

# Economic outlook in the Western Balkans

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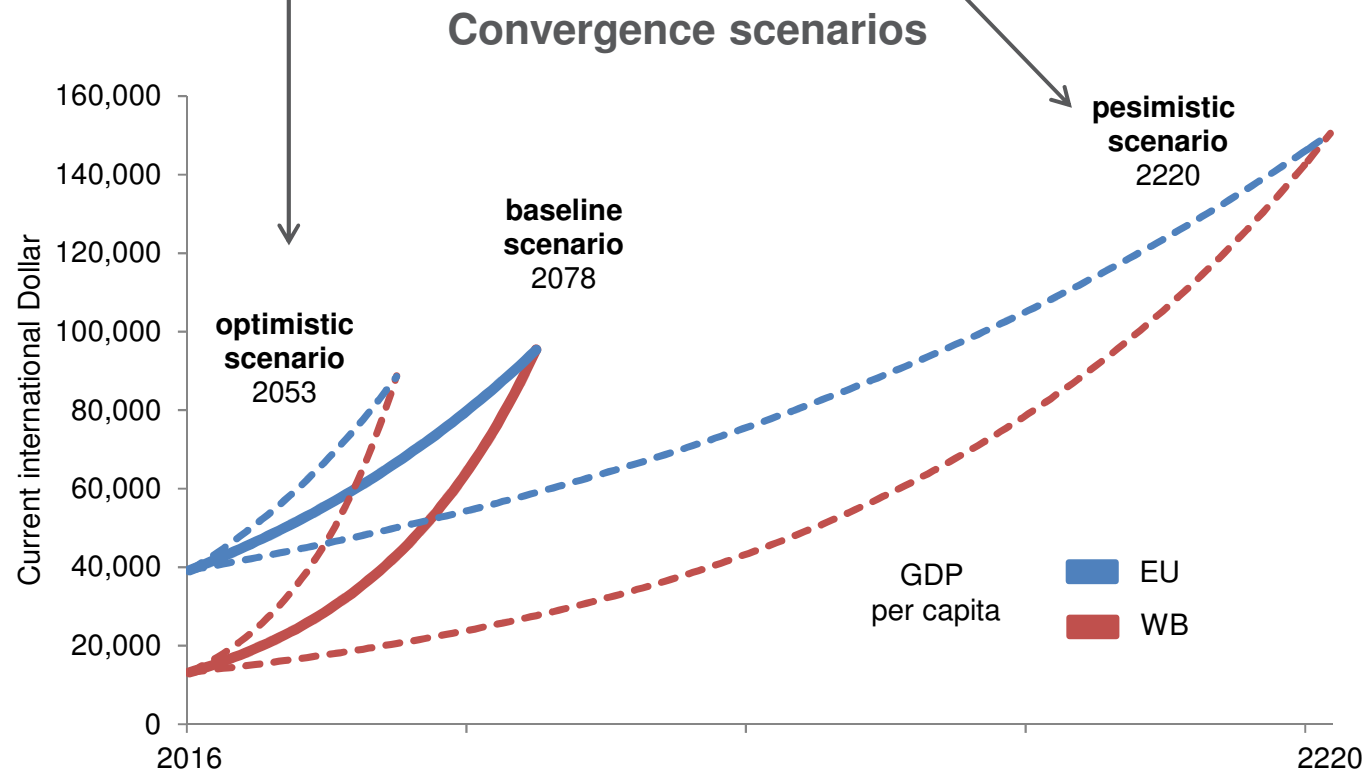
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# The Western Balkans convergence challenge: decades or centuries?



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- ❑ Full convergence with EU living standards can range from 40 years in an optimistic scenario to more than 200 years in a pessimistic scenario
- ❑ The speed of catch up depends on the pace of addressing the challenges holding back the region's private sector from developing its full potential - i.e. **better economic institutions and an enabling business environment.**

