

wiiw Spring Seminar, 7 April 2016

Infrastructure Investment and the Competitiveness of the Economies in the Western Balkans

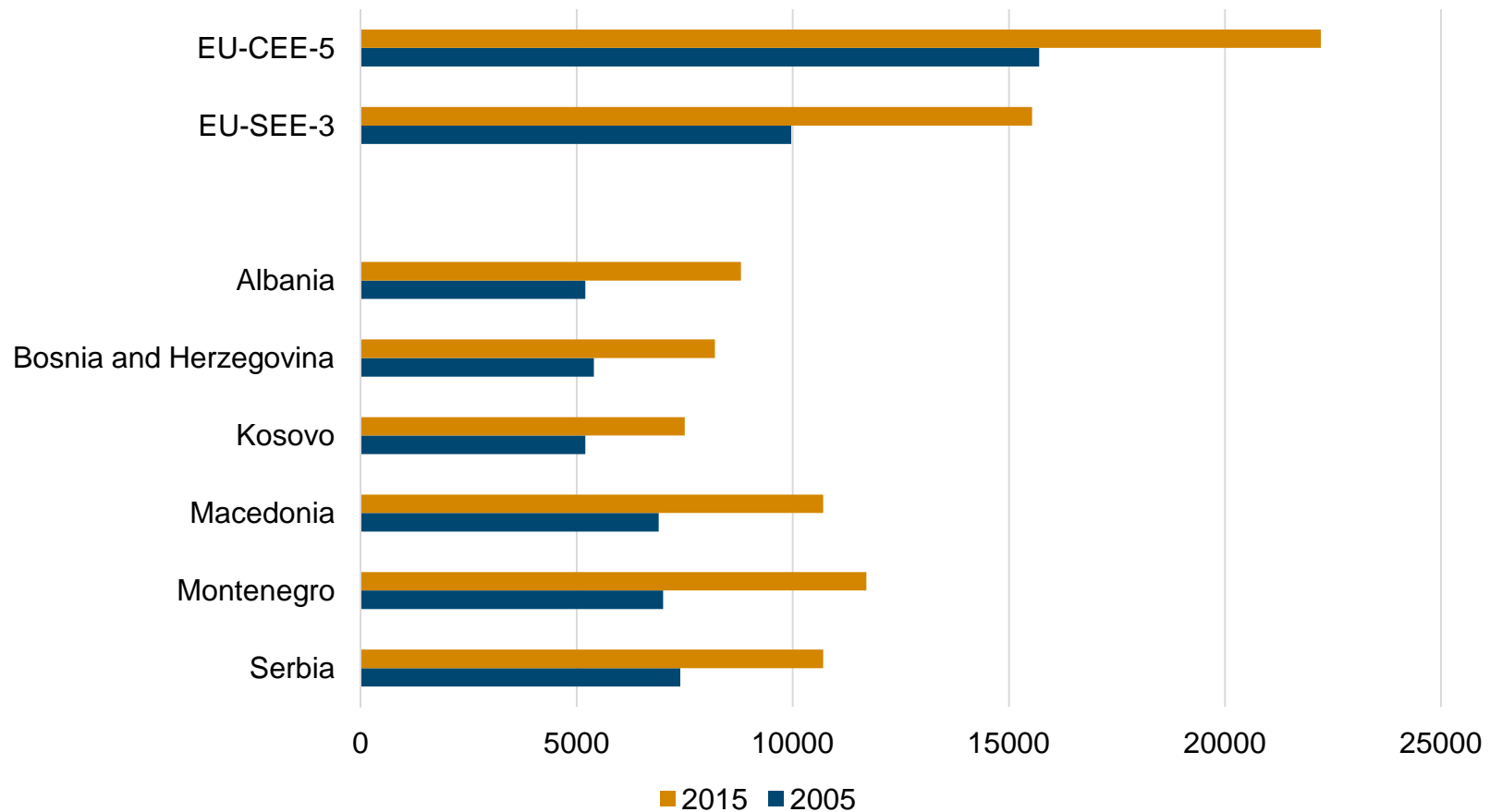
Mario Holzner

The setting

- Juncker's 'no further enlargement' at least until 2020
- Merkel's 'Berlin Process' to prepare WB for future EU membership
- 2014 Conference in Berlin; 2015 Summit in Vienna; 2016 Paris
- Agreement on regional transport and energy priority projects
- 2015-2020 modest IPA II funds for co-financing (EUR 1 bn; EU member Romania has similar population size as WB but earmarked 6 times more EU co-funding for transport and energy infrastructure 2014-2020)
- Recent wiiw studies:
 - 'Improving Competitiveness in the Western Balkans' (Federal Ministry of Finance, Germany)
 - 'Infrastructure Investment in the Western Balkans' (Federal Ministry of Science, Research and Economy, Austria)

