Southeast Europe: Prospects and Challenges

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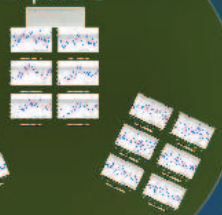
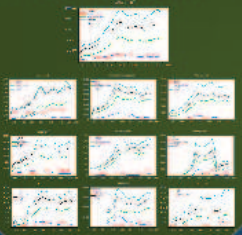
SOURCES OF INSTABILITY: SHORT-TO-MEDIUM TERM

Trade Exposure

Stock Market Exposure

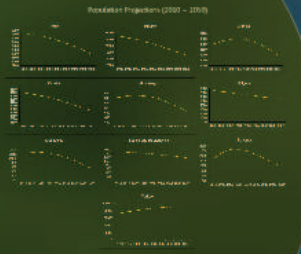


Credit Exposure



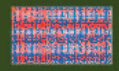
SOURCES OF INSTABILITY: LONG TERM

DEMOGRAPHICS

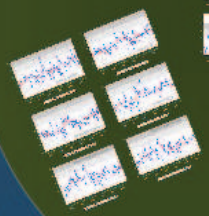


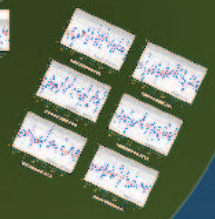
SOURCES OF INSTABILITY: SHORT-TO-MEDIUM TERM

Trade Exposure



Stock Market Exposure





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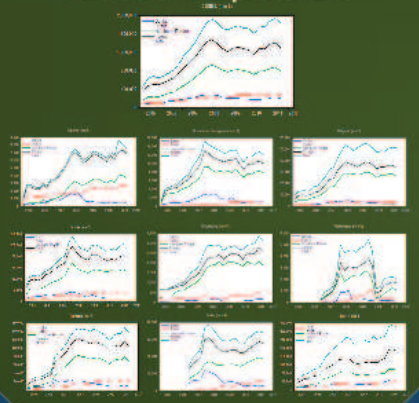

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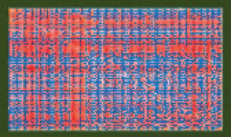


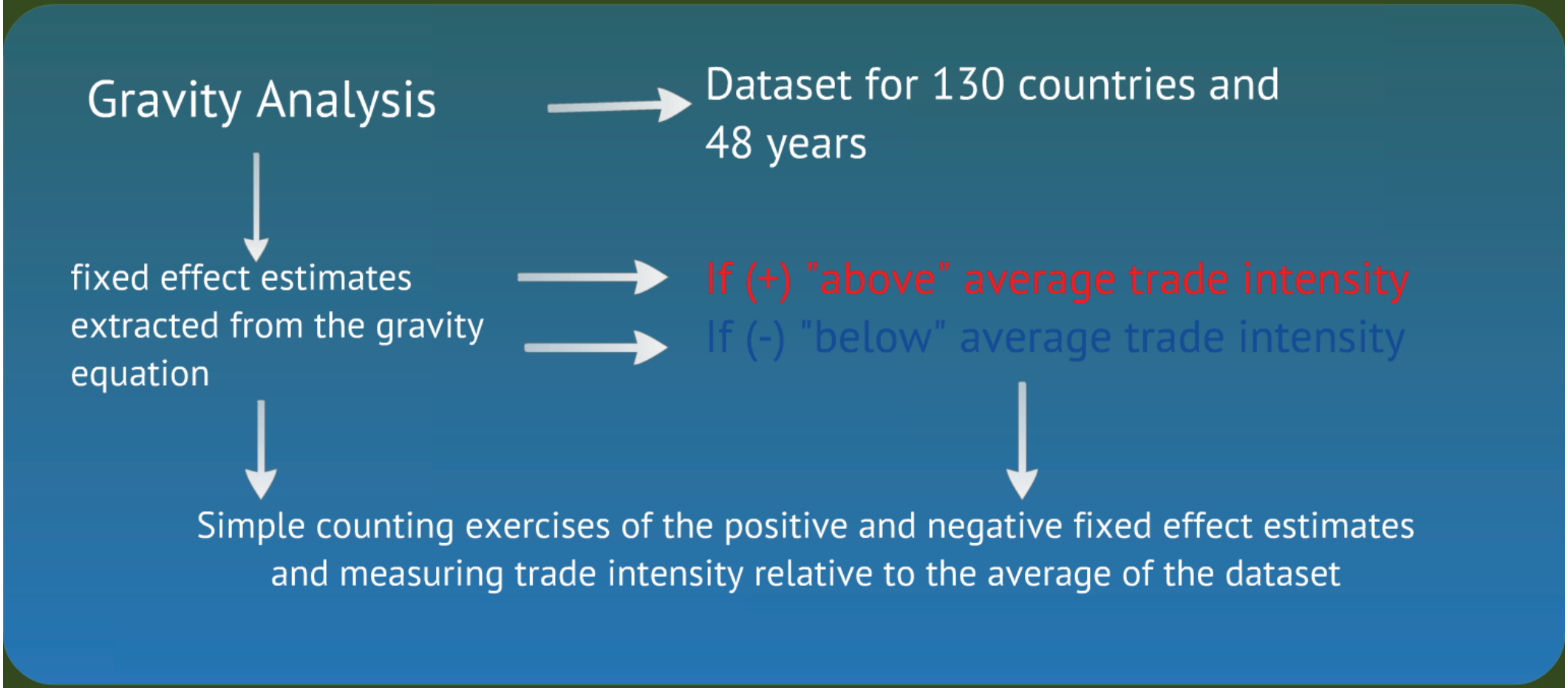

Gravity Analysis
Dataset for 130 countries and 48 years
fixed effect estimates extracted from the gravity equation
If (+) "above" average trade intensity
If (-) "below" average trade intensity
Simple counting exercises of the positive and negative fixed effect estimates and measuring trade intensity relative to the average of the dataset

Table 2: Revealed Functioning of the SEE Countries

		SEE	EURO AREA	EU	EUROPE	ASIAN TIGERS	REST OF WORLD
1	**SEE**	0.86	0.53	0.48	0.38	0.46	0.19
2	**EURO AREA**	0.53	0.68	0.71	0.54	0.73	0.48
3	**EU**	0.48	0.71	0.93	0.65	0.74	0.38
4	**EUROPE**	0.38	0.54	0.65	0.33	0.60	0.36
5	**TIGERS**	0.46	0.73	0.74	0.60	0.91	0.65
6	**Rest of World**	0.19	0.48	0.38	0.36	0.65	0.31

Notes The composition of country groups is as follows:

SEE: Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania, Slovenia;

