

The Western Balkans and the European Union: Agenda for Reform

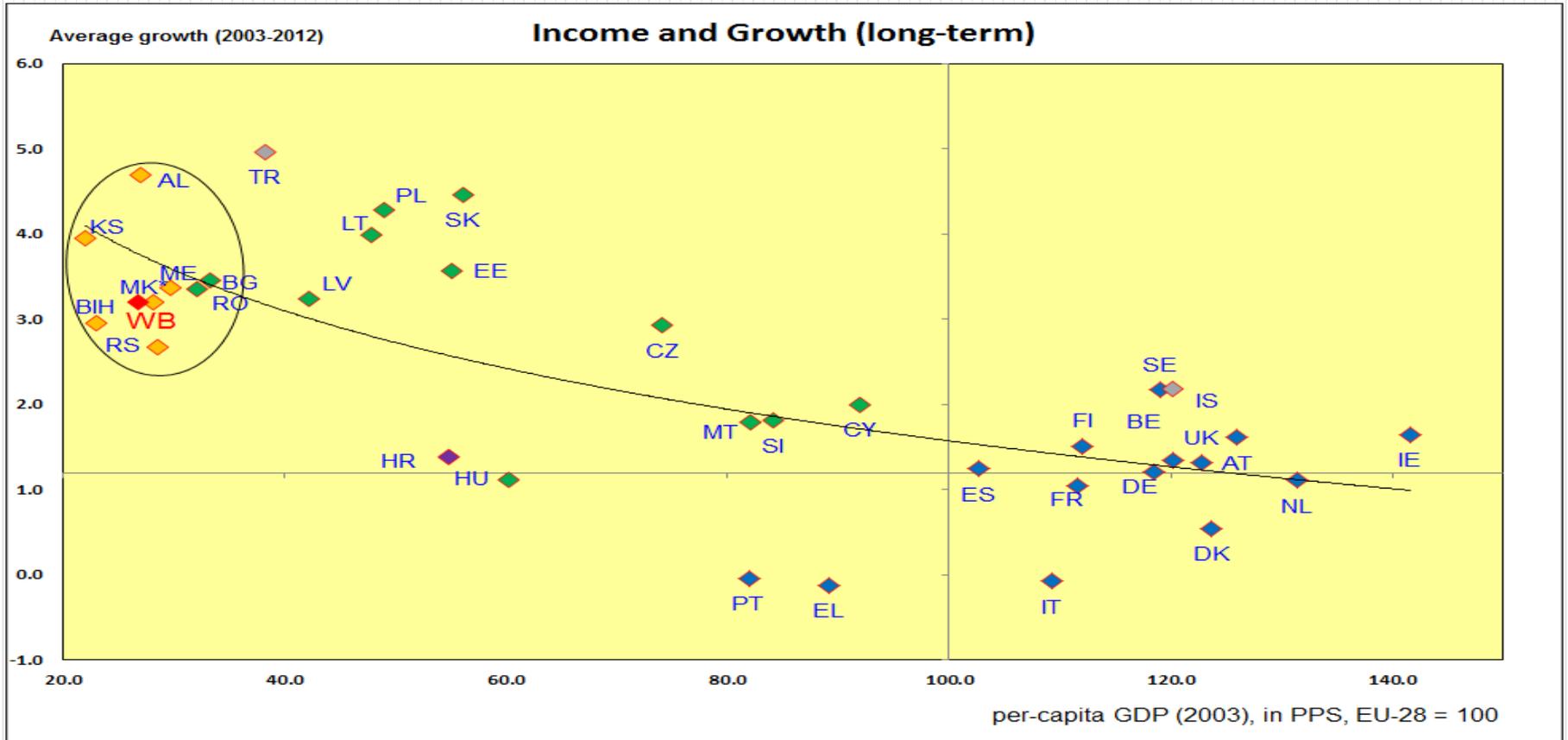
Ellen Goldstein
Country Director for Southeast Europe
The World Bank

JVI, Vienna, May 16 2014

Key Messages

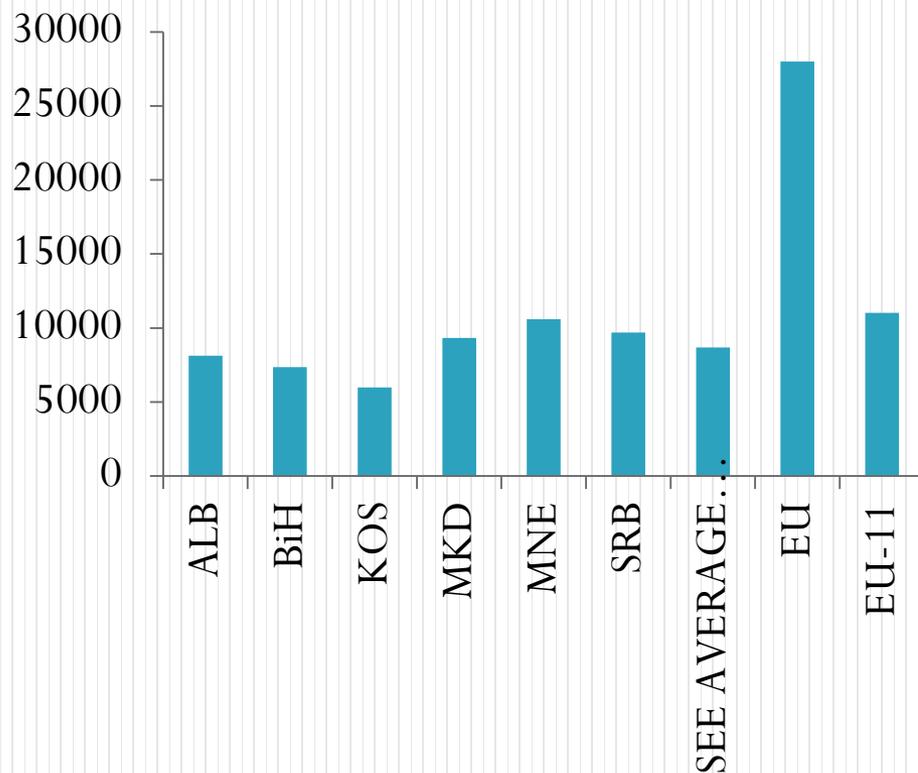
- ✓ Western Balkan's gradual catch-up with EU income levels has ground to a halt since the financial crisis;
- ✓ Income convergence with EU requires rapid growth which can only occur with deep structural reforms;
- ✓ Reform priorities to stimulate growth and jobs include:
 - ✓ macroeconomic and fiscal 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...

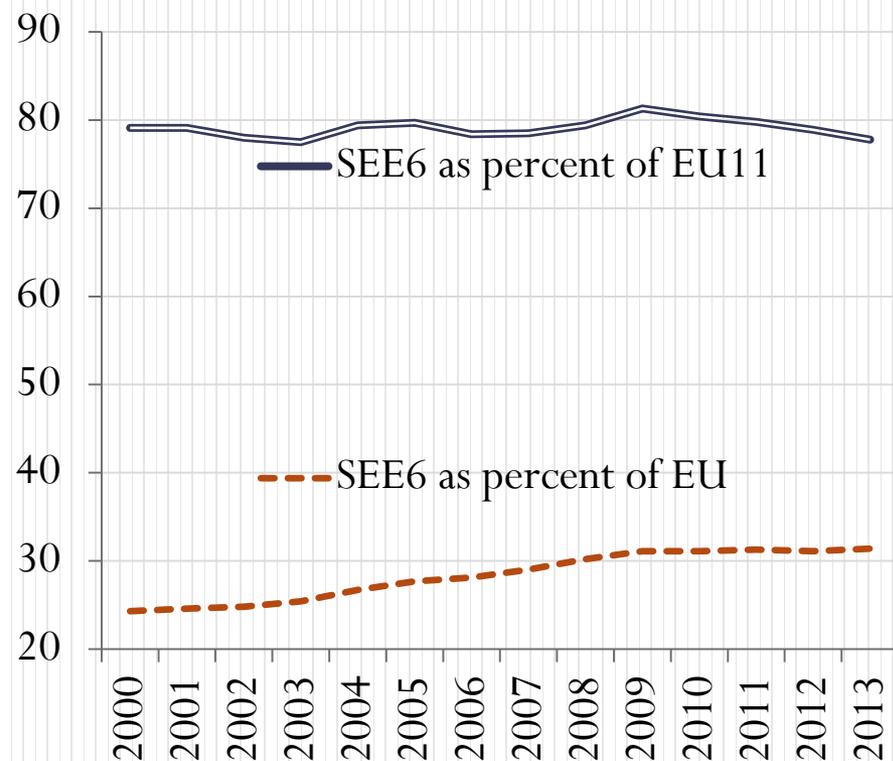


...but income convergence has stalled since the financial crisis...

