



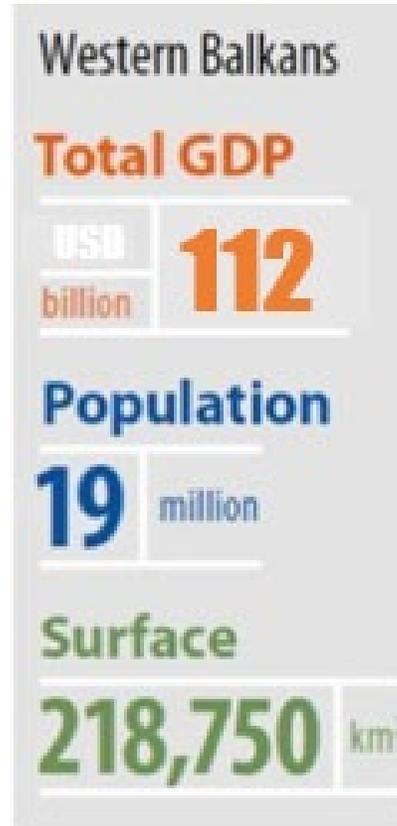
# Western Balkans on the Road to the EU

**Sanja Madzarevic Sujster**

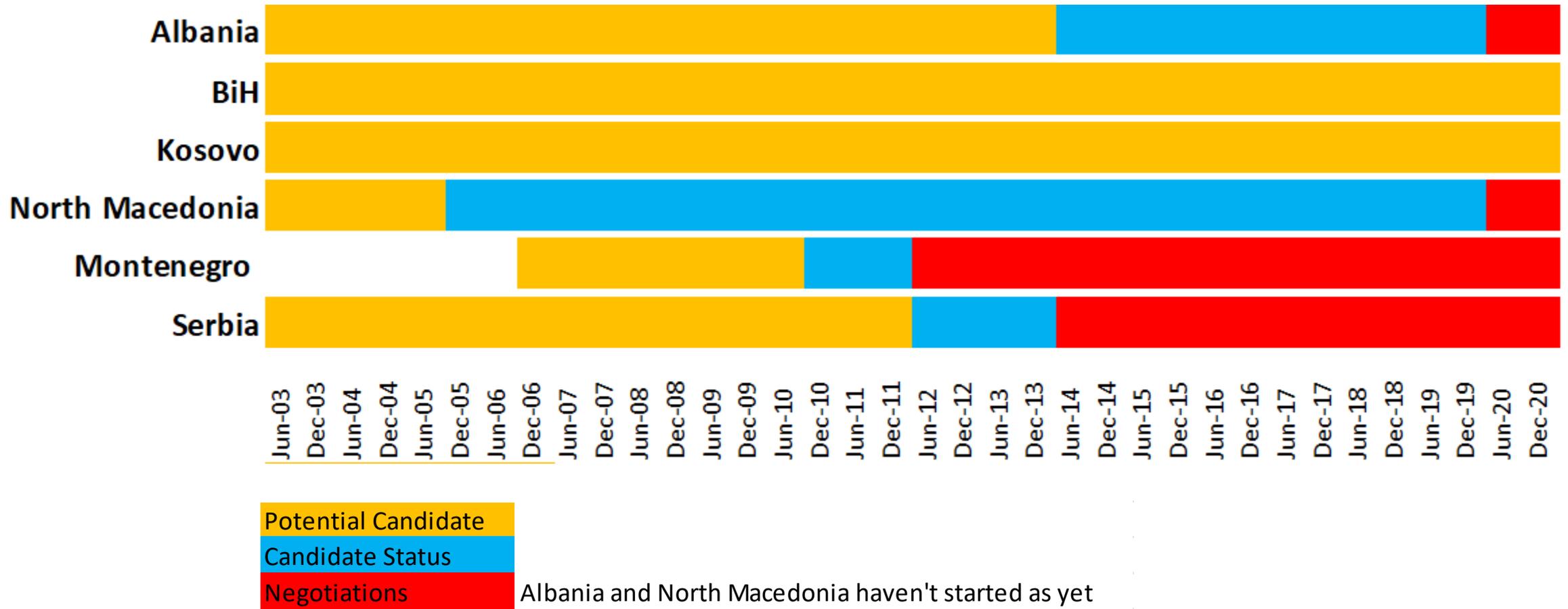
8<sup>th</sup> Economic Development Days – May 2022  
Vienna University of Economics and Business (WU Wien)

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# Western Balkans in Numbers

