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South-East Europe – A Region on the Move

Sustainable economic growth in the Western Balkans: the main constraints

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A comparative perspective, 2005

	GDP per head \$	Exports %ofGDP	RealGDP 1989=100	Inflation	FDI/GDP%	Curr acc/GDP%
Western Balkans	4,120	22.9	75.4	5.0	5.7	-9.4
Albania	2,620	8.0	136.1	2.4	3.8	-7.0
B & H	2,560	25.8	76.9	4.5	4.4	-20.8
Croatia	8,620	22.9	97.9	3.5	5.4	-6.5
Macedonia	2,760	36.2	87.9	0.0	4.3	-1.4
Montenegro	3,290	25.3	67.1	3.4	11.6	-12.2
Serbia	3,250	19.2	51.4	16.1	4.5	-8.6
Eastern Balkans	4,230	36.3	102.7	7.0	7.1	-10.0
Bulgaria	3,450	44.0	97.2	5.0	9.0	-11.3
Romania	4,490	28.6	104.9	9.0	5.2	-8.6
Central Europe	9,390	54.4	136.1	2.6	5.0	-4.1
Czech Republic	12,150	63.0	121.4	1.9	7.2	-2.0
Hungary	10,920	56.6	128.8	3.6	5.1	-7.4
Poland	7,950	31.8	148.7	2.1	3.1	-1.7
Slovakia	8,720	67.5	123.2	2.7	6.6	-8.6
Slovenia	16,950	53.3	135.3	2.5	3.0	-1.1

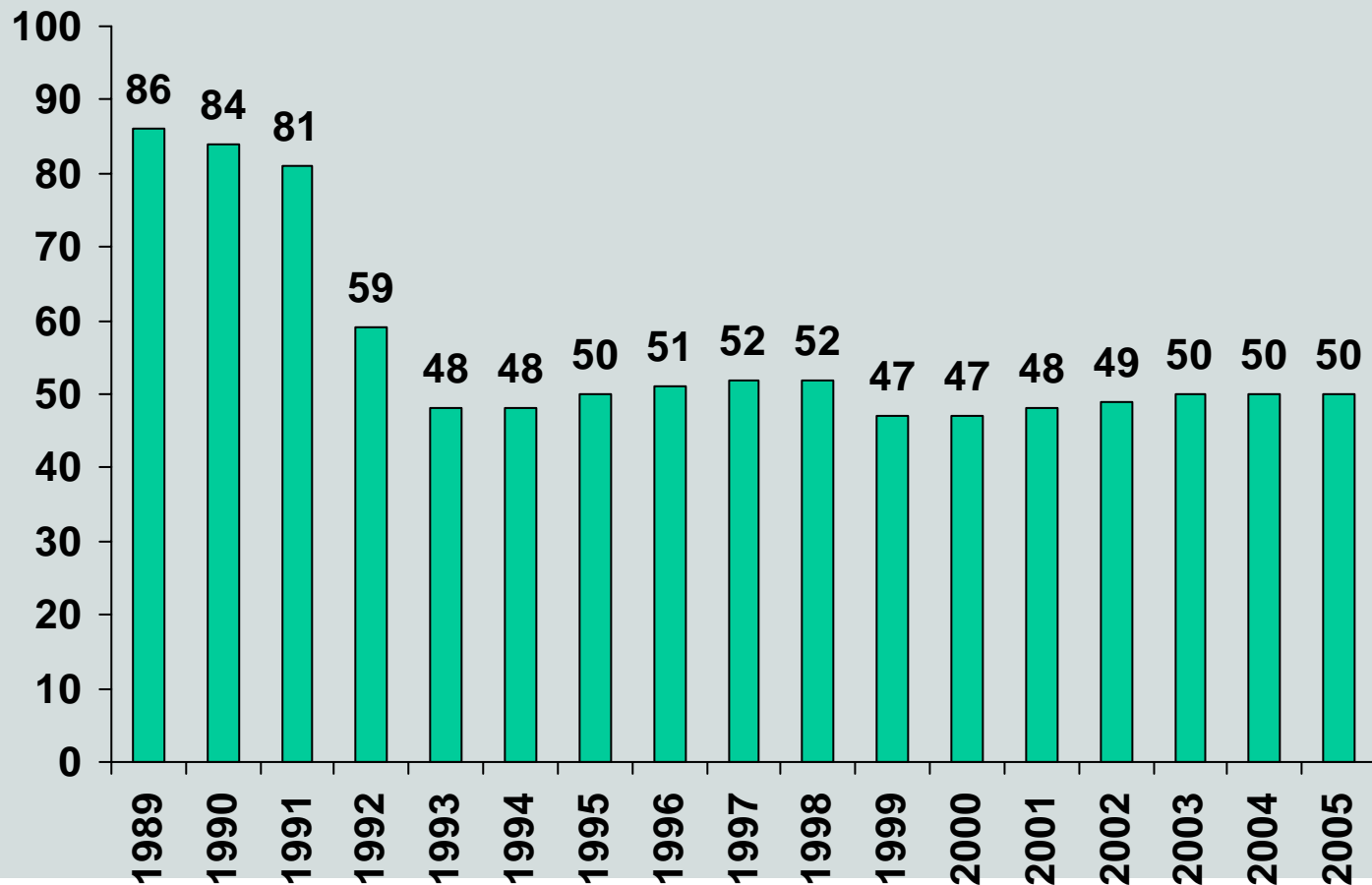
Source: EIU. Serbia without Kosovo. GDP is at market exchange rates. Exports refer to exports of goods only. Regional GDP aggregates are weighted averages; other regional totals are unweighted averages. FDI/GDP ratios are 2001-05 averages.

