

Tirana, 23 May 2019

Investment in the Western Balkans: New Directions and Financial Constraints in Infrastructure Investment

Mario Holzner

 holzner@wiiw.ac.at [@MarioHolzner](https://twitter.com/MarioHolzner)



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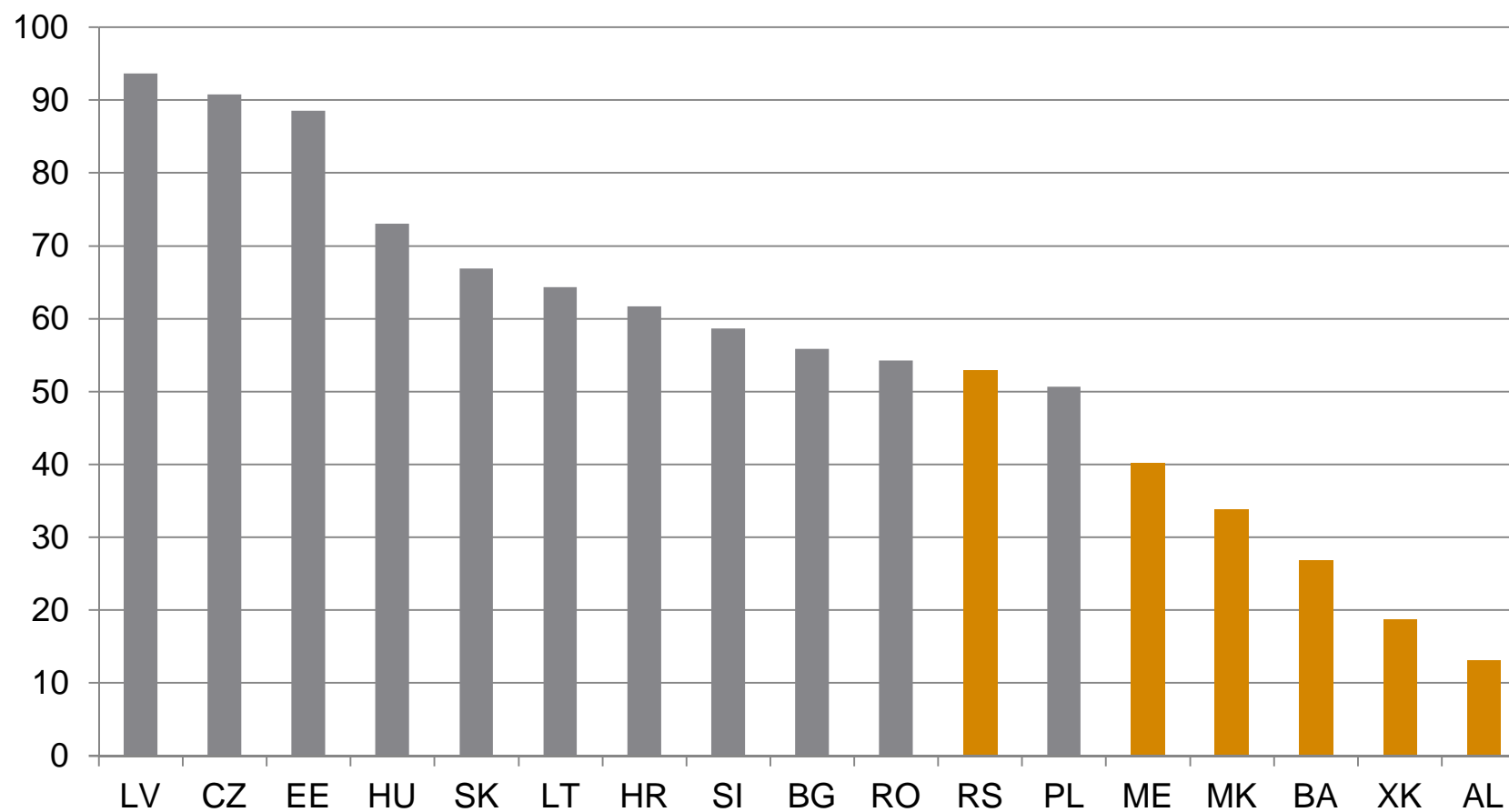
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Infrastructure needs