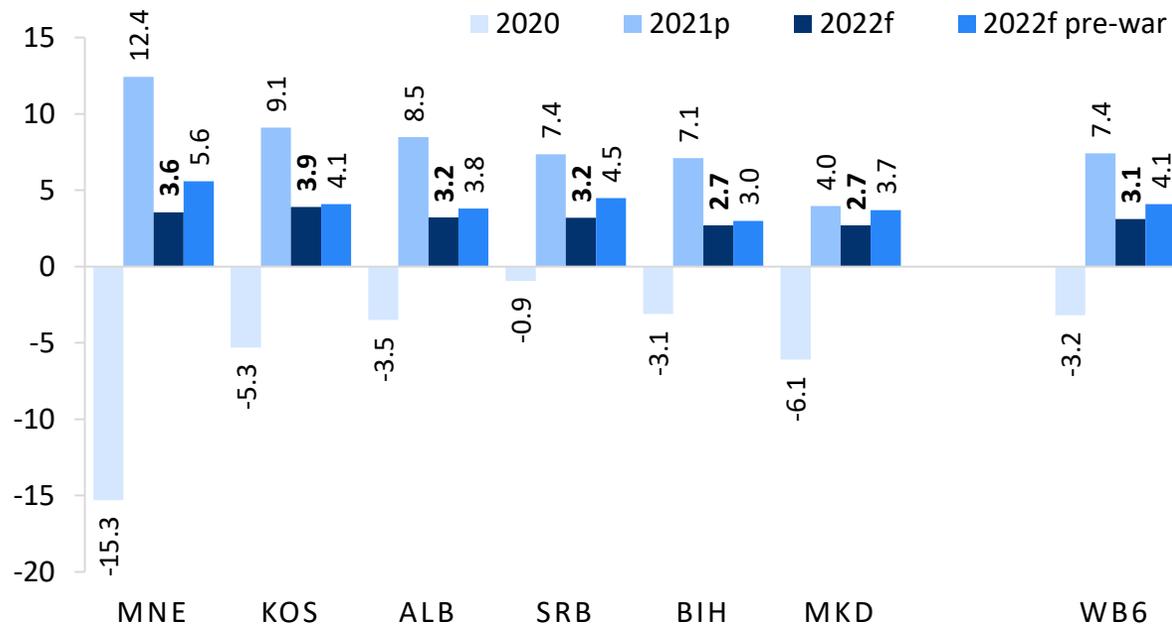


# Western Balkans - the EU Accession Process

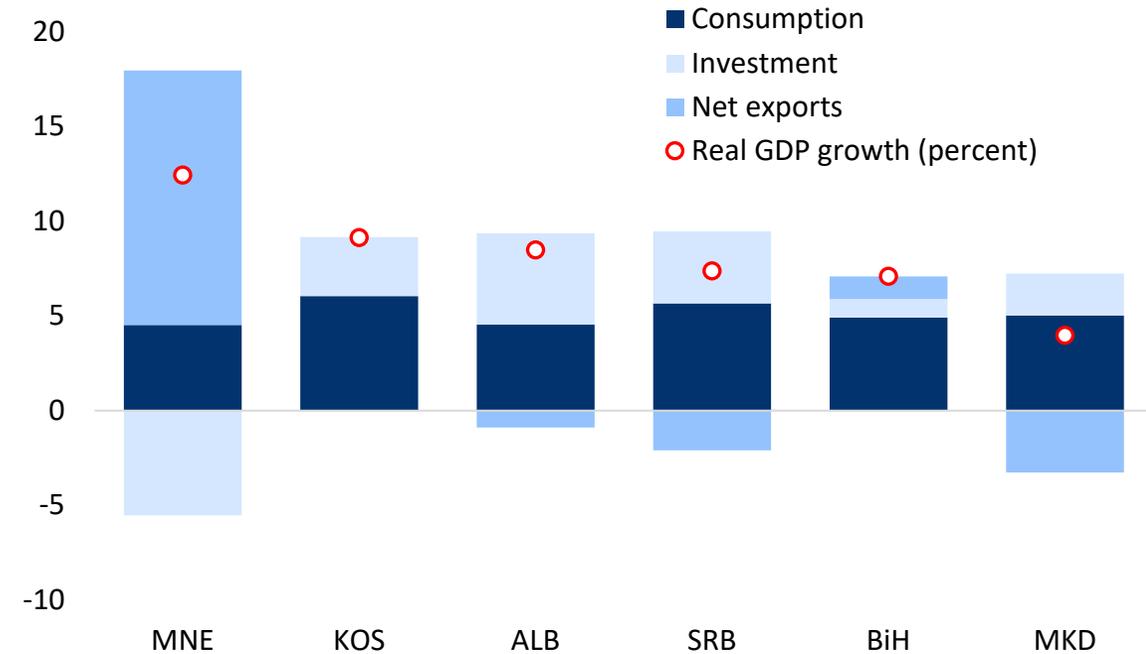


# Western Balkans experienced a strong recovery in 2021 but prospects deteriorated due to the war and high inflation

Real GDP growth, percent

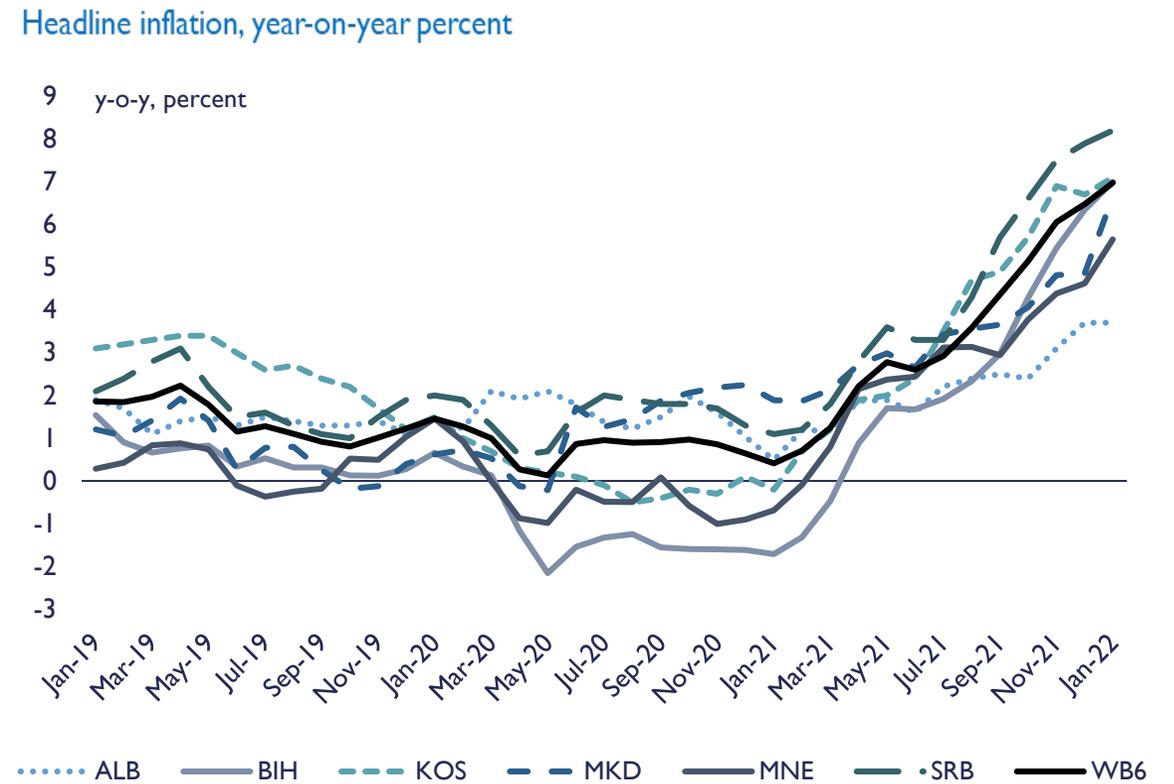
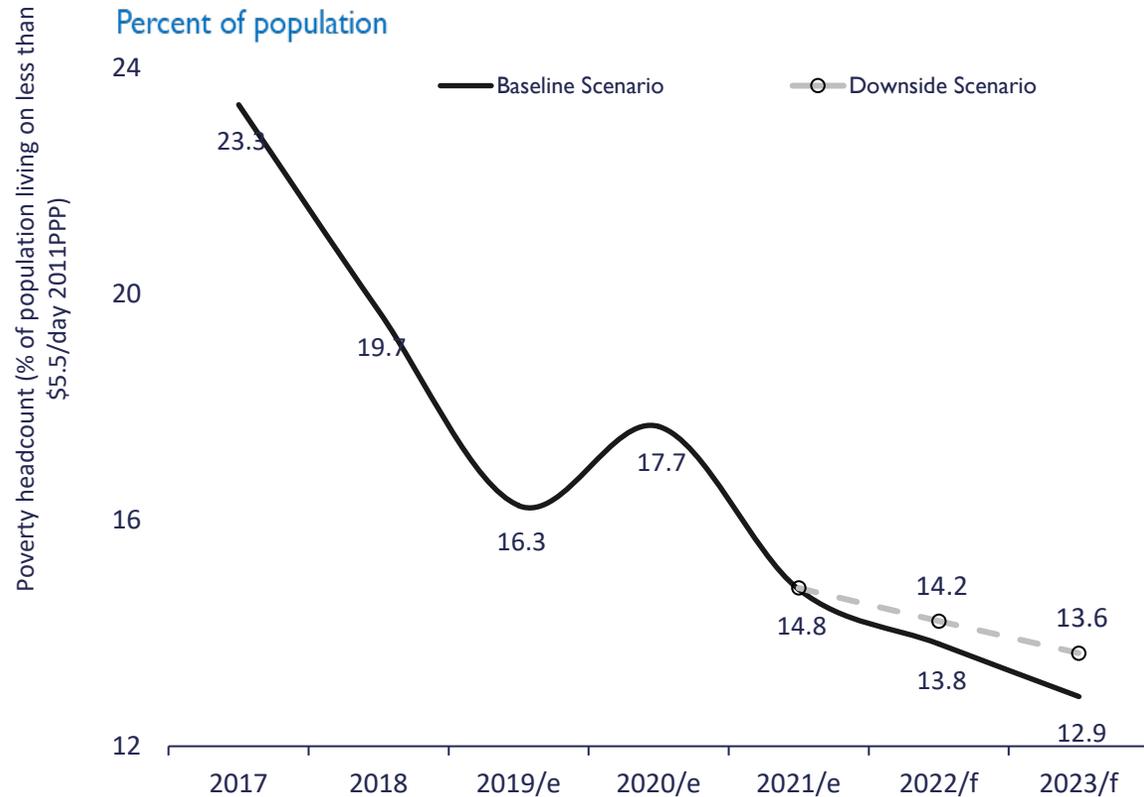


Contribution to growth, percent



Source: World Bank staff calculations based on data from national statistical office

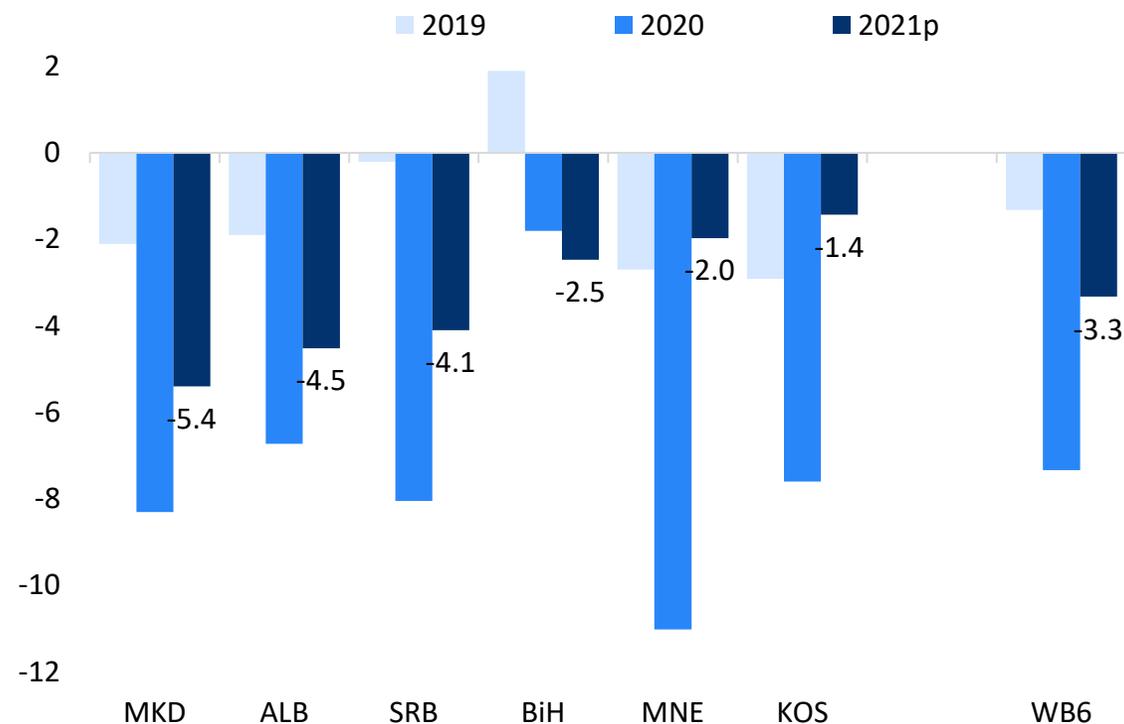
# Poverty was estimated to decline in 2022, but inflation now threatens this trajectory



