A New Normal?

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
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)

Unaudited results 2017
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

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 in Western Balkans: taking stock

- 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

Unaudited results 2017
Western Balkans: there is strong convergence potential…

- 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.

![GDP per capita chart]

Source: IMF World Economic Outlook, Authors’ calculations
...but convergence is happening only slowly

- 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).

Source: IMF (WEO, October 2017), EBRD (Regional Economic Prospects, November 2017).
...and the region lags behind in terms of “transition qualities”

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

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

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

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

**Global Competitiveness Index**

<table>
<thead>
<tr>
<th></th>
<th>ALB</th>
<th>BIH</th>
<th>MKD</th>
<th>MNE</th>
<th>SRB</th>
<th>WB-6 avg</th>
<th>EU-11 avg</th>
<th>EU avg</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>80</td>
<td>107</td>
<td>68</td>
<td>82</td>
<td>90</td>
<td>85</td>
<td>51</td>
<td>37</td>
</tr>
</tbody>
</table>

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

Source: EBRD/World Bank Life in Transition Survey (LiTS III).
Western Balkans: from crisis management to enlargement

- 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

- **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
EBRD website:
www.ebrd.com

Information about the countries of operations & Sectors of EBRD:

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

Sending your project financing request online:

Team dedicated for SMEs:

Trade Facilitation Programme: