



WORLD BANK GROUP
Macroeconomics & Fiscal Management

SOUTH EAST EUROPE REGULAR ECONOMIC REPORT

Nº **10**

RESILIENT GROWTH AMID RISING RISKS

BOSNIA &
HERZEGOVINA

SERBIA

MONTENEGRO

KOSOVO

ALBANIA

FYR MACEDONIA

FALL 2016

RER no.10 highlights:

- All economies of the Western Balkans continue to grow, showing improvements in employment and poverty reduction.
- Investment continues to make robust contributions to growth. After several years of moderation, consumption accelerated in all countries based on improved labor market outcomes and/or higher public wages and transfers.
- In the countries pursuing consolidation, fiscal accounts have also improved, reducing deficits, lowering fiscal risks, and stabilizing debt levels. But in other countries revenue growth struggled to compensate for increased spending, hurting fiscal balances and debt levels.
- Amid the complex global environment, sustaining and strengthening growth will require continued commitment to address remaining external vulnerabilities, lower fiscal imbalances and boldly implement structural reforms.

South East Europe
Regular Economic Report No.10

Resilient Growth Amid Rising Risks

Fall 2016

Acknowledgments

This Regular Economic Report (RER) covers economic developments, prospects, and economic policies in six South Eastern European countries (SEE6): Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro, and Serbia.

The report is produced twice a year by World Bank economists working on the SEE6 countries. The team of authors comprises Barbara Cunha (task team leader and lead author), Ekaterina Vostroknutova (task team leader), Agim Demukaj, Sandra Hlivnjak, Johanna Jaeger, Alena Kantarovich, Sanja Madžarević-Šujster, Olasupo Olusi, Lazar Šestović, Hilda Shijaku, Bojan Shimbov, Ashley Taylor, and Michelle Tejada. Anne Grant provided assistance in editing, Budy Wirasmo, Artem Kolesnikov, and Robert Waiharo in designing this report. Valentina Martinovic, Nejme Kotere, Samra Bajramovic, Ivana Bojic, Enkelejda Karaj, Hermina Vukovic Tasic, Jasminka Sopova, Boba Vukoslavovic, and Dragana Varezić assisted the team.

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This and previous SEE RERs may be found at: www.worldbank.org/eca/seer/rer/.

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Overview

The six countries of South East Europe (SEE6)—Albania, Bosnia and Herzegovina (BiH), Kosovo, FYR Macedonia, Montenegro, and Serbia—must operate within a complicated global environment. Political, institutional, and policy uncertainty in advanced economies, still low commodity prices, and exceptionally low interest rates dampen global growth expectations. Growth is slow everywhere, and the European Union (EU), a major destination for SEE6 exports, this year is estimated to grow 1.9 percent, even less than last year's 2 percent. In Europe, uncertainty has been heightened by the referendum decision in the United Kingdom to exit the EU, the ongoing crisis in Greece, pressures on Italian banks, political tensions in Turkey, and the continuing refugee crisis. Brexit has renewed the debate about the future of the EU and the potential impact on states that are on the path to accession. But SEE6 countries continue to pursue firmly their aspirations for integration with the EU, with several countries this year having opened new chapters.

Despite the external context, growth in SEE6 is firming up. We project growth to strengthen from 2.2 percent in 2015 to 2.7 percent in 2016, driven by robust investment and recovering household consumption. The regional expansion reflects the recovery of growth primarily in Serbia, and also in Albania (Table A). Investment continues to drive growth, especially in Albania, Montenegro, and Serbia. After several years of moderation, consumption also accelerated, mainly fueled by improvements in labor markets (Albania, Kosovo, and Serbia) and higher public wages and transfers (FYR Macedonia and Montenegro).

Resilient economic growth and labor market reforms continue to support private sector job creation. Combined with stronger economic growth, reduced labor market rigidities resulted in employment growth of 4.7 percent in Serbia in the first half of 2016. Formalization efforts contributed to 6.7 percent employment growth in Albania. However, despite recent improvements, employment is still below pre-crisis levels in all SEE6 countries except FYR Macedonia and Montenegro. Unemployment continued to decline in most countries except Montenegro, where it grew in part due to recent public policy choices. However, the regional average remains high at about 25 percent.

Risks to the near-term outlook of SEE6 are on the downside, with external positions especially vulnerable. In 2016, the region's current account deficit (CAD) is expected to hold at 6.4 percent of GDP, higher than in 2015 as the narrower deficit in Serbia is offset

Table A. Recovery consolidates through 2018

Real GDP growth (percent)	2015	2016 ^f	2017 ^f	2018 ^f
Albania	2.8	3.2	3.5	3.5
Bosnia and Herzegovina	3.0	2.8	3.2	3.7
Kosovo	3.9	3.6	3.9	3.7
Macedonia, FYR	3.7	2.0	3.3	3.7
Montenegro	3.2	3.2	3.6	3.0
Serbia	0.7	2.5	2.8	3.5
SEE6	2.2	2.7	3.2	3.6

Sources: Data from central banks and national statistical offices, World Bank staff projections.

by wider deficits in its neighbors. Larger trade deficits, falling remittances, and dividend payments to nonresident investors are driving this dynamic for Albania, Montenegro, and Kosovo. Lower income inflows and remittances explain the wider CADs of Bosnia and Herzegovina (BiH) and FYR Macedonia. After surging in 2015, net inflows of foreign direct investment (FDI) declined as a share of GDP in 2016 but continue to finance a large proportion of the CADs. Portfolio flows declined for several consecutive periods, reflecting negative developments in international markets.

Countries that persisted with fiscal consolidation efforts stabilized their public and publicly guaranteed (PPG) debt for the first time since the global crisis began. Fiscal consolidations started to bear fruit, helping reduce the region's average fiscal deficit from 3.6 percent of GDP in 2015 to 3.4 percent in 2016. These results were driven by Albania, BiH, and Serbia that continue their fiscal consolidation efforts and are expected to record low or declining fiscal deficits this year and declining public and publicly guaranteed (PPG) debt for the first time since 2009. In contrast, fiscal positions are likely to worsen in Kosovo, FYR Macedonia, and Montenegro, leading to larger PPG debts.

In most SEE countries lending to the private sector is slowly recovering. Credit growth has rebounded in Serbia as economic activity geared up. Similarly, new lending has grown in Albania, particularly for consumption, and Kosovo, pushed by lower lending rates. Credit growth stayed positive in FYR Macedonia and Kosovo, although eroding confidence affected corporate lending in the first part of 2016. Credit growth has been weaker in Montenegro because of low credit demand from the

corporate segment; and supply conditions in BiH also kept credit growth down. Although banks in the region are profitable, liquid, and well-capitalized, non-performing loans (NPLs) are still higher than they were before the crisis.

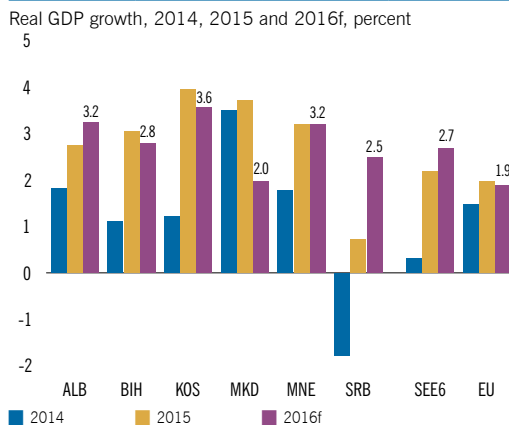
Near-term growth prospects for the SEE6 are positive, but the risks highlight the importance of structural reforms for successful rebalancing from domestic to external sources of growth. Growth in the region is forecast to rise from 2.7 percent in 2016 to 3.6 percent in 2018 because of greater domestic demand—investment with support from consumption—as well as recovering exports. However, economic growth prospects in the EU, and other uncertainties in the region will continue to weigh on growth projections in the SEE6. With most countries either emerging from or entering the election cycle, political uncertainty is exacerbating the risks, although the beginning of a new political cycle provides an opportunity to advance structural reforms. Issues that are constraining SEE6 potential growth are the stubbornly high unemployment, weak business and governance environment, inferior delivery of public services, and shallow global integration.

Resilient Growth Amid Rising Risks

1. Moderate Economic Expansion but Higher Risks

Growth in the SEE6 is likely to hit 2.7 percent this year, driven by the recovery in Serbia, where GDP is expected to grow by 2.5 percent (Figure 1.1). After negative or minimal growth in 2014 and 2015, real GDP in Serbia, the largest SEE6 economy has recovered to the pre-crisis level—the last country in the region to do so. Other SEE6 countries are expected to repeat last year’s performance, with a small pickup in growth for Albania, stable growth for Montenegro, and mild deceleration for Bosnia and Herzegovina (to 2.8 percent) and Kosovo (to 3.6 percent). Growth in FYR Macedonia is expected to decelerate abruptly from 3.7 percent in 2015 to 2 percent in 2016 as prolonged political uncertainty depresses economic activity, particularly private investment.

