

# A New Normal?

## The Global Economic Expansion, Inflation Dynamics, Financial Stability and Its Meaning for Global Assets Management

*The National Bank of the Republic of Macedonia  
Reinventing Bretton Woods Committee  
16 February 2018*

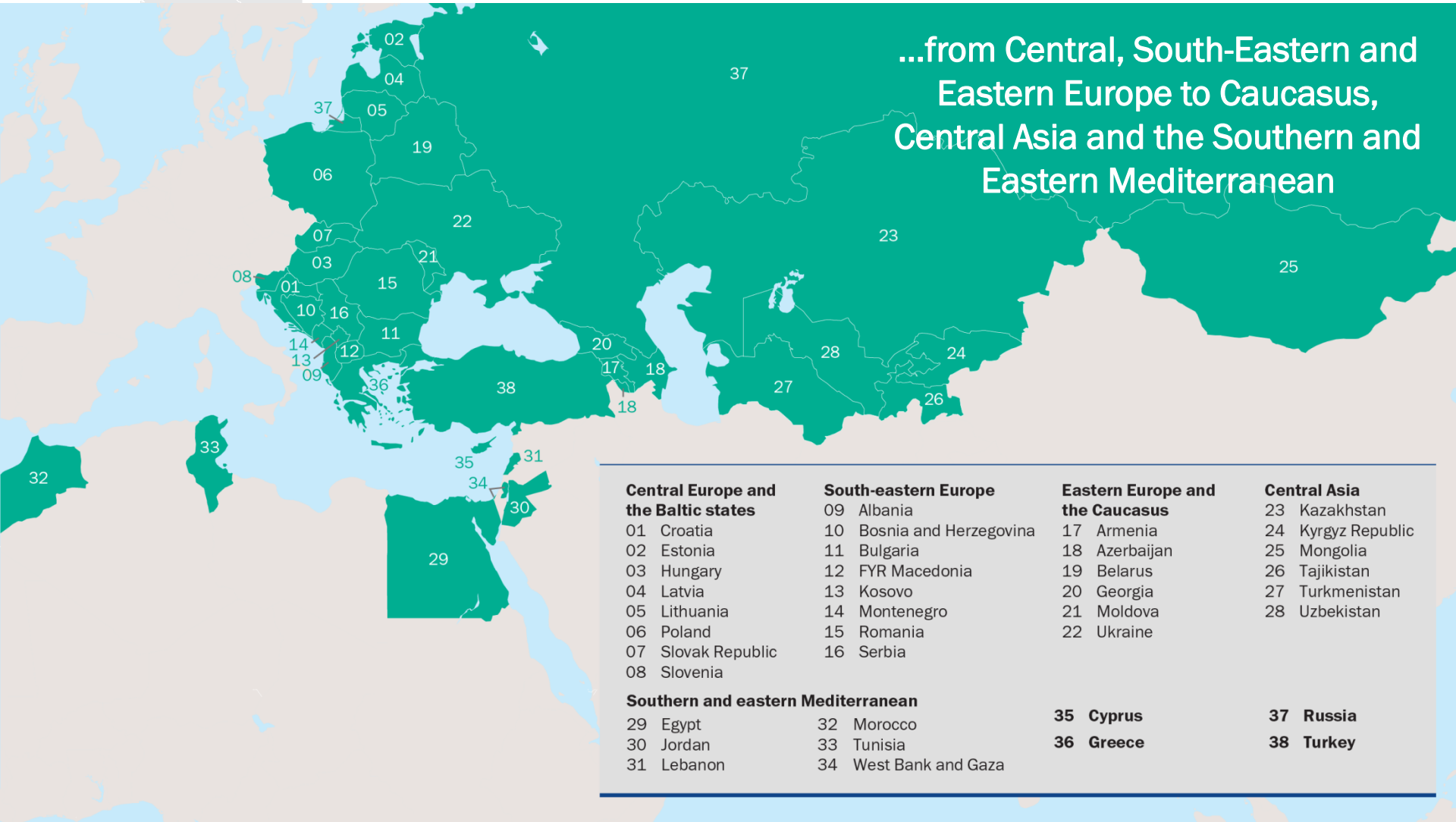
### **South East Europe: the path for integration and growth – EBRD perspective**

