

Economic Outlook for Western Balkans

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16 June 2015

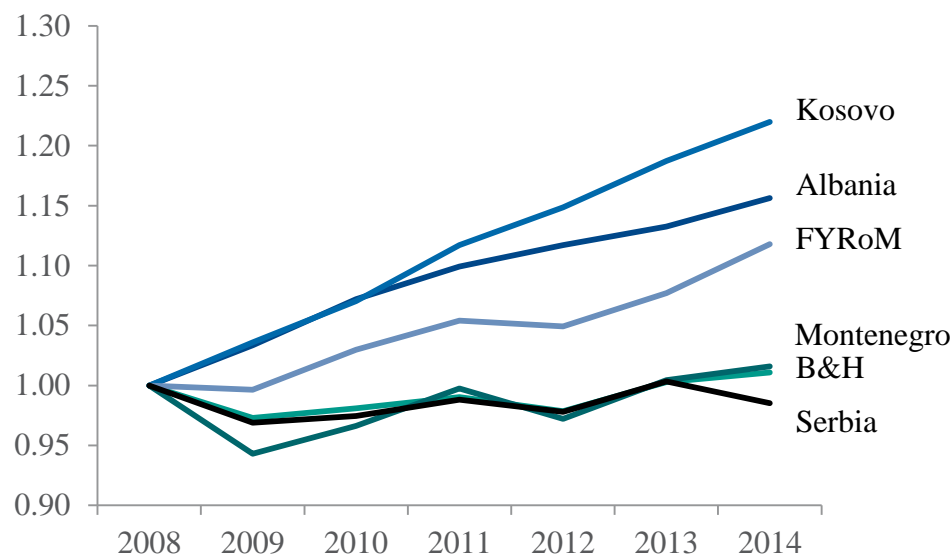


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Context: the impact of the global crisis is still present...

