Stimulating Investment in the Western Balkans

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Key Messages

✓ Location, human capital and labor costs make investing in the Western Balkans today a great opportunity!

✓ Maximum investment, growth and jobs will require courageous Governments to do faster and deeper reforms;

✓ Macro-fiscal adjustment, enhancing competitiveness and connectedness, and building “new economy” skills are key;

✓ History shows that integration into the European economic bloc will drive a powerful convergence towards prosperity.
**Location:** next to the world’s largest and most connected economic bloc

Note: Map resized according to economic strength
**Human capital:** education outcomes exceed other fast-growing, middle-income regions

**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
Labor costs: significantly lower than the rest of Europe...but well beyond low-cost Asia

Nominal average monthly wage in USD, 2010

Source: ILO
...Yet labor force participation lowest and unemployment highest of mid/high income regions

Labor Force Participation Rate (% pop)

Unemployment Rate (% of labor force)

Notes: ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; EAP = East Asia and Pacific.
World leaders in exporting people rather than goods and services

Share of migrant stock in source region population

- Western Balkans: 25.4% (2013), 13.2% (1990)
- Rest of Southern Europe: 7.0% (2013), 6.0% (1990)
- Rest of the World: 2.7% (2013), 3.0% (1990)

Source: Based on UN International Migrant Stocks (2013 revision)
Doing More to Stimulate Investment and Jobs

Distance from pre-crisis peak

Western Balkans (t=2008)  EU11 (t=2008)  East Asia excl. China (t=1997)
East Asia aggressively pursued export-led growth; Western Balkans’ current accounts deteriorated.
East Asia’s fiscal position stabilized; Western Balkans deteriorated significantly

Note: East Asia* (Crisis Period) 1997-2003
Global connectedness below rest of Europe and fast-growing Asia

Global connectedness score, 0-100

Source: DHL
Trade facilitation and logistics fall short of European and global standards...

Source: World Bank, Logistics Performance Index
Export performance reflects weak integration in global economy

Exports of goods and services (% of GDP)
Labor market demands youth with “new economy” skills; older cohort risks obsolescence

FYR Macedonia, Cohort born after 1955

FYR Macedonia, Cohort born after 1974

New Economy skills

Manual skills

Routine Skills

Source: World Bank staff, based on LFS.
Reforms Make a Difference
Stronger reformers benefit from increased employment and labor productivity … but with a lag

% of years in each decade when both labor productivity and employment increased

Comparing two countries:
business climate reforms and employment growth

Left chart: This measure shows the distance of each economy to the “frontier.” An economy’s distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier.

Right chart, Source: Authors’ calculations based on ILO and WDI.
History on your side: Western Balkans will benefit from Europe’s “convergence machine”

Annual growth of consumption per capita between 1970 and 2009, by level of consumption in 1970

Note: n = number of countries. *** statistical significance at the 1 percent.
Source: World Bank staff calculations, based on Penn World Table 7.0 (Heston, Summers, and Aten 2011).
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Thank you

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Capital markets reward countries with strong fiscal adjustment.

Figure 44. EU27 Public Debt, Deficits, and CDS Spreads, 2007 and 2011

Source: Eurostat, Bloomberg, World Bank staff calculations

Note: The size of the bubbles represents 5Y CDS spreads.
Although access is high, education quality leaves something to be desired.

% of 15-year olds who are functionally illiterate, scoring “below level 2” on PISA reading test 2009

Source: Based on OECD PISA 2009.
Widespread perception that Government is part of the problem, rather than the solution...

What is the biggest risk currently facing the Central and Eastern Europe region?

1) Proximity to Euro Zone
   4.8 %

2) Fed Tapering
   0 %

3) Liquidity and bank funding problems
   18.1 %

4) Corruption
   19.3 %

5) Their own governments
   57.8 %

Source: CNBC, January 2014