Low or very low level of development in WB

Gross domestic product per capita, in EUR (at PPP)

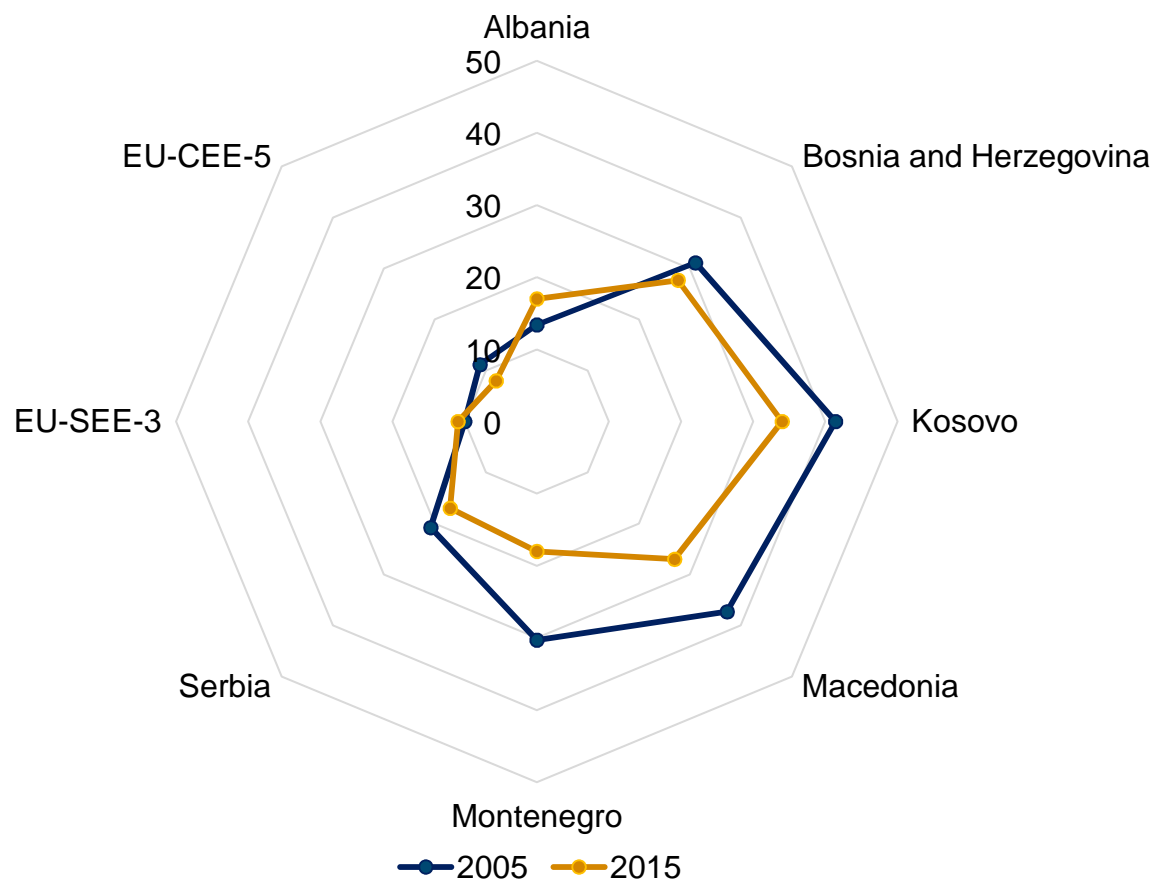


Note: PPP – Purchasing Power Parity; EU-CEE-5 includes the Czech Republic, Hungary, Poland, Slovakia and Slovenia; EU-SEE-3 includes Bulgaria, Croatia and Romania.

Source: wiiw Annual Database.

