

CHALLENGES TO GROWTH:

HOW TO RE-ENFORCE COMPETITIVENESS IN THE REGION

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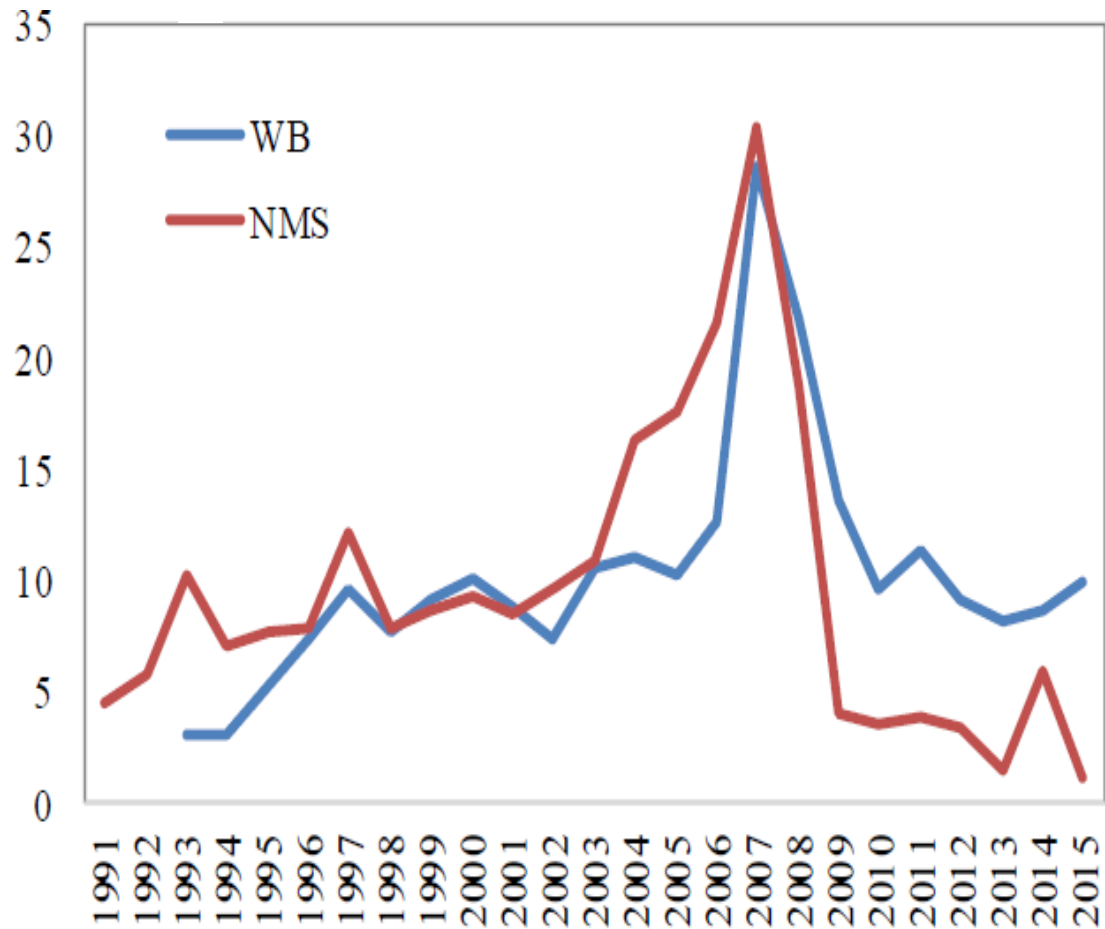
AUSTRIA CONNECT, BELGRADE

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- **1. Drivers of Growth and Competitiveness for the Region**
 - Political Stability
 - Macroeconomic Environment
 - Innovation/Industrial Strategy
- **2. Empirical Overview of Individual Countries**
- **3. Assessment for the Region.**
- **4. Some Important Strategy Elements**
 - Infrastructure
 - Regional Agreements
 - Finance
 - Vertical vs. Horizontal Policies
 - DI and Value Chains
 - Overall Conclusions

COUNTRY	GDP/C	Δ GDP 2016 / 2017	Unemployment	Non-Performing Loans	Inflation	Current Account
Slovenia	24,700	2.5 / 2.5	8.2	8	- 0.1	+ 6,8
Croatia	17,500	2.9 / 2.9	13.5	15	- 1.1	+ 3.9
Montenegro	12,400	2.4 / 3.3	17.4	12	- 0.4	- 19.1
Serbia	11,000	2.8 / 3.0	16.1	20	1.1	- 4.0
Macedonia	10,700	2.4 / 3.2	23.7	7	- 0.2	- 3,1
Albania	8,900	3.4 / 3.7	15.2	21	1.3	- 12.1
Bosnia, Hercegovina	8,300	2.5 / 3.0	25.4	25	1.1	- 5,6
Kosovo	7,800	3.6 / 3.5	26.5	5	0.3	- 9,7

COUNTRY	Doing Business	Researchers per 1 Mill. Inhabitants	Global Corruption	Corruption
Slovenia	30	2,500	56	31
Croatia	43	1,600	74	55
Montenegro	51	760	82	64
Serbia	47	1,220	90	72
Macedonia	10	460	68	90
Albania	58	150	80	83
Bosnia, Hercegovina	81	190	107	83
Kosovo	60	-	-	95



Sources: Financial Flow Analytics Database. Zsoka Koczan, Late to the game? Capital flows to the Western Balkans, IMF Working Paper, WP/17/92.

- **Low Competitiveness (10% CA deficit)**
- **Low Export share (around 20%), mainly in low-tech and medium tech industries**
- **Only CRO, SRB, B-H, MAK well integrated into intl. Production networks**
- **High technical and administrative barriers**
- **Infrastructure lagging behind: roads better, rail bad**
- **Education not geared to industrial requirements**
- **Low participation rates, high Unemployment (around 23%)**
- **Finance: high NPL and rising, high real interest rates, low credit volume**
- **Net Capital inflows positive (not enough FDI)**
- **Fiscal depreciation (increasing VAT rates, lowering I and CI taxes)**

■ **Innovation Issues**

- **Strategic issue: make and/or buy innovation**
- **Low R&D Personnel**
- **High share of low-innovation industries**
- **Integration into global value chains**

Individual strategy development by country, depending on strength of economy, diversification, state of technology

- **Prioritize structural** (i.e. industrial/innovation) strategies over macro
- **Strengthen regional cohesion**: improve infrastructure connectivity (transport, communication, electricity and trade)
- **Finance**: Fix banks by NPL reduction, incentives for innovation finance, incentives for productive use of remittances
- **Dual education** systems with modern curricula which firms need
- **Improve absorption** of technology by firms to instead of creation
- **Base Industrial Policy** on existing resources and strengths, value chains
- **Improve public administration** (anti-corruption, subsidies, taxes, implementation, quality of regulation)

Thank You

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