2012 GDP per capita, PPP, 2005 USD

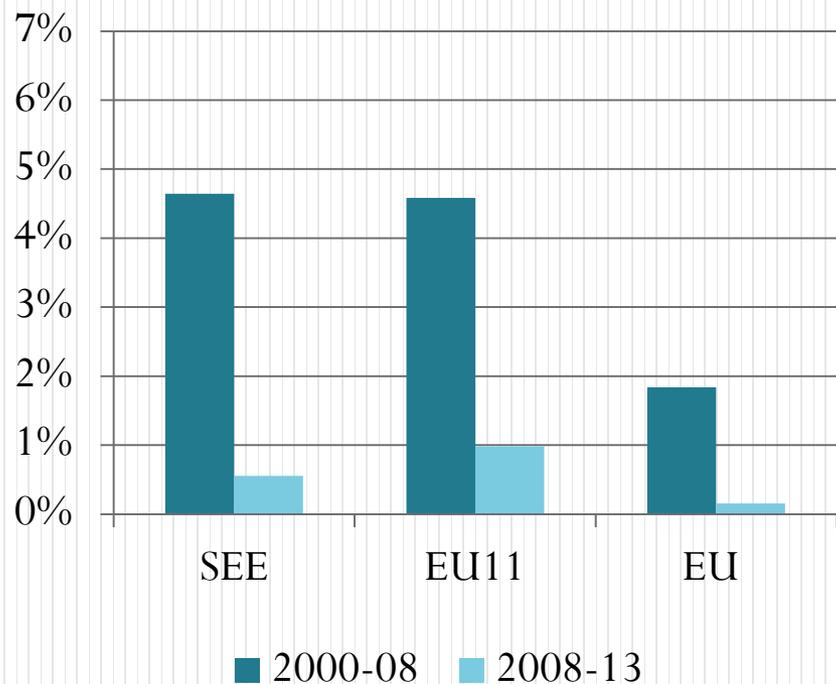


SEE GDP per capita (PPP) as % EU average

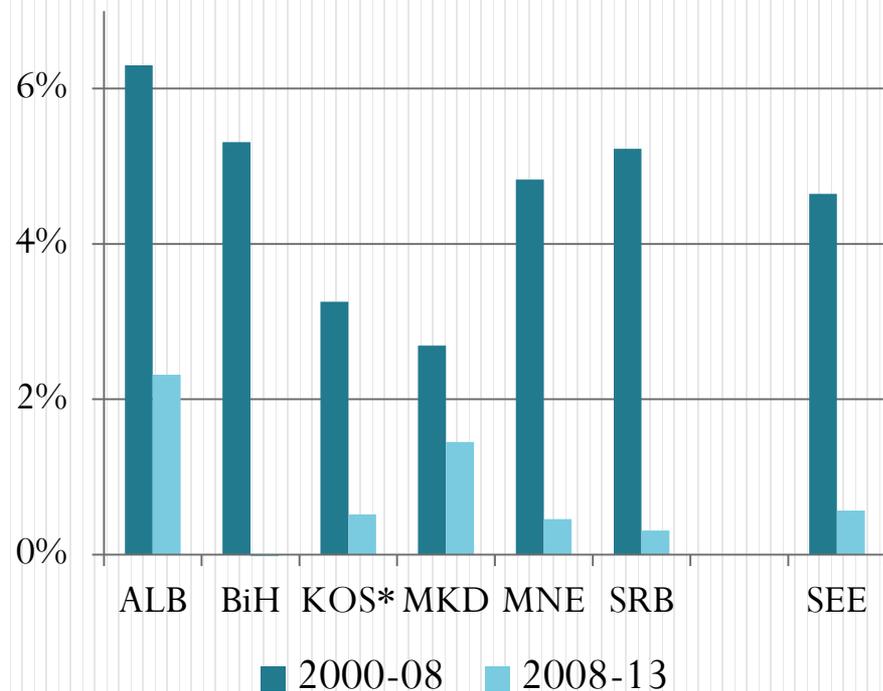


...and growth rates have plummeted across Europe since 2008.

