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Economic outlook in the Western Balkans

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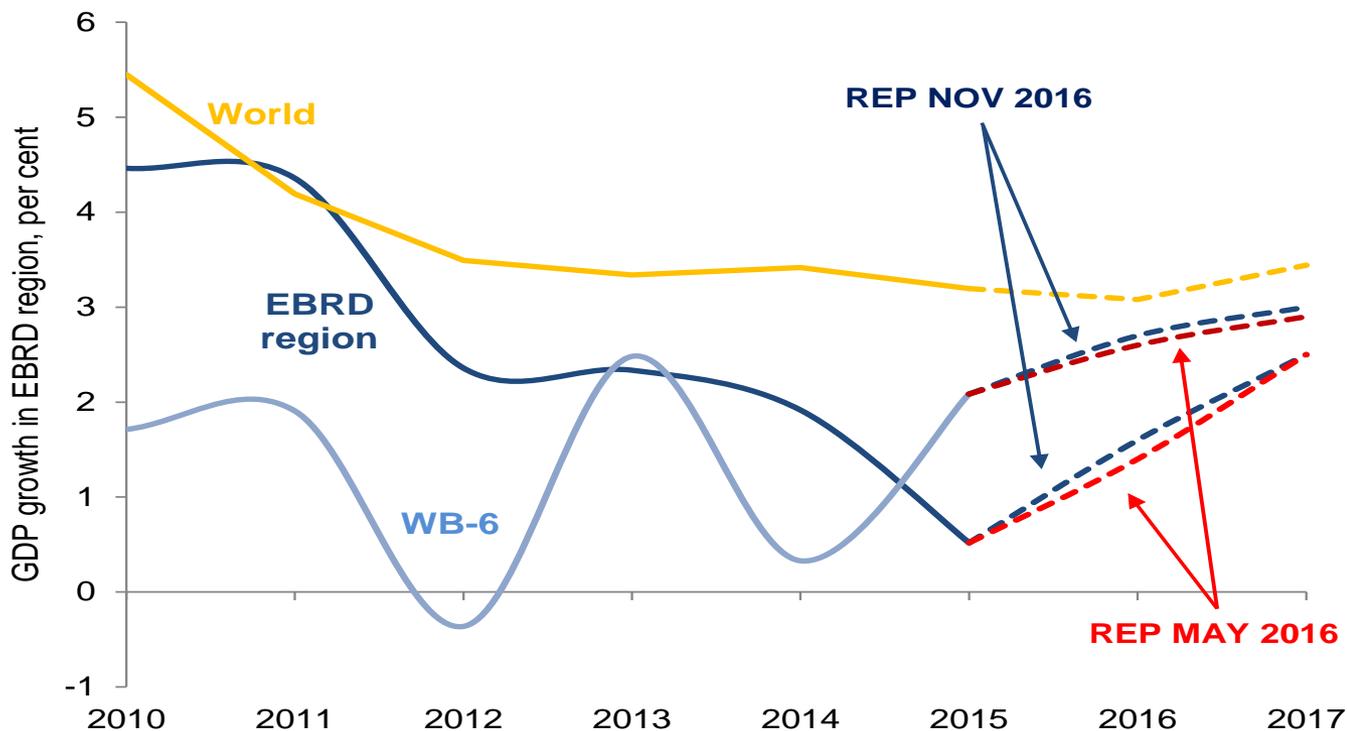
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Short-term growth prospects Have improved



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- All countries experienced **positive growth rates in 2015**, and GDP in all countries has recovered to pre-crisis levels.
- We expect the weighted average growth in WB-6 region to **accelerate from 2.2% in 2015 to 2.7% in 2016 and 3.0% in 2017**.
- **Outlook for growth has improved slightly** in both 2016 and 2017 since May edition of EBRD's Regional Economic Prospects.

