The Western Balkans and the European Union: Agenda for Reform

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Key Messages

- Western Balkan’s gradual catch-up with EU income levels has ground to a halt since the financial crisis;
- Income convergence with EU requires rapid growth which can only occur with deep structural reforms;
- Reform priorities to stimulate growth and jobs include:
  - macroeconomic and fiscal stabilization;
  - improved competitiveness and connectivity;
  - enhanced skills and labor productivity;
  - strengthened governance and anti-corruption
Notable income convergence of the Western Balkans with the EU in the past...
...but income convergence has stalled since the financial crisis...
...and growth rates have plummeted across Europe since 2008.
Western Balkans would need decades of rapid growth to reach EU living standards

Income convergence (GDP per capita, PPP, 2005 USD)
Shared income growth requires job creation and tackling labor market imbalances

Unemployment in SEE, EU 11 and EU 15, % of labor force
Labor force participation is low and unemployment high by global standards.

Notes: ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; EAP = East Asia and Pacific.
Youth, women, elderly and minorities face employment obstacles

Aging populations and record out-migration undermine fiscal sustainability and growth.

**Share of migrant stock in source region population**

- **Western Balkans**: 25% (1990), 13% (2013)
- **Rest of Southern Europe**: 7% (1990), 6% (2013)
- **Rest of the World**: 3% (1990), 3% (2013)

**Population change, 2015-2020**

- **Albania**: Natural increase (2015-20) and net migration rate (2015-20)
- **Macedonia, FYR**: Natural increase (2015-20) and net migration rate (2015-20)
- **Montenegro**: Natural increase (2015-20) and net migration rate (2015-20)
- **Bosnia and Herzegovina**: Natural increase (2015-20) and net migration rate (2015-20)
- **Serbia**: Natural increase (2015-20) and net migration rate (2015-20)

Source: Based on UN International Migrant Stocks (2013 revision)
Agenda for Reform
Restoring and sustaining macroeconomic and fiscal stability

Fiscal deficits, % GDP

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Public debt & guarantees 2013, % GDP

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Legend:
- Public debt
- Guarantees
Ensuring financial sector health and financial intermediation to spur growth

Non-performing Loans, % of total loans

Credit Growth Rates, % change
Improving connectivity and market integration

Source: World Bank, Logistics Performance Index
Creating a world-class investment climate and completing enterprise restructuring/privatization

Doing business, distance to best practice frontier 2014 (100=best)

Source: World Bank Doing Business
Moving toward European standards for higher education outcomes

PISA scores in math test, 2012

- **LAC**: Trend: Stagnating
- **Developing Asia**: Trend: Stagnating
- **Western Balkans**: Trend: Improving
- **ECA**: Trend: Stagnating

Source: PISA; Note: Developing Asia includes Indonesia, Malaysia, and Thailand
Western Balkans includes: Albania, Montenegro, Serbia
Reforming education systems to equip young workers with “new economy” skills

Source: World Bank staff, based on LFS.
Bringing governance and institutional quality up to EU standards

World Governance Indicator, 2000–’12

WGI Improvement in score 2005–’12

Source: World Bank
Note: WGI ranges from (-2.5 = worst) to (+2.5 = best)
Changing the conditions and incentives that produce entrenched corruption

Source: Transparency International, best performing EU country is Denmark at 91/100
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THANK YOU

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