Figure 1.1. SEE6: Growth performance strengthens



Sources: Data from central banks and national statistical offices, World Bank staff projections.

Investment continues to make robust contributions to growth. In 2016, investment is expected to be primary source of growth

for Albania, Montenegro, and Serbia and a robust source for Kosovo and BiH (Figure 1.2). Private investment in large infrastructure projects has stimulated growth in Albania (mainly in the energy sector) and Bosnia and Herzegovina (energy and tourism). For Serbia, private investment—mainly driven by foreign direct investment (FDI) in manufacturing and construction—has been central. Kosovo is expected to benefit from both public investment (mainly in roads) and domestic private investment. Montenegro’s growth has been supported by a large publicly-financed highway project. FYR Macedonia is the only SEE6 country where investment is expected to limit growth; public investment has not been sufficient to compensate for the steep decline in private investment. The prolonged political uncertainty has weakened investment which—for the first time in six years—is subtracting from growth in FYR Macedonia.

Consumption is, once again, a major growth driver. Domestic consumption, a primary engine of growth immediately after the crisis, had a relatively minor role in 2015 but has since accelerated. It is driven by private consumption, mainly fueled by positive economic and labor market developments (Albania, Serbia, BiH, and Kosovo) or generous public wages and transfers (FYR Macedonia, Kosovo, and Montenegro). As several countries move forward with fiscal consolidation, growth in government consumption is slowing.

As imports pick up, the contribution of net exports becomes negative. Net exports are contributing negatively to growth this year in all

Figure 1.2. Investment and consumption drive growth

Decomposition of real GDP growth, percent

2012–15**2016**

Sources: Data from central banks and national statistical offices, World Bank staff projections.

countries except Serbia, where manufacturing exports are doing well, and Montenegro, due to tourism. Unlike in 2015, services exports have not been able to compensate for the prolonged effects of low international commodity prices in Albania and Kosovo. Imports are rising in all countries, driven primarily by investment-related needs, and to a lesser extent consumption-related, imports.

The near-term growth prospects for the SEE6 are positive (Table 1.1). Growth in the region is forecast to rise from 2.2 percent in 2015 to 3.6 percent in 2018 as domestic demand intensifies, boosted by investment with support from consumption, and as exports recover. In Serbia, BiH, and FYR Macedonia, in the medium term growth is expected to rise, supported by diversified investment in productive activities and by private consumption. In Albania, Kosovo, and Montenegro—countries where large public projects are part of the expansion—growth is projected to slow down as project activities level off. Consumption is expected to stay strong, however, supported by continued improvements in labor market outcomes.

Table 1.1. Positive growth outlook

Real GDP growth (percent)	2015	2016 ^f	2017 ^f	2018 ^f
Albania	2.8	3.2	3.5	3.5
Bosnia and Herzegovina	3.0	2.8	3.2	3.7
Kosovo	3.9	3.6	3.9	3.7
Macedonia, FYR	3.7	2.0	3.3	3.7
Montenegro	3.2	3.2	3.6	3.0
Serbia	0.7	2.5	2.8	3.5
SEE6	2.2	2.7	3.2	3.6

Sources: Data from central banks and national statistical offices, World Bank staff projections.

Exports will benefit from a stable outlook for the EU.

The risks to the positive outlook are associated with increasing external pressures. The sluggish expansion in the EU, the uncertainty about the implications of Brexit, continued weakness in Greece, the political tensions in Turkey, and the refugee crisis will continue to weigh on SEE6 growth prospects. While the direct impact of Brexit on the SEE6 is expected to be small, indirect effects arising from lower than expected growth in the EU could be significant. Impacts could come through trade, growth, and financial sector channels; the EU

is the biggest SEE6 trade partner and most of its FDI originates there. Heightened volatility could trigger investors' flight to quality as risk aversion rises, impacting external financing through interest rates, exchange rates, and capital flows. This would make it more difficult to meet the region's relatively large financing needs. Increasing uncertainty about banking stability in Italy or other EU countries hit by Brexit could affect the parent banks of regional intermediaries, leading to further deleveraging and tighter credit. Across the region, however, domestic funding and the inward orientation of most financial/banking systems is a mitigating factor. Finally, political tensions and security concerns in Turkey may well bring about a possible slowdown in Turkey's economic growth. That could have moderate impacts on the SEE6 through trade and investment links but could also result in an increase in tourism in the SEE6.

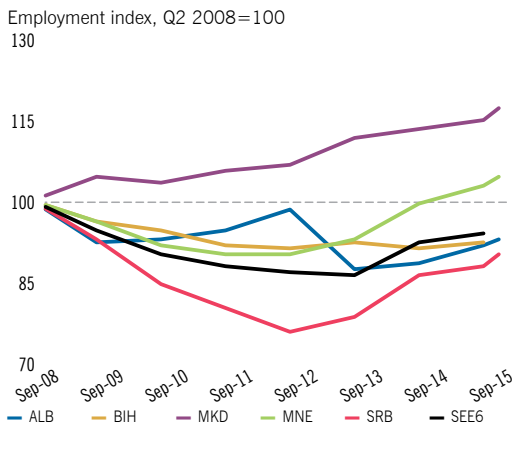
With most countries either emerging from or entering the election cycle, political uncertainty is heightened. In the past, SEE6 elections have often been accompanied by extra spending or lower revenue collections. This time, at least Albania, BiH, and Serbia seem to have broken that pattern. However, as elections approach pressures could intensify, which could slow consolidation. In FYR Macedonia, the effects of the prolonged political turmoil and the uncertainty around elections are starting to weaken the economy. Though FDI has been somewhat resilient there, domestic investment has plunged. On the fiscal side, wages, pensions, and transfers have gone up markedly this year in FYR Macedonia and Montenegro, and in Albania poor planning and management of investments could lead to the accumulation of new arrears. Finally, in Kosovo, prolonged political instability and lack of agreement

on sensitive topics such as demarcation of the border with Montenegro have started to discourage FDI. As new governments take office, positive momentum in structural reforms related to labor regulations, the business climate, efficiency of public investments and services, and economic integration could help speed up growth.

2. More Jobs Created, but Stubborn Unemployment

Robust economic growth and labor market reforms have continued to support job creation in 2016, especially in the private sector. Employment is still below pre-crisis levels in all countries except FYR Macedonia and Montenegro (Figures 2.1 and 2.2). Recent labor market reforms in Serbia (2014) and BiH (2015) are starting to generate dividends. Combined with stronger economic activity, the reduced labor market rigidities have resulted

Figure 2.1. Employment struggles to reach pre-crisis levels



Source: National statistical offices.

in annual employment growth of 4.7 percent in Serbia, half of it in the formal sector. In Albania, formalization efforts have added to the economic recovery, leading to a 6.7 percent growth in employment, mainly in services and manufacturing. Despite continuing job creation in tourism and construction, Montenegro's employment growth has been subdued as many women left their jobs to become eligible for the new mother care lifetime benefit.

Except in Montenegro, positive labor market developments are reducing high unemployment. Despite the expansion in labor force participation, in Albania unemployment declined 0.7 pp and in Serbia 1.1 p.p. in the first half of 2016. In contrast, the decline in labor force participation further helped reduce unemployment in BiH (by 2.3 pp) and Macedonia (by 1.8 pp). Montenegro is the only country where unemployment worsened.

Figure 2.2. Unemployment remains high



Source: National statistical offices.

Note: Long-term unemployment is presented as percentage of the labor force, instead of the conventional percentage of the unemployed. June 2010 to June 2016 changes are used.

Recent positive developments notwithstanding, regional unemployment remains high, averaging almost 25 percent in 2016 and ranging from 17 percent of the labor force in Albania to about 33 percent in Kosovo; more than 66 percent of those unemployed have been jobless for prolonged periods (Figure 1.2). The youth unemployment rate is about double that of the working-age population, which has implications for future income generation (Box 1).

Box 1. Youth unemployment in SEE6

Today, nearly 25 percent of the youth in the six South East European countries (SEE6) is inactive—not in employment, education, or training. Stubbornly high youth unemployment ranges from 38.8 percent in Montenegro to 54.3 percent in Bosnia and Herzegovina. These problems partly reflect the difficulty the SEE6 has had in recovering from the 2008 global financial crisis, which sent already high youth unemployment soaring.

Economic growth affects employment opportunities for youth more than for adults. While the crisis disproportionately hurts youth, it takes less economic growth to create jobs for youth than for adults in periods of expansion.

Poor labor outcomes also embody deeper structural problems in SEE6, where not only unemployment is high across the board, but labor force participation is low, especially for young women and minorities. Rigid labor regulation constrains opportunities for those entering labor markets, and taxation is relatively higher for low-wage and part-time workers—groups that are disproportionately young—which discourages this type of work.

New SEE6 labor market entrants are not equipped with the skills employers demand. Lack of access to productive inputs and professional connections also worsens their prospects for entrepreneurship as well as employment. Finally, certain cultural norms may narrow employment opportunities for youth, particularly women and members of ethnic minorities; important countervailing policies are to increase access to quality and affordable child care and make efforts over the long term to shift norms to make opportunities more equal.