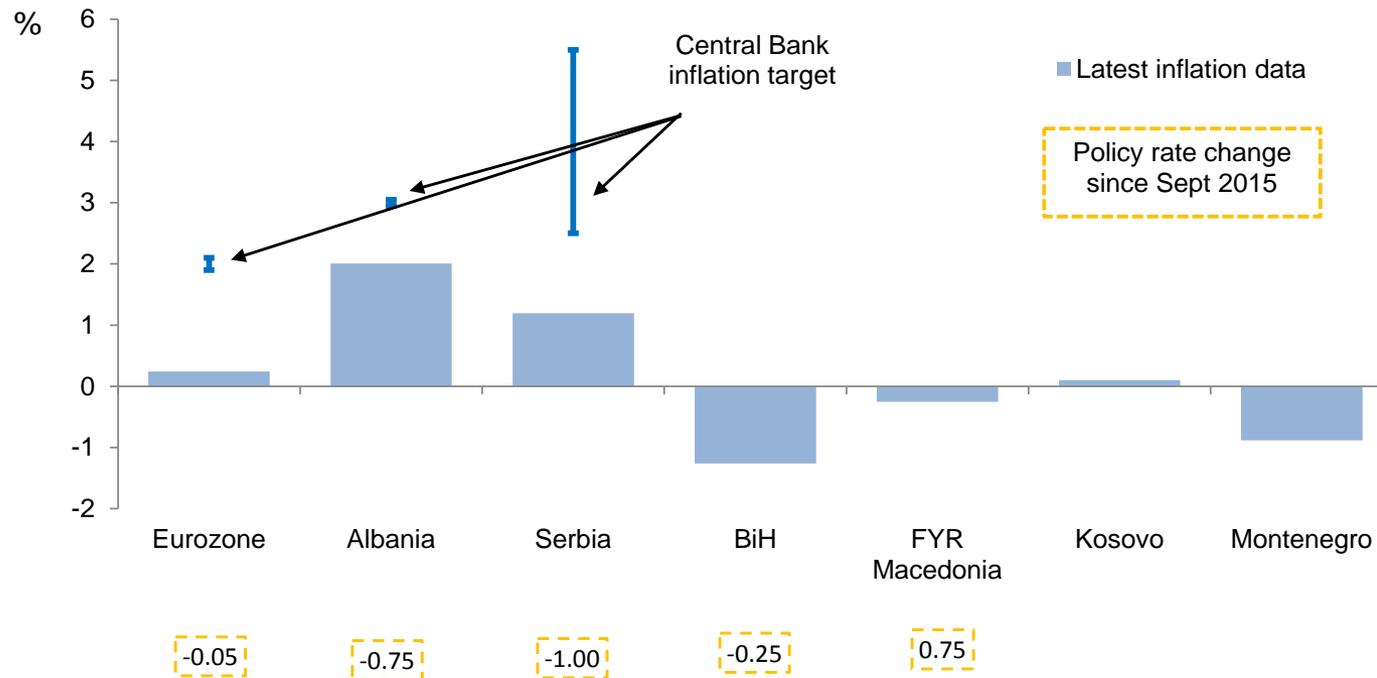


...supported by monetary policy easing amid low inflation...



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- Albanian central bank has brought the policy rate to a **historic low** of 1.25 per cent, while the central bank of Serbia has brought its policy rate to a **historic low** of 4 per cent.
- Elsewhere in the region, **inflation is already close to or below zero.**

