

# The Western Balkans 15 Years of Economic Transition



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# Outline



- Achievements
- Emerging Problems
- Future Challenges



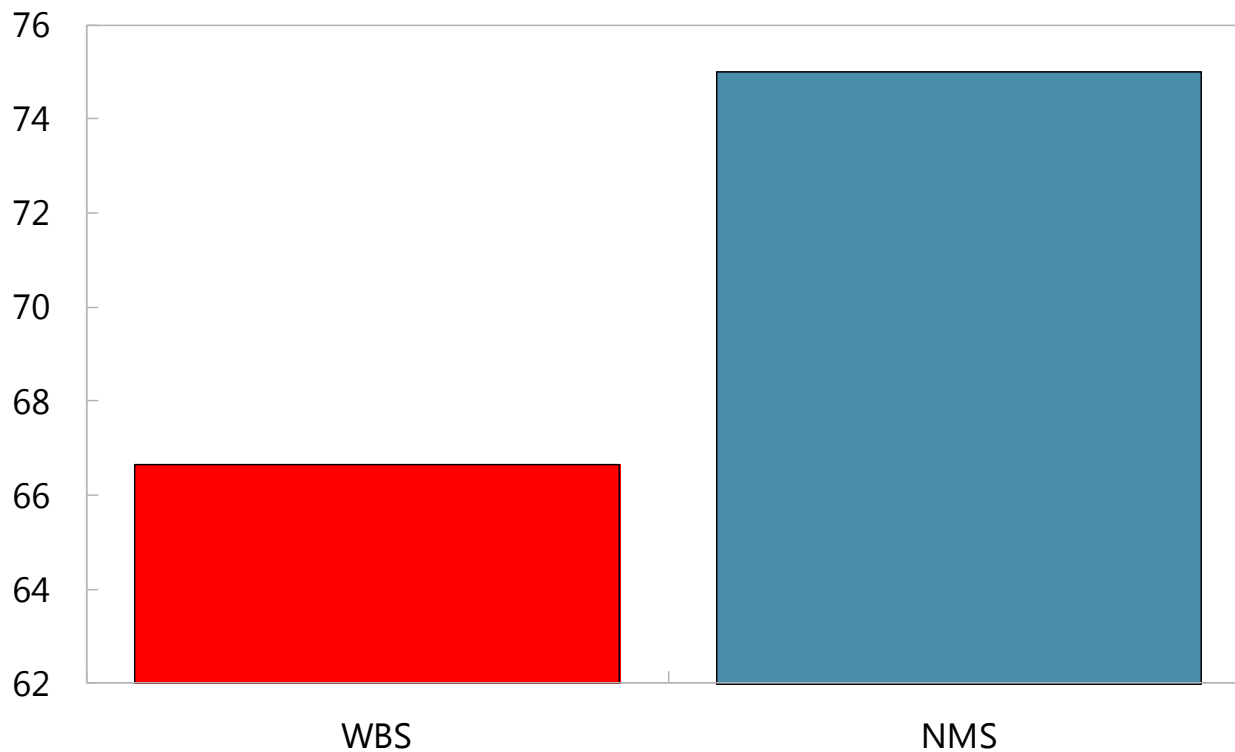
# Achievements

# A Clear Shift Towards a Market Economy



## Private Sector Share of GDP, 2010

(Percent)

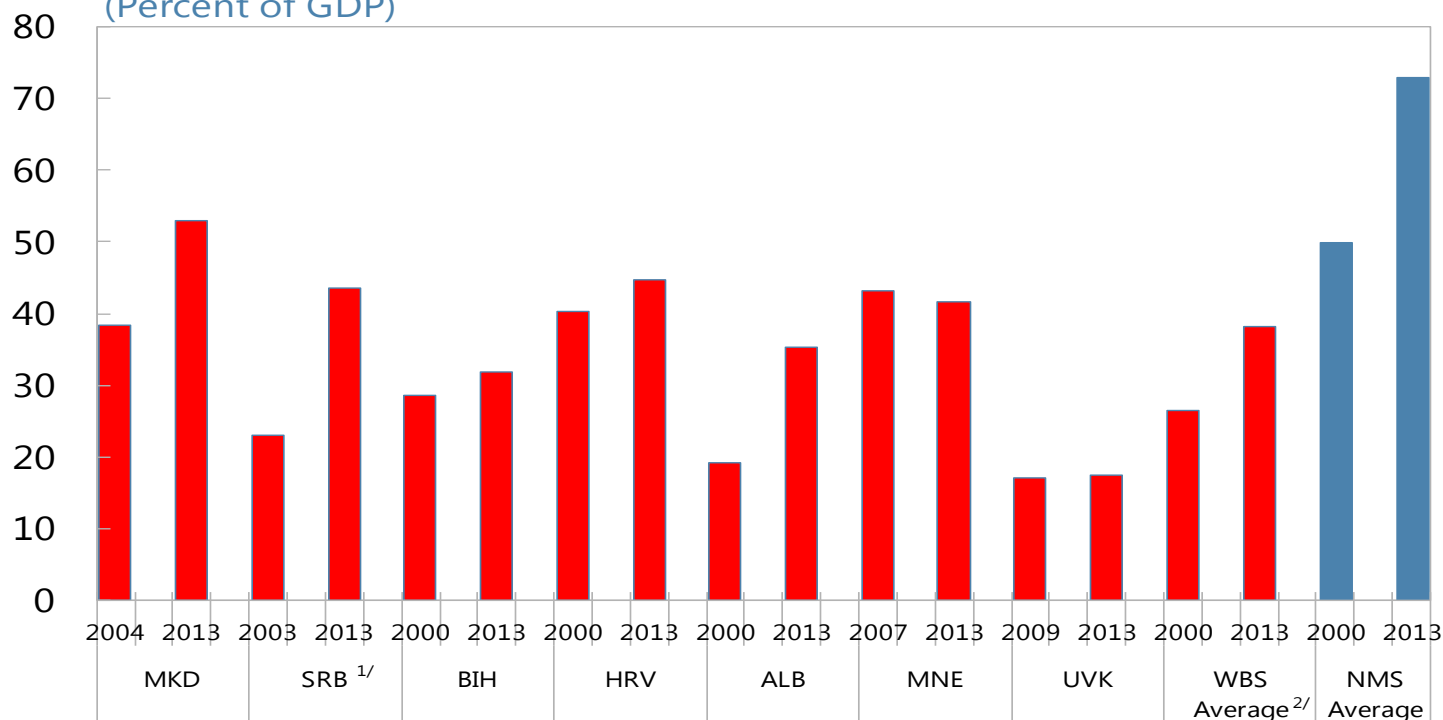


Source: EBRD.