Structural mass unemployment

Unemployment rate LFS, total in %, annual average

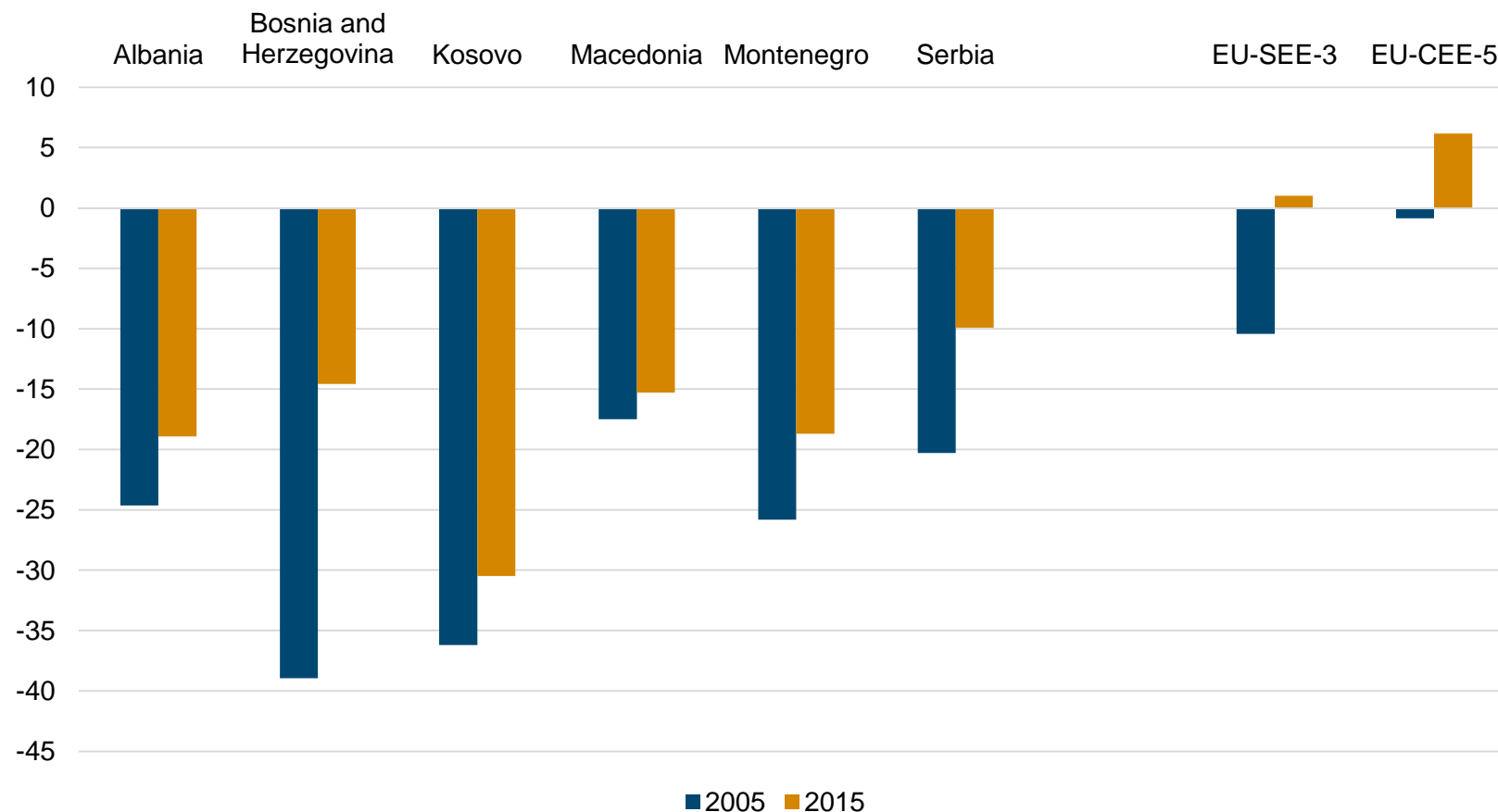


Note: LFS – Labour Force Survey. For Albania and Bosnia and Herzegovina: no data available for 2005; instead data for 2007 and 2006 were used.

Source: wiiw Annual Database.