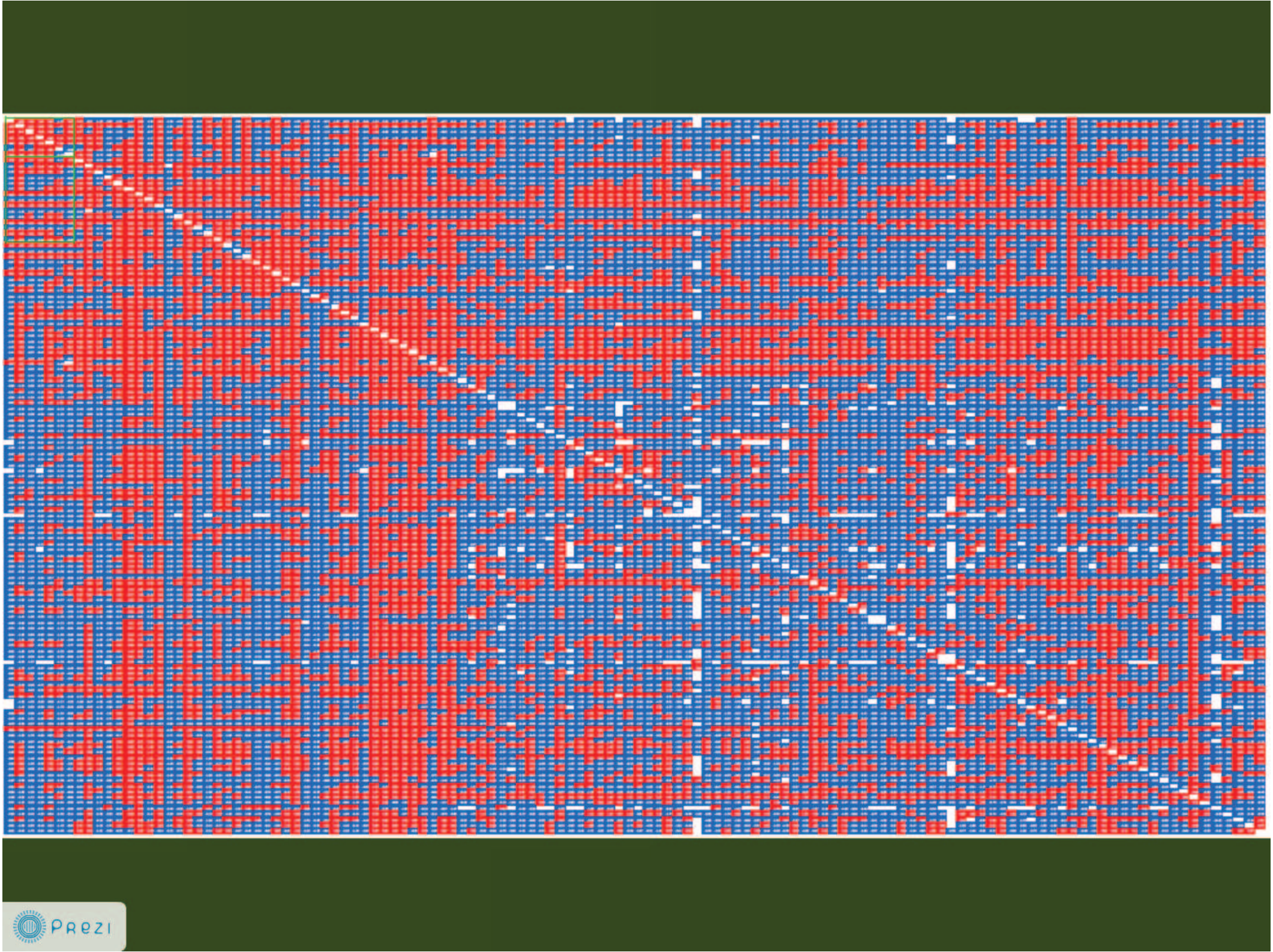
Euro area: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovak Republic, Spain;

EU: Czech Republic, Denmark, Hungary, Latvia, Lithuania, Poland, Sweden, United Kingdom;

Europe: Belarus, Iceland, Norway, Switzerland, Turkey, Ukraine;

Asian Tigers: Cambodia, China, Hong Kong SAR, China, India, Indonesia, Korea, Malaysia, Thailand, Vietnam;

Rest of World: Algeria, Angola, Argentina, Australia, Azerbaijan, Bahamas, Bahrain, Bangladesh, Bolivia, Botswana, Brazil, Brunei Darussalam, Cameroon, Canada, Chile, Colombia, Congo, Dem. Rep., Costa Rica, Cote d'Ivoire, Dominican Republic, Ecuador, Egypt, El Salvador, Ethiopia, French Polynesia, Gabon, Georgia, Ghana, Greece, Guatemala, Guinea, Haiti, Honduras, Iran, Iraq, Israel, Jamaica, Japan, Jordan, Kazakhstan, Kenya, Kuwait, Lebanon, Libya, Macao SAR China, Madagascar, Mauritius, Mexico, Morocco, Mozambique, Namibia, Nepal, New Caledonia, New Zealand, Nicaragua, Nigeria, Oman, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Qatar, Russian Federation, Saudi Arabia, Senegal, Serbia, Singapore, South Africa, Sri Lanka, Sudan, Syria, Tanzania, Trinidad and Tobago, Tunisia, Uganda, United Arab Emirates, United States, Uruguay, Uzbekistan, Venezuela, West Bank and Gaza, Yemen, Rep., Zambia, Zimbabwe.



Stock Market Exposure

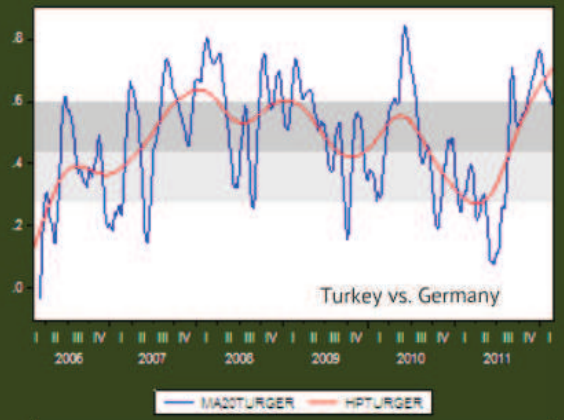
Tri-variate GARCH regression
(Using conditional error term covariances)

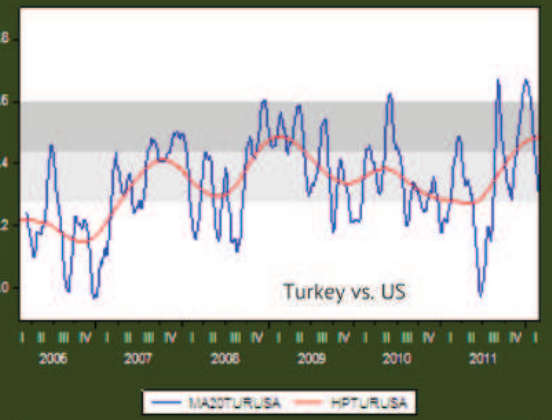
Capture the transmission of shocks from the US and EU stock markets

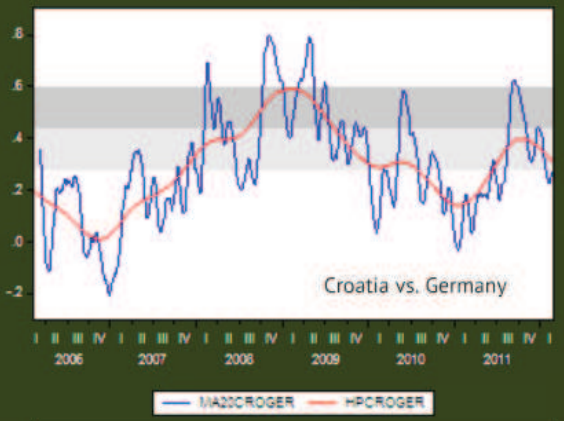
Time varying average conditional correlations for US and German: 0.6
Standard deviation: 0.16

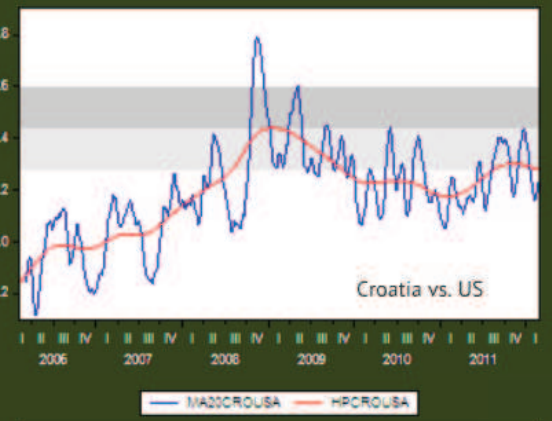
The average conditional correlation is taken as reference and using first and second standard deviations, SEE stock markets integration levels are identified.

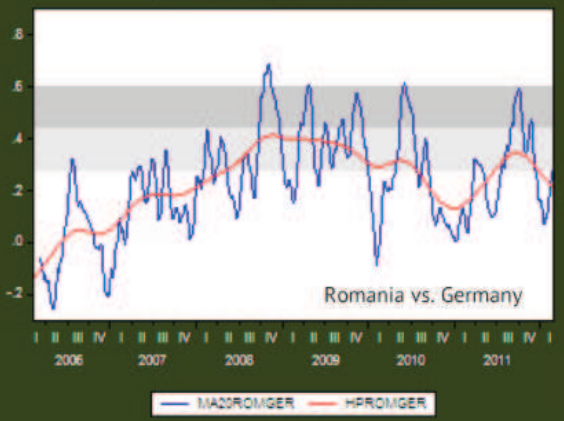
- 20 days moving average of cross correlations
- HP filtered cross correlations
- Level of integration is identified according to the shaded areas indicating first and second standard deviations

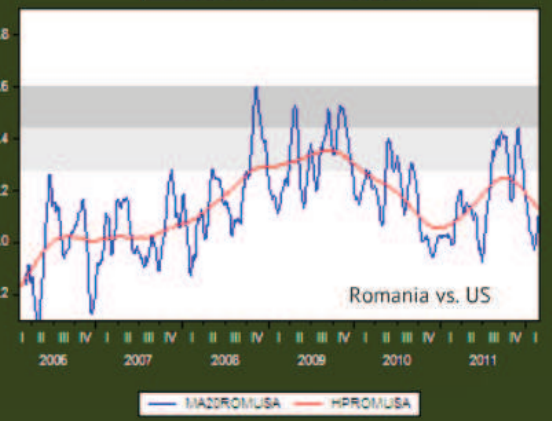


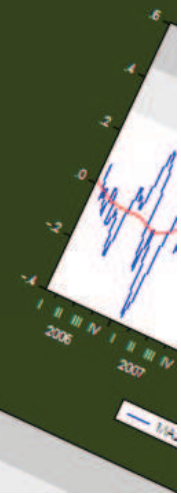


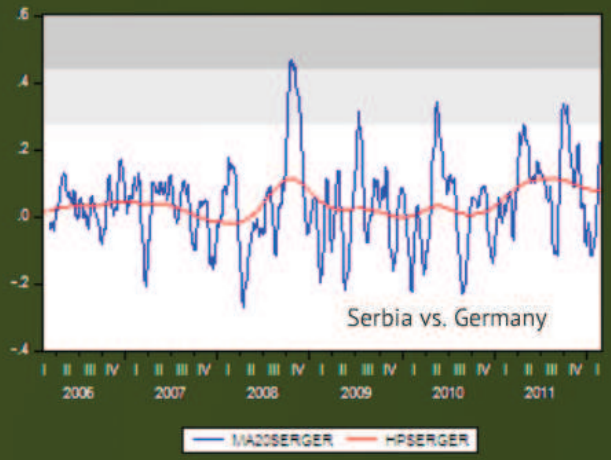











Serbia vs. Germany
2006
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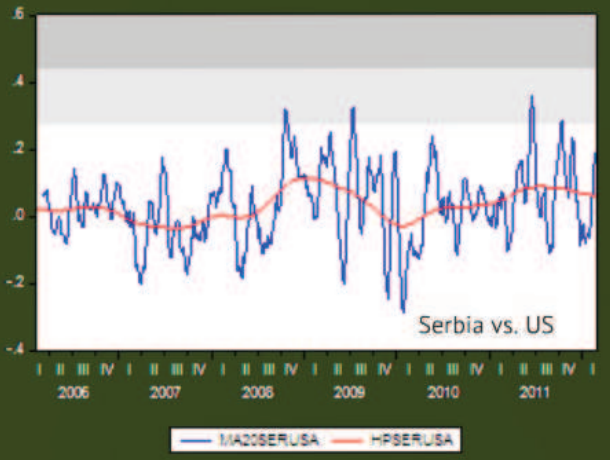
MA20SERGER
HPSERGER


Serbia vs. US
2006
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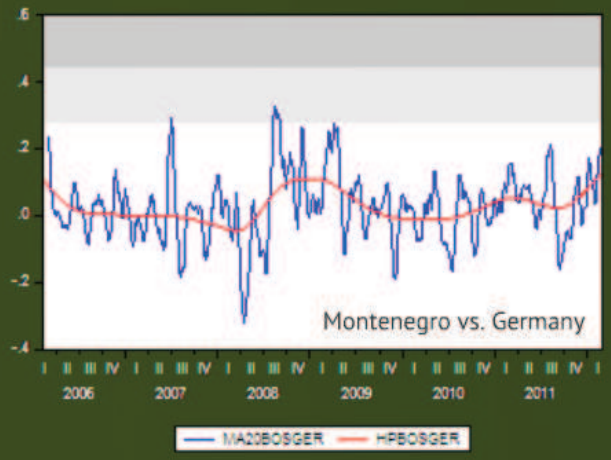
MA20SERUSA
HPSERUSA


