The World Bank in the Western Balkans

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Outline

- Economic overview of the Western Balkans and recent developments in the New Member States
- Potential risks and key challenges for the future
- Joint World Bank – EU initiatives in the Western Balkans
- The World Bank assistance to the region
- The Bank’s involvement in the accession/post-accession process
Economic overview of the Western Balkans and recent developments in the New Member States
Macroeconomic trends in SEE

- Last five years have been relatively good for the Western Balkans economies:
  - Macroeconomic environment has been stable
  - Economic growth was high

- Near-term outlook remains favorable

- However, increased efforts and reforms are need to sustain the pace of growth and to achieve faster convergence to EU levels!
## GDP per inhabitant in PPP, EU-27 = 100

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>…</td>
<td>20</td>
<td>21</td>
</tr>
<tr>
<td>BiH</td>
<td>…</td>
<td>25</td>
<td>26</td>
</tr>
<tr>
<td>Croatia</td>
<td>49</td>
<td>50</td>
<td>52</td>
</tr>
<tr>
<td>Macedonia</td>
<td>27</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>Montenegro</td>
<td>…</td>
<td>30</td>
<td>33</td>
</tr>
<tr>
<td>Serbia</td>
<td>…</td>
<td>33</td>
<td>33</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>34</td>
<td>35</td>
<td>37</td>
</tr>
<tr>
<td>Romania</td>
<td>34</td>
<td>35</td>
<td>39</td>
</tr>
<tr>
<td>Turkey</td>
<td>29</td>
<td>29</td>
<td>31</td>
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</tbody>
</table>

Source: Eurostat
Recent GDP growth has been strong

Source: World Bank
Most economies have successfully contained inflation
Fiscal balances are prudent in most economies
Current account balances are worrisome
External debt to GPD ratios are low or moderate, except for Croatia.
Public debt is also moderate
Unemployment remains high

Unemployment rate, 2000-2007
Economic trends in the NMS

- The economic outlook for the NMS in 2008 and 2009 is generally positive, but imbalances have increased significantly in some countries.
- Several economies are passing through the turning point in the business cycle.
- Current account deficits stabilized in the Baltic countries but are still widening in Bulgaria and Romania.
- Inflationary trends are reasserting themselves across the region.
Potential risks and key challenges for the future
Slowdown of global growth will have a negative impact on the region.

Growth in the World Economy, 2001-2010
The global financial turbulence presents a downside risk for the region

- Financial turbulence has raised borrowing costs for developing markets
- It may cause foreign banks to tighten credit supply
- Imbalances may also lead to capital flow reversals
- Countries with large CADs and increasing private credit funded by foreign bank-led capital inflows are most vulnerable
- Problems in one country may spread to another through cross-border contagion
The region is to some extent resilient to such major shocks

- Rapid and deep financial integration
- It remains an attractive region for foreign investors
- EU membership perspective is a driving force for institutional reform
- A large part of capital inflows is FDI
- A strong banking sector is key to withstand turbulence!
Increasing commodity/food prices are a major risk to the region

- The region is increasingly exposed to commodity shocks
- Energy is becoming a scarce resource (with some electricity shortages in Albania, Kosovo and Montenegro)
- Rising oil prices; all countries are net importers
- Food prices have risen fast in the last year as elsewhere in Europe
Food prices are also rising in the NMS
The underlying reasons for the commodity/food prices increase

- US dollar depreciation
- Rising incomes in developing countries, especially China and India
- Increased use of food crops for biofuels
- Supply disruptions (energy) and record low world carryover stocks (grain).
- Policy responses of exporting countries, e.g. recent limits on exports by some key grain exporting countries
Possible impacts

- Growth slowdown/inflationary pressures would complicate macro management
- Highly agricultural economies, such as Serbia could benefit from higher agricultural prices but there will also be a negative impact on other sectors
- Possible policy responses to the inflationary pressures could introduce new distortions, such as price controls, subsidies, export tariffs/bans etc.
- Urban poverty could increase relative to rural poverty
How can the risks be minimized?

