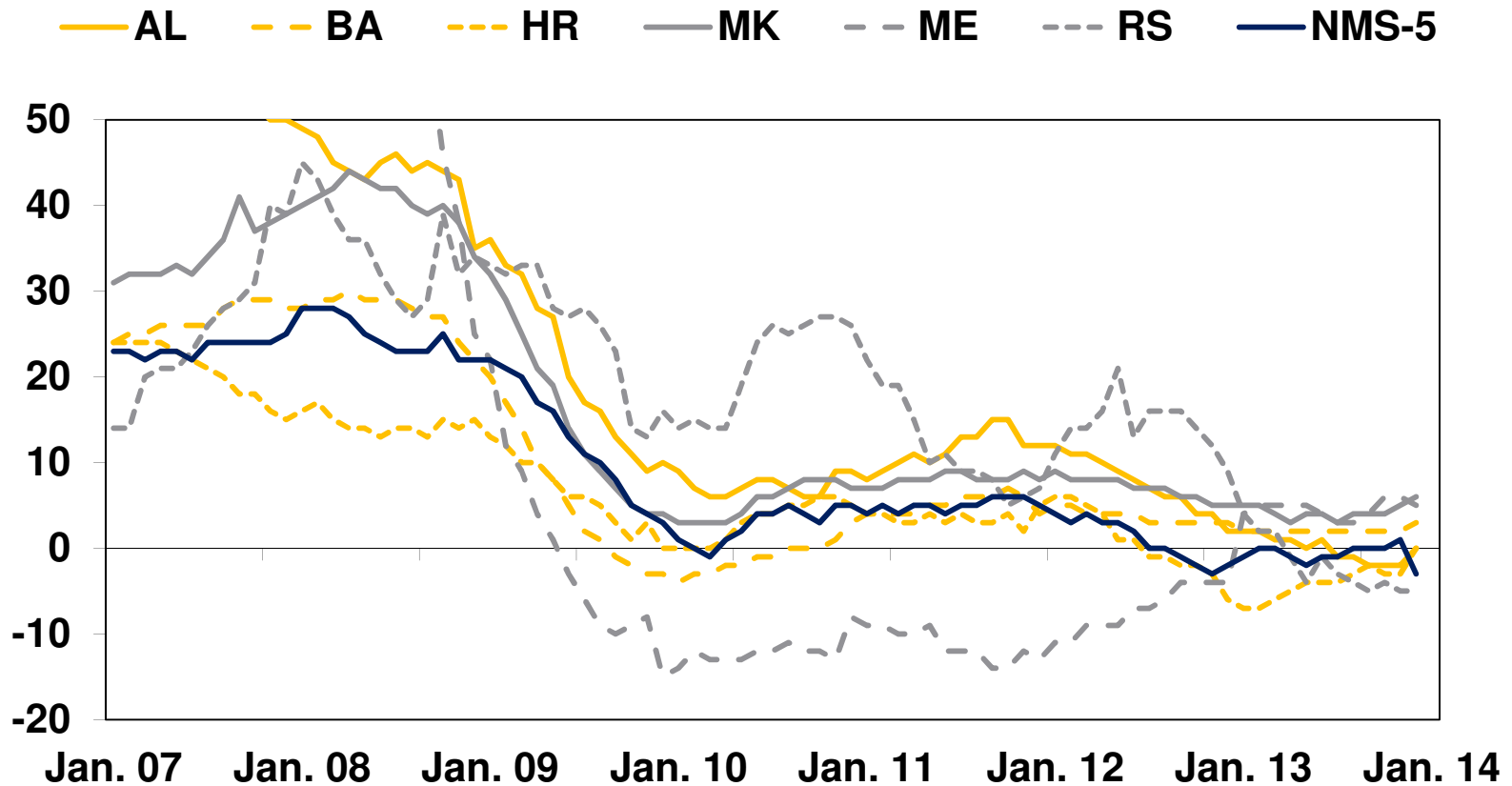


Note: Diamonds represent countries with fixed exchange rate regimes as opposed to flexible ones.

Source: wiiw Annual database incorporating national and Eurostat statistics, own calculation.