# Opening Towards Foreign Markets



## Exports of Goods and Services (Percent of GDP)



Sources: World Economic Outlook; and IMF staff calculations.

1/ 2003 data uses Serbia and Montenegro data.

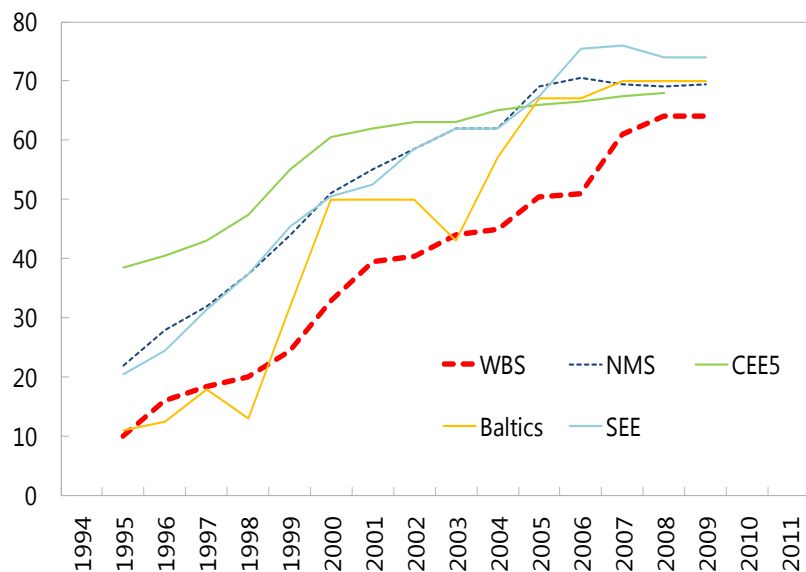
2/ 2000 average uses 2004 data for Macedonia, 2003 data for Serbia and Montenegro.

# Big Modernization in Banking



## Foreign Bank Ownership

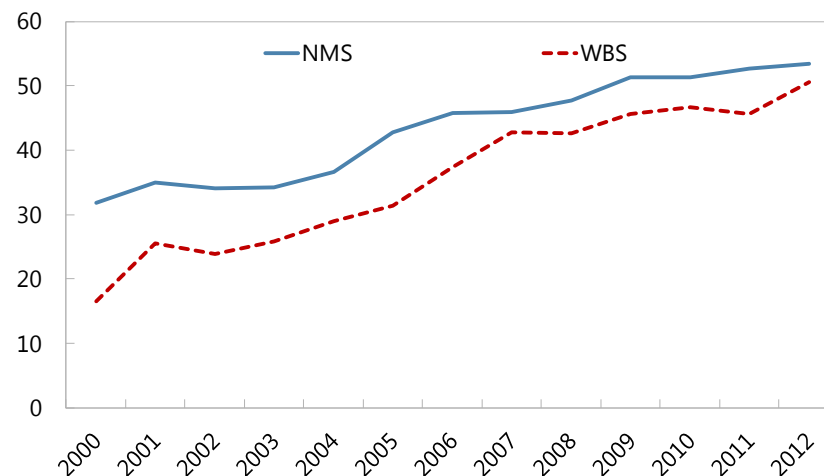
(Group median, in percent share of total banks)



