Development Priorities of the Western Balkan Countries

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Darja Žlogar, CICD
Macroeconomic Development

- Short Macroeconomic Profile
- Strengths and Weaknesses
- Short-term Country Risk Assessment
- Development Priorities, S&T
- COUNTRIES: Bulgaria, Romania, Croatia, Macedonia, Albania, Montenegro, Bosnia and Herzegovina, Serbia
Western Balkan Countries and EU

- Bulgaria – EU accession January 1st 2007
- Romania – EU accession January 1st 2007
- Croatia – candidate status
- Macedonia – candidate status
- Albania – SAA
- Montenegro – SAA
- Bosnia and Herzegovina – negotiations on SAA
- Serbia – negotiations on SAA not resumed yet
Bulgaria

STRENGTHS
- EU accession
- Macroeconomic stability
- High GDP growth
- Budget surplus
- Low public debt
- Preparations for euro membership under way
- Declining inflationary pressures
- Rising FDI and improving investment climate

WEAKNESSES
- Tensions in the ruling coalition
- High inflation
- Large trade deficit
- Large current account deficit
- Private sector external debt increasing
- Poor functioning of the court system
- Corruption

Short-term risk assessment: 59 (limited risk)
Romania

**STRENGTHS**
- EU accession
- Macroeconomic stability
- High GDP growth
- Booming economy
- Inflation decreasing
- Low unemployment
- High level of FDI
- High level of foreign exchange reserves

**WEAKNESSES**
- Tensions between main political parties
- Tensions between the prime minister and the president
- Long-term macroeconomic stability threatened
- Weak private sector
- Fiscal loosening and rising budget deficit
- Rapid credit growth
- Large trade deficit
- Large current account deficit
- Poor functioning of the court system
- Corruption

Short-term risk assessment: 56 (limited risk)
Croatia

**STRENGTHS**
- EU candidate status and strong commitment to meet EU’s requirements
- High GDP growth
- Lower consolidated government deficit
- Ambitious privatisation agenda
- Low inflation
- Stability of the exchange rate
- Sound banking sector
- High level of foreign exchange reserves

**WEAKNESSES**
- Large share of public spending in GDP
- Low competitiveness of SMEs
- Overvalued currency
- Heavy reliance on seasonal tourism receipts
- Large trade deficit
- Large current account deficit
- Large external debt
- Poor functioning of the court system
- Corruption

**Short-term risk assessment: 58 (limited risk)**
Macedonia

**STRENGTHS**
- EU candidate status
- Macroeconomic stability
- Fiscal consolidation
- Stable currency
- Low inflation
- Low current account deficit
- Low external debt and low servicing costs
- High level of foreign exchange reserves

**WEAKNESSES**
- Ethnic tensions between Macedonians and Albanians (boycott of parliament by Albanian parties)
- Stability threatened by the issue of Kosovo
- Low level of FDI
- Low competitiveness and weak private sector
- Large informal sector
- High unemployment
- High interest rates
- Rapid credit growth
- Low exports
- Poor functioning of the court system
- Corruption

Short-term risk assessment: 43 (high risk)
Albania

**STRENGTHS**
- SAA signed
- Macroeconomic stability
- Progress in privatisation
- High GDP growth
- Low inflation
- Unemployment decreasing
- Sound banking sector
- Low external debt and low servicing costs
- High level of foreign exchange reserves

**WEAKNESSES**
- Slow progress of establishing democratic institutions
- Political dispute hampering reforms
- Problems in the power sector present risk to growth forecasts
- Low competitiveness and weak private sector
- Rapid credit growth
- Low and undiversified exports
- Large current account deficit
- Low FDI
- Poor functioning of the court system
- Corruption

**Short-term risk assessment:**

45 (high risk)
Montenegro

STRENGTHS
- SAA signed
- Macroeconomic stability
- Fiscal consolidation
- Euro as a legal tender
- Low inflation
- Rising FDI and improving investment climate
- Low external debt and low servicing costs

WEAKNESSES
- Challenges of further reforms
- Narrow economy
- Large informal sector
- Low competitiveness and weak private sector
- High unemployment
- Low exports and large current account deficit
- High interest rates
- Unreliable national statistics
- Poor functioning of the court system
- Corruption

Short-term risk assessment: 40 (high risk)
Bosnia and Herzegovina

STRENGTHS
- Macroeconomic stability
- High GDP growth
- High industrial production growth
- Introduction of state-level VAT
- Stable currency
- Low inflation
- Sound banking sector
- High level of foreign exchange reserves

WEAKNESSES
- Complex and expensive state administration
- High dependency on OHR
- Slow structural reforms
- High unemployment
- Large informal sector
- Low competitiveness and weak private sector
- Rapid credit growth
- Low exports and large current account deficit
- Unreliable national statistics
- Poor functioning of the court system
- Corruption

Short-term risk assessment: 40 (high risk)
Serbia

STRENGTHS
- Macroeconomic stability
- Fiscal consolidation and budget surplus
- High GDP growth
- Inflation decreasing
- High level of FDI
- High level of foreign exchange reserves
- External debt service lowered

WEAKNESSES
- Continuous high political risk assessment
- Negotiations with EU over SAA still not resumed
- Slow progress in structural reforms
- Slow privatisation of politically sensitive state-owned companies
- Large informal sector
- High unemployment
- Low competitiveness and weak private sector
- Low, uncompetitive and undiversified exports
- Large current account deficit
- Poor functioning of the court system
- Corruption

Short-term risk assessment: 43 (high risk)
Summing up...

**STRENGTHS**
- EU integration
- Macroeconomic stability
- Privatisation almost finished in some countries
- High GDP growth
- Relatively low inflation
- Stability of exchange rates
- Sound banking sectors
- FDI increasing in some countries
- High foreign exchange reserves

**WEAKNESSES**
- **High political risk**
- Poor functioning of the court system
- Corruption
- Slow pace of structural reforms
- Weak private sector, especially SMEs
- Large informal sector
- Fiscal loosening
- High unemployment
- Rapid credit growth
- Low, uncompetitive and undiversified exports
- **Large current account deficits**

**Short-term risk assessment:** high

**Bulgaria, Romania, Croatia:** limited
Development Priorities

- Privatisation of strategic companies still not completed
- Weak SMEs sector
- Agriculture still important in most countries
- Best performing sectors have high level of FDI
- Narrow economies of some countries
- Importance of tourism increasing
- Investment in infrastructure needed
Science, Technology and Education

- Substantial potential of research systems
- Lagging behind EU (Bulgaria, Romania to a lesser extent)
- Low expenditure on R&D (mainly coming from the governments)
- Inappropriate treatment of research institutions
- Unfavourable structure
- Weak interaction with the business sector
- Insufficient international cooperation
- Brain-drain
- R&D not a key priority in long-term strategies
- Reform of higher education systems needed
- Public awareness needs to be raised
Thank you for your attention!