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Investment for Growth and Development in the Western Balkans

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Executive Summary

CHAPTER 1. WESTERN BALKANS URGE MORE INVESTMENT

1.1. Macroeconomic data analysis

1.2. Infrastructure: state and needs

Transport

Energy

Environment

Social Sector

1.3. Private sector and SMEs

CHAPTER 2. CONVERGENCE, INVESTMENT, DEBT, EMPLOYMENT: ALL PIECES OF THE SAME PUZZLE

2.1. Convergence to EU-level living standards – still a long journey

2.2. Investment stimulus needed to achieve development goals

2.3. Consequences for debt

2.4. Employment: the ultimate goal...

CHAPTER 3. COORDINATION TO ACHIEVE POLICY SYNERGIES AT REGIONAL LEVEL

3.1. Demand coordination and multipliers

3.2. Three independent small open economies

3.3. Trade interdependence without policy coordination

3.4. Trade interdependence with policy coordination

CONCLUSION. INVESTMENT NEEDS AND FINANCING – MIND THE GAP

Medium term investment needs estimates by infrastructure sector

Transport

40 EUR bn

**SRB : > 22
EUR bn**

SEETO Network:

**31 priority
projects require
6.7 EUR bn of
investment**

Energy

**14.2 EUR bn
(PECI_s) at least**

Environment

>20 EUR bn

**SRB : 10.6
EUR bn
MKD: 2.3 EUR
bn**

**Water and
waste water:**

16 EUR bn

Social sector

**no sector
estimates
but high needs
... due to chronic
underinvestment,
poor education
enrolment ratios in
some countries,
poor employment
performances and
because of high
importance of
human capital for
future development**

***Just for basic infrastructure*, assuming that these projects would be realized over next 10 years, **EUR 7.5 bn per year** of additional net investment are needed.**

How much investment needed?

(global investment needs: public and private)