Montenegro vs. Germany
2006
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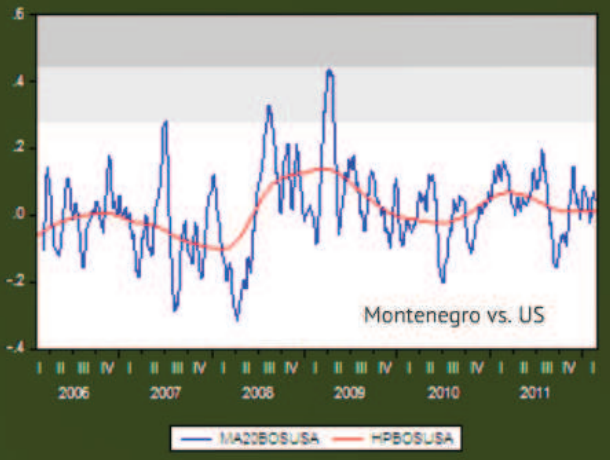
MA20BOSGER
HPBOSGER


Montenegro vs. US
2006
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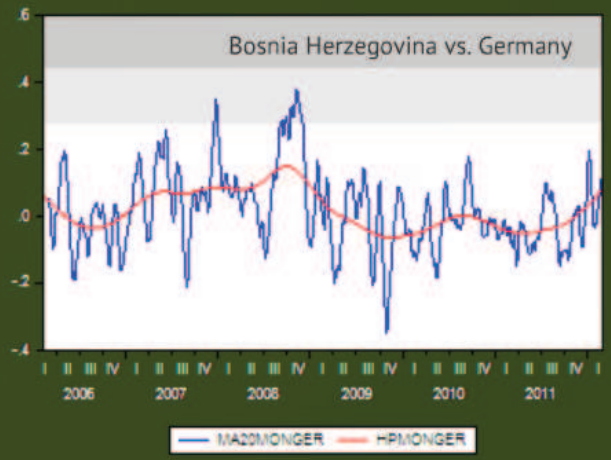
MA20BOSUSA
HPBOSUSA


Bosnia Herzegovina vs. Germany
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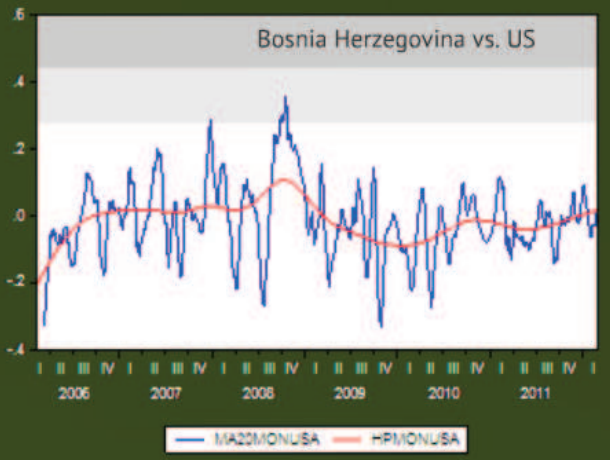
Bosnia Herzegovina vs. US
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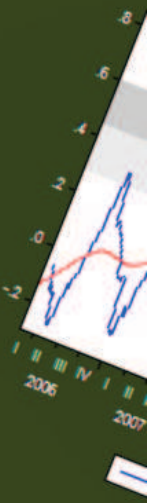
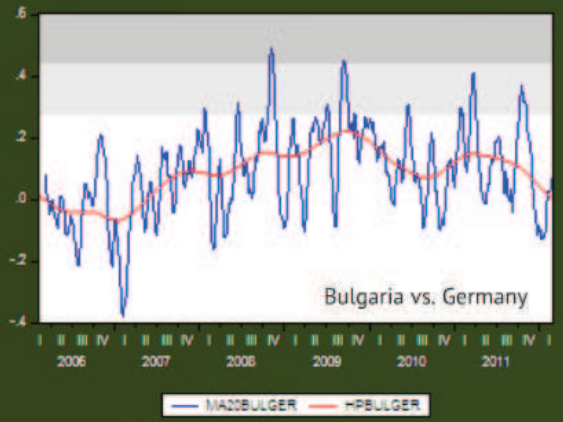
MA20MONUSA
HPMONUSA




Bulgaria vs. Germany
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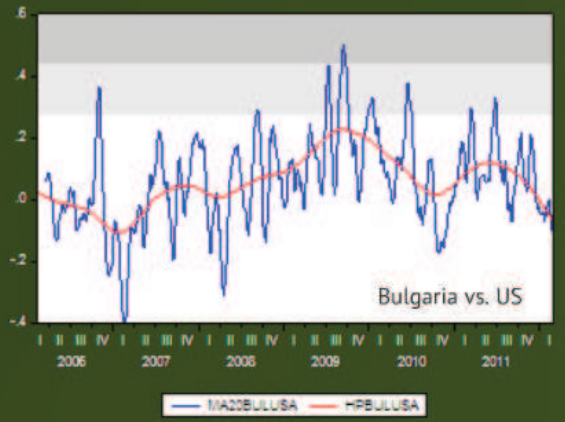
MA20BULGER
HPBULGER


Bulgaria vs. US
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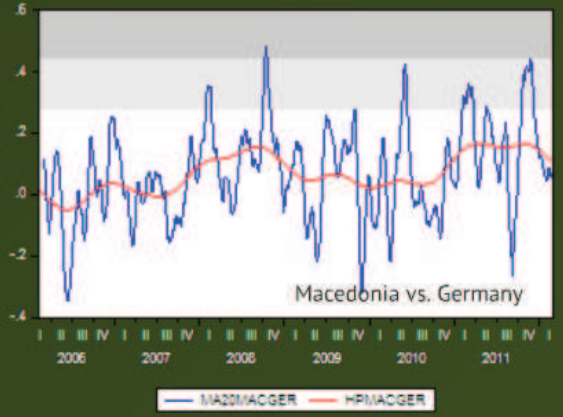
MA20BULUSA
HPBULUSA


Macedonia vs. Germany
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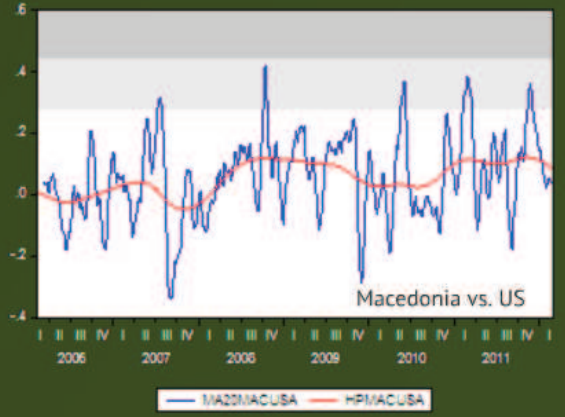
MA20MACGER
HPMACGER


