

South-East Europe's path to convergence

Skopje, 16 February 2018

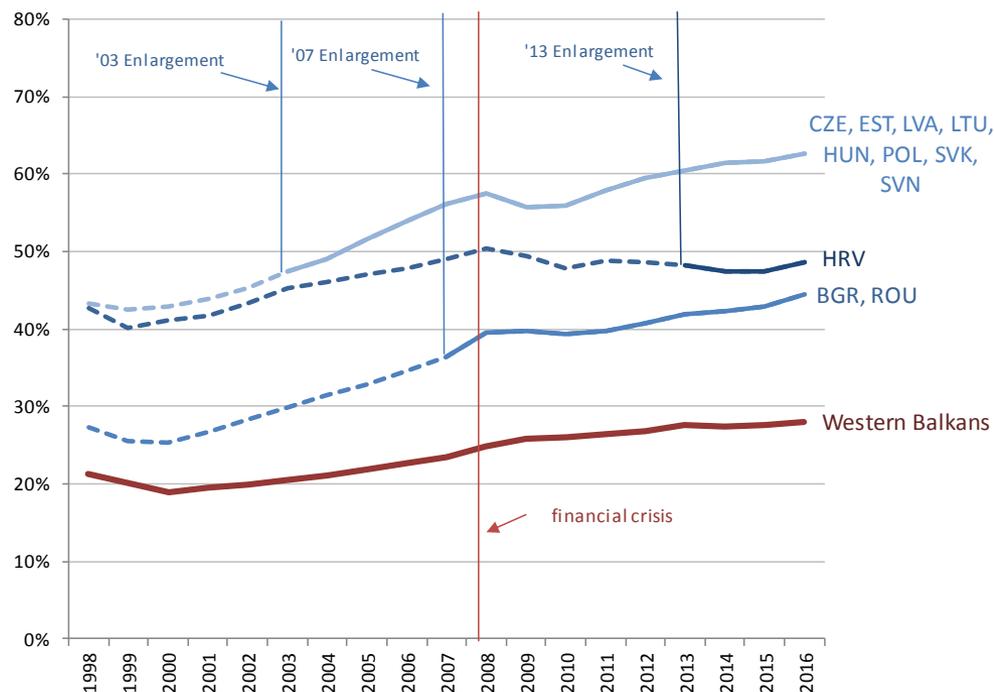
Carlo Monticelli

Vice-Governor

Council of Europe Development Bank

A slow convergence to EU levels

Percentage of average EU-16 GDP per capita

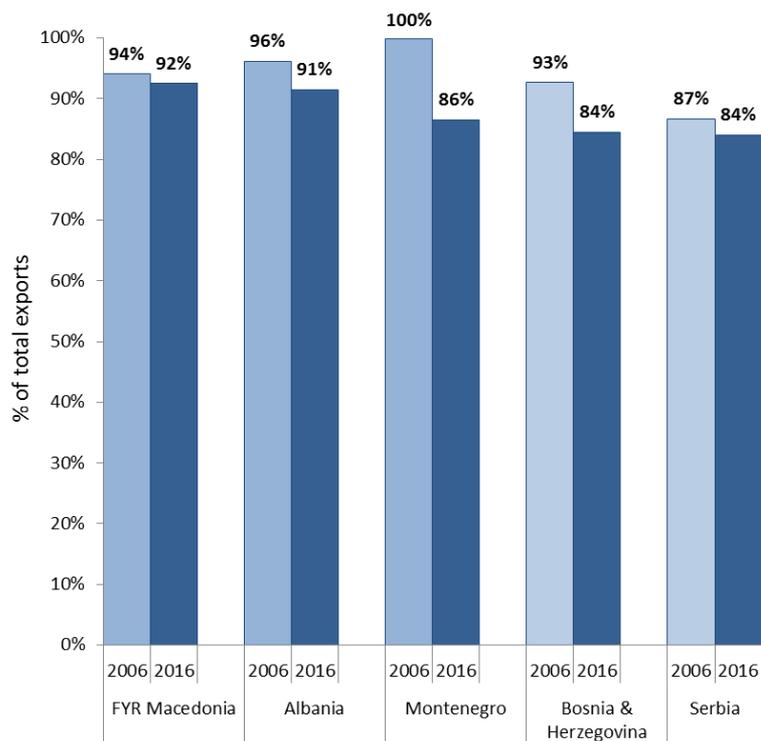


Source – CEB calculations on World Bank

- Slow convergence from a low starting point, stagnating in recent years
- Labour productivity was increasing before 2011, but has stopped growing: currently it is less than 40% of EU-15 levels

Trade integration with EU is a must...