Average per capita growth rates, PPP, 2005 USD

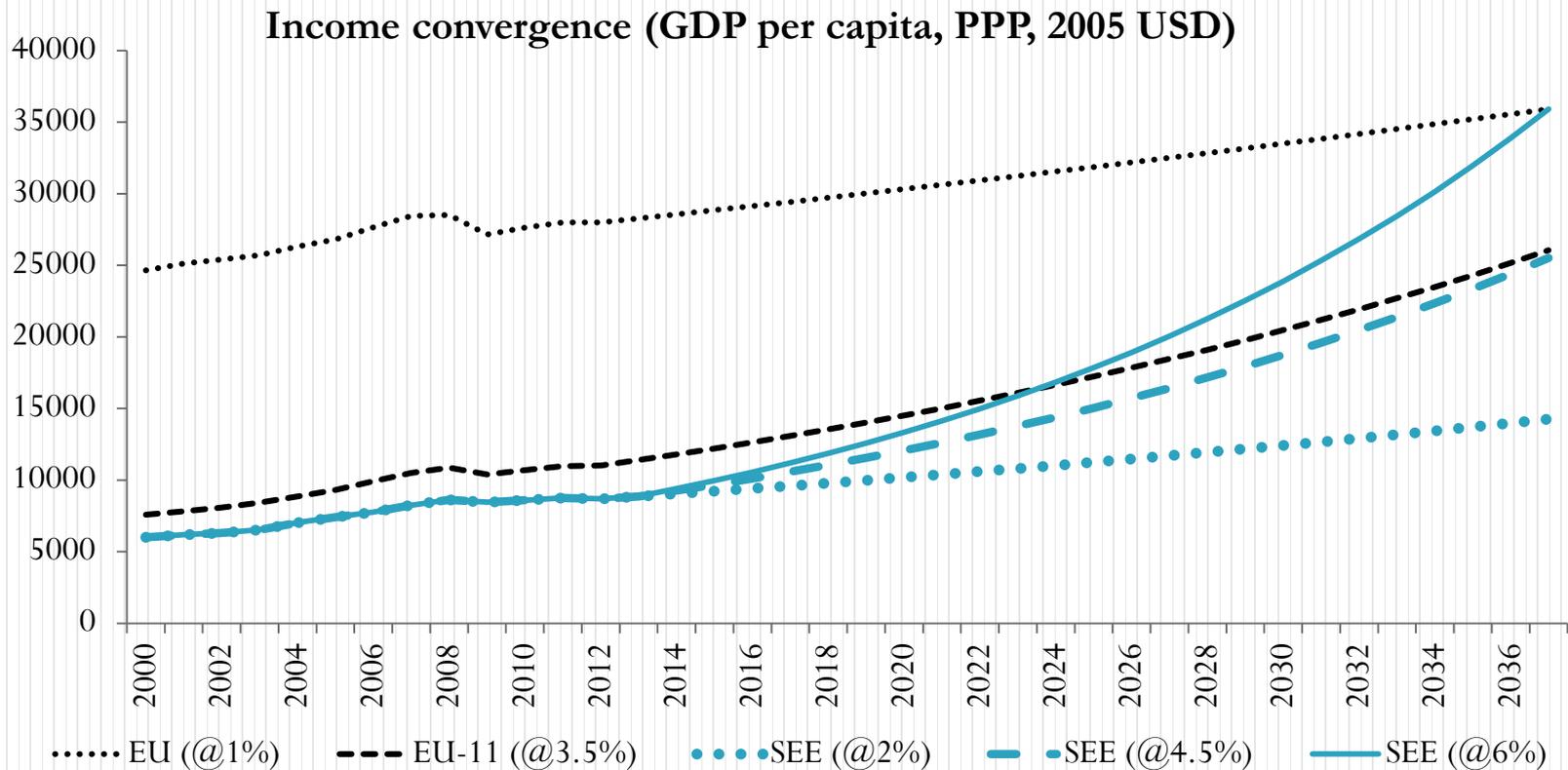


Average per capita growth rates, PPP, 2005 USD



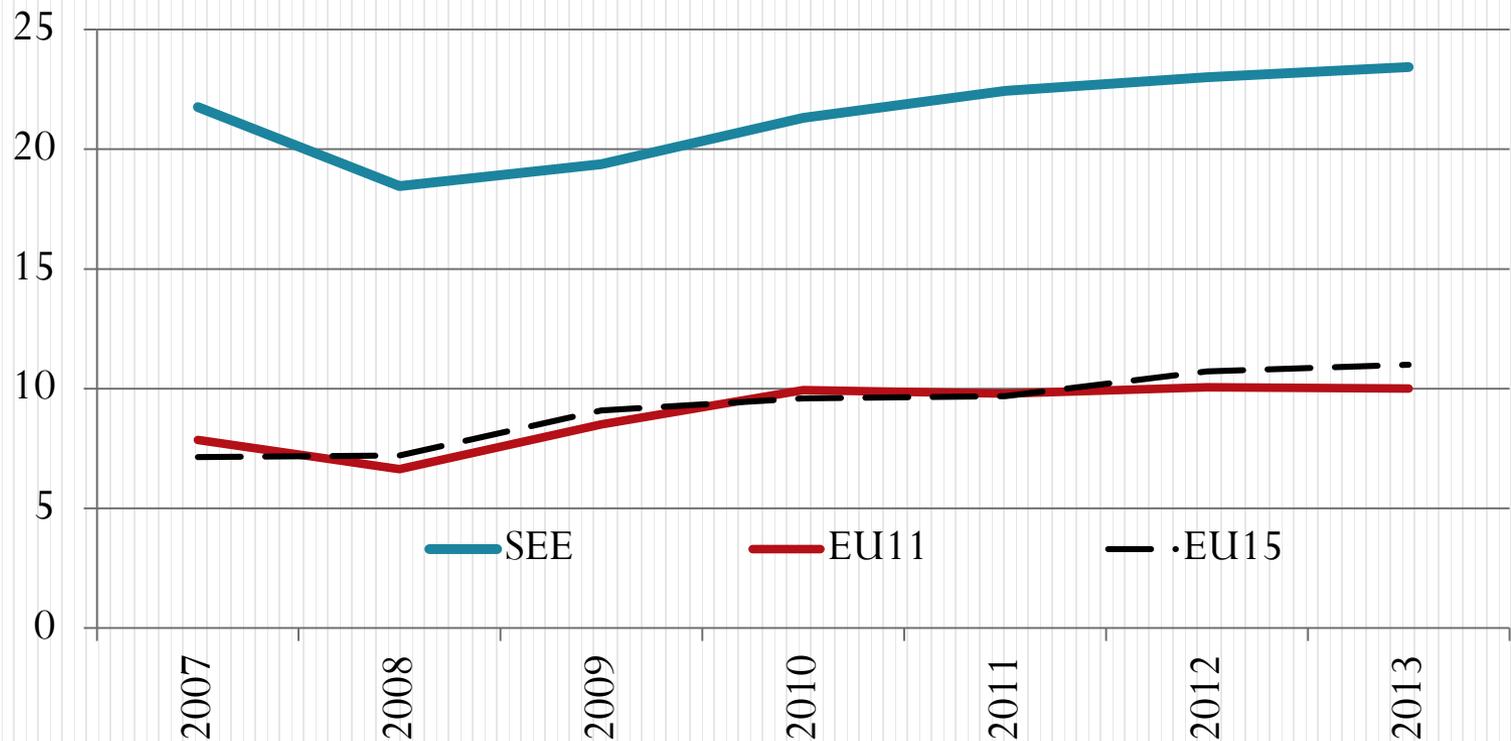
*Kosovo is 2002-08

Western Balkans would need decades of rapid growth to reach EU living standards

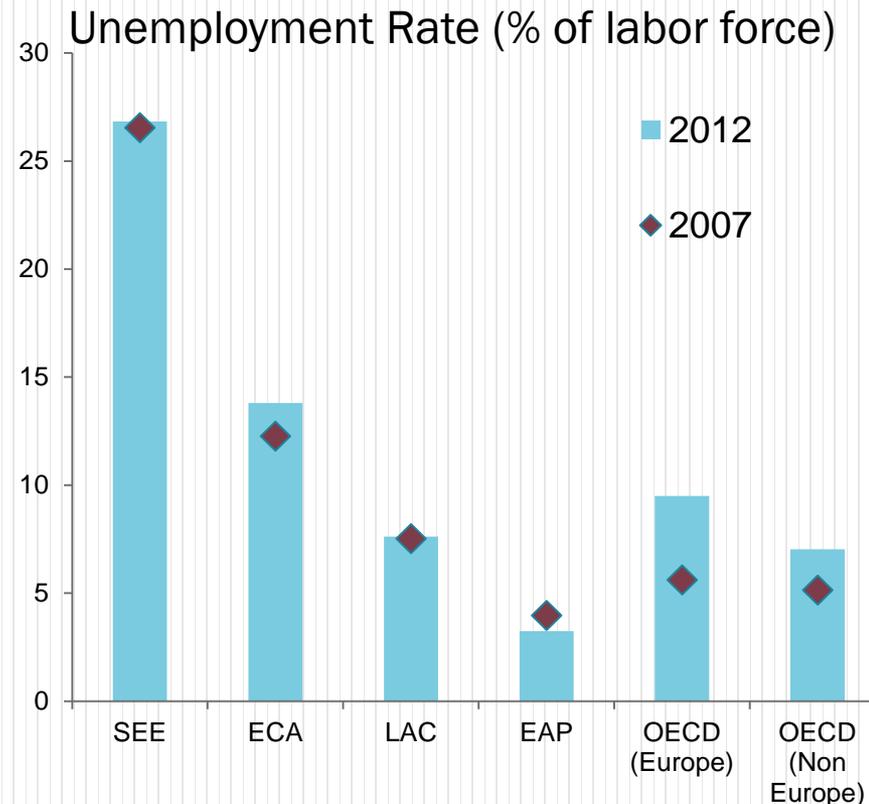
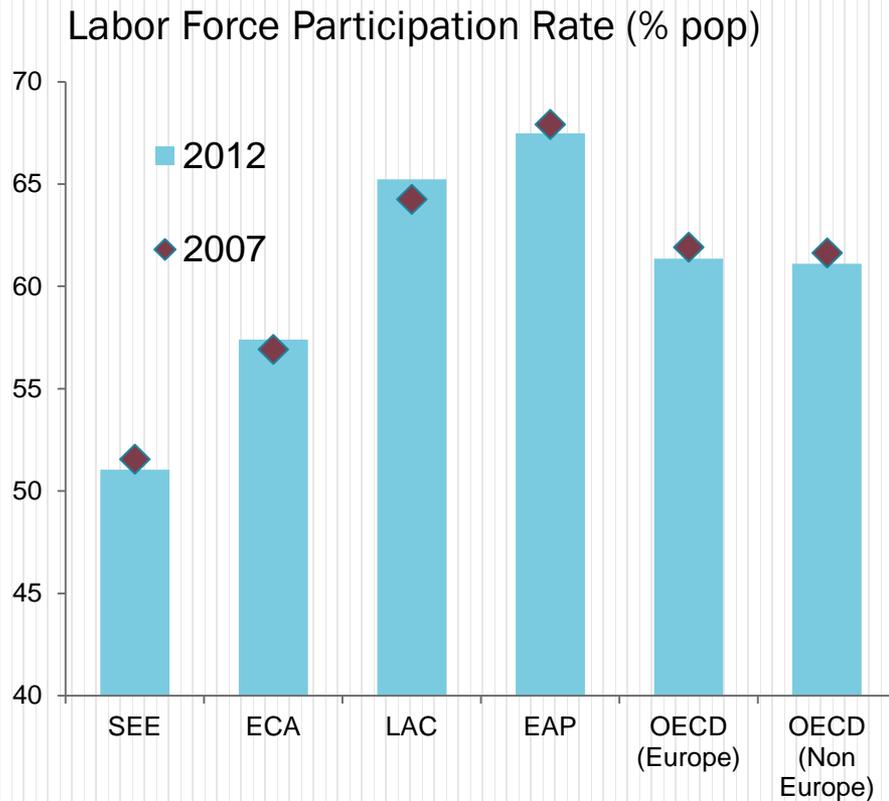


Shared income growth requires job creation and tackling labor market imbalances

Unemployment in SEE, EU 11 and EU 15, % of labor force



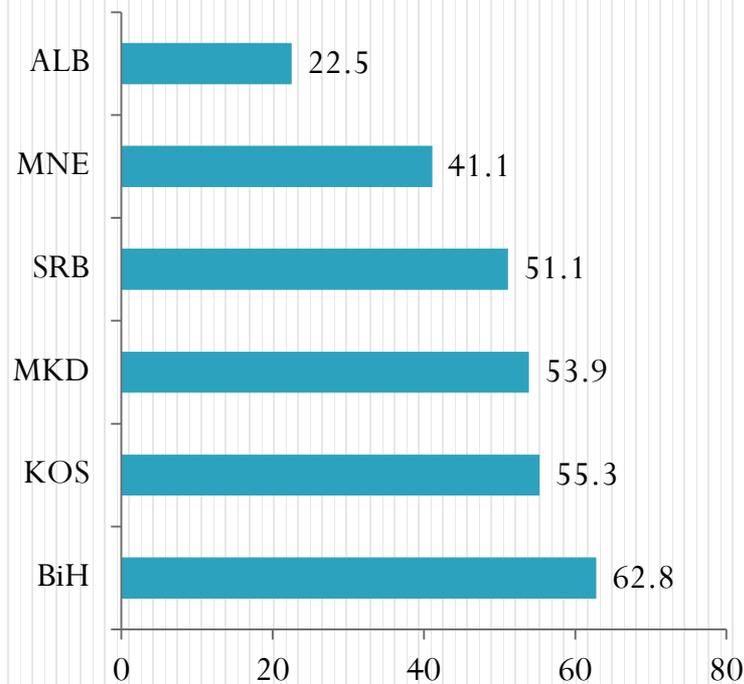
Labor force participation is low and unemployment high by global standards



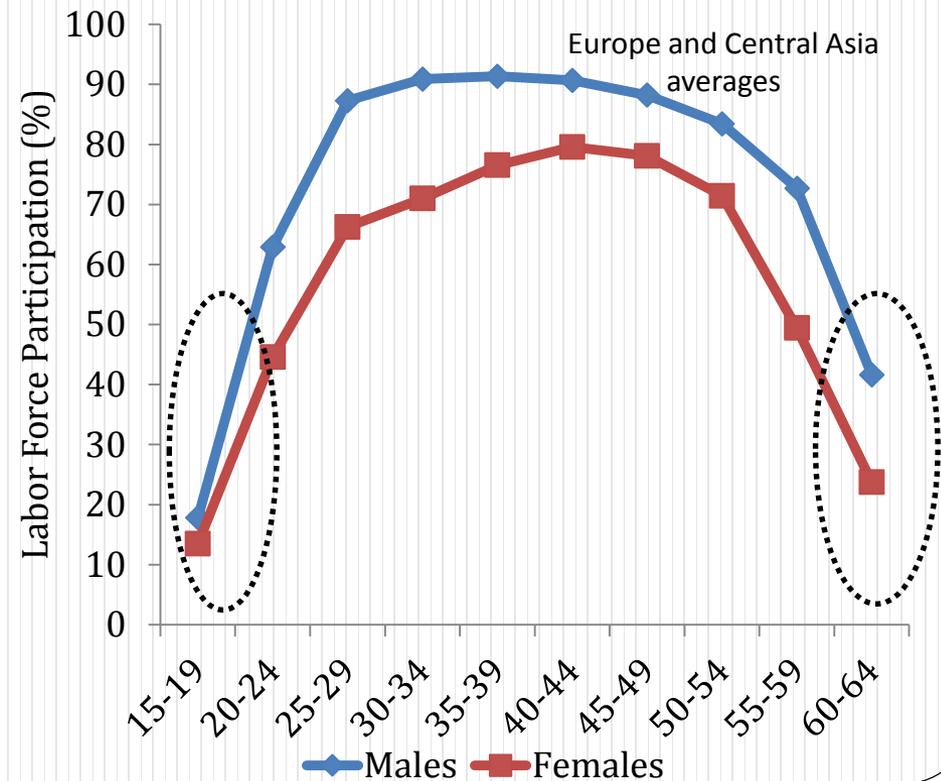
Notes: ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; EAP = East Asia and Pacific.

Youth, women, elderly and minorities face employment obstacles

Youth Unemployment Rate, % labor force

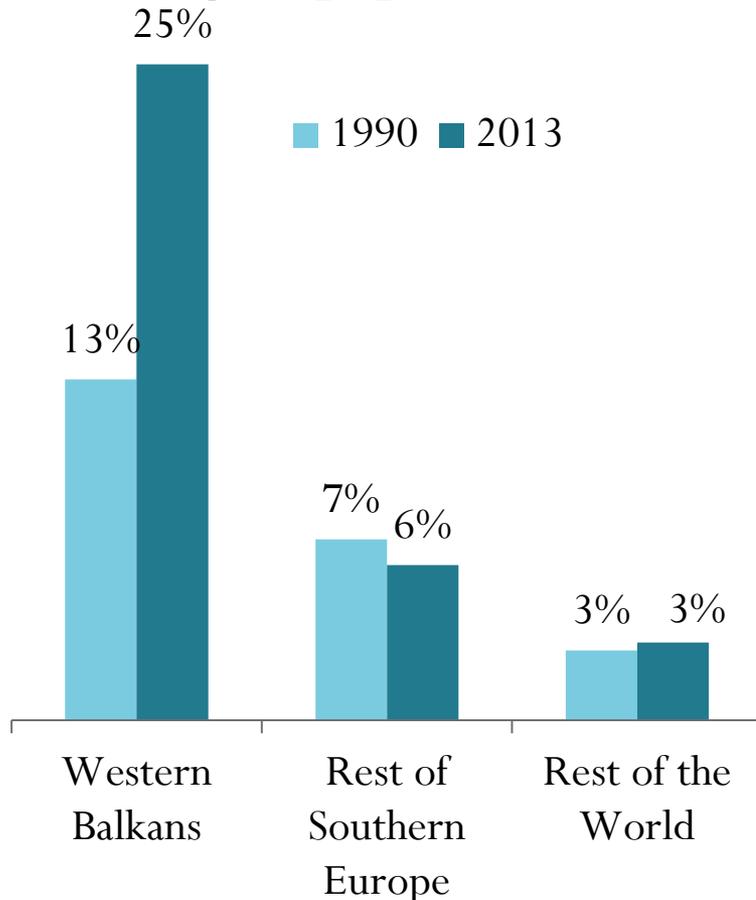


Labor Force Participation Rate, %



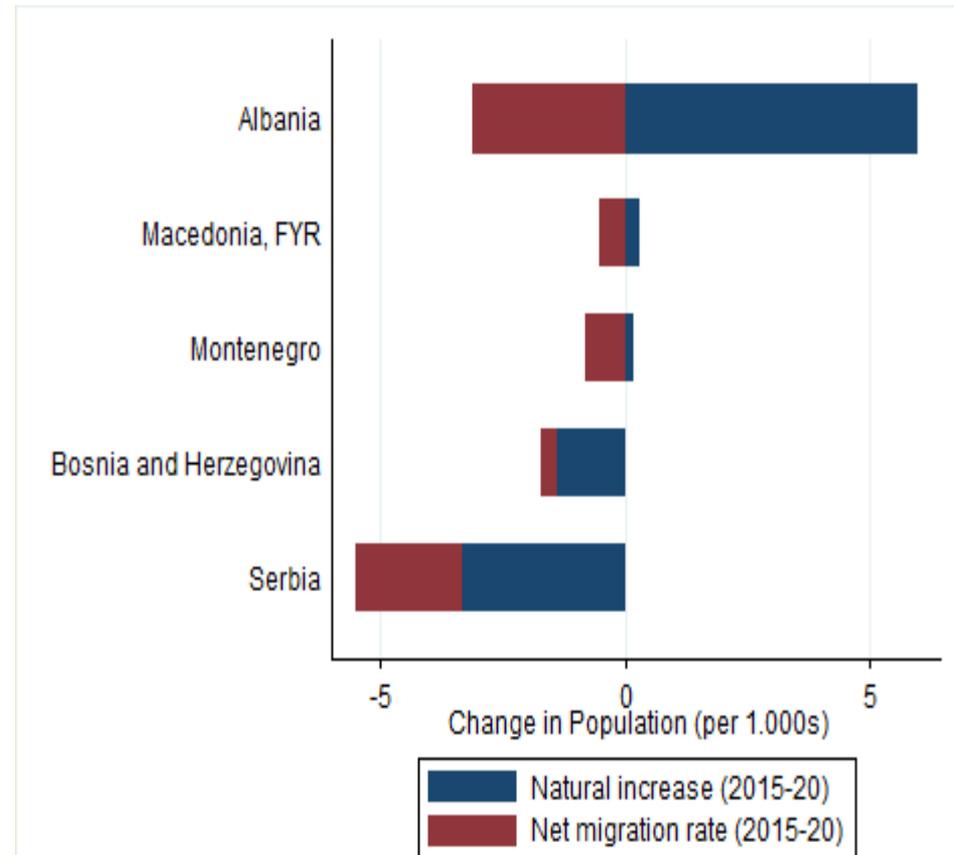
Aging populations and record out-migration undermine fiscal sustainability and growth

Share of migrant stock in source region population



Source: Based on UN International Migrant Stocks (2013 revision)

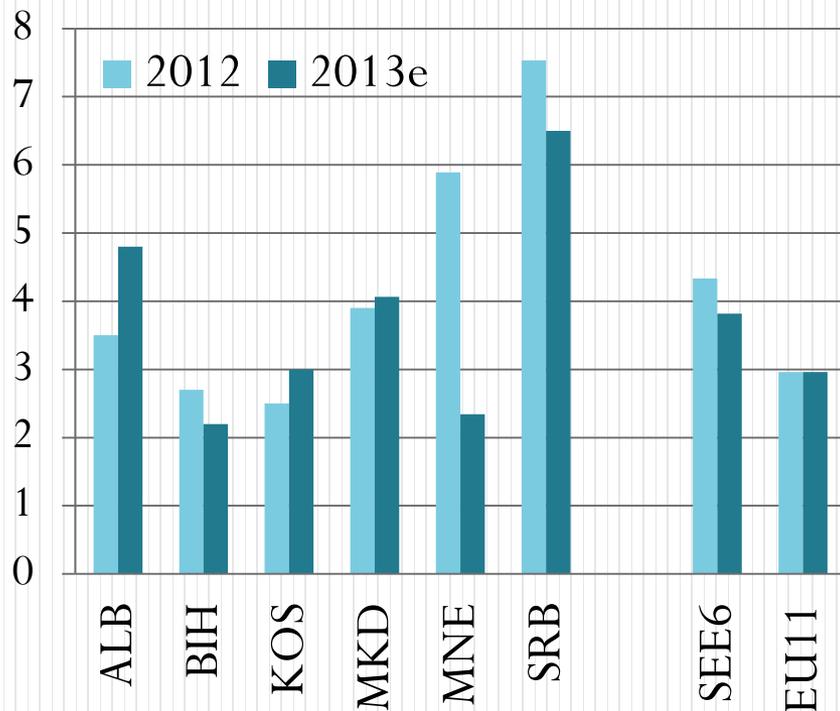
Population change, 2015-2020



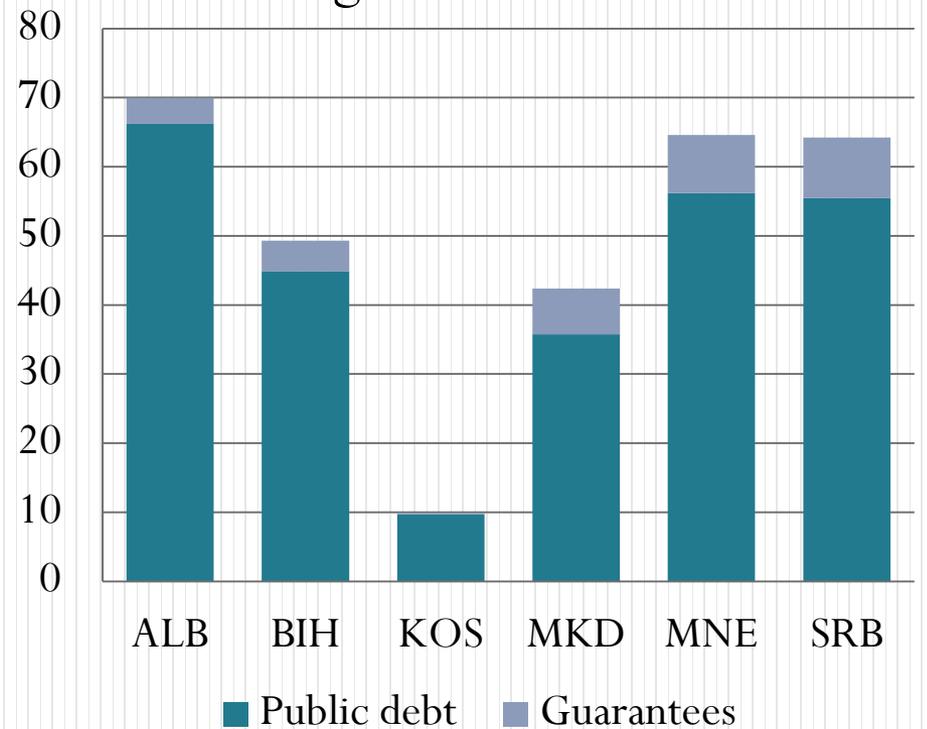
Agenda for Reform

Restoring and sustaining macroeconomic and fiscal stability

Fiscal deficits, % GDP

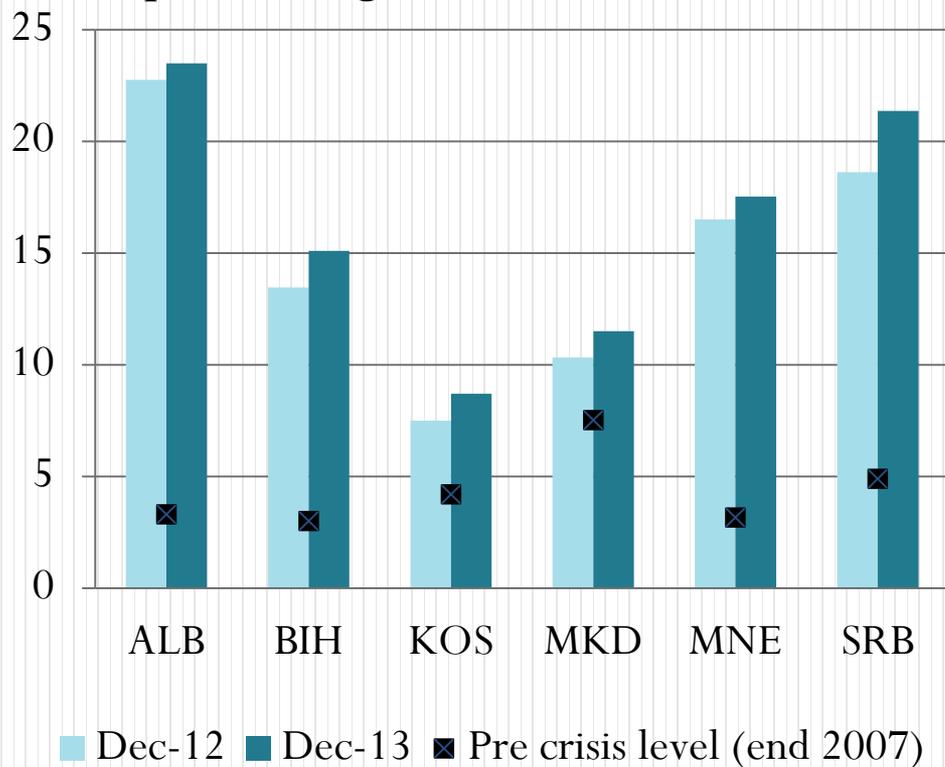