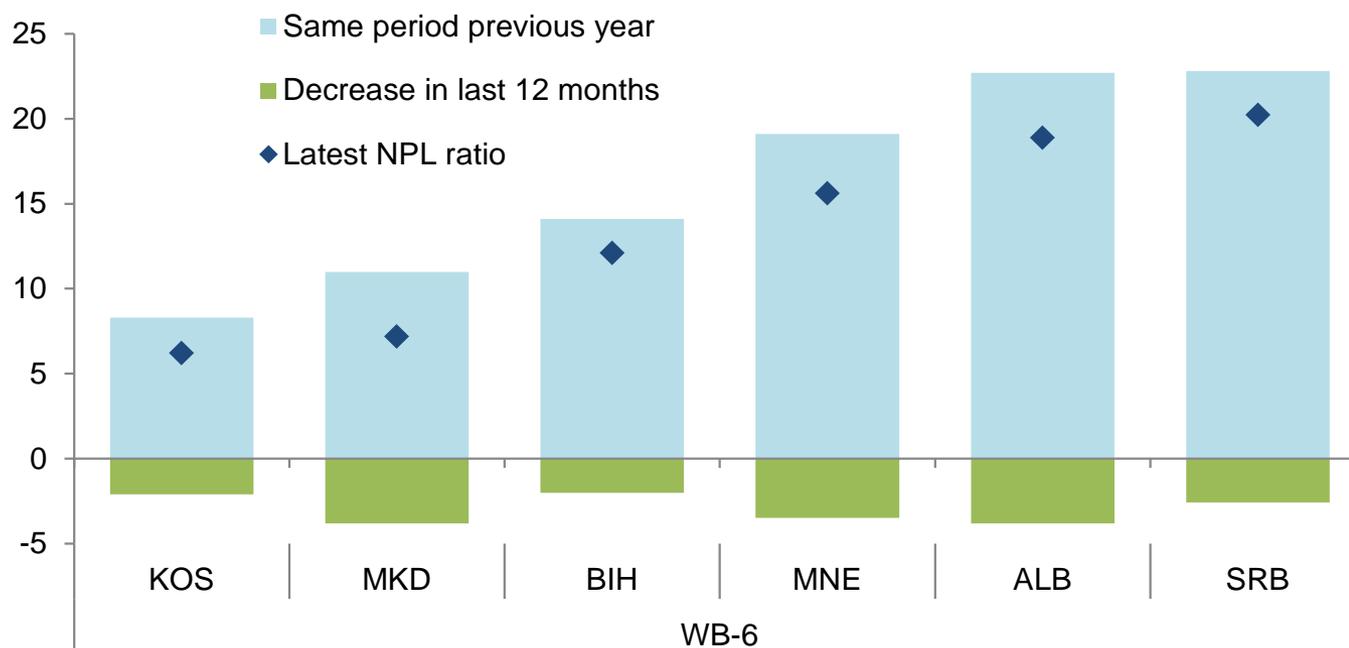


...and ongoing NPLs resolution...



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- According to a new EBRD study*, persistently high NPLs can have **high growth costs** – over 2 pp per annum.



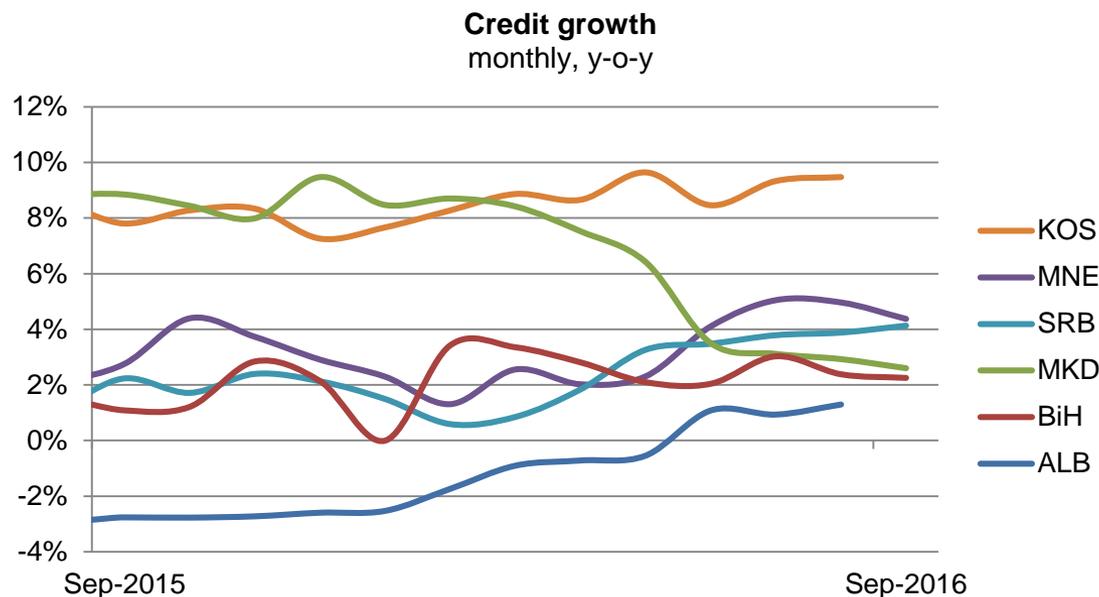
*The study can be found at: <http://www.ebrd.com/publications/working-papers/economic-impact.html>

...amid recovering credit growth



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- ❑ Lending activity has been recovering the fastest in **Kosovo**, from a low base. Average monthly y/y growth of credit to private sector over the past year was ca. 8 per cent.
- ❑ **Albania** experienced a positive monthly y/y credit growth from the Q2 2016, after months of negative growth rates. On the other hand, **FYR Macedonia** experienced a large drop in its lending growth rates amid the elevated political uncertainty in the country.
- ❑ Elsewhere in the region, in **Montenegro**, **Serbia** and **BiH**, monthly credit growth rates were fluctuating between 2-5 per cent over the course of 2016.