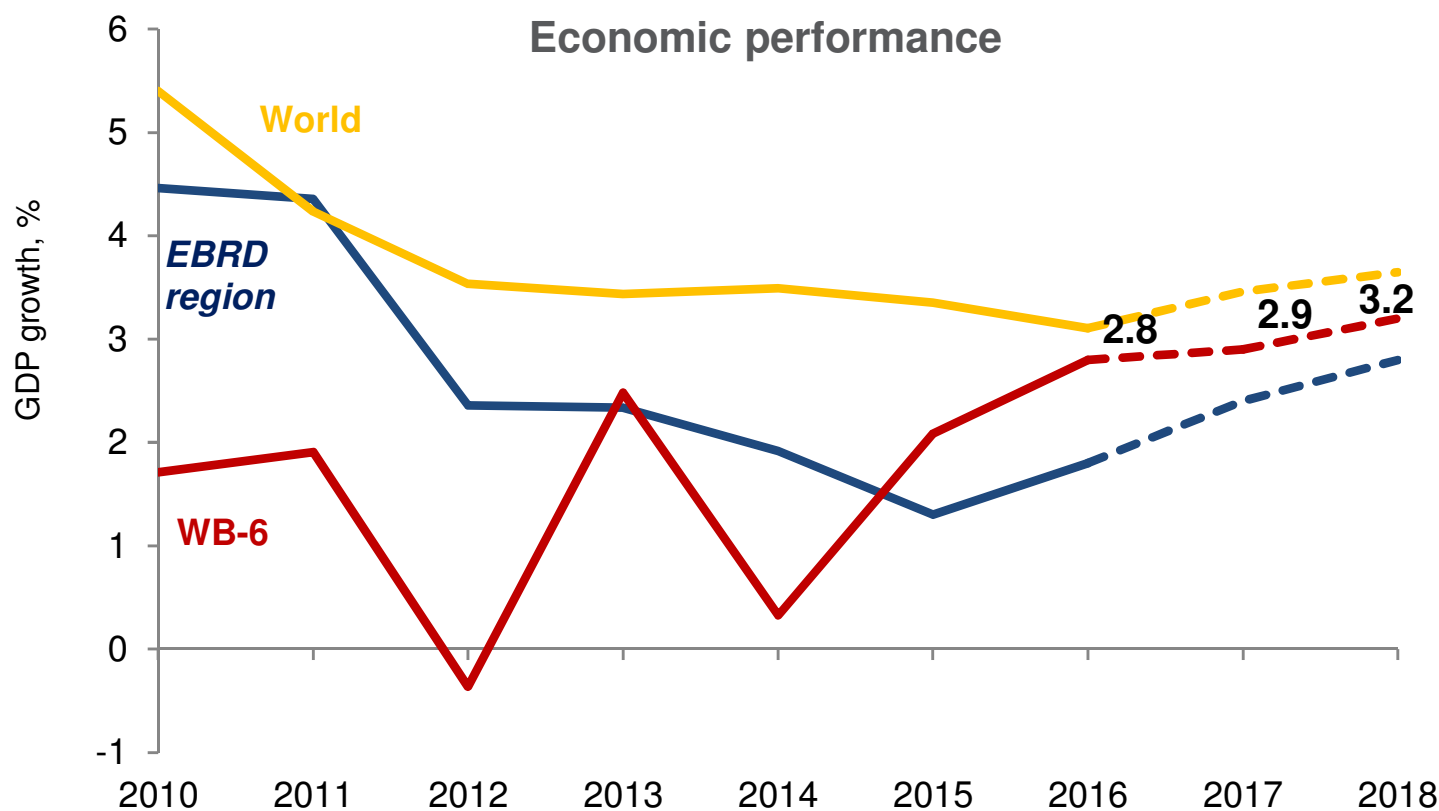


# Grounds for optimism: economic growth is picking up



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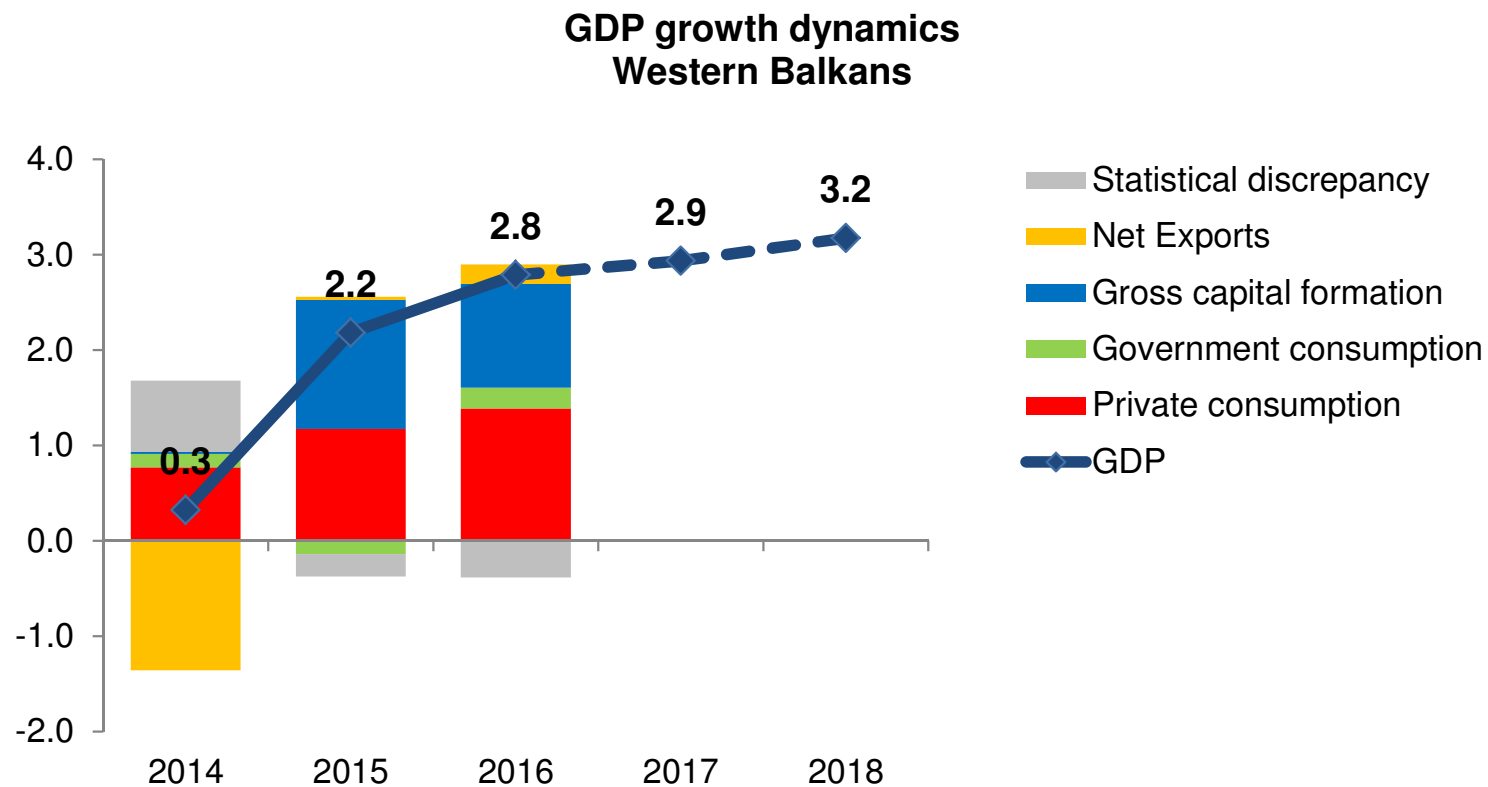
- ❑ **Economic activity picked up in 2016.** The weighted average growth rate for the region was 2.8 per cent, compared with 2.2 per cent in 2015.
- ❑ **All economies in the WB-6 region are forecast to grow in 2017 (2.9 per cent) and 2018 (3.2 per cent),** remaining above the EBRD average but slightly below the world average.



Source: IMF (WEO, April 2017), EBRD (Regional Economic Prospects, May 2017).

# Private consumption and investment are driving the recovery

- Over the period 2015-2016, **private consumption and investment** were the main growth drivers.
- Further short-term growth will also be supported by a gradual recovery of credit activity and major infrastructure projects.

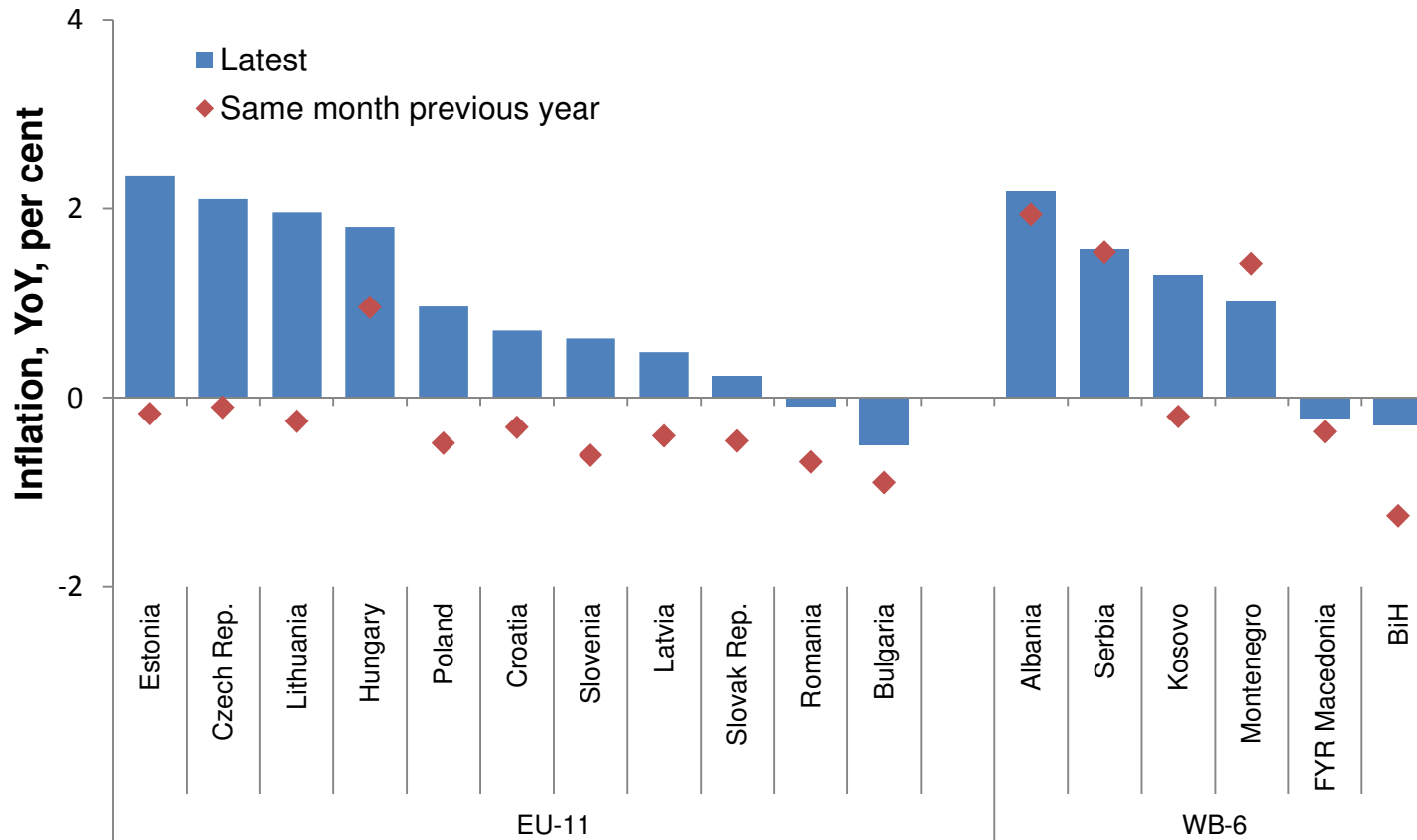


# Inflation remains low, comparable to EU-11 countries



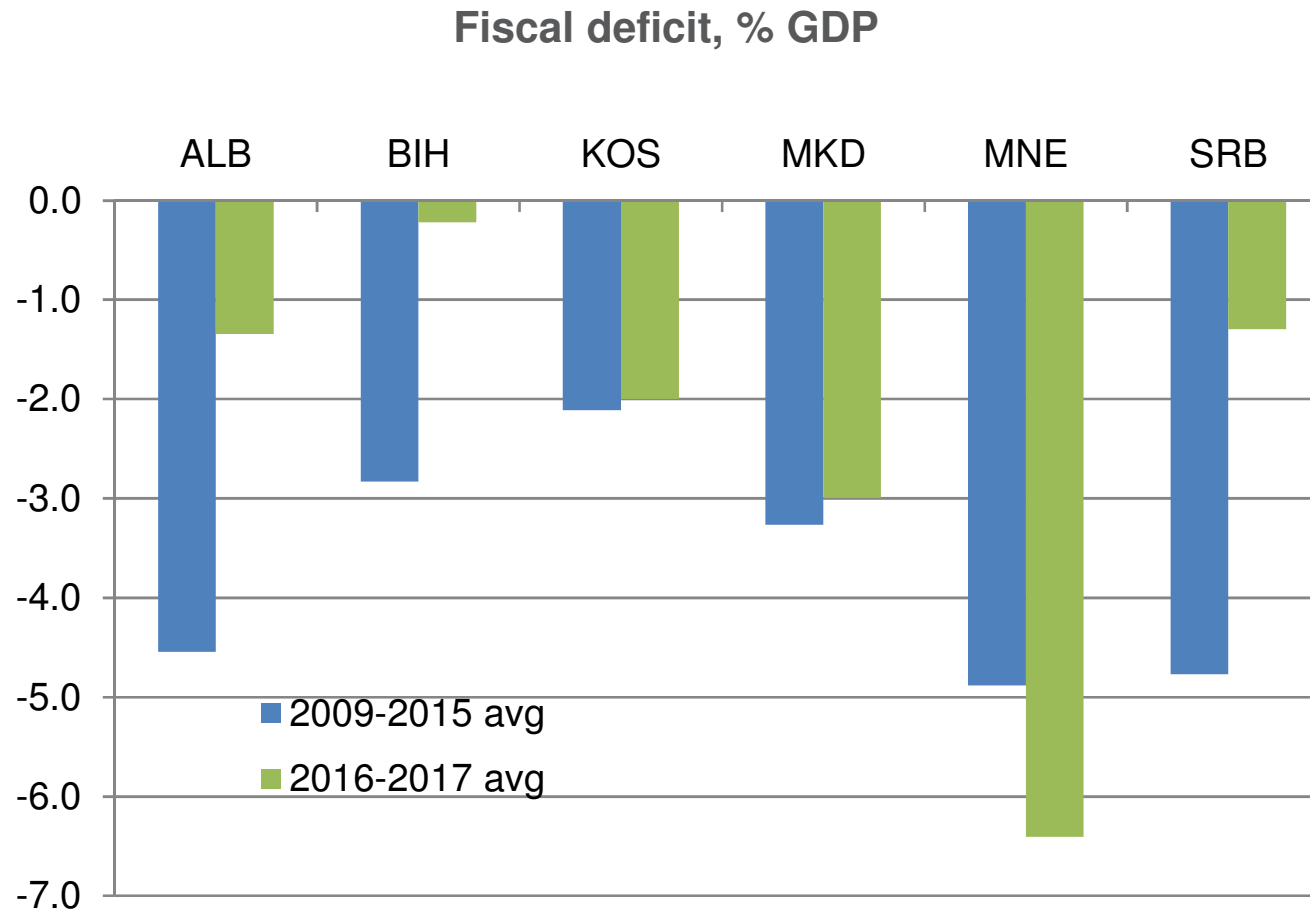
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Inflation rates, %



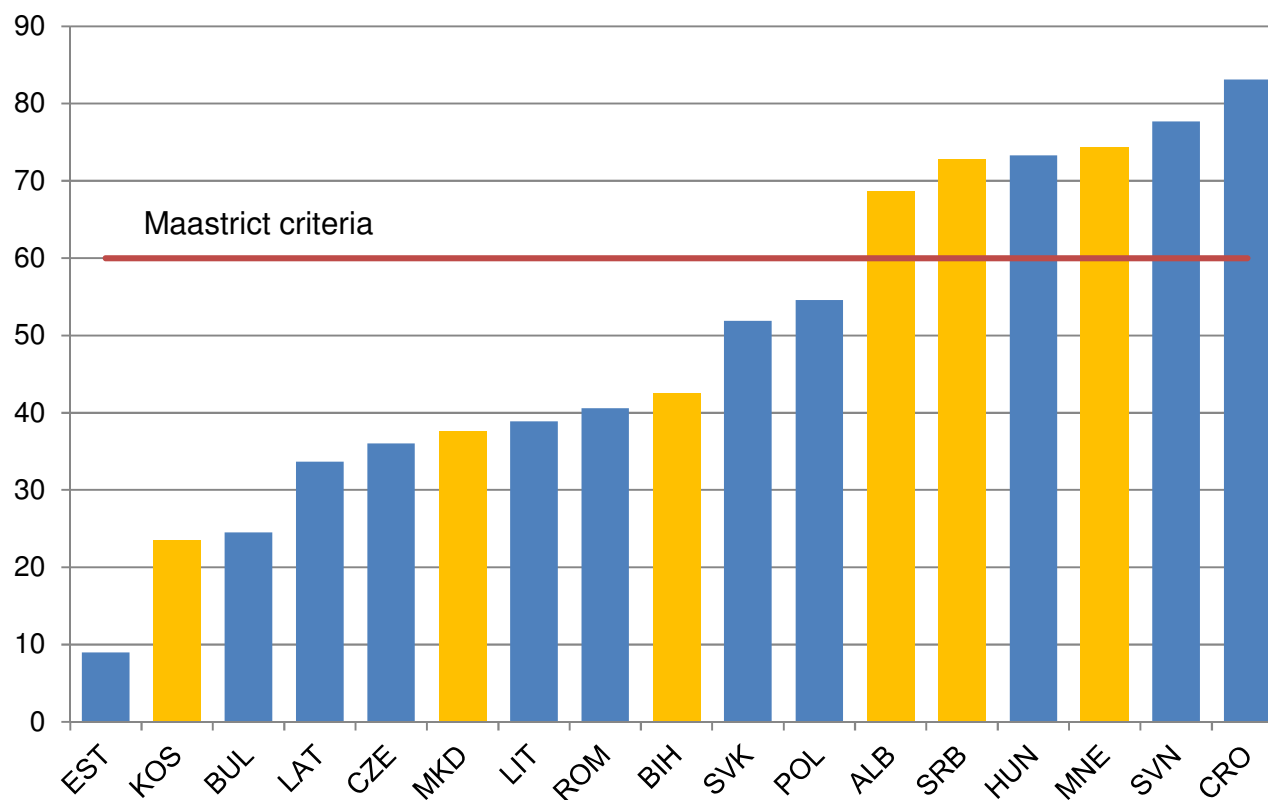
Source: National authorities via CEIC.