Public debt & guarantees 2013, % GDP

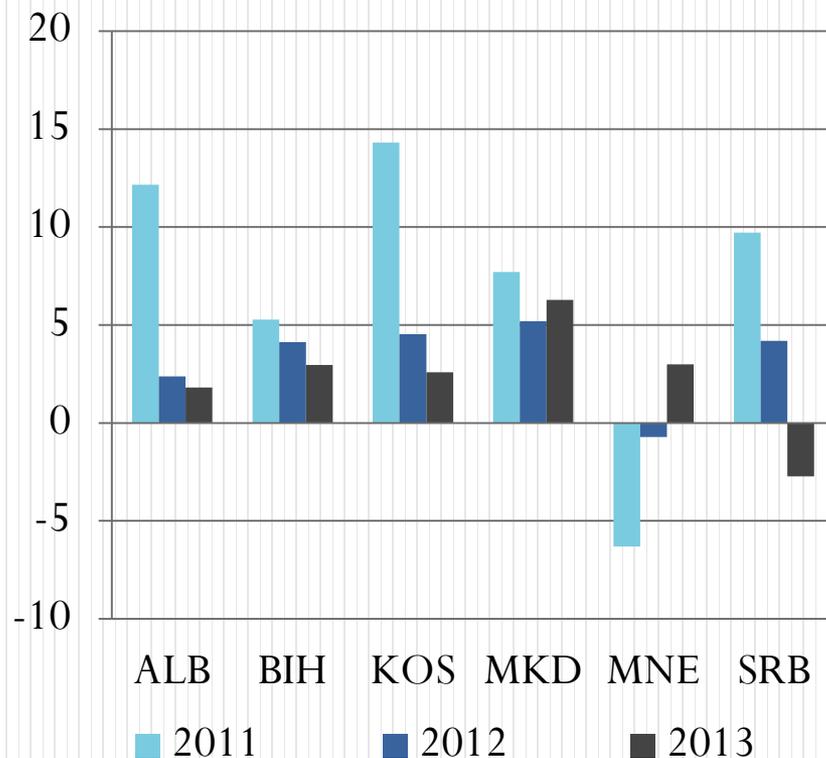


Ensuring financial sector health and financial intermediation to spur growth

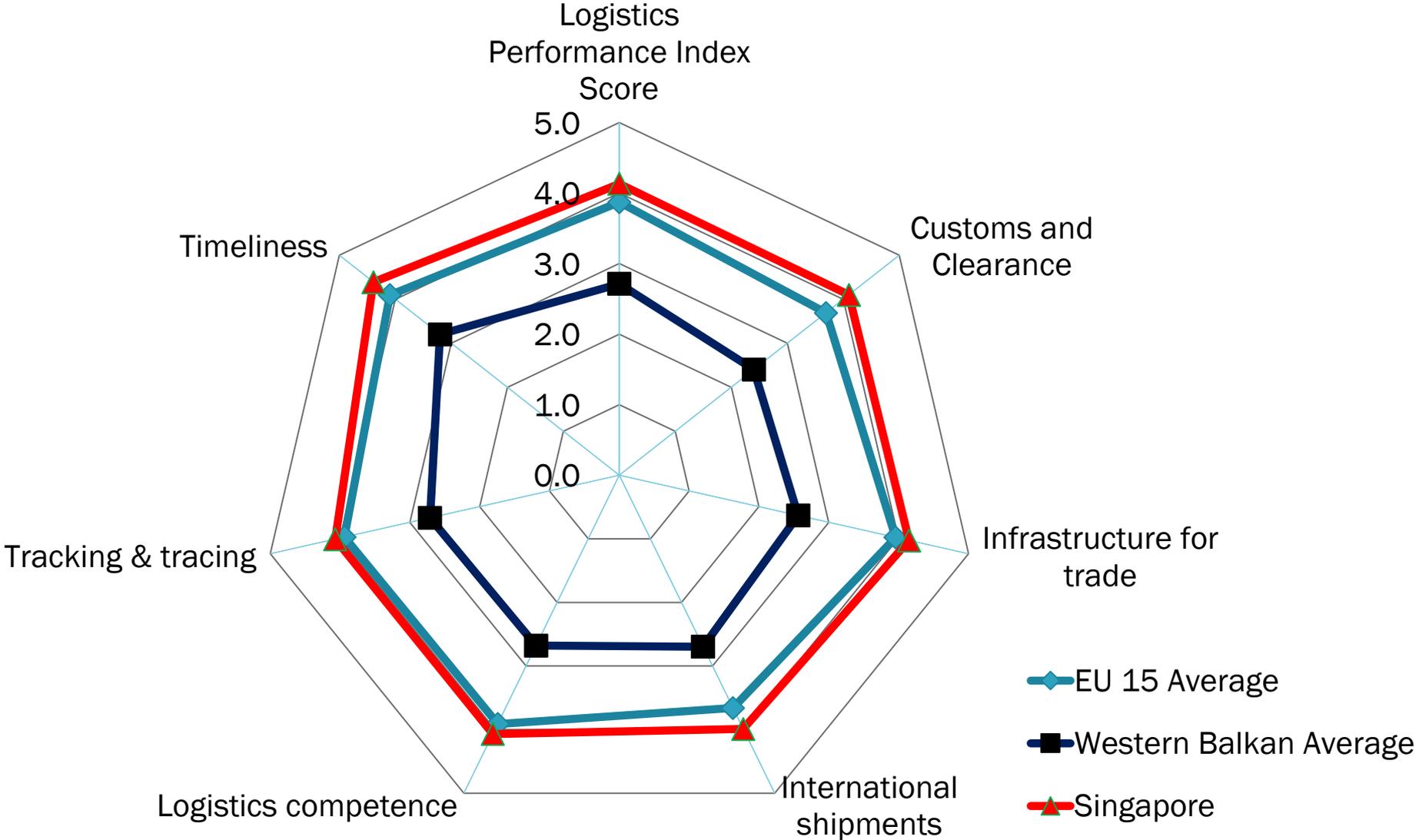
Non-performing Loans, % of total loans



Credit Growth Rates, % change



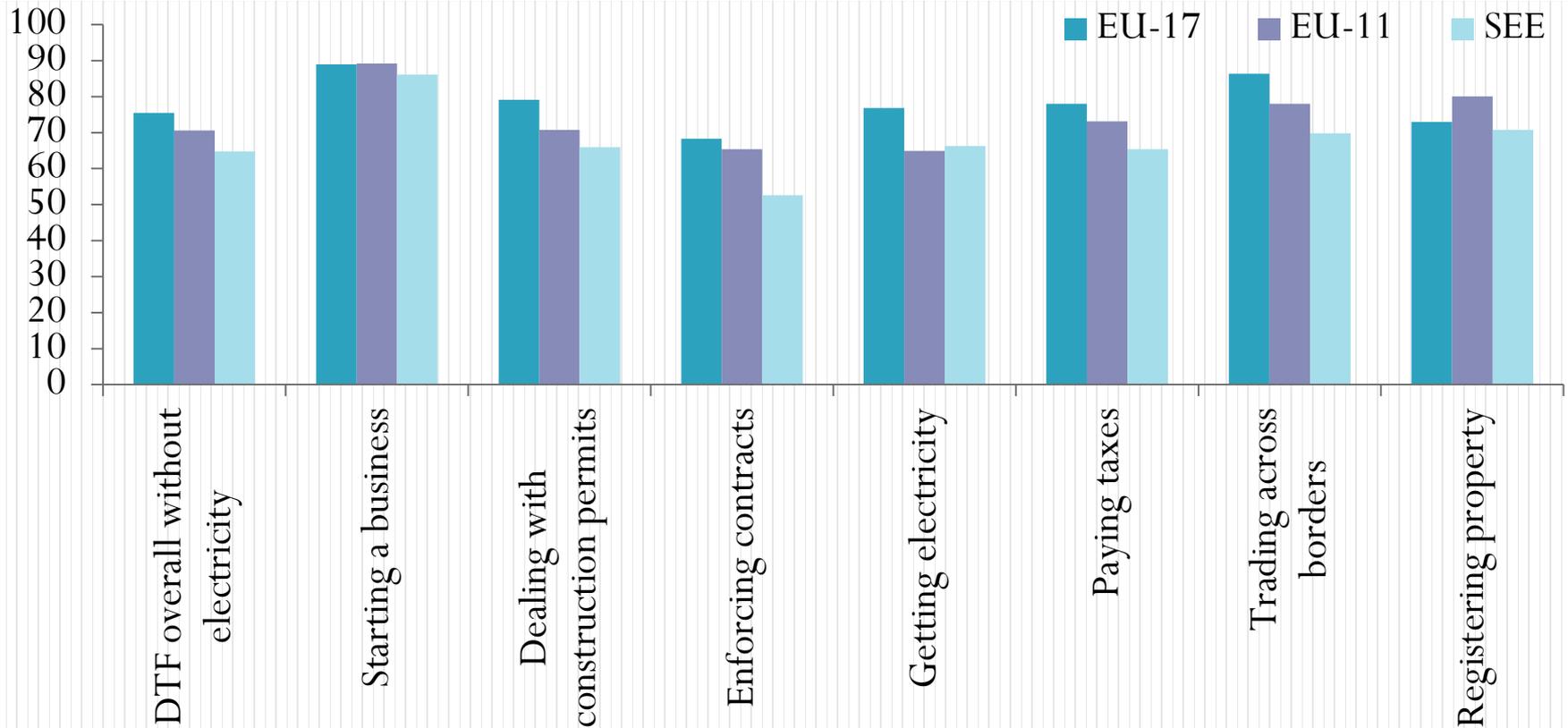
Improving connectivity and market integration