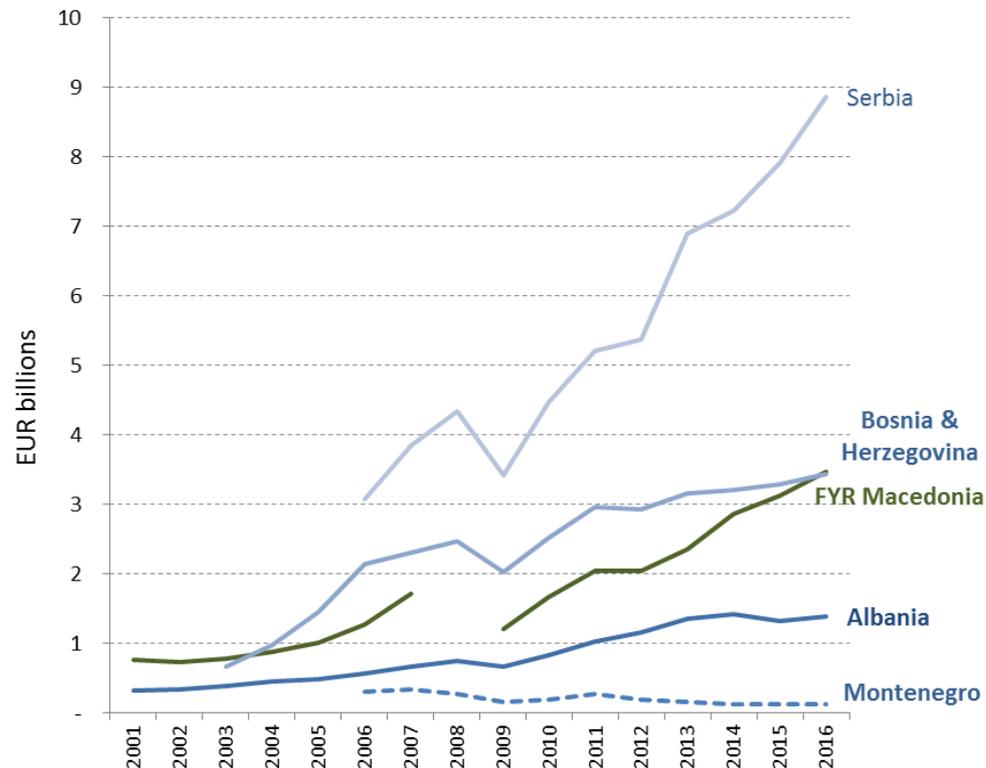
Destination region of exports



CEB calculation using UNComTrade

Exports to CEFTA + EU-28

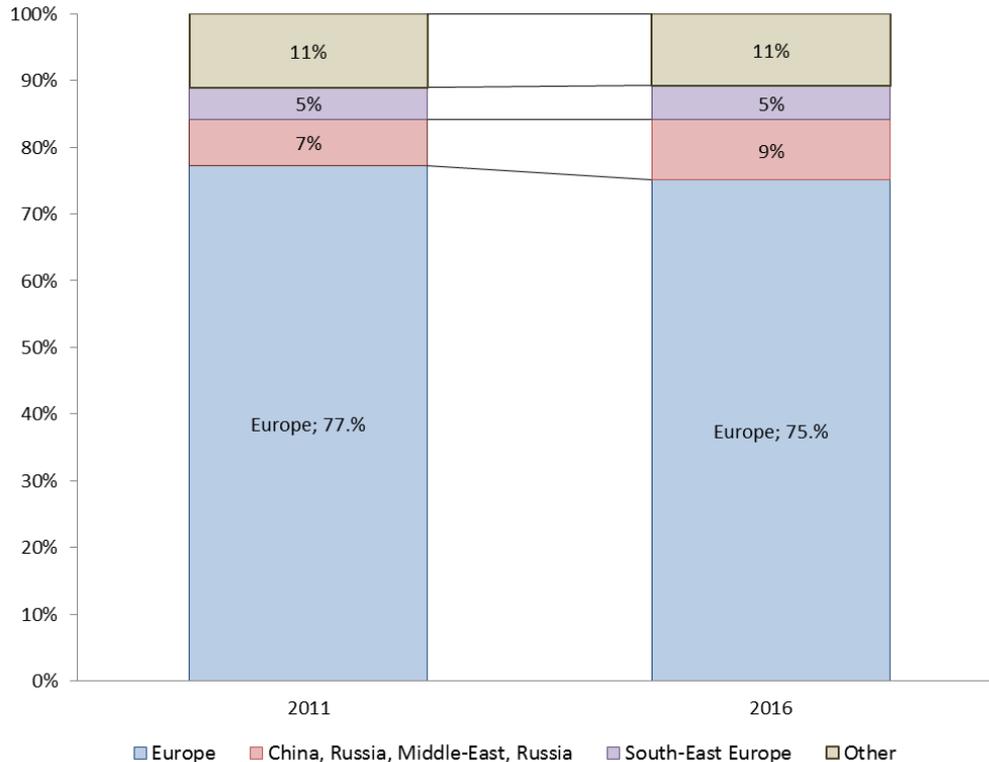
Gross EUR exports to EU-28



Source – CEB calculations using UNComTrade

... as well as regarding FDI

Origin of FDI inflows

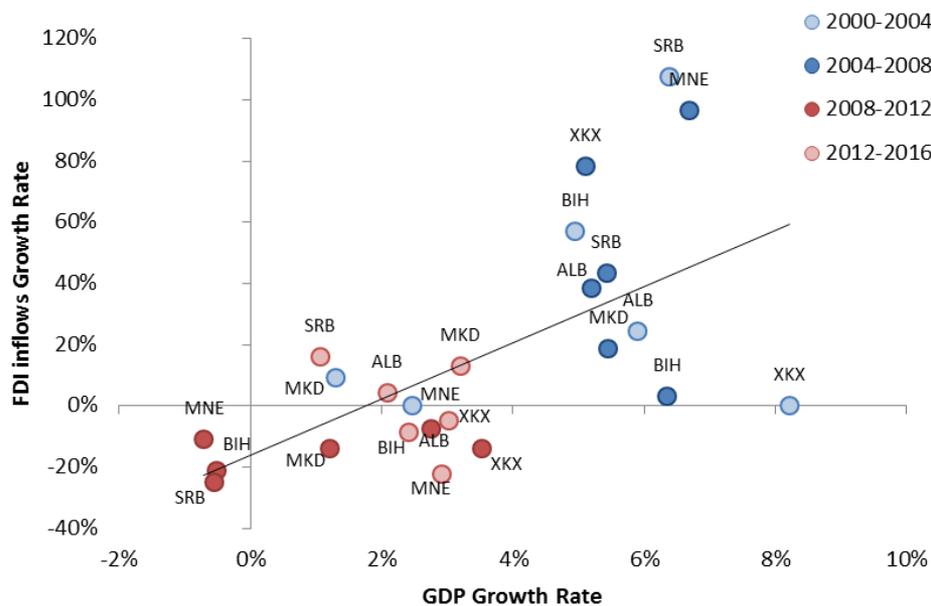


- Europe accounts for $\frac{3}{4}$ of all FDI inflows coming into Western Balkan.