Source: EBRD

## Evolution of Deposits

(Percent of GDP) <sup>1/</sup>



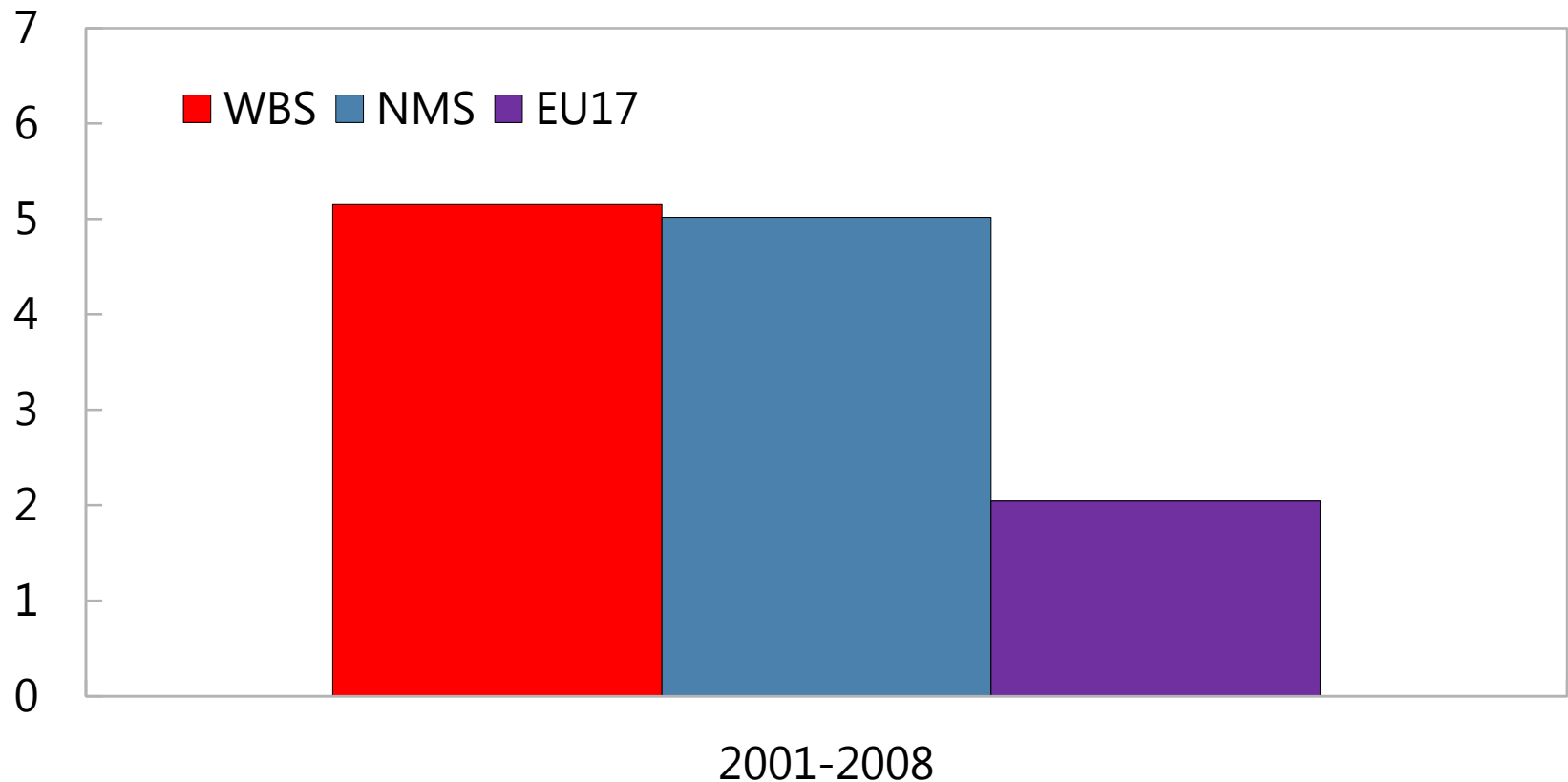
Sources: World Bank FinStat Database; and IMF, International Financial Statistics.  
 1/ Groupings calculated with medians.

# The Payoff: Solid Growth



## Average Real GDP Growth

(Weighted average across countries, in percent)



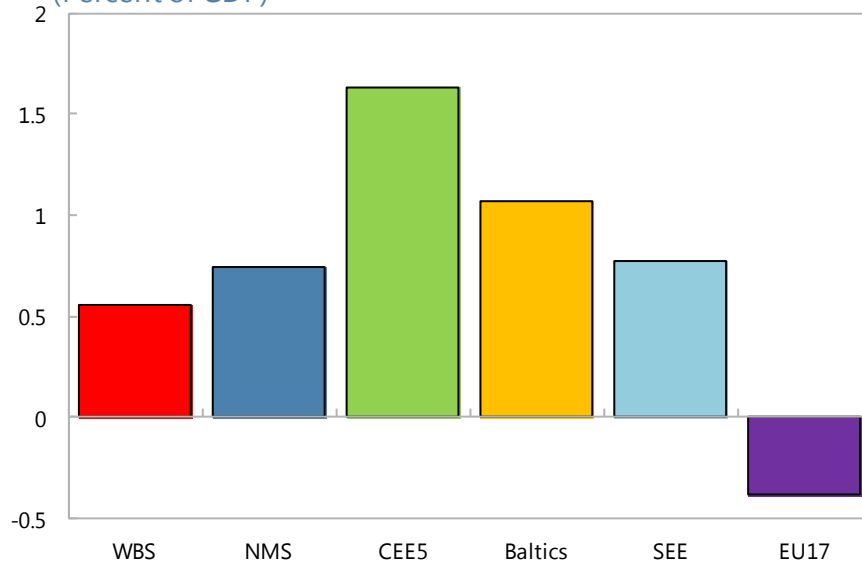
Sources: Penn World Table; WEO; and IMF staff calculation.

# The Payoff: Macro Improvement



## Primary Balance Average, 2002-08

(Percent of GDP)

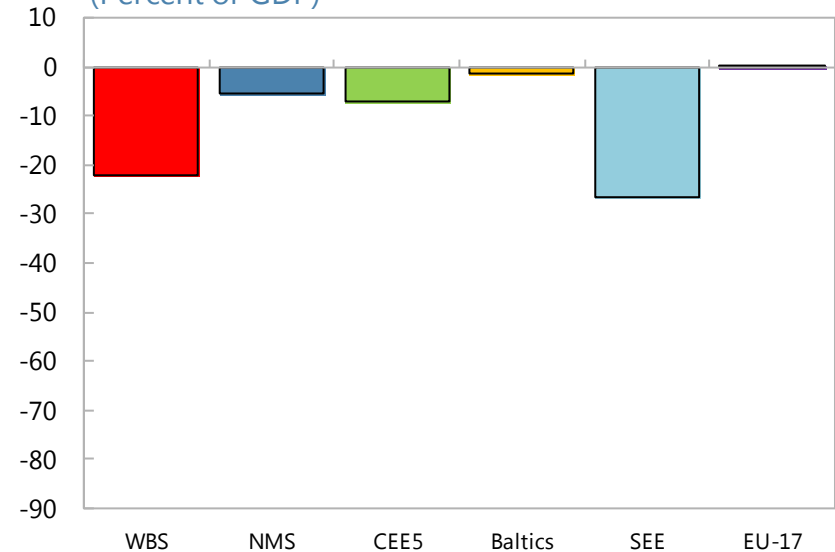


Source: IMF, World Economic Outlook.

Note: Debt data for Kosovo only available after 2009.

## Gross Debt Average, 2002-08

(Percent of GDP)



Source: IMF, World Economic Outlook.