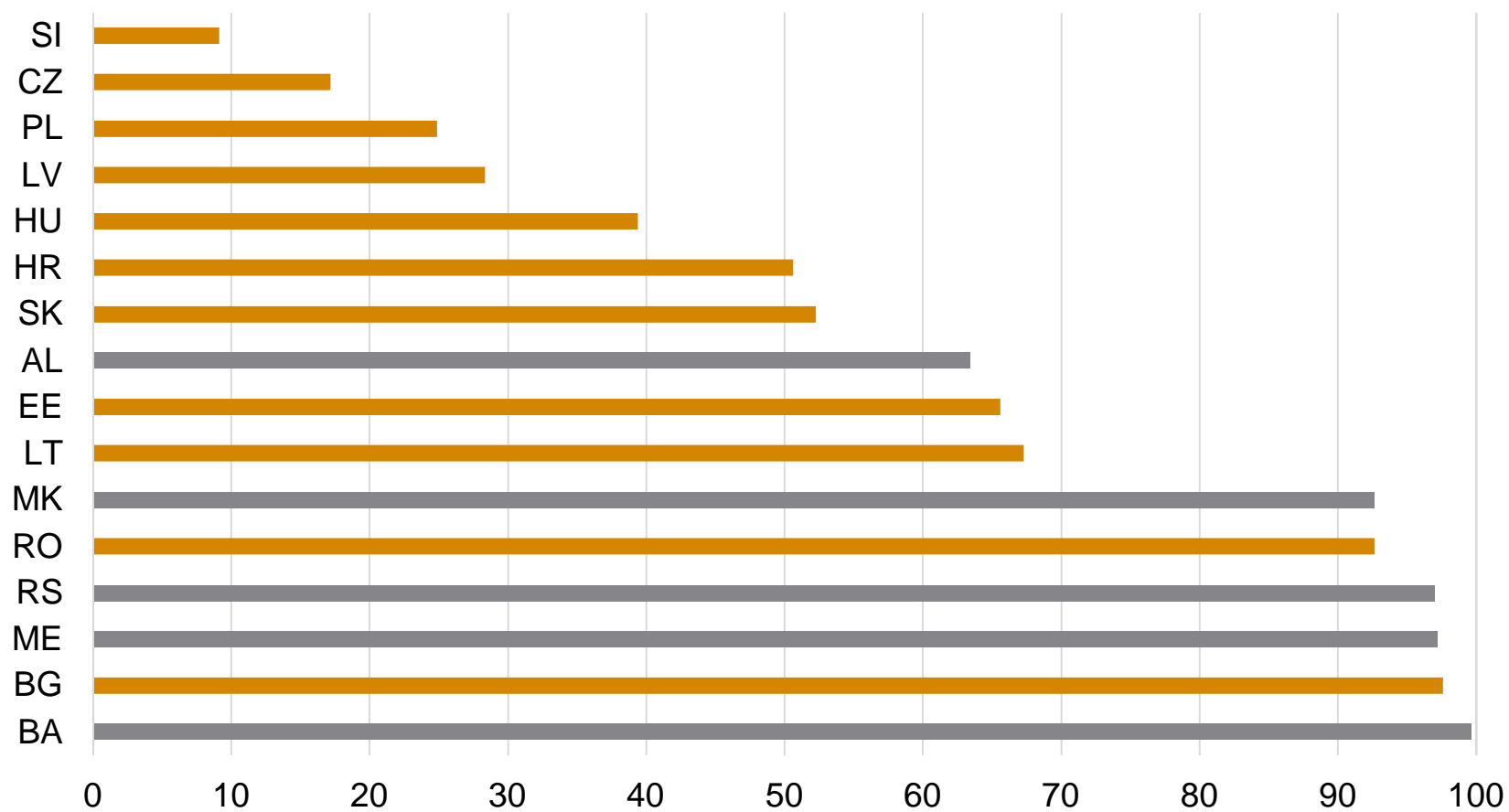
Lack of traditional infrastructure

Railway line density in km per 100,000 persons, 2015