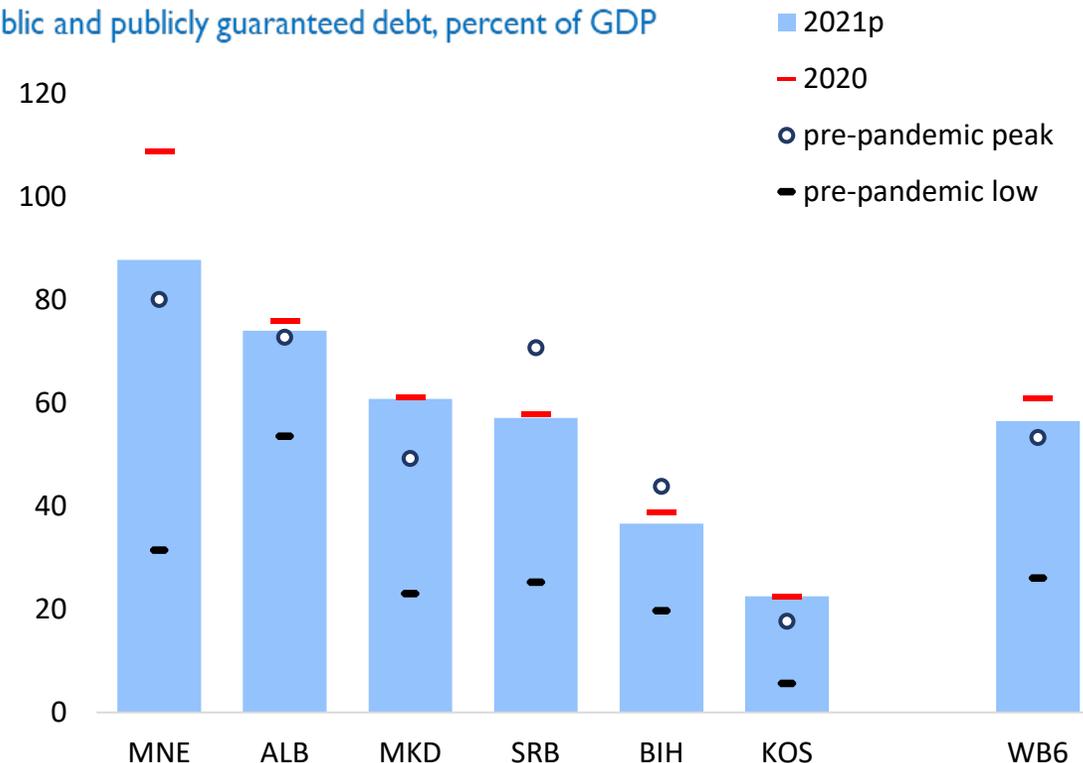
Source: World Bank staff calculations based on data from national statistical office

# Fiscal deficits have narrowed, but the elevated public debt reduced fiscal space for new crisis support

Fiscal deficit, percent of GDP



Public and publicly guaranteed debt, percent of GDP



Source: World Bank staff calculations based on data from national statistical office

# War in Ukraine causes an uncertain outlook with risks tilted to the downside

Real output growth was set to slow after better-than-expected post-pandemic recovery, with inflation already rising...

...and war in Ukraine and Russian sanctions will exacerbate such trends

Risks heavily tilted to the context of high uncertainty

Potential growth further slowed down

# Growth outlook remains positive, but risks are heavily tilted to the downside, and the potential growth slowdown is likely

## Real GDP growth, percent

	2021p	2022f	2023f	2024f
ALB	8.5	3.2	3.5	3.5
BIH	7.1	2.7	3.1	3.5
KOS	9.1	3.9	4.3	4.2
MKD	4.0	2.7	3.1	3.2
MNE	12.4	3.6	4.7	3.7
SRB	7.4	3.2	2.7	2.8
<b>WB6</b>	<b>7.4</b>	<b>3.1</b>	<b>3.1</b>	<b>3.2</b>

Output per worker (thousands of US\$ PPP, 2014)



Source: Authors' calculations.

Note: a The analysis builds on the dataset developed by Lusinyan (2018). Data sources: real GDP in billions, constant 2011 international dollars, from the IMF WEO; total capital stock and employment are from PW Table and the WEO. The sample consists of 47 countries in the Europe and Central Asia region for the period 1980–2016, with data availability varying depending on the variable and/or the country. International statistics adopted for the calculation do not cover Kosovo.