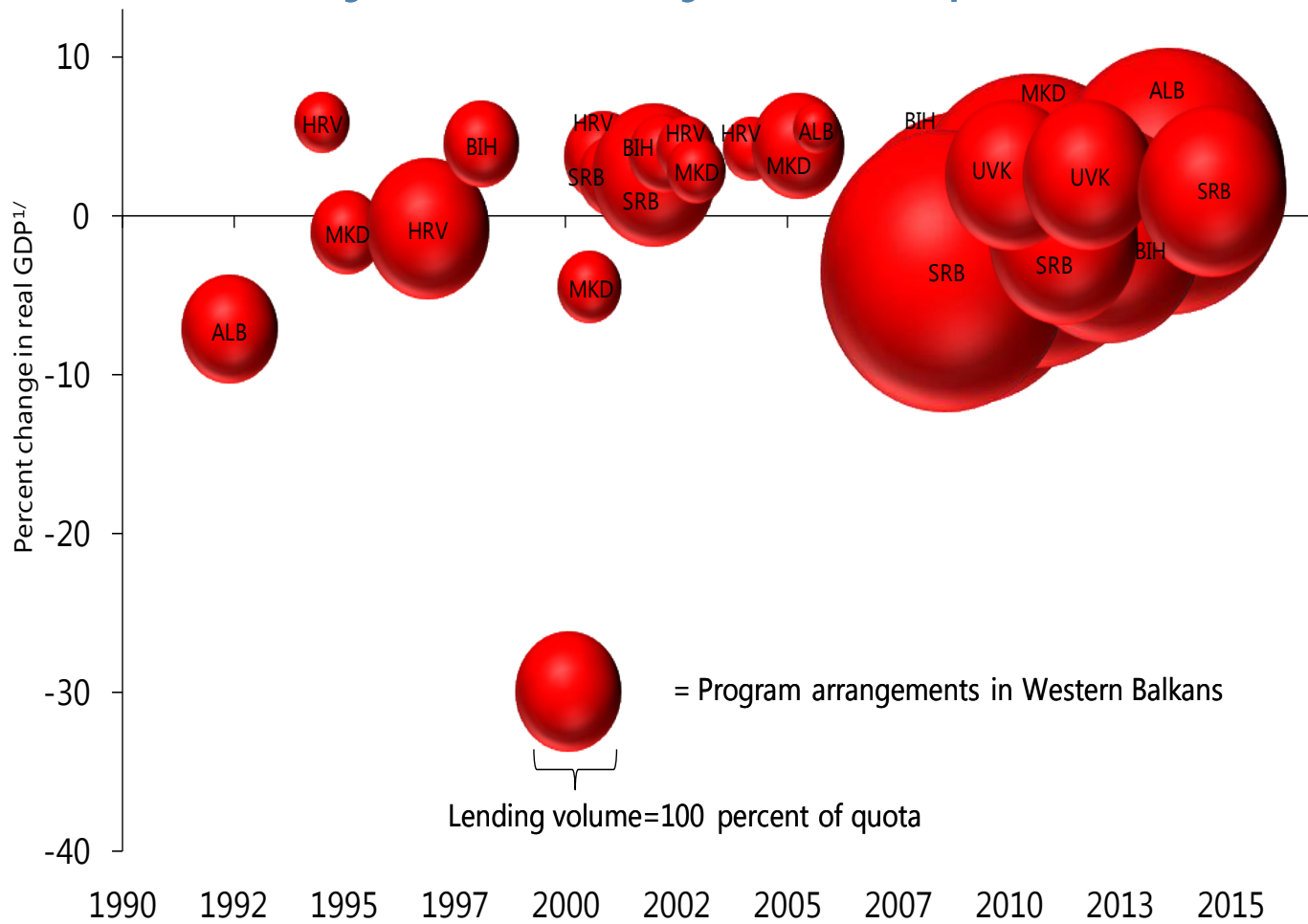
Note: Debt data for Kosovo only available after 2009.



# IMF Involvement



IMF Programs in WBS - Lending Volume and Output Declines



1/ Maximum cumulative decline in three years from program inception (or lowest growth if no decline).



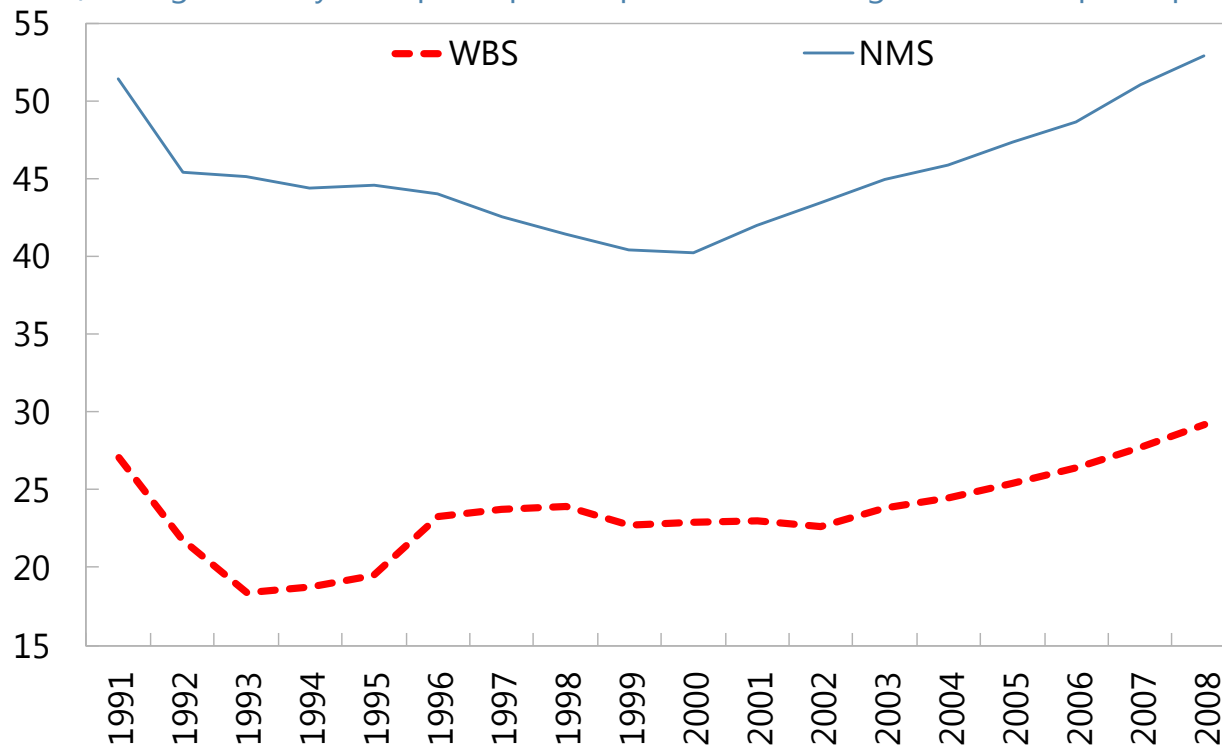
# Emerging Problems

# Convergence Gap Persisted



## Catching up with Advanced Europe

(Average country GDP per capita as percent of average EU17 GDP per capita)