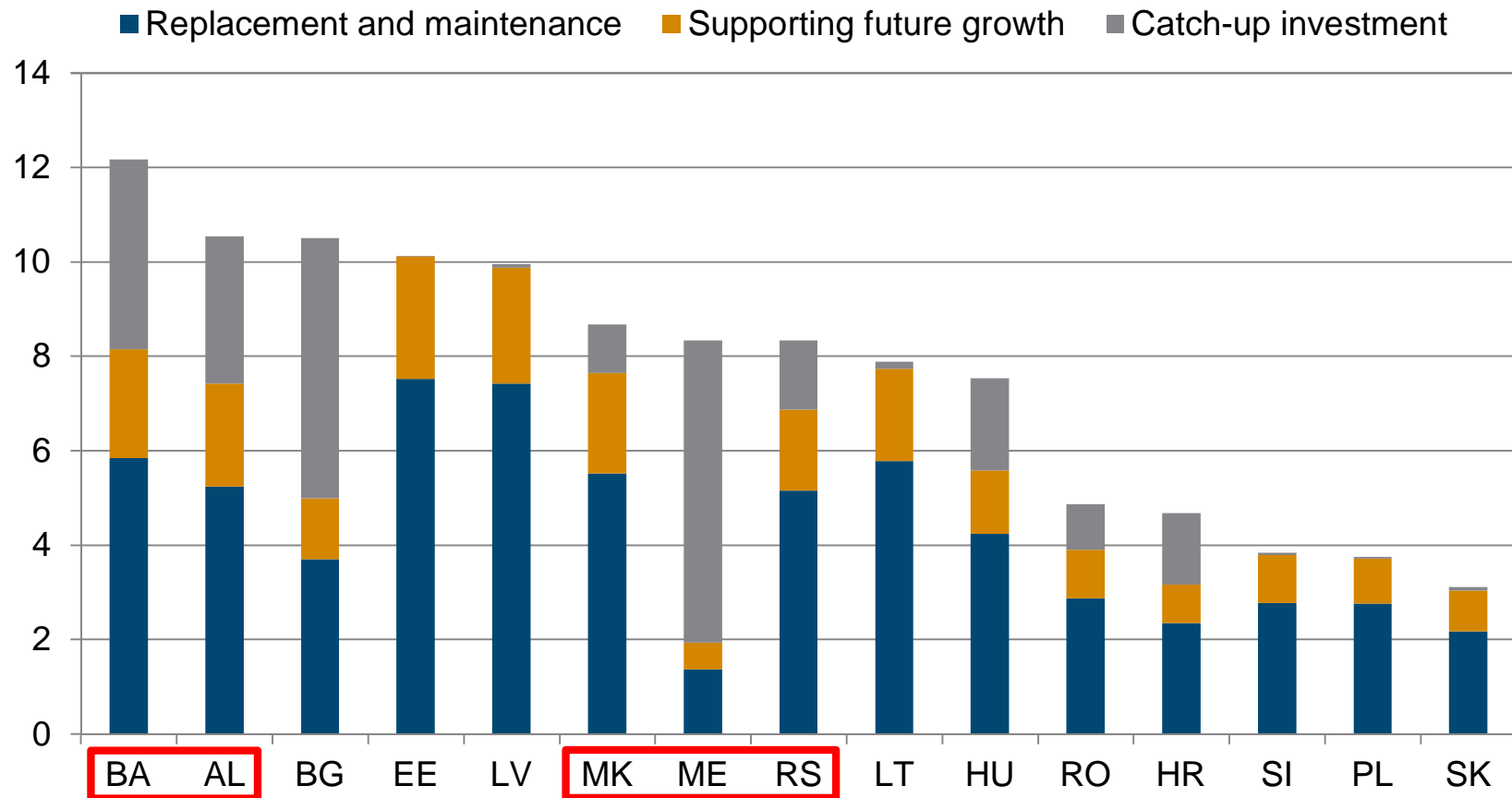
Lack of non-traditional infrastructure: e.g. waste management