**Low-growth or
“do nothing”
scenario**

$g=2\%$

**WB 6
EUR 14 billion
on average per annum**

in 2014:
EUR 15 billion

Implied investment
increase
EUR -1 billion

**Medium-growth
scenario**

$g=4\%$

**WB 6
EUR 23.5 billion
on average per annum**

in 2014:
EUR 15 billion

Implied investment
increase
**EUR 8.5 billion
per year**

**“Steady” or
Central scenario**

$g=n+p$
on average **4.8%**

**WB 6
EUR 28 billion
on average per annum**

in 2014:
EUR 15 billion

Implied investment
increase
**EUR 13 billion
per year**

High-growth or

$g=6\%$

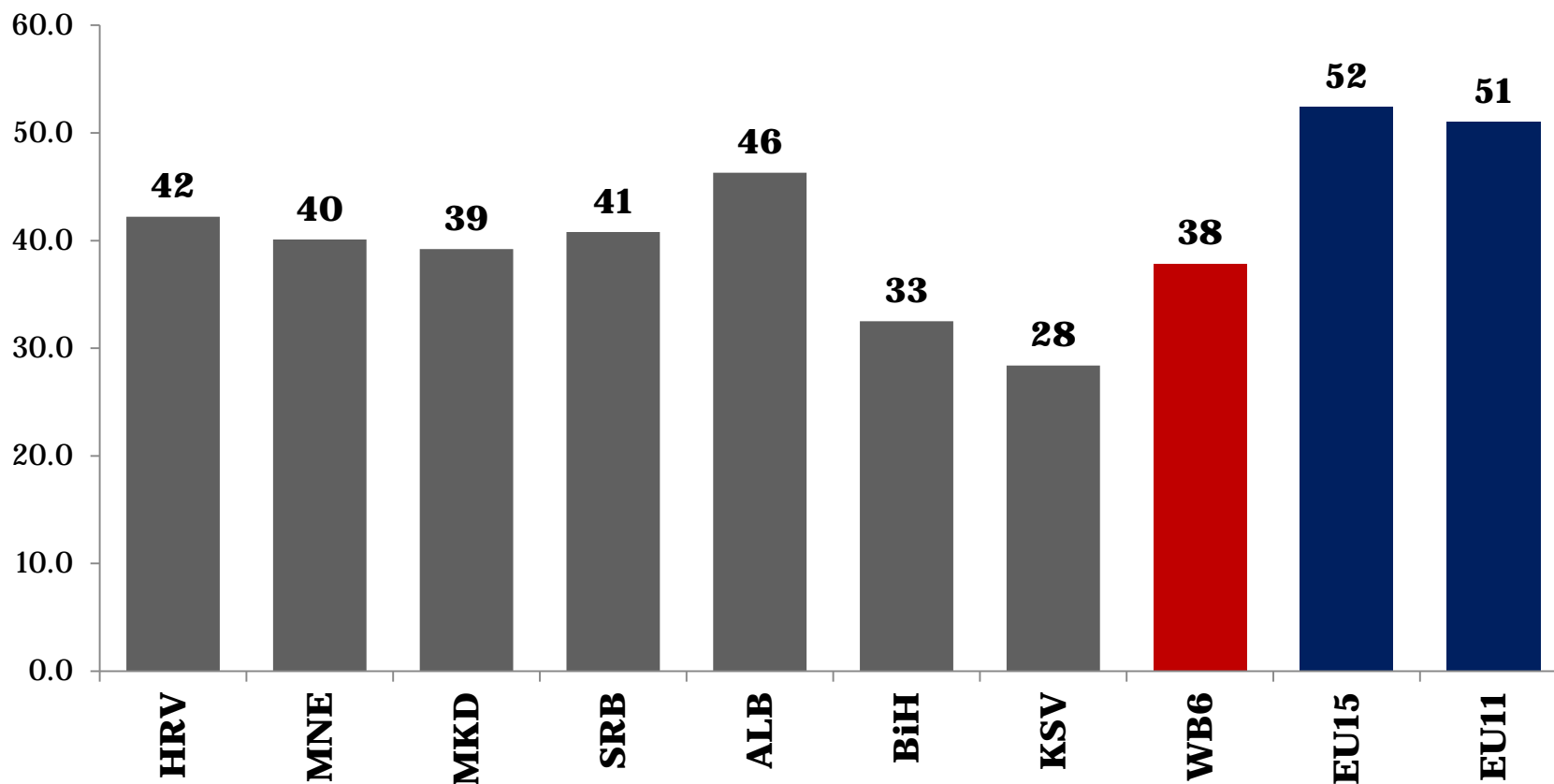
**WB 6
EUR 35 billion
on average per annum**

in 2014:
EUR 15 billion

Implied investment
increase
**EUR 20 billion
per year**

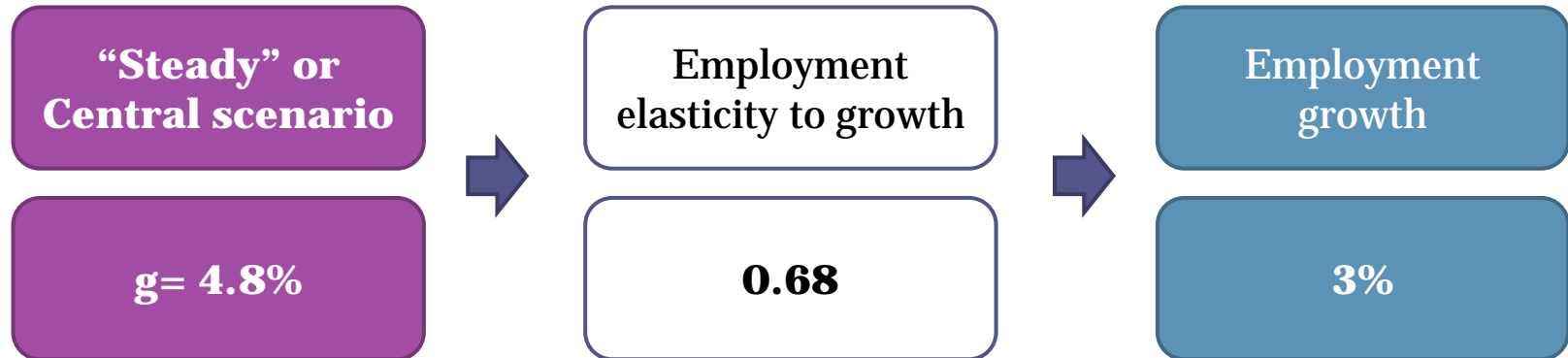
Employment: critical situation

Employment-to-Population ratio in 2013 (%)