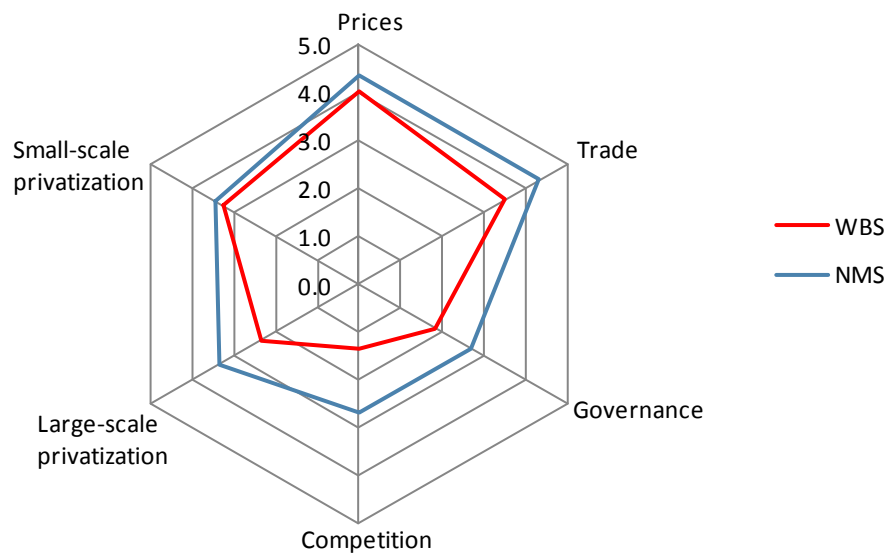


Sources: Penn World Table; and IMF staff calculations.

# Reforms Were Incomplete



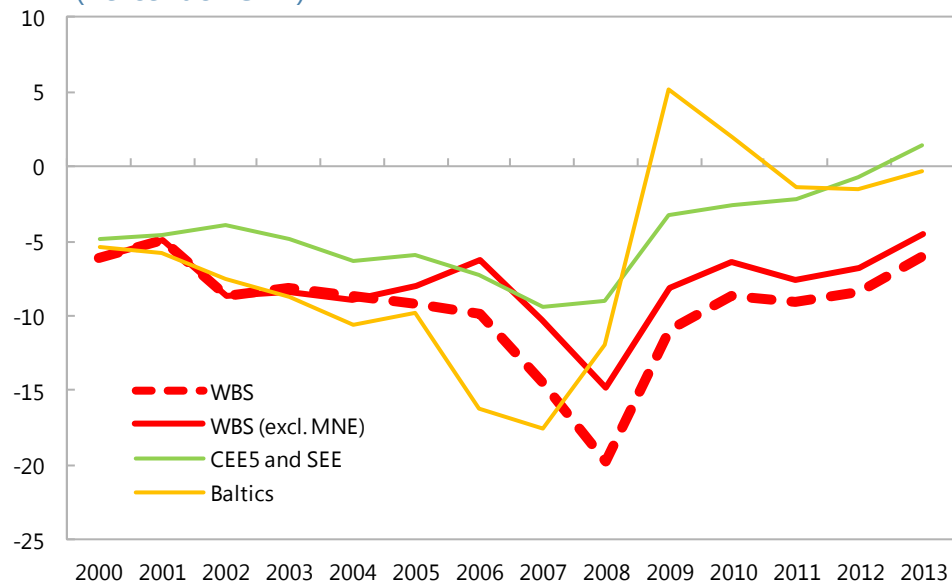
**EBRD Indicators Compared**  
(Median levels in year 2000)