Share of land filled municipal waste, in %, 2014



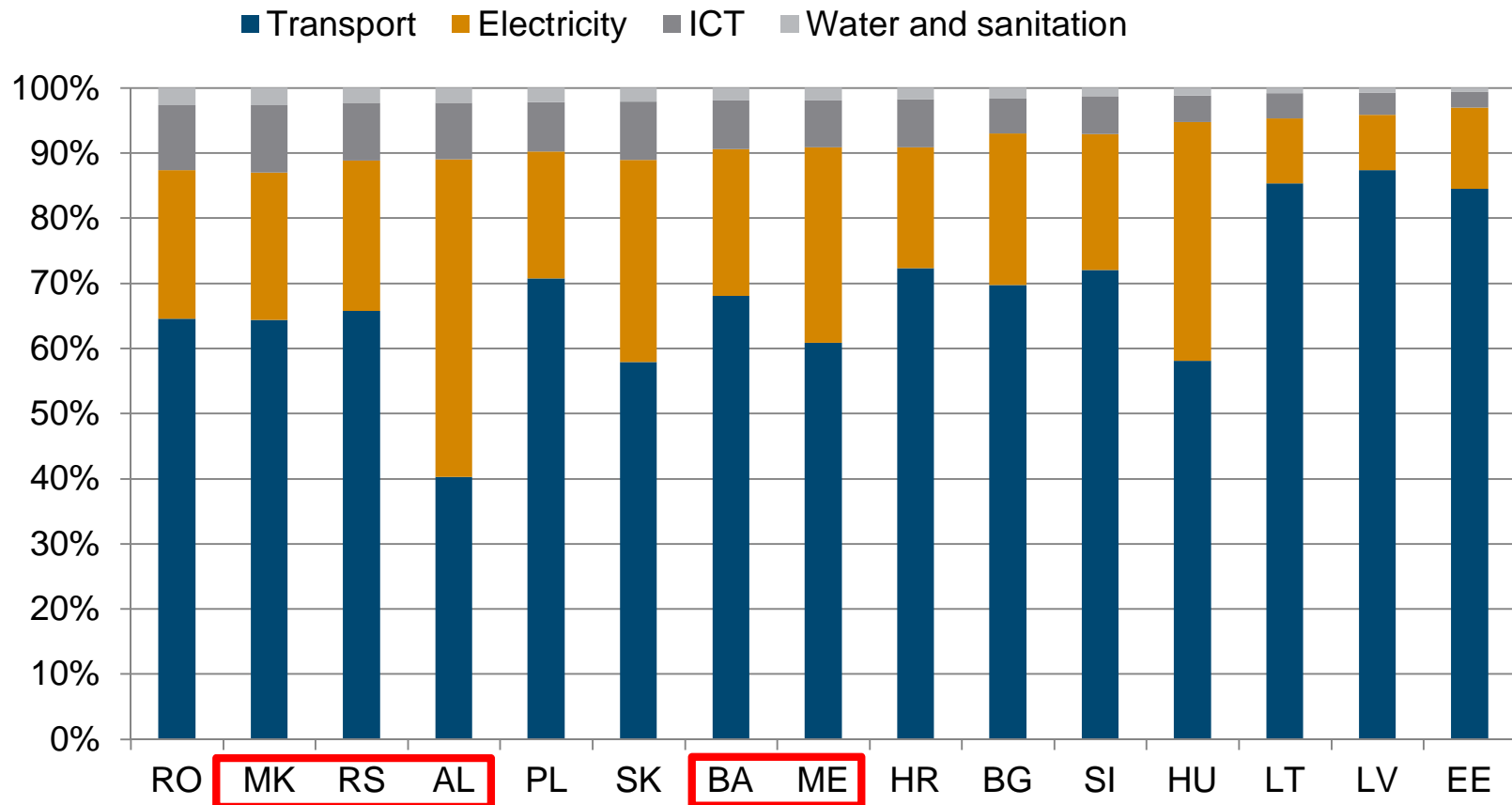
Infrastructure investment needs 9 times of current investment level

Estimated infrastructure investment needs for the period 2018-22 as a percentage of GDP per year, by investment type



Alternative infrastructure investment needs to increase by 50%,
i.e. 0.18% of GDP annually = EUR 800 mn over 5 years

Estimated infrastructure investment needs for the period 2018-22 breakdown



Note: Ranked by Water and sanitation sector size.

Source: EBRD Transition Report 2017-18.