Financing increasingly difficult as deleveraging continues (low lending correlated with extent of non-performing loans)

Bank loans, annualised growth rate in %

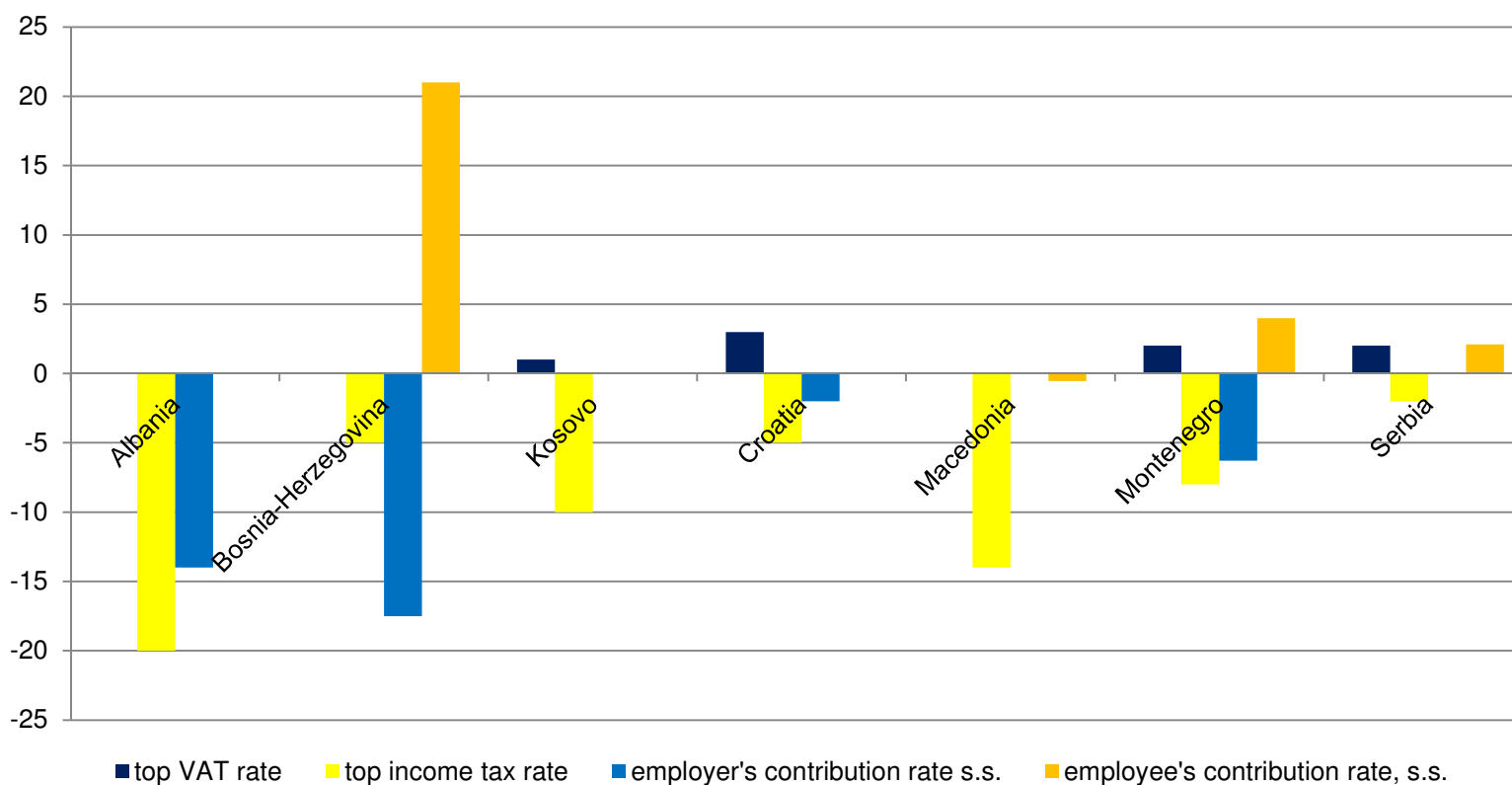


Assessment of previous reforms in major policy areas

- Monetary and exchange rate policy: high interest rates, rigid exchange rate regimes (unlikely to be abandoned due to massive euroisation e.g. of loans)
- Fiscal and labour market policy: certain efforts of fiscal devaluation, little efforts in active labour market policy, missing incomes policy
- Regulatory and structural policy: regulatory policy appears to be driven by the EU accession process, FDI support (mostly in HR and RS only)

Fiscal devaluation in progress

Change of tax and social security rates, 2005-2013, in pp.



