

PRESS RELEASE

NOT TO BE RELEASED BEFORE 16-3-2017, 12 noon

New wiiw forecast for the WESTERN BALKANS: Economic turnaround 2017-2019 amid political risks

- *The wiiw Spring 2017 forecast concludes that the Western Balkan economies will experience healthy economic growth in the next three years, above the average rates seen in other regions of Central, East and Southeast Europe. Robust household consumption and infrastructure investment will be important growth drivers.*
- *However, the report warns that the ongoing economic recovery in the Western Balkans could fall victim to increased political uncertainty, owing to increased doubts regarding the durability of the 'EU carrot' and the 'US stick' that underpinned stability in the fragile region in the last two decades.*

The following are the key findings of the wiiw Spring Forecast report:

- **GDP growth in the Western Balkans will accelerate to 3% in 2017, 3.2% in 2018 and 3.4% in 2019.** In Albania and Kosovo economic growth will be particularly high over the forecast horizon (on average around 3.8% in both countries). In those countries, apart from a low base effect, infrastructure investment will be a key growth driver. Bosnia and Herzegovina, Macedonia, Montenegro and Serbia will post average growth rates of around 3%.
- **Labour market conditions are improving in the Western Balkans.** In recent years the region has recorded substantially higher employment and a significant reduction in unemployment. Given the positive growth prospects this trend is likely to continue. Average unemployment rates of around 18% seem to be achievable in the years to come (down from around 20% in recent years). However, compared to peers in EU-CEE, where unemployment rates are expected to average around 6% over the forecast period, these rates are still very high. Nevertheless, tightening labour markets will push up wages and consumption, thereby contributing to the economic recovery.
- **The external competitiveness of the region is still weak but the industrial structure is improving with the help of FDI inflows.** Current account deficits will range between 4% (Macedonia and Serbia) and 20% (Montenegro) of GDP over the forecast period. However, in recent years the production structure in the Western Balkans has improved, as higher value-added industries in capital goods and durable consumer goods production have experienced above-average growth. In addition, FDI inflows in recent years hovered around 6% of GDP – approximately double the level of other transition economies.

- **The ongoing economic turnaround in the Western Balkans could fall victim to misgivings about the stability of the 'EU carrot' and the 'US stick' that have ensured broad-based stability in the past two decades.** Uncertainties in the Western Balkans are mostly linked to developments in the EU and the USA, as well as, albeit to a lesser extent, to developments in Russia and Turkey. The region is increasingly counting on the EU market and political stability in the EU, with its promise of membership, however distant. In terms of security, the region is not self-governing; NATO plays a vital stabilising role, hence any uncertainty about the US commitment to supporting the region could have major consequences. Moreover, any confrontational interventions by Russia and uncertainties as to developments in Turkey could prove quite disruptive, were the influence of the EU and the US to decline in the light of Brexit and the Trump presidency.

wiiw, 15 March 2017

For questions please contact:

Mario Holzner, Tel. 533 66 10 – 28

holzner@wiiw.ac.at

Richard Grieveson, Tel. 533 66 10 – 56

grieveson@wiiw.ac.at

OVERVIEW 2015-2016 AND OUTLOOK 2017-2019

	GDP					Consumer prices					Unemployment (LFS)					Current account				
	real change in % against prev. year					change in % against prev. year					rate in %, annual average					in % of GDP				
	2015	2016	Forecast			2015	2016	Forecast			2015	2016	Forecast			2015	2016	Forecast		
Albania	2.6	3.2	3.5	3.9	4.0	1.9	1.3	2.3	2.8	3.0	17.1	15.2	14.8	14.5	14.0	-10.8	-11.5	-11.9	-11.3	-10.7
Bosnia and Herzegovina	3.1	2.3	2.8	3.0	3.1	-1.0	-1.1	1.0	1.4	1.9	27.7	25.4	25.3	25.1	25.0	-5.7	-6.0	-5.8	-5.7	-5.7
Kosovo	4.3	3.6	3.9	3.8	3.7	-0.5	0.3	0.9	1.6	2.3	32.9	26.5	25.8	25.5	25.2	-8.6	-9.9	-10.4	-11.2	-11.8
Macedonia	3.8	2.5	3.1	3.3	3.0	-0.3	-0.2	1.0	1.5	2.0	26.1	24.0	24.0	23.0	23.0	-2.1	-2.0	-4.0	-4.0	-4.0
Montenegro	3.4	2.7	3.1	2.9	3.3	1.4	0.1	1.5	2.0	2.0	17.6	17.5	17.0	16.5	16.5	-13.3	-17.0	-16.4	-20.7	-19.8
Serbia	0.8	2.7	2.8	3.0	3.3	1.9	1.2	2.0	2.0	2.0	17.7	16.1	15.0	14.0	14.0	-4.7	-5.0	-4.0	-4.0	-4.0
WB ¹⁾²⁾	2.2	2.7	3.0	3.2	3.4	0.9	0.5	1.6	1.9	2.1	21.2	19.1	18.4	17.7	17.6	-6.1	-6.7	-6.6	-6.7	-6.7
EU-CEE ¹⁾²⁾	3.7	3.0	3.0	3.2	3.2	-0.4	-0.2	1.5	2.0	2.1	7.8	6.6	6.3	6.1	6.0	0.4	0.7	0.4	0.0	-0.2
EA-19	2.0	1.7	1.6	1.8	.	0.0	0.2	1.7	1.4	.	10.9	10.0	9.6	9.1	.	3.7	3.6	3.2	3.1	.
EU-28	2.2	1.9	1.8	1.8	.	0.0	0.3	1.8	1.7	.	9.4	8.5	8.1	7.8	.	2.2	2.1	1.9	1.9	.
CIS + Ukraine ¹⁾²⁾	-3.0	0.0	1.7	1.9	2.2	17.1	8.6	5.8	5.3	5.2	5.9	5.9	6.0	5.8	5.6	3.6	0.6	0.8	0.5	0.2
VIS-4 ¹⁾²⁾	3.9	2.6	2.9	3.0	3.0	-0.4	0.0	1.6	2.0	2.1	7.3	6.0	5.8	5.7	5.6	0.3	0.6	0.5	0.2	0.0
BALT-3 ¹⁾²⁾	2.0	1.9	2.5	2.7	2.9	-0.3	0.5	2.0	2.3	2.7	8.7	8.2	7.7	7.3	7.0	-0.7	1.3	-0.3	-0.9	-1.3
SEE-9 ¹⁾²⁾	3.2	3.8	3.5	3.6	3.6	-0.2	-0.7	1.4	2.0	2.2	12.8	11.3	10.9	10.4	10.2	-1.3	-1.7	-2.0	-2.2	-2.3
NON-EU-11 ¹⁾²⁾	-0.2	0.6	1.9	2.2	2.5	13.8	8.1	6.5	5.8	5.6	7.6	7.6	7.7	7.4	7.2	0.9	-1.2	-1.2	-1.5	-1.9
CESEE-22 ¹⁾²⁾	0.9	1.3	2.2	2.5	2.7	9.7	5.6	5.0	4.7	4.6	7.6	7.3	7.3	7.1	6.9	0.9	-0.7	-0.8	-1.3	-1.7

1) wiiw estimates. - 2) Current account data include transactions within the region (sum over individual countries).

Source: wiiw, Eurostat. Forecasts by wiiw (Feb 2017) and European Commission for EU and Euro area (Winter Report, Feb 2017).