Huge trade deficit indicates lack of competitiveness

Balance on goods and services, in % of GDP, BOP 6th edition

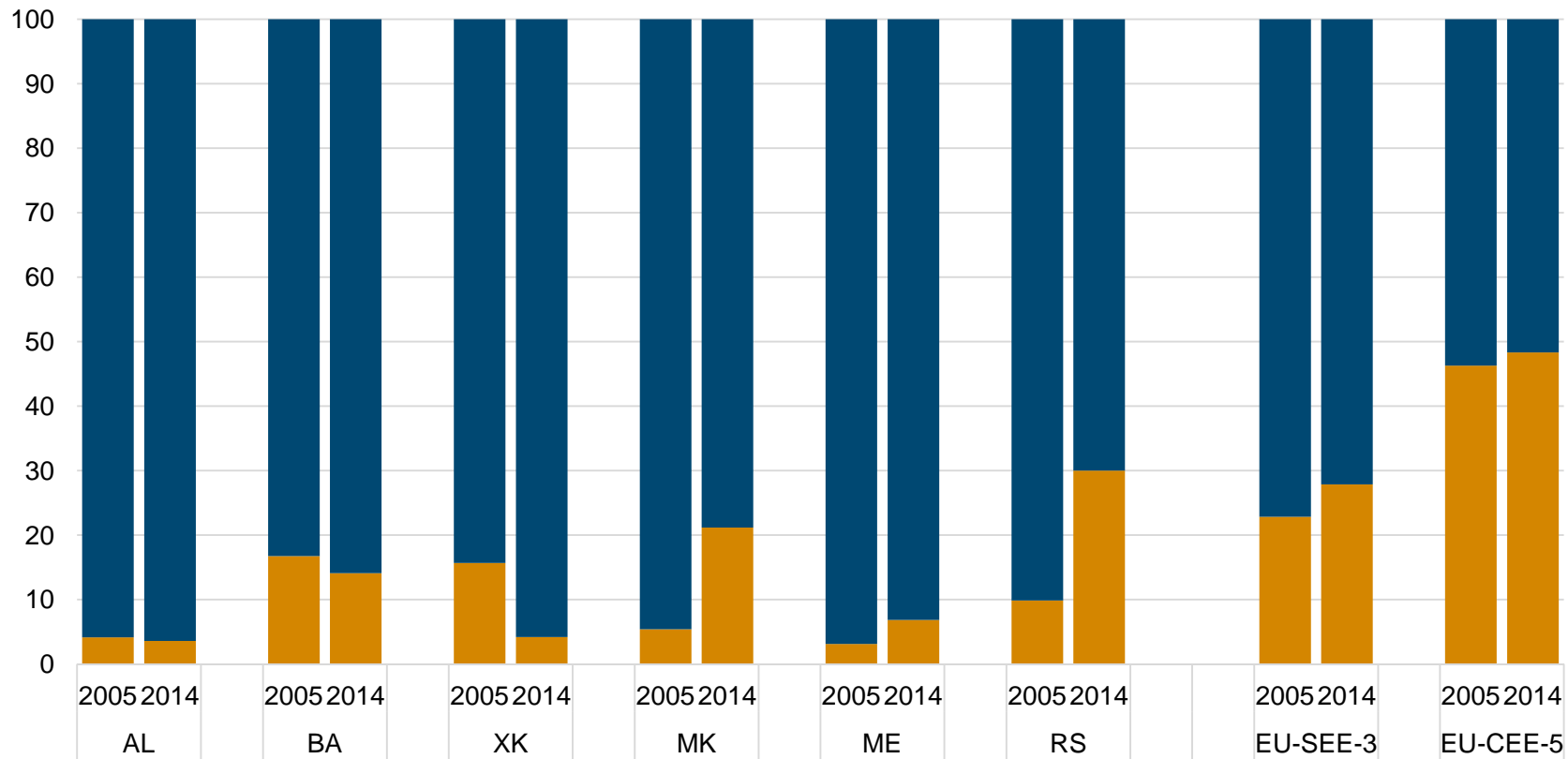


Note: GDP – Gross Domestic Product; BOP – Balance of Payments. Year 2015 data not available for Albania and Croatia – instead 2014 data were employed. Year 2005 data from the BOP 6th edition not available for Albania, Bosnia and Herzegovina, Bulgaria, Montenegro, Serbia and Slovakia – instead BOP 5th edition data were used.

Source: wiiw Annual Database.