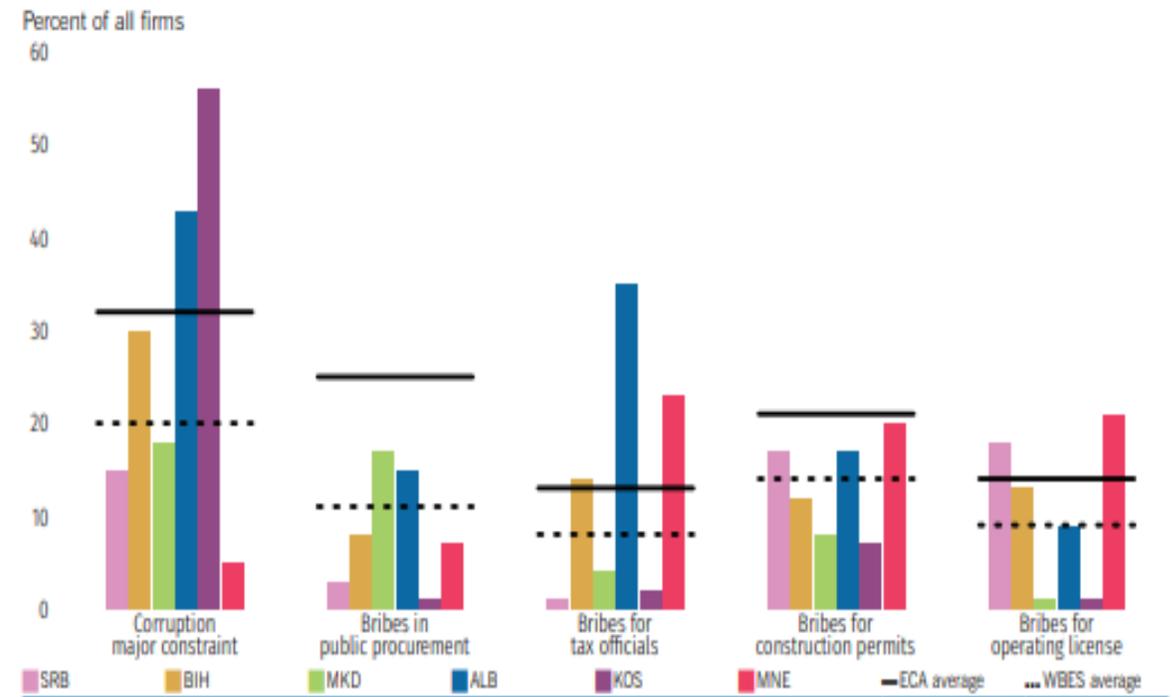
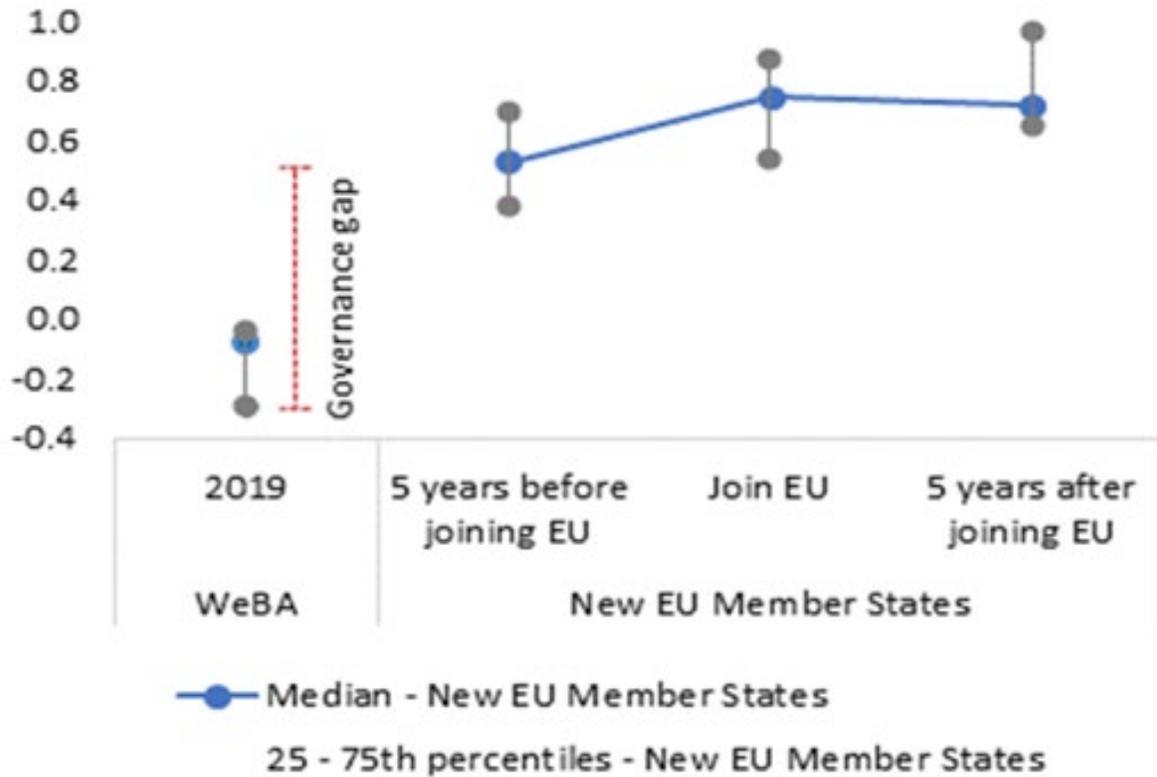
# Policy priorities for a resilient recovery

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**In a heavily uncertain environment, policy needs to boost resilience and potential growth:**

- **Prudent fiscal policies due to limited space and high public debt** : (i) weigh costs and benefits of new temporary spending and taxation measures in response to inflation surge; (ii) keep them targeted to vulnerable households and firms; (iii) strengthen collection and improve tax compliance.
  - **Support private sector growth through structural reforms** by (i) reducing regulatory costs; (ii) strengthening competition policy; (iii) easing firm restructuring/exit; and (iv) strengthening the rule of law and governance.
  - **Rebuild human capital** by (i) education system reforms; (ii) supporting labor market participation through employment support and re-skilling workers.
  - **Accelerate energy security and transition** by (i) fostering regional integration of energy markets; (ii) energy efficiency and renewable energy investments; (iii) operational efficiency of energy companies; and (iv) energy poverty programs.
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# Large governance gap and corruption inhibit business sector growth

