

Creating the Fiscal Space to Support Growth in the Western Balkans

**20th Meeting of the WBIF Steering Committee
Hosted by the Federal Ministry of Finance,**

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Berlin June 2019**

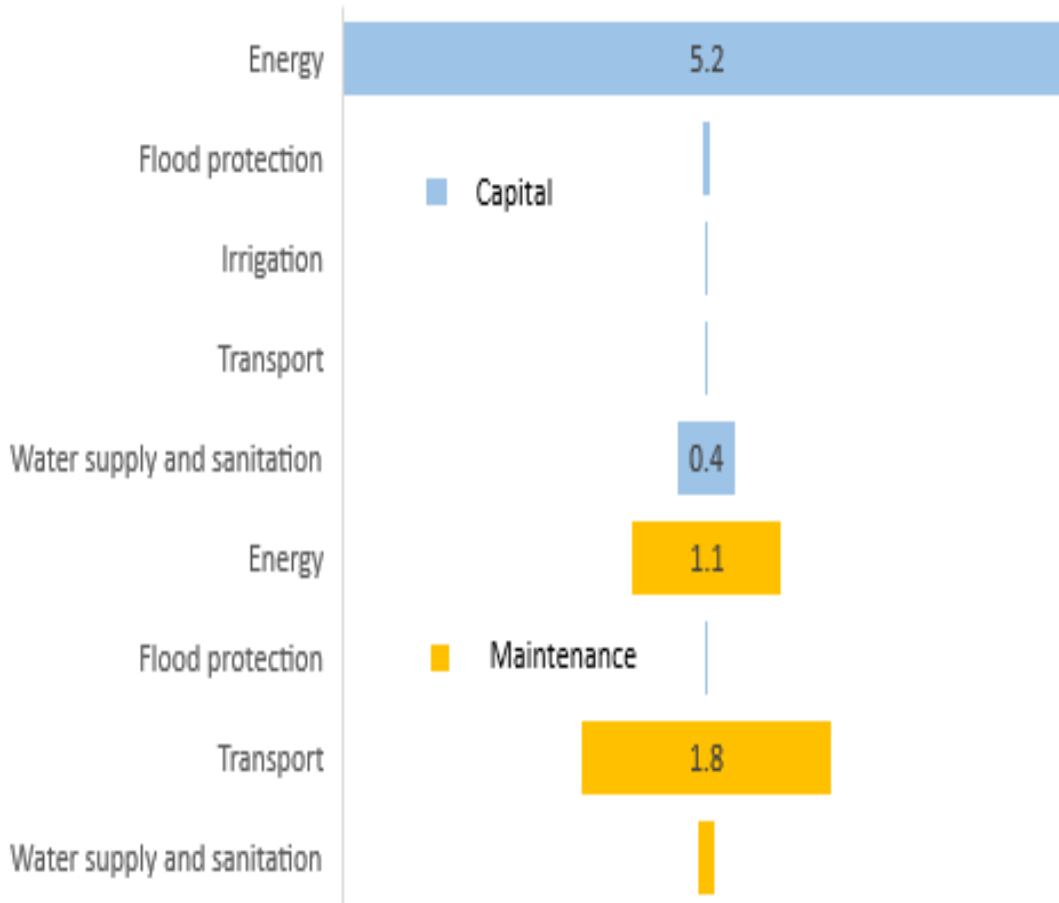


Key points:

1. Western Balkan's investment needs
2. (Two-pronged) agenda for boosting investment

Large infrastructure investment needs in ECA

9% of GDP
per year needed
for meeting
SDGs in
infrastructure in
ECA

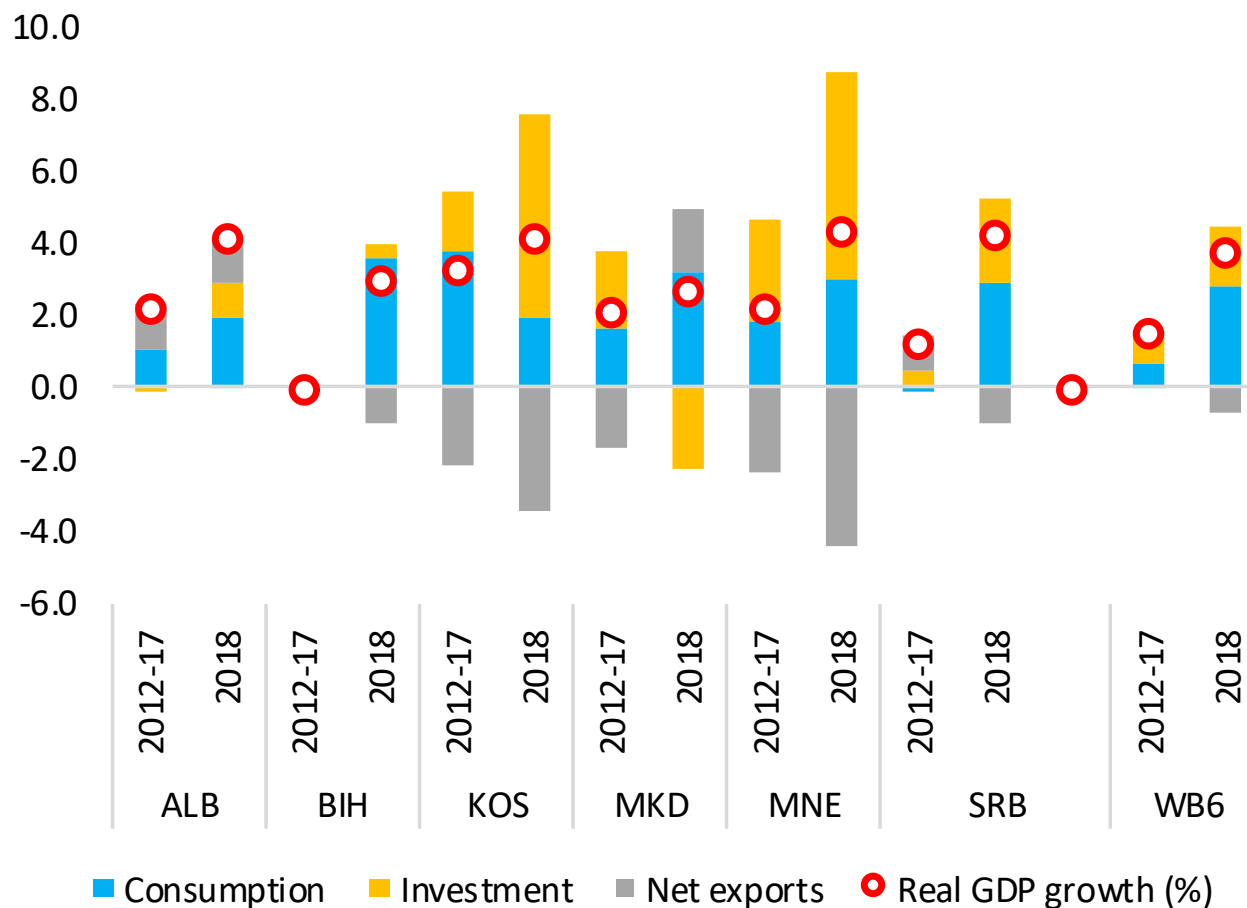


Source: www.worldbank.org/beyondthegap

Note: Estimate of annual investment and maintenance cost needs for an average low and middle income country in Europe and Central Asia, Preferred Scenario, Percent of GDP