Recent growth performance

Real GDP growth (%)	2001	2002	2003	2004	2005	2001-05 average
Central Europe	2.1	2.2	3.7	5.0	4.3	3.5
Western Balkans	3.8	4.5	4.1	5.9	5.2	4.7
Albania	7.2	3.4	6.0	5.9	5.5	5.6
Bosnia and Herc.	4.3	5.3	4.4	6.2	5.0	5.0
Croatia	4.4	5.6	5.3	3.8	4.3	4.7
Macedonia	-4.5	0.9	2.8	4.1	4.0	1.4
Montenegro	-0.2	1.7	2.4	3.7	4.1	2.3
Serbia	5.1	4.5	2.4	9.3	6.8	5.6
Eastern Balkans	5.3	5.0	5.0	7.7	4.5	5.5
Bulgaria	4.1	4.9	4.5	5.7	5.5	4.9
Romania	5.7	5.1	5.2	8.4	4.1	5.7
Transition region	5.0	4.4	6.3	7.2	5.8	5.7

Resumption of slow catch-up

Ratio of Western Balkan to Central European GDP per head at PPP



The main constraints

- Economic openness and under-trading
- Price competitiveness issues
- The regulatory framework
- Infrastructure upgrading
- *Institution-building?*

Concentrating on the achievable

Price competitiveness

Gross monthly wages, US\$

	Predicted	Actual	Act/pr		Predicted	Actual	Act/pr
Czech	685	701	1.02	Bulgaria	268	190	0.71
Hungary	725	719	0.99	Romania	242	253	1.04
Poland	619	627	1.01	Albania	206	236	1.14
Slovakia	661	491	0.74	B & H	372	475	1.28
Slovenia	1,398	1,478	1.06	Croatia	666	922	1.49
Estonia	636	573	0.90	Macedonia	345	421	1.22
Latvia	450	390	0.87	Serbia	257	350	1.36
Lithuania	570	472	0.83				

“Equilibrium wages” estimated or predicted on the basis of a relationship between wages and productivity (output per employed, at PPP) and several other variables, across 70 economies.

Regulation – World Bank Doing Business

Regulatory framework and income (rank out of 174 countries)	GDP per head (at PPP, 2005)	World Bank ease of doing business 2006
Czech Republic	38	52
Hungary	41	66
Poland	51	75
Slovakia	45	36
Slovenia	31	61
Bulgaria	66	54
Romania	67	49
Albania	102	120
Bosnia & Herc	99	95
Croatia	54	124
Macedonia	78	92
Montenegro	90	70
Serbia	92	68

Business environments

(Ranks out of 117)

	Infrastructure	Public institutions	Corruption	Education	Maths science
Czech Rep	31	53	52	19	6
Hungary	48	48	40	43	13
Poland	68	70	66	35	24
Slovakia	49	67	53	40	17
Slovenia	35	50	30	38	41
Bulgaria	83	93	55	42	20
Romania	84	86	85	41	8
Albania	116	99	101	90	56
B & H	111	98	77	59	53
Croatia	57	80	62	71	37
Macedonia	81	97	80	46	50
S & M	115	94	61	66	28

World Economic Forum, Global Competitiveness Report 2005-06

Business surveys; public institutions is average of judicial independence, legal efficiency, property rights protection, government favouritism
Corruption average of 8 different categories

Western Balkan growth prospects

Fixed or slowly changing factors:

Scope for catch-up (+)

Geography (mixed)

Demographics (-)

Institutions (-)

Policy-sensitive:

Regulation (- at present)

Openness (- at present)

Macro policies (mixed)

Infrastructure (- at present)