# Public deficits are down recently in most countries...



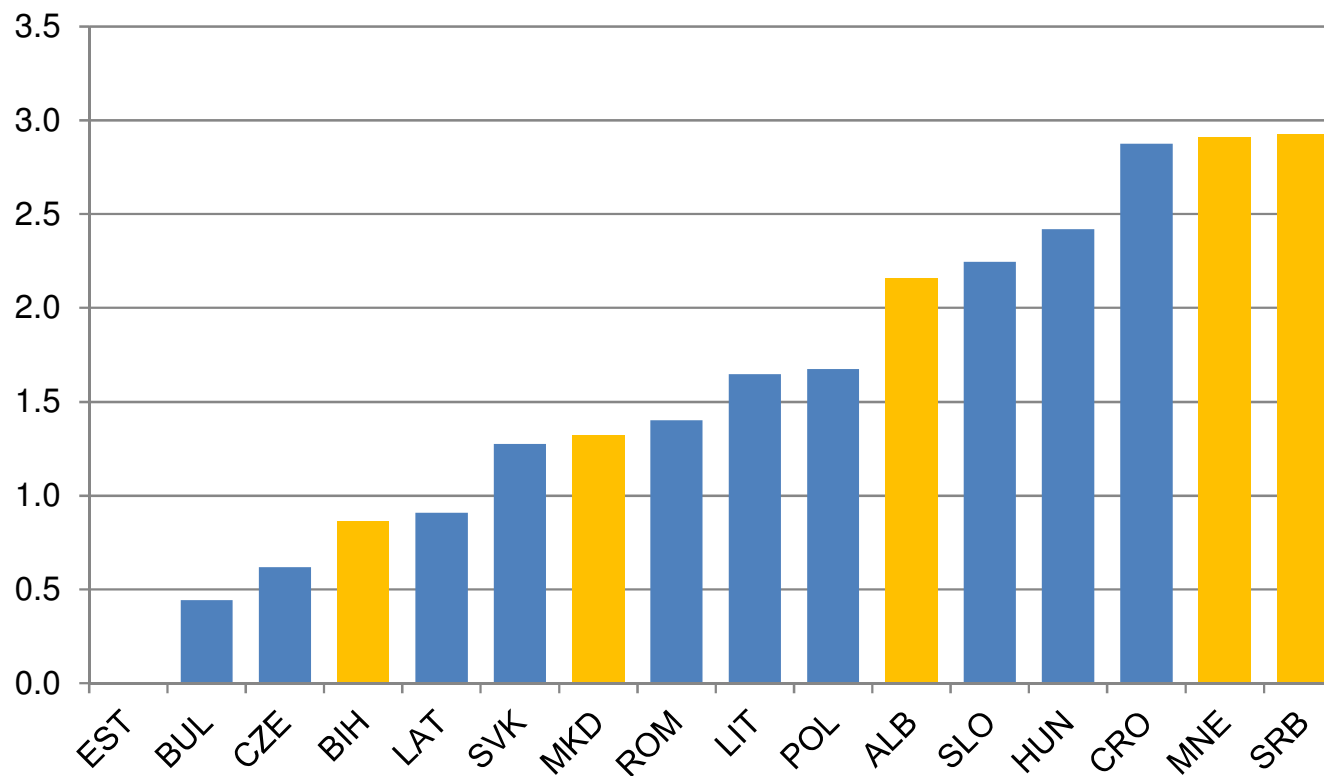
# ... but public debt remains elevated in Albania, Serbia and Montenegro...