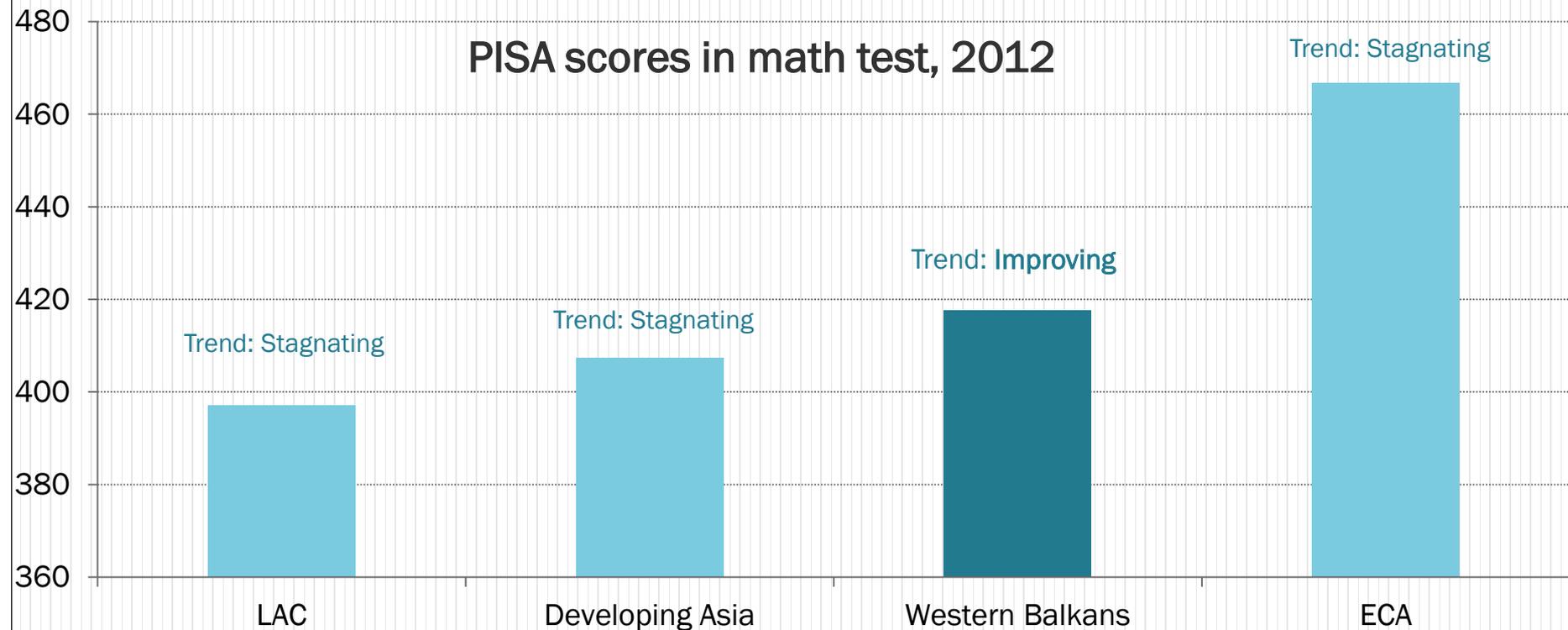
Source: World Bank, Logistics Performance Index

Creating a world-class investment climate and completing enterprise restructuring/privatization

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



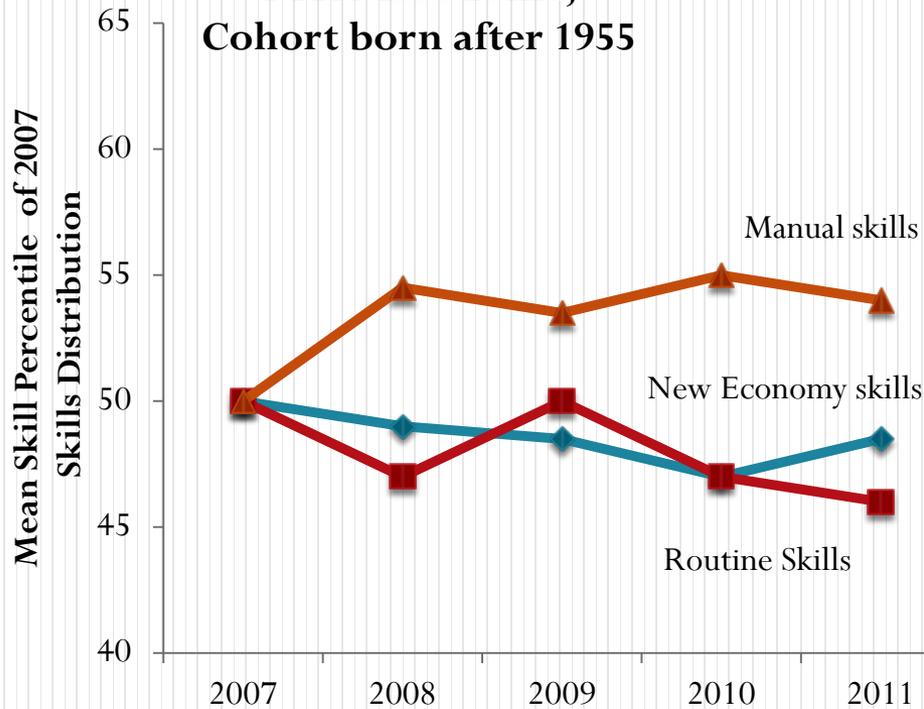
Moving toward European standards for higher education outcomes



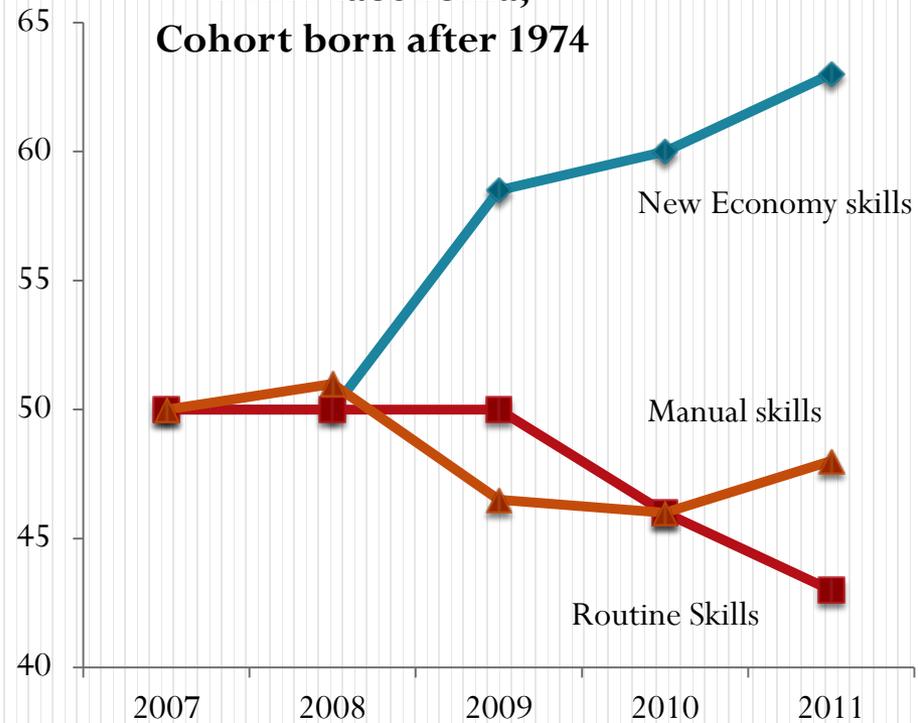
Source: PISA; Note: Developing Asia includes Indonesia, Malaysia, and Thailand
Western Balkans includes: Albania, Montenegro, Serbia