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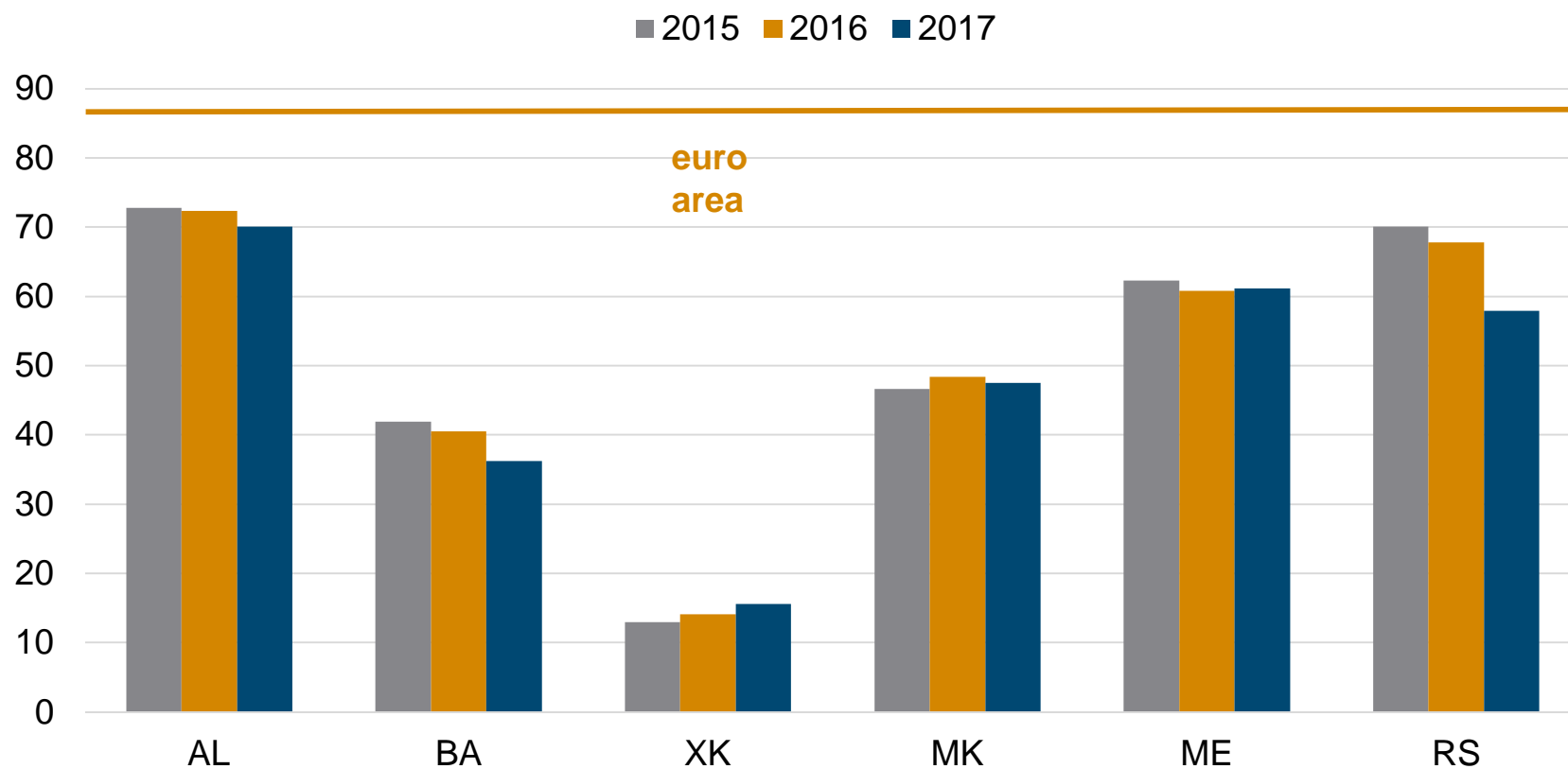
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Indebtedness



Reduced government debt...