General government debt, %



# ...leading to high interest expenses

Interest expenses, % GDP



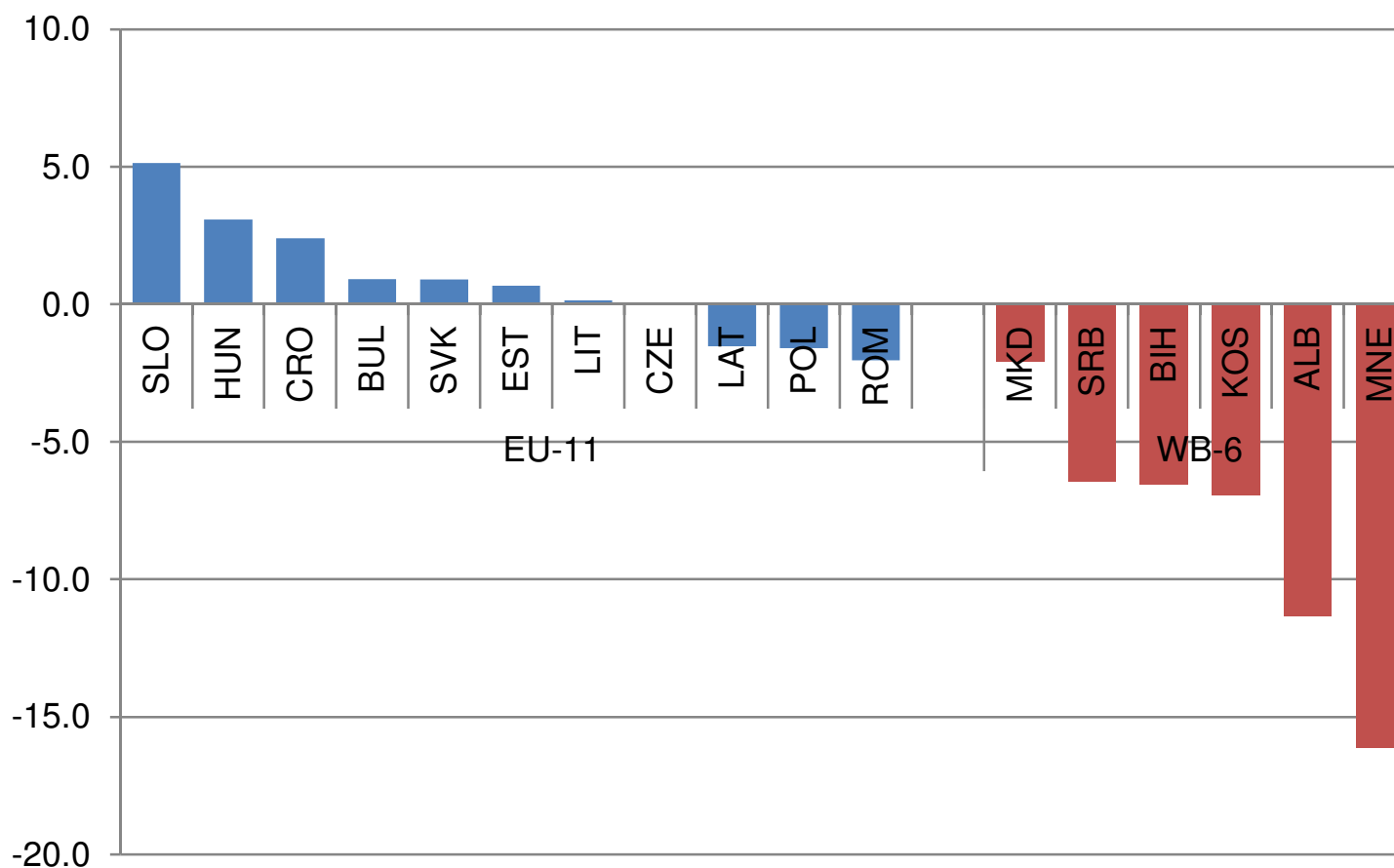


# Current account deficits remain problematic, exacerbated by weak competitiveness...



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Current Account balance, % GDP

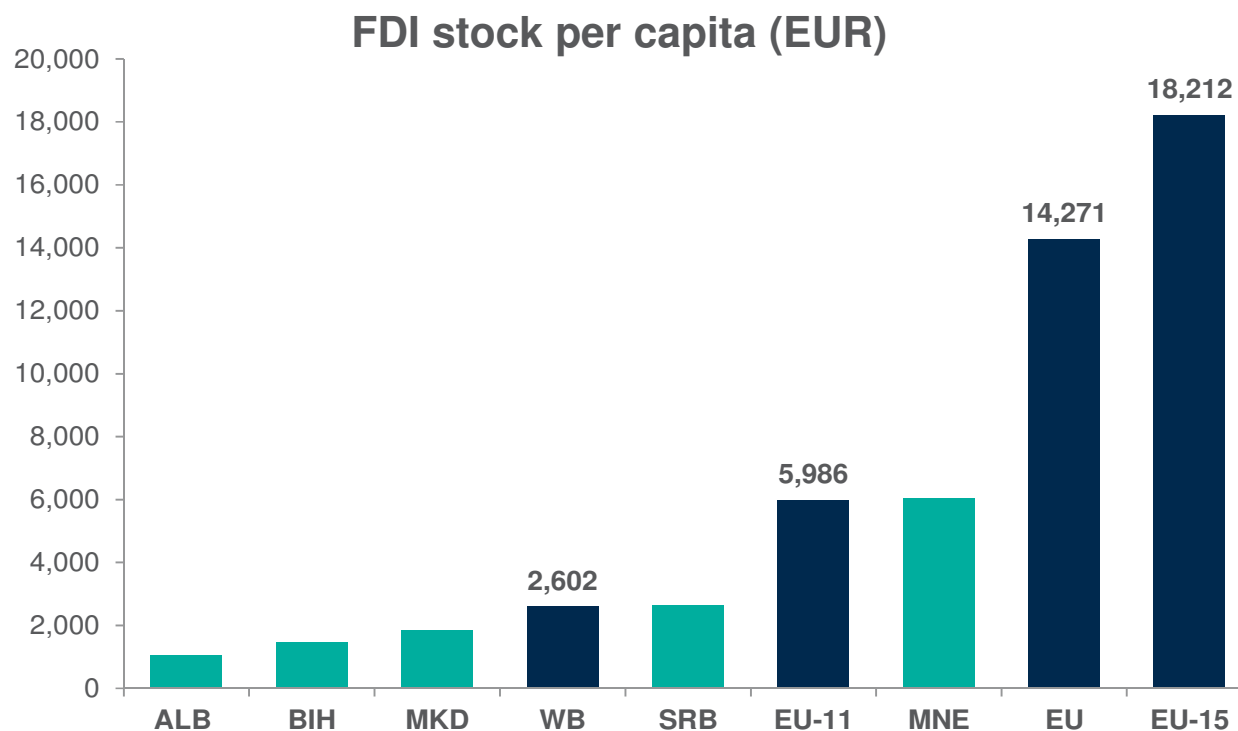


# ...and boosting FDI from current low levels is crucial



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- ❑ The region lags significantly behind the EU in terms of FDI stock per capita received. The catch up potential is obvious.
- ❑ **Intra-regional FDI** is limited, although Serbia is an important player in BiH (second biggest investor) and in Montenegro (sixth biggest).
- ❑ **Gulf countries and China** are growing in importance.