*Charlotte Ruhe,  
Managing Director, Central and South Eastern Europe, EBRD*



**European Bank**  
for Reconstruction and Development

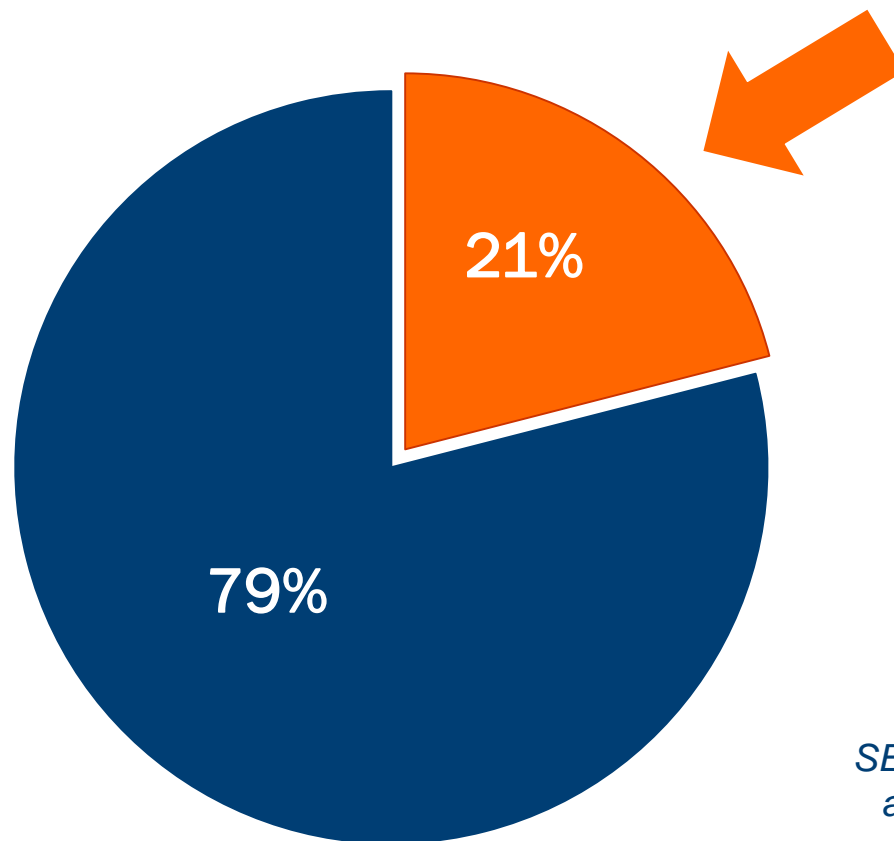
# We invest in changing lives in 38 countries – increasing footprint



# EBRD: Annual Business Investment in 2017

## South Eastern Europe

Bank ABI: EUR 9.67 billion



### South Eastern Europe ABI:

Greece  
EUR 614 million

Bulgaria & Romania  
EUR 686 million

Western Balkans incl. Serbia  
EUR 695 million

*SEE Net Cumulative Business Investment  
at 31 December 2017 - EUR 23.7 billion  
(20% of the Bank NCBI)*

## ➤ Regional Context

The region is surrounded by EU countries; the Western Balkans economies have significantly transformed and are on the path of EU approximation:

- Reform momentum – improvement in investment climate
  - Substantial EU grants and technical assistance for strategic areas: Infrastructure, Environment, Energy and Private sector development
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- ## ➤ Strategic priorities - support regional integration, including through leveraging EU funds
- Support private sector competitiveness, including sustainable use of resources;
  - Transport
  - Energy
  - Assist in economic reform process