- FDI from China, Russia, and Middle East is growing fast, starting from a very low base
- Europe invests in infrastructure and service sectors, but also in more low key areas to build institutional capacity

Source – CEB staff using IMF data

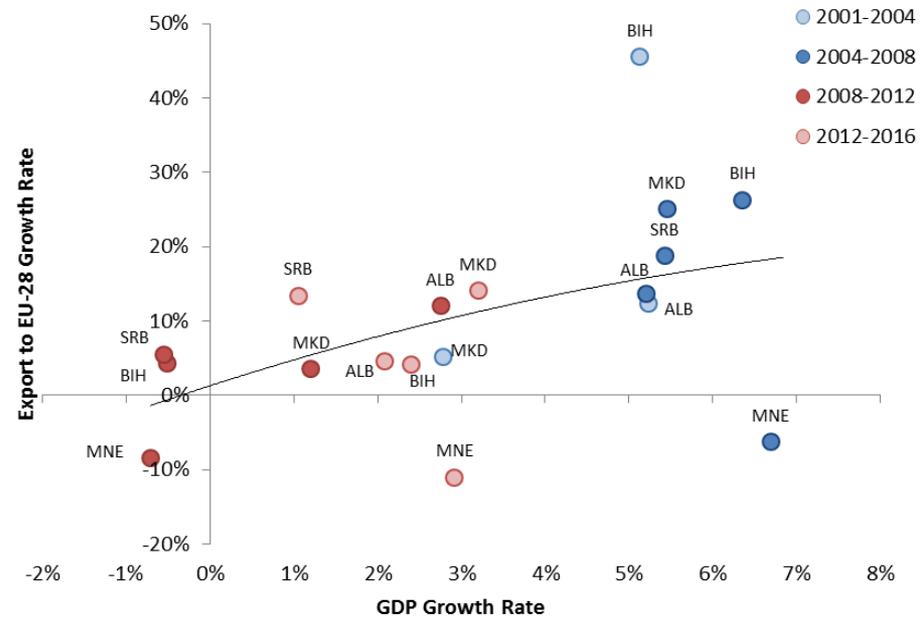
EU is the engine of growth for the region

GDP growth correlated to FDI...



