RANKING STRUCTURAL REFORM PRIORITIES FOR FASTER GROWTH IN THE WESTERN BALKANS

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Structural Reforms Boost Growth... But Which Ones Will Deliver The Strongest Dividend In The Western Balkans?

1. Reform gaps in the WB compared to NMS and EU...

2. Growth regressions to rank reforms...

3. Large gaps + large impact on growth \(\Rightarrow\) high reform priority

Sources: World Economic Forum; IMF WEO, and IMF staff calculations.
Reform Gaps In Main Areas: Larger vis-à-vis Average EU than NMS, Some Heterogeneity

Reform areas:
1 - Institutions,
2 - Infrastructure,
4 - Health and Primary Education,
5 - Higher Education and Training,
6 - Goods Markets Efficiency,
7 - Labor Markets Efficiency,
8 - Financial Markets Development,
9 - Technological Readiness,
11 - Business Sophistication,
12 - Innovation.
Gaps Combined With Growth Regressions: Most Reforms High Priority, Some Areas More Important

Top 5 Reform Priorities for Each of the WB States

1/ These are assessed relative to the NMS in each of the 10 main pillars of the Global Competitiveness Index.
2/ Larger bubbles represent reform areas that receive a higher rank ordering.

Note: Analysis for Kosovo not included as the relevant data are not available.

- Larger gap + larger growth impact $\Rightarrow$ higher reform priority
- Compared to EU Average:
  - Almost all reforms are high priority
- Compared to NMS Average - most important areas are:
  - Institutions (high in all countries)
  - Infrastructure (high in all countries)
  - Fin. Markets Development
  - Goods Markets Efficiency
  - Labor Markets Efficiency
Top 10 Reform Priorities At a More Disaggregated Level: Institutions Most Represented, Many Common Areas

Albania
- Organized crime: 8
- Public trust in politicians: 9
- Quality of Overall Infrastructure: 8
- Prevalence of Trade Barriers: 8
- Agricultural Policy Cost: 9
- Prevalence of Foreign Ownership: 9
- Favoritism in govt decisions: 9
- Diversion of Public Funds: 9
- Ethical Behavior of Firms: 9
- Property Rights: 9

Croatia
- Property Rights: 7
- Pay and productivity: 8
- Prevalence of Foreign Ownership: 8
- Agricultural Policy Cost: 9
- Transparency of Policymaking: 9
- Public trust in politicians: 8
- Prevalence of Foreign Ownership: 8
- Wastefulness of Gov't Spending: 9
- Protection of Minority Shareholders: 9
- Diversion of Public Funds: 8

Bosnia and Herzegovina
- Pay and productivity: 7
- Prevalence of Trade Barriers: 8
- Quality of Air Transport Infrastructure: 8
- Days to Start Business: 7
- Quality of Overall Infrastructure: 8
- Intellectual Property Protection: 9
- Quality of Air Transport Infrastructure: 8
- Wastefulness of Gov't Spending: 9
- Ethical Behavior of Firms: 9
- Protection of Minority Shareholders: 9

Montenegro
- Quality of Electric Supply: 8
- Quality of Air Transport Infrastructure: 7
- Quality of Overall Infrastructure: 7
- Intensity of Local Competition: 8
- Prevalence of Trade Barriers: 7
- Pay and productivity: 6
- Ethical Behavior of Firms: 6
- Organized Crime: 7
- Transparency of Policymaking: 7
- Strength of Reporting Standards: 8

Macedonia
- Quality of Air Transport Infrastructure: 7
- Quality of Overall Infrastructure: 8
- Quality of Roads: 8
- Prevalence of Trade Barriers: 7
- Prevalence of Foreign Ownership: 8
- Pay and productivity: 6
- Public trust in politicians: 7
- Organized Crime: 8
- Ethical Behavior of Firms: 8

Serbia
- Prevalence of Trade Barriers: 8
- Quality of Air Transport Infrastructure: 8
- Intensity of Local Competition: 8
- Prevalence of Foreign Ownership: 9
- Agricultural Policy Cost: 9
- Transparency of Policymaking: 9
- Pay and productivity: 6
- Burden of Gov't Regulation: 8
- Protection of Minority Shareholders: 9
- Wastefulness of Gov't Spending: 9