General government gross debt in % of GDP, 2015-2017

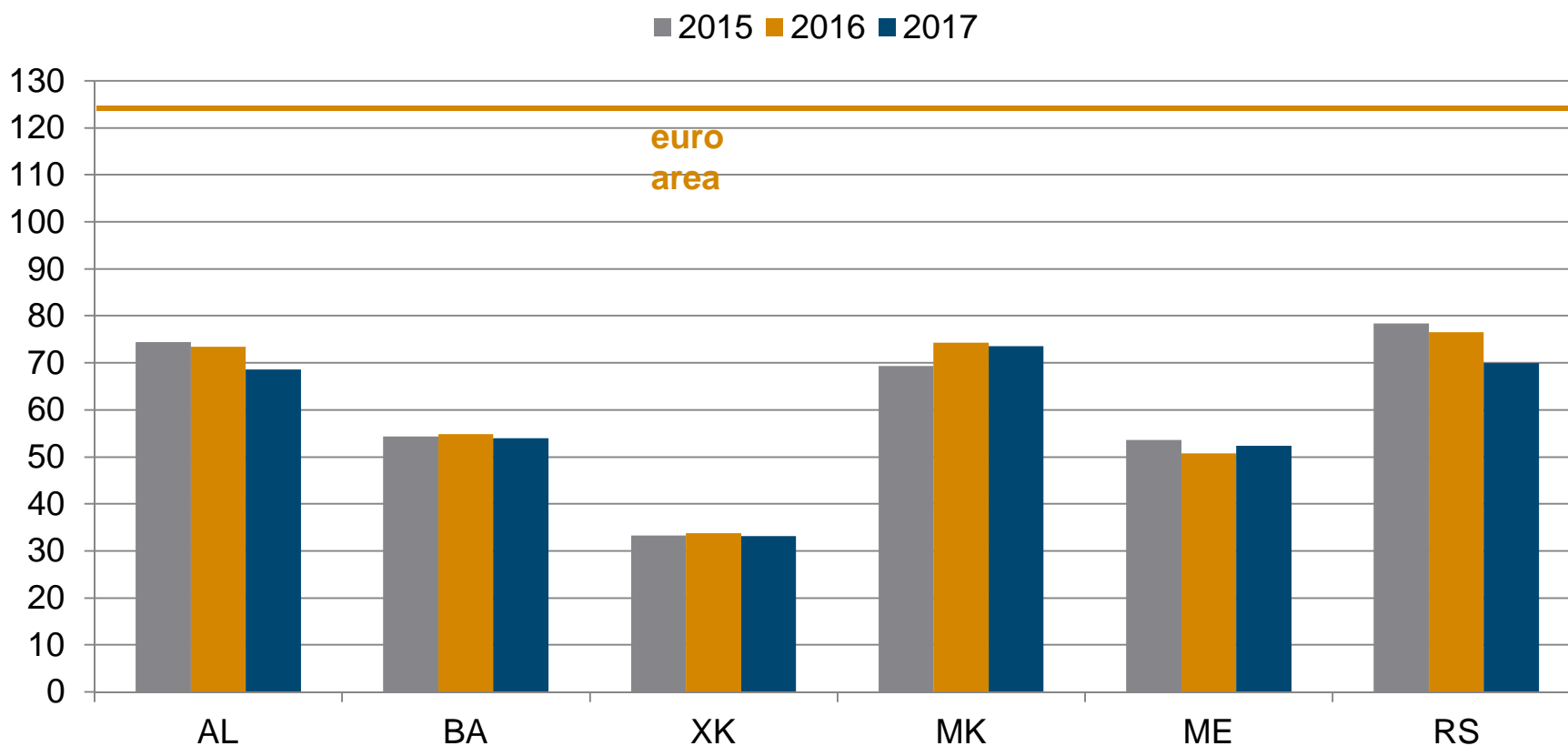


Note: Euro area 2017 value is at 86.8%.

Source: wiiw Annual Database.

... but mostly rigid external debt (except reductions in AL & RS)
and rising global interest rates pose a serious threat