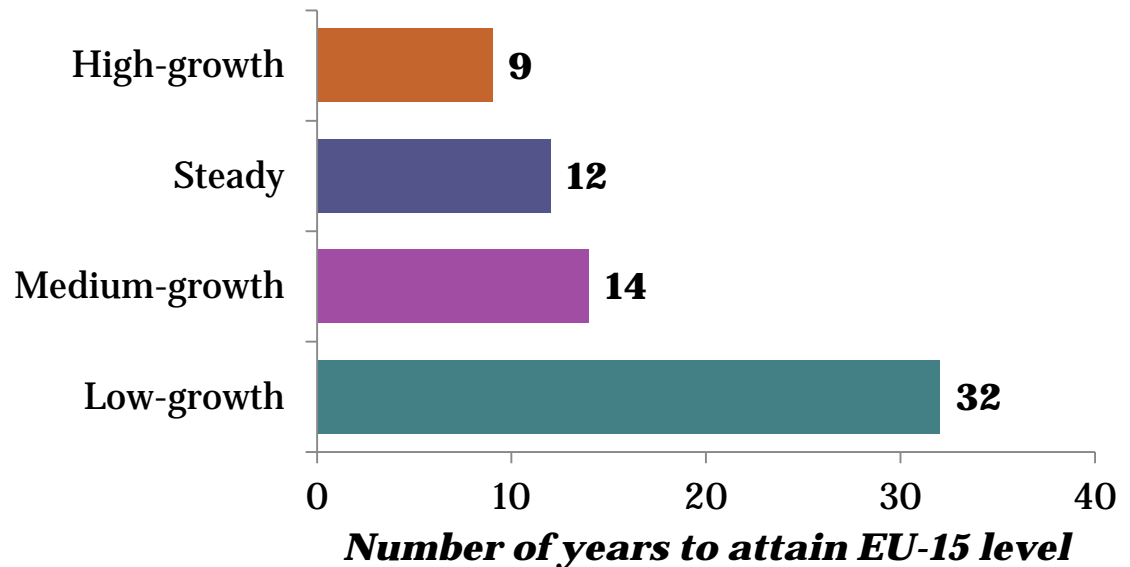


Source: International Labour Organization KILM 8th edition, World Bank (2013) Results of the Kosovo 2012 Labour Force Survey, World Bank (2014) Results of the Kosovo 2013 Labour Force Survey.

Employment: the ultimate goal

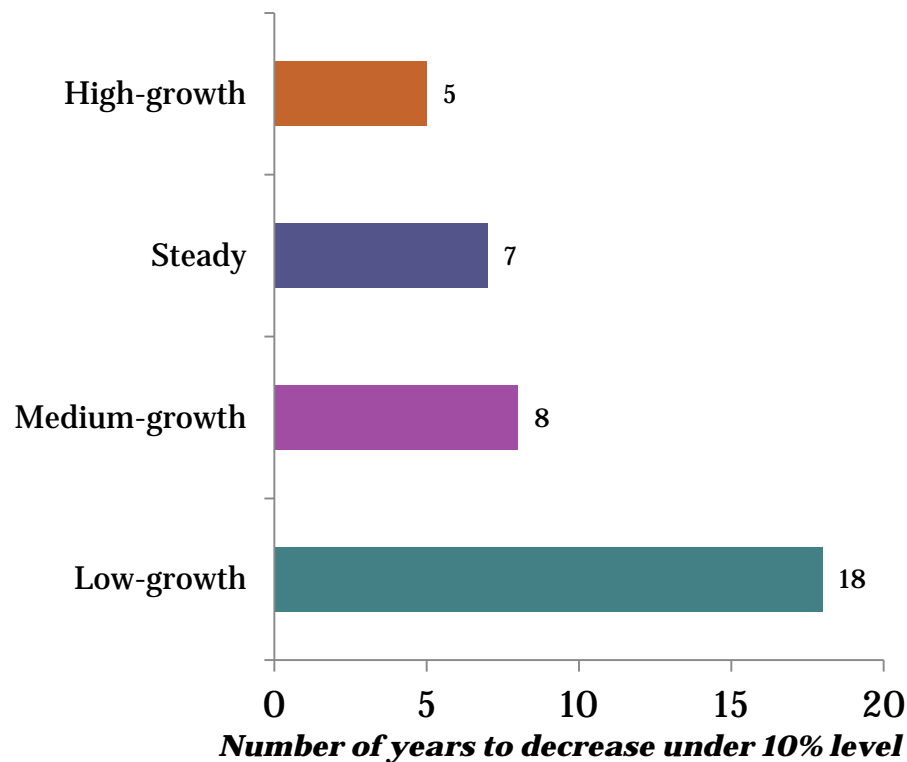
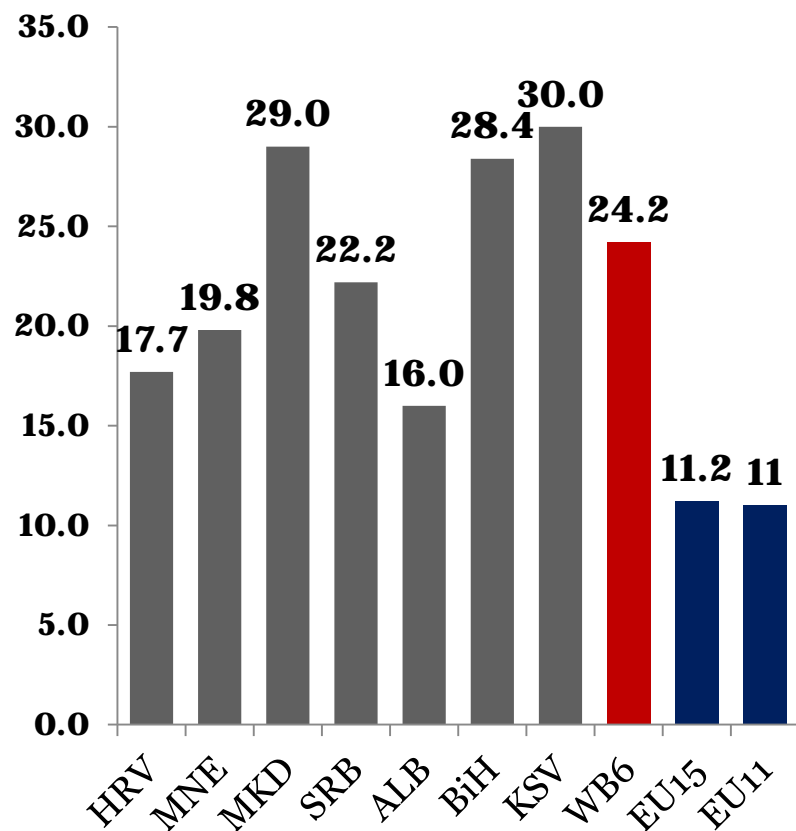