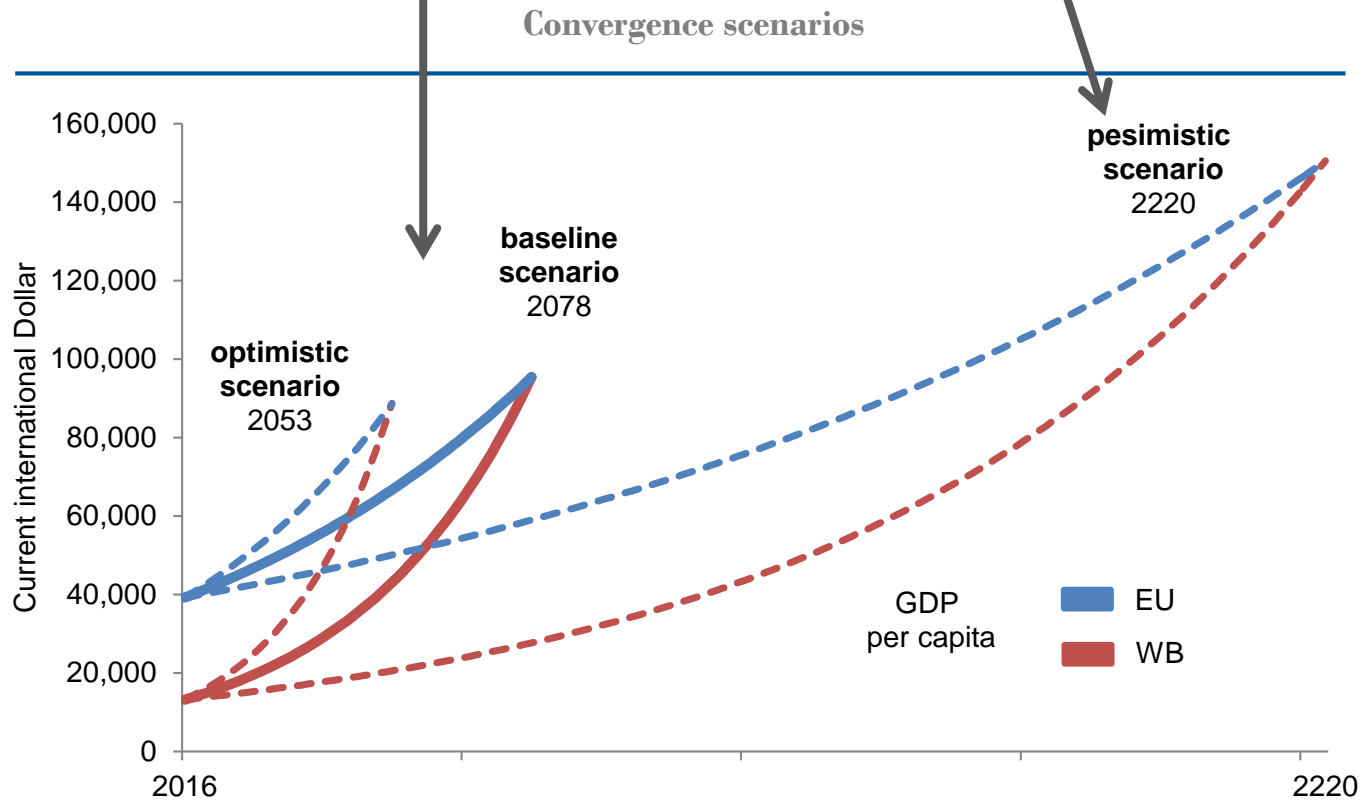
- EBRD is the largest investor in the region
- Total cumulative EBRD investments:  
EUR 10.3 billion in 595 projects
- 276 active projects in portfolio
- Large share in public sector due to  
significant infrastructure investments

# Western Balkans: there is strong convergence potential...



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- ❑ Full convergence with EU living standards can range from 40 years in an optimistic scenario to more than 200 years in a pessimistic scenario.
- ❑ The speed of catch up would depend on the pace of addressing the challenges holding back the region's private sector from developing its full potential - i.e. better economic institutions and an enabling business environment.