WB not part of the Central European mechanical engineering / automotive cluster

Exports of SITC group 7, in % of total goods exports

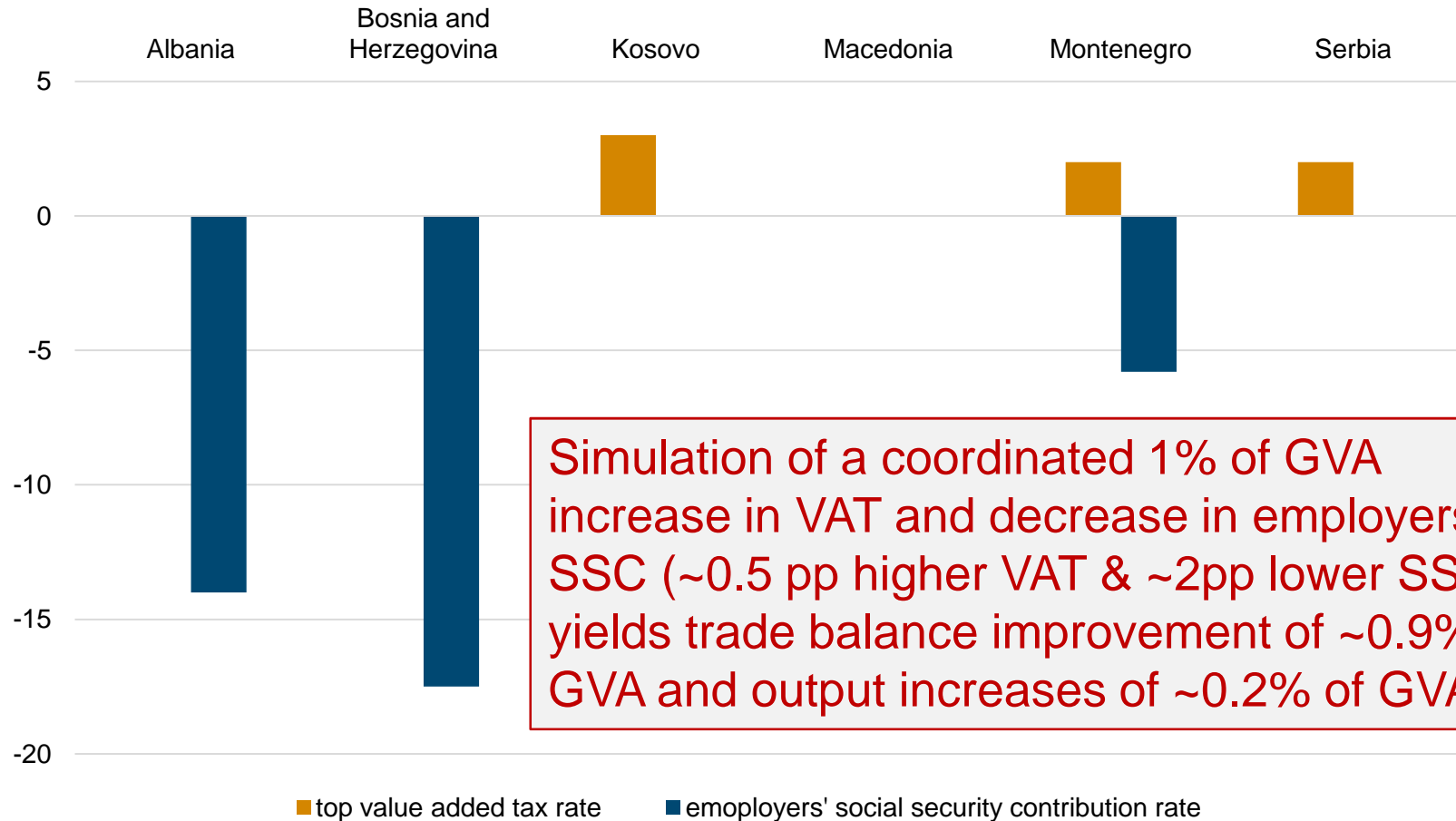


Note: SITC – Standard International Trade Classification; SITC group 7 – Machinery and transport equipment.

Source: wiiw Annual Database.

Short-run price competitiveness support: fiscal devaluation

Change in statutory VAT and social security rates, 2005-2016, in pp.