Macedonia vs. US
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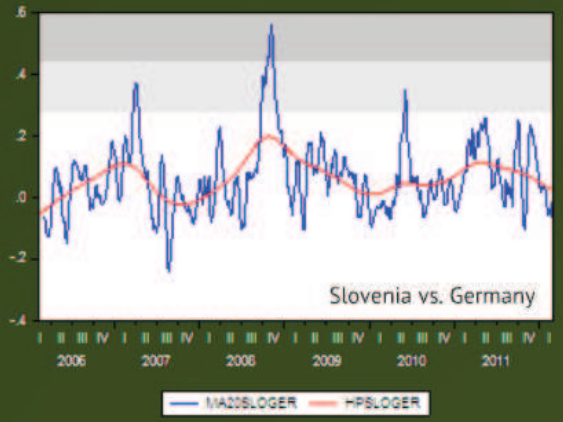
MA20MACUSA
HPMACUSA


Slovenia vs. Germany
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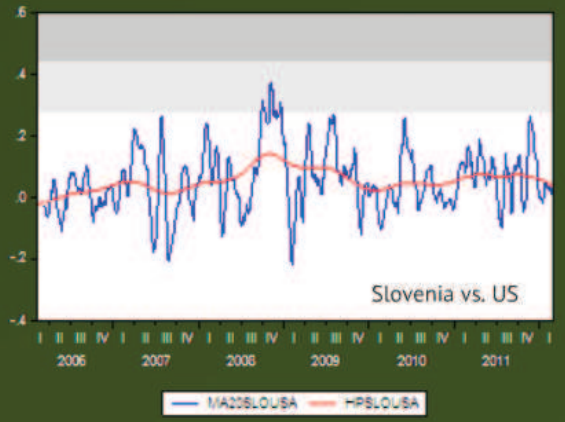
MA20SLOGER
HPSLOGER


Slovenia vs. US
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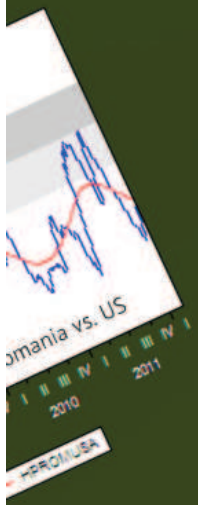
HPSLOUSA


omania vs. US
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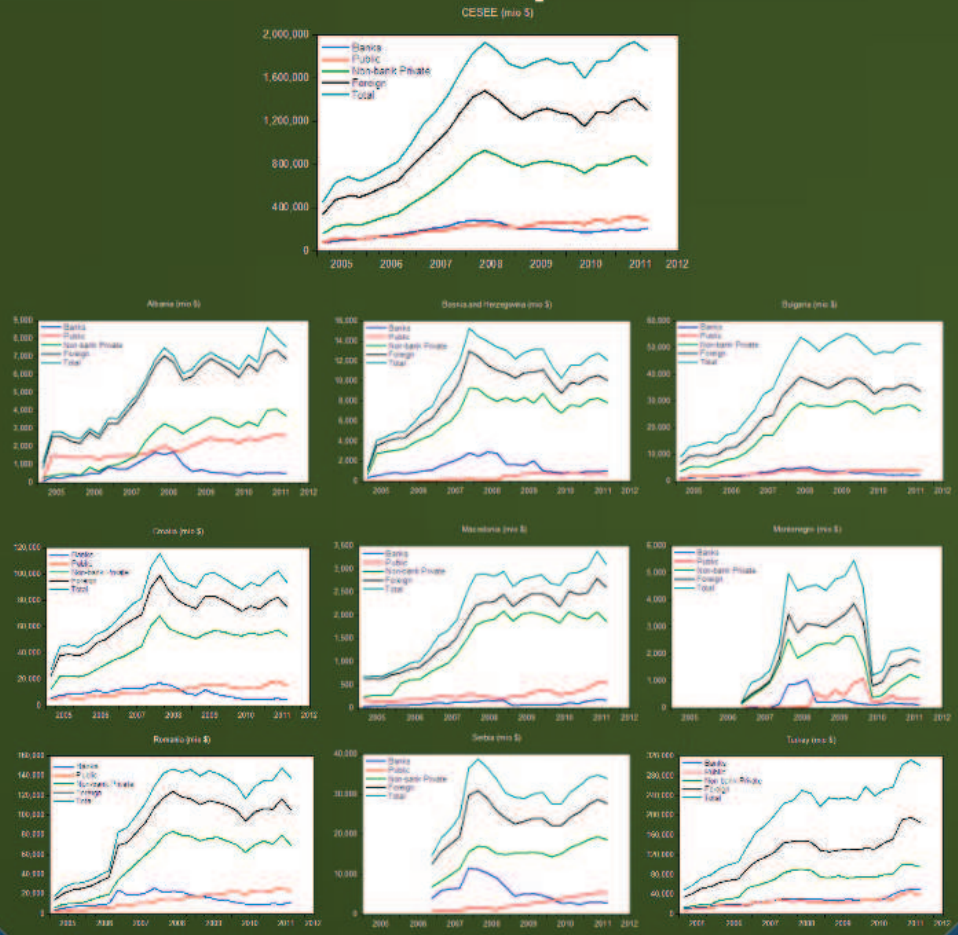
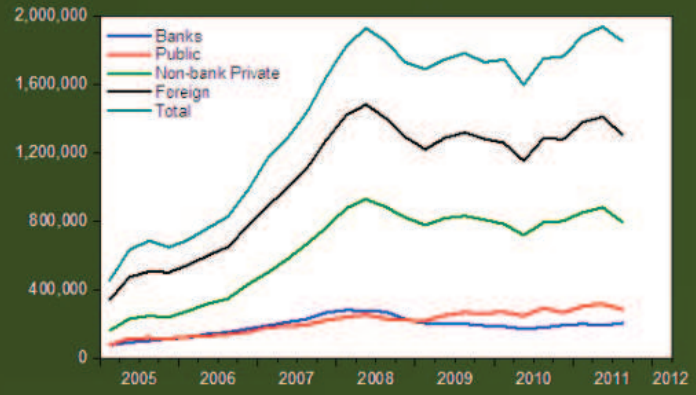
Credit Exposure

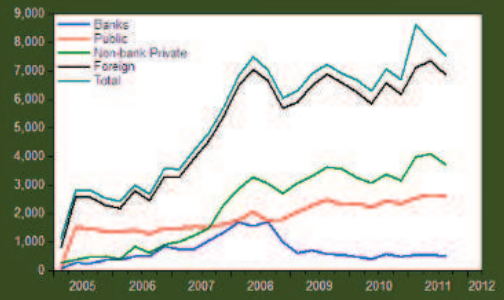


Credit Exposure

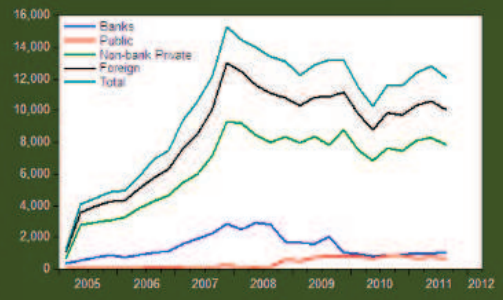
CESEE (mio $)