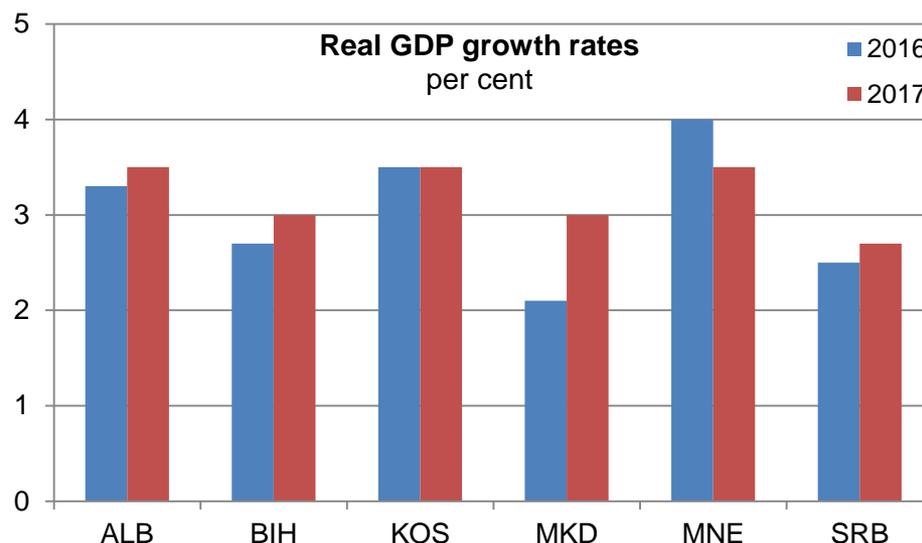


Country – specific growth drivers



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- ❑ **Albania:** Growth will also be supported by the construction work on the TAP as well as clearing of government arrears.
- ❑ **B&H:** Growth boosted by several major projects in the transport and energy sectors. New IMF programme will be supportive of macroeconomic stability.
- ❑ **FYR Macedonia:** Positive impact from exports related to several major FDIs in recent years, as well as large infrastructure projects. However, the political uncertainty in the country represents a major downside risk for growth.
- ❑ **Kosovo:** Growth is driven by private consumption, supported by remittances, private investment, and public investment, mainly in the road connecting the capital with the Macedonian border.
- ❑ **Montenegro:** A rebound on the back of strong FDI inflows, an excellent tourism season and progress on the highway project.
- ❑ **Serbia:** Private investment have continued to be the main growth driver, supported by a gradual recovery of consumption. Upside risk for growth comes from the potential production upscaling in the recently privatized steel mill.



Key priorities for 2017

See more at: <http://2016.tr-ebrd.com/countries/>



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Albania

- ❑ Macroeconomic stability should be preserved once the current IMF programme ends
- ❑ The campaign against informality should be stepped up
- ❑ A more commercial approach in the energy sector is needed for long-term sustainability

Bosnia and Herzegovina

- ❑ The pace of progress under the reform agenda should be stepped up
- ❑ More progress needs to be made on the privatisation and resolution of state-owned companies
- ❑ Further energy sector reforms are needed

FYR Macedonia

- ❑ A re-energising of reforms is needed once the political situation is clarified
- ❑ Fiscal stability should be preserved
- ❑ Energy sector reforms should be resumed

Kosovo

- ❑ The privatisation process needs to be kick-started
- ❑ The widening energy supply gap needs to be closed
- ❑ Investment climate obstacles should be tackled

Montenegro

- ❑ Fiscal policy needs to be tightened
- ❑ Privatisation should be accelerated
- ❑ Financial sector stability should be strengthened

Serbia

- ❑ Sustainable fiscal adjustment requires further structural measures
- ❑ The reform momentum on business environment measures should be maintained
- ❑ Non-performing loans (NPLs) should be reduced further