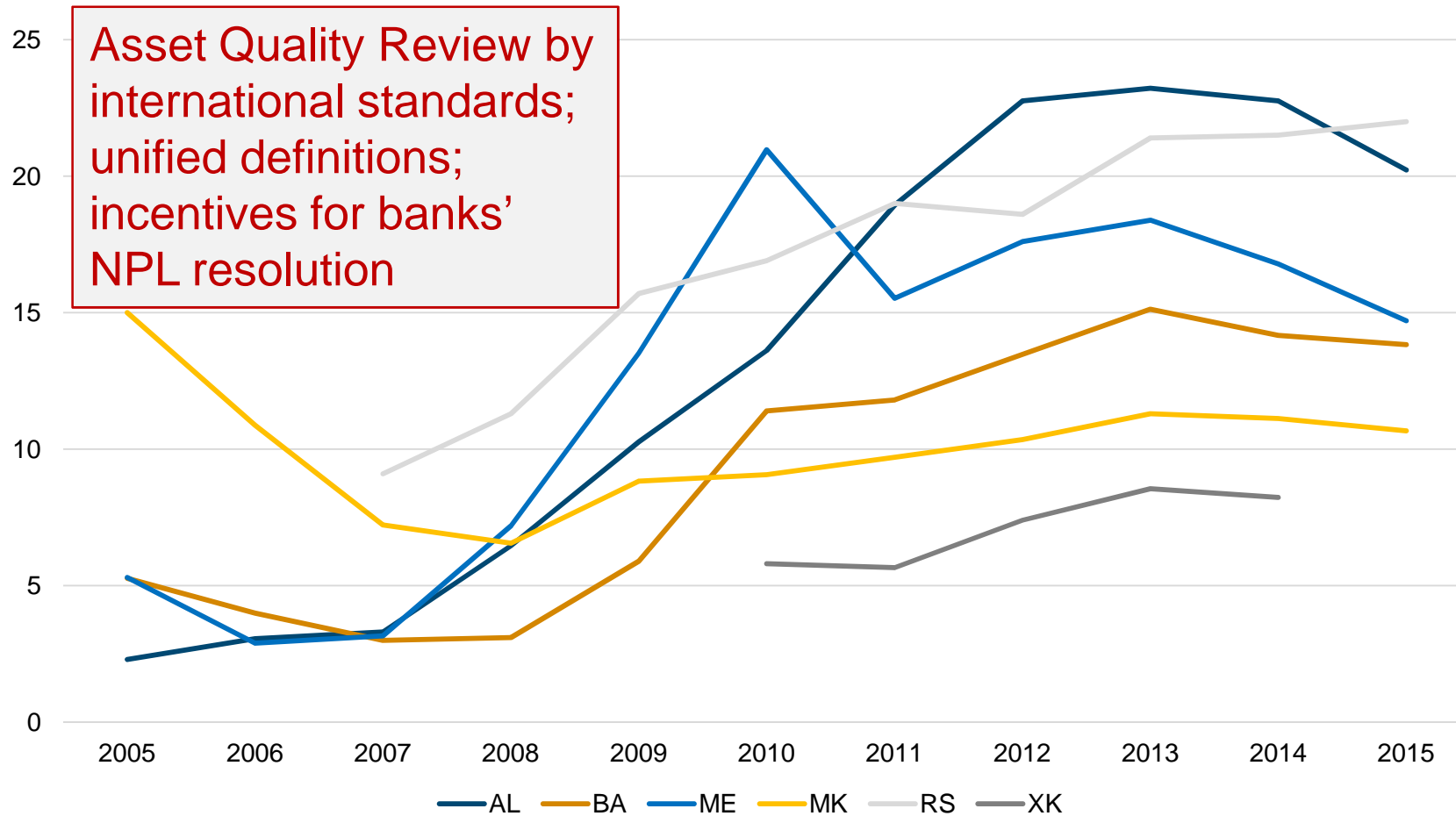
Simulation of a coordinated 1% of GVA increase in VAT and decrease in employers' SSC (~0.5 pp higher VAT & ~2pp lower SSC) yields trade balance improvement of ~0.9% of GVA and output increases of ~0.2% of GVA.

Note: VAT – Value Added Tax; GVA – Gross Value Added; SSC – Social Security Contribution.

Source: EC, UNMIK, FIPA, SIEPA, KPMG, PWC, Deloitte.