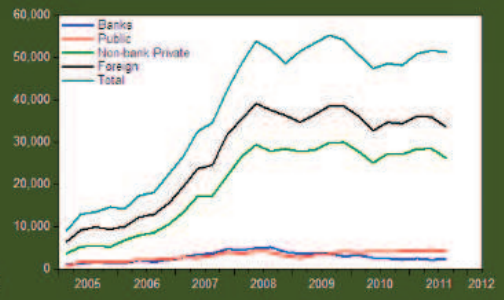
Albania (mio $)



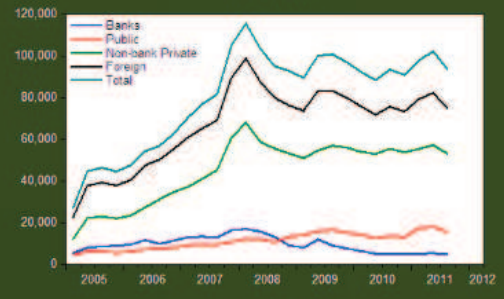
Bosnia and Herzegovina (mio $)



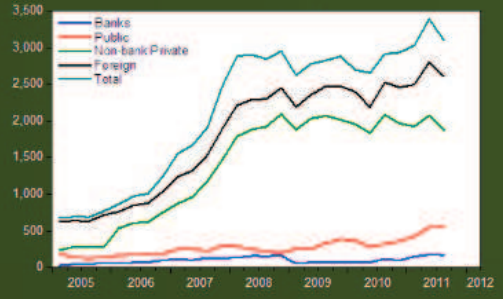
Bulgaria (mio $)



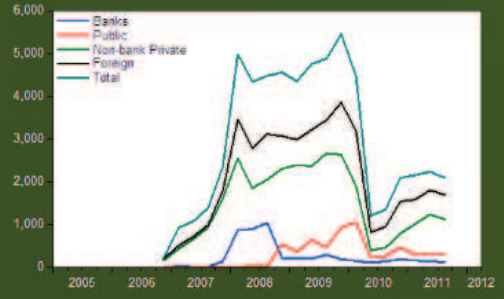
Croatia (mio $)



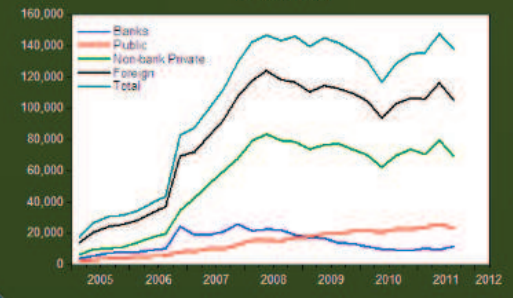
Macedonia (mio $)



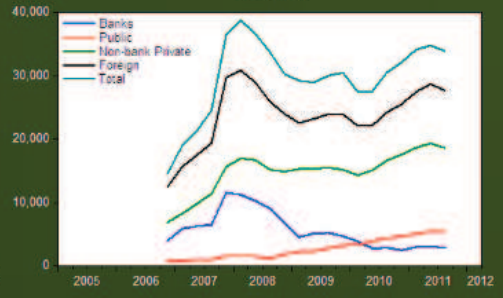
Montenegro (mio $)



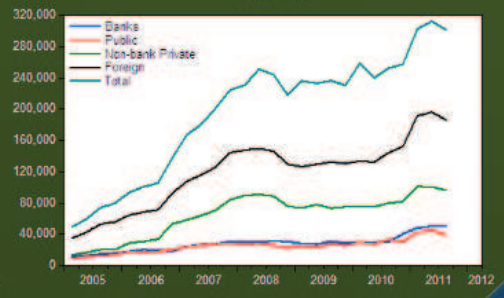
Romania (mio $)



Serbia (mio $)

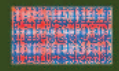


Turkey (mio $)

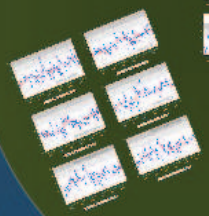


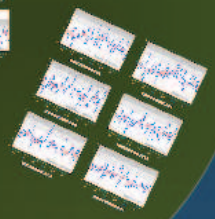
SOURCES OF INSTABILITY: SHORT-TO-MEDIUM TERM

Trade Exposure

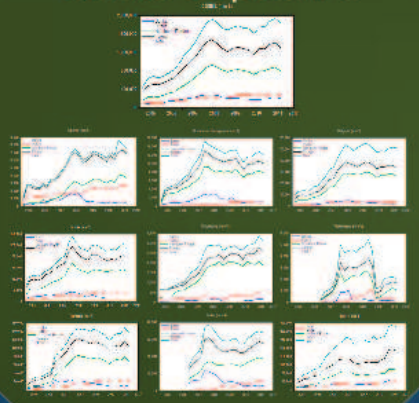


Stock Market Exposure





Credit Exposure



Short-Medium Term Risks and Prospects

Gravity Model →

- PROSPECT: The SEE has potential to benefit from further intra-regional trade. But more importantly, trade potential with EU and the rest of Europe is quite promising.
- RISK: High trade intensity in the SEE region indicate potential systemic risks in case of external trade shocks.

The tri-variate GARCH Model →

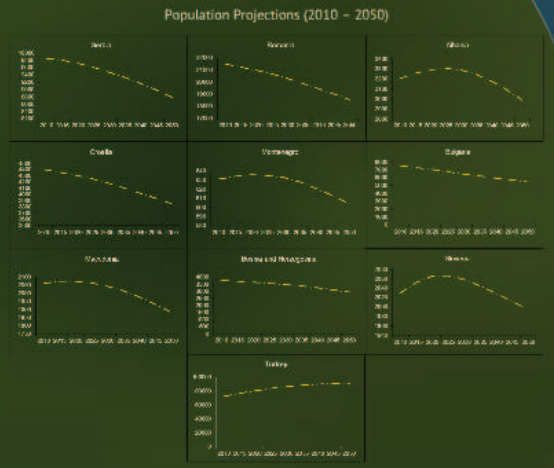
- PROSPECT: Although limited, there is a clear trend of ongoing integration with advanced stock markets.
- RISK: Spillovers during the global economic crisis suggest that SEE countries are not immune to external shocks.

Analysis of financial flows →

- PROSPECT: Credit flows from the EU is high and strong banking ties with EU member state banks. The Vienna Initiative was an important step to avoid a a large-scale uncoordinated withdrawal of cross-border bank groups.
- RISK: Exposure to EZ debt crisis is high due to parent banks.