Addressing the challenges faced by the cyclically unemployed and structurally jobless young people requires tailored policy responses. It is vital to keep youth engaged in the labor market during recessions and build their human capital while the labor market recovers. For the structurally jobless, the policy agenda is deeper; it is necessary to address the disincentives to work and hire youth that are embedded in exclusionary labor regulations and labor taxation; equip new labor entrants with the skills the market needs; and improve their access to productive inputs, such as land, finance, and professional connections.

Source: South East Europe Regular Economic Report Special Topic Ten Messages About Youth Employment in South East Europe, World Bank (forthcoming)

Combined with better labor market performance, low inflation has helped boost the purchasing power of the poorest households. In 2016, inflation in the SEE6 region has been subdued even though growth is recovering. After reaching 1 percent in 2015, regional inflation is expected to reach 1.5 percent in 2016 but will range from 1.5 percent in BiH to 2 percent in Serbia. Consumer prices are expected to decline in Montenegro, remain

unchanged in Kosovo and FYR Macedonia, and grow slowly in Albania. Most countries have been affected by low international food and oil prices, which disproportionately benefit low-income households. As a result, poverty (measured as US\$5/day at 2005 PPP) is expected to decline in 2016 across the region.

In the near term economic growth is likely to continue supporting positive labor market

developments and poverty reduction. As growth prospects firm up in the next year, labor market outcomes should continue to encourage income generation and employment opportunities, particularly among vulnerable segments of the population, so that poverty can be expected to be reduced faster.

3. External Positions Remain Vulnerable

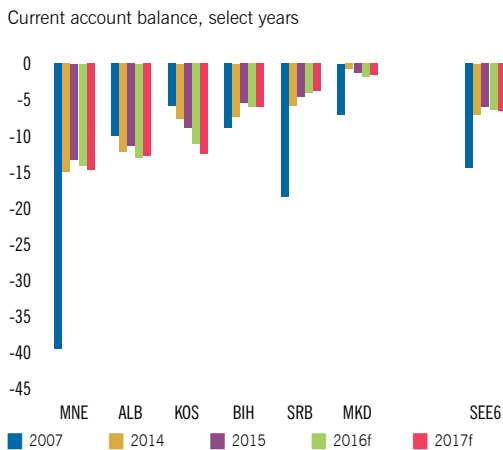
On average, current account deficits in the region deteriorated marginally in 2016, with the narrowing in Serbia offset by a widening in the other countries. Forced by the global financial crisis to adjust, the average external imbalance in SEE6 halved between 2007 and 2015 (Figure 3.1). In 2016, the CAD for the region remains at 6.6 percent, marginally higher than the 6.2 percent in 2015. Larger trade deficits and falling remittances are the driving forces of this in Albania, Montenegro, and Kosovo; lower income inflows and remittances explain the wider deficits in BiH and Macedonia. In Serbia, healthy manufacturing exports and an improved balance of trade in services drove the CAD to narrow, against the regional trend.

Trade deficits expanded in commodity-exporting countries but again narrowed in manufacturing exporters. Goods exports as

a share of GDP declined in Albania, Kosovo, and Montenegro, mainly because of continuing low international commodity prices. In contrast, in Serbia and FYR Macedonia, manufacturing exports expanded, helped by positive growth in the EU. Meanwhile, imports related to investment projects and recovering consumption expanded.

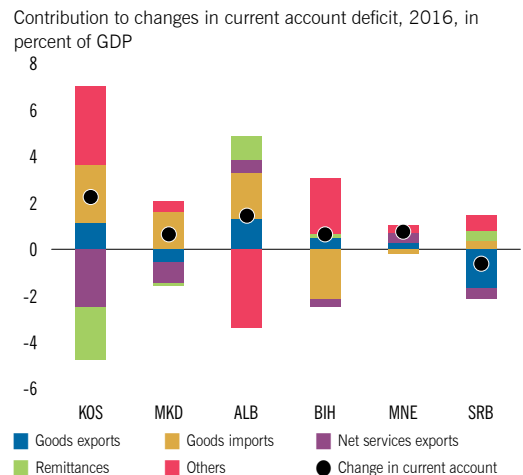
For most countries FDI continues to be the main source of external financing. FDI inflows are expected to cover 20 to 100 percent of the region's CADs, despite declining as a share of GDP this year in all SEE6 countries except FYR Macedonia. Causes of the FDI decline range from lower investment in commodity activities due to low international prices (Albania), payout of dividends (Montenegro), and delays in a large investment project (Kosovo). Portfolio flows have now declined for several consecutive periods,

Figure 3.1. Current account deficits widened slightly in 2016, except in Serbia

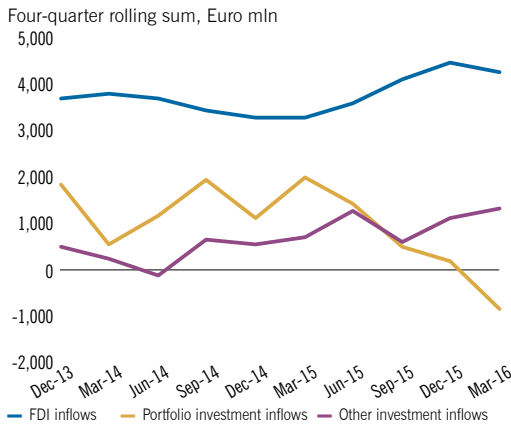


Sources: Central banks and national statistical offices.

Figure 3.2. Trade deficits dragged current account balances down



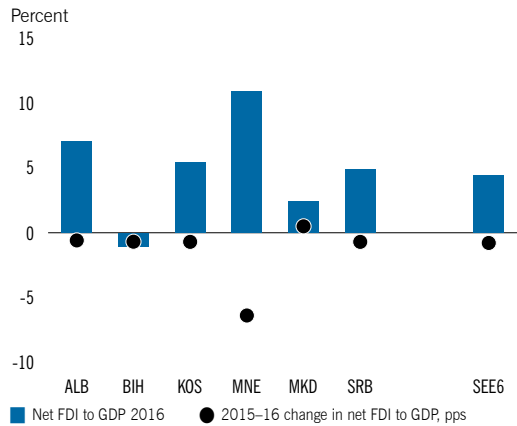
Sources: Central banks and national statistical offices.

Figure 3.3. FDI and Portfolio inflows declined...

Sources: Data from central banks and national statistical offices, World Bank staff projections.

reflecting both developments in international markets and political uncertainty in several countries. There has been no significant change in external indebtedness as share of GDP, although countries continue to take advantage of still-favorable borrowing terms. International reserves of 4.5 to 7.3 months offer support should there be renewed external volatility.

External imbalances are expected to gradually narrow in the near term as exports gain momentum. CADs are expected to decline in 2017 and 2018 in all countries except Kosovo and Montenegro, mainly because of a declining trade balance. Services exports are expected to pick up across the board. Goods exports are expected to expand in Serbia and FYR Macedonia, but to remain subdued in SEE6 commodity producers. Import pressures are also expected to recede as investment projects phase out. While financial volatility can cause problems for covering the CAD, FDI and external buffers (such as comfortable external reserves) help relieve financing pressures in most countries in the region.

Figure 3.4. ...in most countries in SEE6

Sources: Data from central banks and national statistical offices, World Bank staff projections.

Table 3.1. Tighter External Outlook for SEE6

Percent of GDP	2015 ^f	2016 ^f	2017 ^f	2018 ^f
Goods exports	25.3	25.7	26.7	26.9
Trade balance	-15.6	-15.2	-15.1	-15.2
Current account balance	-6.2	-6.6	-6.6	-6.4
Foreign Direct Investment	6.0	4.7	4.8	4.8
External debt	80.4	80.3	79.4	80.4

Sources: Data from central banks and national statistical offices, WorldBank staff projections.

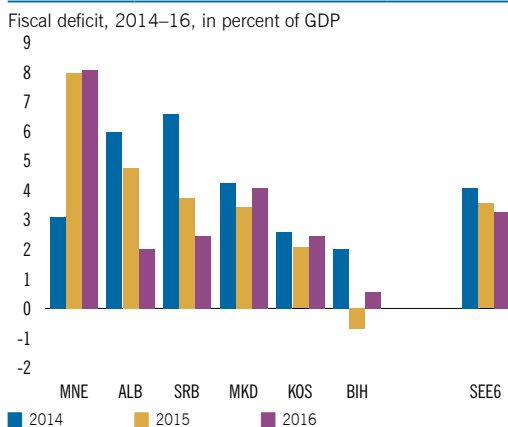
4. Fiscal Consolidations Bear Fruit

Fiscal consolidation is on track to reduce the average fiscal deficit of the region to 3.3 percent of GDP in 2016, from 3.6 percent in 2015. The extensive use of countercyclical policies after the global crisis extinguished fiscal buffers and led to steep increases in public debt in most countries in the region. While the recent decline is a welcome development, behind the averages, there are two distinct developments. Albania, BiH, and Serbia continue to pursue fiscal consolidation in 2016, and are expected to substantially reduce their fiscal deficits (or maintain it low in the case of BiH). In contrast, fiscal positions are worsening in Kosovo, FYR Macedonia, and Montenegro because of increasing current spending and large capital inflows for projects.

While revenues expanded across the SEE6, different spending patterns drive diverging fiscal outcomes. Policy reforms and efforts

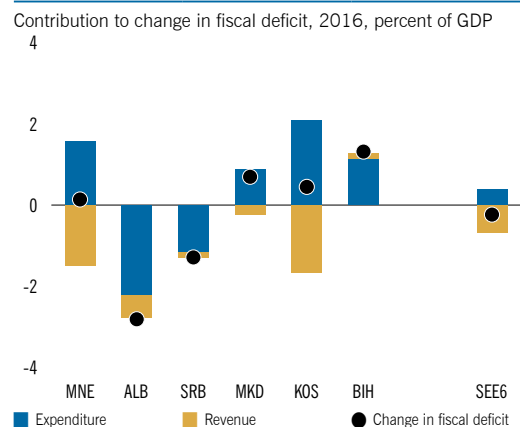
to improve revenue collection in 2015 led to higher revenue-to-GDP ratios in 2016 in Albania, Kosovo, and FYR Macedonia and helped contain the effect of slower one-off revenues in BiH. Strengthened economic activity contributed to the gains in Serbia and Montenegro. Reforms constraining the size of the public sector, wages, and transfers are starting to bear fruit in Serbia, reductions in current spending drove down the overall spending-to-GDP ratio. In Albania, both current and capital spending declined as a share of GDP and arrears were cleared. In BiH cuts in current spending created room for more capital spending without pressuring the fiscal balance. In contrast, in Kosovo and FYR Macedonia, current spending expanded in line with the political cycle. In Montenegro both social transfers and capital spending drove the expansion.

Figure 4.1. Fiscal consolidations reduced deficits in Albania and Serbia...



Sources: National statistical offices and Ministries of Finance, World Bank staff projections.

Figure 4.2. ...but expenditure pressures are not matched by revenue performance in most countries

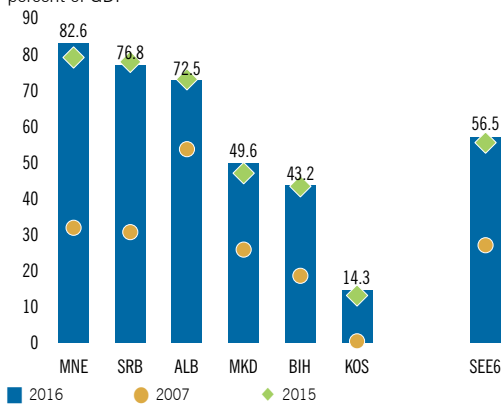


Sources: National statistical offices and Ministries of Finance, World Bank staff projections.

For the first time since the global crisis, fiscal consolidation is helping stabilize the public and publicly guaranteed (PPG) debt. Growth, smaller fiscal deficits, and muted exchange rate effects contributed to a drop of 0.2–0.5 pp in the PPG debt-to-GDP ratios of Albania, BiH, and Serbia, reversing the rising trend experienced since 2009 (Figure 5.3). In contrast, higher fiscal deficits and government guarantees associated with infrastructure projects contributed to an increase of 1 pp—3.6 pp in the ratios of Kosovo, FYR Macedonia, and Montenegro. In the aggregate, the regional PPG debt-to-GDP ratio is expected to go up by 1.6 pp. in 2016, reaching 56.5 percent by year-end, which is 20 pp higher than before the global financial crisis.

Figure 4.3. Fiscal consolidations help stabilize public debt in Albania and Serbia

Public and publicly guaranteed debt, 2007, 2015, 2016, in percent of GDP



Sources: National statistical offices and Ministries of Finance, World Bank staff projections.

Increasing reliance on external financing exposes SEE6 to exchange and refinancing risks. Eurobond issuances are expected to cover a large share of the financing needs of Albania, FYR Macedonia, and Montenegro, replacing traditional domestic sources. Large investment projects weighing on the PPG debts

of Montenegro and FYR Macedonia are also financed externally. While this shift to external financing has helped reduce average interest rates and increase average maturity, it also has exposed countries to the risks associated with adverse changes in the external environment.

SEE6 countries are committed to fiscal consolidation in the near term, in order to start reducing public debt. By 2018, all countries are expected to have lower fiscal deficits, with adjustments ranging from 0.3 percent of GDP for BiH to 1.4 percent for Albania. Public spending is driving the consolidation efforts. Only Albania and FYR Macedonia are expected to also bring in more revenues. PPG debts in SEE6 are expected to start heading downward by 2018 in all countries except Kosovo and Montenegro. While Kosovo's debt is still low, the steep upward trajectory of Montenegro's public debt is raising questions about its medium-term fiscal sustainability.

Table 4.1. SEE6: Fiscal developments and outlook

Percent of GDP	2015	2016 ^f	2017 ^f	2018 ^f
Public revenues	34.9	35.5	35.3	35.0
Public expenditures	38.5	38.9	38.3	37.5
Fiscal balance	-3.6	-3.4	-3.0	-2.5
Public and publicly guaranteed debt	55.3	56.5	56.9	56.5

Sources: National statistical offices, Ministries of Finance, World Bank staff projections.

Note: Average weighted by GDP.

5. Credit Expands, but Remains Hindered by Asset Quality

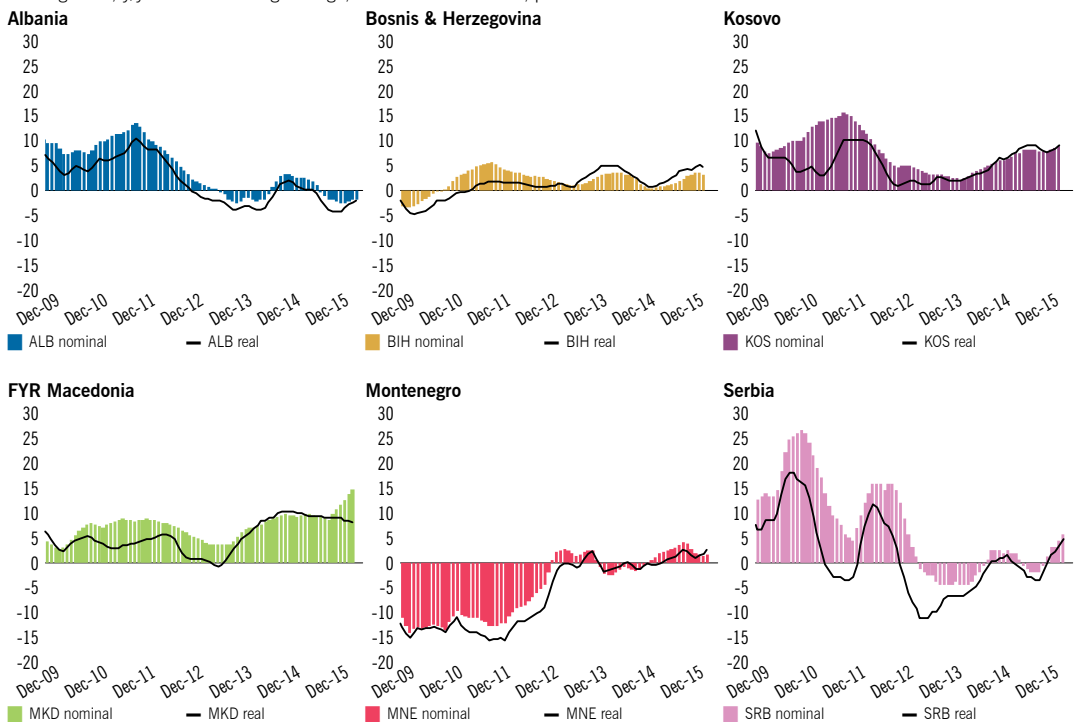
Credit growth is recovering, especially in countries where the pick-up in economic activity has stimulated demand. In Serbia it rebounded dramatically, from a 12-month contraction of 2 percent in October 2014 to an expansion of 12.2 percent in July 2016, because of stronger demand, mainly from small and medium-sized private companies (Figure 5.1). Similarly, new lending has grown in Albania, particularly in the consumption segment. Credit growth has continued to be positive in Kosovo, supported by lower lending rates and declining nonperforming loans (NPLs), and in FYR Macedonia, although shaken confidence slowed it down in the first part of 2016.

Credit growth has been less than 3 percent in Montenegro and BiH, reflecting lower credit demand from corporations in the former and supply factors in the latter.