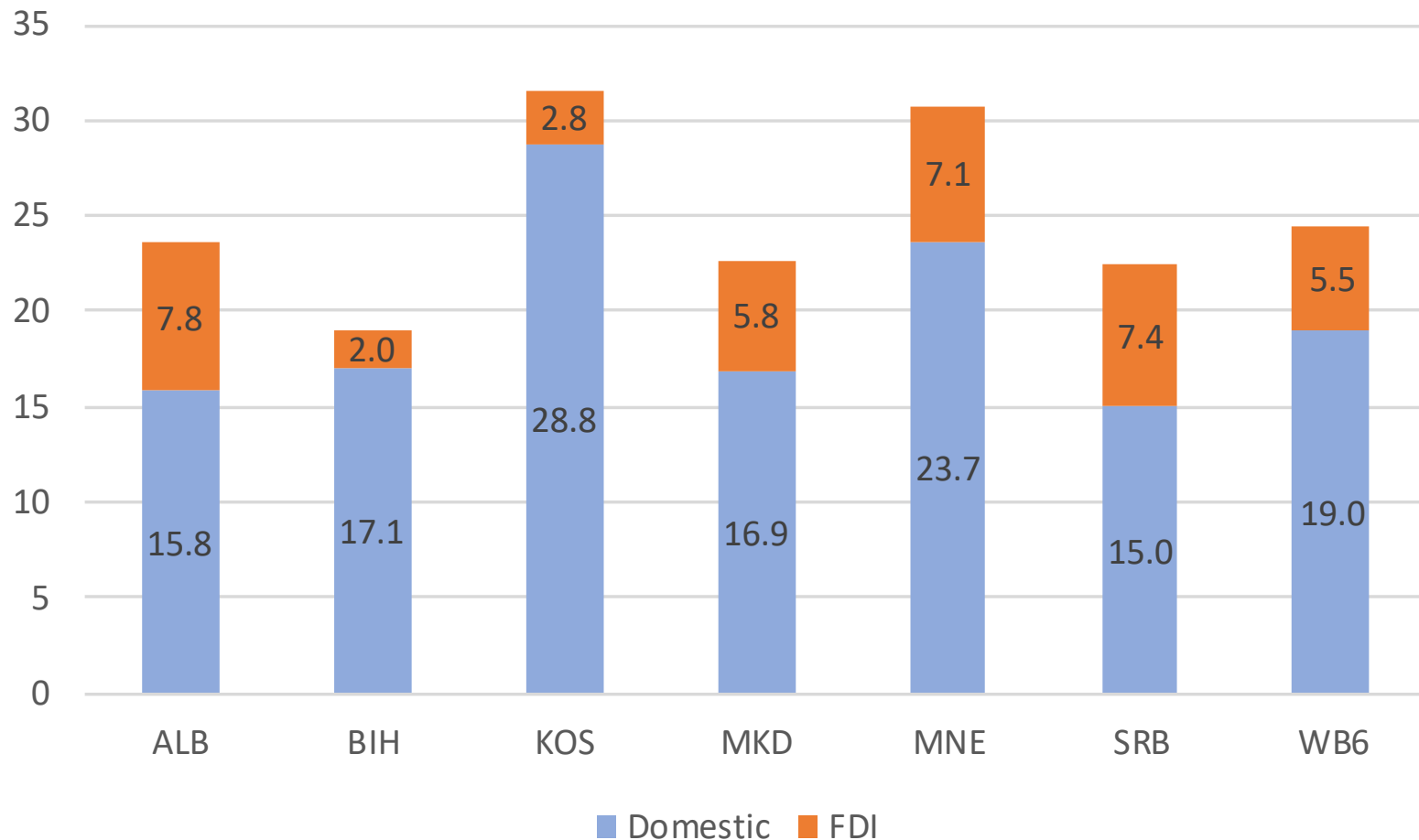
Some pick up in investment in 2018

Contribution to real GDP growth by demand side, percent