Source – CEB calculations using World Bank data

... and export dynamics



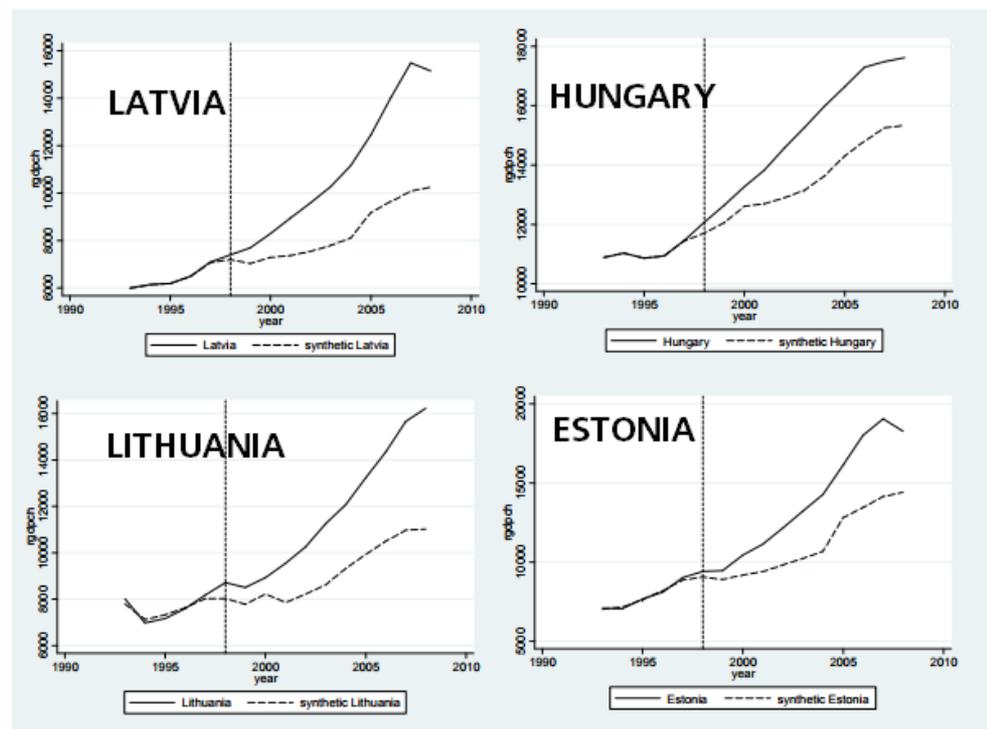
Source – CEB calculations using World Bank and UN ComTrade data

EU membership expected to boost growth

Gains from the 2004 enlargement

- Exports to the EU have climbed up the value-added ladder ¹
- FDI inflows have strengthened ²
- Exports to outside the EU have also expanded³

Anticipated effects in real GDP per capita



extracted from - Campos, Nauro F., et al. (2014)

1 Kumar and Kandzija (2007)

2 ECB (2005)

3 Kommerskolegium (2015)

EU integration is a multifaceted process

Key areas of policy action:

Integrating in the EU single market

Implementing structural reforms

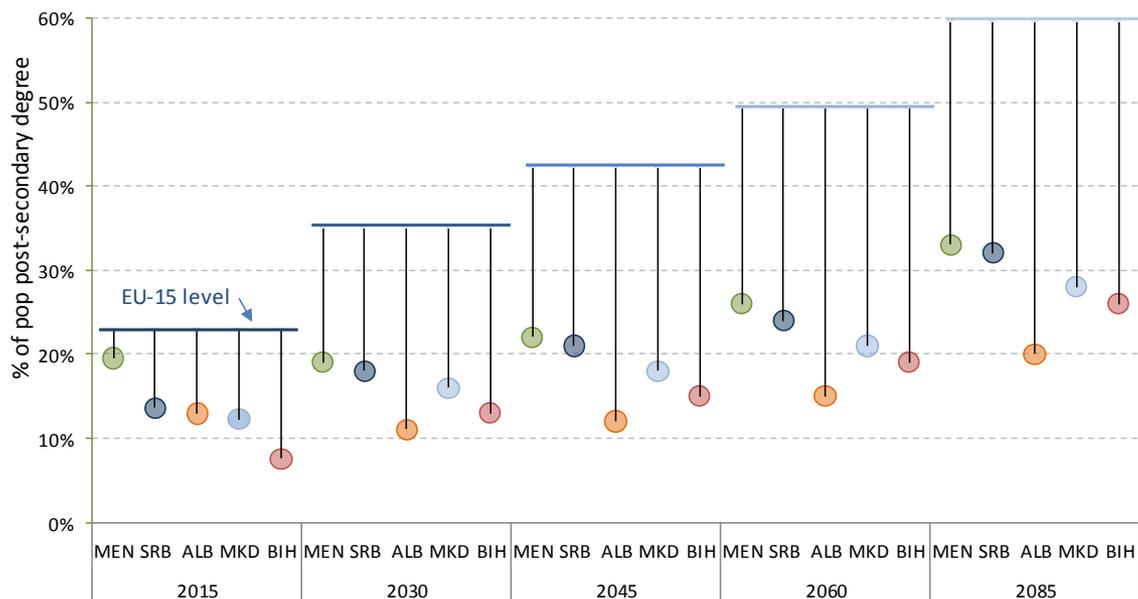
Modernising institutions

Improving infrastructure

Investing in (and retaining) human capital

Gap in human capital projected to widen

Percentage of population with a post-secondary degree

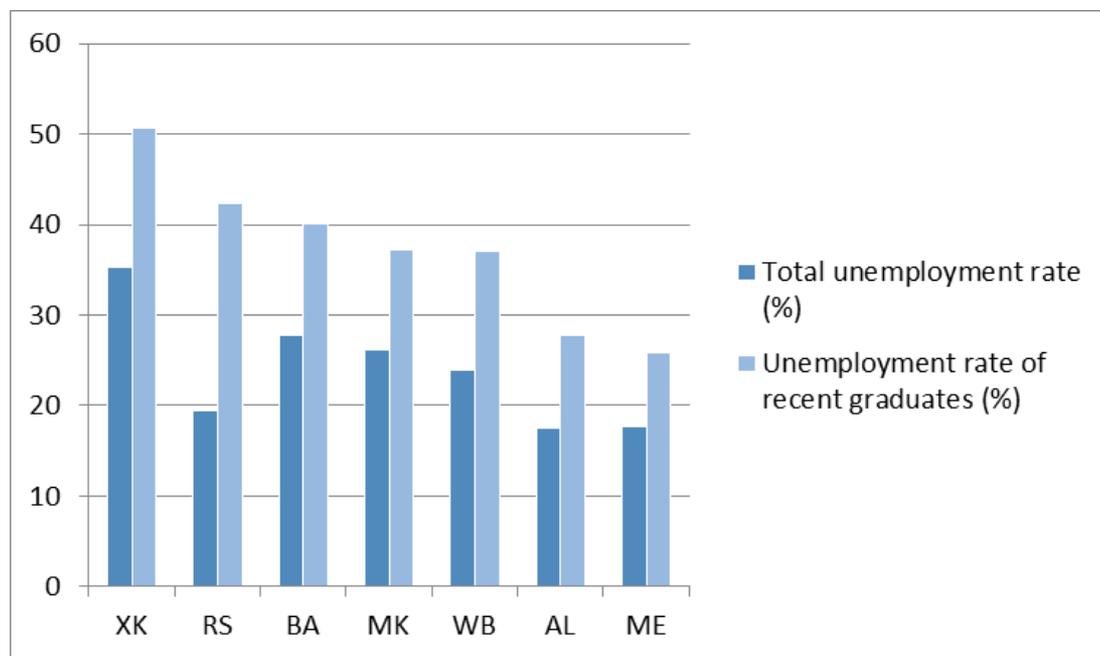


Source: UNESCO education database

- The stock of individuals with a post-secondary degree will grow in all Western Balkan states...
- ... however the gap with the EU-15 will only widen in the future
- The region will need to increase investment in education to keep up

Investment in education urgently needed

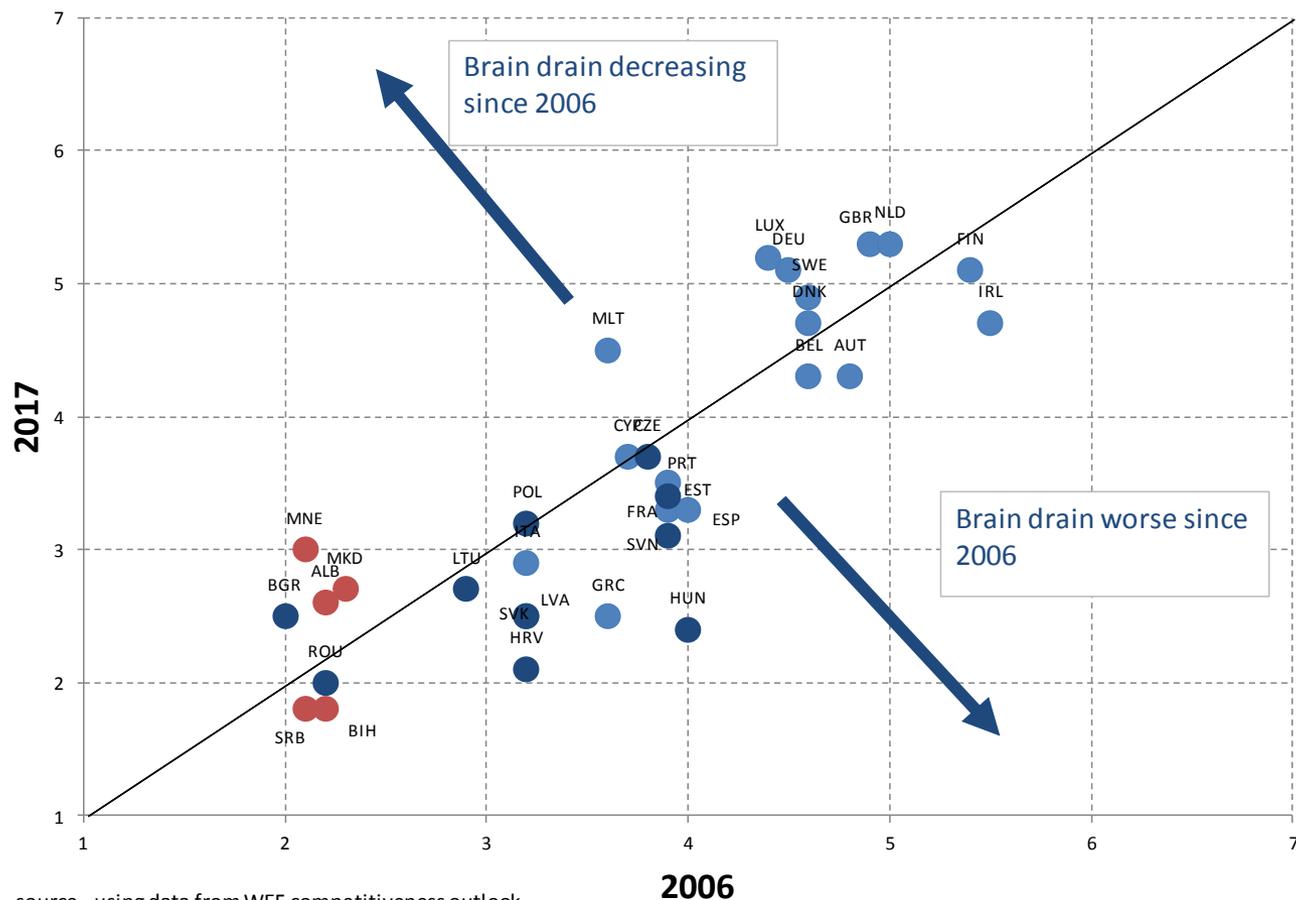
- Low completion rates: only half of the students complete their program
- High labor market mismatch: only 25% of graduates find an appropriate job
- An estimated investment gap in education: 2.1% of GDP (€1.5bn per year)