Short-run private investment support: NPL resolution

Bank nonperforming loans to total gross loans, in %

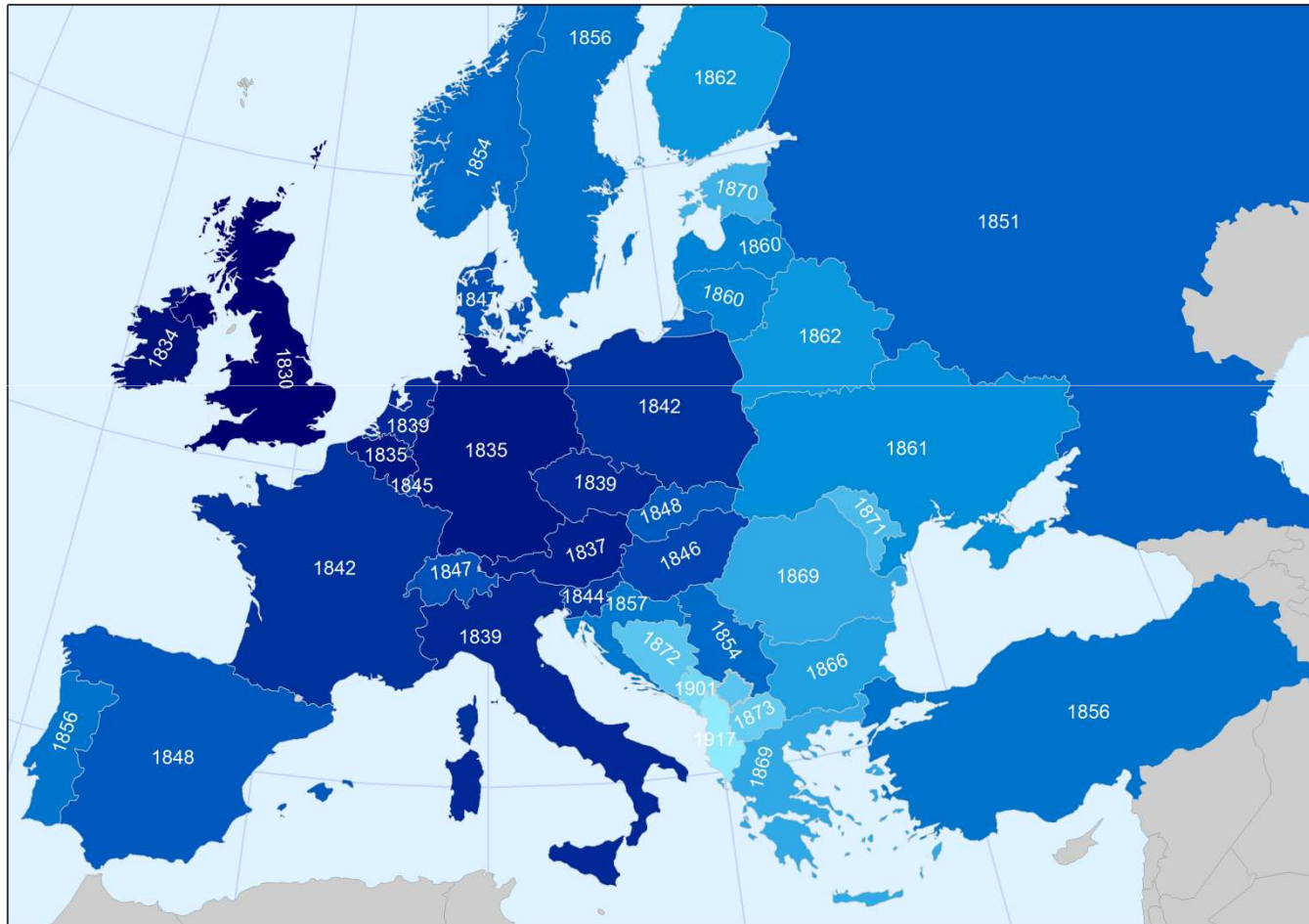


Note: NPL – Non-Performing Loans; in most cases loans more than 90 days overdue. NPLs are negatively correlated with non-financial private loans growth.

Source: National Central Banks, The World Bank.