Reforming education systems to equip young workers with “new economy” skills

**FYR Macedonia,
Cohort born after 1955**



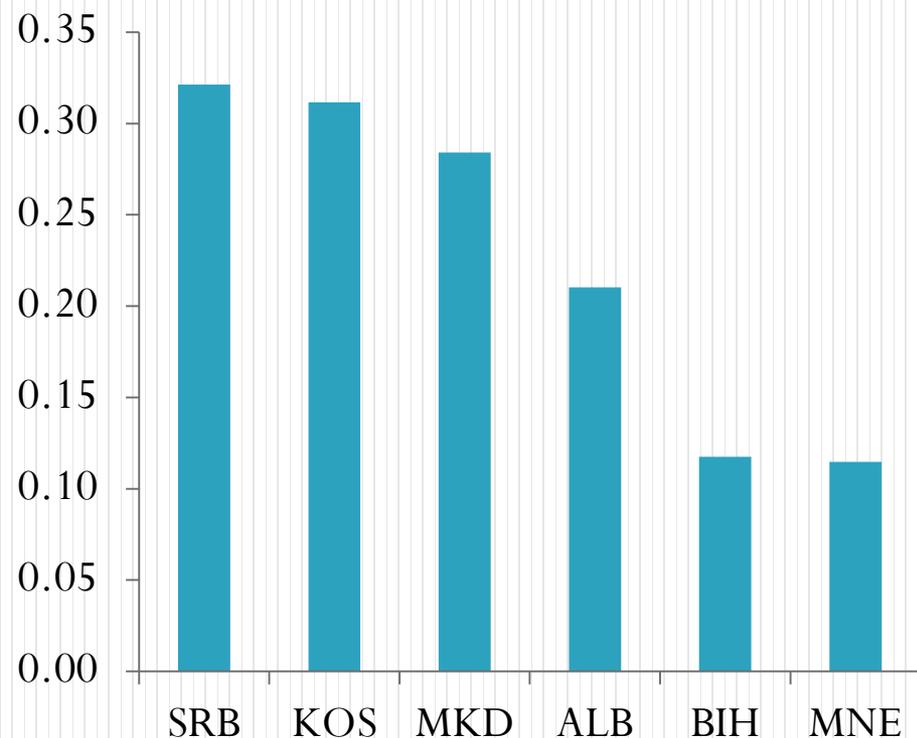
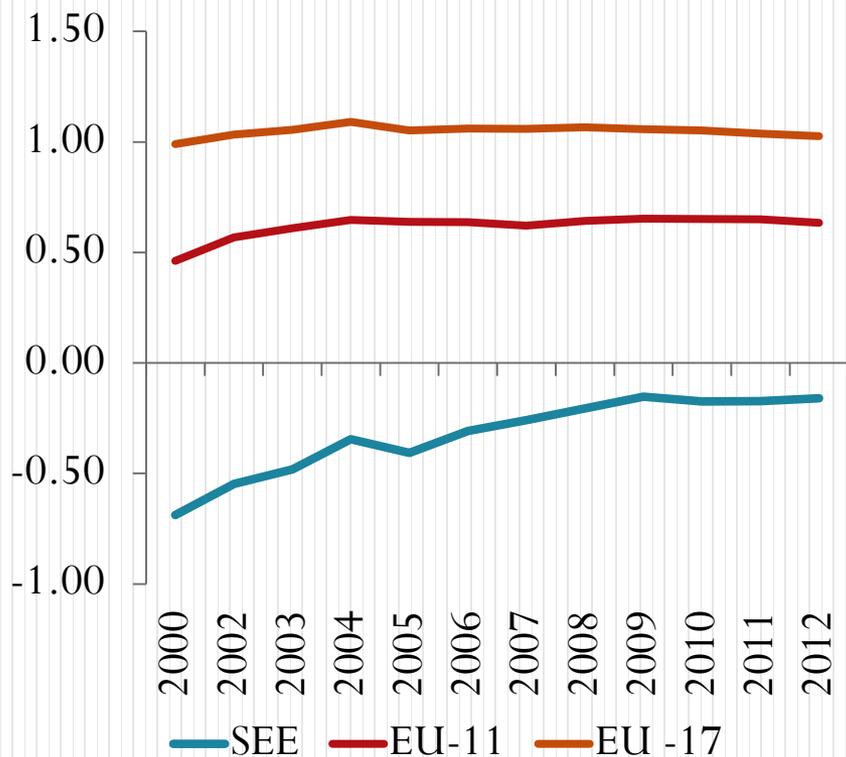
**FYR Macedonia,
Cohort born after 1974**



Bringing governance and institutional quality up to EU standards

World Governance Indicator, 2000-'12

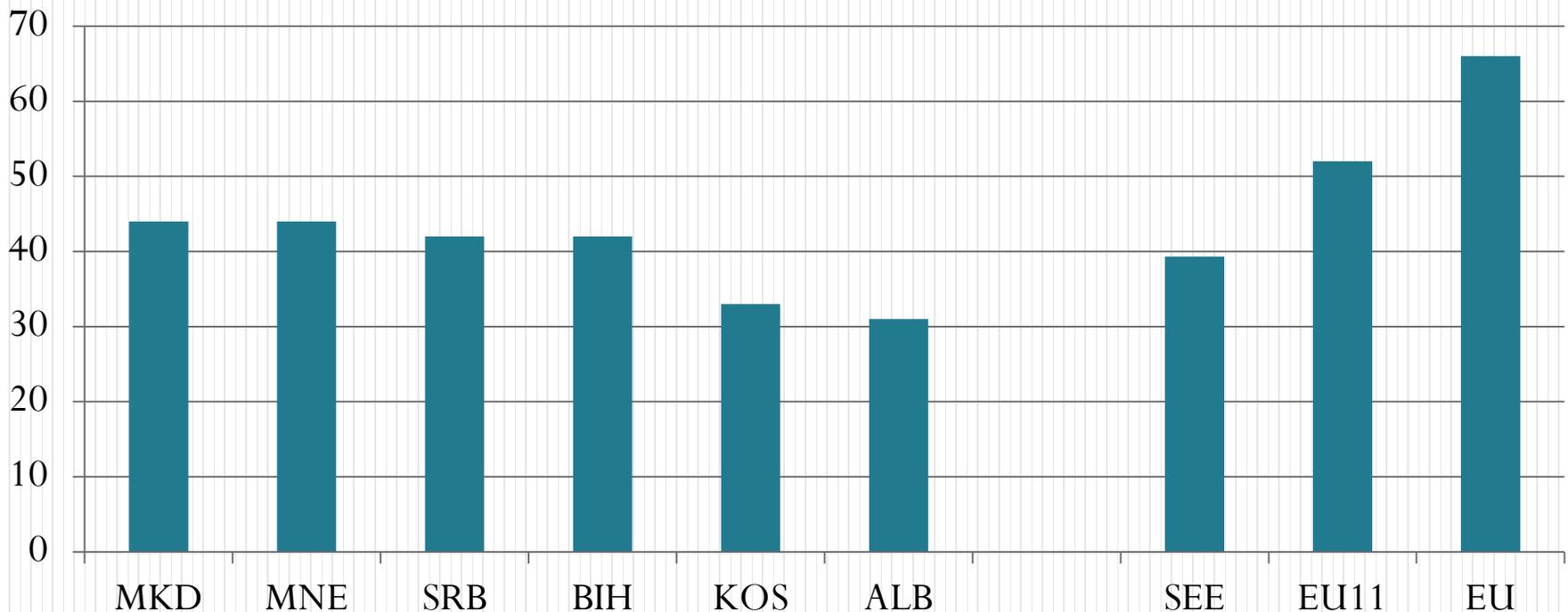
WGI Improvement in score 2005-'12



Source: World Bank Note: WGI ranges from (-2.5 = worst) to (+2.5 = best)

Changing the conditions and incentives that produce entrenched corruption

Transparency International's Corruptions Perceptions Index, 2013 (100=best)



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

No income convergence without convergence of policies, institutions and performance

- ✓ Reform response to crisis has been weak in Western Balkans
- ✓ Economic recovery is opportunity to re-launch 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

THANK YOU

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