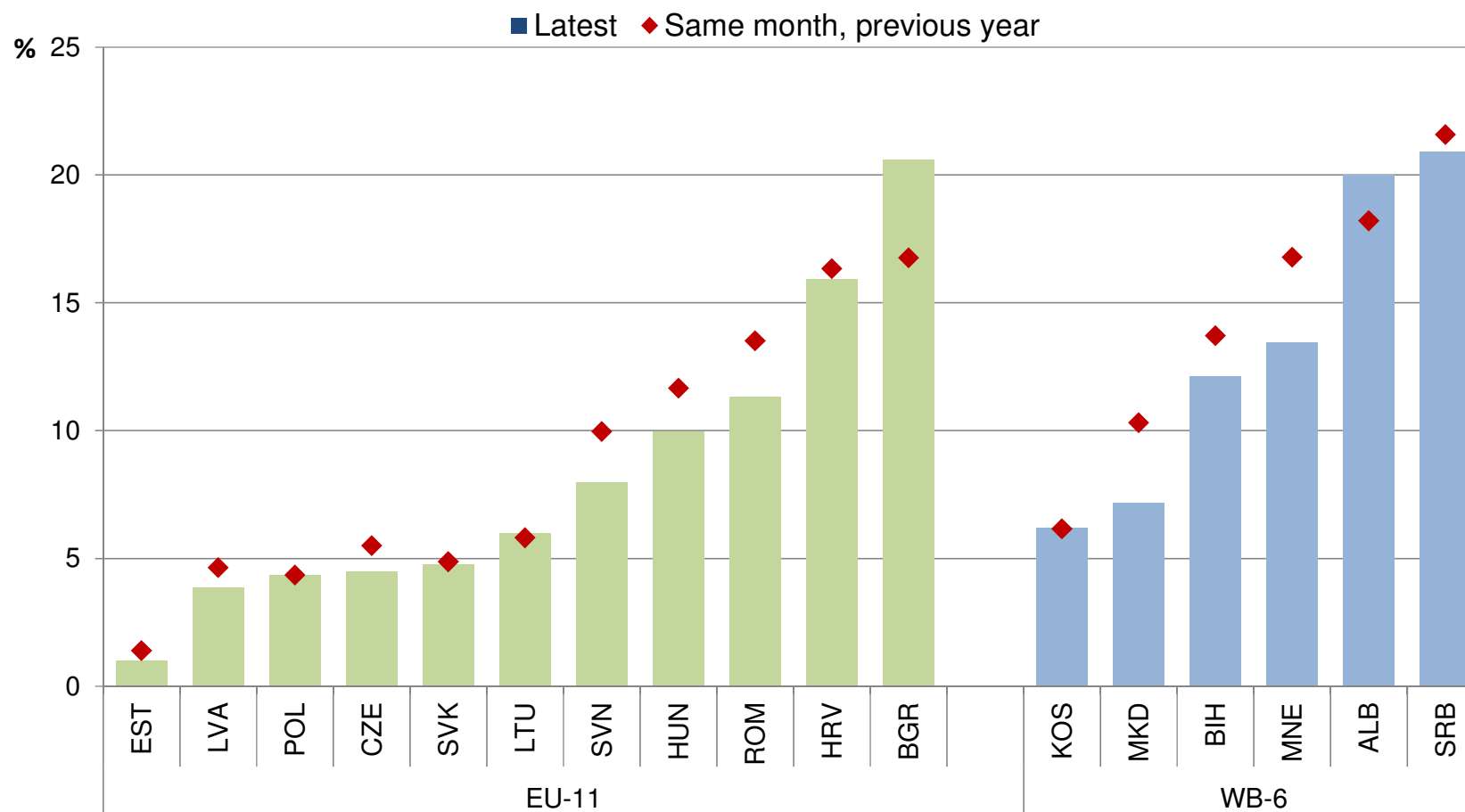


# NPL ratios are high but decreasing in most WB-6 countries



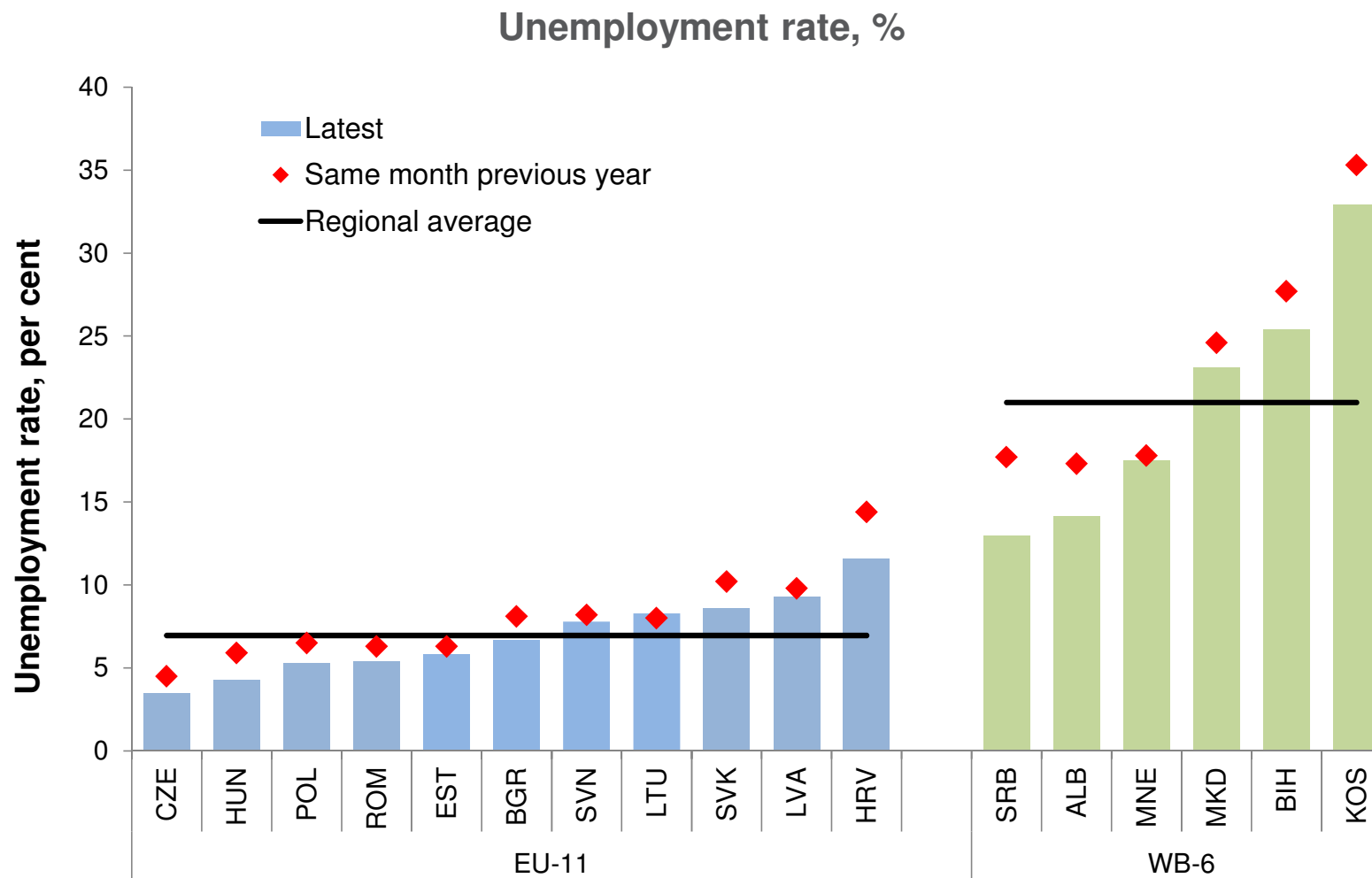
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## Non-performing loans as % of total loans