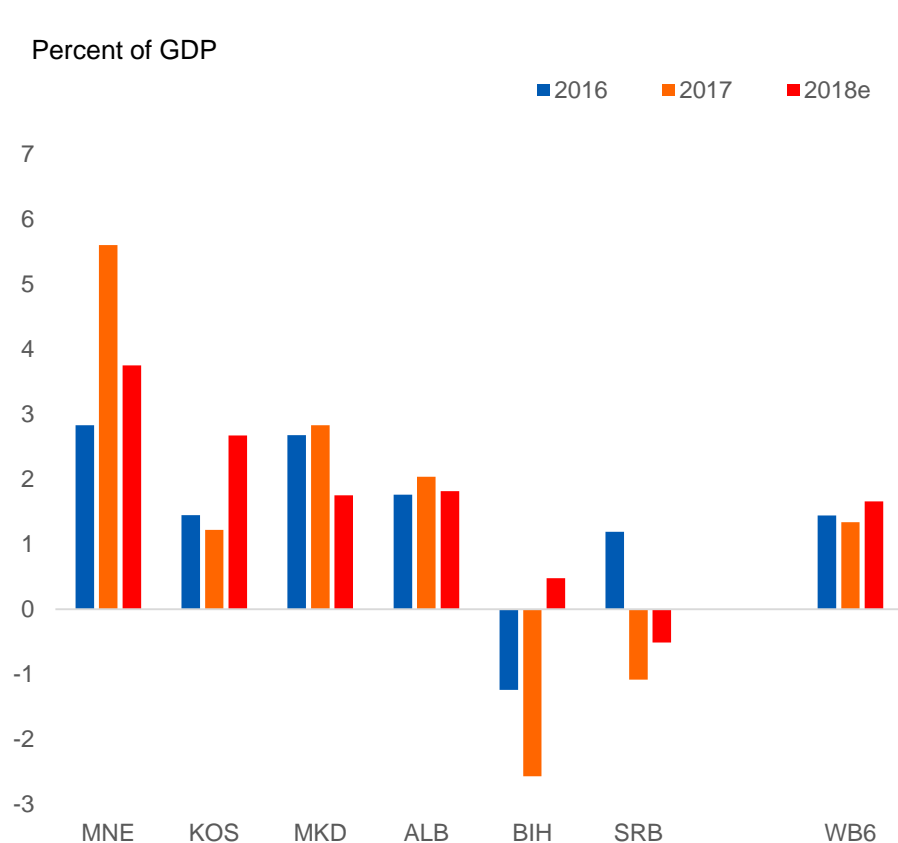
... but low private investment rates and FDI with weak structure

