Western Balkans in Post-Brexit Europe

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Financial market impact Brexit: strong and permanent for pound, short lived for CEE currencies

Change in Exchange Rates vis-à-vis EUR (log differences)

-0.14
-0.12
-0.10
-0.08
-0.06
-0.04
-0.02
0.00
0.02
0.04

GBR  CZE  MKD  ALB  SRB  POL  ROU  HUN

Exchange rate reaction to Brexit (June 24th)
Change between June 23rd and end-September
Change between June 24th and end-September
Near-term economic fallout has also been less than initially feared

GDP growth projections for 2017 by WEO vintage
Uncertainty about future relationships with EU may lead to a postponement of investment.

Consensus forecast investment growth in UK for 2017 (percent)
What happens if hard Brexit?

Scenarios for GDP growth in the UK
(percentage points)

Baseline (no Brexit)
Limited
WEO Oct 2016 projection
Adverse

2016 2017 2018 2019
For SEE, direct links and financial links with Britain are small

Exports of goods to UK (percent of GDP)
Indirect trade links may be larger
The UK is not the main destination for emigration from SEE

Residents of Britain and Germany Born in Western Balkans (percent of population in countries of origin, latest census)
Impact on tourism receipts unlikely to be substantial

Share of UK residents in total foreign visitors in 2015 (overnight stays, percent)

Contribution of tourism to GDP in 2015 (percent)
Brexit may have consequences for EU budget

Contributions to EU budget in 2015

- Traditional own resources: 13%
- Non-EU15: 7%
- Other EU15: 32%
- DEU: 17%
- FRA: 13%
- GBR: 12%
- Other: 6%
Most important for SEE may be impact on future of EU

- Confidence of EU citizens in EU has fallen
- Appetite for further integration has dropped
- Will this impact appetite for further expansion?
- If prospect EU memberships of SEE were to diminish, what would be impact on
  - Reforms?
  - Future growth?
In the past decade there has been a sharp decline in confidence in the EU

Level of confidence in the European Union
(percent of population surveyed by Eurobarometer)

In 2004

In 2016
Why has confidence fallen?

- EU has been hit by several crises
  - 2008/09 crisis
  - Eurozone sovereign debt crisis
  - Large scale immigration/refugees
In the North, immigration is the main issue; in the South, the economy

Most important issues facing the EU countries in 2016 (according to Eurobarometer)

Immigration

Unemployment or economic situation
Confidence in EU is lowest in countries most affected by Eurozone crisis

Change in real GDP per capita and level of confidence in the EU

y = 0.4831x + 36.892
R² = 0.3627

Change in real GDP per capita 2007-2014 (Percent)

< -5
-5 - 5
> 5
In this environment, political support for further integration has fallen

- Increased political uncertainty
- Less support for free trade
- More calls for protectionism
Support for EU enlargement has fallen

Support for the EU enlargement
(Percent of population surveyed by Eurobarometer)

In 2008

In 2016
How will this affect further expansion to Western Balkans?

The EU member states
(By the year of accession)
Enthusiasm in SEE for EU remains high

Support for the European Union in 2012 and 2015 (percent of surveyed population by Eurobarometer)

Note: For ALB data for 2014 and 2015; percentage of surveyed population which answered “Would benefit” to the question “Taking everything into account, would you say that your country would benefit or not from being a member of the European Union?”
The EU has been very important to former European transition countries

- As export markets
- Source of private capital
- Source of technology
- Source of EU funds

Average annual net flows from the European Commission (percent of GDP, 2010-2015)

Note: Orange bars – non-EU countries.
And also as a key engine for reforms

Average of Six EBRD Transition Indicators
SEE still relatively poor; and would really benefit from strong EU
Thank you