South-East Europe’s path to convergence

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A slow convergence to EU levels

Percentage of average EU-16 GDP per capita

- 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

Source – CEB calculations on World Bank
Trade integration with EU is a must...

Destination region of exports

- FYR Macedonia: 94%, 92%
- Albania: 96%, 91%
- Montenegro: 100%
- Bosnia & Herzegovina: 93%, 84%
- Serbia: 87%, 84%

Exports to CEFTA + EU-28

Gross EUR exports to EU-28

Source: CEB calculations using UNComTrade
... as well as regarding FDI

- Europe accounts for ¾ 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...

... and export dynamics

Source – CEB calculations using World Bank data

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 expanded \(^3\)

Anticipated effects in real GDP per capita

\(^1\) Kumar and Kandzija (2007)

\(^2\) ECB (2005)

\(^3\) Kommerskolegium (2015)

extracted from - Campos, Nauro F., et al. (2014)
EU integration is a multifaceted process

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<th>Key areas of policy action:</th>
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<td>Implementing structural reforms</td>
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<td>Modernising institutions</td>
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<td>Improving infrastructure</td>
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<td>Investing in (and retaining) human capital</td>
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Gap in human capital projected to widen

Percentage of population with a post-secondary degree

- 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

Source: UNESCO education database
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

Brain drain worse since 2006

Brain drain decreasing since 2006

source - using data from WEF competitiveness outlook
Health sector is key to a good quality of life

- 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: WHO

Source: the World Bank
Housing is a problem for the young

Housing development is declining...

... and cost growth outstrips wage growth

Source: National statistical offices

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
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