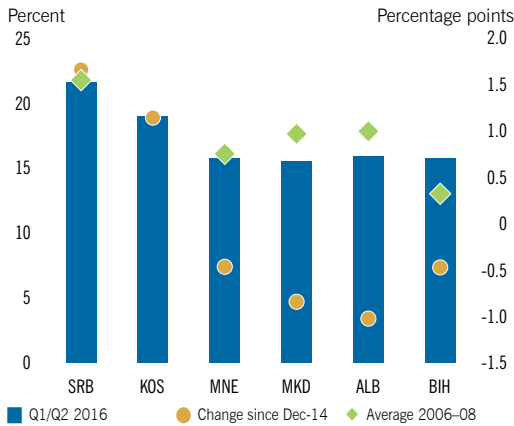
In general, banks in SEE6 are well-capitalized and liquid, with still-growing domination of domestic deposits in the funding structure. The deleveraging of foreign banks—instigated by the global financial crisis and prolonged by the pressure from the European Banking Union to reduce balance sheets in some parent banks—has driven up domestic deposits and reduced average loan-to-deposit ratios. Deposits are the largest funding source for banks, accounting in

Figure 5.1. Stronger economic activity drives private sector demand for credit

Credit growth, y/y 3 month moving average, Dec 2009–Jun 2016, percent



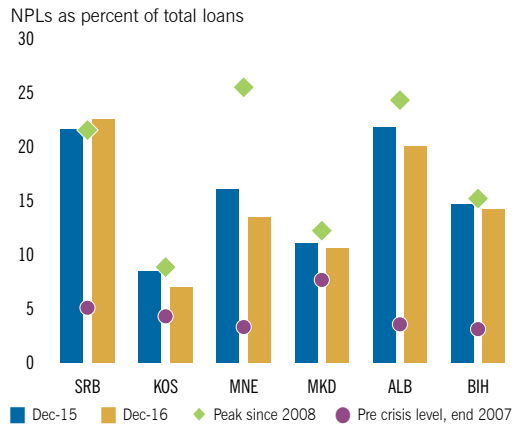
Source: National central banks.

Figure 5.2. Capital adequacy ratios remain adequate

Source: National central banks.

2016 for 54 percent of total liabilities (Albania) to almost 86 percent (Kosovo). The average loan-to-deposit ratio was about 92 percent in mid-2016, down from 119 percent in 2008. The capital adequacy of the system reached an average of 17.3 percent in Q1 2016, which should be sufficient to absorb identified risks in the system (Figure 5.2).

Steps to improve resolution frameworks have put NPLs on a declining trend in most SEE6 countries. Serbia and Albania adopted comprehensive strategies to address the large share of distressed assets within the banking system. A recent asset quality review of 14 banks in Serbia revealed that none of the banks participating in the review had a capital adequacy ratio below the regulatory minimum of 12 percent, but there was a need for further re-classification and adjustment. Regulators now require banks to write off fully provisioned NPLs older than two years in FYR Macedonia and three years in Albania. In Kosovo, a new private bailiff system has been supporting enforcement of collateral recovery, helping to bring down NPLs. In BiH, the authorities in Republika Srpska took measures, including a

Figure 5.3. Nonperforming loans mostly decline

Source: National central banks.

new insolvency law, to reinforce proceedings for corporate bankruptcy and out-of-court restructuring. In 2015 Montenegro adopted a law on voluntary financial restructuring known as the ‘Podgorica approach’ to guide out-of-court restructuring of economically viable companies. Despite these efforts, recent increase in NPLs in Albania occurred, related to the bankruptcy of a large banking group.

But more remains to be done in the region as risks to financial stability persist, among them still high NPLs, asset quality concerns, and foreign currency lending to unhedged borrowers. The regional average for NPLs is about 14 percent, with levels even higher in Albania (20 percent) and Serbia (19.6 percent). The recent failures of domestic banks renewed concerns about asset quality and the overall health of specific banks, in particular in BiH and Montenegro. In Albania, FYR Macedonia, and Serbia, foreign currency lending is a high 40–70 percent of total lending, posing risks to unhedged borrowers if there are nominal exchange rate movements.

6. The Road Ahead

In general, the near-term growth prospects for the SEE6 economies continue to be positive, assuming that progress on structural reforms continue. The EU accession negotiations have progressed well. The recovery in economic growth is consolidating this year, with projections of even higher growth in 2017 and 2018. Growth has continued to create jobs (a welcome change from the recent past); employment growth picked up. Fiscal accounts have also improved, reducing deficits and fiscal risks and stabilizing debt levels in some countries. Lending to the private sector has also recovered considerably so far this year. However, there are still notable risks, with external positions especially vulnerable. The sluggish expansion in the EU, the uncertainty about the ripple effects of Brexit, continued weakness in Greece, and the political tensions in Turkey will continue to weigh on growth prospects in the Western Balkans.

Now, more than ever, heightened risks underscore the urgency of structural reforms to reinforce the nascent rebalancing from domestic to external sources of growth with larger reliance on investment. The benefits of job-creating growth need to be consolidated and built on in order to break the cycle of emigration, limited reforms, and slow growth. And as previously discussed in this publication, for that five areas of reforms are particularly urgent:

- Improve the business climate and governance to enable firms create more jobs, expand, and increase productivity;
 - Enhance the equity, quality, and efficiency of public services and social protection systems, while reducing government footprint;
 - Deepen global integration so that economies benefit stronger from export growth;
 - Ensure sustainable use of energy and natural resources and stewardship of the environment.
- Eliminate disincentives and barriers to formal employment, to enable faster growth, job creation and poverty reduction;

SEE6 Key Economic Indicators

SEE6: Key Economic Indicators

	2012	2013	2014	2015 ^f	2016 ^f	2017 ^f	2018 ^f
<i>Real GDP growth (percent)</i>							
Albania	1.4	1.0	1.8	2.8	3.2	3.5	3.5
Bosnia and Herzegovina	-0.9	2.4	1.1	3.0	2.8	3.2	3.7
Kosovo	2.8	3.4	1.2	3.9	3.6	3.9	3.7
Macedonia, FYR	-0.5	2.9	3.5	3.7	2.0	3.3	3.7
Montenegro	-2.7	3.5	1.8	3.2	3.2	3.6	3.0
Serbia	-1.0	2.6	-1.8	0.7	2.5	2.8	3.5
SEE6	-0.4	2.5	0.3	2.2	2.7	3.2	3.6
<i>Consumer price inflation (percent, end of period)</i>							
Albania	2.4	1.9	0.7	1.9	1.8	2.3	3.0
Bosnia and Herzegovina	1.7	-1.4	-0.5	-1.3	-1.5	0.0	0.0
Kosovo	3.7	0.5	-0.4	-0.1	0.0	0.3	0.5
Macedonia, FYR	4.7	1.4	-0.3	-0.3	0.1	0.0	0.0
Montenegro	5.1	0.3	-0.3	1.4	0.5	2.2	2.2
Serbia	12.2	2.2	1.7	2.1	2.0	3.5	3.5
SEE6	7.0	1.2	0.7	1.0	1.5	3.0	3.2
<i>Public expenditures (percent of GDP)</i>							
Albania	28.2	29.2	32.3	31.3	29.6	29.3	28.2
Bosnia and Herzegovina	45.8	44.8	45.8	42.6	43.7	44.4	43.6
Kosovo	28.5	28.1	27.0	27.3	29.4	28.2	29.2
Macedonia, FYR	36.0	34.2	34.0	34.5	35.2	35.1	34.6
Montenegro	46.8	46.9	47.7	50.2	51.8	50.2	48.4
Serbia	46.6	43.5	46.3	44.8	43.7	42.6	42.0
SEE6	38.6	37.8	38.9	38.5	38.9	38.3	37.5
<i>Public revenues (percent of GDP)</i>							
Albania	24.8	24.0	26.3	26.5	27.1	27.1	27.1
Bosnia and Herzegovina	43.8	42.7	43.8	43.2	43.1	43.8	43.3
Kosovo	25.9	25.2	24.4	25.4	26.9	26.6	26.6
Macedonia, FYR	32.1	30.2	29.8	30.9	31.1	31.7	31.6
Montenegro	40.9	42.3	44.6	42.2	43.7	42.1	41.1
Serbia	39.4	37.9	39.7	41.1	41.2	40.4	40.3
SEE6	34.5	33.7	34.8	34.9	35.5	35.3	35.0