Real GDP is only at 2008 levels in several cases

GDP 2008 = 1.00



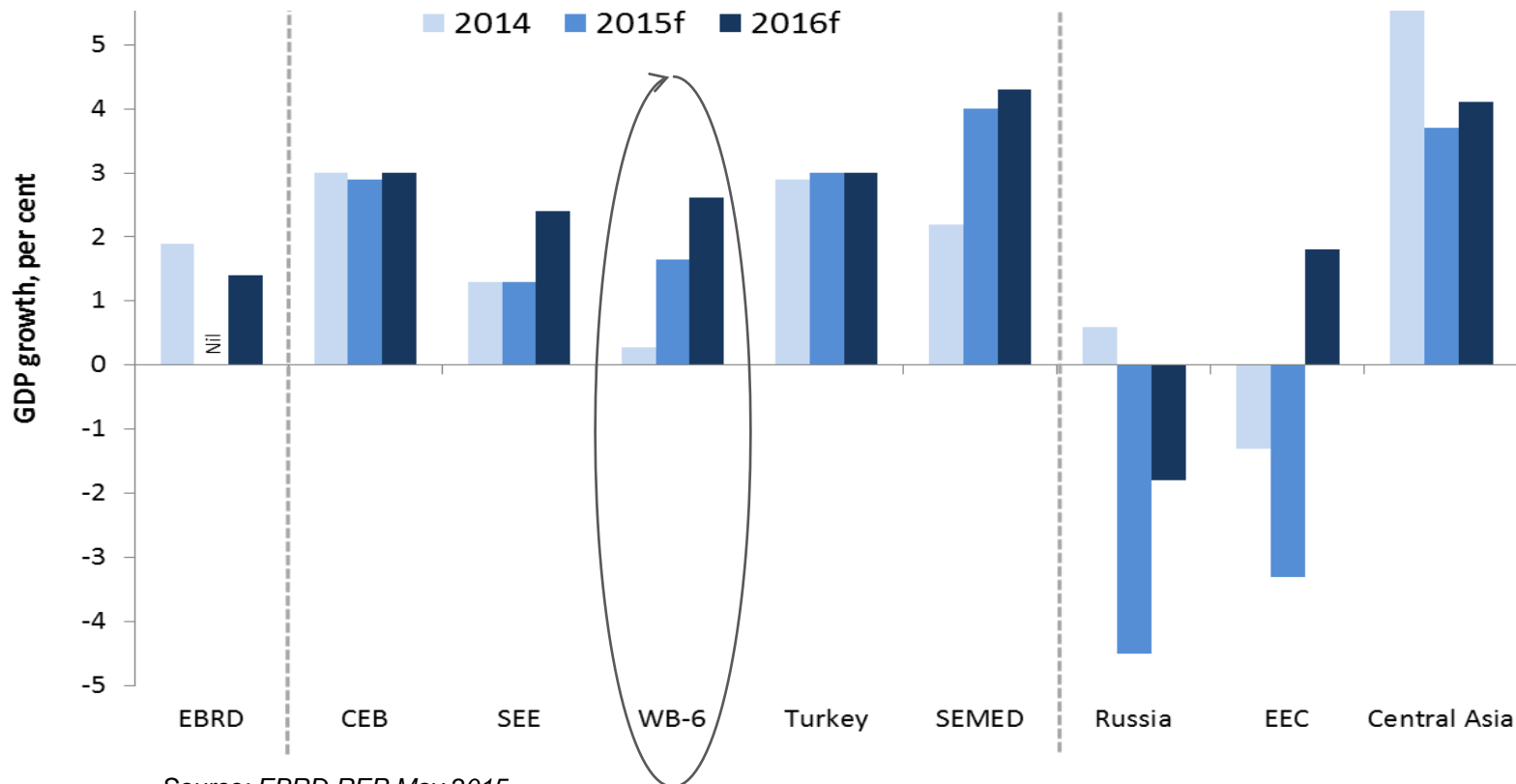
Source: IMF WEO April 2015

...and the Western Balkans is operating in a volatile and diverse regional environment



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- ❑ The WB-6 outlook is improving as Eurozone QE helps the recovery in the main export markets, and lower oil prices provide a further boost
- ❑ Russia and Ukraine are in deep recession but impact on WB-6 is limited

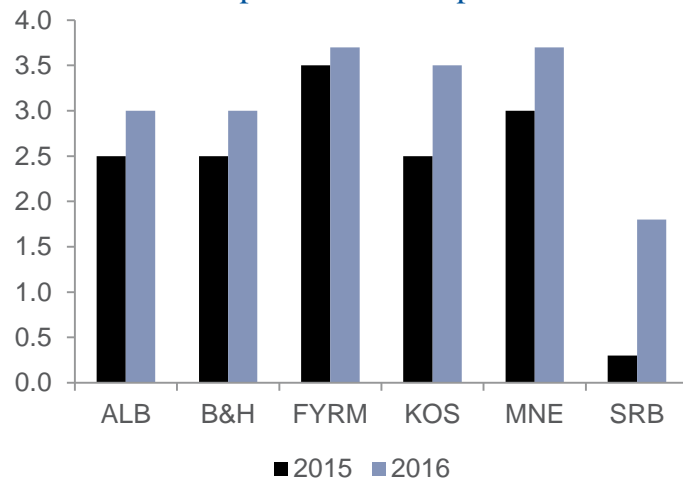


Source: EBRD REP May 2015

Prospects for 2015 and 2016 are looking somewhat improved.

Regional Growth drivers

- ❑ **Oil price fall:** lower production costs for companies and more disposable income for consumers.
- ❑ **Better Eurozone outlook:** higher export demand, tourism receipts, remittances and capital inflows.
- ❑ **Monetary policy:** rate cuts in Serbia and Albania are helping.
- ❑ **Infrastructure projects:** Well-structured PPPs can also help where fiscal space is constrained.



Growth drivers by country

- ❑ **Albania:** Clearing of government arrears, supportive monetary policy (lower interest rates) and a gradual pickup in bank lending. Faster growth is expected in 2016 on the back of an improved outlook in the Eurozone and the start of the major construction work on the TAP.
- ❑ **B&H:** Growth boosted by several major projects in the transport and energy sectors. Efficient use of donor and IFIs support will be important for contributing to the rebuilding of assets damaged by the floods.
- ❑ **FYR Macedonia:** Benefits of stable macroeconomic policies and impact of several major foreign investments in recent years, as well as large infrastructure projects.
- ❑ **Kosovo:** resolution of political uncertainty and a pick-up in external demand, as well as continued high level of remittances.
- ❑ **Montenegro:** A rebound on the back of strong FDI inflows and progress on a major highway project in 2015 and 2016.
- ❑ **Serbia:** Front-loaded necessary fiscal adjustment under the new IMF programme will drag down domestic demand in 2015 but improved confidence and a Eurozone pick-up will help recovery in 2016.

Infrastructure financing: limited fiscal space but strong potential benefits

- EBRD research shows very limited fiscal space (high public debt and significant deficits) in Serbia, and limited in Albania, Bosnia and Montenegro...
- ...but all countries have medium or high potential to benefit, in terms of capacity and scope for improvement. A mix of public and private financing is therefore needed.