SOURCES OF INSTABILITY: LONG TERM

DEMOGRAPHICS




Serbia
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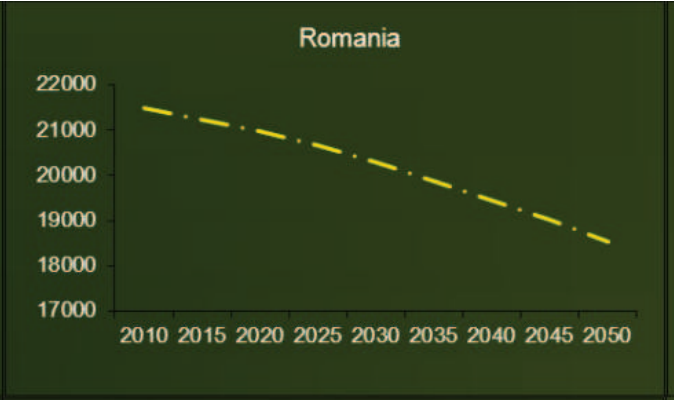
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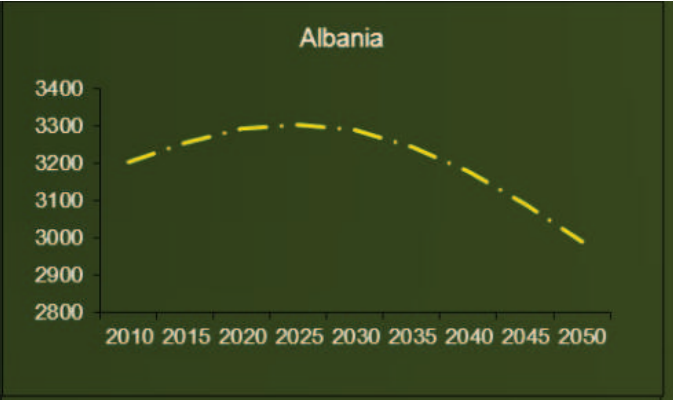
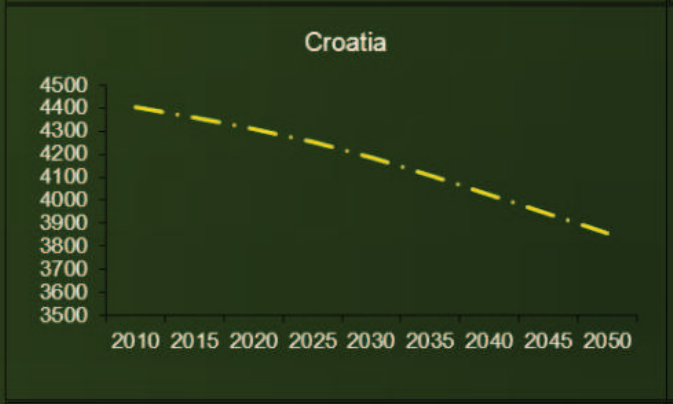
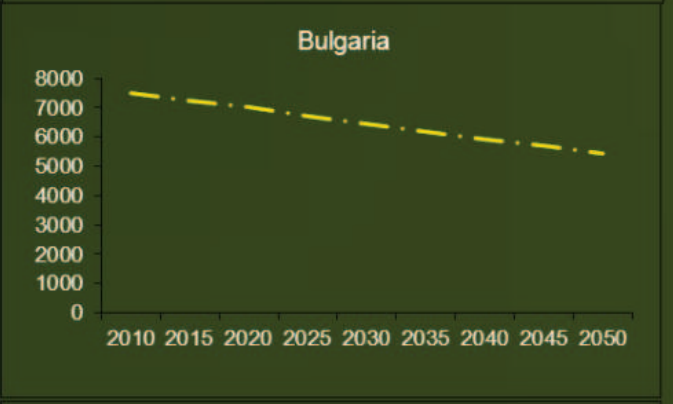
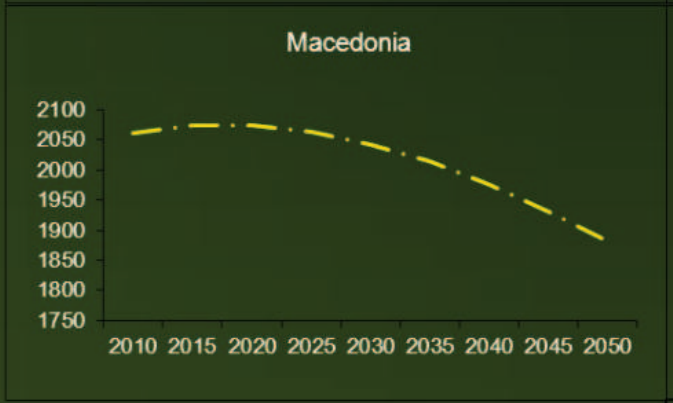
17000
2010 2015 2020 2025 2030 2035 2040 2045 2050

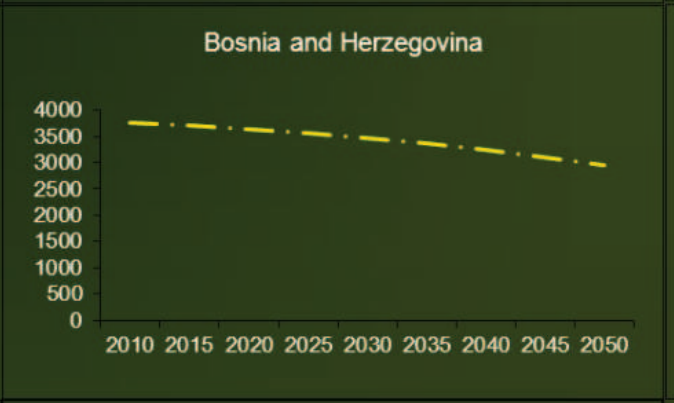

Albania
3400
3300
3200
3100
3000
2900
2800
2010 2015 2020 2025 2030 2035 2040 2045 2050

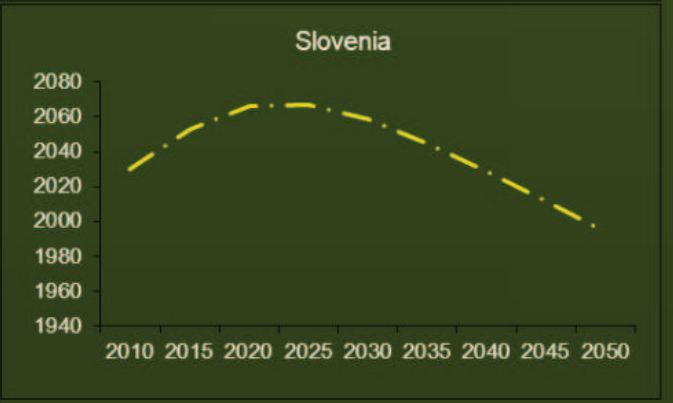

Croatia
4500
4400
4300
4200
4100
4000
3900
3800
3700
3600
3500
2010 2015 2020 2025 2030 2035 2040 2045 2050