SEE6: Key Economic Indicators

	2012	2013	2014	2015 ^f	2016 ^f	2017 ^f	2018 ^f
<i>Fiscal balance (percent of GDP)</i>							
Albania	-3.4	-5.2	-6.0	-4.8	-2.5	-2.2	-1.1
Bosnia and Herzegovina	-2.0	-2.1	-2.0	0.7	-0.6	-0.6	-0.3
Kosovo	-2.6	-2.9	-2.6	-2.1	-2.5	-1.6	-2.6
Macedonia, FYR	-3.8	-3.9	-4.2	-3.6	-4.1	-3.4	-3.0
Montenegro	-5.8	-4.6	-3.1	-8.0	-8.1	-8.1	-7.3
Serbia	-7.2	-5.6	-6.6	-3.7	-2.5	-2.2	-1.7
SEE6	-4.1	-4.1	-4.1	-3.6	-3.4	-3.0	-2.5
<i>Public debt (percent of GDP)</i>							
Albania	58.1	66.6	68.0	68.6	67.6	65.5	64.8
Bosnia and Herzegovina	36.6	37.7	41.8	41.9	41.5	39.7	37.4
Kosovo	6.9	7.8	9.4	11.9	13.1	14.7	16.2
Macedonia, FYR	33.7	34.2	38.2	37.9	40.8	42.7	43.9
Montenegro	65.4	66.8	68.8	68.1	72.3	76.4	78.6
Serbia	49.2	52.6	64.1	69.9	71.4	70.9	72.7
SEE6	41.6	44.3	48.4	49.7	51.1	51.7	52.3
<i>Public and publicly guaranteed debt (percent of GDP)</i>							
Albania	62.1	70.4	72.1	72.7	72.5	70.7	67.8
Bosnia and Herzegovina	44.3	40.8	43.0	43.3	43.2	41.4	39.2
Kosovo	8.2	9.0	10.6	13.1	14.3	15.9	17.3
Macedonia, FYR	38.3	40.5	45.9	46.4	49.6	52.2	54.1
Montenegro	77.4	76.1	77.7	78.9	82.6	86.3	88.0
Serbia	57.4	60.9	71.8	77.2	76.8	75.2	72.7
SEE6	47.9	49.6	53.5	55.3	56.5	56.9	56.5
<i>Goods exports (percent of GDP)</i>							
Albania	15.4	17.6	9.0	8.3	7.0	6.9	6.8
Bosnia and Herzegovina	22.6	24.3	24.2	24.7	24.2	23.9	23.5
Kosovo	5.6	5.5	5.8	5.6	5.2	5.3	5.4
Macedonia, FYR	30.4	29.1	32.5	33.4	34.0	35.0	36.4
Montenegro	12.3	11.8	10.3	9.0	8.8	8.7	8.5
Serbia	26.5	30.7	31.9	34.5	36.1	38.6	39.1
SEE6	22.5	24.7	24.3	25.3	25.7	26.7	26.9

SEE6: Key Economic Indicators

	2012	2013	2014	2015 ^f	2016 ^f	2017 ^f	2018 ^f
<i>Trade balance (percent of GDP)</i>							
Albania	-18.0	-17.5	-20.9	-18.2	-20.8	-21.6	-21.9
Bosnia and Herzegovina	-24.0	-20.8	-22.7	-19.2	-17.3	-17.2	-17.7
Kosovo	-34.3	-31.7	-31.0	-30.4	-31.7	-32.1	-32.9
Macedonia, FYR	-22.4	-18.3	-17.6	-16.3	-16.4	-16.3	-15.9
Montenegro	-24.5	-20.1	-19.8	-18.7	-19.2	-19.5	-19.5
Serbia	-17.5	-11.2	-10.9	-9.9	-8.2	-7.7	-7.2
SEE6	-20.9	-16.7	-17.3	-15.6	-15.2	-15.1	-15.2
<i>Current account balance (percent of GDP)</i>							
Albania	-9.8	-10.5	-12.5	-11.7	-13.1	-13.0	-12.0
Bosnia and Herzegovina	-8.8	-5.7	-7.5	-5.5	-6.2	-6.1	-5.6
Kosovo	-7.5	-6.4	-7.9	-9.1	-11.4	-12.6	-14.2
Macedonia, FYR	-3.2	-1.6	-0.8	-1.4	-2.1	-1.7	-1.4
Montenegro	-18.5	-14.5	-15.2	-13.4	-14.2	-14.9	-15.2
Serbia	-11.6	-6.1	-6.0	-4.8	-4.2	-3.9	-3.8
SEE6	-9.8	-6.5	-7.1	-6.2	-6.6	-6.6	-6.4
<i>External debt (percent of GDP)</i>							
Albania	56.8	64.4	72.4	74.2	74.6	74.9	75.9
Bosnia and Herzegovina	74.7	73.8	76.9	76.6	74.3	72.1	70.0
Kosovo	30.0	30.2	31.2	33.4	33.9	34.6	35.1
Macedonia, FYR	66.1	64.0	70.3	69.9	72.0	71.4	70.9
Montenegro	144.8	142.3	145.2	147.9	149.2	149.6	150.3
Serbia	81.2	75.1	78.4	80.1	77.6	73.8	0.0
SEE6	75.6	75.0	79.1	80.4	80.3	79.4	80.4
<i>Unemployment rate (period average, percent)</i>							
Albania	13.4	16.0	17.5	17.1	16.8	16.6	16.5
Bosnia and Herzegovina	28.1	27.5	27.5	27.7	25.4	n.a.	n.a.
Kosovo	30.9	30.0	35.3	32.9	32.9	35.3	35.3
Macedonia, FYR	31.0	29.0	28.0	26.1	24.8	23.9	22.7
Montenegro	19.8	19.5	18.0	17.6	17.8	17.8	17.5
Serbia	24.0	22.1	19.2	17.7	16.8	15.9	16.9
SEE6	23.9	23.3	22.4	21.3	20.3	<i>n.a.</i>	<i>n.a.</i>

Source: World Bank calculations and projections on data from national authorities and World Economic Outlook (2015).

Last updated on 6/25/2015.

ALBANIA	2012	2013	2014	2015	2016^e	2017^f	2018^f
GDP growth (% change, y-o-y)	1.4	1.0	1.8	2.8	3.2	3.5	3.5
Composition							
Consumption	0.1	1.4	2.5	-1.0	0.9	1.1	1.8
Investment	-2.8	-0.6	-1.2	2.9	2.8	2.5	2.0
Net exports	4.7	-1.6	-2.1	0.8	-0.5	-0.1	-0.3
Exports	-0.4	-7.2	0.9	-0.1	1.6	3.2	3.1
Imports (-)	-5.1	-5.6	3.0	-0.9	2.1	3.3	3.4
Inflation, consumer prices (% change, y-o-y, period average)	2.0	1.9	1.6	1.9	0.9	1.5	2.9
Public revenues (percent of GDP)	24.8	24.0	26.3	26.5	27.1	27.1	27.1
Public expenditures (percent of GDP)	28.2	29.2	32.3	31.3	29.6	29.3	28.2
Of which:							
Wage bill (percent of GDP)	5.2	5.2	5.1	5.1	4.7	4.7	4.7
Social benefits (percent of GDP)	9.0	9.5	9.9	9.8	10	10	10
Capital expenditures (percent of GDP)	4.6	4.8	4.3	4.2	3.7	3.7	3.7
Fiscal balance (percent of GDP)	-3.4	-5.2	-6.0	-4.8	-2.5	-2.2	-1.1
Primary fiscal balance (percent of GDP)	-0.3	-2.0	-3.1	-2.1	0.3	0.6	1.6
Public and publicly guaranteed debt (percent of GDP)	62.1	70.4	72.1	72.7	72.5	70.7	67.8
Of which: External (percent of GDP)	28.6	26.9	29.6	33.5	34.6	33.7	33.3
Goods exports (percent of GDP)	15.4	17.6	9.0	8.3	7.0	6.9	6.8
Goods imports (percent of GDP)	35.6	34.9	29.9	29.6	31.6	32.0	30.5
Net services exports (percent of GDP)	2.2	-0.2		3.2	3.8	3.5	1.9
Trade balance (percent of GDP)	-18	-17.5	-20.9	-18.1	-20.8	-21.6	-21.8
Remittance inflows (percent of GDP)	9.2	7.1	7.2	6.9	6.7	6.4	6.1
Current account balance (percent of GDP)	-9.8	-10.5	-12.5	-11.7	-13.1	-13.0	12.0
Foreign direct investment inflows (percent of GDP)	6.5	9.2	8.2	7.4	7.1	7.1	6.5
External debt, total as percent of GDP	56.8	64.4	72.4	74.2	74.6	74.9	75.1
Real private credit growth (percent, period average)	1.4	-1.4	2.0	-0.8	4.2	4.0	4.0
Nonperforming loans (percent of gross loans, end of period)	22.5	23.5	22.8	18.2	20.0	n.a	n.a
Unemployment rate (percent, period average)	13.4	16.0	17.5	17.1	16.8	n.a	n.a
Youth unemployment rate (percent, period average)	28.5	29.7	35.6	32.3	32	n.a	n.a
Labor force participation rate (percent, period average)	57.3	52.5	53.7	55.7	56	n.a	n.a
GDP per capita, PPP (current international \$)	10,109	10,255	10,645	10,926	11,517	11,920	12,337
Poverty rate at US\$5/day, PPP (percent of population)	47.5	47.2	46.7	46.2	45.5	n.a	n.a