Domestic and foreign investments, Percent of GDP

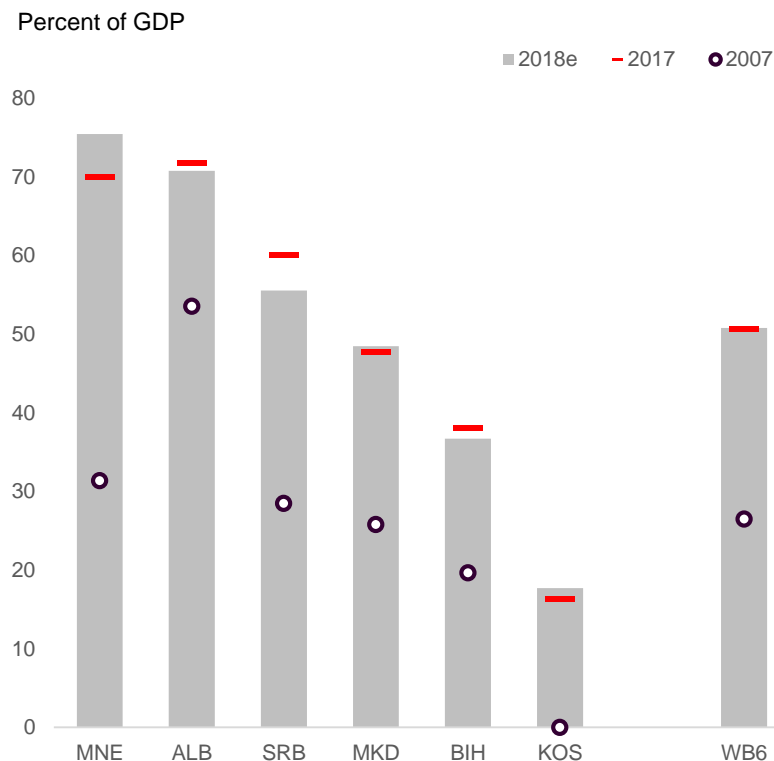


... constrained fiscal space,

Fiscal deficits, percent of GDP



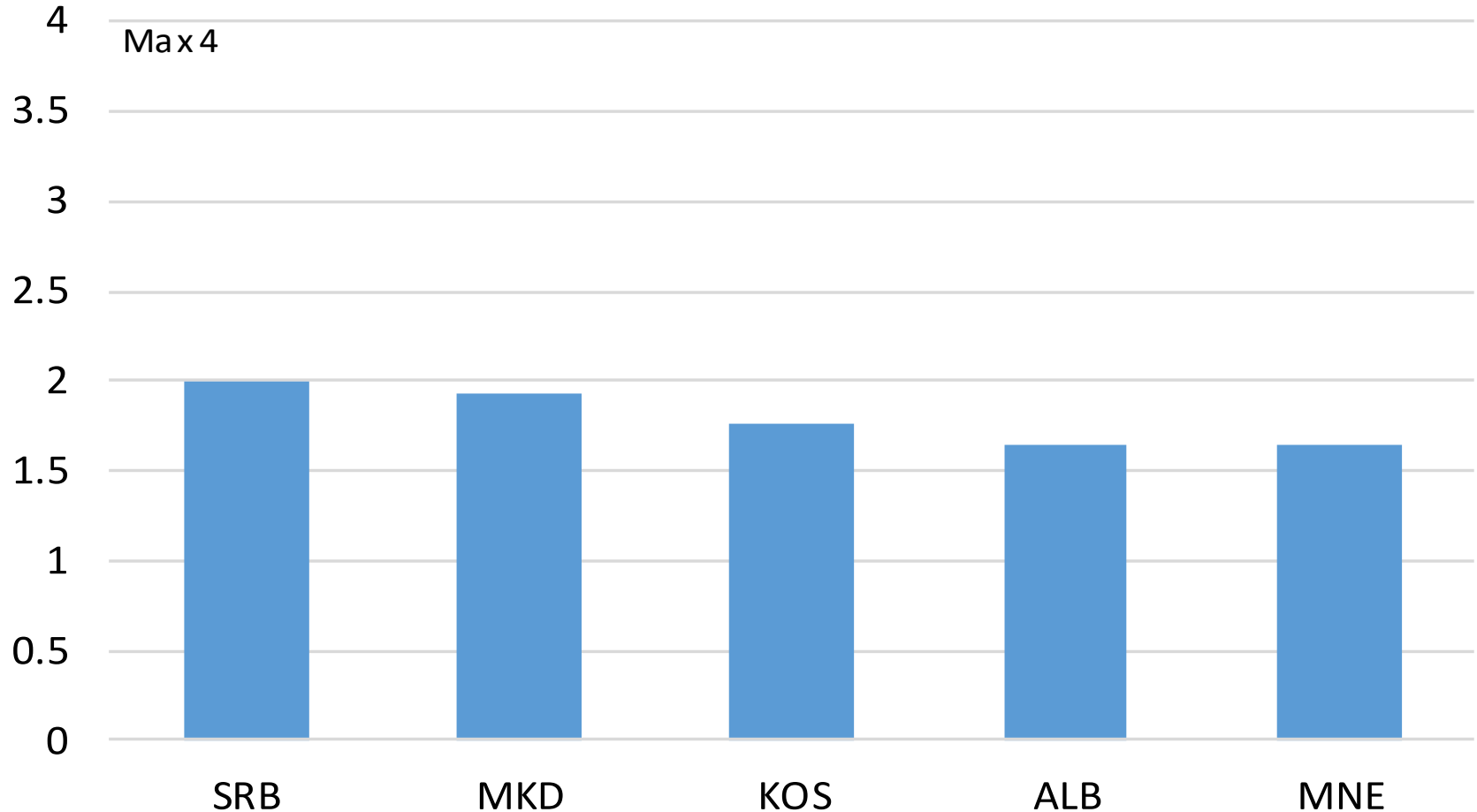
Public and publicly guaranteed debt, percent of GDP



Note: Fiscal deficit for North Macedonia does not include the road enterprise finances.
Source: national authorities and World Bank staff calculations.