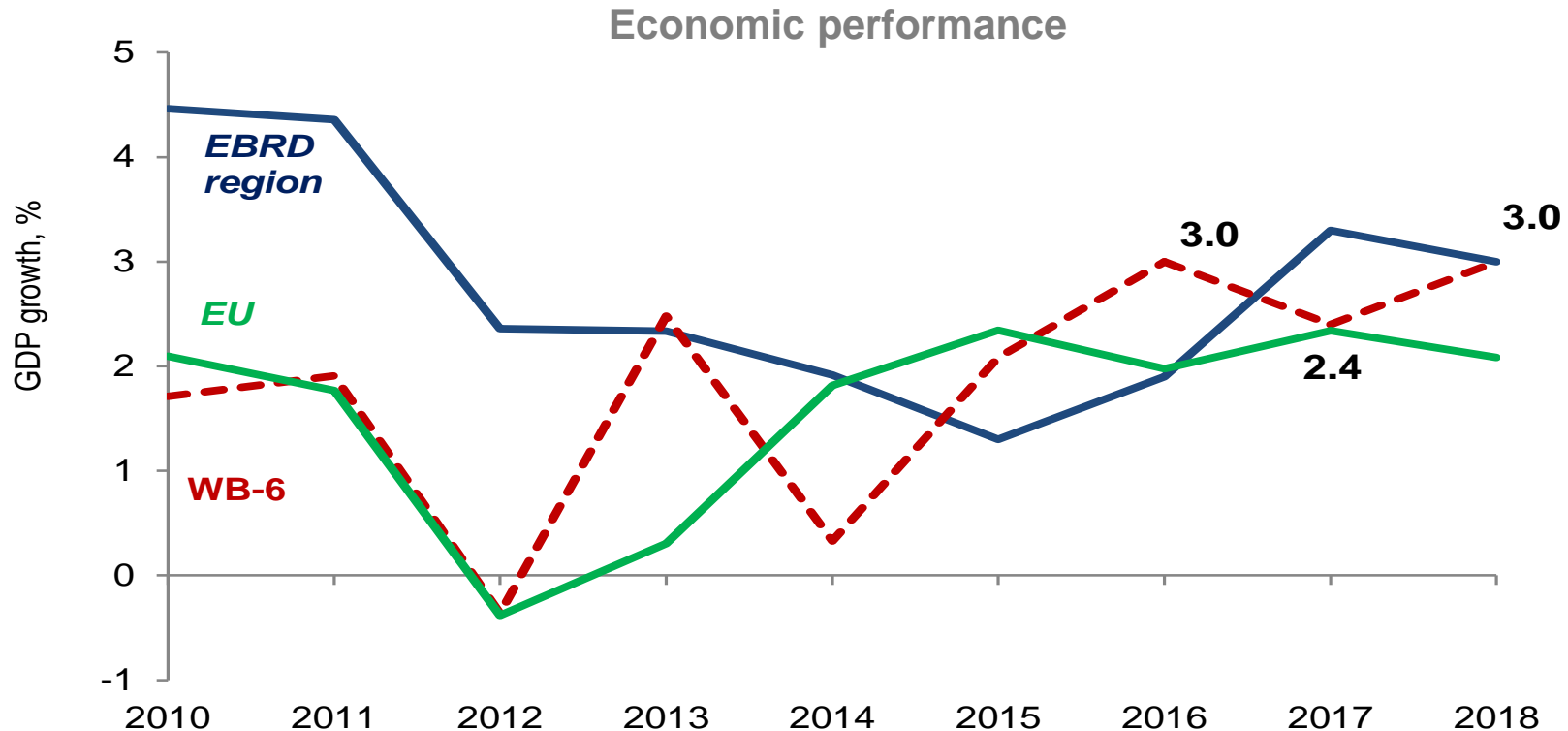


# ...but convergence is happening only slowly



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- ❑ **Economic activity picked up in 2016.** The weighted average growth rate for the region was 3 per cent, compared with 2.2 per cent in 2015.
- ❑ **Growth in the region decelerated in H1 2017,** to 1.9%. The overall growth rate in 2017 is expected at 2.4%.
- ❑ **A pick up to 3.0% in 2018 is foreseen,** driven by private consumption and investment, as well as a gradual recovery of credit, remittances and major infrastructure projects, particularly in Albania (Trans Adriatic gas Pipeline) and in Montenegro (Bar – Boljare highway).