Gross external debt in % of GDP, 2015-2017

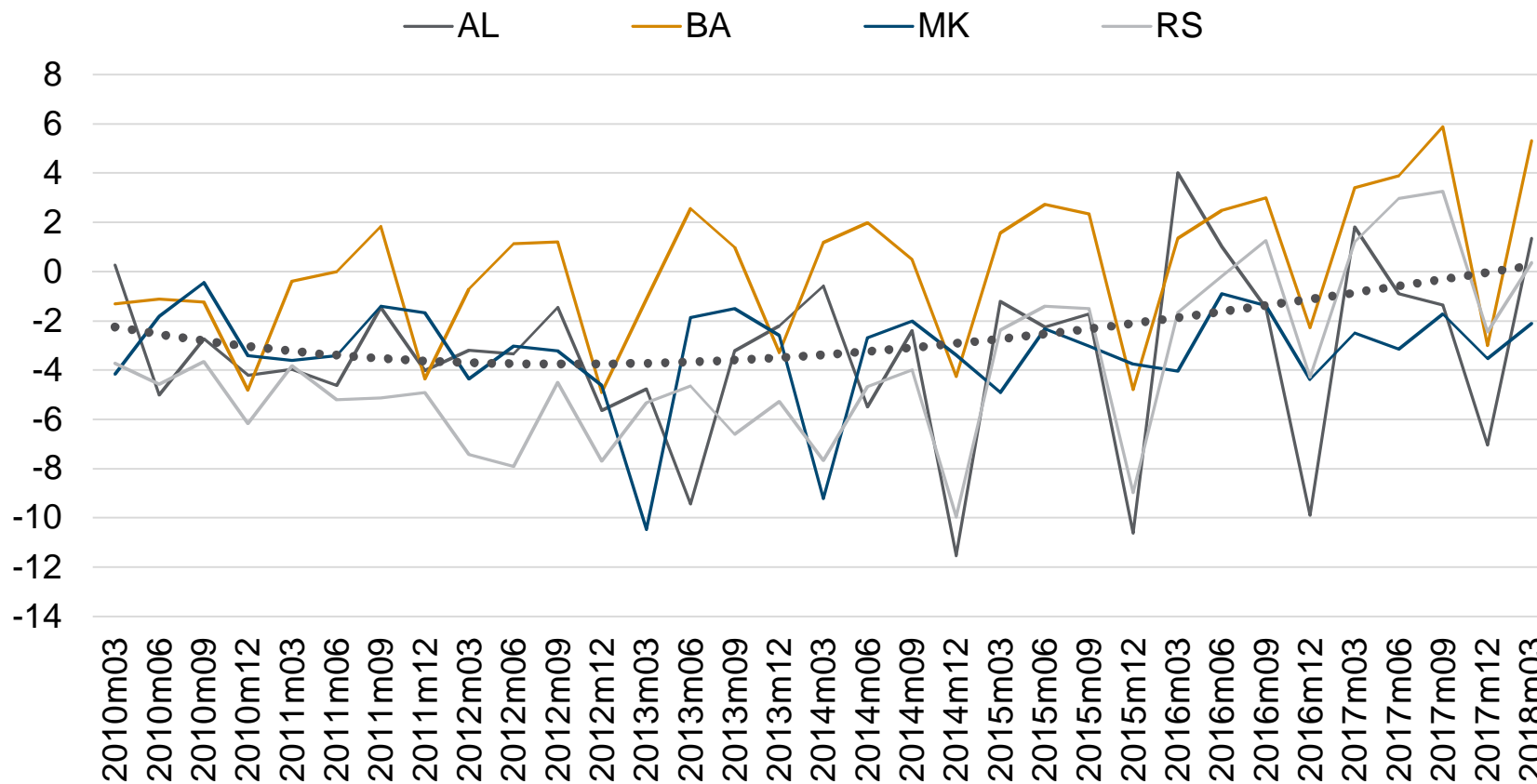


Note: ME gross external public debt; euro area 2017 value is at 124%.

Source: wiiw Annual Database.

Fiscal balance countering recent widening of current account

Quarterly general government balance in % of GDP



Note: Poly. (WB4) is the order 3 polynomial trend line for the average of the AL, BA, MK, RS values. © wiiw 10

Source: wiiw Monthly Database.

Short-run pragmatic policy recommendations

- Western Balkan governments should reconsider **infrastructure investment mix** (e.g. Green Economy)
- EU's MFF for **IPA III** should increase funds and reshuffle to alternative infrastructure sectors
- To create financial leeway for investment in non-traditional infrastructure, governments should adopt **ASFINAG model**
- Consider Public-Private Partnership (**PPP**) but only if management of projects is improved
- **IFIs** should issue **GDP-linked-loans**: when growth is weak debt servicing automatically declines

Long-run forward-thinking recommendations

- A Joint Project Pipeline of a **Common Western Balkan Investment Committee** with supranational power could be additional starting point in WBIF governance structure
- Creation of a **Western Balkan Regional Infrastructure Fund** with bigger volume and stronger grant component
- Joining the **Euro area** – even if only with limited rights - e.g. without voting rights – before EU accession would bring down interest rates

The bigger picture

- EU strategy so far: **more connectivity** will lead to more political reconciliation
- New EU strategy: mediation for **more political reconciliation** will lead to more connectivity
- Support for infrastructure investment could be used as a **reward** for solving long-standing political stalemates in the Western Balkans



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CESEE	Central, East and Southeast Europe		
CIS	Commonwealth of Independent States		
EU-CEE	European Union – Central and Eastern Europe		
WB	Western Balkans		