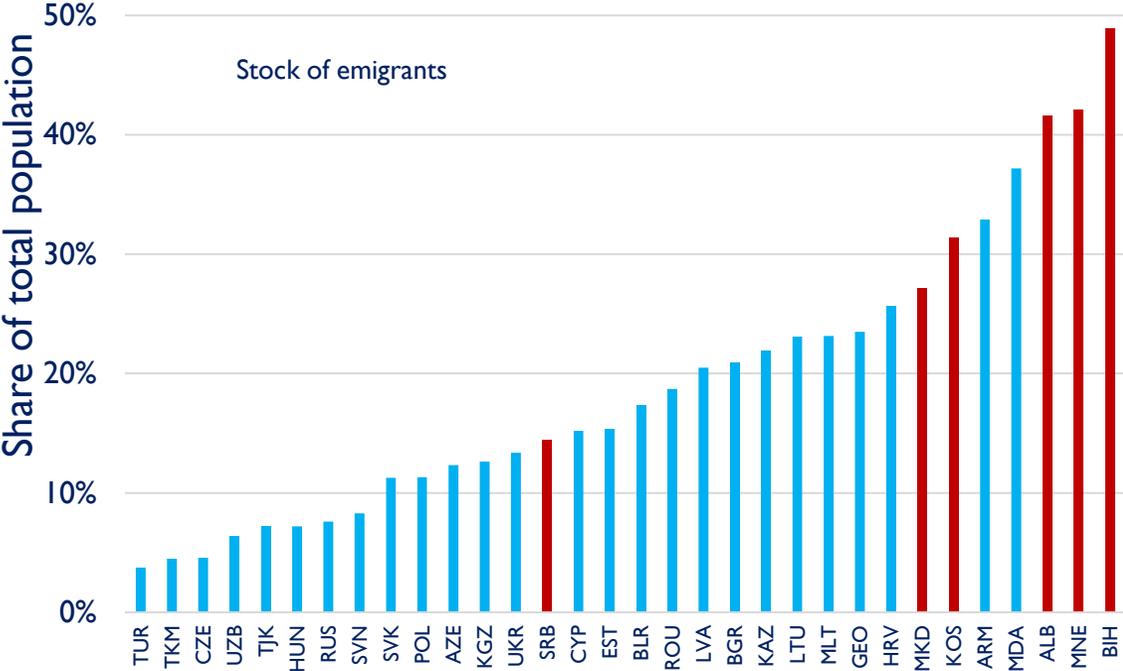


Source: 2019 World Bank Enterprise Survey findings; World Bank staff calculations.

Source: Governance indicators, Enterprise Survey, World Bank staff calculations

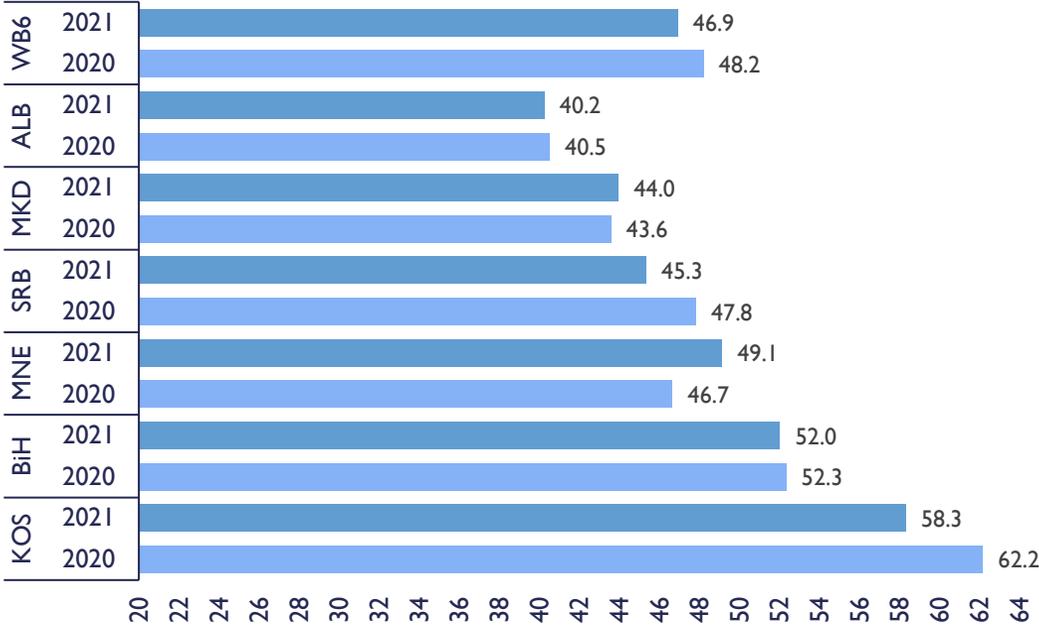
# Low labor force participation and massive outmigration

## Among the highest population of emigrants in ECA



## Low activity rates, in particular for women and youth

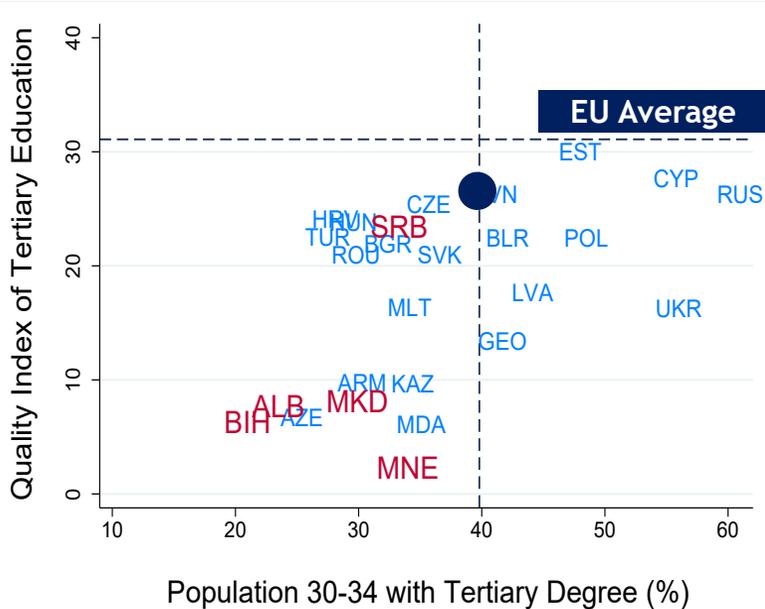
Inactivity rate, 15+ years, percent, 2020–21



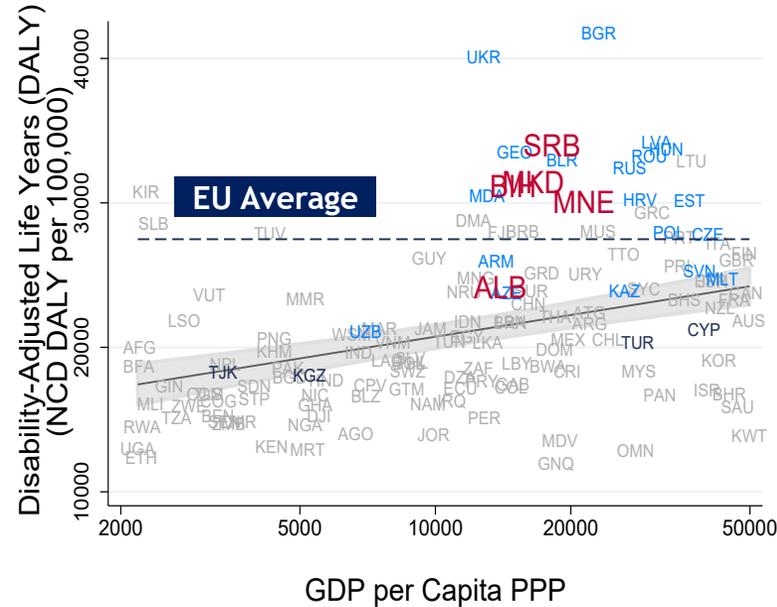
Source: UN data, World Bank staff calculations