... and low efficiency of public investment

Public Investment Efficiency Index, 0-4

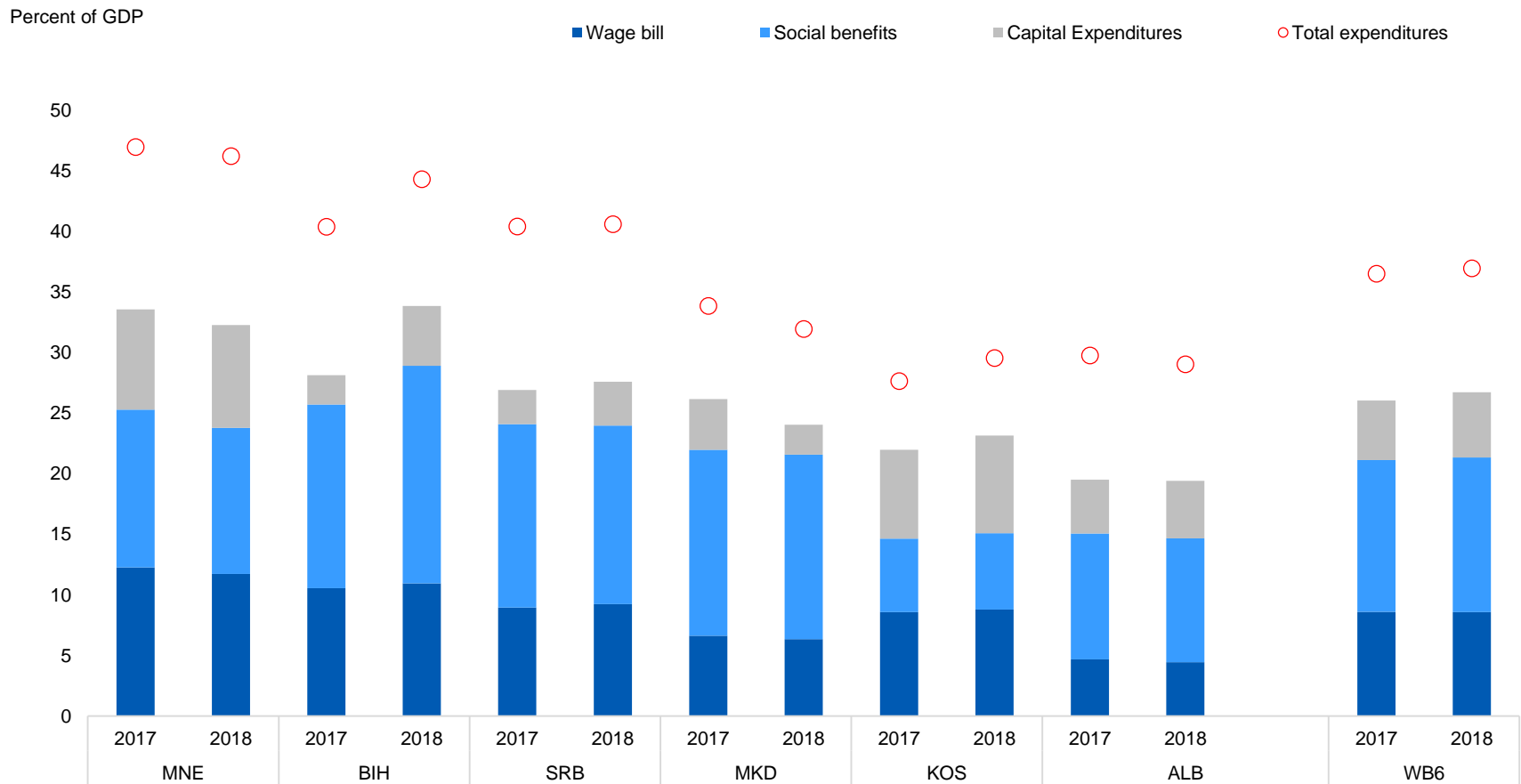


CREATE FISCAL SPACE AND IMPROVE PUBLIC FINANCE EFFICIENCY

- Strengthen tax revenue collection and rationalize tax exemptions
- Continue improving targeting of social assistance and improve efficiency of health spending
- Rationalize subsidies, and focus on horizontal aid
- Improve public finance management to increase transparency and accountability, and prevent arrears
- Improve public investment management to focus on quality and sustainability