Late introduction of railway time in the Western Balkans

Year of construction of first railway line

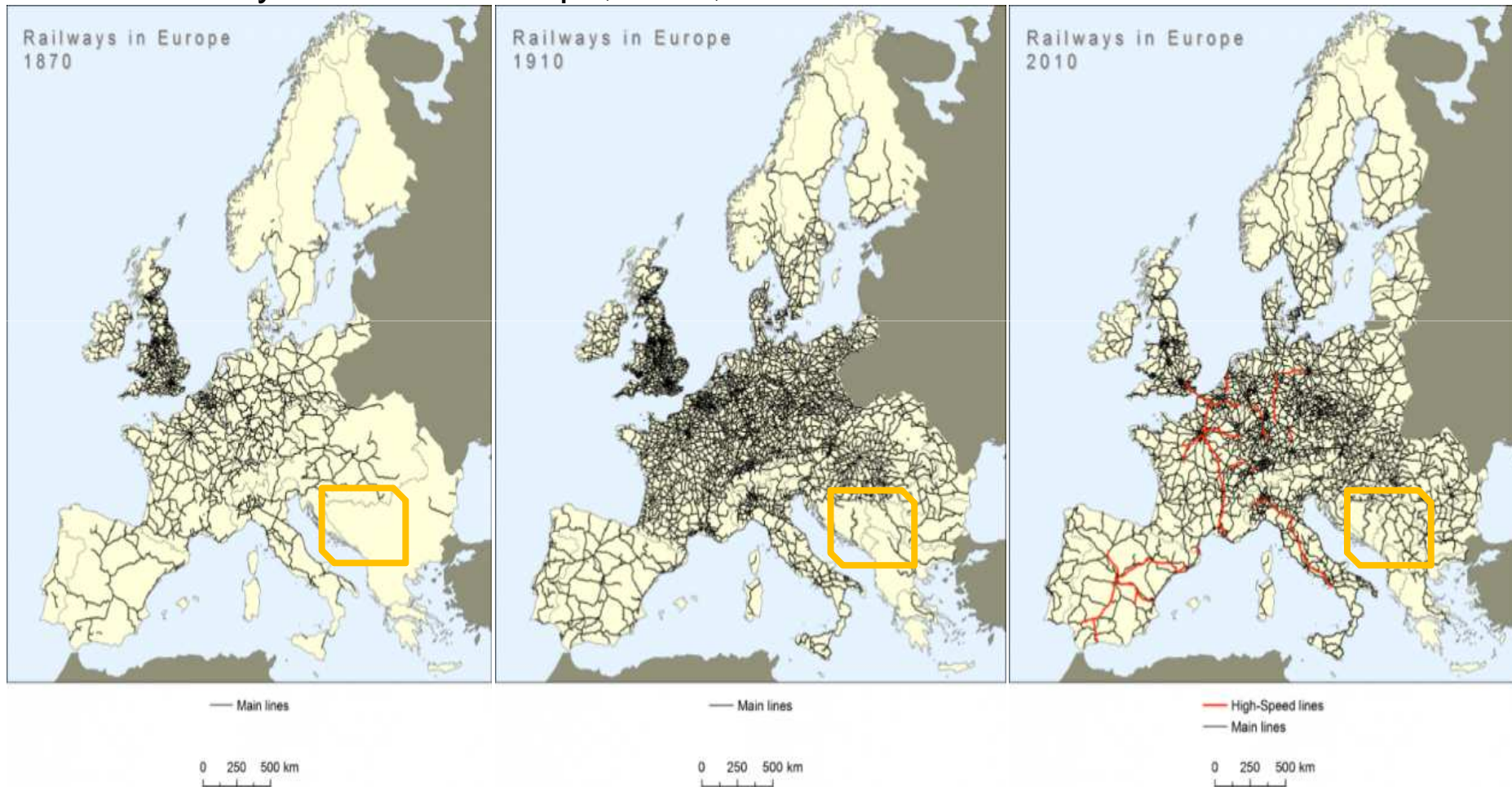


Note: Kosovo 1874.

Source: Wikipedia, Wikimedia, FDV.

Low density of railway network in the Western Balkans

Core railway network in Europe, 1870, 1910 and 2010



Source: HGISE Railways Historical Database.

Infrastructure investment volume and effects

- 221 km mature new priority road building projects (EUR 2.9 bn)
- 189 km mature new priority rail building projects (EUR 1.1 bn)
- Several mature priority rail renovation projects (EUR 1.6 bn)
- Substantial strategic gas projects (EUR 2.3 bn)
- EUR 7.7 bn transport infrastructure investment volume estimated by EC
- Based on wiiw estimates over a period of 15 years, an additional GNP **growth impulse of about 1% p.a.** would result
- **Employment effects of up to 200,000** people (about 4% of the workforce)

Conclusions

- WB are a region with a substantial economic catch-up potential
- Structural underdevelopment and low competitiveness impede catch-up
- Short-run policy measures should focus on fiscal devaluation and NPL resolution to foster cost competitiveness and private investment
- A 'Big Push' in infrastructure investment is imperative for long-term prosperity



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Thank you for your attention

Mario Holzner
holzner@wiiw.ac.at