Assessment of previous reforms in major policy areas – additional analysis to be conducted

- Monetary and exchange rate policy: analysis of impact on transmission mechanism, effects on the stock of debt, NPLs policy
- Fiscal and labour market policy: detailed analysis of government expenditures, referring to the output-gap, analysis of subsidy policy, labour market policies
- Regulatory and structural policy: analysis of anti-corruption policy, judiciary reform, industrial policy, intraregional integration (trade, energy, investment)

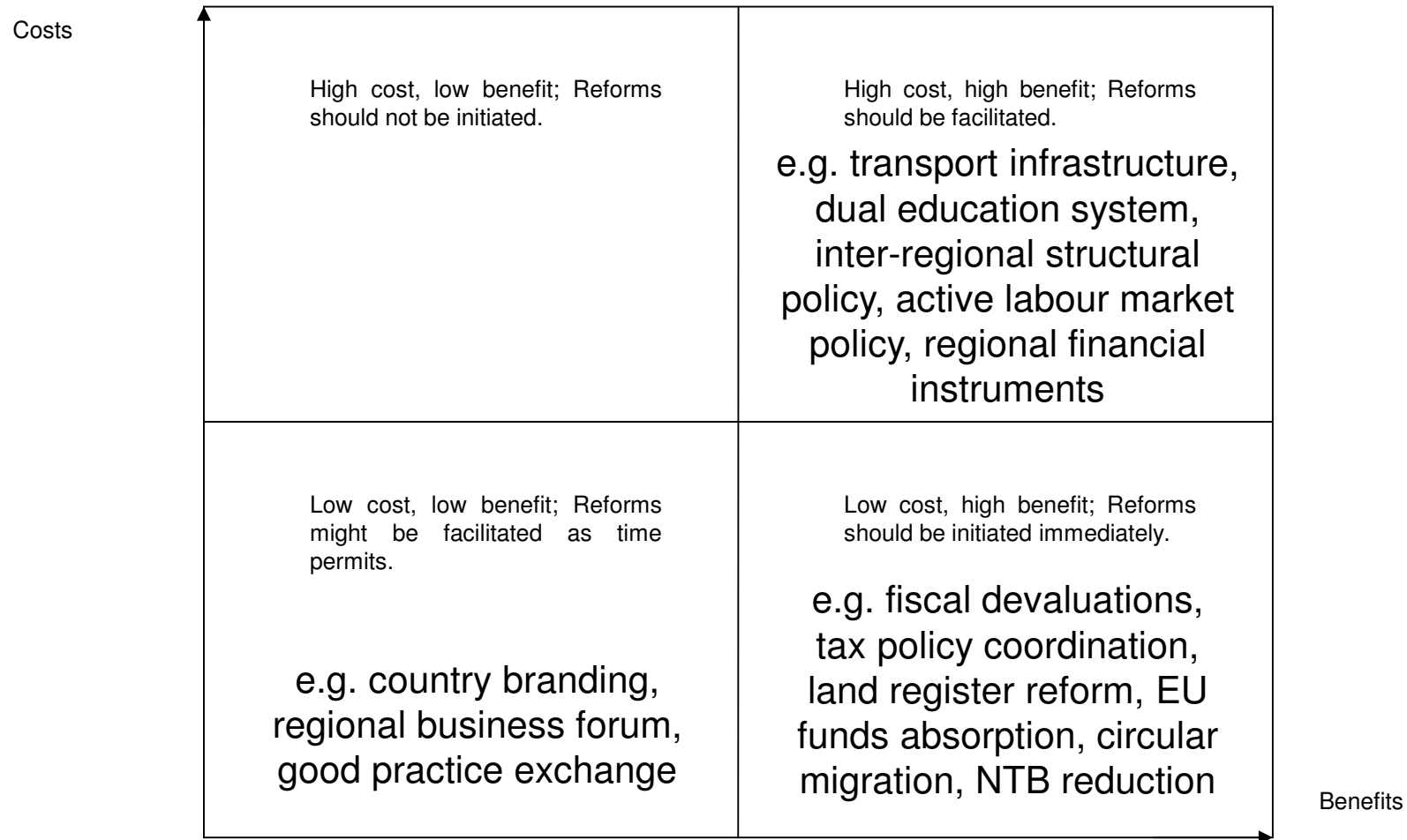
Special analyses

- Integration of industry in international value added chains: intermediate products analysis, trade policy recommendations
- Export and business oriented services: analysis of value added, employment, trade, FDI, recent liberalisation steps
- Access to finance: study of best practice in handling of NPLs, measures in asset quality reviews
- Capital flows and exchange rates: inward and outward flows, real exchange rate developments, exchange rate regime
- Labour markets and migration: structure of employment, unemployment, education, migration, analysis of policies

Special analyses – first results

- Access to finance:
 - So far financial market regulatory authorities have acted indulgent vis-à-vis banks
 - Quality of new credits must be improved
 - More transparency in asset quality reviews needed
- Capital flows and exchange rates:
 - Capital inflows before crisis have caused real appreciation which was not reversed after the outbreak of the crisis
 - Options for control of undesired / support of desired inflows
 - Capital controls: higher reserve requirements, capital taxes
 - Floaters (AL, RS) could be pegged within a band
 - Fixers (HR, MK) could widen their band

Cost-benefit-analysis of efficient measures to improve competitiveness in the Western Balkans



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