# Large human capital deficits

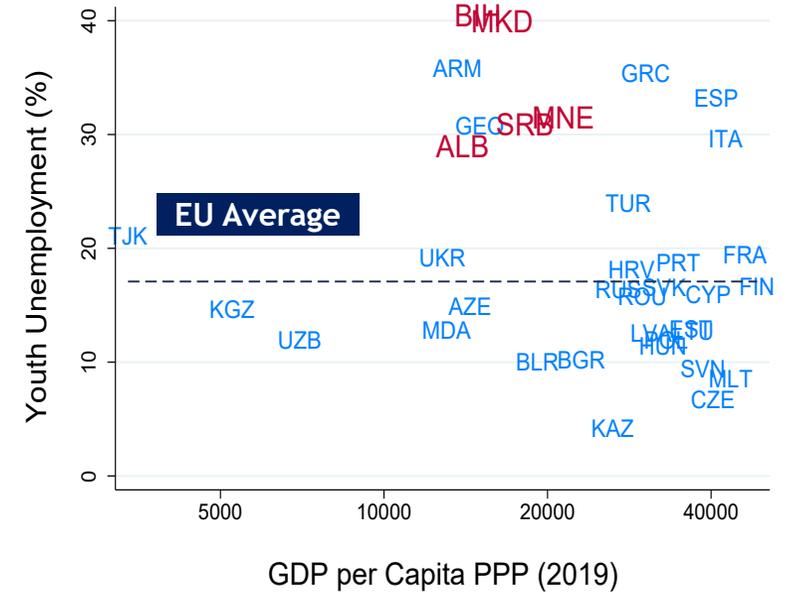
Low quality education and low ECE / tertiary enrollment



Rapid aging, poor health outcomes and inefficient and large OOP health expenditures



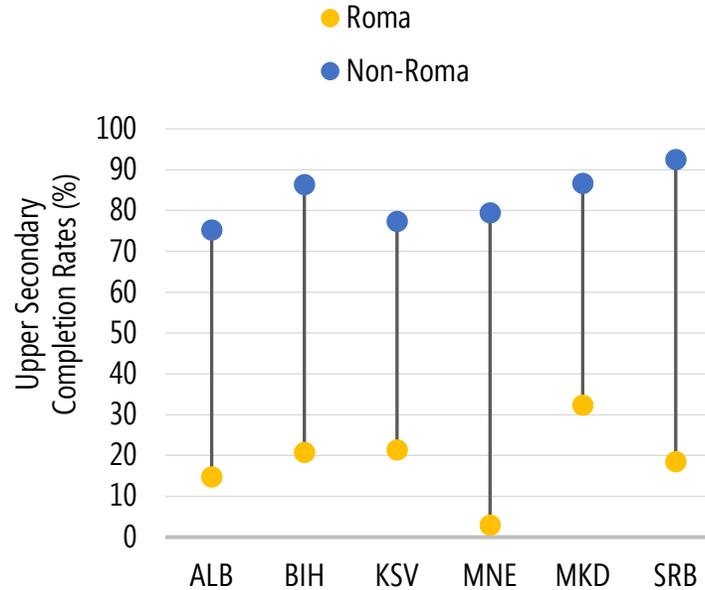
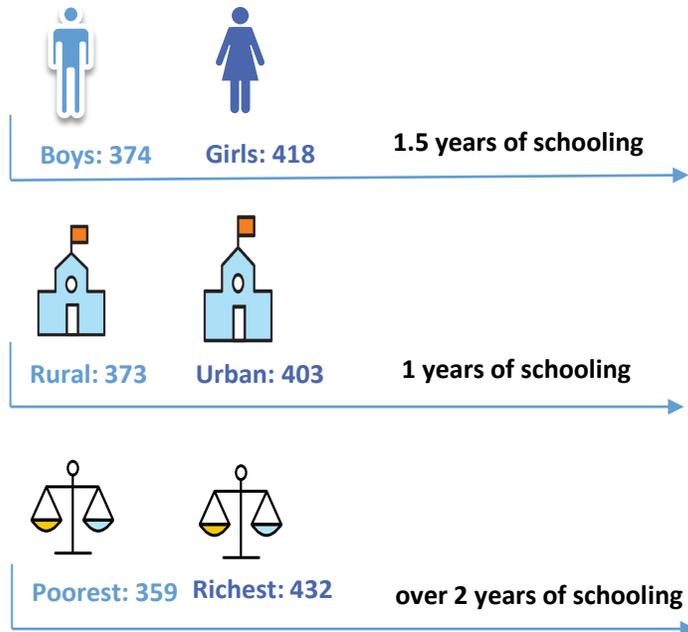
Massive unemployment, migration and brain drain



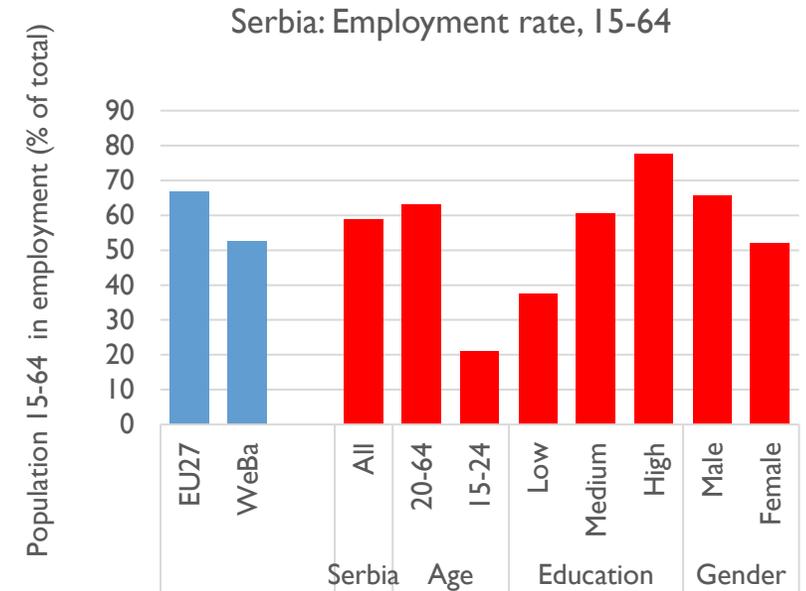
Source: Human capital index, World Bank staff calculations based on data from national statistical office