Source: European Commission, 2016

A persistent brain drain problem

Capacity to retain talent (index)

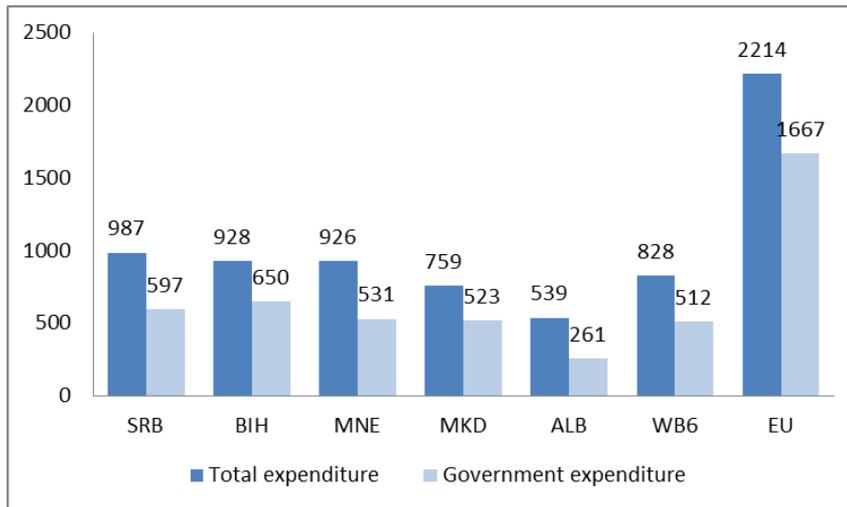


A quarter of the current Western Balkan population today lives outside their home countries

source - using data from WEF competitiveness outlook

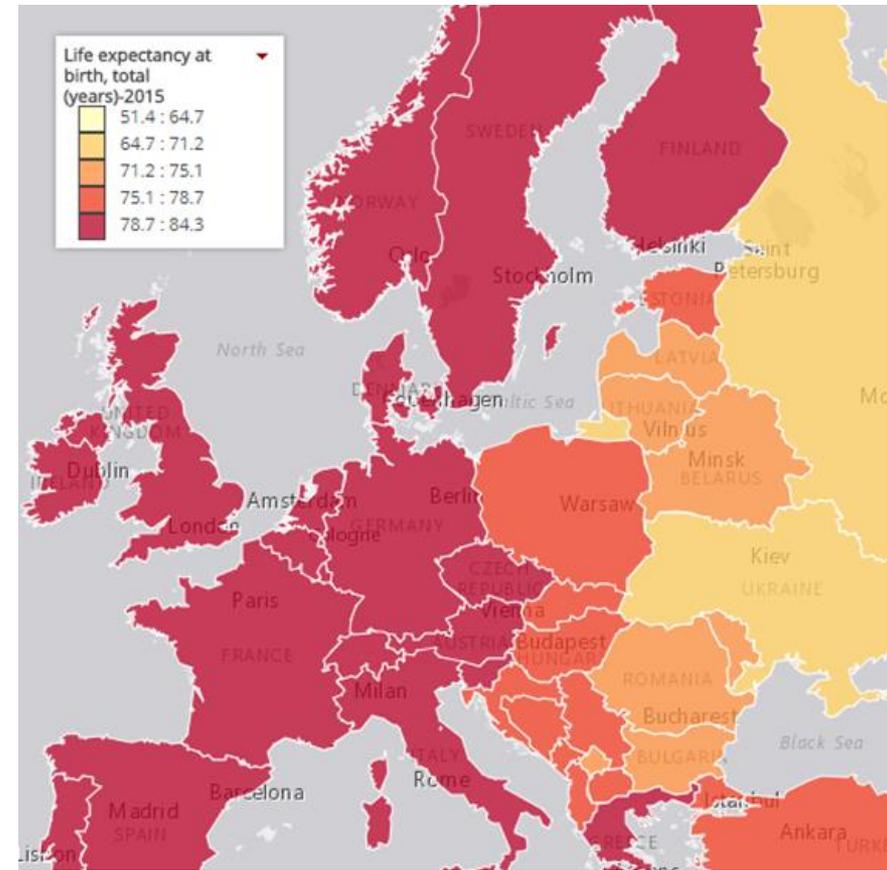
Health sector is key to a good quality of life

Per capita expenditure on health (PPP international \$)



Source: WHO

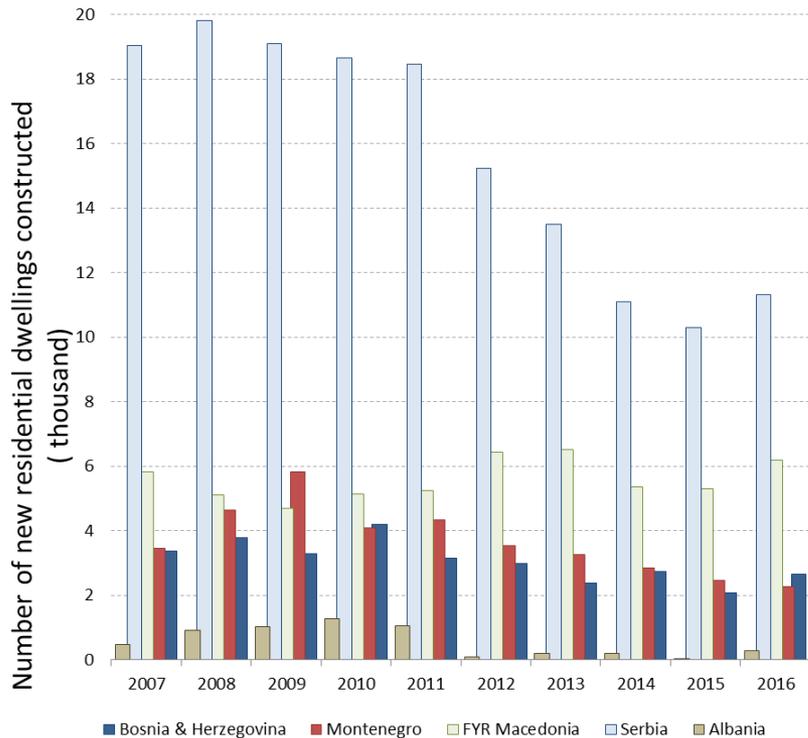
- Per capita public expenditures on health at only 30% of EU levels
- Investment gap in health estimated at 1.7% of GDP (€0.8bn per year)



Source: the World Bank

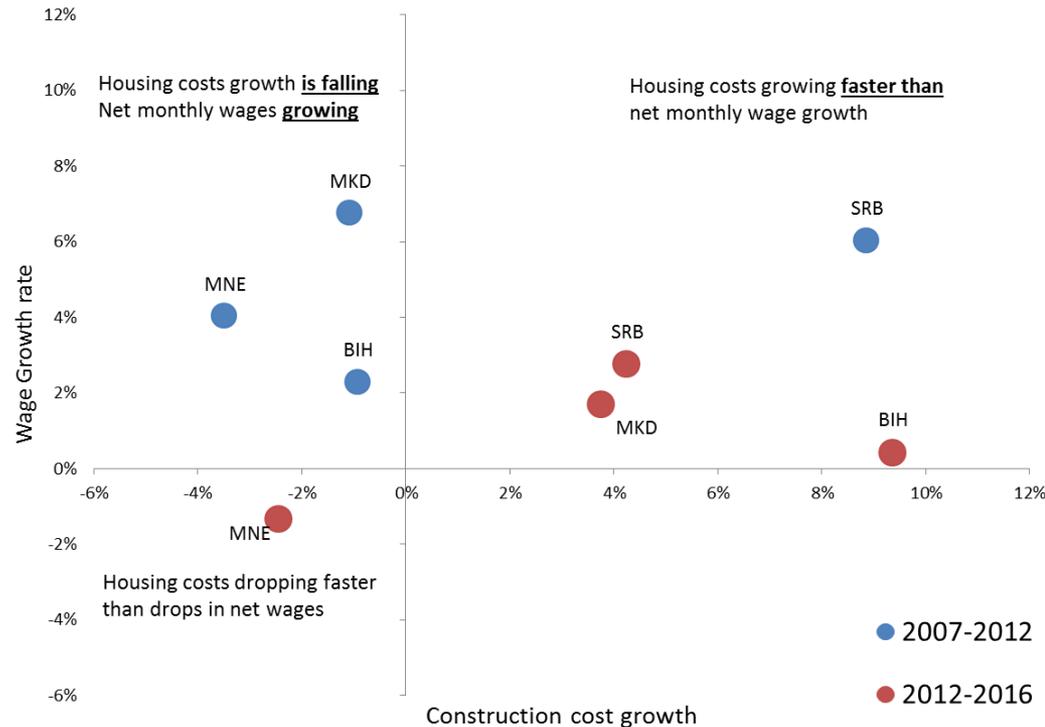
Housing is a problem for the young

Housing development is declining...