BOSNIA AND HERZEGOVINA	2012	2013	2014	2015	2016^f	2017^f	2018^f
Real GDP growth (percent)	-0.9	2.4	1.1	3.0	2.8	3.2	3.7
Composition (percentage points):							
Consumption	n.a.	n.a.	n.a.	0.9	2.2	2.2	2.6
Investment	n.a.	n.a.	n.a.	0.2	1.0	1.3	1.8
Net exports	n.a.	n.a.	n.a.	2.0	-0.4	-0.3	-0.7
Exports	n.a.	n.a.	n.a.	1.0	0.7	0.8	1.0
Imports (-)	n.a.	n.a.	n.a.	-0.9	1.1	1.2	1.7
Consumer price inflation (percent, period average)	2.0	-0.1	-0.9	-1.0	-1.4	-0.5	0.5
Public revenues (percent of GDP)	43.8	42.7	43.8	43.2	43.1	43.8	43.3
Public expenditures (percent of GDP)	45.8	44.8	45.8	42.6	43.7	44.4	43.6
Of which:							
Wage bill (percent of GDP)	12.7	12.3	12.0	11.5	11.3	10.9	10.4
Social benefits (percent of GDP)	16.8	16.5	17.1	16.6	17.7	16.3	15.0
Capital expenditures (percent of GDP)	3.1	3.9	4.3	2.0	3.6	4.4	3.5
Fiscal balance (percent of GDP)	-2.0	-2.1	-2.0	0.7	-0.6	-0.6	-0.3
Primary fiscal balance (percent of GDP)	-1.2	-1.4	-1.2	1.6	0.5	0.5	0.9
Public debt (percent of GDP)	36.6	37.7	41.8	41.9	41.5	39.7	37.4
Public and publicly guaranteed debt (percent of GDP)	44.3	40.8	43.0	43.3	43.2	n.a.	n.a.
Of which: External (percent of GDP)	27.5	28.3	30.9	30.8	30.7	n.a.	n.a.
Goods exports (percent of GDP)	22.6	24.3	24.2	24.4	24.2	23.9	23.5
Goods imports (percent of GDP)	53.5	52.0	53.9	50.5	49.0	48.3	48.3
Net services exports (percent of GDP)	7.0	6.8	7.0	7.1	7.5	7.3	7.1
Trade balance (percent of GDP)	-24.0	-20.8	-22.7	-19.0	-17.3	-17.2	-17.7
Remittance inflows (percent of GDP)	8.1	8.1	8.5	8.3	8.2	8.0	7.7
Current account balance (percent of GDP)	-8.8	-5.7	-7.5	-5.5	-6.2	-6.1	-5.6
Foreign direct investment inflows (percent of GDP)	-2.0	-1.7	-2.6	-1.4	-1.1	-1.1	-1.1
External debt (percent of GDP)	74.7	73.8	76.9	76.6	74.3	72.1	70.0
Real private credit growth (percent, period average)	2.9	2.4	1.8	2.5	2.6	n.a.	n.a.
Nonperforming loans (percent of gross loans, end of period)	13.5	15.1	14.2	13.7	13.2	n.a.	n.a.
Unemployment rate (percent, period average)	28.1	27.5	27.5	27.7	25.4	n.a.	n.a.
Youth unemployment rate (percent, period average)	63.3	58.8	62.9	62.3	54.3	n.a.	n.a.
Labor force participation rate (percent, period average)	44.0	43.6	43.7	44.1	43.1	n.a.	n.a.
GDP per capita, PPP (current international \$)	9,400.9	9,798.3	10,084.5	10,491.8	10,937.6	11,472.1	12,162.0
Poverty rate at US\$5/day, PPP (percent of population)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities, World Bank estimates and projections.

Notes: Labor market data for 2015 are preliminary. Credit growth for 2015 reflect year-to-date annual rolling averages. Non-performing loans show year-to-date actuals.

KOSOVO	2012	2013	2014	2015	2016	2017	2018
Real GDP growth (percent)	2.8	3.4	1.2	3.9	3.6	3.9	3.7
Composition (percentage points):							
Consumption	2.7	2.3	3.8	2.2	4.2	2.7	2.6
Investment	-4.5	-0.1	-1.4	2.8	1.7	2.3	2.7
Net exports	4.5	1.2	-1.2	-1.1	-2.4	-1.1	-1.6
Exports	0.1	0.4	3.0	0.6	0.8	0.9	0.6
Imports (-)	-4.4	-0.8	4.2	1.6	3.2	2.0	2.2
Consumer price inflation (percent, period average)	2.5	1.8	0.4	-0.5	0.0	0.3	0.5
Public revenues (percent of GDP)	25.9	25.2	24.4	25.4	26.9	26.6	26.6
Public expenditures (percent of GDP)	28.5	28.1	27.0	27.3	29.4	28.3	28.3
Of which:							
Wage bill (percent of GDP)	8.1	7.9	9.1	9.1	9.2	9.2	9.4
Social benefits (percent of GDP)	3.7	4.2	6.1	6.9	7.4	7.4	7.6
Capital expenditures (percent of GDP)	10.8	10.1	7.5	7.4	7.0	7.7	7.6
Fiscal balance (percent of GDP)	-2.6	-2.9	-2.6	-2.1	-2.5	-1.7	-1.4
Primary fiscal balance (percent of GDP)	-2.4	-2.5	-2.4	-1.8	-2.2	-1.5	-1.2
Public debt (percent of GDP)	8.2	9.0	10.6	13.1	14.3	15.9	17.3
Of which: External (percent of GDP)	6.7	6.1	5.9	6.5	6.5	6.4	6.2
Goods exports (percent of GDP)	5.6	5.5	5.8	5.6	5.2	5.3	5.4
Goods imports (percent of GDP)	46.3	43.1	42.8	42.1	44.4	45.3	46.6
Net services exports (percent of GDP)	6.4	5.9	6.0	6.1	7.5	7.9	8.3
Trade balance (percent of GDP)	-34.3	-31.6	-31.0	-30.3	-31.6	-32.1	-33.0
Remittance inflows (percent of GDP)	12.0	11.7	12.5	13.0	13.4	13.8	14.3
Current account balance (percent of GDP)	-7.5	-6.4	-7.9	-9.1	-11.4	-12.6	-14.2
Foreign direct investment inflows (percent of GDP)	4.5	5.3	2.7	5.6	3.7	4.5	5.2
External debt (percent of GDP)	30.0	30.2	31.2	33.4	33.9	34.6	35.1
Real private credit growth (percent, period average)	5.8	1.9	3.0	7.3	n.a.	n.a.	n.a.
Nonperforming loans (percent of gross loans, end of period)	7.5	8.7	8.5	6.2	4.7	4.2	3.9
Unemployment rate (percent, period average)	30.9	30.0	35.3	32.9	n.a.	n.a.	n.a.
Youth unemployment rate (percent, period average)	55.3	55.9	61.0	57.7	n.a.	n.a.	n.a.
Labor force participation rate (percent, period average)	36.9	40.5	41.6	37.6	n.a.	n.a.	n.a.
GDP per capita (US\$)	3,600.7	3,877.2	4,053.6	3,560.9	3,623.8	3,683.4	3,728.7

Sources: Country authorities, World Bank estimates and projections.

Notes: Credit growth for 2015 reflects year-to-date annual rolling averages. Nonperforming loans show year-to-date actuals.

FYR MACEDONIA	2012	2013	2014	2015	2016^f	2017^f	2018^f
Real GDP Growth (percent)	-0.5	2.9	3.5	3.7	2.0	3.3	3.7
Composition (percentage points)							
Consumption	1.3	1.4	1.6	3.0	3.2	2.5	2.6
Investment	2.7	0.1	3.8	0.0	-0.9	0.9	1.1
Net exports	-4.5	1.3	-1.7	0.7	-0.3	0.0	0.1
Exports	0.9	2.6	8.0	2.3	2.5	2.9	3.6
Imports (-)	5.4	1.3	9.7	1.6	2.8	3.0	3.5
Consumer price inflation (percent, period average)	3.3	2.8	-0.3	-0.3	-0.1	0.6	1.4
Public revenues (percent of GDP)	32.1	30.2	29.8	30.9	31.1	31.7	31.6
Public expenditures (percent of GDP)	36.0	34.2	34.0	34.5	35.2	35.1	34.6
Of which:							
Wage bill (percent of GDP)	7.7	7.2	7.0	6.9	6.9	6.9	6.8
Social transfers (percent of GDP)	14.9	14.8	14.9	14.8	15.7	15.5	15.4
Capital expenditures (percent of GDP)	5.2	4.4	4.3	4.4	3.9	4.1	4.2
Fiscal balance (percent of GDP)	-3.8	-3.9	-4.2	-3.6	-4.1	-3.4	-3.0
Primary fiscal balance (percent of GDP)	-2.9	-2.9	-3.2	-2.3	-2.8	-2.2	-1.9
Public debt (percent of GDP)	33.7	34.2	38.2	37.9	40.8	42.7	43.9
Public and publicly guaranteed debt (percent of GDP)	38.3	40.5	45.9	46.4	49.6	52.2	54.1
Of which: External (percent of GDP)	25.6	25.5	31.9	31.3	34.6	36.1	37.9
Goods exports (percent of GDP)	30.4	29.1	32.5	33.4	34.0	35.0	36.4
Goods imports (percent of GDP)	56.9	52.0	54.3	53.4	55.1	56.0	57.2
Net services exports (percent of GDP)	4.1	4.6	4.2	3.8	4.7	4.8	4.8
Trade balance (percent of GDP)	-22.4	-18.3	-17.6	-16.3	-16.4	-16.3	-15.9
Remittances inflows (percent of GDP)	2.4	2.2	2.2	2.1	2.2	2.3	2.3
Current Account Balance (percent of GDP)	-3.2	-1.6	-0.8	-1.4	-2.1	-1.7	-1.4
Foreign direct investment inflows (percent of GDP)	1.7	2.8	2.3	1.9	2.4	2.5	2.7
External debt (percent of GDP)	66.1	64.0	70.3	69.9	72.0	71.4	70.9
Real private credit growth (percent, period average)	0.5	4.9	10.3	9.9	4.5	6.8	8.0
Non-performing loans (percent of gross loans, end of period)	10.3	11.3	11.1	10.6	7.8	7.6	7.3
Unemployment rate (percent, period average)	31.0	29.0	28.0	26.1	24.8	23.9	22.7
Youth unemployment rate (percent, period average)	53.9	51.9	53.1	47.3	50.0	49.5	48.8
Labor force participation rate (percent, period average)	56.5	57.2	57.3	57.0	56.6	57.0	57.2
GDP per capita, PPP (current international \$)	11,874	12,468	12,938	13,330	13,583	14,059	14,551
Poverty rate at US\$5/day, PPP (percent of population)	19.2	19.1	18.7	17.3	16.4	n.a.	n.a.