		POTENTIAL TO BENEFIT FROM INFRASTRUCTURE		
		<i>Low</i>	<i>Medium</i>	<i>High</i>
FISCAL SPACE	<i>Very Limited</i>	Croatia, Jordan, Ukraine	Egypt, Mongolia, Serbia, Slovenia	Cyprus
	<i>Limited</i>	Azerbaijan, Morocco	Belarus, Bosnia, Hungary, Kyrgyz R., Moldova, Romania, Tajikistan, Turkmenistan	Albania, Montenegro, Tunisia, Georgia
	<i>OK</i>	Kazakhstan	Armenia, Russia, Slovak R., Turkey, Uzbekistan	Bulgaria, Estonia, Latvia, Lithuania, FYR Macedonia, Poland

Sources: EBRD staff estimates

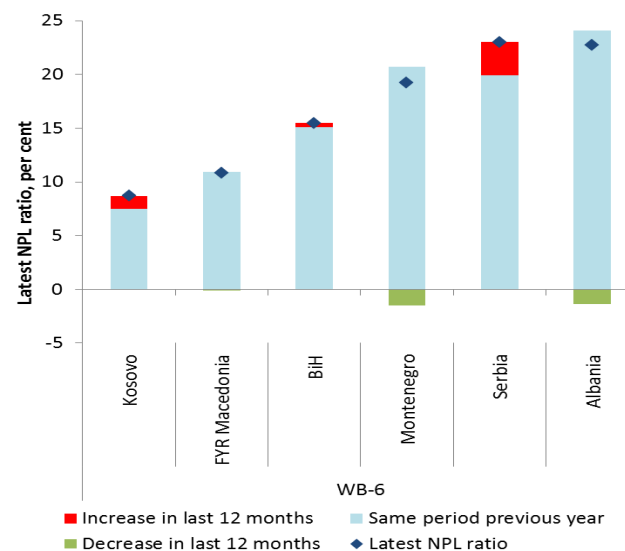
Structural Reforms: a Major agenda still lies ahead...

Reviving structural reforms will help unstuck investments, both domestic and foreign...

- ❑ Efforts to restructure and privatise state-owned companies should be intensified across the region (in particular in B&H and Serbia). New privatisation and bankruptcy laws in Serbia are positive signals.
- ❑ Reforms in the energy sector should be promptly addressed (Albania/B&H/Kosovo). Draft of a New Energy Law in B&H, and new impetus in Albania are good news.
- ❑ Further improvements are needed in the business environment (B&H, Serbia, Kosovo, Albania). Albania's significant jump in the World Bank Doing Business 2015 report is a positive development.
- ❑ Management of public finances should be improved (Montenegro, Albania).
- ❑ Regional linkages should be further enhanced. Number of regional transport and energy projects in the pipeline look encouraging.

...and dealing with legacy issues, such as NPLs, is imperative to revive credit growth

- High NPLs, even when fully provisioned, continue to absorb managerial time both in banks and corporates, and constrain fresh lending.
- Some positive developments have been seen lately in Montenegro and Albania.
- Deposits have increased in all countries since the start of the crisis; However, some countries, like Serbia and B&H have experienced a significant deleveraging.



Source: National authorities via CEIC

...and gaps with central Europe remain significant.



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- EBRD transition scores – from 1 (no reform) to 4+ (standards of advanced market economy) – highlight the reform gaps relative to central Europe
- Reforms are lagging especially in general industry, energy and non-bank financial institutions.

Sector Transition Indicators 2014: Overall scores

	Corporate Sectors				Energy			Infrastructure				Financial Sectors				
	Agri-business	General Industry	Real estate	ICT	Natural resources	Sustainable energy	Power	Water and Wastewater	Urban Transport	Roads	Railways	Banking	Insurance and other financial services	MSME Finance	Private Equity	Capital Markets
Central Europe																
Croatia	3	3+	3+	4	4-	3-	3	3+	3+	3+	3-	3+	3+	3-	2+	3+
Estonia	3+	4+	4+	4	4	3-	4+	4	3+	3	4	4-	3+	3+	3-	3
Hungary	4	4-	4-	4-	4-	3	3	3+	3+	4-	3+	3	3	3	3	3+
Latvia	3	4-	4-	3+	4-	3+	3+	3+	4-	3	4-	3+	3+	3	2+	3+
Lithuania	3+	4	4-	4-	4-	3+	3+	3+	4-	3	3	3+	3+	3	2+	3
Poland	3+	4-	4-	4	3	3	3+	4-	4-	4-	4-	4-	3+	3	3+	4-
Slovak Republic	3+	4+	4	4-	4-	3	4	3+	3+	3+	3+	4-	3+	4-	2+	3
Slovenia	4-	3+	4	3+	3+	3+	3	3+	3+	3	3	3	3+	3-	3-	3+
Western Balkans																
Albania	3-	2+	3-	3+	3-	3+	2+	2+	3-	3-	2	3-	2	3-	1	2-
B&H	3-	2	2-	2+	2	2	2+	2	2+	3	3+	3-	2+	2+	2-	2
FYR Macedonia	3-	3	3-	4-	2+	2+	3	2+	3-	3-	3-	3-	3-	3	1	2-
Kosovo	2+	2-	2-	2+	2	2-	2+	2+	2+	2+	3-	2+	2	3-	1	1
Montenegro	2+	2+	2+	3+	3+	2	2+	2	3	2+	2+	3-	2+	3	1	2
Serbia	3-	3-	3-	3	2	2+	2+	2+	3-	3-	3	3-	3	3	2	2