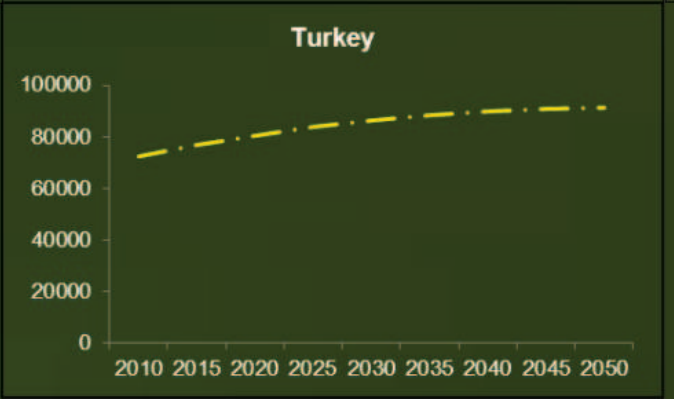

Montenegro
640
630
620
610
600
590
580
2010 2015 2020 2025 2030 2035 2040 2045 2050


Bulgaria
8000
7000
6000
5000
4000
3000
2000
1000
0
2010 2015 2020 2025 2030 2035 2040 2045 2050

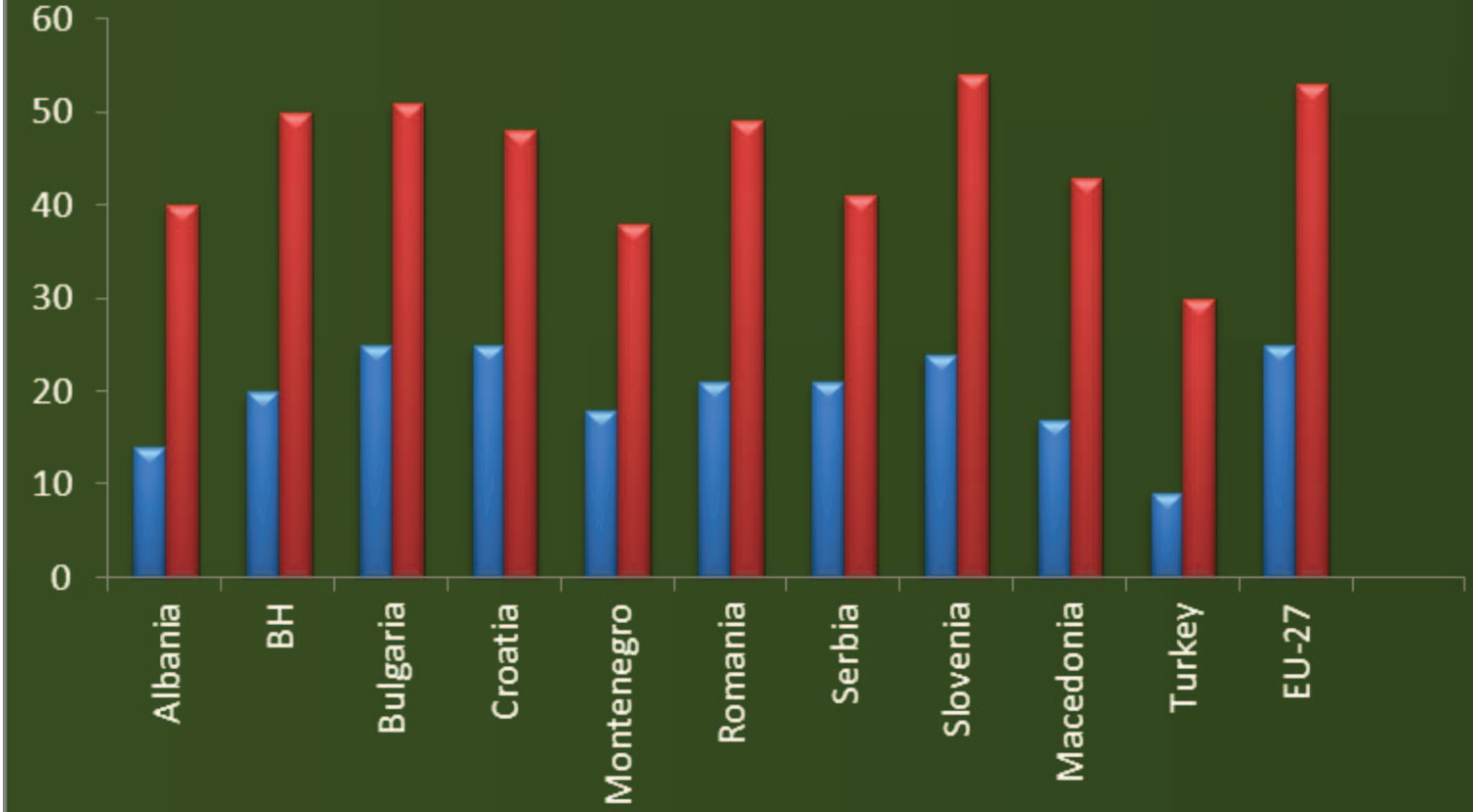

Macedonia
2100
2050
2000
1950
1900
1850
1800
1750
2010 2015 2020 2025 2030 2035 2040 2045 2050


Bosnia and Herzegovina
4000
3500
3000
2500
2000
1500
1000
500
0
2010 2015 2020 2025 2030 2035 2040 2045 2050


Slovenia
2080
2060
2040
2020
2000
1980
1960
1940
2010 2015 2020 2025 2030 2035 2040 2045 2050


Turkey
100000
80000
60000
40000
20000
0
2010 2015 2020 2025 2030 2035 2040 2045 2050

Old age dependency ratio (2010-2050)



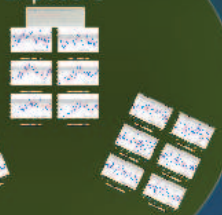
Demographic Projections in the Long Term

- The decline of population will likely prevent these countries from maximally exploiting the economic opportunities offered by EU membership process.
- The serious rise in social security related public expenditures will ultimately unbalance the long-term sustainability of public finances.

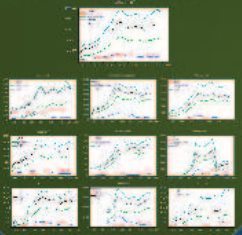
SOURCES OF INSTABILITY: SHORT-TO-MEDIUM TERM

Trade Exposure

Stock Market Exposure

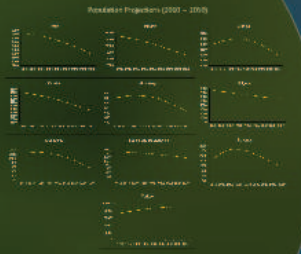


Credit Exposure



SOURCES OF INSTABILITY: LONG TERM

DEMOGRAPHICS



SETTING UP A FUTURE STRATEGY

Short term macroeconomic imbalances and financial vulnerabilities → Short-term macroeconomic stabilization policies

Long term instabilities → Structural solutions

- Increase competitiveness
- Diversify export products and markets
- Labor market reforms
- Ageing and migration policies
- Foster innovation/technological development
- Support private sector initiatives
- FDI attracting policies

EU Accession Perspective → Guidance

Thank You !