# Abundant Liquidity Temporarily Boosted Growth

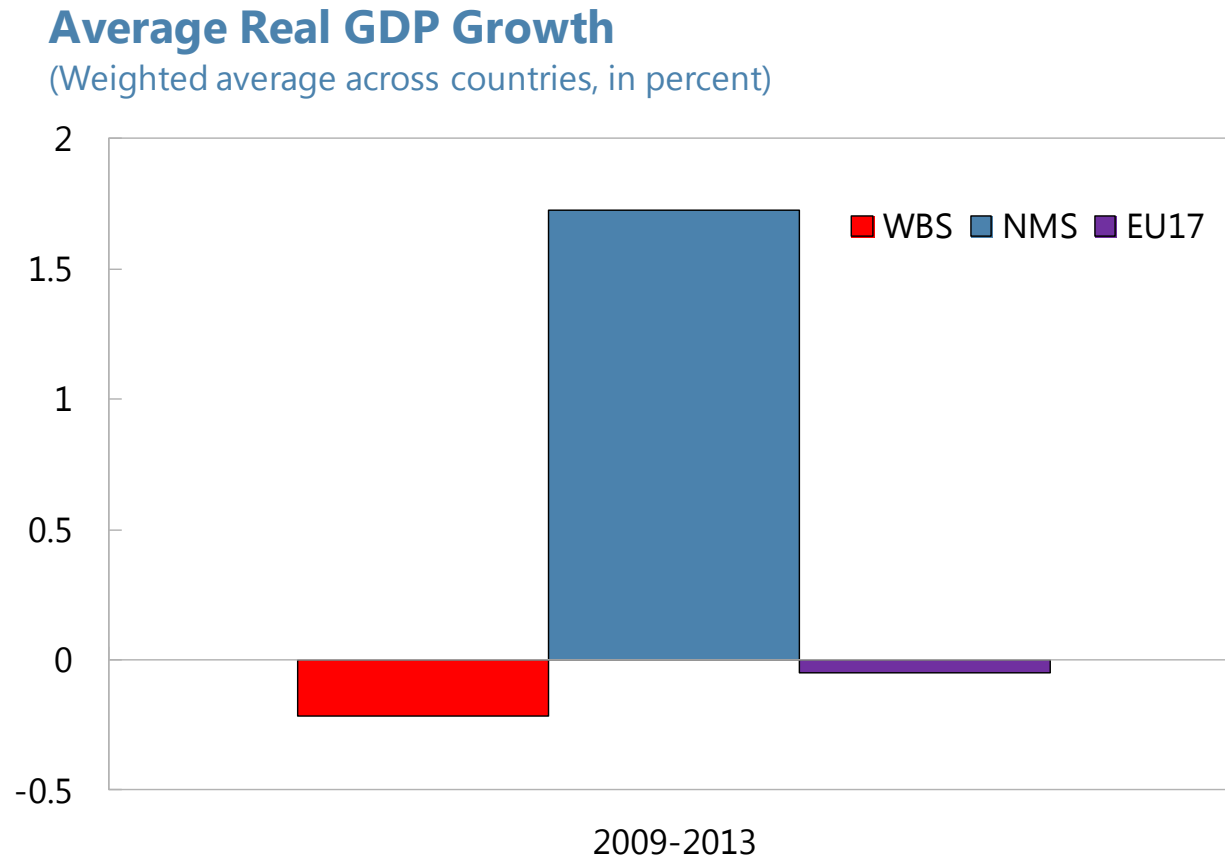


**Current Account Balances by Region**  
(Percent of GDP)



Sources: IMF, World Economic Outlook and IMF staff estimates.

# The Crisis Exposed the Incomplete Transformation



Sources: Penn World Table; WEO; and IMF staff calculation.



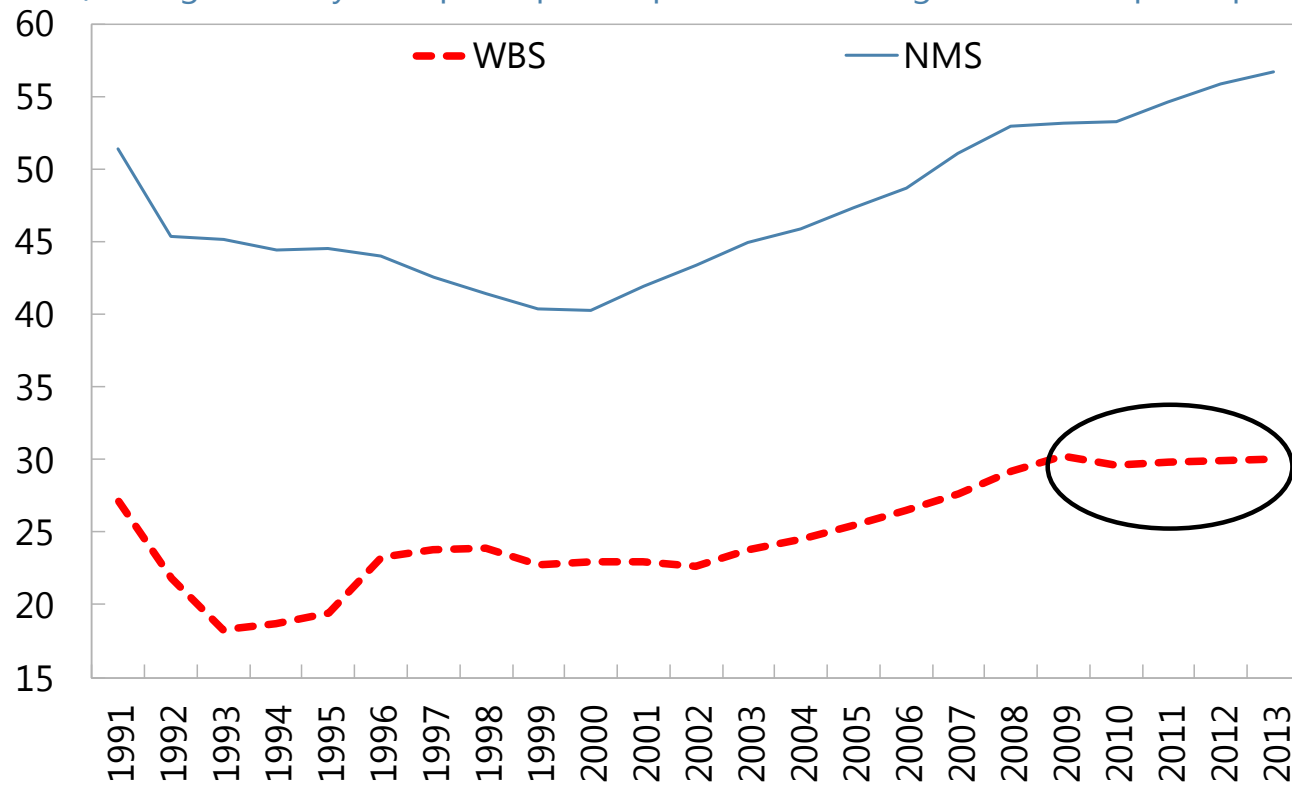
# Future Challenges

# Needed: Faster Growth to Resume Income Convergence



## Catching up with Advanced Europe

(Average country GDP per capita as percent of average EU17 GDP per capita)



Sources: Penn World Table; and IMF staff calculations.