To attain the EU-15 level of the employment-to-population ratio (52%), 3 million jobs should be created



Employment: the ultimate goal

Unemployment rate in 2013 (%)



Source: International Labour Organization KILM 8th edition, World Bank (2013) Results of the Kosovo 2012 Labour Force Survey, World Bank (2014) Results of the Kosovo 2013 Labour Force Survey.

Consequences for the debt

“Steady” or
Central scenario

WB 6
EUR 28 billion
on average per annum



Total Debt increase

WB 6
EUR 24.6 billion
on average per annum

Private Debt
increase

WB 6
EUR 17.5 billion
on average per annum

Public Debt
increase

WB 6
EUR 7.1 billion
on average per annum

The proposed “central” investment stimulus scenario is **consistent with EUR 24.6 bn average total debt increase**. This corresponds to 87% of the initial investment stimulus, therefore the **total debt accumulation is less than proportional to the investment effort** and this is due to the growth dynamics created by the investment multiplier-accelerator process. Public debt increase is only **EUR 7 bn**.

Low-growth rates arising from low investment levels, would have disastrous consequences for the countries’ public debt sustainability thus conducting to a **vicious circle: low growth – high debt – high unemployment**.

Coordination to achieve policy synergies at regional level

Coordinated action on autonomous demand via increasing simultaneously public investment in several or all the countries of a regionally integrated area **is more effective than isolated action by a single country**

Coordination of investment policy, as promoted under the *Western Balkans Investment Framework*, fully fulfils the requirements of the policy coordination framework considered in the developed theoretical models and is thus **beneficial**. These benefits can be achieved, particularly, by focusing investment on a network of regional investment projects which can be financed in all countries at the same time and contribute to improve supply conditions.

Such **active policy coordination towards growth and employment creation** represents an alternative to the present often disruptive competition around austerity targets.

Coordination to achieve policy synergies at regional level

Connectivity agenda within the “WB6/Berlin process” and priority projects in transport and energy sectors agreed by Western Balkans Vienna summit of August 2015.

Assuming that all the projects will be realised in the following 15 years, they imply an **annual investment of EUR 513 mn**. Applying coordinated policy multiplier (**1.48**) to this annual additional investment suggests **EUR 759 mn income increase per year**, which represents **1% of regional GDP**.