High and/or non-targeted spending

Composition of public spending, 2017 and 2018, percent of GDP



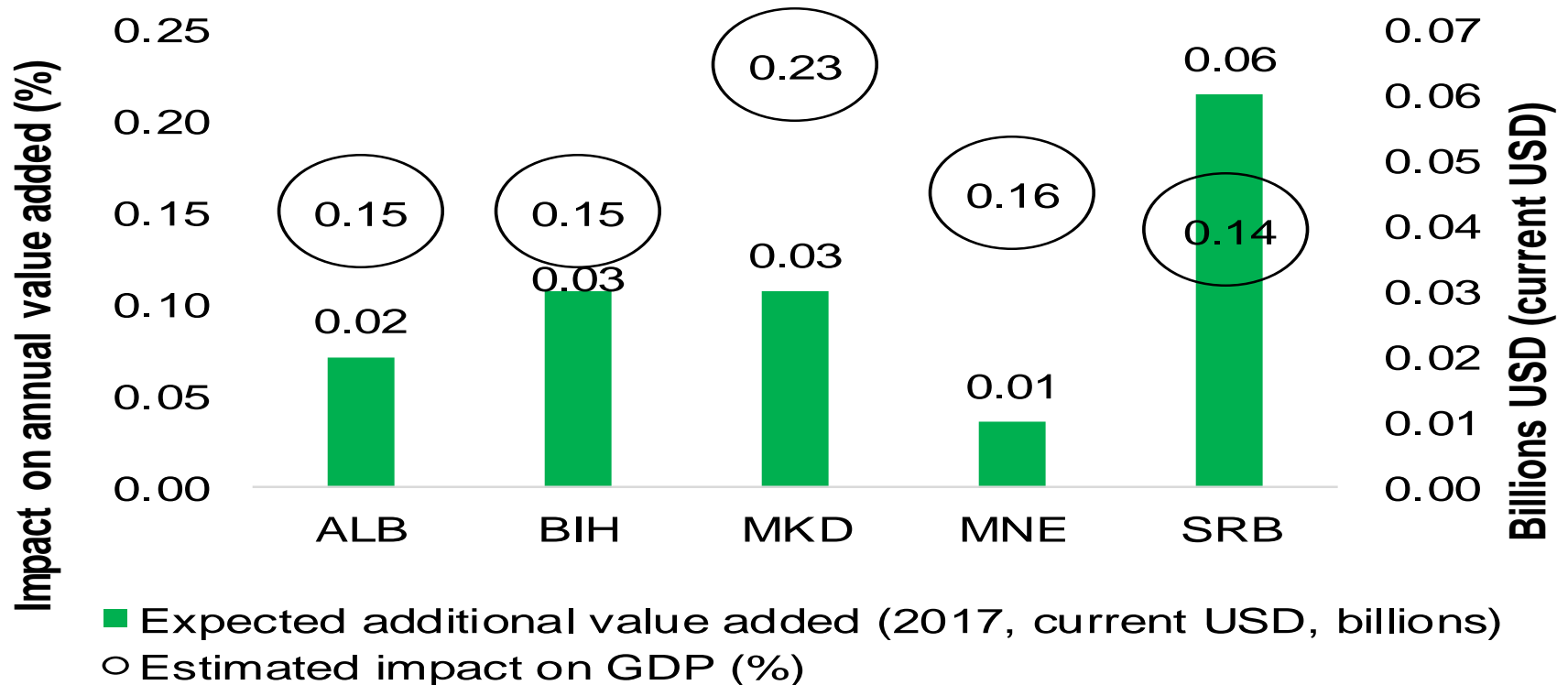
Note: Fiscal deficit for North Macedonia does not include the road enterprise finances.
Source: national authorities and World Bank staff calculations.

STRENGTHEN PRIVATE SECTOR COMPETITIVENESS

- Align public procurement, concessions and PPPs with the acquis, with close fiscal assessment considerations
- Strengthen competitiveness and capabilities for technology adoption and supplying the FDIs
- Enable backward linkages of FDIs through standardization and quality upgrades
- Promote market competition, through state aid and product and service market regulation
- Strengthen the access to finance
- Improve governance and digitize public services
- Secure the rule of law, including for commercial contracts



Strengthening competition in energy, water, transport, and telecoms can accelerate growth (Simulations of impact of competition reforms on GDP)



■ Expected additional value added (2017, current USD, billions)
○ Estimated impact on GDP (%)

MAIN MESSAGES FOR THE WESTERN BALKANS

1. Western Balkan's investment needs

- Some recovery of investment, but still low and not well managed
- Narrowing fiscal space and public spending dominated by large public wage bills and untargeted social programs

2. Two-pronged agenda for boosting investment

- create fiscal space, improve public spending efficiency
- strengthen private sector competitiveness



Thank you!

Positive growth outlook, BUT not without risks

Risks and opportunities

- **External**

- Slower than projected growth in the EU
- Escalation of trade disputes and rising protectionism
- Political instability in the region
- Uncertainty about Brexit talks between the EU and the United Kingdom

- **Domestic**

- + NATO and EU accession anchor may accelerate structural reforms and strengthen investor confidence
- + Accelerated growth will help the fiscal consolidation process
- Disruption of the reform processes related to the electoral cycle
- Risk of fiscal loosening

GDP growth rates, in %

	2017	2018e	2019f	2020f
Albania	3.8	4.2	3.8	3.6
Bosnia and Herzegovina	3.2	3.0	3.4	3.9
Kosovo	4.2	4.2	4.4	4.5
North Macedonia	0.2	2.7	2.9	3.2
Montenegro	4.7	4.4	2.9	2.4
Serbia	2.0	4.2	3.5	4.0
Western Balkans	2.6	3.8	3.5	3.8
EU28	2.6	2.1	1.8	1.7
Central and Eastern Europe	4.9	4.3	3.6	3.2

Source: National authorities and World Bank staff projections.