# ...and the region lags behind in terms of “transition qualities”



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Assessment of transition qualities in EBRD countries and advanced comparator countries  
(on a scale of 1 – 10)

	Competitive	Well-governed	Green	Inclusive	Resilient	Integrated		Average
Kosovo	2.5	3.7	3.8	4.7	5.1	4.9		4.1
Albania	4.8	4.0	4.3	4.9	5.1	4.9		4.7
BiH	4.2	3.7	4.8	4.8	5.3	5.5		4.7
<b>WB-6</b>	<b>4.1</b>	<b>4.3</b>	<b>4.8</b>	<b>5.0</b>	<b>5.4</b>	<b>5.5</b>		<b>4.9</b>
FYR Macedonia	4.7	5.2	4.9	4.7	5.3	6.0		5.1
Serbia	4.2	4.4	5.8	5.2	5.6	6.4		5.2
Montenegro	4.3	5.1	5.2	5.6	5.9	5.6		5.3
<b>EBRD</b>	<b>4.4</b>	<b>4.8</b>	<b>5.4</b>	<b>5.4</b>	<b>5.7</b>	<b>6.0</b>		<b>5.3</b>
United States	9.3	8.6	6.1	6.6	8.9	7.4		7.8
Germany	8.5	8.7	7.4	7.3	8.4	8.2		8.1



# Competitiveness is especially weak...



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## Rankings in the Global Competitiveness Index, 2016-2017

		ALB	BIH	MKD	MNE	SRB		WB-6 avg		EU-11 avg	EU avg
<b>Basic requirements</b>	1st pillar: Institutions	9	126	67	80	115		93		74	48
	2nd pillar: Infrastructure	91	105	80	76	74		85		54	34
	3rd pillar: Macroeconomic environment	93	76	44	119	103		87		39	50
	4th pillar: Health and primary education	33	50	92	60	53		58		46	31
<b>Efficiency enhancers</b>	5th pillar: Higher education and training	42	92	76	64	69		69		43	32
	6th pillar: Goods market efficiency	69	129	34	74	121		85		52	38
	7th pillar: Labor market efficiency	98	125	95	83	106		101		66	52
	8th pillar: Financial market development	94	101	57	54	110		83		61	56
	9th pillar: Technological readiness	82	76	61	52	70		68		39	27
	10th pillar: Market size	109	98	110	130	74		104		66	54
<b>Innovation and sophistication factors</b>	11th pillar: Business sophistication	94	115	75	103	125		102		64	39
	12th pillar: Innovation	109	125	51	94	108		97		61	39
<b>Global Competitiveness Index</b>		<b>80</b>	<b>107</b>	<b>68</b>	<b>82</b>	<b>90</b>		<b>85</b>		<b>51</b>	<b>37</b>

Note: Data for Kosovo are not available.