# Persistent inclusion challenges

## Disparities in attainments and learning outcomes persist along gender, location, and income groups

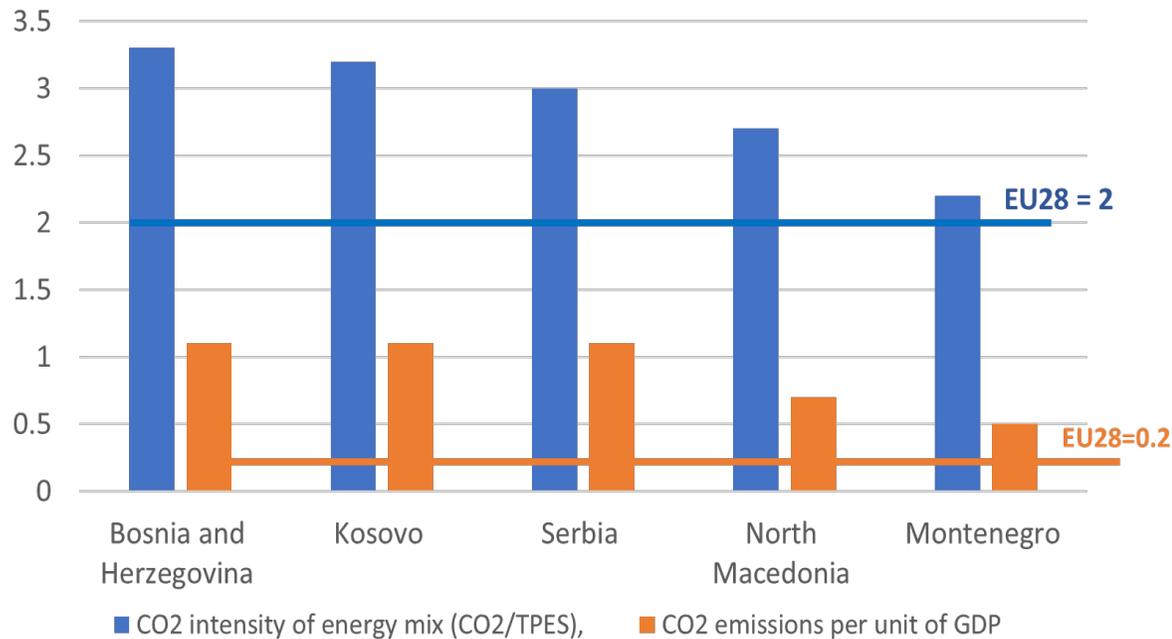


## Access to employment remains tenuous for some groups



# Vulnerability to shocks from the climate, environment, and natural disasters

**CO2 intensity is up to 3x higher than in EU28**



**Highly susceptible to natural disaster and climate shock—the frequency of extreme events increasing**

Country	FLOODS 100 year event (% of GDP)	EARTHQUAKES 250 year event (% of GDP)
North Macedonia	18.4	50
BiH	13.7	
Serbia	12.1	
Albania		83
Montenegro		64

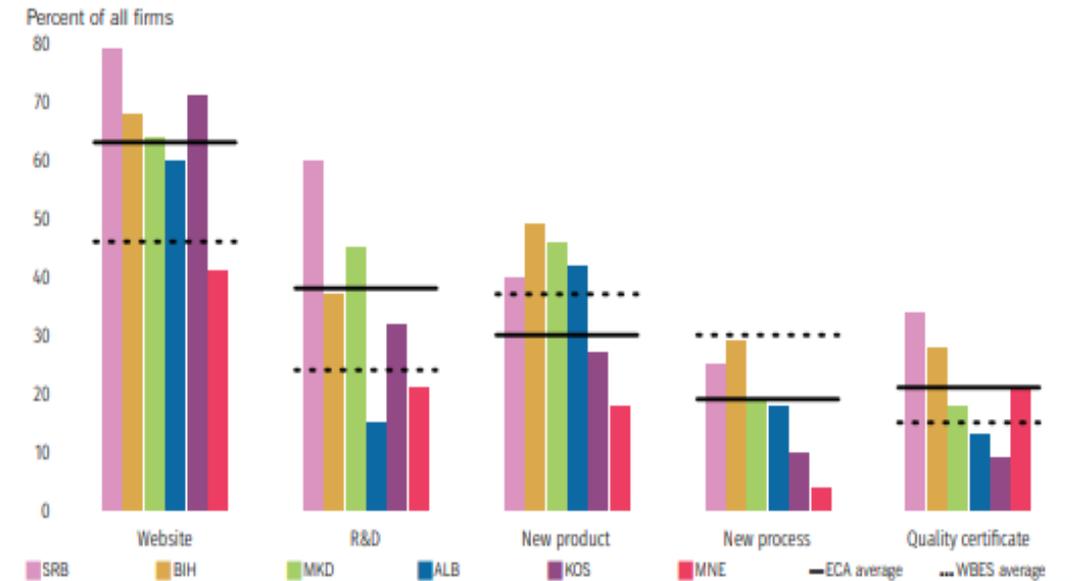
# Need to improve connectivity

## Ensuring inclusive growth and access to services, particularly in lagging regions



SOURCE: WHO/UNICEF JMP DATABASE 2017.

## Still low level of digitalization, automation, and e-commerce use



Source: 2019 World Bank Enterprise Survey findings; World Bank staff calculations.



Thank you  
[worldbank.org/eca/wbrer](https://worldbank.org/eca/wbrer)

8<sup>th</sup> Economic Development Days – May 2022

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