- Monetary policy generally needs tightening to contain inflationary pressures
- Financial systems need to be further developed to contribute to resilience and efficiency
- Broaden structural reforms to improve investment climate, flexibility of markets, and reap benefits from international economic integration
- Reform fiscal policy (improve spending efficiency, increase transparency, safeguard long-term fiscal sustainability)
How can the Bank help to mitigate these risks?

- It is ready to provide budget support if needed
- Jointly with the IMF, we monitor macro risks, prepare forecasts/scenarios
- Financial sector assessments are done periodically to monitor the developments in the sector
- Provides advice on improving social safety nets, energy adjustment issues
- Examine impact on agricultural sector
- Adjust poverty work to focus on impact of such shocks.
Joint World Bank – EU initiatives in the Western Balkans
Excellent collaboration between the EU and the World Bank in the region

- WB and EC give same policy advice on number of issues – stronger push for reform
- WB projects support accession-driven reforms (acquis compliance, but also sustainable economic development – Lisbon Agenda)

Past joint activities
- Joint work on railway sector
- WB supported the establishment of the SEE Energy Treaty

Areas of future cooperation
- Disaster risk management
- Tourism and cultural heritage
Joint Office for SEE in Brussels

- Set up by the EC and the WB in 1999 to help lead coordination of international assistance to the Balkans
- Facilitates Donor mobilization and coordination
- Supports EC/WB cooperation in pre-accession countries and on regional initiatives
The World Bank assistance to the region
## Donor support to the Western Balkans

<table>
<thead>
<tr>
<th>in EUR million</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bilateral donors</td>
<td>1,549</td>
<td>1,609</td>
<td>1,187</td>
<td>926</td>
<td>677</td>
<td>322</td>
</tr>
<tr>
<td>EC</td>
<td>927</td>
<td>756</td>
<td>635</td>
<td>680</td>
<td>663</td>
<td>679</td>
</tr>
<tr>
<td>IFIs</td>
<td>1,312</td>
<td>1,612</td>
<td>1,224</td>
<td>1,605</td>
<td>1,874</td>
<td>1,972</td>
</tr>
<tr>
<td>of which WB</td>
<td>262</td>
<td>605</td>
<td>353</td>
<td>545</td>
<td>359</td>
<td>406</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,788</td>
<td>3,977</td>
<td>3,046</td>
<td>3,211</td>
<td>3,214</td>
<td>2,973</td>
</tr>
</tbody>
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Western Balkans’ current portfolio

- Transport: 14%
- Energy: 19%
- Other infrastructure: 11%
- Private Sector Development: 9%
- Agriculture: 25%
- Education: 3%
- Health: 6%
- Public Sector Governance and Economic policy: 5%
- Social protection and development: 8%
The Bank’s involvement in the accession/post-accession process
The World Bank has continued to provide support after EU accession

- WB has provided over USD 11 billion to CEE during the transition process
- Currently, Poland, Bulgaria, Romania and Croatia have active (and significant) portfolios
- Slovenia and Czech Republic graduated in 2004
- Estonia and Lithuania graduated in September 2006
- Hungary and Latvia graduated in April 2007
- However, non-borrowing NMS continue to show interest in the Bank’s knowledge services
# Bank's current portfolio in the NMS

<table>
<thead>
<tr>
<th>Lending (fiscal year)</th>
<th>2007</th>
<th>2008</th>
</tr>
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<tbody>
<tr>
<td>Amount, in USD million</td>
<td>1,216</td>
<td>566</td>
</tr>
<tr>
<td>Number of projects</td>
<td>12</td>
<td>7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-lending Activities</th>
<th></th>
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<tbody>
<tr>
<td>Technical Assistance activities</td>
<td>6</td>
<td>14</td>
</tr>
<tr>
<td>Economic reports/studies</td>
<td>11</td>
<td>15</td>
</tr>
</tbody>
</table>
Joint EC-World Bank Network on Regional Development

- Unique Network of think tanks and experts in regional development

**Objectives:**
- Identify and examine global trends that will affect the development prospects in European regions (EU 27 and pre-accession countries)
- Reflect on the instruments for public intervention at a regional level to meet these challenges
Thank you!