Sources: Country authorities, World Bank estimates and projections.

Notes: Data on remittances reflect only worker remittances and not overall private transfers which are significantly higher.

MONTENEGRO	2012	2013	2014	2015^e	2016^f	2017^f	2018^f
Real GDP growth (percent)	-2.7	3.5	1.8	3.2	3.2	3.6	3.0
Composition (percentage points):							
Consumption	-2.7	1.6	2.6	1.2	0.5	2.8	4.3
Investment	0.5	0.5	0.5	3.0	1.9	0.1	-2.5
Net exports	-0.5	1.5	-1.2	-1.0	0.8	0.7	1.2
Exports	-0.1	-0.5	-0.3	3.8	0.5	1.3	1.9
Imports (-)	0.4	-2.0	1.0	4.8	-0.4	0.6	0.6
Consumer price inflation (percent, period average)	4.1	2.2	-0.7	1.5	-0.5	1.5	2.2
Public revenues (percent of GDP)	40.9	42.3	44.6	42.2	43.7	42.1	41.1
Public expenditures (percent of GDP)	46.8	46.9	47.7	50.2	51.8	50.2	48.4
Of which:							
Wage bill (percent of GDP)	14.1	13.0	13.3	13.3	12.8	12.2	11.7
Social benefits (percent of GDP)	15.2	14.4	14.3	13.9	14.9	15.0	14.8
Capital expenditures (percent of GDP)	4.3	4.2	5.9	9.1	11.5	10.8	10.3
Fiscal balance (percent of GDP)	-5.8	-4.6	-3.1	-8.0	-8.1	-8.1	-7.3
Primary fiscal balance (percent of GDP)	-4.0	-2.4	-0.8	-5.6	-5.9	-5.6	-4.8
Public debt (percent of GDP)	65.4	66.8	68.8	68.1	72.3	76.4	78.6
Public and publicly guaranteed debt (percent of GDP)	77.4	76.1	77.7	78.9	82.6	86.3	88.0
Of which: External (percent of GDP)	49.8	49.5	56.0	58.5	65.0	71.0	73.3
Goods exports (percent of GDP)	12.3	11.8	10.3	9.0	8.8	8.7	8.5
Goods imports (percent of GDP)	56.0	51.3	50.1	49.7	49.5	49.4	49.1
Net services exports (percent of GDP)	19.2	19.4	20.0	22.0	21.5	21.2	21.1
Trade and services balance (percent of GDP)	-24.5	-20.1	-19.8	-18.7	-19.2	-19.5	-19.5
Remittance inflows (percent of GDP)	4.9	4.6	4.3	4.2	4.1	3.9	3.8
Current account balance (percent of GDP)	-18.5	-14.5	-15.2	-13.4	-14.2	-14.9	-15.2
Foreign direct investment inflows (percent of GDP)	14.5	9.6	10.2	17.2	11.0	11.2	10.8
External debt (percent of GDP)	144.8	142.3	145.2	147.9	149.2	149.6	150.3
Real private credit growth (percent, period average)	-11.5	-0.1	-1.1	0.8	0.9	1.0	1.2
Non-performing loans (percent of gross loans, end of period)	16.5	17.5	15.9	12.5	12.7	12.0	11.5
Unemployment rate (percent, period average)	19.8	19.5	18.0	17.6	17.8	17.8	17.5
Youth unemployment rate (percent, period average)	42.6	41.7	36.3	38.5	39.1	39.0	38.0
Labor force participation rate (percent, period average)	49.8	50.1	52.7	53.7	54.3	54.1	54.7
GDP per capita, PPP (current international \$)	13,730	14,286	14,338	14,395	14,525	14,699	14,876
Poverty rate at US\$5/day, PPP (percent of population)	19.2	18.7	13.3	11.9	11.1	9.0	8.5

Sources: Country authorities, World Bank estimates and projections.

Notes: Labor market indicators and credit growth for 2015 reflect year-to-date annual rolling averages. Non-performing loans show year-to-date actuals.

SERBIA	2012	2013	2014	2015^e	2016^f	2017^f	2018^f
Real GDP growth (percent)	-1.0	2.6	-1.8	0.7	2.5	2.8	3.5
Composition (percentage points):							
Consumption	-1.2	-0.6	-1.1	-0.7	0.7	0.6	2.2
Investment	0.6	-1.5	-0.1	1.1	1.3	1.6	1.2
Net exports	-0.4	4.8	-0.6	0.3	0.5	0.6	0.1
Exports	0.3	7.4	2.3	3.5	4.7	4.5	3.9
Imports (-)	0.7	2.6	3.0	3.2	4.2	3.9	3.8
Consumer price inflation (percent, period average)	7.3	7.7	2.1	1.9	1.3	3.2	3.5
Public revenues (percent of GDP)	39.4	37.9	39.7	41.1	41.2	40.4	40.3
Public expenditures (percent of GDP)	46.6	43.5	46.3	44.8	43.7	42.6	42.0
Of which:							
Wage bill (percent of GDP)	10.5	10.1	9.9	9.0	8.6	8.2	8.0
Social benefits (percent of GDP)	18.1	17.7	17.8	17.9	17.1	16.7	16.4
Capital expenditures (percent of GDP)	3.3	2.1	2.5	2.9	3.0	3.4	3.5
Fiscal balance (percent of GDP)	-7.2	-5.6	-6.6	-3.7	-2.5	-2.2	-1.7
Primary fiscal balance (percent of GDP)	-5.3	-3.2	-3.7	-0.5	1.0	1.3	1.9
Public debt (percent of GDP)	49.2	52.6	64.1	69.9	71.4	70.9	72.7
Public and publicly guaranteed debt (percent of GDP)	57.4	60.9	71.8	77.2	76.8	75.2	72.7
Of which: External (percent of GDP)	45.4	48.7	56.0	60.7	60.4	59.0	56.3
Goods exports (percent of GDP)	26.5	30.7	31.9	34.5	36.1	38.6	39.1
Goods imports (percent of GDP)	44.3	42.8	44.3	46.6	47.0	49.4	49.5
Net services exports (percent of GDP)	0.4	0.9	1.4	2.2	2.7	3.1	3.2
Trade balance (percent of GDP)	-17.5	-11.2	-10.9	-9.9	-8.2	-7.7	-7.2
Remittance inflows (percent of GDP)	6.1	6.3	5.6	6.3	5.9	6.0	5.8
Current account balance (percent of GDP)	-11.6	-6.1	-6.0	-4.8	-4.2	-3.9	-3.8
Foreign direct investment inflows (percent of GDP)	2.4	3.8	3.7	5.5	4.9	4.4	4.4
External debt (percent of GDP)	81.2	75.1	78.4	80.1	77.6	73.8	71.0
Real private credit growth (percent, period average)	6.1	-1.9	-2.3	3.7	3.3	5.0	6.0
Non-performing loans (percent of gross loans, end of period)	18.6	21.4	21.5	21.6	20.2	19.9	20.9
Unemployment rate (percent, period average)	24.0	22.1	19.2	17.7	16.8	15.9	16.9
Youth unemployment rate (percent, period average)	51.0	49.4	47.6	43.2	42.4	40.9	41.8
Labor force participation rate (percent, period average)	46.7	48.4	51.9	51.6	52.0	52.7	41.0
GDP per capita, PPP (current international \$)	12,790.8	13,400.3	13,436.2	13,671.4	14,047.0	14,561.3	15,377.9
Poverty rate at US\$5/day, PPP (percent of population)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities, World Bank estimates and projections.

Notes: Labor market indicators and credit growth for 2015 reflect year-to-date annual rolling averages. Non-performing loans show year-to-date actuals.



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