Source: National authorities via CEIC.

# Average unemployment in WB-6 is three times the rate in EU-11...

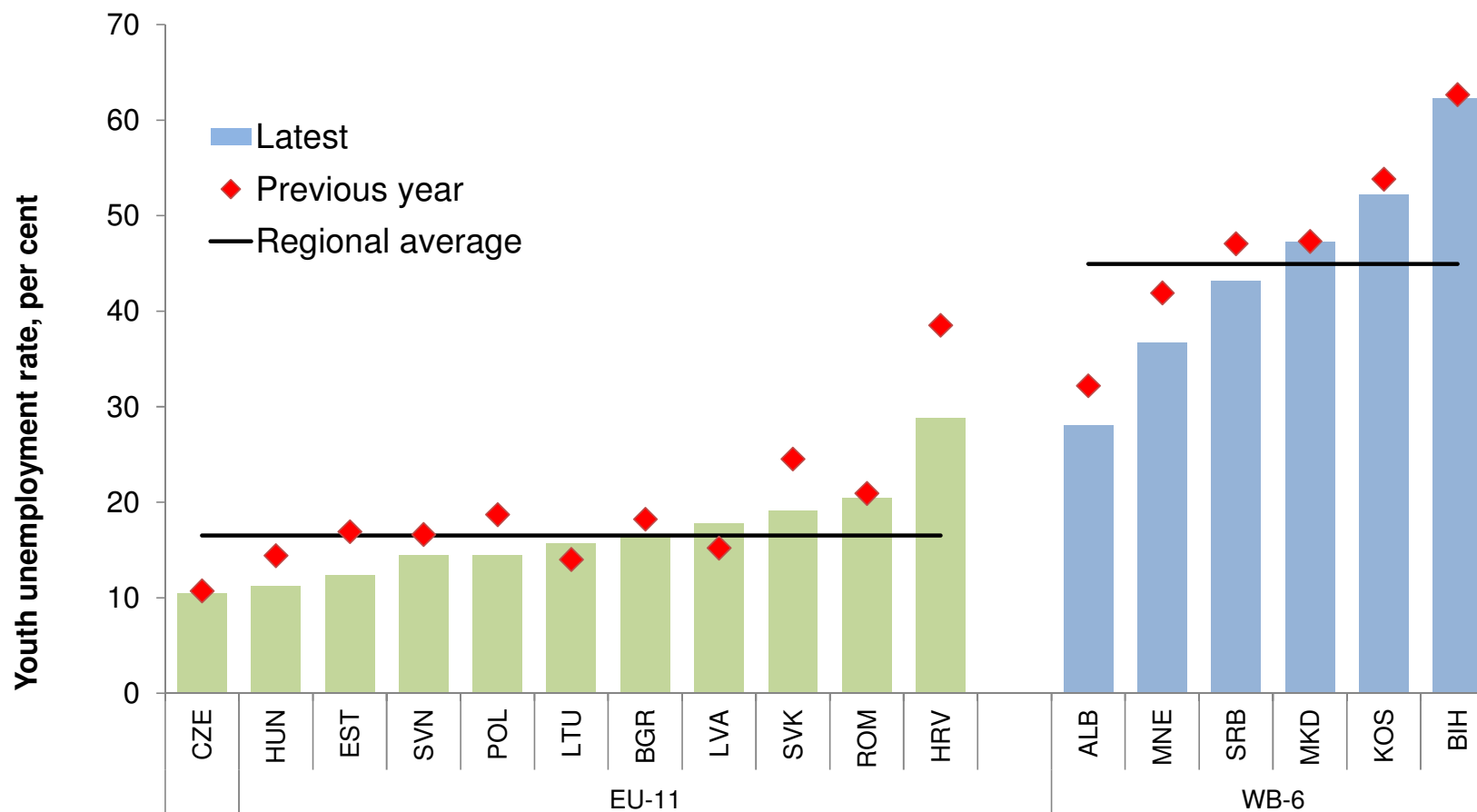


# ...and youth unemployment is particularly problematic




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### Youth unemployment rate, %



Source: National authorities, via CEIC.

- Overall, strong resilience and gradual improvements in economic performance
  - But familiar structural deficiencies remain:
    - Large stock of NPLs, coming down only gradually
    - High current account deficits and limited FDI  Investment
    - High unemployment levels, especially among the youth
- Climate