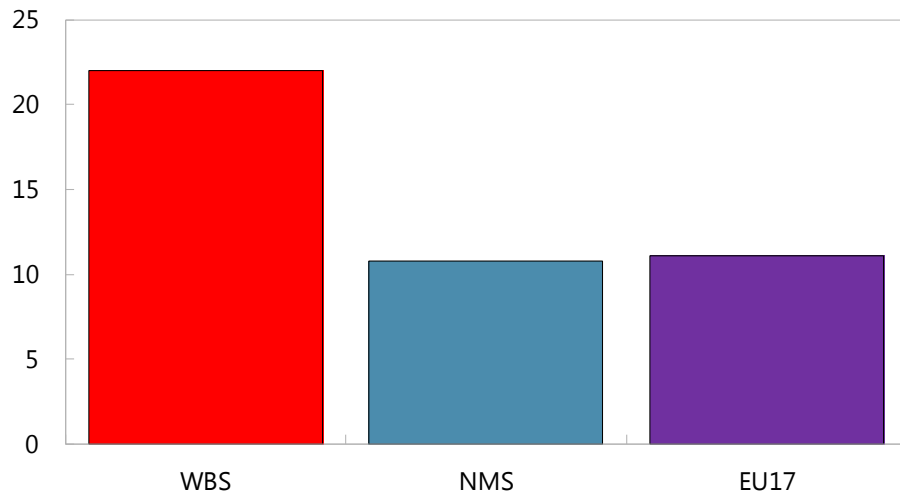


# Needed: More Inclusive Growth to Address Poor Labor Market Outcome



## Unemployment Rate, 2013

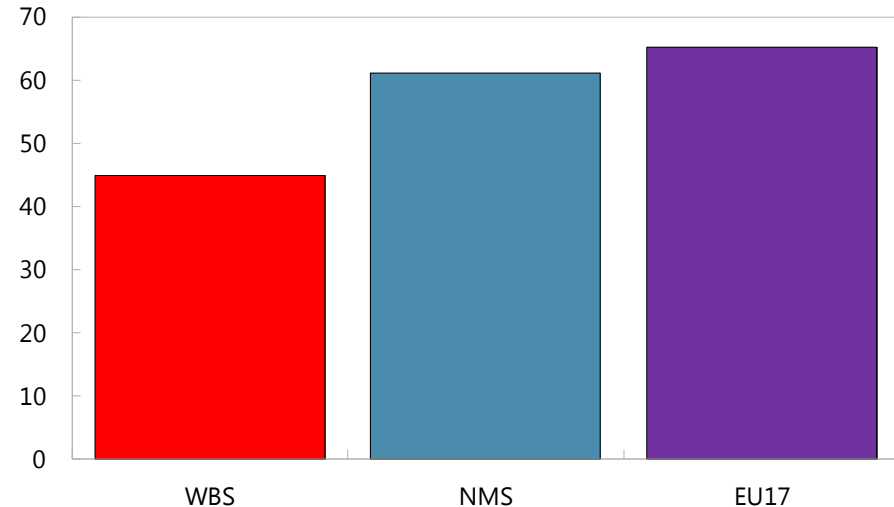
(Percent)



Sources: Country authorities; OECD; Haver; Eurostat; and IMF staff calculations.

## Employment Rate, 2013

(Percent)



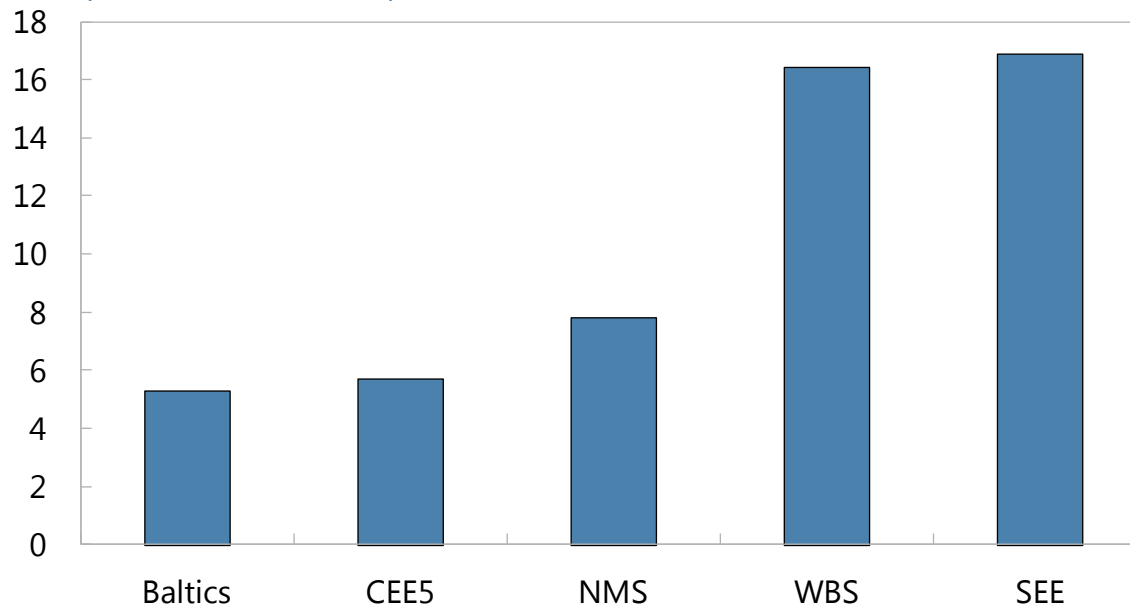
Sources: Country authorities; OECD; Haver; Eurostat; and IMF staff calculations.