Source: National statistical offices

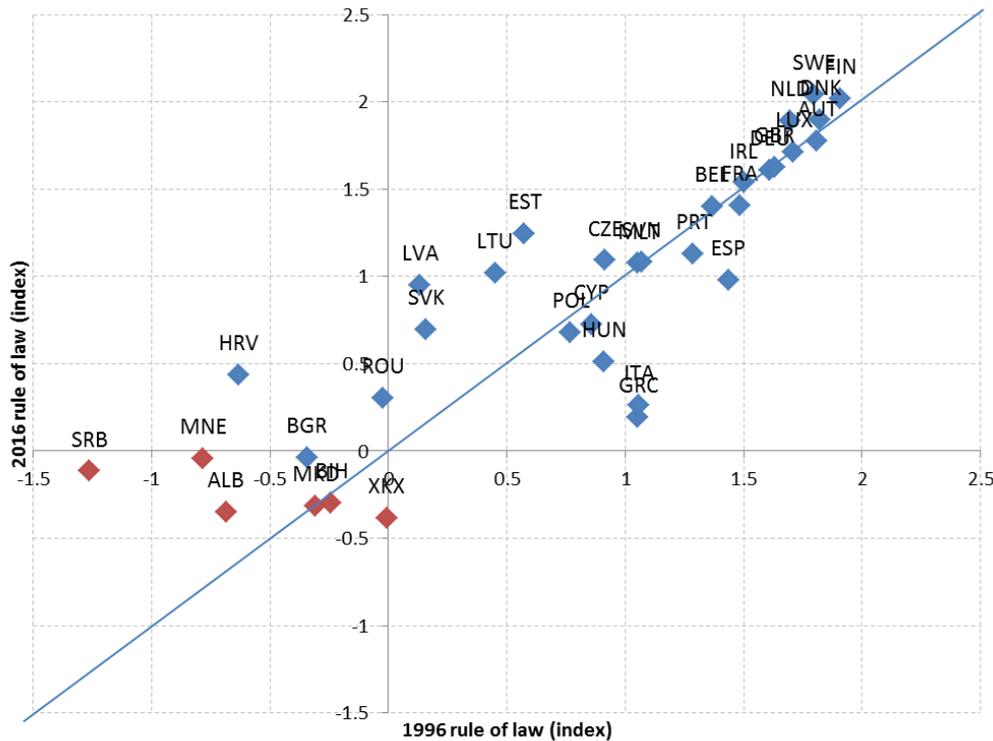
... and cost growth outstrips wage growth



Source: CEB staff calculations using national statistical office data

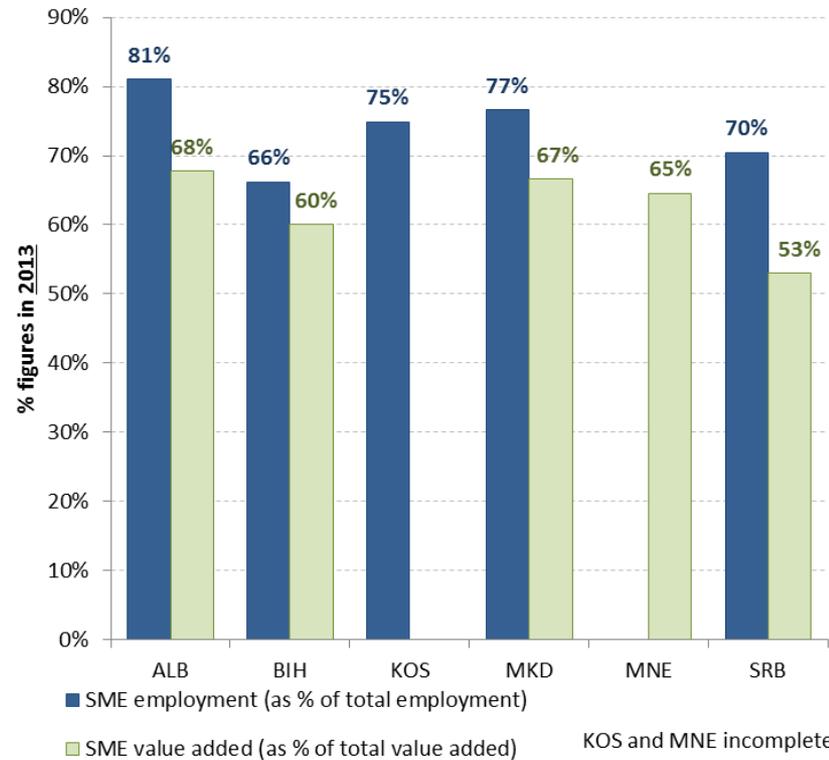
Good institutions and SMEs key to opening opportunities

Governance indicators are low



Source: World Bank data

SME sector crucial to generating growth and jobs



Source: OECD

KOS and MNE incomplete

Integration for the Western Balkans is in reach

- The road to EU integration is multifaceted
- Policies to develop and retain human capital are essential
 - Increase investment in education
 - Improve health sector
 - Increase affordable housing stock
 - Foster opportunities through financing SME's and better governance
- The CEB can be a relevant partner in this endeavour