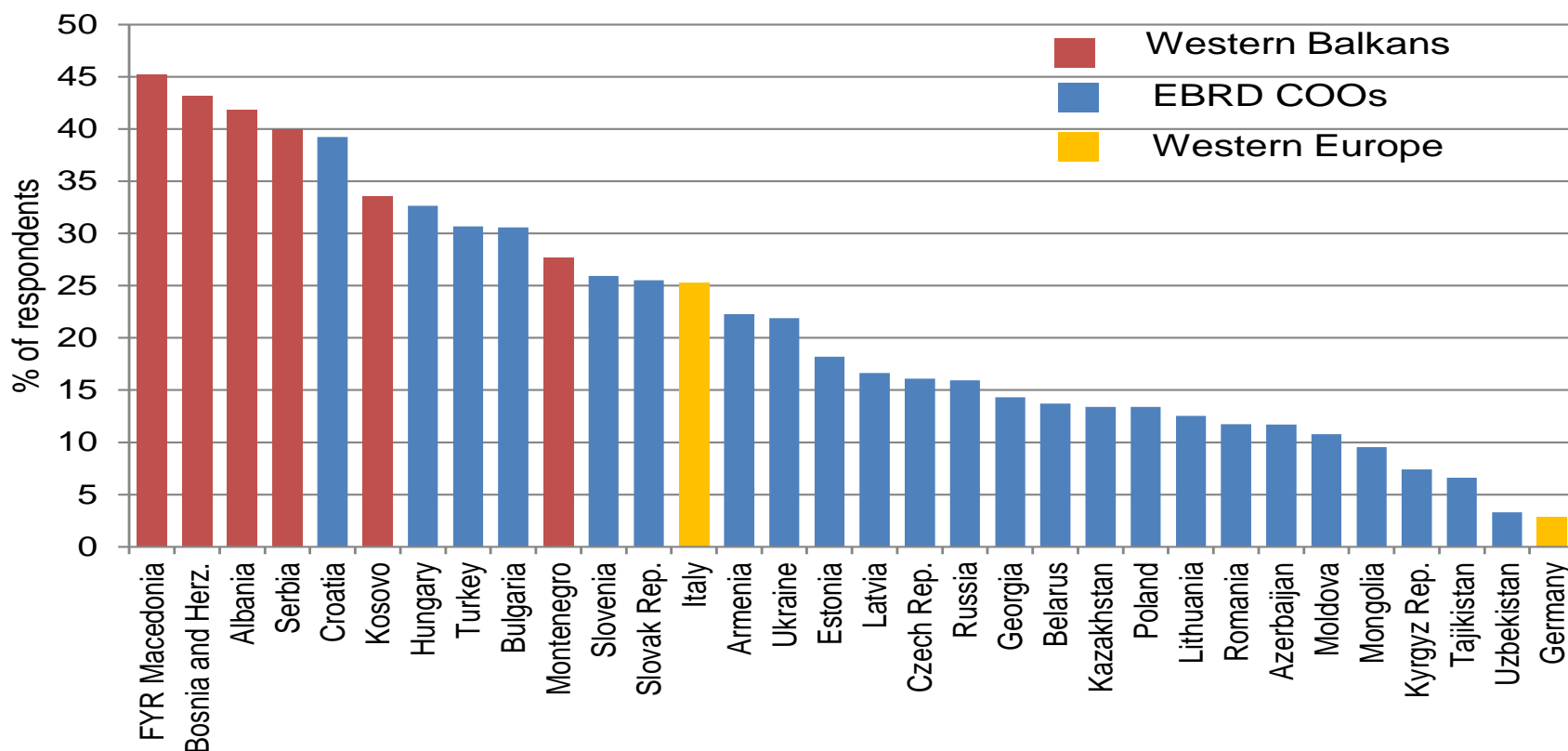
# ...and cronyism remains rife



## LiTS questionnaire:

*In your opinion, which of the following factors is the most important to succeed in life in our country now? The options are: i) effort and hard work; ii) intelligence and skills; iii) political connections; iv) breaking the law; v) other*

### Political connections as a factor behind success



# Western Balkans: from crisis management to enlargement



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- EU approximation and policy engagement - **advances in reform facilitate the flow of investment**
- **Connectivity is critical to attract investment**, both to make the markets accessible and to develop the region into one cohesive, and more attractive market for foreign investors. **Digital connectivity agenda.**
- Need to continue working across a range of areas: **business environment, anti-corruption, to meeting EU standards, judicial reform, public administration**
- **Privatisation, SOEs commercialisation and restructuring** remain important on the agenda

# Western Balkans: from crisis management to enlargement



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- **Strengthening private sector** - financing local companies, supporting **cross-border FDIs** and **regional champions**; targeted support to **SMEs and microfinance**; embracing **innovation**
- Addressing risks to **financial stability** - **NPLs resolution**; improving **access to finance** - **Capital Market Development**
- Scaling up **Green Economy**: investing in renewable energy, energy efficiency frameworks , environmental projects at municipal level
- Facilitating **inclusive development** , promoting youth and educational mobility, and cultural exchanges

# Bringing together politicians and business community



## EBRD's Western Balkans Investment Summit

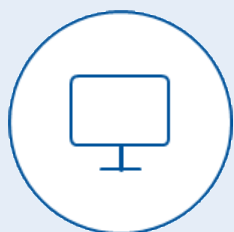
26 February 2018

EBRD HQ

# Thank you for your attention!



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EBRD website:

[www.ebrd.com](http://www.ebrd.com)

Information about the countries of operations & Sectors of EBRD:

[www.ebrd.com/news/publications/factsheets.html](http://www.ebrd.com/news/publications/factsheets.html)

Project Summary Documents, details of the projects signed with EBRD:

[www.ebrd.com/work-with-us/project-finance/project-summary-documents.html](http://www.ebrd.com/work-with-us/project-finance/project-summary-documents.html)

Sending your project financing request online:

<http://www.ebrd.com/work-with-us/project-finance/funding-adviser.html>

Team dedicated for SMEs :

<http://www.ebrd.com/work-with-us/advice-for-small-businesses/overview.html>

Trade Facilitation Programme:

<http://www.ebrd.com/work-with-us/trade-facilitation-programme.html>