# How: Tackling the Large Stock of NPLs to get Credit Flowing



## Non-Performing Loans

(Percent of total loans)

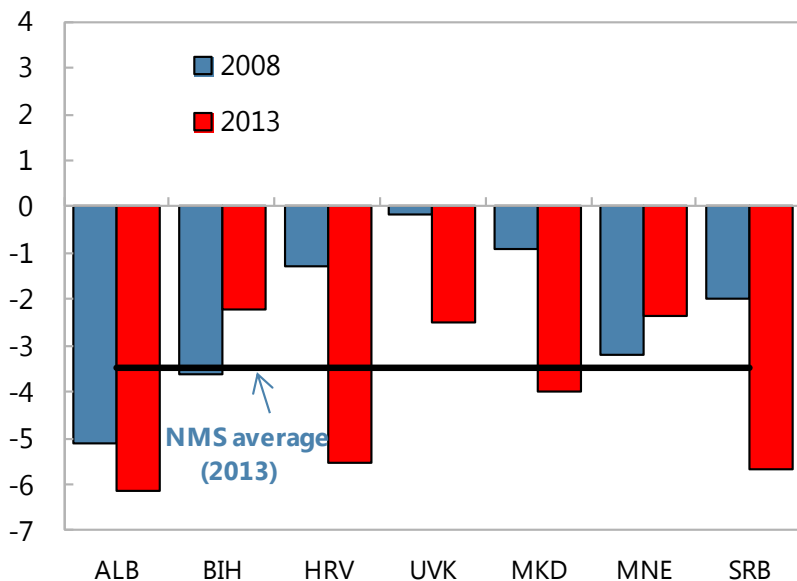


Sources: IMF, Financial Soundness Indicators Database; and country authorities.  
Note: Group medians. Definition of NPL may differ by country. Data are the latest available for each country.

# How: Repair Fiscal Positions and Secure Sustainability

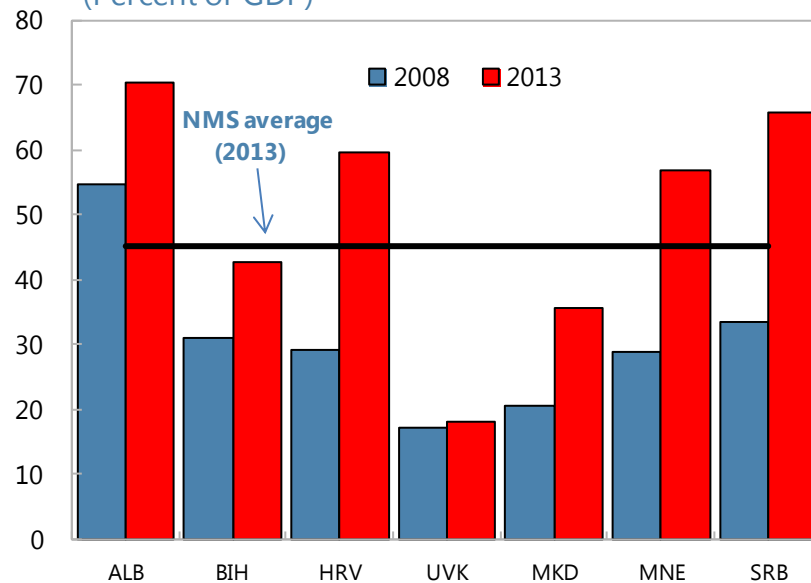


**Overall Fiscal Balances in 2008-13**  
(Percent of GDP)



Source: IMF, World Economic Outlook.

**Gross Debt in 2008-13**  
(Percent of GDP)



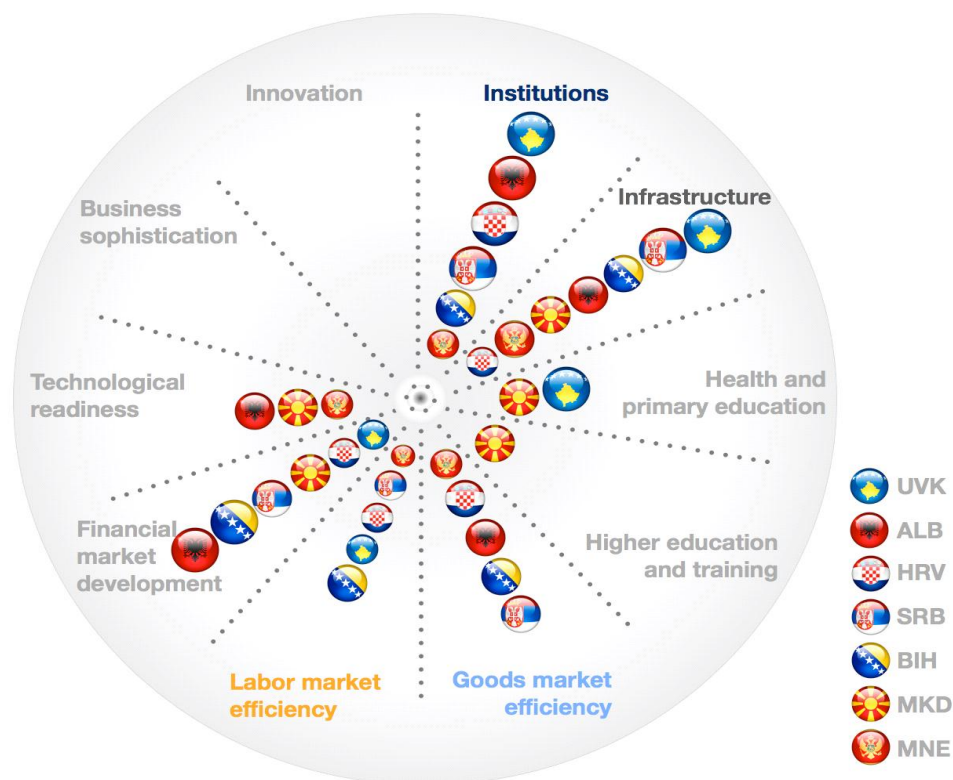
Source: IMF, World Economic Outlook.

Note: 2008 data for UVK is unavailable, 2009 data was used instead.

# How: Resuming Structural Reforms



## Top 5 Reform Priorities for Each of the WB States<sup>1/2/</sup>



1/ These are assessed relative to the NMS in each of the 10 main pillars of the Global Competitiveness Index.

2/ Larger bubbles represent reform areas that receive a higher rank ordering.

Note: For Kosovo, a different methodology was used as GCI data is not available for the country.

# Momentum is Turning



- Commitments to consolidate
- Ambitious structural reform programs

